

BSE SENSEX  
49,100

S&P CNX  
14,529

CMP: INR16,098 TP: INR17,500 (+9%)

Neutral



Good Food, Good Life

**Stock Info**

Bloomberg	NEST IN
Equity Shares (m)	96
M.Cap.(INRb)/(USD\$b)	1552.1 / 21.1
52-Week Range (INR)	18821 / 12589
1, 6, 12 Rel. Per (%)	-9/-26/-24
12M Avg Val (INR M)	2601
Free float (%)	37.2

**Financials Snapshot (INR b)**

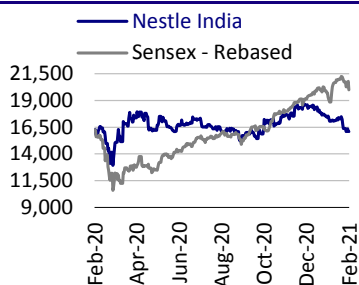
Y/E Dec	2020	2021E	2022E
Net Sales	133.5	150.1	172.8
EBITDA (INR b)	32.2	36.6	42.1
Net Profit	21.0	24.5	28.1
EPS	217.4	253.7	291.8
EPS Gr. (%)	5.2	16.7	15.0
BV/Share (INR)	209.4	226.5	246.5
RoE (%)	106.5	116.4	123.3
RoCE (%)	110.2	120.4	127.1
P/E (x)	74.0	63.5	55.2
P/BV (x)	76.9	71.1	65.3
Payout	92.0	92.6	92.5

**Shareholding pattern (%)**

As On	Dec-20	Sep-20	Dec-19
Promoter	62.8	62.8	62.8
DII	7.8	8.9	9.0
FII	12.8	11.5	12.1
Others	16.7	16.8	16.2

FII Includes depository receipts

**Stock Performance (1-year)**



**Sustained share of new products, increasing rural focus**

Nestlé (NEST) held an analyst call to provide an update on the business.

- Milk & Nutrition and Chocolates & Confectionary continued their healthy growth momentum seen in recent years. Though the 11.4% growth in Prepared Dishes (Maggi) in CY20 was healthy, it was lower than our earlier estimate due to in-home consumption getting a boost during COVID. Performance was likely affected by a slower resumption in manufacturing as Nestlé does not outsource production. Beverage sales were flattish in CY20 due to significant out of home (OOH) component, which is only now normalizing.
- Contribution of newer products to sales remained healthy at 4.3% in CY20, which is creditable because the management’s focus was more on core products amid the pandemic. With 40-50 products under development, the launch pipeline is likely to be strong again going forward.
- The management underlined the increasing opportunity from rural India. From 7,000 villages in CY16, NEST is now present in 89,000 villages. The management is targeting 120,000 villages by CY24. At 25%, share of rural in Nestlé India’s sales is lower than peers.
- The management also provided additional details on the INR26b capex plan to be spread over 3-4 years. Capacity expansion in Maggi Noodles in Sanand will be part of the first phase in CY21, followed by Coffee in Nanjungud and Chocolate investment in Ponda and Tahliwal. Since the expansion will be in phases, it does not expect any significant impact of the capex on operating margin.
- Valuation and view: We maintain our Neutral rating on the stock. While the structural investment case is strong, valuations at 55x CY22E EPS do not offer any material upside potential from a one-year perspective.

**Interesting statements by Mr. Suresh Narayanan, CEO, that have a bearing on the company’s growth prospects:**

- The CEO believes that the ‘Time for Nestlé has come’ given the category opportunity and company initiatives.
- He said, “We can be delayed but cannot be denied” in their quest for taking advantage of this opportunity.
- ‘India is seen as a key opportunity in the Nestlé group.’ We note that this was not always the case in the past.
- ‘Convergence of aspiration across rural and urban is happening much faster than expected.’ This is an encouraging sign for increasing rural growth opportunity, given that it constitutes only 25% of sales.
- ‘Welcome and respect the competition, but do not fear them.’ This indicates the confidence that NEST has developed, given the stellar run in recent years.

**New details on its CY20 result**

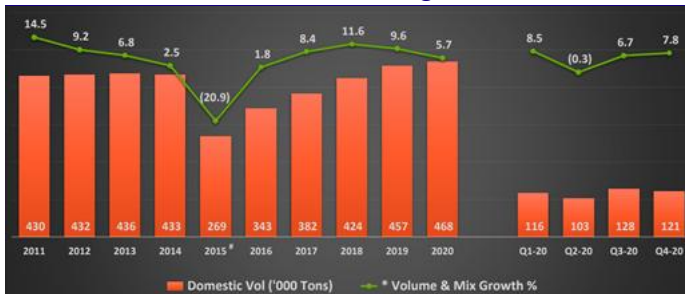
- Volume and mix growth was 5.7% in CY20 on net sales growth of 7.9%.
- Milk and Nutrition and Prepared Dishes led growth in CY20. Milk and Nutrition/Prepared Dishes (Maggi)/Confectionery segment grew 8.9%/11.4%/7%. Growth in Beverages remained flat (0.9% growth) in CY20.
- Milk and Nutrition – the largest segment and constituting ~45% of sales – has seen over 7% growth in three consecutive years v/s less than 5% between CY12 and CY17. This had put considerable pressure on overall growth as this is NEST’s largest segment. Growth in Prepared Dishes, which has been in double-digits or close to double-digits for four years now was lower than our earlier expectation due to boosted in-home consumption during COVID. Lower out of home sales affected Beverages in CY20. The segment has reported flattish sales for two years now. Chocolates and Confectionery sales remained healthy at 7% in CY20 given its urban and discretionary nature. The category has reported healthy growth for three years now. KitKat has been reportedly growing at 20% in recent quarters.
- Nestlé was also affected during the COVID-19 led lockdown period. Volume growth in 1QCY20 stood at 8.5%. It was flat in 2QCY20 but returned to over 8% in 3Q and 4Q.
- OOH channel is gradually returning to normalcy, which is good for growth going forward.

**Exhibit 1: Milk Products, the largest segment, grew 8.9% YoY in CY20; Prepared Dishes registered a healthy growth of 11.4%**



Source: Company, MOFSL

**Exhibit 2: Domestic volumes and mix grew 5.7% YoY in CY20**



Source: Company, MOFSL

**Exhibit 3: Domestic value growth stood at 8.5% YoY in CY20**



Source: Company, MOFSL

### Segmental and strategic comments

- Milk and Nutrition – Three factors are leading to higher growth, according to the management.
  - a) Greater participation of women in the workforce,
  - b) aspiration of good and wholesome nutrition for the child, and
  - c) company's efforts on reach, penetration and innovation.
- Strict compliance on non-advertising of infant nutrition products also results in a barrier to entry.
- The management feels e-commerce will create another channel of growth. It does not view it as a threat, though to some extent it neutralizes their distribution advantage. NEST seeks to have a higher market share in this channel as well.
- A cluster-based strategy has been re-emphasized during the COVID-19 pandemic, aided by digital and analytics capabilities. If not for the pandemic, the company could have done even better.
- In response to a question on whether they were late in responding to the pandemic, the management disagreed as safety and consistency were paramount, and an ecosystem needed to be put in place. Its largely own manufacturing and focus on safety led to lesser flexibility compared to other FMCG and Foods players who use a lot of contract manufacturing.

