

Plant visit takeaways - Understanding glass not everyone's 'Cup' of tea

We reiterate Buy on Borosil with a TP of Rs490, raised from Rs400 earlier. During our recent visit to its Jaipur plant, it was evident that the company has been effectively managing its production with the help of technology. The current management which took over the plant has deep understanding of glass and glass products, which has come in handy. With a slew of technological advancements and high priority to automation, the opalware plant has been the prime mover of margin expansion. The Jaipur plant is expected to be a key driver for consumer business in the coming years. These advantages, coupled with encouraging demand tailwinds, should continue to bolster performance.

- State of the art manufacturing facility:** The Company's manufacturing plant in Jaipur is spread across 42,000 square meters and is highly technology-driven. Borosil has acquired most of its machinery from Europe. Further, we believe one of the biggest advantages the company has over its peers is the promoter's ability to understand glass. Further, the annealing process sets them apart from others, where they can get the highest quality product at a minimal weight. Moreover, high priority is given to automation.
- New capacity to augment growth:** Borosil's new Opalware capacity is expected to come to stream by September 2022, which will double its capacity from 42 tonnes per day to 84 tonnes per day and expected to have similar machinery albeit with a higher level of automation. Additionally, at the same site the company plans to set a Borosilicate glass capacity (~25 tonnes per day) which is expected to come on stream by September 2023. The new capacity expansion highlights the strong demand for Borosil's product.
- Opalware slowly and steadily gaining more prominence:** While interacting with senior heads at the plant, it was clear there was an added spring to their step. They believe demand for Opalware products has been better than ever, the vision to turn Opalware into regular use, rather than gifting is slowly and steadily becoming a reality. Though gifting remains significant, the shift is quite evident. The following sentiment was echoed by dealers during our channel checks. Reduced import competition from China due to a massive increase in freight costs has also induced further demand buoyancy. Dealers also indicated that brand equity plays an important role and an up-trade from melamine/steel to opalware/glass is almost always irreversible.
- Valuation and rating:** The stock has hit our earlier target of Rs 375 (valued at 30x Sept 23eps), we believe our hypothesis of valuation expansion (<https://bit.ly/3imr8ZD>) through strong margin expansion (Q2 margins at 21.3%) and return ratio improvement has started to play out. We expect this trend to continue with improving ratios on the back of focus towards in-house manufacturing, for both Consumer and Scientific and Industrial Products divisions and prudent expansion strategy. We believe the company remains in a sweet spot to capture incremental growth in both divisions. Given this, we increase our target multiple to 35x on December 23 EPS post which we arrive at a target price of Rs 490 an upside of 16% from current levels, we continue with a BUY rating on the stock.

Target Price	490	Key Data	
		Bloomberg Code	BOROLTD:IN
CMP*	419	Curr Shares O/S (mn)	114.1
		Diluted Shares O/S(mn)	114.1
Upside	16%	Mkt Cap (Rsbn/USDmn)	47.78/637
Price Performance (%)		52 Wk H / L (Rs)	499/158
	1M 6M 1Yr	Daily Vol. (3M Avg.)	39249.8
Borosil	35.0 93.8 149.1		
NIFTY	-4.6 5.5 24.7		

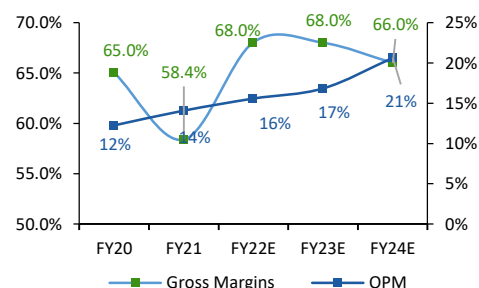
Source: ACE Equity, Bloomberg, MNCL Research

Shareholding pattern (%)

	Sept-21	June-21	Dec-20	Sep-20
Promoter	70.46	70.46	70.50	70.50
DII's	0.02	0.22	0.26	0.30
FII's	1.84	1.97	2.15	2.16
Others	27.68	27.35	27.09	27.04

Source: BSE

Best in Class Gross Margins



Source: MNCL Research

Link to previous reports

Initiating Coverage Report- <https://bit.ly/3imr8ZD>Q1FY22 Update- <https://bit.ly/3BhkGcG>Q2FY22 Update- <https://bit.ly/3wRTjoV>

