CLOCKVINE
Capital Advisors

Investment memo – Borosil Limited **Date:28/04/2023**

Mcap (Rs bn)	46	Shares O/S (mn)	114
Promoter shareholding	70%	Price (Rs)	400
Pre-tax ROCE (1)	19%	Trailing P/E (2)	51

Note:

1) We have calculated trailing P/E by annualising 1HFY23 PAT; 3Q23 had one-offs

2) Pre-tax ROCE is calculated only on operational capital and is average of FY21 and FY22.

Investment Summary

Borosil is poised for strong growth (15-20% CAGR) in the coming 2-3 years led by:

- Investments in manufacturing would drive strong growth in sales in consumer (glass) business: a) Opalware plant came online in Dec22 (capacity is 2X now). We see opalware sales growing 2X (from FY22 base of ~Rs2.2 bn) in next 2-3 years, b) borosilicate glass manufacturing plant coming online in July23 should give cost edge to the company versus competition, enabling market share gains as well as drive (by reducing prices) new consumer recruitment.
- We see non-glassware business (excluding appliances) also growing strongly at 15-20% CAGR led by market share gains as the company leverages its brand equity to: a) expand offline distribution and b) drive sales through e-commerce.
- We see scientific business growing sales at 12-15% CAGR led by investments into manufacturing in pharma packaging business which would improve margins as well as competitive positioning enabling market share gains.
- We rate the management highly on 'execution' front. Borosil has built a strong professional set up which positions it strongly to drive long-term growth.

We expect premium multiples to sustain. Stock should compound in line with growth in earnings.

Company Background

- Borosil is the leading company in consumer glassware segment in India. The company has 5 segments of business: a) consumer glassware, b) consumer non-glassware (appliances, steelware like flasks, serving/cooking ware etc), c) scientific glassware and lab instruments d) pharma glass packaging and e) opalware, accounting for 17.3%, 24.6%, 21% ,11% and 26% of FY22 sales, respectively.
- In our view, Borosil's brand awareness is very high in India since it has been present (microwaveable glassware, glass mixing bowls) in kitchens of middle-class and above households since the last 30 odd years. To that extent, what the brand has achieved so far in terms of sales of consumer products seems lower than the brand equity 'Borosil' name conveys.
- Borosil (company/brand) was bought by the Kheruka family from Corning (USA) in 1988. Mr. P.K Kheruka (first generation) led the company till his son, Mr. Shreevar Kheruka became the MD in 2011. Mr. Shreevar Kheruka got his education from US (Wharton – Bachelor of Science) and worked as a consultant in the Monitor Group before joining the family business.
- From 5-7 years back company started serious efforts towards making 'Borosil' into a leading consumer brand by: a) making a professional organization; beefing up sales and marketing, b) leveraging 'Borosil' brand into adjacent product categories, c) bringing in much higher standard of corporate governance and hence driving much higher growth versus past.
- To leverage and expand 'Borosil' brand, following things were done: a) brand was extended from

Principal Officer
Jasdeep Walia
Mobile: +91 9819066213
Email: Jasdeep.walia@clockvinecapital.com

primarily microwaveable glass products to general storage/serving ware products (glass and steel) and appliances, c) Borosil acquired Hopewell (brand 'Larah') in 2016 to establish itself in the fast growing opalware category, d) aggressive efforts were made to expand distribution by introducing products at lower price points addressing multiple categories, and e) e-comm was leveraged as a distribution channel especially for the new product segments.

Borosil has extended its brand to multiple categories of cook/serve ware from primarily microwaveable glass bowls 5-7 years back

- The company now reaches around 20-23K retailers (FY23) versus ~50k and ~35k retail POS for Milton and Cello, respectively. In FY20 (company hasn't shared data subsequently), GT, modern trade, e-comm and B to B (corporate gifting, sales to OEs etc, CSD) accounted for 50-55%, 20%, 10% and 20% of sales, respectively. Retail POS have increased from 14k in FY20 to 23k in FY23; company will keep expanding its retail footprint at the rate of 5-10% per year. As per our understanding, e-comm is now 20% of sales for the consumer business.
- In the scientific products business, company acquired Klasspack in 2016 to foray into fast growing segment of pharma packaging. Also, it made organic foray into lab instruments space to leverage its client relationships in lab glassware business. In the lab glassware business, company is firmly established with market share of ~60% in India.
- To improve corporate governance following steps were taken:
    - All promoter cross holdings were removed in FY20, by merging all promoter entities with the listed entity and the business was demerged into, Borosil Ltd, which housed the consumer/scientific business and Borosil Renewables, which housed the solar glass business.
    - Corporate action is underway in which Borosil Ltd will be split into two listed entities, one for the consumer business and one for the scientific ware business.
    - The company has been selling all non-core investments in real estate and investment funds and keeping money in liquid debt instruments, which is being used to drive growth through organic and inorganic means.
- All the progressive steps taken in the last few years are reflected in: 1) sales, EBITDA CAGR of 17% and 29%, respectively, in FY2017-22, 2) Pre-tax ROCE (operating) has improved from ~8% in FY17 to ~24% in FY22.

Segmental details of various businesses of Borosil, March fiscal year-ends (Rs mn)

Sales	**2020**	**2021**	**2022**
Scientific	**2,018**	**1999**	**2,670**
Lab glassware	1,421	1265	1,562
Lab instrumentation	147	159	213
Pharma packaging	450	575	895
Consumerware	**4,341**	**3848**	**5,730**
Glassware	1,589	1026	1,460
Non-glassware	1207	1411	2,074
Opalware	1,545	1411	2,196
Total sales	**6,359**	**5,847**	**8,400**
EBITDA (before exceptional items)			
Scientific	320	440	604
Consumerware	536	495	942
EBITDA (%)			
Scientific	15.9	22.0	22.6
Consumerware	12.3	12.9	16.4
EBIT			
Scientific	179	310	492
Consumerware	295	270	715
PBT			
Scientific	151	280	430
Consumerware	267	240	654
Capital employed (consolidated)			
Consumerware			
Working capital employed	1,150	588	927
Working capital (days of sale)	97	56	59
Operating capital employed	3,110	2,306	2,978
Operational ROCE(%)	9	12	24
Scientific			
Working capital employed	560	587	792
Working capital (days of sale)	130	107	108
Operating capital employed	1,420	1,829	2,132
Operational ROCE(%)	13	17	23
Total			
Working Capital Employed	1,710	1,175	1,719
Working Capital (Days of Sale)			
Operating Capital Employed	4,530	4,135	5,110
Operational ROCE	10	14	24
Goodwill	590	677	677
Strategic investments	670		
Net surplus funds	750	2,452	2,232
Total capital employed	6,540	7,264	8,018

Perspective on industry /business

- Glassware business is in its infancy in India in our opinion. Tailwind which is driving growth in glassware apart from other factors like rising income levels (given that glass is more expensive than plastic and low-quality steel) and higher aesthetic appeal of glass, is the consumer move away from plastic given the negative connotations of plastics wrt 1) consumer health and 2) environment health.

