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Institutional Equities

18 February 2015

NBIE's TOP 10

- Adi Finechem
- CCL Products (India)
- Colgate-Palmolive (India)
- Jubilant FoodWorks
- Kajaria Ceramics
- Lakshmi Machine Works
- State Bank of India
- TD Power Systems
- Triveni Turbine
- V-Mart Retail

Adi Finechem

CMP: Rs324; Rating: Buy; M-cap: US$72mn; TP: Rs453

- **Healthy 93% growth in FY16E net profit likely**
  - AFL is expected to commission 80% expanded capacity by March 2015. As AFL is the only producer in India of (dimer acid/tocopherol), accounting for 53.2% of FY14 revenue) and a low-cost producer of others, it is in a sweet spot to replace Chinese/local competitors. Therefore, we expect a 69.4% increase in sales volume in FY16E, driving net profit by 92.7% as against a decline of 21.7% likely in FY15E, thereby providing a strong re-rating.
- **Healthy cash flow and return ratios**
  - RoCE is expected to improve by 1,043bps from 20.3% to 30.8% over FY15E-FY17E.
  - Healthy operating cash flow/free cash flow of Rs623mn/Rs82mn, respectively, likely over FY14-FY17E.
  - D/E ratio likely to decline from 0.6x in FY14 to 0.2x in FY17E.
- **Margins of Tocopherol likely to improve in 2HFY16**
  - Tocopherol, which accounted for 35% of revenue for AFL, is entirely exported. At present, Tocopherol is undergoing a downturn following oversupply. Generally, Tocopherol follows an 18-month cycle. It witnessed uptrend from 1QFY12 to 4QFY13 where its prices increased from Rs155/kg to Rs572/kg. Downturn started from 1QFY14, where prices declined from Rs572/kg in 4QFY13 to ~Rs300/kg currently. The management expects the downturn in Tocopherol to get over by the next two quarters and thus the margins would improve from the Tocopherol segment from 2HFY16.

Y/E March (Rsmn)	FY12	FY13	FY14	FY15E	FY16E	FY17E
Revenue	972	1,231	1,518	1,562	2,647	3,300
YoY (%)	*69.4*	*26.7*	*23.3*	*2.9*	*69.4*	*24.7*
EBITDA	147	171	333	264	487	644
EBITDA (%)	*15.2*	*13.9*	*21.9*	*16.9*	*18.4*	*19.5*
Adj. PAT	74	84	187	146	282	379
FDEPS (Rs)	5.9	6.7	14.9	10.6	20.4	27.4
YoY (%)	*46.2*	*13.6*	*122.0*	*(28.8)*	*92.7*	*34.2*
RoE (%)	*35.9*	*30.9*	*47.9*	*27.4*	*39.0*	*36.7*
RoCE (%)	*23.2*	*21.6*	*32.8*	*20.3*	*31.0*	*30.8*
RoIC (%)	*21.1*	*19.7*	*30.4*	*18.9*	*29.2*	*29.2*
P/E (x)	54.9	48.3	21.8	30.6	15.9	11.8
P/BV (x)	17.1	13.2	8.6	7.5	5.2	3.7
EV/EBITDA (x)	29.1	24.8	13.1	17.9	9.7	7.4

Source: Company, Nirmal Bang Institutional Equities Research

CCL Products (India)

CMP: Rs166; Rating: Buy; M-cap: US$357mn; TP:Rs245

- **Newly commissioned plant in Vietnam to drive growth**
  - CCL commissioned its 10,000tn instant coffee plant in Vietnam in 2HFY14, which is expected to drive consolidated volume by 21.9%/20.9%/20.8% in FY15E/FY16E/FY17E versus 3.3%/18% in FY13/FY14, respectively.
  - Vietnam plant offers four benefits: 1) Logistical advantage, 2) Better raw material availability as Vietnam is largest Robusta coffee grower in the world, 3) Favourable duty structure and close proximity to coffee-consuming ASEAN nations, and 4) Nil income-tax for the first four years and 50% tax benefit for the next nine years.
- **Improvement in working capital cycle**
  - Following faster ramp-up of Vietnam facility, consolidated working capital requirement is likely to reduce from 39.7%/32.4% in FY13/FY14 to 28.2%/26.3% in FY16E/FY17E, respectively.
- **Lower capex, better WC to drive cash flow/return ratios**
  - With brownfield expansion, capex is likely to be lower in future. Against US$32mn spent for a new 10,000tn plant in Vietnam, incremental costs are expected to be a mere US$10mn-US$12mn for the next 10,000tn capacity.
  - With lower brownfield capex and healthy earnings growth, we expect CCL to generate FCF of Rs3.9bn over FY14-FY17E, which will be utilised to repay Rs2.9bn debt and also improve dividend payout.
- **Foray into retailing of instant coffee**
  - CCL has forayed into retailing of branded coffee and aims to achieve revenue of Rs3bn in the next five years.

