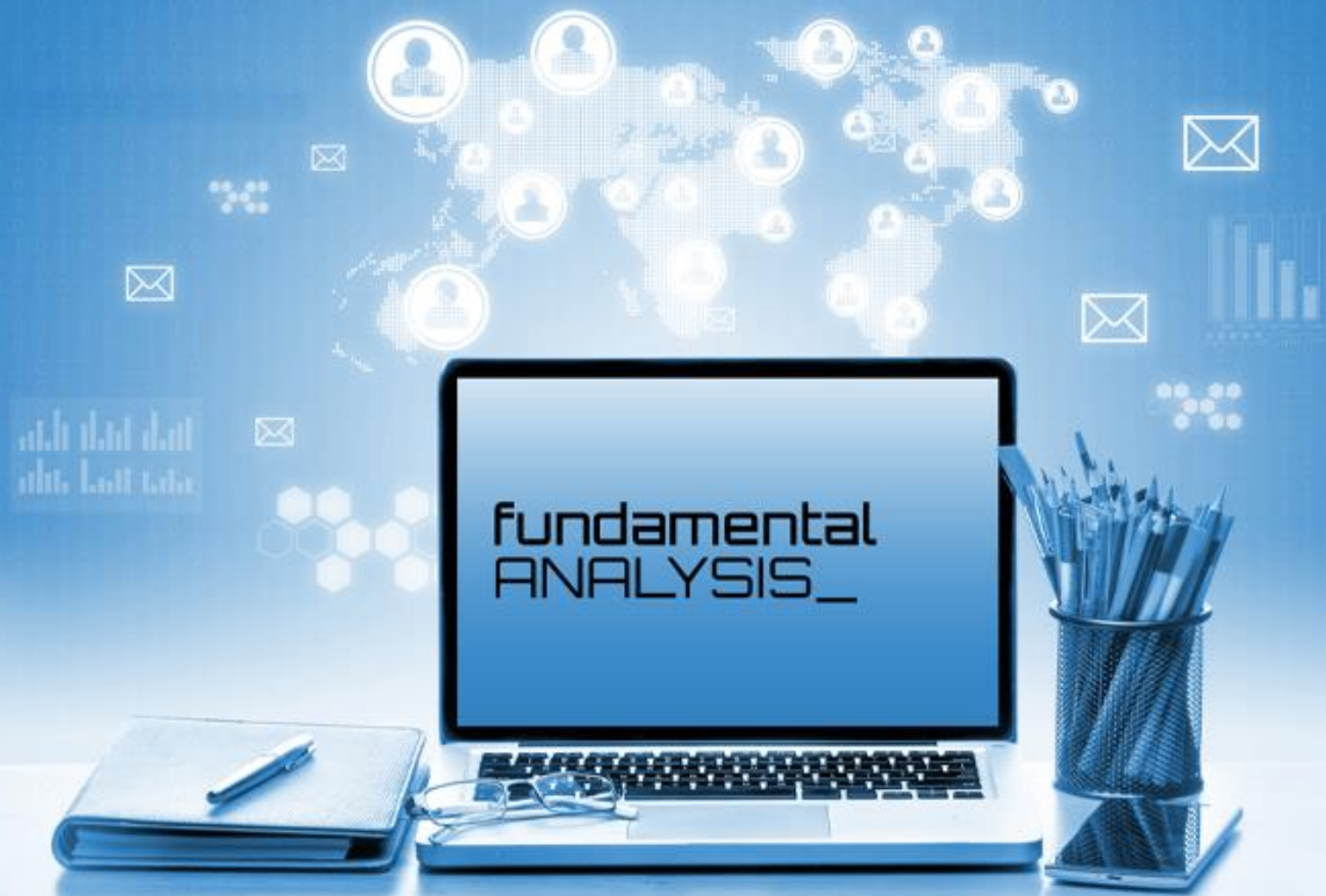


Initiating Coverage Vimta Labs Ltd.

Nov 2, 2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Pharmaceuticals	Rs. 341	Buy at LTP & add more on dips to Rs 302.5	Rs. 386	Rs. 417.5	2 quarters

HDFC Scrip Code	VIMLABEQNR
BSE Code	524394
NSE Code	VIMTALABS
Bloomberg	VL IN
CMP Nov 2, 2021	341
Equity Capital (Rs cr)	4.4
Face Value (Rs)	2
Equity Share O/S (cr)	2.2
Market Cap (Rs cr)	753
Book Value (Rs)	88
Avg. 52 Wk Volumes	732180
52 Week High	367
52 Week Low	129

Share holding Pattern % (Sep, 2021)	
Promoters	37.5
Institutions	30.7
Non Institutions	31.8
Total	100.0



HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

Kushal Rughani

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Our Take:

Vimta Labs is one of the leading contract research and testing company with India's largest laboratory (~4 lakh sq. ft.), equipped with latest technologies and IT infrastructure. It caters to testing requirements of varied industries like Pharma, food, medical devices, consumer goods, agrochemicals etc. Vimta derives ~60% of revenue from Pharma segment, 15-20% from diagnostic segment while ~15% from food segment and the balance from others. It supports regulatory authorities in mandatory certification of food and agricultural products exported from India. Company has done partnership with Govt. of India to set up food laboratory at JNPT, which would drive revenue from FY23. Vimta enjoys a strong quality brand in the country and has a pan India presence offering both routine and specialized clinical diagnostic services. It has a network of 18 laboratories in India, including food testing and clinical diagnostics.

With a highly diverse, multi-disciplinary team of ~1100 people including scientific and technical professionals, the company's expertise and high standards of quality have enabled to partner with global market leaders, as well as small and medium companies across industries. Vimta has food testing laboratories in 8 cities across India, which is the largest network in India. Despite the Covid-19 pandemic which impacted revenues in Q1 FY21, company reported ~17% YoY growth in revenue in FY21. As per the Management, its current capacity can do optimal revenue of around Rs 300-350cr. The company aspires to reach revenue of > Rs 500cr by FY26 which implies around 20% CAGR in revenue over FY21-26E. The year FY22 will be the maiden year for the newly launched EMI/EMC services to IT, defence suppliers, medical devices, telecom, electronics and allied industries. EMI/EMC testing (electromagnetic interference/compatibility) business enjoys high gross margin as consumables cost remains low however when it will reach maturity stage, it would give almost company level EBITDA margin. We believe the segment would drive revenue and profitability from FY23 onwards.

Valuation & Recommendation:

Vimta has its plans in place and foresees good growth opportunities in food and pharma business and electronic & electrical segment in times to come. With orders likely to flow in from the EMI/EMC business, this business would also drive revenue for Vimta. The future growth pillar of the company comprises of i) continued growth momentum in Pharma and Food segment and ii) scale up of its new segment i.e. EMI/EMC testing. Company is one of the largest players in India in its business segments. We estimate revenue/EBITDA/PAT CAGR of 22.5%/32%/47% over FY21-23E. Management guided for > 20% CAGR in revenue in the next 4-5 years. Company expects all the segments to register strong growth in the next 3-4 years. Management has ambitious target of revenue of Rs 550-600cr in FY26. It would need to put up capex to reach the targeted revenue number and it would depend upon which category/division would grow at better rate. Company guided for capex of Rs 25-30cr in FY22 and capex of around Rs 30cr in FY23.



Company expects Food testing business to cross Rs 100cr revenue in the next 2 years. National Food Lab (NFL) would have better margin than average margin.

Veeda clinical is one of the competitors in one of the Vimta's business segment. Veeda Clinical Research Ltd, a comparable Clinical Research Organisation, reported revenue of Rs 196cr, EBITDA of Rs 66.5cr and PAT of Rs.62.9cr in FY21. In Jun-2021, It has raised funds from Private Equity Investors at a Valuation of Rs 989cr. Veeda Clinical Research Pvt. Ltd has filed IPO Prospectus with SEBI to raise Rs 832cr at a significant premium valuation and seeking much higher multiple.

We feel investors can buy the stock at LTP and add on declines at Rs 302.5 (14.5x FY23E EPS) for base case target of Rs 386 (18.5x FY23E EPS) and bull case target of Rs 417.5 (20x FY23E EPS) over the next two quarters.

Financial Summary

Particulars (Rs cr)	Q2 FY22	Q2 FY21	YoY (%)	Q1 FY22	QoQ (%)	FY19	FY20	FY21	FY22E	FY23E
Adj. Revenues	65	59	9.8	61	6.0	213	181	211	262	316
EBITDA	20	16	24.7	17	19.5	58	30	53	74	92
Depreciation	6	6	-5.2	6	0.0	20	21	23	26	30
Other Income	0	0	200.0	0	-40.0	2	3	1	1	2
Interest Cost	0	0	-28.6	0	-37.5	5	4	2	2	2
Tax	3	2	37.5	3	17.9	10	1	7	13	16
APAT	10	8	29.3	8	19.8	25	7	21	35	46
EPS (Rs)						11.4	3.1	9.7	16.0	20.9
RoE (%)						15.6	4.0	11.7	16.9	18.9
P/E (x)						30	111	35.4	21.5	16.4
EV/EBITDA (x)						13.2	25.4	14.3	10.2	8.2

(Source: Company, HDFC sec)

Q2 FY22 result update

Reported revenue grew 27% YoY and 23% QoQ at Rs 75.5cr. Company has included Rs 10.4cr in revenue and the same amount in the expenditure side to factor in Food lab expenses and that's why reported sales growth seems very strong, however adjusted revenue grew 9.6% YoY at Rs 65.1cr.

