CCL Products (India)

2 March 2016

Reuters: CCLP.BO; Bloomberg: CCLP IN

Road-show Update

Long-term Growth Prospects Intact; Retain Buy

Our interaction with the management of CCL Products (India) or CCL at the road-show held recently reinforced our long-term positive view on the stock. While the news of likely freeze dried coffee capacity expansion in India led to a reduction in our FY18E EPS, the capacity expansion is because of strong demand for its instant coffee variety and is only a small blip in healthy medium-term top-line and bottom-line growth prospects. The expansion, costing Rs2.5bn, will be financed through internal accruals and debt and does not require any equity dilution. Earnings growth will pick up steam once the utilisation of expanded capacity rises. Changes to our model resulted in a 17% decrease in FY18E EPS, but EPS CAGR is likely to be strong at 21% over FY16E-FY20E with pre-tax RoCE expected to regain its 27% level after a small blip in FY18. CCL stock trades at 14.9xFY18E EPS. Targeting 19xFY18E EPS is not aggressive for a fast-growing company with a healthy RoCE and we have arrived at a target price of Rs219 (Rs250 earlier), up 27% from the CMP of Rs172. We have retained Buy rating on the stock.

Key takeaways are as follows:

- **Capex:** As of now, debt of Vietnam plant is US$14mn, of which US$10mn is working capital loan while only US$4mn is term loan. Brownfield expansion will be financed mostly from internal accruals (CCL had Rs1,060mn of cash accruals as of 31 December 2015). The management incurred a capex of Rs200mn to expand 5,000tn capacity in FY16 in India. CCL had set up a greenfield plant of 10,000tn capacity in Vietnam for US$50mn two years ago, which the management believes will cost at least US$80mn for any other player mainly because of the advantage that CCL has in terms of technology. If it decides to set up a 10,000tn brownfield facility in Vietnam (not freeze dried coffee), the costs will be ~US$12mn and a minimum of ~US$35mn (Rs2,500mn) if it opts for greenfield 5,000tn freeze dried facility in India. Rs150mn-Rs200mn is the normal maintenance capex which CCL incurs every year.
    - **Greenfield expansion in India:** CCL has already bought the land in Chittur district of Andhra Pradesh, which is economically a highly backward area, for ~Rs230mn. The area has proximity to ports and airports making it a viable location. If CCL opts to set up a greenfield 5,000tn freeze dried coffee plant in India (decision to be taken by August 2016), then Rs2500mn will be the capex incurred which will be financed equally by internal accruals and debt. The time for setting up the unit will be 24 months to 36 months. Therefore, the benefits of it will be visible from FY19-FY20.
    - **Brownfield expansion in Vietnam:** CCL is also planning to set up a spray dried coffee unit of 10,000tn in Vietnam (decision to be taken by the end of CY16). This will be brownfield expansion as its existing facility already has infrastructure for 20,000tn, of which only 10,000tn is utilised. Capex incurred will be ~US$12mn and it won't take more than 12 months to start operations. Therefore, the benefits are expected to come in from FY19 onwards.
    - **Packaging unit in the US:** If the adulteration law get passed in the US in the next couple of months, then CCL plans to set up a 3,000tn packaging unit in the US which will help it to cater to customers in the US directly. However, the timeline has not been finalised for the same.
- **Advantages of setting up of freeze dried coffee facility in India versus Vietnam**
    - Skill-sets and expertise of the employees in India and Vietnam operations are not the same. Therefore, it has to send at least 30-40 people from India to Vietnam if it prefers Vietnam over India for expansion.
    - The management cites lack of availability of equally competent workforce and language problem as the reason why it is more inclined towards expansion in India rather than in Vietnam.
    - It will be greenfield expansion whether in India or Vietnam in case CCL opts to set up a freeze dried coffee plant.
    - The newly formed state of Andhra Pradesh (after carving out Telangana state) is providing better benefits compared to Vietnam, as the new unit will be in a SEZ zone.

