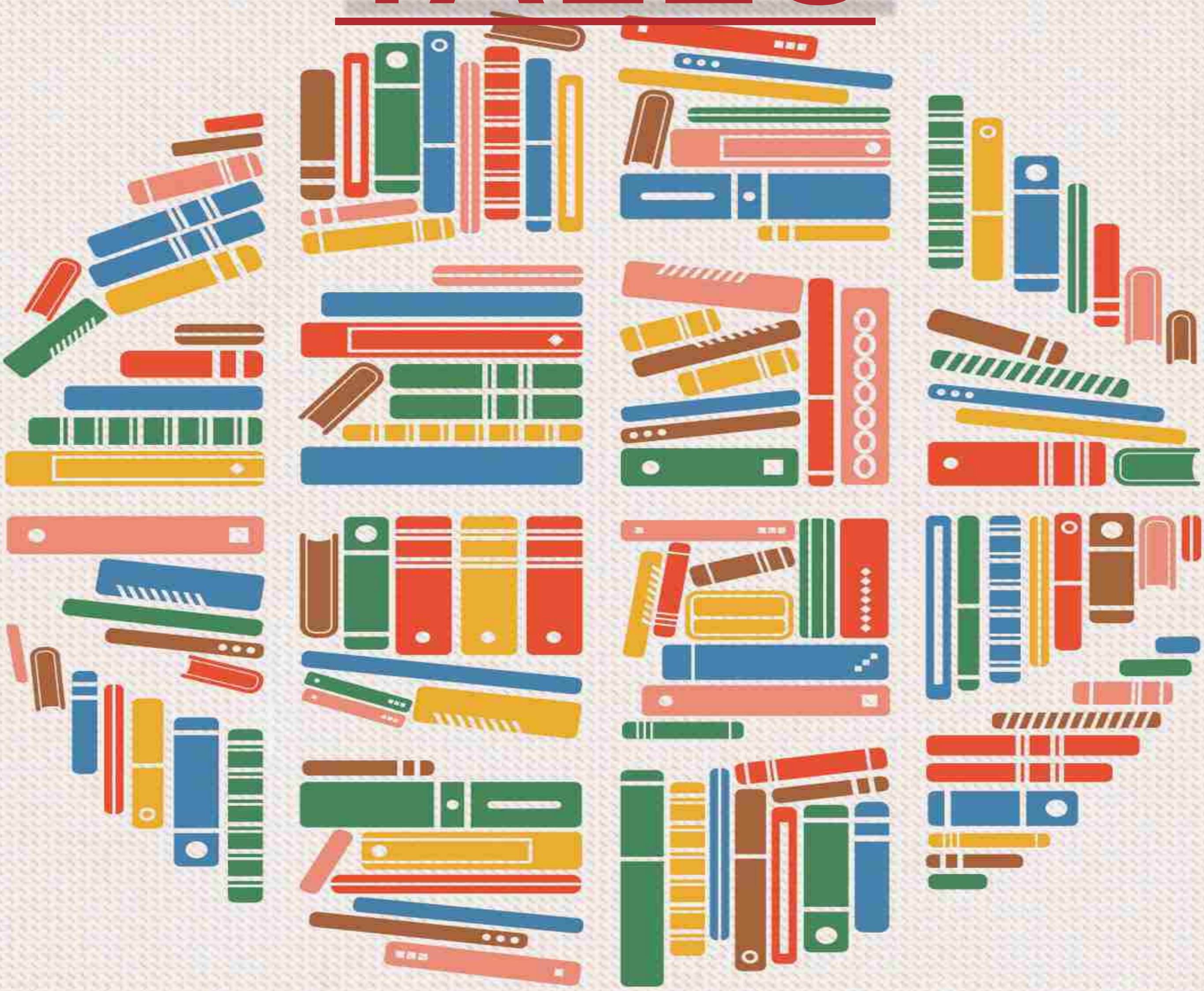
ICICI direct Research

April 21, 2020

# Stock TALES



**Stock Tales** are concise, holistic stock reports across wider spectrum of sectors. Updates will not be periodical but based on significant events or change in price.

# TCNS Clothing (TCNCLO)

| CMP: ₹ 405 | Target: ₹ 480 (19%) | Target Period: 12 months | BUY |
|---|---|---|---|

April 20, 2020

## Well placed to ride ethnic wear opportunity

**TCNS Clothing is poised to capture high trajectory growth opportunities in the Indian ethnic wear segment through its three popular home-grown brands. The company has an impressive track record of growing its revenue at a CAGR of 40% in FY13-19, with EBITDA margin expansion of 700 bps. Given its multi-distribution channel approach and robust supply chain infrastructure, TCNS has emerged as the market leader in women's ethnic space. Near term revenue growth may witness sharp deceleration owing to store closure and disruption in discretionary demand owing to impact of spread of Covid-19. However, being a net cash positive company, it would be in a better position to tide over the current turbulent market scenario better than small peers. TCNS has a long term objective of transforming itself from a pure play apparel company to a lifestyle company.**

### In-house designing, strong brand patronage provide competitive edge

TCNS has established a strong foothold in women's ethnic wear through its multi reach distribution model and differentiated offerings via its three home grown brands. It has an in-house designing team of 40+ designers, which enables it to create unique products. Across the two fashion season cycle, the company invigorates its offering every two to three weeks to induce freshness on the store shelves (1500+ designs across the year). After successfully scaling up its brands, TCNS is now looking to leverage its brands in newer product categories. In line with its objective of transforming into a lifestyle brand, TNCS is launching new footwear collection under its 'W' brand. It is also planning to introduce ethnic wear for girls through its brand Aurelia that has received a positive response from its existing clients.

### Asset light business model leading to high RoIC

With manufacturing operations entirely outsourced, TCNS, over the years, has followed an asset light business model. This is evident with the company generating robust asset turns of 12x+. Average capital expenditure over the last five years has been in the range of ₹ 25.0 crore with EBITDA margins (adjusting for Esops) in the range of 16-17%. Strong operating metrics and controlled working capital cycle have translated into industry best RoIC for TCNS (~40% as on FY19).

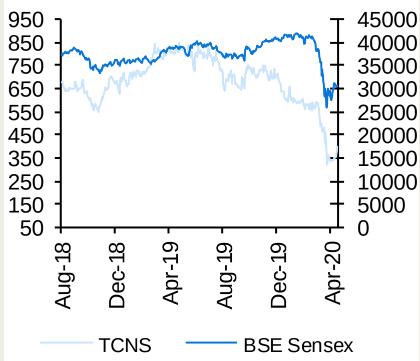
### Valuation & Outlook

We are positive on the long term outlook, considering the company's strong brand franchise, healthy return ratios and debt free status. The stock has seen a sharp correction of 30% YTD. We believe that in spite of near term negative impact on its profitability, the company offers a favourable risk reward perspective. We expect a sharp recovery in FY22E with revenue and EBITDA growth of 16% and 31% translating into revenue and EBITDA CAGR of 9% and 14%, respectively, in FY20-22E. We ascribe a **BUY** rating to the stock with a target price of ₹ 480, valuing at 25x FY22E EPS of ₹ 19.2.

