

# Consumer



## Time to Restock!

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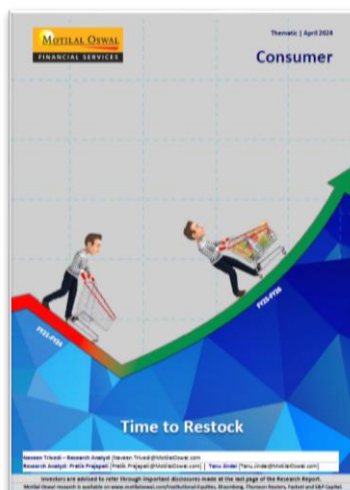
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A long runway for growth

## Consumer



## Time to restock!

## Volume print to improve; risk-reward in favor

- Consumer staples companies have struggled to maintain volume growth momentum during the last two years, largely due to external challenges. With deep distribution touchpoints and a heavy revenue mix from the highly penetrated traditional categories (such as oral care, hair care, laundry, soaps, etc.), the volume performance of staples reflected the real consumption demand at a pan-India level. This was unlike discretionary companies/categories that have been enjoying market penetration, share gains by organized players, and changes in wallet share. Therefore, while revenue CAGR for staples was at 13%, the same for discretionary was at 28% over the last two years. Such a contrast was not observed in previous phases.
- Earnings delivery of the staples companies was not as weak as it was on the volume front. Staples clocked 16% and 9% YoY PAT growth during 9MFY24 and FY23 (broadly similar to historical averages). Despite such healthy earnings, the majority of staples stocks have underperformed because the market was more focused on volume-led earnings growth. Over the last three years, the stock returns of HUL, Dabur, Marico, Emami, and P&G have been lower than their earnings growth. During the same period, discretionary companies have resulted in a better earnings trajectory, leading to a valuation re-rating.
- We continue to believe that discretionary categories/companies have better growth potential driven by factors such as market penetration, deeper distribution reach, GDP multiplier, higher wallet share, etc. However, we do see growth normalization (settling of pent-up demand) along with the risk of sustaining such high margins amid intensifying competition for many discretionary companies. The risk of earnings cuts, along with a valuation check, is associated with the discretionary companies. However, over the same period, we anticipate volume growth for staples companies to be bottoming out with limited risk of earnings cuts. Given the comfort level with valuation and earnings, we believe that select staple companies offer a better risk-reward compared to several discretionary companies over the next 12-18 months.
- We recommend increasing portfolio weights for staples companies. We prefer HUL, GCPL, and Dabur in the staples category. In the discretionary category, we continue to favor the jewelry space and prefer Titan.

## Expect steady improvement in staples volumes during FY25

High inflation over the last two years has significantly affected consumption in the mass segment. FMCG products have the highest penetration in rural areas and have been impacted the most compared to other consumer baskets. The mass segment has a large user base, but the income growth is the slowest. Hence, such high inflation has significantly reduced the affordability to consume more. Additionally, households are over-indexed on food in their cost mix. With softer general inflation and price cuts for FMCG, the income-to-cost mix has been gradually stabilizing over the last 6-12 months. Macro indicators are also showing steady improvement (further details provided in the respective section). We believe that the volume growth has bottomed out and anticipate a steady improvement over FY25 and FY26. Companies that prioritize user acquisition will be favored during this phase. We project high single-digit revenue growth from FY24 to FY26 for our FMCG universe.

## Listed discretionary companies grow faster over the last two years

Within our consumer universe (having a revenue pool of ~INR4,000b), we have observed a consistent change in the category mix between staples and discretionary categories. Staples contributed 68% of the consumer universe in FY10, with major

## Valuation snapshot (INR)

Companies	Reco	CMP	TP
ITC	Buy	427	500
HUL	Buy	2,287	2,900
Nestle	Neutral	2,586	2,400
Dabur	Buy	529	650
Britannia	Neutral	4,891	5,200
GCPL	Buy	1,227	1,500
Marico	Buy	496	625
Colgate	Neutral	2,714	2,500
Emami	Buy	440	550
UNSP	Neutral	1,158	1,150
P&G	Neutral	16,599	17,000
Titan	Buy	3,738	4,300
Asian Paints	Neutral	2,871	3,150
Pidilite	Neutral	3,049	2,800
Indigo Paints	Buy	1,317	1,600
Jyothy Lab	Neutral	444	475
UBBL	Sell	1,786	1,650
Page	Neutral	34,729	36,500

contributors being F&B, Cigarettes, Home Care, Personal Care, etc. The mix of staples category, however, has decreased to 56% in FY23, representing a fall of around 1,200bp. The consumer wallet has shifted towards discretionary categories. The biggest gainers were paints, jewelry, and quick-service restaurants (QSR). The significant expansion of stores for QSRs and jewelry was a key factor in this shift, as consumers have transitioned from local/unorganized to organized establishments. At the system level, their outperformance may not be as pronounced as it appears in the comparison with the listed universe.

### Staples companies to clock high single to low double-digit EBITDA growth over FY24-26

Gross margin catalysts are gradually fading away, as we have observed robust YoY growth in gross profit for our coverage universe in 9MFY24. We project a marginal expansion in gross margin in FY25, but cost-control measures will drive EBITDA margin. A&P spending was abnormal in 9MFY24, and we expect rationalization in FY25. This will lead to low double-digit earnings CAGR for FMCG companies during FY24-26E.

### Valuation and recommendation

The staples companies (excluding ITC, Tata Consumer and Varun Beverages) have largely experienced a de-rating in valuation over the past two years. Most of the stocks have generated returns below their earnings growth as the quality of earnings (volume-led) was lacking. During the same period, we have observed several consumer companies in the discretionary sector reporting a high earnings trajectory, resulting in a re-rating of their valuations. Amid an overall challenging period, we expect gradual improvement in volume growth for staple companies. With risk-reward favoring, we expect staple companies to provide better returns over the next 12-18 months. We recommend increasing portfolio weights for staple companies. **We prefer HUL, GCPL, and Dabur in the staples category. In the discretionary category, we continue to favor the jewelry space and prefer Titan.**

### Comparative valuation summary

Companies	CMP (INR)	Mkt Cap (INR b)	TP (INR)	Reco	EPS (INR)			P/E (INR)			EV/EBITDA (INR)		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
ITC	427	5,253	500	Buy	16	17	19	26	25	23	19	17	16
HUL	2,287	5,328	2,900	Buy	44	48	53	52	48	43	36	34	31
Nestle	2,586	2,529	2,400	Neutral	41	36	41	65	73	64	43	49	43
Dabur	529	927	650	Buy	11	12	13	49	43	39	36	31	28
Britannia	4,891	1,181	5,200	Neutral	90	102	113	55	49	44	37	33	30
GCPL	1,227	1,279	1,500	Buy	20	23	26	61	54	46	42	37	33
Marico	496	641	625	Buy	12	12	14	43	40	36	31	28	26
Colgate	2,714	737	2,500	Neutral	49	51	56	56	54	49	39	37	34
Emami	440	191	550	Buy	19	20	21	23	21	20	19	17	16
UNSP	1,158	824	1,150	Neutral	16	18	20	69	60	54	46	40	36
P&G	16,599	548	17,000	Neutral	242	271	310	70	62	54	50	45	39
Titan	3,738	3,378	4,300	Buy	41	53	65	92	71	57	61	48	39
Asian Paints	2,871	2,730	3,150	Neutral	59	59	64	48	48	44	34	33	30
Pidilite	3,049	1,546	2,800	Neutral	37	43	50	81	71	61	54	48	42
Indigo Paints	1,317	60	1,600	Buy	32	36	40	39	35	31	24	20	18
Jyothy Labs	444	161	475	Neutral	10	11	12	44	40	36	32	29	26
UBBL	1,786	458	1,650	Sell	16	26	32	106	66	54	62	42	34
Page Industries	34,729	384	36,500	Neutral	526	636	738	66	55	47	43	36	31

**Exhibit 1: Our coverage universe CAGR during FY24E-26E**

Companies	Revenue	Gross Profit	EBITDA	PAT
ITC	9	9	7	6
HUL	8	9	9	10
NESTLE	10	10	12	12
DABUR	9	9	13	12
BRITANNIA	9	9	10	12
GCPL	9	9	11	15
MARICO	9	8	9	9
COLGATE	8	7	7	7
EMAMI	7	7	9	6
UNSP	9	10	12	13
P&G	12	13	13	13
TITAN	17	20	23	26
ASIAN PAINT	10	8	6	4
PIDILITE	12	13	13	15
INDIGO PAINT	15	14	13	12
JYOTHY	9	9	9	10
UBBL	12	15	34	40
PAGE	14	15	17	18

**Exhibit 2: Coverage universe PAT and MKT cap CAGR over the years**

Companies	PAT CAGR (%)			MKT Cap CAGR (%)		
	FY21-24	FY19-24E	FY14-24E	FY21-24	FY19-24E	FY14-24E
ITC	16	10	9	25	8	6
HUL	8	11	11	-2	7	15
NESTLE	14	13	10	14	19	18
DABUR	3	5	8	-1	5	11
BRITANNIA	5	13	19	10	10	28
GCPL	5	-0	11	19	12	16
MARICO	8	6	12	7	8	17
COLGATE	8	12	11	20	17	15
EMAMI	7	11	7	-5	1	7
UNSP	38	11	26	27	15	8
P&G	16	13	10	10	9	18
TITAN	56	22	17	34	27	30
ASIAN PAINT	21	21	17	4	14	18
PIDILITE	19	15	15	18	19	26
INDIGO PAINT	29	41	83	-18	N/A	N/A
JYOTHY	20	13	16	46	18	15
UBBL	53	-5	7	12	4	8
PAGE	19	8	15	4	7	18

Source: Company, MOFSL



## Top Ideas

### HUL: All eyes on rural recovery

Hindustan Unilever's (HUL) recent underperformance has been largely led by external factors. Except for the recent challenge from local players (which is a typical trend during falling input prices), the company has consistently gained market share for the majority of its portfolio (85% of business). We believe such competitive pressure from local players is temporary. In its long journey, HUL has reinvested heavily in category expansion by adding/upgrading consumers. The company operates into three large categories, i.e., 1) home care, 2) personal care, and 3) foods and refreshment (F&R), with a presence across the traditional and emerging segments. Apart from the wide basket, the company also has a presence across price points. We believe that its wide user-base network will support growth once macro tailwinds kick-in. HUL spends over INR60b on marketing to remain competitive and sustain brand recall (top-of-the-mind brand recall for all age groups). We expect better outcomes of this spending during a steady macro environment. HUL's competitiveness in the home care segment has seen a massive boost in the last decade, and the company has capitalized on it well with 900-1,000bp improvements in EBIT margin. However, despite such a strong track record, parts of BPC and F&R still need more attention and positive outcomes. Under the new leadership of Mr. Rohit Jawa, we expect more corrective actions to fix the white spaces. With the anticipation of gradual improvements in macros, we expect HUL will be able to capitalize and deliver better volume growth in FY25-26. **We maintain our BUY rating with a TP of INR2,900 based on 55x FY26E EPS.**



### GCPL: Growth and margin remain key catalysts

In an environment where demand recovery is being delayed, we believe that Godrej Consumer Products Ltd.'s (GCPL) internal initiatives are expected to help the company sustain its growth outperformance. The inclusion of incense sticks and the company's entry into liquid detergent will not only expand GCPL's target market but also highlight its backend competence and growth-oriented approach. Under Sudhir Sitapati's leadership, there has been a noticeable shift in the company's strategy for the last 12-18 months. GCPL has adopted a growth-centric strategy, which includes pursuing inorganic growth, cross-selling, entering new categories, and expanding the TAM for existing products. Additionally, there has been an increase in reinvestment, particularly in marketing spending, and the company has taken several strategic decisions such as improving inventory management for Raymond Consumer Care (RCCL) and Indonesia business and closing the non-core businesses. RCCL, Indonesia and Godrej Africa, US and Middle East (GAUM) still offer enough headroom for EBITDA margin expansion in the coming years. With the domestic business already outperforming in volume growth, improvements in demand should boost GCPL's growth trajectory. We believe earnings acceleration will keep the stock in flavor. **We reiterate our BUY rating with a TP of INR1,500.**





### Dabur: Building blocks on core strengths

Dabur India (Dabur) has been one of the key beneficiaries of consumers shifting towards Ayurvedic and naturals products since the last 7-8 years. Oral care and healthcare categories have benefited the most with this shift, which enabled the company deliver superior volume growth among its peers (~7% avg. volume since FY19). The power brand strategies had been delivering result even prior to Covid-19. Dabur's foray into various categories (baby care, tea, healthcare, and beverages), and its shift from power brands to power platform strategies, have expanded its total addressable market (TAM) and strengthened its market position. To attract the new-age customers and millennials, Dabur improved its packaging across different categories and introduced more formats for its products. Dabur's extensive focus on scaling up its Ayurvedic portfolio, expanding its distribution network (to ~0.12m villages and ~7.9m outlets), and transitioning towards chemist channels will drive future growth. However, most of its initiatives were not yielding results as the demand environment was subdued. Nevertheless, with an improving volume trajectory and no impact of price cuts on revenue (unlike peers), we anticipate that its revenue growth outperformance will continue in the near term. The operating margin, which has been hovering around the 20% band over the last 8-9 years (unlike peers that have seen expansion), also has room for improvement in the medium term. The stock has underperformed during the last two years, and is currently trading at 40x FY26E EPS, at a 15-20% discount to its historical three/five-year averages. **We reiterate our BUY rating with a TP of INR650, valuing the company at 48x FY26E P/E.**



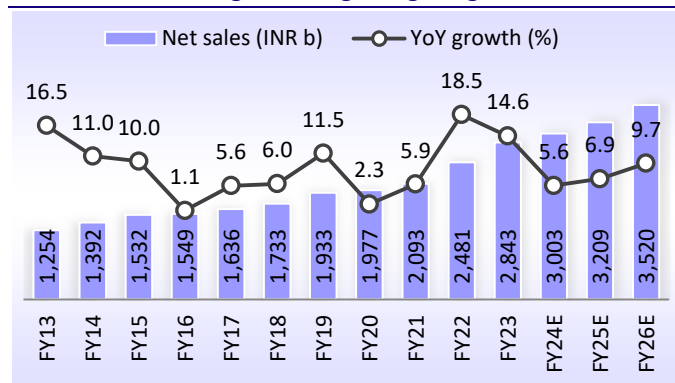
### Titan: A long runway of growth

The organized jewelry market in India has consistently gained market share from the unorganized/regional/local players due to a shift in consumer preference and rapid store expansion. The organized market constituted over 40% of the mix in 2023 vs. 6% in 2007. Titan Company (Titan), with its superior competitive positioning (in sourcing, studded ratio, youth-centric focus, and reinvestment strategy), has continued to outperform other branded players. The brand recall and business moat are not easily replicable; therefore, Tanishq's competitive edge will remain strong in the category. The store count reached to 2,949 stores as of Dec'23 and expansion story remains intact. Titan's EBITDA margin has been under pressure during 9MFY24 owing to a lower studded mix. It will be critical to monitor the margin outlook amid intensifying competition. The non-jewelry business is also scaling up well and will contribute to growth in the medium term. The business currently accounts for 12% and 9% of revenue and EBIT, respectively. Overall, we model a 17%, 23% and 26% revenue, EBITDA and PAT CAGR over FY24-26, respectively. Titan's valuation is rich, but it offers a long runway for growth with a superior execution track record.

**Reiterate BUY with a TP of INR4,300 based on 65x FY26E EPS.**

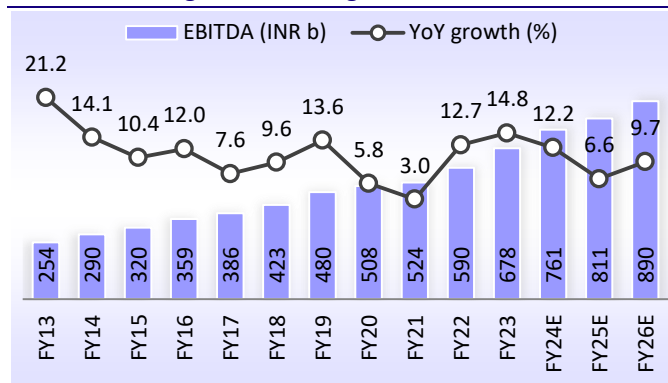
## STORY IN CHARTS

Exhibit 3: Sales will grow in high-single digit



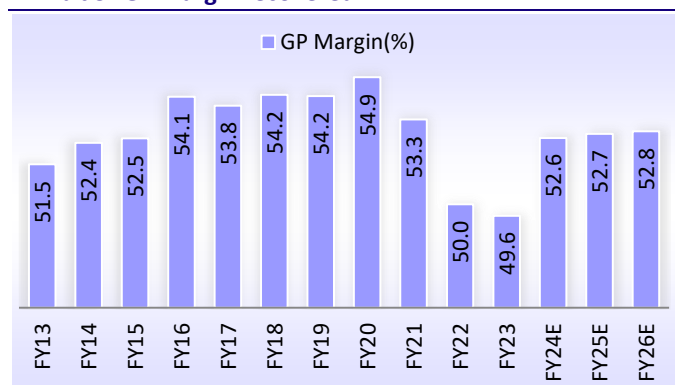
(Consumer universe ex-Titan) Source: Company, MOFSL

Exhibit 4: ..along with EBITDA growth



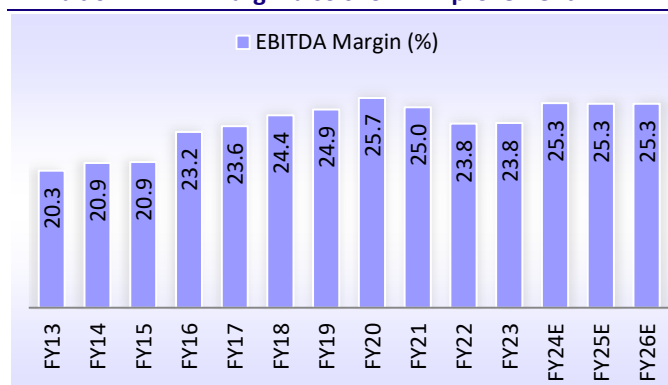
(Consumer universe ex-Titan) Source: Company, MOFSL

Exhibit 5: GP margin recovered in FY24



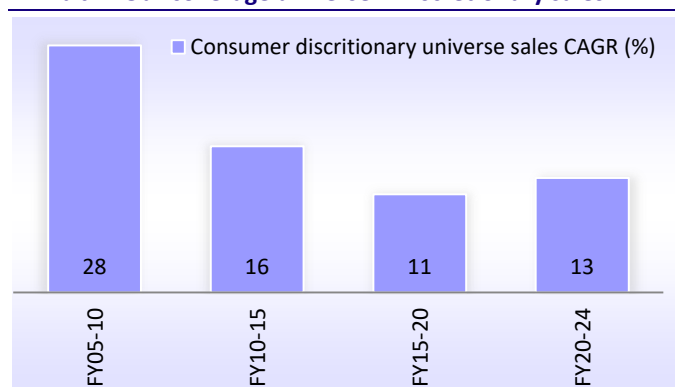
(Consumer universe ex-Titan) Source: Company, MOFSL

Exhibit 6: EBITDA margin also shown improvement in FY24



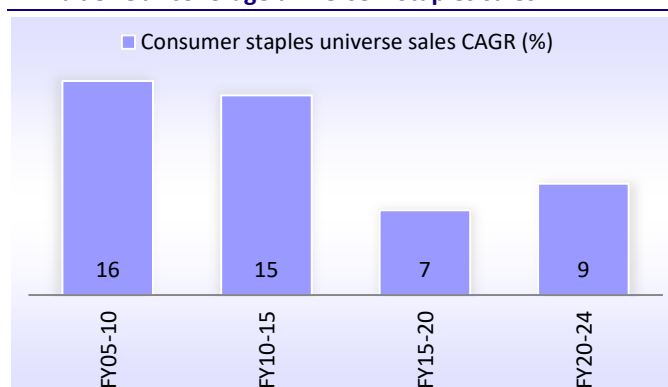
(Consumer universe ex-Titan) Source: Company, MOFSL

Exhibit 7: Our coverage universe – Discretionary sales



Source: Company, MOFSL

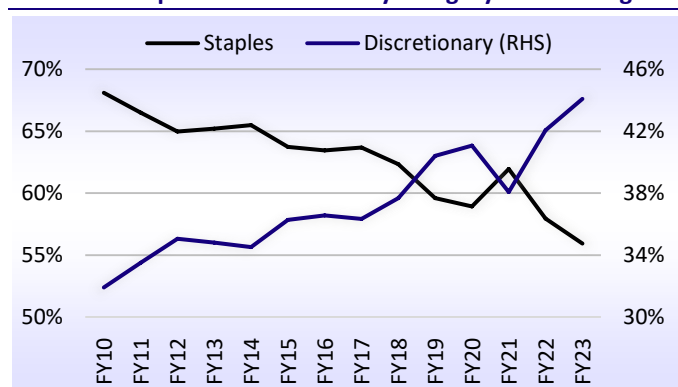
Exhibit 8: Our coverage universe – Staples sales



Source: Company, MOFSL

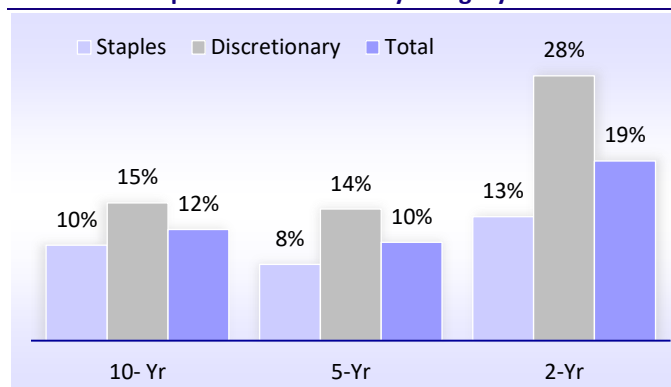


Exhibit 9: Staples vs. Discretionary category – mix change



Source: Company, MOFSL

Exhibit 10: Staples vs. Discretionary category – CAGRs



Source: Company, MOFSL

Exhibit 11: Volume growth – staples companies (indexing for FY18)

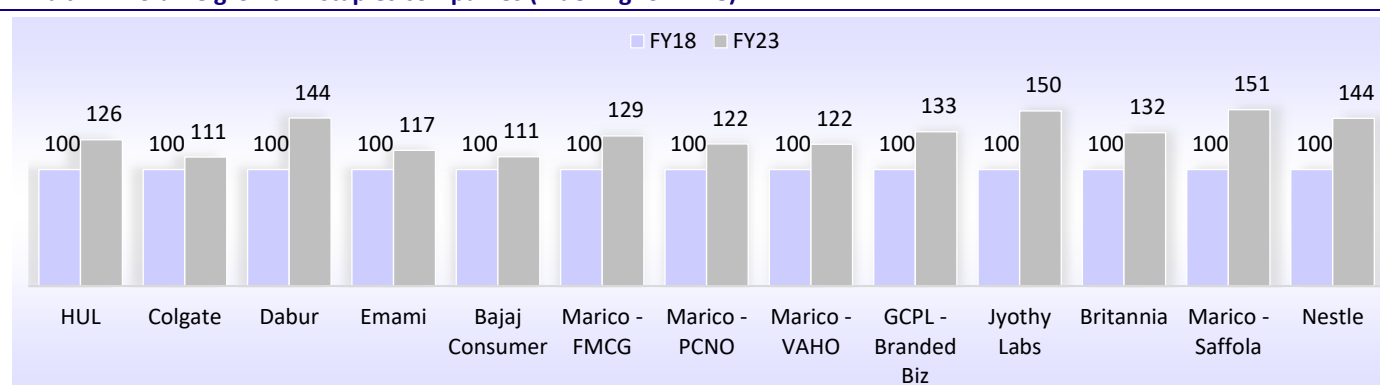
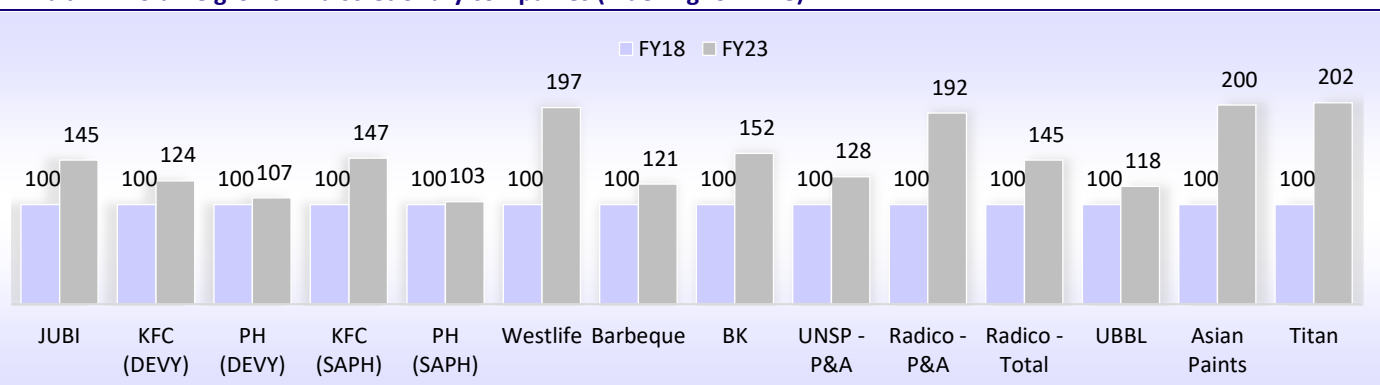


Exhibit 12: Volume growth – discretionary companies (indexing for FY18)



Note: For QSRs, Titan we capture SSSG

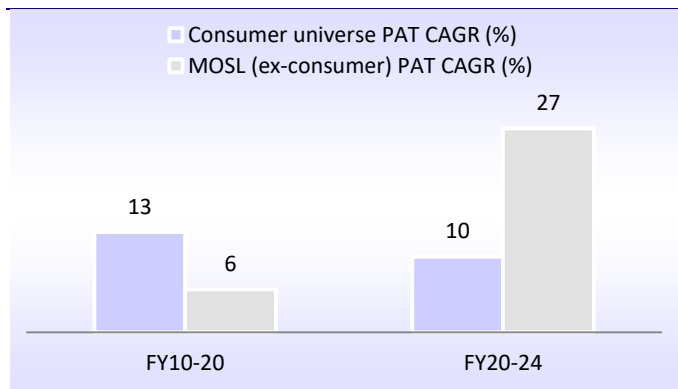
Source: MOFSL

Exhibit 13: FMCG volume growth vs. GDP growth

	FY05-10	FY10-15	FY15-19	FY19-24E	FY24E
Average real GDP growth (%)	7%	7%	7%	4%	7%
Average staple volume growth (%)*	9%	7%	5%	4%	4%
Multiplier (x)	1.4	1.1	0.6	1.1	0.5

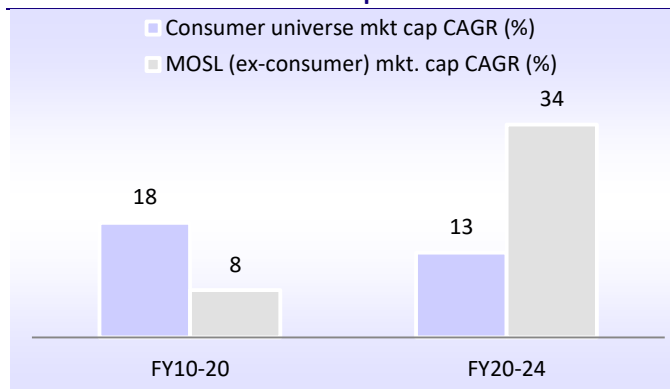
\*Top listed staple companies

Exhibit 14: Consumer PAT CAGR



Source: Company, MOFSL

Exhibit 15: Consumer market cap flow



Source: Company, MOFSL

Exhibit 16: Consumer sector's P/E band (x)

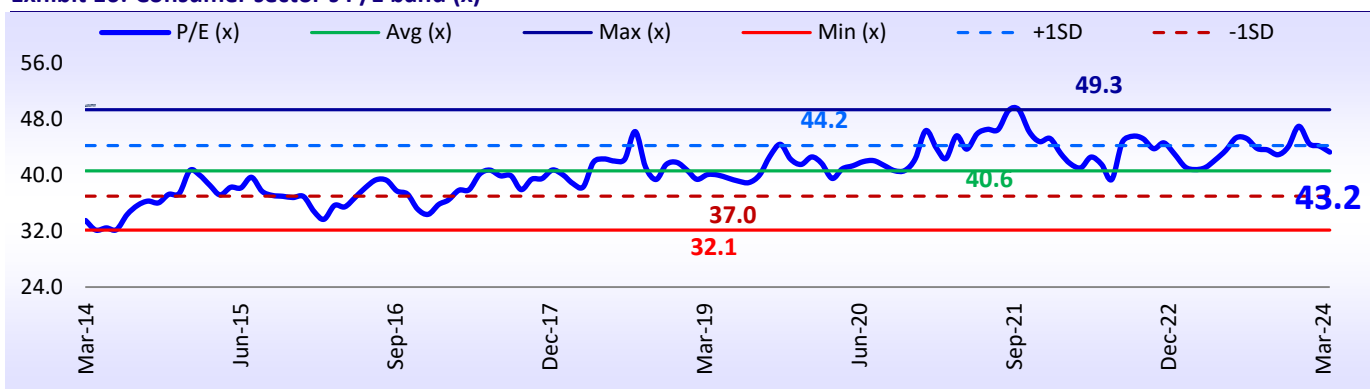
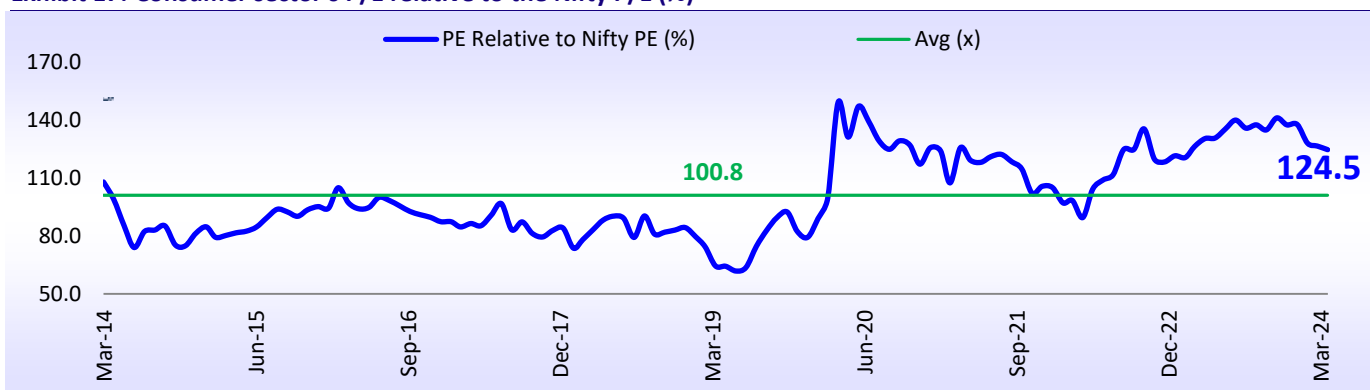


Exhibit 17: Consumer sector's P/E relative to the Nifty P/E (%)



## The consumer sector and our takes

- The weak volume growth for staple companies during the last three years has resulted into stock underperformance for many companies. There was a time when the sector was benefiting from various drivers such as category penetration, increased consumption frequency, market share gains, premiumization, distribution expansion, and cost control measures. Consequently, we have witnessed one of the best earnings and re-rating stories of the last two decades. In this report, we highlight which drivers are still persisting and which are fading away.
- With the earnings cut cycle behind us, we anticipate a gradual increase in the attractiveness of FMCG companies, especially as the growth gap with the discretionary categories is likely to narrow down in FY25. The implied growth assumptions in FMCG companies are lower than those in discretionary stocks. During this phase of weak demand, growth-centric stories may be exposed, leading to a valuation check!
- FMCG volume recovery will not be immediate, but we are confident that volume growth has bottomed out and should reach their recent historical levels by FY25. During this phase, companies that prioritize user acquisition will be favored. For brands that command a high market share but have fewer new users, we believe pricing will be a tool to compensate for slow volume growth. We model a high single-digit revenue growth from FY24 to FY26 for our FMCG universe.
- Gross margin catalysts are gradually fading away, as we have observed robust YoY growth in gross profit for our coverage universe in 9MFY24. We project a marginal expansion in gross margin in FY25, but cost-control measures will drive EBITDA margin. A&P spending was abnormal in 9MFY24, and we expect rationalization in FY25. This will lead to low double-digit earnings CAGR for FMCG companies during FY24-26E.

In this report, we are sharing our insights on the questions and concerns that we commonly encounter during our interactions with investors:

### Do you expect a volume recovery in FY25, particularly in the rural market?

**Our view:** High inflation over the last two years has significantly affected consumption in the mass segment. FMCG products have the highest penetration in rural areas and have been impacted the most compared to other consumer baskets. The mass segment has a large user base, but the income growth is the slowest. Hence, such high inflation has significantly reduced the appetite to consume more. Additionally, households are over-indexed on food in their cost mix. However, with softer general inflation and price cuts for FMCG, the income-to-cost mix has been gradually stabilizing over the last 12 months. Macro indicators are also showing steady improvement (further details provided in the respective section). We believe that the volume growth has bottomed out and anticipate a steady improvement over FY25-FY26.

### How do you see the competitive landscape changing for FMCG companies?

**Our view:** India has made significant progress in its underlying ecosystem compared to what is visible in the headline economy growth index. Telecom and internet penetration, infrastructure upgrades (improved road, train, etc.), ease in banking and financial transactions, and many more driving forces have been well established over the last decade. While they may not be driving the headline growth immediately, they are enabling sustainable, widespread growth. Various non-

agricultural income streams have been added, which should further reduce the sensitivity of monsoon on their income growth. The urban markets are also witnessing various non-traditional sources of income, such as delivery services and home services, especially targeting mass consumers. All these positive trends are definitely expanding the user base, attracting new entrants across all categories. We have witnessed a consolidation phase in most consumer categories over the last two decades. Consumers have upgraded from local and regional brands to national brands. During this phase, expanding distribution also contributed to significantly improved sales for mainstream consumer companies.

The above discussion of fast-growing underlyings leads us to believe that entry barriers will continue to diminish. The level playing field would encourage entrepreneurship, attracting more new entrants across various categories. New-age businesses are experiencing success across various categories. Fragmentation will continue across categories, especially in more attractive categories.

#### **What are the various moats enjoyed by FMCG companies?**

**Our view:** The distribution strength remains resilient with FMCG companies, but entry barriers for new entrants are weakening, especially in urban markets. The increasing alternative channels are reducing dependence on traditional trade (GT). Consumers in these new channels have better affordability and are more open to trying new products and brands. New entrants' tail will continue to expand; some will die, and some will survive. New entrants are not only limited to small players; we are seeing even large conglomerates entering into various consumer markets (such as Reliance, Grasim, etc.). Such changes are relevant and continuous. However, we observe that these changes are more focused on urban areas. On the rural side, we still believe that mainstream companies remain robust, and the distribution advantage still lies with them.

Strong balance sheet and free cash flow (FCF) are not easily replicable. Mainstream companies can reinvest massively to drive the business. They can weather the storm, which gives them a competitive edge. Although we have not seen much success with recent acquisitions, acquiring growth will remain a key focus area.

