Motilal Oswal

Thematic | November 2017

Rural India

Back on the saddle

Volume - II

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Contents

Rural India

Please refer our Volume I dated August 2017

Back on the saddle – Volume II

Signs of rural pickup more evident

In our Rural Strategy note, Back on the Saddle, which we released in August 2017, we had highlighted the potential consumption revival in Rural India. Now, as we look back at the just-concluded 2QFY18 earnings season, we note that signs of a pickup in rural consumption are indeed increasingly evident.

2QFY18 corporate commentaries point towards rural demand pickup

After three years of subdued rural consumption, there are now increasing signs of a pickup. As we had pointed out in August, catalysts are in place to drive the awaited revival in rural demand. While two successive years of normal monsoon portend well for farm output, the combination of MSP hikes, direct benefit transfers and farm loan waivers should drive up disposable incomes. Corporate commentary following the 2QFY18 results from B2C sectors like FMCG, Autos, Durables and Retail reaffirms our view. Quite a few FMCG companies see rural growth outpacing or at least matching urban growth after many quarters. Auto companies like Hero MotoCorp, M&M and Escorts also highlighted rural growth recovery. India Inc expects the demand trends to strengthen as we move into 2HFY18.

Foundations for rural consumption revival in place

The South West monsoon for 2017 was at 95% of the long period average (LPA). However, in the key sowing months of June and July rainfall was 104% and 102% of LPA. Even rural wage growth is improving after a long time. After remaining flat YoY in 1HFY17, real rural wage growth improved to 3.3% in 2HFY17 and further to 4.6% during April-September 2017, the fastest pace in four years.

The central government is also using direct benefit transfer (DBT) as a tool to improve the efficiency of money spent on subsidies. This should also aid rural consumption, in our view. The number of schemes covered under DBT has increased from 59 in FY16 to 140 in FY17. This number has gone up to 393 in FY18 so far, and is likely to rise further in the remaining part of the year, as the government targets to cover all 534 schemes under DBT by March 2018. Along with the number of schemes covered, the number of beneficiaries receiving payments via DBT has also increased sharply, from 357m in FY17 to 475m currently. The funds disbursed under DBT have increased – in FY17, INR746b were disbursed, up ~21% from INR618b in FY16. In FY18 so far, INR538b has already been disbursed.

Additionally, minimum support prices (MSP) have witnessed another year of healthy increase – 8.3% hike granted for Rabi crops. MSP for wheat, the most procured Rabi crop, is up 6.8% – the highest increase in six years.

Normalcy in rural supply chain post GST

1HFY18 was impacted by teething troubles pertaining to GST implementation, as trade partners were cautious, given the uncertainty around treatment to in-transit stock, credit for taxes paid on inventory, etc. Supply chains, especially in rural India were disrupted, as trade adjusted to the new indirect tax regime. This resulted in de-stocking in 1QFY18. 2QFY18 has seen re-stocking; however, inventory levels in trade are not yet at pre-GST levels. Management commentaries post 2QFY18 results suggest gradual return to normalcy in supply chains in 2HFY18.

Top rural ideas

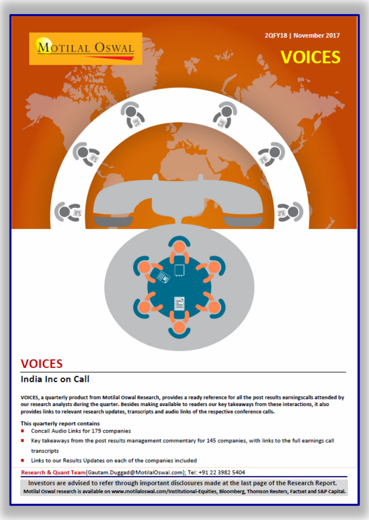
- **Mahindra & Mahindra:** Best bet on rural recovery. Several levers to drive 100bp EBITDA margin expansion over FY17-20.
- **Hindustan Unilever:** Has the widest reach in rural India. Optimum product portfolio to take advantage of rural revival. Expect consistent margin expansion, backed by volume pickup, GST-led efficiencies and scale benefits.
- **Dabur**: Worries on the wholesale channel (due to GST implementation) and rural sales are receding faster than expected.
- **Mahindra & Mahindra Financial Services:** Built a strong foundation in rural India over FY12-17. Growth has picked up after 2-3 sluggish years.
- **Repco Home Finance:** Signs of turnaround after a tough year. Disbursements have picked up and asset quality has improved.
- **Manpasand Beverages:** Rural expansion to continue. Capacity expansion coupled with distribution and product portfolio enhancement to aid earnings.

Exhibit 1: Top ideas to play rural recovery

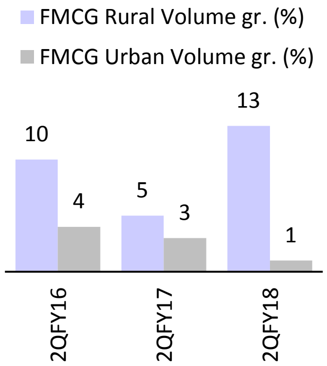
		TP	MCap	EPS (INR)			PE (x)			PB (x)			ROE (%)			EV/EBIDTA (x)		
Company	Reco	(INR)	USD b	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Hind. Unilever	Buy	1,500	42.6	22.8	27.6	32.4	56.0	46.3	39.4	42.4	39.2	34.1	75.9	88.0	92.5	38.6	32.2	27.4
M&M	Buy	1,658	13.6	75.0	85.7	94.6	18.9	16.6	15.0	3.0	2.7	2.4	14.5	14.6	14.9	5.3	4.6	4.4
Dabur	Buy	410	9.2	7.7	9.3	10.9	43.9	36.6	31.2	10.6	9.4	9.0	26.0	27.3	29.4	35.8	29.6	25.3
M&M Financial	Buy	500	3.8	14.2	19.1	24.0	30.9	22.9	18.2	3.6	3.3	2.9	11.9	14.8	17.0	NA	NA	NA
Manpasand Bever.	Buy	492	0.7	9.9	15.4	20.5	41.7	26.9	20.2	3.8	3.4	3.1	8.4	13.5	16.0	22.7	15.1	11.3
Repco Home Fin	Buy	800	0.6	36.0	41.9	50.0	17.2	14.7	12.3	2.8	2.4	2.0	18.0	17.6	17.6	NA	NA	NA

Source: Company, MOSL

Please refer our latest report Voices | India Inc on Call (2QFY18)



Consumer volume growth picked up in rural in 2QFY18



Source: Media, Kantar

Snippets from 2QFY18 conference call commentary on Rural demand

Hero MotoCorp

HMCL indicated healthy volume growth in urban and rural markets. While urban markets grew faster than rural markets in 1QFY18, both markets grew at the same pace in 2QFY18.

M&M

MM expects the tractor industry to grow 12-14% in FY18 (v/s guidance of 10-12% earlier). Over April-October 2017, the domestic tractor industry grew 15.5%. Positive rural sentiment and well-spread monsoon should benefit the tractor industry in FY19, as well.

Maruti

The management indicated double-digit retail demand growth during the festive season of Navratri and Diwali. Growth from the rural markets remains healthy at 21.5% in 1HFY18.

Britannia Inds

Rural growth appears better than urban growth.

Dabur

Rural growth at 11% is higher than urban growth of 10%. The management believes that ongoing and subsequent government schemes will be an important driver. Rural wholesales and super stockiest are doing well. Modern trade is doing very well.

Emami

Navratna, ***Boro Plus*** and ***Fair & Handsome*** are seeing good retail offtake, and rural sentiment is recovering. This and a weak base give HMN confidence on strong growth in 2HFY18.

Hindustan Unilever

Expect gradual improvement in rural demand. Rural growth is in line with urban growth. Rural India needs to grow faster, but for now, it has recovered from lower levels.

Jyothy Labs

Consumer demand is showing signs of pickup, especially in rural market.

M&M Financials

OEMs are expecting good growth from rural markets.

Rural India: Signs of pick-up more evident

After remaining subdued owing to disruptive macro initiatives like Demonetization, Rural India is expected to see series of positive catalysts going forward. We remain sanguine about the prospects of rural economy on the back of second consecutive year of normal monsoons. We briefly discuss three key triggers for Rural Indian in the ensuing section before moving to top Rural Ideas to play the theme.

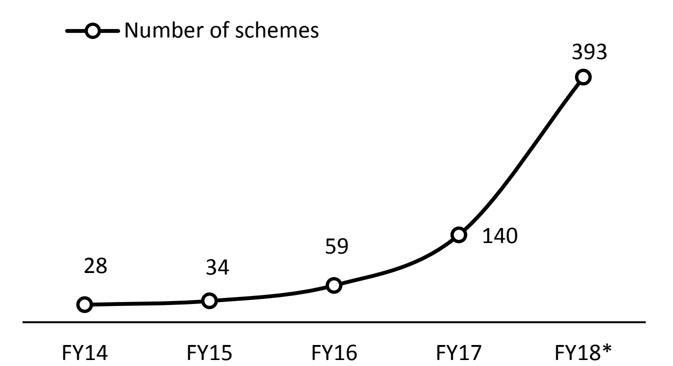
Direct benefit transfer (DBT) - Rising scope, better transparency

Transfer of government subsidies and payments directly into the bank accounts of beneficiaries has helped cut out middlemen and check leakages in the system. It has enabled better targeting of subsidies and increased transparency. The use of DBT continues to expand at a rapid pace in FY18.

