Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Dabur India

Soft Q2; growth to chart organic & inorganic paths

Consumer Goods	Sharekhan code: DABUR
Reco/View: Buy ↔	CMP: Rs. 549
Price Target: Rs. 675 ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 31.17

Updated Oct 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

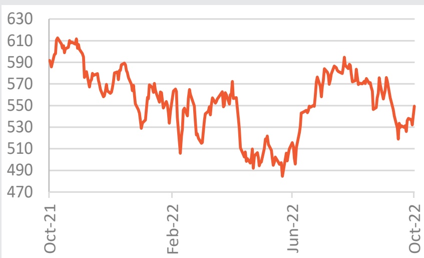
Company details

Market cap:	Rs. 97,330 cr
52-week high/low:	Rs. 620 / 482
NSE volume: (No of shares)	18.4 lakh
BSE code:	500096
NSE code:	DABUR
Free float: (No of shares)	58.0 cr

Shareholding (%)

Promoters	67.2
FII	20.6
DII	4.0
Others	8.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.0	-5.9	-4.0	-7.1
Relative to Sensex	-6.6	-9.7	-7.9	-4.9

Sharekhan Research, Bloomberg

Summary

- Revenues grew by 6% y-o-y (volume growth of 1%); three-year CAGR came in at 10.5% in Q2FY2023. OPM declined by 190 bps and PAT down by ~3% y-o-y.
- Raw material inflation to moderate in H2FY2023 and hence the OPM is expected to improve sequentially in the coming quarters (expects to be 20-21% for FY23). Saw some uptick in rural demand prior to festive season and sustenance of same will improve revenue growth in the coming quarters.
- It acquired a 51% stake in Badshah Masala to expand foods business to Rs. 500 crore in next three years. Acquisition will be cash-EPS accretive from FY24. Further planning to do a capex of Rs. 326 crore in capacity expansion, which will add Rs. 900 crore in revenues by FY2027.
- Stock trades at 48.0x/37.6x its FY2023E/24E EPS. We maintain a Buy on the stock with an unchanged price target of Rs. 675.

Dabur India's (Dabur's) Q2FY2023 was soft and was largely in line with our as well as street expectation. Consolidated revenues grew by 6% y-o-y (domestic volumes grew by 1%) to Rs. 2,986.5 crore while adjusted PAT decreased by 3% y-o-y to Rs. 491.2 crore. Performance was affected by high base of healthcare business, slowdown in the rural market and higher input prices putting stress on the margins. On 3 years CAGR basis revenues grew by 10.5%, driven by 12% growth in the India business. Food & beverage business registered strong growth of 30%, while home & personal care (HPC) business revenues grew by 6% and healthcare business revenues decreased by 7%. Raw material inflation led to 352 bps y-o-y decline in the gross margins and 190 bps y-o-y decline in OPM to 20.1%. Management expects the OPM to improve sequentially with decline in the key input prices. It acquired a 51% stake in Badshah Masala with to focus on expanding its food business to Rs. 500 crore in the next three years. Acquisition will be cash EPS accretive from FY24. Further planning to do a capex of Rs. 326 crore in capacity expansion, which will add Rs. 900 crore in revenues by FY2027.

Key positives

- Dabur gained market share across 95% of its product portfolio with Real juices market share up by 410 bps, Chyawanprash's share rising by ~120 bps, Odomos'/Odonil's share rising by 330/350 bps and honey gaining share of ~40 bps.
- The Foods & Beverages business registered strong growth of 30% led by 30.5% growth in beverages segment & 21.2% growth in the foods segment.
- Toothpaste portfolio registered grow of 11% ahead of industry growth.

Key negatives

- Consolidated gross margin/OPM decreased by 346/191 bps y-o-y in Q2.
- Health supplements segment revenues decreased by 12.6% and digestives stood flat at 0.1% on high base.

