13 July 2017
Update | Sector: Consumer

Emami

BSE SENSEX	S&P CNX
32,037	9,892

Stock Info

Bloomberg	HMN IN
Equity Shares (m)	227.0
52-Week Range (INR)	1261 / 937
1, 6, 12 Rel. Per (%)	-7/-17/-19
M.Cap. (INR b)	243.6
M.Cap. (USD b)	3.8
Avg Val (INRm)/Vol m	188
Free float (%)	27.3

Financials Snapshot (INR b)

Y/E Dec	2017	2018E	2019E
Net Sales	24.9	28.5	32.8
EBITDA	7.6	8.4	9.8
PAT	6.0	6.4	7.7
EPS (INR)	26.5	28.3	33.9
Gr. (%)	4.5	6.6	20.0
BV/Sh (INR)	77.3	92.1	107.1
RoE (%)	35.8	33.4	34.1
RoCE (%)	31.0	34.1	38.5
P/E (x)	40.5	38.0	31.6
P/BV (x)	13.9	11.7	10.0

Shareholding pattern (%)

As On	Mar-17	Dec-16	Mar-16
Promoter	72.7	72.7	72.7
DII	2.7	2.8	1.2
FII	15.6	16.3	16.3
Others	8.9	8.2	9.8

FII Includes depository receipts

CMP: INR1,073 TP: INR1,265 (+18%) Buy

Building platform for strong long-term growth

Near-term prospects look challenging due to high wholesale dependence

Key takeaways from Emami's (HMN) FY17 annual report:

- **Innovation remained the key focus area in FY17**
- **Took much-needed efforts to boost direct reach via Project Race/Project Dhanush**
- **Continued to emphasize on growing the Kesh King franchise**
- **Healthy operating cash flow growth, led by reduction in other assets**

Right portfolio, low penetration, focused spending brighten growth potential

- 80% of the portfolio comprises high-demand problem-solving products, and the remaining 20% is discretionary products. This insulates the company from volumes risk in an adverse consumer environment.
- Penetration is low in many categories. We note that HMN is the dominant player in its leading categories, which puts it at the forefront to drive category growth.
- Brands like Fair & Handsome (now with a wide men's personal care portfolio) are available in only 1.4m out of the 4.3m outlets that HMN reaches across the country. Balms is another category, where penetration is low at 36% (Zandu balm reaches only 1.6m outlets, and *Mentho Plus* only 1.2m outlets).
- While Zandu is already strong with its balms and Chyawanprash products, it can also emerge as a strong Ayurvedic products brand. Management believes that the company's strength lies in its ability to validate product efficacy on the basis of data derived from systematic scientific research at NABL and Ministry of AYUSH accredited laboratories.
- HMN spends more on R&D than most FMCG companies in India; it incurred INR231m (0.99% of sales) in FY17.
- Despite demonetization, absolute A&P spend grew from INR4.3b in FY16 to INR4.43b in FY17. In terms of A&P as a percentage of sales, HMN stands among the top in the FMCG space.

New launch momentum stays robust

- Over the past five years, the company has introduced more than 25 products, variants and extensions.
- Some of the prominent new launches in FY17 were Boroplus Perfect Touch Cream, Navratna Almond Cool Oil, Navratna i-Cool Talc, Fair & Handsome 100% Oil Clear Instant Fairness Face Wash, He Respect deodorant, He Range of perfumes and deodorants, Kesh King Ayurvedic Medicinal Oil with blend of coconut oil, and He 'On-the-Go' Waterless Face Wash.

Targeting to significantly increase direct, rural reach

- The company increased its direct reach to 0.73m outlets from 0.64m in FY16, with a target to reach 0.8m in FY18. However, for a company with a pan-India reach of 4.3m outlets at end-FY17, the direct reach is well below that of peers and also weak in terms of proportion of total outlets.

Krishnan Sambamoorthy (Krishnan.Sambamoorthy@MotilalOswal.com); +91 22 6129 1545
Vishal Punmiya (Vishal.Punmiya@MotilalOswal.com); +91 22 6129 1547

- HMN initiated 'Project Race' in FY17 to expand its direct reach in urban towns. The company has engaged AC Nielsen to conduct a study in the top 30 towns to understand the best way to take the expansion plan forward.
- During the year, the company also initiated 'Project Dhanush' to enhance its rural direct reach via van operations (which were introduced in ~1,500 routes covering 6,000 towns with a population of below 5,000). The target is to double its rural reach in two years.

Kesh King expected to be strong revenue/profitability driver

- Kesh King was able to become cash EPS-accretive within the first year of operations, creating the foundation for rapid repayment of debt raised for its acquisition.
- Kesh King's reach was 0.54m outlets prior to the acquisition (MAT March 2015), which has been increased to 0.75m (MAT December 2016). The brand now has 32.1% market share v/s 30% at the time of acquisition.
- Operating leverage potential is huge as the product reaches only 3% of households in India.
- Apart from increasing distribution, management is planning targeted communication, leading to product trials.
- The company launched sachet SKUs in the shampoo category. Sachets are a strong driver in the shampoo category, accounting for 65% of overall category sales. We believe that while growth of Kesh King is likely to be muted in 1Q/2QFY18 due to its high wholesale dependence (70% of sales), the brand will be a source of strong revenue and profitability growth (gross margins of over 70%) in the medium-to-long term.

Financial highlights – FY17 was a story of two halves

- Strong summer and abundant rainfall enabled 15% YoY domestic business sales growth in 1HFY17, along with 29% EBITDA growth. However, 2HFY17 was impacted by demonetization, and thus, sales declined 2% YoY with flattish EBITDA.
- While profit growth was unimpressive, net operating cash flows increased to INR7.3b in FY17 from INR5.6b in FY16, led by lower other assets.
- Debentures of INR 3b are scheduled to be redeemed in three tranches in FY18 (INR1.5b on 22 May, INR750m on 22 August and INR750m on 22 November).
- Management reiterated its target to become debt-free by end-FY18.

