

Hindustan Unilever

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR2,319 TP: INR2,550 (+10%) Buy

Decent beat in challenging quarter; Scale benefits and GSK drive margin beat

Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We [request your ballot](#).



Bloomberg	HUVR IN
Equity Shares (m)	2,345
M.Cap.(INRb)/(USD\$)	5444.8 / 73.2
52-Week Range (INR)	2614 / 1660
1, 6, 12 Rel. Per (%)	2/21/36
12M Avg Val (INR M)	7346

Financials & Valuations (INR b)

Y/E March	2019	2020	2021E	2022E
Sales	382.2	387.9	442.4	515.9
Sales Gr. (%)	10.7	1.5	14.1	16.6
EBITDA	86.4	96.0	112.5	138.1
EBITDA mrg. (%)	22.6	24.8	25.4	26.8
Adj. PAT	60.8	67.4	80.5	103.6
Adj. EPS (INR)	28.1	31.2	34.4	44.2
EPS Gr. (%)	14.7	11.1	10.0	28.6
BV/Sh.(INR)	35.4	37.2	56.4	58.6
Ratios				
RoE (%)	82.5	86.0	75.8	76.8
RoCE (%)	119.1	119.8	103.4	103.5
Payout (%)	94.8	96.2	101.9	99.6
Valuations				
P/E (x)	82.6	74.3	67.5	52.5
P/BV (x)	65.5	62.4	41.1	39.5
EV/EBITDA (x)	57.7	51.6	47.3	38.4
Div. Yield (%)	0.9	1.1	1.5	1.9

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	61.9	67.2	67.2
DII	8.3	6.7	6.9
FII	14.8	12.1	12.1
Others	15.0	14.1	13.8
FII Includes depository receipts			

Brief view on results and stock

- Hindustan Unilever (HUVR) reported 5% beat on sales and ~10% beat on EBITDA and PAT v/s our estimates.
- The outlook is gradually improving, with the discretionary part of the portfolio (15% of sales) gradually seeing recovery. In a period of relative normalcy, HUVR (as has been the case in recent years) is likely to report superior earnings growth, which has led us to **maintain a BUY rating**.

Beat on all fronts

- HUVR's reported net sales grew 4.4% YoY to INR105.6b** in 1QFY21 (est.: INR100.1b). EBITDA edged down 0.1% YoY to INR26.4b (est.: 10.3% decline to INR23.7b), and PBT de-grew 1.1% YoY to INR25.3b (est.: INR23.2b). On the other hand PAT (bei) was up 7% YoY to INR18.7b (est.: INR17.2b). Gross margins stood at 51.8% (220bp contraction YoY), while EBITDA margins contracted by 110bp YoY to 25%.
- Underlying domestic Consumer business'** sales declined 7% YoY in 1QFY21, led by **underlying volume decline of 8% YoY (~4% growth including GSKCH** v/s est. 1.5% volume growth YoY).
- Segmental performance:** Revenue was down 2.1% YoY for Home Care (HC; 32% of sales for 1QFY21), down 12% YoY for Personal Care (PC; 38% of sales), and up 51.7% YoY for Food & Refreshments (F&R; 28% of sales). The segmental EBIT margin up by 20bp YoY for F&R, but down by 140bp/150bp for HC/PC.
- The scheme of arrangement for the transfer of balance in General Reserves of INR21.9b** to the P&L A/c was approved by its Shareholders in 2016. Subsequently, the scheme was sanctioned by the Hon'ble National Company Law Tribunal, Mumbai Bench – vide its order dated 30th Aug'18. The Board approved the distribution of the Reserves to its Shareholders by means of a Special Dividend of INR9.50/share.
- GSKCH merger impact:** The GlaxoSmithKline Consumer Healthcare (GSKCH) merger from 1st April resulted in: (1) 4.4% sales growth YoY v/s the 7% base business sales decline; (2) positive contribution to EBITDA margins (+60bp, reducing YoY margin decline to 110bp) despite integration costs impacting margins; (3) reported revenue growth of 5% YoY, which is healthy given: a) the impact of the lockdown and b) that the merger happened only from 1st April 2020, indicating execution was very good at this early stage. The pace of sales growth is not only likely to be better going forward, but synergies and lower integration costs are likely to positively impact overall margins further.

Highlights from management commentary

- 80% of the portfolio (non-discretionary) grew 6% YoY in the June quarter despite the lockdown impact; among the rest of the businesses, Skin Care is showing signs of recovery.

- GSKCH – As there are no royalty costs, the company was able to offset the transition costs in the GSKCH business.
- Rural demand outlook – A good harvest, government spend, and good monsoon are leading to higher growth.

Valuation and view

- Changes to the model have resulted in a ~2% increase in FY21/FY22 EPS. As mentioned in [our Corner Office note](#) and [detailed note on the Annual Report](#), the structural and near-term investment case for HUVR remains strong.
- The company's earnings growth has gained further momentum in recent years (17% EPS CAGR in the past three years v/s ~12% CAGR over 10 years). This is particularly impressive given the weak mid-single-digit earnings growth posted by (much smaller) peers in recent years. HUVR's best-of-breed analytics and execution ability (exhibited by the successful implementation of the WIMI strategy, cost-saving plans, herbals, etc.) are key factors driving the pace of earnings growth.
- The scale of HUVR's P&L v/s peers offers the company significant levers for superior management of costs even beyond what was already witnessed in 1QFY21. Even in FY20, the company managed to carve out as much as 7% of sales on cost savings.
- We remain positive on HUVR from a medium-term perspective, encouraged by: a) robust earnings growth potential beyond the near term owing to its portfolio and execution strengths and b) significant synergies in FY22E as a result of GSKCH. These factors suggest premium multiples are likely to sustain. Valuing the company at 55x Jun'22 merged EPS, we arrive at **TP of INR2,550, implying a 10% upside.**

