

**HOLD** **Sapphire Foods**

Your success is our success

**KFC robust, but challenges persist in Pizza category; HOLD**

Retail ▶ Result Update ▶ August 3, 2023

**TARGET PRICE (Rs): 1,400**

**Sapphire's Q1 EBITDA was largely in line with estimates. Revenue grew 20%, led by 27% growth in store count, flat SSG in KFC/PH Sri Lanka (SL) and 9% SSG decline in PH India. For KFC, focus remains on retaining the strong topline growth with stable margins, while PH's focus is on marketing and improving product/value proposition to capitalize on recovery in category growth. New product innovation continued with launch of KFC snackers (7 products) at Rs99 and earlier launch of entry-level pizzas/big menu-revamp in PH. Gross margin improved by 60bps QoQ, suggesting bottoming of the RM pain. Sapphire expects PH network expansion to moderate with weak trends, while KFC expansion will continue. Unhurried store addition coupled with slower SL recovery drive the 3% cut to our estimates. TP remains unchanged at Rs1,400/sh on 3M rollover.**

**Sapphire Foods: Financial Snapshot (Consolidated)**

| Y/E Mar (Rs mn)     | FY22   | FY23   | FY24E  | FY25E  | FY26E  |
|---------------------|--------|--------|--------|--------|--------|
| Revenue             | 17,216 | 22,656 | 28,180 | 36,505 | 43,844 |
| EBITDA              | 3,050  | 4,284  | 5,289  | 7,111  | 8,896  |
| Adj. PAT            | 460    | 2,332  | 1,401  | 1,974  | 2,615  |
| Adj. EPS (Rs)       | 7.2    | 36.7   | 22.0   | 31.1   | 41.2   |
| EBITDA margin (%)   | 17.7   | 18.9   | 18.8   | 19.5   | 20.3   |
| EBITDA growth (%)   | 145.2  | 40.4   | 23.5   | 34.4   | 25.1   |
| Adj. EPS growth (%) | 0.0    | 407.1  | (39.9) | 40.9   | 32.4   |
| RoE (%)             | 6.2    | 20.6   | 10.6   | 13.2   | 15.2   |
| RoIC (%)            | 14.7   | 47.2   | 22.0   | 26.8   | 33.0   |
| P/E (x)             | 185.4  | 36.6   | 60.8   | 43.2   | 32.6   |
| EV/EBITDA (x)       | 26.8   | 19.3   | 15.6   | 11.3   | 8.8    |
| P/B (x)             | 8.5    | 6.8    | 6.1    | 5.3    | 4.6    |
| FCFF yield (%)      | 0.0    | 2.0    | 2.5    | 4.0    | 6.2    |

Source: Company, Emkay Research

**KFC growing 20%+ but PH growth impacted due to weak category trends:** KFC's revenue grew 21% led by 28% growth in store-count and a flat SSG, while PH saw lower growth at 12% owing to 30% growth in store-count and a 9% drop in SSG. KFC outperformed peers with 24% growth in brand contribution, while PH saw 32% de-growth (in line with peers). New innovations have been particularly strong, with launch of KFC snackers at Rs99 (7 products). The medium-term outlook, of 7%/5% SSG, was maintained for the PH/KFC formats. For SL, demand remains impacted by inflation/higher direct taxes, but better INR conversion rate helped deliver 27% growth in Q1. Sapphire expects gradual improvement in store-margins over the next 12-24 months (vs. 13% in Q1FY24). Store additions were healthy, with 35 net additions in Q1FY24, of which 17 were for KFC and 16 for PH. Encouragingly, gross margin improved by 60bps QoQ, led by 80-130bps improvement in PH/KFC. However, store margins declined by 120bps to 17.3%, due to 580/250bps decline in PH India/Sri-Lanka. Higher HO costs (+30bps) led the overall EBITDA margin decline of 150bps to 11.8%.

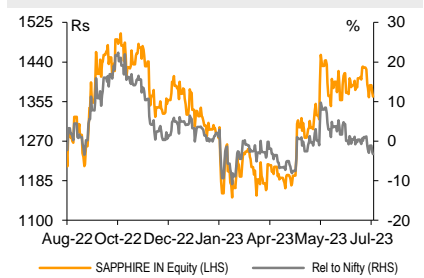
**Earnings-call KTAs:** 1) Sapphire indicated that RM inflation has cooled in Q1. 2) KFC expects to bring back transaction growth through its newly-launched 'Snackers' range priced at Rs99 and which consists of 7 products (like Rolls, Longer burger, Popcorn, Beverages, Fries and Dessert). 3) Sapphire is making an attempt to improve brand accessibility with network expansion and launch of entry-level KFC snackers at Rs79. 4) Sapphire took price hikes in KFC in Apr-23, but indicated that 2-3% price hikes in KFC was easily absorbed without impacting volume. 5) While weak trends endure but Sapphire remains bullish on the pizza category; Focus remains on enhancing customer experience, marketing and product innovations to capitalize on category growth revival. 6) Sapphire maintained its outlook for doubling the number of KFC/PH stores in 3-4 years; however, it indicated opening lesser number of PH stores in FY24 vs FY23. 7) Sapphire indicated that consumer demand remains challenged in Sri Lanka due to inflation and higher direct taxes, but believe that the adverse conditions have bottomed out and expects recovery in FY24.

