# Hindustan Foods Ltd

22 April 2025

## Boldly transforming with new clients, segment expansions

### INITIATING COVERAGE

| | |
|---|---|
| **Sector: Consumer Staples** | **Rating: BUY** |
| **CMP: Rs 575** | **Target Price: Rs 710** |

**Stock Info**

| | |
|---|---|
| Sensex/Nifty | 79,637/ 24,188 |
| Bloomberg | HNDFDS IN |
| Equity shares (mn) | 119.0 |
| 52-wk High/Low | Rs 686 / 422 |
| Face value | Rs 2 |
| M-Cap | Rs 67bn/USD 0.79bn |
| 3-m Avg volume | USD 1.25mn |

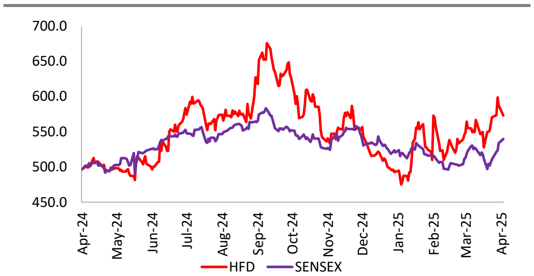
**Financial Snapshot (Rs mn)**

| Y/E Mar | FY25E | FY26E | FY27E |
|---|---|---|---|
| Sales | 35,660 | 43,950 | 52,133 |
| PAT | 1,139 | 1,552 | 2,063 |
| EPS (Rs) | 9.6 | 12.7 | 16.9 |
| PE (x) | 59.5 | 44.9 | 33.8 |
| EV/EBITDA (x) | 20.4 | 15.8 | 13.1 |
| P/BV (x) | 7.7 | 6.1 | 5.2 |
| EV/Sales | 1.7 | 1.4 | 1.2 |
| RoE (%) | 14.9 | 15.3 | 16.6 |
| RoCE (%) | 14.5 | 15.1 | 16.2 |
| NWC (days) | 42 | 41 | 40 |
| Net gearing (x) | 0.8 | 0.7 | 0.5 |

**Shareholding Pattern (%)**

| | Apr 25 | Mar 25 | Dec 24 |
|---|---|---|---|
| Promoter | 62.2 | 62.2 | 62.2 |
| –Pledged | - | - | - |
| FII | 5.2 | 5.2 | 5.5 |
| DII | 14.6 | 14.6 | 14.1 |
| Others | 18.0 | 18.0 | 18.3 |

**Stock Performance (1-year)**

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**Hindustan Foods (HFL) is among India's largest and most diversified organized FMCG contract manufacturers, posting 41%/51%/54% CAGR in revenue/ earnings/ gross block during FY19-FY24, while maintaining RoE in high-teens. It has strong presence across F&B and HPC, supported by a strong balance sheet and 30+ years' track record of consistent execution. HFL is now undergoing a transformation – it is adding (1) marquee and mid-sized clients; (2) high-growth segments of footwear, ice cream and beverages, and (3) the shared-manufacturing model with these segments, indicating potentially richer margins and returns. We estimate robust 24%/28%/21% revenue/EPS/gross block CAGR over FY24-FY27E, with improvement in a) RoE from c.15% now to c.17% by FY27E (17-18% over FY19-FY24), and b) gross block from Rs 11bn in FY24 to Rs 20bn in FY27E once the new businesses stabilize. We initiate coverage with a BUY rating and TP of Rs 710/share (23% upside).**

**Traditional model lends stability, visibility to earnings and returns:** HFL's operating model has so far involved setting up/ acquiring dedicated manufacturing units (80-85% of business), backed by long-term (5-10 years) take-or-pay contracts with marquee clients at projected pre-tax RoE of 16%-20%. This ensures stable long-term return on capital with limited volatility and high multi-year earnings' visibility. HFL is confident of achieving 18-20% RoE post ramp up of recent capacity investments.

**Transformation underway – new clients, segments, model:** Starting with marquee MNC clients HUL and Reckitt Benckiser, HFL has aggressively added names like Dabur, Hector Beverages, Coca-Cola and mid-sized new-age clients like NIC ice creams (funded with lower debt vs. large clients to minimize risk). HFL is now expanding in high-growth segments of footwear, ice creams and beverages; by FY27, it expects footwear to make up 15-20% of revenue (PBT-profitability by 1QFY26) and ice creams to form c.33% of its gross block. Alongside, it is adopting the shared-manufacturing model in these segments. We expect the combined diversification of clients, segments and model to deliver potential upside to margins and return ratios.

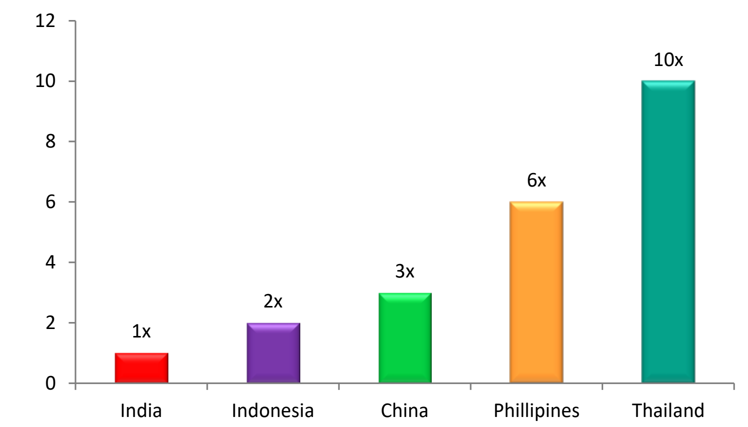
**Tailwinds from US import tariffs:** Indian imports into the US face relatively lower reciprocal tariffs vs. those from China and Vietnam (biggest global footwear exporters with c.$53bn/c.$31bn of exports in 2023 vs India at c.$3.1bn). A meaningful chunk of global footwear exports (and manufacturing) can likely shift to India - a significant tailwind for contract manufacturers such as HFL. Steep tariffs can also drive opportunities in segments like home & personal care, food & beverages.

**Well capitalized for aggressive expansion:** We estimate a gross block of Rs 20bn by end-FY27E and capex of Rs 9bn over FY25E-FY27E; its issuance of Rs 4bn worth of warrants, additional debt and internal accruals (OCF of c.Rs 6bn over FY25E-FY27E) should suffice in achieving those targets, and maintaining its leverage at c.1x. HFL can potentially leverage its balance sheet by 2x (if additional opportunities come up) to fund a comfortably serviceable amount.

**Valuation:** We value HFL at a P/E of 42x FY27E EPS; we expect HFL to sustain a multiple close to its current one-year forward P/E, on (1) robust project pipeline, (2) improving RoE and (3) healthy revenue growth trajectory. We build in risks including execution risk in new segments and low earnings' visibility from new models.

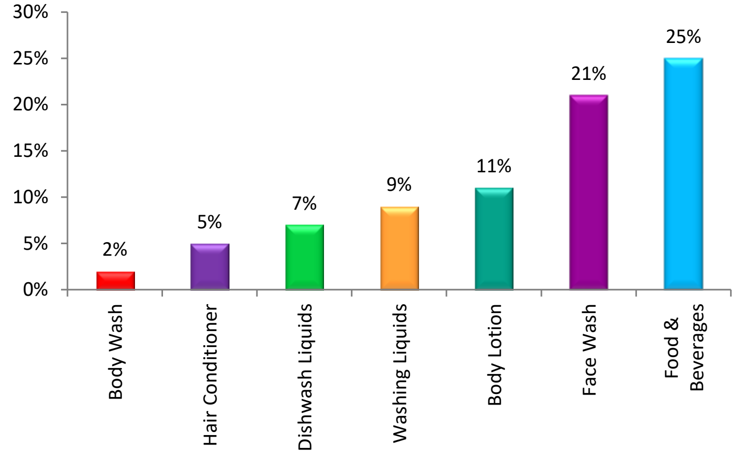
## Story in Charts

**Exhibit 1: Headroom for higher FMCG per capita consumption**



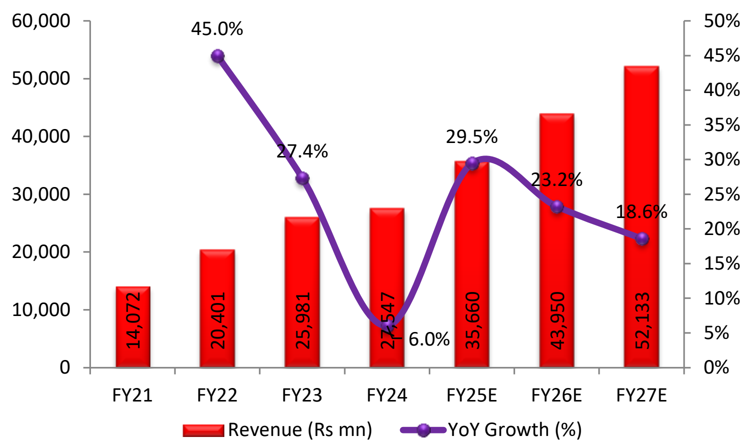

*Source: Industry Reports, Systematix Institutional Research*

**Exhibit 2: Penetration of few FMCG categories in India (%)**



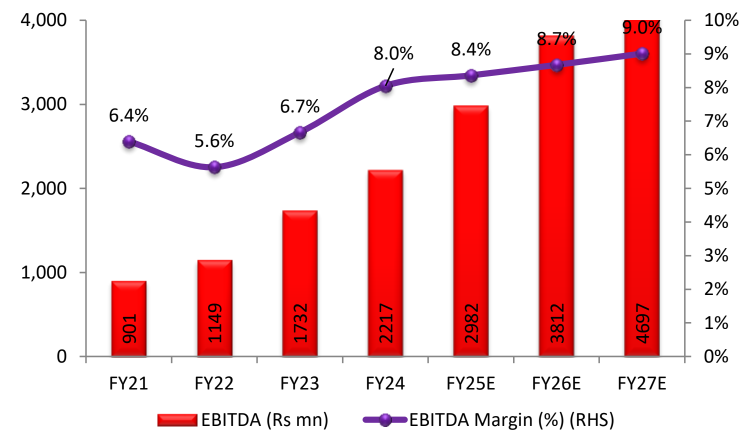

*Source: Industry Reports, Systematix Institutional Research*

**Exhibit 3: HFL: 24% revenue CAGR during FY24-FY27E**



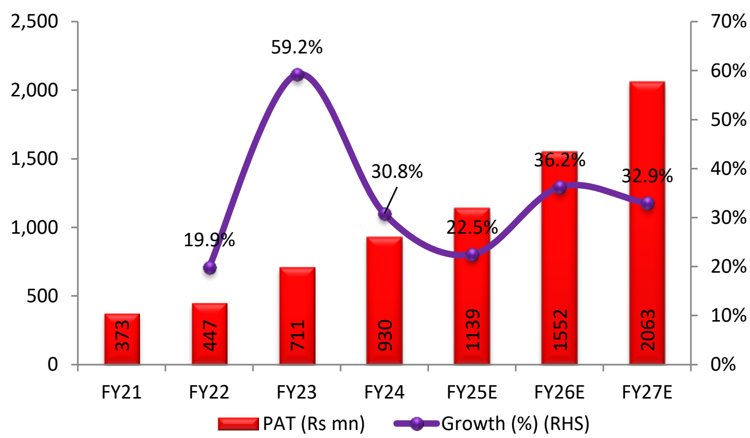

*Source: Company AR, Systematix Institutional Research*

**Exhibit 4: EBITDA margin to expand to 9.0% by FY27E**



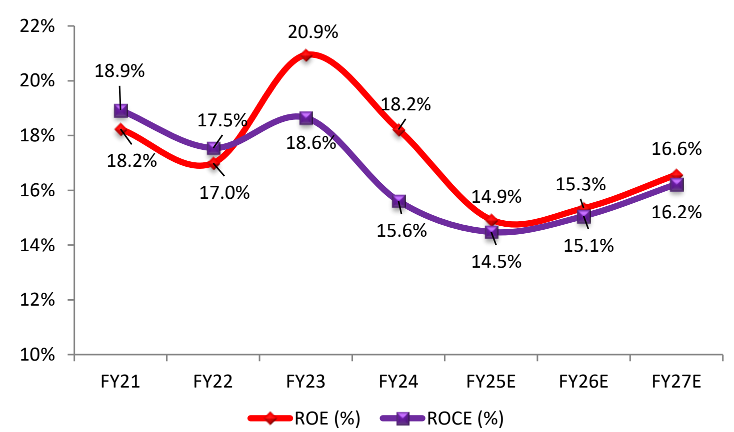

*Source: Company AR, Systematix Institutional Research*

**Exhibit 5: Adj. PAT/EPS: 30%/28% CAGR during FY24-FY27E**




*Source: Company AR, Systematix Institutional Research*

**Exhibit 6: RoE/ RoCE of 17%/ 16% by FY27E**




*Source: Company AR, Systematix Institutional Research*

## Investment thesis

Hindustan Foods (HFL) is among India's largest and most diversified organized FMCG contract manufacturers. The company posted 41%/ 51%/ 54% CAGR in revenue/ earnings/ gross block over FY19-FY24, while maintaining RoE at high-teen levels. The company has strong presence across the Food & Beverages (F&B), home and personal care (HPC) categories, supported by 30+ years' track record of consistent execution and a robust balance sheet.

**The company's traditional operating model** of setting up or acquiring dedicated manufacturing units (80-85% of revenue), backed by long-term (5-10 years) take-or-pay contracts (long-term volume commitments) with marquee clients at projected pre-tax RoEs of 16-20%, ensures stable long-term return on capital with limited volatility and high multi-year earnings visibility. Its profits are largely insulated from vagaries in commodity cost inflation (pass-through costs). HFL has become a dominant organized player in the space, and is attracting large orders and clients into its fold, as it has strongly scaled up its operations in last five years.

**HFL is now undergoing a transformation, adding (1) marquee as well as mid-sized clients, (2) new segments and (3) the shared-manufacturing model.** Starting with marquee MNC clients HUL and Reckitt Benckiser, HFL has aggressively added names like Dabur, Hector Beverages, Coca-Cola as well as more mid-sized new-age clients like NIC ice creams (funded with relatively lower debt vs. established clients to minimize risk). From its mainstay segments, the company is expanding aggressively into new high-growth segments of **footwear, ice creams and beverages -** by FY27, HFL expects footwear to make up 15-20% of revenue (PBT-profitability by 1QFY26) and ice creams to form c.33% of its gross block. **Alongside, HFL's business model is also evolving** – with expansion in each of the above segments, it is diversifying further into the shared-manufacturing model (multiple clients share capacity in a specified production facility to manufacture competitive products with stringent secrecy norms in place). This shared model, with no pre-committed 'take-or-pay' contract specifications, offers potentially higher operating leverage and higher margins/ returns. HFL's shoe-manufacturing business is entirely on the shared model; its two new ice cream plants in Nashik/ North India, the beverages' plant in Mysuru and the OTC-healthcare facility in Baddi are now on shared/ anchor-tenant model as well – providing a potential upside to margins and return ratios.