Quarterly performance (Standalone)

(INR b)

Y/E March	FY20				FY21				FY20	FY21E	FY21 1QE	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Domestic volume gr. (%)	5.0	5.0	5.0	-7.0	4.0	10.5	14.0	27.0	2.0	13.9	1.5	
Net sales	101.1	98.5	98.1	90.1	105.6	109.2	112.6	115.0	387.9	442.4	100.1	5.4%
YoY change (%)	6.6	6.7	2.6	-9.4	4.4	10.8	14.8	27.6	1.5	14.1	-1.0	
Gross Profit	54.7	53.7	53.2	48.4	54.7	57.2	59.5	62.1	209.9	233.5	53.5	
Margin %	54.0	54.5	54.2	53.7	51.8	52.4	52.8	54.0	54.1	52.8	53.5	
EBITDA	26.5	24.4	24.5	20.7	26.4	27.3	29.3	29.4	96.0	112.5	23.7	11.4%
YoY change (%)	17.6	21.0	19.5	-11.0	-0.1	11.6	19.9	42.6	11.1	17.1	-10.3	
Margins (%)	26.2	24.8	24.9	22.9	25.0	25.0	26.0	25.6	24.8	25.4	23.7	
Depreciation	2.1	2.4	2.3	2.6	2.4	2.6	3.0	2.8	9.4	10.8	2.4	
Interest	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.2	1.1	1.0	0.2	
Other income	1.5	1.8	1.4	2.7	1.6	2.2	2.2	2.3	7.3	8.3	2.1	
PBT	25.6	23.6	23.3	20.5	25.3	26.6	28.3	28.7	92.9	108.8	23.2	9.0%
Tax	8.1	5.2	6.4	5.8	6.6	7.1	7.9	8.0	25.5	28.3	6.0	
Rate (%)	31.5	22.2	27.4	28.3	25.9	26.7	27.8	28.0	27.4	26.0	26.0	
PAT bei	17.5	18.3	16.9	14.7	18.7	19.5	20.4	20.6	67.4	80.5	17.2	9.1%
YoY change (%)	11.7	20.4	20.7	-7.6	7.0	6.5	20.7	22.1	10.9	19.4	-1.9	
Reported Profit	17.6	18.5	16.2	15.2	18.8	19.5	20.4	20.6	67.4	80.5	17.2	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY20				FY21			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE
2Y average growth %								
Volumes	8.5	7.5	7.5	0.0	4.5	7.8	9.5	10.0
Sales	8.9	8.9	6.9	0.0	5.5	8.8	8.7	9.1
EBITDA	19.1	20.5	20.6	1.2	8.7	16.3	19.7	15.8
PAT	16.5	21.8	18.8	2.6	9.4	13.4	20.7	7.2
% sales								
COGS	46.0	45.5	45.8	46.3	48.2	47.6	47.2	46.0
Staff cost	4.5	4.4	4.6	3.9	5.6	4.1	4.1	6.8
Advertising and Promotion	11.5	12.2	11.9	12.9	7.5	11.3	10.9	5.8
Others	11.9	13.2	12.8	13.9	13.6	12.1	11.7	15.7
Depreciation	2.1	2.4	2.4	2.8	2.3	2.4	2.7	2.4
YoY change %								
COGS	6.5	1.1	1.6	-12.1	9.4	15.8	18.4	26.9
Staff cost	-0.2	-0.4	-0.2	-0.1	1.1	-0.3	-0.5	2.9
Advertising and Promotion	-0.7	0.2	-0.6	1.8	-3.9	-0.9	-0.9	-7.1
Others	-1.5	-0.2	-2.3	0.2	1.7	-1.0	-1.1	1.8
Other income	8.9	-41.0	32.1	125.4	6.1	23.0	60.0	-15.0
EBIT	14.5	16.8	15.7	-17.2	-1.3	11.7	18.8	47.2

