

# Stock Update

## Vimta Labs Ltd.

Apr 24, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Testing services	Rs 373.35	Buy in the band of Rs 372-377 & add more on dips to Rs 335.5	Rs 408.5	Rs 437.5	2-3 quarters

HDFC Scrip Code	VIMLABEQNR
BSE Code	524394
NSE Code	VIMTALABS
Bloomberg	VLIN
CMP Apr 21, 2023	373.35
Equity Capital (Rs cr)	4.4
Face Value (Rs)	2
Equity Share O/S (cr)	2.2
Market Cap (Rs cr)	755
Book Value (Rs)	106
Avg. 52 Wk Volumes	259332
52 Week High	503.8
52 Week Low	291

Share holding Pattern % (Mar, 2023)	
Promoters	37.2
Institutions	33.7
Non Institutions	29.1
Total	100.0



**HDFCsec Retail research stock rating meter**  
for details about the ratings, refer at the end of the report  
\* Refer at the end for explanation on Risk Ratings

**Fundamental Research Analyst**  
Kushal Rughani  
[kushal.rughani@hdfcsec.com](mailto:kushal.rughani@hdfcsec.com)

### Our Take:

Vimta Labs is one of the leading contract research and testing company with India's largest laboratory (~4 lakh sq. ft.), equipped with latest infrastructure. It provides a wide range of services to pharmaceutical, biopharmaceutical, food, consumer goods, electronic & electrical, agrochemical, healthcare, environmental and medical devices etc. Company derived around 60% of revenue from Pharma segment, 15-20% from diagnostic segment while ~15% from food segment and the balance from others. Vimta has a network of 16 laboratories and 6 clinical diagnostic patient service centers in India, including food testing and clinical diagnostics. With a highly diverse, multi-disciplinary team of 1280 people including scientific and technical professionals, the company's expertise and high standards of quality have enabled to partner with global market leaders, as well as small and medium companies across various industries. It has food testing laboratories in 8 cities across India, which is the largest network in India. Vimta reported highest ever revenue, operating profit and PAT for FY22. It was driven by strong growth across business segments.

Company aspires to reach revenue of > Rs 500cr by the year 2025/2026 which implies ~20% CAGR in revenue over FY22-25E. Vimta started EMI/EMC services during Q4FY22 which caters to IT, defence suppliers, medical devices, telecom, electronics and allied industries. We believe this segment could drive revenue and profitability from FY24E onwards. Vimta had planned a total capex of Rs 50-60cr in FY23. Total capex outlay for the next two years would be around Rs 100-110cr which includes growth capex of Rs 60cr.

On Nov 2, 2021, we had initiated coverage on Vimta Labs at Rs 341 for base case target of Rs 386 and bull case target of Rs 417.5. The stock hit high of Rs 453 and our bull case target got achieved in Dec-2021. ([Link](#)).

On May 30, 2022, we had issued stock update note on Vimta Labs at Rs 315 for base case target of Rs 353 and bull case target of Rs 382. The stock had achieved bull case target of Rs 382 on Jun 29, 2022. ([Link](#)).

We have revised our estimates for FY23E/FY24E and introduced FY25E numbers. Given healthy correction from highs, healthy growth outlook in the coming quarters, better earnings visibility, we issue stock update note on Vimta Labs.

### Valuation & Recommendation:

We expect Vimta Labs to register strong growth in food and pharma business and electronic & electrical (EMI/EMC) testing segment in the coming years. Company is expected to sustain strong growth trajectory in the existing business segments and scale up of its new segment



i.e. EMI/EMC testing would further drive growth. We estimate Revenue/EBITDA/PAT CAGR of 16.3%/15.3%/16% over FY22-25E. Company expects all the segments to register strong growth in the next 3-4 years. Board had approved capital expenditure of about Rs.60cr to be incurred during the next two years towards expansion of facility at life sciences campus (Genome Valley, Hyderabad) to augment the growth. Management has guided for revenue of > Rs 500cr in 2025/2026. We feel investors can buy the stock in the band of Rs 372-377 and add more on declines to Rs 335.5 (11.5x FY25E EPS) for base case target of Rs 408.5 (14x FY25E EPS) and bull case target of Rs 437.5 (15x FY25E EPS) over the next 2-3 quarters.