BUY

Sector: Beverages

CMP: Rs172

Target Price: Rs219

Upside: 27%

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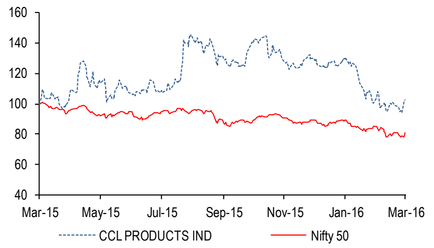
Key Data

Current Shares O/S (mn)	133.0
Mkt Cap (Rsbn/US$mn)	22.9/336.9
52 Wk H / L (Rs)	254/154
Daily Vol. (3M NSE Avg.)	218,022

One-Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
CCL Products	(1.2)	(20.9)	2.4
Nifty Index	(4.4)	(7.2)	(18.9)

Source: Bloomberg

Background

- CCL started its operations in 1994 with a 3,500tn capacity in India, which it has expanded to 35,000tn (on a consolidated basis). Originally, it manufactured only one type of instant coffee and then forayed into granulation and freeze dried variants.
- Coffee that is manufactured is of three types: 1) Spray dried, 2) Freeze dried, and 3) Liquid. Capex as well as opex is low in case of spray dried coffee and therefore spray dried coffee costs lower than the other two types. However, in spray dried coffee, liquid concentrate is heated (to get final coffee powder) with steam/hot air at a high temperature of 220ºC-280ºC and therefore its aroma gets diluted. In freeze dried coffee, liquid concentrate is deep freezed (at - 50ºC to –60ºC) to get final coffee powder. As the liquid concentrate is not in touch with steam/hot air and the temperature is very low in the manufacturing process, aroma and flavour of coffee is preserved. Therefore, freeze dried coffee commands a better price than spray dried coffee. In case of liquid coffee, liquid concentrate is purified to improve its quality and the finished product (liquid coffee) is directly consumed. As liquid preserves aroma and taste of coffee for a long time, liquid coffee is most expensive compared to others.
- Indian plant has 18,000tn of capacity (as of 31 December 2015) and because of balancing equipment being put up, the capacity is expected to touch 20,000tn by 31 March 2016.
- In 2009-10, CCL set up a 3,000tn facility in **Switzerland** to which instant coffee is exported from India and granulation, watering and packaging is done at Switzerland operations in order to cater to European markets, which are being serviced through third parties.
- CCL started its operations in **Vietnam** four years ago. Currently, it has 10,000tn of spray dried coffee capacity and 5,000tn of liquid coffee facility which was shifted from India. Initially, CCL spent US$50mn on greenfield facility for expansion of which US$35mn was financed by debt and the rest was met via internal accruals.
- Vietnam plant offers four benefits: 1) Logistical advantage of ~US$150/tn because of proximity to coffee-growing zone, 2) Better raw material availability, with lead time lower by one-and-a-half months as Vietnam is the second-largest green coffee grower, 3) Favourable duty structure and close proximity to coffee-consuming ASEAN nations like Japan, Korea, China, etc, and 4) No income-tax for first four years and tax exemption of 50% for the next nine years. 5) Also, CCL has additional advantages like average yield per hectare being ~900kg in India whereas it is ~3,000kg in Vietnam because plantation activity is done optimally in that country.
- Brazil is the largest green coffee grower (mainly of Arabica variety) and also largest instant coffee producer in the world. However, it supplies all kinds of adulterated coffee using fillers like Maltodextrin, Corn etc. Only Nestle and Iguacu (part of Marubeni group) in Brazil manufacture good quality coffee in Brazil, but because of lack of infrastructure it is difficult to know the quality. However, post invention of better equipment by the Swiss, quality can be easily identified now. Hence, Brazil, which was producing 100,000tn filter coffee at one point in time, lost its market share heavily. CCL, which was focusing only on quality coffee, benefited the most out of it. Unlike in India where green coffee plantation/plucking is done manually (hence, one can select best quality beans), coffee plantation/plucking in Brazil is done by machines. Also, in India, coffee is grown under the shade while in Brazil it is grown in open space. Therefore, Brazilian coffee continues to be of weak quality. Brazil was producing 100,000tn of coffee 40 years ago and even today it is producing the same quantity. Following the adulteration problem, Brazil was not able to ramp up its coffee production.
- **Export incentives:** CCL has a Memorandum of Understanding or MoU with Indian government since the past seven to eight years as a result of which there is no duty on import of green coffee beans. Also, CCL gets export incentives from the government to the tune of 5% (maximum amount for coffee; cannot increase beyond that) of total exports - not in the form of cash but in the form of nil duty on imports. As a result, CCL sells these licences in the market as it already has import duty exemption from operating out of an EOU.
- For non-coffee players who want to be in the coffee business, CCL gives guidance to them in terms of the blend to be used and how to go about doing the expansion. This blend is exclusive and CCL gets a higher margin from the clients.