E: MOFSL Estimates

Exhibit 1: Segmental performance

Segment Revenue INR b	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Home Care	30.8	31.5	35.0	34.7	33.7	34.6	33.5	33.9
Personal Care	43.2	45.4	43.9	45.9	45.4	44.1	38.0	40.4
Foods & Refreshments	17.0	17.3	19.2	19.5	18.5	18.7	17.9	29.6
Others	1.3	1.4	1.3	1.1	0.9	0.8	0.7	1.7
Net Segment Revenue	92.3	95.5	99.5	101.1	98.5	98.0	90.1	105.6
Growth YoY %								
Home Care	12.4	14.8	12.9	10.1	9.4	9.8	-4.3	-2.1
Personal Care	10.4	11.0	7.3	4.1	5.3	-2.8	-13.5	-12.0
Foods & Refreshments	11.7	9.9	10.4	9.2	8.4	7.9	-6.7	51.7
Others	4.7	-23.5	-18.3	-26.2	-32.1	-47.6	-46.3	55.5
Net Segment Revenue	11.2	11.3	9.3	6.6	6.7	2.6	-9.4	4.4
Saliency %								
Home Care	33.4	32.9	35.2	34.3	34.2	35.2	37.2	32.1
Personal Care	46.7	47.5	44.2	45.4	46.1	45.0	42.2	38.2
Foods & Refreshments	18.5	18.1	19.3	19.3	18.7	19.0	19.8	28.0
Others	1.5	1.5	1.3	1.1	0.9	0.8	0.8	1.6
Total Segment Revenue	100	100	100	100	100	100	100	100
Segment Results (EBIT) - INR b								
Home Care	5.0	4.5	6.2	7.0	6.0	6.3	6.4	6.4
Personal Care	11.4	11.7	12.2	13.6	13.2	12.5	9.5	11.3
Foods & Refreshments	3.0	2.6	3.5	3.8	2.9	3.3	2.3	5.8
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
Total Segment Results	19.3	18.7	21.9	24.4	22.1	22.1	18.1	24.0
PBT	21.5	19.5	22.3	25.6	23.1	22.3	19.9	24.1
Growth YoY (%)								
Home Care	29.8	26.0	21.1	16.1	19.7	41.0	2.7	-8.9
Personal Care	20.0	15.7	8.3	16.9	15.6	7.5	-22.5	-16.5
Foods & Refreshments	27.7	51.7	20.1	13.5	-0.3	28.0	-35.0	53.6
Others	-133.3	0.0	0.0	-200.0	0.0	-33.3	100.0	2350.0
Total Segment Results	24.2	22.2	13.4	16.3	14.2	18.4	-17.2	-1.5
Saliency %								
Home Care	23.1	22.9	27.8	27.3	25.8	28.2	31.9	26.4
Personal Care	52.9	59.7	54.8	53.0	57.0	56.2	47.4	47.0
Foods & Refreshments	13.7	13.4	15.5	14.8	12.7	15.0	11.3	24.1
Others	0.1	-0.2	0.1	0.1	0.1	-0.1	0.2	2.0
Total Segment Results	89.8	95.8	98.2	95.1	95.6	99.3	90.9	100.0
PBT	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Segmental EBIT margin (%)								
Home Care	16.1	14.2	17.7	20.2	17.7	18.2	19.0	18.8
Personal Care	26.4	25.7	27.8	29.6	28.9	28.4	24.9	28.1
Foods & Refreshments	17.3	15.1	18.1	19.4	15.9	17.9	12.6	19.7
Others	1.5	-2.1	1.5	1.8	2.2	-2.7	5.6	28.7
Total	20.9	19.6	22.0	24.1	22.4	22.6	20.1	22.7
EBIT margin change YoY (%)								
Home Care	2.2	1.3	1.2	1.0	1.5	4.0	1.3	-1.4
Personal Care	2.1	1.0	0.3	3.2	2.6	2.7	-2.9	-1.5
Foods & Refreshments	2.2	4.2	1.5	0.7	-1.4	2.8	-5.5	0.2
Others	6.2	-0.5	0.3	3.2	0.7	-0.6	4.1	26.8
Total	2.2	1.7	0.8	2.0	1.5	3.0	-1.9	-1.4

Source: Company, MOFSL



Conference call highlights

Key highlights

- HUVR believes it has made good progress over the last few months, with satisfying results. Its dynamic response to a changing environment has supported its performance.
- The merger with GSKCH could not have come at a better time from the perspective of introducing an in-home consumption and immunity building product. It witnessed sound growth of 5% v/s the corresponding quarter last year.
- 8% volume decline was reported on a like-to-like basis on 7% sales decline.
- 80% of the portfolio (non-discretionary) has grown at 6%.
- HUVR was at a 70% operational level in April, which was better in May.
- June sales growth was in the mid-single digits, partly due to the normalization of pipelines; if not for this, growth would likely have been flattish.
- With more lockdowns the company advised caution on extrapolating the growth being reported in the month of June. At the same time, a heightened sense of hygiene is likely to persist.
- Rural demand outlook – A good harvest, government spend, and a good monsoon are leading to higher growth.
- Urban growth has also been affected by the lockdown.
- HUVR maintains that rural is witnessing green shoots and is not yet a full-fledged revival even as performance vs. urban is likely to be better.

Impact on discretionary businesses

- Skin Care, Color Cosmetics, and Deodorants (15% of portfolio) declined 45% YoY in the June quarter. Skin Care showed signs of improvement in June and is likely to do better going forward.
- The Out-of-Home business (5% of the portfolio, mainly Ice-creams and Water Purifiers) declined 69% YoY and is likely to remain weak going forward.

Glow & Lovely (formerly Fair & Lovely)

- HUVR is highly confident of not only retaining existing customers but also attracting new ones.
- Despite the repositioning more than a year ago, growth has been healthy.

Other points

- Production capacity was rapidly increased by 100x in Sanitizers and by 5x in Hand Washes to meet demand.
- The base business reported a 170bp EBITDA margin decline, while GSK added 60bp to margins, implying 110bp margin decline on a merged basis.
- HUVR's adverse portfolio mix for the quarter impacted gross margins. The mix would not be as bad going forward.
- GSKCH – Since there are no royalty costs now they were able to offset the transition costs in the GSKCH business.
- COVID-19-related sanitization costs would be lower going forward, and some of the GSKCH integration also be lower.

- HUVR is taking price increases in Tea due to higher commodity costs. In Detergents, the company is looking to pass on the benefits of lower crude costs to boost growth.
- The number of SKUs is still at 50% of pre-COVID-19 levels, but the company is looking to prune 20% of the tail anyway.

Special Dividend

- The Scheme of Arrangement for the transfer of balance in General Reserves of INR21.9b to the P&L A/c was approved by its Shareholders in 2016. Subsequently, the scheme was sanctioned by the Hon'ble National Company Law Tribunal, Mumbai Bench – vide its order dated 30th August 2018. The Board approved the distribution of the Reserves to its Shareholders by means of a Special Dividend of INR9.50/share.

