Detailed Report |22 December 2015

Sector: Consumer

Pidilite Industries

Bonding with the best

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PIDILITE INDUSTRIES: Bonding with the best

Pidilite Industries

BSE Sensex	S&P CNX
25,591	7,786

CMP: INR541 | **TP: INR 660 (+22%)** | **Upgrade to Buy**

Stock Info

Bloomberg	PIDI IN
Equity Shares (m)	512.7
52-Week Range (INR)	638/495
1, 6, 12 Rel. Per (%)	-1/7/14
M.Cap. (INR b)/(USD b)	277.4/4.2
Avg Val, (INR m)	237
Free float (%)	30.3

Financial Snapshot (INR b)

Y/E March	2015	2016E	2017E
Sales	48.8	52.5	61.1
EBITDA	8.0	11.3	13.0
Adj. PAT	5.1	7.1	8.2
Adj. EPS (INR)	10.0	13.9	16.0
EPS Gr. (%)	13.2	39.2	14.7
BV/Sh.(INR)	44.3	55.6	67.3
RoE (%)	24.3	27.9	26.0
RoCE (%)	30.9	37.0	35.3
P/E (x)	54.0	38.8	33.8
P/BV (x)	12.2	9.7	8.0

Estimate change	↑
TP change	↑
Rating change	↑

Shareholding pattern (%)

As On	Sep-15	Jun-15	Sep-14
Promoter	69.7	69.7	70.0
FII	14.5	14.7	15.9
DII	5.2	5.1	3.5
Others	10.6	10.5	10.6

FII Includes depository receipts

Please click here for Video Link

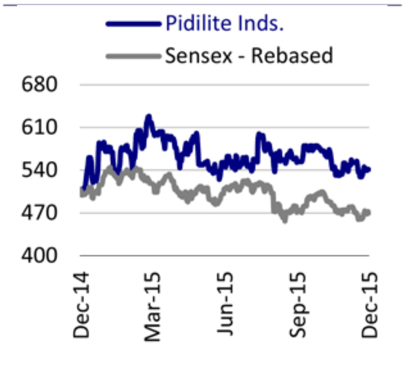
Bonding with the best

RM tailwind + Urban consumption uptick + GST; upgrade to Buy

- **Pidilite is a key beneficiary of commodity cost correction as it retains most of the benefits in P&L, given its dominant market position and pricing power.**
- **Urban demand revival can drive Pidilite's volumes in FY17. The company will also benefit from the distribution expansion opportunity and implementation of GST.**
- **Mr. Bharat Puri, the first professional MD at Pidilite, comes with a robust track record and can hasten the innovation agenda.**
- **High-quality urban consumption play with good earnings visibility. Trinity of RM tailwind, Pay Commission-driven urban consumption uptick and GST benefits are key near-term catalysts. Upgrade earnings 6-7% and raise to BUY with a TP of INR660 (35x FY18E EPS).**

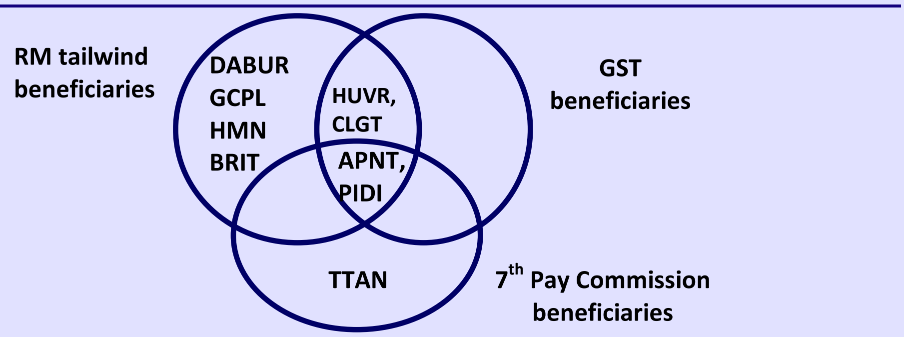
- **Big beneficiary of crude meltdown**: Pidilite is one of the biggest beneficiaries of correction in crude prices. 1HFY16 consolidated EBITDA was up 44% and PAT 36% despite low single-digit volume growth. With crude prices down ~15% QoQ and VAM prices remaining benign, we see continued RM tailwind for Pidilite. In our view, Pidilite is amongst the major beneficiaries of input cost correction (640bp gross margin expansion in 1HFY16, highest in our universe).
- **…as inherent moats bestow pricing power:** Pidilite possesses deep and wide moats in its core consumer bazaar business, with brand Fevicol enjoying generic status in the adhesives category. Near-monopoly position (with 70% market share in adhesives), unmatched brand equity and recall, innovative advertising campaigns and strong influence over trade bestow superior pricing power to Pidilite. Thus while rest of the consumer peers have passed on input cost benefits via price cuts/promotions/trade rebates, Pidilite has largely retained the input cost benefits in its P&L. We note that the company rarely takes price corrections and our interactions with trade partners confirm its preference for tactical discounts versus price cuts.
- **Urban demand recovery to drive PIDI's volumes in FY17:** Slowdown in discretionary consumption as indeed the continued anemic industrial growth has impacted PIDI's volume growth, which decelerated from 8-10% in FY14 and 1HFY15 to 3-4% in 1HFY16. Rural demand, though ahead of urban, has also softened due to lower disposable income (lower MSP price hikes, stagnant rural wage growth) and deficient monsoons. Lower consumer price inflation, lower interest rates, higher disposable incomes in the hands of 25m government employees post the Seventh Pay commission and improved consumer confidence are expected to drive urban demand revival in FY17. Given Pidilite's tilt toward urban markets, we expect it to be amongst the key beneficiaries of likely demand recovery. The company has strengthened its business fundamentals with distribution expansion (significant opportunity for expansion in tier II/III cities), new product launches and niche acquisitions.

