FMCG Sector Review

Company	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)
ITC	3,032	266	BUY	358
HUL	2,900	1,340	BUY	1,514
Dabur	599	340	BUY	405
Britannia	594	4,950	BUY	5,480
Marico	403	312	BUY	380
Colgate	287	1,054	NEU	1,163
Emami	251	1,087	BUY	1,300
Jub. Food	134	2,044	BUY	2,662

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FMCG Sector: Out of the Woods

3QFY18 Review

- **FMCG universe** recovered sharply by posting revenue/EBITDA growth of 13/17% in 3QFY18 on account of favorable base (2/1%), stabilizing trade channels (wholesale & CSD) and initial signs of rural recovery. The performance on an ex-ITC basis was even stronger at 15/23%, respectively. EBITDA growth was driven by favorable base, soft commodity inflation, better pricing discipline, premiumisation and favorable operating leverage.

- **Category highlights -** We have grouped performance of companies based on their categories to compare like-to-like performance. We have also computed weighted average growth (based on revenue) for each category. Interestingly, even during turbulent market conditions in the trailing 12 months, categories like Personal Care, Home Care, QSR and F&B grew at 9-10%. However during 3QFY18, all categories except cigarettes grew in the mid to high teens **(link)**.

- **International performance -** Dabur, Marico and Emami's international venture has significantly underperformed in the last 6-7 quarters primarily due to 1) Geo-political tensions in MENA region 2) Low crude oil prices and 3) Depreciation of currencies against INR. In 3QFY18, Emami and Marico reported positive growth of 16% and 1% respectively. While Dabur's revenues contracted by 6%.

Sector outlook and valuation

- FMCG sector has posted its slowest revenue growth at 4% CAGR in the last two years as compared to 13% CAGR in the last decade. The rural market has already had its share of challenges i.e. deficient monsoon in FY15 and FY16, low wage growth etc. It was further bruised with unprecedented events like demonet and GST. This led consumption growth dropping to its lowest in the last decade.

- Most companies are witnessing green shoots in the rural market, and we expect that govt's focus on improving rural incomes will boost consumption demand. We believe companies with a higher exposure to rural markets can surprise on growth.

- Over the last 10 years, FMCG companies have expanded gross margins by ~350bps, while EBITDA margins expanded by ~450bps. We anticipate further improvement in EBITDA margins by ~150bps over FY17-20E, led by higher revenue growth, rising premiumisation, GST-driven efficiencies and cost optimization initiatives.

- Most trade channels (including wholesale and CSD) have begun to normalise post the shock of GST implementation. We believe the sector has significant scope of mean reversion **(link)** towards its 10-year revenue CAGR of 13% (vs. 7% in 9MFY18).

Top Picks: Our pecking order is ITC, Jubilant FoodWorks, Marico and Dabur

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The sector has recovered strongly (post subdued performance in Q1FY18 owing to GST implementation) in Q2FY18 and Q3FY18. Q2FY18 growth was driven by restocking whereas Q3FY18 was driven by favourable base and improving consumer offtake

Outlook on the sector is positive as we expect 1) consumer sentiments to improve aided by strong growth in rural income 2) favourable base in the next few quarters and 3) stabilizing trade channels (wholesale & CSD)

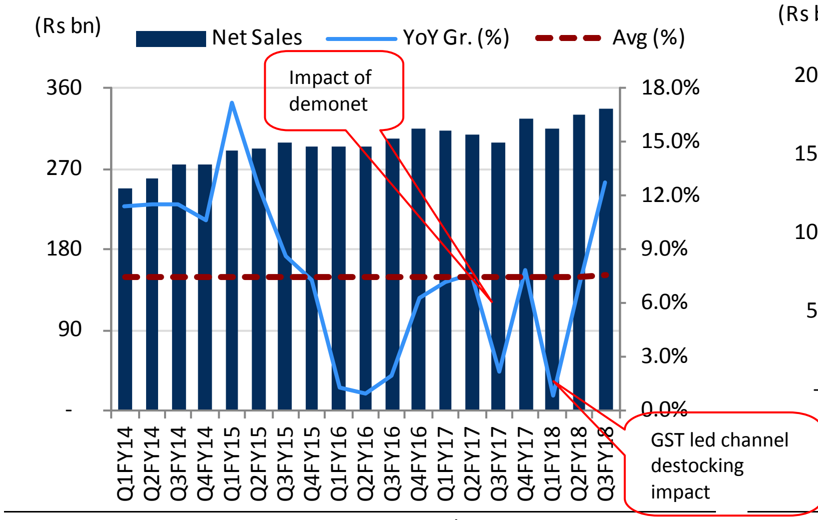
Gross margins improved during the quarter driven by soft commodity inflation and premiumisation

FMCG Universe: 3QFY18 Review

Particulars (Rs bn)						(Ex-ITC)				
	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
Net Revenues	299.9	325.8	315.6	331.0	338.0	207.4	214.5	216.1	230.5	238.4
YoY Chg. (%)	2.2%	7.9%	0.8%	7.0%	12.7%	1.3%	4.9%	1.7%	8.3%	14.9%
EBITDA	74.8	82.0	78.7	83.7	87.3	39.3	43.2	41.3	46.1	48.3
YoY Chg. (%)	1.2%	7.3%	3.2%	10.1%	16.8%	0.5%	7.1%	0.5%	15.9%	22.8%
APAT	52.6	56.5	53.7	58.7	62.5	26.1	29.8	28.1	32.3	34.4
YoY Chg. (%)	0.1%	11.0%	4.0%	9.5%	19.0%	-5.0%	10.0%	1.0%	13.0%	31.8%

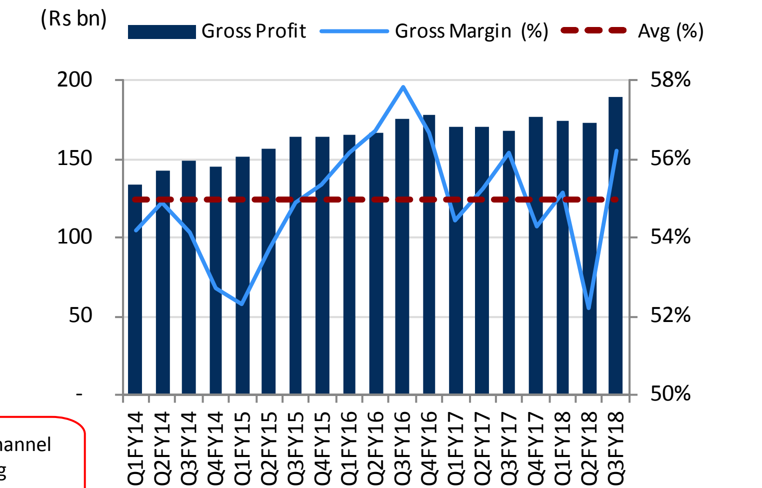
Source: Companies, HDFC sec Inst Research
Note: 1QFY16-4QFY16 growth is based on IGAAP. Revenue growth in 2Q and 3QFY18 is based on comparable basis (adjusted to GST impact)

FMCG Universe : Quarterly Revenue



Source: Companies, HDFC sec Inst Research
Note: 1QFY16-4QFY16 growth is based on IGAAP. Revenue growth in 2Q & 3QFY18 is based on comparable basis (adjusted for GST impact)

FMCG Universe : Quarterly Gross Profit

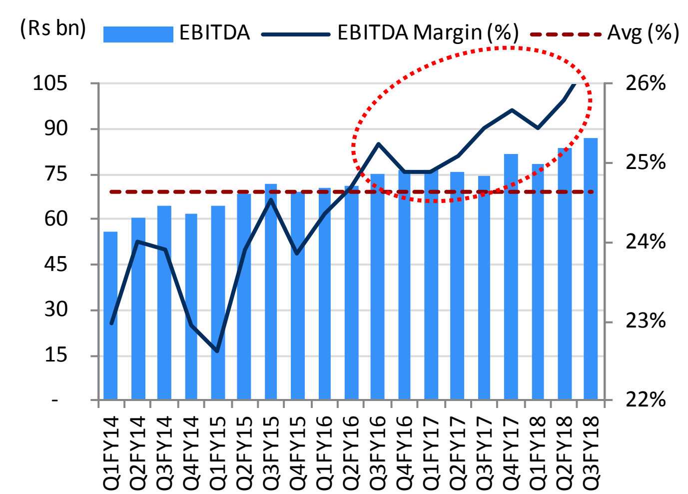


Source: Companies, HDFC sec Inst Research
Note: 1QFY16-4QFY16 margin is based on IGAAP

Note: The FMCG Universe described above comprises of our coverage stocks (ITC, HUL, GCPL, Dabur, Britannia, Marico, Colgate, Emami, Jubilant FoodWorks) and Bloomberg estimates for stocks we don't cover (Nestle, GSK Consumer, Jyothy Labs and Bajaj Corp)

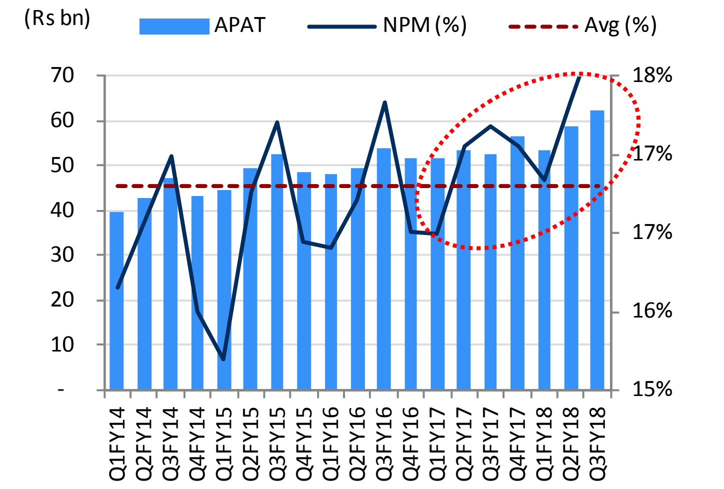
Despite pressure on gross margins in the last 2 years, FMCG companies have expanded their EBITDA margins by rationalising ASP spend and other overheads

FMCG Universe : Quarterly EBITDA



Source: Companies, HDFC sec Inst Research
Note: 1QFY16-4QFY16 margin is based on IGAAP

FMCG Universe : Quarterly APAT



Source: Companies, HDFC sec Inst Research
Note: 1QFY16-4QFY16 margin is based on IGAAP

9MFY18 performance was impacted by GST led channel destocking and decline in CSD budget. 3QFY18 performance picked up on account of improvement in rural demand and favorable base

HUL led from the front by executing GST transition smoothly, by registering strong EBITDA growth of 19% during 9MFY18

Mid-caps (Emami, Marico and Dabur) underperformed vs. HUL during 9MFY18 as 1) they have a higher dependence on wholesale channel (impacted by GST transition) and 2) weak international performance

Jubilant FoodWorks' was the standout performer in terms of EBITDA growth during 9MFY18. It was also stronger than its own past performance

9MFY18 Performance

Particulars (Rs bn)	3QFY18	3QFY17	*YoY (%)*	9MFY18	9MFY17	*YoY (%)*
Revenue						
ITC	99.5	92.5	*7.6*	299.5	289.6	*3.4*
HUL	87.9	75.1	*17.0*	256.6	231.9	*10.6*
Dabur	20.9	18.5	*13.0*	60.2	57.8	*4.2*
Britannia	25.7	22.8	*12.5*	73.8	68.1	*8.3*
Marico	16.7	14.1	*18.0*	48.9	46.1	*5.9*
Colgate	10.3	8.7	*18.2*	30.9	29.4	*5.1*
Emami	7.9	7.1	*10.0*	19.8	19.3	*2.1*
Jubilant Food	8.0	6.6	*20.7*	22.0	19.3	*13.8*
EBITDA						
ITC	39.0	35.5	*10.1*	114.1	107.0	*6.6*
HUL	16.8	13.5	*24.0*	52.3	43.9	*19.0*
Dabur	4.0	3.3	*20.8*	11.3	10.9	*3.7*
Britannia	4.0	3.1	*27.5*	11.0	9.7	*14.1*
Marico	3.0	2.7	*10.7*	8.9	9.0	*(1.6)*
Colgate	2.8	2.1	*31.9*	8.0	7.0	*15.0*
Emami	2.6	2.6	*2.4*	5.5	5.8	*(6.2)*
Jubilant Food	1.4	0.6	*113.7*	3.2	1.9	*71.2*
APAT						
ITC	30.9	26.5	*16.8*	82.9	75.3	*10.1*
HUL	12.0	9.3	*28.7*	37.4	31.4	*19.2*
Dabur	3.3	2.9	*13.0*	9.7	9.5	*2.8*
Britannia	2.6	2.2	*19.5*	7.4	6.7	*9.9*
Marico	2.2	1.9	*16.7*	6.4	6.4	*0.6*
Colgate	1.7	1.3	*33.5*	4.8	4.3	*11.4*
Emami	2.0	1.9	*3.7*	3.9	4.1	*(5.1)*
Jubilant Food	0.7	0.2	*230.4*	1.4	0.6	*131.4*