Valuation and view

- Despite significant near-term challenges due to likely higher sales disruption following GST implementation (as it has high wholesale channel dependence v/s peers), we believe that HMN remains a credible long-term play due to (a) expected healthy growth in the existing product categories, where it has dominant market share, (b) demonstrated ability to leverage on its innovative ability, customer understanding and distribution reach to turnaround acquisitions, (c) best-of-breed R&D and A&P spend, innovative products and ability to back-up innovation with strong marketing and (d) efforts toward improving its direct distribution reach.
- Valuations at 31.6x FY19E EPS are inexpensive relative to peers. We like the company's healthy long-term earnings growth prospects and return ratios in the mid-30s. We thus maintain our **Buy** rating with a target price of INR1,265, implying 18% upside to CMP.

Several positives make HMN a credible long-term play

- 'Thou shall not imitate' is an important credo that we believe is and will be a key distinguishing factor driving growth for HMN.
- 80% of the portfolio comprises high-demand problem-solving products, and the remaining 20% is discretionary products. This insulates the company from volumes risk in an adverse consumer environment. Its product portfolio includes Ayurvedic antiseptic cream, fairness cream, prickly heat powder, cool talc, pain relievers, herbal petroleum jelly, cool oils, face washes, Ayurvedic medicines/ oils.
- The company has seven power brands, all of which have clocked sales of over INR1b.

Exhibit 1: Key products have delivered CAGR of ~10% over last six years

Brand	Core product	Extensions	6 Year brand CAGR Growth
BoroPlus	Antiseptic Cream	• Prickly Heat Powder • Moisturising Body Lotion	Grew by 10%
Navratna	Cool Oil	• Extra Thanda Cool Oil • Almond Cool Oil • Cool Talc	Grew by 13%
Fair & Handsome	Fairness Cream	• Complete Winter Solution • Instant Fairness Face Wash • Oil Control Face Wash	Grew by 14%
Zandu & Mentho Plus Balm	Balms	• Ultra Power	Grew by 10%

Source: Company, MOSL

- Penetration is low in many categories. We note that HMN is a dominant player in its leading categories, which puts it at the forefront to drive category growth.
- Brands like Fair & Handsome (now with a wide men's personal care portfolio) are available in only 1.4m out of the 4.3m outlets that the company reaches across India.
- Balms (an INR9b market) is another category where penetration is low at 36%. Zandu balm and Mentho Plus reach only 1.6m and 1.2m outlets, respectively, out of its overall reach of 4.3m outlets.
- Zandu and Mentho Plus brands put together have ~55% market share. Mentho Plus witnessed strong off-take in south India in FY17, with market leadership in Andhra Pradesh and Karnataka.
- Zandu can also emerge as a strong Ayurvedic products brand. Management believes that the company's strength lies in its ability to validate product efficacy on the basis of data derived from systematic scientific research at NABL and Ministry of AYUSH-accredited laboratories, accreditation for which was achieved in FY17. HMN's products are herbal/vegetarian, and developed via proprietary methods using quality scientific tools. As of 31 March 2017, the company's field-force reached more than 21,000 doctors across the country. HMN has engaged an external consultant to grow this business, and already embarked on test-marketing products across select states.

- The company spends more on R&D than most Indian listed FMCG companies. FY17 spend stood at INR231m (0.99% of sales), of which INR207m was recurring R&D and INR24m was capital R&D.
- Despite demonetization, absolute A&P spend grew from INR4.3b in FY16 to INR4.43b in FY17. On a percentage to sales basis, Emami is easily among the top players in the FMCG space.

Innovation-led new launches in FY17

- Boro Plus Perfect Touch Cream
- Navratna Almond Cool Oil
- Navratna i-Cool Talc
- Fair & Handsome 100% Oil Clear Instant Fairness Face Wash
- He Respect deodorant
- He Range of perfumes and deodorants
- Kesh King Ayurvedic medicinal oil with blend of coconut oil
- He 'On-the-Go' Waterless Face Wash

Over the last five years, the company has launched more than 25 products, variants and extensions.

Exhibit 2: Launched "HE-On the Go" Waterless Face Wash in April'17

Source: Company, MOSL

Exhibit 3: Also launched Zandu Gel and Spray in the Pain Reliever category

Source: Company, MOSL

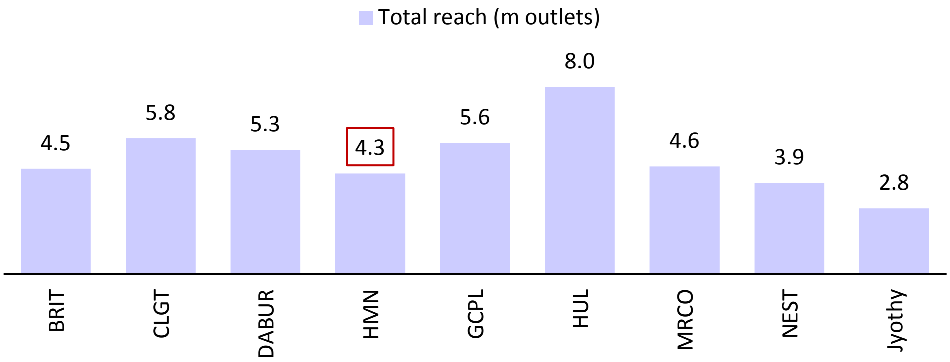
Project Race and Dhanush to expand reach in urban and rural areas

- The company has 3,250 distributors, 6,500 sub-stockiest, 1,800 field sales personnel and 33 warehouses. It has covered over 1,200 distributors under the outreach-secondary sales software in FY17.
- HMN products are available in more than 16,700 villages and towns where the population is less than 50,000.
- The company has a diversified base of 15,000 suppliers, which ensures consistent availability of materials.
- The company initiated 'Project Race' in FY17 to expand its direct reach in urban towns. It has engaged AC Nielsen to conduct a study in the top 30 towns to understand the best way to take the expansion plan forward.
- During the year, the company also initiated 'Project Dhanush' to enhance rural direct reach via van operations (which were introduced in ~1,500 routes covering 6,000 towns with a population less than 5,000). The target is to double its rural reach in two years.
- The company increased its direct reach to 0.73m outlets from 0.64m in FY16, with a target to reach 0.8m in FY18. For a company with a pan-India reach of

4.3m at end-FY17, the direct reach was well below that of peers and also weak in terms of proportion of total outlets.

