

# Britannia Industries

## 4Q lags other food cos, guiding for strong 1Q

Britannia (BRIT) clocked 2% yoy revenue growth (HSIE -2%) with flat volume. Co saw growth acceleration (8-10%) in Jan/Feb which was better than what it clocked in 9MFY20 (5% yoy growth). Lockdown led supply chain disruption impacted primary performance in March. Pantry loading supported other foods businesses in Q4 as Nestle and Marico's Saffola posted 11% and 25% yoy growth which BRIT missed. However, BRIT's recovery in April/May was strong (24% yoy) owing to (1) Benefits of high home consumption (April/May consumer offtake at ~20% for BRIT), (2) Market share gain (particularly in Hindi belt), (3) Channel filling (~3% support), (4) Quicker resumption of plants and supply chain than peers, and (5) Support from deeper distribution reach. With consumers refraining from eating outside, we expect Britannia to deliver healthy growth in 1HFY21, before aggregate demand pressure kicks-in in 2HFY21. Cost control and moderation in RM inflation will sustain EBITDA margin in FY21. We increase EPS estimate by 6/5% for FY21/FY22. However, we remain cautious due to rich valuations (47x FY22 P/E) coupled with group company investments (via ICD), rising gross debt and non-current investments. We value BRIT at 38x P/E on Mar-22E EPS, and derive a TP of Rs 2,852. Maintain REDUCE.

- Marginal beat in revenue:** Consolidated revenue saw a growth of 2% yoy to Rs 28.67bn (+10% in 4QFY19 and 5% in 3QFY20) vs exp. decline of 2%. We expect flat volume in 4Q (+7% in 4QFY19 and +2% in 3QFY20) vs. est decline of 4%. Co saw healthy growth in Jan/Feb (8-10% growth) after moderate performance in 9MFY20 (5%). Market share gain in biscuits continued for the co as it increased the gap from the second placed player. However, the sudden lockdown impacted revenue and net profit for Britannia by 7-10%. The expanding rural reach will also aid co as rural economy is expected to do better than urban in the near term.
- EBITDA growth of 4%:** GM dipped by 152bps yoy (+273bps in 4QFY19 and -44bps in 3QFY20) to 39.7% (HSIE 40.6%) as RM inflation sustained (particularly dairy and palm oil) in 4Q. Employee/Other expenses were up by +12/-9% yoy. EBITDAM expanded by 24bps yoy (-5bps in 4QFY19 and +94bps in 3QFY20) to 15.8%. EBITDA grew by 4% yoy (+10% in 4QFY19 and +11% in 3QFY20) to Rs 4.54bn (exp Rs 4.19bn). PAT grew by 27% yoy to Rs 3.7bn (HSIE Rs 3.2bn) owing to lower taxes.
- Call & other takeaways:** (1) Demand picks up in Jan/Feb, (2) All factories, depots and distributors of the co are operational, (3) Biscuits are expected to do strong growth due to consumers reducing eating out, (4) New launches will continue in a gradual manner in FY21, (5) ICDs to group cos are a bit lower than last year (~Rs 6bn). Non-group ICDs saw increase in FY20.

### Financial Summary

| YE Mar (Rs mn)   | 4Q<br>FY20 | 4Q<br>FY19 | YoY<br>(%) | 3Q<br>FY20 | QoQ<br>(%) | FY19     | FY20P    | FY21E    | FY22E    |
|------------------|------------|------------|------------|------------|------------|----------|----------|----------|----------|
| Net Sales        | 28,677     | 27,990     | 2.5        | 29,828     | (3.9)      | 1,10,547 | 1,15,780 | 1,30,234 | 1,42,785 |
| EBITDA           | 4,543      | 4,366      | 4.1        | 5,021      | (9.5)      | 17,334   | 18,433   | 20,919   | 23,305   |
| APAT             | 3,729      | 2,943      | 26.7       | 3,700      | 0.8        | 11,555   | 14,067   | 15,772   | 18,053   |
| Diluted EPS (Rs) | 15.5       | 12.2       | 26.7       | 15.4       | 0.9        | 48.1     | 58.5     | 65.6     | 75.1     |
| P/E (x)          |            |            |            |            |            | 73.0     | 60.0     | 53.5     | 46.8     |
| EV / EBITDA (x)  |            |            |            |            |            | 47.9     | 44.6     | 38.9     | 34.4     |
| RoCE (%)         |            |            |            |            |            | 39.2     | 42.8     | 49.1     | 55.5     |

Source: Company, HSIE Research

## REDUCE

|                          |          |
|--------------------------|----------|
| CMP (as on 03 June 2020) | Rs 3,510 |
| Target Price             | Rs 2,852 |
| NIFTY                    | 10,062   |

| KEY CHANGES  | OLD      | NEW    |
|--------------|----------|--------|
| Rating       | REDUCE   | REDUCE |
| Price Target | Rs 2,711 | 2,852  |
| EPS %        | FY21E    | FY22E  |
|              | +6%      | +5%    |

### KEY STOCK DATA

|                             |                |
|-----------------------------|----------------|
| Bloomberg code              | BRIT IN        |
| No. of Shares (mn)          | 240            |
| MCap (Rs bn) / (\$ mn)      | 844/11,187     |
| 6m avg traded value (Rs mn) | 1,961          |
| 52 Week high / low          | Rs 3,708/2,100 |

### STOCK PERFORMANCE (%)

|              | 3M   | 6M   | 12M  |
|--------------|------|------|------|
| Absolute (%) | 16.0 | 15.2 | 18.2 |
| Relative (%) | 27.7 | 31.3 | 33.5 |

### SHAREHOLDING PATTERN (%)

|                 | Dec-19 | Mar-20 |
|-----------------|--------|--------|
| Promoters       | 50.63  | 50.63  |
| FIs & Local MFs | 13.56  | 13.38  |
| FPIs            | 15.79  | 14.71  |
| Public & Others | 20.02  | 21.28  |
| Pledged Shares  | 0.00   | 0.00   |

Source : BSE

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**Britannia Industries Quarterly Commentary**

