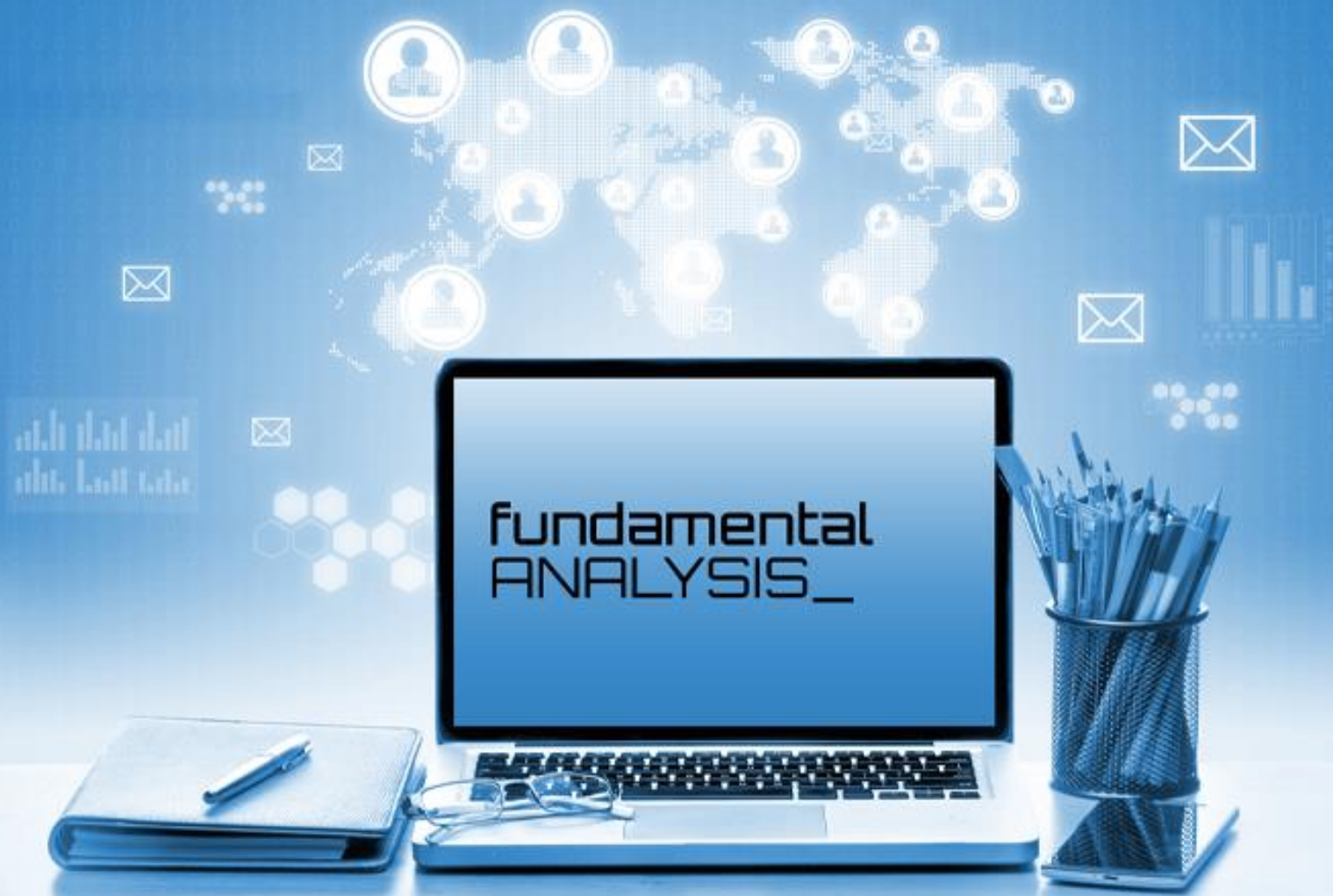


# Stock Note

## Andhra Paper Ltd.

Dec 26, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Paper and Products	Rs 590.85	Buy on dips at Rs 590-597 & add more on dips to Rs 526	Rs 649	Rs 721	2-3 quarters

HDFC Scrip Code	ANDPAPEQNR
BSE Code	502330
NSE Code	ANDHRAPAP
Bloomberg	ANHPR IN
CMP Dec 22, 2023	590.85
Equity Capital (Rs cr)	39.8
Face Value (Rs)	10
Equity Share O/S (cr)	3.98
Market Cap (Rs cr)	2350
Book Value (Rs)	398
Avg. 52 Wk Volumes	234550
52 Week High	675
52 Week Low	378

Share holding Pattern % (Sep, 2023)	
Promoters	72.3
Institutions	5.2
Non Institutions	22.5
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

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### Our Take:

Andhra Paper (APL) is engaged in manufacturing of writing, printing and cut-size papers for foreign and domestic markets and offers a wide range of high-quality specialty grade products for a diverse range of applications. The total installed capacity for the manufacturing of the paper is 248,000 Metric Tonnes Per Annum (MTPA). The company is planning to expand its capacity to 2.7 lakh MTPA by June 2024. Company is one of the largest manufacturers of uncoated free sheet and produces a variety of papers for business and home consumers. In order to connect with the copier customers, APL organizes various customer contact programs viz. Road Shows and Technical Meets in various towns and cities in India, which helped in increasing volumes and market share of copier Pan India.