- In FY17, the company improved the Stock Availability Index to 94%, and controlled monthly loss in sales to less than 1% through automation of the DRP tool.

Exhibit 4: Total reach is still low compared to some of its peers



Source: Company, MOSL

Manufacturing facilities ready to cater pan-India market

- Competitiveness is also brought about by four of its eight manufacturing units having tax incentives, including the newly commissioned Pacharia plant in Assam (Capex INR3b), which will enjoy these legislations until 2027.

Exhibit 5: Emami's plant locations

Plant (#)	Locations
1	West Bengal
2	Assam (Amingaon Plant)
3	Assam (Abhoypur Plant)
4	Assam (Pacharia Plant)
5	Maharashtra
6	Gujarat
7	Uttarakhand
8	Dadra & Nagar Haveli

Source: Company, MOSL

- The new Pacharia plant is HMN's largest, spread across 19 acres, and will cater to the pan-India market (with its fiscal benefits – income tax and excise exemption for 10 years, and capital subsidy, outweighing logistical cost), particularly strong demand in the north-east region. The facility has state-of-the-art technology, with high-end machineries like automatic high-speed packaging machines, automated tracking and monitoring systems, high-end HVAC systems, and state-of-the-art storage/handling facility.

Acquisitions – Zandu and Kesh King – have done well till date

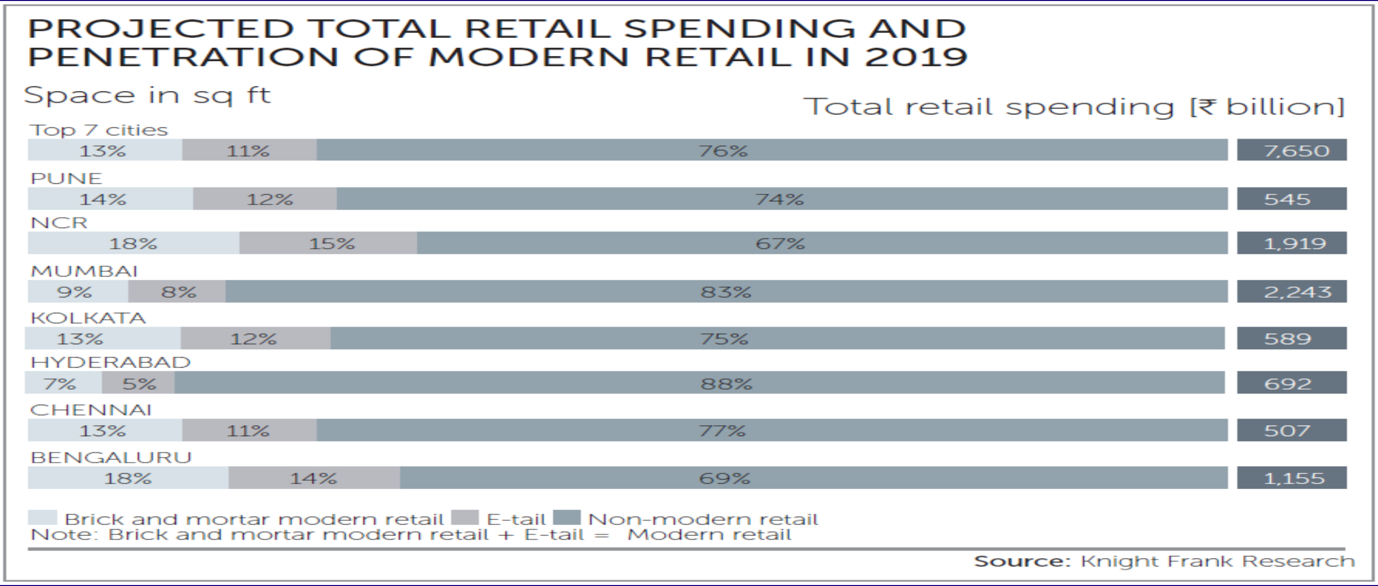
- Zandu off-take has trebled since acquisition, and profits have improved manifold, breaking even in the first year of operations.
- Kesh King was able to become cash EPS-accretive within the first year of operations, creating the foundation for rapid repayment of debt raised for its acquisition.

- The company has taken numerous efforts to make progress in its Kesh King brand. It has increased the number of herbs from 16 to 21 for higher efficacy, introduced eye-catching packaging and launched the brand in the hitherto uncharted south Indian market. Sales performance was very good in 1HFY17 before the impact of demonetization kicked in. Kesh King is a premium product and has a high wholesale dependence at 70% of sales. Thus, sales were muted in 2HFY17 post demonetization.
- New acquisitions and products are margin-accretive. Both Zandu and Kesh King have over 70% gross margins.
- Kesh King reached 0.54m outlets prior to its acquisition (MAT March 2015), which has now been increased to 0.75m outlets (MAT December 2016).
- The brand has 32.1% market share v/s 30% at the time of acquisition.
- Kesh King's growth was 300bp higher than the overall Ayurvedic medicinal oil category in FY17.
- Operating leverage potential is huge as the product reaches only 3% of households in India. Apart from increasing distribution, management is planning targeted communication, leading to product trials.
- It has sachets SKUs in the category. Sachets are the strong driver in the shampoo category, accounting for 65% of overall category sales.

Recognizing the need to keep pace with changing business dynamics

- Management is cognizant that all companies have to evolve to cope with the changing business dynamics. According to Knight Frank and RAI, the size of modern trade will double by end-2019 to INR1.72t from INR870b currently.
- E- Commerce is expected to be a USD120b (INR7.7t) market in India by 2020, according to Google.

