

Rising input prices: Key concern

Company Name

ATFL
BAJAJCORP
BRITANNIA
COLPAL
DABUR
EMAMILTD
GILLETTE
GODREJCP
GSKCONS
HINDUNILVR
ITC
JYOTHYLAB
MARICO
NESTLEIND
PARAGMILK
PGHH
PRABHAT
ZYDUSWELL

Our consumer universe is expected to clock average revenue growth of 11%, EBITDA growth of 12% and PAT growth of 13% in the Q2FY19 mainly led by better volume growth from BRITANNIA (9%), DABUR (13%), GODREJCP(9%) and HINDUNILVR(9%). Average volume growth for our consumer universe is expected to be ~8% (impacted by relatively higher base). Kerala flood is expected to impact volume (~6%) of JYOTHYLAB as it contributes ~15% of the revenue. We expect JyothyLab to clock 8% sales, 9% EBITDA and 6% PAT growth in Q2FY19. Rural will continue to play important role in the volume growth and expected to grow faster than urban. Apart from revival in rural demand, company's thrust on distribution expansion, new product launches (Britannia, Godrejcp and Nestle) and LUP will pave the way for better volume growth in Q2FY19. Gross margin is expected to be impacted by higher crude oil prices while cost efficiency measures taken by the company, premiumization and pricing action will reduce the extent of it. Strong momentum in Modern trade will continue while recovery in CSD will be gradual. On International business front, the companies which have higher presence in the MENA region will be benefitted due to improving macroeconomic (oil based) condition there while we expect sluggish growth from Africa region to continue on the back geo-political Headwinds.

Rural, new launches, LUP and distribution ramp up to drive volume growth

Momentum in rural demand will remain the key to revenue growth for the entire FMCG sector. Rural initiatives by the government, thrust on transferring benefits directly to the farmers by the way of higher MSP and investment in improving rural infrastructure will expected to drive rural growth. Company's thrust on improving penetration, new launches and lower unit packs is expected to drive volume in Q2FY19. HINDUNILVR is expected to benefit from its wide distribution reach, higher rural exposure and new launches in natural space. Britannia is another player which has rapidly increased its direct reach in last few years and expected to launch 50 products by FY19. NESTLEIND has already launched ~40 products in last 2 years which contributed ~3% of total sales in H12018.

Higher input prices to impact gross margin

Crude oil went up by ~40% YoY while INR depreciated by ~8%YoY in Q2FY19. Surge in crude oil and depreciating rupee are likely to impact gross margin of the most of the companies while pricing action taken by the companies will put cushion to the shrinking margin.

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Cost efficiency measures, change in product mix and premiumization will help in expansion in EBITDA and PAT margin of our universe company's by 32 and 25 bps YoY. Inflation in milk, SMP and sugar are also inching up but it is still in the comfortable level hence we expect better margin for GSKcons and NESTLEIND in Q2FY19 while softening of copra prices will help in lowering the extent of margin erosion of Marico. Price hike taken by the companies: BAJAJCORP (3-3.5%), COLPAL (3-5%), HINDUNILVR(~3-4% across products and stock keeping unit (SKUs) in the home care, household care ,laundry portfolio and some hike in personal care portfolio), JYOTHYLAB(took price hike in detergent segment by ~5%) .

View and Valuation

Momentum in rural demand will remain the key to revenue growth for entire sector going ahead. Rural initiatives by the government, thrust on transferring benefits directly to the farmers by the way of higher MSP and investment in improving rural infrastructure is expected to drive rural growth. New launches and expansion in distribution reach will be other growth drivers. Margin may contract going forward considering inflation in key input prices. Recently increase in MSP of Rabi crop will also put pressure on margin. The companies which have strong brand image and pricing power will expect to benefit from that. On International business front, the companies which have higher presence in the MENA region will be benefitted due to improving macroeconomic condition there. Our top picks are Britannia, HINDUNILVR, MARICO (declining copra prices) and NESTLEIND. In small cap, we like PRABHAT.

Q2FY19 results estimates

Company	Cur. Mcap (in cr)	Sales growth			EBITDA growth			PAT growth			EBITDA margin		
		Q2FY18	Q1FY19	Q2FY19E	Q2FY18	Q1FY19	Q2FY19E	Q2FY18	Q1FY19	Q2FY19E	Q2FY18	Q1FY19	Q2FY19E
ATFL	1,214	-2%	6%	9%	19%	-3%	-3%	23%	0%	2%	9%	7%	8%
BAJAJCORP	5,900	4%	12%	12%	-13%	14%	15%	-13%	-2%	2%	29%	31%	29%
BRITANNIA	66,965	7%	12%	13%	11%	19%	23%	12%	19%	20%	15%	15%	16%
COLPAL	29,973	3%	6%	8%	9%	27%	11%	-2%	39%	12%	28%	27%	28%
DABUR	69,485	-1%	16%	15%	3%	25%	17%	2%	25%	14%	21%	19%	22%
EMAMILTD	19,937	7%	16%	12%	15%	54%	14%	49%	2873%	19%	32%	20%	32%
GILLETTE	21,180	-1%	1%	3%	32%	-11%	-1%	17%	-8%	1%	26%	15%	25%
GODREJCP	74,122	6%	14%	9%	14%	27%	11%	13%	80%	17%	21%	18%	22%
GSKCONS	29,086	3%	12%	12%	7%	38%	23%	5%	52%	24%	23%	21%	26%
HINDUNILVR	333,031	6%	11%	10%	20%	21%	17%	16%	19%	8%	20%	24%	21%
ITC	324,656	7%	8%	3%	4%	12%	10%	6%	10%	9%	36%	39%	39%
JYOTHYLAB	6,845	-3%	18%	8%	13%	40%	9%	35%	57%	6%	17%	15%	17%
MARICO	39,371	6%	21%	15%	2%	9%	6%	2%	10%	9%	17%	18%	16%
NESTLEIND	90,376	7%	12%	12%	21%	40%	14%	23%	50%	19%	23%	24%	24%
PARAGMILK	2,049	7%	33%	29%	48%	103%	33%	95%	169%	35%	10%	11%	10%
PGHH	29,214	10%	4%	7%	24%	-36%	3%	11%	-43%	7%	29%	16%	27%
PRABHAT	1,153	19%	7%	10%	15%	14%	10%	4%	90%	21%	8%	8%	8%
ZYDUSWELL	5,030	18%	14%	13%	15%	-6%	10%	13%	2%	12%	28%	15%	28%