Stock Performance (1-year)



- **Mr. Bharat Puri – the first professional CEO at Pidilite:** Pidilite has appointed Mr. Bharat Puri as the MD in April'15. While Pidilite had several professionals in senior roles, Mr. Puri is the first professional MD. He has been on Pidilite's board since 2008 as independent director and was president Global Chocolate, Gum and Candy at Mondelez prior to joining Pidilite. He has also helmed the India and Asia Pacific divisions at Cadbury.
- **Professional CEO to fast-track the innovation agenda:** After Dabur, Godrej and Marico, Pidilite is the latest FMCG player that has opted for professionalization of top management. We view the step as a positive and expect the innovation focus to sharpen under Mr. Puri. In one of our earlier interactions, Mr. Puri highlighted innovation as a core strategy to meet unmet consumer needs and his strategy to make Pidilite an innovative Indian MNC.
- **Multiple growth drivers in place:** While Pidilite is largely known for its brand prowess in adhesives through the ubiquitous Fevicol brand, we note that adhesives plus sealants account for ~50% of consolidated revenue. The company has created additional growth drivers in the last five years through its foray into construction chemicals (20% of consolidated revenue) and augmented its presence through new launches. We expect Mr. Puri to drive the innovation agenda further in the next five years and enter multiple sub-segments.
- **Beneficiary of GST:** Pidilite is currently paying ~25% takes (VAT + Excise). Thus, if the GST is implemented and recommendations of CEA for 18% revenue-neutral GST rate are accepted, the company will be an obvious beneficiary.
- **Upgrade earnings 9-11%:** We upgrade our FY16/17 earnings by 9-11% to factor in the incremental crude correction and sharp profitability improvement in subsidiaries, and introduce our FY18 estimates. We forecast consolidated EPS of INR13.9/16.0/18.8 for FY16/17/18. We expect revenue growth trajectory to improve in FY17, led by urban demand recovery. We expect EBITDA margins to remain in the healthy 21-22% band; we believe absence of sharp incremental correction in input prices will be compensated by demand revival-led operating leverage.
- **Upgrade to Buy:** Pidilite offers a high-quality play on urban consumption with strong competitive positioning and an impeccable record of generating long-term shareholder value over multiple periods (3 year, 5 year, 10 year and 20 year CAGR returns of 38.5%, 31.2%, 32% and 30.6%, respectively). Quasi-monopoly share in mainstay adhesives, strong balance sheet and track record of brand creation provide ample medium- to long-term earnings visibility and should sustain its premium valuations, in our view. Mr. Puri's strategy of making Pidilite an innovative Indian MNC and his agenda of expanding product portfolio augur well from long-term growth viewpoint. The trinity of RM tailwind, Pay Commission-driven urban consumption uptick and potential GST benefits are near-term catalysts. We upgrade Pidilite from Neutral to Buy with a revised target price of INR660, 22% upside. Prolonged slowdown in consumption demand and sharp input cost reversal, which can't be passed on, are key risks.

PIDI offers a play on trinity of RM tailwind, Pay Commission-driven urban consumption uptick and GST benefits are key near-term catalysts

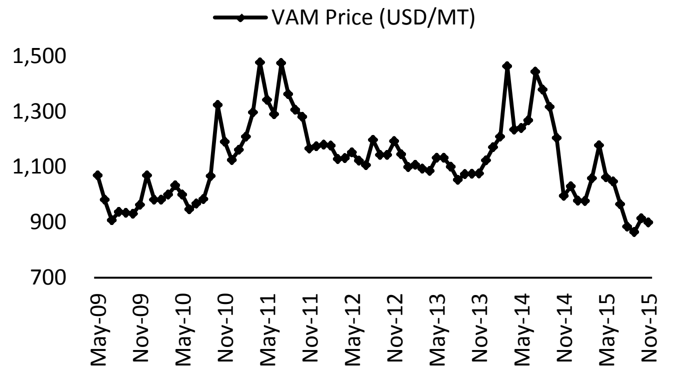


Big beneficiary of crude meltdown

Gross margin expansion amongst the highest in our universe

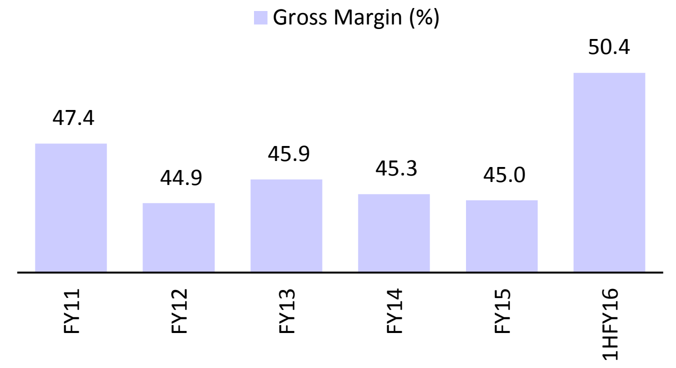
- Pidilite is one of the biggest beneficiaries of correction in crude prices. Vinyl Acetate Monomer (VAM), crude oil derivate and a key raw material, has corrected from USD1600 to USD900 in last 18 months.
- 1HFY16 consolidated EBITDA was up 44% and PAT 36% despite low single-digit volume growth. In our view, Pidilite is amongst the major beneficiaries of input cost correction (640bp gross margin expansion in 1HFY16, highest in our universe).
- With crude prices down ~15% QoQ and VAM prices remaining benign, we see continued RM tailwind for Pidilite.
- Input cost correction and Pidilite's focus on driving mix augur well for gross margins going ahead.
- We note that in 1HFY16, the company has consciously defocussed/phased out several low-margin SKUs— driving mix and margin improvement. As per management, it is augmenting focus on segments where it is strong, has pioneering position and margins are higher.