### Pillars of the growth model

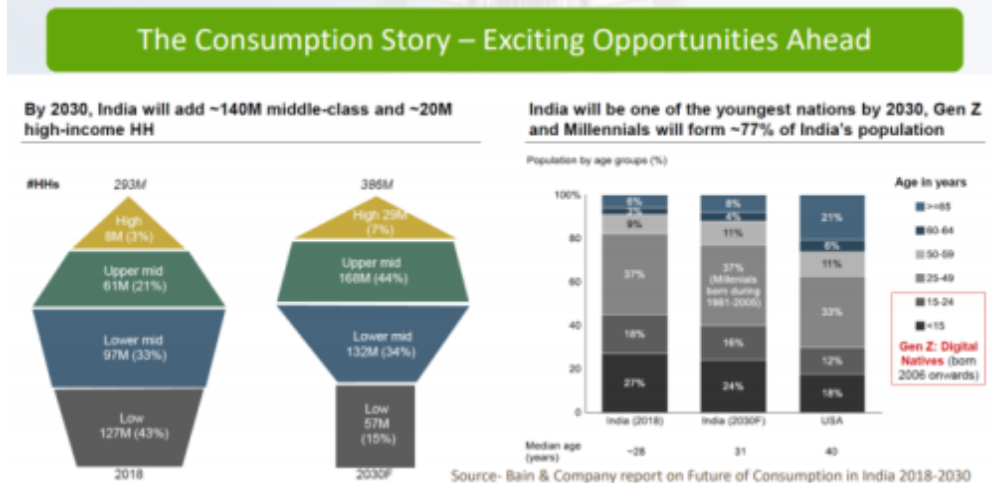
- Strong cost and efficiency management.
- Penetration-led growth.
- Investing and innovating.
- Competitive advantage through R&D expertise.
- Brand salience.

Exhibit 4: NEST's growth model



Source: Company, MOFSL

**Exhibit 5: NEST’s repertoire of ‘young’ brands is set to capitalize on the massive opportunity that India offers**



Source: Company, MOFSL

**Exhibit 6: NEST has a leadership position in eight out of nine categories; maintains a leadership position in 85% of its portfolio**



Source: Company, MOFSL

**New product momentum to resume**

- The high contribution of NPD to sales sustained in CY20. New products constituted 4.3% of sales in CY20 as compared to 4.4%/3.4%/2.7%/1.5% in CY19/CY18/CY17/CY16.
- This was despite the management’s focus being on NEST’s core products during the COVID-19 pandemic, and thus the absence of large scale new launches in CY20 compared to earlier years.
- Around 40-50 innovation products are in the pipeline.
- Innovation priority is first on the current portfolio, including relevant SKUs for various markets. Some rural-centric products will be launched in the next stage and then followed by new categories.

**Exhibit 7: NPDs contributed 4.3% of NEST's CY20 sales**

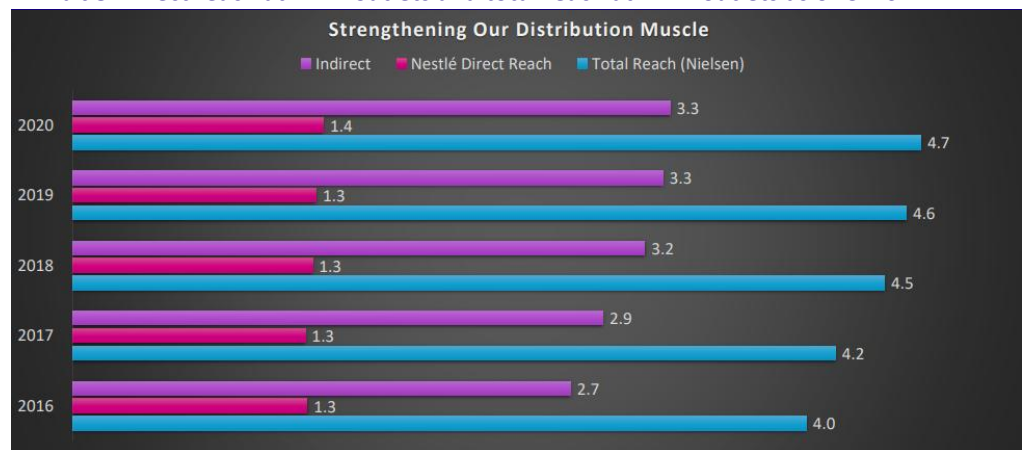


Source: Company, MOFSL

**Distribution being strengthened, reach in villages expanding significantly**

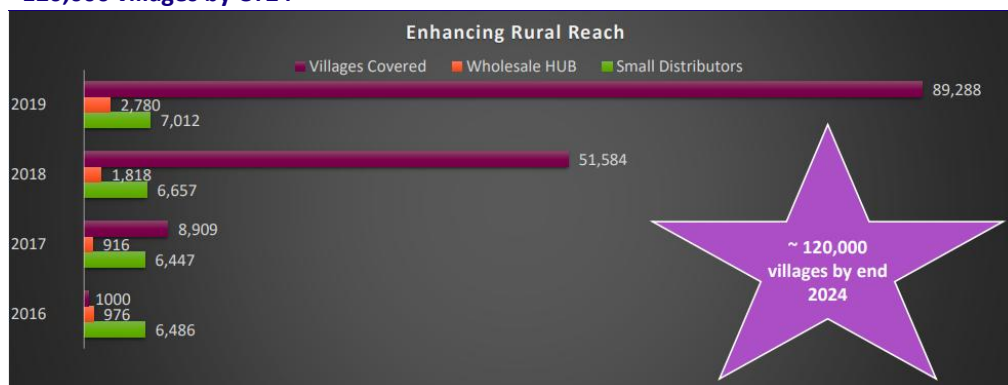
- The company's products are currently available at 4.7m outlets, including a direct reach of 1.4m. The same is likely to expand further.
- From 7,000 villages in CY16, NEST is now present in 89,000 villages. The management is targeting 120,000 villages by CY24.
- Rural constitutes ~25% of sales and its categories are seeing higher relevance in recent years.
- Around 30-40% of all Nestlé India's SKUs are available in rural areas. The management is looking to expand this, but wider spread of current SKUs across the country is a far greater opportunity.
- In many categories, smaller towns contribute 2-3x that of urban growth.

**Exhibit 8: Direct reach at 1.4m outlets and total reach at 4.7m outlets as of CY20**



Source: Company, MOFSL

**Exhibit 9: NEST continues to invest on enhancing its rural reach with a target to cover ~120,000 villages by CY24**

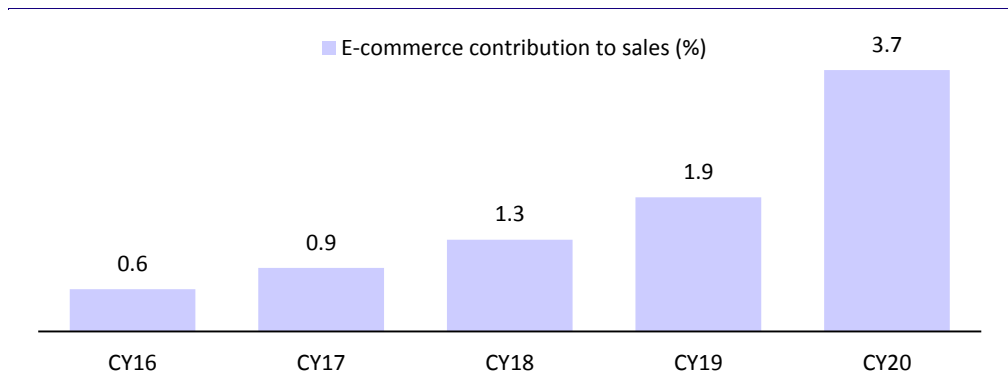


Source: Company, MOFSL

**Other channel highlights**

- E-commerce contributed 3.7% of domestic sales in CY20 v/s 0.6% in CY16.
- Around 85-90% of sales come from kirana stores.

