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FY21 Annual report  
analysis & rating revision

## Diversified

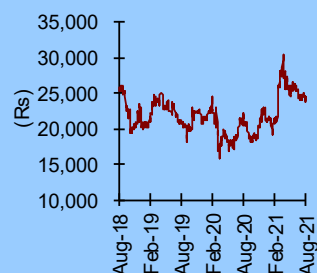
Target price Rs26,900

### Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	75.0	75.0	75.0
Institutional investors	11.1	11.1	11.7
MFs and others	4.7	5.0	5.0
Banks/FIs	0.0	0.0	0.0
FIIIs	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

**BUY**

Upgrade from ADD

### Annual report analysis: Supplies to EV and mobile handsets are key growth drivers

**Rs22,649**

**FY21 annual report highlights:** (1) Auto electrification is focus area for the company and it will introduce differentiated products in battery thermal management and display solutions. (2) 3M also plans to work closely with OEMs, their contract manufacturers and suppliers to enable more local content. (3) The company introduced three products in automotive segment. We expect launches of additional products with normalization of economy. (4) 3M's products like hand sanitizers, respirators and home solution products (Scotch Brite, Command etc) did well during the year. We remain positive on 3M India due to competitive advantages such as: (1) strong brands, (2) established distribution network and global relationships with large manufacturers, and (3) access to parent's technology pool. Upgrade to BUY with a DCF-based target price of Rs26,900.

- **Highlights from Chairman's speech:** (1) Company's diverse product portfolio helped it cushion the impact caused by covid; (2) its respirators, sanitisers and personal protection equipment segments did well (Ranjangaon factory was never shut down during the year); and (3) digital learning platforms helped (3M Healthcare Academy and 3M Energy Academy) learning aspirants with self-learning courses.
- **Supplies for EV & mobile phones:** 3M India has indicated that Auto electrification remains strong focus area and company will continue to introduce value added solutions in battery thermal management, improvement of life and safety of batteries and display solutions.
- **Likely increase in supplies to handset manufacturers & suppliers:** 3M India is one of the global supplier for mobile OEMs and their contract manufacturers. While the handset production was impacted during FY21, 3M India plans to work closely with these players and their suppliers to enable more local content.
- **Steady launch of new products:** During the year, 3M India introduced three new products in automotive segment as AC evaporator cleaner, AC vent cleaner & anti-microbial foam, and antimicrobial smoggy. We believe the number of new launches to increase with normalization of economy.
- **Reduction in ad-spend:** The Ad-spend as % of net sales declined from 2.5% in FY20 to 2.0% in FY21 due to impact of covid. However, we model ad-spend to increase to pre-pandemic levels in FY22-23.
- **Upgrade to BUY:** We model 3M India to report revenue and PAT CAGRs of 18.1% and 65.2% respectively over FY21-FY23E with steady improvement in RoE. We upgrade the stock to **BUY** with a DCF-based target price of Rs26,900. Key risks: prolonged weakness in the economy, and failure of new products.

Market Cap	Rs255bn/US\$3.4bn	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	1,624	3,692	4,431
52-week Range (Rs)	30437/18149	Dil. Rec. EPS (Rs)	286.0	144.1	327.7	393.3
Free Float (%)	25.0	% Chg YoY	(6.1)	(49.6)	127.4	20.0
FII (%)	6.7	P/E (x)	79.2	157.1	69.1	57.6
Daily Volume (US\$'000)	1,807	CEPS (Rs)	338.7	199.0	380.0	448.3
Absolute Return 3m (%)	(14.8)	EV/EBITDA (x)	54.5	94.4	51.7	41.8
Absolute Return 12m (%)	7.8	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	10.5	RoCE (%)	24.2	10.7	19.6	20.8
Sensex Return 12m (%)	45.0	RoE (%)	20.3	8.8	17.9	17.9