Source:Companies, HDFC sec Inst Research

In Personal Products, HUL was the consistent performer. The co. continued to enjoy premiumisation

In Hair Care, consumers migrated towards value products (coconut oil) during 9MFY18 inspite of price hikes, reflecting weak consumer sentiments

In home care, GCPL has performed well during 9MFY18

In F&B, Britannia continues to perform consistently inspite of several headwinds

QSR category reported healthy growth as all players realigned their strategy to profitable growth instead of aggressive growth

Domestic Performance Review

Domestic Value Growth (YoY)

Categories	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	FY13	FY14	FY15	FY16	FY17
Personal Products																	
HUL (FMCG Business)	9%	5%	5%	3%	3%	4%	1%	-1%	7%	5%	10%	17%	12%	9%	10%	4%	3%
Colgate - Overall	11%	6%	4%	2%	7%	9%	10%	-9%	2%	-3%	3%	19%	17%	13%	11%	5%	3%
Dabur - Overall	12%	12%	9%	-3%	9%	1%	2%	-7%	1%	5%	11%	18%	15%	14%	13%	7%	0%
Emami - Overall	21%	23%	20%	14%	23%	21%	14%	3%	3%	-16%	14%	10%	5%	5%	19%	20%	10%
Bajaj Corp. - Nomarks	58%	-46%	-41%	-25%	-51%	-16%	-21%	-48%	-14%	-5%	-2%	-22%			258%	-34%	-26%
Hair Care																	
Bajaj Corp. - Almond Drop Hair Oil	28%	16%	11%	4%	0%	3%	5%	-10%	-2%	-3%	4%	14%	30%	9%	17%	7%	-1%
Bajaj Corp. - Brahmi Amla Hair Oil	86%	34%	50%	-14%	-15%	-12%	-4%	-16%	-10%	-17%	28%	76%				776%	-35%
Marico - FMCG	17%	12%	4%	7%	4%	-1%	-3%	-9%	6%	-4%	12%	19%	18%	8%	26%	7%	-2%
Marico - Parachute Coconut Oil	34%	16%	9%	-1%	-5%	-12%	-19%	-12%	11%	3%	26%	41%	11%	4%	44%	5%	-9%
Marico -VAHO	14%	19%	9%	20%	12%	9%	11%	-13%	9%	-7%	12%	7%	29%	17%	25%	16%	4%
Home Care																	
GCPL - Branded Biz	10%	12%	9%	8%	7%	-1%	8%	0%	2%	5%	11%	17%	20%	14%	9%	9%	2%
Jyothy Labs - Overall	11%	7%	9%	7%	11%	8%	6%	3%	4%	-16%	10%	16%	-1%	20%	14%	9%	6%
F&B																	
Britannia Industries - Domestic	14%	13%	12%	10%	7%	9%	11%	6%	5%	6%	7%	13%	13%	12%	14%	10%	8%
Marico - Saffola	3%	7%	4%	15%	14%	11%	10%	7%	3%	-8%	1%	-4%	12%	7%	11%	10%	8%
QSR																	
Jubilant FoodWorks	25%	20%	17%	14%	14%	7%	13%	4%	-1%	11%	9%	21%	38%	22%	20%	16%	6%
Westlife Development		3%	8%	8%	18%	11%	16%	15%	6%	14%	13%	26%	25%	8%	3%	12%	12%
Pizza Hut*	1%	0%	-9%	-9%	-6%	-7%	6%	9%	6%	8%	7%	18%	29%	20%	14%	-5%	1%
KFC*					-1%	-1%	13%	16%	2%	9%	8%	18%					7%
Others																	
ITC-Cig	1%	-1%	2%	6%	10%	6%	7%	2%	5%	7%	2%	5%	17%	12%	11%	4%	5%

*System sales growth (constant currency revenue growth)
Source:Companies, HDFC sec Inst Research

In Personal Products, HUL outperformed during 9MFY18 inspite of a healthier base

Colgate continued to disappoint as it was not even able to deliver its Q3FY16 volume in Q3FY18

Emami disappointed the street by reporting mid-single digit volume growth in Q3FY18

In Hair Care, all players had seen volume contraction in Q1FY18 (due to higher wholesale channel dependence). Recovery in Q2FY18 and Q3FY18 is encouraging

ITC's cig. volume growth had recovered in FY17 but was bruised during 9MFY18 by higher taxes (GST)

Domestic Volume Growth (YoY)

Categories	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	FY13	FY14	FY15	FY16	FY17
Personal Products																	
HUL	6%	6%	7%	6%	4%	4%	-1%	-4%	4%	0%	4%	11%	7%	4%	5%	6%	1%
Colgate	5%	3%	3%	1%	6%	6%	4%	-12%	-3%	-5%	-1%	12%	11%	9%	5%	4%	-2%
Dabur	8%	8%	5%	-3%	7%	4%	5%	-5%	2%	-4%	7%	13%	8%	11%	9%	8%	4%
Emami	13%	15%	14%	9%	18%	17%	11%	0%	-2%	-18%	10%	6%	12%	15%	1%	13%	14%
Bajaj Corp. - Nomarks	39%	-31%	-25%	-16%	-54%	-27%	-34%	-36%	-2%	-15%	-7%	-7%				16%	-12%
Hair Care																	
Bajaj Corp. - Almond Drop Hair Oil	24%	11%	6%	1%	-4%	2%	2%	-4%	-7%	-7%	6%	5%	22%	5%	11%	3%	-2%
Bajaj Corp. - Brahmi Amla Hair Oil	76%	46%	64%	-14%	-7%	-16%	-8%	-10%	-13%	-20%	28%	75%	-11%	-21%	30%	16%	-12%
Marico - FMCG	3%	6%	6%	11%	8%	8%	3%	-4%	10%	-9%	8%	9%	16%	6%	6%	7%	4%
Marico - Parachute Coconut Oil	5%	8%	11%	4%	6%	7%	-6%	-1%	15%	-9%	12%	15%	10%	4%	6%	7%	4%
Marico -VAHO	5%	14%	8%	21%	11%	9%	11%	-12%	10%	-8%	12%	8%	24%	11%	10%	14%	4%
Home Care																	
GCPL - Branded Biz	8%	13%	9%	9%	6%	3%	9%	-3%	5%	0%	10%	18%	na	na	8%	9%	4%
Jyothy Labs	9%	6%	9%	9%	14%	10%	8%	4%	5%	-15%	4%	12%	na	15%	10%	9%	7%
F&B																	
Britannia Industries - Domestic	8%	10%	12%	11%	10%	8%	8%	2%	2%	3%	6%	12%	na	2%	8%	11%	5%
Marico - Saffola	-1%	4%	4%	17%	13%	11%	8%	6%	6%	-9%	3%	0%	7%	9%	6%	9%	8%
QSR																	
Jubilant FoodWorks - SSG	7%	5%	3%	2%	3%	-3%	4%	-3%	-8%	7%	6%	18%	16%	2%	0%	3%	-2%
Westlife Development		-5%	2%	3%	8%	3%	7%	5%	1%	9%	8%	21%	6%	-6%	-6%	2%	4%
Pizza Hut*	1%	0%	-9%	-9%	-6%	-7%	6%	9%	6%	8%	7%	18%	29%	20%	14%	-5%	1%
KFC*					-1%	-1%	13%	16%	2%	9%	8%	18%					7%
Others																	
ITC-Cig	-17%	-17%	-15%	-4%	1%	3%	4%	-1%	-1%	1%	-6%	-4%	-1%	-2%	-9%	-9%	1%

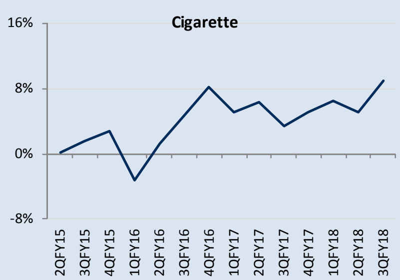
*System sales growth

Source:Companies, HDFC sec Inst Research

We have grouped companies' performance based on their respective categories to compare like-to-like performance. We also computed weighted average growth (based on revenue) for each category

Even during turbulent market conditions (LTM) categories like Personal Care, QSR, F&B and Home care registered growth of ~10%. Whereas laggards were Oral care, OTC FMCG and Cigarette which grew at ~6%

Cigarette Weighted Avg. YoY Gr.



Category Insights

Category Revenue Growth (%)

YoY Gr. (%)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	Last 4 Qtr Avg.	FY15	FY16	FY17	5 Yr Avg. (%)
Cigarette	8%	5%	6%	3%	5%	6%	5%	9%	6%	11%	3%	5%	9%
F&B	3%	10%	18%	11%	7%	6%	8%	13%	9%	11%	0%	9%	9%
Personal Care	5%	3%	0%	-3%	9%	3%	10%	20%	10%	12%	7%	4%	9%
Home Care	4%	4%	6%	1%	6%	4%	11%	15%	9%	10%	3%	7%	10%
OTC FMCG	-4%	-3%	4%	-11%	2%	-1%	5%	18%	6%	-3%	2%	-2%	7%
Hair Care	4%	3%	-1%	-11%	5%	-5%	11%	20%	8%	24%	8%	0%	12%
Oral Care	7%	6%	7%	-8%	3%	-1%	8%	19%	7%	11%	5%	3%	10%
QSR	14%	7%	13%	6%	0%	10%	9%	20%	10%	16%	14%	6%	17%

Note: Category growth is based on weighted average growth (YoY) of players

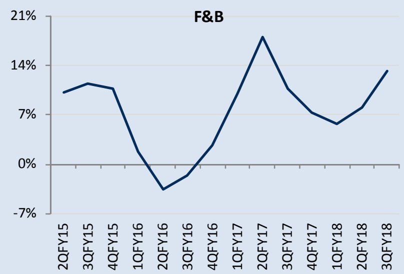
Cigarette

- During the quarter ITC's cigarette revenues grew merely ~5%, impacted by ~4% volume contraction due to higher indirect tax incidence. The price hike of 10-11% was not fully visible since <64mm cigarette had higher share. Cigarette volume pressure was across cigarette sizes.
- Godfrey Phillips posted strong growth during the last two quarters.
- Cigarette industry heaved a sigh of relief after six years with no tax hikes during the budget, the street will now track GST council meets for any tax hikes.
- **Our View:** Cigarette industry has been penalised by punitive taxes globally and in India. In India, legal cigarette contributes only 11% of total tobacco consumption but its contribution to tax revenues is at 87%. To control tobacco consumption, Govt. has focused on cigarette consumption rather than other tobacco products (like beedi). ITC has lion's market share in cigarette industry with >80% share. Contrary to general belief, inspite of punitive taxes, this category has grown at mid-single digits during the last 5 years. No significant impact owing to demonet and the GST transition. Govt. stated that GST would be neutral for cigarettes; instead, they increased the cess on cigarettes in July resulting in higher taxes. We expect ITC's cigarette business to grow in high single digit in value terms.

Revenue Gr. (%)	Brands		2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	Avg. 4 Qtr
ITC	Cigarette	Gold Flake, Classic, Wills	1%	3%	1%	-1%	2%	6%	10%	6%	7%	2%	5%	7%	2%	5%	5%
Godfrey Phillips	Cigarette	Marlboro	-5%	-18%	27%	-17%	-1%	-3%	-12%	-13%	-1%	12%	14%	11%	32%	43%	25%
VST	Cigarette	Charms, Charminar, Gold, Moments, Zaffran	-3%	-7%	16%	-11%	0%	10%	23%	33%	13%	8%	-18%	-16%	-2%	4%	-8%
Weighted Avg Gr. (%)			**0%**	**2%**	**3%**	**-3%**	**1%**	**5%**	**8%**	**5%**	**6%**	**3%**	**5%**	**6%**	**5%**	**9%**	**6%**

Source:Companies, HDFC sec Inst Research

F&B Weighted Avg. YoY Gr.



F&B

- Large packaged food players like BRIT, Nestle & HUL continue to deliver healthy growth even during turbulent market conditions by leveraging on their strong product portfolios and distribution reach (improving direct reach). Nestle and HUL posted strong 18% growth.
- The biscuit category for the industry grew in single digits during Q3FY18 with BRIT reporting 15% domestic growth resulting in market share gains in the premium segment
- With significant profitability expansion in the last 5 years, BRIT now realigns its focus on aggressive product launches (50 new products in the next 15-18 months)
- Dabur's juice segment reported flat growth in Q3FY18 (strong base and preponement of festive season) with better pricing discipline (~460bps expansion in EBIT).
- **Our View:** Organised packaged F&B industry is ~Rs 2.5-3tn, with Dairy and Baked products contributing 50% of the total market. F&B industry is fragmented in nature, and accounts for the largest share in the FMCG market. Nestle and Britannia (~6% of total market) are the largest packaged food companies. Food processing is one of the top 10 sectors under the Govt's 'Make in India' 2.0 campaign. We expect long term growth story for dairy, biscuits, confectionery and savory snacks.