Exhibit 1: Sharp correction in VAM prices...



Source: Company, MOSL

Exhibit 2: ..drove margin expansion as it retained benefits



Source: Company, MOSL

Inherent moats bestow strong pricing power

Gross margin expansion amongst the highest in our universe

- Pidilite possesses deep and wide moats in its core consumer bazaar business, with brand Fevicol enjoying generic status in the adhesives category. Decades of dominance in the space has entrenched Fevicol's equity in the minds of consumer as indeed the trade ecosystem.
- Near-monopoly (with 70% market share in adhesives), unmatched brand equity and recall, innovative advertising campaigns and strong influence over trade bestow superior pricing power to Pidilite.
- Thus while rest of the consumer peers have passed on input cost benefits via price cuts/promotions/trade rebates, Pidilite has largely retained the input cost benefits in its P&L.
- We note that Pidilite rarely takes price corrections and our interactions with trade partners confirm its preference for tactical discounts versus price cuts.
- In the current scenario, the company has opted to pass on some benefits through higher rebates and marginal price adjustments. Typically, Pidilite makes price adjustments if the input cost correction is sharp and if it sustains for long (as in the current scenario).
- **Extract from the 2QFY16 conference call transcript**: "…. *As far as Consumer & Bazaar product goes, it is a product to product decision. However, in general, in Consumer & Bazaar we do not have to hurry unless we find that price reduction is very significant and there to stay for a very long period of time. So, once the reduction is very sharp and remains for a very long period of time and then if we believe there is a reason from competitive and other nature, then we make some price adjustment*."

Exhibit 3: PIDI posted best gross margin expansion within our universe in 1HFY16

	1HFY16	1HFY15	Gross Margin Expansion (in bp)
Asian Paints	45.6	42.5	310
Britannia	42.2	39.1	310
Colgate	63.8	62.7	110
Dabur	54.3	51.8	250
Emami	68.2	63.8	440
GSK	68.0	63.2	480
GCPL	56.6	52.3	430
HUVR	51.4	48.2	320
ITC	41.2	36.5	470
JYL	51.7	47.8	390
MRCO	47.5	44.6	290
PIDI	**50.4**	**44.0**	**640**

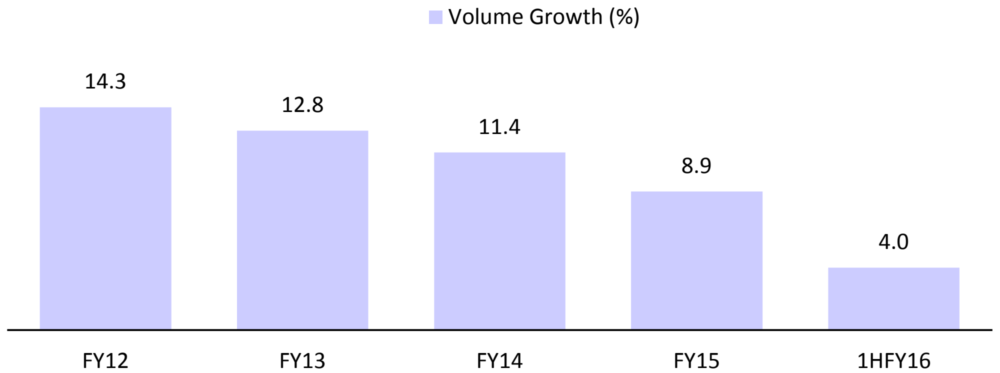
Source:

Urban demand recovery to drive PIDI's volumes in FY17

Pay Commission reward-led consumption boost and distribution expansion

- Slowdown in discretionary consumption as indeed the continued anemic industrial growth has impacted PIDI's volume growth, which decelerated from 8-11.5% in FY14 and 1HFY15 to 6% in 2HFY15 and 3-4% in 1HFY16.
- Rural demand, though ahead of urban, has also softened due to lower disposable income (lower MSP price hikes, stagnant rural wage growth) and deficient monsoons.
- Going ahead, we expect Pidilite to benefit from likely urban demand recovery—80% of its revenues in the C&B segment come from urban markets.
- **Seventh Pay Commission recommendations can be a demand catalyst**: We expect discretionary consumption demand to benefit from higher disposable income in the hands of ~25mn government employees following the Seventh Pay Commission recommendations. Besides, lower consumer price inflation, lower interest rates and improved consumer confidence are expected to drive urban demand revival in FY17. Empirical evidence suggests big pay rewards typically help drive consumption of discretionary goods like autos, durables and real estate (house renovation).
- Given Pidilite's tilt toward urban markets, we expect it to be amongst the key beneficiaries of likely demand recovery. Pidilite has strengthened its business fundamentals with distribution expansion (significant opportunity for expansion in tier II/III cities), new product launches and niche acquisitions.
- **Distribution expansion a big opportunity**: Pidilite currently has a 0.5m direct outlet reach and we see significant scope for to expand direct coverage. Distribution expansion has been the common theme for most consumer names in our universe—HUL, Britannia Dabur, Marico, GCPL, Colgate and Emami; this has helped these companies to offset the impact of broader consumption slowdown.
- Pidilite's direct plus indirect reach stands at 1.7m outlets v/s 4m-6.5m outlets for FMCG companies. While the channel reach is not an apple-to-apple comparison given the difference in product profile and target consumer, we still see enough headroom for Pidilite to strengthen its reach. We expect the company to focus on tier II/tier III towns as while it currently does cover some of these towns, the depth of the distribution has scope for improvement. We see Pidilite achieving ~10% distribution CAGR in the next three years.