APL has been operational for over five decades and is one of the leading players in the Indian paper industry. The company's Rajahmundry unit is an integrated wood-based paper mill with a capacity to produce 177,000 MT of finished paper and Kadiyam unit has capacity to produce 71,000 MT per annum of finished paper such as cream woven, azure laid, colored cut-sizes and industrial grade papers. We believe that paper segment is positioned to grow at healthy rate led by i) increased E-Commerce (online) penetration ii) higher packaging demand iii) light weight packaging iv) recyclable v) anti-plastic sentiments across the globe.

### Valuation & Recommendation:

Strong rebound in paper demand led to steady volume growth along with robust realisations in FY23. We expect revenue to grow mildly over FY23-25E as the utilization levels are optimum. Operating margin is expected to remain around 32-34% on steady realization and lower Power & Fuel expenses. Company has net debt free B/S and return ratios are expected to improve over the next two years. We expect the company to register around Rs 1000cr operating cash flows over FY23-25E. Despite low growth expectations, the low valuation of the stock and improving industry dynamics remain a key attraction. As on Sep-2023, the company had Investments of Rs 860cr in Bonds, NCD and MFs while Long term investments (non-current) of Rs 219cr and cash & balances of Rs 44cr.

Industry experts said restocking of paper will begin in view of the festival and other demand. As no expansion or new capacity is coming up in the next 12-15 months and Assembly and Parliament elections are approaching, demand for paper could increase. Recently, media reports suggested that there has been price increase in W&P paper segment from Dec-2023. Corporate action by way of merger between APL and its parent West Coast paper could be another trigger, though its timing is uncertain.



We feel that investors can buy in the band of Rs 590-597 and add more on declines to Rs 526 (3.65x FY25E EPS) for base case target Rs 649 (4.5x FY25E EPS) and bull case target of Rs 721 (5x FY25E EPS) over the next 2-3 quarters.

### Financial Summary

Particulars (Rs cr)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Revenues	482	485	-0.5	478	0.9	1,427	1,270	887	1,380	2,098	2,060	2,272
EBITDA	131	146	-10.0	155	-15.2	379	302	23	221	735	656	773
Depreciation	17	15	9.9	16	5.1	68	76	73	72	63	67	73
Other Income	21	13	61.4	22	-1.4	15	15	15	45	52	77	71
Interest Cost	1	1	16.7	1	7.7	9	5	5	5	7	5	3
Tax	34	29	17.1	41	-16.2	111	23	-2	49	179	167	195
PAT	100	113	-11.6	119	-15.4	200	213	-43	140	522	494	572
EPS (Rs)						50.3	53.5	-10.8	35.2	131.3	124.3	143.8
RoE (%)						30.2	24.5	-4.4	13.5	39.0	27.4	25.0
P/E (x)						11.7	11	-	16.8	4.5	4.7	4.1
EV/EBITDA (x)						6.2	7.8	103	10.6	3.2	3.6	3.0

(Source: Company, HDFC sec)

### H1FY24 and FY23 result update

Revenue for the quarter declined 0.5% YoY at Rs 482cr. EBITDA margin contracted 290bps YoY and 520bps QoQ at 27.2%. Net profit declined 11.5% at Rs 100.3cr. PBT for the quarter was down 5.7% YoY at Rs 134.5cr. Other Income increased 61% YoY at Rs 21.3cr.

For H1FY24, total revenue grew 2.5% YoY at Rs 960cr. EBITDA grew 6% YoY and margin improved by 100bps YoY at 29.8%. Net profit increased 10.8% YoY at Rs 219.4cr on steady operating performance and higher other income.

EPS for the quarter stood at Rs 25.2 and it stood at Rs 55 for H1FY24. Company has cash & current investments of Rs 903cr and non-current investment of Rs 219cr as on Sep-2023.

In FY23, total revenue surged 52% YoY at Rs 2098cr. EBITDA margin surged 1900bps YoY at 35% on strong sales growth led by robust realisations. Net profit jumped 273% YoY at Rs 522cr. Other Income was up 17% YoY at Rs 52cr.

With changing market dynamics during the year wherein supply for a number of products were short in the Industry, the company was able to use its strength in changing product mix across machines to meet the need of the hour as per the customer preferences thereby bringing in swinging capability from Writing & Printing to Industrial application products. This resulted in incremental sales of Cup-stock



(17% YoY), High BF Virgin Kraft (85% YoY), Pharma Print (125% YoY) and Copier (5% YoY). With changing preferences in Customers and Government Regulations, the company took timely initiatives on new product development and launched niche products, Carry Bag and Straw Paper during the year. These products helped meet the requirements of end customer needs resulting in an incremental product basket offering as well.

Softwood Kraft Pulp prices have recovered 20-25% in the last 4-5 months from lows however it is still ~20% lower than its highs.

