

United Spirits

P&A under pressure, cost focus continues

UNSP revenue contraction of 11% yoy (15% dip excluding onetime bulk scotch sale) was higher than expected. Lockdown impacted the last 10-12days of March along with dry-up in social occasions prior to national lockdown. Pressure on P&A was higher than Popular segment, taking away the premiumisation trend. P&A saw a val/vol decline of 16/20% yoy while Popular was down by 11/7%. Aggressive cost control (Employee/A&P/other expenses down by 35/33/18% yoy) expanded reported EBITDA margin by 101 bps to 13.6%. As normalcy returns, co will be able to capitalise on channel filling as trade inventory is low. Home delivery and premium liquor in malls can be structural changes for the industry. Ease in buying can be a key driver for adding consumer base along with higher share of premium segment. We cut EPS estimate by 19/13% to factor-in (1) Consistent extension of lockdown, (2) Sharp tax increase by states, (3) Impact of loss of bulk scotch sales, (4) Downtrading possibility and (5) Weak consumer sentiments. However, we increase the P/E multiple to 40x (earlier 35x) owing to (1) Tax overhang being in the past, (2) Efficiently managed working capital (NWC days reduced to 60days vs 80days in FY19), (3) Collections in April/May were healthy. At 40x P/E on Mar-22E EPS, we derive a TP of Rs 586. Maintain ADD.

- Weak P&A show:** Net revenue declined by 11% yoy vs expectation of 3% dip (+4% in 4QFY19, +3% in 3QFY20). P&A val/vol decline was 16/20% yoy (+8/+7% in 4QFY19 and 8/3% in 3QFY20) vs expectation of -2/-5%. Popular segment val/vol decline was 11/7% yoy vs exp of 4/5% dip. UNSP's BIO portfolio was hit harder than its BII portfolio indicating a halt in the premiumisation trend. In FY20, UNSP posted P&A val/vol growth of +0.4/-2% yoy. Popular val/vol growth was -4/-3% yoy. Total vol achieved in FY20 was at 80mn cases out of which P&A/Popular vol was at 41/39mn cases.
- Tight cost control:** GM declined by 433bps yoy (-345 in 4QFY19, -421bps in 3QFY20) vs. expectation of -125bps. Lower P&A, high bulk scotch revenue and RM pressure impacted GM. Employee/A&P/Other expenses declined by sharp 35/33/18%. EBITDAM increased by 101bps to 13.6% vs exp of 13%. EBITDA declined by 4% yoy (+4% in 4QFY19 and +18% 3QFY20) vs. est of flat EBITDA. Excluding one-time bulk scotch sale, LFL EBITDA declined by 16% and LFL EBITDA margin was at 13.2%. Interest costs dipped by 21% YoY led by debt reduction. However, sharp increase in taxes due to a one-time tax charge resulted into 83% yoy dip in reported PAT. At normalised tax rate, APAT was down by 18% yoy to Rs 1.1bn (HSIE Rs 1.5bn).
- Call & other takeaways:** (1) 2/3rd of retail stores pan India are open, (2) Co is functioning at 60-70% of capacity, (3) ENA prices are expected to remain stable in the near future, (4) Cost control will continue, (5) Net Debt for UNSP has reduced by ~Rs 12bn in FY20.

Financial Summary

YE Mar (Rs mn)	4Q FY20	4Q FY19	YoY (%)	3Q FY20	QoQ (%)	FY19	FY20E	FY21E	FY22E
Net Sales	19,938	22,500	(11.4)	25,825	(22.8)	89,806	90,909	87,652	99,393
EBITDA	2,624	2,836	(7.5)	4,205	(37.6)	13,234	15,081	14,704	17,286
APAT	1,083	1,327	(18.4)	2,588	(58.2)	6,883	7,904	8,009	10,168
Diluted EPS (Rs)	1.5	1.8	(18.4)	3.6	(58.2)	9.5	10.9	11.0	14.0
P/E (x)						62.2	54.1	53.4	42.1
EV / EBITDA (x)						34.2	29.2	29.2	24.4
RoCE (%)						15.0	16.0	19.6	23.5

Source: Company, HSIE Research

ADD

CMP (as on 01 June 2020)	Rs 589
Target Price	Rs 586
NIFTY	9,826

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 586	Rs 586
EPS %	FY21E	FY22E
	-19%	-13%

KEY STOCK DATA

Bloomberg code	UNSP IN
No. of Shares (mn)	727
MCap (Rs bn) / (\$ mn)	428/5,669
6m avg traded value (Rs mn)	1,915
52 Week high / low	Rs 743/443

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(14.1)	(2.8)	6.4
Relative (%)	(1.1)	15.6	22.5

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	56.76	56.76
FIs & Local MFs	5.99	7.46
FPIs	22.43	20.54
Public & Others	14.82	15.24
Pledged Shares	1.37	0.67

Source : BSE

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United Spirits Quarterly Commentary

