

Copra deflation saves the day

Marico disappointed on volume growth owing to rural slowdown. Hair oil category growth was sluggish in 2Q. Copra deflation and international performance drove healthy EBITDA growth. We recently downgraded Marico to NEUTRAL as RM tailwinds are expected to moderate and near-term positives were priced-in. We value Marico at 35x on Sep-21 EPS arriving at a TP of Rs 391.

HIGHLIGHTS OF THE QUARTER

- Consol. revenue growth was flat (exp. 6.6%) with 6% volume growth. Domestic revenue/volume grew at -3/1% (20/6% in 2QFY19) vs. our exp of 6/6%. International biz grew by 8/9% value/cc growth led by Bangladesh (15%). Urban GT/Rural growth declined by 11/3%. Modern trade was up 29%, resulting in 3% overall growth in Urban.
- PCNO grew by -4/-1% value/volume owing to a high base (32/8%) and sluggish growth in rural. PCNO gained a handsome market share of 225bps as its offtake growth was healthy. Copra prices are down 10% YoY in 2Q. Marico is passing on value via promotions instead of price cuts. Copra prices are expected to increase moderately on a QoQ basis. We believe RM tailwinds will begin moderating from 4Q.
- VAHO's performance was disappointing as it degrew by 6%. Liquidity stress, rural slowdown and sluggish category growth impacted growth. Distribution initiatives and

brand franchise are driving market share gains (up 100bps to 35% vol. share).

- Saffola oil grew by 5/1% in value/volume terms. Saffola's recovery remains a struggle despite various initiatives. Management continues to rely on its 'trial and failure' strategy by varying promotions across channels. However, Saffola foods grew by 39% led by aggressive new launches.
- GM expanded by 565bps (exp 370bps) making it the sharpest expansion in this copra cycle. A&P spends (12% growth) were modest resulting in 263bps adj. EBITDAM expansion (exp. 169bps). India/international EBIT grew by 10/25% growth.

STANCE

The stock re-rated in the last 3-4 quarters owing to superior EBITDA growth. Marico was our top-pick 12 months back when copra cycle was expected to reverse. We recently downgraded Marico to NEUTRAL as we believe peak copra deflationary cycle is now behind. We expect tailwinds from deflation in input costs to moderate over the next 2 quarters. As a result, most of the positives are priced-in (30% run up in the last 12-months). The stock does not deserve a further re-rating as new launches are not moving the needle and core biz volume growth remains tepid.

Financial Summary

| YE March (Rs mn) | 2QFY20 | 2QFY19 | YoY (%) | 1QFY20 | QoQ (%) | FY18 | FY19 | FY20E | FY21E | FY22E |
|------------------|--------|--------|---------|--------|---------|--------|--------|--------|--------|--------|
| Net Revenues | 18,290 | 18,368 | (0.4) | 21,660 | (15.6) | 63,222 | 73,336 | 77,799 | 86,667 | 95,803 |
| EBITDA | 3,530 | 2,941 | 20.0 | 4,610 | (23.4) | 11,378 | 12,809 | 15,831 | 18,173 | 20,378 |
| APAT | 2,470 | 2,142 | 15.3 | 3,224 | (23.4) | 8,142 | 9,309 | 11,247 | 13,241 | 15,254 |
| Diluted EPS (Rs) | 1.91 | 1.66 | 15.3 | 2.50 | (23.4) | 6.31 | 7.21 | 8.71 | 10.26 | 11.82 |
| P/E (x) | | | | | | 62.6 | 54.8 | 45.3 | 38.5 | 33.4 |
| EV / EBITDA (x) | | | | | | 44.9 | 39.7 | 32.0 | 28.1 | 25.1 |
| Core RoCE (%) | | | | | | 40.6 | 48.8 | 47.5 | 52.9 | 57.7 |

Source: Company, HDFC sec Inst Research

| INDUSTRY | FMCG |
|--------------------------------|---------------|
| CMP (as on 25 Oct 2019) | Rs 393 |
| Target Price | Rs 391 |
| Nifty | 11,584 |
| Sensex | 39,058 |

KEY STOCK DATA

| | |
|-----------------------------|-----------|
| Bloomberg | MRCO IN |
| No. of Shares (mn) | 1,291 |
| MCap (Rs bn) / (\$ mn) | 508/7,159 |
| 6m avg traded value (Rs mn) | 735 |

STOCK PERFORMANCE (%)

| 52 Week high / low | Rs 404/295 | | |
|--------------------|------------|------|------|
| | 3M | 6M | 12M |
| Absolute (%) | 8.8 | 10.4 | 32.2 |
| Relative (%) | 5.6 | 9.5 | 16.3 |

SHAREHOLDING PATTERN (%)

| | Jun-19 | Sep-19 |
|-----------------|--------|--------|
| Promoters | 59.70 | 59.60 |
| FIs & Local MFs | 5.79 | 8.63 |
| FPIs | 25.72 | 24.90 |
| Public & Others | 8.79 | 6.87 |
| Pledged Shares | 0.00 | 0.00 |

Source : BSE

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Consol. revenue growth was flat (exp. 6.6%) with 6% volume growth

Domestic revenue/volume grew at -3/1% (20/6% in 2QFY19) vs. our exp of 6/6%.

India/International revenues grew by -3/8% while EBIT grew by 10/25% respectively

GM expanded by 565bps (exp 370bps) making it the sharpest expansion in this copra cycle. Copra deflation during 2QFY20 was 10% YoY

A&P spends (12% growth) were modest resulting in 263bps adj. EBITDAM expansion (exp. 169bps).

