

Marico Ltd.

18 September 2020

Reuters: MRCO.NS; Bloomberg: MRCO IN

Saffola franchise and cost savings to support earnings growth

We recently interacted with Mr. Pawan Agarwal, CFO, Marico Ltd. (MRCO) in order to get an update on the overall operating environment and demand trends being witnessed on ground. After witnessing YoY volume growth in May-June'20, company's domestic business has seen growth in July'20 and August'20 as well. It has been primarily led by the Saffola franchise (Edible Oils and Foods), partially by coconut oil and new launches made in the health & hygiene space. On the international front, Bangladesh has managed to remain on a firm footing. Copra prices had seen a slight uptick in July'20 and August'20, which was due to festive demand. The management expects copra prices to correct in the coming months and to be flattish for the year. We believe benign copra prices along with tight cost-control program (targeting Rs1.5bn savings) should support margin expansion in FY21. We maintain our Accumulate rating with a revised target price (TP) of Rs395 and remain positive on MRCO from a medium-term perspective.

Update on operations: As lockdown related restrictions eased, volume in the May-June period grew on a YoY basis. Business continued to show growth in July'20 and in August'20 as well. Rural sector has been growing better than urban areas and the company believes that it will continue to do better due to reverse migration, government's focused initiatives and good monsoon. CSD channel continues to be a challenge but is improving sequentially. E-commerce (e-comm) is currently contributing more than 7% (it was 5% last year). Growth in modern trade (MT) channel remains a challenge in the near term because of social distancing. On the supply side, overall operations are back to normal levels and the company has rationalized its product portfolio by letting go of tail-end SKUs. For FY21, the management expects to grow in terms of revenue if the situation doesn't worsen going ahead.

Domestic business: For the coconut oil segment, MRCO is focusing on market share gain from (a) unorganized players as consumers will avoid purchasing loose oil given the heightened sense of hygiene and awareness towards adulteration and (b) from tail-end organized players as many of the smaller players have become cash strapped on account of the ongoing crisis. The Saffola franchise is definitely benefitting from the tailwind in the form of increasing in-home consumption. The company believes that it has gained new households/consumers during the pandemic. In the domestic foods business, while the company was earlier focusing on creating and entering niche categories, it would focus on participating in larger categories where there are 1-2 incumbents and where MRCO can create a differential factor. Food business revenue, which stood at Rs1.8-1.9bn in FY20, is expected to rise to Rs3.0-3.5bn in FY21 and further to Rs4.5-5.0bn by FY22 with the help of base business and new launches. Within the VAHO portfolio, the mid segment and bottom-of-the-pyramid segment (including the likes of Nihar Shanti Amla, Parachute Jasmine etc.) are seeing decent growth and are back to pre-Covid levels.

New launches to focus on health, hygiene & immunity: In line with the change in the company's focus from creating or entering niche categories to participating in existing large categories by building up scale, new launches made during the last 18-20 months are taking a slight backseat. It believes that the opportunity in health (including immunity) and hygiene would be far better and has utilized it by launching relevant products. MRCO also announced its foray into Ayurveda products on 16th September 2020 ([Link](#)), leveraging the Saffola brand further. In 1QFY21, revenue from the health & hygiene portfolio contributed ~1.5% to the domestic turnover and the company expects to generate Rs0.75-1bn from the portfolio in FY21.

Bangladesh to continue to support international growth: Bangladesh, which is a strategic priority market, has been leading growth in the international business and even in the current environment it has managed to remain on a firm footing. Vietnam has not been impacted severely as the pandemic has been managed relatively well but slowdown in personal care category, where MRCO is the market leader, affected sales. The company remains optimistic of a recovery going forward in this region. The company is cautiously optimistic about other geographies, including MENA and South Africa on account of unfavorable macro-economic backdrop.

Cost rationalization to drive margin expansion: In terms of raw material, copra prices have risen recently in the months of July'20 & August'20, largely led by festive demand. But, the management expects copra prices to correct in the coming months and to be flattish for the year. If the situation arises, the company is willing to unwind some offers to lessen the impact on margins. On the back of a tight cost-control program, the company is targeting Rs1.5bn of saving and expects to clock 20%+ EBITDA margin in FY21.

ACCUMULATE

Sector: Consumer

CMP: Rs362

Target Price: Rs395

Upside: 9%

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Key Data

Current Shares O/S (mn)	1,291.2
Mkt Cap (Rsbn/US\$bn)	467/6.3
52 Wk H / L (Rs)	404/234
Daily Vol. (3M NSE Avg.)	2758944

Price Performance (%)

	1 M	6 M	1 Yr
Marico Ltd.	(3.1)	45.3	(4.8)
Nifty Index	2.4	28.4	6.5

Source: Bloomberg

[FY20 Annual Report](#)
[1QFY21 Information Update](#)

Our view and valuation: We introduce FY23 numbers and have marginally revised our FY21/FY22 estimates based on the management commentary and certain changes following the annual report update. The company continues to make efforts towards meeting its medium term growth aspirations and has multiple levers in place to drive growth - (1) Focus on increasing the pace of market share gain in the *Parachute* portfolio (2) *Saffola* Edible Oils, which was a laggard, has been delivering consistently good growth and is expected to do well in the near term, led by change in strategy (3) Diversification of the domestic portfolio with increased support from the Foods and Hygiene portfolios (4) Distribution expansion, especially in rural areas through direct reach and (5) Leveraging alternate distribution channels. Benign raw material price environment and cost reduction programs would facilitate improvement of operating margin. We remain positive on MRCO from a medium-term perspective and are building in 10.9% CAGR in earnings over FY20-23. The stock currently trades at 42x/36x/33x FY21/FY22/FY23 EPS. We roll forward our valuations to September'22 EPS and continue to value the company at a multiple of ~38x, giving us a target price (TP) of Rs395 (Rs385 earlier), implying an upside of 9% from the current market price (CMP). We maintain our Accumulate rating.

