Kotak Institutional Equities

Consumer Staples

India

CAUTIOUS

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UPDATE

BSE-30: 35,514

3QFY19E preview: robust on aggregate, distribution skewed. We forecast aggregate (coverage universe) revenue/EBITDA/PAT growth of 14/17/18% for 3QFY19E. We expect material dispersion of performance across companies. Underlying demand trend appears stable to accelerating across categories with festive season shift benefit accruing to select companies. Sharp mid-quarter crude correction saves the day on margins; strong topline growth should drive leverage-led margin expansion.

Revenues: strong growth likely on aggregate, not broad-based however

We forecast 13.6% yoy revenue growth on an aggregate basis for our consumer universe. This accelerating aggregate revenue growth print for 3QFY19E indicates robust demand trends as this is now off a normal base quarter comps. We expect the staples (+11.4% yoy) pack growth to lag the discretionary pack (+15.8% yoy). Directionally, we expect an improvement in 2-year CAGR on volumes as well as revenues for most companies under our coverage. We expect better volume growth prints for the discretionary pack (APNT, JUBI, PAG, TTAN and the alcohol names) than the staples pack. APNT, in particular, could report a very solid volume growth print. ITC's cigarette volume growth should remain strong (off a low base). Within staples, while base is tough for several names, HUVR and Dabur should lead the reported volume growth print.

Margins: marginal expansion likely led by leverage

We forecast an aggregate 59 bps yoy expansion in EBITDA margin for our coverage universe, 105 bps for the aggregate staples pack and 9 bps for the discretionary pack. Modest expansion in EBITDA margin is mainly on account of operating leverage benefit flow-through as the gross margin support seen in the previous few quarters could be missing this quarter.

We bake in strong margin expansion for UNSP (+339 bps), HUVR (+243 bps), UBBL (+134 bps), TTAN (+128 bps), JUBI (+116 bps), and BRIT (+100 bps). BJCORP, PIDI and TGBL are likely to see margin contraction of 369 bps, 282 bps and 141 bps, respectively. Easing of copra prices should mean margin expansion for Marico after several quarters of yoy declines.

Net income: healthy growth overall

We expect 18.4% growth in recurring PAT for our coverage universe with the staples pack likely to see a PAT growth of 20% while the discretionary pack is likely to clock close to 18% growth. Several companies (UBBL, UNSP, TTAN, JYL, JUBI, HUVR and APNT) are likely to report 25%+ PAT growth for the quarter.

Factors to watch out for – fiscal stimulus impact on growth, crude fall benefit to margins

We will watch out for management commentaries on –

- Possibilities on the rural demand front – with several farm loan waiver announcements in recent weeks by various states and talks of a likely mega rural stimulus announcement by the central government, it would be interesting to hear managements on whether a big boom in rural consumption is round the corner and if there are any visible early signs of the same.
- Pricing stance – with the sharp mid-quarter crash in crude, it will be interesting to watch out for pricing stance of various managements. A related area of interest would be trends on the theme of unorganized-to-organized shift in volumes across various categories.
- Margin outlook – fresh tailwinds on the commodity front versus headwind of GST benefits getting into the base.

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Exhibit 1: KIE consumer universe valuation summary

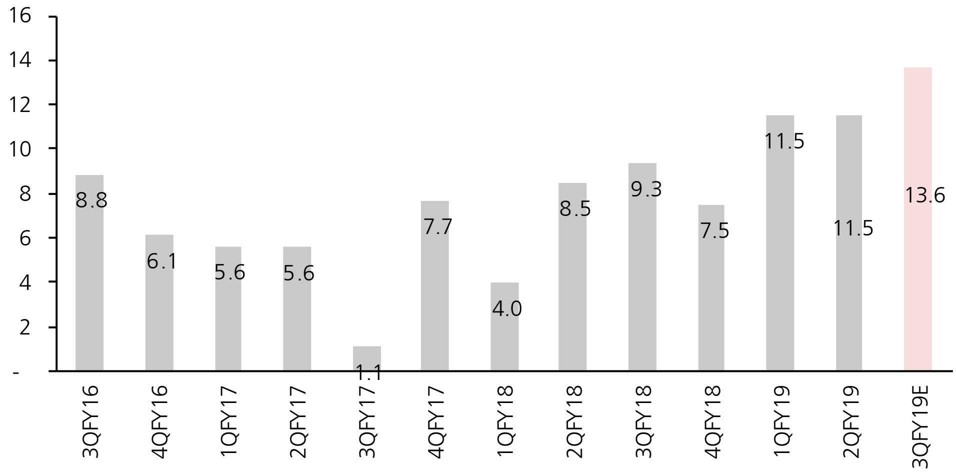
Company	Rating	FV (Rs)	03-Jan-19 Price (Rs)	Upside / (downside) (%)	Mkt cap. (Rs bn)	Mkt cap. (US$ m)	EPS (Rs) 2018	EPS (Rs) 2019E	EPS (Rs) 2020E	EPS Growth, % 2018	EPS Growth, % 2019E	EPS Growth, % 2020E	PER (X) 2018	PER (X) 2019E	PER (X) 2020E	EPS CAGR - (2018-20E), %	Sales CAGR - (2018-20E), %
Consumer Products																	
Asian Paints	REDUCE	1,140	1,387	(18)	1,330	18,952	20.5	24.0	29.8	2.9	16.7	24.3	67.6	57.9	46.6	20.4	16.3
Bajaj Corp	ADD	405	376	8	55	790	14.3	15.2	16.7	(9.4)	6.3	9.7	26.3	24.7	22.5	8.0	11.6
Britannia Industries	ADD	3,063	3,136	(2)	753	10,721	41.8	50.6	62.5	13.5	20.9	23.6	74.9	62.0	50.1	22.3	14.4
Coffee day Enterprises	NR	-	272	NM	56	799	3.4	7.8	10.4	53.0	126.6	33.6	79.4	35.0	26.2	74.0	9.9
Colgate-Palmolive (India)	ADD	1,185	1,316	(10)	358	5,097	23.8	27.5	31.7	15.2	15.6	15.4	55.3	47.9	41.5	15.5	10.4
Dabur India	REDUCE	345	422	(18)	743	10,587	7.8	8.7	10.0	7.2	11.8	15.2	54.3	48.5	42.1	13.5	12.4
GlaxoSmithKline Consumer	RS	NA	7,483	NM	315	4,483	166.5	212.1	235.1	6.6	27.4	10.8	45.0	35.3	31.8	18.8	11.4
Godrej Consumer Products	REDUCE	645	815	(21)	833	11,863	14.2	15.9	18.2	11.6	11.4	14.8	57.3	51.4	44.8	13.1	9.4
Hindustan Unilever	REDUCE	1,530	1,787	(14)	3,868	55,103	24.5	29.1	33.8	24.8	18.8	16.1	73.0	61.4	52.9	17.4	12.0
ITC	ADD	330	279	18	3,408	48,552	8.9	9.8	11.1	7.8	9.9	12.8	31.3	28.5	25.2	11.4	8.8
Jubilant Foodworks	BUY	1,370	1,240	11	164	2,329	14.6	24.3	33.3	191.7	67.2	36.9	85.2	51.0	37.2	51.3	17.9
Jyothy Laboratories	ADD	210	202	4	73	1,043	4.4	5.6	6.4	(26.4)	27.4	13.8	45.7	35.9	31.5	20.4	13.4
Marico	ADD	350	378	(7)	488	6,950	6.3	7.0	8.7	2.0	11.1	24.5	59.9	53.9	43.3	17.6	15.2
Nestle India	ADD	10,600	11,207	(5)	1,081	15,393	127.1	171.0	199.7	21.1	34.5	16.8	88.2	65.6	56.1	25.4	13.2
Page Industries	SELL	22,300	23,614	(6)	263	3,752	311.1	410.2	500.8	30.3	31.9	22.1	75.9	57.6	47.2	26.9	18.5
Pidilite Industries	REDUCE	915	1,109	(18)	569	8,101	18.0	19.6	23.9	7.5	8.4	22.1	61.5	56.7	46.5	15.1	16.1
S H Kelkar	BUY	240	171	40	25	353	7.4	7.2	9.5	2.1	(3.4)	32.4	23.1	23.9	18.1	13.1	13.7
Tata Global Beverages	ADD	230	210	9	133	1,888	7.3	7.7	9.0	20.7	4.7	16.6	28.6	27.3	23.4	10.5	6.3
Titan Co.	REDUCE	800	931	(14)	827	11,776	12.5	16.3	20.5	45.3	30.3	25.3	74.3	57.0	45.5	27.7	21.0
United Breweries	REDUCE	1,260	1,369	(8)	362	5,154	14.9	22.5	28.9	71.6	50.5	28.7	91.6	60.9	47.3	39.2	14.1
United Spirits	REDUCE	540	620	(13)	451	6,419	7.6	10.9	13.9	39.1	42.8	28.1	81.5	57.1	44.6	35.2	12.1
Varun Beverages	ADD	700	801	(13)	146	2,079	11.5	14.9	19.6	378.1	29.3	31.5	69.4	53.7	40.9	30.4	18.1
KIE universe					*16,309*	*232,324*				*12.6*	*17.0*	*17.4*	*53.9*	*46.1*	*39.3*	*14.8*	*13.0*
KIE universe (ex-ITC)					*12,755*	*181,693*				*15.2*	*20.9*	*19.7*	*66.1*	*54.6*	*45.6*	*18.0*	*14.0*