Particulars	1QFY20	2QFY20	3QFY20	4QFY20
Industry/ Co Strategy	<ul style="list-style-type: none"> - This quarter was impacted by dry days and restricted store opening hours due to elections in addition to the broader slowdown - Maharashtra saw a sharp tax increase. However, due to the competitive nature of the market, it was not possible for anyone to take a full price hike - Prohibition not on the immediate horizon in AP 	<ul style="list-style-type: none"> - Broader consumption slowdown is leading to liquidity challenge with the trade in some states - Good monsoon along with govt measures are expected to improve liquidity and improve consumption - RTM change in AP did not impact the quarter materially - The co does not intend to use pricing as a tool to gain market share. The focus will be on quality 	<ul style="list-style-type: none"> - Demand environment is difficult to read. Diwali was a disappointment but Nov/Dec saw an uptick - Co did not witness any significant pipeline filling - Liquor industry has been witnessing an overall slowdown over the last 3-4 quarters 	<ul style="list-style-type: none"> - Consumption environment witnessed slowdown even before lockdown began - Co took price increases across 18 states in FY20 (price increase was taken after 6 years in Rajasthan). - Approximately 2/3rd of stores pan India have opened - Co is functioning at 60-70% of production capacity - Inventory levels are materially lower than they were when lockdown began
Revenue				
P&A	<ul style="list-style-type: none"> - P&A growth has continued to be strong - Co does not expect any downtrading within P&A as a result of the slowdown. Premiumisation story for the co is fully intact - Sales of scotch held up in Maharashtra despite price increase 	<ul style="list-style-type: none"> - Revenues in P&A remained flat due to the broader slowdown - Temporary supply chain disruption in scotch portfolio also impacted the segment - Liquidity constraints put certain markets under pressure - Shortage of ENA resulted in P&A production not reaching expectations for the co 	<ul style="list-style-type: none"> - P&A posted strong growth despite a high base as co saw a return of the premiumisation trend - Co resolved the supply chain disruption in the scotch portfolio and growth was very strong. Liquidity situation in some key scotch markets also improved 	<ul style="list-style-type: none"> - Co faced challenges in terms of market share in some of the segments due to pricing by competitors. - Duty free sales for BIO are 2x of duty paid. Co expects that some downtrading will be visible, but most consumers will cut volume instead of downtrading.
Regular (Popular) & Country Liquor	<ul style="list-style-type: none"> - Popular delivered decent growth despite the category faltering - Mgt expects category growth to be flattish in the near term 	<ul style="list-style-type: none"> - Popular witnessed a slight decline due to a high base 	<ul style="list-style-type: none"> - Popular saw a decline of 5%, partly due to a conscious strategy by the co to de-prioritize the segment 	<ul style="list-style-type: none"> - Consumers of popular brands are not likely to downtrade to CL. - Some consumers may downtrade from DF BIO to BIL. - Co has gained market share in Karnataka and Maharashtra.
Margin				
Gross Margin	<ul style="list-style-type: none"> - RM inflation and an adverse price mix impacted GM significantly - Co is not sure that GM has bottomed out but contraction is unlikely to be material 	<ul style="list-style-type: none"> - ENA saw significant inflation which impacted the GM, but some respite is expected - Price increase was seen in 17 states over the last 12 months 	<ul style="list-style-type: none"> - ENA inflation offset the improvement in price mix which impacted GM - However, the peak of ENA inflation is expected to be behind and prices are expected to remain stable in the near future 	<ul style="list-style-type: none"> - Co is focusing on reducing COGS through automation. - ENA inflation is still high on a yoy basis. However, prices are expected to remain stable in the near future. - Avg price of ENA in 4QFY20 was at similar levels as Nov/Dec 2019.
EBITDA Margin	<ul style="list-style-type: none"> - Despite GM contraction, EBITDA margins expanded significantly over 1QFY20 - Margin expansion was led by savings in operational costs as well as benefits of marketing investments 	<ul style="list-style-type: none"> - Despite GM contraction, EBITDA margin remained healthy due to one time benefit from the sale of bulk Scotch - Rationalisation of operating costs also helped attain such an EBITDA Margin 	<ul style="list-style-type: none"> - Rise in A&P is because 3Q is the most important qtr for the industry and new launches - Overall cost mgmt helped co improve EBITDAM - Co is continuously working on improving productivity to reduce employee costs as a % of revenue 	<ul style="list-style-type: none"> - Co intends to refocus A&P towards digital platforms to control costs. - Co is also focusing on improving supply chain and logistics efficiency.
Others	<ul style="list-style-type: none"> - The one off sale enabled the co to release Rs 1,000mn of cash into the business and improve WC by paying back debt 	<ul style="list-style-type: none"> - Banking holidays and difficulty in realisation of receivables led to negative WC changes. - Capex for FY20 is expected to be around Rs 2,000mn 	<ul style="list-style-type: none"> - The tax hike in Telangana of Rs 20/nip is expected to impact volumes in the near term but over the medium term co does not expect the impact to be significant 	<ul style="list-style-type: none"> - Lower other income was due to lower property sale income. - Co witnessed an increase in WC which was driven by decrease in liabilities.

GM declined by 433bps YoY (-345 in 4QFY19, -421bps in 3QFY20) vs. expectation of -125bps.

Employee/A&P/Other Exp declined by 35/33/18% owing to cost rationalisation of operating costs and lower marketing reinvestment rate.