Company Update

- **US market opportunity:**
    - FSMA law has been passed partially in the US and three out of its five points have already been implemented. The fourth point deals with economic adulteration which involves not just coffee but various other products (for which infrastructure like laboratories need to be set up), a process which the management expects will be completed in the next couple of quarters.
    - The management believes that as the safety issue is being raised actively by the media, there will not be any impact of elections/change of government on this process.
    - US is 70,000tn-75,000tn instant coffee market which was so far was not open for pure coffee players like CCL. The market is being actively catered to by Brazilian players. As the emphasis is not on product quality or product purity, there is a large element of adulteration which will end if the FSMA law is enacted.
    - CCL is the largest independent instant coffee supplier globally with a historically strong emphasis on quality and the ability to create the blend as required by clients. Thus, the enactment of FSMA law can offer a huge opportunity for CCL.
    - CCL has already received enquiries from various US states with incentive packages, but the management will take a call on the timing, size, location and capacity of setting up a packaging plant in the US only after the FSMA Act is passed fully and also after noting its provisions.
    - **European market:** This market was also facing adulteration problem (like the one in the US currently) before early 2000s. Adulteration laws were introduced in early 2000 in the European region which made it mandatory for coffee makers to state on the product package as to whether the coffee is pure or not. The appointed agencies now have a right to go to any super market and inspect coffee samples. If the packet states that the sample is pure and after laboratory testing if OTA content is found to be high, the agencies have the right to destroy the entire sample and charge the bill to the importer. The cost difference between pure coffee (expensive to manufacture) versus adulterated coffee is almost 50%, although the selling price is the same for both. CCL will benefit the most because of this as it manufactures pure coffee. European players are now mostly importing coffee rather than producing it.
- **Certified coffee: The** proportion of certified coffee has been higher since last year, rising from 3%-4% of sales in FY15 to ~18% in 9MFY16. Gross margin at 35%-40% is higher in case of certified coffee and 20% higher in case of direct retail compared to plain vanilla coffee.
- **Collaborators:** CCL has tied up with collaborators in the US and the UK who normally market and distribute its products in the US and Europe, respectively. It has tied up with LMZ Soluble Coffee and Complete Coffee in these regions, and currently every order is routed via them. However, these agreements expired last year and CCL extended them till this year because of its long relationship with these companies. CCL is considering setting up a packaging plant in the US to cater to its customers directly. CCL expects to register a volume of 10,000tn in the US in the next three years. Switzerland is a granulation centre and caters to regions where its UK collaborator doesn't have its presence.
- **Retail:** Sales in domestic retail segment was Rs350mn-Rs400mn in 9MFY16, of which Rs150mn-Rs180mn comprised Continental Coffee sales. Sales of Continental Coffee increased by ~20% YoY. CCL launched its coffee in four more states including Goa, Kerala and Uttar Pradesh. CCL appointed ~30 distributors in 3QFY16 and is penetrating into kirana store segment as it is already supplying to the defence sector, railways and some airlines. Currently, coffee market size in India is ~Rs30bn and the management expects Continental Coffee to become a Rs2bn brand in the next three to four years. Margins for its own brand are very high (more than 30%). CCL doesn't intend to tie up with any FMCG player or other company and will market the product on its own gradually and not aggressively. Britannia Industries (BIL) had approached CCL some years ago for distribution of its coffee in India, but as BIL wanted to use its own brand name - which was not acceptable to CCL - the deal didn't work out. Continental Coffee is priced 30% less compared to that of Nestle. CCL manufactures chicory only on special demand.

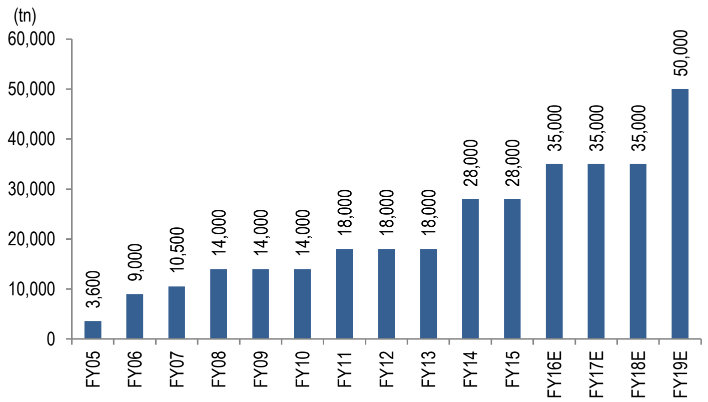
- Normally, buying and selling of coffee takes place in US dollar terms. Only expenses incurred apart from raw material costs are in local currency. Therefore, CCL has a natural hedge for ~60% of its revenue (raw material accounts for ~60% of sales) because of contracts on both sides and doesn't do external hedging for the remaining part. There are two types of buyers in case of CCL:
  - **Direct consumers**: Normally, brand owners and private labels buy directly from CCL (packaging also done by CCL). Their proportion has increased from 20%-25% of sales in FY15 to 35-40% in 9MFY16. In 2011-12, they accounted for ~60% of sales of CCL.
  - **Bulk buyers**: They are normally traders who in turn sell to other players. CCL exports to 85 countries and around three to four months is the inventory holding period of traders. Shelf life of coffee is around two years.

