Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Tata Consumer Products Ltd

Price hikes power mixed bag Q2

Consumer Goods	Sharekhan code: TATACONSUM		
Reco/View: Buy ↔	CMP: Rs. 761	Price Target: Rs. 925 ↓	

↑ 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	29.75
Updated Oct 08, 2022	

Medium Risk

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

Source: Morningstar

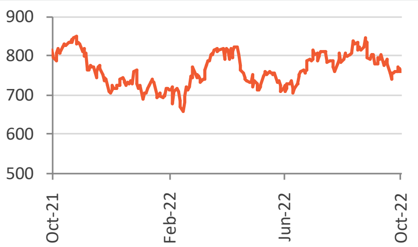
Company details

Market cap:	Rs. 70,172 cr
52-week high/low:	Rs. 862 / 651
NSE volume: (No of shares)	17.9 lakh
BSE code:	500800
NSE code:	TATACONSUM
Free float: (No of shares)	60.2 cr

Shareholding (%)

Promoters	34.7
FII	26.5
DII	14.0
Others	24.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.3	-5.3	-6.6	-6.5
Relative to Sensex	-5.1	-11.1	-10.3	-3.9

Sharekhan Research, Bloomberg

Summary

- Tata Consumer Products Limited (TCPL) delivered price-led revenue growth of ~11% y-o-y as volumes remained muted across categories and regions. OPM declined by 73 bps y-o-y to 12.9% owing to higher input prices, adjusted PAT declined by 5% y-o-y to Rs. 264 crore.
- OPM would improve in the next 2-3 quarters aided by stable raw tea prices, price hikes in domestic salt and international tea businesses and a favourable revenue mix.
- The company has maintained its thrust on product launches in key markets, distribution expansion in rural/semi-urban markets and market share gains in core categories to drive consistent volume growth in the coming years.
- The stock trades at 59.5x and 48.0x its FY2023E and FY2024E earnings, respectively. We maintain a Buy with a revised PT of Rs. 925.

Tata Consumer Products Limited's (TCPL's) consolidated revenues grew by 10.9% y-o-y (three-year CAGR of ~13%) to Rs. 3,363.1 crore. India beverage revenues declined by 2% y-o-y (volume decline of 1%), the foods business grew by 29% y-o-y (flat volume growth), while the international business grew by 6% y-o-y on CC terms. The company continued to gain volume share in some key categories and markets. Gross margins were down by 101 bps y-o-y and OPM declined by 73 bps y-o-y affected by higher input prices. Adjusted PAT fell by 5% y-o-y to Rs. 264 crore. For H1FY2023, revenue grew by 10.7% y-o-y to Rs. 6,689.9 crore, while adjusted PAT grew by 7.1% y-o-y to Rs. 558.3 crore and OPM slightly improved by 13 bps y-o-y to 13.3%.

Key positives

- India foods business registered 29% y-o-y revenue growth despite a high base of 23% growth in Q2FY2022.
- NourishCo delivered broad-based revenue growth of 64% y-o-y.
- TCPL opened 25 new Starbucks stores during Q2 taking store count to 300 across three cities.
- The company has maintained strong cash position of over Rs. 2,000 crore

Key negatives

- India packaged beverages business declined by 7% y-o-y
- Gross margin/OPM declined by 101/73 bps y-o-y impacted by higher raw & packing material prices.

Management Commentary

- India beverage business' volumes declined by 1% affected by price corrections and overall softness in the category. Better monsoons, high MSPs, upcoming festive season and softening of inflation in the other key commodities will help gradual recovery in the sales of domestic branded tea segment. TCPL has maintained its leadership position in the domestic branded tea segment and is continuously gaining market share. This along with improving distribution penetration in the rural and semi urban market will TCPL to clock in good volume growth ahead of industry growth in the coming quarters.
- Tata Sampann registered strong growth of 37% in Q2FY2023. The management is confident of maintain 30% CAGR over the next three year driven by entrance into new geographies, meaningful product launches and share gains from unorganised players. The company relaunched RTE products under Tata Sampann Yumside to leverage on the Sampann brand. Further TCPL will launch the Indian RTE products in the key markets of US, UK and Canada under the brand Tata Raasa.
- The company has increased the pace of new product launches (which is 2x ahead of Q1). Contribution of new product to e-Commerce platform is currently at 11%. TCPL is aiming for new product contribution to increase to 3.5% in FY2023 and to 5% in the coming years.
- TCPL's consolidated OPM was down by 73 bps due to multiple factors that affected profitability. Recovery in sales volume of India tea business, effective price hikes in the key markets and cost optimisation measures in the key markets will help OPM to gradually improve in the medium term.

