

13 November 2024

India | Equity Research | Q2FY25 results review

3M India

Diversified

Healthcare segment drives growth; EBITDA margin off-peak levels

Takeaways: (1) 3M India's EBITDA margin slumped to 16.5% (-312bps QoQ/-197bps YoY) after scaling near-historical peak levels in previous quarter. We reckon higher material and freight cost may have impacted EBITDA margin in Q2FY25. (2) Healthcare business drove quarterly performance with strong revenue growth (+19.3% YoY) and EBIT margin expansion (+1,107bps YoY). (3) While other segments reported moderate growth (8-9% revenue growth YoY), transportation and electronics recorded revenue dip (1.4% YoY), largely due to slowdown in automotive segment, in our view. We believe the trend of strong growth in healthcare and weakness in transportation and electronics segment may continue in H2FY25. We remain positive on 3M India led by established competitive advantages and long-term growth potential.

We cut FY25-26 estimates by 3%-5% to factor in weaker-than-expected Q2FY25 and likely slow-down in Automotive sector in FY26-27. Maintain **BUY**.

Q2FY25 result review

3M India reported flat revenue growth of 6.9% YoY but EBITDA and PAT dipped 4.6% and 8.4%, respectively, YoY. Gross margin contracted 69bps YoY due to higher commodity costs and change in revenue mix, in our view. EBITDA margin contracted 197bps YoY due to higher staff costs and other expenses (+13.2% YoY each). Other expenses have likely expanded due to higher freight cost and brand building spends. Profitability dipped YoY due to higher finance costs.

Segment-wise performance

Segment-wise revenue growth rates (YoY): Healthcare: 19.3%, Consumer: 8.3%, Safety & industrial: 8.6% and Transportation and electronics: -1.4% YoY. EBIT margin contracted for all major segments YoY except Healthcare segment (+1,107bps YoY). We believe higher material costs resulted in lower EBIT margins YoY.

EBITDA margin off-historical peak levels

3M India's EBITDA margin slumped 312bps QoQ to 16.5% after scaling near-historical peak in previous quarter. We reckon higher material/freight cost may have led to the sharp contraction in EBITDA margin levels. We note 3M India's average EBITDA margin over past decade has remained ~16%.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	41,894	43,999	49,443	54,976
EBITDA	7,591	8,242	9,302	10,212
EBITDA Margin (%)	18.1	18.7	18.8	18.6
Net Profit	5,834	6,454	7,287	8,087
EPS (INR)	517.9	572.9	646.8	717.9
EPS % Chg YoY	29.4	10.6	12.9	11.0
P/E (x)	67.4	60.9	54.0	48.6
EV/EBITDA (x)	49.8	46.1	40.3	36.3
RoCE (%)	26.8	27.0	28.0	25.1
RoE (%)	30.4	31.0	32.1	29.0

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Market Data

Market Cap (INR)	393bn
Market Cap (USD)	4,658mn
Bloomberg Code	3M IN
Reuters Code	TMIN.BO
52-week Range (INR)	41,000 /28,046
Free Float (%)	25.0
ADTV-3M (mn) (USD)	2.2

Price Performance (%)	3m	6m	12m
Absolute	(7.5)	23.3	11.6
Relative to Sensex	(6.3)	15.0	(9.0)

ESG Score	2022	2023	Change
ESG score	51.4	69.1	17.7
Environment	26.2	44.5	18.3
Social	36.6	78.9	42.3
Governance	80.3	80.9	0.6

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	(0.7)	(2.4)
EBITDA	(3.4)	(5.1)
EPS	(3.2)	(4.9)

Previous Reports

07-08-2024: [Q1FY25 results review](#)

29-05-2024: [Q4FY24 results review](#)

Healthcare anchors overall performance

3M India's healthcare segment reported strong 19.3% revenue growth while other major segments had moderate growth YoY. Segmental margin expanded to near six-year high (+1,107bps YoY). Additionally, Healthcare segment's contribution to sales increased to 21% in Q2FY25 vs 19% in Q2FY24.

Valuation and risks

We model 3M India to report revenue and PAT CAGRs of 9.5% and 11.5%, respectively, over FY24-27E and RoE of 29% in FY27E. We value the stock as per DCF methodology with a revised TP of INR 40,410 (implied P/E of 62x/56x FY26/27E; earlier TP: INR 41,960).

