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# India Consumer Sector

## Rural recovery taking root

June 2023

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## CONSUMER

21 June 2023

### Rural recovery taking root

- Encouraging macro data validates our view of rural recovery in FY24; upbeat corporate commentary lends further credence
- FMCG players will be key beneficiaries of improved rural demand and falling input costs, while durables would gain secondarily
- Prefer ITC, NEST, BRIT, Dabur & TCPL among staples and HAVL & CROMPTON among durables to play the rural theme

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**Rural economy on the path to recovery:** After being among the earliest to predict India's rural recovery in March (see our report [Visible signs of rural revival](#)), we now have further macro data corroborating our view. While wage hikes, direct benefit transfers and higher budget allocation for rural infrastructure have all spurred growth, recent economic trends are even more encouraging. As per RBI, the *rabi* harvest may set a record and GDP growth in Q1FY24 is likely to come in at 8% fueled by private consumption and supported by ongoing rural demand revival. The government's crop MSP hike of 5-10% is a further boost for the rural economy.

**Macro and micro both converging toward the positive:** Further to positive developments in the rural economy, the bottom-up commentary of consumer companies also points in the same direction. FMCG companies generate ~40% of revenue from rural markets and are upbeat about business opportunities. Consumer durable companies have also identified rural markets as a key growth driver.

**FMCG sector to benefit from twin tailwinds...:** We believe the consumer staples sector will be the primary beneficiary of rural revival given the twin tailwinds of buoyant rural demand and moderating input costs, anchored by steady urban consumption. The sector reported volume growth in Q4FY23 after five quarters of decline and is well positioned to grow further in FY24.

**...durables will be secondary beneficiaries:** The key drivers for FMCG growth in rural markets will also rub-off on consumer durables, especially for smaller ticket items, such as fans and lighting, which are expected to revive in FY24 after a tepid H2FY23. Rural construction should also buoy demand for cables and wires.

**Our consumer picks for rural revival:** We expect companies with a strong product portfolio and large rural footprint to be key beneficiaries of the rural demand recovery. Our top picks in the staples space are ITC (TP Rs 523, BUY), NEST (TP Rs 26,430, BUY), BRIT (TP Rs 5,844, BUY), DABUR (TP Rs Rs 669, BUY) and TCPL (TP Rs 994, BUY). Among durables, we prefer HAVL (TP Rs 1,600, BUY) and CROMPTON (TP Rs 370, BUY).

### Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	5,056	5,844	BUY
DABUR IN	572	669	BUY
ITC IN	453	523	BUY
NEST IN	22,956	26,430	BUY
TATACONS IN	859	994	BUY
CROMPTON IN	293	370	BUY
HAVL IN	1,347	1,600	BUY
POLYCAB IN	3,542	4,300	BUY

Price & Target in Rupees | Price as of 20 Jun 2023  
 TATACONS = TCPL

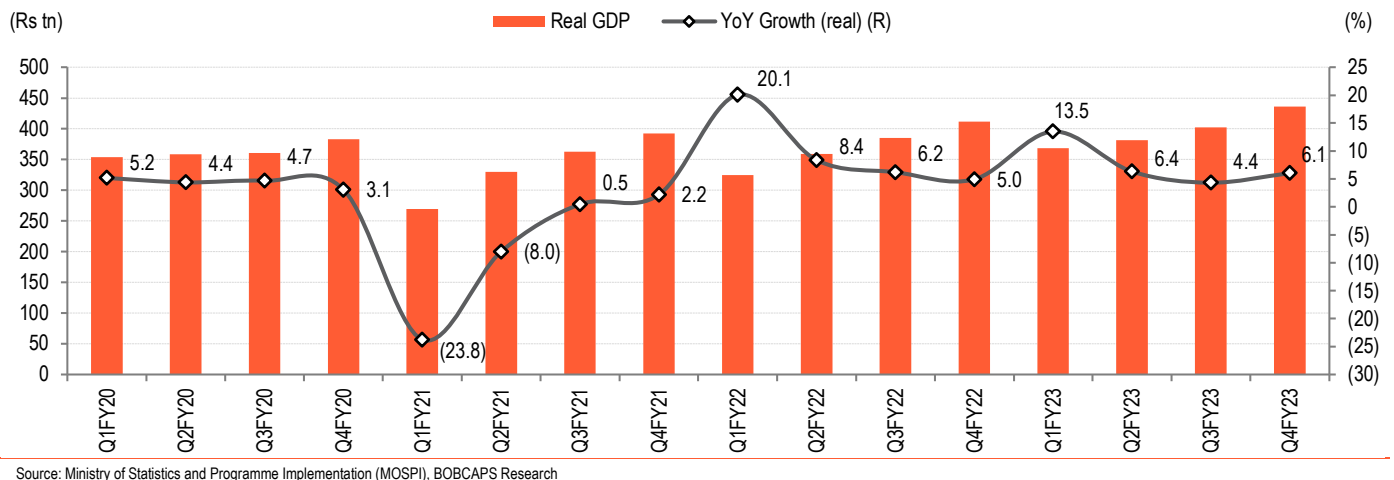


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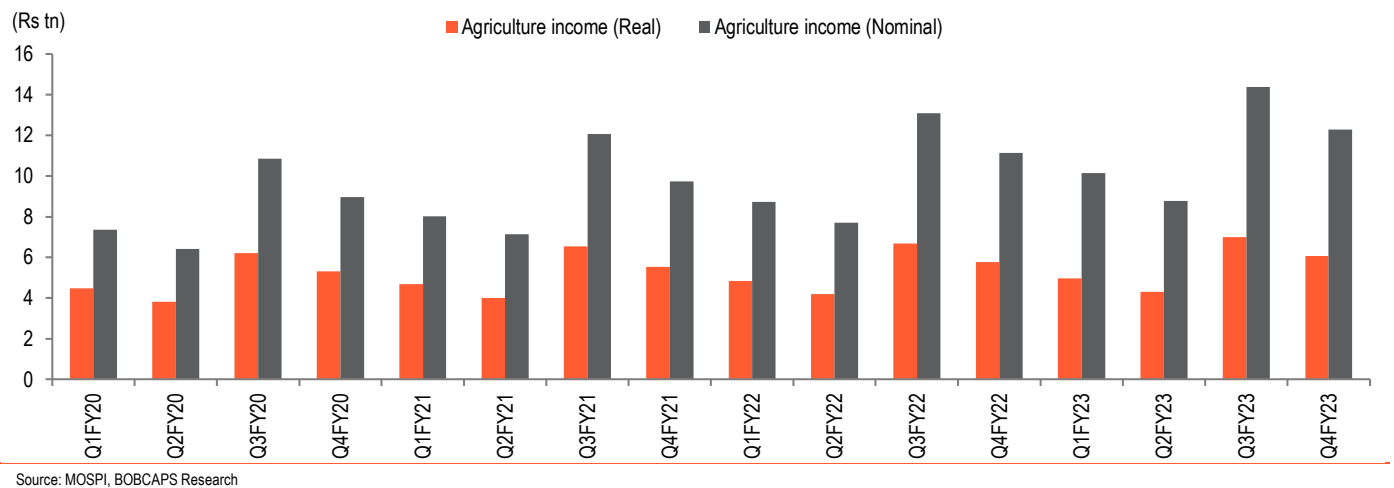
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## Key trends

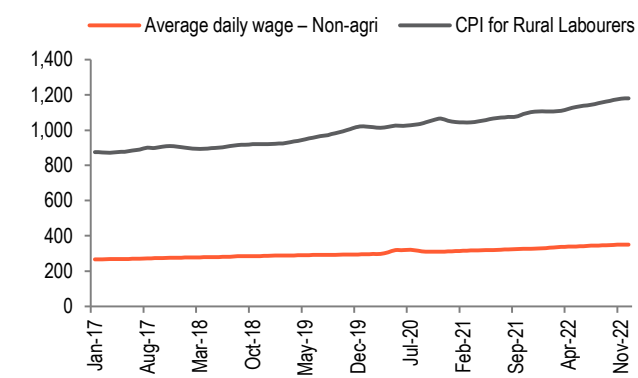
**Fig 1 – GDP growth trend**



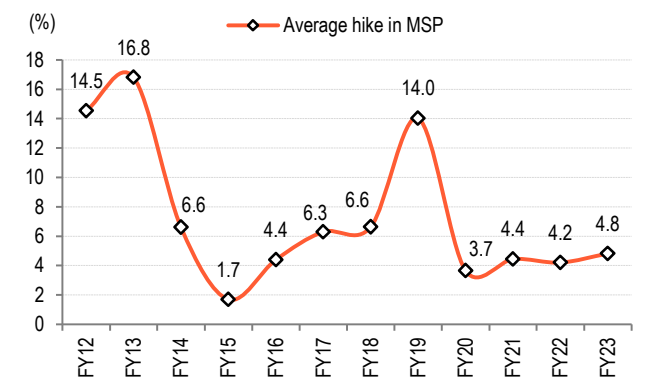
**Fig 2 – Agricultural income – Real and nominal**

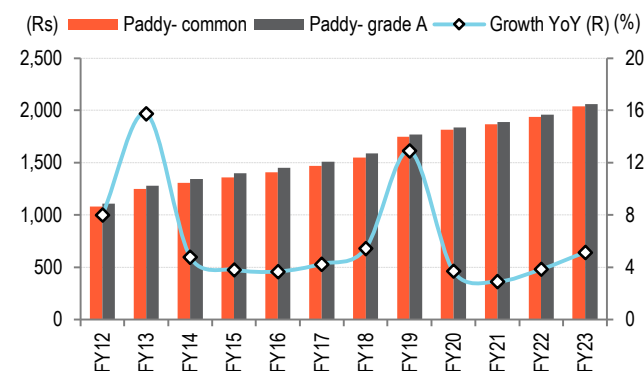


**Fig 3 – Rural wages**

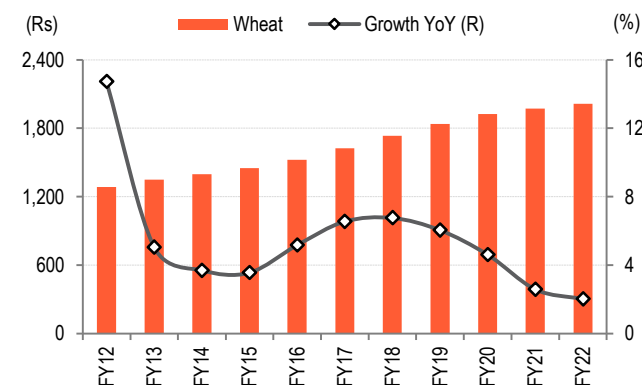


**Fig 4 – Average MSP hikes for the last decade**

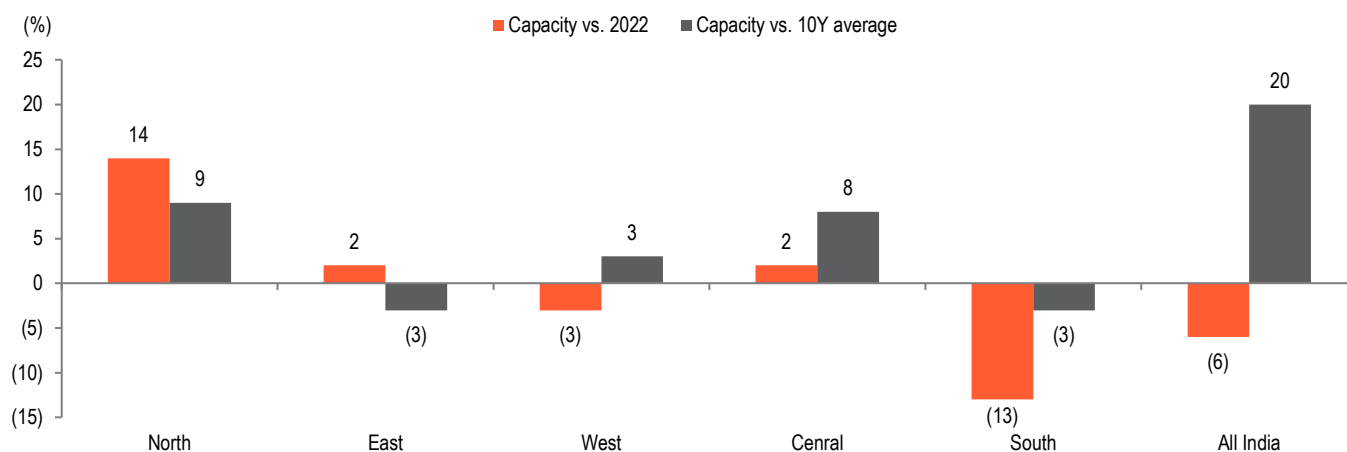


**Fig 5 – Paddy MSP**

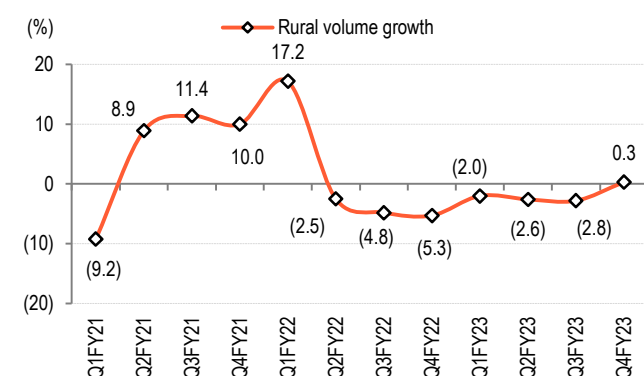
Source: MOSPI, BOBCAPS Research

**Fig 6 – Wheat MSP**

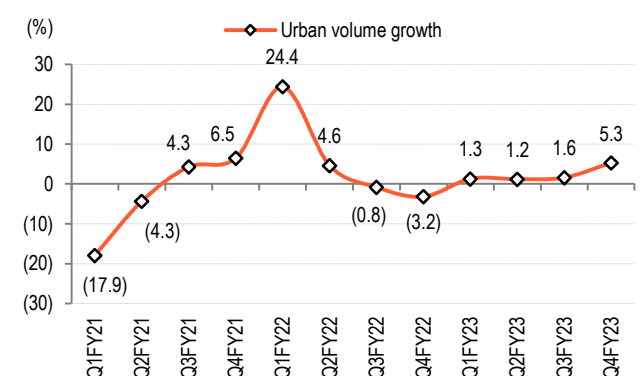
Source: MOSPI, BOBCAPS Research

**Fig 7 – Current reservoir capacity**

Source: CWC, BOBCAPS Research

**Fig 8 – Rural FMCG volume growth**

Source: Company, BOBCAPS Research

**Fig 9 – Urban FMCG volume growth**

Source: Company, BOBCAPS Research

**Fig 10 – Top picks to play the rural theme**

Stock	Investment rationale
<b>FMCG</b>	
<b>Britannia Industries</b> BRIT IN   ▲ 16% BUY   TP: Rs 5,844	<ul style="list-style-type: none"> <li>Rural distributor count climbed to 28,000 in FY23; market share gains in rural India at 1.4x that of the rest of India</li> <li>Innovation focus enabled multiple product launches across markets during FY23 and should sustain double-digit topline growth</li> <li>Rural thrust yielding dividends; we raise our target FY25E P/E to 53x (vs. 51x) for a new TP of Rs 5,844 (vs. Rs 5,623) – maintain BUY</li> </ul>
<b>Dabur India</b> DABUR IN   ▲ 17% BUY   TP: Rs 669	<ul style="list-style-type: none"> <li>Green shoots emerging in rural markets (45% revenue share); direct reach now stands at 1.4mn outlets and villages covered at 100,000</li> <li>Urban demand expected to improve aided by softening inflation, buoyant new-age channels, and stronger consumer sentiment</li> <li>Expect volume growth to revive; we thus raise our target P/E to 49x (vs. 46x) for a new TP of Rs 669 (vs. Rs 628) – maintain BUY</li> </ul>
<b>ITC</b> ITC IN   ▲ 15% BUY   TP: Rs 523	<ul style="list-style-type: none"> <li>Cigarettes business posted strong volume growth during FY23 due to stability in taxes and recovery of volumes from illicit trade</li> <li>FMCG business clocked double-digit growth along with margin expansion to 10%+ driven by premiumisation, pricing, supply chain agility, and digital investments; management sees nascent pickup in rural demand</li> <li>Stellar performance in hotel business with weddings, leisure, and MICE segments buoying growth</li> <li>We raise our SOTP-based TP to Rs 523 (vs. Rs 486) and retain BUY</li> </ul>
<b>Nestle India</b> NEST IN   ▲ 15% BUY   TP: Rs 26,430	<ul style="list-style-type: none"> <li>Strategy of penetration-led volume growth and 'RURBAN' (rural and semiurban) execution yielding results</li> <li>Domestic revenue growth in CY22 the highest in the last decade; investment in digital channels boosting efficiency</li> <li>Expect lead over peers to sustain; we raise our target P/E to 69.5x (vs. 67x) for a revised TP of Rs 26,430 (vs. Rs 24,670) and maintain BUY</li> </ul>
<b>Tata Consumer Products</b> TATACONS IN   ▲ 16% BUY   TP: Rs 994	<ul style="list-style-type: none"> <li>Sustained focus on innovation with 34 products rolled out in FY23 compared to 19 in FY22; strategic steps taken to identify product packs relevant to the rural network and key feeder markets</li> <li>Focused on enhancing semiurban and rural distribution; pan-India direct distribution network raised to 1.5mn outlets and total reach to 3.8mn outlets</li> <li>Core businesses continue to perform well even as the Tata Starbucks JV is expected to add 100 stores during the year, providing added growth visibility; we raise our SOTP-based TP to Rs 994 (vs. Rs 924) and retain BUY</li> </ul>
<b>CONSUMER DURABLES</b>	
<b>Crompton Greaves Consumer</b> CROMPTON IN   ▲ 26% BUY   TP: Rs 370	<ul style="list-style-type: none"> <li>Management outlook positive on rural markets, especially for low-ticket products such as fans and lighting</li> <li>Recent merger with kitchen solutions player BGAL to help broaden the product range for rural consumers</li> <li>Crompton remains among the stronger plays on premiumisation trends in fans; likely rural real estate pickup to further fuel demand – maintain BUY with a TP of Rs 370</li> </ul>
<b>Havells India</b> HAVL IN   ▲ 19% BUY   TP: Rs 1,600	<ul style="list-style-type: none"> <li>Rural markets identified among strategic growth drivers by management; AC segment, in particular, expected to gain traction</li> <li>Retail touchpoints in small towns total 42k with five-fold expansion planned in micro markets (&lt;10k population) during FY24</li> <li>Prominent brand and wide network key positives; we have a BUY rating with a revised TP of Rs 1,600 (vs. Rs 1,500)</li> </ul>
<b>Polycab India</b> POLYCAB IN   ▲ 21% BUY   TP: Rs 4,300	<ul style="list-style-type: none"> <li>Polycab believes India's rural economy has bottomed and is likely to recover through CY23</li> <li>Rural markets a key component of Polycab's 'Project Leap' which carries an overall revenue target of Rs 200bn by FY26</li> <li>Good play on growth in rural infrastructure and housing; maintain BUY with a TP of Rs 4,300 given expected growth acceleration across segments</li> </ul>

Source: BOBCAPS Research



## Rural recovery gaining pace

### Rural economy to underpin Q1FY24 GDP growth

RBI forecasts robust GDP growth of 8% in Q1FY24 aided in part by demand recovery in rural India. As per the RBI Bulletin dated 23 May, “In the first quarter of 2023-24, growth is expected to be driven by private consumption, supported by reviving rural demand, and renewed buoyancy in manufacturing on easing of input cost pressures”.

The central bank attributes rural recovery to encouraging trends in farm output. Per RBI, lead indicators such as *mandi* arrivals and cumulative wheat procurement suggest that the *rabi* harvest may set a new record. Further, *mandi* arrivals of paddy in the *kharif* marketing season that began in Oct'22 have been the highest in eight years.

### El Nino impact on farming to be limited

Agriculture experts anticipate only a minimal disruption to agricultural output from El Nino, even as the India Meteorological Department (IMD) has forecast a normal southwest monsoon. While these are early days in terms of temporal and spatial distribution of rains, which will eventually impact *kharif* crops, the IMD forecast helps allay fears of drought-like conditions under El Nino.

In addition, with advancements in technology and better affordability, the irrigation system has improved across large swathes of India. Experts believe better irrigation along with sufficient water reservoirs has reduced farmers' dependency on the monsoons to some extent (see takeaways from our call with agriculture sector veteran Chengal Reddy: [El Nino to have negligible impact](#)).

As per the Central Water Commission (CWC), India has 146 reservoirs carrying 178bcm of water or 69% of their storage capacity. As of 8 June, the live storage available in these reservoirs stood at 94% of last year's levels but at 120% of the last ten-year average. A total of 55 reservoirs are above last year's storage level and 78 are above the last ten-year mean.

We further note that India has had normal monsoons for four consecutive years from FY20 to FY23 and eight normal monsoons over the last decade. The country has never experienced two consecutive years of El Nino. In the past 20 years, there have been only four instances of El Nino (2002, 2004, 2009 and 2015), with a widening gap between occurrences. The 2023 phase has emerged after a long eight-year stretch. All this points to the possibility of normal monsoons for the next 4-5 years at least.

### Recent MSP hikes a boost to the rural economy

On 7 June, the Indian government raised the minimum support price (MSP) at which it will procure crops from farmers for the 2023-24 *kharif* season by 5-10%. This was higher than the broadly anticipated range of 4-6% and well above the average MSP hike of 5-6% seen in the five-year period between FY18 and FY23. MSPs have doubled over the past decade, indicating a decadal CAGR of 7%, enabling farmers to beat the rural inflation rate of 5-6%. The price hike together with the expected record *rabi* harvest augurs well for the rural economy.

## Dependence on agriculture reducing

India's rural economy is becoming less and less dependent on agriculture – the sector now contributes only 37% of rural GDP whereas services and manufacturing make up ~30% (FY20 data, MoSPI). This reduces the direct reliance on agriculture and hence the impact of monsoons on the rural economy.

The services sector continues to expand rapidly in rural markets. In its latest annual report, state-owned giant State Bank of India indicated that it was strengthening branch networks across regions, especially in rural areas, to ensure sustainable long-term business growth.

## Capex cycle to further propel rural economy

Growth in credit offtake and the resultant increase in private capex are ushering in a virtuous investment cycle in the country. This will have a positive impact on the rural economy as well. Construction is the second largest employer in rural areas after agriculture, directly and through repatriation, implying a strong growth impetus as we move ahead in the capex cycle. During the last cycle (FY05-FY12), the workforce engaged in farming registered a steep contraction from 58.5% to 48.9% as employment opportunities in other areas such as construction opened up.

Currently, ~45% of India's workforce is engaged in agriculture compared to ~42% pre-Covid in FY19 (Source: Periodic Labour Force Survey (PLFS) Survey). This is partly because the effect of reverse migration during the pandemic has not fully corrected, which should change as the capex cycle gains ascendancy.

## Internet access has raised rural aspirations

Rural buying aspirations are catching up with those of urban consumers due to the increased awareness brought about by internet connectivity to online marketplaces and consumption trends. As of May'23, India had 759mn active internet users, a full 50% of its population. RBI expects the internet user base to expand to 900mn by 2025, sustained by deepening internet penetration in rural India.

Research by Bain and Temasek indicates that rural India's per capita income could grow at 4.3x between 2019 and 2030 (vs. 3.5x in urban India). This together with growing internet access is likely to spark a demand boom.



## Corporate commentary upbeat

Apart from positive developments in the rural economy, recent commentary from consumer companies also reflects an optimistic outlook. FMCG players derive ~40% of revenue from rural markets and are upbeat about business opportunities. Consumer durable companies are also looking at rural India as an important element of growth.