Exhibit 1: Financial summary

Y/E March (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	73,340	73,150	76,919	88,399	97,045
YoY growth (%)	16.0	-0.3	5.2	14.9	9.8
EBITDA	13,260	14,690	16,147	18,371	20,361
EBITDA margin (%)	18.1	20.1	21.0	20.8	21.0
Adj. PAT	9,260	10,500	11,118	12,844	14,312
EPS	7.2	8.1	8.6	10.0	11.1
YoY change (%)	13.8	13.4	5.9	15.5	11.4
ROCE (%)	29.7	31.4	32.1	35.3	37.9
ROE (%)	33.7	35.0	35.5	38.4	40.7
ROIC (%)	38.3	41.2	43.7	48.1	51.6
P/E (x)	50.4	44.5	42.0	36.4	32.6
P/B (x)	15.7	15.4	14.4	13.5	13.0
EV/EBITDA (x)	34.7	31.3	28.4	24.9	22.4

Source: Company, Nirmal Bang Institutional Equities Research
 * Introducing FY23 numbers

Exhibit 2: Change in our estimates

Y/E March (Rs mn)	Earlier Estimates			New Estimates			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Sales	76,934	89,042	NA	76,919	88,399	97,045	0.0	-0.7	NA
EBITDA	16,520	18,715	NA	16,147	18,371	20,361	-2.3	-1.8	NA
EBITDA margin (%)	21.5	21.0	NA	21.0	20.8	21.0	-0.5	-0.2	NA
Adj PAT	11,397	13,117	NA	11,118	12,844	14,312	-2.4	-2.1	NA

Source: Company, Nirmal Bang Institutional Equities Research
 * Introducing FY23 numbers

Other highlights from the interaction:
Current environment and Outlook

- After a very poor April, every month after that has witnessed improvement. MRCO has also seen growth in July'20 and August'20.
- For FY21, the management expects to grow in terms of revenue if the situation doesn't worsen going ahead and expects to clock 20%+ EBITDA margin.
- The company is running a tight cost-control programme and is challenging every line item - right from pricing to raw material to A&P and is targeting Rs1.5bn of savings.
- The savings are largely sustainable and can be derived from supply chain optimization, delivery chain efficiencies, manufacturing operations, change in overall ways of working (savings through travel, rental etc). Even in A&P, there could be a structural change in spends; the pandemic has given an opportunity where the company could negotiate A&P contracts at favourable prices (for same Rs100, it could get much better GRPs or for Rs80 it could get Rs100 worth of GRPs).

- Recently, copra prices have gone up, largely led by festive demand. But, the management expects copra prices to fall in the coming months and to be flattish for FY21. If the situation arises, the company is willing to unwind some offers to lessen the impact on margins.
- Rural sector has been growing better than urban areas and will continue to do better due to reverse migration, government's focused initiatives and good monsoon.
- Product portfolio is tuned to the rural consumers, with *Shanti Amla* and smaller SKUs of *Parachute* doing well.

Changes in consumer behaviour & MRCO's response

- There is a rise in consciousness towards health, hygiene and immunity boosting products. Accordingly, MRCO has launched products like sanitizers, veggie clean, disinfectants etc. The company expects to generate Rs0.75-1bn from the health & hygiene portfolio in FY21.
- Consumers have been inclined towards home cooking and home consumption, which has had a positive impact on the company's ready-to-eat portfolio. The management expects to generate Rs3.0-3.5bn in FY21 and Rs4.5-5.0bn by FY22 from its domestic foods business. Foods business revenue stood at Rs1.8-1.9bn in FY20.
- Consumers are seeking more value and MRCO stands to gain with products like Parachute and bottom-of-the-pyramid (BoP) VAHO offerings.
- Given the lower disposable income in the current environment, the discretionary part of the company's portfolio has been affected, although its contribution is not very significant currently.
- Consumers are moving to online as a preferred medium for various purchase needs. E-commerce (e-comm) currently is contributing more than 7% (5% last year). Growth in modern trade (MT) channel remains a challenge because of social distancing. MRCO believes that all three channels will play a key role going ahead.

Situation on supply side

- Overall operations, including third-party manufacturers and distributors are all back to normal levels.
- The company has rationalized its product portfolio by letting go of tail-end SKUs. Last 20 SKUs were contributing ~1-2% only.

Domestic business

Saffola

- *The Saffola* franchise, which contributes 20-25% to the topline, is definitely benefitting from the tailwind in the form of increasing in-home consumption. The company believes that it has gained new households/consumers during the pandemic.
- Three key changes that have led to growth in the *Saffola* portfolio in recent times are: (1) *Saffola* oil was earlier perceived with a fear psychosis as a post illness product to a certain extent. Since the company has changed its marketing strategy during the last one year (*Saffola wala khana*), it is now perceived as a healthy choice for consumption (2) Pricing for 1-litre packs has been reduced from Rs159 to Rs139 (3) Given that the salience on MT and E-comm was high, there used to be price parity between MT/E-comm (due to significant discounting) and GT. To address the same, the company introduced different packs for different channels and for common packs it introduced certain measures to control prices.
- The pricing difference between *Fortune* and *Saffola* (~Rs20-30) will always remain as MRCO is present in the premium segment and is positioned accordingly. The company doesn't want to compromise on margins and the premium positioning plays as a differentiating factor.
- Players who sell 1-litre packs at Rs100 make single-digit margins while MRCO makes decent margins.
- The company has pulled out trade offers/promotions and has put in pricing.
- *Saffola* oil is available in 1-litre, 5-litre and 15-litre packs. The company focuses on 1-litre packs, which does the job of adding new consumers while 5-litre packs are consumed by loyal customer households. The 15-litre pack is majorly used by HORECA and is not the company's focus area.
- In the Domestic foods business, while the company was earlier focusing on creating and entering existing niche categories, it would now focus on participating in larger categories where there are 1-2 incumbents and where MRCO can create a differential factor.
- Honey has been a growing category and the management expects it to be a Rs6-8bn category by next year. Growth rate is difficult to estimate as it has a moving base but could be around mid-teens. The company believes that it offers a differentiated product under *Saffola*, which is a highly trusted brand with a very strong brand equity with regards to health. Also, the company conducts NMR testing by sending every batch to Germany to ensure purity.