Risks: Steep increase in competitive pressure and commodity inflation.

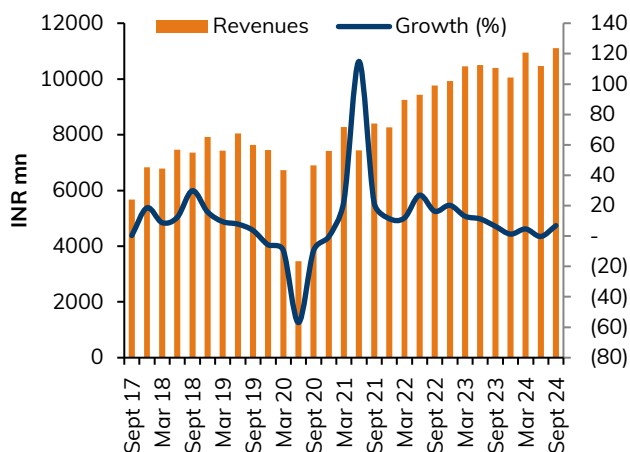
Exhibit 1: Q2FY25 result review

Y/E March (INR mn)	Q2FY25	Q2FY24	YoY % chg.	Q1FY25	QoQ % chg.	H1FY25	H1FY24	YoY % chg.
Revenue	11,108	10,395	6.9	10,466	6.1	21,574	20,892	3.3
Expenditure								
Raw materials	6,726	6,223	8.1	6,025	11.6	12,751	12,598	1.2
% of revenue	60.5	59.9		57.6		59.1	60.3	
Employee cost	1,078	952	13.2	1,066	1.1	2,144	2,038	5.2
% of revenue	9.7	9.2		10.2		9.9	9.8	
Other expenditure	1,471	1,299	13.2	1,320	11.4	2,791	2,595	7.6
% of revenue	13.2	12.5		12.6		12.9	12.4	
Total expenditure	9,275	8,474	9.4	8,411	10.3	17,686	17,231	2.6
EBITDA	1,834	1,921	(4.6)	2,055	(10.8)	3,888	3,661	6.2
EBITDA margin (%)	16.5	18.5		19.6		18.0	17.5	
Other income	182	174	4.2	218	(16.5)	399	316	26.4
PBDIT	2,015	2,095	(3.8)	2,272	(11.3)	4,287	3,977	7.8
Depreciation	140	129	8.6	136	3.0	276	268	2.8
PBIT	1,875	1,967	(4.6)	2,136	(12.2)	4,011	3,709	8.2
Interest	44	7	489.8	27	64.9	71	17	314.6
PBT	1,831	1,959	(6.5)	2,110	(13.2)	3,941	3,692	6.7
Prov. for tax	493	498	(0.9)	538	(8.3)	1,031	938	9.9
% of PBT	26.9	25.4		25.5		26.2	25.4	
PAT before MI/Share of associates	1,338	1,461	(8.4)	1,571	(14.9)	2,909	2,753	5.7
Minority interest/share of associates	-	-		-		-	-	
Adjusted PAT	1,338	1,461	(8.4)	1,571	(14.9)	2,909	2,753	5.7
Extra ordinary items	(3)	1	-	(3)	-	(7)	2	-
Reported PAT	1,335	1,462	(8.7)	1,568	(14.9)	2,903	2,755	5.3