| Particulars                  | 1QFY20   | 2QFY20  | 3QFY20   | 4QFY20   |
|------------------------------|--|---|--|--|
| <b>Industry/ Co Strategy</b> | <ul style="list-style-type: none"> <li>- Biscuits market witnessing slowing down of growth rates.</li> <li>- Agri turmoil affecting the value segment.</li> <li>- Hopeful of recovery for the economy within the next 6 months.</li> </ul>                     | <ul style="list-style-type: none"> <li>- Market has continued to be tough.</li> <li>- Economic macros have not seen an uptick.</li> <li>- Expect recovery in the next 9-12 months.</li> <li>- Consumers are leaning towards more premium products.</li> <li>- Rural growth is much slower than urban</li> </ul> | <ul style="list-style-type: none"> <li>- Rural slowdown continued to impact revenues</li> <li>- Food inflation was significant across categories, but specifically in Dairy</li> <li>- Food inflation can result in better rural income</li> <li>- Recovery in macros expected in 1-2 qtrs</li> <li>- Co is focusing on expanding distribution in rural markets</li> </ul>   | <ul style="list-style-type: none"> <li>- Demand environment saw improvement in Jan/Feb and growth was strong</li> <li>- Direct reach was at 2.2mn and rural distribution reached 21k in Feb 20 vs 18k in Mar 19</li> <li>- All of the co's factories are currently operational with manpower restrictions</li> <li>- Co has seen 24% growth in April and May</li> <li>- New launches will continue in a gradual manner</li> </ul>  |
| <b>Revenue</b>               |  |   |  |  |
| <b>Biscuits</b>              | <ul style="list-style-type: none"> <li>- Creating new niches within the biscuit category to drive premiumisation.</li> <li>- Made mkt sh gains by outpacing the market growth.</li> </ul>  | <ul style="list-style-type: none"> <li>- Co continued to gain mkt sh despite a weak market.</li> <li>- Going to start in-and-out in biscuits segment.</li> <li>- Test launched little hearts in the West.</li> </ul>  | <ul style="list-style-type: none"> <li>- Biscuits has seen slowdown predominantly in rural markets</li> <li>- Mkt share has grown aggressively but growth has not held up</li> <li>- Mass biscuit segment has remained stagnant.</li> <li>- Mid-premium products bringing growth</li> </ul>  | <ul style="list-style-type: none"> <li>- Co continued to gain market share and it widened the gap with the 2nd placed player. Co also saw strong market share gains in the Hindi belt.</li> <li>- Biscuits category has seen a boost due to increased home consumption. Co also benefited from being the most trusted brand.</li> <li>- Impact of downtrading will be set off through category growth</li> </ul>   |
| <b>Others</b>                | <ul style="list-style-type: none"> <li>- Become the no. 2 brand in Milk Shakes within a year of the launch.</li> <li>- Made a limited launch of 3 formats Salty Snacks in the south market.</li> </ul>   | <ul style="list-style-type: none"> <li>- Expect Treat Croissant to surpass Bauli in WB.</li> <li>- Don't plan to get into Rs 10/5 bracket with croissants.</li> <li>- Expanding Salty Snacks to the West.</li> </ul>  | <ul style="list-style-type: none"> <li>- Croissants and salty snacks are still in test markets. Not expanding further due to slowdown. Delaying other launches too</li> <li>- Middle East is challenging but Nepal growing in high double digits. Co is a market leader in Nepal</li> <li>- Wafers- Co is now the no. 3 player. Focus is on creating a brand with a pull instead of relying on promotions. Salted snacks will launch pan India in the next 6 months</li> </ul> | <ul style="list-style-type: none"> <li>- Breads category continued to do well with high single digit growth and with improvement in profitability.</li> <li>- Dairy maintained its profitability despite a surge in dairy prices.</li> <li>- Co prioritized on biscuits, and hence, some of the other products took a backseat.</li> <li>- Croissants are still in test markets in TN and WB. R&amp;D initiatives and production was interrupted due to manpower restriction in factories. Co has now resumed production.</li> <li>- International growth was in double digits.</li> </ul> |
| <b>Margin</b>                |  |   |  |  |
| <b>Gross Margin</b>          | <ul style="list-style-type: none"> <li>- Co was able to contain effects of commodity inflation by taking long positions in the vulnerable commodities.</li> <li>- Co has stocked up on wheat since April in anticipation of a sharp rise in prices.</li> </ul> | <ul style="list-style-type: none"> <li>- Milk and flour saw huge inflation but there was low inflation in sugar and deflation in palm oil.</li> <li>- Overall commodity inflation remained moderate, expect it to remain in that range.</li> </ul>  | <ul style="list-style-type: none"> <li>- Impact of inflation was controlled due to positions taken by the co in Aug 2019</li> <li>- With the cost effective inventory being over, inflation could hit 5% from current 3%</li> <li>- Co will selectively pass on the inflation through price increase.</li> </ul>   | <ul style="list-style-type: none"> <li>- Milk saw high inflation (50% yoy). However, moderate inflation in Sugar and Flour helped co restrict overall inflation to 4% yoy.</li> </ul>  |
| <b>EBITDA Margin</b>         | <ul style="list-style-type: none"> <li>- Drop in PAT has been caused by inflation in milk prices in the dairy business and investment in the Britchip JV.</li> </ul>   | <ul style="list-style-type: none"> <li>- Profitability improved aided by the corp tax cut</li> </ul>  | <ul style="list-style-type: none"> <li>- Operating margins at the highest</li> <li>- Reduction in other expenses mainly due to cost efficiency. ASP has remained flattish</li> <li>- Other income will be stable</li> </ul>  | <ul style="list-style-type: none"> <li>- Co is focusing on targeted A&amp;P spends.</li> <li>- It is focusing on reducing fixed costs, controlling wastage and avoiding discretionary spends.</li> </ul>   |

GM declined by 433bps YoY (-345 in 4QFY19, -421bps in 3QFY20) vs. expectation of -125bps.

Employee/A&P/Other Exp declined by 35/33/18% owing to cost rationalisation of operating costs and lower marketing reinvestment rate.

**Quarterly Financial Snapshot**

| Particulars (Rs mn)                  | Q4FY20       | Q4FY19       | YoY (%)     | Q3FY20       | QoQ (%)       | FY20          | FY19          | YoY (%)     |
|--------------------------------------|--------------|--------------|-------------|--------------|---------------|---------------|---------------|-------------|
| Net Revenue                          | 28,677       | 27,990       | 2.5         | 29,828       | (3.9)         | 1,15,997      | 1,10,548      | 4.9         |
| Material Expenses                    | 17,300       | 16,459       | 5.1         | 17,642       | (1.9)         | 69,275        | 65,615        | 5.6         |
| Employee Expenses                    | 1,209        | 1,082        | 11.7        | 1,216        | (0.6)         | 4,867         | 4,418         | 10.2        |
| Other Operating Expenses             | 4,356        | 4,772        | (8.7)       | 4,641        | (6.1)         | 18,143        | 18,186        | (0.2)       |
| <b>EBITDA</b>                        | <b>4,543</b> | <b>4,366</b> | <b>4.1</b>  | <b>5,021</b> | <b>(9.5)</b>  | <b>18,433</b> | <b>17,321</b> | <b>6.4</b>  |
| Depreciation                         | 485          | 469          | 3.3         | 467          | 3.8           | 1,848         | 1,619         | 14.2        |
| <b>EBIT</b>                          | <b>4,058</b> | <b>3,897</b> | <b>4.1</b>  | <b>4,554</b> | <b>(10.9)</b> | <b>16,585</b> | <b>15,702</b> | <b>5.6</b>  |
| Other Income                         | 786          | 618          | 27.2        | 652          | 20.6          | 2,794         | 2,078         | 34.5        |
| Interest Cost                        | 270          | 13           | 2,059.2     | 237          | 14.0          | 769           | 91            | 746.0       |
| Share of (loss)/profit in associates | 1            | (3)          | na          | 3            | na            | 4             | (10)          | na          |
| Exceptional items                    | (3)          | -            | -           | -            | -             | 165           | -             | -           |
| <b>PBT</b>                           | <b>4,578</b> | <b>4,499</b> | <b>1.8</b>  | <b>4,972</b> | <b>(7.9)</b>  | <b>18,449</b> | <b>17,679</b> | <b>4.4</b>  |
| Tax                                  | 849          | 1,557        | (45.4)      | 1,273        | (33.3)        | 4,507         | 6,125         | (26.4)      |
| <b>RPAT</b>                          | <b>3,729</b> | <b>2,943</b> | <b>26.7</b> | <b>3,700</b> | <b>0.8</b>    | <b>13,942</b> | <b>11,556</b> | <b>20.6</b> |
| Adjustment                           | -            | -            | -           | -            | -             | 125           | -             | -           |
| <b>APAT</b>                          | <b>3,729</b> | <b>2,943</b> | <b>26.7</b> | <b>3,700</b> | <b>0.8</b>    | <b>14,067</b> | <b>11,556</b> | <b>21.7</b> |
| <b>EPS</b>                           | <b>15.5</b>  | <b>12.2</b>  | <b>26.7</b> | <b>15</b>    | <b>0.9</b>    | <b>116.2</b>  | <b>96.3</b>   | <b>20.6</b> |

Source: Company, HSIE Research

**Quarterly Performance Analysis**

| MARGIN ANALYSIS (% of sales) | Q4FY20      | Q4FY19      | YoY (bps)  | Q3FY20      | QoQ (bps)   | FY20        | FY19        | YoY (bps)  |
|------------------------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|------------|
| Material Expenses            | 60.3        | 58.8        | 152        | 59.1        | 118         | 59.7        | 59.4        | 37         |
| Employee Expenses            | 4.2         | 3.9         | 35         | 4.1         | 14          | 4.2         | 4.0         | 20         |
| Other Operating Expenses     | 15.2        | 17.1        | (186)      | 15.6        | (37)        | 15.6        | 16.5        | (81)       |
| <b>EBITDA Margin</b>         | <b>15.8</b> | <b>15.6</b> | <b>24</b>  | <b>16.8</b> | <b>(99)</b> | <b>15.9</b> | <b>15.7</b> | <b>22</b>  |
| Tax Rate                     | 18.5        | 34.6        | (1,605)    | 25.6        | (705)       | 24.4        | 34.6        | (1,021)    |
| <b>PAT Margin</b>            | <b>13.0</b> | <b>10.5</b> | <b>249</b> | <b>12.4</b> | <b>60</b>   | <b>12.0</b> | <b>10.5</b> | <b>157</b> |
| <b>APAT Margin</b>           | <b>13.0</b> | <b>10.5</b> | <b>249</b> | <b>12.4</b> | <b>60</b>   | <b>12.1</b> | <b>10.5</b> | <b>167</b> |

Source: Company, HSIE Research

Reported EBITDAM increased by 101bps to 13.6% vs exp of 13%.