**Particulars**

| Particulars | Amount |
|---|---|
| Market Capitalisation (₹crore) | 2,483.7 |
| Total Debt (FY19) (₹crore) | - |
| Cash & Investments (FY19) (₹crore) | 160.8 |
| EV (₹crore) | 2,322.8 |
| 52 Week H / L | 865 / 300 |
| Equity Capital (₹crore) | 12.3 |
| Face Value (₹ | 2.0 |

**Price Chart**

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**Key Financial Summary**

| ₹crore | FY19 | FY20E | FY21E | FY22E | CAGR (FY20-22E) |
|---|---|---|---|---|---|
| Net Sales | 1,148.0 | 1,180.2 | 1,207.4 | 1,399.7 | 8.9% |
| Adjusted EBITDA | 193.4 | 144.0 | 143.7 | 187.6 | 14.1% |
| Adjusted PAT | 148.0 | 97.8 | 92.0 | 123.2 | 12.2% |
| P/E (x) | 16.8 | 25.7 | 27.7 | 21.0 | |
| EV/Sales (x) | 2.0 | 2.0 | 2.0 | 1.7 | |
| EV/EBITDA (x) | 12.0 | 16.4 | 16.5 | 12.5 | |
| RoCE (%) | 27.7 | 16.6 | 14.5 | 17.0 | |
| RoE (%) | 23.9 | 13.9 | 11.8 | 13.8 | |

*Source: ICICI Direct Research, Company. Adjusted for share based payments*

## Company Background

Incorporated in 1997, TCNS is one of India's leading profitable brands, operating in a US$6.3 billion women's ethnic wear market. TCNS has two established home grown brands, 'W', 'Aurelia' and one emerging brand 'Wishful' each positioned to cater to well-defined needs of their respective target consumers. On the back of a robust supply chain and requisite backend infrastructure, TCNS has emerged as the market leader in exclusive women's ethnic/fusion apparel company over last two decades. Backed by more than 3600+ point of sales, TCNS has transitioned itself from being a regional player to a pan India player. Its distribution network consists of exclusive stores (41% of sales), departmental stores (28% of sales), multi branded outlets (12% of sales) and e-commerce (14% of sales). From opening its maiden store in 2002, the company has expanded its footprint to more than 585 stores in ~100 cities.

Exhibit 1: TCNS company timeline from 2001 to 2019


*Source: Company, ICICI Direct Research*

## Evolved bouquet of distinguished brand portfolio

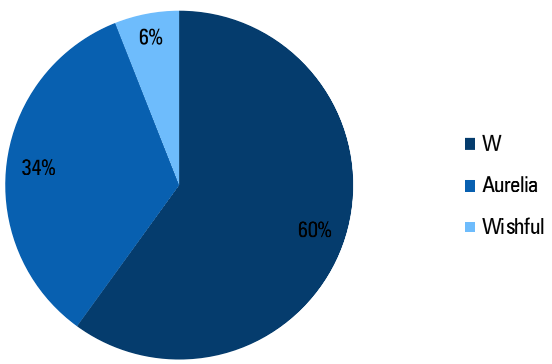
Over the years, TCNS has developed three distinctive brands;

***'W':*** W is a premium fusion ethnic wear brand, which merges Indian and western sensibilities with an emphasis on distinctive design and styling. The brand is targeted primarily at modern Indian women's casual and work wear requirements. Revenues from the brand grew at **22% CAGR in FY16-19** (60% of revenues). The brand is retailed through 333 exclusive branded outlets (EBOs) and 795 large format stores. The average selling price for brand ranges between: ₹ 1800 and ₹ 2000.

***'Aurelia':*** Aurelia is the company's fastest growing brand, having much sharper price points compared to 'W'. It is a contemporary ethnic wear brand targeted at women looking for great design, fit and quality for their casual and work wear requirements. The brand has recorded robust trajectory of **36% revenue CAGR in FY16-19**, contributing 34% of overall revenues. The brand is available through 229 exclusive stores and 828 large format stores. The management believes the potential of the brand is much more superior owing to wider target audience catering to the given price category (ASP: ₹ 799-1199).

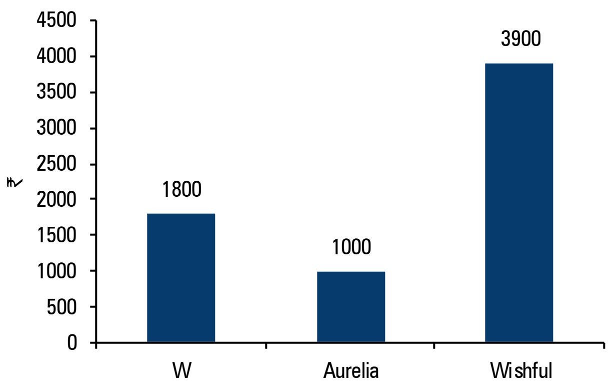
***Wishful':*** Wishful is a premium occasion wear brand, with elegant designs catering to women's apparel requirements for evening wear and occasions such as weddings, events and festivals. While the brand has been in existence since 2006, it has not yielded satisfactory results. TCNS has been leveraging its *W* store network for selling under the Wishful brand. However, the company launched its first EBO of Wishful in September, 2017. Currently it has five exclusive stores. Revenues from the brand have grown at **16% CAGR in FY16-19** (6% of revenues), albeit on a low base.

Exhibit 2: Revenue contribution brand wise



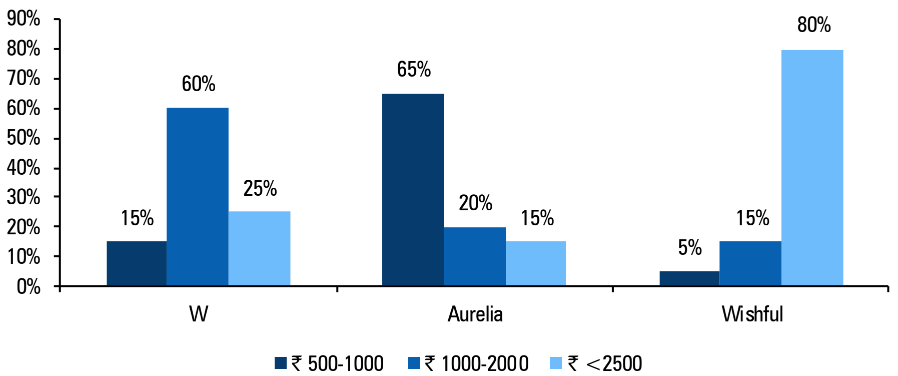

*Source: Company, ICICI Direct Research*

Exhibit 3: Catering to various price points (₹ ASP)




*Source: Company, ICICI Direct Research*

Exhibit 4: SKU classification at different price points




*Source: ICICI Direct Research*

## Wide distribution network

In terms of distribution reach, TCNS follows an asset light business model, with ~70% of revenues being derived from franchised EBOs, LFS, MBOs and online retailers. Out of total sales, ~80% of the inventory sold is on outright sales, whereas 20% is on sale or return (SOR) basis (mainly to LFS and e-commerce players).

