

Resilient performance

HUL's 2QFY20 show was respectable amidst concerns of slowdown worsening. Co maintains a cautious outlook and hopes for a recovery in rural demand. We maintain our estimates and NEUTRAL rating. We value HUL at 45x on Sep-21 EPS with TP of Rs 2,017.

HIGHLIGHTS OF THE QUARTER

- Domestic revenue/volume grew at 7/5% vs. our exp of 6/5%. HUL's 2Q show was at par with 1Q despite deceleration in rural growth. We were surprised to note the sharp slowdown in rural to 0.5x of urban vs. 0.9x in 1QFY20 and 1.3x in FY19. We believe delayed monsoons followed by floods deteriorated sentiments. We expect rural uptick in 2HFY20.
- Home Care revenue grew by healthy 9% (volume led) despite a base of 12%. Growth was broad based across laundry, household care and purifiers. Home care EBIT growth continues to be remarkable at 21% (25% in last 12 qtrs). This has been led by premiumisation, market share gains and benign commodity inflation.
- Beauty & PC (BPC) revenue growth was modest at 5% (10% base). After a price cut in popular segment (Lux and Lifebuoy) of personal wash, HUL looks to pass on benign cost inflation in premium segment (Dove and Pears). Price cut (6%) in personal wash will spur volume growth in 2HFY20. EBIT grew by 18% (10% last 12 qtrs)

- F&R grew by 8% (12% base) driven by beverages, ice cream & frozen desserts (innovations). EBIT growth (up 2%, 16% in last 12 qtrs) was under pressure owing to steep commodity inflation. Co will not take immediate price action considering co enjoys benign raw material for other segments.
- GM expanded by 251bps to 54.5% owing to richer mix and commodity deflation. Adjusting for IND-AS 116 and reclassification of GST refunds, EBITDAM expanded by 150bps (vs. exp. of 140bps) to 23.4%. Adj EBITDA up by 14% vs expectation of 13%.
- Corp tax cuts can be a new lever for growth and margin expansion. Co is working out the benefits of realigning its manufacturing footprint under the new tax structure

STANCE

Most consumer categories have seen uptick in demand in the ongoing festive season. We believe volume growth trajectory has bottomed out. However, we don't expect HUL's volume growth to accelerate meaningfully (high single digit territory) in 2HFY20 given its higher base on a 3 year CAGR basis (9% vs. 6% in 1HFY20). GSK's acquisition is running behind schedule and is expected to be integrated by Feb-20 (vs. Dec-19 earlier). We maintain our NEUTRAL rating as we don't see any near-term triggers for re-rating in the stock.

Financial Summary

YE March (Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY19	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	98,520	92,340	6.7	101,140	(2.6)	355,450	393,100	434,582	530,512	586,221
EBITDA	24,430	20,190	21.0	26,470	(7.7)	74,990	88,800	106,173	136,861	153,066
APAT	18,264	15,220	20.0	17,510	4.3	20,790	25,440	27,984	34,741	39,124
Diluted EPS (Rs)	8.4	7.0	20.0	8.1	4.3	23.8	28.1	34.3	42.2	47.5
P/E (x)						84.8	71.6	58.8	47.8	42.4
EV / EBITDA (x)						57.2	48.3	43.7	33.6	29.9
Core RoCE (%)						64.0	69.2	29.1	22.5	24.0

Source: Company, HDFC sec Inst Research

INDUSTRY	FMCG
CMP (as on 14 Oct 2019)	Rs 2,015
Target Price	Rs 2,017
Nifty	11,341
Sensex	38,214

KEY STOCK DATA

Bloomberg	HUVR IN
No. of Shares (mn)	2,165
MCap (Rs bn) / (\$ mn)	4,360/61,281
6m avg traded value (Rs mn)	2,592

STOCK PERFORMANCE (%)

52 Week high / low	Rs 2,102/1,500		
	3M	6M	12M
Absolute (%)	17.6	17.0	28.3
Relative (%)	18.9	18.4	18.3

SHAREHOLDING PATTERN (%)

	Jun-19	Sep-19
Promoters	67.18	67.18
FIs & Local MFs	7.03	6.68
FPIs	12.06	12.40
Public & Others	13.76	13.74
Pledged Shares	0.00	0.00