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Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	6,359	74.2%	778	12.2%	353	41.5%	3.1	5.5%	5.8%	71.1	32.2
FY21	5,848	-8.0%	823	14.1%	424	19.9%	3.7	6.1%	6.7%	59.3	26.8
FY22E	8,140	39.2%	1,568	19.3%	798	88.5%	7.0	10.3%	15.8%	59.9	29.2
FY23E	9,892	21.5%	2,053	20.8%	1,268	58.8%	11.1	14.1%	18.9%	37.7	22.3
FY24E	11,778	19.1%	2,661	22.6%	1,689	33.2%	14.8	15.8%	21.4%	28.3	16.7

Source: MNCL Research Estimates

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Plant Visit KTA

- **About the Plant** – the plant was set up by its earlier promoters Hopewell manufacturer in 2010, Borosil acquired the brand Larih and its facility in 2016 and completely revamped the plant with a higher degree of technology and automation. The plant is spread across 42,000 square meters with a capacity of 42 tonnes per day.
- **Higher focus on automation and Technology** – Post the acquisition, the company spent a considerable amount on upgrading the plant to match it to supreme high-quality standards the brand Borosil is renowned for. What works in the company's favour is the promoter's background in understanding glass and glass allied products. Today most of the technology used by the company is from Europe. The company's glass annealing process has set up them apart from others with the desired quality at a weight of product lower as compared to others. High priority is given to quality with supreme quality checks undertaken by the company at various stages of production. Further, with has automated a lot of its process and with the capacity coming on stream automation process will be enhanced.
- **Raw Material Scenario:** The main raw material to make Opalware products is silica, which constitutes close to 70% of the total raw material. Borosil sources silica from Gujarat and Rajasthan where the production of silica is abundant. The company does enjoy certain logistical advantages given the location. However, higher power cost in state impacts the overall profitability, the company has set a solar power plant to soften the blow. The company believes in continuously upgrading its plant with her focus on automation to bridge the gap to the minimum.
- **Complete "Atmanirbhar Green Plant":** The Company has one furnace at the current location, with a capacity of 42 tonnes per day. The company has a fully automated production line, where the molten glass (made from silica, soda ash, sodium nitrate, etc.) is cut and passed on to the conveyer belt and into the furnace. The furnace used by the company is called a green furnace as it doesn't use any oil or gas to melt and only uses power, which is an added advantage for the company. Further, most of the critical components like moulds and decal are manufactured in house. Outsourcing has been kept to a bare minimum.
- **New capacity to augment growth:** Borosil's new Opalware capacity is expected to come to stream by September 2022, which will double its capacity from 42tonnes per day to 84 tonnes per day, the new capacity is expected to have similar machinery albeit with a higher level of automation. Additionally, at the same site the company plans to set a Borosilicate glass (~25 tonnes per day) capacity which is expected to come on stream by September 2023. The new capacity expansion highlights the strong demand for Borosil's product.
- **Opalware slowly and steadily gaining more prominence:** While interacting with senior heads at the plant, it was clear there was an added spring to their step. They believe demand for Opalware products has been better than ever, the vision to turn Opalware into regular use, rather than gifting is slowly and steadily becoming a reality. Though gifting remains significant, the shift is quite evident. The following sentiment was echoed by dealers during our channel checks.

Feedback from a visit to traditional stores

- Larah is gaining traction – pricing very competitive becoming a strong player in Opalware
- The festive season has been extremely strong better than pre-covid levels
- Expect good growth in the upcoming wedding seasons
- Opalware has started growing prominence been looked at a more everyday use product
- Shipment delay from China and availability of products has always helped grow demand for Opalware
- Dealers believe once consumer shift to opalware it is difficult for them to go back
- Melamine, Bone China and Plastic products have started seeing a decline
- The product offerings of Borosil remain numerous
- Borosil Appliances appreciated for quality - gaining good traction
- Hydra bottle range doing well
- With offices and school/colleges opening seeing some demand recovery in lunch boxes
- Inventory levels at the dealer end remain manageable
- Dishwasher and Microwave safe is becoming a priority for many consumers
- Unorganized players are facing issues

Valuation – Deserves premium valuation; BUY with a TP of Rs490

The name Borosil is synonymous with the consumer houseware industry with the company commanding a 60% market share in microwaveable and heat resistant glassware products over the last few years. While Borosil has made a name for itself in this segment, the company has never rested on its laurels and continued to expand to adjacent categories and launched new SKUs to drive growth. Testament to the fact is that as new SKUs get added, the company follows a discipline of culling SKUs from the long tail. New products (introduced during the last 3 years) now constitute about ~20% of the revenue of the Consumer Products Division.

In the SIP division, the company has ~60% market share in the laboratory glassware segment, while this segment is very lucrative and increasing realization is not a problem, the overall addressable market size remains limited. To capture growth in this division, the company decided to enter new segments like LabQuest and Klasspack. We believe this will aid the company to garner a high wallet share from existing customers and increase its overall client base.