Market size of various segments of glassware as per Borosil

Category	Market Size - Branded (Crs.)	Market Growth %
Glass Microwavables	230	10%
Tumblers	520	10%
Storage	700	15% to 20%
Insulated Bottle Range	1100	10%
Opalware	900	15% to 20%
Tea / Coffee	400 (Incl ceramicware)	15%
Domestic Appliances	9000	10%

- Borosil is there in glassware products which are made out of borosilicate glass only (not present in soda lime glass). Borosilicate glassware is typically more premium (~2X) versus soda lime and is used in products which could be subject to sudden/sharp changes in temperature; Soda Lime glass can crack under the same situation. Hence, microwaveable products, tiffins etc, are always made out of borosilicate glass.
- Soda lime glass products are commoditized; competition is fierce with many local/regional players. Borosil does not have the scale to compete with dominant companies in this segment and hence would stay out. For storage-ware products, soda lime glass is more suitable as: 1) it is much cheaper versus borosilicate, 2) there is no requirement of heating in these products and hence soda lime glass serves the purpose, 3) storage-ware can be designed with a lid which can be screwed on top of the container, which is a more robust closure; this is not possible in borosilicate glass. Hence, we expect Borosil to target only a niche segment in this kind of storage-ware products.
- All the brands in consumer glassware (borosilicate) in India only do marketing and distribution; manufacturing is outsourced. Mostly these products are imported from countries in Europe, China etc.
- Even as on top-down basis, glassware market appears very attractive in terms of growth prospects and we are expecting the company to grow this segment at ~15% CAGR in the next few years, Borosil's numbers from FY20 onwards seem to present a different picture. Borosil's consumer glassware sales have grown at a lackluster pace since FY20. In 9MFY23, sales are up just ~7% yoy versus FY20. Reason is:
    - Borosil sources (most of manufacturing is outsourced) consumer glassware from outside India with Europe being a large source. In the last 12 to 18 months on account of high inflation in general and exceptionally high inflation in energy prices (especially in Europe), cost of sourcing has gone up significantly. As per our understanding, Borosil has been passing on inflation (FY23 consumer price is up ~35% versus FY20 on LTL basis) in procurement cost to consumers leading to company taking very high price increase which has impacted demand. In our view, with Borosil's glassware (borosilicate) manufacturing plant commissioning around July-23, it would be able to reduce cost and consumer prices which should get the growth back to ~15% CAGR.
    - Demand for products like tiffins has still not bounced back completely as lot of offices still continue (partially) work-from-home. Physical occupancy was only 41% at Mindspace REIT

in 2Q23, for example.

- Borosil entered opalware business through acquisition (Rs 550 mn) of Hopewell (sales were ~Rs546 mn in FY16) in FY16. The company has built 'Larah' into second largest brand in the segment (sales Rs2.2 bn in FY22; market share of ~25%) after LaOpala (sales Rs3.2 bn in FY22; Cello sales are similar to Borosil). Given: 1) the oligopolistic market structure in opalware (LaOpala, Larah and Cello have almost 80% market share in a market of Rs9 bn), 2) the fact that pricing of opalware dinner set (Rs18-2000 for 35 piece dinner-set) is now at par with a good quality steel dinner set and 3) opalware is more hygienic and aesthetically superior versus steel and plastic (plastic and steel contribute Rs6-8000 Cr to the dinnerware market), opalware market is expected to grow at 15-20% CAGR in the coming years.
  - La opala (market leader) sales have grown at ~11% CAGR in FY18-FY23 (TTM till 3Q23), which is lower versus market growth. Both Borosil and Cello launched their opalware business around FY17 and both have grown strongly (both are at ~Rs2-2.3 bn of sales) and gained market share. If one adds sales (opalware only) of Borosil and La Opala, the combined number has grown at ~13% CAGR (in the same duration). If we take Cello also into account, our understanding is that sales of top 3 brands would have grown at~17% CAGR in the same duration.

  - All the major companies in this product segment are backward integrated into manufacturing. Opalware manufacturing is capital intensive (asset turns of ~1.2X). Assuming: 1) full utilization of plant, 2) working capital of ~60 days and 3) EBITDA margins of ~30% (La Opala EBITDA margins in the range of 38-40% versus Borosil at 25-30%), pre-tax ROCE of ~25% can be achieved in the business.

  - As per our understanding, Borosil has already achieved EBITDA margins of 25-30% in this business versus ~38% reported by La Opala. Borosil spends significantly on advertising (8-9% of sales versus negligible spending by La Opala) to drive volumes and this would continue in the near future implying that even in the best scenario margins would remain atleast 5-7% below La Opala.