Source: Company data, I-Sec research

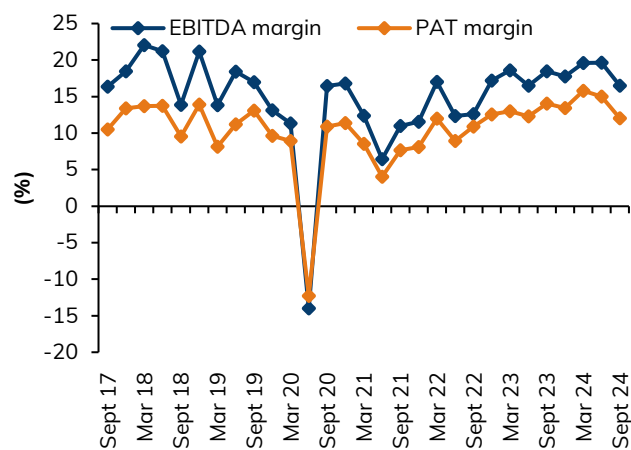
Key performance highlights

Exhibit 2: Revenue and revenue growth



Source: Company data, I-Sec research

Exhibit 3: Profitability margin



Source: Company data, I-Sec research

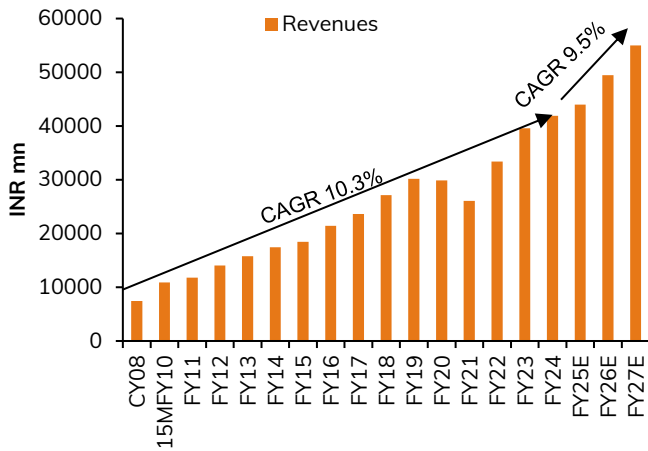
Exhibit 4: Segment-wise performance

INR mn	Mar 23	Jun 23	Sep 23	Dec 23	Mar 24	Jun 24	Sep 24
Segments - Revenues							
Safety & Industrial	3,387	3,289	3,320	3,390	3,334	3,379	3,604
Transportation & Electronics	4,354	4,130	3,908	3,946	4,509	3,956	3,853
Healthcare	1,732	1,991	1,947	1,613	2,058	2,004	2,323
Consumer	955	1,053	1,152	1,055	1,020	1,088	1,247
Others	32	33	68	52	24	39	80
Total	10,460	10,497	10,395	10,056	10,945	10,466	11,108
Growth (%)							
Safety & Industrial	2.7%	5.7%	3.2%	2.9%	-1.6%	2.7%	8.6%
Transportation & Electronics	26.6%	12.7%	4.7%	0.2%	3.6%	-4.2%	-1.4%
Healthcare	17.2%	27.3%	20.0%	-1.0%	18.8%	0.7%	19.3%
Consumer	-3.3%	3.9%	2.8%	4.6%	6.8%	3.3%	8.3%
Others	-38.4%	-59.4%	-5.8%	-10.8%	-25.9%	17.3%	16.3%
Total	13.0%	11.2%	6.4%	1.3%	4.6%	-0.3%	6.9%
As % of Total							
Safety & Industrial	32.4%	31.3%	31.9%	33.7%	30.5%	32.3%	32.4%
Transportation & Electronics	41.6%	39.3%	37.6%	39.2%	41.2%	37.8%	34.7%
Healthcare	16.6%	19.0%	18.7%	16.0%	18.8%	19.2%	20.9%
Consumer	9.1%	10.0%	11.1%	10.5%	9.3%	10.4%	11.2%
Others	0.3%	0.3%	0.7%	0.5%	0.2%	0.4%	0.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
EBIT							
Safety & Industrial	451	322	448	469	535	423	349
Transportation & Electronics	996	874	876	887	1,027	848	604
Healthcare	172	191	207	65	262	432	504
Consumer	171	196	220	217	176	195	224
Others	12	7	41	15	13	21	12
Total	1,802	1,591	1,792	1,655	2,014	1,919	1,693
As % of Total							
Safety & Industrial	25.0%	20.2%	25.0%	28.4%	26.6%	22.0%	20.6%
Transportation & Electronics	55.2%	54.9%	48.9%	53.6%	51.0%	44.2%	35.7%
Healthcare	9.6%	12.0%	11.5%	3.9%	13.0%	22.5%	29.8%
Consumer	9.5%	12.4%	12.3%	13.1%	8.7%	10.2%	13.2%
Others	0.7%	0.4%	2.3%	0.9%	0.6%	1.1%	0.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
EBIT margin							
Safety & Industrial	13.3%	9.8%	13.5%	13.9%	16.1%	12.5%	9.7%
Transportation & Electronics	22.9%	21.2%	22.4%	22.5%	22.8%	21.4%	15.7%
Healthcare	9.9%	9.6%	10.6%	4.0%	12.7%	21.5%	21.7%
Consumer	17.9%	18.7%	19.1%	20.6%	17.3%	18.0%	17.9%
Others	38.5%	20.5%	60.2%	29.7%	53.4%	52.5%	15.6%
Total	17.2%	15.2%	17.2%	16.5%	18.4%	18.3%	15.2%

