CCL Products (India)

20 January 2015

Reuters: CCLP.BO; Bloomberg: CCLP IN

3QFY15 Result Update

Better margins, but one-offs impact bottom-line; Retain Buy

CCL Products (India) or CCL reported 21.7%/20.0% growth in revenue/EBITDA at Rs2,413mn/Rs456mn, respectively, because of a strong 109.2% revenue growth in subsidiaries with ramp-up of Vietnam operations. As a few consignments got advanced to 2QFY15 at domestic operations, up by a mere 3.9%, consolidated revenue growth was 6.6%/7.6% below our/Bloomberg consensus estimates, respectively. Excluding notional forex loss of Rs25mn against gain of Rs7.4mn YoY and Rs20mn donation, operating margin at 20.8% was 169bps/171bps above our/Bloomberg consensus estimates, respectively. On account of healthy cash flow, interest costs declined 34.9%. Net profit grew by a healthy 51.7% to Rs261mn,below our/Bloomberg consensus estimates of Rs288mn/Rs284mn, respectively, because of ~Rs45mn one-off expenses. Compared to 45% instant coffee sales to Tata Coffee, Russia accounted for only 17% of sales, with no adverse impact on forex/profit. With expected brownfield capacity expansion in India from 15,000tn to 20,000tn in 2QFY16, we have increased our net profit estimates by 2.4%/16.4% for FY16/FY17, respectively. Market leadership position with a 41.0% net profit CAGR, strong operating/free cash flow of Rs3.9bn/Rs2.7bn, respectively, a 1,272bps RoCE improvement to 25.0% over FY14-FY17E and free cash flow yield of 5.7% with a debt-free status likely by FY17 calls for a strong re-rating. We have retained Buy rating on CCL with a revised TP of Rs245 based on 18x FY17E EPS (Rs183 earlier based on 17x average FY16E-FY17E EPS).

Advancement of a few shipments impacts revenue growth: Ramp-up of the Vietnam plant led to a 109.2% revenue growth in subsidiaries to Rs701mn in 3QFY15. However, because of advancement of some shipments to 2QFY15 instead of 3QFY15, Indian operations reported a revenue growth of a mere 3.9% in 3QFY15 against 26.3% in 2QFY15. Hence, consolidated revenue growth, although healthy at 21.7%, was 6.6%/7.6% below our/Bloomberg consensus estimates, respectively. However, revenue growth of 32.8% to Rs6,642mn in 9MFY15 was better than the management's guidance.

Healthy margin excluding one-offs: Due to an adverse produce mix, Vietnam operations reported operating margin of ~18.3% in 3QFY15 against 24.9%/21.2% in 1QFY15/2QFY15, respectively. Other expenses at domestic operations increased 40.6% to Rs208mnbecause of notional forex loss of Rs25mn against a gain of Rs7.4mn YoY and Rs20mn donation. As a result, standalone/consolidated operating margin declined 153bps/27bps to 19.1%/18.9% respectively, against our/Bloomberg consensus estimates of 19.1%/19.0%, respectively.

New markets to drive healthy volume: CCL expects to increase volume from ~15,340tn in FY14 to 20,000tn/25,000tn/30,000tn in FY15/FY16/FY17, respectively. Markets like North America, India, Africa, Japan, Korea, etc are expected to drive additional volume for CCL. In a few years, CCL has targeted sales of more than 5,000tn from North America (from below 2,000tn at presen), ~3,000tn-4,000tn from Africa (against ~1,200tn currently) and explosive growth in India from ~1,000tn currently, while Japan, Korea etc will be totally virgin markets for CCL.

BUY

Sector: Beverages

CMP: Rs174

Target Price: Rs245

Upside: 40%

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Key Data

Current Shares O/S (mn)	133.0
Mkt Cap (Rsbn/US$mn)	23.2/374.8
52 Wk H / L (Rs)	179/38
Daily Vol. (3M NSE Avg.)	789,928

Price Performance (%)