|                         |         |
|-------------------------|---------|
| Target Price – 12M      | Jun-24  |
| <b>Change in TP (%)</b> | -       |
| Current Reco.           | HOLD    |
| Previous Reco.          | HOLD    |
| Upside/(Downside) (%)   | 4.3     |
| CMP (02-Aug-23) (Rs)    | 1,341.7 |

| Stock Data                  | Ticker       |
|-----------------------------|--------------|
| 52-week High (Rs)           | 1,574        |
| 52-week Low (Rs)            | 1,102        |
| Shares outstanding (mn)     | 63.6         |
| Market-cap (Rs bn)          | 85           |
| Market-cap (USD mn)         | 1,033        |
| Net-debt, FY24E (Rs mn)     | -2,991       |
| ADTV-3M (mn shares)         | -            |
| ADTV-3M (Rs mn)             | 149.9        |
| ADTV-3M (USD mn)            | 1.8          |
| Free float (%)              | 49.0         |
| Nifty-50                    | 19,527       |
| INR/USD                     | 82.6         |
| <b>Shareholding, Dec-20</b> |              |
| Promoters (%)               | 44.86        |
| FPIs/MFs (%)                | 18.66/ 22.62 |

**Price Performance**

| (%)           | 1M    | 3M  | 12M   |
|---------------|-------|-----|-------|
| Absolute      | (2.4) | 8.2 | 11.9  |
| Rel. to Nifty | (4.1) | 0.5 | (0.6) |

**1-Year share price trend (Rs)****Devanshu Bansal**devanshu.bansal@emkayglobal.com  
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## Story in Charts

Exhibit 1: Performance across key metrics over the past few quarters

| Key Metrics (Rs mn)            | Q4FY22   | Q1FY23   | Q2FY23   | Q3FY23   | Q4FY23   | Q1FY24   |
|--------------------------------|----------|----------|----------|----------|----------|----------|
| <b>KFC India</b>               |          |          |          |          |          |          |
| Number of stores               | 263      | 281      | 301      | 325      | 341      | 358      |
| SSG (%)                        | 15       | 65       | 15       | 3        | 2        | 0        |
| ADS (Rs)                       | 1,32,000 | 1,44,000 | 1,34,000 | 1,36,000 | 1,27,000 | 1,38,000 |
| Revenue                        | 2,966    | 3,537    | 3,491    | 3,810    | 3,691    | 4,286    |
| Gross margin (%)               | 67.9     | 67.3     | 65.6     | 66.5     | 66.8     | 68.1     |
| Brand contribution margin (%)  | 19.0     | 20.3     | 17.9     | 20.2     | 19.1     | 20.8     |
| <b>PH India</b>                |          |          |          |          |          |          |
| Number of stores               | 219      | 235      | 249      | 274      | 286      | 302      |
| SSG (%)                        | 3        | 47       | 23       | -4       | -4       | -9       |
| ADS (Rs)                       | 55,000   | 61,000   | 64,000   | 58,000   | 50,000   | 52,000   |
| Revenue                        | 1,032    | 1,219    | 1,410    | 1,364    | 1,221    | 1,362    |
| Gross margin (%)               | 74.8     | 75.3     | 74.7     | 74.4     | 74.3     | 75.1     |
| Brand contribution margin (%)  | 11.5     | 14.8     | 15.1     | 14.1     | 8.6      | 9.0      |
| <b>Sri Lanka (Pizza Hut)</b>   |          |          |          |          |          |          |
| Number of stores               | 95       | 98       | 106      | 114      | 114      | 114      |
| SSG (%)                        | 29       | 53       | 37       | 18       | -3       | 0        |
| ADS (Rs)                       | 1,12,000 | 75,000   | 73,000   | 75,000   | 65,000   | 81,000   |
| Revenue                        | 917      | 650      | 669      | 731      | 667      | 825      |
| Gross margin (%)               | 64.9     | 58.8     | 55.4     | 57.3     | 61.0     | 60.5     |
| Brand contribution margin (%)  | 24.4     | 15.5     | 15.0     | 14.6     | 14.2     | 13.0     |
| <b>Others (Maldives)</b>       |          |          |          |          |          |          |
| Revenue                        | 28       | 30       | 34       | 34       | 13       | 53       |
| Brand contribution margin (%)  | 21.5     | 16.1     | 5.4      | 3.9      | 40.8     | 12.6     |
| <b>Sapphire - Consolidated</b> |          |          |          |          |          |          |
| Number of stores               | 579      | 616      | 658      | 715      | 743      | 778      |
| Store additions (no. of)       | 29       | 37       | 42       | 57       | 28       | 35       |
| Revenue                        | 4,943    | 5,436    | 5,604    | 5,939    | 5,592    | 6,526    |
| Gross margin (%)               | 69.1     | 68.2     | 66.7     | 67.3     | 68.1     | 68.7     |
| Brand contribution margin (%)  | 18.5     | 18.5     | 16.8     | 18.0     | 16.3     | 17.3     |
| Overhead opex/revenue (%)      | 5.6      | 5.2      | 5.6      | 5.6      | 6.2      | 5.5      |
| Consol. EBITDA                 | 636      | 722      | 624      | 738      | 563      | 772      |
| EBITDA margin (%)              | 12.9     | 13.3     | 11.1     | 12.4     | 10.1     | 11.8     |