Company	Price performance (%) 1-mo	3-mo	6-mo	1-yr	EV/EBITDA (X) 2018E	2019E	2020E	EV/Sales (X) 2018E	2019E	2020E	FCF yield (%) 2018E	2019E	2020E	Dividend yield (%) 2019E	2020E
Asian Paints	4	11	7	21	41.3	36.5	29.0	7.9	6.9	5.8	0.5	0.9	1.7	0.8	1.0
Bajaj Corp	5	(6)	(6)	(23)	20.6	19.7	16.9	6.3	5.8	5.1	3.1	3.6	4.4	3.5	3.7
Britannia Industries	1	9	1	34	49.5	40.6	33.0	7.5	6.6	5.6	1.1	1.2	1.4	0.6	0.7
Coffee day	3	1	3	(0)	13.5	11.7	10.2	2.2	2.1	1.9	2.6	0.9	0.7	—	—
Colgate-Palmolive (India)	3	21	14	21	31.8	27.8	24.1	8.4	7.8	6.8	1.4	2.2	2.4	1.2	1.4
Dabur India	2	(1)	11	21	47.9	43.5	37.1	9.7	8.7	7.6	1.2	1.8	1.9	0.9	1.1
GlaxoSmithKline Consumer	(1)	11	17	17	31.6	25.0	21.9	6.5	5.7	5.0	2.4	2.3	2.2	1.2	1.4
Godrej Consumer Products	6	6	(2)	24	41.4	36.5	31.7	8.8	8.0	7.1	1.6	2.4	2.3	0.7	0.8
Hindustan Unilever	(2)	10	9	32	52.3	43.4	37.3	11.0	9.7	8.7	1.3	1.5	1.7	1.2	1.3
ITC	(1)	(6)	5	7	20.9	18.9	16.3	7.9	7.3	6.6	3.2	2.9	3.4	2.1	2.4
Jubilant Foodworks	(7)	4	(13)	34	36.3	26.1	20.4	5.3	4.5	3.8	0.0	1.8	2.3	0.2	0.2
Jyothy Laboratories	8	3	(16)	6	29.8	24.9	21.4	4.4	3.8	3.3	3.3	2.2	2.8	0.5	0.7
Marico	5	16	11	18	42.5	37.9	30.4	7.7	6.5	5.7	0.9	1.8	2.4	1.3	1.5
Nestle India	4	20	15	43	48.4	37.5	32.4	10.5	9.3	8.1	1.5	1.9	2.2	1.0	1.2
Page Industries	(11)	(27)	(16)	(4)	48.3	37.0	30.5	10.2	8.6	7.2	1.5	1.3	1.6	0.7	0.9
Pidilite Industries	(4)	11	4	21	41.5	37.0	31.3	9.2	7.8	6.7	0.9	0.9	1.4	0.6	0.7
S H Kelkar	(7)	(21)	(23)	(42)	16.3	17.5	12.7	2.6	2.4	2.1	(1.2)	(2.3)	1.7	1.0	1.2
Tata Global Beverages	(2)	(8)	(25)	(33)	14.9	15.7	13.7	1.8	1.7	1.6	0.0	2.2	2.8	1.4	1.7
Titan Co.	(1)	17	4	9	49.9	37.7	29.6	5.1	4.1	3.4	(0.4)	1.1	1.0	0.5	0.6
United Breweries	11	6	17	27	40.4	30.8	25.6	6.5	5.6	4.8	1.0	1.7	1.8	0.3	0.4
United Spirits	(7)	23	(5)	(14)	47.2	34.1	27.5	5.9	5.1	4.5	1.9	1.2	1.7	—	0.3
Varun Beverages	2	7	6	13	20.9	17.8	15.3	4.4	3.5	3.1	(2.8)	(0.0)	0.9	—	—
KIE FMCG universe	*(1)*	*3*	*4*	*15*	*35.5*	*30.4*	*25.7*	*7.8*	*6.9*	*6.0*	*1.5*	*1.8*	*2.1*	*0.9*	*1.1*
KIE universe (ex-ITC)	*(2)*	*4*	*2*	*17*	*42.8*	*35.8*	*30.0*	*7.8*	*6.8*	*5.9*	*1.1*	*1.5*	*1.8*	*0.9*	*1.1*
Sensex	*(2)*	*(1)*	*0*	*5*											

Source: Company, Kotak Institutional Equities estimates

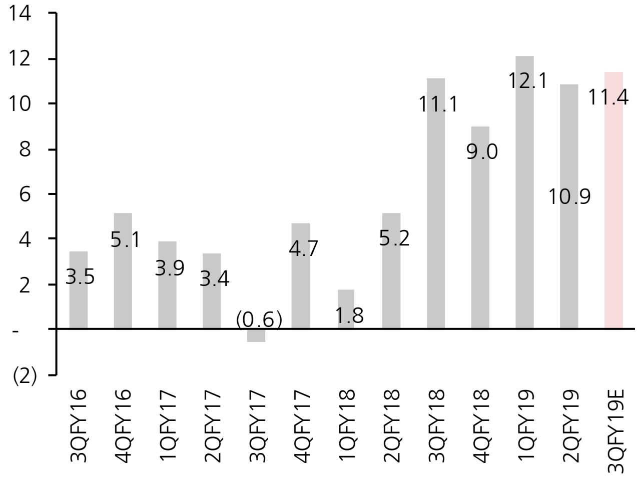
Aggregate sectoral trends (in charts)

Exhibit 2: Overall revenue growth momentum to continue
KIE consumer universe revenue growth trends, yoy (%)



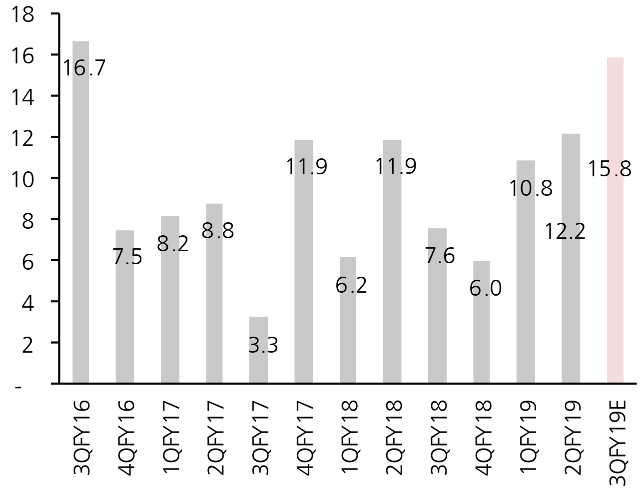
Source: Company, Kotak Institutional Equities

Exhibit 3: Staples revenue growth to rise to ~11% yoy
KIE consumer staples universe revenue growth trends, yoy (%)



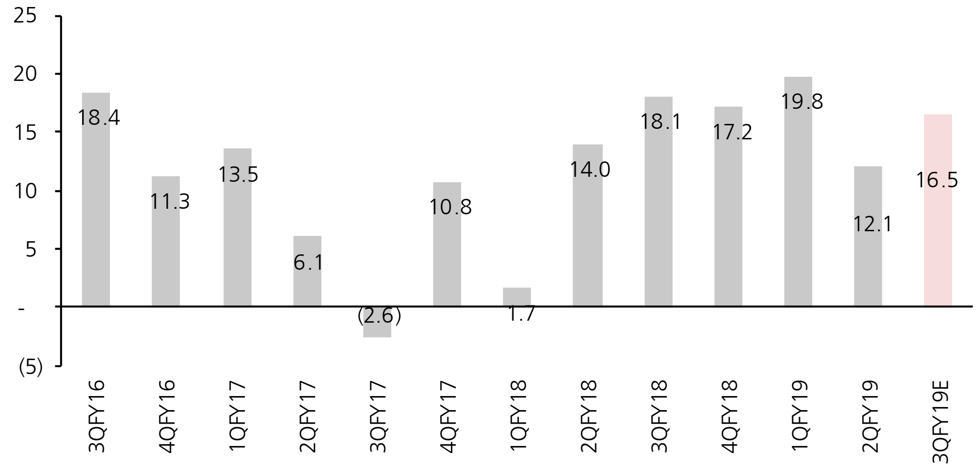
Source: Company, Kotak Institutional Equities

Exhibit 4: Discretionary to grow at a higher pace
KIE consumer discretionary universe revenue growth trends, yoy (%)