**Exhibit 10: E-commerce sales grew 111% in CY20 and now contributes 3.7% to domestic sales**

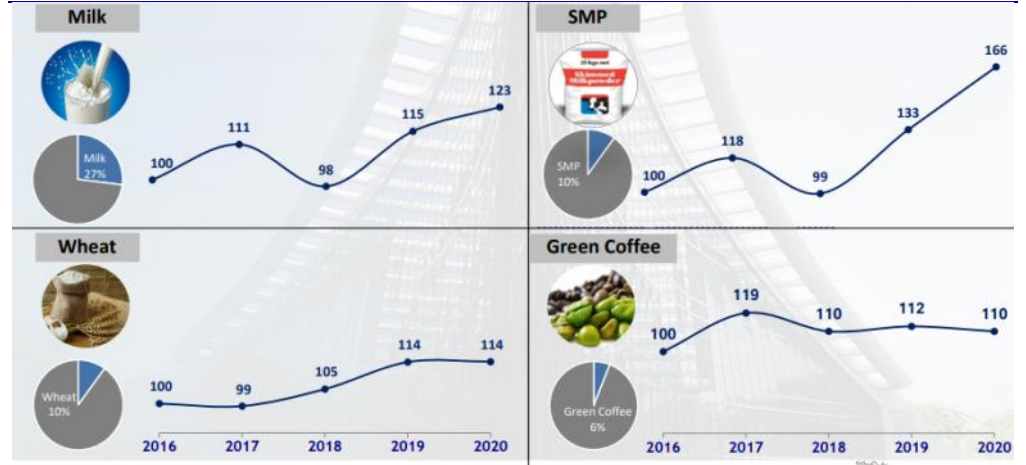


Source: Company, MOFSL

**Costs and capex**

- In CY20, ad spends were healthy in all quarters, barring 2Q.
- Cost savings have been between 1.5% and 2% of sales on an average in the last 10 years. NEST has saved ~INR15b in the last decade.
- The number of employees has risen to 7,800 in CY20 from 7,600 in CY16. Though there has been a modest addition in the number of employees, sales have seen a healthy 10% CAGR over the last five years. The management has ensured that employees who contribute to growth have been well rewarded. As a result, employee costs to sales have gone up in CY20.
- Milk costs have not dipped in recent months as productivity levels were affected during the COVID-19 led lockdown.
- Despite a capex of INR26b over the next 3-4 years, the management doesn't expect margin to be materially affected as expansion will be gradual. Capacity expansion in Maggi Noodles in Sanand will be part of the first phase in CY21 followed by Coffee in Nanjungud and chocolate investment Ponda and Tahliwal.