	1 M	6 M	1 Yr
CCL Products	9.6	136.8	283.8
Nifty Index	4.0	11.6	36.6

Source: Bloomberg

Y/E March (Rsmn) consolidated	3QFY14	2QFY15	3QFY15	Chg. (YoY)%	Chg. (QoQ)%	9MFY14	9MFY15	Chg. (%)
Net sales	**1,983**	**2,472**	**2,413**	***21.7***	***(2.4)***	**5,000**	**6,642**	***32.8***
Net RM costs and finished goods purchases	1,269	1,589	1,517	*19.6*	*(4.5)*	3,012	4,163	*38.2*
% of sales	*64.0*	*64.2*	*62.9*	-	-	*60.3*	*62.7*	-
Power, oil & fuel costs	113	124	126	*10.9*	*1.4*	296	355	*20.0*
% of sales	*5.7*	*5.0*	*5.2*	-	-	*5.9*	*5.3*	-
Other expenses	221	276	314	*42.2*	*13.9*	675	825	*22.2*
% of sales	*11.1*	*11.2*	*13.0*	-	-	*13.5*	*12.4*	-
Operating profit	**380**	**484**	**456**	***20.0***	***(5.9)***	**1,017**	**1,300**	***27.8***
OPM (%)	**19.2**	**19.6**	**18.9**	-	-	**20.3**	**19.6**	-
Interest costs	52	33	34	*(34.9)*	*2.0*	133	109	*(17.9)*
Depreciation	64	69	69	*7.1*	*(0.8)*	196	205	*4.5*
Other income	9	7	11	*22.5*	*41.7*	19	27	*43.4*
PBT	**273**	**389**	**364**	***33.5***	***(6.5)***	**706**	**1,012**	***43.3***
Provision for tax	101	128	103	*2.4*	*(19.6)*	240	288	*19.7*
Effective tax rate (%)	*36.9*	*32.9*	*28.3*	-	-	*34.0*	*28.4*	-
Adjusted PAT	**172**	**261**	**261**	***51.7***	***(0.1)***	**466**	**725**	***55.5***
NPM (%)	*8.7*	*10.6*	*10.8*	-	-	*9.3*	*10.9*	-
EPS (Rs)	**1.3**	**2.0**	**2.0**	***51.7***	***(0.1)***	**3.5**	**5.4**	***55.5***

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn) consolidated	FY12	FY13	FY14	FY15E	FY16E	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 margin (%)	*17.4*	*18.6*	*20.0*	*19.5*	*19.5*	*20.1*
APAT	363	474	644	1,010	1,344	1,807
EPS (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)	63.8	48.8	35.9	22.9	17.2	12.8
P/BV	9.7	8.3	6.6	5.4	4.3	3.4
EV/ EBITDA (x)	29.6	21.5	18.0	14.1	11.3	8.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Result analysis of Indian operations

Y/E March - standalone (Rsmn)	3QFY14	2QFY15	3QFY15	*Chg. (YoY)%*	*Chg. (QoQ)%*	9MFY14	9MFY15	*Chg. (%)*
Net sales	**1,648**	**1,954**	**1,712**	***3.9***	***(12.4)***	**4,466**	**4,992**	***11.8***
Net raw material costs and finished goods purchases	1,006	1,238	1,020	*1.5*	*(17.6)*	2,565	3,073	*19.8*
% of sales	*61.0*	*63.4*	*59.6*	-	-	*57.4*	*61.6*	-
Power oil & fuel costs	50	56	59	*19.2*	*5.0*	144	166	*15.7*
% of sales	*3.0*	*2.9*	*3.5*	-	-	*3.2*	*3.3*	-
Other expenses	252	285	305	*21.1*	*7.2*	805	799	*(0.8)*
% of sales	15.3	14.6	17.8	-	-	18.0	16.0	-
Total expenditure	**1,307**	**1,579**	**1,385**	***5.9***	***(12.3)***	**3,514**	**4,037**	***14.9***
Operating profit	**340**	**374**	**328**	***(3.8)***	***(12.4)***	**952**	**954**	***0.2***
OPM (%)	***20.7***	***19.2***	***19.1***	-	-	***21.3***	***19.1***	-
Interest costs	19	12	12	*(37.4)*	*1.7*	59	43	*(27.5)*
PBDT	**321**	**362**	**315**	***(1.7)***	***(12.9)***	**894**	**912**	***2.0***
Depreciation	36	24	23	*(34.2)*	*(1.4)*	105	71	*(32.5)*
Other income	2	4	6	*182.2*	*43.9*	5	13	*161.7*
PBT	**288**	**342**	**298**	***3.6***	***(13.1)***	**793**	**854**	***7.6***
Tax	101	128	103	*2.4*	*(19.6)*	240	288	*19.7*
Effective tax rate (%)	*35.0*	*37.4*	*34.5*	-	-	*30.3*	*33.7*	-
Adjusted PAT	187	214	195	*4.2*	*(9.1)*	553	566	*2.4*
NPM (%)	-	-	-	-	-	-	-	-
EPS (Rs)	**187**	**214**	**195**	***4.2***	***(9.1)***	**553**	**566**	***2.4***