- Borosil has been expanding its brand into consumer steel ware (bottles, cookware etc) as well, leveraging its existing distribution channel. Borosil is a small player in this segment (Milton and Cello are much larger). It is difficult to gauge the size of this market given there are disparate set of products. However, our channel checks suggest that Cello and Milton sell ~Rs4bn (steelware) and ~Rs8bn (primarily bottles) of steelware, respectively; also, typically Milton and Cello comprise around 30-40% of sales (within organized brands) of the outlets where they are present. Hence, we estimate the size of steel ware segment at ~Rs30-40 bn in FY22. In its 4Q22 presentation, Borosil had estimated the size (organized) of insulated steel bottles only at Rs11 bn. Past performance (till FY22) of Hamilton and Cello suggests that this segment is very attractive from both growth and ROCE point of view as: 1) Both Hamilton and Cello have grown sales at ~13% and ~15% CAGR in the last 5 years, 2) Both the companies have reported very good EBITDA margins (Hamilton in the range of 15-18%; Cello upwards of 20% excluding the opalware segment) and 3) Hamilton's pre-tax ROCE has averaged ~32% in FY17-22.
  - As per our understanding, Borosil has been targeting the premium end of this market. For example: It has major presence in double walled steel insulated bottles and does not participate in single wall bottles. Also, in the cookware segment most of its products are in the triple ply segment (2 layers of steel and one layer of aluminum in between). Our channel checks suggest that simple products in steel-ware, like plates, saucers, single wall products etc is a commoditized market, which is almost entirely unorganized and hence it is not possible for a brand to participate in that segment of the market as of now.
  - Our channel checks suggest that till 2-3 years back, most of the companies used to source

steelware from China as it was much cheaper versus producing in India. However, in the last 2-3 years, couple of steelware plants have been set up in India (Milton has set up one in our view) and hence domestic sourcing is set to increase in the coming years. Borosil as of now is sourcing all its steelware products from third parties and there are no investments into manufacturing planned as of now.

Hamilton, financial summary, March fiscal year-ends (Rs mn, consolidated)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	CAGR (%)
Profit and loss account												**2015-20**
Sales	3,939	4,649	5,979	7,639	8,785	10,334	11,712	14,579	15,022	14,543	18,594	14%
Cost of goods sold			3,878	4,720	5,196	5,882	6,555	8,819	8,632	8,672	11,081	
Gross margin (%)			35	38	41	43	44	40	43	40	40	
Total cost	3,425	4,235	5,253	6,618	7,242	8,401	9,557	12,269	12,395	12,174	16,013	
EBITDA	514	414	726	1,021	1,543	1,934	2,155	2,310	2,627	2,369	2,581	21%
EBITDA (%)	13	9	12	13	18	19	18	16	17	16	14	
PBT	280	311	516	678	1,200	1,584	1,728	1,861	2,168	1,942	2,133	
PAT	213	223	385	536	883	1,193	1,355	1,385	1,873	1,334	1,532	28%
Balance sheet												
Net worth	1,027	1,217	1,535	1,962	2,375	3,427	4,785	6,128	7,964	9,267	10,755	
Net Debt	713	496	720	998	1,080	1,240	864	1,259	-78	-312	-12	
Working capital details (no of days of sales)												
Debtors	63	55	51	51	44	53	57	63	41	44	38	
Inventory	74	65	51	53	49	63	65	71	55	82	99	
Payables (1)	66	56	31	40	29	36	38	33	32	35	35	
Net working capital	**71**	**65**	**71**	**65**	**64**	**80**	**84**	**101**	**63**	**91**	**102**	
Pre-tax ROCE (%)	24.7	18.1	27.1	26.6	37.5	35.4	32.1	26.0	27.9	21.5	18.5	
ROE (%)	20.8	18.3	25.0	27.3	37.2	34.8	28.3	22.6	23.5	14.4	14.2	
Selected cash flow items												
Net cash from operations	512	454	260	753	1,122	776	1,128	486	1,811	1,053	930	
Net cash from investing	-264	-79	-342	-763	-656	-882	-595	-634	-672	-1,234	-976	
FCF	247	375	-82	-9	466	-106	534	-148	1,139	-181	-46	

Note:

1) Payble days for FY10,11,21,22 are estimated.

- Borosil also entered into appliances segment (reported under consumer non-glassware) a few years back with the broad thought process of leveraging its brand into products which go either into the kitchen or the dining table and are also sold through the same distribution channel. Here also, 1. Borosil targets the premium end of the market; pricing is benchmarked to brands like Havells and 2) products are sourced from 3rd parties. In our view, Borosil's right to win is limited in this business since it does not have scale (versus the big brands) and also this product segment is cluttered with too many brands already. However, we are also not critical of this foray as: 1) capital deployed is only to the extent of working capital, 2) as per the management, with working capital turns of 4X per year, it is able to generate more than ~20% ROCE in this business.

Select financial details of consumer-ware business of Borosil, March fiscal year-ends (Rs mn)

	2016	2017	2018	2019	2020	2021	2022	5Y CAGR (%)
Consumer ware sales	1,133	2,170	2,463	3,500	4,341	3,848	5,730	21%
- Consumer sales excl opal	1,018	1,297	1,461	2,031	2,796	2,437	3,534	22%
- Glassware					1,589	1,026	1,460	
- Non-Glassware					1,207	1,411	2,074	
- Opalware	115	873	1,002	1,469	1,545	1,411	2,196	20%
Consumer ware EBITDA	20	86	230	424	536	495	942	
Consumer ware EBITDA (%)	1.7	4.0	9.3	12.1	12.3	12.9	16.4	
Pre-tax ROCE (%)					9.5	11.7	24.0	

Note

1) EBITDA numbers for 2016-2019 are derived using segment numbers in the annual reports.

2) EBITDA numbers for FY20-22 are as reported by the company in its presentations.

- In scientific products, Borosil participates in the segments mentioned below:

Laboratory Glassware

- Volumetric flasks
- Burettes
- Pipettes
- Liquid handling systems

Lab Instrumentation

- Magnetic Stirrer
- Block Digester
- Multi-Tube Vortexer

Pharma packaging

- Glass vials
- Glass ampoules

	Lab Glassware India	Lab Glassware Exports	Lab Instrumentation	Pharma Packaging (Vials & Ampoules)
Market size (INR Cr.)	250	4000	570	1175
Estimated market growth	~8-10%	~2-3%	~8-10%	~10-12%
Customers	Pharma R&D & QC, Government Labs, Food and Soil testing, Educational institutes	Pharma R&D, QC	Pharma R&D & QC, Government Labs, Food and Soil testing, Educational institutes	Pharma companies
Brand	Borosil	Borosil	LabQuest by Borosil	Klasspack

Note : Market size, growth & share are internal estimates

In lab glassware segment, Borosil is the market leader in India with market share of 60%. To compete in this market a brand has to have the following characteristics:

a. It should have trust of the customer from quality perspective since the usage is into sensitive applications in the lab.
b. It should have inventory holding points at various locations in the country to service demand in the least possible time. Typically, the product is delivered in 24 hours after a lab technician places an order.
c. The number of SKUs is high (2000) and hence there is considerable investment in inventory which is an entry barrier from capital point of view.
d. The business is highly diversified with small volumes across numerous clients. A new company would take considerable time to establish distribution to enable minimum economic scale in the business before it starts making money.