Quarterly Financial Snapshot

Year to March (Rsmn)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)	FY20E	FY19	YoY (%)
Net Revenue	19,938	22,500	-11.4%	25,825	-22.8%	90,909	89,806	1.2%
Material Expenses	11,530	12,038	-4.2%	14,366	-19.7%	50,220	45,441	10.5%
Employee Expenses	1,106	1,704	-35.1%	1,266	-12.6%	5,194	6,393	-18.8%
ASP Expenses	1,200	1,799	-33.3%	2,511	-52.2%	7,153	8,587	-16.7%
Other Operating Expenses	3,388	3,876	-12.6%	3,442	-1.6%	13,261	14,635	-9.4%
EBITDA	2,714	2,836	-4.3%	4,240	-36.0%	15,081	13,234	14.0%
Adj EBITDA	2,624	2,836	-7.5%	4,205	-37.6%	14,756	13,234	11.5%
Depreciation	678	401	69.1%	524	29.4%	2,275	1,445	57.4%
EBIT	2,036	2,435	-16.4%	3,716	-45.2%	12,806	11,789	8.6%
Other Income	41	119	-65.5%	176	-76.7%	455	622	-26.8%
Interest Cost	480	605	-20.7%	455	5.5%	1,907	2,200	-13.3%
PBT before exceptional	1,597	1,949	-18.1%	3,437	-53.5%	11,354	10,211	11.2%
Exceptional	13	(65)	na	-	na	(7)	(297)	na
PBT	1,610	1,884	-14.5%	3,437	-53.2%	11,347	9,914	14.5%
Tax	1,371	622	120.4%	849	61.5%	4,300	3,328	29.2%
PAT	239	1,262	-81.1%	2,588	-90.8%	7,047	6,586	7.0%
Adjustment	844	65	na	-	na	857	297	na
APAT	1,083	1,327	-18.4%	2,588	-58.2%	7,904	6,883	14.8%
EPS (Adjusted)	1.5	1.8	-18.4%	3.6	-58.2%	10.9	9.5	14.8%

Source: Company, HSIE Research

Quarterly Performance Analysis

Margin (% of sales)	4QFY20	4QFY19	YoY (bps)	3QFY20	QoQ (%)	FY20E	FY19	YoY (bps)
Material Expenses	57.8%	53.5%	433	55.6%	220	55.2%	50.6%	464
Employee Expenses	5.5%	7.6%	(203)	4.9%	64	5.7%	7.1%	(141)
ASP Expenses	6.0%	8.0%	(198)	9.7%	(370)	7.9%	9.6%	(169)
Other Operating Expenses	17.0%	17.2%	(23)	13.3%	366	14.6%	16.3%	(171)
EBITDA	13.6%	12.6%	101	16.4%	(281)	16.6%	14.7%	185
Adj EBITDA	13.2%	12.6%	56	16.3%	(312)	16.2%	14.7%	150
APAT Margin	1.2%	5.6%	(441)	10.0%	(882)	7.8%	7.3%	42

Source: Company, HSIE Research

Reported EBITDAM increased by 101bps to 13.6% vs exp of 13%.

Revenue Analysis

Particulars (Rs mn)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Prestige & Above	15,060	16,510	14,430	14,230	15,020	17,880	12,180
Popular	7,110	7,760	7,650	6,430	7,010	7,370	6,780
Net Revenue	22,170	24,270	22,080	20,660	22,030	25,250	18,960
Other operating revenue	79	699	420	1,524	932	570	980
Total	22,249	24,969	22,500	22,184	22,962	25,820	19,940

Revenue Mix (%)

Prestige & Above	67.9%	68.0%	65.4%	68.9%	68.2%	70.8%	64.2%
Popular	32.1%	32.0%	34.6%	31.1%	31.8%	29.2%	35.8%
Total	100%	100%	100%	100%	100%	100%	100%

Revenue Growth (YoY %)

Prestige & Above	19.1	15.5	7.7	8.7	(0.3)	8.3	(15.6)
Popular	8.1	(2.8)	(1.7)	2.2	(1.4)	(5.0)	(11.4)
Other operating revenue	(73.0)	92.6	(24.6)	115.3	1,079.7	(18.5)	133.3
Total	14.0	10.3	3.5	10.4	(0.6)	4.0	(14.1)

Source: Company, HSIE Research

Volume & Realisation Analysis

Particulars (Rs mn)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Prestige & Above	10.5	11.1	10.5	10.3	10.8	11.4	8.4
Popular	9.9	10.8	10.6	9.0	9.8	10.1	9.9
Total	20.4	21.9	21.1	19.3	20.6	21.5	18.3

Volume Mix (%)

Prestige & Above	51.5%	50.7%	49.8%	53.4%	52.4%	53.0%	45.9%
Popular	48.5%	49.3%	50.2%	46.6%	47.6%	47.0%	54.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Volume Growth (%)

Prestige & Above	15.4	12.1	7.1	8.4	2.9	2.7	(20.0)
Popular	5.3	(3.6)	(4.5)	3.4	(1.0)	(6.5)	(6.6)
Total	10.3	3.8	1.0	6.0	1.0	(1.8)	(13.3)

Unit Realization/Case (Rs)

Prestige & Above	1,434	1,487	1,374	1,382	1,391	1,568	1,450
Popular	718	719	722	714	715	730	685
Total	1,087	1,108	1,046	1,070	1,069	1,174	1,036

Gross Profit/Case (Rs)