Exhibit 6: Retail spending across channels in Top 7 cities projected by Knight Frank in 2019



Source: Company, MOSL

International business accounted for 11% of revenues in FY17

- Interestingly, the recently launched '7 Oils In One' product did better internationally in terms of sales relative to India.
- Boro Plus is a leading brand in the healing and topical supplements category in Russia and Ukraine.
- Fair & Handsome is the market leader in the UAE, and the second largest in Saudi Arabia and Bangladesh in the men's face whitening and fairness cream category.
- Navratna leads the cool oil market in the UAE, Saudi Arabia and Bangladesh.
- In FY17, Emami Bangladesh reported sales of INR1.07b, up from INR976m in FY16, while PAT increased sharply to INR154.8m from INR87.5m.
- Emami International FZE, the Middle Eastern business, reported a decline in sales to INR1.49b in FY17 from INR2.05b in FY16. PAT declined to INR19.8m from INR235.8m in FY16.

Management remuneration formed 0.6% of sales in FY17

- Remuneration of key management personnel stood at INR155.2m in FY17 (0.6% of sales).
- Average increase in salaries of employees other than managerial personnel in the financial year was 10.42%, whereas the increase in managerial remuneration stood at 6.25%.

Exhibit 7: Remuneration of key managerial personnel

Name of MD/WTD/Manager (INR m)	Gross Salary	Sweat Option Commission	PF contribution	Total
Shri R. S. Agarwal	30	25	4	**59**
Shri R. S. Goenka	30	25	4	**59**
Shri S. K. Goenka	9	0	1	**10**
Shri Mohan Goenka	7	0	1	**8**
Shri H. V. Agarwal	7	0	1	**8**
Smt. Priti A. Sureka	6	0	1	**6**
Shri Prashant Goenka	4	0	1	**5**
Total	**94**	**50**	**11**	**155**

Source: Company, MOSL

Exhibit 8: Percentage change in remuneration

Name (INR m)	Designation	FY16	FY17	Change (%)
Shri R. S. Agarwal	Executive Chairman	55	59	6.1
Shri R. S. Goenka	Whole Time Director	55	59	6.1
Shri S. K. Goenka	Managing Director	8	10	27.7
Shri Mohan Goenka	Whole Time Director	6	8	32.2
Shri H. V. Agarwal	Whole Time Director	6	8	33.1
Smt. Priti A. Sureka	Whole Time Director	6	6	5.5
Shri Prashant Goenka	Whole Time Director	4	5	16.5
Shri N. H. Bhansali	CEO - Finance, Strategy & Business Development and CFO	19	20	2.7
Shri A. K. Joshi	Company Secretary & VP - Legal	4	4	7.1

Source: Company, MOSL

Financials

- In FY17, domestic sales grew 9.6% YoY to INR21.4b, while international sales declined 15.7% YoY to INR2.85b. Institutional business grew 1% YoY to INR1.05b.
- FY17 was a story of two halves. Strong summer and abundant rainfall enabled 15% YoY domestic business sales growth in 1HFY17, along with 29% EBITDA growth. 2HFY17, however, was impacted by demonetization, with sales declining 2% YoY and EBITDA coming in flattish.
- There was an increase in amortization costs YoY from INR2.1b to INR2.59b due to Kesh King and She Comfort.
- Among other expenses, repairs and maintenance saw a sharp increase both on absolute and percentage of sales basis.
- While profit growth was unimpressive, net operating cash flow increased to INR7.3b in FY17 from INR5.6b in FY16.
- Total borrowings (including debentures to be redeemed amounting to INR3b under other current liabilities) reduced 29% YoY to INR4.8b. Net debt, including cash and cash equivalents, declined 24% YoY to INR4.3b.
- Management reiterated its target of becoming debt-free by end-FY18.
- Forex outgo was INR467.6m in FY17 (1.9% of sales) largely due to materials and capital goods, while forex income was INR910.8m in FY17 (3.7% of sales) mainly accrued due to exports.
- In FY17, a sum of INR19.2m was underspent on CSR expenditure relative to the prescribed amount (INR75.5m v/s INR94.7m prescribed) due to extraneous factors and better planning & negotiations.
- Debentures of INR3b are scheduled to be redeemed in three tranches in FY18 (INR1.5b on 22 May, INR750m on 22 August and INR750m on 22 November).

Exhibit 9: Information relating to statutory dues; amount under litigation under various acts

Name of Statute	Name of Dues	Amount under dispute not yet deposited (INR in m)	FY to which the amt. relates	Forum where the dispute is pending
Central Sales Tax Act and Local Sales Tax Act	Sales Tax	1.4	2005-06	ADC
		18.6	1996-2001, 2009-11, 2012-13, 2014-151 2016-17	AC(A), DC(A), JC(A) & Addl. CCT
		50.9	1990-91, 2000-06, 2010-12, 2013-14, 2015-17	Tribunal/Board of Revenue
		26.4	1999-2000, 2004-07	High Court
		11.4	1989-90, 1993-97	Supreme Court
The Central Excise Act, 1934	Excise Duty	2.8	2009-13, 2014-15	Commissioner (Appeals)
		0.5	1993-96, 2009-10	CESTAT
Income Tax, 1961	Income Tax	7.1	2008-09 & 2010-11	CIT (A)

Source: Company, MOSL

- Guarantees and counter guarantees given amounted to INR667m in FY17 v/s INR545m in FY16.
- Estimated amount of commitments net of advances on capital account not provided for declined to INR356.5m in FY17 from INR749.4m in FY16.
- For FY17 and FY16, every percentage appreciation in the exchange rate between INR and USD affected the company's PAT by ~INR6.7m.