As CCL is the processor, EBITDA per kg will increase with the rise in realisation (because of the rise in coffee prices) while EBITDA per kg will not decline by a similar amount as the drop in raw material prices because of the higher proportion of direct sale coffee - which has high margin - offsetting bulk buying. Key business of CCL is to develop private label for clients rather than bulk sales. Generally, customers sign contracts two to three quarters in advance. Therefore, from 4QFY16, the management expects EBITDA per kg to drop, although not significantly, as profitability is higher for brand owners and customised demand (both of whose proportion in sales is on the rise).

- CCL expected to achieve 7,500tn volume in Vietnam in FY16 which now stands revised to ~6,300tn. It was expecting a 15% growth in FY16, but has been disappointed mainly because of:
  - Fall in green coffee prices by 30% in the past six months.
  - Deferment of contract by some countries like Russia and Ukraine because of currency fluctuations. For instance, some Russian players have not taken delivery in 3QFY16 and deferred it till the next quarter because of currency fluctuations. Letter of Credit (LC) facility is already open for the contracts and therefore customers will have to honour their contracts and take delivery in the next quarter as the contracts have already been booked. Even if there is a delay from the customer's side, CCL always has the option of liquidating the LCs.
  - There has been deferment of export incentives to the extent of ~Rs140mn (because of system lacuna on the government side, which once addressed, will be booked in the next quarter and in early part of FY17).
- **Freeze dried coffee:** Out of total 4,00,000tn instant coffee market globally, ~1,00,000tn is freeze dried. There are very few players worldwide in freeze dried coffee manufacturing. Some companies in Ecuador have shut down ~10,000tn of capacity because of internal problems. Tata Coffee has ~2,000tn of capacity, of which 1,000tn is utilised. As per the management, there is huge demand for freeze dried coffee as a result of which it is contemplating to set up a 5,000tn freeze dried greenfield plant in India. It will focus on building a market for the same till the time the capacity is ready so that it has a ready market. The 5,000tn freeze dried coffee capacity will have the potential to garner a minimum Rs2,500mn annually.
- Price of freeze dried coffee is almost double the price of its spray dried variant. As per the management, price of freeze dried coffee hasn't fallen mainly because technology is difficult for this variant and it is the USP of CCL . EBITDA/tn is 1.5x of sprayed dried coffee for freeze dried variant and its EBITDA margin is more than 30%.
- **Advantages of setting up freeze dried coffee facility in India versus Vietnam**
  - Skill-sets and expertise of employees in India and Vietnam plants are not the same for CCL. Therefore, it has to send at least 30-40 people from India to Vietnam if if it prefers Vietnam over India for its expansion plan.
  - The management cites lack of availability of equally competent workforce and language problem as the reasons why it is more inclined towards expansion in India rather than in Vietnam.
  - It will be greenfield expansion whether in India or Vietnam if CCL opts to set up a freeze dried coffee plant.
  - Newly formed state of Andhra Pradesh (after carving out Telangana) provides better benefits compared to Vietnam as the new unit will be in a SEZ zone.