Adj. EBITDA margin surged 360bps YoY at 30.6%. Better operational performance was led by cost management measures. Net profit increased 29% YoY and 20% QoQ at Rs 9.7cr. It included Rs 1.2cr as exceptional loss for the quarter.



Company is the leader in Pharma Analytical business. In Clinical and Pre-clinical research also the company continues to remain preferred player. Vimta Labs is one of the prominent player in the all verticals except diagnostic segment. Veeda clinical is one of the competitor in one of the Vimta's business segment.

Company has registered robust performance in H1 FY22 and guides to better the performance in the second half of FY22.

In Q1 FY22, Vimta set up regional reference Lab at Kolkata. It would take 2-3 quarters to ramp up. In Q2 FY22, the company has set up diagnostic lab at Delhi.

In Electronics (EMI/EMC) Testing segment, the company has received equipment and accessories now. It has finished infrastructure work and trial testing is going on. NABL accreditation is expected in Q4 FY22. The project is close to completion stage.

National Food Laboratory (NFL) is expected to commercialize from Q4 FY22. Company doesn't intend to open/operate another port lab. Apart from JNPT Lab, there are three existing laboratories at Delhi, Kolkata and Chennai in India.

Management guided for > 20% CAGR in revenue in the next 4-5 years. Company expects all the segments to register strong growth in the next 3-4 years.

Company has set ambitious target of revenue of Rs 550-600cr in FY26. It would need to put up capex to reach the targeted revenue number and it would depend upon which category/division would grow at better rate.

Company expects Food testing business to cross Rs 100cr revenue in the next 2 years. National Food Lab (NFL) would have better margin than average margin.

Company guided for capex of Rs 25-30cr in FY22 and capex of around Rs 30cr in FY23.

Business and its Outlook

Vimta Labs is the contract research and testing organization, providing wide range of services to pharmaceutical, biopharmaceutical, food, consumer goods, electronic, electrical, agrochemical, healthcare, medical device segments.



Pharma Segment

Drug life cycle management, development and discovery support services in the areas of preclinical research, clinical research, central lab and cGMP analytical services for pharmaceutical and biopharmaceutical companies; Pre-clinical research and testing services for medical device companies. Around 60% of the revenues come in from this space. Immense opportunities are witnessed in this segment owing to more molecules being added to address the pandemic situation.

Food & Agriculture Industry

Vimta offers routine as well as specialized testing services for food and agriculture products in order to assist with regulatory compliance, trade and internal quality requirements. It has food testing laboratories in 8 cities across India, which is the largest network in India, and has received all required approvals from quality accreditation and regulatory bodies, except for Delhi Lab for which approval is expected to be received shortly. It has a National Referral Lab for testing of Water, Alcoholic & Non-Alcoholic Beverages. The company foresees huge revenue potential in this regulatory driven business segment. In the food testing business, the testing component has more potential than that in Pharma.

Clinical Diagnostics

Company has a strong brand equity and has a pan India presence offering both routine and specialized diagnostic services. The company is planning to invest and expand their geographic reach by building specialized test capabilities and in turn increase their market share.

Environment Assessment

Vimta has been providing services like Environment Impact Assessment and Environment Testing since three decades and has gained substantial expertise in the same. It is into environmental regulatory services such as impact assessments and post project monitoring, to various industries such as power, infrastructure, cement, oil & gas, mining etc.

Agrochemical Industry

Vimta also provides testing services in agrochemical industry for discovery of chemicals and their product safety testing needs.

EMI/EMC testing business

FY22 will be the maiden year for the newly launched EMI/EMC services to IT, defence suppliers, medical devices, telecom, electronics and allied industries. The launch of these services got delayed by 4 months due to slow down in international logistics with respect to equipment supplies and qualifications, thus services are expected to commence from Q3FY22.

The potential of electrical and electronic business is expected to be around Rs 1,000cr and the company expects that this market will grow in the coming years. Major big players are mostly international testing laboratories in this segment. TUV-Rhineland, Underwriters



Laboratory-UL, STQC Labs and Wipro is also into this business and many local labs also serve in this area. STQC does electronics testing and did revenue of around Rs 300cr. EMI/EMC testing business enjoys high gross margin as consumables cost remains low however when it will reach maturity stage, it would give almost company level EBITDA margin.

Key revenue drivers for the testing and certification laboratories is India's mandatory as well as voluntary product performance testing and labeling standards, and secondly the Government incentives and initiatives such as Make in India, Start-up India, NPE 2019, FAME, etc., along with other enabling policies which are helping global technology firms set up their R&D centers in India.