#### **Which categories are better growth stories?**

**Our view:** The traditional categories are losing out on GDP multiplier benefits. Historically, the volume growth of traditional categories was better than the real GDP growth. With steady improvement in macroeconomics, coupled with price reductions by FMCG companies, we anticipate a rebound in volume growth. We have observed a divergence in category-level growth. In some years, personal care categories have dominated, while in other years, packaged food has outperformed. Over the past two years, we have observed that packaged food categories have outperformed in terms of revenue growth. Packaged food volume growth was not robust, similar to others, but these categories could still withstand price hikes as many packaged food items (such as biscuits, snacks, milk, and noodles) are among the most affordable options compared to other outdoor food choices. Therefore, they could still maintain positive volume growth despite the high price increase. The similar trend was not visible for personal care categories.

In our category insight section, we have shared detailed insights on category-level underperformance and outperformance.

**Exhibit 18: FMCG volume growth vs. GDP growth**

	FY05-10	FY10-15	FY15-19	FY19-24E	FY24E
Average real GDP growth (%)	7%	7%	7%	4%	7%
Average FMCG volume growth (%)*	9%	7%	5%	4%	4%
Multiplier (x)	1.4	1.1	0.6	1.1	0.5

\*Top listed FMCG companies

**Exhibit 19: FMCG companies' historical volume growth (%)**

Companies	FY05-10	FY10-15	FY15-19	FY19-24E	FY24E
HUL	6	7	6	3	2
Colgate	9	10	3	1	0
Dabur	7	9	5	6	4
Emami	10	12	7	3	1
Marico	11	11	5	4	-
GCPL	11	6	7	6	6
Jyothy	16	9	7	6	10
Britannia	8	9	8	4	2
Nestle	11	5	(1)	6	5
ITC-Cig	4	(2)	(1)	4	3

**What are the margin levers?**

**Our view:** We anticipate limited gross margin levers in FY25, as there was a sharp expansion in gross margin during 9MFY24. Gross margin, as compared to FY19, has largely recovered during 9MFY24. Most companies have surpassed their FY19 levels, while Nestle, Dabur, and GCPL are slightly lower compared to FY19. However, discretionary companies such as UNSP, UBBL, Titan, and PAGE were trending below during 9MFY24 as compared to FY19.

In 9MFY24, most companies experienced a gross margin reversal and a sharp recovery was observed. However, companies reinvested their gross margin gains into higher marketing spending. Despite the volatility in gross margin, such fluctuations were not evident in the EBITDA margin. EBITDA margins for most of the companies are higher than in FY19. Among all, Dabur has a slightly lower margin as compared to FY19. However, UBBL and PAGE were at significantly lower EBITDA margin in 9MFY24 vs. FY19. We do not anticipate a downward trend in margins for FMCG companies. Instead, we expect a slight improvement in EBITDA margins for most of the companies during FY25-FY26. Cost control will remain a key catalyst for margin expansion.

**Exhibit 20: Gross and EBITDA margin change during FY19-24E**

	Gross Margin (%)		Gross Margin Change (bps)		EBITDA margin		EBITDA Margin Change (bps)	
	FY19	FY24E	FY19-23	FY23-24E	FY19	FY24E	FY19-23	FY23-24E
ITC	64.0	59.5	(486)	39	38.1	36.7	(189)	49
HUL	53.0	51.9	(536)	425	22.6	23.5	77	16
NESTLE	59.4	56.1	(522)	197	24.4	24.0	(187)	141
DABUR	49.6	48.0	(394)	233	20.4	19.6	(160)	72
BRITANNIA	40.6	43.2	51	204	15.7	18.9	169	158
GCPL	55.8	54.4	(618)	469	20.5	21.4	(228)	320
MARICO	45.2	50.8	(3)	560	18.1	21.1	46	252
COLGATE	65.1	69.9	60	426	27.7	33.1	190	350
EMAMI	65.7	67.5	(101)	277	27.1	26.6	(175)	124
UNSP	48.8	43.4	(737)	193	14.3	16.1	(66)	242
P&G	58.0	60.3	(39)	267	20.7	25.8	153	360
TITAN	27.2	23.1	(203)	(208)	10.1	10.6	196	(141)
ASIAN PAINT	41.5	43.4	(280)	470	19.6	22.0	(142)	382
PIDILITE	49.3	51.4	(661)	872	19.3	22.7	(251)	587
INDIGO PAINT	44.3	47.7	28	316	10.1	18.4	681	144
JYOTHY	46.5	49.0	(419)	672	15.5	17.6	(279)	486
UBBL	53.6	43.5	(1,042)	37	17.6	9.2	(936)	95
PAGE	58.0	54.9	(248)	(66)	21.6	19.3	(334)	102

**What is your take on valuations?**

The sector's valuation has experienced a consistent re-rating over the last 10-15 years. The sector was trading at around 30x P/E during 2014, but it has since undergone a re-rating, with multiples increasing to more than 40-45x since 2019. However, over the past 2-3 years, sector valuations have remained relatively stagnant. In fact, some stocks have experienced a correction in their valuations during this period.

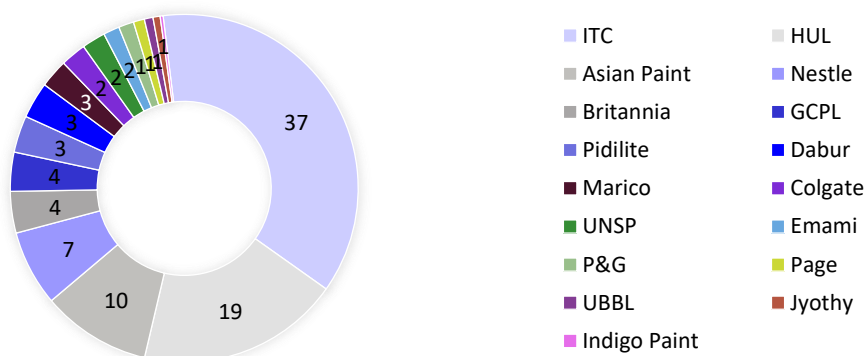
The sector (excluding ITC) has largely experienced a de-rating in valuation over the past two years. Most of the stocks have generated returns below their earnings growth as the quality of earnings (volume-led) was lacking. During the same period, we have observed several new consumer companies in the discretionary sector reporting a high earnings trajectory, resulting in a re-rating of their valuations. Over the last three years, several FMCG stocks (excluding ITC, Tata Consumer and Varun Beverages) have experienced a valuation correction, including Dabur, HUL, Marico, and P&G. Some of the discretionary stocks have also seen corrections recently, such as Asian Paints, Pidilite, etc.



Exhibit 21: Valuation changes vs. historical averages

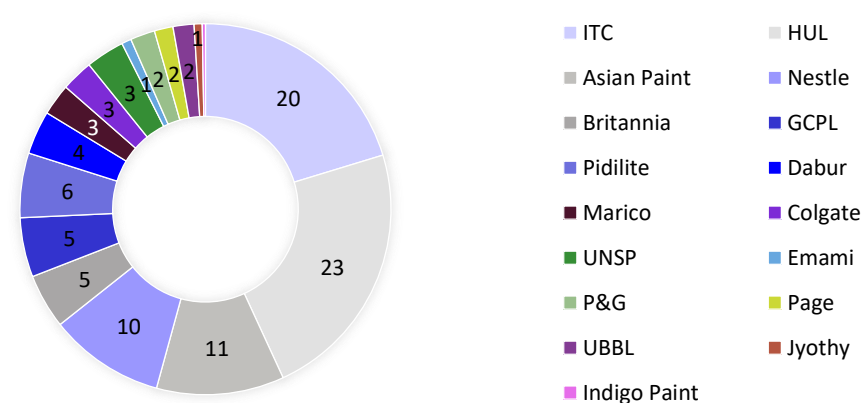
Companies	Current	Average P/E (x)			Prem / Disc P/E (x) vs.		
	P/E (x)	15 YR	10 YR	5 YR	15 YR	10 YR	5 YR
<b>Consumer</b>	<b>43.2</b>	<b>36.1</b>	<b>40.6</b>	<b>43.0</b>	<b>19.9</b>	<b>6.6</b>	<b>0.6</b>
<b>Consumer Ex ITC</b>	<b>53.0</b>	<b>36.1</b>	<b>50.1</b>	<b>55.5</b>	<b>45.4</b>	<b>5.9</b>	<b>-5.5</b>
Asian Paints	46.4	44.9	53.5	60.7	3.5	-13.8	-23.6
Britannia Inds.	47.9	37.7	44.6	48.2	28.7	8.0	0.8
Colgate-Palm.	50.3	31.7	38.7	39.0	70.1	31.5	38.1
Dabur India	43.8	38.3	44.4	51.5	12.1	-1.8	-16.6
Emami	21.3	21.8	26.8	25.8	-5.1	-19.7	-19.9
Godrej Consumer	54.4	36.7	41.0	45.5	50.8	33.4	21.4
Hind. Unilever	49.1	44.0	51.5	57.8	5.3	-4.8	-19.8
Indigo Paints	34.5	69.9	69.9	69.9	-54.6	-50.3	-54.6
ITC	23.6	24.0	24.1	20.3	3.5	-1.7	22.8
Jyothy Lab.	38.2	33.2	33.5	28.5	18.8	13.5	38.6
Marico	39.9	32.9	40.8	44.9	19.1	-2.3	-12.7
Nestle India	69.2	47.1	57.6	66.2	52.1	20.1	8.1
P & G Hygiene	58.0	52.2	62.7	68.3	19.1	-7.9	-9.0
Page Industries	55.8	51.1	64.8	70.5	6.0	-13.4	-23.2
Pidilite Inds.	66.6	44.7	56.2	72.0	55.0	16.0	-3.6
Tata Consumer	66.1	40.0	46.0	53.7	48.2	43.6	10.7
United Breweries	63.9	83.0	91.0	110.7	-22.1	-29.7	-41.6
United Spirits	60.6	na	63.0	60.9	-99.2	-3.8	-2.1
Varun Beverages	72.1	43.0	43.0	43.9	63.9	68.0	60.6

Exhibit 22: Sector PAT mix



Source: Company, MOFSL

Exhibit 23: Sector market-cap mix



Source: Company, MOFSL

**Which all companies do you like?**

**Our view:** In the current environment of slowing demand, we prefer staple stocks over discretionary stocks. Staples have already seen earnings cuts and decrease in valuations. In light of the macroeconomic recovery, they align more with the investment criteria. **Our top picks in staples are HUL, GCPL, and Dabur. In the discretionary space, our top pick is Titan.**

**Exhibit 24: Company-wise key rationale**

Companies	Revenue growth	Margin	Valuation	Comments
ITC	● ● ●	● ● ●	● ● ●	❖ Cigarette volume growth is expected to be in the low single digit; the company is lagging behind due to its favorable base. The tax hike will be closely monitored for its impact on volume growth and the government's stance on tax outlook. ITC is taking a more aggressive stance on its FMCG business, with a consistent focus on expanding its user base, primarily shifting from unorganized to organized sectors. The FMCG EBITDA margin recovery is healthy. We model a 80-100bp margin improvement annually over the medium term.
HUL	● ● ●	● ● ●	● ● ●	❖ We expect that the volume growth has bottomed out and anticipate a gradual volume recovery in FY25. HUL's wide product range and presence across price segments should help the company achieve steady growth during the recovery period. Part of the BPC and F&R has a turnaround scope; we will see how the new CEO addresses the gaps. The stock valuation at 45x FY26E earnings is reasonable given the historical valuation and the potential to exceed earnings expectations.
Nestle	● ● ●	● ● ●	● ● ●	❖ The company remained focused on volume-driven revenue growth. The planned capex of INR50b for 2023-25 reflects this focus. The packaged food category is likely to sustain better growth among staples. The stock, however, trades at an expensive valuation.
Dabur	● ● ●	● ● ●	● ● ●	❖ Recovery in the rural markets should support Dabur's portfolio, as it is heavily skewed towards rural areas. In the domestic business, we expect healthcare, oral care, and food business to grow faster than others. The distribution drive will further contribute to rural growth. EBITDA margin has remained in the range of 19-20% for the past several years. The margin is expected to improve in the coming years due to a better mix of products (such as higher healthcare offerings) and increased pricing in high market-share brands. The stock trades at <40x P/E on FY26E.
Britannia	● ● ●	● ● ●	● ● ●	❖ The company has benefited from the high price hike-led growth in the last 12-18 months, with limited impact on volumes. The focus remained on expanding and scaling up other non-core brands and products. Distribution expansion in the 'Hindi belt' supported the overall growth. EBITDA margin expansion has been sharp over the last 3-5 years. However, reinvesting in new businesses will limit further expansion. The stock trades at fair valuations.
GCPL	● ● ●	● ● ●	● ● ●	❖ GCPL is consistently working to expand the Total Addressable Market (TAM) for the India business through product innovation to drive frequency. Besides, there has been a consistent effort to address the gaps in profitability and growth within its international business. We see margin headroom from the RCCL and Indonesia businesses. The stock valuation is expensive, but earnings are expected to outperform peers.
Marico	● ● ●	● ● ●	● ● ●	❖ Rural recovery, distribution expansion, and anniversarization of price cuts should help deliver better revenue in FY25-26. Cost control measures and a slight gross margin expansion can deliver better EBITDA growth than revenue growth. The stock trades below its five-year average multiple.
Colgate	● ● ●	● ● ●	● ● ●	❖ Colgate is striving to enhance its core portfolio through consistent relaunchees and marketing activation. The growth difference between herbal and traditional products has been narrowing. It has implemented a price hike for its premium portfolio in the last six months, unlike price cuts by other FMCG companies. The Toothbrush segment continues to be volatile. EBITDA margin is elevated and will be challenging to sustain. Further, the recent run-up in the stock covers up the valuation gap with others.
Emami	● ● ●	● ● ●	● ● ●	❖ The challenge around user addition persists for the core portfolio. Elevated market share is not allowing for further growth despite gaining market share. The recent

Companies	Revenue growth	Margin	Valuation	Comments
				acquisitions, team scaling up, and reduction in the promoter pledge are positive signs. The uncertainty surrounding volume growth is keeping the valuation below that of peers. However, there is an upside potential due to re-rating in the volume recovery phase.
UNSP	● ● ●	● ● ●	● ● ●	❖ P&A has been experiencing an inspiring growth trend for the past two years. UNSP remained aggressive in expanding its P&A portfolio, and prioritizing its resources for this purpose. Weak discretionary demand may slow down the premiumization trend over the near term. EBITDA margin upside is still present in the business due to a combination of mix and cost-control measures following the partial sale of a popular portfolio. The company is trading at a rich valuation following the recent increase in stock price.
P&G	● ● ●	● ● ●	● ● ●	❖ With a portfolio of essential and healthcare products, the company remained focused on customer acquisitions driven by product innovation. The penetration play will continue at a steady pace, despite the high probability of user additions. We do not foresee any near-term triggers, especially given its rich valuation.
Titan	● ● ●	● ● ●	● ● ●	❖ Superior competitive positioning (sourcing, studied ratio, youth-centric focus, and strong FCF) among the branded players, along with a sustained shift from the unorganized/regional/local players to organized retailers, would sustain the growth outperformance. The story of store expansion remains strong in the medium term. The operating margin has been under pressure, making it crucial to monitor the margin outlook amid rising competition. Valuation may be high, but the long-term growth potential and superior execution story will continue to attract investors.
Asian Paints	● ● ●	● ● ●	● ● ●	❖ Weak discretionary demand and a changing competitive landscape are affecting the growth and margin outlook for FY25. The execution history of the company is very strong. It will be interesting to monitor Grasim's scalability in a category, which is less price-sensitive and more brand-centric.
Pidilite	● ● ●	● ● ●	● ● ●	❖ Superior execution, along with a track record of product innovation, always inspires the core strength of the company. Pidilite appears relatively less vulnerable to competition in its core business. It is further boosting growth by entering the decorative paints category, positioning itself as a comprehensive home improvement company. The stock is trading at a rich valuation though.
Indigo Paints	● ● ●	● ● ●	● ● ●	❖ Given the relatively small scale of Indigo Paints (INR11b revenue in FY23) in the large paints industry, the company has been able to grow much faster than the industry. Consumers' rising acceptance of the brand and the expansion of distribution have been driving the outperformance. However, changing the competitive landscape will be a key monitorable.
Jyothy Lab	● ● ●	● ● ●	● ● ●	❖ The company has been able to surprise with its growth during the last 12 months, particularly in terms of volume growth. Apart from the core portfolio, Jyothy has been focused on the personal care business. The EBITDA margin has seen a sharp recovery in 9MFY24. In the face of intensifying local competition and a sluggish growth outlook, it will be intriguing to observe Jyothy's performance in FY25E.
UBBL	● ● ●	● ● ●	● ● ●	❖ UBBL faces numerous challenges, including stiff competition from both local and international brands in India, along with regulatory issues in the industry. The gross margin has been under sustained pressure since the last three years, and the recovery is being delayed. The stock trades at an expensive valuation.
Page Industries	● ● ●	● ● ●	● ● ●	❖ The company has a superior execution track record in a large unorganized/local industry. Its recent performance has been hit by high channel inventory and slow demand. The Auto Replenishment System (ARS) has brought channel inventory efficiencies, providing a huge competitive advantage. There is a potential for multiple re-ratings in the future. The company has a fair valuation.

**Note: Positive and Negative are relative growth impact rather than absolute growth**

Positive

● ● ●

Mild Positive

● ● ●

Negative

● ● ●

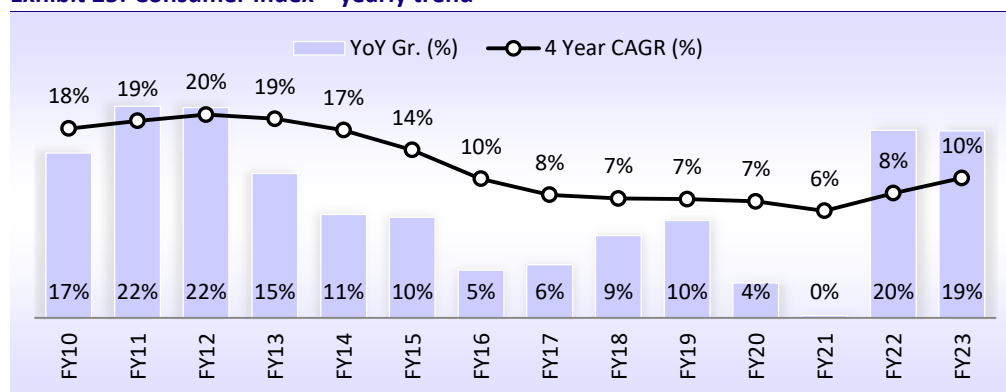
## Category insights

### Consumer Index

Our consumer universe (revenue pool of INR4,000b) consists of various categories from both staples and discretionary baskets. It provides us with the underlying pulse of consumption and eliminates the disparity in wallet share towards any particular category. The index comprises a diverse range of categories, from essentials such as Oral Care, Hair Care, Personal Care, and Home Care to discretionary items such as F&B, OTC FMCG, Cigarettes, Footwear, Paints, QSR, Dairy, Liquor, and Jewelry.

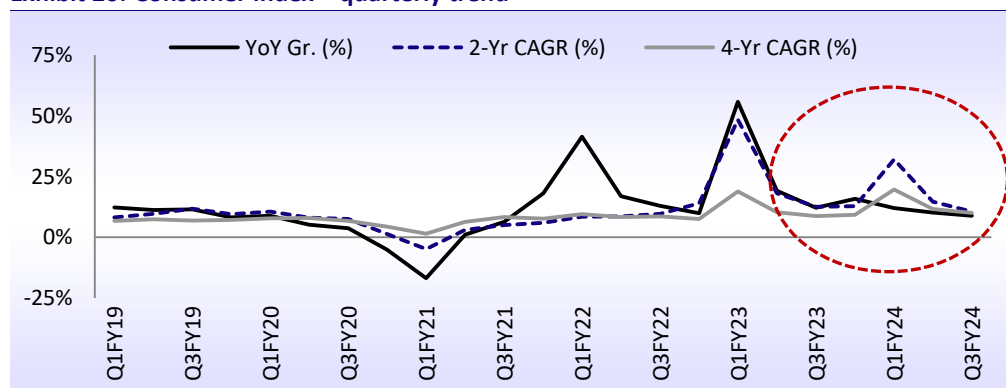
The index is based on the weighted average revenue growth of various companies, included in their respective categories. The CAGR of the index helps to understand the underlying demand trends.

**Exhibit 25: Consumer Index – yearly trend**



Source: MOFSL

**Exhibit 26: Consumer Index – quarterly trend**



Source: MOFSL

### Revenue mix: Staples vs. Discretionary

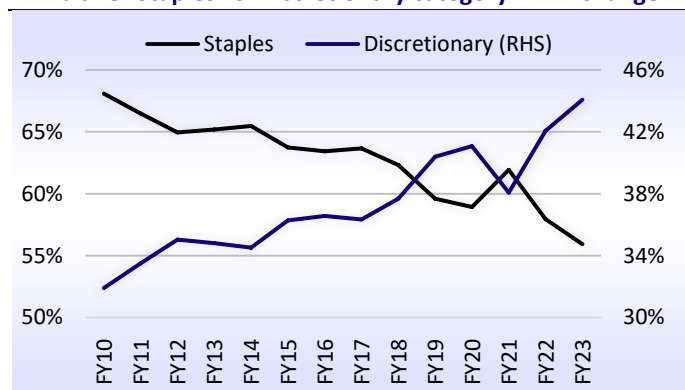
In our consumer universe, we have observed a consistent change in the category mix between staples and discretionary categories. Staples contributed 68% of the consumer universe in FY10, with major contributors being F&B, Cigarettes, Home Care, Personal Care, etc. The mix of staples category, however, has decreased to 56% in FY23, representing a fall of around 1,200bp. The consumer wallet has shifted towards discretionary categories. The biggest gainers were paints, jewelry, and quick-service restaurants (QSR). The significant expansion of stores for QSRs and jewelry was a key factor in this shift, as consumers have transitioned from local/unorganized to organized establishments.

**Exhibit 27: Changes in the category mix: Discretionary items consistently gaining wallet share (%)**

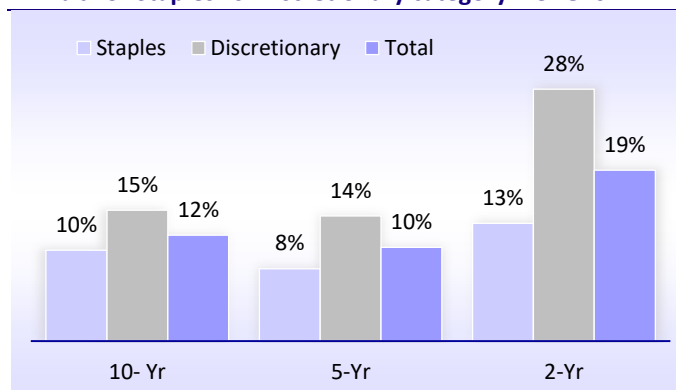
Categories	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Oral Care	3	3	3	3	3	3	3	3	3	2	2	3	2	2
Hair Care	4	4	4	4	4	4	5	4	4	4	4	4	4	3
Personal Care	9	8	8	8	7	7	7	10	10	9	9	9	8	8
Home Care	11	11	11	11	11	10	11	8	7	7	7	8	8	8
F&B	23	23	22	22	22	22	21	21	21	21	21	23	21	20
Cigarette	15	14	13	13	13	12	12	12	12	10	10	10	9	10
Dairy	2	3	3	3	3	3	4	4	4	4	4	4	4	4
OTC FMCG	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Paints	13	12	13	12	13	12	13	12	13	13	13	14	15	15
QSR	1	1	1	2	2	2	2	2	3	4	4	3	4	4
Liquor	10	10	10	10	9	12	12	11	11	11	11	9	10	9
Jewelry	6	7	8	8	8	8	7	7	8	9	9	10	11	13
Footwear	3	3	3	3	3	3	3	3	3	3	4	3	3	3
<b>Aggregates</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Staples	68	66	65	65	65	64	63	64	62	60	59	62	58	56
Discretionary	32	34	35	35	35	36	37	36	38	40	41	38	42	44

Note: Listed company universe

The growth divergence between consumer staples and discretionary has been observed for several years, but the big difference became more apparent in the last two years. Staples categories are experiencing lower growth potential due to the shift towards organized players from unorganized players vs. the discretionary categories. At the system level, however, their outperformance may not be as pronounced as it appears in the comparison with the listed universe.

**Exhibit 28: Staples vs. Discretionary category – mix change**

Source: MOFSL

**Exhibit 29: Staples vs. Discretionary category – CAGRs**

Source: MOFSL

Exhibit 30: Category-wise growth trends

YoY Gr. (%)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	5-yr Avg	1Q FY24	2Q FY24	3Q FY24	Avg. 4 Qtr
Oral Care	16	14	12	5	3	9	8	1	10	7	3	6	11	6	8	7
Hair Care	20	15	22	10	1	8	14	-4	2	12	3	4	1	2	3	4
Personal Care	14	8	12	7	3	11	10	-3	6	10	14	6	4	4	0	5
Home Care	19	9	9	3	7	12	13	4	5	17	24	12	11	4	0	8
F&B	15	12	11	3	8	10	12	6	11	10	14	10	10	5	4	8
Dairy	20	13	21	18	11	10	14	8	-5	16	24	10	8	14	14	14
Cigarette	11	12	8	2	5	5	10	5	-11	14	21	5	15	11	7	12
OTC FMCG	11	12	14	6	0	7	13	4	34	10	-10	8	12	1	4	3
Paints	13	15	12	9	9	12	15	4	6	32	19	15	8	1	6	7
QSR	32	18	15	14	6	16	20	14	-23	59	35	15	12	8	6	11
Liquor	11	5	0	1	4	9	14	3	-14	19	18	7	9	9	12	10
Jewelry	17	4	10	-6	16	12	12	5	-1	31	37	15	22	29	19	24
Footwear	17	16	14	9	4	12	14	5	-22	33	29	6	0	6	4	7

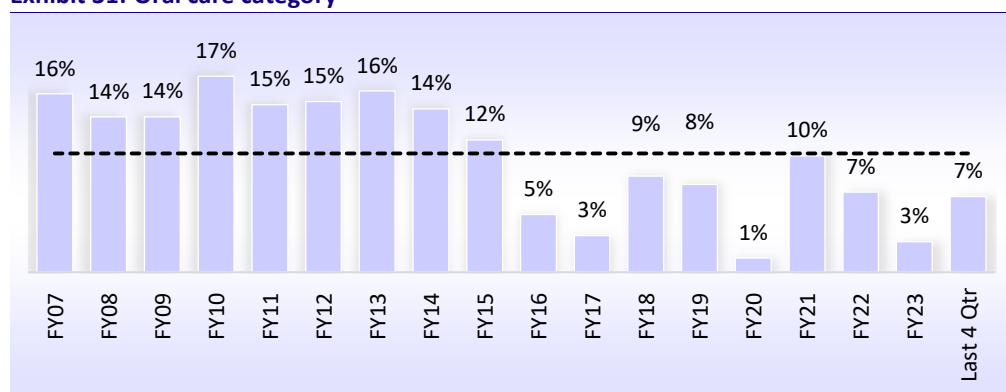
Source: MOFSL

Oral Care	5-yr CAGR	Avg. 4 Qtr
Colgate	5	7
Dabur	9	6
Gillette	8	5
Category Gr. (%)	6	7

## Category insights: Staples categories

- **Oral care:** The oral care category grew more than 15% during FY07-FY15. Colgate's revenue growth and category performance were similar. After FY15, however, when the natural/ayurvedic trend emerged, Colgate started underperforming the category growth. With a high oral care penetration (>90%), the category reported a 6% CAGR over FY18-23. Dabur has outperformed the category, delivering a 9% revenue CAGR over the last five years. In 9MFY24, the category delivered mid-single-digit revenue growth, mainly led by price hikes.

Exhibit 31: Oral care category

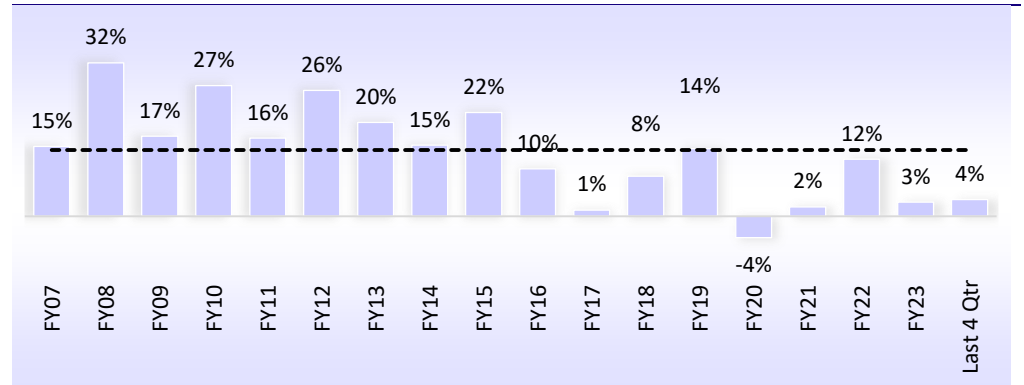


Hair Care	5-yr CAGR	Avg. 4 Qtr
Marico –PCNO	7	(1)
Marico – VAHO	3	4
Dabur	7	5
Bajaj Consumer	3	8
Emami – Navratna	2	2
GCPL – Hair Colors	4	9
Emami – Kesh King	8	(4)
Category Gr. (%)	4	4

- **Hair care** – Marico holds a dominant market position in the category and has delivered a 7% revenue CAGR over the last five years. Emami's Kesh King outperformed while Navratna underperformed during FY18-23. In LTM, GCPL's hair colors segment has performed well, achieving an average growth rate of 10%. In 9MFY24, the category continues to underperform, with an overall low single-digit growth across the companies.



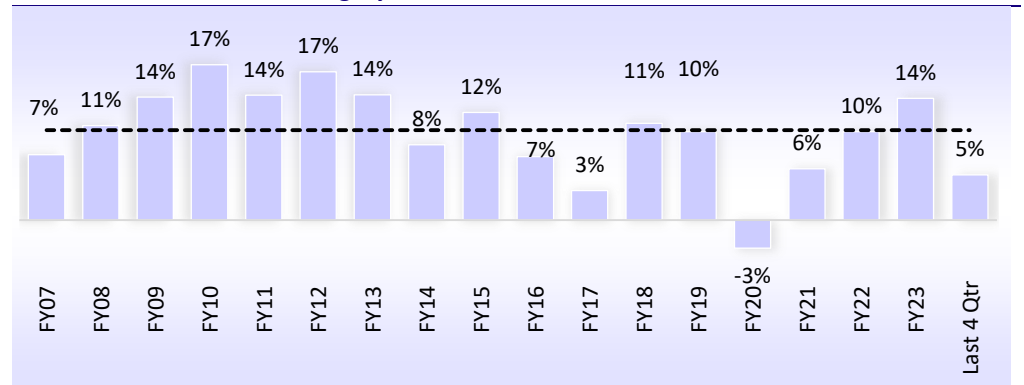
Exhibit 32: Hair care category



Personal Care	5-yr CAGR	Avg. 4 Qtr
HUL	6	5
GCPL - Soaps	11	4
Gillette	7	9
Emami - Boroplus	3	(5)
Emami - F&H	(8)	4
Dabur - Skin	2	3
Category Gr. (%)	6	5

- **Personal care:** This category always looks promising due to low penetration and room for upgrades. However, new entrants have hurt the mainstream brands consistently. Category growth over FY07-15 was 13%, which fell to 7% over FY15-23. Gillette outperformed during the last 12 months, while Boroplus underperformed.

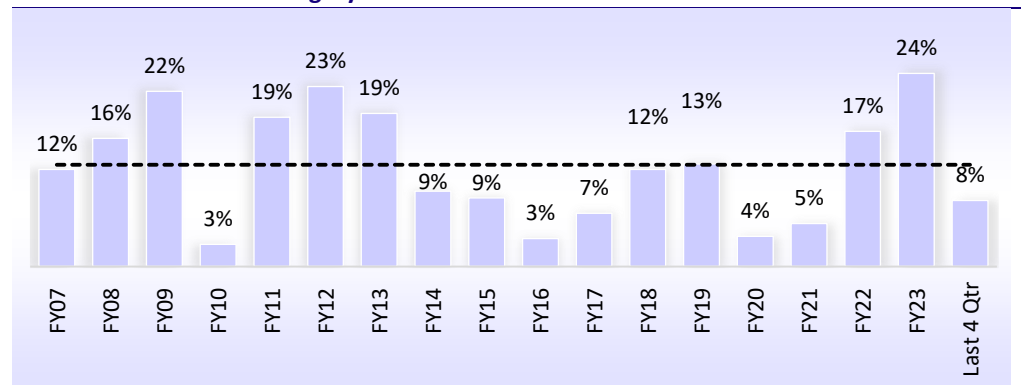
Exhibit 33: Personal care category



Home Care	5-yr CAGR	Avg. 4 Qtr
HUL – Detergent	13	8
GCPL – Home care	8	10
Dabur – Home care	10	12
Jyothy – Fabric care	8	15
Jyothy – Dishwash	10	9
Jyothy – HI	(3)	5
Category Gr. (%)	12	8

- **Home care:** The category posted double-digit growth over the last five years across most of the companies. HUL, the market leader, posted a 13% revenue CAGR over FY18-23. In LTM, Jyothy's fabric care has performed well and delivered a strong double-digit growth. The HI segment of Jyothy Labs has remained an underperformer due to its dependence on seasonality and competition from GCPL.

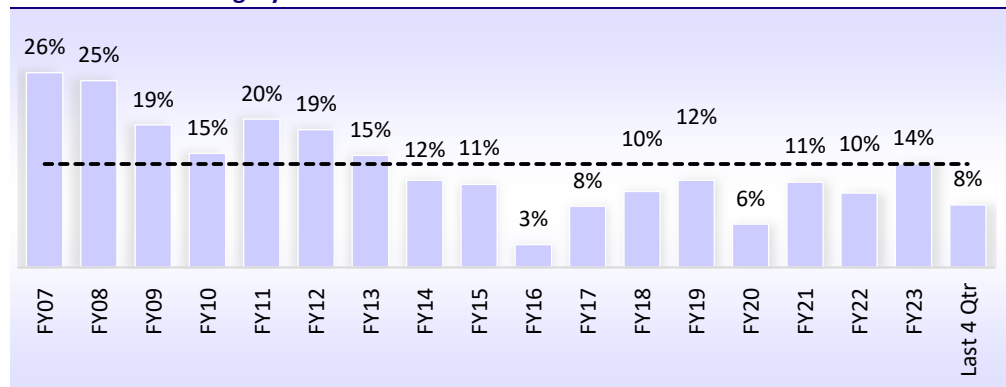
Exhibit 34: Home care category



F&B	5-yr CAGR	Avg. 4 Qtr
Britannia	10	6
Nestle	12	14
HUL - (incl. GSK)	8	3
ITC - FMCG	11	13
Marico – Saffola	15	(17)
Dabur – Real	12	15
Agro Tech	1	(8)
<b>Category Gr. (%)</b>	<b>10</b>	<b>8</b>

- **Food & beverages (F&B):** Marico has outperformed this category with a 15% revenue CAGR over FY18-23. However, its performance was hurt in 9MFY24 due to a price correction of edible oil. ITC/Nestle also delivered 11%/12% (five-year) revenue CAGR along with a high single-to-double-digit growth in 9MFY24. This growth was driven by premiumization and penetration-led strategies. The category CAGR has been one of the best in the staples category.