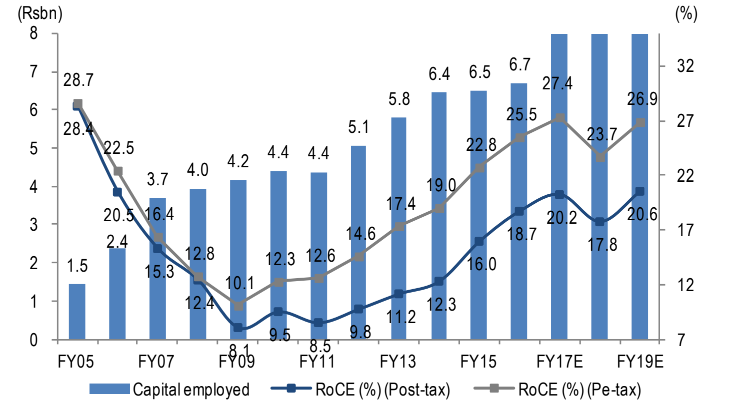
- As per the management, Columbian coffee is of very good quality and accounts for ~18% of world coffee production, spending US$100mn on advertisements every year.
- Starbucks Via Instant is made with100% Arabica beans and is served at Starbucks. Extraction rate from green coffee beans is 5:1 and it is one of the most expensive coffees in the world.
- **Capex:** As of now, debt of Vietnam plant is US$14mn, of which US$10mn is working capital loan while US$4mn is term loan. Brownfield expansion costs will be mostly met from internal accruals (CCL had Rs1,060mn cash accrual as of 31 December 2015). The management incurred a capex of Rs200mn to expand 5,000tn capacity in FY16 in India. CCL had set up a greenfield plant of 10,000tn capacity in Vietnam for US$50mn two years ago, which the management believes will cost at least US$80mn for any other player mainly because of advantage that CCL has in terms of technology. If it decides to set up a 10,000tn brownfield facility in Vietnam (not freeze dried), the cost eill be ~US$12mn and a minimum of ~US$35mn (Rs2,500mn) if it opts for greenfield 5,000tn freeze dried facility in India. Rs150mn-Rs200mn is the normal maintenance capex which CCL incurs every year.
  - **Greenfield expansion in India:** CCL has already bought the land in Chittur district of Andhra Pradesh, which is economically a very backward area, at a cost of ~Rs230mn. The area has proximity to ports and airports, making it a viable location. If CCL opts to set up a greenfield 5,000tn freeze dried coffee plant in India (decision to be taken in this regard by August 2016), then Rs2,500mn will be the capex incurred which will be financed equally by internal accruals and debt. The time taken for setting up the unit will be 24 months to 36 months. Therefore, the benefits of it will be visible from FY19-FY20.
  - **Brownfield expansion in Vietnam:** CCL is also planning to set up a spray dried coffee unit of 10,000tn capacity in Vietnam (decision to be taken by the end of CY16). This will be brownfield expansion as the existing facility already has infrastructure for 20,000tn, of which only 10,000tn is utilised. Capex incurred is expected to be ~US$12mn and will take not more than 12 months to start operations. Therefore, the benefits are expected to come in from FY19 onwards.
  - **Packaging unit in the US:** If adulteration law get passed in the US in the next couple of months, then CCL plans to set up a 3,000tn packaging unit there which will help it to cater to US customers directly. However, the timeline has not been finalised for the same.
- **Capacity utilisation:** The management has revised its volume target on a consolidated basis to 21,000tn for FY16, away from the expected 22,500tn. 9MFY16 volume was ~4,000tn (1,000tn in 3QFY16) in Vietnam while it was 11,200tn (3,600tn in 3QFY16) at Indian operations, accounting for 15,200tn on a consolidated basis. CCL expects to utilise 85% capacity in FY17 in Vietnam, accounting for ~8,500tn of volume, while in case of Indian operations it targets a volume of 18,500tn. 1QFY17 is expected to witness the benefits of the entire backlog from FY16. CCL aspires to have a capacity of 50,000tn by 2019-20 (currently 35,000tn on a consolidated basis). CCL doesn't have any stated dividend payment policy and maintained that the payout ratio will continue at 30% in future.
- Strauss (owner of Elite brand), Israel, is one of the oldest companies and an instant coffee producer. Strauss is at the top followed by Nestle in Israel. The company, which is a client of CCL, has a capacity of 3,000tn which was on the outskirts of an Israeli city earlier. However, with the ongoing developments in Israel, its plant is located now in the midst of central Israel. As such, following the increase in complaints from local people (as coffee processing is noisy), the company is in the process of shutting down its plant and CCL will get that business.
- CCL does not have to pay tax in Vietnam for the initial four years, while for the next four years it will have to pay tax at the rate of 50% of local tax. Thus, CCL enjoys nil tax till FY18 and has to pay 8% tax (50% of 16% likely Vietnam corporate tax rate) till nine years (FY27) on its current 10,000tn capacity. If CCL decides to set up brownfield 10,000tn capacity in Vietnam, it will enjoy the same 100% exemption benefits, starting from the date of commencement of newly expanded capacity.
- Far East (22%), European region (22%) ,Russia and Ukraine (< 20%), are key markets for CCL. Demand for freeze dried coffee is very high in European region. The price of coffee depends on how the new crop fares up. If the crop is bad, then the price will increase because of less supply.