Source : BSE

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HUL quarterly commentary

Particulars	3QFY19	4QFY19	1QFY20	2QFY20
Industry	<ul style="list-style-type: none"> - Demand stable; rural grows ahead of urban - Rural grew 1.3x of urban 	<ul style="list-style-type: none"> - Near term market growth has moderated given macro economic indicators - Rural urban gap going down - No material change in the channel inventory - Premium contributes 28-30% for FMCG market and HUL share of premium is higher 	<ul style="list-style-type: none"> - Near term demand to remain subdued given macro economic conditions - Expect pickup in 2HFY20 - Rural is at par with Urban - Nielsen is saying 300bps decline in growth sequentially 	<ul style="list-style-type: none"> - Demand outlook continues to be challenging - Premiumisation is intact - Naturals is growing faster - MP, Chattisgarh, Greater Maharashtra, Punjab, Haryana have been slow - Southern mkts and UP are doing well
Revenue				
Home Care	<ul style="list-style-type: none"> - Increased category penetration of bars in rural markets - Urban India upgradation on liquids - Purifiers is re-aligned portfolio strategy towards premium devices; phasing out gravity segment 	<ul style="list-style-type: none"> - Home care has few more quarters for healthy growth than PC - Launched Surf Excel Easy Wash liquid nationally - Household Care sustained double digit growth performance driven by Liquids upgradation and increased penetration on bars 	<ul style="list-style-type: none"> - Relaunched Rin nationally - Launched Sunlight liquid in select geographies - Household care portfolio growth is led by Central & South markets 	<ul style="list-style-type: none"> - Launched premium brand Love & Care in select channels - Launched Magic Rinse powder sachet in TN - Purifiers good growth in the premium segment
PC	<ul style="list-style-type: none"> - Personal Wash: Growth driven by premium segment and differentiated propositions on freshness and naturals - Robust growth in winter portfolio for winter portfolio - Hair Care seeing strong growth led by the premium portfolio - Oral Care: Growth on the back of good performance in north and central markets - Close Up Mouthwash launched in South - Deodorants seen another quarter of strong double digit growth 	<ul style="list-style-type: none"> - Personal wash premium brands performed well; Popular segment delivery below expectations - Relaunched FAL with renewed communication and product; launched Pond's Sun Protect - <u>Momentum on Close Up and Ayush Oral Care continues to build. Pepsodent WIP</u> - Axe Signature Dark Temptation launched nationally 	<ul style="list-style-type: none"> - Price reduction in 4-6% on Lux and Lifebuoy. Commodity in beign in the near term - Launched Lux Botanicals and Pears Naturale range nationally and Fair & Lovely Soap in select geographies - Relaunched Pond's Men range; launched FAL Ayurveda facewash and facial kits - Haircare is doing well (Launched new Sunsilk variants nationally with natural ingredients) - Momentum on Close Up and Ayush Oral Care continues to build. Pepsodent WIP 	<ul style="list-style-type: none"> - Personal wash pricing actions on popular segment landed, Dove and Pears price cuts coming (Total price cut of ~6%) - Fair & Lovely soap launch well received - Launched Pears Natural bodywash range nationally - Skin Care seen double digit growth backed by robust performance across brands - Hair Care seeing steady performance across portfolio - Colour Cosmetics seeing strong growth sustained; Continued focus in channels of the future
Foods	<ul style="list-style-type: none"> - Beverages seen good growth by leveraging the opportunity at the bottom end with Taaza - Green tea is driving premiumization - Ice Cream & Frozen Desserts: Sustained strong growth momentum - Foods : Steady growth trajectory maintained; market development key to drive penetration 	<ul style="list-style-type: none"> - Beverages consistent, secular growth led by WiMI actions - Ice Cream & Frozen Desserts strong performance across all formats - Foods steady growth sustained; good performance in Kissan range 	<ul style="list-style-type: none"> - Robust growth in Ice Creams - Tea - stress in few plantations. Need to track impact on price and quality of upcoming crop 	<ul style="list-style-type: none"> - Ice Cream & Frozen Desserts: Sustained strong growth momentum - New communications released on Taj Mahal, Lipton & 3 Roses tea - Naturals is growing at 1.5x YTD because Indulekha growth has moderated
Margin				
Gross Margin	<ul style="list-style-type: none"> - Commodity volatility continues led by crude and INR 	<ul style="list-style-type: none"> - Co is better positioned to handle crude volatility than peers - Ecommerce is ~3% and growing at a healthy pace. It develops market and helps in premiumisation 	<ul style="list-style-type: none"> - Palm oil is down 15-20% - Pricing strategy - Based on outlook of commodity. Home care and other BPC there are options to take price hikes 	<ul style="list-style-type: none"> - Product mix, benign RM inflation and cost saving initiatives drove margin
EBITDA Margin	<ul style="list-style-type: none"> - Adj EBITDA margin was up by 140bps (170bps reported, 30bps impact due to reclassification of fiscal refunds) 	<ul style="list-style-type: none"> - Adv is higher YoY. Digital mix is gaining share and it will further increase 	<ul style="list-style-type: none"> - Competitive intensity has declined in GT hence lower A&P spend. Home care earlier spent more and hence moderated - Competitive intensity has increased in few categories in modern trade 	<ul style="list-style-type: none"> - Adj EBITDA Margin (ex-IND AS and refunds) was up by 150bps YoY. Thereby, adj EBITDA grew by 14% YoY - Co will continue to invest on A&P - Cost rationalisation initiatives will continue

Net revenue grew by 7% led by 5% volume growth (exp 5%)

Gross margins was up by 251bps YoY (-74bps in 2QFY19) after witnessing decline in the last 4 quarters

Stringent cost control led to muted growth in overheads

EBITDAM expansion was driven by richer mix and cost savings. Adj EBITDA margin (ex-IND AS impact and GST refunds) was up by 150bps (vs exp of 140bps). Adj EBITDA was up by 14% vs. expectation of 13%

Exceptional in 2QFY20 was on account of profit on sale of properties, restructuring and acquisition disposal related expenses

Quarterly Financials (Standalone)