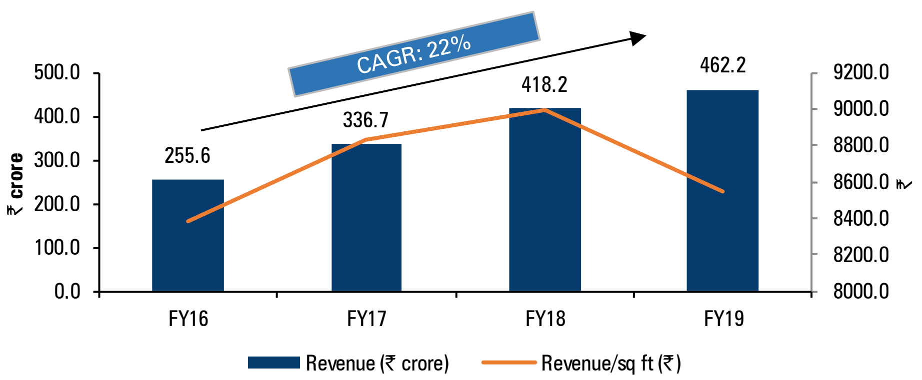
**Exclusive branded outlets:** From opening its first exclusive showroom in 2002 in New Delhi, the management has aggressively shored up the number of EBOs to 586 as on 9MFY20 (W: 343, Aurelia: 238, Wishful: 5). The company operates on a leased model for company operated EBOs or enters into franchise agreements with third parties for exclusive branded outlets. The average size of a store ranges between 500 and 1000 square feet, with investments in fit-outs of around ₹ 3000 per sq feet for new stores. Over the last three years, TCNS has added ~75 stores each year and expects to maintain the current run rate, going forward. EBOs contribute 41% (48% if adjusted for Ind-AS 115) to the total topline, with revenue from this channel growing at 22% CAGR in FY16-19.

Exhibit 5: Store operating metrics

| **Store metrics (₹ /sq ft)** | **(₹ )** |
|---|---|
| **Revenue** | **9000** |
| | |
| Store level EBITDA | 2295 |
| **% sales** | **26%** |
| | |
| Depreciation | 300 |
| **EBIT** | **1995** |
| | |
| Capex | 3000 |
| Working Capital days | 80 |
| | |
| **Total CE** | **4973** |
| | |
| **RoIC** | **40%** |
| **Payback Period** | **2-2.5 years** |

*Source: Company, ICICI Direct Research*

Exhibit 6: Revenue & revenue/sq ft (exclusive stores)



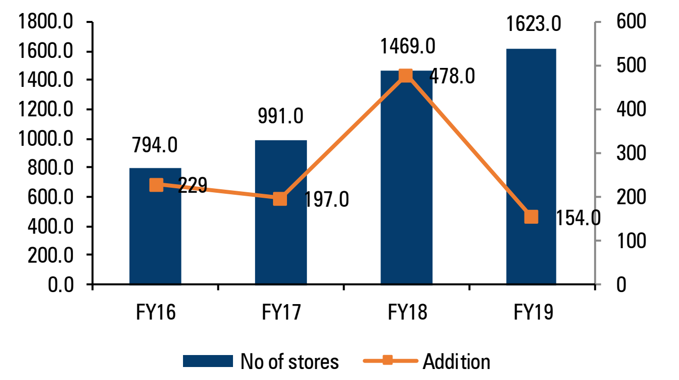

*Source: Company, ICICI Direct Research. Revenue adjusted for IND-AS 115*

**Other distribution channels:** Apart from exclusive stores, channels such as LFS, MBOs and e-commerce, together contribute 50% of overall revenues. The products are retailed through 1889 LFS (stores like Pantaloons, Shoppers Stop and Lifestyle) 1134 MBOs and e-commerce channel.

Among distribution channels, **e-commerce** has been the fastest growing channel, albeit on a lower base. Tie-up with various e-commerce players' enables the company to enhance its reach to Tier II and III cites. TCNS has enhanced its presence on the online platforms as the same enables the company to gauge demand in specific regions and accordingly plan its store expansion. The management expects the e-commerce channel to sustain healthy trajectory and to outpace other distribution channels. The share of revenue from the e-commerce space has doubled from 7% in FY16 to 14% in FY19, translating into a robust CAGR of 60%.

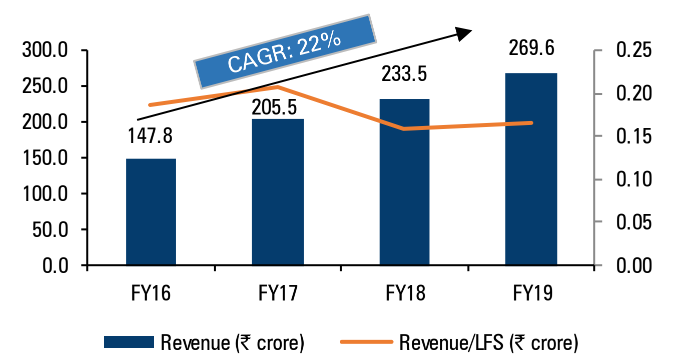
Multi branded outlets (MBO) continue to remain the most profitable channel for TCNS. The company had aggressively shored up its MBO sales touch points from 960 in FY16 to 1522 by FY18. However, owing to severe liquidity stress in this channel, the management took a strategic decision to exit certain long credit cycle customers. The company reduced ~94 touch points and 294 touch points in FY19 and 9MFY20, respectively. The revenue growth in the MBO channel is expected to remain constrained in the near term. Post rationalisation of the MBO channel the share of revenues from MBOs has declined to mere 3% for 9MFY20. However, the management indicated that the rationalisation process is almost complete and the share of MBO would gradually inch up from current levels.