In our view, in this segment Borosil can keep growing at the same rate as the domestic market (8-10% CAGR). As per our estimates, Borosil makes pre-tax ROCE of upwards of ~25% in this business (excluding pharma packaging); it does a bit of manufacturing as well (not sure what extent of sales are manufactured inhouse). Thrust area in this business is to grow exports. Global market is much bigger (Rs4000 Cr) and Borosil can use its client connect (pharma and chemical companies in India with global presence as well) to get a toehold and then grow this business. Borosil's exports (lab glassware and instruments) have grown from Rs160 mn in FY19 ~Rs400 mn in FY22; we expect strong growth to continue. Focus geographies are: USA, South East Asia, Middle East and Africa.

- Borosil has also launched its range of lab instruments (low value-added instruments as of now used for heating, stirring, dispensing, mixing etc) to leverage its connect with clients. In this segment, Borosil offers value for money proposition versus imports which have bulk of market share. To grow this business, the company has also invested into an R&D center at Pune 2 years back and also into manufacturing. This business is small right now (annual sales of ~Rs230 mn in FY23 versus Rs150 mn in FY20) but has the potential to grow very fast in the coming years.

Select financial details of scientific-ware business of Borosil, March fiscal year-ends (Rs mn)

	2016	2017	2018	2019	2020	2021	2022	CAGR (%)
Sales	1,204	1,578	1,861	1,952	2,018	1,999	2,670	14%
Excluding Klasspack	1,204	1,373	1,498	1,543	1,568	1,424	1,775	7%
-Labware					1,421	1,265	1,562	
-Lab instruments					147	159	213	
Klasspack (2)		205	363	409	450	575	895	25%
EBITDA	221	318	365	322	320	440	604	
EBITDA (%)	18.4	20.2	19.6	16.5	15.9	22.0	22.6	
EBIT	221	307	323	280	179	310	492	
Capital deployed (1)					1,420	1,829	2,132	
Pre-tax ROCE (%)					12.6	16.9	23.1	

Note

1. Capital deployed includes only capital deployed in operations and excludes investments, goodwill etc.

2. Sales CAGR in Klasspack is from 2018-2022

- Again from point of leveraging its client connect, it entered into pharma glass packaging in 2016 with the acquisition of Klasspack (Rs620 mn for 80% stake). Borosil is trying to position itself as the second largest brand in this segment after Schott Poonawalla (JV between Schott and Serum Institute); Schott and Klasspack are the only 2 players with bulk of market share in India (market size ~Rs12 bn) in this segment. Towards this objective, post-acquisition, the company made investments in improving quality systems, and manufacturing infrastructure to cater to the most premium requirements of large pharma companies. From FY18 to FY22, sales of Klasspack increased from Rs363 mn to Rs890 mn (one-off COVID related sales could be there) with EBITDA margins increasing to ~16% in FY22 from negative levels in FY17. 9MFY23 sales were Rs547 mn. This business is growing strongly in India as is evident from financials of Schott-Poonawalla Glass; Sales have grown at a CAGR of ~20% in FY17-22 (COVID related one offs could be there). As per our understanding sustainable EBITDA margins are in the range of 25-30% and pre-tax ROCE upwards of ~20%, for a fully backward integrated manufacturing facility. As per our understanding, Schott addresses higher (syringes, cartridges also) number of product segments versus Klasspack. In our view, as Klasspack scales up it will also start addressing all the product segments. We expect Klasspack to grow at 15-20% CAGR in the next couple of years. However, margins are expected to remain in the range of 15-20% till the time company invests in backward integration (into glass tubing). As of now, the company buys its RM (glass tubes) from its competitor Schott and hence the cost of RM is expensive which precludes any significant margin improvement. The company is exploring the following options:

- To invest in backward integration. It announced capex of Rs1.3 bn but it is yet to take off.
- It is possible to source glass tubing from China at 30-40% lower price. However, after changing the source it would take 2-3 years for the company to stabilize the output.
- To acquire a company which could give it access to manufacturing.

We expect the company to address the above issue soon. Once issue of backward integration is solved the company can start improving its EBITDA margins to levels similar to competition.

Important financial items for Schott-Poonawala (Rs mn)

P&L Items	**2,017**	**2,018**	**2,019**	**2,020**	**2,021**	**2,022**
Sales	3,879	4,692	5,928	5,975	7,053	9,471
EBITDA	946	1,400	1,695	1,420	2,548	3,551
EBITDA (%)	24	30	29	24	36	37
EBIT	624	1,027	1,185	632	1,480	3,145
PBT (excl. exceptionals)	581	1,011	1,136	574	1,495	3,058
PAT	365	641	729	303	1,104	2,267
Balance sheet items						
Equity	3,648	2,739	3,468	3,639	4,789	7,089
Net debt	-400	606	1,288	2,021	2,461	1,817
Capital deployed	3,248	3,345	4,756	5,660	7,250	8,906
Pre-tax ROCE (%)	**19.2**	**30.7**	**24.9**	**11.2**	**20.4**	**35.3**
Working capital days	**82**	**89**	**104**	**106**	**106**	**103**
Debtor	74	74	71	71	64	71
Inventory	48	61	74	70	82	67
Payables	40	46	40	35	40	36

Note:

1) FY22 numbers seem to have one-off COVID related positive impact.