The number of schemes covered under DBT had increased from 59 in FY16 to 140 in FY17. This number has gone up to 393 in FY18 so far, and is likely to rise further in the remaining part of the year, as the government targets to cover all 534 schemes (including 300 cash schemes, over 200 in-kind schemes, and over a dozen services) under DBT by March 2018. Thus, the scope of DBT has widened considerably.

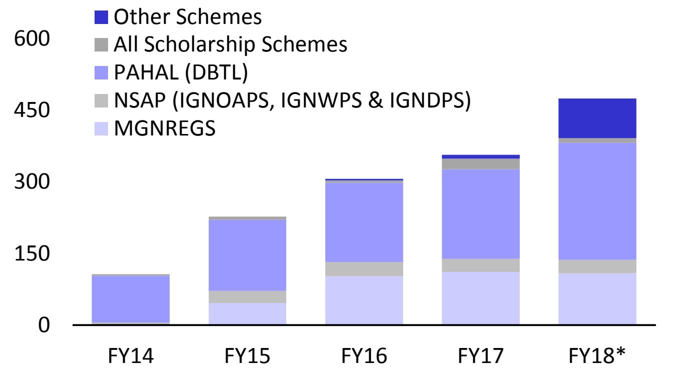
Along with the number of schemes covered, the number of beneficiaries receiving payments via DBT has also increased sharply, from 357m in FY17 to 475m currently. PAHAL, which provides subsidy on LPG, accounts for more than half the total number of beneficiaries receiving money via DBT. The amount of funds transferred via DBT has also increased every year, with more than INR746b disbursed in FY17, up ~21% from INR618b disbursed in FY16. As much as INR538b has already been disbursed through this mechanism in FY18 so far, taking the cumulative amount disbursed via DBT to INR2.4t over the last four-and-a-half years.

Exhibit 2: Number of schemes covered under DBT



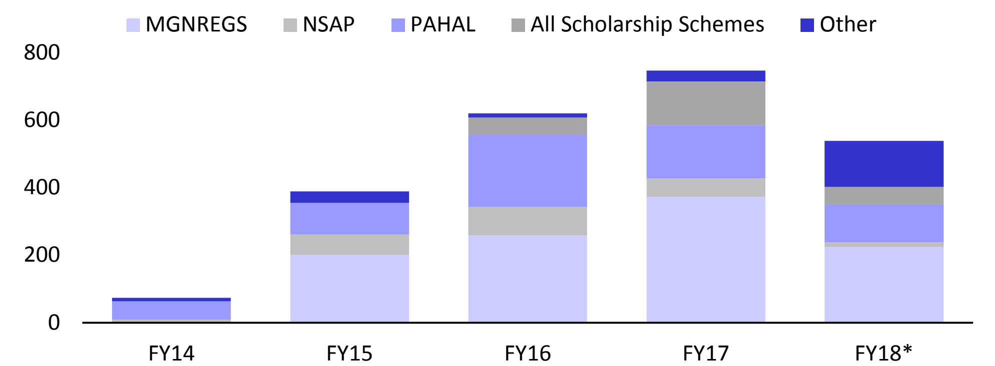
*Till date

Exhibit 3: Number of beneficiaries covered under DBT



Source: GOI, MOSL

Exhibit 4: Total funds transferred via DBT (INR b)

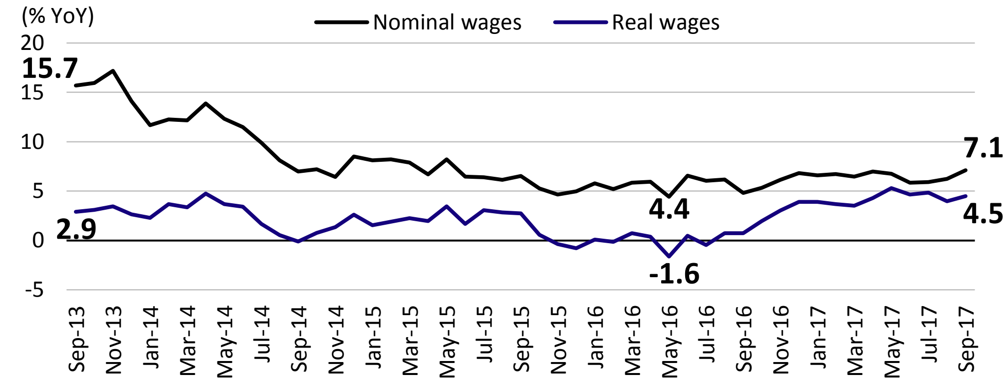


*Till date

Rural wages - growth picking up for real wage after a flattish FY17

Growth in nominal rural wages has remained stable at 6-6.5% in FY17 and in the first four months of FY18. However, owing to the sharp fall in inflation, real rural wages accelerated over the last 12 months. After remaining flat YoY in 1HFY17, growth improved to 3.3% in 2HFY17 and further to 4.8% during April-July 2017, the fastest pace in four years. The sustained improvement in real rural wages is a positive for rural demand.

Exhibit 5: Growth in real rural wages has picked up (% YoY)



*Till date ; Source: Labour Bureau, MOSL

Minimum support prices - another year of healthy MSP hike

The government announced MSPs for rabi crops, last month. On a simple average basis, MSP hike for rabi crops is 8.3% for FY18. Although this is lower than the 11.3% hike seen in FY17, it is much better than the average hike of 7.1% seen across the last five years. Importantly, MSP for wheat, which is the most-procured Rabi crop, has been increased by 6.8% in FY18, the fastest pace in six years.

Exhibit 6: Changes in MSP of Rabi crops over the past six years

% YoY, MSP	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Wheat	5.1	3.7	3.6	5.2	6.6	6.8
Barley	0	12.2	4.5	6.5	8.2	6.4
Gram	7.1	3.3	2.4	10.2	14.3	10.0
Masur (Lentil)	3.6	1.7	4.2	10.6	16.2	7.6
Rapeseed/Mustard	20	1.7	1.6	8.1	10.4	8.1
Safflower	12	7.1	1.7	8.2	12.1	10.8
Simple average	**8.0**	**5.0**	**3.0**	**8.1**	**11.3**	**8.3**

Source: Department of Agriculture, MOSL

MSPs for kharif crops had been increased by 6.2% in FY18 – better than the 5% growth in FY17 and the highest growth in five years.

Exhibit 7: Changes in kharif MSPs over the past six years

% YoY, MSP	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Paddy, common	15.7	4.8	3.8	3.7	4.3	5.4
Paddy, Grade A	15.3	5.1	4.1	3.6	4.1	5.3
Jowar, hybrid	53.1	0.0	2.0	2.6	3.5	4.6
Jowar, Maldandi	52.0	0.0	2.0	2.6	3.8	4.5
Bajra	19.9	6.4	0.0	2.0	4.3	7.1
Maize	19.9	11.5	0.0	1.1	3.0	4.4
Ragi	42.9	0.0	3.3	6.5	4.5	10.1
Tur (Arhar)	20.3	11.7	1.2	6.3	9.2	7.9
Moong	25.7	2.3	2.2	5.4	7.7	6.7
Urad	30.3	0.0	1.2	6.3	8.1	8.0
Cotton, Medium staple	28.6	2.8	1.4	1.3	1.6	4.1
Cotton, Long staple	18.2	2.6	1.3	1.2	1.5	3.8
Groundnut in shell	37.0	8.1	0.0	0.8	4.7	5.5
Sunflower seed	32.1	0.0	1.4	1.3	3.9	3.8
Soyabean, yellow	32.5	14.3	0.0	1.6	6.7	9.9
Sesamum	23.5	7.1	2.2	2.2	6.4	6.0
Simple average	**27.7**	**5.1**	**1.6**	**3.1**	**4.9**	**6.2**

Source: Department of Agriculture, MoSL

Companies

BSE Sensex: 33,478 | S&P CNX: 10,327 | November 2017

- Hindustan Unilever
- Dabur
- Mahindra & Mahindra
- M&M Financial Services
- Repco Home Finance
- Manpasand Beverages

TOP RURAL IDEAS

Hindustan Unilever

BSE SENSEX	S&P CNX
33,478	10,327

CMP: INR 1,277 TP: INR1,500 (+17%) Buy

Juggernaut moves forward

Well placed to take advantage of rural recovery, which has just begun

Stock Info

Bloomberg	HUVR IN
Equity Shares (m)	2,163.9
M.Cap.(INRb)/(USDb)	2,793.1 / 42.7
52-Week Range (INR)	1315 / 783
1, 6, 12 Rel. Per (%)	-2/17/30
Avg Val, INR m	1324
Free float (%)	32.8

Financials Snapshot (INR b)

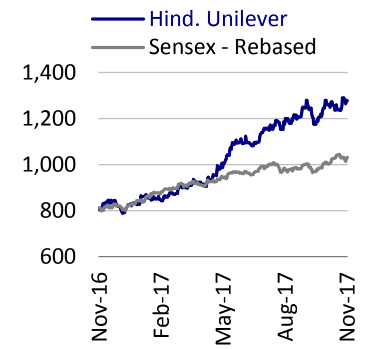
Y/E MARCH	2018E	2019E	2020E
Net Sales	336.9	384.2	438.3
EBITDA (INR b)	70.4	83.7	98.0
Net Profit	49.4	59.7	70.1
EPS	22.8	27.6	32.4
EPS gro. (%)	16.2	21.0	17.3
BV/Sh. (INR)	30.1	32.6	37.5
P/E (x)	56.1	46.3	39.5
P/BV (x)	42.4	39.3	34.1
RoE (%)	75.9	88.0	92.5
RoCE (%)	101.1	116.3	122.8