Exhibit 7: Number of LFS touch points and addition per year



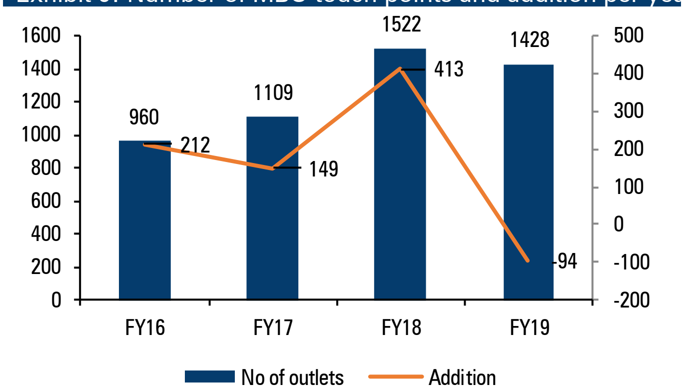

Source: Company, ICICI Direct Research

Exhibit 8: Revenue from LFS & revenue/LFS



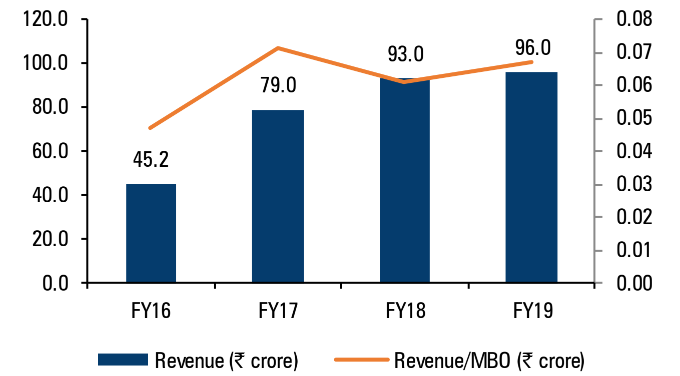

Source: Company, ICICI Direct Research

Exhibit 9: Number of MBO touch points and addition per yea




Source: Company, ICICI Direct Research

Exhibit 10: Revenue from MBOs & revenue/MBO




Source: Company, ICICI Direct Research

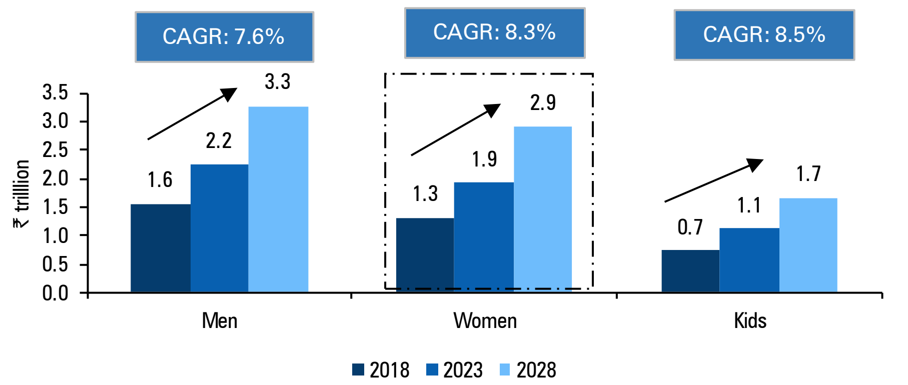
# Investment Rationale

## Changing Industry dynamics to enable sustained growth

We believe TCNS, with its strategies, commands a leading position in the women's ethnic wear business. The company is poised to benefit from the gradual market shift from saree to salwar kameez, especially in non-metro cites. A steady rise in income levels, favourable demographics and GST led penetration in the organised retail bodes well for the company.

The Indian apparel industry is pegged at ₹ 3.6 trillion, which is expected to grow at a CAGR of 8.1% to ₹ 7.8 trillion by 2028. Of the total pie, menswear dominates the portfolio with share of 42%, followed by womenswear (37%) and kids wear (21%). It is estimated that over the next decade (2028) womenswear and kidswear will demonstrate higher growth rate, translating into an increase in market share in these categories.

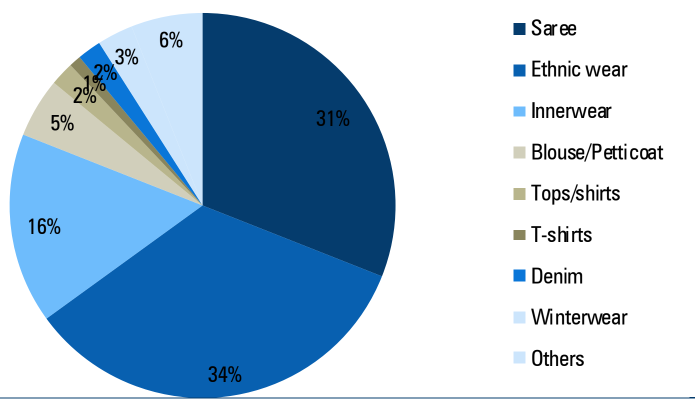
Exhibit 11: Industry market size




*Source: Technopak Analysis, ICICI Direct Research*

The size of the womenswear segment in India is pegged at ₹ 131389 crore (US$20 billion) and is expected to grow at a CAGR of 8.3% to ₹ 290504 crore over the next 10 years. Increase in number of working women and greater awareness in fashion trends is expected to fuel the demand for western wear, indo-fusion wear and occasion specific ethnic wear. Currently, saree remains the most widely accepted women wear in India with a market size of ₹ 40649 crore (31% market share). However, a shift in preference towards salwar kameez and western wear is expected to curtail the growth momentum for the saree segment as it is expected to grow at a CAGR of mere 3% over the next decade.

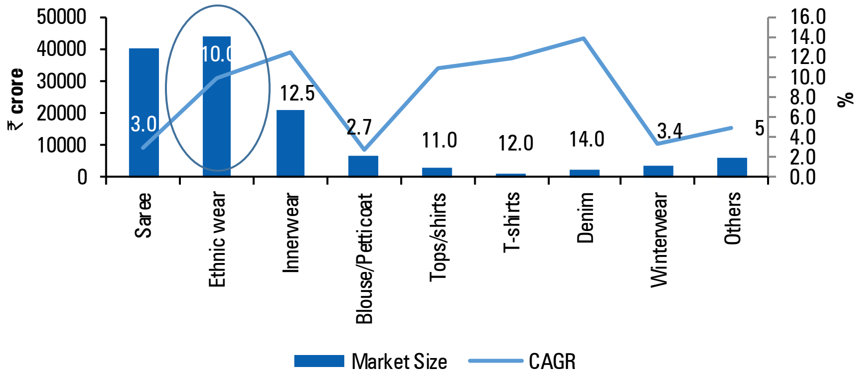
Exhibit 12: Indian wear dominates womenswear segment




*Source: Technopak Analysis, ICICI Direct Research*

Salwar kameez (ethnic wear) is another dominant category, which has recently been gaining traction among working women and occasion specific wear. Ethnic apparel has transitioned from being a traditional apparel to everyday apparel. The comfort level provided by salwar kameez has made it prevalent among the working women. Further, increased competition from western wear has led to formation of a new category called Indo-western. It is a blend of both ethnic and western wear. The ethnic market size is pegged at ₹ 44,193 crore and is expected to grow at a CAGR of 10% to ₹ 1,14,627 crore. The market is currently dominated by unorganised players (80% share). With increase in brand aspiration, the organised sector is expected to grow at a much faster clip leading to market share gains.

Exhibit 13: Womenswear segmental size and CAGR over 2018-28




*Source: Technopak Analysis, ICICI Direct Research*

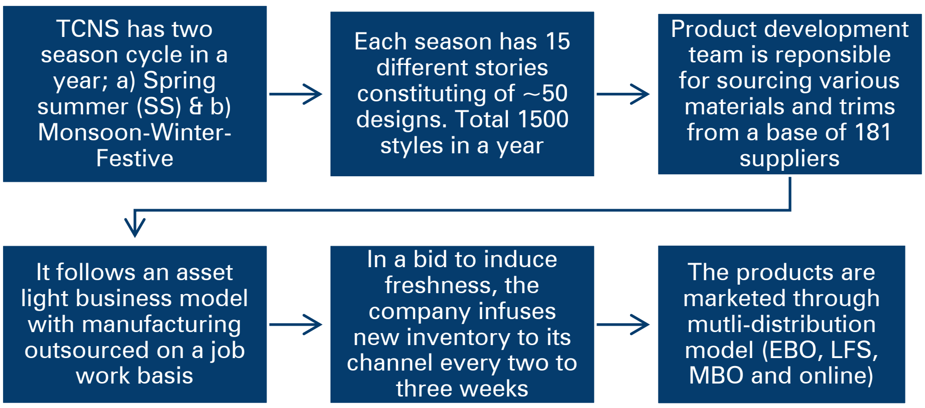
## Asset light supply chain enables to generate high asset turnover