**Fig 11 – Key commentary on rural markets**

Company	Comments from management
<b>FMCG</b>	
BRIT	<ul style="list-style-type: none"> <li>The strategy of going heavy on rural has been working for us.</li> <li>So, while some companies have been announcing some kind of slowdown, we have not seen any slowdown in our rural revenues and our volume growth in rural areas.</li> </ul>
DABUR	<ul style="list-style-type: none"> <li>Rural markets have continued to lag urban markets on account of high inflation and downtrading by consumers.</li> <li>Having said that, the silver lining for the year has been the performance of new-age channels and some green shoots which began emerging in rural markets towards the end of the quarter, indicating early signs of revival in demand.</li> </ul>
ITC	<ul style="list-style-type: none"> <li>Commodity price inflation has been cooling off and rural demand should start picking up with an improvement in farmers' incomes on the back of better realisations.</li> </ul>
NEST	<ul style="list-style-type: none"> <li>Rural India for Nestle is clearly resonating, and we are on a path to accelerated growth in rural markets as well.</li> <li>Rural growth has been strong, secular and robust, being volume-led, which gives greater confidence and impetus to our efforts to enhance our footprint.</li> </ul>
TCPL	<ul style="list-style-type: none"> <li>We focused on identifying SKUs relevant to the rural network and key feeder markets to drive reach.</li> <li>With key market mapping and geotagging, the plan is to automate the rural network and augment feet-on-the-ground accordingly.</li> </ul>
<b>Consumer Durables</b>	
CROMPTON	<ul style="list-style-type: none"> <li>We are focused on improving traction in the modern retail channel as well as in the retail rural channel, which grew 2x in Q4FY23 over a lower base cost from the previous year.</li> </ul>
HAVL	<ul style="list-style-type: none"> <li>In the electrical industry, we are seeing that rural penetration has been increasing over the last few years.</li> <li>We do believe that even small towns and rural areas will see demand increase in the future.</li> </ul>
POLYCAB	<ul style="list-style-type: none"> <li>We believe that the domestic economy is likely to remain resilient in H2, with rural demand catching up.</li> </ul>
TTKPT (Not Rated)	<ul style="list-style-type: none"> <li>We are beginning to see green shoots of recovery in rural markets (see our <a href="#">management call takeaways</a>).</li> </ul>

Source: Company, BOBCAPS Research

## Input costs moderating

We expect moderating input costs to lend further impetus to demand, especially in rural areas. Managements' Q4FY23 commentary indicates that margin contraction is easing sequentially as inflation abates, and players are seeing positive volume growth in rural markets. We note that the consumer staples sector reported aggregate volume growth in Q4FY23 after five quarters of decline.

**Fig 12 – Corporate commentary on input cost**

Company	Comments from management
BRIT	<ul style="list-style-type: none"> <li>▪ We have never seen this kind of sustained inflation for such a long time for many years now.</li> <li>▪ We are now in a phase where inflation is going to be moderate and not going to be what we've seen in the last two years.</li> </ul>
DABUR	<ul style="list-style-type: none"> <li>▪ We faced material inflation to the tune of 12.6%. The good news is that margin contraction is sequentially reducing with moderation in inflation.</li> <li>▪ Inflation is abating and we are seeing positive volume growth in rural markets.</li> </ul>
ITC	<ul style="list-style-type: none"> <li>▪ Input costs remain at elevated levels, even as some of the commodities witnessed sequential moderation in prices.</li> </ul>
NEST	<ul style="list-style-type: none"> <li>▪ There were several headwinds for the FMCG sector in India in 2022... a sharp rise in inflation worsened further by supply chain issues with an increase in fuel costs.</li> <li>▪ Rural inflation was higher than urban inflation that delayed rural consumption.</li> <li>▪ In 2022, the company faced almost 810bps of commodity and cost headwinds, against an average of 200-250bps at best.</li> </ul>
TCPL	<ul style="list-style-type: none"> <li>▪ In the past 6-12 months, the sector saw significant input cost inflation with the increase in commodity costs impacting overall demand trends, especially in rural markets.</li> <li>▪ We took strategic pricing interventions to mitigate some of the effects of input cost inflation while protecting the interests of consumers.</li> </ul>

Source: Company, BOBCAPS Research

## Top picks

We believe the consumer staples sector will be the primary beneficiary of rural revival given the twin tailwinds of buoyant rural demand and moderating input costs, anchored by steady urban consumption. The key drivers for FMCG growth in rural markets will also rub-off on consumer durables.

We prefer companies with a strong product portfolio and large rural footprint – viz. ITC (TP Rs 523, BUY), NEST (TP Rs 26,430, BUY), BRIT (TP Rs 5,844, BUY), DABUR (TP Rs 669, BUY), and TCPL (TP Rs 994, BUY) in the staples space, and HAVL (TP Rs 1,600, BUY) and CROMPTON (TP Rs 370, BUY) among durables.

## Risks to our view

### Weaker-than-expected monsoon

The IMD has called for a normal monsoon this year even as the positive Indian Ocean Dipole (when the western Indian Ocean becomes cooler than the eastern Indian Ocean) could also lower the effect of El Nino. However, should India's monsoon prove to be below-normal, kharif output and hence rural incomes will be affected, thereby impacting rural demand.

### Poor temporal and spatial distribution of rainfall

Even in case of a normal monsoon, its temporal and spatial distribution determines kharif output. Erratic or scanty rainfall in arable locations will affect the harvest and hence rural incomes, hurting demand.

### Southern agrarian belt could be harder hit in an El Nino year

India's southern delta is a key agricultural area that is irrigated by rivers such as the Krishna, Godavari and Cauvery, most of which are rainfed unlike northern rivers which are snow-fed. The impact of deficit rainfall would, thus, be felt more in South India. This apart, while the national reservoir capacity is comfortable, there is a deficit in southern reservoir capacity (Fig 7) that can make it harder to counter any El Nino impact.



**BUY****TP: Rs 5,844 | ▲ 16%****BRITANNIA INDUSTRIES**

Consumer Staples

21 June 2023

**Sharp rural thrust**

- Rural distributor count climbed to 28,000 in FY23; market share gains in rural India at 1.4x that of the rest of India
- Innovation focus enabled multiple product launches across markets during FY23 and should sustain double-digit topline growth
- Rural thrust yielding dividends; we raise target P/E to 53x (vs. 51x) for a revised TP of Rs 5,844 (vs. Rs 5,623) – maintain BUY

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**Sharper focus on rural markets yielding results:** Over the past six-and-a-half years, BRIT has expanded rural sales four-fold due to enhanced penetration in these markets. The company added 2,000 rural distributors in FY23, taking the pan-India count to 28,000 distributors at the end of Mar'23 (v. 8,000 in FY16). The company expects to increase its direct distribution reach by ~15% YoY in coming years and has raised its focus on the Hindi belt to drive penetration-led growth.

**Improved market penetration enables steady market share gains:** BRIT continues to gain market share in rural India, at 1.4 times its share gains in the rest of India. The company's strategy of amplifying its focus on non-urban demand centres is yielding results, even as several peers have been citing a rural slowdown as the reason for their underperformance.

**Sustained focus on innovation and adjacent categories:** BRIT continues to invest in innovation and launched multiple products during FY23, including plum cake in the east and south, *Tic Tac Toe* (snack) in the south, and a fresh portfolio of *paneer* in the western region. The company is also scaling up its recent launches in cake, croissant, and biscuits. BRIT has ensured that its product portfolio is relevant for rural markets as well.

**Augmenting manufacturing capabilities to support growth:** Two greenfield biscuit units were commercialised during the quarter at Uttar Pradesh and Tamil Nadu, along with brownfield expansion in Odisha. Operations also commenced at three manufacturing lines for rusk, in line with management's strategy of manufacturing inhouse and enhancing productivity.

**Maintain BUY:** BRIT continues to report double-digit growth with improvement in margins. We expect BRIT's focus on innovation, brand investment, rural expansion, and product launches to spur profitable growth. The stock is trading at 51.5x/45.8x FY24E/FY25E EPS. We maintain BUY and value the stock at 53x FY25E EPS from 51x earlier, assigning a 30% premium to the 10Y average multiple to bake in the improving earning visibility. This yields a revised TP of Rs 5,844 (vs. Rs 5,623).

**Key changes**

Target	Rating
▲	◀ ▶

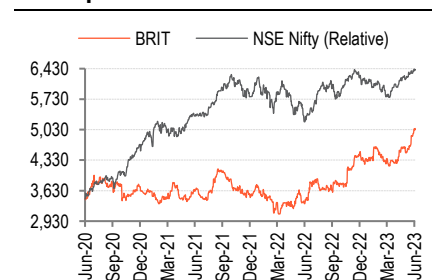
Ticker/Price	BRIT IN/Rs 5,056
Market cap	US\$ 14.8bn
Free float	49%
3M ADV	US\$ 19.8mn
52wk high/low	Rs 5,064/Rs 3,360
Promoter/FPI/DII	51%/19%/30%

Source: NSE | Price as of 20 Jun 2023

**Key financials**

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,63,006	1,82,922	2,01,583
EBITDA (Rs mn)	28,309	33,166	37,446
Adj. net profit (Rs mn)	19,461	23,649	26,561
Adj. EPS (Rs)	80.8	98.2	110.3
Consensus EPS (Rs)	80.8	88.3	101.3
Adj. ROAE (%)	65.1	51.1	48.9
Adj. P/E (x)	62.6	51.5	45.9
EV/EBITDA (x)	43.0	36.7	32.5
Adj. EPS growth (%)	27.6	21.5	12.3

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

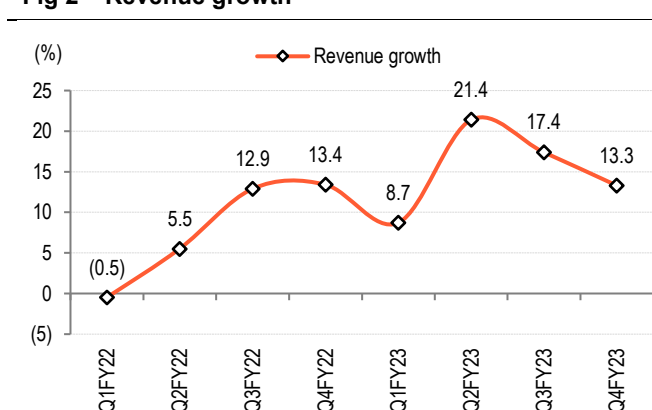
**Stock performance**

Source: NSE

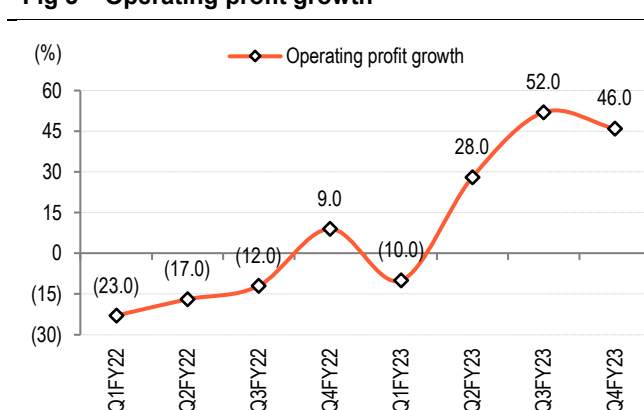
**Fig 1 – Financial performance**

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	40,232	41,968	35,505	(4.1)	13.3	163,006	141,363	15.3
EBITDA	8,009	8,176	5,497	(2.0)	45.7	28,309	22,015	28.6
Adj. PAT	5,587	5,568	3,798	0.3	47.1	19,461	15,258	27.5
Gross Margin (%)	44.9	43.7	38.0	120bps	690bps	41.2	38.0	320bps
EBITDA Margin (%)	19.9	19.5	15.5	40bps	440bps	17.4	15.6	180bps
Adj. PAT Margin (%)	13.9	13.3	10.7	60bps	320bps	11.9	10.8	110bps

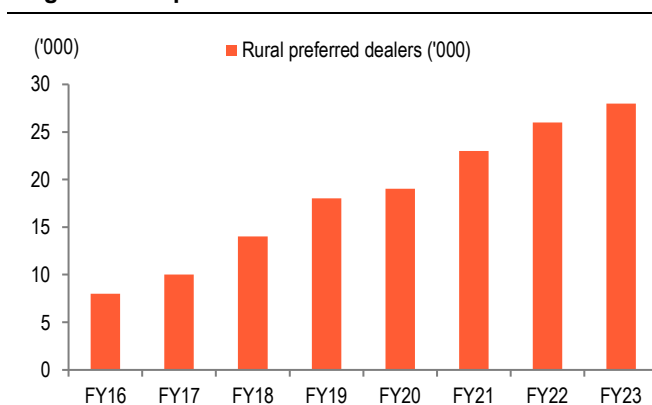
Source: Company, BOBCAPS Research

**Fig 2 – Revenue growth**

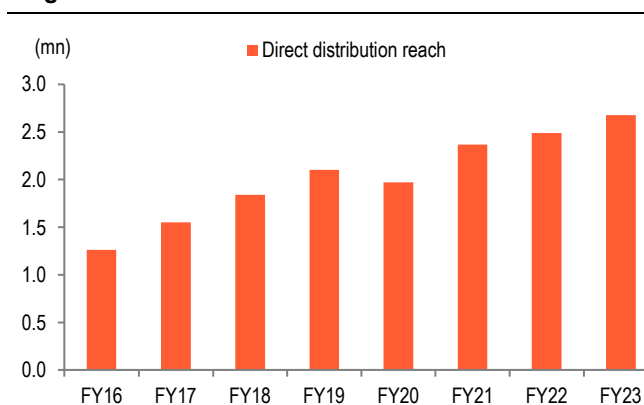
Source: Company, BOBCAPS Research

**Fig 3 – Operating profit growth**

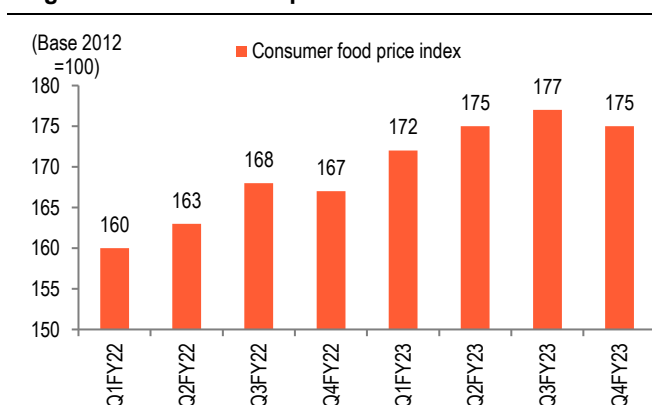
Source: Company, BOBCAPS Research

**Fig 4 – Rural preferred dealers**

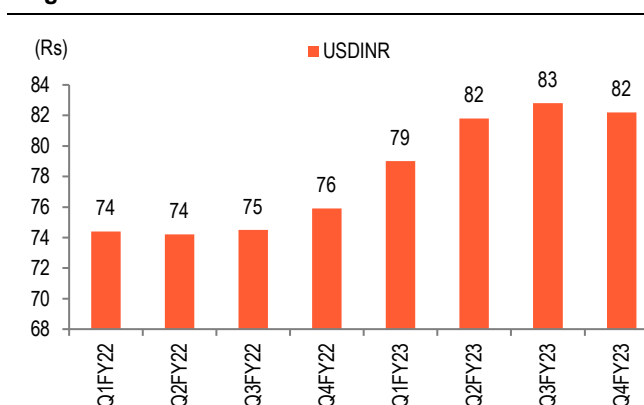
Source: Company, BOBCAPS Research

**Fig 5 – Direct distribution reach**

Source: Company, BOBCAPS Research

**Fig 6 – Consumer food price index**

Source: Company, BOBCAPS Research

**Fig 7 – USDINR rate**

Source: Company, BOBCAPS Research

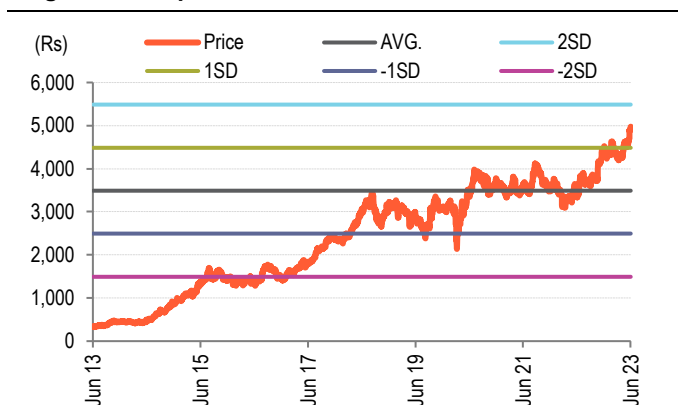


## Valuation methodology

BRIT continues to report double-digit growth with margin expansion despite high inflation in key commodities. We expect the company's innovation focus, broad manufacturing capabilities, increased brand investments, improving direct reach and rural presence, along with product launches to spur profitable growth.

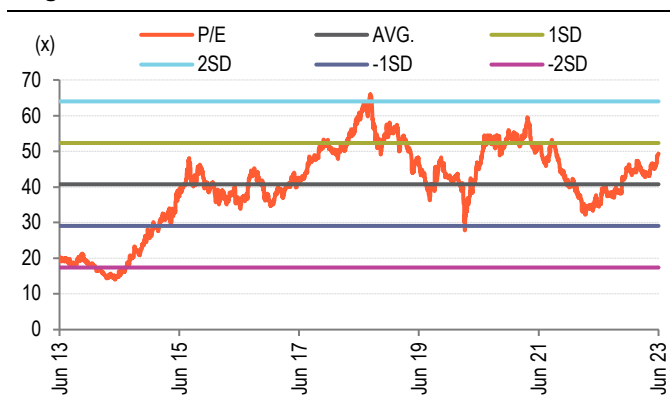
The stock is trading at 51.5x/45.8x FY24E/FY25E EPS. We maintain BUY and value the stock at 53x FY25E EPS from 51x earlier, assigning a 30% premium to the 10-year average multiple to bake in the improving earning visibility. This yields a revised TP of Rs 5,844 (earlier Rs 5,623).

**Fig 8 – Stock price band**



Source: Company, BOBCAPS Research

**Fig 9 – P/E 1Y fwd band**



Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- continued slowdown in rural consumption, and
- a further rise in wheat and milk prices.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>1,31,361</b>	<b>1,41,363</b>	<b>1,63,006</b>	<b>1,82,922</b>	<b>2,01,583</b>
EBITDA	25,093	22,015	28,309	33,166	37,446
Depreciation	1,979	2,005	2,259	2,591	2,923
EBIT	23,114	20,010	26,050	30,574	34,523
Net interest inc./(exp.)	1,109	1,443	1,691	1,866	1,846
Other inc./(exp.)	3,129	2,228	2,159	3,669	3,687
Exceptional items	6	10	(3,756)	0	0
EBT	25,128	20,785	30,274	32,378	36,364
Income taxes	6,630	5,624	7,165	8,742	9,818
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(133)	(88)	(55)	(13)	(15)
<b>Reported net profit</b>	<b>18,639</b>	<b>15,248</b>	<b>23,217</b>	<b>23,649</b>	<b>26,561</b>
Adjustments	6	10	(3,756)	0	0
<b>Adjusted net profit</b>	<b>18,645</b>	<b>15,258</b>	<b>19,461</b>	<b>23,649</b>	<b>26,561</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	13,148	13,228	14,488	17,431	18,945
Other current liabilities	1,405	1,307	1,763	1,692	1,864
Provisions	3,875	4,851	5,390	6,269	6,882
Debt funds	20,872	24,655	29,805	28,116	27,816
Other liabilities	4,949	5,377	6,435	6,845	7,464
Equity capital	241	241	241	241	241
Reserves & surplus	35,599	25,615	35,404	46,059	54,042
Shareholders' fund	35,840	25,856	35,645	46,300	54,283
<b>Total liab. and equities</b>	<b>80,088</b>	<b>75,275</b>	<b>93,527</b>	<b>1,06,652</b>	<b>1,17,254</b>
Cash and cash eq.	1,427	1,181	1,024	4,336	9,743
Accounts receivables	2,573	3,319	3,289	7,517	8,284
Inventories	10,915	13,675	11,933	13,192	14,338
Other current assets	15,349	13,312	13,207	13,883	14,631
Investments	27,949	17,763	33,649	33,849	34,049
Net fixed assets	16,343	15,841	24,722	27,131	29,207
CWIP	1,165	5,357	1,050	1,050	1,050
Intangible assets	1,444	1,552	1,424	1,424	1,424
Deferred tax assets, net	97	517	573	669	737
Other assets	2,825	2,759	2,658	3,600	3,791
<b>Total assets</b>	<b>80,088</b>	<b>75,275</b>	<b>93,527</b>	<b>1,06,652</b>	<b>1,17,254</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>25,083</b>	<b>18,864</b>	<b>32,520</b>	<b>31,202</b>	<b>37,719</b>
Capital expenditures	(2,405)	(5,502)	(7,115)	(5,000)	(5,000)
Change in investments	4,675	12,495	(10,300)	(200)	(200)
Other investing cash flows	2,086	2,116	2,244	2,623	3,430
<b>Cash flow from investing</b>	<b>4,356</b>	<b>9,109</b>	<b>(15,171)</b>	<b>(2,577)</b>	<b>(1,770)</b>
Equities issued/Others	1,032	0	0	0	0
Debt raised/repaid	5,690	(3,387)	2,292	(1,689)	(300)
Interest expenses	(1,013)	(1,186)	(1,957)	(1,866)	(1,846)
Dividends paid	(28,238)	(24,848)	(13,592)	(13,007)	(18,592)
Other financing cash flows	104	6,963	2,974	13	15
<b>Cash flow from financing</b>	<b>(22,425)</b>	<b>(22,458)</b>	<b>(10,284)</b>	<b>(16,549)</b>	<b>(20,724)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>686</b>	<b>(353)</b>	<b>(192)</b>	<b>3,334</b>	<b>5,407</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,427</b>	<b>1,181</b>	<b>980</b>	<b>4,336</b>	<b>9,743</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	77.4	63.3	96.4	98.2	110.3
Adjusted EPS	77.4	63.3	80.8	98.2	110.3
Dividend per share	118.0	74.5	56.4	54.0	77.2
Book value per share	148.8	107.3	148.0	192.2	225.3

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	9.3	8.6	7.5	6.7	6.0
EV/EBITDA	48.5	55.3	43.0	36.7	32.5
Adjusted P/E	65.3	79.8	62.6	51.5	45.9
P/BV	34.0	47.1	34.2	26.3	22.4

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	74.2	73.4	76.7	73.0	73.0
Interest burden (PBT/EBIT)	80.6	76.2	89.1	77.3	76.9
EBIT margin (EBIT/Revenue)	17.6	14.2	16.0	16.7	17.1
Asset turnover (Rev./Avg TA)	164.0	187.8	174.3	171.5	171.9
Leverage (Avg TA/Avg Equity)	2.2	2.9	2.6	2.3	2.2
<b>Adjusted ROAE</b>	<b>52.0</b>	<b>59.0</b>	<b>65.1</b>	<b>51.1</b>	<b>48.9</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	13.2	7.6	15.3	12.2	10.2
EBITDA	36.1	(12.3)	28.6	17.2	12.9
Adjusted EPS	31.1	(18.2)	27.6	21.5	12.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	19.1	15.6	17.4	18.1	18.6
EBIT margin	17.6	14.2	16.0	16.7	17.1
Adjusted profit margin	14.2	10.8	11.9	12.9	13.2
Adjusted ROAE	52.0	59.0	65.1	51.1	48.9
ROCE	40.8	39.6	39.8	41.1	42.1

### Working capital days (days)

Receivables	7	9	7	15	15
Inventory	52	57	45	45	45
Payables	63	55	55	60	60

### Ratios (x)

Gross asset turnover	1.5	1.6	1.5	1.5	1.5
Current ratio	1.2	1.0	1.1	1.4	1.5
Net interest coverage ratio	20.8	13.9	15.4	16.4	18.7
<b>Adjusted debt/equity</b>	<b>0.6</b>	<b>1.0</b>	<b>0.8</b>	<b>0.6</b>	<b>0.5</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**BUY**

TP: Rs 669 | ▲ 17%

**DABUR INDIA**

Consumer Staples

21 June 2023

## Steady growth; improving demand visibility

- **Green shoots emerging in rural markets (45% revenue share); direct reach now stands at 1.4mn outlets and villages covered at 100,000**
- **Urban demand to improve aided by softening inflation, buoyant new-age channels, and stronger consumer sentiment**
- **Expect revival in volume growth; we raise our target P/E to 49x (vs. 46x) for a revised TP of Rs 669 (vs. Rs 628) – maintain BUY**

**Vikrant Kashyap**

research@bobcaps.in

**Improving visibility in a difficult environment:** Consumer companies faced a challenging operating environment in FY23 as rural markets continued to slow on account of high inflation, inclement weather and downtrading by consumers. However, in its Q4FY23 earnings commentary, Dabur indicated that it did see some volume growth toward the end of the year. Despite facing difficulties such as demand slowdown in categories and currency headwinds, Dabur aggressively pursued business growth and added market share across the portfolio during the year.