Revision in estimates – We have reduced our earnings estimates for FY2023 and FY2024 to factor in weaker than expected performance in Q2FY2023 and lower than earlier OPM. We have introduced FY2025E earning through this update.

Our Call

View: Retain Buy with a revised PT of Rs. 925: TCPL delivered mixed performance in Q2FY2023 with revenues growing by 11% y-o-y while adjusted PAT declined by 5% y-o-y. The company is focusing on market share gains, product launches, network expansion and cost restructuring to aid growth in the coming years to improve earnings growth over the next two to three years. Thus, with strategies in place, TCPL is well poised to achieve double-digit revenue and PAT CAGR of 13% and 18%, respectively, over FY2022-FY2024. The stock trades at 59.5x/48.0x its FY2023E/FY2024E earnings. With strong growth prospects, relatively stable commodity prices and sturdy cash flows (FCF/EBIDTA of 100%), we maintain TCPL as one of our top picks in the FMCG space. We maintain a Buy recommendation on the stock with a revised price target (PT) of Rs. 925.

Key Risks

Any slowdown in demand in the domestic or international market or increase in key commodity prices would act as a risk to our earnings estimates in the near term.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	11,602	12,425	13,874	15,899	18,341
OPM (%)	13.3	13.8	12.8	13.5	13.9
Adjusted PAT	953	1,054	1,178	1,460	1,753
% Y-o-Y growth	44.2	10.6	11.8	23.9	20.1
Adjusted EPS (Rs.)	10.3	11.4	12.8	15.8	19.0
P/E (x)	73.6	66.6	59.5	48.0	40.0
P/B (x)	4.8	4.6	4.4	4.2	3.9
EV/EBIDTA (x)	44.2	39.9	38.5	31.4	26.4
RoNW (%)	7.2	7.5	7.5	8.9	10.0
RoCE (%)	8.1	8.6	8.6	10.2	11.6

Source: Company; Sharekhan estimates

Revenue growth at 11% y-o-y with muted volume growth; margins declined y-o-y

Revenues grew by 10.9% y-o-y to Rs. 3,363.1 crore. India beverage revenues decline by 2% (volume decreased by 1%), foods business grew by 29% (sales volume stood flat), US coffee grew by 25% and international tea decreased by 5%. Higher raw material prices led to a 101 bps y-o-y decline in the gross margins to 41.7%, while OPM declined by 73 bps y-o-y to 12.9%. Operating profit grew by 5% y-o-y to Rs. 433.8 crore. Adjusted PAT declined by 5% y-o-y to Rs. 264 crore due to lower other income and higher taxes. Exceptional items included one-time gain from sale of disputed land held by Tata Coffee of Rs. 111 crore. Reported PAT came in at Rs. 389.2 crore. For H1FY2023, revenue grew by 10.7% y-o-y to Rs. 6,689.9 crore, while operating profit grew by 9.6% y-o-y to Rs. 891.1 crore. Gross margin marginally grew by 42 bps y-o-y to 42.2% and OPM slightly improved by 13 bps y-o-y to 13.3%. Adjusted PAT grew by 7.1% y-o-y to Rs. 558.3 crore, while reported PAT came in at Rs. 665.9 crore.

Business-wise revenue break-up

Particulars	Revenue (Rs. cr)	Value growth (%)	Volume growth (%)
India beverages	1,238	-2	-1
India food	922	29	0
US Coffee	376	16 (CC)	-2
UK, Canada & Others	463	0 (CC)	-5
Tata Coffee (incl. Vietnam)	342	39 (CC)	-1

Source: Company, Sharekhan Research

India business:

- **India Packaged Beverages – Single-digit revenue decline; EBIT margin higher y-o-y:** Revenue of India packaged beverages business declined by 7% y-o-y, with 1% y-o-y volume growth majorly led by price corrections and overall softness in the category. On a three-year CAGR basis, revenue grew by 10%. Coffee continued its strong performance with revenue growth of 39% during the quarter. The tea segment reported market share gains (volume) of 46 bps y-o-y. TCPL launched Tata Tea Gold Saffron-signature Assam tea with natural saffron flavour and a new season range for Sonnets by Tata Coffee - the company's premium coffee range. EBIT margin for India Beverages expanded on y-o-y basis, aided by lower commodity costs.