- MRCO is also coming up with another immunity boosting product. <https://www.livemint.com/companies/news/marico-joins-other-fmcg-companies-to-launch-ayurvedic-products-11600254377634.html>

- CSD continues to be a challenge but is growing on a sequential basis.

Coconut oil

- Coconut oil, which contributes ~40-45% to India business, is also favourably placed as the company stands to gain from loose oil players.
- Consumers will avoid purchasing loose oil given the heightened sense of hygiene and awareness about adulteration taking place in the unorganized segment.
- Lower packs are seeing disproportionate growth.
- Within the organized coconut oil market, ~60% share is with MRCO, 20% share with 3 other regional players and the balance share is with a long tail of small players. Currently, many smaller players have become cash strapped.
- The company expects to gain share from the long tail of players, which is an easy win compared to the 3 other regional players who have a strong foothold in their respective regions.
- Thus, MRCO is focusing on market share gain from the unorganized players as well as from the tail end organized players.

VAHO

- Within the VAHO portfolio, keeping the top end aside (including *Hair & Care*, *Parachute Aloe Vera* etc), which contributes 25%, the mid segment and bottom-of-the-pyramid segment (BoP) (including the likes of *Nihar Shanti Amla*, *Parachute Jasmine* etc.) are seeing decent growth and is back to pre-Covid growth.
- Operations of VAHO resumed only in the 3rd week of April, thus leading to 30% decline in 1QFY21.
- So far in 2QFY21, the company is seeing an improvement in the VAHO portfolio. Mid segment VAHO is seeing signs of growth and BOP continues to grow. The top end segment (average price indexed at 1.5-1.6x) is facing challenges due to internal environment (brand renovation didn't work as per expectations) and external environment.
- The company expects to exit FY21 with positive growth and is confident of delivering double-digit growth in the medium term.

Premium personal care

- Decline in the balance 5% contribution, which comes from premium personal care (including male grooming) won't have significant impact on the overall domestic portfolio.

International business:

- Growth in the international business is led by Bangladesh. Even in the current environment, this geography is holding up pretty well.
- Vietnam, which contributes 25% to the international business, has managed the pandemic very well and accordingly growth has not been impacted severely. Personal care category has not been growing, but MRCO (the market leader) believes growth would be back on track going ahead. Foods, which contribute 25%, is growing well.
- The company is cautiously optimistic about other geographies on account of unfavourable macro-economic environment.

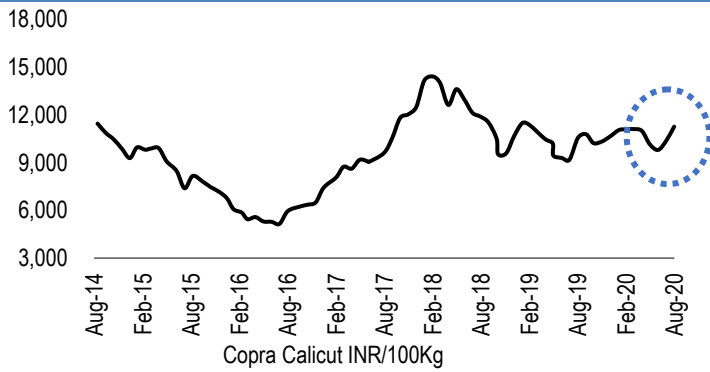
New products

- In line with change in focus from creating/entering existing niche categories to participating in existing large categories by building up scale, new launches (18-20 months old) are taking a backseat. Accordingly, the company has continued with its *Fittify* meal replacement soups/shakes, green tea and green coffee and specific *Cocosoul* SKUs, but is not additionally investing in male grooming products.
- The company believes that the opportunity in health & hygiene space would be far better and has utilized it by launching relevant products.
- In 1QFY21, revenue from the health & hygiene portfolio contributed ~1.5% to the domestic turnover.

Distribution

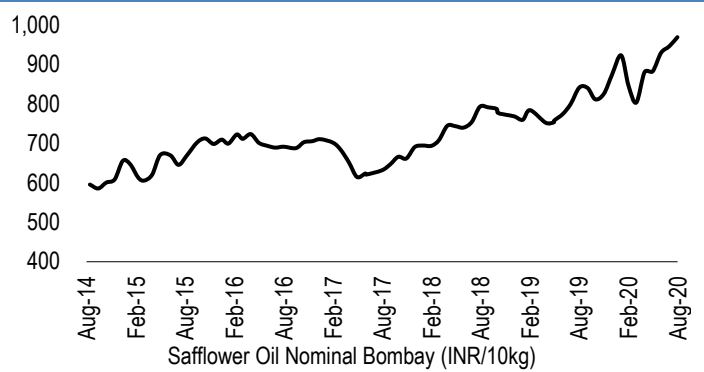
- The company has a total reach of over 5mn outlets (>1mn direct) out of the total universe of 10mn outlets. Although numeric penetration is ~50%, Marico reaches 85% of the relevant outlets. The company adds ~50,000-60,000 outlets every year.

