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Q1FY22 result review
and earnings revision

Diversified

Target price: Rs26,900

Earnings revision

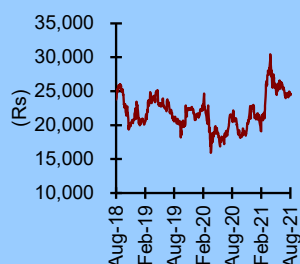
(%)	FY22E	FY23E
Sales	↓ 0.0	↓ 0.0
EBITDA	↓ 5.9	↓ 5.3
EPS	↓ 4.9	↓ 4.8

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	75.0	75.0	75.0
Institutional investors			
MFs and others	11.1	11.1	11.7
FIs/Bank/Ins	4.7	5.0	5.0
FII	0.0	0.0	0.0
FII	6.4	6.4	6.7
Others	13.9	13.9	13.3

Source: BSE

Price chart



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INDIA

ICICI Securities

3M India

ADD

Maintained

Rs24,597

Recovery across all segments

All segments of 3M India continued to report recovery. We note (1) revival in automotive, infrastructure and construction sector, (2) better consumer off-take primarily in Home care products and (3) favorable base were chief reasons. Adjusting for closure of automotive graphics business, two-year revenue CAGR works out to -1.3%. We model the business to maintain recovery momentum in FY22-23 due to re-opening of economy especially auto, oil & gas and healthcare sectors and favorable base of FY21. Increase in manufacturing activities in India due to PLI will be medium term positive for 3M India. However, we expect increase in RM inflation to impact near-term earnings. We remain positive on 3M India due to competitive advantages like (1) strong brands, (2) established distribution network and global relationships with large manufacturers and (3) access to parent's technology pool. Maintain ADD with a DCF-based TP of Rs26,900.

- **Q1FY22 result:** 3M India reported revenue, growth of 114.9% YoY (2 year CAGR - 3.8%). EBITDA increased to Rs479mn in Q1FY22 from loss of Rs484 in Q1FY21. PAT increased to Rs301mn in Q1FY22 from loss of Rs425mn in base quarter. Revenue growth adjusting for closure of automotive Graphics (4-5% of revenues) was ~124%. Standalone revenues were up 115.6% and revenues of 3M Electro (Consolidated – Standalone) were up 107.5% YoY.
- **Segment-wise performance:** All four segments reported strong revenue growth and EBIT margin expansion YoY. Revenue growth of Healthcare, Consumer, Safety & Industrial and Transportation & Electronics was 68.9%, 64.8%, 117.2% and 182.9%, respectively. EBIT margin also expanded across all segments.
- **PLI- Medium term opportunity:** The company has indicated that it is in touch with the Government as well as manufacturers regarding PLI announcements. We believe increase in manufacturing activities to be medium-term positive opportunity for 3M India. Initially it will import the products or it may do last mile manufacturing in India.
- **Higher input prices but stable currency:** While the increase in input prices and freight inflation may increase cost pressures, we believe stable USD-INR rates would provide some stability to margins. Considering the slow-down, we expect some impact on pricing power of 3M India at-least in near term.
- **Maintain ADD:** We model 3M India to report revenue and PAT CAGR of 18% and 48.8%, respectively over FY21-FY23E with steady improvement in RoE over FY21-23E. We retain ADD with a DCF-based target price of Rs26,900. Key risks: Prolonged weakness in economy and failure of new products.

Market Cap	Rs277bn/US\$3.7bn		Year to March	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	TMIN.BO/3M IN		Revenue (Rs mn)	29,866	26,048	31,174	36,326
Shares Outstanding (mn)	11.3		Adj. Net Profit (Rs mn)	3,222	1,894	3,483	4,194
52-week Range (Rs)	30437/18149		Dil. Rec. EPS (Rs)	286.0	168.1	309.2	372.3
Free Float (%)	25.0		% Chg YoY	(6.1)	(41.2)	83.9	20.4
FII (%)	6.7		P/E (x)	85.9	146.2	79.5	66.0
Daily Volume (US\$'000)	1,764		CEPS (Rs)	338.7	223.0	361.5	427.3
Absolute Return 3m (%)	(2.8)		EV/EBITDA (x)	59.3	90.6	59.8	48.0
Absolute Return 12m (%)	15.1		Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	13.3		RoCE (%)	24.2	12.5	18.4	19.8
Sensex Return 12m (%)	44.5		RoE (%)	20.3	8.8	17.0	17.2