- **India Foods – Strong revenue growth; new categories gaining momentum:** India Foods business registered 29% y-o-y revenue growth on a high base of 23% growth in Q2FY2022 to Rs. 922 crore. Growth was largely price-led, as volume growth stood flat (on a high base of 16% volume growth in Q2FY2022). Salt revenue grew 27% y-o-y despite a high base of 20% growth in Q2FY2022. The segment gained 128 bps in market share. Rock salt registered 43% y-o-y growth supported by higher volumes. Tata Salt Immuno was launched with new & improved packaging to better showcase the Zinc proposition. The brand was successfully launched in newer markets in the western part of the country. The Tata Sampann portfolio delivered strong growth of 37% y-o-y, led by broad-based performance across pulses, poha, and spices. Tata Soulfull also continued its strong growth trajectory during the quarter. Tata Sampann spices launched a customized mix for AP and Telangana to better serve the South Indian market. The spices range expanded its portfolio in India into high-value spices with the launch of Asafoetida (Hing). Tata Sampann Dry Fruits is scaling up well with strong growth and share gains across e-commerce platforms. TCPL launched another addition to its protein platform with the launch of Tata GoFit-plant protein powder, a health supplement range for women. The company relaunched its Ready-To-Eat (RTE) business (formerly Tata Q) under the new brand name of Tata Sampann Yumside with a revamped and expanded portfolio. This includes reformulation of existing products to enhance overall consumer experience and expansion into the ethnic Ready to Eat (RTE) category. The brand will also be launching ethnic innovations in the Ready to Cook (RTC) category going ahead.

- **NourishCo (100% subsidiary) – Broad-based growth continued:** Revenue grew by 64% y-o-y in Q2FY2023 to Rs. 138 crore led by strong broad-based growth across products and geographies. Himalayan grew by 72% y-o-y and continued to remain EBIT positive. Himalayan honey and preserves saw good consumer response. The business is seeing inflation in COGS and freight, but it was mitigated through cost-saving initiatives and operating leverage.

- **Tata Coffee (including Vietnam) (~58% subsidiary) – Strong revenue growth of 39%:** Revenue for Q2FY2023 grew by 39% y-o-y led by strong growth across both extractions and coffee plantations. Overall extraction business grew 26% driven by both domestic and Vietnam business. Vietnam plant continued to operate at peak capacity utilization. Vietnam sales grew 43% driven by higher sales of premium products and superior realization. Plantation business grew by 73% driven by higher realization and sales of Robusta coffee and pepper. Inflationary challenges continued during the quarter, but were mitigated through cost management efforts.

- **Tata Starbucks (JV) – Robust revenue growth and aggressive store opening:** Revenue grew by 57% y-o-y, led by normalized store operations and a revival in out-of-home consumption. As on September 30, 2022, 99% of the stores have been reopened. The company opened 25 new stores during Q2, the highest ever number of quarterly store openings in its history and entered 5 new cities, taking the total number of stores to 300 across 36 cities. The business continued to remain EBIT positive in Q2FY2023.

International business:

- **UK** – Revenues declined by 7% (CC) y-o-y impacted by category softness driven by significant inflation. Teapigs declined 16% on a high base of 17% growth in Q2FY22 and driven by hot weather and moderation in out-of-home consumption. Tetley gained share in everyday black segment in the latest four-week period. Next phase of integration of teapigs with Tetley is underway. TCPL became the third-largest branded tea company by market share in UK during the quarter, displacing Twinnings. Inflation and GBP depreciation affected profitability during the quarter and would be addressed through pricing actions and structural cost-saving measures.
- **US** – Coffee revenue grew by 16% (CC) in Q2FY2023 driven by Eight O' Clock (EOC) coffee gaining share. EOC K Cups grew 2X the category during the quarter. The business profitability has been impacted by an increase in coffee and freight costs and delayed implementation of pack/price initiatives. Tea revenue grew by 9% (CC) led by Tetley and Teapigs outperforming their respective categories. Teapigs is now the fastest-growing tea brand in the US. Tetley witnessed share gains in the latest period led by performance in mainstream Black with distribution gains and increased activity. The newly launched Tetley Sweet Tea Cold Brew strengthened TCPL's presence in the specialty tea segment in the USA. Tetley Irish Breakfast tea continued to do well led by distribution gains and ongoing promotion activity
- **Canada** – Revenues for Q2FY2023 grew by 16% (in CC terms) led by 11% y-o-y growth in the specialty tea segment. The tea category growth is being led by pricing as inflation impacted volumes. New distribution for Tata tea is helping the brand grow rapidly, albeit off a small base. TCPL launched a new range of teas under Tetley Live teas in Canada. The range features 3 variants – Live Cool (Peppermint spearmint), Live Bold (Cinnamon chai rooibos) and Live Calm (Camomile, Spearmint, Orange).

