Consumer

2QFY19E Results Preview

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FMCG: Healthy demand trends

- **Rural driving domestic performance:** Our FMCG coverage universe is expected post another healthy performance in 2QFY19 with 12/13% YoY revenue/EBITDA growth owing to a favorable base of 7/9% YoY in 2QFY18 (15/17% YoY in 1QFY19). Demand trends continue to be healthy with rural outpacing urban for the 5th consecutive quarter despite lower than expected monsoons (good distribution). Staple companies have taken price hikes of 2-4% owing to crude inflation. Consumer prices for most products (shampoo, detergent etc) are still lower on a YoY basis owing to GST rate revision in Nov-17. CSD channel (6-8% of FMCG revenues) continues to be bruised owing to implementation of biometrics for its consumers. It will impact ~1% of the domestic growth in 2QFY19. The sector will witness an acceleration in new product launches in 2HFY19 after a lull of 2 years.

- **International reviving too:** International business for most companies (GCPL ~50% mix, Dabur ~28% mix, Marico ~22% mix, Emami ~10mix) to grow on a double digit basis as headwinds will now become tailwinds like consumer sentiments (particularly MENA region) and favorable currency , coupled with a soft base.

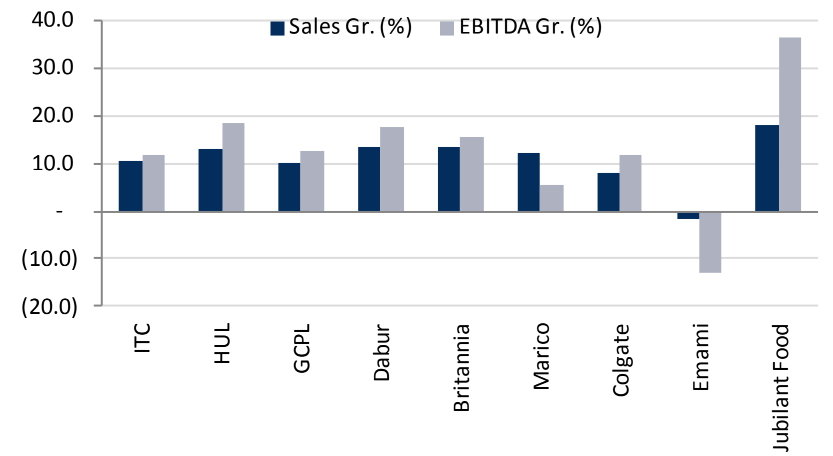
- **2QFY19 Result Outliers:** HUL, Dabur and Jubilant FoodWorks

- **Outlook and Recommendation:** With sharp movement in crude and INR depreciation, the cost inflation will rise in the coming quarters. FMCG companies will pass on the cost inflation but we suspect on our earlier margin improvement expectation. Therefore, with the expectation of sustaining macro headwinds, we build lower margin expansion attributed by higher packaging & distribution cost and crude based derivatives. We cut our coverage universe earnings by 3-4% over FY18-FY21E.

- **Top picks:** In this volatile market condition, we advise investors to focus on buying stocks where earnings are robust with high visibility. HUL, Britannia and Jubilant FoodWorks have performed well during the last challenging period (demonet, GST implementation) and as a result enjoyed a re-rating. Hereon we prefer ITC, Dabur and Marico owing to a pickup in rural demand, company specific tailwinds and a favorable base.
- We have rolled forward our target price for our coverage universe to Sep-20 EPS (earlier Jun-20). We maintain our valuation multiple for our coverage universe except Emami where we downgrade our multiple to 33x (36x earlier) on Sep-20 EPS owing to consistent delay in recovery.