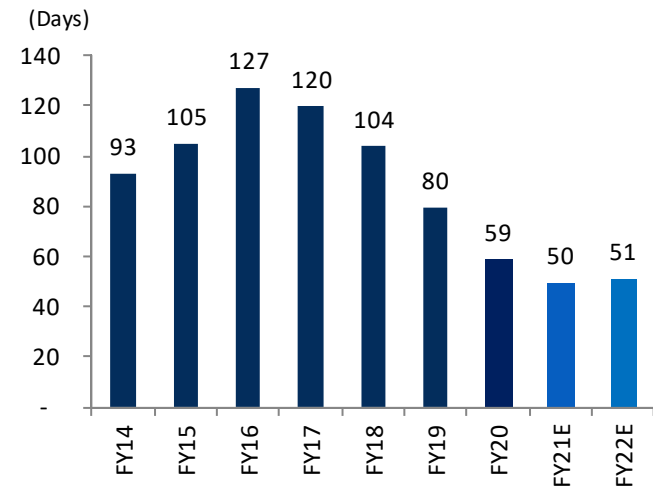
Gross Profit/Case (Rs)	561	554	496	544	501	533	459
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EBITDA/Case (Rs)

EBITDA/Case (Rs)	217	164	134	206	202	197	148
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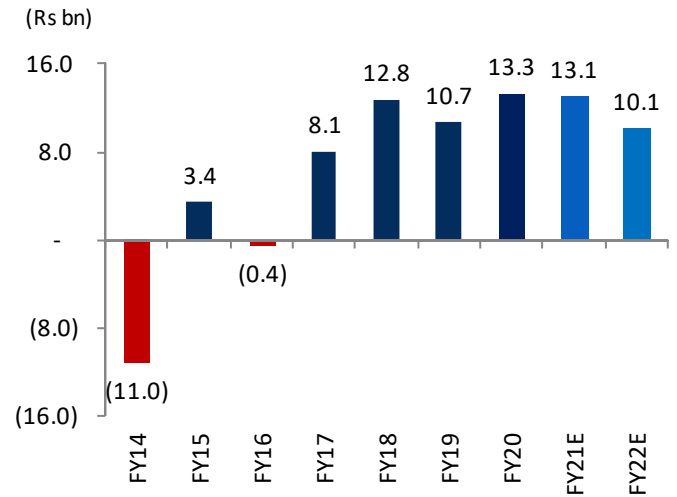
Source: Company, HSIE Research