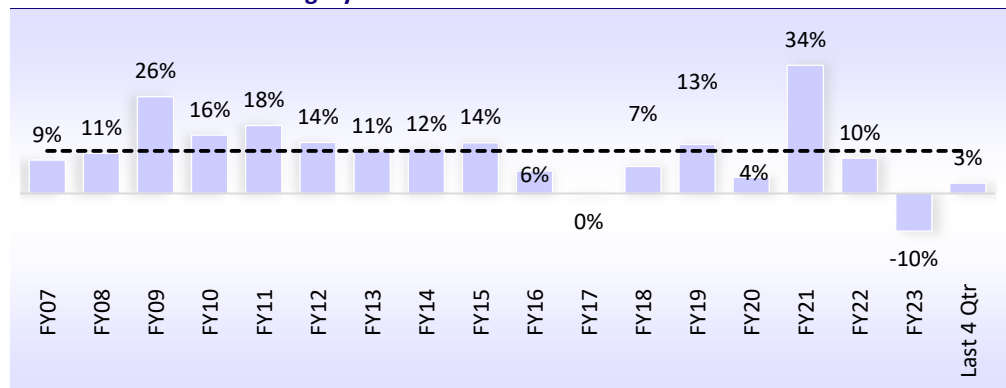
Exhibit 35: F&amp;B category



OTC FMCG	5-yr CAGR	Avg. 4 Qtr
Dabur – Health Supp.	9	1
Emami – Pain MGT	7	2
Dabur – OTC	10	9
Amrutanjan – Balm	12	2
Emami – Digestive	2	1
<b>Category Gr. (%)</b>	<b>8</b>	<b>3</b>

- **OTC FMCG:** Despite the small scale with limited room for penetration and frequency, the category growth has consistently been volatile. Amrutanjan and Dabur's OTC have outperformed the category over the last five years, and delivered 12% and 10% (five-year) revenue CAGR, respectively. The category witnessed several new users during the Covid-19 phase. However, the demand for products dropped significantly as Covid fears waned.

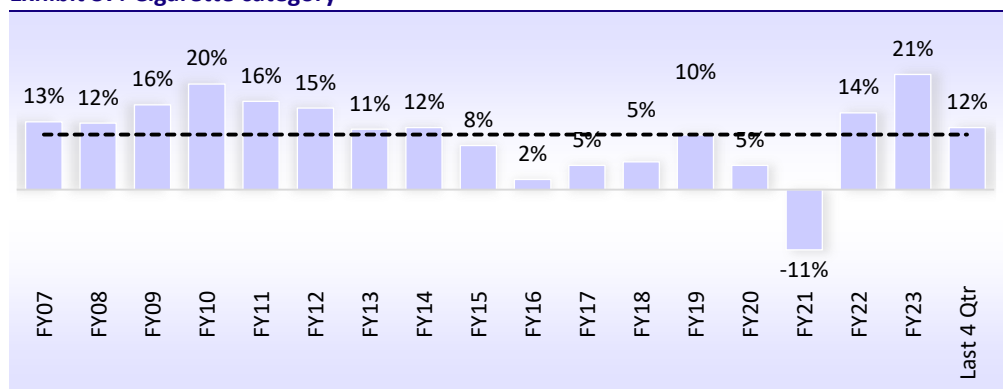
Exhibit 36: OTC FMCG category



Cigarette	5-yr CAGR	Avg. 4 Qtr
ITC	4	10
Godfrey Phillips	8	24
VST	6	4
<b>Category Gr. (%)</b>	<b>5</b>	<b>12</b>

- **Cigarette:** This category has faced several challenges over the past 10 years, including high taxes and the increasing prevalence of illegal cigarettes, which have affected the sales of top legal brands. The revenue growth during FY07-15 was 14% for the category, which tapered down to 6% during FY15-23. Godfrey Philips is an outperformer in the Cigarette category with a revenue CAGR of 8% (five-year ended FY23).

Exhibit 37: Cigarette category

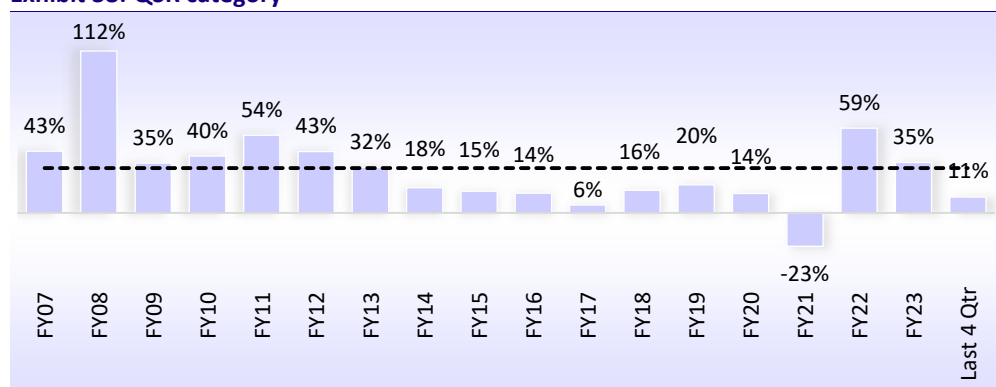


QSR	5-yr CAGR	Avg. 4 Qtr
Jubilant Food	10	5
Devyani (KFC)	40	19
Devyani (PH)	13	7
Sapphire (KFC)	22	20
Sapphire (PH)	14	5
Burger King	23	26
Westlife Dev.	13	11
Barbeque	14	3
Speciality Restaurants	2	11
<b>Category Gr. (%)</b>	<b>15</b>	<b>11</b>

### Category insights: Discretionary categories

- **QSR:** A significant portion of the category's growth is driven by the addition of stores; over the past three years, most brands have substantially increased their store count. The category registered a 15% revenue CAGR during the last five years. KFC has witnessed higher growth in both Devyani and Sapphire, while Specialty Restaurants has been the most underperforming.

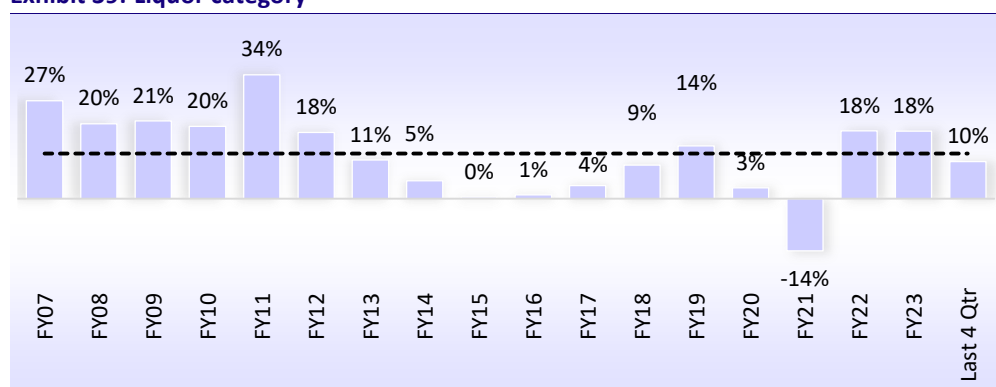
Exhibit 38: QSR category



Liquor	5-yr CAGR	Avg. 4 Qtr
United Spirits	5	13
Pernod Ricard	9	7
United Breweries	6	6
Radico Khaitan	12	24
<b>Category Gr. (%)</b>	<b>7</b>	<b>10</b>

- **Liquor:** The historical growth trend was not strong. The category has faced several headwinds such as higher taxes, highway ban, pricing pressure, etc. Over the last three years, P&A growth has been very strong, clearly supporting the upgrade narrative.

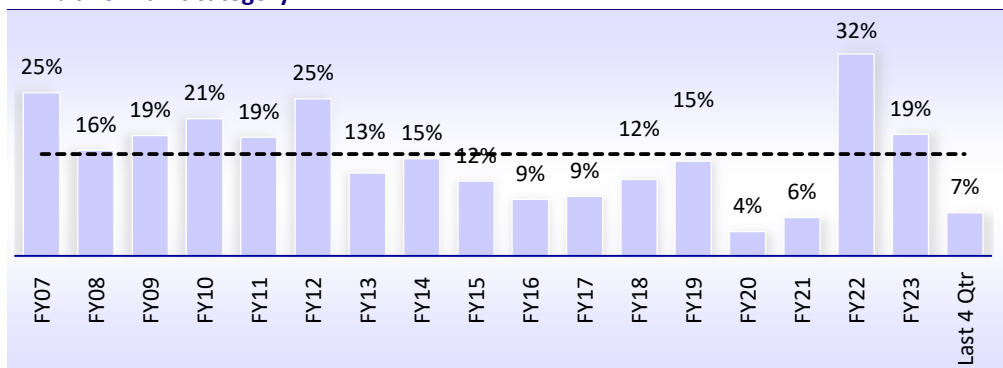
Exhibit 39: Liquor category



Paints	5-yr CAGR	Avg. 4 Qtr
Asian Paints	15	6
Berger	15	8
Indigo Paints	22	21
Kansai	9	7
Category Gr. (%)	15	7

- **Paints:** This category represents one of the most compelling growth compounding stories, with the long-term CAGR exceeding 15%. Asian Paints and Berger achieved a 15% revenue CAGR from FY18 to FY23. However, growth has been subdued in 9MFY24, with mid-to-high single-digit growth being achieved due to price cuts. Indigo Paints delivered a 22% revenue CAGR over FY18-23, and it also achieved a double-digit growth in the last 12 months.

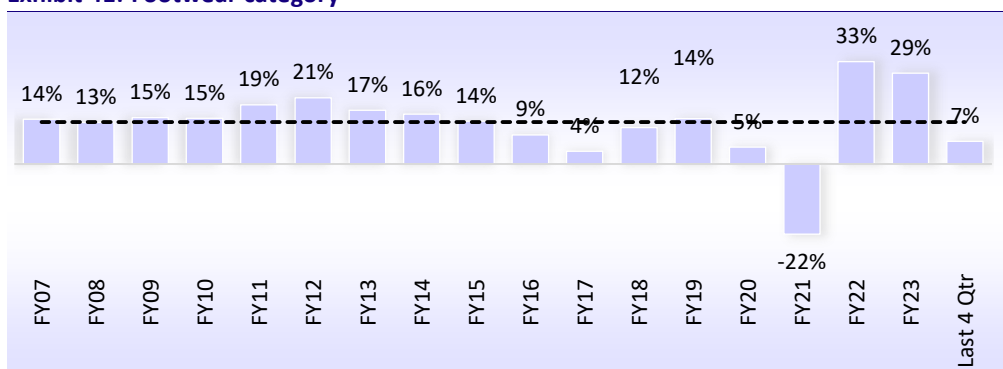
Exhibit 40: Paint category



Footwear	5-yr CAGR	Avg. 4 Qtr
Bata	6	4
Relaxo	7	5
Metro	15	18
Mirza Inter.	(8)	(2)
Liberty	4	5
Category Gr. (%)	6	7

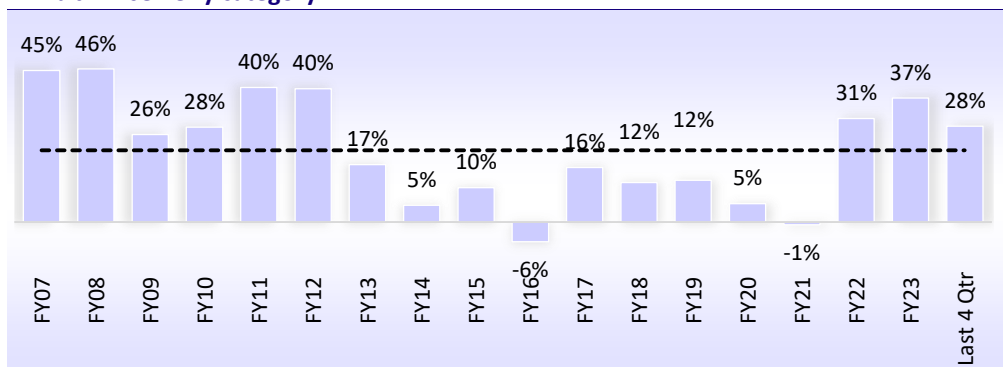
- **Footwear:** This category delivered a 16% revenue CAGR during FY07-15, but the growth rate decreased to 9% during FY15-23. Metro Brands reported double-digit revenue growth over the last five years and also in the LTM, despite a slowdown in the discretionary market.

Exhibit 41: Footwear category



- **Jewelry:** This is one of the best growth compounding categories with the benefits of transitioning from unorganized to organized players. Titan has not only outperformed its competitors in the last five years but also in the last 12 months. Gold inflation and store expansion are further supporting the growth of the category.

Exhibit 42: Jewelry category



Jewelry	5-yr CAGR	Avg. 4 Qtr
Titan	20	29
Kalyan	6	28
Senco	13	26
Thangamayil	18	21
Category Gr. (%)	15	28

### Volume mix: Staples vs. Discretionary

Volume growth serves as the true health index for consumer categories, as it reflects user additions and the frequency of brand/category usage. In staples, volume growth largely reflects user additions rather than the usage frequency. Historically, FMCG companies have sustained healthy volume growth through (1) expanding distribution networks (particularly in rural areas), (2) introducing new product categories (brand extensions), and (3) enticing consumers to upgrade to premium offerings. While rural markets continue to offer these growth catalysts, urban markets show comparatively less sensitivity to them. Thereby, the demand from rural areas is more crucial for staples than for discretionary categories.

However, on the other side, discretionary categories have remained largely skewed toward the urban markets. These sectors inherently leverage growth drivers from transitioning to organized markets from unorganized ones. Industries such as jewelry, paints, and restaurants benefit from these dynamics. Liquor and cigarettes are influenced by a range of drivers, including, penetration (such as female users and network addition), transitioning from unorganized to organized markets (e.g., country liquor to IMFL and bidi to cigarettes), consumption frequency, and consumer upgrading narratives.

**Staple universe – volume trajectory over FY19-23:** We have noted that the last five years have been quite volatile, mainly from the consumer sector's point of view. Multiple trends had emerged during this period, many of which eventually settled over time. Rural reverse migration and pantry loading provided temporary benefits to various staple categories, but we observed adjustments once these drivers normalized. Similarly, there was a surge in demand for healthcare-related products (mainly naturals/ ayurvedic products), but these trends also disseminated later on. Most categories experienced mean-reversion during this period.

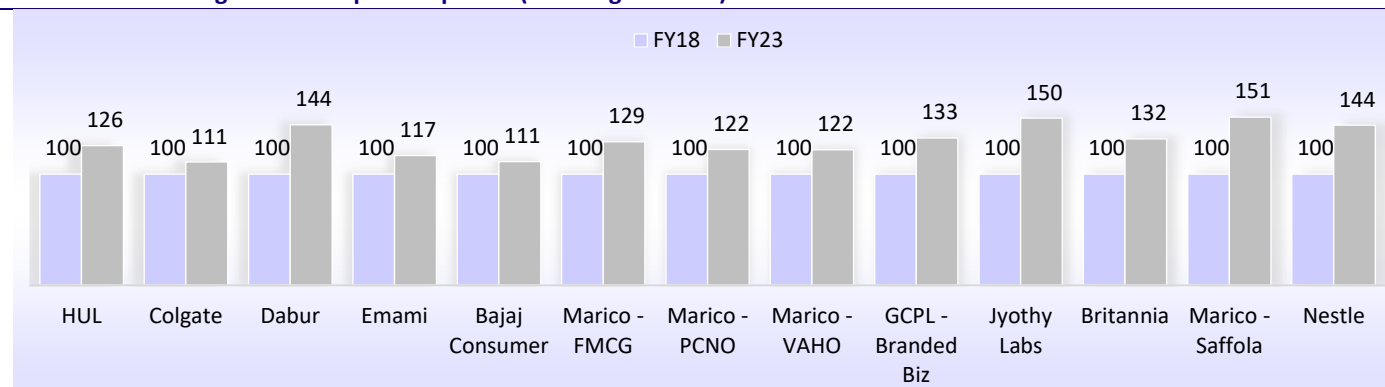
Besides such divergent trends during FY21-FY22, high commodity-led inflation prompted pricing adjustments across various consumer categories. This also led to additional changes in consumer trends in FY23 and 9MFY24. All these divergent trends are critical to understand the underlying demand and potential outcomes in the upcoming years.

#### Volume 5-year CAGR

Marico - Saffola	9%
Jyothy Labs	9%
Dabur	8%
Nestle	7%
GCPL - Branded Biz	6%
Britannia	6%
Marico - FMCG	5%
HUL	5%
Marico - PCNO	4%
Marico - VAHO	4%
Emami	3%
Bajaj Consumer	2%
Colgate	2%

We have plotted the volume index for various consumer companies, where the base year is FY18. It provides us with the volume index for the past five years, effectively normalizing all fluctuations in growth rates. Among the companies that recorded five-year volume CAGRs of above 5% were Jyothy, Dabur, Marico (Saffola), Nestle, GCPL, and Britannia. Conversely, Colgate, Bajaj Consumer, and Emami exhibited lower volume CAGRs over the same period.

**Given the steady general inflation and favorable raw material prices, there have been instances of price cuts and consumer-oriented initiatives over the last 6-9 months. With anticipated deterioration in macros, we expect staple companies to rebound in terms of volume performance in FY25.**

**Exhibit 43: Volume growth – staple companies (indexing for FY18)**

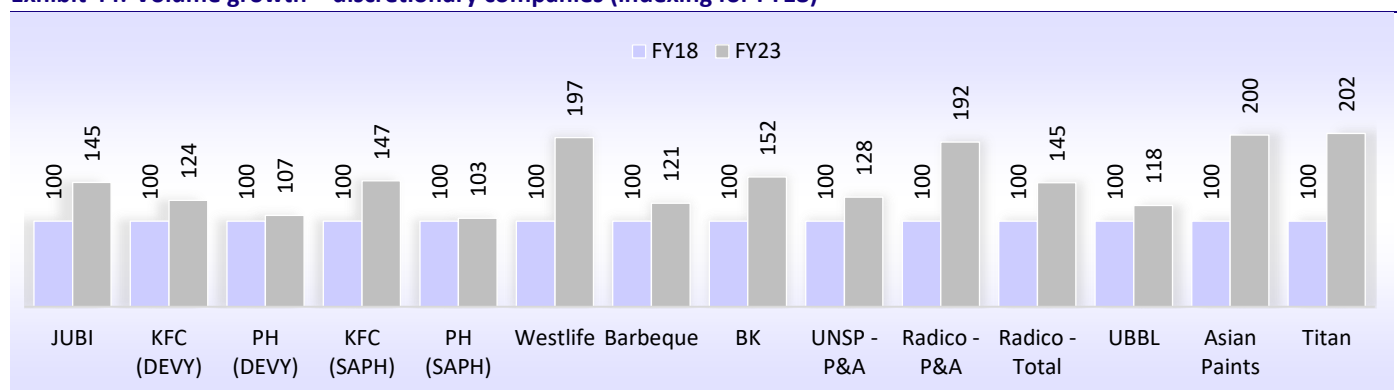
**Discretionary universe – volume trajectory (FY19-23):** We have noted that last five years have been quite volatile, mainly from the consumer sector point of view. Multiple trends had emerged during this period, many of which eventually settled over time. Rural reverse migration and pantry loading provided temporary benefits to various staples categories, but we observed adjustments once these drivers normalized.

**Volume 5-year CAGR**

Titan	15%
Asian Paints	15%
Westlife	15%
Radico - P&A	14%
BK	9%
KFC (SAPH)	8%
JUBI	8%
Radico - Total	8%
UNSP - P&A	5%
KFC (DEVY)	4%
Barbeque	4%
UBBL	3%
PH (DEVY)	1%
PH (SAPH)	1%

**Given stable general inflation and favorable raw material prices, there have been instances of price cuts and consumer-oriented initiatives over the last 6-9 months. With anticipated deterioration in macros, we expect staple companies to rebound in terms of volume performance in FY25.**

- **Volume growth** – The reduction in the volume growth in the consumer staples company seen in FY23 was attributed to the rise in retail inflation and increasing commodity prices. This subdued volume growth persisted into the 1HFY24, but showed signs of recovery in 3QFY24 as inflation began to ease. Meanwhile, in liquor companies, the P&A categories outperformed popular categories, achieving double-digit volume growth in FY23. However, the category performance was impacted in 9MFY24 due to tax hikes implemented in states like Karnataka and Maharashtra. However, Radico Khaitan (P&A category) sustained strong double-digit growth throughout this period. Cigarette companies also delivered double-digit revenue growth in FY23.

**Exhibit 44: Volume growth – discretionary companies (indexing for FY18)**

Note: For QSR and Titan we capture SSSG  
Source: MOFSL

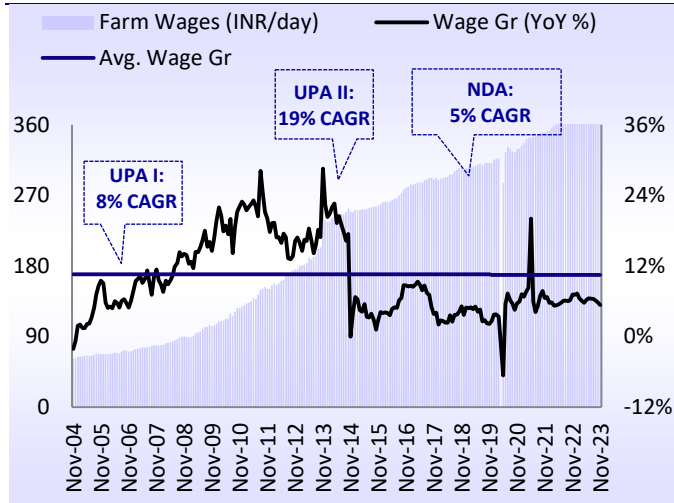


## Macro indicators

### Steady improvement in rural wage growth

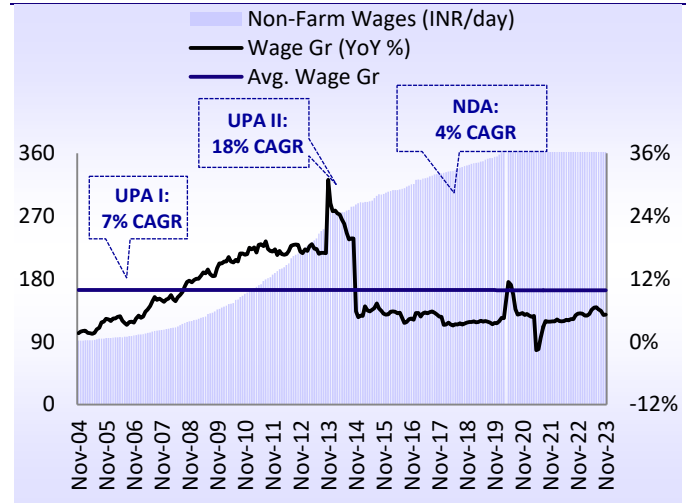
The wage growth in both agricultural and non-agricultural sectors experienced a slump after 2014, with certain categories dipping into the negative territory by 2019. Between 2021 and 2023, wage rates remained relatively stagnant. Agricultural sectors were particularly impacted by poor monsoon seasons, but other problems made things worse, such as increased costs for essentials like fuels and fertilizers. Moreover, global price fluctuations compounded the difficulties faced by farmers.

**Exhibit 45: Agricultural wages**



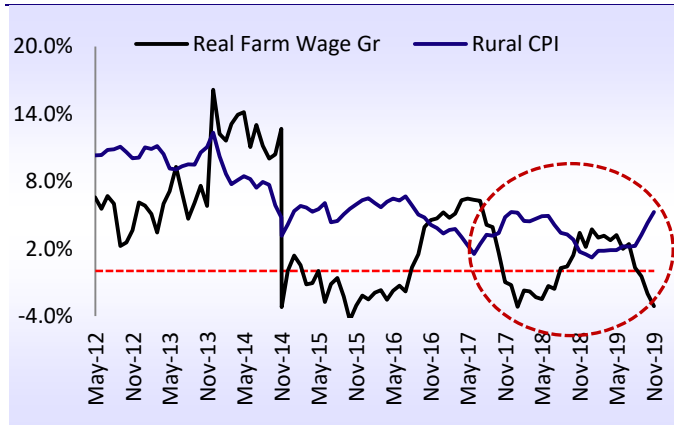
Source: Company, MOFSL

**Exhibit 46: Non-agricultural wages**



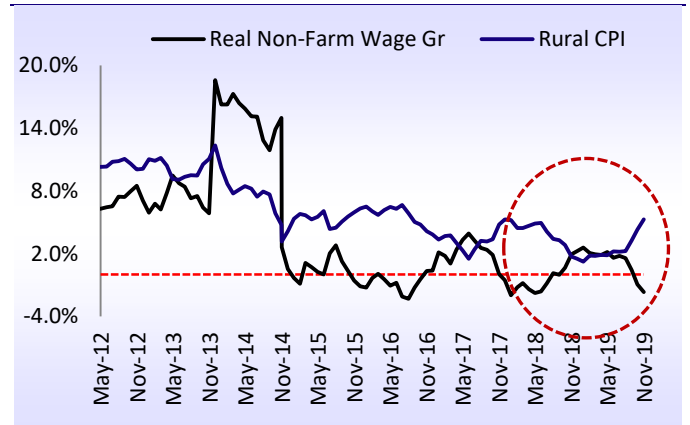
Source: Company, MOFSL

**Exhibit 47: Rural CPI and real farm wage growth**



Source: Company, MOFSL

**Exhibit 48: Rural CPI and real non-farm wage growth**

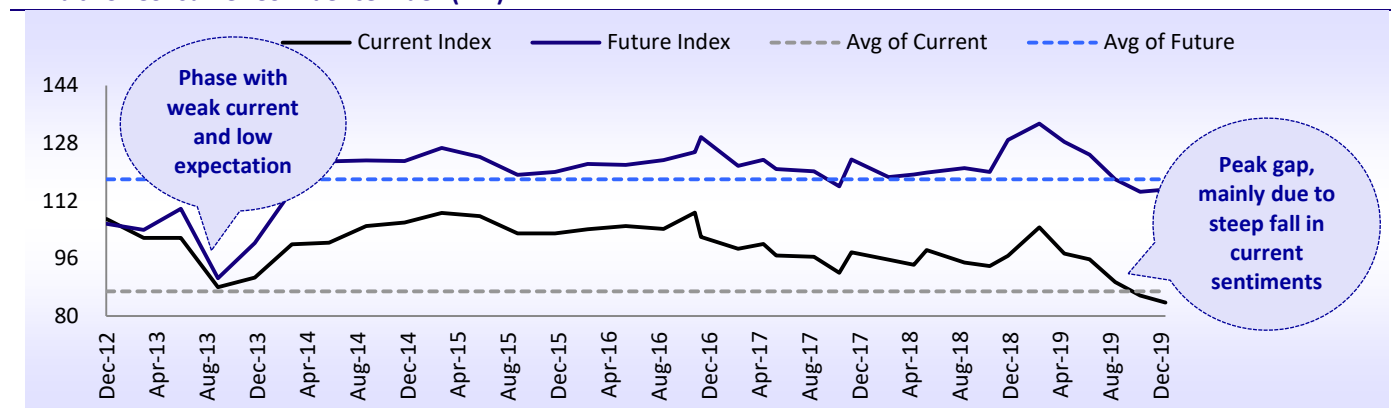


Source: Company, MOFSL

### Consumer Confidence Index

The RBI's Consumer Confidence Index has been consistently improving, surpassing the last 10-year average, a feat last observed in 2019. The gap between the current and future indices has narrowed down, with the peak occurring in 2020-21. This improvement in the index signals a positive outlook for future consumption.

**Exhibit 49: Consumer Confidence Index (RBI)**



Source: RBI Database, MOFSL

### MSP rates: Steady escalation

MSP rates have increased by mid-single digits during the last five years. However, there has been minimal fluctuation in MSP rates over the last year; it has gradually increased during the last decade. The increase in MSP rates contributes to improved income growth for farmers, while the government endeavors to maintain a delicate balance between income growth and food inflation. Notably, Kharif crops have generally experienced a more significant increase in MSP rates than Rabi crops.

**Exhibit 50: Long-term MSP trend**

(INR/quintal)	2023-24	YoY Gr%	CAGR % 2014-24	CAGR % 2018-24
<b>Kharif Crops</b>		<b>7</b>	<b>7</b>	<b>5</b>
Paddy (Grade A)	2,183	7	5	4
Jowar (Hybrid)	3,180	7	8	6
Bajra	2,500	6	8	5
Maize	2,090	7	5	4
Ragi	3,846	7	11	6
Arhar (Tur)	7,000	6	5	4
Moong	8,558	10	7	4
Urad	6,950	5	5	4
Cotton (Long Staple)	6,377	9	5	3
Groundnut in shell	6,377	9	5	5
Sunflower seed	6,760	6	7	5
Soybean (Yellow)	4,600	7	7	6
Sesamum	8,635	10	7	7
Niger seed	7,734	6	9	6
<b>Rabi Crops</b>		<b>5</b>	<b>5</b>	<b>5</b>
Wheat	2,275	7	4	4
Barley	1,850	7	5	5
Gram	5,440	2	3	3
Masur (Lentil)	6,425	7	8	8
Rapeseed/Mustard	5,650	4	6	6
Safflower	5,800	3	3	3
<b>Other Crops</b>		<b>4</b>	<b>4</b>	<b>6</b>
Copra (Ball) - Calendar Year	12,000	2	4	4
Jute (CY)	5,050	5	6	9
Sugarcane (CY)	315	6	3	6

Source: RBI, MOFSL

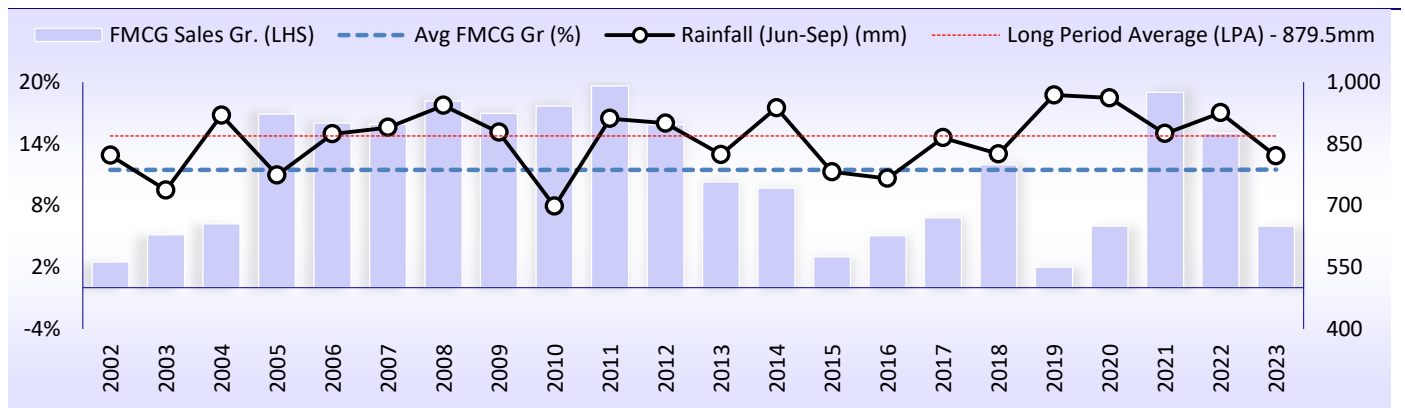
### Consumer Price Index

In FY24, the CPI moderated for two consecutive months to 4.7% in Apr'23 and 4.3% in May'23. This trend ended with CPI rising to 4.9% in Jun'23 and 7.4% in Jul'23, largely due to higher food inflation. The CPI has breached the RBI's target range for the first time since Feb'23. This marks the highest reading observed since the peak in Apr'22 at 7.8%. The surge in vegetable prices and elevated inflation in other food categories such as cereals, pulses, spices, and milk have driven this increase. Further, the contribution of F&B to the overall inflation has risen significantly to 65%, surpassing its weight in the CPI basket. This was further moderated in Aug'23 to 6.7%, mainly due to the government's active intervention.

### Rainfall and FMCG

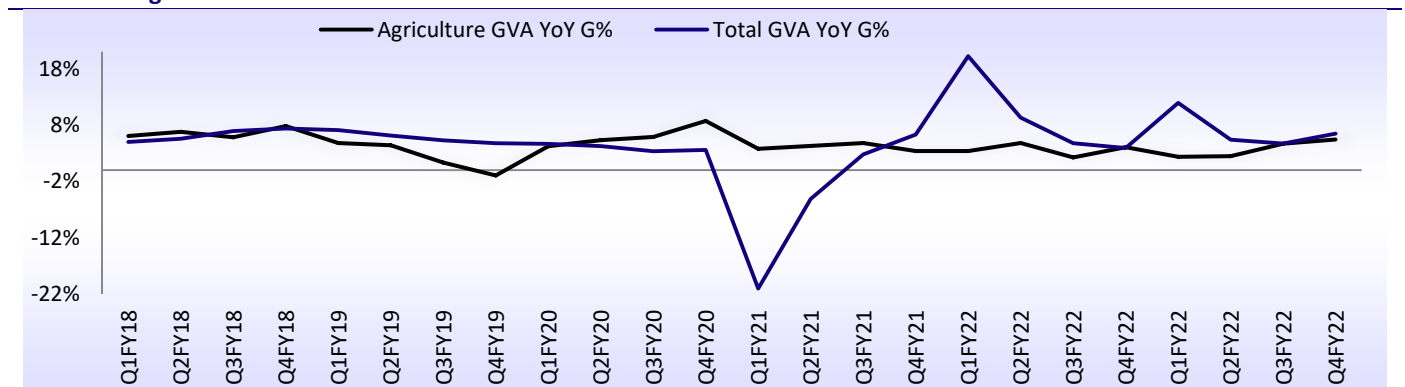
We conducted an analysis correlating rainfall data with FMCG sales growth for the subsequent year to assess the monsoon's impact on consumer demand. Historically, it has taken more than one consecutive year of deficit monsoon to significantly impact the FMCG sector. Following four deficit years (FY15 and FY18) of rainfall, the past four years have witnessed near-normal rainfall levels, which are anticipated to boost demand, especially in rural markets.

**Exhibit 51: Correlation between monsoon and the FMCG sector**



Source: IMD, MOFSL

**Exhibit 52: Agriculture GVA vs. total GVA**



Source: RBI Database, MOFSL

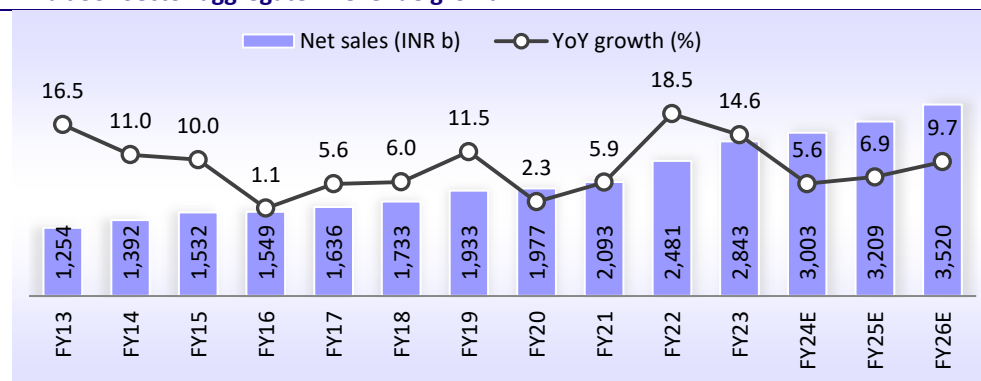
## Sector aggregates

### Revenue growth – Expect volume recovery in FY25

FY24 revenue growth has been hit by price cuts. We expect volume growth recovery in FY25.