Management Commentary

- Rural market revenues grew by 1% while urban market revenues grew by 6%. Higher inflation had impact on the rural demand with most consumers downtrading to low price products. However, the company is expecting rural demand to recover strongly in the coming quarters with an uptick seen prior to the festive season. Better monsoons, higher MSPs and government focus on improving infrastructure will help rural demand come back on track in the medium term. The company added 9,000 villages in Q2FY23, taking the total coverage to 1,00,000 villages.
- Gross margins decreased by 346 bps y-o-y to 45.4%. With recent correction in the commodity prices, raw material inflation is expected to moderate in the coming quarters. This along with effective price hike of 6% will help gross margins and OPM to improve sequentially in H2. Management expects OPM to be at 20-21% in FY2023.
- Consumer-centric innovation, investments on power brands, network expansion (target to cover more than 1,00,000 villages by FY23-end) and sustained market share gains (market share across 98% of product portfolio in Q2) in key categories would help the company to achieve double digit growth in the medium to long term.
- Dabur acquired a 51% stake in Badshah Masala is a leading player in the spices and condiments category with major presence in Gujarat, Maharashtra and Telengana. Blended spices contribute 82% of revenues. It provides opportunity to grab a pie in Rs. 25,000 crore spices & condiments market in India. The acquisition will help Dabur's food business to grow to Rs. 500 crore over the next three years from current Rs. 200 crore. Enterprise value of Rs. 1,152 crore leading to price to sales 4.5x and EV/EBIDTA multiple 19.6x. Remaining 49% shareholding to be acquired after 5 years. The transaction is expected to be cash EPS neutral in the first year and accretive thereafter.
- The company is planning a capital expenditure of Rs. 326 crore to expand the Indore plant capacity. Management expects capacity expansion to add revenues of Rs. 900 crore by FY2027 (asset turnover of 3x).

Revision in estimates – We broadly maintain our earnings estimates for FY2023 and FY2024. We have introduced FY2025 earnings estimates through this note.

Our Call

View: Maintain Buy with an unchanged price target of Rs. 675 – Dabur's Q2 performance was soft, but the outlook for medium term remains strong with company focusing on the organic (capacity expansion in Indore plant) and inorganic initiatives (acquisition of Badshah Masala) to drive consistent growth in the medium term. The company continued to gain market share in its key brands, launched consumer-centric products and improved distribution network during the quarter. Revenue growth in the medium term will be driven by market share gains, distribution network expansion, investments on power brands and new launches, while profitability is expected to improve on the back of a moderation in raw material inflation and cost saving initiatives. We expect Dabur's revenues and PAT to grow by 14% and 19% over FY2022-25. The stock currently trades at 47.8x/37.6x its FY2023E/24E EPS. We maintain a Buy rating on the stock with an unchanged price target of Rs. 675.

Key Risks

Heightened competition in key categories or supply disruptions caused by unavoidable events or slowdown in the demand environment would act as a key risk to our earnings estimates in the near to medium term.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenues	9,562	10,889	11,847	13,962	16,217
OPM (%)	20.9	20.7	20.5	21.9	22.4
Adjusted PAT	1,696	1,829	2,032	2,582	3,042
% YoY growth	11.0	7.9	11.1	27.1	17.8
Adjusted EPS (Rs.)	9.6	10.3	11.5	14.6	17.2
P/E (x)	57.2	53.1	47.8	37.6	31.9
P/B (x)	12.7	11.6	10.5	9.2	7.8
EV/EBIDTA (x)	46.4	43.0	39.7	31.4	26.0
RoNW (%)	23.8	22.8	23.1	26.1	26.4
RoCE (%)	26.4	26.3	26.8	31.4	32.2

Source: Company; Sharekhan estimates

Revenues up 6% y-o-y, OPM declined by 190 bps y-o-y to 20%

Consolidated revenues grew by 6.0% y-o-y to Rs. 2,986.5 crore largely in line with our expectation of Rs. 2,951 crore and average street expectation of Rs. 3,016 crore. Domestic volume growth stood at 1% in-line with our as well street expectation of 0-1% volume growth. Healthcare business registered a de-growth of 7% on a high base, home & personal care (HPC) business grew by 6% and Food & Beverages (F&B) grew by 30% y-o-y. High input inflation led to 346 bps y-o-y decline in the gross margins. Price increase of 6% and cost efficiencies aided in curbing sharp decline in OPM by 191 bps y-o-y to 20.1%. Operating profit decreased by 3.2% y-o-y to Rs. 600.7 crore and the reported PAT decreased by ~3% y-o-y to Rs. 491.5 crore (slightly better than our expectation of Rs. 476 crore and in line with the street's expectation of Rs. 493 crore).