**Green shoots emerging in rural markets:** Rural markets continued to lag urban centres. However, management indicated that the silver lining in FY23 has been the performance of new-age channels, apart from early signs of demand revival towards the end of the year. Given moderating inflation, the company indicated that it is now seeing positive volume growth in rural India.

**Urban market demand expected to expand:** Dabur expects demand in urban markets to improve aided by softening inflation, buoyant new-age channels, and better consumer sentiment. Q4 commentary reflects the company's sustained focus on market share gains and delivering growth ahead of industry on the back of power brands, distribution coverage expansion, cost optimisation and efficiency enhancement initiatives.

**Expansion of distribution network:** The company continued to expand distribution in FY23 and now has a direct reach of 1.4mn outlets. Total village coverage has risen to 100,000.

**Maintain BUY:** Dabur continues to grow ahead of the market and to gain share. With easing inflation and improving rural demand, we expect a revival in volume growth across the portfolio. We thus raise our target FY25E P/E multiple to 49x from 46x, assigning a 10% premium to the stock's 10Y average multiple, and maintain BUY with a revised TP of Rs 669 (earlier Rs 628).

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DABUR IN/Rs 572
Market cap	US\$ 12.3bn
Free float	33%
3M ADV	US\$ 14.1mn
52wk high/low	Rs 611/Rs 492
Promoter/FPI/DII	66%/20%/14%

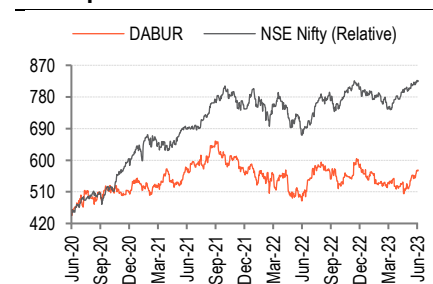
Source: NSE | Price as of 20 Jun 2023

## Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,15,299	1,30,189	1,47,820
EBITDA (Rs mn)	21,641	25,510	31,060
Adj. net profit (Rs mn)	17,072	20,106	24,193
Adj. EPS (Rs)	9.6	11.3	13.7
Consensus EPS (Rs)	9.6	12.1	13.9
Adj. ROAE (%)	19.1	20.3	22.2
Adj. P/E (x)	59.4	50.4	41.9
EV/EBITDA (x)	46.8	39.7	32.6
Adj. EPS growth (%)	(2.1)	17.8	20.3

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

## Stock performance

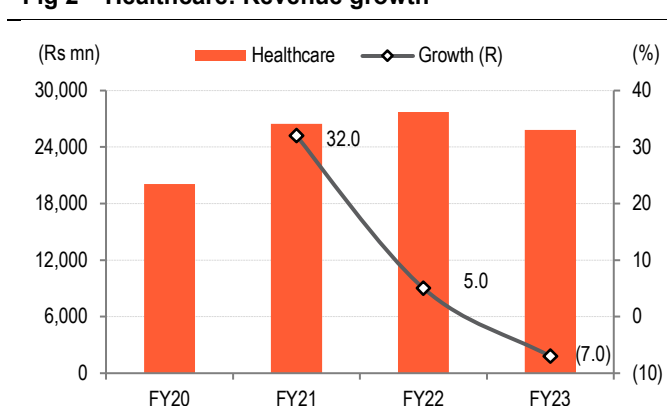


Source: NSE

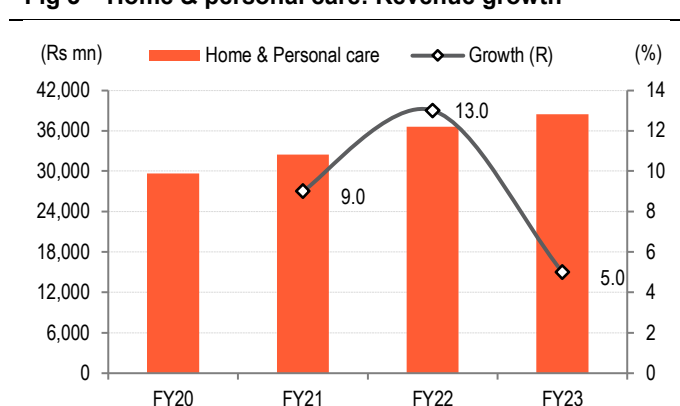
**Fig 1 – Financial performance**

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	26,778	30,432	25,178	(12.0)	6.4	115,299	108,887	5.9
EBITDA	4,098	6,099	4,536	(32.8)	(9.6)	21,641	22,538	(4.0)
Adj. PAT	3,008	4,759	3,792	(36.8)	(20.7)	17,072	18,242	(6.4)
Gross Margin (%)	46.0	45.5	47.4	50bps	(140bps)	45.6	48.2	(260bps)
EBITDA Margin (%)	15.4	20.0	18.0	(460bps)	(260bps)	18.8	20.7	(190bps)
Adj. PAT Margin (%)	11.3	15.6	15.1	(430bps)	(380bps)	14.8	16.8	(200bps)

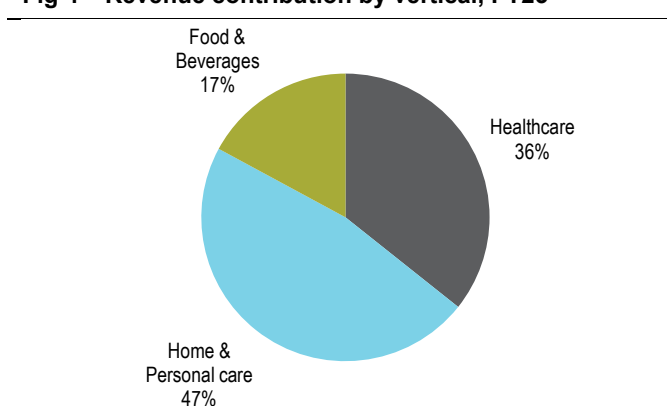
Source: Company, BOBCAPS Research

**Fig 2 – Healthcare: Revenue growth**

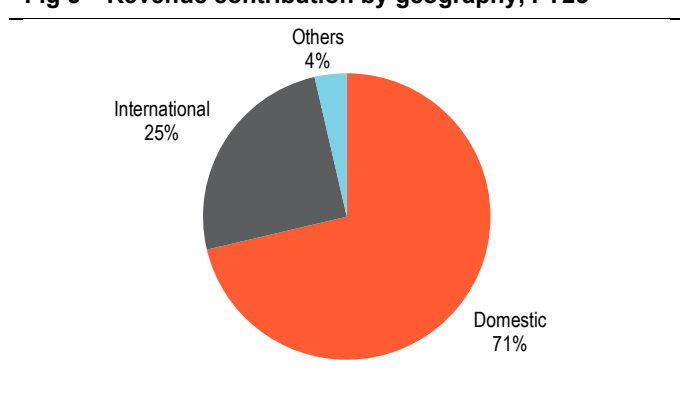
Source: Company, BOBCAPS Research

**Fig 3 – Home & personal care: Revenue growth**

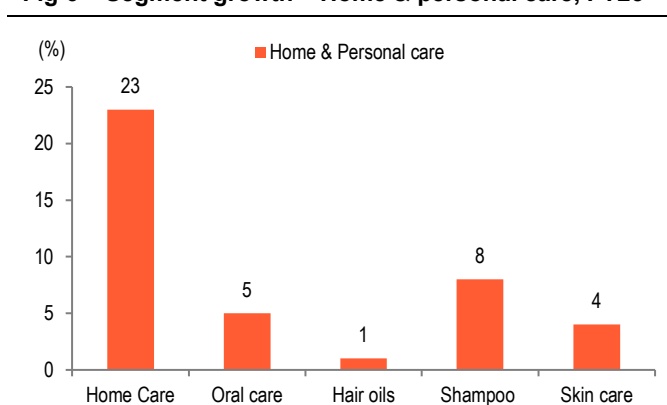
Source: Company, BOBCAPS Research

**Fig 4 – Revenue contribution by vertical, FY23**

Source: Company, BOBCAPS Research

**Fig 5 – Revenue contribution by geography, FY23**

Source: Company, BOBCAPS Research

**Fig 6 – Segment growth – Home & personal care, FY23**

Source: Company, BOBCAPS Research

**Fig 7 – Segment growth – Food & beverages, FY23**

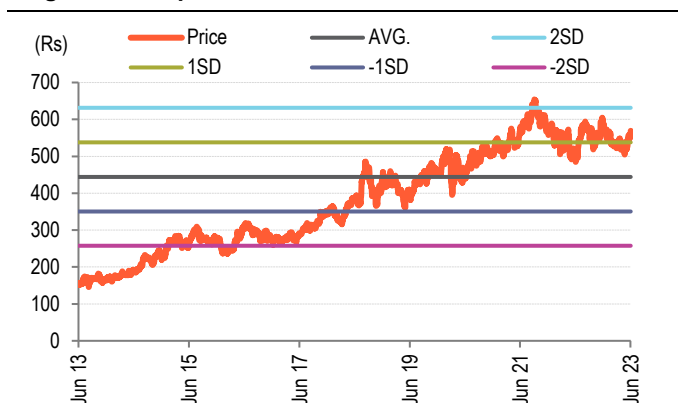
Source: Company, BOBCAPS Research

## Valuation methodology

Dabur continues to grow ahead of the market and to gain share despite persisting challenges in key categories. With softening inflation and improving rural demand, we expect a revival in volume growth across the portfolio. Planned ramp-up of investment in advertising & promotion will lend further impetus to growth.

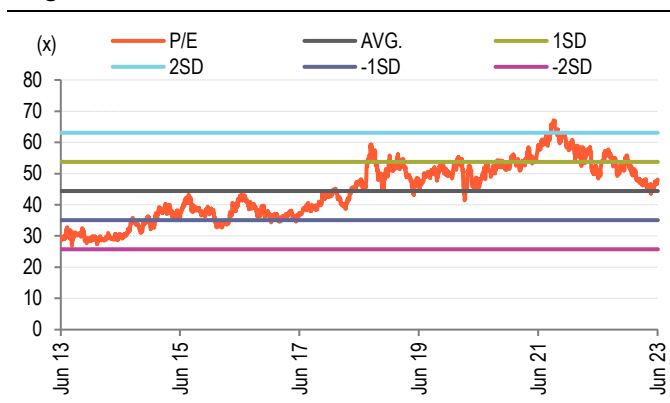
The stock is trading at 50.4x/41.9x FY24E/FY25E EPS. Considering the stronger demand visibility, we raise our target FY25E P/E to 49x from 46x, assigning a 10% premium to the stock's 10Y average multiple, and maintain BUY with a revised TP of Rs 669 (earlier Rs 628).

**Fig 8 – Stock price band**



Source: Company, BOBCAPS Research

**Fig 9 – P/E 1Y fwd band**



Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- continued inflation in key raw materials, and
- delayed rural recovery.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>95,617</b>	<b>1,08,887</b>	<b>1,15,299</b>	<b>1,30,189</b>	<b>1,47,820</b>
EBITDA	20,027	22,538	21,641	25,510	31,060
Depreciation	2,401	2,529	3,110	3,543	4,035
EBIT	17,626	20,009	18,532	21,966	27,025
Net interest inc./(exp.)	308	386	782	799	799
Other inc./(exp.)	3,253	3,932	4,454	4,899	5,144
Exceptional items	0	(850)	0	0	0
EBT	20,570	22,705	22,203	26,067	31,370
Income taxes	3,611	5,264	5,174	5,995	7,215
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	17	31	(58)	(61)	(64)
<b>Reported net profit</b>	<b>16,933</b>	<b>17,392</b>	<b>17,072</b>	<b>20,106</b>	<b>24,193</b>
Adjustments	0	(850)	0	0	0
<b>Adjusted net profit</b>	<b>16,933</b>	<b>18,242</b>	<b>17,072</b>	<b>20,106</b>	<b>24,193</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	19,153	20,180	21,866	23,185	26,327
Other current liabilities	1,584	914	667	753	855
Provisions	2,512	2,497	2,784	2,867	2,965
Debt funds	3,491	6,173	7,002	6,999	6,299
Other liabilities	2,284	3,385	3,758	4,243	4,818
Equity capital	1,767	1,768	1,772	1,772	1,772
Reserves & surplus	75,235	82,451	92,643	1,01,856	1,12,947
Shareholders' fund	77,002	84,219	94,414	1,03,628	1,14,719
<b>Total liab. and equities</b>	<b>1,08,471</b>	<b>1,22,845</b>	<b>1,36,544</b>	<b>1,47,728</b>	<b>1,62,036</b>
Cash and cash eq.	13,290	5,701	3,259	3,674	3,545
Accounts receivables	5,616	6,462	8,488	9,584	10,530
Inventories	17,343	19,114	20,242	20,760	22,682
Other current assets	3,906	3,346	3,136	3,533	4,003
Investments	41,484	62,102	62,574	69,704	78,147
Net fixed assets	18,117	19,680	22,376	23,846	26,315
CWIP	1,473	1,675	1,751	1,751	1,751
Intangible assets	447	397	8,887	8,887	8,887
Deferred tax assets, net	180	7	21	24	27
Other assets	5,473	4,035	5,427	5,543	5,681
<b>Total assets</b>	<b>1,08,471</b>	<b>1,22,845</b>	<b>1,36,544</b>	<b>1,47,728</b>	<b>1,62,036</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>21,147</b>	<b>18,023</b>	<b>14,884</b>	<b>26,377</b>	<b>29,381</b>
Capital expenditures	(3,112)	(3,741)	(5,091)	(5,728)	(6,504)
Change in investments	(13,611)	(12,731)	(137)	(7,130)	(8,442)
Other investing cash flows	2,616	3,668	3,942	0	0
<b>Cash flow from investing</b>	<b>(14,058)</b>	<b>(12,755)</b>	<b>(5,865)</b>	<b>(12,858)</b>	<b>(14,946)</b>
Equities issued/Others	0	1	4	0	0
Debt raised/repaid	369	5,408	488	(954)	(700)
Interest expenses	(194)	(219)	(779)	(799)	(799)
Dividends paid	(5,921)	(9,723)	(9,213)	(10,857)	(13,064)
Other financing cash flows	0	0	(491)	0	0
<b>Cash flow from financing</b>	<b>(6,134)</b>	<b>(4,905)</b>	<b>(10,352)</b>	<b>(12,611)</b>	<b>(14,563)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>955</b>	<b>364</b>	<b>(1,334)</b>	<b>907</b>	<b>(129)</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,888</b>	<b>2,272</b>	<b>976</b>	<b>1,883</b>	<b>1,754</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	9.6	9.8	9.6	11.3	13.7
Adjusted EPS	9.6	10.3	9.6	11.3	13.7
Dividend per share	37.5	5.5	5.2	6.1	7.4
Book value per share	43.6	47.6	53.4	58.6	64.9

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	10.6	9.3	8.8	7.8	6.9
EV/EBITDA	50.6	45.0	46.8	39.7	32.6
Adjusted P/E	59.7	55.4	59.4	50.4	41.9
P/BV	13.1	12.0	10.7	9.8	8.8

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	82.3	76.6	76.9	77.1	77.1
Interest burden (PBT/EBIT)	116.7	113.5	119.8	118.7	116.1
EBIT margin (EBIT/Revenue)	18.4	18.4	16.1	16.9	18.3
Asset turnover (Rev./Avg TA)	88.1	88.6	84.4	88.1	91.2
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.4	1.4	1.4
<b>Adjusted ROAE</b>	<b>23.6</b>	<b>22.6</b>	<b>19.1</b>	<b>20.3</b>	<b>22.2</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	10.1	13.9	5.9	12.9	13.5
EBITDA	11.7	12.5	(4.0)	17.9	21.8
Adjusted EPS	17.2	2.7	(2.1)	17.8	20.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	20.9	20.7	18.8	19.6	21.0
EBIT margin	18.4	18.4	16.1	16.9	18.3
Adjusted profit margin	17.7	16.8	14.8	15.4	16.4
Adjusted ROAE	23.6	22.6	19.1	20.3	22.2
ROCE	18.8	17.2	14.0	15.1	17.0

### Working capital days (days)

Receivables	26	20	24	25	25
Inventory	119	118	115	113	107
Payables	129	127	122	124	122

### Ratios (x)

Gross asset turnover	0.8	0.8	0.7	0.8	0.8
Current ratio	1.6	1.3	1.2	1.2	1.2
Net interest coverage ratio	57.2	51.8	23.7	27.5	33.8
<b>Adjusted debt/equity</b>	<b>4.6</b>	<b>10.3</b>	<b>10.6</b>	<b>9.6</b>	<b>8.1</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets



**BUY**

TP: Rs 523 | ▲ 15%

ITC

Consumer Staples

21 June 2023

## Robust momentum continues

- Demand environment subdued in FY23 but early signs of revival emerging in rural markets
- FMCG-others segment performed well during the year aided by rising consumer spends and enhanced distribution reach
- Steady investment in capacity and strong execution to drive growth; we raise our SOTP-based TP to Rs 523 (vs. Rs 486) and retain BUY

**Vikrant Kashyap**

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**Nascent revival in rural markets:** ITC highlighted that steep inflation had eaten into household budgets, subduing consumption demand in FY23, particularly in rural markets and discretionary categories in urban markets. However, the company's commentary highlighted a silver lining in the form of emerging pickup in rural demand. The company expects a good *kharif* harvest coupled with increased government spending on infrastructure to aid demand recovery.

**Deepening its reach:** ITC continues to expand its distribution reach in rural markets. Direct reach enhancement was supported by a hub-and-spoke distribution model with expansion of the rural stockist network by 1.2x YoY in FY23 and collaboration with rural-focused eB2B players. The company is also leveraging digital technologies to further sharpen focus in these markets.

**Momentum continues in cigarettes:** Cigarette demand improved in FY23 due to stability in taxation and the authorities' deterrent action against illicit trade which continues to steer volumes ITC's way. Recent launches are steadily gaining ground along with robust demand growth for existing products across regions and markets.

**Stellar performance in FMCG-others segment:** The company's FMCG business is seeing sustained traction across the portfolio backed by premiumisation, judicious pricing action, supply chain agility and digital investments. Staples, biscuits, noodles, snacks, dairy, beverages, soaps, and fragrances all continue to perform well. The segment EBIT margin improved to 10%+ in FY23 despite inflation.

**Maintain BUY:** We expect ITC to sustain its strong growth momentum across categories and accordingly model for a revenue/EBITDA/PAT CAGR of 14%/16%/16% over FY22-FY25. The cigarettes business continues to deliver double-digit volume growth and market share gains in the absence of competition from illicit trade, even as the recent tax hike is unlikely to dent sales. In addition, the FMCG-others segment has registered healthy growth across markets and portfolios. Given strong volume growth in cigarettes and earnings visibility in FMCG and hotels businesses, we raise our SOTP-based TP to Rs 523 (vs. Rs 486) and retain BUY.

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ITC IN/Rs 453
Market cap	US\$ 68.5bn
Free float	71%
3M ADV	US\$ 54.4mn
52wk high/low	Rs 456/Rs 262
Promoter/FPI/DII	0%/43%/57%

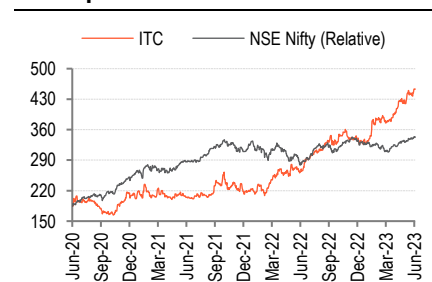
Source: NSE | Price as of 20 Jun 2023

## Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	7,09,369	7,94,958	8,97,358
EBITDA (Rs mn)	2,56,649	2,84,518	3,24,844
Adj. net profit (Rs mn)	1,94,039	2,12,995	2,42,377
Adj. EPS (Rs)	15.4	16.9	19.3
Consensus EPS (Rs)	15.4	15.8	17.8
Adj. ROAE (%)	27.9	29.2	31.5
Adj. P/E (x)	29.3	26.7	23.5
EV/EBITDA (x)	21.9	19.8	17.3
Adj. EPS growth (%)	22.4	9.7	13.8

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

## Stock performance

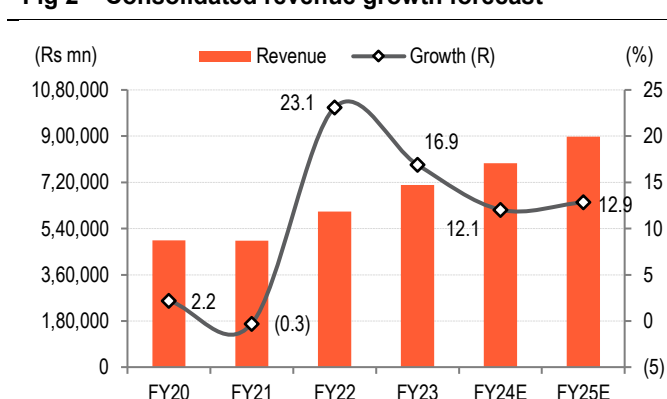


Source: NSE

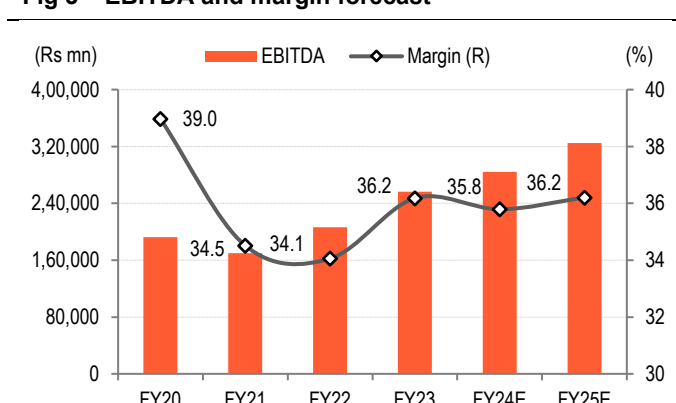
**Fig 1 – Financial performance**

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	176,349	177,045	165,555	(0.4)	6.5	709,369	606,681	16.9
EBITDA	66,240	67,047	55,994	(1.2)	18.3	256,649	206,584	24.2
Adj. PAT	51,026	50,067	41,957	1.9	21.6	194,039	155,031	25.2
Gross Margin (%)	61.6	61.1	56.2	50bps	540bps	59.1	56.5	259bps
EBITDA Margin (%)	35.2	35.5	31.9	(30bps)	330bps	36.2	34.1	213bps
Adj. PAT Margin (%)	28.9	28.3	25.3	60bps	360bps	27.4	25.6	180bps