Please refer to important disclosures at the end of this report

## FY21 annual report takeaways

### Highlights from chairman's speech

- Company's diverse product portfolio helped it absorb some of the impact caused by covid.
- 3M India was able to take advantage of revival in the economy / industry in Q4FY21 before covid wave-2 impacted growth in Q1FY22.
- Company's respirators, sanitisers and personal protection equipment segments did well during the year. Ranjangaon factory which manufactures these key products was never shut down during the year.
- The design teams worked closely with airports, railways and commercial spaces to supply cleaning chemicals, disinfectants, personal protection kits and antimicrobial surfaces.
- 3M also did well with cleaning tools, air purification devices, and home improvement solutions, which helped customers to stay indoors.
- Company focused on food security for vulnerable communities, medical equipment and infra support to government hospitals and programs to support education and healthcare.
- Digital learning platforms (3M Healthcare Academy and 3M Energy Academy) helped learning aspirants with self-learning courses.
- Company is confident about growth prospects in India. The infrastructure projects, strengthening of healthcare facilities and production-linked-incentives under the 'Make-In-India' initiative will continue to drive growth in the country.

### Highlights from Directors' report and Management discussion and Analysis

#### Dividend payouts:

- Company has decided not to pay dividends for FY21 too and has opted to conserve the cash.

#### State of company's affairs in FY21:

- Company did well in fighting the pandemic and provided innovative solutions to customers.
- Demand from healthcare, personnel protection, home improvement and cleaning remained strong.
- Company also benefited with recovery in industrial production index and economy in Q4FY21.

#### Supply chain initiatives:

- 3M has been able to deliver all the customer orders in time while working with logistics challenges.
- Market slowdown resulted in higher working capital. However, the company's staggered purchases and planning led to reduction in working capital by Dec'20.

- 3M India realigned some of the supply chain practices with its parent and group companies in Asia and benefitted with their best practices and support.

**Highlights of 3M Electro and Communications:**

- The focus on EVs is creating multiple opportunities in India and 3M Electro is likely to benefit from it.
- Government has cleared proposals for PLI in the mobile handset manufacturing segment. This is likely to create multiple new opportunities in mobile handset manufacturing in India. Company is likely to benefit as a supply chain partner for mobile handset manufacturing companies.

**Safety and Industrial segment:**

- Company introduced multiple anti-microbial products for vehicle interiors.
- It also gained market share in DIY car cleaning products.
- The abrasive sub-segment was able to bounce back during Q3 and Q4 with revival in automotive segments.
- Personal safety products did well with healthcare businesses of 3M India. There was upgradation among consumers from disposable respirators to full-face reusable respirators.
- Industrial adhesives and tapes did well with end-consumer mapping.

**Healthcare business:**

- Company diverted respirators and hand sanitizers to frontline healthcare workers and nodal agencies.
- It prioritized servicing to biopharma companies during the year.
- 3M India started acting as knowledge partner for many healthcare agencies.
- 3M Healthcare agency was set up during the year to train healthcare professionals.
- Company's healthcare segment performed relatively poorly during the year due to limited elective surgeries and lower dental surgeries.

**Transportation and Electronics segment:**

- Government has done large budgetary allocations for FY21-22 resulting in higher investments in highways, railways, rural roads, urban infra, etc. This is likely to benefit the company in coming quarters.
- Maximum road accidents happen in India. Company is working with various institutions to ensure road safety.
- Social distancing graphics emerged as a strong business opportunity for the company during the year.
- Steady growth in metros and railways during FY21 helped the company maintain strong growth.

**Consumer business:**

- 3M India has prioritized sales through e-commerce, which is emerging as one of the preferred channels for consumers.

- Home care range performed well during FY21 as many consumers worked on household chores on their own.
- Company has set up new go-to-market model for car care products.
- 3M India continued its investments in branding of key products like 3M, Scotch, Post-It, and Command.

**New product launches during FY21:** 3M India introduced three key products during the year. We note most of the products are related to automotive segment.

**Table 1: New product launches during the year**

Segment	New product launch	Usage/Comment
Automotive	3M AC Evaporator cleaner	Efficient cleaning of HVAC system in vehicles
Automotive	3M AC Vent Cleaner & Anti-microbial foam	Cleaner for vent, and anti-microbial foam
Automotive	3M Antimicrobial Smoggy	Reduces 99% germs in cabin cars

Source: Company data, I-Sec research

**Details about Subsidiaries:** 3M has only one subsidiary i.e. 3M Electro & Communications. Key financials of 3M Electro are as follows.