Particulars	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY19	FY18	YoY (%)
Net Sales	97,080	91,380	6.2	99,840	(2.8)	376,600	339,260	11.9
Other Operating Income	1,440	960	50.0	1,300	10.8	5,640	5,990	(5.8)
Total Income	98,520	92,340	6.7	101,140	(2.6)	382,240	345,250	10.7
Material Expenses	44,850	44,350	1.1	46,480	(3.5)	179,600	162,320	10.6
Employee Expenses	4,300	4,380	(1.8)	4,520	(4.9)	17,470	17,450	0.1
ASP	11,980	11,060	8.3	11,610	3.2	45,520	41,050	10.9
Other Operating Expenses	12,960	12,360	4.9	12,060	7.5	53,280	51,670	3.1
EBITDA	24,430	20,190	21.0	26,470	(7.7)	86,370	72,760	18.7
Adj EBITDA (IND AS 116)	23,420	20,190	16.0	25,520	(8.2)	86,370	72,760	18.7
Depreciation	2,370	1,300	82.3	2,140	10.7	5,236	4,780	9.5
EBIT	22,060	18,890	16.8	24,330	(9.3)	81,134	67,980	19.3
Other Income	1,800	3,050	(41.0)	1,470	22.4	6,640	5,690	16.7
Interest Cost	310	70	342.9	240	29.2	280	215	30.2
PBT	23,550	21,870	7.7	25,560	(7.9)	87,494	73,455	19.1
Exceptional	(470)	(350)	na	70	na	(2,270)	(620)	na
PBT (after exceptional)	23,080	21,520	7.2	25,630	(9.9)	85,224	72,835	17.0
Tax	4,600	6,270	(26.6)	8,080	(43.1)	25,650	22,100	16.1
RPAT	18,480	15,250	21.2	17,550	5.3	60,364	52,355	15.3
Adjustment	216	30	na	40	na	(436)	1,005	na
APAT	18,264	15,220	20.0	17,510	4.3	60,800	51,350	18.4
EPS (Adjusted)	8.4	7.0	20.0	8.1	4.3	28.1	23.7	18.4

As % Of Net Revenue	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	FY19	FY18	YoY (bps)
Material Expenses	45.5	48.0	(251)	46.0	(43)	47.0	47.0	(3)
Employee Expenses	4.4	4.7	(38)	4.5	(10)	4.6	5.1	(48)
ASP Expenses	12.2	12.0	18	11.5	68	11.9	11.9	2
Other Operating Expenses	13.2	13.4	(23)	11.9	123	13.9	15.0	(103)
EBITDA Margin (%)	24.8	21.9	293	26.2	(137)	22.6	21.1	130
Adj EBITDA Margin (%)	23.8	21.9	191	25.2	(146)	22.6	21.1	130
Tax Rate (%)	19.9	29.1	(921)	31.5	(1,159)	30.1	30.3	(25)
APAT Margin (%)	18.5	16.5	206	17.3	123	15.9	14.9	103

Source: Company, HDFC sec Inst Research Note: *Like-like (GST impact)

Home care growth was driven by healthy volume growth

Home care EBIT growth continues to be remarkable at 21% (25% in last 12 qtrs). This has been led by premiumisation, market share gains and benign commodity inflation.

Beauty & PC growth was slight slow owing to continued challenges in oral care and softer growth for soaps (Lux & Lifebuoy)

F&R grew by 8% (12% base) driven by beverages, ice cream & frozen desserts (innovations). EBIT growth (up 2%, 16% in last 12 qtrs) was under pressure owing to steep commodity inflation

Quarterly Segmental (Standalone)

Year to March (Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY19	FY18	YoY (%)
Segmental Revenues								
Home Care	33,710	30,800	9.4	34,650	(2.7)	128,760	116,290	15.0
Beauty & PC	45,430	43,160	5.3	45,890	(1.0)	176,550	164,640	10.7
Foods & Refreshment	18,470	17,040	8.4	19,500	(5.3)	71,330	64,410	11.5
Others	910	1,340	(32.1)	1,100	(17.3)	5,600	6,230	(6.0)
Total	98,520	92,340	6.7	101,140	(2.6)	382,240	351,570	12.0
Segmental EBIT								
Home Care	5,950	4,920	20.9	6,990	(14.9)	21,090	16,940	24.5
Beauty & PC	13,150	11,150	17.9	13,580	(3.2)	47,010	41,000	14.7
Foods & Refreshment	2,940	2,880	2.1	3,790	(22.4)	12,060	9,850	22.4
Others	20	20	-	20	-	(10)	(120)	(91.7)
Total	22,060	18,970	16.3	24,380	(9.5)	80,150	67,670	18.4
(a) Interest Cost & Bank Charges	310	70	342.9	240	29.2	280	210	33.3
(b) Other Un-allocable Expenses	20	20	-	20	-	(6,340)	(5,380)	17.8
PBT	23,080	21,520	7.2	25,630	(9.9)	86,210	72,840	18.4
Capital Employed								
Home Care	(6,000)	(9,300)	na	(6,190)	na	(6,000)	(9,300)	na
Beauty & PC	5,730	(2,970)	na	(6,210)	na	5,730	(2,970)	na
Foods & Refreshment	5,730	6,110	(6.2)	4,650	23.2	5,730	6,110	(6.2)
Others	560	770	(27.3)	690	(18.8)	560	770	(27.3)
Total	6,020	(5,390)	na	(7,060)	na	6,020	(5,390)	(211.7)
Unallocable Capital Employed	82,240	75,430	9.0	66,960	22.8	82,240	75,430	9.0
Total Capital Employed	88,260	70,040	26.0	59,900	47.3	88,260	70,040	26.0

Source: Company, HDFC sec Inst Research

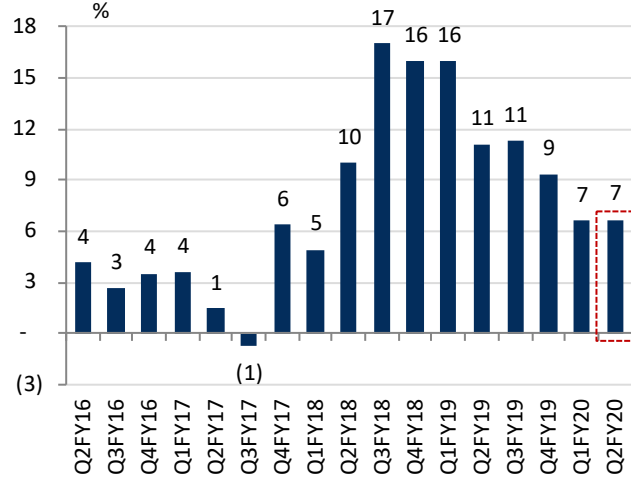
EBIT Margin

EBIT Margin	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	FY19	FY18	YoY (bps)
Home Care	17.7	16.0	168	20.2	(252)	16.4	14.6	181
PC	28.9	25.8	311	29.6	(65)	26.6	24.9	172
Foods & Refreshment	15.9	16.9	(98)	19.4	(352)	16.9	15.3	161
Others	2.2	1.5	na	1.8	na	(0.2)	(1.9)	na
Total	22.4	20.5	185	24.1	(171)	21.0	19.2	172