Exhibit 4: Volume growth decelerated owing to slowdown in discretionary consumption



Source: Company, MOSL

Multiple growth drivers

Recovery in Industrial growth can be an added catalyst

- While Pidilite is largely known for its brand prowess in adhesives through the ubiquitous Fevicol brand, we note that adhesives plus sealants account for ~50% of consolidated revenues while construction chemicals contribute 20% and art materials 12%.
- Pidilite has created additional growth drivers in the last five years through its foray into construction chemicals (20% of consolidated revenues) and augmented its presence through several new launches.
- We expect Mr. Bharat Puri to drive the innovation agenda further in the next five years and enter multiple sub-segments (discussed in the next section)**.**
- **Industrial products segment lackluster:** Performance of the industrial segment has been lackluster owing to weak capex spends as well as continued tepid macros. Export-oriented segments within industrial have underperformed. The segment witnessed 9% volume and revenue decline in 2Q16. It posted a revenue growth of 6.6% in FY15 and (4.3%) 1HFY16. Since the last five years, the performance has been tepid on margins front also. Margins corrected sharply from 19.7% in FY10 to 9.8% in FY14 and expanded 130bp in FY15 to 11.1%. However, in 1HFY16, correction in input prices has driven a massive 690 bp expansion to 16.4% despite the weak revenue growth. Going forward, pick-up in broader macros and industrial growth can provide healthy operating leverage to the segment's performance.
- **International business performance mixed:** Pidilite's international business performance has been mixed, with geographies like North America and South & South East Asia doing well while Middle East and South America reporting weaker growth. Brazil in particular is reeling under the weight of weak macros and currency depreciation. Nonetheless, cost cutting measures have improved its profitability with sharp reduction in EBITDA losses. Both South America and Middle East are loss-making geographies for Pidilite. We expect the company to divest the Brazilian business in future. In 1HFY16, overseas businesses posted 13% constant currency revenue growth and 37% EBIT growth.

Exhibit 5: Industrial business performance has been lackluster

Industrial Products	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY10-15 CAGR (%)	1HFY15	1HFY16
Revenues (INR m)	4,108	4,653	5,809	6,405	7,082	8,157	8,692	13.3	4,496	4,300
Revenue growth (%)		13.3	24.9	10.3	10.6	15.2	6.6			-4.3
EBIT (INR m)	531	915	983	806	807	803	967	1.1	428	706
EBIT Margin (%)	12.9	19.7	16.9	12.6	11.4	9.8	11.1		9.5	16.4

Source: Company, MOSL

Exhibit 6: International Business (INR m)

	FY10	FY11	FY12	FY13	FY14	FY15	FY10-15 CAGR (%)	1HFY15	1HFY16
Sales									
North America	1,181	1,227	1,276	1,552	1,854	2,061	11.8	1,231	1,221
South America	1,023	1,255	1,261	1,242	1,236	1,275	4.5	479	459
Middle East & Africa	236	199	291	293	346	627	21.6	247	466
South and South East Asia	255	339	422	583	816	933	29.6	491	627
Total	**2,695**	**3,020**	**3,250**	**3,670**	**4,251**	**4,895**	**12.7**	**2,448**	**2,772**
EBITDA									
North America	26	57	62	54	99	99	30.8	96	145
South America	79	34	-93	-151	-141	-86	-201.7	-20	-15
Middle East & Africa	-33	-80	-49	-21	-51	-49	8.0	-9	-49
South and South East Asia	21	33	45	86	137	163	50.7	99	147
Total	**93**	**44**	**-36**	**-33**	**44**	**128**	**6.6**	**167**	**228**
EBITDA Margin (%)									
North America	2.2	4.6	4.9	3.5	5.4	4.8		7.8	11.9
South America	7.7	2.7	-7.4	-12.2	-11.4	-6.8		-4.2	-3.3
Middle East & Africa	-14.0	-40.2	-17.0	-7.2	-14.9	-7.7		-3.4	-10.5
South and South East Asia	8.2	9.7	10.7	14.7	16.8	17.5		20.2	23.5
Total	**3.5**	**1.5**	**-1.1**	**-0.9**	**1.0**	**2.6**		**6.8**	**8.2**

