RESULT UPDATE

NESTLE

Growth recipe: Innovations and new launches

India Equity Research| Consumer Goods

Nestle India's (Nestle) Q1CY17 sales and adjusted PAT growth of 8.7% & 14.8% YoY, respectively, and 5.7% EBITDA dip came in line with estimates. Domestic sales rose 9.4% YoY, albeit on a soft base of 8.7% dip in Q1CY16, bolstered by volume jump across categories. Export sales grew mere 0.6% YoY, impacted by lower sales to Nepal and Bhutan. Inflationary pressure led to gross margin dip of 67bps YoY. We remain positive on Nestle from 2-3 years' perspective and believe it remains the best play to ride urban recovery (~75% revenue from urban areas). However, sharp rise in input prices, especially milk & milk substitutes, will be key monitorable. Maintain 'HOLD'.

Innovations and new product categories gaining traction

Mr. Narayanan's, Chairman & MD, Nestle, comment that the company's actions over the next 4 years will set the tone for the following few decades is encouraging. Going forward, innovations (launched more than 30 products in CY16) will play a vital role in spurring growth. In Q4CY16, *Maggi* continued to gain market share (MS)—~60% in CY16 (51% in March 2016). ***Maggi Hot Heads* (priced at ~65% premium to base pack) has evinced good response. We expect, this coupled with launch of *Maggi Masalas of India,*** to drive premiumisation. Good performance in chocolates led by *Kitkat, Munch Nuts* and relaunch of *Alpino* is encouraging and Nestle expects it to pick up pace. We expect entry in ready-to-drink cold coffee segment to aid growth in the beverage segment. Though Nestle India accounts for mere ~2% of the parent's turnover, latter's commitment to India is high. This coupled with Nestle India's growth-focused approach to regain lost ground in categories like coffee and ketchup is positive. Likely entry in 5 new categories—Nespresso (coffee machine), Dolce Gusto (coffee capsule system), pet care, healthcare and skincare—will also be keenly watched.

Outlook and valuations: Recouping lost ground; maintain 'HOLD'

Nestle's focus on innovation has sharpened with many products at different stages of launch, which was also highlighted in our visit note – *Innovation:* ***Change is the only constant.*** Also, the company's new strategy—top line and market share focus—is encouraging; success of the same and competition's response would be keenly watched. We estimate 17% EPS CAGR over CY16-18. At CMP, the stock is trading at 49.4x CY17E and 38.1x CY18E. We maintain **'HOLD/SP'** with target price of INR7,276.

Financials (INR mn)

Year to Dec	Q1CY17	Q1CY16	% change	Q4CY16	% change	CY16	CY17E	CY18E
Total op inc	24,919	22,837	9.1	22,663	10.0	92,237	106,589	127,170
EBITDA	5,272	5,590	(5.7)	4,819	9.4	18,603	22,453	28,172
Adj. Profit	3,068	2,671	14.8	1,944	57.8	9,573	12,898	16,704
Dil. EPS (INR)	31.8	27.7	14.8	20.2	57.8	99.3	133.8	173.2
Diluted P/E (x)						66.6	49.4	38.1
EV/EBITDA (x)						33.1	27.2	21.3
ROAE (%)						32.8	39.4	41.9

EDELWEISS 4D RATINGS

Absolute Rating	**HOLD**
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Underweight

MARKET DATA *(R: NEST.BO, B: NEST IN)*	
CMP	: INR 6,610
Target Price	: INR 7,276
52-week range (INR)	: 7,390 / 5,656
Share in issue (mn)	: 96.4
M cap (INR bn/USD mn)	: 637 / 9,946
Avg. Daily Vol.BSE/NSE('000)	: 41.0

SHARE HOLDING PATTERN (%)

	Current	Q2FY17	Q1FY17
Promoters *	62.8	62.8	62.8
MF's, FI's & BK's	7.5	6.8	6.0
FII's	12.5	13.3	14.2
Others	17.2	17.2	17.1

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer Goods Index
1 month	2.7	3.2	2.3
3 months	7.1	8.3	7.2
12 months	8.0	20.9	23.2

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Table 1: Trends at a glance (Q2CY15 numbers are not inclusive of exceptional item in other expenses)

	Q4CY14	Q1CY15	Q2CY15	Q3CY15	Q4CY15	Q1CY16	Q2CY16	Q3CY16	Q4CY16	Q1CY17
Exports growth(% YoY)	17.9	19.2	(12.7)	(6.4)	(2.2)	(4.8)	7.0	5.1	7.9	0.6
Net domestic sales growth (% YoY)	11.3	7.6	(20.6)	(33.8)	(24.0)	(8.7)	17.5	37.9	16.9	9.4
Net sales growth (% YoY)	11.7	8.4	(20.1)	(32.1)	(22.6)	(8.4)	16.7	35.1	16.2	8.7
Gross margin (%)	55.7	57.8	56.3	57.4	58.8	57.2	58.2	58.3	58.0	56.1
EBITDA margin(%)	22.1	24.2	19.6	15.3	18.5	22.8	19.9	19.7	18.3	21.2
Tax Rate (%)	33.8	34.2	(16.3)	30.8	28.5	38.4	30.2	32.1	40.4	31.8
Other Expenses (% of Sales)	25.0	24.9	26.5	27.5	27.4	23.7	27.0	27.3	27.3	25.2
COGS (% of Sales)	44.3	42.2	43.7	42.6	41.2	42.8	41.8	41.7	42.0	43.9

