

FMCG Sector Review

Company	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)
ITC	3,007	264	BUY	358
HUL	2,915	1,347	BUY	1,514
Dabur	622	353	BUY	406
Britannia	568	4,734	BUY	5,312
Marico	410	318	BUY	370
Colgate	294	1,082	NEU	1,118
Emami	298	1,294	BUY	1,445
Jub. Food	117	1,781	BUY	2,010

Poised for mean reversion

FMCG sector has posted its slowest revenue growth at 4% CAGR in the last two years as compared to 13% CAGR in the last decade. The rural market has already had its share of challenges i.e. deficient monsoon in FY15 and FY16, low wage growth etc. It was further bruised with unprecedented events like demonet and GST. This led consumption growth dropping to its lowest in the last decade.

Most macro indicators (rural wages, agricultural growth, MSP rates, job creation and RBI's Consumer Confidence Index) are still not reflecting a meaningful recovery. However, we believe they are at an inflexion point, and that govt will shift focus from stabilising the economy (controlling inflation, curbing black money, and stabilising currency) to accelerating GDP growth in the run-up to the 2019 Lok Sabha elections via fiscal stimuli.

- Our channel checks suggest that most FMCG companies have posted healthy revenue growth post GST implementation. Most trade channels (including wholesale and CSD) have begun to normalise post the shock of GST implementation. We believe the sector has significant scope of mean reversion ([link](#)) towards its 10-year revenue CAGR of 13% (vs. 4% in 1HFY18).
- Modern trade and E-commerce will continue to grab share from general trade, leading to better traction in the urban market.

- Most companies are witnessing green shoots in the rural market, and expect that govt's focus on improving rural incomes will boost consumption demand. We believe companies with a higher exposure to rural markets can surprise on growth.
- Over the last 10 years, FMCG companies have expanded gross margins by ~350bps, while EBITDA margins expanded by ~450bps. Pricing power, lower commodity prices, supply chain efficiency and cost optimisation have helped ([link](#)). We anticipate further improvement in EBITDA margins by ~150bps over FY17-20E, led by higher revenue growth, rising premiumisation, GST-driven efficiencies and cost optimization initiatives.
- We have grouped companies' performance based on their categories to compare like-to-like performance. We have also computed weighted average growth (based on revenue) for each category. Interestingly, even during the turbulent market conditions of the trailing 12 months, categories like F&B, QSR, Home Care, Cigarettes and Personal Care grew at 5-8%. In contrast, laggards like Oral Care, Hair Care and OTC FMCG grew at 0-1% ([link](#)).
- We believe the FMCG sector is poised for earnings acceleration, which should sustain its rich valuations.

Top Picks: Our pecking order is ITC, Marico, Dabur, Jubilant FoodWorks, HUL, Britannia and Emami.

Naveen Trivedi

naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Siddhant Chhabria

siddhant.chhabria@hdfcsec.com
+91-22-6171-7336

Investment Rationale

ITC

(CMP Rs 264, TP Rs 358, BUY with an upside of 36%)

- **Investment Rationale:** ITC is a market leader in Cigarettes (>80% value market share), notebooks, valued-added paperboards and a critical player in biscuits. At CMP, the implied EPS CAGR (FY17-FY20E) at 30x FY20 P/E (Ex-ITC Sector P/E is at 37x FY20) is 1% and reflecting higher discounting factored in the stock. ITC's last 5 year EPS CAGR (despite punitive taxes) is 10%. Even during the most challenging quarter i.e. 2QFY18, ITC posted 5.6% growth in APAT. Hence, we believe the stock has immense potential to perform well in the coming years. Govt. had stated that GST would be neutral for cigarettes; instead, they increased the cess on cigarettes in July resulting in higher taxes. Therefore, we anticipate high probability of neutral to mild increase in taxes in upcoming union budget.
- **Valuation & Recommendation:** We expect Revenue/EBITDA/APAT CAGR of 9/10/10% respectively over FY17-20E. The company operates at EBITDA margin of 36%, along with core RoCE of ~35%. We maintain BUY rating with a TP of Rs 358, based on 32x Dec-19EPS.

HUL

(CMP Rs 1,347, TP Rs 1,514, BUY with an upside of 12%)

- **Investment Rationale:** HUL's strategy to focus on market development, premiumisation, market share gain and cost optimisation has resulted into healthy 13% growth in EBITDA during the last 5 years. We expect HUL to be a key beneficiary of GST and can gain market share from unorganised players. Recovering rural demand (~40% of revenues) and healthy growth from premium segments can result into superior earnings in the coming years.

- **Valuation & Recommendation:** We expect Revenue/EBITDA/APAT CAGR of 12/18/21% respectively over FY17-20E. Considering consistent market share gain, margin expansion and strong RoCE, HUL's high valuation is justified. HUL is the pure play for the improving domestic story. We re-rate HUL to 43x P/E (42x earlier) on Dec-19EPS on the expectation of quicker recovery in rural demand. We arrive at TP of Rs 1,514, maintain BUY.

DABUR

(CMP Rs 353, TP Rs 406, BUY with an upside of 15%)

- **Investment Rationale:** Dabur has seen many challenges in its business during the last 2 years on account of slow rural demand (~45% of domestic), disruption through Patanjali, higher impact of demonet than others due to high wholesale dependence and weak international business. Therefore, Dabur's consolidated revenue degrew by average ~2% during the last 8 quarters. Better revenue growth, stable inflation and a favourable product mix would expand the EBITDA margin by ~200bps over FY17-20E.
- **Valuation & Recommendation:** We expect Revenue/EBITDA/APAT CAGR of 11/16/17% respectively over FY17-20E. With domestic and international recovery at inflexion point, we see further re-rating in the stock. We value Dabur based on P/E of 35x Dec-19EPS, and arrive at a TP of Rs 406. We maintain BUY.

BRITANNIA

(CMP Rs 4,734, TP Rs 5,312, BUY with an upside of 12%)

- **Investment Rationale:** BRIT's focus areas are (1) Premiumisation through innovation, (2) Distribution expansion (largely in rural areas and increase in direct reach), (3) Growth acceleration in weak markets

(Rajasthan, MP, UP, Gujarat and Chhattisgarh), (4) Entry in new segments (like croissants), (5) Cost optimization (saving of ~Rs 2.5bn in FY18E). The company is focusing on expanding the market through focusing on weaker areas like rural which contributes only 20% of revenues. The company aims to achieve 30-35% share from rural over the next 2-3 years. BRIT's weak states, Gujarat, Rajasthan, UP, MP and Chhattisgarh combined comprise ~35% of India's population. Further, gaining traction in these states would spur BRIT's growth momentum. BRIT has already increased its direct reach to 1.7mn (~2.3x in last 4 years). BRIT has had an impressive run since FY10 with focus on EBITDA expansion by ~940bps (14.1% in FY17 vs. 4.7% in FY10) i.e. ~140bps annually. We still expect further margin expansion of ~150-200bps in the next 2 years driven by softening input prices, higher share of premium segment and cost rationalisation.

- **Valuation & Recommendation:** We expect Revenue/EBITDA/APAT CAGR of 14/20/21% respectively over FY17-20E. With improving demand (especially in rural), benign RM and BRIT's successful execution on various initiatives, we value BRIT based on P/E of 42x Dec-19EPS. Maintain BUY with a TP of Rs 5,312.

MARICO

(CMP Rs 318, TP Rs 370, BUY with an upside of 17%)

- **Investment Rationale:** We are encouraged by Marico's market share gain (90-95% portfolio gained in 1H FY18) in a challenging period (demonet, GST). However, steep rise in copra prices (~65% YoY) impacted Marico performance during 1H FY18 (EBITDA contracted by 7% YoY). In the last 2 years, Marico gained 200bps, 800bps and 400bps market share in Coconut oil, Saffola and VAHO, respectively.

- **Valuation & Recommendation:** We expect Revenue/EBITDA/APAT CAGR of 13/16/20% respectively over FY17-20E. We value Marico based on P/E of 35x Dec-19, and derived a TP of Rs 370. We are optimistic about Marico's long-term story and success on new launches. We upgrade Marico to BUY from NEUTRAL.

COLGATE

(CMP Rs 1,082, TP Rs 1,118, NEU with an upside of 3%)

- **Investment Rationale:** Colgate continued to lose market share due to rising competition from Patanjali and Dabur. Its Toothpaste and Toothbrush market share stood at 54% (-170bps YoY) and 45.5% (-110bps YoY). Colgate was the only FMCG company in our coverage which reported volume decline (-1%) in 2QFY18, despite benefits of restocking owing to GST transition.
- **Valuation & Recommendation:** We expect Revenue/EBITDA/APAT CAGR of 11/13/16% respectively over FY17-20E. With recovery in rural demand and normalizing trade channels, we are positive on the sector. However, Colgate, with a single-category presence, will find it difficult to capitalize on this vis-à-vis other companies. We valued Colgate based on P/E of 34x on Dec-19 EPS to arrive at a TP of 1,118. We maintain NEUTRAL.

EMAMI

(CMP Rs 1,294, TP Rs 1,445, BUY with an upside of 12%)

- **Investment Rationale:** Emami's success of the company's strategy (focus on low penetration and high-margin categories) is reflected by its revenue/EBITDA/APAT CAGR of 17/28/24% in the last 10 years. We like Emami on account of (1) Leadership in ~70% domestic portfolio and gaining market share gain, (2) Focus on low penetration and high-margin categories, (3) New launches, (4) Distribution

expansion (direct reach to be ~0.8mn by FY18 vs. 0.73mn in FY17).

- **Valuation & Recommendation:** We expect Revenue/EBITDA/APAT CAGR of 13/16/19% respectively over FY17-20E. We expect EPS CAGR of 18% over FY17-20E. We value Emami based on P/E of 36x on Dec-19 EPS. Our TP is Rs 1,445. We maintain our BUY rating.

JUBILANT FOODWORKS

(CMP Rs 1,781, TP Rs 2,010, BUY with an upside of 13%)

- **Investment Rationale:** JFL's strategy has been realigned to profitable store expansion as compared to aggressive store expansion since the new CEO has come on board (Apr'17). We view JFL's pizza upgrade on quality (product upgrade in August) as a significant driver to higher demand. Although SSG for 2QFY18 was lower than anticipated (5.5% vs. 7%) SSG

acceleration occurred towards the end of the quarter. Consumer response has been positive for the Pizza upgrade and therefore we expect 7% SSG in 2HFY18 vs. 6% for 1HFY18. The GST rate has revised for restaurants, down to 5% from 18% on Nov'17. However, the input tax benefits are not available anymore. The rate revision would further support the company's plans to accelerate SSG, with improving margins.

- **Valuation & Recommendation:** We expect Revenue/EBITDA/APAT CAGR of 13/35/65% respectively over FY17-20E. We remain bullish on JFL, a strong player in the QSR industry, with >1,100 stores. Such inspiring performance justifies high valuation. We value it at 46x P/E on Dec-19EPS to arrive TP of Rs 2,010 (Rs 1,968 earlier). We maintain BUY.

Valuation Summary

Companies	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			Core RoCE (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
ITC	3,007	264	BUY	358	9.3	10.3	11.5	28.3	25.7	23.1	18.1	16.4	14.5	25.6	25.5	26.4
HUL	2,915	1,347	BUY	1,514	24.1	29.7	35.9	55.9	45.3	37.5	38.4	31.7	26.9	72.1	81.0	83.6
Dabur	622	353	BUY	406	8.1	9.9	11.8	43.7	35.8	30.0	36.3	29.9	25.0	50.7	60.4	70.7
Britannia	568	4,734	BUY	5,312	85.8	106.9	131.6	55.2	44.3	36.0	36.0	29.6	24.5	42.9	50.9	54.4
Marico	410	318	BUY	370	6.7	9.0	10.8	47.5	35.4	29.4	33.6	26.3	22.4	48.2	66.1	75.0
Colgate	294	1,082	NEU	1,118	24.4	28.9	34.0	44.4	37.5	31.8	27.3	23.3	20.2	59.5	74.3	91.8
Emami	298	1,294	BUY	1,445	28.0	34.0	40.8	46.1	38.1	31.7	34.6	29.2	24.4	20.2	26.4	33.8
Jub. Food	117	1,781	BUY	2,010	24.6	37.5	45.8	72.4	47.5	38.9	30.1	21.8	18.1	26.1	44.2	59.9

Source: Companies, HDFC sec Inst Research

Contents

FMCG Universe: Valuations & Recent Performance	6
Valuation and Premium to NIFTY 50.....	6
Companies P/E Bands	8
'Mean Reversion Coming'	10
Quarterly Performance	11
Macro Review	13
FMCG Universe: Performance Review	19
Last 10 Years' Performance	19
1HFY18 Performance	20
Trends of New Product Launches	21
Domestic Performance Review.....	23
Domestic Volume Growth.....	23
Category Insights.....	24
Cigarette Performance.....	25
F&B Performance.....	27
Personal Care Performance	29
Home Care Performance	30
OTC FMCG Performance	32
Hair Care Performance	33
Oral Care Performance	34
QSR Performance.....	35
Commodity Trend	37
International Performance Review	38
Companies	
ITC	40
HUL.....	44
Dabur.....	48
Britannia.....	52
Marico	56
Colgate-Palmolive	60
Emami	64
Jubilant FoodWorks	68

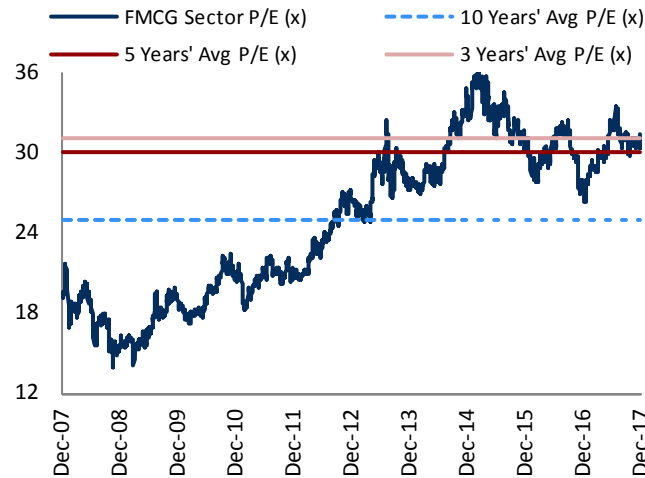
The sector has run-up by ~30% in the last 12-months. Valuation premium over Nifty 50 has expanded to 119% vs. 103% a year ago

The sector (Ex-ITC) has run-up by 40% during the last 12-months. Valuation premium (Ex-ITC) over Nifty 50 has expanded to 159% vs. 127% a year ago

The sector has witnessed many unprecedented events like Demonet and GST, which impacted the performance in the last one year. We believe that the sector is poised for earnings acceleration, and that would sustain rich valuations

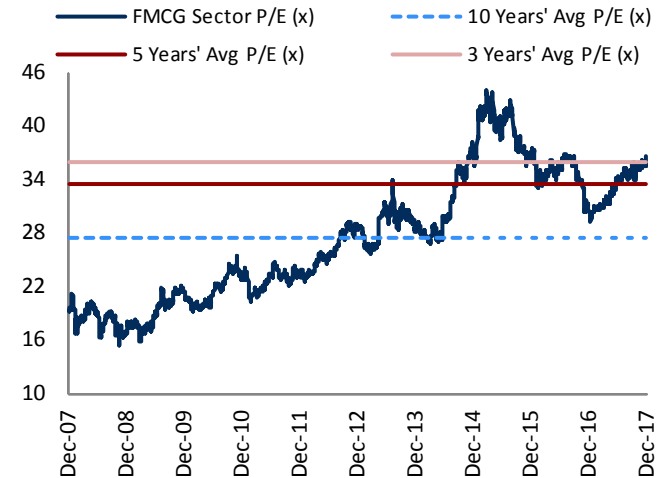
FMCG Universe: Valuations & Recent Performance

Sector P/E (24-month Rolling Forward)



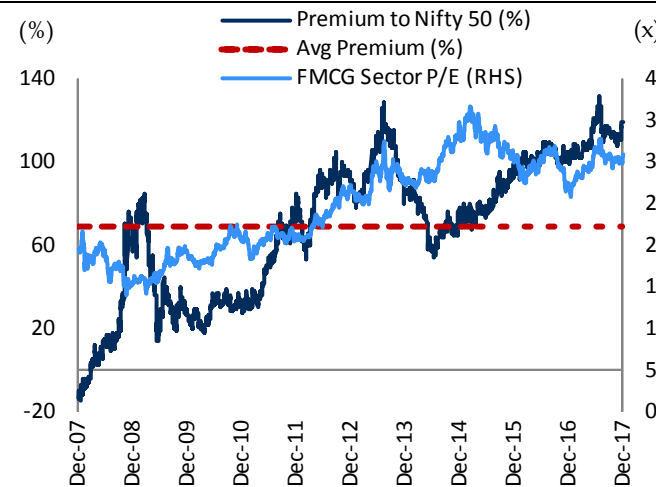
Source: Companies, Bloomberg, HDFC sec Inst Research

Sector (Ex-ITC) P/E (24-month Rolling Forward)



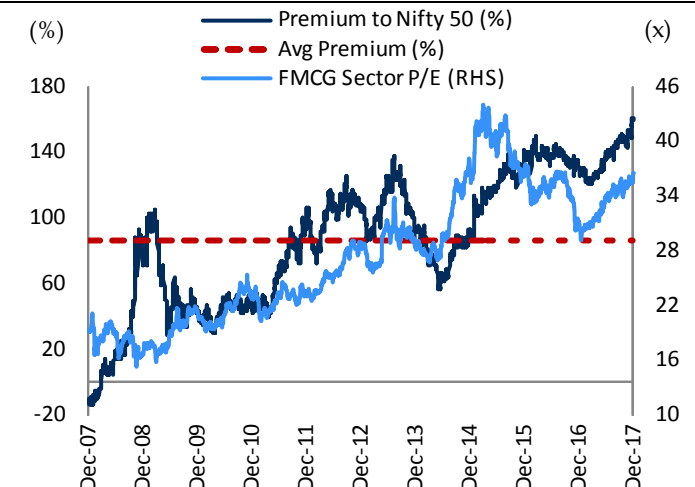
Source: Companies, Bloomberg, HDFC sec Inst Research

Sector Valuation Premium (24-month) Over Nifty 50



Source: Companies, Bloomberg, HDFC sec Inst Research

Sector (Ex-ITC) Valuation Premium (24-month) Over Nifty 50



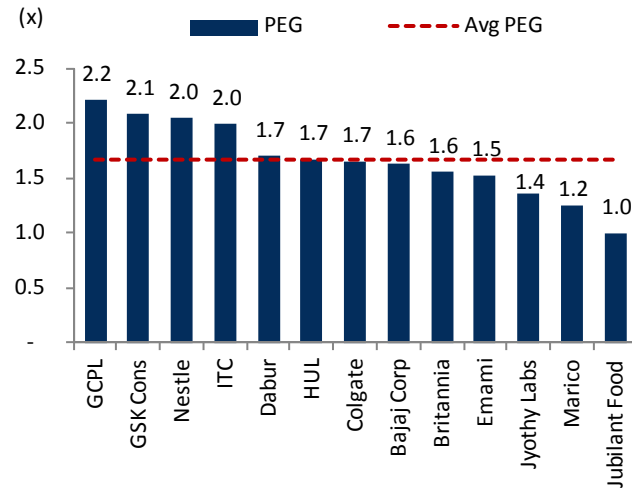
Source: Companies, Bloomberg, HDFC sec Inst Research

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

We continue to believe that performers would continue to receive investors' interest going ahead. Companies with superior execution and better visibility in earnings would have the scope for further re-rating

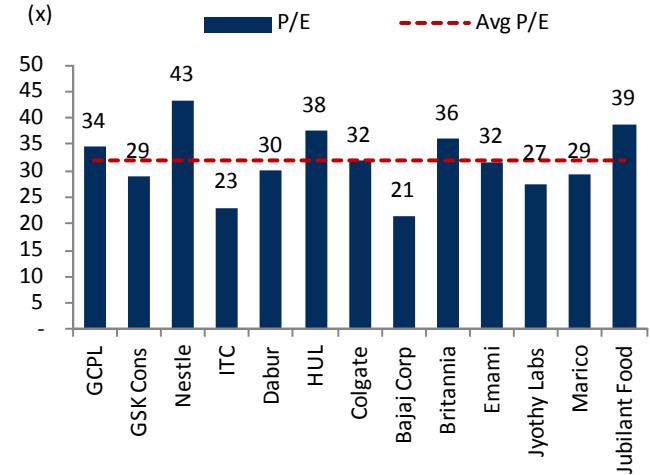
Majority of FMCG companies have outperformed Nifty 50 in the last 12-months, barring ITC, Colgate, Marico and Jyothy

Company PEG (FY20E)



Source: Companies, Bloomberg, HDFC sec Inst Research

Company P/E (FY20E)



Source: Companies, Bloomberg, HDFC sec Inst Research

Stock Returns

Companies	1M (%)	3M (%)	6M (%)	12M (%)	3Yr (%)	5Yr (%)
ITC	1.9	(2.0)	(15.4)	15.6	5.9	38.2
HUL	6.1	8.8	22.8	71.3	76.0	155.8
Nestle	3.9	10.2	19.0	37.0	27.4	61.2
GCPL	3.5	7.9	(1.9)	37.4	101.9	165.6
Dabur	3.0	14.8	20.7	31.7	50.2	172.6
Britannia	(0.9)	10.8	29.7	68.4	168.3	865.0
Colgate	5.3	(0.9)	(1.9)	20.5	21.9	46.8
Marico	4.7	(1.4)	1.4	27.5	93.2	198.7
GSK	9.6	32.3	22.8	32.5	12.4	75.0
Emami	5.9	19.0	21.7	39.2	69.5	239.6
Jubilant	2.8	28.5	92.2	118.3	30.7	35.6
Jyothy	6.5	2.7	6.3	16.0	56.8	148.7
Bajaj Corp	9.6	25.0	32.8	36.7	46.5	115.0
Nifty FMCG	3.5	5.9	2.0	35.2	31.3	75.5
Nifty 50	0.9	4.8	9.0	30.8	26.3	78.5

Note:

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

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

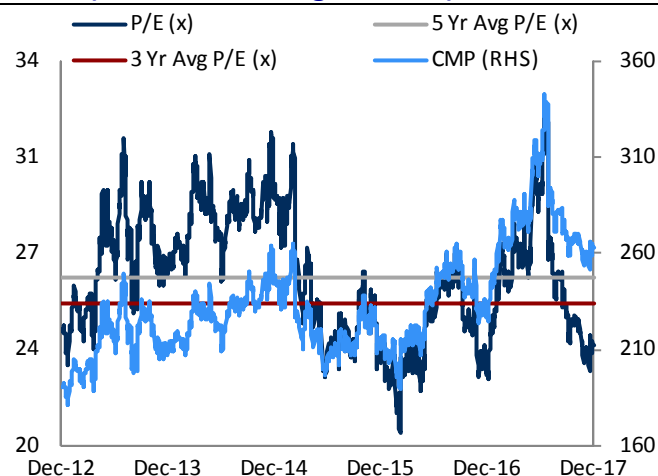
ITC's de-rating was sharp after increase in GST rates. It is trading close to its lowest last 5 years' P/E multiple of ~22x

HUL and Britannia have performed consistently and improved their earnings visibility. Which has resulted in sharp re-rating in the last 12-months

Dabur' re-rating was very recent and we expect further re-rating for the company owing to rural recovery

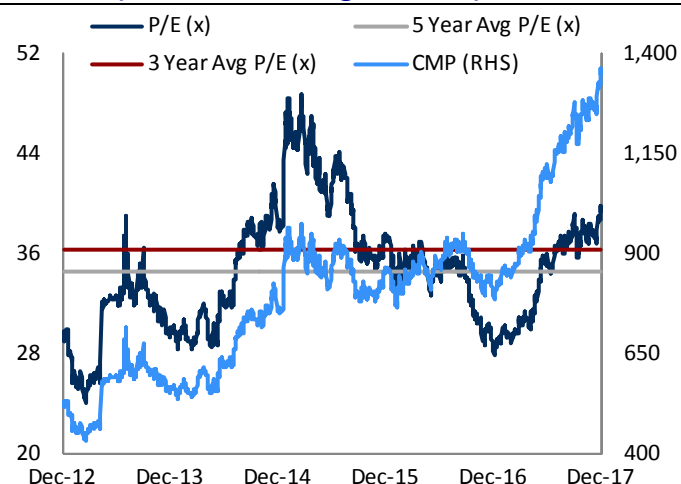
FMCG Companies P/E Bands

ITC P/E (24-month Rolling Forward)



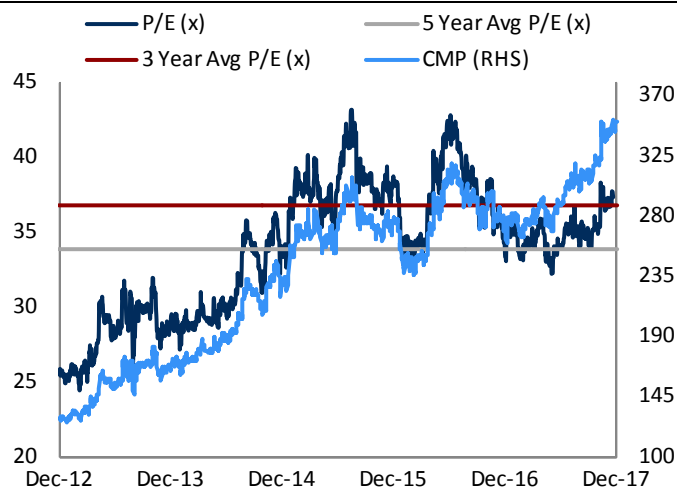
Source: Bloomberg, HDFC sec Inst Research

HUL P/E (24-month Rolling Forward)



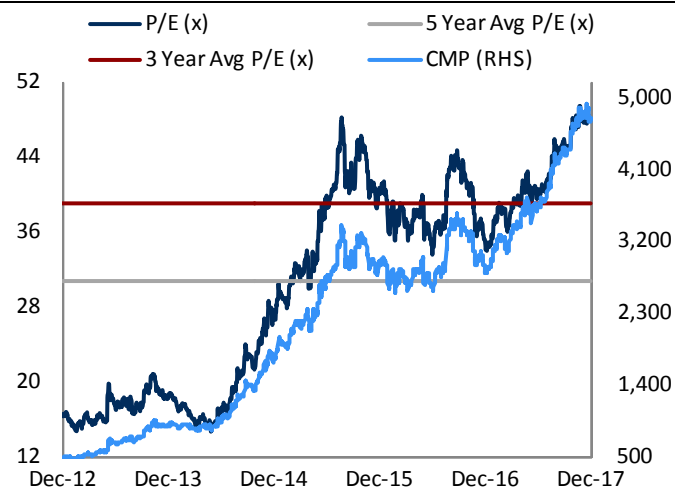
Source: Bloomberg, HDFC sec Inst Research

Dabur P/E (24-month Rolling Forward)



Source: Bloomberg, HDFC sec Inst Research

Britannia P/E (24-month Rolling Forward)



Source: Bloomberg, HDFC sec Inst Research

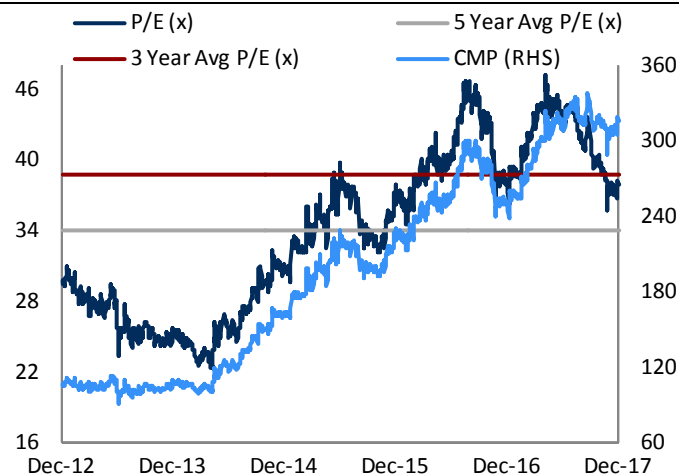
Marico has been de-rated as many headwinds (high copra, trade channel disruption, and weak international) were there during the last 12-months. We believe most of the headwinds have peaked and we expect re-rating in the stock for the next 12-months

Colgate's earnings have been under pressure due to stiff challenges from Patanjali and Dabur. It resulted in stock de-rating in the last 12-months

Emami's earnings pickup can re-rate the stock, the valuation was stable during the last 12-months

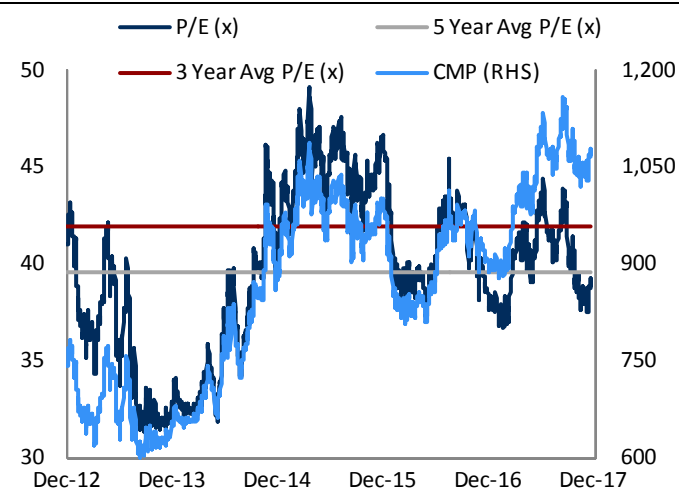
Sharp recovery in Jubilant FoodWorks' earnings resulted in significant re-rating during the last 12-months

Marico P/E (24-month Rolling Forward)



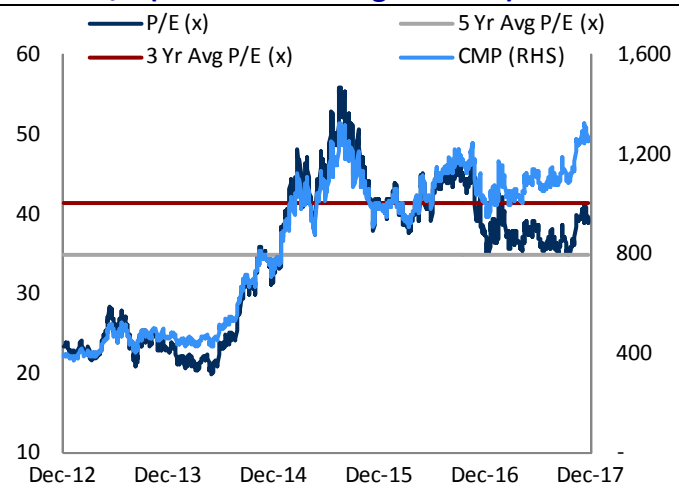
Source: Bloomberg, HDFC sec Inst Research

Colgate P/E (24-month Rolling Forward)



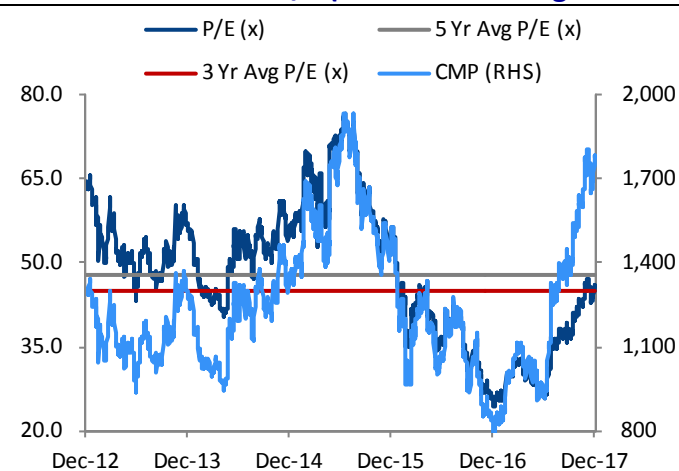
Source: Bloomberg, HDFC sec Inst Research

Emami P/E (24-month Rolling Forward)



Source: Bloomberg, HDFC sec Inst Research

Jubilant FoodWorks P/E (24-month Rolling Forward)



Source: Bloomberg, HDFC sec Inst Research

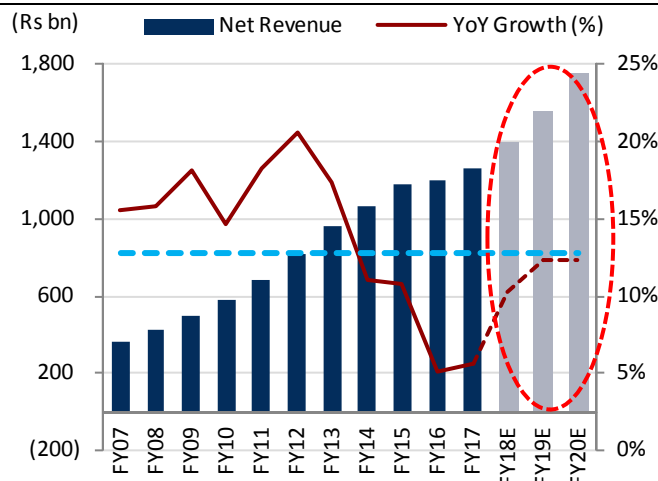
The sector has posted the slowest revenue growth in the past decade in the last two years. Apart from slow growth in the rural market (owing to deficient monsoon, low wage growth etc), some unprecedented events like demonet and GST also impacted the sector's performance

We anticipate that the sector has significant scope of mean reversion towards its 10-year historical average revenue growth

Pricing power, supply chain efficiency and cost optimisation have resulted in EBITDA margin expansion for the sector during the last 10 years. We anticipate further improvement in the EBITDA margin in the coming years, led by better revenue growth, higher share of the premium segment, GST-driven process efficiencies and continued focus on cost optimisation

FMCG Universe: 'Mean Reversion Coming'