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Result analysis of Vietnam unit and other subsidiaries

Y/E March - (Rsmn)	3QFY14	2QFY15	3QFY15	*Chg. (YoY)%*	*Chg. (QoQ)%*	9MFY14	9MFY15	*Chg. (%)*
Net sales	**335**	**519**	**701**	***109.2***	***35.0***	**533**	**1,650**	***209.3***
Total expenditure	**288**	**398**	**562**	***95.2***	***41.2***	**445**	**1,273**	***185.9***
Operating profit	**39**	**110**	**128**	***225.6***	***16.5***	**64**	**345**	***437.0***
OPM (%)	**11.7**	**21.2**	**18.3**	-	-	**12.1**	**20.9**	-
Interest costs	32	21	21	*(33.4)*	*2.1*	74	66	*(10.4)*
PBDT	**7**	**89**	**107**	***1,391.0***	***19.9***	**(10)**	**279**	***NA***
Depreciation	29	46	45	*58.2*	*(0.6)*	91	134	*47.4*
Other income	7	4	5	*(25.8)*	*39.2*	13	13	*(1.6)*
PBT	**(15)**	**47**	**66**	***NA***	***41.3***	**(87)**	**158**	***NA***
Tax	-	-	-	-	-	-	-	-
Effective tax rate (%)	-	-	-	-	-	-	-	-
Adjusted PAT	**(15)**	**47**	**66**	***NA***	***41.3***	**(87)**	**158**	***NA***
NPM (%)	***(4.5)***	***9.0***	***9.4***	-	-	***(16.3)***	***9.6***	-
EPS (Rs)	**(0.1)**	**0.4**	**0.5**	***NA***	***41.3***	**(0.7)**	**1.2**	***NA***

Source: Company, Nirmal Bang Institutional Equities Research

Future market drivers of CCL

North America: It is one of the largest instant coffee consumers at ~80,000tn-100,000tn. Currently, CCL sells less than 2,000tn and mostly in bulk quantity. CCL was not able to tap the North American market because of increased availability of adulterated coffee from Brazil and Mexico. There are strict regulations on coffee adulteration in the EU and Russia, but it is not the case in the US. National Health Association is striving to bring such regulations in the US. CCL feels that it will be one of the beneficiaries once the law is formally in place in North America which will curb the supply of adulterated coffee (from Brazil and Mexico), as it happened in Russia and the EU earlier. In order to seize such an opportunity, CCL is setting up an agglomeration and packaging facility in North America at a cost of US$8mn-US$10mn.

The company is striving to set up a packaging facility in the US because: a) US does not have any tax problems, and b) The company can easily import coffee. As per the management, CCL is quite aggressive in North American market by setting up an agglomeration and packaging plant as against its earlier plan. North America is also offering benefits in terms of free land, no tax on internal US transfer and even on import of coffee.

Africa: As of now, the company does sales of ~1,200tn. Once the sale exceeds 2,000tn-2,500tn, CCL will set up a plant in the region. For this, CCL has been invited by the UK government through International Finance Corporation (IFC) to set up a plant. In this process, till now company officials have visited Uganda, Ethopia and Kenya. CCL expects to set up a plant there in the next two-three years.

Limited Impact of Russian operations because of rouble crisis

As CCL derives ~17% of its revenue from Russia and the CIS region, inventors are worried about the future of this business in terms of revenue, margins and rising receivable days. We believe CCL is best positioned to ride out the Russian crisis without impacting its revenue/profitability and even its working capital. As buying and selling of coffee beans and instant coffee for CCL (even in Russia) happens in US dollar terms, CCL will not suffer any forex loss because of depreciation of the rouble. In addition, most of the sales in Russia take place through sale to EU/US clients.

CCL derived ~17% (down from ~20% a year ago) of its revenue from Russia, much lower than its competitor Tata Coffee which derived 45% of its instant coffee revenue from Russia in FY14.

Russian federation is among top three markets for instant coffee exports from India, accounting for 9% of Indian coffee exports, as per Coffee Board of India. Key export destinations for Indian coffee industry are Italy at 23.8%, Russian federation at 9.0%, Germany at 8.5%, Belgium at 7.2%, Spain at 1.8%, Jordan at 2.8%, US at, 2.5%, Ukraine at 2.5%, Finland at 1.8%, Switzerland at 1.5% and others at 38.5%.