Source: Company, Edelweiss research

EDEL Product Check | Nestle expands offerings under Maggi

- To further expand the pace of innovation and overall growth rates under the noodle category Nestle has launched regional flavours under the brand, Maggi Masala of India.
- The company has launched 4 new regional flavours under Maggi – Mumbaiya Chatak, Bengali Jhaal, Amritsari Achari and Super Chennai, denoting flavours of different cities of India.
- Nestle has launched the same via an exclusive tie up with Paytm Mall, another extension of the company's tested strategy (earlier it had launched the Maggi brand via exclusive tie up with Snapdeal).
- On offer are 12 packets (73gm each) with 3 units of each flavour for a total price of INR240, implying per unit cost of INR20.
- Earlier, Nestle had launched a spicy variant Hotheads under the Maggi brand which also did well. The product is priced at INR20 for 71gm each.
- The base variant of is priced at INR12 for a 70gm pack.
- We believe that it is a good strategy by Nestle as: (i) launching of different flavours creates excitement in the brand and prompts consumers to try each variant and improves overall growth; (ii) the variants are priced at ~60% premium to the base variant, which lends impetus to margins.
- Nestle's prepared dish segment had been impacted in CY15, but witnessed good growth in CY16 and clocked revenues of INR22989mn which was still much lower than the earlier growth trajectory in CY14 of INR29,613mn. We believe these steps will help the company revert earlier trajectory or maybe higher.
- Apart from this, recently Nestle also started aggressively advertising its well known, Milo brand and is positioning it as a sports drink (launched the same in RTD format in place of normal HFD).

Source: Company

Nestle India Annual Report CY16 | Key Takeaways

Summary:

- After sluggish CY15, *owing to the Maggi crisis*, Nestle's segment-wise performance for CY16 shows recovery in all product segments.
- During CY12-14, Nestle had clocked overall volumes of ~0.45mn. CY15 was an aberration when it recorded volumes of less than 0.3mn. However, with more than 30 launches and the Maggi issue put to rest, Nestle's volume growth seems to be returning. In CY16, the company had clocked ~26% volume growth, albeit on a soft base.
- Maggi currently has ~60% market share and can still recover lost ground as its pre-issue market share was ~75%. Apart from this, Nestle's Soups, Coffee and Chocolates businesses look promising with new launches.
- We estimate volume recovery to sustain over the next 2-3 years (~8-10% volume growth over the next 2 years).

Innovations: 2016 saw a spate of innovations and renovations with the launch of more than 30 new products and variants. Having Nestlé R& centre India in Manesar has also brought Nestlé global research and development closer to the company's business. Along with network of R&D centres across the globe, R&D India and the Business Units worked towards developing winning concepts, suited to local consumers.

Noodles: Maggi Noodles strengthened its leadership position with about 60% market share in the noodles category, as per Nielsen report. The company introduced 'Maggi Hot Heads' and 'Maggi No Onion No Garlic Masala' variants of Maggi Noodles. Cup noodles were back with the introduction of Maggi Hot Heads Cuppa Noodles and the re-launch of Maggi Cuppa Masala and Maggi Cuppa Chilly Chow. Maggi Hot Heads—a**ll the 4 variants have evinced good response**. Apart from these, Maggi also expanded its sauces range by launching Maggi Masala Sauce which promises the signature Maggi Masala taste in tomato sauce. It made a comeback in the soups category via the New Maggi Cup-a-licious Soups—a range of 6 instant soups available in exciting, contemporary and unique flavours.

Chocolate and confectionery business: This business focused on mainstream and high growth premium segments. An array of product launches were made to cater to rapidly evolving consumer tastes and preferences across the portfolio. The company continued its focus to grow brands like Kitkat, Milkybar Nestle Munch, Barone and Alpino.

Kitkat Duo was a first of its kind combination of brown and white and Barone Charge and the new Alpino were introduced to cater to niche audiences.

Kitkat Duo and Nestle Munch Trio were innovative launches targeted to delight consumers. The re-launch of the flagship premium brand Alpino (bonbons made of milk chocolate, draped over a crispy cocoa wafer encasing a rich, velvety centre), along with the launch of a range of premium imported tablets from Europe, rejuvenated the company's premium chocolate offerings.

Innovative, category-first and relevant consumer promotions were offered to consumers throughout the year. The Paytm cash promotion on Kitkat was an industry-first marketing activity. Innovation in communication was seen in Kitkat with film integration. The digital platform was highly leveraged across Twitter through #MyBreak campaign and YouTube through the Laughter Games (comedy creators) integration. Kitkat India won the first edition of the Twitter Aviator Awards in 2016, a global contest organised by Nestlé and Twitter exclusively for Nestlé markets, delivering a dynamic and real-time campaign based on daily trends in India.

Coffee and Beverages: 2016 was a **challenging year with increased competitive intensity as well as a volatile external environment**. The company first redefined the developed coffee market in the South by launching Nescafe Sunrise Insta-Filter—a revolutionary new coffee chicory mixture with dry decoction granules to offer the authentic South Indian filter coffee taste in an instant. Three exciting variants for Nestea Iced Tea were launched along with Nescafe Latté. The RJ campaign with the tagline of #StayStarted became the most viewed digital campaign which saw an extension of the reel life into real life with RJ Rishi coming to life and hosting a real radio show Nescafe Mornings with radio channel Red FM. Nescafe Labs created impact with its mega challenge events and with ground events at various colleges all over India. Nescafe Sunrise was also renovated with a superior taste.