Y/E March (Rsmn)	FY12	FY13	FY14	FY15E	FY146	FY17E
Revenue	5,022	6,507	7,168	9,225	11,263	13,761
YoY (%)	*38.0*	*29.6*	*10.2*	*28.7*	*22.1*	*22.2*
EBITDA	871	1,213	1,431	1,797	2,195	2,765
EBITDA (%)	*17.4*	*18.6*	*20.0*	*19.5*	*19.5*	*20.1*
Adj PAT	363	474	644	1,010	1,344	1,807
FDEPS (Rs)	2.7	3.6	4.8	7.6	10.1	13.6
YoY (%)	*46.2*	*30.8*	*35.8*	*56.7*	*33.1*	*34.4*
RoE (%)	*15.9*	*18.3*	*20.4*	*25.8*	*27.9*	*29.6*
RoCE (%)	*9.8*	*11.2*	*12.3*	*16.8*	*20.5*	*25.0*
RoIC (%)	*9.6*	*10.7*	*12.0*	*16.7*	*20.0*	*24.0*
P/E (x)	61.0	46.6	34.3	21.9	16.5	12.2
P/BV (x)	9.2	7.9	6.3	5.2	4.1	3.2
EV/EBITDA (x)	28.4	20.6	17.3	13.5	10.9	8.3

Source: Company, Nirmal Bang Institutional Equities Research

Disclaimer: Nirmal Bang Financial Services owns 1.36mn shares (1.02% stake) in CCL

Colgate-Palmolive (India)

CMP: Rs1,918; Rating: Buy; M-cap: US$4.2bn; TP: Rs2,210

- **Growth opportunity**
  - Oral care offers a tremendous growth opportunity in India because of low toothpaste penetration in rural areas at 63%, low per capita consumption even when compared to emerging markets and also the ongoing/potential increase in premiumisation.
- **Barriers to entry**
  - Colgate, the clear market leader with ~57% market share in toothpastes, enjoys unparalleled barriers to entry in the form of phenomenal brand strength, widest product portfolio, advantage of dedicated focus (oral care accounts for 97% of its sales); huge distribution reach, unmatched category development efforts, remarkable track record of success in emerging markets and continuous high spending on advertising and promotion (A&P), which its peers can't match.
- **Advertisement spending intensity**
  - Despite unprecedented competitive intensity over the past 20 months arising from P&G's Oral-B toothpaste launch and increased aggression from Hindustan Unilever, Colgate has increased its market share by 80bps YoY in toothpastes, went for higher-than-usual price hikes in the past few years, did not offer any discount on products and its working capital metrics actually improved substantially in the past one year.
- **Earnings growth and metrics**
  - A large portion of the pain because of high A&P spending (up 380bps YoY in FY14 at 19.2% of sales) has already been witnessed on margins and with steady sales growth, ongoing premiumisation, lower A&P spending to sales going forward and operating leverage, EPS is likely to post a 20.6% CAGR for the next three years. The stock trades at 31.2xFY17E EPS, well below MNC peers, despite best-in-class earnings growth, RoE and RoCE of ~100% and attractive dividend yield of 1.9%-2.3% for FY16E/ FY17E, respectively. We expect a 15% upside in the stock.