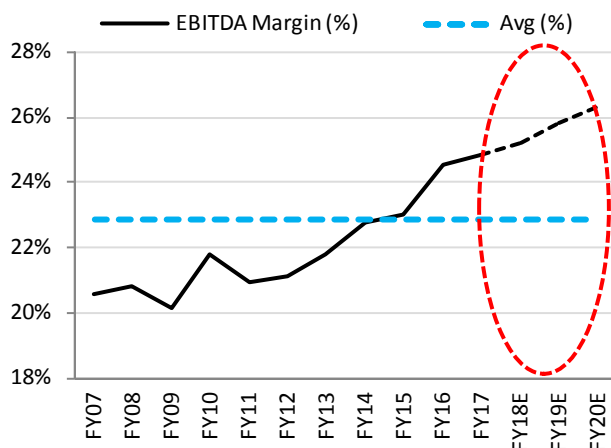
FMCG Universe : Revenue Performance



Source: Companies, Bloomberg, HDFC sec Inst Research

Note: FY16 growth based on IGAAP

FMCG Universe : EBITDA Margin

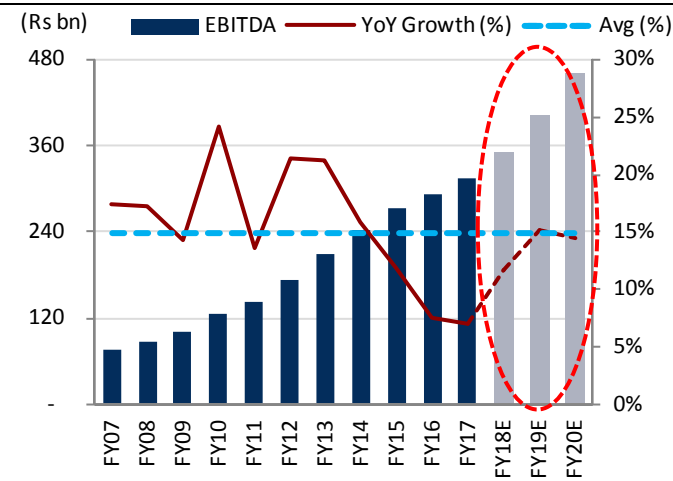


Source: Companies, Bloomberg, HDFC sec Inst Research

Note: FY16 growth based on IGAAP

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

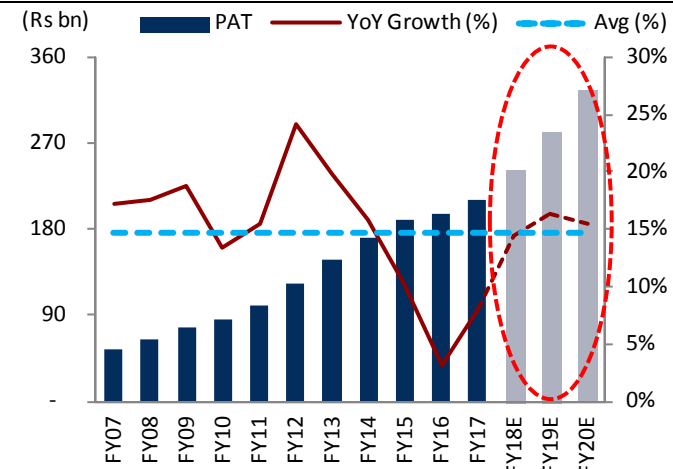
FMCG Universe : EBITDA Performance



Source: Companies, Bloomberg, HDFC sec Inst Research

Note: FY16 growth based on IGAAP

FMCG Universe : APAT Performance



Source: Companies, Bloomberg, HDFC sec Inst Research

Note: FY16 growth based on IGAAP

Partial recovery (post subdued performance in 1QFY18 owing to GST implementation) has been witnessed during 2QFY18 performance of the sector. We expect healthy growth in the coming quarters, on account of stability from GST, healthy underlying demand and favourable base in 2HFY18

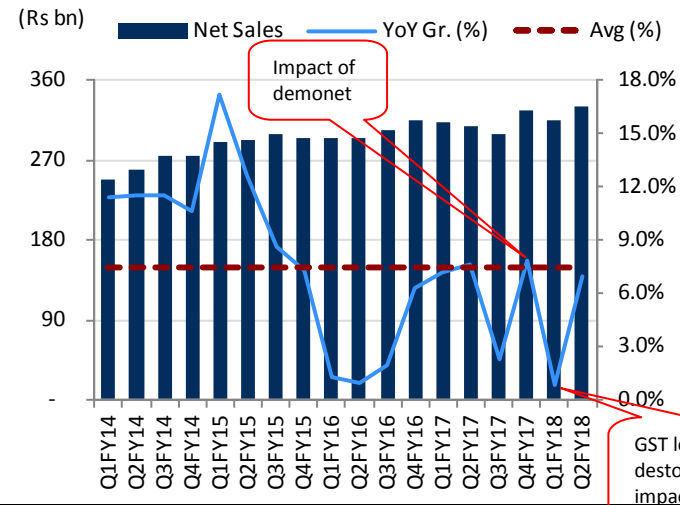
FMCG Universe : Quarterly Performance

Particulars (Rs bn)						(Ex-ITC)				
	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Net Revenues	309.4	300.0	325.8	315.6	331.0	212.8	207.6	214.5	216.1	230.5
YoY Chg. (%)	7.7%	2.3%	7.9%	0.8%	7.0%	6.7%	1.4%	4.9%	1.7%	8.3%
EBITDA	76.1	74.8	82.0	78.7	83.7	39.8	39.3	43.2	41.3	46.1
YoY Chg. (%)	9.3%	1.2%	7.3%	3.2%	10.1%	11.3%	0.5%	7.1%	0.5%	15.9%
APAT	53.4	51.0	56.5	53.7	58.7	28.6	26.1	29.8	28.1	32.3
YoY Chg. (%)	11.9%	-7.9%	16.7%	2.7%	10.0%	13.4%	-5.0%	10.0%	1.0%	13.0%

Source: Companies, HDFC sec Inst Research

Note: 1QFY16-4QFY16 growth is based on IGAAP. Revenue growth in 2QFY18 is based on comparable basis (adjusted to GST impact)

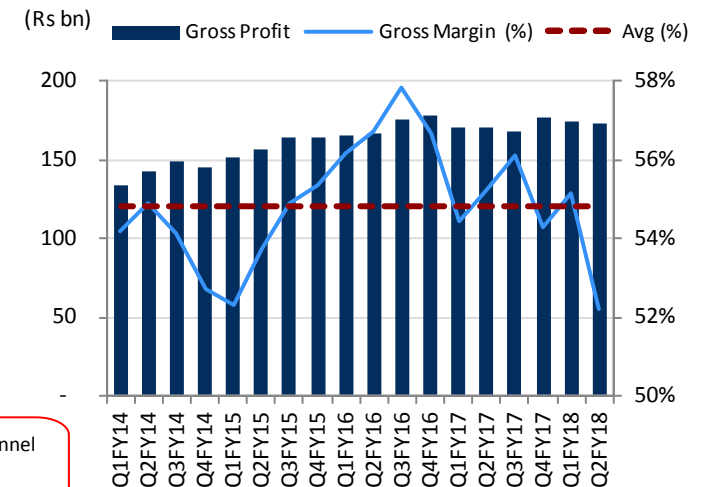
FMCG Universe : Quarterly Revenue



Source: Companies, HDFC sec Inst Research

Note: 1QFY16-4QFY16 growth is based on IGAAP. Revenue growth in 2QFY18 is based on comparable basis (adjusted for GST impact)

FMCG Universe : Quarterly Gross Profit

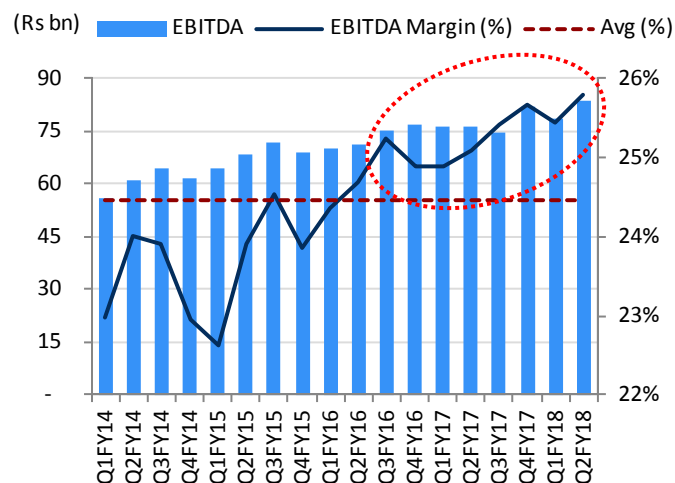


Source: Companies, HDFC sec Inst Research

Note: 1QFY16-4QFY16 margin is based on IGAAP

Despite pressure on gross margins, FMCG companies could expand their EBITDA margins in the last four to five quarters by controlling ASP spend and rationalising other overheads

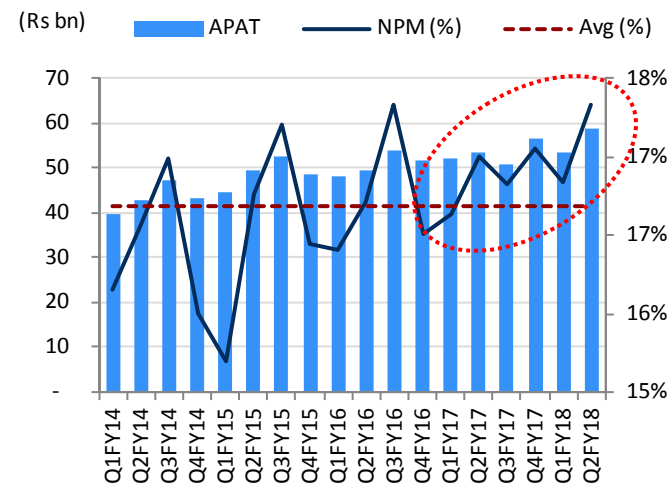
FMCG Universe : Quarterly EBITDA



Source: Companies, HDFC sec Inst Research

Note: 1QFY16-4QFY16 margin is based on IGAAP

FMCG Universe : Quarterly PAT



Source: Companies, HDFC sec Inst Research

Note: 1QFY16-4QFY16 margin is based on IGAAP

Rural wage growth is at its lowest in the last decade. This reflects NDA govt's focus on controlling high inflation during the last three years

Agriculture wages have started recovering gradually during 2017

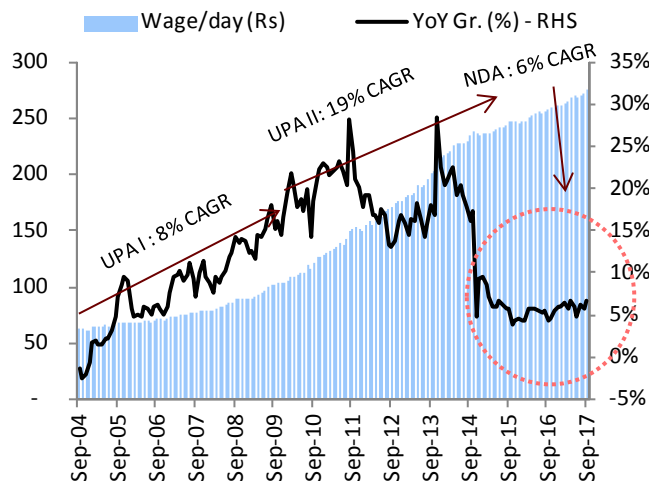
Non-agriculture wage growth rate has declined faster than agriculture wage growth during NDA govt's regime, reflecting labour-intensive sectors like infrastructure and real estate under stress

Real wage rates during the UPA II regime were around 8-9%, as compared to 1-2% during the NDA regime

Rural CPI has been higher than Urban CPI by ~100bps over the last five years. However, for the first time since Aug-17 after three years rural CPI is now lower than urban CPI

Macro Review

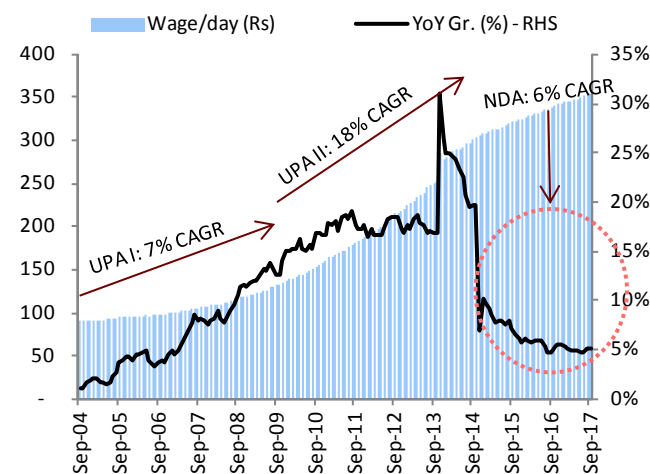
Agriculture Wages



Source: RBI, HDFC sec Inst Research

Note: Computed agriculture wage by averaging wage for ploughing, sowing, harvesting and picking for series

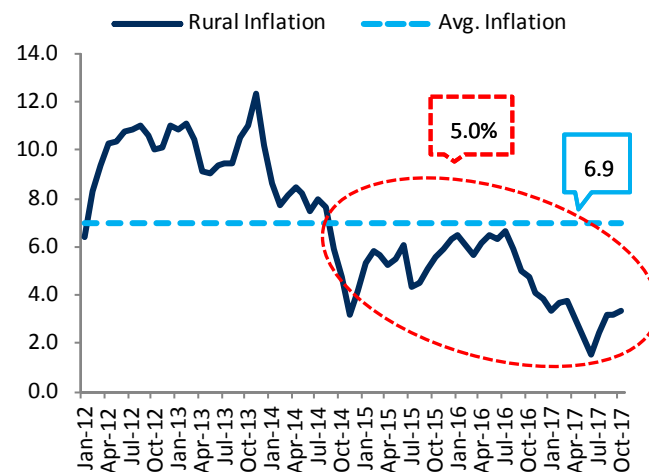
Non-agriculture Wages



Source: RBI, HDFC sec Inst Research

Note: Computed non-agriculture wage by averaging wage for carpenter, mason, driver (LMV), sweeper

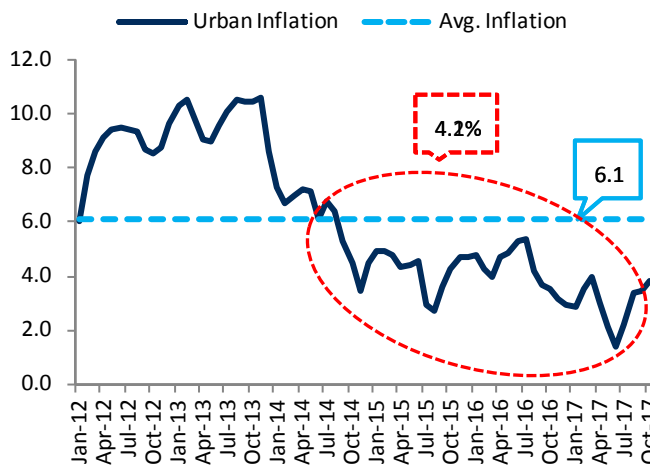
Rural CPI



Source: RBI, HDFC sec Inst Research

Note: CPI base 2012 =100

Urban CPI



Source: RBI, HDFC sec Inst Research

Note: CPI base 2012 =100

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 low double digits. However, the government has now increased MSP rates meaningfully for FY18

Historically, it takes more than one year of consecutive deficit monsoon to impact FMCG sector

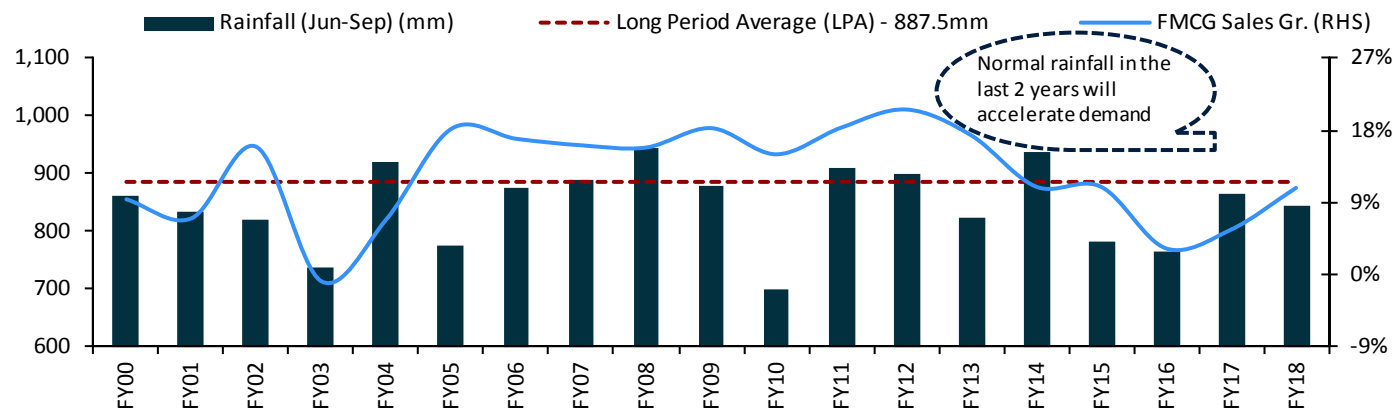
After two deficit years (FY14 and FY15) of rainfall, it was near normal during the last two years, which is expected to accelerate demand especially in rural markets

MSP Rates – Increased

(Rs/quintal)	2017-18	YoY Gr%	CAGR % 2004-14	CAGR % 2014-17
Kharif Crops				
Paddy (Grade A)	1,590	5.3	9.6	4.3
Jowar (Hybrid)	1,700	4.6	12.6	3.5
Bajra	1,425	7.1	10.4	4.4
Maize	1,425	4.4	10.7	2.8
Ragi	1,900	10.1	12.6	6.9
Urad	5,400	8.0	13.2	7.4
Cotton (Long Staple)	4,320	3.8	8.2	2.2
Groundnut in shell	4,450	5.5	11.5	3.6
Sunflower seed	4,100	3.8	11.9	3.0
Soybean (Yellow)	3,050	9.9	11.0	5.9
Sesamum	5,300	6.0	13.0	4.8
Niger seed	4,050	5.9	12.8	4.0
Rabi Crops				
Wheat	1,735	6.8	9.1	6.1
Barley	1,410	6.4	8.2	7.0
Gram	4,400	10.0	9.0	11.4
Masur (Lentil)	4,250	7.6	7.6	11.3
Rapeseed/Mustard	4,000	8.1	6.7	8.8
Safflower	4,100	10.8	7.6	10.3
Other Crops				
Copra (Ball) - Calendar Year	6,785	8.7	4.3	7.2
Jute (CY)	1,760	10.0	11.1	13.3
Sugarcane (CY)	3,500	9.4	12.2	5.0

Source: RBI, HDFC sec Inst Research

Monsoon and FMCG Sector Correlation



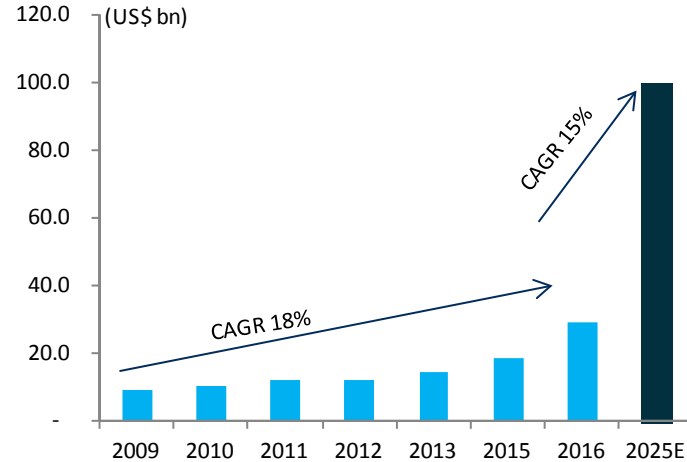
Source: IMD, HDFC sec Inst Research

Rural stress was prevalent prior to demonet shock

HUL, Dabur and Emami will be key beneficiaries from rural recovery

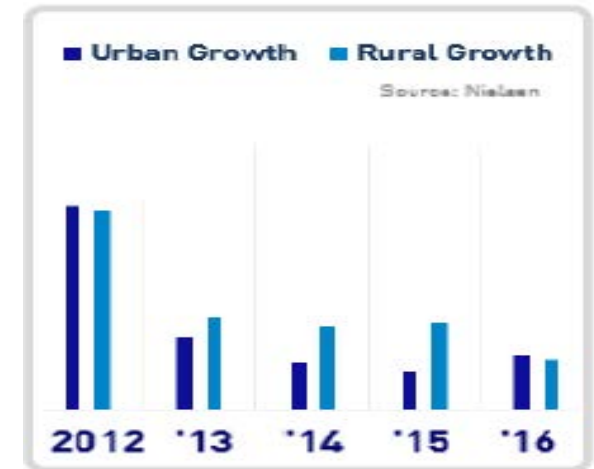
2W growth rates have recovered post demonet, reflecting the strong underlying demand

Rural FMCG Market



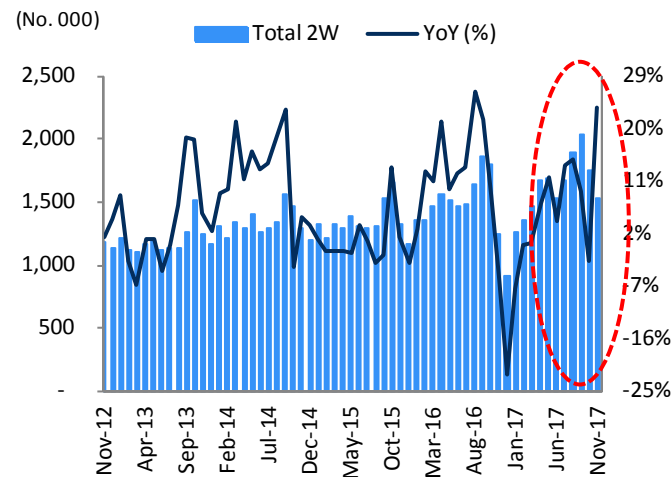
Source: IBEF, HDFC sec Inst Research

Rural Growth



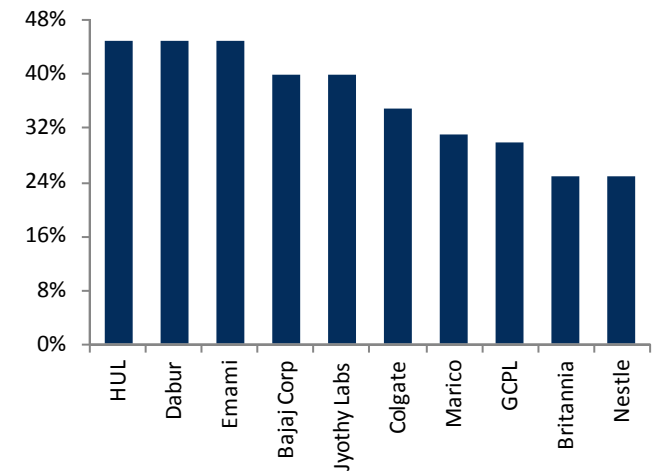
Source: HUL, HDFC sec Inst Research

2-Wheeler Performance



Source: Siam, HDFC sec Inst Research

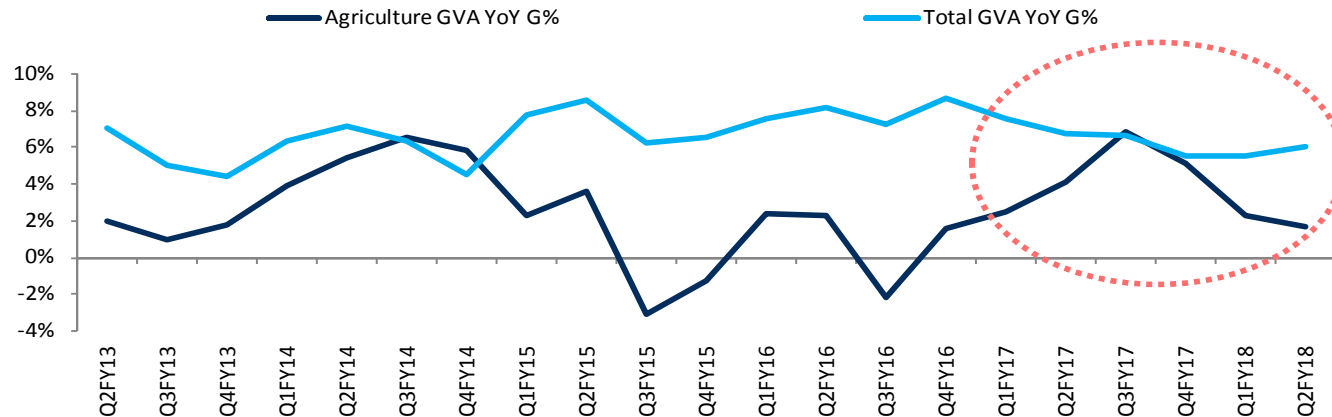
Rural (% of Domestic Revenue)



Source: Companies, HDFC sec Inst Research

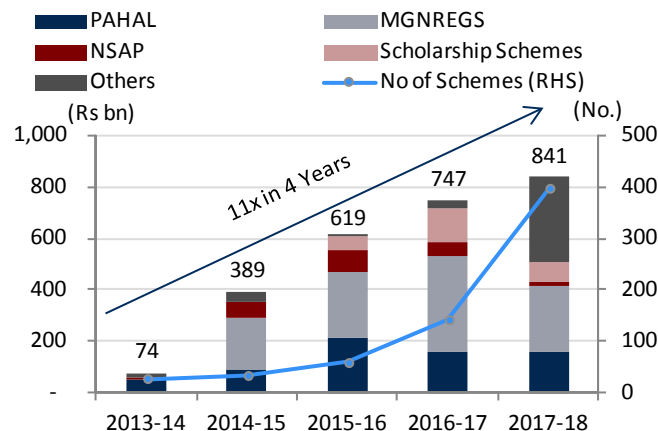
Agriculture GVA had started recovering from 2HFY16 to 1HFY17 until demonet shock. We expect recovery in agriculture GVA on account of near normal monsoon, normalization of liquidity and govt.'s impetus to improve rural income

Agriculture GVA vs. Total GVA



Source: RBI Database, HDFC sec Inst Research

DBT - Year Wise Fund Transfer

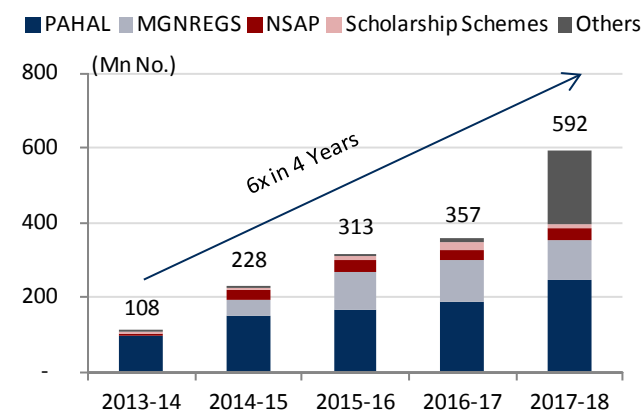


Source: DBT Bharat, HDFC sec Inst Research

DBT Savings

Ministry / Department	Scheme	Reported Savings (in Rs bn)	
		Upto 2015-16	Upto 2016-17
Petroleum & Natural Gas	PAHAL	216	298
Food & Public Distribution	PDS	102	140
Rural Development	MGNREGS	30	117
	NSAP	2	4
Others	Others	11	11
Total		361	570

DBT - Year wise DBT Beneficiaries



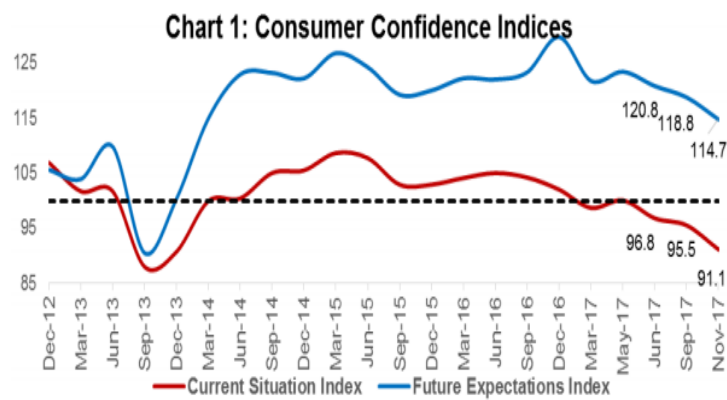
Source: DBT Bharat, HDFC sec Inst Research

Direct Benefit Transfer (DBT) has saved ~Rs 570bn upto FY17. The number of beneficiaries has increased by 6x in the last 4 years to 592mn while total fund transfer has increased by 11x in the last 4 years to Rs 841bn

Per Consumer survey future consumption expectations remain high. However, they have declined from their peak in Dec-16 primarily owing to deterioration in sentiments in the employment scenario

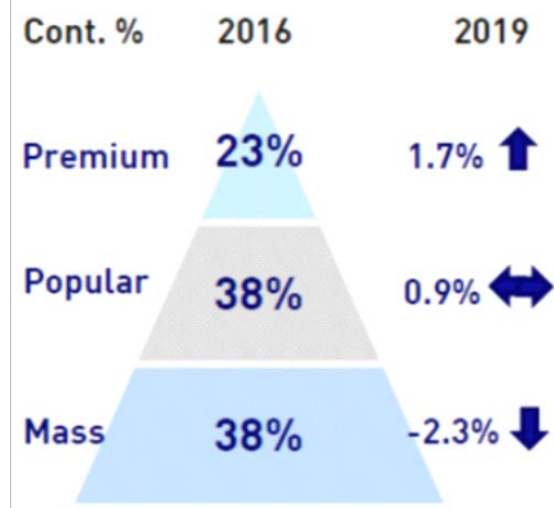
Premium will continue taking share from mass segment driven by favorable demographic and urbanisation

Consumer Confidence Index (RBI)



Source: RBI, HDFC sec Inst Research

Premium Segment Grabbing Share

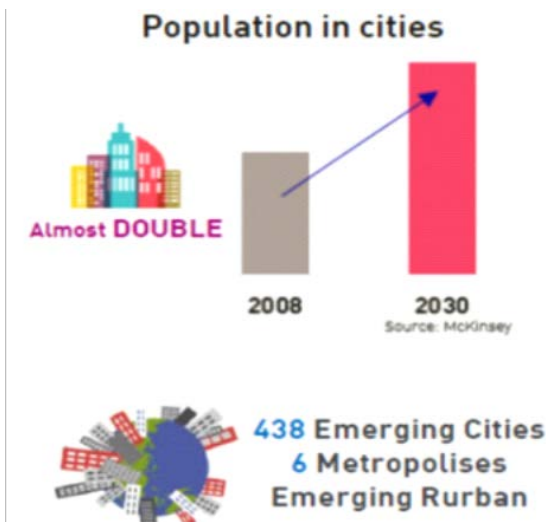


Source: HUL, HDFC sec Inst Research

Summary based on Net Response						
Main Variables	Current Perception compared with 1-year ago			One year ahead Expectations compared with current situation		
	Sep-17	Nov-17	Change	Sep-17	Nov-17	Change
Economic Situation	-6.2	-18.9	↓	24.5	14.6	↓
Income	-0.1	-3.6	↓	36.1	33.0	↓
Spending	81.5	84.2	↑	83.8	84.6	↑
Employment	-13.6	-19.2	↓	23.8	17.8	↓
Price Level	-84.1	-86.9	↓	-74.5	-76.2	↓
Consumer Confidence Index	95.5	91.1	↓	118.8	114.7	↓
↑ Positive Sentiments with sign of improvement compared to last round ↓ Positive Sentiments with sign of deterioration compared to last round ↑ Negative Sentiments with sign of improvement compared to last round ↓ Negative Sentiments with sign of deterioration compared to last round						

Source: RBI, HDFC sec Inst Research

Increasing Urbanisation



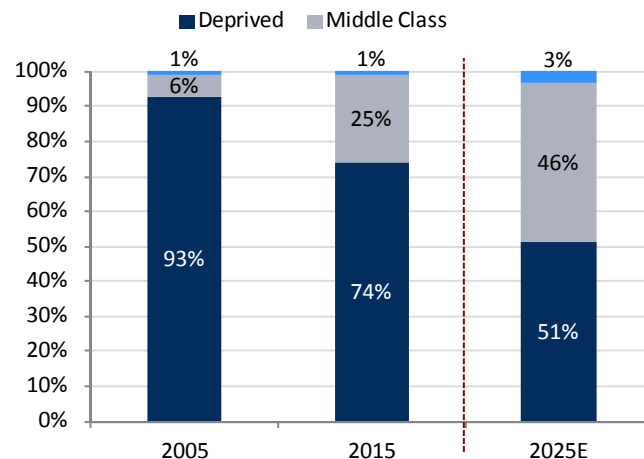
Source: HUL, HDFC sec Inst Research

Migration to urban areas has been the trend since Independence, owing to better employment opportunities

Share of middle class is expected to expand to 46% from 25% in 2015 in the next decade, resulting in premiumisation of FMCG products

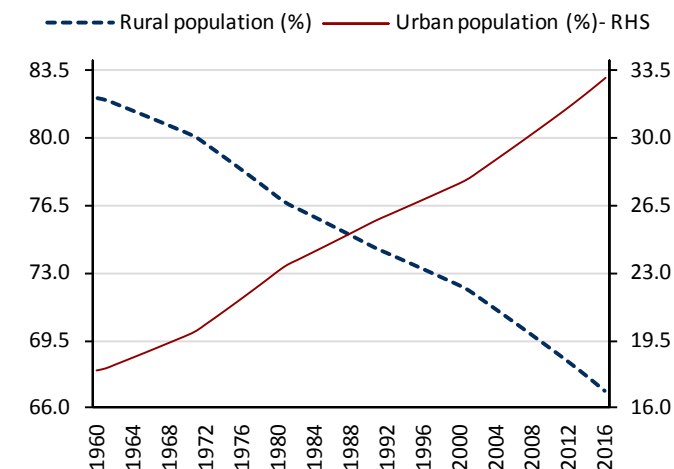
~50% of India's population falls below the age of 25 years. This will support the migration to premium products over a sustainable basis