Although tea has traditionally been very popular in Russia, the country is also a large consumer of coffee, accounting for around 2.5% of global consumption. As on 23 December 2014 (from January 2014), Russia imported 19,446tn of instant coffee from India, apart from 1,353tn of Arabica coffee and 1,376tn of Robusta coffee.

Russia's macro-economic prospects continue to deteriorate (in line with falling crude oil prices) and the acceleration in the rate of capital flight since the onset of the Ukrainian crisis in mid-2014 and the prospect of deeper sanctions between Russia and the West having a serious impact on private consumption. Russian rouble depreciated 46% in the past six months. Deteriorating consumer conditions coupled with increase in coffee prices in local currency terms will affect coffee demand in Russia. Sharp depreciation of rouble has made coffee exporters view the market with scepticism even as a few of them have postponed their consignments to that country.

According to Mr. Sathappan, proprietor of S.L.N. Coffee, one of the top exporters in India, the instant coffee market is very much affected. The sharp fall in the rouble has not really affected the prospects of exporters in payment terms, but the Russian market is expected to remain in the same mode for at least one or two months before the prices stabilise. As per Mr. M.P. Devaiah, general manager of Allanasons, one of the top five exporters of green coffee beans, weakening of the rouble has created a flutter in Russian market, especially in instant coffee. Rouble weakness has affected instant coffee exports, according to former vice-chairman of the Coffee Board of India and progressive grower Mr. Bose Mandanna.

General value chain of coffee realisation: CCL realises around ~US$8/kg, its client realises ~US$20/kg, while super market finally sells it to the consumer at ~US$30/kg. As CCL sells to clients in US dollar terms and clients sell their products in local currency, the impact of depreciation of rouble will be limited to selling price of CCL i.e. ~US$8/kg and not on market price i.e. ~US$30/kg. Assuming clients and supper market maintain their absolute margin, coffee prices in retail store will increase by a mere ~12% against 46% depreciation in the rouble against the US dollar. Russian coffee consumption has remained almost flat at 3.7mn bag (of 60kg) in the past three years. Hence, the decline will be limited, as coffee is more of a necessity than a lifestyle product. In this context, industry expects coffee consumption to contract by a mere 1.4% in 2014-15 (October-September crop year), before recovering slightly in 2015-16. There is scope for strong increase in consumption in the medium term because of rising coffee culture. Large-scale construction of shopping malls will attract international coffee chains and support this trend.

As CCL is selling coffee to Russia under a rupee-rouble trade mechanism between the two countries, its payment is safe. Some exporters of instant coffee also feel that because of the long-term contracts with Russia, their business prospects may not take a hit.

Conference-call highlights and other key highlights:

- CCL added one large client in 3QFY15.
- 3Q and 4Q are better quarters than 1Q and 2Q on account of seasonality.
- The company expects to achieve a volume of 15,000tn in Indian operations and 5,000tn (installed capacity of 10,000tn) in Vietnam plant in FY15E.
- As per the management, total volume is expected to increase 25% to 25,000tn in FY16. Vietnam plant's volume is expected to increase 50% from 5,000tn in FY15E to 7,500tn (75% capacity utilisation) and Indian operations' volume is likely to increase 16% from 15,000tn to 17,500tn.
- CCL is expanding its Indian operations from 15,000tn to 20,000tn at a cost of ~Rs200mn through brown-field expansion and by adding balancing equipment by 2QFY16.
- Switzerland plant: CCL's Swiss plant operates at sub-optimal utilisation level because of non-competitive pricing of supplies from Switzerland to the EU. Import duty levied by the EU on Swiss coffee is 9.0% whereas only 3.3% is levied on coffee supply from India. CCL is negotiating with Swiss government on the terms of duty payment, wherein the company will import bulk coffee from its Indian plant by paying 3.3% duty and do value addition at Switzerland and thereby will be entitled to pay the balance ~6% duty on value addition rather than on basic coffee. The company has sorted out the tax problems pertaining to the Switzerland plant. As of now, CCL is paying tax on the value-added products. Utilisation of plant will improve and break-even is expected in 4QFY15 compared to a net loss of ~Rs270mn in 9MFY15. CCL gave marketing function to a local Swiss authority in respect of its Switzerland plant. CCL expects capacity utilisation level of its Switzerland plant to improve to 75% (on single-shift capacity of 1,000tn) in the next one year.
- Because of its higher costs, liquid coffee is consumed only by the Japanese population. Currently, Japan consumes ~10,000tn-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 from Switzerland to India is complete and trial production started in 1QFY15. CCL expects some revenue from liquid coffee in 1QFY16 and capacity utilisation can increase to 50% in the next two years.
- To double the capacity at the 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. Once finalised, it will take one year to double the capacity. CCL is expected to finalise doubling of capacity at its Vietnam plant once its existing operations achieve 75%-80% capacity utilisation, tentatively by FY17.
- During the quarter, consolidated other expenses grew 42.2% to Rs314mn on account of Rs45mn incurred as one-offs during the quarter and increase in selling expenses.
- 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 will be 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. Capex required for the same is the range of US$8mn-US$10mn. The location will be finalised in the next six months.
- In the US, laws against adulteration are a bit lax where coffee manufacturers are not required to mention in the product labels the type of coffee used. As are result, adulterated coffee comes from Brazil, Mexico, Ecuador etc to the US market. CCL, on the other hand, has been pressing the US government to change its labeling laws whereby the manufacturers are required to mention the coffee mix on the product labels. Once such a legislation is in place, CCL is set to gain market share in North America.