All new launches are gross margin accretive to BRIT

Within 1 year of launch BRIT has become the no 3 player with ~10% share in cream wafers (Rs 6bn category)

Winkin' Cow is now the no 2 milk shake brand (Rs 22bn market)

BRIT entered the salty snacks category via extruded snacks (~Rs 80bn category). Co has launched 5 variants with focus on Rs 5 pack (80% share of the category).

**New Launches: Expanding Addressable Market**  
**Cream Wafers, Milk Shakes, Salted Snacks and Croissants**



Available in 4 flavors Pan India - Chocolate, Vanilla, Strawberry, Orange with ~10% market share.



- Available in 4 flavors Pan India - Chocolate, Vanilla, Mango, Strawberry
- Focus is to enhance distribution.



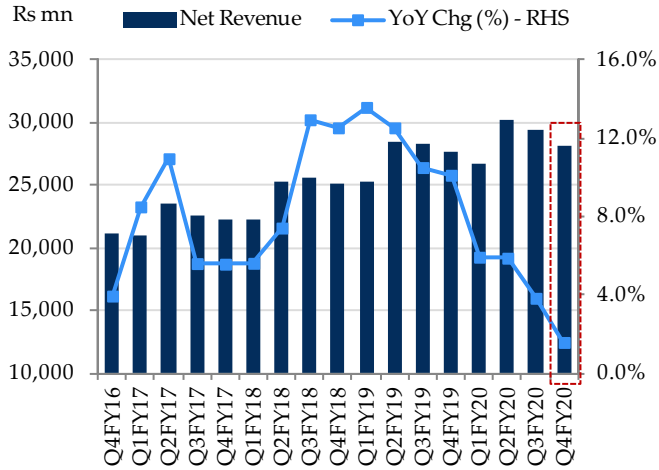
Available in 3 formats in South - Groovy Chips, Fun Sticks, Crunchy fills. Launched Groovy Chips in West



- Tracking closely the ongoing pressure test in WB, TN & MT Channel.
- Work program underway for learnings from test.

