Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Tata Consumer Products Ltd

Muted Q1, margin prospects to improve ahead

Consumer Goods	Sharekhan code: TATACONSUM	Result Update

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 761**	
Price Target: **Rs. 875**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

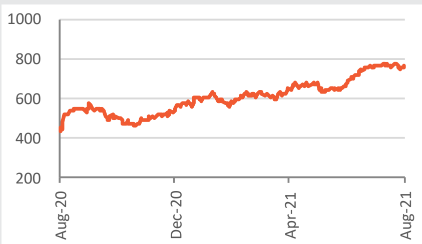
Company details

Market cap:	Rs. 70,130 cr
52-week high/low:	Rs. 788 / 436
NSE volume: (No of shares)	33.4 lakh
BSE code:	500800
NSE code:	TATACONSUM
Free float: (No of shares)	60.2 cr

Shareholding (%)

Promoters	34.7
FII	26.1
DII	14.0
Others	25.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.8	16.4	31.1	69.1
Relative to Sensex	-3.6	5.4	22.9	24.8

Sharekhan Research, Bloomberg

Summary

- Tata Consumer Products Limited's (TCPL) Q1FY2022 performance was affected by high base in the international business and higher tea prices, resulting in a ~450 bps OPM decline to 13.3% and decline in adjusted PAT by 29%; revenue grew by 11%.
- Demand and business environment in India is back to normal; TCPL is focusing on achieving high single-digit volume growth in the branded tea business and strong double-digit growth in the foods business.
- Gross margin improved by 153 bps q-o-q; tea prices corrected by 20% from their peak; OPM to sequentially improve and will be higher y-o-y in H2FY2022.
- With strong growth prospects and sturdy cash flows (FCF/EBIDTA of 100%; net cash of Rs. 2,169 crore), we maintain TCPL as one of the best picks in the FMCG space and retain our Buy rating with unchanged PT of Rs. 875.

Tata Consumer Products Limited's (TCPL) Q1FY2022 performance was affected by higher raw tea prices and high base in the international business in Q1FY2021 due to pantry loading in the US and UK in the backdrop of the first COVID-19 wave. Consolidated revenue grew by 10.9% to Rs. 3,008 crore, driven by 28% price-led growth in India business (with volume growth of just 3%) and 20% growth in the foods business (driven by 17% volume growth). International business decreased by 13% and Tata Coffee grew by just 5%. India beverage business sales volume was impacted by last-mile logistics issue during the localised lockdown and lower institutional sales (due to closure of restaurants and small tea stalls). However, the same has started witnessing an improvement from the end of May and continues to improve in July. The company has gained 140 bps market share in the branded tea space. The company is building a branded coffee portfolio with Tata Coffee Grand, catering to the instant coffee space, while Eight O Clock Coffee and Tata Coffee Sonnet will cater to the premium coffee segment's exclusive on online platform. TCPL's food business revenue grew by 20%, with strong growth in the salt business (led by market share gain of 240 bps and Tata Sampann growing by 12%). Tata Salt will continue to gain market share as the premium portfolio (grew by 34%) continues to gain strong traction. Tata Sampann will continue to grow in strong double digits aided by new launches and distribution expansion in key markets. International business base has normalised and key markets are expected to perform well in the quarters ahead. Out-of-home businesses such as NourishCo and Tata Starbucks registered much better performance compared to the first wave. Tata Starbucks sales have improved to 83% in June from a dip of 36% in May, while NourishCo reported revenue of Rs. 87 crore (two-year CAGR of 12%). With scale up in businesses such as Tata Sampann and NourishCo, sustained market share gains in tea and salt, new launches in key categories, distribution expansion in the domestic market, and recovery in the international business, the company is expecting strong double-digit revenue growth in the coming quarters. Gross margin at 40.8% fell by 400 bps in Q1 (improved by 150 bps q-o-q). Raw tea prices have corrected by 20% from their high and are expected to stabilise in the coming quarters. With price hikes in base, the company expects gross margin to improve on a y-o-y basis in H2FY2022. Surge in international coffee prices is positive for Tata Coffee's standalone business, while US Coffee business will see limited impact due to raw-material cover till the end of the fiscal. The company will accrue synergistic benefits of Rs. 100 crore-150 crore of integration of foods business in FY2022-FY2023. Digitalisation across the value chain, supply efficiencies, and integration of consumer business aided working capital to further reduce by two days. Free cash flow (FCF) to EBIDTA stood at 101%. Despite higher dividend payout, net cash on books remains at Rs. 2,169 crore.