Important financial items for Klasspack, March fiscal year-ends (Rs mn)

	2017	**2018**	**2019**	**2020**	**2021**	**2022**
Sales	340	405	467	491	652	1,062
COGS		160	181	208	286	469
Gross margin		244	285	282	365	593
Gross margin (%)		60	61	58	56	56
EBITDA	-84	42	24	24	68	168
EBITDA (%)	-25	10	5	5	10	16
EBIT	-96	8	-17	-26	16	106
PBT	-106	2	-22	-32	15	113
PAT	-105	-4	-18	-22	12	86
Balance sheet items						
Equity	311	309	463	616	628	915
Net debt	52	63	84	55	58	-101
Capital deployed	**363**	**372**	**547**	**671**	**686**	**814**
Pre-tax ROCE (%)	**-26.6**	**2.1**	**-3.1**	**-3.9**	**2.3**	**13.0**
Working capital days	**-2**	**27**	**57**	**57**	**43**	**52**
Debtor	80	111	84	84	74	51
Inventory	14	36	66	90	82	64
Payables	95	120	93	117	112	63

Investment thesis

- **Opalware/consumer-glassware business poised for strong growth led by investments into manufacturing.**

Perspective on opalware investments

- The company has already (plant came online in Dec-22) doubled its capacity in the opalware business; overall capex was ~Rs1.8 bn. In FY23, growth (~14% yoy in 9MFY23 versus ~47% yoy growth in sales reported by La Opala) in opalware was constrained on account of non- availability of capacity; infact, the company took a significant hit on margins in 3Q23 by procuring semi-finished product from third parties at a high price and selling it at miniscule margins just to not let go of demand. With new capacity commissioning in Dec-22, the company is poised well to drive strong growth (20-25% CAGR) in the business in the next 2-3 years.
- We see opalware market to continue growing strongly in the coming years led by: a) the cost of the opalware dinnerset is almost the same as steel while in our view opalware is much more elegant/premium as far as presentation is concerned and b) plastic/steel dinnerware market is almost Rs60-80 bn in India; there is significant scope for opalware to gain share. Hence, we see continued shift of consumers from steel/plastic towards opalware driving strong growth in opalware market in the coming years.
- Borosil has created a credible position for itself in the opalware market with market share of ~25% (FY22) in a short period of 5 years post acquisition of Hopewell in FY17. In our view, brand (Larah) is poised to gain market share (possibly it lost market share in FY23 due to shortage of capacity) in the next 2-3 years and hence would report better growth versus the market.
- Opalware is the highest margin (EBITDA margins between 25-30% versus ~14% margin of the consol company) product segment in the overall portfolio of Borosil and hence strong growth in this segment would drive strong growth in overall profits of the company.

Perspective on borosilicate investment

- Manufacturing plant for borosilicate glass is supposed to come online in July-23. Total investment is ~Rs1.3 bn. Capacity of the plant is 2X (in terms of tpd) versus current sales volumes of the company. As per our understanding, this would be the first borosilicate manufacturing plant to be commissioned in India.
- This investment would help drive down cost of goods for the company. As per our understanding, the company procures borosilicate glassware predominantly from Europe. Cost was anyways high even before Russia-Ukraine war and increased further, significantly in FY23 due to sharp jump in energy prices and overall inflation in Europe. As per the management, with commissioning of this capacity cost of goods would fall by 20-30% even after assuming ~12% ROCE on manufacturing investment. The management plans to pass on these cost savings (price correction could be 15-20%) to the consumers thereby accelerating new consumer recruitment from lower income levels of the society and hence drive strong growth for the company in this segment which has been missing in FY23.
- Own manufacturing capacity would also enable Borosil to manufacture SKUs which could address lower price points which would accelerate new consumer recruitment and distribution expansion. This strategy has been used by La Opala in the past to develop opalware market in India.

- **Non-glassware consumer business will grow at a CAGR of ~20%**. Non-glassware business has grown significantly in 2020-23, at a CAGR of 30%. We expect growth to continue at 20% CAGR in the next couple of years as:

- Borosil's market share in this segment (excluding appliances) is miniscule versus the leading brands. As per our understanding, there is plenty of scope to expand distribution to leverage the brand. In the past, Borosil's distribution reach was limited to metros and tier 1 cities as affordability for its glassware products was limited outside major cities. However, over time with: a) increasing purchasing power in tier 2/3 cities, and b) Borosil launching multiple low priced SKUs, particularly in non-glassware segment, Borosil's distribution reach (23k retail POS in FY23 versus 14k in FY20) has been expanding rapidly. In our view, Borosil will keep on expanding distribution at an accelerated pace versus the leaders led by continued traction in non-glassware (have higher distribution reach due to lower price points) business and as it reduces the price of consumer glassware products to pass on benefits of backward integration (starting 2Q24). As per our channel checks, Milton and Cello have ~50k and ~35k retail points of sale. Some gap in distribution reach would always remain as Milton and Cello address lower price points versus Borosil in their plastic ware (Borosil is not there in plastic) business and hence will always have better reach beyond major cities.
- In our view, Borosil has leveraged e-comm channel better versus leading companies. This was both on account of lack of choice (weaker reach versus leaders in general trade distribution) and better execution. We expect Borosil to continue leverage its brand on e-comm channel to keep on gaining market share. Also, if the company is doing well on e-comm it has rub off effect (benefit) on general trade distribution as channel partners typically want to engage more if they see traction for company's new products on e-comm.

Hamilton (brand Milton) which is the largest company in this segment has grown sales at ~13% CAGR in 2017-22. As per our understanding Cello sales (~Rs12 bn in FY22) have grown at a CAGR of 15-20% (excluding opalware) in the last 5 years. We see Borosil growing faster than leading companies due to reasons highlighted above.

- **We expect scientific business to grow at ~15% CAGR led by pharma packaging**.
    - We expect Klasspack to grow at 15-20% CAGR (next 3 years) with possibility of profits growing at a faster rate incase investment into backward integration (project is under discussion right now) into glass tubing, comes online in the next 2 years. Klasspack has the potential to emerge as the second credible player after Schott-Poonawalla in pharma packaging (only glass) in India. Post acquisition in 2016, Borosil has made investments into improving manufacturing and quality systems at Klasspack and the company is now selling to top pharma companies in India. Klasspack is investing Rs650 mn to increase (almost 2X) capacity of ampules and vials and has long term plans of getting into products like syringes etc. Also, the company is evaluating investment (Rs1.3 bn greenfield or acquisition) into backward integration into glass tubing. Once backward integration is complete (it will take 2 years), company's competitive positioning will improve (as explained in the earlier section) significantly versus the leading player and hence growth could accelerate.
    - We expect erstwhile lab glassware business to grow at ~8-10% CAGR in line with past trends. Market (India) size is small (Rs2.5 bn) and Borosil has dominant positioning with market share of ~60%. We expect past trends in the business to sustain. In case Borosil is able to tap exports market (size Rs40 bn) growth could accelerate significantly.
    - We expect lab instruments sales to grow at ~20-25% CAGR for the next few years from a very low base (~Rs250 mn in FY23). As of now the company is addressing Rs5.7 bn out of total Indian market of Rs11 bn. The company would increasingly look to launch new products to tap unaddressed market. Most of the domestic market is serviced by imports and there are no credible domestic brands in this business and hence there is significant

scope for Borosil to grow this business by addressing the import substitution opportunity. Exports (manufacture for a global OEM) also present a good opportunity in this business. This business is labor intensive as it involves assembly of various components and hence is suitable for manufacturing in India.

