

# Sector Thematic

# FMCG

## Defensive businesses but not valuations

FMCG sector witnessed growth slowdown in FY20, in-line with nominal GDP moderation. Sector posted 5% revenue growth in 9MFY20 vs. 12% CAGR over the last 10 years. Covid-19 will further delay the macro recovery which was earlier expected in 1HFY21. In the current slowdown, while FMCG cos will be better than other sectors, however, their growth trajectory will also taper down. Staples consumption will see moderation in FY21 particularly with further weakness in income for rural and urban poor households. We believe street is not factoring volume hit and down trading risk in this sector and cos which are more resilient to near term disruption have already seen re-rating. Thereby, risk-reward has become unattractive for most stocks from medium term perspective. We remain selective in sector as extremely stretched valuations keep us on sidelines, esp. on large caps. We downgrade rating on DABUR, BRITANNIA and EMAMI from ADD to REDUCE, UNSP from BUY to ADD. We initiate coverage on NESTLE and GCPL with REDUCE rating. Within our existing coverage, we remain positive on ITC, UNSP, JUBI, COLGATE and RADICO.



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INSTITUTIONAL RESEARCH



# FMCG

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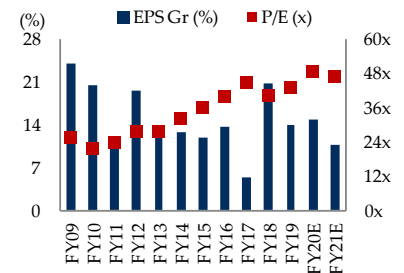
- Covid-19 impact:** Our conversations with various MGTs reflect that the lock-down will have significant impact of primary growth in 4QFY20. Consumer offtake for essential goods has been strong and trade inventory corrected sharply. Most cos lost 12-15 days of revenue in March which will impact 4QFY20 by 13-15%. That channel filling opportunity will add to FY21 revenue by ~3%. We have done company-wise potential impact of Covid-19 on FY21 revenues ([link](#)). We believe HUL, Nestle, Britannia and Colgate will have relatively low impact while Jubilant and Emami will have high impact.
- Topline recovery pushed back:** Macro support for growth has been lacking, as most indicators (negative real rural wage growth, agricultural growth, MSP rates, job creation and Consumer Confidence Index) are not reflecting a meaningful recovery. Covid-19 induced slowdown will have maximum adverse impact on income growth at bottom of the pyramid, which will hurt non-essential staples consumption with a lag.
- Market share gain opportunities for category leaders:** In turbulent times, cos with strong distribution, product diversification and superior execution, are expected to gain further market share. Bolt-on acquisitions are likely to gain pace as small players find it difficult to sustain themselves. Cos will focus on cost optimisation, which along with lower input costs and A&P moderation will help mitigate the negative operating leverage.
- Category wise analysis:** In our category-wise analysis ([link](#)), interestingly, even during the economic slowdown of the trailing 12 months, categories like F&B, QSR, Home Care, Cigarettes, Liquor and OTC FMCG grew at 6-8%. In contrast, laggards like Personal Care and Hair Care grew at ~3%.
- Valuation divergence at all-time highs:** Given unprecedented times, valuations have also seen sharp polarisation given risk-aversion and flight to safety. Valuation divergence within sector is at an all-time high (P/E range of 10-65x across business models) with preference for large-cap defensives like HUVR, NEST, DABUR and BRIT. We believe valuations for these companies are too rich in comparison to their medium term growth prospects. While sector doesn't offer value bargains yet, we see better opportunities in select stocks where business models are strong and valuations have normalised in the last 12-18 months (e.g. ITC, UNSP, COLGATE) and now more in sync and reflective of their medium term growth potential.

## INSTITUTIONAL RESEARCH

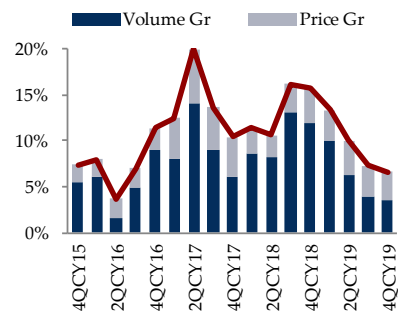
Company	CMP (Rs)	TP (Rs)	Reco.
HUL	2,373	2,113	REDUCE
ITC	185	221	BUY
Nestle	16,844	14,042	REDUCE
Dabur	485	447	REDUCE
Britannia	2,803	2,711	REDUCE
GCPL	595	529	REDUCE
Marico	295	287	REDUCE
UNSP	550	586	ADD
Jubilant	1,422	1,502	ADD
Emami	229	221	REDUCE
Radico	313	371	BUY
Colgate	1,365	1,372	ADD

Note: CMP is of 9 April'20

### FMCG Universe: Earnings vs. Valuation (Ex-ITC)



### FMCG Sector Growth



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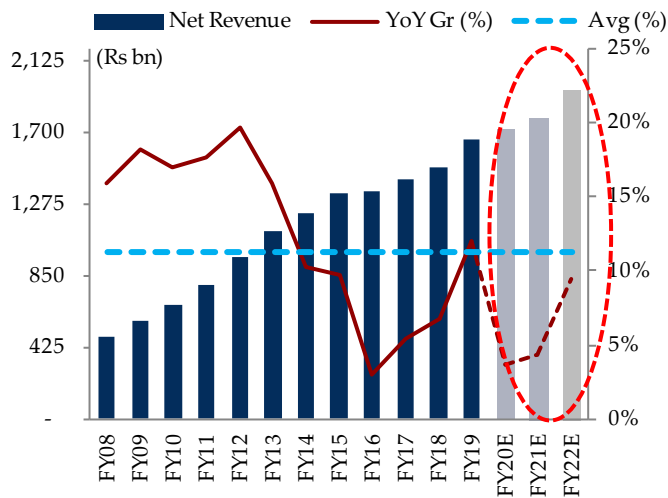
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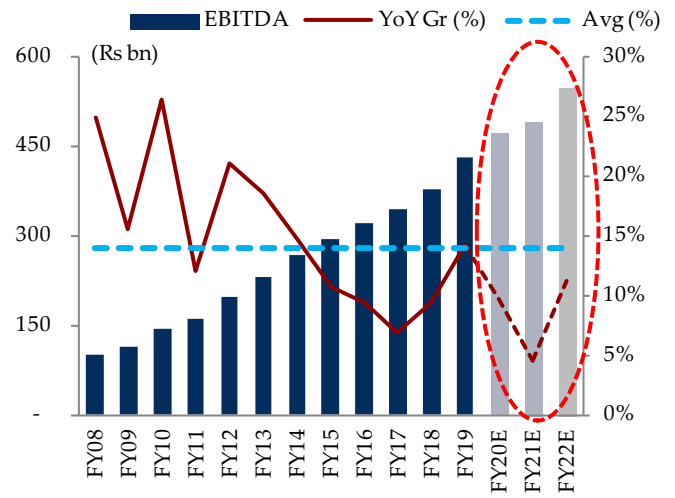
## Focus Charts

**Exhibit 1: FMCG Universe : Revenue Performance**



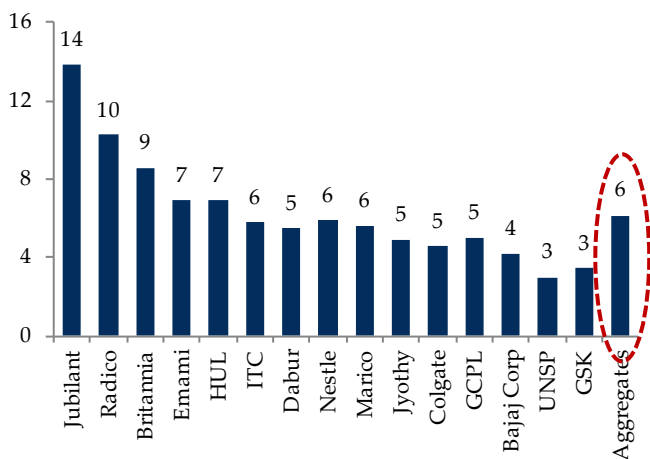
Source: Companies, Bloomberg, HDFC sec Inst Research

**Exhibit 2: FMCG Universe : EBITDA Performance**



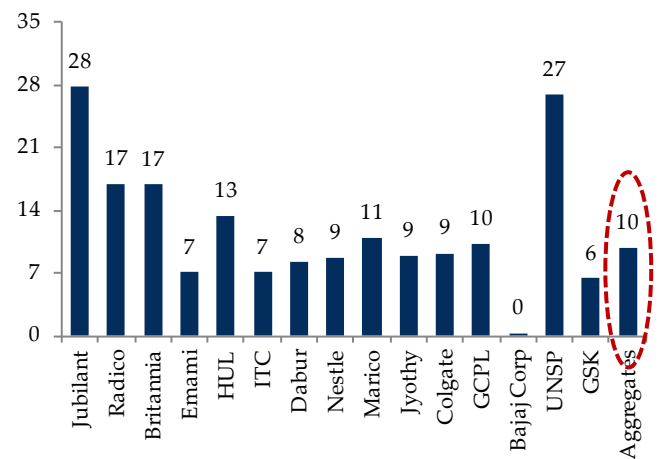
Source: Companies, Bloomberg, HDFC sec Inst Research

**Exhibit 3: Revenue CAGR In The Last 5 Years**



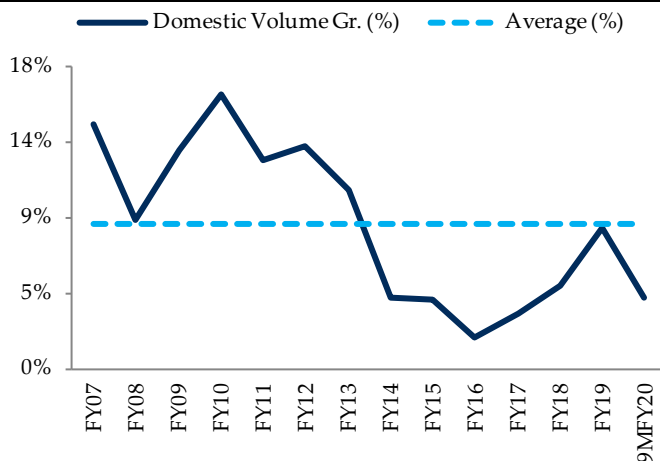
Source: Companies, HDFC sec Inst Research

**Exhibit 4: EBITDA CAGR In The Last 5 Years**



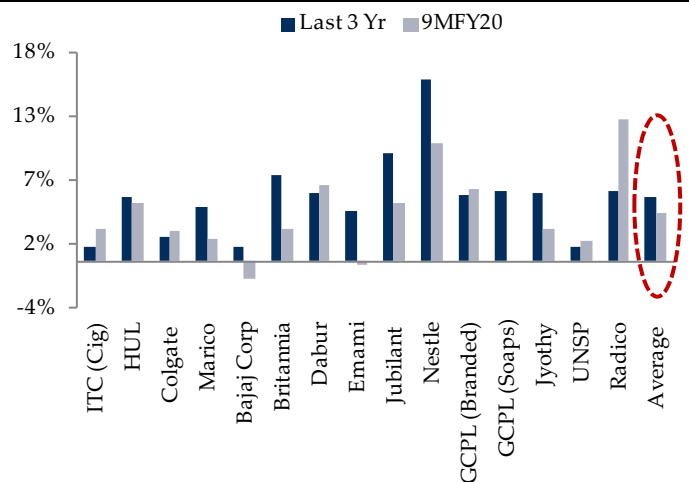
Source: Companies, HDFC sec Inst Research

**Exhibit 5: FMCG Universe : Volume Performance**



Source: Companies, HDFC sec Inst Research

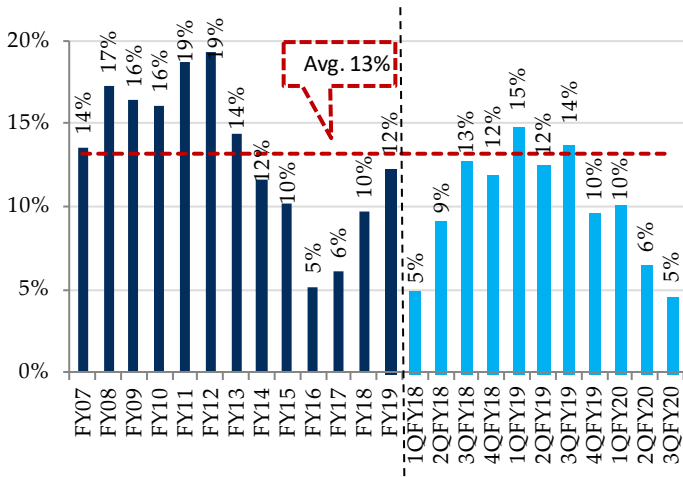
**Exhibit 6: FMCG Universe : Company Volume Performance**



Source: Companies, HDFC sec Inst Research

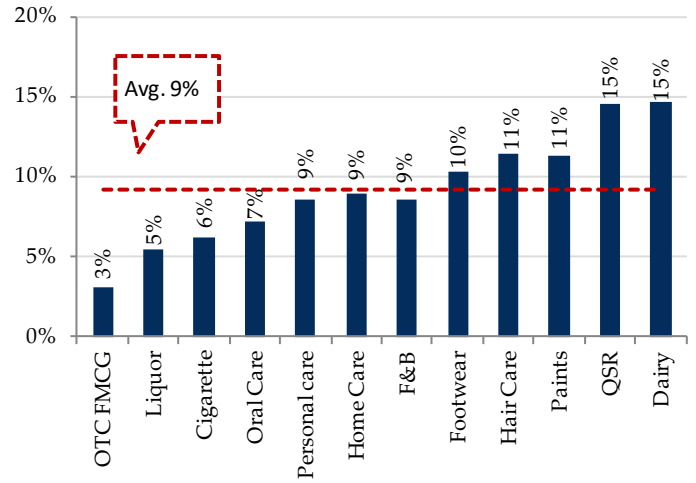
FMCG Sector Thematic

Exhibit 7: HDFC Sec Consumer Index: Universe Revenue Growth



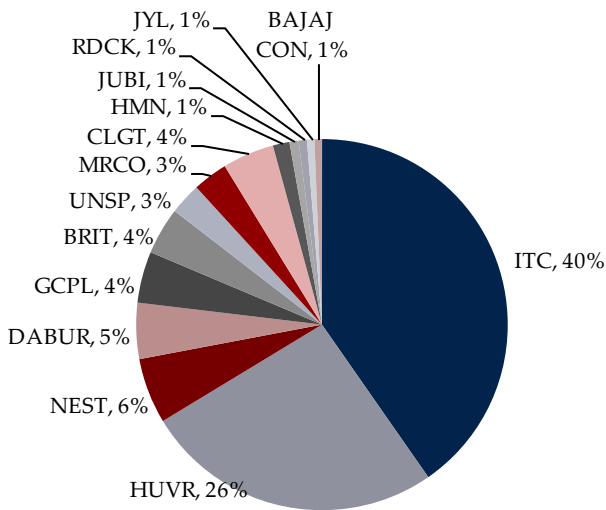
Source: Companies, HDFC sec Inst Research  
HDFC Sec Consumer Index ([Link](#))

Exhibit 8: HDFC Sec Consumer Index: 5 Yr Revenue CAGR



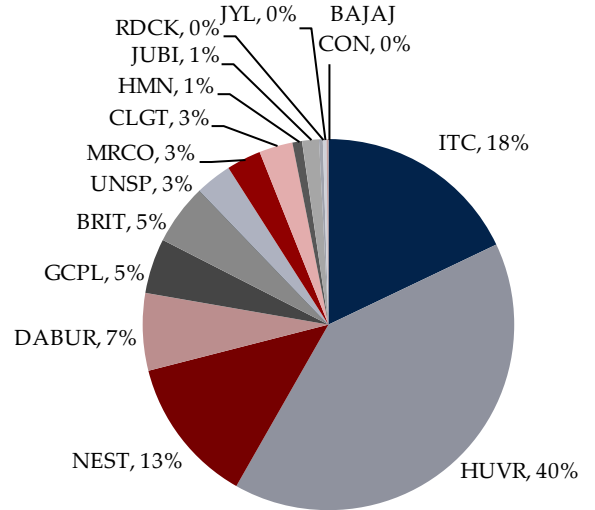
Source: Companies, HDFC sec Inst Research  
HDFC Sec Consumer Index ([Link](#))

Exhibit 9: FMCG Universe: Profit Mix



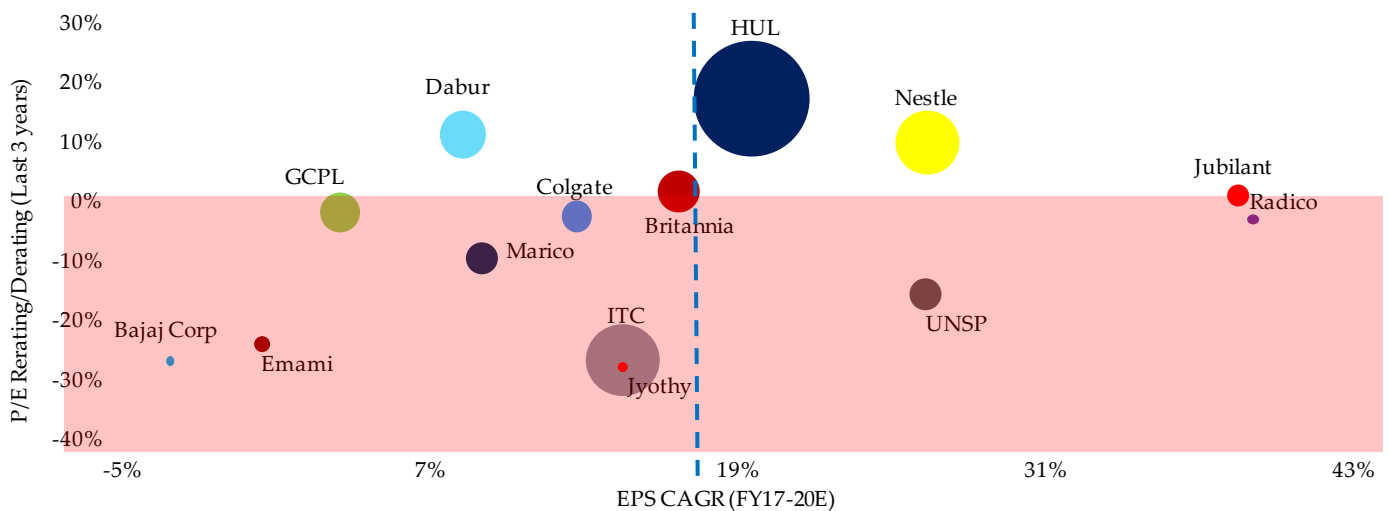
Source: Companies, Bloomberg, HDFC sec Inst Research

Exhibit 10: FMCG Universe: Market Cap Mix



Source: Companies, Bloomberg, HDFC sec Inst Research

Exhibit 11: FMCG Universe: Earnings vs. Valuation (FY17-20E)



Source: Bloomberg, Companies, HDFC sec Inst Research Bubble represents market cap Note: Jubilant is for 4 years

## Contents

Covid-19 Impact .....	5
FMCG Universe: Waiting for new normal .....	10
FMCG Universe: Macros weakness will sustain .....	16
FMCG Universe: Valuation premium further expanding.....	22
Category Insights (Listed + Unlisted).....	27
Commodity Trend .....	39
International Performance Review.....	40
<b>Companies</b>	
ITC .....	42
HUL .....	46
Nestle.....	50
Dabur.....	55
Britannia .....	58
Marico.....	62
Colgate-Palmolive .....	66
Emami .....	70
Jubilant FoodWorks.....	74
Godrej Consumers .....	78
United Spirits .....	82
Radico.....	86

## Covid-19 Impact

An unprecedented time needs unprecedented actions. Humanity is witnessing one of its toughest challenges in the form of Covid-19. Globally, the situation has been escalating more than expected. India is not an exception to this, and despite govt's various measures, we are seeing a rise in toll.

From a consumption viewpoint, the situation is unique, as we have moved back to our traditional consumption pattern i.e. Eat at home, Eat healthy, Eat cautiously. Several unique trends are emerging in consumption- (1) Pre-buying of necessary goods to avoid shortage in crucial time, (2) Spur in packaged food (longer storage life, hygiene), (3) Increased use of hygiene products like hand sanitizers, soaps and home cleaners and (4) Health related buying (medicines, health supplements, OTC FMCG). Therefore, unique patterns are emerging, and consumer offtakes are growing faster than primary growth. Categories like soaps, which had seen a moderation in growth, are returning to high growth rate as consumers become more aware about hygiene and cleanliness. Not only are online platforms growing multi-fold, but retail shelves have also been vacating like never before. Similarly, many categories are also facing sudden drop in demand (discretionary consumption) which will either be recovered once situation normalizes, or be foregone revenue.

Such a scenario is creating lots of buzz and question marks in our minds about what is sustainable and how to project numbers. We thought, rather than being confused by trends led by pre-buying and postponement (significantly changing primary level growth), it is better if we think about how consumer offtake will grow in FY21. This will rebalance all sort of pre-buying and postponement divergence. [Following is the possible impact of Covid-19 on different categories.](#)

Categories	Impact - FY21
Packaged Food	Green
Personal Care	Red
Home Care	Green
QSR	Red
Liquor	Light Green
Cigarette	Red

Positive	Green
Mild Positive	Light Green
Negative	Red
Mild Negative	Light Red

Note: Positive and Negative are relative growth impact rather than absolute growth

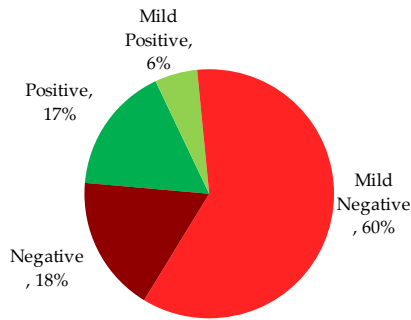
### Exhibit 12: Possible impact of Covid-19 on different categories

Categories	Covid-19 impact on FY21E	Comments
<b>Packaged Food</b>		
Biscuits	Green	Led by more home consumption
Bread, Rusk	Green	Led by more home consumption
Packaged Atta	Green	Lockdown will increase the consumption of packaged atta
Dairy products	Light Green	Higher home food consumption will be positive for curd, ghee, tetra pack
Chocolate	Green	Led by more home consumption
Edible Oil	Light Green	More home cooking will lead to higher consumption of edible oil
Aerated drinks	Red	Less physical activity with more consciousness around health
ICE Cream	Red	Led by more stay at home during season
Noodles	Green	Led by more home consumption
Health Supplement	Light Green	More consciousness around health
Fruit Juices	Red	Led by more stay at home during season
<b>Personal Care</b>		
Hair Oil	Red	Limited outing will reduce the consumption (particularly premium and perfumed oil)
Shampoo	Red	Limited outing will reduce the consumption
Hair Color	Light Green	Lockdown of salons can increase demand for hair color (home applicant)
Skin Care	Red	Limited outing will reduce the outdoor consumption
Oral Care	Light Green	More consciousness around health, ayurvedic/naturals products can see more traction
Deodorant	Red	Limited outing will reduce the consumption
Male Grooming	Red	Limited outing will reduce the consumption
<b>Home Care</b>		
Detergent	Light Green	Organised players will gain share, regional players will see more challenges
Soaps	Green	More consciousness around health
Toilet Cleaner	Green	More consciousness around health
Dishwasher	Green	More home cooking will lead to higher consumption of dishwasher
HI	Green	More consciousness around safety and health
<b>QSR</b>	Red	Eating-out will be impacted sharply during lockdown and recovery will be gradual
<b>Liquor</b>	Light Green	~90% liquor is consumed at home, hence higher stay at home can increase the consumption
<b>Cigarette</b>	Red	Limited outing and health consciousness will reduce the consumption

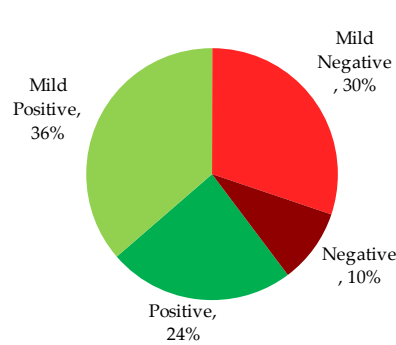
# Covid-19 Impact on FMCG Companies

Positive and Negative are relative growth impact rather than absolute growth

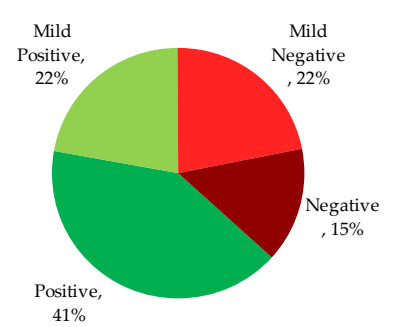
**Exhibit 13: ITC Revenue Impact**



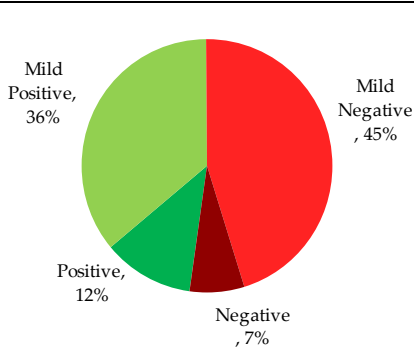
**Exhibit 14: HUL Revenue Impact**



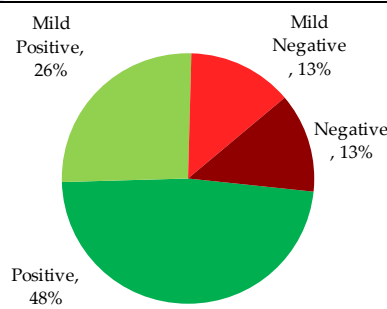
**Exhibit 15: NESTLE Revenue Impact**



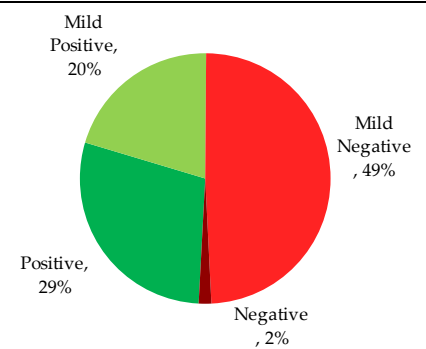
**Exhibit 16: DABUR Revenue Impact**



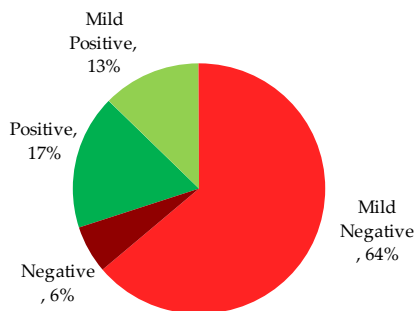
**Exhibit 17: BRITANNIA Revenue Impact**



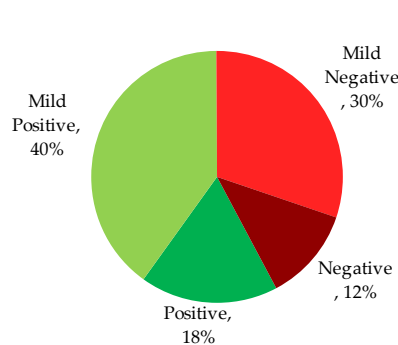
**Exhibit 18: GCPL Revenue Impact**



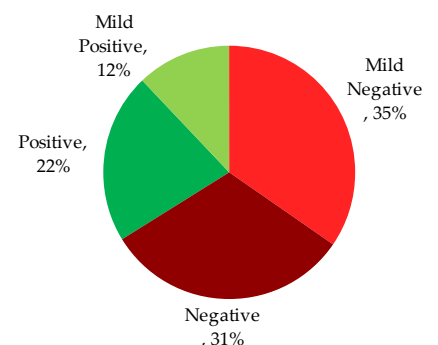
**Exhibit 19: MARICO Revenue Impact**



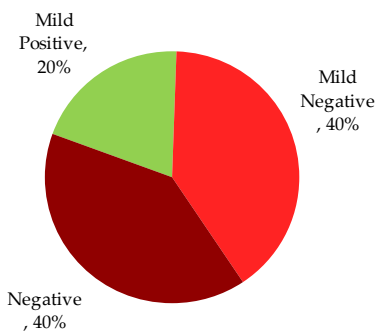
**Exhibit 20: COLGATE Revenue Impact**



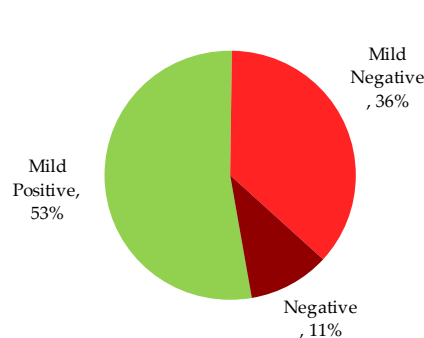
**Exhibit 21: EMAMI Revenue Impact**



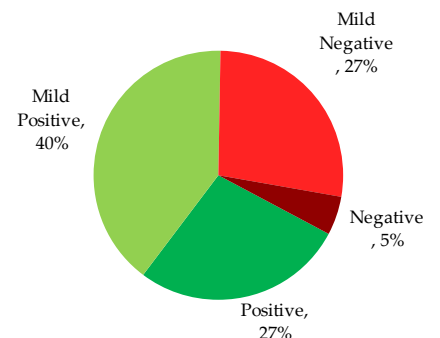
**Exhibit 22: JUBILANT Revenue Impact**



**Exhibit 23: UNSP Revenue Impact**



**Exhibit 24: RADICO Revenue Impact**

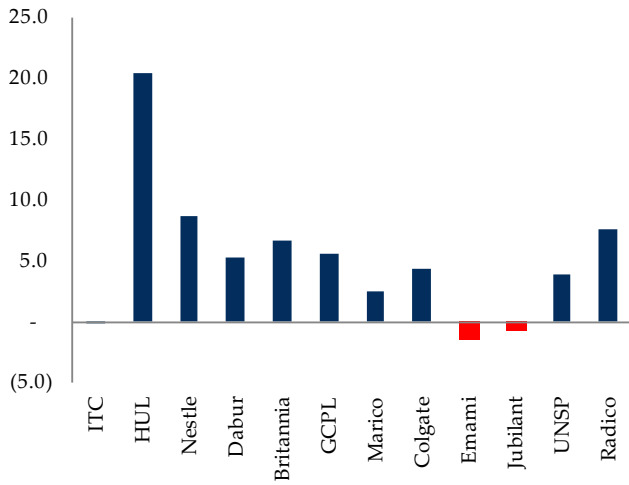


**Exhibit 25: Covid-19: Impact on FMCG cos (Positive and Negative are relative growth impact rather than absolute growth)**

Companies	Positive	Mild Positive	Mild Negative	Negative
ITC	- FMCG (Atta, Biscuits, Soap, etc) -Home Care (Nimyle Floor Cleaner)	- FMCG (Snacks, Noodles)	- Personal Care (Hair Care) - Cigarette (KSFT/RSFT) - Juices - Stationery - Paper & Agri biz	- Personal Care (Deo, Perfume, New launches) - Cigarette (DSFT) - Hotels
HUL	- Dishwash - Soaps - Packaged Food	- Detergent (mid-mass, share gains from regional players) - Tea/Coffee (led by home consumption) - HFD	- Detergent (Premium - led by limited travelling) - Skin Care - Export	- Color Cosmetics - Deo, Perfume - New launches
Nestle	- Noodles - Milk Tetra packs - Dairy Whitener	- Coffee/Tea	- Cold beverage - Chocolate	- Chocolate (New) - New launches
DABUR	- Health Supplement - Home Care (More focus on hygiene)	- Oral care (acceleration in ayurvedic trend) - OTC FMCG - Digestive - Juice (Large packs are home consumption)	- Hair Care - International	- Skin Care - Juices (small packs are dependent on travelling) - New launches
BRITANNIA	- Biscuits (mid-value) - Rusk - Cake (more packaged cake vs. bakery cake)	- Biscuits (Premium)	- Dairy - International	- Biscuits (new launch) - New launches
GCPL	- Home care (HI will be led by hygiene and safety) - Personal Wash	- Hair Care (Packaged hair color will grow for home consumption)	- International	- Exports - New launches
MARICO	- Edible oil (Active) - Food	- Edible oil (Gold)	- PCNO (saloon led consumption will be down) - VAHO - International	- Youth Portfolio - New launches
COLGATE	- Toothbrush (share gains from regional players)	- Toothpaste (value segment)	- Toothpaste (mid and sensitive segment as ayurvedic trend can accelerate)	- Toothpaste (Premium segment) - New launches
EMAMI	- Balm - Health Supplement	- Fast Relief - Chyawanprash	- Kesh King - International	- Navratna Cooling (Will miss summer filling, Saloon demand will be down) - Fair & Handsome - New launches
JUBILANT		- In the new normal, QSR will gain market share as consumer will focus on hygiene and quality	- Mild negative for delivery as few months delivery will also witness pressure	- Dine-in will see immense pressure in FY21 - Pizza Mania, Dessert and Beverages will be more impacted - New launches pace
UNSP		- Popular - Entry level P&A	- Premium P&A	- Super premium P&A - New launches
RADICO	- Popular - Entry level P&A	- Premium P&A	- Super premium P&A	- New launches

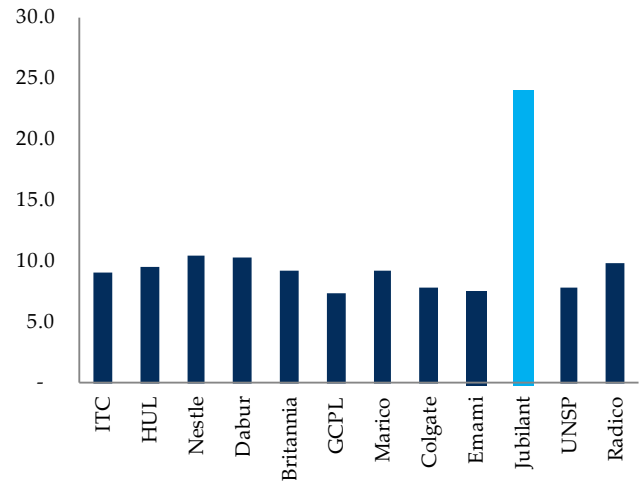


**Exhibit 26: FMCG Universe: Revenue Growth FY21E**



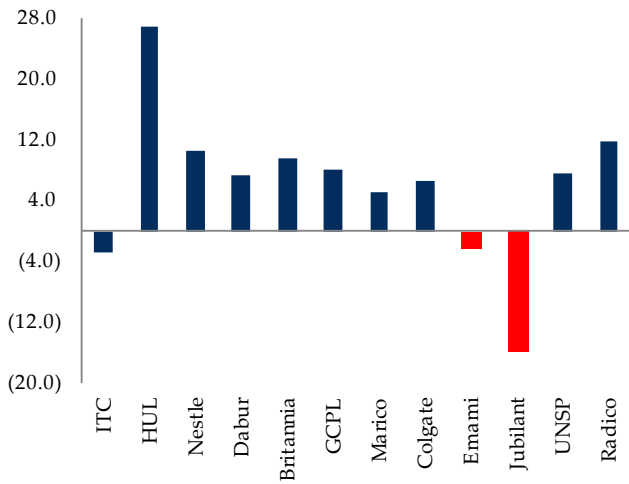
Source: HDFC sec Inst Research

**Exhibit 27: FMCG Universe: Revenue Growth FY22E**



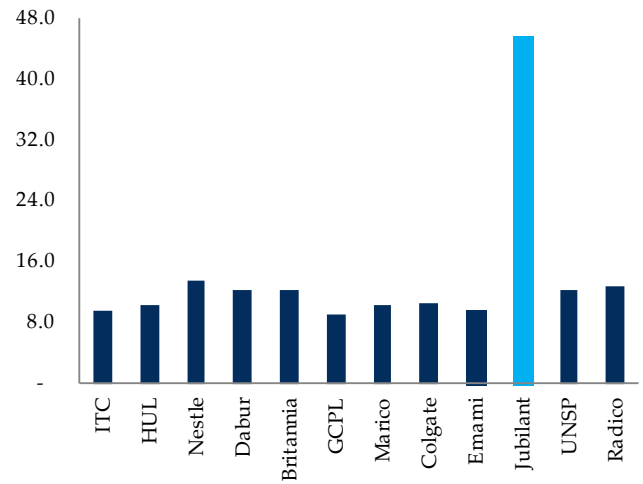
Source: HDFC sec Inst Research

**Exhibit 28: FMCG Universe: EBITDA Growth FY21E**



Source: HDFC sec Inst Research

**Exhibit 29: FMCG Universe: EBITDA Growth FY22E**



Source: HDFC sec Inst Research

## Exhibit 30: Valuation Summary

Companies	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			Core RoCE (%)		
					FY20E/ CY19P	FY21E/ CY20E	FY22E/ CY21E	FY20E/ CY19P	FY21E/ CY20E	FY22E/ CY21E	FY20E/ CY19P	FY21E/ CY20E	FY22E/ CY21E	FY20E/ CY19P	FY21E/ CY20E	FY22E/ CY21E
HUL	5,136	2,373	REDUCE	2,113	33.3	40.1	45.0	71.2	59.2	52.8	48.7	41.4	37.3	37.7	26.7	30.2
ITC	2,009	185	BUY	221	12.5	11.9	13.0	14.8	15.5	14.2	10.1	10.2	9.1	44.5	43.4	48.0
Nestle	1,561	16,844	REDUCE	14,042	206.2	237.7	279.0	81.7	70.9	60.4	54.5	48.8	42.6	74.9	70.3	68.7
Dabur	854	485	REDUCE	447	9.0	10.0	11.2	53.9	48.4	43.4	43.3	40.1	35.6	51.4	52.7	55.9
Britannia	673	2,803	REDUCE	2,711	56.4	61.9	71.4	49.7	45.3	39.3	36.1	32.4	28.4	41.1	43.4	47.2
GCPL	608	595	REDUCE	529	14.5	15.9	17.6	41.0	37.5	33.8	29.2	28.1	25.9	18.5	20.0	22.1
Marico	381	295	REDUCE	287	8.1	8.5	9.6	36.6	34.6	30.8	25.8	24.8	22.5	43.9	45.8	50.5
UNSP	400	550	ADD	586	11.9	13.7	16.1	46.3	40.2	34.2	27.4	25.0	21.8	17.9	19.1	20.8
Colgate	372	1,365	ADD	1,372	29.8	32.0	36.1	45.8	42.7	37.8	29.0	27.1	24.2	69.6	72.7	80.5
Jubilant	188	1,422	ADD	1,502	30.1	21.9	37.5	47.2	65.1	37.9	28.5	35.6	22.2	31.4	12.0	22.6
Emami	108	229	REDUCE	221	11.7	11.6	13.0	19.6	19.7	17.6	14.0	14.0	12.6	23.2	24.1	29.9
Radico	42	313	BUY	371	16.1	19.6	23.2	19.4	16.0	13.5	11.8	10.0	8.4	14.9	14.3	15.8

Note: CMP is of 9 April'20

## Exhibit 31: Change in Estimates, TP and Rating

Companies	EPS (FY21E)			EPS (FY22E)			Target P/E (x)		TP		RATING	
	OLD	NEW	Chg (%)	OLD	NEW	Chg (%)	OLD	NEW	OLD	NEW	OLD	NEW
HUL	40.9	40.1	-2%	45.5	45.0	-1%	47	47	2,140	2,113	REDUCE	REDUCE
ITC	13.5	11.9	-12%	14.6	13.0	-11%	18	17	265	221	BUY	BUY
Nestle	na	237.7	na	na	279.0	na	na	47	NA	14,042	NA	REDUCE
Dabur	10.7	10.0	-7%	12.3	11.2	-9%	43	40	529	447	ADD	REDUCE
Britannia	66.4	61.9	-7%	77.2	71.4	-8%	43	38	3,318	2,711	ADD	REDUCE
GCPL	na	15.9	na	na	17.6	na	na	30	NA	529	NA	REDUCE
Marico	8.9	8.5	-4%	10.1	9.6	-6%	30	30	304	287	REDUCE	REDUCE
UNSP	15.7	13.7	-13%	18.7	16.1	-14%	43	35	827	586	BUY	ADD
Colgate	32.9	32.0	-3%	37.4	36.1	-3%	38	38	1,497	1,372	ADD	ADD
Jubilant	38.6	21.9	-43%	48.2	37.5	-22%	43	40	2,073	1,502	ADD	ADD
Emami	13.6	11.6	-14%	15.1	13.0	-14%	20	17	302	221	ADD	REDUCE
Radico	21.1	19.6	-7%	24.7	23.2	-6%	20	16	495	371	BUY	BUY

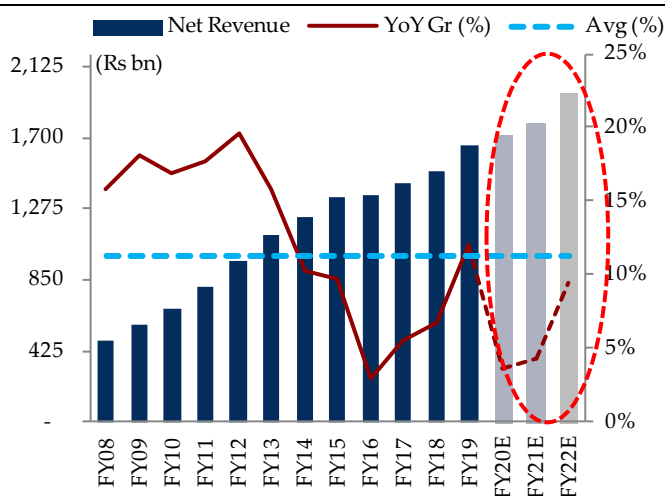
Note: Nestle and GCPL initiating coverage with this report

## FMCG Universe: Waiting for new normal

We were expecting that FY21 will be the year with revival in demand particularly from rural market which has been a dragger for FY20 for the sector. With base becoming favourable, the ask was limited from macros to clock healthy growth from sector. We were expecting that some categories might show mean reversion in growth which had struggled in FY20. However, Covid-19 has changed the entire expectation. Nobody is looking for recovery as of now, rather thinking about which business has the potential to recover post Covid-19 impact. In the new normal, there can be structural change in some of the categories in which some will be beneficiary and some will be laggard.

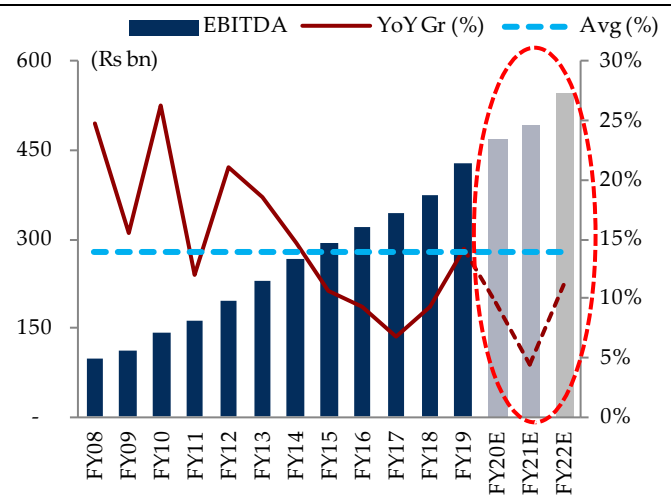
In our coverage universe, we model that recovery will take slightly longer, and many companies will struggle in FY21 wrt revenue and EBITDA growth.

**Exhibit 32: FMCG Universe : Revenue Performance**



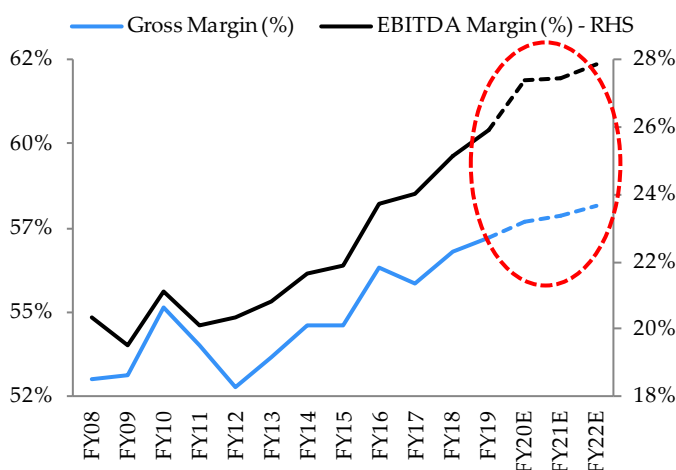
Source: Companies, Bloomberg, HDFC sec Inst Research

**Exhibit 33: FMCG Universe : EBITDA Performance**



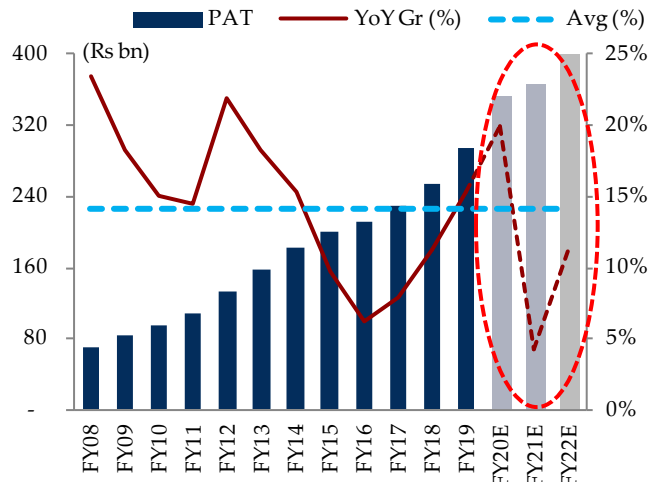
Source: Companies, Bloomberg, HDFC sec Inst Research

**Exhibit 34: FMCG Universe : EBITDA Margin**



Source: Companies, Bloomberg, HDFC sec Inst Research

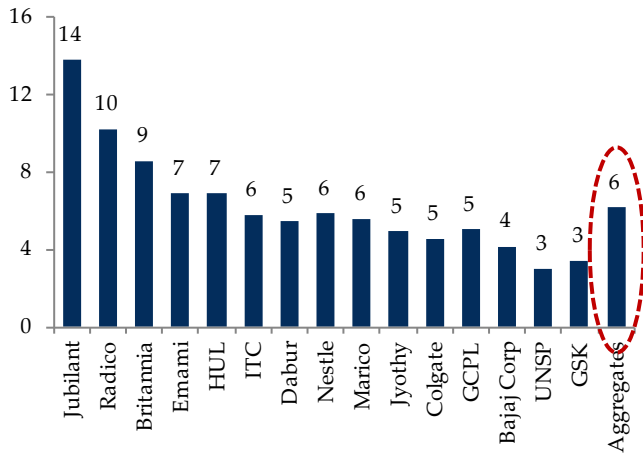
**Exhibit 35: FMCG Universe : APAT Performance**



Source: Companies, Bloomberg, HDFC sec Inst Research

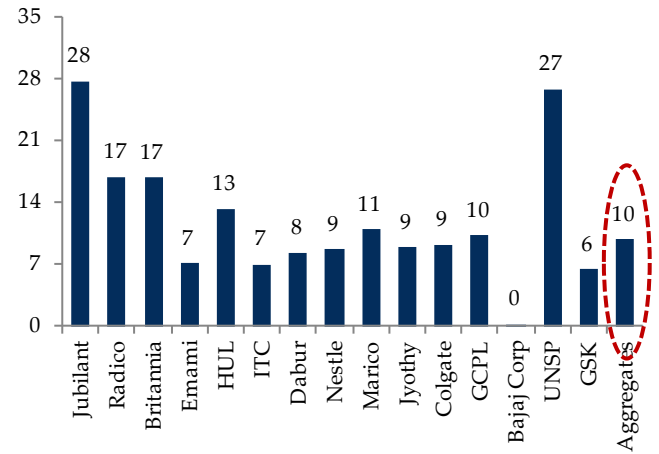
Note: The FMCG Universe described above comprises our coverage stocks (ITC, HUL, Nestle India, Dabur, Britannia, GCPL, UNSP, Marico, Colgate, Jubilant FoodWorks, Emami and Radico) and Bloomberg estimates for stocks we don't cover (Jyothy Labs and Bajaj Consumer)

**Exhibit 36: Revenue CAGR In The Last 5 Years**



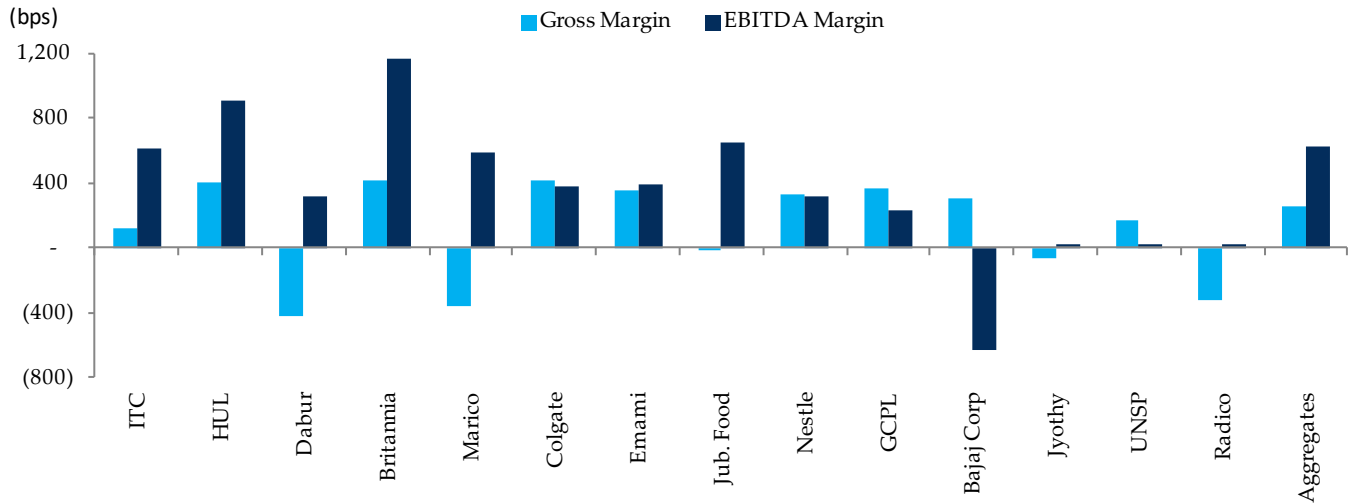
Source: Companies, HDFC sec Inst Research

**Exhibit 37: EBITDA CAGR In The Last 5 Years**



Source: Companies, HDFC sec Inst Research

**Exhibit 38: FMCG Universe: Gross and EBITDA Margin in last 10 years**



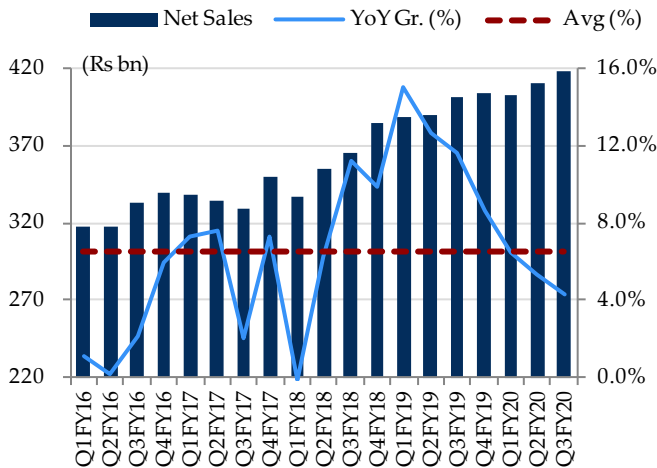
Source: Companies, HDFC sec Inst Research

### Exhibit 39: FMCG Universe : Quarterly Performance

Particulars (Rs bn)	Qtr Performance					Qtr Performance (Ex-ITC)				
	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenues	400.7	403.1	402.7	410.8	417.8	286.4	281.1	287.7	292.1	297.6
YoY Chg. (%)	11.6%	8.6%	6.4%	5.3%	4.3%	10.3%	6.8%	6.7%	5.3%	3.9%
EBITDA	102.0	105.4	109.8	110.6	112.2	58.7	59.7	64.1	65.0	66.0
YoY Chg. (%)	12.0%	8.0%	13.0%	10.7%	10.0%	12.8%	6.2%	16.4%	12.4%	12.5%
APAT	71.0	74.4	74.1	88.3	83.7	38.9	40.1	42.3	48.1	45.9
YoY Chg. (%)	13.1%	10.7%	14.3%	27.1%	17.8%	12.6%	5.7%	15.6%	20.4%	17.9%

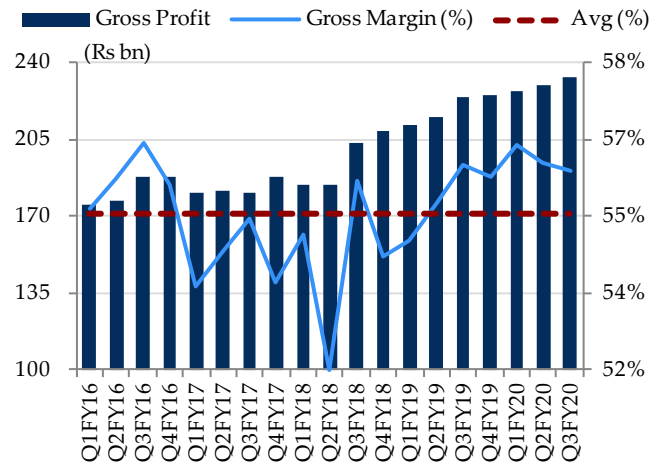
Source: Companies, HDFC sec Inst Research

### Exhibit 40: FMCG Universe : Quarterly Revenue



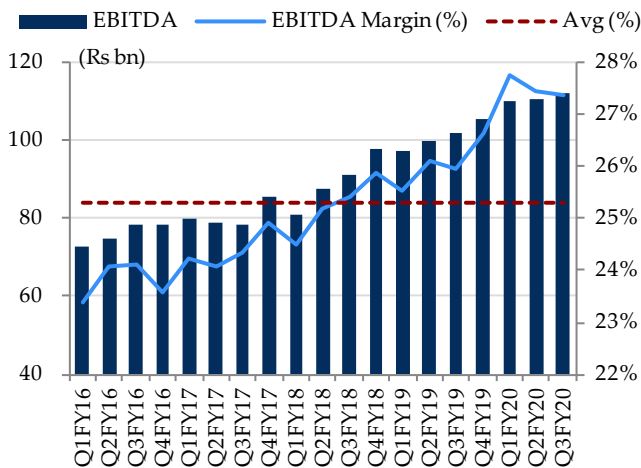
Source: Companies, HDFC sec Inst Research