Proactive government, cost efficiencies, technical competencies, and a low-cost workforce make India a lucrative destination for companies setting up their R&D centers in India. These R&D centers partner with startups to tap into their knowledge, & also save time and cost.

Further, effective April 2020, Ministry of Health and Family Welfare in consultation with Drugs Technical Advisory Board (DTAB) issued notifications that all medical devices must meet certain standards of quality and efficacy, and for mandatory registration of all medical devices, including imported products. This will increase the number of products that will have to be tested and certified before release into the market.

Emtac Laboratories

In Mar-2020, Vimta completed acquisition of EMTAC Laboratories Pvt. Ltd. for Rs. 6cr. It is into electrical/electronic, mechanical, thermal assessments and certifications with primary focus being to adapt to the changing regulatory landscape and on medical devices and changes in regulations related to them. It provides safety/performance testing services for electrical, electronic, and mechanical products and is also a physical security products (bank safes/lockers, ATMs, home use lockers, fire wall doors etc.) certification company.

One of the advantages of the acquisition was that Emtac already had the required accreditations and regulatory approvals from organizations like National Accreditation Board for Testing and Calibration Laboratories, National Accreditation Board for Certification bodies, BIS & TEC.

Existing services offered by the company are testing of 1) Physical Security Products: Safety Deposit boxes, Strong Doors, ATM Safe, etc.; 2) Electricals: Fans table, ceilings, Wall mounted, Pedestal & 3) Electronics: Products like scanners, set top boxes, Mobile phones etc. The subsidiary's laboratory division is accredited to ISO 17025 by National Accreditation Board for Testing and Calibration Laboratories (NABL). It is India's first laboratory to be awarded NABL accreditation for physical security products and also the first Laboratory in



Telangana to be accredited by NABL for safety testing of IT Products (viz., mobile phones, CCTV cameras, laptop components, cash registers, set top boxes, adapters etc.), UPS, LED lights, Electric Fans, Power banks, etc.

To set up Food Laboratory at JNPT

Vimta Labs signed a long-term Public Private Partnership (PPP) agreement with the Food Safety and Standards Authority of India (FSSAI), Government of India, on 29 Jun-2021 to set-up, operate and transfer the National Food Laboratory (NFL) at Jawaharlal Nehru Port Trust (JNPT), Navi Mumbai. The NFL would primarily cater to testing samples of food imports; the laboratory is expected to have the competency and capability for testing the quality and safety parameters in all food products as per Food Safety and Standards Regulations (FSSRs) and will be ISO 17025:2017 accredited by National Accreditation Board for Testing and Calibration Laboratories (NABL). Company will operate and maintain the facilities for 25 years, and the agreement may be extended beyond this period by the FSSAI, as per mutually agreed terms and conditions. The laboratory set-up is expected to be completed by Dec-2021, and it will be operational in Q4FY22. This new business tie-up is expected to further strengthen the company's revenue.

Impact of Covid-19 Pandemic

Company has been impacted by Covid-19 pandemic in the 1st quarter of the financial year 2020-21. Travel plans related to business development plans overseas, continue to be rolled back. Animal imports for preclinical studies were impacted and hence, a focus was created on expanding in-vitro testing capabilities to complement animal & human studies.

What went wrong in FY20

Vimta reported de-growth in revenue and profitability mainly due to temporary slowdown in pharma customers' projects and pricing pressures in H1FY20. Company took necessary steps and measures which led to steady improvement from Q3FY20. Company expected Q4FY20 to do much better, but the unexpected impact of Covid-19 and lockdowns in the overseas countries and the national lockdown in March 2020, impacted both the export and domestic revenue. Export business declined 54% YoY while domestic revenue was down 7% YoY in FY20.

Vimta achieved a double digit growth in previous four years with the exception of FY20 which was mix of challenges due to slow down in pharma related project pipelines and the pandemic situation across the globe. As the company was not able to control other expenses and employee costs (despite lower revenue), overall profitability took a hit in FY20.

Life Sciences Segment

The global Drug discovery and development services market size is projected to reach US\$ 21.4 bn by 2025 from US\$ 11.1 bn in 2020. The drug discovery services market is segmented into small-molecule drugs and biologic drugs where small molecule drugs account for the



largest market share as small-molecule drugs are simple, well-defined, and easy to characterize. Further increase in R&D spending will provide a significant boost to drug discovery and development activities, which would ensure growth of the drug discovery services market in the future.

Global Bio-analytical testing services market size was valued at US\$ 3.3 bn in 2020 and is expected to grow at a CAGR of 8.6% from 2021 to 2028. Drug innovators are under constant pressure to bring new products through the pipeline at a faster rate. Developing advanced analytical testing tools to assess and monitor the quality attributes of these products requires a broader set of equipment and expertise, which is for many companies, beyond the internal capacity. This would subsequently lead to increased instances of outsourcing pharmaceutical analytical testing services.