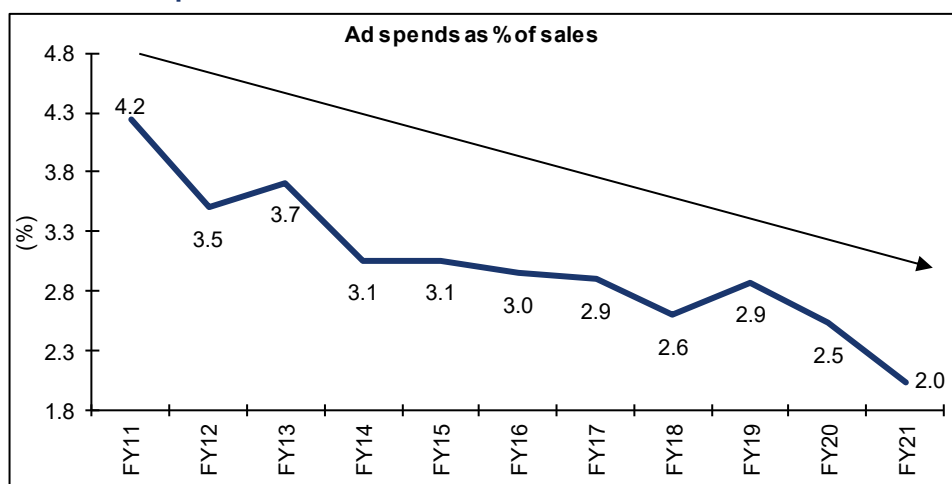
**Table 2: Key financials of 3M Electro**

Rs mn	FY20	FY21
<b>3M Electro &amp; communications</b>		
Revenues	2,222	1,845
PBT	323	171
PAT	233	131

Source: Company data, I-Sec research

**Reduction in ad-spend as % of net sales:** Ad-spend as % of net sales declined from 2.5% in FY20 to 2.0% in FY21. Two likely reasons were: (1) strong revenue growth in H2FY21 leading to lower ad-spend as % of net sales, and (2) cost-saving initiatives post covid. We model 3M India to increase ad-spend in medium-to-long term.

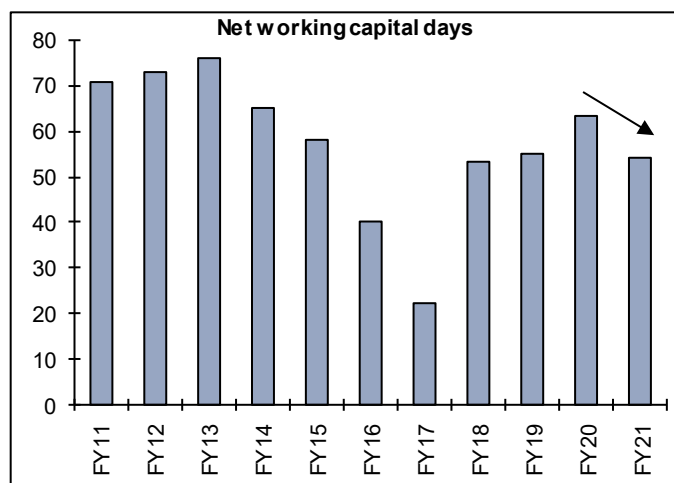
**Chart 1: Adspend as % of net sales**



Source: Company, I-Sec research

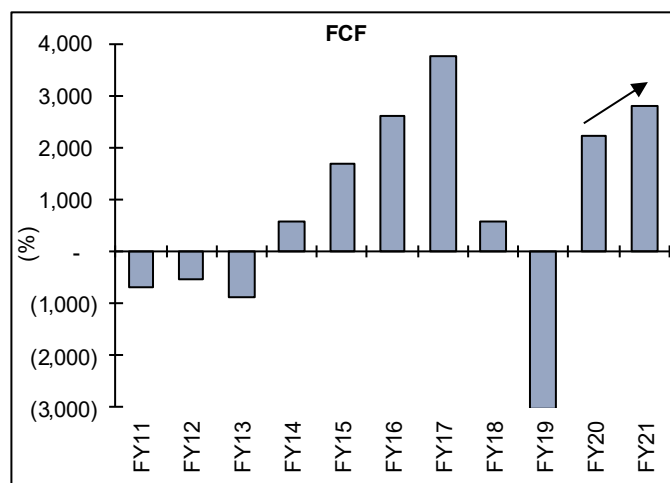
**Decrease in working capital days:** Net working capital days have decreased from 63 in FY20 to 54 in FY21. The key reasons were: (1) better management of debtor and inventory levels, and (2) optimisation of current liabilities.

