CCL Products (India)

22 July 2015

Reuters: CCLP.BO; Bloomberg: CCLP IN

1QFY16 Result Update

Very Strong Performance On All Parameters

CCL Products (India) or CCL reported an all-round improvement in 1QFY16 performance with net revenue/EBITDA/PAT up by a healthy 25.1%/35.3%/49.5%, respectively. Following 182bps/54bps margin improvement at Indian/Vietnam operations, consolidated operating margin improved 167bps to 22.2%, 23bps/76bps above our/Bloomberg estimates, respectively. Key surprise was 19%/30.4% revenue/EBITDA growth at domestic operations. We expect the current margins to sustain following a better product mix and scale-up of high-margin Vietnam operations. CCL added one large client in 3QFY15 in Europe for high-margin premium freeze dried coffee, where the ramp-up is happening at a faster pace. CCL is witnessing very good traction in the US market for products from its Vietnam plant in just the second year of its operations. CCL has started talks with equipment suppliers to double capacity at Vietnam plant, which indicates its confidence on the volume ramp-up front. Market leadership position with a 38.7% net profit CAGR, strong operating/free cash flow of Rs3.6bn/Rs2.5bn, respectively, a 962ps RoCE improvement to 25.6% over FY15-FY17E and free cash flow yield of 5.2% with a debt-free status likely by FY17 will continue the re-rating of CCL. We have retained Buy rating on it with a TP of Rs272, based on 20x/13.1x FY17E P/E and EV/EBITDA, respectively.

Healthy volume and margin at Indian operations: Indian operations reported healthy 19%/30.4% revenue/operating profit growth to Rs1,578mn/Rs329mn, 24%/30.0% above our estimates, respectively. 1Q is seasonally a weak quarter with lower capacity utilisation. However, with dedicated efforts, CCL was able to register good volume in 1QFY16 (~10% volume growth). In addition, a superior product mix coupled with a low-priced green coffee contract executed a few months ago and a weak Indian rupee improved operating margin by 182bps to 20.9%. With improving product mix and scale-up at high-margin big clients, the current margins can be sustained. However, unlike 1QFY15, which accounted for only 19.7% of FY15 revenue, and remaining quarters witnessing optimum capacity utilisation, we don't expect a repeat of healthy volume growth in the coming quarters till its 5,000tn expanded plant gets commissioned in December 2015.

Healthy margins at Vietnam unit: For FY15, this unit posted 21.8% operating margin versus 20.7% at domestic operations. For 1QFY16, on a high base, Vietnam unit posted a 54bps rise in operating margin to 25.4%. With latest technology plant and better product quality, realisation at Vietnam plant was Rs10/kg better compared to Indian plant. The management maintained guidance of 25,000tn consolidated volume with revenue of Rs10bn for FY16.

Doubling of capacity at Vietnam plant: FY15 was first full year of operations of Vietnam plant and CCL has already started negotiations with equipment manufacturers to double its capacity from 10,000tn to 20,000tn in 18-20 months, which indicates its confidence in respect of ramp-up at Vietnam plant. Vietnam plant's volume is likely to rise 63% from 4,600tn in FY15 to 7,500tn (75% capacity utilisation) in FY16. Brownfield expansion, likely in 18-20 months, will take place at a cost of US$10mn-US$12mn as against original greenfield capex of US$32mn, thereby improving RoCE substantially. Because of its Vietnam plant, CCL is getting very good traction in the US market and its US agent Mr. Mr. Jonathan T. Feuer, president and chief executive officer (CEO) of L. M. Zuckerman & Co, has assured CCL of a healthy volume in the US market.

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BUY

Sector: Beverages

CMP: Rs207

Target Price: Rs272

Upside: 31%

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Key Data

Current Shares O/S (mn)	133.0
Mkt Cap (Rsbn/US$mn)	27.5/432.3
52 Wk H / L (Rs)	223/66
Daily Vol. (3M NSE Avg.)	360,468

Price Performance (%)