Quarterly Financials

| Year to March (Rs mn) | 2QFY20 | 2QFY19 | YoY (%) | 1QFY20 | QoQ (%) | FY19 | FY18 | YoY (%) |
|----------------------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|-------------|
| Net Revenue | 18,290 | 18,368 | (0.4) | 21,660 | (15.6) | 73,340 | 63,220 | 16.0 |
| Material Expenses | 9,210 | 10,287 | (10.5) | 11,370 | (19.0) | 40,170 | 33,480 | 20.0 |
| Employee Expenses | 1,270 | 1,146 | 10.9 | 1,270 | - | 4,660 | 4,220 | 10.4 |
| ASP Expenses | 1,970 | 1,758 | 12.0 | 2,190 | (10.0) | 6,590 | 5,880 | 12.1 |
| Other Expenses | 2,310 | 2,237 | 3.3 | 2,220 | 4.1 | 9,110 | 8,270 | 10.2 |
| EBITDA | 3,530 | 2,941 | 20.0 | 4,610 | (23.4) | 12,810 | 11,370 | 12.7 |
| EBITDA (IND-AS 116) | 3,410 | 2,941 | 16.0 | 4,610 | (26.0) | 12,810 | 11,370 | 12.7 |
| Depreciation | 350 | 224 | 56.3 | 350 | - | 960 | 890 | 7.9 |
| EBIT | 3,180 | 2,717 | 17.1 | 4,260 | (25.4) | 11,850 | 10,480 | 13.1 |
| Other Income | 350 | 292 | 19.8 | 280 | 25.0 | 1,030 | 850 | 21.2 |
| Interest Cost | 130 | 57 | 129.3 | 120 | 8.3 | 240 | 160 | 50.0 |
| PBT | 3,400 | 2,952 | 15.2 | 4,230 | (19.6) | 12,630 | 11,170 | 13.1 |
| Tax | 880 | 776 | 13.4 | 1,080 | (18.5) | 1,280 | 2,900 | (55.9) |
| PAT | 2,470 | 2,142 | 15.3 | 3,080 | (19.8) | 11,182 | 8,142 | 37.3 |
| Exceptional Items | - | - | na | 144 | na | (1,873) | - | na |
| APAT | 2,470 | 2,142 | 15.3 | 3,224 | (23.4) | 9,309 | 8,142 | 14.3 |
| EPS | 1.9 | 1.7 | 15.3 | 2.5 | (23.4) | 7.2 | 6.3 | 14.3 |

| As % Of Net Revenue | 2QFY20 | 2QFY19 | YoY (bps) | 1QFY20 | QoQ (bps) | FY19 | FY18 | YoY (bps) |
|------------------------------|-------------|-------------|------------|-------------|--------------|-------------|-------------|--------------|
| Material Expenses | 50.4 | 56.0 | (565) | 52.5 | (214) | 54.8 | 53.0 | 181 |
| Employee Expenses | 6.9 | 6.2 | 71 | 5.9 | 108 | 6.4 | 6.7 | (32) |
| A&P Expenses | 10.8 | 9.6 | 120 | 10.1 | 66 | 9.0 | 9.3 | (32) |
| Other Expenses | 12.6 | 12.2 | 45 | 10.2 | 238 | 12.4 | 13.1 | (66) |
| EBITDA Margin (%) | 19.3 | 16.0 | 329 | 21.3 | (198) | 17.5 | 18.0 | (52) |
| Adj EBITDA Margin (%) | 18.6 | 16.0 | 263 | 21.3 | (264) | 31.9 | 18.0 | 1,390 |
| Tax Rate (%) | 25.9 | 26.3 | (41) | 25.5 | 35 | 10.1 | 26.0 | (1,583) |
| APAT Margin (%) | 13.5 | 11.7 | 184 | 14.9 | (138) | 12.7 | 12.9 | (19) |

Source: Company, HDFC sec Inst Research

Domestic value growth was lower than volume growth owing to higher promotions in PCNO portfolio

International business continued to recover with 9% cc growth

Quarterly Segmental

| Year to March (Rs mn) | 2QFY20 | 2QFY19 | YoY (%) | 1QFY20 | QoQ (%) | FY19 | FY18 | YoY (%) |
|---------------------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|-------------|
| Segmental Revenues | | | | | | | | |
| Domestic | 13,980 | 14,389 | (2.8) | 17,310 | (19.2) | 57,560 | 49,690 | 15.8 |
| International | 4,310 | 3,980 | 8.3 | 4,350 | (0.9) | 15,780 | 13,640 | 15.7 |
| Total | 18,290 | 18,368 | (0.4) | 21,660 | (15.6) | 73,340 | 63,330 | 15.8 |
| Segmental EBIT | | | | | | | | |
| Domestic | 2,690 | 2,457 | 9.5 | 3,650 | (26.3) | 10,680 | 10,040 | 6.4 |
| International | 880 | 705 | 24.8 | 1,060 | (17.0) | 2,890 | 2,100 | 37.6 |
| Total | 3,570 | 3,162 | 12.9 | 4,710 | (24.2) | 13,570 | 12,140 | 11.8 |
| Capital Employed | | | | | | | | |
| Domestic | 12,740 | 12,401 | 2.7 | 11,910 | 7.0 | 13,920 | 13,013 | 7.0 |
| International | 6,870 | 7,670 | (10.4) | 7,020 | (2.1) | 6,930 | 7,475 | (7.3) |
| Total | 19,610 | 20,071 | (2.3) | 18,930 | 3.6 | 20,850 | 20,488 | 1.8 |

Source: Company, HDFC sec Inst Research

EBIT Margin

| Year to March (Rs mn) | 2QFY20 | 2QFY19 | YoY (bps) | 1QFY20 | QoQ (bps) | FY19 | FY18 | YoY (bps) |
|------------------------|-------------|-------------|------------|-------------|--------------|-------------|-------------|-------------|
| EBIT Margin (%) | | | | | | | | |
| Domestic | 19.2 | 17.1 | 217 | 21.1 | (184) | 18.6 | 20.2 | (165) |
| International | 20.4 | 17.7 | 270 | 24.4 | (395) | 18.3 | 15.4 | 292 |
| Total | 19.5 | 17.2 | 231 | 21.7 | (223) | 18.5 | 19.2 | (67) |