Exhibit 3: Avg. Copra Calicut prices (July+Aug'20) up 6.3% YoY and 4.8% QoQ



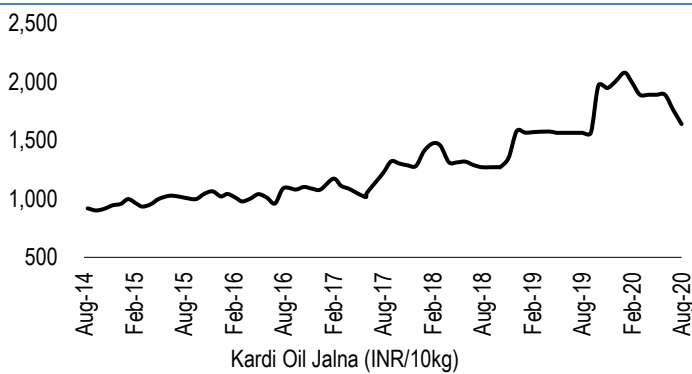
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Avg. Safflower oil prices (July+Aug'20) up 15.8% YoY and 6.7% QoQ



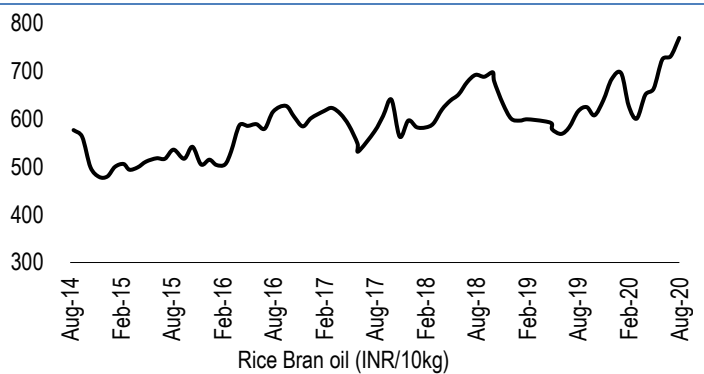
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Avg. Kardi oil prices (July+Aug'20) up 8.7% YoY but down 10.0% QoQ



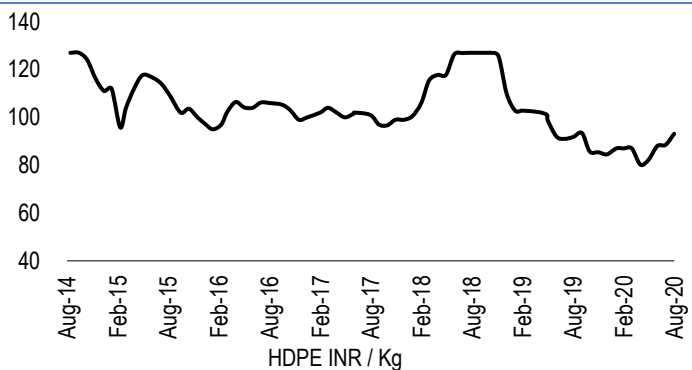
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Avg. Rice bran oil (July+Aug'20) up 23.4% YoY and 10.4% QoQ



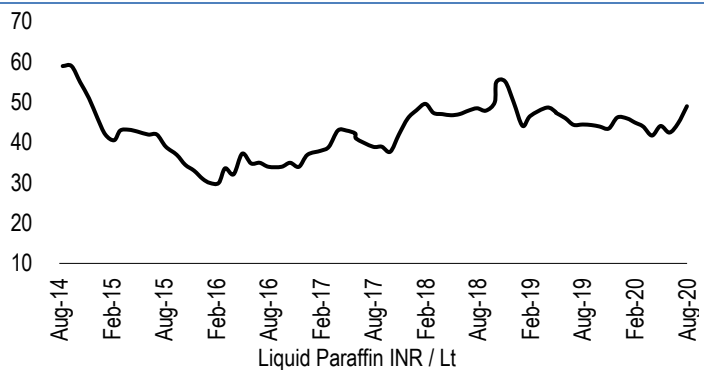
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Avg. HDPE price (July+Aug'20) down 1.4% YoY but up 8.8% QoQ



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Avg. LLP price (July+Aug'20) up 5.6% YoY and 9.6% QoQ



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Domestic segmental quarterly trend

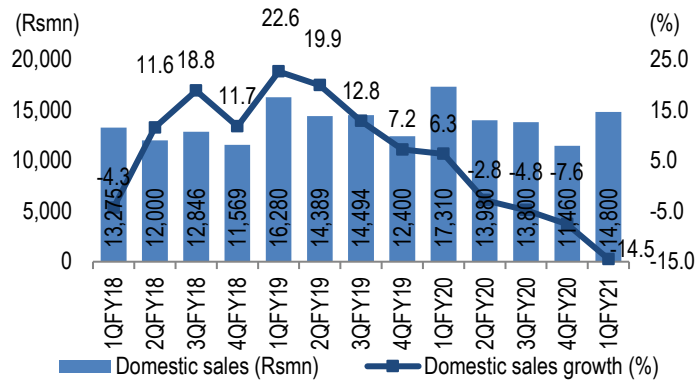
Volume growth (%)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Parachute rigid volume growth (%)	9.0	8.0	9.0	6.0	9.0	(1.0)	(2.0)	(8.0)	(11.0)
Saffola (Refined Edible Oil) volume growth (%)	10.0	5.0	2.0	18.0	3.0	1.0	11.0	25.0	16.0
VAHO volume growth (%)	15.0	5.0	7.0	1.0	7.0	0.0	(7.0)	(11.0)	(30.0)
Domestic volume growth (%)	12.4	6.0	5.0	8.0	6.0	1.0	(1.0)	(3.0)	(14.0)
Overall volume growth (%)	10.4	6.0	6.0	8.0	6.0	3.0	2.0	(4.0)	(12.0)

Value growth (%)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Parachute rigid value growth (%)	38.0	32.0	19.0	4.0	8.0	(4.0)	(5.0)	(12.0)	(12.0)
Saffola (Refined Edible Oil) value growth (%)	9.0	9.0	8.0	15.0	6.0	5.0	13.0	25.0	16.0
VAHO value growth (%)	12.0	12.0	19.0	7.0	11.0	(6.0)	(17.0)	(18.0)	(32.0)
Domestic value growth (%)	23.0	20.0	13.0	7.0	6.0	(3.0)	(5.0)	(8.0)	(15.0)
Overall value growth (%)	20.5	19.6	14.7	8.5	6.7	(0.6)	(2.1)	(7.3)	(11.1)