**Chart 2: Lower working capital days...**



Source: Company data, I-Sec research

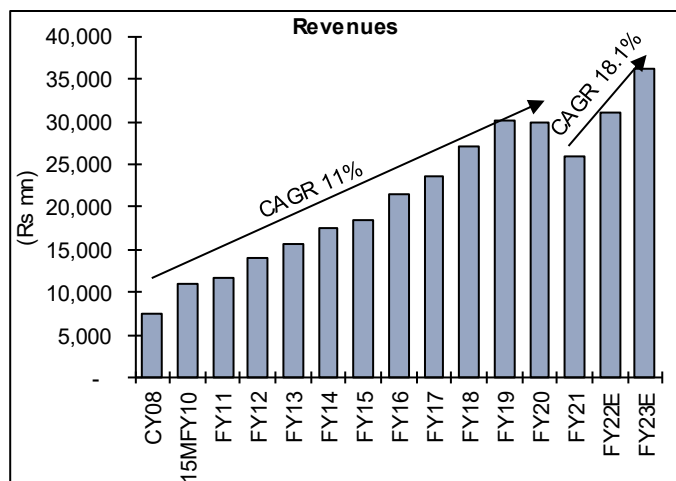
**Chart 3: ... leading to higher FCF generation**



Source: Company data, I-Sec research

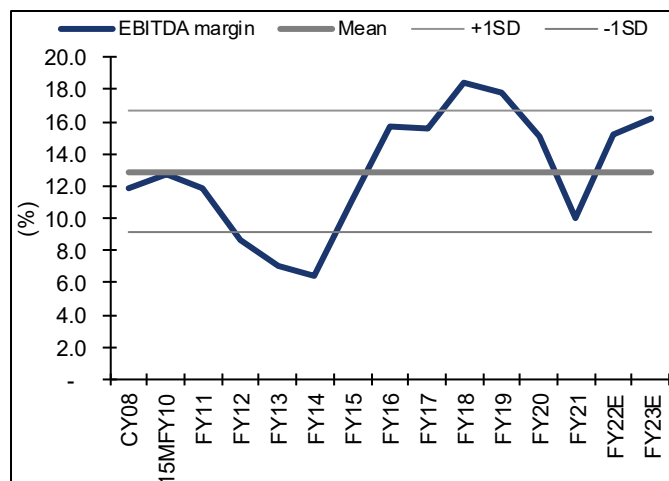
## Key ratios – Annual

Chart 4: Revenues and revenue growth



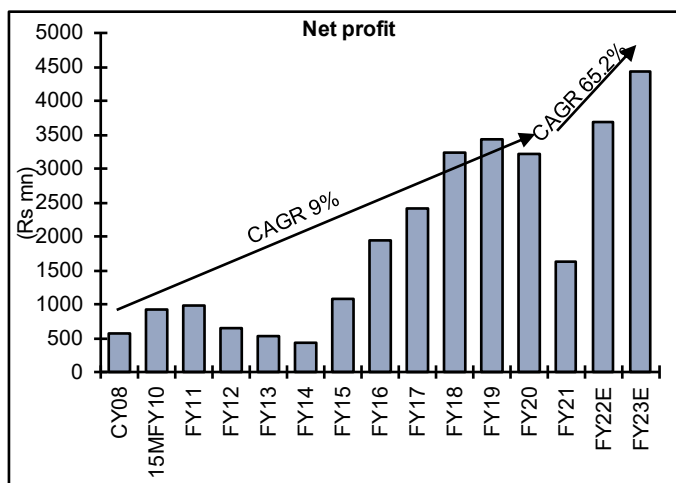
Source: Company data, I-Sec research

Chart 5: EBITDA margin



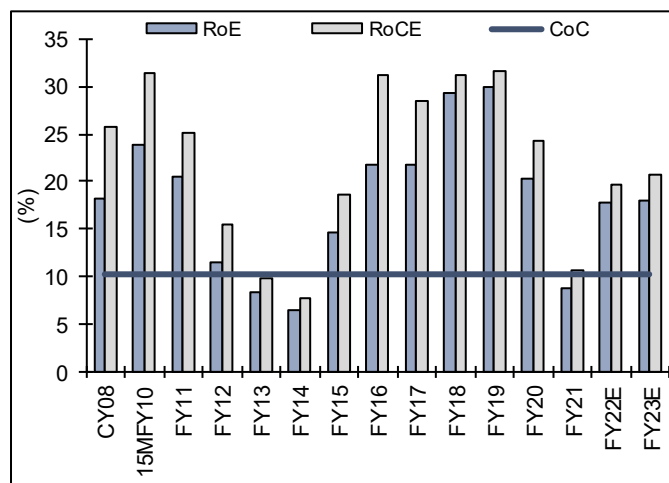
