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## Brief Overview

CMP (INR) (As on 9th April, 2019)	1,106
Target (INR)	1,409
Upside(%)	27%
Recommendation	<b>Strong Buy</b>

BSE Code	500163
NSE Code	GODFRYPHLP
Reuters Ticker	GDFR.BO
Bloomberg Ticker	GP IN

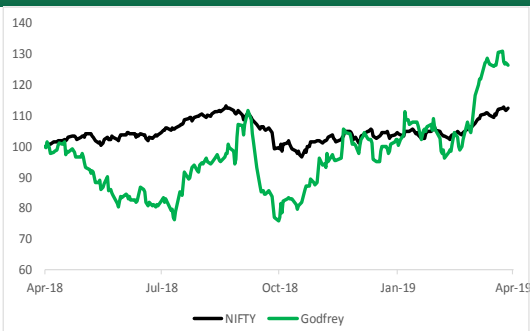
## Stock Scan

Market cap (INR Cr.)	5,805
Outstanding Shares (Cr.)	5.20
Face Value (INR)	2.00
Dividend Yield(%)	0.7
TTM P/E (x)	36.5
Industry P/E (x)	30.4
Debt/Equity (x)	0.03
Beta vs. Sensex	1.64
52 Week High/ Low (INR)	1,184/640
Avg. Daily Volume (NSE)/1yr	207850

## Shareholding Pattern (%)

	Dec-2018	Sep-2018	Jun-2018
<b>Promoters</b>	72.19	72.19	72.19
<b>Institutions</b>	13.28	13.60	13.50
<b>Non-Institution</b>	14.54	14.21	14.31

## Stock vs. Nifty (Relative Returns)



Source: NSE

## Company Overview

Godfrey Phillips India Limited (GPIL) is a manufacturer and seller of cigarettes and chewing products mainly in India. It is a flagship company of the Modi Enterprises with a promoters stake of 72.19%. GPIL's key operating segments are Cigarette & Other Tobacco and Retail Division. It operates the retail division convenience stores under the brand name Twenty Four Seven (TFS). The key cigarette brands include Four Square, Red & White, Cavanders, Stellar, Tipper & North Pole, and Marlboro; pan masala under the Pan Vilas brand. The company exports cut tobacco and cigarette brands like Force 10, Jaisalmer, Originals, Black Jack, B&B, Stellar, and Sahara, to various countries.

## Outlook & Valuation

We initiate coverage on GPIL with '**Strong Buy**' rating. The company's strong presence in the Regular Size Filter Tip (RSFT or 64mm) and Deluxe Size Filter Tip (DSFT or 69mm) cigarette market and its strategic pricing and positioning relative to competition is expected to drive the volumes going forward. We are expecting a moderation in incremental cigarette taxation in the period 2018-21E compared to 2012-17 as India is one of the highest taxed countries. There are possibilities of restructuring in India's cigarette FDI norms from the pro-business incumbent government. The government's crackdown on illegal cigarettes is likely to intensify thereby driving volumes for domestic cigarette makers.

GPIL's chewing products segment is expected to turnaround and generate a GSV (gross sales value which includes direct & indirect taxes) of INR300 crore in FY19E due to shift out of low priced brand (Raag). GPIL also has a presence in the retail segment with its Twenty Four Seven Stores (TFS) modelled along the lines of 7-Eleven. We expect some kind of positive development in the TFS in continuation which will expand shareholder value.

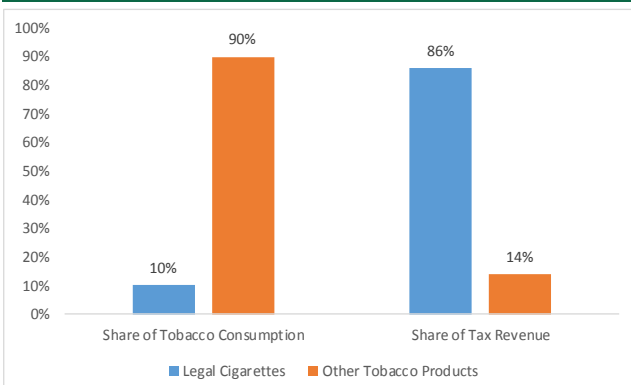
**Valuation : After valuing GPIL on a relative basis, with peers like ITC Limited and VST Industries Limited, we have assigned it a PE multiple of 17(x) on FY21E EPS, thereby arriving at a target price of INR1,409**

## Consolidated Financial Performance

Particulars (INR Cr)	FY17	FY18	FY19 E	FY20 E	FY21 E
Net Revenue	2,281	2,326	2,497	2,893	3,243
Growth(%)	-5.6%	1.9%	7.4%	15.9%	12.1%
EBITDA	254	258	446	576	655
EBIDTA Margin (%)	11.1%	11.1%	17.8%	19.9%	20.2%
Net Profit	137	159	290	374	428
Net Profit Margin (%)	6.0%	6.8%	11.6%	12.9%	13.2%
EPS	26.28	30.54	55.79	71.94	82.34
BVPS	319.22	344.51	388.20	445.70	511.18
P/E	42.1	36.2	19.8	15.4	13.4
P/BV	3.5	3.2	2.8	2.5	2.2
EV/EBITDA (x)	22.6	22.2	12.9	10.0	8.7
ROE (%)	8.4%	9.2%	15.2%	17.3%	17.2%
ROCE (%)	8.3%	8.3%	15.0%	17.1%	17.0%

Source: Company Data, SMIFS Research

## Share Of Legal Cigarettes & Tax Contribution



Source: The Tobacco Institute Of India, SMIFS Research

## Investment Rationale

**The second largest player with compelling revenue growth prospects:** GPIL is the second largest player in the domestic cigarette industry after ITC. It commands a domestic *market share of 11.9% driven by brands like Four Square, Red & White, and Cavenders*.