Realisation growth (%)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Parachute rigid realisation growth (%)	29.0	24.0	10.0	(2.0)	(1.0)	(3.0)	(3.0)	(4.0)	(1.0)
Saffola (Refined Edible Oil) realisation growth (%)	(1.0)	4.0	6.0	(3.0)	3.0	4.0	2.0	0.0	0.0
VAHO realisation growth (%)	(3.0)	7.0	12.0	6.0	4.0	(6.0)	(10.0)	(7.0)	(2.0)
Domestic realisation growth (%)	10.6	14.0	8.0	(1.0)	0.0	(4.0)	(4.0)	(5.0)	(1.0)
Overall realisation growth (%)	10.1	13.6	8.7	0.5	0.7	(3.6)	(4.1)	(3.3)	0.9

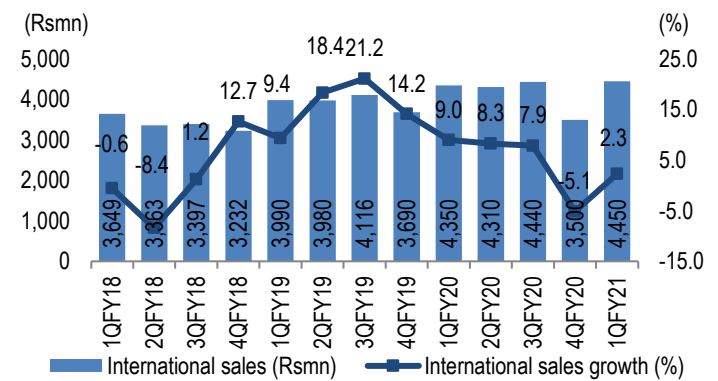
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Domestic sales declined by 14.5% YoY in 1QFY21 on led by 14% decline in volumes



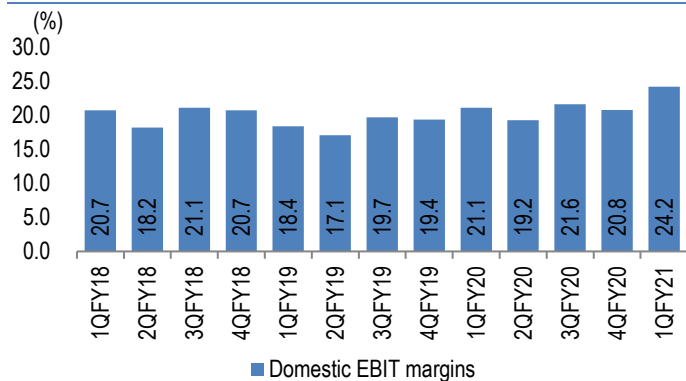
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: International sales grew 2.3% YoY in 1QFY21 on the back of a positive impact of exchange rate



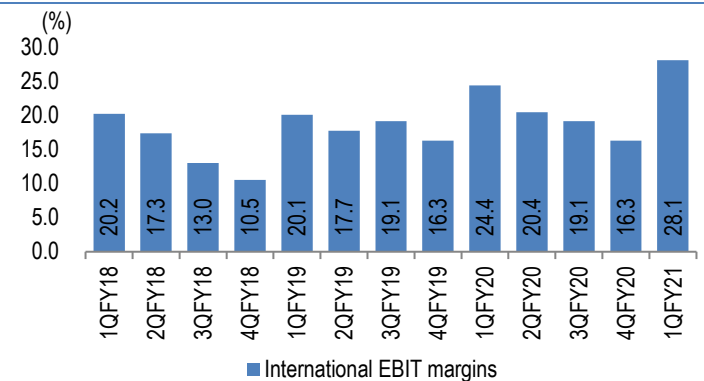
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Domestic EBIT margin stood at 24.2%, up ~310bps YoY and ~340bps QoQ



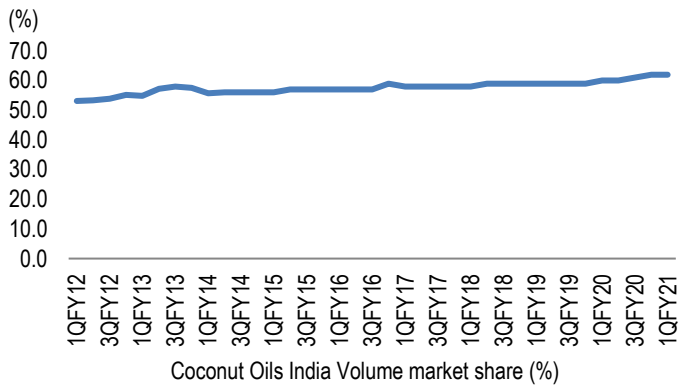
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: International EBIT margin stood at 28.1%, up ~370bps YoY and ~1180bps QoQ



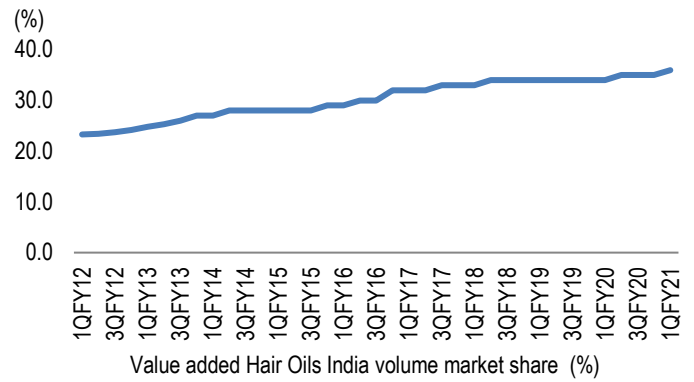
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Market share of coconut oil franchise stood at 62%; up 2% YoY and flat QoQ