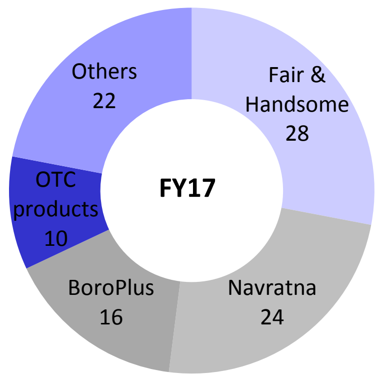
- Significant related-party transactions in FY17 included the sale of property plant and equipment to entities where key management personnel or relatives have influence amounting to INR52m.

Valuation and view

- Despite significant near-term challenges due to likely higher sales disruption following GST implementation (as it has high wholesale channel dependence v/s peers), we believe that HMN remains a credible long-term play due to (a) expected healthy growth in the existing product categories, where it has dominant market share, (b) demonstrated ability to leverage on its innovative ability, customer understanding and distribution reach to turnaround acquisitions, (c) best-of-breed R&D and A&P spend, innovative products and ability to back-up innovation with strong marketing and (d) efforts toward improving its direct distribution reach.
- Valuations at 31.6x FY19E EPS are inexpensive relative to peers. We like the company's healthy long-term earnings growth prospects and return ratios in the mid-30s. We thus maintain our **Buy** rating with a target price of INR1,265, implying 18% upside to CMP.

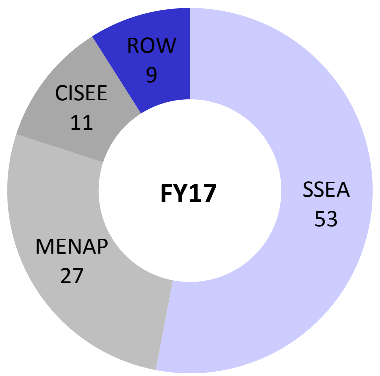
Story in Charts

Exhibit 10: Brand-wise revenue share (%)



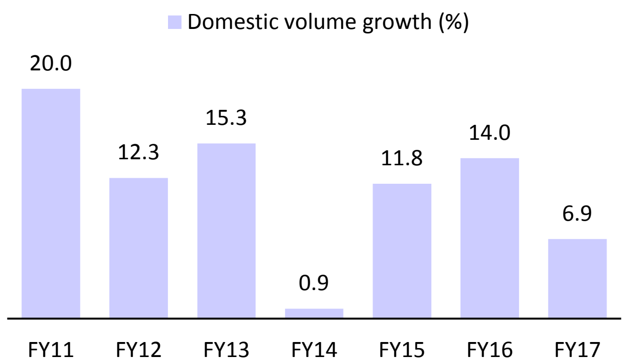
Source: Company, MOSL

Exhibit 11: Region-wise contribution to export revenues (%)



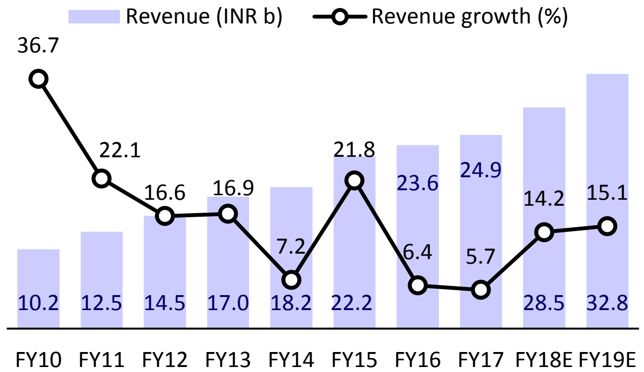
Source: Company, MOSL

Exhibit 12: Domestic volumes grew 6.9% in FY17



Source: Company, MOSL

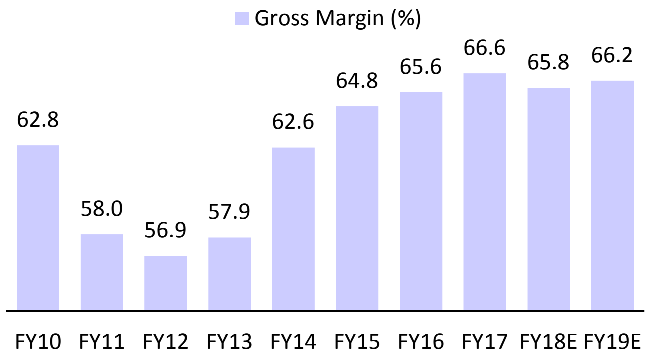
Exhibit 13: Expect revenue CAGR of 14.6% over FY17-19



*FY16 & FY17 as per IND-AS

Source: Company, MOSL

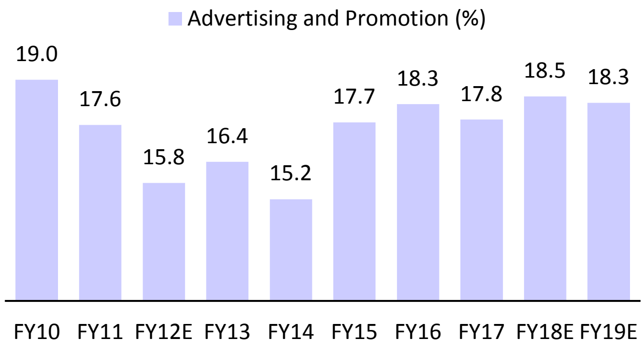
Exhibit 14: Gross margin to contract by 40bp over FY17-19



*FY16 & FY17 as per IND-AS

Source: Company, MOSL

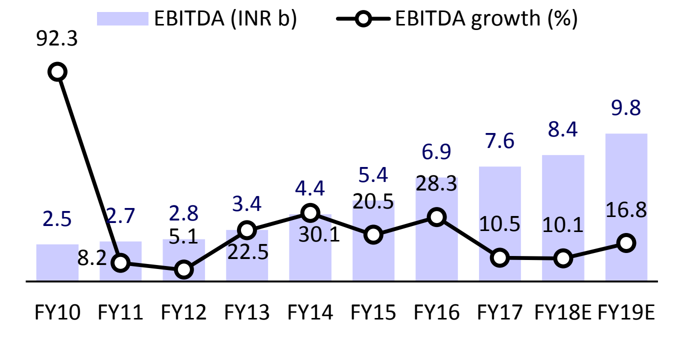
Exhibit 15: Adspend to increase led by new launches