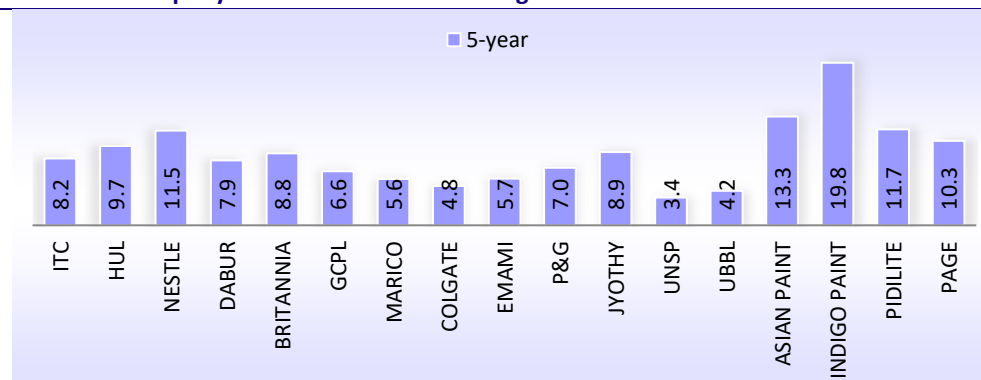
- The FMCG sector has experienced more growth driven by price hikes in the last two years due to high inflation-induced price increases and slower volume growth. Prior to this, we have seen revenue growth driven by increased volume.
- Macro headwinds and price hikes have been delaying the recovery in the rural market, which is under pressure due to weak income growth. The mass segment was exposed to inflation; hence, the volume recovery has been delayed. We have seen down-trading, a higher mix of low unit packs (LUPs), etc., during this period.
- We expect the revenue growth trajectory to gradually improve in FY25, largely driven by volume growth.

Exhibit 53: Sector aggregate – revenue growth



(Consumer universe ex-Titan) Source: Company, MOFSL

Exhibit 54: Company-wise revenue CAGR during FY19-24E



Source: Company, MOFSL

**Exhibit 55: Volume trend (%)**

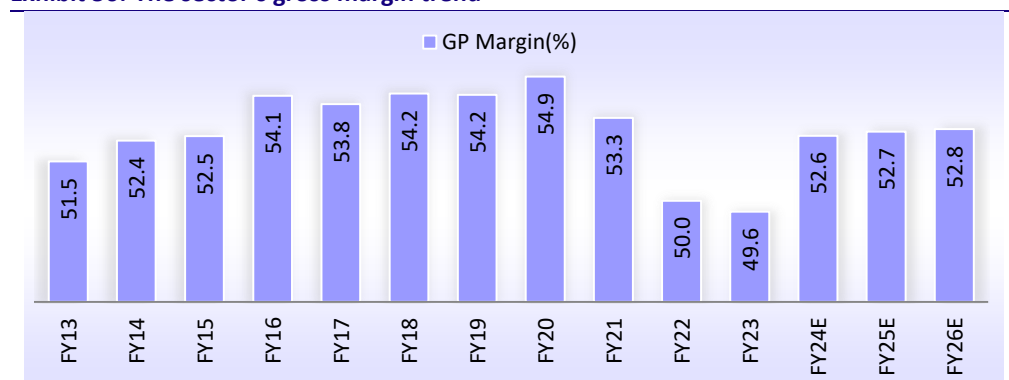
Volume growth	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	FY19	FY20	FY21	FY22	FY23
HUL	5	4	3	2	2	10	2	3	4	5
Colgate	-5	1	3	-1	-1	6	1	4	2	-2
Dabur	-3	1	3	3	4	11	2	12	12	1
Emami	-4	-7	0	2	-1	4	-4	12	9	-4
Marico	4	5	3	3	2	8	1	9	7	2
GCPL	3	13	10	4	5	5	1	10	12	1
Jyothy	2	3	9	9	11	15	10	9	7	2
Britannia	3	3	0	0	3	10	2	12	3	2
Nestle	-2	5	5	5	4	11	8	2	12	5
ITC-Cig	15	12	8	5	-1	6	0	-12	16	18
Godfrey Phillips	23	18	8	8	11	9	10	-20	20	25
United Spirits - P&A	4	10	10	4	5	12	-2	-9	15	12
United Spirits - Total	-24	-27	-29	-27	-2	4	-2	-11	-22	9
Radico Khaitan - P&A	14	17	51	22	20	21	15	-8	24	20
Radico Khaitan - Total	0	-1	15	-3	5	11	12	-8	18	7
United Breweries	4	3	-12	7	8	13	-3	-38	33	31

Nestle, Dabur, and GCPL still have slightly lower gross margins vs. FY19.

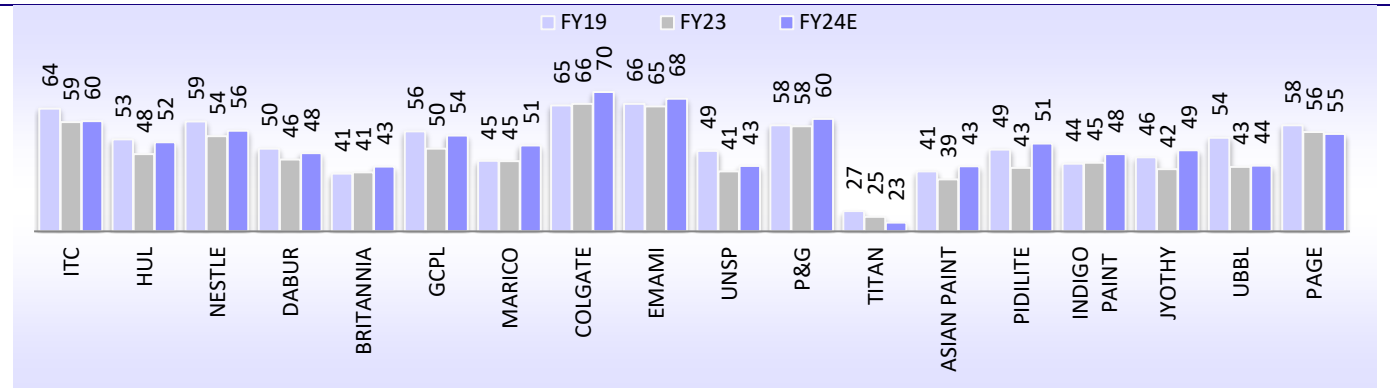
On the other hand, UNSP, Titan, UBBL, and PAGE are likely to have significantly lower margins in FY24E vs. FY19.

### Buoyancy in gross margin expansion

- Gross profit margin has experienced a sharp recovery in 9MFY24 due to benign raw material inflation and gradual price cuts. The companies have partially reinvested such gains into higher ad-spending to boost volume growth. Thus, we have seen a modest expansion in EBITDA margin.
- In the last two years, the prices of raw materials such as crude oil, palm derivatives, and other inputs (notably agricultural commodities) have increased due to the Russia-Ukraine war and other global factors. While companies hiked product prices, they still lagged behind raw material inflation. This resulted in a sharp gross margin contraction in FY22/23. However, companies tried to manage costs through cost-control measures, resulting in a limited contraction in EBITDA margins.

**Exhibit 56: The sector's gross margin trend**

(Consumer universe ex-Titan) Source: Company, MOFSL

**Exhibit 57: Gross margin – comparison among FY19, FY23, and FY24E**

Source: MOFSL

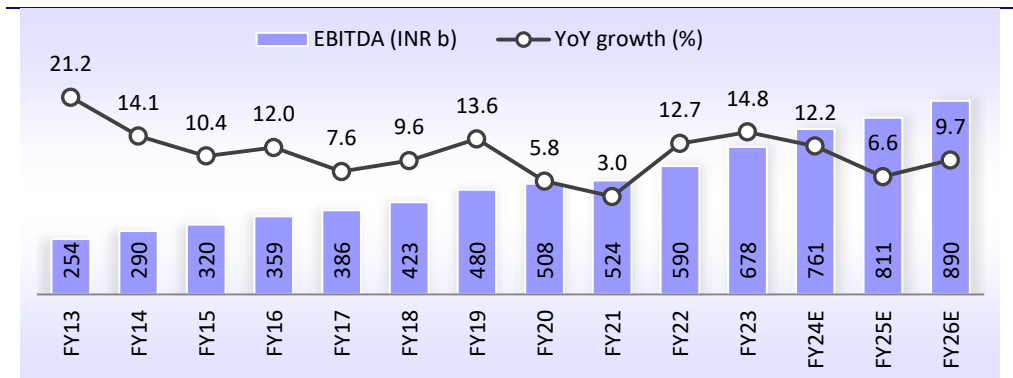
In 9MFY24, most companies have experienced a reversal in gross margin, and a sharp recovery was witnessed. However, the companies reinvested the gross margin gains into higher marketing spending.

Despite several companies still have low gross margins vs. FY19, the EBITDA margins for most companies are higher than in FY19.

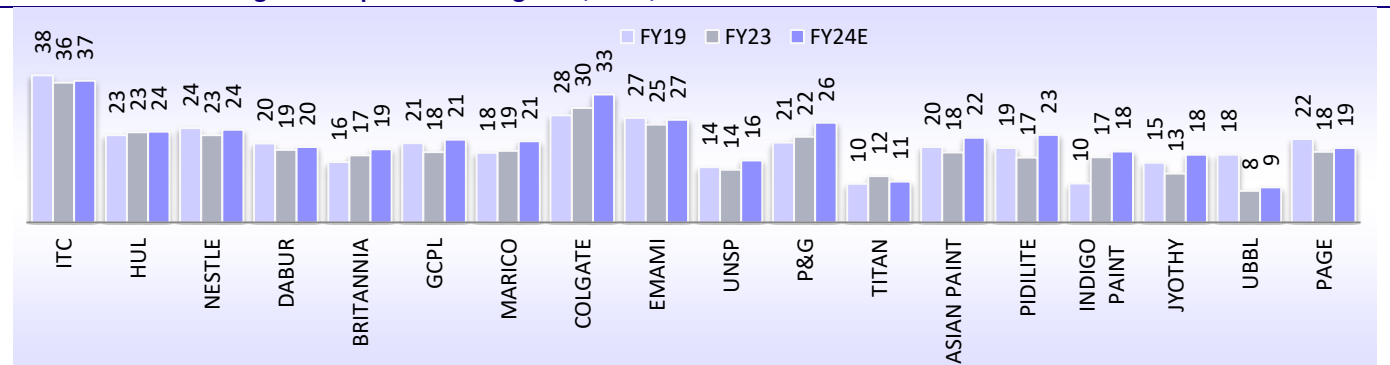
Dabur has slightly lower EBITDA margin vs. FY19. On the other hand, UBBL and PAGE are likely to have notably lower EBITDA margins in FY24E vs. FY19.

**EBITDA margin – consistent control on overheads**

- FMCG companies with strong control on overhead costs always try to minimize the high volatility in EBITDA margin. Despite seeing high raw material inflation that affected gross margin, companies were able to largely control the pressure on EBITDA margin.
- In 9MFY24, most companies have experienced a reversal in gross margin, and a sharp recovery was witnessed. However, the companies reinvested the gross margin gains into higher marketing spending.

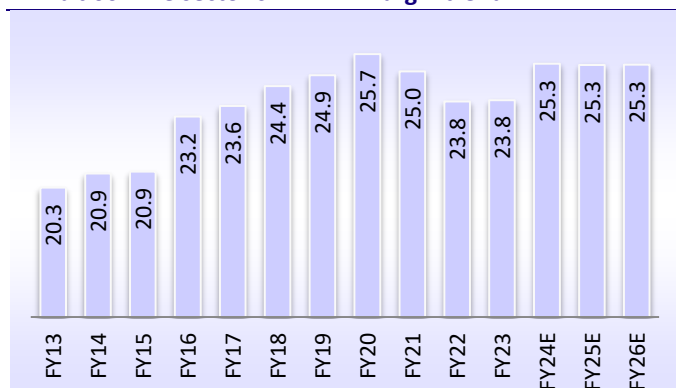
**Exhibit 58: The sector's EBITDA trend**

(Consumer universe ex-Titan) Source: Company, MOFSL

**Exhibit 59: EBITDA margin – comparison among FY19, FY23, and FY24E**

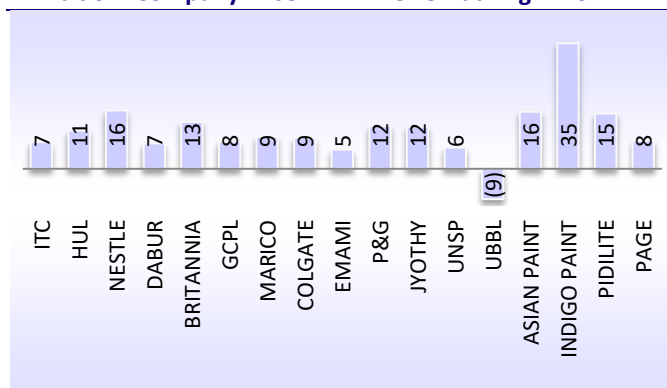
Source: MOFSL

Exhibit 60: The sector's EBITDA margin trend



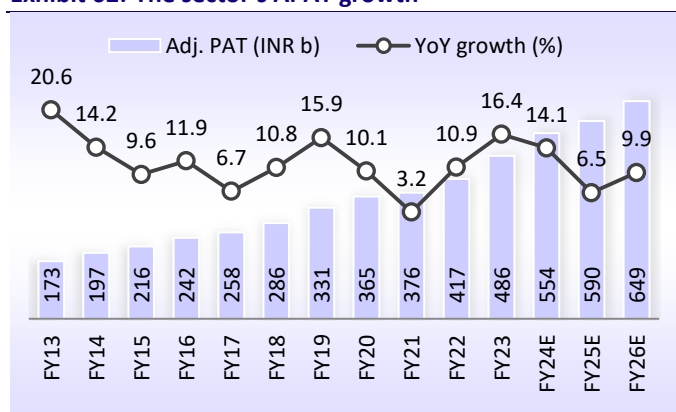
(Consumer universe ex-Titan) Source: Company, MOFSL

Exhibit 61: Company-wise EBITDA CAGR during FY19-24E



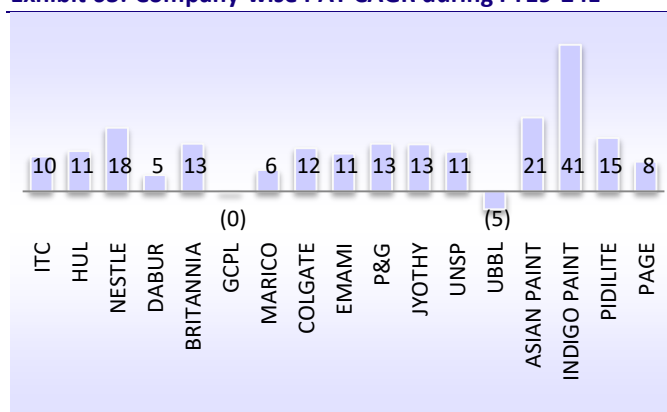
Source: Company, MOFSL

Exhibit 62: The sector's APAT growth



(Consumer universe ex-Titan) Source: Company, MOFSL

Exhibit 63: Company-wise PAT CAGR during FY19-24E



Source: Company, MOFSL

Exhibit 64: Changes in gross and EBITDA margins over FY19-24E

	Gross Margin (%)		Gross Margin Change (bps)		EBITDA margin		EBITDA Margin Change (bps)	
	FY19	FY24E	FY19-23	FY23-24E	FY19	FY24E	FY19-23	FY23-24E
ITC	64.0	59.5	(486)	39	38.1	36.7	(189)	49
HUL	53.0	51.9	(536)	425	22.6	23.5	77	16
NESTLE	59.4	56.1	(522)	197	24.4	24.0	(187)	141
DABUR	49.6	48.0	(394)	233	20.4	19.6	(160)	72
BRITANNIA	40.6	43.2	51	204	15.7	18.9	169	158
GCPL	55.8	54.4	(618)	469	20.5	21.4	(228)	320
MARICO	45.2	50.8	(3)	560	18.1	21.1	46	252
COLGATE	65.1	69.9	60	426	27.7	33.1	190	350
EMAMI	65.7	67.5	(101)	277	27.1	26.6	(175)	124
UNSP	48.8	43.4	(737)	193	14.3	16.1	(66)	242
P&G	58.0	60.3	(39)	267	20.7	25.8	153	360
TITAN	27.2	23.1	(203)	(208)	10.1	10.6	196	(141)
ASIAN PAINT	41.5	43.4	(280)	470	19.6	22.0	(142)	382
PIDILITE	49.3	51.4	(661)	872	19.3	22.7	(251)	587
INDIGO PAINT	44.3	47.7	28	316	10.1	18.4	681	144
JYOTHY	46.5	49.0	(419)	672	15.5	17.6	(279)	486
UBBL	53.6	43.5	(1,042)	37	17.6	9.2	(936)	95
PAGE	58.0	54.9	(248)	(66)	21.6	19.3	(334)	102

Source: Company, MOFSL

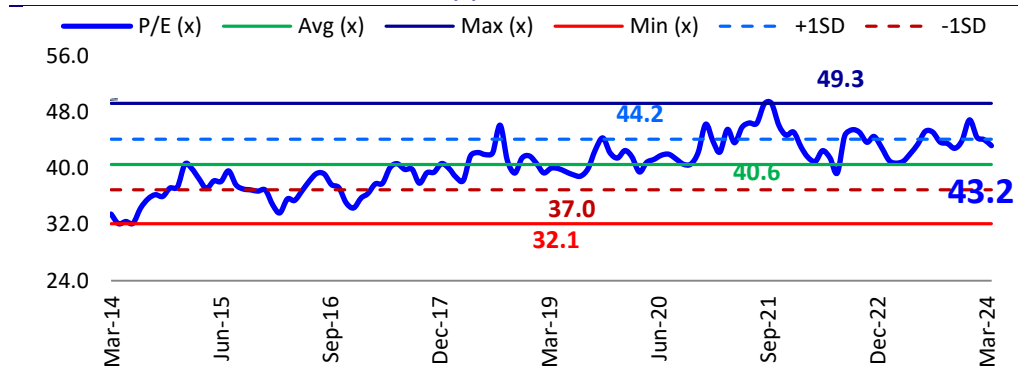


The sector was trading at around 30x P/E during 2014, but it has since undergone a re-rating, with multiples increasing to over 40-45x since 2019. However, over the last 2-3 years, the sector valuations have not exhibited much movement; instead, they have de-rated during the same period.

## Sector valuation

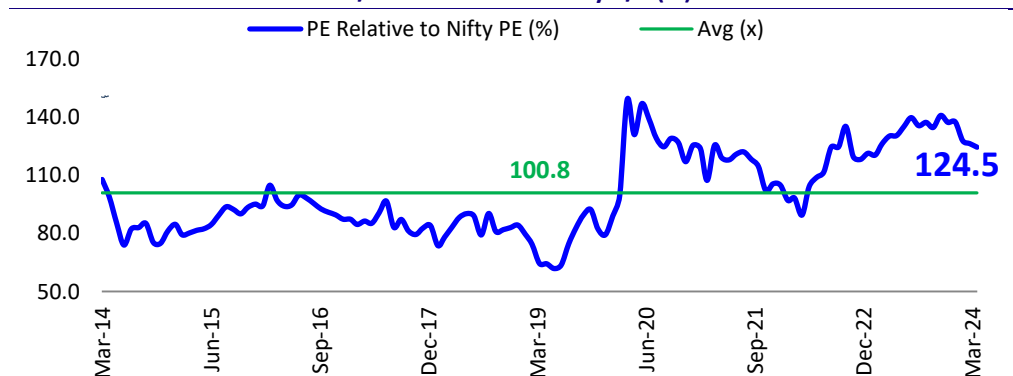
**Sector valuation and charts:** The sector's valuation has experienced a consistent re-rating over the last 10-15 years. The sector was trading at around 30x P/E during 2014, but it has since undergone a re-rating, with multiples increasing to over 40-45x since 2019. However, over the last 2-3 years, the sector valuations have not exhibited much movement; instead, they have de-rated during the same period.

**Exhibit 65: Consumer sector's P/E band (x)**



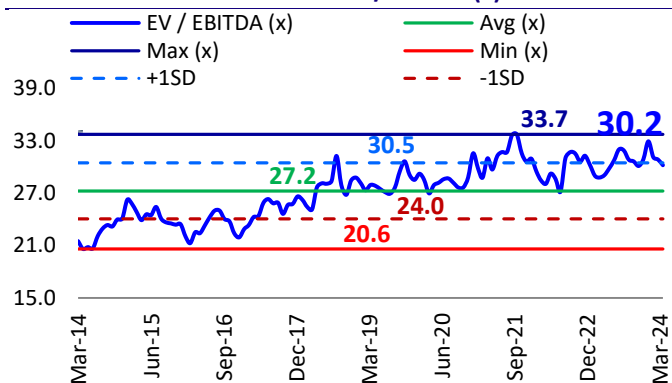
Source: Bloomberg, MOFSL

**Exhibit 66: Consumer sector's P/E relative to the Nifty P/E (%)**



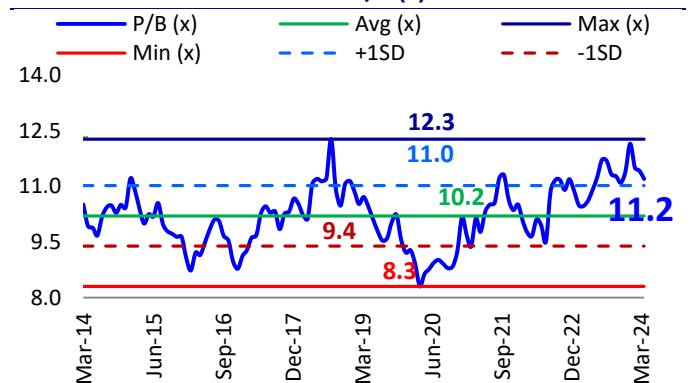
Source: Bloomberg, MOFSL

**Exhibit 67: Consumer sector – EV/EBITDA (x)**



Source: Bloomberg, MOFSL

**Exhibit 68: Consumer sector – P/B (x)**



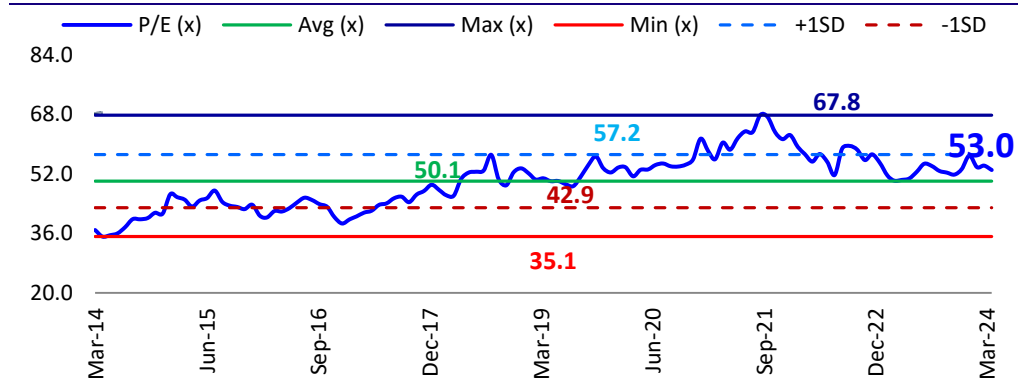
Source: Bloomberg, MOFSL

ITC, despite the run-up over the last two years, has still sustained healthy valuation premium vs. the Nifty.

The sector (ex-ITC) has seen a valuation de-rating over the past two years. The sector valuation has come down to 54x now from ~60x three years back.

**Sector valuation and charts (ex-ITC):** The sector (excluding ITC) has largely experienced a de-rating in valuation over the past two years. Most of the stocks have generated returns below their earnings growth as the quality of earnings (volume-led) was lacking. During the same period, we have observed several new consumer companies in the discretionary sector reporting a high earnings trajectory, resulting in a re-rating of their valuations.

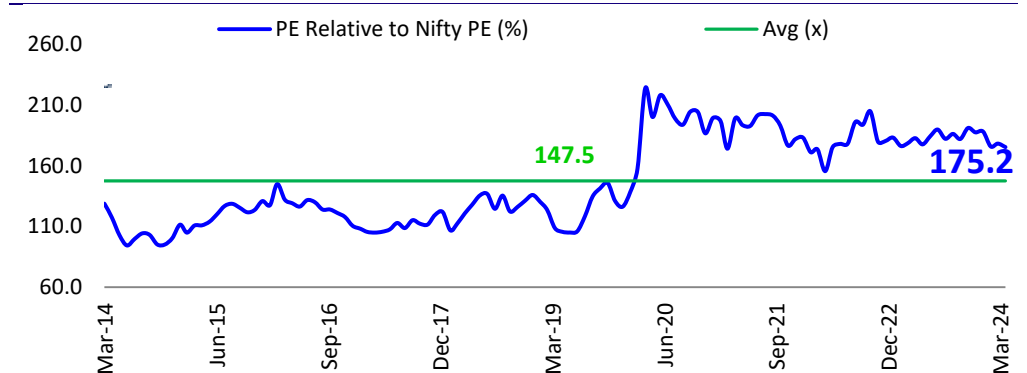
**Exhibit 69: Consumer sector's P/E band (ex-ITC)**



Source: Bloomberg, MOFSL

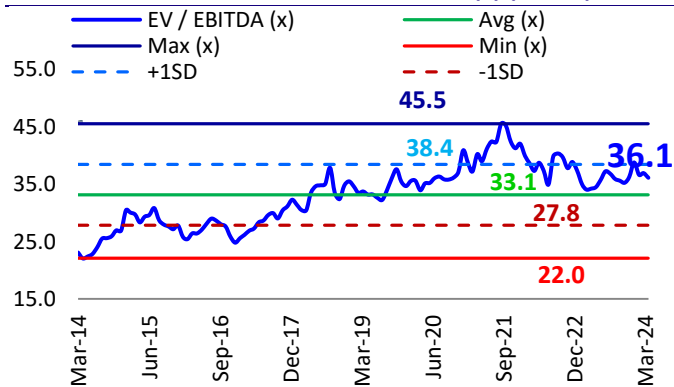
The sector's valuation premium has declined to around 180% from >200%.

**Exhibit 70: Consumer sector's P/E relative to the Nifty P/E (%; ex-ITC)**



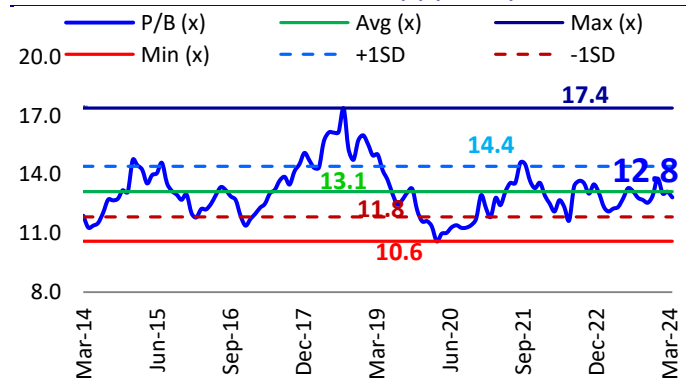
Source: Bloomberg, MOFSL

**Exhibit 71: Consumer sector – EV/EBITDA (x) (ex-ITC)**



Source: Bloomberg, MOFSL

**Exhibit 72: Consumer sector – P/B (x) (ex-ITC)**



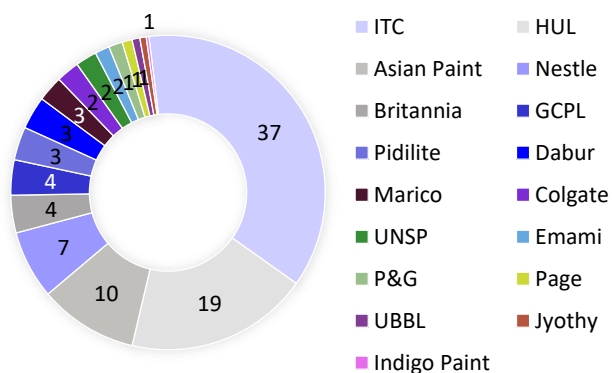
Source: Bloomberg, MOFSL

Exhibit 73: Valuation changes vs. historical averages

Companies	Current P/E (x)	Average P/E (x)			Prem / Disc P/E (x) vs.		
		15 YR	10 YR	5 YR	15 YR	10 YR	5 YR
<b>Consumer</b>	<b>43.2</b>	<b>36.1</b>	<b>40.6</b>	<b>43.0</b>	<b>19.9</b>	<b>6.6</b>	<b>0.6</b>
<b>Consumer Ex ITC</b>	<b>53.0</b>	<b>36.1</b>	<b>50.1</b>	<b>55.5</b>	<b>45.4</b>	<b>5.9</b>	<b>-5.5</b>
Asian Paints	46.4	44.9	53.5	60.7	3.5	-13.8	-23.6
Britannia Inds.	47.9	37.7	44.6	48.2	28.7	8.0	0.8
Colgate-Palm.	50.3	31.7	38.7	39.0	70.1	31.5	38.1
Dabur India	43.8	38.3	44.4	51.5	12.1	-1.8	-16.6
Emami	21.3	21.8	26.8	25.8	-5.1	-19.7	-19.9
Godrej Consumer	54.4	36.7	41.0	45.5	50.8	33.4	21.4
Hind. Unilever	49.1	44.0	51.5	57.8	5.3	-4.8	-19.8
Indigo Paints	34.5	69.9	69.9	69.9	-54.6	-50.3	-54.6
ITC	23.6	24.0	24.1	20.3	3.5	-1.7	22.8
Jyothy Lab.	38.2	33.2	33.5	28.5	18.8	13.5	38.6
Marico	39.9	32.9	40.8	44.9	19.1	-2.3	-12.7
Nestle India	69.2	47.1	57.6	66.2	52.1	20.1	8.1
P & G Hygiene	58.0	52.2	62.7	68.3	19.1	-7.9	-9.0
Page Industries	55.8	51.1	64.8	70.5	6.0	-13.4	-23.2
Pidilite Inds.	66.6	44.7	56.2	72.0	55.0	16.0	-3.6
Tata Consumer	66.1	40.0	46.0	53.7	48.2	43.6	10.7
United Breweries	63.9	83.0	91.0	110.7	-22.1	-29.7	-41.6
United Spirits	60.6	na	63.0	60.9	-99.2	-3.8	-2.1
Varun Beverages	72.1	43.0	43.0	43.9	63.9	68.0	60.6

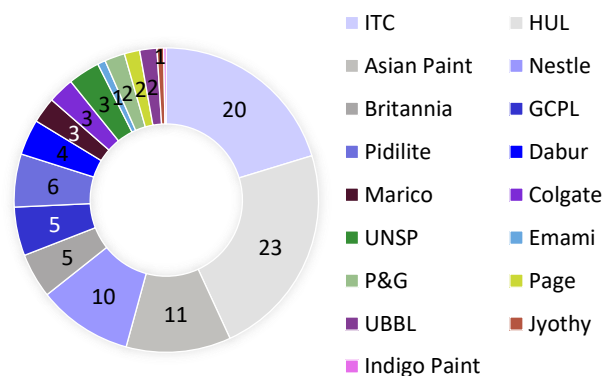
Source: Bloomberg, MOFSL

Exhibit 74: Sector PAT mix



Source: Bloomberg, MOFSL

Exhibit 75: Sector market-cap mix



Source: Bloomberg, MOFSL

## Valuation Summary

## Exhibit 76: Model assumptions

INR b	Net Revenues			Gr. (%)			EBITDA			EBITDA Gr. (%)			Adjusted PAT			APAT Gr. (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
ITC	716	778	845	1	9	9	256	282	306	(0)	10	9	204	214	230	6	5	7
HUL	624	669	727	3	7	9	147	158	173	4	8	9	103	113	124	1	10	10
Nestle	244	211	235	15	12	11	58	52	59	53	(11)	13	39	35	39	60	(12)	14
Dabur	125	135	148	8	9	9	24	28	31	12	14	11	19	22	24	11	14	10
Britannia	168	183	200	3	8	9	32	35	39	13	10	10	22	24	27	12	13	12
GCPL	142	153	167	7	8	9	30	34	38	25	10	12	21	23	27	18	12	17
Marico	96	105	114	(1)	9	9	20	22	24	12	8	9	15	16	18	14	8	10
Colgate	56	61	66	8	8	8	19	20	21	21	6	8	13	14	15	25	5	9
Emami	36	38	41	4	7	7	9	10	11	9	10	7	8	9	9	21	9	3
UNSP	106	117	127	2	10	9	17	19	21	20	13	11	12	13	15	26	15	12
P&G	41	46	52	6	12	13	11	12	14	23	12	14	8	9	10	26	12	14
Titan	512	603	705	26	18	17	54	69	82	11	26	20	36	47	58	11	30	23
Asian Paints	359	389	433	4	9	11	79	81	88	26	2	10	57	57	62	34	0	8
Pidilite	123	137	155	4	11	13	28	31	36	41	12	15	19	22	25	48	15	16
Indigo Paints	13	15	18	23	16	15	2	3	3	34	13	12	2	2	2	31	12	12
Jyothy Labs	28	30	33	12	10	9	5	5	6	55	9	10	4	4	4	58	10	11
UBBL	80	90	99	6	13	10	7	11	13	18	48	21	4	7	9	32	60	23
Page	47	52	60	(1)	12	15	9	11	12	4	18	16	6	7	8	3	21	16

## Exhibit 77: Comparative valuation summary

Companies	CMP (INR)	Mkt Cap (INR b)	TP (INR)	Reco	EPS (INR)			P/E (INR)			EV/EBITDA (INR)		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
ITC	427	5,253	500	Buy	16	17	19	26	25	23	19	17	16
HUL	2,287	5,328	2,900	Buy	44	48	53	52	48	43	36	34	31
Nestle	2,586	2,529	2,400	Neutral	41	36	41	65	73	64	43	49	43
Dabur	529	927	650	Buy	11	12	13	49	43	39	36	31	28
Britannia	4,891	1,181	5,200	Neutral	90	102	113	55	49	44	37	33	30
GCPL	1,227	1,279	1,500	Buy	20	23	26	61	54	46	42	37	33
Marico	496	641	625	Buy	12	12	14	43	40	36	31	28	26
Colgate	2,714	737	2,500	Neutral	49	51	56	56	54	49	39	37	34
Emami	440	191	550	Buy	19	20	21	23	21	20	19	17	16
UNSP	1,158	824	1,150	Neutral	16	18	20	69	60	54	46	40	36
P&G	16,599	548	17,000	Neutral	242	271	310	70	62	54	50	45	39
Titan	3,738	3,378	4,300	Buy	41	53	65	92	71	57	61	48	39
Asian Paints	2,871	2,730	3,150	Neutral	59	59	64	48	48	44	34	33	30
Pidilite	3,049	1,546	2,800	Neutral	37	43	50	81	71	61	54	48	42
Indigo Paints	1,317	60	1,600	Buy	32	36	40	39	35	31	24	20	18
Jyothy Labs	444	161	475	Neutral	10	11	12	44	40	36	32	29	26
UBBL	1,786	458	1,650	Sell	16	26	32	106	66	54	62	42	34
Page Industries	34,729	384	36,500	Neutral	526	636	738	66	55	47	43	36	31