Shareholding pattern (%)

As On	Sep-17	Jun-17	Sep-16
Promoter	67.2	67.2	67.2
DII	5.8	5.6	5.2
FII	13.3	13.5	13.8
Others	13.7	13.8	13.8

FII Includes depository receipts

Stock Performance (1-year)



Best large cap bet on consumer recovery

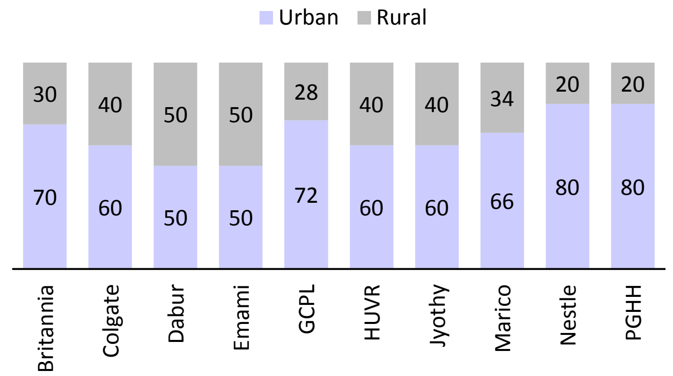
- HUVR is the largest FMCG company in India by sales. It has the widest portfolio of products and the broadest distribution reach (~8m outlets) among its Consumer peers.
- Over 40% of its sales come from rural India, among the highest proportion for FMCG companies.
- HUVR has had the disadvantage of a weak base of rural growth in the past three years. From double that of urban growth, rural growth has slowed down to below urban growth after two years of poor monsoon, followed by demonetization in the third year. In 2QFY18, HUVR stated that for the first time in three years, rural growth is now in line with urban growth.
- We were pleasantly surprised by the smart recovery in 2QFY18 to 4% volume growth. As the outlook on the rural economy is improving, so would the potential for healthy sales growth. The latest reduction in GST rates (effective 15th November) from 28% to 18% in key categories like detergents, shampoos and deodorants will be passed on to consumers, spurring growth further.
- HUVR also has the widest product portfolio among peers in most of the FMCG categories it is present in. It has a superior range of products at the lower end of the price spectrum, making it better placed than peers to take advantage of strong rural growth.
- The confluence of positive factors indicated above as well as the barriers to entry that HUVR has created make it strongly positioned for healthy earnings growth, especially when rural volume recovery is abetted by (a) the return of price-led sales growth owing to the end of commodity cost deflation, (b) continued premiumization as well as mix improvement, aiding gross margin, and (c) zero-based budgeting leading to substantial cost savings over the next few years, as a result of which EBITDA margins in 4QFY17, 1QFY18 and 2QFY18 have already increased by 100bp, 180bp and 230bp, respectively.

Valuation and view

We expect HUVR to report 18.6% PAT CAGR over FY17-19 against 6.1% CAGR in the last three years, 10.6% CAGR in the last five years and 10.7% CAGR in the last 10 years. While valuations are not cheap at 46.3x FY19E and 39.5x FY20E EPS, given the potentially strong earnings growth, we believe premium valuations are justified, particularly as return ratios and dividend yield remain best of breed. We maintain our BUY rating on the stock, with a target price of INR1,500 (roll forward to 48x December 2019E EPS; 10% premium to three-year average valuations).

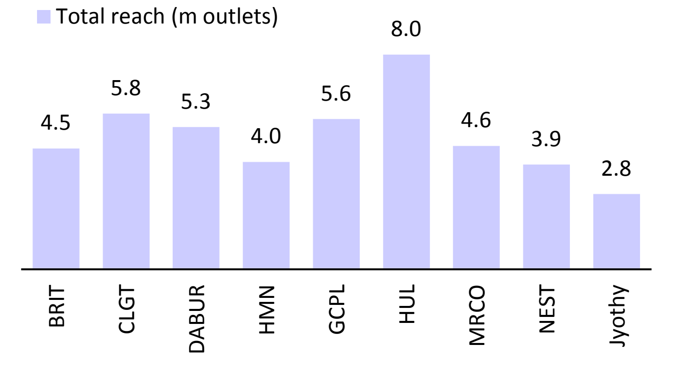
HUVR operating metrics

Exhibit 8: HUVR has a high proportion of rural sales



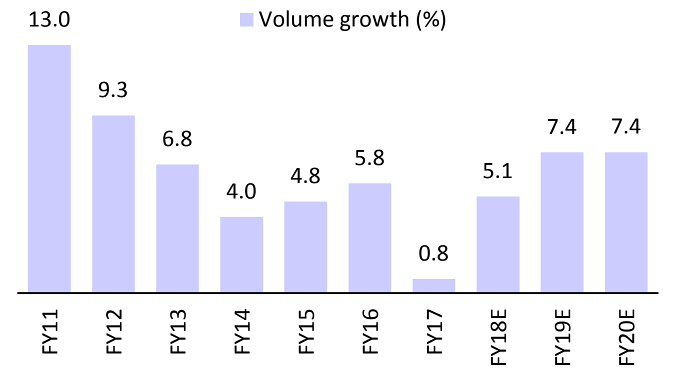
Source: Company, MOSL

Exhibit 9: Its outlet reach is the highest among peers



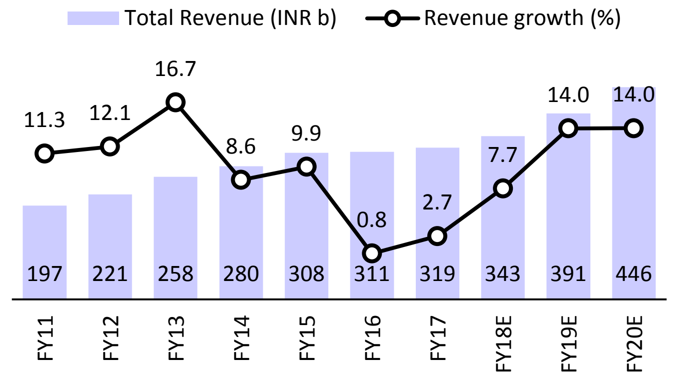
Source: Company, MOSL

Exhibit 10: Volume growth is expected to revive as a result of rural revival…



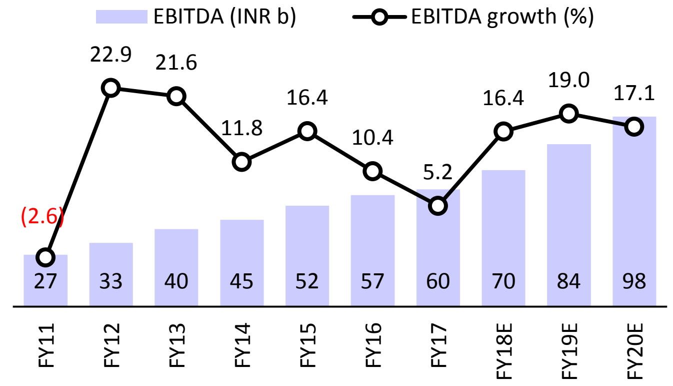
Source: Company, MOSL

Exhibit 11: …and abetted by continued premiumization and end of commodity deflation, sales growth will be high



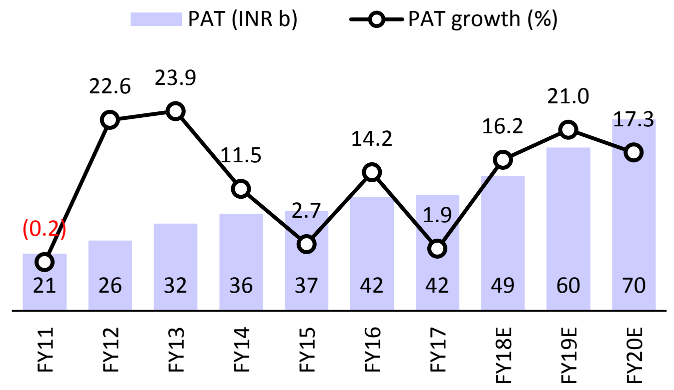
Source: Company, MOSL

Exhibit 12: Strong sales growth, premiumization, mix improvement and cost savings will boost EBITDA…



Source: Company, MOSL

Exhibit 13: …and PAT growth



Source: Company, MOSL

Financials and valuations

Income Statement (INR Million)

Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	**301,705**	**304,990**	**312,980**	**336,865**	**384,228**	**438,293**
Other Oper. Income	6,351	5,619	5,920	6,512	7,163	7,880
Total Revenue	**308,056**	**310,609**	**318,900**	**343,377**	**391,391**	**446,172**
Change (%)	*9.9*	*0.8*	*2.7*	*7.7*	*14.0*	*14.0*
COGS	156,236	153,053	156,850	162,866	183,977	207,392
Gross Profit	**151,821**	**157,556**	**162,050**	**180,511**	**207,414**	**238,780**
Gros Margin (%)	49.3	50.7	50.8	52.6	53.0	53.5
Operating Exp	99,738	100,070	101,580	110,154	123,668	140,736
% of sales	*32.4*	*32.2*	*31.9*	*32.1*	*31.6*	*31.5*
EBIDTA	**52,082**	**57,486**	**60,470**	**70,358**	**83,746**	**98,044**
Change (%)	*16.4*	*10.4*	*5.2*	*16.4*	*19.0*	*17.1*
Margin (%)	*16.9*	*18.5*	*19.0*	*20.5*	*21.4*	*22.0*
Depreciation	2,867	3,208	3,960	4,611	4,818	4,958
Int. and Fin. Charges	168	150	220	242	242	242
Other Income - Recurring	6,184	5,640	5,260	5,018	6,633	7,249
Profit before Taxes	**55,231**	**59,769**	**61,550**	**70,522**	**85,319**	**100,094**
Change (%)	*15.1*	*8.2*	*3.0*	*14.6*	*21.0*	*17.3*
Margin (%)	*18.3*	*19.6*	*19.7*	*20.9*	*22.2*	*22.8*
Tax	19,060	18,160	18,650	20,663	24,998	29,327
Deferred Tax	-338	-70	410	494	597	701
Tax Rate (%)	*33.9*	*30.3*	*31.0*	*30.0*	*30.0*	*30.0*
Profit after Taxes	**36,510**	**41,679**	**42,490**	**49,366**	**59,723**	**70,066**
Change (%)	*2.7*	*14.2*	*1.9*	*16.2*	*21.0*	*17.3*
Margin (%)	*12.1*	*13.7*	*13.6*	*14.7*	*15.5*	*16.0*
Non-rec. (Exp)/Income	6,643	-310	2,410	0	0	0
Reported PAT	**43,153**	**41,369**	**44,900**	**49,366**	**59,723**	**70,066**

Balance Sheet (INR Million)

Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E
Share Capital	2,164	2,164	2,164	2,164	2,164	2,164
Reserves	35,084	60,630	62,740	63,046	68,337	78,906
Net Worth	**37,248**	**62,794**	**64,904**	**65,210**	**70,501**	**81,070**
Capital Employed	**37,248**	**62,794**	**64,904**	**65,210**	**70,501**	**81,070**
Gross Block	44,306	50,774	65,827	67,827	69,827	71,827
Less: Accum. Depn.	-19,731	-21,627	-25,587	-30,198	-35,016	-39,974
Net Fixed Assets	**24,575**	**29,147**	**40,240**	**37,629**	**34,811**	**31,853**
Capital WIP	4,790	3,860	2,030	2,030	2,030	2,030
Investment in Subsidiaries	6,541	3,130	2,540	2,540	2,540	2,540
Current Investments	26,238	24,670	35,250	35,750	37,750	39,750
Deferred Charges	1,960	1,680	1,600	1,600	1,600	1,600
Curr. Assets, L&A	**72,236**	**76,509**	**65,130**	**67,596**	**89,683**	**107,376**
Inventory	26,027	25,284	23,620	28,792	30,314	34,579
Account Receivables	7,829	10,645	9,280	11,927	13,604	15,518
Cash and Bank Balance	25,376	27,590	16,710	10,857	26,107	36,957
Others	13,005	12,990	15,520	16,020	19,658	20,321
Curr. Liab. and Prov.	**99,093**	**76,202**	**81,886**	**81,934**	**97,914**	**104,079**
Account Payables	48,515	54,980	60,060	58,453	72,744	77,187
Other Liabilities	29,828	12,382	13,106	13,761	14,449	15,172
Provisions	20,749	8,840	8,720	9,720	10,720	11,720
Net Current Assets	**-26,857**	**307**	**-16,756**	**-14,339**	**-8,231**	**3,297**
Application of Funds	**37,248**	**62,794**	**64,904**	**65,211**	**70,500**	**81,070**

Financials and valuations

Ratios						
Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)						
EPS	**16.9**	**19.3**	**19.6**	**22.8**	**27.6**	**32.4**
Cash EPS	18.2	20.7	21.5	24.9	29.8	34.7
BV/Share	17.2	29.0	30.0	30.1	32.6	37.5
DPS	15.0	15.5	16.5	19.5	21.5	23.5
Payout %	88.9	80.5	84.0	85.5	77.9	72.6
Valuation (x)						
P/E	75.7	66.3	65.0	56.1	46.3	39.5
Cash P/E	70.2	61.6	59.5	51.3	42.9	36.9
EV/Sales	9.1	9.0	8.8	8.2	7.1	6.2
EV/EBITDA	52.4	47.5	45.4	39.1	32.7	27.8
P/BV	74.2	44.0	42.6	42.4	39.3	34.1
Dividend Yield (%)	1.2	1.2	1.3	1.5	1.7	1.8
Return Ratios (%)						
RoE	104.3	83.3	66.5	75.9	88.0	92.5
RoCE	140.6	108.5	88.5	101.1	116.3	122.8
RoIC	4,018.2	263.3	108.6	98.5	123.3	164.2
Working Capital Ratios						
Debtor (Days)	9	13	11	13	13	13
Asset Turnover (x)	8.1	4.9	4.8	5.2	5.4	5.4
Leverage Ratio						
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement						(INR Million)
Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(loss) before Tax	55,231	59,769	61,550	70,522	85,319	100,094
Int./Div. Received	-6,184	-5,640	-5,260	-5,018	-6,633	-7,249
Depreciation	2,867	3,208	3,960	4,611	4,818	4,958
Interest Paid	168	150	220	242	242	242
Direct Taxes Paid	-19,060	-18,160	-18,650	-20,663	-24,998	-29,327
(Incr)/Decr in WC	2,816	-24,949	6,183	-8,270	9,142	-678
CF from Operations	**35,839**	**14,378**	**48,003**	**41,425**	**67,890**	**68,039**
Extraordinary Items	6,643	-310	2,410	0	0	0
(Incr)/Decr in FA	-4,269	-5,537	-13,223	-2,000	-2,000	-2,000
Free Cash Flow	**31,569**	**8,840**	**34,780**	**39,425**	**65,890**	**66,039**
(Pur)/Sale of Investments	-1,838	4,979	-9,990	-500	-2,000	-2,000
CF from Invest.	**536**	**-868**	**-20,803**	**-2,500**	**-4,000**	**-4,000**
Change in Networth	137	24,262	-150	310	0	0
Change in equity	1	0	0	0	0	0
Change in reserves	136	24,262	-150	310	0	0
Dividend Paid	-38,812	-40,085	-42,640	-49,369	-54,433	-59,496
Others	5,467	4,528	4,711	4,282	5,793	6,307
CF from Fin. Activity	**-33,208**	**-11,295**	**-38,080**	**-44,777**	**-48,640**	**-53,189**
Incr/Decr of Cash	**3,166**	**2,215**	**-10,880**	**-5,853**	**15,250**	**10,850**
Add: Opening Balance	22,210	25,376	27,590	16,710	10,857	26,107
Closing Balance	**25,376**	**27,590**	**16,710**	**10,857**	**26,107**	**36,957**

E: MOSL Estimates

Dabur

BSE SENSEX	S&P CNX
33,478	10,327

CMP: INR339 TP: INR410 (+21%) Buy

Rural momentum picking up perceptibly

Market share issues getting addressed

Best midcap bet on Consumer recovery

- Dabur is one of India's top 5 Consumer companies in terms of distribution reach – it reaches 5.3m outlets. This coupled with the fact that nearly 50% of its domestic sales comes from rural India – the highest proportion among FMCG companies – makes it an ideal play on rural revival.
- The rural outlook appears buoyant. For the first time in three years, companies with high rural sales called out faster rural growth than urban growth or growth at least equivalent to urban growth in 2QFY18. For Dabur, rural sales grew 11% in 2QFY18 against 10% YoY growth in its urban sales. Rural recovery from 2QFY18 was earlier than expected – even before the benefits of a near-normal monsoon and government schemes began percolating from 3QFY18.
- Before the drought-and-demonetization-led rural slowdown of the past three years, rural sales growth was more than double the urban sales growth for many years, driving sectoral volume growth up rapidly.
- Worries on both the wholesale channel due to GST implementation and rural sales (in both of which Dabur has a disproportionately high exposure compared to peers) are receding faster than expected. Dabur has the advantage of a weak base of rural growth in the past three years.
- Dabur has also addressed issues of market share losses in two key categories – juices and honey; oral care continues to do well.
- With the rollout of a slew of science-based ayurvedic (herbal/natural) products from 4QFY18, Dabur is also expected to take advantage of its legacy brand strength, domain expertise and sourcing advantage on important raw materials to cater to a rapidly growing set of customers seeking ayurvedic products with scientifically-proven benefits.

Valuation and view

The much-vaunted earnings revival in the sector appears poised to come through and rural-dependent plays like Dabur are likely to be at the vanguard. International business is also expected to revive over the next couple of quarters, which means that performance of this segment wouldn't be an overhang, going forward. Expected EPS CAGR of ~18% compared to less than 12% over FY14-17 is a significant increase in momentum. RoE is healthy in the late 20s. We roll forward to December 2019 earnings estimates, and at 39x (5% premium to 3-year average), we get a target price of INR410. We reiterate **Buy**.