Source: Company, HDFC sec Inst Research

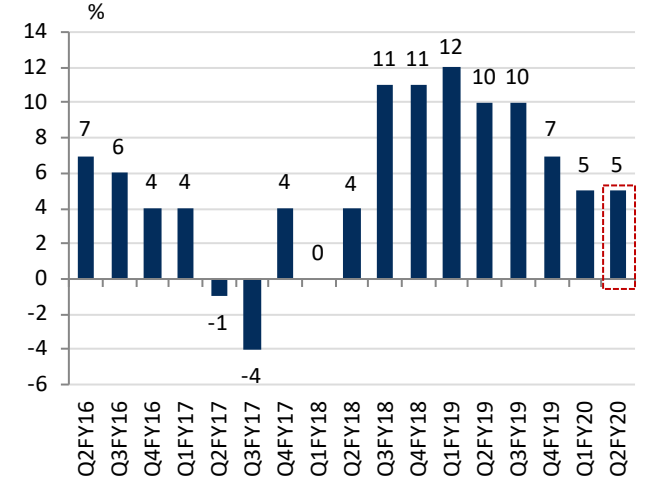
Volume growth trajectory has moderated over the last 2 quarters

Net Revenue Growth



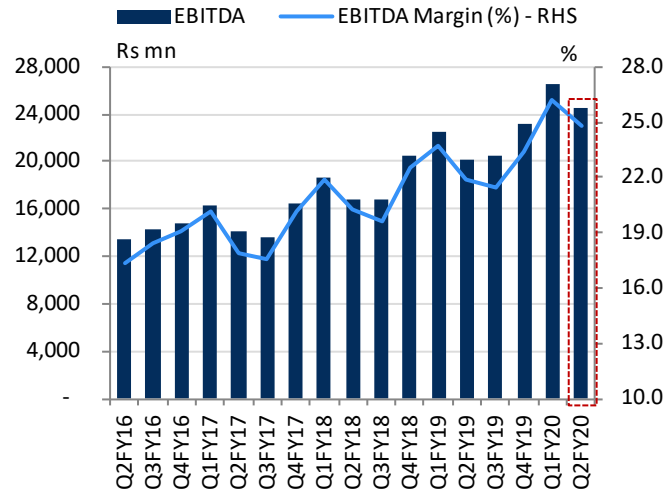
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Underlying Volume Growth



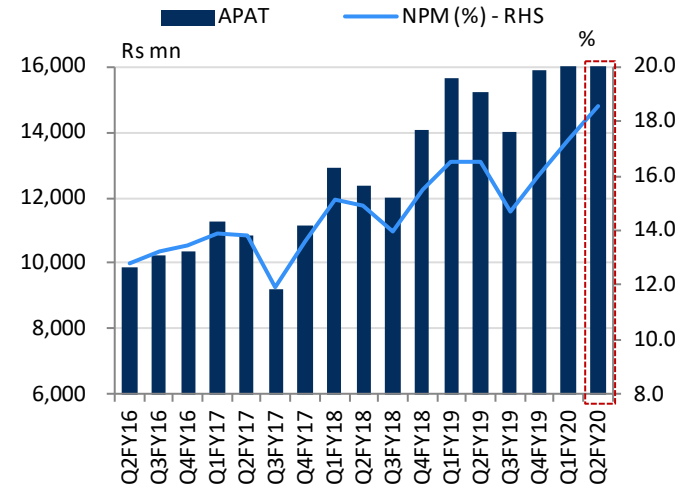
Source: Company, HDFC sec Inst Research

EBITDA



Source: Company, HDFC sec Inst Research

APAT

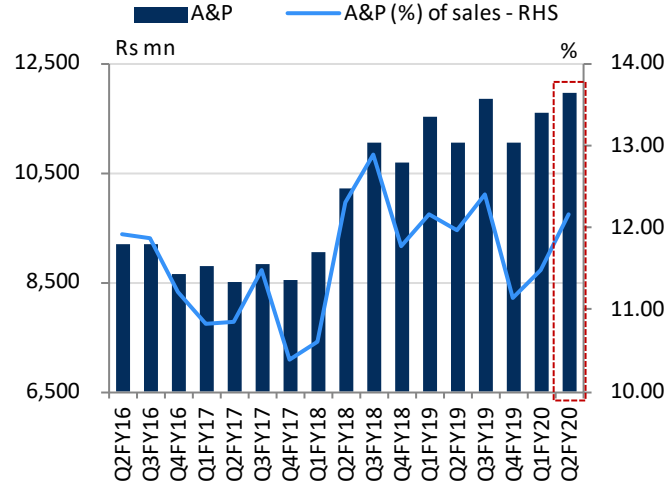


Source: Company, HDFC sec Inst Research

EBITDAM expansion is driven by premiumisation, benign raw material inflation and cost savings