Key conference call highlights

- **India beverage volumes to recover gradually:** India beverage business registered 1% decline in sales volumes due weak demand in the rural and semi urban market (especially in the Hindi speak belt). With better monsoons, high MSPs and softening of inflation in the other key commodities will help gradual recovery in the sales of domestic branded tea segment. Festive season saw some pick-up in demand. TCPL has maintained its leadership position in the domestic branded tea segment and is continuously gaining market share. This along with improving distribution penetration in the rural and semi urban market will TCPL to clock in good volume growth ahead of industry growth in the coming quarters.
- **Tea and coffee prices:** Tea prices in North India came off from Q1 levels but trended slightly higher y-o-y. South India tea prices remained rangebound during the quarter and slightly higher YoY. Kenya tea prices remained stable sequentially but were higher y-o-y. The management expects the tea prices to further trend downwards in the coming months. Arabica and Robusta coffee prices were significantly higher y-o-y.
- **Raw material inflation will put pressure on margins in the near term:** TCPL's consolidated OPM was down by 73 bps due to a sharp decline in the margins of international business affected by strengthening dollar, increase in the coffee prices and lower sales. In India raw tea prices have shown the declining trend but lower sales volume had an impact on the profitability. Recovery in the sales volume of India tea business, effective price hikes in the key markets and cost optimisation measures in the key markets will help the OPM to gradually improve in the medium term.
- **Tata Sampann to grow at CAGR of 30%:** Tata Sampann registered strong growth of 37% in Q2FY2023. The management is confident of maintain 30% CAGR over the next three year driven by entrance into new geographies, meaningful product launches and share gains from unorganised players.
- **Ready-to-eat portfolio relaunched in new avatar:** Strategic direction on ready to eat (RTE) portfolio was to establish leadership position in the domestic market and get launch in the international market. The company relaunched RTE products under "Tata Sampann Yumside" to leverage on the Sampann brand. Revamped RTE portfolio by improving recipes and expanding into ethnic range. It will not have any impact on the goodness of Sampann brand as the products does not contain any preservatives or artificial colour. Further TCPL will launch the Indian RTE products in the key markets of US, UK and Canada under the brand "Tata Raasa". Indian exports of RTE products are growing in double digits, which provides an opportunity to launch these products in the international markets.

- **Widening sales & distribution reach:** The company achieved its target of covering 1.3 million outlets by end of FY2022. TCPL targets to increase its reach by 1.5 million outlets to 2.8 million outlets in FY2023. TCPL's direct reach is now 1.4 million outlets and the number of super stockists has grown by 20%.
- **Alternate channels gaining traction:** TCPL continued to see strong growth in alternate channels, with Modern Trade channel growing 18% y-o-y. The E-Commerce channel grew 40% contributing to 9.2% of India business sales. Additionally, alternate channels continued to support the innovation agenda with 11% of E-commerce revenue coming from NPD (New Product Development) sales during the quarter.
- **Targets contribution from NPD to reach 5%:** TCPL is aiming for new product contribution to increase to 5% in the coming years. It expects it to reach to 3.5%+ by end of FY2023 from 0.9% in FY2020. NPD contribution to e-commerce platform has already reached 11%. The company has increase the pace of new product launches (which 2x ahead of Q1). It has entered into Spices, Dry fruits and Ready-to-cook (RTCs) under the pantry platform. It entered into plant based protein space with the launch of Go Fit, which is expected to scale-up faster considering huge demand opportunity in the Indian market. Overall, the company is confident of achieving the target of 5% from NPD in the coming years.
- **Price hikes and cost restructuring in international market:** The company undertook price hike of ~22% in the US in the past one year and has planned another round of packaging led price hike in the near term. In UK, TCPL undertook 7% price increase and has recently announced a double-digit price increase. The company aims to get back margins to double digits by Q4. For the medium term, the company has undertaken cost restructuring for the international business, which would lead to significant double-digit EBIT growth.