	1 M	6 M	1 Yr
CCL Products	6.5	14.2	195.1
Nifty Index	3.7	(2.3)	11.0

Source: Bloomberg

Y/E March (Rsmn) consolidated	1QFY15	4QFY15	1QFY16	Chg. (YoY)%	Chg.	FY14	FY15	Chg. (%)
Net sales	**1,756**	**2,164**	**2,196**	***25.1***	***1.5***	**7,168**	**8,806**	***22.8***
Net RM costs and finished goods purchases	1,057	1,277	1,323	*25.2*	*3.6*	4,251	5,440	*28.0*
% of sales	*60.2*	*59.0*	*60.2*	-	-	*59.3*	*61.8*	-
Power, oil & fuel costs	105	119	100	*(5.5)*	*(16.5)*	456	474	*3.9*
% of sales	*6.0*	*5.5*	*4.5*	-	-	*6.4*	*5.4*	-
Other expenses	235	355	288	*22.7*	*(18.9)*	1,030	1,179	*14.5*
% of sales	*13.4*	*16.4*	*13.1*	-	-	*14.4*	*13.4*	-
Operating profit	**360**	**413**	**487**	***35.3***	***17.9***	**1,431**	**1,712**	***19.7***
OPM (%)	***20.5***	***19.1***	***22.2***	-	-	***20.0***	***19.4***	-
Interest costs	42	27	26	*(38.9)*	*(5.5)*	171	136	*(20.2)*
Depreciation	67	63	69	*2.3*	*8.7*	291	268	*(7.8)*
Other income	9	4	6	*(27.0)*	*72.2*	26	30	*14.4*
PBT	**259**	**326**	**398**	***53.9***	***22.2***	**996**	**1,338**	***34.4***
Provision for tax	57	111	96	*69.5*	*(13.2)*	351	398	*13.4*
Effective tax rate (%)	*21.9*	*34.0*	*24.2*	-	-	*35.3*	*29.8*	-
Adjusted PAT	**202**	**215**	**302**	***49.5***	***40.4***	**644**	**940**	***45.9***
NPM (%)	*11.5*	*9.9*	*13.8*	-	-	*9.0*	*10.7*	-
EPS (Rs)	**1.5**	**1.6**	**2.3**	***49.5***	***40.4***	**4.8**	**7.1**	***45.8***

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn) consolidated	FY12	FY13	FY14	FY15	FY16E	FY17E
Revenue	5,022	6,507	7,168	8,806	9,440	11,574
YoY (%)	*38.0*	*29.6*	*10.2*	*22.8*	*7.2*	*22.6*
EBITDA	871	1,213	1,431	1,712	2,194	2,766
EBITDA margin (%)	*17.4*	*18.6*	*20.0*	*19.4*	*23.2*	*23.9*
APAT	363	474	644	940	1,343	1,807
EPS (Rs)	2.7	3.6	4.8	7.1	10.1	13.6
YoY (%)	*46.2*	*30.8*	*35.8*	*45.8*	*42.9*	*34.5*
RoE (%)	*15.9*	*18.3*	*20.4*	*24.3*	*28.3*	*30.0*
RoCE (%)	*9.8*	*11.2*	*12.3*	*16.0*	*21.1*	*25.6*
RoIC (%)	*9.6*	*10.7*	*12.0*	*15.9*	*21.2*	*26.2*
P/E (x)	75.8	57.9	42.6	29.2	20.5	15.2
P/BV	11.5	9.9	7.8	6.5	5.2	4.1
EV/ EBITDA (x)	34.5	25.1	21.0	17.2	13.1	10.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Result analysis of Indian operations

Y/E March - standalone (Rsmn)	1QFY15	4QFY15	1QFY16	*Chg. (YoY)%*	*Chg. (QoQ)%*	FY14	FY15	*Chg. (%)*
Net sales	**1,326**	**1,728**	**1,578**	***19.0***	***(8.7)***	**6,111**	**6,720**	***10.0***
Net raw material costs and finished goods purchases	814	1,044	964	*18.4*	*(7.7)*	3,552	4,117	*15.9*
% of sales	*61.4*	*60.4*	*61.1*	-	-	*58.1*	*61.3*	-
Power oil & fuel costs	51	66	58	*13.9*	*(12.8)*	219	232	*6.3*
% of sales	*3.8*	*3.8*	*3.7*	-	-	*3.6*	*3.5*	-
Other expenses	209	292	227	*8.8*	*(22.1)*	1,065	1,090	*2.4*
% of sales	*15.7*	*16.9*	*14.4*	-	-	*17.4*	*16.2*	-
Total expenditure	**1,073**	**1,402**	**1,249**	***16.4***	***(10.9)***	**4,836**	**5,440**	***12.5***
Operating profit	**253**	**326**	**329**	***30.4***	***1.1***	**1,275**	**1,280**	***0.4***
OPM (%)	***19.0***	***18.8***	***20.9***	**-**	**-**	***20.9***	***19.0***	**-**
Interest costs	19	14	9	*(51.8)*	*(35.5)*	73	56	*(22.5)*
PBDT	**234**	**312**	**320**	***36.9***	***2.8***	**1,203**	**1,224**	***1.7***
Depreciation	24	23	23	*(3.0)*	*(0.5)*	130	95	*(27.0)*
Other income	4	-	1	*(66.9)*	-	9	13	*46.8*
PBT	**214**	**288**	**298**	***39.6***	***3.5***	**1,082**	**1,142**	***5.6***
Tax	57	108	96	*69.5*	*(11.0)*	349	396	*13.2*
Effective tax rate (%)	*26.6*	*37.5*	*32.3*	-	-	*32.3*	*34.6*	-
Adjusted PAT	**157**	**180**	**202**	***28.8***	***12.1***	**733**	**747**	***1.9***
NPM (%)	***11.8***	***10.4***	***12.8***	**-**	**-**	***12.0***	***11.1***	**-**
EPS (Rs)	**1.2**	**1.4**	**1.5**	***28.8***	***12.1***	**5.5**	**5.6**	***1.9***