Company	Reco.	ROE			ROCE			P/E			P/B		
		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
ATFL	BUY	9%	10%	12%	14.2%	14.1%	17.4%	55.81	37.09	27.03	5.19	3.58	3.25
BAJAJCORP	BUY	43%	44%	51%	48.7%	52.4%	58.5%	32.49	26.56	22.20	13.93	11.72	11.38
BRITANNIA	BUY	29%	30%	31%	37.9%	38.7%	40.3%	67.30	56.61	45.10	19.84	16.74	14.03
COLPAL	HOLD	44%	51%	54%	62.7%	69.9%	76.9%	43.14	37.63	33.36	19.05	19.07	18.02
DABUR	HOLD	24%	26%	28%	22.3%	25.8%	28.2%	48.39	48.14	38.90	11.48	12.74	11.07
EMAMILTD	BUY	15%	19%	22%	20.3%	24.0%	26.8%	77.80	54.89	41.04	11.84	10.22	9.17
GILLETTE	NEUTRAL	33%	31%	32%	48.9%	43.9%	43.9%	80.69	80.95	68.00	26.62	25.06	21.44
GODREJCP	HOLD	26%	25%	24%	21.8%	22.8%	25.5%	44.10	44.22	40.87	11.52	11.08	9.85
GSKCONS	ACCUMULATE	20%	22%	22%	23.5%	26.0%	25.8%	34.28	33.62	29.38	6.89	7.29	6.54
HINDUNILVR	BUY	72%	84%	99%	95.9%	112.9%	134.5%	63.38	55.02	47.87	45.48	46.46	47.38
ITC	HOLD	22%	23%	25%	29.0%	30.9%	33.1%	29.72	28.53	25.12	6.50	6.53	6.17
JYOTHYLAB	BUY	23%	23%	27%	22.3%	24.4%	27.1%	50.52	39.46	30.75	11.87	9.21	8.41
MARICO	BUY	33%	34%	39%	40.9%	43.5%	50.1%	52.08	45.04	36.32	16.95	15.41	14.16
NESTLEIND	BUY	44%	45%	50%	62.5%	62.9%	70.7%	54.68	49.68	42.01	24.15	22.13	21.02
PARAGMILK	BUY	12%	15%	15%	14.6%	17.7%	19.2%	26.57	17.27	14.28	3.25	2.52	2.18
PGHH	NEUTRAL	47%	39%	40%	69.9%	56.9%	57.5%	82.38	74.49	57.65	38.32	28.99	23.11
PRABHAT	BUY	6%	7%	10%	11.6%	12.7%	17.0%	31.00	21.80	14.31	2.01	1.60	1.45
ZYDUSWELL	ACCUMULATE	20%	19%	20%	16.3%	15.9%	17.2%	36.64	35.95	29.87	7.10	6.71	5.93

Note:
Nestle has CY ending, hence FY18, FY19 and FY20 should be read as CY18E, CY19E and CY20E.
GILLETTE and PGHH follow June ending financial year.
JYOTHYLAB figures are standalone and valuation has been done on standalone figure.
For valuation, CMP of 3rd Oct. 2018 has been considered.

CMP **540**
Target **707**
Upside **31%**
Rating **BUY**

	FY17	FY18	FY19E	FY20E
Roe%	9%	9%	10%	12%
Roce%	14%	14%	14%	17%
P/E	44.7	55.8	37.1	27.0
P/B	4.0	5.2	3.6	3.3
EV/Ebdita	20.2	26.6	18.5	14.8

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Revenue Breakup(est.)							
Sundrop Oil	501	487	502	537	116	117	120
Crystal business	125	121	135	151	28	34	31
ActII	137	156	190	247	43	35	49
Peanut butter	25	42	54	60	11	11	14
Segmental Volume growth%							
Sundrop Oil	1%	3%	5%	5%	-1%	7%	6%
Crystal business	3%	3%	2%	2%	-2%	2%	2%
Act II							
Peanut butter	14%	94%	55%	35%	109%	71%	50%
Financials							
Sales	808	812	881	995	197	197	214
Sales Gr	3%	0%	9%	13%	-2%	6%	9%
Ebdita	61	66	70	88	18	14	17
Ebdita Gr	8%	8%	5%	26%	19%	-3%	-3%
Net Profits	28	32	35	49	9	7	9
Profit Gr%	19%	14%	12%	37%	23%	0%	2%
EbditaM%	7.6%	8.1%	7.9%	8.8%	8.9%	7.2%	8.0%
Net Mgn%	3.4%	3.9%	4.0%	4.9%	4.4%	3.3%	4.1%

Conso/Fig in Rs Cr

❑ ATFL's sales for Q2FY19 is expected to grow by ~9% on the back of better volume growth in Sundrop Oil and Peanut butter business by 6% and 50% respectively while Crystal business volume is expected to grow by 2%.

❑ Gross margin is expected to decline by 518 bps YoY to 59.2% on the back of higher input prices and impact of passing GST benefits to the consumers. Company's pricing action on account of this will be very crucial while increase of the contribution of food business in the total revenue will put some cushion to the declining margin.

❑ Food business primarily comprising of ActII and peanut butter, contributed ~25% of the total sales this year. Next goal of the company is to inch it up to ~30%.

❑ Present focus of management is to achieve 9% EBITDA margin.

❑ NO major capex in the next 2-3 years. Capex guidance of mere Rs12-15 cr going forward.

Key Trackable this Quarter

❑ Pricing in Sundrop oil portfolio: Due to anti profiteering clause Company didn't pass increased cost to the consumers.

❑ Volume growth in food segment as new products launched in last 6months.

We value the stock at 35x FY20E EPS. Recommend BUY.

CMP 401
Target 487
Upside 21%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	44%	43%	44%	51%
Roce%	51%	49%	52%	58%
P/E	27.4	32.5	26.6	22.2
P/B	12.1	13.9	11.7	11.4
EV/Ebdita	22.6	27.0	21.2	18.4

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Almond Drops Hair Oil(ADHO)							
Volume in cases	12.3	12.6	13.7	14.9	12.9	13.2	13.8
Volume Growth%	-2%	3%	9%	9%	6%	11%	7%
ADHO Market share							
Value wise	60.6%	61.3%			61.0%	61.8%	
Volume wise	58.0%	58.7%			58.4%	59.4%	
Distri. Reach(mn)	3.7	3.9			3.8	3.9	
Financials							
Sales	797	828	926	1,050	204	221	229
Sales Gr	0%	4%	12%	13%	4%	12%	12.1%
Ebdita	264	254	278	319	58	69	67
Ebdita Gr	-4%	-4%	10%	15%	-13%	14%	15.3%
Net Profits	218	211	223	266	51	54	52
Profit Gr%	11%	-3%	6%	20%	-13%	-2%	2.3%
EbditaM%	33%	31%	30%	30%	29%	31%	29%
Net Mgn%	27%	25%	24%	25%	25%	24%	23%

Conso/Fig in Rs Cr

❑ Overall volume growth to remain 7%in Q2FY19 led by recovery in rural demand, expansion of direct reach and coming back of category growth. Overall reach of company increased by 7% to 3.9 mn outlets in FY18.