Results (Consolidated) — Rs cr

Particulars	Q2FY23	Q2FY22	Y-o-Y (%)	Q1FY23	Q-o-Q (%)
Total Revenue	**3,363.1**	**3,033.1**	**10.9**	**3,326.8**	**1.1**
Raw material cost	1,959.2	1,736.3	12.8	1,909.1	2.6
Employee cost	273.8	255.6	7.1	277.4	-1.3
Advertising	216.9	211.9	2.4	211.6	2.5
Other expenses	479.3	416.0	15.2	471.4	1.7
Total operating cost	2,929.2	2,619.8	11.8	2,869.5	2.1
Operating profit	**433.8**	**413.3**	**5.0**	**457.3**	**-5.1**
Other income	29.3	39.6	-26.0	35.3	-17.1
Interest & other financial cost	19.6	19.8	-1.2	16.3	20.2
Depreciation	73.1	69.3	5.5	72.9	0.3
Profit Before Tax	**370.5**	**363.8**	**1.8**	**403.5**	**-8.2**
Tax	106.4	86.1	23.5	109.2	-2.6
Adjusted PAT before share of profit from associates/JV	**264.1**	**277.7**	**-4.9**	**294.2**	**-10.3**
Minority Interest (MI)/ Profit from associates	34.5	24.4	41.1	0.2	-
Adjusted PAT after MI	**298.5**	**302.1**	**-1.2**	**294.5**	**1.4**
Extra-ordinary items	90.7	-16.3	-	-17.7	-
Reported PAT	**389.2**	**285.8**	**36.2**	**276.7**	**40.7**
Adjusted EPS (Rs.)	2.9	3.0	-4.9	3.2	-10.3
			bps		**bps**
GPM (%)	41.7	42.8	-101	42.6	-87
OPM (%)	12.9	13.6	-73	13.7	-85
NPM (%)	7.9	9.2	-130	8.8	-99
Tax rate (%)	28.7	23.7	505	27.1	165

Source: Company, Sharekhan Research

Segment-wise performance Rs cr

Particulars	Q2FY23	Q2FY22	y-o-y %	Q1FY23	y-o-y %
India Business	2,160.0	1,978.1	9.2	2,145.2	0.7
International Beverages	838.9	781.3	7.4	836.6	0.3
Total branded business	**2,998.8**	**2,759.4**	**8.7**	**2,981.8**	**0.6**
Non-branded business	371.8	279.9	32.8	351.7	5.7
Others / Unallocated item	13.7	6.3	118.3	7.4	85.3
Less: Intersegment sales	-21.3	-12.4	71.3	-14.1	50.9
Total	**3,363.1**	**3,033.1**	**10.9**	**3,326.8**	**1.1**

Source: Company, Sharekhan Research

Segment-wise results Rs cr

Particulars	Q2FY23	Q2FY22	y-o-y %	Q1FY23	y-o-y %
India Business	307.7	244.5	10.7	273.2	6.1
International Beverages	59.7	109.7	8.8	104.5	-18.7
Total branded business	**367.4**	**354.2**	**10.2**	**377.6**	**-2.2**
Non-branded business	30.0	21.5	-	39.4	34.5
Total	**397.4**	**375.8**	**15.4**	**417.0**	**0.4**

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 help in 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.