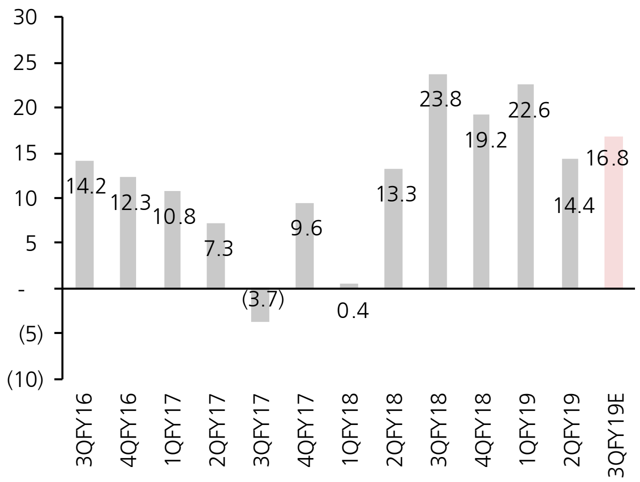
Source: Company, Kotak Institutional Equities

Exhibit 5: Overall EBITDA growth to be restricted at ~16.5% with some softness in gross margins
KIE consumer universe EBITDA growth trends, yoy (%)



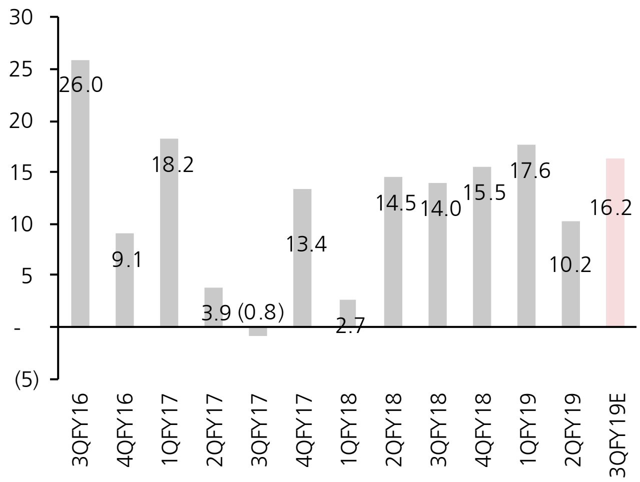
Source: Company, Kotak Institutional Equities

Exhibit 6: Strong EBITDA growth for staples on a tough base…
KIE consumer staples universe EBITDA growth trends, yoy (%)



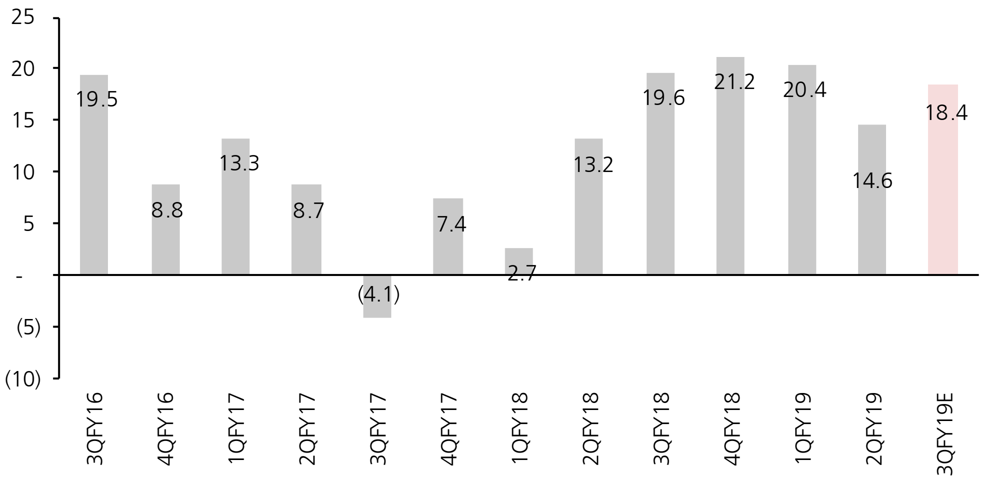
Source: Company, Kotak Institutional Equities

Exhibit 7: …some acceleration seen even in discretionary names
KIE consumer discretionary universe EBITDA growth trends, yoy (%)



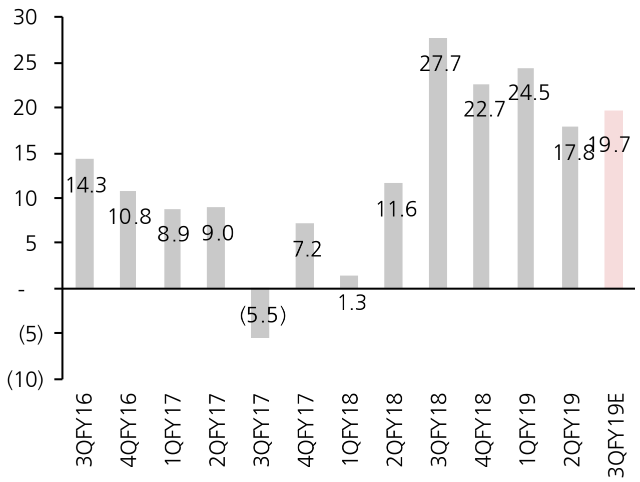
Source: Company, Kotak Institutional Equities

Exhibit 8: Overall PAT to grow at ~18% levels
KIE consumer universe PAT growth trends, yoy (%)



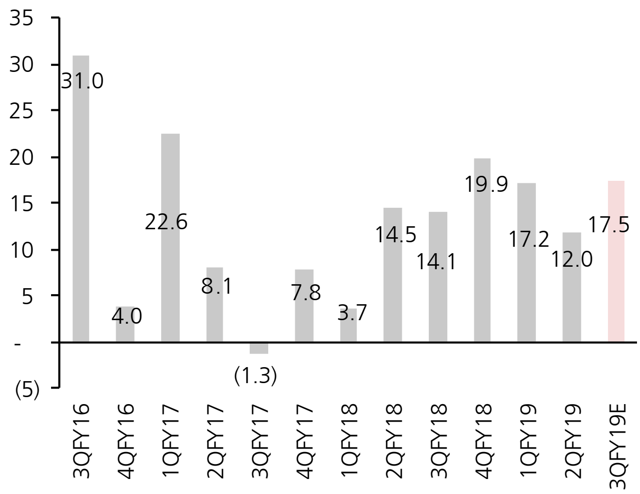
Source: Company, Kotak Institutional Equities

Exhibit 9: Staples PAT likely to grow at ~20% yoy
KIE consumer staples universe PAT growth trends, yoy (%)



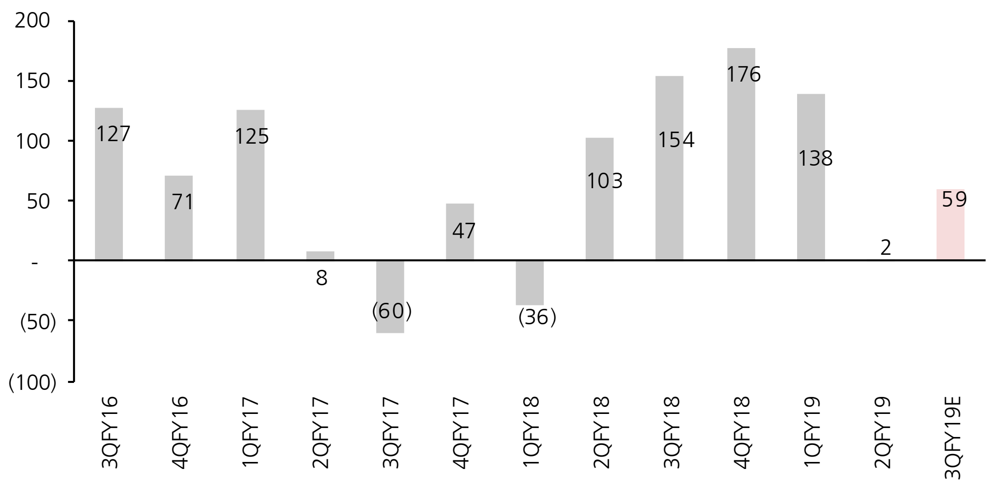
Source: Company, Kotak Institutional Equities

Exhibit 10: Discretionary could see lower growth
KIE consumer discretionary universe PAT growth trends, yoy (%)



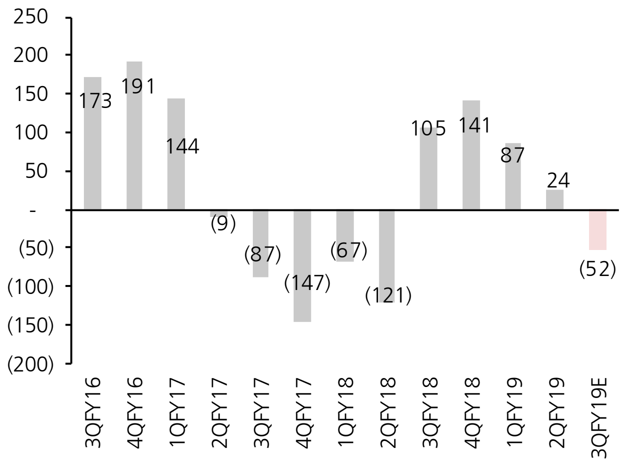
Source: Company, Kotak Institutional Equities

