20 November 2022

Annual Investor Meet | Sector: Consumer

Hindustan Unilever

BSE SENSEX	S&P CNX
61,663	18,308

Hindustan Unilever Limited

Stock Info

Bloomberg	HUVR IN
Equity Shares (m)	2,350
M.Cap.(INRb)/(USDb)	5834.6 / 71.4
52-Week Range (INR)	2733 / 1902
1, 6, 12 Rel. Per (%)	-9/-5/0
12M Avg Val (INR M)	4353
Free float (%)	38.1

Financials Snapshot (INR b)

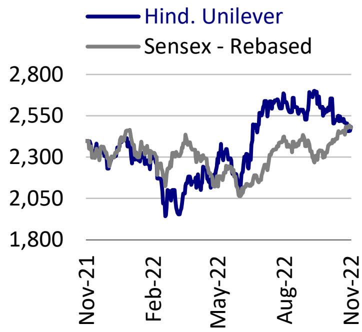
Y/E Mar	2022	2023E	2024E
Sales	511.9	585.7	641.0
Sales Gr. (%)	11.3	14.4	9.4
EBITDA	125.0	135.6	156.9
Margins (%)	24.4	23.2	24.5
Adj. PAT	88.5	98.0	112.3
Adj. EPS (INR)	37.7	41.7	47.8
EPS Gr. (%)	9.0	10.7	14.5
BV/Sh.(INR)	207.5	201.5	195.3
Ratios			
RoE (%)	18.4	20.4	24.1
RoCE (%)	24.7	27.1	32.5
Payout (%)	90.3	113.9	113.0
Valuations			
P/E (x)	65.9	59.5	52.0
P/BV (x)	12.0	12.3	12.7
EV/EBITDA (x)	46.3	42.8	37.0
Div. Yield (%)	1.4	1.9	2.2

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	61.9	61.9	61.9
DII	11.8	12.2	10.5
FII	14.0	13.3	15.5
Others	12.3	12.6	12.2

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR2,483 TP: INR2,900 (+17%) Buy

Growth engine intact; widening moats over peers

Hindustan Unilever (HUVR)'s Annual Investor Meet once again underlined the moats the company has and the remarkable nimbleness it continues to exhibit despite being much larger than peers.

Highlights from the session:

- The new sub categories, created over the last 10 years, now contribute ~20% to sales and are much more profitable than the base business.
- The company's Premium portfolio contributed 33% toward sales in FY22, up from 22% in FY12. Yet, there still lies significant opportunity for growth. In the last 12 months alone, the Premium Beauty Business Unit has grown 2x the market rate.
- India's per capita FMCG spend of USD46 is extremely low compared to other emerging markets such as Indonesia, China, Thailand, and the Philippines, all of which have a per capita FMCG spend ranging between USD100 and USD440.
- As highlighted in our FY22 Annual report note, the company is building an extremely strong technological backbone. Its B2B app, "Shikhar", now covers over half of its direct reach outlets. The company's digital demand capture is growing rapidly and stands at 25% of total demand.
- The management also indicated Winning in Many India (WiMI) based customization with different formulations of Brooke Bond tea, Lux Soap, and Surf Excel to cater to various parts of the country.
- With the uncertainty in rural recovery and no significant correction in commodity costs, barring palm oil and crude derivatives, earnings growth for the next few months is expected to remain muted.
- We **maintain our Buy** rating on the stock on account of superior moats over consumer staples peers. We believe the moats will help drive healthy mid-teens to late-teens earnings growth, similar to the levels in the five years before Covid.

Details from the Analyst Meet:

- **Category creation and premiumization:** For HUVR, market development (categories created in the last 10 years) have revenues of more than INR100b (~20% of sales). None of the above sales are from M&A and is thus, organic. Notably, INR100b delta that HUVR has created from new businesses is larger than sales of many consumer companies. These sales have also significantly contributed toward margins, apart from being 20% of FY22 sales. In FY22, Premium portfolio is 33% of total sales up from 22% in FY12. The definition of a premium product is a price index of 120 or above over the prevailing rates assumed at 100. Project Shakti generates revenues of USD500m, with 160,000 entrepreneurs.

Krishnan Sambamoorthy – Research Analyst (Krishnan.Sambamoorthy@MotilalOswal.com)

Aditya Kasat – Research Analyst (Aditya.Kasat@MotilalOswal.com)

- **Huge opportunity for HUVR in India:** 20% of world's working population is in India**.** Between 2017 and 2022, the proportion of elite and affluent class increased to 15% from 8% in the country. Penetration in many of their categories is 25% or lower. MFD is at 25% and face wash, body lotion, washing liquids, dishwashing liquid, hair conditioner are lower than MFD and body wash stands at a mere 2%**.** India has significantly under indexed FMCG spends v/s other emerging markets. India's spend on FMCG is at USD46 per capita, which is extremely low compared to other emerging markets such as Indonesia, China, Thailand, and the Philippines, all of which have per capita FMCG spends ranging between USD100 and USD440. Urban and Rural Per Capita Spends on FMCG in India are very low at USD82 and USD27, respectively.
- **Strengthening digital backbone:** HUVR's B2B app "Shikhar" has rapidly expanded and currently reaches ~1.1m outlets, forming half of the company's direct reach. Digital capture is growing rapidly, standing at 25% of the total demand. On both these counts, the company is well ahead of its peers, thereby widening the gap. The management believes that with its market shares across categories, a wide portfolio and a host of large brands, it is well positioned to win in the general trade channel compared to conventional and new age competitors. For outlets which operate the "Shikhar" app, 40% of their order is routed through the app. When "Shikhar" is paired with the best of the breed fulfillment, highly nimble manufacturing, and increasingly rapid product development cycle, the combination is even more superior compared to peers.
- **Extent of customization:** WiMI has led to a large degree of localization of brands such as Brooke Bond, Lux Soap, and Surf Excel to cater to customers in different parts of the country. This customization is also supported by HUVR's six nano factories set up in recent years, which not only facilitate customized manufacturing close to the markets, but also save on logistics costs and help reduce carbon footprint. The customization in the laundry segment is based on four parameters, i.e. how they wash, the water type used, the fabric type, and weather conditions in the geography. Such customizations could become the trendsetter for other categories as well.
- **Growth opportunity in BPC:** Sales growth over the last 10 years has been relatively muted in the BPC segment compared to HUVR's other categories. However, in the three premium categories viz. face cleansing, body lotion, and hair conditioner, the company has been able to drive penetration between 1.5x and 2.6x, and yet, leaving a large runway for growth with penetration levels at less than 22% in all the three categories. In addition, the company is making big bets in its five other premium categories for the next decade viz. light moisturizer, BB and CC creams, sunscreens, body wash, and intimate hygiene. With penetration levels of less than 3% in all these categories, HUVR still is the clear market leader. If HUVR successfully manages to tap the opportunity, the trajectory of sales and profitability for BPC could be much better than over the last 10 years when sales grew ~1.8x and EBIT grew ~2.2x for HUVR's largest segment, which contributes 38% of sales. HUVR's second largest segment, HPC (32% of sales), has been a huge beneficiary of early investment in premiumization as a result of which the company's turnover has grown ~2.6x and EBIT has grown ~7.3x in the past decade.

- **Near-term outlook is challenging:** Although long-term outlook is attractive, the management highlighted several challenges that can adversely affect near-term earnings potential. High CPI inflation affect rural demand (which is the key driver of volume growth across categories); the government extending the free food grain distribution period to Dec'22 highlights the extent of rural demand slowdown; commodity costs such as that of palm oil have come down sharply and crude derivatives are likely to yield benefits but with a lag, thereby, the overall commodity cost inflation remains high. The management intends to combat these challenges through continued cost savings (~700bp to sales annually) and calibrated price increases. These savings will be reinvested for growth. However, beyond the near term, the management seems confident of elevating EPS growth back to double digits.