**Exhibit 78: Our coverage universe CAGR during FY24E-26E**

Companies	Revenue	Gross Profit	EBITDA	PAT
ITC	9	9	7	6
HUL	8	9	9	10
NESTLE	10	10	12	12
DABUR	9	9	13	12
BRITANNIA	9	9	10	12
GCPL	9	9	11	15
MARICO	9	8	9	9
COLGATE	8	7	7	7
EMAMI	7	7	9	6
UNSP	9	10	12	13
P&G	12	13	13	13
TITAN	17	20	23	26
ASIAN PAINT	10	8	6	4
PIDILITE	12	13	13	15
INDIGO PAINT	15	14	13	12
JYOTHY	9	9	9	10
UBBL	12	15	34	40
PAGE	14	15	17	18

**Exhibit 79: Coverage universe PAT and MKT cap CAGR over the years**

Companies	PAT CAGR (%)			MKT Cap CAGR (%)		
	FY21-24	FY19-24E	FY14-24E	FY21-24	FY19-24E	FY14-24E
ITC	16	10	9	25	8	6
HUL	8	11	11	-2	7	15
NESTLE	14	13	10	14	19	18
DABUR	3	5	8	-1	5	11
BRITANNIA	5	13	19	10	10	28
GCPL	5	-0	11	19	12	16
MARICO	8	6	12	7	8	17
COLGATE	8	12	11	20	17	15
EMAMI	7	11	7	-5	1	7
UNSP	38	11	26	27	15	8
P&G	16	13	10	10	9	18
TITAN	56	22	17	34	27	30
ASIAN PAINT	21	21	17	4	14	18
PIDILITE	19	15	15	18	19	26
INDIGO PAINT	29	41	83	-18	N/A	N/A
JYOTHY	20	13	16	46	18	15
UBBL	53	-5	7	12	4	8
PAGE	19	8	15	4	7	18

Note: MOSL, Company

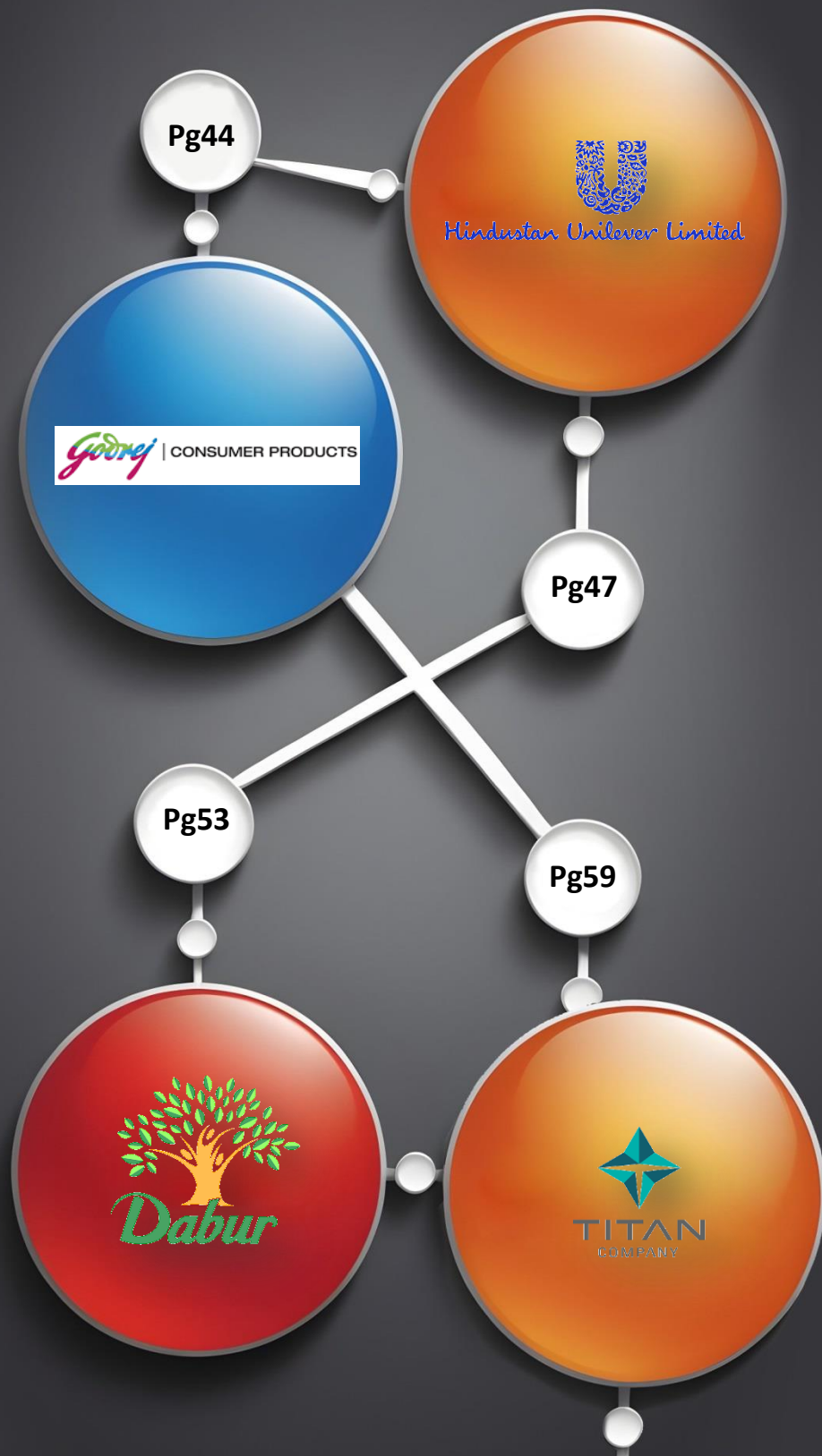
**Exhibit 80: Changes to our estimates**

Companies	EPS								
	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
ITC	16.4	17.2	18.5	16.4	17.2	18.5	0.0%	0.0%	0.2%
HUL	43.8	48.0	52.7	44.5	49.0	53.6	-1.6%	-2.0%	-1.7%
Nestle	40.5	35.8	40.9	40.4	36.6	40.9	0.3%	-2.2%	-0.1%
Dabur	10.7	12.2	13.5	10.6	12.2	13.6	0.8%	0.0%	-1.0%
Britannia	89.9	101.6	113.4	89.0	101.1	113.0	1.0%	0.5%	0.3%
GCPL	20.2	22.6	26.5	19.7	22.6	26.5	2.6%	-0.3%	0.1%
Marico	11.5	12.5	13.7	11.4	12.8	14.2	1.1%	-2.2%	-3.0%
Colgate	48.5	51.1	55.6	48.5	50.2	54.4	0.0%	1.7%	2.3%
Emami	18.7	20.5	21.0	18.9	20.8	21.5	-0.9%	-1.5%	-2.0%
UNSP	16.0	18.3	20.4	16.7	19.0	21.4	-4.5%	-4.0%	-4.5%
P&G	241.7	271.3	310.0	241.1	271.3	310.0	0.2%	0.0%	0.0%
Titan	40.7	52.8	65.2	40.7	52.8	65.2	0.0%	0.0%	0.0%
Asian Paints	59.2	59.3	64.3	58.7	61.3	67.2	0.8%	-3.2%	-4.4%
Pidilite	37.2	42.6	49.6	37.4	43.4	48.8	-0.4%	-1.8%	1.7%
Indigo Paints	31.9	35.9	40.1	31.6	39.6	47.5	1.0%	-9.4%	-15.6%
Jyothy Labs	10.0	11.0	12.1	10.0	11.1	12.5	0.0%	-1.6%	-2.7%
UBBL	16.4	26.2	32.3	16.9	26.8	30.5	-3.1%	-2.1%	5.9%
Page Industries	526.5	636.0	737.9	510.4	636.4	724.7	3.2%	0.0%	1.8%

**Exhibit 81: Changes to our target multiples**

	Target	Target Multiple (x)		Target Price		
	EPS (FY26E)	New	Old	New	Old	Up Side
ITC	18.5	28	28	500	515	17%
HUL	52.7	55	55	2,900	2,900	27%
Nestle	40.9	60	60	2,400	2,400	-7%
Dabur	13.5	48	48	650	635	23%
Britannia	113.4	45	50	5,200	5,500	6%
GCPL	26.5	55	55	1,500	1,500	22%
Marico	13.7	45	45	625	625	26%
Colgate	55.6	45	45	2,500	2,400	-8%
Emami	21.0	25	28	550	600	25%
UNSP	20.4	50	50	1,150	1,150	-1%
P&G	310.0	55	55	17,000	16,000	2%
Titan	65.2	65	65	4,300	4,300	15%
sAsian Paints	64.3	50	50	3,150	3,340	10%
Pidilite	49.6	55	55	2,800	2,650	-8%
Indigo Paints	40.1	40	40	1,600	1,800	22%
Jyothy Labs	12.1	40	41	475	500	7%
UBBL	32.3	50	50	1,650	1,500	-8%
Page Industries	737.9	50	50	36,500	35,500	5%

## Consumer: Time to Restock





## Hindustan Unilever

BSE SENSEX  
74,015S&P CNX  
22,462

Hindustan Unilever Limited

## Stock Info

Bloomberg	HUVR IN
Equity Shares (m)	2349
M.Cap.(INRb)/(USDb)	5370.9 / 64.4
52-Week Range (INR)	2770 / 2222
1, 6, 12 Rel. Per (%)	-6/-22/-40
12M Avg Val (INR M)	4131
Free float (%)	38.1

## Financials Snapshot (INR b)

Y/E March	2024E	2025E	2026E
Sales	623.9	668.8	727.4
Sales Gr. (%)	3.0	7.2	8.8
EBITDA	146.7	158.0	172.8
EBITDA mrg. (%)	23.5	23.6	23.8
Adj. PAT	102.9	112.8	123.8
Adj. EPS (INR)	43.8	48.0	52.7
EPS Gr. (%)	0.8	9.6	9.8
BV/Sh.(INR)	217.5	222.0	228.2

## Ratios

RoE (%)	20.3	21.9	23.4
RoCE (%)	28.0	29.7	31.8
Payout (%)	95.8	93.7	91.0

## Valuations

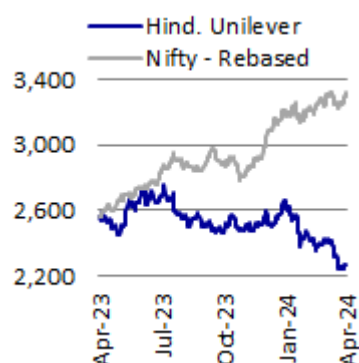
P/E (x)	52.2	47.7	43.4
P/BV (x)	11.7	11.5	11.2
EV/EBITDA (x)	36.5	33.8	30.8
Div. Yield (%)	1.6	1.8	1.9

## Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	61.9	61.9	61.9
DII	12.4	12.0	11.6
FII	13.7	13.9	14.3
Others	12.1	12.1	12.2

FII Includes depository receipts

## Stock Performance (1-year)



CMP: INR2,286 TP: INR2,900 (+27%)

Buy

## All eyes on rural recovery

Hindustan Unilever's (HUVR) underperformance with respect to growth has been largely led by external factors. Except for the challenges from local players recently (which is a typical trend during falling input prices), the company has consistently gained market share for the majority of its portfolio (85% of business). We believe such competitive pressure from local players is temporary. In its long journey, HUVR has reinvested heavily in category expansion by adding/upgrading consumers. The company operates into three large categories, i.e., 1) home care, 2) personal care, and 3) foods and refreshment (F&R), with a presence across the traditional and emerging segments. Apart from the wide basket, the company also has a presence across price points. We believe that its wide user-base network will support growth once macro tailwinds kick in. HUVR spends over INR60b on marketing to remain competitive and sustain its aspirational positioning (top-of-the-mind brand recall for all age groups). We expect better outcomes of this spending during a steady macro environment. HUVR's competitiveness in the home care segment has seen a massive boost in the last decade, and the company has capitalized on it well with 900-1,000bp improvements in EBIT margin. However, despite such a strong track record, parts of BPC and F&R still need more attention and positive outcomes. Under the new leadership of Mr. Rohit Jawa, we expect more corrective actions to fix the white spaces. With the anticipation of gradual improvements in macros, we expect HUVR will be able to capitalize and deliver better volume growth in FY25-26. We maintain our BUY rating with a TP of INR2,900, based on 55x FY26E EPS.

- **Concentration in rural areas; can capitalize on recovery:** HUVR has a significant contribution from rural areas at 40%. With the expectation of rural recovery in FY25, we expect HUVR to capitalize on it and see a rebound in volume. HUVR still has the distribution moat in rural markets. We do not see the high competitive pressure as a concern once rural demand rebounds.
- **Fast-changing urban users:** The urban market has been quite resilient during such a challenging period; the premium segments across categories have done well. HUVR has also seen better growth traction in urban vs. rural. However, rural users are changing fast, with rising consumer affordability, the entry of various new brands (with more right-to-win proposition), rising alternate distribution channels, and social media influence, and they are changing the competitive landscape. As a result, mainstream brands need to invest more to be relevant to consumers. HUVR has been reinvesting in the urban markets with various initiatives on social media platforms.
- **Focus on expanding TAM:** With a diverse portfolio of 50+ brands, including successful launches like Millets, Chocolate Horlicks and Novology, HUVR is tapping into India's immense market potential. Among its extensive portfolio of 50+ brands, 19 brands generate a turnover of over INR10b annually. HUVR has strengthened its F&R portfolio by launching Millets, Chocolate Horlicks and new ice cream flavors. The company further augmented its offerings in the beauty and personal care segment by launching skin care brand Novology, a new range of hair care products by Dove and Tresemme, a bathing range by Lux, and new Lakme cosmetics.

## Under-indexed spends

**Philippines \$255****Thailand \$438****China \$126****Indonesia \$103****India \$46**

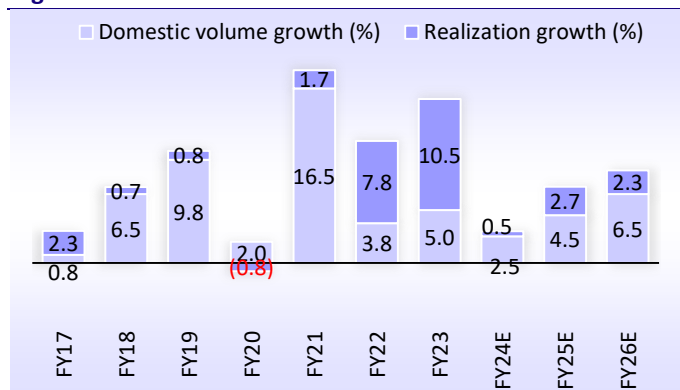
- **Building on consumer reach:** The company has strengthened its distribution network, with direct access to +2.5m outlets and a total reach of 9m outlets. Additionally, its D2C platform has been supported by 16 websites serving customers across 19k pin codes nationwide, contributing to growth across all segments. HUVR's B2B app "Shikhar" has rapidly expanded and is currently connected to ~1.2m outlets, forming almost half of the company's direct reach. Digital capture is growing rapidly, standing at 30% of the total demand. Leveraging its multi-brand D2C platform, UShop, the company is also actively participating in the Open Network for Digital Commerce (ONDC) to democratize digital commerce. All these initiatives aim to bridge the gap with consumers and remain relevant across various channels and formats. With a wide portfolio and a host of large brands, HUVR is well positioned to succeed in the general trade channel once rural demand starts improving its trajectory.
- **Global context, opportunity for India:** India accounts for 20% of the world's working population, a big driver for user base. However, FMCG spending in India is significantly lower than that in other emerging markets. India's per capita FMCG spending is USD46, while it is between USD100 and USD440 in other emerging markets such as Indonesia, China, Thailand, and the Philippines. Within India, per capita FMCG spending in urban/rural areas is very low at USD82/USD27. Between 2017 and 2022, the proportion of the elite and affluent class increased to 15% from 8%. The shift has already led to 2x growth for the premium segment vs. others. India will continue to see more mix change toward the elite and affluent class. Penetration of traditional categories is healthy and the frequency play is still left.
- **Near-term outlook challenging:** The increase in royalty rates and the termination of the distribution agreement for OTC and oral care products of GSK will impact the EBITDA performance in the near term. Volume recovery is also gradual to compensate for these challenges; therefore, the near-term operational performance is expected to be muted.
- **Valuation:** We believe that HUVR's volume growth has bottomed out and expect a gradual volume recovery in FY25. HUVR's wide product basket and presence across price segments should help the company achieve a steady growth recovery. There is scope for a turnaround in part of BPC and F&R; we will monitor the execution in these segments under the new CEO. The valuation at 45x FY26E EPS is reasonable given its last five-year average P/E of 65x on one-year forward earnings. **We reiterate our BUY rating with a TP of INR2,900, based on 55x FY26E EPS.**

**Exhibit 82: Segmental Assumptions**

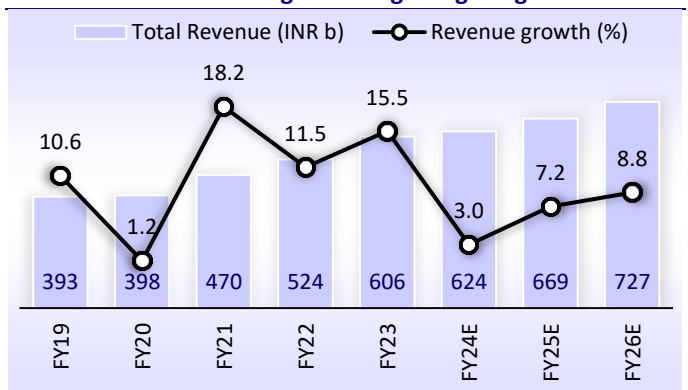
Segmental Information	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue (INR b)</b>								
Home Care	129	136	140	166	212	218	231	250
PC	178	175	180	196	220	226	239	256
F&R	71	75	132	141	149	152	168	186
Others (export, infant & feminine care)	15	12	18	22	25	28	32	35
<b>Total</b>	<b>393</b>	<b>398</b>	<b>470</b>	<b>524</b>	<b>606</b>	<b>624</b>	<b>669</b>	<b>727</b>
<b>Revenue Gr. (%)</b>								
Home Care	15%	6%	2%	19%	28%	3%	6%	8%
PC	11%	-2%	3%	8%	13%	3%	6%	7%
F&R	10%	4%	77%	7%	5%	2%	10%	11%
Others (export, infant & feminine care)	-2%	-20%	50%	22%	12%	12%	15%	12%
<b>Total</b>	<b>9%</b>	<b>1%</b>	<b>18%</b>	<b>12%</b>	<b>16%</b>	<b>3%</b>	<b>7%</b>	<b>9%</b>
<b>Revenue Mix (%)</b>								
Home Care	33%	34%	30%	32%	35%	35%	34%	34%
PC	45%	44%	38%	37%	36%	36%	36%	35%
F&R	18%	19%	28%	27%	25%	24%	25%	26%
Others (export, infant & feminine care)	4%	3%	4%	4%	4%	4%	5%	5%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>EBIT (INR b)</b>								
Home Care	22	26	28	32	39	40	43	48
PC	48	49	51	54	56	58	62	67
F&R	12	12	22	26	27	29	32	36
Others (export, infant & feminine care)	2	2	5	6	8	8	8	9
<b>Total</b>	<b>83</b>	<b>89</b>	<b>106</b>	<b>118</b>	<b>130</b>	<b>135</b>	<b>145</b>	<b>160</b>
<b>EBIT margin (%)</b>								
Home Care	17%	19%	20%	19%	18%	18%	19%	19%
PC	27%	28%	28%	28%	26%	26%	26%	26%
F&R	17%	17%	17%	19%	18%	19%	19%	19%
Others (export, infant & feminine care)	12%	14%	25%	26%	32%	28%	25%	25%
<b>Total</b>	<b>21%</b>	<b>22%</b>	<b>22%</b>	<b>22%</b>	<b>21%</b>	<b>22%</b>	<b>22%</b>	<b>22%</b>
<b>EBIT Mix (%)</b>								
Home Care	26%	29%	26%	27%	30%	30%	30%	30%
PC	57%	55%	49%	46%	43%	43%	43%	42%
F&R	15%	14%	21%	22%	20%	21%	22%	23%
Others (export, infant & feminine care)	2%	2%	4%	5%	6%	6%	6%	6%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: MOFSL, Company

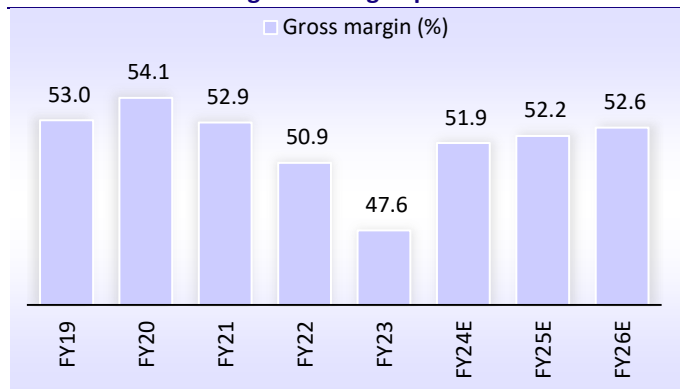
## Story in charts

**Exhibit 83: Domestic volume to grow in mid-to-high single digits**

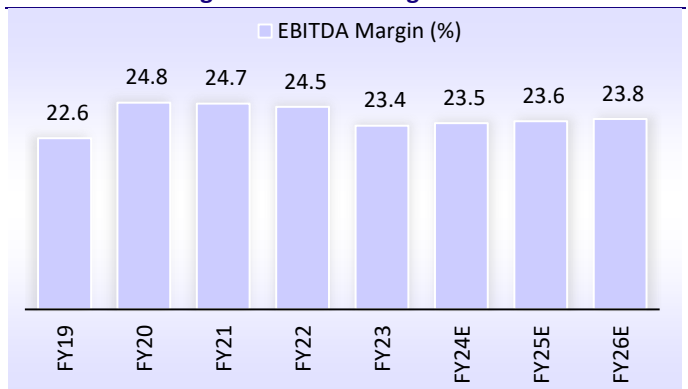
Source: MOFSL, Company

**Exhibit 84: Revenue will grow in high single digits**

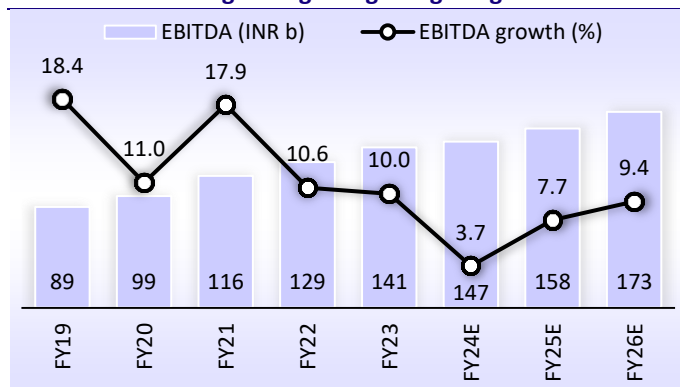
Source: MOFSL, Company

**Exhibit 85: Gross margin showing improvement...**

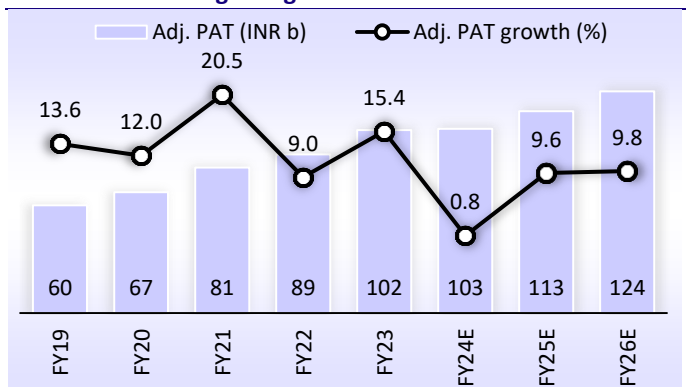
Source: MOFSL, Company

**Exhibit 86: ...along with EBITDA margin**

Source: MOFSL, Company

**Exhibit 87: EBITDA growing in high single digits**

Source: MOFSL, Company

**Exhibit 88: ..leading PAT growth**

Source: MOFSL, Company

## Financials and valuations

## Income Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Total Revenue</b>	<b>393.1</b>	<b>397.8</b>	<b>470.3</b>	<b>524.5</b>	<b>605.8</b>	<b>623.9</b>	<b>668.8</b>	<b>727.4</b>
Change (%)	10.6	1.2	18.2	11.5	15.5	3.0	7.2	8.8
COGS	184.7	182.6	221.5	257.4	317.2	300.1	319.4	344.4
<b>Gross Profit</b>	<b>208.4</b>	<b>215.2</b>	<b>248.8</b>	<b>267.1</b>	<b>288.6</b>	<b>323.8</b>	<b>349.4</b>	<b>383.0</b>
Gross Margin (%)	53.0	54.1	52.9	50.9	47.6	51.9	52.2	52.6
Operating Exp	119.6	116.6	132.5	138.5	147.2	177.1	191.4	210.1
<b>EBITDA</b>	<b>88.8</b>	<b>98.6</b>	<b>116.3</b>	<b>128.6</b>	<b>141.5</b>	<b>146.7</b>	<b>158.0</b>	<b>172.8</b>
Change (%)	18.4	11.0	17.9	10.6	10.0	3.7	7.7	9.4
Margin (%)	22.6	24.8	24.7	24.5	23.4	23.5	23.6	23.8
Depreciation	5.7	10.0	10.7	10.9	11.4	12.1	12.7	13.3
Int. and Fin. Charges	0.3	1.2	1.2	1.1	1.1	3.2	3.4	3.5
Other Income - Recurring	6.6	6.3	4.1	2.6	5.1	7.9	8.7	9.4
<b>Profit before Taxes</b>	<b>89.4</b>	<b>93.7</b>	<b>108.5</b>	<b>119.2</b>	<b>134.1</b>	<b>139.4</b>	<b>150.7</b>	<b>165.4</b>
Change (%)	20.2	4.9	15.7	9.9	12.5	3.9	8.1	9.8
Margin (%)	23.1	23.9	23.4	23.1	22.5	22.7	22.9	23.1
Tax	25.4	24.1	26.1	29.9	32.0	36.3	37.9	41.5
Deferred Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax Rate (%)	28.5	25.7	24.0	25.1	23.9	26.1	25.2	25.1
<b>Profit after Taxes</b>	<b>60.2</b>	<b>67.4</b>	<b>81.2</b>	<b>88.5</b>	<b>102.1</b>	<b>102.9</b>	<b>112.8</b>	<b>123.8</b>
Change (%)	13.6	12.0	20.5	9.0	15.4	0.8	9.6	9.8
Margin (%)	15.6	17.2	17.5	17.2	17.1	16.8	17.2	17.3
<b>Reported PAT</b>	<b>61.7</b>	<b>67.7</b>	<b>80.0</b>	<b>88.9</b>	<b>101.2</b>	<b>102.3</b>	<b>112.8</b>	<b>124.0</b>

## Balance Sheet

(INR b)

Y/E March	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Share Capital	2.2	2.2	2.3	2.3	2.4	2.3	2.3	2.3
Reserves	76.5	80.1	474.4	488.3	500.7	508.5	519.1	533.7
<b>Net Worth</b>	<b>78.7</b>	<b>82.3</b>	<b>476.7</b>	<b>490.6</b>	<b>503.0</b>	<b>510.8</b>	<b>521.4</b>	<b>536.0</b>
Loans	1.2	0.2	0.2	0.3	3.2	2.2	2.2	2.1
<b>Capital Employed</b>	<b>79.8</b>	<b>82.5</b>	<b>476.9</b>	<b>490.9</b>	<b>506.2</b>	<b>513.0</b>	<b>523.6</b>	<b>538.1</b>
Gross Block	90.6	108.3	578.6	589.8	613.3	628.3	643.3	658.3
Less: Accum. Depn.	-43.4	-53.5	-64.2	-75.1	-86.5	-98.5	-111.2	-124.5
<b>Net Fixed Assets incl Goodwill</b>	<b>47.2</b>	<b>54.8</b>	<b>514.4</b>	<b>514.7</b>	<b>526.8</b>	<b>529.7</b>	<b>532.1</b>	<b>533.8</b>
Capital WIP	4.1	6.0	7.5	13.1	11.3	5.7	2.8	1.4
Investment in Subsidiaries	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0
Current Investments	27.1	12.5	27.1	35.2	28.1	33.1	38.1	43.1
Deferred Charges	3.7	2.8	-59.7	-61.3	-64.1	-64.1	-64.1	-64.1
<b>Curr. Assets, L&amp;A</b>	<b>98.2</b>	<b>125.4</b>	<b>138.5</b>	<b>142.0</b>	<b>163.9</b>	<b>176.8</b>	<b>196.2</b>	<b>222.0</b>
Inventory	25.7	27.7	35.8	41.0	42.5	48.0	51.3	55.5
Account Receivables	18.2	11.5	17.6	22.4	30.8	31.7	34.0	37.0
Cash and Bank Balance	37.6	51.1	44.7	38.5	46.8	30.7	39.3	51.9
Others	16.7	35.1	40.4	40.2	43.8	66.3	71.6	77.7
<b>Curr. Liab. and Prov.</b>	<b>100.4</b>	<b>119.1</b>	<b>150.8</b>	<b>152.9</b>	<b>160.5</b>	<b>168.1</b>	<b>181.5</b>	<b>198.0</b>
Account Payables	84.4	84.7	88.0	90.7	95.7	98.6	105.7	115.0
Other Liabilities	16.1	8.5	23.0	22.1	23.6	24.3	26.0	28.3
Provisions	0.0	25.9	39.7	40.1	41.2	45.3	49.8	54.8
<b>Net Current Assets</b>	<b>-2.3</b>	<b>6.3</b>	<b>-12.3</b>	<b>-10.9</b>	<b>3.4</b>	<b>8.6</b>	<b>14.7</b>	<b>23.9</b>
<b>Application of Funds</b>	<b>79.8</b>	<b>82.5</b>	<b>476.9</b>	<b>490.9</b>	<b>506.2</b>	<b>513.0</b>	<b>523.6</b>	<b>538.1</b>

E: MOFSL Estimates

## Financials and valuations

Ratios	(INR b)							
Y/E March	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>27.8</b>	<b>31.2</b>	<b>34.6</b>	<b>37.7</b>	<b>43.5</b>	<b>43.8</b>	<b>48.0</b>	<b>52.7</b>
Cash EPS	30.7	36.2	38.5	41.8	48.3	49.0	53.4	58.4
BV/Share	36.3	38.0	203.0	208.9	214.1	217.5	222.0	228.2
DPS	22.0	25.0	31.0	34.0	39.0	42.0	45.0	48.0
Payout %	93.6	94.6	91.5	91.5	89.7	95.8	93.7	91.0
<b>Valuation (x)</b>								
P/E	82.3	73.5	66.2	60.7	52.7	52.2	47.7	43.4
Cash P/E	74.6	63.2	59.5	54.8	47.4	46.8	42.9	39.2
EV/Sales	12.7	12.5	11.5	10.4	9.0	8.7	8.1	7.5
EV/EBITDA	55.4	49.7	45.9	41.5	37.7	36.5	33.8	30.8
P/BV	70.1	67.0	12.6	12.2	11.9	11.7	11.5	11.2
Dividend Yield (%)	0.9	1.0	1.2	1.3	1.5	1.6	1.8	1.9
<b>Return Ratios (%)</b>								
RoE incl. Goodwill	79.5	83.8	29.1	18.3	20.6	20.3	21.9	23.4
RoCE incl. Goodwill	117.4	116.9	39.2	24.8	27.1	28.0	29.7	31.8
<b>Working Capital Ratios</b>								
Debtor (Days)	17.1	10.7	13.9	15.8	18.9	18.9	18.9	18.9
<b>Leverage Ratio</b>								
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement	(INR b)							
Y/E March	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
OP/(loss) before Tax	86.0	91.7	106.1	118.7	133.5	138.7	150.7	165.4
Financial other income	-2.6	-4.5	-0.7	-1.5	-4.1	2.6	3.4	3.5
Depreciation	5.7	10.0	11.3	11.1	11.5	12.1	12.7	13.3
Net Interest Paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct Taxes Paid	-27.7	-25.1	-24.1	-27.8	-31.4	-36.3	-37.9	-41.5
(Incr)/Decr in WC	-3.4	4.1	-1.0	-10.0	-9.6	-23.6	-0.1	0.3
<b>CF from Operations</b>	<b>58.0</b>	<b>76.2</b>	<b>91.6</b>	<b>90.5</b>	<b>99.9</b>	<b>93.3</b>	<b>128.7</b>	<b>141.1</b>
Other Items	5.8	-9.2	-21.9	2.1	15.9	3.6	2.6	2.8
(Incr)/Decr in FA	-7.5	-8.1	-6.4	-10.8	-10.5	-9.3	-12.2	-13.6
<b>Free Cash Flow</b>	<b>50.5</b>	<b>68.1</b>	<b>85.2</b>	<b>79.7</b>	<b>89.4</b>	<b>84.0</b>	<b>116.5</b>	<b>127.5</b>
(Pur)/Sale of Investments	0.4	22.8	23.4	-7.9	-7.4	-4.3	-5.0	-5.0
<b>CF from Invest.</b>	<b>-1.4</b>	<b>5.5</b>	<b>-5.0</b>	<b>-16.6</b>	<b>-2.1</b>	<b>-10.0</b>	<b>-14.5</b>	<b>-15.8</b>
Dividend Paid	-45.5	-52.0	-88.1	-75.3	-84.7	-95.2	-102.2	-109.2
Others	-9.4	-15.2	-5.0	-4.9	-5.6	-3.2	-3.4	-3.5
<b>CF from Fin. Activity</b>	<b>-53.9</b>	<b>-68.2</b>	<b>-93.1</b>	<b>-80.2</b>	<b>-89.5</b>	<b>-99.3</b>	<b>-105.6</b>	<b>-112.8</b>
<b>Incr/Decr of Cash</b>	<b>2.7</b>	<b>13.6</b>	<b>-6.4</b>	<b>-6.3</b>	<b>8.3</b>	<b>-16.1</b>	<b>8.6</b>	<b>12.5</b>
Add: Opening Balance	34.9	37.6	51.1	44.7	38.5	46.8	30.7	39.3
<b>Closing Balance</b>	<b>37.6</b>	<b>51.1</b>	<b>44.7</b>	<b>38.5</b>	<b>46.8</b>	<b>30.7</b>	<b>39.3</b>	<b>51.9</b>

E: MOFSL Estimates



# Godrej Consumer

BSE SENSEX  
74,015

S&P CNX  
22,462



CONSUMER PRODUCTS

Bloomberg	GCPL IN
Equity Shares (m)	1022
M.Cap.(INRb)/(USDb)	1256.4 / 15.1
52-Week Range (INR)	1314 / 897
1, 6, 12 Rel. Per (%)	-4/9/-3
12M Avg Val (INR M)	1180
Free float (%)	36.8

## Financials & Valuations (INR b)

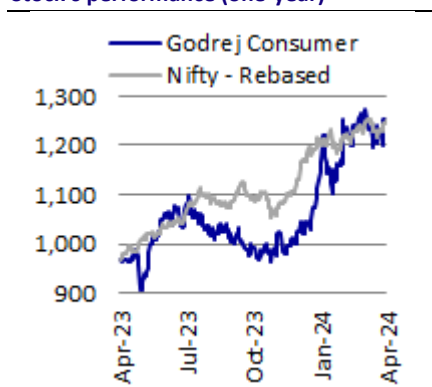
Y/E March	2024	2025E	2026E
Sales	142.1	153.4	167.3
Sales Gr. (%)	6.7	8.0	9.1
EBITDA	30.5	33.6	37.6
EBITDA mrg. (%)	21.4	21.9	22.5
Adj. PAT	20.6	23.1	27.1
Adj. EPS (INR)	20.2	22.6	26.5
EPS Gr. (%)	17.5	11.9	17.2
BV/Sh.(INR)	147.7	162.3	178.7
<b>Ratios</b>			
RoE (%)	14.3	14.6	15.5
RoCE (%)	14.8	14.7	15.9
Payout (%)	29.7	35.4	37.8
<b>Valuations</b>			
P/E (x)	60.7	54.3	46.3
P/BV (x)	8.3	7.6	6.9
EV/EBITDA (x)	41.5	37.4	33.0
Div. Yield (%)	0.5	0.7	0.8

## Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	63.2	63.2	63.2
DII	8.4	7.7	6.7
FII	23.0	23.5	24.0
Others	5.5	5.9	6.0

FII Includes depository receipts

## Stock's performance (one-year)



**CMP: INR1,228 TP: INR1,500 (+22%)**

**Buy**

## Growth and margin remain the key catalysts

In an environment where demand recovery is being delayed, we believe that Godrej Consumer Products Ltd.'s (GCPL) internal initiatives are expected to help the company sustain its growth outperformance. The inclusion of incense sticks and the company's entry into liquid detergent will not only expand GCPL's target market but also highlight its backend competence and growth-oriented approach. Under Sudhir Sitapati's leadership, there has been a noticeable shift in the company's strategy for the last 12-18 months. GCPL has adopted a growth-centric strategy, which includes pursuing inorganic growth, cross-selling, entering new categories, and expanding the TAM for existing products. Additionally, there has been an increase in reinvestment, particularly in marketing spending, and the company has taken several strategic decisions such as improving inventory management for Raymond Consumer Care (RCCL) and Indonesia business and closing the non-core businesses. RCCL, Indonesia and Godrej Africa, US and Middle East (GAUM) still offer enough headroom for EBITDA margin expansion in the coming years. With the domestic business already outperforming in volume growth, improvements in demand should boost GCPL's growth trajectory. We believe good growth visibility and improvement in capital efficiency will drive our preference for GCPL. We reiterate our BUY rating with a TP of INR1,500.

