

October 26, 2023

**ANALYST MEET & RESULT REPORT Q3 CY23** | Sector: Consumer Staples

# Nestle India

## Thriving not surviving; Valuations out of comfort

We participated in the Analyst/Investors Meet held by Nestle India's (NEST) at Nestle House. Key pointers: (1) Branded packaged food market at ~\$40bn is currently a small portion of the \$800bn overall (Loose + Packaged) Food market in India, so growth opportunity remains strong. (2) 9MCY23 domestic tonnage growth stood at ~1.7% so growth largely driven by pricing+mix. (3) NEST will now be focusing more on sweating the distribution assets built over last few years. (4) There will be step up in innovations compared to last year, but it will now be more calibrated. (5) Inflation won't be a big concern in near term. The stock is currently trading at 67x/61x CY24E/CY25E EPS and leaves little room for execution error. Based on target multiple of ~60x (3yr/5yr avg fwd. multiple ~69x/67x) and rolling forward to Sept'25 EPS, we now arrive at a target price (TP) of Rs23,420, thus downgrade our rating a notch to Reduce.

### Analyst Meet – Key points: -

- As far as Nestle is concerned, there are total 487mn addressable consumers which is likely to increase to ~700mn by 2030. As per market theory, consumption won't be a problem but supply might become one.
- Total (Loose + Packaged) Food market in India is \$800bn, of which Packaged Food would be \$100bn and further Branded Packaged Food to be ~\$40bn.
- The domestic volumes as of 9MCY23 stood at 430k tonnes vs 423k tonnes in 9MCY22, implying ~1.7% tonnage growth. Subdued near term volume growth can be seen as just a blip in the long-term curve if we compare it to the huge penetration led opportunity.
- It is targeting to cover 1,20,000 villages by 2024 having a population of >2,000. Post that, company believes, distribution reach expansion in non-urban areas, atleast for now, is largely done and company will be now focusing on sweating the assets.
- Over the 3 years, town class (TC) 1 to 6 growth was a 10.2% CAGR, slightly lower than other regions as it was impacted by inflation led pricing.
- Going forward there will be step up in innovations compared to last year but innovations now would be more calibrated.
- NEST has improved efficiencies in buying media. This along with increased mix of digital spends has helped them reduce A&SP as a % of sales. It has decided to invest in building brand equity vs short term promotions.
- Management has pointed out concerns on green coffee prices. Rest of commodities are largely in comfortable zone.
- Leadership transitioning now almost done.
- The current royalty agreement will expire in June 2024. The review on royalty is still in front of the board.

### View and Valuation

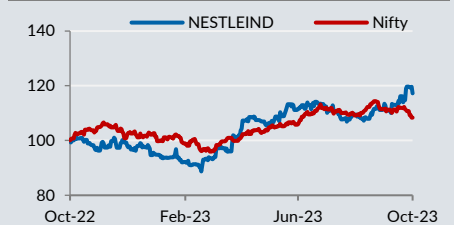
CY23 earnings growth has been robust for NEST and we remain confident that NEST will be able to sustain its healthy earnings growth (better than peers) over CY22-25E led by (1) Strong capex over CY23-25. (2) Sweating assets of distribution expansion done in non-urban markets. This along with products catering to RURBAN portfolio is strengthening its position in rural areas (current contribution at 20-25% of domestic topline) & tier 2/3 cities; (3) Pick up in innovations (backed by R&D capabilities), which will also to faster growth in the premium portfolio. Addition of new categories (Pet Care and Toddler Nutrition segments) will add to the long-term earnings trajectory for NEST. We are now building strong 16.5% EPS CAGR led by 11.9% revenue CAGR and EBITDA margin expansion of ~240bps to 24.7% (driven by gross margin expansion of ~390bps to ~58%). But the stock is currently trading at ~76x/67x/61x CY23E/CY24E/CY25E EPS and leaves little room for execution error. Dividend payout remains high and return ratios are also best in the industry even while major capex is being done in CY23 and CY24 (~Rs13bn in CY23 and ~Rs20bn in CY24). There are minor changes to our CY23E/CY24E EPS, and we now introduce CY25 estimates. Based on target multiple of ~60x (3yr/5yr avg fwd. multiple ~69x/67x) and rolling forward to Sept'25 EPS, we now arrive at a TP of Rs23,420 (Rs22,380 earlier), thus downgrade our rating a notch to Reduce.

|                  |                 |
|------------------|-----------------|
| Reco             | : <b>REDUCE</b> |
| CMP              | : Rs 24,263     |
| Target Price     | : Rs 23,420     |
| Potential Return | : -3.5%         |