❑ Real effect of the crude prices rising is going to hit in Q2FY19, because of which the company has taken a price hike in August to the tune of ~3-3.5 % to cover up price hike of LLP.

❑ Gross margin is expected to decline by 171 bps YoY on the back of higher crude (up by ~50% YoY) and LLP in Q2FY19.

❑ Company did investment in distribution reach and building human resource in FY18 which impacted company's profitability. Going forward, company's stance regarding this will be crucial.

❑ We expect improvement in EBITDA margin by 82 bps led by lower other expenses as most of the investment company has already done.

❑ The company is actively looking for acquisition in the tune of Rs 700-800 cr. Presently it has Rs 350-400 cr cash in its balance sheet.

Key Trackable this Quarter

- ❑ The company may take price hike if required.
- ❑ Other Income: May be impacted by higher bond yield.
- ❑ Volume growth: volume growth >7% will be positive.

We value the stock at 27x FY20E EPS . Recommend BUY.

BRIT IN

CMP 5737
Target 6615
Upside 15%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	33%	29%	30%	31%
Roce%	41%	38%	39%	40%
P/E	50.7	67.3	56.6	45.1
P/B	16.6	19.8	16.7	14.0
EV/Ebdita	35.0	45.0	37.5	30.2

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Core Vol. growth	5%	7%	9%	10%	5%	12%	9%
Pricing gr.(%)(esti.)	4%	2%	5%	7%	2%	2%	4%
<i>Distribution Reach (in mn outlets)</i>							
Dire. Distri. Reach	1.55	1.84	2.4	3.0			
Over. Distri. Reach.	4.7	5.0	5.60	6.20			
<i>Financials</i>							
Sales	9,054	9,914	11,322	13,280	2545	2544	2885
Sales Gr	5%	9%	14%	17%	7%	12%	13%
Ebdita	1,278	1,502	1,809	2,230	378	389	463
Ebdita Gr	5%	17%	20%	23%	11%	19%	23%
Net Profits	885	1,004	1,216	1,526	261	258	314
Profit Gr%	7%	13%	21%	26%	12%	19%	20%
EbditaM%	14%	15%	16%	17%	15%	15%	16%
Net Mgn%	10%	10%	11%	11%	10%	10%	11%

Conso/Fig in Rs Cr

❑ Volume growth to remain at ~9% on the back of lower base(5%), revival in category growth, new product launches and distribution expansion in Hindi speaking belt while we expect pricing growth to remain ~4% in the wake of inflation in wheat prices by ~10%.

❑ FY19 is to remain bench mark year for the company as far as innovation and premiumization is concern. Plans to launch 50 products by the end of FY19e.

❑ The company's cost saving initiatives is expected (targeting Rs 225 cr of cost saving in FY19e) to lead in EBITDA margin improvement of 121 bps in Q2FY19. The company may do consumer campaign highlighting its completion of 100 years. So Ad spend will be key to watch for.

❑ The company has set up factories at Mundra(started April18) and Guwahati(Q4FY18) which is likely to offer ~25-30% of manufacturing cost saving.

❑ Inter Corporate deposits to the group companies for FY18: Rs 350 cr vs Rs 450 cr(in FY17).

❑ The company is ramping up its International business. Britannia is targeting one new geography every year starting from Nepal.

❑ The company is investing in dairy business. It plans to launch milk-based drinks in Q2FY19.

Key Trackable this Quarter

❑ Dividend Payout: On Completion of 100 years of the company, Britannia may announce special dividend, current div payout~28%.

❑ Other expenses: New product launches may push other expenses at elevated level but company's cost saving program will expected to negate it.

We value the stock at 52x FY20E EPS. Recommend BUY.

CMP 1088
Target 1206
Upside 11%
Rating HOLD

	FY17	FY18	FY19E	FY20E
Roe%	45%	44%	51%	54%
Roce%	64%	63%	70%	77%
P/E	43.1	43.1	37.6	33.4
P/B	19.5	19.1	19.1	18.0
EV/Ebdita	26.1	25.8	23.4	20.4

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Volume growth	-1%	3%	4%	6%	-1%	4%	4%
Pricing growth	2%	3%	4%	5%	4%	3%	4%
<i>Marketshare:</i>							
Toothpaste(Vol. Ms)	55%	53%					
Toothbrush(Vol. Ms)	47%	45%					
<i>Financials</i>							
Sales	3,982	4,188	4,518	5,017	1085	1041	1175
Sales Gr	3%	5%	8%	11%	3%	6%	8%
Ebdita	944	1,112	1,243	1,418	301	282	332
Ebdita Gr	1%	18%	12%	14%	9%	27%	11%
Adj. Net Profits	577	681	764	887	178	190	199
Profit Gr%	-4.3%	18.0%	12.1%	16.2%	-2%	39%	12%
EbditaM%	24%	27%	28%	28%	28%	27%	28%
Net Mgn%	15%	16%	17%	18%	16%	18%	17%

Conso/Fig in Rs Cr

❑ COLPAL's volume growth is expected to be 4% in Q2FY19 backed by revival in rural economy (contributes~45% of revenue), expansion of direct reach (looking to expand direct reach by ~25% in FY19), lower base (-1%) and launching Cibaka Vedshakti in entire nation.

❑ Presently, Vedshakti is 4% of the sales of the company, expects it to scale up to double digit in coming year.

❑ Declining Patanjali's competitive intensity will augur well for COLPAL.

❑ Company's pricing action and cost efficiency measures gives us confidence of improvement in margin Q2FY19. We expect gross and EBITDA margin to improve by 219 and 58 bps respectively.

❑ As major capex is done with, we expect lower capex going forwards. Expected capex for FY19: Rs 150 cr.

Key Trackable this Quarter

❑ Volume growth: >4% will be positive in the wake of higher competitive intensity.

❑ Market share in toothpaste and tooth brush segment.

❑ Higher competitive intensity can lead to higher A&P which may contract the EBITDA margin.

We value the stock at 37x FY20E EPS. Recommend HOLD.