### Exhibit 41: FMCG Universe : Quarterly Gross Profit



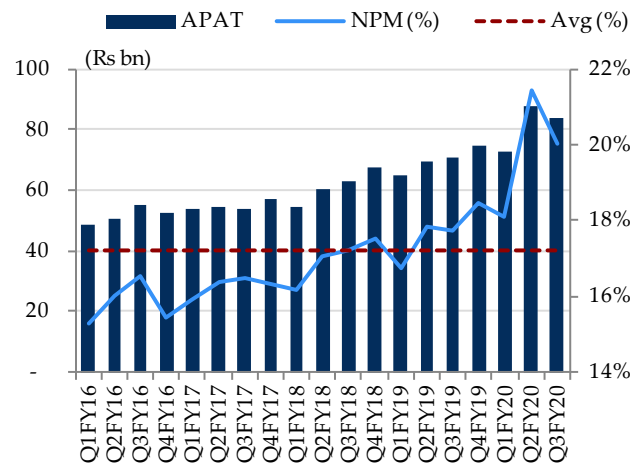
Source: Companies, HDFC sec Inst Research

### Exhibit 42: FMCG Universe : Quarterly EBITDA



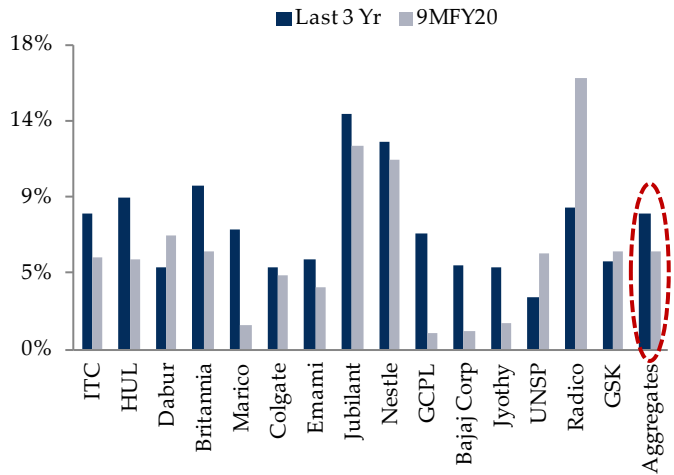
Source: Companies, HDFC sec Inst Research

### Exhibit 43: FMCG Universe : Quarterly PAT

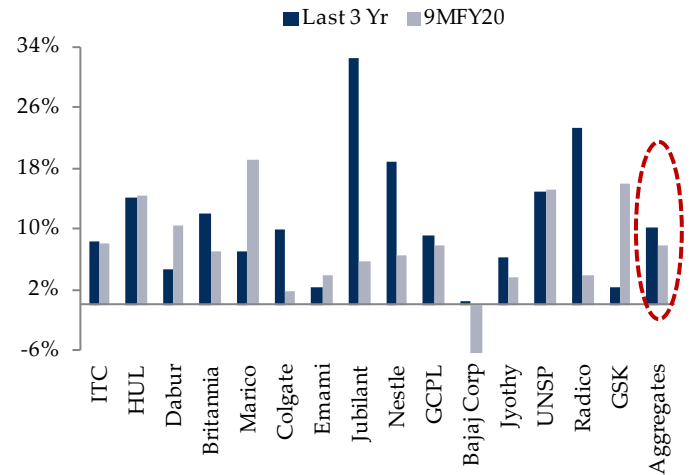


Source: Companies, HDFC sec Inst Research

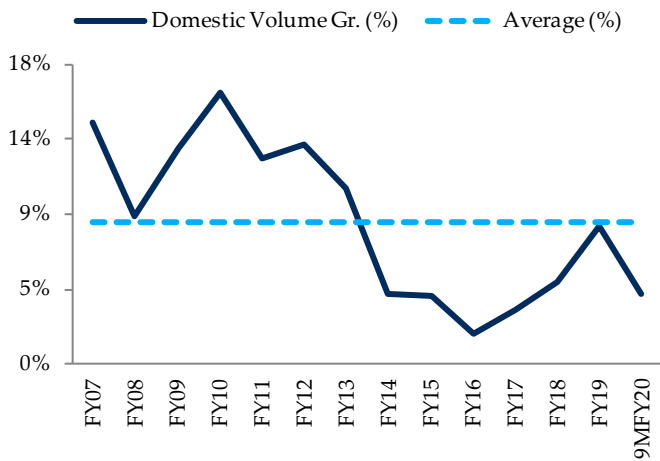
## FMCG Sector Thematic

**Exhibit 44: FMCG Universe : Company Revenue Performance**


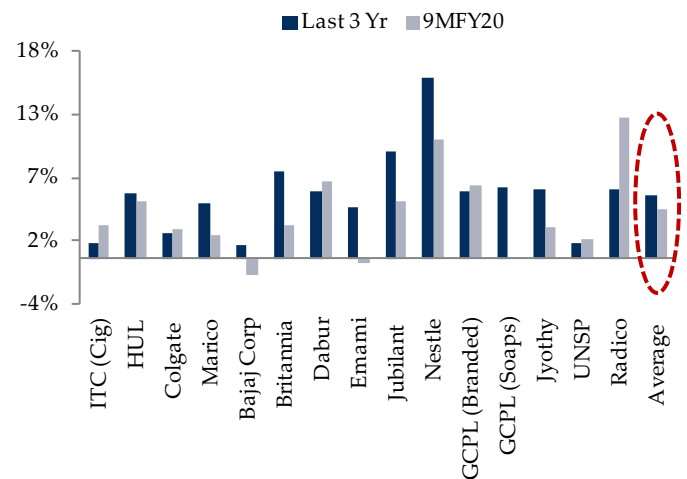
Source: Companies, Bloomberg, HDFC sec Inst Research

**Exhibit 45: FMCG Universe : Company EBITDA Performance**


Source: Companies, Bloomberg, HDFC sec Inst Research

**Exhibit 46: FMCG Universe : Volume Performance**


Source: Companies, HDFC sec Inst Research

**Exhibit 47: FMCG Universe : Company Volume Performance**


Source: Companies, HDFC sec Inst Research

**Exhibit 48: 3QFY20 Performance**

Companies	NET SALES (Rs bn)			Like-Like EBITDA (Rs bn)			Like-Like EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	3Q FY20	QoQ (%)	YoY (%)	3Q FY20	QoQ (%)	YoY (%)	3Q FY20	QoQ (bps)	YoY (bps)	3Q FY20	QoQ (%)	YoY (%)	3Q FY20	2Q FY20	3Q FY19
ITC	120.1	1.2	5.1	46.1	1.1	6.6	38.4	(3)	56	37.8	(6.1)	17.7	3.1	3.3	2.6
HUL	97.0	(0.1)	3.6	23.3	(0.4)	14.0	23.8	1	237	16.9	(7.4)	20.7	7.8	8.4	6.5
Nestle	31.5	(2.1)	8.7	6.9	(10.2)	10.8	21.8	(197)	42	4.7	(20.6)	38.4	49.1	61.8	35.4
Britannia	29.8	(2.2)	4.9	5.0	2.0	11.1	16.8	69	94	3.7	(8.1)	23.3	15.4	16.8	12.5
United Spirits	25.8	12.5	3.4	4.2	3.7	5.8	16.3	(138)	37	2.6	15.2	44.1	3.6	3.1	2.5
Dabur	23.5	6.4	7.0	4.8	0.6	8.4	20.5	(117)	27	4.1	(4.8)	13.0	2.3	2.5	2.1
Marico	18.2	(0.3)	(2.0)	3.6	2.3	3.5	19.8	49	104	2.7	10.1	10.0	2.1	1.9	1.9
Colgate	11.5	(6.1)	4.3	3.2	(2.1)	0.5	27.6	112	(105)	2.0	(18.4)	3.7	7.3	9.0	7.1
Jubilant Food	10.6	7.2	14.1	1.8	9.7	4.1	16.8	37	(161)	1.1	7.3	16.3	8.5	7.9	7.3
Emami	8.1	23.1	0.2	2.6	36.8	0.2	32.5	326	1	1.9	31.1	0.8	4.3	3.3	4.3
Radico Khaitan	6.5	13.6	17.2	1.0	18.7	5.0	15.5	67	(180)	0.6	23.4	19.6	4.7	3.8	3.9
<b>Aggregates</b>	<b>382.7</b>	<b>1.7</b>	<b>4.9</b>	<b>102.6</b>	<b>0.9</b>	<b>8.2</b>	<b>26.8</b>	<b>(21)</b>	<b>82</b>	<b>78.2</b>	<b>(5.8)</b>	<b>18.9</b>			

Source: Companies, HDFC sec Inst Research

## Exhibit 49: FMCG Universe: Revenue Growth (Value)

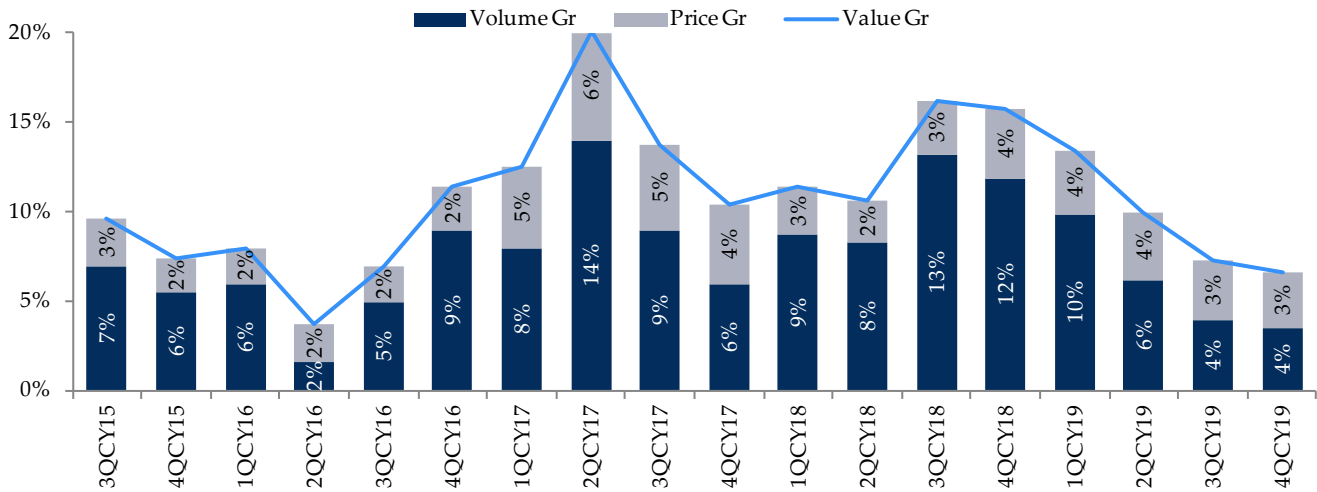
Value Growth	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	FY15	FY16	FY17	FY18	FY19
<b>Personal Products</b>												
HUL	16%	11%	11%	9%	7%	7%	3%	10%	4%	3%	12%	12%
Colgate	7%	8%	6%	6%	4%	5%	4%	11%	5%	3%	5%	7%
Dabur	24%	9%	15%	6%	11%	5%	6%	13%	7%	0%	5%	11%
Emami	21%	0%	7%	3%	2%	2%	5%	19%	20%	10%	0%	6%
<b>Hair Care</b>												
Bajaj Corp.	18%	1%	12%	11%	8%	3%	-7%	17%	7%	-1%	12%	9%
Marico - FMCG	23%	20%	13%	7%	6%	-3%	-5%	26%	7%	-2%	9%	16%
Marico - PCNO	38%	32%	19%	4%	8%	-4%	-5%	44%	5%	-9%	22%	23%
Marico -VAHO	12%	12%	19%	7%	11%	-6%	-17%	25%	16%	4%	4%	12%
<b>Home Care</b>												
GCPL - Branded Biz	14%	10%	6%	0%	1%	1%	1%	9%	9%	2%	10%	8%
Jyothy Labs - Overall	21%	7%	6%	6%	2%	9%	-6%	14%	5%	6%	3%	15%
<b>F&amp;B</b>												
Britannia Industries	12%	13%	11%	10%	6%	6%	5%	19%	13%	12%	14%	10%
Marico - Saffola	9%	9%	8%	15%	6%	5%	13%	11%	10%	8%	-4%	10%
Nestle - Domestic	15%	17%	12%	10%	13%	11%	10%	9%	-18%	15%	12%	13%
<b>QSR</b>												
Jubilant FoodWorks	26%	21%	17%	11%	10%	12%	14%	20%	16%	6%	17%	18%
Westlife Development	30%	32%	21%	12%	12%	13%	17%	3%	12%	12%	22%	23%
Pizza Hut - System Sales Gr	22%	20%	14%	11%	9%	2%	8%	14%	-5%	1%	10%	19%
KFC - System Sales Gr	20%	25%	17%	26%	22%	19%	23%			7%	9%	20%
<b>Others</b>												
ITC-Cig	9%	10%	10%	11%	6%	6%	5%	9%	4%	5%	5%	10%
Godfrey Phillips	7%	6%	8%	13%	40%	12%	13%	4%	-3%	3%	8%	13%
VST Industries	16%	32%	23%	-2%	25%	3%	17%	6%	6%	4%	3%	16%

## Exhibit 50: FMCG Universe: Revenue Growth (Volume)

Volume Growth	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	FY15	FY16	FY17	FY18	FY19
<b>Personal Products</b>												
HUL	12%	10%	10%	7%	5%	5%	5%	5%	6%	1%	6%	10%
Colgate	4%	7%	7%	5%	4%	4%	2%	5%	4%	-2%	3%	6%
Dabur	21%	8%	12%	4%	10%	5%	6%	8%	4%	2%	5%	11%
Emami	16%	-4%	4%	0%	0%	1%	0%	12%	15%	1%	13%	14%
<b>Hair Care</b>												
Bajaj Corp.	11%	-1%	9%	7%	5%	0%	-9%	11%	3%	-2%	3%	7%
Marico - FMCG	12%	6%	5%	8%	6%	1%	-1%	6%	7%	4%	2%	8%
Marico - PCNO	9%	8%	9%	6%	9%	-1%	-2%	6%	7%	4%	2%	8%
Marico -VAHO	15%	5%	7%	1%	7%	0%	-7%	10%	14%	4%	4%	7%
<b>Home Care</b>												
GCPL - Branded Biz	14%	5%	1%	1%	5%	7%	7%	7%	10%	4%	9%	5%
Jyothy Labs - Overall	19%	4%	6%	5%	6%	8%	-6%	10%	9%	7%	2%	9%
<b>F&amp;B</b>												
Britannia Industries	13%	12%	7%	7%	4%	3%	2%	8%	11%	5%	8%	10%
Marico - Saffola	10%	5%	2%	18%	3%	1%	11%	6%	9%	8%	-1%	8%
Nestle - Domestic	11%	15%	12%	9%	12%	10%	10%	-36%	25%	11%	11%	10%
<b>QSR</b>												
Jubilant FoodWorks	26%	21%	15%	6%	4%	5%	6%	0%	3%	-2%	14%	16%
Westlife Development	24%	26%	15%	6%	7%	7%	9%	-6%	2%	4%	16%	17%
<b>Others</b>												
ITC-Cig	1%	6%	8%	9%	4%	3%	2%	-9%	-9%	1%	-3%	6%

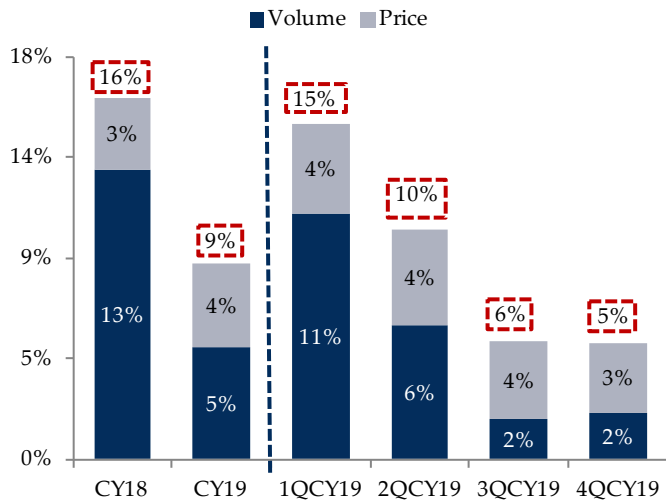
Source: Companies, HDFC sec Inst Research

**Exhibit 51: FMCG Sector Growth**



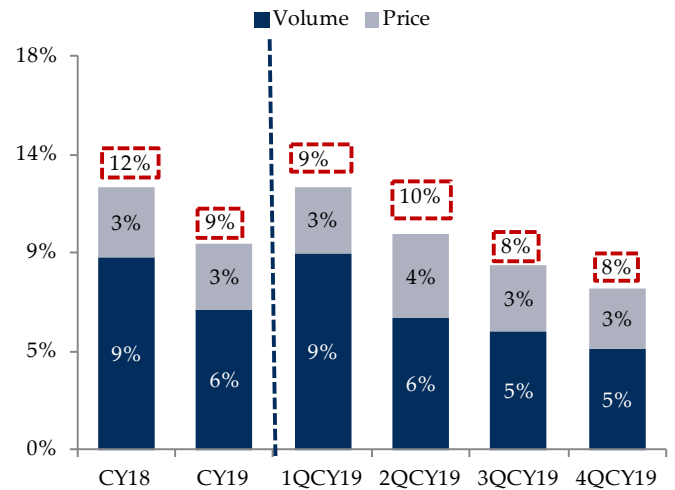
Source: AC Nielsen, HDFC sec Inst Research

**Exhibit 52: Rural Growth**



Source: Emami, HDFC sec Inst Research

**Exhibit 53: Urban Growth**



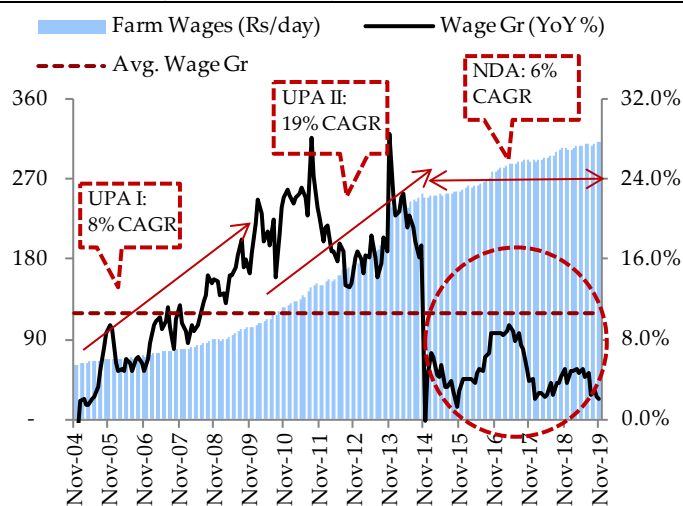
Source: World Bank, HDFC sec Inst Research



## FMCG Universe: Macros weakness will sustain

Wage growth for both farm and non-farm has been muted during the last 6 years (NDA Govt.) which curbed the inflation level as well. However, in the last 6 months when inflation was high, real wage growth went into negative range of 3-5%. It is resulting into tepid rural consumption for FMCG companies. Thereby, we feel rural consumption will take slightly more time to pickup, particularly after Covid-19.

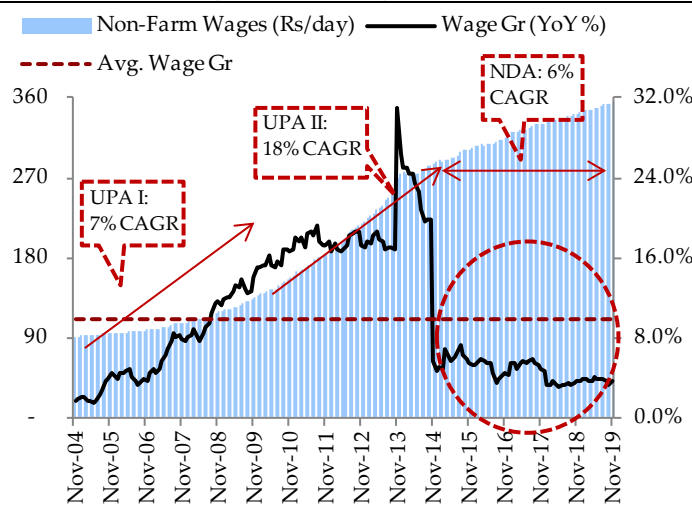
**Exhibit 54: Agriculture Wages**



Source: RBI, HDFC sec Inst Research

Note: Computed agriculture wage by averaging wage for ploughing, sowing, harvesting, picking work, plant protection

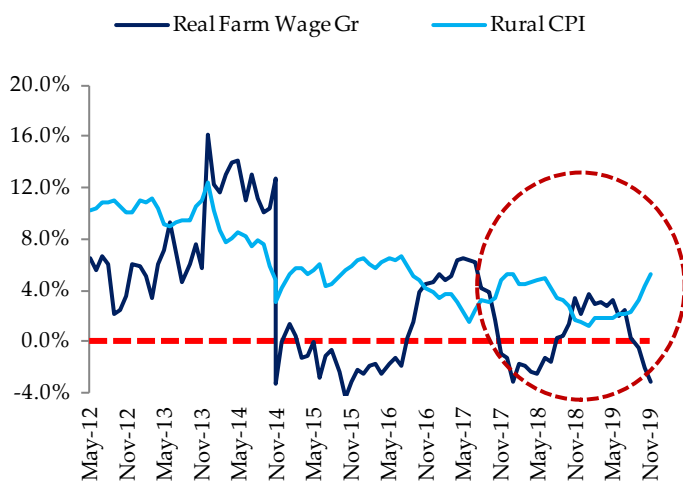
**Exhibit 55: Non-agriculture Wages**



Source: RBI, HDFC sec Inst Research

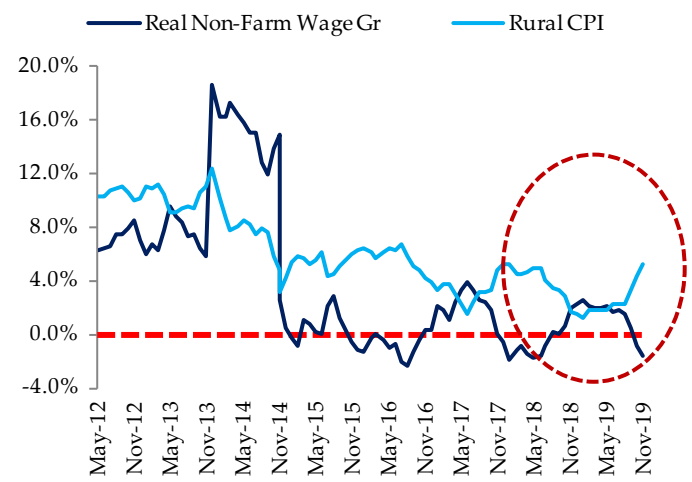
Note: Computed non-agriculture wage by averaging wage for carpenter, mason, blacksmith, weavers, plumbers, handicraft

**Exhibit 56: Rural CPI and Real Farm Wage Growth**



Source: RBI, HDFC sec Inst Research

**Exhibit 57: Rural CPI and Real Non-Farm Wage Growth**



Source: RBI, HDFC sec Inst Research

## MSP Rates – Increased

MSP rates have increased by mid-single digits during the last three years (under NDA govt.) to control inflation. While during UPA govt it grew in high single to low double digits. MSP increase in FY20 remains muted.

**Exhibit 58: Long term MSP trend**

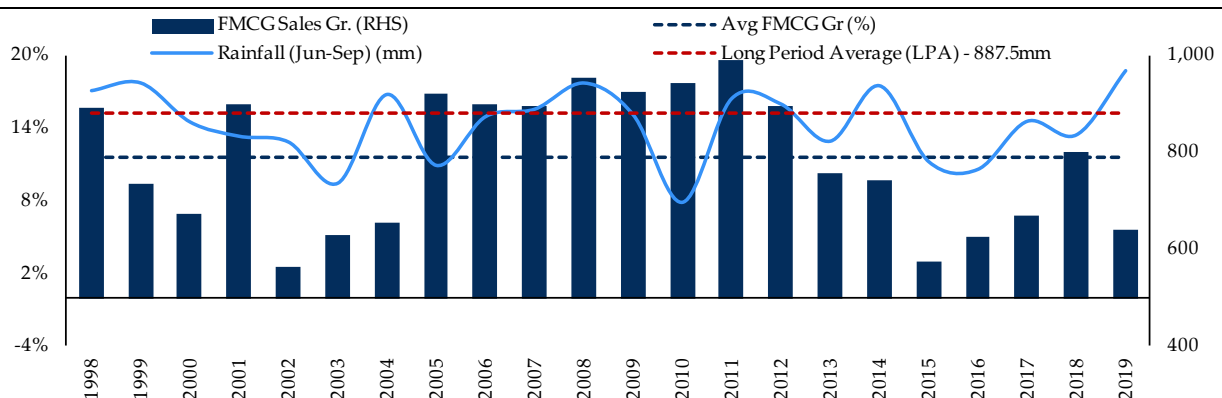
(Rs/quintal)	2019-20	YoY Gr <sup>o</sup> %	CAGR % 2004-14	CAGR % 2014-20
Paddy (Grade A)	1,835	4	10	6
Jowar (Hybrid)	2,550	5	13	11
Bajra	2,000	3	10	10
Maize	1,760	4	11	6
Ragi	3,150	9	13	15
Arhar (Tur)	5,800	2	13	6
Moong	7,050	1	14	9
Urad	5,700	2	13	6
Cotton (Long Staple)	5,550	2	8	7
Groundnut in shell	5,090	4	12	5
Sunflower seed	5,650	5	12	9
Soybean (Yellow)	3,710	9	11	8
Sesamum	6,485	4	13	7
Niger seed	5,940	1	13	11
<b>Kharif Crops</b>		<b>4</b>	<b>12</b>	<b>8</b>
Wheat	1,925	5	9	6
Barley	1,525	6	8	6
Gram	4,875	6	9	9
Masur (Lentil)	4,800	7	8	9
Rapeseed/Mustard	4,425	5	7	7
Safflower	5,215	5	8	11
<b>Rabi Crops</b>		<b>6</b>	<b>8</b>	<b>8</b>
Copra (Ball) - Calendar Year	10,300	33	4	13
Jute (CY)	2,571	27	11	13
Sugarcane (CY)	3,950	7	12	10
<b>Other Crops</b>		<b>22</b>	<b>9</b>	<b>12</b>

Source: RBI, HDFC sec Inst Research

## Rainfall and FMCG

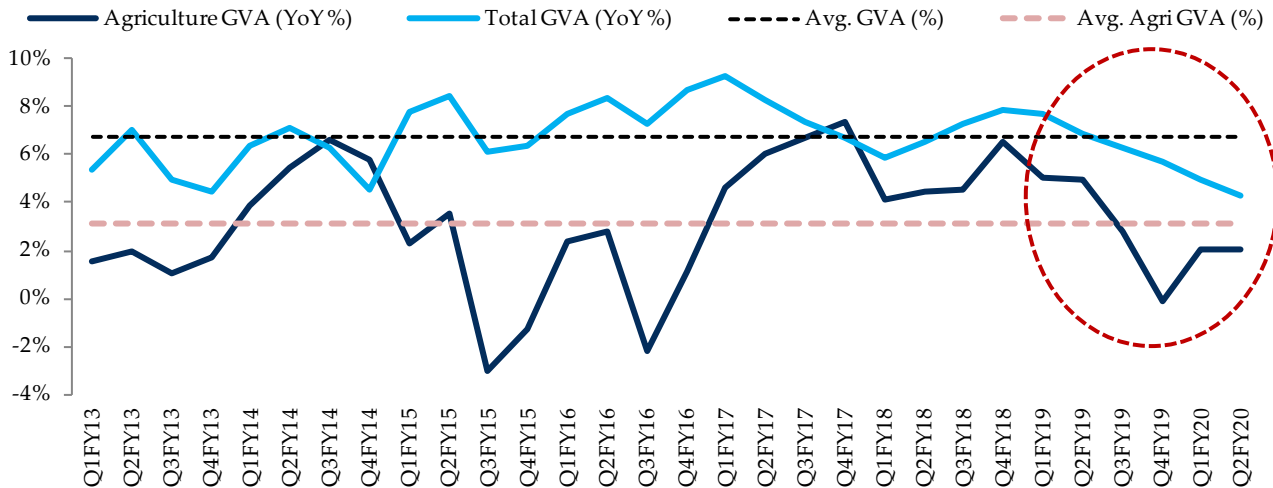
Historically, it takes more than one year of consecutive deficit monsoon to impact FMCG sector. After two deficit years (FY14 and FY15) of rainfall, it was near normal during the last two years, which is expected to accelerate demand especially in rural markets.

**Exhibit 59: Monsoon and FMCG Sector Correlation**



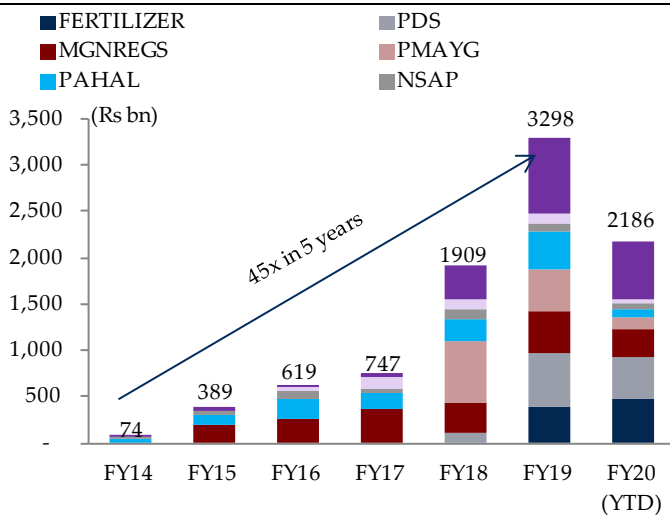
Source: IMD, HDFC sec Inst Research

Exhibit 60: Agriculture GVA vs. Total GVA



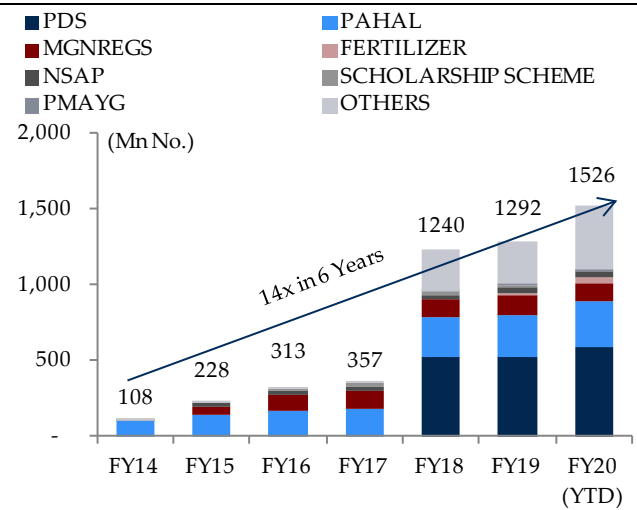
Source: RBI Database, HDFC sec Inst Research

Exhibit 61: DBT - Year Wise Fund Transfer



Source: DBT Bharat, HDFC sec Inst Research

Exhibit 62: DBT - Year wise DBT Beneficiaries

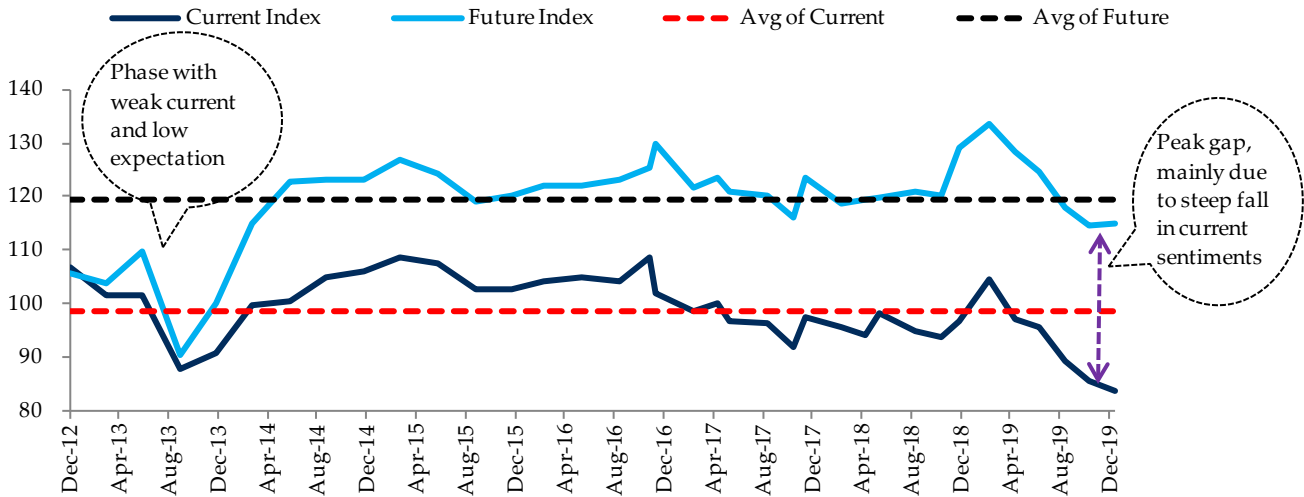


Source: DBT Bharat, HDFC sec Inst Research

Exhibit 63: DBT Savings (Rs bn)

Ministry/ Department	Scheme	Cumulative upto Mar 2019	Cumulative upto December 2019
Department of Food and Public Distribution	PDS	476	669
Ministry of Petroleum and Natural Gas	PAHAL	596	657
Department of Rural Development	MGNREGS	208	242
Department of Fertilizers	FERTILIZER	100	100
Ministry of Women and Child Development	OTHERS	15	15
OTHERS	OTHERS	11	11
Department of Rural Development	NSAP	5	5
Department of Social Justice and Empowerment	SCHOLARSHIP SCHEME	3	3
Ministry of Minority Affairs	SCHOLARSHIP SCHEME	2	2
<b>Total</b>		<b>1,417</b>	<b>1,704</b>

**Exhibit 64: Consumer Confidence Index (RBI)**



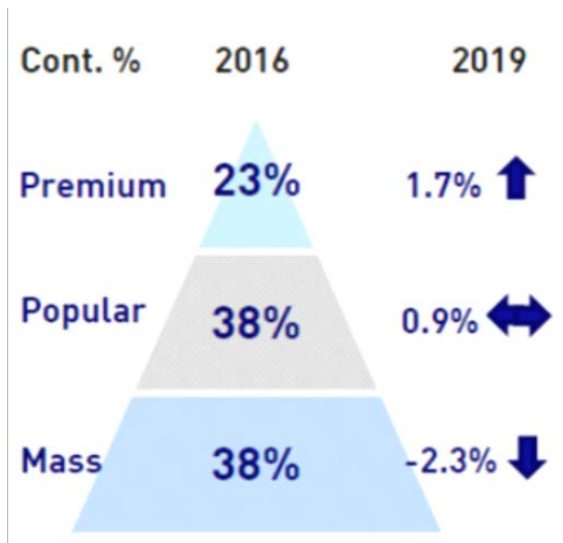
Source: RBI, HDFC sec Inst Research

**Exhibit 65: Consumer Confidence Index Constituents**

Summary based on Net Responses						
Main Variables	Current Perception compared with one-year ago			One year ahead Expectations compared with current situation		
	Jan-20	Mar-20	Change	Jan-20	Mar-20	Change
Economic Situation	-27.8	-23.9	↑	11.9	15.1	↑
Employment	-33.1	-30.5	↑	13.0	14.7	↑
Price Level	-88.7	-84.6	↑	-66.7	-70.4	↓
Income	-5.0	-2.2	↑	42.7	44.2	↑
Spending	73.1	69.2	↓	74.7	72.3	↓
<b>Consumer Confidence Index</b>	<b>83.7</b>	<b>85.6</b>	<b>↑</b>	<b>115.1</b>	<b>115.2</b>	<b>↑</b>
↑ Positive Sentiments with sign of improvement compared to last round	↑			Negative Sentiments with sign of improvement compared to last round		
↓ Positive Sentiments with sign of deterioration compared to last round	↓			Negative Sentiments with sign of deterioration compared to last round		

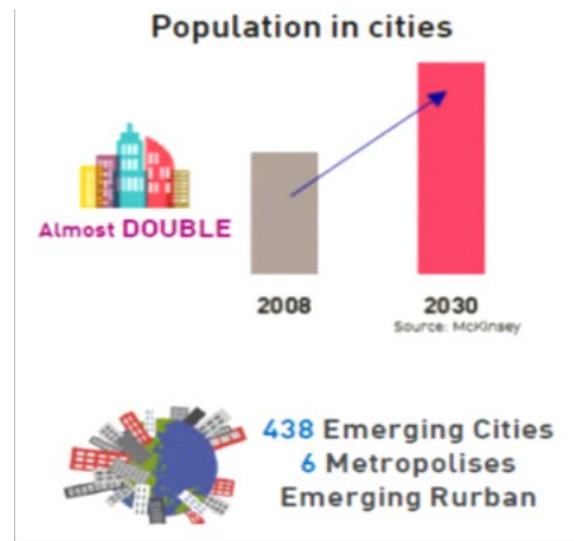
Source: RBI, HDFC sec Inst Research

**Exhibit 66: Premium Segment Grabbing Share**



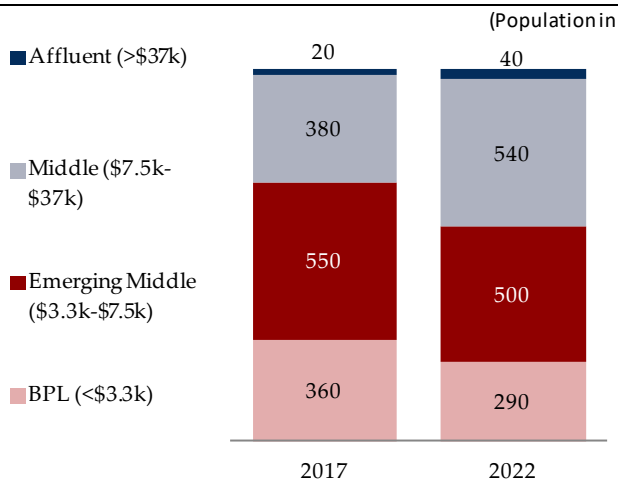
Source: HUL, HDFC sec Inst Research

**Exhibit 67: Increasing Urbanisation**



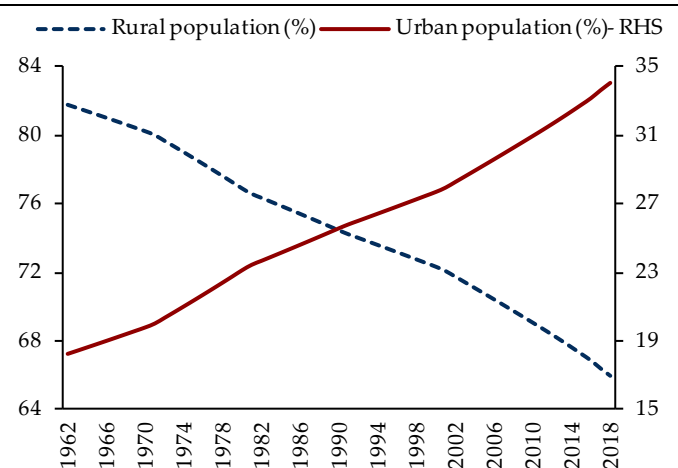
Source: HUL, HDFC sec Inst Research

**Exhibit 68: Population mix: Favourable for premium products**



Source: HUL, PWC, NASSCOM, HDFC sec Inst Research

**Exhibit 69: Favourable Mix for Urban Demand**



Source: World Bank, HDFC sec Inst Research

**Exhibit 70: FMCG CONTINUES TO BE A BIG OPPORTUNITY IN INDIA**



Source: HUL, Nielsen, HDFC sec Inst Research

**Exhibit 71: Percentage distribution of workers**

Male Workers Mix (%)	1978	1983	1988	1994	2000	2005	2010	2012	2018
<b>Rural</b>									
Agriculture	81	78	75	74	71	67	63	59	55
Construction	2	2	4	3	5	7	11	13	15
Trade, Hotel, Restaurants	4	4	5	6	7	8	8	8	9
Manufacturing	6	7	7	7	7	8	7	8	8
Other Services	5	6	6	7	6	6	6	6	8
Transport, Storage & Communications	1	2	2	2	3	4	4	4	5
Electricity, Water	0	0	0	0	0	0	0	0	1
Mining	1	1	1	1	1	1	1	1	1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Urban</b>									
Trade, Hotel, Restaurants	22	20	22	22	29	28	27	26	25
Manufacturing	28	27	26	24	22	24	22	22	22
Other Services	24	25	25	26	21	21	22	21	22
Transport, Storage & Communications	10	10	10	10	10	11	10	12	13
Construction	4	5	6	7	9	9	11	11	12
Agriculture	11	10	9	9	7	6	6	6	5
Electricity, Water	1	1	1	1	1	1	1	1	1
Mining	1	1	1	1	1	1	1	1	1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

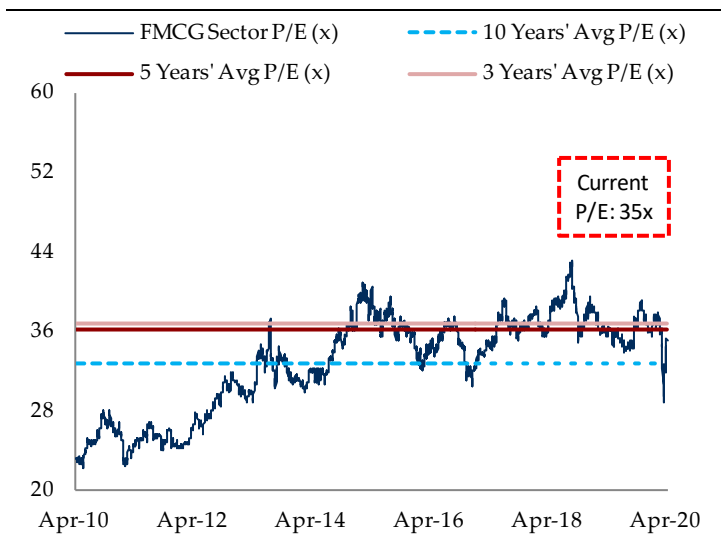
**Exhibit 72: Rabi Crop Production Growth**

YoY Gr (%)	2015-16	2016-17	2017-18	2018-19	2019-20 (2 <sup>nd</sup> Est)
<b>Food grains</b>					
Rice	-8%	3%	17%	-8%	8%
Wheat	7%	7%	1%	4%	3%
Jowar	-23%	7%	-3%	-31%	53%
Nutri Cereals	-23%	7%	-3%	-31%	53%
Maize	-9%	7%	24%	-4%	-1%
Barley	-11%	22%	2%	-8%	15%
Nutri/Coarse Cereals	-13%	9%	14%	-10%	9%
Cereals	3%	7%	4%	1%	4%
Gram	-4%	33%	21%	-13%	13%
Urad	3%	-6%	12%	-5%	-24%
Moong	-8%	-12%	13%	14%	-25%
Lentil	-6%	24%	33%	-24%	13%
Other Rabi Pulses	-16%	20%	1%	-19%	1%
Total Pulses	-6%	26%	19%	-13%	8%
<b>Total Food grains</b>	<b>2%</b>	<b>8%</b>	<b>6%</b>	<b>-1%</b>	<b>4%</b>
<b>Commercial Crops</b>					
Groundnut	-7%	4%	17%	-19%	-3%
Sunflower	-27%	-33%	-3%	-8%	42%
Rapeseed & Mustard	8%	16%	6%	10%	-2%
Linseed	-19%	46%	-5%	-43%	37%
Safflower	-41%	77%	-41%	-55%	8%
Total Nine Oilseeds	3%	14%	7%	4%	-1%
Sugarcane	-4%	-12%	24%	7%	-13%
Cotton	-14%	9%	1%	-15%	24%
Jute	-6%	5%	-8%	-1%	-1%
Mesta	15%	-9%	-17%	-27%	39%
Jute & Mesta	-5%	4%	-8%	-2%	0%

## FMCG Universe: Valuation premium further expanding

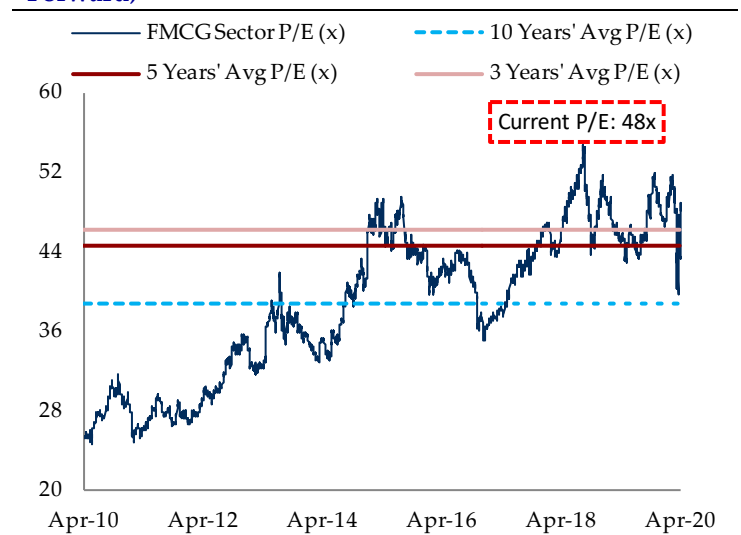
FMCG companies have also seen steep volatility over the last 1-month after the Covid-19 impact expanded. Stock fall was sharp for most companies, but lesser than NIFTY-50. Valuation premium over NIFTY-50 has further expanded as market volatility was extreme and defensives were the first preference.

**Exhibit 73: Sector P/E (12-month Rolling Forward)**



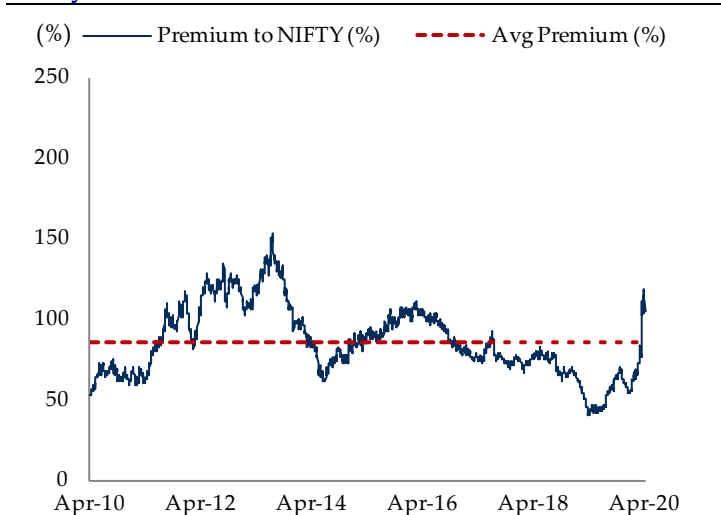
Source: Companies, Bloomberg, HDFC sec Inst Research

**Exhibit 74: Sector (Ex-ITC) P/E (12-month Rolling Forward)**



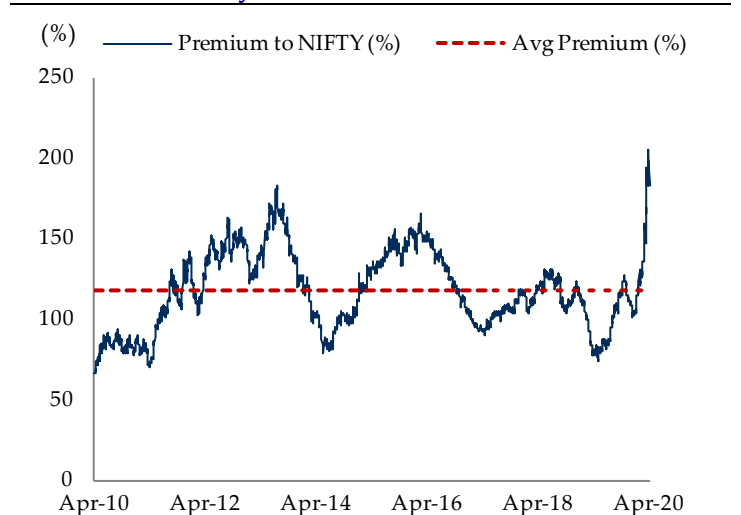
Source: Companies, Bloomberg, HDFC sec Inst Research

**Exhibit 75: Sector Valuation Premium (12-month) Over Nifty 50**



Source: Companies, Bloomberg, HDFC sec Inst Research

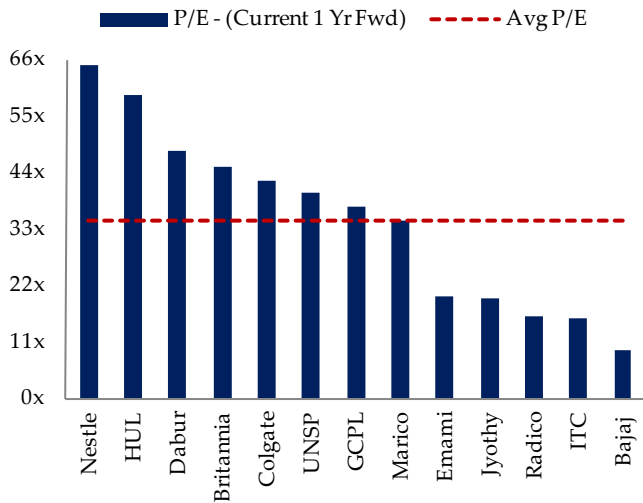
**Exhibit 76: Sector (Ex-ITC) Valuation Premium (12-month) Over Nifty 50**



Source: Companies, Bloomberg, HDFC sec Inst Research

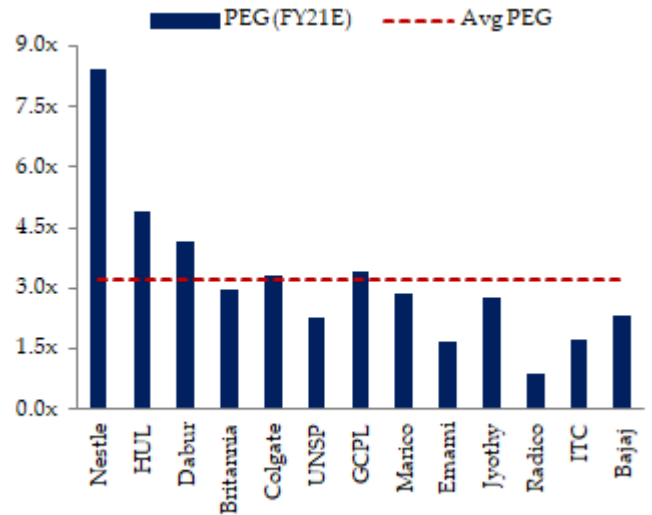
*Note: The FMCG Universe described above comprises our coverage stocks (ITC, HUL, Nestle India, Dabur, Britannia, GCPL, UNSP, Marico, Colgate, Jubilant FoodWorks, Emami and Radico) and Bloomberg estimates for stocks we don't cover (Jyothy Labs and Bajaj Consumer)*

**Exhibit 77: Company P/E**



Source: Companies, Bloomberg, HDFC sec Inst Research

**Exhibit 78: Company PEG**



Source: Companies, Bloomberg, HDFC sec Inst Research

**Exhibit 79: Stock Returns**

Companies	1M (%)	3M (%)	6M (%)	12M (%)	3Yr (%)	5Yr (%)
HUL	11.8	22.6	21.8	41.2	156.7	156.1
ITC	4.6	(21.4)	(25.0)	(37.4)	(32.0)	(19.9)
Nestle	4.9	15.0	21.5	56.1	154.4	137.2
Dabur	0.6	5.4	9.4	20.2	71.9	73.4
Britannia	(6.3)	(6.6)	(8.3)	(5.4)	67.0	146.2
GCPL	(2.8)	(17.8)	(9.0)	(10.5)	5.1	52.9
UNSP	(11.0)	(6.9)	(11.3)	1.2	36.1	(28.6)
Marico	11.6	(10.9)	(22.6)	(16.6)	(1.0)	50.5
Colgate	7.8	(6.6)	(9.0)	10.8	34.9	25.5
Emami	1.2	(23.5)	(22.6)	(42.4)	(55.1)	(56.7)
Jubilant	(14.0)	(17.2)	8.6	(0.7)	173.1	77.0
Radico	(8.7)	(3.5)	6.6	(18.0)	152.7	234.7
Jyothy	(9.4)	(25.0)	(30.1)	(41.1)	(34.4)	(19.9)
Bajaj Corp	(18.9)	(41.6)	(42.5)	(56.3)	(65.4)	(70.4)
<b>NSE FMCG</b>	<b>3.2</b>	<b>(3.9)</b>	<b>(4.3)</b>	<b>(3.6)</b>	<b>24.6</b>	<b>37.1</b>
<b>Nifty 50</b>	<b>(12.8)</b>	<b>(25.4)</b>	<b>(19.5)</b>	<b>(21.9)</b>	<b>(0.9)</b>	<b>3.8</b>