Key exhibits

Exhibit 2: Impact on LTL domestic sales lower than expected in tough quarter

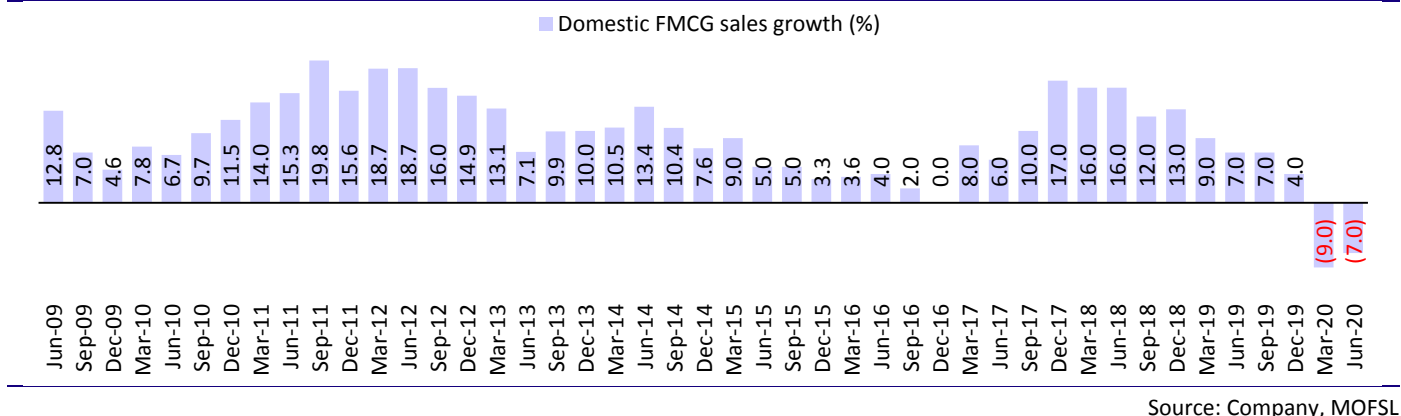


Exhibit 3: Underlying volume decline by 7% YoY in 1QFY21 (~4% growth including GSKCH v/s est. 1.5% growth YoY)

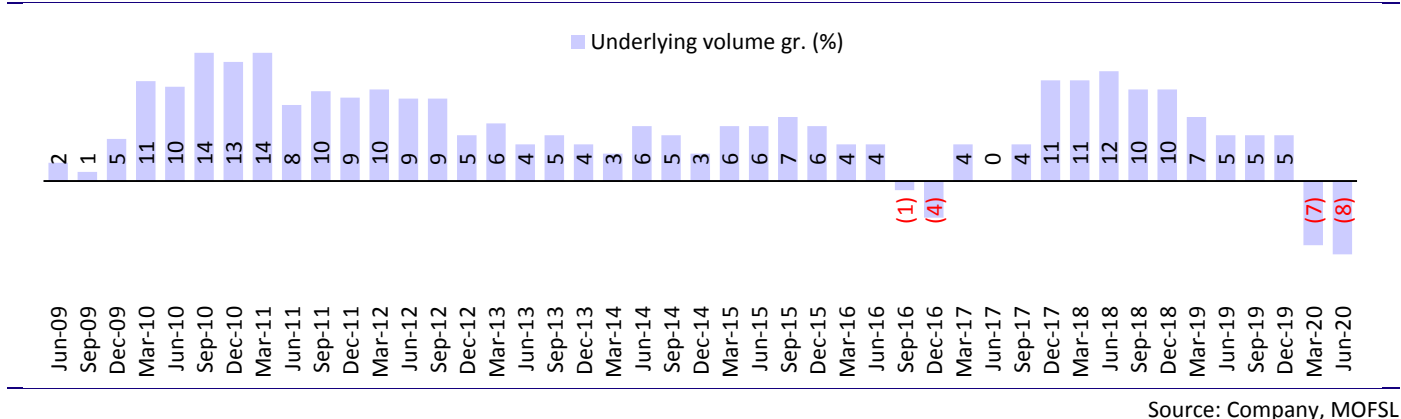
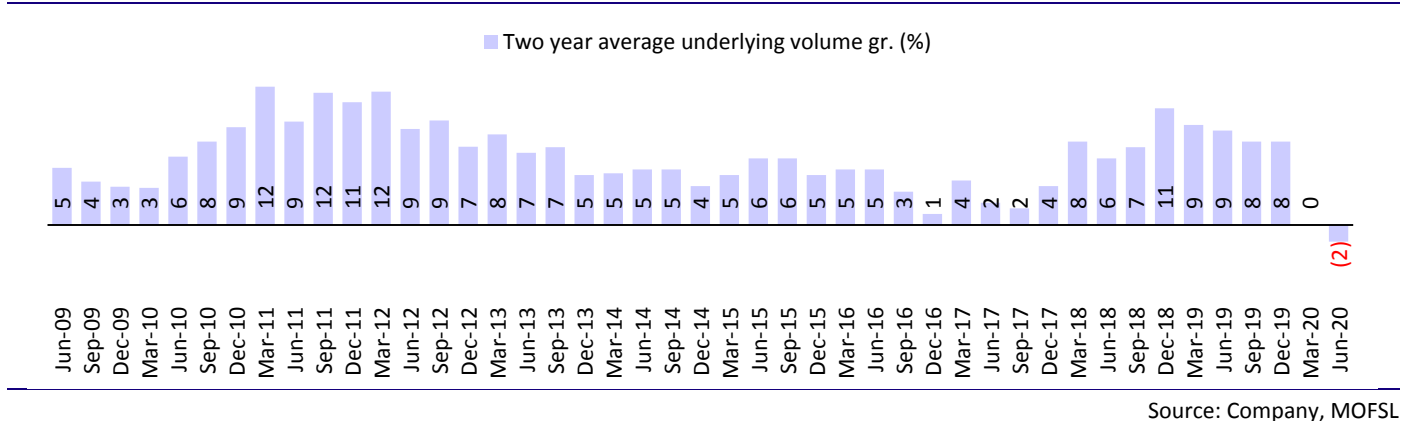
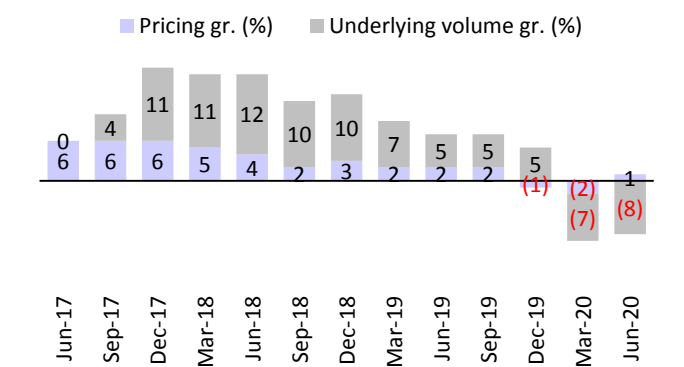