DABUR IN

CMP 426
Target 460
Upside 8%
Rating HOLD

	FY17	FY18	FY19E	FY20E
Roe%	26%	24%	26%	28%
Roce%	24%	22%	26%	28%
P/E	42.6	48.4	48.1	38.9
P/B	11.2	11.5	12.7	11.1
EV/Ebdita	36.2	40.5	40.2	33.0

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Domestic Vol. gr.	1%	6%	15%	12%	7%	21%	13%
Pricing gr.(esti.)	-2%	2%	5%	5%	3%	4%	5%
Intern. Bus.CC gr.(esti.)	4%	6%	11%	10%	4%	11%	12%
Financials							
Sales	7,701	7,748	8,881	10,193	1959	2081	2244
Sales Gr	-2%	1%	15%	15%	-1%	16%	15%
Ebdita	1,509	1,617	1,865	2,268	420	386	491
Ebdita Gr	-1%	7%	15%	22%	3%	25%	17%
Net Profits	1,277	1,354	1,559	1,929	363	330	414
Profit Gr%	2%	6%	15%	24%	2%	25%	14%
EbditaM%	20%	21%	21%	22%	21%	19%	22%
Net Mgn%	17%	17%	18%	19%	19%	16%	18%

Conso/Fig in Rs Cr

❑ Dabur's sales expected to grow by ~15% in Q2FY19 on the back of domestic volume growth of 13% and better traction from International business. Domestic business growth is expected to be driven by revival in rural economy (~50% of the sales), wide distribution coverage and LUP.

❑ Strong performance in Oral care is expected to continue while market share gain in honey and Chyawanprash are expected. Waning competitive intensity from Patanjali is also expected to boost revenue.

❑ International business is expected to grow by 12% in cc terms led by strong growth in MENA and Namaste. Middle East business accounts for ~31% of International business.

❑ Gross margin is expected to decline by 72 bps YoY led by crude related inflation while EBITDA margin is expected to improve by 46 bps YoY led by cost efficiency measures taken by the company, benefits operating leverage and lower other expenses led by post GST channels realignment.

❑ Expected capex: Rs 250 cr for FY19.

❑ Open for any acquisition if valuation is reasonable. Cash in books: over Rs 2000 cr.

Key Trackable this Quarter

- ❑ Domestic business Volume growth
- ❑ Commentary regarding rural momentum and urban pickup.
- ❑ EBITDA margin unlikely to increase further.
- ❑ Market share of Honey and Chyawanprash .
- ❑ International business cc growth.

We value the stock at 42x FY20E EPS. Recommend HOLD.

CMP 496
Target 592
Upside 19%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	19%	15%	19%	22%
Roce%	26%	20%	24%	27%
P/E	74.7	77.8	54.9	41.0
P/B	14.5	11.8	10.2	9.2
EV/Ebdata	33.4	33.1	26.2	22.8

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Domestic Vol. gr.	7%	2%	13%	11%	10%	18%	9%
Pricing gr.(esti.)	4%	3%	4%	4%	4%	3%	4%
<i>Revenues Break up:</i>							
Domestic reve.	85%	85%					
Interna. Busi.	11%	11%					
CSD	4%	4%					
<i>Direct Reach(outlets in mn)</i>							
Direct Reach	0.73	0.85					
<i>Financials</i>							
Sales	2,533	2,531	2,907	3,332	628	614	706
Sales Gr	6%	0%	15%	15%	7%	16%	12%
Ebdata	759	719	857	984	201	124	229
Ebdata Gr	10%	-5%	19%	15%	15%	54%	14%
Net Profits	340	308	410	549	99	27	118
Profit Gr%	-6%	-10%	34%	34%	49%	2873%	19%
EbdataM%	30%	28%	29%	30%	32%	20%	32%
Net Mgn%	13%	12%	14%	16%	16%	4%	17%

Conso/Fig in Rs Cr

❑ EMAMILTD's sales is expected to grow by ~12 % YoY in Q2FY19 led by 9% growth in domestic volume and 8% growth in International business while CSD is expected to grow by 15% on the back of lower base.

❑ EMAMILTD's growth will be backed by recovery in rural demand, increased penetration and recovery in the volume of Keshking and zandu pancharishta. The company has reduced its dependence on wholesale to 38%. Company's overall direct reach went up to 8.5 lakhs stores.

❑ Mgt commentary in Q4FY18 concall, suggested worse is over for Keshking and Pancharishta. Traction still to be seen.

❑ Gross margin is expected to remain flat considering inflation in crude while EBITDA margin is likely to improve by 36 bps on the back of change in products mix(Keshking has higher margin) , channel rationalization and benefits of operating leverage. The company has taken price hike of ~4% for the entire year of FY19.

❑ Tax Rate: 20% for coming few years.

❑ Capex: Rs 80-100 cr for FY19.

Key Trackable this Quarter

❑ Domestic Volume growth.

❑ Gross margin.

We value the stock at 49x FY20E EPS. Recommend BUY.

GILL IN

CMP 6684
Target 7078
Upside 6%
Rating NEUTRAL

	FY17	FY18	FY19E	FY20E
Roe%	51%	33%	31%	32%
Roce%	69%	49%	44%	44%
P/E	62.4	80.7	81.0	68.0
P/B	31.5	26.6	25.1	21.4
EV/Ebdata	41.1	47.8	49.8	42.7

	FY17	FY18	FY19E	FY20E	Q1FY18	Q4FY18	Q1FY19E
<i>Segmental Revenues</i>							
Grooming	1418	1331	1469	1664	309	337	334
Oral care	341	346	359	392	99	72	87
<i>Financials</i>							
Sales	1,788	1,677	1,829	2,056	408	410	421
<i>Sales Gr</i>	2%	-6%	9%	12%	-1%	1%	3%
Ebdita	382	382	430	498	106	60	104
<i>Ebdita Gr</i>	25%	0%	13%	16%	32%	-11%	-1%
Net Profits	253	229	269	320	64	35	65
<i>Profit Gr%</i>	18%	-9%	17%	19%	17%	-8%	1%
EbditaM%	21%	23%	23%	24%	26%	15%	25%
Net Mgn%	14%	14%	15%	16%	16%	8%	16%

Std/Fig in Rs Cr

□ We expect male grooming business to grow by 8% in Q1FY19 while assume decline in Oral care business to continue on the back of higher base (~19%) and higher competitive intensity in this business.

□ Male grooming business is expected to be better because of stabilization of trade channels and improved in-store execution.

□ The company expects high single digits category growth going ahead.

□ Gross margin is expected to decline by 141 bps YoY to 57.9% due to higher input prices while decline in EBITDA margin is expected to be 113 bps YoY. Share of premium products in products mix may give some cushion to the margin.

□ Employee and A&P expenses are believed to be similar to previous quarter while we expect slight decline in other expenses led by rationalization of distribution channels.

□ Strategies of new management will be crucial thing to watch for going ahead.

Key Trackable this Quarter

□ Gross and EBITDA margin: Especially contribution of premium products in total sales, A&P and other expenses.

□ Revenue growth in male grooming business .

□ Performance of oral care business.

We value the stock at 72x FY20E EPS. Recommend NEUTRAL.