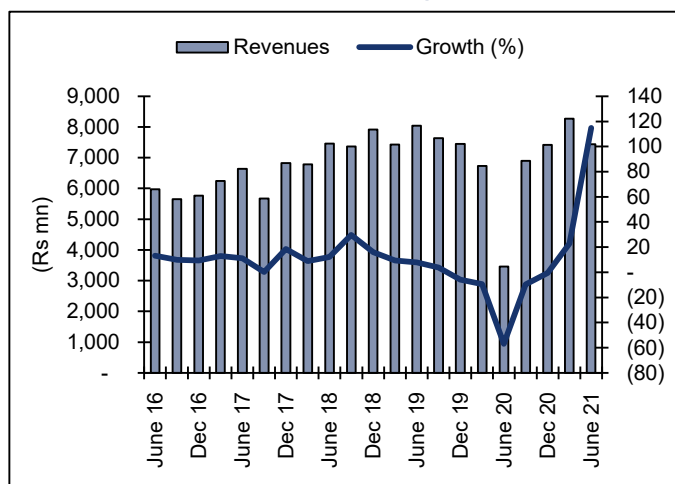
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Table 1: Q1FY22 financial performance*(Rs mn, year ending March 31)*

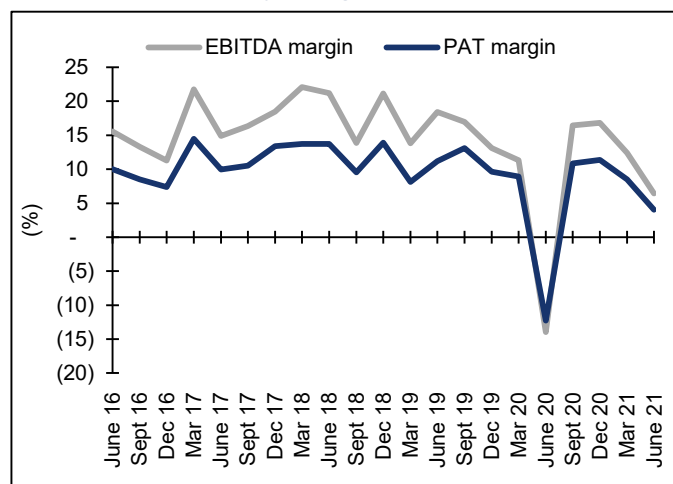
	Q1FY22	Q1FY21	YoY gr.	Q4FY21	QoQ gr.
Revenue	7,439	3,462	114.9	8,272	(10.1)
Expenditure					
Raw materials	4,932	2,166	127.7	5,210	(5.3)
% of revenue	66.3	62.6		63.0	
Employee cost	980	918	6.8	954	2.7
% of revenue	13.2	26.5		11.5	
Other expenditure	1,048	862	21.6	1,083	(3.3)
% of revenue	14.1	24.9		13.1	
Total expenditure	6,960	3,946	76.4	7,248	(4.0)
EBITDA	479	(484)	(198.9)	1,024	(53.3)
EBITDA margin	6.4	(14.0)		12.4	
Other income	80	64	24.7	72	11.5
PBDIT	559	(420)	(233.1)	1,096	(49.0)
Depreciation	148	150	(1.7)	144	2.5
PBIT	411	(570)	(172.1)	952	(56.8)
Interest	6	8	(29.7)	3	93.2
PBT	405	(578)	(170.0)	949	(57.3)
Prov for tax	104	(153)	(168.0)	244	(57.3)
% of PBT	25.7	26.5		25.7	
Adjusted PAT	301	(425)	(170.8)	705	(57.3)
Extraordinary items	(7)	(10)	(29.3)	2	(508.0)
Minority Interest	-	-		-	
Reported PAT	294	(436)	(167.4)	706	(58.4)