Source: Company, MOSL

MR. Bharat Puri—first professional CEO at Pidilite

Robust track record; innovation high on agenda

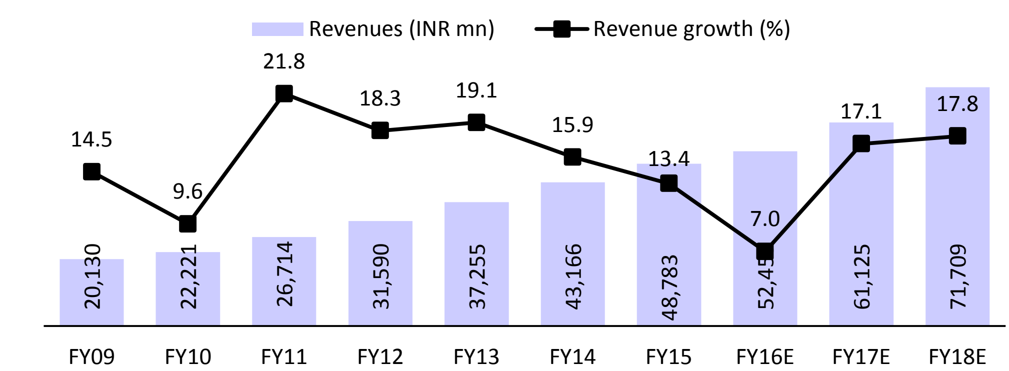
- Pidilite appointed Mr. Bharat Puri as MD in April'15.
- While Pidilite has had several professionals in senior roles, Mr. Puri is the first professional MD.
- He has been on Pidilite's board since 2008 as independent director and was president Global Chocolate, Gum and Candy at Mondelez prior to joining Pidilite.
- He has also helmed the India and Asia Pacific divisions at Cadbury.
- We note that he successfully steered the Cadbury business in India during the worm controversy in 2003 and within two years of the controversy, Cadbury reported highest ever shares at 75%.
- During his stint in India, Cadbury broadened its product portfolio with wider price points, bigger play in mass through distribution reach expansion and small packs (affordability), innovation and better visibility (visi coolers). Source:http://articles.economictimes.indiatimes.com/2005-11-05/news/28664692_1_cadbury-india-cadbury-schweppes-bharat-puri
- We note that after Dabur, Marico and GCPL, now Pidilite is embarking on professionalization of its top management. We view the step as positive and expect the innovation focus to sharpen under Mr. Puri. In one of our earlier interactions, Mr. Puri highlighted innovation as a core strategy to meet unmet consumer needs and his strategy to make Pidilite an innovative Indian MNC.
- It believes in identifying unmet customer needs, building a brand to cater to the need and using the first-mover advantage to build near-monopolistic market positions. For example, Dr. Fixit is now an INR5b brand with ~50% market share in waterproofing solutions
- We expect Pidilite to leverage Mr. Puri's experience in emerging markets and build a strong presence in Asian/MENA markets as consumer needs in emerging markets are similar and Pidilite is well placed to capitalize on them.

Upgrade earnings; raise to Buy

Multiple catalysts; trinity of RM tailwind + Pay commission rewards + GST

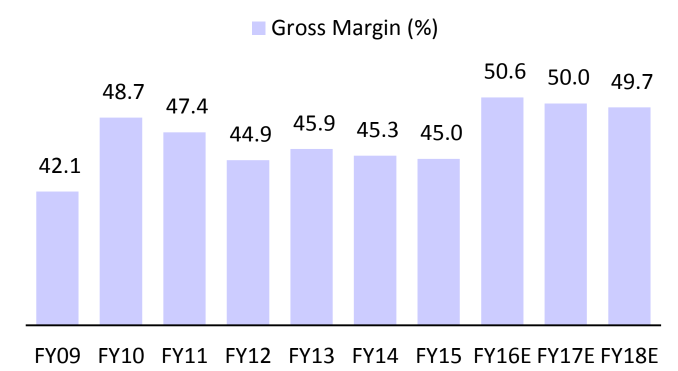
- **Upgrade earnings 9-11%:** We upgrade our FY16/17 earnings by 9-11% to factor in the incremental crude correction and sharp profitability improvement in subsidiaries, and introduce our FY18 estimates. We now forecast consolidated EPS of INR14/16.0/19.2 for FY16/17/18. We expect revenue growth trajectory to improve in FY17, led by urban demand recovery. We expect EBITDA margins to remain in the healthy 21-22% band; we believe absence of sharp incremental correction in input prices will be compensated by demand revival-led operating leverage.

Exhibit 7: Expect sales to post 13.7% CAGR over FY15- FY18



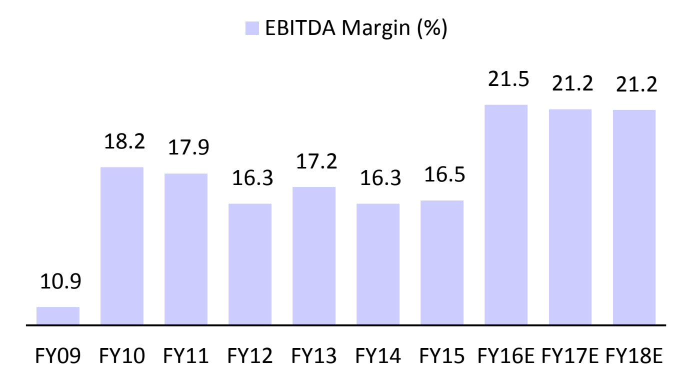
Source: Company, MOSL

Exhibit 8: Gross margin expansion also aided by mix



Source: Company, MOSL

Exhibit 9: ..EBITDA margin to remain in healthy 21-22% band



Source: Company, MOSL

Exhibit 10: Upgrade estimates by 9-11%

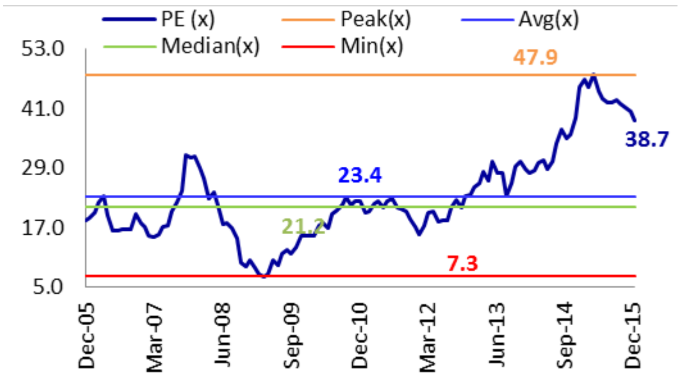
	New			Old		% Change	
	FY16E	FY17E	FY18E	FY16E	FY17E	FY16E	FY17E
Net Sales	52,455	61,125	71,709	52,486	59,103	-0.1	3.4
EBITDA	11,262	12,988	15,204	10,540	11,967	6.9	8.5
Adjusted PAT	7,194	8,249	9,695	6,575	7,416	9.4	11.2

Source: Company, MOSL

- **Multiple catalysts at work; upgrade to BUY:** Pidilite offers a high-quality play on urban consumption with strong competitive positioning and an impeccable record of generating long-term shareholder value over multiple periods (3 year, 5 year, 10 year and 20 year CAGR returns of38.5%, 31.2%, 32% and 30.6%, respectively). Quasi-monopoly share in mainstay Adhesives, strong balance sheet and track record of brand creation provide ample medium- to long-term earnings visibility and should sustain its premium valuations, in our view. Mr. Puri's strategy of making Pidilite an innovative Indian MNC and his agenda of expanding product portfolio augur well from long-term growth viewpoint.