India business grew by ~7%; international business grew by 12.3% (constant currency) in Q2

- **Healthcare (HC):** HC business (contributing 30% to domestic revenues in Q2FY2023) registered revenue of Rs. 629 crore, down 7% y-o-y on a high base of Q2FY2022. On a three-year CAGR basis, the segment reported growth of 10%. The health supplements portfolio declined by 13% y-o-y (with a three-year CAGR of 9%) on account of high bases of Chyawanprash and Honey in Q2FY22. Market share in Chyawanprash and Honey categories increased by ~120 bps and ~40 bps, respectively. Dabur Vedic Tea was launched in Q2FY23. The digestives portfolio saw 0.1% y-o-y growth on base of 23% growth in the corresponding quarter last year. Three-year CAGR stood at 8%. The OTC and ethicals portfolios' revenues stood at flat (with three-year CAGR at 12.5%) impacted by high base of COVID-19 contextual products in Q2FY22.
- **Home and personal care (HPC):** HPC business (that contributed 50% to domestic revenue in Q2FY2023) grew by 6% y-o-y, reporting a revenue of Rs. 1,065 crore in Q2FY2023. On a three-year CAGR basis, the segment grew by 10.6%. The oral care portfolio grew by 9.2% y-o-y (15.4% on a 3-year CAGR basis) driven by 11.2% y-o-y growth in the toothpaste category driven by good growth in Meswak, Dabur Red and Dabur Herbal. Market share in the toothpastes category improved by ~10 bps. The hair oils portfolio reported muted growth 1.8% y-o-y growth (6.8%) 3-year CAGR growth on a high base of 28% growth in Q2FY2022 with market share gains of ~20 bps. Shampoo portfolio reported growth of 9% y-o-y and 15.7% on a three-year CAGR basis on a high base of 20.5% growth in Q2FY2022 with market share gains of ~40 bps. Homecare portfolio grew by 20.9% (10.8% on 3-year CAGR basis) driven by robust double-digit growth in Odonil and Sanifresh brand. Odonil saw its market share improving by 350 bps in the liquid air freshener category. Odomos' market share increased by ~330 bps. The skin and salon portfolio grew by 11.4% y-o-y (flat growth on a three-year CAGR basis). The skincare portfolio registered a decline of 15% (ex-sanitiser revenues decline by 5%).
- **Foods & Beverages (F&B):** The F&B segment (contributing 20% to domestic revenue in Q2FY2023) reported yet another quarter of rob robust y-o-y and two-year CAGR growth of 50% and 20%, respectively, with revenues coming in at Rs. 559 crore. The beverages portfolio reported robust y-o-y growth of 30% and 3-year CAGR of 21% led by strong momentum across both in-home and out-of-home categories. The Real brand gained ~410 bps in market share. Beverage business continues to witness strong growth across segments. The foods portfolio grew by 21% y-o-y and 17.2% on a three-year CAGR basis. Hommade brand continued to perform well driven by innovation and portfolio expansion.
- **International business:** International business' revenues (contributing 25% to total sales) grew by 12.3% y-o-y on CC terms in Q2FY2023. Revenues grew by 2.5% in rupee term. MENA region witnessed decline in revenues due to currency devaluation while Namaste registered a decline in revenues by 6% due to weak demand. Other key geographies such as Egypt, Turkey and SAARC registered a growth of 23.4%, 86.6% and 9.0%, respectively during the quarter.