- For the past 30 years or so, coffee production in Brazil has remained stagnant at ~100,000tn. On account of adulteration of coffee by Brazil and stringent adulteration laws in the CIS, EU etc, Brazil is losing market share while India, Vietnam, Indonesia etc are continuously gaining market share. In fact, some of the clients have stopped/reduced buying coffee from Brazil and replaced it with CCL's coffee.
- CCL is building a market for coffee in Africa. At present, it sells 1,200tn. The company plans to set up ~3,000tn plant at a cost of ~Rs500mn once the sales top 2,000tn-2,500tn. CCL officials have been invited by the UK government (through IFC or International Finance Corporation, Washington) to invest in Africa.
- Africa has two advantages: 1) Raw material is available in plenty and no duty will be levied in African countries in future 2) The key consuming market is South Africa and coffee can be exported to this country without any duty. Exports to South Africa attract ~35% import duty currently. As a result, a significant part of coffee exports from India and other countries to West Africa is taking place illegally currently. In order to avoid this risk, CCL sells coffee to Indian exporters/trading houses/branded players who are selling coffee in Africa. Once the duty structure in the African region is streamlined, CCL will set up a plant there.
- CCL currently sells 1,000tn of coffee in the domestic market including super markets, to Hindustan Unilever, and also via branded sales.
- CCL did a 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 leading instant coffee market after South India. The company is targeting northern cities like Punjab, Uttar Pradesh, Lucknow, Delhi, Allahabad etc. As per the management, in the next six months, Continental brand will be made available in the Delhi market. As per management, the product is widely accepted in AP, Allahabad, parts of North India and South India. To increase visibility, CCL has also started selling coffee under Continental brand to institutions like hotels, airlines etc. The company is also in the process of setting-up a marketing team in the six months so as to push the products aggressively. The company had achieved ~Rs280mn revenue from the Continental brand in 9MFY15. Its domestic revenue is expected to increase to ~Rs700mn (~50% from Continental brand) in FY15 as against ~Rs400mn in FY14.
- CCL is setting up a team to focus on branded business.
- The management has given guidance of a 25%-30% CAGR in volume/top-line,respectively, for the next three years. After this, branded product revenue is expected to pick up and support the growth rate.
- We expect CCL to generate operating cash flow of Rs3.9bn over FY14-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 is as follows over the next four-five years: 1) Doubling of capacity at Vietnam plant from 10,000tn to 20,000tn at a capex of Rs600mn-Rs700mn, 2) Automatic packing facility to be set in the US at a cost of Rs500mn-Rs600mn, and 3) Expansion of Indian plant's capacity from 15,000tn to 20,000tn at a cost of ~Rs200mn, and 4) Setting up of ~3,000tn new plant in Africa at a cost of ~Rs500mn.