**Exhibit 11: Commodity prices on an upward trajectory in CY20**



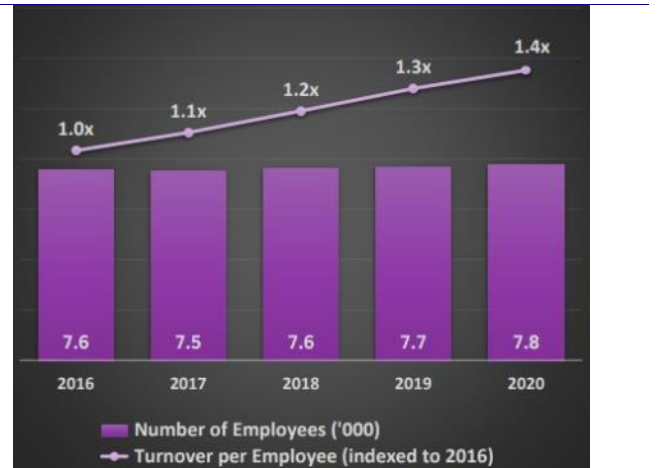
Source: Company, MOFSL

**Exhibit 12: Employee costs rise in CY20 due to COVID-related costs and long-term compensation arrangements**



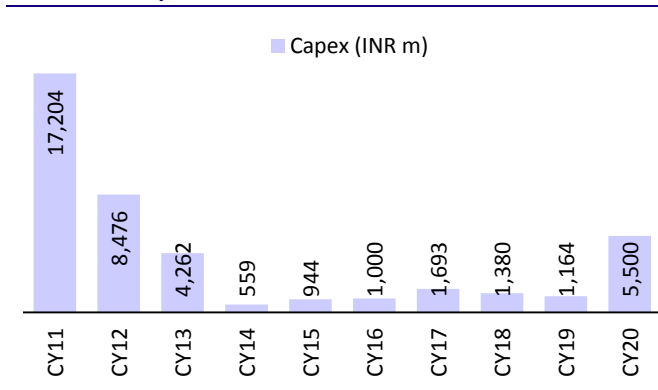
Source: Company, MOFSL

**Exhibit 13: Productivity per employee rises steadily**



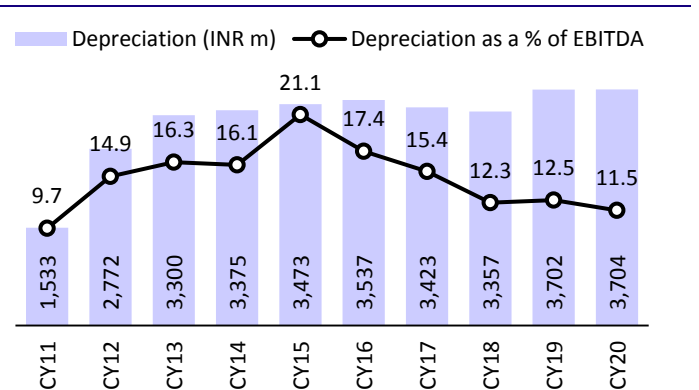
Source: Company, MOFSL

**Exhibit 14: Capex for CY20 stood at INR5.5b**



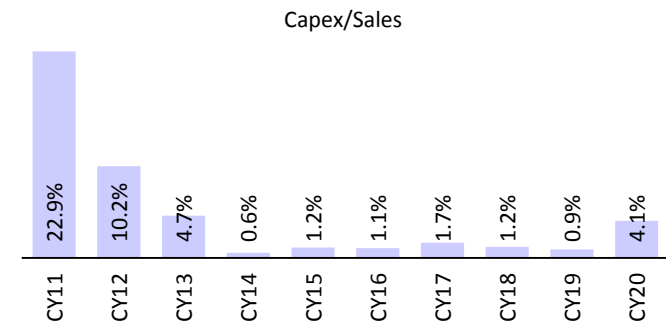
Source: Company, MOFSL

**Exhibit 15: Depreciation, as a percentage of EBITDA, stood at 11.5% in CY20, down from 12.5% in CY19**



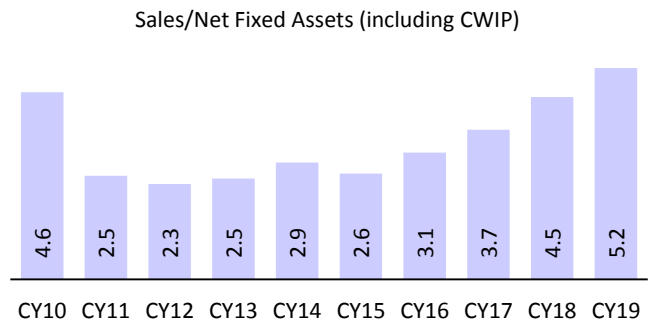
Source: Company, MOFSL

**Exhibit 16: Ramp up in capex in CY20 after six years of muted investments**



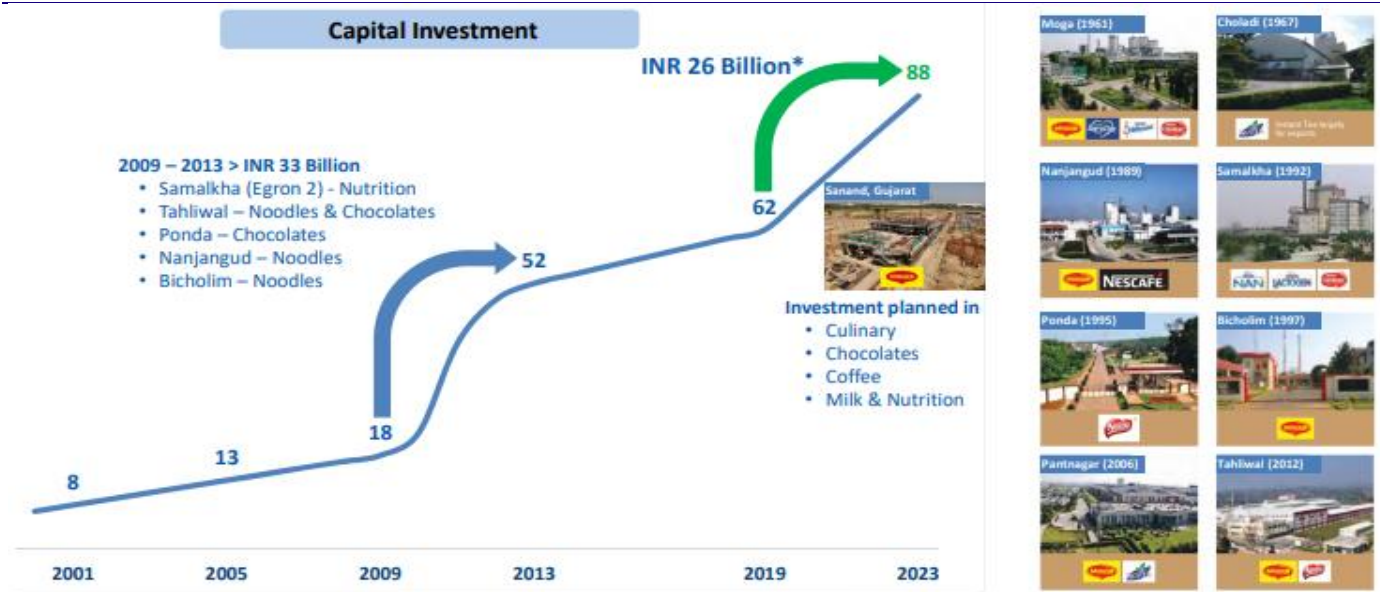
Source: Company, MOFSL

**Exhibit 17: Asset turnover increases YoY**



Source: Company, MOFSL

**Exhibit 18: NEST to invest INR26b over the next 3-4 years to augment existing capacities**



\*Planned investments are subject to evaluation and approval

Source: Company, MOFSL

**Environmental initiatives**

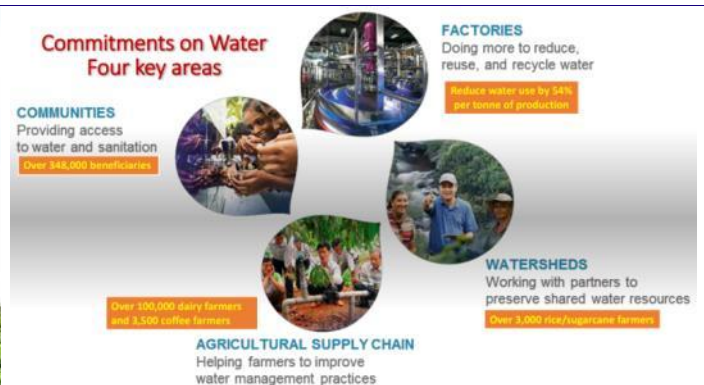
- Doubled sustainability efforts in the past two years.
- About 20,000 tonne of plastic recycled by NEST in CY20.
- Maggi, Nescafe, Kit-Kat, and Milkybar are now plastic neutral.
- In the last five years, NEST’s usage of water per tonne has halved.

**Exhibit 19: Launched sustainability initiatives for packaging...**



Source: Company, MOFSL

**Exhibit 20: ...and water conservation**



Source: Company, MOFSL



**Exhibit 21: New launches/relaunches/variants introduced over the years slowed down in CY20 due to focus on core product offerings. With 40-50 products in the pipeline, the pace of new launches is likely to pick up going forward**

Year	CY14	CY15	CY16	CY17	CY18	CY19	CY20
No. of launches	Seven	Three	19 (39 including variants and re-launches)	Nine (17 including variants and relaunches)	14 (20 including variants)	20 (24 including variants and relaunches)	Seven (11 including variants)
1	Maggi Oats Noodles	Re-launched Maggi Noodles	Maggi Hot Heads – four variants	Maggi Nutrilicious Noodles – two variants	KitKat duo strawberry variant	Maggi Nutrilicious Atta Noodles	Maggi Capsica Noodles
2	Nestlé KitKat Senses Milk	Munch Nuts	Maggi No Onion No Garlic Masala	Maggi Masalas of India – four variants	Munch Crunch-O-Nuts	Maggi Fusian Noodles – three variants	Maggi Chatpata Tomato Noodles
3	Nestlé KitKat Senses Dark	Cerelac Stage 5	Maggi Hot Heads Cuppa Noodles	Nestlé a+ Grekko Greek Yogurts – three variants	Nesplus Breakfast cereals – four variants	LACTOGEN 1 with L. reuteri (relaunch)	Maggi Desi Cheesy Noodles
4	Nestlé KitKat Senses Extra Smooth		Maggi Cuppa Masala	Nan Excella Pro	Nescafé Ready-to-Drink Cans	Pre-NAN with DHA and ARA (relaunch)	Maggi Special Masala Spicy Yummy noodles
5	Nestlé Masala Buttermilk		Maggi Cuppa Chilly Chow	Nestlé Resource High Protein – three variants	Maggi Special Masala noodles	Maggi Fusian Chilli Garlic Sauce	Fried Rice Instant Spice Mix – two variants
6	Nestlé Lassi		Maggi Cup-a-licious Soups – six variants	Milo Ready-to-Drink beverage	Maggi dip & spread – two variants	Maggi Liquid Seasoning	Maggi Pazzta – four variants
7	NAN Lo-Lac		Nestlé a+ Grekko – four variants	KITKAT Dessert Delight	KitKat Dessert Delight Brownie Kubes	Maggi Professional Thai Curry Pastes – two variants	Maggi Masala Magic Tastemaker
8			Nestlé Everyday Masala Fusion Dairy Whitener – six variants	Milkybar (relaunch)	Nescafé E-Smart Coffee Machine (all-in-one travel mug and coffee machine)	KitKat Dessert Delight Rich Chocolate Fudge	
9			Nescafé RTD – three variants	Milkybar Moosha	Maggi Nutrilicious Baked Noodles	Munch Crisp-Pop	
10			Ceregrow		Nestlé Les Recettes De l'Atelier	Milkybar Moosha Cocoa Crispies	
11			Nestlé a+ Pro-grow		Nestlé Everyday Chai life – three variants	Milo	
12			Renovation of Cerelac with Iron		Nangrow	Nestlé a+ Banglar Mishti Doi	
13			Nescafé Sunrise Insta-filter		Nan Pro with DHA (relaunch)	Cerelac Organic Cereals*	
14			Nestea Iced Tea – three variants		Nan Excellapro (relaunch)	Ceregrow Organic Cereals*	
15			Nescafé Latte			Cerelac Ragi	
16			KitKat Duo			Optifast	
17			Nestlé Munch Trio			Maggi Upma	
18			Barone Charge			Maggi Poha	
19			New Alpino			Nescafé Cappuccino (renovation)	
20						Nestea Ready-to-Drink Iced Tea – two variants	