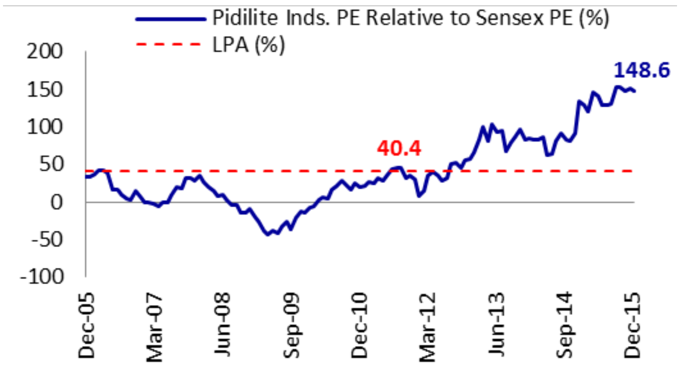
- The trinity of RM tailwind, Pay Commission-driven urban consumption uptick and potential GST benefits are near-term catalysts. We upgrade Pidilite from **Neutral to Buy** with a revised target price of INR660 (35x FY18E EPS, three-year average P/E), 22% upside. Prolonged slowdown in consumption demand and any sharp input cost reversal, which can't be passed on, are key risks.

Exhibit 11: Pidilite's average P/E



Source:

Exhibit 12: Pidilite – P/E relative to Sensex



Source:

Exhibit 13: Valuation Matrix of coverage universe

Company	Reco	Price (INR)	Mkt Cap (USD M)	EPS Growth YoY (%)			P/E (x)			EV/EBITDA (x)			ROE (%)	Div. (%)
				FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY15
Consumer														
Asian Paints	Neutral	875	12,633	15.8	22.2	16.5	59.0	48.3	41.5	40.1	33.0	27.9	32.4	0.8
Britannia	Buy	2,903	5,216	45.1	52.0	19.8	60.6	39.9	33.3	43.8	27.6	22.5	56.4	0.6
Colgate	Neutral	996	4,073	13.9	8.6	16.6	48.4	44.6	38.3	32.3	28.2	24.0	81.6	1.3
Dabur*	Neutral	275	7,268	15.7	18.0	17.1	45.3	38.4	32.8	36.4	30.5	25.8	35.5	0.8
Emami*	Buy	1,000	3,414	20.7	24.0	26.9	46.7	37.7	29.7	41.8	31.0	24.9	44.9	0.7
Godrej Consumer	Neutral	1,296	6,633	22.0	27.1	23.8	48.6	38.2	30.9	34.8	29.2	24.1	21.4	0.5
GSK Consumer	Buy	6,628	4,193	-13.5	19.4	16.6	47.8	40.0	34.3	32.9	28.8	24.2	29.7	0.7
Hind. Unilever	Neutral	864	28,124	6.4	7.9	8.8	49.4	45.8	42.1	35.5	31.9	29.0	108.1	1.7
ITC	Neutral	320	38,640	8.5	7.4	10.6	26.7	24.9	22.5	17.8	16.7	15.0	33.7	2.0
Jyothy Labs	Buy	302	823	44.5	22.7	-5.2	44.4	36.2	38.2	36.4	29.5	24.9	16.3	1.3
Marico*	Neutral	452	4,384	18.1	20.6	19.5	50.8	42.2	35.3	33.9	27.8	23.2	36.0	0.6
Nestle	Neutral	5,870	8,514	6.8	-23.0	19.4	45.1	58.5	49.0	26.9	34.0	29.0	48.2	1.1
Page Industries	Buy	13,171	2,210	27.5	19.7	29.6	74.9	62.6	48.3	46.5	38.2	30.4	50.7	0.5
Pidilite Inds.	**Buy**	**541**	**4,180**	**13.2**	**39.2**	**14.7**	**54.0**	**38.8**	**33.8**	**34.0**	**24.0**	**20.5**	**24.3**	**0.5**
Radico Khaitan	Buy	113	225	-10.4	12.6	30.6	19.8	17.6	13.5	13.1	11.7	9.5	8.6	0.8
United Spirits	Buy	2,988	6,533	Loss	LP	79.6	-1913.4	96.3	53.6	70.5	45.0	31.6	-1.2	0.0
Retail														
Jubilant Foodworks	Buy	1,462	1,439	-6.2	4.5	69.7	86.3	82.6	48.7	37.1	32.9	21.6	17.2	0.2
Shopper's Stop	Neutral	388	479	7.9	25.7	42.2	79.4	63.1	44.4	17.7	15.5	13.2	5.3	0.2
Titan Company	Neutral	354	4,727	11.1	-6.8	20.2	38.2	41.0	34.1	27.1	29.3	24.4	26.6	0.8