GPIL's gross revenue from cigarettes and tobacco products have the potential to grow at a CAGR of 15% over FY19-21E. The segmental EBIT is projected to grow at a CAGR of 24% with margins ranging between 20-23% is quite reflective of its strong operating leverage.

We are expecting a volume growth of 7%, 10% and 7% in FY19E, FY20E and FY21E respectively, driven by the RSFT and DSFT segments. We expect revival in cigarette volumes post moderation in incremental cigarette taxation which will drive the cigarette volumes.

Tobacco generates an annual tax revenue of more than INR34,000 crores in India. Legal cigarettes which just have a 10% share in the overall tobacco consumption, generate 86% of the tax revenue providing with high potential. The company has taken a price increase of 11-14% in 9M FY19 in the RSFT and DSFT cigarette segment.

**Stellar profit and margin growth expected:** GPIL's PAT is expected to grow at a CAGR of 21% over FY19-21E with margins ranging between 12-13%. The EPS is estimated to grow at a CAGR of 21% in FY19-21E.

The company's net profit expanded 77% to INR206 crore in 9M FY19 which exceeded the FY18 net profit of INR161 crore. The EBITDA is expected to grow at a CAGR of 21% over FY19-21E with margins ranging between 18-20%.

The company noted an average gross margin of 55.80% in 9M FY19. We expect it to sustain gross margins of 57.23-57.9% through FY19-21E. Expected growth in cigarette volumes coupled with marginal price increase and operating leverage benefit is expected to drive earnings growth going forward.

**Strong ROE and ROCE expansion potential:** Stronger sales, EBITDA, & PAT is expected to translate into higher ROE and ROCE growth from 8-9% in FY18 to 15% in FY19E and 17% in FY20-21E. The dividend payout will lead to further improvement of ROE and ROCE going forward.

**Strong cash flows translating into dividends:** GPIL has a debt free balance sheet with strong cash flows from operations. The company's minimal capital expenditure has further increased the possibilities of free cash flow generation translating into higher dividend payout. It had a dividend payout ratio of 26% in FY18.

## FY19 Price Hike of GPIL 10-Pack Cigarettes

Cigarette Brand	Size (In mm)	Earlier Price(In INR)	Latest Price (In INR)	Price Hike
Four Square	64	75	85	13%
Cavendars Gold	64	35	40	14%
For Square	69	80	89	11%
Four Square Kings	84	120	120	Unchanged
Marlboro	84	150	150	Unchanged
Verge		450	450	Unchanged

Source: Dealer Check, SMIFS Research

### Tax Rates based on Length

Cigarette Length (mm)	GST Rate	GST Compensation Cess Rate (In '000)	National Calamity Contingent Duty (In '000)
<b>Plains</b>			
Upto 65	28%	5% + Rs 2,076	Rs 90
>65-70	28%	5% + Rs 3,668	Rs 145
<b>Filters</b>			
Upto 65	28%	5% + Rs 2,076	Rs 90
>65-70	28%	5% + Rs 2,747	Rs 90
>70-75	28%	5% + Rs 3,668	Rs 145
Others (>75)	28%	36% + Rs 4,170	Rs 235

Source: The Tobacco Institute Of India, SMIFS Research

### Investment Rationale contd...

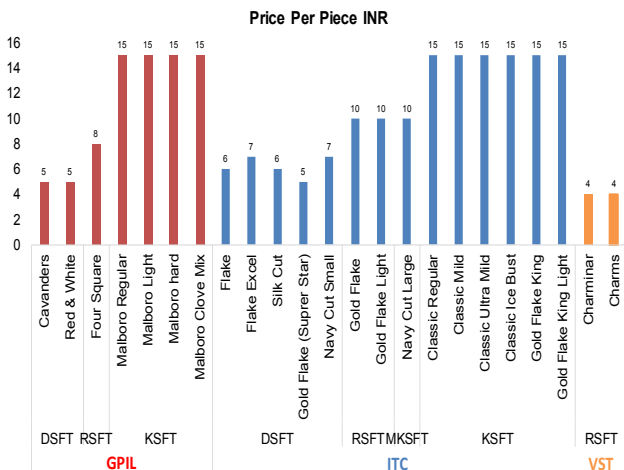
**RSFT acting as a key volume and sales driver:** GPIL' has major pricing and product segment advantage compared to ITC's premium brands. Smokers are preferring RSFT over the Mini King Size Filter Tip (MKSFT or 72mm) and KSFT. **Growing perception that smaller size is less harmful and rising prices is leading smokers to downtrade to smaller sizes.**

GPIL's 64mm cigarettes (Four Square, Red & White, Cavendars) has been the major growth driver. It constitutes around 42-45% of the total volume followed by the 69mm (Four Square and its variants) at 55-58% as per our industry channel check. The Four Square King size (84mm) accounts for the remaining.

Four Square generates 70-75% of the GPIL cigarette revenue with the remaining coming from Red & White and Cavanders in more or less equal proportions.

**Potential to tap the unorganized sector:** GPIL's pricing and positioning power has the potential to tap the growing unorganized sector. The unorganized sector represents illegal cigarettes, bidis, khainis and chewing tobacco. It accounts for 68% of the tobacco consumption which escapes from the clutches of taxes and regulations.