Global pharmaceutical analytical testing outsourcing market size is expected to reach US\$ 12 bn by 2028 registering a CAGR of 8.3%. Increasing pipelines for biological candidates along with rising demand for additional analytical details on drugs as well as process development by regulatory agencies are boosting the market growth. Increasing spending on preclinical CRO services is expected to boost the market growth significantly in the coming years.

50% of failure of drug candidates in the preclinical phase is due to toxicology testing, which is expected to propel the demand for preclinical CRO services in the coming years.

Apart from this, regulatory changes in Europe and significant change in the process of drug approval by the Food and Drug Administration (US FDA) relating to preclinical CRO services are anticipated to increase the demand for toxicology testing (61.1%), thus contributing to market growth in the Preclinical testing landscape.

Several pharmaceutical & biotechnology companies and academic institutes are opting to outsource numerous core functions like manufacturing, clinical trial management, and portions of drug discovery to CROs. This is mainly because the emergence of new technologies has made it unfeasible for companies to undertake all testing functions in-house. CROs can afford to invest in extensive drug discovery infrastructure as they cater to multiple clients.

Cost savings, commercial sustainability, and optimal staffing are some of the key advantages driving the outsourcing of analytical testing, preclinical studies and clinical trial services for large companies. The large number of R&D activities, conducted to counteract Covid-19 is anticipated to increase the demand for analytical testing services.



All the above trends are good for CROs in terms of opportunities globally. Vimta through its integrated drug development and discovery services is well positioned to take advantage of these trends. European and US markets are mostly untapped for the company and hence creates large opportunities to expand and grow. Hence, Vimta is very focused on business development efforts in overseas markets and has been able to add new customers for large projects. It is a pioneer and is the leader in extractables, leachables, and trace contaminant analysis (elemental impurities, genotoxic impurities etc.). Regulations are constantly revised to upgrade the safety and efficacy information on products, and therefore need for more safety assessments and testing continues to grow.

Clinical diagnostics business

The size of country's pathology testing market is estimated at Rs 50,000-60,000 Cr, out of which approximately 48% is still unorganized & 37% captive with hospital based labs. Organized diagnostic players control ~15% market share. The industry is expected to grow at CAGR of 14-16% over the next 5 years. With more than one lakh labs in the country, the industry is highly fragmented. Currently, only 1% of labs are accredited by National Accreditation Board of Laboratories (NABL) and College of American Pathologists (CAP), which is less than 1 accredited lab per million population.

The diagnostic industry is witnessing a strong growth, even with covid-19 pandemic, primarily driven by testing for this virus and allied tests, change in demographics, increase in lifestyle diseases, higher income levels across all strata of society, rise in preventive testing, deeper penetration with asset-light expansion, and spread of healthcare services & insurance.

The outlook for the diagnostics industry in India is extremely promising, considering growth drivers and also because doctors are increasingly relying on evidence based treatment. The lack of regulatory framework and minimum standard requirements lead to low-entry barriers. However, there are huge opportunities for diagnostic chain players, who have advantage of scientific expertise, brand trust and recall, global quality standards and accreditations, extensive test menu, multiple touch points to service patients, value-added offerings and ability to scale up into newer markets. Much awaited government regulations for the sector will significantly change landscape of the market in favor of organized players.

Vimta enjoys a strong quality brand and has a pan India presence offering both routine and specialized clinical diagnostic services. Company continues to invest in expanding geographic reach and building specialized test capabilities to grow in this growing market. During the year, the company has made a beginning into the B2C market with the opening of three patient service centres. Rapid expansions are planned during FY22 to add one regional reference laboratory each in north & east India, and 5 more patient service centres & 1 branch lab in south India.



Key non-promoter shareholders' stake

Eurofins Analytical Services holds a 19.92% stake in Vimta Labs. It had started to accumulate stake in Vimta from Dec 2009 and gradually build this up to the current levels. Going by the background of Eurofins, the reason for acquisition of the stake could be more than just financial. Eurofins over the past 4-5 years has made a series of acquisitions in India in its related business space including CRO Advinus Therapeutics (2017 – from Tata Group), Spectro Analytical Labs (2017), Gomti Life sciences (2020). This apart it has kept making acquisitions across the globe.