Source: Company data, I-Sec research

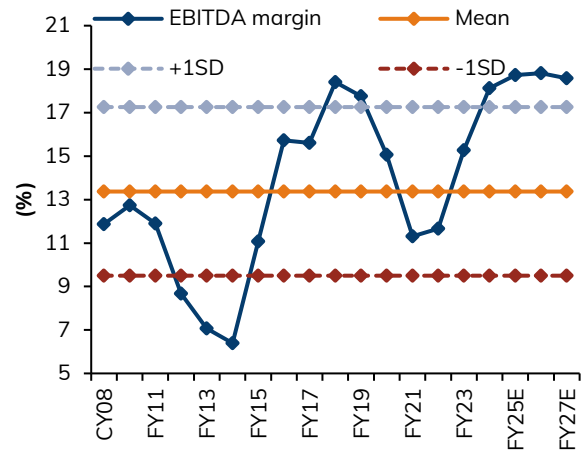
Key charts – annual

Exhibit 5: Revenue and revenue growth



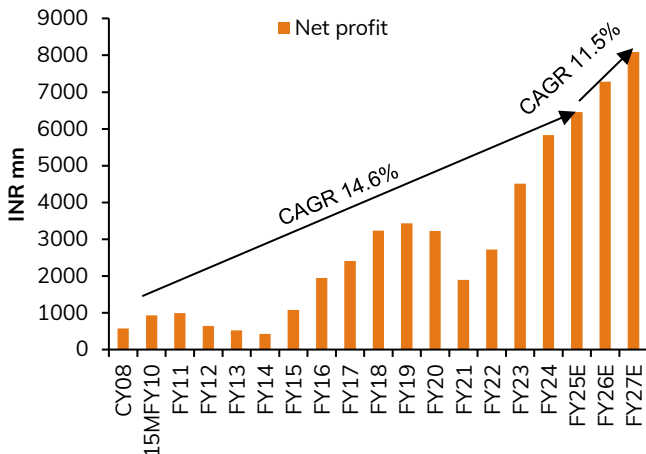
Source: Company data, I-Sec research

Exhibit 6: EBITDA margin



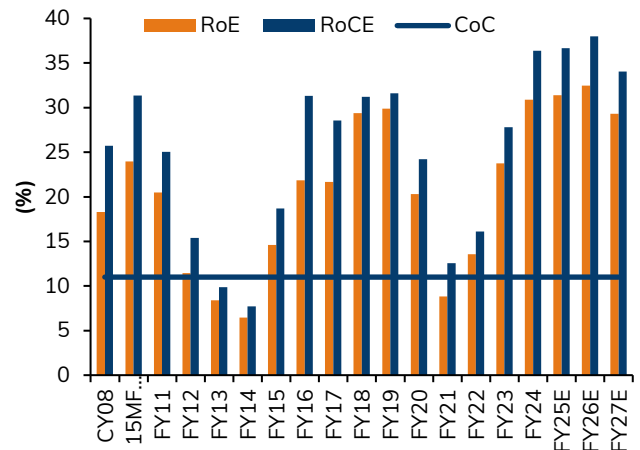
Source: Company data, I-Sec research

Exhibit 7: PAT and PAT growth



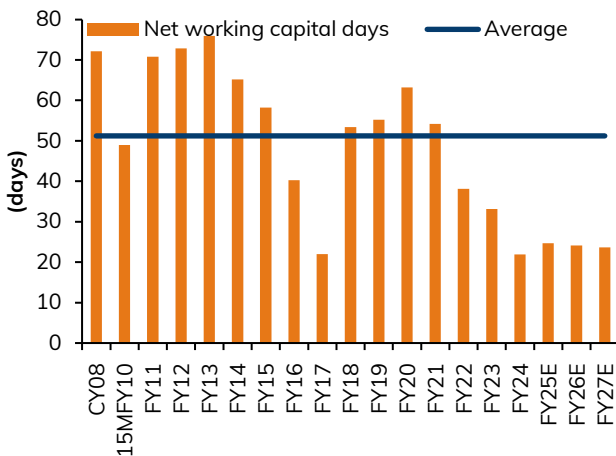
Source: Company data, I-Sec research

Exhibit 8: RoE and RoCE (%)