### Financial Summary

Particulars (Rs cr)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Adj. Revenue	76	66	15.0	80	-4.9	213	181	211	278	317	368	438
Adj. EBITDA	23	22	4.1	25	-9.5	58	30	53	80	93	104	123
Depreciation	8	6	39.3	8	2.6	20	21	23	23	31	34	38
Other Income	1	1	57.1	1	42.9	2	3	1	1	4	4	5
Interest Cost	1	0	180.0	1	-12.5	5	4	2	2	3	3	3
Tax	4	4	0.0	5	-15.6	10	1	7	14	17	19	23
PAT	10	12	-12.8	13	-22.7	25	7	21	41	46	53	64
EPS (Rs)						11.4	3.1	9.7	18.7	20.8	23.9	29.2
RoE (%)						15.6	4.0	11.7	19.3	18.1	17.8	18.5
P/E (x)						32.5	120.5	38.4	19.9	17.9	15.6	12.8
EV/EBITDA (x)						14.6	28	15.8	10.4	9.0	8.0	6.8

(Source: Company, HDFC sec)

### Q3 FY23 result update

Adj. revenue grew 15% YoY at Rs 75.9cr. Adj. EBITDA margin contracted 340bps YoY at 30%. PAT declined 13% YoY at Rs 10.2cr. Other expenses were up 50% YoY at Rs 14cr. Travel and business promotion expenses rose during the quarter. The sequential dip in revenues is mainly because a few projects are postponed into the next quarter and hence slight dip in revenue. The depreciation and finance cost for 9MFY23 has increased, majorly due to the capitalization of its electrical and electronic testing operations during Q4FY22 and addition of lab equipment's during the current year.

For 9MFY23, adjusted revenue grew 22% YoY at Rs 234cr. Adj. EBITDA increased 4% at Rs 72.8cr. PAT was up 20% YoY at Rs 35.5cr. EPS for the quarter stood at Rs 4.5 and it stood at Rs 15.7 for 9MFY23.

Company spent Rs 15.3cr in capital expenditure in H1FY23 while capex for FY22 stood at Rs 30cr.



Earlier, the board had approved capital expenditure of about Rs 60cr to be incurred during the next two years towards expansion of facility at life sciences campus (Genome Valley, Hyderabad) to augment growth of the company.

On the operations side, it has successfully completed US FDA inspection of its clinical research operations. It also went through WHO inspection of its pharma analytical operations.

### Other Highlights

- Company successfully passed two remote audits by US FDA with no major observations during FY22.
- Vimta's successful regulatory track record has been key to the growth of its Pharma services in India and overseas.
- Company continues to invest in newer analytical technologies and also capacity. The facility expansion project that has been undertaken at Life Sciences facility to augment the future growth is progressing as per schedule.
- The food and pharma segments are witnessing good growth; especially food is progressing very well. Electronics testing had good response from the industry on the variety of industries and the company is quite optimistic on growing the electronics testing division. Diagnostics business is somewhat subdued. National Food Laboratory revenue remained steady.
- Management remains confident of crossing revenue of Rs 500cr in the year 2025/2026.
- In the diagnostic segment, the company is into both hospital laboratory management and independent labs.
- Management remains confident for better performance in Q4FY23.
- In E&E business, the company has about 100 customers and out of them 10-15% of them are MNC/Large companies.
- Company said that the new facility is likely to finish all the infra work by sometime between October to December-2023. So by the end of FY24, it would be ready to start operations. It won't require approvals from authorities.
- Company targets to cross Rs 100cr revenue from diagnostic segment by FY25 from around Rs 55-60cr in FY22.
- Management said that Food segment continues to do well and likely to see strong growth over 3-5 years.
- Management expects EBITDA margin to sustain and may get better with strong revenue growth in the coming years.
- There were ESOPs costs of Rs 2.9cr in FY22 and Rs 3.5cr for 9MFY23. ESOP expenses would be spread across the total five years. It would taper off in the coming years.
- EMI/EMC is a new business vertical. Company expects healthy growth in this business in FY24E.
- Vimta has planned capex of Rs 50-60cr in FY23. Total capex outlay for the next two years would be around Rs 100-110cr which includes growth capex of Rs 60cr. New capex would take around 24 months to get commercialized.
- Vimta Labs had approved ESOP 2021 scheme for 6.63 lakh options. Total number of options outstanding at the end of the year (FY22) were at 4.55 lakh. Weighted average exercise price was at Rs 289.7 per share. ESOPs expenses would be lower for FY24.
- There could be fluctuations in margin on quarter to quarter basis depending upon business mix.