The women's ethnic wear industry is highly fragmented with several regional brands and retailers present in the local markets having low entry barriers. However, there are significant challenges to scale up the brand owing to complex supply chain issues. Unlike men's apparel, the structure of an ethnic wear garment requires a combination of various fabrics and trim materials. Consequently, sourcing of raw material becomes a critical factor in the ethnic wear industry, for continuity and product line execution on time. Over the years, TCNS has established a **well-balanced and diversified base of 181 suppliers** located across India, providing printed fabrics and unprocessed fabrics and other materials. **TCNS follows an asset light business model, with production outsourced on a job work basis. It has ~78 job workers for manufacturing apparels.**

While manufacturing is outsourced, designing is carried out in-house. The **company has an experienced team of 40+ designers, which has, over the years, witnessed extremely low attrition rate.** Every product goes through an institutionalised design process, which includes trend forecasting, concept/stories development and fabric design and styling. Across its two season cycle, the company develops 25+ concepts stories across brands with 1500+ styles in a year across brands. Given the vast number of design portfolio, failure of a particular design/product will have a limited impact on the financial performance.

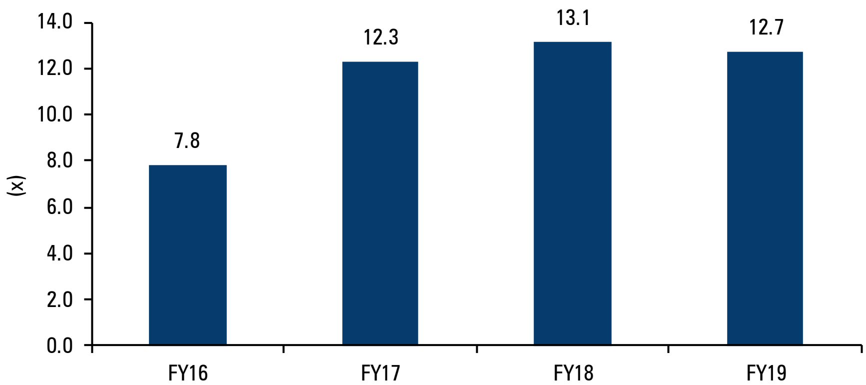
The Indian fashion industry now demands faster trends, new designs and latest fashions. Hence, the company infuses fresh inventory (new story) to its channels every **two to three weeks** to induce freshness at store shelves.

Exhibit 14: Process from designing to shelf




*Source: Company, ICICI Direct Research*

Exhibit 15: Outsourced manufacturing keeps it asset light (gross block A/T ratio)




*Source: Company, ICICI Direct Research*

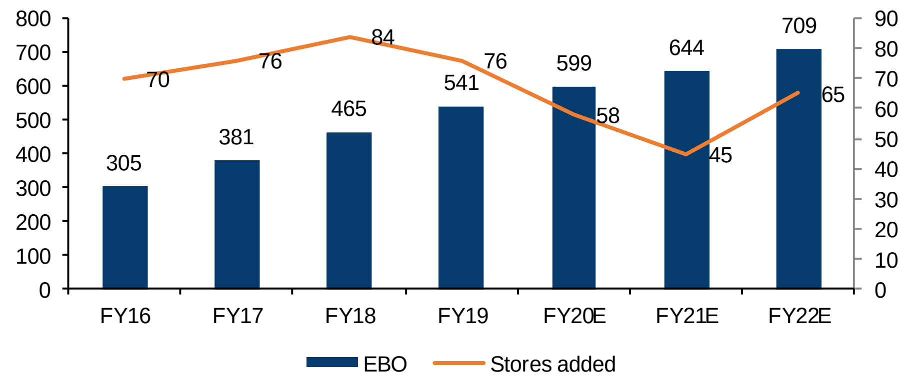
## Focus on enhancing footprint in non-metro cities

Over the years TCNS has built a robust distribution network spread across different channels. Exclusive stores continues to remain a key source of channel with revenue contribution of ~41%. TCNS is one of the few players in the industry to have transitioned itself from being a regional player to a pan-India player. This was owing to rapid expansion of its exclusive stores from opening its maiden store in 2002 to enhancing its reach to 568 stores.

The recent trends indicates that various branded players are shifting their focus to Tier II and Tier III markets owing to increasing awareness and aspirations especially among the youth. **As per industry sources, the organised retail market in Tier II and III cities is pegged at US$ 5.7 billion and is expected to reach US$80 billion by 2026, translating into impressive CAGR of 39%.** According to JLL report, retail sector in Tier II and III markets have drawn investments worth US$6.1 billion vs. US$1.3 billion invested in Tier I cities (in 2006-17). National and international brands are evincing interest towards expanding store network in non-metro cities, which is leading to development of large scale malls and standalone commercial developments (in case of absence of malls or inferior quality malls).

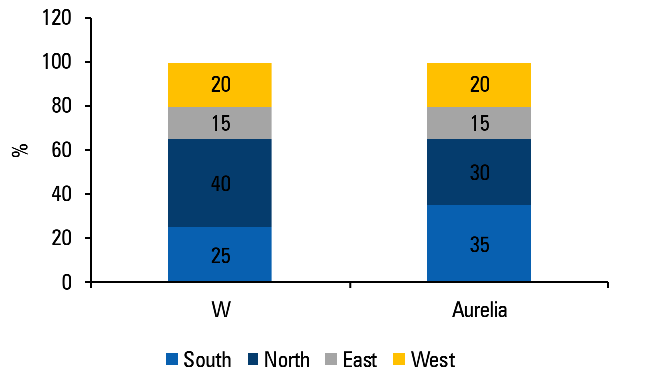
**With favourable store operating metrics (smaller store size) and sharper price point category, TCNS plans to enhance its penetration over the next five years in non-metro cities. The management believes there is immense opportunity as currently it caters to only 100 towns whereas it aspires to reach 500 towns in India. Furthermore, majority of 45 stores added in 9MFY20, were opened in Tier II/III cities. We build in 58, 45, 65 store additions in FY20/21/22E, taking the total store count to 709 stores.**

Exhibit 16: Number of exclusive outlets and store addition pace



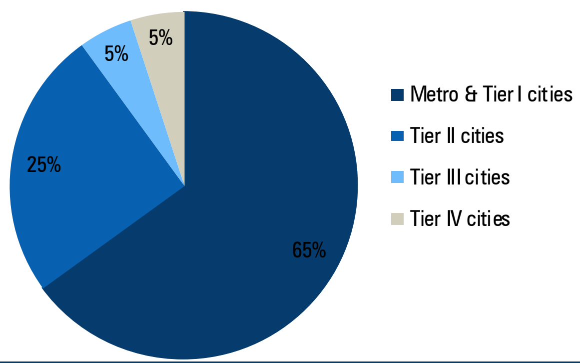

*Source: Company, ICICI Direct Research*

Exhibit 17: Diversified presence across all regions




*Source: Company, ICICI Direct Research*

Exhibit 18: Metro and non-metro store distribution




*Source: Company, ICICI Direct Research*

## Diversification into complementing categories to drive growth

The management has a long term view of transforming itself from pure play apparel player to a lifestyle brand, which houses various sub-categories such as fashion jewellery, footwear and perfumes. Furthermore, TCNS intends to continuously evolve its brand through foraying into newer markets such as kidswear (girls wear). The rationale behind the same is to increase average ticket size per customer and in turn translate into to higher same stores sales growth. Besides the new organic initiatives, the company is also seeking new M&A opportunities to unlock a new growth avenue for the company.