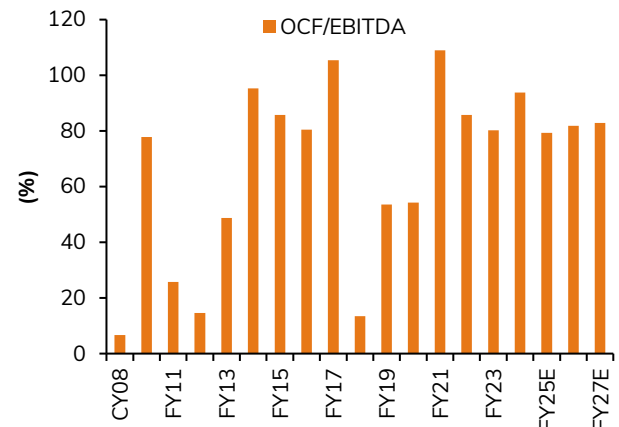
Source: Company data, I-Sec research; CoC: Cost of capital

Exhibit 9: Net working capital days



Source: Company data, I-Sec research

Exhibit 10: OCF/ EBITDA (%)



Source: Company data, I-Sec research

Valuation and risks

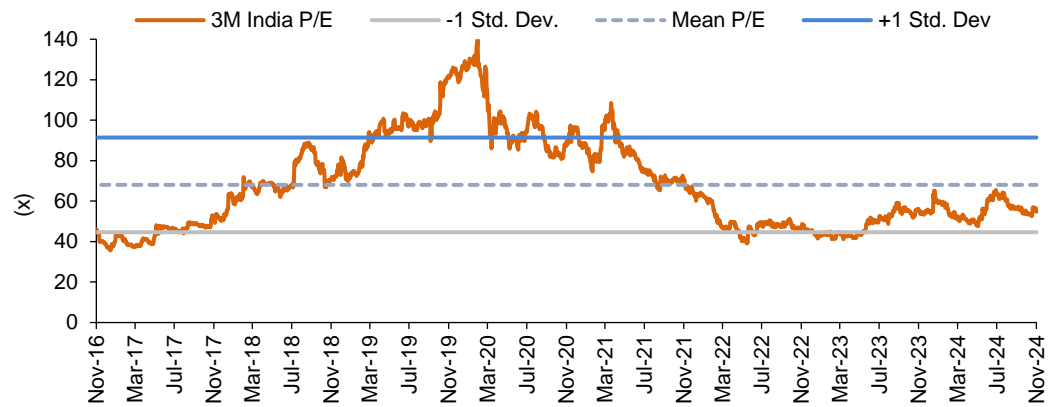
We model 3M India to report revenue and PAT CAGRs of 9.5% and 115% over FY24-27E and RoE of 29% in FY27E. At our DCF-based revised target price of INR 40,410 (earlier TP: INR 41,960), implied P/E works out to 62x/56x FY26/27E EPS. Maintain **BUY**.

Exhibit 11: DCF-based valuation

Particulars	
Cost of Equity (%)	11.0%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	1,72,607
Discounted terminal value (INR mn)	2,82,610
Total equity value (INR mn)	4,55,217
Value per share (INR)	40,410

Source: Company data

Exhibit 12: Mean PE (x) and standard deviations



Source: I-Sec research, Bloomberg

Risks

Sharp increase in input prices and competitive pressures

Major increase in input prices and/or increase in competitive pressures may result in downside to our estimates.

Delays in launch of new products

Any delays in launch of new products may result in lower earnings than estimated.

Exhibit 13: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	75.0	75.0	75.0
Institutional investors	12.0	12.1	12.2
MFs and others	7.2	7.2	7.1
FIs/Banks	0.9	1.0	1.0
FIIIs	3.9	3.9	4.1
Others	13.0	12.9	12.8

Source: Bloomberg

Exhibit 14: Price chart



Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	41,894	43,999	49,443	54,976
Operating Expenses	34,303	35,758	40,141	44,764
EBITDA	7,591	8,242	9,302	10,212
EBITDA Margin (%)	18.1	18.7	18.8	18.6
Depreciation & Amortization	529	548	615	679
EBIT	7,061	7,693	8,687	9,533
Interest expenditure	32	29	29	29
Other Non-operating Income	783	999	1,123	1,352
Recurring PBT	7,812	8,663	9,781	10,855
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,978	2,209	2,494	2,768
PAT	5,834	6,454	7,287	8,087
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(13)	-	-	-
Net Income (Reported)	5,821	6,454	7,287	8,087
Net Income (Adjusted)	5,834	6,454	7,287	8,087