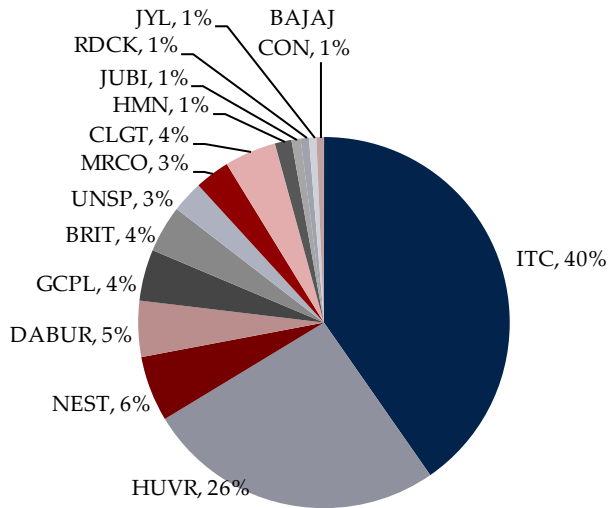
**Note:**

**Green** indicates out-performance to Nifty 50 during the respective period

**Red** indicates under-performance to Nifty 50 during the respective period

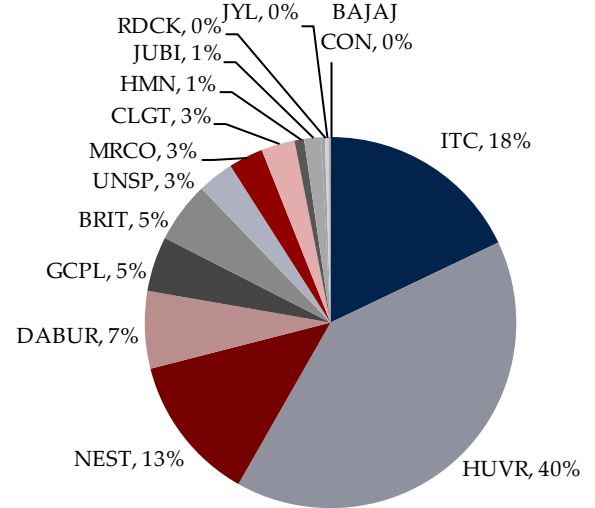


**Exhibit 80: FMCG Universe: Profit Mix**



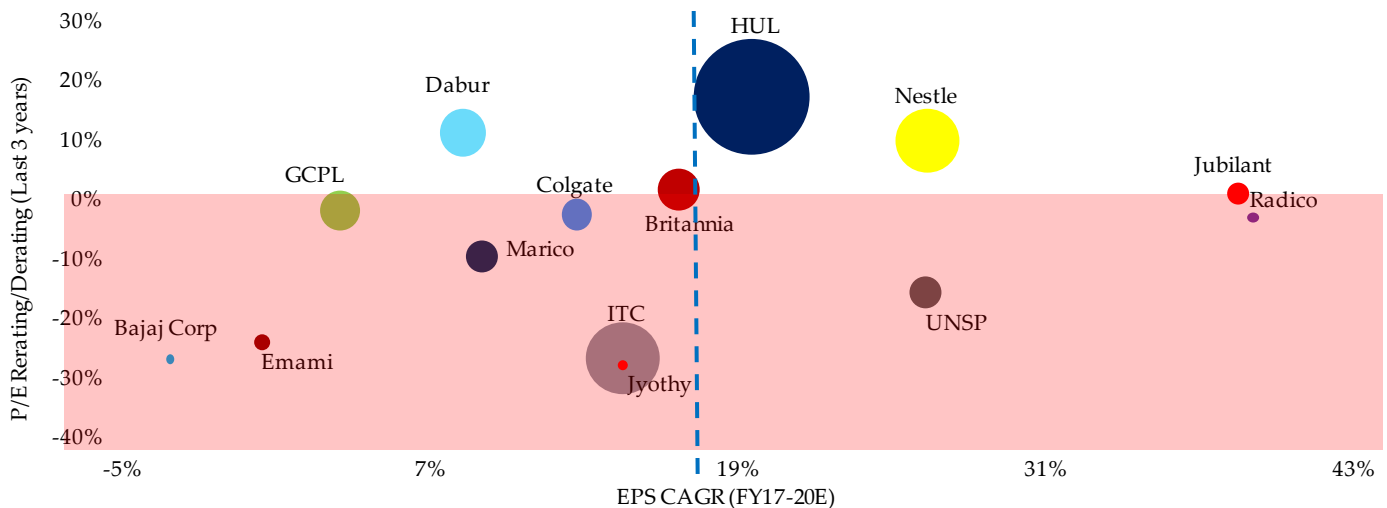
Source: Companies, Bloomberg, HDFC sec Inst Research

**Exhibit 81: FMCG Universe: Market Cap Mix**



Source: Companies, Bloomberg, HDFC sec Inst Research

**Exhibit 82: FMCG Universe: Earnings vs. Valuation (FY17-20E)**



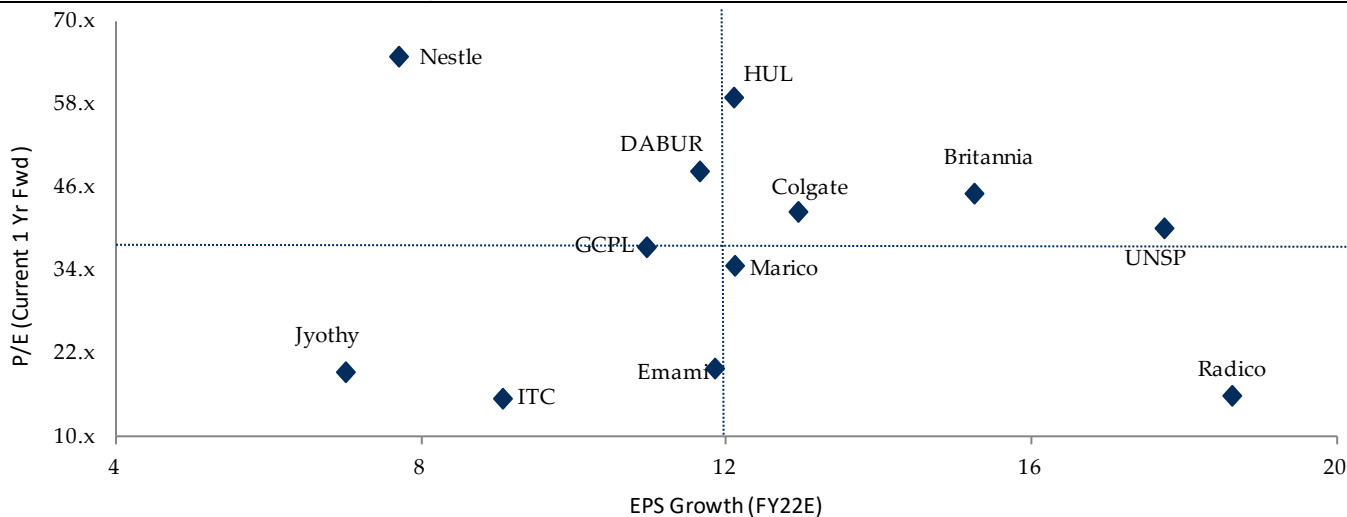
Source: Bloomberg, Companies, HDFC sec Inst Research

Bubble represents market cap Note: Jubilant is for 4 years

**Exhibit 83: Earnings vs. Valuation**

Companies	Last 3 Year CAGR (%)			Last 5 Year CAGR (%)		
	EPS	P/E	Stock	EPS	P/E	Stock
HUL	20%	17%	37%	13%	6%	20%
ITC	14%	-27%	-12%	10%	-15%	-4%
Nestle	26%	10%	36%	15%	2%	17%
Dabur	8%	11%	20%	9%	1%	10%
Britannia	17%	2%	19%	17%	2%	19%
GCPL	3%	-2%	2%	10%	-2%	8%
Marico	9%	-9%	0%	13%	-6%	6%
Colgate	13%	-2%	10%	8%	-4%	5%
Emami	0%	-24%	-23%	3%	7%	10%
Jubilant	39%	1%	40%	5%	7%	12%
UNSP	26%	-15%	11%	38%	-46%	-8%
Radico	39%	-3%	36%	26%	-1%	25%
Bajaj Corp	-3%	-27%	-30%	0%	-22%	-22%
Jyothy	14%	-28%	-13%	8%	-15%	-7%

**Exhibit 84: FMCG Universe: Earnings vs. Valuation**

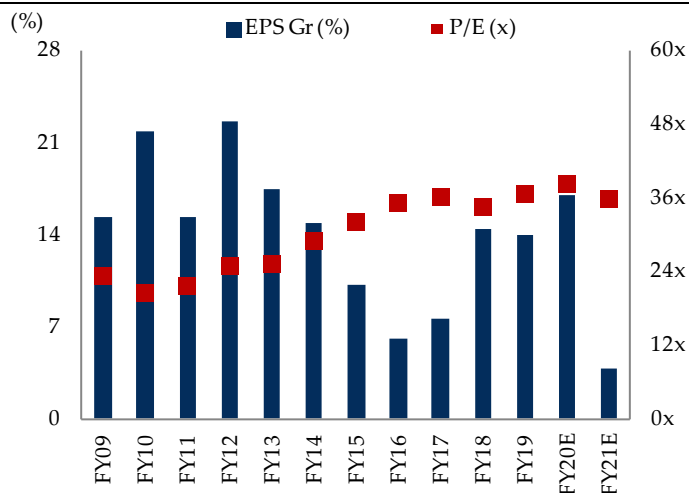


Source: Bloomberg, Companies, HDFC sec Inst Research

**Exhibit 85: FMCG Universe: Valuation Trend**

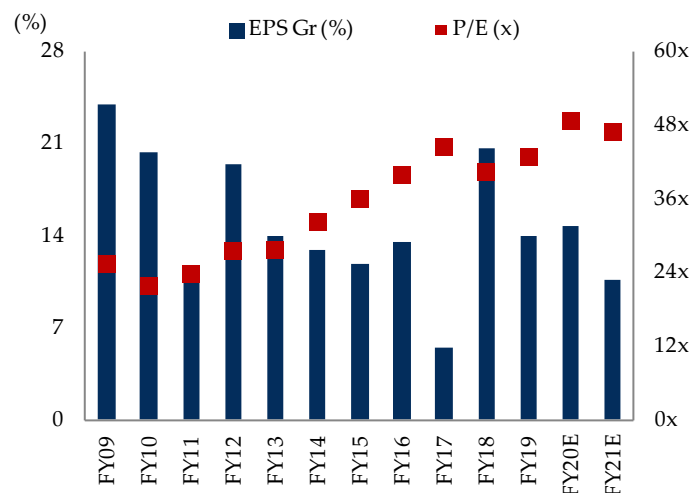
P/E (x)	1 Yr Fwd P/E (x)				Current P/E Premium/(Discount)		
	10 Yr Avg	5 Yr Avg	3 Yr Avg	Current	10 Yr Avg	5 Yr Avg	3 Yr Avg
Bajaj Cons	21	25	24	9	-55%	-63%	-61%
Emami	34	42	40	20	-41%	-53%	-50%
Jyothy	35	36	34	19	-45%	-47%	-43%
ITC	26	25	24	16	-39%	-39%	-36%
UNSP	122	74	56	40	-67%	-46%	-28%
Radico	21	19	21	16	-23%	-15%	-23%
Marico	35	43	45	35	0%	-19%	-22%
GCPL	36	43	48	37	5%	-13%	-22%
Britannia	34	46	51	45	31%	-3%	-12%
Colgate	37	42	41	42	14%	2%	2%
Dabur	35	42	45	48	37%	16%	8%
HUL	39	47	51	59	51%	25%	16%
Nestle	47	51	50	65	39%	28%	30%
Jubilant	62	65	48	64	3%	-2%	33%
FMCG	33	36	37	35	7%	-3%	-5%
FMCG (Ex-ITC)	39	45	46	48	24%	8%	4%
Nifty-50	18	21	22	17	-5%	-17%	-23%

**Exhibit 86: FMCG Universe: Earnings vs. Valuation**



Source: Companies, Bloomberg, HDFC sec Inst Research

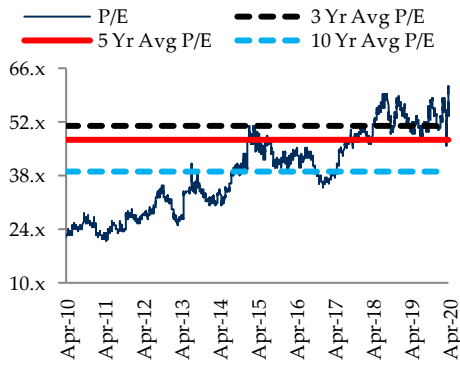
**Exhibit 87: FMCG Universe: Earnings vs. Valuation (Ex-ITC)**



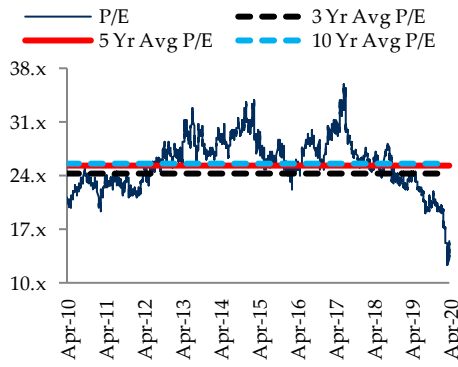
Source: Companies, Bloomberg, HDFC sec Inst Research

# FMCG Companies P/E Bands

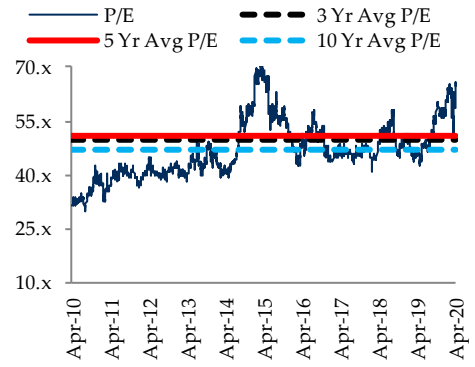
**Exhibit 88: HUL P/E Band**



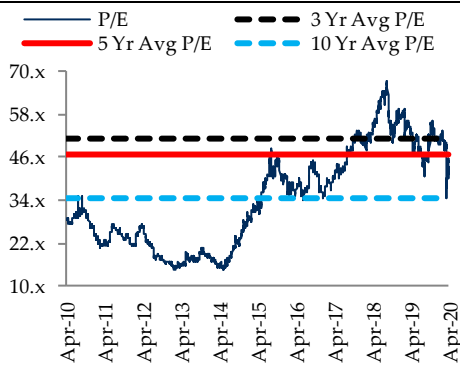
**Exhibit 89: ITC P/E Band**



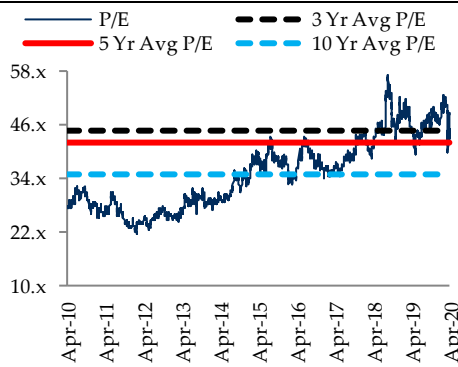
**Exhibit 90: NESTLE P/E Band**



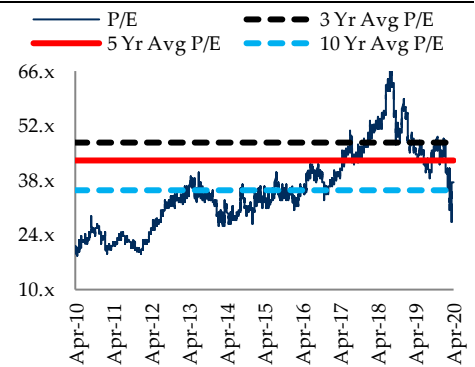
**Exhibit 91: BRITANNIA P/E Band**



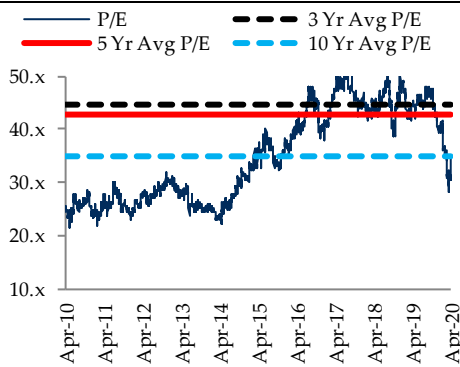
**Exhibit 92: DABUR P/E Band**



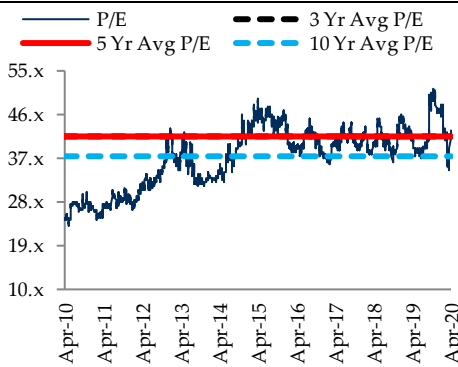
**Exhibit 93: GCPL P/E Band**



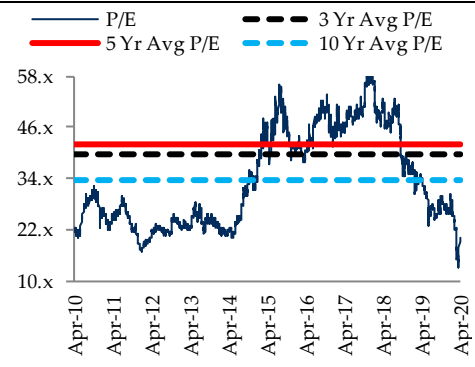
**Exhibit 94: MARICO P/E Band**



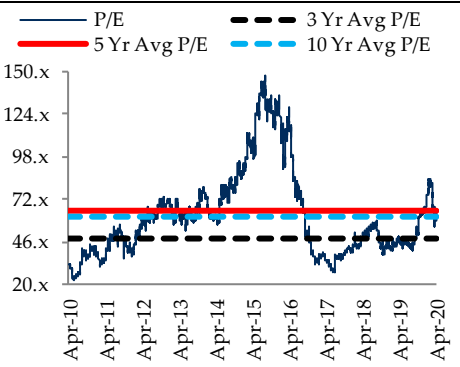
**Exhibit 95: COLGATE P/E Band**



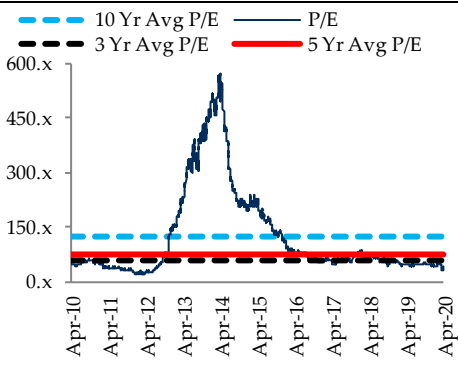
**Exhibit 96: EMAMI P/E Band**



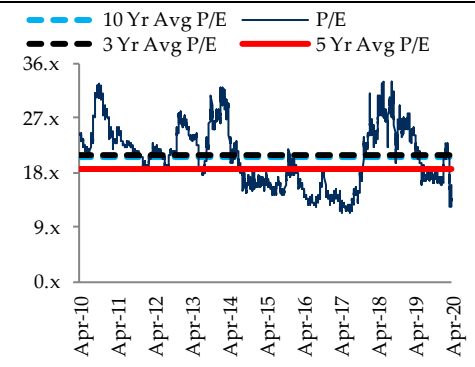
**Exhibit 97: JUBILANT P/E Band**



**Exhibit 98: UNSP P/E Band**



**Exhibit 99: RADICO P/E Band**



Source: Bloomberg, Companies, HDFC sec Inst Research

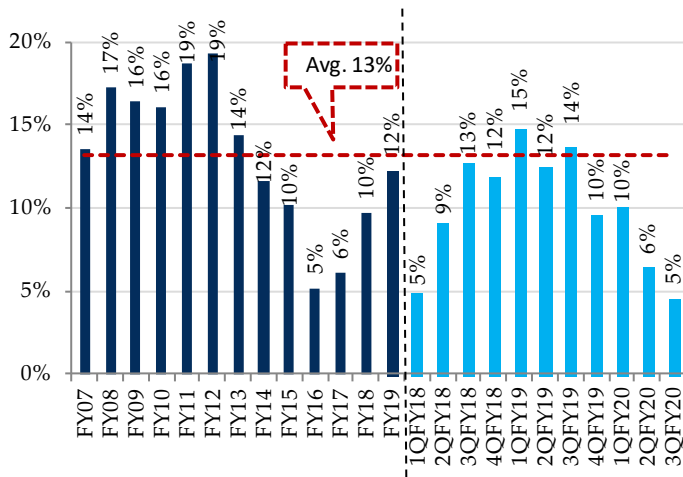
## Category Insights

Exhibit 100: Category Revenue Growth (%)

YoY Gr. (%)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	Last 4 Qtr	FY17	FY18	FY19	9MFY20	5 Yr
Cigarette	6%	9%	11%	10%	11%	9%	6%	6%	8%	5%	5%	10%	7%	6%
F&B	12%	14%	14%	11%	10%	9%	8%	7%	8%	10%	10%	12%	8%	9%
Personal Care	11%	14%	10%	10%	7%	4%	5%	-3%	3%	3%	11%	10%	2%	9%
Liquor	17%	14%	16%	15%	7%	11%	4%	4%	6%	4%	8%	12%	6%	5%
Home Care	16%	20%	10%	12%	10%	7%	9%	8%	8%	7%	12%	13%	8%	9%
OTC FMCG	9%	20%	12%	10%	9%	9%	7%	6%	8%	-2%	8%	12%	8%	3%
Hair Care	13%	22%	16%	17%	6%	10%	-2%	-3%	3%	0%	10%	15%	2%	11%
Oral Care	7%	10%	7%	9%	5%	8%	5%	6%	6%	3%	9%	8%	6%	7%
QSR	28%	26%	24%	19%	11%	10%	12%	14%	12%	6%	17%	20%	12%	15%

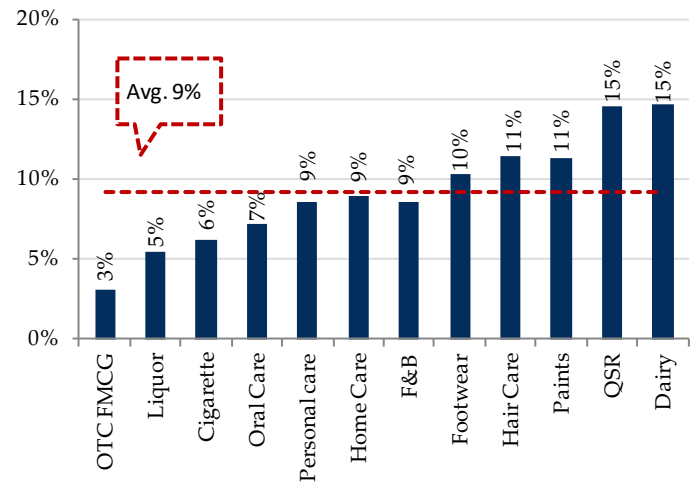
Note: Category growth is weighted average growth (YoY) based on revenue size of each players

Exhibit 101: HDFC Sec Consumer Index: Universe Revenue Growth



Source: Companies, HDFC sec Inst Research

Exhibit 102: HDFC Sec Consumer Index: 5 Yr Revenue CAGR



Source: Companies, HDFC sec Inst Research

**\*What is HDFC-Consumer-Index:** Our index comprises various consumption categories (Oral Care, Hair Care, Personal Care, Home Care, F&B, OTC FMCG, Cigarette, Footwear, Paints, OSR, Dairy, Liquor) to understand the underlying demand trends. The index is based on weighted average YoY growth.

- Cigarettes:** Cigarette category has sustained its growth at mid-single digits over the last 5 years despite continued punitive taxation. Due to recent increase in taxes in Union Budget 2020, cos are taking gradual price hikes to pass on the tax burden, so as to protect cig vol growth. Covid-19 lockdown will have a negative impact on volume in FY21. EBIT growth will be a key monitorable in FY21.
- F&B:** The market is extremely fragmented and dominated by unorganised players. There is immense potential for branded players to gain share. Lower priced SKUs, scaling of recent launches and delay in new launches is some of the steps being taken by the major players to combat the slowdown. In F&B, we expect long term growth story for dairy, biscuits, confectionery and savory snacks. Covid-19 will be beneficial to packaged food.
- Personal Care:** Despite a near term dent due to Covid-19, we believe PC market has potential to sustain healthy growth in the medium term. It will be led by (1) Higher consumption of skin care, cosmetics and deodorants products, (2) Improvement in penetration (immense potential for liquid wash), (3) Improving mix of modern trade & E-commerce channel and (4) Continued premiumisation

in soaps and shampoos. The heightened focus on cleanliness and hygiene due to the Covid-19 pandemic will be a key driver for the segment in the near term.

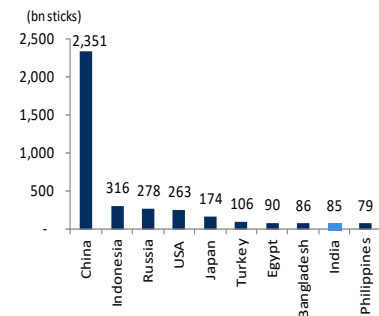
- **Liquor:** Covid-19 will put a dent in the premiumisation story in the near term. However, we expect the industry to continue its premiumisation trend across all markets in the medium term. Stability in ENA prices in FY21 will be a key positive for the cos as it will allow expansion of gross margins. Entry of various new global players will keep the competitive intensity high. Cos with better product range and focused marketing activities will have higher agility and will be able to deal with the competition better.
- **Home Care:** Home Care market size is ~Rs 200bn out of which detergents contribute ~75%. Detergent market is enjoying premiumisation and HUL has benefited the most. Dish-wash and HI market are evolving and many product innovations are happening especially in HI, which will also benefit from the increase in awareness by Covid-19.
- **OTC FMCG:** We believe that OTC market has strong growth potential. Dabur, Emami both are trying to develop the market and despite disruption created by Patanjali, both the players have settled their performance now. Category growth will continue to be supported by digital marketing and better traction from E-commerce and MT channel.
- **Hair Care:** Lower rural incomes, economic slowdown, and a cut back in discretionary consumption by consumers due to the Covid-19 pandemic will continue to keep growth in Hair Care weak. However, margins for cos may be aided by the tepid copra inflation.
- **Oral Care:** Due to high penetration and slower premiumisation, oral care will continue to struggle. Category growth is likely to be driven by Herbal/Ayurvedic, and Dabur will restart its investment behind tooth powder following the growth it witnessed in 3QFY20. Colgate will find it challenging to regain its peak market share.
- **QSR:** Covid-19 will have near term impact on the category. However, there is no structural change in our opinion. Favorable demographics, changing consumer preferences and digitization will drive category growth in the medium term.

## Category I: Cigarettes

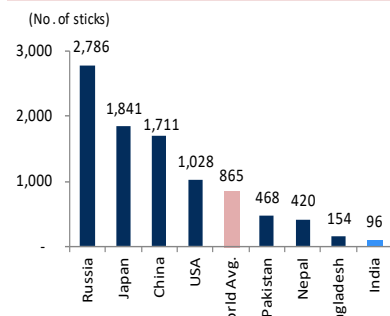
**Exhibit 103: Cigarettes**

Cigarette	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	Avg. 4 Qtr	FY15	FY16	FY17	FY18	FY19	Avg. 5 Yr
ITC	9%	10%	10%	11%	6%	6%	5%	7%	9%	4%	5%	5%	10%	7%
Godfrey Phillips	7%	6%	8%	13%	40%	12%	13%	19%	4%	-3%	3%	8%	13%	5%
VST	16%	32%	23%	-2%	25%	3%	17%	11%	6%	6%	4%	3%	16%	7%
<b>Weighted Avg Gr. (%)</b>	<b>9%</b>	<b>11%</b>	<b>10%</b>	<b>11%</b>	<b>9%</b>	<b>6%</b>	<b>6%</b>	<b>8%</b>	<b>8%</b>	<b>3%</b>	<b>5%</b>	<b>5%</b>	<b>10%</b>	<b>6%</b>

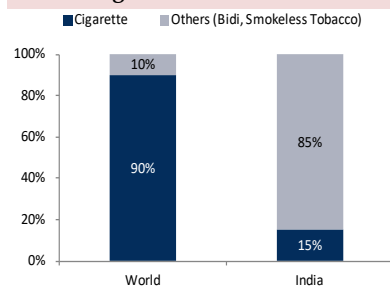
World consumes 5,500bn cig/year:  
India contributes a mere ~2%



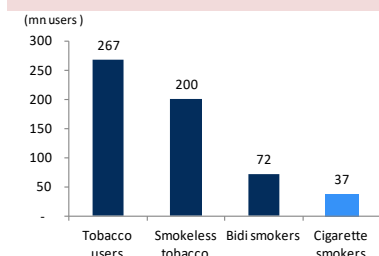
World per capita cig consumption:  
Indian smokers prefer bidis over cig



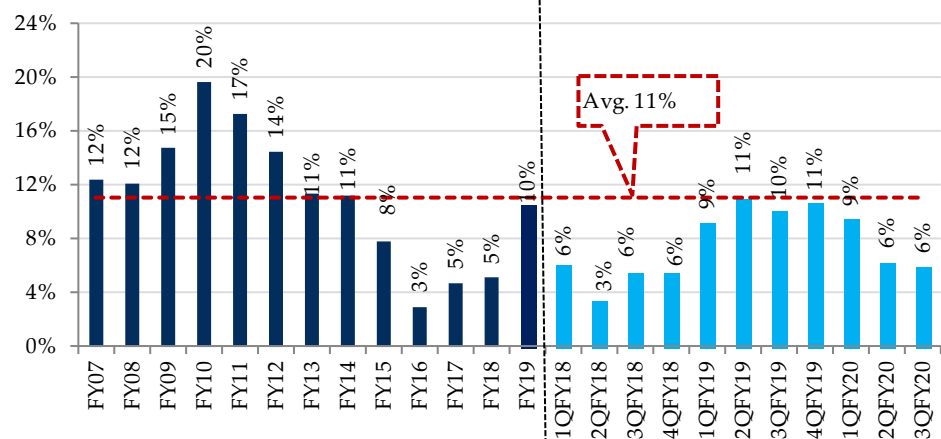
World tobacco consumption: India consumes only 15% of tobacco in the form of cig



India's tobacco consumers:  
Dominated by smokeless tobacco (Khaini, gutka and paan masala) users



**Exhibit 104: Cigarette Performance**



Source: Companies, HDFC sec Inst Research

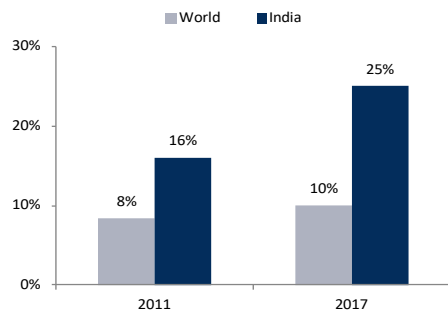
- ITC has posted consistent cigarette revenue growth of 6% and 10% during 9MFY20 and FY19. Godfrey Phillips outperformed the category during the last 12 months, driven by entry into newer markets (South market). However, ITC outperformed the category in the last 5 years.
- Cigarette industry has been penalised by punitive taxes in India and globally. In India, legal cigarette contributes only 11% of total tobacco consumption but its contribution to tax revenues is at 87%. To control tobacco consumption, Govt. has focused on cigarette consumption rather than other tobacco products (like bidi). ITC has lion's market share in cigarette industry with >80% share. The category, despite pressure from higher taxes, pictorial warnings, ban in public places, has registered 6% growth in the last 5 years (not significantly lower as compared to other FMCG categories), higher than liquor sector.
- Our View:** Govt. has taken tax increase in the union budget 2020-21 by ~10% after a gap of almost 3 years (last one on GST implementation – July'17). Considering general slowdown, cos are taking gradual price hike to avoid any sharp cig volume dip. We believe cig EBIT growth will be the key factor to watch in FY21. Historically, ITC posted cig EBIT growth of 13% in the last 10 years and 8% in the last 5 years.

**Exhibit 105: Bidi and Cig Market: Bidi volumes are 4x of cig while retail market value is at 0.2x**

	Bidi	Cigarette	Total	Bidi/Cig (x)
Smokers (mn no.)	72	37	109	1.9x
Units/day (stick)	15	7	12	2.1x
Annual volumes (bn sticks)	400	100	500	4.0x
<b>Est. Retail Mkt Size (Rs bn)</b>	<b>200</b>	<b>1,000</b>	<b>1,200</b>	<b>0.2x</b>

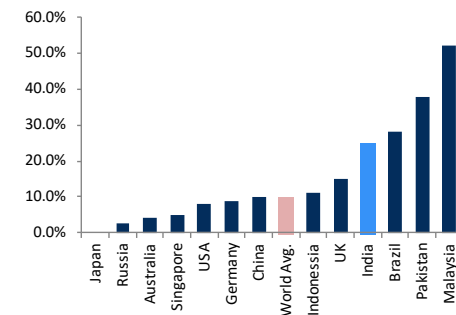
Source: HDFC sec Inst Research

**Exhibit 106: World illegal cigarette share: Steep tax rise has incentivized arbitrage of illicit trade**



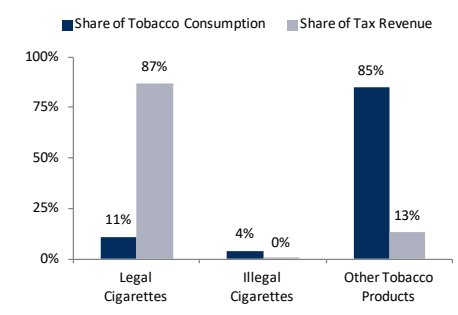
Source: TII Tobacco, CDC USA (Euromonitor)

**Exhibit 107: Country-wise illegal cigarette share: India illegal share higher than world average**



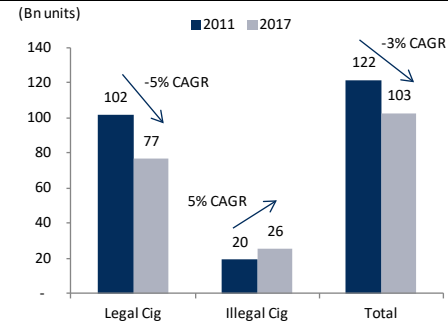
Source: TII Tobacco, CDC USA (Euromonitor)

**Exhibit 108: Tobacco consumption vs. tax collection: Cigarette has high skew towards tax despite low consumption**



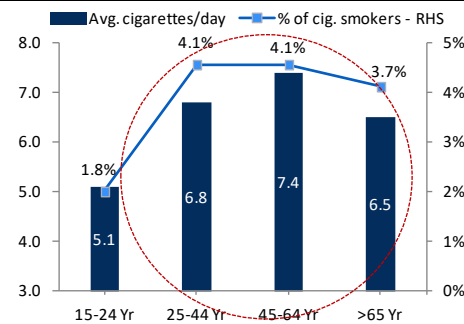
Source: Ministry of finance, TII Board

**Exhibit 109: India's cigarette market performance: Illicit trade impacted legal volumes**



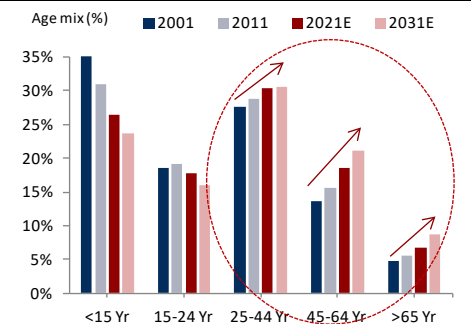
Source: TII Tobacco, HDFC sec Inst Research

**Exhibit 110: Country-wise illegal cigarette share: India illegal share higher than world average**



Source: Global Adult Tobacco Survey 2016-17, HDFC sec Inst Research

**Exhibit 111: Country-wise illegal cigarette share: India illegal share higher than world average**



Source: Global Adult Tobacco Survey 2016-17, HDFC sec Inst Research

**Exhibit 112: Cigarette tax increase and India's fiscal deficit (Falling dependence on cig collection)**

Particulars	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E		
Fiscal Deficit	6.0%	6.5%	4.8%	5.9%	4.9%	4.5%	4.0%	3.9%	3.5%	3.5%	3.3%	3.3%	3.5%		
<b>Cigarette Excise Increase</b>															
Length <65mm (DSFT)				0%	0%	0%	72%	25%	10%			0%	0%	13%	
Length 65-70mm (Regular)	0%	0%	18%	0%	23%	18%	17%	15%	10%	GST		0%	0%	10%	
Length 70-75mm (Long)	0%	0%	11%	0%	17%	18%	11%	15%	10%				0%	0%	8%
Length >75mm (King)	0%	0%	11%	0%	18%	18%	21%	14%	11%				0%	0%	5%
<b>Effective tax increase (%)</b>	<b>0%</b>	<b>0%</b>	<b>16%</b>	<b>0%</b>	<b>22%</b>	<b>18%</b>	<b>20%</b>	<b>19%</b>	<b>10%</b>	<b>20%</b>	<b>0%</b>	<b>0%</b>	<b>10%</b>		
<b>Tax collection from Cig. (Rs bn)</b>	<b>122</b>	<b>128</b>	<b>153</b>	<b>176</b>	<b>218</b>	<b>235</b>	<b>258</b>	<b>278</b>	<b>285</b>	<b>303</b>	<b>348</b>	<b>366</b>	<b>384</b>		
Indirect Tax Collection	2,830	2,475	3,478	3,960	4,731	5,012	5,467	7,148	8,663	9,411	9,420	10,493	11,010		
Direct Tax Collection	3,338	3,770	4,453	4,932	5,650	6,375	7,047	7,408	8,495	10,050	11,366	11,700	13,193		
<b>Total Tax Collection</b>	<b>6,168</b>	<b>6,245</b>	<b>7,931</b>	<b>8,892</b>	<b>10,380</b>	<b>11,387</b>	<b>12,514</b>	<b>14,556</b>	<b>17,158</b>	<b>19,461</b>	<b>20,786</b>	<b>22,193</b>	<b>24,200</b>		
% Growth		1%	27%	12%	17%	10%	10%	16%	18%	13%	7%	7%	9%		
Cigarette Tax (% Indirect Tax)	4.3%	5.2%	4.4%	4.4%	4.6%	4.7%	4.7%	3.9%	3.3%	3.2%	3.7%	3.5%	3.5%		
Cig. Tax (% Total Tax)	2.0%	2.1%	1.9%	2.0%	2.1%	2.1%	2.1%	1.9%	1.7%	1.6%	1.7%	1.6%	1.6%		

## Category II: F&B

**Exhibit 113: F&B**

F&B	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	Avg. 4 Qtr	FY15	FY16	FY17	FY18	FY19	Avg. 5 Yr
Britannia (Co)	0%	0%	11%	10%	6%	6%	5%	7%	0%	0%	0%	0%	0%	0%
Nestle (Co)	0%	0%	12%	10%	13%	11%	10%	11%	0%	0%	0%	0%	0%	0%
HUL (Food)									15%	12%	3%	11%		
HUL (Beverage)	14%	15%	12%	12%	8%	10%	8%	9%	10%	7%	9%	12%	11%	10%
Marico (Edible Oil)	9%	9%	8%	15%	6%	5%	13%	10%	11%	10%	8%	-4%	10%	7%
Dabur (Juices)	27%	2%	12%	-7%	2%	-5%	-2%	0%	20%	-9%	13%	1%	9%	7%
Agro Tech (Co)	6%	7%	0%	-7%	0%	-3%	6%	-1%	-1%	3%	4%	0%	1%	2%
<b>Weighted Avg Gr. (%)</b>	<b>7%</b>	<b>6%</b>	<b>11%</b>	<b>10%</b>	<b>6%</b>	<b>7%</b>	<b>6%</b>	<b>7%</b>	<b>6%</b>	<b>3%</b>	<b>4%</b>	<b>4%</b>	<b>5%</b>	<b>4%</b>

### India Organised Packaged Food Market: 2016

Segments	(Rs bn)
Dairy Products	830
Baked Products	590
Confectionaries	131
Snacks	219
Sauces	87
Ready to eat	153
Others	175
<b>Total</b>	<b>2,185</b>

Source: Prataap snacks RHP

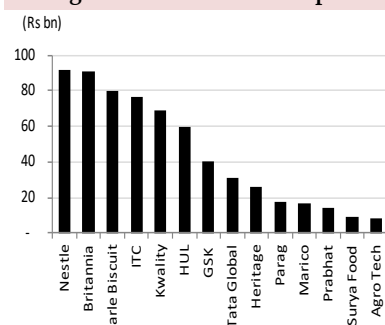
### India Beverage Market

Segments	(Rs bn)
Carbonates	251
Juice	130
Bottled Water	121
Tea	125
Coffee	24
<b>Total</b>	<b>652</b>

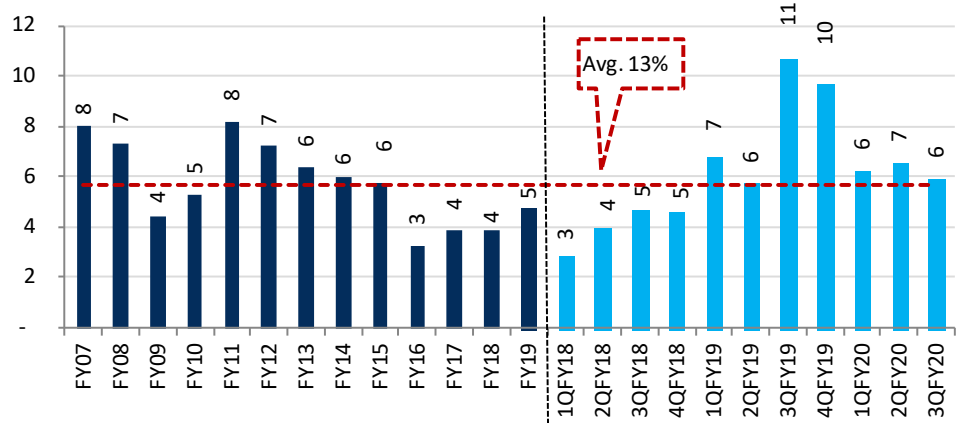
Source: Varun Beverage RHP, Industry, Companies

Segment	Key Players
Dairy Food	Amul, Mother Dairy, Kwality, Parag Milk Foods, Prabhat, Heritage
Bakery	Britannia, Parle Agro, ITC, Monginis
Ready meals	Nestle, MTR, ITC
Confectionery	Mondelez, Parle, Nestle, Ferrero
Breakfast cereals	Kellogs, GSK, Marico
Naturally healthy beverages	Dabur, PepsiCo, Tata Global Beverages, HUL
Savory snacks	PepsiCo, ITC, Parle, Haldiram, Bikanervala

### Packaged Food Revenue Comparison



**Exhibit 114: F&B Performance**



Source: Companies, HDFC sec Inst Research

- Organised packaged F&B industry is ~Rs 2.5-3tn, with Dairy and Baked products contributing 50% of the total market. F&B industry is fragmented in nature, and accounts for the largest share in the FMCG market. Nestle and Britannia (~6% of total market) are the largest packaged food companies.
- The growth in packaged foods is being driven by premiumisation and healthy foods. However, the slowdown in rural markets is widespread and it has been impacting the growth in the mass category for cos like Britannia in 9MFY20.
- Dairy (30% YoY) and veg (7-8% YoY) inflation in FY20 has had a detrimental effect on gross margins for the companies and GM has been muted over the last 3-4 qtrs. Cos have started focusing on rationalization of operational costs in order to expand EBITDA margins. Given the reduction in packaging costs driven by the deflation in crude, the pressure on GMs will ease over the next few qtrs and cos could witness expansion of EBITDA margins.
- The lock-down across the country as a result of Covid-19 can prove to be a catalyst for the packaged food industry. It could result in trials of a variety of packaged foods by consumers, which can play a vital role in incorporating these items in the daily life of those consumers.
- Our View:** F&B market is dominated by unorganised players and there is immense potential for branded players to gain share. Cos are attempting to gain market share from unorganized players by launching packs at lower price points. Focus has also been on scaling recent launches and delaying new launches in the face of the slowdown. We expect the growth story to continue for dairy, biscuits, and savory snacks driven by premiumisation.



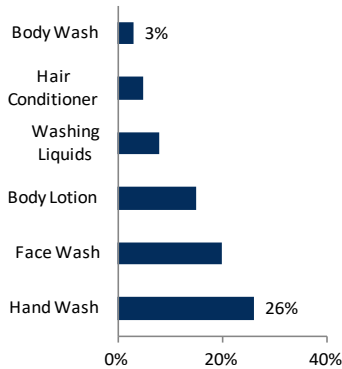
### Category III: Personal Care

Exhibit 115: Personal Care

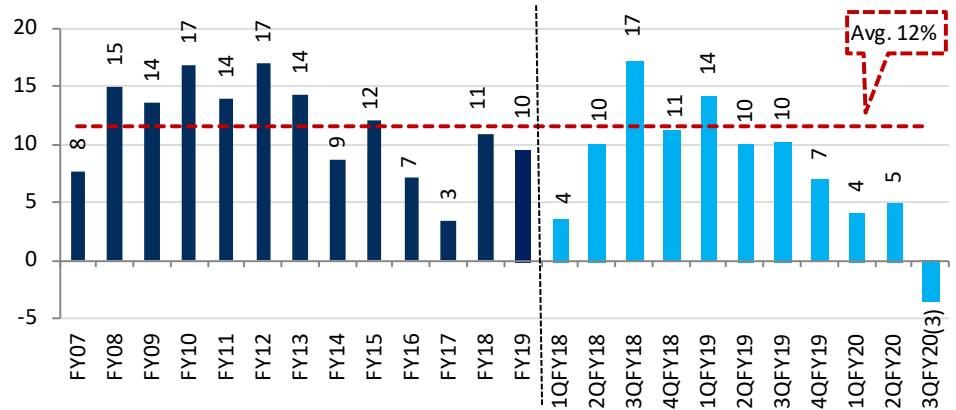
Personal Care	1Q	2Q	3Q	4Q	1Q	2Q	3Q	Avg-	FY15	FY16	FY17	FY18	FY19	Avg-
	FY19	FY19	FY19	FY19	FY20	FY20	FY20	4 Qtr						
HUL (Skin, Soaps, Shampoo, Oral care)	14%	10%	11%	7%	4%	5%	-3%	3%	11%	7%	4%	10%	10%	8%
GCPL (Soaps)	10%	11%	2%	-1%	3%	-4%	-4%	-2%	20%	3%	-2%	19%	6%	9%
Gillette (Male Grooming)	30%	11%	12%	8%	7%	0%	-8%	2%	13%	10%	2%	7%	10%	8%
Emami (Boroplus)	-15%	-7%	4%	17%	-7%	39%	-12%	9%	11%	8%	15%	22%	2%	12%
Emami (F&H)	8%	12%	-2%	-4%	-7%	-32%	-39%	-21%	15%	9%	-6%	4%	3%	5%
Dabur (Skin Care)	27%	12%	19%	11%	12%	1%	0%	6%	8%	4%	4%	11%	17%	9%
<b>Weighted Avg Gr. (%)</b>	<b>14%</b>	<b>10%</b>	<b>10%</b>	<b>7%</b>	<b>4%</b>	<b>5%</b>	<b>-4%</b>	<b>3%</b>	<b>12%</b>	<b>7%</b>	<b>3%</b>	<b>11%</b>	<b>9%</b>	<b>9%</b>

Exhibit 116: Personal Care Performance

Packaged Food Revenue Comparison



Source: HUL 2019 Presentation



Source: Companies, HDFC sec Inst Research

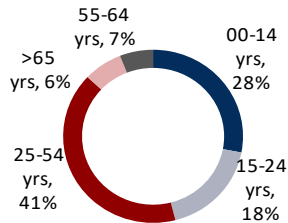
- The Personal Care category is largely constituted by Skin Care and Soaps. HUL is the leader in this market, with its market leading brands in Soaps, Skin Care, Hair Care and Makeup. HUL is the pioneer in developing the Personal Care market in India. However, due to the slowdown in the economy and a high base, the category has clocked tepid growth over the last 3 quarters.
- HUL has stated that the key trend observed in soaps has not been downtrading, but a change in assortment. Consumers are making purchases cautiously by limiting the number of soaps they use and opting for lower priced packs. The continued weakness in sentiments and no revival in the growth of rural incomes have also affected the industry adversely.
- GCPL’s soaps growth was weak in 9MFY20 on account of price cuts. Last few months have been quite volatile wrt to price actions in this category.
- Emami’s Boroplus outperformed the category in the last 12 months on account of sharp channel filling prior to winter during 2QFY20. However, as the winter was delayed, the seasonal portfolio took a significant hit for the co. Emami’s F&H remained a dragger despite several new initiatives.
- **Our View:** In the medium term, we believe personal care market would continue to be driven by higher consumption of skin care, cosmetics and deodorants products, improvement in penetration (immense potential for liquid wash), improving mix of modern trade & E-commerce channel and continued premiumisation in soaps and shampoos. However, certain categories like skin care and cosmetics might see a dent in consumption and premiumisation in the near term. The heightened focus on cleanliness and hygiene due to the Covid-19 pandemic will be a key driver for the segment in the near term. Digital marketing would further support the category in the coming years. HUL can be the key beneficiary of growth acceleration in the personal care segment.

## Category IV: Liquor

### Exhibit 117: Liquor

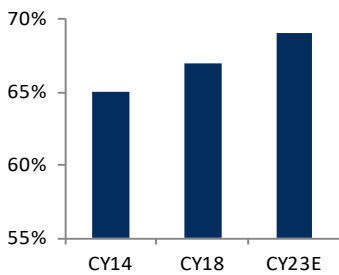
Liquor	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	Avg. 4 Qtr	FY15	FY16	FY17	FY18	FY19	Avg. 5 Yr
United Spirits	13%	14%	10%	4%	10%	3%	3%	5%	-5%	-3%	8%	1%	10%	2%
United Breweries	11%	20%	21%	11%	10%	3%	0%	6%	11%	3%	-2%	19%	15%	9%
Radico Khaitan	26%	15%	15%	6%	21%	10%	17%	14%	10%	24%	3%	3%	8%	10%
<b>Weighted Avg Gr. (%)</b>	<b>14%</b>	<b>16%</b>	<b>15%</b>	<b>7%</b>	<b>11%</b>	<b>4%</b>	<b>4%</b>	<b>6%</b>	<b>2%</b>	<b>2%</b>	<b>4%</b>	<b>8%</b>	<b>12%</b>	<b>5%</b>

### India Population Mix



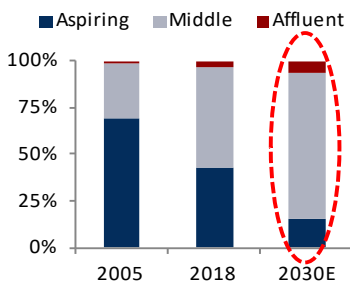
Source: Radico Khaitan PPT

### Drinking Age Population Mix



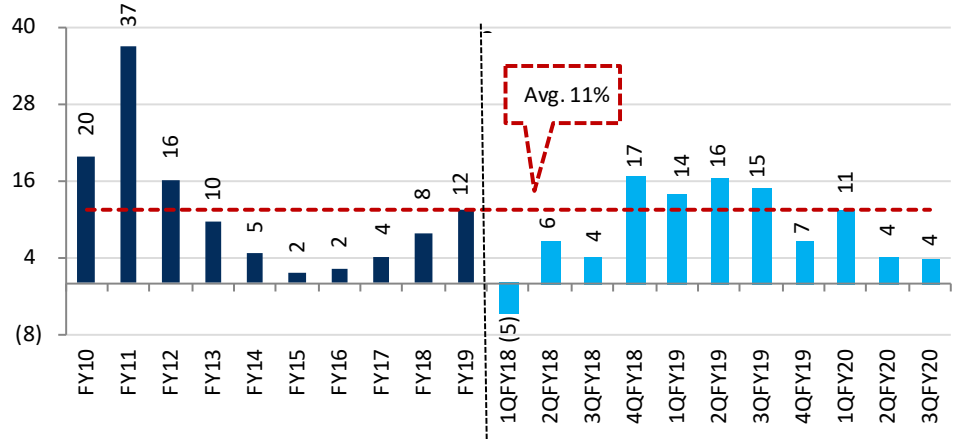
Source: Radico Khaitan

### Increase in Affluent Population



Source: UNSP

### Exhibit 118: Liquor Performance



Source: Companies, HDFC sec Inst Research

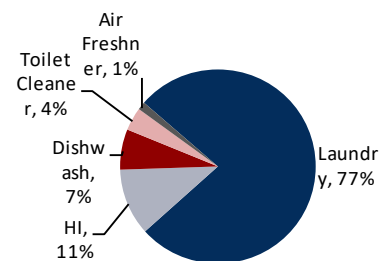
- Radico has been consistently gaining market share and has been an outperformer in the last 1 and 5 years in the category. Radico's consistent product launches, entry into newer markets and competitive pricing have been leading into market share gain. UNSP performance was mixed bag with 3Q witnessing better growth from premium portfolio. However, near term growth trends seem to be muted on account of general slowdown and disruption led by Covid-19.
- Most players have witnessed sharp gross margin pressure in 9MFY20 on account of stiff raw material prices. Cos have focused on rationalising overhead cost to support EBITDA margin.
- The 2 biggest liquor markets in the country, Karnataka and Maharashtra, have seen tax hikes in FY20. However, in the case of Maharashtra, due to a high competitive intensity, it was not possible for all cos to pass on the entirety of the tax to the consumers. Despite a change in the route to market in Andhra Pradesh, most cos did not see their revenues or volumes impacted in the State. As liquor forms a significant portion of the excise revenue for AP govt, we believe a complete prohibition is unlikely in the near term.
- Our View:** Covid-19 will impact the premiumisation story for the liquor industry in the near term. However, we believe that despite a high exposure to legislation, the liquor industry will return to the premiumisation trend across all markets in the medium term. The impact of the pandemic on liquor is expected to be lower than other categories. Stability in ENA prices will be a key positive for the cos as it will allow expansion of gross margins. Entry of various new global players will keep the competitive intensity high. Cos with better product range and focused marketing activities will have higher agility and will be able to deal with the competition better.