Valuation and view

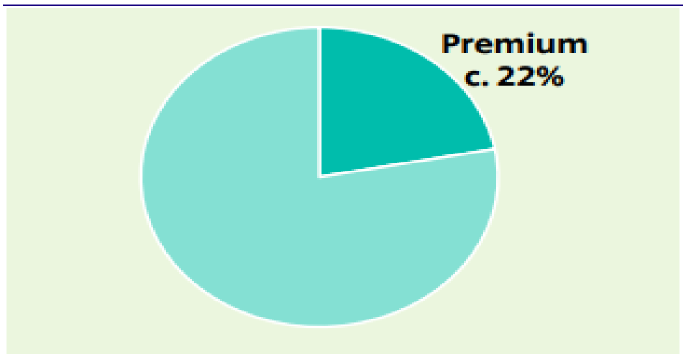
- The company continues to place the building blocks for future growth and has been able to do so ahead of peers. It continues to display the dexterity despite its larger size, even as it continues to grow faster v/s peers.
- HUVR continues to strengthen the key drivers of its success in India over the last decade, including (a) pioneering the use of technology to generate data and facilitate decision making, (b) the Winning in Many Indias (WiMI) strategy, focused on decentralization and localized strategies, (c) recognizing trends and investing in them early on, (d) funneling cost savings back into the business, and (e) its strong execution ability, which has led to positive earnings momentum.
- Historically, HUVR has continued to strengthen its brand, distribution network, and quality of personnel, and thereby, remains ahead of its peers. With its dexterity in decision making, exemplified by WIMI and CCBT, as well as the cost savings being plowed back into the business, the company has revitalized its topline and earnings growth in the last decade, despite being much larger than its peers.
- Finally, with its analytics and R&D initiatives (much ahead of its peers) in the recent years, HUVR is ensuring that it does not get disrupted in a dynamically changing environment.
- The company's earnings growth had gained further impetus in recent years (before COVID-19 affected FY21) – it reported a ~18% EPS CAGR in the four years ended FY20. This is particularly impressive, given the weak mid-single-digit earnings growth posted by (much smaller) peers in these years.
- There is no material change in our forecasts. In view of near-term challenges for all staples, we bring down HUVR's target multiples to 55x from 60x. We reiterate our Buy rating with a TP of INR2,900 (55x Sep'24E EPS).

Highlights from the Annual Investor Meet

Setting a solid foundation for 'Winning in the new decade'

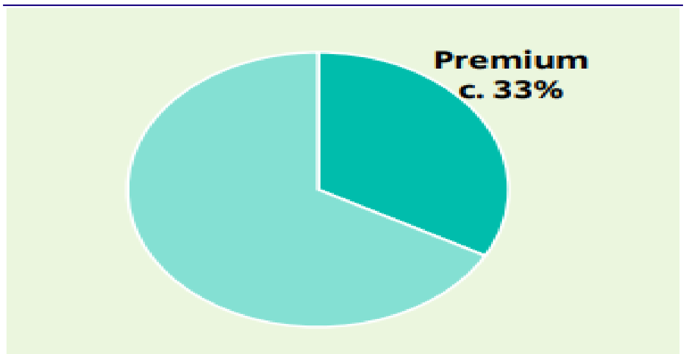
- With a market capitalization of ~ INR6t, HUVR is India's sixth largest company and among the top 15 Foods and HPC companies globally. Its market capitalization has grown ~6x over the last 10 years.
- HUVR has a portfolio of over 50+ brands (19 of them added in the last 10 years) in 15 different categories. 16 of its brands have sales of INR10b+.
- Market development cells, which contributed more than INR100b to sales, are home care liquids, premium hair care, hand & body wash, premium skin care, premium color cosmetics, matic detergents, ice cream (WiMi), green tea, spice tea, and spreads & dressings.
- Notably, INR100b delta that HUVR has created from its new businesses is larger than sales of many consumer companies. These sales have also significantly contributed toward margins, apart from being 20% of FY22 sales.
- With a total reach of 9m outlets and ~30% of this under the company's direct reach, HUVR's network is the largest among FMCG peers. This is further complemented by the broadest advertising reach.
- With a repertoire of strong brands, supported by robust distribution reach, HUVR holds the leadership position in more than 85% of its categories.
- Premium portfolio contributed ~22% of sales in FY12, which has grown by 1100bp to ~33% in FY22.
- At present, HUVR has five digital first brands. The digital demand capture was 0% 10 years ago and it now stands at 25%. This is significantly higher than any FMCG company in India.

Exhibit 1: In FY12, Premium portfolio was 22% of sales…



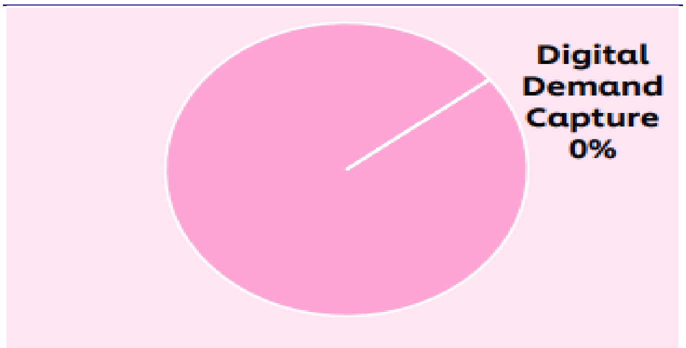
Source: Company

Exhibit 2: …which has grown to ~33% in FY22



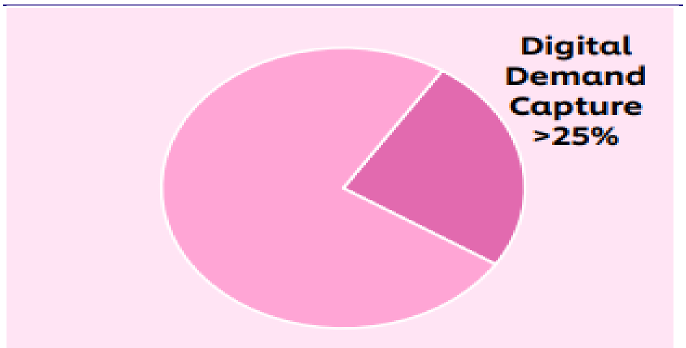
Source: Company

Exhibit 3: In FY12, digital channel contributed ~0%...



Source: Company

Exhibit 4: …which has grown to 25% in FY22

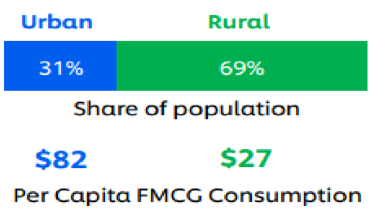


Source: Company

FMCG in India – poised for growth

- Being one of the fastest growing economies, India is expected to be the third largest economy in the world by CY27.
- The company has access to the largest working class population in the world (~20% of global working population is in India) of more than 1b. Further, this is growing by 10m every year.
- India has nearly 800 million internet users with 90% having access to wireless data. India also has the highest mobile data consumption per user in the world.
- Urbanization currently sits at ~30% levels. It is expected that urbanization will increase and cities with population of more than 1m are likely to double by CY30.
- The upward mobility in income is expected to fuel consumption and also drive premiumization.
- Under indexed spends v/s other emerging markets: India's spend on FMCG is at ~USD46 per capita, which is extremely low compared to other emerging markets such as Indonesia, China, Thailand, and the Philippines that have per capita FMCG spends ranging between USD100 and USD440.
- Per capita FMCG consumption is at ~USD27 in rural areas while the share of rural population is ~69%. Urban per capita consumption stands at ~USD82 with its population share of 31%. Hence, a huge rural opportunity remains untapped.