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Result analysis of Vietnam unit and other subsidiaries

Y/E March - (Rsmn)	1QFY15	4QFY15	1QFY16	*Chg. (YoY)%*	*Chg. (QoQ)%*	FY14	FY15	*Chg. (%)*
Net sales	**430**	**436**	**618**	***43.7***	***41.7***	**1,075**	**2,086**	***94.1***
Total expenditure	**313**	**334**	**447**	***42.7***	***33.9***	**579**	**1,607**	***177.3***
Operating profit	**107**	**87**	**157**	***46.8***	***80.3***	**445**	**432**	***(2.8)***
OPM (%)	***24.9***	***20.0***	***25.4***	**-**	**-**	***41.4***	***20.7***	**-**
Interest costs	24	13	17	*(28.9)*	*25.3*	118	80	*(32.7)*
PBDT	**83**	**74**	**140**	***68.5***	***90.4***	**326**	**353**	***8.1***
Depreciation	43	40	45	*5.3*	*14.1*	140	174	*24.0*
Other income	5	4	5	*4.7*	*37.7*	20	17	*(17.6)*
PBT	**45**	**38**	**100**	***121.8***	***165.5***	**207**	**196**	***(5.2)***
Adjusted PAT	**45**	**35**	**100**	***121.8***	***185.9***	**207**	**193**	***(6.5)***
NPM (%)	*10.5*	*8.0*	*16.2*	**-**	**-**	*19.2*	*9.3*	**-**
EPS (Rs)	**0.3**	**0.3**	**0.8**	***121.8***	***185.9***	**1.6**	**1.5**	***(6.5)***

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Financials of Vietnam plant

	FY14	FY15
Revenue	1,018	1,955
Growth (%)		92.1
EBITDA	158	427
EBITDA (%)	**15.5**	**21.8**
Depreciation	116	126
EBIT	41	301
Interest costs	86	78
PAT	(45)	223
PAT (%)	**(4.4)**	**11.4**

Source: FY15 Annual Report, Company, Nirmal Bang Institutional Equities Research

Conference-call highlights and other key highlights:

- Reasons behind a 19% revenue growth in standalone business: Earlier, 1Q used to witness under-utilisation of capacity but now the company has made efforts to tie up volume, leading to a 10% YoY growth in volume. Realisation/margin were up because of the benefit of a weak Indian rupee and execution of a contract where the margin was very good. CCL hopes to sustain current margin. In addition, a deal was signed earlier this year at a lower price for green coffee and therefore the margin was high.

- Because of logistic challenges, revenue for 4QFY15 at Vietnam operations was lower by ~Rs130mn, which got booked in 1QFY16. Therefore, revenue growth is healthy at 43.7% and adjusting for which Vietnam operations reported revenue growth of ~13.5%, despite 1Q being a seasonally weak quarter.

- CCL added one large client in 3QFY15 in Europe for freeze dried coffee. The product is super premium in nature as the company is using 100% Indian coffee. As per the management, the client will provide additional business in other countries as well. It will take one year for the client to stop purchases from its existing supplier and ramp up volume from CCL, which should happen from 4QFY16.

- CCL expects to top Rs10bn in revenue in FY16. However, we expect Rs9.4bn revenue for FY16.

- CCL is expanding its Indian operations from 15,000tn to 20,000tn at a cost of ~Rs200mn through brownfield expansion and is expected to complete it by December 2015.

- As per the management, total volume is expected at 25,000tn in FY16. Vietnam plant's volume is likely to increase 63% from 4,600tn in FY15 to 7,500tn (75% capacity utilisation) and Indian operations' volume is expected to increase 16% from 15,000tn to 17,500tn. We have considered total volume of 22,625tn in our estimate for FY16.