**We expect HFL's robust performance to sustain**, driven by (1) expansion/ diversification into new product categories, customers and regions, (2) strategic acquisitions in high-growth/ high-margin categories (strong track record in M&A over past 5 years) to develop scale and capabilities, (3) ongoing project additions paving the runway for future revenue ramp-up, (4) resilient business model centered around stability and capital preservation, (5) potentially richer mix of RoE-accretive, margin-accretive business models like shared-manufacturing/ anchor-tenant projects and private labels, (6) proven execution expertise with well-entrenched customer relationships, and (7) significant headroom for growth in FMCG contract manufacturing. We expect these factors to spur robust CAGR of 24%/ 28%/ 21% in revenue/ earnings/ gross block over FY24-FY27E, with improvement in a) post-tax RoE from current c.15% to c.17% by FY27E (17-18% over FY19-FY24), b) gross block to Rs 20bn by end-FY27E (vs Rs 11bn in FY24), and c) operating margin (OPM) to c.9% in FY27E (vs 8% in FY24), once its new businesses stabilize.

## Expansion/ diversification in new categories, customers and regions

Starting with marquee MNC clients like Hindustan Unilever and Reckitt Benckiser, HFL has been diversifying its client base, and has penetrated several top-bracket FMCG names in India, such as Dabur, Hector Beverages, Tata Consumer Products, Coca-Cola, and Godrej Consumer Products. Both MNCs and domestic companies are now evaluating the contract manufacturing model more closely, given the financial/operational advantages, and outsourcing of non-core functions.

HFL is also taking advantage of new opportunities in the high-growth FMCG (ice creams, beverages) and non-FMCG segments (footwear), which it now sees as future growth engines. The company has been adding projects in multiple new categories since the past few years:

- **Footwear/ shoes and sneakers:** HFL expects the share of shoe-manufacturing revenue to rise from c.5-10% of total sales currently to 15-20% by FY27, aided by materially higher asset-turnover ratios for the category (c.5-7x – our estimate) vs its overall portfolio, and gross block ramp-up to c.Rs 1.5bn over FY26-FY27E (with capacity additions of c.Rs 1.2bn over FY25E-FY27E). While the business has been EBITDA-positive, HFL expects to achieve PBT-profitability by 1QFY26 here, and with a higher growth profile and PAT margin of ~5%, contribute meaningfully to earnings from FY27. It expects the mix of value-added products to improve as volumes pick up.

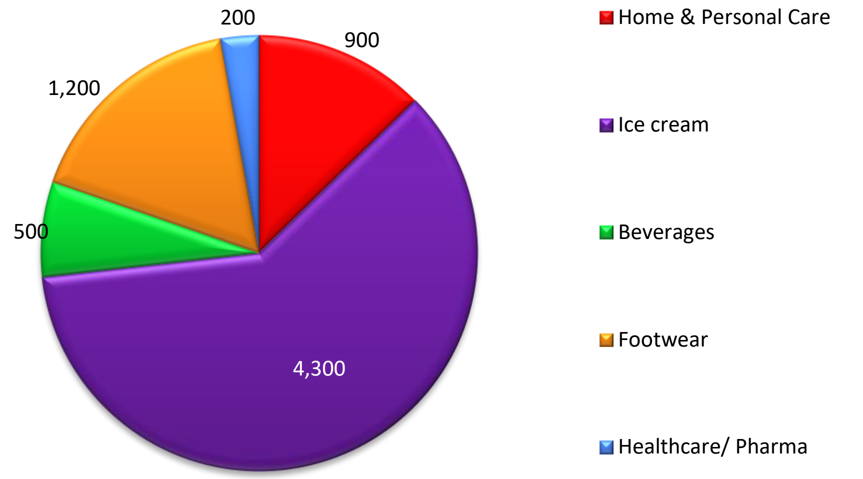
- **Ice creams:** In FY23, HFL commenced production of ice cream in Uttar Pradesh (UP) for a large player; it has announced significant capacity expansions of c.Rs 4.3bn (we estimate gross block to touch c.Rs 7bn by FY27E) over FY25E-FY27E, with two new plants (commencing in 1QFY26 and 4QFY26) largely to cater to the new customers. It expects gross block of the ice cream business at c.33% of its overall manufacturing base by FY27. With a higher growth profile, business profitability should follow capacity expansion and contribute a larger share of earnings. HFL also recently announced backward integration in ice creams, starting by manufacturing ice-cream sticks (largely imported so far), with which it hopes to (1) offer an integrated ice-cream solution to customers, (2) target a bigger wallet share of customers, and (3) save on freight/transportation costs. The company has designated ice cream as an SBU with a separate divisional head for the business.

- **Beverages:** In FY24, HFL added a line to manufacture juices for Dabur in Guwahati, Assam at an investment of Rs 200mn. It also expanded its Mysuru, Karnataka, facility at a capex of Rs 150mn in FY25. The clientele it now serves include Dabur, Tata Consumer Products, Hector Beverages (Paper Boat) and Hindustan Coca-Cola Beverages. In January 2025, HFL also expanded in packaged water bottling with an acquisition in Odisha, at an investment of Rs 350mn.

- **OTC healthcare:** In FY23, HFL announced the acquisition of Reckitt Benckiser's OTC healthcare plant (investment of Rs 1.5bn, expansion of Rs 200mn announced recently) in Baddi, Himachal Pradesh. While the project ramp-up was slow over 1HFY25, it scaled up and achieved profitability in 3QFY25. HFL received most of the regulatory approvals, and exports to 20+ countries including UK, UAE, Australia, New Zealand, Japan and in Africa. It expects dispatches to Russia to commence in FY26, after it receives the registration certificate granted by the Russian Ministry of Health (MoH). We believe the project is poised for significant topline ramp-up in the medium term.

- **Personal care products:** In FY22, HFL commenced production of home care products in Silvassa, and acquired AeroCare Personal Products and a color cosmetics' plant.

**Exhibit 7: Segment-wise capacity additions FY25E-FY27E (Rs mn)**




*Source: Company earnings calls/ PPTs, Systematix Institutional Research*

**Expanding into manufacturing of sports shoes**

HFL commenced its entry in the footwear-manufacturing segment in FY17 by acquiring leather shoe-making units in Puducherry, Tamil Nadu; it also went on to acquire a Mumbai, Maharashtra-based shoe-making facility in FY19, and set up a plant in Tindivanam, Tamil Nadu during FY22-23 to manufacture sports shoes. The company also acquired Reckitt Benckiser Scholl's Chennai-based 100% export-oriented unit (Scholl/ Dr. Scholl brands) in FY23 for export of footcare products (approved by MHRA, UK) to 20 countries in Europe, Asia and Australia. However, HFL made a definitive push into the footwear segment in FY24 by acquiring KNS Shoetech Pvt Ltd. Subsequently, it acquired sports-shoe manufacturing operations in Himachal Pradesh and Kundli, Haryana in February/April 2024 through KNS Shoetech. The acquired factories are state-of-the-art facilities that cater to leading MNC/ domestic sports and footwear brands such as Puma, Reebok, Asics and Skechers. The deal can help establish KNS Shoetech as a premier contract manufacturer for brands looking to expand production in India. KNS Shoetech already has existing relationships with some of these brands for manufacturing shoes.

HFL's shoe facilities in South India started to ramp up in 3QFY25, and the company expects to achieve full capacity by end-FY25. Integration of the overall shoe business is progressing in line with management expectations. HFL recently announced incremental investment of Rs 500mn in the segment, largely to set up fresh capacity in Karnataka as also to debottleneck plants in the North plants and invest in some plants in the South, underscoring its long-term commitment to the footwear segment.

**Tailwind from import substitution:** We believe the stipulation of Quality Control Order (QCO) as part of BIS norms in footwear by the Government of India (effective July 2023) will continue to act as a significant tailwind for contract manufacturers due to import substitution. With shoe brands (both high-end and mass) currently importing c.75-80% of products (per HFL management), footwear companies are focusing on increasing production in India and reducing imports – and contract manufacturers such as HFL stand to benefit the most from this trend.

**Tailwind from recent imposition of reciprocal import tariffs by the US:** The US administration recently imposed stiff blanket tariffs on imports from several countries, with relatively lower tariffs on Indian imports vs. those from other countries such as China and Vietnam. For perspective, China and Vietnam are the two largest exporters of footwear in the world (with exports of c.$53bn and c.$31bn worth of footwear in 2023), while India's footwear exports are far lower (at c.$3.1bn). Post-imposition of tariffs, a meaningful chunk of global footwear exports (and their manufacturing) can likely shift to lower-tariff countries like India – we believe even a small portion of such a shift can become another significant tailwind for domestic contract manufacturers such as HFL.

**Exhibit 8: Network of manufacturing facilities**


*Source: Company Website, Systematix Institutional Research*

**Exhibit 9: Shoe Business Timeline**

| Year | Location | Status | Description |
|---|---|---|---|
| **FY16-17** | Puducherry | Acquired | Acquired shoe manufacturing facilities owned by Hindustan Unilever. Commenced manufacturing operations for renowned clients such as TBS, Gabor, Richter, and various others. Following the acquisition, made notable additions to the portfolio, which included Steve Madden, US Polo, Hush Puppies, and Arrow. |
| **FY18-19** | Vasai, Mumbai | Acquired | HFL completed acquisition of M/s G Shoe Exports (Mumbai-based shoe manufacturing unit) operations for a total consideration of Rs.349.42 lakhs. |
| **FY21-22** | Tindivanam, Tamil Nadu | New Facility | Started project work at Tamil Nadu for manufacturing sports & knitted shoes. |
| | | Production started | Manufacturing of injection-moulded sandals & flip-flops started for a top brand at the shoe plant in Vasai, Mumbai |
| **FY22-23** | Chennai | Production started | Started manufacturing sports & knitted shoes in Tamil Nadu facility; set up a new shoe factory in Tindivanam |
| **FY23-24** | Haryana | Acquired | Completed the acquisition of KNS Shoetech Pvt Ltd (KNS Shoetech) through the Share Purchase Agreement for a cash consideration of Rs 371.76 lakhs. KNS Shoetech is engaged in the business of manufacturing and supply of sports shoes and sneakers. |
| | Haryana | Acquired | Acquired KNS Trading Pvt Ltd's manufacturing facility situated at Sonipat, Haryana though KNS Shoetech (Subsidiary of HFL), for cash consideration of Rs 31.08 crores |
| | Himachal Pradesh & Haryana | Acquired | KNS Shoetech also acquired 3 business undertakings from SSIPL Retail Limited; two manufacturing facilities at Sirmour, Himachal Pradesh and one manufacturing facility at Sonipat, Haryana for a cash consideration of Rs. 70. 98 crores. |

*Source: Company AR/earnings calls/PPTs, Systematix Institutional Research*

## Strong acquisition track record – developing scale and capabilities in high-growth categories

Acquisitions are a key growth lever for HFL that provide it entry into new high-growth products, help in expanding its customer base and facilitate consolidation. HFL acquires either (1) smaller units with limited management bandwidth (but strong potential), or (2) sick units, which could be turned around, or (3) MNC clients' existing units with completed tax exemption timelines. The company has added 6-7 acquisitions in last 5-6 years (with a few more added over FY25):

- Shoe manufacturing facility acquired from G Shoe Export in Mumbai in FY19
- 40% stake in ATC Beverages at Mysuru in FY19 (merged with HFL in FY20), engaged in manufacturing carbonated soft drinks, juices, energy drinks and other beverages
- Personal care products manufacturer AeroCare Personal Products in FY22 (mainly into colour cosmetics for HUL)
- 100% stake in Reckitt Benckiser Scholl in FY23, to commence export of foot care products
- Acquisition of Reckitt Benckiser's USFDA-approved Baddi (Himachal Pradesh) unit in FY24, which manufactures healthcare products like creams, lozenges, liquids, powders, plasters and tablets, to expand in OTC healthcare and wellness segments
- Two sports shoe manufacturing businesses acquired under KNS Shoetech in February 2024 and April 2024, cement HFL's foray into another high-potential segment
- Water-bottling unit for Coca-Cola in Bhubaneshwar, Odisha, in FY25 at an investment of Rs 350mn

**Merger of promoter-owned facility into HFL**

HFL is in the process of merging the foods' unit of Avalon Cosmetics, a promoter-owned facility at Nashik, Maharashtra, into itself. This is a dedicated plant that manufactures soups and meal makers for a leading FMCG brand owner, located on 16 acres of land and consists of 2 buildings having manufacturing facilities. It has been HFL's stated objective to merge and integrate manufacturing units from promoter Vanity Case into itself at appropriate times; HFL has done this in the past by merging plants at Coimbatore (malt-based beverages, tea, coffee) and Hyderabad (detergent powder) in FY22/FY20. HFL believes that additional business from clients beyond a point necessitates merger/integration of manufacturing units with itself. The same land will be utilized for a new ice cream facility on an anchor-tenant model.

**Exhibit 10: Strong manufacturing capabilities across India**

| Location | Category/ Products | Capacity |
|---|---|---|
| Baddi | Personal Care | 14mn cubic units |
| | Ayurveda Creams, Lotions & Hair Care | 179mn cubic units |
| | Allopathy Tablets | 716mn |
| | Allopathy Lozenges | 872mn |
| | Allopathy Powder | 0.5mn cubic units |
| | Allopathy Topical Creams & Ointments | 117mn cubic units |
| | Allopathy Liquids | 26mn cubic units |
| | Plaster | 15mn cubic units |
| Jammu | Coils | 1,200mn p.a. |
| | Vaporisers | 43.2mn p.a. |
| | Aerosols | 7.2mn p.a. |
| Kundli & Paonta Sahib | Sports Shoes & Sneakers | 48 lakh pairs/year |
| Lucknow | Ice creams & frozen desserts | 32mn litres |
| Silvassa I | Toilet cleaning liquid | 10,000 KL p.a. |
| Silvassa II | Floor & Surface cleaning liquid | 10,000 KL p.a. |
| Silvassa III | Colour Cosmetics | 3,500 tonnes/ year |
| Mumbai | Leather and Injection-Moulded Footwear | 5,00,000 pairs p.a. |
| Goa | Extrusion Capacity | 6,000 tonnes p.a. |
| | Dry-Mix Blending Capacity | 1,000 tonnes p.a. |
| Guwahati | Juices | 16,000 KL/year |
| Hyderabad I | Detergent Powders | 70,000 tonnes p.a. |
| Hyderabad II | Liquid Detergent, Fabric Conditioner & Softener, Liquid Soaps and Shampoos | 60,000 KL p.a. |
| Hyderabad III | Detergent Bar | 48,000 tonnes p.a. |
| Mysuru | Beverages | 5.84mn cases p.a. |
| Puducherry | Leather shoes and accessories | 7,50,000 pairs/year |
| Chennai | Foot care | 59.36mn cubic units/year |
| | Shoes | 300,000 pairs/year |
| Tindivanam | Sports, Knitted and Casual Footwear | 1,50,000 pairs/year |
| Coimbatore I | Tea | 36,000 tonnes/year |
| | Coffee | 1,500 tonnes/year |
| Coimbatore II | Malt-based food brand | 55,000 tonnes/year |
| Odisha | Packaged water bottle | NA |

*Source: Company AR, Systematix Institutional Research*

## Recent project additions – paving the way for future revenue ramp up

HFL has been deftly expanding its existing project capacities through greenfield/ brownfield expansions across categories, driving revenue/ earnings' ramp-up potential for future periods – its manufacturing gross block has risen from c.Rs 1.5bn in FY19 to c.Rs 11bn in FY24, and we expect it to reach c.Rs 20bn by FY27E. This would be supported by capacity additions in its existing ice cream, detergent & soap, beverages, colour cosmetics and OTC healthcare businesses (as well as in the new shoes' segment). Recent capex additions include:

- **Ice creams:** Greenfield plants at Nashik, Maharashtra (c.Rs 1.9bn)/ Delhi-NCR region (Rs 2.25bn) expected to commence in 1QFY26/ 4QFY26; brownfield expansion at Lucknow, UP (Rs 200mn)
- **Detergents/soaps:** expansion in Hyderabad, Telangana facility (Rs 1bn)
- **Colour cosmetics:** expansion in Silvassa plant (Rs 400mn)
- **Beverages:** expansion in Mysuru, Karnataka facility (Rs 150mn) for Carbonated soft drink (CSD), juices; expansion in Odisha in bottled water for Rs 350mn
- **OTC healthcare:** expansion in Baddi, Himachal Pradesh plant (Rs 200mn)

**Exhibit 11: Diversified product portfolio offerings:**

| | |
|---|---|
| **Personal Care** | |
| **Hair Care** | Shampoo, Hair Oil and Hair Foods; Hair Gel and Hair Cream |
| **Toiletries & Fragrances** | Talc; Shaving Cream; Hand Wash Liquid; Hand Wash Powder; Eau de Toilette; After Shave Lotion |
| **Baby Care** | Creams, Shampoo and Lotions; Hair Oil and Powder |
| **Skin Care** | Body Lotion, Moisturizers, Creams; Petroleum Jelly; Shower Gel, Face Wash & Scrubs; Body Scrubs & Wipes |
| **Pet Care** | Pet Hygiene; Pet Food & Treats |
| | |
| **Food & Beverages** | |
| **Extruded Cereals & Snacks, Ready-to-Cook, Ready-to-Eat** | Breakfast Cereals & Snacks; Baby Food; Instant Porridges; Rice Crispies; Instant Mixes; Soups & Soup Powder; Spices & Masala; Sauces, Dips & Pastes; Jams, Jellies, Preserves; Gravies; Cookies, Protein bars, Granola Bars; Muesli |
| **Hot & Cold Beverages & Energy Drink Concentrates** | Carbonated Soft Drinks; Tea & Coffee; Malt-based Foods, Soups; Glucose Powder; Dry Mix Powder; Packaged water bottles |
| **Beauty & Make-Up** | Lipstick, Lip Color; Lip Crayon, Lip Paint; Chap Stick; Pressed/ Compact Powders; Eye Make-up; Blush-on; Compacts; Sindoor; Kajal |
| **Healthcare & Wellness** | Vitamins, Minerals & Nutraceuticals; Nutrition - Super Foods, Plant based, Organic Foods; Medicated Lozenges & Digestive Remedies; Gels & Ointments; Dusting and Cosmetic Powders; Cosmeceutical & Skin Care - Allopathic, Herbal & Ayurvedic; Foot Care - Medicated and Non-medicated Plasters; Oral Liquids; Allopathic Tablets; Personal Care |
| **Household Insecticides** | Aerosols; Liquid Vaporizer; Coils; Mosquito Mats; Activ Cards |
| **Leather, Sports & Knitted Shoes and Accessories** | Sports Shoes; Leather Shoes for Women, Men & Juniors; Slippers & Flip-Flops; Uppers; Accessories |
| **Home Care** | |
| **Home Care** | Toilet Cleaner; Surface Cleaner; Glass Cleaner; Liquid Dish Wash |
| **Fabric Care** | Liquid Detergent; Powder Detergent; Fabric Conditioner |

*Source: Company AR/ earnings calls/ PPTs, Systematix Institutional Research*

## Resilient business model with high earnings visibility

Most (80-85%) of HFL's revenue comes from its dedicated manufacturing model – facilities set up to cater near-exclusively to marquee clients with large volume commitments (take-or-pay contracts) for long tenures (5-10 years) with projected pre-tax RoE of 16-20%. This ensures high multi-year earnings visibility and steady RoI, with minimal surprises or risks, as profits are largely insulated from vagaries in commodity cost inflation (pass-through). The location, layout, design, machinery, capacity and other parameters are finalized in concurrence with the principals/brand owners. Clients typically prefer this model for mature products with relatively lower demand fluctuations. The gestation period for a new project is 9-12 months (from groundbreaking to production), and ramp-up of a new dedicated unit takes place over 3-6 months from commencement, reaching peak utilization and RoE post this period.

The risk of losing a customer is low, given the high-quality control, stringent regulatory compliances and execution track record with established clients. A diversified portfolio also reduces the risk of seasonality and business cycles with limited dependence on any particular category/ few categories. HFL's machinery is significantly fungible across categories –home care products like liquid detergents can be produced on the same machine as personal care products like handwash and shampoos; infant foods can also manufactured on the same machine as snack foods.

**Key strengths of the dedicated model**

HFL's business: 1) is capital intensive in nature, requires huge capex and stringent quality controls/compliances, 2) has high switching costs, given long-term agreements and time-intensive on-boarding procedures, 3) harnesses strong R&D capabilities, with the ability to create formulations for any FMCG product, and 4) has a flexible operating model that provides a one-stop solution for product development, testing and manufacturing across FMCG categories.

- **The stable-RoE business** with pass-through of all costs largely ensures robust multi-year earnings visibility. The company gets projected pre-tax RoE of 16-20% from its principals and has been able to generate post-tax RoE of 17-18% over FY19-FY24, supported by its customer/product profiles and operational capabilities. While RoE did recede in FY25 due to high capex needs for project expansions, management is confident of achieving RoE of 18-20% (aided by expansions in higher-growth categories like shoes and ice creams), once capex expansions ramp up in terms of revenue/earnings generation, going forward.

- **Low-risk debt:** In case of termination of the contract, the client pays the balance debt amount to HFL as per a termination clause. Given the marquee clientele, the risk on the debt is low. Banks are also agreeable to lend to the company. Debt repayment is also built into the RoE calculations. HFL can comfortably support a debt/equity ratio of 2x (versus c.1x currently), implying significant headroom to take on more debt for growth; it does take on a higher share of debt for certain projects based on principles of counterparty risk and capital preservation.

- **Low likelihood of clients walking away post expiry of contract:** HFL generally enters into 5 to 10-year contracts with clients, post which, clients have the option to either renew or walk away. Given that HFL provides the requisite stable manufacturing requirements in terms of desired product quality, volumes, design specifications, delivery schedules, stringent quality control, regulatory compliances, etc., we believe it would be cumbersome for clients (as it involves incremental costs, time and effort) to end their long-standing relationships with HFL and enter into a fresh arrangement with a competitor.

- In the event a client withdraws, HFL would get the salvage value of the machinery plus the price of the land on which the unit is set up.

## Looking to expand business under margin-accretive models

While a predominant chunk of HFL's business (80-85%) comes from dedicated manufacturing facilities, the company is looking to garner more business under two higher-RoE, higher-margin models, which should improve its mix and lift margins over the medium-long term:

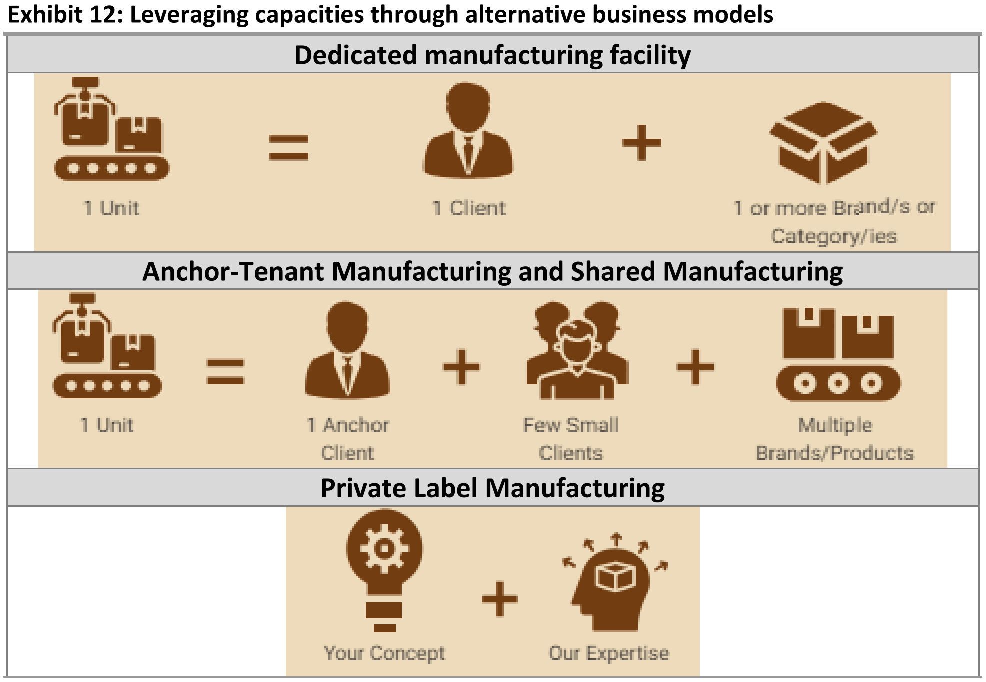
- **Shared manufacturing model (10-15% of the business):** Under this model, multiple clients share capacity in a specified production facility to manufacture competitive products with stringent secrecy norms in place. This reduces HFL's dependence on a particular client and ensures better utilization of resources. HFL's recent capacity expansions into footwear, ice creams and beverages are all now based on the shared-manufacturing model, with no 'take-or-pay' contract specifications, higher operating leverage and potentially higher margins/ returns.

- **Private label model (less than 5% of the business):** Under this model, HFL owns the product formula and clients are provided complete private labelling solutions. HFL offers customizable options and utilizes its team of skilled designers to conceptualize products with unique features. This model caters to smaller brands and D2C (direct-to-consumer) companies, enabling superior bargaining power (for HFL) and therefore higher margins.

**Private label division to benefit from rapid growth in e-commerce and retail chains**

With its broad-based manufacturing expertise across multiple categories and strong in-house R&D capabilities, we believe HFL could become a private label manufacturer of choice for multiple retail chains, e-commerce brands and new-age brands in India, that lack the financial resources or see little strategic sense in investing in in-house manufacturing capacities.

**Exhibit 12: Leveraging capacities through alternative business models**




*Source: Company AR, Systematix Institutional Research*

## Proven execution expertise with well-entrenched customer relationships

HFL has been consistently leveraging its strong FMCG relationships (started with Hindustan Unilever and Reckitt Benckiser) by gradually increasing its wallet share across other large and mid-sized clients. Its 30+ years of manufacturing/R&D expertise with 38 state-of-the-art manufacturing units (as on date), from where it has been able to provide consistently reliable services to customers, have helped HFL in increasing wallet share. Moreover, its existing top-bracket clients have helped the company to penetrate other large FMCG companies that are exploring the option of outsourcing manufacturing.

**Handling complex operations - a key competitive advantage**

Over the past 3+ decades, HFL has built (1) a strong understanding of manufacturing complexities and (2) a skilled talent pool, which helps it in seamlessly handling complex supply chains in new categories or geographies. A few examples of complex operations are:

- **Cosmetics:** HFL handles more than 250 SKUs with different color codes, batches and designs, with a complex procurement and distribution structure for raw materials and packing materials.
- **Footwear:** The footwear supply chain is quite complex, entailing various semi-finished goods and components that make inventory management immensely challenging. Working capital requirements are higher in the business, as manufacturing a pair of shoes typically entails 3-4 weeks of labour-intensive work (about 4,500 employees are currently engaged in the segment). The fashion-based nature of the product increases complexities in the inventory. A large number of SKUs and product designs leads to a mix of manual and semi-automatic manufacturing, based on the specific type of footwear. Being more labour-intensive in nature (vs other categories), the business requires managing labour availability/ skilling/ productivity/ management issues.
- **Ice-cream:** Process and SKU-related complexities with different flavors, formats, shapes and sizes.
- **OTC healthcare:** Regulatory approvals from multiple agencies/ jurisdictions are required before the products can be exported.
- **Stringent quality control:** Products manufactured at HFL facilities undergo stringent quality checks by a dedicated team of employees.

## Significant headroom for growth in FMCG contract manufacturing

We estimate healthy 12-14% CAGR in India's organized FMCG contract manufacturing industry over the medium term, driven by the country's (1) low per capita consumption relative to Asian peers like Indonesia, China, Philippines, and (2) low penetration of multiple categories like personal care and processed F&B. This implies significant growth opportunity for diversified contract manufacturers (such as HFL) that have the capabilities to set up and operate new capacities – as brand owners are reluctant to invest in manufacturing and choose to focus on product development, marketing and distribution instead (which are high-RoCE areas for them). We see a broader shift occurring towards contract manufacturing from existing as well as new players over the medium-long term, creating headroom for strong growth for leading organized contract manufacturers such as HFL.

We believe FMCG brand companies would increasingly prefer the contract-manufacturing route due to:

- Lower cost of product manufacturing, better returns on capital for brand owners
- Ability to provide scale with capacity expansions (greenfield and brownfield)
- Adherence to stringent secrecy norms and quality control (QC) in product formulations
- Faster time-to-market
- Supply-chain management of multiple categories and SKUs; support across the value chain
- Management of a large skilled labour force

**Exhibit 13: The contract manufacturing industry has evolved multifold over the years**

| Phase 1 | Phase II | Phase III | Phase IV |
|---|---|---|---|
| (The 1980s) | (The 2000s) | (Present times) | (The future) |
| Small-scale industry (SSI) reservations | Area-based reservations | GST | Global sourcing hubs like pharma generics |
| Tax exemption for SSI | Direct tax exemption | One country - One market | Explosion of small brands that refrain from investing in manufacturing facilities |
| | Indirect tax exemption | Changes in distribution network | Most product categories in India could be duopolies or oligopolies, unlike in the US/ Europe, which has many more brands in each category |
| | | E-commerce and modern trade have led to the explosion of small brands refraining from investing in manufacturing facilities | |

*Source: Company AR, Systematix Institutional Research*

## Funding for expansion – well-capitalized to facilitate aggressive investment plans

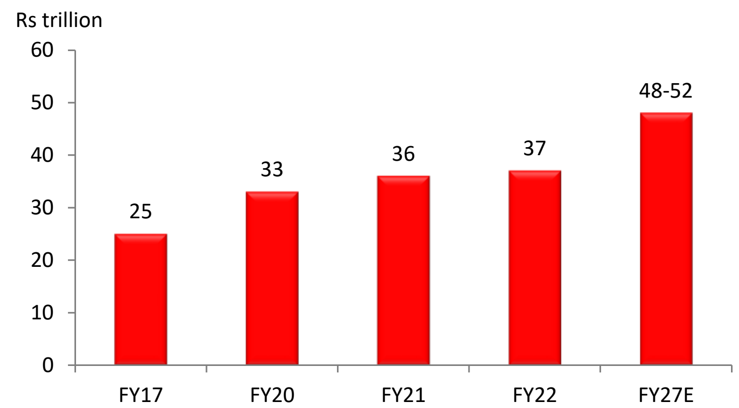
While HFL's manufacturing-led model necessitates continued investments in capacity building, its balance sheet (with recent fund raises) seems well capitalized to fund its aggressive organic/ inorganic growth plans till end-FY27E. HFL issued Rs 4bn-worth of warrants in FY24 (of which c.Rs 3bn have been converted to equity till date). We estimate these funds, together with internal accruals (cumulative operating cash flow (OCF) of c.Rs 6bn over FY25E-FY27E) and some additional debt should comfortably suffice for HFL to achieve gross block of Rs 20bn by end-FY27E and capex of Rs 9bn over FY25E-FY27E – and maintain its leverage at c.1x. The company has the potential to leverage its balance sheet by up to 2x (if additional opportunities come up) to fund the amount we believe it can service comfortably. Depending on the client profile, risk assessment and capital preservation considerations, HFL could also take on new projects at a debt:equity of 75:25; overall, we expect the company to maintain a ratio of 1x over FY25-FY27E. HFL should be able to generate cash to internally fund annual growth of up to 15% without needing any external capital, post its recent fund-raise of Rs 4bn.