***A) Launch of new footwear range***

TCNS through its 'W' brand is launching new footwear range to complement its existing ethnic product portfolio. TCNS is planning to invest in building a separate team for designing and marketing the products. The company has roped in former business head of 'Steve Madden' India to lead the initiative. The management indicated that the first pilot range will be launched in new upcoming spring-summer season in 2020. Initially, the company plans to infuse the inventory in only 70-80 exclusive 'W' stores and later intends to scale it up to its entire retail footprint. The whole concept is to utilise underutilised space in its store to enhance per square feet throughput. The management has an aspirational target of generating ~10% of revenues from the footwear segment over the next five years.

***B) Foray into girls-wear segment:***

TCNS is looking to leverage its brand, 'Aurelia', for girls wear in the ethnic space. The industry size for girls ethnic segment is pegged at ₹ 8200 crore and is expected to grow at a CAGR of 9.0% to ₹ 19400 crore by 2028. The segment is highly fragmented and chiefly dominated by unorganised players. With growing disposable income and awareness about latest trends, kidswear segment is expected to witness higher shift towards organised retail. The recent trends suggest retailers are no longer restricting themselves to kids' western wear and have started offering kids ethnic wear as well. The trend of occasion-specific clothing has started gaining traction even among kids. It is set to launch a capsule range for the upcoming spring-summer 2020, wherein there is an active demand from its existing clients to add the range. With diversification of product category, TCNS is positioning itself as a family fashion store with a focus on women and girls wear.

***C) Launch of new coordinates brand:***

TCNS has added a fourth brand to its portfolio with the launch of its new coordinates brand 'Elleven' which caters to the women's bottom wear category. It has opened the first store of 'Elleven' in Ahmedabad. The management believes that in the current market, coordinates have emerged as an independent category, unlike just a pure ancillary product, that it used to be about three to four years back. Also, the available coordinate brands in the market are more like matching centres offering basic products. TCNS is aiming to differentiate itself by offering bottom wear and drape wear both in ethnic and fusion space in core and fashion categories.

On the pricing front, the brand is likely to be priced in Aurelia's price range. On the distribution, front the brand will be available through combination of EBOs and shop-in-shop model at the company's other existing brand EBOs. The capex requirement per store is between ₹ 15 and ₹ 18 lakh. After opening some owned stores, the company would expand through franchisee route depending on the traction the brand receives. The management believes it has the domain expertise and given its product supply chain and retail operation strength this business would be a natural extension that can be rapidly scaled up with marginal additional organisational bandwidth. The revenue contribution is likely to remain minimal initially. We have not factored the same in our estimates.

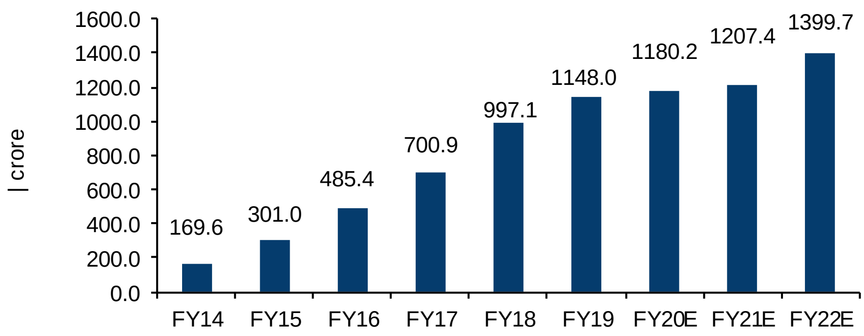
# Financials

## Store expansion to spur revenue growth from FY22

TCNS, through its strong brand patronage and efficient supply chain management, has witnessed industry best revenue growth CAGR of 26% in FY16-19. Among distribution channels, e-commerce has been the fastest growing channel with share of revenue doubling from 7% in FY16 to 14% in FY19. The 9MFY20 was a challenging period for the company with dual headwinds of tough macroeconomic conditions and liquidity concerns at the MBO level impacting the performance (8.4% YoY revenue growth). In a bid to beat the blues, various brands resorted to aggressive discounting strategies, albeit at the cost of margins and stretched working capital cycle. However, TCNS refrained from deep discounting beyond a point in an effort to maintain its gross margins and brand positioning, thus impacting volumes.

With gradual closure of malls and standalone stores from mid-March onwards we expect Q4FY20 to have been significantly impacted. We anticipate TCNS would exit FY20E with revenue growth of ~3%. Post normalisation, discretionary categories like jewellery, apparel and footwear could see some revival of revenue growth due to pent up consumer demand. However, given the discretionary nature, the entire revenue loss may not be entirely recouped in FY21E. Hence, we bake in lower revenue growth of 2.3% YoY in FY21E (the company’s strong brand franchise, healthy store addition pace and diversification in new product categories are key triggers leading to revenue recovery from H2FY21E onwards). TCNS could be a beneficiary as and when the market scenario improves. We pencil in revenue growth of 16.0% YoY in FY22E (translating into CAGR of 9.0% in FY20-22E).

Exhibit 19: Revenue trend

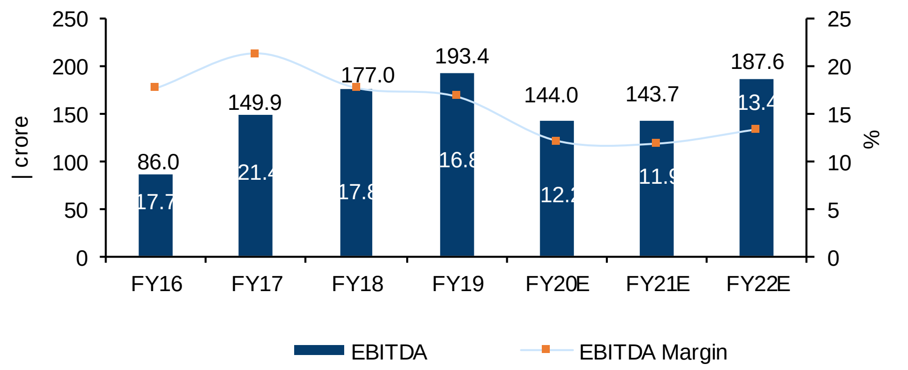



*Source: Company, ICICI Direct Research*

## EBITDA margins expected to recover in FY22E

TCNS Clothing is one of the few brands that has focused on consistent profitable growth. In tandem with topline growth, EBITDA has grown at a significant CAGR of 31% in FY16-19 (adjusting for share based expenses). Given negative operating leverage and increased spends towards marketing activities & new investments, we expect EBITDA margins to remain under stress in FY20, FY21E. With a gradual recovery in revenue growth from FY22 onwards, we expect EBITDA margins to improve 150 bps YoY to 13.4% in FY22E. We expect EBITDA to grow at 14% CAGR in FY20-22E.