Exhibit 11: Only a modest uptick in EBITDA margins seen with no kicker from gross level
KIE consumer universe EBITDA margin change yoy (bps)



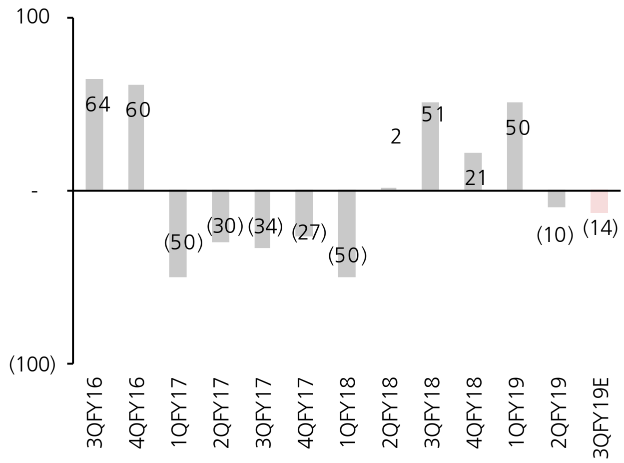
Source: Company, Kotak Institutional Equities

Exhibit 12: Select discretionary names to see some GM pressure
KIE consumer universe gross margin change yoy (bps)



Source: Company, Kotak Institutional Equities

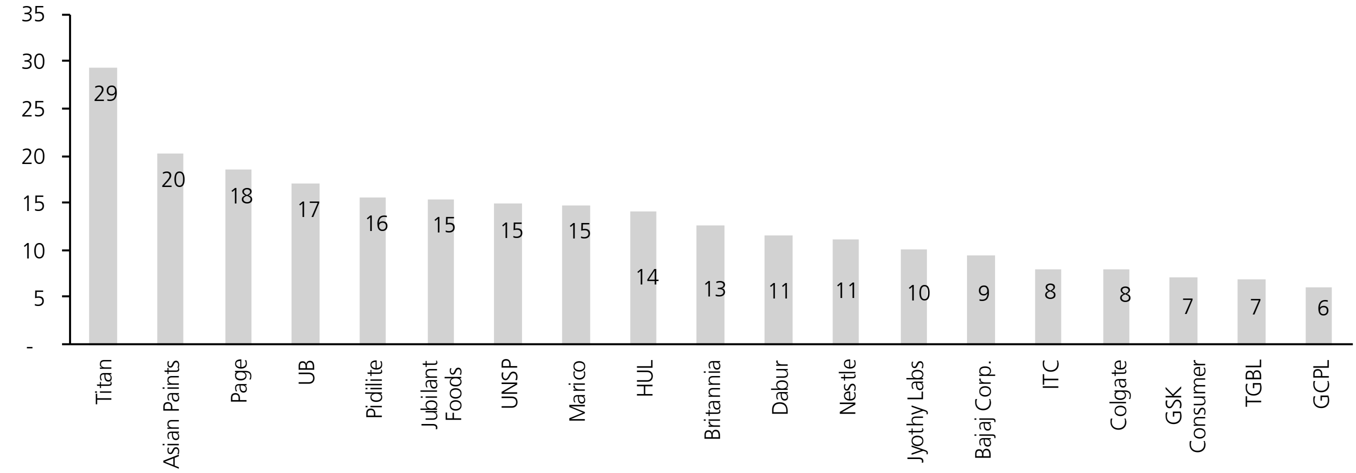
Exhibit 13: Aggregate A&SP spends saw a sharp rise in the base
KIE consumer universe A&SP change yoy (bps)



Source: Company, Kotak Institutional Equities

Company-wise estimates for 3QFY19 (in charts)

Exhibit 14: TTAN, APNT, Page, UBBL, PIDI to post strong revenue growth; at-least mid-single digit growth likely for all consumer names
KIE consumer universe company-wise revenue growth estimate for 3QFY19, yoy (%)



Source: Company, Kotak Institutional Equities estimates

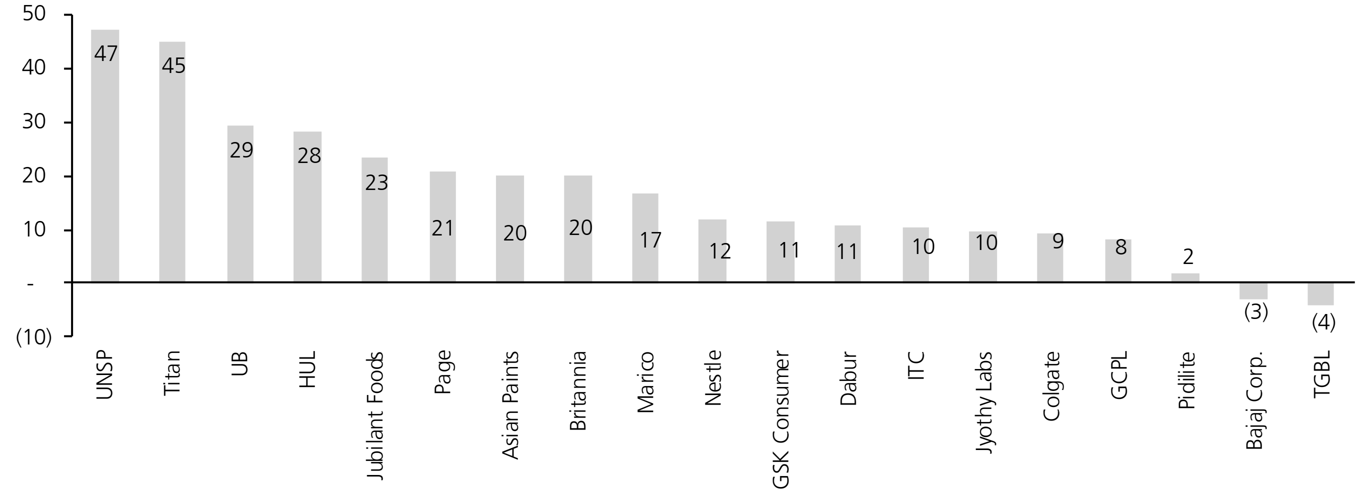
Exhibit 15: Volume growth to continue at decent levels despite a tougher base, translating to good 2-year CAGR numbers
KIE consumer universe company-wise revenue growth trends, yoy (%)

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	3QFY19 - 2yr CAGR
Staples										
Bajaj Corp. - Almond Drop Hair Oil	(4.2)	(7.1)	(6.6)	6.5	4.5	6.9	7.0	(0.6)	6.0	5.3
Britannia Industries - Domestic	2.0	2.0	2.0	6.0	13.0	12.5	13.0	11.0	10.3	11.6
Colgate - Overall	(11.0)	(3.0)	(5.0)	(0.9)	12.0	4.0	4.0	7.0	5.0	8.4
Dabur - Domestic	(5.2)	2.4	(4.4)	7.2	13.0	7.7	15.0	8.1	10.0	11.5
GSK Consumer	(17.0)	(0.7)	(3.0)	2.4	17.0	5.0	8.0	8.7	3.0	9.8
GCPL - Soaps	(8.0)	5.0	(8.0)	15.0	15.0	8.0	8.0	12.0	10.0	12.5
HUL (FMCG business)	(4.0)	4.0	—	4.0	11.0	11.0	12.0	10.0	9.5	10.2
Marico - Domestic	(4.0)	10.0	(9.0)	8.0	9.4	1.0	10.0	6.0	7.5	8.4
Marico - Parachute	(1.0)	15.0	(9.0)	12.0	15.0	(5.0)	11.0	8.0	8.0	11.4
Marico - Saffola	6.0	6.0	(9.0)	3.0	—	(1.0)	8.0	5.0	5.0	2.5
Marico - Value-added hair oils	(12.0)	10.0	(8.0)	12.0	8.0	11.0	14.0	5.0	9.0	8.5
Discretionary										
Asian Paints (Domestic paints)	3.0	10.0	2.0	9.0	6.0	10.0	13.0	11.0	18.0	11.8
ITC - Cigarettes	(1.0)	—	2.0	(7.0)	(5.0)	(4.0)	(2.5)	7.0	7.0	0.8
Jubilant Foodworks - SSG	(3.3)	(7.5)	6.5	5.5	17.8	26.5	19.0	20.5	12.5	15.1
Page (overall)	8.7	10.8	13.4	11.1	11.3	5.5	9.8	(1.7)	9.3	10.3
Pidilite - Domestic consumer busine:	(1.5)	8.2	—	15.0	23.0	13.0	20.0	10.7	10.0	16.3
Titan - Jewelry (tonnage)	4.0	37.0	49.0	49.0	6.0	6.0	9.0	24.0	25.0	15.1
United Breweries (overall)	(8.0)	(9.4)	—	11.0	10.4	24.0	16.0	16.7	13.0	11.7
United Spirits (overall)	(4.8)	(8.2)	(19.0)	(15.6)	(14.1)	(2.3)	8.2	10.3	8.7	(3.4)

Note:
(1) Asian Paints, Britannia Industries and ITC are KIE estimates.