Key positives

- Gross margin improved by 151 bps q-o-q due to correction in raw tea prices.
- Branded tea and salt saw improvement in market share by 140 bps and 240 bps, respectively.
- Tata Sampann grew by 30% on two-year CAGR basis.
- Direct coverage improved from 0.5 million in Sept'20 to 0.82 million in June 2021 (the target is to reach 1 million outlets by September 2021).

Key negatives

- India beverage business volume growth was muted at 3%.
- Tata coffee volumes decreased by 6% as plantation revenue decreased by 20%+.

Our Call

View - Retain Buy with an unchanged PT of Rs. 875: We have broadly maintained our earnings estimates for FY2022 and FY2023 (and introduced FY2024 earnings in this note). TCPL's management is focusing on achieving profitable growth in the India beverage and food business, while simplifying the international business to drive in more efficiencies to improve profitability. We expect TCPL's revenue and PAT to post a CAGR of 13% and 18%, respectively, over FY2021-FY2024. The stock is currently trading at 51.9x its FY2023E EPS and 44.7x its FY2024E EPS. In view of strong growth prospects and strengthened balance sheet, we maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 875.

Key Risks

Any disruption caused by frequent lockdowns in the domestic as well as international markets or surge in domestic tea prices would act as a key risk to our earnings estimates.

Valuation (Consolidated) Rs cr

Particulars	FY20	FY21	FY22E*	FY23E*	FY24E*
Revenue	9,637	11,602	13,143	14,947	16,810
OPM (%)	13.4	13.3	13.8	14.6	15.1
Adjusted PAT	661	953	1,090	1,350	1,568
% Y-o-Y growth	*37.9*	*44.2*	*14.4*	*23.8*	*16.2*
Adjusted EPS (Rs.)	7.2	10.3	11.8	14.6	17.0
P/E (x)	106.1	73.6	64.3	51.9	44.7
P/B (x)	5.1	4.8	4.6	4.4	4.1
EV/EBIDTA (x)	53.1	44.1	37.7	31.0	26.4
RoNW (%)	7.0	7.2	7.7	9.0	9.7
RoCE (%)	8.8	8.1	9.0	10.6	11.6

Source: Company; Sharekhan estimates
**FY21, FY22 & FY23 estimates include consolidation of TCL's consumer division*

Revenue missed expectations; higher input prices affected the bottom line: TCPL's revenue grew by 10.9% y-o-y to Rs. 3,008.5 crore, lower than our expectation of Rs. 3,141.6 crore and street expectation of Rs. 3,064.9 crore. Revenue growth was despite a challenging operating environment and a high base. Revenue stood flat on a q-o-q basis. Despite a severe second wave of COVID-19, India business reported 25% y-o-y growth, whereas international markets saw a decline of 13% y-o-y owing to pantry loading in the base quarter. India beverages business registered price-led growth of 28%, while volume growth stood muted at 3% (our expectation was 5% volume growth) impacted by disruption caused by the second wave of COVID-19. India beverage business sales volume was impacted by last-mile logistics issue during the localised lockdown and lower institutional sales (due to closer of restaurants and small tea stalls). India Foods business revenue grew by 20% (led by 17% volume growth). In the international market, US declined by 17% and other markets (including UK and Canada) registered a decline of 7%. Gross margin decreased by 396 bps y-o-y to 40.8% (40.0% in Q1FY2021) due to higher raw tea and coffee prices. However, the same improved sequentially by 153 bps due to correction in raw tea prices. This led to a decrease in OPM by 451 bps to 13.3%, lower than our expectation of 13.7% but better than street expectation of 12.5%. The decline in OPM was driven by higher advertisement and publicity (A&P) spends in India business in the current quarter and low-cost tea inventory that benefitted the base quarter. On a q-o-q basis, OPM improved by 300 bps. Operating profit decreased by 17.2%y-o-y to Rs. 399.5 crore. This along with lower other income and higher incidence of tax resulted in a 29% decline in adjusted PAT (before share of profit/loss from associates and exceptions) to Rs. 243.6 crore, lower than our expectation of Rs. 268.4 crore. Net cash at quarter end is Rs. 2,169 crore.