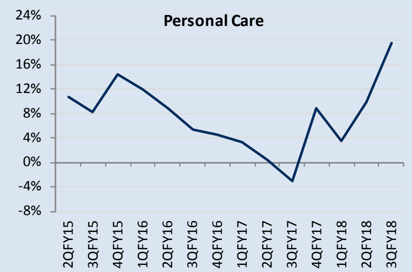
Revenue Gr. (%)	Category	Brands	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	Avg. 4 Qtr
Britannia	Biscuits	Good Day, Pure Magic, Bourbon, Nice Time, Tiger	12%	13%	14%	13%	12%	10%	7%	9%	11%	6%	5%	6%	7%	13%	8%
Nestle	Food	Nestle, Maggi, Nescafe, Cerelac, Kitkat	9%	12%	8%	-20%	-32%	-23%	-9%	15%	36%	16%	9%	7%	9%	18%	11%
HUL	Food	Kissan, Knorr	13%	13%	14%	12%	12%	12%	12%	5%	2%	0%	2%	4%	11%	18%	9%
HUL	Refreshment	Lipton, Magnum, Red Label, Bru, Kwality Walls	8%	8%	12%	9%	6%	7%	6%	5%	8%	8%	11%	11%	10%	13%	11%
Marico	Edible oil	Saffola	18%	9%	3%	7%	4%	15%	14%	11%	10%	7%	3%	-8%	1%	-4%	-2%
Dabur	Juice	Real, Active	8%	11%	12%	16%	2%	-24%	12%	4%	15%	52%	10%	-8%	12%	0%	3%
Agro Tech	Popcorn, Edible Oil	Act II, Sundrop	1%	-1%	-1%	1%	1%	4%	7%	6%	1%	3%	4%	-4%	-2%	3%	0%
Weighted Avg Gr. (%)			**10%**	**11%**	**11%**	**2%**	**-4%**	**-2%**	**3%**	**10%**	**18%**	**11%**	**7%**	**6%**	**8%**	**13%**	**9%**

Source:Companies, HDFC sec Inst Research

Personal Care

- PC category has remained buoyant during weak consumer demand and disruptive trade channels. HUL witnessed robust growth during Q3FY18 however reported only 9% EBIT growth as they continued to invest behind new launches (Ayush, Indulekha, Citra etc).
- HUL's Indulekha has performed better than mgt's initial estimates, they plan to launch shampoo
- Emami's Boroplus registered healthy 10% growth in 3QFY18 despite clocking strong ~40% growth in 1HFY18.
- GCPL reported 24% growth in soaps driven by Godrej No1 with continued market share gains.
- **Our View:** The Personal Care category is largely constituted by Skin Care and Soaps. HUL is the leader in this market, with its leading brands in Soaps, Skin Care, Hair Care and Makeup. Soaps which already had a high penetration have benefited from premiumisation, while growth in Skin Care was driven by both penetration and premiumisation.
- We believe personal care market would continue to be driven by 1) higher consumption of skin care, cosmetics and deodorants products, 2) improvement in penetration (immense potential for liquid wash), 3) improving mix of modern trade & E-commerce channel, 4) continued premiumisation in soaps and shampoos and 5) Digital marketing. HUL will be the key beneficiaries of growth acceleration in the personal care segment.

Personal Care Weighted Avg. YoY Gr.



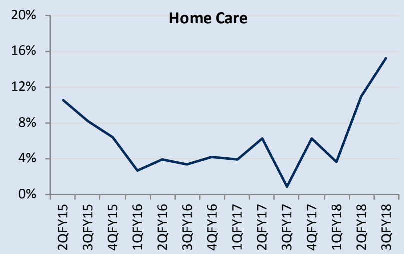
Revenue Gr. (%)	Category	Brands	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	Avg. 4 Qtr
HUL	Skin, Soaps, Shampoo, Oral care	Dove, Liril, Lakme, Close-up, Pepsodent	10%	7%	13%	11%	9%	6%	3%	2%	0%	-3%	8%	3%	8%	17%	9%
Dabur	Skin	Gulabari, Fem, Oxylife	8%	9%	8%	5%	2%	10%	0%	-2%	7%	-11%	0%	4%	16%	15%	9%
Emami	Skin	Boroplus	14%	19%	43%	12%	16%	2%	41%	38%	16%	13%	2%	41%	38%	10%	23%
Gillette	Shaving Cream/Blades/Toiletries	Gillette	13%	13%	9%	15%	9%	9%	15%	5%	12%	-9%	23%	-16%	1%	15%	6%
GCPL	Soaps	Cinthol, Godrej No.1	13%	11%	15%	13%	3%	2%	-6%	1%	-10%	-6%	9%	7%	26%	24%	17%
Weighted Avg Gr. (%)			**11%**	**8%**	**14%**	**12%**	**9%**	**5%**	**5%**	**3%**	**0%**	**-3%**	**9%**	**3%**	**10%**	**17%**	**10%**

Source:Companies, HDFC sec Inst Research

Home Care

- HUL's home care performance has been holistic from a brand point of view and from a channel point of view. The co. continued to enjoy premiumisation resulting in 51% EBIT growth during the quarter.
- Mosquito repellants market performance was weak during the quarter for all players (GCPL, Dabur & Jyothy) due to early onset of winter and heavy reliance on wholesale channel (bruised post GST implementation).
- **Our View:** Home Care market size is ~Rs 200bn out of which detergent contributes ~75%. Detergent market is enjoying premiumisation and HUL (~40% market share) is the primary beneficiary.
- 1) Detergents - Premium detergent is 3x in terms of pricing and 1/4th in terms of market size as compared to mass products. We see significant scope for growing washing machine penetration. Hence, we believe that premiumisation in detergents has significant scope.
- 2) Dish-wash - We believe consumers would continue to shift towards liquid wash in the coming years. With improving penetration, higher share of liquid dishwash and shift from unconventional (ash, mud) to conventional methods in rural market, would continue to maintain healthy growth in coming years.
- 3) HI - Mosquito repellent players have launched innovative products in the premium category. Mosquito repellents' penetration is <30% in rural areas, as they substitute with natural remedies. However, with lower price points and innovative products (Rs 1 per card), penetration is set to rise.

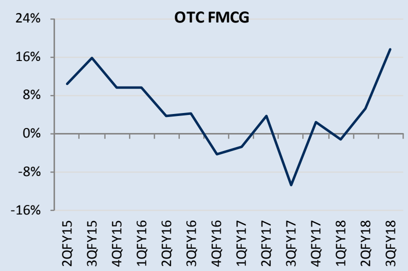
Home Care Weighted Avg. YoY Gr.



Revenue Gr. (%)	Category	Brands	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	Avg. 4 Qtr
HUL	Detergent, Dishwash	Surf, Rin, Wheel, Vim	11%	6%	5%	0%	2%	1%	2%	7%	3%	1%	7%	6%	13%	20%	12%
GCPL	HI	GoodKnight	2%	16%	11%	15%	13%	15%	10%	-11%	18%	-2%	4%	4%	4%	5%	4%
Dabur	HI	Odonil, Odomos, Sanifresh	29%	12%	20%	12%	12%	8%	19%	2%	20%	5%	-7%	6%	10%	36%	11%
Jyothy	Fabric Care	Ujala whitener, Henko detergent, Mr. White, Ujala Detergent	14%	13%	7%	5%	12%	1%	13%	11%	3%	10%	8%	-15%	4%	18%	4%
Jyothy	Dishwashing	Pril, Exo	17%	14%	16%	18%	10%	9%	12%	10%	15%	3%	4%	-14%	12%	19%	5%
Jyothy	Mosquito Repellent	Maxo	6%	48%	16%	-2%	14%	32%	18%	-11%	8%	-15%	-6%	-19%	3%	-10%	-8%
Weighted Avg Gr. (%)			**11%**	**8%**	**6%**	**3%**	**4%**	**3%**	**4%**	**4%**	**6%**	**1%**	**6%**	**4%**	**11%**	**17%**	**10%**

Source:Companies, HDFC sec Inst Research

OTC FMCG Weighted Avg. YoY Gr.



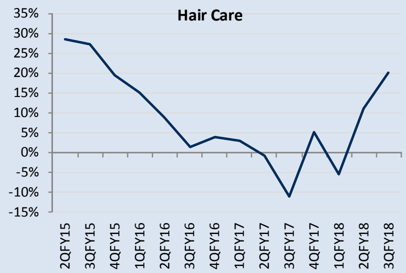
OTC FMCG

- Overall OTC category has had a subdued performance in the last 2 years, which raises questions on the quality of the products or distribution strategy.
- On the brighter side, Dabur's honey has been able recover its lost ground (Patanjali) by growing 33% during the quarter (40% ex-CSD). Dabur's Chywanprash had a decent show (12.2% growth, ex-CSD 20%) during a not so great winter in the North.
- Balm's as a category has faced volume pressure along with input cost inflation (high Menthol inflation) as a result companies have not been able to pass on input costs inflation.
- GSK returned to double digit growth after several quarters driven by favourable base and strong volume growth in sachets. The company is strategizing on investing behind existing brands (22% growth during the quarter) and product launches (protein supplements for adults).
- **Our View:** OTC FMCG is ~Rs 100bn market with major contribution from malted food drink ~60% (driven by MNC players). Other segments in OTC FMCG are Balm, Honey, Chywanprash and Health Supplements that are dominated by Dabur, Emami and Patanjali.
- We believe that OTC market has strong growth potential. Dabur, Emami both are trying to develop the market and despite disruption created by Patanjali, both the players have settled their performance now. Digital marketing and better traction from E-commerce and MT channels will continue to support the category growth.

Revenue Gr. (%)	Category	Brands	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	Avg. 4 Qtr
Dabur	OTC	Dabur Lal Tail, Honitus, Dasmularisht	10%	14%	13%	17%	11%	8%	7%	-10%	-9%	-11%	-4%	-7%	6%	9%	1%
Dabur	Health Suppl.	Dabur Honey, Chywanprash	10%	14%	13%	1%	9%	7%	-6%	0%	-6%	-14%	5%	-7%	3%	20%	5%
Emami	Digestive	Pancharishta, Nityam Churna	29%	18%	24%	28%	45%	25%	30%	14%	0%	-6%	-11%	-23%	2%	-3%	-9%
Emami	Balm	Zandu, Mentho Plus	12%	15%	10%	27%	3%	10%	12%	6%	19%	-5%	1%	-21%	15%	17%	3%
Amrutanjan	Balm	Amrutanjan	21%	17%	8%	15%	11%	13%	15%	23%	23%	7%	16%	-10%	0%	12%	5%
GSK	Malted Foods	Horlicks, Boost	10%	17%	9%	8%	1%	2%	-9%	-5%	4%	-11%	2%	4%	5%	19%	8%
Weighted Avg Gr. (%)			**10%**	**16%**	**10%**	**10%**	**4%**	**4%**	**-4%**	**-3%**	**4%**	**-11%**	**2%**	**-1%**	**5%**	**18%**	**6%**

Source:Companies, HDFC sec Inst Research

Hair Care Weighted Avg. YoY Gr.



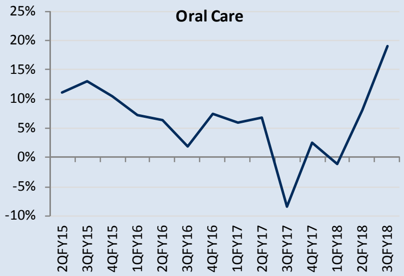
Hair Care

- During 9MFY18 LHO market (5% volume growth) has underperformed vs. Ex-LHO Hair Oil market (10% volume). Weak consumption dynamics led to migration towards value products (coconut & amla oil). As a result Parachute reported strong value & volume growth inspite of high copra inflation.
- Marico's VAHO portfolio has grown more or less in-line with LHO industry during 9MFY18.
- Bajaj Corp's ADHO continued to gain market share (~110bps expansion to 61%) during the quarter.
- Despite wholesale channel normalizing for most peers, Emami could not revive Kesh King (~10% of revenues). Kesh King (wholesale 70%) contracted by steep ~20% during 9MFY18.
- **Our View:** The size of the Hair Care market is ~Rs 200bn, It is dominated by Hair Oil, which comprises ~50% of the Hair Care market, followed by Shampoo 30%, Hair Dyes ~17% and Hair Conditioner ~3%. Hair care has had a terrible run in the last 2 years. However, we are seeing initial signs of recovery in the last 2 quarters primarily driven by coconut oil, inspite of high copra inflation (consumption has migrated to value products). We believe that as consumption demand continues to improve in the next few quarters premiumisiation will return in hair oils.