### Price Per Piece INR



Source: Dealer Check, SMIFS Research

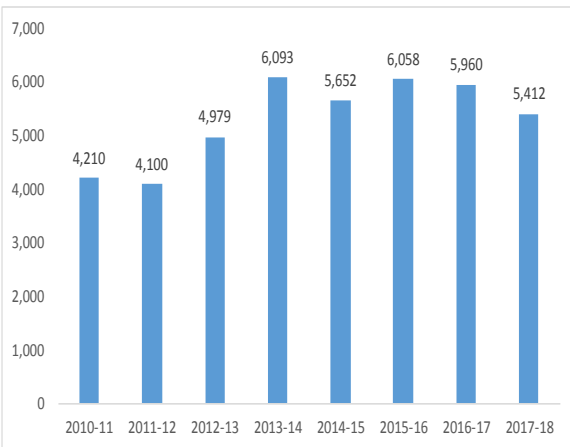
**Strategical positioning:** GPIL's has strategically positioned its products by making them available at a discount to the ITC cigarettes. This has enabled it to tap the new growing market and consolidate its position as the second best cigarette brand by volume after ITC. Brand loyalty is a major driver of the industry. The industry remains relatively inelastic towards price which enables the companies to transfer the tax burden to the consumers.

**Geographical expansion of markets:** GPIL has manufacturing facilities at Rabale, Mumbai, and Ghaziabad. It has an R&D centers in Mumbai and Ghaziabad. The company has a tobacco buying unit in Guntur (Andhra Pradesh).

GPIL is trying to gain a foothold in South India after firmly establishing itself in the North and West. It has already met with initial success in Bangalore recently with Marlboro branded cigarettes. ITC has a strong presence in the South and East.

Flue Cured Virginia (FCV) forms India's primary exportable tobacco and is used in cigarettes. Nearly 70% of FCV tobacco crop is exported generating annual foreign exchange earnings of more than INR3,000 crores. GPIL's exclusive threshing plants are strategically located at the heart of the FCV tobacco growing region.

## India's Tobacco Exports INR Crore



Source: The Tobacco Institute Of India, SMIFS Research

**The rise in women smoker has been a key driver of the additional volume. The rise in the working class women, changing lifestyles and social acceptance have triggered this new segment. GPIL launched the Four Square clove to tap the growing women smoker market.**

## Investment Rationale contd...

**Tobacco's untapped potential:** India's exports of tobacco and tobacco products generated annual foreign exchange earnings of INR 6,022 crores in 2017-18. FCV tobacco accounted for 80% of India's leaf tobacco exports with respect to value.

India generates only 6% value share of the global ~INR84,000 crores tobacco leaf export trade. It is because FCV tobacco constitutes only 30% of India's leaf tobacco production. Therefore, India can grow its share of exports by attaining sync in its production pattern with the global demand, spelling growth opportunities for companies like GPIL.

**Industry-friendly demographic and growing women smokers:** India has the second largest population with 34% of the population between the age bracket 18-35. The demographic is playing a crucial role in driving the disposable income, purchasing power, and consumer outlays.

*The rise in women smoker has been a key driver of the additional volume. The rise in the working class women, changing lifestyles and social acceptance have triggered this new segment. GPIL launched the Four Square clove to tap the growing women smoker market.*

**Expansion plans of the chewing segment:** GPIL introduced the chewing category in 2010 with the premium pan masala brand Pan Vilas. Pan Vilas has already gained a 20% share in the key markets of Gujarat, Uttar Pradesh, Rajasthan, Madhya Pradesh, and Delhi. We expect the size of the Indian chewing product market to be around INR2,800-3,000 crores.

**TFS expansion plans:** The U.S.-based 7-Eleven will be introducing its first branded store in India this year, in partnership with Future Retail Limited. GPIL already has its own format of convenience stores, TFS modelled along the lines of 7-Eleven.

The stores offer a premier shopping experience with a wide range of products from ready-to-eat food, drinks, grocery items round the clock, seven days a week. The division is being headed by Samir Modi who is credited with success stories like Colorbar.

Consumer shift towards convenience formats is expected to drive modern retail's share to grow at a 4-year CAGR of 19% through 2021E. High footfall areas or high-density travel destinations serve as the ideal points for the TFS.

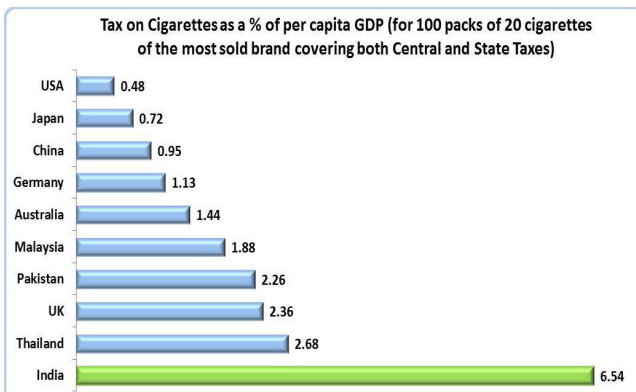
The format is targeting the growing market of night shift employees, people staying in hostels, single people and travelers in the top cities through grocery and other takeaway items.

Each store requires an initial outlay of INR1-1.25 crores mainly for the purchase of imported equipment like refrigerators. The average store size ranges between 1000 and 1500 square feet. The company is focusing on larger stores to widen its product portfolio. GPIL intends to generate sales of INR4 crores per store from matured stores going forward.

We expect the company to adopt a cluster based approach towards the TFS format by collating several stores around the same area with its own centralized kitchen. GPIL was earlier sourcing food from airline caterer Taj SATS.

We expect some kind of positive development in the TFS in continuation which will enhance shareholder value.

## Country wise Taxation



Source: ITC Presentation, SMIFS Research

**India is not a Vaping and a Juul market so global disruptions are least likely to affect it**

## Investment Rationale contd...

**Tax and FDI policies:** Cigarette taxes on a per kg basis of tobacco consumption are 55 times higher than other tobacco products consumed in India. Taxes consume nearly 55% of the revenue earned from tobacco. India falls under the country with the highest tax bracket for the cigarettes. We expect a relaxation of the tax and FDI norms towards cigarettes from the pro-business incumbent government. According to Laffar Curve, if taxes keep on increasing, after a certain point, consumption decreases and substitutes arrive, leading to a fall in the tax revenue.