Today, the company has one of the widest range of offerings in consumer division and SIP division and is present across segments. The company's strategy to enter new segments and introduce new products has reaped fruits and we expect this trend to continue

What attracts us towards Borosil?

We believe one of the biggest strengths the company has is its ability to understand the consumer mindset and come up with products accordingly. For example, in appliances, the company competes in the premium range while offering products that offer something different than what is currently available after studying the consumer trend and demand conditions.

Borosil's will continue with its strategy to introduce new products and SKUs each year. These will be according to the evolving needs of the consumers. The business has grown from the occasional use of microwaveable products under a single brand serviced primarily through general trade to a wider portfolio of daily-use brands, including glass storage, dinnerware and appliances that reach its consumers through multiple channels including general trade, large format stores and e-commerce.

Exhibit 1: Widening its horizon

Category	Market size -Branded (Rs.mn)	Market growth (%)
Glass Microwaveable	1,000	10
Tumblers	4,400	10
Storage	7,000	15-20
Opalware	9,000	20
Tea/Coffee	4,000 (incl. Ceramic ware)	15
Domestic Appliances	90,000	10

Source: Borosil Investor Presentation

Huge opportunity for company to leverage its brand

Borosil, being the market leader in the glass microwaveable segment (60% market share) ventured into categories associated with the kitchenware segment. This has enabled the company to reach a wider audience and also increase the overall offering. Borosil has established a strong national distribution network for its Consumer Products division. The company sells products to about 200 distributors who in turn service about 15,000 retailers. The company's product is available in almost all the large retail stores and has a sizable presence on major E-commerce websites.

We expect the consumer division to post a growth of 28% over FY21-24E driven by robust growth across categories i.e. Opalware (31% CAGR), Non-glassware segment (27% CAGR) and glassware segment (27% CAGR). We believe the company's complete offering along with a strong brand pull stands to propel growth.

Exhibit 2: SIP division drivers

	Lab glassware India	Lab glassware exports	Lab Instruments	Pharma packaging (vials & ampoules)
Market size (Rs mn)	2,350	40,000	1,500	2,350
Est. market growth	8-10%	2%	8-10%	10-12%
Customers	Pharma R&D, QC, Govt. Labs, Food and Soiling Testing, Educational Institutes	Pharma R&D, QC	Pharma R&D, QC, Govt. Labs, Food and Soiling Testing, Educational Institutes	Pharma Cos
Brands	Borosil	Borosil	LabQuest by Borosil	Klasspack

Source: Borosil Investor Presentation

In the Scientific Division, we expect the company to post a steady growth of 22% over FY21-24E led by robust growth in pharma packaging (35% CAGR), while the lab instrument and lab glassware businesses are likely to grow at 24% and 15% CAGR, respectively. We expect the SIP division to support overall growth and margin expansion.

Going forward, we expect the company to post revenue growth of 26% over FY21-24E, while we expect margins expansion of close to 1033bps over the same period to 22.6%. We believe margins expansion is likely on back increasing revenue contribution from Opalware, increasing contribution from Appliance and strong growth in Klasspack. The company's strategy of backward integration is further likely to proper margin growth. We believe margin expansion will lead to significant improvement in the return ratio. We expect ROE and ROCE to reach 16% and 21% in FY24E, respectively from 5.5% and 5.8% in FY20. We believe margin improvement coupled with return ratios expanding will drive an overall improvement in valuation for the company. We expect Borosil to post a PAT growth of 56% over the same period.

The stock has hit our earlier target of Rs 375 (valued at 30x Sept 23eps), we believe our hypothesis of valuation expansion (<https://bit.ly/3imr8ZD>) through strong margin expansion (Q2 margins at 21.3%) and return ratio improvement has started to play out. We expect this trend to continue with improving ratios on the back of focus towards in-house manufacturing, for both Consumer and Scientific and Industrial Products divisions and prudent expansion strategy. We believe the company remains in a sweet spot to capture incremental growth in both divisions. Given this, we increase our target multiple to 35x on December 23 eps post which we arrive at a target price of Rs 490, an upside of 16% from current levels, we continue to ascribe a BUY rating on the stock.

Exhibit 3: Valuation

P/E Valuation	Dec '23
EPS (Rs)	14
P/E (x)	35
Fair Value/share (Rs)	490
EV/EBITDA Valuation	Dec'23
EBITDA (Rsmn)	2509
Ascribed EV/EBITDA (x)	20
EV (Rsmn)	50,182
Add: Net Cash (Rsmn)	3,299
Fair value mkt cap (Rsmn)	53,481
No. of shares (mn)	114.0
Fair Value/share (Rs)	470

Source: MNCL Research Estimates

Alternatively, we also use EV/EBITDA multiple to value Borosil given the capital intensive nature of the industry. The company has historically traded in the range of 18-20x, and at high valuation given its leadership position in the market-wide product offerings, the strategy of innovation, seizing market opportunities, impeccable capital allocation and best in industry margins & return ratios.