India business:

- **India packaged beverages - Strong value growth, muted volume growth:** For the quarter, India packaged beverages business recorded revenue of Rs. 1,267 crore, with 24% value growth and 3% volume growth, impacted by disruption caused by the second wave of COVID-19. In addition to recording overall market share gains of ~140 bps in the beverages segment, the branded tea business achieved market share leadership in the e-commerce channel. The tea segment reported market share gains of 170 bps y-o-y. A new Tata Tea Jaago Re campaign 'Is baar sab ke liye Jaago Re' was launched. The wellness portfolio for beverages further strengthened, with the scale up and expansion of Tata Tea Gold in Andhra Pradesh, Telangana, and Karnataka. Tata Tea Chakra Gold Care – a new tea blend with the goodness of five natural ingredients was launched in Tamil Nadu. Kanan Devan Dust was relaunched in Tamil Nadu. Coffee revenue grew by 14% during the quarter, with volume growth of 6%. The company is building a branded coffee portfolio with Tata Coffee Grand, catering to the instant coffee space, while Eight O Clock Coffee and Tata Coffee Sonnet will cater to the premium coffee segment's exclusive on online platform. Tata Coffee market share in Rs. 8,500 crore instant coffee segment is in low single digit and the company targets to improve it to low double digits in the medium term. EBIT margin for the beverages segment improved q-o-q, however it contracted on a y-o-y basis, led by tea cost inflation and increased A&P.
- **India Foods - Salt gained ~240 bps market share; Tata Sampann registered 12% growth:** For the quarter, India Foods business registered revenue of Rs. 705 crore with 20% value growth and 17% volume growth, despite a high base. Tata Salt witnessed market share gains of ~240 bps with value-added salts portfolio recording 34% y-o-y growth, in line with the company's premiumisation agenda. The company expects Tata Salt to continue to gain market share, led by the premium portfolio, which continues to gain strong traction. The company launched Tata Salt Super Lite with 30% less sodium. Tata Sampann portfolio grew by 12% due to pantry loading in the base quarter, bringing the two-year CAGR to ~30%. Tata Sampann Spices recorded strong growth in the ecommerce channel. Poha, pulses, spices, and mixes are some of the products that have strong traction in the domestic market. The company has a strong strategy approach towards its food business. Along with expanding reach of the product on general trade and modern trade, the company is focusing on adding more products on the e-commerce platform (both on Big Basket and other e-commerce channel). It will focus on promoting region-specific products and increase the availability of such products in the region. Tata Sampann is expected to grow in strong double digits because of new launches and distribution expansion in key markets. Management ambition is to grow in upwards of 30% with increased scale of business.
- **NourishCo - Resilient performance despite second wave disruption:** NourishCo sustained strong growth momentum during the quarter, with 91% revenue growth on a standalone basis to Rs. 87 crore, albeit on a

low base that was impacted by nationwide lockdown last year. Growth was broad based with all products growing strongly. Tata Water Plus delivered 4.8x y-o-y growth and Himalayan natural mineral water saw good traction on ecommerce and modern trade channels. Roll-out of Himalayan in e-commerce and MT channels is seeing good traction. The integration of Tata Consumer Soulfull has been completed, and its sales and distribution have been integrated with Tata Consumer Products system, enabling a scale up in reach.