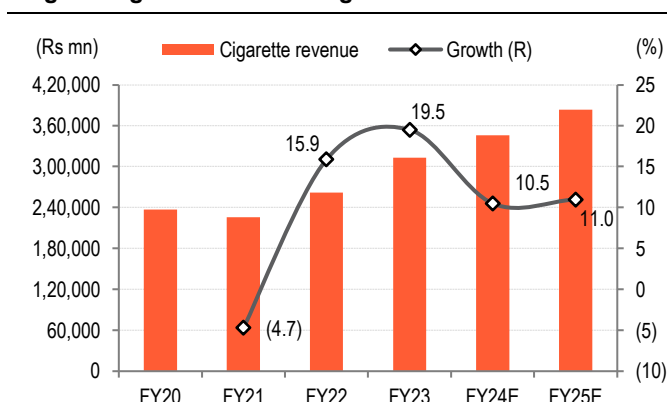
Source: Company, BOBCAPS Research

**Fig 2 – Consolidated revenue growth forecast**

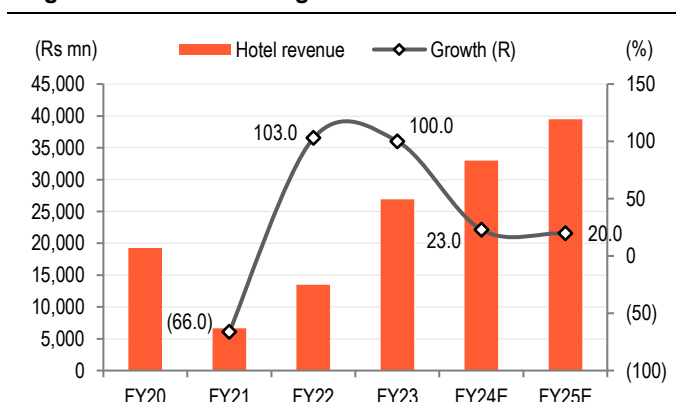
Source: Company, BOBCAPS Research

**Fig 3 – EBITDA and margin forecast**

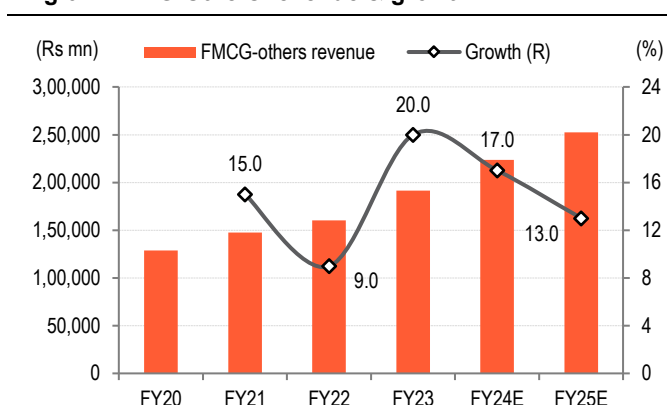
Source: Company, BOBCAPS Research

**Fig 4 – Cigarette revenue & growth**

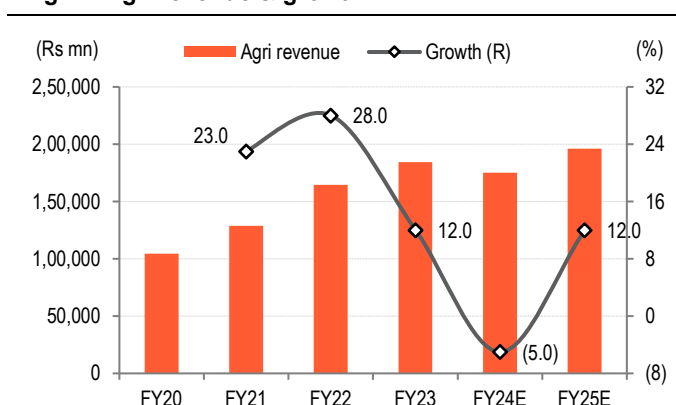
Source: Company, BOBCAPS Research

**Fig 5 – Hotel revenue & growth**

Source: Company, BOBCAPS Research

**Fig 6 – FMCG-Others revenue & growth**

Source: Company, BOBCAPS Research

**Fig 7 – Agri revenue & growth**

Source: Company, BOBCAPS Research

## Valuation methodology

We expect ITC to sustain its strong growth momentum across categories and accordingly model for a revenue/EBITDA/PAT CAGR of 14%/16%/16% over FY22-FY25. The cigarettes business continues to deliver double-digit volume growth and market share gains in the absence of competition from illicit trade, even as the recent tax hike is unlikely to dent sales. In addition, the FMCG-others segment has registered healthy growth across markets and portfolios in FY23, and we expect margins to improve as input costs soften.

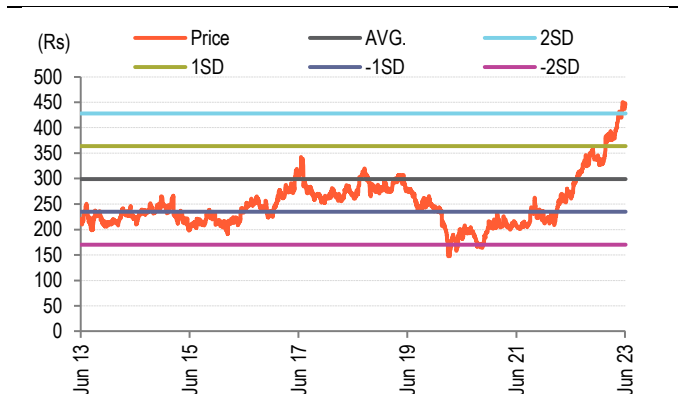
ITC continues to invest in digital channels and capacity expansion in the FMCG, paper and agriculture segments to drive growth. In the hotels segment, we like the company's policy of adding new properties under management contracts. This business posted a stellar performance during FY23 with the weddings, leisure, and MICE segments buoying growth.

Considering the strong volume growth in cigarettes and earnings visibility in FMCG and hotels businesses, we raise our target multiples for the cigarettes, FMCG-others and hotels business, leading to a new SOTP-based TP of Rs 523 (vs. Rs 486). Barring FMCG, we have valued the other segments based on FY25E EV/EBITDA as follows: (i) cigarettes at 16.9x (earlier 15.6x), (ii) hotels at 18.9x (earlier 18.5x), (iii) agriculture at 6.2x, and (iv) paper at 6.5x. We assign the FMCG-others segment an EV/Revenue multiple of 7.1x (earlier 6.8x) on FY25E revenue. Maintain BUY.

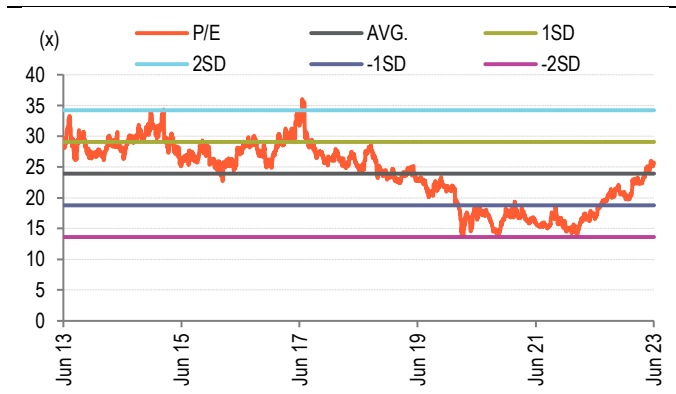
**Fig 8 – SOTP valuation**

Business	Fair value (Rs mn)	Multiple (x)	EV (Rs mn)
<b>EV/EBITDA</b>	<b>FY25E EBITDA</b>		
Cigarettes	2,35,799	16.9x	40,55,743
Hotel	12,493	18.9x	2,36,121
Agri	21,948	6.2x	1,36,076
Paper	32,299	6.5x	2,09,944
<b>EV/Revenue</b>	<b>FY25E Revenue</b>		
FMCG	2,52,585	7.1x	17,93,352
Enterprise Value			64,31,235
Less: Net debt			(53,588)
Market Value (Rs mn)			64,84,823
No of share (mn)			12,399
<b>Target Price (Rs)</b>			<b>523</b>

Source: BOBCAPS Research

**Fig 9 – Stock price band**

Source: BOBCAPS Research

**Fig 10 – PE 1Y fwd band**

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- a further increase in duty on cigarettes, and
- input cost inflation.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>4,92,728</b>	<b>6,06,681</b>	<b>7,09,369</b>	<b>7,94,958</b>	<b>8,97,358</b>
EBITDA	1,70,027	2,06,584	2,56,649	2,84,518	3,24,844
Depreciation	16,456	17,324	18,090	20,540	22,209
EBIT	1,53,571	1,89,260	2,38,559	2,63,977	3,02,634
Net interest inc./(exp.)	(446)	(394)	(432)	(475)	(523)
Other inc./(exp.)	26,326	18,364	19,805	20,562	21,145
Exceptional items	0	0	(729)	0	0
EBT	1,79,451	2,07,230	2,58,661	2,84,064	3,23,257
Income taxes	45,553	52,373	64,384	71,584	81,461
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(69)	175	490	515	582
<b>Reported net profit</b>	<b>1,33,829</b>	<b>1,55,031</b>	<b>1,94,767</b>	<b>2,12,995</b>	<b>2,42,377</b>
Adjustments	0	0	(729)	0	0
<b>Adjusted net profit</b>	<b>1,33,829</b>	<b>1,55,031</b>	<b>1,94,039</b>	<b>2,12,995</b>	<b>2,42,377</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	43,187	44,173	46,590	36,519	41,367
Other current liabilities	42,944	51,160	55,714	55,714	55,714
Provisions	3,815	3,006	3,598	3,598	3,598
Debt funds	95	56	388	388	388
Other liabilities	41,211	45,982	57,153	57,153	57,153
Equity capital	12,309	12,323	12,428	12,428	12,428
Reserves & surplus	5,94,633	6,15,895	6,82,960	7,17,444	7,56,685
Shareholders' fund	6,06,942	6,28,219	6,95,388	7,29,872	7,69,113
<b>Total liab. and equities</b>	<b>7,38,193</b>	<b>7,72,596</b>	<b>8,58,830</b>	<b>8,83,243</b>	<b>9,27,332</b>
Cash and cash eq.	2,904	2,714	4,634	10,710	9,232
Accounts receivables	25,017	24,619	29,562	33,128	37,396
Inventories	1,03,972	1,08,642	1,17,712	1,30,689	1,46,031
Other current assets	10,952	13,061	15,618	15,618	15,618
Investments	2,49,809	2,49,505	2,95,580	2,91,900	3,12,248
Net fixed assets	1,91,539	2,02,074	2,11,171	2,16,069	2,21,678
CWIP	40,045	31,985	29,847	29,847	29,847
Intangible assets	20,179	20,402	27,459	27,459	27,459
Deferred tax assets, net	585	635	520	520	520
Other assets	93,190	1,18,960	1,26,728	1,27,303	1,27,303
<b>Total assets</b>	<b>7,38,193</b>	<b>7,72,596</b>	<b>8,58,830</b>	<b>8,83,243</b>	<b>9,27,332</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>1,25,270</b>	<b>1,57,755</b>	<b>1,88,776</b>	<b>2,06,921</b>	<b>2,49,825</b>
Capital expenditures	(18,366)	(21,416)	(27,430)	(25,439)	(27,818)
Change in investments	52,592	(18,536)	(94,376)	3,680	(20,348)
Other investing cash flows	22,604	17,567	64,482	0	0
<b>Cash flow from investing</b>	<b>56,829</b>	<b>(22,385)</b>	<b>(57,323)</b>	<b>(21,759)</b>	<b>(48,166)</b>
Equities issued/Others	2,907	2,918	24,774	0	0
Debt raised/repaid	(570)	(597)	(598)	0	0
Interest expenses	(412)	(396)	(414)	0	0
Dividends paid	(1,88,674)	(1,37,883)	(1,53,971)	(1,78,511)	(2,03,137)
Other financing cash flows	412	153	149	0	0
<b>Cash flow from financing</b>	<b>(1,86,338)</b>	<b>(1,35,805)</b>	<b>(1,30,060)</b>	<b>(1,78,511)</b>	<b>(2,03,137)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(4,239)</b>	<b>(435)</b>	<b>1,392</b>	<b>6,651</b>	<b>(1,477)</b>
<b>Closing cash &amp; cash eq.</b>	<b>2,904</b>	<b>2,714</b>	<b>4,633</b>	<b>10,710</b>	<b>9,232</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	10.7	12.4	15.5	16.9	19.3
Adjusted EPS	10.9	12.6	15.4	16.9	19.3
Dividend per share	15.3	11.2	11.3	14.4	16.4
Book value per share	49.0	50.7	56.1	58.9	62.0

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	11.4	9.3	7.9	7.1	6.3
EV/EBITDA	33.1	27.2	21.9	19.8	17.3
Adjusted P/E	41.6	35.9	29.3	26.7	23.5
P/BV	9.3	8.9	8.1	7.7	7.3

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	74.6	74.8	75.0	75.0	75.0
Interest burden (PBT/EBIT)	116.9	109.5	108.4	107.6	106.8
EBIT margin (EBIT/Revenue)	31.2	31.2	33.6	33.2	33.7
Asset turnover (Rev./Avg TA)	66.7	78.5	82.6	90.0	96.8
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.2
<b>Adjusted ROAE</b>	<b>22.0</b>	<b>24.7</b>	<b>27.9</b>	<b>29.2</b>	<b>31.5</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	(0.3)	23.1	16.9	12.1	12.9
EBITDA	(11.7)	21.5	24.2	10.9	14.2
Adjusted EPS	(13.4)	15.8	22.4	9.7	13.8

### Profitability & Return ratios (%)

EBITDA margin	34.5	34.1	36.2	35.8	36.2
EBIT margin	31.2	31.2	33.6	33.2	33.7
Adjusted profit margin	27.2	25.6	27.4	26.8	27.0
Adjusted ROAE	22.0	24.7	27.9	29.2	31.5
ROCE	25.3	30.1	34.3	36.1	39.3

### Working capital days (days)

Receivables	19	15	15	15	15
Inventory	189	150	148	148	148
Payables	78	61	59	59	59

### Ratios (x)

Gross asset turnover	1.9	2.1	2.2	2.3	2.4
Current ratio	3.3	2.8	2.9	3.3	3.4
Net interest coverage ratio	344.5	480.8	552.2	555.5	579.0
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**BUY****TP: Rs 26,430 | ▲ 15%****NESTLE INDIA**

Consumer Staples

21 June 2023

## Rural growth strategy paying dividends

- **Strategy of penetration-led volume growth and 'RURBAN' execution yielding results**
- **Domestic revenue growth in CY22 the highest in the last decade; investment in digital channels boosting efficiency**
- **Expect lead over peers to sustain; we raise our target P/E to 69.5x (vs. 67x) for a revised TP of Rs 26,430 (vs. Rs 24,670) and retain BUY**

**Vikrant Kashyap**

research@bobcaps.in

**RURBAN strategy yielding results:** NEST continues to expand reach in small towns and villages as part of its 'RURBAN' strategy, which has supported double-digit topline growth for the last five years, further aided by growing product acceptance in these markets. As of CY22, it covered 91,000+ villages with 2,000+ population vs. ~41,000 in CY20. The target is to reach 120,000 such villages in CY24. Total village coverage has increased to ~165,000 in CY22 from ~69,000 in CY20, while distribution touchpoints under RURBAN have risen 40% to 14,000+.

**Increasing reach and sharper focus in rural markets:** In its FY23 annual report, the company stated that "rural inflation was higher than urban inflation [and] that delayed rural consumption." NEST underscored the need to move beyond urban demand, saying that "increasing the reach in rural markets by putting sharper focus on increasing mind share and market share will be important. Companies would need to expedite their rural distribution strategy, keep consumers engaged with new offerings and drive the premiumisation strategy to adapt to the changing landscape."

**Innovation, premiumisation and digital channels to fuel growth:** Innovation remains an important element of growth and the driving force behind NEST's diversified portfolio of strong brands. In the past seven years, the company has introduced more than 130 products and indicated that more are in the pipeline. The company also expects premiumisation to fuel growth. This apart, it continued to scale up digital capabilities during FY23 with a spotlight on data and analytics-led decision-making that enabled it to anticipate trends and launch product variants.

**Maintain BUY:** NEST continues to outperform peers in a challenging economic climate supported by strong consumer engagement, new launches, and a strategy of penetration-led volume growth. We expect sustained growth momentum underpinned by investments in innovation and premiumisation, direct reach expansion with a rural focus, and forays into newer categories. The stock is trading at 70.8x/60.3x CY23E/CY24E EPS. Given the sustained outperformance, we raise our target P/E to 69.5x on CY24E (from 67x), a 18% premium to the 10Y average multiple, yielding a revised TP of Rs 26,430 (vs. Rs 24,670). **BUY.**

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	NEST IN/Rs 22,956
Market cap	US\$ 26.9bn
Free float	37%
3M ADV	US\$ 20.1mn
52wk high/low	Rs 23,175/Rs 16,586
Promoter/FPI/DII	63%/12%/25%

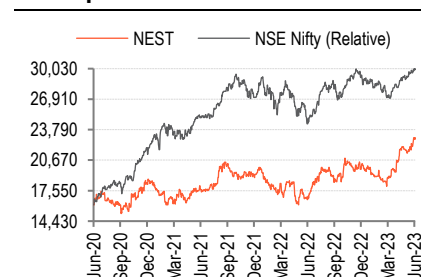
Source: NSE | Price as of 20 Jun 2023

## Key financials

Y/E 31 Dec	CY22A	CY23E	CY24E
Total revenue (Rs mn)	1,68,969	1,98,192	2,25,516
EBITDA (Rs mn)	37,125	47,894	56,828
Adj. net profit (Rs mn)	23,905	31,242	36,666
Adj. EPS (Rs)	247.9	324.0	380.3
Consensus EPS (Rs)	247.9	306.6	350.9
Adj. ROAE (%)	97.2	106.4	104.8
Adj. P/E (x)	92.6	70.8	60.4
EV/EBITDA (x)	59.6	46.2	38.9
Adj. EPS growth (%)	1.5	30.7	17.4

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



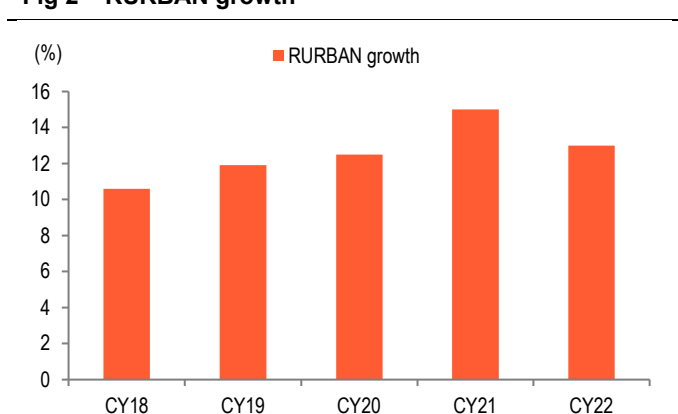
Source: NSE



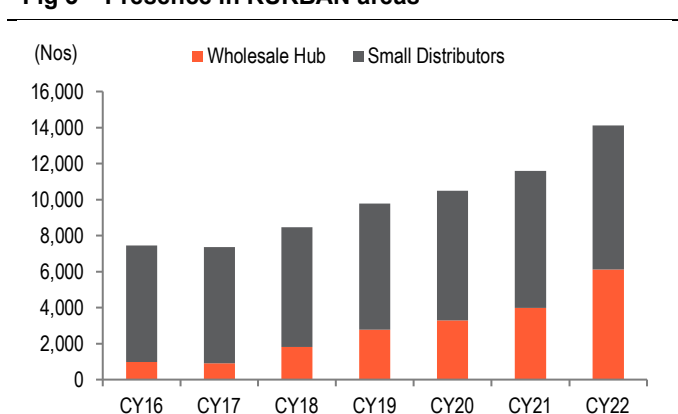
**Fig 1 – Financial performance**

(Rs mn)	Q1CY23	Q4CY22	Q1CY22	QoQ (%)	YoY (%)	CY22	CY21	YoY (%)
Revenue	48,305	42,568	39,807	13.5	21.3	168,969	147,406	14.6
EBIDTA	10,955	9,730	9,247	12.6	18.5	37,125	35,664	4.1
Adj. PAT	7,366	6,281	5,947	17.3	23.9	23,905	23,549	1.5
Gross Margin (%)	53.8	54.9	55.4	(110bps)	(160bps)	54.1	56.9	(280bps)
EBIDTA Margin (%)	22.7	22.9	23.2	(20bps)	(50bps)	22.0	24.2	(220bps)
Adj. PAT Margin (%)	15.3	14.8	14.9	50bps	31bps	14.1	16.0	(190bps)

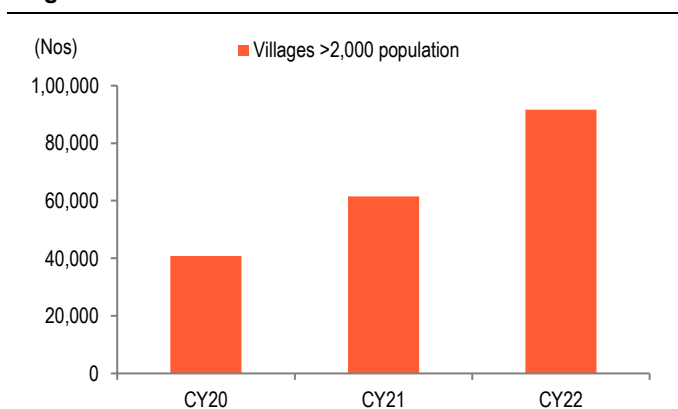
Source: Company, BOBCAPS Research

**Fig 2 – RURBAN growth**

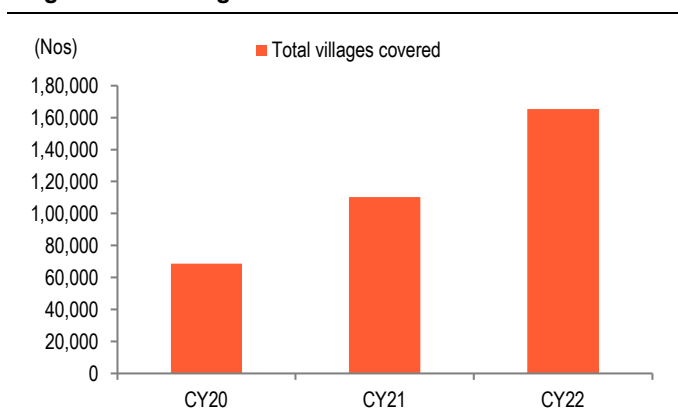
Source: Company, BOBCAPS Research

**Fig 3 – Presence in RURBAN areas**

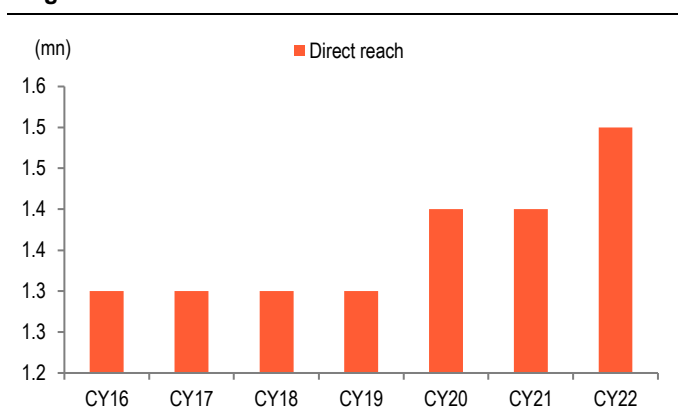
Source: Company, BOBCAPS Research

**Fig 4 – Rural reach**

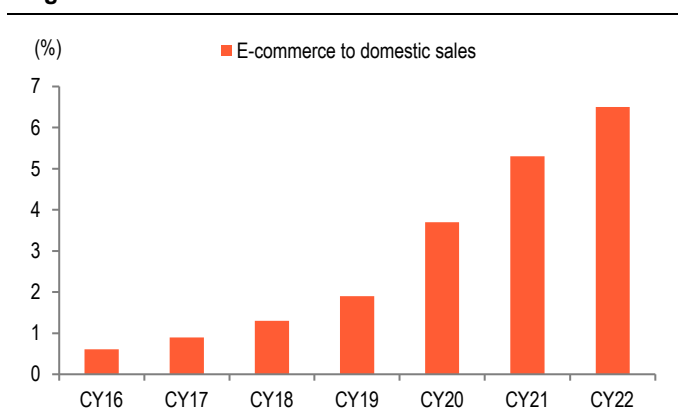
Source: Company, BOBCAPS Research

**Fig 5 – Total villages covered**

Source: Company, BOBCAPS Research

**Fig 6 – Direct reach**

Source: Company, BOBCAPS Research

**Fig 7 – E-commerce share**

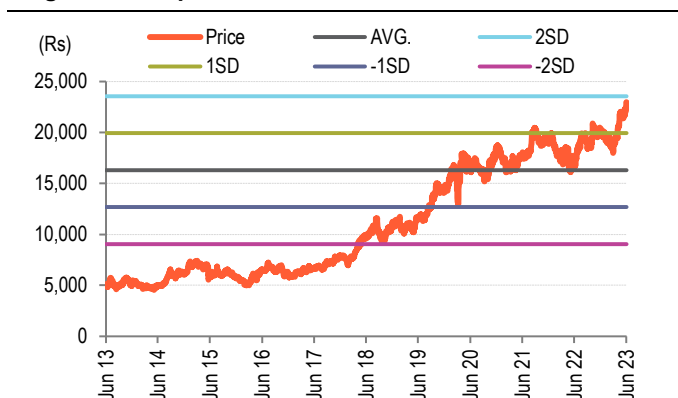
Source: Company, BOBCAPS Research

## Valuation methodology

NEST continues to outperform peers in a challenging economic climate supported by strong consumer engagement, new launches, and a strategy of penetration-led volume growth. We expect sustained growth momentum underpinned by investments in innovation and premiumisation, direct reach expansion with a rural focus, and forays into newer categories.