Stock Info

Bloomberg	DABUR IN
Equity Shares (m)	1761.5
M.Cap.INRb/USDb	566.2 / 8.7
52-Week Range (INR)	360/259
1, 6, 12 Rel. Per (%)	3/13/-5
Avg Val, INRm	430
Free float (%)	31.9

Financials Snapshot (INR b)

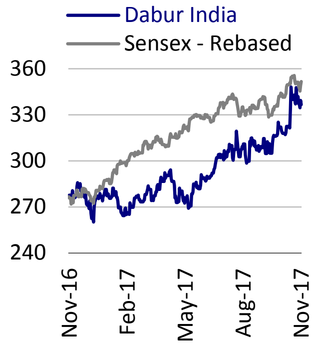
Y/E MARCH	2018E	2019E	2020E
Net Sales	78.7	91.6	104.5
EBITDA (INR b)	15.8	18.8	21.7
Net Profit	13.6	16.4	19.2
EPS	7.7	9.3	10.9
EPS gro. (%)	6.8	20.0	17.1
BV/Sh. (INR)	32.1	35.9	37.9
P/E (x)	43.9	36.6	31.2
P/BV (x)	10.6	9.4	9.0
RoE (%)	26.0	27.3	29.4
RoCE (%)	22.6	24.1	26.3

Shareholding pattern (%)

As On	Sep-17	Jun-17	Sep-16
Promoter	68.1	68.1	68.0
DII	8.8	8.2	5.6
FII	17.3	17.7	19.8
Others	5.8	6.1	6.6

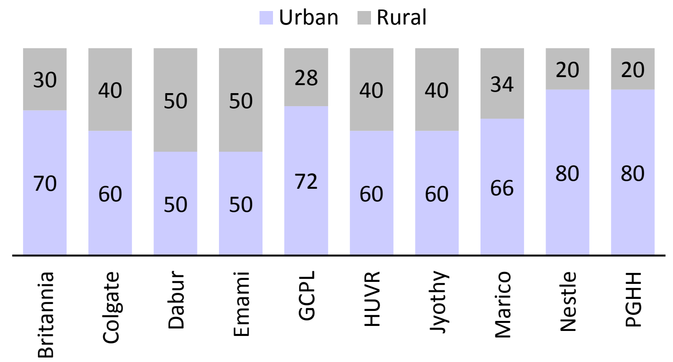
FII Includes depository receipts

Stock Performance (1-year)



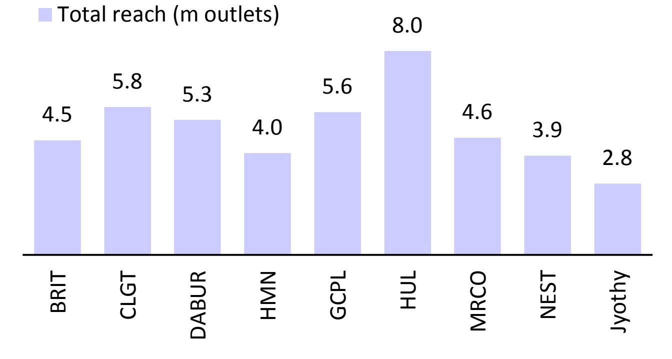
DABUR operating metrics

Exhibit 14: Dabur has 50% salience of rural sales



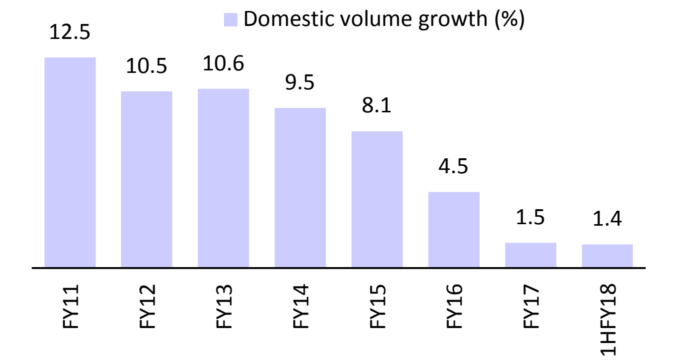
Source: Company, MOSL

Exhibit 15: Its outlet reach is the highest among peers



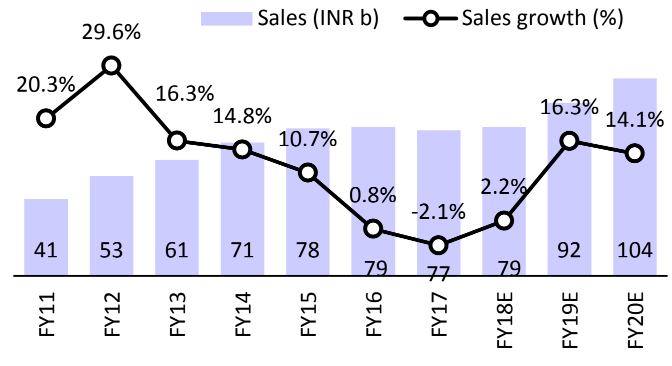
Source: Company, MOSL

Exhibit 16: Volume growth is expected to revive as a result of rural revival in domestic business…



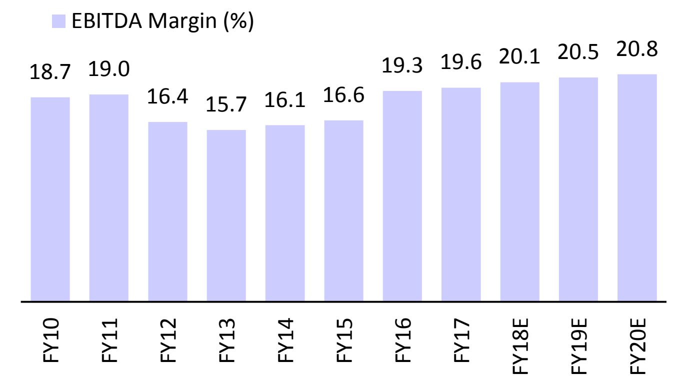
Source: Company, MOSL

Exhibit 17: …and abetted by international growth sales growth will be high



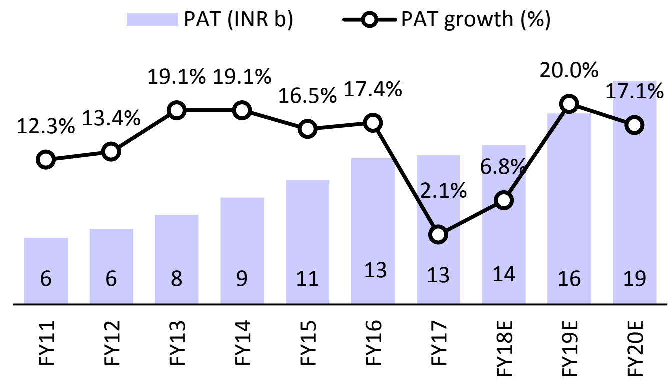
Source: Company, MOSL

Exhibit 18: Strong sales growth and cost savings will boost EBITDA margins…



Source: Company, MOSL

Exhibit 19: …and PAT growth



Source: Company, MOSL

Financials and valuations

Income Statement						(INR Million)
Y/E March	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Net Sales	**78,065**	**78,688**	**77,014**	**78,740**	**91,565**	**104,457**
Change (%)	10.7	0.8	-2.1	2.2	16.3	14.1
Total Expenditure	65,108	63,505	61,925	62,924	72,790	82,731
EBITDA	**12,957**	**15,183**	**15,089**	**15,816**	**18,775**	**21,726**
Change (%)	13.8	17.2	-0.6	4.8	18.7	15.7
Margin (%)	16.6	19.3	19.6	20.1	20.5	20.8
Depreciation	1,150	1,332	1,429	1,539	1,590	1,641
Int. and Fin. Charges	401	485	540	526	523	495
Other Income - Recurring	1,788	2,172	2,984	3,282	3,774	4,340
Profit before Taxes	**13,194**	**15,538**	**16,104**	**17,033**	**20,437**	**23,930**
Change (%)	16.1	17.8	3.6	5.8	20.0	17.1
Margin (%)	16.9	19.7	20.9	21.6	22.3	22.9
Tax	2,347	2,840	3,110	3,270	3,924	4,595
Tax Rate (%)	19.0	19.3	20.5	19.8	19.8	19.8
Profit after Taxes	**10,685**	**12,539**	**12,801**	**13,661**	**16,390**	**19,192**
Change (%)	16.5	17.4	2.1	6.7	20.0	17.1
Margin (%)	13.7	15.9	16.6	17.3	17.9	18.4
Minority Interest	26	28	31	29	34	40
Adjusted PAT	**10,658**	**12,512**	**12,769**	**13,632**	**16,357**	**19,152**