Dabur acquired a 51% stake in Badshah Masala; will acquired remaining 49% in 5 years

Dabur signed definitive transaction agreements to acquire a 51% stake in Badshah Masala, which is engaged in the business of manufacturing, marketing and export of ground spices, blended spices and seasonings. The brand has strong presence in the state of Gujarat, Maharashtra and Andhra Pradesh. In Gujarat and Maharashtra, the brand has 4-5% market share, while Telangana it has 5% market share in the branded spices segment space. This also marks Dabur's entry into the over Rs 25,000 crore branded spices and seasoning market in India. There are only four formidable brands (including Badshah) in the branded spices and seasoning space, while two of the players are pan India players. Large part of the spice markets in India is catered by unorganised players. This provides a pan-India player like Dabur a huge opportunity to scale-up the brand in the domestic market. It will leverage on its strong distribution reach and procurement abilities to improve the revenue growth trajectory of the brand in the coming (grew by mid-single digit in past few years). According to the strategy, the company will focus on gaining share in the existing market of presence in first phase of operations while it will enter adjacent states in second phase and will be a pan India player in the third phase of operations. Cost of Acquisition of 51% stake stands at Rs. 587.5 crore less proportionate debt as on the close of the deal. Enterprise value of Rs. 1,152 crore leading to price to sales 4.5x and EV/EBIDTA multiple 19.6x. Remaining 49% shareholding to be acquired after 5 years. The transaction is expected to be cash EPS neutral in the first year and accretive from FY2024. This acquisition is in line with Dabur's strategic intent to expand its Foods business to Rs 500 Crore in 3 years and expand into new adjacent categories.

Capex of Rs. 326 crore for capacity expansion

Dabur's board approved Rs. 326 crore capital expenditure for its Indore project. The company will manufacture Dabur Red toothpaste (addition of a 13,200-Metric tonne capacity) and one-litre juice packs (addition of 58,700 kilolitre of juices) and increase the production capacity of portion packs of its range of juices by adding 17600 KL (currently 34,000 KL). The work for capacity addition would be completed in the next 1.5 years, and production would start in March 2024. The project will be funded through internal accruals. Rationale behind expansion of capacity is - 1) Toothpaste capacity utilisation stands at 80% and will go upto 90% by FY2024; 2) Juice capacity is running at peak capacity (100% utilisation by FY2023-24 and 3) Small pack juice capacity has been increased to 89%. Capacity will be funded by internal accruals. Expanded capacity will generate revenues of Rs. 900 crore at peak utilisation by FY2027 (asset turnover of 3x).

Key conference call highlights

- **Rural growth to recover in coming quarters –** Rural market revenues grew by 1% while urban market revenues grew by 6% in Q2FY2023. Higher inflation had impact on the rural demand with most consumers downtrading to low price products. However, the company is expecting rural demand to recover strongly in the coming quarters with uptick seen prior to festive season. Better monsoons, higher MSPs and government focus on improving infrastructure will help rural demand to come back on track in the medium term. The company added 9,000 villages in Q2 taking the total coverage to 1,00,000 villages.

- **OPM to be 20-21% in FY2023 -** Dabur's gross margins decreased by 346 bps y-o-y to 45.4% (200 bps due to raw material inflation, 100 bps due to unfavourable mix and ~50 bps due to promotional offerings). In Q2 raw material inflation stood at 10%, while the price increase stood at 5%. With recent correction in the commodity prices, the raw material inflation is expected to moderate in the coming quarters. This along with effective price hike of 6% will help gross margins and OPM to improve sequentially in H2. Management expects OPM to be at 20-21% in FY2023. The company expects advertising spends to remain at ~15% of sales.

- **Skincare category growth to revive with revamped strategies:** Skincare category registered a decline of 5% (excluding sanitiser sales). Discretionary products sales are yet to reach the pre-covid levels sales. The company revamped Gulabari portfolio with renewed packaging and launch of Gulabari Moisturising lotion. The company is pushing the products in the trade prior to winter season. All these measures should help growth in the skincare category to revive in the coming quarters.