- As per the management, US imports ~80,000tn-100,000tn of instant coffee, while CCL sells only 2,000tn. The imports are mostly from Brazil, Mexico and Ecuador. CCL's associates in the US have more than 30 years of experience. CCL is conducting market research in the US over the next six months to set up a packaging facility where its coffee will be shipped from Vietnam plant. Capex required for the same is the range of US$8mn-US$10mn. The location will be finalised in the next six months. At present, CCL is witnessing very good traction in the US market and its US agent Mr. Mr. Jonathan T. Feuer, president and CEO of L. M. Zuckerman & Co, has assured CCL of a healthy volume in the US market.

- CCL registered domestic sales (including branded coffee) of ~Rs500mn in FY15 and is expected to register ~Rs600mn-Rs650mn of sales in FY16. CCL currently sells 1,000tn of coffee in domestic market including super markets and does institutional sales as well as branded product sales.

- As per the management, capacity in instant coffee globally is far higher than demand since many years, and utilisation at most of the plants in world is ~50%. However, because of key moat build-up by CCL, its plant in India is operating at 100% of its capacity. **Key strengths of CCL are: 1) Strong research and development or R&D team leading to reduction in manufacturing costs by ~5%-10%, 2) Over 70 varieties and blends of coffee which competitors find difficult to replicate, 3) Strong relationship with leading customers, 4) Bargaining power in buying green coffee as it is second-largest green coffee purchaser after Nestle India, 5) Lower capex because of designs acquired from ex-Nestle, Switzerland, expert 6) Local manufacture of equipment stands at over 50%, 7) Ability to produce and provide certification like single filter, double filter, rainforest, Star-Kosher, and decaffeination etc. 8) Strong understanding of trend/cycles in coffee market, 9) Ability to source green coffee from**

multiple countries, 10) Multiple location plants benefiting from local regulation and international treaties, and 11) The company being largest merchant producer of instant coffee in the world with a capacity of ~8%-10% of world demand (excluding Nestle).

- To double the capacity at Vietnam plant from 10,000tn to 20,000tn, CCL has to incur incremental capex of US$10mn-US$12mn as against original capex of US$32mn. CCL has already started negotiations with equipment manufactures for doubling capacity at Vietnam plant from 10,000tn to 20,000tn. Negotiations will last for 6-8 months. After negotiations, it will take 12 months for equipment delivery and production to start. Hence, expanded capacity will be commissioned in FY18.
- 3Q and 4Q are better quarters than 1Q and 2Q on account of seasonality, but with dedicated efforts 1QFY16 was a good quarter.
- With latest technology plant and better product quality, realisation at Vietnam plant is ~Rs10/kg better compared to Indian plant, leading to higher margin.
- CCL's Swiss plant operates at sub-optimal utilisation level because of non-competitive pricing of supplies from Switzerland to the EU. It suffered a marginal loss in 1QFY16 also. Import duty levied by the EU on Swiss coffee is 9.0% whereas only 3.3% is levied on coffee supplied from India. CCL is negotiating with Swiss government on the terms of duty payment, wherein CCL will import bulk coffee from its Indian plant by paying 3.3% duty, do value addition in Switzerland and thereby get entitled to pay the balance ~6% duty on value addition, rather than on basic coffee. The company has sorted out the tax problem pertaining to Switzerland plant. As of now, CCL is paying tax on value-added products. Utilisation of Switzerland plant is expected to improve and it incurred ~Rs30mn loss in FY15 (~Rs27mn in 9MFY15). CCL expects it to turn positive in FY16. CCL has given marketing rights to a local Swiss authority for products from the Switzerland plant. CCL expects capacity utilisation level at its Switzerland plant to improve to 75% (single-shift capacity of 1,000tn) in the next one year.
- Because of higher costs, liquid coffee is consumed only by Japanese population. Currently, Japan consumes ~10,000-20,000tn of liquid coffee and out of this ~50% is produced locally while the rest is sourced from Brazil. The shifting of liquid coffee operations from India to Vietnam is complete and trial production started in 1QFY15. CCL expects some revenue from liquid coffee from December 2015 onwards and capacity utilisation to increase to 50% in the next two years. Currently, we haven't factored in any revenue from liquid coffee, even in our FY17 estimate.
- CCL did soft launch of a product in Andhra Pradesh (AP) and the product was widely accepted. The next target which CCL is eyeing to sell its brands is North India, which is the next leading instant coffee market after South India. To increase visibility, CCL has also started selling coffee under its Continental brand to institutions like hotels, airlines etc. Even the chefs of hotels are recommending Continental brand.
- CCL sponsored an event in the hospitality industry and lots of chefs recommended Continental brand. As the brand is making reasonable profit now, the management is planning to increase advertisement spending. CCL started hiring people at the middle level and is increasing distribution reach. It is yet to hire senior people for its marketing team. It has hired market research and other consultants. CCL is planning to develop two separate brands and also two separate teams for marketing - one for chicory and the other one for coffee. As per the management, once the branding exercise is complete, senior members in the marketing team will be hired and also new states will be targeted. The company is now targeting northern cities like Punjab, Uttar Pradesh, Lucknow, Delhi, Allahabad etc. As per the management, in the next six months, Continental branded products will be made available in Delhi market. The brand is widely accepted in Andhra Pradesh, Allahabad, some other parts of North India and also South India. At present, its products are available in six states in South India and North India.
- CCL does not provide any credit facility for its own branded coffee.
- The margins are better in value-added coffee. In the initial stage, quantity sold will be less. However, in two-three years, the management is confident of getting a good chunk of revenue. CCL enjoys double and triple certification, which will help in scaling up the value-added product.
- **We expect CCL to generate operating cash flow of Rs3.6bn over FY15-FY17E. Against this, CCL will spend only Rs2bn as capex over the next four-five years. Healthy free cash will be utilised to repay debt and increase dividend payout. The break-up of capex over the next four-five years is as follows: 1) Doubling of capacity at Vietnam plant from 10,000tn to 20,000tn with a capex of Rs600mn-Rs700mn, 2) Automatic packaging facility to be set up in the US at a cost of Rs500mn-**