## The contract manufacturing industry

### India's FMCG manufacturing industry

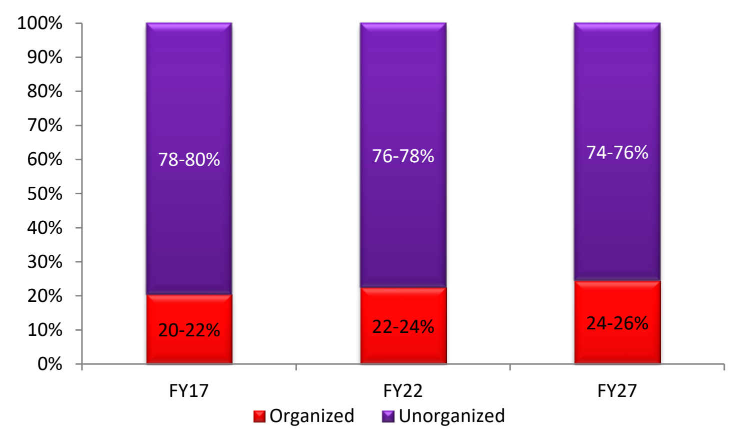
India's FMCG industry (at the manufacturing level) grew at 7.5% CAGR during FY17-FY22 (from Rs 25trn to Rs 37trn), and is estimated to expand at 6-8% CAGR over FY22-FY27E to Rs 48-52trn (per industry reports). However, the organized segment of the industry grew at a faster CAGR of c.10% over FY17-FY22 and is slated to expand at c.12% CAGR over FY22-FY27E. The F&B segment (makes up more than 70% of the industry) led this growth, implying a rising share of the organized segment in overall industry sales.

**Exhibit 14: Size of India's FMCG manufacturing industry (Rs trn)**



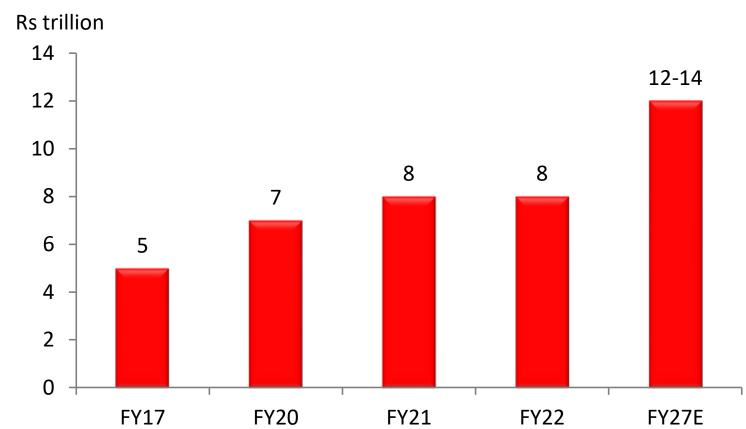

*Source: Industry report, Systematix Institutional Research*

**Exhibit 15: Share of organized players in India FMCG industry**



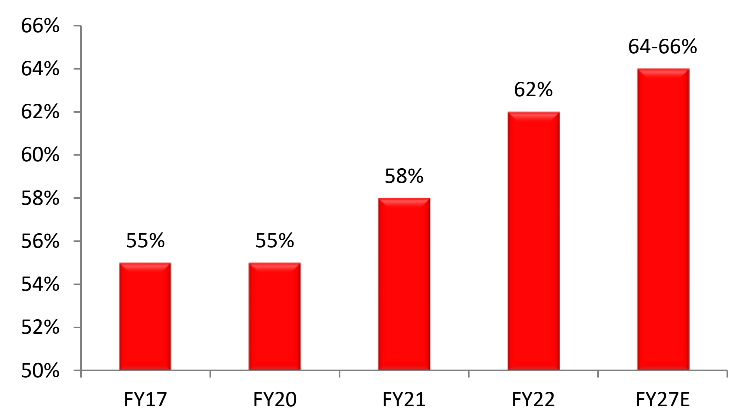

*Source: Industry report, Systematix Institutional Research*

**Exhibit 16: Size of India's organized FMCG manufacturing industry**



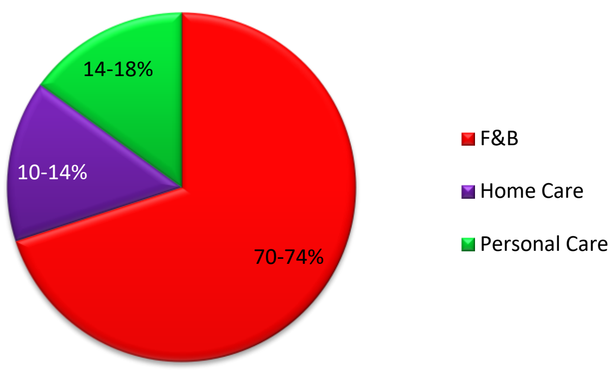

*Source: Industry report, Systematix Institutional Research*

**Exhibit 17: COGS share within organized FMCG manufacturing**



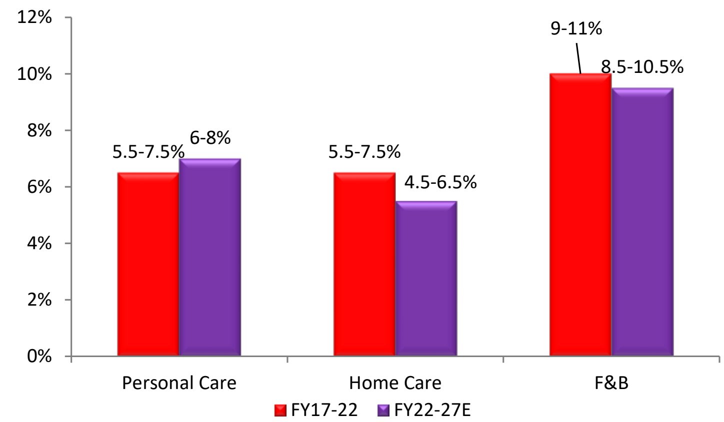

*Source: Industry report, Systematix Institutional Research*

**Exhibit 18: Share of F&B >70% of organized FMCG in FY22**




*Source: Industry report, Systematix Institutional Research*

**Exhibit 19: F&B to continue to lead organized FMCG growth**




*Source: Industry report, Systematix Institutional Research*

## Contract manufacturing in India's organized FMCG industry

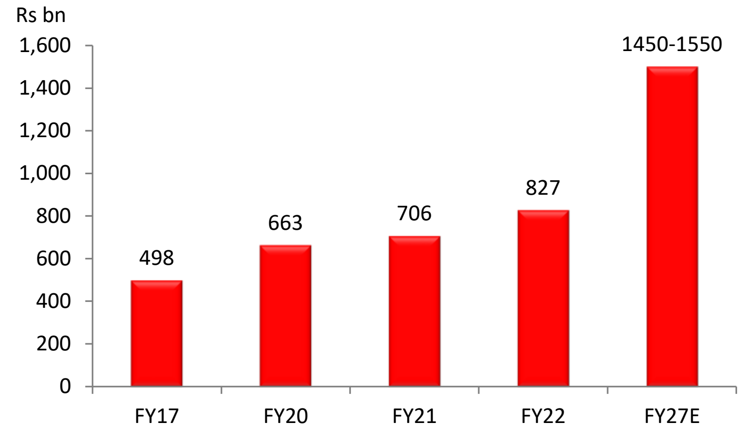
The organized segment of the FMCG industry has seen increasing adoption of contract manufacturing over FY17-FY22, registering c.11% CAGR to Rs 827bn. Inherent advantages associated with outsourcing along with growth in the FMCG industry drove the growth in contract manufacturing. With brand owners seeing enduring benefits in contract manufacturing, and dynamics within the FMCG industry rapidly changing (advent of modern trade, e-commerce, quick-commerce; need to differentiate and create stronger brands; sharper focus on marketing and distribution), the contract manufacturing market is expected to grow at 12-14% CAGR over FY22-FY27E to Rs 1.45-1.55trn by FY27E, per industry reports.

We believe FMCG brand companies are increasingly likely to prefer the contract-manufacturing route due to:

- Lower cost of product manufacturing, better returns on capital for brand owners
- Ability to provide scale with capacity expansions (greenfield and brownfield)
- Adherence to stringent secrecy norms and quality control (QC) in product formulations
- Faster time-to-market
- Supply-chain management of multiple categories and SKUs; support across the value chain
- Management of a large skilled labour force

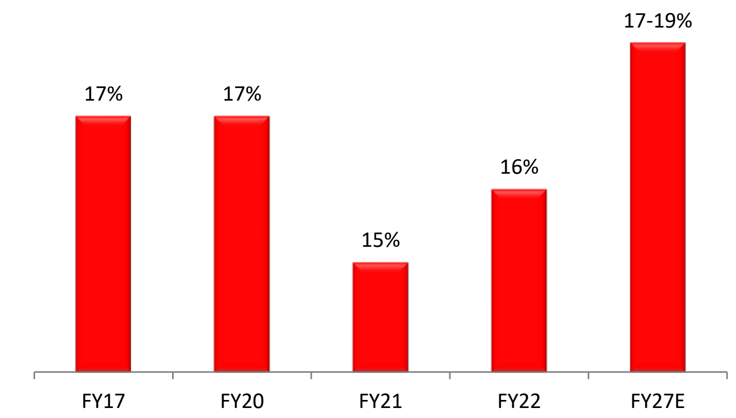
FMCG contract manufacturing (CM) is a high-volume, low-margin, capital-intensive business, and scale is critical for profitability. Larger contract manufacturers typically possess stronger execution skills, delivery capabilities, economies of scale, dependability and in-house knowhow to build a strong brand portfolio, in our view.

**Exhibit 20: Growth trend of organized FMCG CMs in India**



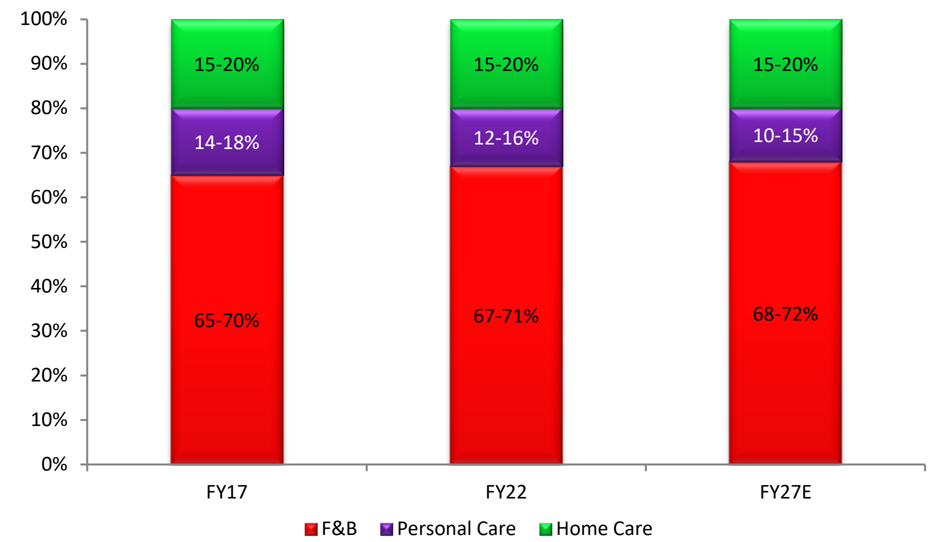

*Source: Industry report, Systematix Institutional Research*

**Exhibit 21: Share of CMs in COGS - organized FMCG in India**




*Source: Industry report, Systematix Institutional Research*

**Exhibit 22: F&B formed over 65% of share in FMCG contract manufacturing in FY22**

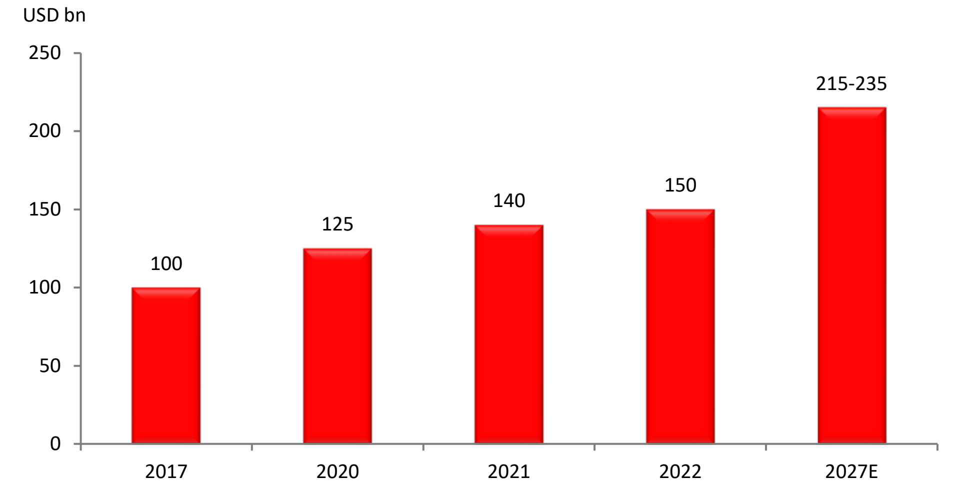



*Source: Industry report, Systematix Institutional Research*

## Global FMCG contract manufacturing

The global FMCG contract manufacturing industry grew at c.8.5% CAGR over 2017-2022, from USD 100bn in 2017 to USD 150bn in 2022, and is expected to clock 7-9% CAGR over 2022-2027E to USD 215-235bn, as per industry reports. We expect the share of CM within the overall manufacturing industry to increase, as FMCG companies look to reduce their manufacturing burden and increase focus/investments in brand building, marketing and distribution, thereby leveraging their competencies to improve their RoIs.