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Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Revenue	31,654	35,788	40,118	46,136	53,057
YoY (%)	*17.4*	*13.1*	*12.1*	*15.0*	*15.0*
EBITDA	6,584	6,640	8,345	10,288	12,468
EBITDA (%)	*20.8*	*18.6*	*20.8*	*22.3*	*23.5*
Adj. PAT	4,968	4,755	5,802	7,011	8,349
YoY (%)	*11.3*	*(4.3)*	*22.0*	*20.8*	*19.1*
FDEPS (Rs)	*36.5*	*35.0*	*42.7*	*51.6*	*61.4*
RoE (%)	*107.4*	*87.3*	*86.7*	*88.1*	*90.5*
RoCE (%)	*105.2*	*85.4*	*85.2*	*86.1*	*88.2*
Dividend yield (%)	*1.5*	*1.4*	*1.5*	*1.9*	*2.3*
P/E (x)	*52.5*	*54.9*	*45.0*	*37.2*	*31.2*
EV/EBITDA (x)	*38.8*	*38.8*	*30.6*	*24.6*	*20.1*
P/BV (x)	*53.3*	*43.5*	*35.4*	*30.6*	*26.3*

Source: Company, Nirmal Bang Institutional Equities Research

Jubilant FoodWorks

CMP: Rs1,636; Rating: Buy; M-cap: US$1.72bn; TP: Rs1,737

- **Huge opportunity**
  - Euromonitor reckons that the overall Quick Service Restaurant (QSR) business in CY13 stood at around Rs130.1bn (US$2.1bn), around 2.3% of Indian food service market and is expected to grow 2.5x to Rs330.5bn (US$5.3bn) - a CAGR of 20.5% up to CY18. Rising urbanisation as well as disposable income over this period, new culinary habits, increased participation of women in the workforce and favourable demographics bode well for QSRs. Delivery-based players like Domino's offer the added advantage of convenience as well.
- **Cash flow generation**
  - We find it remarkable that a high-growth business like Jubilant FoodWorks, the market leader in QSR in India (17% share) which has expanded from 180 stores in FY08 to 884 stores currently (including Dunkin' Donuts outlets) and far ahead of other QSR players, did not ever need to issue significant fresh equity or debt.
- **Spending during slowdown**
  - We like its business model with a strong emphasis on delivery in large cities which enables it to circumvent high lease rentals - a big barrier to profitability for food business players in India. We also admire the consistent innovation, willingness to expand during slowdown phase and the investment in advertisement and promotion (A&P) that the company made in the past few years, all of which will stand it in good stead during recovery phase.
- **Huge earnings growth potential**
  - We believe Jubilant FoodWorks is an extraordinarily impressive business that is likely to embark on a phenomenal earnings growth spree over FY15E-FY18E, leading to tripling of EPS and near doubling of return ratios to over 35% in these three years. Attributing 45x multiple on FY17E EPS, we get a target price of Rs1,737. Given the back-ended nature of earnings growth, we believe that returns from a two-year perspective could be higher at 38%.

Y/E March (Rsmn)	FY14	FY15E	FY16E	FY17E	FY18E
Revenue	17,363	20,580	25,664	33,466	44,442
YoY (%)	*22.8*	*18.5*	*24.7*	*30.4*	*32.8*
EBITDA	2,496	2,552	3,696	5,488	7,600
EBITDA (%)	*14.4*	*12.4*	*14.4*	*16.4*	*17.1*
PAT	1,182	1,177	1,608	2,547	3,739
YoY (%)	*(9.8)*	*(0.4)*	*36.5*	*58.4*	*46.8*
FDEPS (Rs)	*18.1*	*17.9*	*24.4*	*38.6*	*56.5*
RoE (%)	*24.1*	*19.6*	*21.9*	*29.1*	*37.4*
RoCE (%)	*23.5*	*18.6*	*20.4*	*27.3*	*35.2*
RoIC (%)	*27.9*	*21.0*	*24.7*	*35.5*	*51.3*
P/E (x)	*90.5*	*91.2*	*67.0*	*42.4*	*29.0*
EV/EBITDA (x)	*42.4*	*41.8*	*28.7*	*19.3*	*13.7*
P/BV (x)	*19.5*	*16.4*	*13.3*	*11.5*	*10.2*