**Simply put, the higher the cigarette taxes, the more profit smugglers can make, thus proving that the higher tax rates don't lead to more tax revenue.**

**Ban on e-cigarettes:** Vaping products are less expensive than cigarettes in the U.S. However, in India vaping products are relatively more expensive compared to cigarettes. Ban on e-cigarettes by 12 states will affect GPIL's vaping product portfolio. GPIL's vaping product portfolio is insignificant compared to the cigarette products. The banned states include Punjab, Maharashtra, Karnataka, Kerala, Bihar, Uttar Pradesh, Jammu & Kashmir, Himachal Pradesh, Tamil Nadu, Puducherry, and Jharkhand. However, it will also serve as a trigger in driving the cigarette volumes in the absence of vaping products.

### GPIL non-cigarette opportunities:

**Exploration of non-cigarette horizons offer diversification opportunities:** GPIL had been focusing towards diversification in the form of chewing products, exports, TFS and confectionaries to reduce dependency on the highly regulated cigarette industry.

Pan Vilas continue to perform in Gujarat by growing its GSV by 18% in 9M FY19. However, the chewing products segment which posted a ~51% GSV growth in FY18 is projected to record a GSV of INR300 crore in FY19E due to shift out of low priced brand (Raag). GSV from confectionary is expected to remain flat at INR30 crore in FY19E.

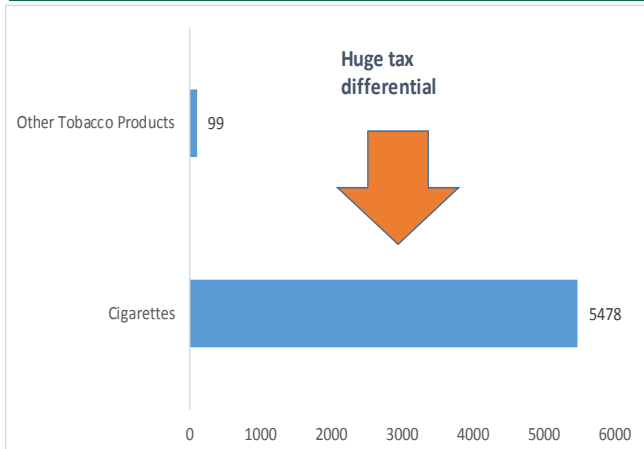
The TFS (which has more than 89 stores in Delhi NCR), recorded a 62% growth in GSV to INR227 crore from 100 stores in 9M FY19. It is expected to reach INR260 crore in FY19E.

GPIL exports leaf tobacco to Philip Morris Europe. They also export cigarette brands like Jaisalmer to Central America.

The company is looking for diversification into other non-cigarette businesses which will remain relatively insignificant compared to its core business over our time horizon. However, the retail business holds significant potential.

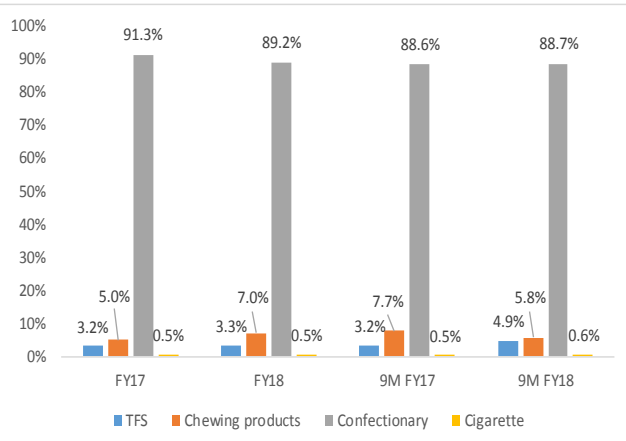
PIL is looking for various methods to turn around and expand the TFS business. Clarity on the same is awaited.

## Tax per INR/Kg



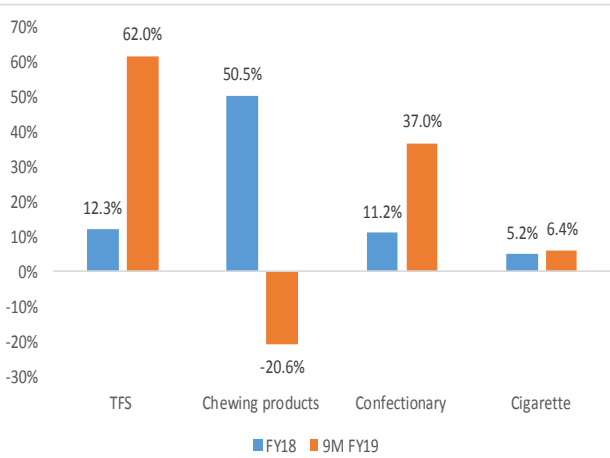
Source: The Tobacco Institute Of India, SMIFS Research

### Share Of Segment GSV to Total GSV



Source: Company Data & SMIFS Research

### Growth in Segment GSV



Source: Company Data & SMIFS Research

### Company Overview

GPIL is a manufacturer and seller of cigarettes and chewing products mainly in India. It is a flagship company of the Modi Enterprises with a promoters stake of 72.19%. Promoters K.K. Modi and Philip Morris International (PMI) hold stakes of 47.09% and 25.1% respectively. K.K. Modi is the President of the enterprise with success stories like ColorBar and Modicare. PMI is a leading American multinational cigarette and tobacco manufacturing company.

GPIL's key operating segments are Cigarette & Other Tobacco and Retail Division. It operates the retail division convenience stores under the brand name Twenty Four Seven (TFS). The key cigarette brands include Four Square, Red & White, Cavanders, Stellar, Tipper & North Pole, and Marlboro; pan masala under the Pan Vilas brand; mouth freshener under the Pan Vilas Silver Dewz brand; and candies under the Funda Goli brand name. The company exports cut tobacco and cigarette brands like Force 10, Jaisalmer, Originals, Black Jack, B&B, Stellar, and Sahara, to various countries.