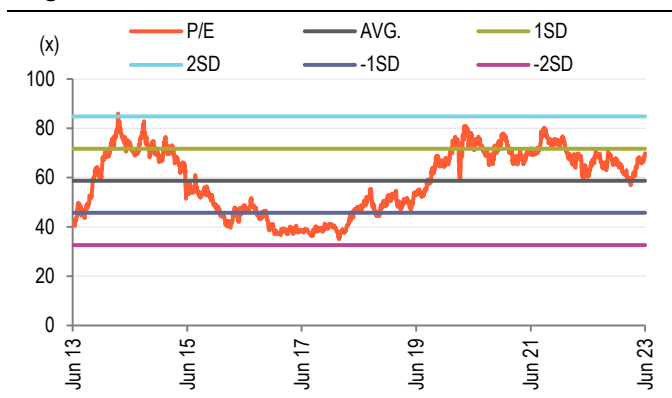
The stock is trading at 70.8x/60.3x CY23E/CY24E EPS. Given the sustained outperformance, we raise our target P/E to 69.5x on CY24E (from 67x), a 18% premium to the 10Y average multiple, yielding a revised TP of Rs 26,430 (vs. Rs 24,670). **BUY.**

**Fig 8 – Stock price band**



Source: Company, BOBCAPS Research

**Fig 9 – P/E 1Y fwd band**



Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- continued input cost inflation, and
- delayed rural recovery.

## Financials

### Income Statement

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
<b>Total revenue</b>	<b>1,33,500</b>	<b>1,47,406</b>	<b>1,68,969</b>	<b>1,98,192</b>	<b>2,25,516</b>
EBITDA	32,015	35,664	37,125	47,894	56,828
Depreciation	3,704	3,910	4,030	5,166	6,766
EBIT	28,311	31,754	33,095	42,728	50,061
Net interest inc./(exp.)	(1,642)	(2,017)	(1,546)	(1,969)	(2,132)
Other inc./(exp.)	1,459	1,202	1,010	1,236	1,353
Exceptional items	0	2,365	0	0	0
EBT	28,128	28,573	32,560	41,995	49,283
Income taxes	7,304	7,389	8,655	10,753	12,616
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>20,824</b>	<b>21,184</b>	<b>23,905</b>	<b>31,242</b>	<b>36,666</b>
Adjustments	0	2,365	0	0	0
<b>Adjusted net profit</b>	<b>20,824</b>	<b>23,549</b>	<b>23,905</b>	<b>31,242</b>	<b>36,666</b>

### Balance Sheet

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Accounts payables	15,166	17,482	19,338	24,063	26,657
Other current liabilities	1,588	1,703	2,310	2,310	2,310
Provisions	33,742	34,240	33,659	45,778	51,868
Debt funds	348	341	300	300	300
Other liabilities	7,959	9,112	9,589	9,684	9,721
Equity capital	964	964	964	964	964
Reserves & surplus	19,229	18,500	23,628	28,408	34,018
Shareholders' fund	20,193	19,464	24,592	29,372	34,982
<b>Total liab. and equities</b>	<b>78,997</b>	<b>82,341</b>	<b>89,787</b>	<b>1,11,507</b>	<b>1,25,838</b>
Cash and cash eq.	17,548	7,185	9,266	14,774	10,192
Accounts receivables	1,649	1,660	1,919	2,172	2,471
Inventories	14,165	15,927	19,288	22,035	24,410
Other current assets	976	1,942	1,963	2,357	2,682
Investments	14,638	7,740	7,775	7,775	7,775
Net fixed assets	19,680	26,530	27,058	34,892	48,125
CWIP	6,386	2,462	3,584	3,584	3,584
Intangible assets	0	0	0	0	0
Deferred tax assets, net	199	258	256	256	256
Other assets	3,756	18,638	18,679	23,663	26,342
<b>Total assets</b>	<b>78,997</b>	<b>82,341</b>	<b>89,787</b>	<b>1,11,507</b>	<b>1,25,838</b>

### Cash Flows

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
<b>Cash flow from operations</b>	<b>24,545</b>	<b>22,360</b>	<b>27,374</b>	<b>50,592</b>	<b>49,895</b>
Capital expenditures	(4,784)	(7,348)	(5,499)	(13,000)	(20,000)
Change in investments	20	(13,523)	1,288	1,475	0
Other investing cash flows	1,549	1,668	294	(3,653)	(1,289)
<b>Cash flow from investing</b>	<b>(3,215)</b>	<b>(19,203)</b>	<b>(3,917)</b>	<b>(15,178)</b>	<b>(21,289)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(602)	0	0	0	0
Interest expenses	(90)	(917)	(980)	(1,969)	(2,132)
Dividends paid	(18,898)	(19,283)	(20,247)	(26,462)	(31,056)
Other financing cash flows	31	0	0	0	0
<b>Cash flow from financing</b>	<b>(19,559)</b>	<b>(20,200)</b>	<b>(21,227)</b>	<b>(28,430)</b>	<b>(33,188)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,771</b>	<b>(17,043)</b>	<b>2,229</b>	<b>6,983</b>	<b>(4,582)</b>
<b>Closing cash &amp; cash eq.</b>	<b>17,548</b>	<b>7,102</b>	<b>7,791</b>	<b>14,774</b>	<b>10,192</b>

### Per Share

Y/E 31 Dec (Rs)	CY20A	CY21A	CY22A	CY23E	CY24E
Reported EPS	216.0	222.5	247.9	324.0	380.3
Adjusted EPS	216.0	244.2	247.9	324.0	380.3
Dividend per share	196.0	200.0	210.0	274.5	322.1
Book value per share	209.4	201.9	255.1	304.6	362.8

### Valuations Ratios

Y/E 31 Dec (x)	CY20A	CY21A	CY22A	CY23E	CY24E
EV/Sales	16.6	15.0	13.1	11.2	9.8
EV/EBITDA	69.1	62.0	59.6	46.2	38.9
Adjusted P/E	106.3	94.0	92.6	70.8	60.4
P/BV	109.6	113.7	90.0	75.4	63.3

### DuPont Analysis

Y/E 31 Dec (%)	CY20A	CY21A	CY22A	CY23E	CY24E
Tax burden (Net profit/PBT)	74.0	74.1	73.4	74.4	74.4
Interest burden (PBT/EBIT)	99.4	90.0	98.4	98.3	98.4
EBIT margin (EBIT/Revenue)	21.2	21.5	19.6	21.6	22.2
Asset turnover (Rev./Avg TA)	169.0	179.0	188.2	177.7	179.2
Leverage (Avg TA/Avg Equity)	3.9	4.2	3.7	3.8	3.6
<b>Adjusted ROAE</b>	<b>103.1</b>	<b>108.8</b>	<b>97.2</b>	<b>106.4</b>	<b>104.8</b>

### Ratio Analysis

Y/E 31 Dec	CY20A	CY21A	CY22A	CY23E	CY24E
<b>YoY growth (%)</b>					
Revenue	7.9	10.4	14.6	17.3	13.8
EBITDA	10.8	11.4	4.1	29.0	18.7
Adjusted EPS	4.4	13.1	1.5	30.7	17.4

### Profitability & Return ratios (%)

EBITDA margin	24.0	24.2	22.0	24.2	25.2
EBIT margin	21.2	21.5	19.6	21.6	22.2
Adjusted profit margin	15.6	16.0	14.1	15.8	16.3
Adjusted ROAE	103.1	108.8	97.2	106.4	104.8
ROCE	137.8	160.3	133.0	144.0	141.9

### Working capital days (days)

Receivables	5	4	4	4	4
Inventory	91	92	91	92	92
Payables	98	101	91	100	100

### Ratios (x)

Gross asset turnover	2.8	2.4	6.2	5.7	4.7
Current ratio	1.7	1.0	1.1	1.2	1.1
Net interest coverage ratio	17.2	15.7	21.4	21.7	23.5
<b>Adjusted debt/equity</b>	<b>1.7</b>	<b>1.7</b>	<b>1.2</b>	<b>1.0</b>	<b>0.9</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**BUY**

TP: Rs 994 | ▲ 16%

**TATA CONSUMER  
PRODUCTS**

Consumer Staples

21 June 2023

**Strategic initiatives in place; outlook upbeat**

- Green shoots of demand growth in salient domestic markets; international business rebounded in FY23 on pricing and structural initiatives
- Strategic steps taken to identify product packs relevant to the rural network and key feeder markets to deepen reach
- Improving earning visibility; maintain BUY with a revised SOTP-based TP of Rs 994 (vs. Rs 924)

**Vikrant Kashyap**

research@bobcaps.in

**Increasing thrust on rural markets:** Tata Consumer Products (TCPL) has increased its emphasis on rural and semiurban markets, stating in its FY23 annual report: "We have identified the rural market as an area of opportunity and are focussing on building distribution in rural and semiurban markets now." During the year, the company worked to identify SKUs relevant to the rural network and key feeder markets to drive reach, further highlighting that, "with key market mapping and geotagging, the plan is to automate the rural network and augment feet-on-the-ground accordingly."

**Sustained focus on enhancing reach:** In FY23, the company increased direct distribution to 1.5mn outlets (>3x FY20 levels) and now has a total reach of 3.8mn outlets that is targeted to reach 4mn by Sep'23. To plug gaps in semiurban and rural distribution, TCPL plans to appoint direct distributors in all towns with populations above 50,000 and to ramp up coverage in towns with 20,000+ people.

**Demand outlook improving:** During FY23, TCPL's consolidated revenue grew 11% with India business rising 10%. Demand challenges and a slight downtrend in prices led to a muted showing in the domestic tea business. Q4 commentary, however, indicated green shoots in some salient markets for tea. Overall, management expects a stable operating environment in coming quarters as demand slowly returns in India.

**Innovation remains growth catalyst:** TCPL is targeting innovation in the growing areas of health & wellness, convenience and premiumisation. In FY23, the company launched 34 new products compared to 19 in FY22 and 14 in FY21, besides raising the innovation-to-sales ratio to 3.4% in FY23 from 0.8% in FY20.

**Maintain BUY:** We model for a strong revenue/EBITDA/PAT CAGR of 11.6%/14.8%/19.3% over FY22-FY25E. Core businesses continue to register strong growth even as the Tata Starbucks JV is expected to add 100 stores during the year, providing added growth visibility. In light of the sustained focus on network expansion in rural and semiurban markets, new product launches, inorganic growth opportunities, strong tailwinds in growth businesses, and premiumisation, we raise our SOTP-based TP to Rs 994 (vs. Rs 924). Maintain BUY.

**Key changes**

Target	Rating
▲	◀ ▶

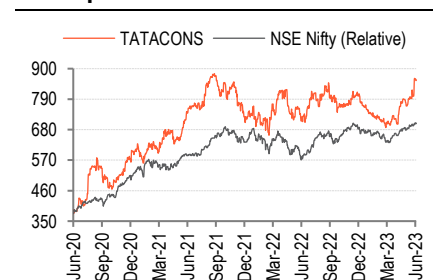
Ticker/Price	TATACONS IN/Rs 859
Market cap	US\$ 9.7bn
Free float	64%
3M ADV	US\$ 13.3mn
52wk high/low	Rs 872/Rs 687
Promoter/FPI/DII	34%/25%/41%

Source: NSE | Price as of 20 Jun 2023

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,37,832	1,54,545	1,73,125
EBITDA (Rs mn)	18,565	23,343	26,024
Adj. net profit (Rs mn)	10,443	14,968	16,781
Adj. EPS (Rs)	11.3	16.1	18.1
Consensus EPS (Rs)	11.3	16.0	18.7
Adj. ROAE (%)	5.2	8.4	8.9
Adj. P/E (x)	76.1	53.3	47.5
EV/EBITDA (x)	43.0	34.2	30.7
Adj. EPS growth (%)	28.2	23.7	12.1

Source: Company, Bloomberg, BOBCAPS Research

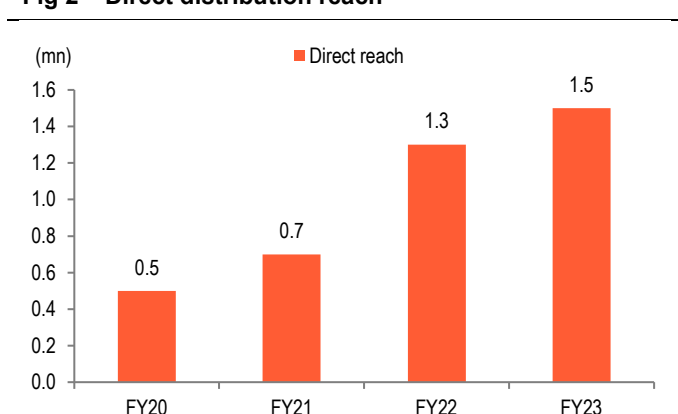
**Stock performance**

Source: NSE

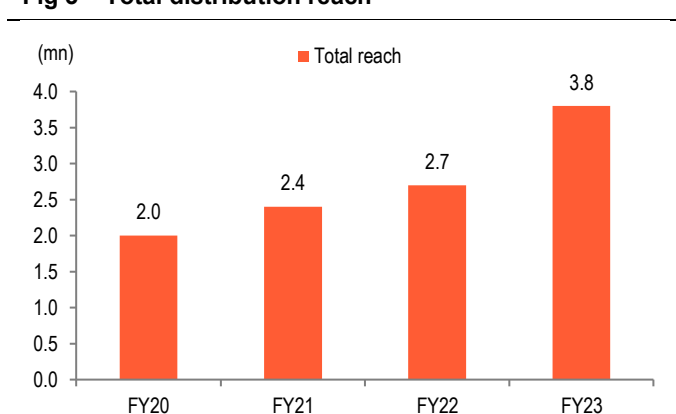
**Fig 1 – Financial performance**

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	36,187	34,746	31,754	4.1	14.0	137,832	124,254	10.9
EBITDA	5,117	4,537	4,443	12.8	15.2	18,565	17,188	8.0
Adj. PAT	2,750	2,732	2,362	0.7	16.4	10,443	9,878	5.7
Gross Margin (%)	41.8	41.52\	44.6	30bps	(280bps)	41.9	43.0	(110bps)
EBITDA Margin (%)	14.1	13.1	14.0	108bps	15bps	13.5	13.8	(30bps)
Adj. PAT Margin (%)	7.6	7.96	7.4	(26bps)	16bps	11.3	11.6	(30bps)

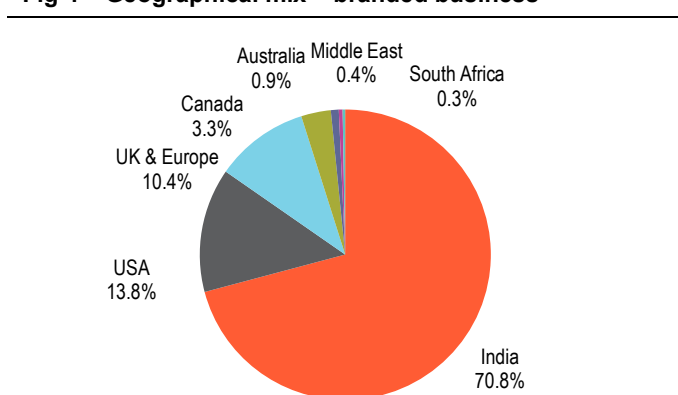
Source: Company, BOBCAPS Research

**Fig 2 – Direct distribution reach**

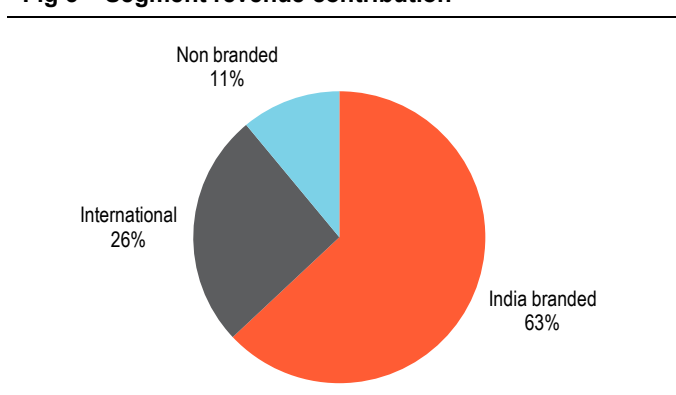
Source: Company, BOBCAPS Research

**Fig 3 – Total distribution reach**

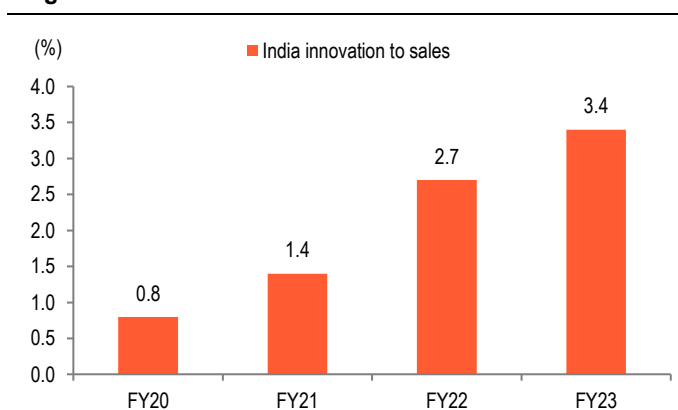
Source: Company, BOBCAPS Research

**Fig 4 – Geographical mix – branded business**

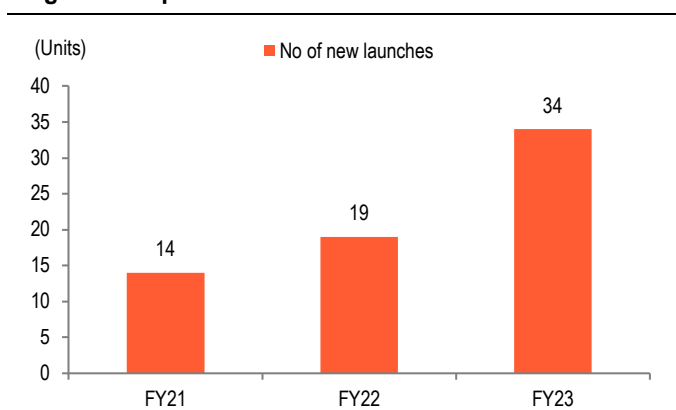
Source: Company, BOBCAPS Research

**Fig 5 – Segment revenue contribution**

Source: Company, BOBCAPS Research

**Fig 6 – India innovation-to-sales ratio**

Source: Company, BOBCAPS Research

**Fig 7 – New product launches**

Source: Company, BOBCAPS Research

## Valuation methodology

We expect TCPL to deliver a strong revenue/EBITDA/PAT CAGR of 11.6%/14.8%/19.3% over FY22-FY25 as core businesses continue to register strong growth even as the Tata Starbucks JV is expected to add 100 stores during the year, providing added growth visibility.

The company has increased its direct distribution reach to 1.5mn outlets and is boosting network depth by introducing split distribution routes in all 1mn+ population towns. Wider direct distribution is aimed at improving execution in semiurban areas, thereby bridging the gap with competition and promoting market share gains.

Alternate channels continue to fuel sales – e-commerce grew 32% YoY in FY23 and contributed 9% of India revenue; modern trade grew 21% and contributed 14%. New product revenue share on e-commerce has now improved to 10%. We like TCPL's commitment to investing in emerging channels to drive growth.

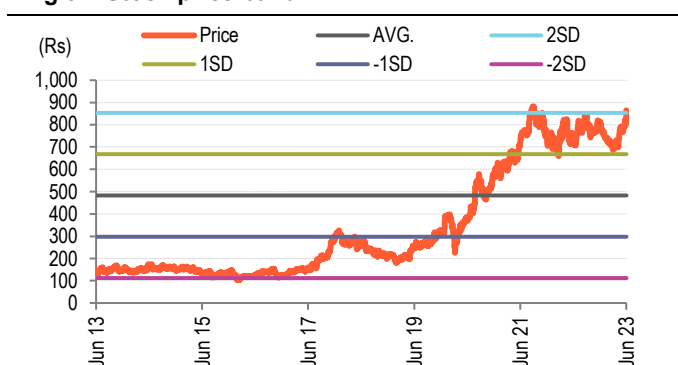
Considering TCPL's sustained focus on network expansion in rural and semiurban markets, product launches, inorganic growth opportunities, tailwinds in growth businesses, and premiumisation, we raise our SOTP-based TP to Rs 994 (vs. Rs 924). We now value the domestic business at 38.5x FY25E EV/EBITDA (earlier 36x), international operations at 13.5x (earlier 12x), and the Tata Starbucks JV at 3.5x (earlier 3x). Maintain BUY.