- **Healthcare portfolio to see good growth in the medium term:** Healthcare business revenues grew by 70% and contribution increased to 30% in last two years. This was on back of strong demand for healthcare range products during the pandemic. Chyawanprash gained market share by 1500BPS, while Honey strengthened its market leadership with a 50% share. Penetration level of healthcare range of products have gone up substantially compared to pre-COVID levels. This along with product launches and expansion in distribution reach will help healthcare range of products to see improved growth in the coming years.

- **Beverages segment to maintain strong growth:** Beverages category registered a growth of 30% in Q2. Growth was largely driven by gained in market share in the juices and nectar category along with strong traction to recently launched drinks products. With the launch of drinks, the company's beverage target market has increased to Rs. 8,000-9,000 crore from Rs. 1,800-1,900 crore earlier. Further the company is planning to enter carbonated fruit juices space in the coming years to maintain strong growth momentum in the coming years.
- **Alternative channels doing extremely well:** In Q2FY23, the e-commerce channel registered strong growth 50% y-o-y on account of strong traction to some of the key product categories. E-commerce contribution has increased to 9% from 2-3% prior to pandemic. New product launches contribution on e-commerce platform has increased to 11%. Management has maintained its strategy of test marketing new products on the e-commerce platform and then launch it on other channels. Modern trade is also clocking good growth and currently contributes 10% to the overall domestic revenues.

Result snapshot (Consolidated) Rs cr

Particulars	Q2FY23	Q2FY22	y-o-y (%)	Q1FY23	q-o-q (%)
Total Revenue	**2,986.5**	**2,817.6**	**6.0**	**2,822.4**	**5.8**
Materials	1,631.4	1,441.5	13.2	1,528.1	6.8
Employee cost	287.6	269.7	6.6	269.9	6.5
Ad Promotions	151.8	202.2	-24.9	157.2	-3.4
Other expenditure	315.0	283.5	11.1	323.6	-2.6
Total Expenditure	2,385.8	2,196.9	8.6	2,278.8	4.7
Operating Profit	**600.7**	**620.7**	**-3.2**	**543.7**	**10.5**
Other Income	123.3	112.4	9.6	100.6	22.6
Interest Expenses	15.1	8.3	82.1	12.2	24.0
Depreciation	70.5	63.3	11.3	67.6	4.2
Profit Before Tax	638.5	661.6	-3.5	564.5	13.1
Tax	147.3	155.8	-5.5	123.1	19.7
Minority interest	-0.3	-0.4	-19.0	-0.3	0.0
Reported PAT	**491.5**	**506.2**	**-2.9**	**441.7**	**11.3**
Adjusted EPS (Rs.)	2.8	2.9	-3.1	2.5	11.3
			Bps		**bps**
GPM (%)	45.4	48.8	-346	45.9	-48
OPM (%)	20.1	22.0	-191	19.3	85
NPM (%)	16.4	17.9	-150	15.6	81
Tax rate (%)	23.1	23.6	-49	21.8	127

Source: Company; Sharekhan Research

Segment-wise revenue Rs cr

Particulars	Q2FY23	Q2FY22	y-o-y (%)	Q1FY23	q-o-q (%)
Consumer care	2,410.9	2,387.5	1.0	2,135.9	12.9
Foods	499.1	369.9	34.9	608.8	-18.0
Retail	26.2	18.3	43.3	25.7	2.0
Other segments	40.8	34.5	18.2	42.0	-2.9
Unallocated other operating revenue	9.5	7.5	26.8	10.1	-6.3
Total	**2,986.5**	**2,817.6**	**6.0**	**2,822.4**	**5.8**

Source: Company; Sharekhan Research

Segment-wise EBIT margins

Particulars	Q2FY23	Q2FY22	y-o-y (%)	Q1FY23	q-o-q (%)
Consumer care	23.4	25.2	-182	22.4	97
Foods	18.7	18.2	47	16.4	231
Other segments	10.6	8.9	170	10.9	-29
EBIDT margins	20.7	22.9	-219	19.9	75

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View - H2FY2023 to be relatively better compared to H1