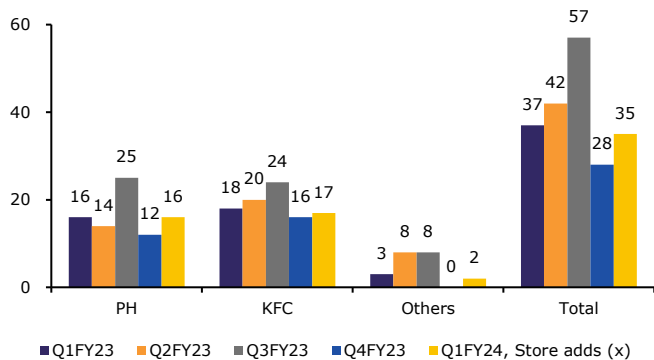
Source: Company, Emkay Research; \*EBITDA/margins are pre IndAS-116

Exhibit 2: Actual vs. Estimates (Q1FY24)

| (Rs mn)        | Actual | Estimates |           | Variation |           | Comments                                     |
|----------------|--------|-----------|-----------|-----------|-----------|--|
|                |        | Emkay     | Consensus | Emkay     | Consensus |  |
| Net Sales      | 6,544  | 6,670     | 6,550     | -1.9%     | -0.1%     | Revenue was broadly in-line                  |
| EBITDA*        | 1,214  | 1,256     | 1,149     | -3.3%     | 5.7%      | EBITDA was lower, owing to weaker SL margins |
| EBITDA margin* | 18.6%  | 18.8%     | 17.5%     | -27       | 102       |  |
| PAT            | 249    | 309       | 270       | -19.5%    | -7.9%     | PAT was lower, due to deferred tax of Rs80mn |

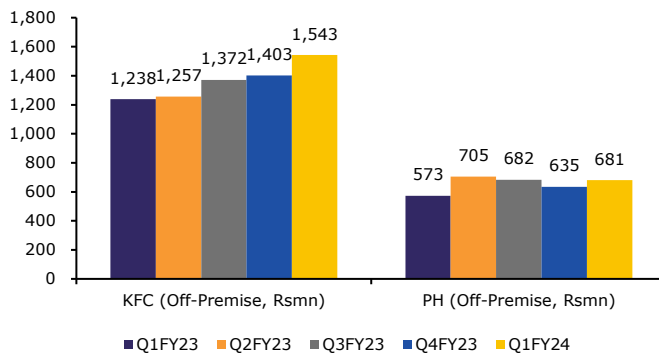
Source: Company, Emkay Research; \*Post IndAS-116 EBITDA