Revenue Gr. (%)	Category	Brands	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	Avg. 4 Qtr
Marico	Coconut	Parachute Coconut Oil (Rigid Pack)	55%	48%	34%	16%	9%	-1%	-5%	-12%	-19%	-12%	11%	3%	26%	41%	20%
Marico	VAHO	Hair Care, Nihar	33%	25%	14%	19%	9%	20%	12%	9%	11%	-13%	9%	-7%	12%	7%	5%
Bajaj Corp	LHO	Almond Drop	10%	25%	28%	16%	11%	4%	0%	3%	5%	-10%	-2%	-3%	4%	14%	3%
Dabur	Hair Oil/Shampoo	Dabur Amla, Almond, Vatika	14%	12%	7%	13%	9%	-11%	10%	1%	-5%	-20%	-4%	-11%	2%	17%	1%
Emami	Hair Oil	Navratana	22%	27%	14%	17%	0%	-6%	4%	8%	-3%	-4%	5%	-15%	16%	15%	5%
Emami	Hair Oil	Kesh King								50%	50%	2%	1%	-28%	-16%	-19%	-16%
GCPL	Hair Colors	Godrej	9%	10%	12%	12%	17%	-1%	7%	4%	0%	-2%	13%	5%	4%	33%	14%
Weighted Avg Gr. (%)			**29%**	**27%**	**20%**	**15%**	**9%**	**2%**	**4%**	**3%**	**-1%**	**-11%**	**5%**	**-5%**	**11%**	**20%**	**8%**

Source: Companies, HDFC sec Inst Research

Oral Care Weighted Avg. YoY Gr.



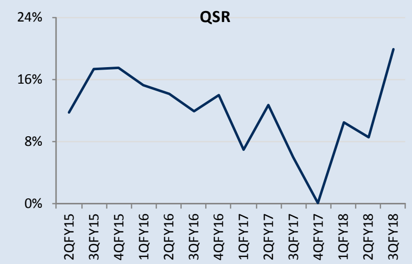
Oral Care

- Market leaders i.e. Colgate and HUL (combined contribute ~70% market share) continued to chug along as they lost market share to Dabur & Patanjali. Colgate was not even able to deliver its Dec-15 volumes in Dec-17 quarter.
- Dabur has surprised us with ~14% value growth vs. 7% value growth for the category during the last 1 year.
- **Our View:** Consumer preference has tilted towards herbal/ayurvedic toothpastes. Dabur has been consistently gaining market share in the past several quarters, and is in the low teens currently. We believe that base benefit, stabilising wholesale channel and GST would result in higher category growth in the coming quarters. We remain optimistic about Dabur's oral care growth in the coming quarters, particularly with improving rural demand. We would also like to track HUL's success with Lever Ayush toothpaste, as it received strong initial consumer response.

Rev. Gr. (%)	Category	Brands	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	Avg. 4 Qtr
Colgate	Oral Care	Colgate	11%	12%	11%	6%	4%	2%	7%	9%	10%	-9%	2%	-3%	3%	19%	5%
Dabur	Oral Care	Red, Meswak, Babool	8%	11%	12%	18%	19%	11%	18%	12%	0%	-5%	9%	2%	23%	23%	14%
Gillette	Oral Care	Oral B	15%	26%	6%	5%	7%	-16%	-9%	-38%	-6%	-15%	-8%	20%	35%	15%	15%
Weighted Avg Gr. (%)			**11%**	**13%**	**11%**	**7%**	**6%**	**2%**	**7%**	**6%**	**7%**	**-8%**	**3%**	**-1%**	**8%**	**19%**	**7%**

Source: Companies, HDFC sec Inst Research

QSR Weighted Avg. YoY Gr.



QSR

- Jubilant Foodworks strong SSG growth of 17.8% (-3.3% in 3QFY17 and 5.5% in 2QFY18) was driven mostly by volume and 6-7% price hike (Nov-17) post the GST rate revision. Co has seen a strong consumer response on its new offer (Everyday Value) and pizza upgrade.
- Westlife Developers are enjoying a great run in the last 2 years led by focus on profitable expansion and successful product launches.
- **Our View:** QSR industry is ~Rs 100bn in India. Most of the QSR players initially focused on aggressive store expansion. Once the key pockets were saturated most of the players began to struggle with SSG. Now most of the players have shifted their focus to profitable store expansion and product innovation. This turnaround can be seen with Jubilant FoodWorks, Pizza Hut and KFC who began to report healthy SSG growth.
- Growth rates have started recovering in the last 3 quarters after a lull show in FY17. We believe the space still has untapped potential to grow at ~20% for the coming years led by 1) favorable demographics (increased youth population, nuclear family & more working women), 2) changing consumer preferences – widening exposure to new cultures & cuisines and digitization and 3) higher disposable income.

Revenue Gr. (%)	Category	Brands	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	Avg. 4 Qtr
Jubilant FoodWorks	QSR	Dominos'	15%	21%	25%	20%	17%	14%	14%	7%	13%	4%	-1%	11%	9%	21%	10%
Westlife Developers	QSR	Mc'D	2%	9%	1%	3%	8%	8%	18%	11%	16%	15%	6%	14%	13%	26%	15%
Speciality Restaurant	QSR	Mainland China, Bengal Sweet	17%	11%	9%	14%	6%	5%	5%	-2%	0%	-1%	-8%	-8%	-9%	-5%	-8%
Weighted Avg Gr. (%)			**12%**	**17%**	**18%**	**15%**	**14%**	**12%**	**14%**	**7%**	**13%**	**6%**	**0%**	**10%**	**9%**	**20%**	**10%**

Source: Companies, HDFC sec Inst Research

Commodity prices for beverages have declined on a YoY basis barring Tea

Key commodity prices for packaged food like wheat, milk, cooking oil have been benign

Copra prices have risen 54% YoY – we expect prices to peak in Apr'18 as copra prices generally follow an 18 months cycle

Mentha oil prices have risen steeply by 35% on a YoY basis but started falling MoM and QoQ

Crude oil started heading up but appreciating INR is supporting the domestic manufacturers

Packaging input costs have been benign

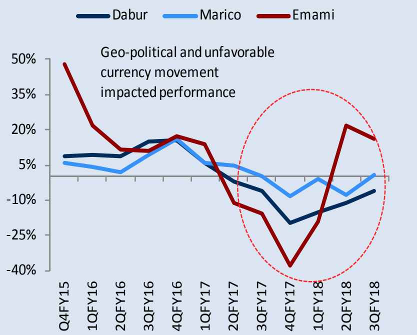
Commodity Trend

Commodities	Unit	MoM Change	QoQ Change	YoY Change	Categories Impacted	Companies Impacted
Beverages						
India Tea	INR/KG	-	19	39	Tea	HUL
Coffee Arabica	$/lb	(2)	(6)	(23)	Coffee	HUL
Cocoa Beans	USD/MT	11	0	2		Nestle
Liquid Milk	INR/LTR	9	6	(19)	Dairy	Jubilant Foodwork, Britannia, Nestle, GSKCHL
Fruit Pulp	WPI Index	(1)	-	(4)	Fruit Juice	ITC, HUL, Dabur, Britannia
Agri Commodities						
Wheat India	INR/Quintal	0	(1)	(5)	Biscuits	Britannia, ITC, Nestle, GSKCHL
Barley	INR/Quintal	(2)	(3)	(4)	HFD	GSKCHL
Maize (Corn)	INR/MT	3	(0)	(1)	Oral Care	Colgate, HUL, Dabur
Copra	INR/QUINTAL	2	8	54	Hair oil	Marico, Dabur
Sun Flower Oil	Rs/10KG	4	6	(4)	Cooking Oil	Marico
Sugar India	INR/100kg	4	(8)	(13)	F&B	HUL, Nestle, ITC, Dabur, Britannia, GSKCHL
Amla	WPI Index	13	1	25	Hair oil	Dabur, Marico, Bajaj Corp
Oil Commodities						
Brent Oil	INR/BBL	(3)	3	12	Universe	HUL, GCPL, Jyothy Labs
Palm Oil	INR/MT	5	(0)	(2)	Personal Wash	HUL, GCPL, Jyothy Labs
Rice Bran Oil	INR/10KG	4	8	28	Cooking Oil	Marico
Crude Oil	IND/Barrel	(2)	6	8	Universe	HUL, GCPL, Jyothy Labs
Mentha Oil	INR/kg	(15)	(21)	35	Hair oil	Emami, Colgate, HUL, Dabur
LLP	(Rs/Lt)	3	21	31	Hair oil	Bajaj Corp, Marico Emami, Dabur
Packaging Commodities						
HDPE (High Density Polyethylene)	WPI Index	-	(2)	(4)	Packaging	Entire Universe
Miscellaneous						
Caustic Soda	INR/50kg	-	3	20	Personal Wash	HUL, GCPL, Jyothy Labs
Linear Alkyl Benzene	WPI Index	-	4	6	Detergents	HUL

Source: Bloomberg, Marico, HDFC sec Inst Research

International Performance Review

International Revenue Growth (%)



Source: Companies, HDFC sec Inst Research

Dabur, Marico and Emami's international venture has significantly underperformed since the last 6-7 quarters primarily due to 1) Geo-political tension in MENA region 2) Low crude oil prices and 3) Depreciation of currencies against INR

We expect international business to improve owing to improving cc growth, recovering consumer confidence index for key geographies and favorable currency base

International Performance

Companies	Reported Revenue Growth												Reported Revenue Growth (YoY %)				
	Q4 FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	FY13	FY14	FY15	FY16	FY17
Dabur	9%	9%	9%	15%	16%	6%	-2%	-6%	-20%	-15%	-11%	-6%	22%	22%	8%	12%	-5%
Marico	6%	4%	2%	9%	16%	6%	5%	0%	-8%	-1%	-8%	1%	8%	16%	10%	7%	1%
Emami	48%	22%	12%	11%	17%	14%	-11%	-16%	-38%	-19%	22%	16%	-5%	23%	44%	15%	-16%

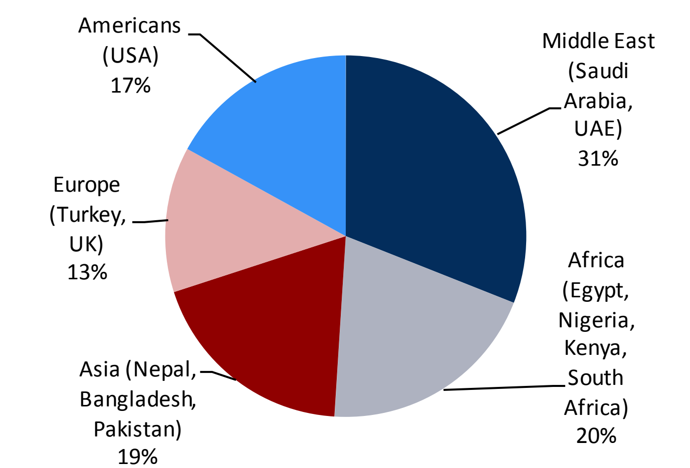
Source: Companies, HDFC sec Inst Research

International Presence

Companies	International Revenue (Rs mn)					International Revenue (% of total)					YoY Growth (Reported)				
	FY16	FY17	FY18E	FY19E	FY20E	FY16	FY17	FY18E	FY19E	FY20E	FY16	FY17	FY18E	FY19E	FY20E
Dabur	24,903	23,813	23,348	26,611	30,336	32%	30%	30%	30%	30%	12%	-5%	-1%	14%	14%
Marico	13,760	13,560	13,432	15,447	17,610	22%	22%	20%	20%	20%	7%	1%	-1%	15%	14%
Emami	3,356	2,761	2,903	3,328	3,816	14%	11%	11%	11%	11%	15%	-16%	5%	15%	15%
Britannia	5,700	4,912	5,305	6,047	6,894	7%	5%	5%	5%	5%	28%	-14%	8%	14%	14%

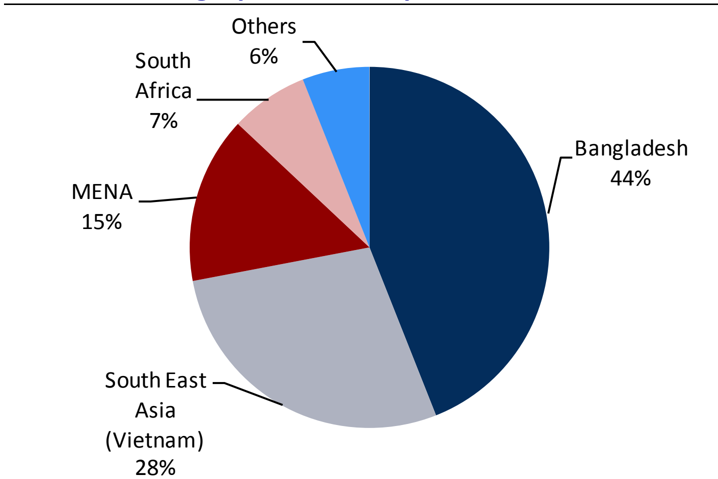
Source: Companies, HDFC sec Inst Research