**Exhibit 23: Growth trend of global FMCG CM industry**

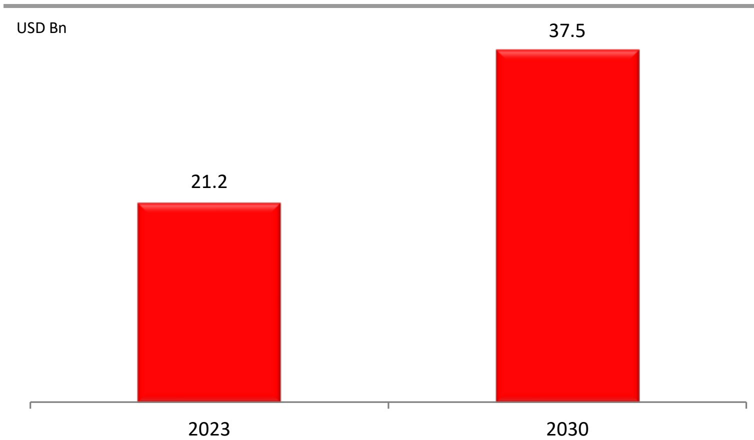



*Source: Industry report, Systematix Institutional Research*

## Global personal care contract manufacturing industry

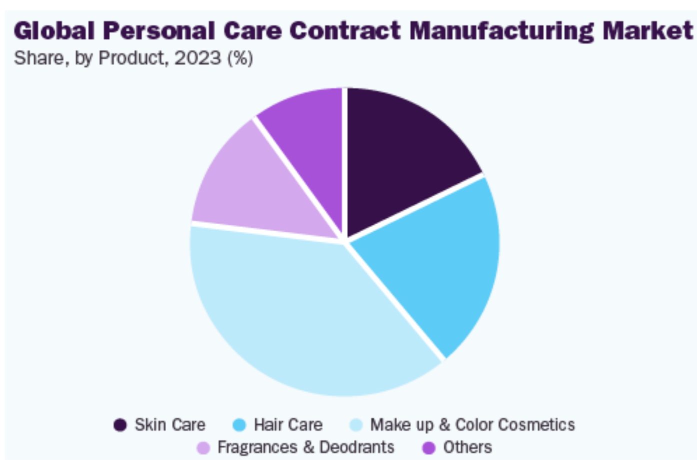
The global personal care contract manufacturing (PCCM) market was valued at USD 21.2bn in FY24 and is estimated to grow at c.8.5% CAGR to USD 37.5bn by 2030, per industry reports. Contract manufacturers are playing an increasingly important role in the personal care business, which has grown rapidly in recent years, as a result of the influx of new brands and formulations, changes in consumption preferences and the emergence of social media. Contract manufacturers (CMs) are benefiting from changing dynamics in the personal care industry, particularly the popularity of private brands, for whom they provide manufactured products in regions as necessitated by demand. Due to the success of many independent firms, the role of contract manufacturers in the supply chain has lately expanded – many start-ups were founded on their knowledge of brand marketing and had to rely on contract manufacturers to develop formulations. This led to a significant shift in the value chain, moving the choice of ingredients from personal care marketers to contract manufacturers. However, high investment costs (production and marketing costs for high-quality items), severe competition among manufacturers for specialized product categories and low returns limit growth of PCCMs. Nevertheless, contemporary PCCM prospects, such as increased online penetration of cosmetics and personal care items, have significantly aided growth in the PCCM market.

**Exhibit 24: Global PCCM market to grow at 8.5% CAGR**




*Source: Mordor Intelligence, Systematix Institutional Research*

**Exhibit 25: Make up and color cosmetics hold high shares globally**




*Source: Grand View Research, Systematix Institutional Research*

**Exhibit 26: Asia Pacific market share at 38% in the Global PCCM market during 2023**


*Source: Grand View Research, Systematix Institutional Research*

Asia Pacific (APAC) is the largest market, having accounted for c.38% of global PCCM sales in 2023. The personal care industry in APAC is being driven by increasing demand in growing economies such as India and China, which is likely to have a significant impact on the growth of the industry. International players in the personal care sector are relocating their manufacturing bases to China and India to lower product costs; also, regional governments' initiatives to provide technologically superior infrastructure for manufacturing facilities as well as low labor costs have been driving growth in contract manufacturing in the region. Policy initiatives such as 'Make in India' and 'Skill India' as well as China+1 strategy are aiding growth of CM in India.

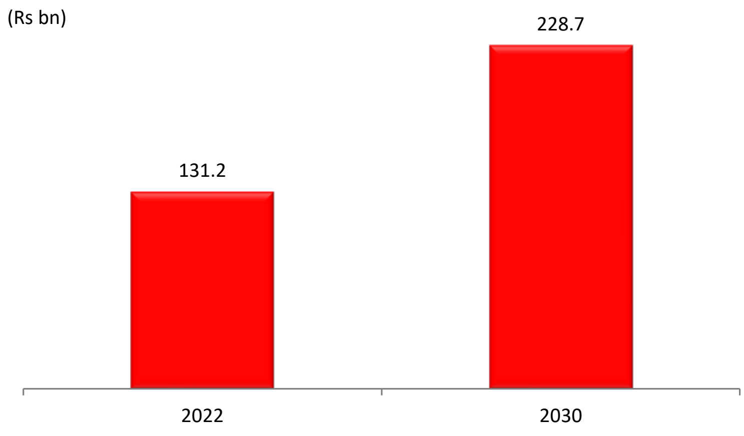
## Global food contract manufacturing market

The global food contract manufacturing (FCM) market is projected to expand at c.7% CAGR over 2022-2030, per industry reports, from USD 131.2bn in 2022 to USD 228.7bn by 2030. Increasing demand for original equipment manufacturers' (OEM) manufacturing capabilities combined with a growing market for convenience meals and dietary supplements should boost growth in the industry, in our view.

Food businesses were unable to meet the spike in demand for food during the COVID-19 pandemic in 2020 and therefore had to increase their reliance on contract manufacturing. Companies providing these services are focusing on expanding private equity investments and gaining long-term contracts to gain a competitive advantage in the market.

Food companies have become adept at using contract manufacturers to avoid the additional costs associated with production. Leveraging contract manufacturing also helps food-processing companies in freeing up capital and cash flows to be invested in their core functions towards brand marketing.

**Exhibit 27: Food contract manufacturing to grow at 7% CAGR during 2022-2030**




*Source: KBV Research, Systematix Institutional Research*

**Exhibit 28: Asia Pacific dominating the global FCM market**


*Source: Grand View Research, Systematix Institutional Research*

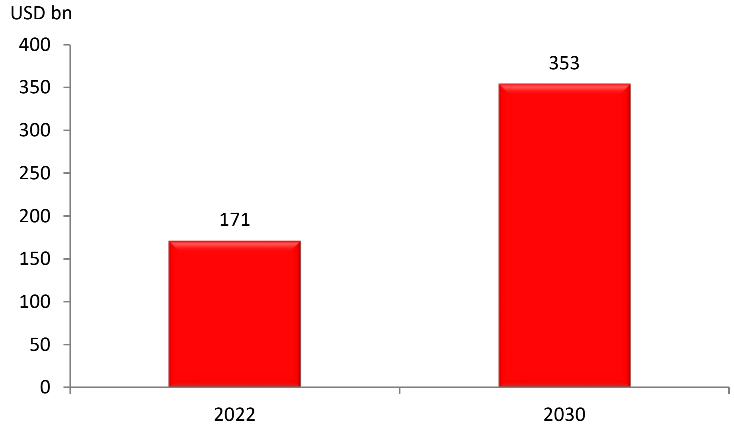
APAC led the global FCM market in 2022, accounting for c.53% of total revenue, and could grow the fastest at c.10% over 2022-2030, per industry reports. The food sector has been significantly revolutionized on the back of macro factors such as a rising population, higher household income and industrialization. India and China are the two most populous countries in the region that create significant demand for food makers.

Large contract manufacturers are witnessing increasing consolidation throughout the value chain. Furthermore, corporations have begun to offer additional value-added services such as packaging, R&D expertise and storage, which have fueled expansion in the industry. Contract manufacturers in the food business have implemented creative tactics that could lead to prospects of co-development. The food business is progressively adopting a revised supply chain strategy, in which contract manufacturing plays a vital role, offering competitive advantages in its core operations.

## Global healthcare contract manufacturing market size

The global healthcare contract manufacturing (HCM) market was estimated at USD 171bn in 2022 and is estimated to expand at 9.5% CAGR to USD 353bn by 2030, per industry reports. Prominent trends in the market include, increase in outsourcing, particularly in emerging countries, and a changing regulatory landscape. Pharmaceutical and medical-device businesses are outsourcing low-end activities to third-party providers (CMOs) to lower total manufacturing costs and accelerate product launch times. This tendency is projected to support medium-long term growth in the HCM market.

**Exhibit 29: Global HCM market slated to post 9.5% CAGR during 2023-2030**




*Source: Grand View Research, Systematix Institutional Research*

**Exhibit 30: North America dominates the HCM market with 36% share**


*Source: Grand View Research, Systematix Institutional Research*

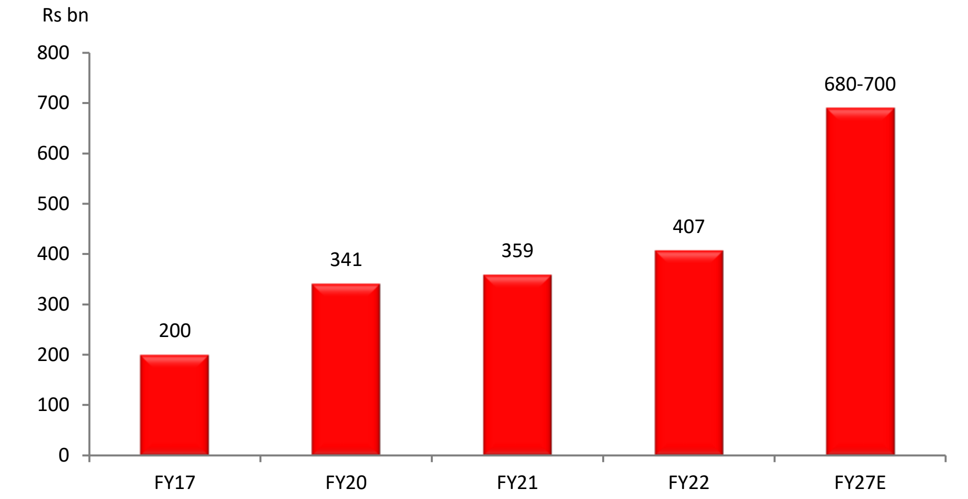
In 2023, North America dominated the HCM market, accounting for c.36% of sales, given the presence of several established biotechnology, pharmaceutical, and medical-device companies in the region. Further, we expect increasing R&D investments by life science and pharmaceutical industries to boost the demand for contract manufacturing in the region. Stringent manufacturing and product quality standards are expected to drive expansion in domestic contract manufacturing services.

The APAC region, however, is the fastest-growing HCM market globally, and is expected to expand at c.10.6% CAGR over 2023-2030, per industry reports, as (1) the reach of healthcare services in developing economies improves and (2) a large segment of the populations in India and China ages. These factors make APAC a highly appealing market for contract manufacturing.

## India OTC-healthcare industry

The OTC-healthcare industry in India expanded at c.15% CAGR of over FY17-FY22 to Rs 407bn in FY22, per industry reports. Industry growth has been supported by (1) ready availability of information with increasing usage of smartphones, (2) cost-effectiveness of self-medication, and (3) availability of these products without a prescription. Over FY22-FY27E, the industry is expected to clock c.11-12% CAGR, largely driven by growth in the organized sector, as an increasing number of pharmaceutical players in the country expand their OTC-health product lines.

**Exhibit 31: India's OTC healthcare industry to post 11-12% CAGR over FY22-FY27E**

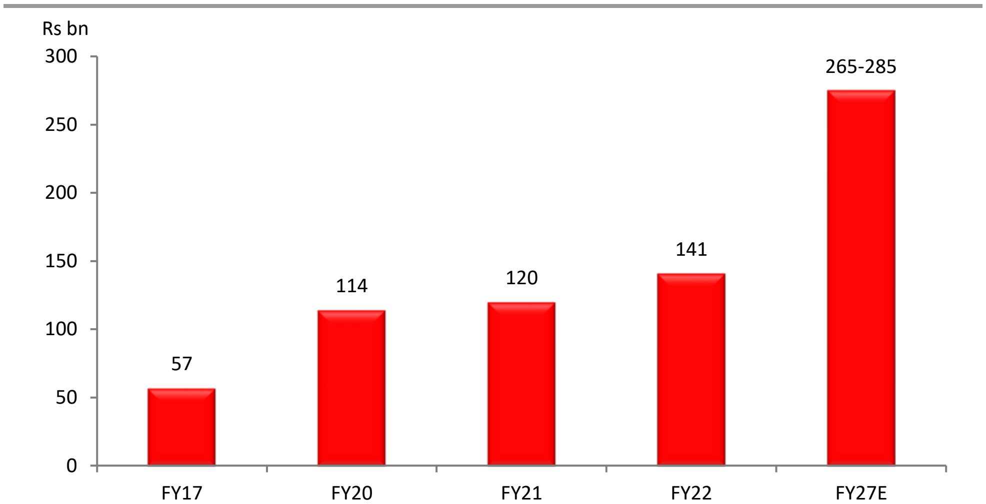



*Source: Industry report, Systematix Institutional Research*

### India's OTC-healthcare contract manufacturing industry

The OTC healthcare contract manufacturing industry grew at robust c.20% CAGR over FY17-FY22, per industry reports (outpacing c.15% growth in OTC healthcare). The momentum is expected to continue with growth estimated at 13-15% CAGR over FY22-FY27E (vs 11-12% for the parent industry).

**Exhibit 32: Growth trend in India's OTC healthcare contract manufacturing industry**

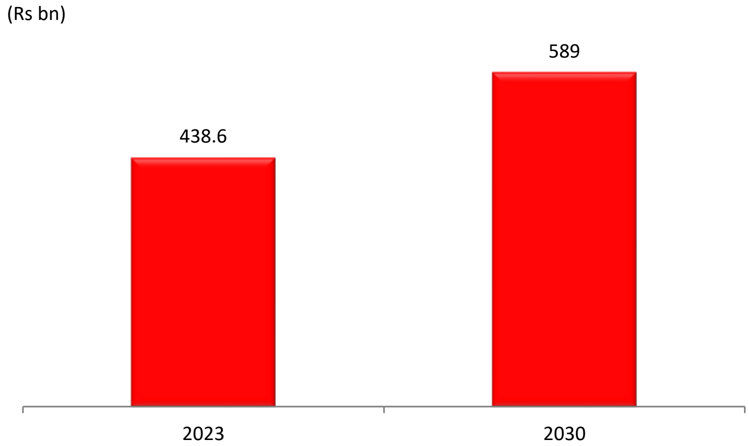



*Source: Industry report, Systematix Institutional Research*

## Global footwear market

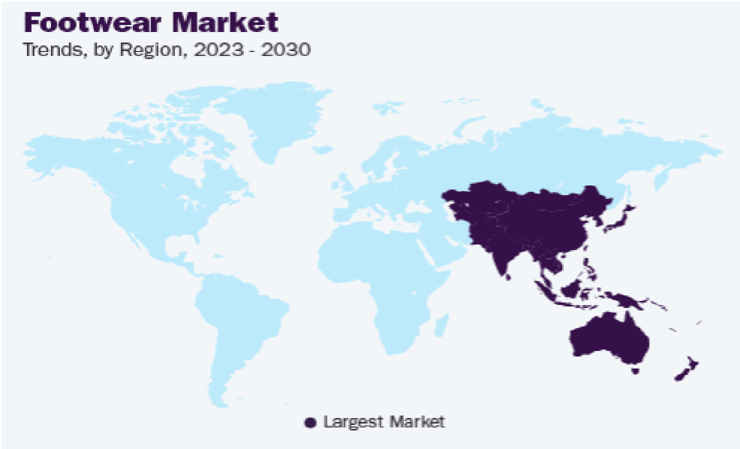
The footwear industry worldwide is valued at USD 438.6bn for 2023 (per industry reports), and is predicted to grow at 4.3% CAGR to USD 589bn by 2030. Growth would be driven by (1) rising demand for athletic footwear, (2) high advertising spends by footwear firms, and (3) rising share of e-commerce sales supporting better product mix. Climbing rates of lifestyle-related health conditions, such as stress and obesity, are encouraging an increasing number of people to participate in sports and fitness activities, propelling the demand for comfortable, athleisure-oriented and stylish footwear – these trends received a significant leg-up during the COVID pandemic as well.