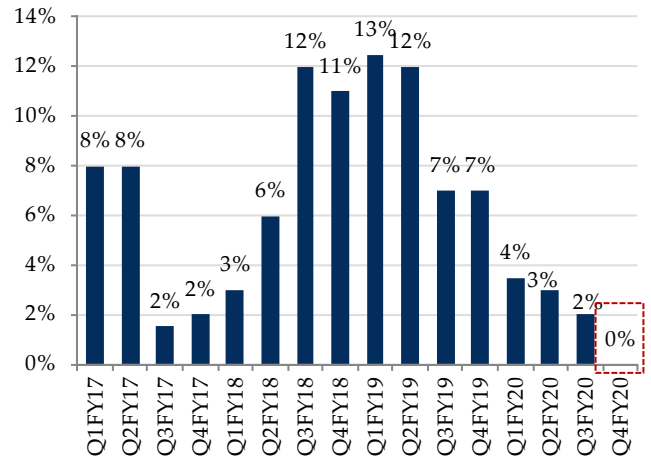
Source: Company, HSIE Research

Quarterly Net Revenue



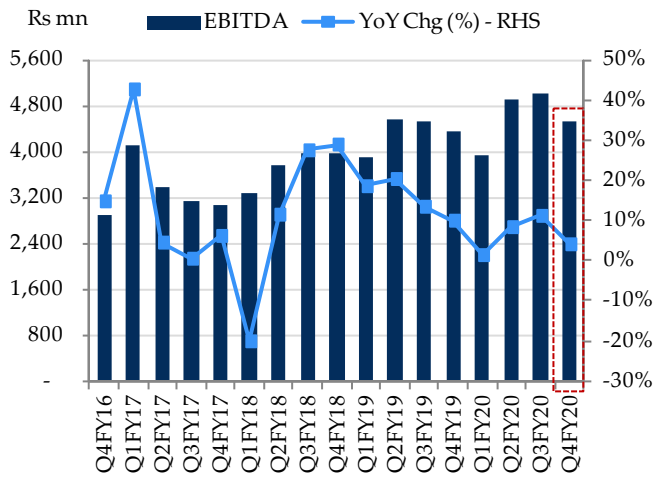
Source: Company, HSIE Research

Quarterly Domestic Volume Growth



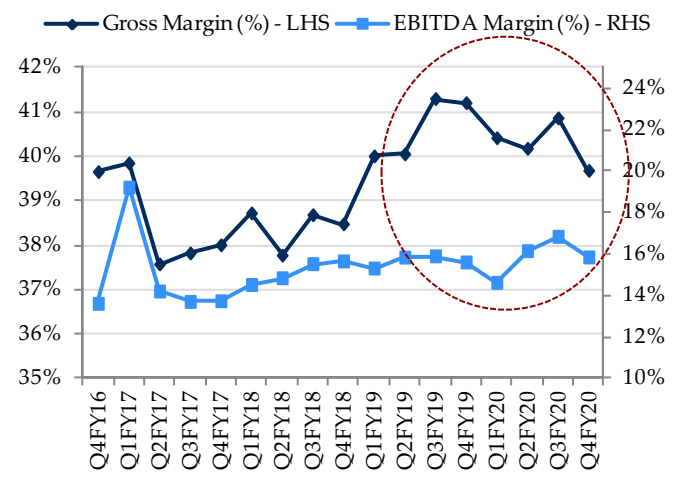
Source: Company, HSIE Research

Quarterly EBITDA



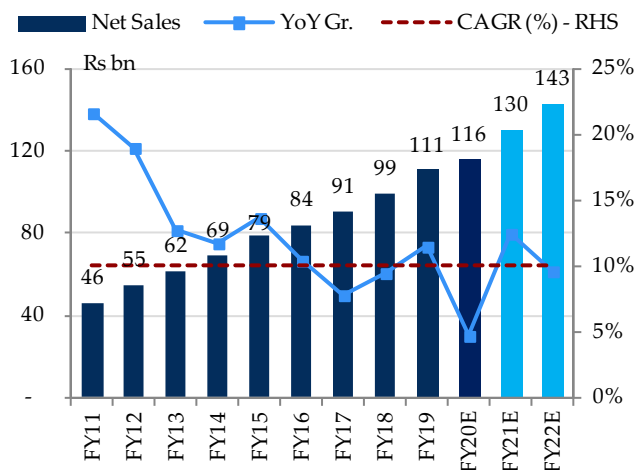
Source: Company, HSIE Research

Quarterly Gross and EBITDA Margin



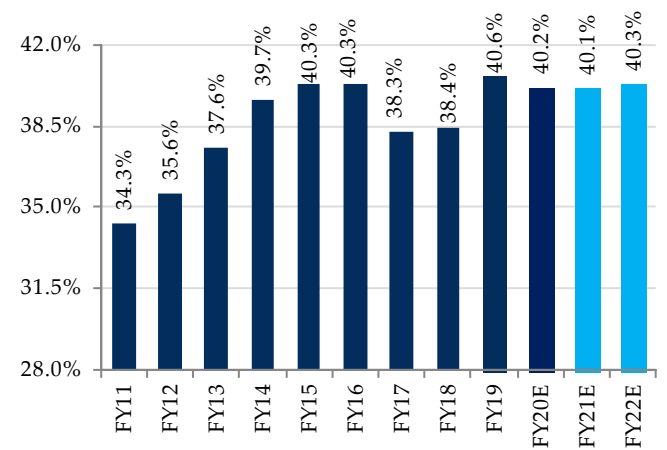
Source: Company, HSIE Research

Revenue Performance



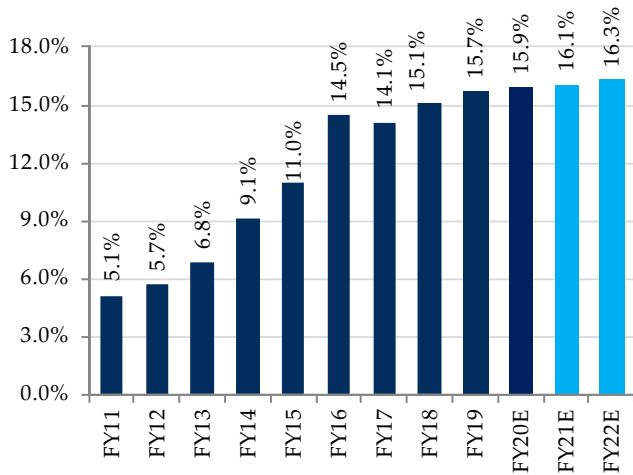
Source: Company, HSIE Research

Gross Margin



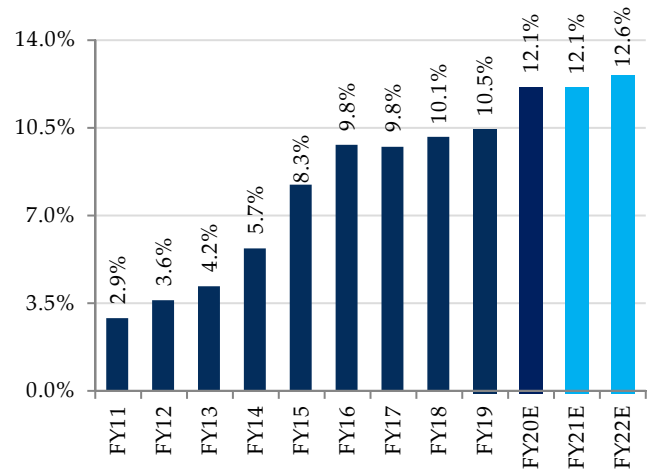
Source: Company, HSIE Research

**EBITDA margin**



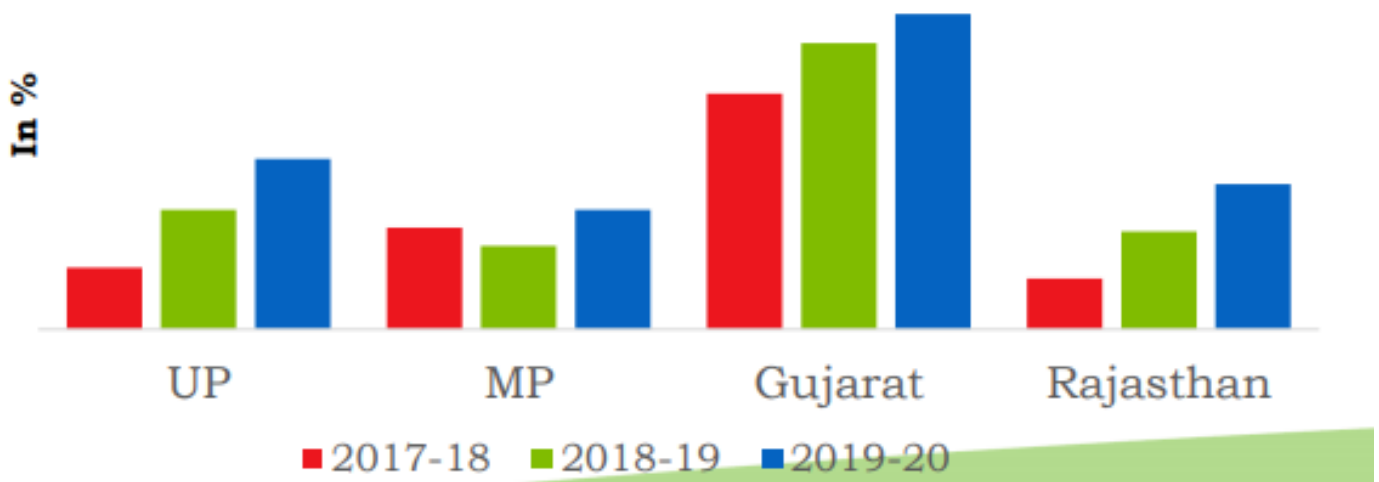
Source: Company, HSIE Research

**NPM**



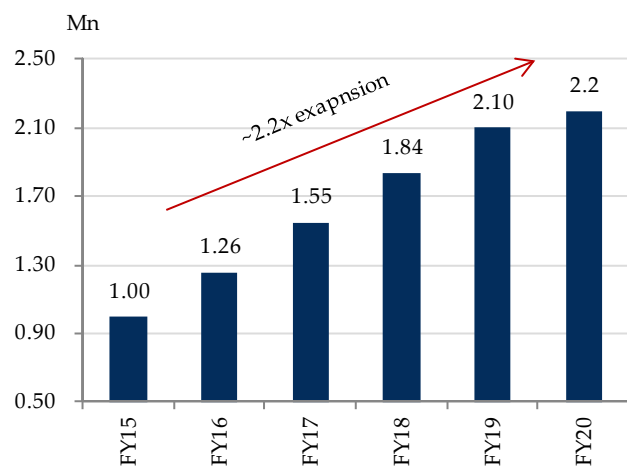
Source: Company, HSIE Research

**Market share gains in Hindi belt**



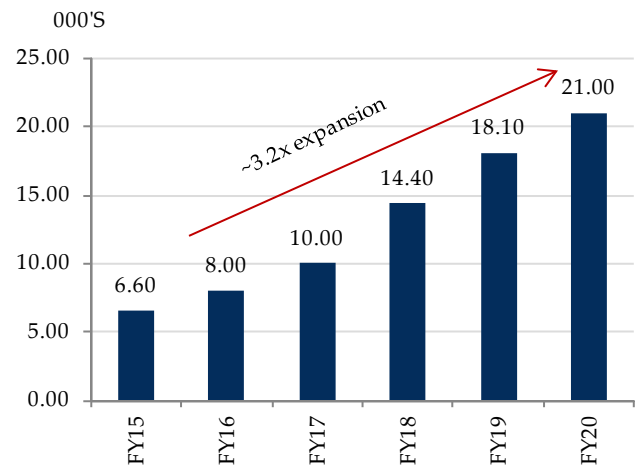
Source: Company, HSIE Research

**Direct Reach**



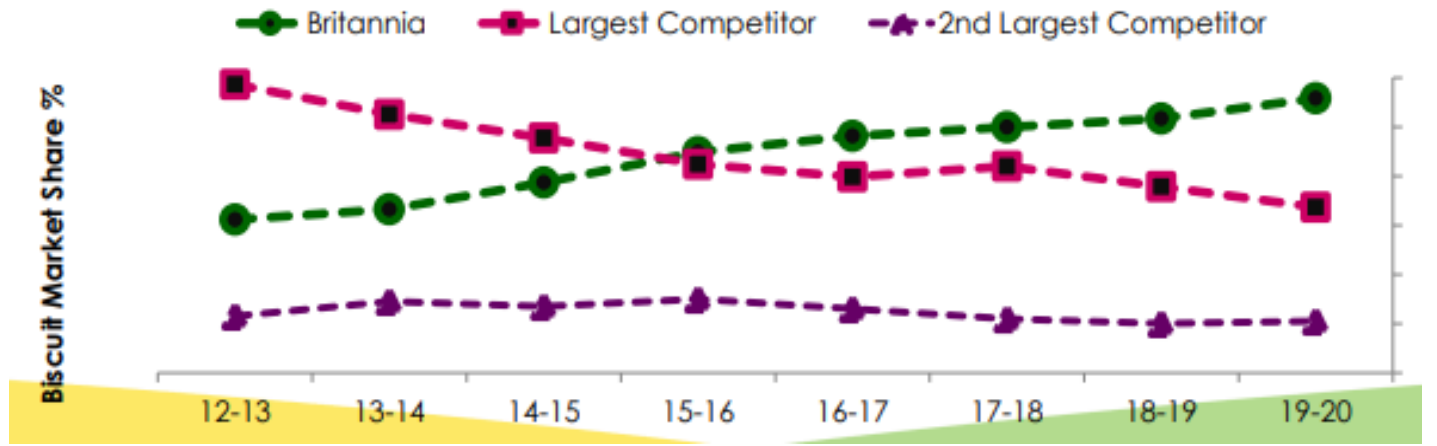
Source: Company, HSIE Research

**Rural Distribution (Rural Preferred Dealers)**



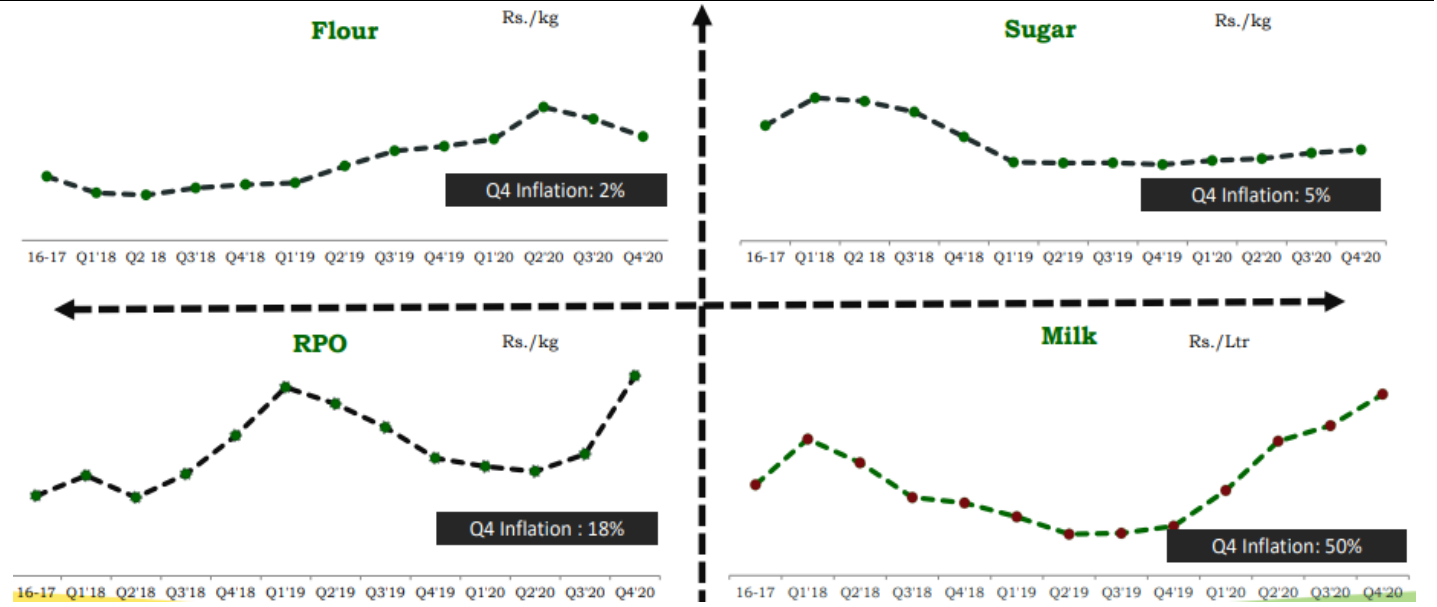
Source: Company, HSIE Research

BRIT vs Parle vs ITC Market Share



Source: Company, HSIE Research

Overall Inflation for BRIT at ~4%



Source: Company, HSIE Research

**Assumptions**

| Particulars (Rs mn)            | FY15 | FY16  | FY17   | FY18  | FY19 | FY20P | FY21E | FY22E |
|--------------------------------|------|-------|--------|-------|------|-------|-------|-------|
| <b>Revenue Growth (%)</b>      |      |       |        |       |      |       |       |       |