Dabur's Geographic Break-up



Source: Company, HDFC sec Inst Research

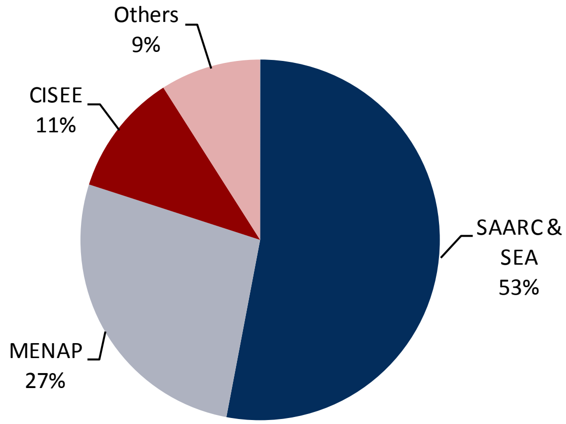
Marico's Geographic Break-up



Source: Company, HDFC sec Inst Research

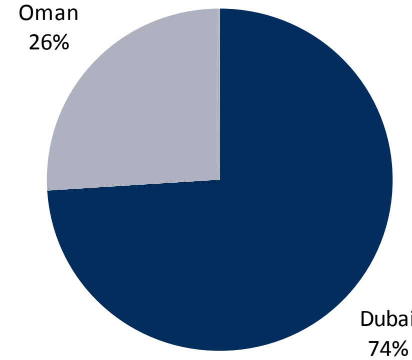
Currency depreciation pressure are softening in most geographies

Emami's Geographical Breakup



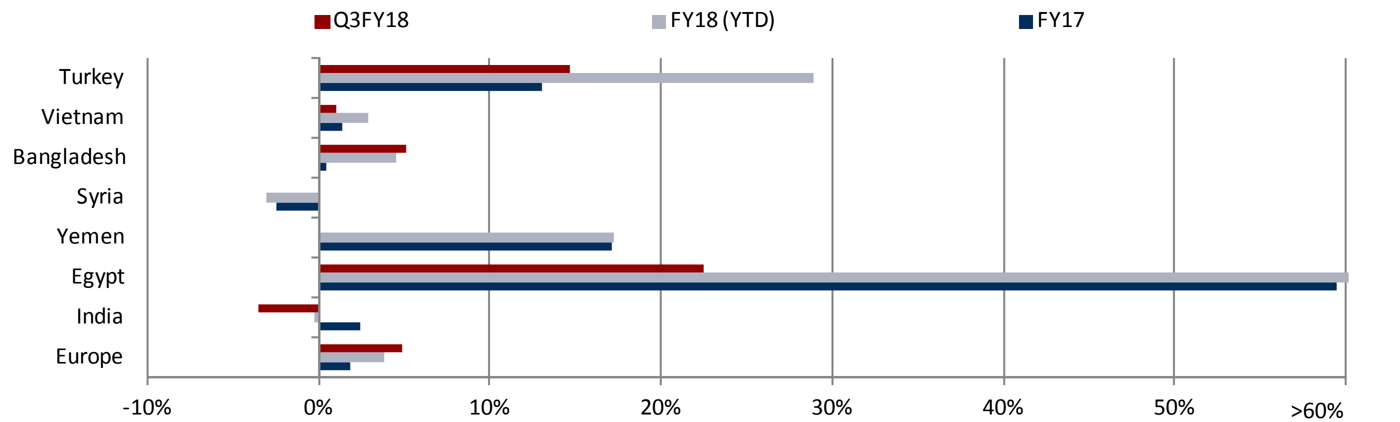
Source: Company, HDFC sec Inst Research

Britannia's Geographical Breakup



Source: Company, HDFC sec Inst Research

Currency Movment (against USD) – Most currencies (barring INR) depreciated during FY17 and 1HFY18 and impacted internatinal performance for Dabur, Marico and Emami



Source: Bloomberg, HDFC sec Inst Research

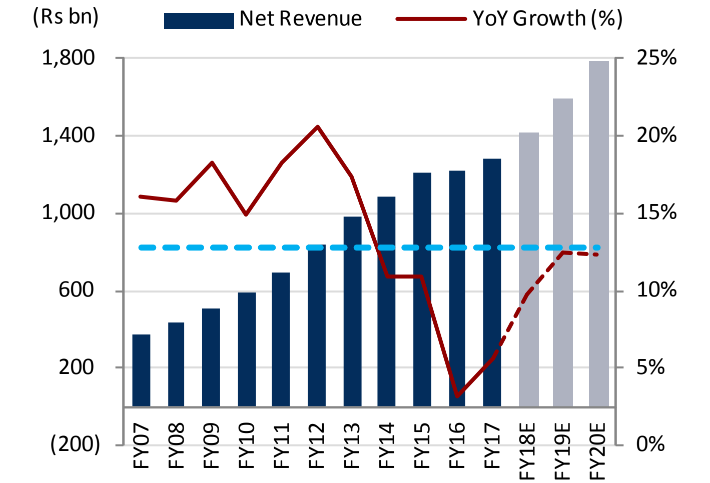
The sector has posted the slowest revenue growth in the past decade in the last two years. Apart from slow growth in the rural market (owing to deficient monsoon, low wage growth etc), some unprecedented events like demonet and GST also impacted the sector's performance

We anticipate that the sector has significant scope of mean reversion towards its 10-year historical average revenue growth

Pricing power, supply chain efficiency and cost optimisation have resulted in EBITDA margin expansion for the sector during the last 10 years. We anticipate further improvement in the EBITDA margin in the coming years, led by better revenue growth, higher share of the premium segment, GST-driven process efficiencies and continued focus on cost optimisation

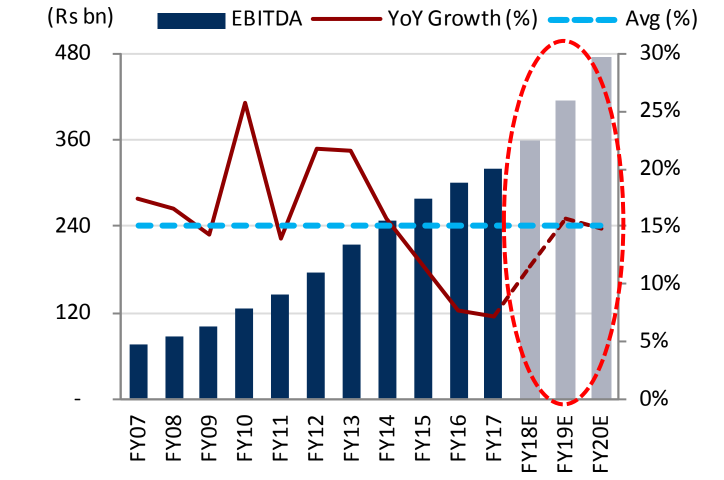
FMCG Universe: 'Mean Reversion Coming'

FMCG Universe : Revenue Performance



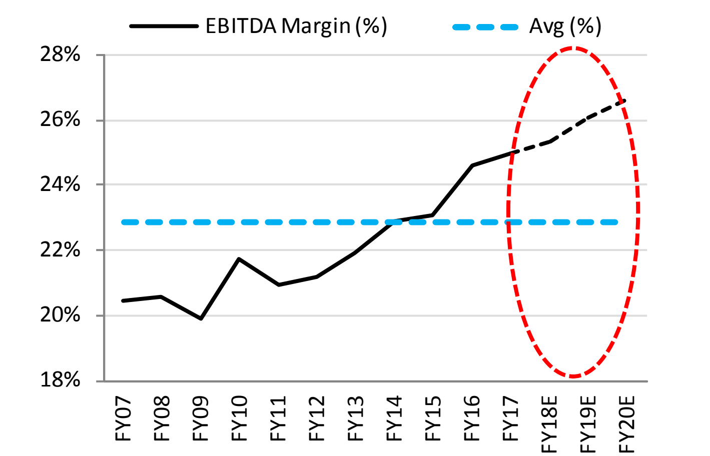
Source: Companies, Bloomberg, HDFC sec Inst Research
Note: FY16 growth based on IGAAP

FMCG Universe : EBITDA Performance



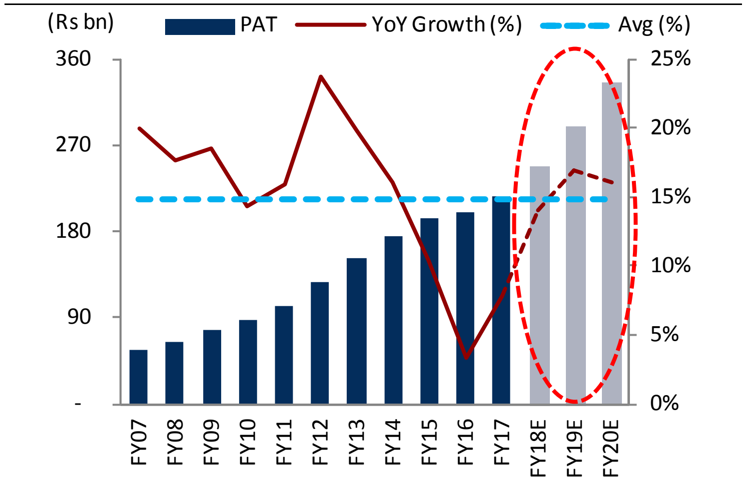
Source: Companies, Bloomberg, HDFC sec Inst Research
Note: FY16 growth based on IGAAP

FMCG Universe : EBITDA Margin



Source: Companies, Bloomberg, HDFC sec Inst Research
Note: FY16 growth based on IGAAP

FMCG Universe : PAT Performance



Source: Companies, Bloomberg, HDFC sec Inst Research
Note: FY16 growth based on IGAAP

Note: The FMCG Universe described above comprises our coverage stocks (ITC, HUL, GCPL, Dabur, Britannia, Marico, Colgate, Emami, Jubilant FoodWorks) and Bloomberg estimates for stocks we don't cover (Nestle, GSK Consumer, Jyothy Labs and Bajaj Corp)

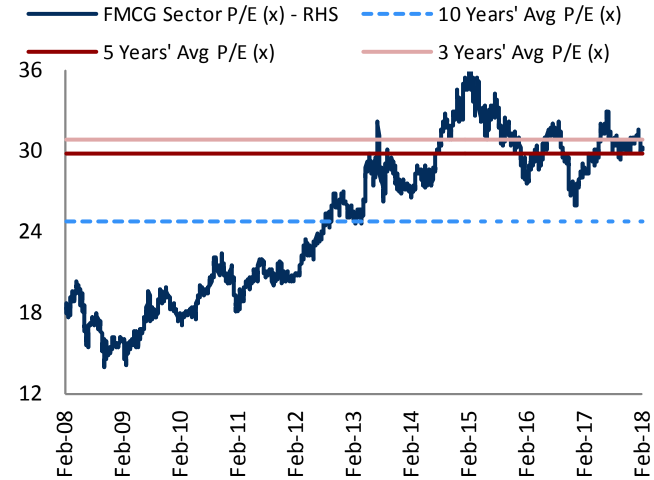
The sector has run-up by ~22% in the last 12-months. Valuation premium over Nifty 50 has expanded to 117% vs. 106% a year ago

The sector (Ex-ITC) has run-up by 37% during the last 12-months. Valuation premium (Ex-ITC) over Nifty 50 has expanded to 150% vs. 117% a year ago

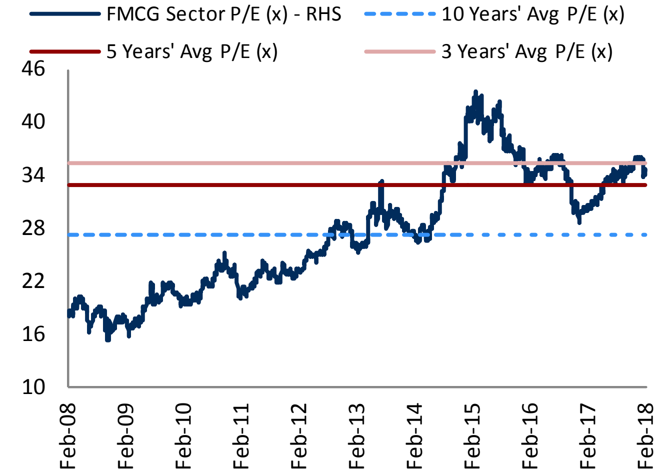
The sector has witnessed many unprecedented events like Demonet and GST, which impacted the performance in the last one year. We believe that the sector is poised for earnings acceleration, and that would sustain rich valuations

FMCG Universe: Valuations & Recent Performance

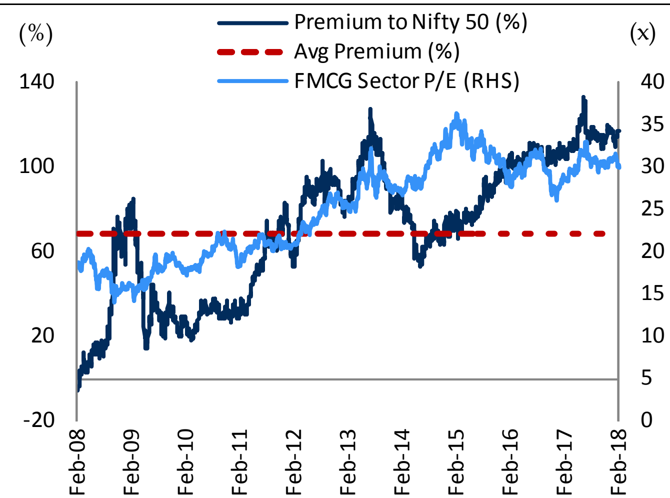
Sector P/E (24-month Rolling Forward)