- Eurofins Analytical Labs is the largest player in the Pre-clinical services in India. It holds 19.92% stake in Vimta Labs. Eurofins Scientific along with its subsidiaries is the world leader in food, environment, pharmaceutical and cosmetic products testing and in agro science CRO services.
- Vimta had won 25 years contract with Food Safety and Standards Authority of India (FSSAI) to setup and manage the National Food Lab at JNPT, Navi Mumbai.
- Company strengthened relationship with existing partners and add new long-term partnerships as well across a few business verticals. On the operational side, majority of service sectors continue to grow steadily and it continues to invest in technology to add more capacity.
- Company has started construction activity, this expansion will add about 140,000 square feet and has an option to increase it to 200,000 square feet. This would double existing capacities of Life Sciences facility in Genome Valley.
- In phase I, the company invested Rs 30cr in E&E testing segment. Company plans to expand its operations in Hyderabad only and then venture into other cities like Bengaluru, Pune etc.

### **Business Segments**

Vimta Labs Ltd. is a contract research and testing organization, providing wide range of services to pharmaceutical, biopharmaceutical, food, consumer goods, electronic & electrical, agrochemical, healthcare, environmental and medical devices etc. Broadly, these services include:

- Drug discovery, development and drug life cycle management support services in the areas of preclinical
- research (GLP and non-GLP), clinical research, central lab, and cGMP as well as non-GMP analytical services for pharmaceutical and biopharmaceutical companies;
- Preclinical research and testing services for medical device companies.
- Contract research and testing for Agro-science companies.
- Food testing and analytical development services to support manufacturers, processors, farmers, retailers, traders, exporters, regulators (viz. FSSAI, BIS, APEDA, EIC)
- Vimta's Life Science Food Lab is a National Referral Lab for testing of Water, Alcoholic & Non-Alcoholic Beverages.
- Vimta serves FSSAI to manage the National Food Laboratory at Navi Mumbai, under PPP model. The contract was awarded in 2021 with a term of 25 years.
- Clinical diagnostics services to patients, clinicians, hospitals.
- Environmental regulatory services such as impact assessments and post project monitoring, to various industries such as power, infrastructure, cement, oil & gas, mining etc.
- EMI/EMC testing for electronic and electrical products.



## **Pharmaceutical and Biopharmaceutical industry services**

From product discovery/development to release and post approval/marketing, it offers the following integrated services to pharmaceutical, biopharmaceutical and vaccines industry. Company provides services into Drug discovery, development and drug life cycle management support services in the areas of preclinical research (GLP and non-GLP), clinical research, central lab, and cGMP as well as non-GMP analytical services for pharmaceutical and biopharmaceutical companies; Preclinical research and testing services for medical device companies, Invitro studies (IVPT, IVRT, IVBE studies) etc. The services are in accordance with Good Laboratory Practices (GLP), Good Clinical Practices (GCP) and current Good Manufacturing Practices (cGMP) requirements, as applicable. The laboratory is located at Hyderabad. The facility has got accreditations and approvals from authorities such as Drug Controller General (India) – DCGI, GLP by National GLP Compliance and Monitoring Authority (NGCMA), College of American Pathologists (CAP), State Drug Control Administration (DCA) etc.

CRO industry is also benefitting from downsizing in pharmaceutical companies and proliferation of smaller drug makers, including the ones that use the 505 (b)(2) pathway to create new therapies from existing drugs. 505 (b)(2) drug development pathway offers multiple advantages to small drug makers by having the potential to lower risk due to previous drug approval; faster development and lower cost due to fewer studies needed; and potential to qualify for exclusivity.

Through its integrated drug development and discovery services, Vimta is well positioned to take advantage of these trends and has track record of conducting several IND enabling and 505(b)(2) programs for customers from India, Europe and US markets. Company added new customers for large projects during FY22.

Company is investing Rs 60cr (to be spent over next 18 months) at Genome Valley to expand the capacities of testing labs, analytical services and biochemical research. The life sciences facility in Genome Valley, Hyderabad, will be augmented by adding a new laboratory building by 2024.

## **Food & Agri Testing**

Vimta is the most renowned food testing laboratory in India with a network of 8 laboratories. The laboratory network enables it to gain more access to the domestic markets and leverage pan India presence to grow business within the food industry. Company has a network of 8 food testing labs at Hyderabad, Bangalore, Pune, Ahmedabad, Mumbai, Noida, Visakhapatnam and Nellore in India. Vimta continuously invests in technologies to enable itself to test a broader range of contaminants, gaining market leadership to support such testing needs.