| Biscuits and high protein food | 13.9 | 10.9  | 8.0    | 8.0   | 11.5 | 4.0   | 12.0  | 8.5   |
| Bread, bread toast and rusk    | 12.7 | 12.2  | 7.0    | 7.0   | 15.0 | 4.0   | 13.0  | 11.0  |
| Cake                           | 32.2 | 18.3  | 8.0    | 8.0   | 15.0 | 6.0   | 15.0  | 13.0  |
| Dairy Business                 | 10.1 | (2.2) | 2.5    | (5.2) | 8.0  | 6.0   | 6.0   | 10.0  |
| International Business         | 23.3 | 28.1  | (13.8) | (3.1) | 13.0 | 5.7   | 8.0   | 12.0  |
| Gross Margin (%)               | 40.3 | 40.3  | 38.3   | 38.4  | 40.6 | 40.2  | 40.1  | 40.3  |
| ASP (% of sales)               | 8.3  | 5.3   | 4.3    | 4.1   | 4.5  | 4.6   | 4.3   | 4.4   |
| Distribution (% of sales)      | 5.4  | 5.1   | 4.9    | 4.9   | 5.0  | 5.2   | 5.0   | 5.0   |
| EBITDA Margin (%)              | 11.0 | 14.5  | 14.1   | 15.1  | 15.7 | 15.9  | 16.1  | 16.3  |
| Tax Rate (%)                   | 27.5 | 32.5  | 32.2   | 33.9  | 34.6 | 24.4  | 25.2  | 25.2  |
| NPM (%)                        | 8.3  | 9.8   | 9.8    | 10.1  | 10.5 | 12.1  | 12.1  | 12.6  |

**Change in Estimates**

|           | FY21E    |          |         | FY22E    |          |         |
|-----------|----------|----------|---------|----------|----------|---------|
|           | OLD      | NEW      | Chg (%) | OLD      | NEW      | Chg (%) |
| Net Sales | 1,22,506 | 1,30,234 | 6.3%    | 1,33,890 | 1,42,785 | 6.6%    |
| EBITDA    | 19,836   | 20,919   | 5.5%    | 22,271   | 23,305   | 4.6%    |
| APAT      | 14,878   | 15,772   | 6.0%    | 17,146   | 18,053   | 5.3%    |
| EPS       | 61.9     | 65.6     | 5.9%    | 71.4     | 75.1     | 5.2%    |