Rs600mn, 3) Expansion of Indian plant's capacity from 15,000tn to 20,000tn at a cost of ~Rs200mn, and 5) Setting up of ~3,000tn new plant in Africa at a cost of ~Rs500mn.

- Capital work in progress (CWIP) stood at Rs534mn in FY15 which includes ~Rs400mn for modernisation of liquid coffee plant and ~Rs130mn capex relating to 5,000tn expansion plan in India.
- FY16 capex expected to be Rs200mn-Rs250mn, of which Rs100mn-Rs150mn is CWIP and Rs150mn additional capex for expansion. As per the management, maintenance capex is not capitalised and charged directly to P&L account.
- As of now, exports account for more than 90% of total revenue and domestic market accounts for less than 10%. As per the management, with capacity expansion at Indian plant, domestic revenue will be higher than 10% going forward.

Exhibit 5: Our estimates versus actual performance

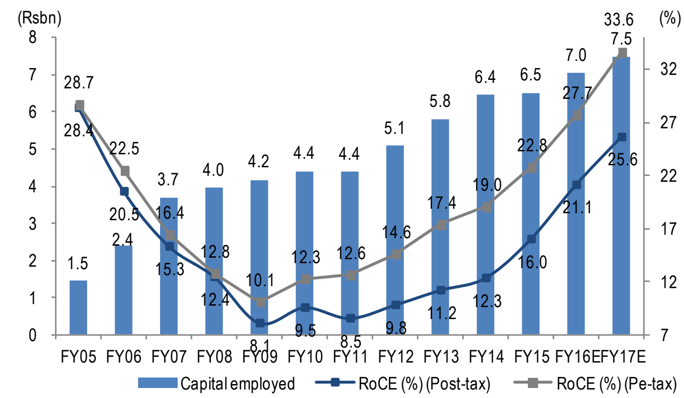
(Rsmn)	1QFY14	4QFY15	1QFY16	*YoY (%)*	*QoQ (%)*	NBIE estimate	*Devi. (%)*	BBE cons est.	*Devi.(%)*
Revenue	1,756	2,164	2,196	*25.1*	*1.5*	1,862	*17.9*	1,973	*11.3*
EBITDA	360	413	487	*35.3*	*17.9*	408	*19.2*	422	*15.3*
EBITDA (%)	*20.5*	*19.1*	*22.2*	*167bps*	*308bps*	*21.9*	*23bps*	*21.4*	*76bps*
Adjusted PAT	202	215	302	*49.5*	*40.4*	239	*26.2*	238	*27.1*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Robusta coffee price movement globally

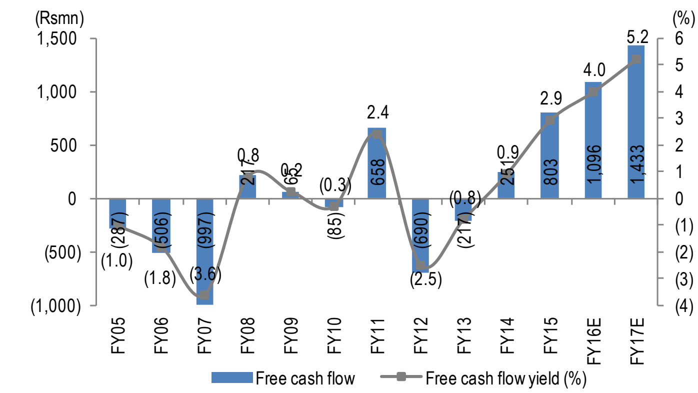
Source: Bloomberg and Nirmal Bang Institutional Equities Research