Cash Conversion Cycle



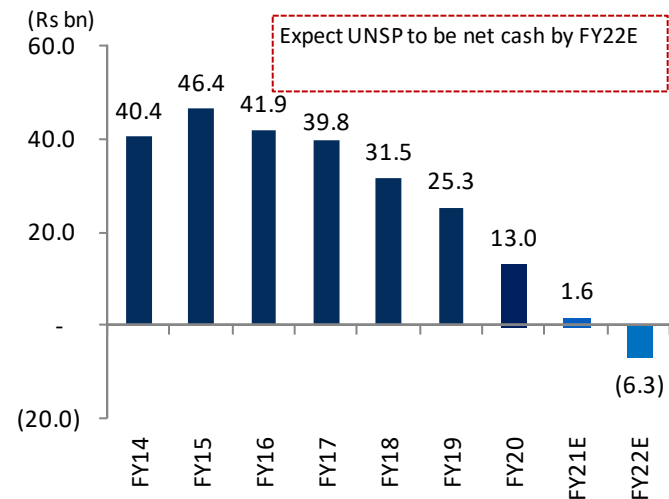
Source: Company, HSIE Research

FCF Generation



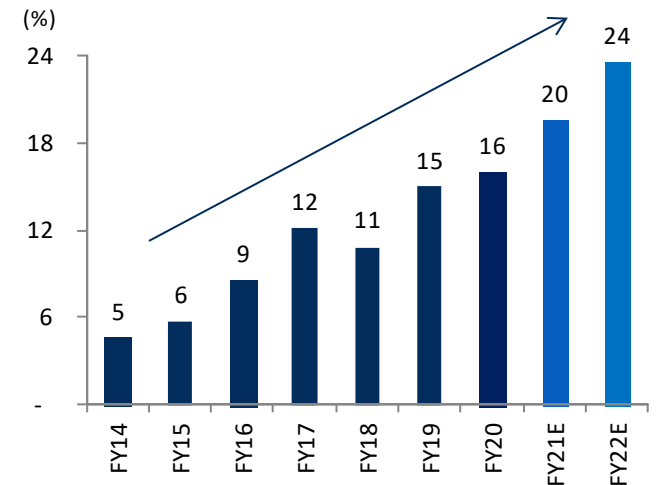
Source: Company, HSIE Research

Net Debt



Source: Company, HSIE Research

RoIC



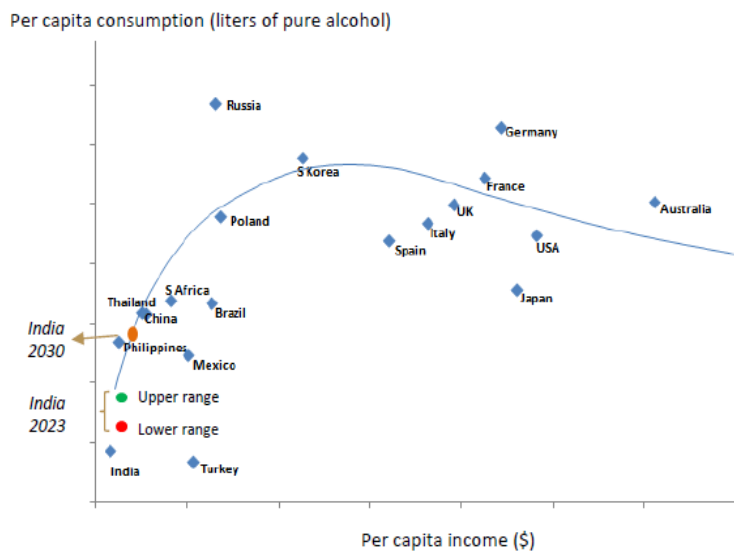
Source: Company, HSIE Research

Global Alcohol Market

Countries	Alcohol Volume (9mn ltr. cases)				(% of Global Volume)		
	2018	2020	2023	CAGR	2018	2020	2023
India	662	755	941	7.3%	2.4%	2.7%	3.3%
Mexico	1,021	1,118	1,283	4.7%	3.7%	4.0%	4.5%
Vietnam	469	475	542	2.9%	1.7%	1.7%	1.9%
Philippines	304	335	399	5.6%	1.1%	1.2%	1.4%
Nigeria	221	252	257	3.0%	0.8%	0.9%	0.9%
Poland	469	475	513	1.8%	1.7%	1.7%	1.8%
Ethiopia	110	112	114	0.6%	0.4%	0.4%	0.4%
Myanmar	55	56	86	9.1%	0.2%	0.2%	0.3%
Sri Lanka	28	28	29	0.6%	0.1%	0.1%	0.1%
Turkey	138	112	114	-3.7%	0.5%	0.4%	0.4%
Total Leading Markets	3,478	3,718	4,275	4.2%	12.6%	13.5%	15.1%
Global Total	27,600	27,957	28,500	0.6%	100%	100%	100%

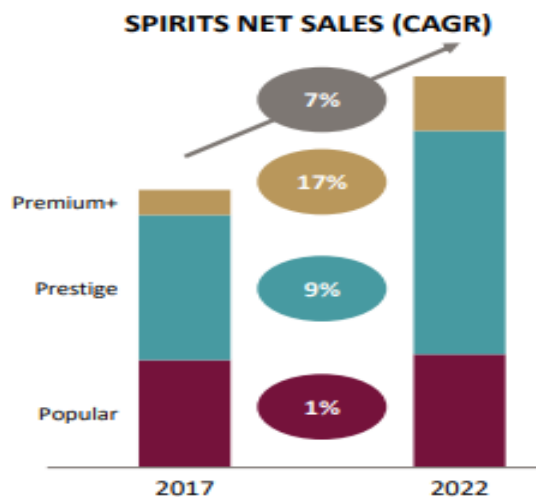
Source: IWSR, Company, HSIE Research

Alcohol Consumption vs. Per Capita Income



Source: David Turtle Model, Company, HSIE Research

Premiumization in spirits in India: Premium is growing ~2x of Prestige



Source: IWSR, Company, HSIE Research

Assumptions

Particulars (Rs mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Revenues (Rs mn)							
- P&A	45,037	49,960	51,280	59,090	59,310	57,705	65,845
- Popular	36,848	34,330	28,830	28,810	27,590	27,058	30,514
Total	81,885	84,290	80,110	87,900	86,900	84,763	96,359
Revenues Mix (%)							
- P&A	55	59	64	67	68	68	68
- Popular	45	41	36	33	32	32	32
Total	100	100	100	100	100	100	100
Underlying Rev Growth (%)							
- P&A		14.0	4.0	15.0	0.4	(2.7)	14.1
- Popular		(2.0)	(4.0)	1.0	(4.2)	(1.9)	12.8
Total		8.0	1.0	10.0	(1.1)	(2.5)	13.7
Volumes (Mn Cases)							
- P&A	34	37	37	42	41	40	44
- Popular	59	53	41	40	39	38	43
Total	93	90	79	82	80	78	87
Volume mix (%)							
- P&A	37	41	47	51	51	51	51
- Popular	63	59	53	49	49	49	49
Total	100	100	100	100	100	100	100
Underlying Vol Growth (%)							
- P&A		7.6	3.0	12.0	(1.7)	(3.1)	12.2
- Popular		(3.0)	(7.0)	(1.0)	(3.0)	(1.8)	11.6
Total		1.0	(2.0)	5.0	(2.3)	(2.5)	11.9
Unit Realisation/Case (Rs)							
- P&A	1,317	1,358	1,378	1,420	1,450	1,456	1,481
- Popular	626	644	698	720	711	710	718
Average (Rs)	880	936	1,021	1,077	1,090	1,091	1,108
Gross Margin	41.2	43.2	48.6	49.4	44.8	43.6	44.1
Employee Expenses	7.79	7.77	8.08	7.12	5.71	5.43	5.18
ASP Expenses	7.4	7.8	9.6	9.6	7.9	7.5	7.8
Other Expenses	15.2	15.8	16.5	16.3	14.6	14.0	13.8
EBITDA Margin	10.7	11.8	12.5	14.7	16.6	16.8	17.4
NPM	3.0	5.2	6.8	7.7	8.7	9.1	10.2
Gross Profit/Case (Rs)	365	412	506	544	511	492	504
EBITDA/Case (Rs)	95	113	130	162	189	189	199