CMP 767
Target 826
Upside 8%
Rating HOLD

	FY17	FY18	FY19E	FY20E
Roe%	25%	26%	25%	24%
Roce%	20%	22%	23%	25%
P/E	42.7	44.1	44.2	40.9
P/B	10.5	11.5	11.1	9.9
EV/Ebdita	30.7	35.6	33.8	29.7

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Domestic Vol. gr.	4%	9%	11%	10%	10%	14%	9%
Intern. Busin. gr.	12%	1%	5%	7%	2%	9%	6%
<i>Segmental Revenues</i>							
Domestic revenue	5014	5163	5903	6817	1347	1278	1482
Indonesia	1527	1354	1463	1565	322	353	351
Africa,USA & Middle Eas	1990	2185	2440	2855	558	564	614
Latin America	569	584	636	751	149	100	167
Europe	410	461	290	0	116	152	90
Others	135	95	100	101	26	24	25
Sales	9,268	9,843	10,838	12,089	2507	2476	2728
Sales Gr	10%	6%	10%	12%	6%	14%	9%
Ebdita	1,898	2,067	2,350	2,653	532	444	593
Ebdita Gr	16%	9%	14%	13%	14%	27%	11%
Adj. Net Profits	1,308	1,494	1,778	1,918	362	405	423
Profit Gr%	20%	14%	19%	8%	13%	80%	17%
EbditaM%	20%	21%	22%	22%	21%	18%	22%
Net Mgn%	14%	15%	16%	16%	14%	16%	16%

Note: we have not factored exceptional gain on sale of UK business in Q2FY19's number.

Conso/Fig in Rs Cr

❑ Sales is expected to grow by ~9% in Q2FY19 on the back of 9% volume growth in domestic business and 6% growth from International business. New product launches, ramping up rural distribution reach and revival in rural demand is expected to support the domestic volume.

❑ The company launched Good night power chip, green Shakti coil and Liquid Vaporizer machine with 50% more power in Q2FY19 and expected to launches 2-3 new product in coming 2-3 months. Management expects rural business to continue to grow faster.

❑ International business growth is expected to be support by Indonesia business (7% cc growth) led by lower base (-7% cc growth in Q2FY18) and some recovery in demand while Africa business continues to remain lag.

❑ Gross margin may decline by 24 bps led by higher crude oil prices which indirectly impacts 40-50%of cost bar while EBITDA margin is expected to improve by 50 bps led by cost efficiency measure and better international business margin.

❑ GCPL has divested its entire stake in UK business to JZ International for the consideration of GBP 34 million. Rs 90 cr of sales accounted from UK business in this quarter.

Key Trackable this Quarter

❑ Indonesian business: Outlook of business after earthquake and tsunami .

❑ Africa business: Outlook and mgt commentary on the recovery of the business.

❑ Domestic business volume growth

We value the stock at 44x FY20E EPS. Recommend HOLD.

SKB IN

CMP **6706**
Target **7532**
Upside **12%**
Rating **ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	21%	20%	22%	22%
Roce%	25%	23%	26%	26%
P/E	36.5	34.3	33.6	29.4
P/B	7.7	6.9	7.3	6.5
EV/Ebdata	25.0	23.1	22.6	20.1

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
HFD volumes	-7%	6%	9%	8%	3%	13%	8%
Pricing growth(est.)	1%	4%	4%	6%	2%	4%	4%
<i>Financials</i>							
Sales	3,986	4,377	4,838	5,494	1115	1107	1244
Sales Gr	-4%	10%	11%	14%	3%	12%	12%
Ebdata	833	883	1,067	1,176	261	230	322
Ebdata Gr	-1%	6%	21%	10%	7%	38%	23%
Net Profits	657	700	839	960	192	200	238
Profit Gr%	-4%	7%	20%	14%	5%	52%	24%
EbdataM%	21%	20%	22%	21%	23%	21%	26%
Net Mgn%	16%	16%	17%	17%	17%	18%	19%

Std/Fig in Rs Cr

☐ GSKCONS's sales for Q2FY19 is expected to increase by 12% YoY on the back of lower base, better traction from new launched products, LUP and distribution expansion. Investments behind fast growing segments of high science like Protein +, Growth +, and new formats like Boost Ready-to-drink is expected to fetch better result in Q2FY19.

☐ Protein Plus and Growth Plus market share remained 0.7% and 0.3% respectively in Q1FY19.

☐ The company had launched Boost on the Go RTD on 1st May 2018 and Piloting it in the Tamil Nadu market.

☐ Sachet's contribution in total revenue remained ~9% and it is expected to grow at the rate of high double digits.

☐ Volume growth for the quarter is expected to remain at 8%. Management had also guided for mid to high single digit volume growth going forward in Q1FY19 concall.

☐ Gross margin and EBITDA margin expected to improve by 402 bps and 244 bps respectively on the back of lower SMP prices and benefits of operating leverage in Q2FY19.

☐ The company envisages a capex of Rs 2-3bn over the next two years.

Key Trackable this Quarter

☐ Overall volume growth

☐ Liquid Milk and SMP.

☐ Development regarding the sale of Horlicks business.

We value the stock at 33x FY20E EPS. Recommend ACCUMULATE.

HUVR IN

CMP 1622
Target 1863
Upside 15%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	67%	72%	84%	99%
Roce%	84%	96%	113%	135%
P/E	40.9	63.4	55.0	47.9
P/B	27.2	45.5	46.5	47.4
EV/Ebdita	28.7	43.7	38.5	33.2

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Overall Volume gr.	1%	6%	9%	8%	4%	12%	9%
<i>Segmental Revenues</i>							
Home care	11346	11629					
Personal care	16305	16464					
Foods	1123	1165					
Refreshment	4848	5225					
Others	818	720					
<i>Financials</i>							
Sales	33,162	35,545	40,326	45,824	8309	9487	9167
Sales Gr	3%	7%	13%	14%	6%	11%	10%
Ebdita	6,340	7,499	9,066	10,498	1682	2251	1962
Ebdita Gr	5%	18%	21%	16%	20%	21%	17%
Net Profits	4,490	5,225	6,381	7,334	1276	1529	1377
Profit Gr%	8%	16%	22%	15%	16%	19%	8%
EbditaM%	19%	21%	22%	23%	20%	24%	21%
Net Mgn%	14%	15%	16%	16%	15%	16%	15%

Annual Consolidate/ Quterly Std.

Fig in Rs Cr

□ Hindunilvr's volume growth to remain at 8.5% on the back of lower base, recovery in rural demand and strong performance of Natural product portfolio in Q2FY19. Management also expects stable Q2FY19 and a 7 to 8% volume growth.

□ Naturals portfolio is growing ~2.5X of overall HUL average.

□ Management anticipates a step up in competitive intensity going ahead.

□ Gross margin is expected to be improve by 49 bps YoY led by company's pricing action and change in products mix towards premiumization(25%of portfolio is premium). HUL has taken a price hike of ~ 3-4% across products and SKUs in the home care, household & laundry portfolio.

□ EBITDA margin is expected to improve by 116 bps YoY led by expansion is gross margin and cost efficiency measures. Company continues to save cost in the range of 6-7% of sales.

