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## Company update

## Diversified

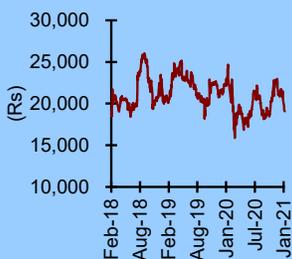
Target price: Rs21,800

## Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	75.0	75.0	75.0
Institutional investors	10.3	10.7	11.1
MFs and others	4.9	5.0	4.7
FIs/Bank/Ins	0.0	0.0	0.0
FIIIs	5.4	5.7	6.4
Others	14.7	14.3	13.9

Source: BSE

## Price chart



## INDIA

## 3M India

**ADD**  
Maintained

## Key beneficiary of budgeted capex and investments in road construction

**Rs19,138**

3M India is likely to be beneficiary of higher budgetary allocation to capital expenditure, road construction, PLI announcements as well as higher allocation to healthcare. 3M India supplies consumables used in these industries. There will be higher demand for its products such as abrasives, adhesives due to higher capex. The demand for road markers, pavement markers, reflectors will increase with higher construction of roads. With higher allocation to Healthcare, the demand for products such as surgical and dental care products and personal safety products will increase. We remain positive on 3M India due to competitive advantages like (1) strong brands, (2) established distribution network and (3) access to technology pool of the parent. Maintain ADD with a DCF-based TP of Rs21,800 (59x FY23E).

- **Increase in Gross budgetary support towards capital expenditure:** There is 26% increase in gross budgetary support to capital expenditure. The capex will be largely done in sectors such as road transport & highways, railway, defense, Housing & urban affairs, Power, renewable energy, Coal, Petroleum. As 3M supplies multiples consumables such as abrasives, adhesives, security tapes, personal protection equipment to these industries, it is likely to be beneficiary.
- **Increase in road construction activity:** The Ministry of road transport and highways is likely to surpass the 11,000km target in FY21E and award 8,500km. Continued increase in road construction will drive revenue growth of 3M India's road safety products such as road markers, pavement markers, reflectors and sign boards.
- **Introduction of PLI likely to lead to higher manufacturing:** There is PLI announcement in 13 sectors with commitment of Rs1.97lakh crores. This is likely to lead to higher manufacturing and higher requirement for consumables and other specialty products sold by 3M India.
- **Higher allocation to Healthcare:** The allocation to Healthcare was increased by 10% and there is special allocation to covid vaccination too. 3M supplies consumables such as body lotions, medicated tapes, dental care, surgical care products to hospitals. 3M India's products are likely to see higher off-take due to higher allocation to Healthcare.
- **Maintain ADD:** We model 3M India to report revenue and PAT CAGRs of 15.7% and 40.1%, respectively, over FY21-FY23E. RoE is also expected to remain above the cost of capital over the same timeframe. We maintain our **ADD** rating on the stock with DCF-based target price of Rs21,800 (59x FY23E). Key risks: Failure of new products and prolonged slowdown in the economy.

Market Cap	Rs216bn/US\$3.0bn	<b>Year ending Mar</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Reuters/Bloomberg	3MIN.BO/3M IN	Revenue (Rs mn)	29,866	26,217	30,896	35,122
Shares Outstanding (mn)	11.3	Adj Net Profit (Rs mn)	3,222	2,121	3,431	4,164
52-week Range (Rs)	24662/15887	Dil. Rec. EPS (Rs)	286.0	188.3	304.5	369.6
Free Float (%)	25.0	% Chg YoY	(6.1)	(34.2)	61.7	21.4
FII (%)	6.4	P/E (x)	66.9	101.6	62.8	51.8
Daily Volume (US\$'000)	1,631	CEPS (Rs)	338.7	234.8	355.3	425.3
Absolute Return 3m (%)	2.1	EV/EBITDA (x)	46.3	77.4	46.9	39.1
Absolute Return 12m (%)	(14.3)	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	22.7	RoCE (%)	24.2	11.5	17.9	18.5
Sensex Return 12m (%)	23.8	RoE (%)	20.3	11.6	16.2	16.7

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## Valuation

We have valued 3M India by DCF methodology, which leads to a target price of Rs21,800 per share. The implied P/E multiple at our target price and FY23E EPS works out to 59x. We maintain our **ADD** rating on the stock.