### Stock data (as on October 25, 2023)

|                         |                 |
|-------------------------|-----------------|
| Nifty                   | 19,122          |
| 52 Week h/l (Rs)        | 24745 / 17880   |
| Market cap (Rs/USD mn)  | 2333044 / 28065 |
| Outstanding Shares (mn) | 96              |
| 6m Avg t/o (Rs mn):     | 1,444           |
| Div yield (%):          | 0.9             |
| Bloomberg code:         | NEST IN         |
| NSE code:               | NESTLEIND       |

### Stock performance



|                 | 1M   | 3M   | 1Y    |
|-----------------|------|------|-------|
| Absolute return | 3.4% | 4.3% | 17.2% |

### Shareholding pattern (As of Sep'23 end)

|          |       |
|----------|-------|
| Promoter | 62.8% |
| FII+DII  | 21.4% |
| Others   | 15.8% |

### Δ in stance

| (1-Yr)            | New    | Old     |
|-------------------|--------|---------|
| Rating            | REDUCE | NEUTRAL |
| Target Price (Rs) | 23,420 | 22,380  |

### Δ in earnings estimates

|           | CY23e | CY24e | CY25e |
|-----------|-------|-------|-------|
| EPS (New) | 318.2 | 363.9 | 399.2 |
| EPS (Old) | 323.2 | 361.7 | NA    |
| % change  | -1.6  | +0.6  | NA    |

### Financial Summary

| (Rs mn)        | CY23E   | CY24E   | CY25E   |
|----------------|---------|---------|---------|
| Revenue        | 193,361 | 214,582 | 236,492 |
| YoY Growth (%) | 14.4    | 11.0    | 10.2    |
| EBIDTA         | 45,804  | 52,582  | 58,352  |
| Margins (%)    | 23.7    | 24.5    | 24.7    |
| PAT            | 30,677  | 35,090  | 38,486  |
| EPS            | 318     | 364     | 399     |
| YoY Growth (%) | 25.9    | 14.4    | 9.7     |
| ROCE (pre-tax) | 159.8   | 158.1   | 152.6   |
| ROE            | 116.1   | 115.8   | 111.7   |
| P/E            | 76.3    | 66.7    | 60.8    |
| EV/EBITDA      | 50.8    | 44.3    | 39.9    |

### VISHAL PUNMIYA

Lead Analyst

vishal.punmiya@ysil.in

+91 22 6885 0521



## DETAILED TAKEAWAYS FROM ANALYST MEET

### Industry and growth

- Since 2018, NEST has maintained its growth rates higher than category growths i.e., it has managed to improve market share.
- As far as Nestle is concerned, there are total 487mn addressable consumers which is likely to increase to ~700mn by 2030. As per theory, supply might be a problem, but consumption won't be.
- Total (Loose + Packaged) Food market in India is \$800bn, of which Packaged Food would be \$100bn and further Branded Packaged Food to be ~\$40bn.
- Penetration in India is still modest and hence there is still enough room for penetration led volume growth. Subdued near term volume growth can be seen as a blip in the long-term curve if we compare it to the opportunity that the category offers.
- India has the largest Gen Z population in the world with about 470mn people.
- The monthly category penetration is about 10-50%. Per capita packaged food consumption of China is 4.2x and 3.3x of Philippines.
- Company of the future will have combination of brand marketing plus service.

### Key lifestyle trends

- 43% of urban households are open to experiment with new categories, per Kantar Worldpanel.
- 7 out of 10 people snack now more than pre covid levels as per Mondelez Snacking report India.

### Performance

- The company will aim to grow faster than 6.7% domestic volume growth delivered over 2018-22. However, there is also focus on growing profitably. The domestic volumes as of 9MCY23 stood at 430k tonnes vs 423k tonnes in 9MCY22, implying ~1.7% tonnage growth.
- The growth of premium products is 2x the rest of the products. KitKat and other nutrition products have higher growth rates.
- About half the products have seen price hikes. It has not seen significant rollback of prices yet.
- Product group wise growth for Jan-Sept 2023: Milk products (40.5% contribution): 15.3%, Prepared dishes (31.6% contribution): 10.7%, Out of home: 30%, Confectionary (16.8% contribution): 21.4% and Beverages (11.1% contribution): 18.6%.
- Out of 6.7% volume growth over last 4 years, ~3% is contributed by sales vector and data analytics.
- 3-year CAGR performance: - Mega city: 15.4%, Metro: 21%, town class (TC) 1: 10.2%, TC 2-6: 11.2%, and Villages: 26.6%. TC 1-6 growth while creditable but has been impacted by inflation led pricing.

## Distribution

- As of 9MCY23, Nestle now reaches over 5.2mn total outlets (1.6mn direct reach) with 10k+ distributors & redistributors.
- For population more than 2,000, reach has now improved to 107,844 villages as of 9MCY23 versus 91,683 at the end of CY22. Total village coverage has now increased to 191,395 villages versus 165,367 villages at the end of CY22. The company is targeting to cover 1,20,000 villages by 2024 having a population of more than 2,000. Post that, company believes, distribution reach expansion in non-urban areas atleast for now is largely done and now company will be focusing on sweating the assets.
- Company's Swabhimaan network (women entrepreneurs) is now more than 1,600 women strong generating business of Rs80mn (till 30th Sept 2023) and is spread across 14 states.
- Company is introducing Nesmitra, which will be a retailer self-order application. This will not substitute in-shop salesperson contact.