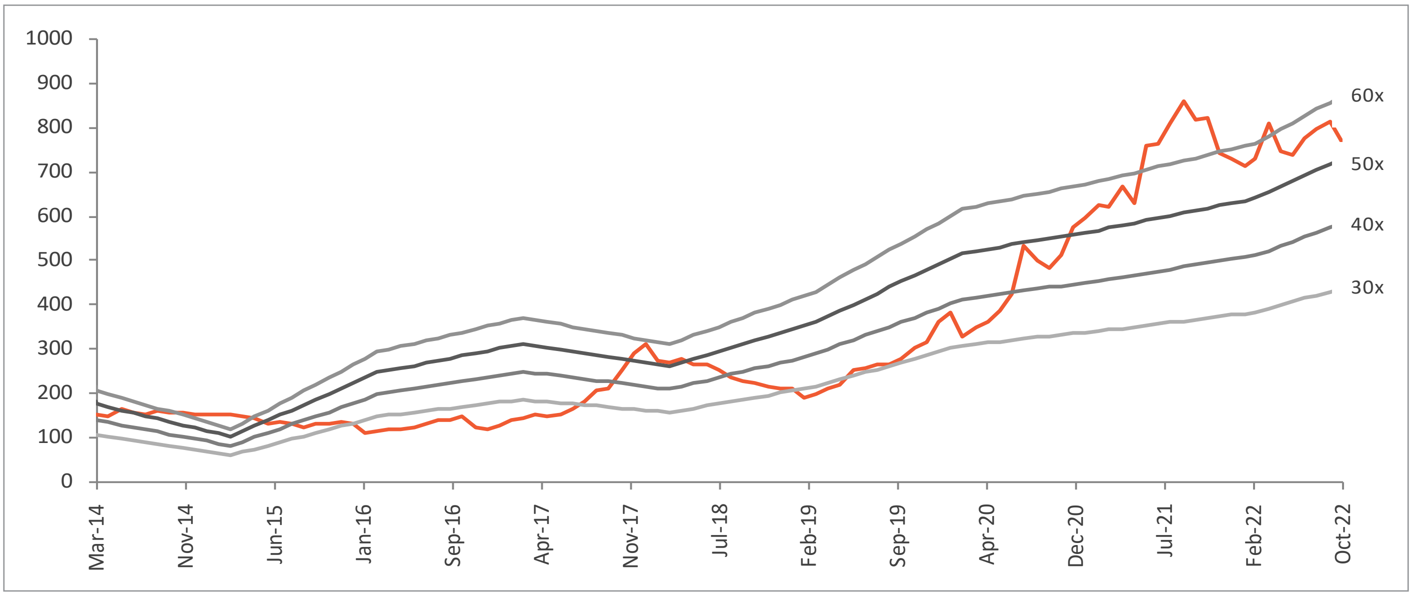
■ Company outlook - Eyeing consistent earnings growth

Expansion of distribution network and sustained share gains would help sales volume of the domestic tea business to improve to mid to-high single digit in the medium to long term. Sustained product launches will drive the foods business' growth, shift to branded products and distribution expansion. Base of the international business has normalised and with demand improving in most markets, business revenue growth trajectory will improve in quarters ahead. Raw tea prices have corrected from their high and will ease gross margin pressures despite higher fuel and packaging cost. The company is banking on operating efficiencies and mix to post better margins in the quarters ahead.

■ Valuation - retain Buy with a revised PT of Rs. 925

TCPL delivered mixed performance in Q2FY2023 with revenues growing by 11% y-o-y while adjusted PAT declined by 5% y-o-y. The company is focusing on market share gains, product launches, network expansion and cost restructuring to aid growth in the coming years to improve earnings growth over the next two to three years. Thus, with strategies in place, TCPL is well poised to achieve double-digit revenue and PAT CAGR of 13% and 18%, respectively, over FY2022-FY2024. The stock trades at 59.5x/48.0x its FY2023E/FY2024E earnings. With strong growth prospects, relatively stable commodity prices and sturdy cash flows (FCF/EBIDTA of 100%), we maintain TCPL as one of our top picks in the FMCG space. We maintain a Buy recommendation on the stock with a revised price target (PT) of Rs. 925.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Hindustan Unilever	70.5	61.7	51.2	49.4	43.2	36.0	24.1	27.2	31.8
Nestle India	84.3	77.3	63.3	54.3	51.1	42.6	138.3	129.4	125.8
Tata Consumer Products	66.6	59.5	48.0	39.9	38.5	31.4	8.6	8.6	10.2

Source: Company; Sharekhan Research

About company

Tata Consumer Products Limited is a focused consumer products company uniting the principal food and beverage interests of the Tata Group under one umbrella. The Company's portfolio of products includes tea, coffee, water, salt, pulses, spices, ready-to-cook and ready-to-eat offerings, breakfast cereals, snacks and mini meals. Tata Consumer Products is the 2nd largest branded tea company in the world. Its key beverage brands include Tata Tea, Tetley, Eight O'Clock Coffee, 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, Tata Soulfull and Tata Q. In India, Tata Consumer Products has a reach of over 200 million households. The company has a consolidated annual turnover of ~Rs. 12,400 crore with operations in India and International markets.

Investment theme

After the integration of TCL's consumer business with TGBL, India business is expected to become a key revenue driver for the company. Rising per capita income, increasing brand awareness, 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 and group CFO
Neelabja Chakrabarty	Company Secretary

Source: BSE; Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.29
2	First State Invesment ICVC	4.85
3	Vanguard Group Inc	2.17
4	BlackRock Inc	2.13
5	Norges Bank	2.11
6	Government Pension	1.91
7	Goldman Sachs Group Inc	1.33
8	SBI Funds Management	1.30
9	Nippon Life India AMC	0.79
10	Aditya Birla Sun Life AMC	0.73

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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For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. 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.