Source: Company, MOFSL

## Exhibit 22: NEST's segment-wise performance

	CY11	CY12	CY13	CY14	CY15	CY16*	CY17	CY18	CY19	CY20
<b>Volume (MT)<sup>#</sup></b>										
Milk Products	147,984	140,386	138,772	135,591	131,980	128,751	130,796	137,066	138,941	1,42,692
Beverages	26,692	25,353	27,717	24,673	22,130	22,092	24,423	27,013	26,380	25,852
Prepared Dishes & Cooking Aids	219,041	236,554	245,443	254,553	103,138	176,871	210,427	240,879	264,072	2,84,141
Chocolate & Confectionery	52,678	47,745	46,718	41,080	33,083	35,289	36,803	42,197	49,033	50,945
<b>Total</b>	<b>446,395</b>	<b>450,038</b>	<b>458,650</b>	<b>455,897</b>	<b>290,331</b>	<b>363,003</b>	<b>402,449</b>	<b>447,155</b>	<b>478,426</b>	<b>5,03,632</b>
<b>Volume (as a % of total)<sup>#</sup></b>										
Milk Products (MT)	33%	31%	30%	30%	45%	35%	33%	31%	29%	28%
Beverages (MT)	6%	6%	6%	5%	8%	6%	6%	6%	6%	5%
Prepared Dishes & Cooking Aids (MT)	49%	53%	54%	56%	36%	49%	52%	54%	55%	56%
Chocolate & Confectionery	12%	11%	10%	9%	11%	10%	9%	9%	10%	10%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Volume Growth<sup>#</sup></b>										
Milk Products	2.5%	-5.1%	-1.1%	-2.3%	-2.7%	-2.4%	1.6%	4.8%	1.4%	2.7%
Beverages	0.9%	-5.0%	9.3%	-11.0%	-10.3%	-0.2%	10.6%	10.6%	-2.3%	-2.0%
Prepared Dishes & Cooking Aids	13.2%	8.0%	3.8%	3.7%	-59.5%	71.5%	19.0%	14.5%	9.6%	7.6%
Chocolate & Confectionery	-1.5%	-9.4%	-2.2%	-12.1%	-19.5%	6.7%	4.3%	14.7%	16.2%	3.9%
<b>Total</b>	<b>6.8%</b>	<b>0.8%</b>	<b>1.9%</b>	<b>-0.6%</b>	<b>-36.3%</b>	<b>25.0%</b>	<b>10.9%</b>	<b>11.1%</b>	<b>7.0%</b>	<b>5.3%</b>
<b>Weighted average volume growth<sup>#</sup></b>	<b>7.2%</b>	<b>1.3%</b>	<b>2.0%</b>	<b>-0.3%</b>	<b>-25.3%</b>	<b>34.6%</b>	<b>11.5%</b>	<b>11.3%</b>	<b>7.2%</b>	<b>5.3%</b>
<b>Price (INR/kg)<sup>#</sup></b>										
Milk Products	226	275	293	337	354	360	368	378	407	431
Beverages	400	443	478	543	604	582	568	564	569	586
Prepared Dishes & Cooking Aids	98	103	110	116	127	131	129	129	132	137
Chocolate & Confectionery	209	245	275	305	336	332	332	332	335	345
<b>Total</b>	<b>172</b>	<b>191</b>	<b>205</b>	<b>222</b>	<b>290</b>	<b>259</b>	<b>252</b>	<b>251</b>	<b>257</b>	<b>265</b>
<b>Price Growth<sup>#</sup></b>										
Milk Products	17.8%	21.4%	6.7%	15.0%	4.9%	1.8%	2.4%	2.7%	7.5%	6.0%
Beverages	17.8%	10.6%	7.9%	13.7%	11.2%	-3.6%	-2.4%	-0.7%	1.0%	3.0%
Prepared Dishes & Cooking Aids	10.3%	4.4%	7.0%	5.8%	9.5%	2.8%	-1.8%	0.2%	2.8%	3.5%
Chocolate & Confectionery	14.4%	17.3%	12.4%	10.8%	10.1%	-1.2%	0.0%	0.0%	1.0%	3.0%
<b>Total</b>	<b>12.6%</b>	<b>10.9%</b>	<b>7.2%</b>	<b>8.6%</b>	<b>30.7%</b>	<b>-10.7%</b>	<b>-2.8%</b>	<b>-0.4%</b>	<b>2.5%</b>	<b>2.9%</b>
<b>Weighted average price growth<sup>#</sup></b>	<b>15.2%</b>	<b>14.6%</b>	<b>7.7%</b>	<b>11.6%</b>	<b>7.3%</b>	<b>0.9%</b>	<b>0.3%</b>	<b>1.2%</b>	<b>4.5%</b>	<b>4.5%</b>
<b>Gross Sales (INR m)</b>										
Milk Products	33,510	38,594	40,712	45,752	46,694	46,350	48,196	51,876	56,518	61,527
Beverages	10,684	11,227	13,241	13,398	13,360	12,861	13,870	15,226	15,018	15,159
Prepared Dishes & Cooking Aids	21,545	24,302	26,982	29,613	13,141	23,176	27,071	31,053	34,982	38,958
Chocolate & Confectionery	10,997	11,696	12,864	12,532	11,109	11,709	12,214	14,007	16,435	17,588
<b>Total</b>	<b>76,736</b>	<b>85,819</b>	<b>93,799</b>	<b>101,295</b>	<b>84,304</b>	<b>94,096</b>	<b>101,351</b>	<b>112,162</b>	<b>122,953</b>	<b>1,33,232</b>
<b>Gross Sales (as a % of total)</b>										
Milk Products	44%	45%	43%	45%	55%	49%	48%	46%	46%	46%
Beverages	14%	13%	14%	13%	16%	14%	14%	14%	12%	11%
Prepared Dishes & Cooking Aids	28%	28%	29%	29%	16%	25%	27%	28%	28%	29%
Chocolate & Confectionery	14%	14%	14%	12%	13%	12%	12%	12%	13%	13%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Gross Sales Growth</b>										
Milk Products	20.7%	15.2%	5.5%	12.4%	2.1%	-0.7%	4.0%	7.6%	8.9%	8.9%
Beverages	18.8%	5.1%	17.9%	1.2%	-0.3%	-3.7%	7.8%	9.8%	-1.4%	0.9%
Prepared Dishes & Cooking Aids	24.9%	12.8%	11.0%	9.7%	-55.6%	76.4%	16.8%	14.7%	12.7%	11.4%
Chocolate & Confectionery	12.7%	6.4%	10.0%	-2.6%	-11.4%	5.4%	4.3%	14.7%	17.3%	7.0%
<b>Total</b>	<b>20.3%</b>	<b>11.8%</b>	<b>9.3%</b>	<b>8.0%</b>	<b>-16.8%</b>	<b>11.6%</b>	<b>7.7%</b>	<b>10.7%</b>	<b>9.6%</b>	<b>8.4%</b>