Top picks in FMCG: ITC, Dabur and Marico

FMCG: Expect 11.5% Sales And 13% EBITDA Growth



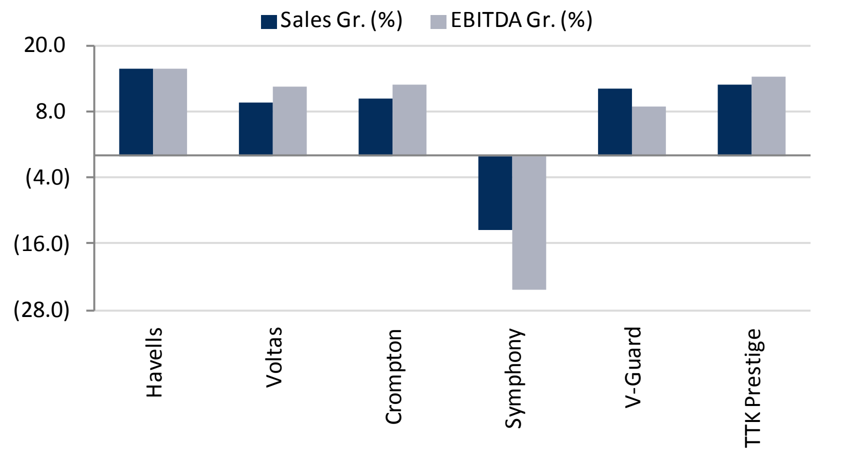
Source: Company, HDFC sec Inst Research

Consumer appliance: Hangover of weak summer

- **Sustaining healthy performance:** Our coverage universe is expected to post 12/10% revenue/EBITDA growth. The spill-over impact of weak summer season and modest base (on account of GST restocking) of 11/18% in 2QFY18 will arrest high double digit growth as witnessed in 1QFY19 (15/28% revenue/EBITDA growth).
- **Key challenges to arrest strong growth:** We note (1) channel filling benefits on account of festive season shifts to 3Q in FY19, (2) Impact of Kerala floods and whitewash of Onam festive sales, (3) High channel inventory on account of weak summer and (4) Rising commodity inflation will arrest high double digit growth in revenue and EBITDA during the quarter.
- **2QFY19 Result Outliers:** Havells
- **Outlook and recommendation:** Appliance companies have geared up w.r.t new launches, distribution ramp-up and aggressive marketing on account of improving demand trends. GST rate revision (post GST implementation) has been positive for the sector which helps in providing a cushion to the near-medium term commodity inflation. We believe higher import duty for appliances will not impact immediately considering inventory levels and ramping up of in-house manufacturing.
- With sharp movement in crude and INR depreciation, the cost inflation will rise in the coming quarters. Appliance companies will pass on the cost inflation but we suspect on our earlier margin improvement expectation. Therefore, with the expectation of sustaining macro headwinds, we build lower margin expansion attributed by higher packaging & distribution cost and crude based derivatives. We cut our coverage universe earnings by 3-4% over FY18-FY21E.
- **Top picks:** In this volatile market condition, we advise investors to focus on buying stocks where earnings are robust with high visibility. We like Havells, V-Guard and Voltas.
- We have rolled forward our target price for coverage universe to Sep-20 EPS (earlier Jun-20).

Top picks in Appliances: Havells, V-Guard and Voltas

Appliances: Expect 12% Sales And 10% EBITDA Growth



Source: Company, HDFC sec Inst Research

FMCG: Rural acceleration to support growth

COMPANY	2QFY19E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
ITC	**AVG**	▪ We expect cigarette revenue growth of 8% YoY, with 4.5% volume growth YoY (-6% in 2QFY18 and 1% in 1QFY19). Price hike would support cigarette revenue growth. Non-Cigarette business is expected to grow by ~12% (3% in 2QFY18) with FMCG/Hotel/Agri/Paper business to register 15/13/9/10% growth respectively. ▪ We expect cigarette EBIT growth of 9.5% YoY (9% in 2QFY18 and 8% in 1QFY19). FMCG EBIT Margin at 3%. ▪ Overall EBITDA margin to expand by 42bps to 38.9%. EBITDA to grow by 11.6% YoY (3.6% in 2QFY18 and 12.2% in 1QFY19)	▪ Cigarette volume growth ▪ FMCG business EBIT margin ▪ Recovery in Paper Business ▪ Outlook on Agri and Hotel businesses
HUL	**GOOD**	▪ We expect revenue growth of 13% (2QFY18 was at 10% and 1QFY19 at 16%). We model domestic volume growth of 9% (4% in 2QFY18 and 12% in 1QFY19) ▪ We model 12/14/13% growth in Home Care/PC/Foods & Refreshment segments, respectively ▪ EBITDA margin to expand by 97bps YoY to 21.2% (+233bps YoY in 2QFY18 and +185bps YoY in 1QFY19)	▪ Improvement in rural business ▪ Commentary on competition, especially in natural products and oral care ▪ Pricing actions and new launches strategy
Godrej Consumer Products	**AVG**	▪ We model 10% (6% in 2QFY18 and 11% in 1QFY19) revenue growth. Domestic growth is expected at 10% driven by 9/9/10% revenue growth in HI/personal wash/hair care. International business to grow by 10% (3% in 4QFY18 and 1% in 1QFY18). ▪ We model 50bps expansion in EBITDA margin to 22.2%. EBITDA to grow by 12% YoY (17% in 2QFY18 and 28% in 1QFY19).	▪ Commentary on recovery in trade channels and rural demand ▪ Outlook on Indonesia and other geographies ▪ Competitive intensity across categories