Exhibit 1: Healthy capacity addition



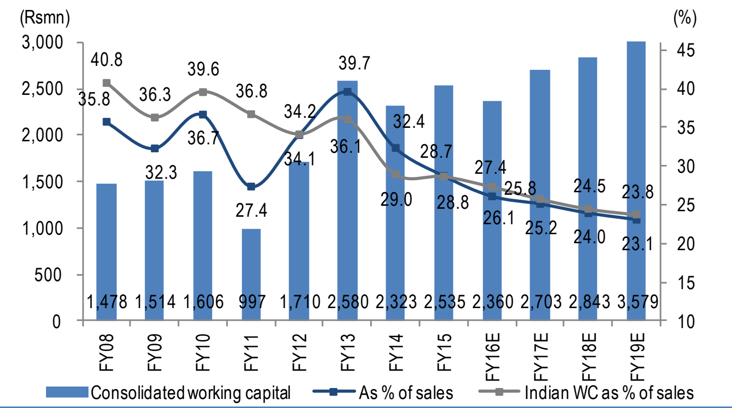
Source: Nirmal Bang Institutional Equities Research

Exhibit 2: Healthy improvement in RoCE



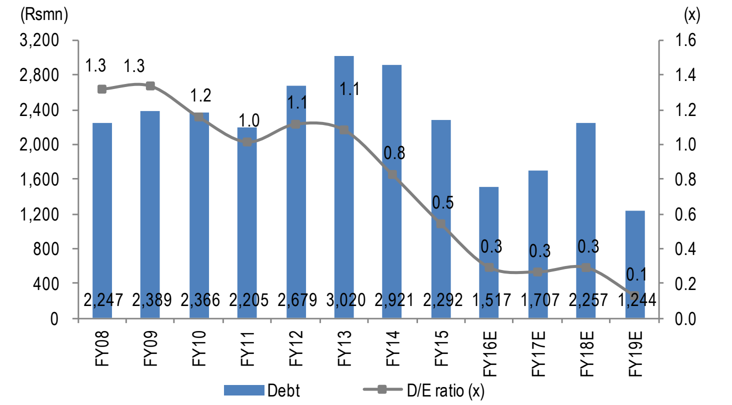
Source: Nirmal Bang Institutional Equities Research

Exhibit 3: Improvement in working capital cycle



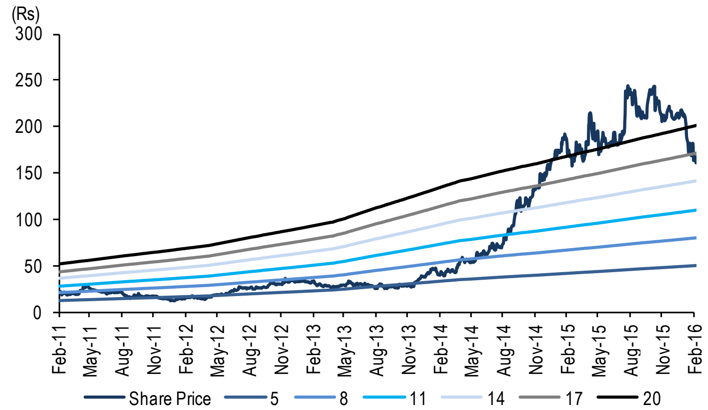
Source: Nirmal Bang Institutional Equities Research

Exhibit 4: Falling D/E ratio



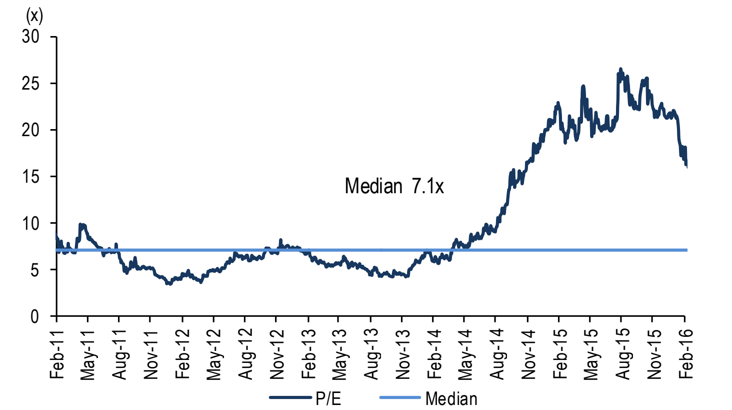
Source: Nirmal Bang Institutional Equities Research