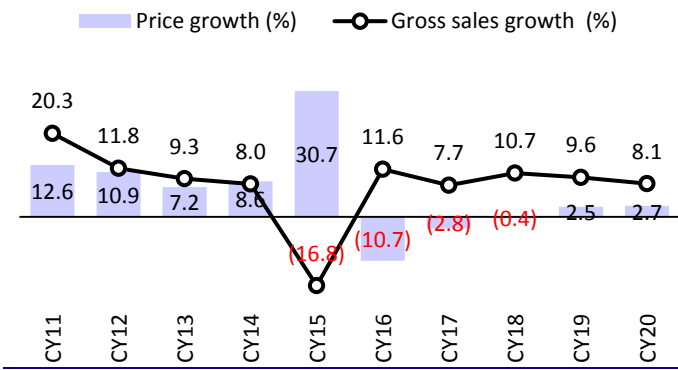
\*Slight impact of implementation of Goods &amp; Services Tax (GST) on CY16 financials

Source: Company, MOFSL

<sup>#</sup>Segmental volume and realisation data for CY20 are estimated and will be updated post annual report. Company only shared overall volume growth and segmental sales growth as part of the presentation.

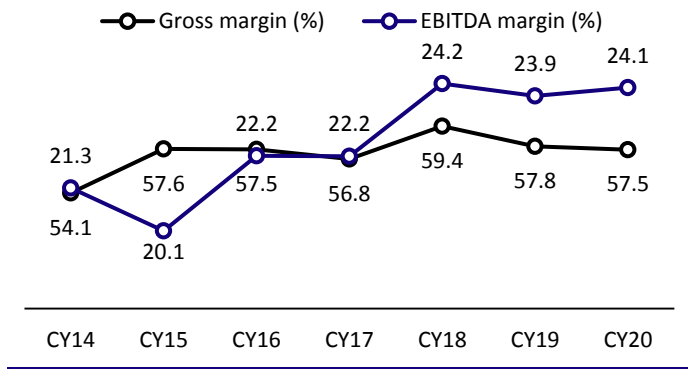
## Story in charts

**Exhibit 23: Sales grew 8.1% YoY in CY20**



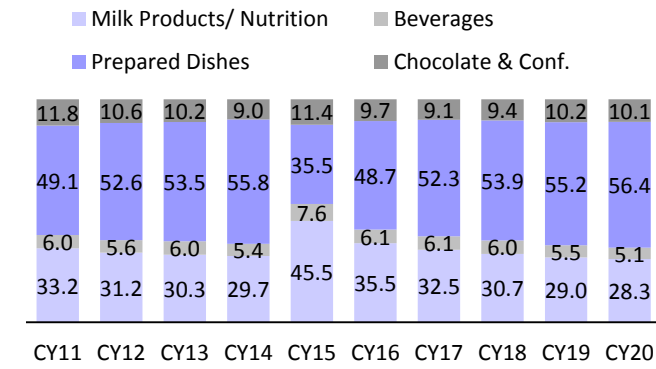
Source: Company, MOFSL

**Exhibit 24: EBITDA margin expanded 20bp YoY in CY20**



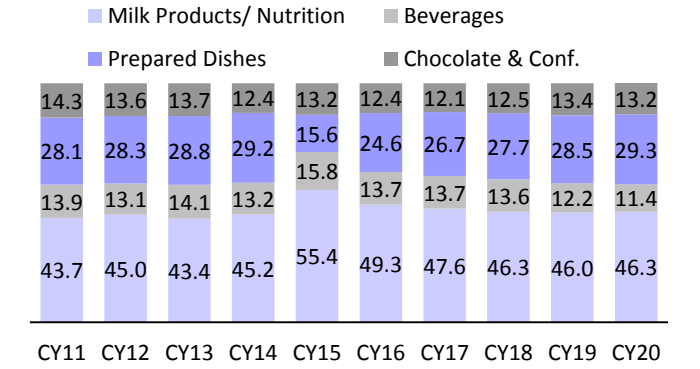
Source: Company, MOFSL

**Exhibit 25: Segmental volume contribution**



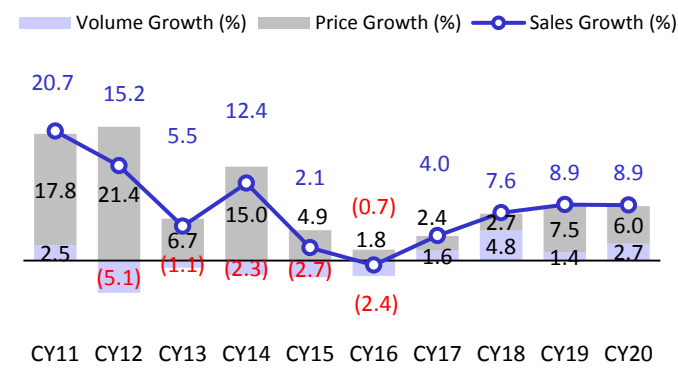
Source: Company, MOFSL

**Exhibit 26: Segmental sales contribution**



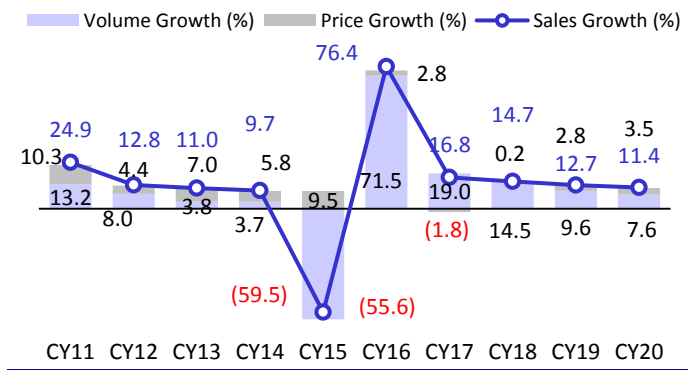
Source: Company, MOFSL

**Exhibit 27: Milk Products grew 8.9% in CY20**



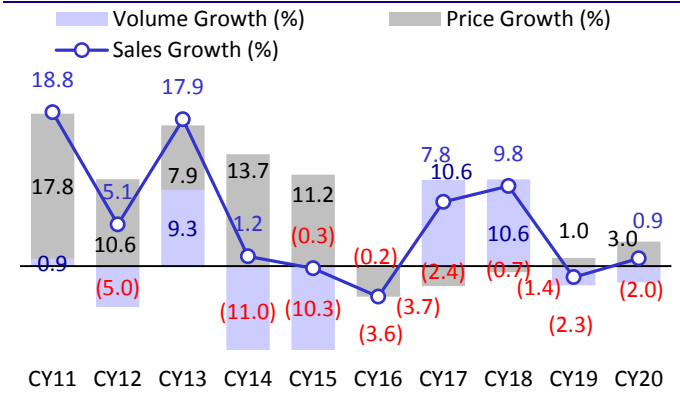
Source: Company, MOFSL

**Exhibit 28: Prepared Dishes grew 11.4% in CY20**



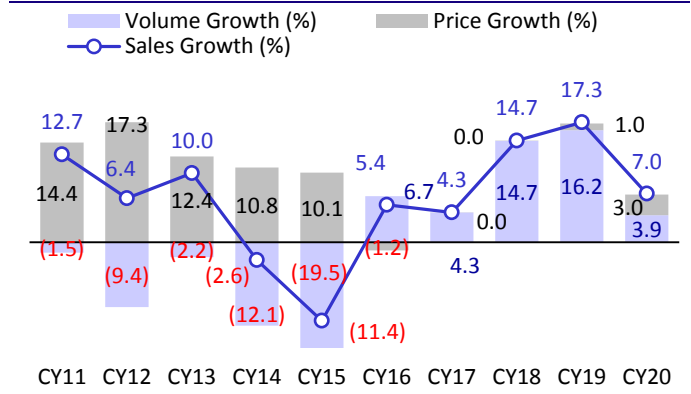
Source: Company, MOFSL

**Exhibit 29: Beverages declined 0.9% YoY in CY20**



Source: Company, MOFSL

**Exhibit 30: Confectionery grew 7% YoY in CY20**

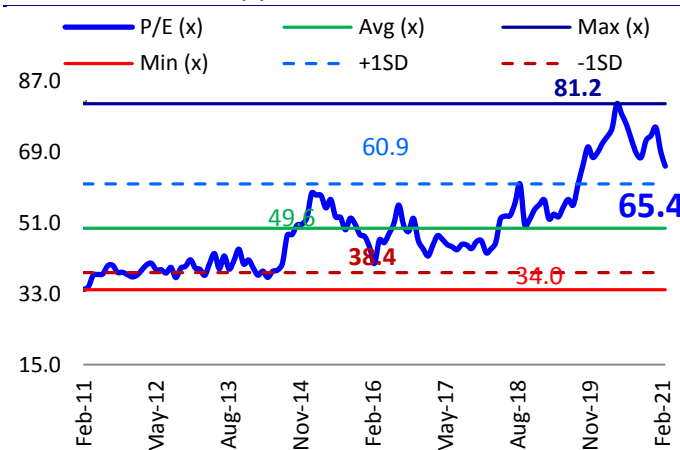


Source: Company, MOFSL

**Valuation and view**

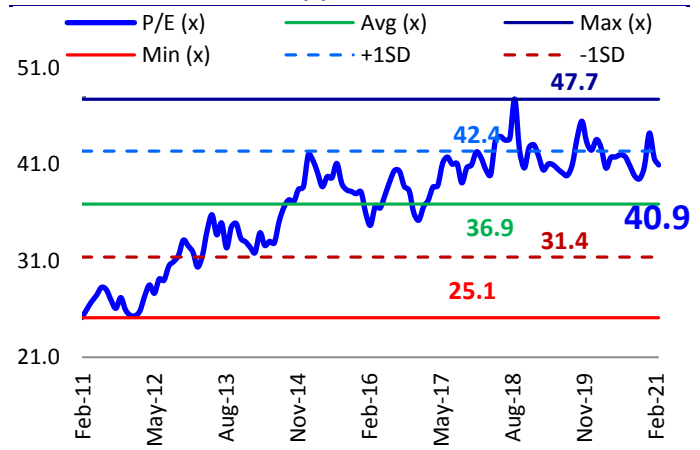
- The INR26b capex (spread over 3-4 years) announced with the 3QCY20 result and resumption of healthy marketing spends in 4Q suggests that the management’s confidence remains high on both its near- and long-term growth prospects.
- Resumed traction in new products (after focusing on its core in CY20 due to the COVID-19 pandemic) and increasing emphasis on rural are key positives.