Exhibit 7: Strong improvement in RoCE



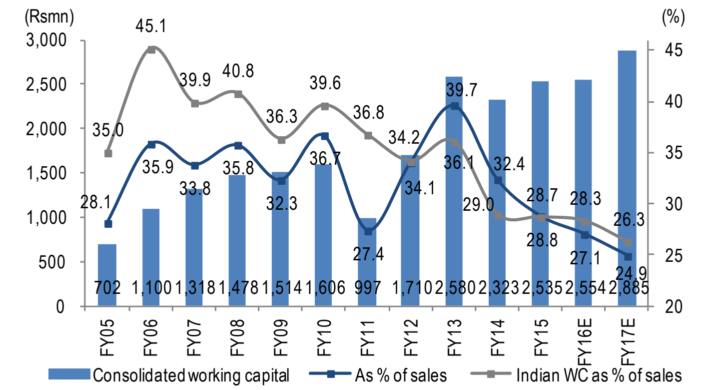
Source: Nirmal Bang Institutional Equities Research

Exhibit 8: Healthy free cash flow



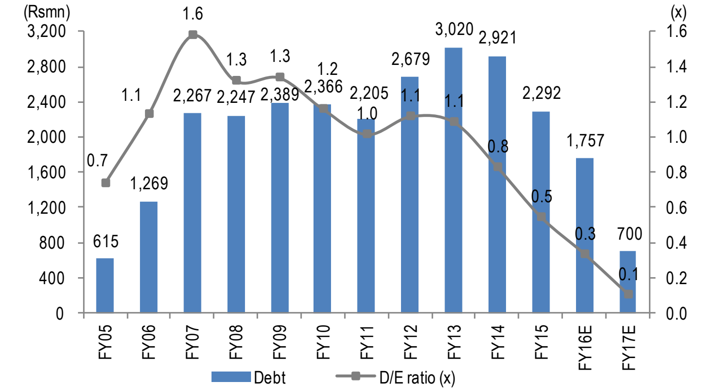
Source: Nirmal Bang Institutional Equities Research

Exhibit 9: Improvement in working capital cycle



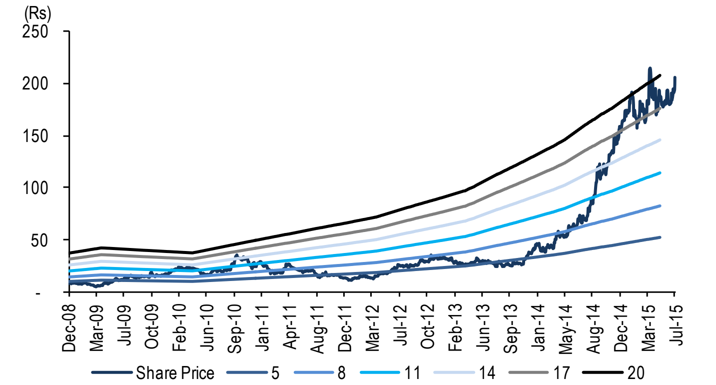
Source: Nirmal Bang Institutional Equities Research

Exhibit10: Falling D/E ratio



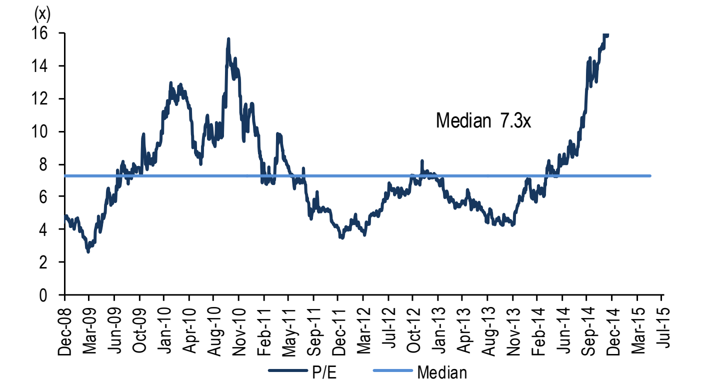
Source: Nirmal Bang Institutional Equities Research