FMCG: Rural acceleration to support growth

COMPANY	2QFY19E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Dabur	**GOOD**	■ Consolidated revenue to grow by 13.4% (8% in 2QFY18 and 20% in 4QFY18). We model domestic business growth at 14% with Hair care/oral care/health supplements/home care/food expected to grow by 12/12.5/14/14/12%. ■ We expect international business to grow by 11.5% (-15% in 2QFY18 and +13% in 1QFY19). Impact from currency depreciation is now behind, plus demand in most geographies is improving. ■ EBITDA margin to expand by 81bps YoY to 22.2% (81 bps YoY in 2QFY18 and 130bps in 1QFY19). EBITDA to grow by 18% YoY	■ Commentary on rural growth and wholesale channels ■ Commentary on competition in oral care ■ New launches strategy, especially in natural space
Britannia	**AVG**	■ We model 13.5% revenue growth (7% in 2QFY18 and 13.6% in 1QFY19) driven by volume growth of 11% (6% in 2QFY18 and 12.5% in 1QFY19) ■ Benign input inflation and cost-control initiatives would result in expanding EBITDA margin by 25bps YoY to 15.1% (64bps YoY in 2QFY18 and 79bps YoY in 1QFY19). EBITDA to grow by 15%	■ Change in competitiveness post GST, especially after a rise in taxes in the value segment ■ Commentary on new launches ■ Commentary on distribution expansion
Marico	**AVG**	■ We model 12% domestic revenue growth, with volume growth of 6% (5% in 2QFY18 and 10% in 1QFY19). Implementation of biometrics in CSD channel to impact growth. ■ Parachute continues to enjoy price growth (driven by copra inflation), we expect 23/5% value/volume growth. Saffola we expect 6/6% value/volume growth. VAHO we model 10/10% value/volume growth. International business to grow by 15% (-8% in 2QFY18 and 9% in 1QFY19), with broad-based growth. ■ We model 219bps fall in gross margins to 44.8% and 98bps fall YoY in EBITDA margin to 15.9% owing to copra inflation	■ Commentary on copra prices and inventory ■ Outlook on youth product category and strategy on new launches ■ Pricing strategy for the next few quarters ■ CSD channel impact ■ Improvement in international business

FMCG: Rural acceleration to support growth

COMPANY	2QFY19E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Colgate	**AVG**	▪ We expect 8% revenue growth with 5% volume growth (-1% in 2QFY18 and 4% in 1QFY19). Pan-India launch of Swarna will curb market share losses. ▪ Gross margin expansion to continue, we model 158bps YoY expansion to 65%. We expect that ASP expense would continue to increase in support of new launches. We model 15% increase in ASP (11.7% of sales) ▪ EBITDA margin to expand by 98bps YoY to 28.7%. EBITDA to grow by 12% (5% in 1QFY18 and 27% in 1QFY19)	▪ Toothpaste volume growth and market share change ▪ Feedback on Swarna pan-India launch ▪ ASP spends, especially with increased competition from Dabur
Emami	**WEAK**	▪ We expect revenue contraction of 2% on account of higher channel filling in 1QFY19 and slow consumer offtake. Domestic/international business to post -1/-7% growth (14/22% in 2QFY18 and 21/10% in 1QFY19). We model domestic volume contraction of 2% (10% in 2QFY18) ▪ We expect gross margin to be flat to ~67% owing to steep inflation in mentha oil. EBITDA margin to decline by 360bps to 28% (+146 bps in 2QFY18 and 495bps in 1QFY19). EBITDA to decline by 13% YoY.	▪ Kesh King growth outlook ▪ Price hike strategy ▪ Commentary on new launches ▪ Outlook on Mentha oil ▪ Distribution strategy (Wholesale channel) ▪ Commentary on international business
Jubilant FoodWorks	**GOOD**	▪ We model 18% revenue growth, driven by 17% SSG (5.5% in 2QFY18 and 26% in 1QFY19). 'Everyday value offers' (Rs 199 and Rs 99), favourable base, upgrade in pizza quality and closure of loss making stores have been supporting the acceleration in SSG since last 4 quarters. We model 18 Dominos stores addition in 2QFY19 (10 in 1QFY19) ▪ We model gross margin to contract by 115bps YoY and 150bps QoQ to 73%. EBITDA margin to expand to 16.2% (14.1% in 2QFY18 and 16.6% in 1QFY19). EBITDA to grow by 36% YoY.	▪ Outlook on sustainable SSG ▪ Commentary on product launches ▪ Outlook on store addition in FY19-20 ▪ Competitive intensity, pricing strategy