**Exhibit 3: Sapphire added 35 stores in Q1FY24, comprising of 16/17 stores in PH/KFC, respectively**



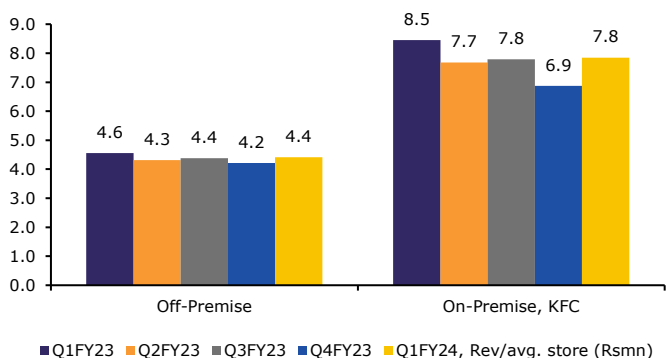
Source: Company, Emkay Research

**Exhibit 4: Channel-wise, off-premise sales grew 25%/19% YoY for KFC/Pizza Hut, in Q1**



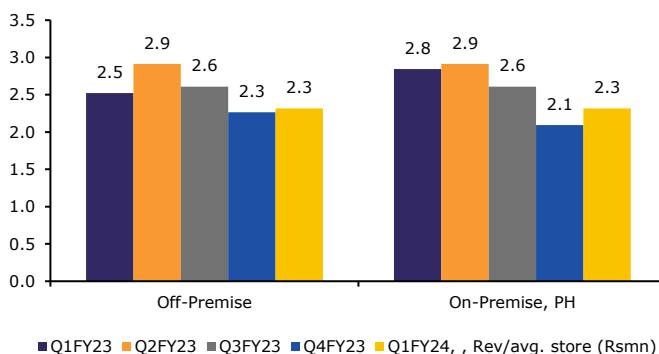
Source: Company, Emkay Research

**Exhibit 5: For KFC, both, on-premise and off-premise sales per store, saw a decent sequential pick-up**



Source: Company, Emkay Research

**Exhibit 6: For PH, on-premise sales per store picked up, while off-premise sales per store were flat**



Source: Company, Emkay Research

## Exhibit 7: Summary of quarterly results

| Y/E, Mar (Rs mn)                     | Q1FY23        | Q2FY23        | Q3FY23        | Q4FY23        | Q1FY24        | YoY (%)        | QoQ (%)        | FY23TD        | FY24TD        | YoY (%)        |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|---------------|---------------|----------------|
| <b>Revenue</b>                       | <b>5,463</b>  | <b>5,628</b>  | <b>5,961</b>  | <b>5,604</b>  | <b>6,544</b>  | <b>19.8</b>    | <b>16.8</b>    | <b>5,463</b>  | <b>6,544</b>  | <b>19.8</b>    |
| <b>Expenditure</b>                   | <b>4,359</b>  | <b>4,596</b>  | <b>4,795</b>  | <b>4,623</b>  | <b>5,329</b>  | <b>22.3</b>    | <b>15.3</b>    | <b>4,359</b>  | <b>5,329</b>  | <b>22.3</b>    |
| Consumption of RM                    | 1,756         | 1,890         | 1,964         | 1,797         | 2,061         | 17.4           | 14.7           | 1,756         | 2,061         | 17.4           |
| as % of sales                        | 32.1%         | 33.6%         | 32.9%         | 32.1%         | 31.5%         |                |                | 32.1%         | 31.5%         |                |
| Employee Cost                        | 684           | 747           | 731           | 767           | 850           | 24.3           | 10.8           | 684           | 850           | 24.3           |
| as % of sales                        | 12.5%         | 13.3%         | 12.3%         | 13.7%         | 13.0%         |                |                | 12.5%         | 13.0%         |                |
| Other expenditure                    | 1,919         | 1,959         | 2,100         | 2,059         | 2,418         | 26.0           | 17.5           | 1,919         | 2,418         | 26.0           |
| as % of sales                        | 35.1%         | 34.8%         | 35.2%         | 36.7%         | 37.0%         |                |                | 35.1%         | 37.0%         |                |
| <b>EBITDA</b>                        | <b>1,104</b>  | <b>1,032</b>  | <b>1,167</b>  | <b>981</b>    | <b>1,214</b>  | <b>10.0</b>    | <b>23.8</b>    | <b>1,104</b>  | <b>1,214</b>  | <b>10.0</b>    |
| Depreciation                         | 609           | 628           | 681           | 724           | 727           | 19.3           | 0.5            | 609           | 727           | 19.3           |
| <b>EBIT</b>                          | <b>495</b>    | <b>404</b>    | <b>486</b>    | <b>258</b>    | <b>487</b>    | <b>-1.5</b>    | <b>89.0</b>    | <b>495</b>    | <b>487</b>    | <b>-1.5</b>    |
| Other Income                         | 59            | 71            | 67            | 114           | 75            | 27.2           | -34.2          | 59            | 75            | 27.2           |
| Interest                             | 197           | 206           | 217           | 249           | 226           | 14.6           | -9.2           | 197           | 226           | 14.6           |
| <b>PBT</b>                           | <b>356</b>    | <b>269</b>    | <b>336</b>    | <b>123</b>    | <b>336</b>    | <b>-5.6</b>    | <b>173.8</b>   | <b>356</b>    | <b>336</b>    | <b>-5.6</b>    |
| Total Tax                            | -25           | 1             | 9             | -1,232        | 88            |                |                | -25           | 88            |                |
| <b>Reported PAT</b>                  | <b>381</b>    | <b>269</b>    | <b>327</b>    | <b>1,355</b>  | <b>249</b>    | <b>-34.8</b>   | <b>-81.6</b>   | <b>381</b>    | <b>249</b>    | <b>-34.8</b>   |
| Extra ordinary items                 | 0             | 0             | 0             | 0             | 0             |                |                | 0             | 0             |                |
| <b>PAT before minority interests</b> | <b>381</b>    | <b>269</b>    | <b>327</b>    | <b>1,355</b>  | <b>249</b>    | <b>-34.8</b>   | <b>-81.6</b>   | <b>381</b>    | <b>249</b>    | <b>-34.8</b>   |
| Minority Interests                   | -1            | 0             | 1             | -1            | -1            |                |                | -1            | -1            |                |
| <b>PAT after MI</b>                  | <b>383</b>    | <b>269</b>    | <b>326</b>    | <b>1,356</b>  | <b>249</b>    | <b>-34.8</b>   | <b>-81.6</b>   | <b>383</b>    | <b>249</b>    | <b>-34.8</b>   |
| <b>EPS (Rs)</b>                      | <b>6.0</b>    | <b>4.2</b>    | <b>5.1</b>    | <b>21.3</b>   | <b>3.9</b>    |                |                | <b>6.0</b>    | <b>3.9</b>    |                |
| <b>(%)</b>                           | <b>Q1FY23</b> | <b>Q2FY23</b> | <b>Q3FY23</b> | <b>Q4FY23</b> | <b>Q1FY24</b> | <b>YoY (%)</b> | <b>QoQ (%)</b> | <b>FY23TD</b> | <b>FY24TD</b> | <b>YoY (%)</b> |
| EBITDAM                              | 20.2          | 18.3          | 19.6          | 17.5          | 18.6          | -160           | 100            | 20.2          | 18.6          | -160           |
| EBITM                                | 9.1           | 7.2           | 8.2           | 4.6           | 7.4           | -160           | 280            | 9.1           | 7.4           | -160           |
| EBTM                                 | 6.5           | 4.8           | 5.6           | 2.2           | 5.1           | -140           | 290            | 6.5           | 5.1           | -140           |
| PATM                                 | 7.0           | 4.8           | 5.5           | 24.2          | 3.8           | -320           | -2,040         | 7.0           | 3.8           | -320           |
| Effective Tax rate                   | -7.1          | 0.3           | 2.6           | -1003.2       | 26.0          | NA             | NA             | -7.1          | 26.0          | NA             |