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	26,685	23,625	19,835	17,869
of which cash & cash eqv.	13,578	9,648	4,205	559
Total Current Liabilities & Provisions	10,595	11,000	12,361	13,744
Net Current Assets	16,090	12,626	7,474	4,125
Investments	2,072	4,072	14,072	22,572
Net Fixed Assets	3,325	3,649	3,834	3,955
ROU Assets	-	-	-	-
Capital Work-in-Progress	123	-	-	-
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax Assets	-	-	-	-
Total Assets	21,609	20,347	25,380	30,651
Liabilities				
Borrowings	418	418	418	418
Deferred Tax Liability	(278)	(278)	(278)	(278)
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	113	113	113	113
Reserves & Surplus	21,356	20,094	25,127	30,398
Total Net Worth	21,469	20,206	25,240	30,511
Minority Interest	-	-	-	-
Total Liabilities	21,609	20,347	25,380	30,651

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	10,056	10,945	10,466	11,108
% growth (YOY)	1.3	4.6	(0.3)	6.9
EBITDA	1,786	2,144	2,055	1,834
Margin %	17.8	19.6	19.6	16.5
Other Income	165	302	218	182
Extraordinaries	(25)	10	(3)	(3)
Adjusted Net Profit	1,352	1,729	1,571	1,338

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	7,123	6,536	7,610	8,470
Working Capital Changes	813	(466)	(292)	(297)
Capital Commitments	(314)	(750)	(800)	(800)
Free Cashflow	6,809	5,786	6,810	7,670
Other investing cashflow	(3,072)	(2,000)	(10,000)	(8,500)
Cashflow from Investing Activities	(3,386)	(2,750)	(10,800)	(9,300)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(149)	-	-	-
Dividend paid	(1,127)	(7,717)	(2,253)	(2,816)
Others	-	-	-	-
Cash flow from Financing Activities	(1,276)	(7,717)	(2,253)	(2,816)
Chg. in Cash & Bank balance	2,461	(3,930)	(5,443)	(3,646)
Closing cash & balance	10,443	9,648	4,205	559

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	517.9	572.9	646.8	717.9
Adjusted EPS (Diluted)	517.9	572.9	646.8	717.9
Cash EPS	564.9	621.6	701.4	778.2
Dividend per share (DPS)	100.0	685.0	200.0	250.0
Book Value per share (BV)	1,905.8	1,793.7	2,240.5	2,708.5
Dividend Payout (%)	19.3	119.6	30.9	34.8
Growth (%)				
Net Sales	5.8	5.0	12.4	11.2
EBITDA	25.6	8.6	12.9	9.8
EPS (INR)	29.4	10.6	12.9	11.0
Valuation Ratios (x)				
P/E	67.4	60.9	54.0	48.6
P/CEPS	61.8	56.1	49.8	44.8
P/BV	18.3	19.5	15.6	12.9
EV / EBITDA	49.8	46.1	40.3	36.3
P / Sales	9.4	8.9	8.0	7.2
Dividend Yield (%)	0.3	2.0	0.6	0.7
Operating Ratios				
Gross Profit Margins (%)	40.2	43.1	43.3	43.1
EBITDA Margins (%)	18.1	18.7	18.8	18.6
Effective Tax Rate (%)	25.3	25.5	25.5	25.5
Net Profit Margins (%)	13.9	14.7	14.7	14.7
NWC / Total Assets (%)	11.6	14.6	12.9	11.6
Net Debt / Equity (x)	(0.7)	(0.7)	(0.7)	(0.7)
Net Debt / EBITDA (x)	(2.0)	(1.6)	(1.9)	(2.2)
Profitability Ratios				
RoCE (%)	26.8	27.0	28.0	25.1
RoE (%)	30.4	31.0	32.1	29.0
RoC (%)	78.5	87.2	90.6	93.6
Fixed Asset Turnover (x)	6.8	6.4	6.4	6.5
Inventory Turnover Days	48	49	50	50
Receivables Days	63	64	66	65
Payables Days	88	86	89	88

Source Company data, I-Sec research

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