- **Tata Starbucks - Recovery led by improved market conditions and increased delivery contribution:** Tata Starbucks recorded revenue growth of 371% in Q1 on a depressed base of last year, which was impacted by nationwide lockdown. Despite this growth, revenue for the quarter was at 61%, when indexed to the same period in FY2020. While April and May this year were impacted by localised lockdowns, June saw a V-shaped recovery with gradual easing of restrictions on store operations. As of June 2021, 84% of the stores are operational, up from 36% in May 2021 (as indexed to Q1FY2020). Delivery contribution increased to 27%, driven by several focused initiatives to offset the decline in dine in. The company introduced its signature coffee essentials on the Tata Cliq luxury platform.
- **Tata Coffee (including Vietnam) - Revenue growth muted, improvement in margin:** Revenue for the quarter grew by 5% to Rs. 241 crore, led by the extractions business, which helped offset the decline in coffee plantations (down by 23% y-o-y). Volume decline was 6% for the quarter. The quarter saw value growth in tea (better realisation), while coffee revenue declined on a y-o-y basis due to a high base. Overall extraction business grew by 21%, with growth seen in both Vietnam and domestic business, which were impacted by nationwide lockdown last year. Vietnam business recorded the highest-ever EBIT, driven by higher volumes and a higher proportion of premium blends.

Business-wise revenue break-up

Particulars	Revenue (Rs. cr)	Value growth (%)	Volume growth (%)
India business	1,267	28%	3%
India food	705	20%	17%
US Coffee	296	-18%	-16%
UK, Canada and Others	472	-3%	9%
Tata Coffee (incl. Vietnam)	241	5%	-6%

Source: Company; Sharekhan Research

International business:

- **UK –** Revenue for the quarter declined by 11% (constant currency), owing to pantry up-stocking that led to 12% growth in the base quarter last year. Tetley continued to grow its share in the fruit and herbal category in the UK, with its herbals range. Teapigs revenue grew by 14% y-o-y on CC terms, driven by fast recovery in specialty OOH and grocery channels. Good Earth launched its Good Energy range in the UK to augment its portfolio. In line with the company's strategy to add new growth levers, Teapigs Kombucha in a can format and Teapigs cold brew – natural infusions specially made to brew in cold water – were launched in the UK. Himalayan, a premium natural mineral water brand from India, has been launched in the UK through online channels and retail expansion is underway. The company is setting up a dedicated e-commerce team for UK and Europe and an integrated back-end i.e., fulfilment centres for all tea brands.
- **US –** Revenue for US coffee declined by 15% (constant currency) on a y-o-y basis in Q1FY2021 to Rs. 296 crore due to pantry loading, which led to 26% growth in the base quarter last year. Volume decline was at 16%. The retail coffee category saw a decline during the quarter; however, it is showing signs of rebound since June. Coffee bags market share is at 4.5%. Revenue for tea (excluding Empirical) for the quarter declined 8% (constant currency) on an elevated base that saw 25% growth in the base quarter. Tetley outperformed the black hot tea category, while Good Earth Sensorial blends & Teapigs continued their momentum in the specialty tea segment. The company launched Tetley Irish Breakfast with ShopRite with an aim to expand presence in other retailers.
- **Canada –** Revenue for the quarter declined by 25% (constant currency) due to pantry loading that led to 32% growth in the base quarter last year. Specialty tea declined by 26% (constant currency). Market share of Tetley is at 29%.

- **Australia –** With the aim to cross-leverage its brands across geographies, Good Earth tea was launched in Australia in four flavours- Hibiscus Rose and Sweet berries, Tropical Mango, Rooibos Chai, and Ginger, Turmeric and Lemon.