*FY16 & FY17 as per IND-AS

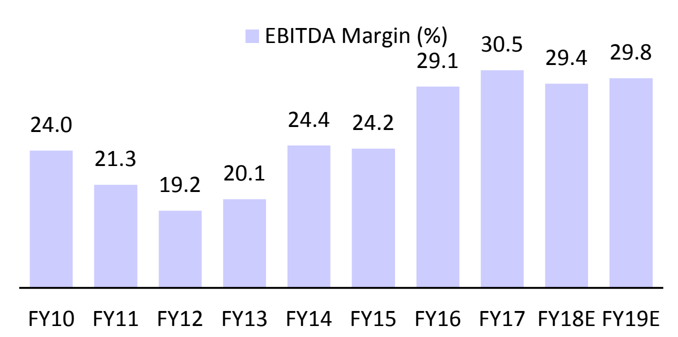
Source: Company, MOSL

Exhibit 16: Expect EBITDA CAGR of 13.4% over FY17-19



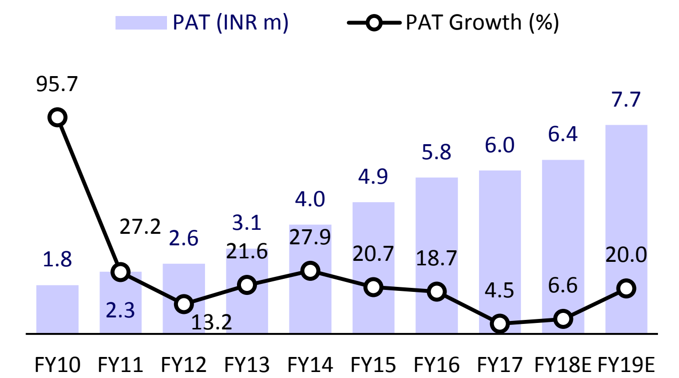
*FY16 & FY17 as per IND-AS Source: Company, MOSL

Exhibit 17: EBITDA margin to contract by 60bp over FY17-19



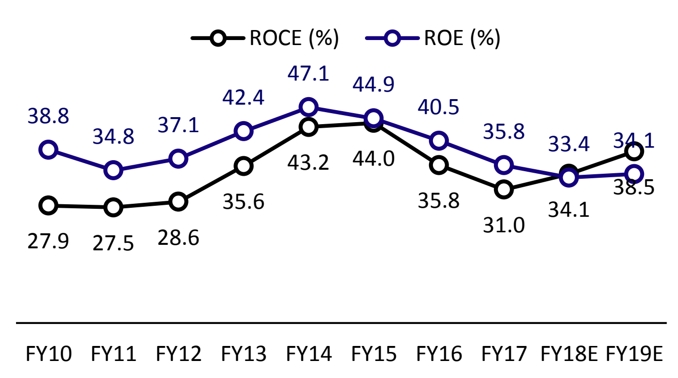
*FY16 & FY17 as per IND-AS Source: Company, MOSL

Exhibit 18: Expect adj. PAT CAGR of 13.1% over FY17-19



*FY16 & FY17 as per IND-AS Source: Company, MOSL

Exhibit 19: Return ratios expected to improve



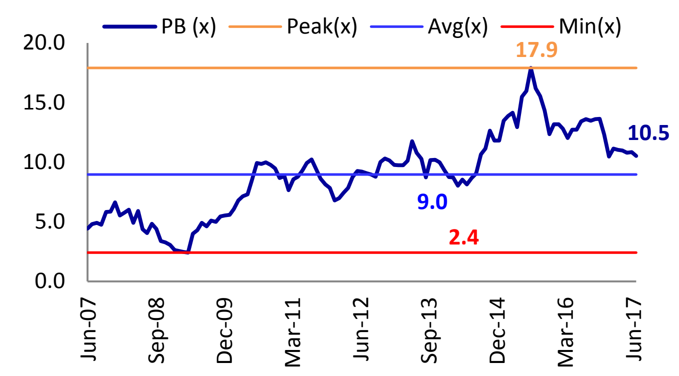
*FY16 & FY17 as per IND-AS Source: Company, MOSL

Exhibit 20: Net working capital days (average basis) increased in FY17 due to higher inventory days and lower creditor days

Cash conversion cycle	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
INR m													
Inventory	412	401	738	826	1,234	1,122	1,140	1,411	1,267	1,505	1,792	1,859	2,124
Account Receivables	458	350	710	755	1,087	1,005	1,122	793	1,027	1,309	970	1,504	1,640
Account Payables	413	477	1,201	890	883	1,071	1,061	1,480	1,990	2,487	1,847	2,758	2,588
Days													
Inventory days	28	26	28	28	30	30	24	26	22	21	24	23	22
Debtor days	29	26	26	26	27	26	23	19	15	18	17	16	18
Creditor days	22	28	41	37	26	25	23	25	29	35	32	30	30
Cash conversion cycle (Days)	**35**	**23**	**13**	**17**	**31**	**31**	**24**	**19**	**8**	**5**	**9**	**10**	**10**

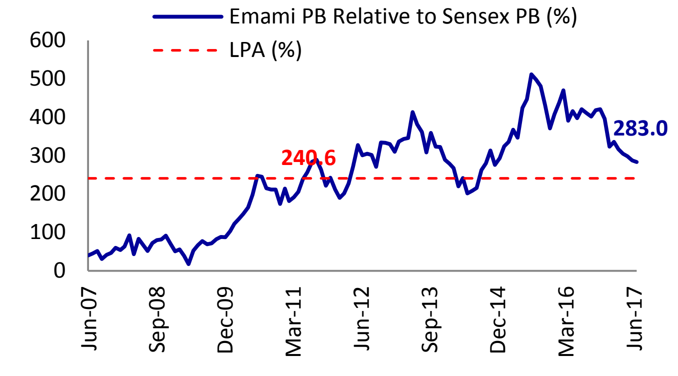
Source: Company, MOSL

Exhibit 21: Emami P/E (x)