Eurofins Scientific along with its subsidiaries is the world leader in food, environment, pharmaceutical and cosmetic products testing and in agro science CRO services. It is also one of the global independent market leaders in testing and laboratory services for genomics, discovery pharmacology, forensics, advanced material sciences and for supporting clinical studies. In addition, Eurofins is one of the key emerging players in specialty esoteric and molecular clinical diagnostic testing in Europe and the USA. With 55,000 staff across a network of more than 1000 independent companies in over 50 countries and operating 900 laboratories, Eurofins offers a portfolio of over 200,000 analytical methods for evaluating the safety, identity, composition, authenticity, origin and purity of biological substances and products, as well as for innovative clinical diagnostics. Eurofins is listed in the OTC market abroad and has a market cap of US\$ 23.3bn, revenues of US\$ 6.4 bn and PAT of US\$ 0.86 bn.

Vimta over the past few years has entered segments catered to by Eurofins and has been in the process of getting registrations/approvals.

Another key shareholder is LCGC Chromotography Solutions who holds 9.42% stake in the company having first acquired stake in Dec 2011 (4.92%). This company supplies equipment and consumables to companies like Vimta. Its large investment in Vimta shows its confidence in the business prospects of Vimta. Here again the object of holding this stake is not known and one does not know whether this shareholder is acting in concert with any other shareholder.

Rising outsourcing of pharma R&D will provide a large opportunity to companies like Vimta

Mid-sized, emerging bio-tech and small pharmaceutical companies (together constitutes 74% of pharmaceutical R&D spend in 2020) drive outsourcing. Currently, big pharmaceutical companies outsource around 40-45% of their activities to Clinical Research Organisations (CROs), and this number is expected to grow to about 60% by 2028. On the contrary, medium-sized companies outsource up to 65-70% and the emerging biotech startups typically outsource up to 90% of their activities, and few of the smaller companies are aiming for 100% outsourcing as they have fewer internal resources. The increased R&D budget and willingness to spend in the next 5 years is a significant opportunity for CRO companies, as pharmaceutical companies are increasingly outsourcing research activities to academic and private CROs as a strategy to stay competitive and flexible in a world of exponentially growing knowledge, increasingly sophisticated technologies



and an unstable economic environment. This increased outsourcing trend is also driven by other factors like growing regulatory scrutiny, rising commercialization costs and rising patent expirations of blockbuster drugs.

Key Risks

Quality related risks

Poor performance in regulatory audits and accreditation body audits could adversely impact Vimta's business. Maintaining quality and compliance is part of every activity in the organization. However, surprises from poor or inadequate performance by employees could lead to regulatory risks. There are adequate built in controls and checks to mitigate this risk. Nevertheless, these risks cannot be completely ruled out.

Data integrity related risks

As a third party provider of services, the company often gets into various service agreements, with customers including requirements on data confidentiality, data security and IP protection. Given the large scale of human resources involved in organization, and inherent vulnerability of IT solutions deployed, company may be at risk as a result of unintentional violations of customer contracts and agreements, which could further lead to significant legal risks for the business.

Foreign Exchange Risks

As the company derives ~30% of revenue from exports, it remains exposed to fluctuations in foreign currency.

Entry into new business segment

Company has done capex and entered into new segment called EMI/EMC testing. It is to be seen how fast the company can scale up the business.

Company Background

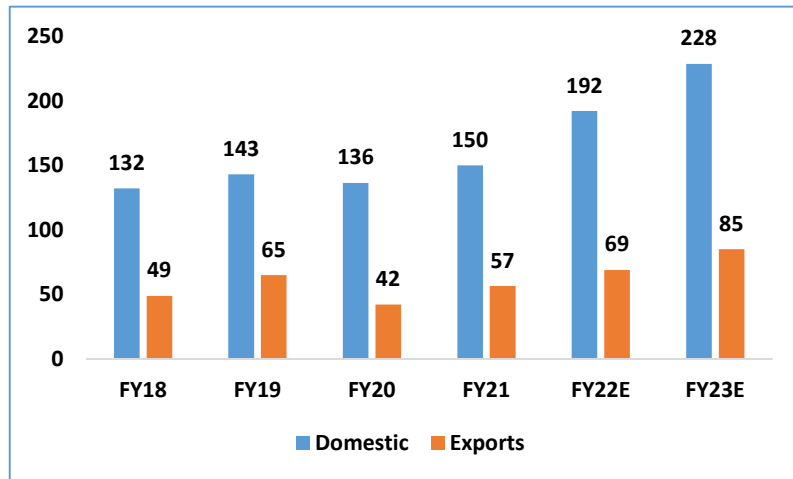
Vimta Labs Ltd, incorporated in November 1990 in Hyderabad, is engaged in the business of testing and contract research in the areas of analytical testing of food and water, drugs, environment testing, clinical research and clinical reference testing (diagnostics), bio pharmaceutical testing and pre-clinical studies, medical device testing and EMI/EMC testing. Company derived ~30% of total revenue from exports FY21. The company is cGMP-compliant and is an established market leader in contract testing and analytical R&D services. The company has been supporting many national and overseas companies for more than three decades, for their third party testing, research and outsourcing needs. Vimta has a network of 18 labs in India, including food testing labs and clinical diagnostics labs. With a highly diverse, multi-disciplinary team of 1100 employees, including scientific and technical professionals, the company's expertise and high standards of quality systems have enabled it to partner with global market leaders, as well as small, medium and virtual companies,