Favourable Mix for Urban Demand



Source: Emami, HDFC sec Inst Research

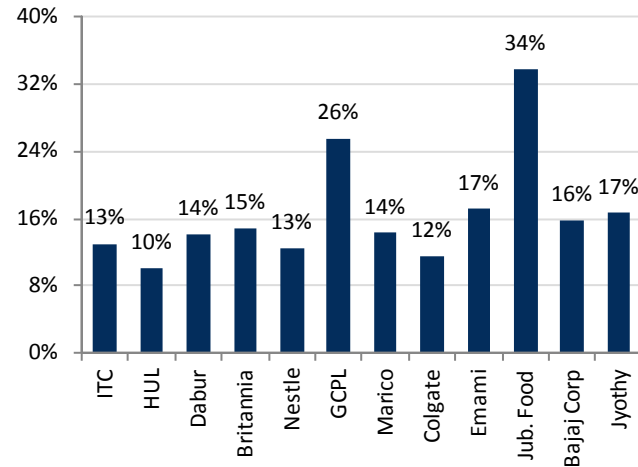
Favourable Mix for Urban Demand



Source: World Bank, HDFC sec Inst Research

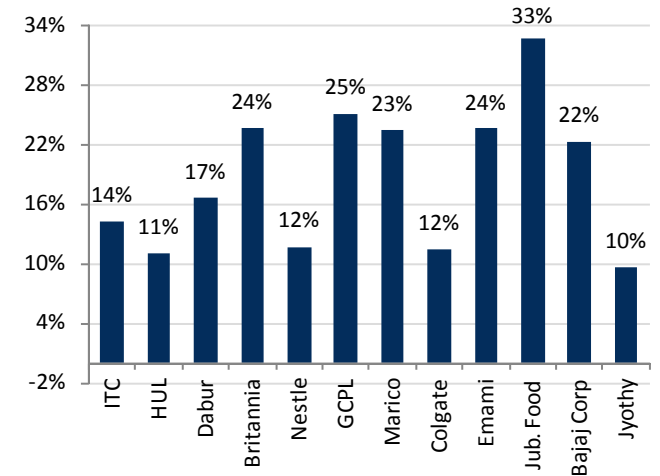
FMCG Universe: Performance Review

Revenue CAGR In The Last 10 Years



Source: Companies, HDFC sec Inst Research

PAT CAGR In The Last 10 Years

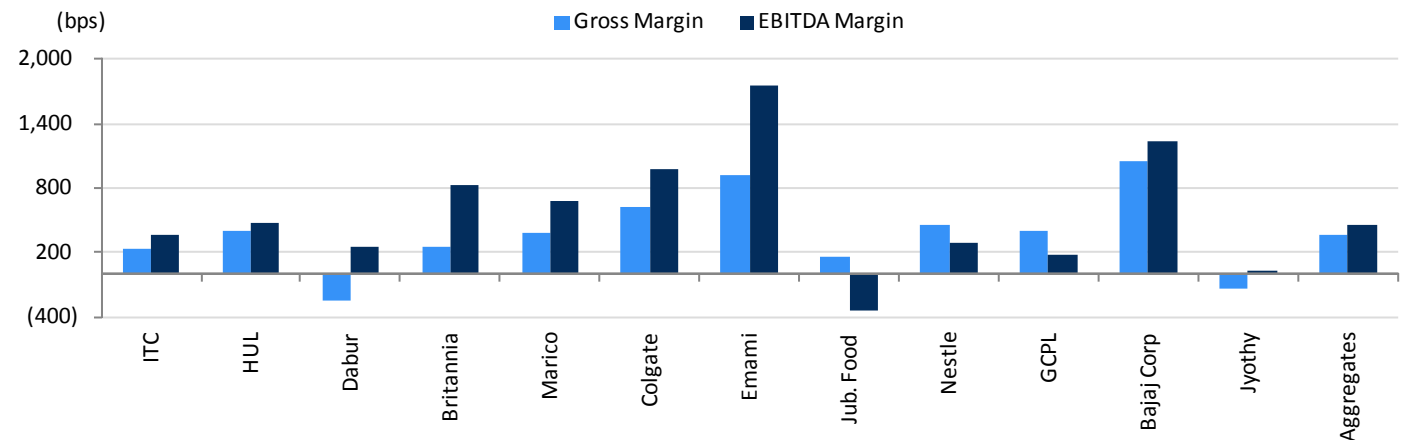


Source: Companies, HDFC sec Inst Research

Most of the companies' EBITDA margin expansion was higher than the gross margin, reflecting companies' focus on efficiencies and cost optimisation

Barring Jubilant FoodWorks, all other consumer companies have expanded EBITDA margins in the last decade

Gross and EBITDA Margin Expansion of the Last 10 Years – Broadbased Margin Expansion for the Sector



Source: Companies, HDFC sec Inst Research

Despite FMCG companies with diversified product portfolios, managements have been able to attain leadership even in the newer categories

1HFY18 performance was impacted by GST led channel destocking and fall in CSD budget

Jubilant FoodWorks' 1HFY18 EBITDA improvement was far superior to others, as well as its own past performance

HUL has executed GST implementation smoothly, and registered strong EBITDA growth for both 1QFY18 and 2QFY18. 1HFY18 EBITDA growth of 17% was encouraging, particularly in the channel disturbance

Revenue Contribution By Leading Brands

Market Leadership		Revenue Contribution (Domestic)
Colgate	Oral Care	~90%
HUL	Detergent, Soaps, Skin Care, Tea, Coffee	~85%
Marico	Coconut Oils, Saffola, Hair Oils, Livon and Silk & Shine, Hair Creams/Gels	~84%
Britannia	Biscuits	~83%
Emami	Navratna Oil, Boroplus, Balm, F&H	~82%
Dabur	Honey, Chywanprash, Air Fresheners, Skin Bleach, Juice, Mosquito Repellent Cream	~60%
ITC	Cigarettes, Paper, Atta	~60%

1HFY18 Performance

Particulars (Rs bn)	2QFY18	2QFY17	YoY (%)	1HFY18	1HFY17	YoY (%)
Revenue						
ITC	97.6	96.6	4.0	200.0	197.1	1.5
HUL	82.0	77.0	10.0	168.7	156.8	7.5
Dabur	19.6	19.8	8.0	39.3	39.3	(0.1)
Britannia	25.5	23.9	6.6	48.1	45.3	6.2
Marico	15.4	14.4	6.5	32.2	32.0	0.7
Colgate	10.8	10.6	2.7	20.6	20.7	(0.3)
Emami	6.3	5.7	14.0	11.9	12.2	(2.0)
Jubilant Food	7.3	6.7	9.2	14.1	12.7	10.3
EBITDA						
ITC	37.6	36.3	3.6	75.1	71.6	4.9
HUL	16.8	14.0	19.7	35.5	30.4	16.7
Dabur	4.2	4.1	2.7	7.3	7.6	(3.8)
Britannia	3.8	3.4	11.4	7.1	6.6	7.8
Marico	2.6	2.5	2.4	5.8	6.3	(7.0)
Colgate	3.0	2.7	9.4	5.2	4.9	7.5
Emami	2.0	1.8	14.9	2.8	3.2	(13.0)
Jubilant Food	1.0	0.6	59.0	1.8	1.2	49.0
APAT						
ITC	26.4	25.0	5.6	52.0	48.8	6.5
HUL	12.5	10.8	15.5	25.4	22.1	15.2
Dabur	3.6	3.6	1.5	6.3	6.5	(3.6)
Britannia	2.6	2.3	11.5	4.8	4.5	5.3
Marico	1.9	1.8	2.4	4.2	4.5	(6.2)
Colgate	1.8	1.8	(2.1)	3.1	3.1	2.3
Emami	1.5	1.2	26.9	2.0	2.2	(12.5)
Jubilant Food	0.4	0.2	105.5	0.7	0.4	82.6

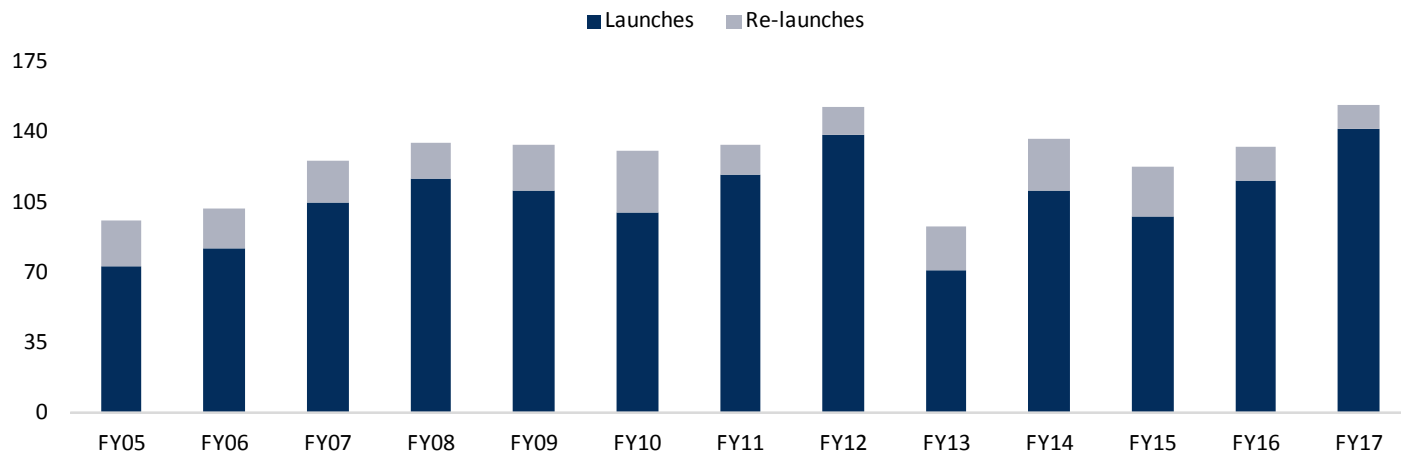
Source: Companies, HDFC sec Inst Research

The pace of new launches and re-launches of the sector had picked up during 1HFY17 on account of visible green shoots in the economy. However, the pace of launches had slowed down during 2HFY17 and 1HFY18 due to demonet and GST implementation impact. We expect the pace of launches to pick up significantly in the coming years

HUL has significantly reduced the new launches in FY17

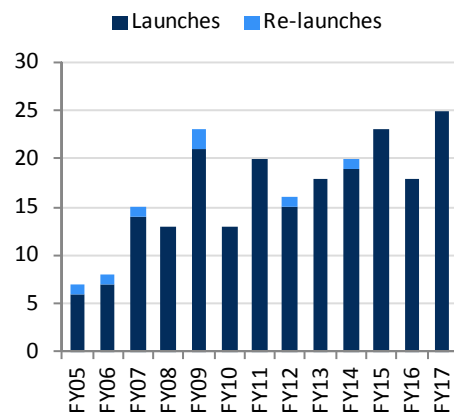
Trends of New Product Launches

Sector - Product Launches and Re-launches



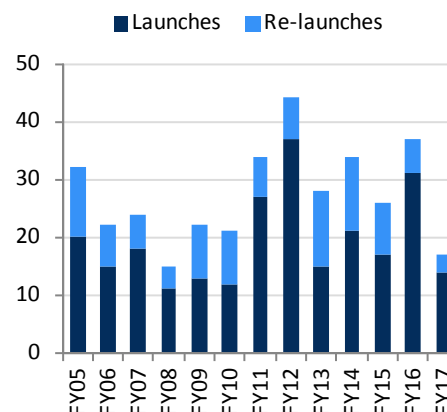
Source: Companies AR, HDFC sec Inst Research

ITC



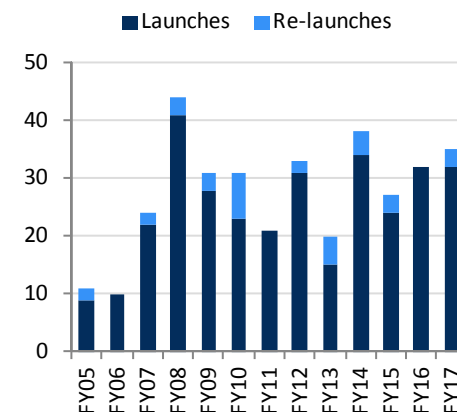
Source: ITC AR, HDFC sec Inst Research

HUL



Source: HUL AR, HDFC sec Inst Research

Dabur

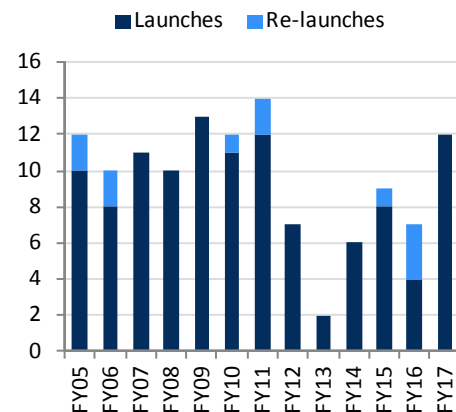


Source: Dabur AR, HDFC sec Inst Research

Marico plans for further acceleration in the new launches and aims to achieve new launches contribution to 7-8% of total domestic revenues in the coming years as compared to 3-4% now

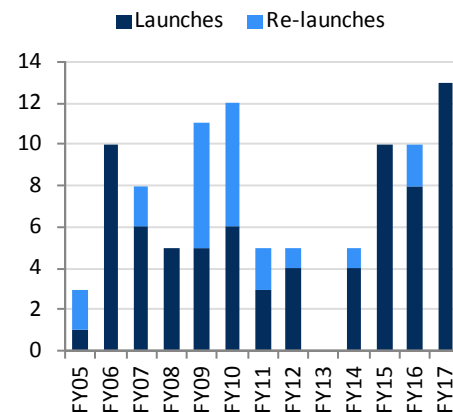
Colgate on account of sudden shift towards the Ayurvedic/natural toothpaste has controlled product launches in FY17. The company has launched few products in the Ayurvedic space in the last 12-months

Marico



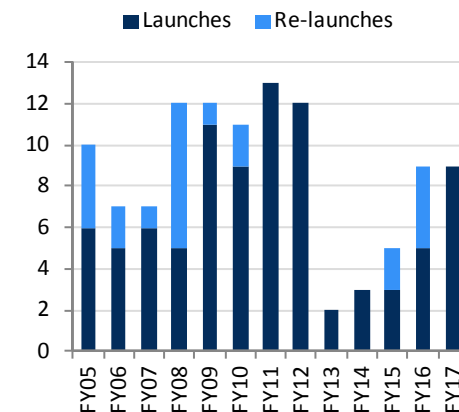
Source: Marico AR, HDFC sec Inst Research

Emami



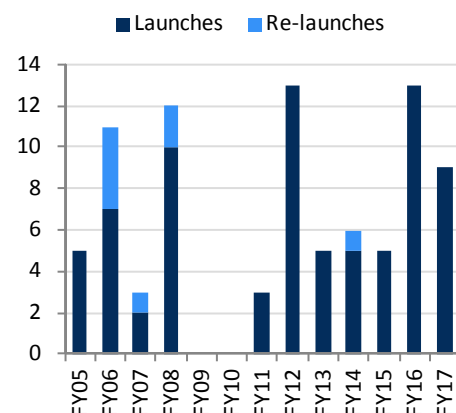
Source: Emami AR, HDFC sec Inst Research

Britannia



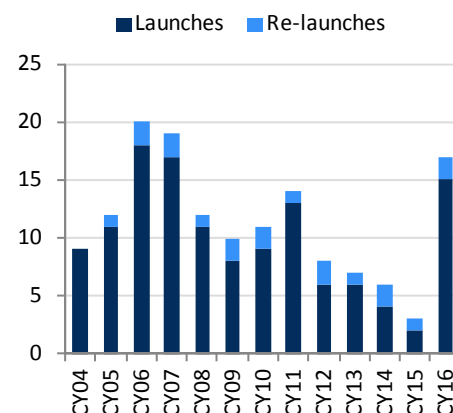
Source: Britannia AR, HDFC sec Inst Research

Colgate



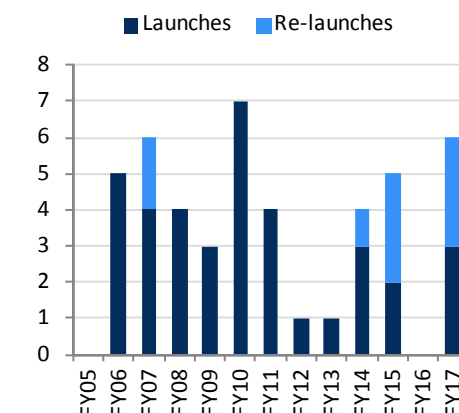
Source: Colgate AR, HDFC sec Inst Research

Nestle



Source: Nestle AR, HDFC sec Inst Research

Jyothy



Source: Jyothy AR, HDFC sec Inst Research

Domestic Performance Review

Domestic Volume Growth

Categories	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	FY13	FY14	FY15	FY16	FY17
Personal Products																	
HUL	3%	6%	6%	7%	6%	4%	4%	-1%	-4%	4%	0%	4%	7%	4%	5%	6%	1%
Colgate	5%	5%	3%	3%	1%	6%	6%	4%	-12%	-3%	-5%	-1%	11%	9%	5%	3%	-2%
Dabur	7%	8%	8%	5%	-3%	7%	4%	5%	-5%	2%	-4%	7%	11%	9%	8%	4%	2%
Emami	11%	13%	15%	14%	9%	18%	17%	11%	0%	-2%	-18%	10%	15%	1%	13%	14%	7%
Bajaj Corp. - Nomarks	71%	39%	-31%	-25%	-16%	-54%	-27%	-34%	-36%	-2%	-15%	-7%				-33%	-26%
Hair Care																	
Bajaj Corp. - Almond Drop Hair Oil	19%	24%	11%	6%	1%	-4%	2%	2%	-4%	-7%	-7%	6%	22%	5%	11%	3%	-2%
Bajaj Corp. - Brahmi Amla Hair Oil	46%	76%	46%	64%	-14%	-7%	-16%	-8%	-10%	-13%	-20%	28%	-11%	-21%	30%	16%	-12%
Marico - FMCG	5%	3%	6%	6%	11%	8%	8%	3%	-4%	10%	-9%	8%	16%	6%	6%	7%	4%
Marico - Parachute Coconut Oil	8%	5%	8%	11%	4%	6%	7%	-6%	-1%	15%	-9%	12%	10%	4%	6%	7%	4%
Marico -VAHO	10%	5%	14%	8%	21%	11%	9%	11%	-12%	10%	-8%	12%	24%	11%	10%	14%	4%
Home Care																	
GCPL - Branded Biz	0%	8%	13%	9%	9%	6%	3%	9%	-3%	5%	0%	10%	na	na	8%	9%	4%
Jyothy Labs	10%	9%	6%	9%	9%	14%	10%	8%	4%	5%	-15%	4%	na	15%	10%	9%	7%
F&B																	
Britannia Industries - Domestic	8%	8%	10%	12%	11%	10%	8%	8%	2%	2%	3%	6%	na	2%	8%	11%	5%
Marico - Saffola	3%	-1%	4%	4%	17%	13%	11%	8%	6%	6%	-9%	3%	7%	9%	6%	9%	8%
QSR																	
Jubilant FoodWorks - SSG	2%	7%	5%	3%	2%	3%	-3%	4%	-3%	-8%	7%	6%	16%	2%	0%	3%	-2%
Westlife Development	0%	0%	-5%	2%	3%	8%	3%	7%	5%	1%	9%	8%	6%	-6%	-6%	2%	4%
Pizza Hut*						-6%	-7%	6%	9%	6%	8%	7%	29%	20%	14%	-5%	1%
KFC*						-1%	-1%	13%	16%	2%	9%	8%					7%
Others																	
ITC-Cig	-13%	-17%	-17%	-15%	-4%	1%	3%	4%	-1%	-1%	1%	-6%	-1%	-2%	-9%	-9%	1%

*System sales growth

Source:Companies, HDFC sec Inst Research

FY17 had been a difficult year for all the companies due to demonet shock and 1HFY18 impacted by GST implementation

In Personal Products, HUL has done well during 1HFY18 while others witnessed sharp volume contraction

In Hair Care, all players had seen volume contraction in 1QFY18 (due to higher wholesale channel dependence). Recovery in 2QFY18 was encouraging

In Home Care, GCPL has done well in 1HFY18

In F&B, Britannia has been consistent in 1HFY18 despite several headwinds. Britannia historically has also maintained healthy volume growth

QSR performance in 1HFY18 had improved significantly vs. FY17

ITC volume had improved in FY17 which was impacted in 1HFY18 by higher taxes (GST)

We have grouped companies' performance based on their respective categories to compare like-to-like performance. We also computed weighted average growth (based on revenue) for each category

Even during turbulent market conditions (LTM) categories like F&B, QSR, Home care, Cigarettes and Personal care grew at 5-8%. Whereas laggards like Oral care, Hair care and OTC FMCG grew at 0-1%

Category Insights

Category Revenue Growth (%)

YoY Gr. (%)	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	Last 4 Qtr Avg.	FY15	FY16	FY17	5 Yr Avg. (%)
Cigarette	5%	8%	5%	6%	3%	5%	6%	5%	5%	11%	-1%	5%	9%
F&B	-2%	3%	10%	18%	11%	7%	6%	8%	8%	11%	0%	9%	9%
Personal Care	5%	5%	3%	0%	-3%	9%	3%	10%	5%	12%	7%	3%	9%
Home Care	3%	4%	4%	6%	1%	6%	4%	11%	5%	10%	3%	7%	10%
OTC FMCG	5%	0%	-1%	5%	-8%	3%	1%	8%	1%	-3%	2%	-2%	7%
Hair Care	2%	4%	3%	-1%	-11%	5%	-5%	11%	0%	24%	8%	0%	12%
Oral Care	2%	7%	6%	7%	-8%	3%	-1%	8%	0%	11%	5%	3%	10%
QSR	12%	14%	7%	13%	6%	0%	10%	9%	7%	16%	14%	6%	17%

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

Cigarettes: Contrary to market belief, in spite of punitive taxes, this category has grown at mid single digits. No significant impact owing to demonet and the GST transition. Govt. stated that GST would be neutral for cigarettes; instead, they increased the cess on cigarettes in July resulting in higher taxes. Therefore, we anticipate high probability of neutral to mild increase in taxes in upcoming union budget (which will be positive for ITC).

F&B: The market is dominated by unorganised players and there is immense potential for branded players to gain share. Govt. is very aggressive for 'Make in India' for food processing. In F&B, we expect long term growth story for dairy, biscuits, confectionery and savory snacks.

Personal Care: 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 continues premiumisation in soaps and shampoos. Digital marketing would further support the category in the coming years. HUL can be the key beneficiaries of growth acceleration in the personal care segment.

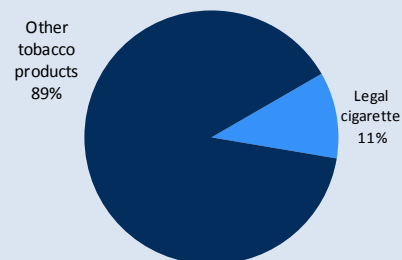
Home Care: Home Care market size is ~Rs 200bn out of which detergent contribute ~75%. Detergent market is enjoying premiumisation and HUL has benefited most. Dish-wash and HI market are evolving and many product innovations are happening especially in HI

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. With digital marketing and better traction from E-commerce and MT channel would continue to support the category growth.

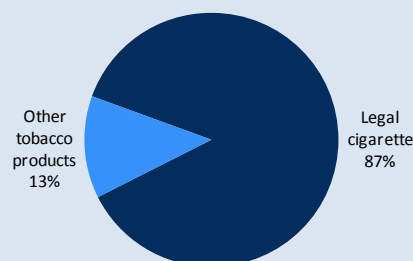
Hair Care: Hair care has had a terrible run in the last six quarters, with a flat average growth rate. However, it reported a strong recovery in 2QFY18. We expect this recovery to be sustainable, aided by a low base and an improving wholesale channel.

Oral Care: This category has been struggling to grow in the last two years, owing to high penetration and increased competition because of Patanjali's entry. We believe that base benefit, stabilising wholesale channel and GST would result in higher category growth in the coming quarters. We remain optimistic about Dabur's oral care growth in the coming quarters, particularly with improving rural demand. We would also like to track HUL's success with Lever Ayush toothpaste, as it received strong initial consumer response.

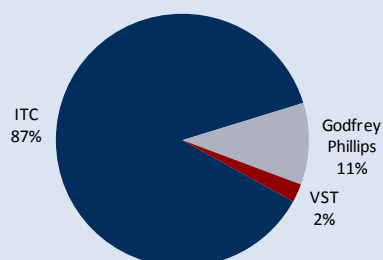
QSR: Growth rates have started recovery in the last 2-3 quarter after a lull show in FY16-FY17. Also, the space still has untapped potential to grow at ~20% for the coming years led by favorable demographics (increased youth population, nuclear family & more working women), changing consumer preferences – widening exposure to new cultures & cuisines and digitization would continue to help the category growth.

Tobacco Consumption Share


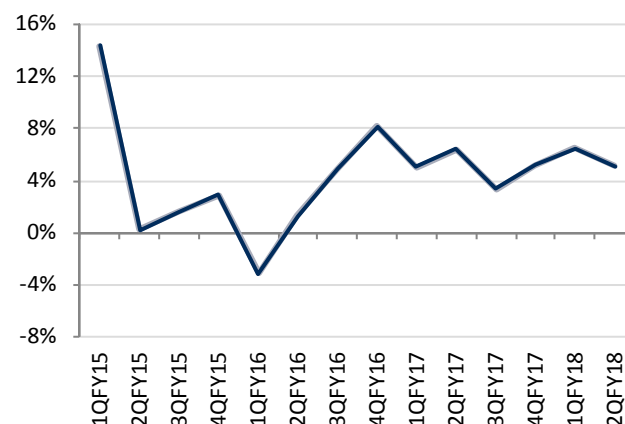
Source: ITC, HDFC sec Inst Research

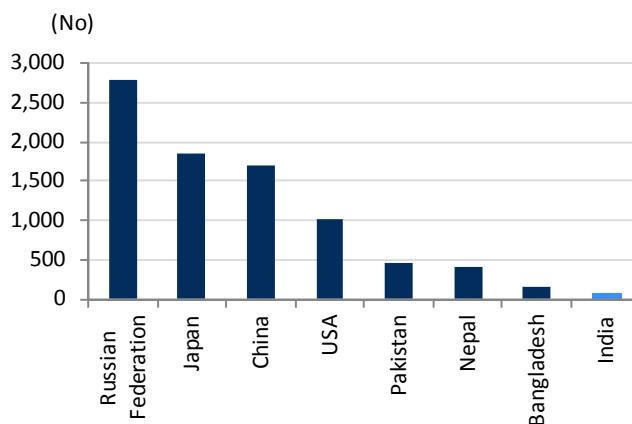
Tax Revenue Share


Source: ITC, HDFC sec Inst Research

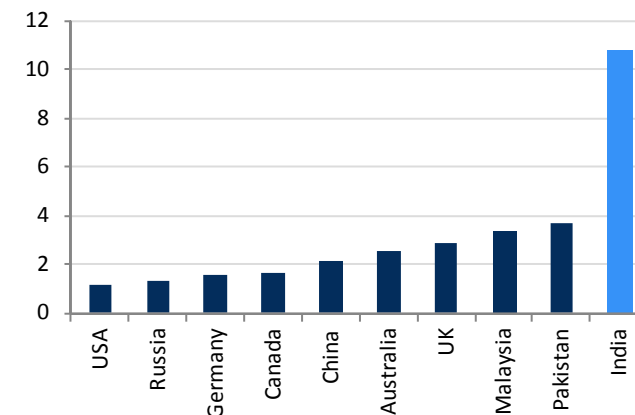
Revenue Market Share


Source: Companies, HDFC sec Inst Research

Cigarette Growth

 Source: Companies, HDFC sec Inst Research
 Weighted average growth (YoY)

Per capita annual consumption of Tobacco in India


Source: IBEF, HDFC sec Inst Research

Affordability (% of per capita GDP) required to purchase 100 packs of 20 cigarettes each of most sold brands


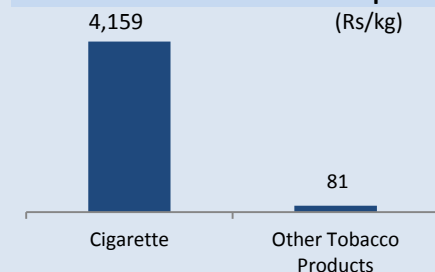
Source: IBEF, HDFC sec Inst Research

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 beedi). ITC has lion's market share in cigarette industry with >80% share. The category despite pressure from govt., has registered 5% growth in the last 4 quarters (not significantly lower as compared to other FMCG categories).

Our View: Govt. stated that GST would be neutral for cigarettes; instead, they increased the cess on cigarettes in July resulting in higher taxes. Therefore, we anticipate high probability of neutral to mild increase in taxes in upcoming union budget. ITC would be the key beneficiary due to its large product range. ITC's cigarette value growth can be in high single digit in the coming years.

India is the 4th largest illegal cigarette market in the world

Effective tax on tobacco consumption



Source: Tobacco Institute India, HDFC sec Inst Research

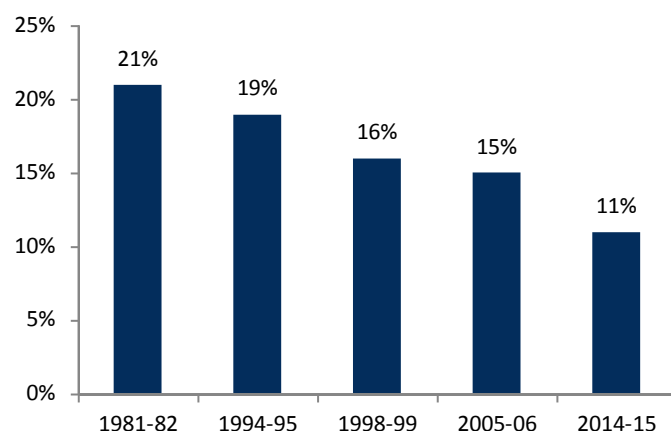
Illegal cigarettes contribute >20% of the market now, as compared to ~16% in 2010

Change In Legal Cigarette Consumption

Period	Total domestic tobacco consumption including illegal cigarette (Mn Kgs)	Legal cigarette consumption (Mn Kgs)	% share of legal cigarette in total tobacco consumption
1981-82	406	86	21%
2009-10	499	73	15%
2014-15	562	62	11%

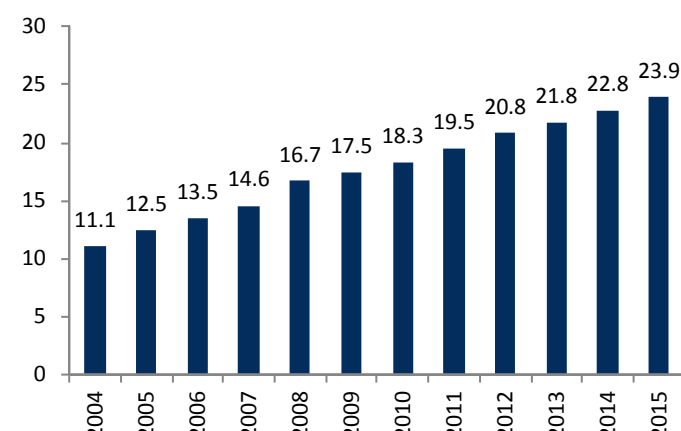
Source:ITC

Legal cigarette share of total tobacco consumption



Source: Tobacco Institute India, HDFC sec Inst Research

Illegal Cigarette Volumes in India (Bn Sticks)



Source: Tobacco Institute India, HDFC sec Inst Research

Revenue Gr. (%)	Brands	1Q FY15	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	Avg. 4 Qtr
ITC	Cigarette Gold Flake, Classic, Wills	14%	1%	3%	1%	-1%	2%	6%	10%	6%	7%	2%	5%	7%	2%	4%
Godfrey Phillips	Cigarette Marlboro	14%	-5%	-18%	27%	-17%	-1%	-3%	-12%	-13%	-1%	12%	14%	11%	32%	17%
VST	Cigarette Charms, Charminar, Gold, Moments, Zaffran	21%	-3%	-7%	16%	-11%	0%	10%	23%	33%	13%	8%	-18%	-16%	-2%	-7%
Weighted Avg Gr. (%)		14%	0%	2%	3%	-3%	1%	5%	8%	5%	6%	3%	5%	6%	5%	5%

Source:Companies, HDFC sec Inst Research

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
Total	2,185

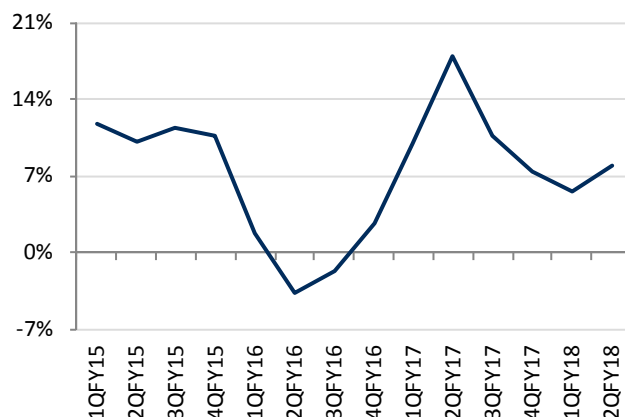
Source: Prataap snacks RHP

India Beverage Market

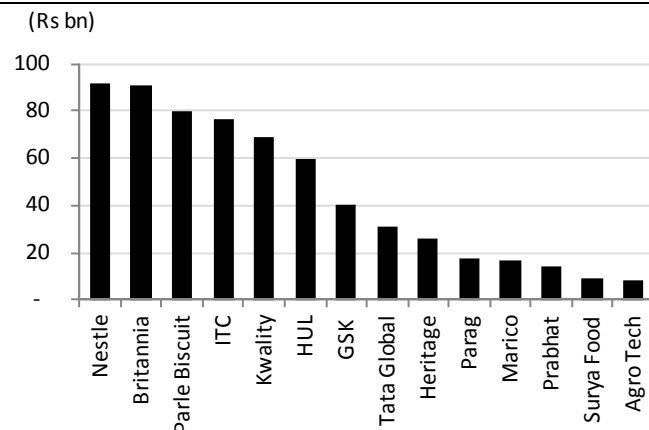
Segments	(Rs bn)
Carbonates	251
Juice	130
Bottled Water	121
Tea	125
Coffee	24
Total	652

Source: Varun Beverage RHP, Industry, Companies

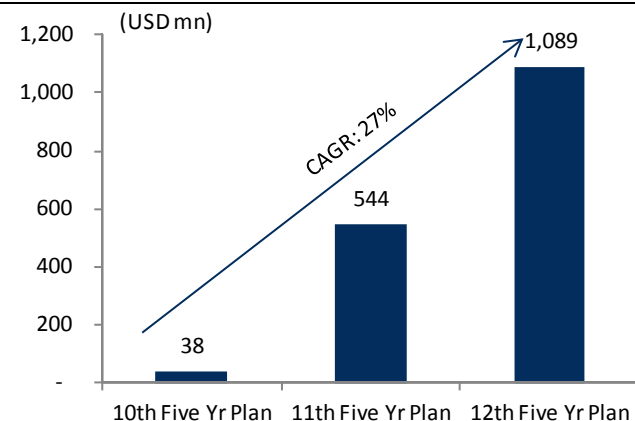
Segment	Key Players
Dairy Food	Amul, Mother Dairy, Kwality, Parag Milk Foods, Prabhat, Heritage
Bakery	Britannia, Parle Agro, ITC, Monginis
Ready meals	Nestle, MTR, ITC
Confectionery	Mondelez, Parle, Nestle, Ferrero
Breakfast cereals	Kellogs, GSK, Marico
Naturally healthy beverages	Dabur, PepsiCo, Tata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

F&B Growth

 Source: Companies, HDFC sec Inst Research
 Weighted average growth (YoY)

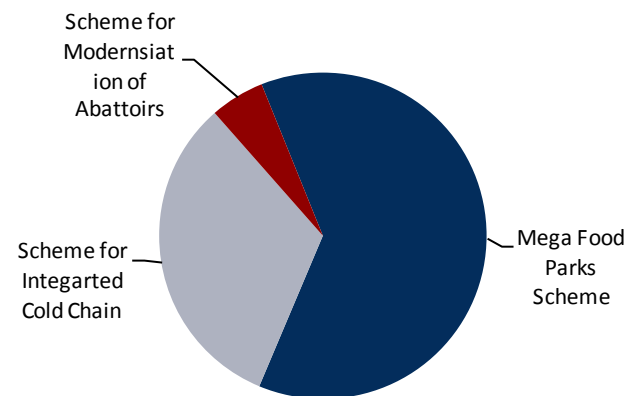
- Organised packaged F&B industry is ~Rs 2.5-3tn, with Dairy and Baked products contribute 50% of the total market. F&B industry is fragmented in nature, and accounts for the largest share in the FMCG market. Nestle and Britannia (~6% of total market) are the largest packaged food companies.