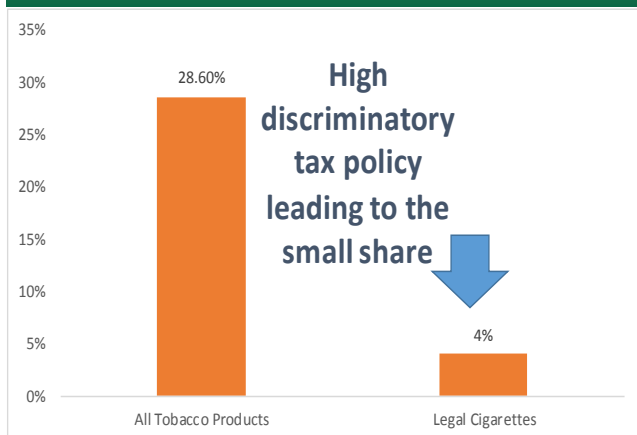
Four Square, Red & White have a strong presence in the North & West. Cavanders and Pan Vilas is very popular in Punjab and Gujarat respectively.

GPIL has an exclusive procurement and supply agreement with Philip Morris International for the manufacture and distribution Marlboro in India. Marlboro generated 14% of GPIL's domestic volumeS in FY18. Marlboro and Four Square King Size compete with Navy Cut (Large), Gold Flake and Classic in the King Size Filter Tip (KSFT or 84mm) segment.

The company had a total GSV (gross sales value) (inclusive of taxes) of INR5,803 crores in FY18 with an annual production of around 1,200 crore cigarettes. The cigarette and tobacco products generated 90% of the company's gross revenue in FY18.



### % of Adult Consumers



Source: The Tobacco Institute Of India, SMIFS Research

### Keys Risks

**Bans on the industry:** The bans restrict:

- smoking in public places,
- sale of cigarettes & tobacco products to and by people below eighteen years,
- smoking within 100 yards of educational institutions
- advertisement for cigarettes & other tobacco products
- manufacture, storage, distribution or sale of food products containing tobacco or nicotine

**The ban on chewing products:** Maharashtra's ban on chewing products will serve as a huge dampener for the company's chewing products if extended to the other states. Madhya Pradesh and Kerala have banned every form of chewing tobacco products.

**Prohibition of tobacco shops from selling non-tobacco items:** The Government is trying to devise a mechanism to prohibit authorized tobacco shops from selling any non-tobacco product like toffees, candies, chips, biscuits, soft-drinks which target the children. The Government of Rajasthan (restricted to Urban Local Bodies' areas) and other Urban Local Bodies in Uttar Pradesh, Jharkhand and Bihar have issued circular against the selling of the above items in the tobacco shops.

The initiative will prevent tobacco companies from tricking kids into serious addiction. Marlboro's astonishing growth rate in the U.S. was mainly due to its high market penetration among young smokers ranging between mid and late teens.

**GPIL's capital allocation policy:** GPIL is a cash-rich company and does not have to rely on debt capital. Given the high cash flow generation and limited capex requirement, there is surplus cash & cash equivalents on the books of ~INR751 crore in FY18 which is negatively impacting the company's ROCE. We expect the company to become more investor friendly and increase its dividend payout going forward.

**China's cheap cigarettes:** Concerns loom over the industry in the form of cheap and illegal cigarettes from China. The cheap illegal cigarettes are thrust in India through the Myanmar border.

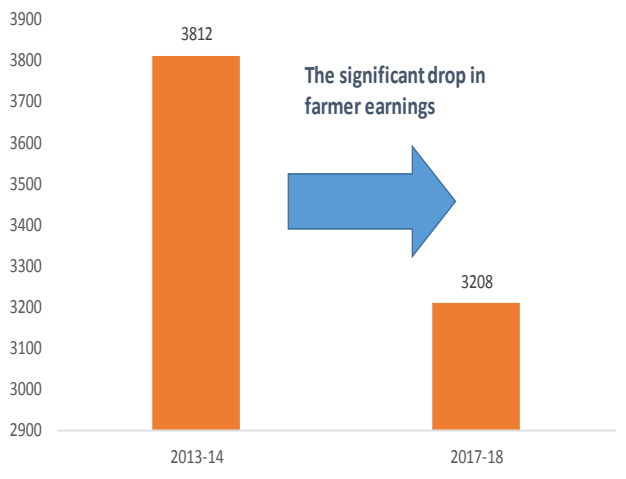
**Market disruption from Vaping, Capsule and Juul products:** GPIL's cigarettes are uniquely priced and positioned in the non-premium segment thereby escaping the market disruptions from vaping and Juul products. **The Vaping, Juul and Capsule products are a major threat to the premium brands.** While GPIL's only premium brand is Marlboro which is manufactured and distributed under exclusive procurement and supply agreements with Phillip Morris International.

### Very High Investment Book

Particulars (INR Cr)	FY18	FY19E	FY20E	FY21E
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Tangible assets	636.94	614.4619	595.7049	578.1368
Capital WIP	18.08	18.08	18.08	18.08
Investment property	8.77	8.77	8.77	8.77
Intangible assets	4.33	3.328	2.326	1.324
<b>Investments</b>	<b>751.26</b>	<b>851.26</b>	<b>1051.26</b>	<b>1251.26</b>
Loans	6.73	6.73	6.73	6.73
Deferred tax assets	1.46	1.46	1.46	1.46
Income tax assets (net)	23.36	23.36	23.36	23.36
Other non-current assets	46.63	46.63	46.63	46.63
<b>Total</b>	<b>1497.56</b>	<b>1574.08</b>	<b>1754.321</b>	<b>1935.751</b>

Source: Company Data & SMIFS Research

### Farmer Gross Earnings INR Cr.



Source: The Tobacco Institute Of India, SMIFS Research

### Keys Risks cntd..

**Growing fangs of the illegal market and why should it interest the Government?:** Illegal cigarette volumes have expanded at a 5% CAGR making India the fourth largest illegal cigarette market. Illegal cigarettes constitute around 25% of the cigarette industry in India leading to an annual revenue loss of INR13,000 crores.