□ Provision towards restructuring and few contested matters is expected to be Rs 59 cr. Exceptional items will include supply chain write-offs and restructuring costs due to one off payments to employees on industrial infrastructure going forward.

□ These exceptional items will be there for the next 5-6 quarters.

Key Trackable this Quarter

□ Overall volume growth.

□ Provision towards restructuring and few contested matters .

□ Growth in Natural Portfolio.

We value the stock at 55x FY20E EPS. Recommend BUY.

ITC IN

CMP 295
Target 328
Upside 11%
Rating HOLD

	FY17	FY18	FY19E	FY20E
Roe%	23%	22%	23%	25%
Roce%	31%	29%	31%	33%
P/E	26.3	29.7	28.5	25.1
P/B	5.9	6.5	6.5	6.2
EV/Ebdita	17.6	20.5	19.4	17.3

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Cigarette volume	2%	-3%	4%	3%	-6%	2%	5%
<i>Segmental Revenues</i>							
Cigarettes	18940	19125	20237	22058			
Others FMCG	10512	11329	12499	14373			
Agri Business	8265	8068	8724	9247			
Paperb, Pap. & Pcka.	5095	5182	5438	5710			
Hotels	1342	1417	1575	1732			
<i>Financials</i>							
Sales	42,777	43,449	46,940	51,526	10314	10707	10576
Sales Gr	9%	2%	8%	10%	7%	8%	3%
Ebdita	15,436	16,483	18,335	20,704	3762	4202	4125
Ebdita Gr	7%	7%	11%	13%	4%	12%	10%
Net Profits	10,477	11,493	12,656	14,371	2640	2819	2871
Profit Gr%	10%	10%	10%	14%	6%	10%	9%
EbditaM%	36%	38%	39%	40%	36%	39%	39%
Net Mgn%	24%	26%	27%	28%	26%	26%	27%

Annual Consolidate/ Quterly Std.

Fig in Rs Cr

□ Adj. Sales of ITC is expected to growth by ~3% to Rs 10576 cr in Q2FY19 on the back of gradual recovery in cigarette volume, better performance of other FMCG and Hotel business. Cigarette volume is expected to grow by 5% led by lower base (-6% in Q2FY18) and recovery in volume.

□ Other FMCG is expected to grow by 11% in Q2FY19 led by stable performance of Aashirvaad atta, new product launches and venturing out in other categories. The company is aggressively ramping up its other FMCG business and targets Rs 65,000 cr revenue from packaged food division by 2030.

□ ITC's EBITDA margin is expected to improve by 254 bps YoY on the back of improvement in margins in the other FMCG business and benefits of operating leverage. Company's other FMCG business is turning around.

□ The company plans a investments of over Rs 25,000 cr for 65 projects, including 25 factories for packaged foods

Key Trackable this Quarter

□ A possible increase in GST rates in subsequent Council meetings remains an overhang. Moreover, any upward revision of ad valorem duty will act as another dampener for the company.

□ Cigarette Volume growth and EBIT growth

□ Other FMCG volume and EBIT growth

We value the stock at 28x FY20E EPS. Recommend HOLD.

JYL IN

CMP 193
Target 238
Upside 23%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	31%	23%	23%	27%
Roce%	28%	22%	24%	27%
P/E	31.7	50.5	39.5	30.8
P/B	9.8	11.9	9.2	8.4
EV/Ebdita	24.4	29.4	22.0	19.3

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Volume growth	7%	2%	9%	9%	4%	19%	6%
Pricing growth(est.)	-2%	-2%	3%	5%	-4%	2%	3%
<i>Financials</i>							
Sales	1,632	1,700	1,882	2,106	419	405	454
Sales Gr	6%	4%	11%	12%	-3%	18%	8%
Ebdita	260	277	317	358	72	61	79
Ebdita Gr	14%	7%	14%	13%	13%	40%	9%
Net Profits	202	161	177	227	42	32	45
Profit Gr%	171%	-21%	10%	28%	35%	57%	6%
EbditaM%	16%	16%	17%	17%	17%	15%	17%
Net Mgn%	12%	9%	9%	11%	10%	8%	10%

Std/Fig in Rs Cr

❑ JYOTHYLAB 's sales is expected to grow by 8% on the back of 6% volume growth and 125 bps QoQ improvement in realization. Major reason for lower sales will be Kerala floods which contributes ~15% of the total revenue of JYOTHYLAB.

❑ Mgt. envisages Kerala floods impact in the extent of 1.5% of the overall revenue growth in FY19 and for Q2FY19, Kerala floods is expected to impact sales by 6%.

❑ Management maintained its guidance of 12-15% revenue growth with 16-17% EBITDA margin despite Kerala floods.

❑ Gross margin is expected to deteriorate by 23 bps led by crude oil inflation(35% of company raw material are link to crude) although company has taken price hike in the range 5% in detergent segment. EBITDA margin is expected to improve by 5 bps YoY on the back of lower other ex. and advertising & promotion expenses.

❑ As per the management, if Dollar breaches 72 level than company will take another price hike 2-3% and look for reducing in some consumer promotions to give cushion to the margin.

❑ Gross debt in the books of the company is Rs 375 cr while net debt remained Rs 275 cr as on Q1FY19.

❑ FY19E: Rs 20-25 cr as maintenance capex.

❑ Tax rate will be at MAT for next 6-7 years.

Key Trackable this Quarter

- ❑ Gross & EBITDA margin.
- ❑ Volume growth will be impacted by Kerala floods.
- ❑ Pricing action taken by the company.

We value the stock at 38x FY20E EPS. Recommend BUY.

MRCO IN

CMP 327
Target 409
Upside 25%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	35%	33%	34%	39%
Roce%	46%	41%	44%	50%
P/E	52.2	52.1	45.0	36.3
P/B	18.2	16.9	15.4	14.2
EV/Ebdita	36.5	37.8	32.6	26.3

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Domes. Volume Gr.	4%	2%	9%	9%	8%	12%	7%
Intern. Busin. CC gr.	1%	8%	10%	13%	1%	7%	11%
<i>Segmental Volume Growth</i>							
Parachute Rigid	4%	3%	5%	9%	12%	9%	3%
Saffola	8%	-2%	7%	7%	3%	10%	6%
Value add. Hair Oils	5%	6%	13%	12%	12%	15%	11%
<i>Revenue Break up:</i>							
Domestic	4579	4970	5792	6675	1200	1628	1387
International	1357	1364	1518	1757	336	399	377
<i>Financials</i>							
Sales	5,936	6,333	7,310	8,432	1536	2027	1763
Sales Gr	-1%	7%	15%	15%	6%	21%	14.8%
Ebdita	1,159	1,138	1,288	1,591	259	355	273
Ebdita Gr	10%	-2%	13%	24%	2%	9%	5.5%
Net Profits	811	827	937	1,161	185	260	202
Profit Gr%	12%	2%	13%	24%	2%	10%	9.1%
EbditaM%	20%	18%	18%	19%	16.9%	18%	15.5%
Net Mgn%	14%	13%	13%	14%	12.0%	13%	11.4%

Conso/Fig in Rs Cr

❑ Marico's revenue is expected to grow by ~15% led by better domestic volume & realization and International business performance. Domestic volume is expected to grow by 7% led by 3% growth in Parachute Rigid, 6% in Saffola and 11% in VAHO.