**Fig 8 – Valuation summary**

Business	Fair value (Rs mn)	Multiple (x)	EV (Rs mn)
<b>EV/EBITDA</b>			
<b>FY25E EBITDA</b>			
India Business	20,705	38.5x	7,97,139
International Business	7,772	13.5x	1,04,920
<b>EV/Revenue</b>			
<b>FY25E Revenue</b>			
Tata Starbucks	1,565	3.5x	5,478
Enterprise Value	-	-	9,07,537
Less: Net debt	-	-	(16,141)
Market Value (Rs mn)	-	-	923,678
No. of shares (mn)	-	-	929
<b>Target Price (Rs)</b>	<b>-</b>	<b>-</b>	<b>994</b>

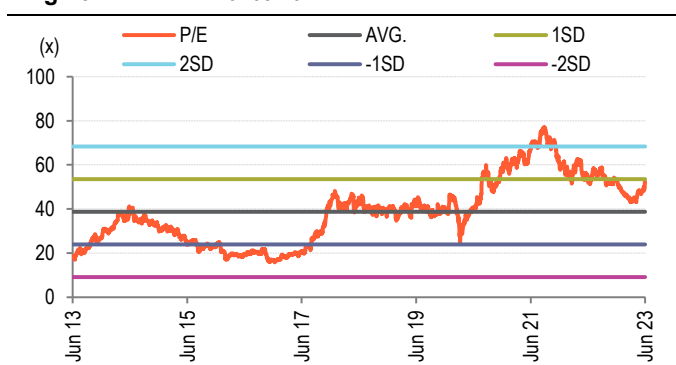
Source: BOBCAPS Research

**Fig 9 – Stock price band**



Source: BOBCAPS Research

**Fig 10 – P/E 1Y fwd band**



Source: BOBCAPS Research



### Key risks

Key downside risks to our estimates are:

- continued inflation in international markets,
- adverse currency movements, and
- delayed rural recovery.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>1,16,020</b>	<b>1,24,254</b>	<b>1,37,832</b>	<b>1,54,545</b>	<b>1,73,125</b>
EBITDA	15,438	17,188	18,565	23,343	26,024
Depreciation	2,547	2,780	3,041	3,062	3,220
EBIT	12,890	14,408	15,524	20,281	22,804
Net interest inc./(exp.)	(687)	(728)	(872)	(850)	(850)
Other inc./(exp.)	1,214	1,401	1,689	1,408	1,408
Exceptional items	(307)	(521)	(1,595)	0	0
EBT	13,111	14,560	14,747	20,839	23,362
Income taxes	3,172	3,770	4,470	5,251	5,887
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	104	156	900	307	360
<b>Reported net profit</b>	<b>8,567</b>	<b>9,358</b>	<b>8,849</b>	<b>14,968</b>	<b>16,781</b>
Adjustments	(307)	(521)	(1,595)	0	0
<b>Adjusted net profit</b>	<b>8,874</b>	<b>9,878</b>	<b>10,443</b>	<b>14,968</b>	<b>16,781</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	16,255	19,159	23,482	25,612	28,691
Other current liabilities	1,361	1,322	1,735	1,735	1,735
Provisions	2,942	2,488	2,449	2,449	2,449
Debt funds	7,206	10,106	11,828	11,828	11,828
Other liabilities	18,525	15,162	17,349	17,349	17,349
Equity capital	922	922	929	929	929
Reserves & surplus	1,55,349	1,62,014	1,70,340	1,76,510	1,90,996
Shareholders' fund	1,56,270	1,62,936	1,71,269	1,77,439	1,87,942
<b>Total liab. and equities</b>	<b>2,02,559</b>	<b>2,11,172</b>	<b>2,28,111</b>	<b>2,36,412</b>	<b>2,49,993</b>
Cash and cash eq.	20,420	14,980	15,396	18,664	25,758
Accounts receivables	7,613	8,352	7,983	8,951	10,027
Inventories	22,492	22,665	27,017	29,467	33,010
Other current assets	16,730	23,380	25,143	25,143	25,143
Investments	5,986	5,630	11,403	11,403	11,403
Net fixed assets	12,227	14,803	16,047	18,118	20,465
CWIP	932	2,094	2,861	2,861	2,861
Intangible assets	1,04,006	1,05,456	1,08,753	1,08,296	1,07,818
Deferred tax assets, net	381	427	486	486	486
Other assets	11,773	13,385	10,874	10,874	10,874
<b>Total assets</b>	<b>2,02,559</b>	<b>2,11,172</b>	<b>2,28,111</b>	<b>2,36,412</b>	<b>2,49,993</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>16,564</b>	<b>15,158</b>	<b>11,424</b>	<b>18,211</b>	<b>20,005</b>
Capital expenditures	(2,107)	(2,733)	(3,118)	(4,074)	(4,489)
Change in investments	4,149	(971)	(5,818)	0	0
Other investing cash flows	(5,008)	(4,512)	2,076	4,967	(1,522)
<b>Cash flow from investing</b>	<b>(4,084)</b>	<b>(13,218)</b>	<b>(8,278)</b>	<b>893</b>	<b>(6,011)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(573)	(4,947)	(38)	0	0
Interest expenses	(654)	(625)	(817)	0	0
Dividends paid	(2,582)	(3,848)	(5,734)	(6,155)	(6,900)
Other financing cash flows	(451)	(528)	(556)	0	0
<b>Cash flow from financing</b>	<b>(4,260)</b>	<b>(9,948)</b>	<b>(7,144)</b>	<b>(6,155)</b>	<b>(6,900)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>8,838</b>	<b>(7,961)</b>	<b>(4,056)</b>	<b>12,949</b>	<b>7,094</b>
<b>Closing cash &amp; cash eq.</b>	<b>17,732</b>	<b>9,771</b>	<b>5,715</b>	<b>18,664</b>	<b>25,758</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	9.3	10.2	13.0	16.1	18.1
Adjusted EPS	9.6	10.7	11.3	16.1	18.1
Dividend per share	2.7	4.1	6.2	6.6	7.4
Book value per share	169.6	176.8	185.8	192.5	203.9

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	6.9	6.4	5.8	5.2	4.6
EV/EBITDA	51.7	46.4	43.0	34.2	30.7
Adjusted P/E	89.2	80.1	76.1	53.3	47.5
P/BV	5.1	4.9	4.6	4.5	4.2

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	65.3	64.3	60.0	71.8	71.8
Interest burden (PBT/EBIT)	101.7	101.1	95.0	102.8	102.4
EBIT margin (EBIT/Revenue)	11.1	11.6	11.3	13.1	13.2
Asset turnover (Rev./Avg TA)	57.3	58.8	60.4	65.4	69.3
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.3	1.3
Adjusted ROAE	5.5	5.7	5.2	8.4	8.9

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	20.4	7.1	10.9	12.1	12.0
EBITDA	19.5	11.3	8.0	25.7	11.5
Adjusted EPS	86.3	9.2	28.2	23.7	12.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	13.3	13.8	13.5	15.1	15.0
EBIT margin	11.1	11.6	11.3	13.1	13.2
Adjusted profit margin	7.6	8.0	7.6	9.7	9.7
Adjusted ROAE	5.5	5.7	5.2	8.4	8.9
ROCE	7.9	8.3	8.5	10.7	11.4
<b>Working capital days (days)</b>					
Receivables	24	25	21	21	21
Inventory	119	117	123	123	123
Payables	86	99	107	107	107
<b>Ratios (x)</b>					
Gross asset turnover	0.7	0.7	0.7	0.8	0.8
Current ratio	2.3	2.2	2.1	2.2	2.3
Net interest coverage ratio	18.8	19.8	17.8	23.8	26.8
Adjusted debt/equity	0.0	0.1	0.1	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**BUY****TP: Rs 370 | ▲ 26%****CROMPTON GREAVES**

Consumer Durables

21 June 2023

## Beneficiary of rural demand pickup

- Management outlook positive on rural markets, especially for low-ticket products such as fans and lighting
- Recent merger with kitchen solutions player BGAL to help broaden the product range for rural consumers
- Crompton remains among the stronger plays on premiumisation trends in fans; maintain BUY with a TP of Rs 370

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**Difficult year:** Muted consumer demand cast a shadow over the durables sector in FY23, even as the fans business was further buffeted by energy norm changes in Dec'22. Crompton's fans segment posted only 5% value growth in FY23. Its lighting division also underperformed, posting flat value growth as the B2B and B2C categories flagged due to weak government orders and price volatility respectively. The consolidated FY23 topline came in at Rs 68.7bn (+27% YoY) with EBITDA margin at 11.2% (-300bps) and adj. PAT at Rs 4.6bn (-22%).

**Strong beneficiary of rural demand pickup:** Crompton leads the Indian market in fans and lighting, which are typically low-ticket items and hence likely to see higher penetration in rural markets. The emerging recovery in rural India is expected to bolster the real estate sector in these markets, in turn raising demand for fans and lighting products.

**Key rural market commentary:** In its FY23 annual report, Crompton stated that "although the Indian rural market is underpenetrated, the demand for consumer durables in rural areas also significantly rose in the second half of the year supported by aspirational buying".

"Along with growth in the trade channel, we are focused on improving traction in the modern retail channel as well as in the retail rural channel, which grew 2x in Q4[FY23] over a lower base cost from the previous year."

"...We have stepped up our investments, our feet on street... in what we call the 'rurban channel', which essentially is small town and large rural areas."

**Maintain BUY:** Crompton pushed its new, rating-compliant fans portfolio in FY23, outplaying peers who chose to clear old stock. We believe the company is a stronger play on the growing premiumisation trend in fans. Maintain BUY with an unchanged TP of Rs 370, set at 30x FY25E EPS – a 15% discount to the stock's 5Y average P/E on 2Y forward basis to bake in the fluid demand environment in the fans business.

## Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	CROMPTON IN/Rs 293
Market cap	US\$ 2.3bn
Free float	100%
3M ADV	US\$ 12.8mn
52wk high/low	Rs 429/Rs 251
Promoter/FPI/DII	0%/40%/44%

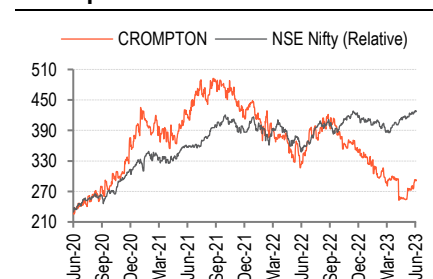
Source: NSE | Price as of 20 Jun 2023

## Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	68,696	79,054	91,036
EBITDA (Rs mn)	7,705	9,629	11,532
Adj. net profit (Rs mn)	4,632	6,307	7,837
Adj. EPS (Rs)	7.3	9.9	12.3
Consensus EPS (Rs)	7.3	9.8	11.8
Adj. ROAE (%)	18.1	21.6	22.5
Adj. P/E (x)	40.2	29.5	23.8
EV/EBITDA (x)	24.8	18.8	15.5
Adj. EPS growth (%)	(21.7)	36.2	24.3

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance

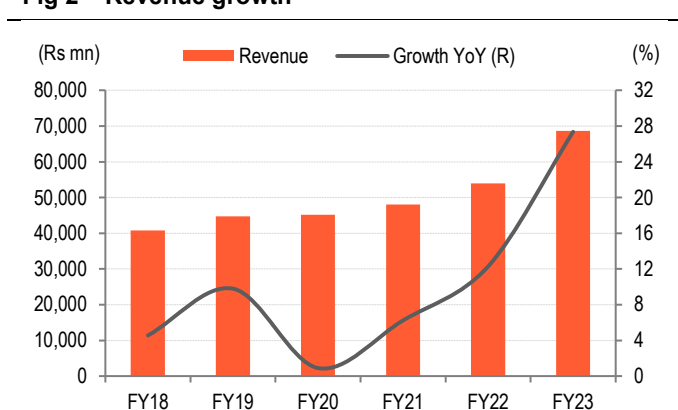


Source: NSE

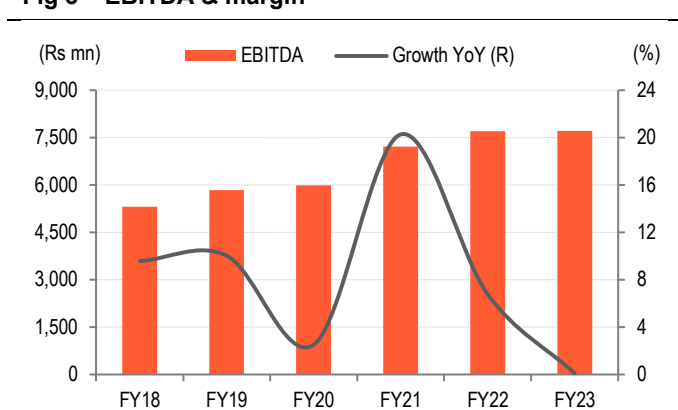
**Fig 1 – Financial performance**

Particulars (Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	17,910	15,162	15,479	18.1	15.7	68,696	53,941	27.4
EBITDA	2,114	1,524	2,158	38.7	(2.0)	7,705	7,694	0.1
Adj. PAT	1,312	853	1,766	53.9	(25.7)	4,632	5,914	(21.7)
Gross Margin (%)	31.5	32.5	29.9	(100bps)	(160bps)	31.9	31.4	50bps
EBITDA Margin (%)	11.8	10.1	13.9	180bps	(210bps)	11.2	14.3	(300bps)
Adj. PAT Margin (%)	7.3	5.6	11.4	170bps	(410bps)	6.7	11.0	(420bps)

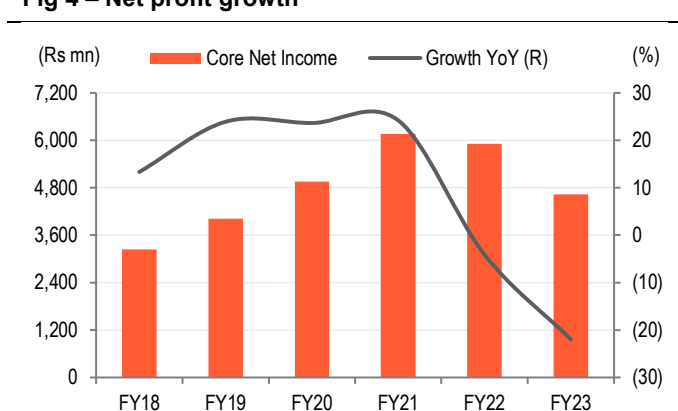
Source: Company, BOBCAPS Research

**Fig 2 – Revenue growth**

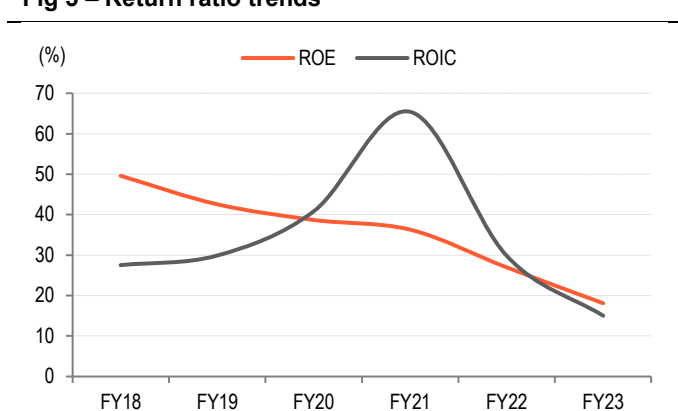
Source: Company, BOBCAPS Research

**Fig 3 – EBITDA & margin**

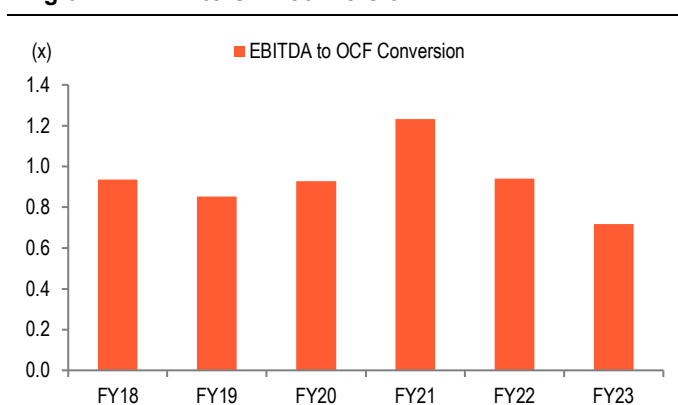
Source: Company, BOBCAPS Research

**Fig 4 – Net profit growth**

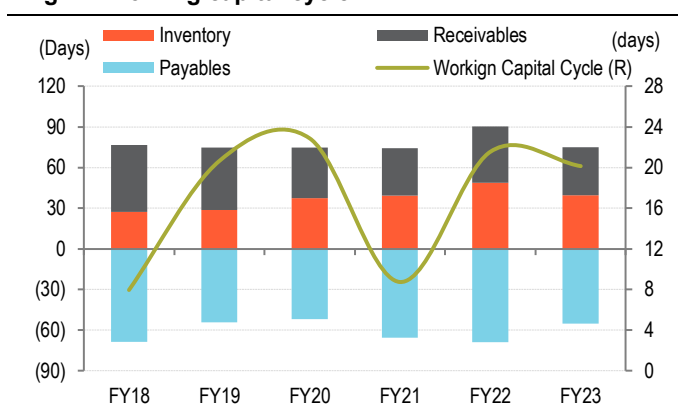
Source: Company, BOBCAPS Research

**Fig 5 – Return ratio trends**

Source: Company, BOBCAPS Research

**Fig 6 – EBITDA to OCF conversion**

Source: Company, BOBCAPS Research

**Fig 7 – Working capital cycle**

Source: Company, BOBCAPS Research

## Valuation methodology

We reiterate our BUY rating on Crompton with an unchanged TP of Rs 370, valuing the stock at a 30x P/E multiple on FY25E. Our target multiple represents a 15% discount to the stock's five-year average P/E on two-year forward basis to bake in the fluid demand environment in the fans business amidst the recent rating transition.

Though this transition has led to uncertainty in the fans industry, we believe Crompton is a stronger play than peers on account of its market leadership and growing share in premium fans. Additionally, its strategy of focusing on fans compliant with the new norms over extinguishing old inventory appears to be gaining traction.

## Key risks

Key downside risks to our estimates are:

- adopted fan strategy hurting growth,
- lighting business remaining dull, and
- BGAL registering a decline with market share losses.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>48,035</b>	<b>53,941</b>	<b>68,696</b>	<b>79,054</b>	<b>91,036</b>
EBITDA	7,205	7,695	7,705	9,629	11,532
Depreciation	297	423	1,159	1,158	1,170
EBIT	6,908	7,272	6,546	8,471	10,361
Net interest inc./(exp.)	115	353	1,092	600	520
Other inc./(exp.)	443	727	668	735	808
Exceptional items	0	0	0	0	0
EBT	7,236	7,645	6,122	8,605	10,649
Income taxes	1,070	1,732	1,358	2,166	2,680
Extraordinary items	0	130	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>6,166</b>	<b>5,784</b>	<b>4,632</b>	<b>6,307</b>	<b>7,837</b>
Adjustments	0	130	0	0	0
<b>Adjusted net profit</b>	<b>6,166</b>	<b>5,914</b>	<b>4,632</b>	<b>6,307</b>	<b>7,837</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	8,647	10,178	10,354	11,915	13,721
Other current liabilities	5,010	3,948	3,496	4,023	4,632
Provisions	-	-	-	-	-
Debt funds	2,988	16,075	10,051	7,500	6,500
Other liabilities	214	1,931	1,567	1,803	2,076
Equity capital	1,255	1,267	1,272	1,272	1,272
Reserves & surplus	18,059	31,087	29,805	34,874	41,173
Shareholders' fund	19,314	32,354	31,077	36,146	42,445
<b>Total liab. and equities</b>	<b>36,173</b>	<b>64,486</b>	<b>56,544</b>	<b>61,387</b>	<b>69,374</b>
Cash and cash eq.	13,737	15,390	1,095	2,167	5,859
Accounts receivables	4,608	6,154	6,706	7,717	8,886
Inventories	5,186	7,210	7,439	8,560	9,858
Other current assets	2,264	2,246	7,344	8,451	9,732
Investments	-	-	-	-	-
Net fixed assets	9,150	32,735	32,710	33,052	33,381
CWIP	109	130	55	63	72
Intangible assets	0	0	0	0	0
Deferred tax assets, net	-	-	-	-	-
Other assets	1,119	621	1,197	1,377	1,586
<b>Total assets</b>	<b>36,173</b>	<b>64,486</b>	<b>56,544</b>	<b>61,387</b>	<b>69,374</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>8,878</b>	<b>7,234</b>	<b>5,526</b>	<b>6,314</b>	<b>7,675</b>
Capital expenditures	(202)	(1,706)	(708)	(1,500)	(1,500)
Change in investments	-	-	-	-	-
Other investing cash flows	(4,756)	(15,523)	3,340	48	55
<b>Cash flow from investing</b>	<b>(4,957)</b>	<b>(17,229)</b>	<b>2,632</b>	<b>(1,452)</b>	<b>(1,445)</b>
Equities issued/Others	73	603	416	0	0
Debt raised/repaid	0	14,069	9,250	(2,551)	(1,000)
Interest expenses	-	-	-	-	-
Dividends paid	-	-	-	-	-
Other financing cash flows	(1,034)	(5,599)	(18,771)	(1,238)	(1,538)
<b>Cash flow from financing</b>	<b>(962)</b>	<b>9,073</b>	<b>(9,105)</b>	<b>(3,789)</b>	<b>(2,538)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>2,959</b>	<b>(922)</b>	<b>(948)</b>	<b>1,072</b>	<b>3,692</b>
<b>Closing cash &amp; cash eq.</b>	<b>13,737</b>	<b>15,390</b>	<b>1,095</b>	<b>2,167</b>	<b>5,859</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	9.7	9.1	7.3	9.9	12.3
Adjusted EPS	9.7	9.3	7.3	9.9	12.3
Dividend per share	0.0	2.5	3.0	1.9	2.4
Book value per share	30.5	38.7	41.8	49.8	59.7

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	4.0	3.6	2.8	2.3	2.0
EV/EBITDA	26.4	25.2	24.8	18.8	15.5
Adjusted P/E	30.1	31.4	40.2	29.5	23.8
P/BV	9.6	7.6	7.0	5.9	4.9

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	85.2	77.4	75.7	73.3	73.6
Interest burden (PBT/EBIT)	104.7	105.1	93.5	101.6	102.8
EBIT margin (EBIT/Revenue)	14.4	13.5	9.5	10.7	11.4
Asset turnover (Rev./Avg TA)	5.3	2.6	2.1	2.4	2.7
Leverage (Avg TA/Avg Equity)	0.5	1.0	1.3	1.1	1.0
Adjusted ROAE	36.3	27.0	18.1	21.6	22.5

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	6.3	12.3	27.4	15.1	15.2
EBITDA	20.3	6.8	0.1	25.0	19.8
Adjusted EPS	24.2	(4.1)	(21.7)	36.2	24.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	15.0	14.3	11.2	12.2	12.7
EBIT margin	14.4	13.5	9.5	10.7	11.4
Adjusted profit margin	12.8	11.0	6.7	8.0	8.6
Adjusted ROAE	36.3	27.0	18.1	21.6	22.5
ROCE	35.6	23.1	16.9	22.3	24.8
<b>Working capital days (days)</b>					
Receivables	35	42	36	36	36
Inventory	39	49	40	40	40
Payables	66	69	55	55	55
<b>Ratios (x)</b>					
Gross asset turnover	4.9	2.5	2.0	2.2	2.4
Current ratio	1.9	1.0	1.3	1.4	1.6
Net interest coverage ratio	59.9	20.6	6.0	14.1	19.9
Adjusted debt/equity	(0.3)	0.0	0.2	0.1	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**BUY****TP: Rs 1,600 | ▲ 19%****HAVELLS INDIA**

Consumer Durables

21 June 2023

## Rural reach expansion

- Rural markets identified among strategic growth drivers by management; AC segment, in particular, expected to gain traction
- Retail touchpoints in small towns total 42k with 5x expansion planned in micro markets (<10k population) during FY24
- TP raised from Rs 1,500 to Rs 1,600 to bake in potential upside risk to earnings as the rural theme plays out; retain BUY

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**FY23 topline resilient despite tepid consumer spending:** HAVL has doubled down on its strategy of pursuing market share gains in Lloyd (AC business), broadening manufacturing capabilities and deepening rural distribution. Topline growth in FY23 thus grew at a brisk 21% YoY to Rs 169bn despite lower consumer spending in the second half of the year. EBITDA margin, however, contracted 320bps to 9.5% as commodity price pressures impacted end user markets and could not be fully passed along. PAT declined 10% to Rs 10.7bn for the year.

**Rural markets among strategic growth drivers:** Management has identified rural markets as one of the key growth drivers for the company and is expanding beyond urban geographies through the 'Rural Vistaar' initiative. As of FY23, HAVL had a distributor presence in 3,000 towns with populations of 10,000-50,000 via 42,000+ retail points. It is also present in towns housing fewer than 10,000 people by way of 400+ 'Utsav' exclusive stores, which are targeted to increase to 2,000 by FY24.

**Key rural market commentary:** HAVL, in its Q4FY23 earnings commentary, said that "rural demand had slowed down more because of inflationary pressures" and hence it expected a return to normal. The Q4FY23 commentary was more upbeat with management stating that "the future demand for air conditioners is continuing to grow in India, and even small towns and rural areas will see huge potential for room air conditioners in the future".

**Maintain BUY:** HAVL is a comprehensive play in the consumer durables space with a strong presence across categories. This coupled with a sound balance sheet enables it to target growth in specific businesses, as in the case of Lloyd. Management remains positive on robust recovery in the core product portfolio in coming quarters. We like HAVL's core portfolio for its prominent brand, wide network and inherent growth triggers, and hence have a BUY rating. Given the potential upside risk to earnings as the rural theme plays out, we increase our target FY25E P/E marginally to 53x (from 50x), in line with the 3Y average multiple, and raise our TP to Rs 1,600 (from Rs 1,500).