### DCF-based valuation

**Table 1: DCF valuation**

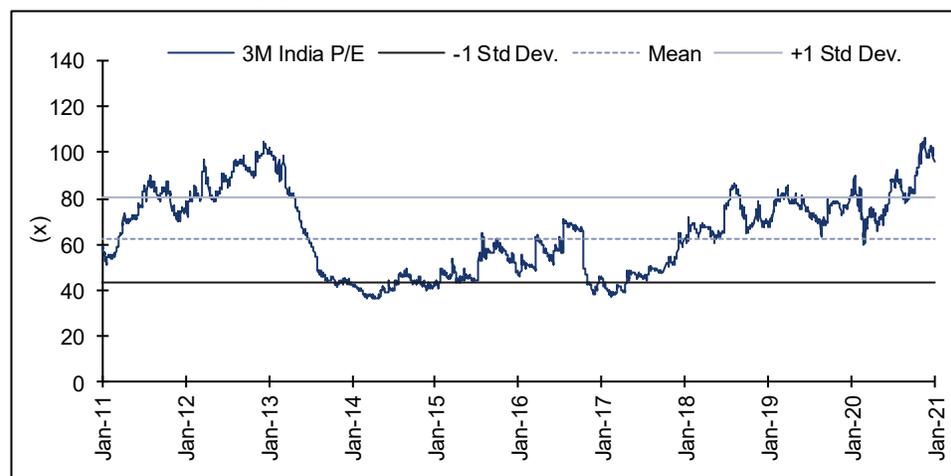
Particulars	Amt (Rs)
Cost of equity (%)	10.3
Terminal growth rate (%)	5.0
Discounted interim cash flows (Rs mn)	58,692
Discounted terminal value (Rs mn)	186,887
Total equity value (Rs mn)	245,579
<b>Value per share (Rs)</b>	<b>21,800</b>

Source: Company, I-Sec research

### Mean P/E and standard deviation

Historically, the stock has traded at an average 1-year forward P/E of 64x. Comparing the historical and estimated future return ratios and growth rates, we expect it to trade at a P/E multiple of 59x on FY23E EPS.

**Chart 1: Mean P/E (x) and standard deviation**



Source: Company data, I-Sec research

### Key risks

**Steep rise in competitive pressures and input prices:** Steep rise in competitive pressures and material increase in production capacities by peers in a short timeframe can hurt 3M India's earnings. Higher cost of production may also impact earnings.

**Delays in launch / failure of new products:** Any delay in launch of new products and/or failure of new products may impact 3M India's financials. If the company's geographical expansion plans fail, or get delayed, earnings growth may be impacted.

**Slowdown in economy and industrial production:** Prolonged slowdown in India's economy as well as industrial production may impact 3M India's growth prospects and earnings.

## Financial summary

Table 2: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Net Sales</b>	<b>29,866</b>	<b>26,217</b>	<b>30,896</b>	<b>35,122</b>
<b>Operating Expenses</b>	<b>23,695</b>	<b>22,030</b>	<b>24,697</b>	<b>27,866</b>
<b>EBITDA</b>	<b>4,497</b>	<b>2,693</b>	<b>4,437</b>	<b>5,324</b>
% margins	15.1	10.3	14.4	15.2
Depreciation & Amortisation	593	524	572	627
Gross Interest	37	30	30	30
Other Income	459	708	769	921
<b>Recurring PBT</b>	<b>4,326</b>	<b>2,847</b>	<b>4,605</b>	<b>5,589</b>
Less: Taxes	1,104	726	1,174	1,425
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>3,222</b>	<b>2,121</b>	<b>3,431</b>	<b>4,164</b>
Extraordinaries (Net)	(41)	-	-	-
<b>Recurring Net Income</b>	<b>3,180</b>	<b>2,121</b>	<b>3,431</b>	<b>4,164</b>