Vimta provides extensive quality (purity and nutrition analysis) and safety testing expertise in all food, water, beverages categories including specialty services such as GMO testing, Dioxins & Furans, Trace Heavy Metals, Label Claims, Radioactive isotopes, Vitamins and Minerals, Packaging and Stability testing.

The laboratories have accreditations & approvals such as ISO 17025 by National Accreditation Board for Testing and Calibration Laboratories, Food Safety and Standard Authority of India (FSSAI), Agriculture Products Exports and Development Authority (APEDA) and European Commission.

### **National Food Laboratory (NFL), JNPT, Mumbai**

Vimta had won the contract to Setup, Operate and Transfer National Food Laboratory (NFL), on a Public Private Partnership (PPP) mode, at Jawaharlal Nehru Port Trust (JNPT), Navi Mumbai, Maharashtra. The NFL caters to testing of food imports samples.

The Laboratory has completed its first phase of NABL accreditation to ISO 17025 and commenced operations in Q4 FY22. It has the competency and capability for testing quality and safety parameters in all food products as per Food Safety and Standards Regulations (FSSRs).

Company will operate and maintain the facility for 25 years, and the agreement may be extended beyond this period by the Food Safety and Standards Authority of India (FSSAI), as per mutually agreed terms and conditions. NFL would primarily cater to testing samples of food imports and is accredited by National Accreditation Board for Testing and Calibration Laboratories (NABL).

### **Environment Testing**

India's Environmental Testing Market is expected to grow at ~10% CAGR by 2026 to reach US\$ 390 million. Increasing health concerns due to contaminants present in air, water soil is expected to augment current regulations, driving mandatory deployment of environmental test equipment.

Water sampling and testing is analysed to grow at highest rate during the forecast period owing to high water pollution. Sectors with major growth potential are Environmental Consultancy Services, Environmental Monitoring & Testing Services & Continuous Emission Monitoring System Implementation.

Regulations drive demand for environmental testing and impact assessment services. Apart from carrying out basic environmental testing for govt and non-govt organisations, the company has expanded into new services like CEMS calibration studies, life cycle assessment studies for various industries etc. Company has opened branch operations in Coimbatore, Noida and Kolkata.



To tackle air pollution, National Clean Air Programme (NCAP) was launched in early 2019. It had set a target of reducing key air pollutants by 20-30 percent by 2024, with 2017 as the base year.

Vimta is the first gazette notified EPA laboratory (1987) in India and is highly reputed for its technical expertise, quality and integrity. The division specializes in conduct of EIA studies and offshore monitoring surveys.

It includes wide ranging services encompassing entire gamut of environment management and monitoring services. Environment essentially being a multi-disciplinary science, cater to the varied needs of industry, pollution control agencies and regulatory authorities, in a larger pursuit of a green globe. Company has accreditations & approvals from Ministry of Environment, Forest & Climate Change (MoEF & CC). It is ISO 17025 accredited by NABL (National Accreditation Board for Testing and Calibration Laboratories).

### **EMI/EMC Testing**

Vimta ventured into the electromagnetic interface (EMI)/electromagnetic compatibility (EMC) services for the IT, automotive, aviation & defence, medical devices, telecom, home appliance/consumer electronics and allied industries. The commercial operations of this division started in March 2022. The segment holds immense scope to grow, along with rising demand for electronic gadgets and equipment.

There is an increased proliferation of electronics-based products across majority of verticals due to trends such as digitization, AI, smart homes, smart vehicles, and connected devices for Internet of Things (IoT). All electrical and electronic devices generate some form of unwanted interference/radiation that is unavoidable and increasingly these devices are used in close proximity of each other. Hence, it is required to check compatibility of electronic products for unintentional electromagnetic interference (EMI) that can adversely affect the efficient functioning of the device. To ensure quality of the product per its electromagnetic compatibility (EMC), regulatory bodies across the globe have enforced rules and directions, that are constantly evolving, on designing and manufacturing such products. Hence, it is mandatory that manufacturers demonstrate through EMC testing, the product compliance to regulations and standards through certification before market entry. Such EMI/EMC testing is either done in-house by large manufacturers or outsourced to testing services companies to test and confirm a product's compliance to regulations.

Regulatory compliance and due diligence require that electronic devices undergo EMI/EMC testing. The most common applications for EMI/EMC testing are for defence/aerospace devices & components, consumer good, medical devices, industrial devices, wireless and telecom products.