### **Integrated operations and long-standing presence in the paper business**

Andhra Paper Limited (erstwhile known as International Paper APPM Ltd. and The Andhra Pradesh Paper Mills Ltd.) was incorporated in 1964 at Rajahmundry in Andhra Pradesh for the manufacturing of paper by the L.N. Bangur group. The total installed capacity for the manufacturing of the paper is at 248,000 Metric Tonnes Per Annum (MTPA). APL has been operational for over five decades and is one of the leading players in the Indian paper industry. The company's Rajahmundry unit is an integrated wood-based paper mill with a capacity to produce 177,000 MT of finished paper and 191,000 MT of bleached pulp annually. The unit manufactures uncoated writing and printing paper - mainly cut-sizes, industrial grade papers and posters using Casuarina, Eucalyptus and Subabul as main sources of pulp wood. The Kadiyam unit has capacity to produce 71,000 MT per annum of finished paper such as cream woven, azure laid, colored cut-sizes and industrial grade papers using recycled fibre and purchased pulp as base raw materials. In terms of power consumption for the Rajamundry unit, the company mainly sources power from its captive 34 MW coal-powered steam turbine and balance from the grid. For the Kadayam unit, power is sourced from 5.7 MW coal-fired boiler, from grid and also through DG set. Company achieved coal savings by using bark as a fuel in coal-fired boiler. For the coal requirement, the company has coal linkages in place from Mahanadi Coal Fields and Singareni Collieries Company Ltd. Any significant fluctuations in the coal/fuel prices may have an impact on the operational cost of the company.

### **Recent development**

Prices of writing and printing (W&P) paper have been raised from August-2023, giving a ray of hope to the industry that the rates, which fell 25 percent during June and July, have bottomed out. The prices were being increased by Rs 1,000-3,000 per tonne for various grades, including boards. Paper prices, which had peaked at over Rs 90,000/tonne, had been heading south with Rs 3,000/tonne drop in June followed by another Rs 4,000 in July.

Prices fell since prices of pulp in the global market too dropped to lows of \$450-500/tonne from a high of \$900-950 earlier this year. Pulp prices increased to \$530-550 and further it rose and quotes around \$650, it is another indicator for the sector. Paper prices had shot up after Covid as rates of coal increased by 4-5 times, while gas prices went through the roof since the Ukraine war broke out. Chemical prices too increased by 50-60 percent and as a result pulp prices topped \$900 a tonne.



According to Industry experts, the writing and printing paper market in India is expected to grow at a moderate pace during the current fiscal compared with 2022-23. The demand for writing and printing paper is driven by the education sector, government offices and the printing industry. The new education policy's focus on promoting education, particularly in rural areas, is expected to create a demand for notebooks, textbooks and other writing and printing paper products.

All the hikes in input prices were passed on to the consumer in FY23. Though rising demand helped paper companies to register robust margins in FY23, FY24 could end up with slightly lower margins for all players.

Industry experts said restocking of paper will begin in view of the festival and other demand. As no expansion or new capacity is coming up in the next 12-15 months and Assembly and Parliament elections are approaching, demand for paper will likely increase.

### Products and Offerings

#### Writing & Printing and Copier

Company is one of the largest manufacturers of uncoated free sheet and produces a variety of papers for business and home consumers. Company has signature brands including Truprint Ultra, Sapphire Star, Primavera, Write choice, Sky Tone, Star White and Reflection Copier to name a few, for a wide range of printing and converting applications.

Company creates innovative, sustainable and recyclable products that help customers achieve their objectives. Apart from developing new products, keeping industry dynamics in mind, continuous endeavour is being made to improve the existing products to make products suit customers' requirements.

Company has a wide range of copier products from 65 gsm to 100 gsm. The papers are produced with Elemental Chlorine Free (ECF) Pulp technology. Company's range is perfect for high volume photocopying and high quality color printing needs and engineered to run flawlessly on all types of Photocopiers, Laserjet & Inkjet printers and Multi-functional devices. In order to connect with the copier customers, APL organizes various customer contact programs viz. Road Shows and Technical Meets in various towns and cities in India, which helped in increasing volumes and market share of copier Pan India.

Company has an array of diverse office documentation and multi-purpose papers from economy to premium grades which are suited for both personal and commercial use. The applications are in high volume photo copying, in Laserjet, Inkjet printers & Fax machines and high quality colour printing.



## Speciality

Company also offers specialty grade products that are customised to suit specific and diverse range of applications. Its applications include Wedding cards, Invitations, Poster Printing, Card Covers/Envelopes, Soap Wrapper, Paper Cups, Thermal Paper, Carbonless Paper and Chromo Paper.

APL offers a wide range of superior quality Specialty grade products that are custom engineered to suit specific and diverse range of applications. Company is able to sustain and build on the volumes of cup stock and provides value for customer.