Quarterly Financials and Key Performance Indicators

Exhibit 4: Quarterly Financials

Y/E March (Rs mn)	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
Particulars									
Net sales	1,744	1,907	1,418	561	1,394	2,052	1,841	1,379	2,218
Cost of Raw materials consumed	620	732	518	236	642	883	672	438	760
Staff cost	210	213	167	196	192	214	241	225	253
Other operational expenses	648	670	774	176	367	606	600	540	734
Operating Profit (Core EBITDA)	266	292	(42)	(47)	193	350	327	176	472
Depreciation	97	100	94	79	83	99	93	85	86
EBIT	169	192	(136)	(126)	110	250	234	92	386
Interest	15	14	12	11	4	3	6	2	2
Other Revenue/Income	20	32	(8)	31	24	61	52	78	42
Exceptional Item								(60)	(4)
Profit Before Tax	174	211	(155)	(105)	130	309	279	107	422
Tax	34	62	(31)	(32)	36	89	95	126	149
Profit After Tax	140	148	(124)	(74)	94	219	184	(19)	272
Growth (%)									
Revenue	141%	143%	17%	-57%	-20%	8%	30%	146%	59%
EBITDA	0.0%	0.0%	0.0%	-125.8%	-34.5%	7.1%	-1488.6%	-477.4%	144.8%
PAT	0%	0%	0%	-168%	-44%	20%	-274%	-74%	192%
Margin (%)									
EBITDA	15%	15%	-3%	NA	14%	17%	18%	13%	21%
EBIT	10%	10%	-10%	NA	8%	12%	13%	7%	17%
PAT	8%	8%	-9%	NA	7%	11%	10%	-1%	12%

Source: Company, MNCL Research

Financials (Consolidated)

Exhibit 5: Income Statement

Y/E March (Rs mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenues	3,650	6,359	5,848	8,140	9,892	11,778
Materials cost	974	2,223	2,433	2,602	3,031	3,710
% of revenues	27%	35%	42%	32%	31%	32%
Employee cost	428	793	842	1,029	1,104	1,413
% of revenues	12%	12%	14%	13%	11%	12%
Others	1,697	2,564	1,749	2,941	3,704	3,993
% of revenues	46%	40%	30%	36%	37%	34%
EBITDA	551.7	778.5	822.9	1,568.3	2,052.9	2,661.2
EBITDA margin (%)	15.11%	12.24%	14.07%	19.27%	20.75%	22.59%
Depreciation & Amortisation	258.6	382.6	354.8	395.0	451.0	523.0
EBIT	293	396	468	1,173	1,602	2,138
Interest expenses	98.8	55.6	24.2	9.5	11.7	13.9
PBT from operations	194	340	444	1,164	1,590	2,124
Other income	140.4	95.4	168.4	202.1	222.3	289.0
Exceptional items	-	-	-	(60.3)	-	-
PBT	335	436	612	1,306	1,813	2,413
Taxes	85	83	189	507	544	724
Effective tax rate (%)	25%	19%	31%	39%	30%	30%
Reported PAT	250	353	424	798	1,268	1,689
Adjusted PAT	250	353	424	798	1,268	1,689