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HAVL IN/Rs 1,347
Market cap	US\$ 10.3bn
Free float	41%
3M ADV	US\$ 10.5mn
52wk high/low	Rs 1,406/Rs 1,025
Promoter/FPI/DII	60%/23%/10%

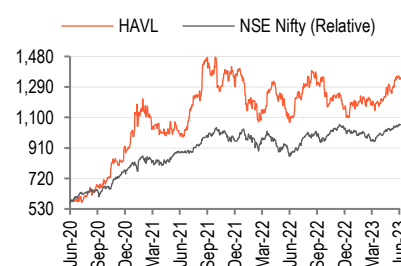
Source: NSE | Price as of 20 Jun 2023

## Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,69,107	1,90,821	2,17,228
EBITDA (Rs mn)	15,991	21,604	26,938
Adj. net profit (Rs mn)	10,717	15,061	18,487
Adj. EPS (Rs)	17.1	24.0	29.5
Consensus EPS (Rs)	17.1	24.5	29.8
Adj. ROAE (%)	17.0	21.2	22.4
Adj. P/E (x)	78.7	56.0	45.6
EV/EBITDA (x)	52.8	39.1	31.3
Adj. EPS growth (%)	(10.4)	40.5	22.7

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE

**Fig 1 – Quarterly performance**

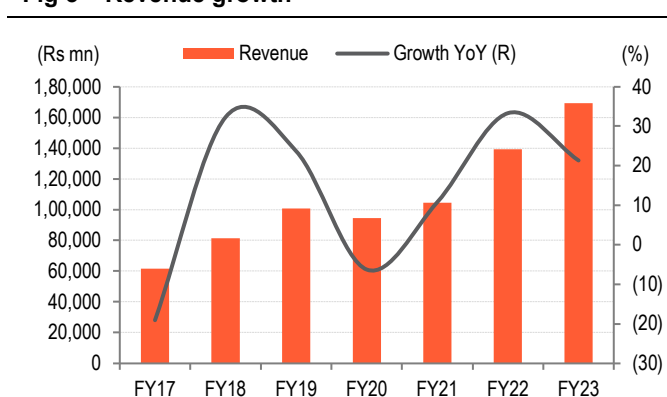
Particulars (Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	48,592	41,276	44,263	17.7	9.8	169,107	139,385	21.3
EBITDA	5,271	4,236	5,199	24.4	1.4	15,991	17,604	(9.2)
Adjusted PAT	3,580	2,835	3,525	26.3	1.6	10,717	11,965	(10.4)
Gross Margin (%)	30.4	33.0	29.3	(260bps)	110bps	30.8	32.4	(140bps)
EBITDA Margin (%)	10.8	10.3	11.7	60bps	(90bps)	9.5	12.6	(320bps)
Adj. PAT Margin (%)	7.4	6.9	8.0	50bps	(60bps)	6.3	8.6	(220bps)

Source: Company, BOBCAPS Research

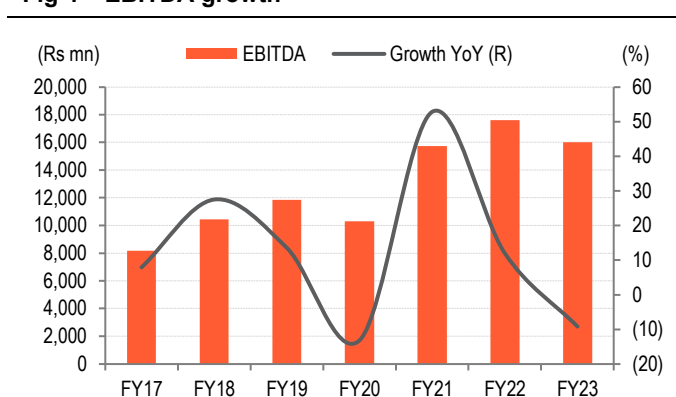
**Fig 2 – Segment-wise performance**

Particulars (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
<b>Revenue</b>									
ECD	7,124	5,763	7,294	8,955	8,727	8,396	7,735	9,357	7,495
Lighting	3,367	2,144	3,591	4,129	4,052	3,737	4,018	4,232	4,160
Switchgears	4,633	3,773	4,482	4,960	4,745	5,169	4,879	5,143	6,010
Cables & wires	10,292	8,072	11,440	12,058	14,881	11,929	13,594	14,121	15,682
Lloyd Consumer	5,906	4,975	3,463	4,698	9,596	10,938	4,198	6,103	12,710
<b>EBIT</b>									
ECD	1,090	676	1,257	1,128	1,515	1,100	900	1,228	962
EBIT margin (%)	15.3	11.7	17.2	12.6	17.4	13.1	11.6	13.1	12.8
Lighting	698	331	784	874	633	614	576	536	755
EBIT margin (%)	20.7	15.5	21.8	21.2	15.6	16.4	14.3	12.7	18.1
Switchgears	1,234	1,031	1,218	1,448	1,239	1,354	1,220	1,271	1,721
EBIT margin (%)	26.6	27.3	27.2	29.2	26.1	26.2	25.0	24.7	28.6
Cables & wires	1,528	1,262	1,153	1,256	1,734	875	859	1,628	1,885
EBIT margin (%)	14.8	15.6	10.1	10.4	11.7	7.3	6.3	11.5	12.0
Lloyd Consumer	318	97	(188)	(429)	(215)	(563)	(840)	(600)	(229)
EBIT margin (%)	5.4	2.0	(5.4)	(9.1)	(2.2)	(5.1)	(20.0)	(9.8)	(1.8)

Source: Company, BOBCAPS Research

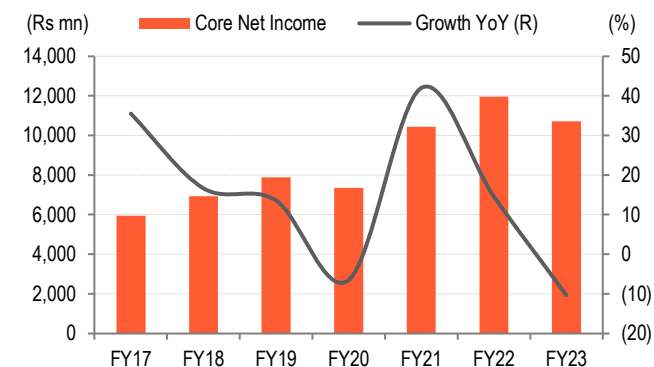
**Fig 3 – Revenue growth**


Source: Company, BOBCAPS Research

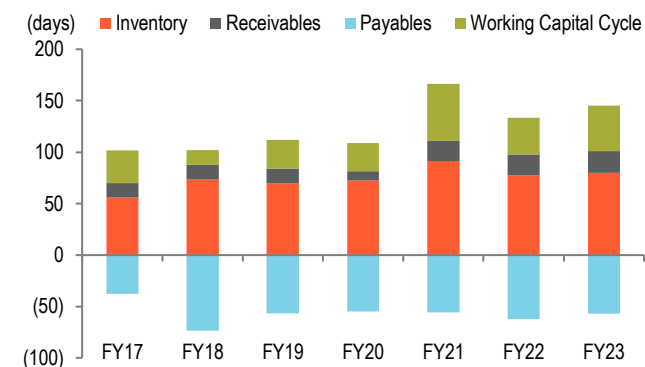
**Fig 4 – EBITDA growth**


Source: Company, BOBCAPS Research

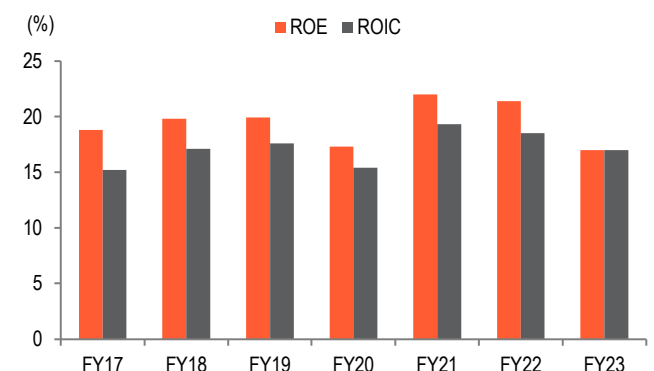


**Fig 5 – Net profit growth**


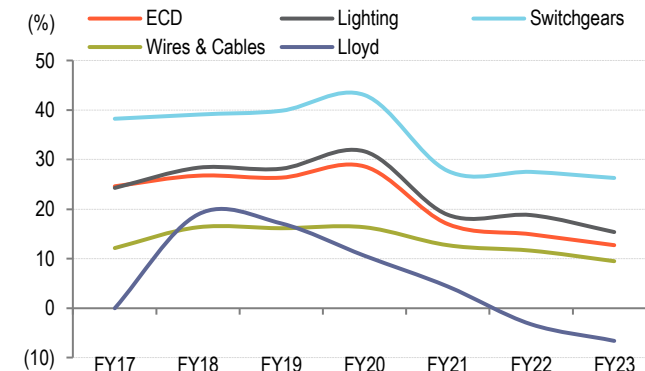
Source: Company, BOBCAPS Research

**Fig 6 – Working capital cycle**


Source: Company, BOBCAPS Research

**Fig 7 – Return ratio trend**


Source: Company, BOBCAPS Research

**Fig 8 – Segmental EBIT margin trend**


Source: Company, BOBCAPS Research

## Valuation methodology

HAVL is a comprehensive play in the consumer durables space with a strong presence across categories. This coupled with a sound balance sheet enables it to target growth in specific businesses, as in the case of Lloyd. Management remains positive on robust recovery in the core product portfolio in coming quarters. We like HAVL's core portfolio for its prominent brand, wide network and inherent growth triggers, and hence have a BUY rating.

Given the potential upside risk to earnings as the rural theme plays out, we increase our target FY25E P/E marginally to 53x (from 50x), in line with the 3Y average multiple, and raise our TP to Rs 1,600 (from Rs 1,500).

## Key risks

Key downside risks to our estimates are:

- aggressive capital allocation at Lloyd, and
- subdued growth in the core product portfolio.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>1,04,573</b>	<b>1,39,385</b>	<b>1,69,107</b>	<b>1,90,821</b>	<b>2,17,228</b>
EBITDA	15,718	17,604	15,991	21,604	26,938
Depreciation	2,489	2,609	2,962	2,899	3,737
EBIT	13,229	14,995	13,030	18,705	23,201
Net interest inc./(exp.)	(727)	(534)	(336)	(436)	(445)
Other inc./(exp.)	1,874	1,604	1,777	1,866	1,959
Exceptional items	0	0	0	0	0
EBT	14,376	16,066	14,471	20,135	24,715
Income taxes	3,932	4,101	3,753	5,074	6,228
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>10,443</b>	<b>11,965</b>	<b>10,717</b>	<b>15,061</b>	<b>18,487</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>10,443</b>	<b>11,965</b>	<b>10,717</b>	<b>15,061</b>	<b>18,487</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	15,971	23,800	26,432	31,368	35,709
Other current liabilities	10,525	10,881	11,562	13,046	14,852
Provisions	0	0	0	0	0
Debt funds	4,922	3,955	2,231	2,908	2,965
Other liabilities	5,341	6,567	5,095	5,750	6,545
Equity capital	626	626	627	627	627
Reserves & surplus	51,137	59,403	65,628	75,364	88,525
Shareholders' fund	51,763	60,029	66,255	75,990	89,152
<b>Total liab. and equities</b>	<b>88,523</b>	<b>1,05,232</b>	<b>1,11,574</b>	<b>1,29,062</b>	<b>1,49,222</b>
Cash and cash eq.	19,591	27,014	18,702	31,188	41,496
Accounts receivables	5,637	7,663	9,739	10,740	12,369
Inventories	26,199	29,681	37,086	41,241	47,293
Other current assets	1,778	1,708	5,135	1,279	1,456
Investments	0	0	0	0	0
Net fixed assets	32,904	34,336	36,236	39,337	40,600
CWIP	899	572	1,634	1,844	2,099
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	1,515	4,258	3,042	3,433	3,908
<b>Total assets</b>	<b>88,523</b>	<b>1,05,232</b>	<b>1,11,574</b>	<b>1,29,062</b>	<b>1,49,222</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>6,603</b>	<b>17,278</b>	<b>5,649</b>	<b>23,080</b>	<b>20,512</b>
Capital expenditures	(1,536)	(2,528)	(5,855)	(6,000)	(5,000)
Change in investments	0	0	5,004	0	0
Other investing cash flows	(6,096)	(5,067)	1,201	54	65
<b>Cash flow from investing</b>	<b>(7,632)</b>	<b>(7,595)</b>	<b>350</b>	<b>(5,946)</b>	<b>(4,935)</b>
Equities issued/Others	98	312	267	0	0
Debt raised/repaid	14,883	0	(4,563)	677	57
Interest expenses	0	0	0	0	0
Dividends paid	(13,083)	(5,783)	(4,773)	(5,325)	(5,325)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>1,898</b>	<b>(5,472)</b>	<b>(9,069)</b>	<b>(4,648)</b>	<b>(5,269)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>869</b>	<b>4,212</b>	<b>(3,070)</b>	<b>12,486</b>	<b>10,309</b>
<b>Closing cash &amp; cash eq.</b>	<b>19,591</b>	<b>27,014</b>	<b>18,702</b>	<b>31,188</b>	<b>41,496</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	16.7	19.1	17.1	24.0	29.5
Adjusted EPS	16.7	19.1	17.1	24.0	29.5
Dividend per share	6.5	7.5	7.5	8.5	8.5
Book value per share	82.6	95.8	105.8	121.3	142.3

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	8.1	6.1	5.0	4.4	3.9
EV/EBITDA	53.7	47.9	52.8	39.1	31.3
Adjusted P/E	80.8	70.5	78.7	56.0	45.6
P/BV	16.3	14.1	12.7	11.1	9.5

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	72.6	74.5	74.1	74.8	74.8
Interest burden (PBT/EBIT)	108.7	107.1	111.1	107.6	106.5
EBIT margin (EBIT/Revenue)	12.7	10.8	7.7	9.8	10.7
Asset turnover (Rev./Avg TA)	3.2	4.1	4.7	4.9	5.4
Leverage (Avg TA/Avg Equity)	0.7	0.6	0.6	0.6	0.5
<b>Adjusted ROAE</b>	<b>22.0</b>	<b>21.4</b>	<b>17.0</b>	<b>21.2</b>	<b>22.4</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	10.8	33.3	21.3	12.8	13.8
EBITDA	52.8	12.0	(9.2)	35.1	24.7
Adjusted EPS	42.0	14.6	(10.4)	40.5	22.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	15.0	12.6	9.5	11.3	12.4
EBIT margin	12.7	10.8	7.7	9.8	10.7
Adjusted profit margin	10.0	8.6	6.3	7.9	8.5
Adjusted ROAE	22.0	21.4	17.0	21.2	22.4
ROCE	19.3	18.5	17.0	23.9	22.0
<b>Working capital days (days)</b>					
Receivables	20	20	21	21	21
Inventory	91	78	80	79	79
Payables	56	62	57	60	60
<b>Ratios (x)</b>					
Gross asset turnover	2.5	3.2	3.5	3.6	3.7
Current ratio	1.9	1.8	1.8	1.9	2.0
Net interest coverage ratio	18.2	28.1	38.8	42.9	52.2
<b>Adjusted debt/equity</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**BUY****TP: Rs 4,300 | ▲ 21%****POLYCAB INDIA**

Consumer Durables

21 June 2023

## Rural revival expected through CY23

- India's rural economy has bottomed and is likely to recover through CY23, per management
- Rural markets form a key component of Polycab's 'Project Leap' which carries an overall revenue target of Rs 200bn by FY26
- Maintain BUY with a TP of Rs 4,300 given expected growth acceleration in all segments

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 Swati Jhunjhunwala  
 research@bobcaps.in

**Buoyant year:** Polycab posted revenue/EBITDA/PAT growth of 16%/46%/52% to Rs 141bn/Rs 18.5bn/Rs 12.7bn in FY23 underpinned by the wires & cables (W&C) business which performed well in both domestic and international markets. W&C grew 17% YoY in FY23, and the company remains the domestic market leader, commanding 22-24% of the organised segment. FMEG business was flat on account of subdued demand and a distribution rejig by the company. With the rejig complete, the business is expected to be on track in FY24.

**On course to meet Rs 200bn revenue target:** Polycab has posted a 27% topline CAGR over FY21-FY23, putting the company on course to meet its FY26 revenue target of Rs 200bn set under Project Leap. We believe it is set to solidify moats in the W&C segment and deliver above-industry growth in the FMEG business.

**Rural market commentary:** Management, in the FY23 annual report, stated that "...[the] rural economy is bottoming out and is likely to see recovery through calendar year 2023, supported by factors like better outlook for wages, crop margins, rising construction activity and government spending."

"We believe that the domestic economy is likely to remain resilient in H2FY24, with rural demand catching up and urban demand likely to improve further with the typical upturn seen in the second half of the year."

"On [the] rural front, sequential improvement in two-wheeler sales along with robust rabi sowing exhibits positive signs."

**Maintain BUY:** We are optimistic on Polycab's prospects given moats in its core W&C business (broad portfolio, strong raw material procurement), expected growth in FMEG and B2C expansion. In our view, ingredients for long-term growth are in place led by a focus on manufacturing (~95% of products made inhouse), premiumisation (~40 fans launched in FY23, of which 60% are in the premium/ super-premium class), and brand & network building. We maintain BUY with an unchanged TP of Rs 4,300, based on 38x FY25E P/E – a 50% premium to the stock's 3Y average.

## Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	POLYCAB IN/Rs 3,542
Market cap	US\$ 6.4bn
Free float	34%
3M ADV	US\$ 12.2mn
52wk high/low	Rs 3,618/Rs 2,080
Promoter/FPI/DII	66%/10%/9%

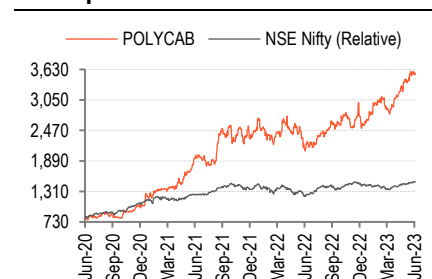
Source: NSE | Price as of 20 Jun 2023

## Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,41,078	1,62,895	1,82,252
EBITDA (Rs mn)	18,521	21,899	24,645
Adj. net profit (Rs mn)	12,700	14,701	16,539
Adj. EPS (Rs)	84.9	98.2	110.5
Consensus EPS (Rs)	84.9	92.5	107.8
Adj. ROAE (%)	20.9	20.4	19.6
Adj. P/E (x)	41.7	36.1	32.0
EV/EBITDA (x)	28.6	24.2	21.5
Adj. EPS growth (%)	51.8	15.8	12.5

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE

**Fig 1 – Quarterly performance**

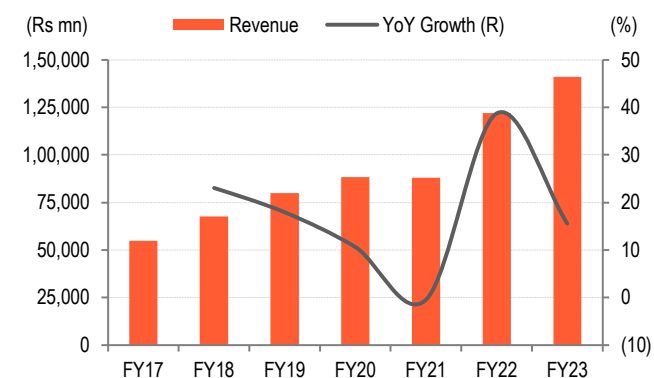
Particulars (Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	43,237	37,152	39,700	16.4	8.9	141,078	122,038	15.6
EBITDA	6,095	5,038	4,763	21.0	28.0	18,521	12,652	46.4
Adjusted PAT	4,248	3,576	3,222	18.8	31.8	12,700	8,365	51.8
Gross Margin (%)	25.2	25.7	22.2	(50bps)	300bps	25.5	22.4	290bps
EBITDA Margin (%)	14.1	13.6	12.0	50bps	210bps	13.1	10.4	280bps
Adj. PAT Margin (%)	9.8	9.6	8.1	20bps	170bps	9.0	6.9	210bps

Source: Company, BOBCAPS Research

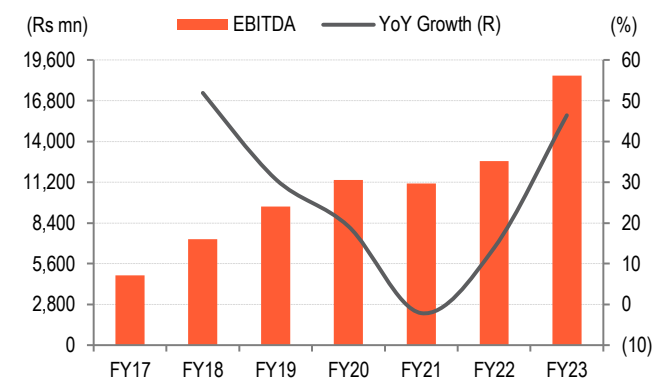
**Fig 2 – Segment-wise performance**

Particulars (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
<b>Segment revenue</b>													
Wires & Cables	18,605	8,252	18,268	24,073	25,442	16,269	26,281	29,988	35,400	24,057	29,517	33,418	40,783
Growth YoY (%)	(12.3)	(49.6)	(5.0)	11.0	36.7	97.2	43.9	24.6	39.1	47.9	12.3	11.4	15.2
% of sales	84	80	80	80	81	83	80	87	88	85	88	88	90
FMEG	1,833	1,378	2,440	3,055	3,468	1,919	3,429	3,404	3,792	3,082	3,054	3,420	3,052
Growth YoY (%)	(6.2)	(42.6)	24.7	41.0	89.3	39.2	40.6	11.4	9.3	60.6	(11.0)	0.5	(19.5)
% of sales	8	13	11	10	11	10	10	10	9	11	9	9	7
<b>Segment EBIT</b>													
Wires & Cables	2,827	244	2,541	3,074	3,328	1,073	2,305	3,089	4,106	2,773	3,463	4,593	5,896
EBIT margin (%)	15.2	3.0	13.9	12.8	13.1	6.6	8.8	10.3	11.6	11.5	11.7	13.7	14.5
FMEG	1	(56)	196	182	244	(143)	172	63	105	64	(27)	(24)	(70)
EBIT margin (%)	0.1	(4.0)	8.0	5.9	7.0	(7.5)	5.0	1.8	2.8	2.1	(0.9)	(0.7)	(2.3)

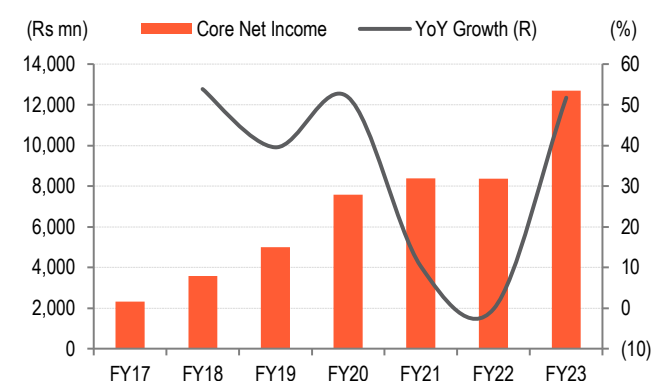
Source: Company, BOBCAPS Research

**Fig 3 – Revenue growth**

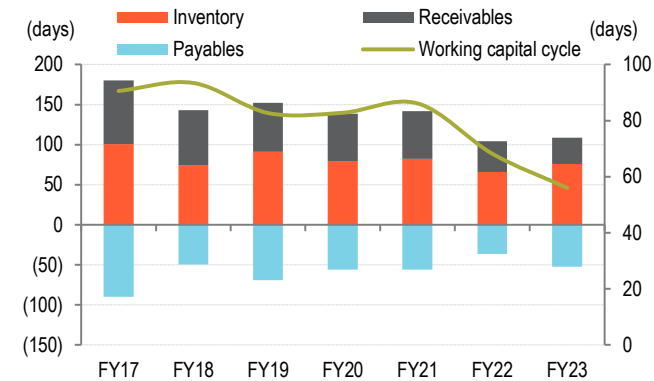
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA & margin**