Other key highlights

- Demand situation improved towards the end of the quarter. With the onset of the second wave of COVID-19, the company witnessed muted performance in May. The recovery was V-shaped with improvement seen in June and demand further increased in July. International markets (US, UK, and Canada) are seeing a return to pre-COVID demand trends of packaged tea and coffee categories with US and UK being ahead of Canada.
- Tea prices have eased down to Rs. 215 per kg as compared to Q2FY2021 (peak level of Rs. 272 per kg) but are higher than previous quarter level of Rs. 158 per kg. The uptick in prices during Q1 can be attributed to supply-led disruptions caused by the second wave of COVID-19 along with draught scare in Assam. In July, prices have declined by Rs. 20-30 per kg and are expected to normalise going ahead. However, prices are expected to stay elevated when compared to FY2019 levels. Coffee prices are trending upwards mainly due to draught-like situations in Brazil. To mitigate the impact of high tea/coffee prices, the company has undertaken price hike during the quarter. The company expects margins to go back to FY2020 level in the next 2-3 quarters as the price of tea/coffee cools down.
- The company has made consistent progress in expanding its sales and distribution reach. TCPL now has a direct reach of 0.82 million outlets, up from 0.50 million in September 2020 and is on track for a direct reach of 1 million outlets by September 2021. Sales and distribution redesign has been completed, a pan-India harmonised distribution system is now in place and rural reach has strengthened with 3,000+ rural distributors on board. The company aims to increase its presence in larger states by expanding its distribution network in these states. E-commerce recorded significant growth of 153% y-o-y and contributed 7.3% to domestic sales. The institutional channel witnessed 144% y-o-y growth.
- India business reported an increase in A&P spends by 53% y-o-y during the quarter. Increased spends on advertisement helped the company to gain ~170 bps market share in the tea category and ~370 bps market share in the salt category. The company has guided that investment in A&P is expected to rise further, which will help in creating awareness about the company's brands to the consumer.
- The company has launched its own D2C channel, which will help it to gather first-hand information about its customers. Further, the company aims to improve its e-commerce platform in the coming quarters.
- The company recently inaugurated its largest tea packaging plant set up at Gopalpur Industrial Park by Tata Steel Special Economic Zone. The plant is spread over 16 acres and is a state-of-the-art unit built with a focus on green manufacturing and will be a key hub in TCPL's supply chain network.
- TCPL's working capital days reduced by two days during the quarter owing to efficient working capital management of the company. The company is focusing on its digital platform to improve its supply chain in the coming years, which will help in further reducing inventory days.

Results (Consolidated) Rs cr

Particulars	Q1FY22	Q1FY21	Y-o-Y %	Q4FY21	Q-o-Q %
Total Revenue	**3008.5**	**2713.9**	**10.9**	**3037.2**	**-0.9**
Raw-material cost	1782.4	1500.5	18.8	1846.0	-3.4
Employee cost	265.4	229.1	15.9	270.2	-1.8
Advertising	158.2	133.8	18.3	216.4	-26.9
Other expenses	402.9	367.8	9.5	404.4	-0.4
Total operating cost	2609.0	2231.2	16.9	2737.0	-4.7
Operating profit	**399.5**	**482.8**	**-17.2**	**300.2**	**33.1**
Other income	28.0	32.7	-14.4	43.0	-34.8
Interest and other financial cost	20.4	17.3	18.2	15.5	32.2
Depreciation	66.8	61.9	7.9	65.9	1.4
Profit Before Tax	340.3	436.3	-22.0	261.8	30.0
Tax	96.7	93.9	3.0	81.2	19.1
Adjusted PAT before share of profit from associates/JV	**243.6**	**342.3**	**-28.9**	**180.6**	**34.8**
Minority Interest (MI)/ Profit from associates	-40.4	-43.5	-7.2	-59.0	-31.5
Adjusted PAT after MI	203.1	298.8	-32.0	121.7	67.0
Extraordinary items	-2.9	46.8	-	-47.3	-
Reported PAT	**200.2**	**345.7**	**-42.1**	**74.3**	**169.3**
Adjusted EPS (Rs.)	2.6	3.7	-28.9	2.0	34.9
			bps		**bps**
GPM (%)	40.8	44.7	-396	39.2	153
OPM (%)	13.3	17.8	-451	9.9	339
NPM(%)	8.1	12.6	-452	5.9	215
Tax rate (%)	28.4	21.5		31.0	