- **India business – steady improvement in core business:** GCPL is accelerating growth through new initiatives, such as expanding the TAM for home insecticides (HI), launching liquid detergent for the mass market, and acquiring RCCL. The India business has seen a sequential increase in volume, and with demand improvement, the company expects further volume growth. In 9MFY24, GCPL's volume and EBITDA growth stood at 6% and 24%, respectively.
- **RCCL to deliver superior growth and margin in FY25:** We believe RCCL's revenue could decline by ~10% in FY24 due to channel inventory rationalization in 1HFY24. However, this was the initial phase after the acquisition, and we model revenue growth in low double-digits to mid-teens over the medium term. RCCL clocked a revenue CAGR of over 25% during FY19-23. GCPL has significantly reduced RCCL's other overhead costs (by 65-70%), which were ~30% of sales earlier. The company has partially reinvested by increasing RCCL's advertising expenses. RCCL's EBITDA margin has improved notably to 18-20% now from pre-acquisition margin of 7-9%. Moreover, GCPL expects further improvement in margin over the medium term to 25-26% through operating leverage and cost synergies.
- **Indonesia growth recovering, margin expansion to sustain:** In terms of macro factors, Indonesia's consumer index has shown steady improvement, reflecting the underlying demand recovery. The country's economic condition has significantly improved in the last two years. Goodnight Liquid Vaporizer has a market penetration of 25% in India, whereas in Indonesia, it ranges between 1% and 2%. We view this as a significant opportunity to drive long-term growth and margin enhancement. Revenue growth and EBITDA margin recovery were



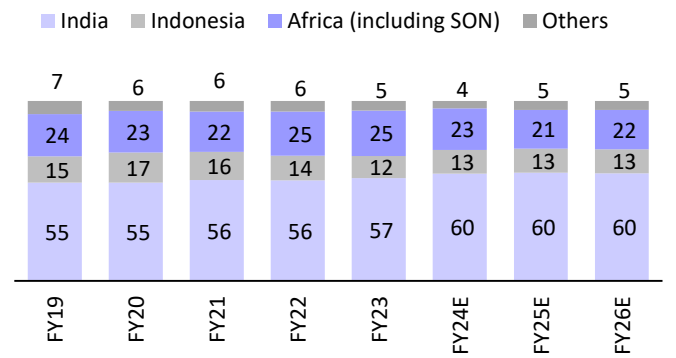
healthy in 9MFY24. However, there is still enough room for EBITDA margin improvement, which is still 700-800bp lower than the pre-Covid range of 25-28%. With steady growth and stable macros, we model a 200bp EBITDA margin improvement to 21-22% during FY24-26, with an upside bias.

- **GAUM – focusing on relevant businesses:** GCPL has recently divested its stake in East Africa for INR300m. This will have an adverse impact of INR5b on consolidated revenue but a positive impact of INR500m on PAT. The transaction is expected to be completed between 4QFY24 and 1QFY25. East Africa was a slow-growing and low-margin business for GCPL. The company is looking to focus on relevant business areas where it has the right to win in the medium term. GCPL aims to achieve more than 15% EBITDA margin in the next two years, compared to the historical average of 9%.
- **Valuation and view:** GCPL is consistently working toward expanding the TAM for its India business, along with product innovation, to drive frequency. Besides, there has been a consistent effort to fix the gaps in profitability/growth for its international business. We see margin headroom from RCCL and Indonesia business. Valuation is rich currently, but GCPL's earnings should be better than peers'. **We reiterate our BUY rating with a TP of INR1,500 (based on 55x FY26E EPS).**

#### Exhibit 89: Segmental assumptions

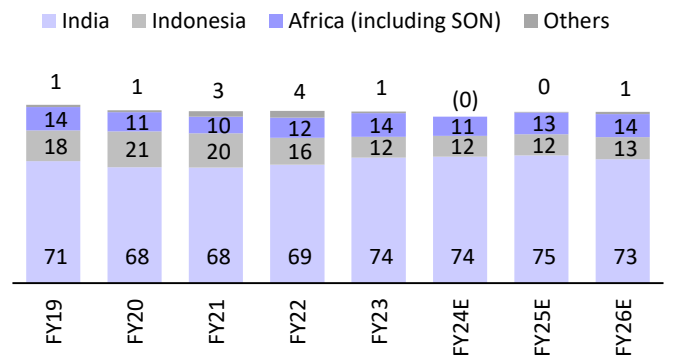
Segmental information	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue (INR b)</b>								
India	57	55	63	70	77	84	91	99
Indonesia	15	17	18	17	17	19	20	22
GAUM	24	23	25	30	34	33	33	36
Others	8	6	7	7	7	6	8	8
Total	103	99	110	123	133	142	153	167
<b>Revenue Gr. (%)</b>								
India	8%	-4%	14%	11%	10%	9%	9%	8%
Indonesia	13%	11%	4%	-4%	-3%	13%	9%	9%
GAUM	12%	-5%	8%	22%	12%	-4%	15%	11%
Others	-33%	-27%	19%	12%	-5%	-20%	35%	10%
Total	5%	-4%	11%	11%	8%	7%	8%	9%
<b>Revenue Mix (%)</b>								
India	55%	55%	57%	57%	58%	59%	60%	59%
Indonesia	15%	17%	16%	14%	12%	13%	13%	13%
GAUM	24%	23%	23%	25%	26%	23%	21%	22%
Others	7%	6%	6%	6%	5%	4%	5%	5%
Total	100%	100%	100%	100%	100%	100%	100%	100%
<b>EBITDA (INR b)</b>								
India	15	15	17	17	19	23	25	27
Indonesia	4	4	5	4	3	4	4	5
GAUM	3	2	2	3	4	3	4	5
Others	0.3	0.3	0.8	1.0	0.2	(0.1)	0.2	0.5
Total	21	21	24	25	25	30	34	38
<b>EBITDA margin (%)</b>								
India	27%	27%	26%	25%	24%	27%	27%	28%
Indonesia	25%	27%	28%	23%	19%	20%	21%	22%
GAUM	12%	10%	10%	10%	10%	11%	13%	14%
Others	4%	5%	12%	13%	3%	-1%	2%	6%
Total	21%	22%	22%	20%	19%	21%	22%	22%
<b>EBITDA mix (%)</b>								
India	71%	68%	68%	69%	74%	74%	75%	73%
Indonesia	18%	21%	20%	16%	12%	12%	12%	13%
GAUM	14%	11%	10%	12%	14%	11%	13%	14%
Others	1%	1%	3%	4%	1%	0%	0%	1%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Exhibit 90: Revenue mix



Source: MOFSL, Company

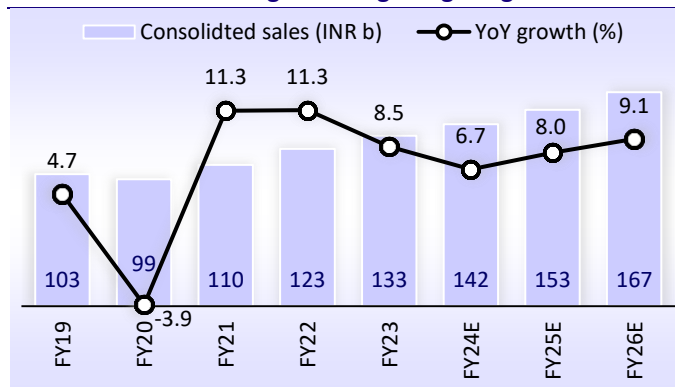
Exhibit 91: EBITDA mix



Source: MOFSL, Company

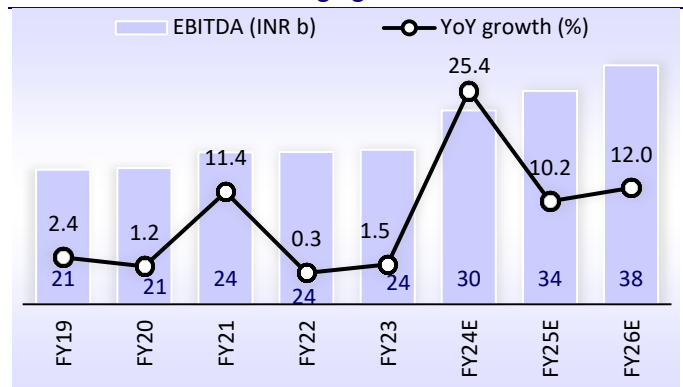
## Story in charts

Exhibit 92: Revenue to grow in high single digit...



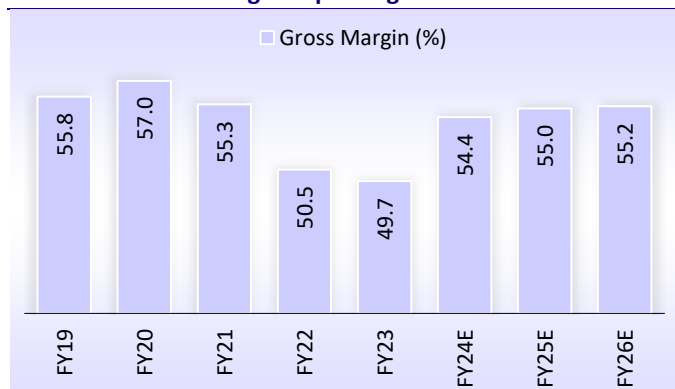
Source: MOFSL, Company

Exhibit 93: ...with double-digit growth in EBITDA



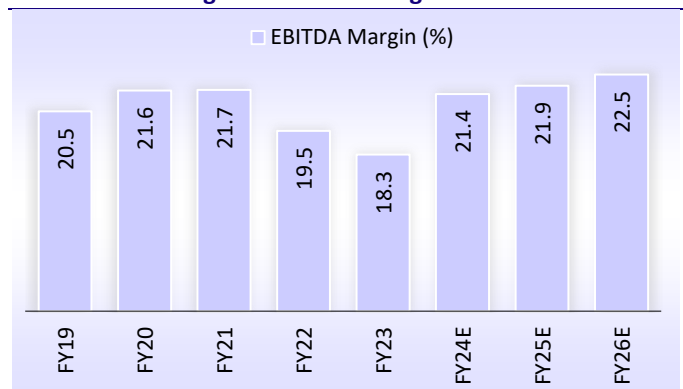
Source: MOFSL, Company

Exhibit 94: Gross margin improving...



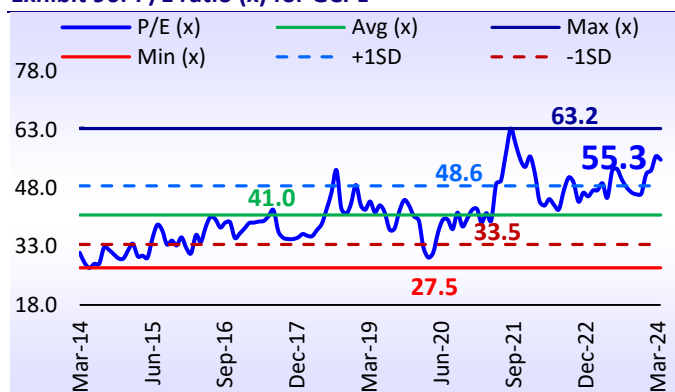
Source: MOFSL, Company

Exhibit 95: ...along with EBITDA margin



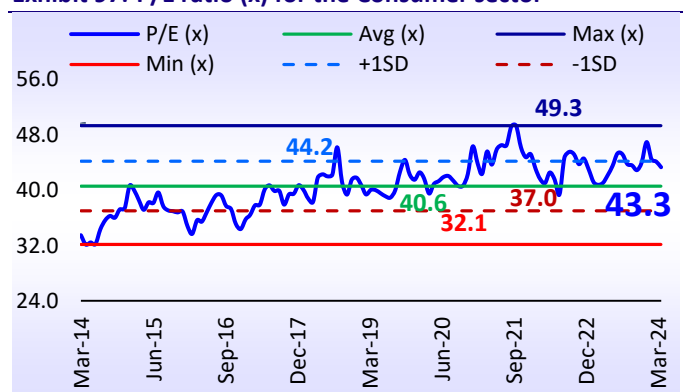
Source: MOFSL, Company

Exhibit 96: P/E ratio (x) for GCPL



Source: MOFSL, Company

Exhibit 97: P/E ratio (x) for the Consumer sector



Source: MOFSL, Company

## Financials and valuations

Income Statement								(INR b)
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
<b>Net Sales</b>	<b>103.1</b>	<b>99.1</b>	<b>110.3</b>	<b>122.8</b>	<b>133.2</b>	<b>142.1</b>	<b>153.4</b>	<b>167.3</b>
Change (%)	4.7	-3.9	11.3	11.3	8.5	6.7	8.0	9.1
<b>Gross Profit</b>	<b>57.6</b>	<b>56.5</b>	<b>61.0</b>	<b>62.0</b>	<b>66.1</b>	<b>77.2</b>	<b>84.4</b>	<b>92.3</b>
Margin (%)	55.8	57.0	55.3	50.5	49.7	54.4	55.0	55.2
Total Expenditure	82.0	77.7	86.4	98.8	108.9	111.6	119.8	129.7
<b>EBITDA</b>	<b>21.2</b>	<b>21.4</b>	<b>23.9</b>	<b>24.0</b>	<b>24.3</b>	<b>30.5</b>	<b>33.6</b>	<b>37.6</b>
Change (%)	2.4	1.2	11.4	0.3	1.5	25.4	10.2	12.0
Margin (%)	20.5	21.6	21.7	19.5	18.3	21.4	21.9	22.5
Depreciation	1.7	2.0	2.0	2.1	2.4	2.5	2.6	2.7
Int. and Fin. Charges	2.2	2.2	1.3	1.1	1.8	2.8	2.3	1.7
Interest Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Income-rec.	1.1	1.1	0.7	0.9	1.7	2.7	3.0	4.0
<b>PBT</b>	<b>18.3</b>	<b>18.4</b>	<b>21.2</b>	<b>21.6</b>	<b>21.9</b>	<b>27.8</b>	<b>31.6</b>	<b>37.1</b>
Change (%)	-1.4	0.5	15.4	1.9	1.0	27.3	13.7	17.2
Margin (%)	17.8	18.6	19.3	17.6	16.4	19.6	20.6	22.2
Total tax	-2.6	2.6	3.6	3.7	4.3	7.2	8.5	10.0
Tax Rate (%)	-14.0	14.3	16.9	17.2	19.7	25.8	27.0	27.0
<b>PAT</b>	<b>20.9</b>	<b>15.8</b>	<b>17.7</b>	<b>17.9</b>	<b>17.6</b>	<b>20.6</b>	<b>23.1</b>	<b>27.1</b>
Change (%)	43.7	-24.5	12.0	1.6	-2.0	17.5	11.9	17.2
Margin (%)	20.2	15.9	16.0	14.6	13.2	14.5	15.1	16.2
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Group Adjusted PAT</b>	<b>20.9</b>	<b>15.8</b>	<b>17.7</b>	<b>17.9</b>	<b>17.6</b>	<b>20.6</b>	<b>23.1</b>	<b>27.1</b>
Non-rec. (Exp.)/Income	2.5	-0.8	-0.4	-0.1	-0.5	-2.2	0.0	0.0
<b>Reported PAT</b>	<b>23.4</b>	<b>15.0</b>	<b>17.2</b>	<b>17.8</b>	<b>17.0</b>	<b>18.4</b>	<b>23.1</b>	<b>27.1</b>

Balance Sheet								(INR b)
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
Share Capital	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Reserves	71.6	78.0	93.4	111.3	136.9	150.0	164.9	181.8
Minority Int	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Networth</b>	<b>72.7</b>	<b>79.0</b>	<b>94.4</b>	<b>112.3</b>	<b>137.9</b>	<b>151.0</b>	<b>165.9</b>	<b>182.8</b>
Loans	28.8	26.6	17.7	16.1	10.3	21.3	11.3	9.3
Deferred Liability	-4.7	-5.7	-6.4	-6.8	-6.4	-6.4	-6.4	-6.4
<b>Capital Employed</b>	<b>96.7</b>	<b>99.9</b>	<b>105.7</b>	<b>121.6</b>	<b>141.9</b>	<b>166.0</b>	<b>170.9</b>	<b>185.7</b>
Gross Block	42.1	45.2	46.3	49.1	54.1	57.1	60.6	64.1
Less: Accum. Depn.	4.6	6.3	8.6	10.7	13.0	15.5	18.2	20.9
<b>Net Fixed Assets</b>	<b>37.5</b>	<b>38.9</b>	<b>37.7</b>	<b>38.4</b>	<b>41.1</b>	<b>41.6</b>	<b>42.5</b>	<b>43.2</b>
Capital WIP	0.5	0.6	0.6	1.2	0.5	0.5	0.5	0.5
Goodwill	49.2	53.4	51.3	53.8	58.2	85.5	85.5	85.5
Non Curr Investments	0.3	0.3	0.2	1.7	8.4	8.9	9.4	9.9
Current Investments	4.8	6.4	6.6	8.4	21.9	16.9	18.9	20.9
<b>Currents Assets</b>	<b>43.8</b>	<b>43.5</b>	<b>39.7</b>	<b>47.3</b>	<b>37.9</b>	<b>40.4</b>	<b>44.0</b>	<b>58.1</b>
Inventory	15.6	17.0	17.2	21.3	15.4	19.6	21.1	23.0
Account Receivables	12.9	11.6	10.0	11.2	12.5	13.3	14.3	15.6
Cash and Bank Balance	8.9	7.7	6.7	7.8	3.9	1.1	1.7	12.2
Loans and Advances	0.2	0.3	0.3	0.0	0.0	0.0	0.0	0.0
Other Current Assets	6.1	6.9	5.5	7.0	6.1	6.4	6.8	7.3
<b>Curr. Liab. &amp; Prov.</b>	<b>39.5</b>	<b>43.2</b>	<b>30.4</b>	<b>29.2</b>	<b>26.1</b>	<b>27.7</b>	<b>29.8</b>	<b>32.4</b>
Account Payables	25.4	24.8	20.1	21.6	18.2	19.4	21.0	22.9
Other Liabilities	12.5	16.6	8.4	5.7	6.1	6.4	6.9	7.5
<b>Net Current Assets</b>	<b>4.3</b>	<b>0.3</b>	<b>9.3</b>	<b>18.1</b>	<b>11.8</b>	<b>12.6</b>	<b>14.2</b>	<b>25.8</b>
<b>Net Assets</b>	<b>96.7</b>	<b>99.9</b>	<b>105.7</b>	<b>121.6</b>	<b>141.9</b>	<b>166.0</b>	<b>170.9</b>	<b>185.7</b>

E: MOFSL Estimates

## Financials and valuations

## Ratios

Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>20.4</b>	<b>15.4</b>	<b>17.3</b>	<b>17.5</b>	<b>17.2</b>	<b>20.2</b>	<b>22.6</b>	<b>26.5</b>
Cash EPS	22.1	17.4	19.3	19.6	19.5	22.6	25.2	29.2
BV/Share	71.1	77.3	92.3	109.8	134.9	147.7	162.3	178.7
DPS	12.0	6.0	0.0	0.0	0.0	6.0	8.0	10.0
Payout (%)	58.7	38.9	0.0	0.0	0.0	29.7	35.4	37.8
<b>Valuation (x)</b>								
P/E	60.0	79.5	71.0	69.9	71.4	60.7	54.3	46.3
Cash P/E	55.5	70.6	63.7	62.6	62.9	54.2	48.7	42.1
EV/Sales	12.3	12.8	11.5	10.3	9.4	8.9	8.2	7.4
EV/EBITDA	60.1	59.4	52.9	52.6	51.5	41.5	37.4	33.0
P/BV	17.2	15.9	13.3	11.2	9.1	8.3	7.6	6.9
Dividend Yield	1.0	0.5	0.0	0.0	0.0	0.5	0.7	0.8
<b>Return Ratios (%)</b>								
RoE	30.9	20.8	20.4	17.3	14.0	14.3	14.6	15.5
RoCE (Post-tax)	25.1	17.9	18.2	16.6	14.4	14.8	14.7	15.9
RoIC	29.3	20.0	20.6	18.7	16.8	16.9	16.2	18.0
<b>Working Capital Ratios</b>								
Debtor (Days)	46	43	33	33	34	34	34	34
Asset Turnover (x)	2.7	2.5	2.9	3.1	3.2	3.4	3.6	3.8
<b>Leverage Ratio</b>								
Debt/Equity (x)	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.1

## Cash Flow Statement

(INR b)

Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
OP/(Loss) before Tax	18.3	18.4	20.8	21.6	21.3	26.4	31.6	37.1
Net interest	1.4	1.4	0.9	0.5	0.8	1.5	0.8	-0.3
Direct Taxes Paid	-4.4	-3.4	-4.0	-4.5	-4.2	-7.2	-8.5	-10.0
(Inc)/Dec in WC	0.0	-2.6	-0.5	-5.4	0.9	-3.7	-0.9	-1.1
<b>CF from Operations</b>	<b>15.4</b>	<b>13.8</b>	<b>17.3</b>	<b>12.2</b>	<b>18.9</b>	<b>17.0</b>	<b>23.0</b>	<b>25.7</b>
Inc in FA	-2.1	-1.5	-1.6	-2.8	-2.2	-30.3	-3.5	-3.5
<b>Free Cash Flow</b>	<b>13.3</b>	<b>12.3</b>	<b>15.7</b>	<b>9.5</b>	<b>16.7</b>	<b>-13.2</b>	<b>19.5</b>	<b>22.2</b>
Pur of Investments	4.8	-1.3	-0.3	-4.7	-16.4	4.5	-2.5	-2.5
Others	-0.3	-1.3	-1.2	-2.1	1.1	-0.9	1.5	2.0
<b>CF from Investments</b>	<b>2.4</b>	<b>-4.2</b>	<b>-3.1</b>	<b>-9.6</b>	<b>-17.5</b>	<b>-26.6</b>	<b>-4.5</b>	<b>-4.0</b>
Inc in Debt	-3.4	-1.3	-16.2	-2.2	-6.3	11.0	-10.0	-2.0
Dividend Paid	-14.8	-9.9	0.0	0.0	0.0	-6.1	-8.2	-10.2
Interest Paid	-2.1	-1.5	-1.6	-1.1	-1.1	-2.8	-2.3	-1.7
Other Item	0.0	-0.3	-0.4	-0.5	-0.5	0.0	0.0	0.0
<b>CF from Fin. Activity</b>	<b>-20.4</b>	<b>-13.0</b>	<b>-18.2</b>	<b>-3.8</b>	<b>-7.9</b>	<b>2.1</b>	<b>-20.5</b>	<b>-14.0</b>
<b>Inc/Dec of Cash</b>	<b>-0.7</b>	<b>-1.2</b>	<b>-1.0</b>	<b>1.1</b>	<b>-3.9</b>	<b>-2.8</b>	<b>0.7</b>	<b>10.5</b>
Add: Beginning Balance	9.6	8.9	7.7	6.7	7.8	3.9	1.1	1.7
<b>Closing Balance</b>	<b>8.9</b>	<b>7.7</b>	<b>6.7</b>	<b>7.8</b>	<b>3.9</b>	<b>1.1</b>	<b>1.7</b>	<b>12.2</b>

E: MOFSL Estimates

## Dabur India

BSE SENSEX

74,015

S&amp;P CNX

22,462



## Stock Info

Bloomberg	DABUR IN
Equity Shares (m)	1772
M.Cap.(INRb)/(USDb)	937.7 / 11.2
52-Week Range (INR)	597 / 504
1, 6, 12 Rel. Per (%)	-3/-18/-32
12M Avg Val (INR M)	1077
Free float (%)	33.8

## Financials Snapshot (INR b)

Y/E March	2024E	2025E	2026E
Sales	124.7	135.4	147.5
Sales Gr. (%)	8.1	8.5	9.0
EBITDA	24.4	27.9	31.0
EBITDA margin (%)	19.6	20.6	21.0
Adj. PAT	19.0	21.7	23.8
Adj. EPS (INR)	10.7	12.2	13.5
EPS Gr. (%)	10.6	14.1	10.1
BV/Sh.(INR)	55.5	60.4	65.1

## Ratios

RoE (%)	20.2	21.1	21.4
RoCE (%)	18.5	19.4	19.8
Payout (%)	62.5	67.1	72.1

## Valuations

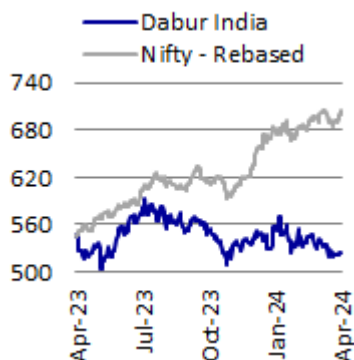
P/E (x)	49.4	43.3	39.3
P/BV (x)	9.5	8.8	8.1
EV/EBITDA (x)	35.9	31.0	27.6
Div. Yield (%)	1.3	1.6	1.8

## Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	66.3	66.2	66.2
DII	11.8	9.9	7.6
FII	16.5	18.4	20.5
Others	5.5	5.5	5.7

FII Includes depository receipts

## Stock Performance (1-year)



CMP: INR529

TP: INR650 (+23%)

Buy

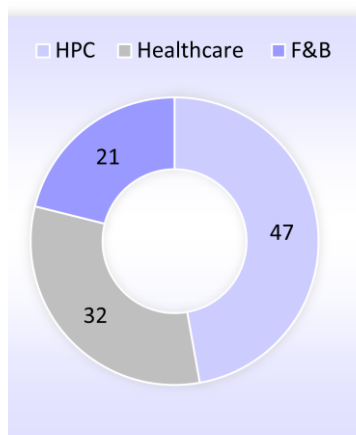
## Building on the core strengths

Dabur India (Dabur) has been one of the key beneficiaries of consumers shifting towards Ayurvedic and naturals products since the last 7-8 years. Oral care and healthcare categories have benefited the most with this shift, which enabled the company deliver superior volume growth among its peers (~7% avg. volume since FY19). The power brand strategies had been delivering result even prior to Covid-19. Dabur's foray into various categories (baby care, tea, healthcare, and beverages), and its shift from power brands to power platform strategies, have expanded its total addressable market (TAM) and strengthened its market position. To attract the new-age customers and millennials, Dabur improved its packaging across different categories and introduced more formats for its products. Dabur's extensive focus on scaling up its Ayurvedic portfolio, expanding its distribution network (to ~0.12m villages and ~7.9m outlets), and transitioning towards chemist channels will drive future growth.

However, most of its initiatives were not yielding results as the demand environment was subdued. Nevertheless, with an improving volume trajectory and no impact of price cuts on revenue (unlike peers), we anticipate that its revenue growth outperformance will continue in the near term. The operating margin, which has been hovering around the 20% band over the last 8-9 years (unlike peers that have seen expansion), also has room for improvement in the medium term. The stock has underperformed during the last two years, and is currently trading at 40x FY26E EPS, at a 15-20% discount to its historical three/five-year averages. We reiterate our BUY rating with a TP of INR650, valuing the company at 48x FY26E P/E.

- **High rural salience to play on recovery:** Dabur stands out among its FMCG peers with one of the highest revenue contributions from rural areas, i.e., ~45-50%. Dabur's rural salience has doubled in FY23 vs. FY19, and the company is consistently seeking to expand its presence in the rural markets. To enhance market penetration, Dabur has curated a rural portfolio, offering products at accessible price points for all its power brands by introducing Low Unit Packs (LUPs) across its portfolio. Dabur has reached ~0.12m villages with the support of over 18,700 Yodhas and aims to reach ~0.13m villages by FY25. Rural sales growth for Dabur has remained healthy despite a slowdown in rural demand reported by most of its Staples peers. With the expectation of a rural recovery in FY25, we project volume growth in the mid to high single digit.
- **Expanding distribution reach:** Dabur has continued to bolster its distribution network and reached a total of ~7.9m outlets (including ~1.4m direct reach outlets). It targets to reach a total of ~8.5m outlets (including 1.6m direct reach outlets) in the near term. It is expanding its healthcare portfolio through chemist channels. Currently, Dabur covers ~270k chemists and plans to cover 300k chemists going forward.

## Domestic Revenue contribution



- **Focus on expanding TAM:** Dabur continuously invests in innovation. Its revenue contribution rose to 4% in FY23 from 1.9% in FY19. To attract the new-age customers and millennials, the company has improved packaging across different categories and introduced more formats for its products. Dabur has also expanded its existing portfolio by entering into the adjacent products/categories.
- **Scope of margin improvement:** Dabur's operating margin has been hovering around the 20% band over the last 8-9 years, unlike the other FMCG players that have witnessed an expansion in margin due to moderating inflation. However, there is scope for margin improvement for Dabur in the medium term, led by the cost incentive benefit and premiumization. Product mix and cost control measures should expand its margin by 50-100bp every year over the medium term.
- **Healthcare – focus on scalability:** Dabur has an edge over FMCG peers with its healthcare portfolio. Despite a pandemic-induced spike, the segment's contribution in domestic business stabilized at around 30-35%. We anticipate a high single-digit growth in the category, mainly led by consumer preference for Ayurveda-based products, new product categories, premiumization, etc. Dabur reached 0.1m allopathic doctors, and its therapeutic division is likely to grow 25-30%. The new product categories, i.e., herbal tea and baby care, also performed well. Dabur is actively pursuing premiumization across its portfolio, which helps in improving margins.
- **HPC – oral care to sustain outperformance:** Dabur operates in various segments within HPC, including hair care, oral care, home care, and skin care. In oral care, the company has gained market share from consumers transitioning from Ayurveda to the white-based category. The category is likely to deliver 10% growth consistently during the medium term, with a focus on urban consumers, particularly the youth. To achieve this, the company is introducing international brands such as Gel to India and is also launching herbal toothpaste. The hair care category is also consistently gaining market share. Both categories contribute 75-80% of the segment revenue.
- **F&B mix to improve further:** The segment delivered an impressive 14% revenue CAGR over FY19-23. TAM has also surged 7.3x during the period. The company is continuously strengthening its core portfolio by introducing healthier and tastier products. Additionally, it is expanding into condiments, ready-to-cook, ready-to-eat, spices, and oil & ghee categories to scale up quickly. The juice portfolio is also expected to grow in double digits, despite seasonal fluctuations, led by category development as Dabur primarily caters to the urban area and has room for expansion in rural markets. Badshah is currently growing at a rate of 20-25%, and the management plans to expand the brand into adjacent regions such as Madhya Pradesh, Central India (UP, Bihar, etc.). This will further drive the growth.
- **Steady international market (25% revenue contribution):** The company utilizes diverse distribution models across regions, ranging from national distributors to direct sales models, to facilitate growth. Dabur aims for double-digit growth with plans to expand Badshah into new markets and introduce region-specific products. The company emphasizes on natural products, celebrity endorsements, and tailored innovations to meet local needs.



Additionally, Dabur aims to strengthen its e-commerce presence globally and improve gross margin by focusing on premiumization and innovative product development.