Change in Estimates

	NEW		OLD		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Sales	87,652	99,393	96,556	1,04,055	(9.2)	(4.5)
EBITDA	14,704	17,286	16,359	18,368	(10.1)	(5.9)
APAT	8,009	10,168	9,937	11,698	(19.4)	(13.1)
EPS	11	14	14	16	(19.4)	(13.1)

Valuation Snapshot

Mar-22E EPS	14.0
Target Multiple (x)	40
Target Price (Rs) (A)	563
Non-core assets (Rs) (B)	11
RCB (Rs) (C)	11
Pioneer Distillery (Rs) (D)	1
Target Price (Rs) (A+B+C)	586

Valuation of other businesses

RCB (Rs mn)		Non-core assets		Pioneer Distilleries	
EBITDA	1,250	UNSP treasury shares (17.3mn @ Rs 600)	10,187	O/s shares (Mn)	13.4
Net Debt*	-	Flats/factories etc (Rs Mn)	6,000	CMP (Rs)	120
Interest	-	Non core assets value (Rs Mn)	16,187	Mcap (Rs Mn)	1,607
PBT	1,250	(-) discount owing to legal disputes and timing uncertainty	50%	UNSP holding (%)	75%
PAT	813	Non core assets value (Rs Mn)	8,093	Implied value for UNSP (Rs Mn)	1,205
Tgt Multiple (x)	20	UNSP O/s shares (Mn)	727	(-) Holdco discount	50%
RCB Value	16,250	Value per share (Rs)	11	Value considered for UNSP (Rs Mn)	803
(-) Hold Co discount	50%			UNSP O/s shares (Mn)	727
RCB Value	8,125			Value per share (Rs)	1
UNSP O/s shares (Mn)	727				
Value per share (Rs)	11				

Peer Set Comparison

Company	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	EPS (Rs)			P/E (x)			EV/EBITDA (x)			Core RoCE (%)		
					FY20E/ CY19P	FY21E/ CY20E	FY22E/ CY21E	FY20E/ CY19P	FY21E/ CY20E	FY22E/ CY21E	FY20E/ CY19P	FY21E/ CY20E	FY22E/ CY21E	FY20E/ CY19P	FY21E/ CY20E	FY22E/ CY21E
HUL	4,564	2,109	REDUCE	1,969	31.7	37.1	41.9	66.5	56.8	50.4	45.6	39.1	34.8	230.7	46.5	28.8
ITC	2,458	201	BUY	221	12.5	11.9	13.0	16.0	16.8	15.4	11.1	11.0	9.8	44.5	43.4	48.0
Nestle	1,655	17,169	REDUCE	14,042	206.0	237.6	278.2	83.4	72.2	61.7	55.5	49.8	43.5	75.0	70.7	69.1
Dabur	826	469	REDUCE	404	8.6	9.0	10.1	54.4	51.9	46.4	45.2	42.6	37.7	44.6	40.6	44.5
Britannia	821	3,418	REDUCE	2,711	56.4	61.9	71.4	60.6	55.2	47.9	44.2	39.9	35.0	41.1	43.4	47.2
GCPL	650	636	REDUCE	529	14.4	15.7	17.6	44.1	40.4	36.1	31.2	30.6	27.9	19.0	18.9	21.4
Marico	438	339	REDUCE	283	8.0	8.4	9.4	42.3	40.2	35.9	29.8	28.4	26.1	41.8	43.2	46.5
United Spirits	428	589	ADD	586	10.9	11.0	14.0	54.1	53.4	42.1	29.2	29.2	24.4	16.0	19.6	23.5
Colgate	375	1,379	ADD	1,328	30.0	31.2	35.0	46.0	44.2	39.4	30.8	28.6	25.6	64.7	63.9	75.2
Jubilant	221	1,672	REDUCE	1,420	26.8	20.7	35.5	62.4	80.7	47.1	37.4	44.3	28.2	28.4	11.5	21.7
Emami	88	194	REDUCE	221	11.7	11.6	13.0	16.6	16.7	14.9	11.8	11.8	10.5	23.2	24.1	29.9
Radico Khaitan	45	338	BUY	363	16.0	18.2	22.7	21.2	18.6	14.9	13.1	11.7	9.7	14.5	12.8	14.7