Source: Company, Emkay Research; \*Post IndAS-116 EBITDA

## Exhibit 8: Changes in estimates

| (Rs mn)            | FY24E  |        |          | FY25E  |        |          | FY26E  |        |          |
|--------------------|--------|--------|----------|--------|--------|----------|--------|--------|----------|
|                    | Old    | New    | % change | Old    | New    | % change | Old    | New    | % change |
| Revenue            | 28,282 | 28,180 | (0.4)    | 36,694 | 36,505 | (0.5)    | 44,056 | 43,844 | (0.5)    |
| EBITDA*            | 3,383  | 3,364  | (0.6)    | 4,814  | 4,665  | (3.1)    | 6,116  | 5,913  | (3.3)    |
| EBITDA margin (%)* | 12.0   | 11.9   | 0 bps    | 13.1   | 12.8   | -30 bps  | 13.9   | 13.5   | -40 bps  |
| PAT                | 1,436  | 1,401  | (2.4)    | 2,074  | 1,974  | (4.8)    | 2,804  | 2,615  | (6.7)    |
| EPS (Rs)           | 22.6   | 22.0   | (2.4)    | 32.6   | 31.1   | (4.8)    | 44.1   | 41.2   | (6.7)    |

Source: Company, Emkay Research, \*Pre-IndAS-116 EBITDA

## Exhibit 9: Peer Comparison

| Companies             | Price (Rs)   | Mcap (Rs bn) | Reco        | Target Price (Rs) | P/E (x)     |             |             | Pre IndAS-116 EV/EBITDA (x) |             |             |
|-----------------------|--------------|--------------|-------------|-------------------|-------------|-------------|-------------|-----------------------------|-------------|-------------|
|                       |              |              |             |                   | FY24E       | FY25E       | FY26E       | FY24E                       | FY25E       | FY26E       |
| Jubilant FoodWorks    | 488          | 322          | Sell        | 420               | 81.2        | 55.4        | 44.4        | 38.3                        | 28.1        | 23.2        |
| Devyani International | 194          | 234          | Hold        | 175               | 100.0       | 66.0        | 50.5        | 42.6                        | 30.8        | 24.2        |
| Westlife Foodworld    | 929          | 145          | Buy         | 1,035             | 89.5        | 72.1        | 54.2        | 37.4                        | 31.4        | 25.2        |
| <b>Sapphire Foods</b> | <b>1,342</b> | <b>85</b>    | <b>Hold</b> | <b>1,400</b>      | <b>60.8</b> | <b>43.2</b> | <b>32.6</b> | <b>27.8</b>                 | <b>20.1</b> | <b>15.8</b> |