The EMC testing market size is estimated to reach US\$ 3 billion by 2028 from US\$ 2 billion in 2021 to grow at a CAGR of 5-6%. The Indian government has set the defence production target at US\$ 25 billion by 2025, including US\$ 5 billion by exports. EMI/EMC testing (electromagnetic interference/compatibility) business enjoys high gross margin as consumables cost remains low however when it will reach maturity stage, it would give almost company level EBITDA margin.

The laboratory is situated at Hyderabad. It has accreditations & approvals from NABL (National Accreditation Board for Testing and Calibration Laboratories).

### **Emtac Laboratories**

Emtac Laboratories provides safety/performance testing services for electrical, electronic, and mechanical products and is also a physical security product (bank safes/lockers, ATMs, home use lockers, fire wall doors etc.) certification company. Emtac is India's First Laboratory to be awarded NABL accreditation for Physical Security Products and also the first Laboratory in Telangana to be accredited by NABL for safety testing of IT Products (Mobile phones, CCTV cameras, laptop components, cash registers, set top boxes, adapters etc.), UPS, LED lights, Electric Fans, Power banks, etc. It is the only lab recognized by BIS for testing of table fans. Emtac recorded revenue growth of 56% at Rs 2.54cr in FY22. PBT stood at Rs 0.34cr as compared to Rs 0.14cr in the previous year.

### **Clinical Diagnostics**

Patient care services through wide range of test panels in Hematology, Serology, Cytogenetics, Microbiology, Molecular Biology, Histopathology/Cytopathology, Biochemistry. Company has presence in Hyderabad, Delhi, Kolkata, Varanasi, Bhubaneswar, Visakhapatnam, Vijayawada, Tirupati, Chennai. It has Patient Service Centers in Hyderabad and Varanasi. It derived around 15% of revenue from diagnostic segment. Company is facing severe competition in the segment from large organised players. For H1 FY23, the performance has remained subdued.

### **Company Background**

Vimta Labs Ltd is engaged in the business of testing and contract research in the areas of analytical testing of food and water, drugs, environment testing, clinical research and clinical reference testing (diagnostics), biopharmaceutical testing, pre-clinical studies and testing services for electronic and electrical products. Company derived revenue from US, Europe, Dubai, China, and Malaysia, among others, and exports contribute 25-30% to the total revenue. Vimta is one of the India's largest laboratories with 400,000 sq. ft. Emtac Laboratories is engaged in the electrical/electronic safety testing business, is the wholly-owned subsidiary of Vimta. Company is one of the first laboratories in Asia to be pre-qualified by the WHO for the Medicines Programme Inspection of Quality Control Laboratory. The company has successfully been audited over 70 times by regulatory authorities across the globe from various countries, such as Brazil, Denmark, France, Germany, New Zealand, India, Sweden and South Africa, along with the US FDA, UK and WHO.



In Aug-2020, Dr. Yadagiri. R. Pendri was appointed as Additional Director, Independent Non-Executive Director. He has more than thirty years' experience in pharmaceutical research and development and has led several research programs to deliver novel drug candidates to market. He is Founder of Escientia Life Sciences, a contract development and manufacturing organization (CDMO) to develop and manufacture Active Pharmaceutical Ingredients (API) to supply to global pharmaceutical and biotech companies.

### **What is section 505 (b) (2)**

A 505(b)(2) application is a new drug application (NDA) described in section 505(b)(2) of the Act. It is submitted under section 505(b)(1) of the Act and approved under section 505(c) of the Act.

Section 505 of the Act describes three types of new drug applications: (1) an application that contains full reports of investigations of safety and effectiveness (section 505(b)(1)); (2) an application that contains full reports of investigations of safety and effectiveness but where at least some of the information required for approval comes from studies not conducted by or for the applicant and for which the applicant has not obtained a right of reference (section 505(b)(2)); and (3) an application that contains information to show that the proposed product is identical in active ingredient, dosage form, strength, route of administration, labeling, quality, performance characteristics, and intended use, among other things, to a previously approved product (section 505(j)).

### **Key Risks**

#### **Quality related risk**

The clinical research industry is exposed to high reputation/regulatory risk wherein the CRO has an important responsibility to ensure safety of its subjects upon whom the various clinical trials/studies are conducted by it.

Any adverse impact on the subject's health due to trials carried out by the Contract Research Organisation (CRO) would result in the loss of reputation for the CRO. Furthermore, various approvals, licenses, registrations and permissions are required for routine business activities. Any delay or failure in getting approval could adversely affect the business prospects of the company.