Milk products and nutrition business: The company's focus on the milk product category has been on the value-added segment. Nestle a+ GREKYO was introduced in several variants along with Everyday Masala Fusion. Dairy Whitener with 6 natural spice flavours. Category saw extension of the journey from infants to toddlers as the company launched Ceregrow during the year. A nutritious and tasty junior cereal for 2-5 year old kids, the product is packed with the nourishment of multi-grain cereal, milk and fruits. The company renovated the entire Cerelac range, fortifying it with iron to support cognitive and brain development in early infancy.

In certain countries it has already captured majority share of the entire yoghurt market. In India, this category is still at a nascent stage, but the company is confident that it will lead the global trend for Indian consumers soon. Nestle a+ Pro-Grow has been another addition to the Nestle a+ brand and addresses specific needs of protein for growing children. The company continued its journey as pioneers by customising not just the taste, but also the mode of consumption to deliver 'Anytime Coffee' for today's active lifestyle and launched Nescafe Ready-to-Drink range.

- Nescafe RTDs (Ready-To-Drink) in 3 unique flavours were introduced in the market.
- Products like Ceregrow for children between the age group of 2 and 5, and Nescafe a+ Pro-Grow, a protein rich milk were all clutter breaking innovations.
- The company renovated the entire Cerelac range fortifying it with iron.
- Nescafe Sunrise Insta-Filter was introduced as part of the company's focus into differentiated products. This revolutionary new coffee with dry decoction granules offers the authentic South Indian filter coffee taste in an instant.
- Three variants for Nestea Iced Tea were launched along with Nescafe Latté.

'Nestlé Professional' business: This business registered volume growth in 2016. The New Nescafe Solution machine continued to perform well in the business and industry channels. The entire range of coffee pre-mixes for hot and cold machines, were renovated by the company and Nestea Masala Gold tea pre-mix was successfully launched. All food categories generated growth. Chef2Chef activities pan-India offered good visibility to Nestlé Professional products. Nestlé Professional significantly developed sales in transport channels by enlarging the assortment of products in airlines and the Indian Railways.

Demonetisation: With a slow start in 2016, the economic momentum recovered towards the middle of the year. While this growth momentum was temporarily impacted by demonetisation, the Indian economy appears to be recovering fast and will continue as one of the fastest growing nations.

GST: The passage of the GST bill in the Parliament is a positive for the economy, bringing in more transparency in the tax administration. GST will create a common Indian market, improve tax compliance and governance. The transition is complex from an administrative as well as technological perspective. What will be critical is the efficiency in relation to its implementation. The company believes that in the medium term, it will lead to more digitalisation and will help in effective governance. With GST roll out in 2017, this should be addressed though full gains out of it would take some time to realise.

Exports: Despite pressure in the external environment in 2016, Nestle's exports division leveraged the company's diversified portfolio contributing to total revenue. Maggi Noodles were welcomed back by consumers, while confectionery opened doors to export to 8 markets in the Middle East and Ghana. Though instant tea remained flat, instant coffee grew on account of increase in exports to Romania and Bangladesh. Infant nutrition exports also clocked good growth. Customer feedback surveys were conducted from different markets to ensure long-term sustained growth. Efforts in developing export of quality coffee, meanwhile, continued to earn recognition.

Exceptional items during the year are net of:

(a) Provision made for diminution in the value of non-current investment: INR200.0mn;

(b) Write backs, arising, inter alia, from actualisation of estimates of part of the provision made for exceptional item in the previous year: INR212.2mn;

c) Cost towards restructuring of a long-term arrangement for supply of ingredients to extinguish the obligations under the arrangement in view of changed business circumstances: INR320.0mn.