The absence of the governments prescribed warnings in the illegal cigarette packs is creating a safety fallacy amongst the smokers.

The earnings of FCV tobacco farmers have contracted cumulatively by more than INR4,000 crores since 2013-14 due to decline in offtake of tobacco for the manufacture of domestic legal cigarettes.

Tobacco industry provides with employment to greater than 4.57 crore people, with the agricultural sector accounting for 70% of the employment. India is the 2nd largest global producer of tobacco with an annual production of 80 crore kg. Tobacco occupies only 0.24% of the country's total arable land area.

The main reasons for the growth of the illegal market are mainly ascribable to high tariffs.

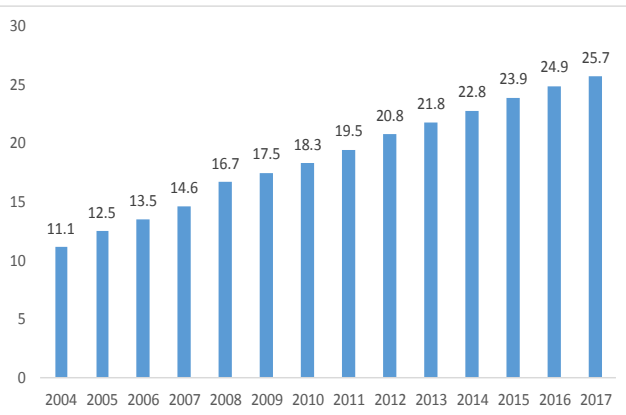
Therefore, there is a strong possibility of an incumbent government crackdown on the illegal trade considering its background of demonetization and GST implementation. The crackdown has the potential to add significant value to the leading cigarette companies. The Indian Coast Guard has seized contraband items worth INR4,101 crores since April 2015. The items mainly included heroin, ganja, and cigarettes.

**Philip Morris connect:** Marlboro recorded a quarter-over-quarter growth in volume in the first three quarters of FY19. GPIL is entitled to a manufacturing margin from Philip Morris for the production of Marlboro.

**China IPO:** Leading cigarette manufacturer, China National Tobacco, announced plans of listing its international unit on Hong Kong's stock exchange. The listing is projected to raise about ~INR700 crores towards the purchase of tobacco product operating entities, cigarette brands or tobacco product brands and expansion of sales channels in Southeast Asian markets.

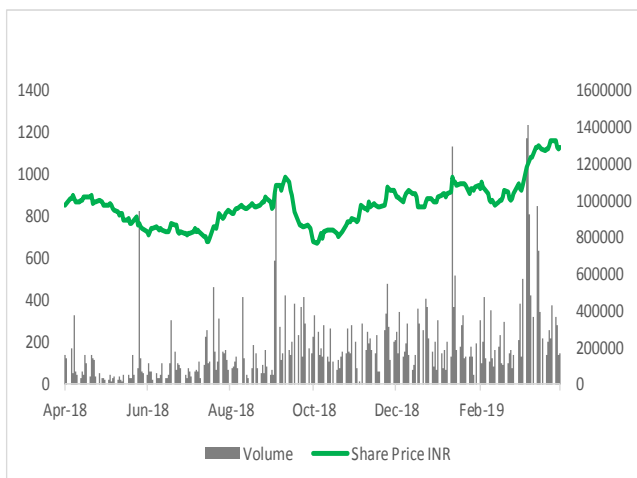
China Tobacco International procured leaves from Brazil, Argentina, and the US for its state-owned parent company China National Tobacco, and has exclusive rights to sell Chinese-made cigarettes at duty-free stores in several Asian territories. China National Tobacco annually sold over 2,50,000 crore cigarettes in China. GPIL can tap this opportunity to drive its FCV tobacco exports pursuant to its trade agreement with China.

### Indian Illegal Cigarette Vol. in Billion Sticks



Source: The Tobacco Institute Of India, SMIFS Research

## Share Price & Volume



Source: NSE, SMIFS Research

## Outlook and Valuation

Godfrey Phillips India Limited (GPIL) is the second largest player in the domestic cigarette industry with a volume market share of 11.9% for 9M FY19.

The company's Regular Size Filter Tip (RSFT or 64mm) and Deluxe Size Filter Tip (DSFT or 69mm) cigarettes and its strategic pricing and positioning relative to competition is expected to drive the volumes going forward. **The pricing and positioning has the potential to erode the rapidly escalating unorganized sector of bidis, khainis and illegal cigarettes. The unorganized sector accounts for 68% of the tobacco consumption which escapes from the clutches of tax and regulations.**

**Turnaround in chewing products business and restructuring of the retail business offers potential upsides in our estimates.**

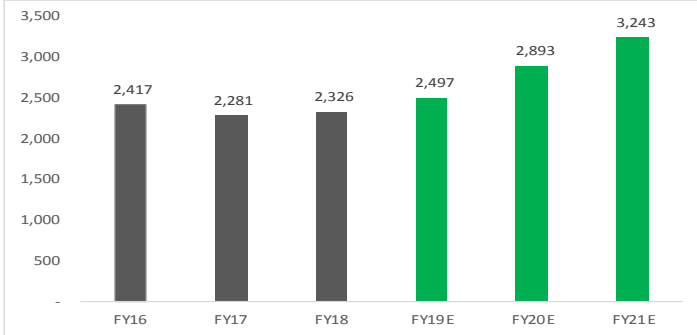
We are expecting a moderation in incremental cigarette taxation during the period 2018-21E compared to the period 2012-17 as India is one of the highest taxed countries. The government may opt to tweak the cess leaving the GST sacrosanct. There are possibilities of restructuring in India's cigarette FDI norms from the pro-business incumbent government. The government's crackdown on illegal cigarettes is likely to intensify, thereby driving volumes for domestic cigarette makers.