Exhibit 4: Underlying volumes decline on two-year average basis



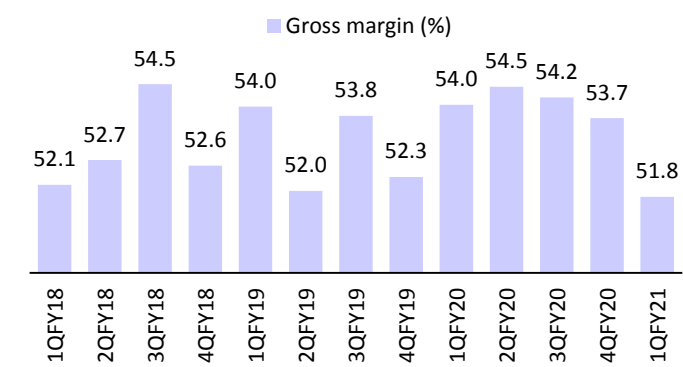
- **Higher operating expenses as a percentage of sales** (up 170bp YoY to 13.6%), lower ad spends (down 390bp YoY to 7.5%), and higher staff cost (up 110bp YoY to 5.6%) led to EBITDA margin contraction of 110bp YoY to 25%.

Exhibit 5: Realization growth of 1% in 1QFY21



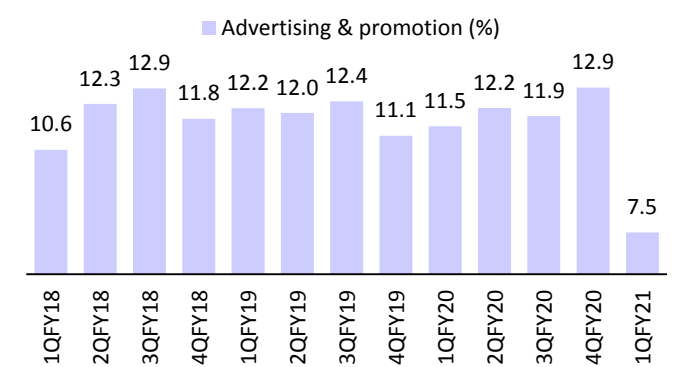
Source: Company, MOFSL

Exhibit 6: Gross margins contract by 220bp YoY to 51.8%



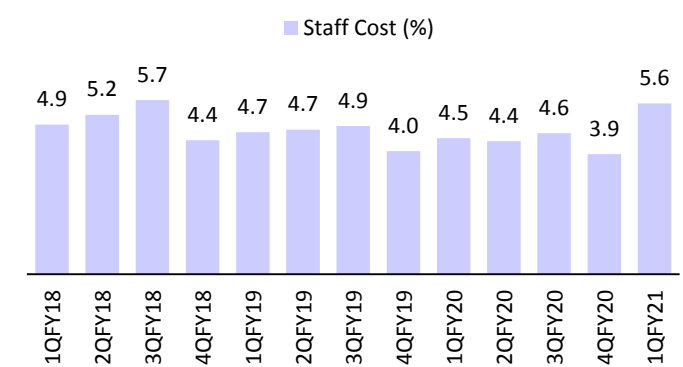
Source: Company, MOFSL

Exhibit 7: A&P spends down 390bp YoY...



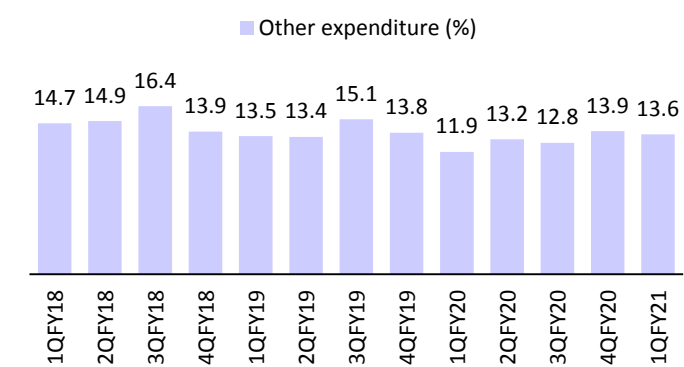
Source: Company, MOFSL

Exhibit 8: ...Employee expenses up 110bp YoY...