- **Good promoters: credible franchise to emerge in the next 3-5 years.** Our interactions with competing companies indicate that promoter quality is good. There has been significant improvement in the last 5 years in all the quality parameters of the business:
  a) Growth profile has improved significantly. Sales and EBITDA have grown ~2X and ~2.7X (LTL basis), respectively in 2017-22.
  b) The company has successfully pulled off two acquisitions in opalware and pharma packaging, respectively.
  c) Balance sheet has been improving reflected in pre-tax operating ROCE improving from ~8% in FY17 to ~24% in FY22.
  d) Big strides on corporate governance with:1) Simplification of promoter cross holdings, 2) de-merger of business into clean entities and 3) sale of investments into real estate and other investment funds to generate cash to drive investments into business.
  e) Disclosures have improved significantly. Now the company gives all financial parameters to evaluate performance of scientific and consumer segment, separately, both on the P&L and balance sheet front.
  f) Our channel checks indicate that Borosil has created a completely professional set up to run day to day affairs of the company with the promoters participating in strategic capacity. In our view, organization is strong in terms of management/professional depth which augurs well to sustain growth in the long term.

- **Internal accruals should be sufficient to finance most of the capex.** The company should be able to finance all capex (Rs3.8 bn) just commissioned (opalware) and to be commissioned in FY24 mostly through internal accruals. The company had Rs2.2 bn of investments at the end of FY22. Those investments combined with internal accruals should be sufficient to finance most of the capex; there could be requirement of ~Rs1 bn of debt for FY24 at the most. In our view, ROCE should go down initially as new capacity commissions and should recover the ~20% levels as utilizations start reaching reasonable levels in FY25.

Perspective on valuation and potential for long term returns

In our view, the company has reached a level of ~Rs250 mn of profits per quarter and at current Mcap of Rs46 bn, the stock is quoting at ~46X trailing earnings. In our view, the company is poised for ~15% and ~20% growth in sales and profits, respectively, in the next 3 years and hence the stock would give returns in line with growth in earnings. We expect premium multiples to sustain given the company would be delivering leading growth numbers in the next few years.

Risks

- Given that glassware is a premium product, it is possible that growth may peter out sooner than our current assumption (we expect consumer glassware market will grow at 15% CAGR for the next 2-3 years) as the product could remain unaffordable for the masses. In our view, for consumer glassware market to achieve large scale in India it is essential that affordability improves led by either: 1) direct intervention by the company to reduce prices. Borosil is already on it as explained above, or 2) strong growth in the economy leading to accelerated increase in per capita incomes.
- Margins could be weaker than usual in the coming 2 quarters due to:

    - Borosil has started (in 4Q23) reducing prices for consumer glassware (took ~15% price cut) in order to accelerate growth in glassware which would enable it to utilize its borosilicate furnace effectively when it comes online around July 23. This could impact margins negatively in case deflation in costs is much lower than price cuts.
    - Opalware furnace has commissioned in Dec-22 and hence there could be temporary hit on margins as the plant will start producing at near about full utilization from day 1 of commissioning and hence company could have to take a hit on margins to scale up sales to match output of the new furnace.
- Operating ROCE numbers can decline in FY24, as the company would commission ~Rs3.8 of capex in FY23-24. However, as utilization scales up in these facilities, ROCE should come back to ~20% levels by FY25.
- Borosil is a very small brand in the non-glassware consumer space, versus the likes of Milton and Cello. Also, in steel kitchenware (and consumer appliances too) there is plethora of well-established brands like TTK Prestige, Vinod etc. Given lower heft in the distribution channel, Borosil could find it an uphill task to gain market share so as to drive growth at levels higher than the industry and market leaders. In case, Borosil is not able grow faster than the top brands (Milton and Cello) in the long term, there is a risk that valuation multiples could suffer a de-rating given investors don't like to pay high multiples to 'also rans'. As per our understanding, Cello has already started its journey to get listed in the coming 1 or 2 years. Hence, performance of Borosil would then be comparable with a larger peer and if Borosil comes across as a laggard then earning multiples could be at risk of de-rating.
- In opalware, anti dumping duty on China has been in place since a long time. In case for some reason, it is withdrawn there is risk of influx of cheap imports which will lead to creation of a large unorganized market led by small players (distributors/retailers) who would import (similar quality as large brands) and sell at much cheaper price versus larger brands, thereby taking significant market share.

Financial summary

We would admit that it is hard to read Borosil's long term trailing numbers on account of:

1) Significant changes in corporate structure incorporated from FY19 onwards, as explained above.
2) Significant quantum of balance sheet, earlier, was deployed in investments into real estate, various funds etc which introduced noise in operating numbers.
3) Acquisitions in FY17, made operating numbers (EBITDA, PAT) look weak in the initial years when acquired companies were stabilizing and hence were incurring losses.

However, with major corporate restructuring exercise complete (in FY20), and acquired companies having stabilised, numbers from FY20 onwards are easier to read. Hence, in our financial summary we have presented numbers from FY19 onwards, after adjusting reported FY19 numbers, based on our understanding, to present a like to like P&L in FY19 and FY20. In our view, going forward as the company presents its numbers in a clean manner, long term track record of the company would be very easy to benchmark with other companies in similar businesses and hence possibly there is a case for a wider institutional holding in the company versus negligible levels now (there are no known mutual funds, AIFs in the shareholding).