Exhibit 11: One-year forward P/E band



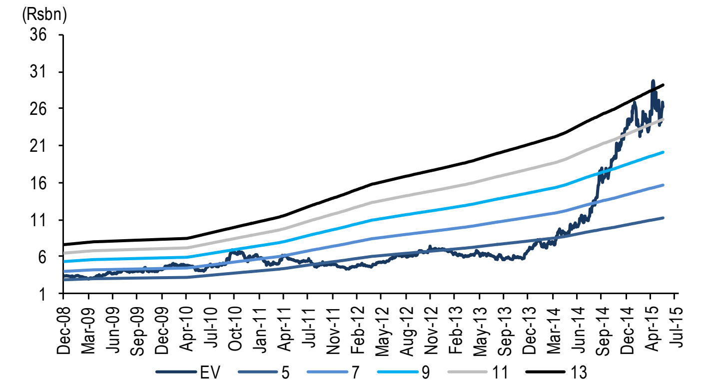
Source: Nirmal Bang Institutional Equities Research

Exhibit 12: P/E median band



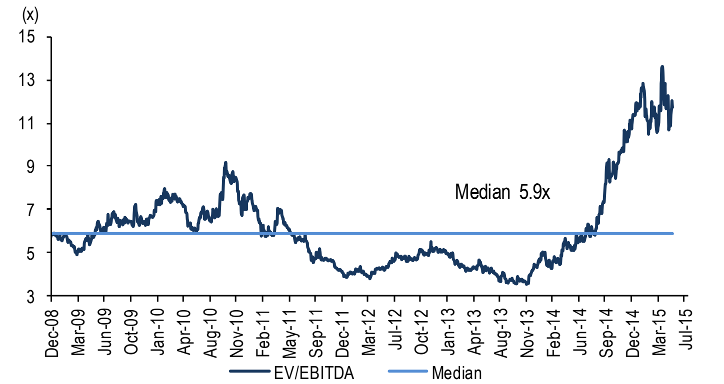
Source: Nirmal Bang Institutional Equities Research

Exhibit 13: One-year forward EV/EBITDA band



Source: Nirmal Bang Institutional Equities Research

Exhibit 14: EV/EBITDA median band



Source: Nirmal Bang Institutional Equities Research

Financials (consolidated)

Exhibit 15: Income statement

Y/E March (Rsmn)	FY12	FY13	FY14	FY15	FY16E	FY17E
Net sales	5,022	6,507	7,168	8,806	9,440	11,574
Growth (%)	*38.0*	*29.6*	*10.2*	*22.8*	*7.2*	*22.6*
Raw material costs	3,032	3,845	4,251	5,440	5,244	6,280
Staff costs	146	212	258	279	332	417
Power costs	253	410	383	416	590	741
Other expenses	720	827	845	958	1,080	1,369
Total expenditure	4,151	5,295	5,737	7,093	7,246	8,808
EBITDA	871	1,213	1,431	1,712	2,194	2,766
Growth (%)	*34.1*	*39.2*	*18.0*	*19.6*	*28.2*	*26.0*
EBITDA margin (%)	*17.4*	*18.6*	*20.0*	*19.4*	*23.2*	*23.9*
Other income	20	19	26	30	39	54
Interest costs	149	207	171	136	113	67
Gross profit	743	1,025	1,287	1,606	2,121	2,753
Growth (%)	*26.3*	*38.0*	*25.5*	*24.8*	*32.0*	*29.8*
Depreciation	201	286	291	268	359	383
Profit before tax	542	739	996	1,338	1,762	2,370
Growth (%)	*37.1*	*36.3*	*34.8*	*34.4*	*31.7*	*34.5*
Tax	179	264	351	398	420	564
Effective tax rate (%)	*33.1*	*35.8*	*35.3*	*29.8*	*23.8*	*23.8*
Net profit	363	474	644	940	1,343	1,807
Growth (%)	*46.2*	*30.8*	*35.8*	*45.8*	*42.9*	*34.5*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit17 Balance sheet

Y/E March (Rsmn)	FY12	FY13	FY14	FY15	FY16E	FY17E
Equity	133	133	266	266	266	266
Reserves	2,264	2,651	3,262	3,950	5,013	6,509
Net worth	2,397	2,784	3,528	4,216	5,279	6,775
Short term loans	1,617	1,773	1,572	1,388	953	250
Long term loans	1,062	1,248	1,349	904	804	450
Total loans	2,679	3,020	2,921	2,292	1,757	700
Deferred tax liability	217	229	233	243	263	289
Liabilities	**5,293**	**6,033**	**6,682**	**6,751**	**7,299**	**7,764**
Gross block	3,633	4,652	5,252	5,307	6,401	6,848
Depreciation	1,059	1,308	1,640	1,907	2,266	2,648
Net block	2,574	3,344	3,611	3,400	4,135	4,200
Capital work-in-progress	937	-	389	534	47	51
Long-term Investments	15	15	16	15	15	15
Inventories	1,171	1,555	1,379	1,735	1,496	1,632
Debtors	704	872	1,068	1,132	1,162	1,375
Cash	56	93	343	266	548	613
Other current assets	250	786	444	534	558	648
Total current assets	2,181	3,306	3,234	3,668	3,763	4,268
Creditors	243	282	205	445	245	292
Other current liabilities	172	350	363	421	417	477
Total current liabilities	415	632	568	866	662	770
Net current assets	1,767	2,674	2,666	2,802	3,101	3,499
Total assets	**5,293**	**6,033**	**6,682**	**6,751**	**7,299**	**7,764**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16 : Cash flow