## Category V: Home Care

Exhibit 119: Home Care

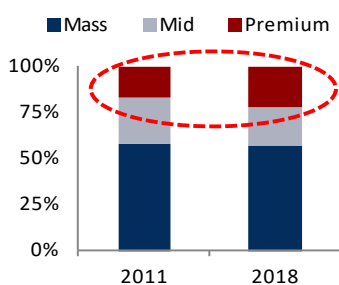
Home Care	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	Avg. 4 Qtr	FY15	FY16	FY17	FY18	FY19	Avg. 5 Yr
HUL (Detergent, Dishwash))	20%	12%	15%	13%	10%	9%	10%	11%	9%	1%	8%	15%	15%	9%
GCPL (HI)	17%	-2%	0%	-6%	-4%	4%	4%	-1%	11%	13%	3%	2%	2%	6%
Dabur (HI)	17%	11%	9%	16%	11%	7%	3%	9%	13%	13%	4%	14%	13%	11%
Jyothy (Fabric care)	13%	11%	6%	2%	5%	13%	-11%	2%	13%	7%	8%	4%	8%	8%
Jyothy (Dishwash)	28%	14%	9%	22%	1%	9%	0%	8%	18%	12%	9%	9%	17%	13%
Jyothy (HI)	28%	-20%	12%	-4%	-22%	-1%	2%	-6%	18%	16%	-4%	0%	-3%	5%
<b>Weighted Avg Gr. (%)</b>	<b>20%</b>	<b>10%</b>	<b>12%</b>	<b>10%</b>	<b>7%</b>	<b>9%</b>	<b>8%</b>	<b>8%</b>	<b>10%</b>	<b>3%</b>	<b>7%</b>	<b>12%</b>	<b>13%</b>	<b>9%</b>

Home Care Breakup (~Rs 400bn)



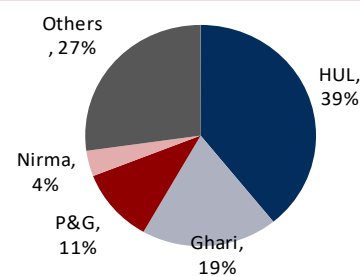
Source: Industry, Companies, HDFC sec

Premiumisation in Detergents



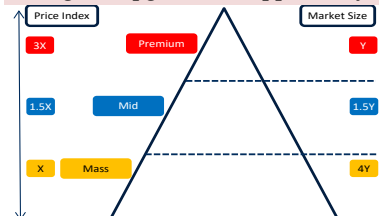
Source: HUL

Premiumisation in Detergents



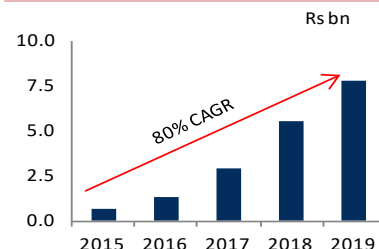
Source: HUL

Detergent: Upgradation Opportunity



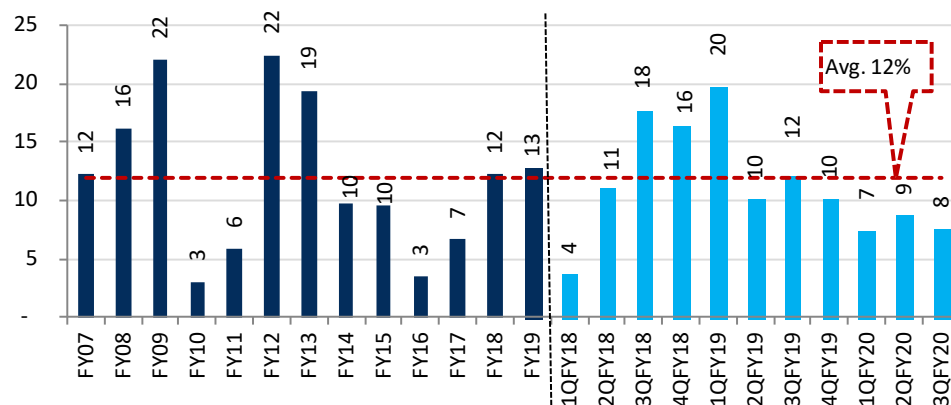
Source: HUL

Incense Sticks Market Size Growth



Source: Jyothy Labs (AC Nielsen)

Exhibit 120: Home Care



Source: Companies, HDFC sec Inst Research

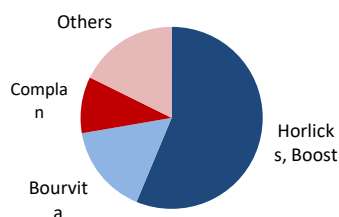
- Home care is ~Rs 400bn category with laundry care being the largest contributor with ~77% mix. HUL has been the outperformer in the category during the last 1 year. Laundry business of HUL has enjoyed last 3 years as golden years. Co has been a key beneficiary in the falling raw material prices, GST led trade disturbance and rising penetration of washing machines. HUL's WiMi strategy has led to market share gain and premiumisation. Jyothy's dishwashing (Exo, Pril) has outperformed the category in the last 5 years. HI category has been muted in the last 12 months as well as last 3 years leading into weak growth for GCPL.
- Our View:** (A) Laundry: Falling raw material prices will further strengthen HUL's home care portfolio. Co has the ability to maximise the opportunity by gaining market share. Premium segment has grown at 2x the speed of the Mass segment and constitutes 22% of the market size. The penetration of washing machines is at ~11%. With growing disposable income and cheaper financing, we see significant scope for washing machine penetration. Hence, we believe that premiumisation-driven growth in detergents would continue in the coming years. (B) HI: Seasonal volatility and higher competition from incense sticks has impacted the category over the last 2-3 years. Covid-19 will also drive a higher focus on hygiene which could be a key driver for HI growth. Product innovation, higher awareness can revive the category growth. (C) Dishwash: Healthy growth can sustain, cos are driving the category by launching smaller packs and higher focus on liquid dishwash. Low penetration will continue to drive the category. (D) Toilet Cleaner and Air Freshner are low penetrated categories with potential of innovative and premium products.

## Category VI: OTC FMCG

### Exhibit 121: OTC FMCG

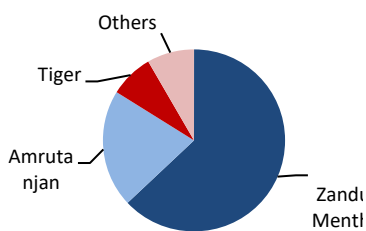
OTC FMCG	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	Avg. 4 Qtr	FY15	FY16	FY17	FY18	FY19	Avg. 5 Yr
GSK (Malted Food)	16%	14%	8%	9%	8%	6%	4%	7%	-12%	0%	-4%	8%	11%	1%
Dabur (Honey, Chywanprash)	28%	12%	14%	10%	20%	14%	12%	14%	14%	-4%	-4%	10%	15%	6%
Emami (Balm)	39%	-8%	6%	1%	-6%	4%	15%	4%	16%	12%	6%	6%	7%	9%
Dabur (Dabur Lal Tail, Honitus)	13%	10%	18%	15%	14%	4%	4%	9%	7%	10%	-8%	5%	14%	6%
Amrutanjan (Balm)	26%	15%	14%	27%	26%	22%	19%	23%	16%	13%	16%	9%	20%	15%
Emami (Pancharishta, Nityam Churna )	28%	1%	18%	9%	-3%	0%	4%	3%	25%	34%	-1%	-7%	12%	13%
<b>Weighted Avg Gr. (%)</b>	<b>20%</b>	<b>12%</b>	<b>10%</b>	<b>9%</b>	<b>9%</b>	<b>7%</b>	<b>6%</b>	<b>8%</b>	<b>-3%</b>	<b>2%</b>	<b>-2%</b>	<b>8%</b>	<b>12%</b>	<b>3%</b>

#### Malted Drink Market (~Rs 60-65bn)



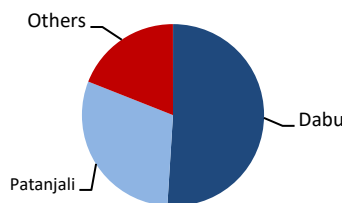
Source: GSK Consumer, Industry

#### Balm Market (~Rs 10bn)



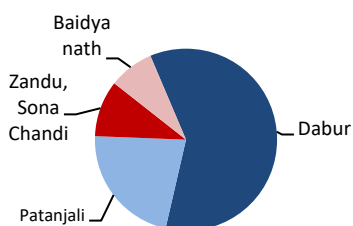
Source: Emami, Amrutanjan, Alkem

#### Honey Market (Rs 8-9bn)



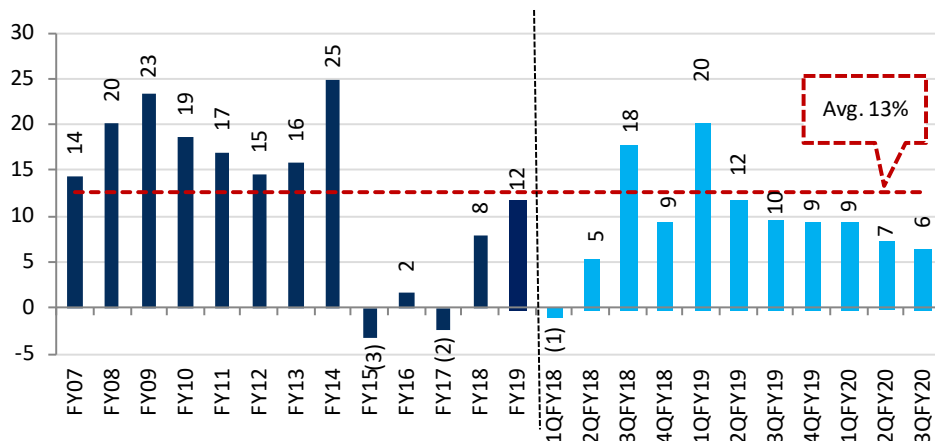
Source: Dabur India

#### Chywanprash Market (Rs 6-7bn)



Source: Dabur India

### Exhibit 122: OTC FMCG Performance



Source: Companies, HDFC sec Inst Research

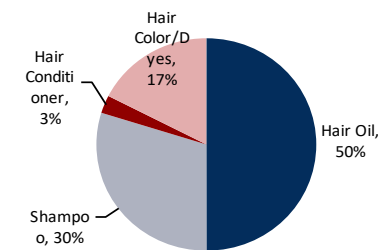
- OTC FMCG is ~Rs 100bn market with major contribution from malted food drink ~60% (driven by MNC players). Other segments in OTC FMCG are Balm, Honey, Chywanprash and Health Supplements that are dominated by Dabur, Emami and Patanjali.
- Dabur's OTC category saw a shift with the co focusing on Ayurvedic space which has a lower competitive intensity and significant headroom to grow. The threat that the co faced from Patanjali in FY18 and FY19 has abated in FY20 and Dabur registered a growth despite a high base. New product launches and visibility enhancement initiatives have also played a role in the continued growth for the segment.
- India's malt based drink market** is ~Rs 60bn. GSK Consumer is the dominant player in the malt-based drinks segment with a market share of ~56% through its Horlicks and Boost brands. Other big players are Bourvita (Mondelez) and Complian (Heinz). There is lot of scope for improving category penetration.
- Balm** is dominated by Emami's Zandu and Mentho plus balm which command ~55% market share combined. Amrutanjan and Tiger are the other key brands in the balm category.
- Honey** market was disrupted by Patanjali and Dabur had lost market share in FY17. However, Dabur regained all the market share it lost in FY19 and enjoys a dominant share.
- Chywanprash** market is dominated by Dabur with ~64% market share. Other key brands are Patanjali, Emami and Baidyanath.
- Our View:** we believe that OTC market has strong growth potential. Dabur, Emami both are trying to develop the market and despite disruption created by Patanjali, both the players have settled their performance now. With digital marketing and better traction from E-commerce and MT channel would continue to support the category growth.

## Category VII: Hair Care

Exhibit 123: Hair Care

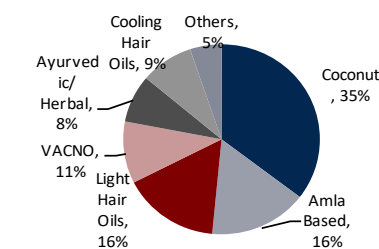
Hair Care	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	Avg. 4 Qtr	FY15	FY16	FY17	FY18	FY19	Avg. 5 Yr
Marico	38%	32%	19%	4%	8%	-4%	-5%	1%	44%	5%	-9%	22%	23%	17%
Marico	12%	12%	19%	7%	11%	-6%	-17%	-1%	25%	16%	4%	4%	12%	12%
Dabur	19%	11%	24%	3%	12%	3%	1%	5%	10%	7%	-7%	4%	14%	6%
Bajaj Corp	18%	1%	12%	11%	8%	3%	-7%	4%	17%	7%	-1%	12%	9%	9%
Emami	19%	3%	10%	1%	4%	-3%	11%	3%	18%	6%	3%	8%	8%	9%
GCPL	12%	21%	0%	7%	7%	7%	7%	7%	14%	9%	4%	11%	10%	10%
Emami	10%	2%	26%	15%	30%	-11%	18%	13%	0%	-23%	48%	-14%	13%	6%
<b>Weighted Avg Gr. (%)</b>	<b>22%</b>	<b>16%</b>	<b>17%</b>	<b>6%</b>	<b>10%</b>	<b>-2%</b>	<b>-3%</b>	<b>3%</b>	<b>24%</b>	<b>7%</b>	<b>0%</b>	<b>10%</b>	<b>15%</b>	<b>11%</b>

Hair Care Market (Rs 220bn)



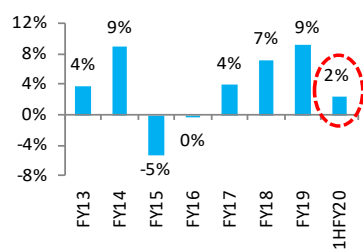
Source: Bajaj Consumer Care

Hair Oil Market (Rs 110bn)



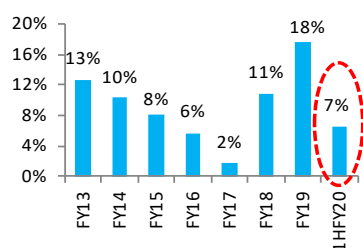
Source: Bajaj Consumer Care

Hair Oil Volume Growth



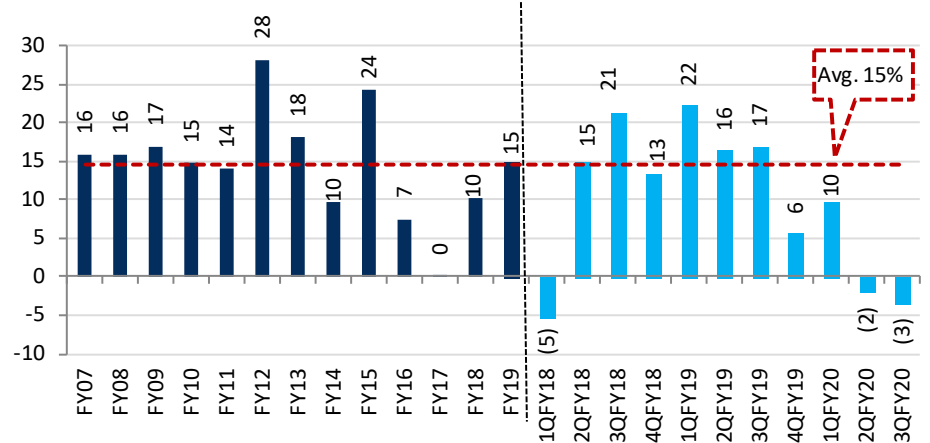
Source: Bajaj Consumer Care

Hair Oil Value Growth



Source: Bajaj Consumer Care

Exhibit 124: Hair Care Performance



Source: Companies, HDFC sec Inst Research

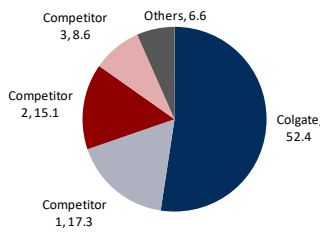
- The Hair Care market is worth ~Rs 220bn, with Hair Oil taking the lion's share at ~50% of the Hair Care market, followed by Shampoo 30%, Hair Dyes ~17% and Hair Conditioner ~3%.
- The category has witnessed multiple challenges over the last few quarters, despite the favorable pricing in copra. Lower rural incomes have seen a deceleration in the conversion from loose to branded, and the premiumisation story has also been impacted adversely.
- Our interaction with Marico indicated that copra prices are expected to remain stable going forward, but the weak demand continues to weigh on the category. Consumers are making purchases cautiously, and opting for smaller SKUs.
- Bajaj Corp in its quarterly call also indicated that the Hair Oil industry is delaying launches and companies are guarded in their approach towards investing behind products.
- **Our View:** We believe that with the rural incomes not looking up, and consumer sentiments remaining weak, the industry will continue to face a challenging environment from a revenue growth perspective. Additionally, a cut back in discretionary consumption by consumer as a result of the slowdown, which will be accelerated due to Covid-19, will dent the industry. However, the tepid copra inflation will help cos keep margins healthy.

### Category VIII: Oral Care

Exhibit 125: Oral Care

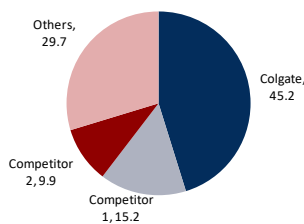
Oral Care	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	Avg. 4 Qtr	FY15	FY16	FY17	FY18	FY19	Avg. 5 Yr
Colgate	7%	8%	6%	6%	4%	5%	4%	5%	11%	5%	3%	5%	7%	6%
Dabur	17%	4%	10%	8%	11%	4%	9%	8%	10%	16%	7%	17%	10%	12%
Gillette	25%	14%	36%	-14%	42%	5%	12%	11%	13%	-12%	-3%	26%	16%	8%
Weighted Avg Gr. (%)	10%	7%	9%	5%	8%	5%	6%	6%	11%	5%	3%	9%	8%	7%

Toothpaste Market (Rs 85bn)



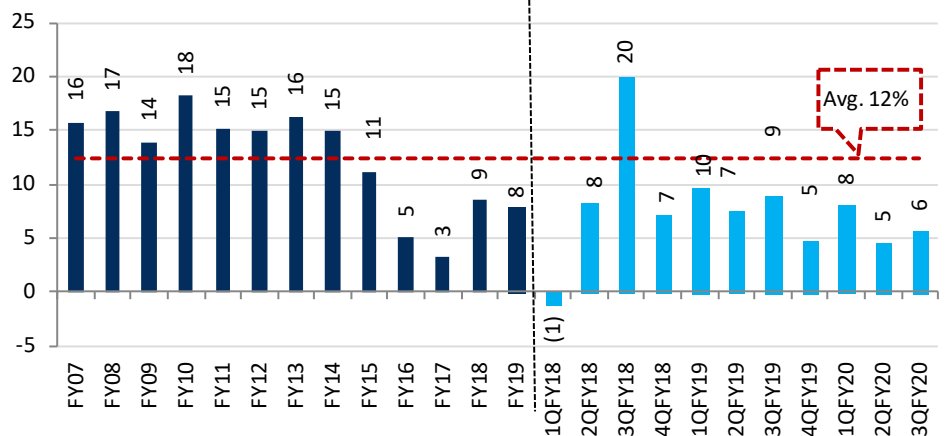
Source: Colgate-Palmolive

Toothbrush Market (Rs 15bn)



Source: Colgate-Palmolive

Exhibit 126: Oral Care Performance



Source: Companies, HDFC sec Inst Research

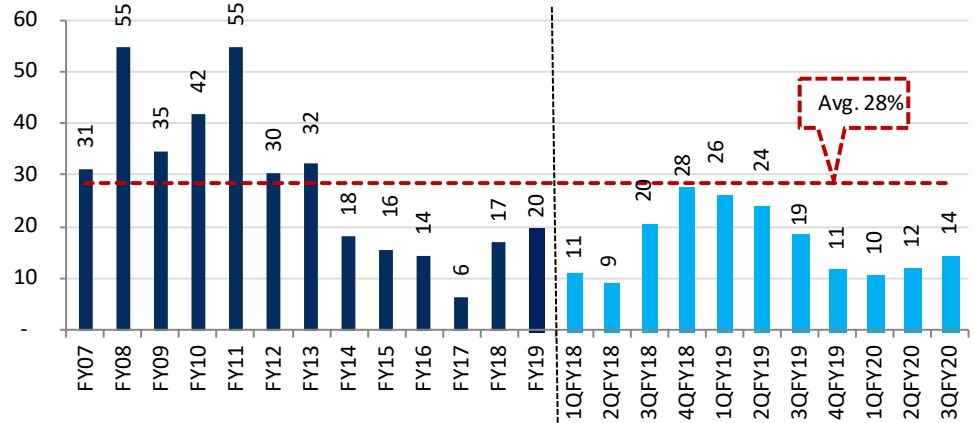
- The disruption caused by success of Patanjali’s Dant Kanti abated a bit over the course of FY20. Major players like Colgate and Dabur witnessed market share gains in FY20, after sharply losing market share to Patanjali in FY19, despite the overall category witnessing a sharp slowdown.
- However, Herbal/ayurvedic toothpastes have been growing at double the overall growth rate for Dabur. These constitute ~20-25% of the total market, as compared to zero 10 years ago (largely developed by Patanjali and Dabur, which together constitute >80% of the herbal/ayurvedic market).
- Toothpaste category witnessed downtrading by consumers as sentiments continued to remain weak. However, Dabur observed that downtrading from toothpaste to tooth powder was negligible.
- **Our View:** We believe that with a high penetration and slower premiumisation, oral care will continue to battle a challenging environment. Category growth is likely to be driven by the growth in Herbal/Ayurvedic, and Dabur will restart its investment behind tooth powder following the growth it witnessed in 3QFY20. Growth is likely to be muted for Colgate, and hence, regaining its peak market share will be a challenge for the co.

## Category IX: QSR

**Exhibit 127: QSR**

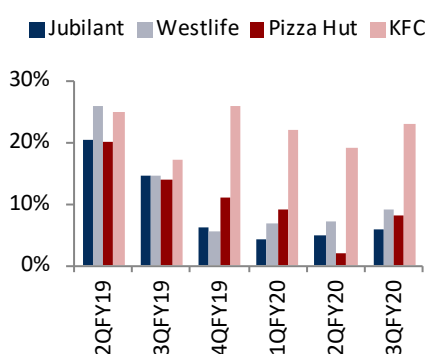
QSR	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	Avg. 4 Qtr	FY15	FY16	FY17	FY18	FY19	Avg. 5 Yr
Jubilant FoodWorks	26%	21%	17%	11%	10%	12%	14%	12%	20%	16%	6%	17%	18%	16%
Westlife Developers	30%	32%	21%	12%	12%	13%	17%	13%	3%	12%	12%	22%	23%	14%
Speciality Restaurants	10%	18%	24%	15%	10%	4%	8%	9%	13%	7%	-3%	-5%	17%	6%
<b>Weighted Avg Gr. (%)</b>	<b>26%</b>	<b>24%</b>	<b>19%</b>	<b>11%</b>	<b>10%</b>	<b>12%</b>	<b>14%</b>	<b>12%</b>	<b>16%</b>	<b>14%</b>	<b>6%</b>	<b>17%</b>	<b>20%</b>	<b>15%</b>

**Exhibit 128: QSR Performance**

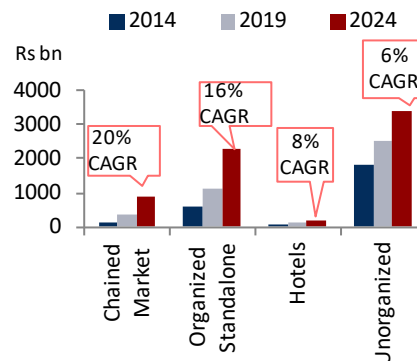


Source: Companies, HDFC sec Inst Research

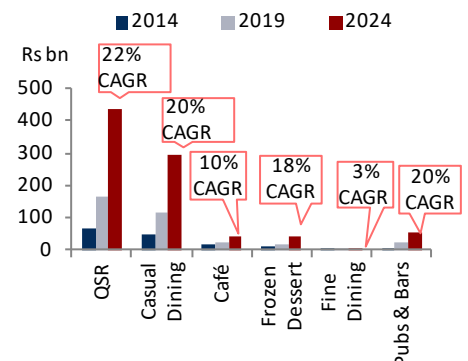
**Exhibit 129: SSG maintained for QSRs**



**Exhibit 130: Consumer Food Service: Market Outlook**



**Exhibit 131: Chained Consumer Food Service: By Format**



- QSR industry is ~Rs 160bn in India and expected to grow at ~22% CAGR over 2019-2024. Most of the QSR players like Jubilant FoodWorks (Dominos), Westlife Developers (McD), Pizza Hut & KFC (Yum! Brands) initially focused on aggressive store expansion. Most players now focus on profitable store expansion and product innovation. Jubilant has especially focused on fortressing its stores to capture key markets. Due to a high base effect, the SSG in FY20 has appeared to be muted, but this will translate into a favourable base for FY21.
- Focus on beverages has led the margin expansion for Westlife Development over the last few years, and Jubilant too is following the same path. Jubilant's entry into Chinese food through Hong's Kitchen, and the focus on turning around Dunkin' before returning to an expansion phase, will also be key monitorables for the co.
- Our View:** In the wake of Covid-19, the near term prospects for the QSR industry are bleak. However, in the medium term, the favorable demographics (increased youth population, nuclear family & more working women), changing consumer preferences and digitization would continue to help the category growth. Food

tech has played a big role in expanding QSR's delivery footprint along with providing a better delivery experience for consumers. We believe QSR is a long term growth story and players like Jubilant FoodWorks would capitalise the opportunity for sustaining healthy growth in the coming years.

## Exhibit 132: Commodity Trend

Commodities	Unit	MoM (%)	3M (%)	12m (%)	24m (%)	Categories Impacted	Companies Impacted
<b>Beverages</b>							
India Tea	INR/KG	(9)	(28)	(25)	(34)	Tea	HUL, Tata Global
Coffee Arabica	\$/lb	18	(12)	31	10	Coffee	HUL, Nestle, Tata Global
Cocoa Beans	USD/MT	(6)	7	20	12	Chocolate	Nestle, ITC, Britannia
Liquid Milk	INR/LTR	5	(10)	33	26	Dairy	Jubilant FoodWork, Britannia, Nestle, GSKCHL
Fruit Pulp	WPI Index	-	-	2	(8)	Fruit Juice	Dabur, ITC
<b>Crops</b>							
Wheat India	INR/Quintal	(0)	(3)	6	23	Biscuits	Britannia, ITC, Nestle, GSKCHL
Barley	INR/Quintal	(4)	(3)	10	45	HFD	GSKCHL
Maize (Corn)	INR/MT	4	2	2	3	Oral Care	Colgate, HUL, Dabur
Copra	INR/QUINTAL	0	7	(2)	(21)	Hair oil	Marico, Dabur
Safflower Oil	Rs/10KG	(8)	3	8	20	Cooking Oil	Marico
Sugar India	INR/100kg	(2)	-	-	3	F&B	HUL, Nestle, ITC, Dabur, Britannia, GSKCHL
Amla	WPI Index	-	0	4	(16)	Hair oil	Dabur, Marico, Bajaj Corp
<b>Oil</b>							
Brent Oil	INR/BBL	(28)	(39)	(41)	(35)	Packaging & Transport	Most FMCG Cos
Palm Oil	INR/MT	(14)	(17)	13	3	Soaps, Skin care	HUL, GCPL, Jyothy Labs
LLP	Rs/lt	(1)	4	(3)	(4)	Hair oil	Marico, Bajaj Corp, Dabur
Crude Oil	IND/Barrel	(29)	(38)	(38)	(28)	Packaging & Transport	Most FMCG Cos
Mentha Oil	INR/kg	(0)	(7)	(25)	(1)	Hair oil	Emami, Dabur
<b>Packaging</b>							
HDPE (High Density Polyethylene)	Rs/kg	0	2	(15)	(25)	Packaging	Most FMCG Cos
<b>Miscellaneous</b>							
Caustic Soda	INR/50kg	17	(5)	(19)	(30)	Soaps	HUL, GCPL, Jyothy Labs
Linear Alkyl Benzene	WPI Index	-	1	2	90	Detergents	HUL, Jyothy Labs

Source: Bloomberg, Marico, HDFC sec Inst Research

Note: Updated till Feb'2020



## International Performance Review

**Exhibit 133: International Performance**

Companies	Quarterly Revenue Growth (%)												Revenue Growth (%)				
	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	FY15	FY16	FY17	FY18	FY19
Dabur	-20%	-15%	-11%	-6%	11%	12%	9%	3%	2%	6%	2%	12%	8%	12%	-5%	-6%	7%
Marico	-8%	-1%	-8%	1%	13%	9%	18%	21%	14%	9%	8%	8%	10%	7%	1%	1%	16%
Emami	-38%	-19%	22%	16%	37%	7%	4%	18%	19%	34%	20%	18%	44%	15%	-16%	10%	11%
GCPL	22%	11%	9%	5%	6%	7%	3%	2%	10%	9%	3%	6%	13%	11%	20%	8%	6%

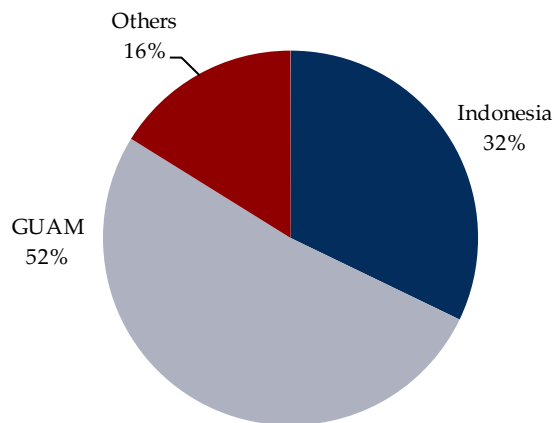
Source: Companies, HDFC sec Inst Research

**Exhibit 134: International Presence**

Companies	International Revenue (Rs mn)					International Revenue Mix (% of total)					YoY Growth (Reported)				
	FY18	FY19	FY20E	FY21E	FY22E	FY18	FY19	FY20E	FY21E	FY22E	FY18	FY19	FY20E	FY21E	FY22E
GCPL	46,054	46,617	44,683	46,260	49,744	47%	46%	45%	44%	45%	1%	1%	-4%	4%	8%
Dabur	21,618	23,670	24,352	24,716	26,819	28%	28%	27%	26%	26%	-6%	7%	3%	1%	9%
Marico	13,642	15,780	16,569	16,646	18,311	22%	22%	23%	22%	22%	1%	16%	5%	0%	10%
Britannia	4,758	5,376	5,860	6,329	7,088	5%	5%	5%	5%	5%	-3%	13%	9%	8%	12%
Emami	3,014	3,356	3,595	3,419	3,662	12%	12%	13%	13%	13%	10%	11%	7%	-5%	7%

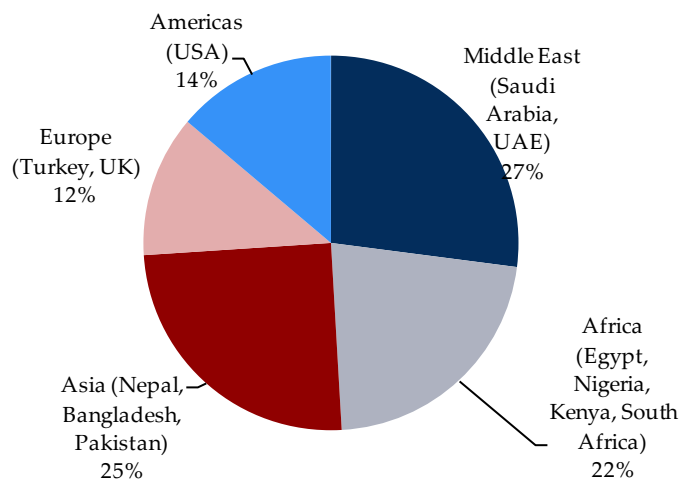
Source: Companies, HDFC sec Inst Research

**Exhibit 135: GCPL's Geographical Break-up**



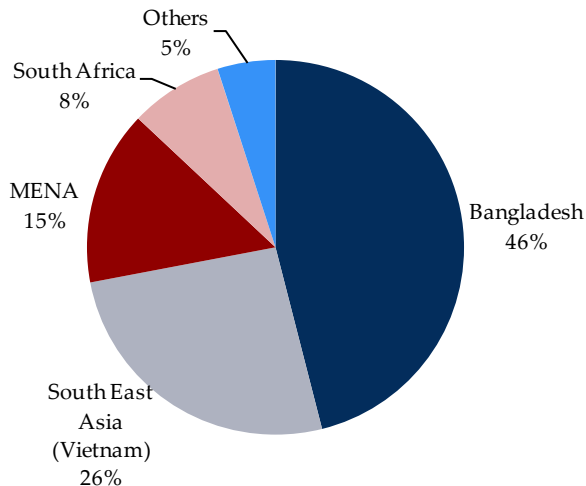
Source: Company, HDFC sec Inst Research

**Exhibit 136: Dabur's Geographical Break-up**



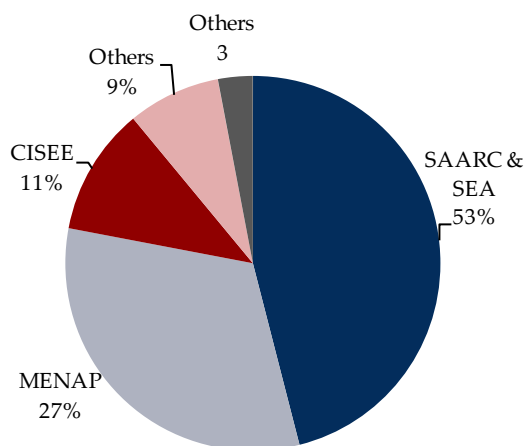
Source: Company, HDFC sec Inst Research

**Exhibit 137: Marico's Geographical Breakup**



Source: Company, HDFC sec Inst Research

**Exhibit 138: Emami's Geographical Breakup**



Source: Company, HDFC sec Inst Research

# Company Section

# ITC

## Improving capital allocation, attractive valuations

Cigarette business, despite punitive taxes, registered ~11% and ~6% revenue CAGR in the last 10 and 5 years resp. Covid-19 will have negative impact on cigarette, hotels and paper business in FY21 while part of FMCG business will see a spike in demand (packaged foods). FY21 earnings will be muted, however, sharp valuation correction factors in most negatives. Among the beaten down FMCG stocks, we believe ITC can recover quickly led by (1) High corporate governance, (2) Net cash, (3) Inorganic growth opportunities, (4) No pledge and (5) Strong FCFs (rising dividend payout). On account of Covid-19, we cut EPS estimates by 12/11% for FY21/22E. We value ITC on SoTP basis and arrive a TP of Rs 221 (implied P/E of 17x).

- Covid-19 led lock-down will have negative impact on cig and hotels biz. Hotels will take slightly longer time to recover but cig and paper will recover gradually in FY21. Packaged foods in FMCG is seeing surge in demand (both online and offline) and may drive the FMCG biz in FY21 despite personal care being a drag.
- Prior to Covid-19, Union Budget has increased taxes on cig by ~10% with more impact on DSFT. Co has taken gradual price hike with plans of taking more rounds of price hike in FY21 to reduce impact on cig volume. Capsules cig has been the sole driver of the cig business and co has introduced it in the small cig also. Rural (35% mix in cig) recovery can be delayed in FY21 due to Covid-19 issue; thereby cig vol growth will be weak in FY21.
- FMCG performance is broadly in-line with sector growth trend. Slower recovery has impacted performance in 9MFY20 and ITC posted 7% growth in its FMCG biz. However, margin recovery was more heartening with 49% growth in EBIT in 9MFY20. Co aims to achieve mid-single digit EBIT margin in the medium term (3% now).
- ITC has changed its dividend payout ratio to 80-85% vs. ~65% now. With this move, the dividend yield for the stock will increase to ~6% for FY21. Co has already incurred major capex and do not see any major capex requirement in the medium term. Considering major valuation correction in the market, we expect ITC can use it for more inorganic opportunities.
- We build our estimates under the assumption that the impact of Covid-19 will be beyond 1QFY21 and recovery will be gradual.

### Financial Summary

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenue	434,489	483,527	499,552	499,255	544,484
EBITDA	164,830	184,064	190,038	184,640	202,199
APAT	112,202	127,864	153,700	146,098	159,333
EPS (Rs)	9.2	10.4	12.5	11.9	13.0
P/E (x)	20.1	17.7	14.8	15.5	14.2
EV/EBITDA (x)	12.2	10.8	10.1	10.2	9.1
Core RoCE (%)	37.2	39.2	44.5	43.4	48.0

Source: Company, HDFC sec Inst Research

**INSTITUTIONAL RESEARCH**
**BUY**

CMP (as on 09 Apr 2020)	Rs 185
Target Price	Rs 221
NIFTY	9,112

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 265	Rs 221
	FY21E	FY22E
EPS %	-12%	-11%

### KEY STOCK DATA

Bloomberg code	ITC IN
No. of Shares (mn)	12,293
MCap (Rs bn) / (\$ mn)	2,279/29,863
6m avg traded value (Rs mn)	4,189
52 Week high / low	Rs 310/135

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(21.4)	(25.0)	(37.4)
Relative (%)	3.4	(6.6)	(17.5)

### SHAREHOLDING PATTERN (%)

	Dec-19	Sep-19
Promoters	0	0
FIs & Local MFs	42.58	42.45
FPIs	15.18	15.64
Public & Others	42.24	41.89
Pledged Shares	0.00	0.00

Source : BSE

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## Key Assumption

Assumptions	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Cigarette</b>								
Revenue Gr (%)	4.7	6.2	(40.5)	4.9	10.3	2.9	(2.7)	6.8
Volume Gr (%)	(8.8)	(8.8)	1.4	(3.0)	5.6	0.6	(4.9)	5.9
Cig. Price Gr (%)	13.5	15.0	(41.8)	7.9	4.6	2.3	2.1	1.0
EBIT Gr (%)	11.8	5.0	6.5	6.6	9.1	4.2	(2.9)	7.6
<b>FMCG</b>								
Revenue Gr (%)	11.3	7.7	8.0	11.3	12.6	2.9	13.4	10.2
EBIT Margin (%)	0.4	0.7	0.3	1.4	2.5	3.4	4.3	4.9
<b>Hotel</b>								
Revenue Gr (%)	4.6	11.5	1.6	5.6	17.3	10.8	(20.2)	11.8
EBIT Gr (%)	(64.9)	13.4	99.3	26.0	27.1	13.4	(21.3)	21.6
EBIT Margin (%)	4.1	4.3	8.3	9.9	10.7	10.9	10.8	11.7
<b>Agribusiness</b>								
Revenue Gr (%)	10.6	0.2	(5.8)	(15.0)	16.9	10.7	10.4	10.4
EBIT Gr (%)	8.3	2.8	(2.6)	(6.3)	(8.5)	5.9	(0.4)	12.0
EBIT Margin (%)	10.8	12.5	11.0	10.5	8.3	7.8	8.1	8.3
<b>Paper</b>								
Revenue Gr (%)	11.2	5.9	(0.8)	(0.7)	10.1	11.5	11.6	11.7
EBIT Gr (%)	3.3	(1.5)	6.4	7.9	18.9	6.0	(16.3)	19.0
EBIT Margin (%)	18.5	17.0	18.0	19.9	21.1	21.4	18.9	20.3
Gross Margin (%)	61.6	65.4	62.5	63.5	64.0	64.8	64.7	64.8
Employee (% of sales)	7.2	8.8	8.5	8.7	8.6	9.1	9.6	9.5
ASP (% of sales)	2.2	2.5	1.9	2.1	2.1	2.1	2.0	2.0
Distribution (% of sales)	2.4	2.2	2.0	2.1	2.4	2.3	2.3	2.3
Other Expenses (% of sales)	13.8	15.0	14.1	12.8	12.8	13.2	13.9	13.9
EBITDA Margin (%)	36.0	36.9	36.1	37.9	38.1	38.0	37.0	37.1
Tax Rate (%)	32.0	36.1	34.6	34.0	33.0	24.0	25.2	25.2

## Recent Performance

(Rs mn)	3QFY20	3QFY19	YoY (%)	9MFY20	9MFY19	YoY (%)
<b>Segmental Revenues</b>						
Cigarettes	53,110	50,734	6.0	160,712	152,270	10.0
FMCG	33,123	32,010	6.5	96,607	92,314	12.6
Hotels	5,523	4,519	17.7	13,715	11,557	18.7
Agribusiness	20,947	19,246	19.3	83,534	72,956	14.5
Paperboards, Paper & Packaging	15,554	15,425	9.9	46,483	43,228	7.5
<b>Total</b>	<b>128,257</b>	<b>121,933</b>	<b>8.7</b>	<b>401,052</b>	<b>372,325</b>	<b>7.7</b>
Less: Inter-segment revenue	9,135	8,532	7.1	50,815	40,752	24.7
<b>Total</b>	<b>119,122</b>	<b>113,402</b>	<b>5.0</b>	<b>350,236</b>	<b>331,573</b>	<b>5.6</b>
<b>Segmental EBIT</b>						
Cigarettes	37,560	35,577	5.6	114,496	106,951	7.1
FMCG	1,076	767	40.4	2,761	1,852	49.1
Hotels	873	603	44.8	1,152	891	29.3
Agribusiness	2,134	1,988	7.4	6,658	6,294	5.8
Paperboards, Paper & Packaging	3,340	3,321	0.6	10,196	9,387	8.6
<b>Total</b>	<b>44,983</b>	<b>42,256</b>	<b>6.5</b>	<b>135,262</b>	<b>125,375</b>	<b>7.9</b>
<b>PBIT Margin</b>						
(Rs mn)	3QFY20	3QFY19	YoY (bps)	9MFY20	9MFY19	YoY (bps)
Cigarettes	70.7	70.1	60	71.2	73.2	(196)
FMCG	3.2	2.4	85	2.9	2.0	85
Hotels	15.8	13.3	247	8.4	7.7	69
Agribusiness	10.2	10.3	(14)	8.0	8.6	(66)
Paperboards, Paper & Packaging	21.5	21.5	(6)	21.9	21.7	22
<b>Total</b>	<b>35.1</b>	<b>34.7</b>	<b>42</b>	<b>33.7</b>	<b>33.7</b>	<b>5</b>

Source: Company, HDFC sec Inst Research

## Financials

### Income Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>384,333</b>	<b>391,921</b>	<b>428,036</b>	<b>434,489</b>	<b>483,527</b>	<b>499,552</b>	<b>499,255</b>	<b>544,484</b>
Growth (%)	9.9	2.0	9.2	4.5	11.3	3.3	(0.1)	9.1
Material Expenses	147,722	135,685	160,492	158,555	174,203	175,842	176,237	191,658
Employee Expense	27,723	34,410	36,317	37,609	41,779	45,698	47,725	51,493
ASP Expense	8,385	9,887	8,107	9,041	9,946	10,541	9,735	10,890
Distribution Expense	9,050	8,528	8,560	9,041	11,765	11,490	11,483	12,523
Other Expenses	53,225	58,903	60,201	55,414	61,770	65,943	69,435	75,722
<b>EBITDA</b>	<b>138,229</b>	<b>144,509</b>	<b>154,359</b>	<b>164,830</b>	<b>184,064</b>	<b>190,038</b>	<b>184,640</b>	<b>202,199</b>
EBITDA Growth (%)	8.5	4.5	6.8	6.8	11.7	3.2	(2.8)	9.5
EBITDA Margin (%)	36.0	36.9	36.1	37.9	38.1	38.0	37.0	37.1
Depreciation	10,279	10,774	11,528	12,363	13,966	15,927	17,073	18,255
<b>EBIT</b>	<b>127,950</b>	<b>133,735</b>	<b>142,831</b>	<b>152,467</b>	<b>170,098</b>	<b>174,110</b>	<b>167,567</b>	<b>183,944</b>
Other Income	16,580	15,308	17,615	18,319	21,738	28,186	27,672	28,934
Interest	910	536	243	899	454	236	206	189
<b>PBT</b>	<b>143,621</b>	<b>148,507</b>	<b>160,204</b>	<b>174,016</b>	<b>191,381</b>	<b>202,060</b>	<b>195,033</b>	<b>212,688</b>
Total Tax	45,964	53,582	55,491	59,164	63,139	48,494	49,090	53,534
<b>RPAT</b>	<b>96,632</b>	<b>95,009</b>	<b>104,772</b>	<b>114,927</b>	<b>128,359</b>	<b>153,700</b>	<b>146,098</b>	<b>159,333</b>
Exceptional Gain/(loss)	-	-	-	2,725	495	-	-	-
<b>Adjusted PAT</b>	<b>96,632</b>	<b>95,009</b>	<b>104,772</b>	<b>112,202</b>	<b>127,864</b>	<b>153,700</b>	<b>146,098</b>	<b>159,333</b>
APAT Growth (%)	8.4	(1.7)	10.3	7.1	14.0	20.2	(4.9)	9.1
Adjusted EPS (Rs)	8.0	7.9	8.63	9.19	10.43	12.54	11.92	13.00
EPS Growth (%)	7.6	(2.1)	9.6	6.6	13.5	20.2	(4.9)	9.1

### Balance Sheet

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>								
Share Capital - Equity	8,016	8,047	12,147	12,204	12,259	12,259	12,259	12,259
Reserves	309,339	418,748	451,982	512,897	565,114	633,977	657,116	699,570
<b>Total Shareholders Funds</b>	<b>317,355</b>	<b>426,795</b>	<b>464,129</b>	<b>525,101</b>	<b>577,372</b>	<b>646,236</b>	<b>669,374</b>	<b>711,828</b>
Minority Interest	2,251	2,609	2,947	3,345	3,435	3,300	3,145	2,967
Long Term Debt	607	267	184	115	82	82	82	82
Short Term Debt	1,954	440	191	174	19	20	23	25
<b>Total Debt</b>	<b>2,561</b>	<b>706</b>	<b>375</b>	<b>289</b>	<b>100</b>	<b>102</b>	<b>104</b>	<b>106</b>
Net Deferred Taxes	16,045	18,395	18,333	18,749	19,927	21,248	22,674	24,215
Other non current liabilities	1,668	2,756	2,174	2,596	2,484	2,484	2,484	2,484
<b>TOTAL SOURCES OF FUNDS</b>	<b>339,880</b>	<b>451,261</b>	<b>487,959</b>	<b>550,080</b>	<b>603,318</b>	<b>673,369</b>	<b>697,782</b>	<b>741,601</b>
<b>APPLICATION OF FUNDS</b>								
<b>Net Block</b>	<b>150,674</b>	<b>149,060</b>	<b>157,778</b>	<b>163,907</b>	<b>191,530</b>	<b>206,913</b>	<b>213,340</b>	<b>221,785</b>
CWIP	31,116	35,759	49,180	77,353	63,618	55,366	48,764	43,483
Goodwill	2,369	2,314	2,314	2,314	2,314	2,314	2,314	2,314
LT Loans & Advances	11,554	29,457	20,849	21,014	16,960	18,349	19,852	21,481
<b>Total Non-current Assets</b>	<b>195,712</b>	<b>216,590</b>	<b>230,120</b>	<b>264,587</b>	<b>274,422</b>	<b>282,941</b>	<b>284,271</b>	<b>289,063</b>
Inventories	85,868	90,621	81,161	74,951	79,440	79,130	77,997	83,013
Debtors	19,812	19,178	24,743	26,823	40,353	29,474	29,456	32,125
Other assets	9,743	11,109	17,471	26,523	30,852	32,394	34,014	35,715
Cash & Equivalents	148,389	179,800	205,488	249,525	278,353	357,455	386,920	427,445
<b>Total Current Assets</b>	<b>263,812</b>	<b>300,707</b>	<b>328,863</b>	<b>377,821</b>	<b>428,997</b>	<b>498,452</b>	<b>528,387</b>	<b>578,297</b>
Creditors	20,205	23,393	26,593	34,962	35,096	36,763	36,741	40,069
Other Current Liabilities & Provns	99,439	42,643	44,430	57,367	65,006	71,261	78,135	85,690
<b>Total Current Liabilities</b>	<b>119,644</b>	<b>66,036</b>	<b>71,023</b>	<b>92,328</b>	<b>100,101</b>	<b>108,024</b>	<b>114,876</b>	<b>125,759</b>
<b>Net Current Assets</b>	<b>144,168</b>	<b>234,672</b>	<b>257,839</b>	<b>285,493</b>	<b>328,896</b>	<b>390,428</b>	<b>413,511</b>	<b>452,538</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>339,880</b>	<b>451,261</b>	<b>487,960</b>	<b>550,080</b>	<b>603,318</b>	<b>673,369</b>	<b>697,782</b>	<b>741,601</b>

Source: Company, HDFC sec Inst Research

## Cash Flow Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	143,621	154,332	160,263	174,091	191,381	202,060	195,033	212,688
Non-operating & EO Items	(5,784)	(5,980)	(2,257)	(3,379)	-	-	-	-
Interest Expenses	(5,510)	(8,227)	(8,789)	(8,748)	(12,674)	(13,942)	(15,106)	(16,348)
Depreciation	10,280	11,528	11,528	12,363	13,966	15,927	17,073	18,255
Working Capital Change	312	(1,666)	444	17,364	(10,521)	16,181	4,878	(131)
Tax Paid	(44,486)	(50,812)	(54,916)	(59,996)	(61,916)	(47,173)	(47,663)	(51,993)
<b>OPERATING CASH FLOW ( a )</b>	<b>98,432</b>	<b>99,176</b>	<b>106,273</b>	<b>131,694</b>	<b>120,237</b>	<b>173,052</b>	<b>154,215</b>	<b>162,472</b>
Capex	(32,913)	(23,835)	(30,715)	(27,985)	(27,855)	(23,058)	(16,898)	(21,418)
Free Cash Flow (FCF)	65,519	75,340	75,558	103,709	92,382	149,994	137,317	141,053
Investments	9,165	(34,379)	(10,749)	(50,814)	(29,906)	(15,000)	(15,000)	(15,000)
Non-operating Income	(29,006)	18,558	8,955	7,660	13,182	14,178	15,312	16,537
<b>INVESTING CASH FLOW ( b )</b>	<b>(52,754)</b>	<b>(39,657)</b>	<b>(32,509)</b>	<b>(71,139)</b>	<b>(44,579)</b>	<b>(23,880)</b>	<b>(16,586)</b>	<b>(19,881)</b>
Debt Issuance/(Repaid)	315	(127)	(132)	24	(188)	2	2	2
Interest Expenses	(161)	(324)	(255)	(486)	(454)	(236)	(206)	(189)
FCFE	65,672	74,890	75,171	103,247	91,740	149,760	137,113	140,866
Share Capital Issuance	9,788	5,317	10,670	9,128	54	(0)	(0)	0
Dividend	(48,756)	(61,258)	(83,330)	(70,884)	(75,647)	(84,836)	(122,960)	(116,879)
Others	(7,796)	(1,300)	37	8	-	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(46,610)</b>	<b>(57,692)</b>	<b>(73,010)</b>	<b>(62,211)</b>	<b>(76,236)</b>	<b>(85,071)</b>	<b>(123,164)</b>	<b>(117,066)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(932)</b>	<b>1,827</b>	<b>754</b>	<b>(1,656)</b>	<b>(578)</b>	<b>64,102</b>	<b>14,465</b>	<b>25,525</b>
EO Items, Others	44,993	(10,267)	33,403	(978)	500	(0)	-	-
Closing Cash & Equivalents	78,962	62,324	29,674	28,996	27,918	92,020	106,485	132,010

## Key Ratios

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>								
GPM	61.6	65.4	62.5	63.5	64.0	64.8	64.7	64.8
EBITDA Margin	36.0	36.9	36.1	37.9	38.1	38.0	37.0	37.1
EBIT Margin	33.3	34.1	33.4	35.1	35.2	34.9	33.6	33.8
APAT Margin	25.1	24.2	24.5	25.8	26.4	30.8	29.3	29.3
RoE	32.8	25.5	23.5	22.7	23.2	25.1	22.2	23.1
RoIC (or Core RoCE)	50.8	40.3	36.4	37.2	39.2	44.5	43.4	48.0
RoCE	32.5	25.4	23.4	22.6	23.1	25.0	22.1	23.0
<b>EFFICIENCY</b>								
Tax Rate (%)	32.0	36.1	34.6	34.0	33.0	24.0	25.2	25.2
Fixed Asset Turnover (x)	0.6	0.6	0.6	0.6	0.7	0.7	0.8	0.7
Inventory (days)	81.5	84.4	69.2	63.0	60.0	57.8	57.0	55.6
Debtors (days)	18.8	17.9	21.1	22.5	30.5	21.5	21.5	21.5
Other Current Assets (days)	9.3	10.3	14.9	22.3	23.3	23.7	24.9	23.9
Payables (days)	19.2	21.8	22.7	29.4	26.5	26.9	26.9	26.9
Other Current Liab & Provsns (days)	94.4	39.7	37.9	48.2	49.1	52.1	57.1	57.4
Cash Conversion Cycle (days)	<b>(4.0)</b>	<b>51.1</b>	<b>44.6</b>	<b>30.2</b>	<b>38.2</b>	<b>24.1</b>	<b>19.4</b>	<b>16.8</b>
Net D/E (x)	(0.5)	(0.4)	(0.4)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)
Interest Coverage (x)	140.7	249.5	587.8	169.6	374.5	737.2	813.6	972.0
<b>PER SHARE DATA (Rs)</b>								
EPS	8.0	7.9	8.6	9.2	10.4	12.5	11.9	13.0
CEPS	8.9	8.8	9.6	10.2	11.6	13.8	13.3	14.5
Dividend	4.2	5.7	4.7	5.2	5.8	8.3	9.5	10.4
Book Value	26.4	35.4	38.2	43.0	47.1	52.7	54.6	58.1
<b>VALUATION</b>								
P/E (x)	23.0	23.5	21.4	20.1	17.7	14.8	15.5	14.2
P/BV (x)	7.0	5.2	4.8	4.3	3.9	3.5	3.4	3.2
EV/EBITDA (x)	15.0	14.2	13.2	12.2	10.8	10.1	10.2	9.1
EV/Revenues (x)	5.4	5.2	4.8	4.6	4.1	3.8	3.8	3.4
OCF/EV (%)	4.7	4.8	5.2	6.6	6.0	9.1	8.2	8.8
FCF/EV (%)	3.1	3.7	3.7	5.1	4.6	7.9	7.3	7.7
FCFE/Mkt Cap (%)	3.0	3.4	3.3	4.6	4.0	6.6	6.0	6.2
Dividend Yield (%)	2.3	3.1	2.6	2.8	3.1	4.5	5.2	5.6

# Hindustan Unilever

INSTITUTIONAL RESEARCH

## Well positioned but priced for perfection

HUL delivers superior growth than peers in challenging times as company gains market share in such scenarios when small and unorganised players find it difficult to survive (recently during demonet and GST). Co can deliver healthy performance even in FY21 led by (1) Less impact of Covid-19 (necessity and packaged food, better prepared, strong distribution), (3) Synergy benefits of GSK CH, (4) Cost optimization and (5) Benign raw material prices. However, the recent sharp re-rating amidst flight to safety, limit any upsides in medium term and make risk-reward unattractive as HUL will also see negative impact of lower aggregate consumption demand at bottom of the pyramid. We cut EPS estimates by marginal 2/1% for FY21/FY22E. We value HUL based on P/E of 47x Mar-22 (earlier 47x), and derived a TP of Rs 2,113. Maintain REDUCE.

- The broader demand in FMCG has further decelerated in the months of Jan & Feb 2020 as compared to Dec 2019. The deceleration was witnessed in urban as well as rural markets. The overall growth for HUL's categories in the month of Jan remained flat, with BPC (discretionary) seeing a decline. However, certain markets like Southern India and Delhi outperformed the rest with a continuance of the premiumisation trend. Modern Trade continued its trajectory and has performed well.
- In Covid-19, HUL's categories witnessed heightened consumer pre-buying in categories like foods, staples and home & hygiene (soaps, handwash, floor cleaners). However, lockdown will impact primary growth for HUL in 4QFY20, and the benefit can be visible 1QFY21 onwards. Currently, co is focusing on maintaining the supply of essential products on the shelves to meet the current demand. In anticipation, co had already ramped up production for essential items.
- Co has delivered superior growth in the tough environment of 9MFY20. It has outperformed almost all its peers with its volume growth of 5% in 3QFY20 being ahead of Marico/Colgate/Dabur/Emami (-1/2/6/-2%). Going forward, co will also enjoy the advantage of acquisitions like GSK and VWash in establishing itself in multiple categories.
- HUL will enjoy the soft raw material prices along with cut down in A&P budgets (industry wide). It will enable the company in clocking relatively healthy earnings growth in FY21 and FY22. We build our estimates under the assumption that the impact of Covid-19 will be beyond 1QFY21.