Balance Sheet						(INR Million)
Y/E March	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Share Capital	1,757	1,759	1,762	1,762	1,762	1,762
Reserves	31,785	39,842	46,712	54,761	61,549	65,016
Net Worth	**33,541**	**41,601**	**48,473**	**56,523**	**63,311**	**66,777**
Minority Interest	182	217	248	277	311	350
Loans	9,608	8,043	9,115	10,000	9,000	9,000
Capital Employed	**43,331**	**49,860**	**57,837**	**66,800**	**72,621**	**76,128**
Gross Block	25,409	27,802	29,802	30,802	31,802	32,802
Less: Accum. Depn.	-6,638	-8,304	-9,732	-11,271	-12,862	-14,503
Net Fixed Assets	**18,771**	**19,499**	**20,070**	**19,531**	**18,941**	**18,300**
Capital WIP	503	448	421	421	421	421
Investments	**18,134**	**25,239**	**32,402**	**35,642**	**39,206**	**43,127**
Current	18,120	25,225	32,402	35,642	39,206	43,127
Non-current	13	13	0	0	0	0
Curr. Assets, L&A	**23,655**	**26,020**	**25,886**	**32,114**	**41,833**	**46,609**
Inventory	9,733	10,965	11,071	11,166	12,972	14,822
Account Receivables	7,108	8,097	6,510	8,397	9,724	11,173
Cash and Bank Balance	2,760	2,204	3,009	6,648	12,534	13,218
Others	4,053	4,754	5,296	5,903	6,603	7,395
Curr. Liab. and Prov.	**17,144**	**20,579**	**20,177**	**20,142**	**27,013**	**31,563**
Current Libilities	14,122	16,739	16,313	16,045	20,786	22,136
Provisions	3,022	3,841	3,864	4,097	6,227	9,426
Net Current Assets	**6,511**	**5,440**	**5,709**	**11,971**	**14,820**	**15,046**
Deferred Tax Liability	-587	-765	-765	-765	-765	-765
Application of Funds	**43,331**	**49,860**	**57,837**	**66,800**	**72,622**	**76,128**

E: MOSL Estimates

Financials and valuations

Ratios						
Y/E March	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Basic (INR)						
EPS	**6.1**	**7.1**	**7.2**	**7.7**	**9.3**	**10.9**
Cash EPS	6.7	7.9	8.1	8.6	10.2	11.8
BV/Share	19.1	23.6	27.5	32.1	35.9	37.9
DPS	2.2	2.0	2.5	2.7	4.6	7.6
Payout %	37.0	28.0	35.0	35.0	50.0	70.0
Valuation (x)						
P/E	55.9	47.7	46.8	43.9	36.6	31.2
Cash P/E	50.5	43.1	42.1	39.4	33.3	28.8
EV/Sales	7.5	7.3	7.4	7.2	6.1	5.3
EV/EBITDA	45.1	38.0	37.9	35.8	29.6	25.3
P/BV	17.8	14.4	12.3	10.6	9.4	9.0
Dividend Yield (%)	0.7	0.6	0.7	0.8	1.4	2.2
Return Ratios (%)						
RoE	35.5	33.3	28.4	26.0	27.3	29.4
RoCE	27.7	27.7	24.6	22.6	24.1	26.3
RoIC	45.5	50.9	49.4	49.7	61.9	80.9
Working Capital Ratios						
Debtor (Days)	33	38	31	39	39	39
Asset Turnover (x)	1.8	1.6	1.3	1.2	1.3	1.4
Leverage Ratio						
Debt/Equity (x)	0.3	0.2	0.2	0.2	0.1	0.1

Cash Flow Statement						(INR Million)
Y/E March	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
OP/(loss) before Tax	13,194	15,538	16,104	17,033	20,437	23,930
Int./Div. Received	-1,788	-2,172	-2,984	-3,282	-3,774	-4,340
Depreciation & Amort.	1,150	1,332	1,429	1,539	1,590	1,641
Interest Paid	401	485	540	526	523	495
Direct Taxes Paid	-2,347	-2,840	-3,110	-3,270	-3,924	-4,595
(Incr)/Decr in WC	-917	514	536	-2,623	3,038	458
CF from Oper.	**9,694**	**12,857**	**12,515**	**9,922**	**17,889**	**17,589**
Extraordinary Items	0	0	0	0	0	0
(Incr)/Decr in FA	-1,567	-2,338	-1,973	-1,000	-1,000	-1,000
Free Cash Flow	**8,127**	**10,519**	**10,542**	**8,922**	**16,889**	**16,589**
(Pur)/Sale of Invt.	-7,369	-7,105	-7,163	-3,240	-3,564	-3,921
CF from Invest.	**-8,936**	**-9,443**	**-9,136**	**-4,240**	**-4,564**	**-4,921**
Issue of Shares	2	2	2	2	2	2
(Incr)/Decr in Debt	97	-1,566	1,073	885	-1,000	0
Dividend Paid	-3,948	-3,506	-4,469	-4,771	-8,178	-13,407
Others	658	1,100	821	1,841	1,737	1,420
CF from Fin. Act.	**-3,191**	**-3,970**	**-2,573**	**-2,044**	**-7,439**	**-11,985**
Incr/Decr of Cash	**-2,433**	**-556**	**806**	**3,639**	**5,886**	**684**
Add: Opening Bal.	5,194	2,760	2,204	3,009	6,648	12,534
Closing Balance	**2,761**	**2,204**	**3,010**	**6,648**	**12,534**	**13,217**

E: MOSL Estimates

Mahindra & Mahindra

BSE SENSEX	S&P CNX
33,478	10,327

CMP: INR 1,418 TP: INR 1,658 (+17%) Buy

Mahindra

Stock Info

Bloomberg	MM IN
Equity Shares (m)	592.6
M.Cap.(INRb)/(USD b)	807.2 / 12.5
52-Week Range (INR)	1509 / 1142
1, 6, 12 Rel. Per (%)	-2/-2/-14
Avg Val, (INRm)	1501
Free float (%)	74.7

Financials & Valuations (INRb)

Y/E Mar	2018E	2019E	2020E
Sales	478.9	540.1	599.1
EBITDA	59.8	66.6	75.3
NP (incl. MVML)	41.1	46.3	53.0
Adj. EPS (INR) *	68.7	77.4	88.6
EPS Gr. (%)	9.8	12.7	14.5
Cons. EPS (INR)	75.0	85.7	94.6
BV/Sh. (INR)	478	532	596
RoE (%)	14.5	14.6	14.9
RoCE (%)	13.4	13.6	14.0
Cons. P/E (x)	18.9	16.6	15.0

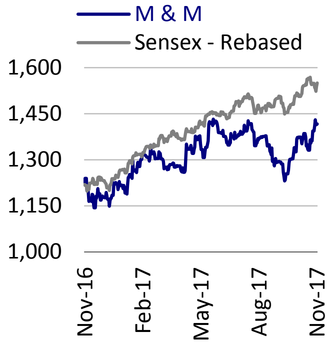
* incl. MVML

Shareholding pattern (%)

As On	Sep-17	Jun-17	Sep-16
Promoter	25.2	25.3	25.4
DII	20.0	20.7	17.8
FII	39.6	39.2	42.1
Others	15.2	14.8	14.7

FII Includes depository receipts

Stock Performance (1-year)



Rural recovery visible in operating performance

Several new launches in 2HFY18/FY19 to support growth

Benefits of government steps to boost rural economy visible

- **Tractor volumes grew ~14% during the festive season.**
- **UV segment volumes grew ~8% during the festive season.**
- **Inventory levels normal in UVs, lower than normal in tractors.**
- **Multi-year high profitability for autos and tractors.**

High dependence on rural markets in both tractors and auto business

MM has the highest dependence on the rural market among key auto OEMs, making it the best bet on rural market recovery due to good consecutive monsoons and loan waivers across states. For MM, the rural market contributes ~56% to revenue, 72% to standalone PAT, and ~68% to SOTP value.

Normal monsoon, low base to drive growth for tractors

MM's tractor volumes are likely to recover sharply, with ~11% CAGR over FY17-20, driven by normal monsoon and low base (FY17 volumes lower than peak of FY14). The government's target to double farm income in five years will not only help in reducing volatility in tractors, but also catalyze penetration of implements (~2% of MM's FES revenue versus global average of ~66%).

UVs – sharp recovery to continue in pick-ups; passenger vehicles to benefit from rural recovery and new launches

- **Pick-ups** (~43% of FY17 volumes) are back on the growth path, though still below the previous peak of FY14. With 57% market share in LCVs <3.5ton, MM's pick-up volumes are estimated to grow at a CAGR of ~14% over FY17-20, driven by economic recovery.
- **Passenger vehicle** volumes declined at a compounded annual rate of 6% over FY13-17, impacted by the emergence of compact SUVs (MM was absent in this segment) and rural weakness (~50% of volumes). Further, its launches in the compact SUV segment failed. With expected recovery in the rural market, one new product launch each in FY18/19, and several refreshes/upgrades, we expect the passenger UV segment to witness ~7% CAGR. Success of upcoming launches would drive volumes higher.

EBITDA margin – several levers to improve margins

MM has several margin levers – mix (higher tractor and pick-up volumes), lower CV and 2W business losses, lower marketing spend, and positive operating leverage, which are not fully factored in. We expect EBITDA margin to expand 100bp over FY17-20 to ~14.5%, translating into ~12% CAGR in standalone PAT and ~20% CAGR in consolidated PAT.

Strong earnings cycle beginning; reiterate Buy

We estimate 20.3% consolidated EPS CAGR over FY17-20 (versus ~9% compounded annual decline over FY14-17). Recovery in rural markets improves visibility of volume recovery in both core businesses. After a gap of four years, both the businesses – Tractors and UVs –would be delivering double-digit growth over FY17-20. MM is one of the cheapest large cap auto stocks, with a valuation of 18x FY19E and 15.7x FY20E consolidated EPS, and 14x FY19E and 12.1x FY20E core EPS (adjusted for value in subsidiaries after 20% holding discount). Buy with an SOTP-based target price of ~INR1,658 (December 2019E-based SOTP).