Exhibit 4: Our estimates versus actual performance

(Rsmn)	3QFY14	2QFY15	3QFY15	*YoY (%)*	*QoQ (%)*	3QFY15E	*Devi. (%)*	3QFY15 BBE	*Devi.(%)*
Revenue	1,983	2,472	2,413	*21.7*	*(2.4)*	2,584	*(6.6)*	2,611	*(7.6)*
EBITDA	380	484	456	*20.0*	*(5.9)*	493	*(7.5)*	497	*(8.4)*
EBITDA (%)	*19.2*	*19.6*	*18.9*	*(27)bps*	*(69)bps*	*19.1*	*(18)bps*	*19.0*	*(16)bps*
Adjusted PAT	172	261	261	*51.7*	*(0.1)*	288	*(9.3)*	284	*(8.2)*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Change in our estimates

Y/E March	Earlier assumptions			New assumptions			*Change (%)*		
(Rsmn)	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	*FY15E*	*FY16E*	*FY17E*
Sales	9,507	10,788	11,555	9,225	11,263	13,761	*(3.0)*	*4.4*	*19.1*
EBITDA	1,826	2,136	2,321	1,797	2,195	2,765	*(1.6)*	*2.7*	*19.1*
EBITDA (%)	*19.2*	*19.8*	*20.1*	*19.5*	*19.5*	*20.1*	*27bps*	*(32)bps*	*-*
APAT	999	1,312	1,552	1,010	1,344	1,807	*1.1*	*2.4*	*16.4*

Source: Nirmal Bang Institutional Equities Research

Exhibit 6: One-year forward P/E

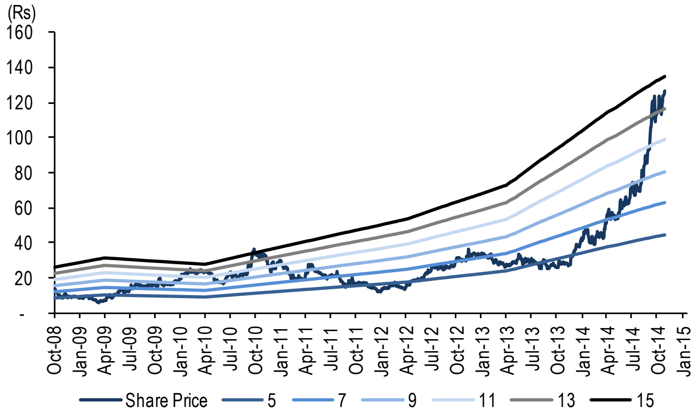
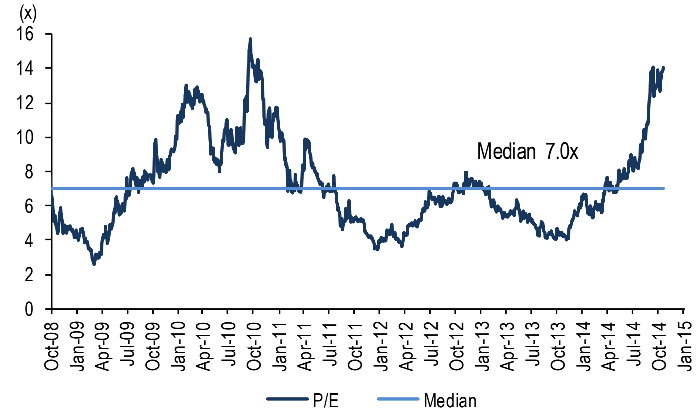