Source: Company, HDFC sec Inst Research

Business Performance

| Value Growth (%) | 3QFY17 | 4QFY17 | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | 2QFY20 |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total | (7) | 2 | (4) | 6 | 15 | 12 | 20 | 20 | 15 | 9 | 7 | - |
| India | (9) | 6 | (4) | 12 | 19 | 12 | 23 | 20 | 13 | 7 | 6 | (3) |
| International | - | (8) | (1) | (8) | 1 | 13 | 9 | 18 | 21 | 14 | 9 | 8 |

Source: Company, HDFC sec Inst Research

Parachute performance has been remarkable in the last 18 months

Saffola remains a WIP

VAHO's performance in 2Q was weak owing to rural slowdown and sluggish category growth

More than 80% of the portfolio gained market share

Segment Performance

| Particulars (%) | 3QFY17 | 4QFY17 | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | 2QFY20 |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| FMCG Business (India) | | | | | | | | | | | | |
| Value Growth | (9) | 6 | (4) | 12 | 19 | 12 | 23 | 20 | 13 | 7 | 6 | (3) |
| Volume Growth | (4) | 10 | (9) | 8 | 9 | 1 | 12 | 6 | 5 | 8 | 6 | 1 |
| Parachute Coconut Oil | | | | | | | | | | | | |
| Value Growth | (12) | 11 | 3 | 26 | 41 | 24 | 38 | 32 | 19 | 4 | 8 | (4) |
| Volume Growth | (1) | 15 | (9) | 12 | 15 | -5 | 9 | 8 | 9 | 6 | 9 | (1) |
| VAHO | | | | | | | | | | | | |
| Value Growth | (13) | 9 | (7) | 12 | 7 | 9 | 12 | 12 | 19 | 7 | 11 | (6) |
| Volume Growth | (12) | 10 | (8) | 12 | 8 | 11 | 15 | 5 | 7 | 1 | 7 | - |
| Saffola (Refined Edible Oil) | | | | | | | | | | | | |
| Value Growth | 7 | 3 | (8) | 1 | (4) | (3) | 9 | 9 | 8 | 15 | 6 | 5 |
| Volume Growth | 6 | 6 | (9) | 3 | 0 | -1 | 10 | 5 | 2 | 18 | 3 | 1 |

Source: Company, HDFC sec Inst Research

Market Share Trend

| Particulars (%) | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q |
|-------------------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| | FY17 | FY17 | FY18 | FY18 | FY18 | FY18 | FY19 | FY19 | FY19 | FY19 | FY20 | FY20 |
| India | | | | | | | | | | | | |
| Coconut Oils | 58 | 58 | 58 | 59 | 59 | 59 | 59 | 59 | 59 | 59 | 60 | 60 |
| Saffola | 65 | 66 | 66 | 67 | 68 | 69 | 70 | 71 | 72 | 73 | 73 | 75 |
| Value added Hair Oils | 33 | 33 | 33 | 34 | 34 | 34 | 34 | 34 | 34 | 34 | 34 | 35 |
| Livon and Silk & Shine | 81 | 82 | 83 | 83 | 83 | 82 | 81 | 78 | 76 | 75 | 63 | 64 |
| Hair Creams/Gels | 63 | 63 | 62 | 62 | 63 | 63 | 63 | 62 | 61 | 60 | 60 | na |
| Saffola Oats | 28 | 27 | 27 | 27 | 28 | 28 | 29 | 29 | 29 | 29 | 30 | 31 |
| Overseas | | | | | | | | | | | | |
| VAHO (Bangladesh) | 17 | 18 | 18 | 20 | 21 | 21 | 21 | 22 | 23 | 23 | 22 | 22 |
| PCNO (Bangladesh) | 85 | 86 | 86 | 87 | 87 | 87 | 87 | 87 | 87 | 86 | 84 | 84 |
| X-Men Men's Shampoo (Vietnam) | 37 | 37 | 38 | 39 | 40 | 39 | 39 | 39 | 40 | 39 | 38 | 37 |
| Hair Code & Fiancée (Egypt) | 54 | 54 | 54 | 54 | 53 | 53 | na | na | na | na | na | na |

Source: Company, HDFC sec Inst Research

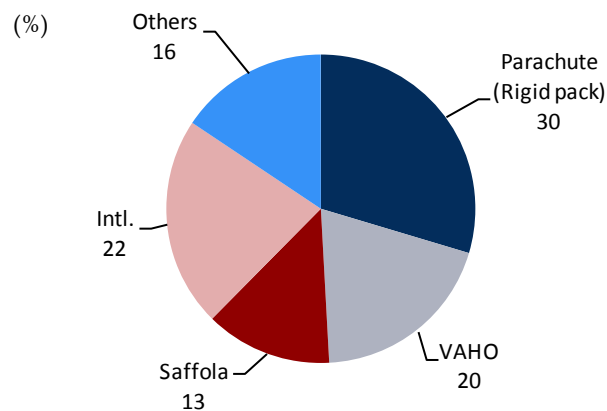
Bangladesh continues to outperform as the co is focusing on driving growth in VAHO as PCNO portfolio matures

Geographical Performance (Constant Currency Growth)

| Geographies | 3QFY17 | 4QFY17 | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | 2QFY20 |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Bangladesh | - | 5 | 12 | 11 | 12 | 17 | 9 | 10 | 16 | 12 | 11 | 15 |
| MENA | (27) | (46) | (14) | - | 15 | 61 | 17 | 19 | 8 | 5 | ~(10) | (3) |
| South Africa | 4 | 6 | 5 | 1 | 32 | 32 | 7 | 18 | 0 | 3 | 6 | (2) |
| South East Asia | 6 | 11 | 7 | (8) | (4) | (3) | 0 | 14 | 13 | 4 | 8 | 1 |