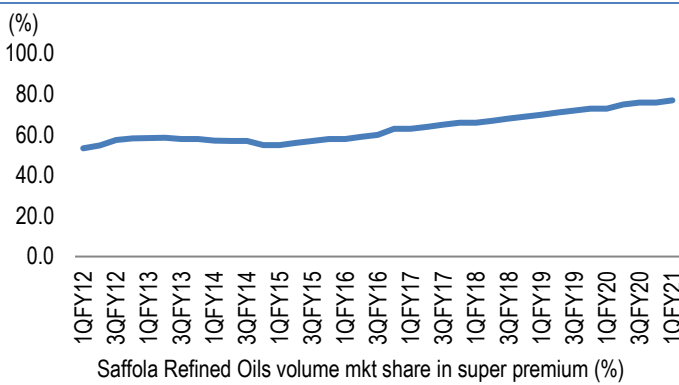
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Market share of VAHO stood at at 36%; up 2% YoY and 1% QoQ



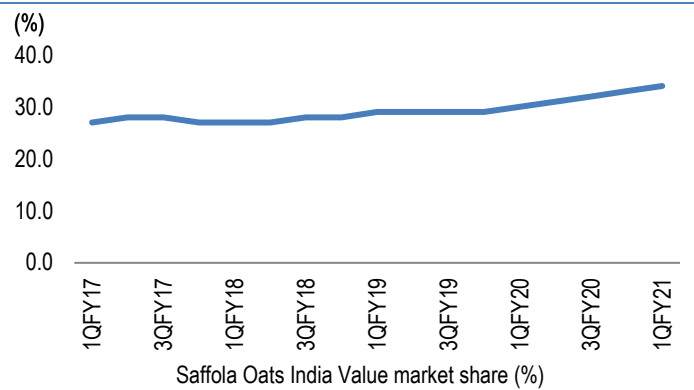
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Market share of Saffola refined oils stood at 77%; up 4% YoY and 1% QoQ



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Market share of Saffola oats stood at 34%; up 4% YoY and 1% QoQ



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: 1QFY21 new product launches across domestic and international markets



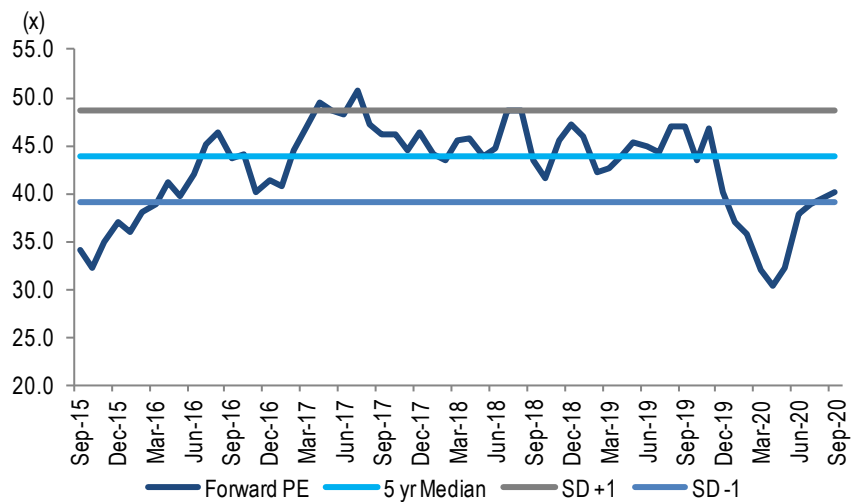
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: MRCO, on 16th September, announced its foray into Ayurveda products through a new range of *Saffola ImmuniVeda* ayurvedic products with 2 variants - Kadha Mix and Golden Turmeric Milk Mix