Source: Company data, I-Sec research

Key performance highlights

Chart 1: Revenue and revenue growth

Source: Company data, I-Sec research

Chart 2: Profitability margins

Source: Company data, I-Sec research

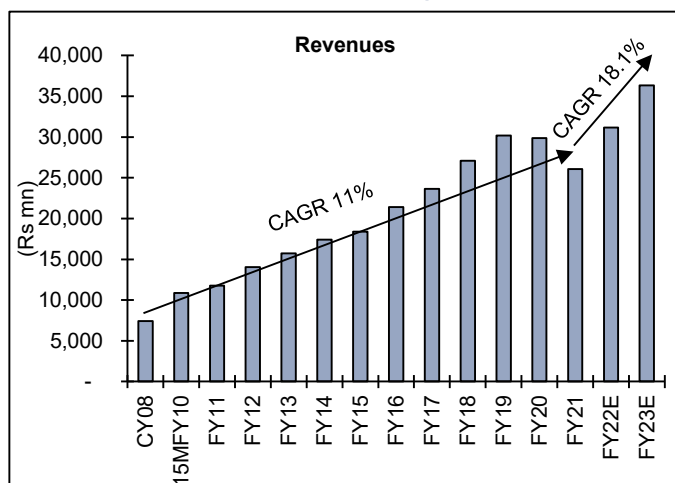
Table 2: Segment-wise performance*(Rs mn, year ending March 31)*

	Mar 20	June 20	Sept 20	Dec 20	Mar 21	June 21
Segments – Revenues (Rsmn)						
Safety & Industrial	2,483	1,325	2,901	2,812	3,088	2,877
Transportation & Electronics	2,483	840	2,222	2,710	3,131	2,377
Healthcare	1,036	770	826	929	1,096	1,301
Consumer	681	491	849	880	909	809
Others	48	36	103	84	49	76
Total	6,732	3,462	6,900	7,414	8,272	7,439
Revenue growth (%)						
Safety & Industrial	-13.3	-56.9	1.5	-1.2	24.3	117.2
Transportation & Electronics	-9.0	-70.4	-9.5	7.3	26.1	182.9
Healthcare	-2.8	-40.6	-37.3	-23.2	5.8	68.9
Consumer	-0.5	-37.5	-8.5	9.6	33.5	64.8
Others	-42.5	-23.2	34.2	21.5	2.3	110.1
Total	-9.4	-57.0	-9.6	-0.5	22.9	114.9
Revenues (As % of Total)						
Safety & Industrial	36.9	38.3	42.0	37.9	37.3	38.7
Transportation & Electronics	36.9	24.3	32.2	36.6	37.8	32.0
Healthcare	15.4	22.2	12.0	12.5	13.2	17.5
Consumer	10.1	14.2	12.3	11.9	11.0	10.9
Others	0.7	1.0	1.5	1.1	0.6	1.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
EBIT (Rsmn)						
Safety & Industrial	341	(219)	609	379	270	28
Transportation & Electronics	23	(427)	135	108	324	(28)
Healthcare	121	4	56	132	113	166
Consumer	109	(1)	122	111	167	126
Others	9	8	47	30	7	40
Total	604	(634)	968	759	880	331
EBIT (As % of Total)						
Safety & Industrial	56.5	34.5	62.9	49.9	30.6	8.4
Transportation & Electronics	3.8	67.3	13.9	14.3	36.8	-8.6
Healthcare	20.1	-0.7	5.8	17.4	12.8	50.0
Consumer	18.1	0.2	12.6	14.6	18.9	38.1
Others	1.6	-1.3	4.8	3.9	0.8	12.1
Total	100.0	100.0	100.0	100.0	100.0	100.0
EBIT margin (%)						
Safety & Industrial	13.7	-16.5	21.0	13.5	8.7	1.0
Transportation & Electronics	0.9	-50.8	6.1	4.0	10.3	-1.2
Healthcare	11.7	0.6	6.8	14.2	10.3	12.7
Consumer	16.0	-0.2	14.3	12.6	18.3	15.6
Others	19.7	22.3	45.5	35.5	15.3	52.8
Total	9.0	-18.3	14.0	10.2	10.6	4.5