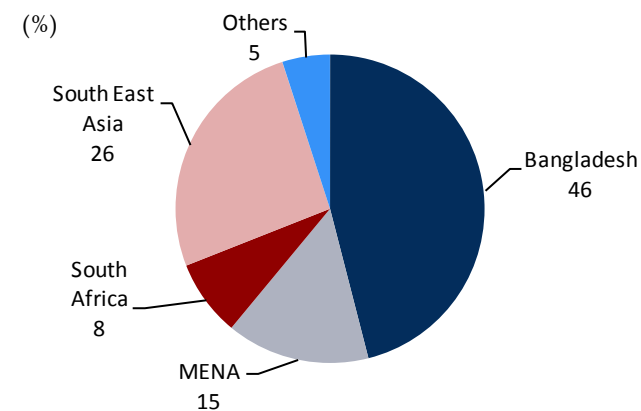
Source: Company, HDFC sec Inst Research

Consolidated Revenue Breakup (FY19)



Source: Company, HDFC sec Inst Research

International Revenue Breakup (FY19)

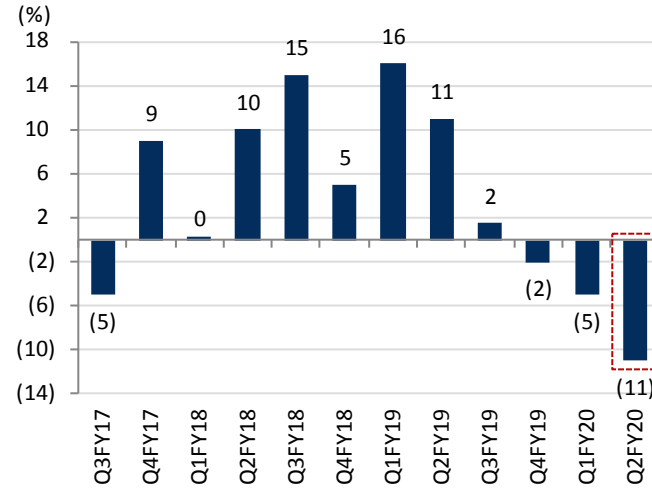


Source: Company, HDFC sec Inst Research

Urban GT/Rural growth declined by 11/3%. Modern trade was up 29%, resulting in 3% overall growth in Urban.

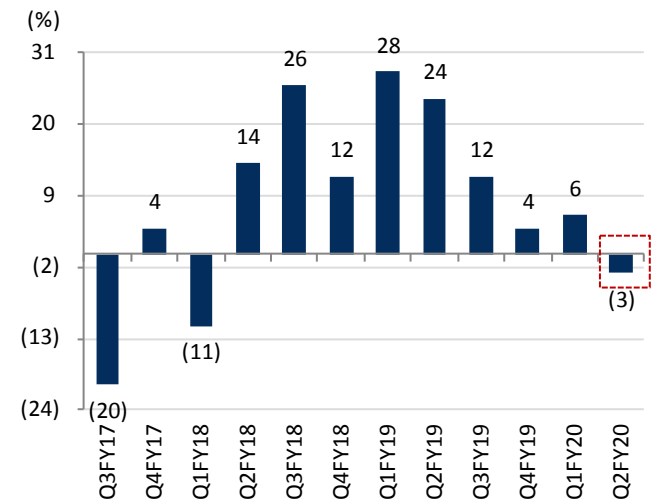
Modern trade is now 15% of domestic turnover, and continues to grow in high double digits

Urban GT Growth (YoY)



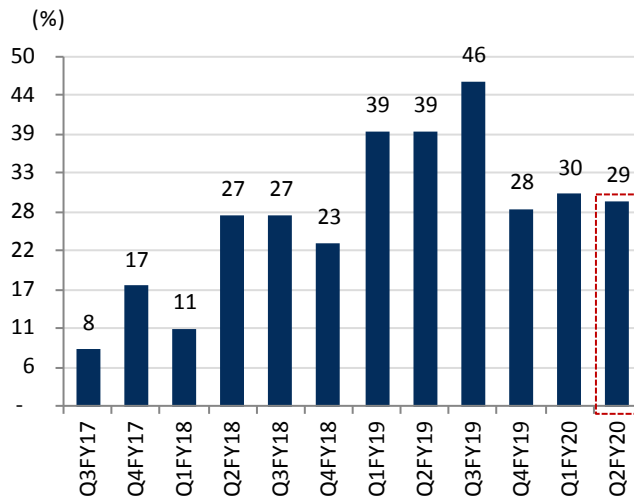
Source: Company, HDFC sec Inst Research

Rural Growth (YoY)



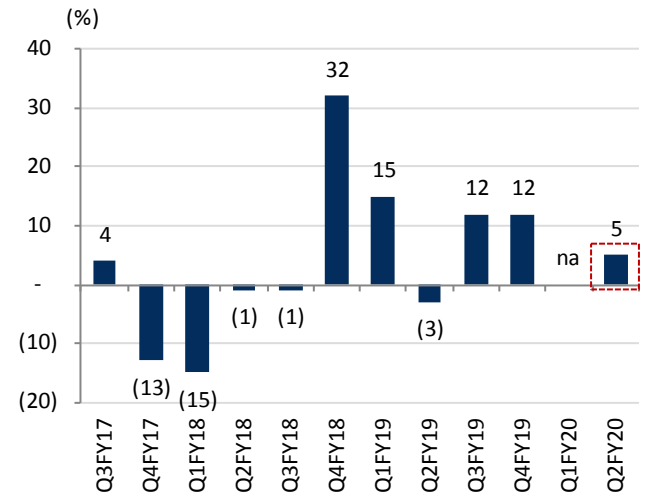
Source: Company, HDFC sec Inst Research

Modern Trade Growth (YoY)