Source: Media articles, Nirmal Bang Institutional Equities Research

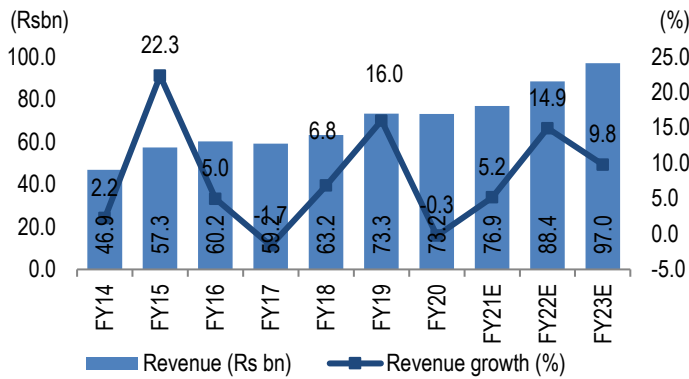
Exhibit 20: One- year forward P/E



Source: Company, Nirmal Bang Institutional Equities Research

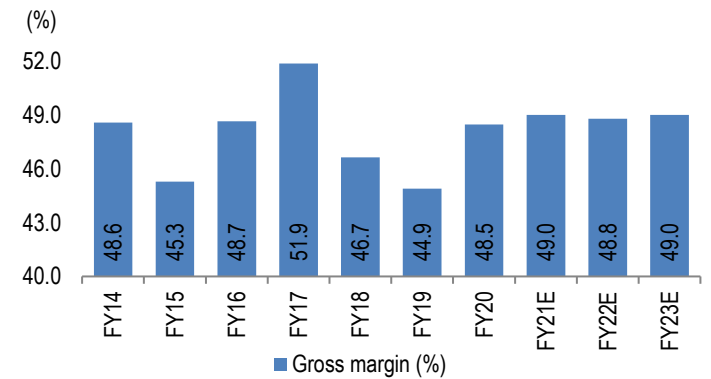
Financial Story in Charts

Exhibit 21: We are building in a revenue CAGR of 9.9% over FY20-FY23E



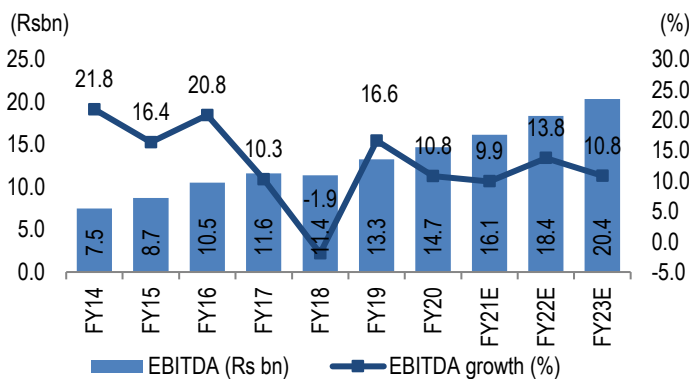
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Gross margin expected to expand by 53bps over FY20-FY23E



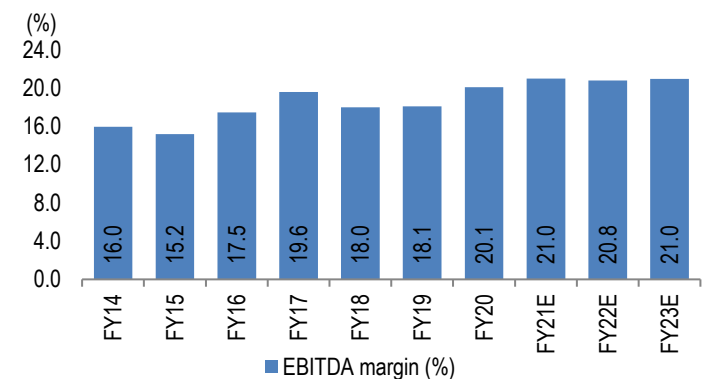
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: We expect EBITDA to grow 11.5% over FY20-FY23E....



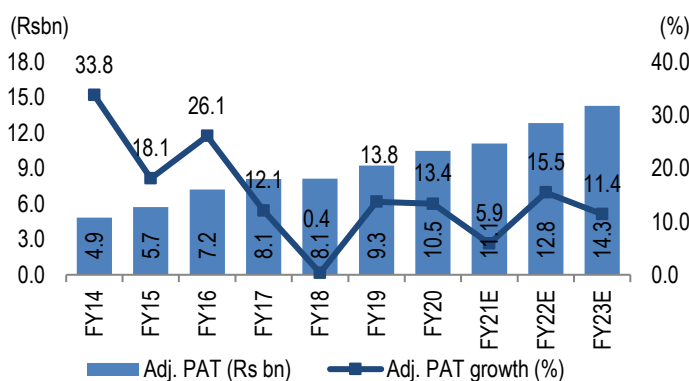
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: with margins expanding ~90bps



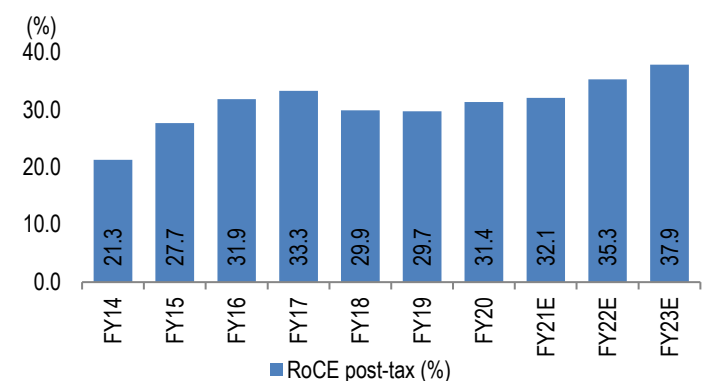
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 25: Adjusted PAT to grow by 10.9% CAGR to Rs14.3bn by FY23E



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 26: ROCE expected to expand ~654bps to 37.9% in FY23E



Source: Company, Nirmal Bang Institutional Equities Research

Financials (Consolidated)
Exhibit 27: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	73,340	73,150	76,919	88,399	97,045
% Growth	16.0	-0.3	5.2	14.9	9.8
COGS	40,400	37,680	39,205	45,251	49,477
Staff costs	4,660	4,780	5,209	5,637	6,172
Other expenses	15,020	16,000	16,357	19,140	21,035
Total expenses	60,080	58,460	60,772	70,028	76,684
EBITDA	13,260	14,690	16,147	18,371	20,361
% growth	16.6	10.8	9.9	13.8	10.8
EBITDA margin (%)	18.1	20.1	21.0	20.8	21.0
Other income	1,030	1,240	941	1,065	1,173
Interest costs	400	500	360	276	222
Depreciation	1,310	1,400	1,552	1,682	1,877
Profit before tax	12,580	14,030	15,177	17,477	19,435
Exceptional items	1,880	-290	0	0	0
Tax	3,140	3,310	3,794	4,369	4,859
Rate of Tax (%)	25.0	23.6	25.0	25.0	25.0
PAT	11,140	10,210	11,118	12,844	14,312
Adj PAT	9,260	10,500	11,118	12,844	14,312
Adj PAT margin (%)	12.5	14.1	14.3	14.4	14.6
% Growth	12.6	14.4	14.5	14.5	14.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 29: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Share capital	1,290	1,290	1,290	1,290	1,290
Reserves	28,460	28,940	31,167	33,175	34,588
Net worth	29,750	30,230	32,457	34,465	35,878
Minority Interest	110	130	130	130	130
Total debt	3,490	3,350	2,650	1,950	1,750
Other long term liabilities	1,890	1,830	1,793	1,758	1,722
Total liabilities	35,240	35,540	37,031	38,303	39,480
Gross block	9,650	11,210	12,510	13,510	15,010
Depreciation	3,350	4,260	5,812	7,494	9,372
Net block	6,300	6,950	6,698	6,016	5,638
Right of use assets	1,530	1,460	1,431	1,402	1,374
Capital work-in-progress	450	580	580	580	580
Goodwill	5,030	5,380	5,480	5,580	5,680
Investments	4,670	7,500	8,437	9,421	9,892
Inventories	14,110	13,800	14,230	16,354	17,662
Debtors	5,170	5,390	5,846	6,895	7,667
Cash	5,520	2,790	2,597	1,686	1,908
Other current assets	4,320	4,580	5,068	5,550	5,906
Total current assets	29,120	26,560	27,741	30,485	33,143
Creditors	9,440	9,780	10,343	12,126	13,340
Other current liabilities & provisions	4,310	4,640	4,522	4,584	5,018
Total current liabilities	13,750	14,420	14,865	16,711	18,358
Net current assets	15,370	12,140	12,876	13,775	14,786
Deferred tax asset	1,890	1,530	1,530	1,530	1,530
Total assets	35,240	35,540	37,031	38,303	39,480