Source: Company data, I-Sec research

Chart 6: PAT and PAT growth



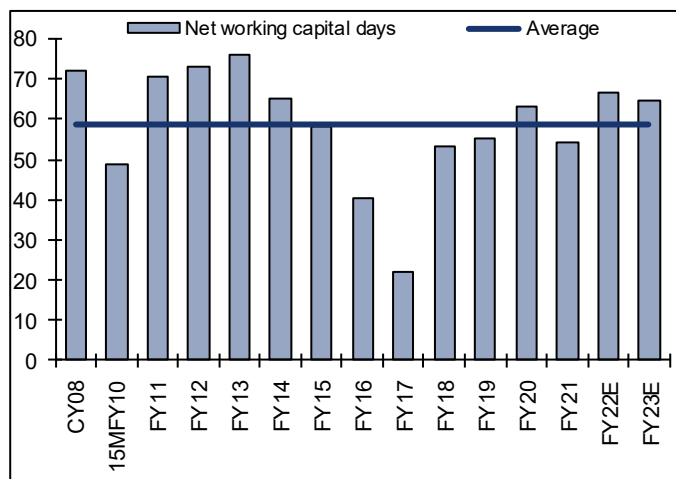
Source: Company data, I-Sec research

Chart 7: RoE and RoCE



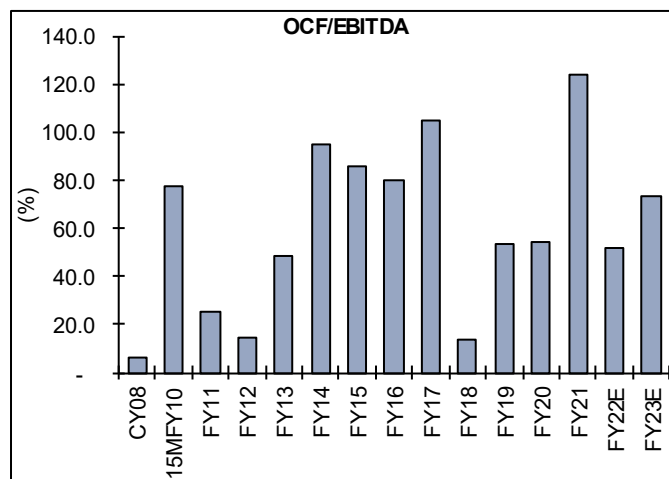
Source: Company data, I-Sec research

Chart 8: Net working capital days



Source: Company data, I-Sec research

Chart 9: 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 65.2% 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. Upgrade to **BUY**.