Exhibit 20: EBITDA margin trend (adjusted for share ESOP)

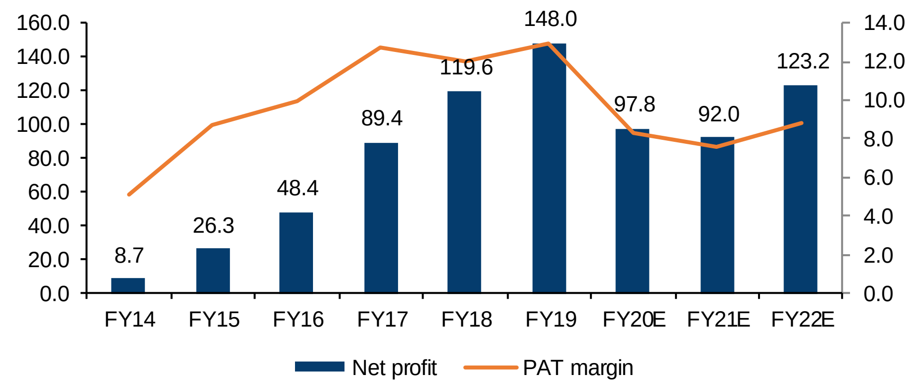



Source: Company, ICICI Direct Research

## Expected to maintain its debt free status

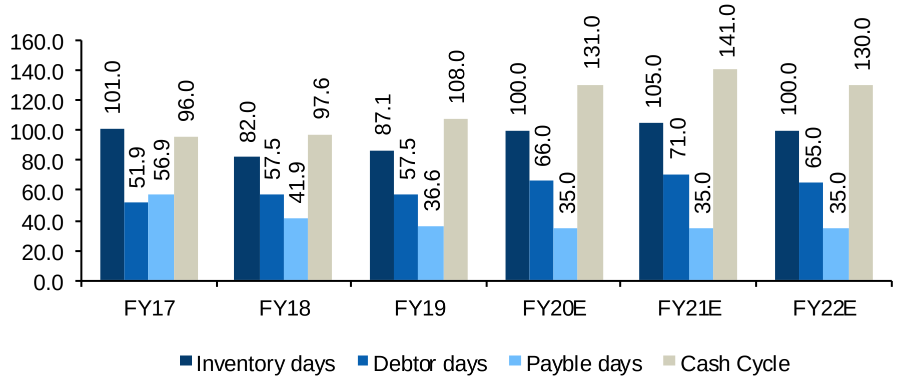
The company follows an asset light business model, which is evident from its superior gross block asset T/O: 12.0x. Average capex over the last five years has been in the range of ₹ 25.0 crore. The company's capex intensity is expected to be higher in FY20E owing to investments made in new business segments with capex of ₹ 41 crore in FY20E. However, owing to Covid-19, new store opening and investments into new segments may be deferred to conserve cash. Hence, we factor in ~ ₹ 30 crore capex in FY21E. We build in capex of ~₹ 40 crore in FY22E post normalisation of the market scenario. As on FY19, the company has healthy cash & investments worth ~₹ 160 crore. We anticipate working capital days would inch up in the near term owing lower inventory turns and liquidity stress faced by various distribution channels. However, with the company having healthy cash & investments, we do not foresee a significant increase in working capital debt. The company is scouting for M&A opportunities, which are expected to be funded through internal accruals. Interest and depreciation component is likely to stay low, which would lead to PBT growth being in sync with EBITDA growth. We expect PBT to grow at a CAGR of 14% in FY20-22E.

Exhibit 21: PAT trend (adjusted for ESOP expense)



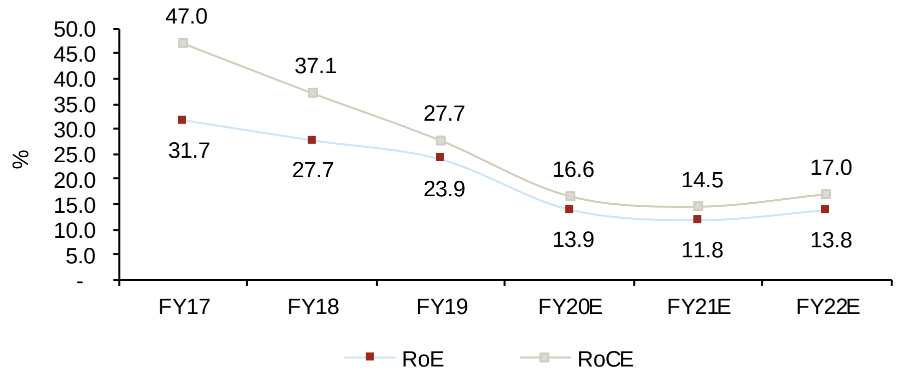

Source: Company, ICICI Direct Research

Exhibit 22: Working capital trend




*Source: Company, ICICI Direct Research*

Exhibit 23: Return ratio trend (adjusted)




*Source: Company, ICICI Direct Research*

## Key risk and concerns

- **Failure of design/story/season can impact growth:** TCNS has strong designing capabilities with a dedicated team of designers. The company operates on a two season model and introduces ~ 30 stories and ~1500 designs in a year. Though TCNS has a good track record of innovative designs across its brands, which has led to high acceptance of its products, any major failure of designs/stories/season can hurt revenues and margins
- **Working capital pressure owing to channel related liquidity issues:** TCNS is expanding its presence through a multi-channel approach into newer locations to spur its revenue growth. However, any liquidity issues or delay in payments by various channel partners can result in higher working capital requirement
- **Delay in store expansion can negatively impact revenue growth:** TCNS is planning to expand its store network in non-metro locations to capture higher wallet share of the consumer. However, any delay in expansion/setting up of retail stores can negatively impact the targeted revenue growth
- **Extension of lockdown (beyond May 3):** Further extension of lockdown and closure of stores for a longer period can negatively impact revenue growth