Exhibit 5: There is a huge rural opportunity…



Source: Company

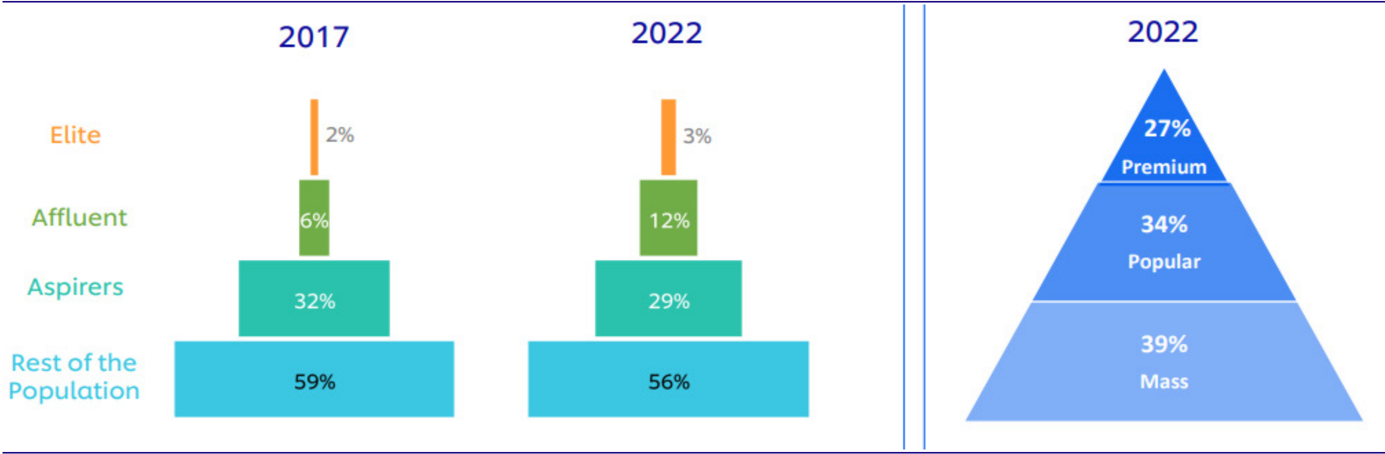
Exhibit 6: …along with lower penetration will help growth

Source: Company

Exhibit 7: India's spends remain lowest among the developing countries

Source: Company

Exhibit 8: A rising middle class to fuel consumption and premiumization



Source: Company

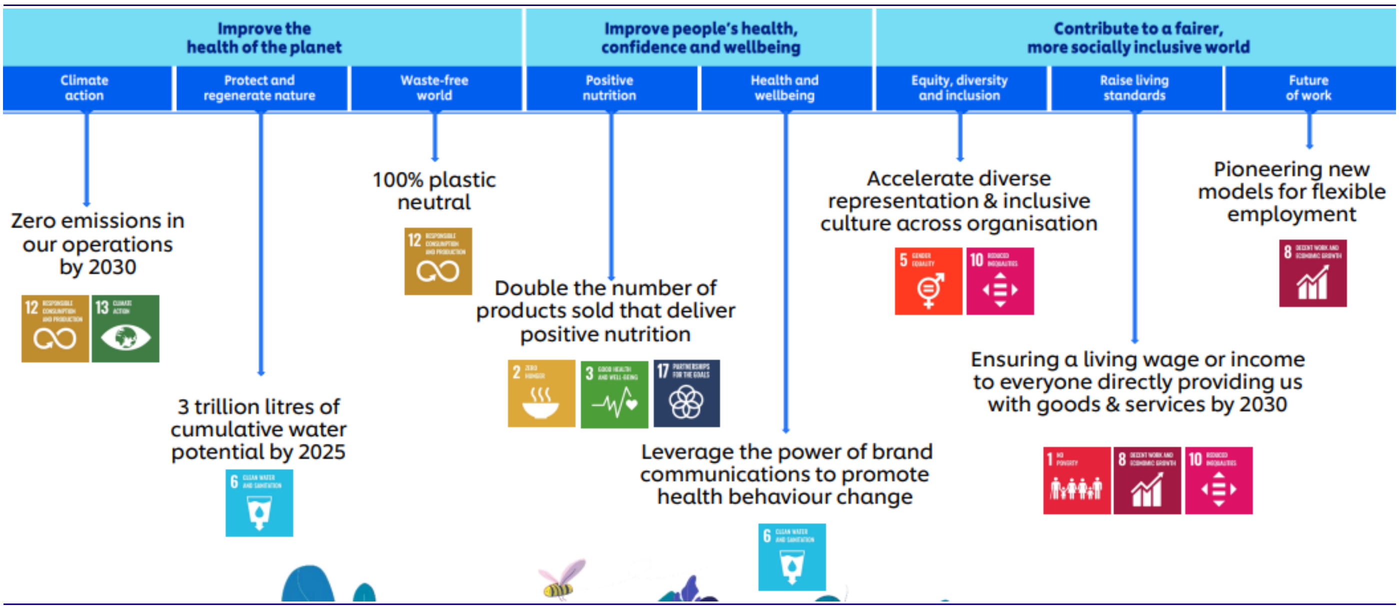
Winning in the new decade

- HUVR had put forth five strategic choices to help it win in the next decade:
  - Developing the portfolio – Growing the core portfolio along with market development
  - Winning with brands as a force for good, powered by purpose and innovation
  - Leading in the channels of the future – Digitizing general trade, and focusing on modern trade and e-commerce
  - Building differentiated structures and capabilities – Offering a differentiated product mix and communication for different parts of India
  - Building a purpose-led, future-fit organization
- It is focusing on growing the core, market development and premiumization with clear focus on:
  - Purposeful innovations
  - Superior products
  - Investing ahead of curve, based on global experiences
  - WiMI strategy
- ESG: HUVR has three objectives for its ESG strategy viz. i) improve the health of the planet, ii) improve people's health, confidence, and wellbeing and iii) contribute to a fairer, more socially inclusive world.
- It is also interesting to note that the variable pay of executives is linked to ESG goals of the company, clearly reflecting their ESG priorities.