Packaged Food Revenue Comparison


Source: Companies, HDFC sec Inst Research

Govt.'s focus on food processing under 'make in India' reflected by 2x fund allocation in 12th five year plan


Source: IBEF, HDFC sec Inst Research

Project-wise fund allocated in 12th Five-Year Plan (USD 1,089mn)


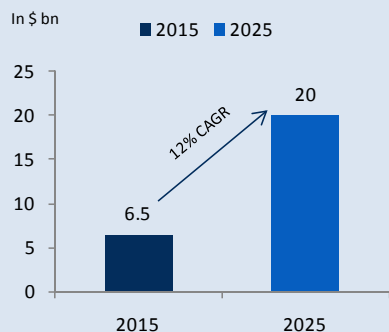
Source: IBEF, HDFC sec Inst Research

- Our View:** F&B market is dominated by unorganised players and there is immense potential for branded players to gain share. Govt. is very aggressive for 'Make in India' for food processing. In F&B, we expect long term growth story for dairy, biscuits, confectionery and savory snacks.

Revenue Gr. (%)	Category	Brands	1Q FY15	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	Avg. 4 Qtr
Britannia	Biscuits	Good Day, Pure Magic, Bourbon, Nice Time, Tiger	15%	12%	13%	14%	13%	12%	10%	7%	9%	11%	6%	5%	6%	7%	6%
Nestle	Food	Nestle, Maggi, Nescafe, Cerelac, Kitkat	9%	9%	12%	8%	-20%	-32%	-23%	-9%	15%	36%	16%	9%	7%	9%	10%
HUL	Food	Kissan, Knorr	19%	13%	13%	14%	12%	12%	12%	12%	5%	2%	0%	2%	4%	11%	5%
HUL	Refreshment	Lipton, Magnum, Red Label, Bru, Kwality Walls	10%	8%	8%	12%	9%	6%	7%	6%	5%	8%	8%	11%	11%	10%	10%
Marico	Edible oil	Saffola	14%	18%	9%	3%	7%	4%	15%	14%	11%	10%	7%	3%	-8%	1%	1%
Dabur	Juice	Real, Active	8%	8%	11%	12%	16%	2%	-24%	12%	4%	15%	52%	10%	-8%	12%	16%
Agro Tech	Popcorn, Edible Oil	Act II, Sundrop	-2%	1%	-1%	-1%	1%	1%	4%	7%	6%	1%	3%	4%	-4%	-2%	0%
Weighted Avg Gr. (%)			12%	10%	11%	11%	2%	-4%	-2%	3%	10%	18%	11%	7%	6%	8%	8%

Source:Companies, HDFC sec Inst Research

Personal Care Market (~Rs 420bn market)



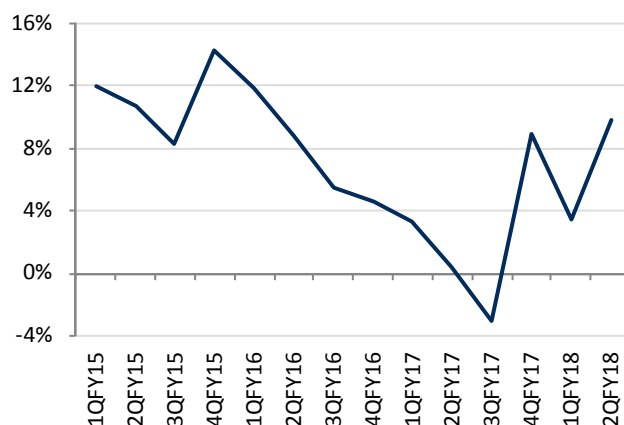
Source: IBEF

Category Penetration



Source: Emami, IMRB

Personal Care Growth


Source: Companies, HDFC sec Inst Research
Weighted average growth (YoY)

- The Personal Care category is largely constituted by Skin Care and Soaps. HUL is the leader in this market, with its leading brands in Soaps, Skin Care, Hair Care and Makeup. HUL is the pioneer in developing the Personal Care market in India. Soaps which already had a high penetration have benefited from premiumisation, while growth in Skin Care was driven by both penetration and premiumisation.

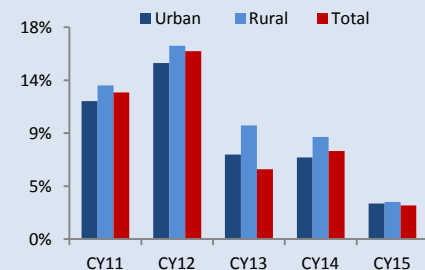
- HUL has underperformed in the PC segment in the past one year, as it did not tap the trend of India's revamped affluence towards natural products. This was lapped up by domestic brands (Patanjali, Dabur, Emami etc.). HUL recently responded by launching ~20 PC products under the brand 'Lever Ayush', to compete with the natural segments' market leaders.
- As per AC Nielsen, Natural segment is growing at ~1.7x than the overall personal care market and has reached to ~Rs 185bn (~41% of the total personal care market). Natural segment has grown well in Tier 2 and Tier 3 cities.
- Our View:** 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 continues premiumisation in soaps and shampoos. Digital marketing would further support the category in the coming years. HUL can be the key beneficiaries of growth acceleration in the personal care segment.

Revenue Gr. (%)	Category	Brands	1Q FY15	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	Avg. 4 Qtr
HUL	Skin, Soaps, Shampoo, Oral care	Dove, Liril, Lakme, Close-up, Pepsodent	15%	10%	7%	13%	11%	9%	6%	3%	2%	0%	-3%	8%	3%	8%	4%
Dabur	Skin	Gulabari, Fem, Oxyline	4%	8%	9%	8%	5%	2%	10%	0%	-2%	7%	-11%	0%	4%	16%	2%
Emami	Skin	Boroplus	-16%	14%	19%	43%	12%	16%	2%	41%	38%	16%	13%	2%	41%	38%	24%
Gillette	Shaving Cream/Blades/Toiletries	Gillette	18%	13%	13%	9%	15%	9%	9%	15%	5%	12%	-9%	23%	-16%	1%	0%
GCPL	Soaps	Cinthol, Godrej No.1	2%	13%	11%	15%	13%	3%	2%	-6%	1%	-10%	-6%	9%	7%	26%	9%
Weighted Avg Gr. (%)			12%	11%	8%	14%	12%	9%	5%	5%	3%	0%	-3%	9%	3%	10%	5%

Source: Companies, HDFC sec Inst Research

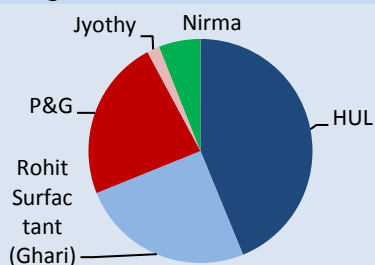
Home Care market size is >Rs 200bn out of which detergent contribute ~75%. Detergent market is enjoying premiumisation and HUL has benefited most. Dish-wash and HI market are evolving and many product innovations are happening especially in HI

Detergent Price and Mix Led Growth



Source: Jyothy Labs

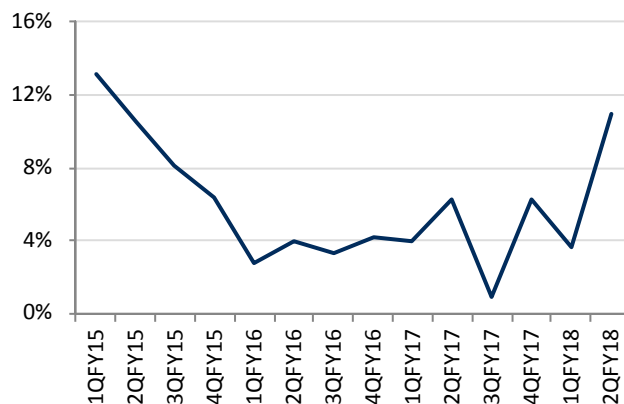
Detergent Market Share



Source: Jyothy Labs

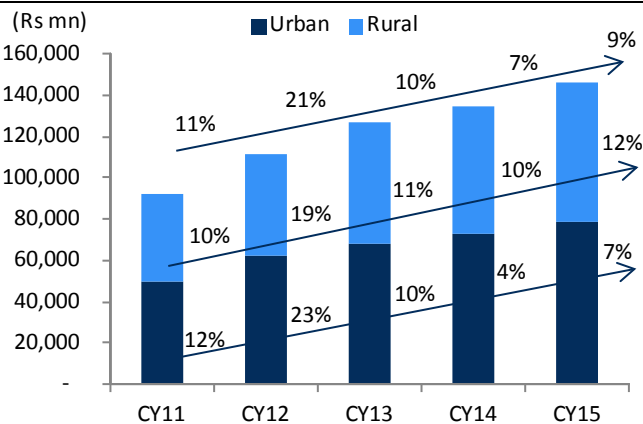
Detergent premium products are 3x in terms of pricing and 1/4th in terms of size, as compared to mass products

Home Care Growth



Source: Companies, HDFC sec Inst Research
Weighted average growth (YoY)

Premiumisation-driven Growth In Detergents



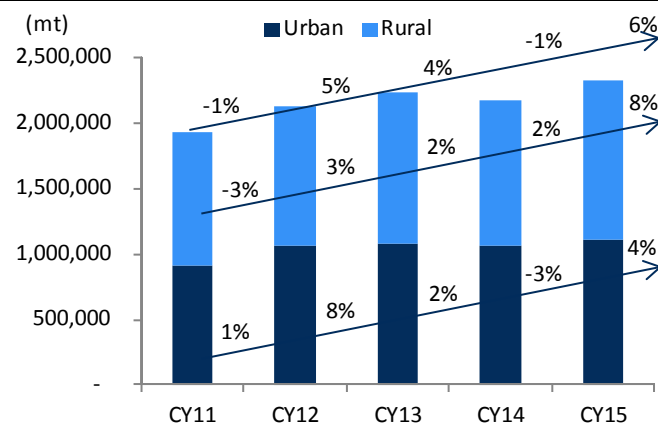
Source: Jyothy Labs AR (A.C. Nielsen), HDFC sec Inst Research

- **Detergent** is the largest category under homecare, with a market size of ~Rs 160bn. HUL is the leading player, with ~40% market share. Detergents have attained a high penetration rate, owing to which the category has grown in low-single digit volume

growth. The growth has been led by premiumisation across both rural and urban areas.

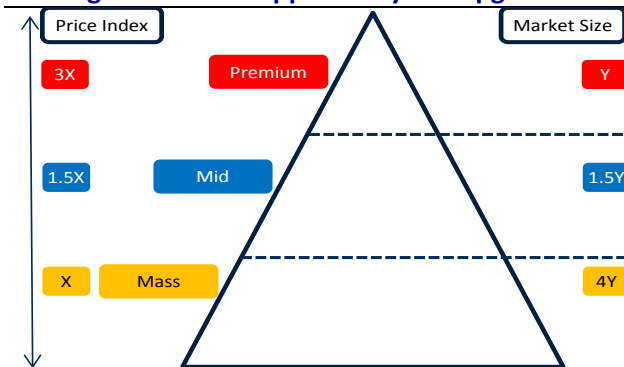
- **Our View:** Premium detergent is 3x in terms of pricing and 1/4th in terms of market size as compared to mass products. The penetration of washing machines is at ~11%. With growing disposable income and cheaper financing, we see significant scope for washing machine penetration. Hence, we believe that premiumisation-driven growth in detergents would continue in the coming years.

Detergent Volume



Source: Jyothy Labs AR (A.C. Nielsen), HDFC sec Inst Research

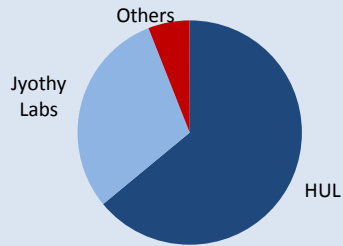
Detergent Market: Opportunity For Upgradation



Source: HUL, HDFC sec Inst Research

Dishwash continues to witness healthy traction from premiumisation in the form of Liquid Wash

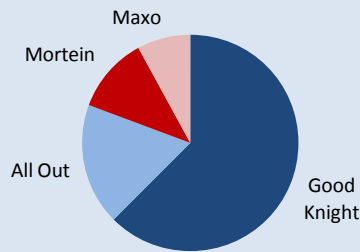
Dishwash Market Share



Source: Jyothy Labs AR

HI market is ~Rs 35bn out of which coils contribute to ~44%, liquid to 46% and cards 10%

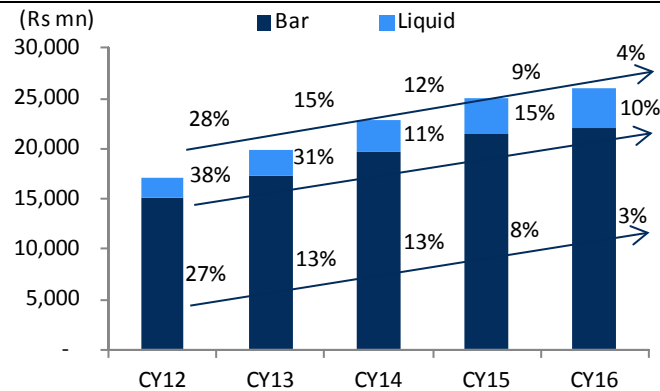
HI Market Share



Source: Jyothy Labs AR

- **Dishwash** market is ~Rs 26bn out of which Bar contributes ~85% and Liquid ~15%. Overall market in the last 4 years has witnessed 11% CAGR while Liquid registered 21%.
- **Our View:** We believe market would continue to shift towards liquid wash in the coming years. With improving penetration, higher share of liquid dishwash and shift from unconventional (ash, mud) to conventional methods in rural market, would continue to maintain healthy growth in coming years.

Liquid Dishwash Gaining Share



Source: Jyothy Labs AR (A.C. Nielsen), HDFC sec Inst Research

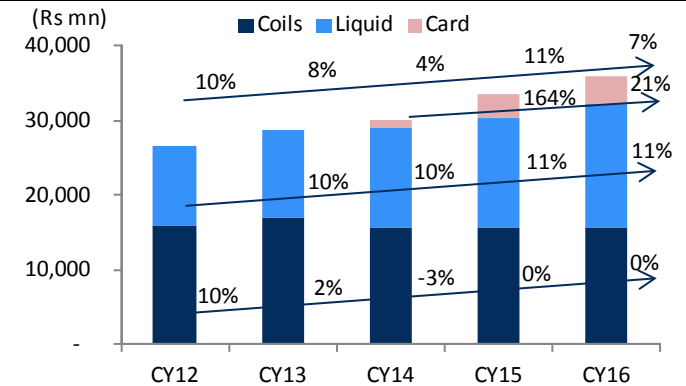
- **Household Insecticide (HI)** market is ~Rs 35bn, coils contribute ~44%, liquid 46% and cards 10%. HI market has registered 8% CAGR in the last 4 years

Revenue Gr. (%)	Category	Brands	1Q FY15	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	Avg. 4 Qtr
HUL	Detergent, Dishwash	Surf, Rin, Wheel, Vim	13%	11%	6%	5%	0%	2%	1%	2%	7%	3%	1%	7%	6%	13%	7%
GCPL	HI	GoodKnight	9%	2%	16%	11%	15%	13%	15%	10%	-11%	18%	-2%	4%	4%	4%	3%
Dabur	HI	Odonil, Odomos, Sanifresh	22%	29%	12%	20%	12%	12%	8%	19%	2%	20%	5%	-7%	6%	10%	4%
Jyothy	Fabric Care	Ujala whitener, Henko detergent, Mr. White, Ujala Detergent	20%	14%	13%	7%	5%	12%	1%	13%	11%	3%	10%	8%	-15%	4%	2%
Jyothy	Dishwashing	Pril, Exo	24%	17%	14%	16%	18%	10%	9%	12%	10%	15%	3%	4%	-14%	12%	1%
Jyothy	Mosquito Repellent	Maxo	19%	6%	48%	16%	-2%	14%	32%	18%	-11%	8%	-15%	-6%	-19%	3%	-10%
Weighted Avg Gr. (%)			13%	11%	8%	6%	3%	4%	3%	4%	4%	6%	1%	6%	4%	11%	5%

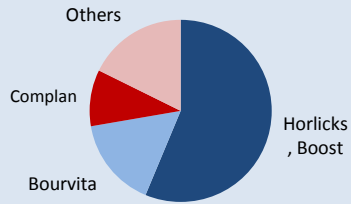
with coils reported flat, liquid 11% and cards 79% growth. HI market is dominated by 4 players who hold 80% market share, namely Godrej Consumer Products, SC Johnson, Reckitt Benckiser and Jyothy Labs. Godrej is the leading player in this market, with >50% share.

- **Our View:** Mosquito repellent players have launched innovative products in the premium category. Mosquito repellents' penetration is <30% in rural areas, as they substitute with natural remedies. However, with lower price points and innovative products (Rs 1 per card), penetration is set to rise.

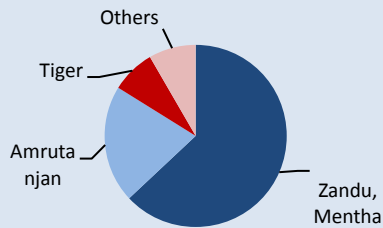
Liquid And Card Mosquito Repellent Gaining Share



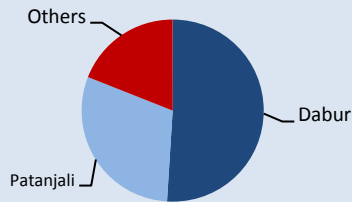
Source: Jyothy Labs AR (A.C. Nielsen), HDFC sec Inst Research

Malted Drink Market Share (~Rs 60bn)


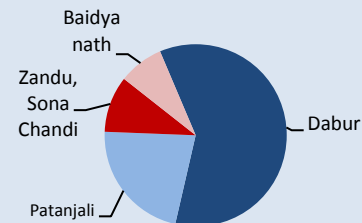
Source: GSK Consumer, Industry

Balm Market Share (~Rs 9bn)


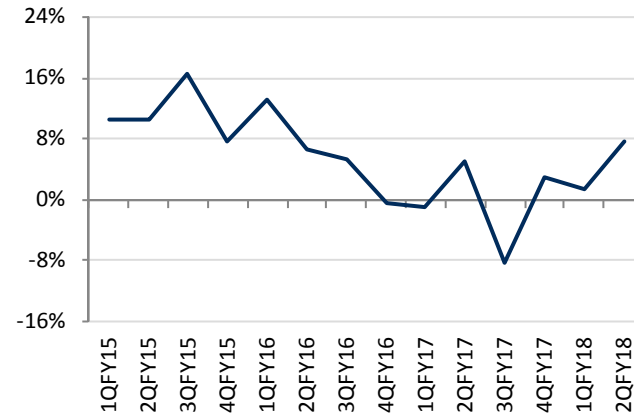
Source: Emami, Amrutanjnan, Alkem

Honey Market Share (Rs 7-8bn)


Source: Dabur India

Chywanprash Market Share (Rs 5-6bn)


Source: Dabur India

OTC FMCG Growth

 Source: Companies, HDFC sec Inst Research
 Weighted average growth (YoY)

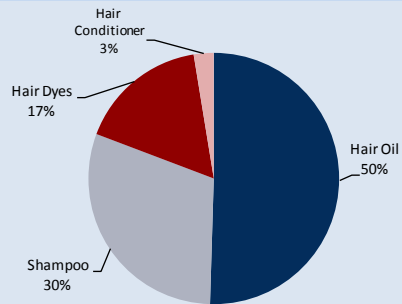
- OTC FMCG is ~Rs 100bn market with major contribution from malted food drink ~60% (driven by MNC players). Other segments in OTC FMCG are Balm, Honey, Chywanprash and Health Supplements that are dominated by Dabur, Emami and Patanjali.
- Dabur's OTC category underwent a change in distribution strategy in 1QFY17 that impacted performance for few quarters; the category reported growth for the first time after 6 quarters. Dabur honey rebounded to high growth in 2QFY18 after facing a few competitive quarters due to Patanjali's

Revenue Gr. (%)	Category	Brands	1Q FY15	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	Avg. 4 Qtr
Dabur	OTC	Dabur Lal Tail, Honitus, Dasmularisht	22%	10%	14%	13%	17%	11%	8%	7%	-10%	-9%	-11%	-4%	-7%	6%	-4%
Dabur	Health Suppl.	Dabur Honey, Chywanprash	11%	12%	19%	0%	24%	28%	16%	20%	13%	4%	2%	9%	10%	26%	12%
Emami	Digestive	Pancharishta, Nityam Churna	32%	29%	18%	24%	28%	45%	25%	30%	14%	0%	-6%	-11%	-23%	2%	-10%
Emami	Balm	Zandu, Mentho Plus	13%	12%	15%	10%	27%	3%	10%	12%	6%	19%	-5%	1%	-21%	15%	-3%
Amrutanjnan	Balm	Amrutanjnan	19%	21%	17%	8%	15%	11%	13%	15%	23%	23%	8%	16%	-10%	-1%	3%
GSK	Malted Foods	Horlicks	8%	10%	17%	9%	8%	1%	2%	-9%	-5%	4%	-11%	2%	4%	3%	0%
Weighted Avg Gr. (%)			11%	11%	17%	8%	13%	7%	5%	0%	-1%	5%	-8%	3%	1%	8%	1%

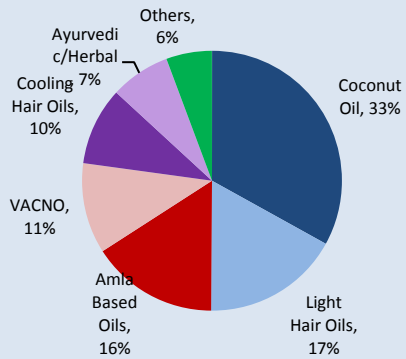
entry, however the intensity seems to have settled down and has resulted in expanding the market at the expense of other sweeteners.

- 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 Bournvita (Mondelez) and Complian (Heinz). There is lot of scope for improving category penetration.
- Balm** is dominated by Emami's Zandu and Mentho plus balm that combine contribute to ~63% market share. Amrutanjnan and Tiger are the other key brands in the balm category.
- Honey** market was disrupted by Patanjali and Dabur had lost market share last year. However, Dabur still is the leader with ~51% share followed by Patanjali.
- Chywanprash** market is dominated by Dabur with ~60% 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.

Hair Care Market Breakup (~Rs 200bn market)



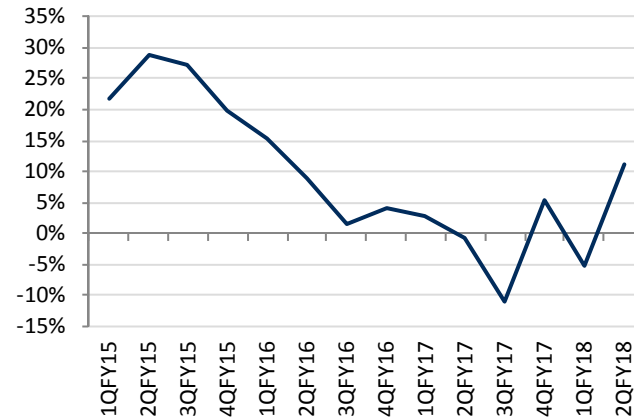
Hair Oil Market Breakup (~Rs 100bn market)



Source: Bajaj Corp

Hair Oil	MRP (100ml)
Cocounut Hair Oil	
Parachute	36
Patanjali Tejus	33
Dabur Anmol	30
Light Hair Oil	
Bajaj Almond	60
Dabur Almond	57
Hair & Care	55
Parachute advanced jasmine	41
Amla Based	
Dabur Amla	49
Bajaj Bramhi Amla	45
Cooling Hair oil	
Navratna	66
Bajaj Kailash Parbat	60
Ayurvedic/herbal	
Indulekha	432
Kesh King	117

Hair Care Growth



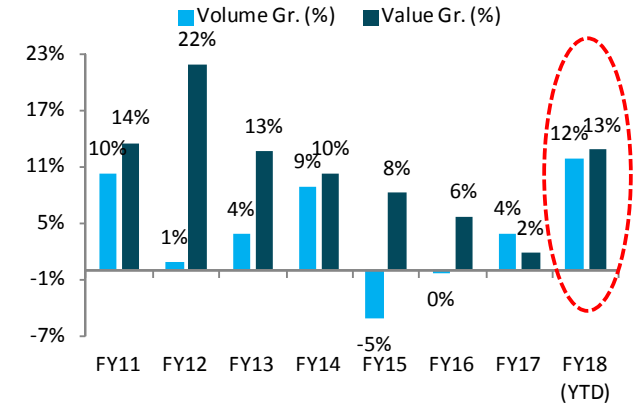
Source: Companies, HDFC sec Inst Research
Weighted average growth (YoY)

- The size of the Hair Care market is ~Rs 200bn, It is dominated by Hair Oil, which comprises ~50% of the Hair Care market, followed by Shampoo 30%, Hair Dyes ~17% and Hair Conditioner ~3%.
- The category has witnessed significant pressure in the last 4-5 quarters, and recovered strongly in 2QFY18 owing to high inflation in Coconut Oil.

Revenue Gr. (%)	Category	Brands	1Q FY15	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	Avg. 4 Qtr
Marico	Coconut	Parachute Coconut Oil (Rigid Pack)	41%	55%	48%	34%	16%	9%	-1%	-5%	-12%	-19%	-12%	11%	3%	26%	7%
Marico	VAHO	Hair Care, Nihar	28%	33%	25%	14%	19%	9%	20%	12%	9%	11%	-13%	9%	-7%	12%	0%
Bajaj Corp	LHO	Almond Drop	5%	10%	25%	28%	16%	11%	4%	0%	3%	5%	-10%	-2%	-3%	4%	-3%
Dabur	Hair Oil/Shampoo	Dabur Amla, Almond, Vatika	8%	14%	12%	7%	13%	9%	-11%	10%	1%	-5%	-20%	-4%	-11%	2%	-8%
Emami	Hair Oil	Navratana	14%	22%	27%	14%	17%	0%	-6%	4%	8%	-3%	-4%	5%	-15%	16%	1%
Emami	Hair Oil	Kesh King									50%	50%	2%	1%	-28%	-16%	-10%
GCPL	Hair Colors	Godrej	15%	9%	10%	12%	12%	17%	-1%	7%	4%	0%	-2%	13%	5%	4%	5%
Weighted Avg Gr. (%)			22%	29%	27%	20%	15%	9%	2%	4%	3%	-1%	-11%	5%	-5%	11%	0%

Source: Companies, HDFC sec Inst Research

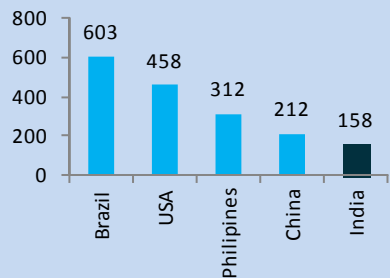
Hair Oil Value And Volume Growth



Source: Bajaj Corp, HDFC sec Inst Research

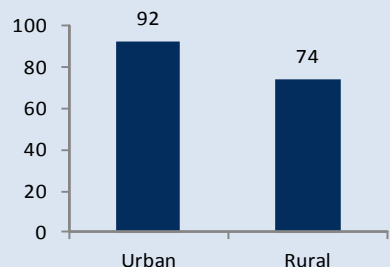
- Our View:** We believe that base benefit, stabilising wholesale channel and GST implementation would result in healthier growth in the coming quarters.

Toothpaste Per Capita Consumption (gms)



Source: Colgate-Palmolive, HDFC sec Inst Research

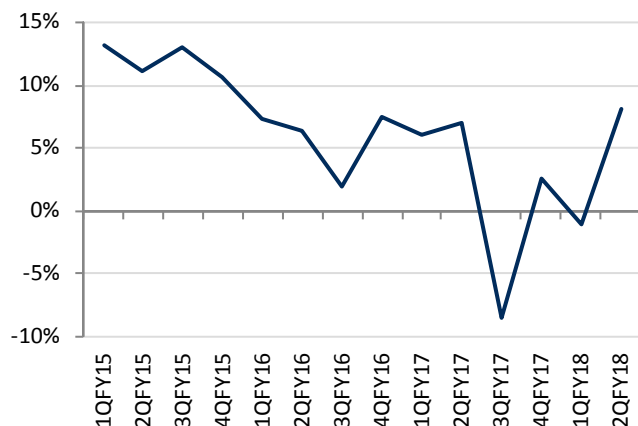
Rural and Urban Penetration



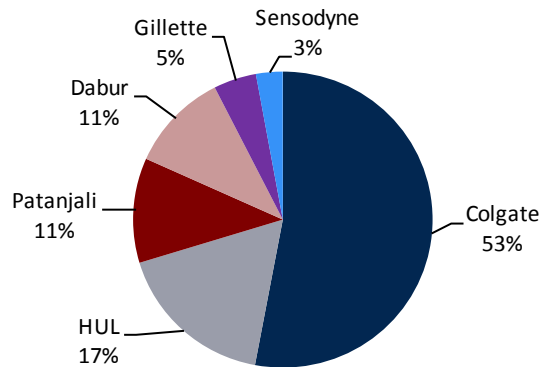
Source: Colgate-Palmolive

Toothpastes Brands	MRP/100gm
Sensodyne	131
Colgate Sensitive Original	124
Patanjali Dant Kanti Advanced	90
Colgate Total	71
Colgate Max Fresh (Spicy fresh)	63
Lever Ayush	60
Colgate Max Fresh (Peppermint)	59
Colgate Swarna Vedshakti	55
Meswak	47
Dabur Red	46
Colgate Active Salt	45
Colgate Herbal	44
Pepsodent Germi Check 2in1	42
Patanjali Dant Kanti Dental Cream	38
Patanjali Dant Kanti Junior	35
Colgate Cibaca Vedshakti	31
Colgate Cibaca	25

Oral Care Growth


Source: Companies, HDFC sec Inst Research
Weighted average growth (YoY)

Oral Care Market Share (~Rs 100bn Market)

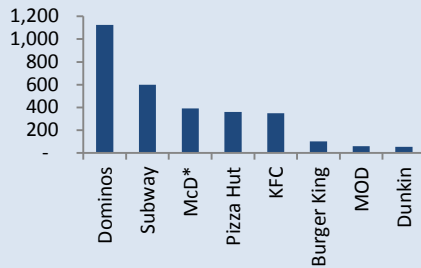


Source: Companies

Rev. Gr. (%)	Category	Brands	1Q FY15	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	Avg. 4 Qtr
	Oral Care	Colgate	11%	11%	12%	11%	6%	4%	2%	7%	9%	10%	-9%	2%	-3%	3%	-2%
	Oral Care	Red, Meswak, Babool	8%	8%	11%	12%	18%	19%	11%	18%	12%	0%	-5%	9%	2%	23%	7%
	Oral Care	Oral B	36%	15%	26%	6%	5%	7%	-16%	-9%	-38%	-6%	-15%	-8%	20%	35%	8%
Weighted Avg Gr. (%)			13%	11%	13%	11%	7%	6%	2%	7%	6%	7%	-8%	3%	-1%	8%	0%

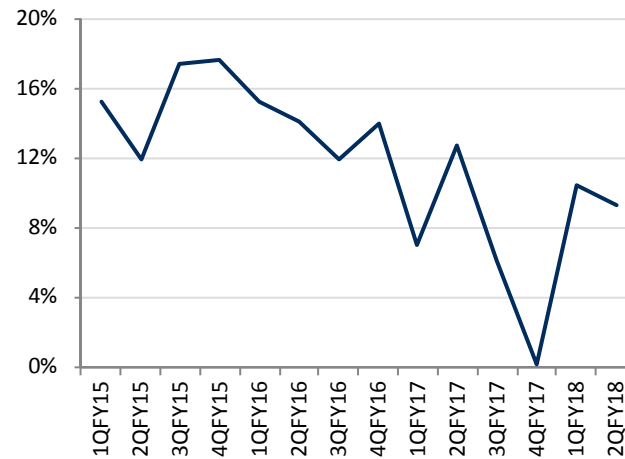
Source: Companies, HDFC sec Inst Research

- The Oral Care category has witnessed significant disruption owing to the success of Patanjali's Dant Kanti. Both Colgate and HUL (combined contribute ~70% market share) lost market share. Consumer preference has tilted towards herbal/ayurvedic toothpastes. Dabur has been consistently gaining market share in the past several quarters, and is at ~11-12% currently.
- Herbal/ayurvedic toothpastes constitute ~20% 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).
- Colgate and HUL are both trying to regain market share through launches in the herbal/ayurvedic segment. Colgate has launched Cibaca Vedshakti (to tap the mass herbal market), while HUL launched Lever Ayush toothpaste (to tap the mid-priced herbal/ayurvedic market).
- Our View:** We believe that base benefit, stabilising wholesale channel and GST would result in higher category growth in the coming quarters. We remain optimistic about Dabur's oral care growth in the coming quarters, particularly with improving rural demand. We would also like to track HUL's success with Lever Ayush toothpaste, as it received strong initial consumer response.