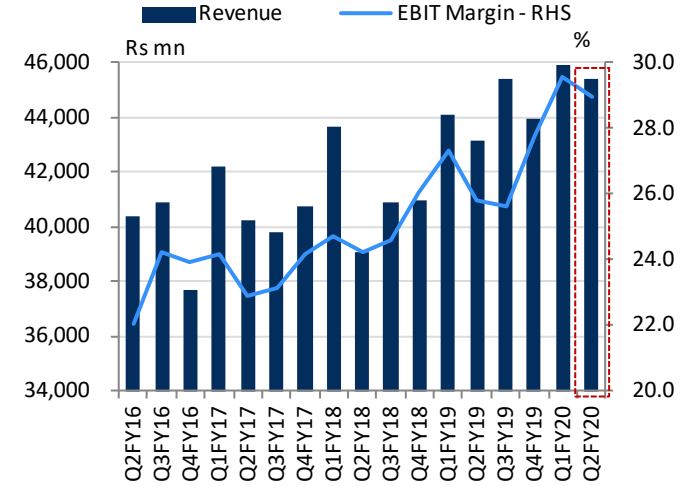
HUL has stepped up its investment on A&P after moderate spends in the previous 2 quarters (growing slower than volume growth)

A&P



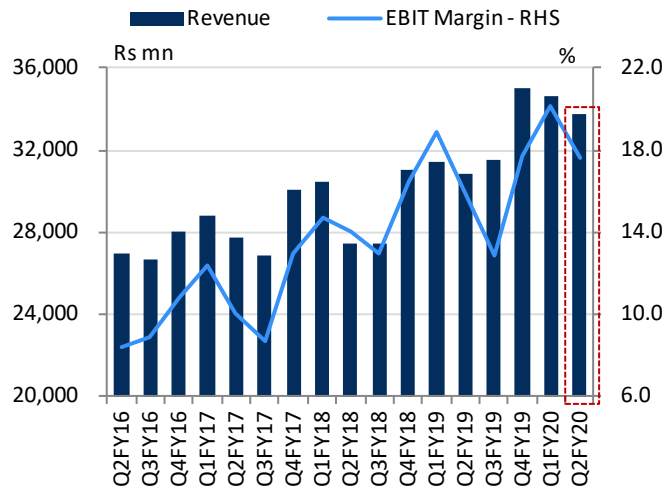
Source: Company, HDFC sec Inst Research

Personal Care Performance



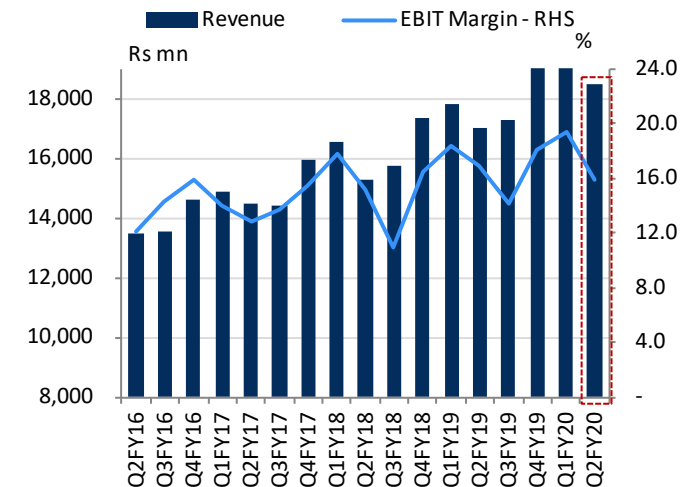
Source: Company, HDFC sec Inst Research

Home Care Performance



Source: Company, HDFC sec Inst Research

Foods & Refreshment Performance



Source: Company, HDFC sec Inst Research

BPC growth was muted in 1HFY20. EBIT clocked 15% in 1H vs. 8% CAGR in the last 12 quarters

Home care growth was driven by healthy volume growth. EBIT clocked 25% CAGR in the last 12 quarters

F&R growth was driven by healthy volume growth. EBIT clocked 16% CAGR in the last 12 quarters

Beauty & Personal Care Performance

Particulars (Rs mn)	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Revenue	39,802	40,750	43,680	39,100	40,900	40,960	44,070	43,160	45,390	43,930	45,890	45,430
YoY Gr. (%)	-2.7%	8.1%	3.5%	8.0%	20.0%	13.0%	14.0%	10.4%	11.0%	7.3%	4.1%	5.3%
Revenue Mix (%)	47.9%	45.9%	47.4%	47.1%	47.6%	45.0%	46.5%	46.7%	47.5%	44.2%	45.4%	46.1%
EBIT	9,208	9,840	10,790	9,480	10,070	10,660	12,040	11,150	11,620	12,200	13,580	13,150
YoY Gr. (%)	-7.1%	9.0%	5.7%	2.8%	9.4%	8.3%	11.6%	17.6%	15.4%	14.4%	12.8%	17.9%
EBIT Margin (%)	23.1%	24.1%	24.7%	24.2%	24.6%	26.0%	27.3%	25.8%	25.6%	27.8%	29.6%	28.9%
EBIT Mix (%)	68.9%	60.9%	59.4%	60.9%	65.8%	57.2%	56.7%	58.8%	64.3%	55.8%	55.7%	59.6%