Note: For Nestle FY15E means CY14

Source: Company, MOSL

Financials and valuations

Income Statement							(INR Million)
Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Net Sales	**31,590**	**37,255**	**43,166**	**48,783**	**52,455**	**61,125**	**71,709**
Change (%)	18.3	17.9	15.9	13.0	7.5	16.5	17.3
Raw Materials	17403	20152	23613	26814	25925	30550	36102
Gross Profit	**14,187**	**17,103**	**19,553**	**21,968**	**26,530**	**30,575**	**35,607**
Margin (%)	44.9	45.9	45.3	45.0	50.6	50.0	49.7
Operating Expenses	9026	10698	12504	13919	15269	17587	20403
EBITDA	**5,161**	**6,405**	**7,048**	**8,049**	**11,262**	**12,988**	**15,204**
Change (%)	7.9	24.1	10.1	14.2	39.9	15.3	17.1
Margin (%)	16.3	17.2	16.3	16.5	21.5	21.2	21.2
Depreciation	637	686	812	1,178	1,318	1,451	1,653
Int. and Fin. Charges	307	155	163	156	68	61	61
Other Income	110	231	115	113	53	71	84
Profit before Taxes	**4,327**	**5,795**	**6,188**	**6,828**	**9,929**	**11,547**	**13,575**
Change (%)	7.3	33.9	6.8	10.3	45.4	16.3	17.6
Margin (%)	13.7	15.6	14.3	14.0	18.9	18.9	18.9
Tax	1,100	1,595	1,653	1,694	2,780	3,349	3,937
Tax Rate (%)	25.4	27.5	26.7	24.8	28.0	29.0	29.0
Adj PAT	**3,226**	**4,200**	**4,536**	**5,134**	**7,149**	**8,198**	**9,638**
Change (%)	4.6	30.2	8.0	13.2	39.2	14.7	17.6
Margin (%)	10.2	11.3	10.5	10.5	13.6	13.4	13.4
Exceptional/Prior Period inc	0	-18	65	49	0	0	0
Share of Profit in associate	20	24	30	50	55	61	67
Minority Int	-3	-2	-3	-10	-10	-10	-10
Reported PAT	**3,244**	**4,240**	**4,498**	**5,126**	**7,194**	**8,249**	**9,695**

Balance Sheet							(INR Million)
Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E	FY17E
Share Capital	508	513	513	513	513	513	513
Reserves	12,698	16,003	19,014	22,193	28,014	33,983	41,039
Net Worth	**13,206**	**16,515**	**19,526**	**22,706**	**28,526**	**34,496**	**41,552**
Loans	3,213	1,112	459	584	760	760	760
Deferred Liability	468	499	537	566	449	308	138
Minority Interest	5	10	42	51	61	71	80
Capital Employed	**16,892**	**18,136**	**20,565**	**23,907**	**29,796**	**35,634**	**42,531**
Gross Block	11,792	12,623	14,212	17,867	20,367	22,867	25,367
Less: Accum. Depn.	5,616	6,370	7,150	8,298	9,616	11,067	12,720
Net Fixed Assets	**6,177**	**6,253**	**7,062**	**9,570**	**10,751**	**11,800**	**12,648**
Capital WIP	3,938	4,280	4,580	4,618	4,618	4,618	4,618
Goodwill	0	205	230	215	215	215	215
Others	10	48	59	68	68	68	68
Investments	**983**	**2,941**	**2,603**	**3,599**	**7,099**	**8,599**	**10,099**
Curr. Assets, L&A	**12,536**	**12,434**	**14,750**	**15,077**	**17,240**	**22,055**	**28,631**
Inventory	4,541	5,236	5,997	6,410	6,991	8,313	9,754
Account Receivables	3,952	4,305	5,244	5,861	6,705	7,980	9,364
Cash and Bank Balance	2,732	1,506	1,772	860	1,134	3,004	6,370
Others	1,311	1,387	1,737	1,946	2,411	2,758	3,143
Curr. Liab. and Prov.	**6,751**	**8,024**	**8,719**	**9,240**	**10,196**	**11,722**	**13,749**
Account Payables	5,463	5,785	6,510	6,933	7,912	9,097	10,706
Provisions	1,288	2,239	2,209	2,308	2,284	2,625	3,043
Net Current Assets	**5,784**	**4,410**	**6,031**	**5,837**	**7,044**	**10,334**	**14,882**
Application of Funds	**16,892**	**18,136**	**20,565**	**23,907**	**29,796**	**35,635**	**42,531**