### Financial Summary

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenue	355,450	393,100	407,525	491,150	538,116
EBITDA	74,990	88,800	103,868	131,789	145,430
APAT	51,350	60,800	72,095	94,213	105,602
EPS (Rs)	23.7	28.1	33.3	40.1	45.0
P/E (x)	100.0	84.5	71.2	59.2	52.8
EV/EBITDA (x)	67.6	57.1	48.7	41.4	37.3
RoCE (%)	64.0	69.2	28.0	21.7	22.8

Source: Company, HDFC sec Inst Research

REDUCE

CMP (as on 09 Apr 2020)	Rs 2,373
Target Price	Rs 2,113
NIFTY	9,112

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 2,140	Ra 2,113
EPS %	FY21E -2%	FY22E -1%

### KEY STOCK DATA

Bloomberg code	HUVR IN
No. of Shares (mn)	2,165
MCap (Rs bn) / (\$ mn)	5,136/67,307
6m avg traded value (Rs mn)	4,314
52 Week high / low	Rs 2,614/1,656

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	22.6	21.8	41.2
Relative (%)	47.4	40.2	61.1

### SHAREHOLDING PATTERN (%)

	Dec-19	Sep-19
Promoters	67.18	67.18
FIs & Local MFs	6.68	6.68
FPIs	12.32	12.40
Public & Others	13.82	13.74
Pledged Shares	0.00	0.00

Source : BSE

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## Key Assumption

Particulars	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Revenue (Rs mn)</b>						
Home Care	113,460	116,260	128,740	138,785	149,998	164,211
Beauty & PC	164,320	165,880	178,000	177,690	189,619	203,912
Foods	11,240	11,650	12,543	13,268	72,052	81,275
- HUL	11,240	11,650	12,543	13,268	14,725	16,496
- GSK	na	na	na	-	57,327	64,779
Refreshment	48,480	53,110	58,767	63,184	66,342	73,609
Others (export, infant & feminine care)	19,600	15,330	15,050	14,599	13,139	15,109
<b>Gross segment revenue</b>	<b>357,100</b>	<b>362,230</b>	<b>393,100</b>	<b>407,525</b>	<b>491,150</b>	<b>538,116</b>
<b>YoY Growth</b>						
Home Care	5%	14%	15%	8%	8%	9%
Beauty & PC	2%	11%	11%	0%	7%	8%
Foods	3%	4%	12%	6%	443%	13%
- HUL	3%	4%	12%	6%	11%	12%
- GSK (underlying growth)	na	na	na	8%	11%	13%
Refreshment	8%	10%	12%	8%	5%	11%
Others	-5%	-22%	-6%	-3%	-10%	15%
<b>Total</b>	<b>3%</b>	<b>6%</b>	<b>12%</b>	<b>4%</b>	<b>21%</b>	<b>10%</b>
<b>Total (Ex-GSK)</b>	<b>3%</b>	<b>6%</b>	<b>12%</b>	<b>4%</b>	<b>6%</b>	<b>9%</b>
<b>EBIT Margin</b>						
Home Care	11.2%	14.6%	16.7%	18.7%	19.2%	19.6%
Beauty & PC	23.7%	25.3%	26.7%	29.0%	29.2%	29.5%
Foods	7.7%	8.5%	10.0%	9.7%	30.1%	31.2%
- HUL	7.7%	8.5%	10.0%	9.7%	9.9%	10.3%
- GSK	na	na	na	0.0%	35.2%	36.5%
Refreshment	15.7%	16.9%	18.8%	18.8%	19.0%	19.4%
Others	10.2%	9.5%	11.8%	12.6%	12.3%	12.5%
<b>Total</b>	<b>17.4%</b>	<b>19.5%</b>	<b>21.2%</b>	<b>22.7%</b>	<b>24.5%</b>	<b>24.9%</b>

## Recent Performance

Year to March (Rs mn)	3QFY20	3QFY19	YoY (%)	9MFY20	9MFY19	YoY (%)
<b>Segmental Revenues</b>						
Home Care	34,560	31,480	9.8	102,920	93,740	15.0
Beauty & PC	44,120	45,390	(2.8)	135,440	132,620	10.7
Foods & Refreshment	18,650	17,280	7.9	56,620	52,170	11.5
Others	750	1,430	(47.6)	2,760	4,260	(6.0)
<b>Total</b>	<b>98,080</b>	<b>95,580</b>	<b>2.6</b>	<b>297,740</b>	<b>282,790</b>	<b>12.0</b>
<b>Segmental EBIT</b>						
Home Care	6,290	4,460	41.0	19,230	15,320	25.5
Beauty & PC	12,520	11,650	7.5	39,250	34,840	12.7
Foods & Refreshment	3,340	2,610	28.0	10,070	8,770	14.8
Others	(20)	(30)	(33.3)	20	(30)	(166.7)
<b>Total</b>	<b>22,130</b>	<b>18,690</b>	<b>18.4</b>	<b>68,570</b>	<b>58,900</b>	<b>16.4</b>
(a) Interest Cost & Bank Charges	250	70	257.1	800	210	281.0
(b) Other Un-allocable Expenses	(20)	(30)	(33.3)	(3,230)	(5,160)	(37.4)
<b>PBT</b>	<b>22,290</b>	<b>20,120</b>	<b>10.8</b>	<b>71,000</b>	<b>63,850</b>	<b>11.2</b>

## EBIT Margin

EBIT Margin	3Q	3Q	YoY	2Q	QoQ	9M	9M	YoY
	FY20	FY19	(bps)	FY20	(bps)	FY20	FY19	(bps)
Home Care	18.2	14.2	403	17.7	55	18.7	16.3	234
PC	28.4	25.7	271	28.9	(57)	29.0	26.3	271
Foods & Refreshment	17.9	15.1	280	15.9	199	17.8	16.8	97
Others	(2.7)	(2.1)	na	2.2	na	0.7	(0.7)	na
<b>Total</b>	<b>22.6</b>	<b>19.6</b>	<b>301</b>	<b>22.4</b>	<b>17</b>	<b>23.0</b>	<b>20.8</b>	<b>220</b>

Source: Company, HDFC sec Inst Research



## Financials

### Income Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>319,722</b>	<b>321,860</b>	<b>331,620</b>	<b>355,450</b>	<b>393,100</b>	<b>407,525</b>	<b>491,150</b>	<b>538,116</b>
Growth (%)	9.4	3.8	3.0	12.0	12.0	3.7	20.5	9.6
Material Expenses	161,761	158,723	163,130	167,300	184,740	187,462	213,650	231,928
Employee Expense	17,239	16,800	17,430	18,600	18,750	18,750	22,181	23,511
ASP Expense	39,436	36,560	35,420	41,530	46,070	45,643	54,026	59,193
Distribution Expenses	14,604	14,500	15,160	15,470	15,990	16,301	19,646	21,525
Other expenses	32,545	35,146	37,080	37,560	38,750	35,502	49,858	56,529
<b>EBITDA</b>	<b>54,138</b>	<b>60,131</b>	<b>63,400</b>	<b>74,990</b>	<b>88,800</b>	<b>103,868</b>	<b>131,789</b>	<b>145,430</b>
EBITDA Growth (%)	14.2	11.1	5.4	18.3	18.4	17.0	26.9	10.4
EBITDA Margin (%)	16.9	18.7	19.1	21.1	22.6	25.5	26.8	27.0
Depreciation	3,224	3,530	4,320	5,200	5,650	9,673	10,735	11,555
<b>EBIT</b>	<b>50,914</b>	<b>56,601</b>	<b>59,080</b>	<b>69,790</b>	<b>83,150</b>	<b>94,196</b>	<b>121,054</b>	<b>133,875</b>
Other Income	5,666	4,230	4,660	4,810	6,550	5,511	6,925	9,029
EO Items, Others	6,792	(310)	2,370	(330)	(2,270)	(1,390)	-	-
Interest	177	170	350	260	330	900	664	199
<b>PBT</b>	<b>63,196</b>	<b>60,351</b>	<b>65,760</b>	<b>74,010</b>	<b>87,100</b>	<b>97,417</b>	<b>127,315</b>	<b>142,705</b>
Tax	19,440	18,830	19,770	20,790	25,440	25,815	33,102	37,103
<b>RPAT</b>	<b>43,631</b>	<b>41,451</b>	<b>45,870</b>	<b>53,240</b>	<b>61,660</b>	<b>71,601</b>	<b>94,213</b>	<b>105,602</b>
adjustment	4,703	(213)	(3,390)	(1,890)	(436)	(494)	-	-
<b>Adjusted PAT</b>	<b>38,928</b>	<b>41,664</b>	<b>42,480</b>	<b>51,350</b>	<b>60,800</b>	<b>72,095</b>	<b>94,213</b>	<b>105,602</b>
APAT Growth (%)	3.7	7.0	2.0	20.9	18.4	18.6	30.7	12.1
Adjusted EPS (Rs)	18.0	19.3	19.7	23.7	28.1	33.3	40.1	45.0
EPS Growth (%)	3.6	7.0	2.1	20.6	18.4	18.6	20.4	12.1

Source: Company, HDFC sec Inst Research

### Balance Sheet

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>								
Share Capital - Equity	2,164	2,164	2,160	2,164	2,165	2,165	2,349	2,349
Reserves	38,111	63,570	65,280	70,650	76,510	404,651	429,042	460,648
<b>Total Shareholders Funds</b>	<b>40,275</b>	<b>65,734</b>	<b>67,440</b>	<b>72,814</b>	<b>78,675</b>	<b>406,815</b>	<b>431,392</b>	<b>462,997</b>
Minority Interest	252	200	220	200	180	180	180	180
Long Term Debt	70	-	-	-	990	990	990	990
Short Term Debt	360	1,770	2,770	-	-	-	-	-
<b>Total Debt</b>	<b>430</b>	<b>1,770</b>	<b>2,770</b>	<b>-</b>	<b>990</b>	<b>990</b>	<b>990</b>	<b>990</b>
Net Deferred Taxes	(1,998)	(2,333)	(1,700)	(3,020)	(3,730)	(3,730)	(3,730)	(3,730)
Long Term Provisions & Others	11,686	13,347	7,940	11,160	12,990	13,552	14,735	15,610
<b>TOTAL SOURCES OF FUNDS</b>	<b>50,645</b>	<b>78,718</b>	<b>76,670</b>	<b>81,154</b>	<b>89,105</b>	<b>417,807</b>	<b>443,567</b>	<b>476,046</b>
<b>APPLICATION OF FUNDS</b>								
<b>Net Block</b>	<b>28,210</b>	<b>32,580</b>	<b>44,190</b>	<b>45,280</b>	<b>47,150</b>	<b>53,778</b>	<b>53,043</b>	<b>51,488</b>
CWIP	5,163	4,080	2,290	4,610	4,060	2,030	1,015	508
Other Non-current Assets	5,872	6,362	2,770	3,500	6,180	5,800	6,444	7,161
<b>Total Non-current Assets</b>	<b>39,246</b>	<b>43,022</b>	<b>49,250</b>	<b>53,390</b>	<b>57,390</b>	<b>61,607</b>	<b>60,502</b>	<b>59,156</b>
<b>Goodwill</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>308,700</b>	<b>308,700</b>	<b>308,700</b>
Inventories	28,488	27,260	25,410	25,130	25,740	26,484	31,003	33,797
Debtors	10,103	12,640	10,850	13,100	18,160	18,826	22,690	24,859
Other Current Assets	7,319	12,159	9,300	14,820	10,530	10,541	12,694	13,903
Cash & Equivalents	57,146	53,096	56,230	63,584	64,735	82,162	116,035	153,567
<b>Total Current Assets</b>	<b>103,055</b>	<b>105,155</b>	<b>101,790</b>	<b>116,634</b>	<b>119,165</b>	<b>138,014</b>	<b>182,422</b>	<b>226,128</b>
Creditors	55,063	56,850	61,860	71,700	72,060	74,704	90,034	98,643
Other Current Liabilities & Provns	36,593	12,609	12,510	17,170	15,390	15,810	18,023	19,294
<b>Total Current Liabilities</b>	<b>91,656</b>	<b>69,459</b>	<b>74,370</b>	<b>88,870</b>	<b>87,450</b>	<b>90,514</b>	<b>108,057</b>	<b>117,937</b>
<b>Net Current Assets</b>	<b>11,399</b>	<b>35,696</b>	<b>27,420</b>	<b>27,764</b>	<b>31,715</b>	<b>47,500</b>	<b>74,365</b>	<b>108,191</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>50,645</b>	<b>78,718</b>	<b>76,670</b>	<b>81,154</b>	<b>89,105</b>	<b>417,807</b>	<b>443,567</b>	<b>476,046</b>

Source: Company, HDFC sec Inst Research

## Cash Flow Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	56,403	59,851	62,420	73,040	86,040	97,417	127,315	142,705
Non-operating & EO Items	(2,488)	(947)	290	(1,030)	140	-	-	-
Interest Expenses	(2,183)	(2,481)	(2,250)	(2,340)	(2,740)	900	664	199
Depreciation	3,224	3,573	4,320	5,200	5,650	9,673	10,735	11,555
Working Capital Change	(3,421)	(1,079)	5,660	8,360	(3,420)	2,585	7,547	3,864
Tax Paid	(18,616)	(17,663)	(18,590)	(22,640)	(27,670)	(25,815)	(33,102)	(37,103)
<b>OPERATING CASH FLOW ( a )</b>	<b>32,919</b>	<b>41,253</b>	<b>51,850</b>	<b>60,590</b>	<b>58,000</b>	<b>84,758</b>	<b>113,159</b>	<b>121,220</b>
Capex	(5,726)	(7,914)	(14,520)	(8,780)	(7,540)	(5,970)	(8,985)	(9,493)
Free Cash Flow (FCF)	27,193	33,340	37,330	51,810	50,460	78,788	104,174	111,728
Investments & Acquisition	(907)	689	(1,420)	(5,700)	390	(322,000)	(5,000)	(5,000)
Non-operating Income	8,012	4,542	4,210	3,850	2,770	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>1,379</b>	<b>(2,682)</b>	<b>(11,730)</b>	<b>(10,630)</b>	<b>(4,380)</b>	<b>(327,970)</b>	<b>(13,985)</b>	<b>(14,493)</b>
Debt Issuance/(Repaid)	(25)	2,117	4,600	-	990	-	-	-
Interest Expenses	(177)	(45)	(140)	(60)	(70)	(900)	(664)	(199)
FCFE	26,991	35,412	41,790	51,750	51,380	77,888	103,510	111,529
Share Capital Issuance	(50)	(110)	-	-	-	317,000	-	-
Dividend	(29,118)	(33,417)	(35,720)	(39,110)	(45,540)	(50,866)	(58,442)	(73,996)
Others	(5,255)	(6,735)	(10,880)	(10,580)	(8,290)	(9,904)	(11,380)	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(34,624)</b>	<b>(38,190)</b>	<b>(42,140)</b>	<b>(49,750)</b>	<b>(52,910)</b>	<b>255,330</b>	<b>(70,485)</b>	<b>(74,196)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(326)</b>	<b>382</b>	<b>(2,020)</b>	<b>210</b>	<b>710</b>	<b>12,118</b>	<b>28,689</b>	<b>32,532</b>
EO Items, Others	1,735	3,434	7,136	(16,354)	(2,020)	(309)	(185)	-
Closing Cash & Equivalents	26,895	27,436	18,280	34,844	37,575	50,002	78,875	111,407

Source: Company, HDFC sec Inst Research

## Key Ratios

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>								
GPM	49.4	50.7	50.8	52.9	53.0	54.0	56.5	56.9
EBITDA Margin	16.9	18.7	19.1	21.1	22.6	25.5	26.8	27.0
EBIT Margin	15.9	17.6	17.8	19.6	21.2	23.1	24.6	24.9
APAT Margin	12.2	12.9	12.8	14.4	15.5	17.7	19.2	19.6
RoE	102.9	78.6	63.8	73.2	80.3	29.7	22.5	23.6
RoIC (or Core RoCE)	na	344.6	169.5	248.5	249.8	37.7	26.7	30.2
RoCE	79.6	62.6	53.6	64.0	69.2	28.0	21.7	22.8
<b>EFFICIENCY</b>								
Tax Rate (%)	30.8	31.2	30.1	28.1	29.2	26.5	26.0	26.0
Fixed Asset Turnover (x)	5.9	5.3	4.3	4.3	4.3	4.1	4.5	4.5
Inventory (days)	32.5	30.9	28.0	25.8	23.9	23.7	23.0	22.9
Debtors (days)	11.5	14.3	11.9	13.5	16.9	16.9	16.9	16.9
Other Current Assets (days)	8.4	13.8	10.2	15.2	9.8	9.4	9.4	9.4
Payables (days)	62.9	64.5	68.1	73.6	66.9	66.9	66.9	66.9
Other Current Liab & Provsns (days)	41.8	14.3	13.8	17.6	14.3	14.2	13.4	13.1
Cash Conversion Cycle (days)	(52.2)	(19.7)	(31.7)	(36.8)	(30.7)	(31.0)	(31.0)	(30.8)
Net D/E (x)	(1.4)	(0.8)	(0.8)	(0.9)	(0.8)	(0.2)	(0.3)	(0.3)
<b>PER SHARE DATA (Rs)</b>								
EPS	18.0	19.3	19.7	23.7	28.1	33.3	40.1	45.0
CEPS	19.5	20.9	21.7	26.1	30.7	37.8	44.7	49.9
Dividend	15.0	16.0	17.0	20.0	23.5	27.0	31.5	37.0
Book Value	18.6	30.4	31.2	33.6	36.3	187.9	183.6	197.1
<b>VALUATION</b>								
P/E (x)	131.9	123.2	120.7	100.0	84.5	71.2	59.2	52.8
P/BV (x)	127.5	78.1	76.0	70.5	65.3	12.6	12.9	12.0
EV/EBITDA (x)	93.8	84.5	80.0	67.6	57.1	48.7	41.4	37.3
EV/Revenues (x)	15.9	15.8	15.3	14.3	12.9	12.4	11.1	10.1
OCF/EV (%)	0.6	0.8	1.0	1.2	1.1	1.7	2.1	2.2
FCF/EV (%)	0.5	0.7	0.7	1.0	1.0	1.6	1.9	2.1
FCFE/Mkt Cap (%)	0.5	0.7	0.8	1.0	1.0	1.5	1.9	2.0

Source: Company, HDFC sec Inst Research

# Nestle India

## Turnaround story fully priced

Nestle's performance was strong in CY19 with domestic business clocking ~11% revenue growth. It was more encouraging as most FMCG cos struggled for growth led by weak rural demand. It was led by (1) Consistent new launches, (2) Targeted marketing strategy, (3) Higher mix from urban and (4) Distribution expansion. Covid-19 should have less impact near term on Nestle as it has high revenue mix of essential packaged foods but medium term absolute growth would be impacted for them as well given premium discretionary categories. Given relative growth outperformance and flight to safety, stock re-rated significantly in last 12 months, way ahead of earnings growth. We value Nestle based on P/E of 47x Mar-22, and derived a TP of Rs 14,042. We initiate coverage on the stock with a REDUCE rating.

- Impact of the lock-down is likely to be milder for the packaged food industry, as most of the products under this category have been classified as essential. Hence, part of Nestle's production and operations have been operational during the lock-down. We expect Nestle's 60% revenue mix (Maggi, Milk products) can see favourable trend due to Covid-19.
- In CY20, consumer trend will be more preferable towards packaged foods as it provides hygiene and long shelf life. With people having low eating-out frequency, they will move to packaged/ready to eat foods. Nestle can capitalize on this trend and expand its market share. The co can outperform its peers as F&B (essential commodities) contributes major contribution to revenues.
- Nestle, post Maggi fiasco, has emerged as an aggressive packaged food player. Since Suresh Narayanan has joined as MD of Nestle (post Maggi ban), we noticed a complete revamp in company's strategy. Nestle was missing aggression and company was losing market share (eg. chocolates). In the new strategy, company has focused on (1) Product launches & re-launches, (2) Distribution expansion and (3) Aggressive marketing. It has resulted into 11/16% revenue/EBITDA CAGR during the last 4 years.
- Dairy inflation has impacted Nestle's margin in CY19 and co saw gross margins dip of 160bps in CY19. With, dairy inflation moderating, company can expand gross margin CY20. Co has also been focusing on cost rationalization that can further support operating margin in CY20/CY21.
- We build our estimates under the assumption that the impact of Covid-19 will extend beyond 2QCY20. We expect Revenue/EBITDA/APAT CAGR of 9/12/16% respectively over CY19-22E.

### Financial Summary

(Rs mn)	CY18	CY19P	CY20E	CY21E	CY22E
Net Revenue	112,922	123,689	134,524	148,647	164,711
EBITDA	27,599	29,275	32,408	36,830	41,640
APAT	16,829	19,883	22,922	26,900	31,665
EPS (Rs)	175	206	238	279	328
P/E (x)	96.5	81.7	70.9	60.4	51.3
EV/EBITDA (x)	57.3	54.5	48.8	42.6	37.3
Core RoCE (%)	57.9	74.9	70.3	68.7	77.1

Source: Company, HDFC sec Inst Research

## INSTITUTIONAL RESEARCH

### REDUCE

CMP (as on 09 Apr 20)	Rs 16,844
Target Price	Rs 14,042
NIFTY	9,112

KEY CHANGES	OLD	NEW
Rating	NA	REDUCE
Price Target	NA	Rs 14,042
EPS %	FY20	FY21E
	NA	NA

### KEY STOCK DATA

Bloomberg code	NEST IN
No. of Shares (mn)	96
MCap (Rs bn) / (\$ mn)	1,624/21,279
6m avg traded value (Rs mn)	1,578
52 Week high / low	Rs 17,544/9,966

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.0	21.5	58.5
Relative (%)	39.8	39.9	78.5

### SHAREHOLDING PATTERN (%)

	Dec-19	Sep-19
Promoters	62.76	62.76
FIs & Local MFs	8.92	8.52
FPIs	12.07	12.61
Public & Others	16.25	16.11
Pledged Shares	0.00	0.00

Source : BSE

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### Key Assumptions

Particulars	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E	CY22E
<b>Revenue Growth (%)</b>										
Milk and Nutrition	5.5	12.4	2.1	(0.7)	6.2	7.6	8.6	6.4	9.4	9.8
Prepared dishes & Cooking Aids	11.0	9.7	(55.6)	76.4	19.9	14.7	12.9	17.2	12.2	12.4
Beverages	17.9	1.2	(0.3)	(3.7)	15.0	9.8	7.0	5.0	10.5	10.8
Chocolates	10.0	(2.6)	(11.4)	5.4	9.7	14.7	8.9	2.0	10.0	10.0
Total Revenue	9.3	8.0	(16.8)	11.6	11.0	10.7	9.6	8.7	10.5	10.8
Gross Margin	54.6	54.0	57.5	57.5	56.8	59.4	57.8	58.0	58.4	58.9
ASP (% of revenue)	4.4	4.5	6.4	5.5	5.1	6.5	5.6	5.4	5.4	5.4
Distribution (% of revenue)	4.8	4.9	4.8	4.8	4.8	4.7	4.6	4.6	4.6	4.6
EBITDA Margin	22.0	21.2	20.3	22.6	22.5	24.4	23.7	24.1	24.8	25.3
Tax Rate (%)	33.7	33.2	30.8	35.2	33.4	33.8	25.2	25.2	25.2	25.2
APAT Margin	11.6	11.6	11.9	12.3	13.1	14.9	16.1	17.0	18.1	19.2

### Recent Performance

(Rs mn)	Q4CY17	Q1CY18	Q2CY18	Q3CY18	Q4CY18	Q1CY19	Q2CY19	Q3CY19	Q4CY19
Domestic sales	24,012	25,602	25,073	27,495	26,905	28,216	28,354	30,391	29,608
YoY Gr%	15.8%	10.9%	12.0%	17.5%	12.0%	10.2%	13.1%	10.5%	10.0%
Export Sales	1,884	1,766	1,712	1,725	1,883	1,608	1,475	1,602	1,700
YoY Gr%	12.7%	6.2%	15.7%	7.9%	0.0%	-8.9%	-13.9%	-7.1%	-9.7%
Net Sales	25,896	27,368	26,786	29,220	28,788	29,824	29,828	31,993	31,307
YoY Gr%	15.6%	10.5%	12.2%	16.8%	11.2%	9.0%	11.4%	9.5%	8.8%
Other Operating Income	118	204	198	174	184	206	180	165	186
Total Income	26,015	27,572	26,984	29,394	28,973	30,030	30,009	32,158	31,493
YoY Gr%	18.1%	13.4%	14.5%	16.9%	11.4%	8.9%	11.2%	9.4%	8.7%
Gross Profit	15,322	16,296	16,094	17,553	17,078	17,576	17,487	18,508	17,879
YoY Gr%	17.3%	16.6%	21.6%	22.8%	11.5%	7.9%	8.7%	5.4%	4.7%
Gross Margin	58.9%	59.1%	59.6%	59.7%	58.9%	58.5%	58.3%	57.6%	56.8%
Gross margin expansion (bps)- YoY	126	300	456	286	5	(57)	(137)	(216)	(218)
Employee Expenses	2,607	2,690	2,849	2,904	2,799	3,038	3,146	3,220	3,227
YoY Gr%	14.3%	9.3%	12.6%	12.8%	7.3%	12.9%	10.4%	10.9%	15.3%
Other Expenses	6,175	6,406	6,512	7,176	8,087	6,933	7,181	7,644	7,788
YoY Growth	6.9%	3.8%	7.4%	24.6%	31.0%	8.2%	10.3%	6.5%	-3.7%
EBITDA	6,540	7,200	6,733	7,473	6,193	7,605	7,161	7,645	6,865
YoY Growth	30.7%	34.6%	45.2%	25.4%	-5.3%	5.6%	6.3%	2.3%	10.8%
EBITDA Margin (%)	25.1%	26.1%	25.0%	25.4%	21.4%	25.3%	23.9%	23.8%	21.8%
EBITDA margin expansion (bps)	306bps	464bps	565bps	172bps	-376bps	-79bps	-109bps	-165bps	42bps
Reported PAT	3,118	4,240	3,950	4,461	3,418	4,633	4,379	5,954	4,730
YoY Growth	59.5%	38.2%	49.9%	30.0%	9.6%	9.3%	10.9%	33.5%	38.4%
Adjusted PAT	3,118	4,240	3,950	4,461	3,418	4,633	4,379	5,954	4,730
YoY Growth	60.1%	38.2%	49.9%	30.0%	9.6%	9.3%	10.9%	33.5%	38.4%

Source: Company, HDFC sec Inst Research

## Financials

### Income Statement

(Rs mn)	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E	CY22E
<b>Net Revenues</b>	<b>81,609</b>	<b>91,413</b>	<b>1,00,096</b>	<b>1,12,922</b>	<b>1,23,689</b>	<b>1,34,524</b>	<b>1,48,647</b>	<b>1,64,711</b>
Growth (%)	(17.0)	12.0	11.0	12.8	9.5	8.8	10.5	10.8
Material Expenses	34,689	38,828	43,269	45,902	52,239	56,478	61,767	67,733
Employee Expense	9,128	9,016	10,175	11,242	12,630	13,602	14,690	15,866
ASP Expense	5,252	4,996	5,060	7,294	6,927	7,264	8,027	8,894
Distribution Expenses	3,889	4,401	4,773	5,256	5,690	6,188	6,838	7,585
Other expenses	12,123	13,558	14,338	15,630	16,929	18,583	20,495	22,993
<b>EBITDA</b>	<b>16,529</b>	<b>20,615</b>	<b>22,483</b>	<b>27,599</b>	<b>29,275</b>	<b>32,408</b>	<b>36,830</b>	<b>41,640</b>
EBITDA Growth (%)	(20.8)	24.7	9.1	22.8	6.1	10.7	13.6	13.1
EBITDA Margin (%)	20.3	22.6	22.5	24.4	23.7	24.1	24.8	25.3
Depreciation	3,473	3,537	3,423	3,357	3,164	3,488	3,636	3,750
<b>EBIT</b>	<b>13,056</b>	<b>17,078</b>	<b>19,060</b>	<b>24,242</b>	<b>26,112</b>	<b>28,920</b>	<b>33,194</b>	<b>37,890</b>
Other Income (Including EO Items)	1,245	1,509	1,769	2,589	2,469	2,504	3,412	4,520
Interest	33	909	919	1,120	1,198	1,063	957	425
<b>PBT</b>	<b>8,137</b>	<b>15,454</b>	<b>18,393</b>	<b>24,291</b>	<b>26,750</b>	<b>30,362</b>	<b>35,649</b>	<b>41,985</b>
Tax	2,504	5,440	6,141	8,221	7,053	7,642	8,973	10,568
<b>RPAT</b>	<b>5,633</b>	<b>10,014</b>	<b>12,252</b>	<b>16,070</b>	<b>19,697</b>	<b>22,720</b>	<b>26,676</b>	<b>31,417</b>
adjustment	4,102	1,238	832	759	186	202	224	248
<b>Adjusted PAT</b>	<b>9,735</b>	<b>11,252</b>	<b>13,083</b>	<b>16,829</b>	<b>19,883</b>	<b>22,922</b>	<b>26,900</b>	<b>31,665</b>
APAT Growth (%)	(14.8)	15.6	16.3	28.6	18.1	15.3	17.4	17.7
Adjusted EPS (Rs)	101	117	136	175	206	237.7	279.0	328.4
EPS Growth (%)	(14.8)	15.6	16.3	28.6	18.1	15.3	17.4	17.7

### Balance Sheet

(Rs mn)	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E	CY22E
<b>SOURCES OF FUNDS</b>								
Share Capital - Equity	964	964	964	964	964	964	964	964
Reserves	27,214	31,859	33,242	35,773	18,358	25,491	33,337	42,589
<b>Total Shareholders Funds</b>	<b>28,178</b>	<b>32,823</b>	<b>34,206</b>	<b>36,737</b>	<b>19,323</b>	<b>26,455</b>	<b>34,301</b>	<b>43,553</b>
Minority Interest	-	-	-	-	-	-	-	-
Long Term Debt	9	-	-	-	-	-	-	-
Short Term Debt	168	332	351	351	531	531	531	531
<b>Total Debt</b>	<b>177</b>	<b>332</b>	<b>351</b>	<b>351</b>	<b>531</b>	<b>531</b>	<b>531</b>	<b>531</b>
Net Deferred Taxes	1,729	1,553	1,220	588	180	180	180	180
Long Term Provisions & Others	15,972	19,722	22,916	24,654	29,073	31,620	34,939	38,714
<b>TOTAL SOURCES OF FUNDS</b>	<b>46,057</b>	<b>54,430</b>	<b>58,693</b>	<b>62,331</b>	<b>49,107</b>	<b>58,786</b>	<b>69,951</b>	<b>82,978</b>
<b>APPLICATION OF FUNDS</b>								
<b>Net Block</b>	<b>28,979</b>	<b>27,301</b>	<b>26,162</b>	<b>24,006</b>	<b>22,267</b>	<b>21,998</b>	<b>20,161</b>	<b>18,242</b>
CWIP	2,308	1,882	942	1,052	1,433	-	-	-
Other Non-current Assets	13,249	17,557	19,789	26,585	17,511	20,511	23,511	26,511
<b>Total Non-current Assets</b>	<b>44,536</b>	<b>46,740</b>	<b>46,892</b>	<b>51,643</b>	<b>41,211</b>	<b>42,508</b>	<b>43,671</b>	<b>44,752</b>
<b>Goodwill</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Inventories	8,208	9,401	9,025	9,656	12,831	12,121	13,319	14,670
Debtors	784	979	890	1,246	1,243	1,356	1,498	1,660
Other Current Assets	2,282	2,185	2,245	2,236	2,217	2,690	2,973	3,294
Cash & Equivalents	4,996	8,800	14,574	16,101	13,081	22,845	33,267	45,739
<b>Total Current Assets</b>	<b>16,269</b>	<b>21,365</b>	<b>26,734</b>	<b>29,238</b>	<b>29,371</b>	<b>39,012</b>	<b>51,057</b>	<b>65,363</b>
Creditors	7,398	7,992	9,846	12,404	14,947	16,061	17,480	19,153
Other Current Liabilities & Provns	7,350	5,683	5,087	6,146	6,528	6,673	7,297	7,984
<b>Total Current Liabilities</b>	<b>14,748</b>	<b>13,674</b>	<b>14,933</b>	<b>18,550</b>	<b>21,475</b>	<b>22,735</b>	<b>24,777</b>	<b>27,137</b>
<b>Net Current Assets</b>	<b>1,521</b>	<b>7,691</b>	<b>11,801</b>	<b>10,688</b>	<b>7,896</b>	<b>16,277</b>	<b>26,280</b>	<b>38,226</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>46,057</b>	<b>54,430</b>	<b>58,693</b>	<b>62,331</b>	<b>49,107</b>	<b>58,786</b>	<b>69,951</b>	<b>82,978</b>

Source: Company, HDFC sec Inst Research

### Cash Flow Statement

(Rs mn)	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E	CY22E
Reported PBT	8,137	15,454	18,393	24,290	26,750	30,362	35,649	41,985
Non-operating & EO Items	-	131	416	(2,477)	(2,497)	-	-	-
Interest Expenses	33	(1,474)	(1,763)	41	17	1,063	957	425
Depreciation	3,473	3,537	3,423	3,357	3,164	3,217	3,337	3,419
Working Capital Change	715	2,040	3,750	4,128	1,632	1,383	420	526
Tax Paid	(2,899)	(5,029)	(6,041)	(8,813)	(6,729)	(7,642)	(8,973)	(10,568)
<b>OPERATING CASH FLOW ( a )</b>	<b>9,459</b>	<b>14,659</b>	<b>18,178</b>	<b>20,525</b>	<b>22,337</b>	<b>28,383</b>	<b>31,390</b>	<b>35,787</b>
Capex	(944)	(2,070)	(1,986)	(1,660)	(1,545)	(1,500)	(1,500)	(1,500)
Free Cash Flow (FCF)	8,515	12,589	16,192	18,865	20,792	26,883	29,890	34,287
Investments & Acquisition	-	-	-	-	-	-	-	-
Non-operating Income	(4,979)	811	680	1,136	2,375	(454)	319	775
<b>INVESTING CASH FLOW ( b )</b>	<b>(5,923)</b>	<b>(1,259)</b>	<b>(1,306)</b>	<b>(524)</b>	<b>830</b>	<b>(1,954)</b>	<b>(1,181)</b>	<b>(725)</b>
Debt Issuance/(Repaid)	(18)	-	-	-	180	-	-	-
Interest Expenses	(33)	(35)	(7)	(41)	(17)	(1,063)	(957)	(425)
FCFE	8,463	12,554	16,186	18,824	20,955	25,820	28,933	33,862
Share Capital Issuance	-	-	-	-	-	-	-	-
Dividend	(4,676)	(6,789)	(9,980)	(13,134)	(35,563)	(15,587)	(18,830)	(22,166)
Others	(813)	168	20	-	-	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(5,540)</b>	<b>(6,656)</b>	<b>(9,966)</b>	<b>(13,174)</b>	<b>(35,400)</b>	<b>(16,650)</b>	<b>(19,787)</b>	<b>(22,591)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(2,005)</b>	<b>6,744</b>	<b>6,906</b>	<b>6,826</b>	<b>(12,233)</b>	<b>9,779</b>	<b>10,423</b>	<b>12,471</b>
EO Items, Others	(2,542)	2,940	1,132	5,413	(9,177)	(134)	-	-
Closing Cash & Equivalents	4,996	8,800	14,574	15,988	12,932	22,845	33,267	45,739

### Key Ratios

Particulars	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E	CY22E
<b>PROFITABILITY (%)</b>								
GPM	57.5	57.5	56.8	59.4	57.8	58.0	58.4	58.9
EBITDA Margin	20.3	22.6	22.5	24.4	23.7	24.1	24.8	25.3
EBIT Margin	17.5	20.3	20.8	23.8	23.1	23.6	24.8	25.9
APAT Margin	11.9	12.3	13.1	14.9	16.1	17.0	18.1	19.2
RoE	34.4	36.9	39.0	47.4	70.9	100.1	88.6	81.3
RoIC (or Core RoCE)	29.0	36.4	42.2	57.9	74.9	70.3	68.7	77.1
RoCE	22.5	24.4	24.8	29.5	37.6	44.1	43.0	41.9
<b>EFFICIENCY</b>								
Tax Rate (%)	30.8	35.2	33.4	33.8	25.2	25.2	25.2	25.2
Fixed Asset Turnover (x)	1.6	1.7	1.8	1.9	2.1	2.2	2.4	2.6
Inventory (days)	36.7	37.5	32.9	31.2	37.9	32.9	32.7	32.5
Debtors (days)	3.5	3.9	3.2	4.0	3.7	3.7	3.7	3.7
Other Current Assets (days)	10.2	8.7	8.2	7.2	6.5	7.3	7.3	7.3
Payables (days)	33.1	31.9	35.9	40.1	44.1	43.6	42.9	42.4
Other Current Liab & Provs (days)	32.9	22.7	18.5	19.9	19.3	18.1	17.9	17.7
Cash Conversion Cycle (days)	(15.5)	(4.4)	(10.1)	(17.5)	(15.3)	(17.8)	(17.2)	(16.6)
Net D/E (x)	(0.2)	(0.3)	(0.4)	(0.4)	(0.6)	(0.8)	(1.0)	(1.0)
<b>PER SHARE DATA (Rs)</b>								
EPS	101.0	116.7	135.7	174.5	206.2	237.7	279.0	328.4
CEPS	137.0	153.4	171.2	209.4	239.0	271.1	313.6	363.9
Dividend	48.5	58.5	86.0	113.0	306.0	161.7	195.3	229.9
Book Value	292.2	340.4	354.8	381.0	200.4	274.4	355.8	451.7
<b>VALUATION</b>								
P/E (x)	166.8	144.3	124.1	96.5	81.7	70.9	60.4	51.3
P/BV (x)	57.6	49.5	47.5	44.2	84.1	61.4	47.3	37.3
EV/EBITDA (x)	97.2	77.5	70.7	57.3	54.5	48.8	42.6	37.3
EV/Revenues (x)	19.7	17.5	15.9	14.0	12.9	11.8	10.5	9.4
OCF/EV (%)	0.6	0.9	1.1	1.3	1.4	1.8	2.0	2.3
FCF/EV (%)	0.5	0.8	1.0	1.2	1.3	1.7	1.8	2.1
FCFE/Mkt Cap (%)	0.5	0.8	1.0	1.2	1.3	1.6	1.8	2.1
Dividend Yield (%)	0.3	0.3	0.5	0.7	1.8	1.0	1.2	1.4

Source: Company, HDFC sec Inst Research

# Dabur India

## Re-rating done, volatility ahead

Dabur has consistently posted strong growth during the 4-5 quarters owing to (1) Focus on power brands, (2) Expanding addressable market, (3) Healthy growth in natural category, (4) Rising distribution reach and (5) Innovative launches. Dabur's outperformance was helped by aggression from new CEO in terms of innovation and in-market execution. FY21 will be the testing year for Dabur as company might see negative impact in select discretionary categories, lower rural demand, disruption in trade channels and select international markets. We cut EPS estimates by 7/9% for FY21/FY22. Given strong outperformance and rich valuations post re-rating limiting further upsides, we downgrade stock from ADD to REDUCE. We value the stock at P/E of 40x (earlier 43x) Mar 22 EPS, TP is at Rs 447.

- Covid-19 impact will be meaningful on Dabur's categories and we expect ~50% of Dabur's revenue can be impacted (including international). Rural demand remained weak in FY20 and Covid-19 will further delay rural recovery. Dabur has large dependence on rural, thereby, it will be a testing time for the company to outperform its peers in such difficult phase. International biz accounts for ~28% of Dabur's revenue mix, which may see execution, currency and country-specific risks in FY21.
- Pre-Covid, most of Dabur's categories remained weak as both rural and urban demand decelerated from Dec. Dabur posted 7% growth in 9MFY20, the growth was healthy excluding juices (9-10%). Co's own initiatives had supported the healthy growth in 9MFY20, rather than macro support.
- Over the last 2 years, Dabur has posted strong revenue growth consistently. It is led by focus on power brands, innovative launches, increasing rural reach and healthy demand for ayurvedic products. Co targets reaching 55k villages by end of FY20 and 60k villages in FY21. Rural growth has continuously outpaced urban growth for Dabur (contrary to industry), and that trend is likely to continue in the near term as the impact of Covid-19 was felt earlier in urban areas. Categories such as oral care, health supplements and digestives have also consistently outpaced industry growth and continue to gain market share.
- We build our estimates under the assumption that the impact of Covid-19 will extend beyond 1QFY21. We expect Revenue/EBITDA/APAT CAGR of 8/11/11% respectively over FY20E-22E.

### Financial Summary

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	77,219	85,331	89,555	94,374	104,180
EBITDA	16,174	17,396	19,151	20,578	23,113
APAT	13,663	14,436	15,906	17,695	19,754
Diluted EPS (Rs)	7.76	8.20	9.00	10.01	11.18
P/E (x)	62.5	59.2	53.9	48.4	43.4
EV / EBITDA (x)	51.3	47.7	43.3	40.1	35.6
RoIC	47.3	50.1	51.4	52.7	55.9

Source: Company, HDFC sec Inst Research

## INSTITUTIONAL RESEARCH

### REDUCE

CMP (as on 09 Apr 2020)	Rs 485
Target Price	Rs 447
NIFTY	9,112

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	Rs 529	Rs 447
EPS %	FY21E	FY22E
	-7%	-9%

### KEY STOCK DATA

Bloomberg code	DABUR IN
No. of Shares (mn)	1,767
MCap (Rs bn) / (\$ mn)	878/11,240
6m avg traded value (Rs mn)	1,090
52 Week high / low	Rs 525/357

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.4	9.4	20.2
Relative (%)	30.2	27.7	40.2

### SHAREHOLDING PATTERN (%)

	Dec-19	Sep-19
Promoters	67.88	67.88
FIs & Local MFs	7.71	7.74
FPIs	17.48	17.64
Public & Others	6.97	6.74
Pledged Shares	0.00	0.00

Source : BSE

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### Key Assumption

Assumptions	FY16	FY17E	FY18	FY19	FY20E	FY21E	FY22E
Domestic Gr. (%)	6.3	1.0	5.2	11.2	4.7	6.9	10.9
Hair Care Gr. (%)	(1.8)	(6.8)	4.2	13.8	5.0	5.0	6.5
Oral Care Gr. (%)	3.5	7.5	16.9	9.7	7.4	8.0	9.5
Health Supplements Gr. (%)	(8.7)	(2.7)	10.3	14.8	12.0	12.0	12.0
OTC & Ethicals Gr. (%)	4.5	(9.6)	5.2	14.1	6.2	12.0	12.5
Digestive Gr. (%)	(0.1)	(11.4)	10.4	16.6	12.7	12.0	15.5
Home Care Gr. (%)	(3.5)	4.6	14.2	13.0	6.9	12.0	15.0
Skin Care Gr. (%)	(2.7)	5.3	11.1	17.4	4.6	5.0	8.0
Foods Gr. (%)	(9.7)	12.2	1.5	10.0	(9.7)	(4.4)	13.5
International Gr. (%)	11.9	(5.0)	(6.3)	6.6	2.9	1.5	8.5
Consolidated Revenue Gr. (%)	8.0	(3.0)	6.9	10.5	5.0	5.4	10.4
Gross Margin (%)	51.2	50.7	50.5	49.5	50.3	50.8	50.9
ASP (% of sales)	9.8	8.5	7.9	7.1	7.2	6.9	6.8
Distribution (% of sales)	2.1	2.7	2.5	2.6	2.6	2.6	2.6
Employee (% of sales)	10.1	10.4	10.3	11.0	10.8	11.1	11.0
Other Expenses (% of sales)	9.8	9.3	9.0	8.4	8.7	8.4	8.3
EBITDA Margin (%)	19.3	19.8	20.9	20.4	21.0	21.8	22.2
Tax Rate (%)	19.3	20.5	19.8	16.2	17.5	17.5	19.5

### Recent Performance

Year to March (Rs mn)	Q3FY20	Q3FY19	YoY (%)	9MFY20	9MFY19	YoY (%)
<b>Net Revenue</b>	<b>23,530</b>	<b>21,992</b>	<b>7.0</b>	<b>68,382</b>	<b>64,049</b>	<b>6.8</b>
<b>EBITDA</b>	<b>4,929</b>	<b>4,454</b>	<b>10.7</b>	<b>14,401</b>	<b>12,823</b>	<b>12.3</b>
<b>PBT before exceptional</b>	<b>5,025</b>	<b>4,591</b>	<b>9.5</b>	<b>14,670</b>	<b>13,346</b>	<b>9.9</b>
Exceptional	(200)	-	na	(800)	-	na
<b>PBT</b>	<b>4,823</b>	<b>4,596</b>	<b>5.0</b>	<b>13,874</b>	<b>13,356</b>	<b>3.9</b>
Tax	835	924	(9.6)	2,211	2,608	(15.2)
Minority Interest	10.6	11.6	(8.6)	31.8	28.6	11.2
<b>PAT</b>	<b>3,978</b>	<b>3,661</b>	<b>8.7</b>	<b>11,631</b>	<b>10,719</b>	<b>8.5</b>
Adjustment	160	-	na	644	-	na
<b>APAT</b>	<b>4,138</b>	<b>3,661</b>	<b>13.0</b>	<b>12,276</b>	<b>10,719</b>	<b>14.5</b>

### Domestic Category Growth (YoY)

Categories	YoY Growth											Wt. Avg.		
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	FY17	FY18	FY19
Hair Care	-11%	2%	17%	9%	19%	11%	24%	3%	12%	3%	1%	-6%	4%	14%
Oral Care	2%	23%	23%	11%	17%	4%	10%	8%	11%	4%	9%	4%	15%	10%
Foods	-8%	12%	0%	2%	27%	2%	12%	-7%	2%	-5%	-2%	18%	1%	8%
Health Supplements	-7%	3%	20%	14%	28%	12%	14%	10%	20%	14%	12%	-5%	10%	16%
Home Care	6%	10%	36%	0%	17%	11%	9%	16%	11%	7%	3%	6%	14%	13%
OTC & Ethicals	-7%	6%	9%	9%	13%	10%	18%	15%	14%	4%	4%	-8%	5%	14%
Digestives	4%	12%	19%	7%	22%	11%	23%	12%	18%	10%	16%	-8%	10%	17%
Skin Care	4%	16%	15%	9%	27%	12%	19%	11%	12%	1%	0%	-2%	11%	17%

Source: Company, HDFC sec Inst Research



## Financials

### Income Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>78,272</b>	<b>78,486</b>	<b>76,136</b>	<b>77,219</b>	<b>85,331</b>	<b>89,555</b>	<b>94,374</b>	<b>104,180</b>
Growth (%)	10.6	8.0	(3.0)	6.9	10.5	5.0	5.4	10.4
Material Expenses	37,201	38,294	37,554	38,199	43,090	44,523	46,385	51,169
Employee Expense	6,227	7,941	7,896	7,928	9,379	9,668	10,493	11,438
A&P Expense	11,244	7,716	6,461	6,067	6,083	6,466	6,535	7,123
Distribution Expense	1,565	1,760	2,039	1,914	2,201	2,310	2,434	2,687
Other Expenses	8,871	7,592	7,096	6,936	7,182	7,437	7,949	8,650
<b>EBITDA</b>	<b>13,164</b>	<b>15,183</b>	<b>15,089</b>	<b>16,174</b>	<b>17,396</b>	<b>19,151</b>	<b>20,578</b>	<b>23,113</b>
EBITDA Growth (%)	13.6	15.3	(0.6)	7.2	7.6	10.1	7.5	12.3
EBITDA Margin (%)	16.8	19.3	19.8	20.9	20.4	21.4	21.8	22.2
Adj EBITDA	13,164	15,183	15,089	16,174	17,396	18,775	20,578	23,113
Adj EBITDA Growth (%)	13.6	15.3	(0.6)	7.2	7.6	7.9	9.6	12.3
Adj EBITDA Margin (%)	16.8	19.3	19.8	20.9	20.4	21.0	21.8	22.2
Depreciation	1,150	1,332	1,429	1,622	1,769	2,257	2,408	2,558
<b>EBIT</b>	<b>12,014</b>	<b>13,851</b>	<b>13,661</b>	<b>14,552</b>	<b>15,627</b>	<b>16,894</b>	<b>18,171</b>	<b>20,555</b>
Other Income	1,581	2,172	2,984	3,052	2,962	3,041	3,561	4,174
Interest	401	485	540	531	596	583	232	136
<b>PBT before exceptional</b>	<b>13,194</b>	<b>15,538</b>	<b>16,104</b>	<b>17,073</b>	<b>17,993</b>	<b>19,352</b>	<b>21,499</b>	<b>24,592</b>
Exceptional item	-	-	-	(145)	(753)	(800)	-	-
<b>PBT</b>	<b>13,194</b>	<b>15,538</b>	<b>16,104</b>	<b>16,928</b>	<b>17,239</b>	<b>18,552</b>	<b>21,499</b>	<b>24,592</b>
Total Tax	2,509	2,999	3,303	3,354	2,786	3,247	3,762	4,796
<b>Adjusted PAT</b>	<b>10,658</b>	<b>12,525</b>	<b>12,769</b>	<b>13,663</b>	<b>14,436</b>	<b>15,906</b>	<b>17,695</b>	<b>19,754</b>
APAT Growth (%)	16.6	17.5	2.0	7.0	5.7	10.2	11.2	11.6
Adjusted EPS (Rs)	6.1	7.1	7.2	7.8	8.2	9.0	10.0	11.2
EPS Growth (%)	15.8	17.3	1.8	7.0	5.7	9.8	11.2	11.6

### Balance Sheet

(Rsmn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>								
Share Capital - Equity	1,757	1,759	1,762	1,762	1,762	1,767	1,767	1,767
Reserves	31,785	39,842	46,712	55,304	56,467	63,879	70,923	75,766
<b>Total Shareholders Funds</b>	<b>33,541</b>	<b>41,601</b>	<b>48,474</b>	<b>57,065</b>	<b>58,229</b>	<b>65,646</b>	<b>72,690</b>	<b>77,533</b>
Minority Interest	182	217	248	265	314	272	229	187
Long Term Debt	2,106	3,415	4,741	3,686	306	206	106	6
Short Term Debt	5,230	4,497	5,090	5,766	5,266	4,466	2,966	1,466
<b>Total Debt</b>	<b>7,336</b>	<b>7,912</b>	<b>9,831</b>	<b>9,452</b>	<b>5,572</b>	<b>4,672</b>	<b>3,072</b>	<b>1,472</b>
Net Deferred Taxes	587	882	1,080	1,091	1,091	1,091	1,091	1,091
Other Non-current Liabilities & Provns	462	509	534	565	595	655	720	792
<b>TOTAL SOURCES OF FUNDS</b>	<b>42,108</b>	<b>51,121</b>	<b>60,167</b>	<b>68,438</b>	<b>65,801</b>	<b>72,336</b>	<b>77,802</b>	<b>81,075</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	18,771	17,280	19,584	20,281	20,219	20,961	21,054	20,995
CWIP	596	609	1,011	522	756	767	780	795
Other Non Current Assets	201	632	581	490	954	1,049	1,154	1,270
<b>Total Non-current Assets</b>	<b>19,568</b>	<b>18,521</b>	<b>21,177</b>	<b>21,293</b>	<b>21,929</b>	<b>22,778</b>	<b>22,988</b>	<b>23,060</b>
Inventories	9,725	10,965	11,067	12,562	13,005	13,418	13,978	15,323
Debtors	7,108	8,097	6,504	7,061	8,336	8,748	9,219	10,177
Other Current Assets	3,647	4,288	3,125	4,988	6,122	6,549	7,009	7,503
Cash & Equivalents	20,900	27,287	35,450	41,112	38,029	43,061	47,510	49,622
<b>Total Current Assets</b>	<b>41,380</b>	<b>50,638</b>	<b>56,146</b>	<b>65,723</b>	<b>65,492</b>	<b>71,776</b>	<b>77,716</b>	<b>82,624</b>
Creditors	16,395	14,505	15,852	17,094	19,811	20,301	20,877	22,475
Other Current Liabilities & Provns	2,560	3,532	1,304	1,484	1,809	1,917	2,026	2,134
<b>Total Current Liabilities</b>	<b>18,955</b>	<b>18,037</b>	<b>17,156</b>	<b>18,578</b>	<b>21,620</b>	<b>22,218</b>	<b>22,902</b>	<b>24,609</b>
<b>Net Current Assets</b>	<b>22,425</b>	<b>32,600</b>	<b>38,990</b>	<b>47,145</b>	<b>43,872</b>	<b>49,557</b>	<b>54,814</b>	<b>58,015</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>41,993</b>	<b>51,121</b>	<b>60,167</b>	<b>68,438</b>	<b>65,801</b>	<b>72,336</b>	<b>77,802</b>	<b>81,075</b>

## Cash Flow Statement

(Rsmn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	13,194	15,572	16,107	16,931	17,239	18,552	21,499	24,592
Non-operating & EO Items	(809)	(1,368)	(3,224)	(2,262)	49	(42)	(42)	(42)
Interest Expenses	401	480	307	424	596	583	232	136
Depreciation	1,150	1,338	1,429	1,622	1,769	2,257	2,408	2,558
Working Capital Change	(1,168)	(2,417)	872	(2,575)	(255)	(702)	(860)	(1,147)
Tax Paid	(2,295)	(2,779)	(3,221)	(3,249)	(2,786)	(3,247)	(3,762)	(4,796)
<b>OPERATING CASH FLOW ( a )</b>	<b>10,472</b>	<b>10,826</b>	<b>12,269</b>	<b>10,890</b>	<b>16,611</b>	<b>17,401</b>	<b>19,475</b>	<b>21,302</b>
Capex	(2,511)	(2,056)	(4,858)	(2,003)	(1,929)	(3,000)	(2,500)	(2,500)
Free Cash Flow (FCF)	7,961	8,769	7,411	8,887	14,682	14,401	16,975	18,802
Investments	(7,211)	(5,628)	(5,111)	(5,837)	4,464	(2,500)	(2,500)	(2,500)
Non-operating Income	960	1,501	1,900	2,437	-	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(8,762)</b>	<b>(6,183)</b>	<b>(8,069)</b>	<b>(5,402)</b>	<b>2,535</b>	<b>(5,500)</b>	<b>(5,000)</b>	<b>(5,000)</b>
Debt Issuance/(Repaid)	254	576	1,682	(545)	(3,880)	(900)	(1,600)	(1,600)
Interest Expenses	-	-	(450)	(428)	(596)	(583)	(232)	(136)
FCFE	1,456	4,066	2,969	6,461	23,622	13,384	16,307	18,039
Share Capital Issuance	455	171	149	-	0	5	0	0
Dividend	(3,948)	(3,506)	(4,770)	(4,770)	(13,273)	(8,494)	(10,651)	(14,912)
Others	(929)	(1,190)	-	-	-	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(4,168)</b>	<b>(3,949)</b>	<b>(3,390)</b>	<b>(5,744)</b>	<b>(17,748)</b>	<b>(9,972)</b>	<b>(12,483)</b>	<b>(16,648)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(2,458)</b>	<b>693</b>	<b>811</b>	<b>(256)</b>	<b>1,398</b>	<b>1,930</b>	<b>1,992</b>	<b>(346)</b>
EO Items, Others	30	(2,474)	1,251	269	(17)	601	(42)	(42)
Closing Cash & Equivalents	2,766	986	3,048	3,061	4,442	6,973	8,922	8,534

Source: Company, HDFC sec Inst Research

## Key Ratios

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>								
GPM	52.5	51.2	50.7	50.5	49.5	50.3	50.8	50.9
EBITDA Margin	16.8	19.3	19.8	20.9	20.4	21.4	21.8	22.2
EBIT Margin	15.3	17.6	17.9	18.8	18.3	18.9	19.3	19.7
APAT Margin	13.6	16.0	16.8	17.7	16.9	17.8	18.7	19.0
RoE	35.5	33.3	28.4	25.9	25.0	25.7	25.6	26.3
RoIC (or Core RoCE)	44.8	51.8	47.1	47.3	50.1	51.4	52.7	55.9
RoCE	29.1	28.3	24.2	22.4	22.7	24.2	24.3	25.4
<b>EFFICIENCY</b>								
Tax Rate (%)	19.0	19.3	20.5	19.8	16.2	17.5	17.5	19.5
Fixed Asset Turnover (x)	3.1	3.1	2.7	2.5	2.7	2.5	2.5	2.6
Inventory (days)	45.3	51.0	53.1	59.4	55.6	54.7	54.1	53.7
Debtors (days)	33.1	37.7	31.2	33.4	35.7	35.7	35.7	35.7
Other Current Assets (days)	17.0	19.9	15.0	23.6	26.2	26.7	27.1	26.3
Payables (days)	76.5	67.5	76.0	80.8	84.7	82.7	80.7	78.7
Other Current Liab & Provs (days)	11.9	16.4	6.3	7.0	7.7	7.8	7.8	7.5
Cash Conversion Cycle (days)	7.1	24.7	17.0	28.5	25.0	26.5	28.2	29.4
Net D/E (x)	-0.40	-0.47	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Interest Coverage (x)	29.9	28.6	25.3	27.4	26.2	29.0	78.2	150.8
<b>PER SHARE DATA (Rs)</b>								
EPS	6.1	7.1	7.2	7.8	8.2	9.0	10.0	11.2
CEPS	6.7	7.9	8.1	8.7	9.2	10.3	11.4	12.6
Dividend	2.0	2.2	2.3	6.3	4.0	5.0	7.0	9.0
Book Value	19.1	23.6	27.5	32.4	33.1	37.2	41.1	43.9
<b>VALUATION</b>								
P/E (x)	79.9	68.1	66.9	62.5	59.2	53.9	48.4	43.4
P/BV (x)	25.4	20.5	17.6	15.0	14.7	13.1	11.8	11.1
EV/EBITDA (x)	64.0	55.4	55.4	51.3	47.7	43.3	40.1	35.6
EV/Revenues (x)	10.8	10.0	11.0	10.7	9.7	9.3	8.8	7.9
OCF/EV (%)	1.2	1.3	1.5	1.3	2.0	2.1	2.4	2.6
FCF/EV (%)	0.9	1.0	0.9	1.1	1.8	1.7	2.1	2.3
FCFE/Mkt Cap (%)	0.2	0.5	0.3	0.8	2.8	1.6	1.9	2.1
Dividend Yield (%)	0.4	0.5	0.5	1.3	0.8	1.0	1.4	1.9

Source: Company, HDFC sec Inst Research

# Britannia Industries

## Uptrading and new categories to take a pause

The Covid-19 disruption will not be significant for BRIT as the co offers more of essential foods and has a deep distribution network. However, Britannia's premium portfolio (which has high salience vs peers) could see downtrading which along with lower aggregate demand in rural areas would keep earnings muted in FY21. New product categories and international expansion which were key growth drivers would also take a backseat. We cut EPS estimates by 7/8% for FY21/FY22. We downgrade the stock to REDUCE as the recent re-rating captures the positives of relatively lower near term impact than peers, but ignores the potential medium term earnings risk which lie ahead making risk reward unfavorable. We value the stock at P/E of 38x (earlier 43x) on Mar-22, TP is at Rs 2,711. Downgrade to REDUCE.