## Experienced promoters with vast experience in the paper industry

The management of APL is well qualified with significant experience in the industry. By virtue of its long presence in the industry, the company has an established and qualified team of professionals at various levels to ably handle the day-to-day operations of the company. West Coast Paper Mills Limited (WCPM) had acquired 72.2% of equity stake in APL for a consideration of Rs.911 crore during FY19. WCPM acquired 55% stake in APL in 2019 from International Paper and another 17.2% through an open offer. West Coast was established in the year 1955 and is the flagship company of the Kolkata-based S K Bangur group. The company is engaged in the manufacturing of writing and printing papers, cup stock paper board, optic fibre cable, etc., and has an installed paper manufacturing capacity of 3.20 lakhs metric tonne per annum at its manufacturing plant located in Dandeli, Karnataka. WCPM is backward integrated with 2.47 lakh metric tonne per annum in-house pulp production capacity and 74-MW of captive power plants.

## Presence in Value-added Products

Company's product mix is moderately diversified, consisting of maplitho, copier, cupstock and speciality paper. The company has been increasing the proportion of value-added niche products in its portfolio for the past two-to-three years, thus diversifying its end-user segments while creating a mix of products with high-growth and stable demand. Copier and maplitho paper account for 20-30% of total volumes, followed by cupstock (around 20%), speciality paper and industrial paper (10-15% each). Speciality paper, which has diverse uses, not only commands higher realisations but also faces lower import threat, while cupstock is a growth segment, aided by the plastic ban in various states and increasing awareness towards the environmental impact of plastic. Maplitho has a stable demand as it caters to the education sector, but the growth potential is limited and the segment faces considerable import threat. Softwood Kraft Pulp prices have recovered 20-25% in the last 4-5 months from lows however it is still 15-20% lower than its highs.

## Group's strong position in the Industry

With a track record of six decades, the group commands a strong market position in most segments. While the paper industry is fragmented, with over 750 paper mills in existence, fewer than 100 mills have a capacity of over 50,000 tpa. Besides, less than 10 companies in the country have a scale and integration comparable to that of APL and WCPM. High capital investment, technical expertise, long gestation periods and raw material procurement issues restrict the number of large players in the industry. The company has an in-



house pulp manufacturing facility and steam-based captive power to meet its power requirement and APL has a farm forestry coverage of around 0.3 million hectares.

### **Volatility in raw material prices and the company's efforts to ensure raw material availability**

Hardwood and wastepaper are the major raw materials used by APL for manufacturing paper. Hardwood is used at the company's Rajamundry unit, while the Kadayam unit mainly uses wastepaper and purchased pulp. APL has implemented a farm-forestry strategy that collaborates with private nurseries and research organisations, develops free saplings in partnership with farmers to sustain 100% consistent supply of company's fibre needs with a long-term vision to bring down radius within 150 km from mills in Andhra Pradesh. The prices of hardwood and wastepaper are generally highly volatile in nature and given that they are not the major raw material source for APL, their prices do not affect the profits materially.

### **Upgradation of its Facilities**

Company plans to rebuild and upgrade of existing Pulp and Recovery facility from 550 TPD to 630 TPD and to improve the reliability and efficiency of the mill with a capital outlay of approximately Rs 450 crore. The existing pulp mill in APL was commissioned during the year 2006 with an installed capacity of 550 TPD (Bleached Pulp Ton Per Day) pulp production. Current pulp production is insufficient to meet the pulp requirement for both the units and partial requirement of the Kadiyam unit is catered through recycled fibre and purchased pulp. Both Rajamundry and Kadiyam units have the potential to enhance the paper production from 2.4 lakh MTPA to 2.7 lakh MTPA to fetch an additional paper volume with a little modification. Availability of pulp is becoming a major constraint in increasing paper production. In order to cater the pulp for future demands for both mills, the company is planning to commission the said plant. Out of the total estimated cost of Rs 450 crore for the pulp mill project, Rs 86 crore to be spent towards improving reliability / repair of the existing equipment in order to sustain to current capacity level and rest of the cost to be spent towards increase in efficiencies and capacity upgrade. With the incremental pulp, APL can overcome the machine downtime because of pulp shortage and subsequently production loss will be avoided. The company is likely to complete the project by Jun-2024. With the aforementioned capex, the capacity is expected to increase from existing of 2.4 lakh MTPA to 2.7 lakh MTPA. Though the company has adequate experience in the paper manufacturing field and has enough liquidity combined with external debt to fund the same, the inherent risks associated with the capex like timely completion with no major cost overruns, and ability to achieve the anticipated capacity remain.

### **Greenfield Expansion**

In Jan-2023, Board gave an in-principle approval to the pre-feasibility report to exploit opportunities in Paper Board Segment through expansion and capacity addition by setting up an integrated Greenfield Project at Unit: Kadiyam, East Godavari District, Andhra Pradesh. It is proposed to install approximately 175,000 Ton per annum Board machine (KA#4) along with ancillary and support infrastructure concerning the project. The existing production capacity is 87,000 TPA. The proposed capacity addition is 2,21,000 TPA (Pulp) and 1,56,000 TPA (Paper Board). In this regard, the company will file necessary applications with the Ministry of Environment & Forest for



Climate Change (MOEF) for Environment Clearance and further approvals concerning the project shall be sought from concerned regulatory authorities including local, state and central authorities as may be necessary for the proposed project. The final approval for the project shall be granted by the Board subject to the Company obtaining the requisite approvals from concerned authorities.