Exhibit 7: P/E median



Source: Nirmal Bang Institutional Equities Research

Exhibit 8: One-year forward EV/EBITDA

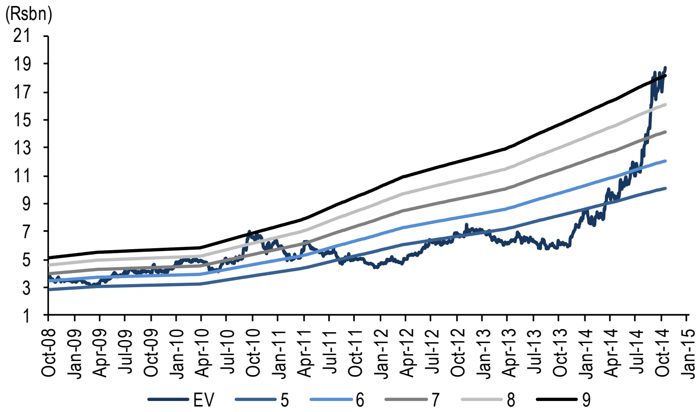


Exhibit 9: EV/EBITDA median

Source: Nirmal Bang Institutional Equities Research

Exhibit 10: One-year forward P/BV

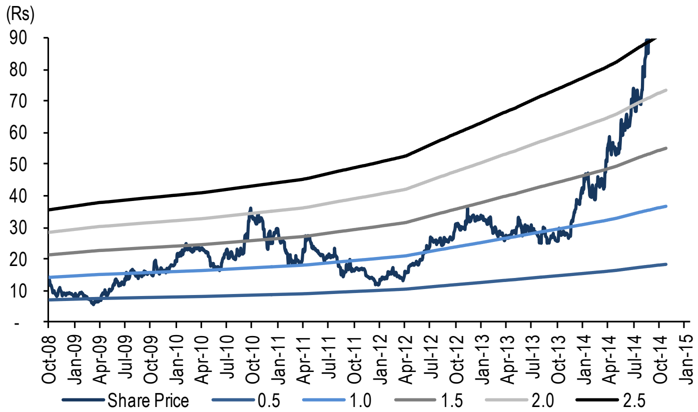
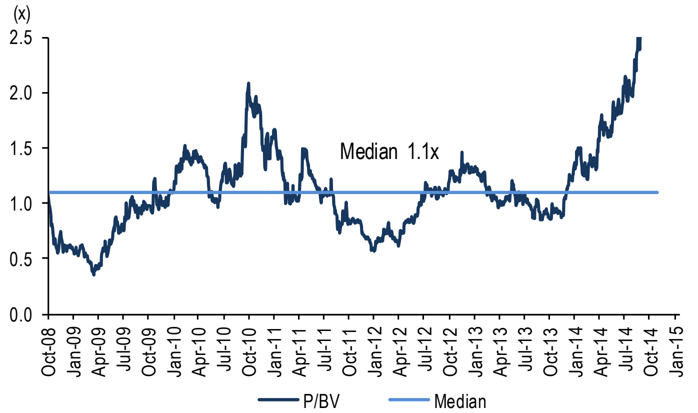


Exhibit 11: P/BV median



Source: Nirmal Bang Institutional Equities Research

Financials (consolidated)

Exhibit 12: Income statement

Y/E March (Rsmn)	FY12	FY13	FY14	FY15E	FY16E	FY17E
Net sales	5,022	6,507	7,168	9,225	11,263	13,761
Growth (%)	*38.0*	*29.6*	*10.2*	*28.7*	*22.1*	*22.2*
Raw material costs	3,032	3,845	4,251	5,721	7,022	8,480
Staff costs	146	212	258	264	310	378
Power costs	253	410	383	529	635	796
Other expenses	720	827	845	914	1,101	1,342
Total expenditure	4,151	5,295	5,737	7,428	9,068	10,996
EBITDA	871	1,213	1,431	1,797	2,195	2,765
Growth (%)	*34.1*	*39.2*	*18.0*	*25.6*	*22.1*	*26.0*
EBITDA margin (%)	*17.4*	*18.6*	*20.0*	*19.5*	*19.5*	*20.1*
Other income	20	19	26	38	49	61
Interest costs	149	207	171	156	137	84
Gross profit	743	1,025	1,287	1,679	2,107	2,742
Growth (%)	*26.3*	*38.0*	*25.5*	*30.5*	*25.5*	*30.1*
Depreciation	201	286	291	284	345	371
Profit before tax	542	739	996	1,395	1,762	2,371
Growth (%)	*37.1*	*36.3*	*34.8*	*40.1*	*26.3*	*34.5*
Tax	179	264	351	386	418	564
Effective tax rate (%)	*33.1*	*35.8*	*35.3*	*27.6*	*23.7*	*23.8*
Net profit	363	474	644	1,010	1,344	1,807
Growth (%)	*46.2*	*30.8*	*35.8*	*56.7*	*33.1*	*34.4*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Cash flow

Y/E March (Rsmn)	FY12	FY13	FY14	FY15E	FY16E	FY17E
EBIT	670	926	1,140	1,513	1,850	2,394
(Inc.)/dec. in working capital	(713)	(870)	258	(476)	(382)	(437)
Cash flow from operations	**(43)**	**56**	**1,398**	**1,037**	**1,468**	**1,957**
Other income	20	19	26	38	49	61
Depreciation	201	286	291	284	345	371
Deferred liabilities	18	12	4	17	19	26
Interest paid (-)	(149)	(207)	(171)	(156)	(137)	(84)
Tax paid (-)	(179)	(264)	(351)	(386)	(418)	(564)
Dividend paid (-)	(77)	(77)	(187)	(248)	(279)	(310)
Net cash from operations	**(209)**	**(174)**	**1,011**	**587**	**1,047**	**1,457**
Capital expenditure (-)	(559)	(120)	(947)	(243)	(547)	(451)
Net cash after capex	**(768)**	**(294)**	**64**	**344**	**501**	**1,007**
Inc./(dec.) in short term borrowings	376	156	(201)	(300)	(637)	(385)
Inc./(dec.) in long term borrowings	98	186	101	-	(145)	(554)
Inc./(dec.) in total borrowings	474	342	(100)	(300)	(781)	(939)
(Inc.)/dec. in investments	-	-	(1)	-	-	-
Equity issue/(buyback)	-	-	-	-	-	-
Cash from financial activities	**474**	**342**	**(100)**	**(300)**	**(781)**	**(939)**
Others	(60)	(11)	287	-	-	-
Opening cash	410	56	93	343	388	107
Closing cash	56	93	343	388	107	174
Change in cash	(354)	37	250	44	(281)	68