Y/E March (Rsmn)	FY12	FY13	FY14	FY15	FY16E	FY17E
EBIT	670	926	1,140	1,444	1,836	2,383
(Inc.)/dec. in working capital	(713)	(870)	258	(213)	(18)	(332)
Cash flow from operations	**(43)**	**56**	**1,398**	**1,231**	**1,818**	**2,052**
Other income	20	19	26	30	39	54
Depreciation	201	286	291	268	359	383
Deferred liabilities	18	12	4	10	19	26
Interest paid (-)	(149)	(207)	(171)	(136)	(113)	(67)
Tax paid (-)	(179)	(264)	(351)	(398)	(420)	(564)
Dividend paid (-)	(77)	(77)	(187)	(187)	(279)	(310)
Net cash from operations	**(209)**	**(174)**	**1,011**	**818**	**1,423**	**1,573**
Capital expenditure (-)	(559)	(120)	(947)	(202)	(607)	(451)
Net cash after capex	**(768)**	**(294)**	**64**	**616**	**816**	**1,123**
Inc./(dec.) in short term borrowings	376	156	(201)	(183)	(435)	(703)
Inc./(dec.) in long term borrowings	98	186	101	(445)	(100)	(354)
Inc./(dec.) in total borrowings	474	342	(100)	(629)	(535)	(1,057)
(Inc.)/dec. in investments	-	-	(1)	1	-	-
Equity issue/(buyback)	-	-	-	-	-	-
Cash from financial activities	**474**	**342**	**(100)**	**(628)**	**(535)**	**(1,057)**
Others	(60)	(11)	287	(65)	-	-
Opening cash balance	410	56	93	343	266	548
Closing cash balance	56	93	343	266	548	613
Change in cash balance	(354)	37	250	(77)	281	66

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Key ratios

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Per share (Rs)						
EPS	2.7	3.6	4.8	7.1	10.1	13.6
Book value	18	21	27	32	40	51
Valuation (x)						
P/E	75.8	57.9	42.6	29.2	20.5	15.2
P/sales	5.5	4.2	3.8	3.1	2.9	2.4
P/BV	11.5	9.9	7.8	6.5	5.2	4.1
EV/EBITDA	34.5	25.1	21.0	17.2	13.1	10.0
EV/sales	6.0	4.7	4.2	3.3	3.0	2.4
Return ratios (%)						
RoIC	9.6	10.7	12.0	15.9	21.2	26.2
ROCE (Post-tax)	9.8	11.2	12.3	16.0	21.1	25.6
ROCE (Pre-tax)	15.9	18.3	20.4	24.3	28.3	30.0
RoE	15.9	18.3	20.4	24.3	28.3	30.0
Margins (%)						
Gross margin (%)	39.6	40.9	40.7	38.2	44.5	45.7
EBITDA margin	17.4	18.6	20.0	19.4	23.2	23.9
PBIT margin	13.3	14.2	15.9	16.4	19.4	20.6
PBT margin	10.8	11.4	13.9	15.2	18.7	20.5
PAT margin	7.2	7.3	9.0	10.7	14.2	15.6
Turnover ratios						
Asset turnover ratio (x)	0.9	1.1	1.1	1.3	1.3	1.5
Avg. inventory period (days)	139	146	117	115	103	94
Avg. collection period (days)	50	48	54	46	44	43
Avg. payment period (days)	29	26	17	29	17	17
Solvency ratios (x)						
Debt-equity	1.1	1.1	0.8	0.5	0.3	0.1
Interest coverage	4.5	4.5	6.7	10.6	16.3	35.5
Debt/EBITDA	3.1	2.5	2.0	1.3	0.8	0.3
Growth (%)						
Sales	38.0	29.6	10.2	22.8	7.2	22.6
EBITDA	34.1	39.2	18.0	19.6	28.2	26.0
PAT	46.2	30.8	35.8	45.8	42.9	34.5

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
27 August 2014	Buy	90	140
10 October 2014	Buy	123	140
30 October 2014	Buy	134	183
20 January 2015	Buy	174	245
13 April 2015	Buy	214	245
28 May 2015	Buy	187	272
10 July 2015	Buy	185	272
22 July 2015	Buy	207	272

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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