Project:

1.To Punch in XYZ Industries Ltd consolidated financials (profit and loss and balance sheet) into the provided excel Model for FY20, FY21 and FY22.

2. Also to project the same for FY23 and FY24

3. To give commentary on the financial risk profile, highlighting the trends and key financial metrics for the past and future

Financial Risk Analysis of XYZ Industries Ltd:

XYZ Industries was established in 1989 by Mr. Sathish, Mr. Kumar, and Mr. Sai. The company is involved in the **production of microcrystalline cellulose (MCC)** at different grades and offers products in diversified industries such as **pharmaceuticals and nutraceuticals, food and nutrition, cosmetic and chemical industry** through multiple products revolving around microcrystalline cellulose (MCC) as its raw material. XYZ has **three multilocational facilities in Telangana and Gujarat** with an installed capacity of **13128 MTPA**.

MCC is primarily manufactured from **refined wood pulp**, and XYZ **imports this refined** wood pulp due to absence of high-quality refined wood pulp in India. MCC has diverse applications across various industries, serving as an abrasive, adsorbent, adhesive, anti-caking agent, binder, disintegrant, bulking agent, emulsion stabilizer etc. According to Market reports MCC market is a projected at **CAGR of 6% from FY-23 to 28,** driven by its **strong demand in the pharmaceutical sector** and its **broad utilization in the food industry**, influenced by the growing focus on health and wellness resulting in strong demand in food industry.

Management:

XYZ industries is led by Mr. Sai as MD& CEO and has shown his expertise in building R&D of the company, Mr. Sathish , Mr. Kumar are the wholetime directors and founding members instrumental in building export business and scaling the revenue. Founding members have more than 3 decades of experience in this industry and XYZ has shown exceptional growth under their leadership.

Assumptions: They have their family members/successors in place to guide the company growth in future.

Financial Analysis:

Year ended		**31-Mar-24**(projections)	**31-Mar-23**(projections)	**31-Mar-22**(audited)	**31-Mar-21**(audited)	**31-Mar-20**(audited)
Operating Income	Rs.Crore	425.42	327.88	252.90	196.00	143.94
OPBDIT	Rs.Crore	85.79	66.60	55.65	42.06	29.64
PAT	Rs.Crore	51.84	40.79	40.02	30.27	20.31
Net Cash Accruals	Rs.Crore	58.14	44.89	42.92	32.58	22.27
Cash Flow From Operations (CFO)	Rs.Crore	20.40	10.84	8.20	28.32	(27.85)
Free Operating Cash Flows (FOCF)	Rs.Crore	16.62	(28.86)	(15.70)	19.04	(36.02)

Adjusted Networth	Rs.Crore	319.80	267.91	227.07	93.89	64.22
Total Debt	Rs.Crore	9.04	25.71	34.90	20.93	30.38
OPBDIT / Operating Income	%	20.17	20.31	22.00	21.5	20.6
PAT / Operating Income	%	12.19	12.44	15.82	15.4	14.1
Adjusted ROCE	%	25.5	22.3	27.3	36.7	56.8
Adjusted PBDIT Interest Coverage	Times	40.58	40.95	47.54	33.65	12.64
Cash Flow From Operations / Total Debt	Times	2.26	0.42	0.23	1.35	(0.92)
Net Cash Accruals / Adjusted Debt	Times	6.43	1.75	1.23	1.56	0.73
Cash DSCR	Times	18.94	16.11	18.47	12.06	5.14
Total Debt / Tangible Networth	Times	0.03	0.10	0.15	0.22	0.47
Adjusted Debt / Adjusted Networth	Times	0.03	0.10	0.15	0.22	0.47
Current Ratio	Times	5.89	3.69	3.42	2.71	1.82
Gross Current Assets	Days	166	166	159	129	156
TOL/TNW		0.12	0.18	0.26	0.41	0.69

Revenue:

XYZ offer 60+ products to 200+ customers in 40+ nations. The company revenue has grown by 80% from INR 144 Cr in FY-20 to INR 252 Cr in FY-22 at a CAGR of 32.5 %. XYZ earn from both exports and domestic sales, export contribution has grown from 66% in FY-20 to 75% in FY-22.