## Innovation

- ~125 new products launched in last 7 years, contributing to 6.1% of domestic sales (it was 5.4% in 2022). 10 new projects are in pipeline.
- Going forward there will be step up in innovations compared to last year but innovations now would be more calibrated.
- NEST aims to take innovation as a contribution to sales to 10% in the long run.

## R&D

- Manesar R&D center looks after the global category lead in Noodles and spices.
- The company has an R&D accelerator program that identifies new opportunities and makes innovations accordingly.
- Nestle's global R&D helps in accelerating innovation-led growth.
- Innovation and renovation together contribute to 30% of the sales globally.

## Inflation

- The company has pointed out concerns on green coffee prices.
- Packaging prices have stabilized. **Even** wheat prices are stable. NEST is confident that 7% increase in wheat MSP will be absorbed.
- Other commodities are in comfortable zone as of now.
- To counter pressure on margins, company first drives buying efficiencies, then cost savings with the help of its SHARK programme and only after that it uses pricing.

## Other highlights

- One of the key focus areas: Company will be using Nutrition as a platform for innovations.
- Leadership transitioning now almost done.
- The 10th factory in Odisha will be one of the most sophisticated and advanced factories in the world. Sanand will become largest factory for Nestle India in next couple of years.
- The company has collaborated with government institutions for millet-based innovations and has launched Nestle masala millets.

- NEST will be coal-free by mid-2024 and fossil-free by mid-2025.
- The A&SP spend in 9MCY23 stood at 1.3x of 2017 levels. It has improved efficiencies in buying media. This along with increased mix of digital spends has helped them reduce A&SP as a % of sales. It has decided to invest in building brand equity versus short term promotions.
- E-commerce grew by 20% in 9MCY23 vs 9MCY22 and now accounts for 6.6% of sales.
- In recent times, there have been entrants in lower end of packaged instant noodles. However, there is no significant loss of market share.
- Competition (new smaller players) in the coffee market have been muted during the coffee inflation period.
- The company recognizes downtrading due to the high inflation. Conscious of this, NEST has been bridging price points.
- The company is open for M&A, but the focus is on growing organically.
- 1/3<sup>rd</sup> of Nestle India portfolio is price point.
- Nespresso is a business of interest for the India entity. The company is looking to counter some regulatory hurdles for the same.
- Pet Care business: Integration is not complete. NEST is currently utilizing the obvious synergies. It is serious about expanding its pet care business in India given its strong global expertise.
- Premium products: Company has a significant mainstream portfolio. 30-40% above the mainstream products is considered as a premium product for NEST.
- Increase in gross margins for 3QCY23 is a combination of raw materials softening and pricing.
- The current royalty agreement will expire in June 2024. The review on royalty is still in front of the board.

## Result Highlights (3QCY23 and 9MCY23)

- **Headline performance:** NEST's 3QCY23 revenues (inclg. OOI) grew by 9.7% YoY to Rs50.4bn (vs est. Rs51.9bn). EBITDA grew by 20.9% YoY to Rs12.3bn (vs est. Rs12.3bn). Adjusted PAT (APAT) grew by 23.6% YoY to Rs8.3bn (vs est. Rs8.3bn).
- Domestic sales grew 10.3% YoY to Rs48.2bn (vs est. Rs49.3bn). Exports (~3.7% of sales for the quarter) were down by 9.6% YoY to Rs1.86bn (vs est. Rs2.2bn).
- **Margins:** Gross margin was sequentially up by 170bps (+380bps YoY to 56.5% vs. est. of 55.5%). Overheads were only slightly higher than our estimate: Staff cost up 110bps YoY and other expenses were up 20bps YoY. This meant that EBITDA margin was thus up 240bps YoY to 24.4% (vs. est. 23.8%).
- **9MCY23:** Revenues, EBITDA and APAT up 14.9%, 22.2% & 26.7% YoY, respectively. Gross margin up by 120bps YoY to 55.1% while EBITDA margin is up 140bps YoY to 23.4%.
- **Key Segmental excerpts – 3QCY23 (Domestic)**
  - 1) **Prepared Dishes and Cooking Aids:** Growth momentum continued across portfolio, driven by market visibility, media campaigns and targeted consumer engagement initiatives supported by innovation especially for RURBAN markets.
  - 2) **Milk Products and Nutrition:** Segment continued to see double-digit growth.
  - 3) **Confectionery:** Performance was aided by consistent media support, digital-first campaigns, and a mega launch plan on KITKAT's premium portfolio.
  - 4) **Beverages:** NESCAFÉ continued to cement its leadership position in the category with highest ever market share and strong household penetration gains.