Chart 1: EBITDA margin

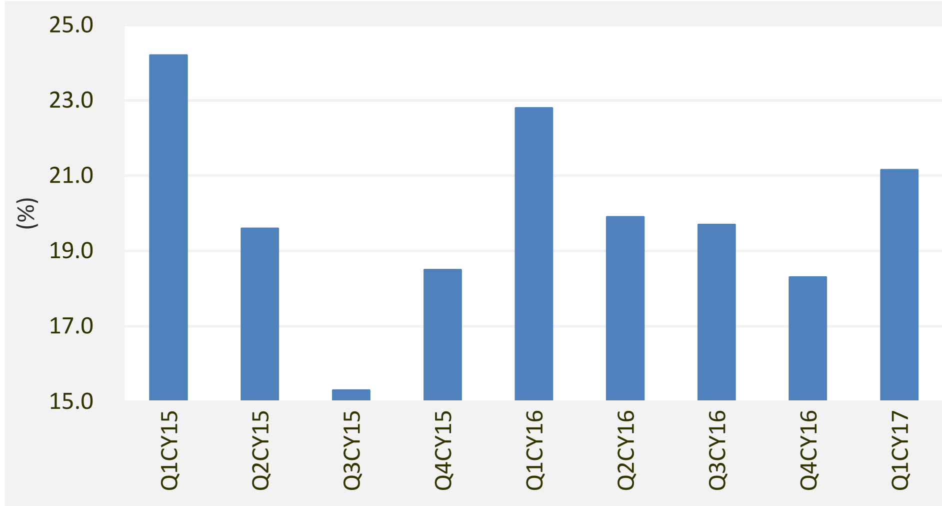


Chart 2: Gross margins

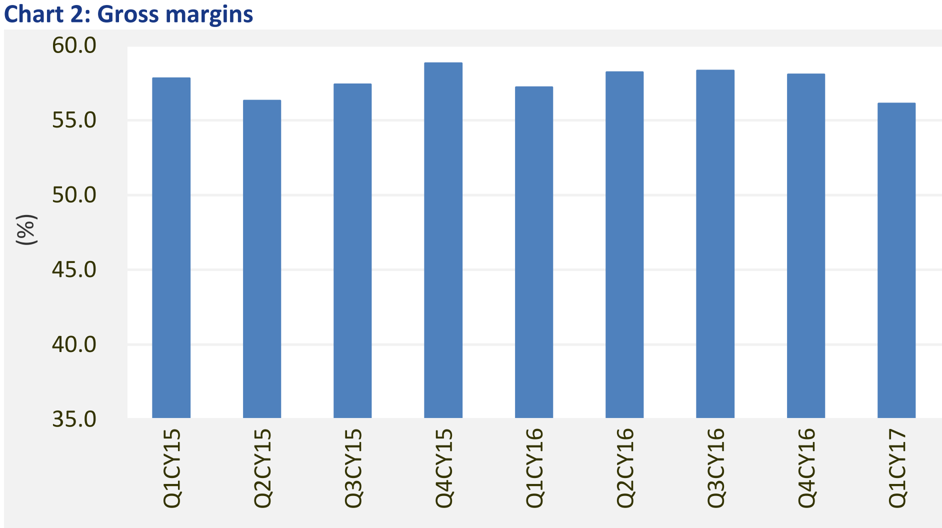
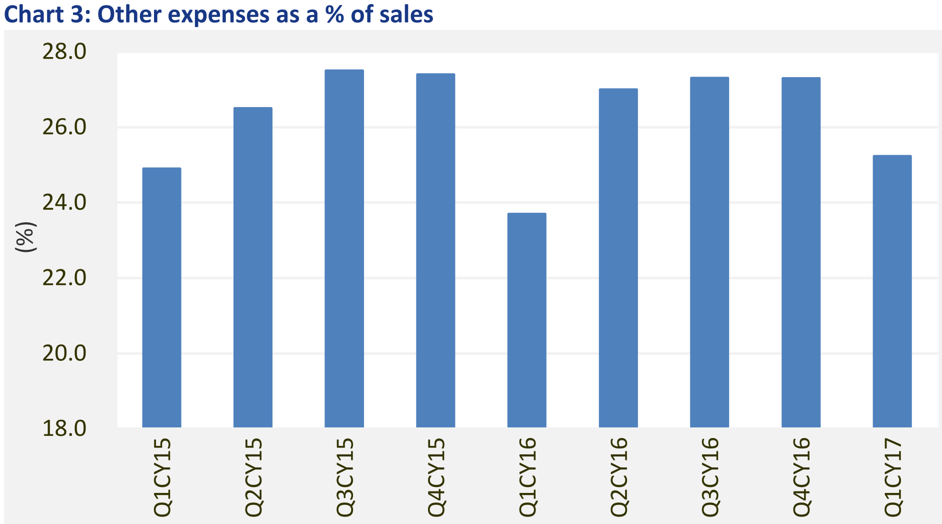
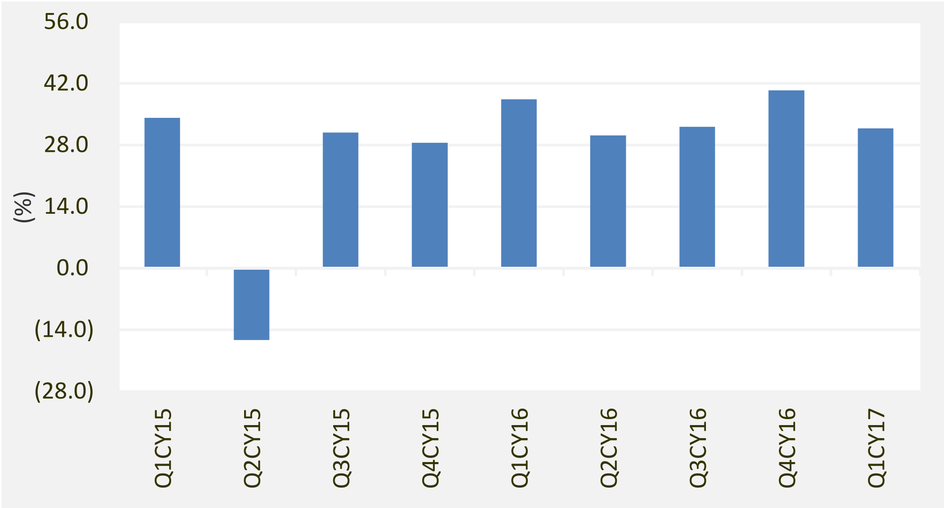


Chart 3: Other expenses as a % of sales



Source: Company, Edelweiss research

Chart 4: Tax rate



Source: Company, Edelweiss research

Outlook and valuations: Regaining lost ground; maintain 'HOLD'