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Balance sheet

Y/E March (Rsmn)	FY12	FY13	FY14	FY15E	FY16E	FY17E
Equity	133	133	266	266	266	266
Reserves	2,264	2,651	3,262	4,023	5,088	6,585
Net worth	2,397	2,784	3,528	4,289	5,354	6,851
Short term loans	1,617	1,773	1,572	1,272	635	250
Long term loans	1,062	1,248	1,349	1,349	1,204	650
Total loans	2,679	3,020	2,921	2,621	1,839	900
Deferred tax liability	217	229	233	250	270	296
Liabilities	**5,293**	**6,033**	**6,682**	**7,161**	**7,463**	**8,046**
Gross block	3,633	4,652	5,252	5,840	6,383	6,830
Depreciation	1,059	1,308	1,640	1,924	2,269	2,641
Net block	2,574	3,344	3,611	3,916	4,114	4,189
Capital work-in-progress	937	-	389	43	47	51
Long-term Investments	15	15	16	16	16	16
Inventories	1,171	1,555	1,379	1,872	1,973	2,188
Debtors	704	872	1,068	1,135	1,387	1,632
Cash	56	93	343	388	107	174
Other current assets	250	786	444	547	659	765
Total current assets	2,181	3,306	3,234	3,942	4,126	4,759
Creditors	243	282	205	267	324	393
Other current liabilities	172	350	363	489	515	575
Total current liabilities	415	632	568	756	839	968
Net current assets	1,767	2,674	2,666	3,186	3,287	3,791
Total assets	**5,293**	**6,033**	**6,682**	**7,161**	**7,463**	**8,046**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Key ratios

Y/E March	FY12	FY13	FY14	FY15E	FY16E	FY17E
Per share (Rs)						
EPS	2.7	3.6	4.8	7.6	10.1	13.6
Book value	18	21	27	32	40	52
Valuation (x)						
P/E	63.8	48.8	35.9	22.9	17.2	12.8
P/sales	4.6	3.6	3.2	2.5	2.1	1.7
P/BV	9.7	8.3	6.6	5.4	4.3	3.4
EV/EBITDA	29.6	21.5	18.0	14.1	11.3	8.6
EV/sales	5.1	4.0	3.6	2.7	2.2	1.7
Return ratios (%)						
RoIC	9.6	10.7	12.0	16.7	20.0	24.0
RoCE	9.8	11.2	12.3	16.8	20.5	25.0
RoE	15.9	18.3	20.4	25.8	27.9	29.6
Margins (%)						
EBITDA margin	17.4	18.6	20.0	19.5	19.5	20.1
PBIT margin	13.3	14.2	15.9	16.4	16.4	17.4
PBT margin	10.8	11.4	13.9	15.1	15.6	17.2
PAT margin	7.2	7.3	9.0	10.9	11.9	13.1
Turnover ratio						
Asset turnover ratio (x)	0.9	1.1	1.1	1.3	1.5	1.7
Avg. inventory period (days)	139	146	117	118	101	93
Avg. collection period (days)	50	48	54	44	44	43
Avg. payment period (days)	29	26	17	17	17	17
Solvency ratios (x)						
Debt-equity	1.1	1.1	0.8	0.6	0.3	0.1
Interest Coverage	4.5	4.5	6.7	9.7	13.5	28.5
Debt/EBITDA	4.5	4.5	6.7	9.7	13.5	28.5
Growth (%)						
Sales	38.0	29.6	10.2	28.7	22.1	22.2
EBITDA	34.1	39.2	18.0	25.6	22.1	26.0
PAT	46.2	30.8	35.8	56.7	33.1	34.4

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

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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