- **Other highlights:** (1) Consumer trends and increasing proclivity towards adoption of brands in small towns and large villages has propelled the growth of the Company. (2) Out-of-Home business continued to deliver double-digit growth. (3) E-Commerce contributed to 6.1% of the quarterly sales with continued growth across channels driven by Quick Commerce.
- **Commentary on Commodity inflation** – (1) There could be an adverse impact on pricing for maize, sugar, oilseeds and spices due to uneven rain and rain deficit impacting production. (2) Volatility in coffee prices continue due to global supply deficit. Additionally, weather during the Indian Robusta harvest season may impact production. (3) Upcoming winter weather may impact wheat production. (4) Whereas on positive side, healthy milk flush in upcoming winter season is expected to keep prices stable.
- **Dividend:** The Board of Directors have declared second interim dividend for 2023 of Rs140/- per equity share (Face value Rs. 10/- per equity share). This is in addition to the first interim dividend of Rs27/- per equity share paid on 8th May 2023.
- **Sub-division/ split of face value of shares:** The BOD has approved the alteration in the share capital of the Company by sub-division/ split of existing equity shares having face value of Rs. 10/- each, fully paid up, into 10 equity shares having face value of Re. 1/- each fully paid-up, subject to the approval of Members of the Company.

## Exhibit 1: Quarterly snapshot

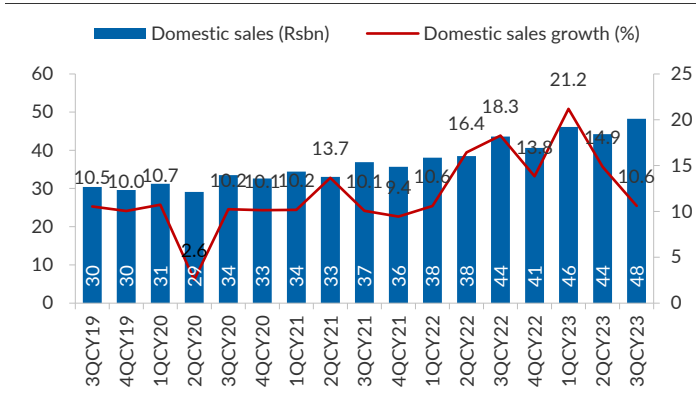
| Particulars (Rs. Mn)     | 3QCY22        | 2QCY23        | 3QCY23        | YoY (%)     | QoQ (%)     | 9MCY22        | 9MCY23        | YoY (%)     |
|--------------------------|---------------|---------------|---------------|-------------|-------------|---------------|---------------|-------------|
| Revenue                  | 46,018        | 46,585        | 50,368        | 9.5         | 8.1         | 126,402       | 145,259       | 14.9        |
| COGS                     | 21,777        | 21,050        | 21,916        | 0.6         | 4.1         | 58,284        | 65,282        | 12.0        |
| <b>Gross margin %</b>    | <b>52.7</b>   | <b>54.8</b>   | <b>56.5</b>   | <b>3.8</b>  | <b>1.7</b>  | <b>53.9</b>   | <b>55.1</b>   | <b>1.2</b>  |
| Employee costs           | 4,200         | 4,572         | 5,176         | 23.2        | 13.2        | 12,285        | 14,291        | 16.3        |
| % of revenue             | 9.1           | 9.8           | 10.3          | 1.1         | 0.5         | 9.7           | 9.8           | 0.1         |
| Other expenses           | 9,941         | 10,374        | 10,989        | 10.5        | 5.9         | 28,019        | 31,711        | 13.2        |
| % of revenue             | 21.6          | 22.3          | 21.8          | 0.2         | -0.5        | 22.2          | 21.8          | -0.3        |
| <b>EBITDA</b>            | <b>10,101</b> | <b>10,588</b> | <b>12,287</b> | <b>21.6</b> | <b>16.0</b> | <b>27,814</b> | <b>33,975</b> | <b>22.2</b> |
| <b>EBITDA margin %</b>   | <b>21.9</b>   | <b>22.7</b>   | <b>24.4</b>   | <b>2.4</b>  | <b>1.7</b>  | <b>22.0</b>   | <b>23.4</b>   | <b>1.4</b>  |
| Depreciation             | 982           | 1,074         | 1,112         | 13.2        | 3.5         | 3,044         | 3,202         | 5.2         |
| EBIT                     | 9,119         | 9,515         | 11,176        | 22.6        | 17.5        | 24,770        | 30,773        | 24.2        |
| Interest expense         | 372           | 328           | 314           | -15.6       | -4.3        | 1,097         | 1,012         | -7.8        |
| Other income             | 306           | 240           | 333           | 8.6         | 38.9        | 715           | 909           | 27.2        |
| Exceptional items        | 0             | 0             | 788           | 0.0         | 0.0         | 0             | 788           | -           |
| PBT                      | 9,053         | 9,427         | 11,195        | 23.7        | 18.8        | 24,387        | 30,670        | 25.8        |
| Tax                      | 2,379         | 2,410         | 2,863         | 20.3        | 18.8        | 6,344         | 7,811         | 23.1        |
| Effective tax rate %     | 26.3          | 25.6          | 25.6          | -0.7        | 0.0         | 26.0          | 25.5          | -0.5        |
| <b>Adj. PAT</b>          | <b>6,674</b>  | <b>7,017</b>  | <b>8,332</b>  | <b>24.8</b> | <b>18.7</b> | <b>18,043</b> | <b>22,860</b> | <b>26.7</b> |
| <b>Adj. PAT margin %</b> | <b>14.5</b>   | <b>15.1</b>   | <b>16.5</b>   | <b>2.0</b>  | <b>1.5</b>  | <b>14.3</b>   | <b>15.7</b>   | <b>1.5</b>  |
| <b>EPS</b>               | <b>69.2</b>   | <b>72.8</b>   | <b>86.4</b>   | <b>24.8</b> | <b>18.7</b> | <b>187.1</b>  | <b>237.1</b>  | <b>26.7</b> |