Source: Company, MOSL

Exhibit 22: Emami P/E premium v/s Sensex



Source: Company, MOSL

Exhibit 23: Valuation matrix

Company	Reco	CMP	Target Price	Upside (%)	Mkt. Cap		EPS Growth YoY (%)			P/E (x)			RoE (%)	Div. (%)
		(INR)	(INR)		(INR B)	(USD B)	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY17
Consumer														
Asian Paints	Neutral	1,124	1,240	10	1,086	16.9	8.7	10.0	18.6	53.5	48.6	41.0	28.5	1.0
Britannia Inds.	Buy	3,722	4,450	20	444	6.9	7.3	16.0	23.3	50.5	43.5	35.3	36.9	0.6
Colgate-Palm.	Buy	1,074	1,335	24	293	4.5	-5.7	20.8	21.1	50.6	41.9	34.6	50.4	0.9
Dabur India	Neutral	302	315	4	536	8.3	1.9	6.7	18.3	41.7	39.1	33.0	28.4	0.8
Emami	**Buy**	**1,073**	**1,265**	**18**	**241**	**3.7**	**4.5**	**7.6**	**18.8**	**40.5**	**37.6**	**31.7**	**35.8**	**0.7**
Godrej Consumer	Neutral	982	930	-5	659	10.2	12.4	15.4	14.6	51.9	45.0	39.3	24.6	0.6
GlaxoSmith C H L	Sell	5,491	4,500	-18	232	3.6	0.9	6.5	9.3	35.2	33.0	30.2	22.2	1.0
Hind. Unilever	Buy	1,133	1,260	11	2,444	37.9	1.9	16.1	18.4	57.7	49.7	42.0	65.6	1.5
ITC	Buy	339	380	12	3,993	62.0	9.4	14.9	20.4	40.3	35.1	29.2	23.5	1.6
Jyothy Lab.	Neutral	367	405	10	66	1.0	175.7	-20.4	22.4	32.7	41.1	33.5	21.1	1.6
Marico	Neutral	327	360	10	418	6.5	12.1	10.5	21.1	52.1	47.1	38.9	36.7	0.9
Nestle India	Sell	6,785	5,990	-12	658	10.2	-1.6	0.6	17.6	57.5	57.2	48.6	39.0	0.9
P & G Hygiene	Buy	7,991	9,082	14	260	4.0	11.5	7.5	16.6	55.1	51.3	44.0	45.3	4.6
Page Industries	Buy	16,798	19,125	14	185	2.9	15.0	32.8	26.2	70.4	53.0	42.0	40.0	0.5
Parag Milk Foods	Neutral	238	240	1	20	0.3	-46.4	106.4	64.7	66.2	32.1	19.5	5.9	0.0
Pidilite Inds.	Neutral	823	835	1	419	6.5	6.7	10.2	14.8	49.2	44.6	38.9	28.2	0.6
United Breweries	Neutral	810	850	5	217	3.4	-23.0	11.6	51.9	93.2	83.5	55.0	10.4	0.1
United Spirits	Neutral	2,659	2,415	-9	388	6.0	87.1	39.7	38.7	99.4	71.2	51.3	21.3	0.0
Retail														
Jubilant Food.	Sell	1,111	730	-34	73	1.1	-32.1	21.6	47.4	111.0	91.3	61.9	8.2	0.2
Titan Company	Neutral	535	545	2	471	7.3	18.5	13.8	18.2	59.2	52.0	44.0	20.6	0.5

Source: Company, MOSL

Financials and Valuations

Income Statement							(INR Million)
Y/E March	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Net Sales	**18,208**	**22,172**	**23,583**	**24,930**	**28,466**	**32,761**	**37,720**
Change (%)	7.2	21.8	6.4	5.7	14.2	15.1	15.1
COGS	6,803	7,800	8,121	8,336	9,737	11,082	12,758
Gross Profit	**11,405**	**14,373**	**15,462**	**16,595**	**18,729**	**21,679**	**24,962**
Gross Margin (%)	62.6	64.8	65.6	66.6	65.8	66.2	66.2
Operating expenses	6,961	9,018	8,589	9,003	10,368	11,913	13,694
EBITDA	**4,444**	**5,355**	**6,873**	**7,591**	**8,362**	**9,767**	**11,267**
Change (%)	30.1	20.5	28.3	10.5	10.1	16.8	15.4
Margin (%)	24.4	24.2	29.1	30.5	29.4	29.8	29.9
Depreciation	352	343	423	469	519	546	573
Int. and Fin. Charges	54	51	540	580	185	0	0
Financial Other Income	622	964	445	311	342	393	453
Profit before Taxes	**4,660**	**5,924**	**6,354**	**6,853**	**7,999**	**9,614**	**11,147**
Change (%)	26.4	27.1	7.3	7.9	16.7	20.2	15.9
Margin (%)	25.6	26.7	26.9	27.5	28.1	29.3	29.6
Tax	636	994	597	836	1,584	1,914	2,296
Tax Rate (%)	11.7	18.1	7.4	14.1	19.8	19.9	20.6
Adjusted PAT	**4,025**	**4,856**	**5,762**	**6,021**	**6,416**	**7,700**	**8,851**
Change (%)	27.9	20.7	18.7	4.5	6.6	20.0	15.0
Margin (%)	22.1	21.9	24.4	24.2	22.5	23.5	23.5
Amortization	0.0	0.0	2,127	2,617	2,400	2,400	2,400
Reported PAT	**4,025**	**4,856**	**3,635**	**3,404**	**4,016**	**5,300**	**6,451**