Company has signed a Memorandum of Agreement (MoA) with the Government of Andhra Pradesh (GOAP) on March 4, 2023 to facilitate investment in Andhra Pradesh by setting up an integrated Greenfield Project at Unit Kadiyam, East Godavari District, Andhra Pradesh. This will boost the economic growth of the region. The GOAP will facilitate and extend necessary support for implementation of the proposed project through single window clearances.

### **Paper players to benefit from plastic ban**

The government had notified Plastic Waste Management Amendment Rules, 2021, prohibiting identified single-use plastic items from Jul-2022. We expect that further growth to be driven by these and specialty paper segments induced by plastic substitution as the world replaces single-use plastic with eco-friendly paper-based alternatives. Increasing trend in the e-commerce space will use packaged paper for delivery purposes. Also, due to the ban on usage of plastic bags, companies have started using packaged paper for delivery purposes which could lead to higher demand for packaged paper. Paper cups and paper-based straws are also quickly finding high relevance in the food & beverage industry in comparison to plastic. We believe that paper segment is positioned to grow at healthy rate led by i) increased E-Commerce (online) penetration ii) higher packaging demand iii) light weight packaging iv) recyclable v) anti-plastic sentiments across the globe.

### **Industry Outlook**

Domestic demand of paper and packaging stood at 18-19 million MT, which accounts for ~5% each of the world's paper industry by capacity and consumption. The overall demand is expected to register a healthy two-year CAGR (FY23-25) of 5-7% to ~21.5-22.5 million tonne by FY25, primarily due to paperboard demand. Healthy growth in paperboard volume is predicted to drive demand, with a 7-9% CAGR over the same period. Increased volumes in end-user segments such as household appliances, fast-moving consumer goods (FMCG), pharmaceuticals, e-commerce and others are likely to strengthen consumer demand. W&P demand is projected to rise at a modest 3-5% CAGR from FY23-25, compared to a de-growth of 3-3.5% over FY17 to FY21, on account of steep demand falls caused by the closure of educational institutes and offices because of the pandemic. Specialty paper (primarily tissue and thermal paper) is expected to record a robust 11-12% CAGR in FY23-25E.

Over 50% of the global Writing & Printing (W&P) market is in Asian countries and India is the 2nd largest Asian market with a total consumption of 3.8 million MT, after China with ~15 million MT. The India paper industry segmentation comprises of Writing & Printing (W&P), Cartonboard, Containerboard, Newsprint and Speciality papers. The Writing & Printing segment, in which Andhra Paper operates, accounts for ~22% of the industry capacity. Overall, the industry has grown at around 4.5% over the last 5 years.





Within paperboard, the consumer packaging segment is expected to grow significantly, backed by a rise in demand for FMCG, pharmaceuticals, cosmetics and apparel segments. Higher disposable income and a greater demand for ready-to-eat foods will support overall volumes. Demand from pharmaceuticals will also be aided by increased exports and new drug launches. Growing manufacturing sector, requirement of better quality packaging of FMCG products marketed through organized retail and the demand for the upstream market of paper products, such as tissue paper, tea bags, light weight coated paper and medical grade coated paper are expected to drive growth in the coming years.

The paper industry in India is witnessing one of the fastest growth rates globally. The paper market has surpassed pre-pandemic levels and demonstrated a robust recovery in FY23. Substantial amount has been spent by the paper industry on plantation R&D leading to the development of high-quality tree clonal saplings that are disease free, drought resistant and can withstand various agro-climatic conditions. Technical extension services are being imparted to the farmers over a gestation period of 4-5 years to boost agro and farm forestry output.

The New Education Policy (NEP) is expected to lead to a surge in the requirement for textbooks. Nonetheless, it is predicted that the prices of pulp will experience a substantial decrease in 2023 due to the relaxation of supply restrictions and a decline in freight costs. Regarding the pricing of the domestic paper industry, the prices of Maplitho remained stable throughout the month of April in 2023, while there was a slight marginal increase in the prices of Creamwove.

Demand for W&P in India is dominated by the book segment and generally educational end-use such as text books using Creamwove paper. This differs from western markets where cut size still represents nearly half of W&P consumption. An emerging segment in India is office printing; as the business activity increases this sector is growing. Maplitho and copier are the dominant grade used for office stationery and office printing. The demand for paperboard segment (Carton board and Container board) is driven by consumer durables, FMCG, pharmaceuticals industry and rising penetration of e-commerce. Within paperboard, the consumer packaging segment, is expected to grow at 6-7% CAGR up to FY25, driven by multiple demand levers like FMCG, pharmaceuticals, cosmetics, apparels, ready-to-eat foods. Demand from pharmaceuticals will also be aided by increased exports and new drug launches. Further, the ban on single-use plastics is expected to augur well for the paper industry.