- The impact of the lock-down is likely to help boost BRIT's revenues as most of the cos offerings fall under the essential commodities specified by the govt. The lock-down has seen consumers rely on packaged food and biscuits, which are among the hottest selling items due to convenience and accessibility. However, several FMCG cos are facing transportation constraints and inventory at the retail level is running low. Hence, the disruption in the supply chain might adversely impact the cos earnings.
- The premiumisation trend that was being driven by BRIT had hit speed bumps over the last few quarters. The disruption caused by Covid-19 is likely to slightly impact this trend as growth will be driven by the mid-premium, base level and value offerings.
- FY20 has seen BRIT struggle to expand/maintain its gross margins as RM inflation and competitive intensity has been high. However, in 4QFY20, inflation in RM has been benign. Hence, gross margins are likely to remain healthy in the near term despite deceleration in premiumisation. Additionally, co is likely to cut back on its A&P expenses in 4QFY20 and 1QFY21, which will see EBITDA margins expand further.
- With the addition of salty snacks to its portfolio, BRIT has all the right ingredients to become a total snacking co, i.e. brand strength, deep distribution, superior management execution and operating scale. Despite the continued struggle to grow revenues in FY20, market share gains were unprecedented. It reflects BRIT's strong execution capabilities in a challenging phase. Although new product launches will be slow in the near term, we believe BRIT will bounce back in 2HFY21. We expect BRIT to continue gaining share in biscuits led by premiumisation and distribution expansion in Hindi belt.

### Financial Summary

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenue	99,140	110,547	114,758	122,506	133,890
EBITDA	15,017	17,334	18,080	19,836	22,271
APAT	10,040	11,555	13,559	14,878	17,146
EPS (Rs)	41.8	48.1	56.4	61.9	71.4
P/E (x)	67.0	58.3	49.7	45.3	39.3
EV/EBITDA (x)	44.1	38.1	36.1	32.4	28.4
Core RoCE (%)	39.1	39.2	41.1	43.4	47.2

Source: Company, HDFC sec Inst Research

## REDUCE

CMP (as on 09 Apr 2020)	Rs 2,803
Target Price	Rs 2,711
NIFTY	9,112

KEY CHANGES	OLD	NEW
Rating	ADD	REDUCE
Price Target	Rs 3,318	Rs 2,711
EPS %	FY21E -7%	FY22E -8%

### KEY STOCK DATA

Bloomberg code	BRIT IN
No. of Shares (mn)	240
MCap (Rs bn) / (\$ mn)	674/8,830
6m avg traded value (Rs mn)	1,433
52 Week high / low	Rs 3,584/2,100

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(6.6)	(8.4)	(5.4)
Relative (%)	18.2	10.0	14.4

### SHAREHOLDING PATTERN (%)

	Dec-19	Sep-19
Promoters	50.63	50.66
FIs & Local MFs	13.56	13.57
FPIs	15.79	15.22
Public & Others	20.02	20.55
Pledged Shares	0.00	0.00

Source : BSE

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### Key Assumption

Assumptions	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Revenue Growth (%)</b>							
Biscuits and high protein food	10.9	8.0	8.0	11.5	2.5	6.0	8.0
Bread, bread toast and rusk	12.2	7.0	7.0	15.0	3.0	9.0	11.0
Cake	18.3	8.0	8.0	15.0	5.0	9.0	13.0
Dairy Business	(2.2)	2.5	(5.2)	8.0	12.0	6.0	10.0
International Business	28.1	(13.8)	(3.1)	13.0	9.0	8.0	12.0
Gross Margin (%)	40.3	38.3	38.4	40.6	40.5	40.9	40.9
ASP (% of sales)	5.3	4.3	4.1	4.5	4.6	4.5	4.5
Distribution (% of sales)	5.1	4.9	4.9	5.0	5.2	5.0	5.0
EBITDA Margin (%)	14.5	14.1	15.1	15.7	15.8	16.2	16.6
Tax Rate (%)	32.5	32.2	33.9	34.6	25.2	25.2	25.2
NPM (%)	9.8	9.8	10.1	10.5	11.8	12.1	12.8

### Recent Performance

Year to March (Rs mn)	Q3FY20	Q3FY19	YoY (%)	9MFY20	9MFY19	YoY (%)
Net Revenue	29,828	28,424	4.9	87,320	82,559	5.8
EBITDA	5,021	4,518	11.1	13,890	12,955	7.2
PBT	4,972	4,658	6.7	13,871	13,180	5.2
Tax	1,273	1,658	(23.2)	3,658	4,568	(19.9)
RPAT	3,700	3,001	23.3	10,237	8,613	18.8
Adjustment	-	-		169	-	
APAT	3,700	3,001	23.3	10,405	8,613	20.8

## Financials

### Income Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>78,584</b>	<b>83,972</b>	<b>90,541</b>	<b>99,140</b>	<b>110,547</b>	<b>114,758</b>	<b>122,506</b>	<b>133,890</b>
Growth (%)	13.7	10.4	7.8	9.5	11.5	3.8	6.8	9.3
Material Expenses	46,918	50,127	55,887	61,071	65,615	68,273	72,444	79,079
Employee Expense	2,806	3,414	3,526	4,016	4,418	4,873	5,324	5,828
ASP Expense	6,517	4,461	3,850	4,113	5,008	5,279	5,513	6,025
Distribution Expense	4,271	4,310	4,459	4,864	5,534	5,967	6,125	6,695
Other Expense	9,433	9,517	10,037	10,059	12,638	12,285	13,264	13,992
<b>EBITDA</b>	<b>8,639</b>	<b>12,144</b>	<b>12,782</b>	<b>15,017</b>	<b>17,334</b>	<b>18,080</b>	<b>19,836</b>	<b>22,271</b>
EBITDA Growth (%)	37.7	40.6	5.3	17.5	15.4	4.3	9.7	12.3
EBITDA Margin (%)	11.0	14.5	14.1	15.1	15.7	15.8	16.2	16.6
Depreciation & Amortisation	1,445	1,134	1,193	1,421	1,619	1,858	2,019	2,224
<b>EBIT</b>	<b>7,194</b>	<b>11,010</b>	<b>11,589</b>	<b>13,596</b>	<b>15,715</b>	<b>16,222</b>	<b>17,817</b>	<b>20,048</b>
Other Income	2,340	1,244	1,505	1,664	2,065	2,449	2,685	3,484
EO Items, Others	(1,461)	-	-	-	-	(167)	-	-
Interest	39	49	55	76	91	718	618	618
<b>PBT</b>	<b>9,496</b>	<b>12,205</b>	<b>13,040</b>	<b>15,184</b>	<b>17,689</b>	<b>17,953</b>	<b>19,883</b>	<b>22,913</b>
Tax	2,611	3,961	4,197	5,142	6,125	4,519	5,005	5,767
<b>RPAT</b>	<b>6,886</b>	<b>8,246</b>	<b>8,846</b>	<b>10,040</b>	<b>11,555</b>	<b>13,434</b>	<b>14,878</b>	<b>17,146</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>13,559</b>	<b>14,878</b>	<b>17,146</b>
APAT Growth (%)	64.0	27.2	7.3	13.5	15.1	17.3	9.7	15.2
Adjusted EPS (Rs)	27.0	34.4	36.9	41.8	48.1	56.4	61.9	71.4
EPS Growth (%)	64.0	27.1	7.3	13.4	15.0	17.3	9.7	15.2

Source: Company, HDFC sec Inst Research

### Balance Sheet

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>								
Share Capital - Equity	240	240	240	240	240	240	240	240
Reserves	12,211	20,739	26,767	33,855	41,792	43,804	53,765	65,624
<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>44,044</b>	<b>54,006</b>	<b>65,865</b>
<b>Bonus Debentures</b>					-	7,210	7,210	7,210
Minority interest	24	25	26	131	327	327	327	327
Long Term Debt	433	377	314	846	619	619	619	619
Short Term Debt	1,015	934	930	1,159	761	761	761	761
<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>1,380</b>	<b>1,380</b>	<b>1,380</b>
Net Deferred Taxes	(234)	(444)	(231)	(226)	(138)	(138)	(138)	(138)
Non Current Liabilities	256	282	307	341	387	409	440	481
<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>53,232</b>	<b>63,224</b>	<b>75,125</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	7,334	8,343	10,322	12,174	15,579	17,221	17,702	18,229
CWIP (Including capital advances)	703	901	1,478	2,423	1,012	1,012	1,012	1,012
Goodwill	1,107	1,159	1,278	1,282	1,304	1,304	1,304	1,304
LT Loans & Advances	684	2,562	1,002	1,744	847	-	-	-
Other Non Current Assets	372	562	264	292	1,011	1,049	1,120	1,224
<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>20,586</b>	<b>21,138</b>	<b>21,769</b>
Inventories	4,040	4,407	6,615	6,528	7,814	8,607	8,882	9,707
Debtors	1,358	1,706	1,792	3,046	3,942	4,131	4,226	4,552
Other Current Assets	4,659	6,095	12,030	11,507	14,910	15,263	16,293	17,807
Cash & Equivalents	7,443	8,760	6,076	12,657	15,323	22,854	32,145	42,594
<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>50,855</b>	<b>61,547</b>	<b>74,661</b>
Creditors	11,205	9,827	9,822	12,293	15,061	15,415	16,477	18,044
Other Current Liabilities	2,548	2,516	2,683	3,014	2,692	2,795	2,983	3,260
<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>18,210</b>	<b>19,461</b>	<b>21,305</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>32,646</b>	<b>42,086</b>	<b>53,356</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>53,232</b>	<b>63,224</b>	<b>75,125</b>

Source: Company, HDFC sec Inst Research

**Cash Flow Statement**

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	9,496	12,205	13,040	15,184	17,689	17,953	19,883	22,913
Non-operating & EO Items	(2,373)	(1,092)	(1,395)	(1,511)	-	-	-	-
Interest Expenses	39	49	55	76	91	718	618	618
Depreciation	1,445	1,134	1,193	1,421	1,619	1,858	2,019	2,224
Working Capital Change	253	1,329	(4,514)	2,283	(3,362)	(878)	(149)	(821)
Tax Paid	(3,015)	(4,032)	(3,966)	(4,965)	(6,125)	(4,519)	(5,005)	(5,767)
<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>15,133</b>	<b>17,366</b>	<b>19,166</b>
Capex	463	(2,494)	(3,518)	(4,212)	(4,033)	(3,500)	(2,500)	(2,750)
Free Cash Flow (FCF)	6,308	7,099	895	8,276	5,879	11,633	14,866	16,416
Investments	(6,318)	(5,217)	1,271	(6,442)	(3,959)	(3,500)	(5,000)	(5,000)
Non-operating Income	1,351	659	749	1,091	904	831	(40)	(63)
<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>(6,169)</b>	<b>(7,540)</b>	<b>(7,813)</b>
Debt Issuance/(Repaid)	(100)	(147)	(70)	673	(402)	-	-	-
Interest Expenses	(33)	(51)	(55)	(75)	(91)	(718)	(618)	(618)
FCFE	1,209	2,343	2,789	3,523	2,331	8,245	9,208	10,735
Share Capital Issuance	-	43	58	151	-	-	-	-
Dividend (Inc tax)	(1,681)	(2,308)	(2,884)	(3,174)	(3,618)	(4,338)	(4,917)	(5,287)
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>(5,056)</b>	<b>(5,535)</b>	<b>(5,905)</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>3,907</b>	<b>4,291</b>	<b>5,449</b>
EO Items, Others	1,832	379	355	49	(7)	-	(0)	(0)
Closing Cash & Equivalents	2,263	889	1,208	1,864	570	4,602	8,893	14,341

**Key Ratios**

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>								
GPM	40.3	40.3	38.3	38.4	40.6	40.5	40.9	40.9
ASP	8.3	5.3	4.3	4.1	4.5	4.6	4.5	4.5
EBITDA Margin	11.0	14.5	14.1	15.1	15.7	15.8	16.2	16.6
EBIT Margin	9.2	13.1	12.8	13.7	14.2	14.1	14.5	15.0
APAT Margin	8.3	9.8	9.8	10.1	10.5	11.8	12.1	12.8
RoE	63.5	49.3	36.9	32.9	30.4	31.5	30.3	28.6
RoIC (or Core RoCE)	76.7	74.8	44.1	39.1	39.2	41.1	43.4	47.2
RoCE	54.8	45.9	35.2	31.2	28.9	29.0	26.3	25.5
<b>EFFICIENCY</b>								
Tax Rate (%)	27.5	32.5	32.2	33.9	34.6	25.2	25.2	25.2
Fixed Asset Turnover (x)	4.6	4.4	6.4	5.7	4.9	4.4	4.3	4.3
Inventory (days)	18.8	19.2	26.7	24.0	25.8	27.4	26.5	26.5
Debtors (days)	6.31	7.42	7.22	11.21	13.02	13.14	12.59	12.41
Other Current Assets (days)	21.6	26.5	48.5	42.4	49.2	48.5	48.5	48.5
Payables (days)	52.0	42.7	39.6	45.3	49.7	49.0	49.1	49.2
Other Current Liab & Provsns (days)	11.8	10.9	10.8	11.1	8.9	8.9	8.9	8.9
Cash Conversion Cycle (days)	(17.2)	(0.6)	32.0	21.3	29.4	31.1	29.6	29.3
Net D/E (x)	(0.5)	(0.4)	(0.2)	(0.3)	(0.3)	(0.5)	(0.6)	(0.6)
Interest Coverage (x)	186.4	226.1	212.6	179.1	172.9	22.6	28.8	32.4
<b>PER SHARE DATA (Rs)</b>								
EPS	27.0	34.4	36.9	41.8	48.1	56.4	61.9	71.4
CEPS	33.1	39.1	41.8	47.7	54.8	64.2	70.3	80.6
Dividend	8.0	10.0	11.0	12.5	15.0	17.0	22.0	25.0
Book Value	51.9	87.4	112.5	142.0	174.9	183.3	224.7	274.1
<b>VALUATION</b>								
P/E (x)	103.7	81.6	76.0	67.0	58.3	49.7	45.3	39.3
P/BV (x)	54.0	32.1	24.9	19.7	16.0	15.3	12.5	10.2
EV/EBITDA (x)	77.1	54.8	52.3	44.1	38.1	36.1	32.4	28.4
EV/Revenues (x)	8.5	7.9	7.4	6.7	6.0	5.7	5.2	4.7
OCF/EV (%)	0.9	1.4	0.7	1.9	1.5	2.3	2.7	3.0
FCF/EV (%)	0.9	1.1	0.1	1.2	0.9	1.8	2.3	2.6
FCFE/Mkt Cap (%)	0.2	0.3	0.4	0.5	0.3	1.2	1.4	1.6
Dividend Yield (%)	0.3	0.4	0.4	0.4	0.5	0.6	0.8	0.9

Source: Company, HDFC sec Inst Research

# Marico

**INSTITUTIONAL RESEARCH**

## Further delay in recovery

Current scenario is supporting Saffola portfolio but VAHO, personal care and international business will see headwinds in FY21. PCNO and VAHO has seen price actions and it has supported growth during Jan-Feb. Covid-19 issue is expected to extend. Thereby, the overall recovery led growth will be delayed in FY21. Copra has seen marginal inflation but weak demand of coconut can lead into softening in copra prices in the near term. Crude derivatives contribute only 15% of RM. Co aims to take sharp cuts on ad spends in FY21 (~9% of revenue vs. >10% in 9MFY20) to sustain margin. We cut EPS estimate by 4/6% for FY21/FY22E. We value Marico based on P/E of 30x Mar-22, and derived a TP of Rs 287. Maintain REDUCE.

- Covid-19 will have impact on 4Q and subsequent quarters too. Production of all products, barring Saffola and Oats, has halted. While due to transportation constraints, co has seen zero primary sales in the last 7 days of 4QFY20. This will result in a loss of 7-8% of volumes for the qtr. Consumer trends seems good for Saffola portfolio but personal care products are seeing demand pressure.
- Pre-Covid, Marico saw a marginal uptick in volumes in Jan-Feb as compared to degrowth in 3QFY20. This was driven by price cuts offered on PCNO and VAHO. However, certain categories like premium hair oil continued to struggle. Growth in urban markets continued to be ahead of rural. International biz was doing better than India biz, especially in Bangladesh where growth in PCNO was strong. However, lock-downs in Bangladesh and Vietnam will bear down on revenues. Exports, which constitute 5% of International biz, will also be affected.
- Marico has struggled to achieve desired growth over the last 6-7 qtrs, especially in the domestic biz. MGT was late in initiating price cuts in hair oils and as a result, faced stiff competition from regional players. MGT has now taken pricing action which is expected to drive resurgence in volume growth in FY21.
- Inflation in copra (single digit) was expected to sustain in FY21 but due to fall in demand for coconut there is also a possibility of softening in copra prices. Prices can reduce during flush season (Apr-Jun). Besides, crude basket is down sharply and it contributes 10-15% of total RM. With sharp cuts in Ad spend in FY21, we believe Marico can sustain 20% EBITDA margin in FY21 (MGT guidance is of 19%).
- We build our estimates under the assumption that the impact of Covid-19 will extend beyond 1QFY21. We expect Revenue/EBITDA/APAT CAGR of 6/8/9% respectively over FY20E-22E.

### Financial Summary

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenue	63,222	73,336	73,376	75,265	82,241
EBITDA	11,378	12,809	14,630	15,381	16,972
APAT	8,142	9,309	10,392	11,012	12,345
EPS (Rs)	6.31	7.21	8.05	8.53	9.56
P/E (x)	46.8	40.9	36.6	34.6	30.8
EV/EBITDA (x)	33.5	29.6	25.8	24.8	22.5
Core RoCE (%)	40.6	48.8	43.9	45.8	50.5

Source: Company, HDFC sec Inst Research

## REDUCE

CMP (as on 09 Apr 2020)	Rs 297
Target Price	Rs 287
NIFTY	9,112

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 304	Rs 287
EPS %	FY21E	FY22E
	-4%	-6%

### KEY STOCK DATA

Bloomberg code	MRCO IN
No. of Shares (mn)	1,291
MCap (Rs bn) / (\$ mn)	383/5,019
6m avg traded value (Rs mn)	830
52 Week high / low	Rs 404/234

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(11.0)	(22.7)	(16.7)
Relative (%)	13.9	(4.3)	3.3

### SHAREHOLDING PATTERN (%)

	Dec-19	Sep-19
Promoters	59.60	59.60
FIs & Local MFs	9.54	8.63
FPIs	23.84	24.90
Public & Others	7.02	6.87
Pledged Shares	0.0	0.00

Source : BSE

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### Key Assumption

Assumptions	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
<b>Revenue Growth (%)</b>								
Domestic Business	22.9	7.9	(2.1)	8.6	15.9	(1.3)	3.2	9.1
Parachute Coconut	29.3	7.7	(11.6)	10.0	23.0	(1.3)	3.7	8.6
VAHO	25.6	11.3	6.8	10.6	12.2	(5.6)	(1.8)	9.6
Saffola Oil	10.7	10.1	6.1	(3.9)	10.0	8.4	8.5	10.0
IBD	9.9	5.6	2.0	2.0	10.0	5.0	(5.0)	13.0
Gross Margin (%)	45.6	49.0	52.2	47.0	45.2	49.0	49.3	49.4
ASP (% of sales)	11.3	11.5	11.0	9.3	9.0	10.2	9.1	9.2
Distribution (% of sales)	3.8	4.2	4.0	3.8	3.9	4.0	4.0	4.0
EBITDA Margin (%)	15.2	17.5	19.6	18.0	17.5	19.9	20.4	20.6
Tax Rate (%)	28.8	29.7	29.4	25.9	10.2	25.0	25.1	25.1

### Recent Performance

Year to March (Rs mn)	Q3FY20	Q3FY19	YoY (%)	9MFY20	9MFY19	YoY (%)
<b>Segmental Revenues</b>						
Domestic	13,800	14,490	(4.8)	12,400	45,159	(72.5)
International	4,440	4,120	7.8	3,690	12,090	(69.5)
<b>Total</b>	<b>18,240</b>	<b>18,610</b>	<b>(2.0)</b>	<b>16,090</b>	<b>57,248</b>	<b>(71.9)</b>
<b>Segmental EBIT</b>						
Domestic	2,980	2,850	4.6	2,400	8,287	(71.0)
International	850	790	7.6	600	2,285	(73.7)
<b>Total</b>	<b>3,830</b>	<b>3,640</b>	<b>5.2</b>	<b>3,000</b>	<b>10,572</b>	<b>(71.6)</b>
<b>Capital Employed</b>						
Domestic	12,380	11,210	10.4	12,380	11,210	10.4
International	7,530	7,670	(1.8)	7,530	7,670	(1.8)
<b>Total</b>	<b>19,910</b>	<b>18,880</b>	<b>5.5</b>	<b>19,910</b>	<b>18,880</b>	<b>5.5</b>
<b>EBIT Margin (%)</b>						
Domestic	21.6	19.7	193	19.4	18.3	101
International	19.1	19.2	(3)	16.3	18.9	(264)
<b>Total</b>	<b>21.0</b>	<b>19.6</b>	<b>144</b>	<b>18.6</b>	<b>18.5</b>	<b>18</b>



## Financials

### Income Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>57,330</b>	<b>60,173</b>	<b>59,178</b>	<b>63,222</b>	<b>73,336</b>	<b>73,376</b>	<b>75,265</b>	<b>82,241</b>
Growth (%)	22.3	7.0	(1.7)	6.8	16.0	0.1	2.6	9.3
Material Expenses	31,190	30,706	28,259	33,482	40,177	37,407	38,185	41,647
Employee Expense	3,251	3,734	4,042	4,222	4,666	4,917	5,239	5,658
ASP Expense	6,498	6,927	6,510	5,856	6,589	7,479	6,846	7,581
Distribution Expense	2,193	2,541	2,386	2,408	2,870	2,935	3,011	3,290
Other Expenses	5,497	5,752	6,389	5,877	6,225	6,008	6,602	7,092
<b>EBITDA</b>	<b>8,700</b>	<b>10,514</b>	<b>11,593</b>	<b>11,378</b>	<b>12,809</b>	<b>14,630</b>	<b>15,381</b>	<b>16,972</b>
EBITDA Growth (%)	16.4	20.8	10.3	(1.9)	12.6	14.2	5.1	10.3
EBITDA Margin (%)	15.2	17.5	19.6	18.0	17.5	19.9	20.4	20.6
Depreciation	843	949	903	891	964	1,340	1,452	1,563
<b>EBIT</b>	<b>7,857</b>	<b>9,565</b>	<b>10,690</b>	<b>10,487</b>	<b>11,845</b>	<b>13,290</b>	<b>13,929</b>	<b>15,409</b>
Other Income	589	932	973	846	1,028	1,069	1,324	1,504
EO Items, others	-	-	-	-	-	(190)	-	-
Interest	230	206	166	162	238	490	377	275
<b>PBT</b>	<b>8,216</b>	<b>10,292</b>	<b>11,497</b>	<b>11,171</b>	<b>12,635</b>	<b>13,869</b>	<b>14,877</b>	<b>16,639</b>
Total Tax	2,368	3,053	3,377	2,896	1,284	3,467	3,734	4,176
Minority Interest & Share of JVs	114	124	134	131	170	153	131	118
<b>RPAT</b>	<b>5,735</b>	<b>7,114</b>	<b>7,986</b>	<b>8,145</b>	<b>11,182</b>	<b>10,249</b>	<b>11,012</b>	<b>12,345</b>
<b>Adjusted PAT</b>	<b>5,735</b>	<b>7,197</b>	<b>8,026</b>	<b>8,142</b>	<b>9,309</b>	<b>10,392</b>	<b>11,012</b>	<b>12,345</b>
APAT Growth (%)	18.1	25.5	11.5	1.4	14.3	11.6	6.0	12.1
<b>Adjusted EPS (Rs)</b>	<b>4.45</b>	<b>5.58</b>	<b>6.22</b>	<b>6.31</b>	<b>7.21</b>	<b>8.05</b>	<b>8.53</b>	<b>9.56</b>

Source: Company, HDFC sec Inst Research

### Balance Sheet

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>								
Share Capital - Equity	645	1,290	1,291	1,291	1,291	1,291	1,291	1,291
Reserves	17,603	18,884	21,966	24,138	27,088	29,999	32,034	34,654
<b>Total Shareholders Funds</b>	<b>18,248</b>	<b>20,174</b>	<b>23,257</b>	<b>25,429</b>	<b>28,379</b>	<b>31,290</b>	<b>33,325</b>	<b>35,944</b>
Minority Interest	137	143	133	125	295	448	579	697
Long Term Debt	1,687	-	1,225	1,224	1,721	1,521	1,321	1,121
Short Term Debt	1,654	1,528	1,163	1,869	1,769	1,569	1,369	1,169
<b>Total Debt</b>	<b>3,342</b>	<b>1,528</b>	<b>2,388</b>	<b>3,093</b>	<b>3,490</b>	<b>3,090</b>	<b>2,690</b>	<b>2,290</b>
Net Deferred Taxes	79	(421)	125	202	(1,760)	(1,760)	(1,760)	(1,760)
Non Current Liabilities	87	128	225	192	221	254	292	336
<b>TOTAL SOURCES OF FUNDS</b>	<b>21,891</b>	<b>21,552</b>	<b>26,128</b>	<b>29,041</b>	<b>30,625</b>	<b>33,323</b>	<b>35,126</b>	<b>37,507</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	10,759	10,811	10,847	11,103	11,720	11,680	11,528	11,265
CWIP	30	367	112	268	450	450	450	450
LT Loans & Advances	506	175	194	190	221	221	226	247
Other Non Current Assets	1,198	426	437	656	656	656	656	656
<b>Total Non-current Assets</b>	<b>12,494</b>	<b>11,779</b>	<b>11,590</b>	<b>12,218</b>	<b>13,047</b>	<b>13,007</b>	<b>12,861</b>	<b>12,619</b>
Inventories	9,947	9,256	12,534	15,109	14,110	15,761	16,316	17,858
Debtors	1,768	2,524	2,470	3,406	5,170	3,889	3,914	4,277
Other Current Assets	2,147	1,299	1,196	2,561	3,150	3,152	3,233	3,533
Cash & Equivalents	4,897	8,303	8,442	7,429	9,344	11,545	13,338	15,210
<b>Total Current Assets</b>	<b>18,759</b>	<b>21,382</b>	<b>24,642</b>	<b>28,505</b>	<b>31,774</b>	<b>34,347</b>	<b>36,801</b>	<b>40,877</b>
Creditors	5,643	6,690	6,966	8,217	9,440	8,731	8,623	9,386
Current Liabilities	3,718	4,920	3,138	3,465	4,756	5,300	5,913	6,603
<b>Total Current Liabilities</b>	<b>9,362</b>	<b>11,610</b>	<b>10,104</b>	<b>11,682</b>	<b>14,196</b>	<b>14,031</b>	<b>14,536</b>	<b>15,989</b>
<b>Net Current Assets</b>	<b>9,398</b>	<b>9,772</b>	<b>14,538</b>	<b>16,823</b>	<b>17,578</b>	<b>20,316</b>	<b>22,265</b>	<b>24,888</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>21,891</b>	<b>21,552</b>	<b>26,128</b>	<b>29,041</b>	<b>30,625</b>	<b>33,323</b>	<b>35,126</b>	<b>37,507</b>

Source: Company, HDFC sec Inst Research

## Cash Flow Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	8,217	10,338	11,487	11,170	12,635	13,869	14,877	16,639
Non-operating & EO Items	(185)	(433)	(53)	(329)	(1,873)	-	-	-
Interest Expenses	39	(135)	(197)	(174)	238	490	377	275
Depreciation	843	1,018	903	891	964	1,340	1,452	1,563
Working Capital Change	(169)	(1)	(2,698)	(3,065)	2,107	(2,037)	(1,656)	(2,252)
Tax Paid	(2,097)	(2,462)	(2,964)	(2,949)	(1,284)	(3,467)	(3,734)	(4,176)
<b>OPERATING CASH FLOW ( a )</b>	<b>6,648</b>	<b>8,326</b>	<b>6,477</b>	<b>5,544</b>	<b>12,788</b>	<b>10,195</b>	<b>11,315</b>	<b>12,049</b>
Capex	(579)	(856)	(815)	(1,231)	(1,763)	(1,300)	(1,300)	(1,300)
Free Cash Flow (FCF)	6,070	7,469	5,663	4,313	11,025	8,895	10,015	10,749
Investments	410	(1,179)	(441)	1,047	-	-	-	-
Non-operating Income	(1,623)	(321)	340	353	(1,992)	(0)	(6)	(21)
<b>INVESTING CASH FLOW ( b )</b>	<b>(1,792)</b>	<b>(2,357)</b>	<b>(915)</b>	<b>169</b>	<b>(3,755)</b>	<b>(1,300)</b>	<b>(1,306)</b>	<b>(1,321)</b>
Debt Issuance/(Repaid)	(437)	-	(670)	692	397	(400)	(400)	(400)
Interest Expenses	(233)	(204)	(172)	(162)	(238)	(490)	(377)	(275)
FCFE	4,187	5,765	4,720	6,243	9,192	8,005	9,233	10,053
Share Capital Issuance	6	5	0	0	(0)	(0)	(0)	0
Dividend	(3,001)	(5,025)	(5,088)	(6,357)	(6,358)	(7,481)	(8,977)	(9,725)
Others	(2,660)	(589)	190	152	29	33	38	44
<b>FINANCING CASH FLOW ( c )</b>	<b>(6,324)</b>	<b>(5,813)</b>	<b>(5,740)</b>	<b>(5,675)</b>	<b>(6,170)</b>	<b>(8,338)</b>	<b>(9,716)</b>	<b>(10,356)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(1,468)</b>	<b>156</b>	<b>(177)</b>	<b>38</b>	<b>2,863</b>	<b>557</b>	<b>293</b>	<b>371</b>
EO Items, Others	547	(966)	634	397	-	(144)	0	(0)
Closing Cash & Equivalents	2,049	3,171	2,360	2,001	4,864	5,565	5,858	6,229

## Key Ratios

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>								
GPM	45.6	49.0	52.2	47.0	45.2	49.0	49.3	49.4
EBITDA Margin	15.2	17.5	19.6	18.0	17.5	19.9	20.4	20.6
EBIT Margin	13.7	15.9	18.1	16.6	16.2	18.1	18.5	18.7
APAT Margin	10.0	12.0	13.6	12.9	12.7	14.2	14.6	15.0
RoE	36.0	37.5	37.0	33.4	34.6	34.8	34.1	35.6
RoIC (or Core RoCE)	38.7	44.7	49.3	40.6	48.8	43.9	45.8	50.5
RoCE	29.2	33.9	34.4	30.5	31.5	32.5	32.1	33.8
<b>EFFICIENCY</b>								
Tax Rate (%)	28.8	29.7	29.4	25.9	10.2	25.0	25.1	25.1
Fixed Asset Turnover (x)	5.8	5.6	5.0	4.9	5.1	4.7	4.4	4.5
Inventory (days)	63.3	56.1	77.3	87.2	70.2	78.4	79.1	79.3
Debtors (days)	11.3	15.3	15.2	19.7	25.7	19.3	19.0	19.0
Other Current Assets (days)	13.7	7.9	7.4	14.8	15.7	15.7	15.7	15.7
Payables (days)	35.9	40.6	43.0	47.4	47.0	43.4	41.8	41.7
Other Current Liab & Provns (days)	23.7	29.8	19.4	20.0	23.7	26.4	28.7	29.3
Cash Conversion Cycle (days)	28.7	8.9	37.6	54.2	41.0	43.6	43.3	43.0
Net D/E (x)	(0.1)	(0.3)	(0.3)	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)
Interest Coverage (x)	0.03	0.02	0.02	0.02	0.02	0.04	0.03	0.02
<b>PER SHARE DATA (Rs)</b>								
EPS	4.4	5.6	6.2	6.3	7.2	8.1	8.5	9.6
CEPS	10.2	6.3	6.9	7.0	8.0	9.1	9.7	10.8
Dividend	1.2	3.4	3.5	4.2	5.0	6.0	6.5	7.0
Book Value	14.1	15.6	18.0	19.7	22.0	24.2	25.8	27.8
<b>VALUATION</b>								
P/E (x)	66.4	52.9	47.4	46.8	40.9	36.6	34.6	30.8
P/BV (x)	20.9	18.9	16.4	15.0	13.4	12.2	11.4	10.6
EV/EBITDA (x)	43.8	36.0	32.8	33.5	29.6	25.8	24.8	22.5
EV/Revenues (x)	6.7	6.3	6.4	6.0	5.2	5.1	5.1	4.7
OCF/EV (%)	1.7	2.2	1.7	1.5	3.4	2.7	3.0	3.2
FCF/EV (%)	1.3	1.6	1.5	1.5	2.4	2.4	2.6	2.8
FCFE/Mkt Cap (%)	1.1	1.5	1.2	1.6	2.4	2.1	2.4	2.6
Dividend Yield (%)	0.4	1.1	1.2	1.4	1.7	2.0	2.2	2.4

Source: Company, HDFC sec Inst Research

# Colgate-Palmolive

## Relatively resilient

Colgate's revenue growth delivery has been below its peers over the last few years. Gaining trends of naturals/ayurvedic (more acceleration possible) have impacted company revenue growth which is largely dependent on one category. Although Colgate's market share in toothpaste has stabilized in FY20, but revenue growth was uninspiring. With Covid-19, the growth acceleration will be further delayed, however its growth rate should be less impacted than peers. We cut EPS estimate by 3% for FY21/FY22E. We value Colgate based on P/E of 38x Mar-22. Maintain ADD.

- Covid-19 may have limited impact on Colgate's products as they are essential products. However, the scope to accelerate revenue from new launches (oral and personal care) will be delayed. Besides, there is also a possibility of further acceleration in naturals/ayurvedic trend as consumers are focusing more on health. It can impact Colgate's market share which the company tried to stabilise in 9MFY20, after seeing sharp contraction in FY18/FY19. Current situation can impact premium portfolio (5% of mix) of Colgate which has recently returned to growth.
- Pre-Covid, continued weakness in rural demand is resulting into slower growth for Colgate. Co clocked <4% revenue growth in 9MFY20 with volume growth of ~3%. Dabur clocked a strong 8.5% growth in oral care vs 4% for Colgate in 3QFY20. Competitive intensity remains high particularly at LUP (Rs 10/pack).
- As a category leader, Colgate needs to drive category growth at a time when natural's fad is again gaining traction. Senior level management churn (Ram Raghavan - MD and Mukul Deoras - India chairman) keeps us interested in the story. Ram began his career as a management trainee with Colgate India in 1997. His recent experience as the head of innovation center at Colgate-Palmolive LATAM is exactly what Colgate India needs i.e. product excitement and diversification.
- Colgate has re-launched and launched many products in 9MFY20. The re-launch of its flagship brand Colgate Strong Teeth is to drive volume growth (particularly in rural).
- We build our estimates under the assumption that the impact of Covid-19 will extend beyond 1QFY21. We expect Revenue/EBITDA/APAT CAGR of 6/8/10% respectively over FY20E-22E.

### Financial Summary

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenue	41,880	44,624	46,252	48,303	52,062
EBITDA	11,125	12,361	12,583	13,417	14,850
APAT	6,816	7,502	8,116	8,709	9,835
EPS (Rs)	25.0	27.6	29.8	32.0	36.1
P/E (x)	54.5	49.5	45.8	42.7	37.8
EBITDA (x)	33.0	29.7	29.0	27.1	24.2
Core RoCE (%)	64.4	67.2	69.6	72.7	80.5

Source: Company, HDFC sec Inst Research

## INSTITUTIONAL RESEARCH

### ADD

CMP (as on 09 Apr 2020)	Rs 1,365
Target Price	Rs 1,372
NIFTY	9,112

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 1,497	Rs 1,372
EPS %	FY21E -3%	FY22E -3%

### KEY STOCK DATA

Bloomberg code	CLGT IN
No. of Shares (mn)	272
MCap (Rs bn) / (\$ mn)	371/4,857
6m avg traded value (Rs mn)	1,025
52 Week high / low	Rs 1,643/1,065

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(6.6)	(9.1)	11.5
Relative (%)	18.2	9.3	31.4

### SHAREHOLDING PATTERN (%)

	Dec-19	Sep-19
Promoters	51.00	51.00
FIs & Local MFs	10.20	11.37
FPIs	16.49	15.46
Public & Others	22.31	22.17
Pledged Shares	0.00	0.00

Source : BSE

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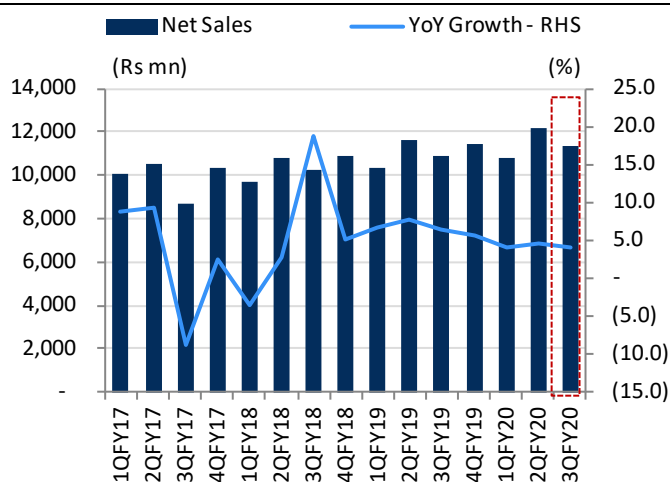
### Key Assumptions

Assumptions	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Toothpaste revenue growth	1.6	3.7	7.4	6.8	3.1	4.3	7.6
Toothpaste volume growth	4.0	(2.0)	2.5	5.8	2.6	2.8	6.0
GM (%)	61.8	62.9	64.4	65.1	65.5	65.8	66.3
Employee (% of sales)	6.8	7.2	7.3	6.6	7.0	7.1	7.1
ASP (% of sales)	11.6	12.9	12.6	12.7	13.5	13.0	12.9
Distribution (% of sales)	3.6	3.6	3.1	3.0	3.0	3.0	3.0
Royalty (% of sales)	5.7	5.2	4.9	4.9	4.9	4.9	4.9
Other expenses (% of sales)	9.9	10.3	9.9	10.1	9.8	10.0	9.8
EBITDA Margin (%)	24.3	23.7	26.6	27.7	27.2	27.8	28.5
Tax Rate (%)	30.4	32.2	31.5	32.1	25.2	25.2	25.2

### Recent Performance

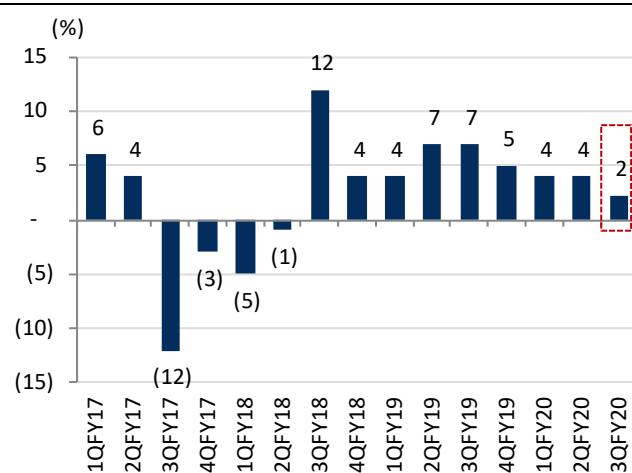
Particulars (Rs mn)	3QFY20	3QFY19	YoY (%)	9MFY20	9MFY19	YoY (%)
<b>Net Revenue</b>	<b>11,472</b>	<b>10,994</b>	<b>4.3</b>	<b>34,252</b>	<b>33,087</b>	<b>3.5</b>
<b>EBITDA</b>	<b>3,161</b>	<b>3,145</b>	<b>0.5</b>	<b>9,388</b>	<b>9,256</b>	<b>1.4</b>
<b>PBT</b>	<b>2,704</b>	<b>2,818</b>	<b>(4.1)</b>	<b>8,167</b>	<b>8,315</b>	<b>(1.8)</b>
Exceptional	-	-	na	-	341	
<b>PBT after exceptional</b>	<b>2,704</b>	<b>2,818</b>	<b>(4.1)</b>	<b>8,167</b>	<b>8,656</b>	<b>(5.7)</b>
Tax	683	897	(23.8)	1,967	2,877	(31.6)
<b>RPAT</b>	<b>1,991</b>	<b>1,921</b>	<b>3.7</b>	<b>6,123</b>	<b>5,780</b>	<b>5.9</b>
Adjustments	-	-	na	-	(280)	na
<b>APAT</b>	<b>1,991</b>	<b>1,921</b>	<b>3.7</b>	<b>6,123</b>	<b>5,500</b>	<b>11.3</b>
<b>EPS (adjusted)</b>	<b>7.3</b>	<b>7.1</b>	<b>3.7</b>	<b>22.5</b>	<b>20.2</b>	<b>11.3</b>

### Net Revenue



Source: Company, HDFC sec Inst Research

### Volume Growth



Source: Company, HDFC sec Inst Research

## Financials

### Income Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>39,819</b>	<b>38,682</b>	<b>39,818</b>	<b>41,880</b>	<b>44,624</b>	<b>46,252</b>	<b>48,303</b>	<b>52,062</b>
Growth (%)	11.3	4.5	2.9	5.2	6.6	3.6	4.4	7.8
Material Expenses	14,677	14,766	14,763	14,901	15,586	15,872	16,282	17,300
Employee Expense	2,589	2,624	2,885	3,059	2,959	3,119	3,258	3,511
ASP Expense	7,142	4,476	5,117	5,268	5,647	6,244	6,279	6,742
Distribution Expense	1,378	1,390	1,424	1,315	1,339	1,388	1,449	1,562
Other Expenses	5,811	6,044	6,185	6,211	6,733	7,047	7,618	8,097
<b>EBITDA</b>	<b>8,222</b>	<b>9,382</b>	<b>9,444</b>	<b>11,125</b>	<b>12,361</b>	<b>12,583</b>	<b>13,417</b>	<b>14,850</b>
EBITDA Growth (%)	23.9	14.1	0.7	17.8	11.1	1.8	6.6	10.7
EBITDA Margin (%)	20.6	24.3	23.7	26.6	27.7	27.2	27.8	28.5
Depreciation	750	1,114	1,332	1,565	1,592	2,030	2,138	2,246
<b>EBIT</b>	<b>7,472</b>	<b>8,268</b>	<b>8,112</b>	<b>9,560</b>	<b>10,769</b>	<b>10,553</b>	<b>11,279</b>	<b>12,604</b>
Other Income	332	399	403	387	377	399	462	613
EO Items	-	(313)	-	(117)	305	-	-	-
Interest	-	-	-	-	25	105	103	74
<b>PBT</b>	<b>7,803</b>	<b>8,354</b>	<b>8,514</b>	<b>9,830</b>	<b>11,426</b>	<b>10,846</b>	<b>11,638</b>	<b>13,143</b>
Total Tax	2,214	2,541	2,740	3,097	3,670	2,730	2,929	3,308
<b>RPAT</b>	<b>5,589</b>	<b>5,812</b>	<b>5,774</b>	<b>6,734</b>	<b>7,756</b>	<b>8,116</b>	<b>8,709</b>	<b>9,835</b>
Exceptional Gain/(loss)	-	(218)	-	(83)	254	-	-	-
<b>Adjusted PAT</b>	<b>5,589</b>	<b>6,031</b>	<b>5,774</b>	<b>6,816</b>	<b>7,502</b>	<b>8,116</b>	<b>8,709</b>	<b>9,835</b>
APAT Growth (%)	13.7	7.9	(4.2)	18.0	10.1	8.2	7.3	12.9
Adjusted EPS (Rs)	20.5	22.2	21.2	25.0	27.6	29.8	32.0	36.1
EPS Growth (%)	13.7	7.8	(4.2)	18.0	10.1	8.2	7.3	12.9

Source: Company, HDFC sec Inst Research

### Balance Sheet

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>								
Share Capital - Equity	136	272	272	272	272	272	272	272
Reserves	7,567	10,038	12,466	14,974	14,614	17,488	19,848	23,587
<b>Total Shareholders Funds</b>	<b>7,703</b>	<b>10,311</b>	<b>12,738</b>	<b>15,246</b>	<b>14,886</b>	<b>17,761</b>	<b>20,120</b>	<b>23,859</b>
Long Term Debt	-	-	-	-	777	777	777	777
Short Term Debt	-	-	-	-	-	-	-	-
<b>Total Debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>777</b>	<b>777</b>	<b>777</b>	<b>777</b>
Net Deferred Taxes	26	400	275	355	309	309	309	309
Other Non-current Liabilities & Provns	859	196	268	209	201	201	201	201
<b>TOTAL SOURCES OF FUNDS</b>	<b>8,588</b>	<b>10,906</b>	<b>13,281</b>	<b>15,811</b>	<b>16,172</b>	<b>19,047</b>	<b>21,406</b>	<b>25,145</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	7,816	10,081	11,081	11,460	11,909	11,878	11,990	11,994
CWIP	1,412	784	1,666	1,586	1,987	1,987	1,987	1,987
Other Non-current Assets	372	1,191	1,865	1,978	1,903	2,431	2,561	2,770
<b>Total Non-current Assets</b>	<b>9,599</b>	<b>12,056</b>	<b>14,612</b>	<b>15,024</b>	<b>15,798</b>	<b>16,296</b>	<b>16,538</b>	<b>16,751</b>
Inventories	2,522	2,915	2,926	2,267	2,486	2,585	2,707	2,921
Debtors	696	1,015	1,299	2,010	2,098	2,174	2,271	2,448
Other Current Assets	1,270	951	1,015	1,465	1,611	1,772	1,950	2,145
<b>Cash &amp; Equivalents</b>	<b>2,916</b>	<b>3,198</b>	<b>3,255</b>	<b>4,873</b>	<b>4,689</b>	<b>7,223</b>	<b>9,387</b>	<b>13,115</b>
<b>Total Current Assets</b>	<b>7,405</b>	<b>8,080</b>	<b>8,494</b>	<b>10,615</b>	<b>10,884</b>	<b>13,755</b>	<b>16,315</b>	<b>20,629</b>
Creditors	8,003	5,519	5,975	6,145	6,132	6,399	6,630	7,072
Other Current Liabilities & Provns	413	3,711	3,851	3,683	4,378	4,605	4,816	5,163
<b>Total Current Liabilities</b>	<b>8,415</b>	<b>9,230</b>	<b>9,826</b>	<b>9,828</b>	<b>10,510</b>	<b>11,004</b>	<b>11,447</b>	<b>12,235</b>
<b>Net Current Assets</b>	<b>(1,011)</b>	<b>(1,150)</b>	<b>(1,332)</b>	<b>788</b>	<b>374</b>	<b>2,751</b>	<b>4,868</b>	<b>8,394</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>8,588</b>	<b>10,906</b>	<b>13,281</b>	<b>15,811</b>	<b>16,172</b>	<b>19,047</b>	<b>21,406</b>	<b>25,145</b>

Source: Company, HDFC sec Inst Research

## Cash Flow Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	7,804	8,595	8,514	9,947	11,426	10,846	11,638	13,143
Non-operating & EO Items	97	(52)	28	81	-	-	-	-
Interest Expenses	(264)	(246)	(292)	(290)	25	105	103	74
Depreciation	750	1,114	1,332	1,565	1,592	2,030	2,138	2,246
Working Capital Change	49	155	311	(889)	620	(296)	10	163
Tax Paid	(2,055)	(2,836)	(3,014)	(3,474)	(3,670)	(2,730)	(2,929)	(3,308)
<b>OPERATING CASH FLOW ( a )</b>	<b>6,382</b>	<b>6,729</b>	<b>6,880</b>	<b>6,939</b>	<b>9,992</b>	<b>9,956</b>	<b>10,960</b>	<b>12,317</b>
Capex	(2,994)	(2,713)	(3,213)	(2,087)	(2,442)	(2,000)	(2,250)	(2,250)
Free Cash Flow (FCF)	3,387	4,017	3,667	4,852	7,550	7,956	8,710	10,067
Investments	-	70	(506)	(273)	-	-	-	-
Non-operating Income	278	42	297	287	(312)	(71)	(90)	(165)
<b>INVESTING CASH FLOW ( b )</b>	<b>(2,716)</b>	<b>(2,601)</b>	<b>(3,421)</b>	<b>(2,073)</b>	<b>(2,754)</b>	<b>(2,071)</b>	<b>(2,340)</b>	<b>(2,415)</b>
Debt Issuance/(Repaid)	-	-	-	-	777	-	-	-
FCFE	3,665	4,128	3,458	4,866	8,016	7,885	8,620	9,902
Share Capital Issuance	-	-	-	-	-	-	-	-
Dividend	(3,848)	(2,987)	(3,271)	(3,705)	(7,862)	(5,241)	(6,349)	(6,096)
Others	-	(800)	(135)	(92)	(298)	(109)	(107)	(77)
<b>FINANCING CASH FLOW ( c )</b>	<b>(3,848)</b>	<b>(3,786)</b>	<b>(3,406)</b>	<b>(3,798)</b>	<b>(7,382)</b>	<b>(5,350)</b>	<b>(6,456)</b>	<b>(6,173)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(183)</b>	<b>342</b>	<b>53</b>	<b>1,068</b>	<b>(144)</b>	<b>2,534</b>	<b>2,164</b>	<b>3,729</b>
EO Items, Others	127	0	(4)	(550)	41	-	-	-
Closing Cash & Equivalents	2,545	2,887	2,943	4,562	4,377	6,911	9,075	12,804

Source: Company, HDFC sec Inst Research

## Key Ratios

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>								
GPM	63.1	61.8	62.9	64.4	65.1	65.7	66.3	66.8
EBITDA Margin	20.6	24.3	23.7	26.6	27.7	27.2	27.8	28.5
EBIT Margin	18.8	21.4	20.4	22.8	24.1	22.8	23.3	24.2
APAT Margin	14.0	15.6	14.5	16.3	16.8	17.5	18.0	18.9
RoE	81.6	67.0	50.1	48.7	49.8	49.7	46.0	44.7
RoIC (or Core RoCE)	115.8	88.8	64.5	64.4	67.2	69.6	72.7	80.5
RoCE	72.7	63.3	49.1	47.9	47.9	46.9	43.7	42.8
<b>EFFICIENCY</b>								
Tax Rate (%)	28.4	30.4	32.2	31.5	32.1	25.2	25.2	25.2
Fixed Asset Turnover (x)	3.1	2.5	2.2	2.1	2.0	1.9	1.8	1.8
Inventory (days)	23.1	27.5	26.8	19.8	20.3	20.4	20.5	20.5
Debtors (days)	6.4	9.6	11.9	17.5	17.2	17.2	17.2	17.2
Other Current Assets (days)	11.6	9.0	9.3	12.8	13.2	14.0	14.7	15.0
Payables (days)	73.4	52.1	54.8	53.6	50.2	50.5	50.1	49.6
Other Current Liab & Provsns (days)	3.8	35.0	35.3	32.1	35.8	36.3	36.4	36.2
Cash Conversion Cycle (days)	(36.0)	(41.0)	(42.0)	(35.6)	(35.3)	(35.3)	(34.1)	(33.1)
Net D/E (x)	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)	(0.5)
Interest Coverage (x)	na	na	na	na	na	na	na	na
<b>PER SHARE DATA (Rs)</b>								
EPS	20.5	22.2	21.2	25.0	27.6	29.8	32.0	36.1
CEPS	23.3	26.2	26.1	30.8	33.4	37.3	39.8	44.4
Dividend	12.0	10.0	10.0	24.0	16.0	19.4	22.4	25.3
Book Value	28.3	37.9	46.8	56.0	54.7	65.2	73.9	87.7
<b>VALUATION</b>								
P/E (x)	66.4	61.6	64.3	54.5	49.5	45.8	42.7	37.8
P/BV (x)	48.2	36.0	29.2	24.4	25.0	20.9	18.5	15.6
EV/EBITDA (x)	44.8	39.3	39.0	33.0	29.7	29.0	27.1	24.2
EV/Revenues (x)	9.3	9.5	9.2	8.8	8.2	7.9	7.5	6.9
OCF/EV (%)	1.7	1.8	1.9	1.9	2.7	2.7	3.0	3.4
FCF/EV (%)	1.0	1.1	0.9	1.3	2.0	2.2	2.4	2.8
FCFE/Mkt Cap (%)	1.0	1.1	0.9	1.3	2.2	2.1	2.3	2.7
Dividend Yield (%)	0.9	0.7	0.7	1.8	1.2	1.4	1.6	1.9

Source: Company, HDFC sec Inst Research

# Emami

## Bumpy road ahead

Emami has been struggling to achieve required growth over the last few years. It was attributed to its high wholesale dependence, seasonality impact and MGT's high involvement towards reducing promoter pledges. Covid-19 will further impact recovery chances in FY21, particularly due to missing summer season for Navratana. We cut EPS estimate by 14% for FY21/FY22E. Emami cement deal will reduce the promoter pledge on Emami Ltd. However, any delay in payment on this deal can potentially impact the stock. We value Emami based on P/E of 17x (earlier 20x) on Mar-22, and derived TP of Rs 221. We downgrade stock to REDUCE from ADD.