GPIL has a surplus land bank of 7 acres in Mumbai near international airport. Going forward if the company monetizes non-core assets it can add positively to the valuation of the company.

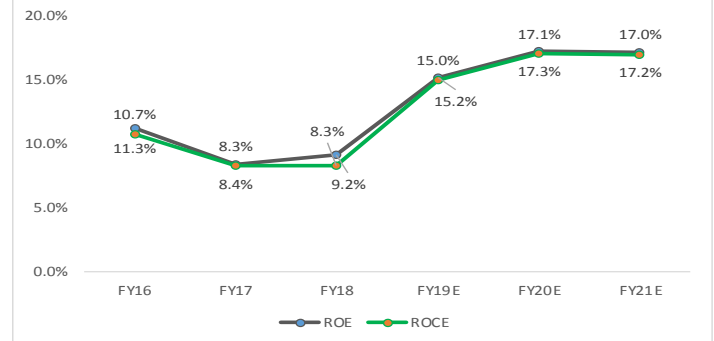
Strong volume growth coupled with pricing and positioning power will drive the earnings growth (FY19-21E) which will help in rerating of the stock. **After valuing GPIL on a relative basis, with peers like ITC Limited and VST Industries Limited, we have assigned it a PE multiple of 17(x) on FY21E EPS thereby arriving at a target price of INR1,409 implying an upside of 27% on GPIL's last closing price.**

## Graphical Presentation of Operational Performance by GPIL

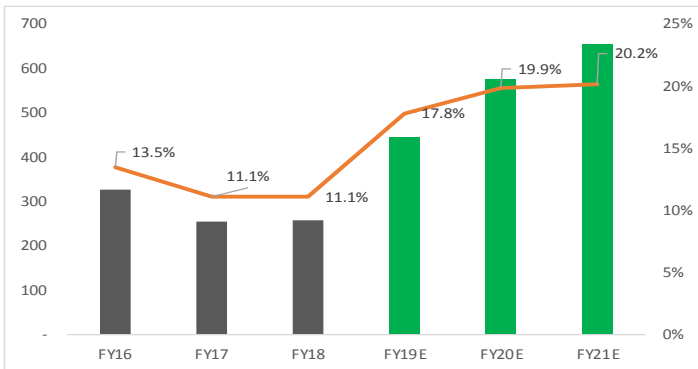
### Net Revenue (INR Cr.)