Consumer goods companies would start seeing the benefit of correction in key input prices from Q3FY2023. Recent sharp correction in some key input prices helped companies to pass on benefits to the customer in the form of price cuts in highly-penetrated categories (such as soaps). This along with good monsoon in most parts of the country (except for some parts in the North and East) will aid good recovery in sales volumes in the coming quarters. A decline in commodity prices has also helped inflationary pressures to ease out boosting the consumer sentiments. Hence, some tailwinds are building up for the sector to improve its growth in the coming quarters. Overall, we expect H2FY2023 will be much better compared to H1FY2023 with expected recovery in sales volumes and OPM is also expected to improve from Q3FY2023. Low penetration in key categories (especially in rural India), lower per capita consumption compared to other countries, a large shift to branded products, and emergence of new channels such as e-commerce/D2C provide several opportunities for achieving sustainable growth in the medium to long run.

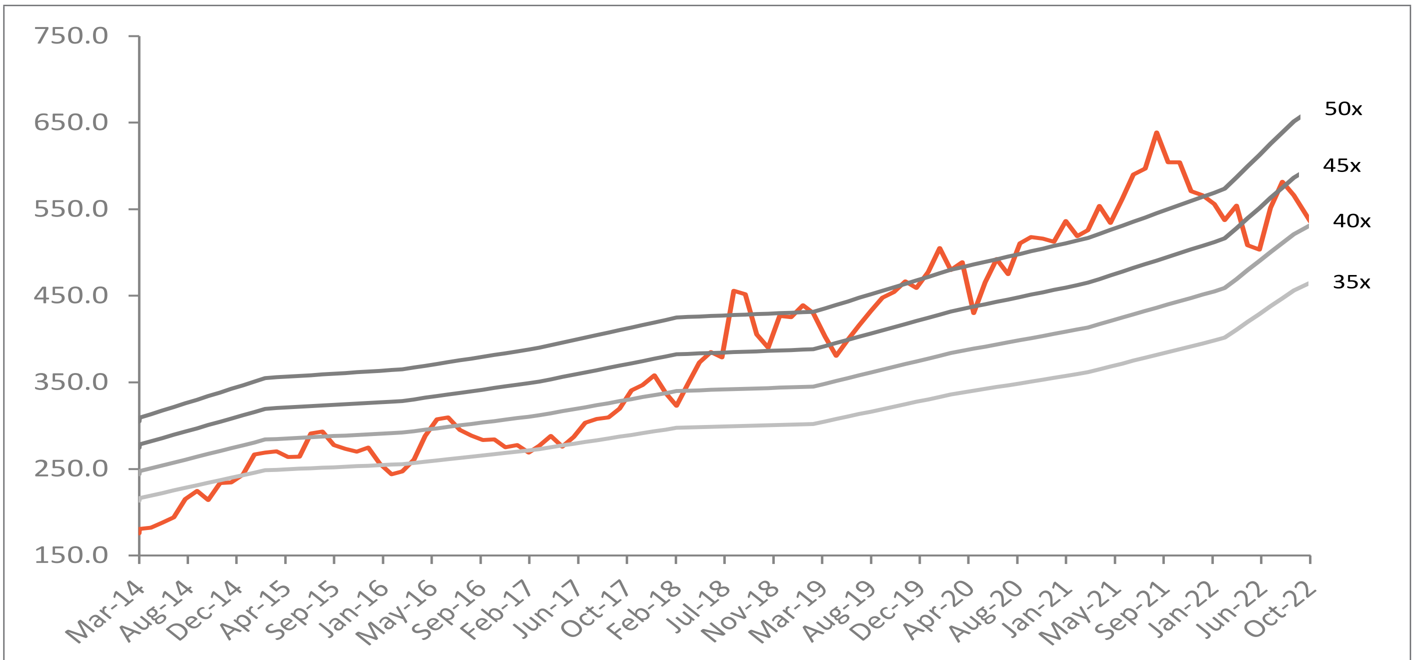
■ Company Outlook – Medium-term growth driven by product launches, distribution expansion

Consolidated revenues grew by 7% while the adjusted PAT stood almost flat with 230BPS decline in the OPM in H1FY2023. by We expect volume growth momentum in the domestic business to recover in the coming quarters, driven by market share gains in key categories, improving category penetration, strong traction in product launches, and expansion in distribution reach. Category-wise, the health supplement category is expected to achieve mid-high single-digit growth, home and personal care is likely to achieve mid-teens growth, and food and beverages business is expected to achieve high double-digit growth. The company has undertaken price hike of mid-single digit and is focusing on cost saving measures to reduce pressure on margins in the coming quarters.