Exhibit 9: HUVR's compass

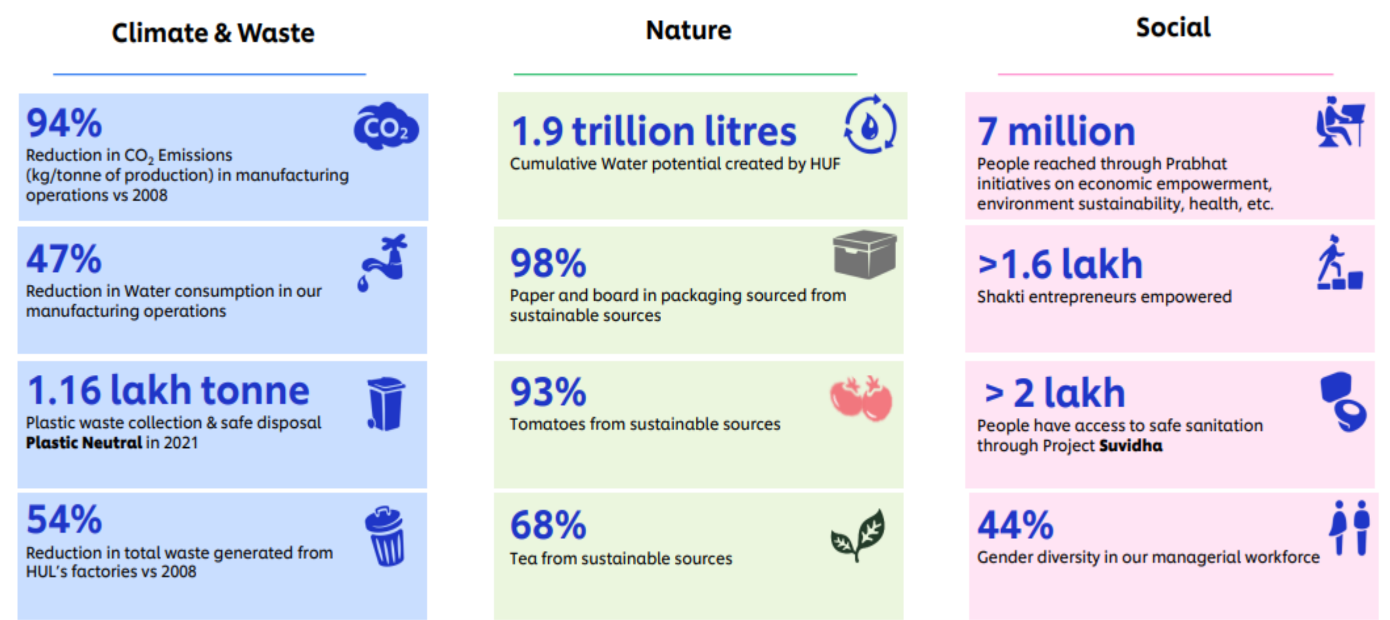
Source: Company

Exhibit 10: ESG goals of HUVR



Source: Company

Exhibit 11: Working toward ESG goals



Source: Company

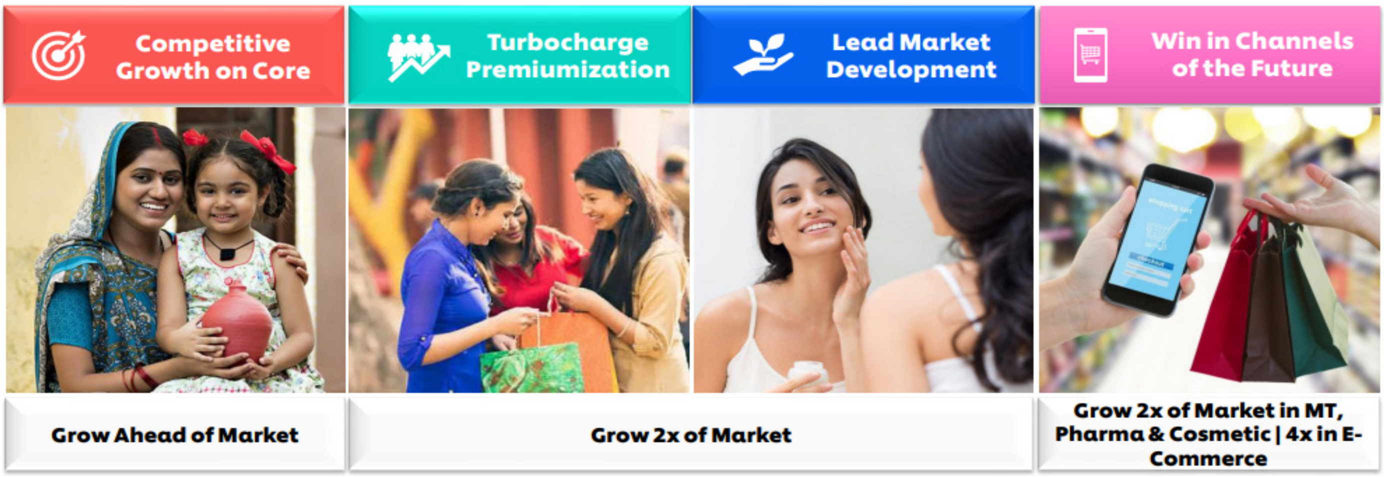
Beauty and Personal Care

- The BPC segment has grown 1.8x over FY12-22, while its profitability has grown 2.2x over the same period.
- It enjoys podium position across the categories it is present in.
- The segment currently features seven brands with more than INR10b in annual turnover. Glow and Lovely, Lifebuoy, and Dove are the master brands with annual revenue of more than INR20b.
- It is present in 9 out of 10 General Trade (GT) stores and is present in 10 out of 10 in Modern Trade (MT) stores and D2C websites for premium brands.
- HUVR's key priorities include the following:
  - Competitive growth on core

- ➢ Turbocharging premiumization
- ➢ Lead market development
- ➢ Win in channels of future

- Competitive growth: The three key mantras here are i) contemporizing brands, ii) building purposeful brands and multi-year engagement platforms and iii) building sustainable businesses. It is focusing on communication (9 out of 10 ads are proven effective and lands in top quadrant), NDPE (no deforestration, no peat, and no exploitation) and WiMI strategy. In sachets, it will be moving the 100% recyclable sachets soon.
- Turbocharging premiumization: The management is focusing on driving premiumization. In skin cleansing, it is transforming the portfolio from core to premium bars and also driving format adoption (for example, shift from Lifebuoy and Lux to Dove and Pears). It is also accelerating liquids adoption such as body wash, hand wash, and intimate hygiene. In hair care, HUVR is 3x of the largest competitor, and currently, stands at the highest ever market share in the past two decades. In skin care, it was already a market leader in tone management and now is the number one in emerging/on-trend creams.
- Lead market development: It has been working on market development of various categories. Over the past decade, its penetration levels of face cleansing/body lotion/hair conditioner have increased by 2.6x/2x/1.5x, respectively. For the next decade, it is betting big on light moisturizer, BB/CC cream, sunscreen, body wash, and intimate hygiene.
- Wining in the channels of future: Here, the company is focusing on designing the portfolio to address the shoppers' needs. Its premium beauty business unit has launched five new digital first brands. In the last one year, it added ~INR180m in sales.