Exhibit 5: One-year forward P/E band



Source: Nirmal Bang Institutional Equities Research

Exhibit 6: P/E median band



Source: Nirmal Bang Institutional Equities Research

Exhibit 7: Change in our estimates

Y/E March	Old estimates			New estimates			*Change (%)*		
(Rsmn)	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	*FY16E*	*FY17E*	FY18E
Sales	8,870	10,899	12,788	9,030	10,747	11,868	*1.8*	*(1.4)*	*(7.2)*
EBITDA	1,899	2,275	2,727	1,937	2,316	2,529	*2.0*	*1.8*	*(7.3)*
EBITDA (%)	*19.4*	*20.9*	*21.3*	*21.5*	*21.5*	*21.3*	*201bps*	*68bps*	*(2)*
APAT	1,123	1,452	1,851	1,159	1,435	1,530	*3.2*	*(1.2)*	*(17.3)*

Source: Company, Nirmal Bang Institutional Equities Research

Financials (consolidated)

Exhibit 8: Income statement

Y/E March (Rsmn)	FY14	FY15	FY16E	FY17E	FY18E	FY19E
Net sales	7,168	8,806	9,030	10,747	11,868	15,485
Growth (%)	*10.2*	*22.8*	*2.5*	*19.0*	*10.4*	*30.5*
Raw material costs	4,251	5,440	5,256	6,174	6,825	9,009
Staff costs	258	279	320	392	436	556
Power costs	383	416	481	601	682	902
Other expenses	845	958	1,036	1,265	1,396	1,825
Total expenditure	5,737	7,093	7,093	8,431	9,339	12,292
EBITDA	1,431	1,712	1,937	2,316	2,529	3,194
Growth (%)	*18.0*	*19.6*	*13.1*	*19.6*	*9.2*	*26.3*
EBITDA margin (%)	*20.0*	*19.4*	*21.5*	*21.5*	*21.3*	*20.6*
Other income	26	30	29	49	50	70
Interest costs	171	136	107	90	107	99
Depreciation	291	268	280	337	428	456
Profit before tax	996	1,338	1,578	1,938	2,044	2,709
Growth (%)	*34.8*	*34.4*	*18.0*	*22.8*	*5.5*	*32.5*
Tax	351	398	420	503	514	640
Effective tax rate (%)	*35.3*	*29.8*	*26.6*	*26.0*	*25.1*	*23.6*
Net profit	644	940	1,159	1,435	1,530	2,069
Growth (%)	*35.8*	*45.8*	*23.3*	*23.8*	*6.7*	*35.2*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Cash flow

Y/E March (Rsmn)	FY14	FY15	FY16E	FY17E	FY18E	FY19E
EBIT	1,140	1,444	1,657	1,979	2,101	2,738
(Inc.)/dec. in working capital	258	(213)	175	(343)	(140)	(736)
Cash flow from operations	**1,398**	**1,231**	**1,832**	**1,637**	**1,960**	**2,002**
Other income	26	30	29	49	50	70
Depreciation	291	268	280	337	428	456
Deferred liabilities	4	10	18	23	23	27
Interest paid (-)	(171)	(136)	(107)	(90)	(107)	(99)
Tax paid (-)	(351)	(398)	(420)	(503)	(514)	(640)
Dividend paid (-)	(187)	(187)	(186)	(202)	(202)	(211)
Net cash from operations	**1,011**	**818**	**1,445**	**1,250**	**1,639**	**1,604**
Capital expenditure (-)	(947)	(202)	(698)	(1,526)	(2,221)	(344)
Net cash after capex	**64**	**616**	**748**	**(276)**	**(582)**	**1,261**
Inc./(dec.) in short-term borrowings	(201)	(183)	(575)	(330)	550	(1,033)
Inc./(dec.) in long-term borrowings	101	(445)	(200)	520	-	20
Inc./(dec.) in total borrowings	(100)	(629)	(775)	190	550	(1,013)
(Inc.)/dec. in investments	(1)	1	-	-	-	-
Equity issue/(buyback)	-	-	-	-	-	-
Cash from financial activities	**(100)**	**(628)**	**(775)**	**190**	**550**	**(1,013)**
Others	287	(65)	(0)	-	(0)	(0)
Opening cash balance	93	343	266	239	153	121
Closing cash balance	343	266	239	153	121	369
Change in cash balance	250	(77)	(27)	(86)	(32)	248