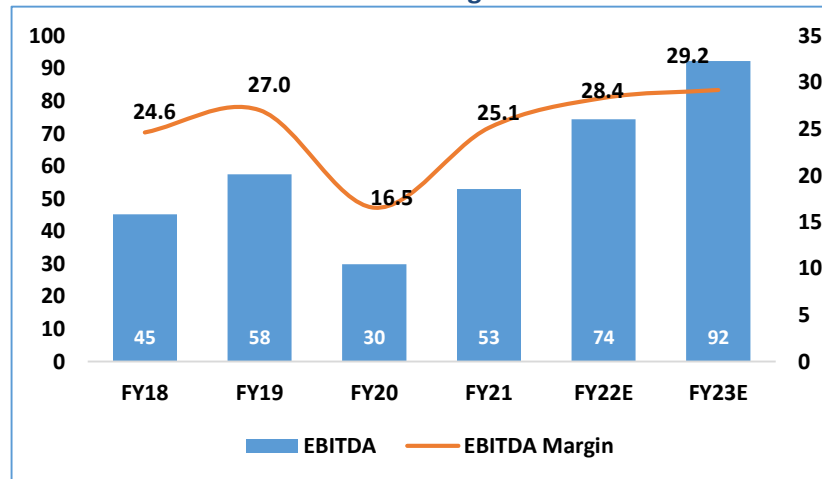
across industries. Company is promoted by Dr S. P. Vasireddi (founder, non-executive chairman), and Mr. V. Harriman (co-founder, executive director – operations). Ms. Harita Vasireddi is the managing director.

Vimta Labs started its operations with minerals and ores testing, then started environmental testing, then went into drugs and into research side, clinical research, preclinical research, food testing but then the company put extra thrust behind it about 3-4 years ago and now it is into venturing into electronics and electrical side. Medical device is a key area of focus for the company, it already does testing for medical devices, pre-clinical division caters to medical devices as well, so it will be just expanding testing around this area.

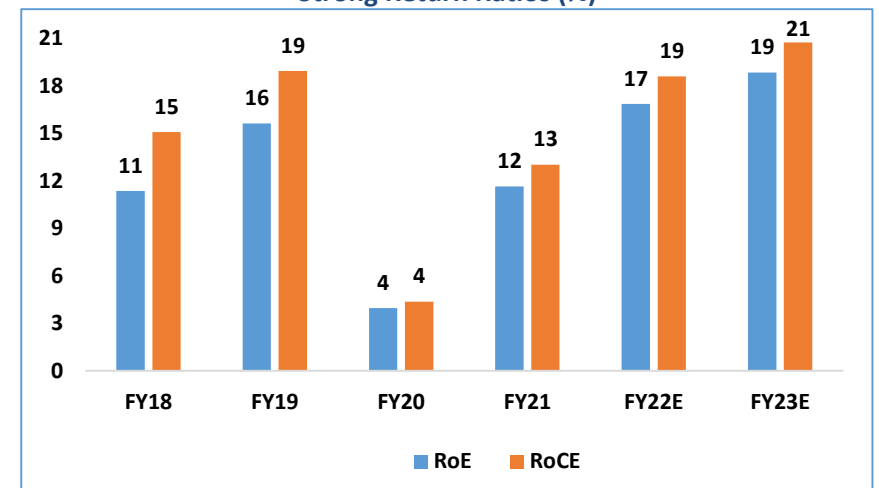
Revenue Mix



EBITDA and Margin Trend



Strong Return Ratios (%)



(Source: Company, HDFC sec)



Financials

Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Total Revenue	213	181	211	262	316
Growth (%)	17.6	-15	16.6	24.5	20.5
Operating Expenses	155	151	158	188	224
EBITDA	58	30	53	74	92
Growth (%)	27.2	-48	77.2	40.4	24.1
EBITDA Margin (%)	27	16.5	25.1	28.4	29.2
Depreciation	20	21	23	26	30
EBIT	38	9	30	49	62
Other Income	2	3	1	1	2
Interest expenses	5	4	2	2	1
PBT	31	3	26	45	58
Tax	10	1	7	13	16
RPAT	25	7	21	35	46
Growth (%)	54.3	-73	213.7	64.8	30.5
EPS	11.4	3.1	9.7	16	20.9