Source: Company, YES Sec

## Exhibit 2: Actual vs estimate

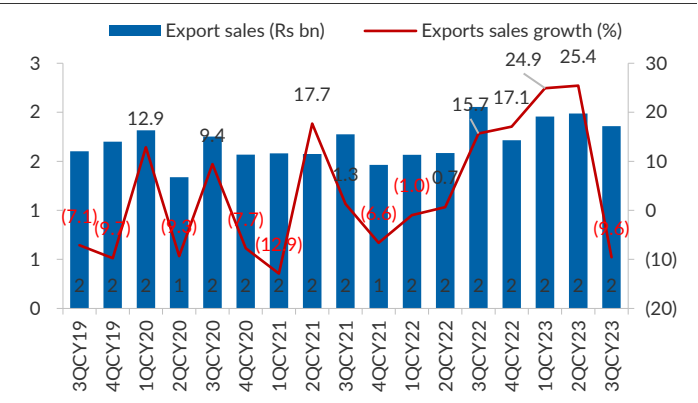
| Rsmn              | Actual | Estimate |           | % Variation |           |
|-------------------|--------|----------|-----------|-------------|-----------|
|                   |        | YES Sec  | Consensus | YES Sec     | Consensus |
| Revenue           | 50,368 | 51,859   | 50,875    | (2.9)       | (1.0)     |
| EBITDA            | 12,287 | 12,342   | 11,923    | (0.4)       | 3.1       |
| EBITDA Margin (%) | 24.4   | 23.8     | 23.4      | 0.6         | 1.0       |
| Adjusted PAT      | 8,332  | 8,305    | 7,853     | 0.3         | 6.1       |