Source: Company, Emkay Research

## Sapphire Foods: Consolidated Financials and Valuations

| Profit & Loss               |               |               |               |               |               |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| Y/E Mar (Rs mn)             | FY22          | FY23          | FY24E         | FY25E         | FY26E         |
| <b>Revenue</b>              | <b>17,216</b> | <b>22,656</b> | <b>28,180</b> | <b>36,505</b> | <b>43,844</b> |
| Revenue growth (%)          | 68.8          | 31.6          | 24.4          | 29.5          | 20.1          |
| <b>EBITDA</b>               | <b>3,050</b>  | <b>4,284</b>  | <b>5,289</b>  | <b>7,111</b>  | <b>8,896</b>  |
| EBITDA growth (%)           | 145.2         | 40.4          | 23.5          | 34.4          | 25.1          |
| Depreciation & Amortization | 2,135         | 2,642         | 3,094         | 3,775         | 4,507         |
| <b>EBIT</b>                 | <b>915</b>    | <b>1,642</b>  | <b>2,195</b>  | <b>3,335</b>  | <b>4,389</b>  |
| EBIT growth (%)             | 0.0           | 79.5          | 33.7          | 51.9          | 31.6          |
| Other operating income      | 0             | 0             | 0             | 0             | 0             |
| Other income                | 380           | 311           | 315           | 330           | 350           |
| Financial expense           | 781           | 869           | 953           | 1,197         | 1,470         |
| <b>PBT</b>                  | <b>514</b>    | <b>1,084</b>  | <b>1,557</b>  | <b>2,468</b>  | <b>3,269</b>  |
| Extraordinary items         | 0             | 0             | 0             | 0             | 0             |
| Taxes                       | 54            | (1,248)       | 156           | 494           | 654           |
| Minority interest           | 0             | 0             | 0             | 0             | 0             |
| Income from JV/Associates   | 0             | 0             | 0             | 0             | 0             |
| <b>Reported PAT</b>         | <b>460</b>    | <b>2,332</b>  | <b>1,401</b>  | <b>1,974</b>  | <b>2,615</b>  |
| PAT growth (%)              | 0.0           | 407.1         | (39.9)        | 40.9          | 32.4          |
| <b>Adjusted PAT</b>         | <b>460</b>    | <b>2,332</b>  | <b>1,401</b>  | <b>1,974</b>  | <b>2,615</b>  |
| <b>Diluted EPS (Rs)</b>     | <b>7.2</b>    | <b>36.7</b>   | <b>22.0</b>   | <b>31.1</b>   | <b>41.2</b>   |
| Diluted EPS growth (%)      | 0.0           | 407.1         | (39.9)        | 40.9          | 32.4          |
| <b>DPS (Rs)</b>             | <b>0.0</b>    | <b>0.0</b>    | <b>0.0</b>    | <b>0.0</b>    | <b>0.0</b>    |
| <b>Dividend payout (%)</b>  | <b>0.0</b>    | <b>0.0</b>    | <b>0.0</b>    | <b>0.0</b>    | <b>0.0</b>    |
| EBITDA margin (%)           | 17.7          | 18.9          | 18.8          | 19.5          | 20.3          |
| EBIT margin (%)             | 5.3           | 7.2           | 7.8           | 9.1           | 10.0          |
| Effective tax rate (%)      | 10.5          | (115.1)       | 10.0          | 20.0          | 20.0          |
| <b>NOPLAT (pre-IndAS)</b>   | <b>819</b>    | <b>3,532</b>  | <b>1,975</b>  | <b>2,668</b>  | <b>3,511</b>  |
| Shares outstanding (mn)     | 63.5          | 63.5          | 63.5          | 63.5          | 63.5          |

Source: Company, Emkay Research

| Cash flows                   |                |                |                |                |                |
|------------------------------|----------------|----------------|----------------|----------------|----------------|
| Y/E Mar (Rs mn)              | FY22           | FY23           | FY24E          | FY25E          | FY26E          |
| PBT                          | 514            | 1,084          | 1,557          | 2,468          | 3,269          |
| Others (non-cash items)      | 2,135          | 2,642          | 3,094          | 3,775          | 4,507          |
| Taxes paid                   | (54)           | 1,248          | (156)          | (494)          | (654)          |
| Change in NWC                | (312)          | 59             | (225)          | 28             | 25             |
| <b>Operating cash flow</b>   | <b>2,685</b>   | <b>5,591</b>   | <b>4,908</b>   | <b>6,645</b>   | <b>8,267</b>   |
| Capital expenditure          | (2,672)        | (3,915)        | (2,818)        | (3,430)        | (3,430)        |
| Acquisition of business      | 0              | 0              | 0              | 0              | 0              |
| Interest & dividend income   | 380            | 311            | 315            | 330            | 350            |
| <b>Investing cash flow</b>   | <b>(2,292)</b> | <b>(3,604)</b> | <b>(2,503)</b> | <b>(3,100)</b> | <b>(3,080)</b> |
| Equity raised/(repaid)       | 5,166          | 0              | 0              | 0              | 0              |
| Debt raised/(repaid)         | (164)          | (1,441)        | 105            | 506            | 627            |
| Payment of lease liabilities | (1,249)        | (1,696)        | (1,925)        | (2,445)        | (2,983)        |
| Interest paid                | (126)          | (74)           | (15)           | (15)           | (15)           |
| Dividend paid (incl tax)     | 0              | 0              | 0              | 0              | 0              |
| Others                       | (716)          | 16             | 0              | 0              | 0              |
| <b>Financing cash flow</b>   | <b>2,911</b>   | <b>(3,195)</b> | <b>(1,835)</b> | <b>(1,954)</b> | <b>(2,371)</b> |
| Net chg in Cash              | 3,304          | (1,208)        | 570            | 1,591          | 2,816          |
| OCF                          | 2,685          | 5,591          | 4,908          | 6,645          | 8,267          |
| Adj. OCF (w/o NWC chg.)      | 2,996          | 5,532          | 5,134          | 6,617          | 8,243          |
| FCFF                         | 13             | 1,676          | 2,090          | 3,215          | 4,837          |
| FCFE                         | (388)          | 1,118          | 1,452          | 2,348          | 3,717          |
| OCF/EBITDA (%)               | 88.0           | 130.5          | 92.8           | 93.5           | 92.9           |
| FCFE/PAT (%)                 | (84.4)         | 48.0           | 103.6          | 118.9          | 142.1          |
| <b>FCFF/NOPLAT (%)</b>       | <b>1.6</b>     | <b>47.5</b>    | <b>105.8</b>   | <b>120.5</b>   | <b>137.8</b>   |