❑ Rural growth and LUP is going to play important role in VAHO volume growth while sorting out issues related modern trade will help Saffola. Due to higher base Parachute's growth to remain lower.

❑ International business is expected to clock 11% cc growth led by better growth in MENA business and improvement in Bangladesh business. Vietnam business is expected remain soft in this quarter.

❑ Gross margin is expected to improve by 241 bps QoQ(while decline 229 bps in YoY) led by softening of Copra prices. EBITDA margin is expected to decline by 137 bps YoY led by mainly shrinkage in gross margin.

Key Trackable this Quarter

- ❑ Copra prices: expect softening in Copra prices to continue.
- ❑ Prachute Rigid and Saffola's volume growth.
- ❑ Commentary regarding Vietnam business.

We value the stock at 45x FY20E EPS. Recommend BUY.

NEST IN

CMP 9344
Target 10278
Upside 10%
Rating BUY

	CY17	CY18E	CY19E	CY20E
Roe%	36%	44%	45%	50%
Roce%	51%	62%	63%	71%
P/E	72.4	54.7	49.7	42.0
P/B	25.9	24.2	22.1	21.0
EV/Ebdata	41.6	33.0	30.4	26.1

	CY17	CY18E	CY19E	CY20E	Q3CY17	Q2CY18	Q3CY18E
<i>Segmental Revenues</i>							
Milk products & nutr.	4820	5163	5690	6271			
Beverages	1387	1647	1903	2177			
Pre. dishes & cook. aids	2707	3271	3884	4486			
Chocolate & confection.	1221	1385	1571	1765			
Gross Sales(in cr)	10135	11466	13047	14699			
<i>Financials</i>							
Sales	9,953	11,237	12,886	14,517	2514	2698	2818
Sales Gr	9%	13%	14%	13%	7%	12%	12%
Ebdita	2,097	2,681	2,907	3,378	584	645	667
Ebdita Gr	13%	28%	8%	16%	21%	40%	14%
Net Profits	1,225	1,648	1,814	2,144	343	395	407
Profit Gr%	22%	34%	10%	18%	23%	50%	19%
EbditaM%	21%	24%	23%	23%	23%	24%	24%
Net Mgn%	12%	15%	14%	15%	13.6%	15%	14%

Std/Fig in Rs Cr

- ❑ NESTLEIND is expected to report a sales growth of 12% in Q3CY18 on the back of aggressive new product launches and distribution ramp up.
- ❑ EBITDA margin is expected to expand by 42 bps mainly due to expansion in gross margin by 254 bps YoY. Gross margin is expected to improve backed by lower milk prices and SMP.
- ❑ The company has launched ~40 new products in last 2 years in which 25 are doing well. Going forward, we expect new launches to continue from its parent portfolio (more than 2000 products globally).
- ❑ Contribution of new launches remained 3% of total sales in H12018.
- ❑ Cluster approach to boost growth: To promote keen consumer connect and high agility, the company is introducing cluster based strategy in which it has divided whole India into 15 clusters.
- ❑ NESTLEIND is a strong play in Food and Beverages space with the leadership in ~85% of the product portfolio in which it exists.

Key Trackable this Quarter

- ❑ Volume growth.
- ❑ Gross Margin: Expect gross margin to improve as Key input prices are still benign.

We value the stock at 55x CY19E EPS. Recommend BUY.

Parag Milk Foods Limited

PARAG IN

Consumer Staples

CMP 249
Target 313
Upside 26%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	1%	12%	15%	15%
Roce%	5%	15%	18%	19%
P/E	499.8	26.6	17.3	14.3
P/B	3.8	3.2	2.5	2.2
EV/Ebdita	27.2	12.1	8.5	7.2

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Milk Products Gr.	1%	17%	28%	18%	6%	41%	35%
Fresh Milk Gr.	16%	5%	9%	10%	4%	9%	9%
<i>Segmental Revenues</i>							
Skimmed Milk Powder	224	254	308	354	54	70	67
Fresh Milk	371	391	424	466	101	106	110
Milk Products	1108	1290	1636	1922	344	363	465
Other Revenues	28	20	42	61	6	11	10
<i>Financials</i>							
Sales	1,731	1,955	2,410	2,803	505	549	652
Sales Gr	5%	13%	23%	16%	7%	33%	29%
Ebdita	88	193	244	285	50	60	66
Ebdita Gr	-41%	120%	26%	17%	48%	103%	33%
Net Profits	5	87	121	146	25	28	34
Profit Gr%	-90%	1748%	39%	21%	95%	169%	35%
EbditaM%	5%	10%	10%	10%	10%	11%	10%
Net Mgn%	0%	4%	5%	5%	5%	5%	5%

Conso/Fig in Rs Cr

❑ Parag's sales is expected to grow by 29%YoY in Q2FY19 on the back of strong traction from value added products, aggressive new product launches and ramp up of distribution reach. The company targets to achieve Revenues in the range of Rs. 2,700 to Rs. 3,000 Cr by 2020.

❑ Company bought Danone manufacturing facility in North India (Sonipat) which will give company much needed foot hold in north India in terms of procurement of milk.

❑ Gross margin is expected to improve by 55 bps YoY led by benign fresh milk prices while higher milk procurement prices (government increased minimum milk procurement prices to Rs25) paid for pouch milk (non subsidy) may impact margins adversely. For value added products government will provide Rs 5 subsidy to the company.

❑ The company is planning to increase its value added products contribution to revenue from 64% to 65% till 2021. Health & Nutrition business has to expand from 2% to 7%.

❑ Capex: Rs 30cr in FY19. Tax rate: 26-28.5%.

Key Trackable this Quarter

❑ Gross Margin.

❑ Other Expenses: The company is in the process of launching new products and expansion of its distribution reach.

We value the stock at 18x FY20E EPS. Recommend BUY.