**Exhibit 3: Domestic sales grew ~10.6% YoY in 3QCY23**



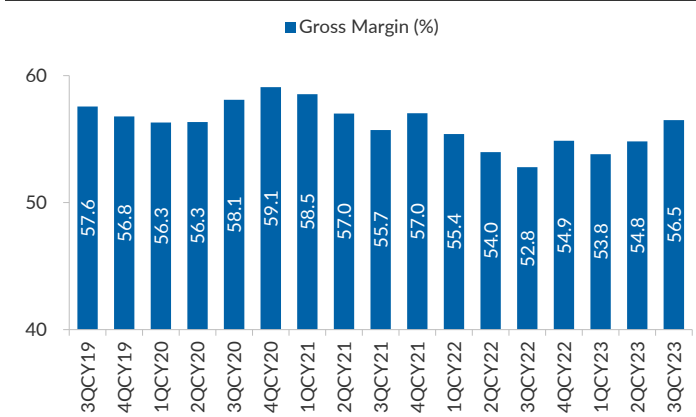
Source: Company, YES Sec

**Exhibit 4: Exports (~3.7% of sales in 2QCY23) degrew by ~9.6% YoY**



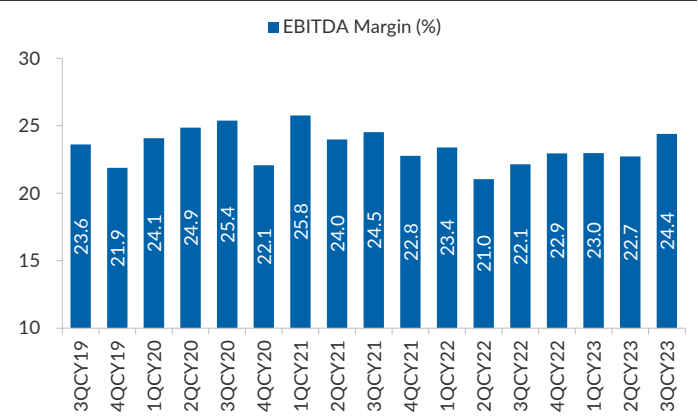
Source: Company, YES Sec

**Exhibit 5: Gross margin was up 170bps QoQ and 370bps YoY to 56.5%**



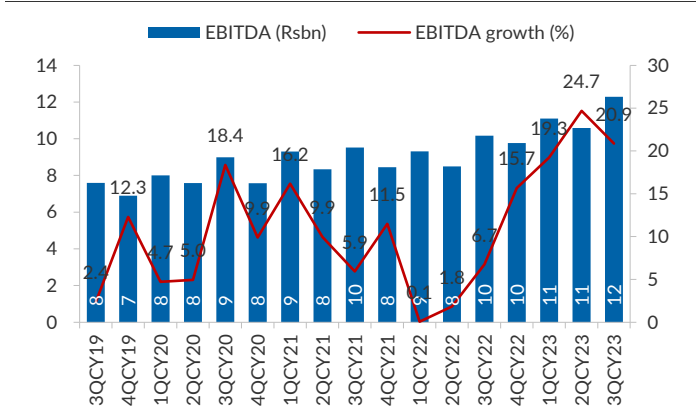
Source: Company, YES Sec

**Exhibit 6: EBITDA margin was up by 230bps YoY to 24.4% driven by gross margin recovery**



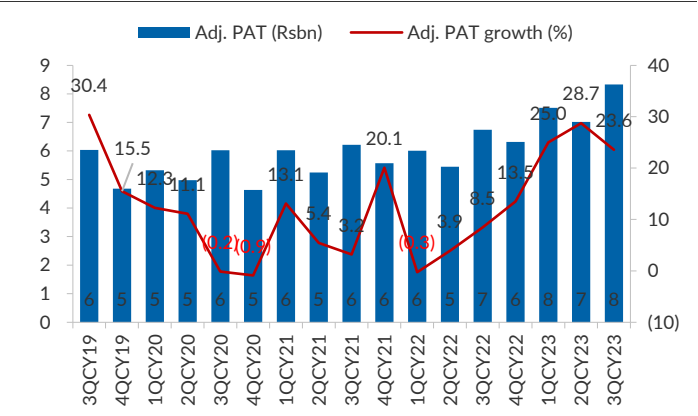
Source: Company, YES Sec

**Exhibit 7: EBITDA grew by 20.9% YoY in 3QCY23**



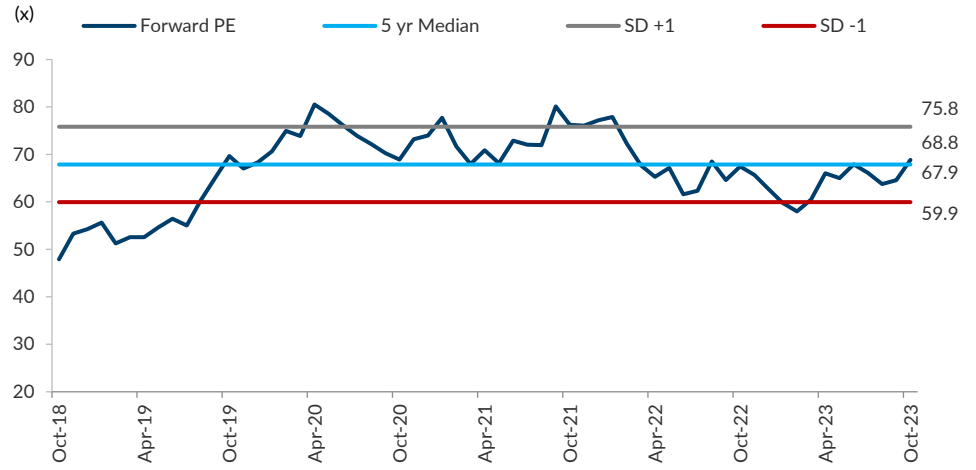
Source: Company, YES Sec

**Exhibit 8: APAT grew by 23.6% YoY in 3QCY23**



Source: Company, YES Sec

**Exhibit 9: Currently trading at ~69x 1-yr fwd EPS**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 10: Balance Sheet