Source: Company, HDFC sec Inst Research

CSD Growth (YoY)

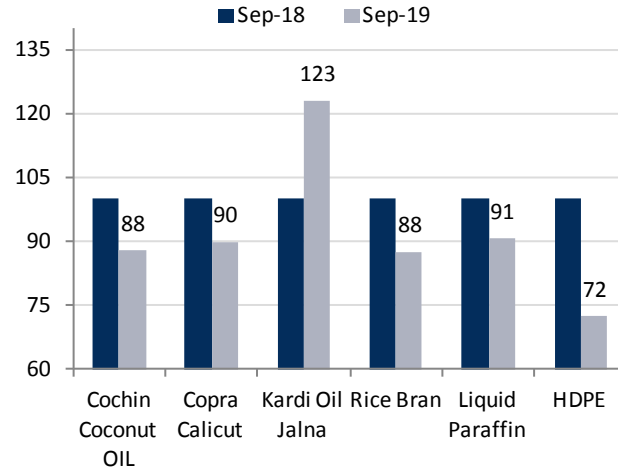


Source: Company, HDFC sec Inst Research

Copra prices are down 10% YoY

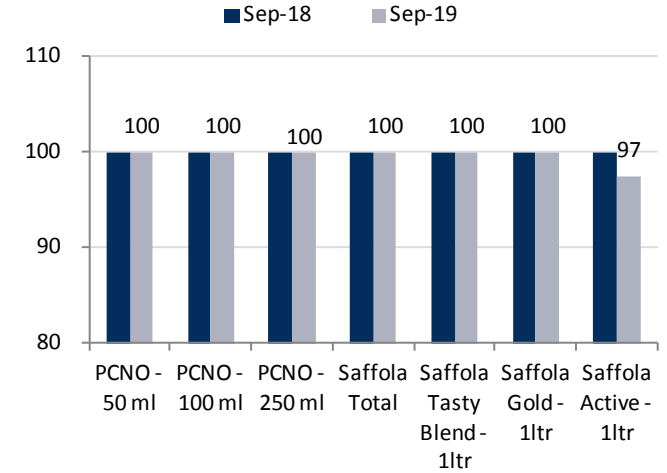
**PCNO pricing is stagnant.
Management is passing value
in the form of promotions**

Change in Raw Material Prices



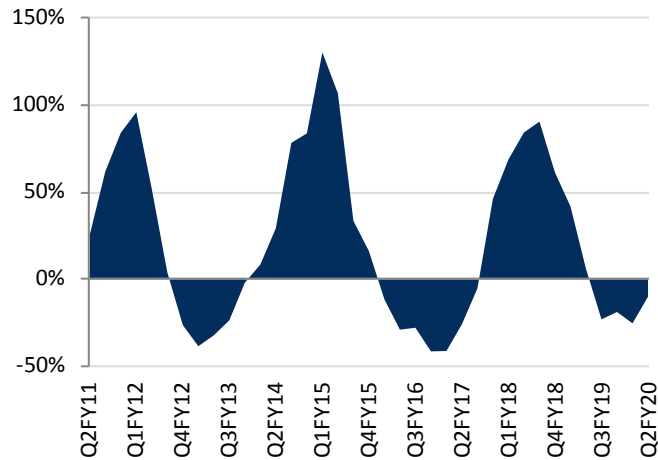
Note: Jun-18 prices are indexed to 100
Source: Company, HDFC sec Inst Research

Change in Product MRP



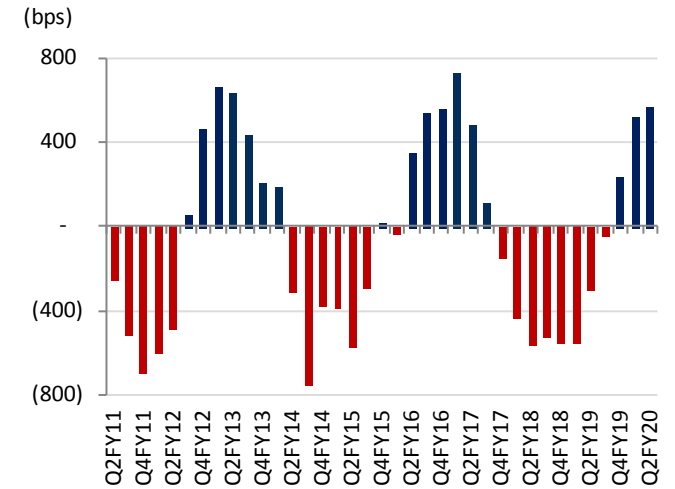
Note: Jun-18 prices are indexed to 100
Source: Company, HDFC sec Inst Research

Copra Inflation (YoY %)



Source: Company, HDFC sec Inst Research

Gross Margin Change



Source: Company, HDFC sec Inst Research

Management guided for 8-10% volume growth for the domestic business in the medium term and double digit cc growth for international business

We bake in higher ASP spend in the medium-long term to support new product launches

We cut earnings to factor in moderation in sector growth and GM expansion (copra cycle tailwinds will moderate in next 2 quarters).