#### **Data integrity related risk**

As a third-party provider of services, the company often gets into various service agreements, with customers including requirements on data confidentiality, data security and IP protection. Given the large scale of human resources involved in organization, and inherent vulnerability of IT solutions deployed, company may be at risk as a result of unintentional violations of customer contracts and agreements, which could further lead to significant legal risks for the business.



### **Entry into new business segment**

Vimta has done significant capex and entered into new segment called EMI/EMC (E&E) testing. It is to be seen how fast the company is able to scale up the business.

### **Competition in Diagnostic business**

Company faces strong competition from well-established players in the diagnostic segment. If the company is not able to scale up, it would impact revenue and profitability.

### **Increasing competition in the Indian CRO industry**

The growth of the Indian CRO industry would be driven by increased outsourcing pharmaceutical companies. Pricing pressures faced by international companies are creating the need for the pharmaceutical companies to implement cost cutting measures across operations, including drug development costs. The growth in outsourcing of clinical trials will be closely paralleled with the growth in R&D spending of pharmaceutical companies in regulated markets. The CRO industry consists of many players who are compliant with the regulatory authorities. Furthermore, the large pharmaceutical players have their captive CROs which further intensify the competition. With increase in competition, the CROs also face challenges pertaining to availability of diversified subjects and patients to conduct trials or studies.

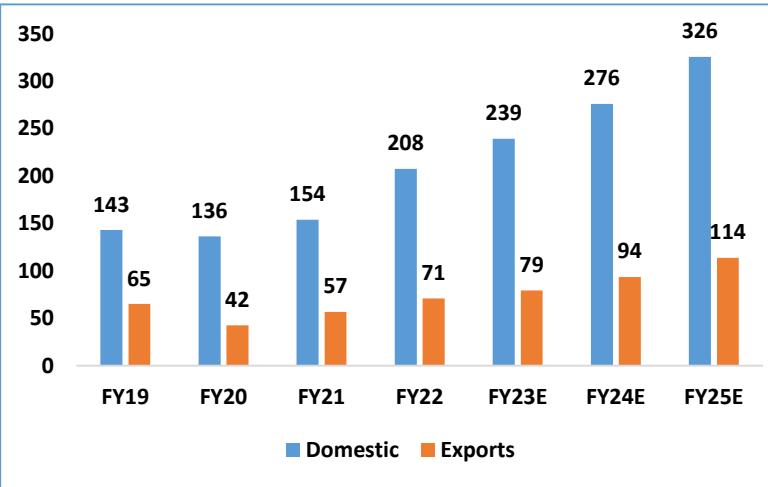
Eurofins Scientific, a global leader in food, environment, pharmaceutical and cosmetic product testing as well as in bioanalytical testing, announced in Jan 2023 acquisition of assets to establish a fully-equipped laboratory campus in Genome Valley, Hyderabad. The investment is worth Rs 1,000cr. The acquisition includes a facility capable of supporting large global and Indian pharmaceutical clients as well as small biotech companies in the areas of synthetic organic chemistry, analytical R&D, bioanalytical services (for both large and small molecules), in-vivo pharmacology, safety toxicology and formulation R&D. The state-of-the-art laboratories occupy over 90,000 square feet. Eurofins holds about 20% stake in Vimta Labs. This initiative could raise the competitive scenario for Vimta.

### **Foreign exchange fluctuations**

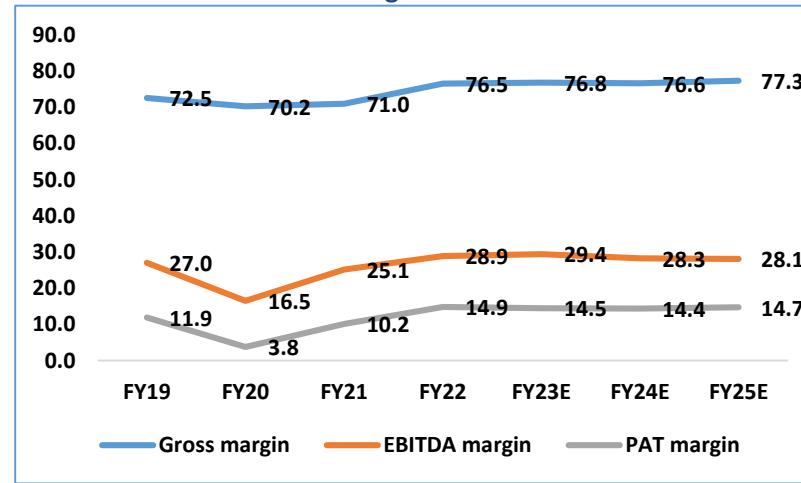
Adverse currency movements could impact overall profitability as the company derived around 30% of sales from International markets. Foreign exchange outgo was at Rs 22.6cr in FY22 (Rs 24.3cr in FY21).