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Balance sheet

Y/E March (Rsmn)	FY14	FY15	FY16E	FY17E	FY18E	FY19E
Equity	266	266	266	266	266	266
Reserves	3,262	3,950	4,922	6,155	7,484	9,342
Net worth	3,528	4,216	5,188	6,421	7,750	9,608
Short-term loans	1,572	1,388	813	483	1,033	-
Long-term loans	1,349	904	704	1,224	1,224	1,244
Total loans	2,921	2,292	1,517	1,707	2,257	1,244
Deferred tax liability	233	243	261	284	306	334
Liabilities	**6,682**	**6,751**	**6,966**	**8,412**	**10,313**	**11,185**
Gross block	5,252	5,307	6,491	8,009	10,215	10,556
Depreciation	1,640	1,907	2,187	2,524	2,952	3,408
Net block	3,611	3,400	4,304	5,485	7,262	7,148
Capital work-in-progress	389	534	48	56	71	74
Long-term Investments	16	15	15	15	15	15
Inventories	1,379	1,735	1,624	1,826	1,925	2,472
Debtors	1,068	1,132	1,077	1,279	1,410	1,827
Cash	343	266	239	153	121	369
Other current assets	444	534	479	537	543	627
Total current assets	3,234	3,668	3,420	3,795	3,999	5,295
Creditors	205	445	420	489	539	702
Other current liabilities	363	421	400	449	495	644
Total current liabilities	568	866	820	939	1,034	1,347
Net current assets	2,666	2,802	2,600	2,856	2,965	3,949
Total assets	**6,682**	**6,751**	**6,966**	**8,412**	**10,313**	**11,185**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

Y/E March	FY14	FY15	FY16E	FY17E	FY18E	FY19E
Per share (Rs)						
EPS	4.8	7.1	8.7	10.8	11.5	15.6
Book value	27	32	39	48	58	72
Valuation (x)						
P/E	35.5	24.3	19.7	15.9	14.9	11.1
P/sales	3.2	2.6	2.5	2.1	1.9	1.5
P/BV	6.5	5.4	4.4	3.6	3.0	2.4
EV/EBITDA	17.8	14.5	12.5	10.5	9.9	7.4
EV/sales	3.5	2.8	2.7	2.3	2.1	1.5
Return ratios (%)						
RoIC	12.0	15.9	18.5	19.6	17.1	19.9
RoCE (Post-tax)	12.3	16.0	18.7	20.2	17.8	20.6
RoCE (Pre-tax)	19.0	22.8	25.5	27.4	23.7	26.9
RoE	20.4	24.3	24.6	24.7	21.6	23.8
Margins (%)						
Gross margin (%)	40.7	38.2	41.8	42.5	42.5	41.8
EBITDA margin	20.0	19.4	21.5	21.5	21.3	20.6
PBIT margin	15.9	16.4	18.3	18.4	17.7	17.7
PBT margin	13.9	15.2	17.5	18.0	17.2	17.5
PAT margin	9.0	10.7	12.8	13.4	12.9	13.4
Turnover ratios						
Asset turnover ratio (x)	1.1	1.3	1.3	1.3	1.2	1.4
Avg. inventory period (days)	117	115	111	106	102	99
Avg. collection period (days)	54	46	43	43	43	42
Avg. payment period (days)	17	29	29	29	28	28
Solvency ratios (x)						
Debt-equity	0.8	0.5	0.3	0.3	0.3	0.1
Interest coverage	6.7	10.6	15.4	21.9	19.6	27.6
Debt/EBITDA	2.0	1.3	0.8	0.7	0.9	0.4
Growth (%)						
Sales	10.2	22.8	2.5	19.0	10.4	30.5
EBITDA	18.0	19.6	13.1	19.6	9.2	26.3
PAT	35.8	45.8	23.3	23.8	6.7	35.2

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
13 October 2015	UR	241	-
16 October 2015	Buy	224	272
4 February 2016	Buy	180	250
17 February 2016	Buy	167	250
2 March 2016	Buy	172	219

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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