Assumptions

| Year to March (Rs mn) | FY17 | FY18 | FY19 | FY20E | FY21E | FY22E |
|---------------------------|--------|-------|------|-------|-------|-------|
| Revenue Growth (%) | | | | | | |
| Domestic Business | (2.1) | 8.6 | 15.9 | 4.9 | 11.5 | 10.3 |
| <i>Parachute Coconut</i> | (11.6) | 10.0 | 23.0 | 3.1 | 9.5 | 8.0 |
| <i>VAHO</i> | 6.8 | 10.6 | 12.2 | 4.0 | 10.7 | 10.0 |
| <i>Saffola Oil</i> | 6.1 | (3.9) | 10.0 | 5.7 | 9.0 | 9.0 |
| IBD | 2.0 | 2.0 | 10.0 | 18.0 | 20.0 | 20.0 |
| Gross Margin (%) | 52.2 | 47.0 | 45.5 | 52.5 | 49.2 | 49.1 |
| ASP (% of sales) | 11.0 | 9.3 | 9.0 | 10.0 | 10.0 | 9.9 |
| Distribution (% of sales) | 4.0 | 3.8 | 4.0 | 4.0 | 4.0 | 4.0 |
| EBITDA Margin (%) | 19.6 | 18.0 | 17.5 | 20.3 | 21.0 | 21.3 |
| Tax Rate (%) | 29.4 | 25.9 | 10.2 | 24.7 | 25.0 | 25.0 |

Source: Company, HDFC sec Inst Research

Estimate change

| | FY20E | | | FY21E | | | FY22E | | |
|--------|--------|--------|---------|--------|--------|---------|--------|---------|---------|
| | New | Old | Chg (%) | New | Old | Chg (%) | New | Old | Chg (%) |
| Sales | 77,799 | 79,623 | (2.3) | 86,667 | 89,170 | (2.8) | 95,803 | 100,260 | (4.4) |
| EBITDA | 15,831 | 15,891 | (0.4) | 18,173 | 18,399 | (1.2) | 20,378 | 21,096 | (3.4) |
| PAT | 11,247 | 11,221 | 0.2 | 13,241 | 13,420 | (1.3) | 15,254 | 15,777 | (3.3) |
| EPS | 8.7 | 8.7 | 0.2 | 10.3 | 10.4 | (1.3) | 11.8 | 12.2 | (3.3) |

Source: HDFC sec Inst Research

Peer Set Comparison

| Company | 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 | 4,569 | 2,145 | NEU | 2,017 | 28.1 | 34.3 | 42.2 | 76.2 | 62.5 | 50.9 | 51.5 | 46.5 | 35.9 | 248.6 | 38.7 | 28.0 |
| ITC | 2,790 | 249 | BUY | 368 | 10.4 | 12.9 | 14.0 | 23.9 | 19.2 | 17.8 | 15.1 | 13.7 | 12.2 | 39.2 | 46.3 | 49.1 |
| Nestle | 1,427 | 14,803 | NR | 13,640 | 167.1 | 233.6 | 278.1 | 88.6 | 63.4 | 53.2 | 51.3 | 44.0 | 37.7 | 82.1 | 114.7 | 137.3 |
| Dabur | 828 | 470 | BUY | 490 | 8.2 | 9.5 | 11.4 | 57.3 | 49.3 | 41.2 | 46.1 | 39.6 | 34.2 | 50.1 | 52.9 | 58.3 |
| Britannia | 788 | 3,283 | BUY | 3,594 | 48.1 | 58.6 | 71.9 | 68.3 | 56.0 | 45.7 | 44.7 | 40.5 | 33.1 | 39.2 | 43.1 | 49.8 |
| Marico | 508 | 395 | NEU | 391 | 7.2 | 8.7 | 10.3 | 54.8 | 45.3 | 38.5 | 39.7 | 32.0 | 28.1 | 48.8 | 47.5 | 52.9 |
| Colgate | 413 | 1,519 | NEU | 1,400 | 27.6 | 32.3 | 37.2 | 55.1 | 47.1 | 40.8 | 33.1 | 30.7 | 26.9 | 67.2 | 74.4 | 83.3 |
| Emami | 152 | 326 | BUY | 468 | 11.0 | 13.0 | 14.7 | 29.6 | 25.2 | 22.2 | 20.0 | 17.6 | 15.4 | 21.5 | 26.5 | 32.0 |
| Jub. Food | 201 | 1,523 | BUY | 2,134 | 24.1 | 33.2 | 42.1 | 63.2 | 45.9 | 36.1 | 32.4 | 28.5 | 22.1 | 45.8 | 35.5 | 25.8 |
| United Spirits | 456 | 627 | BUY | 737 | 10.2 | 12.6 | 16.4 | 61.3 | 49.8 | 38.3 | 35.4 | 29.1 | 24.6 | 15.8 | 18.4 | 21.6 |
| Radico Khaitan | 42 | 312 | BUY | 496 | 14.1 | 17.8 | 21.5 | 22.1 | 17.5 | 14.5 | 12.8 | 11.3 | 9.5 | 11.5 | 13.8 | 15.3 |