No. Of Stores in India


Source: Companies, Industry, HDFC sec Inst Research

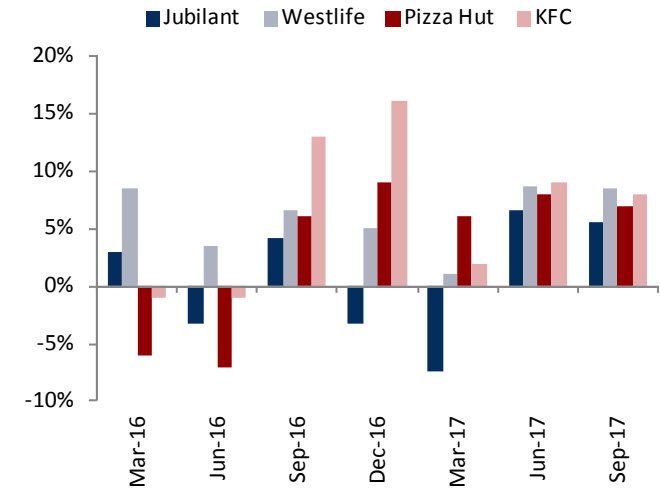
*McD All India Stores

QSR Growth


Source: Companies, HDFC sec Inst Research

Weighted average growth (YoY)

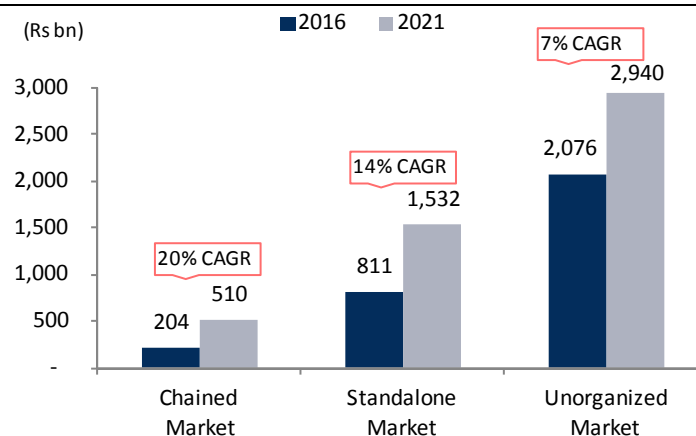
- QSR industry is ~Rs 100bn in India and expected to grow at ~21% CAGR over 2016-2021. Most of the QSR players like Jubilant FoodWorks (Dominos), Westlife Developers (McD), Pizza Hut & KFC (Yum! Brands) initially focused on aggressive store expansion. Once the key pockets were saturated most of the players began to struggle with SSG. Now most of the players have shifted their focus to profitable store expansion and product innovation. This turnaround can be seen with Jubilant FoodWorks, Pizza Hut and KFC who began to report healthy SSG growth.

Improving SSG For QSRs


Source: Companies, HDFC sec Inst Research

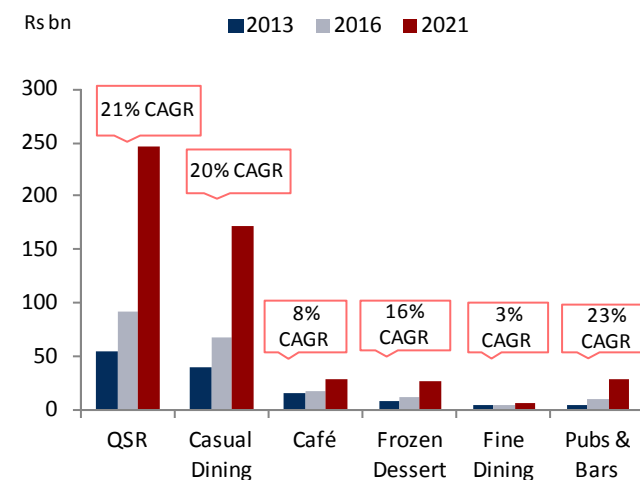
- **Our View:** The favorable demographics (increased youth population, nuclear family & more working women), changing consumer preferences – widening exposure to new cultures & cuisines and digitization would continue to help the category growth. Evolution of food tech has played a big role in expanding QSR's delivery footprint along with providing a better delivery experience for consumers. We believe QSR is a long term growth story and player like Jubilant FoodWorks would capitalise the opportunity for sustaining healthy growth in the coming years.

Consumer Food Service: Market Outlook



Source: Jubilant FoodWorks (India Food Services Report 2016- National Restaurant Association of India), HDFC sec Inst Research

Chained Consumer Food Service: By Format



Source: Jubilant FoodWorks (India Food Services Report 2016- National Restaurant Association of India), HDFC sec Inst Research

Revenue Gr. (%)	Category	Brands	1Q FY15	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	Avg. 4 Qtr
Jubilant FoodWorks	QSR	Dominos'	20%	15%	21%	25%	20%	17%	14%	14%	7%	13%	4%	-1%	11%	9%	6%
Westlife Developers	QSR	Mc'D	1%	2%	9%	1%	3%	8%	8%	18%	11%	16%	15%	6%	14%	13%	12%
Speciality Restaurant	QSR	Mainland China, Bengal Sweet	17%	17%	11%	9%	14%	6%	5%	5%	-2%	0%	-1%	-8%	-8%	na	-6%
Weighted Avg Gr. (%)			15%	12%	17%	18%	15%	14%	12%	14%	7%	13%	6%	0%	10%	9%	7%

Source: Companies, HDFC sec Inst Research

Commodity prices for beverages have declined on a YoY basis barring Tea

Key commodity prices for packaged food like wheat, milk, cooking oil have been benign

Copra prices have risen 65% YoY – we expect prices to peak in Apr'18 as copra prices generally follow a 18 months cycle

Mentha oil prices have risen steeply by 56% on a YoY basis but started falling MoM

Crude oil started heading up but appreciating INR supporting the domestic manufactures

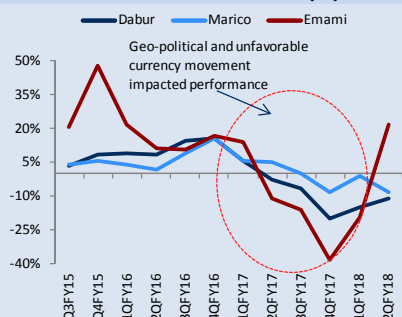
Packaging input costs have been benign

Commodity Trend

Commodities	Unit	MoM Change	QoQ Change	YoY Change	Categories Impacted	Companies Impacted
Beverages						
India Tea	INR/KG	19	23	19	Tea	HUL
Coffee Arabica	\$/lb	(3)	(10)	(17)	Coffee	HUL
Cocoa Beans	USD/MT	(11)	(6)	(18)		Nestle
Milk	WPI Index	0	0	4	Dairy	Jubilant FoodWorks, Britannia, Nestle, GSKCHL
Fruit Pulp	WPI Index	(5)	-	(8)	Fruit Juice	ITC, HUL, Dabur, Britannia
Crops						
Wheat India	INR/Quintal	(4)	0	(14)	Biscuits	Britannia, ITC, Nestle, GSKCHL
Barley	INR/Quintal	1	6	(17)	HFD	GSKCHL
Maize (Corn)	INR/MT	(1)	(6)	(4)	Oral Care	Colgate, HUL, Dabur
Copra	INR/QUINTAL	6	21	65	Hair oil	Marico, Dabur
Sun Flower Oil	Rs/10KG	4	6	(4)	Cooking Oil	Marico
Sugar India	INR/100kg	(5)	(8)	0	F&B	HUL, Nestle, ITC, Dabur, Britannia, GSKCHL
Amla	WPI Index	(19)	(64)	(17)	Hair oil	Dabur, Marico, Bajaj Corp
Oil						
Brent Oil	INR/BBL	1	13	11	Universe	HUL, GCPL, Jyothy Labs
Palm Oil	INR/MT	(8)	(9)	(18)	Personal Wash	HUL, GCPL, Jyothy Labs
Rice Bran Oil	INR/10KG	4	14	24	Cooking Oil	Marico
Crude Oil	IND/Barrel	(1)	12	(2)	Universe	HUL, GCPL, Jyothy Labs
Mentha Oil	INR/kg	(11)	29	56	Hair oil	Emami, Colgate, HUL, Dabur
Packaging						
HDPE	WPI Index	-	(2)	(4)	Packaging	Entire Universe
Miscellaneous						
Caustic Soda	INR/50kg	3	20	28	Personal Wash	HUL, GCPL, Jyothy Labs
Linear Alkyl Benzene	WPI Index	1	3	5	Detergents	HUL

Source: Bloomberg, Marico, HDFC sec Inst Research

International Revenue Growth (%)



Source: Companies, HDFC sec Inst Research

Dabur, Marico and Emami's international venture has significantly underperformed since the last 6 quarters primarily due to 1) Geo-political tension in MENA region 2) Low crude oil prices and 3) Depreciation of currencies against INR

We expect international business to improve owing to improving cc growth, recovering consumer confidence index for key geographies and favorable currency base

International Performance Review

International Performance

Companies	Reported Revenue Growth												Reported Revenue Growth (YoY%)				
	Q3	Q4	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	FY13	FY14	FY15	FY16	FY17
	FY15	FY15	FY16	FY16	FY16	FY16	FY17	FY17	FY17	FY17	FY18	FY18					
Dabur	4%	9%	9%	9%	15%	16%	6%	-2%	-6%	-20%	-15%	-11%	22%	22%	8%	12%	-5%
Marico	4%	6%	4%	2%	9%	16%	6%	5%	0%	-8%	-1%	-8%	8%	16%	10%	7%	1%
Emami	21%	48%	22%	12%	11%	17%	14%	-11%	-16%	-38%	-19%	22%	-5%	23%	44%	15%	-16%

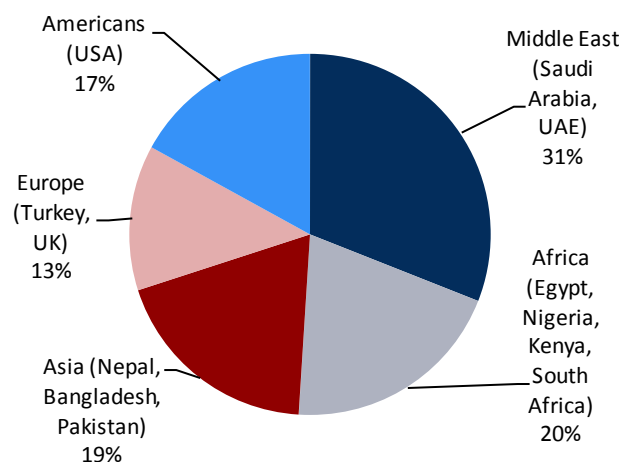
Source: Companies, HDFC sec Inst Research

International Presence

Companies	International Revenue (Rs mn)					International Revenue (% of total)					YoY Growth (Reported)				
	FY16	FY17	FY18E	FY19E	FY20E	FY16	FY17	FY18E	FY19E	FY20E	FY16	FY17	FY18	FY19	FY20
Dabur	24,903	23,721	24,163	27,523	31,377	32%	30%	30%	30%	30%	12%	-5%	2%	14%	14%
Marico	13,760	13,560	13,975	16,071	18,321	22%	22%	21%	21%	21%	7%	1%	0%	0%	0%
Emami	3,356	2,774	3,135	3,593	4,119	14%	11%	11%	11%	11%	15%	-16%	13%	15%	15%
Britannia	5,700	4,912	5,305	6,047	6,894	7%	5%	5%	5%	5%	28%	-14%	8%	14%	14%

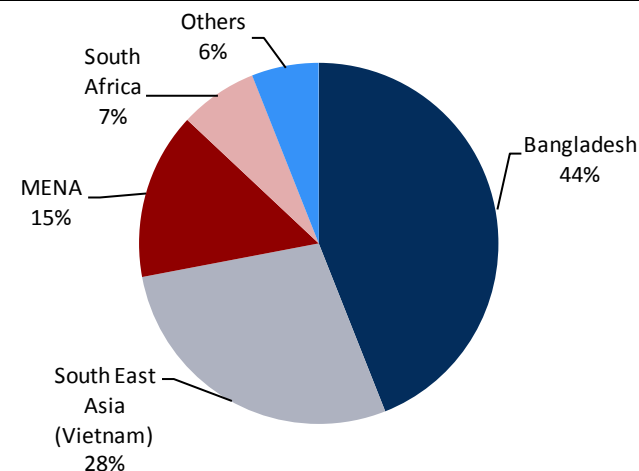
Source: Companies, HDFC sec Inst Research

Dabur's Geographic Break-up



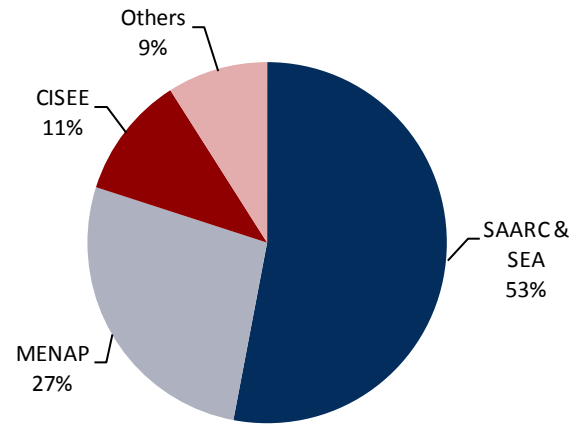
Source: Company, HDFC sec Inst Research

Marico's Geographic Break-up



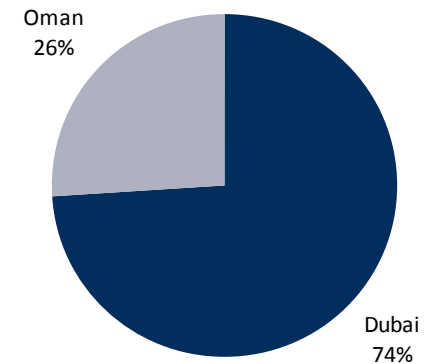
Source: Company, HDFC sec Inst Research

Emami's Geographical Breakup



Source: Company, HDFC sec Inst Research

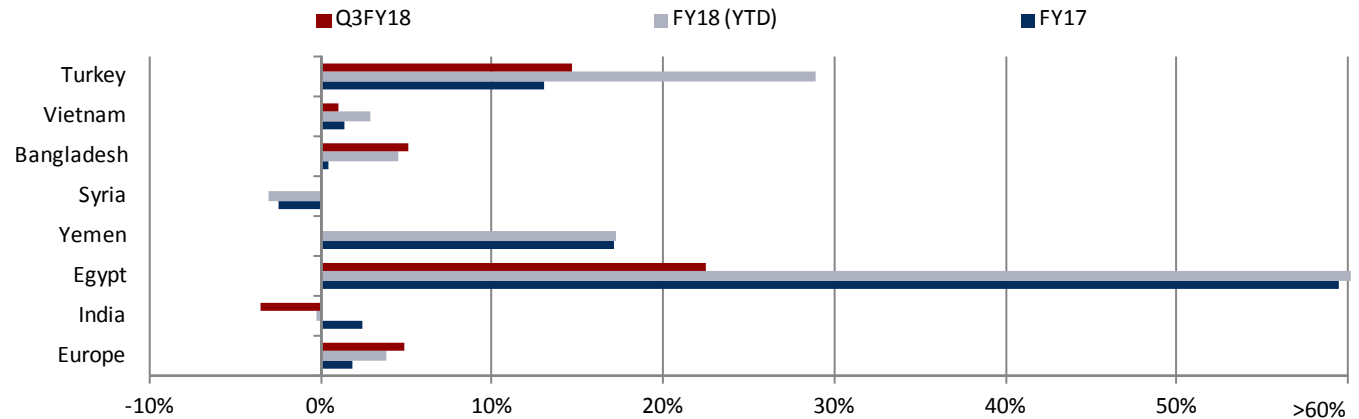
Britannia's Geographical Breakup



Source: Company, HDFC sec Inst Research

Currency depreciation pressure are softening in most geographies

Currency Movment (against USD) – Most currencies (barring INR) depreciated during FY17 and 1HFY18 and impacted internatinal performance for Dabur, Marico and Emami



Source: Bloomberg, HDFC sec Inst Research

INDUSTRY	FMCG
CMP (as on 26 Dec 2017)	Rs 264
Target Price	Rs 358
Nifty	10,532
Sensex	34,011
KEY STOCK DATA	
Bloomberg	ITC IN
No. of Shares (mn)	12,188
MCap (Rs bn)/(US\$ mn)	3,220/50,242
6m avg traded value (Rs mn)	3,814
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 368 / 222
	3M 6M 12M
Absolute (%)	0.6 (15.1) 17.4
Relative (%)	(6.9) (24.3) (13.2)
SHAREHOLDING PATTERN (%)	
Promoters	-
FIs & Local MFs	36.41
FPIs	21.12
Public & Others	42.47
Source : BSE	

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Siddhant Chhabria
siddhant.chhabria@hdfcsec.com
+91-22-6171-7336

Smoke that does not fade away

Cigarette business, despite punitive taxes, registered ~10% and ~9% revenue CAGR in the last 10 and 5 years resp. We expect ITC to deliver ~7% CAGR in the Cigarette business over FY17-20E. Non-cigarette business will improve gradually, as most of their demand drivers are in a recovery stage (FMCG, Paper, Hotel). We expect ~13% sales CAGR over FY17-20E leading to its share to ~60% by FY20 vs. 56% in FY17.

- **What the street is pricing in:** The implied EPS CAGR (FY17-FY20E) at 30x FY20 P/E (Ex-ITC Sector P/E is at 37x FY20) is 1% and reflecting higher discounting factored in the stock. ITC's last 3 year and 5 year EPS CAGR (despite punitive taxes) is at 5% and 10% respectively. Even during the most challenging quarter i.e. 2QFY18, ITC posted 5.6% growth in APAT. Hence, we believe the stock has immense potential to perform well in the coming years.

ITC at 30x FY20 P/E factoring implied EPS CAGR of 1%

CMP	264					
FY17 EPS	8.6					
Target P/E (x) - FY20	26x	28x	30x	32x	34x	
Implied EPS (FY20E)	10.2	9.5	8.8	8.3	7.8	
3 Yr Implied EPS CAGR (%)	6%	3%	1%	-1%	-3%	

- Govt. had stated that GST would be neutral for cigarettes; instead, they increased the cess on cigarettes in July resulting in higher taxes. Therefore, we anticipate high probability of neutral to mild increase in taxes in upcoming union budget.

Valuation and Recommendation

- ITC is a market leader in Cigarettes (>80% value market share), notebooks, valued-added paperboards and a critical player in biscuits. The company operates at

EBITDA margin of 36%, along with core RoCE of ~35%. We maintain BUY rating with a TP of Rs 358, based on 32x Dec-19EPS.

Near-term outlook: With improvement in operating performance, we expect healthy upside in the near-term too.

Financial Summary

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	391,921	428,036	458,944	501,974	552,424
EBITDA	144,509	154,359	165,792	182,862	204,853
APAT	95,009	104,772	113,410	124,815	139,098
EPS (Rs)	7.9	8.6	9.3	10.3	11.5
P/E (x)	33.5	30.6	28.3	25.7	23.1
EV/EBITDA (x)	20.8	19.5	18.1	16.4	14.5
Core RoCE (%)	40.3	36.1	35.6	35.8	37.5

Source: Company, HDFC sec Inst Research

Assumptions

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Cig. Revenue Gr. (%)	6.2	5.1	3.7	7.7	8.5
Cig. Volume Gr. (%)	(9.4)	0.6	(3.5)	2.5	2.5
FMCG Revenue Gr. (%)	7.7	8.2	8.6	13.5	13.6
Hotels Revenue Gr. (%)	11.5	6.1	7.4	9.8	9.3
Agri Revenue Gr. (%)	0.2	12.6	13.6	14.3	14.7
Paper Revenue Gr. (%)	5.9	12.1	15.2	15.2	15.2
Gross Margin (%)	65.4	62.5	62.7	62.9	63.4
Employee (% of sales)	8.8	8.5	8.0	7.9	7.7
ASP (% of sales)	2.5	1.9	2.2	2.3	2.4
Rent (% of sales)	2.4	2.1	2.2	2.2	2.3
Distribution (% of sales)	2.2	2.0	2.0	2.0	2.0
Cont. Manuf. (% of sales)	0.8	0.9	0.9	0.9	0.9
EBITDA Margin (%)	36.9	36.1	36.1	36.4	37.1
Tax Rate (%)	36.1	34.6	34.0	34.0	34.0

Source: Company, HDFC sec Inst Research

Like-to-like revenue growth was up 4% vs. our expectation of 6% growth in 2QFY18

Like-to-like growth for Cigarette and FMCG was at 2% and 10% in 2QFY18

Cigarette volume growth was under pressure, and declined by 6% vs. our expectation of 5% in 2QFY18

Other expenses declined 41% owing to NCCD write back

EBITDA and APAT in 1HFY18 grew by 5% and 6.5% YoY

Recent Performance

(Rs mn)	2QFY18	2QFY17	YoY (%)	1HFY18	1HFY17	YoY (%)
Net Revenue	97,639	96,607	1.1%	197,186	197,148	0.0%
Gross Profit	54,076	59,895	-9.7%	115,263	117,979	-2.3%
EBITDA	37,616	36,301	3.6%	75,080	71,564	4.9%
APAT	26,399	25,001	5.6%	52,004	48,848	6.5%
GPM (%)	55%	62%	(661)	58%	60%	(139)
EBITDAM (%)	39%	38%	95	38%	36%	178
NPM (%)	27%	26%	116	26%	25%	160

(Rs mn)	2QFY18	2QFY17	YoY (%)	1HFY18	1HFY17	YoY (%)
Revenue						
Cigarettes	45,542	85,285	-46.6%	203,294	181,513	12.0%
FMCG	28,041	26,717	5.0%	62,340	53,282	17.0%
Hotels	3,002	2,973	1.0%	6,581	5,983	10.0%
Agribusiness	19,680	18,800	4.7%	70,441	61,253	15.0%
Paper	13,094	13,314	-1.7%	35,952	31,263	15.0%
Total	109,359	147,089	-25.7%	378,609	333,294	13.6%

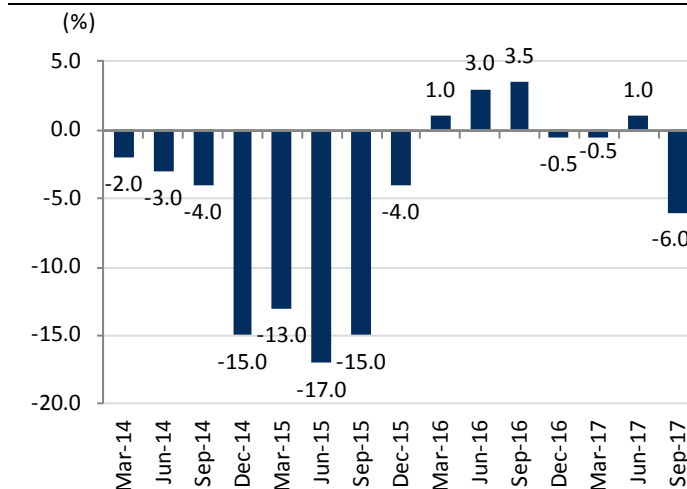
EBIT						
Cigarettes	32,917	32,169	2.3%	65,658	62,215	5.5%
FMCG	205	(33)	-728.5%	259	(78)	-433.2%
Hotels	42	7	552.3%	96	19	410.7%
Agribusiness	2,562	2,970	-13.7%	4,913	5,343	-8.0%
Paper	2,742	2,320	18.2%	5,315	4,796	10.8%
Total	38,468	37,432	2.8%	76,241	72,295	5.5%

EBIT Margin						
Cigarettes	72%	38%	3,456	32%	34%	(198)
FMCG	1%	0%	85	0%	0%	56
Hotels	1%	0%	119	1%	0%	114
Agribusiness	13%	16%	(278)	7%	9%	(175)
Paper	21%	17%	352	15%	15%	(56)
Total	35%	25%	973	20%	22%	(155)

* Like-to-like growth for cigarette at ~2% and FMCG at 10% in 2QFY18

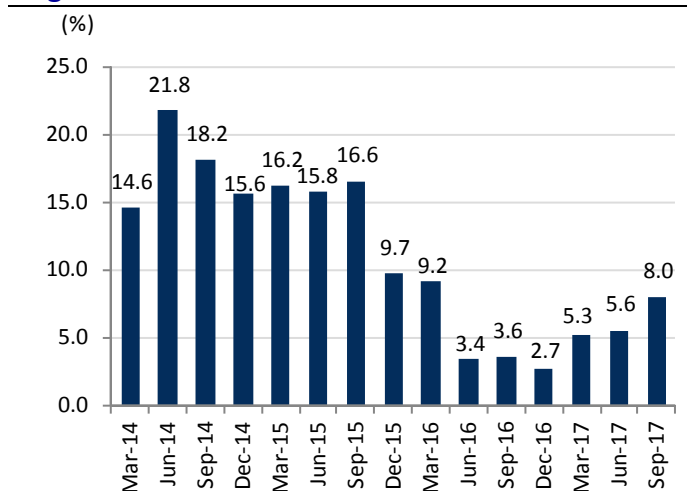
Source: Company, HDFC sec Inst Research

Cigarette Volume Growth



Source: Company, HDFC sec Inst Research

Cigarette Price Growth



Source: Company, HDFC sec Inst Research

Income Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	391,921	428,036	458,944	501,974	552,424
Growth (%)	2.0	9.2	7.2	9.4	10.1
Material Expenses	135,685	160,492	171,319	186,158	202,435
Employee Expense	34,410	36,317	36,666	39,517	42,623
ASP Expense	9,887	8,107	10,097	11,545	13,258
Distribution Expense	8,528	8,560	9,178	10,038	11,047
Other Expenses	58,903	60,201	65,892	71,854	78,207
EBITDA	144,509	154,359	165,792	182,862	204,853
EBITDA Growth (%)	4.5	6.8	7.4	10.3	12.0
EBITDA Margin	36.9	36.1	36.1	36.4	37.1
Depreciation	10,774	11,528	12,282	13,330	14,242
EBIT	133,735	142,831	153,511	169,532	190,611
Other Income (Including EO)	15,308	17,615	18,392	19,644	20,199
Interest	536	243	173	182	192
PBT	148,507	160,204	171,730	188,993	210,618
Total Tax	53,582	55,491	58,388	64,258	71,610
RPAT	95,009	104,772	113,410	124,815	139,098
Exceptional Gain/(loss)	-	-	-	-	-
Adjusted PAT	95,009	104,772	113,410	124,815	139,098
APAT Growth (%)	(1.7)	10.3	8.2	10.1	11.4
Adjusted EPS (Rs)	7.9	8.6	9.3	10.3	11.5
EPS Growth (%)	(2.1)	9.6	8.2	10.1	11.4

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	8,047	12,147	12,147	12,147	12,147
Reserves	418,748	451,982	485,438	522,258	563,292
Total Shareholders' Funds	426,795	464,129	497,585	534,406	575,440
Minority Interest	2,609	2,947	2,879	2,800	2,709
Long Term Debt	267	184	184	184	184
Short Term Debt	440	191	210	231	254
Total Debt	706	375	394	415	438
Net Deferred Taxes	18,395	18,333	18,365	18,399	18,436
Long Term Provisions & Others	2,756	2,174	2,174	2,174	2,174
TOTAL SOURCES OF FUNDS	451,261	487,959	521,397	558,194	599,197
APPLICATION OF FUNDS					
Net Block	149,060	157,778	175,187	185,957	195,815
CWIP	35,759	37,849	38,849	39,849	40,849
Goodwill	2,314	2,314	2,314	2,314	2,314
LT Loans & Advances	29,457	32,179	36,039	40,362	45,204
Total Non-current Assets	216,590	230,120	252,390	268,483	284,183
Distribution Expense	90,621	86,711	93,018	101,354	110,695
Debtors	19,178	24,743	26,530	29,017	31,933
Other Expenses	11,109	17,471	19,567	21,915	24,545
Cash & Equivalents	179,800	199,938	199,555	213,978	231,973
Total Current Assets	300,707	328,863	338,669	366,264	399,146
Creditors	23,393	26,593	29,253	32,178	35,396
Other Current Liabilities & Provns	42,643	44,430	40,409	44,375	48,736
Total Current Liabilities	66,036	71,023	69,662	76,553	84,132
Net Current Assets	234,672	257,839	269,008	289,711	315,014
TOTAL APPLICATION OF FUNDS	451,261	487,959	521,397	558,194	599,197

Source: Company, HDFC sec Inst Research

Cash Flow Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	154,332	160,204	171,730	188,993	210,618
Non-operating & EO Items	(5,980)	-	-	-	-
Interest Expenses	(8,227)	243	173	182	192
Depreciation	11,134	11,528	12,282	13,330	14,242
Working Capital Change	(1,666)	2,350	(15,411)	(10,604)	(12,150)
Tax Paid	(50,812)	(55,462)	(58,356)	(64,224)	(71,573)
OPERATING CASH FLOW (a)	98,782	118,863	110,416	127,678	141,328
Capex	(23,835)	(31,798)	(30,691)	(25,100)	(25,100)
Free Cash Flow (FCF)	74,947	87,065	79,725	102,578	116,228
Investments	(34,379)	(52,788)	(15,000)	(15,000)	(15,000)
Non-operating Income	23,875	6,426	0	(0)	0
INVESTING CASH FLOW (b)	(34,340)	(78,160)	(45,691)	(40,100)	(40,100)
Debt Issuance/(Repaid)	(16,861)	(32,650)	(15,383)	(577)	2,995
Interest Expenses	(324)	(243)	(173)	(182)	(192)
FCFE	57,762	54,172	64,169	101,820	119,031
Share Capital Issuance	5,317	6,426	0	(0)	0
Dividend	(61,258)	(62,863)	(68,046)	(74,889)	(83,459)
Others	(1,300)	(11,001)	(11,908)	(13,106)	(14,605)
FINANCING CASH FLOW (c)	(74,426)	(100,331)	(95,510)	(88,753)	(95,261)
NET CASH FLOW (a+b+c)	(9,984)	(59,628)	(30,785)	(1,175)	5,967
EO Items, Others	(10,267)	-	-	-	-
Closing Cash & Equivalents	62,324	29,674	14,291	13,714	16,709

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	65.4	62.5	62.7	62.9	63.4
EBITDA Margin	36.9	36.1	36.1	36.4	37.1
EBIT Margin	34.1	33.4	33.4	33.8	34.5
APAT Margin	24.2	24.5	24.7	24.9	25.2
RoE	25.5	23.5	23.6	24.2	25.1
RoIC (or Core RoCE)	40.3	36.1	35.6	35.8	37.5
RoCE	25.4	23.4	23.4	24.1	24.9
EFFICIENCY					
Tax Rate (%)	36.1	34.6	34.0	34.0	34.0
Fixed Asset Turnover (x)	0.6	0.6	0.6	0.6	0.6
Inventory (days)	84.4	73.9	74.0	73.7	73.1
Debtors (days)	17.9	21.1	21.1	21.1	21.1
Other Current Assets (days)	10.3	14.9	15.6	15.9	16.2
Payables (days)	21.8	22.7	23.3	23.4	23.4
Other Current Liab & Provns (days)	39.7	37.9	32.1	32.3	32.2
Cash Conversion Cycle (days)	51.1	49.4	55.2	55.1	54.9
Net D/E (x)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Interest Coverage (x)	0.0	0.0	0.0	0.0	0.0
PER SHARE DATA (Rs)					
EPS	7.9	8.6	9.3	10.3	11.5
CEPS	8.8	9.6	10.3	11.4	12.6
Dividend	8.5	5.2	5.6	6.2	6.9
Book Value	35.4	38.2	41.0	44.0	47.4
VALUATION					
P/E (x)	33.5	30.6	28.3	25.7	23.1
P/BV (x)	7.5	6.9	6.4	6.0	5.6
EV/EBITDA (x)	20.8	19.5	18.1	16.4	14.5
EV/Revenues (x)	7.7	7.0	6.6	6.0	5.4
OCF/EV (%)	3.3	4.0	3.7	4.3	4.7
FCF/EV (%)	2.5	2.9	2.7	3.4	3.9
FCFE/Mkt Cap (%)	1.8	1.7	2.0	3.2	3.7
Dividend Yield (%)	3.2	2.0	2.1	2.3	2.6

Source: Company, HDFC sec Inst Research

Hindustan Unilever

BUY

INDUSTRY	FMCG
CMP (as on 26 Dec 2017)	Rs 1,347
Target Price	Rs 1,514
Nifty	10,532
Sensex	34,011
KEY STOCK DATA	
Bloomberg	HUVR IN
No. of Shares (mn)	2,164
MCap (Rs bn)/(US\$ mn)	2,918/45,536
6m avg traded value (Rs mn)	1,481
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 1,368/785
	3M 6M 12M
Absolute (%)	10.7 22.8 68.1
Relative (%)	3.2 13.6 37.5
SHAREHOLDING PATTERN (%)	
Promoters	67.19
FIs & Local MFs	5.77
FPIs	13.31
Public & Others	13.73
Source : BSE	

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Siddhant Chhabria
siddhant.chhabria@hdfcsec.com
+91-22-6171-7336

Structural story

HUL's strategy to focus on market development, premiumisation, market share gain and cost optimisation has resulted into healthy 13% growth in EBITDA during the last 5 years.

- We expect HUL to be a key beneficiary of GST and can gain market share from unorganised players. Recovering rural demand (~40% of revenues) and healthy growth from premium segments can result into superior earnings in the coming years.
- The trade channel recovery (including CSD and wholesale) is encouraging. Consumer off-take was healthy despite disruptive events (demonet & GST) during the last 6-9months. It enhances visibility of healthy revenue growth in the ensuing quarters.
- HUL through its 'Lever Ayush' portfolio (oral care, soaps, hair care etc) is trying to gain share in the Ayurvedic/natural segment which has been disrupted by Patanjali. 'Lever Ayush' witnessing repeat customers and we are optimistic of this portfolio.
- We expect Revenue/EBITDA/APAT CAGR of 12%/18%/21% respectively over FY17-20E.

Valuation and Recommendation

- Considering consistent market share gain, margin expansion and strong RoCE, HUL's high valuation is justified. HUL is the pure play for the improving domestic story. We re-rate HUL to 43x P/E (42x earlier) on Dec-19EPS on the expectation of quicker recovery in rural demand. We arrive at TP of Rs 1,514, maintain BUY.

Near-term outlook: With improvement in operating performance (improving rural, recovery in trade channel), we expect healthy upside in the near-term too.