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	18,687	12,043	11,407	12,876
of which cash & cash eqv.	7,806	2,481	328	424
Total Current Liabilities & Provisions	5,713	4,824	5,685	6,462
<b>Net Current Assets</b>	<b>12,974</b>	<b>7,219</b>	<b>5,722</b>	<b>6,413</b>
Investments	1,674	9,674	14,674	18,174
Net Fixed Assets	3,060	3,005	2,933	2,906
Capital Work-in-Progress	69	-	-	-
<b>Total Assets</b>	<b>17,777</b>	<b>19,898</b>	<b>23,329</b>	<b>27,492</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>492</b>	<b>492</b>	<b>492</b>	<b>492</b>
<b>Deferred Tax Liability</b>	<b>(224)</b>	<b>(224)</b>	<b>(224)</b>	<b>(224)</b>
Minority Interest	-	-	-	-
Equity Share Capital	113	113	113	113
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	17,396	19,517	22,948	27,111
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>17,509</b>	<b>19,630</b>	<b>23,060</b>	<b>27,224</b>
<b>Total Liabilities</b>	<b>17,777</b>	<b>19,898</b>	<b>23,329</b>	<b>27,492</b>

Source: Company data, I-Sec research

Table 4: Quarterly trend

(Rs mn, year ending March 31)

	Dec 19	Mar 20	June 20	Sept 20
Net sales	7,454	6,732	3,462	6,900
% growth (YoY)	(5.8)	(9.4)	(57.0)	(9.6)
EBITDA	978	763	(484)	1,135
Margin (%)	13.1	11.3	(14.0)	16.4
Other income	144	124	64	58
Extraordinaries (Net)	(0)	(41)	(10)	(10)
Adjusted Net profit	719	560	(436)	740

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Operating Cashflow</b>	<b>3,362</b>	<b>2,645</b>	<b>4,003</b>	<b>4,791</b>
Working Capital Changes	(920)	431	(656)	(595)
Capital Commitments	(211)	(400)	(500)	(600)
<b>Free Cashflow</b>	<b>2,231</b>	<b>2,675</b>	<b>2,847</b>	<b>3,596</b>
<b>Cashflow from Investing Activities</b>	<b>-</b>	<b>(8,000)</b>	<b>(5,000)</b>	<b>(3,500)</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
<b>Change in Deferred Tax Liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>2,231</b>	<b>(5,325)</b>	<b>(2,153)</b>	<b>96</b>

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS	286.0	188.3	304.5	369.6
Cash EPS	338.7	234.8	355.3	425.3
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	1,534	1,723	2,027	2,397
<b>Growth (%)</b>				
Net Sales	(1.0)	(12.2)	17.8	13.7
EBITDA	(16.0)	(40.1)	64.8	20.0
PAT	(6.1)	(34.2)	61.7	21.4
Cash EPS	(1.4)	(30.7)	51.3	19.7
<b>Valuation Ratios (x)</b>				
P/E	66.9	101.6	62.8	51.8
P/CEPS	56.5	81.5	53.9	45.0
P/BV	12.5	11.1	9.4	8.0
EV / EBITDA	46.3	77.4	46.9	39.1
EV / Sales	7.0	7.9	6.7	5.9
<b>Operating Ratios</b>				
Raw Material / Sales (%)	58.1	59.8	58.1	57.6
Employee cost / Sales (%)	11.0	13.0	11.0	11.0
SG&A / Sales (%)	1.9	2.1	2.1	2.0
Other Income / PBT (%)	10.6	24.9	16.7	16.5
Effective Tax Rate (%)	25.5	25.5	25.5	25.5
Working Capital (days)	17.3	18.1	17.5	17.1
Inventory Turnover (days)	53.6	51.1	51.1	51.1
Receivables (days)	65.3	65.7	65.7	65.7
Payables (days)	62.1	58.4	58.4	58.4
Net D/E (x)	(0.4)	(0.5)	(0.6)	(0.6)
<b>Profitability Ratios (%)</b>				
Net Income Margins	10.8	8.1	11.1	11.9
RoACE	24.2	11.5	17.9	18.5
RoAE	20.3	11.6	16.2	16.7
Dividend Payout	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	15.1	10.3	14.4	15.2

Source: Company data, I-Sec research

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