Sector (Ex-ITC) P/E (24-month Rolling Forward)

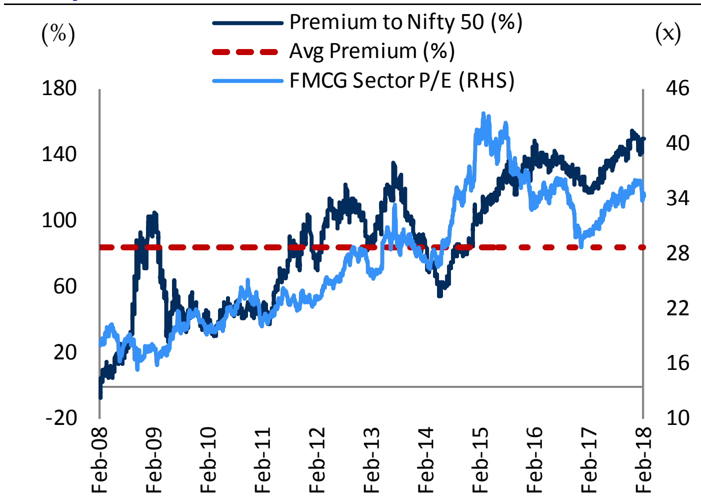


Sector Valuation Premium (24-month) Over Nifty 50



Source: Companies, Bloomberg, HDFC sec Inst Research

Sector (Ex-ITC) Valuation Premium (24-month) Over Nifty 50

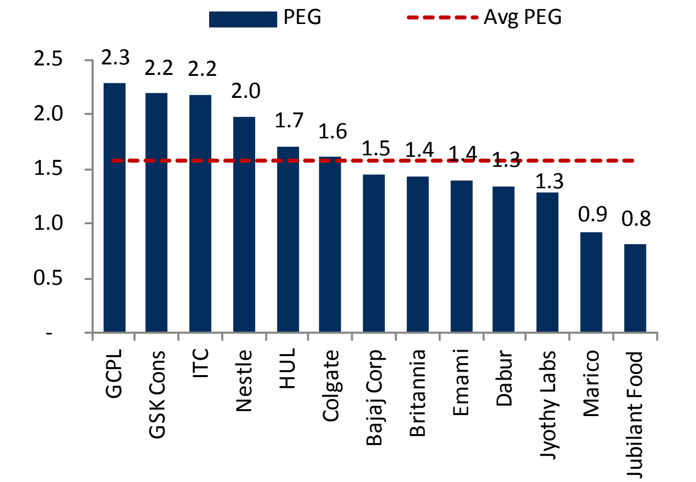


Source: Companies, Bloomberg, HDFC sec Inst Research

Note : The FMCG Universe described above comprises our coverage stocks (ITC, HUL, GCPL, Dabur, Britannia, Marico, Colgate, Emami, Jubilant FoodWorks) and Bloomberg estimates for stocks we don't cover (Nestle, GSK Consumer, Jyothy Labs and Bajaj Corp)

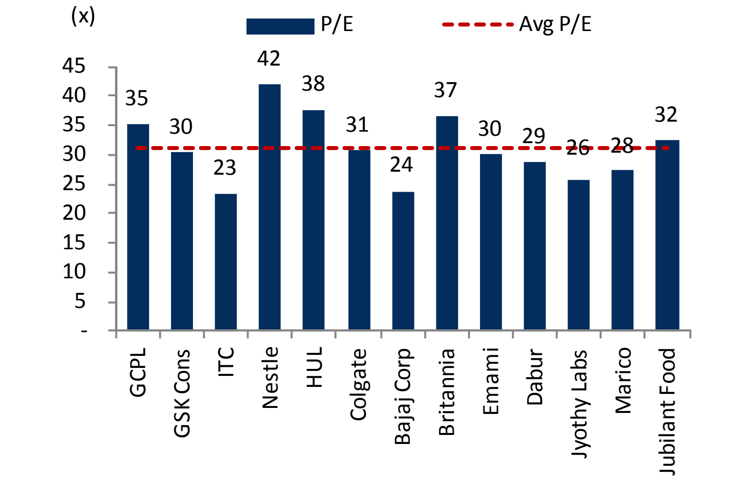
We believe that outperformers would continue to receive investors' interest going ahead. Companies with superior execution and better visibility in earnings would have the scope for further re-rating

Company PEG (FY20E)



Source: Companies, Bloomberg, HDFC sec Inst Research

Company P/E (FY20E)



Source: Companies, Bloomberg, HDFC sec Inst Research

HUL and Britannia have outperformed the Nifty 50 during all intervals in the last 5 years

Emami's stock was punished after reporting weak 3Q results

Stock Returns

Companies	1M (%)	3M (%)	6M (%)	12M (%)	3Yr (%)	5Yr (%)
ITC	(5.2)	3.3	(5.6)	0.7	10.6	35.6
HUL	(2.9)	4.5	9.3	53.9	46.5	200.9
Nestle	1.8	1.5	7.1	20.3	8.6	60.1
GCPL	(0.9)	9.1	(5.4)	29.5	87.8	194.0
Dabur	(6.2)	(2.4)	5.3	21.7	25.9	162.5
Britannia	7.3	3.2	17.3	52.3	136.9	931.1
Colgate	(8.5)	0.3	(5.4)	18.3	8.2	65.5
Marico	(0.1)	(1.2)	(2.6)	11.0	72.7	194.9
GSK	4.7	11.2	26.2	31.8	16.9	71.1
Emami	(8.1)	(15.9)	1.6	5.5	14.6	179.0
Jubilant	(9.5)	11.8	43.5	100.5	21.4	91.1
Jyothy	(2.6)	(10.1)	(9.3)	(7.0)	26.9	120.3
Bajaj Corp	(2.2)	(0.8)	22.2	32.0	7.6	118.8
NSE FMCG	**3.5**	**5.9**	**2.0**	**35.2**	**26.3**	**82.6**
Nifty 50	**(4.4)**	**2.1**	**6.7**	**18.9**	**18.9**	**85.9**

Note:
Green indicates out-performance to Nifty 50 during the respective period
Red indicates under-performance to Nifty 50 during the respective period

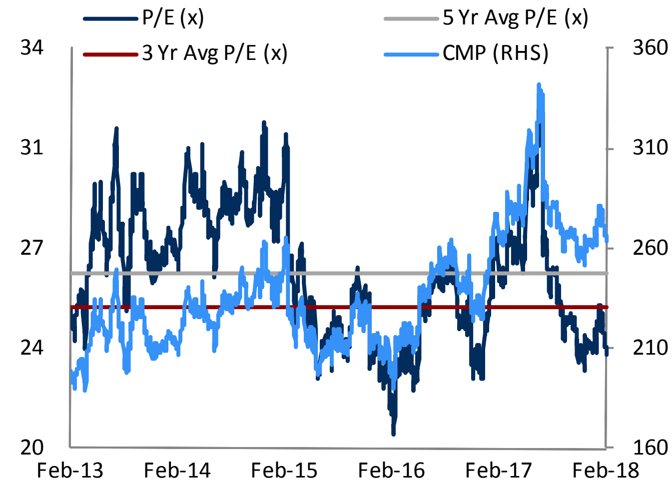
ITC's de-rating was sharp after increase in GST rates. It is trading (~24x) lower than its 3 years average P/E multiple

HUL and Britannia have performed consistently and improved their earnings visibility. Which has resulted in sharp re-rating in the last 12-months

Dabur's re-rating was very recent and we expect further re-rating for the company owing to rural recovery

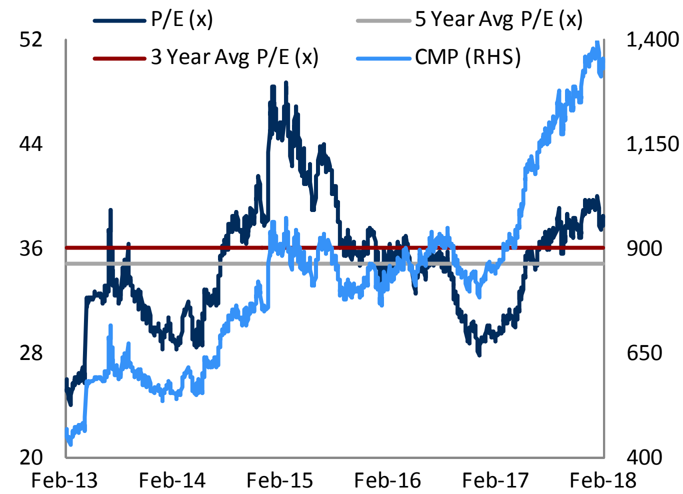
FMCG Companies P/E Bands

ITC P/E (24-month Rolling Forward)



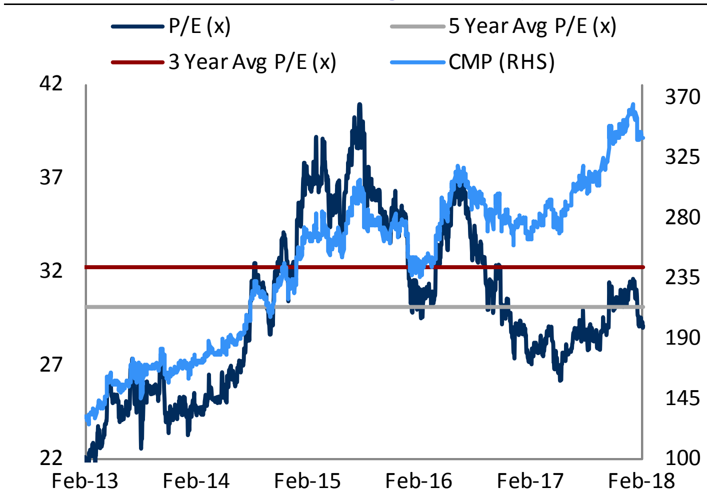
Source: Bloomberg, HDFC sec Inst Research

HUL P/E (24-month Rolling Forward)



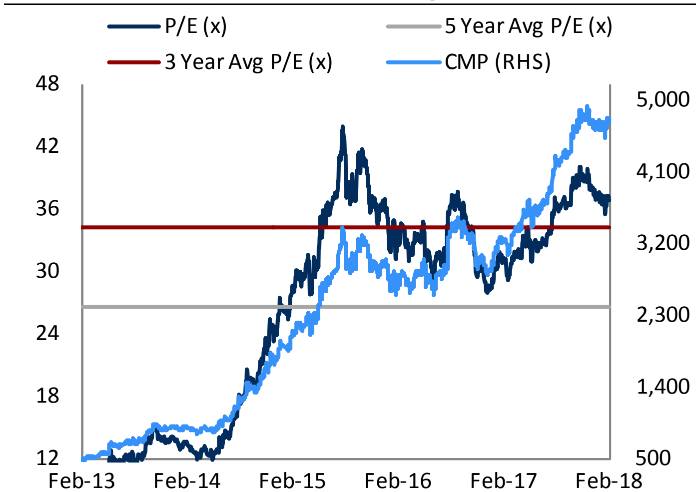
Source: Bloomberg, HDFC sec Inst Research

Dabur P/E (24-month Rolling Forward)



Source: Bloomberg, HDFC sec Inst Research

Britannia P/E (24-month Rolling Forward)



Source: Bloomberg, HDFC sec Inst Research

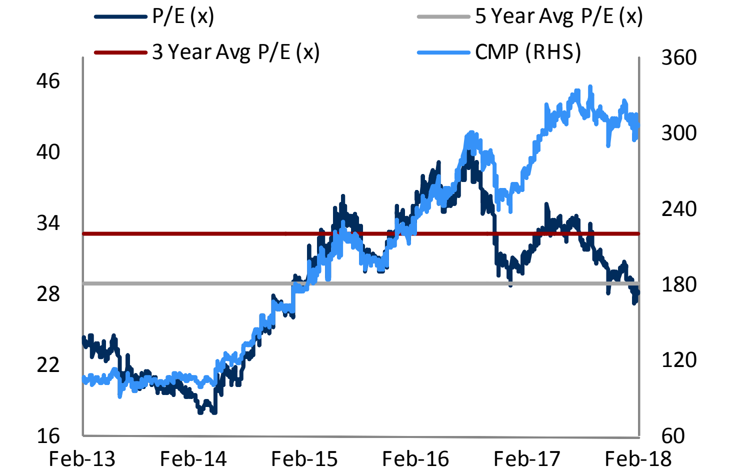
Marico has been de-rated as many headwinds (high copra, trade channel disruption, and weak international) were there during the last 12-months. We believe most of the headwinds have peaked and we expect re-rating in the stock for the next 12-months