Source: Company, Emkay Research

| Balance Sheet                         |               |               |               |               |               |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Y/E Mar (Rs mn)                       | FY22          | FY23          | FY24E         | FY25E         | FY26E         |
| Share capital                         | 635           | 635           | 635           | 635           | 635           |
| Reserves & Surplus                    | 9,436         | 11,924        | 13,325        | 15,300        | 17,914        |
| <b>Net worth</b>                      | <b>10,071</b> | <b>12,559</b> | <b>13,961</b> | <b>15,935</b> | <b>18,550</b> |
| Minority interests                    | (17)          | (20)          | (20)          | (20)          | (20)          |
| Deferred tax liability (net)          | 197           | (1,077)       | (924)         | (373)         | 294           |
| <b>Total debt</b>                     | <b>612</b>    | <b>443</b>    | <b>443</b>    | <b>443</b>    | <b>443</b>    |
| <b>Total liabilities &amp; equity</b> | <b>10,864</b> | <b>11,905</b> | <b>13,458</b> | <b>15,985</b> | <b>19,267</b> |
| Net tangible fixed assets             | 5,462         | 7,706         | 8,679         | 9,950         | 10,909        |
| Net intangible assets                 | 566           | 647           | 751           | 824           | 868           |
| Net ROU assets                        | (1,032)       | (1,270)       | (1,636)       | (2,064)       | (2,616)       |
| Capital WIP                           | 327           | 550           | 550           | 550           | 550           |
| Goodwill                              | 1,622         | 1,622         | 1,622         | 1,622         | 1,622         |
| Investments [JV/Associates]           | 0             | 0             | 0             | 0             | 0             |
| <b>Cash &amp; equivalents</b>         | <b>4,071</b>  | <b>2,864</b>  | <b>3,434</b>  | <b>5,025</b>  | <b>7,841</b>  |
| Current assets (ex-cash)              | 3,344         | 3,403         | 4,392         | 5,690         | 6,834         |
| Current Liab. & Prov.                 | 3,495         | 3,616         | 4,333         | 5,613         | 6,741         |
| <b>NWC (ex-cash)</b>                  | <b>(151)</b>  | <b>(213)</b>  | <b>60</b>     | <b>77</b>     | <b>93</b>     |
| <b>Total assets</b>                   | <b>10,864</b> | <b>11,905</b> | <b>13,458</b> | <b>15,985</b> | <b>19,267</b> |
| Net debt                              | (3,459)       | (2,421)       | (2,991)       | (4,582)       | (7,398)       |
| Capital employed                      | 10,864        | 11,905        | 13,458        | 15,985        | 19,267        |
| <b>Invested capital</b>               | <b>6,466</b>  | <b>8,491</b>  | <b>9,474</b>  | <b>10,409</b> | <b>10,876</b> |
| BVPS (Rs)                             | 158.5         | 197.7         | 219.7         | 250.8         | 291.9         |
| Net Debt/Equity (x)                   | (0.3)         | (0.2)         | (0.2)         | (0.3)         | (0.4)         |
| Net Debt/EBITDA (x)                   | (1.1)         | (0.6)         | (0.6)         | (0.6)         | (0.8)         |
| Interest coverage (x)                 | 0.6           | 0.4           | 0.4           | 0.3           | 0.3           |
| <b>RoCE (%)</b>                       | <b>15.6</b>   | <b>17.2</b>   | <b>19.8</b>   | <b>24.9</b>   | <b>26.9</b>   |