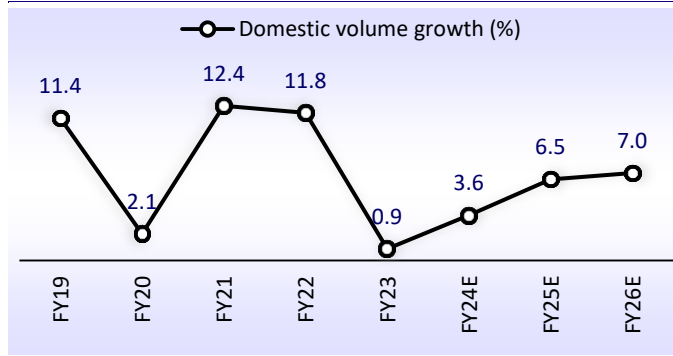
- **Attractive valuation at 40x FY26E:** With an improving volume trajectory and no impact of price cuts on revenue (unlike peers), we anticipate that its revenue growth outperformance will continue in the near term. The operating margin, which has been hovering around the 20% band over the last 8-9 years (unlike peers that have seen expansion), also has room for improvement in the medium term. The stock has underperformed during the last two years, and is currently trading at 40x FY26E EPS, at a 15-20% discount to its historical three/five-year averages. **We reiterate our BUY rating with a TP of INR650, valuing the company at 48x FY26E P/E.**

#### Exhibit 98: Segmental revenue

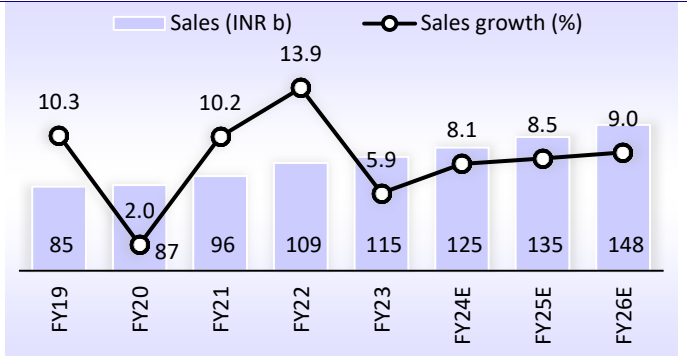
Segment Revenue (INR b)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Domestic Business</b>	<b>62.0</b>	<b>62.5</b>	<b>70.6</b>	<b>80.7</b>	<b>86.4</b>	<b>94.2</b>	<b>102.7</b>	<b>111.9</b>
Hair Care	12.6	12.5	12.7	14.9	15.5	16.5	17.6	18.9
Oral Care	9.9	10.1	12.4	13.6	14.2	15.4	16.7	18.0
Health Supplements	10.3	11.2	15.9	15.9	13.9	14.4	15.6	17.1
OTC & Ethicals	5.2	5.2	6.8	7.8	7.5	8.2	8.9	9.7
Digestive & baby care	3.5	3.7	3.8	4.3	4.8	5.4	6.0	6.6
Home Care	4.1	4.1	3.8	4.6	5.7	6.4	7.0	7.7
Skin Care	3.1	3.0	3.5	3.3	3.2	3.3	3.7	4.0
Food and Beverages	10.0	9.4	8.9	13.2	17.0	20.4	22.8	25.2
Others	3.4	3.4	2.8	3.1	4.6	4.2	4.4	4.7
<b>International Business</b>	<b>23.2</b>	<b>24.3</b>	<b>25.1</b>	<b>28.3</b>	<b>28.9</b>	<b>30.5</b>	<b>32.7</b>	<b>35.6</b>
<b>Total Revenue</b>	<b>85.1</b>	<b>86.8</b>	<b>95.7</b>	<b>109.0</b>	<b>115.4</b>	<b>124.7</b>	<b>135.4</b>	<b>147.5</b>
<b>Revenue Growth (%)</b>								
<b>Domestic Business</b>	<b>13</b>	<b>1</b>	<b>13</b>	<b>14</b>	<b>7</b>	<b>9</b>	<b>9</b>	<b>9</b>
Hair Care	13	(1)	2	17	4	6	7	7
Oral Care	6	2	23	10	4	9	8	8
Health Supplements	13	8	42	(0)	(12)	3	9	9
OTC & Ethicals	11	(0)	32	14	(4)	9	9	9
Digestive & baby care	13	8	2	13	12	14	10	10
Home Care	13	1	(7)	21	24	12	10	10
Skin Care	11	(3)	16	(6)	(4)	5	10	10
Food and Beverages	3	(6)	(6)	48	29	20	11	11
Others	109	2	(17)	11	46	(8)	5	7
<b>International Business</b>	<b>4</b>	<b>5</b>	<b>3</b>	<b>13</b>	<b>2</b>	<b>5</b>	<b>7</b>	<b>9</b>
<b>Total</b>	<b>10</b>	<b>2</b>	<b>10</b>	<b>14</b>	<b>6</b>	<b>8</b>	<b>9</b>	<b>9</b>
<b>Revenue Mix (%)</b>								
<b>Domestic Business</b>	<b>73</b>	<b>72</b>	<b>74</b>	<b>74</b>	<b>75</b>	<b>76</b>	<b>76</b>	<b>76</b>
Hair Care	15	14	13	14	13	13	13	13
Oral Care	12	12	13	13	12	12	12	12
Health Supplements	12	13	17	15	12	12	12	12
OTC & Ethicals	6	6	7	7	6	7	7	7
Digestive & baby care	4	4	4	4	4	4	4	4
Home Care	5	5	4	4	5	5	5	5
Skin Care	4	3	4	3	3	3	3	3
Food and Beverages	12	11	9	12	15	16	17	17
Others	4	4	3	3	4	3	3	3
<b>International Business</b>	<b>27</b>	<b>28</b>	<b>26</b>	<b>26</b>	<b>25</b>	<b>24</b>	<b>24</b>	<b>24</b>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: MOFSL, Company

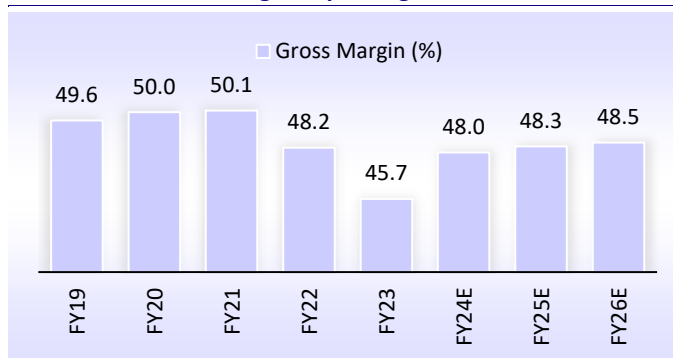
## Story in charts

**Exhibit 99: Domestic volume to rise at mid-to-high-single digit**


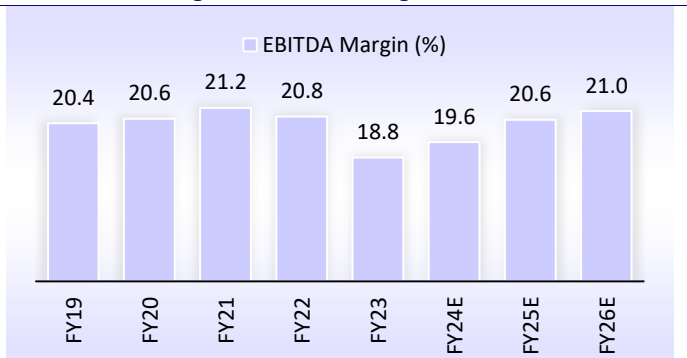
Source: MOFSL, Company

**Exhibit 100: ..led to high single-digit revenue growth**


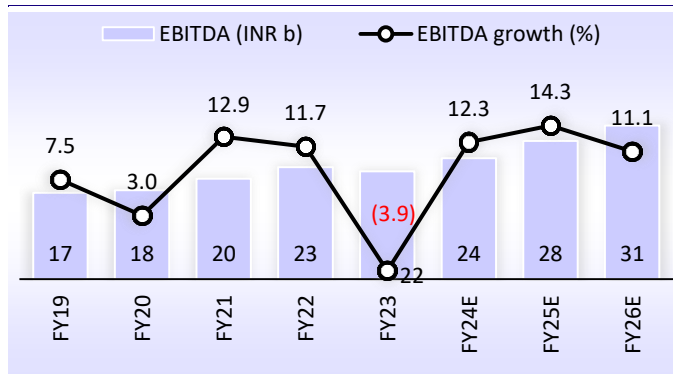
Source: MOFSL, Company

**Exhibit 101: Gross margin improving...**


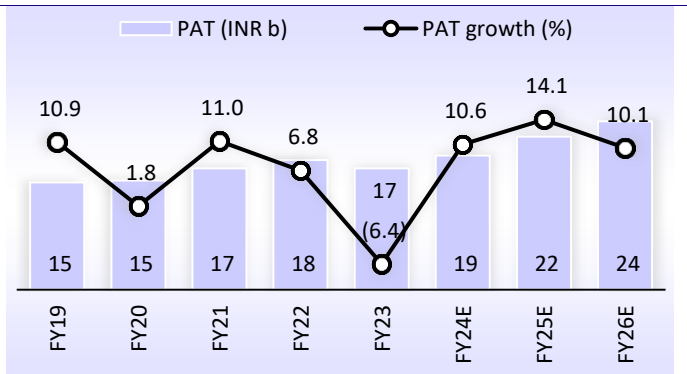
Source: MOFSL, Company

**Exhibit 102: ..along with EBITDA margin**


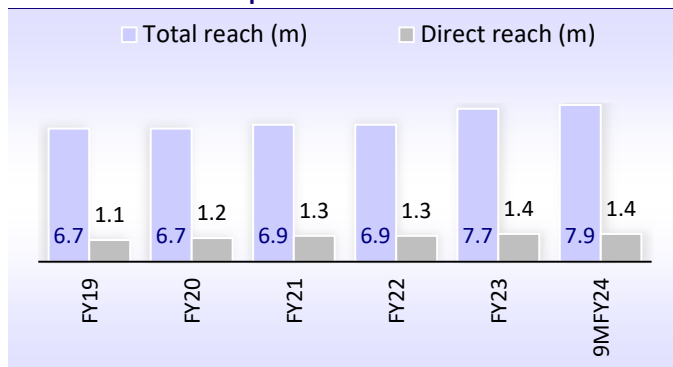
Source: MOFSL, Company

**Exhibit 103: EBITDA to grow in double digits...**


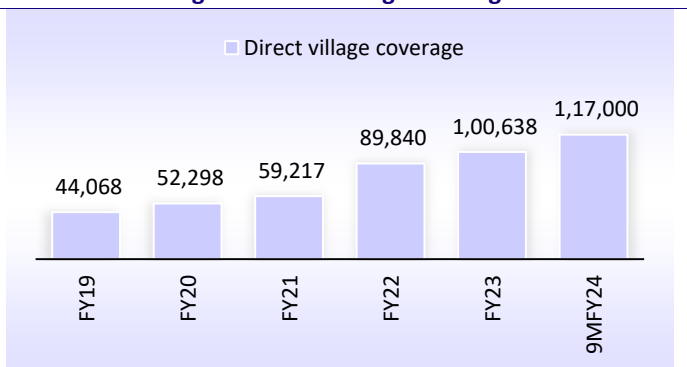
Source: MOFSL, Company

**Exhibit 104: ...along with PAT**


Source: MOFSL, Company

**Exhibit 105: Outlet expansion continues...**


Source: MOFSL, Company

**Exhibit 106: ..along with direct village coverage**


Source: MOFSL, Company

## Financials and valuations

## Income Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	85.1	86.8	95.7	109.0	115.4	124.7	135.4	147.5
Change (%)	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
<b>Gross Profit</b>	<b>42.2</b>	<b>43.4</b>	<b>47.9</b>	<b>52.6</b>	<b>52.7</b>	<b>59.9</b>	<b>65.4</b>	<b>71.5</b>
Margin (%)	49.6	50.0	50.1	48.2	45.7	48.0	48.3	48.5
<b>EBITDA</b>	<b>17.4</b>	<b>17.9</b>	<b>20.2</b>	<b>22.6</b>	<b>21.7</b>	<b>24.4</b>	<b>27.9</b>	<b>31.0</b>
Change (%)	7.5	3.0	12.9	11.7	(3.9)	12.3	14.3	11.1
Margin (%)	20.4	20.6	21.2	20.8	18.8	19.6	20.6	21.0
Depreciation	1.8	2.2	2.4	2.5	3.1	3.4	3.6	3.8
Int. and Fin. Charges	0.6	0.5	0.3	0.4	0.8	1.2	1.0	0.7
Other Income - Recurring	3.0	3.1	3.3	3.9	4.5	5.0	5.4	5.6
<b>Profit before Taxes</b>	<b>18.0</b>	<b>18.3</b>	<b>20.8</b>	<b>23.6</b>	<b>22.3</b>	<b>24.7</b>	<b>28.7</b>	<b>32.1</b>
Change (%)	5.4	1.6	13.7	13.7	(5.7)	11.1	16.1	11.9
Margin (%)	21.1	21.0	21.7	21.7	19.3	19.8	21.2	21.8
Tax	4.1	4.7	3.6	4.4	4.8	5.5	6.7	7.9
Deferred Tax	(1.3)	(1.9)	(0.0)	0.8	0.4	0.1	0.1	0.0
Tax Rate (%)	15.5	15.3	17.4	22.3	23.2	22.6	23.6	24.8
<b>Profit after Taxes</b>	<b>15.2</b>	<b>15.5</b>	<b>17.2</b>	<b>18.4</b>	<b>17.1</b>	<b>19.2</b>	<b>21.9</b>	<b>24.2</b>
Change (%)	10.8	1.8	11.0	6.9	(6.8)	12.0	14.5	10.1
Margin (%)	17.9	17.8	18.0	16.9	14.8	15.4	16.2	16.4
Minority Interest	0.0	0.0	0.0	0.0	(0.1)	0.2	0.3	0.3
<b>Adjusted PAT</b>	<b>15.2</b>	<b>15.5</b>	<b>17.2</b>	<b>18.3</b>	<b>17.2</b>	<b>19.0</b>	<b>21.7</b>	<b>23.8</b>
<b>Reported PAT</b>	<b>14.4</b>	<b>14.5</b>	<b>17.2</b>	<b>17.5</b>	<b>17.2</b>	<b>19.0</b>	<b>21.7</b>	<b>23.8</b>

## Balance Sheet

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Reserves	54.6	64.3	74.9	82.0	88.0	96.6	105.3	113.6
<b>Net Worth</b>	<b>56.3</b>	<b>66.1</b>	<b>76.6</b>	<b>83.8</b>	<b>89.7</b>	<b>98.3</b>	<b>107.1</b>	<b>115.4</b>
Minority Interest	0.3	0.4	0.4	0.4	4.7	4.5	4.2	3.9
Loans	5.3	4.7	4.8	10.1	10.0	9.8	9.6	9.4
<b>Capital Employed</b>	<b>61.9</b>	<b>71.1</b>	<b>81.8</b>	<b>94.3</b>	<b>104.4</b>	<b>112.6</b>	<b>120.9</b>	<b>128.7</b>
Gross Block	28.0	32.9	35.2	39.3	53.5	52.3	55.1	57.9
Less: Accum. Depn.	(11.7)	(13.8)	(16.2)	(18.7)	(21.8)	(25.2)	(28.8)	(32.6)
<b>Net Fixed Assets</b>	<b>16.3</b>	<b>19.2</b>	<b>19.1</b>	<b>20.6</b>	<b>31.7</b>	<b>27.0</b>	<b>26.2</b>	<b>25.3</b>
Capital WIP	0.6	1.5	1.5	1.7	1.8	1.8	1.8	1.8
Goodwill	3.4	3.4	3.4	2.5	4.1	9.9	9.4	8.9
<b>Investments</b>	<b>33.6</b>	<b>28.0</b>	<b>41.5</b>	<b>62.1</b>	<b>62.6</b>	<b>65.1</b>	<b>67.6</b>	<b>70.1</b>
Current	7.3	13.9	7.5	8.5	7.4	9.9	12.4	14.9
Non-current	26.3	14.1	34.0	53.6	55.2	55.2	55.2	55.2
<b>Curr. Assets, L&amp;A</b>	<b>30.5</b>	<b>41.3</b>	<b>42.2</b>	<b>36.0</b>	<b>36.4</b>	<b>44.7</b>	<b>54.5</b>	<b>64.5</b>
Inventory	13.0	13.8	17.3	19.1	20.2	22.8	24.5	26.5
Account Receivables	8.3	8.1	5.6	6.5	8.5	9.2	10.0	10.9
Cash and Bank Balance	3.3	8.1	12.7	5.8	3.3	7.3	14.3	20.8
Others	5.8	11.3	6.5	4.6	4.4	5.4	5.8	6.3
<b>Curr. Liab. and Prov.</b>	<b>22.2</b>	<b>22.2</b>	<b>26.5</b>	<b>27.7</b>	<b>31.2</b>	<b>34.9</b>	<b>37.7</b>	<b>40.9</b>
Current Liabilities	19.8	19.5	23.1	23.9	28.4	30.8	33.4	36.4
Provisions	2.4	2.8	3.4	3.8	2.8	4.2	4.4	4.6
<b>Net Current Assets</b>	<b>8.2</b>	<b>19.1</b>	<b>15.7</b>	<b>8.3</b>	<b>5.2</b>	<b>9.7</b>	<b>16.8</b>	<b>23.5</b>
<b>Application of Funds</b>	<b>61.9</b>	<b>71.1</b>	<b>81.8</b>	<b>94.3</b>	<b>104.4</b>	<b>112.6</b>	<b>120.9</b>	<b>128.7</b>

E: MOFSL Estimates

## Financials and valuations

## Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>8.6</b>	<b>8.7</b>	<b>9.7</b>	<b>10.4</b>	<b>9.7</b>	<b>10.7</b>	<b>12.2</b>	<b>13.5</b>
Cash EPS	9.2	9.4	11.1	11.3	11.5	12.7	14.3	15.6
BV/Share	31.9	37.4	43.4	47.4	50.6	55.5	60.4	65.1
DPS	4.0	4.5	4.8	4.8	5.2	6.7	8.2	9.7
Payout %	46.6	51.5	48.9	45.8	53.7	62.5	67.1	72.1
<b>Valuation (x)</b>								
P/E	61.6	60.5	54.5	51.0	54.6	49.4	43.3	39.3
Cash P/E	57.7	56.1	47.8	46.7	46.2	41.8	37.1	34.0
EV/Sales	10.6	10.4	9.3	8.1	7.6	7.0	6.4	5.8
EV/EBITDA	51.9	50.4	43.7	38.8	40.6	35.9	31.0	27.6
P/BV	16.6	14.2	12.2	11.2	10.4	9.5	8.8	8.1
Dividend Yield (%)	0.8	0.9	0.9	0.9	1.0	1.3	1.6	1.8
<b>Return Ratios (%)</b>								
RoE	26.8	25.3	24.1	22.9	19.8	20.2	21.1	21.4
RoCE	24.4	23.9	22.8	21.2	17.8	18.5	19.4	19.8
RoIC	53.2	45.9	49.4	61.3	46.4	43.1	48.9	55.8
<b>Working Capital Ratios</b>								
Debtor (Days)	36	34	21	22	27	27	27	27
Asset Turnover (x)	1.4	1.2	1.2	1.2	1.1	1.1	1.1	1.1
<b>Leverage Ratio</b>								
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

## Cash Flow Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(loss) before Tax	17.2	17.3	20.8	22.8	22.2	24.7	28.7	32.1
Int./Div. Received	1.8	2.6	0.0	0.0	(1.0)	(0.2)	(0.3)	(0.3)
Depreciation & Amort.	1.8	2.2	2.4	2.5	3.1	3.4	3.6	3.8
Interest Paid	(2.0)	(2.0)	0.3	0.4	(2.8)	1.2	1.0	0.7
Direct Taxes Paid	(3.5)	(3.1)	(3.6)	(5.3)	(4.9)	(5.6)	(6.8)	(8.0)
(Incr)/Decr in WC	(0.2)	(0.6)	8.0	0.6	(1.6)	(0.5)	(0.1)	(0.1)
<b>CF from Oper.</b>	<b>15.1</b>	<b>16.4</b>	<b>27.9</b>	<b>21.0</b>	<b>14.9</b>	<b>23.1</b>	<b>26.1</b>	<b>28.1</b>
(Incr)/Decr in FA	(2.3)	(4.2)	(2.3)	(3.4)	(4.9)	(4.6)	(2.3)	(2.3)
<b>Free Cash Flow</b>	<b>12.7</b>	<b>12.2</b>	<b>25.6</b>	<b>17.6</b>	<b>10.0</b>	<b>18.5</b>	<b>23.8</b>	<b>25.8</b>
(Pur)/Sale of Invt.	(53.9)	(84.8)	(13.5)	(20.6)	(5.0)	(2.5)	(2.5)	(2.5)
Others	60.6	86.0	(0.9)	1.5	2.7	(0.4)	(0.4)	(0.4)
<b>CF from Invest.</b>	<b>4.3</b>	<b>(2.9)</b>	<b>(16.7)</b>	<b>(22.5)</b>	<b>(7.1)</b>	<b>(7.6)</b>	<b>(5.2)</b>	<b>(5.2)</b>
Issue of Shares	0.0	0.0	(0.5)	(1.0)	0.0	0.0	-	(0.0)
(Incr)/Decr in Debt	(2.7)	(1.8)	0.1	5.2	0.5	(0.2)	(0.2)	(0.2)
Dividend Paid	(16.0)	(6.2)	(5.9)	(9.3)	(9.2)	(10.1)	(12.8)	(15.4)
Others	(0.5)	(0.7)	(0.3)	(0.4)	(1.6)	(1.2)	(1.0)	(0.7)
<b>CF from Fin. Act.</b>	<b>(19.2)</b>	<b>(8.6)</b>	<b>(6.6)</b>	<b>(5.4)</b>	<b>(10.4)</b>	<b>(11.5)</b>	<b>(13.9)</b>	<b>(16.3)</b>
<b>Incr/Decr of Cash</b>	<b>0.2</b>	<b>4.8</b>	<b>4.6</b>	<b>(6.9)</b>	<b>(2.5)</b>	<b>4.1</b>	<b>6.9</b>	<b>6.6</b>
Add: Opening Bal.	3.1	3.3	8.1	12.7	5.8	3.3	7.3	14.3
<b>Closing Balance</b>	<b>3.3</b>	<b>8.1</b>	<b>12.7</b>	<b>5.8</b>	<b>3.3</b>	<b>7.3</b>	<b>14.3</b>	<b>20.8</b>

E: MOFSL Estimates

## Titan Company

BSE SENSEX  
74,015S&P CNX  
22,462

## Stock Info

Bloomberg	TTAN IN
Equity Shares (m)	888
M.Cap.(INRb)/(USDb)	3318.5 / 39.8
52-Week Range (INR)	3887 / 2513
1, 6, 12 Rel. Per (%)	-1/4/19
12M Avg Val (INR M)	2981
Free float (%)	47.1

## Financials Snapshot (INR b)

Y/E March	2024E	2025E	2026E
Sales	511.6	603.3	705.2
Sales Gr. (%)	26.1	17.9	16.9
EBITDA	54.3	68.6	82.1
EBITDA margin (%)	10.6	11.4	11.6
Adj. PAT	36.2	47.0	58.0
Adj. EPS (INR)	40.7	52.8	65.2
EPS Gr. (%)	10.7	29.8	23.3
BV/Sh.(INR)	161.4	199.0	243.2

## Ratios

RoE (%)	27.6	29.4	29.5
RoCE (%)	23.3	24.3	24.5
Payout (%)	28.0	38.0	39.0

## Valuations

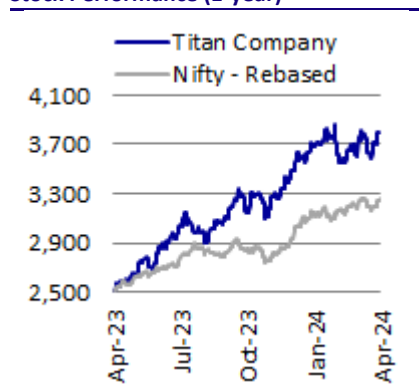
P/E (x)	92.0	70.9	57.5
P/BV (x)	23.2	18.8	15.4
EV/EBITDA (x)	60.7	47.7	39.4
Div. Yield (%)	0.3	0.5	0.7

## Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	52.9	52.9	52.9
DII	10.5	10.1	11.3
FII	18.9	19.1	17.5
Others	17.8	17.9	18.3

FII Includes depository receipts

## Stock Performance (1-year)



CMP: INR3,738 TP: INR4,300 (+15%)

Buy

## A long runway for growth

- The organized jewelry market in India has consistently gained market share from the unorganized/regional/local players due to a shift in consumer preference and rapid store expansion. The organized market constituted over 40% of the mix in 2023 vs. 6% in 2007. Titan Company (Titan), with its superior competitive positioning (in sourcing, studded ratio, youth-centric focus, and reinvestment strategy), has continued to outperform other branded players. The brand recall and business moat are not easily replicable; therefore, Tanishq's competitive edge will remain strong in the category. The store count reached to 2,949 stores as of Dec'23 and the expansion story remains intact.
- Titan's EBITDA margin has been under pressure during 9MFY24 owing to a lower studded mix. It will be critical to monitor the margin outlook amid intensifying competition. The non-jewelry business is also scaling up well and will contribute to growth in the medium term. The business currently accounts for 12% and 9% of revenue and EBIT, respectively. Overall, we model a 17%, 23% and 26% revenue, EBITDA and PAT CAGR over FY24-26, respectively. Titan's valuation is rich, but it offers a long runway for growth with a superior execution track record. Reiterate BUY with a TP of INR4,300 based on 65x FY26E EPS.

## The organized jewelry market sustaining market share gains

- Consumer demand consistently favors the trusted channel, especially when the ticket size increases. The demand for diamond-studded jewelry is rising, with young people preferring lightweight jewelry with a variety of designs. Thus, the organized jewelry market is consistently gaining share, accounting for 40% of the industry, with Titan's share at <10%. Organized players continued to grow faster than the industry, achieving a 20% CAGR between FY17 and FY23, vs. 14% for the industry. The structural drivers remain intact due to the increasing number of working women, exposure to global designs, a rising number of young consumers, regulatory changes and a shift in preference to lightweight fashion jewelry from traditional bulky jewelry.

## Titan executing with multiple jewelry brands to cater to its large user base

- Over the years, Titan has built trust in consumers' minds. Titan not only earned consumers' confidence but also built a business moat through its designing expertise. Titan has perfectly captured the consumer trend and has been capitalizing on it for years. It has also implemented a multi-brand strategy in store expansion to cater to all kinds of consumers. Titan has widened the consumer base across mid-premium to luxury segments. Tanishq now contributes 52% of total jewelry stores, down from 75% in FY17. Zoya caters to the luxury segment, Tanishq operates in the premium segment, and Mia/CaratLane targets the mid-market. The store mix is 52% for Tanishq, 29% for CaratLane, 18% for Mia, and 1% for Zoya.

- **Mia:** Titan has a sub-brand called 'Mia', which targets young working women. It is renowned for its stylish and lightweight jewelry designs offered at affordable prices. Mia has grown 3x in the last year and achieved INR7.4b turnover in FY23. The management aims to achieve ~INR13b turnover in the current fiscal year. About 40% of Mia's sales come from standalone Mia stores, while the rest is generated from Tanishq stores, with only a minimal portion originating from online sales. Hence, the online opportunity and potential for growth are significant due to the ticket sizes. The company is aggressively pursuing expansion with 51 stores addition in 9MFY24 and reached to total 162 stores.
- **CaratLane:** It is engaged in the business of manufacturing and retailing of jewelry products and has a significant online presence. This year, CaratLane added 40 stores bringing the total store count to 262 spread across 105 cities pan-India. During 9MFY24, CaratLane reported a turnover of ~INR22b with an EBIT of INR1.4b.
- **Zoya:** It is a high-end jewelry brand specializing in diamonds and precious stones, with eight showrooms. Despite serving a small customer base, mostly consisting of affluent individuals, its revenue surged to INR2.5b in FY23 from INR1.3b in FY22. The management has set ambitious targets, aiming for a revenue of ~INR5-7b in the coming years.

#### Scaling up the gold exchange program

- Titan focuses on increasing its volume through various gold exchange schemes. Currently, gold sourcing through customer exchange (recycled gold) contributes ~40-45% of gold consumption. This has been the key driver of sales volume, with 30-35% of the exchange of old gold jewelry coming from non-Tanishq gold. Though the exchange/re-cycled gold has a higher cost attached, it helps in acquiring new customers and leads to more upselling, resulting in higher ticket sales.

#### Driving the non-jewelry business

- Apart from jewelry, Titan has extended its footprint in other lifestyle categories such as watches, eyecare, fragrances, fashion accessories, and Indian dresswear sarees. These categories are scaling up continuously and driving growth over the long term. Currently, this business contributes 11-12% of Titan's revenue.

#### International market opportunity

- The company has expanded its presence in the international market, with 14 stores (10 in GCC, 3 in the US, and 1 in Singapore) as of Dec'23. Titan aims to reach 25 stores by FY25E, with a focus on GCC regions.

#### Superior margin profile

- In addition to superior execution, Titan also benefits from premium making charges and higher ticket prices. These lead to a much better gross margin of 25%+ compared to its peers, who typically have margins of ~15%. The company's competitive advantage lies in its sourcing, higher studded contribution, and higher ticket prices.
- **Valuation:** Titan is one of the few consumer companies that has scaled up its emerging jewelry business to INR445b in FY24E (88-90% revenue mix) from INR3b in FY03 (40% revenue mix). A very few stories have such a successful track

record. Being an early mover in the organized industry, along with consistent scaling up of the business by being more agile in design and consumer engagement, has led to that sort of a legacy. Jewelry and other businesses still provide confidence in the long-term growth potential. With a jewelry market share of ~8-9% in a sizable ~INR5t market, there is significant headroom for growth. The gradual recovery in the studded ratio is expected to support margins improvement. We are cautious about the near-term consumption trend, but will continue to favor Titan for its best-in-class execution track record and its eagerness to expand the user base. Consumers' preference for branded jewelers will continue to sustain the category growth rate at an attractive level. **Reiterate BUY with a TP of INR4,300, based on 65x FY26E EPS.**

**Exhibit 107: Segmental revenue**

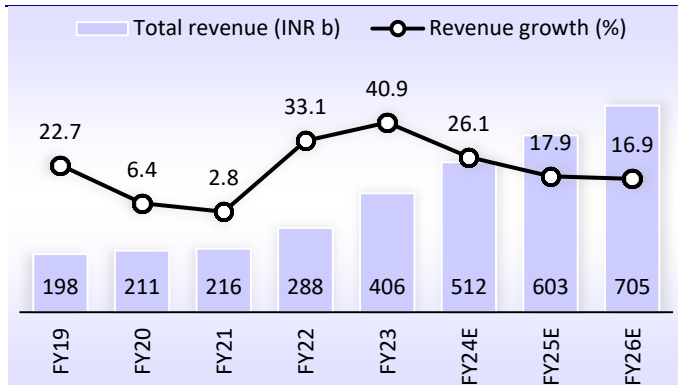
Segmental Information	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Sales (INR b)</b>								
Jewelry	163.9	173.2	193.2	255.2	359.1	456.8	539.1	630.7
Watches & Wearables	24.5	26.2	15.9	23.2	33.1	39.7	46.9	54.4
Eyewear	5.1	5.4	3.8	5.2	6.9	7.4	8.6	9.8
<b>Sales Growth (YoY)</b>								
Jewelry	23.6	5.7	11.6	32.1	40.7	27.2	18.0	17.0
Watches & Wearables	14.8	7.1	(39.5)	46.0	42.9	20.0	18.0	16.0
Eyewear	22.6	6.9	(31.1)	37.9	33.3	8.0	15.0	15.0
<b>EBIT (INR b)</b>								
Jewelry	19.1	20.8	17.0	30.8	43.9	49.8	60.9	72.5
Watches & Wearables	2.7	3.2	-1.3	1.2	4.1	4.2	5.2	6.3
Eyewear	0.0	-0.1	0.2	0.6	1.0	1.0	1.2	1.4
<b>EBIT Growth (YoY)</b>								
Jewelry	30.4	8.8	(18.1)	81.3	42.2	13.5	22.3	19.1
Watches & Wearables	27.9	18.5	(141.8)	(190.2)	242.9	3.2	24.7	19.1
Eyewear	(199.2)	502.1	(260.5)	158.7	64.7	(0.5)	22.9	19.1
<b>EBIT Margin (%)</b>								
Jewelry	11.6	12.0	8.8	12.1	12.2	10.9	11.3	11.5
Watches & Wearables	10.9	12.1	(8.3)	5.1	12.3	10.6	11.2	11.5
Eyewear	(0.5)	(2.6)	6.1	11.5	14.2	13.1	14.0	14.5

Source: MOFSL, Company



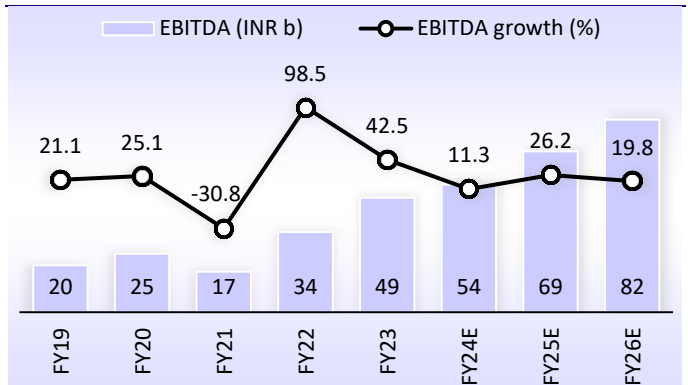
## Story in charts

Exhibit 108: Revenue to grow in double digits...