Important financial parameters for Borosil, consolidated, March fiscal year-ends (Rs mn)

	2019(1)	**2020**	**2021**	**2022**	**9M23** (2)
P&L					
Sales	5,452	6,359	5,848	8,399	7,683
EBITDA (3)	804	777	819	1,431	870
PBT (incl other income)	643	436	613	1,220	902
PAT	520	353	424	852	679
Balance Sheet					
Equity	6,090	6,479	6,941	7,670	8,565
Net Debt (4)	(650)	(733)	(2,472)	(2,266)	(3,459)
Working capital Days	148	131	101	92	
Debtors	61	51	41	32	
Inventory	116	106	92	84	
Trade Payables	28	26	32	25	
Cash Flow (4)					
Cash from operation		533	1,857	766	
Capex		(556)	(216)	(879)	
Free Cash flow		(23)	1,641	(113)	
Return ratios (%) (5)					
Pre-tax ROCE (operating)		10.5	14.0	23.6	17.2
ROE		5.5	6.1	11.1	

Note:

1) Corporate restructuring was implemented with effect from middle of FY19 and hence FY19 P&L has been reconstrcuted from available data and hence different from reported numbers.

(2) 3Q23 had one-offs in the opalware business: a) old furnace was shut down for repairs and new capacity had not come online, b) company bought semi-finished product from third parties and sold at very low margins.

2) - FY20 EBITDA numbers are after ~Rs240 mn of one-offs: 1) Rs170 mn on account of merger related expenses (stamp duty etc), 2) Rs60 mn of one-off provisions.

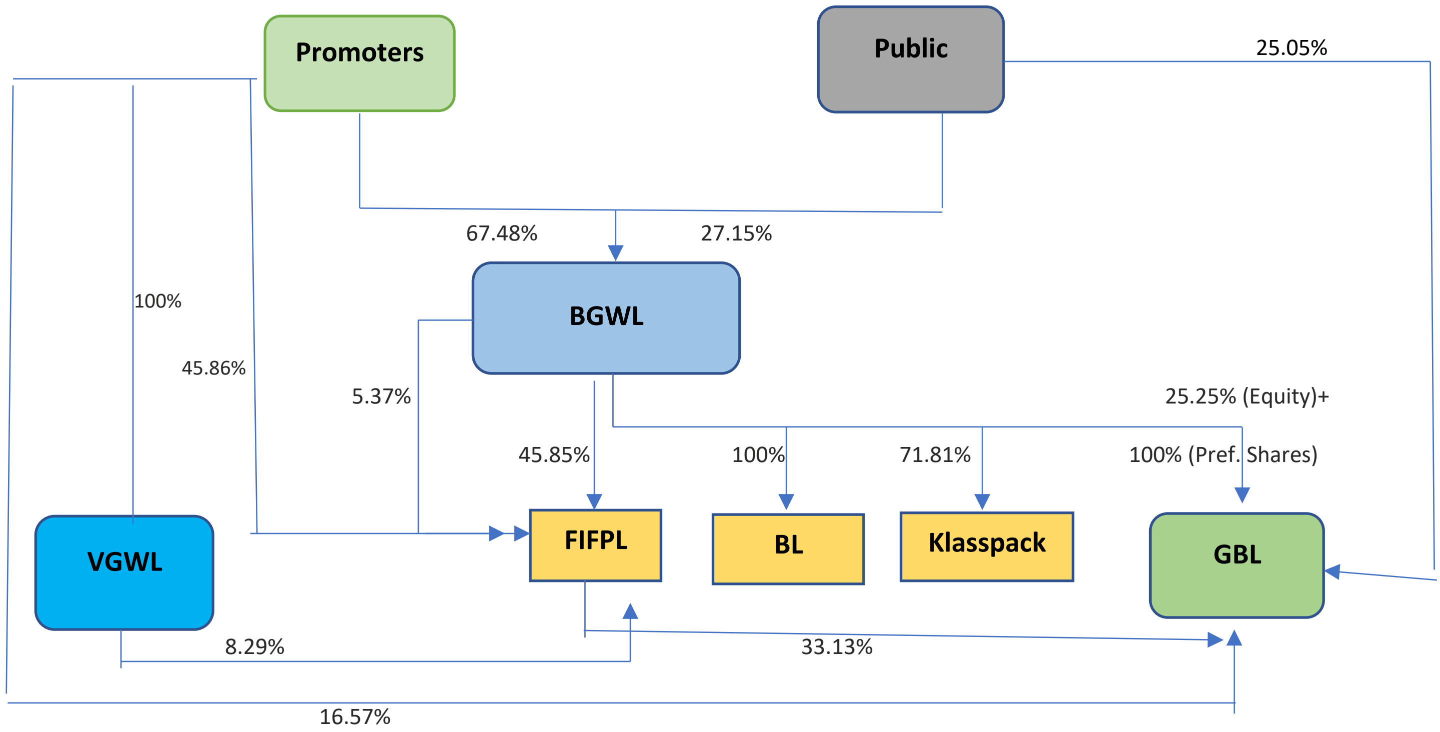
3) On account of corporate restructuring effected in FY19, it is not possible to construct cash flows for the full year. Hence, we have excluded those numbers.

4) We reduced CWIP as well from gross debt to calculate net debt for 9MFY23.