CMP 9506
Target 9894
Upside 4%
Rating NEUTRAL

	FY17	FY18	FY19E	FY20E
Roe%	82%	47%	39%	40%
Roce%	115%	70%	57%	57%
P/E	50.1	82.4	74.5	57.6
P/B	41.2	38.3	29.0	23.1
EV/Ebdata	32.5	49.5	46.0	36.5

	FY17	FY18	FY19E	FY20E	Q1FY18	Q4FY18	Q1FY19E
<i>Segmental Revenues(gross) *</i>							
Oint. and Creams	412	441	485	543			
Cough Drops	265	286	309	334			
Tablets	51	38	35	31			
Personal Products, Toile	1691	1792	1935	2226			
<i>Financials</i>							
Sales	2,320	2,455	2,716	3,102	658	525	707
Sales Gr	2%	6%	11%	14%	10%	4%	7%
Ebdita	665	615	655	817	187	84	194
Ebdita Gr	10%	-7%	7%	25%	24%	-36%	3%
Net Profits	433	375	414	535	116	45	123
Profit Gr%	2%	-13%	11%	29%	11%	-43%	7%
EbditaM%	29%	25%	24%	26%	29%	16%	27%
Net Mgn%	19%	15%	15%	17%	18%	8%	17%

* FY18 revenue break up is expected.

Std/Fig in Rs Cr

❑ PGHH's revenue is expected to grow by 7%YoY of on the back of better growth in Ointments & Creams and Personal Products, Toilet Preparations segments. This growth will be driven by company's investment in A&P and revival in economy.

❑ Gross margin is expected to expand by 491 bps YoY(contraction of 180 bps QoQ) to 62.8%on the back of lower input prices. Gross margin was impacted by the price cut taken by ~2-3% in July to pass GST rate cut to the consumers.

❑ EBITDA margin is expected to decline by 110 bps YoY led by company's investment in advertisement, promotion and distribution activities. We expect 112 and 489 bps increase in other expenses and A&P respectively in Q1FY19.

❑ The company had made a strategic foray in emerging comfort segment with new Whisper Ultra Soft product launch.

❑ The company expects growth rate in the categories in which it competes to be around high single digits.

Key Trackable this Quarter

❑ Revenue growth: Past 2 years remained dampener, so we expect better sales in FY19.

❑ Gross and EBITDA Margin as past few quarters company is investing on A&P and other ex.

We value the stock at 60x FY20E EPS. Recommend NEUTRAL.

PRABHAT IN

CMP 129
Target 162
Upside 26%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	7%	6%	7%	10%
Roce%	12%	12%	13%	17%
P/E	31.2	31.0	21.8	14.3
P/B	2.1	2.0	1.6	1.5
EV/Ebdita	10.6	10.0	7.1	5.6

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
<i>Segmental Revenues</i>							
Milk	192	315	403	476			
Milk Powder	623	711	783	900			
Butter +ghee	289	215	258	310			
Condensed milk	164	80	39	19			
Cheese ,Paneer & Sri Kh	39	91	160	240			
Others	88	141	104	122			
<i>Financials</i>							
Sales	1,410	1,554	1,746	2,066	386	386	423
Sales Gr	21%	10%	12%	18%	19%	7%	10%
Ebdita	127	138	157	200	32	32	35
Ebdita Gr	10%	9%	14%	27%	15%	14%	10%
Net Profits	47	47	57	87	9	11	11
Profit Gr%	106%	1%	21%	52%	4%	90%	21%
EbditaM%	9.0%	8.9%	9.0%	9.7%	8%	8%	8%
Net Mgn%	3.3%	3.0%	3.3%	4.2%	2%	3%	3%

Conso/Fig in Rs Cr

❑ PRABHAT's sales for Q2FY19 is expected to remain 10% backed by company's distribution expansion(plans to double distribution reach in next 2 years), new product launches in B2C segment and company's initiatives of setting up different packing stations (third Party) in Vidarbha and Western Maharashtra.

❑ Gross margin can expand by 95 bps YoY, lesser than what we earlier expected as company will have to pay ~21% more for milk procurement in pouch milk (non subsidy) segment. Gross margin will be supported by higher contribution of value added products in the total revenue.

❑ EBITDA margin improvement is expected to be flat led by elevated other expenses as company will invest benefits of lower input prices in brand building (invest Rs 30cr) and distribution expansion.

❑ Delay in payment of subsidy by government may increase working capital by Rs 10 Cr in FY19.

Key Trackable this Quarter

❑ Gross Margin: need to see impact of higher milk procurement prices in pouch segment (non subsidy).

❑ Share of consumer business in total revenue.

❑ Other expenses: the company is investing benefits of lower milk prices to the expansion of distribution reach and promotional activities.

We value the stock at 18x FY20E EPS. Recommend BUY.

CMP 1376
Target 1566
Upside 14%
Rating ACCUMULATE

	FY17	FY18	FY19E	FY20E
Roe%	20%	20%	19%	20%
Roce%	16%	16%	16%	17%
P/E	30.2	36.6	36.0	29.9
P/B	5.9	7.1	6.7	5.9
EV/Ebdita	29.1	36.1	34.8	28.4

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
<i>Key Assumptions:</i>							
Sugar Subst. category	7%	13%	8%	15%	15%	5%	8%
Scrub category	7%	10%	14%	16%	11%	10%	15%
Peel off mask category	5%	17%	18%	18%	17%	18%	18%
<i>Financials</i>							
Sales	463	503	578	669	124	143	139
Sales Gr	9%	9%	15%	16%	18%	14%	13%
Ebdita	99	125	140	168	35	22	39
Ebdita Gr	8%	26%	12%	20%	15%	-6%	10%
Net Profits	111	137	153	184	36	26	41
Profit Gr%	6%	23%	12%	20%	13%	2%	12%
EbditaM%	21%	25%	24%	25%	28%	15%	28%
Net Mgn%	24%	27%	26%	27%	29%	18%	29%

Conso/Fig in Rs Cr

- ❑ Sales is expected to grow by 13% YoY led by better traction from new launches, focused A&P initiatives and increased penetration. Last quarter company had launched Sugarfree veda (Ayurvedic) and Nutralite mayo. New products had contributed ~5% of the total revenue in Q1FY19.
- ❑ Zykluswell aspires for Rs 1000 cr of revenue in next 4-5 years. The company has strong cash balance of Rs 414 cr in FY18 which can be utilized for any suitable inorganic opportunity going forward.
- ❑ New product launches and expansion of distribution reach will be the key for company's future growth.
- ❑ Gross margin is expected to decline by 150 bps led by higher crude prices (indirect: used in packaging material (~34% of RM)) and palm oil prices (~29% of RM). EBITDA margin is expected to decline by 66 bps YoY led by shrinkage in gross margin.
- ❑ Sugar Free Green's market share for FY18 remained ~2%.
- ❑ Expected Tax Rate: 9.5 to 10% in FY19.

Key Trackable this Quarter

- ❑ Sugar substitute cat. Growth.
- ❑ Pricing action to mitigate the impact of rising input prices.
- ❑ Market share of Sugar Free Green.

We value the stock at 34x FY20E eps. Recommend ACCUMULATE.

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