**Peer Set Comparison**

| Company          | Mcap (Rs bn) | CMP (Rs/sh)  | Reco          | TP           | EPS (Rs)        |                 |                 | P/E (x)         |                 |                 | EV/EBITDA (x)   |                 |                 | Core RoCE (%)   |                 |                 |
|------------------|--------------|--------------|---------------|--------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                  |              |              |               |              | FY20E/<br>CY19P | FY21E/<br>CY20E | FY22E/<br>CY21E | FY20E/<br>CY19P | FY21E/<br>CY20E | FY22E/<br>CY21E | FY20E/<br>CY19P | FY21E/<br>CY20E | FY22E/<br>CY21E | FY20E/<br>CY19P | FY21E/<br>CY20E | FY22E/<br>CY21E |
| HUL              | 4,595        | 2,123        | REDUCE        | 1,969        | 31.7            | 37.1            | 41.9            | 67.0            | 57.2            | 50.7            | 45.9            | 39.4            | 35.0            | 230.7           | 46.5            | 28.8            |
| ITC              | 2,420        | 197          | BUY           | 221          | 12.5            | 11.9            | 13.0            | 15.7            | 16.6            | 15.2            | 10.9            | 11.0            | 9.9             | 44.5            | 43.4            | 48.0            |
| Nestle           | 1,684        | 17,470       | REDUCE        | 14,042       | 206.0           | 237.6           | 278.2           | 84.8            | 73.5            | 62.8            | 56.5            | 50.7            | 44.3            | 75.0            | 70.7            | 69.1            |
| Dabur            | 821          | 466          | REDUCE        | 404          | 8.6             | 9.0             | 10.1            | 54.0            | 51.6            | 46.1            | 44.9            | 42.3            | 37.5            | 44.6            | 40.6            | 44.5            |
| <b>Britannia</b> | <b>843</b>   | <b>3,510</b> | <b>REDUCE</b> | <b>2,852</b> | <b>58.5</b>     | <b>65.6</b>     | <b>75.1</b>     | <b>60.0</b>     | <b>53.5</b>     | <b>46.8</b>     | <b>44.6</b>     | <b>38.9</b>     | <b>34.4</b>     | <b>42.8</b>     | <b>49.1</b>     | <b>55.5</b>     |
| GCPL             | 672          | 658          | REDUCE        | 529          | 14.4            | 15.7            | 17.6            | 45.6            | 41.8            | 37.3            | 32.2            | 31.6            | 28.8            | 19.0            | 18.9            | 21.4            |
| Marico           | 433          | 335          | REDUCE        | 283          | 8.0             | 8.4             | 9.4             | 41.8            | 39.8            | 35.5            | 29.4            | 28.0            | 25.8            | 41.8            | 43.2            | 46.5            |
| United Spirits   | 417          | 574          | ADD           | 586          | 10.9            | 11.0            | 14.0            | 52.8            | 52.1            | 41.0            | 28.5            | 28.5            | 23.8            | 16.0            | 19.6            | 23.5            |
| Colgate          | 372          | 1,366        | ADD           | 1,328        | 30.0            | 31.2            | 35.0            | 45.5            | 43.8            | 39.1            | 30.5            | 28.3            | 25.3            | 64.7            | 63.9            | 75.2            |
| Jubilant         | 223          | 1,693        | REDUCE        | 1,420        | 26.8            | 20.7            | 35.5            | 63.2            | 81.7            | 47.7            | 37.8            | 44.9            | 28.6            | 28.4            | 11.5            | 21.7            |
| Emami            | 86           | 190          | REDUCE        | 221          | 11.7            | 11.6            | 13.0            | 16.2            | 16.3            | 14.6            | 11.6            | 11.5            | 10.3            | 23.2            | 24.1            | 29.9            |
| Radico Khaitan   | 46           | 345          | BUY           | 363          | 16.0            | 18.2            | 22.7            | 21.6            | 19.0            | 15.2            | 13.4            | 11.9            | 9.8             | 14.5            | 12.8            | 14.7            |

Source: Company, HSIE Research

# Financials

## Standalone Income Statement

| Year ending March                 | FY15          | FY16          | FY17          | FY18          | FY19            | FY20P           | FY21E           | FY22E           |
|-----------------------------------|---------------|---------------|---------------|---------------|-----------------|-----------------|-----------------|-----------------|
| <b>Net Revenues</b>               | <b>78,584</b> | <b>83,972</b> | <b>90,541</b> | <b>99,140</b> | <b>1,10,547</b> | <b>1,15,780</b> | <b>1,30,234</b> | <b>1,42,785</b> |
| <i>Growth (%)</i>                 | <i>13.7</i>   | <i>10.4</i>   | <i>7.8</i>    | <i>9.5</i>    | <i>11.5</i>     | <i>4.7</i>      | <i>12.5</i>     | <i>9.6</i>      |
| Material Expenses                 | 46,918        | 50,127        | 55,887        | 61,071        | 65,615          | 69,275          | 77,997          | 85,231          |
| Employee Expense                  | 2,806         | 3,414         | 3,526         | 4,016         | 4,418           | 4,877           | 5,354           | 5,863           |
| ASP Expense                       | 6,517         | 4,461         | 3,850         | 4,113         | 5,008           | 5,326           | 5,535           | 6,283           |
| Distribution Expense              | 4,271         | 4,310         | 4,459         | 4,864         | 5,534           | 6,021           | 6,512           | 7,139           |
| Other Expense                     | 9,433         | 9,517         | 10,037        | 10,059        | 12,638          | 11,849          | 13,918          | 14,964          |
| <b>EBITDA</b>                     | <b>8,639</b>  | <b>12,144</b> | <b>12,782</b> | <b>15,017</b> | <b>17,334</b>   | <b>18,433</b>   | <b>20,919</b>   | <b>23,305</b>   |
| <i>EBITDA Growth (%)</i>          | <i>37.7</i>   | <i>40.6</i>   | <i>5.3</i>    | <i>17.5</i>   | <i>15.4</i>     | <i>6.3</i>      | <i>13.5</i>     | <i>11.4</i>     |
| <i>EBITDA Margin (%)</i>          | <i>11.0</i>   | <i>14.5</i>   | <i>14.1</i>   | <i>15.1</i>   | <i>15.7</i>     | <i>15.9</i>     | <i>16.1</i>     | <i>16.3</i>     |
| Depreciation & Amortisation       | 1,445         | 1,134         | 1,193         | 1,421         | 1,619           | 1,848           | 2,006           | 2,191           |
| <b>EBIT</b>                       | <b>7,194</b>  | <b>11,010</b> | <b>11,589</b> | <b>13,596</b> | <b>15,715</b>   | <b>16,585</b>   | <b>18,913</b>   | <b>21,113</b>   |
| Other Income (Including EO Items) | 2,340         | 1,244         | 1,505         | 1,664         | 2,065           | 2,630           | 3,144           | 4,017           |
| Interest                          | 39            | 49            | 55            | 76            | 91              | 769             | 985             | 1,010           |
| <b>PBT</b>                        | <b>9,496</b>  | <b>12,205</b> | <b>13,040</b> | <b>15,184</b> | <b>17,689</b>   | <b>18,445</b>   | <b>21,071</b>   | <b>24,120</b>   |
| Tax                               | 2,611         | 3,961         | 4,197         | 5,142         | 6,125           | 4,507           | 5,304           | 6,071           |
| <b>RPAT</b>                       | <b>6,886</b>  | <b>8,246</b>  | <b>8,846</b>  | <b>10,040</b> | <b>11,555</b>   | <b>13,942</b>   | <b>15,772</b>   | <b>18,053</b>   |
| Adjustment                        | 402           | -             | -             | -             | -               | (125)           | -               | -               |
| <b>Adjusted PAT</b>               | <b>6,485</b>  | <b>8,246</b>  | <b>8,846</b>  | <b>10,040</b> | <b>11,555</b>   | <b>14,067</b>   | <b>15,772</b>   | <b>18,053</b>   |
| <i>APAT Growth (%)</i>            | <i>64.0</i>   | <i>27.2</i>   | <i>7.3</i>    | <i>13.5</i>   | <i>15.1</i>     | <i>21.7</i>     | <i>12.1</i>     | <i>14.5</i>     |
| <b>Adjusted EPS (Rs)</b>          | <b>27.0</b>   | <b>34.4</b>   | <b>36.9</b>   | <b>41.8</b>   | <b>48.1</b>     | <b>58.5</b>     | <b>65.6</b>     | <b>75.1</b>     |
| <i>EPS Growth (%)</i>             | <i>64.0</i>   | <i>27.1</i>   | <i>7.3</i>    | <i>13.4</i>   | <i>15.0</i>     | <i>21.6</i>     | <i>12.1</i>     | <i>14.5</i>     |