- The longer term narrative for Nestlé’s revenue and earnings growth remains extremely attractive. Successful implementation of its growth strategy in recent years is a positive. The Packaged Foods segment in India offers immense growth opportunities. This is particularly true for a company with a strong pedigree and distribution strength.
- Valuations at 55x CY22E EPS appear to factor in an upside from a one-year perspective. We value the company at 60x Dec'22E EPS to arrive at our TP of INR17,500 per share. Maintain **Neutral**.

**Exhibit 31: NEST P/E (x)**



Source: Company, MOFSL

**Exhibit 32: Consumer P/E (x)**



Source: Company, MOFSL

## Financials and valuations

Income Statement							(INR b)
Y/E December	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E
<b>Net Sales</b>	<b>91.4</b>	<b>100.1</b>	<b>112.9</b>	<b>123.7</b>	<b>133.5</b>	<b>150.1</b>	<b>172.8</b>
Change (%)	11.8	9.5	12.8	9.5	7.9	12.4	15.1
<b>Gross Profit</b>	<b>52.6</b>	<b>56.8</b>	<b>67.0</b>	<b>71.4</b>	<b>76.8</b>	<b>87.1</b>	<b>100.8</b>
Margin (%)	57.5	56.8	59.4	57.8	57.5	58.0	58.3
Other Expenditure	32.3	34.6	39.7	41.9	44.6	50.4	58.7
<b>EBITDA</b>	<b>20.3</b>	<b>22.2</b>	<b>27.3</b>	<b>29.5</b>	<b>32.2</b>	<b>36.6</b>	<b>42.1</b>
Change (%)	23.3	9.4	23.0	8.0	9.0	14.0	14.9
Margin (%)	22.2	22.2	24.2	23.9	24.1	24.4	24.4
Depreciation	3.5	3.4	3.4	3.7	3.7	3.9	4.6
Int. and Fin. Ch.	0.9	0.9	1.1	1.3	1.6	1.7	1.8
Other Inc.- Rec.	1.5	1.8	2.6	2.5	1.5	1.7	1.8
<b>PBT</b>	<b>17.4</b>	<b>19.6</b>	<b>25.4</b>	<b>27.0</b>	<b>28.3</b>	<b>32.7</b>	<b>37.6</b>
Change (%)	23.5	13.1	29.5	6.1	4.8	15.7	15.0
Margin (%)	19.0	19.6	22.5	21.8	21.2	21.8	21.8
Tax	5,440	6,141	8,220	7,051	7,304	8,241	9,478
Tax Rate (%)	31.3	31.3	32.3	26.1	25.8	25.2	25.2
<b>Adjusted PAT</b>	<b>11.9</b>	<b>13.5</b>	<b>17.2</b>	<b>19.9</b>	<b>21.0</b>	<b>24.5</b>	<b>28.1</b>
Change (%)	3.2	13.2	27.5	15.8	5.2	16.7	15.0
Margin (%)	13.0	13.5	15.2	16.1	15.7	16.3	16.3
Non-rec. (Exp.)/Inc.	1.9	1.2	1.1	0.2	0.1	0.2	0.2
<b>Reported PAT</b>	<b>10.0</b>	<b>12.3</b>	<b>16.1</b>	<b>19.7</b>	<b>20.8</b>	<b>24.3</b>	<b>28.0</b>