Colgate's earnings have been under pressure due to stiff challenges from Patanjali and Dabur. It resulted in de-rating in the last 12-months

Emami disappointed with its 3QFY18 result, resulting in sharp de-rating in the stock

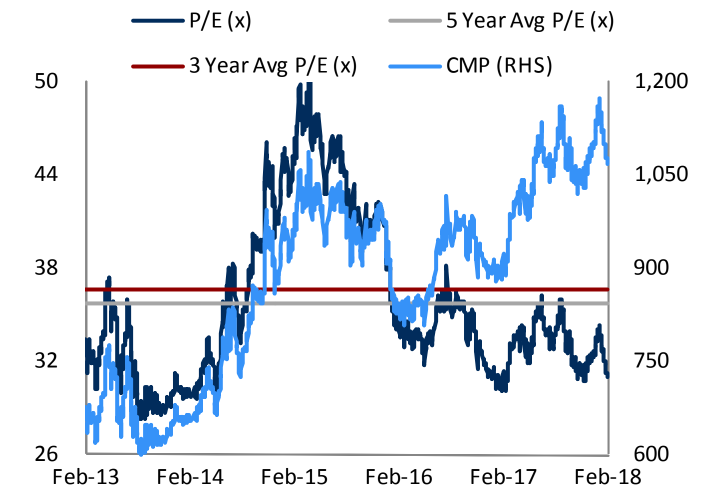
Sharp recovery in Jubilant FoodWorks' earnings resulted in significant re-rating during the last 12-months. We believe strong earnings show will sustain higher valuations

Marico P/E (24-month Rolling Forward)



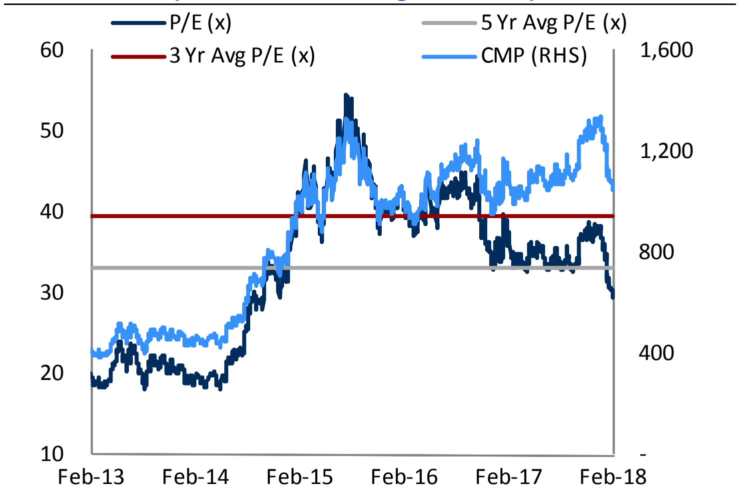
Source: Bloomberg, HDFC sec Inst Research

Colgate P/E (24-month Rolling Forward)



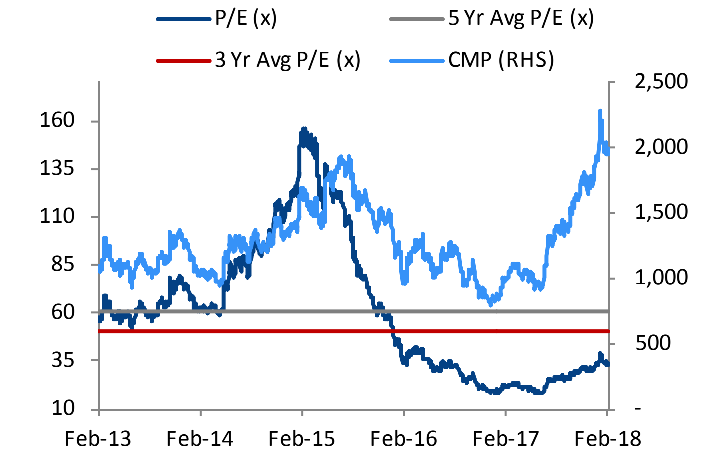
Source: Bloomberg, HDFC sec Inst Research

Emami P/E (24-month Rolling Forward)



Source: Bloomberg, HDFC sec Inst Research

Jubilant FoodWorks P/E (24-month Rolling Forward)



Source: Bloomberg, HDFC sec Inst Research

Company Section

ITC

(CMP Rs 266, TP Rs 358, BUY with an upside of 35%)

- **Investment Rationale:** ITC is a market leader in Cigarettes (>80% value market share), notebooks, valued-added paperboards and a critical player in biscuits. At CMP, the implied EPS CAGR (FY17-FY20E) at 30x FY20 P/E (Ex-ITC Sector P/E is at 37x FY20) is 1% and reflecting higher discounting factored in the stock. ITC's last 5 year EPS CAGR (despite punitive taxes) is 10%. Even during the most challenging quarter i.e. 2Q and 3QFY18, ITC posted ~6% APAT growth in each quarter. Hence, we believe the stock has immense potential to perform well in the coming years. Despite punitive taxes, ITC's cigarette business has registered ~10/9% revenue CAGR in the last 10/5 years. Our ~7% revenue CAGR estimate over FY17-20E looks conservative, seen in the backdrop of demographics. Non-cigarette businesses (esp FMCG), are value accretive, with improving franchise. We expect ~13% revenue CAGR here over FY17-20E.
- **Valuation & Recommendation:** We expect Revenue/EBITDA/APAT CAGR of 9/10/10% respectively over FY17-20E. The company operates at EBITDA margin of 36%, along with core RoCE of ~35%. We maintain BUY rating with a TP of Rs 358, based on 32x Dec-19EPS.

Financial Summary

(Rs mn)	3QFY18	3QFY17	*YoY (%)*	2QFY18	*QoQ (%)*	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	99,522	92,484	7.6	97,639	1.9	391,921	428,036	458,944	501,974	552,424
EBITDA	39,045	35,464	10.1	37,616	3.8	144,509	154,359	165,792	182,862	204,853
APAT	28,146	26,467	6.3	26,399	6.6	95,009	104,772	113,410	124,815	139,098
EPS (Rs)	2.2	2.1	5.6	2.1	5.8	7.9	8.6	9.3	10.3	11.5
P/E (x)						33.8	30.8	28.5	25.9	23.2
EV/EBITDA (x)						21.0	19.6	18.3	16.5	14.6
Core RoCE (%)						40.3	36.1	35.6	35.8	37.5

Source: Company, HDFC sec Inst Research

HUL

(CMP Rs 1,340, TP Rs 1,514, BUY with an upside of 13%)

- **Investment Rationale:** HUL's strategy to focus on market development, premiumisation, market share gain and cost optimisation has resulted into healthy 13% growth in EBITDA during the last 5 years. We expect HUL to be a key beneficiary of GST and can gain market share from unorganised players. Recovering rural demand (~45% of revenues) and healthy growth from premium segments can result into superior earnings in the coming years.
- **Valuation & Recommendation:** We expect Revenue/EBITDA/APAT CAGR of 12/18/21% respectively over FY17-20E. Considering consistent market share gain, margin expansion and strong RoCE, HUL's high valuation is justified. HUL is the pure play for the improving domestic story. We value HUL based on 43x P/E on Dec-19EPS and having TP of Rs 1,514. We have BUY rating.

Financial Summary

(Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	85,900	77,051	11.5	83,090	3.4	321,860	331,817	371,598	418,393	470,494
EBITDA	16,800	13,549	24.0	16,820	(0.1)	60,131	63,564	74,454	89,789	105,385
APAT	11,980	9,310	28.7	12,505	(4.2)	41,664	43,405	52,146	64,362	77,743
EPS (Rs)	5.5	4.3	28.7	5.8	(4.2)	19.3	20.1	24.1	29.7	35.9
P/E (x)						69.6	66.8	55.6	45.1	37.3
EV/EBITDA (x)						47.4	44.8	38.2	31.6	26.7
Core RoCE (%)						76.9	62.8	72.1	81.0	83.6

Source: Company, HDFC sec Inst Research

DABUR

(CMP Rs 340, TP Rs 405, BUY with an upside of 19%)

- **Investment Rationale:** Dabur has seen many challenges in its business during the last 2 years on account of slow rural demand (~45% of domestic), disruption through Patanjali, higher impact of demonet than others due to high wholesale dependence and weak international business. Therefore, Dabur's consolidated revenue degrew by average ~2% during the last 8 quarters. Better revenue growth, stable inflation and a favourable product mix would expand the EBITDA margin by ~200bps over FY18E-20E.
- **Valuation & Recommendation:** We expect Revenue/EBITDA/APAT CAGR of 14/20/22% respectively over FY18E-20E. With domestic and international recovery at inflexion point, we see further re-rating in the stock. We value Dabur based on P/E of 35x Dec-19EPS, and arrive at a TP of Rs 405. We maintain BUY.

Financial Summary

(Rsmn)	3QFY18	3QFY17	*YoY (%)*	2QFY18	*QoQ (%)*	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	19,664	18,529	6.1	19,589	0.4	78,486	77,014	78,944	90,301	102,854
EBITDA	4,035	3,339	20.8	4,199	(3.9)	15,183	15,090	16,557	19,766	23,427
APAT	3,330	2,947	13.0	3,627	(8.2)	12,512	12,789	14,195	17,192	20,694
Diluted EPS (Rs)	1.89	1.67	13.0	2.06	(8.2)	7.11	7.26	8.06	9.76	11.75
P/E (x)						47.8	46.8	42.2	34.8	28.9
EV / EBITDA (x)						38.6	38.5	34.8	28.8	24.0
Core RoCE (%)						51.8	47.4	50.9	60.4	71.2

Source: Company, HDFC sec Inst Research

BRITANNIA

(CMP Rs 4,950, TP Rs 5,480, BUY with an upside of 11%)

- **Investment Rationale:** BRIT's focus areas are (1) Premiumisation through innovation, (2) Distribution expansion (largely in rural areas and increase in direct reach), (3) Growth acceleration in weak markets (Rajasthan, MP, UP, Gujarat and Chhattisgarh), (4) Entry in new segments (like croissants and other macro snacking products), (5) Cost optimization (saving of ~Rs 2.3bn in FY18E). With significant profitability expansion in the last 5 years, BRIT now realigns its focus on aggressive product launches (50 new products in the next 15-18 months). New launches will lead to category extensions (biscuits, cake, rusk & dairy) and entry in newer categories (croissant etc.). To support these launches BRIT plans to spend ~Rs 10bn in the next 2.5 years on their Ranjangaon plant (located in a food park & milk belt).The company is also focusing on expanding the market through focusing on weaker areas like rural which contributes only 20% of revenues. The company aims to achieve 30-35% share from rural over the next 2-3 years.
- **Valuation & Recommendation:** We expect Revenue/EBITDA/APAT CAGR of 15/21/25% respectively over FY18E-20E. With improving demand (especially in rural), benign RM and BRIT's successful execution on various initiatives, we value BRIT based on P/E of 42x Dec-19EPS. Maintain BUY with a TP of Rs 5,480.

Financial Summary

(Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	25,675	22,820	12.5	25,453	0.9	83,972	90,541	99,555	114,520	131,720
EBITDA	3,984	3,126	27.5	3,777	5.5	12,144	12,782	14,997	18,527	22,108
APAT	2,635	2,204	19.5	2,610	0.9	8,246	8,846	9,999	12,766	15,728
EPS (Rs)	22.0	18.4	19.5	21.8	0.9	68.7	73.7	83.3	106.4	131.1
P/E (x)						72.0	67.1	59.4	46.5	37.8
EV/EBITDA (x)						48.3	46.1	38.8	31.2	25.8
Core RoCE (%)						74.8	44.1	41.0	49.2	52.7

Source: Company, HDFC sec Inst Research

MARICO

(CMP Rs 312, TP Rs 380, BUY with an upside of 22%)

- **Investment Rationale:** We are encouraged by Marico's market share gain (90-95% portfolio gained in 9MFY18), in a challenging period. However, operating performance (EBITDA down by 2% vs. Dabur's up by 4% in 9MFY18) was subdued owing to higher input cost inflation. Copra prices continued to inflate (Up 91% YoY), as a result mgt. took a price hike of ~11% on Parachute, effective Jan'18 (10% hike in Oct'18). We expect this copra cycle to end in Q4FY18 (generally 18-24 months), with harvesting to begin in Mar-Apr'18. As a result mgt and we expect prices to taper down in 2HCY18.
- **Valuation & Recommendation:** We expect Revenue/EBITDA/APAT CAGR of 15/25/29% over FY18E-FY20E. We value Marico based on P/E of 35x Dec-19, and derived a TP of Rs 380. We are optimistic about Marico's long-term story and success on new launches. We maintain BUY.