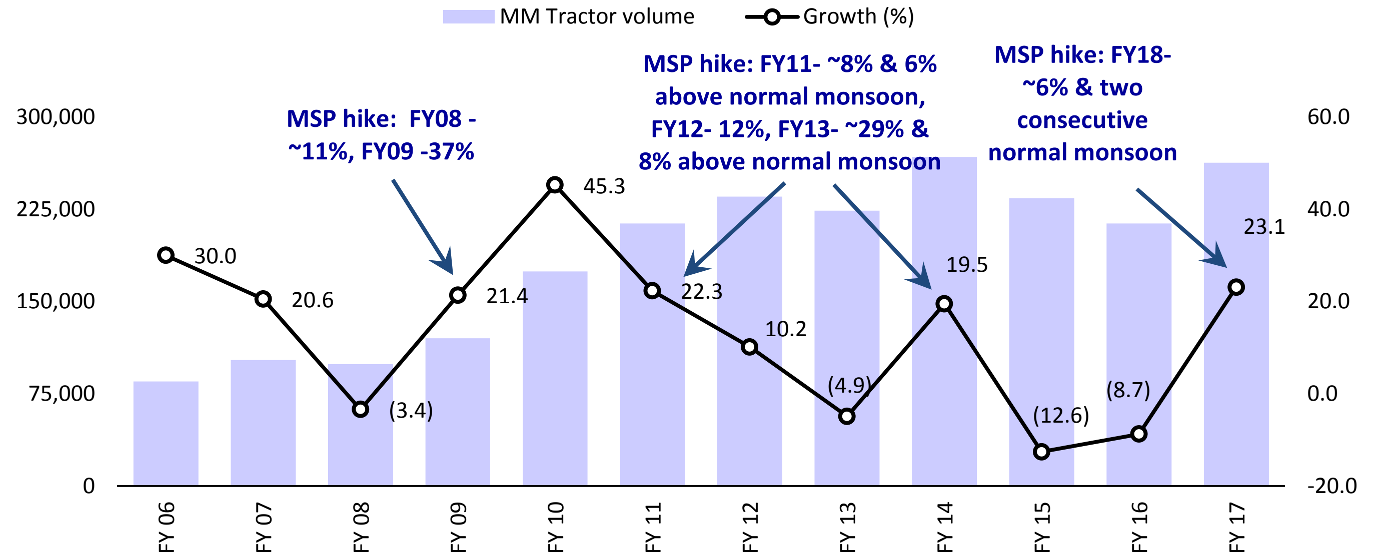
Exhibit 20: MM: Sum-of-the-parts valuation (INR/share)

	FY18E	FY19E	FY20E
Core EPS (excl. subsidiary dividend)	58.2	65.8	75.8
PE attributable (x)	16	16	16
Value of core business	**931**	**1,053**	**1,213**
Value of subsidiaries @ Hold Co discount		20	20
1. Tech Mahindra	168	168	168
2. M&M Financial Services	161	161	161
3. Mahindra Lifespaces	9	9	9
4. Mahindra Holidays	29	29	29
5. Ssangyong	42	42	42
6. Mahindra CIE	21	21	21
7. CIE Automotive Spain	44	44	44
Target price (after 20% discount)	**1,405**	**1,527**	**1,688**
Upside (%)	0.8	9.6	21.1

Source: Company

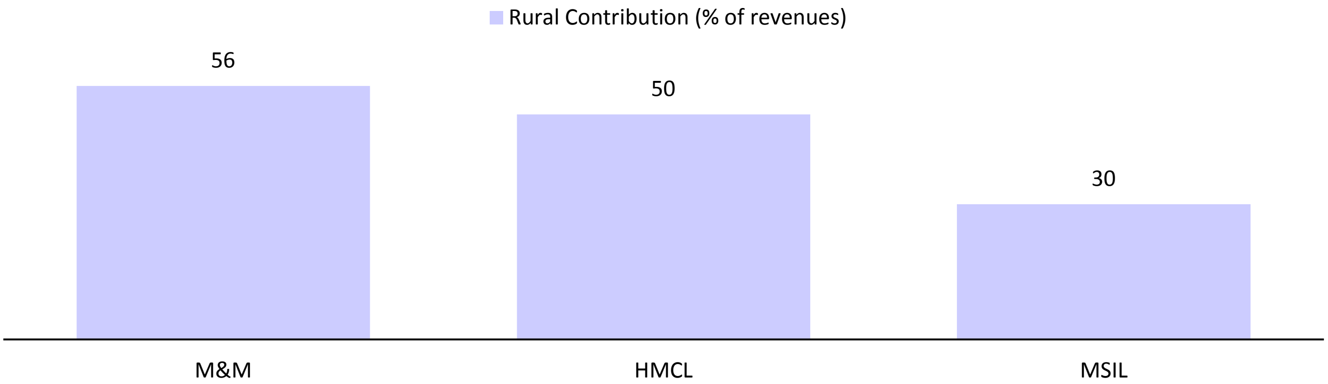
Operating metrics

Exhibit 21: MSP hikes and normal monsoon lead to higher growth for tractor sales in general



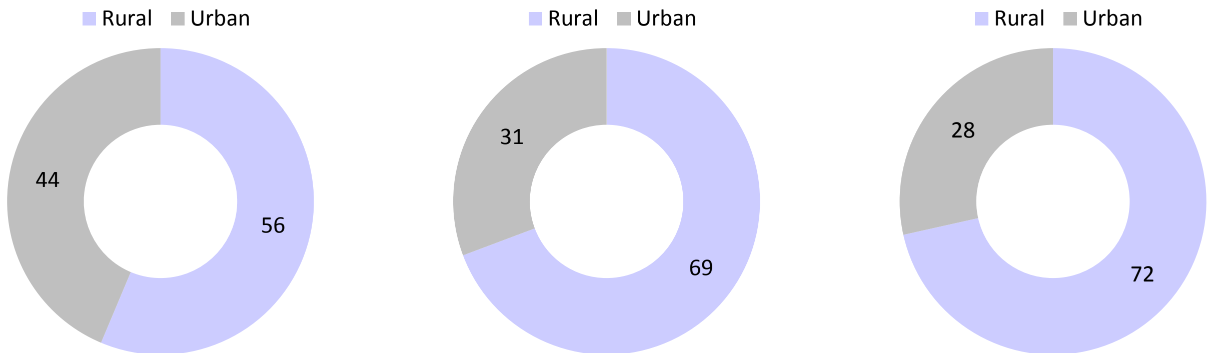
Source: Company, MOSL

Exhibit 22: MM has the highest rural exposure among key OEMs



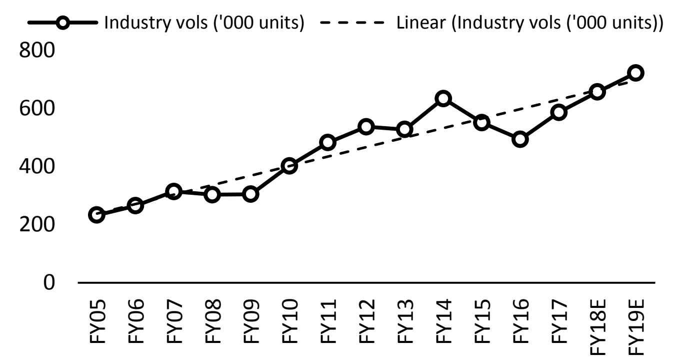
Source: Company, MOSL

Exhibit 23: Rural markets contribute ~56% to MM's revenue, 69% to PAT, and ~72% to SOTP value



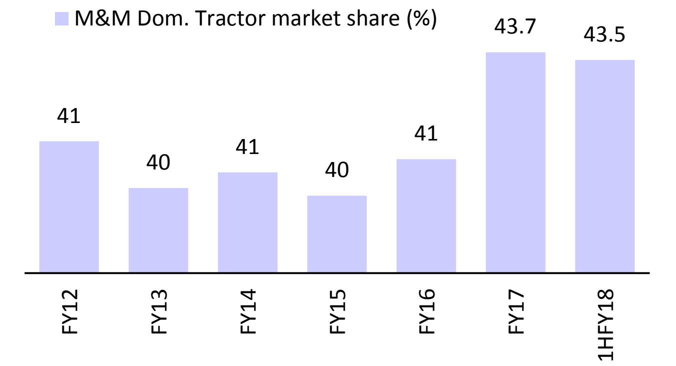
Source: Company, MOSL

Exhibit 24: Industry tractor volumes trending below long term average



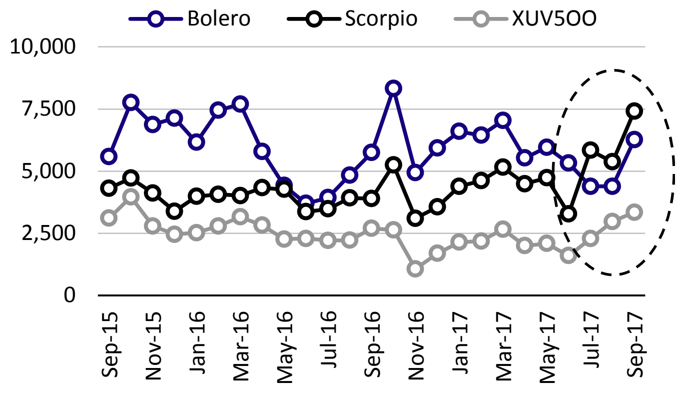
Source: Company, MOSL

Exhibit 25: MM's tractor market share improved considerably in FY17, on the back successful new launches