Financial Summary

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	321,860	331,817	371,598	418,393	470,494
EBITDA	60,131	63,564	74,454	89,789	105,385
APAT	41,664	43,405	52,146	64,362	77,743
EPS (Rs)	19.3	20.1	24.1	29.7	35.9
P/E (x)	70.0	67.2	55.9	45.3	37.5
EV/EBITDA (x)	47.6	45.1	38.4	31.7	26.9
RoCE (%)	76.9	62.8	72.1	81.0	83.6

Source: Company, HDFC sec Inst Research

Assumptions

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Revenue Growth (%)					
S&D	1.2	4.4	11.6	12.0	11.9
PP	7.4	2.3	12.0	13.6	13.3
Beverages	6.9	(1.7)	11.0	10.4	10.4
Food	11.9	2.8	14.9	15.7	15.7
Others	(2.5)	5.0	8.0	8.0	8.0
Total	4.0	3.0	11.6	12.2	12.1
Gross Margin (%)	50.7	51.0	52.0	53.1	53.7
Employee (% of sales)	5.2	5.3	4.9	4.6	4.3
ASP (% of sales)	11.4	10.7	11.3	11.5	11.5
Distribution (% of sales)	4.5	4.6	4.4	4.2	4.1
Other Expenses (%)	10.9	11.3	11.3	11.4	11.5
EBITDA Margin (%)	18.7	19.2	20.0	21.5	22.4
Tax Rate (%)	31.2	30.4	30.0	29.0	28.5

Source: Company, HDFC sec Inst Research

Like-to-like revenue growth was at 10% vs. our expectation of 8% in 2QFY18

HUL's 2QFY18 Performance

Segments	Reported Gr. (%)	Like-to-like Gr. (%)
Personal Care	-3%	8%
Home Care	-1%	13%
Refreshment	5%	10%
Food	2%	11%
Total	-2%	10%

HUL posted inspiring EBITDA growth of 20% and 17% YoY in 2QFY18 and 1HFY18

Home care growth largely driven by volume. Laundry business saw double-digit growth across the category

In PC, Soaps grew by 8% led by increase in prices. Oral care continued to face growth challenges. Lever Ayush received positive response post the pan-India launch in 2Q

Refreshments grew by 10% on a like-to-like basis, driven by Tea

Foods grew by 11% on like-to-like basis, with Kissan leading the growth

Recent Performance

(Rs mn)	2QFY18	2QFY17	YoY (%)	1HFY18	1HFY17	YoY (%)
Net Revenue	83,090	78,427	5.9%*	168,380	159,701	5.4%
Gross Profit	43,800	38,807	13%	88,250	80,526	10%
EBITDA	16,820	14,046	20%	35,480	30,398	17%
APAT	12,505	10,829	15%	25,425	22,077	15%
GPM (%)	53%	49%	323	52%	50%	199
EBITDAM (%)	20%	18%	233	21%	19%	204
NPM (%)	15%	14%	124	15%	14%	128

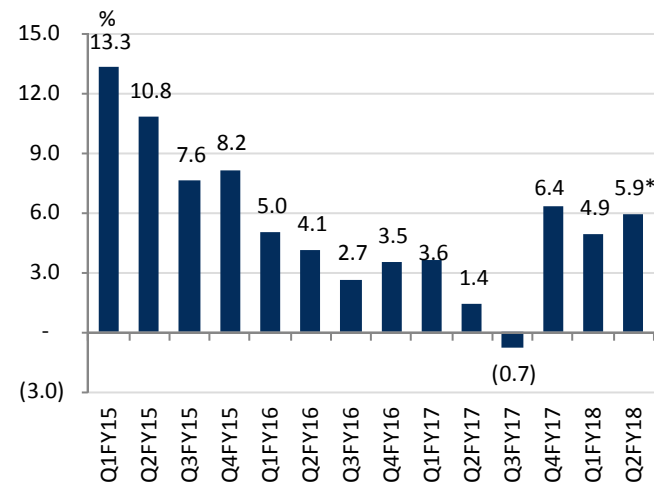
*Like-to-like 10%

(Rs mn)	2QFY18	2QFY17	YoY (%)	1HFY18	1HFY17	YoY (%)
Revenue						
Home Care	27,390	27,770	-1%	57,860	56,530	2%
PC	39,100	40,280	-3%	82,780	82,500	0%
Foods	2,820	2,778	2%	5,660	5,498	3%
Refreshment	12,220	11,692	5%	25,680	23,842	8%
Others	1,500	2,181	-31%	3,180	4,221	-25%
Total	83,030	84,700	-2%	175,160	172,590	1%
EBIT						
Home Care	3,830	2,800	37%	8,310	6,360	31%
PC	9,480	9,226	3%	20,270	19,436	4%
Foods	170	137	24%	580	307	89%
Refreshment	2,140	1,726	24%	4,690	3,647	29%
Others	(60)	91	na	(120)	1	na
Total	15,560	13,980	11%	33,730	29,751	13%
EBIT Margin						
Home Care	14%	10%	390	14%	11%	311
PC	24%	23%	134	24%	24%	93
Foods	6%	5%	110	10%	6%	467
Refreshment	18%	15%	275	18%	15%	297
Others	-4%	4%	(819)	-4%	0%	(381)
Total	19%	17%	223	19%	17%	202

* Like-to-like growth for cigarette at ~2% and FMCG at 10% in 2QFY18

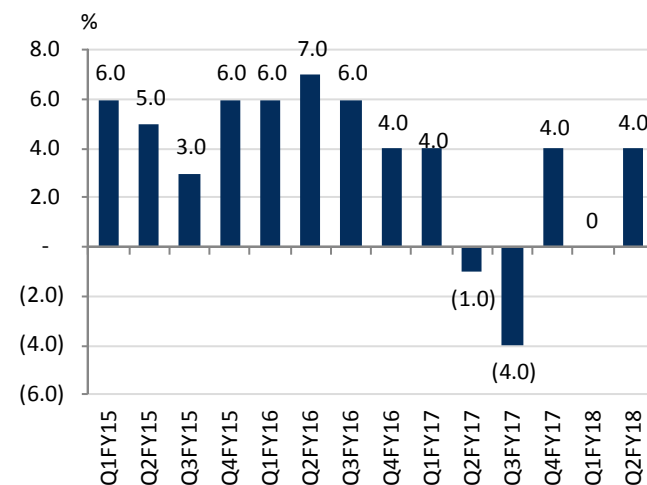
Source: Company, HDFC sec Inst Research

Net Revenue Growth



Source: Company, HDFC sec Inst Research

Underlying Volume Growth



Source: Company, HDFC sec Inst Research

Income Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	321,860	331,817	371,598	418,393	470,494
Growth (%)	0.7	3.1	12.0	12.6	12.5
Material Expenses	131,920	135,476	149,614	163,546	181,669
Employee Expense	16,800	17,430	18,308	19,232	20,202
ASP Expense	36,560	35,420	41,991	47,906	53,872
Distribution Expenses	14,500	15,264	16,350	17,573	19,290
Other expenses	61,950	64,662	70,880	80,348	90,077
EBITDA	60,131	63,564	74,454	89,789	105,385
EBITDA Growth (%)	11.1	5.7	17.1	20.6	17.4
EBITDA Margin	18.7	19.2	20.0	21.5	22.4
Depreciation	3,530	4,320	4,931	5,210	5,427
EBIT	56,601	59,244	69,523	84,579	99,958
Other Income (Including EO Items)	3,920	6,060	5,271	6,359	9,080
Interest	170	350	111	83	83
PBT	60,351	64,954	74,683	90,856	108,955
Tax	18,830	19,770	22,405	26,348	31,052
RPAT	41,451	45,064	52,146	64,362	77,743
Adjustment	(213)	1,659	-	-	-
APAT	41,664	43,405	52,146	64,362	77,743
APAT Growth (%)	7.0	4.2	20.1	23.4	20.8
Adjusted EPS (Rs)	19.3	20.1	24.1	29.7	35.9
EPS Growth (%)	7.0	4.2	20.1	23.4	20.8

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	2,164	2,164	2,164	2,164	2,164
Reserves	63,570	65,500	69,122	79,853	96,303
Total Shareholders' Funds	65,734	67,664	71,287	82,018	98,468
Minority Interest	200	320	452	597	757
Long Term Debt	-	-	-	-	-
Short Term Debt	1,770	2,770	2,770	2,770	2,770
Total Debt	1,770	2,770	2,770	2,770	2,770
Net Deferred Taxes	(2,333)	(2,033)	(2,033)	(2,033)	(2,033)
Long Term Provisions & Others	13,347	11,530	12,109	12,716	13,354
TOTAL SOURCES OF FUNDS	78,718	80,251	84,584	96,068	113,316
APPLICATION OF FUNDS					
Net Block	32,580	44,190	44,759	43,049	41,122
CWIP	4,080	2,290	1,145	573	286
Other Non-current Assets	6,362	7,046	7,805	8,646	9,578
Total Non-current Assets	43,022	53,526	53,709	52,267	50,986
Inventories	27,260	25,410	28,216	31,393	35,101
Debtors	12,640	10,850	12,151	13,681	15,385
Other Current Assets	12,159	13,807	14,071	14,880	15,770
Cash & Equivalents	53,096	52,153	57,069	69,979	88,098
Total Current Assets	105,155	102,220	111,507	129,933	154,354
Creditors	56,850	61,860	66,190	70,824	75,781
Other Current Liabilities & Provns	12,609	13,635	14,442	15,309	16,243
Total Current Liabilities	69,459	75,495	80,632	86,133	92,024
Net Current Assets	35,696	26,725	30,875	43,800	62,329
TOTAL APPLICATION OF FUNDS	78,718	80,251	84,584	96,068	113,316

Source: Company, HDFC sec Inst Research

Cash Flow Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	59,851	64,954	74,683	90,856	108,955
Non-operating & EO Items	(947)	-	-	-	-
Interest Expenses	(2,481)	350	111	83	83
Depreciation	3,573	4,320	4,931	5,210	5,427
Working Capital Change	(1,079)	5,527	585	(249)	(704)
Tax Paid	(17,663)	(19,470)	(22,405)	(26,348)	(31,052)
OPERATING CASH FLOW (a)	41,253	55,681	57,905	69,552	82,709
Capex	(7,914)	(14,140)	(4,355)	(2,928)	(3,214)
Free Cash Flow (FCF)	33,340	41,541	53,550	66,624	79,495
Investments	689	(12,280)	(3,500)	(3,500)	(3,500)
Non-operating Income	4,542	447	-	-	-
INVESTING CASH FLOW (b)	(2,682)	(25,973)	(7,855)	(6,428)	(6,714)
Debt Issuance/(Repaid)	2,117	1,000	-	-	-
Interest Expenses	(45)	(350)	(111)	(83)	(83)
FCFE	35,412	42,191	53,439	66,541	79,412
Share Capital Issuance	(110)	-	-	-	-
Dividend	(33,417)	(36,793)	(41,122)	(45,450)	(51,943)
Others	(6,735)	(6,623)	(7,402)	(8,181)	(9,350)
FINANCING CASH FLOW (c)	(38,190)	(42,766)	(48,634)	(53,714)	(61,376)
NET CASH FLOW (a+b+c)	382	(13,058)	1,416	9,410	14,619
EO Items, Others	3,384	-	-	-	-
Closing Cash & Equivalents	27,436	14,213	15,629	25,039	39,658

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	50.7	51.0	52.0	53.1	53.7
EBITDA Margin	18.7	19.2	20.0	21.5	22.4
EBIT Margin	17.6	17.9	18.7	20.2	21.2
APAT Margin	12.9	13.1	14.0	15.4	16.5
RoE	78.6	65.1	75.1	84.0	86.1
RoCE	76.9	62.8	72.1	81.0	83.6
EFFICIENCY					
Tax Rate (%)	31.2	30.4	30.0	29.0	28.5
Fixed Asset Turnover (x)	5.3	4.3	4.5	4.9	5.3
Inventory (days)	30.9	28.0	27.7	27.4	27.2
Debtors (days)	14.3	11.9	11.9	11.9	11.9
Other Current Assets (days)	13.8	15.2	13.8	13.0	12.2
Payables (days)	64.5	68.0	65.0	61.8	58.8
Other Current Liab & Provns (days)	14.3	15.0	14.2	13.4	12.6
Cash Conversion Cycle (days)	(19.7)	(28.0)	(25.7)	(22.8)	(20.0)
Net D/E (x)	(0.8)	(0.7)	(0.8)	(0.8)	(0.9)
PER SHARE DATA (Rs)					
EPS	19.3	20.1	24.1	29.7	35.9
CEPS	20.9	22.1	26.4	32.1	38.4
Dividend	16.0	17.0	19.0	21.0	24.0
Book Value	30.4	31.3	32.9	37.9	45.5
VALUATION					
P/E (x)	70.0	67.2	55.9	45.3	37.5
P/BV (x)	44.3	43.1	40.9	35.5	29.6
EV/EBITDA (x)	47.6	45.1	38.4	31.7	26.9
EV/Revenues (x)	8.9	8.6	7.7	6.8	6.0
OCF/EV (%)	1.4	1.9	2.0	2.4	2.9
FCF/EV (%)	1.2	1.4	1.9	2.3	2.8
FCFE/Mkt Cap (%)	1.2	1.4	1.8	2.3	2.7
Dividend Yield (%)	1.2	1.3	1.4	1.6	1.8

Source: Company, HDFC sec Inst Research

INDUSTRY	FMCG
CMP (as on 26 Dec 2017)	Rs 353
Target Price	Rs 406
Nifty	10,532
Sensex	34,011
KEY STOCK DATA	
Bloomberg	DABUR IN
No. of Shares (mn)	1,762
MCap (Rsbn)/(US\$ mn)	623/9,720
6m avg traded value (Rsmn)	404
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 361 / 259
	3M 6M 12M
Absolute (%)	14.8 22.0 36.0
Relative (%)	7.2 12.8 5.4
SHAREHOLDING PATTERN (%)	
Promoters	68.05
FIs & Local MFs	8.79
FPIs	17.34
Public & Others	5.82
Source : BSE	

Naveen Trivedi

naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Siddhant Chhabria

siddhant.chhabria@hdfcsec.com
+91-22-6171-7336

Poised for re-rating

Dabur has seen many challenges in its business during the last 2 years on account of slow rural demand (~45% of domestic), disruption through Patanjali, higher impact of demonet than others due to high wholesale dependence and weak international business. Therefore, Dabur's consolidated revenue degrew by average ~2% during the last 8 quarters.

- However, now we foresee a stage where Dabur can register superior performance in the coming quarters. Dabur is well-placed for the rural recovery and improving traction for Ayurvedic/natural segments. Dabur is focusing on Oral care, Home care, Juices, Health Supplements and OTC products (70% of domestic), aiming for superior growth in the coming years. Dabur gained market share in Juices/Oral care by 200/100bps during 1HFY18 and maintained share for hair oil.
- Trade channel recovery (including CSD and wholesale) is encouraging. The company has reduced the wholesale channel dependence to 20% as compared to 35% in FY17. The company further plans to leverage direct reach, MT and E-commerce to accelerate revenue growth (through new launches).
- Better revenue growth, stable inflation and a favourable product mix would expand the EBITDA margin by ~200bps over FY17-20E. We expect Revenue/EBITDA/APAT CAGR of 11/16/17% respectively over FY17-20E.

Valuation and Recommendation

- With domestic and international recovery at inflexion point, we see further re-rating in the stock. We value

Dabur based on P/E of 35x Dec-19EPS, and arrive at a TP of Rs 406. We maintain BUY.

Near-term: With improvement in operating performance (improving rural, recovery in trade channel), we expect healthy upside in the near-term too.

Financial Summary

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	78,486	77,014	80,641	91,851	104,427
EBITDA	15,183	15,090	16,478	19,817	23,359
APAT	12,512	12,778	14,219	17,366	20,759
Diluted EPS (Rs)	7.11	7.25	8.07	9.86	11.79
P/E (x)	49.6	48.7	43.7	35.8	30.0
EV / EBITDA (x)	40.1	40.0	36.3	29.9	25.0
RoIC	51.8	47.4	50.7	60.4	70.7

Assumption

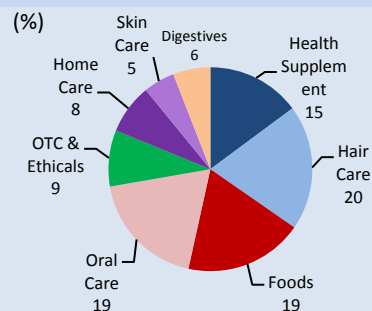
Particulars	FY16	FY17E	FY18E	FY19E	FY20E
Growth (%)					
Domestic biz	6.3	1.0	8.9	12.2	11.9
Hair Care biz	(1.8)	(6.9)	4.8	11.4	10.0
Oral Care biz	3.5	7.4	16.8	12.3	12.5
Health Supplements biz	(8.7)	(2.9)	9.8	11.0	12.0
OTC & Ethicals biz	4.5	(9.7)	10.7	8.6	12.0
Digestive biz	(0.1)	(11.5)	13.7	9.2	9.0
Home Care biz	(3.5)	4.5	12.7	12.5	11.5
Skin Care biz	(2.7)	5.2	10.4	12.0	12.0
Foods biz	(9.7)	12.2	7.6	13.8	14.0
International biz	11.9	(5.0)	10.0	13.9	13.5
Consolidated Revenue	0.3	(1.9)	4.7	13.9	13.1
Gross Margin (%)	51.2	50.1	50.0	50.7	51.5
ASP (% of sales)	9.8	8.4	9.2	9.5	9.5
EBITDA Margin (%)	19.3	19.6	20.4	21.6	22.2
Tax Rate (%)	19.3	20.5	20.5	20.5	20.5

Source: Company, HDFC sec Inst Research

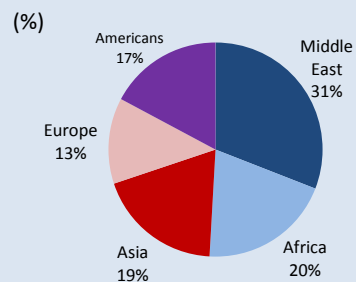
Dabur's performance during 1HFY18 was weak due to trade channel disturbance (impact of GST), contraction in international business due to unfavourable currency

We expect recovery in trade channel, improving rural demand and healthy cc growth in international (low forex pressure) to accelerate growth in the coming quarters

Domestic Revenue Mix



International Revenue Mix



Recent Performance

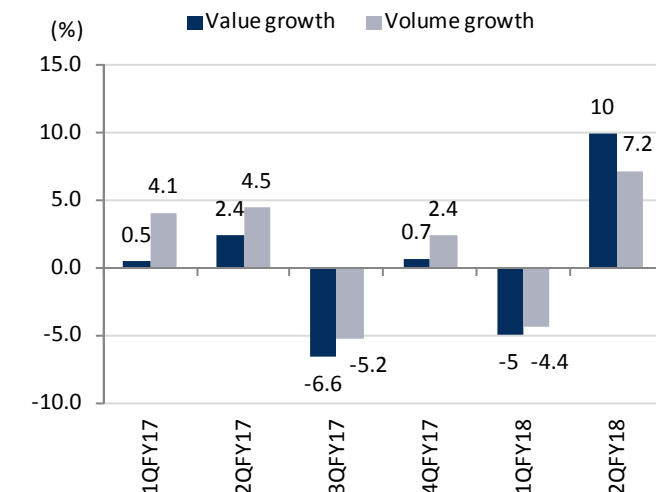
(Rs mn)	2QFY18	2QFY17	YoY (%)	1HFY18	1HFY17	YoY (%)
Net Revenue	19,589	19,816	-1.1%	37,490	39,339	-4.7%
Gross Profit	9,818	10,142	-3.2%	18,573	20,051	-7.4%
EBITDA	4,199	4,087	2.7%	7,288	7,576	-3.8%
APAT	3,627	3,572	1.5%	6,395	6,509	-1.8%
GPM (%)	50%	51%	(106)	50%	51%	(143)
EBITDAM (%)	21%	21%	81	19%	19%	18
NPM (%)	19%	18%	49	17%	17%	51

Particulars	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Revenue Mix (%)					
Domestic	63%	66%	71%	66%	66%
International	34%	30%	25%	31%	31%
Others	3%	4%	4%	3%	3%
Domestic Gr. (%)	2%	-7%	1%	5%	11%
Domestic Volume Gr. (%)	5%	-5%	2%	-4%	7%
International Gr. (%)	-2%	-6%	-20%	-15%	-11%

Category-wise Gr. (%)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Hair Care	-5%	-20%	-4%	-11%	2%
Oral Care	0%	-5%	9%	2%	23%
- Toothpaste	4%	2%	9%	10%	26%
Foods	15%	52%	10%	-8%	12%
Health Supplements	-6%	-14%	5%	-7%	3%
Home Care	20%	5%	-7%	6%	10%
OTC & Ethicals	-9%	-11%	-4%	-7%	6%
Digestives	-16%	-10%	5%	4%	12%
Skin Care	7%	-11%	0%	4%	16%

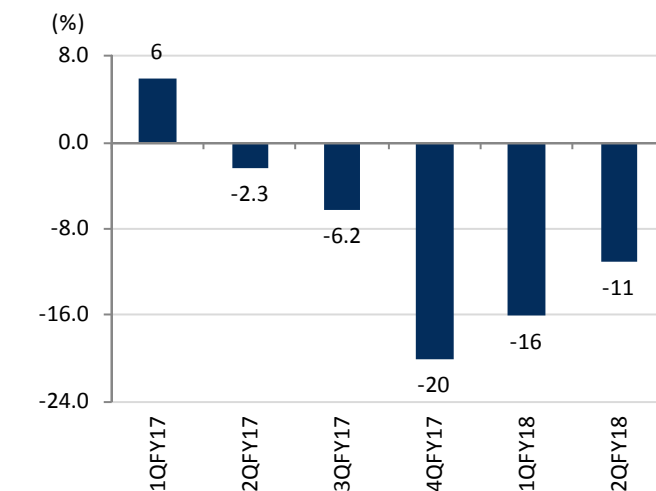
Source: Company, HDFC sec Inst Research

Domestic Revenue Growth



Source: Company, HDFC sec Inst Research

International Revenue Growth



Source: Company, HDFC sec Inst Research

Income Statement

(Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	78,486	77,014	80,641	91,851	104,427
Growth (%)	0.3	(1.9)	4.7	13.9	13.7
Material Expenses	38,294	38,432	40,344	45,259	50,666
Employee Expense	7,941	7,896	8,370	8,788	9,228
ASP Expense	7,716	6,461	7,419	8,726	9,921
Distribution Expense	1,760	1,696	1,613	1,653	1,775
Other Expenses	7,592	7,440	6,418	7,608	9,478
EBITDA	15,183	15,090	16,478	19,817	23,359
EBITDA Growth (%)	15.3	(0.6)	9.2	20.3	17.9
EBITDA Margin (%)	19.3	19.6	20.4	21.6	22.4
Depreciation	1,332	1,429	1,560	1,672	1,784
EBIT	13,851	13,662	14,918	18,145	21,575
Other Income (Including EO Items)	2,172	2,984	3,552	4,122	4,792
Interest	485	540	612	412	212
PBT	15,538	16,105	17,858	21,855	26,155
Total Tax	2,999	3,301	3,631	4,480	5,388
Adjusted PAT	12,512	12,778	14,219	17,366	20,759
APAT Growth (%)	17.4	2.1	11.3	22.1	19.5
Adjusted EPS (Rs)	7.1	7.3	8.1	9.9	11.8
EPS Growth (%)	17.2	2.0	11.3	22.1	19.5

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	1,759	1,762	1,762	1,762	1,762
Reserves	39,842	46,712	54,571	63,457	73,616
Total Shareholders Funds	41,601	48,474	56,333	65,219	75,378
Minority Interest	217	248	256	264	272
Long Term Debt	3,415	4,749	3,749	2,749	1,749
Short Term Debt	4,497	4,403	3,903	2,403	903
Total Debt	7,912	9,153	7,653	5,153	2,653
Net Deferred Taxes	882	1,080	1,080	1,080	1,080
Other Non-current Liab. & Provns	509	534	587	646	711
TOTAL SOURCES OF FUNDS	51,121	59,489	65,909	72,362	80,094
APPLICATION OF FUNDS					
Net Block	17,280	19,584	21,311	21,639	21,854
CWIP	609	598	616	635	657
Other Non Current Assets	627	1,187	1,185	1,201	1,219
Total Non-current Assets	18,516	21,369	23,112	23,475	23,730
Inventories	10,965	11,067	11,588	13,199	15,006
Debtors	8,097	6,504	6,811	7,757	8,819
Other Current Assets	4,288	3,294	3,573	3,881	4,219
Cash & Equivalents	27,292	35,077	40,917	46,939	54,270
Total Current Assets	50,642	55,941	62,889	71,777	82,314
Creditors	14,505	14,764	15,459	17,608	20,019
Other Current Liabilities & Provns	3,532	3,058	4,632	5,282	5,932
Total Current Liabilities	18,037	17,822	20,091	22,890	25,951
Net Current Assets	32,605	38,120	42,797	48,886	56,363
TOTAL APPLICATION OF FUNDS	51,121	59,489	65,909	72,362	80,094

Source: Company, HDFC sec Inst Research

Cash Flow Statement

(Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	15,572	16,105	17,858	21,855	26,155
Non-operating & EO Items	(1,368)	-	-	-	-
Interest Expenses	480	540	612	412	212
Depreciation	1,338	1,429	1,560	1,672	1,784
Working Capital Change	(2,417)	2,245	1,200	(43)	(121)
Tax Paid	(2,779)	(3,301)	(3,631)	(4,480)	(5,388)
OPERATING CASH FLOW (a)	10,826	17,017	17,599	19,415	22,643
Capex	(2,056)	(3,706)	(3,286)	(2,000)	(2,000)
Free Cash Flow (FCF)	8,769	13,311	14,312	17,415	20,643
Investments	(5,628)	(6,100)	(2,500)	(2,500)	(2,500)
Non-operating Income	1,501	-	-	-	-
INVESTING CASH FLOW (b)	(6,183)	(9,806)	(5,786)	(4,500)	(4,500)
Debt Issuance/(Repaid)	576	1,241	(1,500)	(2,500)	(2,500)
Interest Expenses	-	(540)	(612)	(412)	(212)
FCFE	4,066	6,510	13,925	17,828	20,855
Share Capital Issuance	171	(1,134)	(0)	(0)	0
Dividend	(3,506)	(4,770)	(6,360)	(8,480)	(10,600)
Others	(1,190)	(330)	-	-	-
FINANCING CASH FLOW (c)	(3,949)	(5,534)	(8,472)	(11,393)	(13,313)
NET CASH FLOW (a+b+c)	693	1,677	3,340	3,523	4,830
EO Items, Others	(2,470)	-	-	-	-
Closing Cash & Equivalents	990	2,675	6,015	9,538	14,368

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	51.2	50.1	50.0	50.7	51.5
EBITDA Margin	19.3	19.6	20.4	21.6	22.4
EBIT Margin	17.6	17.7	18.5	19.8	20.7
APAT Margin	15.9	16.6	17.6	18.9	19.9
RoE	33.3	28.4	27.1	28.6	29.5
RoIC (or Core RoCE)	51.8	47.4	50.7	60.4	70.7
RoCE	28.2	24.4	24.0	26.1	27.9
EFFICIENCY					
Tax Rate (%)	19.3	20.5	20.5	20.5	20.5
Fixed Asset Turnover (x)	3.1	2.6	2.5	2.7	2.9
Inventory (days)	51.0	52.5	52.5	52.5	52.5
Debtors (days)	37.7	30.8	30.8	30.8	30.8
Other Current Assets (days)	19.9	15.6	16.2	15.4	14.7
Payables (days)	67.5	70.0	70.0	70.0	70.0
Other Current Liab & Provns (days)	16.4	14.5	21.0	21.0	20.7
Cash Conversion Cycle (days)	24.7	14.4	8.5	7.7	7.3
Net D/E (x)	-0.47	-0.53	-0.59	-0.64	-0.68
Interest Coverage (x)	0.03	0.04	0.04	0.02	0.01
PER SHARE DATA (Rs)					
EPS	7.1	7.3	8.1	9.9	11.8
CEPS	7.9	8.1	9.0	10.8	12.8
Dividend	2.2	2.3	3.0	4.0	5.0
Book Value	23.6	27.5	32.0	37.0	42.8
VALUATION					
P/E (x)	49.6	48.7	43.7	35.8	30.0
P/BV (x)	14.9	12.8	11.0	9.5	8.2
EV/EBITDA (x)	40.1	40.0	36.3	29.9	25.0
EV/Revenues (x)	7.2	7.9	7.4	6.5	5.6
OCF/EV (%)	1.8	2.8	2.9	3.3	3.9
FCF/EV (%)	1.4	2.2	2.4	2.9	3.5
FCFE/Mkt Cap (%)	0.7	1.0	2.2	2.9	3.4
Dividend Yield (%)	0.6	0.6	0.8	1.1	1.4

Source: Company, HDFC sec Inst Research

Britannia Industries

BUY

INDUSTRY	FMCG
CMP (as on 26 Dec 2017)	Rs 4,734
Target Price	Rs 5,312
Nifty	10,532
Sensex	34,011
KEY STOCK DATA	
Bloomberg	BRIT IN
No. of Shares (mn)	120
MCap (Rs bn)/(US\$ mn)	570/8,891
6m avg traded value (Rs mn)	789
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 4,964 / 2,780
	3M 6M 12M
Absolute (%)	9.7 30.0 69.0
Relative (%)	2.2 20.8 38.4
SHAREHOLDING PATTERN (%)	
Promoters	50.70
FIs & Local MFs	11.77
FPIs	17.39
Public & Others	20.14
Source : BSE	

Naveen Trivedi

naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Siddhant Chhabria

siddhant.chhabria@hdfcsec.com
+91-22-6171-7336

From strength to strength

BRIT's focus areas are (1) Premiumisation through innovation, (2) Distribution expansion (largely in rural areas and increase in direct reach), (3) Growth acceleration in weak markets (Rajasthan, MP, UP, Gujarat and Chhattisgarh), (4) Entry in new segments (like croissants), (5) Cost optimization (saving of ~Rs 2.5bn in FY18E).

- BRIT's focus is on expanding the market through focusing on weaker areas like rural which contribution only 20% of revenues. The company aims to achieve 30-35% share from rural over the next 2-3 years. BRIT's weak states, Gujarat, Rajasthan, UP, MP and Chhattisgarh combined comprise ~35% of India's population. Further, gaining traction in these states would spur BRIT's growth momentum. BRIT has already increased its direct reach to 1.7mn (~2.3x in last 4 years). BRIT plans to run several branding campaigns in the rural market to further improve penetration.
- BRIT has had an impressive run since FY10 with focus on EBITDA expansion by ~940bps (14.1% in FY17 vs. 4.7% in FY10) i.e. ~140bps annually. We still expect further margin expansion of ~150-200bps in the next 2 years driven by softening input prices, higher share of premium segment and cost rationalisation.
- We expect Revenue/EBITDA/APAT CAGR of 14%/20%/21% respectively over FY17-20E.

Valuation and Recommendation

- With improving demand (especially in rural), benign RM and BRIT's successful execution on various

initiatives, we value BRIT based on P/E of 42x Dec-19EPS. Maintain BUY with a TP of Rs 5,312.

Near-term outlook: Stable RM, revival in demand (especially in rural) and cost optimisation (saving of ~Rs 1.5bn in H2FY18) can drive earnings in the ensuing quarters. Stock can continue to offer upside.