Source: Company, Nirmal Bang Institutional Equities Research

Kajaria Ceramics

CMP: Rs802; Rating: Buy; M-cap: US$1,000mn; TP: Rs868

- **Strong operating cash flow and return ratios**
  - Following robust profitability, healthy volume and a lean working capital cycle, we expect Kajaria Ceramics (KCL) to generate strong operating/free cash flow of Rs6.6bn/Rs673mn, respectively, over FY15E-FY17E. In the wake of strong foperating cash flow, debt is likely to reduce 48.6% and the D/E ratio to decline from 0.3x to 0.1x over the same period. With higher asset turnover, steady margins and lean working capital, RoCE should improve 239bps to 24.7% over FY15E-FY17E, which calls for P/E multiple expansion.
- **Healthy volume growth likely in FY17**
  - KCL plans to spend Rs7.5bn over FY14-FY17E which will increase its capacity by 20.3% to 76msqm in FY17E from 43.6msqm in FY14, thereby providing a healthy 14.9% volume CAGR over FY14-FY17E. Following a healthy volume growth, we expect KCL to report revenue CAGR over FY14-FY17E of 20.7% YoY to Rs32,352mn in FY17E. With lower interest costs on account of a healthy cash flow, net profit is expected to grow 30.6% CAGR to Rs2,769mn in FY17E. As a significant part of capacity addition is in vitrified tiles, which enjoy a higher margin compared to normal ceramic tiles, overall operating margin is set to rise 74bps to 16.0% over FY14-FY17E.
- **Rising market share/penetration at a lower cost via joint ventures**
  - In order to increase volume/market penetration at a lower cost, KCL has formed joint ventures or JVs (51% stake) with small unorganised players, who accounted for 35% of its total capacity of 43.6msqm at a 30%-50% lower investment as against in-house manufacturing capex.
- **Lower power and fuel costs to drive margins**
  - With rising cost of gas, power and fuel costs posted a 32.8% CAGR as against a 18.4% revenue CAGR, up 415bps over FY12-FY14. With a fall in crude oil prices, spot prices of gas have started declining. If spot prices of gas remain low, KCL is expected to witness a strong improvement in its operating margin.

Y/E March (Rsmn)	FY12	FY13	FY14	FY15E	FY16E	FY17E
Revenue	13,130	16,120	18,400	22,088	27,099	32,352
YoY (%)	*37.7*	*22.8*	*14.1*	*20.0*	*22.7*	*19.4*
EBITDA	2,062	2,446	2,808	3,511	4,307	5,177
EBITDA (%)	*15.7*	*15.2*	*15.3*	*15.9*	*15.9*	*16.0*
Adj. PAT	809	1,045	1,242	1,724	2,212	2,769
FDEPS (Rs)	11.0	14.2	16.4	21.7	27.8	34.8
YoY (%)	*31.0*	*29.2*	*15.6*	*32.1*	*28.3*	*25.2*
RoE (%)	*32.1*	*32.5*	*27.9*	*27.7*	*27.6*	*27.7*
RoCE (%)	*21.3*	*21.8*	*20.9*	*22.4*	*23.4*	*24.7*
RoIC (%)	*19.2*	*19.6*	*18.8*	*20.5*	*21.5*	*22.8*
P/E (x)	72.9	56.5	48.8	37.0	28.8	23.0
EV/EBITDA (x)	29.9	25.4	22.4	18.7	15.2	12.5

Source: Company, Nirmal Bang Institutional Equities Research

Lakshmi Machine Works (LMW)