Source: Company, HSIE Research

Financials

Standalone Income Statement

Year ending March	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
Net Revenues	84,720	82,481	85,936	81,701	89,806	90,909	87,652	99,393
<i>Growth (%)</i>		(2.6)	4.2	(4.9)	9.9	1.2	(3.6)	13.4
Raw Material Expenses	49,178	48,484	48,844	41,980	45,441	50,220	49,413	55,525
Employee Expenses	6,371	6,428	6,674	6,601	6,393	5,194	4,758	5,148
Other Operating Expenses	22,756	18,714	20,259	22,905	24,738	20,414	18,777	21,433
Total Operating Expenses	78,305	73,625	75,778	71,486	76,572	75,828	72,948	82,107
EBITDA	6,415	8,856	10,159	10,215	13,234	15,081	14,704	17,286
<i>EBITDA Margin (%)</i>	<i>7.6</i>	<i>10.7</i>	<i>11.8</i>	<i>12.5</i>	<i>14.7</i>	<i>16.6</i>	<i>16.8</i>	<i>17.4</i>
<i>EBITDA Growth (%)</i>	<i>(13.7)</i>	<i>38.0</i>	<i>14.7</i>	<i>0.6</i>	<i>29.6</i>	<i>14.0</i>	<i>(2.5)</i>	<i>17.6</i>
Depreciation	1,124	1,015	1,324	1,351	1,445	2,275	2,780	2,893
EBIT	5,291	7,841	8,835	8,864	11,789	12,806	11,924	14,392
Other Income (Including EO Items)	1,600	848	1,111	2,060	622	455	485	533
Interest	5,930	4,469	3,690	2,611	2,200	1,907	1,705	1,337
PBT	961	4,220	6,256	8,313	10,211	11,354	10,703	13,588
Tax (Incl Deferred)	283	1,934	1,839	2,786	3,328	4,300	2,694	3,420
RPAT	(18,778)	1,006	1,687	5,617	6,586	7,047	8,009	10,168
EO (Loss) / Profit (Net Of Tax)	(19,456)	(1,280)	(2,730)	90	(297)	857	-	-
Adjusted PAT	678	2,286	4,416	5,527	6,883	7,904	8,009	10,168
<i>APAT Growth (%)</i>		237.2	93.2	25.1	24.5	14.8	1.3	27.0
Adjusted EPS (Rs)	0.9	3.1	6.1	7.6	9.5	10.9	11.0	14.0
<i>EPS Growth (%)</i>		237.2	93.2	25.1	24.5	14.8	1.3	27.0

Source: Company, HSIE Research

Standalone Balance Sheet

Year End (March)	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
SOURCES OF FUNDS								
Share Capital	1,453	1,453	1,453	1,453	1,453	1,453	1,453	1,453
Reserves	14,382	15,687	17,925	23,585	29,862	36,644	44,653	54,821
Total Shareholders Funds	15,835	17,140	19,378	25,038	31,315	38,097	46,106	56,274
Long Term Debt	10,470	7,057	8,569	7,527	7,643	-	-	-
Short Term Debt	38,109	34,941	31,772	25,127	18,246	13,374	8,068	4,879
Total Debt	48,579	41,998	40,341	32,654	25,889	13,374	8,068	4,879
Other Non current liabilities	912	767	422	512	518	(702)	77	85
TOTAL SOURCES OF FUNDS	65,326	59,905	60,141	58,204	57,722	50,769	54,250	61,238
APPLICATION OF FUNDS								
Net Block	11,339	13,211	12,723	11,001	12,453	12,559	11,482	10,366
Investments in subsidiaries	10,632	9,831	3,238	2,775	2,984	2,526	2,400	2,280
Other non-current assets	16,813	7,886	15,161	18,589	22,114	20,666	22,017	23,539
Total Non-current Assets	38,784	30,928	31,122	32,365	37,551	35,751	35,899	36,185
Inventories	16,868	18,999	18,538	18,694	18,767	18,361	18,251	20,423
Debtors	16,510	23,140	29,605	26,998	25,181	22,835	22,017	24,966
Other Current Assets	9,645	8,654	7,861	5,738	4,536	6,278	6,053	6,864
Total Current Assets	43,023	50,793	56,004	51,430	48,484	47,474	46,321	52,253
Creditors	8,716	10,018	11,798	13,935	13,360	11,712	12,728	14,160
Other Current Liabilities	9,953	12,002	16,026	14,271	15,541	21,089	21,673	24,208
Total Current Liabilities	18,669	22,020	27,824	28,206	28,901	32,801	34,401	38,368
Net Current Assets	24,354	28,773	28,180	23,224	19,583	14,673	11,920	13,885
Cash & Equivalents	2,187	138	523	1,198	588	345	6,432	11,168
Assets classified as held for sale	1	66	316	1,417	-	-	-	-
TOTAL APPLICATION OF FUNDS	65,326	59,905	60,141	58,204	57,722	50,769	54,250	61,238