Appliances: Spill-over impact of weak summer

COMPANY	2QFY19E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Havells India	**GOOD**	▪ We expect Havells (ex-Lloyd) to register ~16% revenue growth (6.7% in 2QFY18 and 18.5% in 1QFY19). Cables, Fan and Switchgears to benefit from GST rate revision (Nov'17). We model 16/16/12/20% for SwitchGears/Cables/Lighting/Consumer durables. We model 9% growth in Lloyd (11% in 2QFY18 and 14% in 1QFY19). ▪ We model EBITDA margin (ex-Lloyd) to be flat at 15.7% (56bps in 2QFY18 and 349bps in 1QFY19) owing to inventory gain in cables & wire in 2QFY18 and rising input inflation. Lloyd, we expect EBITDA margin of 8.5% (7% in 2QFY18 and 9.3% in 1QFY19). We model overall EBITDA growth of 17%.	▪ Outlook on housing activities ▪ GST rate revision impact on Cables and Fan ▪ Update on Lloyd's Consumer business (channel inventory) ▪ Commentary on commodity inflation
Voltas	**AVG**	▪ We expect consolidated net revenue growth of 10% YoY. UCP segment to report 6% growth (15% in 2QFY18 and -2% in 1QFY19) on account of higher channel inventory. We model 13% growth in EMPS (3% in 2QFY18 and 31% in 1QFY19) ▪ We model UCP EBIT margin contraction of 85bps YoY to 11.6% due to stiff competition. EMPS EBIT to expand by 75bps to 6.2% ▪ EBITDA margin to expand by 20bps to 8.5% during the quarter	▪ RAC channel inventory ▪ Competitiveness in RAC market ▪ Outlook on EMPS revenue and margin
Crompton Consumer	**AVG**	▪ We expect 10% revenue growth, driven by 8% growth from Lighting (25% in 2QFY18 and 15% in 1QFY19) and 11.5% growth from ECD segment (11% in 2QFY18 and 23% in 1QFY19). Lighting growth will I be challenging owing to stiff competition and heavy base. ▪ We model 29bps EBITDA margin expansion to 12.9% driven by continued operational excellence and premiumisation in fans partially offset by margin pressure in conventional lighting	▪ Growth in premium fans ▪ Distribution expansion ▪ Performance of new launches ▪ Margin outlook for lighting

Appliances: Spill-over impact of weak summer

COMPANY	2QFY19E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Symphony (Standalone)	**WEAK**	▪ We expect net revenue to contract by 13% (23% in 2QFY18 and -39% in 1QFY19) driven by higher than normal inventory in the trade channel (impacted by erratic summer). We model 14% revenue contraction in the domestic business. ▪ We model gross margin expansion of 127bps (+135bps in 2QFY18 and +325bps in 1QFY19) to 54.5%. Due to negative oplev, we model EBITDA margin decline of 440bps (+55bps in 2QFY18, -1,372bps in 1QFY19) to 30.4%.	▪ Distributor outlook for next season ▪ Inventory levels in trade channels ▪ GST and erratic summer impact on unorganised players ▪ Performance of Climate Technologies and other geographies ▪ Outlook on exports
V-Guard Industries	**AVG**	▪ We model 12% YoY revenue growth (21% in 2QFY18 and 19% in 1QFY19) for the quarter. Floods in Kerala will also have adverse impact on the business (~Rs 300mn revenue impact). ▪ We expect 2/12/12/15/13/14% growth for Stabilisers/UPS/Pumps/Cables/Water Heaters/Fans ▪ We model 39bps dip in gross margin (186bps in 2QFY18 and 292bps in 1QFY19) to 31.8%. V-Guard has spend significantly on brand rejuvenation during the last 2 quarters, hence we expect ASP will be moderate during the quarter. We expect 34bps decline in EBITDA margin to 11.6% (123bps in 2QFY18 and 148bps in 1QFY19)	▪ GST rate revision impact on Cables and Fan ▪ Non-south performance ▪ Performance of new launches ▪ Outlook on input cost inflation
TTK Prestige	**AVG**	▪ We expect net revenue growth of 13% (20% in 2QFY18 and 25% in 1QFY19). Soft growth expectation is on account of floods in Kerala and unfavorable base. We model 11/14/14/15% growth in Cookers/Cookware/Appliances/Others respectively. ▪ We model EBITDA margin expansion of 17bps YoY (51bps in 2QFY18 and 74bps in 1QFY19) to 13%	▪ Performance of new product launches ▪ Commentary on recovery in trade channels ▪ Witnessing any green shoots in rural demand