Note: Like-to-like revenue growth for 2QFY18-1QFY19

Home Care Performance

Particulars (Rs mn)	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Revenue	26,891	30,040	30,470	27,390	27,410	31,020	31,460	30,800	31,480	35,020	34,650	33,710
YoY Gr. (%)	1.0%	7.4%	5.9%	13.0%	17.0%	21.0%	20.0%	12.4%	14.8%	12.9%	10.1%	9.4%
Revenue Mix (%)	32.4%	33.8%	33.1%	33.0%	31.9%	34.1%	33.2%	33.4%	32.9%	35.2%	34.3%	34.2%
EBIT	2,342	3,890	4,480	3,830	3,540	5,090	5,940	4,920	4,040	6,190	6,990	5,950
YoY Gr. (%)	-0.6%	28.8%	25.8%	36.8%	51.1%	30.8%	32.6%	28.5%	14.1%	21.6%	17.7%	20.9%
EBIT Margin (%)	8.7%	12.9%	14.7%	14.0%	12.9%	16.4%	18.9%	16.0%	12.8%	17.7%	20.2%	17.7%
EBIT Mix (%)	17.5%	24.1%	24.7%	24.6%	23.1%	27.3%	28.0%	25.9%	22.4%	28.3%	28.7%	27.0%

Note: Like-to-like revenue growth for 2QFY18-1QFY19

Foods & Refreshment Performance

Particulars (Rs mn)	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Revenue	14,426	15,950	16,540	15,260	15,720	17,350	17,850	17,040	17,280	19,160	19,500	18,470
YoY Gr. (%)	4.3%	6.5%	12.0%	10.5%	15.5%	12.0%	14.0%	11.7%	9.9%	10.4%	9.2%	8.4%
Revenue Mix (%)	17.4%	18.0%	18.0%	18.4%	18.3%	19.1%	18.8%	18.5%	18.1%	19.3%	19.3%	18.7%
EBIT	1,974	2,470	2,950	2,310	1,720	2,870	3,280	2,880	2,440	3,460	3,790	2,940
YoY Gr. (%)	1.5%	6.3%	41.1%	24.0%	-12.9%	16.2%	11.2%	24.7%	41.9%	20.6%	15.5%	2.1%
EBIT Margin (%)	13.7%	15.5%	17.8%	15.1%	10.9%	16.5%	18.4%	16.9%	14.1%	18.1%	19.4%	15.9%
EBIT Mix (%)	14.8%	15.3%	16.2%	14.8%	11.2%	15.4%	15.4%	15.2%	13.5%	15.8%	15.5%	13.3%

Note: Like-to-like revenue growth for 2QFY18-1QFY19

Source: Company, HDFC sec Inst Research

Assumptions (Including GSK Consumer Acquisition)

Particulars	FY17	FY18	FY19	FY20E	FY21E	FY22E
Revenue (Rs mn)						
Home Care	113,460	116,260	128,740	142,806	158,359	175,267
Beauty & PC	164,320	165,880	178,000	189,621	207,032	225,197
Foods	11,240	11,650	12,543	21,752	74,192	82,831
- HUL	11,240	11,650	12,543	13,862	15,804	18,020
- GSK	na	na	na	7,890	58,388	64,811
Refreshment	48,480	53,110	58,767	63,848	72,139	81,599
Others	19,600	15,330	15,050	16,555	18,790	21,327
Gross segment revenue	357,100	362,230	393,100	434,582	530,512	586,221
YoY Growth						
Home Care	8%	14%	15%	11%	11%	11%
Beauty & PC	2%	1%	11%	7%	9%	9%
Foods	3%	4%	12%	73%	241%	12%
- HUL	3%	4%	12%	11%	14%	14%
- GSK (underlying growth)	na	na	na	10%	11%	11%
Refreshment	8%	10%	12%	9%	13%	13%
Others	-5%	-22%	-6%	10%	14%	14%
Total	3%	1%	12%	11%	22%	11%
Total (Ex-GSK)	3%	1%	12%	9%	11%	10%
EBIT Margin						
Home Care	11.2%	14.6%	16.7%	17.8%	18.1%	18.3%
Beauty & PC	23.7%	25.3%	26.7%	28.3%	28.6%	28.8%
Foods	7.7%	8.5%	10.0%	18.0%	28.8%	29.3%
- HUL	7.7%	8.5%	10.0%	9.7%	10.2%	10.5%
- GSK	na	na	na	32.5%	33.8%	34.6%
Refreshment	15.7%	16.9%	18.8%	19.4%	19.9%	20.4%
Others	10.2%	9.5%	11.8%	12.5%	12.5%	12.5%
Total	17.4%	19.5%	21.2%	22.4%	23.7%	24.0%
Gross Margin (%)	50.8	52.9	53.0	54.8	57.6	58.2
Employee (% of sales)	5.3	5.2	4.8	4.4	4.3	4.2
ASP (% of sales)	10.7	11.7	11.7	11.6	11.5	11.5
Distribution (% of sales)	4.6	4.4	4.1	4.1	4.1	4.1
Other Expenses (% of sales)	11.2	10.6	9.9	10.3	11.9	12.4
EBITDA Margin (%)	19.1	21.1	22.6	24.4	25.8	26.1
Tax Rate (%)	30.5	28.5	29.6	27.0	26.0	26.0

Source: Company, HDFC sec Inst Research | Note: FY18 revenue growth is like-like

We cut our revenue estimates to factor in slower than expected pickup in the rural demand

We increase EBITDA expectation on account of benign raw material inflation and cost control initiatives

We model 27/26/26% tax rate for FY20/FY21/FY22E vs. 25.17% earlier

Change in Estimates

	FY20E			FY21E			FY22E		
	OLD	NEW	Chg (%)	OLD	NEW	Chg (%)	OLD	NEW	Chg (%)
Net Sales	445,955	434,582	-2.6%	535,871	530,512	-1.0%	589,167	586,221	-0.5%
EBITDA	104,312	106,173	1.8%	135,506	136,861	1.0%	152,305	153,066	0.5%
APAT	77,164	75,660	-1.9%	99,294	98,878	-0.4%	112,857	111,352	-1.3%
EPS	35.0	34.3	-1.9%	42.4	42.2	-0.4%	48.1	47.5	-1.3%