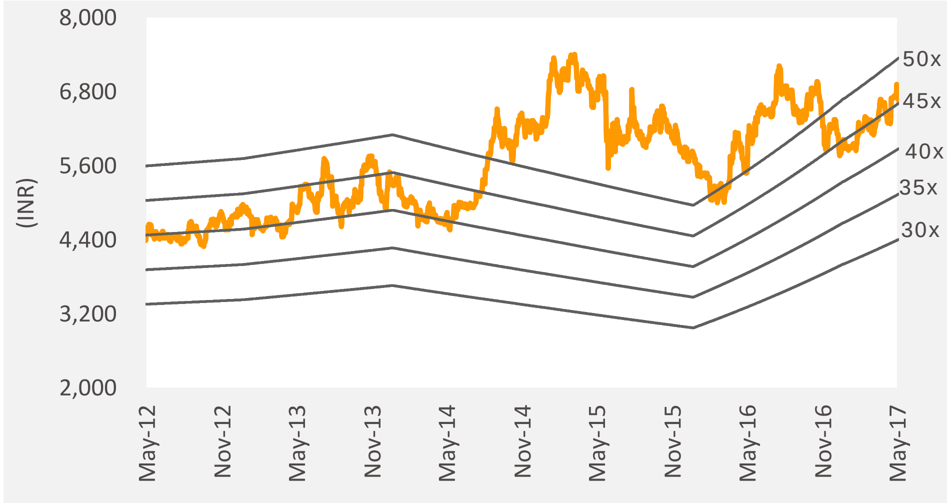
Nestle has gained sustainable MS post relaunch of *Maggi* backed by introduction of new variants and deepening reach. *Maggi's* share in the instant noodle space jumped to 60% as at CY16 from 51% in March 2016 (48% in February 2016). However, it is way lower than 79% it enjoyed in pre-*Maggi* crisis period, and we believe it will be an uphill task to regain lost ground hereon; it will continue to improve gradually to ~65%. But, for management, the *Maggi* issue is now a thing of the past and Nestle is focusing on growth in various categories by stepping-up aggression on new launches, promotions and enhancing penetration.

The company has upped the ante with new launches—4 variants of *Maggi* noodles, *Maggi Masalas of India*, *Munch Nuts*, *Kitkat Duo*, *Nestle a+ Grekyo, Nescafe ready to drink cold coffee* and *Nescafe Sunrise Insta* filter coffee. It is also investing in the same via advertisements, which is encouraging. We also like its strategy to go online by tying up with big players Amazon, Snapdeal, Big Basket, PayTM, etc., which helps create excitement and awareness of new products.

The company's focus on innovations has sharpened manifolds—Mr. Narayanan highlighted that many products are at different stages of readiness for launch (more than 30 launches in past few months). He also mentioned that innovation and renovation as also volume based growth are core business strategies. Ergo, we are more confident about Nestle's comeback anchored by its new strategy of focusing on MS and volume growth, though we expect some near-term pressure on margin. Near-term margin pressure may also emanate from inflationary pressures from milk and milk substitutes. However, this could be overcome on account of Nestle's power to effect price hikes.

Success of new launches, entry in new segments, proactive management and further margin improvement led by premiumisation can potentially re-rate the stock to historical high P/E levels. We, thus, remain positive on Nestle from 2-3 years' horizon, though will keep a close eye on the success of new launches, MS gains and competition's response. We assign 42x CY18E earnings and arrive at a target price of INR7,276. We maintain '**HOLD/Sector Performer**'.

Chart 5: 1-year forward PE band



Source: Company, Edelweiss research

Financial snapshot **(INR mn)**

Year to December	Q1CY17	Q1CY16	% change	Q4CY16	% change	CY16	CY17E	CY18E
Domestic sales	23,093	21,117	*9.4*	20,738	*11.4*	-	-	-
Export sales	1,664	1,653	*0.6*	1,672	*(0.5)*	-	-	-
Net revenues	24,757	22,770	*8.7*	22,410	*10.5*	91,592	105,781	126,221
Other operating income	162	67	*140.7*	253	*(36.0)*	645	808	949
Total operating Income	24,919	22,837	*9.1*	22,663	*10.0*	92,237	106,589	127,170
Cost of goods sold	10,939	9,872	*10.8*	9,601	*13.9*	38,797	44,680	52,549
Employee expenses	2,461	2,126	*15.8*	2,282	*7.9*	10,734	12,165	14,263
Other expenses	6,247	5,249	*19.0*	5,961	*4.8*	24,104	27,292	32,186
Total expenditure	19,647	17,247	*13.9*	17,844	*10.1*	73,634	84,136	98,998
EBITDA	5,272	5,590	*(5.7)*	4,819	*9.4*	18,603	22,453	28,172
Depreciation	867	891	*(2.8)*	873	*(0.8)*	3,655	4,057	4,425
EBIT	4,405	4,699	*(6.2)*	3,917	*12.5*	14,949	18,395	23,746
Other income	416	353	*17.7*	415	*0.2*	1,494	1,886	2,214
Interest	228	259	*(12.2)*	210	*8.2*	35	30	30
Add: Prior period items								
Add: Exceptional items	-	202	*(100.0)*	(10)	*(100.0)*	(308)	-	-
Profit before tax	4,495	4,329	*3.8*	3,220	*39.6*	14,723	19,251	24,931
Provision for taxes	1,428	1,658	*(13.9)*	1,276	*11.9*	5,150	6,353	8,227
Profit- Discontinued Ops								
Reported net profit	3,068	2,470	*24.2*	1,954	*57.0*	9,265	12,898	16,704
Adjusted Profit	3,068	2,671	*14.8*	1,944	*57.8*	9,573	12,898	16,704
Diluted shares (mn)	96	96		96		96	96	96
Adjusted Diluted EPS	31.8	27.7	*14.8*	20.2	*57.8*	99.3	133.8	173.2
Diluted P/E (x)						68.7	51.0	39.4
EV/EBITDA (x)						34.2	28.1	22.0
ROAE (%)						32.8	39.4	41.9
As % of net revenues								
COGS	43.9	43.2		42.4		42.1	41.9	41.3
Employee cost	9.9	9.3		10.1		11.6	11.4	11.2
Other expenses	25.2	23.1		26.6		26.1	25.6	25.3
EBITDA	21.2	24.5		21.3		20.2	21.1	22.2
EBIT	17.7	20.6		17.3		16.2	17.3	18.7
PBT	18.0	19.0		14.2		16.0	18.1	19.6
Reported net profit	12.3	11.7		8.6		10.4	12.1	13.1
Tax rate	31.8	38.3		39.6		35.0	33.0	33.0