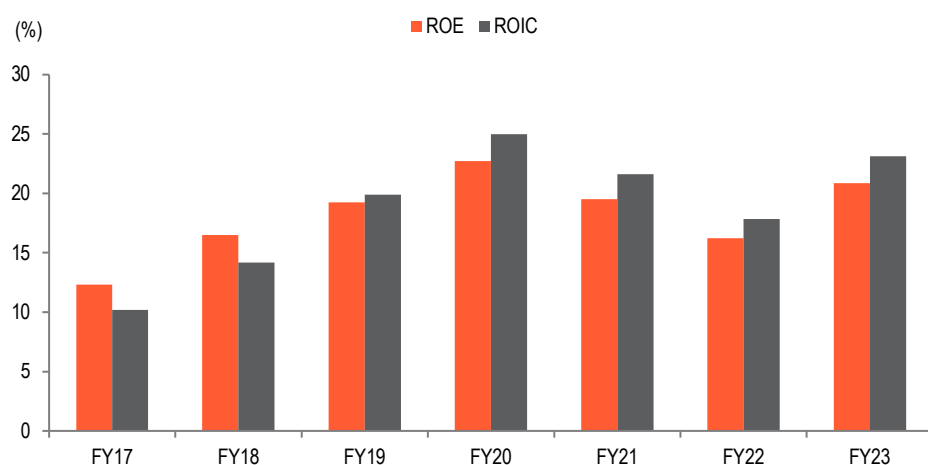
Source: Company, BOBCAPS Research

**Fig 5 – Net profit trend**

Source: Company, BOBCAPS Research

**Fig 6 – Working capital cycle**

Source: Company, BOBCAPS Research

**Fig 7 – Return ratio trend**

Source: Company, BOBCAPS Research

## Valuation methodology

We remain optimistic on Polycab's growth prospects considering the moats in its core W&C business (broad portfolio, strong raw material procurement), along with an uptick in FMEG business and healthy B2C expansion. In our view, the ingredients for long term growth are in place given the company's focus on manufacturing (~95% of products manufactured inhouse), premiumisation (~40 fans launched in FY23, of which 60% are in the premium and super-premium categories), and brand & network building over the years. We maintain BUY with an unchanged TP of Rs 4,300, based on 38x FY25E P/E – a 50% premium to the stock's three-year average

## Key risks

Key downside risks to our estimates are:

- commodity price volatility, and
- weak FMEG performance.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>87,922</b>	<b>1,22,038</b>	<b>1,41,078</b>	<b>1,62,895</b>	<b>1,82,252</b>
EBITDA	11,111	12,652	18,521	21,899	24,645
Depreciation	1,762	2,015	2,092	3,124	3,597
EBIT	9,350	10,637	16,430	18,775	21,048
Net interest inc./(exp.)	(427)	(352)	(598)	(486)	(448)
Other inc./(exp.)	1,193	899	1,333	1,467	1,613
Exceptional items	0	0	0	0	0
EBT	10,116	11,184	17,165	19,755	22,213
Income taxes	1,703	2,706	4,250	4,978	5,598
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	6	(26)	(93)	(26)	(26)
<b>Reported net profit</b>	<b>8,380</b>	<b>8,365</b>	<b>12,700</b>	<b>14,701</b>	<b>16,539</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>8,380</b>	<b>8,365</b>	<b>12,700</b>	<b>14,701</b>	<b>16,539</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	13,480	12,175	20,326	26,777	29,959
Other current liabilities	5,776	4,436	4,430	5,922	6,625
Provisions	0	0	0	0	0
Debt funds	1,926	831	1,551	3,243	3,450
Other liabilities	1,425	1,239	1,636	1,831	2,004
Equity capital	1,491	1,494	1,498	1,498	1,498
Reserves & surplus	46,048	53,943	64,814	76,223	89,171
Shareholders' fund	47,539	55,437	66,311	77,720	90,668
<b>Total liab. and equities</b>	<b>70,147</b>	<b>74,119</b>	<b>94,255</b>	<b>1,15,493</b>	<b>1,32,707</b>
Cash and cash eq.	5,313	4,071	6,952	17,446	26,519
Accounts receivables	14,358	12,964	12,466	15,849	16,918
Inventories	19,879	21,996	29,514	31,719	36,808
Other current assets	1,945	4,739	6,650	7,679	8,591
Investments	6,231	7,641	13,505	13,505	13,505
Net fixed assets	18,261	16,170	20,104	23,480	23,884
CWIP	991	3,755	2,508	2,895	3,240
Intangible assets	94	230	203	203	203
Deferred tax assets, net	0	0	0	0	0
Other assets	3,075	2,553	2,352	2,716	3,038
<b>Total assets</b>	<b>70,147</b>	<b>74,119</b>	<b>94,255</b>	<b>1,15,493</b>	<b>1,32,707</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>12,382</b>	<b>5,116</b>	<b>14,275</b>	<b>19,150</b>	<b>16,951</b>
Capital expenditures	(1,911)	(5,200)	(4,584)	(6,500)	(4,000)
Change in investments	(8,193)	935	0	0	0
Other investing cash flows	(17)	(4)	(7,442)	(556)	(494)
<b>Cash flow from investing</b>	<b>(10,121)</b>	<b>(4,270)</b>	<b>(12,026)</b>	<b>(7,056)</b>	<b>(4,494)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,075)	(168)	332	1,691	207
Interest expenses	0	0	0	0	0
Dividends paid	(531)	(1,839)	(2,570)	(3,292)	(3,591)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(1,606)</b>	<b>(2,007)</b>	<b>(2,238)</b>	<b>(1,601)</b>	<b>(3,384)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>656</b>	<b>(1,160)</b>	<b>11</b>	<b>10,493</b>	<b>9,073</b>
<b>Closing cash &amp; cash eq.</b>	<b>5,313</b>	<b>4,071</b>	<b>6,952</b>	<b>17,446</b>	<b>26,519</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	56.0	55.9	84.9	98.2	110.5
Adjusted EPS	56.0	55.9	84.9	98.2	110.5
Dividend per share	10.0	14.0	20.0	22.0	24.0
Book value per share	317.8	370.6	443.2	519.4	605.9

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	6.0	4.3	3.8	3.3	2.9
EV/EBITDA	47.7	41.9	28.6	24.2	21.5
Adjusted P/E	63.2	63.4	41.7	36.1	32.0
P/BV	11.1	9.6	8.0	6.8	5.8

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	82.8	74.8	74.0	74.4	74.5
Interest burden (PBT/EBIT)	108.2	105.1	104.5	105.2	105.5
EBIT margin (EBIT/Revenue)	10.6	8.7	11.6	11.5	11.5
Asset turnover (Rev./Avg TA)	4.8	7.5	7.0	6.9	7.6
Leverage (Avg TA/Avg Equity)	0.4	0.3	0.3	0.3	0.3
<b>Adjusted ROAE</b>	<b>19.5</b>	<b>16.2</b>	<b>20.9</b>	<b>20.4</b>	<b>19.6</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	(0.4)	38.8	15.6	15.5	11.9
EBITDA	(2.1)	13.9	46.4	18.2	12.5
Adjusted EPS	10.4	(0.2)	51.8	15.8	12.5

### Profitability & Return ratios (%)

EBITDA margin	12.6	10.4	13.1	13.4	13.5
EBIT margin	10.6	8.7	11.6	11.5	11.5
Adjusted profit margin	9.5	6.9	9.0	9.0	9.1
Adjusted ROAE	19.5	16.2	20.9	20.4	19.6
ROCE	21.6	17.8	23.1	21.1	19.2

### Working capital days (days)

Receivables	60	39	32	36	34
Inventory	83	66	76	71	74
Payables	56	36	53	60	60

### Ratios (x)

Gross asset turnover	3.8	4.7	4.9	4.7	4.6
Current ratio	2.4	3.0	2.6	2.5	2.7
Net interest coverage ratio	21.9	30.2	27.5	38.6	46.9
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets



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## Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

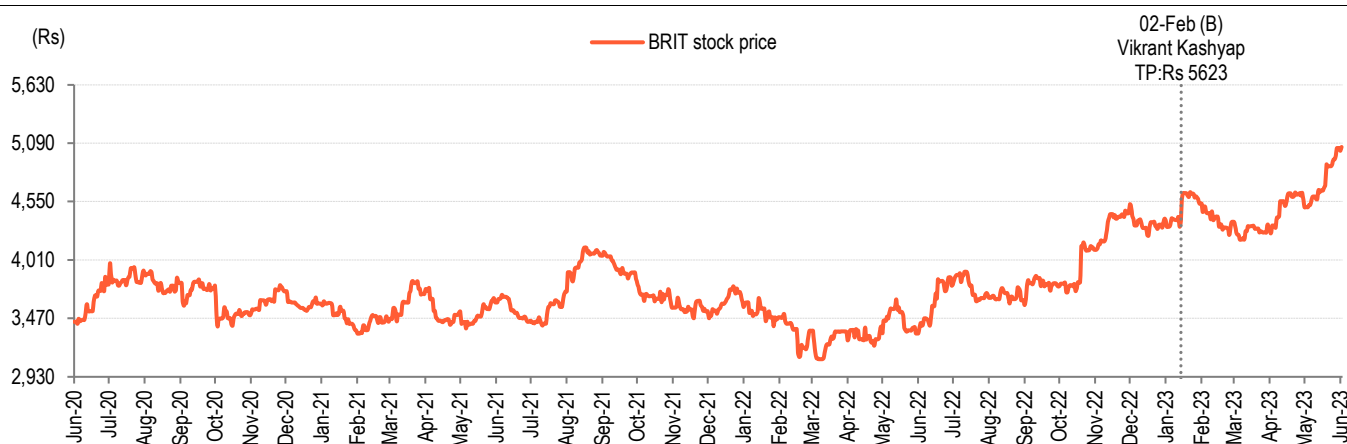
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

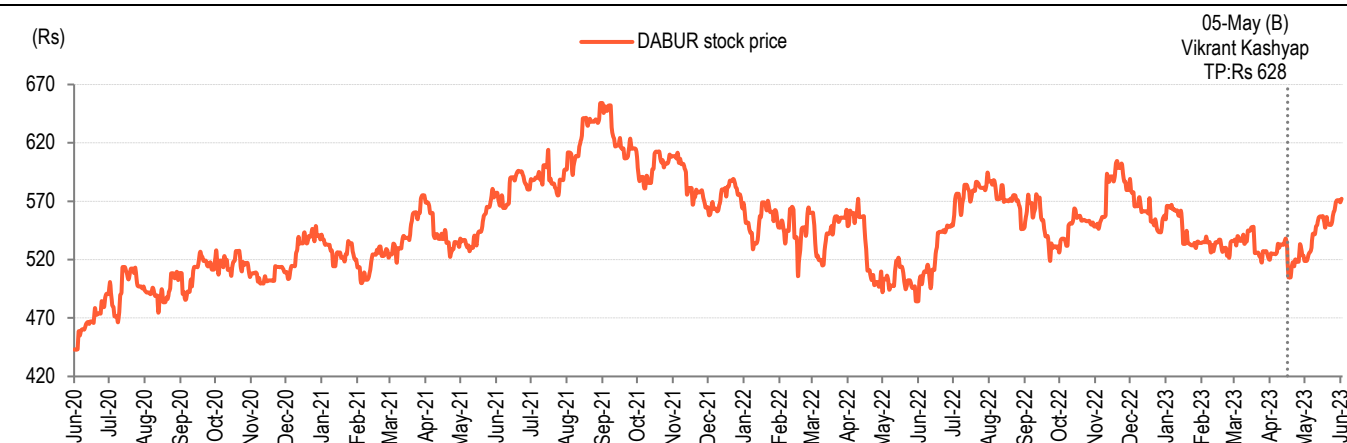
Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): BRITANNIA INDUSTRIES (BRIT IN)

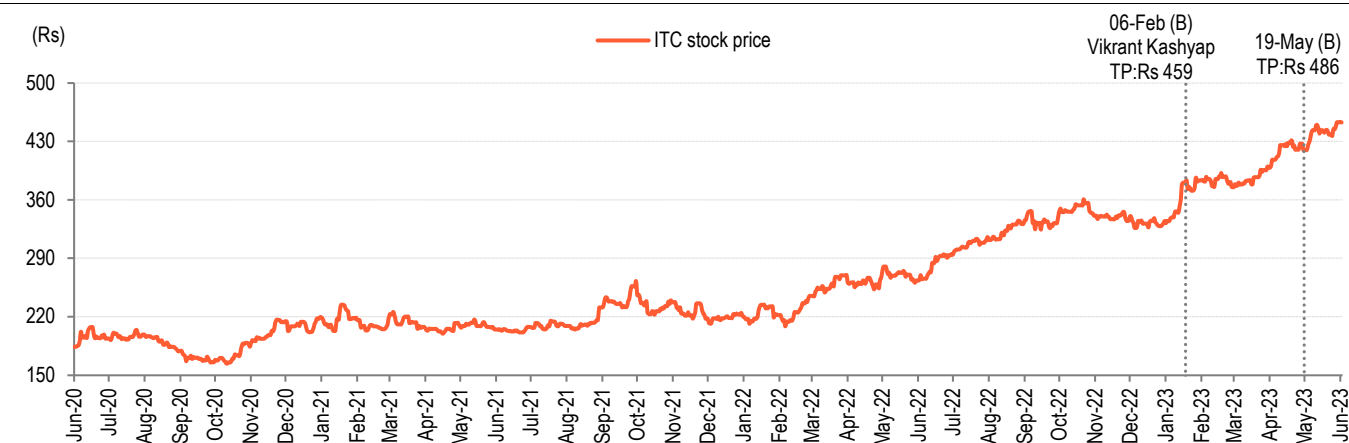


B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

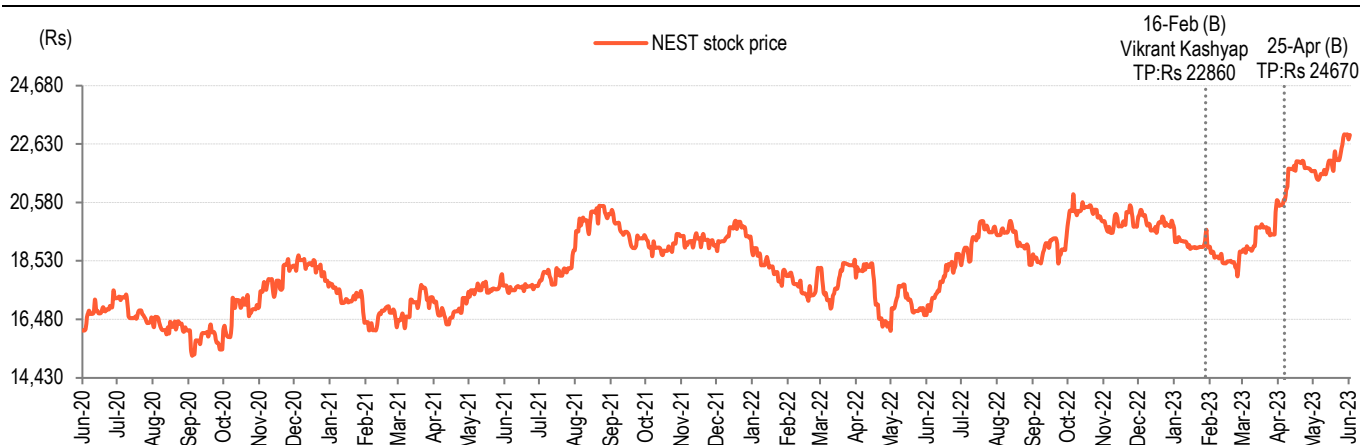
### Ratings and Target Price (3-year history): DABUR INDIA (DABUR IN)



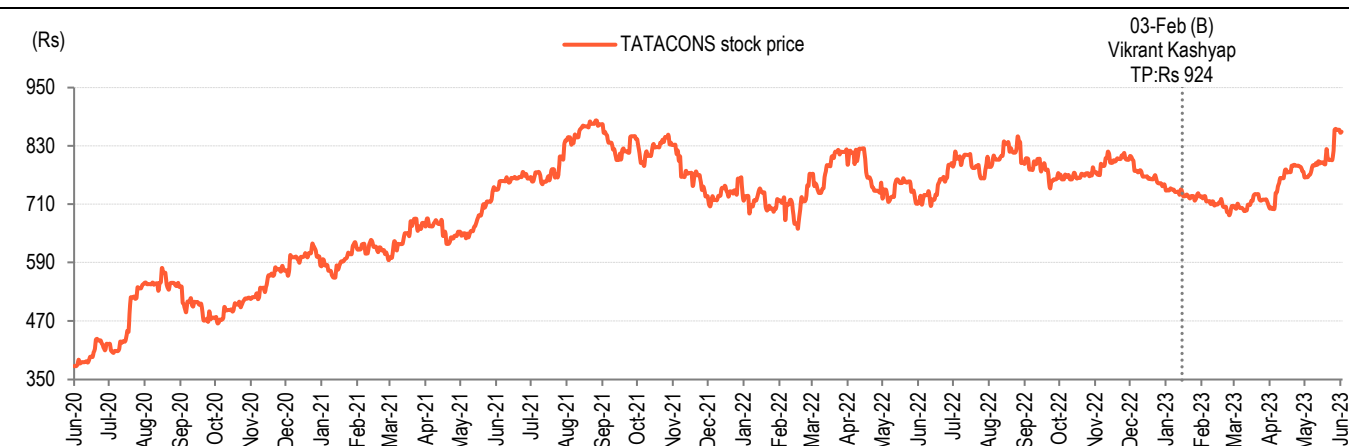
B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

**Ratings and Target Price (3-year history): ITC (ITC IN)**


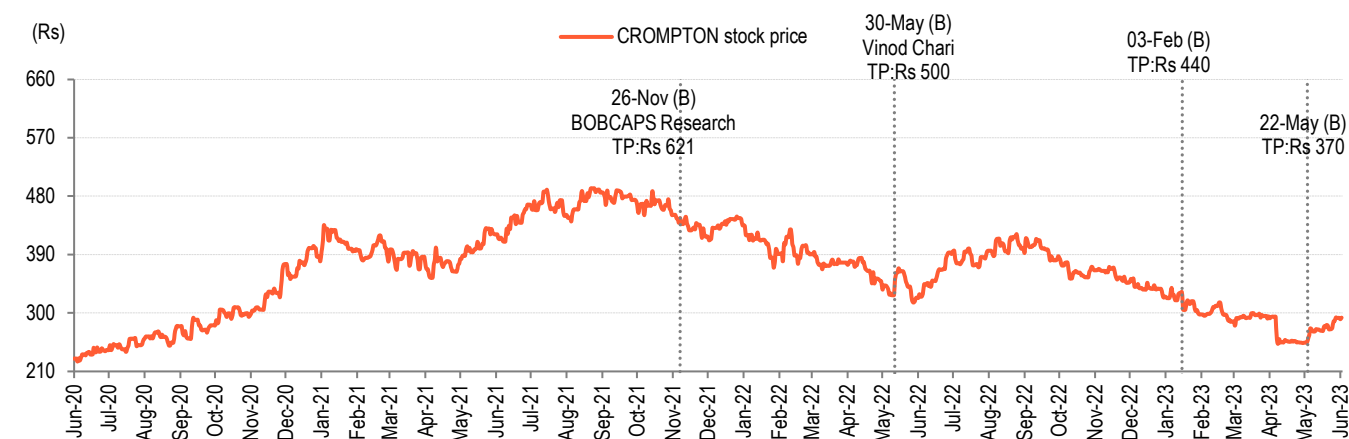
B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

**Ratings and Target Price (3-year history): NESTLE INDIA (NEST IN)**


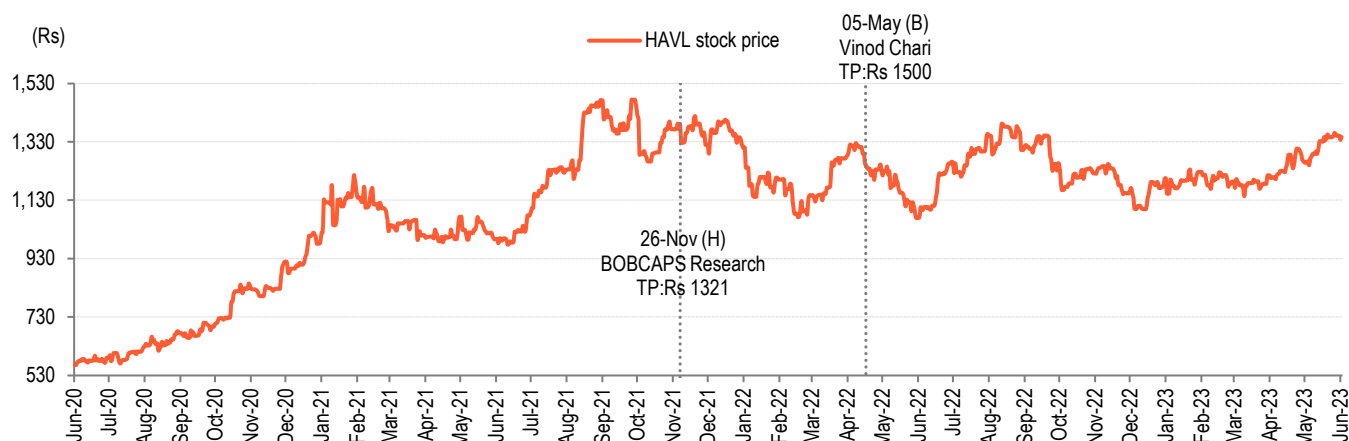
B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

**Ratings and Target Price (3-year history): TATA CONSUMER PRODUCTS (TATACONS IN)**


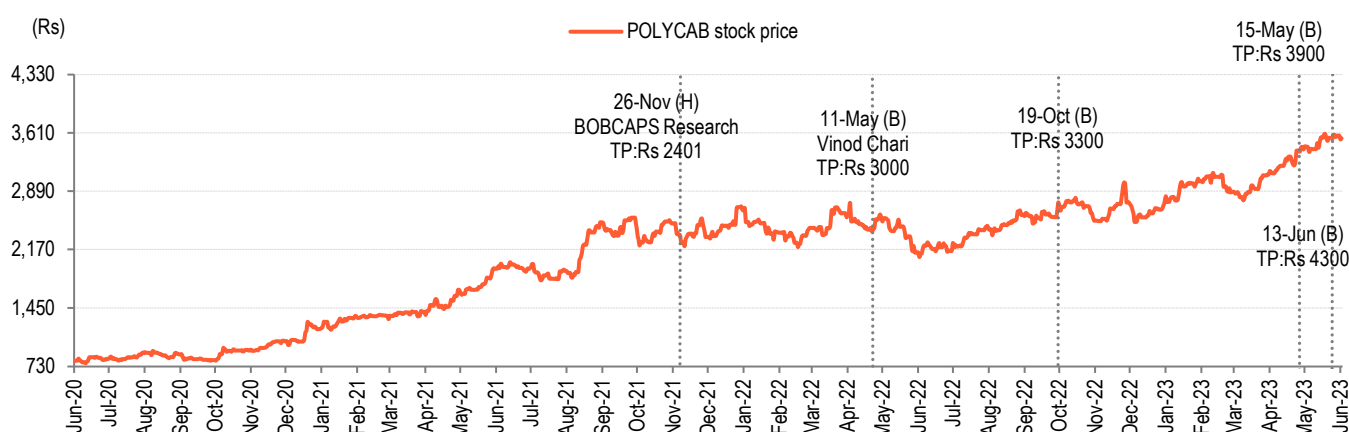
B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

**Ratings and Target Price (3-year history): CROMPTON GREAVES (CROMPTON IN)**


B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

**Ratings and Target Price (3-year history): HAVELLS INDIA (HAVL IN)**


B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

**Ratings and Target Price (3-year history): POLYCAB INDIA (POLYCAB IN)**


B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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