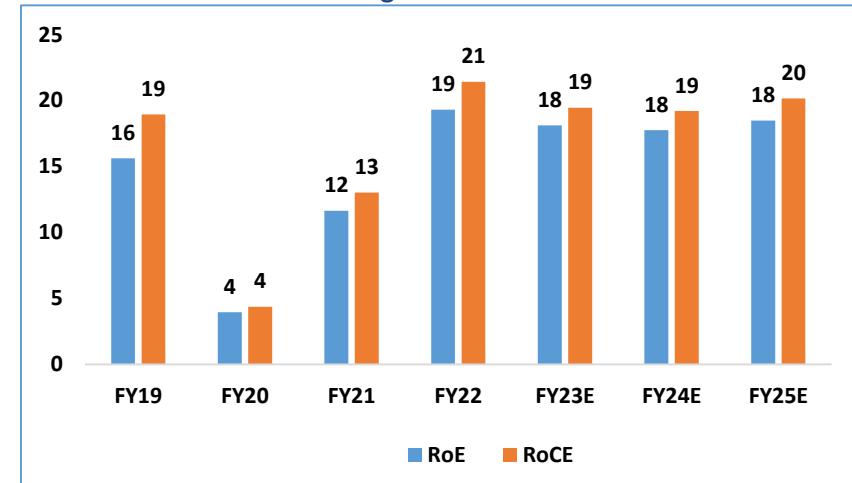
Revenue Mix



Margin Trend



Strong Return Ratios





## Financials

### Income Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Net Revenue</b>	<b>181</b>	<b>211</b>	<b>278</b>	<b>317</b>	<b>368</b>	<b>438</b>
Growth (%)	-15	16.6	32.1	14	16	19
Operating Expenses	151	158	198	224	264	315
<b>EBITDA</b>	<b>30</b>	<b>53</b>	<b>80</b>	<b>93</b>	<b>104</b>	<b>123</b>
Growth (%)	-48	77.2	51.6	16.2	11.4	18.4
<b>EBITDA Margin (%)</b>	<b>16.5</b>	<b>25.1</b>	<b>28.9</b>	<b>29.4</b>	<b>28.3</b>	<b>28.1</b>
Depreciation	21	23	23	31	34	38
EBIT	9	30	57	62	70	85
Other Income	3	1	1	4	4	5
Interest expenses	4	2	2	3	3	3
<b>PBT</b>	<b>8.2</b>	<b>28.2</b>	<b>56</b>	<b>59</b>	<b>67</b>	<b>82</b>
Tax	1	7	14	17	19	23
<b>RPAT</b>	<b>7</b>	<b>21</b>	<b>41</b>	<b>46</b>	<b>53</b>	<b>64</b>
Growth (%)	-73	213.7	93	11.4	14.8	21.9
EPS	3.1	9.7	18.7	20.8	23.9	29.2

### Balance Sheet

As at March	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>SOURCE OF FUNDS</b>						
Share Capital	4.4	4.4	4.4	4.4	4.4	4.4
Reserves	169	190	230	270	316	372
<b>Shareholders' Funds</b>	<b>173</b>	<b>194</b>	<b>234</b>	<b>274</b>	<b>321</b>	<b>376</b>
Long Term Debt	5	14	13	20	15	11
Long Term Provisions & Others	10	12	13	16	19	23
<b>Total Source of Funds</b>	<b>188</b>	<b>220</b>	<b>259</b>	<b>311</b>	<b>355</b>	<b>410</b>
<b>APPLICATION OF FUNDS</b>						
Net Block (incl CWIP)	134	147	150	183	198	208
Goodwill	6	6	19	17	16	13
Long term loans and advances	10	11	12	16	18	20
<b>Total Non Current Assets</b>	<b>149</b>	<b>163</b>	<b>181</b>	<b>216</b>	<b>232</b>	<b>241</b>
Inventories	17	15	17	22	24	30
Trade Receivables	58	73	77	93	112	136
Short term Loans & Advances	1	2	1	2	3	4
Cash & Equivalents	7	7	11	15	29	49
Other Current Assets	13	14	18	20	23	29
<b>Total Current Assets</b>	<b>96</b>	<b>112</b>	<b>125</b>	<b>152</b>	<b>190</b>	<b>247</b>
Short-Term Borrowings	18	9	7	9	10	11
Trade Payables	10	15	12	16	20	24
Other Current Liab & Provisions	27	27	25	28	32	36
Short-Term Provisions	2	4	3	4	5	6
<b>Total Current Liabilities</b>	<b>57</b>	<b>54</b>	<b>48</b>	<b>57</b>	<b>67</b>	<b>77</b>
Net Current Assets	39	58	78	95	123	170
<b>Total Application of Funds</b>	<b>188</b>	<b>220</b>	<b>259</b>	<b>311</b>	<b>355</b>	<b>410</b>



## Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	8	29	56	63	72	87
Non-operating & EO items	-3	-1	-1	-3	-4	-5
Interest Expenses	4	2	2	3	3	3
Depreciation	21	23	23	31	34	38
Working Capital Change	1	-9	-3	-15	-15	-26
Tax Paid	-6	-7	-17	-17	-19	-23
<b>OPERATING CASH FLOW ( a )</b>	<b>24</b>	<b>37</b>	<b>59</b>	<b>63</b>	<b>71</b>	<b>74</b>
Capex	-16	-33	-38	-62	-48	-45
Free Cash Flow	9	4	21	1	23	29
Investments	-8	1	-1	-2	-2	-2
Non-operating income	3	1	1	3	4	5
<b>INVESTING CASH FLOW ( b )</b>	<b>-21</b>	<b>-32</b>	<b>-38</b>	<b>-61</b>	<b>-46</b>	<b>-42</b>
Debt Issuance / (Repaid)	8	-3	-11	11	-2	0
Interest Expenses	-4	-2	-2	-3	-3	-3
FCFE	13	-1	9	8	19	26
Share Capital Issuance	0	0	0	0	0	0
Dividend	-5	0	-4	-6	-7	-9
<b>FINANCING CASH FLOW ( c )</b>	<b>-1</b>	<b>-5</b>	<b>-17</b>	<b>2</b>	<b>-11</b>	<b>-12</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>3</b>	<b>1</b>	<b>5</b>	<b>3</b>	<b>14</b>	<b>20</b>

## One Year Price Chart



## Key Ratios

	FY20	FY21	FY22	FY23E	FY24E	FY25E
Gross Margin	70.2	71	76.5	76.8	76.6	77.3
Adj. EBITDA Margin	16.5	25.1	28.9	29.4	28.3	28.1
EBIT Margin	5	14.2	20.5	19.6	19.1	19.4
PAT Margin	3.8	10.2	14.9	14.5	14.4	14.7
RoE	4	11.7	19.3	18.1	17.8	18.5
RoCE	4.4	13	21.4	19.5	19.2	20.2
<b>Solvency Ratio</b>						
Net Debt/EBITDA (x)	0.5	0.3	0.1	0.1	0	-0.2
D/E	0.1	0.1	0.1	0.1	0.1	0.1
Net D/E	0.1	0.1	0	0.1	0	-0.1
<b>PER SHARE DATA</b>						
EPS	3.1	9.7	18.7	20.8	23.9	29.2
CEPS	12.5	20.1	29.3	32.8	36.1	41.2
BV	78	88	106	124	145.1	170.3
Dividend	0	2	2	2.5	3	4
<b>Turnover Ratios (days)</b>						
Debtor days	117	127	101	107	111	113
Inventory days	37	28	21	25	24	25
Creditors days	42	58	37	45	47	47
<b>VALUATION</b>						
P/E	120.5	38.4	19.9	17.9	15.6	12.8
P/BV	4.8	4.2	3.5	3	2.6	2.2
EV/EBITDA	28	15.8	10.4	9	8	6.8
EV / Revenues	4.6	4	3	2.6	2.3	1.9
Dividend Payout	0	20.6	10.7	12	12.5	13.7



## HDFC Sec Retail Research Rating description

### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

### Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicalities of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

### Disclosure:

I, Kushal Rughani, Research Analyst, MBA, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations

have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does not have any material conflict of interest.

Any holding in stock – No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

### Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no warranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

As regards the associates of HSL please refer the website. HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjur Marg Station, Opp. Crompton Greaves, Kanjur Marg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.