Source: Company, HSIE Research

Standalone Cash Flow

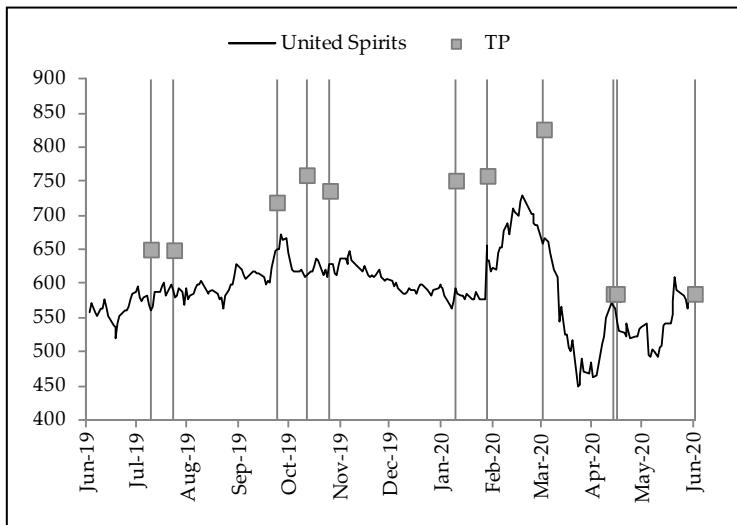
(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
PBT	961	4,220	6,256	8,313	10,211	11,354	10,703	13,588
Non-operating & EO Items	(1,600)	(848)	(1,111)	(2,060)	(622)	(455)	(485)	(533)
Interest	5,930	4,469	3,690	2,611	2,200	1,907	1,705	1,337
Depreciation	1,124	1,015	1,324	1,351	1,445	2,275	2,780	2,893
Working Capital Change	(2,603)	(4,419)	593	4,956	3,641	4,910	2,753	(1,965)
Tax Paid	(283)	(1,934)	(1,839)	(2,786)	(3,328)	(4,300)	(2,694)	(3,420)
OPERATING CASH FLOW (a)	3,529	2,503	8,912	12,385	13,547	15,691	14,763	11,901
Capex	(85)	(2,887)	(836)	371	(2,897)	(2,381)	(1,703)	(1,777)
Free cash flow (FCF)	3,444	(384)	8,077	12,756	10,650	13,310	13,060	10,123
Investments	17,877	9,518	(1,277)	(3,976)	(2,311)	686	(446)	(1,394)
Non-operating Income	(17,856)	(431)	(1,618)	2,150	325	1,312	485	533
INVESTING CASH FLOW (b)	(63)	6,200	(3,731)	(1,455)	(4,883)	(383)	(1,664)	(2,639)
Debt Issuance/(Repaid)	2,004	(6,581)	(1,657)	(7,687)	(6,765)	(12,515)	(5,306)	(3,188)
Interest Expenses	(5,930)	(4,469)	(3,690)	(2,611)	(2,200)	(1,907)	(1,705)	(1,337)
FCFE	(3,989)	(4,851)	(9,078)	(11,753)	(13,848)	(14,805)	(8,676)	(7,164)
Share Capital Issuance	(0)	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-
Others	(3,532)	299	551	43	(309)	(265)	-	0
FINANCING CASH FLOW (c)	(7,458)	(10,751)	(4,796)	(10,255)	(9,274)	(14,687)	(7,012)	(4,526)
NET CASH FLOW (a+b+c)	(3,992)	(2,049)	385	675	(610)	621	6,087	4,736
Closing Cash	2,187	138	523	1,198	588	1,209	7,295	12,032

Key Ratios

Particulars	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
PROFITABILITY (%)								
GPM	42.0	41.2	43.2	48.6	49.4	44.8	43.6	44.1
EBITDA Margin	7.6	10.7	11.8	12.5	14.7	16.6	16.8	17.4
EBIT Margin	6.2	9.5	10.3	10.8	13.1	14.1	13.6	14.5
APAT Margin	0.8	2.8	5.1	6.8	7.7	8.7	9.1	10.2
RoE	2.5	13.9	24.2	24.9	24.4	22.8	19.0	19.9
RoIC (or Core RoCE)	5.7	8.6	12.1	10.8	15.0	16.0	19.6	23.5
RoCE	6.2	7.3	10.9	10.5	15.1	16.5	18.5	21.8
EFFICIENCY								
Tax Rate (%)	29.4	45.8	29.4	33.5	32.6	37.9	25.2	25.2
Fixed Asset Turnover (x)	7.5	6.2	6.8	7.4	7.2	7.2	7.6	9.6
Inventory (days)	72.7	84	79	84	76	74	76	75
Debtors (days)	71.1	102	126	121	102	92	92	92
Other current assets (days)	41.6	38	33	26	18	25	25	25
Payables (days)	37.6	44	50	62	54	47	53	52
Other current liabilities (days)	42.9	53	68	64	63	85	90	89
Cash Conversion Cycle (days)	104.9	127	120	104	80	59	50	51
Net Debt/EBITDA (x)	7.2	4.7	3.9	3.1	1.9	0.9	0.1	(0.4)
Net D/E (x)	2.9	2.4	2.1	1.3	0.8	0.3	0.0	(0.1)
Interest Coverage (x)	1.1	0.6	0.4	0.3	0.2	0.1	0.1	0.1
PER SHARE DATA (Rs)								
EPS	0.9	3.1	6.1	7.6	9.5	10.9	11.0	14.0
CEPS	2.5	4.5	7.9	9.5	11.5	14.0	14.9	18.0
Dividend	-	-	-	-	-	-	-	-
Book Value	21.8	23.6	26.7	34.5	43.1	52.4	63.5	77.5
VALUATION								
P/E (x)	631.1	187.2	96.9	77.4	62.2	54.1	53.4	42.1
P/BV (x)	27.0	25.0	22.1	17.1	13.7	11.2	9.3	7.6
EV/EBITDA (x)	73.9	53.0	46.0	45.0	34.2	29.2	29.2	24.4
EV/Revenues (x)	5.6	5.7	5.4	5.6	5.0	4.9	4.9	4.2
OCF/EV (%)	0.7	0.5	1.9	2.7	3.0	3.6	3.4	2.8
FCF/EV (%)	0.7	(0.1)	1.7	2.8	2.3	3.0	3.0	2.4
FCFE/Mkt Cap (%)	(0.9)	(1.1)	(2.1)	(2.7)	(3.2)	(3.5)	(2.0)	(1.7)
Dividend Yield (%)	-	-	-	-	-	-	-	-

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
9-Jul-19	569	BUY	651
24-Jul-19	589	BUY	650
22-Sep-19	624	BUY	729
11-Oct-19	616	BUY	760
26-Oct-19	627	BUY	737
9-Jan-20	592	BUY	752
29-Jan-20	654	BUY	759
2-Mar-20	687	BUY	827
13-Apr-20	550	ADD	586
14-Apr-20	571	ADD	586
1-Jun-20	589	ADD	586

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

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