Financial Summary

Company	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	2Q FY19E	QoQ (%)	YoY (%)	2Q FY19E	QoQ (%)	YoY (%)	2Q FY19E	QoQ (bps)	YoY (bps)	2Q FY19E	QoQ (%)	YoY (%)	2Q FY19E	1Q FY19	2Q FY18
FMCG															
ITC	107.7	(0.9)	10.3	42.0	(0.1)	11.6	38.9	31	42	29.6	4.9	12.0	2.4	2.3	2.2
HUL	92.6	(1.0)	13.0	19.9	(11.6)	18.3	21.2	(252)	97	14.5	(7.4)	17.5	6.7	7.2	5.7
GCPL	24.5	12.1	9.9	6.1	35.9	12.5	22.2	390	50	4.2	36.3	12.3	12.3	9.1	11.0
Dabur	22.2	6.8	13.4	4.9	28.0	17.7	22.2	369	81	4.1	24.0	12.8	2.3	1.9	2.1
Britannia	28.9	0.0	13.5	4.4	11.9	15.4	15.1	(22)	25	2.9	13.8	12.5	24.5	21.5	21.8
Marico	17.2	(15.0)	12.2	2.7	(22.9)	5.6	15.9	(163)	(98)	1.9	(25.4)	5.1	1.5	2.0	1.4
Colgate	11.7	12.5	8.0	3.4	19.4	11.8	28.7	165	98	2.0	7.9	15.1	7.5	6.1	6.5
Emami	6.2	0.5	(1.7)	1.8	42.1	(12.8)	28.4	831	(364)	1.3	83.6	(12.6)	2.8	1.6	3.3
Jubilant Food	8.6	0.3	18.0	1.4	(2.0)	36.2	16.2	(40)	220	0.7	(5.4)	59.4	5.4	5.7	3.4
Aggregates	**319.7**	**0.4**	**10.5**	**86.5**	**0.8**	**13.1**	**27.1**	**12**	**64**	**61.3**	**4.3**	**13.0**			
Consumer Durable															
Havells	20.6	(20.7)	15.8	3.0	(4.8)	15.8	14.5	243	(0)	2.0	(6.4)	15.1	3.1	3.4	2.7
Voltas	11.4	(47.0)	9.8	1.0	(60.4)	12.4	8.5	-286	20	1.0	(45.3)	6.3	3.0	5.6	2.9
Crompton	10.6	(12.1)	10.3	1.4	(18.6)	12.8	12.9	(103)	29	0.8	(22.0)	14.9	1.3	1.7	1.1
Symphony *	1.6	102.0	(13.4)	0.5	4,758.0	(24.3)	30.4	2,918	(440)	0.4	681.9	(22.8)	5.6	0.7	7.2
V-Guard	6.3	(1.0)	12.2	0.7	57.2	9.0	11.6	431	(34)	0.5	49.8	10.8	1.2	1.0	1.1
TTK Prestige	5.8	39.0	13.1	0.8	35.9	14.6	13.0	(29)	17	0.5	36.0	16.6	42.2	31.1	36.2
Aggregates	**56.2**	**(20.6)**	**11.8**	**7.3**	**(12.0)**	**10.1**	**12.9**	**126**	**(20)**	**5.2**	**694.0**	**40.9**			

Source: Company, HDFC sec Inst Research * Symphony standalone numbers

Peer Set Comparison

Company	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			Core RoCE (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
HUL	3,270	1,514	NEU	1,687	28.9	34.2	40.8	52.5	44.3	37.1	36.8	31.4	27.0	70.5	73.0	74.7
ITC	3,271	268	BUY	382	10.2	11.3	12.6	26.3	23.8	21.3	16.5	14.8	13.1	37.5	38.1	40.2
GCPL	683	669	NR	773	17.4	20.3	23.9	38.4	33.0	28.0	29.6	25.5	21.8	20.1	22.7	26.4
Britannia	662	5,513	NEU	6,165	104.4	125.0	151.7	52.8	44.1	36.3	35.4	29.5	24.3	46.1	48.6	53.4
Dabur	692	393	BUY	484	9.7	11.7	13.8	40.5	33.6	28.6	34.0	28.0	23.5	52.7	59.3	66.1
Marico	381	295	BUY	392	7.9	10.2	12.1	37.5	28.8	24.4	27.2	21.5	18.2	44.3	54.8	61.3
Colgate	286	1,050	NEU	1,164	28.4	32.2	37.1	37.0	32.6	28.3	22.6	19.4	16.8	68.7	80.4	94.6
Emami	191	418	BUY	561	13.4	16.0	19.1	31.3	26.2	21.9	22.6	19.2	16.3	26.9	34.8	44.3
Jub. Food	153	1,156	BUY	1,557	25.1	30.5	37.2	46.1	38.0	31.1	24.4	20.4	17.1	54.7	68.3	83.8
Havells	353	564	BUY	693	14.7	17.6	20.9	38.4	32.0	27.0	24.7	20.5	16.9	34.0	38.5	45.8
Voltas	160	484	BUY	651	19.0	21.4	25.2	25.5	22.7	19.2	17.3	15.7	13.3	44.3	43.8	46.0
Crompton	127	202	BUY	291	6.1	7.5	9.1	32.9	26.8	22.2	20.8	17.2	14.1	44.1	52.6	62.9
Symphony	65	928	BUY	1,720	25.0	34.5	42.0	37.1	26.9	22.1	27.6	19.6	15.9	50.4	49.8	55.9
V-Guard	70	164	BUY	251	5.0	6.5	7.8	32.6	25.2	21.0	24.7	18.6	15.4	26.6	32.0	34.6
TTK Prestige	67	5,812	NR	7,826	158.8	189.1	222.8	36.6	30.7	26.1	21.9	18.5	15.7	16.2	17.5	18.8

Source: Company, HDFC sec Inst Research
NR: Not Rated
TP is fair value for GCPL and TTK Prestige since we don’t have active coverage