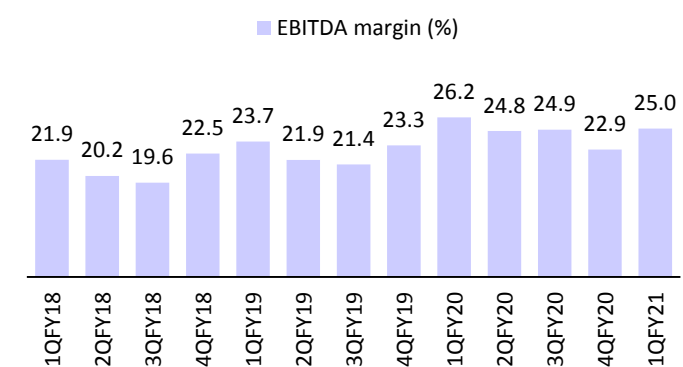
Source: Company, MOFSL

Exhibit 9: ...Other expenses up 170bp YoY...



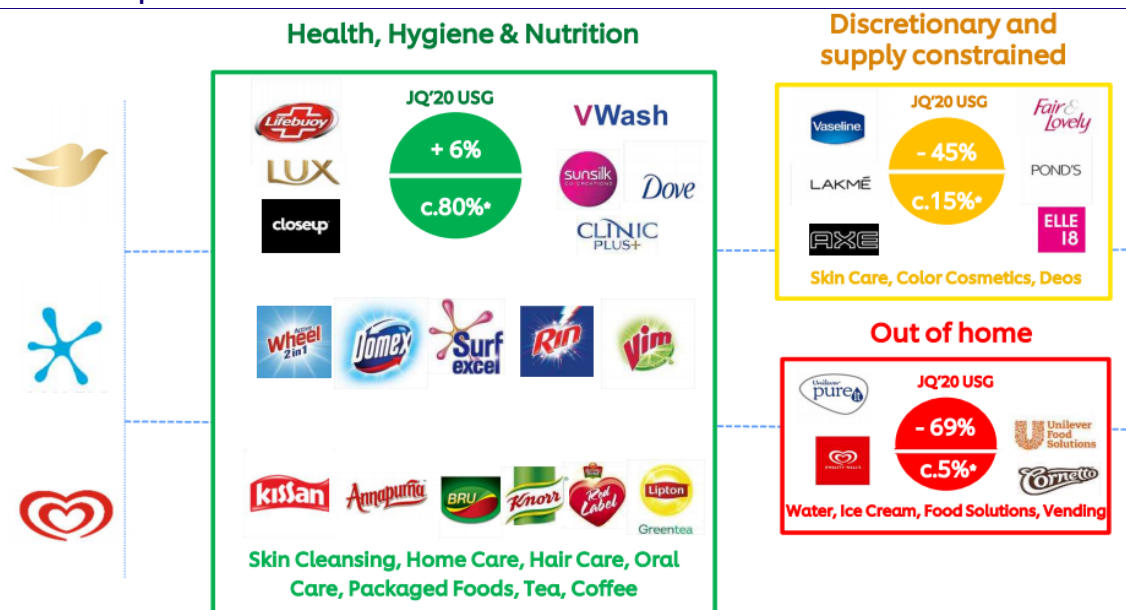
Source: Company, MOFSL

Exhibit 10: ...leading to EBITDA margin contraction of 110bp YoY



Source: Company, MOFSL

Exhibit 11: Portfolio snapshot amid COVID-19 crisis



*% Portfolio Contribution

Source: Company, MOFSL

Valuation and view

Why has HUVR been a strong wealth generator in the last 10 years?

- A newfound nimbleness in response to raw material cost and competitive stimuli has reinvigorated earnings growth to the strong double digits over this period. Best-of-breed analytics have further boosted growth.
- The strong execution of its “Winning in Many India (WIMI)’ strategy has meant that Central India growth at 1.5x the base growth. Execution in Herbal Products and more recently on acquisitions has also been remarkable.
- Its focus on premiumization, particularly evident in Detergents and Tea, has meant that even these highly penetrated and large categories have grown smartly. This, in addition to a rigorous focus on cost savings, has resulted in an unprecedented EBITDA margin improvement of over 920bp YoY over the past 10 years.
- Consequently, despite being the largest giant in the Consumer space, its 10-year sales/EBITDA/PAT growth has been healthy at 8.1%/13.3%/12.4% CAGRs. The last five-year and three-year performances have been even more impressive on the EBITDA/PAT front at CAGRs of 13.0%/13.1% and 16.7%/16.6%, respectively. This is particularly impressive given the weak earnings growth posted by peers in recent years.

Our investment case for HUVR

- Changes to the model have led to a ~2% increase in FY21/FY22 EPS. As mentioned in [our Corner Office note](#) and [detailed note on the Annual Report](#), the structural and near-term investment case for HUVR remains strong.
- HUVR’s earnings growth has gained further momentum in recent years (17% EPS CAGR in the past three years v/s ~12% CAGR over 10 years). This is particularly impressive given the weak mid-single-digit earnings growth posted by (much smaller) peers in recent years. HUVR’s best-of-breed analytics and execution

ability (exhibited by the successful implementation of the WIMI strategy, cost-saving plans, herbals, etc.) are key factors driving the pace of earnings growth.