CMP: Rs3,753; Rating: Buy; M-cap: US$679mn; TP: Rs4,725

- **Largest player in domestic market with an ambition to improve its global footprint**
  - LMW is determined to maintain its domestic revenue market share of not less than 60% in the high-entry barrier patented technology-driven textile spinning machinery manufacturing industry. Moreover, LMW is aggressively focusing on other geographies like China, Vietnam, Indonesia, Turkey etc. to improve its global market share beyond 9%.
- **Exemplary quality of management with a high margin of safety**
  - LMW management anticipated competition much in advance and has focused on manufacturing world-class products by exercising tight control over costs through new technologies rather than going in for unwarranted price hikes. LMW remained debt free and profitable even after not going for any price hike since the past four years.
- **A play on cotton yarn spinning industry**
  - Overall cotton yarn demand is expected to post a CAGR of 3%-4% over FY14-FY19E and cumulative spindle requirement is seen at 7mn-8mn, which provides a Rs105bn opportunity. The demand for cotton yarn is expected to improve from 4QFY16. With the expected improvement in bank funding, capacity expansion and replacement of spinning machinery is likely to accelerate..
- **Healthy financials with positive CFO, debt-free status and huge cash on its books**
  - Since FY96 (1996), LMW's CFO remained positive barring in FY98 and FCFO stayed positive for 13 years. LMW has been debt-free since FY05 (2005). We expect CFO and FCFO to remain positive going forward as well. Cash balance as of FY14-end stood at 43% of the balance sheet. We expect a PAT CAGR of 15.6% over FY15E-FY17E. Return on equity (RoE) and Return on Invested Capital (RoIC) are seen at 17% and 36.1%, respectively, for FY17E. Order book is expected to remain at ~Rs30bn with a short execution period.

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Revenue	19,171	22,416	24,468	23,871	29,020
YoY (%)	*(9.3)*	*16.9*	*9.2*	*(2.4)*	*21.6*
EBITDA	2,101	2,564	2,861	2,668	3,638
EBITDA (%)	*11.0*	*11.4*	*11.7*	*11.2*	*12.5*
Adj. PAT	1,175	1,837	1,899	1,769	2,539
YoY (%)	*(14.2)*	*56.4*	*3.4*	*(6.9)*	*43.5*
FDEPS (Rs)	104	163	169	157	225
RoE (%)	*12.6*	*17.8*	*16.1*	*13.4*	*17.0*
RoIC (%)	*15.3*	*24.6*	*25.2*	*24.6*	*36.1*
P/E (x)	36.0	23.0	22.3	23.9	16.7
EV/EBITDA (X)	16.6	13.1	11.5	11.5	7.6

Source: Company, Nirmal Bang Institutional Equities Research

State Bank of India

CMP: Rs307; Rating: Buy; M-Cap: US$37bn; TP: Rs375

- **Asset quality is showing signs of stabilization**
  - State Bank of India (SBI) will be the biggest beneficiary of likely improvement in the economy. Loan recovery is expected to gain traction from FY16.
- **NIM to be protected even in a downward interest rate cycle**
  - SBI has already cut interest rates on deposits twice without tinkering with lending rates. Even after accounting for a lag in re-pricing of deposits, we believe it will be able to protect its net interest margin or NIM.
- **Initiatives on human resources front**
  - SBI's management is taking a lot of initiatives on the human resources front. As much as 75% of grading of its employees will be based on quantifiable parameters. Also, SBI is working on talent management and career progression of its employees, with them being trained in at least two different areas. We believe it will be structurally very positive for the bank.
- **Capital cushion**
  - SBI is better placed among public sector banks in terms of capitalisation. Capital exhaustion will be limited considering the backdrop of slower credit off-take.

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Net interest income	443,293	492,822	543,601	609,845	706,222
Pre-provision profit	310,816	321,092	373,112	421,172	492,158
PAT	141,049	108,912	133,174	170,801	232,504
EPS (Rs)	20.6	14.6	17.8	22.9	31.1
ABV (Rs)	112.5	116.8	127.2	141.5	176.8
P/E	11.9	16.8	13.7	10.7	7.9
P/ABV	2.3	2.2	2.1	1.8	1.4
Gross NPAs (%)	*4.8*	*5.0*	*4.5*	*4.2*	*3.1*
Net NPAs (%)	*2.1*	*2.6*	*2.5*	*2.3*	*1.6*
RoA (%)	*1.0*	*0.6*	*0.7*	*0.8*	*0.9*
RoE (%)	*15.4*	*10.0*	*10.8*	*12.6*	*15.3*