- Covid-19 will impact meaningfully to Emami's revenue in FY21 as it has more of discretionary portfolio. We believe 65% of Emami's revenue (including international) will see revenue weakness in FY21. Personal care category is expected to see more impact than other FMCG categories. Emami has large personal care portfolio, thereby, co can see more pressure than other companies. Male grooming has been struggling in FY20, posting ~25% degrowth in 9MFY20. 4QFY20 was expected to be better for the category. However, following the disruption, recovery is likely to be further delayed.
- Emami is attempting to drive volumes through innovative launches like Navratna Garam Tel and Zandu Ayurvedic Cough Syrup. Co has also taken steps to reduce its reliance on the wholesale channel (~38% mix now vs. 52% earlier) and move towards modern trade (9-10% mix now vs. 4% earlier) and direct reach (0.95mn stores vs. 0.63mn earlier). However, benefits from all these initiatives will not be visible in the near term.
- In 4QFY20, Emami sealed the sale of its stake in the Cement biz in Feb-20, which will significantly reduce promoter pledge. The stake sale will see promoter pledge reduce from ~72% to ~25%. MGT has also approved a share buyback in March 2020, which will see promoters further consolidate their shareholding. As a result, increased focus by the promoters on the domestic biz can help the co realign in FY21.
- We build our estimates under the assumption that the impact of Covid-19 will extend beyond 1QFY21. We expect Revenue/EBITDA/APAT CAGR of 3/4/5% respectively over FY20E-22E.

### Financial Summary

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenue	25,306	26,931	27,038	26,696	28,715
EBITDA	7,195	7,288	7,235	7,087	7,764
APAT	5,132	5,002	5,317	5,285	5,910
EPS (Rs)	11.3	11.0	11.7	11.6	13.0
P/E (x)	20.3	20.8	19.6	19.7	17.6
EV/EBITDA (x)	14.6	14.1	14.0	14.0	12.6
Core RoCE (%)	21.8	21.3	23.2	24.1	29.9

Source: Company, HDFC sec Inst Research

## INSTITUTIONAL RESEARCH

### REDUCE

CMP (as on 09 Apr 2020)	Rs 229
Target Price	Rs 221
NIFTY	9,112

KEY CHANGES	OLD	NEW
Rating	ADD	REDUCE
Price Target	Rs 302	Rs 221
EPS %	FY21E	FY22E
	-14%	-14%

### KEY STOCK DATA

Bloomberg code	HMN IN
No. of Shares (mn)	454
MCap (Rs bn) / (\$ mn)	105/1,370
6m avg traded value (Rs mn)	160
52 Week high / low	Rs 411/131

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(24.1)	(23.2)	(42.8)
Relative (%)	0.7	(4.8)	(22.8)

### SHAREHOLDING PATTERN (%)

	Dec-19	Sep-19
Promoters	52.74	52.74
FIs & Local MFs	28.67	25.51
FPIs	10.38	11.72
Public & Others	8.21	10.03
Pledged Shares	37.75	36.54

Source : BSE

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### Key Assumption

Assumptions	FY17	FY18	FY19	FY20E	FY21E	FY22E
Domestic Gr. (%)	10.0	4.5	4.0	(0.6)	(0.7)	7.6
Navratna oil	3.0	7.5	8.0	(1.5)	(13.0)	11.0
Boroplus cream	15.0	21.8	2.0	2.0	3.0	5.5
Zandu & Mentho Plus balm	6.0	6.0	7.0	3.0	10.0	6.5
Fair & Handsome	(6.0)	4.3	3.0	(25.0)	(13.0)	8.0
Kesh King	48.0	(15.4)	13.0	7.0	(2.0)	7.5
International Gr. (%)	(16.0)	14.0	12.0	7.1	(4.9)	7.1
Gross Margin (%)	66.7	68.0	65.7	66.3	67.0	67.4
Employee (% of sales)	9.4	10.1	10.4	11.0	11.8	11.6
ASP (% of sales)	17.7	18.6	17.5	17.1	16.8	16.9
Distribution (% of sales)	2.5	2.4	2.3	2.3	2.3	2.3
Other Expenses (% of sales)	6.7	8.5	8.5	9.0	9.5	9.5
EBITDA Margin (%)	30.4	28.4	27.1	26.8	26.5	27.0
Tax Rate (%)	19.7	21.9	24.9	21.3	21.5	21.5

### Recent Performance

Year to March (Rs mn)	3QFY20	3QFY19	YoY (%)	9MFY20	9MFY19	YoY (%)
Net Revenue	8,126	8,111	0.2	21,213	20,535	3.3
EBITDA	2,640	2,634	0.2	5,911	5,741	3.0
PBT	1,891	1,867	1.3	3,616	3,206	12.8
Tax	398	386	3.1	786	729	7.9
RPAT	1,493	1,481	0.8	2,795	2,477	12.8
Adjustment	456	451	0.9	1,469	1,456	0.9
APAT	1,949	1,932	0.8	4,264	3,934	8.4
EPS (Adjusted)	4.29	4.26	0.8	28.18	26.00	8.4

Revenue Mix (%)	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Domestic	85.0	85.0	83.0	87.0	85.0	86.0	84.0	84.0	83.0	83.0	81.0	82.0
IMD	11.0	11.0	14.0	9.0	11.0	10.0	13.0	12.0	13.0	14.0	15.0	14.0
CSD	4.0	4.0	3.0	4.0	4.0	4.0	3.0	4.0	4.0	3.0	4.0	4.0

Brands	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Boroplus Cream	2%	41%	38%	10%	-2%	-15%	-7%	4%	17%	-7%	39%	-12%
Navratana Oil	5%	-15%	16%	15%	14%	19%	3%	10%	1%	4%	-3%	11%
Male Grooming	-5%	-21%	10%	20%	8%	8%	12%	-2%	-4%	-7%	-32%	-39%
Pain MGT	1%	-21%	15%	17%	13%	39%	-8%	6%	1%	-6%	4%	13%
Kesh King Range	1%	-28%	-16%	-19%	6%	10%	2%	26%	15%	30%	-11%	18%
Healthcare Range	-11%	-23%	2%	-3%	-2%	28%	1%	18%	9%	-3%	0%	4%
International	-38%	-19%	22%	16%	37%	7%	4%	18%	19%	34%	20%	18%



## Financials

### Income Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>22,172</b>	<b>23,970</b>	<b>25,021</b>	<b>25,306</b>	<b>26,931</b>	<b>27,038</b>	<b>26,696</b>	<b>28,715</b>
<i>Growth (%)</i>	<i>21.8</i>	<i>18.3</i>	<i>4.4</i>	<i>4.5</i>	<i>6.4</i>	<i>0.4</i>	<i>(1.3)</i>	<i>7.6</i>
Material Expense	7,800	8,507	8,327	8,099	9,230	9,117	8,801	9,356
Employee Expense	1,671	2,078	2,347	2,547	2,797	2,983	3,154	3,343
ASP Expense	3,919	4,305	4,428	4,696	4,702	4,633	4,490	4,866
Distribution Expense	573	611	638	619	624	626	619	665
Other Expense	2,854	1,595	1,679	2,151	2,290	2,444	2,545	2,720
<b>EBITDA</b>	<b>5,355</b>	<b>6,873</b>	<b>7,602</b>	<b>7,195</b>	<b>7,288</b>	<b>7,235</b>	<b>7,087</b>	<b>7,764</b>
<i>EBITDA Growth (%)</i>	<i>20.5</i>	<i>28.4</i>	<i>10.6</i>	<i>(5.4)</i>	<i>1.3</i>	<i>(0.7)</i>	<i>(2.0)</i>	<i>9.6</i>
<i>EBITDA Margin (%)</i>	<i>24.2</i>	<i>28.7</i>	<i>30.4</i>	<i>28.4</i>	<i>27.1</i>	<i>26.8</i>	<i>26.5</i>	<i>27.0</i>
Depreciation & Amortisation	343	2,550	3,086	3,109	3,253	3,369	3,416	3,462
<b>EBIT</b>	<b>5,012</b>	<b>4,324</b>	<b>4,516</b>	<b>4,086</b>	<b>4,035</b>	<b>3,866</b>	<b>3,671</b>	<b>4,303</b>
Other Income	964	444	311	195	331	592	615	749
Interest	51	539	580	343	214	229	99	55
<b>PBT</b>	<b>5,924</b>	<b>4,229</b>	<b>4,247</b>	<b>3,938</b>	<b>4,054</b>	<b>4,229</b>	<b>4,187</b>	<b>4,997</b>
Tax	1,070	598	836	863	1,009	901	900	1,074
<b>RPAT</b>	<b>4,856</b>	<b>3,635</b>	<b>3,415</b>	<b>3,064</b>	<b>3,023</b>	<b>3,328</b>	<b>3,287</b>	<b>3,922</b>
Adjustment	44	1,691	2,076	2,069	1,978	1,989	1,998	1,988
<b>Adjusted PAT</b>	<b>4,812</b>	<b>5,326</b>	<b>5,491</b>	<b>5,132</b>	<b>5,002</b>	<b>5,317</b>	<b>5,285</b>	<b>5,910</b>
<i>APAT Growth (%)</i>	<i>18.8</i>	<i>10.7</i>	<i>3.1</i>	<i>(6.5)</i>	<i>(2.5)</i>	<i>6.3</i>	<i>(0.6)</i>	<i>11.8</i>
<b>Adjusted EPS (Rs)</b>	<b>10.6</b>	<b>11.7</b>	<b>12.1</b>	<b>11.3</b>	<b>11.0</b>	<b>11.7</b>	<b>11.6</b>	<b>13.0</b>
<i>EPS Growth (%)</i>	<i>18.8</i>	<i>10.7</i>	<i>3.1</i>	<i>(6.5)</i>	<i>(2.5)</i>	<i>6.3</i>	<i>(0.6)</i>	<i>11.8</i>

Source: Company, HDFC sec Inst Research

### Balance Sheet

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>								
Share Capital - Equity	227	227	227	227	454	454	454	454
Reserves	12,079	15,889	17,320	19,909	20,355	20,871	20,857	20,798
<b>Total Shareholders Funds</b>	<b>12,306</b>	<b>16,116</b>	<b>17,547</b>	<b>20,136</b>	<b>20,809</b>	<b>21,325</b>	<b>21,311</b>	<b>21,252</b>
Minority interest	46	41	14	6	(2)	(2)	(2)	(2)
Long Term Debt	17	3,000	-	-	-	-	-	-
Short Term Debt	177	3,714	4,730	3,259	1,098	298	98	-
<b>Total Debt</b>	<b>194</b>	<b>6,714</b>	<b>4,730</b>	<b>3,259</b>	<b>1,098</b>	<b>298</b>	<b>98</b>	<b>-</b>
Net Deferred Taxes	120	9	282	118	160	160	160	160
Non Current Liabilities	408	327	367	580	505	494	482	471
<b>TOTAL SOURCES OF FUNDS</b>	<b>13,075</b>	<b>23,208</b>	<b>22,939</b>	<b>24,098</b>	<b>22,570</b>	<b>22,275</b>	<b>22,049</b>	<b>21,881</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	4,137	4,706	7,504	8,005	7,490	8,225	8,860	9,565
CWIP (Including capital advances)	288	671	129	226	-	-	-	-
Goodwill	392	15,088	12,520	10,095	8,774	7,159	4,593	2,028
Non Current Investments	66	355	944	1,855	1,855	1,855	1,855	1,855
Other Non Current Assets	437	1,103	526	790	790	790	790	790
<b>Total Non-current Assets</b>	<b>5,320</b>	<b>21,923</b>	<b>21,622</b>	<b>20,971</b>	<b>18,910</b>	<b>18,029</b>	<b>16,099</b>	<b>14,238</b>
Inventories	1,267	1,505	1,792	1,940	2,217	2,226	2,198	2,364
Debtors	1,027	1,309	970	1,559	2,164	2,135	2,071	2,189
Other Current Assets	663	889	814	1,433	1,953	2,053	2,153	2,253
Cash & Equivalents	8,488	1,204	834	2,076	2,239	2,850	4,600	6,250
<b>Total Current Assets</b>	<b>11,444</b>	<b>4,907</b>	<b>4,409</b>	<b>7,008</b>	<b>8,572</b>	<b>9,264</b>	<b>11,022</b>	<b>13,055</b>
Creditors	1,932	2,477	1,847	2,420	2,914	2,878	2,778	2,953
Other Current Liabilities	1,756	1,201	1,245	1,460	1,998	2,140	2,293	2,459
<b>Total Current Liabilities</b>	<b>3,688</b>	<b>3,678</b>	<b>3,092</b>	<b>3,880</b>	<b>4,912</b>	<b>5,018</b>	<b>5,072</b>	<b>5,412</b>
<b>Net Current Assets</b>	<b>7,755</b>	<b>1,229</b>	<b>1,317</b>	<b>3,127</b>	<b>3,660</b>	<b>4,246</b>	<b>5,951</b>	<b>7,643</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>13,075</b>	<b>23,208</b>	<b>22,939</b>	<b>24,098</b>	<b>22,570</b>	<b>22,275</b>	<b>22,049</b>	<b>21,881</b>

Source: Company, HDFC sec Inst Research

## Cash Flow Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	5,924	4,171	4,236	3,938	4,054	4,229	4,187	4,997
Non-operating & EO Items	(396)	663	(124)	(90)	-	-	-	-
Interest Expenses	51	539	580	343	214	229	99	55
Depreciation	34	2,101	3,086	3,109	3,253	3,369	3,416	3,462
Working Capital Change	734	(542)	226	(612)	740	(474)	(455)	(543)
Tax Paid	(956)	(957)	(707)	(809)	(1,009)	(901)	(900)	(1,074)
<b>OPERATING CASH FLOW ( a )</b>	<b>5,788</b>	<b>5,312</b>	<b>7,296</b>	<b>5,878</b>	<b>7,253</b>	<b>6,451</b>	<b>6,347</b>	<b>6,896</b>
Capex	(1,085)	(18,153)	(2,814)	(1,232)	(1,192)	(2,488)	(1,485)	(1,601)
Free Cash Flow (FCF)	4,703	(12,841)	4,483	4,646	6,061	3,963	4,862	5,295
Investments	(2,836)	4,260	(904)	(2,278)	-	-	-	-
Non-operating Income	1,584	823	742	719	3	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(2,337)</b>	<b>(13,070)</b>	<b>(2,975)</b>	<b>(2,791)</b>	<b>(1,188)</b>	<b>(2,488)</b>	<b>(1,485)</b>	<b>(1,601)</b>
Debt Issuance/(Repaid)	19	3,357	(1,985)	(1,470)	-	(800)	(200)	(98)
Interest Expenses	(52)	(519)	(583)	(344)	(214)	(229)	(99)	(55)
FCFE	3,418	(4,921)	1,753	1,273	5,850	2,934	4,563	5,142
Share Capital Issuance	-	3,000	-	-	-	-	-	-
Dividend paid	(2,120)	(818)	(2,353)	(1,423)	(2,351)	(2,811)	(3,300)	(3,981)
Others	-	13	(37)	-	(35)	(12)	(12)	(12)
<b>FINANCING CASH FLOW ( c )</b>	<b>(2,154)</b>	<b>5,032</b>	<b>(4,958)</b>	<b>(3,237)</b>	<b>(2,600)</b>	<b>(3,851)</b>	<b>(3,611)</b>	<b>(4,146)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>1,297</b>	<b>(2,726)</b>	<b>(637)</b>	<b>(150)</b>	<b>3,464</b>	<b>111</b>	<b>1,251</b>	<b>1,149</b>
EO Items, Others	456	(269)	(53)	(445)	2,099	-	0	0
<b>Closing Cash &amp; Equivalents</b>	<b>3,541</b>	<b>1,084</b>	<b>501</b>	<b>795</b>	<b>2,160</b>	<b>2,271</b>	<b>3,522</b>	<b>4,671</b>

Source: Company, HDFC sec Inst Research

## Key Ratios

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>								
GPM	64.8	64.5	66.7	68.0	65.7	66.3	67.0	67.4
ASP (% of sales)	17.7	18.0	17.7	18.6	17.5	17.1	16.8	16.9
EBITDA Margin	24.2	28.7	30.4	28.4	27.1	26.8	26.5	27.0
EBIT Margin	22.6	18.0	18.0	16.1	15.0	14.3	13.8	15.0
APAT Margin	21.7	22.2	21.9	20.3	18.6	19.7	19.8	20.6
RoE	44.5	37.5	32.6	27.2	24.4	25.2	24.8	27.8
RoIC (or Core RoCE)	92.6	38.8	24.0	21.8	21.3	23.2	24.1	29.9
RoCE	35.8	20.5	15.7	13.6	13.0	13.6	13.0	15.4
<b>EFFICIENCY</b>								
Tax Rate (%)	18.1	14.1	19.7	21.9	24.9	21.3	21.5	21.5
Fixed Asset Turnover (x)	5.4	5.1	3.3	3.2	3.6	3.3	3.0	3.0
Inventory (days)	20.8	22.9	26.1	28.0	30.1	30.1	30.1	30.1
Debtors (days)	16.9	19.9	14.2	22.5	29.3	28.8	28.3	27.8
Other Current Assets (days)	10.9	13.5	11.9	20.7	26.5	27.7	29.4	28.6
Payables (days)	31.8	37.7	26.9	34.9	39.5	38.9	38.0	37.5
Other Current Liab & Provs (days)	28.9	18.3	18.2	21.1	27.1	28.9	31.4	31.3
Cash Conversion Cycle (days)	(12.1)	0.4	7.0	15.2	19.3	18.8	18.5	17.7
Net D/E (x)	(0.7)	0.3	0.2	0.1	(0.1)	(0.1)	(0.2)	(0.3)
Interest Coverage (x)	97.5	8.0	7.8	11.9	18.9	16.9	36.9	78.5
<b>PER SHARE DATA (Rs)</b>								
EPS	10.6	11.7	12.1	11.3	11.0	11.7	11.6	13.0
CEPS	11.4	12.7	13.1	12.8	12.7	13.5	13.5	15.0
Dividend	3.5	7.0	7.0	7.0	4.4	5.3	7.3	8.8
Book Value	27.1	35.5	38.7	44.4	45.8	47.0	46.9	46.8
<b>VALUATION</b>								
P/E (x)	21.6	19.5	18.9	20.3	20.8	19.6	19.7	17.6
P/BV (x)	8.4	6.5	5.9	5.2	5.0	4.9	4.9	4.9
EV/EBITDA (x)	17.9	15.9	14.2	14.6	14.1	14.0	14.0	12.6
EV/Revenues (x)	4.3	4.6	4.3	4.2	3.8	3.8	3.7	3.4
OCF/EV (%)	6.1	4.9	6.8	5.6	7.1	6.4	6.4	7.1
FCF/EV (%)	4.9	(11.7)	4.2	4.4	5.9	3.9	4.9	5.4
FCFE/Mkt Cap (%)	3.3	(4.7)	1.7	1.2	5.6	2.8	4.4	4.9
Dividend Yield (%)	1.5	3.1	3.1	3.1	1.9	2.3	3.2	3.8

Source: Company, HDFC sec Inst Research

# Jubilant FoodWorks

INSTITUTIONAL RESEARCH

## Pandemonium led by the pandemic

Jubilant FoodWorks' (JFL) can be a victim of Covid-19 impact on FY21 earnings. Lockdown has severely impacted eating out consumption and it can be slightly prolonged for QSR cos. Domino's being a leader in pizza with 75% market share (organised), will be less impacted, still the intensity will be sharp. Being a discretionary consumption, QSR can take more time for full recovery. However, in the new normal, we believe QSR will gain more share from unorganised formats. We are fully confident on Jubilant's strong comeback post Covid issue. However, 1HFY21 performance is at risk and we expect sharp revenue recovery from 4QFY21 onwards. We cut EPS estimate by 43/22% for FY21/FY22E. We value JUBI based on P/E of 40x (earlier 43x) Mar-22, and derived a TP of Rs 1,502. Maintain ADD.

- The situation surrounding Covid-19 has evolved rapidly and has changed significantly over the last 15 days of 4QFY20. Delivery was holding up the Dine-in pressure but lockdown has jolted delivery too. Timeline of the lockdown is not clear but we believe that eating out will improve gradually only. QSR is better option in eating out but it will take time for QSR players to achieve YoY growth. Delivery dominant player like Domino's is expected to outperform other QSR players.
- IPL set to be put on hold due to Covid-19. Tournament is likely to be cancelled altogether for the year. Domino's will feel the pinch if this occurs as ordering in during the tournament is a major source of revenue in 1Q for the co.
- In the new normal, consumers will once again venture out and start eating outside food. MGT stated that based on past instances, after a public health emergency, consumers tend to trust known brands and hence, western QSRs will benefit. Within western QSR, Domino's has one of the strongest brands and a pan-India presence. Hence, co will benefit if this scenario plays out.
- Jubilant has 75/20% gross/EBITDA margin, one of the highest gap between gross and EBITDA margin. There are various fixed and overheads cost which can move sharply downwards in FY21. Lease rent and marketing spend (particularly if no IPL) can see sharp cuts in FY21 to protect margin.
- We build our estimates under the assumption that the impact of Covid-19 will extend beyond 1QFY21. We expect Revenue/EBITDA/APAT CAGR of 12/15/21% respectively over FY20E-22E.

### Financial Summary

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenue	30,184	35,631	38,919	38,704	48,050
EBITDA	4,401	5,998	8,975	7,565	11,016
APAT	1,918	3,180	3,974	2,884	4,955
EPS (Rs)	14.5	24.1	30.1	21.9	37.5
P/E (x)	97.8	59.0	47.2	65.1	37.9
EV/EBITDA (x)	41.8	30.2	28.5	35.6	22.2
Core RoCE (%)	26.5	45.8	31.4	12.0	22.6

Source: Company, HDFC sec Inst Research

## ADD

CMP (as on 09 Apr 2020)	Rs 1,422
Target Price	Rs 1,502
NIFTY	9,112

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 2,073	Rs 1,502
EPS %	FY21E	FY22E
	-43%	-22%

### KEY STOCK DATA

Bloomberg code	JUBI IN
No. of Shares (mn)	132
MCap (Rs bn) / (\$ mn)	188/2,461
6m avg traded value (Rs mn)	1,828
52 Week high / low	Rs 1,974/1,078

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(17.0)	8.8	(0.5)
Relative (%)	7.8	27.2	19.5

### SHAREHOLDING PATTERN (%)

	Dec-19	Sep-19
Promoters	41.94	41.94
FIs & Local MFs	18.93	17.05
FPIs	32.65	34.49
Public & Others	6.48	6.52
Pledged Shares	1.21	1.06

Source : BSE

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**Key Assumptions**

Particulars	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Revenue</b>										
Stores at beginning	465	576	726	876	1,026	1,117	1,134	1,227	1,365	1,485
Additions	111	150	150	150	91	17	93	138	120	110
Stores at the end	576	726	876	1,026	1,117	1,134	1,227	1,365	1,485	1,595
Revenue Growth (%)	38.4%	22.4%	20.4%	16.2%	5.6%	17.1%	18.5%	9.2%	-0.7%	24.3%
SSG (%)	16.2%	1.6%	0.1%	3.2%	-2.4%	13.9%	16.4%	2.7%	-6.9%	22.3%
Like-like SSG (%)	16.2%	1.6%	0.1%	3.2%	-2.4%	13.9%	17.3%	4.2%	-5.8%	23.0%
<b>Margin</b>										
Gross Margin (%)	73.9%	74.0%	74.9%	76.3%	75.8%	74.8%	75.2%	75.3%	75.5%	75.7%
Employee (% of sales)	19.1%	19.5%	21.2%	23.6%	23.0%	20.3%	19.0%	19.6%	21.3%	19.7%
Rent (% of sales)	8.3%	9.0%	9.9%	10.5%	11.7%	10.6%	9.7%	2.3%	4.0%	3.6%
Adj. Rent (% of sales)	8.3%	9.0%	9.9%	10.5%	11.7%	10.6%	9.7%	9.4%	10.3%	10.1%
ASP (% of sales)	4.5%	5.1%	5.5%	5.2%	5.6%	4.8%	4.8%	5.2%	4.6%	4.9%
Power & Fuel (% of sales)	5.2%	5.9%	5.8%	5.7%	5.6%	5.3%	4.7%	4.7%	4.7%	4.7%
Franchisee Fee (% of sales)	3.4%	3.2%	3.3%	3.3%	3.3%	3.3%	3.5%	3.5%	3.5%	3.3%
Others (% of sales)	16.1%	16.4%	16.6%	16.8%	16.9%	15.6%	16.2%	16.6%	17.5%	16.3%
<b>Margin Breakup</b>										
EBITDA Margin (%)	17.4%	14.8%	12.7%	11.3%	9.7%	15.0%	17.2%	23.4%	19.9%	23.3%
Adj EBITDA Margin (%)	17.4%	14.8%	12.7%	11.3%	9.7%	15.0%	17.2%	16.3%	13.1%	16.4%
Employee (No)	19,734	24,969	27,108	27,719	26,604	27,539	29,184	27,300	29,700	31,900
Employee/store (No)	37.9	38.4	33.8	29.1	24.8	24.5	24.0	21.1	20.8	20.7
Tax Rate	32%	33%	28%	33%	31%	34%	35%	28%	25%	25%
NPM (%)	9.3%	6.8%	5.3%	4.0%	2.6%	6.4%	8.9%	10.2%	7.5%	10.3%

Particulars (Rs mn)	Q1FY18	2QFY18	3QFY18	4QFY18	Q1FY19	2QFY19	3QFY19	4QFY19	Q1FY20	2QFY20	3QFY20
Net Sales	6,788	7,266	7,952	7,798	8,551	8,814	9,291	8,652	9,401	9,882	10,596
EBITDA	796	1,022	1,369	1,278	1,421	1,475	1,706	1,476	2,191	2,351	2,536
Adj EBITDA	796	1,022	1,369	1,278	1,421	1,475	1,706	1,476	1,474	1,619	1,775
APAT	239	443	660	681	747	777	965	793	815	1,046	1,123

<b>YoY Growth (%)</b>											
Revenue	11.5%	9.2%	20.7%	27.3%	26.0%	21.3%	16.8%	10.9%	9.9%	12.1%	14.1%
Employee Cost	5.0%	4.1%	4.3%	-0.2%	6.2%	8.8%	11.7%	18.9%	17.9%	15.8%	17.0%
Rent Cost	10.0%	-0.2%	7.0%	6.1%	6.5%	14.2%	10.4%	2.1%	9.6%	12.2%	11.6%
SGA Cost	7.5%	-1.5%	7.0%	19.5%	19.8%	23.8%	22.4%	13.5%	11.8%	13.3%	16.9%
Adj EBITDA	37.8%	59.0%	113.7%	111.1%	78.5%	44.4%	24.6%	15.5%	3.7%	9.7%	4.1%
APAT	25.6%	105.5%	230.4%	346.4%	213.1%	75.2%	46.2%	16.5%	9.2%	34.7%	16.3%

<b>Margin (%)</b>											
Gross Margin (%)	76.4%	74.1%	74.5%	74.3%	74.5%	74.6%	75.6%	76.1%	75.5%	75.3%	74.9%
Change (bps)	-42bps	-66bps	-43bps	-256bps	-183bps	46bps	103bps	176bps	93bps	67bps	-65bps
Adj EBITDA Margin (%)	11.7%	14.1%	17.2%	16.4%	16.6%	16.7%	18.4%	17.1%	15.7%	16.4%	16.8%
Change (bps)	224bps	441bps	749bps	651bps	489bps	268bps	115bps	68bps	-94bps	-36bps	-161bps

<b>Domino's</b>											
SSG (%)	6.5%	5.5%	17.8%	26.5%	26.0%	20.5%	14.6%	6.0%	4.1%	4.9%	5.9%
New stores added (net)	8	-	2	7	10	23	33	27	22	34	42
Total stores at the end	1,125	1,125	1,127	1,134	1,144	1,167	1,200	1,227	1,249	1,283	1,325
Number of cities covered (India)	264	264	265	266	266	267	271	273	276	276	277

<b>Dunkin' Donuts</b>											
Total stores at the end	55	52	44	37	37	32	32	31	30	30	32
Addition (Net)	(8)	(3)	(8)	(7)	-	(5)	-	(1)	(1)	-	2
Cities Covered	15	13	12	10	10	10	10	10	10	10	10

<b>Online KPIs</b>											
OLO to Delivery Sales %	51%	57%	60%	63%	65%	68%	73%	75%	81%	85%	87%
Mobile Ordering sales to OLO (%)	69%	69%	71%	78%	83%	85%	85%	88%	89%	93%	95%
App Download Count cum. (in mn)	7.5	7.8	9.0	9.6	10.9	12.6	15.3	17.8	21.6	25.3	29.4

## Financials

### Income Statement

Year End (March) - Rs mn	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>20,928</b>	<b>24,380</b>	<b>25,834</b>	<b>30,184</b>	<b>35,631</b>	<b>38,919</b>	<b>38,704</b>	<b>48,050</b>
Growth (%)		16.5%	6.0%	16.8%	18.0%	9.2%	-0.6%	24.1%
Material Expenses	5,279	5,801	6,308	7,660	8,861	9,671	9,380	11,584
Employee Expense	4,443	5,765	5,948	6,140	6,818	7,545	8,168	9,393
A&P Expense	1,133	1,253	1,437	1,428	1,709	2,005	1,762	2,333
Rent	2,050	2,539	2,986	3,157	3,411	901	1,532	1,692
Other Expenses	5,472	6,385	6,744	7,399	8,835	9,822	10,297	12,031
<b>EBITDA</b>	<b>2,551</b>	<b>2,637</b>	<b>2,411</b>	<b>4,401</b>	<b>5,998</b>	<b>8,975</b>	<b>7,565</b>	<b>11,016</b>
EBITDA Growth (%)		3.4%	-8.6%	82.5%	36.3%	49.6%	-15.7%	45.6%
EBITDA Margin (%)	12.2%	10.8%	9.3%	14.6%	16.8%	23.1%	19.5%	22.9%
<b>Adj EBITDA</b>	<b>2,551</b>	<b>2,637</b>	<b>2,411</b>	<b>4,401</b>	<b>5,998</b>	<b>6,239</b>	<b>4,950</b>	<b>7,765</b>
Adj. EBITDA Growth (%)	2.2%	3.4%	-8.6%	82.5%	36.3%	4.0%	-20.7%	56.9%
Adj. EBITDA Margin (%)	12.2%	10.8%	9.3%	14.6%	16.8%	16.0%	12.8%	16.2%
Depreciation	1,011	1,282	1,554	1,601	1,575	3,316	3,258	3,889
<b>EBIT</b>	<b>1,540</b>	<b>1,354</b>	<b>857</b>	<b>2,800</b>	<b>4,423</b>	<b>5,659</b>	<b>4,307</b>	<b>7,127</b>
Other Income	75	116	147	231	474	651	712	836
Interest	-	-	-	-	-	1,529	1,165	1,342
<b>PBT</b>	<b>1,615</b>	<b>1,470</b>	<b>1,004</b>	<b>3,031</b>	<b>4,897</b>	<b>4,780</b>	<b>3,854</b>	<b>6,621</b>
Total Tax	504	501	305	1,068	1,717	1,338	970	1,667
<b>RPAT</b>	<b>1,111</b>	<b>969</b>	<b>578</b>	<b>1,962</b>	<b>3,180</b>	<b>3,442</b>	<b>2,884</b>	<b>4,955</b>
Exceptional Gain/(loss) - net of taxes	-	-	(85)	44	-	(532)	-	-
<b>Adjusted PAT</b>	<b>1,111</b>	<b>969</b>	<b>663</b>	<b>1,918</b>	<b>3,180</b>	<b>3,974</b>	<b>2,884</b>	<b>4,955</b>
APAT Growth (%)	-6.1%	-12.8%	-31.6%	189.3%	65.8%	25.0%	-27.4%	71.8%
<b>Adjusted EPS (Rs)</b>	<b>8.5</b>	<b>7.4</b>	<b>5.0</b>	<b>14.5</b>	<b>24.1</b>	<b>30.1</b>	<b>21.9</b>	<b>37.5</b>
EPS Growth (%)		-13.1%	-31.7%	189.2%	65.8%	25.0%	-27.4%	71.8%

### Balance Sheet

Year End (March)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>								
Share Capital - Equity	656	658	659	660	1,320	1,320	1,320	1,320
Reserves	5,806	6,962	7,394	9,017	11,140	12,627	14,688	18,702
<b>Total Shareholders Funds</b>	<b>6,462</b>	<b>7,620</b>	<b>8,053</b>	<b>9,677</b>	<b>12,459</b>	<b>13,946</b>	<b>16,008</b>	<b>20,022</b>
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26</b>	<b>28</b>	<b>31</b>	<b>34</b>
Long Term Debt	-	-	-	-	-	-	-	-
Short Term Debt	-	-	-	-	-	-	-	-
<b>Total Debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Deferred Taxes	578	729	693	550	500	500	500	500
Other Non-current Liabilities & Provns	132	1	4	5	5	14,742	14,456	13,533
<b>TOTAL SOURCES OF FUNDS</b>	<b>7,171</b>	<b>8,351</b>	<b>8,750</b>	<b>10,232</b>	<b>12,990</b>	<b>29,216</b>	<b>30,996</b>	<b>34,089</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	7,141	8,013	7,550	7,527	7,712	8,580	8,972	9,192
CWIP	199	183	608	124	152	152	152	152
Other Non Current Assets	1,232	1,422	1,904	1,881	2,189	15,289	15,026	14,756
Intangible Assets	231	349	451	383	388	388	388	388
<b>Total Non-current Assets</b>	<b>8,804</b>	<b>9,967</b>	<b>10,513</b>	<b>9,915</b>	<b>10,441</b>	<b>24,409</b>	<b>24,539</b>	<b>24,489</b>
Inventories	433	552	607	642	771	842	837	1,039
Debtors	119	125	161	157	274	300	298	370
Other Current Assets	256	337	336	333	271	287	286	331
Cash & Equivalents	1,135	1,239	1,290	3,921	6,687	9,566	11,309	15,407
<b>Total Current Assets</b>	<b>1,943</b>	<b>2,253</b>	<b>2,394</b>	<b>5,053</b>	<b>8,003</b>	<b>10,995</b>	<b>12,730</b>	<b>17,148</b>
Creditors	2,424	2,960	3,142	3,890	4,167	4,798	4,772	5,924
Other Current Liabilities & Provns	1,151	910	1,014	845	1,287	1,389	1,501	1,624
<b>Total Current Liabilities</b>	<b>3,576</b>	<b>3,869</b>	<b>4,157</b>	<b>4,735</b>	<b>5,454</b>	<b>6,187</b>	<b>6,273</b>	<b>7,548</b>
<b>Net Current Assets</b>	<b>(1,633)</b>	<b>(1,616)</b>	<b>(1,763)</b>	<b>318</b>	<b>2,549</b>	<b>4,808</b>	<b>6,457</b>	<b>9,600</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>7,171</b>	<b>8,351</b>	<b>8,750</b>	<b>10,232</b>	<b>12,990</b>	<b>29,216</b>	<b>30,996</b>	<b>34,089</b>

Source: Company, HDFC sec Inst Research

### Cash Flow Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	1,615	1,470	883	3,031	4,897	4,780	3,854	6,621
Non-operating & EO Items	59	170	49	(25)	26	-	-	-
Interest Expenses (Net)	(60)	(112)	(141)	(166)	(314)	879	453	506
Depreciation	1,011	1,282	1,554	1,601	1,575	3,316	3,258	3,889
Working Capital Change	488	(308)	57	912	(14)	621	93	956
Tax Paid	(352)	(386)	(366)	(1,262)	(1,779)	(1,338)	(970)	(1,667)
<b>OPERATING CASH FLOW ( a )</b>	<b>2,761</b>	<b>2,117</b>	<b>2,036</b>	<b>4,091</b>	<b>4,390</b>	<b>8,258</b>	<b>6,688</b>	<b>10,305</b>
Capex	(2,863)	(2,264)	(1,996)	(1,160)	(1,657)	(2,500)	(2,200)	(2,200)
Free Cash Flow (FCF)	(102)	(147)	40	2,931	2,733	5,758	4,488	8,105
Investments	180	208	26	(2,258)	(3,134)	(390)	(188)	(739)
Non-operating Income	60	59	86	99	216	651	712	836
<b>INVESTING CASH FLOW ( b )</b>	<b>(2,623)</b>	<b>(1,997)</b>	<b>(1,883)</b>	<b>(3,319)</b>	<b>(4,575)</b>	<b>(2,239)</b>	<b>(1,675)</b>	<b>(2,103)</b>
Debt Issuance/(Repaid)								
Interest Expenses		-	-	-	-	(1,529)	(1,165)	(1,342)
FCFE	(102)	(147)	40	2,931	2,733	4,228	3,323	6,763
Share Capital Issuance	9	21	50	(150)	186	-	-	-
Dividend	-	(197)	(198)	(198)	(397)	(660)	(858)	(1,056)
Others			-	-	-	(1,150)	(1,447)	(1,906)
<b>FINANCING CASH FLOW ( c )</b>	<b>9</b>	<b>(177)</b>	<b>(148)</b>	<b>(347)</b>	<b>(211)</b>	<b>(3,339)</b>	<b>(3,470)</b>	<b>(4,304)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>147</b>	<b>(57)</b>	<b>5</b>	<b>424</b>	<b>(396)</b>	<b>2,680</b>	<b>1,542</b>	<b>3,898</b>
EO Items, Others		0	(18)	(512)	(3,985)	(0)	0	0
Closing Cash & Equivalents	389	332	354	1,290	4,879	7,559	9,101	12,999

### Key Ratios

Particulars	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>								
GPM	74.8	76.2	75.6	74.6	75.1	75.2	75.8	75.9
EBITDA Margin	12.2	10.8	9.3	14.6	16.8	23.1	19.5	22.9
EBIT Margin	0.1	0.1	3.3	9.3	12.4	14.5	11.1	14.8
APAT Margin	0.1	0.0	2.6	6.4	8.9	10.2	7.5	10.3
RoE	18.6	13.8	8.5	21.6	28.7	30.1	19.3	27.5
RoIC (or Core RoCE)	19.2	13.6	8.2	26.5	45.8	31.4	12.0	22.6
RoCE	16.6	12.5	7.8	20.2	27.4	24.0	12.5	18.3
<b>EFFICIENCY</b>								
Tax Rate (%)	31.2	34.1	30.4	35.3	35.1	28.0	25.2	25.2
Fixed Asset Turnover (x)	2.9	3.0	3.2	3.9	4.5	4.5	4.2	5.1
Inventory (days)	7.6	8.3	8.6	7.8	7.9	7.9	7.9	7.9
Debtors (days)	2.1	1.9	2.3	1.9	2.8	2.8	2.8	2.8
Other Current Assets (days)	4.5	5.1	4.7	4.0	2.8	2.7	2.7	2.5
Payables (days)	42.3	44.3	44.4	47.0	42.7	45.0	45.0	45.0
Other Current Liab & Provns (days)	20.1	13.6	14.3	10.2	13.2	13.0	14.2	12.3
Cash Conversion Cycle (days)	(48.3)	(42.8)	(43.1)	(43.6)	(42.4)	(44.6)	(45.8)	(44.1)
<b>PER SHARE DATA (Rs)</b>								
EPS	8.5	7.4	5.0	14.5	24.1	30.1	21.9	37.5
CEPS	16.2	17.1	16.8	26.7	36.0	55.2	46.5	67.0
Dividend	1.3	1.5	1.5	3.0	5.0	6.5	8.0	9.5
Book Value	49.3	57.9	61.1	73.3	94.4	105.7	121.3	151.7
<b>VALUATION</b>								
P/E (x)	167.9	193.1	282.9	97.8	59.0	47.2	65.1	37.9
P/BV (x)	28.9	24.6	23.3	19.4	15.1	13.5	11.7	9.4
EV/EBITDA (x)	72.7	70.5	77.2	41.8	30.2	28.5	35.6	22.2
EV/Revenues (x)	8.9	7.6	7.2	6.1	5.1	4.6	4.6	3.6
OCF/EV (%)	1.5	1.1	1.1	2.2	2.4	4.6	3.8	6.0
FCF/EV (%)	(0.1)	(0.1)	0.0	1.6	1.5	3.2	2.5	4.7
FCFE/Mkt Cap (%)	(0.1)	(0.1)	0.0	1.6	1.5	2.3	1.8	3.6
Dividend Yield (%)	0.1	0.1	0.1	0.2	0.4	0.5	0.6	0.7

Source: Company, HDFC sec Inst Research

# Godrej Consumers

## Core performance still below par

GCPL's performance was on the weaker side during the last few years, last 4 years revenue CAGR at 5%. It was led by (1) Unfavorable season, (2) Competition from unorganised (incense sticks) and (3) Volatile international performance. Covid-19 can drive soaps and HI in FY21 in domestic but international business can be at risk (largest dependence among peers). HI and hair colour could remain impacted due to discretionary nature. We value GCPL based on P/E of 30x Mar-22 (given higher salience of international business) and derived a TP of Rs 529. Given sharp share price recovery in last fortnight leaving limited upside now, we initiate coverage on the stock with REDUCE rating.

- Covid-19 is expected to impact hair care portfolio in the domestic business in FY21 while HI and soaps can see more demand. Soaps and HI will return to growth as the focus on hygiene intensifies. Govt initiatives have advised people to wash their hands with soap with a high frequency. GCPL can capitalize on this trend as the co has a strong presence in soaps. Consumers staying at home will also increase consumption of HI. Hair colours will be impacted as personal care category will see more pressure.
- International business (~45% of mix) can see more headwinds as Covid-19 has impacted most countries in the world. Therefore, international revenues are at risk for FY21.
- Domestic business has seen deceleration over the last 2 years. HI category has struggled as incense sticks have gained market share. Co is taking various steps in order to spread awareness about the harm caused by such incense sticks and to promote safer alternatives like coils. 9MFY20 has seen an uptick in volumes for the co driven by new product launches, effective marketing campaigns and consumer offers.
- International biz has been disappointing in 9MFY20, with Indonesia being the only major geography posting growth. Co has also focused on category expansion. We expect international growth will be tepid in FY21.

Benign raw material inflation can lead into margin expansion. However, product and geography mix will be critical for margin expansion. Cost control initiatives and ASP rationalization can support margin for FY21/22.

- We build our estimates under the assumption that the impact of Covid-19 will extend beyond 1QFY21. We expect Revenue/EBITDA/APAT CAGR of 6/8/10% respectively over FY20E-22E.

### Financial Summary

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenue	98,474	103,143	99,271	104,920	112,705
EBITDA	20,671	21,176	21,935	23,698	25,867
APAT	14,866	14,602	14,819	16,221	17,997
EPS (Rs)	14.6	14.3	14.5	15.9	17.6
P/E (x)	40.9	41.6	41.0	37.5	33.8
EV/EBITDA (x)	32.6	29.3	29.2	28.1	25.9
Core RoCE (%)	21.4	28.1	18.5	20.0	22.1

Source: Company, HDFC sec Inst Research

## INSTITUTIONAL RESEARCH

### REDUCE

CMP (as on 09 Apr 2020)	Rs 595
Target Price	Rs 529
NIFTY	9,112

KEY CHANGES	OLD	NEW
Rating	NA	ADD
Price Target	NA	Rs 529
EPS %	FY21E	FY22E
	NA	NA

### KEY STOCK DATA

Bloomberg code	GCPL IN
No. of Shares (mn)	1,022
MCap (Rs bn) / (\$ mn)	608/7,973
6m avg traded value (Rs mn)	901
52 Week high / low	Rs 772/425

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(17.8)	(11.6)	(10.5)
Relative (%)	7.0	6.8	9.5

### SHAREHOLDING PATTERN (%)

	Dec-19	Sep-19
Promoters	63.24	63.24
FIs & Local MFs	2.22	2.24
FPIs	27.74	27.78
Public & Others	6.80	6.74
Pledged Shares	0.00	0.00

Source : BSE

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### Key Assumptions

Particulars	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Revenue Growth (%)</b>								
<b>Domestic</b>								
Home Care	11	13	3	(5)	(0)	(3)	8	7
Personal wash	20	3	(2)	15	5	(5)	11	7
Hair Care	14	9	4	3	8	(7)	6	7
Others	12	16	37	21	24	7	3	10
Exports	36	(4)	2	19	12	(1)	(0)	11
<b>Total</b>	<b>15</b>	<b>9</b>	<b>4</b>	<b>-</b>	<b>6</b>	<b>(3)</b>	<b>8</b>	<b>7</b>
<b>International</b>								
Indonesia	6	3	3	(11)	13	10	5	8
GUAM	18	17	43	10	12	(5)	0	7
Others	1	12	(20)	2	(33)	(29)	0	9
<b>Total</b>	<b>8</b>	<b>10</b>	<b>8</b>	<b>1</b>	<b>1</b>	<b>(5)</b>	<b>3</b>	<b>8</b>
Gross Margin (%)	53.6	54.1	55.4	56.6	55.8	57.3	57.9	58.1
ASP Expense	14.6	7.9	7.7	8.2	8.1	7.7	7.6	7.7
Distribution Expenses	1.7	1.1	1.3	1.2	1.3	1.4	1.4	1.5
EBITDA Margin (%)	16.5	19.4	20.5	21.0	20.5	22.1	22.6	23.0
Tax Rate (%)	21.8	28.8	22.5	19.9	(12.3)	21.0	22.0	22.0
NPM (%)	11.1	14.3	14.5	15.1	14.2	14.9	15.5	16.0

### Recent Performance

Particulars (Rs mn)	Dec-19	Dec-18	YoY (%)	Sep-19	QoQ (%)
<b>Revenue</b>					
India	15,239	15,056	1.2%	15,213	0.2%
Indonesia	4,482	3,955	13.3%	4,262	5.2%
Africa	6,787	6,802	-0.2%	5,912	14.8%
Others	1,611	1,665	-3.2%	1,277	26.2%
<b>Total</b>	<b>27,781</b>	<b>27,219</b>	<b>2.1%</b>	<b>26,302</b>	<b>5.6%</b>
<b>Revenue Mix</b>					
India	55%	55%	-46bps	58%	-299bps
Indonesia	16%	15%	160bps	16%	-7bps
Africa	24%	25%	-56bps	22%	195bps
Others	6%	6%	-32bps	5%	94bps
Inter segment	-1%	-1%	-26bps	-1%	16bps
<b>Total</b>	<b>100%</b>	<b>100%</b>		<b>100%</b>	
<b>EBIT (Rs mn)</b>					
India	4,426	4,434	-0.2%	4,016	10.2%
Indonesia	1,124	922	21.9%	1,057	6.3%
Africa	600	713	-15.9%	504	19.0%
Others	7	(81)	-108.8%	37	-80.6%
Inter segment	(105)	(101)	5%	(107)	-1.2%
<b>Total</b>	<b>6,051</b>	<b>5,887</b>	<b>2.8%</b>	<b>5,507</b>	<b>9.9%</b>
<b>EBIT Mix (%)</b>					
India	73%	75%	-218bps	73%	22bps
Indonesia	19%	16%	291bps	19%	-62bps
Africa	10%	12%	-220bps	9%	76bps
Others	0%	-1%	150bps	1%	-56bps
Inter segment	-2%	-2%	-3bps	-2%	20bps
<b>Total</b>	<b>100%</b>	<b>100%</b>		<b>100%</b>	
<b>EBIT Margin (%)</b>					
India	29%	29%	-40bps	26%	265bps
Indonesia	25%	23%	176bps	25%	27bps
Africa	9%	10%	-164bps	9%	31bps
Others	0%	-5%	534bps	3%	-247bps
<b>Total</b>	<b>22%</b>	<b>22%</b>	<b>16bps</b>	<b>21%</b>	<b>84bps</b>

Source: Company, HDFC sec Inst Research



## Financials

### Income Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>82,764</b>	<b>84,239</b>	<b>92,679</b>	<b>98,474</b>	<b>103,143</b>	<b>99,271</b>	<b>104,920</b>	<b>112,705</b>
Growth (%)	8.9	8.4	10.0	6.3	4.7	(3.8)	5.7	7.4
Material Expenses	38,415	38,672	41,325	42,744	45,543	42,363	44,214	47,178
Employee Expense	7,770	9,441	9,885	10,574	10,909	10,815	11,660	12,593
ASP Expense	12,066	6,694	7,181	8,103	8,393	7,621	7,936	8,625
Distribution Expenses	1,373	956	1,214	1,161	1,314	1,379	1,517	1,669
Other expenses	9,457	12,117	14,097	15,222	15,809	15,158	15,894	16,773
<b>EBITDA</b>	<b>13,684</b>	<b>16,358</b>	<b>18,977</b>	<b>20,671</b>	<b>21,176</b>	<b>21,935</b>	<b>23,698</b>	<b>25,867</b>
EBITDA Growth (%)	18.3	19.5	16.0	8.9	2.4	3.6	8.0	9.2
EBITDA Margin (%)	16.5	19.4	20.5	21.0	20.5	22.1	22.6	23.0
Depreciation	908	1,006	1,416	1,557	1,700	1,938	2,028	2,120
<b>EBIT</b>	<b>12,776</b>	<b>15,352</b>	<b>17,562</b>	<b>19,114</b>	<b>19,476</b>	<b>19,997</b>	<b>21,670</b>	<b>23,747</b>
Other Income (Including EO Items)	915	839	753	1,076	1,088	954	981	1,072
Interest	1,032	1,190	1,452	1,607	2,243	2,342	1,873	1,768
<b>PBT</b>	<b>12,487</b>	<b>11,666</b>	<b>16,863</b>	<b>20,378</b>	<b>20,847</b>	<b>18,447</b>	<b>20,777</b>	<b>23,051</b>
Tax	2,723	3,361	3,792	4,047	(2,562)	3,874	4,571	5,071
<b>RPAT</b>	<b>9,070</b>	<b>8,306</b>	<b>13,080</b>	<b>16,342</b>	<b>23,415</b>	<b>14,586</b>	<b>16,221</b>	<b>17,997</b>
adjustment	(134)	(2,374)	1	1,439	2,836	(1,230)	-	-
<b>Adjusted PAT</b>	<b>9,205</b>	<b>12,016</b>	<b>13,469</b>	<b>14,866</b>	<b>14,602</b>	<b>14,819</b>	<b>16,221</b>	<b>17,997</b>
APAT Growth (%)	21.1	30.5	12.1	10.4	(1.8)	1.5	9.5	10.9
Adjusted EPS (Rs)	9.0	11.8	13.2	14.6	14.3	14.5	15.9	17.6
EPS Growth (%)	21.1	30.5	12.1	10.4	(1.8)	1.5	9.5	10.9