Source: Company; Sharekhan Research

Segment-wise performance Rs cr

Particulars	Segment Revenue (Rs. crore)			Segment EBIT Margin (%)		
	Q1FY22	Q1FY21	Y-o-Y %	Q1FY22	Q1FY21	Y-o-Y bps
India Beverages	1,267	989	28.2	11.9	21.5	-
India Foods	705	589	19.6	13.6	19.4	-582
International Beverages	768	879	-12.7	12.5	14.6	-213
Total branded business	**2,739**	**2,457**	**11.5**	**13**	**18.5**	**-602**
Non-branded business	278	264	5.0	6.7	5.3	143
Others / Unallocated item	-9	-7		-	-	
Total	**3,008**	**2,714**	**10.9**	**11.2**	**18.4**	**-722**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector outlook – Demand remains resilient in Q1; Raw-material headwinds easing

Post result commentary of most consumer goods companies indicated strong sales recovery from June-July 2021 with easing of lockdown restrictions in most parts of India. Demand, which started recovering from Q3FY2021, remained resilient in Q1FY2022. With a normal monsoon season expected for the third consecutive year, agricultural production is predicted to be better in Kharif season 2021. This will further boost rural demand in the coming quarters. We believe the shift in demand for branded products, rural demand staying ahead of urban demand, gradual recovery in out-of-home categories, and product launches remain key catalysts for revenue growth in the near to medium term. On the other hand, prices of key raw materials (including palm oil, copra, and raw tea) have started correcting from their high. The substance of same along with calibrated price hikes would enable consumer goods companies to post better OPM on a sequential basis. Profitability is likely to be better off in H2FY2022. Improving revenue mix and better operational efficiencies remain key margin drivers in the medium term.

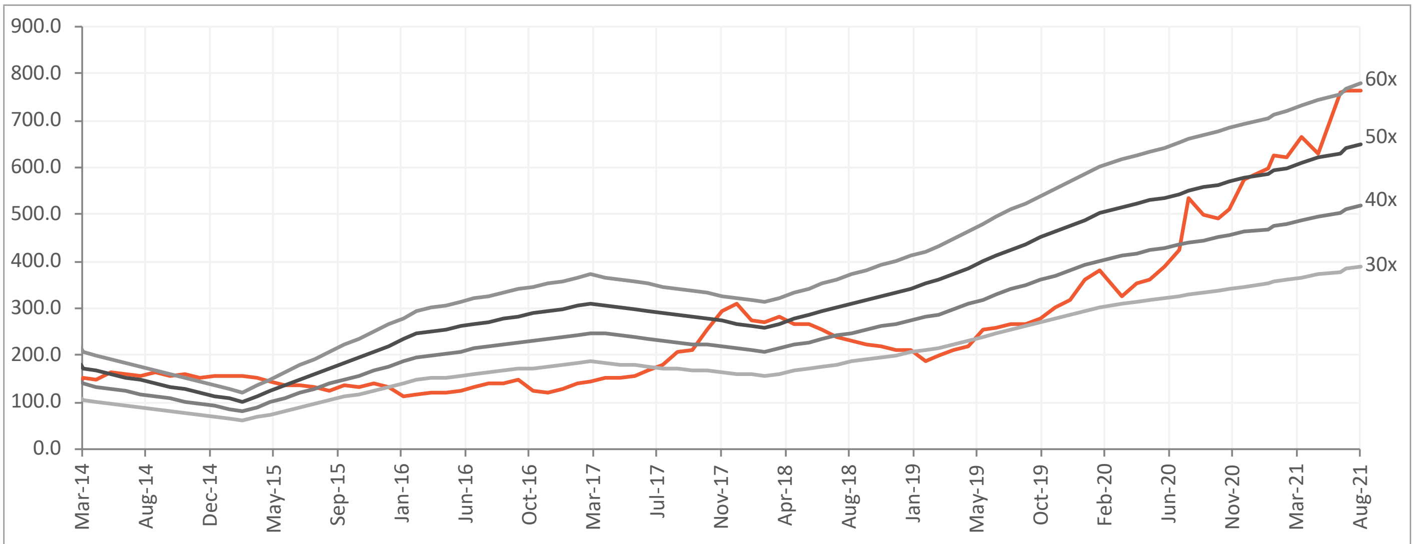
■ Company outlook – Correcting tea prices augur well for margins

With scale up in businesses such as Tata Sampann and NourishCo, sustained market share gains in tea and salt, new launches in key categories, distribution expansion in the domestic market, and recovery in the international business, the company is expecting strong double-digit revenue growth in the coming quarters. Raw tea prices have corrected by 20% from its high and expected to stabilise in the coming quarters. With price hikes in base, the company expects gross margins to improve y-o-y in H2FY2022. Surge in international coffee prices is positive for Tata Coffee's standalone business, while US Coffee business will see limited impact due to raw material cover till the end of the fiscal. The company will accrue synergistic benefits of Rs. 100 crore-150 crore of integration of foods business in FY2022-FY2023.