5) ROE has not been adjusted for non-operational capital and net cash in the balance sheet

Appendix

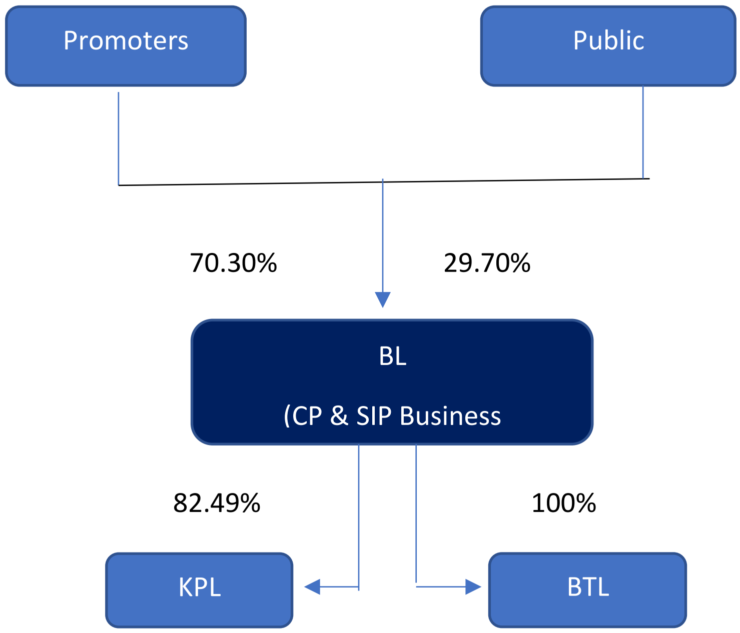
Corporate holding structure in FY19



Note:

- Borosil Glass Works limited ('BGWL') (listed on BSE and NSE) and Gujarat Borosil Limited ('GBL or Borosil Renewables') (listed on BSE).
- Borosil Limited (Formerly known as Hopewell Tableware Ltd) ('BL") is a wholly owned subsidiary of BGWL
- Vyline Glass Works Ltd ('VGWL') is held by promoters of BGWL
- Fennel Investment & Finance Pvt ltd ('FIFPL') is held by BGWL and promoter of BGWL and is registered with RBI as NBFC and is itself a promoter of BGWL.
- It is now proposed to merge GBL, VGWL and FIFPL with BGWL and demerge scientific and consumer business into BL followed by listing of BL.

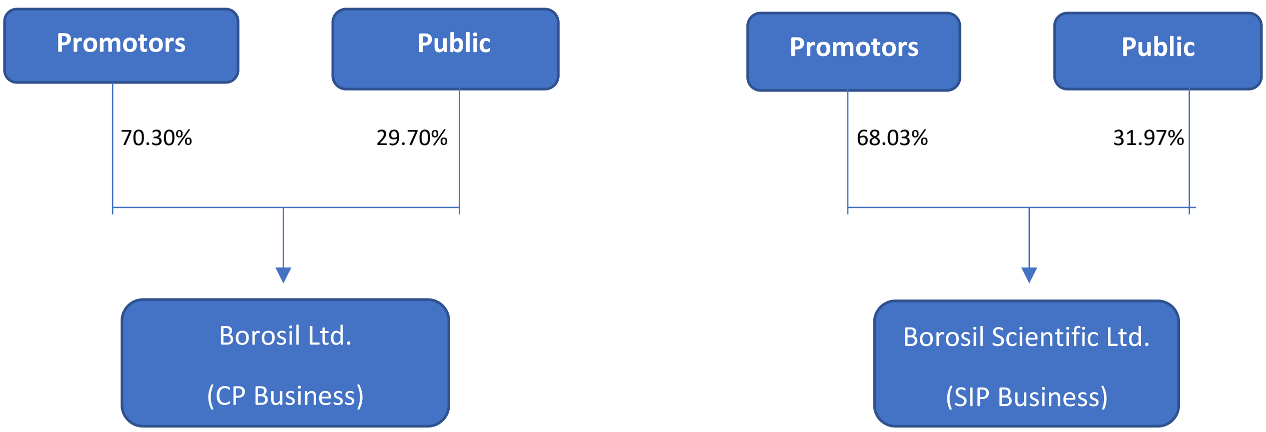
Current corporate structure



Note:

1. Borosil Limited ('BL' or 'Demerged Company') (listed on BSE and NSE).
2. Klass Pack Limited ('KPL' or Resulting Company / Transferee Company') is a 82.49% subsidiary of BL.
3. Borosil Technologies Limited ('BTL' or 'Transferor Company') is a 100% subsidiary of BL.

Corporate structure post current restructuring underway



1. It is proposed to demerge SIP business of BL into KPL and in consideration KPL will issue equity shares to the shareholders of BL and shall get listed on BSE and NSE.
2. The present investment of BL i.e., 82.49% in KPL will be cancelled.
3. As a part of the scheme BTL will get merged with KPL.
4. KPL will be renamed as Borosil Scientific Limited and will carry on all the scientific and industrial products business. (i.e., its present business + SIP division of BL + BTL business)

Disclaimer and Disclosure

- We (Clockvine Capital Advisors Private Limited) are a SEBI Registered Investment Adviser having registration number – INA000017462.

- No penalties / directions have been issued by SEBI under the SEBI Act or Regulations made there under against the Company or its Directors.

- **General Disclaimers**: This Research Report (hereinafter called 'Report') is prepared and distributed for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through the Company nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers.

  No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by the Company to be reliable. Company or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of the Company shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

- The Company or its employee have not:
  - received any compensation from the company which is subject matter of recommendation/research;
  - managed or co-managed the public offering of any company;
  - received any compensation for investment banking or merchant banking or brokerage services from the subject company;
  - received any compensation for products or services from the subject company;
  - received any compensation or other benefits from the Subject Company or 3rd party in connection
  - served as an officer, director or employee of the subject company;
  - been engaged in market making activity of the subject company.

- Also, the subject company was not a client of the Company during twelve months preceding the date of report.

- Registration granted by SEBI, membership of BASL and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

- **Risks**: Investment in securities market are subject to market risks. Read all the related documents carefully before investing. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

Clockvine Capital Advisors Private Limited
SEBI Registered Investment Adviser Registration No. INA000017462
(Type of Registration- Non-Individual, Validity of Registration- 20.12.2022 to Perpetual)
Registered Address: 1802-B, Tower 11, Gardenia, Lodha New Cuffe Parade, Wadala (E)
Mumbai, Maharashtra - 400037
Principal Officer: Mr. Jasdeep Walia
Contact No: +91 9819066213, Email: Jasdeep.Walia@clockvinecapital.com
SEBI regional/local office address - **SEBI Head Office (HO)**
Address: Plot No.C4-A, 'G' Block, Bandra-Kurla Complex, Bandra (East),
Mumbai - 400051, Maharashtra
Tel. Board: +91-22-26449000 / 40459000
E-mail: sebi@sebi.gov.in

JASDEEP SINGH WALIA

Digitally signed by JASDEEP SINGH WALIA
Date: 2023.04.28 11:26:07 +05'30'