**Exhibit 33: Footwear market expected to expand at 4.3% CAGR during 2023-2030**




*Source: Grand View Research, Systematix Institutional Research*

**Exhibit 34: Asia Pacific - highest share of c.40% in the footwear market during 2023**




*Source: Grand View Research, Systematix Institutional Research*

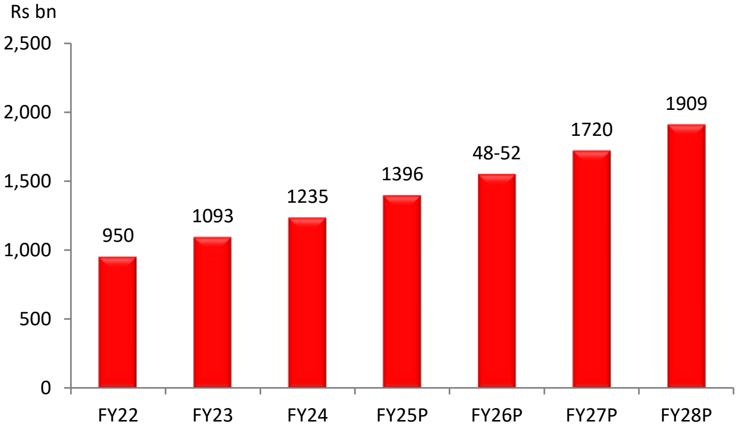
The APAC region is the largest market globally in footwear, which contributed c.40% of industry sales in 2023. The footwear business is labor-intensive and is influenced by a variety of issues such as land availability, labor costs, material supply, environmental protection, and sales markets. Consequently, to maximize profits, footwear producers, wholesalers, and retailers globally are transferring their focus to lower-cost countries, causing global shoemaking bases to shift. Japan, Taiwan, India, and China are important footwear markets in the APAC region.

**Indian footwear industry**

India ranks as the world's second-largest producer of footwear after China, with the domestic footwear market valued at c.Rs 1,235bn in FY24, per industry reports. The domestic footwear market is projected to expand at 11.5% CAGR over FY24-FY28E to Rs 1,910bn by FY28.

Factors that have contributed to the industry's growth include rising disposable incomes, population expansion, evolving consumer preferences, shift towards premiumization, rapid urbanization and technological advancements. Going forward, the transition from a utilitarian product to a fitness essential/ fashion statement, increasing preference towards branded footwear, evolving lifestyles, widespread adoption of e-commerce, and influence of social media would play positive roles in driving growth in this industry, in our view.

**Exhibit 35: Indian footwear market to grow at 11-12% CAGR during FY24-FY28E**




*Source: Industry report, Systematix Institutional Research*

**Exhibit 36: India's per capita expenditure in footwear**

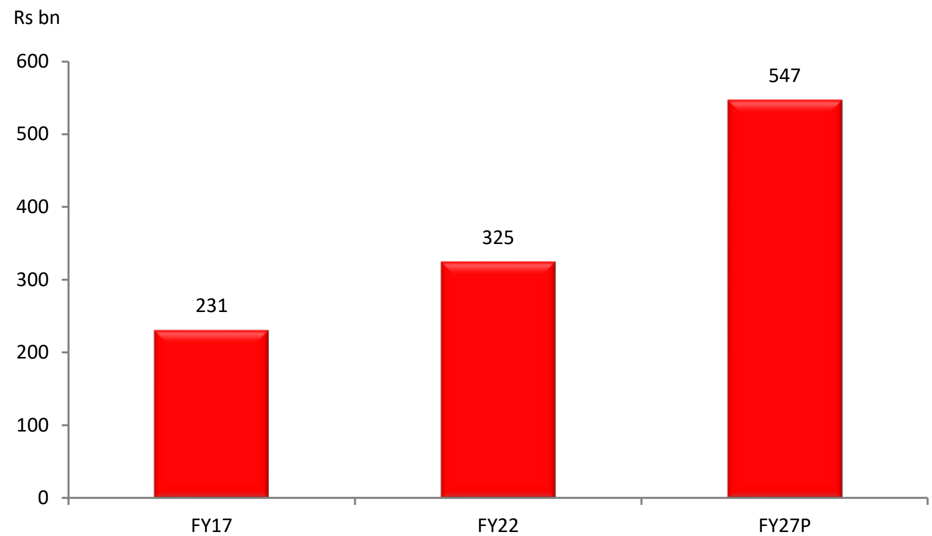
| India's Per Capita Expenditure in Footwear is Low, Leather Shoes Dominate Indian Market | | | | | |
|---|---|---|---|---|---|
| Country | Total footwear market size (in USD bn) | Population (bn) | Per capita expenditure (USD) on footwear | Share in total footwear market (%) | |
| | | | | Leather | Non-Leather |
| **India** | 15 | 1.4 | **10.4** | 70 | 30 |
| **China** | 180 | 1.4 | **128.6** | 25 | 75 |
| **USA** | 100 | 0.33 | **303.0** | 15 | 85 |
| **Japan** | 40 | 0.12 | **333.3** | 10 | 90 |

*Source: Industry report, Systematix Institutional Research*

## Indian footwear contract manufacturing industry

The Indian footwear contract manufacturing (FCM) industry grew at c.7% CAGR over FY17-FY22 to Rs 325bn, per industry reports. The industry is expected to clock 9-11% CAGR over FY22-FY27E. Factors including low-cost labour, geographical expansion by brands (both domestic and international) and low product differentiation in certain footwear products, have expanded the contract manufacturing market for footwear.

**Exhibit 37: Indian footwear market to grow at 9-11% CAGR during FY22-FY27E**




*Source: Industry report, Systematix Institutional Research*

## Unlisted peers

### Parsons Nutritionals

**Overview:** Parsons Nutritionals Private Limited operates as a manufacturer of processed food products. The company manufactures milk, bakery, beverages, healthcare, biscuits, jelly, custard, baking powder, tea, ice creams, and personal hygiene products. It serves customers worldwide.

**Key clientele:** GlaxoSmithkline Consumer Healthcare, Britannia Industries, ITC, Mondelez International, Hindustan Unilever, General Mills, etc.

**Recent update:** Private equity fund Lighthouse Funds invested Rs 7bn in Parsons Nutritionals in FY24. The round saw participation from co-investors of Lighthouse, including the International Finance Corporation (IFC), a member of the World Bank Group, Evolvence India, HDFC AMC's Fund of Funds, and various family offices.

**Exhibit 38: Parsons Nutritionals - Financials**

| Rs mn | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 |
|---|---|---|---|---|---|---|
| Revenue | 3,304 | 3,155 | 3,248 | 5,098 | 7,350 | 6,852 |
| EBITDA | 424 | 556 | 666 | 810 | 1,338 | 1,385 |
| EBITDA Margin (%) | 12.8% | 17.6% | 20.5% | 15.9% | 18.2% | 20.2% |
| PAT | 105 | 132 | 208 | 187 | 543 | 495 |
| ROE (%) | 7.7 | 8.8 | 11.0 | 9.0 | 19.1 | 7.6 |

*Source: VVC EDGE platform, Systematix Institutional Research*

### Tirupati Group

**Overview:** Tirupati Group is one of the largest and fastest growing contract development and manufacturing organization (CDMO) that provides end-to-end solutions from research to product launch, with multiple manufacturing facilities based out of Paonta Sahib, Himachal Pradesh. The group was founded in 2005 and has since grown to become a key player in the CDMO market. Having been a principal contract manufacturing company, it has expanded, operated and successfully marked its presence across the following industry verticals:

1) **Tirupati Medicare:** A leading-edge science-based, technologically-advanced formulations manufacturing facility that holds the potential for substantial enhancements in health and to the practice of healthcare.
2) **Tirupati Lifesciences:** The company has a large facility in India with capability to produce products in solid, liquid oral and powder dosage forms. A well-equipped Quality Control Laboratory managed as per GLP standards supports the company's efforts.
3) **Tirupati Wellness:** Tirupati Wellness Private Limited is dedicated to developing breakthrough nutraceutical products through constant research and innovation. Maintaining substantial investment in R&D, Tirupati Wellness has the largest and most highly developed nutraceutical contract manufacturing facility.

**Key clientele:** Unilever, Tata Nx, Reckitt Benckiser, Marico, GSK, Colgate Palmolive, Baidyanath, Apollo Hospitals, Alkem, Sun Pharma, Dabur, Pfizer, Novartis, Cipla, Alembic, Dr Reddy's Wockhardt, Zydus, Glenmark, Mankind, Abbott, Piramal, Himalaya, etc.

**Exhibit 39: Tirupati Medicare - Financials**

| Rs mn | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|
| Revenue | 6,191 | 6,462 | 9,245 | 9,691 |
| EBITDA | 715 | 811 | 1,063 | 887 |
| EBITDA Margin (%) | 11.6% | 12.5% | 11.5% | 9.2% |
| PAT | 197 | 390 | 555 | 407 |
| ROE (%) | 7.6 | 13.1 | 15.8 | 10.4 |

*Source: VVC EDGE platform, Systematix Institutional Research*

## Amrit Bottlers Private Limited (ABPL)

**Overview:** ABPL was founded in 1982 and is based in Faizabad, Uttar Pradesh. Promoted by Mr. L D Ladhani, the company is engaged in the manufacture of soft drinks. It is an authorized manufacturer for Coca-Cola for its carbonated soft drinks, fruit-based drinks, and packaged drinking water for 20 districts in Uttar Pradesh and two in Bihar. The company also has seven windmills across India.

**Products:** Coca Cola, Thumps Up, Limca, Fanta, Sprite, Diet Coke, Kinley Soda, Kinley Water, Maaza, Minute maid juices, etc.

**Exhibit 40: ABPL financials**

| Rs bn | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|
| Revenue | 5.45 | 6.21 | 9.26 | 4.14 | 6.19 |
| EBITDA | 1.45 | 1.89 | 0.84 | 1.03 | 1.75 |
| EBITDA Margin (%) | 26.6% | 30.4% | 9.1% | 24.9% | 28.3% |
| PAT | 0.81 | 1.20 | 0.38 | 0.50 | 0.99 |

*Source: VVC EDGE platform, Systematix Institutional Research*

## Financial outlook

HFL posted robust revenue at 41% CAGR over FY19-FY24, supported by a number of projects that ramped up, stemming from an increase of 8-9x in its gross block during this period. These include (1) an ice cream project in Lucknow, UP, (2) ramp-up of bath soaps and detergent bars in Hyderabad; (3) recent projects in beverages at Mysuru (Coca-Cola for soda and carbonated drinks) and juices at Guwahati (Dabur), and (4) initial sales from OTC-healthcare (Baddi) and sports shoes.

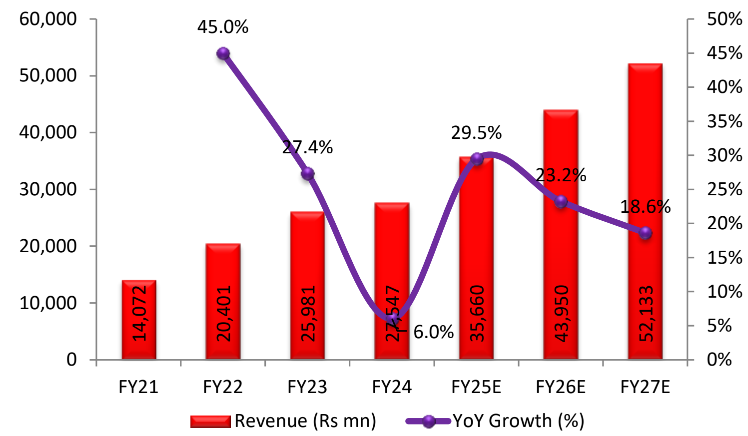
Over FY24-FY27E, we expect HFL to record strong revenue CAGR of c.24% to achieve sales of Rs 52bn in FY27E. We estimate c.1.8x increase in its gross block by end-FY27E (vs FY24) to Rs 20bn, largely driven by scale-up of multiple new projects, such as (1) ramp-up of its shoe-manufacturing segment (across facilities in North and South India) that should record sales of Rs 8bn by FY27E, (2) ramp-up of its ice cream business across Lucknow and 2 new projects (Nashik, Delhi-NCR) to likely achieve sales of Rs 6bn, (3) further expansion of its detergents & soaps (Hyderabad), colour cosmetics (Silvassa) and beverages/juices (Mysuru and Guwahati), (4) growth in OTC-healthcare (Baddi) facility revenue to Rs 5bn in FY27E, and (5) some new projects, such as integration of the promoter's Nashik facility for soups/meal makers, and a water-bottling plant for Coca-Cola in Odisha.

We estimate incremental capex of Rs 9bn over FY25E-FY27E (largely in ice creams, shoes, soaps & detergents and colour cosmetics), which should increase its gross block to ~Rs 20bn by FY27E. HFL issued Rs 4bn-worth of warrants which, together with operating cash flows and some additional debt, should comfortably suffice for the company to meet its investment targets. RoE will likely come off from 18% in FY24 to 15% in FY25E, given the significant increase in its equity base (might take time to get utilized), but will likely rise to 17% in FY27E, once recent investments start contributing to earnings. We also expect a further uptick in return ratios beyond FY27E, once HFL starts investing in newer and larger projects, in line with a much larger balance sheet and stronger leverage profile.

We expect EBITDA margin to inch up by c.100bps over FY25E-FY27E to c.9%, with a corresponding improvement in PAT margin from 3.4% in FY24 to c.4% in FY27E. A combination of scale benefits, higher-margin new projects, range-bound interest costs post the equity fund-raise and lower tax rate on account of the shift to a new tax rate from FY24 should boost margins, in our view. We estimate strong post-dilution EPS CAGR of c.28% over FY24-FY27E.

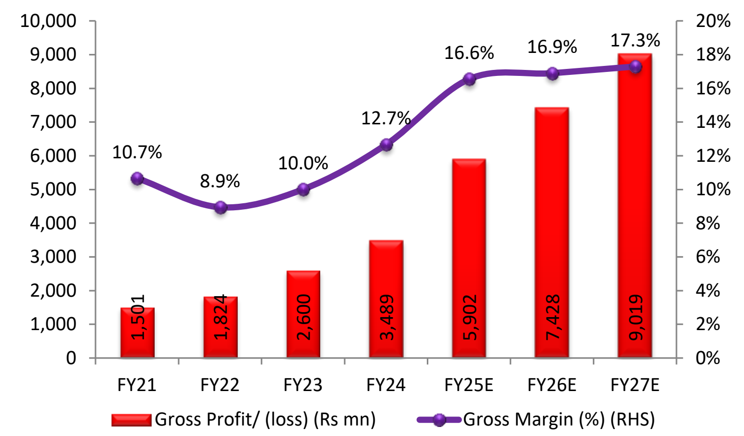
Our estimates do not include projects that could get added over the next couple of years, and therefore any additions could provide upside from the current level. We believe there is enough headroom for HFL to take on more projects with a well-capitalized balance sheet, strong cash generation and ability to raise additional debt.