■ Valuation – Retain Buy with an unchanged PT of Rs. 875

We have broadly maintained our earnings estimates for FY2022 and FY2023 (and introduced FY2024 earnings in this note). TCPL's management is focusing on achieving profitable growth in India beverage and food business, while simplifying the international business to drive in more efficiencies to improve profitability. We expect TCPL's revenue and PAT to post a CAGR of 13% and 18% over FY2021-FY2024. The stock is currently trading at 51.9x its FY2023E EPS and 44.7x its FY2024E EPS. In view of strong growth prospects and strengthened balance sheet, we maintain our Buy recommendation on the stock with an unchanged PT of Rs. 875.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Hindustan Unilever	68.6	56.3	48.0	48.9	40.7	34.9	36.5	27.2	31.4
Nestle India*	83.6	69.3	58.9	53.9	47.0	40.7	136.4	139.7	142.5
Tata Consumer Products	73.6	64.3	51.9	44.1	37.7	31.0	8.1	9.0	10.6

Source: Company, Sharekhan estimates

About company

TCPL is the world's second-largest branded tea player. Its key beverage brands include *Tata Tea, Tetley, Eight O' Clock Coffee, and Tata Coffee Grand, Himalayan Natural Mineral Water, Tata Water Plus* and *Tata Gluco Plus*. Its foods portfolio includes brands such as *Tata Salt, Tata Sampann* and *Soulfull*. In India, TCPL has a reach of over 200 million households, giving it an unparalleled ability to leverage the Tata brand in consumer products. TCPL has a very vast presence in international geographies such as UK, US, Canada, South Asia, and Africa through various subsidiaries. NourishCo markets and distributes branded non-carbonate beverage products such as *Tata Gluco Plus (TGP), Tata Water Plus,* and *Himalayan*. TCPL has a 50:50 joint venture with Starbucks Corporation named Tata Starbucks Private Limited, which is performing well. The Company has an annual turnover of ~Rs. 11,600 crore with operations in India and International markets.

Investment theme

After the integration of Tata Chemicals Limited (TCL's) consumer business with Tata Global Beverages Limited (TGBL), India business is expected to become a key revenue driver for the company. Rising per capita income, increasing awareness of brands, and increased in-house consumption and consumption through modern channels such as large retail stores/e-commerce would act as key revenue drivers for branded pulses and spices businesses in India in addition to the consistently growing tea business. Along with margin expansion, innovation, and diversification, the merger will help TCPL to expand its distribution network. An enhanced product portfolio and expanded distribution reach would help India business revenue to grow in double digits in the next two-three years as against a 5% CAGR over FY2016-FY2020.

Key Risks

Sustained slowdown in domestic consumption; heightened competition from new players; and spike in key input prices would act as key risks to our earnings estimates in the near term.

Additional Data

Key management personnel

N. Chandrasekaran	Chairman
Sunil D'Souza	Managing Director and CEO
L. Krishna Kumar	Executive Director
Neelabja Chakrabarty	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First State Investments ICVC	6.3
2	Life Insurance Corp of India	2.1
3	Reliance Capital Trustee Co Ltd.	2.0
4	Mirae Asset Global Investments Co.	1.7
5	Government Pension Fund – Global	1.5
6	HDFC Asset Management Co. Ltd.	1.4
7	Sundaram Asset Management Co. Ltd.	1.3
8	Franklin Resources Inc	1.2
9	Dimensional Fund Advisors LP	1.2
10	Norges Bank	1.1

Source: Bloomberg (Old data)

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;