Financial Summary

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	83,972	90,541	100,752	115,891	133,291
EBITDA	12,144	12,782	15,417	18,558	22,150
APAT	8,246	8,846	10,296	12,823	15,798
EPS (Rs)	68.7	73.7	85.8	106.9	131.6
P/E (x)	68.9	64.2	55.2	44.3	36.0
EV/EBITDA (x)	46.2	44.1	36.0	29.6	24.5
Core RoCE (%)	74.8	44.1	42.9	50.9	54.4

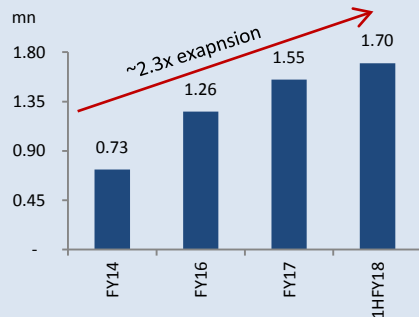
Source: Company, HDFC sec Inst Research

Assumptions

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Revenue Growth (%)					
Biscuits	10.9	8.0	11.0	14.0	14.0
Bread and rusk	12.2	8.0	11.0	13.0	13.0
Cake	18.3	12.0	12.0	18.0	18.0
Dairy Business	(2.2)	5.0	5.0	5.0	5.0
International Business	28.1	(13.8)	15.0	15.0	15.0
Gross Margin (%)	40.3	38.3	39.5	40.0	40.5
ASP (% of sales)	5.3	4.3	4.3	4.5	4.7
Distribution (% of sales)	5.1	4.9	4.8	4.6	4.4
EBITDA Margin (%)	14.5	14.1	15.3	16.0	16.6
Tax Rate (%)	32.5	32.2	33.0	31.0	30.0
NPM (%)	9.8	9.8	10.2	11.1	11.9

Source: Company, HDFC sec Inst Research

Direct Reach



Source: Company, HDFC sec Inst Research

BRIT continued to report strong traction in Gujarat, MP and Rajasthan. BRIT gained share by 170bps in Weak states in Q2FY18 with their market share in the low teens

Gujarat, Rajasthan, UP, MP and Chhattisgarh combined comprise ~35% of India's population. Further, gaining traction in these states would spur BRIT's growth momentum

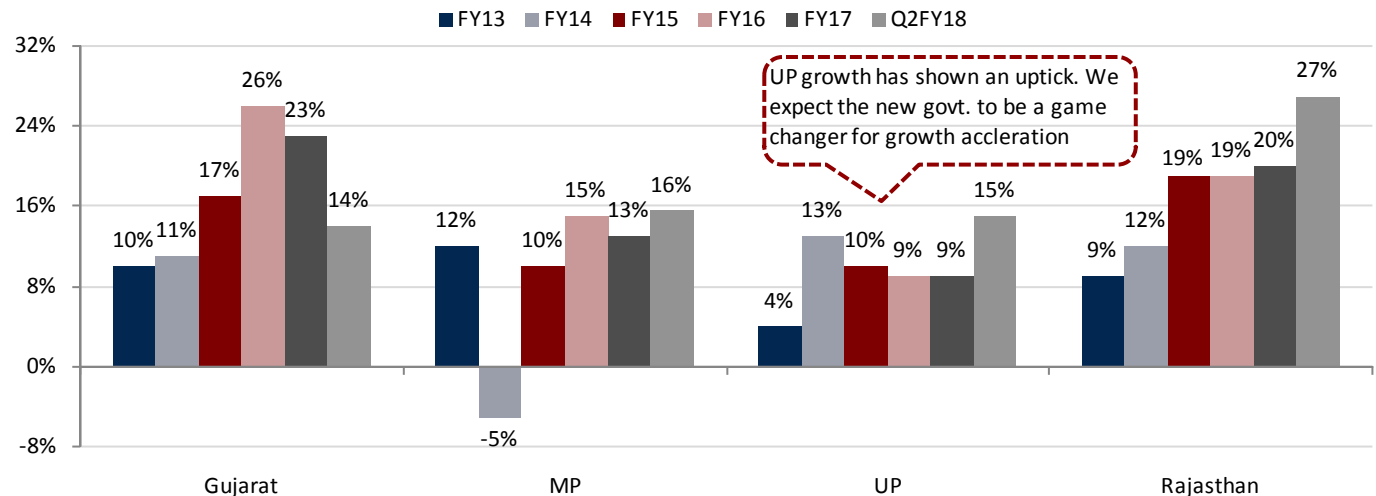
Recent Performance

(Rs mn)	2QFY18	2QFY17	YoY (%)	1HFY18	1HFY17	YoY (%)
Net Revenue	25,453	23,870	6.6%	48,090	45,277	6.2%
Gross Profit	9,613	8,967	7.2%	18,377	17,496	5.0%
EBITDA	3,777	3,389	11.4%	7,062	6,551	7.8%
APAT	2,610	2,340	11.5%	4,770	4,532	5.3%
GPM (%)	37.8%	37.6%	20	38.2%	38.6%	(43)
EBITDAM (%)	14.8%	14.2%	64	14.7%	14.5%	22
NPM (%)	10.3%	9.8%	45	9.9%	10.0%	(9)

Particulars (%)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Revenue Gr.	11.0%	5.6%	5.6%	5.6%	7.4%
Domestic volume Gr.	8.0%	1.5%	2.0%	3.0%	6.0%
Price Gr.	3.0%	4.1%	3.6%	2.6%	1.4%

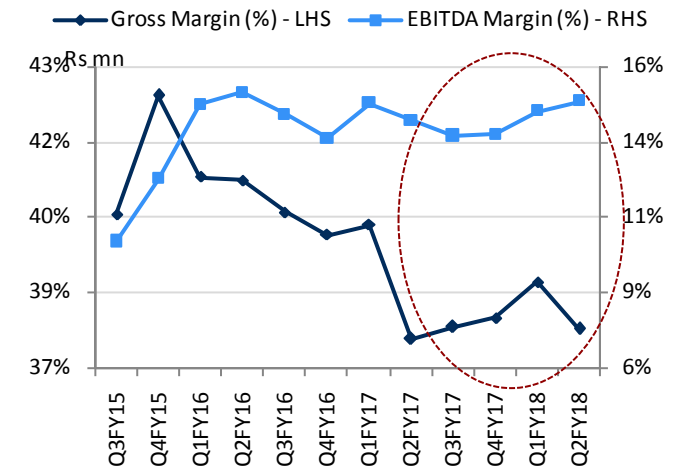
Source: Company, HDFC sec Inst Research

Revenue Growth In Weak States



Source: Company, HDFC sec Inst Research

Quarterly Gross And EBITDA Margin



Source: Company, HDFC sec Inst Research

Income Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	83,972	90,541	100,752	115,891	133,291
Growth (%)	10.4	7.8	11.3	15.0	15.0
Material Expenses	50,127	55,887	60,955	69,534	79,308
Employee Expense	3,414	3,526	4,091	4,518	4,991
ASP Expense	4,461	3,850	4,284	5,160	6,268
Distribution Expense	4,310	4,459	4,836	5,273	5,798
Other Expense	9,517	10,037	11,169	12,847	14,776
EBITDA	12,144	12,782	15,417	18,558	22,150
EBITDA Growth (%)	40.6	5.3	20.6	20.4	19.4
EBITDA Margin (%)	14.5	14.1	15.3	16.0	16.6
Depreciation & Amortisation	1,134	1,193	1,393	1,593	1,805
EBIT	11,010	11,589	14,024	16,966	20,345
Other Income (Including EO Items)	1,244	1,505	1,393	1,649	2,251
Interest	49	55	50	30	27
PBT	12,205	13,040	15,367	18,584	22,568
Tax	3,961	4,197	5,071	5,761	6,770
RPAT	8,246	8,846	10,296	12,823	15,798
Adjustment	-	-	-	-	-
APAT	8,246	8,846	10,296	12,823	15,798
APAT Growth (%)	27.2	7.3	16.4	24.6	23.2
Adjusted EPS (Rs)	68.7	73.7	85.8	106.9	131.6
EPS Growth (%)	27.1	7.3	16.4	24.6	23.2

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	240	240	240	240	240
Reserves	20,739	26,767	33,451	41,942	53,118
Total Shareholders Funds	20,979	27,007	33,691	42,182	53,358
Minority interest	25	26	26	26	26
Long Term Debt	377	314	264	214	164
Short Term Debt	934	922	881	844	809
Total Debt	1,311	1,236	1,145	1,058	973
Net Deferred Taxes	(444)	(231)	(231)	(231)	(231)
Non Current Liabilities	282	307	345	393	448
TOTAL SOURCES OF FUNDS	22,153	28,344	34,976	43,428	54,573
APPLICATION OF FUNDS					
Net Block	8,343	10,322	12,353	14,300	16,035
CWIP (Including capital advances)	901	301	-	-	-
Goodwill	1,159	1,278	1,278	1,278	1,278
LT Loans & Advances	2,562	834	928	1,068	1,228
Other Non Current Assets	562	1,610	1,791	2,061	2,370
Total Non-current Assets	13,528	14,345	16,351	18,706	20,911
Inventories	4,407	6,615	7,360	8,466	9,738
Debtors	1,706	1,792	1,994	2,293	2,638
Other Current Assets	6,095	12,030	13,387	15,398	17,710
Cash & Equivalents	8,760	6,076	13,460	18,951	26,679
Total Current Assets	20,967	26,512	36,201	45,109	56,765
Creditors	9,827	9,822	14,581	16,944	19,141
Other Current Liabilities	2,516	2,691	2,994	3,444	3,961
Total Current Liabilities	12,343	12,513	17,575	20,388	23,102
Net Current Assets	8,625	14,000	18,626	24,721	33,663
TOTAL APPLICATION OF FUNDS	22,152	28,344	34,976	43,428	54,573

Source: Company, HDFC sec Inst Research

Cash Flow Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	11,979	13,040	15,367	18,584	22,568
Non-operating & EO Items	(872)	-	-	-	-
Interest Expenses	49	55	50	30	27
Depreciation	1,134	1,193	1,393	1,593	1,805
Working Capital Change	1,356	(8,072)	2,717	(641)	(1,248)
Tax Paid	(4,032)	(4,197)	(5,071)	(5,761)	(6,770)
OPERATING CASH FLOW (a)	9,614	2,019	14,455	13,805	16,382
Capex	(2,494)	(2,574)	(3,239)	(3,540)	(3,540)
Free Cash Flow (FCF)	7,120	(555)	11,216	10,265	12,842
Investments	(5,967)	3,002	(500)	(500)	(500)
Non-operating Income	1,409	978	(120)	(361)	(415)
INVESTING CASH FLOW (b)	(7,052)	1,406	(3,860)	(4,401)	(4,455)
Debt Issuance/(Repaid)	(168)	(63)	(50)	(50)	(50)
Interest Expenses	(51)	(55)	(50)	(30)	(27)
FCFE	2,343	3,308	10,495	9,324	11,850
Share Capital Issuance	44	-	-	-	-
Dividend	(2,308)	(3,177)	(3,611)	(4,333)	(4,622)
Others	-	-	-	-	-
FINANCING CASH FLOW (c)	(2,483)	(3,295)	(3,711)	(4,413)	(4,699)
NET CASH FLOW (a+b+c)	78	130	6,884	4,992	7,228
EO Items, Others	379	188	(1)	-	-
Closing Cash & Equivalents	889	1,208	8,091	13,083	20,311

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	40.3	38.3	39.5	40.0	40.5
ASP	5.3	4.3	4.3	4.5	4.7
EBITDA Margin	14.5	14.1	15.3	16.0	16.6
EBIT Margin	13.1	12.8	13.9	14.6	15.3
APAT Margin	9.8	9.8	10.2	11.1	11.9
RoE	49.3	36.9	33.9	33.8	33.1
RoIC (or Core RoCE)	74.8	44.1	42.9	50.9	54.4
RoCE	45.9	35.2	32.6	32.8	32.3
EFFICIENCY					
Tax Rate (%)	32.5	32.2	33.0	31.0	30.0
Fixed Asset Turnover (x)	4.4	4.0	3.9	3.9	4.0
Inventory (days)	19.2	26.7	26.7	26.7	26.7
Debtors (days)	7.42	7.22	7.22	7.22	7.22
Other Current Assets (days)	26.5	48.5	48.5	48.5	48.5
Payables (days)	42.7	39.6	52.8	53.4	52.4
Other Current Liab & Provns (days)	10.9	10.8	10.8	10.8	10.8
Cash Conversion Cycle (days)	(0.6)	31.9	18.7	18.2	19.1
Net D/E (x)	(0.4)	(0.2)	(0.4)	(0.4)	(0.5)
Interest Coverage (x)	226.1	212.6	278.4	561.6	747.7
PER SHARE DATA (Rs)					
EPS	68.7	73.7	85.8	106.9	131.6
CEPS	78.2	83.7	97.4	120.1	146.7
Dividend	20.0	22.0	25.0	30.0	32.0
Book Value	174.8	225.1	280.8	351.5	444.6
VALUATION					
P/E (x)	68.9	64.2	55.2	44.3	36.0
P/BV (x)	27.1	21.0	16.9	13.5	10.6
EV/EBITDA (x)	46.2	44.1	36.0	29.6	24.5
EV/Revenues (x)	6.7	6.2	5.5	4.7	4.1
OCF/EV (%)	1.7	0.4	2.6	2.5	3.0

Source: Company, HDFC sec Inst Research

INDUSTRY	FMCG
CMP (as on 26 Dec 2017)	Rs 318
Target Price	Rs 370
Nifty	10,532
Sensex	34,011
KEY STOCK DATA	
Bloomberg	MRCO IN
No. of Shares (mn)	1,291
MCap (Rs bn)/(US\$ mn)	412/6,423
6m avg traded value (Rs mn)	358
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 349 / 238
	3M 6M 12M
Absolute (%)	0.7 2.0 33.3
Relative (%)	(6.8) (7.2) 2.7
SHAREHOLDING PATTERN (%)	
Promoters	59.71
FIs & Local MFs	5.52
FPIs	27.81
Public & Others	6.96
Source : BSE	

Naveen Trivedi

naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Siddhant Chhabria

siddhant.chhabria@hdfcsec.com
+91-22-6171-7336

Parachute(ing) for the stars

We are encouraged by Marico's market share gain (90-95% portfolio gained in 1HFY18) in a challenging period (demonet, GST). However, steep rise in copra prices (65% YoY) impacted Marico performance during 1HFY18 (EBITDA contracted by 7% YoY).

- We expect revenue growth acceleration in the coming quarters owing to recovery in trade channel (both CSD and Wholesale), improving rural demand (contribute 35% of domestic biz) and better growth from international (22% of total biz).
- With anticipation of fall in copra prices from April-May'18 (on completion of 18-month cycle), we expect gross margin expansion in FY19.
- Marico management has been successful in execution and aims to launch several products in the coming year. Management has aggressive plans for new launches and plans to their contribution to 7-8% in the coming years (3-4% now). The focus area would be in the existing business segment of personal care and food.
- In the last 2 years, Marico gained 200bps, 800bps and 400bps market share in Coconut oil, Saffola and VAHO, respectively.
- International business has underperformed in the last 1 year primarily due to currency depreciation and geo-political issues. We expect healthy double digit cc growth along with margin expansion owing to operating leverage in the ensuing quarters.
- We expect Revenue/EBITDA/APAT CAGR of 13%/16%/20% respectively over FY17-20E.

Valuation and Recommendation

- We value Marico based on P/E of 35x Dec-19, and derived a TP of Rs 370. We are optimistic about Marico's long-term story and success on new launches. We upgrade Marico to BUY from NEUTRAL.

Near-term outlook: With improvement in operating performance (improving rural, recovery in trade channel), we expect healthy upside in the near-term too.

Financial Summary

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	60,173	59,178	64,657	74,750	85,439
EBITDA	10,514	11,593	12,142	15,415	18,013
APAT	7,233	8,110	8,631	11,579	13,936
EPS (Rs)	5.61	6.28	6.69	8.97	10.80
P/E (x)	56.7	50.6	47.5	35.4	29.4
EV/EBITDA (x)	38.8	35.3	33.6	26.3	22.4
Core RoCE (%)	44.7	49.2	48.2	66.1	75.0

Assumptions

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Revenue Growth (%)					
Domestic Business	6.0	(2.0)	11.2	15.8	14.4
Parachute Coconut	7.7	(11.6)	16.6	15.0	13.4
VAHO	11.3	6.8	10.8	14.8	14.8
Saffola Oil	10.1	6.1	4.0	12.8	11.2
Youth products	3.0	5.0	5.0	16.0	16.0
IBD	5.6	0.1	3.0	15.0	14.0
Gross Margin (%)	49.0	52.2	50.8	50.8	51.2
ASP (% of sales)	11.5	11.1	12.0	12.2	12.2
Distribution (% of sales)	4.2	4.2	4.2	4.0	4.0
EBITDA Margin (%)	17.5	19.6	18.8	20.6	21.1
Tax Rate (%)	29.7	29.4	28.6	27.0	27.0

Source: Company, HDFC sec Inst Research

Consolidated revenues in 2QFY18 and 1HFY18 grew by 6.5% and 1% respectively

Gross margin was down by 488bps in 1HFY18 due to high copra inflation. Copra prices are up 65% YoY and expected to taper down from 1QFY19 onwards

EBITDA in 1HFY18 was down by 7%

In 2QFY18 international biz remained weak, owing to unfavourable currency movements and the MENA region

Marico's Domestic Market Share

Segments	2QFY17	2QFY18
Coconut Oils	58	59
Saffola	64	67
VAHO	32	34
Livon and Silk & Shine	80	83
Hair Creams/Gels	62	62
Safolla Oats	28	27

Recent Performance

(Rs mn)	2QFY18	2QFY17	YoY (%)	1HFY18	1HFY17	YoY (%)
Net Revenue	15,363	14,428	6.5	32,178	31,951	1%
Gross Profit	7,219	7,581	(4.8)	15,251	16,704	(9%)
EBITDA	2,591	2,531	2.4	5,834	6,271	(7%)
APAT	1,851	1,807	2.4	4,210	4,486	(6%)
GPM (%)	47%	53%	(556)	47%	52%	(488)
EBITDAM (%)	17%	18%	(68)	18%	20%	(150)
NPM (%)	12%	13%	(48)	13%	14%	(96)

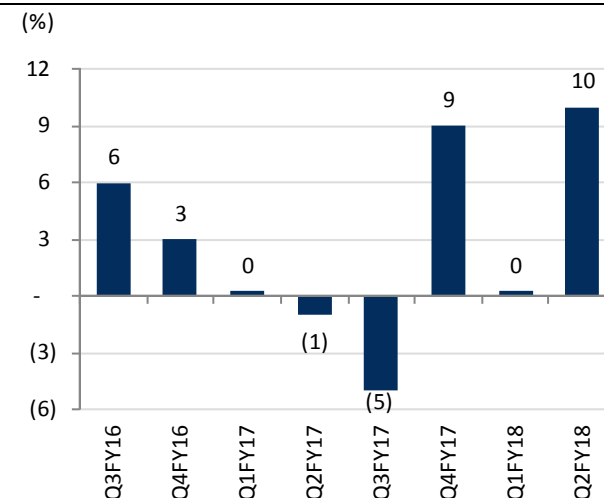
(Rs mn)	2QFY18	2QFY17	YoY (%)	1HFY18	1HFY17	YoY (%)
Revenue						
Domestic	12,000	10,760	11.5	25,280	24,634	2.6
International	3,363	3,670	(8.4)	7,013	7,339	(4.4)
Total	15,363	14,430	6.5	32,293	31,973	1.0

EBIT						
Domestic	2,180	2,150	1.4	4,930	5,561	(11.3)
International	583	580	0.5	1,323	1,281	3.3
Total	2,763	2,730	1.2	6,253	6,842	(8.6)
EBIT Margin						
Domestic	18%	20%	(181)	20%	23%	(307)
International	17%	16%	153	19%	17%	142
Total	18%	20%	(181)	20%	23%	(307)

Particulars	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Parachute Oil					
Value Growth	-19	-12	11	3	26
Volume Growth	-6	-1	15	-9	12
VAHO					
Value Growth	11	-13	9	-7	12
Volume Growth	11	-12	10	-8	12
Saffola Oil					
Value Growth	10	7	3	-8	1
Volume Growth	8	6	6	-9	3

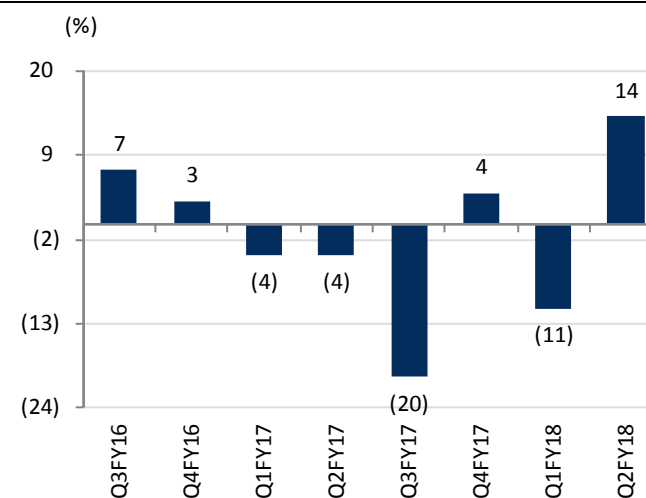
Source: Company, HDFC sec Inst Research

Urban Growth (YoY)



Source: Company, HDFC sec Inst Research

Rural Growth (YoY)



Source: Company, HDFC sec Inst Research

Income Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	60,173	59,178	64,657	74,750	85,439
Growth (%)	5.0	(1.7)	9.3	15.6	14.3
Material Expenses	30,706	28,310	31,779	36,747	41,722
Employee Expense	3,734	4,042	4,446	4,891	5,380
ASP Expense	6,927	6,595	7,759	9,119	10,424
Distribution Expense	2,541	2,499	2,730	2,990	3,418
Other Expenses	5,752	6,140	5,801	5,588	6,484
EBITDA	10,514	11,593	12,142	15,415	18,013
EBITDA Growth (%)	20.8	10.3	4.7	27.0	16.9
EBITDA Margin (%)	17.5	19.6	18.8	20.6	21.1
Depreciation	949	903	994	1,086	1,200
EBIT	9,565	10,690	11,148	14,329	16,812
Other Income (Including EO Items)	932	973	1,073	1,570	2,302
Interest	206	166	111	23	11
PBT	10,292	11,497	12,109	15,876	19,104
Total Tax	3,053	3,377	3,469	4,287	5,158
RPAT	7,233	8,110	8,631	11,579	13,936
Minority Interest	5	10	10	10	10
Adjusted PAT	7,233	8,110	8,631	11,579	13,936
APAT Growth (%)	26.1	12.1	6.4	34.2	20.3
Adjusted EPS (Rs)	5.61	6.28	6.69	8.97	10.80

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	1,290	1,291	1,291	1,291	1,291
Reserves	18,884	21,966	23,895	27,284	31,540
Total Shareholders Funds	20,174	23,257	25,186	28,575	32,831
Minority Interest	143	133	143	154	164
Long Term Debt	-	-	-	-	-
Short Term Debt	1,528	2,388	388	188	88
Total Debt	1,528	2,388	388	188	88
Net Deferred Taxes	(421)	125	125	125	125
Non Current Liabilities	128	159	182	210	241
TOTAL SOURCES OF FUNDS	21,552	26,062	26,025	29,251	33,448
APPLICATION OF FUNDS					
Net Block	10,811	10,847	11,053	11,167	11,466
CWIP	367	112	112	112	112
LT Loans & Advances	175	194	212	246	281
Other Non Current Assets	426	307	307	307	307
Total Non-current Assets	11,779	11,460	11,683	11,831	12,165
Inventories	9,256	12,534	11,640	12,643	14,354
Debtors	2,524	2,470	2,586	2,990	3,418
Non Current Assets	1,299	1,081	1,177	1,355	1,542
Cash & Equivalents	8,303	8,355	9,845	12,844	16,092
Total Current Assets	21,382	24,440	25,249	29,832	35,406
Creditors	10,561	8,754	9,660	10,977	12,474
Current Liabilities	1,049	1,084	1,247	1,434	1,649
Total Current Liabilities	11,610	9,838	10,908	12,411	14,123
Net Current Assets	9,772	14,602	14,341	17,420	21,283
TOTAL APPLICATION OF FUNDS	21,552	26,062	26,025	29,251	33,448

Source: Company, HDFC sec Inst Research

Cash Flow Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	10,338	11,497	12,109	15,876	19,104
Non-operating & EO Items	(433)	-	-	-	-
Interest Expenses	(135)	166	111	23	11
Depreciation	1,018	903	994	1,086	1,200
Working Capital Change	(1)	(5,415)	251	(1,580)	(2,114)
Tax Paid	(2,462)	(3,377)	(3,469)	(4,287)	(5,158)
OPERATING CASH FLOW (a)	8,326	3,773	9,997	11,118	13,043
Capex	(856)	(683)	(1,200)	(1,200)	(1,500)
Free Cash Flow (FCF)	7,469	3,090	8,797	9,918	11,543
Investments	(1,179)	(313)	-	-	-
Non-operating Income	(321)	650	(18)	(33)	(35)
INVESTING CASH FLOW (b)	(2,357)	(346)	(1,218)	(1,233)	(1,535)
Debt Issuance/(Repaid)	-	860	(2,000)	(200)	(100)
Interest Expenses	(204)	(166)	(111)	(23)	(11)
FCFE	5,765	4,121	6,668	9,662	11,396
Share Capital Issuance	5	185	(0)	-	0
Dividend	(5,025)	(5,212)	(6,701)	(8,191)	(9,680)
Others	(589)	31	24	27	31
FINANCING CASH FLOW (c)	(5,813)	(4,302)	(8,789)	(8,386)	(9,759)
NET CASH FLOW (a+b+c)	156	(875)	(10)	1,499	1,748
EO Items, Others	(966)	-	-	-	-
Closing Cash & Equivalents	3,171	2,273	2,263	3,762	5,510

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	49.0	52.2	50.8	50.8	51.2
EBITDA Margin	17.5	19.6	18.8	20.6	21.1
EBIT Margin	15.9	18.1	17.2	19.2	19.7
APAT Margin	12.0	13.7	13.3	15.5	16.3
RoE	37.7	37.3	35.6	43.1	45.4
RoIC (or Core RoCE)	44.7	49.2	48.2	66.1	75.0
RoCE	34.1	34.8	34.0	42.7	45.2
EFFICIENCY					
Tax Rate (%)	29.7	29.4	28.6	27.0	27.0
Fixed Asset Turnover (x)	5.6	5.0	5.0	5.3	5.4
Inventory (days)	56.1	77.3	65.7	61.7	61.3
Debtors (days)	15.3	15.2	14.6	14.6	14.6
Other Current Assets (days)	7.9	6.7	6.6	6.6	6.6
Payables (days)	64.1	54.0	54.5	53.6	53.3
Other Current Liab & Provns (days)	6.4	6.7	7.0	7.0	7.0
Cash Conversion Cycle (days)	8.9	38.5	25.4	22.3	22.2
Net D/E (x)	(0.3)	(0.3)	(0.4)	(0.4)	(0.5)
Interest Coverage (x)	0.0	0.0	0.0	0.0	0.0
PER SHARE DATA (Rs)					
EPS	5.6	6.3	6.7	9.0	10.8
CEPS	6.3	7.0	7.5	9.8	11.7
Dividend	3.4	3.5	4.5	5.5	6.5
Book Value	15.6	18.0	19.5	22.1	25.4
VALUATION					
P/E (x)	56.7	50.6	47.5	35.4	29.4
P/BV (x)	20.3	17.6	16.3	14.4	12.5
EV/EBITDA (x)	38.8	35.3	33.6	26.3	22.4
EV/Revenues (x)	6.8	6.9	6.3	5.4	4.7
OCF/EV (%)	2.0	0.9	2.5	2.7	3.2
FCF/EV (%)	1.5	0.8	2.2	2.4	2.8
FCFE/Mkt Cap (%)	1.4	1.0	1.6	2.4	2.8
Dividend Yield (%)	1.1	1.1	1.4	1.7	2.0

Source: Company, HDFC sec Inst Research

Colgate-Palmolive

NEUTRAL

INDUSTRY	FMCG
CMP (as on 26 Dec 2017)	Rs 1,082
Target Price	Rs 1,118
Nifty	10,532
Sensex	34,011
KEY STOCK DATA	
Bloomberg	CLGT IN
No. of Shares (mn)	272
MCap (Rs bn)/(US\$ mn)	295/4,600
6 m avg traded value (Rs mn)	356
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 1,178/861
	3M 6M 12M
Absolute (%)	0.3 (2.5) 21.0
Relative (%)	(7.2) (11.7) (9.6)
SHAREHOLDING PATTERN (%)	
Promoters	51.00
FIs & Local MFs	10.26
FPIs	15.97
Public & Others	22.77
Source : BSE	

Naveen Trivedi

naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Siddhant Chhabria

siddhant.chhabria@hdfcsec.com
+91-22-6171-7336

Awaiting For Revival

Colgate continued to lose market share due to rising competition from Patanjali and Dabur. Its Toothpaste and Toothbrush market share stood at 54% (-170bps YoY) and 45.5% (-110bps YoY). Colgate was the only FMCG company in our coverage which reported volume decline (-1%) in 2QFY18, despite benefits of restocking owing to GST transition.

- In response to the euphoria around Ayurvedic/Natural products Colgate strengthened its natural portfolio through Colgate Cibaca Vedshakti and Colgate Swarna Vedshakti (premium).
- Colgate was among the key beneficiaries of GST (lower bracket of 18%) as a result the company managed an 8-9% price cut. We will keenly watch if Colgate can regain/maintain market share.
- Colgate improved its EBITDA margins by 185bps in 1HFY18 (YoY) primarily by cutting down on its A&P spend by 112bps. We expect the company to increase ASP spend in ensuing quarters in order to protect/regain its market share.
- We expect Revenue/EBITDA/APAT CAGR of 11%/13%/16% respectively over FY17-20E.

Valuation and Recommendation

- With recovery in rural demand and normalizing trade channels, we are positive on the sector. However, Colgate, with a single-category presence, will find it difficult to capitalize on this vis-à-vis other companies. We valued Colgate based on P/E of 34x on Dec-19 EPS to arrive at a TP of 1,118. We maintain NEUTRAL.

Near-term outlook: We expect the recovery to be more U-shaped in nature and expect the company to report higher trajectory of growth. However, we prefer other mid-cap companies like Emami and Dabur.

Financial Summary

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	38,682	39,818	42,916	48,088	53,884
EBITDA	9,382	9,444	10,567	12,208	13,957
APAT	6,031	5,774	6,639	7,862	9,246
EPS (Rs)	22.2	21.2	24.4	28.9	34.0
P/E (x)	48.8	51.0	44.4	37.5	31.8
EV/EBITDA (x)	31.0	30.8	27.3	23.3	20.2
Core RoCE (%)	82.2	58.3	59.5	74.3	91.8

Source: Company, HDFC sec Inst Research

Assumptions

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Toothpaste Revenue Gr. (%)	(2.6)	2.7	7.6	12.3	12.3
Toothpaste Volume Gr. (%)	5.0	(2.0)	5.5	7.5	7.5
GM (%)	61.8	62.9	64.1	64.1	64.8
Employee (% of sales)	6.8	7.2	7.3	7.3	7.3
ASP (% of sales)	11.6	12.9	12.2	12.5	12.5
Distribution (% of sales)	3.6	3.2	3.1	3.0	3.2
Royalty (% of sales)	5.7	5.2	5.2	5.2	5.2
EBITDA Margin (%)	24.3	23.7	24.6	25.4	25.9
ETR (%)	30.4	32.2	31.5	31.0	30.0

Source: Company, HDFC sec Inst Research

Flat revenue growth in 1HFY18. Expect recovery to be more gradual

We expect Advertising spend to increase in the coming quarters. Colgate would spend more aggressively to accelerate volume growth

EBITDA margin at 28% in 1HFY18 is healthy. However we expect increase in A&P spend to constrain margin expansion

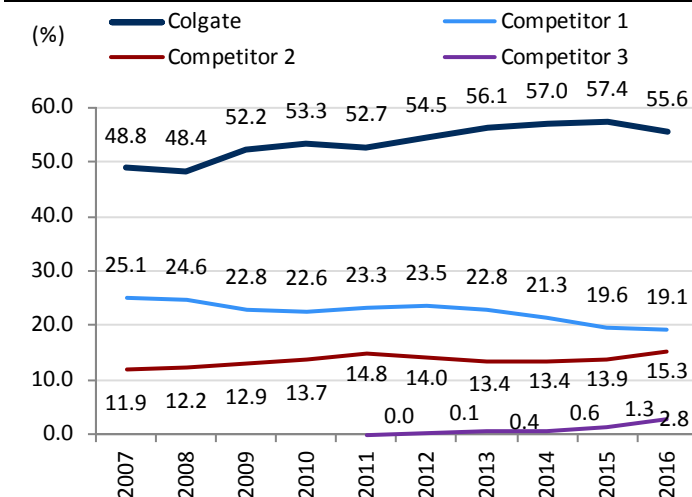
Colgate has reported volume decline in its last 4 consecutive quarters

Recent Performance

(Rs mn)	2QFY18	2QFY17	YoY (%)	1HFY18	1HFY17	YoY (%)
Net Revenue	10,780	10,483	3%	20,474	20,539	0%
Gross Profit	6,879	6,656	3%	13,077	12,965	1%
EBITDA	3,006	2,747	9%	5,224	4,860	8%
APAT	1,776	1,813	-2%	3,140	3,070	2%
GPM (%)	64%	63%	32	64%	63%	74
EBITDAM (%)	28%	26%	168	26%	24%	185
NPM (%)	16%	17%	(82)	15%	15%	39

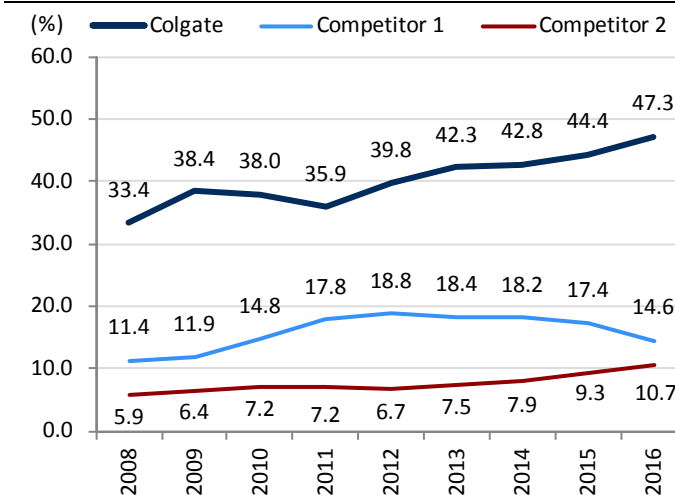
Particulars	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18
Sales Gr. (%)	8.9%	9.4%	-8.8%	2.5%	-3.6%	2.8%
Volume Gr. (%)	6.0%	4.0%	-12.0%	-3.0%	-5.0%	-0.9%
Price Gr. (%)	2.9%	5.4%	3.2%	5.5%	1.4%	3.7%
Volume Market Share						
Toothpaste	55.9%	55.7%	55.4%	55.1%	54.3%	54.0%
Toothbrush	46.8%	46.6%	47.0%	47.4%	45.0%	45.5%

Toothpaste Market Share



Source: Company, HDFC sec Inst Research

Toothbrush Market Share



Source: Company, HDFC sec Inst Research

Income Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	38,682	39,818	42,916	48,088	53,884
Growth (%)	4.5	2.9	7.8	12.1	12.1
Material Expenses	14,766	14,768	15,426	17,242	18,983
Employee Expense	2,624	2,885	3,142	3,500	3,960
ASP Expense	4,476	5,118	5,246	6,002	6,725
Distribution Expense	1,390	1,274	1,330	1,443	1,724
Other Expenses	6,044	6,330	7,205	7,693	8,535
EBITDA	9,382	9,444	10,567	12,208	13,957
EBITDA Growth (%)	14.1	0.7	11.9	15.5	14.3
EBITDA Margin (%)	24.3	23.7	24.6	25.4	25.9
Depreciation	1,114	1,332	1,505	1,634	1,795
EBIT	8,268	8,112	9,062	10,574	12,162
Other Income (Including EO Items)	86	403	629	820	1,047
Interest	-	-	-	-	-
PBT	8,354	8,514	9,691	11,394	13,209
Total Tax	2,541	2,740	3,053	3,532	3,963
RPAT	5,812	5,774	6,639	7,862	9,246
Exceptional Gain/(loss)	(218)	-	-	-	-
Adjusted PAT	6,031	5,774	6,639	7,862	9,246
APAT Growth (%)	7.9	(4.2)	15.0	18.4	17.6
Adjusted EPS (Rs)	22.2	21.2	24.4	28.9	34.0
EPS Growth (%)	7.8	(4.2)	15.0	18.4	17.6

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	272	272	272	272	272
Reserves	10,038	12,614	15,353	18,596	20,780
Total Shareholders Funds	10,311	12,887	15,625	18,868	21,053
Long Term Debt	-	-	-	-	-
Short Term Debt	-	-	-	-	-
Total Debt	-	-	-	-	-
Net Deferred Taxes	400	275	275	275	275
Other Non-current Liabilities & Provns	1,235	1,004	1,023	1,049	1,078
TOTAL SOURCES OF FUNDS	11,945	14,166	16,923	20,192	22,405
APPLICATION OF FUNDS					
Net Block	10,081	11,081	11,717	11,683	11,888
CWIP	784	1,666	833	-	-
Other Non-current Assets	1,191	1,157	1,272	1,400	1,536
Total Non-current Assets	12,056	13,904	13,822	13,083	13,424
Inventories	2,915	2,926	3,110	3,464	3,852
Debtors	1,015	1,299	1,400	1,569	1,758
Other Current Assets	951	1,630	1,793	1,973	2,170
Cash & Equivalents	3,198	3,356	6,309	10,621	12,871
Total Current Assets	8,080	9,211	12,612	17,627	20,651
Creditors	7,902	8,653	9,215	10,221	11,374
Other Current Liabilities & Provns	290	296	296	296	296
Total Current Liabilities	8,191	8,949	9,511	10,517	11,670
Net Current Assets	(111)	262	3,101	7,110	8,981
TOTAL APPLICATION OF FUNDS	11,945	14,166	16,923	20,192	22,405

Source: Company, HDFC sec Inst Research

Cash Flow Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	8,595	8,514	9,691	11,394	13,209
Non-operating & EO Items	(52)	-	-	-	-
Interest Expenses	(246)	-	-	-	-
Depreciation	1,114	1,332	1,505	1,634	1,795
Working Capital Change	155	(412)	20	205	270
Tax Paid	(2,836)	(2,740)	(3,053)	(3,532)	(3,963)
OPERATING CASH FLOW (a)	6,729	6,694	8,163	9,701	11,312
Capex	(2,713)	(3,214)	(1,307)	(767)	(2,000)
<i>Free Cash Flow (FCF)</i>	<i>4,017</i>	<i>3,480</i>	<i>6,856</i>	<i>8,934</i>	<i>9,312</i>
Investments	70	-	-	-	-
Non-operating Income	42	125	-	-	-
INVESTING CASH FLOW (b)	(2,601)	(3,089)	(1,307)	(767)	(2,000)
Debt Issuance/(Repaid)	-	-	-	-	-
<i>FCFE</i>	<i>4,128</i>	<i>3,605</i>	<i>6,856</i>	<i>8,934</i>	<i>9,312</i>
Share Capital Issuance	-	-	-	-	-
Dividend	(2,987)	(3,198)	(3,900)	(4,619)	(7,062)
Others	(800)	250	(3)	(3)	-
FINANCING CASH FLOW (c)	(3,786)	(2,949)	(3,903)	(4,622)	(7,062)
NET CASH FLOW (a+b+c)	342	656	2,953	4,312	2,250
EO Items, Others	0	499	(0)	(0)	-
Closing Cash & Equivalents	2,887	3,044	5,997	10,310	12,559

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	61.8	62.9	64.1	64.1	64.8
EBITDA Margin	24.3	23.7	24.6	25.4	25.9
EBIT Margin	21.4	20.4	21.1	22.0	22.6
APAT Margin	15.6	14.5	15.5	16.3	17.2
RoE	67.0	49.8	46.6	45.6	46.3
RoIC (or Core RoCE)	82.2	58.3	59.5	74.3	91.8
RoCE	60.0	45.4	43.5	43.0	44.0
EFFICIENCY					
Tax Rate (%)	30.4	32.2	31.5	31.0	30.0
Fixed Asset Turnover (x)	2.5	2.2	2.1	2.2	2.3
<i>Inventory (days)</i>	<i>27.5</i>	<i>26.8</i>	<i>26.4</i>	<i>26.3</i>	<i>26.1</i>
<i>Debtors (days)</i>	<i>9.6</i>	<i>11.9</i>	<i>11.9</i>	<i>11.9</i>	<i>11.9</i>
<i>Other Current Assets (days)</i>	<i>9.0</i>	<i>14.9</i>	<i>15.3</i>	<i>15.0</i>	<i>14.7</i>
<i>Payables (days)</i>	<i>74.6</i>	<i>79.3</i>	<i>78.4</i>	<i>77.6</i>	<i>77.0</i>
<i>Other Current Liab & Provns (days)</i>	<i>2.7</i>	<i>2.7</i>	<i>2.5</i>	<i>2.2</i>	<i>2.0</i>
Cash Conversion Cycle (days)	(31.2)	(28.4)	(27.3)	(26.7)	(26.3)
Net D/E (x)	(0.3)	(0.3)	(0.4)	(0.6)	(0.6)
Interest Coverage (x)	-	-	-	-	-
PER SHARE DATA (Rs)					
EPS	22.2	21.2	24.4	28.9	34.0
CEPS	26.2	26.1	29.9	34.9	40.6
Dividend	10.0	10.0	12.2	14.4	22.1
Book Value	37.9	47.3	57.4	69.3	77.3
VALUATION					
P/E (x)	48.8	51.0	44.4	37.5	31.8
P/BV (x)	28.6	22.9	18.8	15.6	14.0
EV/EBITDA (x)	31.0	30.8	27.3	23.3	20.2
EV/Revenues (x)	7.5	7.3	6.7	5.9	5.2
OCF/EV (%)	2.3	2.3	2.8	3.4	4.0
FCF/EV (%)	1.4	1.2	2.4	3.1	3.3
FCFE/Mkt Cap (%)	1.4	1.2	2.3	3.0	3.2
Dividend Yield (%)	0.9	0.9	1.1	1.3	2.0

Source: Company, HDFC sec Inst Research

INDUSTRY	FMCG
CMP (as on 26 Dec 2017)	Rs 1,294
Target Price	Rs 1,445
Nifty	10,532
Sensex	34,011
KEY STOCK DATA	
Bloomberg	HMN IN
No. of Shares (mn)	227
MCap (Rs bn)/(US\$ mn)	295/4,602
6m avg traded value (Rs mn)	187
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 1,352 / 938
	3M 6M 12M
Absolute (%)	18.6 19.2 31.3
Relative (%)	11.1 10.0 0.7
SHAREHOLDING PATTERN (%)	
Promoters	72.74
FIs & Local MFs	4.24
FPIs	14.38
Public & Others	8.64
Source : BSE	

Naveen Trivedi

naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Siddhant Chhabria

siddhant.chhabria@hdfcsec.com
+91-22-6171-7336

Groomed for growth

Emami's success of the company's strategy (focus on low penetration and high-margin categories) is reflected by its revenue/EBITDA/APAT CAGR of 17/28/24% in the last 10 years. We like Emami on account of (1) Leadership in ~70% domestic portfolio and gaining market share gain, (2) Focus on low penetration and high-margin categories, (3) New launches, (4) Distribution expansion (direct reach to be ~0.8mn by FY18 vs. 0.73mn in FY17).