### Company Background

Andhra Paper Limited (APL) was incorporated in 1964 by the L.N. Bangur group as “The Andhra Pradesh Paper Mills Ltd (APPM)” in Andhra Pradesh for manufacturing of paper. During 2011, International Paper Company, through its subsidiary, acquired a controlling stake of 75% in APPM and subsequently in 2014-15, the name of APPM was changed to International Paper APPM Ltd. Thereafter, during 2019, West Coast Paper Mills Limited (WCPM), the flagship company of Kolkata based SK Bangur Group acquired 72.2% stake in International



Paper APPM Ltd. Subsequent to this acquisition, the company’s name was changed to Andhra Paper Mills. APL is engaged in manufacturing of writing, printing and cut-size papers for foreign and domestic markets and offers a wide range of high-quality specialty grade products for a diverse range of applications. The papers are available in best-in class brightness and produced with elemental chlorine free (ECF) pulp technology. The manufacturing facilities of APL comprise two mills located at Rajahmundry and Kadiyam, both in East Godavari district, and a conversion centre at SN Palem in Krishna District, all units are located in Andhra Pradesh. The total installed capacity for the manufacturing of the paper is 248,000 Metric Tonnes Per Annum (MTPA) as on March 2023.

### Key Risks

- Competition from unorganised players: Indian paper industry is highly fragmented with > 750 small to large mills. Any increase in the competitive intensity from unorganized segment, although unlikely, may be risk for the company.
- Scarcity of wood pulp: Availability of wood pulp is a matter of concern not only for Andhra Paper but to the whole industry for past many years, though its availability has improved significantly.
- Unfavorable crude price movement: Power & Fuel constitutes 12% of total raw material cost of the Company. Thus, any unfavorable movement in the prices of crude may impact profitability.
- Volatility in raw material prices: Hardwood and wastepaper are the major raw materials used by APL for manufacturing of paper. Hardwood is used at the company’s Rajamundry unit, while the Kadayam unit mainly uses wastepaper and purchased pulp. Prices of hardwood and wastepaper are highly volatile in nature and in turn affect the profitability of the companies in the paper industry. Long gestation period in capacity addition and lead time in raw material generation, among other factors, make the paper industry inherently cyclical.

### Peer comparison

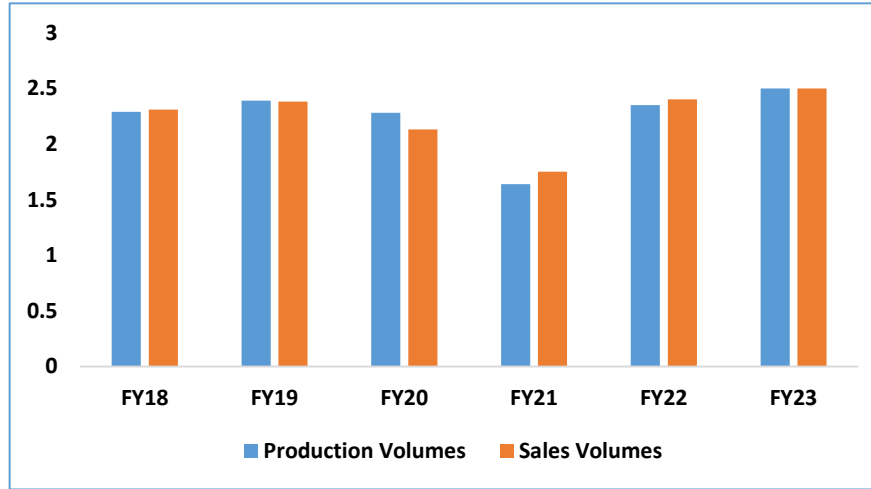
Company	Mcap (Rs cr)	Revenue				EBITDA Margin				PAT				RoE (%)			
		FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
Andhra Paper	2350	1380	2098	2060	2272	16.0	35.0	31.8	34.0	140	522	494	572	13.5	39.0	27.4	25.0
JK Paper	6594	3969	6437	6625	7082	25.1	31.3	26.4	26.7	544	1208	1149	1184	16.2	28.8	22.7	19.5
West Coast Paper	4805	3378	4921	4641	4721	18.9	33.5	30.8	31.2	307	942	861	891	20	44.2	27.5	25.2

Company	EV/EBITDA (x)				P/E			
	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
Andhra Paper	10.6	3.2	3.6	3.0	16.8	4.5	4.7	4.1
JK Paper	8.9	4.0	4.3	3.9	12.1	5.5	5.7	5.6
West Coast Paper	7.8	3.2	3.4	3.2	15.7	5.1	5.6	5.4