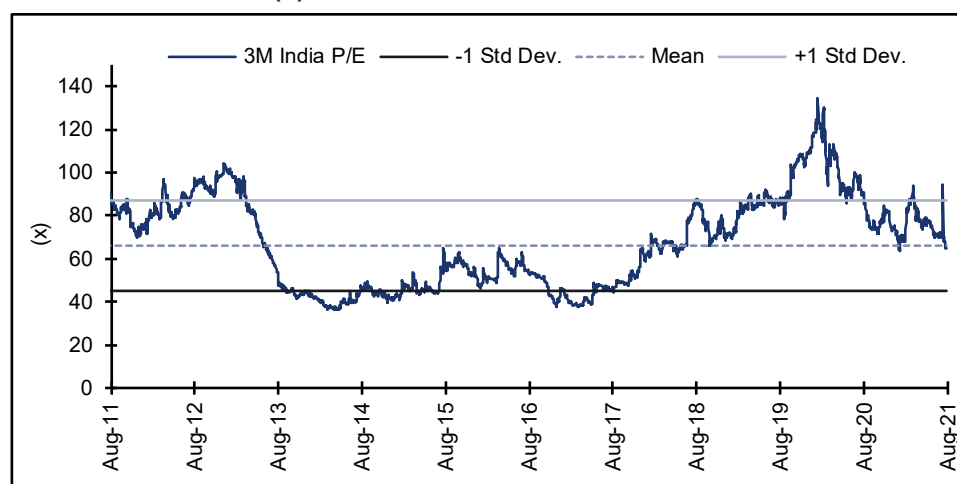
**Table 3: DCF-based valuation**

Particulars	
Cost of Equity (%)	10.3
Terminal growth rate (%)	5.0
Discounted interim cash flows (Rs mn)	76,937
Discounted terminal value (Rs mn)	2,26,095
Total equity value (Rs mn)	3,03,031
<b>Value per share (Rs)</b>	<b>26,900</b>

Source: Company data, I-Sec research

## Mean P/E and standard valuation

**Chart 10: Mean P/E (x) and standard deviation**



Source: Company data, I-Sec research

## Risks

### Sharp increase in input prices and competitive pressures

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

### Delays in new product launches

Any delays in launch of new products and/or commissioning of new plants may result in lower earnings than estimated.

## Financial summary

Table 4: Profit &amp; 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	22,072	24,656	28,461
EBITDA	4,497	2,595	4,741	5,867
% margins	15.1	10.0	15.2	16.2
Depreciation & Amortisation	593	618	589	620
Gross Interest	37	25	32	32
Other Income	459	247	835	732
Recurring PBT	4,326	2,199	4,956	5,947
Less: Taxes	1,104	575	1,264	1,517
Less: Minority Interest	-	-	-	-
Net Income (Reported)	3,222	1,624	3,692	4,431
Extraordinaries (Net)	(41)	(29)	-	-
Recurring Net Income	3,180	1,595	3,692	4,431

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	18,687	21,377	11,883	13,761
of which cash & cash eqv.	7,806	10,624	585	795
Total Current Liabilities & Provisions	5,713	6,886	5,611	6,539
Net Current Assets	12,974	14,491	6,272	7,223
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	23,013	27,444
<b>Liabilities</b>				
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	22,682	27,113
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	17,509	19,103	22,795	27,226
Total Liabilities	17,777	19,321	23,013	27,444

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	4,281	5,051
Working Capital Changes	(920)	1,414	(1,820)	(741)
Capital Commitments	(211)	(391)	(500)	(600)
Free Cashflow	2,231	2,819	1,961	3,709
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	(10,039)	209

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS	286.0	144.1	327.7	393.3
Cash EPS	338.7	199.0	380.0	448.3
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	1,534	1,668	1,996	2,389
<b>Growth (%)</b>				
Net Sales	(1.0)	(12.8)	19.7	16.5
EBITDA	(16.0)	(42.3)	82.7	23.7
PAT	(6.1)	(49.6)	127.4	20.0
DPS	(1.4)	(41.2)	90.9	18.0
<b>Valuation Ratios (x)</b>				
P/E	79.2	157.1	69.1	57.6
P/CEPS	66.9	113.8	59.6	50.5
P/BV	14.8	13.6	11.3	9.5
EV / EBITDA	54.5	94.4	51.7	41.8
EV / Sales	8.2	9.4	7.9	6.7

## Operating Ratios

Raw Material / Sales (%)	58.1	61.4	58.7	58.1
Employee cost / Sales (%)	11.0	14.2	11.8	11.8
SG&A / Sales (%)	1.9	2.2	2.1	2.0
Other Income / PBT (%)	10.6	11.2	16.9	12.3
Effective Tax Rate (%)	25.5	26.2	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	6.2	11.8	12.2
RoACE	24.2	10.7	19.6	20.8
RoAE	20.3	8.8	17.9	17.9
Dividend Payout	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	15.1	10.0	15.2	16.2

Source: Company data, I-Sec research



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