Alco-Bev: Robust quarter

United Spirits : Healthy quarter masked by high base effect

- With stable operating environment and curb on monopolistic distribution in UP, we expect UNSP to report healthy operating performance. We expect volumes to grow by 6% YoY, revenue 6.7%, EBITDA 1.5% and PAT 6%. Higher A&P spends (9.5% of revenue) vs. last year (7.3%) to off-set the gains in volumes and gross margin.
- Karnataka state provides 6-8% price increases every three years viz. earlier in FY14 and FY17. Potential price increase in FY20 cannot be ruled out. Karnataka accounts for ~30-35% of UNSP volumes. Revenue and EBITDA contribution is expected to be lower as it is primarily a popular segment market.
- Route-to-market changes in Punjab, Haryana, UP and West Bengal led to higher PDD (Rs 1.4bn) in FY18 over FY17. Non-recurrence of the same to provide additional boost to UNSP earnings in FY19.
- Increase in excise duty in Maharashtra and other states to off-set the reduction in fuel prices by state government if any, remains key overhang. Increase in competitive intensity is additional risk.
- **We have been Sellers in UNSP for last one year. However, 20% price reduction in UNSP share price in last one month and 43% from 52-week high (of Rs 801) makes the risk-reward favourable. We upgrade UNSP to BUY with TP of Rs 565 (earlier Rs 530) @ 40x Sep-20E EPS. Sale of non-core assets (Rs 11 in out TP) over next 2-3 years is additional trigger.**

Radico Khaitan : Fifth consecutive quarter of double digit EBITDA growth

- Stable operating environment, curb on monopolistic distribution in UP (20-25% of RDCK's revenue) and softer raw-material prices aided by captive manufacturing capabilities, we expect Radico to report strong 2QFY19.
- **Reiterate BUY with TP of Rs 514 @ 32x Sep-20E EPS viz. 25% discount to UNSP** owing to latter's large scale of operations, improving margins and potential sale of non-core assets that may reduce debt.

2QFY19E: Modest performance

COMPANY	1QFY19E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
UNITED SPIRITS	STRONG	▪ Led by low base effect of 1QFY18 owing to highway ban and GST, we expect the underlying volumes to grow by 6% YoY and revenue to grow by 6.7%. ▪ We model 80 bps YoY decline in EBITDA margin led by (a) 140 bps expansion in GM due to lower input costs, partly due to franchising of lower margin Popular segment in several states and mix change but (b) off-set by 210bps increase in A&P spends	▪ Outlook on volumes, raw material prices due to increase in Ethanol prices, competitive environment and route-to-market changes, if any ▪ Update on premiumisation ▪ Regulatory environment especially excise hikes in various states for FY19 and importantly in Maharashtra
RADICO KHAITAN	STRONG	▪ We expect Radico to report strong performance led by volume growth of 11.7% YoY, revenue growth of 10.2%, EBITDA growth of 30% (17.3% margin, 250bps expansion) and PAT growth of 59%. ▪ Curb on monopolistic distribution in UP market, premiumisation and softer-raw material prices to be the key drivers of performance.	▪ Outlook on volumes, raw material prices due to increase in Ethanol prices, competitive environment and route-to-market changes, if any ▪ Update on premiumisation

2QFY19E: Financial Summary

COMPANY	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	2Q FY19E	*QoQ (%)*	*YoY (%)*	2Q FY19E	*QoQ (%)*	*YoY (%)*	2Q FY19E	*QoQ (bps)*	*YoY (bps)*	2Q FY19E	*QoQ (%)*	*YoY (%)*	2Q FY19E	1Q FY19	2Q FY18
United Spirits	20.8	*3.5*	*6.7*	3.2	*67.6*	*1.5*	15.5	*593*	*(80)*	0.9	*109.7*	*8.7*	1.2	0.6	1.1
Radico Khaitan	4.9	*(4.4)*	*10.2*	0.9	*(6.2)*	*30.1*	17.3	*(34)*	*265*	0.4	*(4.8)*	*59.2*	3.4	3.5	2.1
Aggregate	**25.8**	***1.9***	***7.3***	**4.1**	***43.9***	***6.4***	**15.8**	***41***	***(1)***	**1.3**	***49.7***	***21.6***			

Source : Company, HDFC sec Inst Research

Peer Set Comparison

COMPANY	Mcap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	EPS (Rs/sh)				P/E (x)				EV/EBITDA (x)				RoIC (%)			
					FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
United Spirits	336	463	BUY	565	7.6	10.1	12.2	15.0	60.8	46.0	37.8	30.9	36.0	27.7	23.3	19.7	20.2	26.8	30.9	35.0
Radico Khaitan	40	300	BUY	515	9.3	13.3	15.0	17.1	32.3	22.6	19.9	17.6	16.7	13.1	11.7	10.3	8.3	10.8	11.2	11.9