Financial Summary

(Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	16,243	14,114	15.1	15,363	5.7	60,173	59,125	63,422	73,344	83,839
EBITDA	3,020	2,729	10.7	2,591	16.6	10,514	11,539	11,785	15,259	18,533
PAT	2,206	1,891	16.7	1,851	19.2	7,233	8,026	8,535	11,514	14,372
Diluted EPS (Rs)	1.71	1.47	16.6	1.43	19.2	5.61	6.22	6.61	8.92	11.14
P/E (x)						55.7	50.2	47.2	35.0	28.0
EV / EBITDA (x)						38.1	34.8	33.9	26.1	21.4
Core RoCE (%)						44.7	48.8	48.5	65.8	77.1

Source: Company, HDFC sec Inst Research

COLGATE

(CMP Rs 1,054, TP Rs 1,163, NEU with an upside of 10%)

- **Investment Rationale:** Colgate continued to lose market share due to rising competition from Patanjali and Dabur. Natural segment contributes ~20% of total toothpaste market (vs. nil 10 years ago) of which Dabur and Patanjali captured 80% combined share. Colgate's Toothpaste and Toothbrush market share stood at 53.7% (-170bps YoY) and 45.1% (-190bps YoY). Colgate's average volume growth was ~2% in the last 3 quarters, even after having a favorable base (~2% decline), which means the company was not able to deliver its 9MFY16 volumes.
- **Valuation & Recommendation:** We expect Revenue/EBITDA/APAT CAGR of 13/15/19% respectively over FY18E-20E. With recovery in rural demand and normalizing trade channels, we are positive on the sector. However, Colgate, with a single-category presence, will find it difficult to capitalize on this vis-à-vis other companies. We value Colgate based on P/E of 34x on Dec-19 EPS to arrive at a TP of 1,163. We maintain NEUTRAL.

Financial Summary

(Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	10,333	8,746	18.2	10,849	(4.8)	38,682	39,818	43,170	48,687	54,784
EBITDA	2,824	2,141	31.9	3,006	(6.1)	9,382	9,444	11,041	12,862	14,687
APAT	1,707	1,278	33.5	1,776	(3.9)	6,031	5,774	6,727	8,157	9,542
Diluted EPS (Rs)	6.3	4.7	33.5	6.5	(3.9)	22.2	21.2	24.7	30.0	35.1
P/E (x)						47.6	49.7	42.6	35.2	30.1
EV / EBITDA (x)						30.2	30.0	25.4	21.5	18.6
Core RoCE (%)						82.2	58.3	61.5	78.5	97.7

Source: Company, HDFC sec Inst Research

EMAMI

(CMP Rs 1,087, TP Rs 1,300, BUY with an upside of 20%)

- **Investment Rationale:** Emami's success relies on its strategy i.e. focus on low penetration and high-margin categories which is reflected by its revenue/EBITDA/APAT CAGR of 17/28/24% in the last 10 years. We like Emami on account of (1) Leadership in ~70% domestic portfolio and gaining market share gain, (2) Focus on low penetration and high-margin categories, (3) Consistent new launches, (4) Distribution expansion (direct reach to be ~0.8mn by FY18 vs. 0.73mn in FY17).
- **Valuation & Recommendation:** We maintain our BUY rating. We expect Revenue/EBITDA/APAT CAGR of 15/18/21% respectively over FY18E-20E. We value Emami based on P/E of 36x on Dec-19 EPS. Our TP is Rs 1,300. We maintain our BUY rating.

Financial Summary

(Rs mn)	3QFY18	3QFY17	*YoY (%)*	2QFY18	*QoQ (%)*	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	7,566	7,138	6.0	6,281	20.5	23,970	25,086	25,961	29,993	34,513
EBITDA	2,647	2,585	2.4	2,013	31.5	6,873	7,591	7,648	9,109	10,640
APAT	1,962	1,892	3.7	1,478	32.7	5,326	5,511	5,569	6,909	8,204
Diluted EPS (Rs)	8.64	8.34	3.7	6.51	32.7	23.5	24.3	24.5	30.4	36.1
P/E (x)						46.3	44.8	44.3	35.7	30.1
EV / EBITDA (x)						36.7	33.0	32.4	27.0	22.9
Core RoCE (%)						38.8	24.1	24.2	30.5	36.6

Source: Company, HDFC sec Inst Research

JUBILANT FOODWORKS

(CMP Rs 2,044, TP Rs 2,662, BUY with an upside of 30%)

- **Investment Rationale:** JFL's skeptics have agonized over revenue and profit growth in the face of mushrooming QSR competition. But CEO Pratik Pota's strategy of focusing on profitable expansion (vs. aggressive expansion) has delivered, and how! Pizza quality enhancement (upgraded in Aug-17), Everyday Value offer and investments in technology have helped regain customer traction. Co has seen a strong consumer response on new offerings resulting in 17.8% SSG for 3QFY18. The GST rate has been revised for restaurants, down to 5% from 18% in Nov'17 with no input tax credit benefit. We believe lower taxes will set a level playing ground for the organized sector to compete with the unorganized sector. Cost rationalization is visible across most expense heads resulting in EBITDA/APAT growth of 114/230% in 3QFY18. We believe margin expansion to be sustainable in the ensuing quarters with Dunkin expected to breakeven in FY19.
- **Valuation & Recommendation:** We expect Revenue/EBITDA/APAT CAGR of 16/30/40% respectively over FY18E-20E. We remain bullish on JFL, a strong player in the QSR industry, with >1,100 stores. Such inspiring performance justifies high valuation. We value it at 46x P/E on Dec-19EPS to arrive TP of Rs 2,662. We maintain BUY.

Financial Summary

(Rs mn)	3QFY18	3QFY17	*YoY (%)*	2QFY18	*QoQ (%)*	FY16	FY17	FY18E	FY19E	FY20E
Net revenue	7,952	6,588	*20.7*	7,266	*9.4*	24,102	25,460	29,703	34,980	39,693
EBITDA	1,369	641	*113.7*	1,022	*33.9*	2,743	2,465	4,558	6,342	7,694
Core profit	660	200	*230.4*	485	*36.2*	1,071	672	2,032	3,150	3,981
Dilu. EPS (Rs)	10.0	3.0	230.4	7.4	35.9	16.5	10.2	30.9	47.9	60.5
Dilu.P/E (x)						123.6	200.1	66.2	42.7	33.8
EV/EBITDA (x)						*48.9*	*54.3*	*28.9*	*20.3*	*16.2*
Core RoCE (%)						18.5	11.6	34.0	60.4	89.9

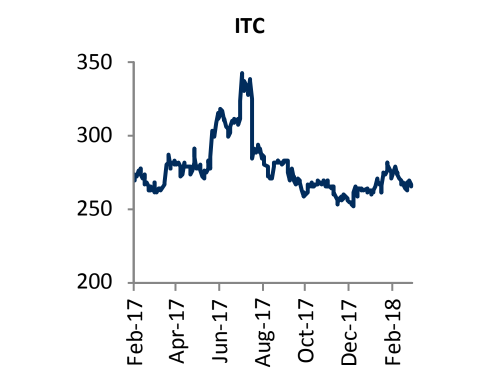
Source: Company, HDFC sec Inst Research

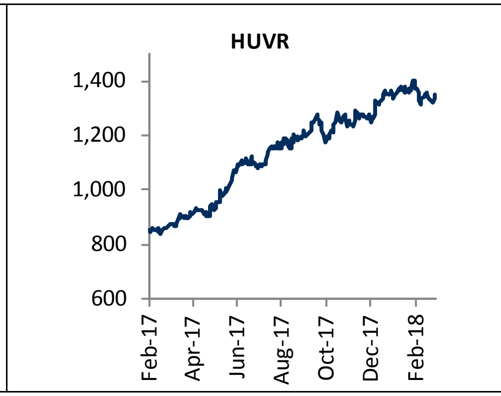
Valuation Summary

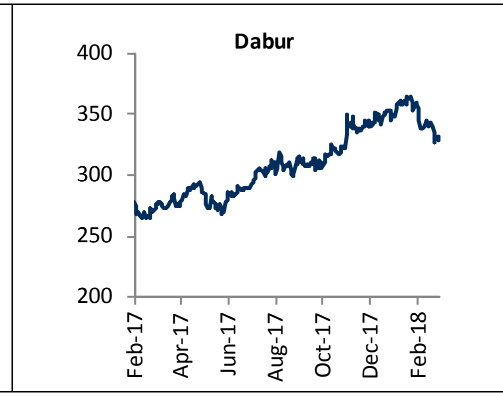
Companies	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			Core RoCE (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
ITC	3,032	266	BUY	358	9.3	10.3	11.5	28.5	25.9	23.2	18.3	16.5	14.6	35.6	35.8	37.5
HUL	2,900	1,340	BUY	1,514	24.1	29.7	35.9	55.6	45.1	37.3	38.2	31.6	26.7	72.1	81.0	83.6
Dabur	599	340	BUY	405	8.1	9.8	11.7	42.2	34.8	28.9	34.8	28.8	24.0	50.9	60.4	71.2
Britannia	594	4,950	BUY	5,480	83.3	106.4	131.1	59.4	46.5	37.8	38.8	31.2	25.8	41.0	49.2	52.7
Marico	403	312	BUY	380	6.6	8.9	11.1	47.2	35.0	28.0	33.9	26.1	21.4	48.5	65.8	77.1
Colgate	287	1,054	NEU	1,163	24.7	30.0	35.1	42.6	35.2	30.1	25.4	21.5	18.6	61.5	78.5	97.7
Emami	251	1,087	BUY	1,300	24.5	30.4	36.1	44.3	35.7	30.1	32.4	27.0	22.9	24.2	30.5	36.6
Jub. Food	134	2,044	BUY	2,662	30.9	47.9	60.5	66.2	42.7	33.8	28.9	20.3	16.2	34.0	60.4	89.9

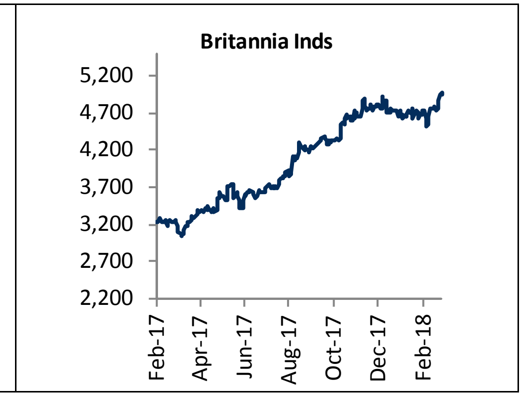
Source:Companies, HDFC sec Inst Research

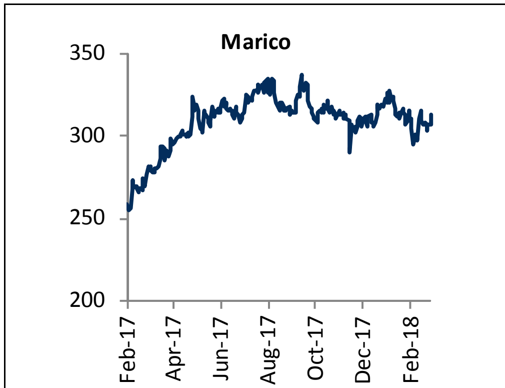
1yr Price Movement

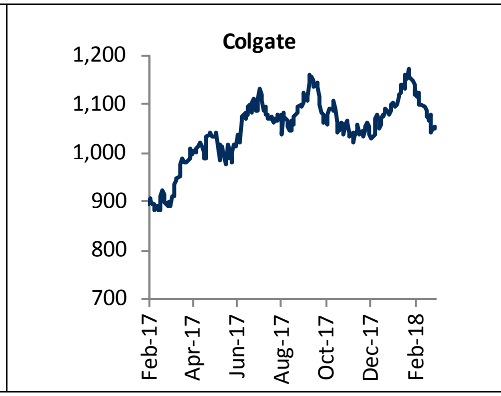


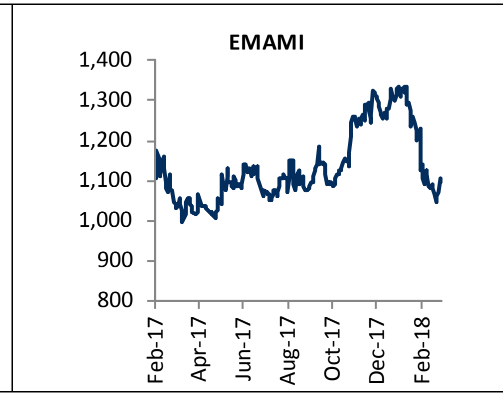


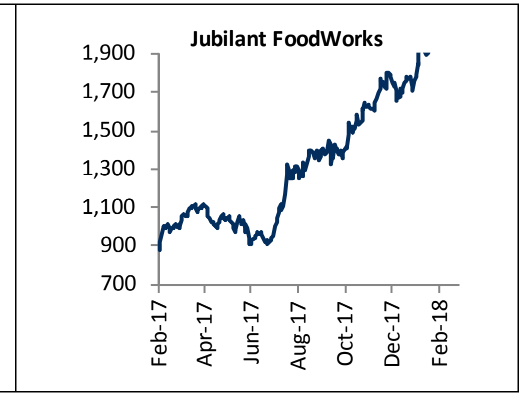












Rating Definitions

BUY	:	Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL	:	Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL	:	Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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