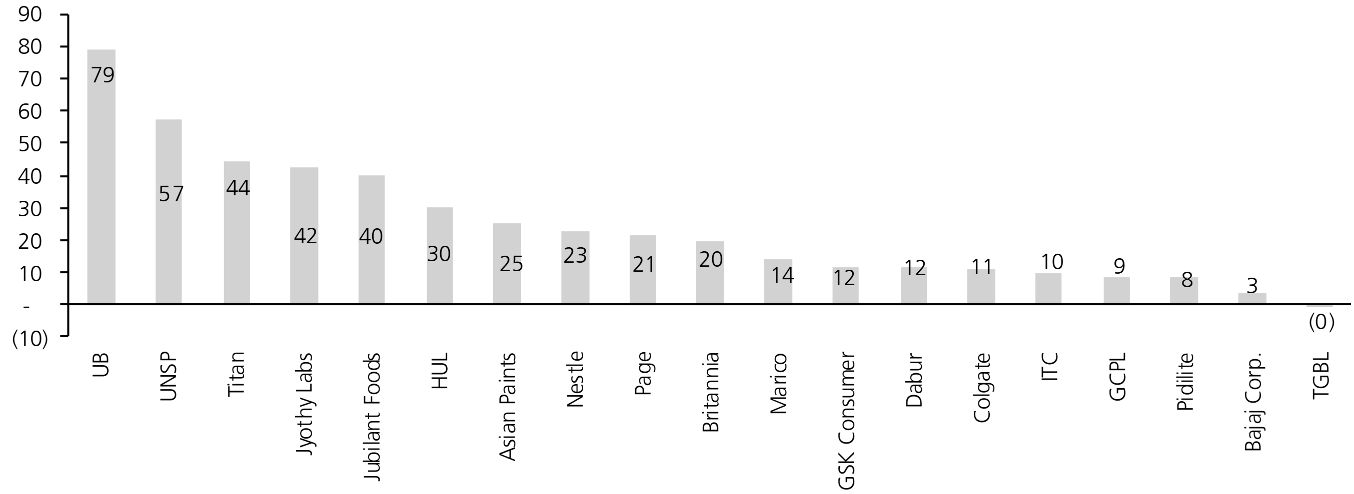
Source: Company, Kotak Institutional Equities estimates

Exhibit 16: Strong EBITDA growth across companies led by UNSP, TTAN, UBBL, HUVR and JUBI
KIE consumer universe company-wise EBITDA growth estimate for 3QFY19, yoy (%)



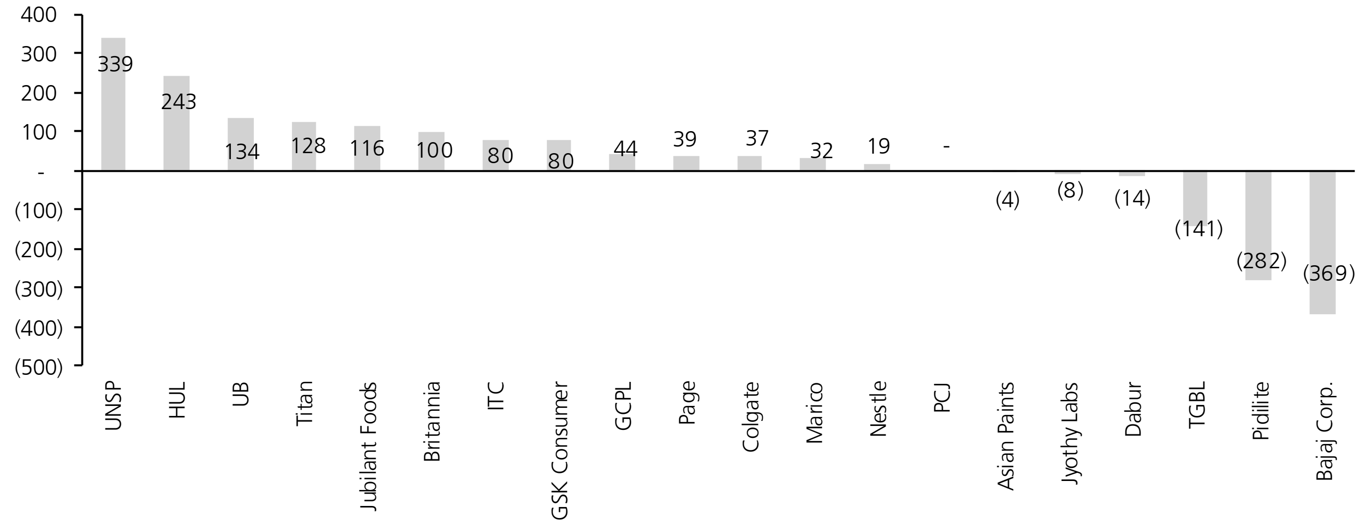
Source: Company, Kotak Institutional Equities estimates

Exhibit 17: PAT growth robust across most companies
KIE consumer universe company-wise recurring PAT growth estimate for 3QFY19, yoy (%)



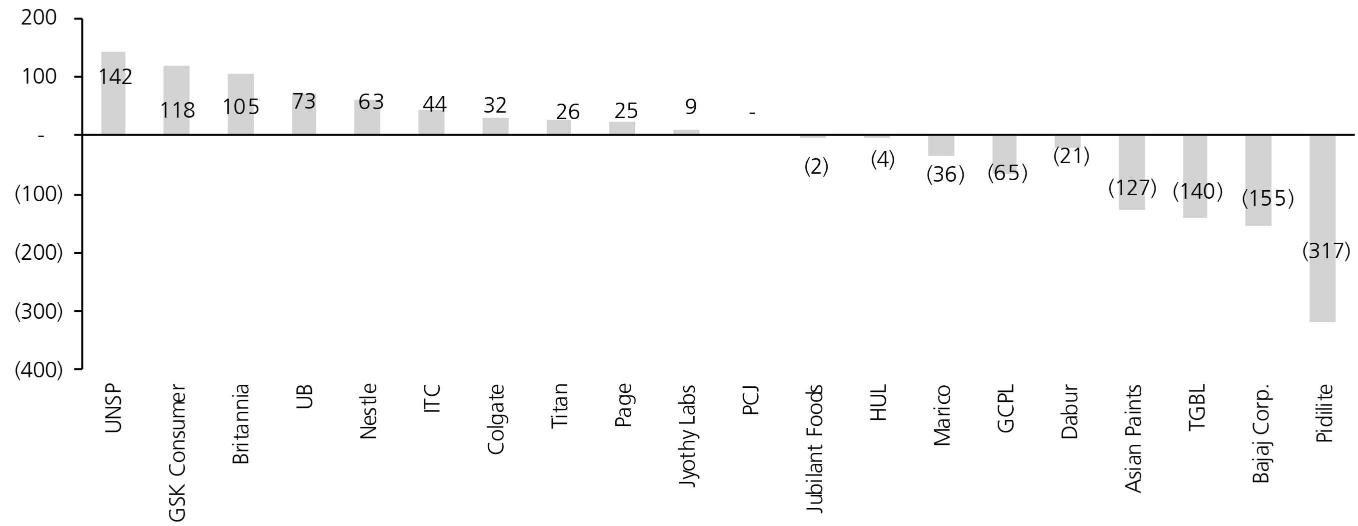
Source: Company, Kotak Institutional Equities estimates

Exhibit 18: EBITDA margin to expand led by UNSP, HUVR, UBBL and TTAN; BJCORP, PIDI, TGBL could see some weakness
KIE consumer universe company-wise EBITDA margin change estimate for 3QFY19, yoy (bps)



Source: Company, Kotak Institutional Equities estimates

Exhibit 19: Mixed movement seen in gross margins for our coverage universe
KIE consumer universe company-wise GM change estimate for 3QFY19, yoy (bps)



Source: Company, Kotak Institutional Equities estimates

Exhibit 20: Mixed trend seen for commodity inflation
Quarterly movement in inputs/commodities