**Exhibit 41: Revenue CAGR of 24% over FY24-FY27E**



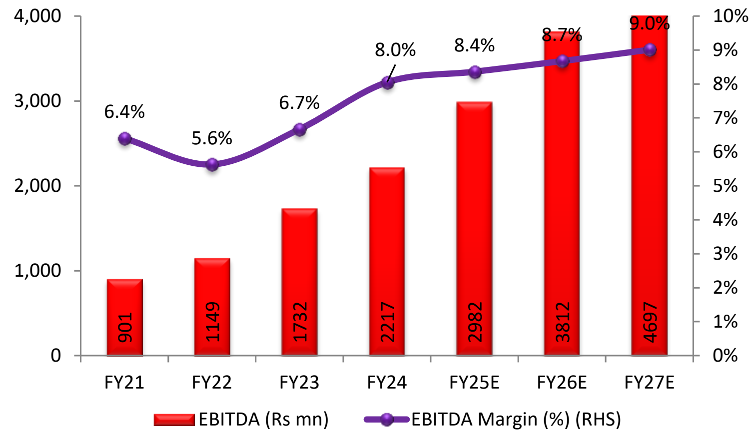

*Source: Company AR, Systematix Institutional Research*

**Exhibit 42: Gross margin of 17.3% by FY27E**



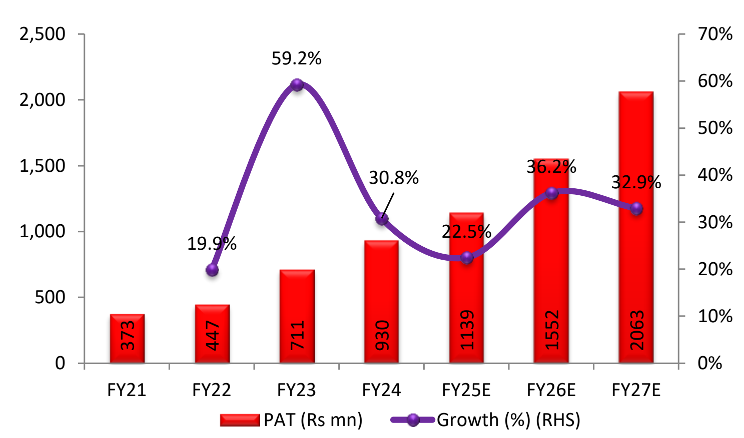

*Source: Company AR, Systematix Institutional Research*

**Exhibit 43: EBITDA margin of 9.0% by FY27E**



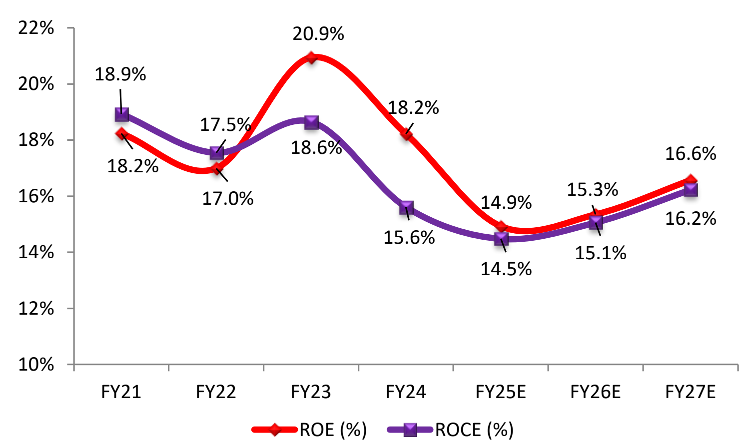

*Source: Company AR, Systematix Institutional Research*

**Exhibit 44: Adj. PAT/EPS CAGR of 30%/28% over FY24-FY27E**



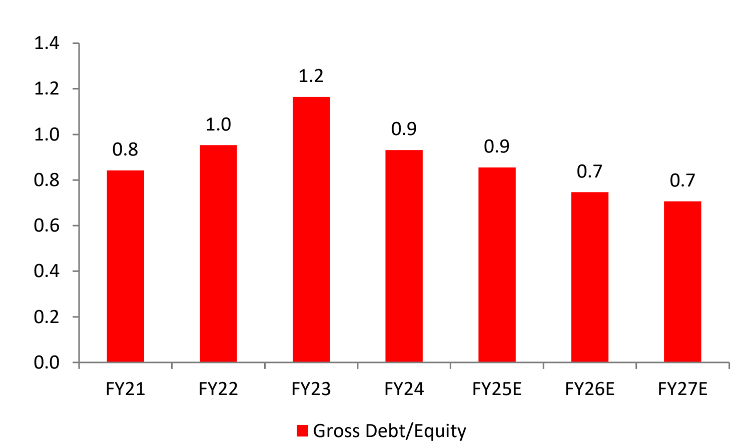

*Source: Company AR, Systematix Institutional Research*

**Exhibit 45: RoE/ RoCE of 17%/ 16% by FY27E**



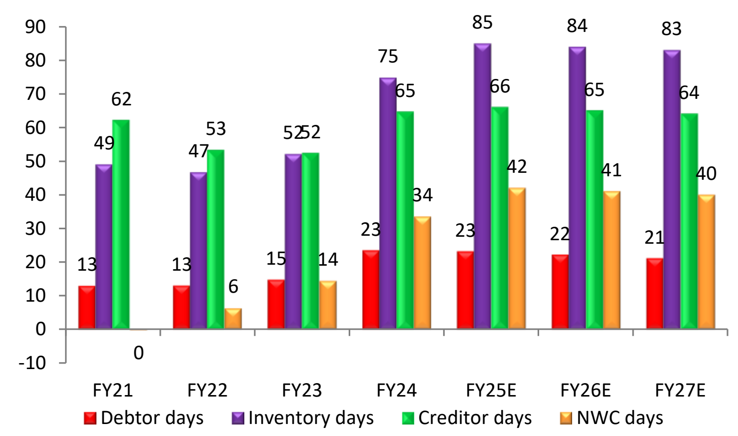

*Source: Company AR, Systematix Institutional Research*

**Exhibit 46: Gross debt/ equity of c.1x through FY27E**



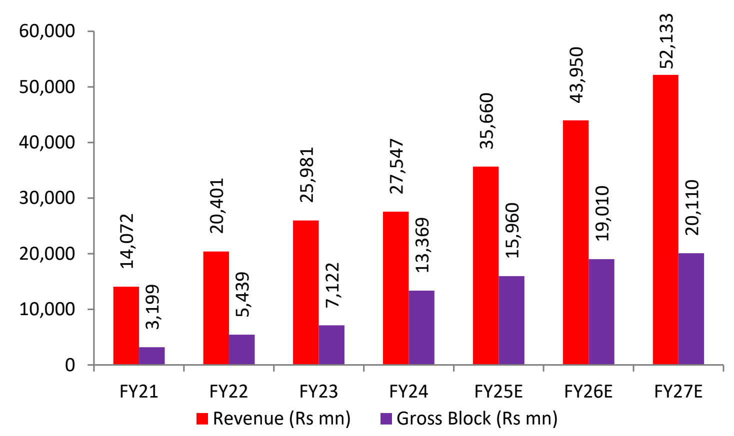

*Source: Company AR, Systematix Institutional Research*

**Exhibit 47: Net working capital of 40 days by FY27E**



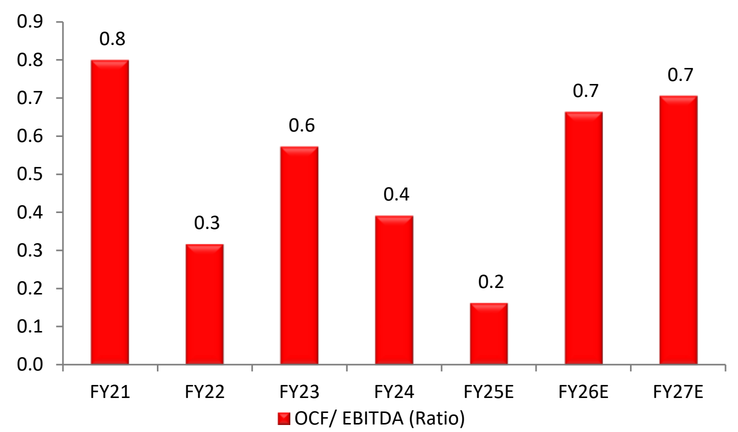

*Source: Company AR, Systematix Institutional Research*

**Exhibit 48: Revenue/ gross block of 2.6x by FY27E**



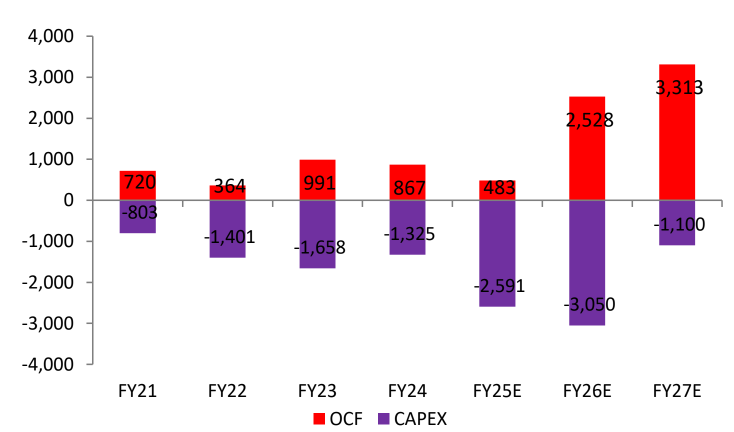

*Source: Company AR, Systematix Institutional Research*

**Exhibit 49: OCF/EBITDA conversion of 0.7x by FY27E**




*Source: Company AR, Systematix Institutional Research*

**Exhibit 50: OCF to capex trends**




*Source: Company AR, Systematix Institutional Research*

## Shareholding pattern

Post-dilution of equity stake from the recent Rs 4bn fund raise (via warrants), promoter holding will fall to ~61%. Large institutional investors like ICICI Prudential Life Insurance, Adity Birla Sun Life Insurance, ICICI Lombard General Insurance, Sixth Sense India, Clarus Capital etc. are holding 19.8% stake (as of April-2025).

**Exhibit 51: Capital Infusion Timetable**

| Date | Investors | Pre Money valuation (Rs mn) | Deal value (Rs mn) | Stake diluted (%) | Post-money valuation (Rs mn) |
|---|---|---|---|---|---|
| Dec-16 | Vanity Case India Pvt Ltd, Sixth Sense Ventures, HFL, Mr. Nikhil Vora, Mr. Ajay Sarupria | 199.7 | 319.7 | 61.6 | 519.4 |
| Jul-18 | Mr. Shrinivas V Dempo, Soiru Dempo Family Pvt Trust | 3,904.1 | 150 | 3.7 | 4,054.1 |
| Apr-19 | Convergent Finance, Sixth Sense Ventures, HR Holdings, S G Holdings Pvt Ltd | 4,961.2 | 1,000 | 17 | 5,882.4 |
| Feb-24 | Sixth Sense (Share Warrants) | 60,587.7 | 1,000 | 1.6 | 61,587.7 |
| 2024-2025E | Infinity Holdings, Malabar Select Fund, Bay Capital, Ms. Vanaja Sunder Iyer (Share Warrants) | 61,587.7 | 3,000 | 4.7 | 64,587.7 |

*Source: Company AR/ earnings calls/ PPTs, Systematix Institutional Research*

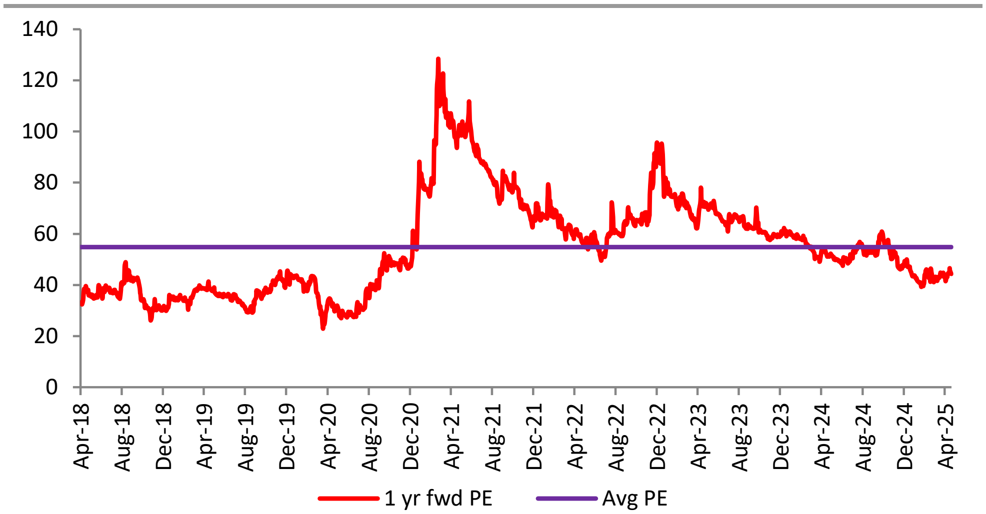
## Valuation and risks

We initiate coverage on Hindustan Foods Ltd (HFL) with a BUY rating. There are not too many listed peers comparable with HFL, except for (1) Varun Beverages (VBL), the listed peer in F&B contract manufacturing, and (2) some broad similarities in the business models of electronics manufacturers like Dixon Technologies and Amber Enterprises. While VBL's margins are materially higher than those of HFL (given VBL's higher degree of value addition, which includes bottling and distribution), HFL's FY24-FY27E earnings' growth forecast is higher vs VBL's. Dixon and Amber compare better with HFL on margins but are materially ahead on earnings growth (with corresponding higher valuations). While HFL's smaller scale and valuation discount vs peers could persist, we expect the multiple to be supported by its (1) robust project pipeline, (2) improving RoE, and (3) healthy revenue/ earnings growth trajectory over the medium term. We value HFL at a P/E of 42x FY27E EPS (post-dilution), at a slight discount to its current one-year forward P/E to account for recent expansion into new segments with some execution risk. Our valuation implies a target price of Rs 710/share (c.23% upside to current market price). The stock currently trades at a P/E of 45x/34x FY26E/FY27E EPS. We expect to upgrade the company's earnings over FY26-FY27 if it finalizes more contracts through its ever-expanding pipeline during this period.

**Risks**

- Lower earnings visibility/ stability in recent business expansions into footwear, ice creams and OTC-healthcare, as they are shared-manufacturing/ anchor-tenant models
- Extended period of subdued demand for FMCG products impacting contract manufacturers' order books and business expansions
- Business execution risks associated with complex, labour-intensive segments like footwear that also have long working capital cycles
- Any reversal in trend, with brand owners shifting business from internal to contract manufacturing
- Negative free cash flow generation could continue near-term with high capex requirements, until the company reaches scale and self-sustains growth.