Exhibit 12: HUVR's strategy for BPC segment

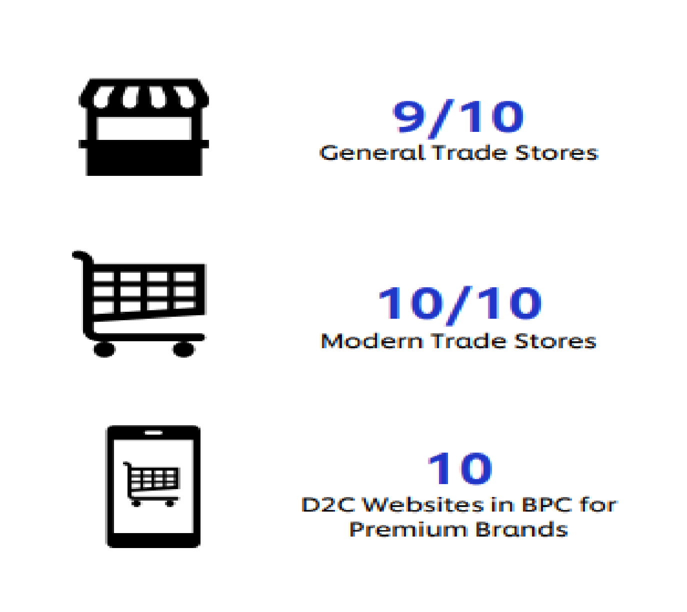


Source: Company

Exhibit 13: Enjoying dominant position across categories…

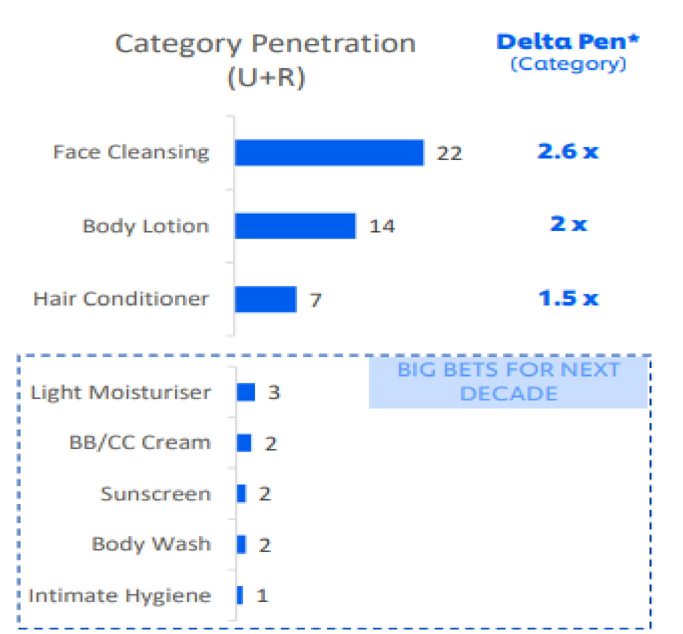
Source: Company

Exhibit 14: …with highest reach across channels



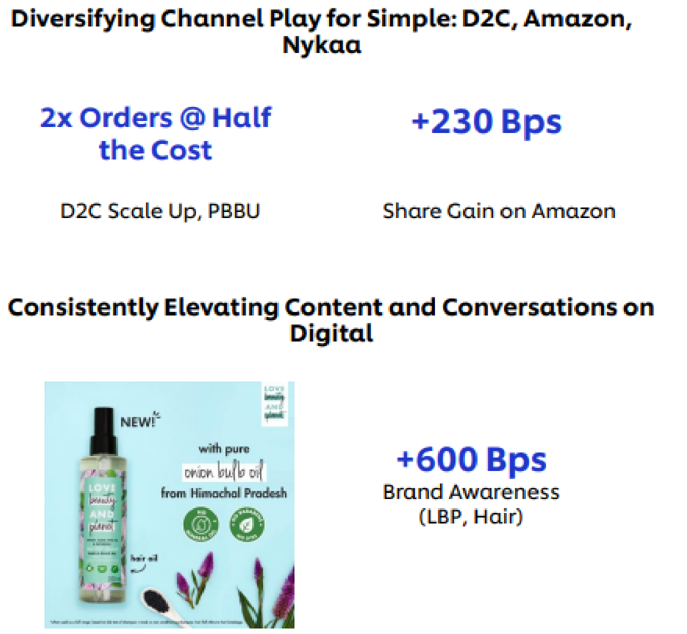
Source: Company

Exhibit 15: HUVR is driving category penetration



Source: Company

Exhibit 16: Digital first brands gaining market share



Source: Company

Exhibit 17: BPC performance

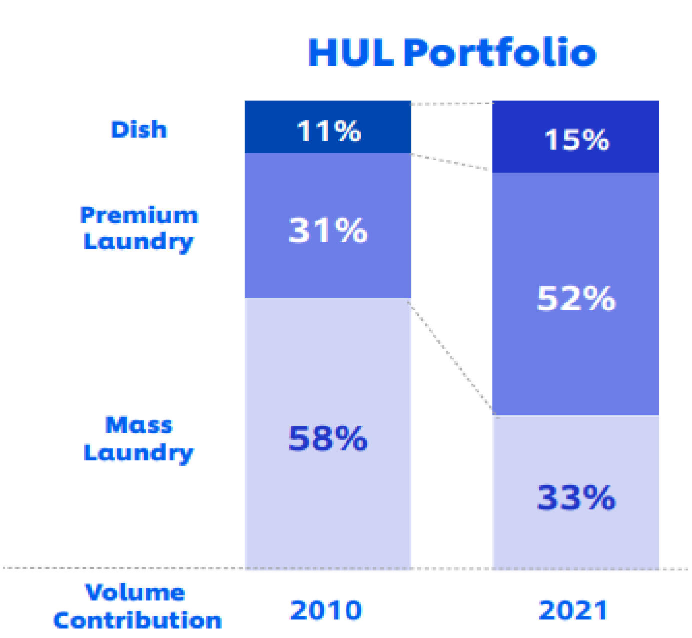
Particulars (INR b)	FY18	FY19	FY20	FY21	FY22
Beauty & Personal Care revenue	**164.6**	**176.6**	**173.5**	**179.6**	**194.6**
YoY growth (%)	1.0	7.3	-1.8	3.5	8.4
Contribution to total turnover (%)	46.8	46.2	44.7	39.1	39.0
Beauty & Personal Care EBIT	**41.6**	**46.9**	**48.7**	**51.3**	**53.5**
YoY growth (%)	8.1	12.7	3.8	5.3	4.4
Margins (%)	25.3	26.5	28.1	28.5	27.5
Beauty & Personal Care contribution to total EBIT (%)	60.9	58.0	56.2	49.7	50.0

Source: Company, MOFSL

Home Care

- HUVR has grown its Home Care segment 2.6x over FY12–22 with profitability growing at 7.3x over the same period. It gained 500bp market share over the period. It is the largest home care business for Unilever in the world.
- HUVR is the market leader in the Laundry and Dishwashing categories and is in the number two position in the Surface Cleaners category.
- Volume contribution in 2010 from mass laundry/premium laundry/dish was 58%/31%/11%, respectively, which in 2021 stood at 33%/52%/15%, respectively. The shift clearly indicates HUVR's focus on premiumization via market development.
- A few long-term drivers the company is betting on:
  - Currently, washing machine penetration is at ~15%, and the management expects this to explode going forward, driving HUVR's home care business.
  - As new fabrics (such as denims) find their way into the wardrobes of consumers, so would special cleaners.
  - Changing consumer access channels – HUVR is leading in MT and E-Commerce and aims to continue to do so.
  - More cleanable surfaces to drive Surface Cleaning.
- HUVR's four-pronged growth strategy in the segment includes a) growing the core, b) market development at scale, c) winning in channels of the future, and d) pioneering a clean future.
- The company is also focused on premiumization and market development i) by addressing the pain points of customers (it has identified ~200 pain points and addressing it via 150 different opportunity cells), ii) building brands with a purpose, iii) investing in superior technologies, and iv) focusing on execution.

Exhibit 18: Premium laundry expanded 21% over the past 10 years

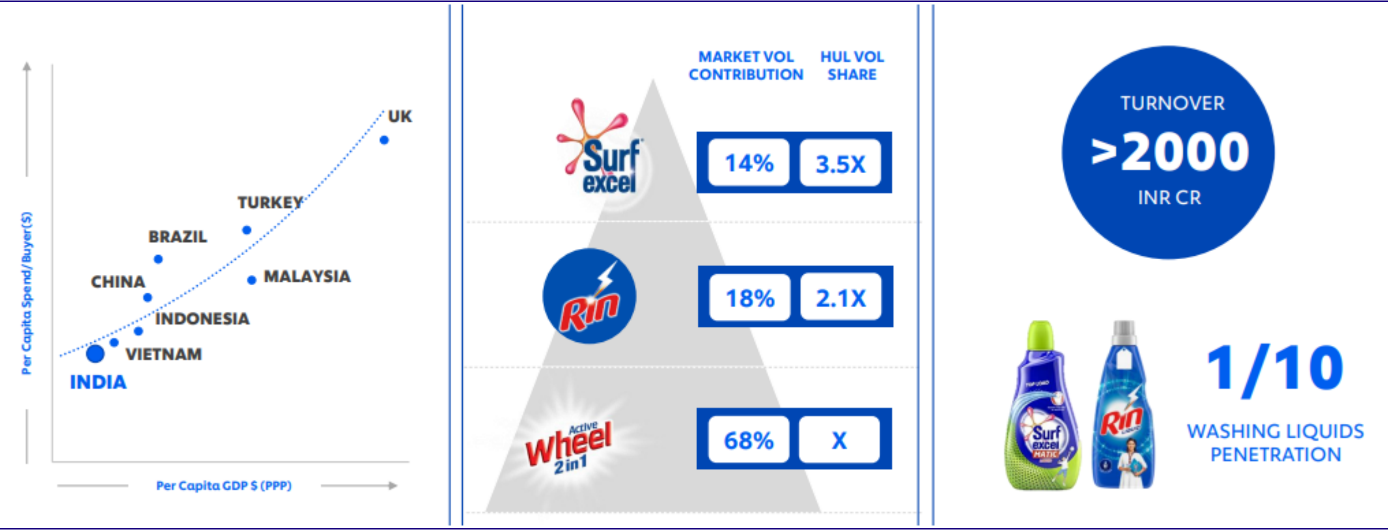


Source: Company

Exhibit 19: WiMI is key where the premiumization curve varies by region

Source: Company

Exhibit 20: There is a huge headroom for growth as per capita spend remains at lower levels; penetration of washing liquids is also at lower levels, indicating a huge opportunity