# Financial Summary

Exhibit 24: Profit & loss statement

| (Year-end March) | FY19 | FY20E | FY21E | FY22E |
|---|---|---|---|---|
| **Net Sales** | **1,148.0** | **1,180.2** | **1,207.4** | **1,399.7** |
| Growth (%) | 15.1 | 2.8 | 2.3 | 15.9 |
| Total Raw Material Cost | 389.9 | 401.3 | 422.6 | 475.9 |
| Gross Margins (%) | 66.0 | 66.0 | 65.0 | 66.0 |
| Employee Expenses | 143.6 | 155.6 | 158.9 | 174.4 |
| Other Expenses | 437.4 | 493.3 | 496.2 | 573.9 |
| Total Operating Expenditure | 970.9 | 1,050.2 | 1,077.7 | 1,224.1 |
| **EBITDA** | **177.0** | **130.0** | **129.7** | **175.6** |
| EBITDA Margin (%) | 15.4 | 11.0 | 10.7 | 12.5 |
| **Adjusted EBITDA** | **193.4** | **144.0** | **143.7** | **187.6** |
| Adjusted EBITDA Margin | 16.8 | 12.2 | 11.9 | 13.4 |
| Interest | 0.5 | 0.8 | 0.9 | 0.9 |
| Depreciation | 22.2 | 27.4 | 30.5 | 36.1 |
| Other Income | 7.5 | 13.0 | 6.0 | 10.0 |
| Exceptional Expense | - | - | - | - |
| PBT | 161.8 | 114.8 | 104.3 | 148.6 |
| Total Tax | 30.2 | 31.0 | 26.3 | 37.4 |
| **Profit After Tax** | **131.6** | **83.8** | **78.0** | **111.2** |
| **Adjusted PAT** | **148.0** | **97.8** | **92.0** | **123.2** |

*Source: Company, ICICI Direct Research*

Exhibit 25: Cash flow statement

| (Year-end March) | FY19 | FY20E | FY21E | FY22E |
|---|---|---|---|---|
| Profit/(Loss) after taxation | 131.6 | 83.8 | 78.0 | 111.2 |
| Add: Depreciation | 22.2 | 27.4 | 30.5 | 36.1 |
| Add: Share based payments | 16.4 | 14.0 | 14.0 | 12.0 |
| Net Increase in Current Assets | -90.1 | -86.5 | -51.0 | -57.2 |
| Net Increase in Current Liabilitie | 12.2 | -1.7 | 2.8 | 18.6 |
| **CF from operating activities** | **92.3** | **37.0** | **74.3** | **120.7** |
| (Inc)/dec in Investments | -135.7 | 27.6 | 0.0 | 0.0 |
| (Inc)/dec in Fixed Assets | -21.7 | -40.7 | -30.0 | -40.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 |
| **CF from investing activities** | **-157.4** | **-13.2** | **-30.0** | **-40.0** |
| Inc / (Dec) in Equity Capital | 1.0 | 0.1 | 0.2 | 0.2 |
| Inc / (Dec) in Loan | -0.2 | 0.0 | 0.0 | 0.0 |
| Others | 38.4 | -14.0 | -14.0 | -12.0 |
| **CF from financing activities** | **39.1** | **-13.9** | **-13.8** | **-11.8** |
| Net Cash flow | -26.0 | 10.0 | 30.5 | 68.9 |
| Opening Cash | 49.1 | 23.1 | 33.0 | 63.5 |
| **Closing Cash** | **23.1** | **33.0** | **63.5** | **132.4** |

*Source: Company, ICICI Direct Research*

Exhibit 26: Balance Sheet

| (Year-end March) | FY19 | FY20E | FY21E | FY22E |
|---|---|---|---|---|
| Equity Capital | 12.3 | 12.4 | 12.6 | 12.8 |
| Other equity instruments | - | - | - | - |
| Reserve and Surplus | 606.3 | 690.1 | 768.2 | 879.3 |
| Total Shareholders funds | 618.6 | 702.5 | 780.8 | 892.1 |
| Total Debt | - | - | - | - |
| Non Current Liabilties | 6.6 | 6.6 | 6.6 | 6.6 |
| **Source of Funds** | **625.2** | **709.1** | **787.4** | **898.7** |
| | | | | |
| Gross block | 90.3 | 130.3 | 160.3 | 200.3 |
| Less: Accum depreciation | 36.7 | 64.1 | 94.5 | 130.6 |
| Net Fixed Assets | 53.6 | 66.2 | 65.8 | 69.7 |
| Capital WIP | 0.3 | 1.0 | 1.0 | 1.0 |
| Intangible assets | 5.6 | 5.6 | 5.6 | 5.6 |
| Investments | 137.8 | 110.2 | 110.2 | 110.2 |
| Inventory | 274.1 | 323.3 | 347.3 | 383.5 |
| Cash | 23.1 | 33.0 | 63.5 | 132.4 |
| Debtors | 180.7 | 213.4 | 234.9 | 249.3 |
| Loans & Advances & Other CA | 23.0 | 27.6 | 33.1 | 39.8 |
| Total Current Assets | 500.9 | 597.4 | 678.9 | 804.9 |
| Creditors | 115.0 | 113.2 | 115.8 | 134.2 |
| Provisions & Other CL | 45.7 | 45.9 | 46.0 | 46.2 |
| Total Current Liabilities | 160.7 | 159.0 | 161.8 | 180.4 |
| Net Current Assets | 340.2 | 438.3 | 517.0 | 624.4 |
| LT L& A, Other Assets | 87.7 | 87.7 | 87.7 | 87.7 |
| Other Assets | 0.0 | 0.0 | 0.0 | 0.0 |
| **Application of Funds** | **625.2** | **709.1** | **787.4** | **898.7** |

*Source: Company, ICICI Direct Research*

Exhibit 27: Key ratios

| (Year-end March) | FY19 | FY20E | FY21E | FY22E |
|---|---|---|---|---|
| **Per share data (₹)** | | | | |
| EPS | 21.5 | 13.5 | 12.4 | 17.4 |
| EPS (Adjusted)* | 24.1 | 15.8 | 14.6 | 19.2 |
| Cash EPS | 25.1 | 17.9 | 17.2 | 23.0 |
| BV | 100.9 | 113.3 | 123.9 | 139.4 |
| Cash Per Share | 3.8 | 5.3 | 10.1 | 20.7 |
| **Operating Ratios (%)** | | | | |
| EBITDA margins | 15.4 | 11.0 | 10.7 | 12.5 |
| PBT margins | 14.1 | 9.7 | 8.6 | 10.6 |
| Net Profit margins | 11.5 | 7.1 | 6.5 | 7.9 |
| Inventory days | 87.1 | 100.0 | 105.0 | 100.0 |
| Debtor days | 57.5 | 66.0 | 71.0 | 65.0 |
| Creditor days | 36.6 | 35.0 | 35.0 | 35.0 |
| **Return Ratios (%)** | | | | |
| RoE | 23.9 | 13.9 | 11.8 | 13.8 |
| RoCE | 27.7 | 16.6 | 14.5 | 17.0 |
| RoIC | 39.8 | 21.1 | 18.1 | 21.7 |
| **Valuation Ratios (x)** | | | | |
| P/E | 16.8 | 25.7 | 27.7 | 21.0 |
| EV / EBITDA | 12.0 | 16.4 | 16.5 | 12.5 |
| EV / Sales | 2.0 | 2.0 | 2.0 | 1.7 |
| Market Cap / Revenues | 2.2 | 2.1 | 2.1 | 1.9 |
| Price to Book Value | 4.0 | 3.6 | 3.3 | 2.9 |
| **Solvency Ratios** | | | | |
| Debt / Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt/EBITDA | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Ratio | 3.0 | 3.5 | 3.8 | 3.7 |
| Quick Ratio | 1.3 | 1.5 | 1.7 | 1.6 |

*Source: Company, ICICI Direct Research*

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Reduce: -15% to -5%;

Sell: <-15%

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