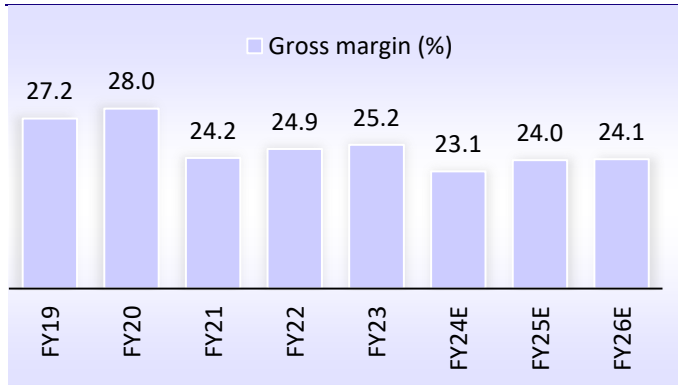
Source: MOFSL, Company

Exhibit 109: ..will led EBITDA growth



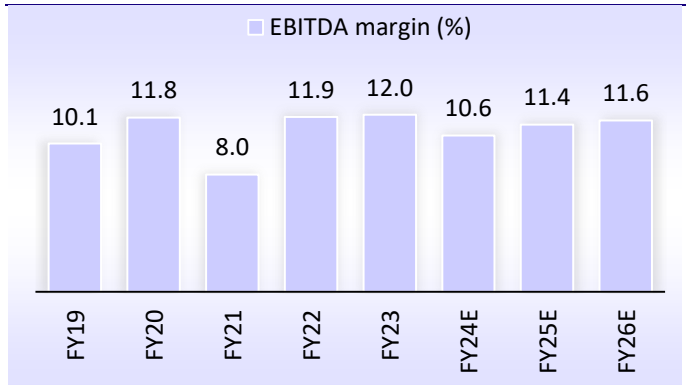
Source: MOFSL, Company

Exhibit 110: Gross margins is better among peers



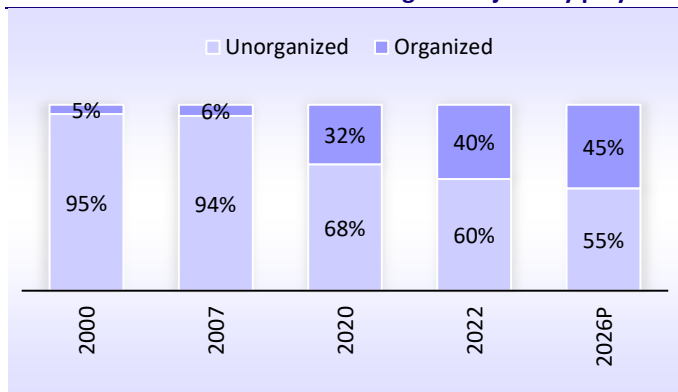
Source: MOFSL, Company

Exhibit 111: ..along with EBITDA margin



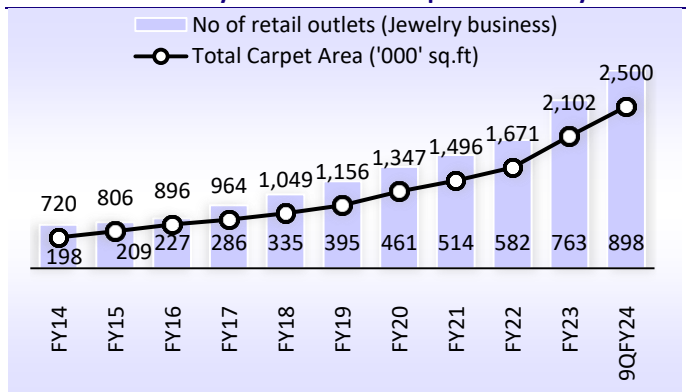
Source: MOFSL, Company

Exhibit 112: Visible shift towards organized jewelry players



Source: MOFSL, Company

Exhibit 113: Jewelry business retail expansion over years



Source: MOFSL, Company



## Financials and valuations

## Income Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>197.8</b>	<b>210.5</b>	<b>216.4</b>	<b>288.0</b>	<b>405.8</b>	<b>511.6</b>	<b>603.3</b>	<b>705.2</b>
Change (%)	22.7	6.4	2.8	33.1	40.9	26.1	17.9	16.9
<b>Gross Profit</b>	<b>53.8</b>	<b>59.0</b>	<b>52.3</b>	<b>71.6</b>	<b>102.2</b>	<b>118.2</b>	<b>144.7</b>	<b>169.6</b>
Margin (%)	27.2	28.0	24.2	24.9	25.2	23.1	24.0	24.1
Other expenditure	33.9	34.0	35.1	37.4	53.4	63.9	76.1	87.5
<b>EBITDA</b>	<b>19.9</b>	<b>24.9</b>	<b>17.2</b>	<b>34.2</b>	<b>48.8</b>	<b>54.3</b>	<b>68.6</b>	<b>82.1</b>
Change (%)	21.1	25.1	-30.8	98.5	42.5	11.3	26.2	19.8
Margin (%)	10.1	11.8	8.0	11.9	12.0	10.6	11.4	11.6
Depreciation	1.6	3.5	3.8	4.0	4.4	5.7	6.1	6.4
Int. and Fin. Charges	0.5	1.7	2.0	2.2	3.0	5.8	5.6	4.8
Other Income - Recurring	1.8	1.5	1.9	2.3	3.1	5.2	6.0	6.6
<b>Profit before Taxes</b>	<b>19.6</b>	<b>21.3</b>	<b>13.3</b>	<b>30.4</b>	<b>44.5</b>	<b>48.1</b>	<b>62.9</b>	<b>77.5</b>
Change (%)	26.5	8.8	-37.5	128.2	46.3	8.1	30.8	23.3
Margin (%)	9.9	10.1	6.2	10.6	11.0	9.4	10.4	11.0
Tax	6.1	5.8	3.6	7.9	11.5	11.8	15.8	19.5
Deferred Tax	0.5	-0.4	0.1	0.8	-0.2	0.0	0.0	0.0
Tax Rate (%)	29.0	28.9	26.5	23.2	26.4	24.6	25.2	25.2
<b>Profit after Taxes</b>	<b>13.9</b>	<b>15.2</b>	<b>9.8</b>	<b>23.3</b>	<b>32.7</b>	<b>36.2</b>	<b>47.0</b>	<b>58.0</b>
Change (%)	24.0	8.9	-35.4	138.4	40.2	10.7	29.8	23.3
Margin (%)	7.0	7.2	4.5	8.1	8.1	7.1	7.8	8.2
Extraordinary income	0	-185	0	-1,360	0	0	0	0
<b>Reported PAT</b>	<b>13.9</b>	<b>14.9</b>	<b>9.7</b>	<b>22.0</b>	<b>32.7</b>	<b>36.2</b>	<b>47.0</b>	<b>58.0</b>

## Balance Sheet

(INR b)

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Preference Share Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserves	60.0	65.8	74.1	92.4	118.2	142.4	175.7	215.0
<b>Net Worth</b>	<b>60.8</b>	<b>66.7</b>	<b>75.0</b>	<b>93.3</b>	<b>119.0</b>	<b>143.3</b>	<b>176.6</b>	<b>215.9</b>
Loans	0.3	7.2	1.5	5.2	22.0	28.5	30.0	30.9
Lease liabilities	0.0	12.4	12.6	13.6	18.7	20.7	24.4	28.1
Deferred Tax	-0.7	-1.5	-1.0	-1.8	-1.6	-1.6	-1.6	-1.6
<b>Capital Employed</b>	<b>60.5</b>	<b>84.9</b>	<b>88.1</b>	<b>110.3</b>	<b>158.2</b>	<b>191.0</b>	<b>229.5</b>	<b>273.4</b>
Gross Block	15.4	17.7	18.2	19.3	21.9	26.5	29.3	31.8
Less: Accum. Depn.	3.3	4.6	5.8	7.1	8.4	14.1	16.0	18.4
<b>Net Fixed Assets</b>	<b>12.1</b>	<b>13.1</b>	<b>12.4</b>	<b>12.2</b>	<b>13.4</b>	<b>12.4</b>	<b>13.3</b>	<b>13.4</b>
Intangibles	3.6	4.0	3.8	3.7	3.8	3.8	3.8	3.8
Capital WIP	0.3	0.1	0.2	0.7	1.3	1.3	1.3	1.3
Right of use asset	0.0	9.3	9.2	9.7	12.9	14.1	14.8	15.6
Investments	1.1	1.6	28.2	2.9	25.2	27.0	28.5	29.8
<b>Curr. Assets, L&amp;A</b>	<b>99.3</b>	<b>105.8</b>	<b>109.7</b>	<b>180.8</b>	<b>212.1</b>	<b>255.7</b>	<b>309.0</b>	<b>363.8</b>
Inventory	70.4	81.0	84.1	136.1	165.8	182.5	203.7	217.4
Account Receivables	4.2	3.1	3.7	5.7	6.7	10.5	12.4	14.3
Cash and Bank Balance	10.7	3.8	5.6	15.7	13.4	28.8	54.0	87.3
Others	14.1	17.9	16.3	23.4	26.1	33.9	39.0	44.8
<b>Curr. Liab. and Prov.</b>	<b>55.9</b>	<b>49.0</b>	<b>75.2</b>	<b>99.8</b>	<b>110.5</b>	<b>123.4</b>	<b>141.4</b>	<b>154.2</b>
Current Liabilities	53.9	46.1	73.4	97.4	106.8	120.5	138.2	150.7
Provisions	2.1	2.9	1.9	2.4	3.7	2.9	3.2	3.5
<b>Net Current Assets</b>	<b>43.4</b>	<b>56.8</b>	<b>34.5</b>	<b>81.1</b>	<b>101.6</b>	<b>132.4</b>	<b>167.7</b>	<b>209.6</b>
Misc. Expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>60.5</b>	<b>84.9</b>	<b>88.3</b>	<b>110.3</b>	<b>158.2</b>	<b>191.0</b>	<b>229.5</b>	<b>273.4</b>

E: MOFSL Estimates

## Financials and valuations

## Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>15.7</b>	<b>17.1</b>	<b>11.0</b>	<b>26.2</b>	<b>36.8</b>	<b>40.7</b>	<b>52.8</b>	<b>65.2</b>
Cash EPS	17.3	18.9	12.9	28.3	38.9	47.2	59.9	72.5
BV/Share	68.5	75.2	84.5	105.1	134.1	161.4	199.0	243.2
DPS	6.0	4.1	4.0	7.5	10.0	11.4	20.1	25.4
Payout %	38.5	23.8	36.5	28.6	27.2	28.0	38.0	39.0
<b>Valuation (x)</b>								
P/E	239.1	219.5	339.7	142.8	101.9	92.0	70.9	57.5
Cash P/E	216.1	198.6	290.5	132.4	96.3	79.3	62.6	51.6
EV/Sales	16.8	15.8	15.2	11.5	8.2	6.4	5.4	4.6
EV/EBITDA	166.4	133.5	191.0	96.8	67.8	60.7	47.7	39.4
P/BV	54.7	49.8	44.3	35.6	27.9	23.2	18.8	15.4
Dividend Yield (%)	0.2	0.1	0.1	0.2	0.3	0.3	0.5	0.7
<b>Return Ratios (%)</b>								
RoE	24.9	23.8	13.8	27.7	30.8	27.6	29.4	29.5
RoCE	25.5	22.5	13.0	25.2	26.0	23.3	24.3	24.5
RoIC	28.0	23.9	14.9	32.0	31.2	29.1	33.4	37.7
<b>Working Capital Ratios</b>								
Debtor (Days)	8	5	6	7	6	8	8	7
Asset Turnover (x)	3.3	2.5	2.5	2.6	2.6	2.7	2.6	2.6
<b>Leverage Ratio</b>								
Debt/Equity (x)	0.0	0.1	0.0	0.1	0.2	0.2	0.2	0.1

## Cash Flow Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(loss) before Tax	19.6	21.0	13.3	29.0	44.5	48.1	62.9	77.5
Int./Div. Received	1.1	-0.4	-0.6	-1.3	-1.1	-5.2	-6.0	-6.6
Deferred Revenue Exp.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation & Amort.	1.6	3.5	3.8	4.0	4.4	5.7	6.1	6.4
Interest Paid	-0.5	0.7	1.4	1.2	1.6	5.8	5.6	4.8
Direct Taxes Paid	6.4	5.6	2.7	8.0	11.5	11.8	15.8	19.5
Incr in WC	3.0	22.7	-26.2	32.2	24.1	17.3	10.2	8.6
<b>CF from Operations</b>	<b>12.4</b>	<b>-3.5</b>	<b>41.4</b>	<b>-7.2</b>	<b>13.7</b>	<b>25.2</b>	<b>42.6</b>	<b>54.0</b>
Incr in FA	2.6	3.5	1.4	2.2	4.2	5.9	3.6	3.2
<b>Free Cash Flow</b>	<b>9.8</b>	<b>-6.9</b>	<b>40.0</b>	<b>-9.4</b>	<b>9.5</b>	<b>19.4</b>	<b>39.0</b>	<b>50.8</b>
Investments	0.2	-3.2	27.3	-16.4	18.6	1.8	1.5	1.3
Others	0.2	0.7	-1.4	-7.1	-2.2	-5.2	-6.0	-6.6
<b>CF from Invest.</b>	<b>-3.1</b>	<b>-1.0</b>	<b>-27.3</b>	<b>21.4</b>	<b>-20.6</b>	<b>-2.5</b>	<b>0.9</b>	<b>2.1</b>
Issue of Shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Incr in Debt	0.0	6.9	-5.6	3.4	16.8	6.6	1.4	0.9
Dividend Paid	4.0	5.4	3.6	3.6	6.7	10.1	17.9	22.6
Others	0.9	4.0	3.2	3.9	5.5	3.8	1.8	1.1
<b>CF from Fin. Activity</b>	<b>-4.9</b>	<b>-2.4</b>	<b>-12.3</b>	<b>-4.0</b>	<b>4.6</b>	<b>-7.3</b>	<b>-18.3</b>	<b>-22.8</b>
<b>Incr/Decr of Cash</b>	<b>4.5</b>	<b>-6.9</b>	<b>1.8</b>	<b>10.1</b>	<b>-2.3</b>	<b>15.4</b>	<b>25.2</b>	<b>33.3</b>
Add: Opening Balance	6.2	10.7	3.8	5.6	15.7	13.4	28.8	54.0
<b>Closing Balance</b>	<b>10.7</b>	<b>3.8</b>	<b>5.6</b>	<b>15.7</b>	<b>13.4</b>	<b>28.8</b>	<b>54.0</b>	<b>87.3</b>

E: MOFSL Estimates

## Annexure: Company-wise P/E bands

Recent re-ratings: Colgate, GCPL, ITC, Jyothy, Nestle, Tata Consumer, and Varun Beverages

Recent de-ratings: Asian Paints, Dabur, HUVR, Marico, and PAGE

Exhibit 114: Asian Paints' P/E band (x)

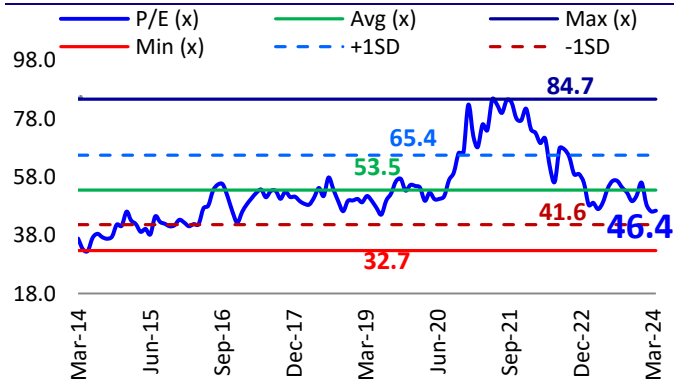


Exhibit 115: Britannia's P/E band (x)

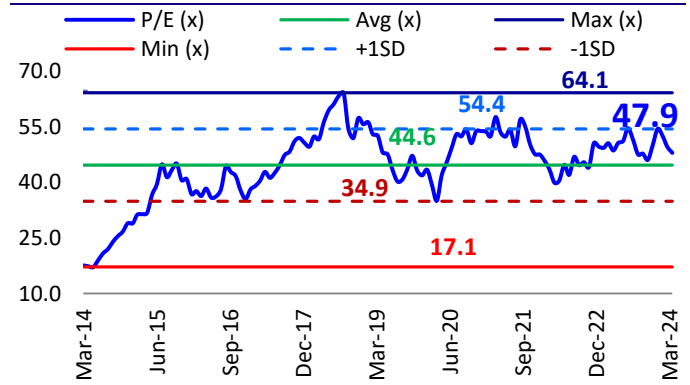


Exhibit 116: Colgate's P/E band (x)

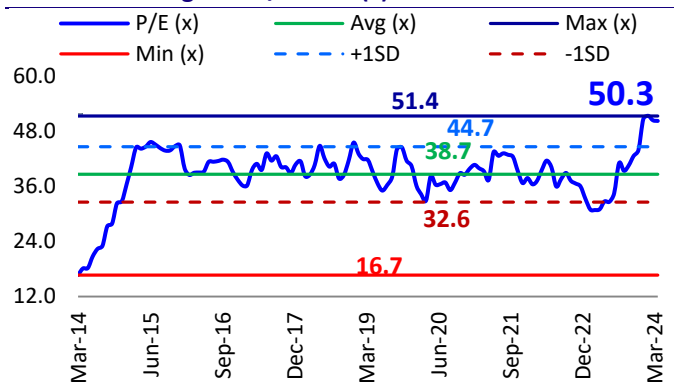


Exhibit 117: Dabur's P/E band (x)

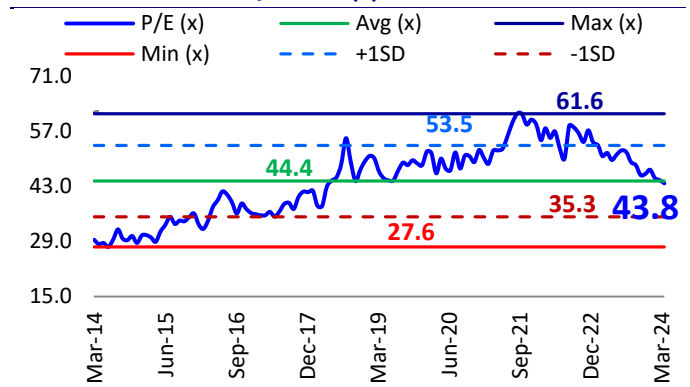


Exhibit 118: Emami's P/E band (x)

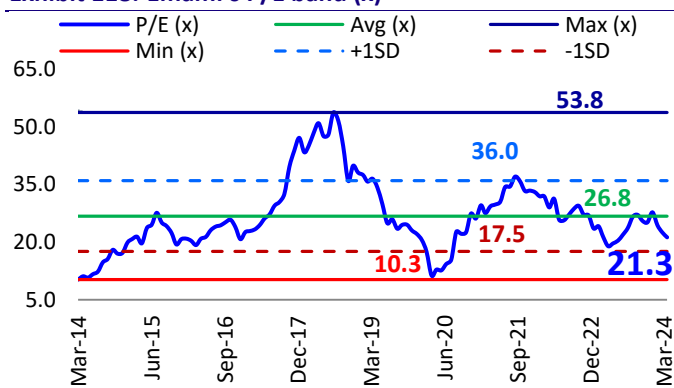


Exhibit 119: Godrej Consumer's P/E band (x)

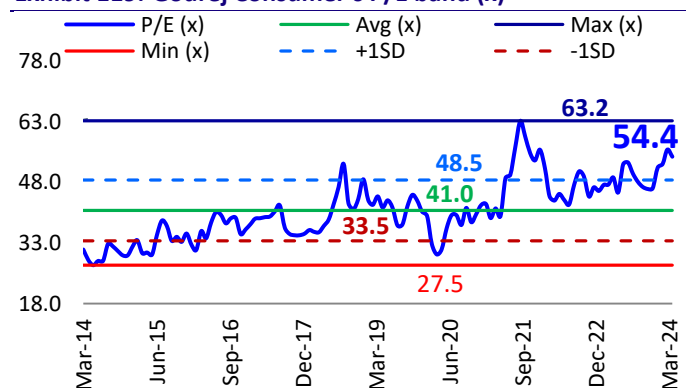


Exhibit 120: HUVR's P/E band (x)

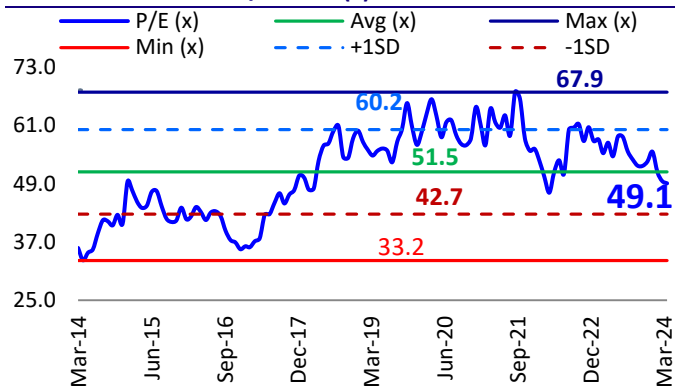


Exhibit 121: Indigo Paint's P/E band (x)

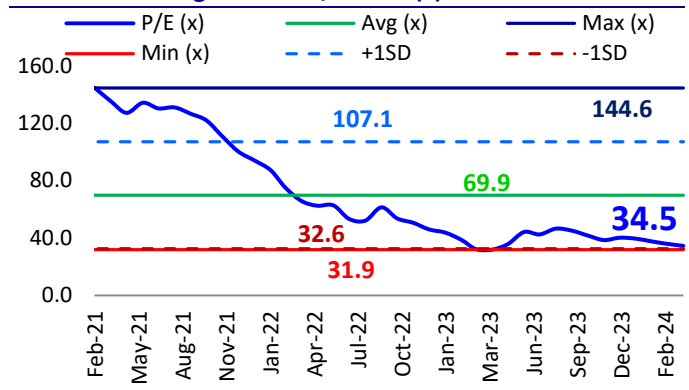


Exhibit 122: ITC's P/E band (x)

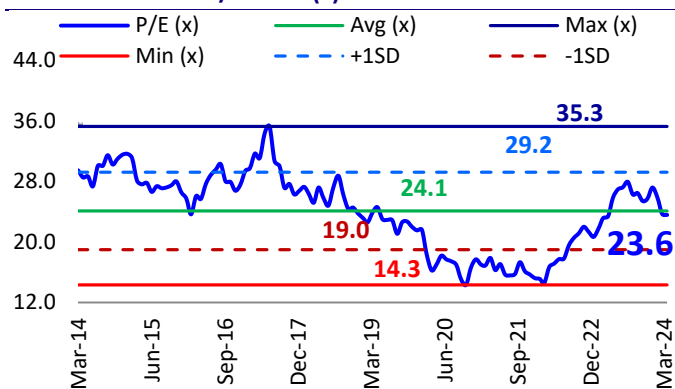


Exhibit 123: Jyothy Labs' P/E band (x)

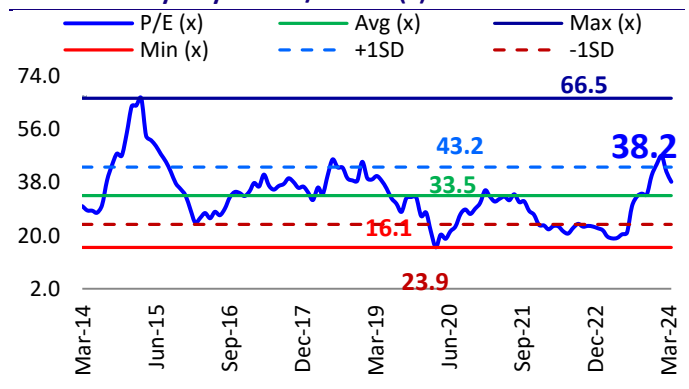


Exhibit 124: Marico's P/E band (x)

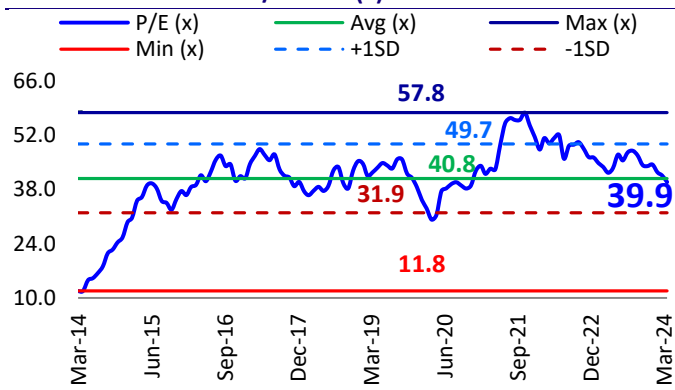


Exhibit 125: Nestle's P/E band (x)

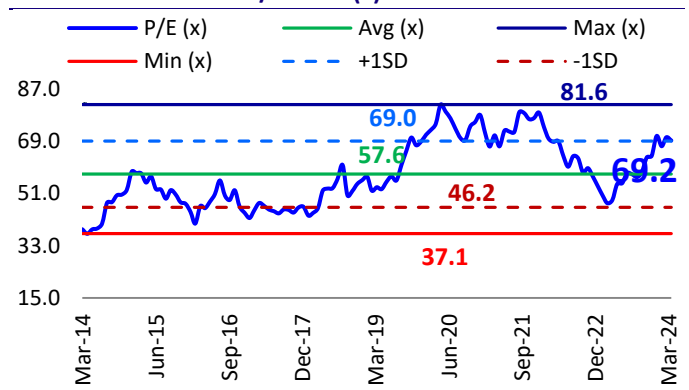


Exhibit 126: P&amp;G Hygiene's P/E band (x)

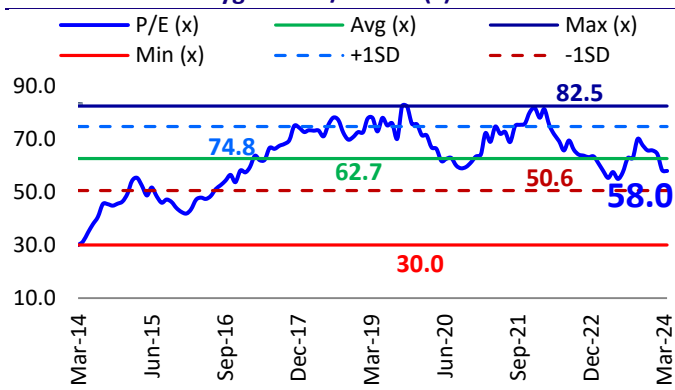
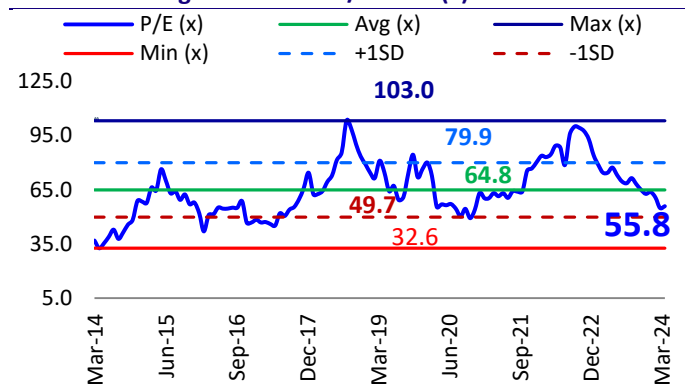
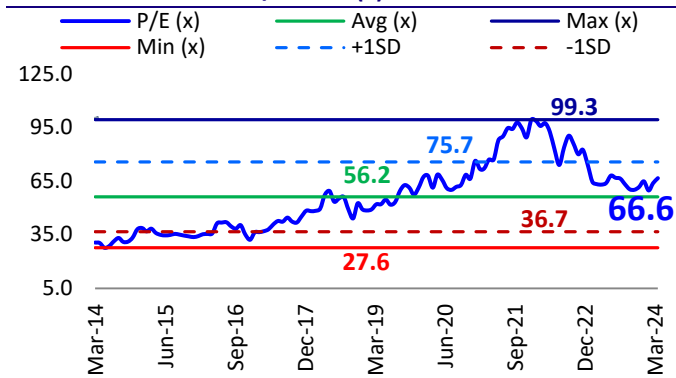
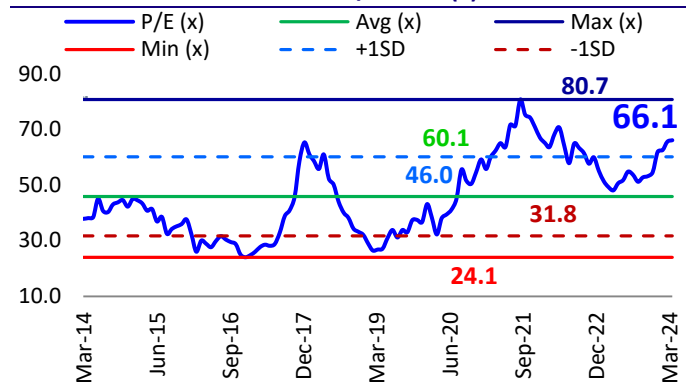


Exhibit 127: Page Industries' P/E band (x)

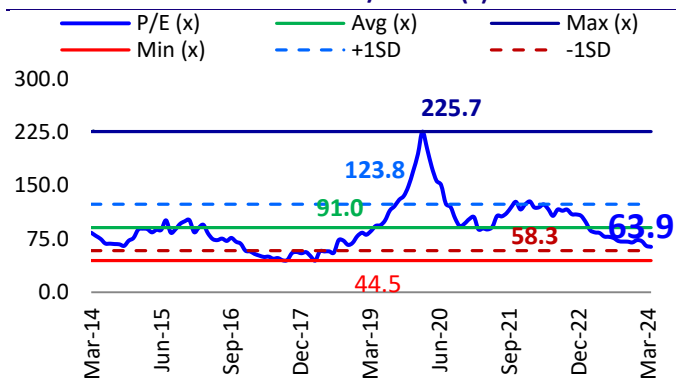
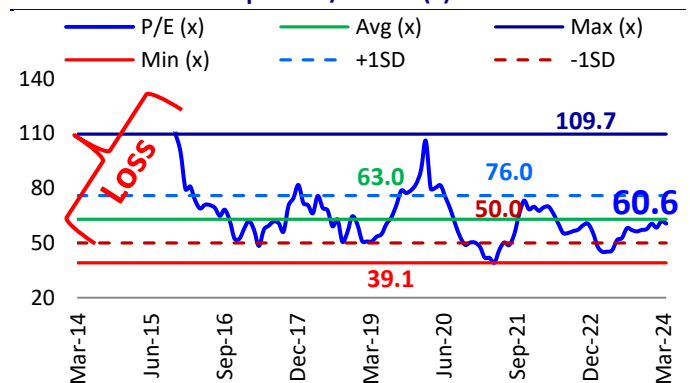
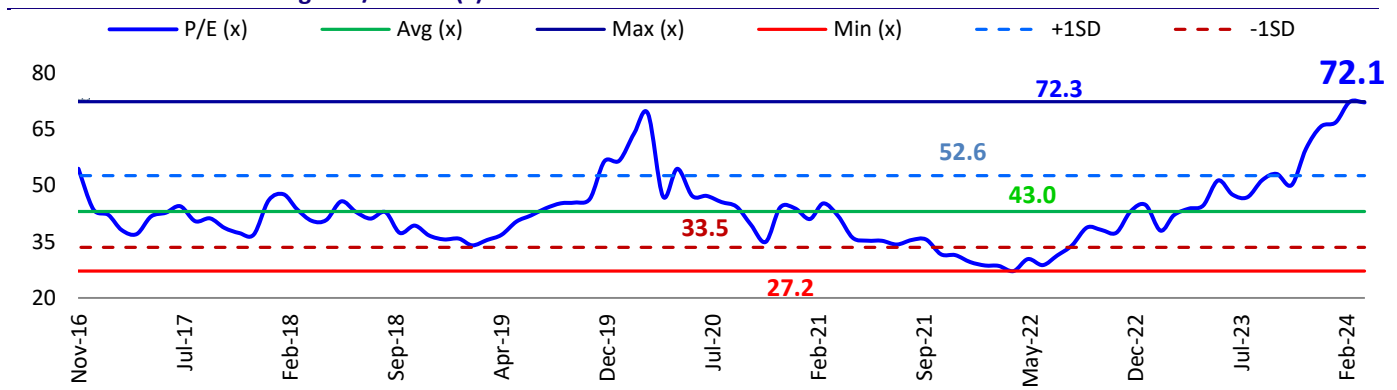


**Exhibit 128: Pidilite's P/E band (x)**

Source: Bloomberg, MOFSL

**Exhibit 129: Tata Consumer's P/E band (x)**

Source: Bloomberg, MOFSL

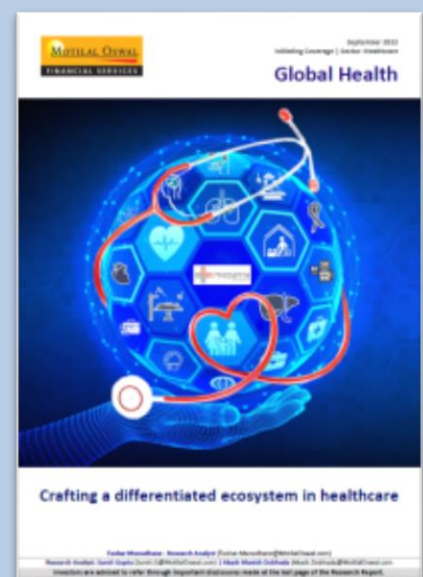
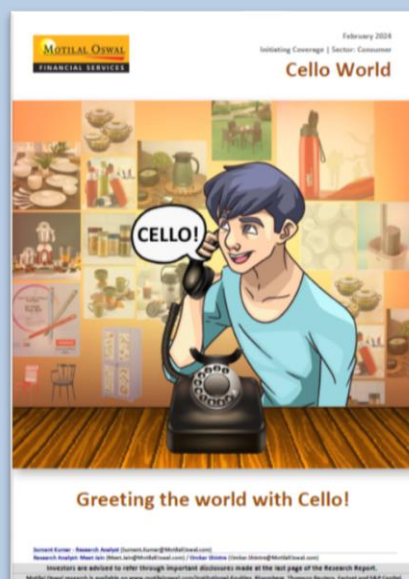
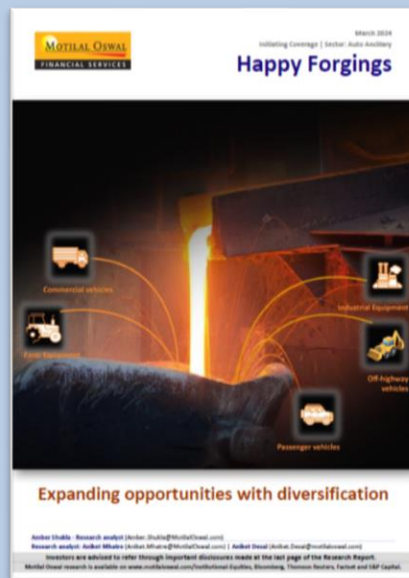
**Exhibit 130: United Breweries' P/E band (x)****Exhibit 131: United Spirits' P/E band (x)****Exhibit 132: Varun Beverage's P/E band (x)**

Source: Bloomberg, MOFSL

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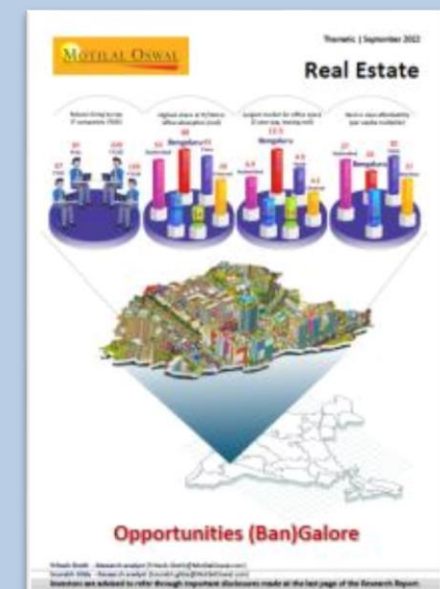
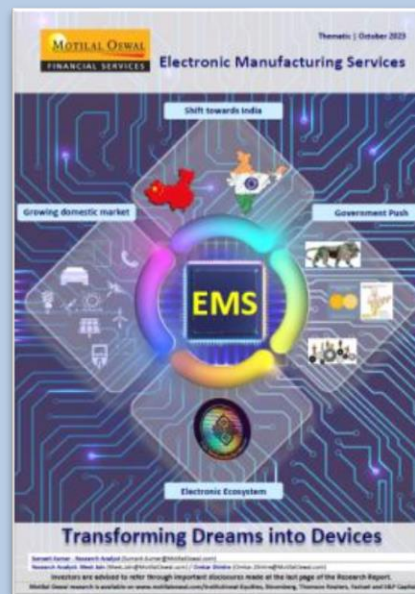
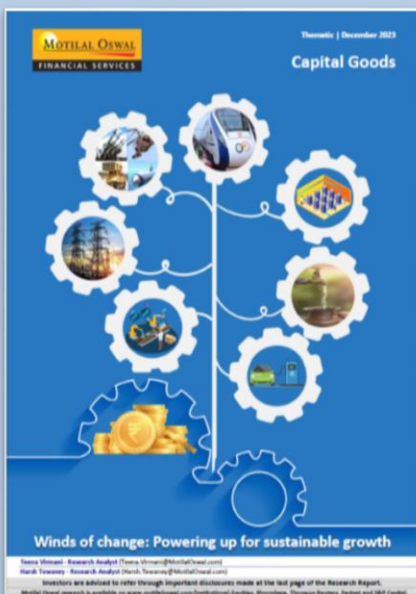
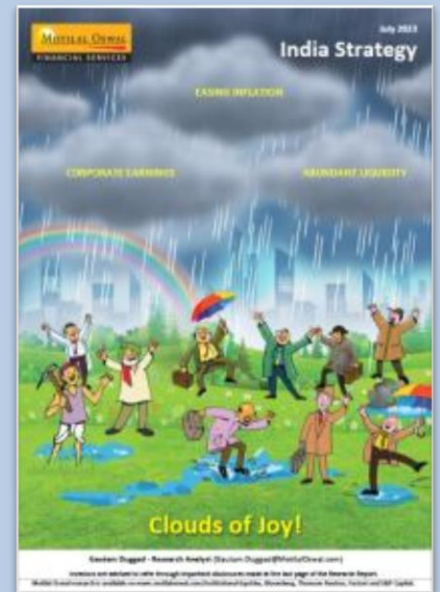
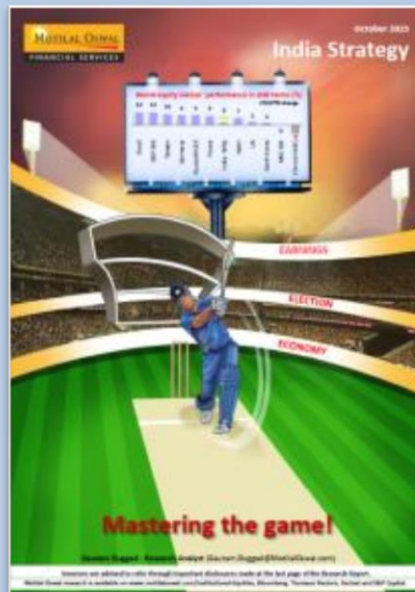


# RECENT INITIATING COVERAGE REPORTS





# RECENT STRATEGY/THEMATIC REPORTS





NOTES

Explanation of Investment Rating	
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

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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