- Emami's all trade channels (including CSD and Wholesale) started recovering and the company can deliver superior performance in the ensuing quarters after lull show in 1HFY18 (EBITDA contracted by 13%).
- Kesh King's acquisition (in FY15) is yet to deliver, as the brand impacted by high channel inventory (pre-acquisition) and slow hair oil growth. The mgt. expects Kesh King to do well in the medium-long term on account of rural recovery and improving hair oil growth. Emami's new launches like F&H facewash and F&H Laser cream, received positive response.
- Mgt. expects modern trade and e-commerce to continue to gain importance, hence acquired 30% stake in Men's premium grooming startup 'The Man Company' (online platform). This acquisition will aid Emami to learn the ropes of trade (e-commerce).
- International biz (IBD) posted healthy 22% growth in 2QFY18 due to favourable base and strong performance in SAARC and African markets. Management expects 16-18% growth in 2HFY18 and international mix to grow to 15% vs. 11% currently in the next five years.

- We expect Revenue/EBITDA/APAT CAGR of 13%/16%/19% respectively over FY17-20E. We expect EPS CAGR of 18% over FY17-20E. We value Emami based on P/E of 36x on Dec-19 EPS. Our TP is Rs 1,445. We maintain our BUY rating.

Near-term outlook: With improvement in performance, we expect healthy upside in the near-term too.

Financial Summary

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	23,970	25,208	27,598	31,877	36,708
EBITDA	6,873	7,591	8,521	10,014	11,848
APAT	5,326	5,511	6,366	7,718	9,267
EPS (Rs)	23.5	24.3	28.0	34.0	40.8
P/E (x)	55.2	53.3	46.1	38.1	31.7
EV/EBITDA (x)	43.5	39.2	34.6	29.2	24.4
Core RoCE (%)	38.8	24.1	27.7	34.3	41.8

Assumptions

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Domestic Gr. (%)	18.3	10.0	9.0	15.6	15.2
Navratna oil	6.0	3.0	6.5	13.5	13.5
Boroplus cream	8.0	15.0	13.0	13.0	13.0
Balm	12.0	6.0	8.0	14.0	14.0
Fair & Handsome	9.0	(6.0)	11.0	17.5	16.5
Kesh King		48.0	(0.5)	15.0	14.0
International Gr. (%)	18.3	(16.0)	13.0	14.6	14.6
Gross Margin (%)	64.5	65.7	65.6	65.8	66.3
Employee (% of sales)	8.7	9.1	9.3	9.3	9.1
ASP (% of sales)	18.0	17.6	16.7	16.5	16.4
Distribution (% of sales)	2.5	2.5	2.5	2.5	2.5
Other Exp. (% of sales)	6.7	6.3	6.2	6.1	6.0
EBITDA Margin (%)	28.7	30.1	30.9	31.4	32.3
Tax Rate (%)	14.1	19.7	20.0	20.0	20.0

Source: Company, HDFC sec Inst Research

Emami's 1HFY18 EBITDA growth at -13% was under pressure due to channel destocking pressure in 1QFY18

Management is guiding 16-18% domestic revenue growth in 2HFY18, driven by restocking, improving rural growth and support on new launches

Recovery in international business was encouraging. Management expects 16-17% growth in 2HFY18

Barring Kesh King, all other brands registered healthy growth 2QFY18

Kesh King is largely wholesale driven (~75%), therefore recovering is taking time. Kesh King not losing market share and growth at retail level is healthy

Recent Performance

(Rs mn)	2QFY18	2QFY17	YoY (%)	1HFY18	1HFY17	YoY (%)
Net Revenue	6,281	5,728	10%*	11,692	12,183	-4%
Gross Profit	4,228	3,880	9%	7,672	8,047	-5%
EBITDA	2,013	1,752	15%	2,815	3,235	-13%
APAT	1,478	1,165	27%	1,967	2,248	-13%
GPM (%)	67.3%	67.7%	(42)	65.6%	66.1%	(44)
EBITDAM (%)	32.1%	30.6%	146	24.1%	26.6%	(248)
NPM (%)	23.5%	20.3%	320	16.8%	18.5%	(163)

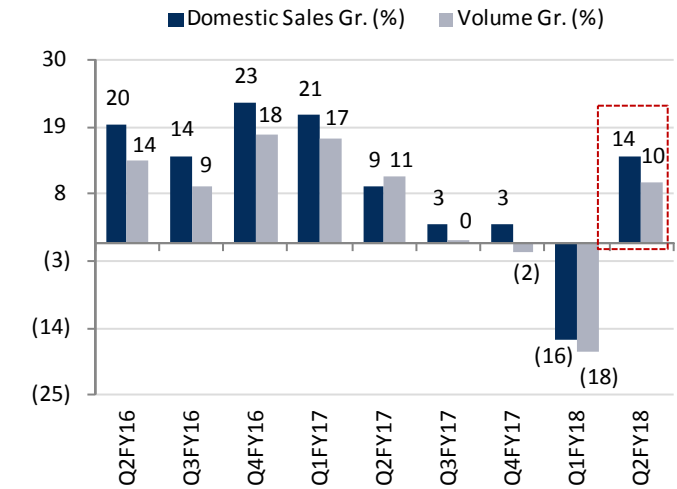
*Like-to-like 14%

Particulars	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Sales Breakup (%)					
Domestic	84	85	85	85	83
IMD	12	11	11	11	14
CSD	4	4	4	4	3
Sales Growth (%)					
Domestic	9	3	3	(16)	14
IMD	(11)	(16)	(38)	(19)	22
CSD	14	(12)	1	(20)	(20)

Brands YoY Gr. (%)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Boroplus Cream	16%	13%	2%	41%	38%
Navratana Oil	-3%	-4%	5%	-15%	16%
F&H Cream	1%	-18%	-5%	-21%	10%
Balm	19%	-5%	1%	-21%	15%
Kesh King	50%	2%	1%	-28%	-16%

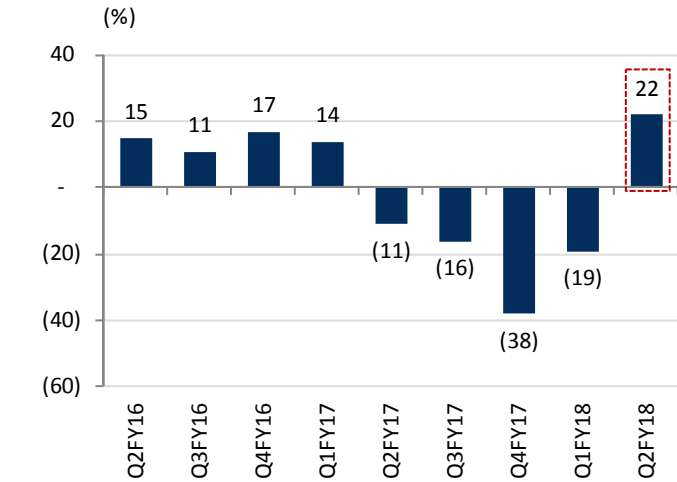
Source: Company, HDFC sec Inst Research

Domestic Revenue Performance



Source: Company, HDFC sec Inst Research

International Revenue Performance



Source: Company, HDFC sec Inst Research

Income Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	23,970	25,208	27,598	31,877	36,708
Growth (%)	8.1	5.2	9.5	15.5	15.2
Material Expense	8,507	8,650	9,482	10,895	12,378
Employee Expense	2,078	2,299	2,566	2,951	3,335
ASP Expense	4,305	4,428	4,607	5,255	6,027
Distribution Expense	611	643	704	813	936
Other Expense	1,595	1,597	1,719	1,949	2,184
EBITDA	6,873	7,591	8,521	10,014	11,848
EBITDA Growth (%)	28.4	10.4	12.3	17.5	18.3
EBITDA Margin (%)	28.7	30.1	30.9	31.4	32.3
Depreciation & Amortisation	2,550	3,086	3,096	3,208	3,341
EBIT	4,324	4,505	5,425	6,806	8,507
Other Income (Inc. EO Items)	444	311	296	372	552
Interest	539	580	306	61	5
PBT	4,229	4,236	5,415	7,117	9,053
Tax	598	836	1,083	1,423	1,811
RPAT	3,635	3,400	4,332	5,694	7,243
Adjustment	1,691	2,111	2,034	2,024	2,024
APAT	5,326	5,511	6,366	7,718	9,267
APAT Growth (%)	10.7	3.5	15.5	21.2	20.1
Adjusted EPS (Rs)	23.5	24.3	28.0	34.0	40.8
EPS Growth (%)	10.7	3.5	15.5	21.2	20.1

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	227	227	227	227	227
Reserves	15,889	17,320	19,107	21,121	23,428
Total Shareholders Funds	16,116	17,547	19,334	21,348	23,655
Minority interest	41	14	14	14	14
Long Term Debt	3,000	-	-	-	-
Short Term Debt	3,714	4,619	2,019	0	0
Total Debt	6,714	4,619	2,019	0	0
Net Deferred Taxes	9	422	422	422	422
Non Current Liabilities	327	368	368	368	368
TOTAL SOURCES OF FUNDS	23,208	22,970	22,157	22,152	24,459
APPLICATION OF FUNDS					
Net Block	4,706	7,504	8,989	10,974	13,109
CWIP (Including capital advances)	671	129	-	-	-
Goodwill	15,088	12,532	10,002	7,471	4,941
Non Current Investments	355	944	944	944	944
Other Non Current Assets	1,103	451	451	451	451
Total Non-current Assets	21,923	21,559	20,385	19,839	19,444
Inventories	1,505	1,792	1,961	2,265	2,609
Debtors	1,309	970	1,024	1,139	1,262
Other Current Assets	889	972	1,072	1,172	1,272
Cash & Equivalents	1,204	834	1,243	1,817	4,520
Total Current Assets	4,907	4,567	5,300	6,393	9,662
Creditors	2,477	1,847	2,025	2,326	2,643
Other Current Liabilities	1,201	1,310	1,504	1,754	2,004
Total Current Liabilities	3,678	3,157	3,528	4,080	4,647
Net Current Assets	1,229	1,410	1,772	2,313	5,015
TOTAL APPLICATION OF FUNDS	23,208	22,970	22,157	22,152	24,459

Source: Company, HDFC sec Inst Research

Cash Flow Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	4,171	4,236	5,415	7,117	9,053
Non-operating & EO Items	663	-	-	-	-
Interest Expenses	539	580	306	61	5
Depreciation	2,101	3,086	3,096	3,208	3,341
Working Capital Change	(542)	139	(2,696)	(2,486)	(499)
Tax Paid	(957)	(836)	(1,083)	(1,423)	(1,811)
OPERATING CASH FLOW (a)	5,312	7,205	5,038	6,477	10,090
Capex	(18,153)	(2,786)	(1,922)	(2,663)	(2,946)
Free Cash Flow (FCF)	(12,841)	4,419	3,116	3,814	7,144
Investments	4,260	(589)	-	-	-
Non-operating Income	823	435	-	-	-
INVESTING CASH FLOW (b)	(13,070)	(2,940)	(1,922)	(2,663)	(2,946)
Debt Issuance/(Repaid)	3,357	(3,000)	-	-	-
Interest Expenses	(519)	(580)	(306)	(61)	(5)
FCFE	(4,921)	685	2,810	3,753	7,139
Share Capital Issuance	3,000	-	-	-	-
Dividend	(818)	(1,867)	(2,545)	(3,680)	(4,936)
Others	13	648	0	-	-
FINANCING CASH FLOW (c)	5,032	(4,799)	(2,851)	(3,740)	(4,941)
NET CASH FLOW (a+b+c)	(2,726)	(534)	265	74	2,203
EO Items, Others	(269)	50	56	0	-
Closing Cash & Equivalents	1,084	501	710	784	2,987

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	64.5	65.7	65.6	65.8	66.3
ASP (% of sales)	18.0	17.6	16.7	16.5	16.4
EBITDA Margin	28.7	30.1	30.9	31.4	32.3
EBIT Margin	18.0	17.9	19.7	21.4	23.2
APAT Margin	22.2	21.9	23.1	24.2	25.2
RoE	37.5	32.7	34.5	37.9	41.2
RoIC (or Core RoCE)	38.8	24.1	27.7	34.3	41.8
RoCE	20.5	15.7	19.2	24.6	29.2
EFFICIENCY					
Tax Rate (%)	14.1	19.7	20.0	20.0	20.0
Fixed Asset Turnover (x)	5.1	3.4	3.1	2.9	2.8
Inventory (days)	22.9	25.9	25.9	25.9	25.9
Debtors (days)	19.9	14.0	13.5	13.0	12.5
Other Current Assets (days)	13.5	14.1	14.2	13.4	12.6
Payables (days)	37.7	26.7	26.8	26.6	26.3
Other Current Liab & Provns (days)	18.3	19.0	19.9	20.1	19.9
Cash Conversion Cycle (days)	0.4	8.3	7.0	5.7	4.9
Net D/E (x)	0.3	0.2	0.0	(0.1)	(0.2)
Interest Coverage (x)	8.0	7.8	17.8	112.4	1,696.6
PER SHARE DATA (Rs)					
EPS	23.5	24.3	28.0	34.0	40.8
CEPS	25.3	26.3	30.5	37.0	44.4
Dividend	7.0	7.0	9.5	13.8	18.5
Book Value	71.0	77.3	85.2	94.0	104.2
VALUATION					
P/E (x)	55.2	53.3	46.1	38.1	31.7
P/BV (x)	18.2	16.7	15.2	13.8	12.4
EV/EBITDA (x)	43.5	39.2	34.6	29.2	24.4
EV/Revenues (x)	12.5	11.8	10.7	9.2	7.9
OCF/EV (%)	1.8	2.4	1.7	2.2	3.5
FCF/EV (%)	(4.3)	1.5	1.1	1.3	2.5
FCFE/Mkt Cap (%)	(1.7)	0.2	1.0	1.3	2.4
Dividend Yield (%)	0.5	0.5	0.7	1.1	1.4

Source: Company, HDFC sec Inst Research

Jubilant FoodWorks

BUY

INDUSTRY	FMCG
CMP (as on 26 Dec 2017)	Rs 1,781
Target Price	Rs 2,010
Nifty	10,532
Sensex	34,011
KEY STOCK DATA	
Bloomberg	JUBI IN
No. of Shares (mn)	66
MCap (Rs bn)/(US\$ mn)	118/1,835
6m avg traded value (Rs mn)	1,510
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 1,832 / 761
	3M 6M 12M
Absolute (%)	28.0 93.1 125.2
Relative (%)	20.4 83.9 94.6
SHAREHOLDING PATTERN (%)	
Promoters	44.94
FIs & Local MFs	10.34
FPIs	32.19
Public & Others	12.53
Source : BSE	

Naveen Trivedi

naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Siddhant Chhabria

siddhant.chhabria@hdfcsec.com
+91-22-6171-7336

Flavour of the season

Jubilant FoodWorks' (JFL) strategy has been realigned to profitable store expansion as compared to aggressive store expansion since the new CEO has come on board (Apr'17). We view JFL's pizza upgrade on quality (product upgrade in August) as a significant driver to higher demand. Although SSG for 2QFY18 was lower than anticipated (5.5% vs. 7%) SSG acceleration occurred towards the end of the quarter. Consumer response has been positive for the Pizza upgrade and therefore we expect 7% SSG in 2HFY18 vs. 6% for 1HFY18.

- The GST rate has been revised for restaurants, down to 5% from 18% in Nov'17. However, the input tax benefits are not available anymore. We believe the rate revision would further support the company's plans to accelerate SSG, with improving margins.
- JFL's EBITDA expansion of ~400bps in 1HFY18 was ahead of our expectations. We believe with improving SSG, cost rationalisation and lowering losses in Dunkin donuts, JFL would continue to expand EBITDA margin in the coming years.
- We expect Revenue/EBITDA/APAT CAGR of 13%/35%/65% respectively over FY17-20E.

Valuation and Recommendation

- We remain bullish on JFL, a strong player in the QSR industry, with >1,100 stores. Such inspiring performance justifies high valuation. We value it at 46x P/E on Dec-19EPS to arrive at a TP of Rs 2,010 (Rs 1,968 earlier). We maintain BUY.

Near-term outlook: With improvement in operating performance, we expect healthy upside in the near-term too.

Financial Summary

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	24,102	25,460	28,812	33,022	37,192
EBITDA	2,743	2,465	3,822	5,173	6,090
APAT	1,071	672	1,619	2,468	3,011
EPS (Rs)	16.5	10.2	24.6	37.5	45.8
P/E (x)	107.7	174.3	72.4	47.5	38.9
EV/EBITDA (x)	42.6	47.3	30.1	21.8	18.1
Core RoCE (%)	18.5	11.6	26.1	44.2	59.9

Source: Company, HDFC sec Inst Research

Assumptions

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue Growth	16.2	5.6	13.2	14.6	12.6
SSG	3.2	(2.4)	7.5	8.0	7.0
Stores At The Beginning	876	1,026	1,117	1,152	1,212
Store Additions	150	91	35	60	65
Stores At The End	1,026	1,117	1,152	1,212	1,277
% Of Sales					
COGS	23.7	24.2	23.4	22.6	22.3
Employee	23.6	23.0	21.4	20.0	19.1
Rent	10.5	11.6	10.9	10.3	10.0
Ad spends	5.2	5.7	5.8	6.8	7.8
P&F	5.7	5.6	5.4	5.3	5.3
Franchise fees	3.3	3.3	3.3	3.3	3.3
EBITDA	11.4	9.7	13.3	15.7	16.4

Source: Company, HDFC sec Inst Research

SSG in 1QFY18 and 2QFY18 was at 6.5% and 5.5% respectively

JFL registered stellar 59% and 49% growth in EBITDA during 2QFY18 and 1HFY18

We expect better SSG in 2HFY18 led by product upgrades and price cut at consumer level (post GST rate revision)

Management guiding for reducing losses in Dunkin by 50% in FY18 and breakeven by FY19

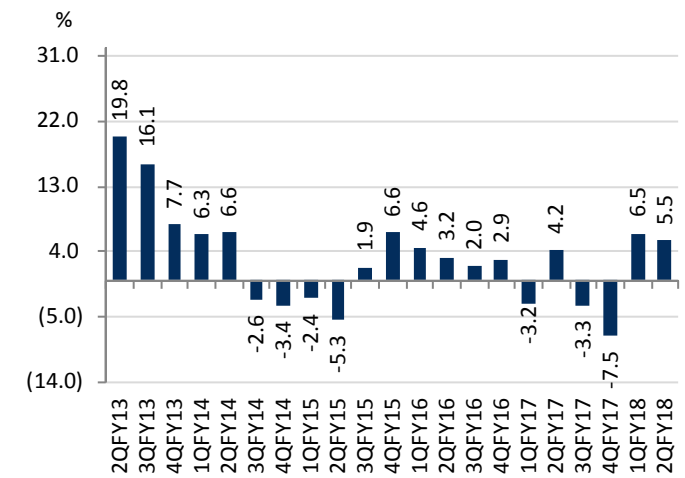
Recent Performance

(Rs mn)	2QFY18	2QFY17	YoY (%)	1HFY18	1HFY17	YoY (%)
Net Revenue	7,266	6,655	9%	14,055	12,745	10%
Gross Profit	5,388	4,979	8%	10,571	9,654	10%
EBITDA	1,022	643	59%	1,818	1,220	49%
APAT	443	216	106%	741	406	83%
GPM (%)	74.1%	74.8%	(66)	75.2%	75.7%	(53)
EBITDAM (%)	14.1%	9.7%	441	12.9%	9.6%	336
NPM (%)	6.1%	3.2%	286	5.3%	3.2%	209

Particulars	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18
Dominos					
Number Of Stores	1,081	1,107	1,117	1,125	1,125
Store Addition	32	26	10	8	-
No. Of Cities Covered	251	260	264	264	264
OLO contribution/Delivery	47%	47%	51%	51%	57%
Mobile Ordering /OLO	54%	56%	68%	69%	69%
Mobile ordering app (Mn)	5.0	5.3	6.4	7.5	7.8
Dunkin Donuts					
Dunkin Stores	73	73	63	55	52
Addition (Net)	-4	0	-10	-8	-3
Cities Covered	23	23	16	15	13

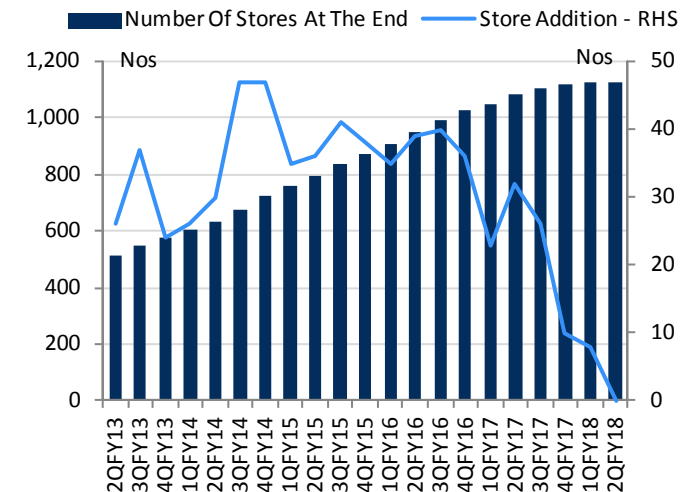
Source: Company, HDFC sec Inst Research

Same Store Sales Growth



Source: Company, HDFC sec Inst Research

Dominos Store Additions



Source: Company, HDFC sec Inst Research

Income Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	24,102	25,460	28,812	33,022	37,192
Growth (%)	16.2	5.6	13.2	14.6	12.6
Material Expenses	5,701	6,158	6,743	7,470	8,306
Employee Expenses	5,685	5,845	6,160	6,597	7,098
A&P Expenses	1,253	1,451	1,657	2,229	2,883
Rent	2,539	2,947	3,151	3,398	3,734
Other Operating Expenses	6,181	6,594	7,279	8,155	9,082
EBIDTA	2,743	2,465	3,822	5,173	6,090
EBIDTA (%)	11.4	9.7	13.3	15.7	16.4
EBIDTA Growth (%)	3.6	(10.1)	55.0	35.4	17.7
Depreciation	1,243	1,511	1,584	1,711	1,860
EBIT	1,501	954	2,238	3,462	4,231
Other Income (Inc Exceptional)	90	23	179	221	264
PBT	1,591	977	2,417	3,683	4,495
Tax	520	305	798	1,215	1,483
RPAT	1,071	672	1,619	2,468	3,011
EO items (net of tax)	(17)	(122)	-	-	-
APAT	1,088	794	1,619	2,468	3,011
APAT Growth (%)	(12.4)	(27.0)	104.0	52.4	22.0
EPS	16.5	10.2	24.6	37.5	45.8
EPS Growth (%)	(12.7)	(38.2)	140.9	52.4	22.0

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	658	658	658	658	658
Reserves	7,023	7,652	9,074	11,279	13,961
Total Shareholders Funds	7,681	8,310	9,732	11,937	14,619
Deferred Taxes	678	678	678	678	678
TOTAL SOURCES OF FUNDS	8,359	8,988	10,410	12,615	15,297
APPLICATION OF FUNDS					
Net Block	8,134	8,469	7,929	7,569	7,160
CWIP	174	174	174	174	174
LT Loans & Advances	1,477	1,561	1,766	2,024	2,280
Investments	1,524	1,680	2,180	2,680	3,180
Inventories	538	587	713	817	920
Trade Receivables	125	156	178	204	230
Cash & Equivalents	313	500	1,950	4,114	6,876
Other Current Assets	270	306	319	339	359
Current Assets	1,246	1,550	3,160	5,474	8,386
Creditors	3,253	3,117	3,528	4,043	4,554
Other Current Liabilities	944	1,327	1,271	1,262	1,328
Net current Assets	(2,951)	(2,895)	(1,638)	168	2,504
TOTAL APPLICATION OF FUNDS	8,359	8,988	10,410	12,615	15,297

Source: Company, HDFC sec Inst Research

Cash Flow Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	1,670	1,099	2,417	3,683	4,495
Non-operating & EO items	(11)	220	(179)	(221)	(264)
Interest expenses	(1)	-	-	-	-
Depreciation	1,243	1,511	1,584	1,711	1,860
Working Capital Change	(125)	48	(12)	99	171
Tax	(590)	(305)	(798)	(1,215)	(1,483)
OPERATING CASH FLOW (a)	2,184	2,574	3,012	4,056	4,778
Capex	(2,220)	(1,847)	(1,044)	(1,351)	(1,451)
Free Cash Flow	(36)	727	1,968	2,706	3,327
Investments & Others	148	(155)	(500)	(500)	(500)
Non-operating Income	90	23	179	221	264
INVESTING CASH FLOW (b)	238	(132)	(321)	(279)	(236)
Debt Issuance	-	-	-	-	-
Interest	1	-	-	-	-
FCFE	(37)	727	1,968	2,706	3,327
Share Capital Issuance	21	-	-	-	-
Dividend	(197)	(164)	(197)	(263)	(329)
FINANCING CASH FLOW (c)	(175)	(164)	(197)	(263)	(329)
EO items	(17)	(122)	-	-	-
NET CASH FLOW (a+b+c)	10	309	1,450	2,164	2,763
Closing Cash	314	622	2,072	4,236	6,998

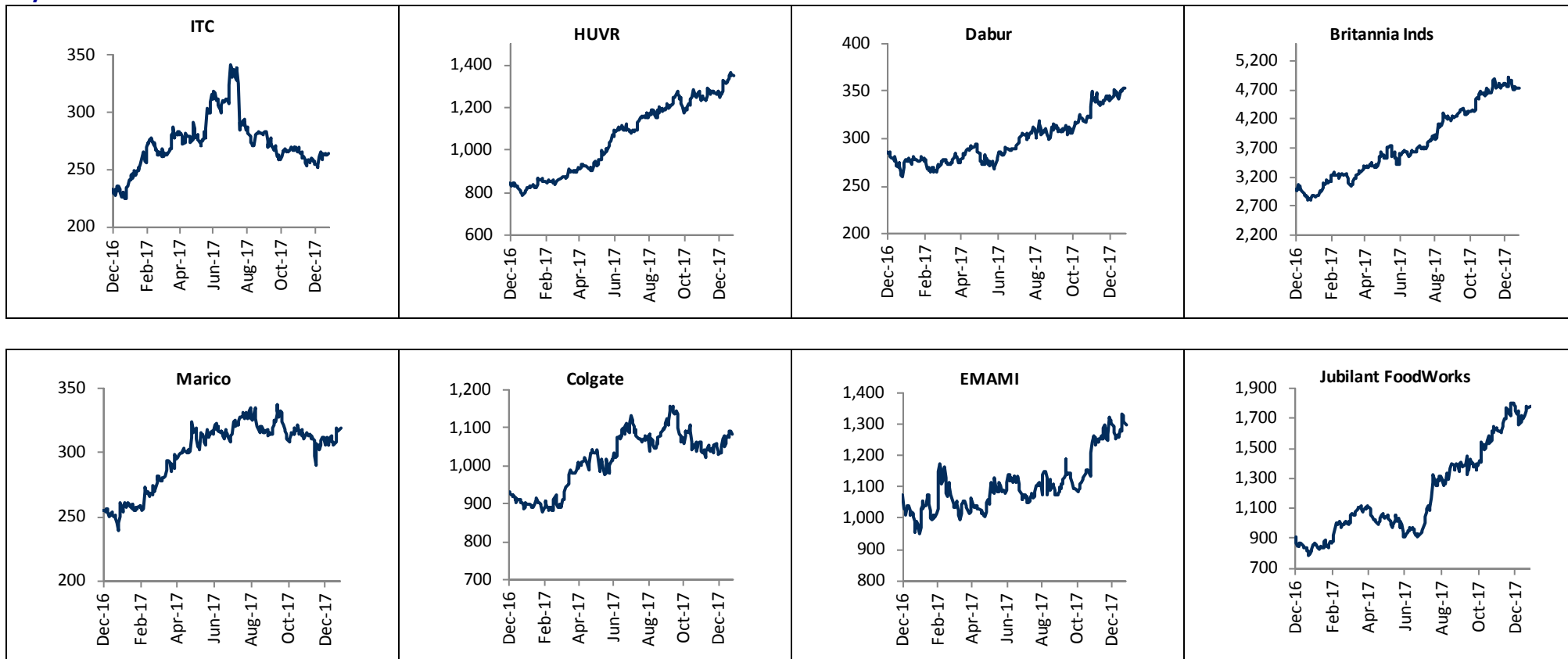
Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	76.3	75.8	76.6	77.4	77.7
EBITDA Margin	11.4	9.7	13.3	15.7	16.4
EBIT Margin	6.2	3.7	7.8	10.5	11.4
APAT Margin	4.4	2.6	5.6	7.5	8.1
RoE	15.1	8.4	18.0	22.8	22.7
RoIC	18.5	11.6	26.1	44.2	59.9
RoCE	22.3	13.7	26.8	34.0	33.9
EFFICIENCY					
Tax Rate (%)	32.7	31.2	33.0	33.0	33.0
Asset Turnover (x)	2.1	1.9	1.9	2.0	2.1
Inventory (days)	8.1	8.4	8.0	8.0	8.0
Debtors (days)	1.9	2.2	2.0	2.0	2.0
Other Current Assets (days)	4.1	4.4	4.0	3.7	3.5
Creditors (days)	63.6	63.7	60.8	58.6	57.7
Other Current Liab & Prov (days)	14.3	19.0	16.1	13.9	13.0
Cash Conversion Cycle (days)	(63.7)	(67.7)	(62.8)	(58.8)	(57.2)
Debt/EBITDA (x)	-	-	-	-	-
Net D/E	(0.0)	(0.1)	(0.2)	(0.3)	(0.5)
Interest Coverage	NA	NA	NA	NA	NA
PER SHARE DATA					
EPS (Rs/sh)	16.5	10.2	24.6	37.5	45.8
CEPS (Rs/sh)	29.4	26.8	40.7	54.9	64.7
BV (Rs/sh)	116.7	126.3	147.9	181.4	222.2
DPS (Rs/sh)	2.5	2.5	4.0	5.0	6.0
VALUATION					
P/E	107.7	174.3	72.4	47.5	38.9
P/BV	15.3	14.1	12.0	9.8	8.0
EV/EBITDA	42.6	47.3	30.1	21.8	18.1
OCF/EV (%)	1.9	2.2	2.6	3.6	4.3
FCF/EV (%)	(0.0)	0.6	1.7	2.4	3.0
FCFE/mkt cap (%)	(0.0)	0.6	1.7	2.3	2.8
Dividend Yield (%)	0.1	0.1	0.2	0.2	0.3

Source: Company, HDFC sec Inst Research

1yr Price Movement



Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

We, **Naveen Trivedi, MBA & Siddhant Chhabria, PGDBM**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HSL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE-INB/F/E 231109431, BSE-INB/F 011109437, AMFI Reg. No. ARN: 13549, PFRDA Reg. No. POP: 04102015, IRDA Corporate Agent License No.: HDF 2806925/HDF C000222657, SEBI Research Analyst Reg. No.: INH000002475, CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