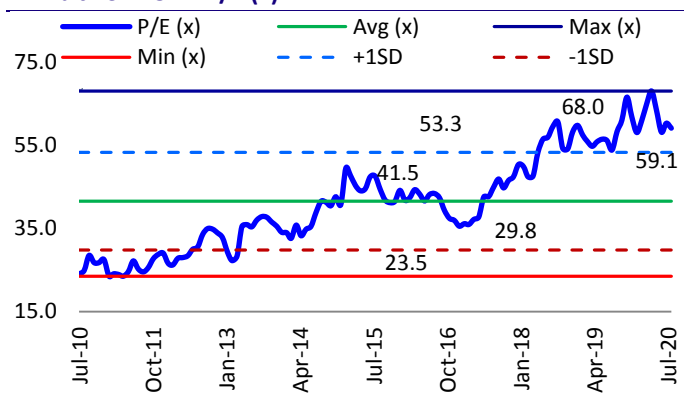
- The scale of HUVR’s P&L vis-à-vis peers offers the company significant levers for the superior management of costs even beyond what was already witnessed in 1QFY21. Even in FY20, the company managed to carve out as much as 7% of sales on cost savings.
- We remain positive on HUVR from a medium-term perspective due to: a) robust earnings growth potential beyond the near term owing to its portfolio and execution strengths, and b) significant synergies in FY22E as a result of GSKCH. These factors suggest premium multiples are likely to sustain. Valuing the company at 55x Jun’22 merged EPS, we arrive at TP of INR2,550, implying a 10% upside.

Exhibit 12: Changes to model lead to 1.6%/1.8% increase in FY21/FY22 EPS

	New		Old		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Sales	442.4	515.9	442.4	515.9	0.0%	0.0%
EBITDA	112.5	138.1	109.5	135.7	2.7%	1.8%
PAT	80.5	103.6	79.2	101.7	1.6%	1.8%

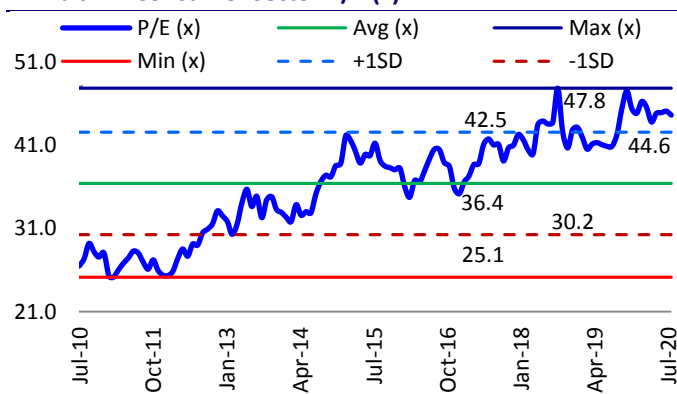
Source: Company, MOFSL

Exhibit 13: HUVR P/E (x)



Source: Bloomberg, Company, MOFSL

Exhibit 14: Consumer sector P/E (x)



Source: Bloomberg, Company, MOFSL

Financials and valuations

Income Statement								(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Sales	3,01,705	3,04,990	3,12,980	3,39,260	3,76,600	3,82,730	4,37,187	5,10,410
Other Oper. Income	6,351	5,619	5,920	5,990	5,640	5,120	5,222	5,484
Total Revenue	3,08,056	3,10,609	3,18,900	3,45,250	3,82,240	3,87,850	4,42,409	5,15,893
Change (%)	9.9	0.8	2.7	8.3	10.7	1.5	14.1	16.6
COGS	1,56,236	1,53,053	1,56,850	1,62,320	1,79,600	1,77,930	2,08,906	2,28,767
Gross Profit	1,51,821	1,57,556	1,62,050	1,82,930	2,02,640	2,09,920	2,33,503	2,87,127
Gross Margin (%)	49.3	50.7	50.8	53.0	53.0	54.1	52.8	55.7
Operating Exp	99,738	1,00,070	1,01,580	1,10,170	1,16,270	1,13,920	1,21,048	1,49,033
% of sales	32.4	32.2	31.9	31.9	30.4	29.4	27.4	28.9
EBIDTA	52,082	57,486	60,470	72,760	86,370	96,000	1,12,455	1,38,094
Change (%)	16.4	10.4	5.2	20.3	18.7	11.1	17.1	22.8
Margin (%)	16.9	18.5	19.0	21.1	22.6	24.8	25.4	26.8
Depreciation	2,867	3,208	3,960	4,780	5,240	9,380	10,846	11,593
Int. and Fin. Charges	168	150	220	200	280	1,060	1,047	1,068
Other Income - Recurring	6,184	5,640	5,260	5,690	6,640	7,330	8,276	13,029
Profit before Taxes	55,231	59,769	61,550	73,470	87,490	92,890	1,08,838	1,38,461
Change (%)	15.1	8.2	3.0	19.4	19.1	6.2	17.2	27.2
Margin (%)	18.3	19.6	19.7	21.7	23.2	24.3	24.9	27.1
Tax	19,060	18,160	18,650	21,480	27,480	23,940	28,298	34,851
Deferred Tax	-338	-70	410	-1,000	-790	1,520	0	0
Tax Rate (%)	33.9	30.3	31.0	27.9	30.5	27.4	26.0	25.2
Profit after Taxes	36,510	41,679	42,490	52,990	60,800	67,430	80,540	1,03,611
Change (%)	2.7	14.2	1.9	24.7	14.7	10.9	19.4	28.6
Margin (%)	12.1	13.7	13.6	15.6	16.1	17.6	18.4	20.3
Non-rec. (Exp)/Income	6,643	-310	2,410	-620	-440	-50	0	0
Reported PAT	43,153	41,369	44,900	52,370	60,360	67,380	80,540	1,03,611