Source: Company data, I-Sec research

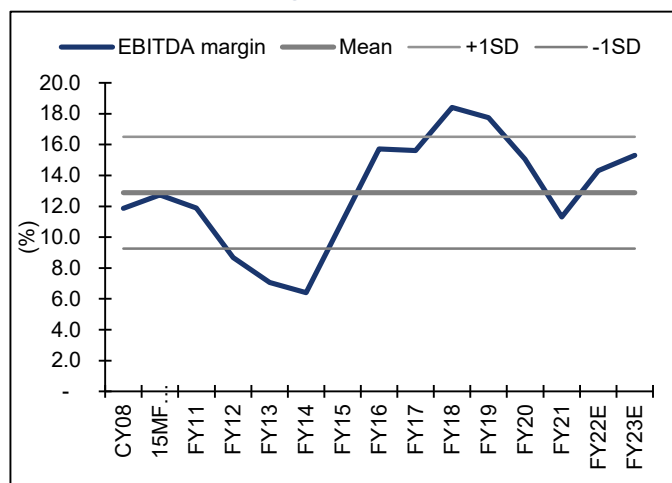
Key ratios –Annual

Chart 3: Revenue and revenue growth



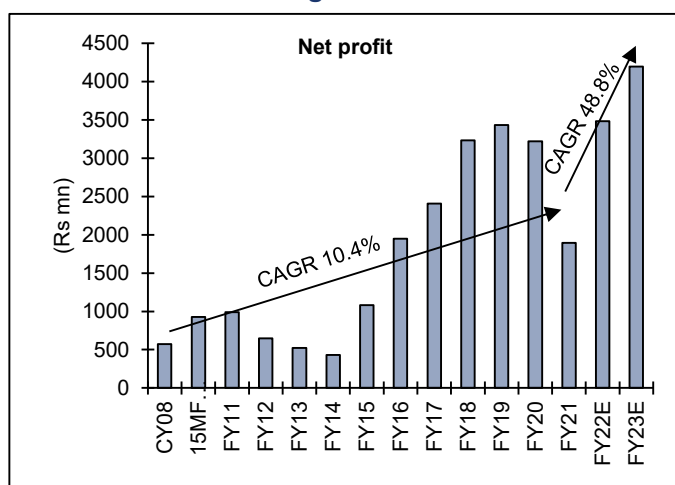
Source: Company data, I-Sec research

Chart 4: EBITDA margin



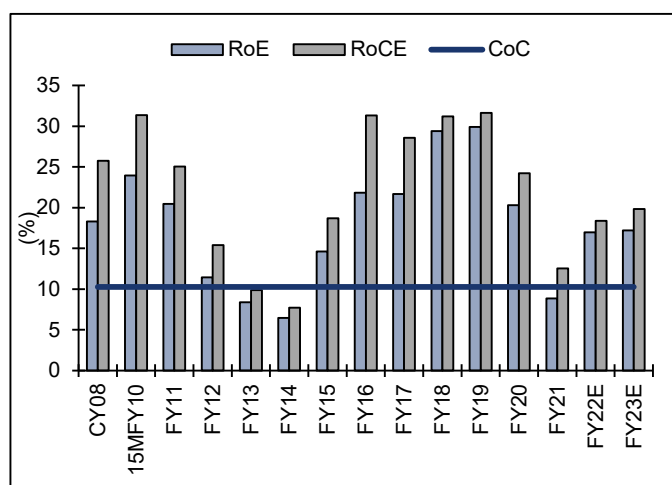
Source: Company data, I-Sec research

Chart 5: PAT and PAT growth



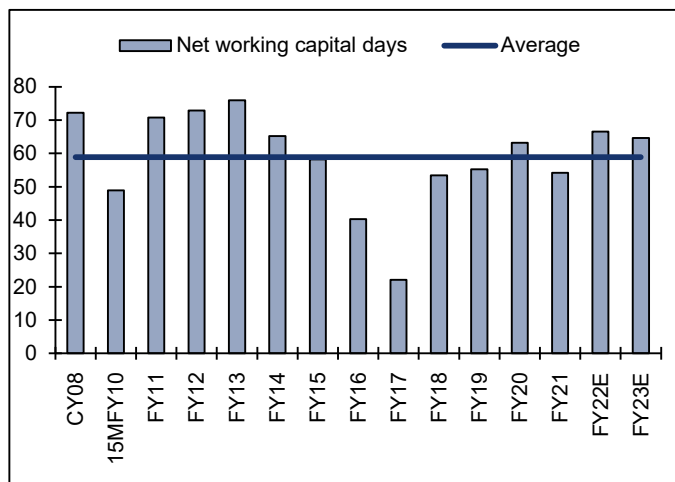
Source: Company data, I-Sec research

Chart 6: RoE and RoCE



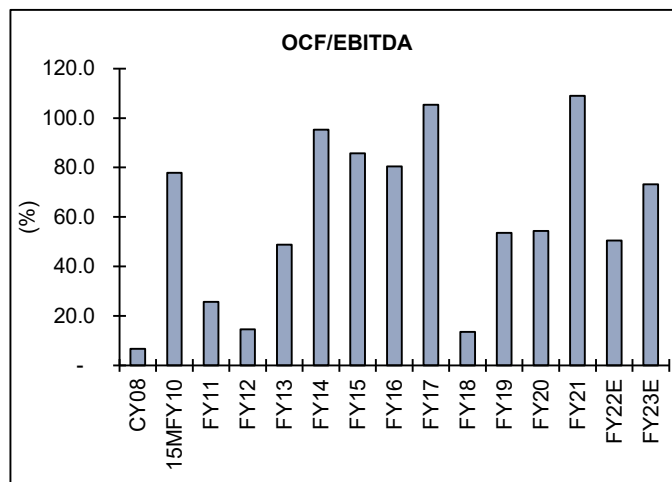
Source: Company data, I-Sec research

Chart 7: Net working capital days



Source: Company data, I-Sec research

Chart 8: OCF and EBITDA



Source: Company data, I-Sec research

Valuation and risks

We model 3M India to report revenue and PAT CAGRs of 18.1% and 52.9% over FY21-FY23E and RoE to expand over the same timeframe. At our DCF-based target price of Rs26,900, the implied P/E works out to 69x FY23E EPS. Retain **ADD**.