### Balance Sheet

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>								
Share Capital - Equity	340	341	341	681	1,022	1,022	1,022	1,022
Reserves	36,956	42,329	52,679	61,902	71,647	72,181	72,928	76,113
<b>Total Shareholders Funds</b>	<b>37,296</b>	<b>42,670</b>	<b>53,020</b>	<b>62,583</b>	<b>72,669</b>	<b>73,203</b>	<b>73,950</b>	<b>77,135</b>
Minority Interest	7	100	-	-	-	-	-	-
Long Term Debt	20,230	24,490	31,083	23,803	26,048	25,048	23,048	22,048
Short Term Debt	1,467	1,819	2,326	1,543	2,709	2,709	2,709	2,709
<b>Total Debt</b>	<b>21,697</b>	<b>26,309</b>	<b>33,408</b>	<b>25,347</b>	<b>28,757</b>	<b>27,757</b>	<b>25,757</b>	<b>24,757</b>
Net Deferred Taxes	1,296	1,362	1,898	1,946	(4,728)	(4,728)	(4,728)	(4,728)
Long Term Provisions & Others	328	1,020	9,929	8,546	3,301	3,301	3,301	3,301
<b>TOTAL SOURCES OF FUNDS</b>	<b>60,624</b>	<b>71,460</b>	<b>98,254</b>	<b>98,421</b>	<b>99,999</b>	<b>99,533</b>	<b>98,280</b>	<b>100,465</b>
<b>APPLICATION OF FUNDS</b>								
<b>Net Block</b>	<b>15,115</b>	<b>17,912</b>	<b>34,227</b>	<b>35,979</b>	<b>37,534</b>	<b>36,596</b>	<b>36,568</b>	<b>36,448</b>
CWIP	2,177	415	951	821	509	509	509	509
Other Non-current Assets	2,309	2,109	3,819	2,961	2,100	2,100	2,100	2,100
<b>Total Non-current Assets</b>	<b>19,600</b>	<b>20,436</b>	<b>38,996</b>	<b>39,761</b>	<b>40,143</b>	<b>39,205</b>	<b>39,177</b>	<b>39,057</b>
<b>Goodwill</b>	<b>40,464</b>	<b>41,424</b>	<b>46,626</b>	<b>47,189</b>	<b>49,180</b>	<b>49,180</b>	<b>49,180</b>	<b>49,180</b>
Inventories	10,717	13,070	14,125	15,777	15,586	15,093	15,952	17,135
Debtors	8,046	11,180	10,287	12,455	12,929	12,444	13,152	14,128
Other Current Assets	1,527	1,595	3,424	5,296	4,609	4,437	4,688	5,033
Cash & Equivalents	10,532	9,083	15,945	18,160	13,760	14,023	12,963	15,497
<b>Total Current Assets</b>	<b>30,822</b>	<b>34,928</b>	<b>43,781</b>	<b>51,688</b>	<b>46,884</b>	<b>45,997</b>	<b>46,755</b>	<b>51,793</b>
Creditors	14,676	14,851	17,239	23,531	25,399	24,445	25,836	27,753
Other Current Liabilities & Provns	15,587	10,476	13,909	16,685	10,810	10,404	10,996	11,812
<b>Total Current Liabilities</b>	<b>30,263</b>	<b>25,327</b>	<b>31,148</b>	<b>40,216</b>	<b>36,208</b>	<b>34,849</b>	<b>36,832</b>	<b>39,565</b>
<b>Net Current Assets</b>	<b>559</b>	<b>9,601</b>	<b>12,632</b>	<b>11,471</b>	<b>10,676</b>	<b>11,148</b>	<b>9,922</b>	<b>12,228</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>60,624</b>	<b>71,460</b>	<b>98,254</b>	<b>98,421</b>	<b>99,999</b>	<b>99,533</b>	<b>98,280</b>	<b>100,465</b>

Source: Company, HDFC sec Inst Research

## Cash Flow Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	12,659	15,002	16,871	18,582	18,321	18,447	20,777	23,051
Non-operating & EO Items	(749)	(510)	(269)	(287)	(456)	162	-	-
Interest Expenses	1,002	1,190	1,452	1,607	2,243	2,342	1,873	1,768
Depreciation	908	1,006	1,416	1,557	1,700	1,938	2,028	2,120
Working Capital Change	(721)	(4,645)	3,406	(155)	6	(209)	166	228
Tax Paid	(2,573)	(3,360)	(4,073)	(3,928)	(4,351)	(3,874)	(4,571)	(5,071)
<b>OPERATING CASH FLOW ( a )</b>	<b>10,525</b>	<b>8,683</b>	<b>18,803</b>	<b>17,377</b>	<b>17,463</b>	<b>18,806</b>	<b>20,273</b>	<b>22,096</b>
Capex	(2,126)	(2,081)	(1,803)	(3,115)	(2,077)	(1,000)	(2,000)	(2,000)
Free Cash Flow (FCF)	8,399	6,601	17,000	14,262	15,385	17,806	18,273	20,096
Investments & Acquisition	(10,541)	(4,369)	(20,303)	(948)	3,672	(500)	(500)	(500)
Non-operating Income	307	428	408	665	921	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(12,360)</b>	<b>(6,023)</b>	<b>(21,698)</b>	<b>(3,398)</b>	<b>2,516</b>	<b>(1,500)</b>	<b>(2,500)</b>	<b>(2,500)</b>
Debt Issuance/(Repaid)	3,180	1,417	10,243	(4,876)	(3,447)	(1,000)	(2,000)	(1,000)
Interest Expenses	(1,189)	(1,188)	(1,241)	(1,578)	(2,147)	(2,342)	(1,873)	(1,768)
FCFE	10,390	6,831	26,003	7,808	9,792	14,464	14,400	17,328
Share Capital Issuance	-	0	0	(7)	(7)	-	-	-
Dividend	(2,111)	(2,254)	(2,357)	(7,379)	(14,786)	(14,284)	(15,475)	(14,812)
Others	-	-	-	-	-	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(120)</b>	<b>(2,025)</b>	<b>6,647</b>	<b>(13,840)</b>	<b>(20,387)</b>	<b>(17,627)</b>	<b>(19,348)</b>	<b>(17,580)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(1,955)</b>	<b>636</b>	<b>3,752</b>	<b>139</b>	<b>(409)</b>	<b>(321)</b>	<b>(1,575)</b>	<b>2,017</b>
EO Items, Others	(258)	(209)	(201)	(154)	(180)	-	-	-
Closing Cash & Equivalents	1,672	2,098	5,649	5,633	5,044	4,723	3,149	5,165

## Key Ratios

Year End (March)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>								
GPM	53.6	54.1	55.4	56.6	55.8	57.3	57.9	58.1
EBITDA Margin	16.5	19.4	20.5	21.0	20.5	22.1	22.6	23.0
EBIT Margin	16.5	19.2	19.8	20.5	19.9	21.1	21.6	22.0
APAT Margin	11.1	14.3	14.5	15.1	14.2	14.9	15.5	16.0
RoE	24.5	30.1	28.2	25.7	21.6	20.3	22.0	23.8
RoIC (or Core RoCE)	21.4	20.5	20.5	21.4	28.1	18.5	20.0	22.1
RoCE	17.5	19.9	17.5	16.8	17.0	16.0	17.1	18.6
<b>EFFICIENCY</b>								
Tax Rate (%)	21.8	28.8	22.5	19.9	(12.3)	21.0	22.0	22.0
Fixed Asset Turnover (x)	8.4	4.5	2.6	2.5	2.5	2.3	2.3	2.4
Inventory (days)	47.5	51.5	53.6	55.4	55.5	55.5	55.5	55.5
Debtors (days)	35.5	48.4	40.5	46.2	45.8	45.8	45.8	45.8
Other Current Assets (days)	6.7	6.9	13.5	19.6	16.3	16.3	16.3	16.3
Payables (days)	64.7	64.3	67.9	87.2	89.9	89.9	89.9	89.9
Other Current Liab & Provsns (days)	68.7	45.4	54.8	61.8	38.3	38.3	38.3	38.3
Cash Conversion Cycle (days)	(43.8)	(2.9)	(15.1)	(27.9)	(10.6)	(10.6)	(10.6)	(10.6)
Net D/E (x)	0.3	0.4	0.3	0.1	0.2	0.2	0.2	0.1
<b>PER SHARE DATA (Rs)</b>								
EPS	9.0	11.8	13.2	14.6	14.3	14.5	15.9	17.6
CEPS	9.9	12.7	14.6	16.1	16.0	16.4	17.9	19.7
Dividend	5.5	5.8	15.0	9.0	12.0	13.0	14.5	16.0
Book Value	36.5	41.8	51.9	61.3	71.1	71.7	72.4	75.5
<b>VALUATION</b>								
P/E (x)	66.0	50.6	45.1	40.9	41.6	41.0	37.5	33.8
P/BV (x)	16.3	14.2	11.5	9.7	8.4	8.3	8.2	7.9
EV/EBITDA (x)	53.2	45.1	38.1	32.6	29.3	29.2	28.1	25.9
EV/Revenues (x)	7.5	7.4	6.7	6.2	6.0	6.2	5.9	5.4
OCF/EV (%)	1.7	1.4	3.0	2.8	2.8	3.1	3.3	3.6
FCF/EV (%)	1.4	1.1	2.7	2.4	2.5	2.9	3.0	3.3
FCFE/Mkt Cap (%)	1.7	1.1	4.3	1.3	1.6	2.4	2.4	2.9
Dividend Yield (%)	0.9	1.0	2.5	1.5	2.0	2.2	2.4	2.7

Source: Company, HDFC sec Inst Research

# United Spirits

INSTITUTIONAL RESEARCH

## Improving core but headwinds ahead

UNSP has maintained its market leadership despite liquor sector witnessing several headwinds in FY20. Premiumisation was visible in 3QFY20, but it was not sustainable in Jan-Feb. Covid-19 will further disrupt the demand and premium segment can see pressure in FY21. Benign raw material prices (ENA down by 4%) and continued cost control initiatives can deliver healthy EBITDA margin in FY21. We cut EPS estimate by 13/14% for FY21/FY22E. With rising state fiscal deficits, there is a high chance of sharper tax increase on liquor (mostly 2HFY21 onwards). Thereby we cut valuation multiple to 35x P/E as compared to 44x earlier. Our TP is at Rs 586, downgrade from BUY to ADD.

- The disruption caused by Covid-19 is expected to impact premium segment of the liquor industry. However, the overall impact is likely to be less adverse than for other industries. In the ongoing lock-down, states like Punjab and Kerala have included alcohol in essential commodities. Hence, UNSP could see the benefit of this inclusion in the near term.
- Before the lock-down, the industry continued to face a challenging demand environment. Pan India growth for liquor was 1.5% in 3QFY20. Due to the disruption caused by Covid-19, this could dip to zero or negative growth in 4QFY20. UNSP was also seeing deceleration in P&A growth as compared to growth witnessed in 3QFY20.
- The effect of the economic jolt delivered by Covid-19 will, in part, be felt by the liquor industry as consumption of premium scotch is likely to take a hit once situation normalizes. Consumers could cut back on discretionary spending which could see them downtrade in their liquor preferences. UNSP will also face a challenge due to the decline in tourism in the country.
- On a positive note, ENA prices have dipped to Rs ~60/ltr from their peak of Rs 62/ltr in November 2019. The sugar crop in October 2019 was weak, which saw ENA prices peak in November 2019. However, the sugar crop in October 2020 is expected to be strong. Hence, ENA inflation is expected to remain benign in 1HFY21, and ENA prices could see a decline in 2HFY20.
- Co has enjoyed healthy EBITDAM expansion of 439bps over the last 8 quarters due to the premiumisation trend and focus on cost rationalization. The decline in premiumisation could dent the margin expansion trajectory for the co. MGT stated that GM expansion will continue aided by the dip in ENA prices. However, such expansion will be gradual.

### Financial Summary

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenue	81,701	89,806	92,908	96,556	104,055
EBITDA	10,215	13,234	15,209	16,359	18,368
APAT	5,527	6,883	8,636	9,937	11,698
EPS (Rs)	7.6	9.5	11.9	13.7	16.1
P/E (x)	72.3	58.1	46.3	40.2	34.2
EV/EBITDA (x)	42.2	32.1	27.4	25.0	21.8
Core RoCE (%)	10.8	15.0	17.9	19.1	20.8

Source: Company, HDFC sec Inst Research

ADD

CMP (as on 09 Apr 2020)	Rs 550
Target Price	Rs 586
NIFTY	9,112

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	Rs 827	Rs 586
EPS %	FY21E	FY22E
	-13%	-14%

### KEY STOCK DATA

Bloomberg code	UNSP IN
No. of Shares (mn)	727
MCap (Rs bn) / (\$ mn)	400/5,247
6m avg traded value (Rs mn)	1,249
52 Week high / low	Rs 743/443

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(6.9)	(11.4)	1.2
Relative (%)	17.9	7.0	21.2

### SHAREHOLDING PATTERN (%)

	Dec-19	Sep-19
Promoters	56.80	56.80
FIs & Local MFs	6.00	6.20
FPIs	22.40	22.40
Public & Others	14.80	14.60
Pledged Shares	1.37	1.37

Source : BSE

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### Key Assumptions

Particulars (Rs mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Revenues (Rs mn)</b>							
- P&A	45,037	49,960	51,280	59,090	61,250	65,372	71,883
- Popular	36,848	34,330	28,830	28,810	28,187	28,861	29,733
<b>Total</b>	<b>81,885</b>	<b>84,290</b>	<b>80,110</b>	<b>87,900</b>	<b>89,436</b>	<b>94,233</b>	<b>101,615</b>
<b>Revenues Mix (%)</b>							
- P&A	55	59	64	67	68	69	71
- Popular	45	41	36	33	32	31	29
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Volumes (Mn Cases)</b>							
- P&A	34	37	37	42	42	44	47
- Popular	59	53	41	40	39	39	40
<b>Total</b>	<b>93</b>	<b>90</b>	<b>79</b>	<b>82</b>	<b>81</b>	<b>83</b>	<b>87</b>
<b>Volume mix (%)</b>							
- P&A	37	41	47	51	52	53	54
- Popular	63	59	53	49	48	47	46
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Unit Realization/Case (Rs)</b>							
- P&A	1,317	1,358	1,378	1,420	1,442	1,493	1,545
- Popular	626	644	698	720	723	734	742
<b>Average (Rs)</b>	<b>880</b>	<b>936</b>	<b>1,021</b>	<b>1,077</b>	<b>1,098</b>	<b>1,134</b>	<b>1,173</b>

### Recent Performance

Revenue (Rs mn)	1QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Prestige & Above	10,950	14,290	13,400	13,090	15,060	16,510	14,430	14,230	15,020	17,880
Popular	6,490	7,980	7,780	6,290	7,110	7,760	7,650	6,430	7,010	7,370
<b>Net Revenue</b>	<b>17,440</b>	<b>22,270</b>	<b>21,180</b>	<b>19,380</b>	<b>22,170</b>	<b>24,270</b>	<b>22,080</b>	<b>20,660</b>	<b>22,030</b>	<b>25,250</b>
Other operating revenue	378	363	557	708	79	699	420	1,524	932	570
<b>Total</b>	<b>17,818</b>	<b>22,633</b>	<b>21,737</b>	<b>20,088</b>	<b>22,249</b>	<b>24,969</b>	<b>22,500</b>	<b>22,184</b>	<b>22,962</b>	<b>25,820</b>
<b>Revenue Mix (%)</b>										
Prestige & Above	62.8%	64.2%	63.3%	67.5%	67.9%	68.0%	65.4%	68.9%	68.2%	70.8%
Popular	37.2%	35.8%	36.7%	32.5%	32.1%	32.0%	34.6%	31.1%	31.8%	29.2%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Revenue Growth (YoY %)</b>										
Prestige & Above	(8.1)	(2.8)	12.7	19.5	19.1	15.5	7.7	8.7	(0.3)	8.3
Popular	(20.4)	(15.8)	(5.8)	(3.1)	8.1	(2.8)	(1.7)	2.2	(1.4)	(5.0)
Other operating revenue	12.8	(2.7)	(0.5)	87.3	(73.0)	92.6	(24.6)	115.3	1,079.7	(18.5)
<b>Total</b>	<b>(12.7)</b>	<b>(7.8)</b>	<b>5.0</b>	<b>12.7</b>	<b>14.0</b>	<b>10.3</b>	<b>3.5</b>	<b>10.4</b>	<b>(0.6)</b>	<b>4.0</b>
<b>Volumes (Mn Cases)</b>										
Prestige & Above	8.4	9.9	9.8	9.5	10.5	11.1	10.5	10.3	10.8	11.4
Popular	9.6	11.2	11.1	8.7	9.9	10.8	10.6	9.0	9.8	10.1
<b>Total</b>	<b>18.0</b>	<b>21.1</b>	<b>20.9</b>	<b>18.2</b>	<b>20.4</b>	<b>21.9</b>	<b>21.1</b>	<b>19.3</b>	<b>20.6</b>	<b>21.5</b>
<b>Volume Mix (%)</b>										
Prestige & Above	46.7%	46.9%	46.9%	52.2%	51.5%	50.7%	49.8%	53.4%	52.4%	53.0%
Popular	53.3%	53.1%	53.1%	47.8%	48.5%	49.3%	50.2%	46.6%	47.6%	47.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Volume Growth (%)</b>										
Prestige & Above	(9.7)	(2.0)	15.3	13.1	15.4	12.1	7.1	8.4	2.9	2.7
Popular	(25.6)	(22.2)	(14.0)	(9.4)	5.3	(3.6)	(4.5)	3.4	(1.0)	(6.5)
<b>Total</b>	<b>(18.9)</b>	<b>(13.9)</b>	<b>(2.3)</b>	<b>1.1</b>	<b>10.3</b>	<b>3.8</b>	<b>1.0</b>	<b>6.0</b>	<b>1.0</b>	<b>(1.8)</b>
<b>Unit Realization/Case (Rs)</b>										
Prestige & Above	1,304	1,443	1,367	1,378	1,434	1,487	1,374	1,382	1,391	1,568
Popular	676	713	701	723	718	719	722	714	715	730
<b>Total</b>	<b>969</b>	<b>1,055</b>	<b>1,013</b>	<b>1,065</b>	<b>1,087</b>	<b>1,108</b>	<b>1,046</b>	<b>1,070</b>	<b>1,069</b>	<b>1,174</b>
<b>Gross Profit/Case (Rs)</b>	<b>465</b>	<b>522</b>	<b>519</b>	<b>567</b>	<b>561</b>	<b>554</b>	<b>496</b>	<b>544</b>	<b>501</b>	<b>533</b>
<b>EBITDA/Case (Rs)</b>	<b>87</b>	<b>129</b>	<b>131</b>	<b>131</b>	<b>217</b>	<b>164</b>	<b>134</b>	<b>206</b>	<b>202</b>	<b>197</b>

Source: Company, HDFC sec Inst Research

## Financials

### Income Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>84,720</b>	<b>82,481</b>	<b>85,936</b>	<b>81,701</b>	<b>89,806</b>	<b>92,908</b>	<b>96,556</b>	<b>104,055</b>
<i>Growth (%)</i>		(2.6)	4.2	(4.9)	9.9	3.5	3.9	7.8
Raw Material Expenses	49,178	48,484	48,844	41,980	45,441	50,701	51,734	55,224
Employee Expenses	6,371	6,428	6,674	6,601	6,393	5,622	6,148	6,578
Other Operating Expenses	22,756	18,714	20,259	22,905	24,738	21,376	22,316	23,884
<b>Total Operating Expenses</b>	<b>78,305</b>	<b>73,625</b>	<b>75,778</b>	<b>71,486</b>	<b>76,572</b>	<b>77,699</b>	<b>80,197</b>	<b>85,686</b>
<b>EBITDA</b>	<b>6,415</b>	<b>8,856</b>	<b>10,159</b>	<b>10,215</b>	<b>13,234</b>	<b>15,209</b>	<b>16,359</b>	<b>18,368</b>
<i>EBITDA Margin (%)</i>	<i>7.6</i>	<i>10.7</i>	<i>11.8</i>	<i>12.5</i>	<i>14.7</i>	<i>16.4</i>	<i>16.9</i>	<i>17.7</i>
<i>EBITDA Growth (%)</i>	<i>(13.7)</i>	<i>38.0</i>	<i>14.7</i>	<i>0.6</i>	<i>29.6</i>	<i>14.9</i>	<i>7.6</i>	<i>12.3</i>
Depreciation	1,124	1,015	1,324	1,351	1,445	2,126	2,170	2,259
EBIT	5,291	7,841	8,835	8,864	11,789	13,083	14,189	16,110
Other Income (Including EO Items)	1,600	848	1,111	2,060	622	539	574	614
Interest	5,930	4,469	3,690	2,611	2,200	1,862	1,484	1,091
PBT	961	4,220	6,256	8,313	10,211	11,760	13,279	15,633
Tax (Incl Deferred)	283	1,934	1,839	2,786	3,328	3,116	3,342	3,935
<b>RPAT</b>	<b>(18,778)</b>	<b>1,006</b>	<b>1,687</b>	<b>5,617</b>	<b>6,586</b>	<b>8,623</b>	<b>9,937</b>	<b>11,698</b>
EO (Loss) / Profit (Net Of Tax)	(19,456)	(1,280)	(2,730)	90	(297)	13	-	-
<b>Adjusted PAT</b>	<b>678</b>	<b>2,286</b>	<b>4,416</b>	<b>5,527</b>	<b>6,883</b>	<b>8,636</b>	<b>9,937</b>	<b>11,698</b>
<i>APAT Growth (%)</i>		237.2	93.2	25.1	24.5	25.5	15.1	17.7
<b>Adjusted EPS (Rs)</b>	<b>0.9</b>	<b>3.1</b>	<b>6.1</b>	<b>7.6</b>	<b>9.5</b>	<b>11.9</b>	<b>13.7</b>	<b>16.1</b>
<i>EPS Growth (%)</i>		237.2	93.2	25.1	24.5	25.5	15.1	17.7

### Balance Sheet

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>								
Share Capital	1,453	1,453	1,453	1,453	1,453	1,453	1,453	1,453
Reserves	14,382	15,687	17,925	23,585	29,862	38,485	48,422	60,120
<b>Total Shareholders Funds</b>	<b>15,835</b>	<b>17,140</b>	<b>19,378</b>	<b>25,038</b>	<b>31,315</b>	<b>39,938</b>	<b>49,875</b>	<b>61,573</b>
Long Term Debt	10,470	7,057	8,569	7,527	7,643	6,497	4,872	3,654
Short Term Debt	38,109	34,941	31,772	25,127	18,246	14,613	8,811	5,325
<b>Total Debt</b>	<b>48,579</b>	<b>41,998</b>	<b>40,341</b>	<b>32,654</b>	<b>25,889</b>	<b>21,109</b>	<b>13,683</b>	<b>8,980</b>
Other Non current liabilities	912	767	422	512	518	570	627	689
<b>TOTAL SOURCES OF FUNDS</b>	<b>65,326</b>	<b>59,905</b>	<b>60,141</b>	<b>58,204</b>	<b>57,722</b>	<b>61,618</b>	<b>64,185</b>	<b>71,243</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	11,339	13,211	12,723	11,001	12,453	12,034	11,644	11,221
Investments in subsidiaries	10,632	9,831	3,238	2,775	2,984	2,835	2,693	2,558
Other non-current assets	16,813	7,886	15,161	18,589	22,114	23,241	24,534	26,008
<b>Total Non-current Assets</b>	<b>38,784</b>	<b>30,928</b>	<b>31,122</b>	<b>32,365</b>	<b>37,551</b>	<b>38,109</b>	<b>38,871</b>	<b>39,788</b>
Inventories	16,868	18,999	18,538	18,694	18,767	19,600	20,105	21,381
Debtors	16,510	23,140	29,605	26,998	25,181	26,051	27,074	29,078
Other Current Assets	9,645	8,654	7,861	5,738	4,536	4,693	4,877	5,345
<b>Total Current Assets</b>	<b>43,023</b>	<b>50,793</b>	<b>56,004</b>	<b>51,430</b>	<b>48,484</b>	<b>50,343</b>	<b>52,055</b>	<b>55,804</b>
Creditors	8,716	10,018	11,798	13,935	13,360	13,822	14,020	14,824
Other Current Liabilities	9,953	12,002	16,026	14,271	15,541	16,216	16,993	18,370
<b>Total Current Liabilities</b>	<b>18,669</b>	<b>22,020</b>	<b>27,824</b>	<b>28,206</b>	<b>28,901</b>	<b>30,037</b>	<b>31,014</b>	<b>33,194</b>
<b>Net Current Assets</b>	<b>24,354</b>	<b>28,773</b>	<b>28,180</b>	<b>23,224</b>	<b>19,583</b>	<b>20,306</b>	<b>21,042</b>	<b>22,610</b>
Cash & Equivalents	2,187	138	523	1,198	588	3,202	4,272	8,845
Assets classified as held for sale	1	66	316	1,417	-	-	-	-
<b>TOTAL APPLICATION OF FUNDS</b>	<b>65,326</b>	<b>59,905</b>	<b>60,141</b>	<b>58,204</b>	<b>57,722</b>	<b>61,618</b>	<b>64,185</b>	<b>71,243</b>

Source: Company, HDFC sec Inst Research

**Cash Flow Statement**

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
PBT	961	4,220	6,256	8,313	10,211	11,760	13,279	15,633
Non-operating & EO Items	(1,600)	(848)	(1,111)	(2,060)	(622)	(539)	(574)	(614)
Interest	5,930	4,469	3,690	2,611	2,200	1,862	1,484	1,091
Depreciation	1,124	1,015	1,324	1,351	1,445	2,126	2,170	2,259
Working Capital Change	(2,603)	(4,419)	593	4,956	3,641	(723)	(736)	(1,569)
Tax Paid	(283)	(1,934)	(1,839)	(2,786)	(3,328)	(3,116)	(3,342)	(3,935)
<b>OPERATING CASH FLOW ( a )</b>	<b>3,529</b>	<b>2,503</b>	<b>8,912</b>	<b>12,385</b>	<b>13,547</b>	<b>11,370</b>	<b>12,281</b>	<b>12,865</b>
Capex	(85)	(2,887)	(836)	371	(2,897)	(1,707)	(1,780)	(1,835)
Free cash flow (FCF)	3,444	(384)	8,077	12,756	10,650	9,662	10,501	11,030
Investments	17,877	9,518	(1,277)	(3,976)	(2,311)	(926)	(1,095)	(1,277)
Non-operating Income	(17,856)	(431)	(1,618)	2,150	325	552	574	614
<b>INVESTING CASH FLOW ( b )</b>	<b>(63)</b>	<b>6,200</b>	<b>(3,731)</b>	<b>(1,455)</b>	<b>(4,883)</b>	<b>(2,081)</b>	<b>(2,301)</b>	<b>(2,498)</b>
Debt Issuance/(Repaid)	2,004	(6,581)	(1,657)	(7,687)	(6,765)	(4,780)	(7,426)	(4,704)
Interest Expenses	(5,930)	(4,469)	(3,690)	(2,611)	(2,200)	(1,862)	(1,484)	(1,091)
FCFE	(3,989)	(4,851)	(9,078)	(11,753)	(13,848)	(8,723)	(11,211)	(8,293)
Share Capital Issuance	(0)	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-
Others	(3,532)	299	551	43	(309)	-	0	(0)
<b>FINANCING CASH FLOW ( c )</b>	<b>(7,458)</b>	<b>(10,751)</b>	<b>(4,796)</b>	<b>(10,255)</b>	<b>(9,274)</b>	<b>(6,642)</b>	<b>(8,910)</b>	<b>(5,794)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(3,992)</b>	<b>(2,049)</b>	<b>385</b>	<b>675</b>	<b>(610)</b>	<b>2,647</b>	<b>1,070</b>	<b>4,572</b>
Closing Cash	2,187	138	523	1,198	588	3,235	4,305	8,877

**Key Ratios**

Particulars	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>								
GPM	42.0	41.2	43.2	48.6	49.4	45.4	46.4	46.9
EBITDA Margin	7.6	10.7	11.8	12.5	14.7	16.4	16.9	17.7
EBIT Margin	6.2	9.5	10.3	10.8	13.1	14.1	14.7	15.5
APAT Margin	0.8	2.8	5.1	6.8	7.7	9.3	10.3	11.2
RoE	2.5	13.9	24.2	24.9	24.4	24.2	22.1	21.0
RoIC (or Core RoCE)	5.7	8.6	12.1	10.8	15.0	17.9	19.1	20.8
RoCE	6.2	7.3	10.9	10.5	14.0	16.5	17.5	19.5
<b>EFFICIENCY</b>								
Tax Rate (%)	29.4	45.8	29.4	33.5	32.6	26.5	25.2	25.2
Fixed Asset Turnover (x)	7.5	6.2	6.8	7.4	7.2	7.7	8.3	9.3
Inventory (days)	72.7	84	79	84	76	77	76	75
Debtors (days)	71.1	102	126	121	102	102	102	102
Other current assets (days)	41.6	38	33	26	18	18	18	19
Payables (days)	37.6	44	50	62	54	54	53	52
Other current liabilities (days)	42.9	53	68	64	63	64	64	64
Cash Conversion Cycle (days)	104.9	127	120	104	80	80	80	79
Net Debt/EBITDA (x)	7.2	4.7	3.9	3.1	1.9	1.2	0.6	0.0
Net D/E (x)	2.9	2.4	2.1	1.3	0.8	0.4	0.2	0.0
Interest Coverage (x)	1.1	0.6	0.4	0.3	0.2	0.1	0.1	0.1
<b>PER SHARE DATA (Rs)</b>								
EPS	0.9	3.1	6.1	7.6	9.5	11.9	13.7	16.1
CEPS	2.5	4.5	7.9	9.5	11.5	14.8	16.7	19.2
Dividend	-	-	-	-	-	-	-	-
Book Value	21.8	23.6	26.7	34.5	43.1	55.0	68.7	84.8
<b>VALUATION</b>								
P/E (x)	589.3	174.8	90.5	72.3	58.1	46.3	40.2	34.2
P/BV (x)	25.2	23.3	20.6	16.0	12.8	10.0	8.0	6.5
EV/EBITDA (x)	69.5	49.8	43.3	42.2	32.1	27.4	25.0	21.8
EV/Revenues (x)	5.3	5.4	5.1	5.3	4.7	4.5	4.2	3.8
OCF/EV (%)	0.8	0.6	2.0	2.9	3.2	2.7	3.0	3.2
FCF/EV (%)	0.8	(0.1)	1.8	3.0	2.5	2.3	2.6	2.8
FCFE/Mkt Cap (%)	(1.0)	(1.2)	(2.3)	(2.9)	(3.5)	(2.2)	(2.8)	(2.1)
Dividend Yield (%)	-	-	-	-	-	-	-	-

Source: Company, HDFC sec Inst Research

# Radico Khaitan

## Outperforming sector growth

Radico is the outperformer in 9MFY20 in the liquor industry and growth trends were strong even in 4QFY20. Co clocked ~15% revenue CAGR during the last 8 quarters despite industry growth being in low-mid single digit. High ENA inflation impacted margin during 9MFY20 which can be reversed as ENA prices are moderating. Owing to Covid-19, we cut EPS estimate by 7/6% for FY21/FY22E. Besides, co has been reducing debt and is on track to being debt free by FY22. We value Radico based on P/E of 16x (earlier 20x) Mar-22, and derived a TP of Rs 371. Maintain BUY.

- Due to the lock-down, Radico has shut all operations except the molasses plant in Rampur, as it is being used in the manufacture of hand sanitizers, which is an essential commodity. Currently, Radico is supplying hand sanitizer to multiple players as well state govts. However, co plans to launch its own brand of hand sanitizer in the near term.
- In 4QFY20, Radico's performance has been strong, and overall volume growth is expected to be in double digits, led by a 15% growth in the P&A portfolio. Pre lock-down, co was on track to achieve 18-20% growth. Amid a struggling liquor industry, Radico will continue to gain market share.
- Several Radico brands enjoy market leadership positions such MM Vodka (~55% market share) and Morpheus Brandy (~60% market share). New launches by the co like Jaisalmer Gin and Rampur Whisky have shown good traction. Co is also scaling successful brands such 8PM Premium. Radico currently has 4 millionaire brands (volume > 1mn cases/year), and MGT expects 3 more brands to become millionaire brands in FY21.
- MGT expect to sustain mid-teens growth in FY21 if lockdown doesn't sustain for long. MGT believes that post lock-down, premium scotches will witness downtrading. However, as most of Radico's offerings are in the sub Rs 1000/bottle category, co is expected to be relatively unaffected.
- ENA prices have dipped to Rs ~Rs 59/ltr from their peak of Rs 62/ltr in Nov'19. The sugar crop in Oct'19 was weak, which saw ENA prices peak in Nov'19. However, the sugar crop in Oct'20 is expected to be strong. Hence, ENA inflation is expected to remain benign in FY21. EBITDAM for FY20 is expected to be ~15.5%, due to benign RM as well as premiumisation.
- Debt level for the co is currently higher due to a buildup in debtors in Andhra and CSD. Total debtors currently stand at Rs ~1.7bn and total debt stands at Rs ~3.9bn. MGT expects the debtor level to reduce by Rs ~1.4bn in the near term. MGT expects the co to be debt free by FY22.
- We build our estimates under the assumption that the impact of Covid-19 will extend beyond 1QFY20. We expect Revenue/EBITDA/APAT CAGR of 9/12/20% respectively over FY20E-22E

### Financial Summary

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenue	18,228	20,969	24,113	25,942	28,487
EBITDA	2,698	3,503	3,681	4,113	4,635
APAT	1,235	1,881	2,147	2,601	3,085
EPS (Rs)	9.3	14.1	16.1	19.6	23.2
P/E (x)	33.7	22.1	19.4	16.0	13.5
EV/EBITDA (x)	17.4	12.8	11.8	10.0	8.4
Core RoCE (%)	8.4	11.5	14.9	14.3	15.8

Source: Company, HDFC sec Inst Research

## BUY

CMP (as on 09 Apr 2020)	Rs 313
Target Price	Rs 371
NIFTY	9,112

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 495	Rs 371
EPS %	FY21E	FY22E
	-7%	-6%

### KEY STOCK DATA

Bloomberg code	RDCK IN
No. of Shares (mn)	134
MCap (Rs bn) / (\$ mn)	42/547
6m avg traded value (Rs mn)	197
52 Week high / low	Rs 439/220

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(3.7)	6.5	(18.1)
Relative (%)	21.2	24.9	1.8

### SHAREHOLDING PATTERN (%)

	Dec-19	Sep-19
Promoters	40.4	40.4
FIs & Local MFs	8.1	8.2
FPIs	20.5	20.5
Public & Others	30.9	30.9
Pledged Shares	1.80	1.80

Source : BSE

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## Key Assumptions

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Volumes (Mn Cases)</b>								
P&A	4.04	4.40	4.75	5.05	6.12	7.06	7.69	8.58
Popular	15.44	13.79	13.51	14.45	15.49	17.08	17.81	18.88
<b>Total</b>	<b>19.48</b>	<b>18.19</b>	<b>18.26</b>	<b>19.50</b>	<b>21.61</b>	<b>24.14</b>	<b>25.50</b>	<b>27.46</b>
<b>Growth YoY (%)</b>								
P&A	8.6	8.9	8.0	6.2	21.3	15.4	8.9	11.6
Popular	(7.2)	(10.7)	(2.0)	7.0	7.2	10.3	4.3	6.0
<b>Total</b>	<b>(4.3)</b>	<b>(6.6)</b>	<b>0.4</b>	<b>6.8</b>	<b>10.8</b>	<b>11.7</b>	<b>5.6</b>	<b>7.7</b>
<b>Mix (%)</b>								
P&A	20.7	24.2	26.0	25.9	28.3	29.2	30.2	31.2
Popular	79.3	75.8	74.0	74.1	71.7	70.8	69.8	68.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Realization (Rs/Case)</b>								
P&A	1,255	1,111	1,120	1,202	1,308	1,348	1,375	1,409
Popular	541	510	500	533	561	596	611	626
<b>Total</b>	<b>689</b>	<b>656</b>	<b>661</b>	<b>707</b>	<b>772</b>	<b>816</b>	<b>842</b>	<b>871</b>
<b>Growth YoY (%)</b>								
P&A	2.8	(11.4)	0.8	7.4	8.8	3.0	2.0	2.5
Popular	(2.2)	(5.7)	(2.0)	6.6	5.1	6.3	2.5	2.5
<b>Total</b>	<b>2.1</b>	<b>(4.9)</b>	<b>0.9</b>	<b>6.8</b>	<b>9.3</b>	<b>5.6</b>	<b>3.1</b>	<b>3.5</b>
<b>Revenue (Rs Mn)</b>								
P&A	5,070	4,890	5,319	6,067	8,006	9,517	10,577	12,091
Popular	8,354	7,036	6,759	7,710	8,686	10,184	10,885	11,827
<b>IMFL subtotal</b>	<b>13,424</b>	<b>11,926</b>	<b>12,077</b>	<b>13,776</b>	<b>16,693</b>	<b>19,700</b>	<b>21,462</b>	<b>23,918</b>
Non IMFL	5,041	4,592	4,722	4,453	4,277	4,407	4,480	4,570
<b>Total</b>	<b>18,465</b>	<b>16,518</b>	<b>16,799</b>	<b>18,230</b>	<b>20,969</b>	<b>24,107</b>	<b>25,942</b>	<b>28,487</b>
<b>Growth YoY (%)</b>								
P&A	11.7	(3.6)	8.8	14.1	32.0	18.9	11.1	14.3
Popular	(9.2)	(15.8)	(3.9)	14.1	12.7	17.2	6.9	8.6

## Recent Performance

Particulars	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
<b>Revenue Split (Rs Mn)</b>											
P&A	1,532	1,534	1,664	1,336	2,089	1,973	2,147	1,796	2,544	2,244	2,666
Regular	1,569	1,823	2,076	2,242	2,032	2,054	2,271	2,330	2,444	2,431	2,666
<b>IMFL</b>	<b>3,101</b>	<b>3,357</b>	<b>3,740</b>	<b>3,578</b>	<b>4,121</b>	<b>4,027</b>	<b>4,418</b>	<b>4,127</b>	<b>4,989</b>	<b>4,675</b>	<b>5,332</b>
Non IMFL	1,012	1,125	1,085	1,229	1,043	1,149	1,111	973	1,247	1,026	1,140
<b>Total</b>	<b>4,113</b>	<b>4,482</b>	<b>4,825</b>	<b>4,808</b>	<b>5,164</b>	<b>5,176</b>	<b>5,529</b>	<b>5,100</b>	<b>6,236</b>	<b>5,702</b>	<b>6,473</b>
<b>Rev Growth YoY (%)</b>											
P&A	-	-	-	-	36.4	28.6	29.0	34.4	21.8	13.7	24.2
Regular	-	-	-	-	29.5	12.7	9.4	3.9	20.3	18.4	17.4
IMFL	(4.3)	4.0	23.3	38.8	32.9	20.0	18.1	15.3	21.1	16.1	20.7
Non IMFL	(3.2)	(8.4)	(1.1)	(9.0)	3.1	2.2	2.4	(20.8)	19.6	(10.7)	2.3
<b>Total</b>	<b>(4.0)</b>	<b>0.6</b>	<b>16.8</b>	<b>22.3</b>	<b>25.6</b>	<b>15.5</b>	<b>14.6</b>	<b>6.1</b>	<b>20.8</b>	<b>10.1</b>	<b>17.1</b>
<b>Revenue Mix (%)</b>											
P&A	49.4	45.7	44.5	37.3	50.7	49.0	48.6	43.5	51.0	48.0	50.0
Regular	50.6	54.3	55.5	62.7	49.3	51.0	51.4	56.5	49.0	52.0	50.0
IMFL	75.4	74.9	77.5	74.4	79.8	77.8	79.9	80.9	80.0	82.0	82.4
Non IMFL	24.6	25.1	22.5	25.6	20.2	22.2	20.1	19.1	20.0	18.0	17.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>IMFL Vol (Mn Cases)</b>											
Prestige & Above	1.3	1.3	1.3	1.1	1.7	1.5	1.6	1.4	2.0	1.6	1.9
Regular	3.4	3.4	4.0	3.7	3.9	3.7	4.1	3.8	4.3	4.2	4.6
<b>Total</b>	<b>4.7</b>	<b>4.7</b>	<b>5.3</b>	<b>4.8</b>	<b>5.6</b>	<b>5.2</b>	<b>5.7</b>	<b>5.1</b>	<b>6.3</b>	<b>5.8</b>	<b>6.5</b>
<b>Chg YoY (%)</b>											
Prestige & Above	(1.7)	6.5	11.2	10.7	30.2	14.6	18.4	21.7	16.1	11.3	21.3
Regular	(7.3)	3.5	20.1	13.1	14.7	10.3	3.4	1.6	10.3	10.7	11.1
<b>Total</b>	<b>(5.8)</b>	<b>4.3</b>	<b>17.7</b>	<b>12.5</b>	<b>19.1</b>	<b>11.5</b>	<b>7.2</b>	<b>6.3</b>	<b>12.1</b>	<b>10.9</b>	<b>13.9</b>

Source: Company, HDFC sec Inst Research



## Financials

### Income Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>14,884</b>	<b>16,518</b>	<b>16,799</b>	<b>18,228</b>	<b>20,969</b>	<b>24,113</b>	<b>25,942</b>	<b>28,487</b>
<i>Growth (%)</i>		11.0	1.7	8.5	15.0	15.0	7.6	9.8
RM Costs	7,196	8,938	9,214	9,522	10,283	12,279	13,096	14,282
<b>Gross Profit</b>	<b>7,688</b>	<b>7,580</b>	<b>7,585</b>	<b>8,706</b>	<b>10,687</b>	<b>11,834</b>	<b>12,846</b>	<b>14,205</b>
Employee cost	1,195	1,283	1,403	1,549	1,714	1,873	2,074	2,261
S&D	4,789	1,772	1,979	2,159	2,879	3,148	3,456	3,801
Other Exps	-	2,647	2,082	2,300	2,591	3,131	3,204	3,508
Total Operating Cost	5,984	5,703	5,464	6,008	7,183	8,153	8,734	9,570
<b>EBITDA</b>	<b>1,704</b>	<b>1,877</b>	<b>2,121</b>	<b>2,698</b>	<b>3,503</b>	<b>3,681</b>	<b>4,113</b>	<b>4,635</b>
<i>EBITDA Margin (%)</i>	11.4	11.4	12.6	14.8	16.7	15.3	15.9	16.3
<i>EBITDA Growth (%)</i>		10.2	13.0	27.2	29.9	5.1	11.7	12.7
<b>Adj. EBITDA (IND-AS 116)</b>		<b>1,877</b>	<b>2,121</b>	<b>2,698</b>	<b>3,503</b>	<b>3,605</b>	<b>4,033</b>	<b>4,555</b>
<i>Adj. EBITDA Margin (%)</i>		11.4	12.6	14.8	16.7	15.0	15.5	16.0
Depreciation	383	431	417	409	424	524	552	584
<b>EBIT</b>	<b>1,321</b>	<b>1,446</b>	<b>1,704</b>	<b>2,289</b>	<b>3,079</b>	<b>3,157</b>	<b>3,561</b>	<b>4,051</b>
Interest	899	847	804	682	355	307	215	73
Other Income (Including EO Items)	450	389	196	267	133	110	130	145
<b>PBT</b>	<b>871</b>	<b>987</b>	<b>1,097</b>	<b>1,873</b>	<b>2,857</b>	<b>2,959</b>	<b>3,476</b>	<b>4,123</b>
Tax	195	253	288	638	976	451	875	1,038
<b>RPAT</b>	<b>676</b>	<b>734</b>	<b>809</b>	<b>1,235</b>	<b>1,881</b>	<b>2,508</b>	<b>2,601</b>	<b>3,085</b>
<i>RPAT Growth (%)</i>		8.6	10.1	52.7	52.3	33.4	3.7	18.6
<b>Adjusted PAT</b>	<b>676</b>	<b>734</b>	<b>809</b>	<b>1,235</b>	<b>1,881</b>	<b>2,147</b>	<b>2,601</b>	<b>3,085</b>
<i>APAT Growth (%)</i>		8.6	10.1	52.7	52.3	14.1	21.2	18.6
<b>EPS</b>	<b>5.1</b>	<b>5.5</b>	<b>6.1</b>	<b>9.3</b>	<b>14.1</b>	<b>16.1</b>	<b>19.6</b>	<b>23.2</b>
<i>EPS Growth (%)</i>		8.6	10.1	52.7	52.3	14.1	21.2	18.6

### Balance Sheet

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>								
Share Capital	266	266	266	266	266	266	266	266
Reserves	8,773	9,365	10,033	11,155	12,884	15,167	17,512	20,308
<b>Total Shareholders Funds</b>	<b>9,040</b>	<b>9,631</b>	<b>10,299</b>	<b>11,421</b>	<b>13,150</b>	<b>15,434</b>	<b>17,778</b>	<b>20,575</b>
Long Term Debt	3,210	1,957	1,033	344	217	108	54	-
Short Term Debt	5,886	7,676	6,994	5,597	3,158	2,865	1,490	-
<b>Total Debt</b>	<b>9,096</b>	<b>9,633</b>	<b>8,027</b>	<b>5,941</b>	<b>3,375</b>	<b>2,973</b>	<b>1,544</b>	<b>-</b>
Other Non current liabilities	572	633	784	1,034	1,151	1,277	1,418	1,575
<b>TOTAL SOURCES OF FUNDS</b>	<b>18,708</b>	<b>19,897</b>	<b>19,111</b>	<b>18,395</b>	<b>17,675</b>	<b>19,684</b>	<b>20,740</b>	<b>22,150</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	7,343	7,313	7,060	7,057	7,299	7,469	7,523	7,566
Other Non current assets	2,828	2,691	3,503	2,865	2,753	2,753	2,753	2,753
<b>Non Current Assets</b>	<b>10,171</b>	<b>10,004</b>	<b>10,563</b>	<b>9,922</b>	<b>10,052</b>	<b>10,222</b>	<b>10,276</b>	<b>10,319</b>
Inventories	2,568	2,741	2,930	3,109	3,597	4,020	4,400	4,822
Trade Receivables	5,265	6,109	6,240	6,300	6,417	7,399	7,818	8,429
Other Current Assets	3,656	3,629	1,828	2,257	2,063	1,856	1,949	2,047
<b>Total Current Assets</b>	<b>11,488</b>	<b>12,479</b>	<b>10,998</b>	<b>11,666</b>	<b>12,077</b>	<b>13,275</b>	<b>14,167</b>	<b>15,298</b>
Trade Payables	1,565	1,760	1,853	2,141	2,448	2,841	3,044	3,342
Other CL & Provisions	2,003	1,452	1,238	1,775	2,183	2,300	2,581	2,772
<b>Total Current Liabilities</b>	<b>3,568</b>	<b>3,212</b>	<b>3,091</b>	<b>3,916</b>	<b>4,631</b>	<b>5,141</b>	<b>5,625</b>	<b>6,114</b>
<b>Net current Assets</b>	<b>7,920</b>	<b>9,267</b>	<b>7,907</b>	<b>7,750</b>	<b>7,446</b>	<b>8,134</b>	<b>8,542</b>	<b>9,184</b>
Cash & Equivalents	617	627	641	724	177	1,328	1,923	2,647
<b>TOTAL APPLICATION OF FUNDS</b>	<b>18,708</b>	<b>19,897</b>	<b>19,111</b>	<b>18,395</b>	<b>17,675</b>	<b>19,684</b>	<b>20,740</b>	<b>22,150</b>

Source: Company, HDFC sec Inst Research

## Cash Flow Statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
PBT		987	1,089	1,873	2,857	2,959	3,476	4,123
Non-operating & EO items		(94)	(168)	(162)	(35)	-	-	-
Interest		847	804	682	355	307	215	73
Depreciation		431	417	409	424	524	552	584
Working Capital Change		(2,355)	529	712	259	(688)	(408)	(643)
Tax Paid		(208)	(151)	(357)	(773)	(451)	(875)	(1,038)
<b>OPERATING CASH FLOW ( a )</b>		<b>(390)</b>	<b>2,519</b>	<b>3,158</b>	<b>3,087</b>	<b>2,651</b>	<b>2,960</b>	<b>3,100</b>
Capex		(418)	(176)	(228)	(717)	(694)	(606)	(627)
<b>Free Cash Flow (FCF)</b>		<b>(808)</b>	<b>2,343</b>	<b>2,930</b>	<b>2,370</b>	<b>1,958</b>	<b>2,354</b>	<b>2,472</b>
Investments & Others		1,253	207	20	651	127	141	158
<b>INVESTING CASH FLOW ( b )</b>		<b>835</b>	<b>31</b>	<b>(208)</b>	<b>(65)</b>	<b>(567)</b>	<b>(465)</b>	<b>(469)</b>
Capital Issuance		1	-	29	11	-	-	-
Debt Issuance		111	(1,409)	(2,127)	(1,739)	(401)	(1,429)	(1,544)
Interest		(851)	(803)	(699)	(370)	(307)	(215)	(73)
Dividend paid		(127)	(128)	(128)	(161)	(193)	(225)	(257)
Others						(32)	(32)	(32)
<b>FINANCING CASH FLOW ( c )</b>		<b>(866)</b>	<b>(2,340)</b>	<b>(2,926)</b>	<b>(2,259)</b>	<b>(933)</b>	<b>(1,901)</b>	<b>(1,906)</b>
<b>NET CASH FLOW (a+b+c)</b>		<b>(421)</b>	<b>210</b>	<b>24</b>	<b>762</b>	<b>1,151</b>	<b>594</b>	<b>724</b>
<b>Closing Cash</b>	<b>617</b>	<b>627</b>	<b>641</b>	<b>724</b>	<b>177</b>	<b>1,328</b>	<b>1,923</b>	<b>2,647</b>

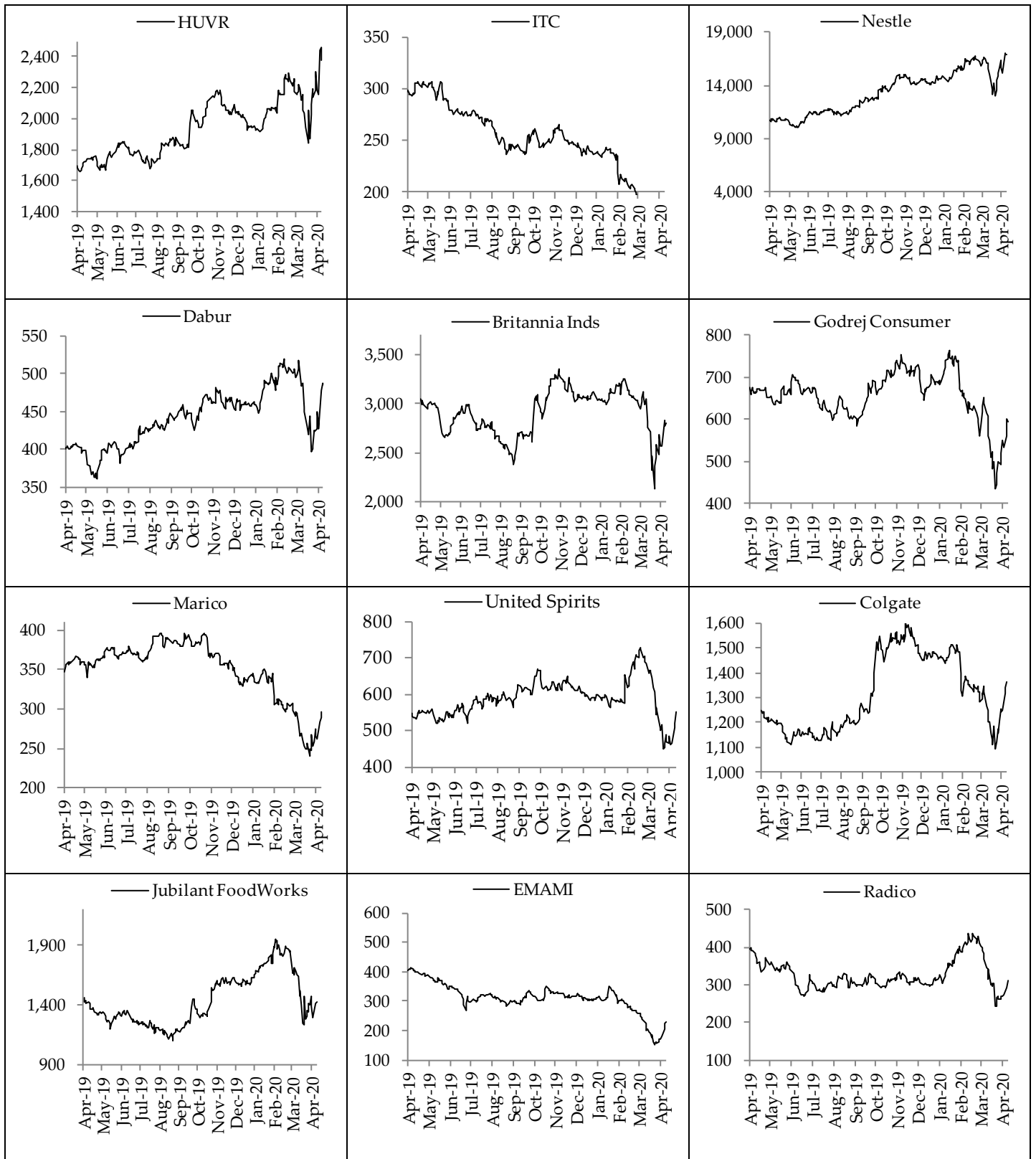
Source: Company, HDFC sec Inst Research

## Key Ratios

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>								
GPM	51.7	45.9	45.2	47.8	51.0	49.1	49.5	49.9
EBITDA Margin	11.4	11.4	12.6	14.8	16.7	15.3	15.9	16.3
EBIT Margin	8.9	8.8	10.1	12.6	14.7	13.1	13.7	14.2
APAT Margin	4.5	4.4	4.8	6.8	9.0	10.4	10.0	10.8
RoE	7.5	7.9	8.1	11.4	15.3	17.5	15.7	16.1
RoIC (or Core RoCE)	11.3	5.8	6.7	8.4	11.5	14.9	14.3	15.8
RoCE	11.0	5.6	6.4	8.0	11.2	14.3	13.2	14.1
<b>EFFICIENCY</b>								
Tax Rate (%)	22.4	25.6	26.3	34.1	34.2	15.2	25.2	25.2
Asset Turnover (x)	2.0	2.3	2.4	2.6	2.9	3.2	3.4	3.8
Debtors (days)	129	135	136	126	112	112	110	108
Payables (days)	38	39	40	43	43	43	43	43
Cash Conversion Cycle (days)	194	205	172	155	130	123	120	118
Net Debt/EBITDA (x)	5.0	4.8	3.5	1.9	0.9	0.4	(0.1)	(0.6)
Net D/E	0.9	0.9	0.7	0.5	0.2	0.1	(0.0)	(0.1)
Interest Coverage	1.5	1.7	2.1	3.4	8.7	10.3	16.6	55.2
<b>PER SHARE DATA</b>								
EPS (Rs/sh)	5.1	5.5	6.1	9.3	14.1	16.1	19.6	23.2
CEPS (Rs/sh)	8.0	8.8	9.2	12.4	17.3	22.8	23.7	27.6
Dividend	0.8	0.8	0.8	1.0	1.2	1.4	1.6	1.8
Book Value	67.9	72.4	77.4	85.8	98.8	116.0	133.6	154.7
<b>VALUATION</b>								
P/E (x)	61.6	56.7	51.5	33.7	22.1	19.4	16.0	13.5
P/BV	4.6	4.3	4.0	3.6	3.2	2.7	2.3	2.0
EV/EBITDA (x)	29.4	27.0	23.1	17.4	12.8	11.8	10.0	8.4
OCF/EV (%)	-	(0.8)	5.1	6.7	6.9	6.1	7.2	7.9
FCF/EV (%)	-	(1.6)	4.8	6.3	5.3	4.5	5.7	6.3
FCFE/Mcap (%)	-	(4.0)	3.7	5.4	4.8	4.0	5.1	5.8
EV/Revenues (x)	3.4	3.1	2.9	2.6	2.1	1.8	1.6	1.4
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.4	0.4	0.5	0.6

Source: Company, HDFC sec Inst Research

**1 Yr Price Movement**



**Rating Criteria**

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

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