E: MOSL Estimates

Financials and valuations

Ratios							
Y/E March	**FY12**	**FY13**	**FY14**	**FY15**	**FY16E**	**FY17E**	**FY17E**
Basic (INR)							
EPS	**6.4**	**8.2**	**8.8**	**10.0**	**13.9**	**16.0**	**18.8**
Cash EPS	11.4	13.8	15.3	18.0	24.5	28.2	32.9
BV/Share	26.0	32.2	38.1	44.3	55.6	67.3	81.1
DPS	1.9	2.6	2.7	2.9	3.3	3.8	4.4
Payout %	29.8	31.6	30.3	28.7	23.5	23.6	23.3
Valuation (x)							
P/E				54.0	38.8	33.8	28.8
Cash P/E				30.1	22.1	19.2	16.5
EV/Sales				5.6	5.1	4.4	3.6
EV/EBITDA				34.0	24.0	20.5	17.2
P/BV				12.2	9.7	8.0	6.7
Dividend Yield (%)				0.5	0.6	0.7	0.8
Return Ratios (%)							
RoE	26.8	28.3	25.2	24.3	27.9	26.0	25.3
RoCE	28.7	32.7	32.2	30.9	37.0	35.3	34.7
Working Capital Ratios							
Debtor (Days)	46	42	44	44	47	48	48
Creditor (Days)	75	68	66	62	70	69	69
Asset Turnover (x)	2.6	3.5	3.3	3.2	2.9	2.8	2.6
Leverage Ratio							
Debt/Equity (x)	0.2	0.1	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement							(INR Million)
Y/E March	**FY12**	**FY13**	**FY14**	**FY15**	**FY16E**	**FY17E**	**FY17E**
PBT before Extra Ord	4,327	5,795	6,188	6,828	9,929	11,547	13,575
Add: Depreciation	637	686	812	1,178	1,318	1,451	1,653
Interest Paid	307	155	163	156	68	61	61
Less: Taxes Paid	1,100	1,595	1,653	1,694	2,780	3,349	3,937
Interest income	110	231	115	113	53	71	84
(Incr)/Decr in WC	-309	149	-1,355	-718	-933	-1,419	-1,182
CF from Operations	**3,751**	**4,958**	**4,041**	**5,637**	**7,549**	**8,220**	**10,085**
Extra ordinary items	0	18	-65	-49	0	0	0
CFO after extraordinary	**3,751**	**4,977**	**3,976**	**5,588**	**7,549**	**8,220**	**10,085**
Incr in FA	-1,614	-1,104	-1,921	-3,723	-2,500	-2,500	-2,500
Free Cash Flow	**2,138**	**3,873**	**2,055**	**1,864**	**5,049**	**5,720**	**7,585**
Pur of Investments	1,381	-1,958	338	-996	-3,500	-1,500	-1,500
CF from Invest.	**-233**	**-3,062**	**-1,583**	**-4,719**	**-6,000**	**-4,000**	**-4,000**
Change in Net worth	-1,959	-2,459	-3,068	-3,707	-3,471	-4,700	-2,808
Incr in Debt	-143	-2,100	-653	125	176	0	0
Dividend Paid	1,122	1,559	1,619	1,789	1,979	2,279	0
Interest Paid	-307	-155	-163	-156	-68	-61	-61
Others	121	14	138	169	109	131	150
CF from Fin. Activity	**-1,167**	**-3,141**	**-2,127**	**-1,780**	**-1,275**	**-2,350**	**-2,719**
Incr/Decr of Cash	**2,352**	**-1,226**	**266**	**-911**	**274**	**1,870**	**3,366**
Add: Opening Balance	380	2,732	1,506	1,772	860	1,134	3,004
Closing Balance	**2,732**	**1,506**	**1,772**	**860**	**1,134**	**3,004**	**6,370**

E: MOSL Estimates

CONSUMER GALLERY

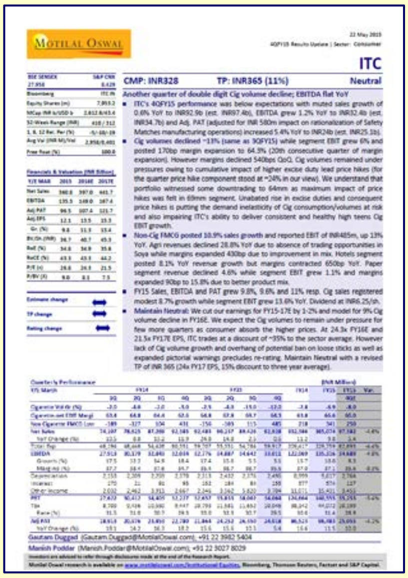
COMPANIES


MOTILAL OSWAL

Britannia Industries

CMP: INR3,142 TP: INR3,600 (+15%) Buy

Widening the moat


MOTILAL OSWAL

ITC

CMP: INR328 TP: INR365 (11%) Neutral


MOTILAL OSWAL

United Spirits

CMP: INR3,529 TP: INR4,250 (+20%) Buy

A ship in motion!!

COMPANIES


MOTILAL OSWAL

the Corner Office

Interaction with the CEO

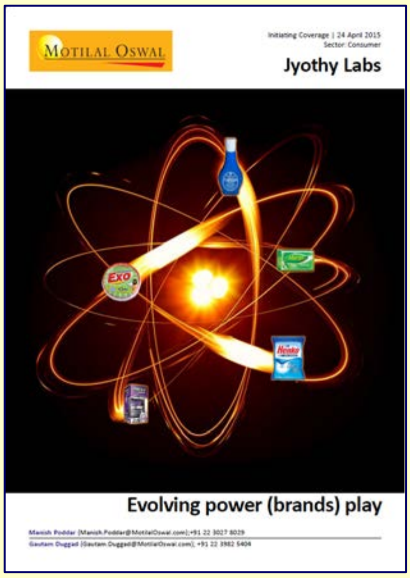
Fortifying moat; Enhanced growth visibility


MOTILAL OSWAL

Hindustan Unilever

CMP: INR820 TP: INR875 (+7%) Neutral

Fundamentals strengthened; demand growth is key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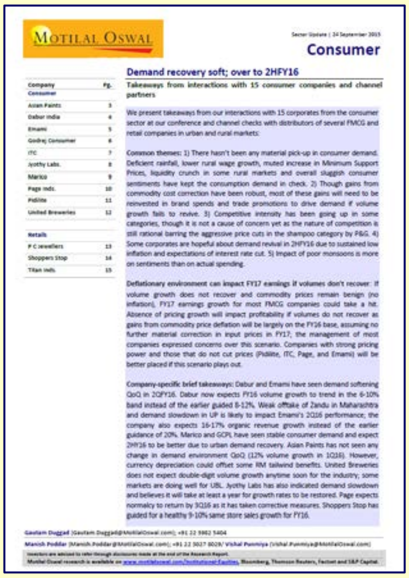
Jyothy Labs

Evolving power (brands) play

SECTOR UPDATES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Consumer

Demand recovery soft; over to 2HFY16


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Expert Speak

Rural consumption patterns changing


MOTILAL OSWAL

ANNUAL REPORT THREADBARE

TAXATION ACROSS CONSUMER COMPANIES

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