Balance Sheet							(INR b)
Y/E December	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E
Share Capital	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Reserves	31.9	33.2	35.8	18.2	19.2	20.9	22.8
<b>Net Worth</b>	<b>32.8</b>	<b>34.2</b>	<b>36.7</b>	<b>19.2</b>	<b>20.2</b>	<b>21.8</b>	<b>23.8</b>
Loans	0.3	0.4	0.4	0.5	0.3	0.3	0.3
<b>Capital Employed</b>	<b>33.2</b>	<b>34.6</b>	<b>37.1</b>	<b>19.7</b>	<b>20.5</b>	<b>22.2</b>	<b>24.1</b>
Gross Block	31.0	33.6	34.9	35.6	37.9	43.9	50.9
Less: Accum. Depn.	3.6	7.4	10.8	14.5	18.3	22.2	26.8
<b>Net Fixed Assets</b>	<b>27.3</b>	<b>26.2</b>	<b>24.0</b>	<b>21.1</b>	<b>19.7</b>	<b>21.7</b>	<b>24.2</b>
Capital WIP	1.9	0.9	1.1	1.4	6.4	6.4	6.4
Investments	17.6	19.8	26.6	18.3	15.5	17.2	18.3
Current	12.8	13.9	19.3	10.1	7.2	8.7	9.5
Non-current	4.7	5.9	7.3	8.2	8.3	8.6	8.7
<b>Curr. Assets, L&amp;A</b>	<b>21.4</b>	<b>26.7</b>	<b>29.2</b>	<b>30.9</b>	<b>37.2</b>	<b>38.0</b>	<b>43.5</b>
Inventory	9.4	9.0	9.7	12.8	14.2	14.3	17.1
Account Receivables	1.0	0.9	1.2	1.2	1.6	1.2	1.4
Cash and Bank Balance	8.8	14.6	16.1	13.1	17.7	18.2	20.2
Others	2.2	2.2	2.2	3.7	3.7	4.3	4.8
<b>Curr. Liab. and Prov.</b>	<b>33.4</b>	<b>37.8</b>	<b>43.2</b>	<b>51.9</b>	<b>58.5</b>	<b>61.3</b>	<b>68.4</b>
Account Payables	8.0	9.8	12.4	14.9	15.2	17.1	19.5
Other Liabilities	5.1	4.2	4.6	7.0	9.5	9.0	10.3
Provisions	20.3	23.8	26.2	29.9	33.7	35.3	38.6
<b>Net Curr. Assets</b>	<b>-12.0</b>	<b>-11.1</b>	<b>-14.0</b>	<b>-21.0</b>	<b>-21.3</b>	<b>-23.4</b>	<b>-24.9</b>
Def. Tax Liability	-1.6	-1.2	-0.6	-0.1	0.2	0.2	0.2
<b>Appl. of Funds</b>	<b>33.2</b>	<b>34.6</b>	<b>37.1</b>	<b>19.7</b>	<b>20.5</b>	<b>22.2</b>	<b>24.1</b>

E: MOFSL estimates

## Financials and valuations

### Ratios

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>123.7</b>	<b>140.0</b>	<b>178.6</b>	<b>206.7</b>	<b>217.4</b>	<b>253.7</b>	<b>291.8</b>
Cash EPS	160.4	175.5	213.4	245.1	255.8	294.6	339.2
BV/Share	340.4	354.8	381.0	199.0	209.4	226.5	246.5
DPS	63.0	86.0	115.0	342.0	200.0	235.0	270.0
Payout (%)	50.9	61.4	64.4	165.4	92.0	92.6	92.5
<b>Valuation (x)</b>							
P/E	130.2	115.0	90.2	77.9	74.0	63.5	55.2
Cash P/E	100.4	91.7	75.4	65.7	62.9	54.6	47.5
EV/Sales	16.7	15.2	13.4	12.3	11.4	10.1	8.8
EV/EBITDA	75.2	68.3	55.3	51.6	47.2	41.4	36.0
P/BV	47.3	45.4	42.3	80.9	76.9	71.1	65.3
Dividend Yield (%)	0.4	0.5	0.7	2.1	1.2	1.5	1.7
<b>Return Ratios (%)</b>							
RoE	39.1	40.3	48.5	71.3	106.5	116.4	123.3
RoCE	40.8	41.7	50.2	73.5	110.2	120.4	127.1
<b>Working Capital Ratios</b>							
Debtor (Days)	3.8	3.2	4.1	3.7	4.0	3.0	3.0
Asset Turnover (x)	2.8	2.8	3.1	4.3	6.6	7.1	7.5
<b>Leverage Ratio</b>							
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

### Cash Flow Statement

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E
							<b>(INR b)</b>
OP/(loss) before Tax	15.5	18.4	24.3	26.7	28.1	32.7	37.5
Int./Div. Received	1.4	1.4	2.5	2.4	1.4	1.7	1.8
Depn. and Amort.	3.5	3.4	3.4	3.7	3.7	3.9	4.6
Interest Paid	0.0	0.0	0.0	0.0	0.2	1.7	1.8
Direct Taxes Paid	5.0	6.0	8.8	6.7	7.0	8.2	9.5
Incr. in WC	2.0	3.7	4.1	1.6	1.0	2.6	3.6
<b>CF from Operations</b>	<b>14.7</b>	<b>18.2</b>	<b>20.5</b>	<b>23.0</b>	<b>24.5</b>	<b>31.0</b>	<b>36.1</b>
Others	-1.5	0.6	-2.6	11.7	4.4	1.5	1.7
Incr. in FA	1.1	2.0	1.6	1.5	4.7	6.0	7.0
<b>Free Cash Flow</b>	<b>13.5</b>	<b>16.2</b>	<b>18.9</b>	<b>21.4</b>	<b>19.8</b>	<b>25.0</b>	<b>29.1</b>
Pur. of Investments	1.5	1.1	1.6	0.2	0.0	1.7	1.0
<b>CF from Invest.</b>	<b>-4.2</b>	<b>-2.4</b>	<b>-5.8</b>	<b>10.0</b>	<b>-0.4</b>	<b>-6.1</b>	<b>-6.3</b>
Incr. in Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Paid	5.6	8.3	10.9	29.5	18.9	22.7	26.0
Others	-1.0	-1.7	-2.3	-6.5	-0.7	-1.7	-1.8
<b>CF from Fin. Activity</b>	<b>-6.7</b>	<b>-10.0</b>	<b>-13.2</b>	<b>-36.0</b>	<b>-19.6</b>	<b>-24.4</b>	<b>-27.8</b>
<b>Incr./Decr. in Cash</b>	<b>3.8</b>	<b>5.8</b>	<b>1.5</b>	<b>-3.0</b>	<b>4.6</b>	<b>0.5</b>	<b>2.0</b>
Add: Opening Balance	5.0	8.8	14.6	16.1	13.1	17.7	18.2
<b>Closing Balance</b>	<b>8.8</b>	<b>14.6</b>	<b>16.1</b>	<b>13.1</b>	<b>17.7</b>	<b>18.2</b>	<b>20.2</b>

E: MOFSL estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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