As company imports its 100% of raw material and revenue is realised more in terms foreign currency, control on foreign currency transaction and hedging becomes foremost importance and company seems to handling it well considering net gain reported through handling foreign currencies.

Revenue resulted from sale of product is around 98% in FY-22 and revenue from sale of service is on negative growth trend over 3 years but contribution is less.

<u>Revenue Forecast:</u>

Company revenue is expected to cont to grow at 30% per annum due to upcoming growth in asset as result of equity infusion through IPO in FY-22. While they are already growing at 30% forecast is kept at 30% due higher concentration of top buyers and suppliers. As per public available information. Top 10 customers has contributed more than 55% of revenue in FY 22 it also shows strong customer association through repeated oders, top 5 suppliers contributed to more than 66% of Raw material requirement which was 75% in FY -21.

Further pharmaceuticals still occupy 2/3rd of revenue source for XYZ, growth in revenue streams from other industries is required for higher growth rate and reap the benefits of increased asset growth resulted through equity infusion.

Other assumptions: service income in association with sales is on increasing trend so kept in same trend

Other income net gain on foreign currency transaction kept on same value as of previous year.

EBITDA & EBITDA Margin:

XYZ has shown a strong growth in EBITDA from 29.64 Cr in FY-20 to 55.65 Cr in FY-22 EBITDA Margin hovers at 22 – 20.6% during the analysing period. Stable EBITDA margin is contributed mainly by controlled raw material pricing (78-79% of operating income)

XYZ has achieved this stability mainly through its existing strong network of buyers and suppliers, It mainly sources raw materials through annual contract pricing and has ability to pass on price risk to its customers. Nearly 75% of raw material is sourced through annual contracts and rest 25% based on price availability which has capacity to buffer the price volatility.

<u>Forecast</u>:

EBITDA is forecasted to be 66.6 Cr and 85.79 Cr in FY-23 and FY-24, EBITDA margin is expected to grow at same trend at 20% in align with previous years due to strong ability of company to control raw material pricing and other expenses, drop in 1-2% is EBITDA margin compared to FY-22 is attributed to exclusion of export incentives and relative growth in income due to handling of Financial transactions.

Raw material requirement, other selling expenses is kept at same trend as of previous year, Employee cost is taken as average of last 3 years, % **total gross sales is used as expenses are more closely associated to sales than EBITDA and EBITDA may include other income such as grants, export incentives etc.**

PAT & PAT margin:

In align with EBITDA PAT has doubled from 20.31 Cr in FY-20 to 40 Cr in FY-22, PAT margin was around 15% in FY-22, Higher PAT is as result of minimum dependence on long term debt. Both dept and depreciation has relatively less influence on PAT bringing in more book profit realisation.

<u>Forecast:</u>

<u>PAT</u> is forecasted at 40 Cr and 51.8 Cr in FY-23 & FY-24 respectively and PAT margin is forecasted around 12 % as tax rate is kept at higher side of 33% which was less than 20% in actual audited financials.

Interest : It is forecasted to pay off long term debt as there is no much requirement of debt due to recent issue of IPO and asset increase is forecasted to raise from the equity money and not debt resulting in more realisation of non-cash expense post FY-23.

Net Cash accrual:

NCA is on promising trend during the analysis period growing from 22.27 Cr in FY-20 to 42.92 Cr in FY-22 due to more contribution from Net profit.

<u>Forecast</u>: NCA projected to be at 44.8 Cr in FY -23 and 58 Cr in FY- 24 mainly due to addition of retained earnings , depreciation benefits is projected to reaped post FY-23 as and when more and more assets are created during FY-23 and after that.