Peer Set Comparison

Companies	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			Core RoCE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
HUL	4,360	2,015	NEU	2,017	28.1	34.3	42.2	71.6	58.8	47.8	48.3	43.7	33.6	248.6	38.7	28.0
ITC	2,729	244	BUY	370	10.4	12.8	14.1	23.4	19.0	17.3	14.7	13.2	11.8	39.2	45.9	49.5
Nestle	1,366	14,169	NR	13,640	167.1	233.6	278.1	84.8	60.7	51.0	49.1	42.1	36.0	82.1	114.7	137.3
Dabur	801	455	BUY	490	8.2	9.5	11.4	55.5	47.7	39.9	44.6	38.3	33.0	50.1	52.9	58.3
Britannia	746	3,109	BUY	3,620	48.1	59.2	72.5	64.6	52.5	42.9	42.3	38.2	31.2	39.3	43.1	49.8
Marico	497	385	NEU	400	7.2	8.7	10.4	53.4	44.3	37.0	38.6	31.1	27.0	48.8	47.4	53.4
Colgate	414	1,520	NEU	1,398	27.6	33.2	37.5	55.2	45.7	40.5	33.2	30.2	27.0	67.2	76.0	82.5
Emami	142	305	BUY	467	11.0	12.9	14.6	27.7	23.6	20.8	18.7	16.5	14.4	21.5	26.5	32.0
Jub. Food	174	1,322	BUY	2,092	24.1	32.1	41.2	54.9	41.2	32.1	28.0	25.3	19.7	45.8	52.0	44.8
United Spirits	448	616	BUY	760	10.2	13.4	17.0	60.2	46.1	36.1	35.1	27.9	23.6	15.6	20.2	22.8
Radico Khaitan	39	296	BUY	496	14.1	17.8	21.5	20.9	16.6	13.8	12.2	10.8	9.0	11.5	13.8	15.3

Source: HDFC sec Inst Research

Income Statement

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	355,450	393,100	434,582	530,512	586,221
Growth (%)	12.0	12.0	10.6	22.1	10.5
Material Expenses	167,300	184,740	196,431	224,937	245,041
Employee Expense	18,600	18,750	19,031	22,984	24,363
ASP Expense	41,530	46,070	50,412	61,009	67,415
Distribution Expenses	15,470	15,990	17,677	21,579	23,846
Other expenses	37,560	38,750	44,858	63,142	72,491
EBITDA	74,990	88,800	106,173	136,861	153,066
EBITDA Growth (%)	18.3	18.4	19.6	28.9	11.8
EBITDA Margin	21.1	22.6	24.4	25.8	26.1
Depreciation	5,200	5,650	9,393	11,033	11,921
EBIT	69,790	83,150	96,780	125,828	141,145
Other Income (Inc. EO Items)	3,510	3,220	7,568	8,566	10,183
Interest	260	330	704	774	852
PBT	73,040	86,040	103,644	133,619	150,476
Tax	20,790	25,440	27,984	34,741	39,124
RPAT	52,270	60,600	75,660	98,878	111,352
adjustment	(920)	818	-	-	-
APAT	51,350	60,800	75,660	98,878	111,352
APAT Growth (%)	20.9	18.4	24.4	30.7	12.6
Adjusted EPS (Rs)	23.8	28.1	34.3	42.2	47.5
EPS Growth (%)	20.9	18.4	21.8	23.0	12.6

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital - Equity	2,160	2,160	2,345	2,345	2,345
Reserves	70,650	76,510	408,341	431,589	457,508
Total Shareholders Funds	72,810	78,670	410,686	433,934	459,852
Minority Interest	200	180	180	180	180
Long Term Debt	-	990	990	990	990
Short Term Debt	-	-	-	-	-
Total Debt	-	990	990	990	990
Net Deferred Taxes	(3,020)	(3,730)	(3,730)	(3,730)	(3,730)
Long Term Provisions & Others	11,160	12,990	13,719	15,003	15,929
TOTAL SOURCES OF FUNDS	81,150	89,100	421,845	446,377	473,221
APPLICATION OF FUNDS					
Net Block	45,280	47,150	54,057	53,024	51,103
CWIP	4,610	4,060	2,030	1,015	508
Other Non-current Assets	3,500	6,180	5,800	6,444	7,161
Total Non-current Assets	53,390	57,390	61,886	60,483	58,771
Goodwill	-	-	308,700	308,700	308,700
Inventories	25,130	25,740	27,991	32,998	36,186
Debtors	13,100	18,160	20,076	24,508	27,082
Other Current Assets	14,820	10,530	11,238	13,708	15,142
Cash & Equivalents	63,580	64,730	88,126	122,270	155,339
Total Current Assets	116,630	119,160	147,432	193,484	233,748
Creditors	71,700	72,060	79,664	97,249	107,461
Other Current Liabilities & Provns	17,170	15,390	16,509	19,040	20,537
Total Current Liabilities	88,870	87,450	96,173	116,289	127,998
Net Current Assets	27,760	31,710	51,258	77,194	105,750
TOTAL APPLICATION OF FUNDS	81,150	89,100	421,845	446,377	473,221