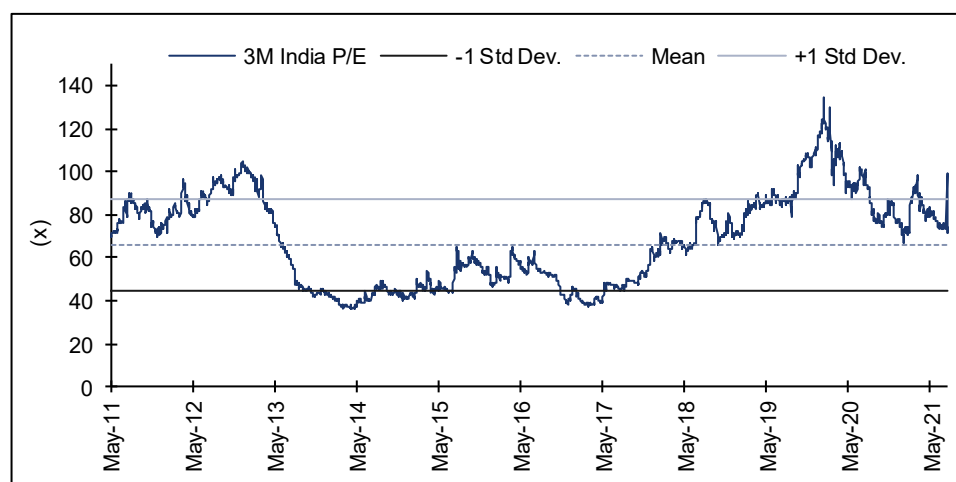
Table 3: DCF-based valuation

Particulars	Amt (Rs)
Cost of Equity (%)	10.3%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (Rs mn)	76,479
Discounted terminal value (Rs mn)	2,26,553
Total equity value (Rs mn)	3,03,031
Value per share (Rs)	26,900

Source: Company data, I-Sec research

Mean P/E and standard valuation

Chart 9: Mean P/E and standard deviation



Source: Company data, I-Sec research

Risks

Sharp increase in input prices and competitive pressures

Major increase in input prices and/or increase in competitive pressures will result in downside to our estimates.

Delays in launch of new products

Any delays in launch of new products may result in lower earnings than estimated.