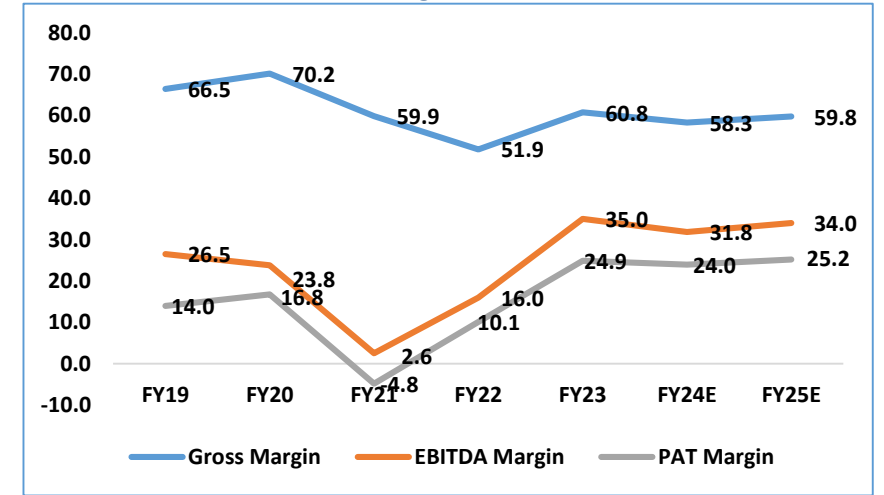
(Source: Company, HDFC sec)



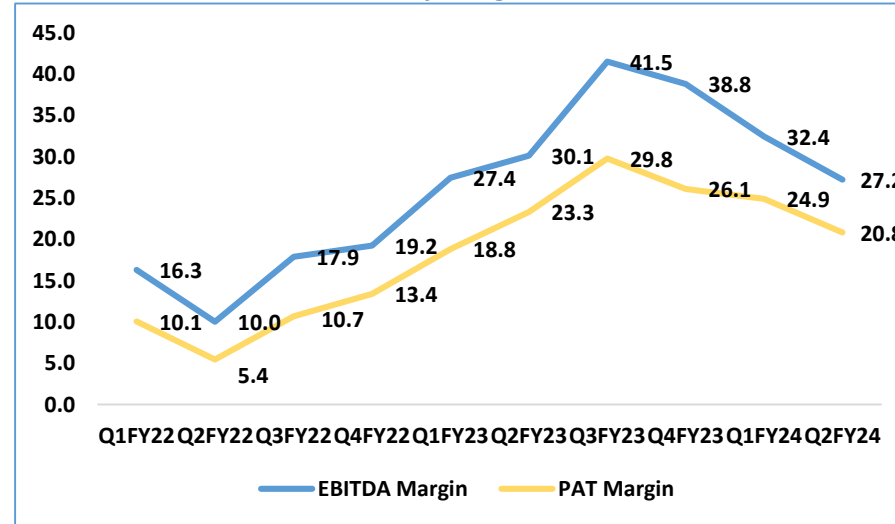
Sales Volume (Lakh MTPA)



Margin Trend



Quarterly Margin Trend



(Source: Company, HDFC sec)



## Financials

### Income Statement

(Rs Cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Revenue	1270	887	1380	2098	2060	2272
Growth (%)	-11.0	-30.2	55.7	52.0	-1.8	10.3
Operating Expenses	968	864	1159	1363	1404	1499
<b>EBITDA</b>	<b>302</b>	<b>23</b>	<b>221</b>	<b>735</b>	<b>656</b>	<b>773</b>
Growth (%)	-20.2	-92.5	873.1	232.6	-10.7	17.9
EBITDA Margin (%)	23.8	2.6	16.0	35.0	31.8	34.0
Depreciation	76	73	72	63	67	73
EBIT	226	-51	149	672	589	700
Other Income	15	15	45	52	77	71
Interest expenses	5	5	5	7	5	3
PBT	236	-44	188	701	662	767
Tax	23	-2	49	179	167	195
<b>RPAT</b>	<b>213</b>	<b>-43</b>	<b>140</b>	<b>522</b>	<b>494</b>	<b>572</b>
Growth (%)	6.2	-120.1	-426.6	273.5	-5.4	15.8
EPS	53.5	-10.8	35.2	131.3	124.3	143.8