Source: Company, MNCL Research estimates

Exhibit 6: Key Ratios

Y/E March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Growth Ratio (%)						
Revenue	-	74.2%	-8.0%	39.2%	21.5%	19.1%
EBITDA	-	15.1%	12.2%	14.1%	19.3%	20.8%
Adjusted PAT	-	41.5%	19.9%	88.5%	58.8%	33.2%
Margin Ratios (%)						
EBITDA	15.1%	12.2%	14.1%	19.3%	20.8%	22.6%
PBT from operations	9.2%	6.9%	10.5%	16.8%	18.3%	20.5%
Adjusted PAT	6.8%	5.6%	7.2%	9.8%	12.8%	14.3%
Return Ratios (%)						
ROE	4.1%	5.5%	6.1%	10.3%	14.1%	15.8%
ROCE	8.7%	5.8%	6.7%	15.8%	18.9%	21.4%
ROIC	3.7%	5.1%	6.0%	10.2%	13.9%	15.6%
Turnover Ratios (days)						
Gross block turnover ratio (x)	1.1	1.8	1.5	1.6	1.8	1.8
Debtors	91	51	41	38	36	36
Inventory	173	106	92	70	70	70
Creditors	159	73	77	88	80	80
Cash conversion cycle	105	83	56	20	26	26
Solvency Ratio (x)						
Net debt-equity	0.1	0.1	0.0	0.0	(0.0)	(0.1)
Debt-equity	0.1	0.1	0.0	0.0	0.0	0.0
Interest coverage ratio	4.4	8.8	26.3	145.4	156.5	175.1
Gross debt/EBITDA	1.2	0.6	0.1	0.1	0.1	0.0
Current Ratio	2.1	2.2	3.3	3.1	3.7	4.4
Per share Ratios (Rs)						
Adjusted EPS	2.2	3.1	3.7	7.0	11.1	14.8
BVPS	53.4	56.8	60.9	67.9	79.0	93.8
CEPS	4.5	6.5	6.8	10.5	15.1	19.4
DPS	-	-	-	-	-	-
Dividend payout %	-	-	-	-	-	-
Valuation (x)*						
P/E (adjusted)	101.3	71.1	59.3	59.9	37.7	28.3
P/BV	3.5	3.3	3.1	6.2	5.3	4.5
EV/EBITDA	45.5	32.2	26.8	29.2	22.3	16.7
Dividend yield %	-	-	-	-	-	-

Source: Company, MNCL Research estimates

Exhibit 7: Balance Sheet

Y/E March (Rs mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS						
Equity Share Capital	114	114	114	114	114	114
Reserves & surplus	5,976	6,365	6,833	7,632	8,900	10,589
Shareholders' fund	6,090	6,479	6,948	7,746	9,014	10,703
Minority Interest	131	126	129	129	129	129
Total Debt	687	538	126	146	166	186
Def tax liab. (net)	113	159	150	150	150	150
Total Liabilities	7,021	7,303	7,353	8,171	9,459	11,169
Gross Block	3,307	3,454	4,010	4,937	5,637	6,537
Less: Acc. Depreciation	626	884	1,229	1,624	2,075	2,598
Net Block	2,681	2,570	2,781	3,313	3,562	3,939
Right to use		0	0	0	0	0
Capital WIP	168	468	132	210	510	110
Net Fixed Assets	2,849	3,037	2,913	3,523	4,072	4,049
Investments	575	525	1,984	1,984	1,984	1,984
Inventories	1,728	1,839	1,476	1,561	1,897	2,259
Sundry debtors	912	885	664	847	976	1,162
Cash	104	36	76	44	179	1,452
Loans & Advances	138	318	44	65	79	94
Other assets	1,844	1,874	1,470	1,550	1,617	1,688
Total Current Asset	5,301	5,477	5,713	6,052	6,731	8,639
Trade payables	425	445	516	627	664	813
Other current Liab.	655	702	683	702	605	632
Provisions	50	64	75	75	75	75
Net Current Assets	4,172	4,265	4,440	4,648	5,387	7,120
Total Assets	7,021	7,303	7,353	8,171	9,459	11,169

Source: MNCL Research Estimates

Exhibit 8: Cash Flow

Y/E March (Rs mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Operating profit bef working capital changes	512	824	839	1,203	1,731	2,226
Trade and other receivables	(27)	(260)	543	(184)	(128)	(186)
Inventories	(175)	(111)	363	(85)	(336)	(362)
Trade payables	89	81	112	111	37	149
Changes in working capital	(113)	(291)	1,018	(200)	(573)	(425)
Direct taxes	(108)	(88)	(89)	(507)	(544)	(724)
Cash flow from operations	399	533	1,857	1,003	1,158	1,801
Net Capex	(280)	(556)	(216)	(1,005)	(1,000)	(500)
Others	72	227	(1,151)	(40)	(32)	(34)
Cash flow from investments	(208)	(329)	(1,367)	(1,045)	(1,032)	(534)
FCF	191	204	490	(42)	126	1,267
Issue of share capital	-	-	8	-	-	-
Increase/(decrease) in debt	(115)	(55)	(21)	(9)	(12)	(14)
dividend	-	-	-	-	-	-
Cash flow from financing	(168)	(271)	(451)	11	8	6
Net change in cash	22	(67)	39	(32)	134	1,273

Source: MNCL Research Estimates

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Borosil Price Chart



Source: Bloomberg

Analyst holding in stock: **NO**

Key to MNCL Investment Rankings

Buy: Upside by >15%, Accumulate: Upside by 5% to 15%, Hold: Downside/Upside by -5% to +5%, Reduce: Downside by 5% to 15%, Sell: Downside by >15%

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