Source : Company, HDFC sec Inst Research

Lubricants: Crude price increase spoilsport

COMPANY	2QFY19E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
GULF OIL LUBRICANTS	AVERAGE	▪ We expect Gulf Oil to report 27mn KL volumes (+20% YoY). Revenue to grow by 22% YoY. ▪ However increase in raw material costs (base oil prices) will led to reduction in gross margin by 300bps YoY. EBITDA to remain broadly flat with modest growth of 3.8% YoY and so is PAT. ▪ **Reiterate BUY with a revised TP of Rs 886 @ 22x Sep-20E EPS. We reduce our target multiple from 25x to 22x as the robust volume (21%) and earnings (26%) CAGR witnessed by company over FY15-18 during the low crude price era to moderate owing to (a) base effect (b) increase in crude oil price may impact gross margin/volumes.**	▪ Demand environment outlook, competitive intensity and impact of increase in crude oil price

2QFY19E: Financial Summary

COMPANY	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	2Q FY19E	*QoQ (%)*	*YoY (%)*	2Q FY19E	*QoQ (%)*	*YoY (%)*	2Q FY19E	*QoQ (bps)*	*YoY (bps)*	2Q FY19E	*QoQ (%)*	*YoY (%)*	2Q FY19E	1Q FY19	2Q FY18
Gulf Oil	3.9	*1.1*	*22.2*	0.6	*(0.4)*	*3.7*	16.3	(25)	(290)	0.4	*4.6*	*3.8*	8.4	8.1	8.1

Source : Company, HDFC sec Inst Research

Valuation

COMPANY	Mcap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	EPS (Rs/sh)				P/E (x)				EV/EBITDA (x)				RoIC (%)			
					FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Gulf Oil	36	723	BUY	886	31.9	34.6	38.4	42.2	22.7	20.9	18.8	17.1	15.1	13.1	11.6	10.3	40.3	34.4	36.2	39.7

Source : Company, HDFC sec Inst Research

Aviation: Higher fuel costs and lower INR to dent earnings

In addition to seasonality higher oil prices and lower INR will dent earnings. Average brent crude price in 2QFY19 was higher by 2.5% QoQ and average INR has depreciated 4.6% QoQ against the USD; this is likely to drive losses at airline companies.

COMPANY	2QFY19E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Interglobe	**MUTED**	▪ Expect ASKM growth of 26% YoY and PLF of 86% ▪ Expect yield to be flat at Rs 3.57 as a result of competition in the current window ▪ Hardening ATF prices expected to drag operating efficiency ▪ Expect EBITDAR margin to be at 7.2%, -2,224 bps YoY ▪ Net loss for the quarter expected at Rs 6bn.	▪ Guidance on yields and pricing power ▪ Forex impact ▪ Capex guidance for new aircraft addition plans ▪ Update on A320 neo additions
SpiceJet	**MUTED**	▪ ASKM growth of 6.7%, with PLF of 93.4% ▪ Yield to be +3.2% YoY at 3.69 ▪ Expect EBITDAR margin to be 0.3%, (-2,159 bps YoY) ▪ Net loss for 2QFY19 expected at Rs 3.4bn	▪ Guidance on yields and pricing power ▪ Forex impact ▪ Update on new aircraft additions

Financial Summary

Company	NET SALES (Rs bn)			EBITDAR (Rs bn)			EBITDAR Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	2Q FY19E	*QoQ (%)*	*YoY (%)*	2Q FY19E	*QoQ (%)*	*YoY (%)*	2Q FY19E	*QoQ (bps)*	*YoY (bps)*	2Q FY19E	*QoQ (%)*	*YoY (%)*	2Q FY19E	*QoQ (%)*	*YoY (%)*
Interglobe	66.2	*1.7*	*25.2*	4.77	*-53.7*	*-69.4*	7.2	*-860*	*-2,224*	-6.0	*NM*	*NM*	-15.6	*NM*	*NM*
SpiceJet	20.0	*-10.3*	*10.6*	.06	*-98.2*	*-98.4*	0.3	*-1,593*	*-2,159*	-3.4	*NM*	*NM*	-5.8	*NM*	*NM*
Aggregate	**86.3**	***-1.3***	***21.5***	**4.83**	***-65.3***	***-75.3***	**5.6**	***-1,034***	***-1,594***	**-9.4**	*NM*	*NM*			