Source: Company, HSIE Research

## Standalone Balance Sheet

| Year End (March)                  | FY15          | FY16          | FY17          | FY18          | FY19          | FY20P         | FY21E         | FY22E         |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>SOURCES OF FUNDS</b>           |               |               |               |               |               |               |               |               |
| Share Capital - Equity            | 240           | 240           | 240           | 240           | 240           | 241           | 241           | 241           |
| Reserves                          | 12,211        | 20,739        | 26,767        | 33,855        | 41,792        | 44,312        | 49,952        | 62,713        |
| <b>Total Shareholders Funds</b>   | <b>12,451</b> | <b>20,979</b> | <b>27,007</b> | <b>34,095</b> | <b>42,033</b> | <b>44,552</b> | <b>50,192</b> | <b>62,954</b> |
| <b>Bonus Debentures</b>           |               |               |               |               | -             | <b>7,210</b>  | <b>7,210</b>  | <b>7,210</b>  |
| Minority interest                 | 24            | 25            | 26            | 131           | 327           | 327           | 327           | 327           |
| Long Term Debt                    | 433           | 377           | 314           | 846           | 619           | 451           | 451           | 451           |
| Short Term Debt                   | 1,015         | 934           | 930           | 1,159         | 761           | 7,480         | 7,480         | 7,480         |
| <b>Total Debt</b>                 | <b>1,448</b>  | <b>1,311</b>  | <b>1,244</b>  | <b>2,005</b>  | <b>1,380</b>  | <b>7,931</b>  | <b>7,931</b>  | <b>7,931</b>  |
| Net Deferred Taxes                | (234)         | (444)         | (231)         | (226)         | (138)         | (196)         | (196)         | (196)         |
| Non Current Liabilities           | 256           | 282           | 307           | 341           | 387           | 597           | 668           | 732           |
| <b>TOTAL SOURCES OF FUNDS</b>     | <b>13,946</b> | <b>22,153</b> | <b>28,352</b> | <b>36,347</b> | <b>43,989</b> | <b>60,420</b> | <b>66,132</b> | <b>78,958</b> |
| <b>APPLICATION OF FUNDS</b>       |               |               |               |               |               |               |               |               |
| Net Block                         | 7,334         | 8,343         | 10,322        | 12,174        | 15,579        | 17,392        | 17,386        | 17,944        |
| CWIP (Including capital advances) | 703           | 901           | 1,478         | 2,423         | 1,012         | 396           | 396           | 396           |
| Goodwill                          | 1,107         | 1,159         | 1,278         | 1,282         | 1,304         | 1,390         | 1,390         | 1,390         |
| LT Loans & Advances               | 684           | 2,562         | 1,002         | 1,744         | 847           | 3,031         | -             | -             |
| Other Non Current Assets          | 372           | 562           | 264           | 292           | 1,011         | 425           | 478           | 524           |
| <b>Total Non-current Assets</b>   | <b>10,200</b> | <b>13,528</b> | <b>14,345</b> | <b>17,916</b> | <b>19,753</b> | <b>22,632</b> | <b>19,649</b> | <b>20,253</b> |
| Inventories                       | 4,040         | 4,407         | 6,615         | 6,528         | 7,814         | 7,410         | 8,009         | 8,781         |
| Debtors                           | 1,358         | 1,706         | 1,792         | 3,046         | 3,942         | 3,204         | 3,907         | 4,284         |
| Other Current Assets              | 4,659         | 6,095         | 12,030        | 11,507        | 14,910        | 14,820        | 16,671        | 18,277        |
| Cash & Equivalents                | 7,443         | 8,760         | 6,076         | 12,657        | 15,323        | 30,528        | 38,363        | 49,829        |
| <b>Total Current Assets</b>       | <b>17,500</b> | <b>20,967</b> | <b>26,513</b> | <b>33,738</b> | <b>41,989</b> | <b>55,961</b> | <b>66,950</b> | <b>81,171</b> |
| Creditors                         | 11,205        | 9,827         | 9,822         | 12,293        | 15,061        | 15,054        | 16,958        | 18,620        |
| Other Current Liabilities         | 2,548         | 2,516         | 2,683         | 3,014         | 2,692         | 3,119         | 3,509         | 3,847         |
| <b>Total Current Liabilities</b>  | <b>13,754</b> | <b>12,343</b> | <b>12,505</b> | <b>15,307</b> | <b>17,753</b> | <b>18,173</b> | <b>20,467</b> | <b>22,466</b> |
| <b>Net Current Assets</b>         | <b>3,747</b>  | <b>8,625</b>  | <b>14,008</b> | <b>18,431</b> | <b>24,236</b> | <b>37,788</b> | <b>46,483</b> | <b>58,704</b> |
| <b>TOTAL APPLICATION OF FUNDS</b> | <b>13,946</b> | <b>22,152</b> | <b>28,353</b> | <b>36,347</b> | <b>43,989</b> | <b>60,420</b> | <b>66,132</b> | <b>78,958</b> |

Source: Company, HSIE Research



**Standalone Cash Flow**

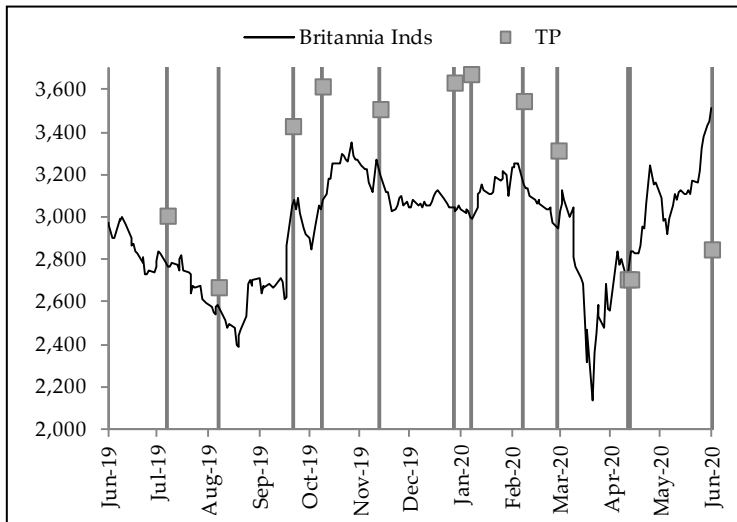
| (Rs mn)                          | FY15           | FY16           | FY17           | FY18           | FY19           | FY20P           | FY21E           | FY22E          |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|----------------|
| Reported PBT                     | 9,496          | 12,205         | 13,040         | 15,184         | 17,689         | 18,445          | 21,071          | 24,120         |
| Non-operating & EO Items         | (2,373)        | (1,092)        | (1,395)        | (1,511)        | -              | -               | -               | -              |
| Interest Expenses                | 39             | 49             | 55             | 76             | 91             | 769             | 985             | 1,010          |
| Depreciation                     | 1,445          | 1,134          | 1,193          | 1,421          | 1,619          | 1,848           | 2,006           | 2,191          |
| Working Capital Change           | 253            | 1,329          | (4,514)        | 2,283          | (3,362)        | 1,653           | (860)           | (755)          |
| Tax Paid                         | (3,015)        | (4,032)        | (3,966)        | (4,965)        | (6,125)        | (4,507)         | (5,304)         | (6,071)        |
| <b>OPERATING CASH FLOW ( a )</b> | <b>5,845</b>   | <b>9,593</b>   | <b>4,413</b>   | <b>12,488</b>  | <b>9,912</b>   | <b>18,208</b>   | <b>17,900</b>   | <b>20,495</b>  |
| Capex                            | 463            | (2,494)        | (3,518)        | (4,212)        | (4,033)        | (3,145)         | (2,000)         | (2,750)        |
| Free Cash Flow (FCF)             | 6,308          | 7,099          | 895            | 8,276          | 5,879          | 15,063          | 15,900          | 17,745         |
| Investments                      | (6,318)        | (5,217)        | 1,271          | (6,442)        | (3,959)        | (14,165)        | (5,000)         | (5,000)        |
| Non-operating Income             | 1,351          | 659            | 749            | 1,091          | 904            | (1,446)         | 3,048           | 18             |
| <b>INVESTING CASH FLOW ( b )</b> | <b>(4,503)</b> | <b>(7,052)</b> | <b>(1,499)</b> | <b>(9,563)</b> | <b>(7,088)</b> | <b>(18,755)</b> | <b>(3,952)</b>  | <b>(7,732)</b> |
| Debt Issuance/(Repaid)           | (100)          | (147)          | (70)           | 673            | (402)          | 6,551           | -               | -              |
| Interest Expenses                | (33)           | (51)           | (55)           | (75)           | (91)           | (769)           | (985)           | (1,010)        |
| FCFE                             | 1,209          | 2,343          | 2,789          | 3,523          | 2,331          | 5,234           | 12,963          | 11,753         |
| Share Capital Issuance           | -              | 43             | 58             | 151            | -              | -               | -               | -              |
| Dividend (Inc tax)               | (1,681)        | (2,308)        | (2,884)        | (3,174)        | (3,618)        | (4,338)         | (10,131)        | (5,291)        |
| Others                           | -              | -              | -              | 108            | -              | -               | -               | -              |
| <b>FINANCING CASH FLOW ( c )</b> | <b>(1,814)</b> | <b>(2,462)</b> | <b>(2,951)</b> | <b>(2,317)</b> | <b>(4,110)</b> | <b>1,444</b>    | <b>(11,117)</b> | <b>(6,301)</b> |
| <b>NET CASH FLOW (a+b+c)</b>     | <b>(472)</b>   | <b>79</b>      | <b>(36)</b>    | <b>608</b>     | <b>(1,287)</b> | <b>896</b>      | <b>2,832</b>    | <b>6,462</b>   |
| EO Items, Others                 | 1,832          | 379            | 355            | 49             | (7)            | 144             | 4               | 4              |
| Closing Cash & Equivalents       | 2,263          | 889            | 1,208          | 1,864          | 570            | 1,610           | 4,446           | 10,912         |