Source: HDFC sec Inst Research

Income Statement

| (Rs mn) | FY18 | FY19 | FY20E | FY21E | FY22E |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Revenues | 63,222 | 73,336 | 77,799 | 86,667 | 95,803 |
| Growth (%) | 6.8 | 16.0 | 6.1 | 11.4 | 10.5 |
| Material Expenses | 33,482 | 39,956 | 36,940 | 44,019 | 48,763 |
| Employee Expense | 4,222 | 4,666 | 5,176 | 5,641 | 6,149 |
| ASP Expense | 5,856 | 6,589 | 7,811 | 8,650 | 9,515 |
| Distribution Expense | 2,408 | 2,933 | 3,112 | 3,467 | 3,832 |
| Other Expenses | 5,877 | 6,383 | 8,929 | 6,716 | 7,165 |
| EBITDA | 11,378 | 12,809 | 15,831 | 18,173 | 20,378 |
| EBITDA Growth (%) | (1.9) | 12.6 | 23.6 | 14.8 | 12.1 |
| EBITDA Margin (%) | 18.0 | 17.5 | 20.3 | 21.0 | 21.3 |
| Adjusted EBITDAM (IND AS 116) | 18.0 | 17.5 | 19.7 | 20.4 | 20.8 |
| Depreciation | 891 | 964 | 1,400 | 1,534 | 1,669 |
| EBIT | 10,487 | 11,845 | 14,431 | 16,638 | 18,709 |
| Other Income (Including EO Items) | 846 | 1,028 | 1,278 | 1,608 | 1,996 |
| Interest | 162 | 238 | 510 | 417 | 208 |
| PBT | 11,171 | 12,635 | 15,200 | 17,829 | 20,496 |
| Total Tax | 2,896 | 1,284 | 3,752 | 4,457 | 5,124 |
| Minority Interest & Share of JVs | 131 | 170 | 153 | 131 | 118 |
| RPAT | 8,145 | 11,182 | 11,294 | 13,241 | 15,254 |
| Adjusted PAT | 8,142 | 9,309 | 11,247 | 13,241 | 15,254 |
| APAT Growth (%) | 1.4 | 14.3 | 20.8 | 17.7 | 15.2 |
| Adjusted EPS (Rs) | 6.31 | 7.21 | 8.71 | 10.26 | 11.82 |
| EPS Growth (%) | 1.4 | 14.3 | 20.8 | 17.7 | 15.2 |

Source: Company, HDFC sec Inst Research

Balance Sheet

| (Rs mn) | FY18 | FY19 | FY20E | FY21E | FY22E |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| SOURCES OF FUNDS | | | | | |
| Share Capital - Equity | 1,291 | 1,291 | 1,291 | 1,291 | 1,291 |
| Reserves | 24,138 | 27,088 | 30,855 | 35,118 | 40,647 |
| Total Shareholders Funds | 25,429 | 28,379 | 32,145 | 36,409 | 41,938 |
| Minority Interest | 125 | 295 | 448 | 579 | 697 |
| Long Term Debt | 1,224 | 1,721 | 1,521 | 1,321 | 1,121 |
| Short Term Debt | 1,869 | 1,769 | 1,569 | 1,369 | 1,169 |
| Total Debt | 3,093 | 3,490 | 3,090 | 2,690 | 2,290 |
| Net Deferred Taxes | 202 | (1,760) | (1,760) | (1,760) | (1,760) |
| Long Term Provisions & Others | 192 | 221 | 254 | 292 | 336 |
| TOTAL SOURCES OF FUNDS | 29,041 | 30,625 | 34,178 | 38,210 | 43,501 |
| APPLICATION OF FUNDS | | | | | |
| Net Block | 11,103 | 11,720 | 11,620 | 11,586 | 11,417 |
| CWIP | 268 | 450 | 450 | 450 | 450 |
| LT Loans & Advances | 190 | 221 | 234 | 261 | 288 |
| Other Non Current Assets | 656 | 656 | 656 | 656 | 656 |
| Total Non-current Assets | 12,218 | 13,047 | 12,960 | 12,953 | 12,811 |
| Inventories | 15,109 | 14,110 | 16,601 | 18,482 | 20,435 |
| Debtors | 3,406 | 5,170 | 4,123 | 4,507 | 4,982 |
| Other Current Assets | 2,561 | 3,150 | 3,342 | 3,723 | 4,115 |
| Cash & Equivalents | 7,429 | 9,344 | 11,978 | 15,134 | 19,588 |
| Total Current Assets | 28,505 | 31,774 | 36,045 | 41,846 | 49,120 |
| Creditors | 8,217 | 9,440 | 9,527 | 10,675 | 11,827 |
| Other Current Liabilities & Provns | 3,465 | 4,756 | 5,300 | 5,913 | 6,603 |
| Total Current Liabilities | 11,682 | 14,196 | 14,827 | 16,588 | 18,430 |
| Net Current Assets | 16,823 | 17,578 | 21,218 | 25,258 | 30,690 |
| TOTAL APPLICATION OF FUNDS | 29,041 | 30,625 | 34,178 | 38,210 | 43,501 |