Cashflow from operations:

Cashflow from operations is on positive trend reducing the requirement of external debt and is forecasted to continue on a healthy side

Year ended	31-Mar-24	31-Mar-23	31-Mar-22	31-Mar-21	31-Mar-20
Rs.Crore	20.4	10.84	8.2	28.32	-27.85

Net worth:

The Net worth of the company has grown from 64 Cr in FY-20 to 227 Cr in FY-22, company enjoys strong net worth position due to issuance of IPO in FY-22

Through IPO the company has issued 7695000 shares at face value of Rs.10 and share premium of 153 per share.

Its projected to have healthy growth in net worth during forecasted period due to strong addition from retained earnings.

Total debt:

Total debt availed by entity is INR 34.9 Cr in FY-22 of which 94% ie 33.11 Cr is short term loan for its working capital, Long term loan has remained relatively very less in the analysing period. Dept as % of sales has been 14%, 11%, 21% during FY- 22,21&20 respectively.

<u>Forecast</u>: It is forecasted that the company debt requirement will be 8% and 2% of their sales in FY-23 & 24 as more assets will be created to sustain growth projection fuelled by equity raised through IPO.

ROCE:

Return on capital employed is on healthier side at 27% in FY-22 which was 36.7% and 56.8% in FY-21, 20 respectively, it has reduced mainly due to infusion of fresh equity in FY-22.

Though **Equity infusion has happened at a higher rate than the growth rate in PAT, the company is right direction** as it has already started diversifying its products into other prominent industry like Food, cosmetics apart from pharma that could fuel the growth in revenue.

<u>Forecast</u>: It is further forecasted at 22% and 25% in FY-23 and FY-24 **as asset creation and conversion into earnings from equity infusion are expected to grow at moderate phase**.

Interest coverage ratio:

Company has strong interest coverage **growing from 12 times in FY-20 to 47 times in FY-22 mainly due to less reliance on debt to fuel EBIT growth,** further company has also cheap debt facilities like export packaging credit at lower interest cost improving the interest coverage ratio.

It is further forecasted to remain healthy at 40 times as debt requirement for the company is expected to reduce debt considerably due to fresh equity infusion**.**

DSCR ratio:

The DSCR ratio further remains at healthy side due to **less long-term debt** at 18 times in FY-22 further forecasted to remain at same trend in FY-23 & 24.

Gearing Ratio:

XYZ has healthy debt to equity ratio due to its ability to raise equity and less reliance on debt due to long track record and potential to grow at constant rate.

It was 0.15 times in FY-22 decreasing from 0.47 in FY-20 and is forecasted to further decrease to 0.03 times due to less reliance on debt.

Current ratio:

Current ratio has been healthy historically and it has further strengthened due to cash accumulation as a result of equity infusion, it has grown from 1.82 in Fy-20 to 3.42 in FY-22.

It is projected to improve further to 3.69 & 5.89 in the forecasted period due to strength of cash equivalents accumulated and receivables backed by LC and strong buyer and suppliers network backed by track records.

Debtors : accounts receivable has been between 25 to 24 % of sales during the analysing period, amounting to 60 Cr in FY-22 and bad debts have been very negligible less than 1% of total sales. Debtor days has increased from 78 days in Fy-20 to 92 days in FY-22

It is projected to remain at 25% of total sales in FY-23 & 24 with debtors day being 92

Creditors: Accounts payable has been at 4-5% historically and creditors days has been decreased from 36 to 32 days

Inventory: Inventory as % of sales has been decreased from 22% in FY- 20 to 12% in FY-21 and 13% in FY-22, further inventory days has also been decreased 141 days to 93 days in FY-22 and it is forecasted to remain at same trend

TOL/TNW:

It has remained healthy at 0.69 in FY-20 and improved from there to 0.26 in FY-22 at same positive growth trajectory due to healthy realisation of current assets and decrease in debt further strongly fuelled by equity infusion.

NCATD:

Net cash accrual to total debt has been 0.73 in FY-20 and improved to 1.23 in FY-22 portraying company ability to repay debt in same financial year

It is forecasted to grow strongly at 6.43 due to strong growth in retained earning in association with non-cash expenses and less debt

Gross current assets:

GCA of XYZ is 159 days in FY-22 indicating its capacity to covert its assets into revenue twice in a year and is projected to remain in same trend.