				% chg - local currency			% chg - currency Adj.			Inflationary = +3% Deflationary = -3%
No	Commodity	Unit	3QFY19E	qoq	yoy	vs FY18	qoq	yoy	vs FY18	Companies impacted
	Agri Commodities									
1	Tea - India Avg.	Rs/Kg	144	(2)	4	12	(2)	4	12	HUL, TGBL
2	Tea - World Avg.	USD/MT	2,720	(2)	(14)	(13)	1	(3)	(2)	HUL, TGBL
3	Tea - Mombassa/Kenya	USD/Kg	3	(2)	(19)	(19)	2	(9)	(8)	HUL, TGBL
4	Coffee Arabica - Intl.	US cents/Pound	141	10	(1)	(4)	14	11	8	HUL, Nestle, TGBL
5	Coffee Robusta - Intl.	US cents/Pound	88	4	(9)	(12)	8	2	(1)	HUL, Nestle, TGBL
6	Sugar - domestic	Rs/Quintal	3,436	(1)	(11)	(10)	(1)	(11)	(10)	HUL, Nestle, GSKCHL, ITC, Dabur, Britannia
7	Wheat	Rs/Quintal	2,044	4	13	15	4	13	15	ITC, Nestle, GSKCHL, Britannia
8	Barley	Rs/Quintal	1,885	15	26	27	15	26	27	GSKCHL
9	Maize (corn)	USD/MT	160	2	8	3	5	21	16	Colgate, HUL, Dabur (Sorbitol)
10	Liquid Milk - domestic	Rs/Ltr	32	(1)	(5)	(15)	(1)	(5)	(15)	Nestle, GSKCHL, Jubilant Foodworks, Britannia
11	Milk Powder - domestic	Rs/Kg	243	(2)	(3)	(8)	(2)	(3)	(8)	Nestle, GSKCHL, Britannia
12	Cocoa Bean	USD/MT	2,195	(4)	4	3	(1)	17	16	Nestle
	Oil Commodities									
13	Crude Oil - Brent	USD/Barrel	73	(4)	18	26	(0)	33	43	HUL, GCPL, Jyothy Labs, Asian Paints, Pidilite
14	Palm oil	Rs/MT	55,992	(8)	0	3	(5)	13	16	HUL, GCPL, Jyothy Labs
15	PFAD	USD/MT	404	(17)	(35)	(35)	(14)	(27)	(27)	HUL, GCPL, Jyothy Labs
16	Light liquid paraffin (LLP)	Rs/Ltr	55	13	21	27	13	21	27	Marico, Dabur, Bajaj Corp
17	Copra	Rs/Quintal	9,572	(15)	(26)	(17)	(15)	(26)	(17)	Marico, Dabur
18	Coconut oil	Rs/Quintal	13,966	(14)	(20)	(12)	(14)	(20)	(12)	Marico, Dabur
19	Rice Bran oil	Rs/10Kg	656	(5)	13	13	(5)	13	13	Marico
20	Kardi oil/ Safflower oil	Rs/MT	1,310	3	(1)	4	3	(1)	4	Marico
21	Sunflower oil	Rs/MT	75,083	(1)	15	18	(1)	15	18	Marico
22	Groundnut oil	Rs/MT	95,056	7	6	4	7	6	4	Marico, Dabur
23	Linseed oil	Rs/MT	90,012	(2)	19	15	(2)	19	15	Marico, Dabur, Bajaj Corp, Asian Paints
24	Castor oil	Rs/MT	110,057	18	16	16	18	16	16	Marico, Dabur, Bajaj Corp, Asian Paints
25	Mentha oil	Rs/Kg	2,170	9	31	58	9	31	58	Emami, Colgate, HUL, Dabur
	Chemicals/Paints/Other Commodities									
26	Caustic soda	Rs/ 50Kg	2,297	8	2	(1)	8	2	(1)	HUL, GCPL, Jyothy Labs
27	Soda ash	Rs/ 50Kg	1,438	10	22	16	10	22	16	HUL, GCPL, Jyothy Labs
28	LAB	Rs/Kg	122	8	20	22	8	20	22	HUL, Jyothy Labs
39	HDPE - domestic	Rs/Kg	126	(0)	27	23	(0)	27	23	All companies
30	PAN	Rs/Kg	80	—	14	7	—	14	7	Asian Paints
31	PENTA	Rs/Kg	115	—	—	—	—	—	—	Asian Paints
32	Tio2 Anatese	Rs/Kg	168	—	(9)	(6)	—	(9)	(6)	Asian Paints
33	Tio2 Rutile	Rs/Kg	222	2	6	5	2	6	5	Asian Paints
34	Tio2 Dupont	Rs/Kg	272	3	14	8	3	14	8	Asian Paints
35	Turpentine oil	Rs/Ltr	100	(4)	38	31	(4)	38	31	Asian Paints
36	Formaldehyde	Rs/Kg	29	12	26	25	12	26	25	Asian Paints
37	Acrylic acid	Rs/Kg	125	—	18	13	—	18	13	Asian Paints
38	Vinyl Acetate - China	USD/MT	1,153	(8)	6	9	(5)	19	22	
39	Styrene - domestic	Rs/Kg	95	(8)	(10)	(9)	(8)	(10)	(9)	Asian Paints
40	Gold	Rs/10gm	31,241	4	7	7	4	7	7	Titan, Jewellery companies
41	Diamond price index	USD/Carrat	121	1	5	4	4	18	17	Titan, Jewellery companies

Source: Bloomberg, Kotak Institutional Equities

Exhibit 21: INR has appreciated towards the end of the quarter but the quarter average still showed weakness
Movement of rupee vs relevant international currencies for KIE consumer universe

	Period end			Average rate			
Currency	31th Dec 2018	30th Sep 2018	qoq (%)	3QFY19 Avg	3QFY18 Avg	yoy (%)	Companies impacted
Euro	80.0	84.1	(5)	82.2	76.2	8	Dabur, TGBL
USD	69.6	72.5	(4)	72.0	64.7	11	All Companies
GBP	88.8	94.5	(6)	92.7	85.9	8	GCPL, TGBL
Canada	51.0	56.2	(9)	54.5	50.9	7	TGBL
Australia	49.0	52.4	(6)	51.7	49.7	4	TGBL
SL	0.4	0.4	(11)	0.4	0.4	(3)	GCPL, Marico, Dabur, Asian Paints
Bangladesh	0.8	0.9	(4)	0.9	0.8	9	GCPL, Marico, Dabur, Asian Paints, Pidilite
Nepal	0.6	0.6	(0)	0.6	0.6	(0)	Dabur, Asian Paints
Indonesia	0.5	0.5	(1)	0.5	0.5	2	GCPL
Malaysia	16.8	17.5	(4)	17.3	15.6	11	Marico (Revenue), GCPL/HUL (Palm oil imports)
Vietnam	0.3	0.3	(4)	0.3	0.3	9	Marico
South Africa	4.8	5.1	(6)	5.0	4.8	6	GCPL, Marico, TGBL
Nigeria	0.2	0.2	(4)	0.2	0.2	6	GCPL, Dabur
Kenya	0.7	0.7	(5)	0.7	0.6	13	GCPL, TGBL
Turkey	13.2	12.0	10	13.1	17.0	(23)	Dabur
Egypt	3.9	4.1	(4)	4.0	3.7	10	Marico, Dabur, Pidilite
Middle East (AED	19.0	19.7	(4)	19.6	17.6	11	GCPL, Marico, Dabur, Asian Paints, Pidilite
Argentina	1.8	1.8	5	1.9	3.7	(47)	GCPL
Uruguay	2.1	2.2	(2)	2.2	2.2	(0)	GCPL
Chile	1.0	1.1	(9)	1.1	1.0	4	GCPL
Poland	18.6	19.7	(5)	19.1	18.0	6	TGBL
Czech	3.1	3.3	(5)	3.2	3.0	7	TGBL
Russia	1.0	1.1	(9)	1.1	1.1	(2)	TGBL

Source: Bloomberg, Kotak Institutional Equities

Exhibit 22: Results preview for KIE consumer universe for the quarter ending December 2018 (Rs mn)