Source: Company, Emkay Research

| Valuations and key Ratios |              |              |             |             |             |
|---------------------------|--------------|--------------|-------------|-------------|-------------|
| Y/E Mar                   | FY22         | FY23         | FY24E       | FY25E       | FY26E       |
| P/E (x)                   | 185.4        | 36.6         | 60.8        | 43.2        | 32.6        |
| P/CE(x)                   | 32.9         | 17.1         | 19.0        | 14.8        | 12.0        |
| P/B (x)                   | 8.5          | 6.8          | 6.1         | 5.3         | 4.6         |
| EV/Sales (x)              | 4.8          | 3.7          | 2.9         | 2.2         | 1.8         |
| EV/EBITDA (x)             | 26.8         | 19.3         | 15.6        | 11.3        | 8.8         |
| EV/EBIT(x)                | 89.4         | 50.4         | 37.5        | 24.2        | 17.7        |
| EV/IC (x)                 | 12.6         | 9.8          | 8.7         | 7.7         | 7.2         |
| FCFF yield (%)            | 0.0          | 2.0          | 2.5         | 4.0         | 6.2         |
| FCFE yield (%)            | (0.5)        | 1.3          | 1.7         | 2.8         | 4.4         |
| Dividend yield (%)        | 0.0          | 0.0          | 0.0         | 0.0         | 0.0         |
| <b>DuPont-RoE split</b>   |              |              |             |             |             |
| Net profit margin (%)     | 2.7          | 10.3         | 5.0         | 5.4         | 6.0         |
| Total asset turnover (x)  | 2.1          | 2.0          | 2.2         | 2.5         | 2.5         |
| Assets/Equity (x)         | 1.1          | 1.0          | 1.0         | 1.0         | 1.0         |
| <b>RoE (%)</b>            | <b>6.2</b>   | <b>20.6</b>  | <b>10.6</b> | <b>13.2</b> | <b>15.2</b> |
| <b>DuPont-RoIC</b>        |              |              |             |             |             |
| NOPLAT margin (%)         | 4.8          | 15.6         | 7.0         | 7.3         | 8.0         |
| IC turnover (x)           | 3.1          | 3.0          | 3.1         | 3.7         | 4.1         |
| <b>RoIC (%)</b>           | <b>14.7</b>  | <b>47.2</b>  | <b>22.0</b> | <b>26.8</b> | <b>33.0</b> |
| <b>Operating metrics</b>  |              |              |             |             |             |
| Core NWC days             | (29.2)       | (25.6)       | (23.0)      | (22.6)      | (23.4)      |
| <b>Total NWC days</b>     | <b>(3.2)</b> | <b>(3.4)</b> | <b>0.8</b>  | <b>0.8</b>  | <b>0.8</b>  |
| Fixed asset turnover      | 2.1          | 2.1          | 2.0         | 2.2         | 2.2         |
| Opex-to-revenue (%)       | 51.6         | 48.4         | 49.5        | 49.0        | 48.7        |

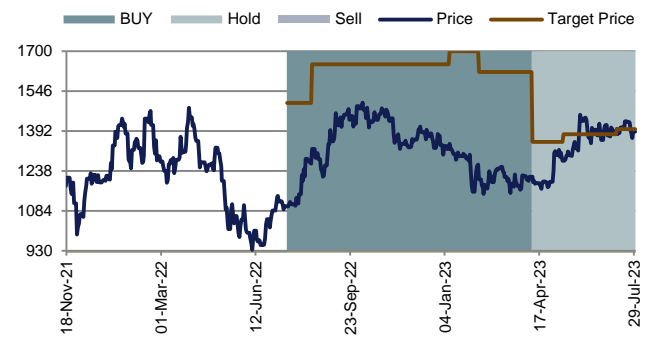
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

| Date      | CMP (INR) | TP (INR) | Rating | Analyst         |
|-----------|-----------|----------|--------|-----------------|
| 10-Jul-23 | 1,400     | 1,400    | Hold   | Devanshu Bansal |
| 21-May-23 | 1,298     | 1,380    | Hold   | Devanshu Bansal |
| 13-May-23 | 1,277     | 1,380    | Hold   | Devanshu Bansal |
| 20-Apr-23 | 1,195     | 1,350    | Hold   | Devanshu Bansal |
| 09-Apr-23 | 1,215     | 1,350    | Hold   | Devanshu Bansal |
| 10-Feb-23 | 1,205     | 1,620    | Buy    | Devanshu Bansal |
| 09-Jan-23 | 1,342     | 1,700    | Buy    | Devanshu Bansal |
| 04-Nov-22 | 1,431     | 1,650    | Buy    | Devanshu Bansal |
| 12-Aug-22 | 1,322     | 1,650    | Buy    | Devanshu Bansal |
| 16-Jul-22 | 1,101     | 1,500    | Buy    | Devanshu Bansal |

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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|-------------|---|
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| <b>SELL</b> | Below -5%                                     |

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