Financial summary

Table 4: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Net Sales	29,866	26,048	31,174	36,326
Operating Expenses	23,695	21,722	24,936	28,770
EBITDA	4,497	2,945	4,460	5,558
% margins	15.1	11.3	14.3	15.3
Depreciation & Amortisation	593	618	589	620
Gross Interest	37	25	32	32
Other Income	459	247	835	723
Recurring PBT	4,326	2,549	4,675	5,629
Less: Taxes	1,104	655	1,192	1,435
Less: Minority Interest	-	-	-	-
Net Income (Reported)	3,222	1,894	3,483	4,194
Extraordinaries (Net)	(41)	(299)	-	-
Recurring Net Income	3,180	1,595	3,483	4,194

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	18,687	21,377	11,674	13,315
of which cash & cash eqv.	7,806	10,624	376	349
Total Current Liabilities & Provisions	5,713	6,886	5,611	6,539
Net Current Assets	12,974	14,491	6,063	6,776
Investments	1,674	1,933	13,933	17,433
Net Fixed Assets	3,060	2,662	2,809	2,789
Capital Work-in-Progress	69	235	-	-
Total Assets	17,777	19,321	22,804	26,998
Liabilities				
Borrowings	492	526	526	526
Deferred Tax Liability	(224)	(308)	(308)	(308)
Minority Interest	-	-	-	-
Equity Share Capital	113	113	113	113
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	17,396	18,991	22,473	26,667
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	17,509	19,103	22,586	26,780
Total Liabilities	17,777	19,321	22,804	26,998

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Sept 20	Dec 20	Mar 21	June 21
Net sales	6,900	7,414	8,272	7,439
% growth (YoY)	(9.6)	(0.5)	22.9	114.9
EBITDA	1,135	1,247	1,024	479
Margin (%)	16.4	16.8	12.4	6.4
Other income	58	57	72	80
Extraordinaries (Net)	(10)	(260)	2	(7)
Adjusted Net profit	740	584	706	294

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	3,362	1,796	4,072	4,814
Working Capital Changes	(920)	1,414	(1,820)	(741)
Capital Commitments	(211)	(391)	(500)	(600)
Free Cashflow	2,231	2,819	1,752	3,472
Cashflow from Investing Activities	-	-	(12,000)	(3,500)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
Change in Deferred Tax Liability	-	-	-	-
Chg. in Cash & Bank balance	2,231	2,819	(10,248)	(28)

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (Rs)				
EPS	286.0	168.1	309.2	372.3
Cash EPS	338.7	223.0	361.5	427.3
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	1,534	1,668	1,978	2,350
Growth (%)				
Net Sales	(1.0)	(12.8)	19.7	16.5
EBITDA	(16.0)	(34.5)	51.5	24.6
PAT	(6.1)	(41.2)	83.9	20.4
DPS	(1.4)	(34.1)	62.1	18.2
Valuation Ratios (x)				
P/E	85.9	146.2	79.5	66.0
P/CEPS	72.6	110.2	68.0	57.5
P/BV	16.0	14.7	12.4	10.5
EV / EBITDA	59.3	90.6	59.8	48.0
EV / Sales	8.9	10.2	8.6	7.3

Operating Ratios

Raw Material / Sales (%)	58.1	61.4	59.6	58.9
Employee cost / Sales (%)	11.0	12.9	11.8	11.8
SG&A / Sales (%)	1.9	2.2	2.1	2.0
Other Income / PBT (%)	10.6	9.7	17.9	12.8
Effective Tax Rate (%)	25.5	25.7	25.5	25.5
Working Capital (days)	17.3	14.8	18.2	17.7
Inventory Turnover (days)	53.6	64.0	51.1	51.1
Receivables (days)	65.3	68.5	65.7	65.7
Payables (days)	62.1	89.4	58.4	58.4
Net D/E (x)	(0.4)	(0.5)	(0.5)	(0.6)

Profitability Ratios (%)

Net Income Margins	10.8	7.3	11.2	11.5
RoACE	24.2	12.5	18.4	19.8
RoAE	20.3	8.8	17.0	17.2
Dividend Payout	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	15.1	11.3	14.3	15.3

Source: Company data, I-Sec research

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