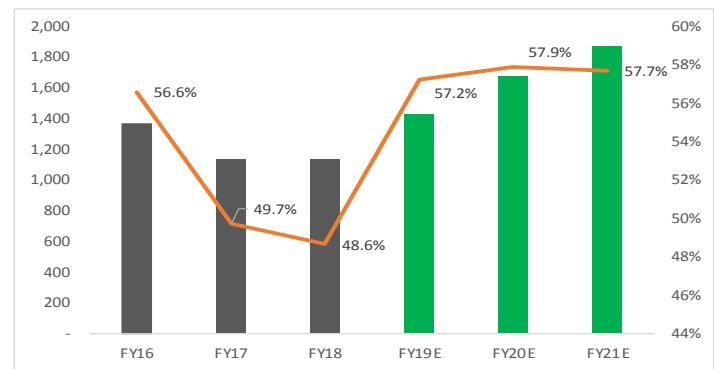
### RoE & RoCE



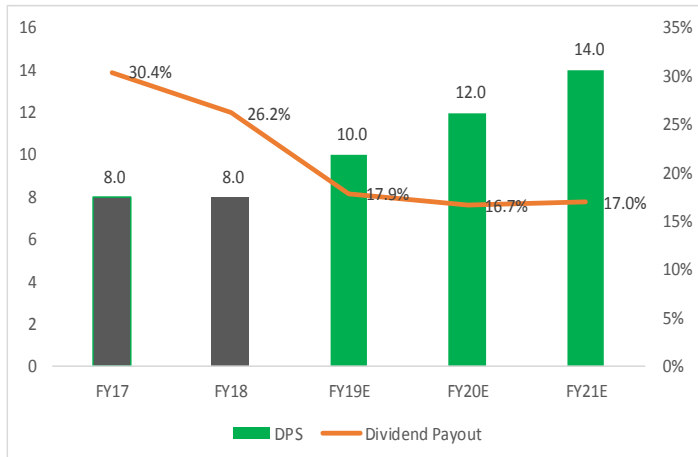
### EBITDA & EBITDA margin



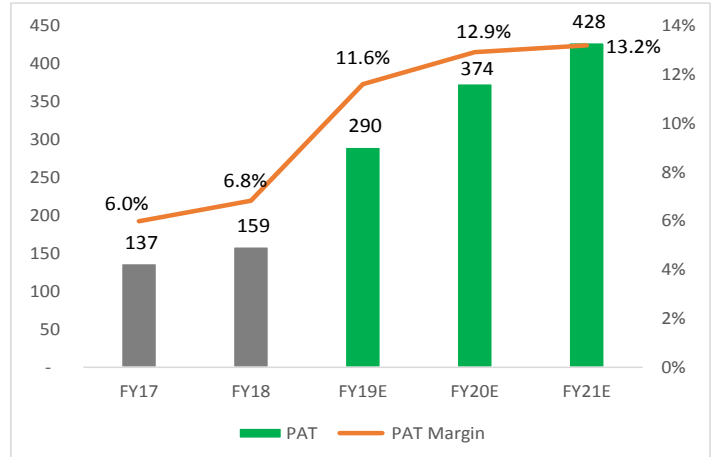
### Gross Profit & Gross Profit margin



### DPS & Dividend Payout



### PAT & PAT margin



## Consolidated Financial Statements

### Consolidated Profit & Loss Statement

Particulars (INR Cr)	FY17	FY18	FY19E	FY20E	FY21E
<b>Total Revenue</b>	<b>2,324</b>	<b>2,360</b>	<b>2,497</b>	<b>2,893</b>	<b>3,243</b>
Raw Material Cost	599	672	627	694	778
Gross Profit	1,134	1,131	1,429	1,675	1,871
Gross Profit Margin	49.7%	48.6%	57.2%	57.9%	57.7%
Employee Cost	264	239	265	318	357
Total Expenditure	2027	2067	2051	2317	2588
<b>EBITDA</b>	<b>254</b>	<b>258</b>	<b>446</b>	<b>576</b>	<b>655</b>
EBITDA Margin	11.1%	11.1%	17.8%	19.9%	20.2%
Finance Cost	3.56	2	1	1	1
Depreciation & Amortization	98	98	97	107	116
Tax Paid	62	74	138	188	215
<b>PAT</b>	<b>137</b>	<b>159</b>	<b>290</b>	<b>374</b>	<b>428</b>
<b>EPS</b>	<b>26.28</b>	<b>30.54</b>	<b>55.79</b>	<b>71.94</b>	<b>82.34</b>

## Consolidated Financial Statements

### Consolidated Balance Sheet

Particulars (INR Cr)	FY17	FY18	FY19E	FY20E	FY21E
<b>Share Capital</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
Reserves & Surplus	1650	1783	2008	2307	2648
<b>Total Net Worth</b>	<b>1,701</b>	<b>1,830</b>	<b>2,052</b>	<b>2,347</b>	<b>2,684</b>
Long Term Borrowings	0	1	1	1	1
Long Term Provisions	63	53	58	70	79
Total Non Current Liabilities	77	74	79	91	92
Short Term Borrowings	47	27	27	27	27
Trade Payables	157	171	122	212	164
Short Term Provisions	10	18	20	23	26
<b>Total Current Liabilities</b>	<b>433</b>	<b>563</b>	<b>523</b>	<b>608</b>	<b>565</b>
<b>Total Liabilities</b>	<b>510</b>	<b>636</b>	<b>602</b>	<b>699</b>	<b>656</b>
<b>Total Net Worth &amp; Liabilities</b>	<b>2211</b>	<b>2466</b>	<b>2654</b>	<b>3046</b>	<b>3340</b>
Tangible assets	689	637	614	596	578
<b>Total Non Current Assets</b>	<b>1196</b>	<b>1498</b>	<b>1574</b>	<b>1754</b>	<b>1936</b>
Inventories	652	585	521	741	680
Trade receivables	179	86	198	131	238
<b>Cash and bank balances</b>	<b>31</b>	<b>44</b>	<b>103</b>	<b>158</b>	<b>221</b>
Short Term Loans	2	1	1	1	1
Total Current Assets	1,014	969	1,077	1,284	1,393
<b>Total Assets</b>	<b>2211</b>	<b>2466</b>	<b>2654</b>	<b>3046</b>	<b>3340</b>

Source: Company Data & SMIFS Research

## Consolidated Financial Statements

### Consolidated Cashflow Statement

Particulars (INR Cr)	FY17	FY18	FY19E	FY20E	FY21E
<b>PAT</b>	<b>137</b>	<b>159</b>	<b>290</b>	<b>374</b>	<b>428</b>
Increase in trade payables	36	14	(49)	90	(48)
Increase in trade receivables	(71)	93	(113)	67	(107)
Increase in inventories	86	66	65	(220)	61
<b>Operating profit before WC changes</b>	<b>255</b>	<b>292</b>	<b>521</b>	<b>664</b>	<b>754</b>
<b>Cashflow from Operating Activities</b>	<b>245</b>	<b>516</b>	<b>288</b>	<b>417</b>	<b>448</b>
Purchase of tangible assets	(69)	(62)	(75)	(87)	(97)
<b>Cashflow from Investing Activities</b>	<b>(125)</b>	<b>(405)</b>	<b>(175)</b>	<b>(287)</b>	<b>(297)</b>
Dividend paid	(42)	(41)	(52)	(62)	(73)
Interest paid	(3)	(1)	(1)	(1)	(1)
<b>Cashflow from Financing Activities</b>	<b>(125)</b>	<b>(100)</b>	<b>(63)</b>	<b>(76)</b>	<b>(88)</b>
Opening Cash & Cash Equivalent	21	18	30	81	136
<b>Closing Cash &amp; Cash Equivalent</b>	<b>18</b>	<b>30</b>	<b>81</b>	<b>136</b>	<b>198</b>

### Financial Ratios

#### Return & Leverage Ratio

Particulars	FY17	FY18	FY19E	FY20E	FY21E
ROE	8.4%	9.2%	15.2%	17.3%	17.2%
ROCE	8.3%	8.3%	15.0%	17.1%	17.0%
Debt/Equity(X)	0.05	0.03	0.02	0.01	0.01
Current Ratio(X)	2.24	2.34	1.72	2.06	2.11
Quick Ratio(X)	0.61	0.84	0.68	1.06	0.89

#### Margin Ratio

Particulars	FY17	FY18	FY19E	FY20E	FY21E
EBITDA Margin	11.1%	11.1%	17.8%	19.9%	20.2%
PAT Margin	6.0%	6.8%	11.6%	12.9%	13.2%

#### Valuation Ratio

Particulars	FY17	FY18	FY19E	FY20E	FY21E
P/E	42.1	36.2	19.8	15.4	13.4
P/BV	3.5	3.2	2.8	2.5	2.2
EV/EBITDA	22.6	22.2	12.9	10.0	8.7
DPS	8.0	8.0	10.0	12.0	14.0

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