Balance Sheet							(INR Million)
Y/E March	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Share Capital	227	227	227	227	227	227	227
Reserves	9,094	12,079	15,889	17,320	20,675	24,087	24,994
Net Worth	**9,321**	**12,306**	**16,116**	**17,547**	**20,902**	**24,314**	**25,221**
Minority Interest	0	46	41	14	14	14	14
Loans	450	470	6,838	4,846	1,846	0	0
Deferred Liability	48	120	90	422	422	422	422
Capital Employed	**9,819**	**12,942**	**23,086**	**22,829**	**23,184**	**24,750**	**25,657**
Goodwill on consolidation	0	41	41	41	41	41	41
Gross Block	10,341	6,393	24,162	27,341	28,841	30,341	31,841
Less: Accum. Depn.	6,382	1,882	4,408	7,357	7,846	8,360	8,899
Net Fixed Assets	**3,959**	**4,511**	**19,754**	**19,983**	**20,995**	**21,981**	**22,941**
Capital WIP	119	265	616	129	129	129	129
Investments	**2,958**	**5,013**	**474**	**1,277**	**849**	**764**	**688**
Curr. Assets, L&A	**5,987**	**6,934**	**6,037**	**4,687**	**5,480**	**6,125**	**6,863**
Inventory	1,411	1,267	1,505	1,792	1,859	2,124	2,437
Account Receivables	793	1,027	1,309	970	1,504	1,640	1,784
Cash and cash equivalents	2,700	3,541	1,084	501	142	164	189
Others	1,083	1,100	2,138	1,425	1,974	2,196	2,454
Curr. Liab. and Prov.	**3,203**	**3,821**	**3,836**	**3,288**	**4,310**	**4,290**	**5,004**
Account Payables	1,480	1,990	2,487	1,847	2,758	2,588	3,110
Other Liabilities	341	468	660	622	569	522	479
Provisions	1,383	1,363	689	819	983	1,179	1,415
Net Current Assets	**2,783**	**3,113**	**2,200**	**1,399**	**1,169**	**1,835**	**1,859**
Application of Funds	**9,819**	**12,942**	**23,086**	**22,829**	**23,183**	**24,750**	**25,658**

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2014	2015	2016	2017	2018E	2019E	2020E
Basic (INR)							
EPS	**17.7**	**21.4**	**25.4**	**26.5**	**28.3**	**33.9**	**39.0**
Cash EPS	19.3	22.9	27.2	28.6	30.6	36.3	41.5
BV/Share	41.1	54.2	71.0	77.3	92.1	107.1	111.1
DPS	7.0	7.0	3.0	8.7	9.0	9.0	9.0
Payout %	39.5	32.7	11.8	33.0	31.8	26.5	23.1
Valuation (x)							
P/E	60.5	50.2	42.3	40.5	38.0	31.6	27.5
Cash P/E	55.7	46.9	39.4	37.5	35.1	29.5	25.8
EV/Sales	13.1	10.6	10.6	9.9	8.6	7.4	6.4
EV/EBITDA	53.6	44.0	36.2	32.5	29.2	24.8	21.5
P/BV	26.1	19.8	15.1	13.9	11.7	10.0	9.7
Dividend Yield (%)	0.7	0.7	0.3	0.8	0.8	0.8	0.8
Return Ratios (%)							
RoE	47.1	44.9	40.5	35.8	33.4	34.1	35.7
RoCE	43.2	44.0	35.8	31.0	34.1	38.5	42.4
RoIC	56.3	50.9	39.1	28.1	27.9	31.2	34.1
Working Capital Ratios							
Debtor (Days)	16	17	20	22	19	18	17
Asset Turnover (x)	1.6	1.4	1.1	1.1	1.2	1.4	1.5
Leverage Ratio							
Debt/Equity (x)	-0.8	-0.3	0.3	0.2	0.1	0.0	0.0

Cash Flow Statement **(INR Million)**

Y/E March	2014	2015	2016	2017	2018E	2019E	2020E
OP/(loss) before Tax	4,444	5,355	6,873	7,591	8,362	9,767	11,267
Int./Div. Received	177	1,012	705	721	0	0	0
Interest Paid	-54	-51	-540	-580	-185	0	0
Direct Taxes Paid	-547	-1,070	-472	-966	-1,584	-1,914	-2,296
(Incr)/Decr in WC	139	512	-1,544	218	371	-644	1
CF from Operations	**4,159**	**5,758**	**5,022**	**6,984**	**6,965**	**7,209**	**8,973**
(Incr)/Decr in FA	-591	3,802	-18,121	-2,691	-1,500	-1,500	-1,500
Free Cash Flow	**3,568**	**9,560**	**-13,099**	**4,293**	**5,465**	**5,709**	**7,473**
(Pur)/Sale of Investments	-1,327	-2,054	4,539	-803	428	85	76
CF from Invest.	**-1,918**	**1,748**	**-13,582**	**-3,494**	**-1,072**	**-1,415**	**-1,424**
(Incr)/Decr in Debt	-751	19	6,369	-1,992	-3,000	-1,846	0
Dividend Paid	-1,743	-1,727	-820	-2,354	-2,516	-2,516	-2,516
Others	136	-4,956	554	272	-734	-1,410	-5,008
CF from Fin. Activity	**-2,358**	**-6,664**	**6,103**	**-4,074**	**-6,250**	**-5,773**	**-7,524**
Incr/Decr of Cash	**-117**	**842**	**-2,457**	**-584**	**-358**	**21**	**25**
Add: Opening Balance	2,817	2,700	3,541	1,084	501	142	164
Closing Balance	**2,700**	**3,541**	**1,084**	**500**	**142**	**163**	**189**

E: MOSL Estimates

N O T E S

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Varun Kumar
Varun.kumar@motilaloswal.com
Contact : (+65) 68189232
Office Address:21 (Suite 31),16 Collyer Quay,Singapore 04931

MOTILAL OSWAL

Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025
Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com