Company	Dec-17	Sep-18	Dec-18E	YoY (%)	qoq (%)	Comments
Asian Paints (consolidated)						
Revenues	42,605	46,391	51,216	20.2	10.4	We model 22% yoy growth in domestic sales led by 18% volume growth and 4% price/mix-led growth. Strong volume growth is partly attributable to shift in festive season this year.
Gross margin (%)	42.2	39.8	41.0	-127 bps	116 bps	
EBITDA	8,912	7,842	10,695	20.0	36.4	We expect EBITDA margin to be broadly flat on yoy basis as RM headwinds would be largely offset by tight cost control and operating leverage.
EBITDA margin (%)	20.9	16.9	20.9	-4 bps	397 bps	
Net income	5,546	4,928	6,944	25.2	40.9	
EPS (Rs/share)	5.8	5.1	7.2	25.2	40.9	
Bajaj Corp.						
Revenues	2,081	2,127	2,275	9.4	7.0	We expect 6% yoy growth in volumes and 4% yoy improvement in realizations for ADHO; expect channel de-stocking that impacted growth in 2QFY19 to ease a bit. Reported revenue growth will be marginally lower at 9.5% due to lower other operating income (base quarter other operating income included catch-up component of GST refunds).
Gross margin (%)	69.0	67.3	67.5	-155 bps	16 bps	
EBITDA	678	606	658	(3.0)	8.6	Weak rupee and inflation in LLP price (partly offset by covers) would put some pressure on GM. We model 370 bps decline in EBITDA margin led by 150 bps drop in GM, higher employee costs and higher A&SP costs pertaining to product refresh (NOMARKS cream).
EBITDA margin (%)	32.6	28.5	28.9	-370 bps	44 bps	
Net income	552	517	570	3.4	10.4	
EPS (Rs/share)	3.7	3.5	3.9	3.4	10.4	
Britannia Industries (consolidated)						
Revenues	25,675	28,696	28,906	12.6	0.7	Our standalone operating revenue estimate bakes in (1) 10% volume growth in the biscuits segment and (2) 2.5% increase in realizations (price/mix).
Gross margin (%)	38.7	40.0	39.7	104 bps	-33 bps	
EBITDA	3,984	4,544	4,774	19.8	5.1	We expect consolidated EBITDA margin to expand 100 bps yoy aided by 105 bps expansion in GM partly offset by a tad higher other expenses (including A&SP spends).
EBITDA margin (%)	15.5	15.8	16.5	100 bps	68 bps	
Net income	2,636	3,030	3,160	19.9	4.3	
EPS (Rs/share)	11.0	12.6	13.2	19.9	4.3	
Colgate						
Revenues	10,333	11,680	11,158	8.0	(4.5)	We bake in volume growth of 5% and realisation increase of 3%. Our volume growth assumption translates into a strong 2-year CAGR of around 8%.
Gross margin (%)	65.2	64.8	65.5	31 bps	73 bps	
EBITDA	2,824	3,296	3,091	9.4	(6.2)	We model 40 bps yoy expansion in EBITDA margin aided by higher gross margin partly offset by 15% yoy increase in A&SP expenses.
EBITDA margin (%)	27.3	28.2	27.7	36 bps	-52 bps	
Net income	1,635	1,964	1,814	10.9	(7.6)	
EPS (Rs/share)	6.0	7.2	6.7	10.9	(7.6)	
Coffee Day Global (CDGL) - coffee business only						
Revenues	4,350	4,295	4,836	11.2	12.6	Our revenue growth estimate bakes in (1) 30 net café additions qoq, (2) 3% increase in retail ASPD and (3) around 16% yoy growth in vending machine count.
Gross margin (%)	55.9	60.9	55.8	-14 bps	-508 bps	
EBITDA	715	756	832	16.5	10.1	We model 80 bps expansion in EBITDA margin aided by better operating leverage (in CDGL).
EBITDA margin (%)	16.4	17.6	17.2	78 bps	-40 bps	
Net income	101	81	186	84.9	128.1	
EPS (Rs/share)	0.5	0.4	1.0	84.9	128.1	
Dabur (consolidated)						
Revenues	19,364	20,920	21,586	11.5	3.2	We model around 12% yoy growth in domestic revenues, a combination of 10% volume growth and 2% realization improvement. Growth will be driven by HPC segment. International business revenue growth would be modest 6-7% in c/c terms partly due to continued weakness in the GCC region.
Gross margin (%)	50.8	48.6	50.6	-22 bps	203 bps	
EBITDA	3,735	4,178	4,134	10.7	(1.1)	
EBITDA margin (%)	19.3	20.0	19.2	-14 bps	-83 bps	We expect modest decline in consolidated EBITDA margin led by higher A&SP spends and ESOP expenses and some margin pressure in the international business. We expect consolidated gross margin to be broadly flat as headwinds from high-cost RM inventory would be largely offset by price increase.
Net income	3,321	3,766	3,707	11.6	(1.6)	
EPS (Rs/share)	1.9	2.1	2.1	11.6	(1.6)	
GSK Consumer						
Revenues	10,382	12,720	11,116	7.1	(12.6)	We model 5% yoy growth in domestic revenues on a healthy base (22% in base quarter) led by 3% growth in volume growth and 2% improvement in realization. We model 25% revenue growth in exports on a low base.
Gross margin (%)	69.0	69.7	70.1	118 bps	47 bps	
EBITDA	2,075	3,537	2,310	11.3	(34.7)	We estimate 80 bps yoy expansion in EBITDA margin entirely driven by GM expansion.
EBITDA margin (%)	20.0	27.8	20.8	79 bps	-703 bps	
Net income	1,637	2,755	1,828	11.7	(33.6)	
EPS (Rs/share)	38.9	65.5	43.5	11.7	(33.6)	
GCPL (consolidated)						
Revenues	26,303	26,592	27,905	6.1	4.9	We model 9% yoy growth in domestic revenues led by (1) 6% growth in HI, (2) 8% growth in soaps segment (partly muted due to price reduction and healthy base) and (3) 4% growth in hair colors on a healthy base. We expect International business growth to be muted at 2.4% yoy due to divestment of UK business; adjusted for the same, we model 11% growth led by Indonesia and recovery in Africa and US.
Gross margin (%)	57.2	54.7	56.5	-66 bps	180 bps	
EBITDA	5,890	5,385	6,372	8.2	18.3	On profitability front, we expect EBITDA margin of domestic business to expand as pressure on gross margin (crude inflation + rupee depreciation + price reduction in soaps to pass on palm oil deflation) would be more than offset by lower employee costs. Profitability of international business would be under pressure due to weakness in LATAM and higher A&SP in Indonesia. At consolidated level, we expect modest expansion in margin.
EBITDA margin (%)	22.4	20.3	22.8	44 bps	258 bps	
Net income	4,322	3,580	4,701	8.8	31.3	
EPS (Rs/share)	4.2	3.5	4.6	8.7	31.3	

Source: Company, Kotak Institutional Equities estimates

Exhibit 22 (continued): Results preview for KIE consumer universe for the quarter ending December 2018 (Rs mn)

Company	Dec-17	Sep-18	Dec-18E	YoY (%)	qoq (%)	Comments
HUL (standalone)						
Revenues	85,900	92,340	98,022	14.1	6.2	We model 14% revenue growth in domestic FMCG business led by 10% UVG and 4% price-led growth. On a segmental basis, we bake in 15% yoy revenue growth for Home Care and Personal Care and 10% growth for Food and refreshments.
Gross margin (%)	54.5	52.0	54.5	-5 bps	252 bps	
EBITDA	16,800	20,190	21,548	28.3	6.7	We expect EBITDA margin to expand 240 bps yoy aided by operating cost efficiencies (including A&SP spends); expect gross margin to be flat yoy.
EBITDA margin (%)	19.6	21.9	22.0	242 bps	11 bps	
Net income	11,980	15,220	15,627	30.4	2.7	
EPS (Rs/share)	5.5	7.0	7.2	30.4	2.7	
ITC (standalone)						
Revenues	96,726	108,912	104,491	8.0	(4.1)	We model 7% yoy increase in cigarette volumes and 3% increase in realization (portfolio-level). We forecast 10.5% yoy growth in cigarette EBIT.
Gross margin (%)	63.0	60.7	63.4	44 bps	271 bps	
EBITDA	38,051	40,284	41,944	10.2	4.1	We model 12%, 13%, 10% and 10% yoy growth in FMCG, Hotels, Paperboards and Agri segments. We expect 10% yoy growth in consolidated EBIT.
EBITDA margin (%)	39.3	37.0	40.1	80 bps	315 bps	
Net income	28,202	29,547	31,033	10.0	5.0	
EPS (Rs/share)	2.3	2.4	2.5	10.2	5.0	
Jubilant Foodworks						
Revenues	7,951	8,814	9,178	15.4	4.1	We model 12.5% SSG as the base starts getting tough; however, Everyday Value 99 offer should continue to help. We build in 20 Dominos store additions and 2 store additions in DD (net).
Gross margin (%)	74.5	74.6	74.5	-2 bps	-11 bps	
EBITDA	1,368	1,475	1,686	23.3	14.3	
EBITDA margin (%)	17.2	16.7	18.4	116 bps	162 bps	We expect EBITDA margin to expand 120 bps yoy, despite flat gross margins, aided by better leverage and cost saving initiatives.
Net income	660	777	923	39.8	18.9	
EPS (Rs/share)	5.0	5.9	7.0	39.8	18.9	
Jyothy Laboratories (Standalone)						
Revenues	4,184	4,277	4,602	10.0	7.6	We expect modest 10% yoy growth in standalone revenues led by steady momentum in dish wash and fabric care categories. We expect a muted quarter for HI.
Gross margin (%)	47.2	45.9	47.2	1 bps	129 bps	
EBITDA	707	732	774	9.4	5.8	We estimate EBITDA margin to be broadly flat on yoy basis as RM headwinds in select categories would be partly offset by pricing and operating efficiencies.
EBITDA margin (%)	16.9	17.1	16.8	-9 bps	-30 bps	
Net income	373	453	440	18.1	(2.9)	
EPS (Rs/share)	1.0	1.2	1.2	18.1	(2.9)	
Marico (consolidated)						
Revenues	16,243	18,368	18,650	14.8	1.5	We model 15% topline growth in the domestic business driven by 7.5% volume growth and similar realization improvement. We bake in volume growth of 8%, 5% and 9% in Parachute rigid, Saffola and VAHO, respectively
Gross margin (%)	46.5	44.0	46.2	-36 bps	216 bps	
EBITDA	3,021	2,941	3,528	16.8	20.0	We expect EBITDA margin to increase marginally aided by easing of copra prices and improvement in realizations.
EBITDA margin (%)	18.6	16.0	18.9	31 bps	290 bps	
Net income	2,205	2,142	2,521	14.3	17.7	
EPS (Rs/share)	1.7	1.7	2.0	14.4	17.7	
Nestle						
Revenues	25,896	29,220	28,758	11.0	(1.6)	We model 11% growth in net domestic revenues, broad-based across segments.
Gross margin (%)	58.7	59.5	59.3	62 bps	-14 bps	
EBITDA	6,331	7,247	7,086	11.9	(2.2)	
EBITDA margin (%)	24.4	24.8	24.6	19 bps	-17 bps	We model a modest 20 bps expansion in EBITDA margin despite a 60 bps yoy increase in gross margins. Increase in gross margins should be partly offset by higher operating costs.
Net income	3,118	4,461	3,833	22.9	(14.1)	
EPS (Rs/share)	32.3	46.3	39.8	22.9	(14.1)	
Page Industries						
Revenues	6,210	6,908	7,357	18.5	6.5	We expect 19% revenue growth aided by 9% volume growth and 10% price/mix-led growth.
Gross margin (%)	55.6	57.8	55.8	25 bps	-202 bps	With only a modest expansion in GM, we model only 40 bps expansion in EBITDA margin.
EBITDA	1,289	1,428	1,555	20.7	8.9	
EBITDA margin (%)	20.8	20.7	21.1	38 bps	46 bps	
Net income	834	926	1,012	21.3	9.2	
EPS (Rs/share)	74.8	83.0	90.7	21.3	9.2	