Source: Company, Nirmal Bang Institutional Equities Research

*Introducing FY23 estimate numbers

Exhibit 28: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
PAT	9,360	10,850	11,382	13,108	14,576
Depreciation	1,310	1,500	1,552	1,682	1,877
Other income	-120	-270	-941	-1,065	-1,173
Interest paid	-140	-220	360	276	222
(Inc.)/dec. in working capital	210	330	-929	-1,810	-789
Cash flow from operations	10,620	12,190	11,425	12,192	14,714
Capital expenditure (-)	-1,430	-1,860	-1,300	-1,000	-1,500
Net cash after capex	9,190	10,330	10,125	11,192	13,214
Inc./(dec.) in investments	1,290	-1,600	1,423	-1,355	-863
Cash flow from investments	-140	-3,460	123	-2,355	-2,363
Dividends paid (-)	-6,820	-10,250	-9,810	-8,901	-10,836
Others	-150	-1,210	-1,930	-1,846	-1,292
Cash from financial activities	-6,970	-11,460	-11,740	-10,747	-12,128
Opening cash balance	2,010	5,520	2,790	2,597	1,686
Closing cash balance	5,520	2,790	2,597	1,686	1,908
Change in cash balance	3,510	-2,730	-193	-911	222

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 30: Key ratios

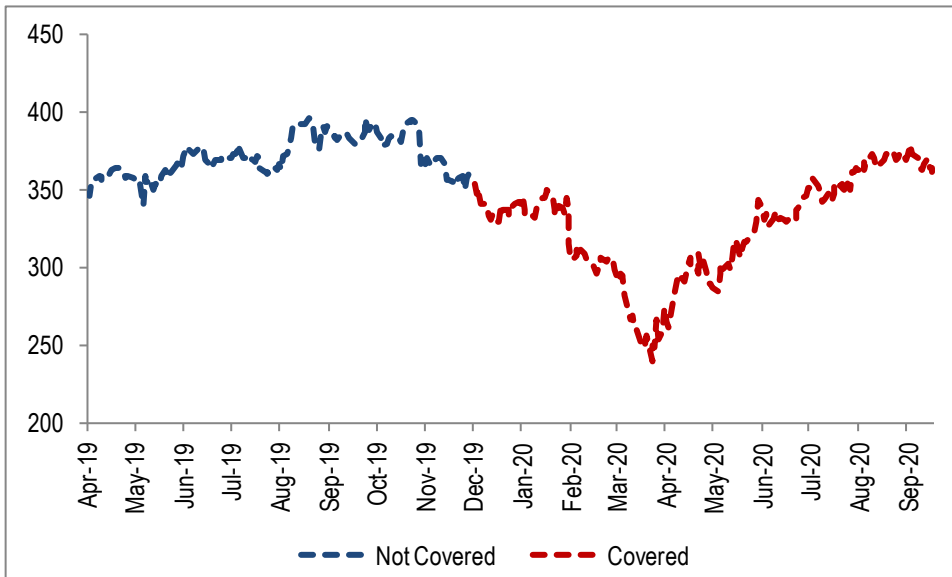
Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Per share (Rs)					
EPS	7.2	8.1	8.6	10.0	11.1
Book value	23.1	23.4	25.2	26.7	27.8
DPS	6.6	7.6	6.9	8.4	10.0
Valuation (x)					
EV/sales	6.3	6.3	6.0	5.2	4.7
EV/EBITDA	34.7	31.3	28.4	24.9	22.4
P/E	50.4	44.5	42.0	36.4	32.6
P/BV	15.7	15.4	14.4	13.5	13.0
Return ratios (%)					
RoCE	29.7	31.4	32.1	35.3	37.9
RoE	33.7	35.0	35.5	38.4	40.7
RoIC	38.3	41.2	43.7	48.1	51.6
Profitability ratios (%)					
Gross margin	44.9	48.5	49.0	48.8	49.0
EBITDA margin	18.1	20.1	21.0	20.8	21.0
PAT margin	12.6	14.4	14.5	14.5	14.7
Liquidity ratios (%)					
Current ratio	1.1	0.8	0.9	0.8	0.8
Quick ratio	1.1	0.9	0.9	0.8	0.8
Solvency ratio (%)					
Debt to Equity ratio	0.1	0.1	0.1	0.1	0.0
Turnover ratios					
Total asset turnover ratio (x)	2.1	2.1	2.1	2.3	2.5
Fixed asset turnover ratio (x)	11.6	10.5	11.5	14.7	17.2
Inventory days	73	70	67	63	64
Debtors days	21	26	27	26	27
Creditor days	44	48	48	46	48

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
2 December 2019	Buy	360	425
1 February 2020	Buy	315	400
30 March 2020	Buy	254	360
5 May 2020	Buy	284	345
6 July 2020	Accumulate	357	370
28 July 2020	Accumulate	351	385
18 September 2020	Accumulate	362	395

Rating chart



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SELL < -5%

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