Source: Companies, HDFC sec Inst Research

Peer Set Comparison

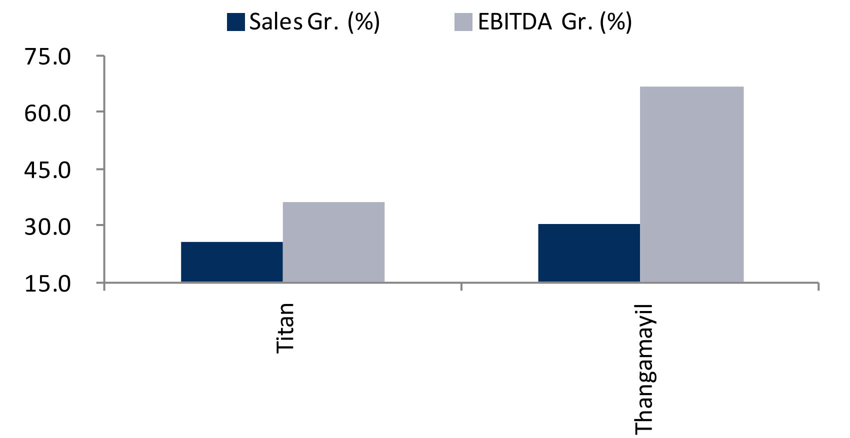
	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	EPS (Rs)			P/E (x)			EV/EBITDAR (x)			ROAE (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Interglobe	278	725	NEU	909	35.9	53.5	68.7	20.2	13.6	10.6	9.0	7.8	6.9	18.0	22.4	23.4
Spicejet	39	65	NEU	101	2.1	3.4	3.5	31.7	19.1	18.5	8.3	7.1	6.9	N.A.	185.7	66.3

*Note – estimate based on IND AS
Source: Company, HDFC sec Inst Research

Jewellery : Good show

- Our Jewellery coverage universe is expected to register 26/37% YoY revenue/EBITDA growth during 2QFY19 vs 25/48% YoY in 2QFY18. The jewellery industry has been witnessing subdued consumer demand due to various factors like lesser number of wedding days, increase in gold prices etc. However, Titan is expected to report healthy growth led by a successful studded jewellery activation scheme and new launches across products. Thangamayil too is expected to deliver a good show, albeit on a soft base which had an impact of PMLA regulation (KYC-compliant transactions for cash transactions above Rs 50,000) and pre-GST pre-ponement of sale. We expect robust growth in upcoming quarter benefitting from complete festive season sitting in 3Q (Dussehra was in 2Q last year).

Jewellery: Expect 26% Sales And 37% EBITDA Growth



Source: Company, HDFC sec Inst Research

Jewellery 2QFY19E: Strong performance after a soft 1Q

COMPANY	2QFY19E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
TITAN	GOOD	▪ We expect strong growth of 27.7% YoY (37% in 2QFY18 and 6.3% in 1QFY19)in Jewellery business due to 1. successful studded jewellery activation and 2. new collection launches. We also expect gold grammage growth of 23% YoY. Non-jewellery business is expected to grow by ~11% with Watches/Eyewear/Other business to register 10/2/25% growth, respectively. ▪ We expect Jewellery EBIT growth of ~36% YoY (66% in 2QFY18 and 19% in 1QFY19). ▪ Overall EBITDA margin to expand by 99bps to 12.4% during the quarter.	▪ Grammage growth and market share change ▪ Outlook on jewellery demand ▪ Outlook on Watches and Eyewear businesses ▪ Non-jewellery business EBIT margin
THANGAMAYIL	GOOD	▪ We expect revenue growth of 30.4% YoY (-13% in 2QFY18 and -11% in 1QFY19). We model gold volume growth of 23% (10% in 2QFY18 and -9% in 1QFY19). ▪ EBITDA margin expected to be higher by 122 bps YoY to 5.6% led by product-mix and increased in-house manufacturing. ▪ Adj. PAT to improve by 94% YoY.	▪ Grammage growth and demand outlook ▪ Commentary on store renovation and expansion ▪ EBIT margin

Financial Summary

Company	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	2Q FY19E	QoQ (%)	YoY (%)	2Q FY19E	QoQ (%)	YoY (%)	2Q FY19E	QoQ (bps)	YoY (bps)	2Q FY19E	QoQ (%)	YoY (%)	2Q FY19E	1Q FY19	2Q FY18
Titan	43.6	*-2.0*	*25.6*	5.4	*12.4*	*36.4*	12.4	*160*	*99*	3.6	*9.9*	*29.5*	4.1	3.7	3.1
Thangamayil	3.6	*-7.8*	*30.4*	0.2	*-10.0*	*66.7*	5.6	*-13*	*122*	0.1	*-23.8*	*93.5*	5.8	7.6	3.0
Aggregate	**47.2**	***-2.5***	***25.9***	**5.6**	***11.4***	***37.3***	**11.9**	***149***	***99***	**3.7**	***8.9***	***30.4***			

Source: Company, 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 (%)*		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Titan	665	750	NEU	820	15.6	19.6	23.5	48.1	38.2	31.9	32.5	26.4	21.8	18.1	19.5	19.6
Thangamayil	4	290	BUY	625	20.5	27.7	34.7	14.2	10.5	8.4	9.5	8.2	7.2	8.5	10.2	10.9

Source: Company, HDFC sec Inst Research

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

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