Company Description

Nestle, a 62.8% subsidiary of its parent Nestlé S.A. of Switzerland, is India's third largest FMCG company after HUL and ITC. The company set up its first factory at Moga, Punjab, to develop milk production. Over the years, Nestlé has set up seven factories across the country, and is now involved in manufacturing and marketing a range of quality products. It has well-established brands, including Maggi, Nescafe, Lactogen, KitKat, and Milkmaid. Nestlé enjoys leadership position in its core categories like baby foods, instant noodles, and instant coffee. It enjoys a distinct advantage over competitors in the F&B space on account of its strong focus on developing products around the nutrition, health, and wellness platform, and a culture of renovation and innovation in its offerings, backed by strong parent support.

Investment Theme

Nestle India (Nestle) is one of the best plays on Indian processed food industry, which has multiple growth drivers in place, including low penetration levels, rising income levels, urbanisation, and changing lifestyle. Nestlé with established brands across food categories is expected to be a major beneficiary of this growth. The new MD has embarked on a journey of bringing back growth and has already taken significant corrective measures. After gaining back majority of the market share in Maggi the company is also focusing on new launches in other than noodles categories like dairy, chocolates and beverages. This will help in reviving growth in the other segments and will also reduce reliance on the noodles category. The likely introduction of new brands from the global portfolio and entry into new categories will be positive.

Key Risks

Sharp increase in input costs

Sharp rise in the prices of its key inputs such as milk, wheat flour, edible oils, and sugar could impact margins adversely.

Competition from new entrants

ITC and Patanjali are the key aggressive players in the noodles category.

Failure of new product launches

Nestlé has launched premium variants in various categories such as chocolates, noodles, ketchup, and dairy products, which could hit margins, in case they do not click in the market.

Financial Statements

Key Assumptions

Year to December	FY15	FY16	FY17E	FY18E
Macro				
GDP(Y-o-Y %)	7.1	7.2	6.5	7.1
Inflation (Avg)	5.9	4.9	4.8	5.0
Repo rate (exit rate)	7.5	6.8	6.3	6.3
USD/INR (Avg)	61.1	65.0	67.5	69.0
Company				
Revenue growth (Y-o-Y %)				
Volume growth (domestic)	(2.9)	(14.9)	18.1	10.0
Price change (domestic)	11.6	7.3	0.8	6.2
Milk prod,Nutri vol gr	(2.3)	(2.7)	(1.5)	2.5
Milk Prod,Nutri price gr	15.0	4.9	2.5	4.0
Beverages vols increase	(11.0)	(10.3)	1.3	3.0
Beverages price increase	13.7	11.2	(4.3)	4.0
Prepared dishes vol gr	3.7	(59.5)	73.0	25.0
Prepared dishes price gr	5.8	9.5	1.1	10.0
Chocolate vol gr	(12.1)	(19.5)	7.7	10.0
Chocolate price gr	10.8	10.1	(1.0)	7.5
Excise (% Gross Sales)	3.2	3.6	3.5	3.6
EBITDA margin assumpn				
COGS as % of sales	45.9	42.4	42.1	41.9
Fresh milk as % of sales	24.8	26.8	22.8	23.8
Milk deriv as % of sales	14.7	16.2	15.2	14.8
Grain flour as % of sale	9.9	5.5	9.0	9.4
Edible oils as % of sale	7.8	5.8	7.4	8.2
Cofe & chic (% of sales)	8.4	10.7	8.3	7.6
Sugar as % of sales	3.9	4.0	4.5	4.7
Pack mat as % of sales	16.8	15.8	17.1	17.8
Financial assumptions				
Tax rate (%)	33.4	19.0	35.0	33.0
Capex (INR mn)	1,058	1,084	1,426	1,118
Debtor days	3	4	3	4
Inventory days	64	88	83	85
Payable days	55	77	73	75
Cash conversion cycle	12	14	14	14
Int rate on debt (%)	72.7	18.6	10.6	9.0
Dividend payout	51.3	83.0	65.6	50.0
Yield on cash	30.5	32.5	24.3	12.5

Income statement (INR mn)