Source: Company, HDFC sec Inst Research

Cash Flow Statement

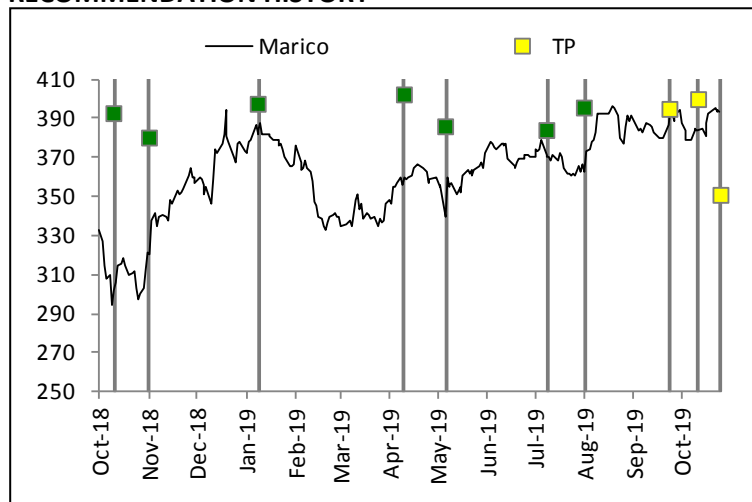
| (Rs mn) | FY18 | FY19 | FY20E | FY21E | FY22E |
|----------------------------------|----------------|----------------|----------------|----------------|-----------------|
| Reported PBT | 11,170 | 12,635 | 15,200 | 17,829 | 20,496 |
| Non-operating & EO Items | (329) | (1,873) | - | - | - |
| Interest Expenses | (174) | 238 | 510 | 417 | 208 |
| Depreciation | 891 | 964 | 1,400 | 1,534 | 1,669 |
| Working Capital Change | (3,065) | 2,107 | (2,505) | (2,384) | (2,478) |
| Tax Paid | (2,949) | (1,284) | (3,752) | (4,457) | (5,124) |
| OPERATING CASH FLOW (a) | 5,544 | 12,788 | 10,852 | 12,939 | 14,771 |
| Capex | (1,231) | (1,763) | (1,300) | (1,500) | (1,500) |
| Free Cash Flow (FCF) | 4,313 | 11,025 | 9,552 | 11,439 | 13,271 |
| Investments | 1,047 | - | - | - | - |
| Non-operating Income | 353 | (1,992) | (13) | (27) | (27) |
| INVESTING CASH FLOW (b) | 169 | (3,755) | (1,313) | (1,527) | (1,527) |
| Debt Issuance/(Repaid) | 692 | 397 | (400) | (400) | (400) |
| Interest Expenses | (162) | (238) | (510) | (417) | (208) |
| FCFE | 6,243 | 9,192 | 8,628 | 10,595 | 12,635 |
| Share Capital Issuance | 0 | (0) | - | (0) | 0 |
| Dividend | (6,357) | (6,358) | (7,481) | (8,977) | (9,725) |
| Others | 152 | 29 | 33 | 38 | 44 |
| FINANCING CASH FLOW (c) | (5,675) | (6,170) | (8,358) | (9,756) | (10,290) |
| NET CASH FLOW (a+b+c) | 38 | 2,863 | 1,180 | 1,656 | 2,954 |
| EO Items, Others | 397 | - | - | - | - |
| Closing Cash & Equivalents | 2,001 | 4,864 | 5,998 | 7,654 | 10,608 |

Source: Company, HDFC sec Inst Research

Key Ratios

| | FY18 | FY19 | FY20E | FY21E | FY22E |
|------------------------------------|-------|-------|-------|-------|-------|
| PROFITABILITY (%) | | | | | |
| GPM | 47.0 | 45.5 | 52.5 | 49.2 | 49.1 |
| EBITDA Margin | 18.0 | 17.5 | 20.3 | 21.0 | 21.3 |
| EBIT Margin | 16.6 | 16.2 | 18.5 | 19.2 | 19.5 |
| APAT Margin | 12.9 | 12.7 | 14.5 | 15.3 | 15.9 |
| RoE | 33.4 | 34.6 | 37.2 | 38.6 | 38.9 |
| RoIC (or Core RoCE) | 40.6 | 48.8 | 47.5 | 52.9 | 57.7 |
| RoCE | 30.5 | 31.5 | 34.7 | 36.5 | 37.0 |
| EFFICIENCY | | | | | |
| Tax Rate (%) | 25.9 | 10.2 | 24.7 | 25.0 | 25.0 |
| Fixed Asset Turnover (x) | 4.9 | 5.1 | 5.0 | 5.1 | 5.1 |
| Inventory (days) | 87.2 | 70.2 | 77.9 | 77.8 | 77.9 |
| Debtors (days) | 19.7 | 25.7 | 19.3 | 19.0 | 19.0 |
| Other Current Assets (days) | 14.8 | 15.7 | 15.7 | 15.7 | 15.7 |
| Payables (days) | 47.4 | 47.0 | 44.7 | 45.0 | 45.1 |
| Other Current Liab & Provns (days) | 20.0 | 23.7 | 24.9 | 24.9 | 25.2 |
| Cash Conversion Cycle (days) | 54.2 | 41.0 | 43.3 | 42.6 | 42.3 |
| Net D/E (x) | (0.2) | (0.2) | (0.3) | (0.3) | (0.4) |
| Interest Coverage (x) | 0.02 | 0.02 | 0.04 | 0.03 | 0.01 |
| PER SHARE DATA (Rs) | | | | | |
| EPS | 6.3 | 7.2 | 8.7 | 10.3 | 11.8 |
| CEPS | 7.0 | 8.0 | 9.8 | 11.4 | 13.1 |
| Dividend | 4.2 | 5.0 | 6.0 | 6.5 | 7.0 |
| Book Value | 19.7 | 22.0 | 24.9 | 28.2 | 32.5 |
| VALUATION | | | | | |
| P/E (x) | 62.6 | 54.8 | 45.3 | 38.5 | 33.4 |
| P/BV (x) | 20.1 | 18.0 | 15.9 | 14.0 | 12.2 |
| EV/EBITDA (x) | 44.9 | 39.7 | 32.0 | 28.1 | 25.1 |
| EV/Revenues (x) | 8.1 | 6.9 | 6.5 | 5.9 | 5.3 |
| OCF/EV (%) | 1.1 | 2.5 | 2.1 | 2.5 | 2.9 |
| FCF/EV (%) | 1.1 | 1.8 | 1.9 | 2.2 | 2.6 |
| FCFE/Mkt Cap (%) | 1.2 | 1.8 | 1.7 | 2.1 | 2.5 |
| Dividend Yield (%) | 1.1 | 1.3 | 1.5 | 1.6 | 1.8 |

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


| Date | CMP | Reco | Target |
|-----------|-----|------|--------|
| 10-Oct-18 | 295 | BUY | 392 |
| 2-Nov-18 | 320 | BUY | 380 |
| 9-Jan-19 | 382 | BUY | 394 |
| 10-Apr-19 | 356 | BUY | 402 |
| 7-May-19 | 340 | BUY | 386 |
| 9-Jul-19 | 370 | BUY | 384 |
| 2-Aug-19 | 363 | BUY | 395 |
| 22-Sep-19 | 379 | NEU | 395 |
| 11-Oct-19 | 385 | NEU | 400 |
| 27-Oct-19 | 393 | NEU | 391 |

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

INSTITUTIONAL RESEARCH
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