**Exhibit 52: HFL currently trades at 44.3x one-year forward P/E**




*Source: Company AR, BSE website, Systematix Institutional Research*

**Exhibit 53: Valuation summary and peer comparison**

| Peer comparison | Hindustan Foods | Varun Beverages** | Mrs. Bectors Food Specialities** | Dixon Technologies | Amber Enterprises | Kaynes Technology | Syrma SGS Technology |
|---|---|---|---|---|---|---|---|
| Market cap (Rs bn) | 68 | 1,858 | 101 | 950 | 228 | 376 | 89 |
| FY24 Revenue (Rs bn) | 28 | 205 | 16 | 177 | 67 | 18 | 32 |
| FY24 PAT (Rs mn) | 0.9 | 26 | 1.4 | 3.7 | 1.3 | 1.8 | 1.1 |
| FY24-27E Revenue CAGR | 24% | 15% | 16% | 66% | 31% | 54% | 39% |
| FY24-27E EBITDA CAGR | 28% | 16% | 17% | 61% | 38% | 60% | 54% |
| FY24-27E PAT/EPS CAGR | 30%/28% | 20% | 19% | 73% | 68% | 48% | 58% |
| Avg EBITDA margin FY24-FY27E | 8.5% | 23% | 15% | 4% | 8% | 15% | 8% |
| FY26E/FY27E P/E (x) | 44.9/33.8 | 46.3/41.6 | 51.2/40.6 | 75.9/52.1 | 56.5/35.4 | 98.0/65.0 | 33.7/21.7 |
| FY27E EV/EBITDA (x) | 13.2 | 25.3 | 24.2 | 31.2 | 18.3 | 37.7 | 13.1 |
| Avg ROE (%) FY24-FY27E | 16.3 | 20.4 | 17.4 | 32.1 | 12.8 | 11.5 | 12.3 |

*Source: Company AR, Bloomberg, Systematix Institutional Research *Varun Beverages follows calendar year **Not Rated, consensus estimates*

## About the company

Hindustan Foods (HFL) is one of India's largest and most diversified organized FMCG contract manufacturers, operating in the F&B, personal care and home care segments. It has a track record of 30+ years of consistent execution. The company manufactures products for marquee clients like Hindustan Unilever, Reckitt Benckiser, Hector Beverages, Dabur, Coca-Cola etc., through its 38 manufacturing units in India (as on date) that employ more than 10,000 people. Key products the company manufactures are soaps and detergents, hot beverages, baby foods, carbonated drinks/juices, beauty & personal care (BPC) products, ice creams, protein drinks, shoes and home insecticides. HFL is now foraying into OTC-healthcare and manufacturing of sports shoes, while expanding capacities in ice creams and beverages.

**Exhibit 54: HFL's evolution timeline**

| | |
|---|---|
| **1984** | Started as a JV between Glaxo India and Dempo Group to manufacture *Farex* in Goa |
| **FY14** | Partnered with Vanity Case Group and entered into a contract with Danone and Pepsico to produce food products in Goa |
| **FY17** | Received investment from Sixth Sense Ventures and entered the footwear segment by acquiring Ponds Exports from Hindustan Unilever |
| **FY19** | Entered into a 7-year contract with Reckitt Benckiser to manufacture *Mortein*, started manufacturing detergents and began packaging tea and coffee for Hindustan Unilever; it acquired another footwear unit in Mumbai |
| **FY20** | Garnered investments from Convergent, Sixth Sense and Westbridge, set up a new home care facility in Silvassa and merged beverages packing unit of ATC Beverages |
| **FY22** | Started production of home care products in Silvassa, strengthened BPC vertical by acquiring Aero Care Personal Products and acquired a color cosmetics plant |
| **FY23** | Acquired Reckitt Benckiser Scholl India to manufacture foot care products, commenced production of ice creams in Uttar Pradesh for Hindustan Unilever, began manufacturing sports and knitted shoes at its Tamil Nadu facility, started work on a juices line for Dabur in Guwahati and set up a line for Coca Cola India in Mysore |
| **FY24** | Started additional phases at its ice cream and detergent plants for Hindustan Unilever; completed the acquisition of Reckitt Benckiser's OTC healthcare unit in Baddi, Himachal Pradesh. Acquired sports shoe manufacturing facilities by KNS Shoetech, started work on an ice-cream unit in Nashik |
| **FY25** | Through its subsidiary, the company acquired SSIPL Retail's manufacturing facilities in Bangran and Bhagani in Himachal Pradesh and Kundli, Haryana, respectively. |
| **Jan-25** | Acquisition of a manufacturing facility at Makundaprasad, Odisha of MMG Enterprises Private Limited (MMG) by HFL Multiproduct Private Limited (HMPL). |

*Source: Company AR, Systematix Institutional Research*

**Exhibit 55: HFL - A valued contract manufacturer**

| | |
|---|---|
| **Management Expertise** | **Over four decades of experience in contract manufacturing.** |
| **Long-Term Relationships** | **Built long term relationships with leading domestic and multinational customers.** |
| **Manufacturing Facilities** | **State-of-the-art manufacturing facilities across various geographical locations, enables production of diverse range of products** |
| **Ability To Create Formulations** | **Ability to create formulation of any FMCG product, thus attract leading Clients across categories, size and platforms** |
| **Self-Reliance & Localisation** | **Self-reliance and localized sourcing expected to generate new opportunities** |
| **One-Stop Solution** | **One-Stop solution for product development, testing, and manufacturing across FMCG categories and geographies.** |
| **Redefined Business Model** | **Focus on creating contract manufacturing solutions suitable for any FMCG customer.** |
| **Largest Organised Player** | **One of the largest organized player with a significant presence in the industry** |

*Source: Company AR, Systematix Institutional Research*

**Exhibit 56: Key management personnel**

| Name | Designation | Background |
|---|---|---|
| **Mr. Sameer R Kothari** | Managing Director | Mr. Sameer Kothari is the promoter of Vanity Case Group. He is a Chartered Accountant and holds an MBA from Cornell University (USA) with 21 years of work experience |
| **Mr. Ganesh T Argekar** | Executive Director | Mr. Ganesh T Argekar heads the supply chain of Vanity Case Group and HNDFDS. He has a BSc in Chemistry and a diploma in Materials Management from IIMM, with 23 years of work experience |
| **Mr. Mayank Samdani** | Group CFO | Mr. Samdani is a Chartered Accountant with 21 years of experience and expertise in the areas of finance, accounts, audit, legal and compliance. His earlier assignments were with Future Group and Ashok Piramal Group |
| **Mr. Sanjay Sehgal** | Business Head – Healthcare & Wellness | Mr. Sehgal is a B.Tech graduate in chemical engineering from IIT Delhi, having worked for 43 years in diverse industries – Hindustan Unilever, Sandoz and Hindalco Industries, with global experience in APAC countries and Brazil |
| **Mr. Sunil Plakkat** | Head Operations | Mr. Plakkat is a chemical engineer with 34 years of experience in manufacturing operations in plant and corporate roles. He has worked with Asian Paints, ICI, Rallis and Atul Ltd. |
| **Mr. Carsten Braun** | Business Head – Footwear Business | Mr. Braun is a footwear master technician and REFA expert with over 35 years in the footwear industry. Worked with Gabor Hoegl (Lorenz Shoe Group) and Lowa. |
| **Mr. Manoj Patani** | Business Head – Ice Cream Business | Mr. Patani is a chemical engineer from UDCT, Mumbai (now ICT) and has an MBA in Finance & Marketing from ISB Hyderabad. With 19+ years of experience in manufacturing & industrial automation companies leading functions in Business Strategy, Commercial & Marketing. |

*Source: Company AR, Systematix Institutional Research*

# FINANCIALS (CONSOLIDATED)

## Profit & Loss Statement

| YE: Mar (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| **Revenue** | **25,981** | **27,547** | **35,660** | **43,950** | **52,133** |
| COGS | 22,322 | 22,731 | 29,758 | 36,523 | 43,114 |
| Mnfg. & operat. exp. | 1,060 | 1,327 | - | - | - |
| Gross profit | 2,600 | 3,489 | 5,902 | 7,428 | 9,019 |
| GP margin (%) | 10% | 13% | 17% | 17% | 17% |
| **EBITDA** | **1,732** | **2,217** | **2,982** | **3,812** | **4,697** |
| EBITDA margin (%) | 6.7% | 8.0% | 8.4% | 8.7% | 9.0% |
| Depreciation | 374 | 548 | 802 | 962 | 1,076 |
| **EBIT** | **1,358** | **1,669** | **2,179** | **2,850** | **3,621** |
| Interest expense | 358 | 567 | 806 | 939 | 1,038 |
| Other income | 45 | 72 | 172 | 186 | 204 |
| **PBT** | **1,045** | **1,174** | **1,546** | **2,097** | **2,788** |
| Taxes | 334 | 244 | 407 | 545 | 725 |
| Tax rate (%) | 32% | 21% | 26% | 26% | 26% |
| JVs/associates/others | - | - | - | - | - |
| **Adj. PAT** | **711** | **930** | **1,139** | **1,552** | **2,063** |
| Exceptional loss | | | | | |
| Net profit | 711 | 930 | 1,139 | 1,552 | 2,063 |
| **EPS** | **6.3** | **8.1** | **9.6** | **12.7** | **16.9** |
| Shares | 112.7 | 114.6 | 119.0 | 122.3 | 122.3 |

*Source: Company AR, Systematix Institutional Research*

## Balance Sheet

| YE: Mar (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Equity capital | 225 | 229 | 238 | 245 | 245 |
| Reserves | 3,524 | 6,232 | 8,567 | 11,173 | 13,236 |
| **Net worth** | **3,749** | **6,461** | **8,805** | **11,418** | **13,480** |
| Total debt | 4,368 | 6,016 | 7,526 | 8,526 | 9,526 |
| Other non current liabilities | 256 | 535 | 765 | 818 | 871 |
| **Total Sources** | **8,374** | **13,013** | **17,096** | **20,762** | **23,878** |
| | | | | | |
| Net block | 5,506 | 9,007 | 10,797 | 12,885 | 12,909 |
| Net deferred tax | (473) | (406) | (380) | (380) | (380) |
| Other non current assets | 583 | 1,398 | 1,300 | 1,423 | 1,545 |
| Intangible asset + Under devlop. | 35 | 80 | 153 | 153 | 153 |
| CWIP | 1,247 | 84 | - | - | - |
| Investments | - | - | - | - | - |
| **Cash & equivalents** | **505** | **493** | **506** | **983** | **3,036** |
| Inventories | 3,339 | 4,934 | 6,930 | 8,405 | 9,804 |
| Sundry debtors | 1,045 | 1,758 | 2,247 | 2,649 | 2,999 |
| Other current assets | 1,088 | 1,491 | 1,918 | 2,364 | 2,804 |
| **Current assets** | **5,472** | **8,182** | **11,095** | **13,418** | **15,607** |
| Sundry creditors | 3,353 | 4,258 | 5,381 | 6,504 | 7,560 |
| Other current liabilities | 1,147 | 1,568 | 993 | 1,216 | 1,432 |
| **Current liabilities** | **4,501** | **5,826** | **6,374** | **7,720** | **8,992** |
| **Net working capital** | **972** | **2,356** | **4,720** | **5,698** | **6,615** |
| **Total Uses** | **8,374** | **13,013** | **17,096** | **20,762** | **23,878** |

*Source: Company AR, Systematix Institutional Research*

## Cash Flow

| YE: Mar (Rs mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| PBT | 1,045 | 1,174 | 1,546 | 2,097 | 2,788 |
| Depreciation | 374 | 548 | 802 | 962 | 1,076 |
| Interest | 358 | 567 | 806 | 939 | 1,038 |
| Tax paid | (197) | (144) | (407) | (545) | (725) |
| Adjustments | (17) | (33) | - | - | - |
| Working capital Δ | (572) | (1,245) | (2,264) | (924) | (864) |
| **Operating cashflow** | **991** | **867** | **483** | **2,528** | **3,313** |
| Capital expenditure | (1,658) | (1,325) | (2,591) | (3,050) | (1,100) |
| Investments | - | - | - | - | - |
| Interest | 9 | 20 | - | - | - |
| Loans & advances | (100) | 130 | 98 | (123) | (122) |
| Corporate deposits | - | (1,114) | - | - | - |
| Oth. invest./ Acquisitons | (733) | (1,525) | (20) | - | - |
| **Investing cashflow** | **(2,481)** | **(3,814)** | **(2,513)** | **(3,173)** | **(1,222)** |
| Free cash flow (ex. capex) | (667) | (458) | (2,108) | (522) | 2,213 |
| Equity raised | - | 984 | 9 | 7 | - |
| Warrents issued | - | 750 | 1,196 | 1,054 | - |
| Debt financing/disposal | 1,276 | 1,041 | 520 | 1,000 | 1,000 |
| Interest Paid | (335) | (538) | (806) | (939) | (1,038) |
| Dividends paid | - | - | - | - | - |
| Other items | 338 | 743 | 1,040 | - | - |
| **Financing cashflow** | **1,279** | **2,980** | **1,959** | **1,122** | **(38)** |
| **Net Δ in cash** | **(211)** | **33** | **(71)** | **477** | **2,053** |
| Opening cash & CE | 326 | 399 | 432 | 445 | 922 |
| Closing cash & CE | 399 | 432 | 445 | 922 | 2,975 |

*Source: Company AR, Systematix Institutional Research*

## Ratios

| YE: Mar | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Revenue growth (%) | 27.4% | 6.0% | 29.5% | 23.2% | 18.6% |
| Op profit growth (%) | 50.8% | 28.0% | 34.5% | 27.8% | 23.2% |
| Adjusted Net profit growth (%) | 59.2% | 30.8% | 22.5% | 36.2% | 32.9% |
| OPM (%) | 6.7% | 8.0% | 8.4% | 8.7% | 9.0% |
| Adjusted Net profit margin (%) | 2.7% | 3.4% | 3.2% | 3.5% | 4.0% |
| RoCE (%) avg | 18.6% | 15.6% | 14.5% | 15.1% | 16.2% |
| RoNW (%) avg | 20.9% | 18.2% | 14.9% | 15.3% | 16.6% |
| EPS (Rs) | 6.3 | 8.1 | 9.6 | 12.7 | 16.9 |
| DPS (Rs) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| BVPS (Rs) | 33.3 | 56.4 | 74.0 | 93.4 | 110.3 |
| Debtor days | 14.7 | 23.3 | 23.0 | 22.0 | 21.0 |
| Inventory days | 52.1 | 74.9 | 85.0 | 84.0 | 83.0 |
| Creditor days | 52.3 | 64.6 | 66.0 | 65.0 | 64.0 |
| P/E (x) | 80.0 | 58.0 | 59.5 | 44.9 | 33.8 |
| P/B (x) | 15.2 | 8.3 | 7.7 | 6.1 | 5.2 |
| EV/EBITDA (x) | 32.4 | 22.8 | 20.4 | 15.8 | 13.1 |
| Net Debt/Equity | 1.0 | 0.9 | 0.8 | 0.7 | 0.5 |
| Gross Debt/Equity | 1.2 | 0.9 | 0.9 | 0.7 | 0.7 |
| OCF to Capex | 1.7 | 1.5 | 5.4 | 1.2 | 0.3 |

*Source: Company AR, Systematix Institutional Research*

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|---|---|
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