Year to December	CY15	CY16	CY17E	CY18E
Net revenue	81,233	91,592	105,781	126,221
Other Operating Income	520	645	808	949
Operating Revenue	81,753	92,237	106,589	127,170
Materials costs	34,689	38,797	44,680	52,549
Gross profit	47,064	53,441	61,909	74,621
Employee costs	9,128	10,734	12,165	14,263
Other Expenses	16,218	18,434	21,156	25,244
Ad. & sales costs	5,252	5,670	6,135	6,942
EBITDA	16,466	18,603	22,453	28,172
Depreciation	3,755	3,655	4,057	4,425
EBIT	12,711	14,949	18,395	23,746
Add: Other income	1,100.9	1,493.9	1,885.66	2,214.37
Prov. for contingencies	635	1,685	1,000	1,000
Less: Interest Expense	33	35	30	30
Profit Before Tax	13,145	14,723	19,251	24,931
Less: Provision for Tax	2,504	5,150	6,353	8,227
Reported Profit	5,633	9,265	12,898	16,704
Exceptional Items	(5,008)	(308)	-	-
Adjusted Profit	10,641	9,573	12,898	16,704
Shares o /s (mn)	96	96	96	96
Adjusted Basic EPS	110.4	99.3	133.8	173.2
Diluted shares o/s (mn)	96	96	96	96
Adjusted Diluted EPS	110.4	99.3	133.8	173.2
Adjusted Cash EPS	149.3	137.2	175.9	219.1
Dividend per share (DPS)	48.5	63.0	66.9	65.8
Dividend Payout Ratio(%)	83.0	65.6	50.0	38.0

Common size metrics

Year to December	CY15	CY16	CY17E	CY18E
Materials costs	42.4	42.1	41.9	41.3
Staff costs	11.2	11.6	11.4	11.2
Ad. & sales costs	6.4	6.1	5.8	5.5
Depreciation	4.6	4.0	3.8	3.5
EBITDA margins	20.1	20.2	21.1	22.2
Net Profit margins	13.0	10.4	12.1	13.1

Growth ratios (%)

Year to December	CY15	CY16	CY17E	CY18E
Revenues	(17.2)	12.8	15.5	19.3
EBITDA	(21.6)	13.0	20.7	25.5
Adjusted Profit	(9.6)	(10.0)	34.7	29.5
EPS	(9.6)	(10.0)	34.7	29.5

Balance sheet (INR mn)

As on 31st December	CY15	CY16	CY17E	CY18E
Share capital	964	964	964	964
Reserves & Surplus	27,214	29,173	34,332	43,419
Shareholders' funds	28,178	30,137	35,296	44,383
Short term borrowings	9	-	17	17
Long term borrowings	168	332	315	315
Total Borrowings	177	332	332	332
Long Term Liabilities	15,972	19,722	17,500	17,000
Def. Tax Liability (net)	1,729	1,542	1,542	1,542
Sources of funds	**46,057**	**51,733**	**54,670**	**63,257**
Gross Block	51,174	52,600	55,600	58,600
Net Block	28,979	27,295	26,237	24,812
Capital work in progress	2,308	1,882	-	-
Total Fixed Assets	31,286	29,176	26,237	24,812
Non current investments	3,418	4,743	4,743	4,743
Cash and Equivalents	14,827	21,550	27,508	37,089
Inventories	8,208	9,432	10,405	12,237
Sundry Debtors	784	979	1,114	1,329
Loans & Advances	2,134	1,921	1,921	1,921
Other Current Assets	147	258	258	258
Current Assets (ex cash)	11,274	12,590	13,698	15,746
Trade payable	7,435	7,992	9,181	10,798
Other Current Liab	7,313	8,335	8,335	8,335
Total Current Liab	14,748	16,327	17,516	19,133
Net Curr Assets-ex cash	(3,474)	(3,737)	(3,818)	(3,388)
Uses of funds	**46,057**	**51,733**	**54,670**	**63,257**
BVPS (INR)	292.2	312.6	366.1	460.3

Free cash flow (INR mn)

Year to December	CY15	CY16	CY17E	CY18E
Reported Profit	5,633	9,265	12,898	16,704
Add: Depreciation	3,755	3,655	4,057	4,425
Interest (Net of Tax)	27	23	20	20
Others	(1,629)	(1,725)	1,010	1,010
Less: Changes in WC	(3,196)	(3,442)	3,141	1,930
Operating cash flow	10,981	14,659	14,845	20,228
Less: Capex	1,084	1,426	1,118	3,000
Free Cash Flow	**9,897**	**13,232**	**13,726**	**17,228**

Cash flow metrics

Year to December	CY15	CY16	CY17E	CY18E
Operating cash flow	10,981	14,659	14,845	20,228
Investing cash flow	(705)	(1,274)	(1,118)	(3,000)
Financing cash flow	(4,983)	(6,666)	(7,769)	(7,647)
Net cash Flow	5,293	6,719	5,957	9,582
Capex	(1,084)	(1,426)	(1,118)	(3,000)
Dividend paid	(5,633)	(7,311)	(7,739)	(7,617)

Profitability and efficiency ratios

Year to December	CY15	CY16	CY17E	CY18E
ROAE (%)	37.6	32.8	39.4	41.9
ROACE (%)	48.5	55.9	61.4	64.6
Inventory Days	88	83	85	85
Debtors Days	4	3	4	4
Payable Days	77	73	75	75
Cash Conversion Cycle	14	14	14	14
Current Ratio	1.8	2.1	2.4	2.8
Adjusted Debt/Equity	-	-	-	-
Net Debt/Equity	(0.5)	(0.7)	(0.8)	(0.8)
Interest Coverage Ratio	386.4	425.9	613.2	791.5