Source: Company

Exhibit 21: Home Care performance

Particulars (INR b)	FY18	FY19	FY20	FY21	FY22
Home care revenue	**116.3**	**128.8**	**136.4**	**139.6**	**165.8**
YoY growth (%)	2.5	10.7	5.9	2.3	18.8
Contribution to total turnover (%)	33.0	33.7	35.2	30.3	30.0
Home care EBIT	**17.0**	**21.6**	**25.6**	**27.7**	**31.9**
YoY growth (%)	34.9	27.1	18.5	8.2	15.3
Margins (%)	14.6	16.8	18.8	19.9	19.3
Home care contribution to total EBIT (%)	24.8	26.8	26.6	26.9	27.0

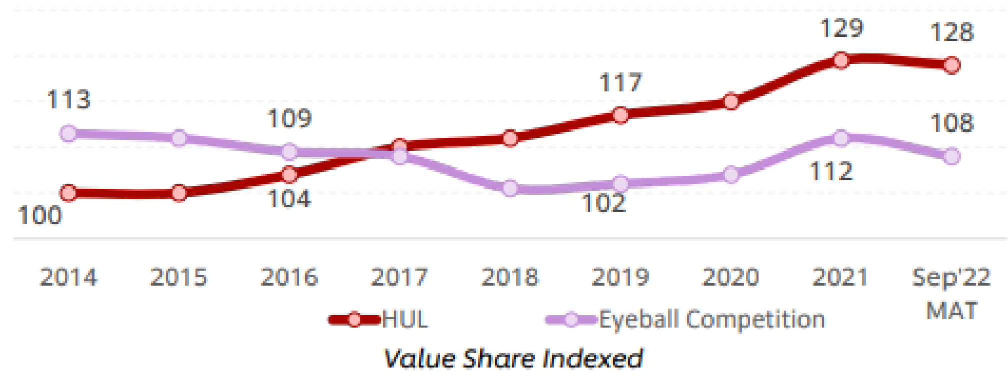
Source: Company, MOFSL

Foods and Refreshments

- The F&R segment has registered a CAGR of 8.5% over FY12-22. The segment margin has improved to 18.6% from 11.4% over the same period.
- Low absolute penetration, even in relatively higher penetrated categories, presents large headroom for growth.
- HUVR's strategy comprises the following:
  - Growing the core
  - Market development
  - Wining in channels of future
  - Wining in festival seasons
  - HFD to nourish a billion lives
  - Capability and sustainability
- Tea: In terms of value share, assuming 100 in 2014, it has already reached 128 in Sep'22. About 67% of tea is sustainably sourced. Loose tea is ~30% of the market and 'Tazaa' plans to target these customers.
- Ice Cream: The management eyes a huge opportunity in ice creams. It offers products at various price points (INR10 to INR90+) to satisfy all consumers. 'IC Now' is already 10% of the sales.

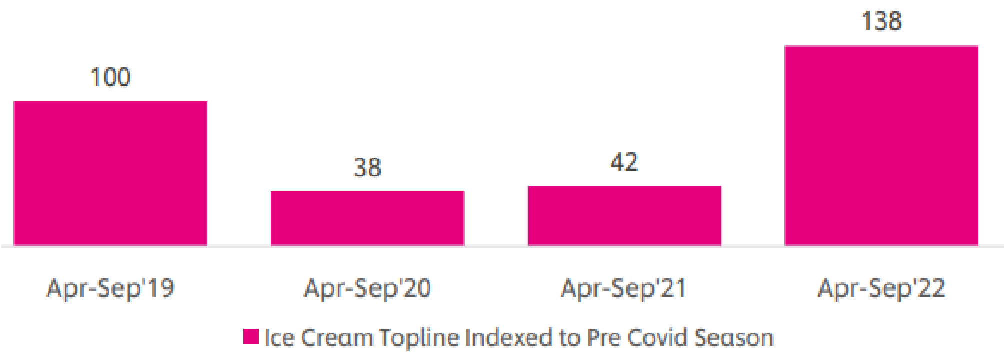
- Foods: Within two years of launch, peanut butter already has a 15% market share. Mayonnaise is a huge opportunity and its current market share stands at 10%. Jams have exhibited healthy recovery on the back of reopening of schools.
- HFD: The three key priorities here are mental reach, physical reach (direct coverage is now 3x compared to when it was launched), and strengthening its brand portfolio. The management is working on market development and has increased its penetration levels for the category. It has reached ~46m customers directly with a healthy conversion rate. It is also focusing on the adult wellbeing portfolio and is market leader in this category. For HFD, both volume share and penetration levels have increased by more than 200bp each over Mar'20.

Exhibit 22: Tea is gaining market share over the past few years



Source: Company

Exhibit 23: Resilient growth in Ice Cream portfolio



Source: Company

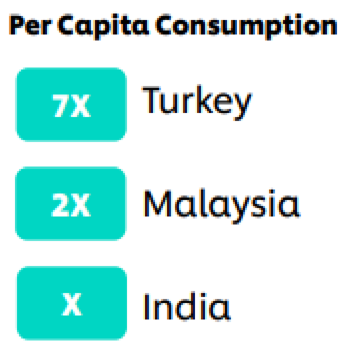
Exhibit 24: Competitive wins over long term

1:HFD share gain is MAT Sep'22 v/s MAT Sep'21, 2: Euromonitor Data; Source: Company

Exhibit 25: Investing in innovation and gaining market share in those products

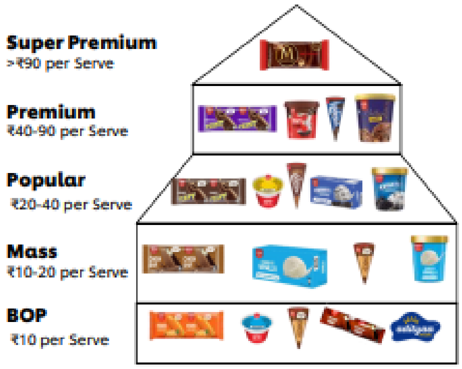
Source: Company

Exhibit 26: There is huge headroom for growth in the Ice cream portfolio…



Source: Company

Exhibit 27: …and is addressing this via various price points



Source: Company

Exhibit 28: F&R performance

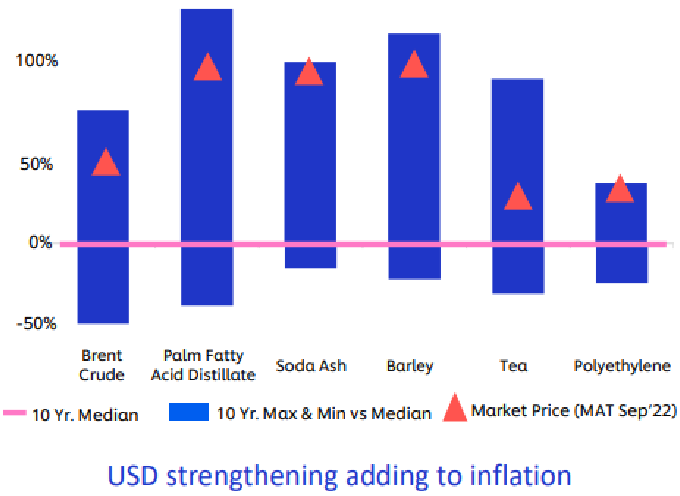
Particulars (INR b)	FY18	FY19	FY20	FY21	FY22
Foods & Refreshment revenue	**64.9**	**71.3**	**74.5**	**132.0**	**141.1**
YoY growth (%)	8.7	9.9	4.5	77.2	6.9
Contribution to total turnover (%)	18.4	18.7	19.2	28.7	29.0
Foods & Refreshment EBIT	**9.9**	**12.4**	**12.3**	**21.9**	**26.2**
YoY growth (%)	17.9	25.3	-0.8	78.0	19.8
Margins (%)	15.2	17.3	16.5	16.6	18.6
Foods & Refreshment contribution to total EBIT (%)	14.4	15.3	14.2	21.2	21.0