Balance Sheet

As at March	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	4.4	4.4	4.4	4.4	4.4
Reserves	167	169	190	220	250
Shareholders' Funds	172	173	194	224	254
Long Term Debt	12	5	14	15	12
Long Term Provisions & Others	10	10	12	14	18
Total Source of Funds	194	188	220	254	294
APPLICATION OF FUNDS					
Net Block (incl CWIP)	139	134	147	145	152
Goodwill	-	6	6	6	6
Long term loans and advances	6	10	11	13	16
Total Non-Current Assets	145	149	163	163	173
Inventories	19	17	15	24	28
Trade Receivables	59	58	73	82	98
Short term Loans & Advances	1	1	2	2	3
Cash & Equivalents	3	7	7	22	33
Other Current Assets	10	13	14	16	20
Total Current Assets	92	96	112	149	182
Short-Term Borrowings	5	18	9	7	5
Trade Payables	11	10	15	17	19
Other Current Liab & Provisions	25	27	27	29	31
Short-Term Provisions	2	2	4	5	5
Total Current Liabilities	43	57	54	57	61
Net Current Assets	49	39	58	91	121
Total Application of Funds	194	188	220	254	294

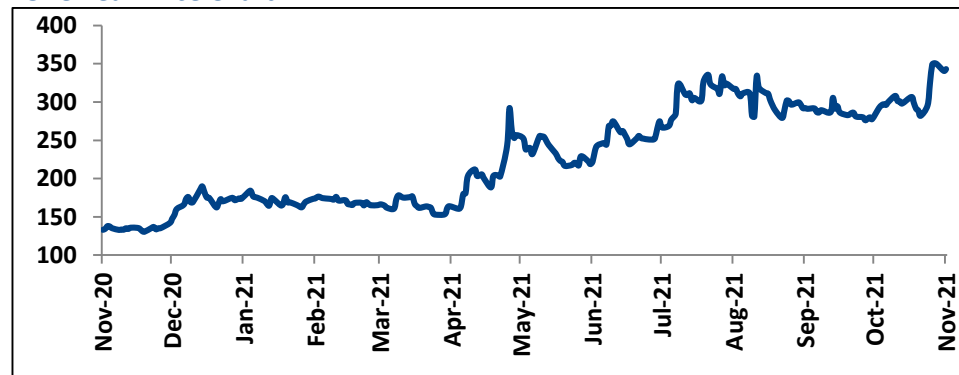
Source: Company, HDFC sec Research



Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Reported PBT	35	8	29	48	62
Non-operating & EO items	-2	-3	-1	-1	-2
Interest Expenses	5	4	2	2	2
Depreciation	20	21	23	26	30
Working Capital Change	-9	1	-9	-16	-22
Tax Paid	-10	-6	-7	-13	-16
OPERATING CASH FLOW (a)	39	25	37	45	49
Capex	-17	-16	-33	-26	-35
Free Cash Flow	14	26	-7	20	19
Investments	-1	-8	1	-2	-3
Non-operating income	2	3	1	1	2
INVESTING CASH FLOW (b)	-16	-21	-32	-27	-36
Debt Issuance / (Repaid)	-13	8	2	4	0
Interest Expenses	-5	-4	-2	-2	-2
FCFE	2	15	1	21	18
Share Capital Issuance	0	0	0	0	0
Dividend	-5	-5	-4	-5	-6
FINANCING CASH FLOW (c)	-23	-1	-5	-4	-7
NET CASH FLOW (a+b+c)	1	3	1	15	11

One Year Price Chart



Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
Gross Margin	72.5	70.2	71	72.5	72.1
EBITDA Margin	27	16.5	25.1	28.4	29.2
EBIT Margin	17.8	5	14.2	18.5	19.6
PAT Margin	11.9	3.8	10.2	13.5	14.6
RoE	15.6	4	11.7	16.9	18.9
RoCE	19	4.4	13	18.6	20.7
Solvency Ratio					
Net Debt/EBITDA (x)	0.2	0.5	0.3	0	-0.1
D/E	0.1	0.1	0.1	0.1	0.1
Net D/E	0.1	0.1	0.1	0	-0.1
PER SHARE DATA					
EPS	11.4	3.1	9.7	16	20.9
CEPS	20.4	12.5	20.1	27.7	29.7
BV	78	78	88	101	120
Dividend	2	0	1.5	2	2.5
Turnover Ratios (days)					
Debtor days	100	117	127	114	113
Inventory days	29	37	28	33	32
Creditors days	42	42	58	53	49
VALUATION					
P/E	30	111	35.4	21.5	16.4
P/BV	4.4	4.4	3.9	3.4	2.9
EV/EBITDA	13.2	25.4	14.3	10.2	8.2
EV / Revenues	3.6	4.3	3.7	2.9	2.4
Dividend Payout	17.5	0	15.5	12.5	12

Source: Company, HDFC sec Research



HDFC Sec Retail Research Rating Description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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