Balance Sheet								(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	2,164	2,164	2,164	2,164	2,165	2,160	2,345	2,345
Reserves	35,084	60,630	62,740	68,590	74,430	78,150	1,29,904	1,35,137
Capital Employed	37,248	62,794	64,904	70,754	76,595	80,310	1,32,249	1,37,482
Net Fixed Assets	24,575	29,147	40,240	41,420	43,430	50,560	40,714	34,121
Capital WIP	4,790	3,860	2,030	4,300	3,730	5,130	5,256	5,256
Investment in Subsidiaries	6,541	3,130	2,540	2,540	2,540	2,500	2,500	2,500
Current Investments	26,238	24,670	35,250	28,570	26,950	12,500	13,500	14,500
Deferred Charges	1,960	1,680	1,600	2,550	3,390	2,610	3,749	3,749
Curr. Assets, L&A	72,236	76,509	65,850	92,110	98,615	1,22,720	2,13,804	2,41,626
Inventory	26,027	25,284	23,620	23,590	24,220	26,360	34,670	40,412
Account Receivables	7,829	10,645	9,280	11,470	16,730	10,460	18,697	21,787
Cash and Bank Balance	25,376	27,590	16,710	33,730	36,880	50,170	1,15,623	1,33,010
Others	13,005	12,990	16,240	23,320	20,785	35,730	44,814	46,417
Curr. Liab. and Prov.	99,093	76,202	82,606	1,00,736	1,02,060	1,15,710	1,47,275	1,64,270
Account Payables	48,515	54,980	60,060	70,130	70,700	73,990	90,935	1,04,337
Other Liabilities	29,828	12,382	13,826	16,376	15,860	25,560	32,452	34,075
Provisions	20,749	8,840	8,720	14,230	15,500	16,160	23,888	25,858
Net Current Assets	-26,857	307	-16,756	-8,626	-3,445	7,010	66,529	77,356
Application of Funds	37,248	62,794	64,904	70,754	76,595	80,310	1,32,249	1,37,482

E: MOFSL Estimates, Including GSKCH merged numbers; Goodwill impact will be factored in depending on further clarity post the merger con-call tomorrow

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)								
EPS	16.9	19.3	19.6	24.5	28.1	31.2	34.4	44.2
Cash EPS	18.2	20.7	21.5	26.7	30.5	35.6	39.0	49.1
BV/Share	17.2	29.0	30.0	32.7	35.4	37.2	56.4	58.6
DPS	15.0	15.5	17.0	20.0	22.0	25.0	35.0	44.0
Payout %	90	97	98	99	95	96	102	100
Valuation (x)								
P/E	137.4	120.4	118.1	94.7	82.6	74.3	67.5	52.5
Cash P/E	127.4	111.8	108.0	86.9	76.0	65.2	59.5	47.2
EV/Sales	16.5	16.4	16.0	14.7	13.2	13.0	12.2	10.4
EV/EBITDA	95.7	86.8	82.7	68.5	57.7	51.6	47.3	38.4
P/BV	134.7	79.9	77.3	70.9	65.5	62.4	41.1	39.5
Dividend Yield (%)	0.6	0.7	0.7	0.9	0.9	1.1	1.5	1.9
Return Ratios (%)								
RoE	104.3	83.3	66.5	78.1	82.5	86.0	75.8	76.8
RoCE	158.2	119.8	96.7	108.6	119.1	119.8	103.4	103.5
Working Capital Ratios								
Debtor (Days)	9	13	11	12	16	10	16	16
Asset Turnover (x)	8.1	4.9	4.8	4.8	4.9	4.8	3.3	3.7
Leverage Ratio								
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
(INR m)								
OP/(loss) before Tax	55,231	59,770	61,550	72,850	85,220	90,920	1,08,838	1,38,461
Financial other income	-3,559	-1,910	-920	-2,800	-770	-1,630	-8,276	-13,029
Depreciation	2,867	3,210	3,960	4,780	5,240	9,380	10,846	11,593
Net Interest Paid	-1,890	-3,160	-2,400	-2,460	-2,950	-3,940	1,047	1,068
Direct Taxes Paid	-17,775	-17,040	-18,040	-21,880	-26,850	-24,650	-28,298	-34,851
(Incr)/Decr in WC	-2,156	-1,130	5,380	8,640	-2,610	2,970	5,934	6,559
CF from Operations	32,719	39,740	49,530	59,130	57,280	73,050	90,091	1,09,802
Other Items	3,506	6,004	450	4,880	4,460	22,660	62,886	20,267
(Incr)/Decr in FA	263	-6,740	-8,520	-8,270	-7,240	-7,020	-1,126	-5,000
Free Cash Flow	32,982	33,000	41,010	50,860	50,040	66,030	88,965	1,04,802
(Pur)/Sale of Investments	1,182	3,290	-9,700	7,790	3,270	22,490	-1,000	-1,000
CF from Invest.	4,951	2,554	-17,770	4,400	490	38,130	60,760	14,267
Dividend Paid	-29,123	-33,420	-35,610	-38,960	-45,460	-62,440	-82,062	-1,03,163
Others	-5,403	-6,660	-7,030	-7,550	-9,160	-4,320	-3,520	-3,520
CF from Fin. Activity	-34,504	-40,080	-42,640	-46,510	-54,620	-66,760	-85,397	-1,06,683
Incr/Decr of Cash	3,166	2,214	-10,880	17,020	3,150	44,420	65,454	17,386
Add: Opening Balance	22,210	25,376	27,590	16,710	33,730	5,750	50,170	1,15,624
Closing Balance	25,376	27,590	16,710	33,730	36,880	50,170	1,15,624	1,33,010

E: MOFSL Estimates

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

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