| Y/E March (Rs mn)                      | CY21          | CY22          | CY23E         | CY24E         | CY25E         |
|--|---------------|---------------|---------------|---------------|---------------|
| Share capital                          | 964           | 964           | 964           | 964           | 964           |
| Reserves                               | 18,500        | 23,628        | 27,307        | 31,350        | 35,607        |
| Net worth                              | 19,464        | 24,592        | 28,271        | 32,314        | 36,572        |
| Total debt                             | 341           | 300           | 300           | 300           | 300           |
| Deferred tax liability                 | (258)         | (256)         | (256)         | (256)         | (256)         |
| <b>Total liabilities</b>               | <b>19,546</b> | <b>24,636</b> | <b>28,315</b> | <b>32,359</b> | <b>36,616</b> |
| Gross block                            | 51,187        | 54,740        | 67,740        | 87,740        | 102,740       |
| Depreciation                           | 21,241        | 24,303        | 28,651        | 34,248        | 41,106        |
| Net block                              | 29,947        | 30,437        | 39,089        | 53,492        | 61,634        |
| Capital work-in-progress               | 2,462         | 3,584         | 3,584         | 3,584         | 3,584         |
| Investments                            | 7,740         | 7,775         | 8,770         | 8,770         | 9,908         |
| Inventories                            | 15,927        | 19,288        | 21,405        | 23,000        | 25,115        |
| Debtors                                | 1,660         | 1,919         | 2,264         | 2,513         | 2,770         |
| Cash                                   | 7,354         | 9,456         | 6,191         | 793           | 1,379         |
| Loans, advances & other assets         | 16,994        | 17,073        | 17,244        | 17,416        | 17,591        |
| Total current assets                   | 41,934        | 47,735        | 47,104        | 43,722        | 46,854        |
| Creditors                              | 17,482        | 19,338        | 21,150        | 22,494        | 24,477        |
| Other current liabilities & provisions | 45,055        | 45,557        | 49,081        | 54,715        | 60,887        |
| Total current liabilities              | 62,537        | 64,895        | 70,232        | 77,209        | 85,365        |
| Net current assets                     | (20,603)      | (17,160)      | (23,127)      | (33,487)      | (38,510)      |
| <b>Total assets</b>                    | <b>19,546</b> | <b>24,636</b> | <b>28,315</b> | <b>32,359</b> | <b>36,616</b> |

Source: Company, YES Sec

Note: Through this note we introduce CY25 estimates.

### Exhibit 11: Income statement

| Y/E March (Rsmn)          | CY21        | CY22        | CY23E       | CY24E       | CY25E       |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Net Sales                 | 147,406     | 168,970     | 193,361     | 214,582     | 236,492     |
| <b>% Growth</b>           | <b>10.4</b> | <b>14.6</b> | <b>14.4</b> | <b>11.0</b> | <b>10.2</b> |
| COGS                      | 63,482      | 77,499      | 85,777      | 91,226      | 99,270      |
| Staff costs               | 15,443      | 16,679      | 18,448      | 20,691      | 23,043      |
| Other expenses            | 33,056      | 37,209      | 43,332      | 50,083      | 55,828      |
| Total expenses            | 111,980     | 131,387     | 147,557     | 161,999     | 178,140     |
| EBITDA                    | 35,426      | 37,583      | 45,804      | 52,582      | 58,352      |
| <b>% growth</b>           | <b>10.2</b> | <b>6.1</b>  | <b>21.9</b> | <b>14.8</b> | <b>11.0</b> |
| <b>EBITDA margin (%)</b>  | <b>24.0</b> | <b>22.2</b> | <b>23.7</b> | <b>24.5</b> | <b>24.7</b> |
| Other income              | 1,202       | 1,010       | 1,263       | 1,389       | 1,528       |
| Interest costs            | 2,017       | 1,546       | 1,318       | 1,480       | 1,590       |
| Depreciation              | 3,910       | 4,030       | 4,348       | 5,597       | 6,857       |
| Profit before tax         | 30,700      | 33,017      | 41,400      | 46,893      | 51,432      |
| Exceptional items         | -1,678      | -457        | 0           | 0           | 0           |
| Tax                       | 7,838       | 8,655       | 10,723      | 11,803      | 12,945      |
| Rate of Tax (%)           | 25.5        | 26.2        | 25.9        | 25.2        | 25.2        |
| PAT                       | 21,184      | 23,905      | 30,677      | 35,090      | 38,486      |
| Adj PAT                   | 22,862      | 24,362      | 30,677      | 35,090      | 38,486      |
| <b>Adj PAT margin (%)</b> | <b>15.5</b> | <b>14.4</b> | <b>15.9</b> | <b>16.4</b> | <b>16.3</b> |
| <b>% Growth</b>           | <b>9.1</b>  | <b>6.6</b>  | <b>25.9</b> | <b>14.4</b> | <b>9.7</b>  |