Source: Company, Nirmal Bang Institutional Equities Research

TD Power Systems

CMP: Rs402; Rating: Buy; M-cap: US$215mn; TP: Rs628

- **Leading manufacturer of generators**
  - Supplies generators across diverse prime movers such as steam, gas, hydro and wind turbines as well as diesel and gas engines. Has a strong product portfolio of high-technology customised products with low-cost Indian manufacturing base.
- **Key supplier to renowned global OEMs**
  - Key supplier to renowned global OEMs like Siemens, GE and Voith Hydro. Rising penetration among existing OEMs, fresh tie-ups with new OEMs and diversification in untapped verticals are key growth drivers.
- **Robust scale-up in exports likely**
  - Annual addressable global market of US$9bn based on TDPS product portfolio. Hydro, steam and gas generators to be volume growth drivers.
  - Export order book rose 33% YoY to Rs1.6bn as of 9MFY15-end (42% of total order book). We expect a 26% CAGR in export order inflow over FY14-FY17E .
- **Power project division to be scaled down**
  - TDPS in the process of scaling down EPC business (24% of FY14 revenue) post execution of pending order book of Rs442mn comprising two projects.
  - High-margin generator segment's (14.8% EBITDA margin in FY14) share in consolidated revenue to rise from 64% in FY14 to 86% in FY17E.
- **Strong financial health to aid valuation**
  - EBITDA margin likely to rise 1,080bps from 4.1% in FY14 to 14.9% in FY17E with better revenue mix and improved operating leverage.
  - Strong improvement likely in return ratios (RoIC to jump from 1.4% in FY14 to 20.6% in FY17E), rise in fixed-asset turnover (from 1.2x in FY14 to 1.6x in FY17E) and healthy free cash flow (Rs1.3bn over FY15E-FY17E)
  - Revenue/EPS to post 15%/55% CAGR, respectively, over FY14-FY17E.

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Net sales	5,871	4,802	6,039	6,249	7,408
EBITDA	495	198	440	786	1,106
Net profit	417	227	372	607	836
EPS (Rs)	12.6	6.8	11.2	18.3	25.1
EPS growth (%)	*(36.7)*	*(45.6)*	*64.0*	*63.0*	*37.6*
EBITDA margin (%)	*8.4*	*4.1*	*7.3*	*12.6*	*14.9*
PER (x)	32.0	58.8	35.9	22.0	16.0
P/BV (x)	2.7	2.6	2.5	2.3	2.1
EV/EBITDA (x)	21.7	58.5	26.0	14.3	10.0
Dividend yield (%)	*0.5*	*0.6*	*0.7*	*1.2*	*1.7*
RoIC (%)	*15.2*	*1.4*	*7.0*	*14.7*	*20.6*
RoE (%)	*8.4*	*4.4*	*7.0*	*10.6*	*13.2*

Source: Company, Nirmal Bang Institutional Equities Research

Triveni Turbine

CMP: Rs120; Rating: Buy; M-cap: US$636mn; TP: Rs145

- **Technology-driven customised products**
  - Industrial turbines are customised as per end-user industry and output capacity. Therefore, it is a low competition and high-margin business. The 0-30MW segment enjoys duopoly in India.
- **Strong financial health**
  - Robust margin profile, high return ratios, low working capital cycle, strong cash flows and healthy dividend payout.
- **Rising exports and after-market services**
  - Both have aided margins and posted a healthy growth, thereby countering the slowdown in domestic market.
  - Exports accounted for 39%/63% of 9MFY15 revenue/order inflow, respectively.
  - Steady and high-margin after-market services business (25% of 9MFY15 revenue) is a key differentiator.
- **Scale-up of GE-Triveni joint venture (30-100MW segment)**
  - The joint venture garnered orders worth Rs2.3bn (consolidated order book at Rs7.7bn) with a healthy mix of domestic and international orders, and the potential for further scale-up is immense.
- **Recovery in domestic captive power generation market**
  - Market size plunged from 1,800MW in FY10 to 700MW in FY14, likely gradual recovery to provide a significant boost.
- **Healthy growth momentum likely over FY14-FY17E**
  - Revenue/EBITDA/PAT likely to post 30%/37%/39% CAGR, respectively.