Source: Company, Kotak Institutional Equities estimates

Exhibit 22 (continued): Results preview for KIE consumer universe for the quarter ending December 2018 (Rs mn)

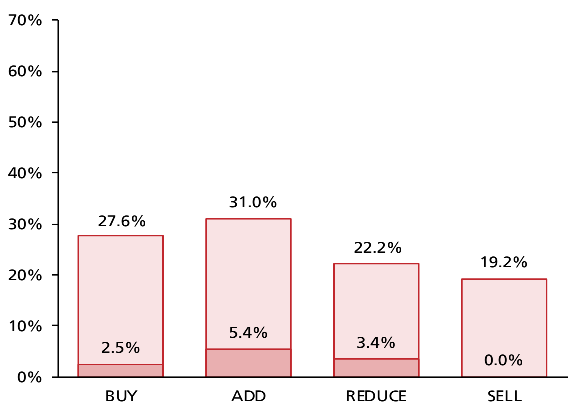
Company	Dec-17	Sep-18	Dec-18E	YoY (%)	qoq (%)	Comments
Pidilite Industries (consolidated)						
Revenues	15,429	17,574	17,835	15.6	1.5	We model 10% volume growth and 13% revenue growth for the consumer bazaar (CBP) business on a high base (CBP volumes grew 23% in the base quarter). PIDI has taken two price increases of aggregating to 3-4% (blended) over the previous two quarters. Expect strong momentum in water proofing business to continue.
Gross margin (%)	53.4	49.4	50.3	-318 bps	84 bps	
EBITDA	3,703	3,648	3,778	2.0	3.5	We model 280 bps yoy decline in consolidated EBITDA margin impacted by high-cost inventory (RM inflation + rupee depreciation). We note that prices of key raw materials (VAM, TiO2 and crude derivatives) have started to decline and rupee has appreciated a bit as well; expect recovery in margins starting 4QFY19E.
EBITDA margin (%)	24.0	20.8	21.2	-282 bps	42 bps	
Net income	2,398	2,316	2,602	8.5	12.3	
EPS (Rs/share)	4.7	4.6	5.1	9.5	12.3	
S H Kelkar and Company (consolidated)						
Revenues	2,831	2,835	3,115	10.0	9.9	We estimate 10% yoy revenue growth in consolidated revenues partly aided by price hikes taken by the company to pass on RM cost pressure.
Gross margin (%)	46.1	42.5	42.7	-342 bps	17 bps	
EBITDA	576	367	484	(15.9)	31.9	Gross margin pressure should continue this quarter as well, translating to a sharp 480 bps yoy contraction in EBITDA margins.
EBITDA margin (%)	20.3	13.0	15.5	-480 bps	259 bps	
Net income	272	288	300	10.3	4.1	
EPS (Rs/share)	2.3	2.0	2.1	(11.6)	4.1	
Tata Global Beverages (consolidated)						
Revenues	17,304	17,609	18,515	7.0	5.1	We model 7% yoy growth in consolidated revenues led by (1) 7.5% revenue growth in the domestic tea business driven by 9% volume growth and (2) 6% growth in theinternational business in INR terms partly aided by rupee depreciation.
Gross margin (%)	46.4	43.3	45.0	-140 bps	167 bps	
EBITDA	2,351	1,667	2,254	(4.1)	35.3	We model 260 bps decline in standalone EBITDA margin due to RM inflation and higher A&SP in the domestic tea business. Expect consoildated EBITDA margin to decline 140 bps yoy.
EBITDA margin (%)	13.6	9.5	12.2	-141 bps	271 bps	
Net income	1,273	1,765	1,270	(0.2)	(28.0)	
EPS (Rs/share)	2.0	2.8	2.0	(0.2)	(28.0)	
Titan Industries						
Revenues	42,248	44,068	54,629	29.3	24.0	We model (1) 32% yoy growth in jewelry segment revenues partly aided by shift in festive season this year, (2) 13% yoy growth in the watches segment revenues, driven by share gains and (3) 19% growth in eyewear.
Gross margin (%)	25.8	27.8	26.0	25 bps	-180 bps	
EBITDA	4,447	4,671	6,448	45.0	38.0	We expect EBITDA margin to expand 130 bps yoy to 11.8% on account of lower impact of discounting and aggressive exchange schemes in the jewelry segment.
EBITDA margin (%)	10.5	10.6	11.8	127 bps	120 bps	
Net income	3,082	3,144	4,447	44.3	41.5	
EPS (Rs/share)	3.5	3.5	5.0	44.3	41.5	
United Breweries						
Revenues	11,971	15,260	14,013	17.1	(8.2)	We model 17% revenue growth aided by volume growth of 13% and 4% increase in net realisation.
Gross margin (%)	52.4	55.6	53.1	73 bps	-248 bps	
EBITDA	1,526	3,182	1,974	29.3	(38.0)	We model strong 130 bps expansion in EBITDA margins aided by increase in gross margins, continued cost saving initiatives and operating leverage benefits.
EBITDA margin (%)	12.7	20.9	14.1	133 bps	-677 bps	
Net income	474	1,638	848	79.0	(48.2)	
EPS (Rs/share)	1.8	6.2	3.2	79.0	(48.2)	
United Spirits (standalone)						
Revenues	22,633	22,281	25,995	14.9	16.7	We model 15% net revenue growth led by 8.7% underlying volume growth. For this quarter, reported and underlying volume growth should be broadly similar given much of the low-end franchising impact is now in the base.
Gross margin (%)	47.4	49.1	48.8	142 bps	-30 bps	
EBITDA	2,723	4,324	4,008	47.2	(7.3)	RM softness and better mix should help gross margin expansion. This along with cost saving initiatives should drive strong EBITDA margin expansion. Lower interest expenses on account of deleveraging efforts to also help earnings growth.
EBITDA margin (%)	12.0	19.4	15.4	338 bps	-399 bps	
Net income	1,473	2,587	2,316	57.3	(10.5)	
EPS (Rs/share)	2.0	3.6	3.2	57.3	(10.5)	
Varun Beverages (consolidated)						
Revenues	5,274	11,657	6,036	14.5	(48.2)	We expect 14.5% net revenue growth driven by 22% volume growth; reported revenue growth to be lower on account of high other operating income in the base quarter.
Gross margin (%)	63.6	54.8	63.3	-38 bps	844 bps	
EBITDA	225	2,112	195	(13.0)	(90.7)	With Dec-quarter being the seasonally weakest quarter for VBL, margins can be voltaile. We model 100 bps yoy contraction in EBITDA margins due to higher acquisition-led operating costs.
EBITDA margin (%)	4.3	18.1	3.2	-103 bps	-1489 bps	
Net income	(728)	423	(927)	27.3	(319.3)	
EPS (Rs/share)	(4.0)	2.3	(5.1)	27.3	(319.3)	

Source: Company, Kotak Institutional Equities estimates

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Rohit Chordia, Jaykumar Doshi and Aniket Sethi."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

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Source: Kotak Institutional Equities — As of September 30, 2018

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5-+5% returns over the next 12 months.

SELL. We expect this stock to deliver <-5% returns over the next 12 months.

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