■ Valuation – Maintain Buy with an unchanged price target of Rs. 675

Dabur's Q2 performance was soft, but the outlook for medium term remains strong with company focusing on the organic (capacity expansion in Indore plant) and inorganic initiatives (acquisition of Badshah Masala) to drive consistent growth in the medium term. The company continued to gain market share in its key brands, launched consumer-centric products and improved distribution network during the quarter. Revenue growth in the medium term will be driven by market share gains, distribution network expansion, investments on power brands and new launches, while profitability is expected to improve on the back of a moderation in raw material inflation and cost saving initiatives. We expect Dabur's revenues and PAT to grow by 14% and 19% over FY2022-25. The stock currently trades at 47.8x/37.6x its FY2023E/24E EPS. We maintain a Buy rating on the stock with an unchanged price target of Rs. 675.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Marico	53.3	43.6	37.0	39.1	32.1	27.7	41.4	50.1	54.2
Hindustan Unilever	66.9	60.9	51.3	46.8	42.5	36.0	24.1	26.3	30.6
Dabur India	53.1	47.8	37.6	43.0	39.7	31.4	26.3	26.8	31.4

Source: Company; Sharekhan Research

About the company

Dabur is one of India's leading FMCG companies with revenue of over Rs. 10,000 crore. The company operates in key consumer product categories such as hair care, oral care, healthcare, and skin care based on Ayurveda. Dabur India's FMCG portfolio today includes eight distinct Power Brands: Dabur Chyawanprash, Dabur Honey, Dabur Honitus, Dabur PudinHara and Dabur Lal Tail in the Healthcare space; DaburAmla and Dabur Red Paste in the Personal care category; and Real in the Foods & Beverages category. The company has a large presence in rural India (especially in northern and eastern parts of India). Further, the company has a substantial international presence (in regions such as the Middle East, North America, and SAARC), contributing ~25% to total revenue.

Investment theme

Dabur's positioning as an Ayurvedic products company with a focus on herbal and natural products in the healthcare and personal care segments and a strong presence in the juices segment make it a formidable play in the domestic market. Further, the company's international presence de-risks its business model when demand slows down in the domestic market. The company continues to leverage its urban and rural presence by enhancing its distribution network and product launches. Higher contribution from its healthcare range augurs well for the company in this pandemic situation. Focus on health/hygiene portfolio, continuous innovation, investment behind brands, leveraging power brands, and consumer-connect initiatives are some of the key growth drivers for Dabur in the near to medium term.

Key Risks

- **Slowdown in rural demand:** Any slowdown in the rural demand would affect volume growth.
- **Increased input prices:** Any significant increase in prices of key raw materials would affect profitability and earnings growth.
- **Increased competition in highly penetrated categories:** Increased competition in the highly penetrated categories such as hair care and oral care would act as a threat to revenue growth.

Additional Data

Key management personnel

Mohit Burman	Chairman
Mohit Malhotra	Chief Executive Officer
Ankush Jain	Chief Financial Officer
A K Jain	Vice President (Finance) and Company Secretary

Source: BSE, Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First states Investments ICVC	1.79
2	Blackrock Inc	1.54
3	MB Finmart Pvt Ltd	1.5
4	Matthews International Capital Management	1.34
5	Life Insurance Corp India	1.26
6	Vanguard Group Inc	1.13
7	Capital Group Inc	1.06
8	Mitsubishi UFJ Financial Group Inc	0.59
9	UTI AMC	0.51
10	ICICI Prudential Life Insurance Co.	0.49

Source: Bloomberg

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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