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Net sales	6,653	5,154	6,690	8,616	11,262
EBITDA	1,609	1,036	1,416	1,945	2,683
Net profit	1,045	680	959	1,337	1,842
EPS (Rs)	3.2	2.1	2.9	4.1	5.6
EPS growth (%)	*19.6*	*(35.0)*	*41.1*	*39.4*	*37.8*
EBITDA margin (%)	*24.2*	*20.1*	*21.2*	*22.6*	*23.8*
PER (x)	37.9	58.3	41.3	29.6	21.5
P/BV (x)	28.6	22.7	17.6	13.2	9.4
EV/EBITDA (x)	24.4	38.3	27.9	20.2	14.3
Dividend yield (%)	*0.7*	*0.6*	*1.0*	*1.3*	*1.4*
RoCE (%)	*97.5*	*43.5*	*52.0*	*55.4*	*55.9*
RoE (%)	*75.6*	*38.9*	*42.7*	*44.4*	*43.9*

Source: Company, Nirmal Bang Institutional Equities Research

V-Mart Retail

CMP: Rs556; Rating: Buy; M-cap: US$158mn; TP:Rs834

- **Excellent control over costs including lease rentals**
  - V-Mart Retail (VRL) is one of the most efficient players in Indian retail industry with a lean cost structure. VRL's lease rentals, at 4.3% of sales, are much lower compared to 8.3%/9.4%/15.1% of Trent or TL/ Shoppers Stop or SSL/ and Pantaloon Fashion Retail or PFRL, respectively, on a standalone basis. Similarly, its employee costs at 6.7% are lower compared to 7.5%/8.3%/9.0% and other expenses at 7.0% compared to 12.7%/25.2%/12.3% of SSL/TL/PFRL, respectively. Despite the focus on small cities, its revenue/sqft is higher at Rs8,878 compared to Rs8,668/Rs8,306 in case of SSL/PFRL, respectively. On account of its low-cost structure, VRL enjoys highest operating margin of 9.4% compared to 5.7%/2.1%/2.3%/2.8% of SSL/TL/PFRL/Arvind's Megamart, respectively.
- **Healthy operating cash flow, lean D/E ratio to aid growth, return ratios**
  - VRL is focusing on improving inventory turnover and supply chain. We expect VRL to improve its inventory days from 150 to 145 and reduce its working capital cycle from 18.1% to 17.0% over FY14-FY17E. With a lean working capital requirement coupled with healthy revenue growth, VRL is expected to have cumulative operating cash flow of Rs916mn, which may meet its entire capex need of Rs900mn to set up 75 stores over FY14-FY17E. This will maintain net D/E ratio flat at 0.04x and improve RoCE 553bps from 14.7% to 20.2% over FY14-FY17E.
- **Ready to leapfrog with the right business model**
  - VRL is among the very few retail companies which have a right business model, best product mix, appropriate location/store size and control over costs. With strong execution capability, VRL is expected to set up 25 stores every year compared to the past three years' average of 17. We expect VRL to grow its retail business at a 20.0% CAGR to 1.25mn sqft by setting up 75 stores on a base of 89 over FY14-FY17E. This is likely to result in strong 27.1%/31.7% revenue/net profit CAGR over FY14-FY17E to Rs11,816mn/Rs576mn, respectively.

Y/E June (Rsmn)	FY12	FY13	FY14	FY15E	FY16E	FY17E
Revenue	2,819	3,835	5,750	7,208	9,132	11,816
YoY (%)	*31.2*	*36.0*	*49.9*	*25.4*	*26.7*	*29.4*
EBITDA	283	392	538	675	837	1,095
EBITDA (%)	*10.0*	*10.2*	*9.4*	*9.4*	*9.2*	*9.3*
Adj.PAT	105	176	252	337	409	576
FDEPS (Rs)	14.3	9.8	14.0	18.8	22.8	32.1
YoY (%)	*67.4*	*(31.3)*	*42.9*	*33.8*	*21.2*	*41.0*
P/E (x)	38.9	56.7	39.6	29.6	24.4	17.3
EV/Sales (x)	1.6	2.5	1.7	1.4	1.1	0.8
EV/EBITDA (x)	15.8	24.9	18.7	15.1	12.2	9.3
RoIC (%)	*17.4*	*19.7*	*19.0*	*21.4*	*18.0*	*20.2*
RoCE (%)	*17.0*	*15.5*	*14.7*	*18.7*	*16.8*	*20.2*
RoE (%)	*21.4*	*17.5*	*15.9*	*17.9*	*18.1*	*21.2*

Source: Company, Nirmal Bang Institutional Equities Research

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