Source: Company, MOFSL

Presentation by the CFO

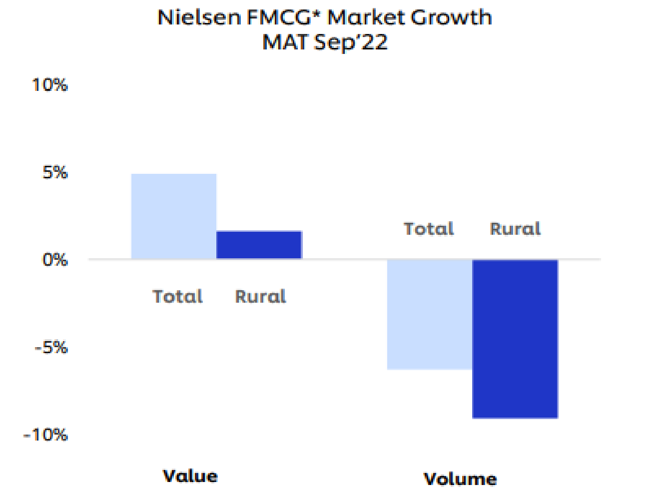
- Near-term headwinds continue as commodity costs remain at elevated levels along with subdued FMCG markets. Depreciation of Rupee is also having an adverse impact.
- Rural India is a key driver of volumes and the management expects volumes to pick up in rural India once the inflation eases.
- Per capita FMCG consumption is at ~USD27 in rural areas while the share of rural population is at ~69%. Urban per capita consumption stands at ~USD82 with its population share of 31%.
- Blended increase in commodity costs was around 22%, while blended price hikes were around 12% only. Hence, near-term targets are improving gross margin, mix improvement, and cost management.
- Although the company is open to M&A, it is looking for decent valuations with significant merger synergies. The management would also evaluate the trade-off between building it internally (organic) v/s acquiring it.
- Demonetization and Covid severely affected volumes. If these didn't happen, volume growth over the past 10 years would have been around 7% instead of 5%, putting volume at around two-thirds of sales growth.
- In FY21, ~INR9b sales came from innovations.
- Jarvis, has enabled price volume optimization.
- HUVR invests 2% of turnover in capital costs.
- The company has negative 22 days working capital with 108% RoCE (ex-goodwill).

Exhibit 29: Severe commodity cost pressure continues



Source: Company

Exhibit 30: Declining volume impacting overall market

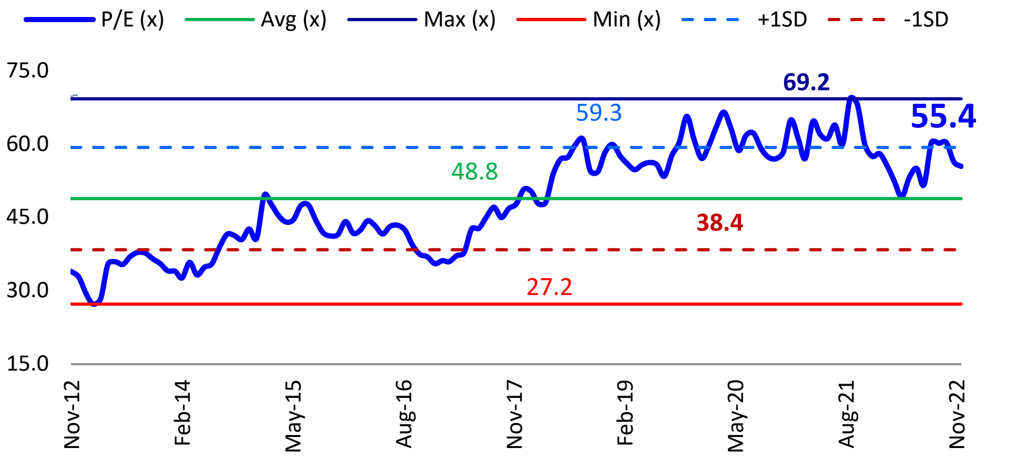


Source: Company

Valuation and view

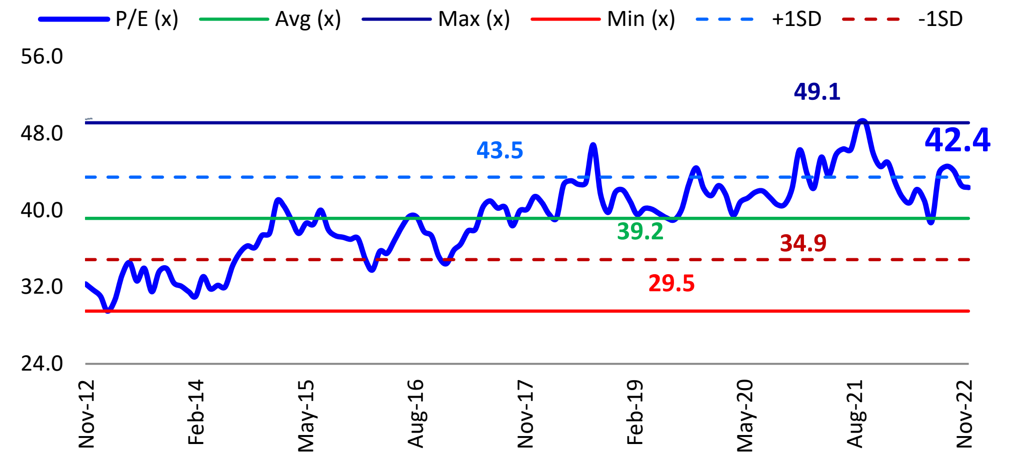
- The company continues to place the building blocks for future growth and has been able to do so ahead of peers. It continues to display the dexterity despite its larger size, even as it continues to grow faster v/s peers.
- HUVR continues to strengthen the key drivers of its success in India over the last decade, including (a) pioneering the use of technology to generate data and facilitate decision making, (b) the Winning in Many Indias (WiMI) strategy, focused on decentralization and localized strategies, (c) recognizing trends and investing in them early on, (d) funneling cost savings back into the business, and (e) its strong execution ability, which has led to positive earnings momentum.
- Historically, HUVR has continued to strengthen its brand, distribution network, and quality of personnel, and thereby, remains ahead of its peers. With its dexterity in decision making, exemplified by WIMI and CCBT, as well as the cost savings being plowed back into the business, the company has revitalized its topline and earnings growth in the last decade, despite being much larger than its peers.
- Finally, with its analytics and R&D initiatives (much ahead of its peers) in the recent years, HUVR is ensuring that it does not get disrupted in a dynamically changing environment.
- The company's earnings growth had gained further impetus in recent years (before COVID-19 affected FY21) – it reported a ~18% EPS CAGR in the four years ended FY20. This is particularly impressive, given the weak mid-single-digit earnings growth posted by (much smaller) peers in these years.
- There is no material change in our forecasts. In view of near-term challenges for all staples, we bring down HUVR's target multiples to 55x from 60x. We reiterate our Buy rating with a TP of INR2,900 (55x Sep'24E EPS).