Source: Company, YES Sec



## Exhibit 12: Cash flow statement

| Y/E March (Rs mn)                     | CY21            | CY22            | CY23E           | CY24E           | CY25E           |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| PAT                                   | 21,287          | 24,148          | 30,733          | 35,182          | 38,549          |
| Depreciation                          | 3,910           | 4,030           | 4,348           | 5,597           | 6,857           |
| Other income                          | (1,215)         | (683)           | (1,263)         | (1,389)         | (1,528)         |
| Interest paid                         | 95              | 181             | 1,318           | 1,480           | 1,590           |
| (Inc.)/dec. in working capital        | (1,718)         | (302)           | 2,703           | 4,961           | 5,610           |
| <b>Cash flow from operations</b>      | <b>22,360</b>   | <b>27,374</b>   | <b>37,840</b>   | <b>45,832</b>   | <b>51,079</b>   |
| Capital expenditure (-)               | (7,308)         | (5,407)         | (13,000)        | (20,000)        | (15,000)        |
| <b>Net cash after capex</b>           | <b>15,052</b>   | <b>21,967</b>   | <b>24,840</b>   | <b>25,832</b>   | <b>36,079</b>   |
| Inc./(dec.) in investments & others   | (5,197)         | 1,362           | 212             | 1,298           | 327             |
| <b>Cash flow from investments</b>     | <b>(12,505)</b> | <b>(4,045)</b>  | <b>(12,788)</b> | <b>(18,702)</b> | <b>(14,673)</b> |
| Dividends paid (-)                    | (19,283)        | (20,247)        | (26,998)        | (31,047)        | (34,229)        |
| Others                                | (917)           | (980)           | (1,318)         | (1,480)         | (1,590)         |
| <b>Cash from financial activities</b> | <b>(20,200)</b> | <b>(21,227)</b> | <b>(28,316)</b> | <b>(32,528)</b> | <b>(35,819)</b> |
| Opening cash balance                  | 17,699          | 7,354           | 9,456           | 6,191           | 793             |
| Closing cash balance                  | 7,354           | 9,455           | 6,191           | 793             | 1,379           |
| Change in cash balance                | (10,345)        | 2,102           | (3,265)         | (5,398)         | 586             |

Source: Company, YES Sec

## Exhibit 13: Growth and Ratio matrix

| Y/E March                       | CY21  | CY22  | CY23E | CY24E | CY25E |
|---------------------------------|-------|-------|-------|-------|-------|
| <b>Per share (Rs)</b>           |       |       |       |       |       |
| EPS                             | 237   | 253   | 318   | 364   | 399   |
| Book value                      | 202   | 255   | 293   | 335   | 379   |
| DPS                             | 200   | 220   | 280   | 322   | 355   |
| <b>Valuation (x)</b>            |       |       |       |       |       |
| EV/sales                        | 15.8  | 13.7  | 12.0  | 10.9  | 9.8   |
| EV/EBITDA                       | 65.6  | 61.8  | 50.8  | 44.3  | 39.9  |
| P/E                             | 102.3 | 96.0  | 76.3  | 66.7  | 60.8  |
| P/BV                            | 120.2 | 95.1  | 82.7  | 72.4  | 64.0  |
| <b>Return ratios (%)</b>        |       |       |       |       |       |
| RoCE (pre-tax)                  | 162.2 | 154.7 | 159.8 | 158.1 | 152.6 |
| RoE                             | 115.3 | 110.6 | 116.1 | 115.8 | 111.7 |
| <b>Profitability ratios (%)</b> |       |       |       |       |       |
| Gross margin                    | 56.9  | 54.1  | 55.6  | 57.5  | 58.0  |
| EBITDA margin                   | 24.0  | 22.2  | 23.7  | 24.5  | 24.7  |
| EBIT margin                     | 21.4  | 19.9  | 21.4  | 21.9  | 21.8  |
| PAT margin                      | 15.5  | 14.4  | 15.9  | 16.4  | 16.3  |
| <b>Liquidity ratios (%)</b>     |       |       |       |       |       |
| Current ratio                   | 0.7   | 0.7   | 0.7   | 0.6   | 0.5   |
| Quick ratio                     | 0.4   | 0.4   | 0.4   | 0.3   | 0.3   |
| <b>Turnover ratios</b>          |       |       |       |       |       |
| Total asset turnover ratio (x)  | 7.4   | 7.6   | 7.3   | 7.1   | 6.9   |
| Fixed asset turnover ratio (x)  | 4.9   | 5.6   | 4.9   | 4.0   | 3.8   |
| Inventory days                  | 87    | 83    | 87    | 89    | 88    |
| Debtors days                    | 4     | 4     | 4     | 4     | 4     |
| Creditor days                   | 94    | 87    | 86    | 87    | 86    |

Source: Company, YES Sec

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**Registered Address:** 2<sup>nd</sup> Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

**Correspondence Address:** 4<sup>th</sup> Floor, AFL House, Lok Bharti Complex, Marol Maroshi Road, Andheri East, Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in  
Website: www.yesinvest.in

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**Details of Compliance Officer:** Name: Aditya Goenka,  
**Email id:** compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

**Grievances Redressal Cell:** customer.service@ysil.in/igc@ysil.in

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