**Key Ratios**

| Particulars                        | FY15   | FY16  | FY17  | FY18  | FY19  | FY20P | FY21E | FY22E |
|------------------------------------|--------|-------|-------|-------|-------|-------|-------|-------|
| <b>PROFITABILITY (%)</b>           |        |       |       |       |       |       |       |       |
| GPM                                | 40.3   | 40.3  | 38.3  | 38.4  | 40.6  | 40.2  | 40.1  | 40.3  |
| ASP                                | 8.3    | 5.3   | 4.3   | 4.1   | 4.5   | 4.6   | 4.3   | 4.4   |
| EBITDA Margin                      | 11.0   | 14.5  | 14.1  | 15.1  | 15.7  | 15.9  | 16.1  | 16.3  |
| EBIT Margin                        | 9.2    | 13.1  | 12.8  | 13.7  | 14.2  | 14.3  | 14.5  | 14.8  |
| APAT Margin                        | 8.3    | 9.8   | 9.8   | 10.1  | 10.5  | 12.1  | 12.1  | 12.6  |
| RoE                                | 63.5   | 49.3  | 36.9  | 32.9  | 30.4  | 32.5  | 33.3  | 31.9  |
| RoIC (or Core RoCE)                | 76.7   | 74.8  | 44.1  | 39.1  | 39.2  | 42.8  | 49.1  | 55.5  |
| RoCE                               | 54.8   | 45.9  | 35.2  | 31.2  | 28.9  | 28.1  | 26.1  | 25.9  |
| <b>EFFICIENCY</b>                  |        |       |       |       |       |       |       |       |
| Tax Rate (%)                       | 27.5   | 32.5  | 32.2  | 33.9  | 34.6  | 24.4  | 25.2  | 25.2  |
| Fixed Asset Turnover (x)           | 4.6    | 4.4   | 6.4   | 5.7   | 4.9   | 4.4   | 4.6   | 4.6   |
| Inventory (days)                   | 18.8   | 19.2  | 26.7  | 24.0  | 25.8  | 23.4  | 22.4  | 22.4  |
| Debtors (days)                     | 6.3    | 7.4   | 7.2   | 11.2  | 13.0  | 10.1  | 11.0  | 11.0  |
| Other Current Assets (days)        | 21.6   | 26.5  | 48.5  | 42.4  | 49.2  | 46.7  | 46.7  | 46.7  |
| Payables (days)                    | 52.0   | 42.7  | 39.6  | 45.3  | 49.7  | 47.5  | 47.5  | 47.6  |
| Other Current Liab & Provns (days) | 11.8   | 10.9  | 10.8  | 11.1  | 8.9   | 9.8   | 9.8   | 9.8   |
| Cash Conversion Cycle (days)       | (17.2) | (0.6) | 32.0  | 21.3  | 29.4  | 22.9  | 22.8  | 22.7  |
| Net D/E (x)                        | (0.5)  | (0.4) | (0.2) | (0.3) | (0.3) | (0.5) | (0.6) | (0.7) |
| Interest Coverage (x)              | 186.4  | 226.1 | 212.6 | 179.1 | 172.9 | 21.6  | 19.2  | 20.9  |
| <b>PER SHARE DATA (Rs)</b>         |        |       |       |       |       |       |       |       |
| EPS                                | 27.0   | 34.4  | 36.9  | 41.8  | 48.1  | 58.5  | 65.6  | 75.1  |
| CEPS                               | 33.1   | 39.1  | 41.8  | 47.7  | 54.8  | 66.2  | 73.9  | 84.2  |
| Dividend                           | 8.0    | 10.0  | 11.0  | 12.5  | 15.0  | 35.0  | 22.0  | 25.0  |
| Book Value                         | 51.9   | 87.4  | 112.5 | 142.0 | 174.9 | 185.2 | 208.7 | 261.8 |
| <b>VALUATION</b>                   |        |       |       |       |       |       |       |       |
| P/E (x)                            | 129.9  | 102.2 | 95.2  | 83.9  | 73.0  | 60.0  | 53.5  | 46.8  |
| P/BV (x)                           | 67.6   | 40.2  | 31.2  | 24.7  | 20.1  | 18.9  | 16.8  | 13.4  |
| EV/EBITDA (x)                      | 96.8   | 68.8  | 65.5  | 55.4  | 47.9  | 44.6  | 38.9  | 34.4  |
| EV/Revenues (x)                    | 10.6   | 9.9   | 9.3   | 8.4   | 7.5   | 7.1   | 6.2   | 5.6   |
| OCF/EV (%)                         | 0.7    | 1.1   | 0.5   | 1.5   | 1.2   | 2.2   | 2.2   | 2.6   |
| FCF/EV (%)                         | 0.8    | 0.9   | 0.1   | 1.0   | 0.7   | 1.8   | 2.0   | 2.2   |
| FCFE/Mkt Cap (%)                   | 0.1    | 0.3   | 0.3   | 0.4   | 0.3   | 0.6   | 1.5   | 1.4   |
| Dividend Yield (%)                 | 0.2    | 0.3   | 0.3   | 0.4   | 0.4   | 1.0   | 0.6   | 0.7   |

Source: Company, HSIE Research

**RECOMMENDATION HISTORY**



| Date      | CMP   | Reco   | Target |
|-----------|-------|--------|--------|
| 9-Jul-19  | 2,763 | NEU    | 3,011  |
| 11-Aug-19 | 2,588 | NEU    | 2,674  |
| 22-Sep-19 | 2,867 | BUY    | 3,433  |
| 11-Oct-19 | 3,037 | BUY    | 3,620  |
| 15-Nov-19 | 3,195 | BUY    | 3,513  |
| 30-Dec-19 | 3,042 | BUY    | 3,638  |
| 9-Jan-20  | 3,001 | BUY    | 3,678  |
| 11-Feb-20 | 3,156 | BUY    | 3,551  |
| 2-Mar-20  | 2,970 | ADD    | 3,318  |
| 13-Apr-20 | 2,803 | REDUCE | 2,711  |
| 14-Apr-20 | 2,711 | REDUCE | 2,711  |
| 3-Jun-20  | 3,510 | REDUCE | 2,852  |

From 2<sup>nd</sup> March 2020, we have moved to new rating system

**Rating Criteria**

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

**Disclosure:**

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