Source: Company, HDFC sec Inst Research

Cash Flow Statement

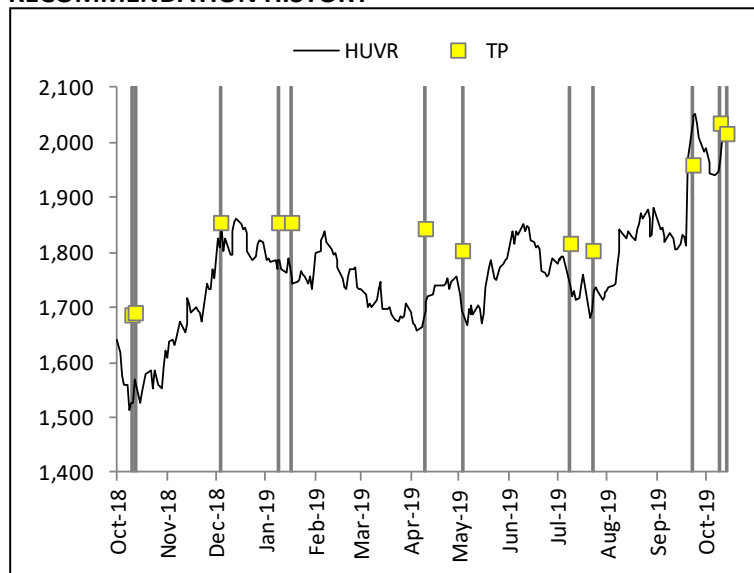
(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	73,040	86,040	103,644	133,619	150,476
Non-operating & EO Items	(1,030)	140	-	-	-
Interest Expenses	(2,340)	(2,740)	704	774	852
Depreciation	5,200	5,650	9,393	11,033	11,921
Working Capital Change	8,360	(3,420)	4,957	8,848	4,723
Tax Paid	(22,640)	(27,670)	(27,984)	(34,741)	(39,124)
OPERATING CASH FLOW (a)	60,590	58,000	90,714	119,534	128,848
Capex	(8,780)	(7,540)	(5,970)	(8,985)	(9,493)
Free Cash Flow (FCF)	51,810	50,460	84,744	110,549	119,355
Investments	(5,700)	390	(322,000)	(5,000)	(5,000)
Non-operating Income	3,850	2,770	-	-	-
INVESTING CASH FLOW (b)	(10,630)	(4,380)	(327,970)	(13,985)	(14,493)
Debt Issuance/(Repaid)	-	990	-	-	-
Interest Expenses	(60)	(70)	(704)	(774)	(852)
FCFE	51,750	51,380	84,040	109,774	118,503
Share Capital Issuance	-	-	317,000	-	-
Dividend	(39,110)	(45,540)	(50,760)	(63,304)	(71,510)
Others	(10,580)	(8,290)	(9,884)	(12,326)	(13,924)
FINANCING CASH FLOW (c)	(49,750)	(52,910)	255,652	(76,405)	(86,286)
NET CASH FLOW (a+b+c)	210	710	18,396	29,144	28,069
EO Items, Others	(16,350)	(2,020)	-	-	-
Closing Cash & Equivalents	34,840	37,570	55,966	85,110	113,179

Source: Company, HDFC sec Inst Research

Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)					
GPM	52.9	53.0	54.8	57.6	58.2
EBITDA Margin	21.1	22.6	24.4	25.8	26.1
EBIT Margin	19.6	21.2	22.3	23.7	24.1
APAT Margin	14.4	15.5	17.4	18.6	19.0
RoE	73.2	80.3	30.9	23.4	24.9
RoIC	247.2	248.6	38.7	28.0	32.2
RoCE	64.0	69.2	29.1	22.5	24.0
EFFICIENCY					
Tax Rate (%)	28.5	29.6	27.0	26.0	26.0
Fixed Asset Turnover (x)	4.3	4.3	4.4	4.9	4.9
Inventory (days)	25.8	23.9	23.5	22.7	22.5
Debtors (days)	13.5	16.9	16.9	16.9	16.9
Other Current Assets (days)	15.2	9.8	9.4	9.4	9.4
Payables (days)	73.6	66.9	66.9	66.9	66.9
Other Current Liab & Provns (days)	17.6	14.3	13.9	13.1	12.8
Cash Conversion Cycle (days)	(36.8)	(30.7)	(31.0)	(31.0)	(30.9)
Net D/E (x)	(0.9)	(0.8)	(0.2)	(0.3)	(0.3)
PER SHARE DATA (Rs)					
EPS	23.8	28.1	34.3	42.2	47.5
CEPS	26.2	30.8	38.3	46.9	52.6
Dividend	20.0	23.5	27.0	30.5	34.0
Book Value	33.7	36.4	175.2	185.1	196.1
VALUATION					
P/E (x)	84.8	71.6	58.8	47.8	42.4
P/BV (x)	59.8	55.3	11.5	10.9	10.3
EV/EBITDA (x)	57.2	48.3	43.7	33.6	29.9
EV/Revenues (x)	12.1	10.9	10.7	8.7	7.8
OCF/EV (%)	1.4	1.4	2.0	2.6	2.8
FCF/EV (%)	1.2	1.2	1.8	2.4	2.6
FCFE/Mkt Cap (%)	1.2	1.2	1.8	2.3	2.5
Dividend Yield (%)	1.0	1.2	1.3	1.5	1.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
10-Oct-18	1,514	NEU	1,687
13-Oct-18	1,570	NEU	1,691
4-Dec-18	1,808	NEU	1,855
9-Jan-19	1,771	NEU	1,855
18-Jan-19	1,752	NEU	1,855
10-Apr-19	1,681	NEU	1,844
4-May-19	1,693	NEU	1,804
9-Jul-19	1,740	NEU	1,817
24-Jul-19	1,693	NEU	1,804
22-Sep-19	1,969	NEU	1,960
11-Oct-19	1,969	NEU	2,036
15-Oct-19	2,015	NEU	2,017

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

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