Operating ratios

Year to December	CY15	CY16	CY17E	CY18E
Total Asset Turnover	1.8	1.9	2.0	2.2
Fixed Asset Turnover	2.7	3.3	4.0	5.0
Equity Turnover	2.9	3.2	3.3	3.2

Valuation parameters

Year to December	CY15	CY16	CY17E	CY18E
Adj. Diluted EPS (INR)	110.4	99.3	133.8	173.2
Y-o-Y growth (%)	*(9.6)*	*(10.0)*	*34.7*	*29.5*
Adjusted Cash EPS (INR)	149.3	137.2	175.9	219.1
Diluted P/E (x)	59.9	66.6	49.4	38.2
P/B (x)	22.6	21.1	18.1	14.4
EV / Sales (x)	7.9	6.9	6.0	4.9
EV / EBITDA (x)	37.8	33.1	27.2	21.3
Dividend Yield (%)	0.7	1.0	1.0	1.0

Peer comparison valuation

	Market cap	Diluted P/E (X)		EV / EBITDA (X)		P/B (X)	
Name	(USD mn)	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E
Nestle Ltd	9,946	49.4	38.2	27.2	21.3	18.1	14.4
GlaxoSmithKline Consumer Healthcare	3,481	31.4	28.1	21.5	19.1	7.2	6.3
Hindustan Unilever	33,214	43.9	37.8	30.2	25.9	43.3	38.7

Source: Edelweiss research

Additional Data

Directors Data

Mr. Suresh Narayanan	Chairman and Managing Director	Mr. Shobinder Duggal	Director - Finance & Control and CFO
Mr. Aristides Protonotarios	Director - Technical	Mr. R. V. Kanoria	Non-Executive and Independent Director
Mr. Ashok Kumar Mahindra	Non-Executive and Independent Director	Mr. Ravinder Narain	Non-Executive and Independent Director
Dr. Swati A. Piramal	Non-Executive and Independent Director		

Auditors - A. F. Ferguson & Co.

**as per last annual report*

Top 10 holdings

	Perc. Holding		Perc. Holding
Life Insurance Corp Of India	3.48	Arisaig Partners Asia Pte	1.87
Aberdeen Asset Managers LT	1.21	Commonwealth Bank Of Austr	1.17
SBI Funds Management	0.87	Vanguard Group Inc	0.81
Blackrock Fund Advisors	0.79	Axis Asset Management	0.5
Franklin Resources	0.47	Capital Group Companies Inc	0.35

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Asian Paints	BUY	SO	M	Bajaj Corp	HOLD	SU	H
Berger Paints	BUY	SO	L	Britannia Industries	BUY	SO	L
Colgate	HOLD	SP	M	Dabur	BUY	SO	M
Emami	BUY	SO	H	GlaxoSmithKline Consumer Healthcare	HOLD	SU	M
Godrej Consumer	BUY	SO	H	Hindustan Unilever	HOLD	SP	L
ITC	BUY	SO	M	Marico	BUY	SO	M
Nestle Ltd	HOLD	SP	L	Pidilite Industries	BUY	SO	M
United Spirits	HOLD	SP	H				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Date: 2017.05.15 18:03:04 +05'30'

Coverage group(s) of stocks by primary analyst(s): Consumer Goods

Asian Paints, Bajaj Corp, Berger Paints, Britannia Industries, Colgate, Dabur, Godrej Consumer, Emami, Hindustan Unilever, ITC, Marico, Nestle Ltd, Pidilite Industries, GlaxoSmithKline Consumer Healthcare, United Spirits

Recent Research

Date	Company	Title	Price (INR)	Recos
12-May-17	**GSK Consumer**	Sequential recovery, but market share loss a concern; *Result Update*	5,246	Hold
11-May-17	**Asian Paints**	Volumes back on track; margin hiccup; *Result Update*	1,166	Buy
09-May-17	**Godrej Consumer Products**	Hair care adds bright hue; margin sustains robust run; *Result Update*	1,929	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

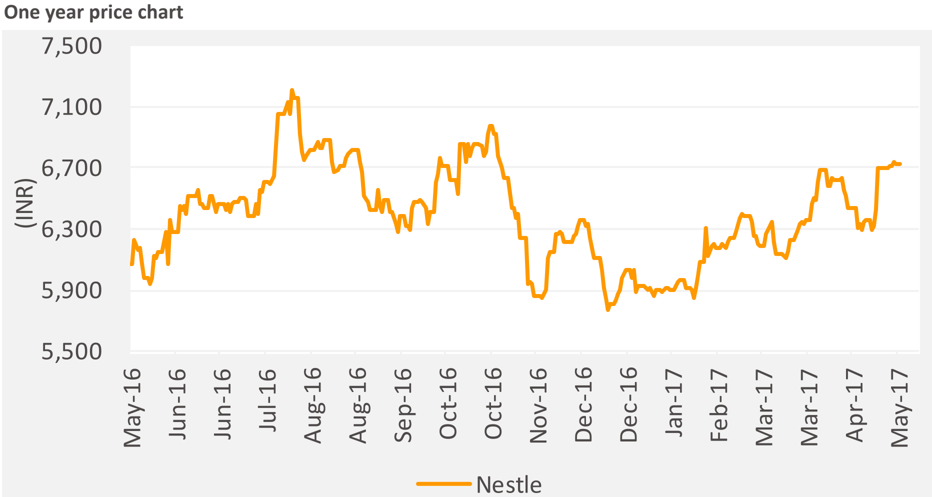
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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