### Balance Sheet

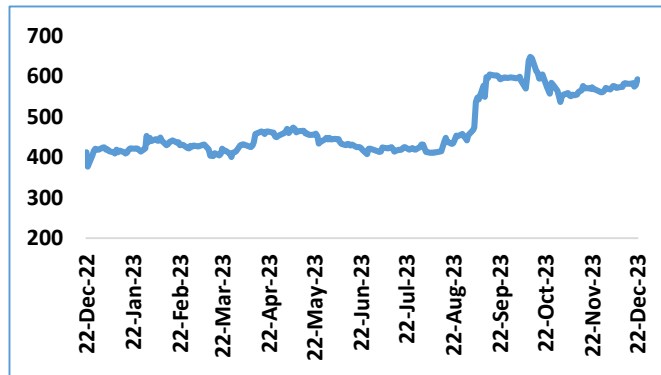
As at March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>SOURCE OF FUNDS</b>						
Share Capital	39.8	39.8	39.8	39.8	39.8	39.8
Reserves	936	935	1054	1542	1988	2502
<b>Shareholders' Funds</b>	<b>976</b>	<b>975</b>	<b>1094</b>	<b>1582</b>	<b>2028</b>	<b>2542</b>
Long Term Debt	8	7	8	5	3	13
Net Deferred Taxes	95	88	81	72	75	80
Long Term Provisions & Others	20	11	11	8	10	15
<b>Total Source of Funds</b>	<b>1098</b>	<b>1082</b>	<b>1194</b>	<b>1667</b>	<b>2116</b>	<b>2650</b>
<b>APPLICATION OF FUNDS</b>						
Net Block (incl. CWIP)	679	624	590	604	662	818
Non-current Investments	18	107	138	175	189	210
Long Term Loans & Advances	50	42	42	75	79	86
<b>Total Non-Current Assets</b>	<b>750</b>	<b>775</b>	<b>772</b>	<b>856</b>	<b>931</b>	<b>1116</b>
Current Investments	27	112	245	712	1050	1354
Inventories	223	164	145	174	214	245
Trade Receivables	41	76	103	148	169	189
Short term Loans & Advances	6	3	105	16	21	25
Cash & Equivalents	171	82	55	47	25	38
Other Current Assets	104	119	74	52	63	84
<b>Total Current Assets</b>	<b>572</b>	<b>558</b>	<b>726</b>	<b>1149</b>	<b>1543</b>	<b>1935</b>
Short-Term Borrowings	0	22	41	42	25	34
Trade Payables	129	130	163	197	223	242
Other Current Liab & Provisions	59	64	64	62	69	78
Short-Term Provisions	35	35	36	37	41	47
<b>Total Current Liabilities</b>	<b>223</b>	<b>251</b>	<b>304</b>	<b>338</b>	<b>358</b>	<b>401</b>
Net Current Assets	348	307	422	811	1185	1534
<b>Total Application of Funds</b>	<b>1098</b>	<b>1082</b>	<b>1194</b>	<b>1667</b>	<b>2116</b>	<b>2650</b>



## Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	236	-44	188	701	662	767
Non-operating & EO items	-15	-15	-45	-52	-77	-71
Interest Expenses	5	5	5	7	5	3
Depreciation	76	73	72	63	67	73
Working Capital Change	-60	47	36	0	-396	-337
Tax Paid	-65	0	-55	-183	-167	-195
<b>OPERATING CASH FLOW ( a )</b>	<b>177</b>	<b>66</b>	<b>202</b>	<b>536</b>	<b>92</b>	<b>242</b>
Capex	-28	-22	-39	-115	-125	-230
Free Cash Flow	149	44	163	421	-33	12
Investments	-154	-107	-187	-435	-17	-28
Non-operating income	15	15	45	52	77	71
<b>INVESTING CASH FLOW ( b )</b>	<b>-168</b>	<b>-113</b>	<b>-181</b>	<b>-498</b>	<b>-65</b>	<b>-188</b>
Debt Issuance / (Repaid)	-7	-8	14	-4	4	19
Interest Expenses	-5	-5	-5	-7	-5	-3
FCFE	136	32	171	410	-33	28
Share Capital	0	0	0	0	0	0
Dividend/Buyback	0	0	-20	-30	-49	-58
<b>FINANCING CASH FLOW ( c )</b>	<b>-12</b>	<b>-13</b>	<b>-12</b>	<b>-42</b>	<b>-49</b>	<b>-42</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>-3</b>	<b>-60</b>	<b>9</b>	<b>-4</b>	<b>-22</b>	<b>12</b>

## One Year Price Chart



## Key Ratios

	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Profitability (%)</b>						
Gross Margin	70.2	59.9	51.9	60.8	58.3	59.8
EBITDA Margin	23.8	2.6	16	35	31.8	34
EBIT Margin	17.8	-5.7	10.8	32	28.6	30.8
PAT Margin	16.8	-4.8	10.1	24.9	24	25.2
RoE	24.5	-4.4	13.5	39	27.4	25
RoCE	20.6	-4.7	12.5	40.3	27.8	26.4
<b>Solvency Ratio (x)</b>						
Net Debt/EBITDA	-0.6	-7.2	-1.1	-1	-1.6	-1.7
D/E	0	0	0	0	0	0
Net D/E	-0.2	-0.2	-0.2	-0.5	-0.5	-0.5
<b>PER SHARE DATA (Rs)</b>						
EPS	53.5	-10.8	35.2	131.3	124.3	143.8
CEPS	72.5	7.7	53.3	147.2	141.2	162.3
BV	245	245	275	398	510	639
Dividend	0	5	7.5	12.5	12	14
<b>Turnover Ratios (days)</b>						
Debtor days	12	31	27	26	30	30
Inventory days	55	80	41	28	38	39
Creditors days	91	89	72	74	81	83
<b>VALUATION (x)</b>						
P/E	11	-54.8	16.8	4.5	4.7	4.1
P/BV	2.4	2.4	2.1	1.5	1.2	0.9
EV/EBITDA	7.8	103.3	10.6	3.2	3.6	3
EV / Revenues	1.8	2.6	1.7	1.1	1.1	1
Dividend Yield (%)	0	0.8	1.3	2.1	2	2.4
Dividend Payout	0	-46.5	21.3	9.5	9.7	9.7

(Source: Company, HDFC sec)



## 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.

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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.

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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.

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