Exhibit 31: HUVR P/E (x)



Source: Bloomberg, Company, MOFSL

Exhibit 32: Consumer sector P/E (x)



Source: Bloomberg, Company, MOFSL

Financials and valuations

Income Statement							(INR b)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Net Sales	**339.3**	**376.6**	**382.7**	**453.1**	**503.4**	**576.7**	**631.5**
Other Oper. Income	6.0	5.6	5.1	6.9	8.6	9.0	9.4
Total Revenue	**345.3**	**382.2**	**387.9**	**460.0**	**511.9**	**585.7**	**641.0**
Change (%)	*8.3*	*10.7*	*1.5*	*18.6*	*11.3*	*14.4*	*9.4*
COGS	162.3	179.6	177.9	216.8	251.2	308.6	307.9
Gross Profit	**182.9**	**202.6**	**209.9**	**243.2**	**260.7**	**277.1**	**333.0**
Gross Margin (%)	*53.0*	*53.0*	*54.1*	*52.9*	*50.9*	*47.3*	*52.0*
Operating Exp	110.2	116.3	113.9	130.0	135.7	141.5	176.1
% of sales	*31.9*	*30.4*	*29.4*	*28.3*	*26.5*	*24.2*	*27.5*
EBITDA	**72.8**	**86.4**	**96.0**	**113.2**	**125.0**	**135.6**	**156.9**
Change (%)	*20.3*	*18.7*	*11.1*	*18.0*	*10.4*	*8.5*	*15.7*
Margin (%)	*21.1*	*22.6*	*24.8*	*24.6*	*24.4*	*23.2*	*24.5*
Depreciation	4.8	5.8	9.4	10.7	10.3	10.7	11.4
Int. and Fin. Charges	0.2	0.3	1.1	1.1	1.0	1.2	1.4
Other Income - Recurring	5.7	6.6	7.3	5.1	3.9	5.3	5.9
Profit before Taxes	**73.5**	**86.9**	**92.9**	**106.6**	**117.7**	**129.0**	**150.1**
Change (%)	*19.4*	*18.3*	*6.9*	*14.8*	*10.4*	*9.6*	*16.3*
Margin (%)	*21.7*	*23.1*	*24.3*	*23.5*	*23.4*	*22.4*	*23.8*
Tax	21.5	27.5	23.9	24.6	27.8	31.0	37.8
Deferred Tax	-1.0	-0.8	1.5	0.8	1.4	0.0	0.0
Tax Rate (%)	*27.9*	*30.7*	*27.4*	*23.8*	*24.8*	*24.0*	*25.2*
Profit after Taxes	**53.0**	**60.2**	**67.4**	**81.2**	**88.5**	**98.0**	**112.3**
Change (%)	*24.7*	*13.6*	*12.0*	*20.5*	*9.0*	*10.7*	*14.5*
Margin (%)	*15.6*	*16.0*	*17.6*	*17.9*	*17.6*	*17.0*	*17.8*
Non-rec. (Exp)/Income	-0.6	-0.4	-0.1	-2.3	-0.3	-0.4	0.0
Reported PAT	**52.4**	**59.8**	**67.4**	**79.0**	**88.2**	**97.6**	**112.3**

Balance Sheet							(INR b)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**	**FY24E**
Share Capital	2.2	2.2	2.2	2.4	2.4	2.4	2.4
Reserves	68.6	74.4	78.2	472.0	485.3	471.3	456.7
Net Worth	**70.8**	**76.6**	**80.3**	**474.3**	**487.6**	**473.6**	**459.0**
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Employed	**70.8**	**76.6**	**80.3**	**474.3**	**487.6**	**473.6**	**459.0**
Gross Block	71.8	59.2	73.4	541.6	547.6	560.1	567.1
Less: Accum. Depn.	-30.4	-15.8	-22.8	-31.3	-37.3	-48.0	-59.4
Net Fixed Assets incl Goodwill	**41.4**	**43.4**	**50.6**	**510.3**	**510.3**	**512.1**	**507.8**
Capital WIP	4.3	3.7	5.1	6.2	9.0	9.0	9.0
Investment in Subsidiaries	2.5	2.5	2.5	3.1	6.1	6.1	6.1
Current Investments	28.6	27.0	12.5	26.9	35.1	39.1	40.1
Deferred Charges	2.6	3.4	2.6	-59.9	-61.4	-61.4	-61.4
Curr. Assets, L&A	**92.1**	**98.6**	**122.7**	**134.7**	**136.8**	**142.8**	**144.7**
Inventory	23.6	24.2	26.4	33.8	38.9	44.4	48.6
Account Receivables	11.5	16.7	10.5	16.5	19.3	22.1	24.2
Cash and Bank Balance	33.7	36.9	50.2	43.2	36.2	30.0	21.2
Others	23.3	20.8	35.7	41.2	42.4	46.3	50.7
Curr. Liab. and Prov.	**100.7**	**102.1**	**115.7**	**147.0**	**148.4**	**174.2**	**187.3**
Account Payables	70.1	70.7	74.0	86.3	88.6	111.4	121.4
Other Liabilities	16.4	15.9	25.6	40.3	40.9	42.9	45.0
Provisions	14.2	15.5	16.2	20.4	18.9	19.9	20.9
Net Current Assets	**-8.6**	**-3.4**	**7.0**	**-12.3**	**-11.6**	**-31.4**	**-42.6**
Application of Funds	**70.8**	**76.6**	**80.3**	**474.3**	**487.6**	**473.6**	**459.0**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)							
EPS	**24.5**	**27.8**	**31.2**	**34.6**	**37.7**	**41.7**	**47.8**
Cash EPS	26.7	30.5	35.6	39.1	42.0	46.3	52.6
BV/Share	32.7	35.4	37.2	201.8	207.5	201.5	195.3
DPS	20.0	22.0	25.0	40.5	34.0	47.5	54.0
Payout %	98.9	95.7	96.2	117.2	90.3	113.9	113.0
Valuation (x)							
P/E	101.4	89.3	79.5	71.8	65.9	59.5	52.0
Cash P/E	93.0	81.4	69.8	63.5	59.1	53.7	47.2
EV/Sales	15.7	14.2	13.9	12.8	11.5	10.1	9.2
EV/EBITDA	73.4	61.8	55.3	51.1	46.3	42.8	37.0
P/BV	76.0	70.2	66.8	12.3	12.0	12.3	12.7
Dividend Yield (%)	0.8	0.9	1.0	1.6	1.4	1.9	2.2
Return Ratios (%)							
RoE incl. Goodwill	78.1	81.7	86.0	29.3	18.4	20.4	24.1
RoCE incl. Goodwill	108.6	118.3	119.8	38.8	24.7	27.1	32.5
Working Capital Ratios							
Debtor (Days)	12.3	16.2	10.0	13.3	14.0	14.0	14.0
Asset Turnover (x)	4.8	4.9	4.8	1.0	1.0	1.2	1.4
Leverage Ratio							
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement (INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(loss) before Tax	72.9	85.2	90.9	104.9	117.4	129.0	150.1
Financial other income	-2.8	-0.8	-1.6	0.6	-2.0	-5.3	-5.9
Depreciation	4.8	5.2	9.4	10.7	10.4	10.7	11.4
Net Interest Paid	-2.5	-3.0	-3.9	-2.4	-1.1	1.2	1.4
Direct Taxes Paid	-21.9	-26.9	-24.7	-23.7	-27.2	-31.0	-37.8
(Incr)/Decr in WC	8.6	-2.6	3.0	-0.6	-7.9	13.6	2.5
CF from Operations	**59.1**	**57.3**	**73.1**	**89.6**	**89.6**	**118.2**	**121.6**
Other Items	4.9	4.5	-8.5	11.9	-1.5	7.6	8.4
(Incr)/Decr in FA	-8.3	-7.2	-7.0	-39.5	-7.4	-12.5	-7.0
Free Cash Flow	**50.9**	**50.0**	**66.0**	**50.0**	**82.2**	**105.7**	**114.6**
(Pur)/Sale of Investments	7.8	3.3	22.5	23.9	-7.9	-4.0	-1.0
CF from Invest.	**4.4**	**0.5**	**7.0**	**-3.7**	**-16.8**	**-8.9**	**0.4**
Dividend Paid	-39.0	-45.5	-62.4	-88.1	-75.2	-111.6	-126.9
Others	-7.6	-9.2	-4.3	-4.7	-4.7	-3.9	-3.9
CF from Fin. Activity	**-46.5**	**-54.6**	**-66.8**	**-92.8**	**-79.8**	**-115.5**	**-130.8**
Incr/Decr of Cash	**17.0**	**3.2**	**13.3**	**-7.0**	**-7.0**	**-6.2**	**-8.8**
Add: Opening Balance	16.7	33.7	36.9	50.2	43.2	36.2	30.0
Closing Balance	**33.7**	**36.9**	**50.2**	**43.2**	**36.2**	**30.0**	**21.2**

E: MOFSL Estimates

NOTES

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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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