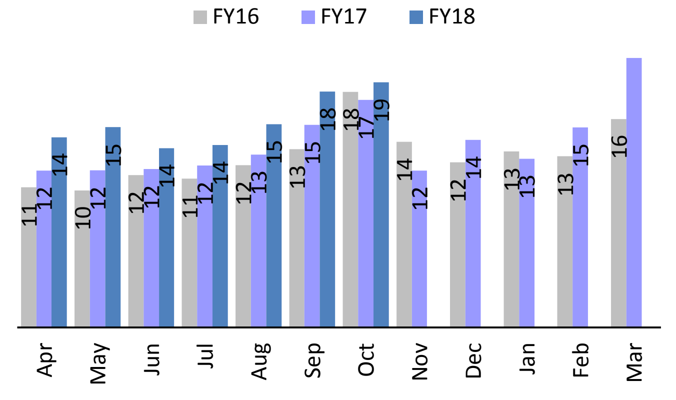
Source: Company, MOSL

Exhibit 26: Key models recovering post demonetization



Source: Company, MOSL

Exhibit 27: MM's pick-up+SCV volumes pick up growth (in '000 units)



Source: Company, MOSL

Financials and Valuations

Income Statement						(INR Million)
Y/E March	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Net Op. Income	**384,448**	**408,751**	**437,854**	**478,935**	**540,061**	**599,106**
Change (%)	-5.1	6.3	7.1	9.4	12.8	10.9
Total Expenditure	342,714	362,551	390,161	419,141	473,495	523,810
EBITDA	**41,734**	**46,199**	**47,693**	**59,794**	**66,565**	**75,296**
Margins (%)	10.9	11.3	10.9	12.5	12.3	12.6
Margins (%, incl MVML)	**12.5**	**13.5**	**13.5**	**14.4**	**14.2**	**14.5**
Depreciation	9,749	10,681	13,272	15,195	17,480	19,655
EBIT	**31,985**	**35,518**	**34,421**	**44,599**	**49,085**	**55,641**
Deferred Revenue Exp.	0	0	0	0	0	0
Int. & Finance Charges	2,143	1,861	1,456	1,369	1,506	1,506
Other Income	9,883	8,499	13,425	12,693	13,923	15,365
Non-recurring Expense	0	0	0	0	0	0
Non-recurring Income	3,357	687	0	0	0	0
Profit before Tax	**43,082**	**42,845**	**46,390**	**55,924**	**61,502**	**69,500**
Tax	8,478	10,799	12,319	16,833	17,836	19,460
Eff. Tax Rate (%)	19.7	25.2	26.6	30.1	29.0	28.0
Profit after Tax	**34,604**	**32,046**	**34,072**	**39,091**	**43,666**	**50,040**
Change (%)	-7.9	-7.4	6.3	14.7	11.7	14.6
% of Net Sales	9.0	7.8	7.8	8.2	8.1	8.4
Adj. Profit after Tax	**31,908**	**31,532**	**34,072**	**39,091**	**43,666**	**50,040**
Change (%)	(14.1)	(1.2)	8.1	14.7	11.7	14.6
Adj. PAT (incl MVML)	**31,595**	**33,394**	**37,429**	**41,105**	**46,305**	**53,006**

Balance Sheet						(INR Million)
Y/E March	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Share Capital	2,957	2,963	2,968	2,968	2,968	2,968
Reserves	189,594	221,269	253,728	280,946	312,740	350,908
Net Worth	**192,551**	**224,232**	**256,696**	**283,914**	**315,708**	**353,876**
Deferred tax	9,797	-54	2,057	2,057	2,057	2,057
Loans	46,615	18,436	27,374	27,374	27,374	27,374
Capital Employed	**248,963**	**242,614**	**286,127**	**313,345**	**345,139**	**383,307**
Application of Funds						
Gross Fixed Assets	117,385	139,386	153,044	188,424	213,424	238,424
Less: Depreciation	58,091	63,426	76,698	91,893	109,374	129,029
Net Fixed Assets	**59,295**	**75,960**	**76,346**	**96,530**	**104,050**	**109,395**
Capital WIP	21,788	15,622	20,379	10,000	10,000	10,000
Investments	131,382	135,474	179,022	182,955	197,955	212,955
Curr.Assets, L & Adv.	**116,985**	**123,286**	**112,744**	**135,090**	**156,087**	**185,234**
Inventory	24,376	26,879	27,156	31,492	35,511	39,393
Inventory Days	23	24	23	24	24	24
Sundry Debtors	25,580	25,116	29,185	31,492	35,511	39,393
Debtor Days	25	23	25	24	24	24
Cash & Bank Bal.	20,648	22,870	16,870	28,131	39,833	60,002
Loans & Advances	40,054	17,103	5,398	9,841	11,097	12,310
Others	6,328	31,317	34,135	34,135	34,135	34,135
Current Liab. & Prov.	**80,486**	**107,728**	**102,365**	**111,230**	**122,953**	**134,277**
Sundry Creditors	53,655	66,780	71,581	78,729	88,777	98,483
Creditor Days	52	60	60	60	60	60
Other Liabilities	6,143	30,300	19,380	19,380	19,380	19,380
Provisions	20,688	10,648	11,405	13,122	14,796	16,414
Net Current Assets	**36,499**	**15,558**	**10,379**	**23,860**	**33,135**	**50,958**
Application of Funds	**248,963**	**242,614**	**286,127**	**313,345**	**345,139**	**383,307**

E: MOSL Estimates

Financials and Valuations

Ratios						
Y/E March	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Basic (INR)						
Fully diluted EPS	**53.3**	**52.7**	**56.9**	**65.3**	**73.0**	**83.6**
FD EPS (incl MVML)	**52.8**	**55.8**	**62.5**	**68.7**	**77.4**	**88.6**
Consolidated EPS	**47.8**	**52.1**	**54.3**	**75.0**	**85.7**	**94.6**
Cash EPS	70.4	71.2	79.8	91.4	103.0	117.4
Book Value per Share	325.6	378.4	432.4	478.3	531.8	596.1
DPS	12.0	12.0	13.0	20.0	20.0	20.0
Payout (Incl. Div. Tax) %	24.5	26.3	22.7	35.3	31.6	27.6
Valuation (x)						
P/E	26.9	25.4	22.7	20.6	18.3	16.0
Consolidated P/E	29.7	27.2	26.1	18.9	16.6	15.0
Cash P/E	20.1	19.9	17.8	15.5	13.8	12.1
EV/EBITDA	20.1	17.6	17.1	13.6	12.1	9.0
EV/Sales	2.2	2.0	1.9	1.7	1.5	1.1
Price to Book Value	4.4	3.7	3.3	3.0	2.7	2.4
Dividend Yield (%)	0.8	0.8	0.9	1.4	1.4	1.4
Profitability Ratios (%)						
RoE	17.7	15.1	14.2	14.5	14.6	14.9
RoCE	14.2	13.4	13.3	13.4	13.6	14.0
ROIC	35.4	37.0	36.5	38.5	36.8	40.5
Turnover Ratios						
Debtors (Days)	25	23	25	24	24	24
Inventory (Days)	23	24	23	24	24	24
Creditors (Days)	52	60	60	60	60	60
Working Capital (Days)	35	14	9	18	22	31
Asset Turnover (x)	1.5	1.7	1.5	1.5	1.6	1.6
Growth (%)						
Sales	-5.1	6.3	7.1	9.4	12.8	10.9
Operating Profit	10.9	11.3	10.9	12.5	12.3	12.6
Net Profit	-14.1	-1.2	8.1	14.7	11.7	14.6
EPS	-14.1	-1.2	8.1	14.7	11.7	14.6
Leverage Ratio						
Debt/Equity (x)	0.2	0.1	0.1	0.1	0.1	0.1

Cash Flow Statement						(INR Million)
Y/E March	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
OP/(Loss) before Tax	38,332	41,612	34,421	44,599	49,085	55,641
Int./Dividends Received	-3,723	-3,027	13,425	12,693	13,923	15,365
Depreciation & Amort.	-9,749	11,086	13,272	15,195	17,480	19,655
Direct Taxes Paid	-8,468	-9,279	-10,208	-16,833	-17,836	-19,460
(Inc)/Dec in Wkg. Capital	15,802	14,393	-822	-2,220	2,428	2,346
Other Items						
CF from Oper.Activity	**32,195**	**54,785**	**50,088**	**53,435**	**65,081**	**73,547**
Extra-ordinary Items	3,357	687	0	0	0	0
Other Items	0	0	0	0	0	0
CF after EO Items	**35,552**	**55,473**	**50,088**	**53,435**	**65,081**	**73,547**
(Inc)/Dec in FA+CWIP	-20,226	-21,597	-18,416	-25,000	-25,000	-25,000
Free Cash Flow	**11,969**	**33,189**	**31,672**	**28,435**	**40,081**	**48,547**
(Pur)/Sale of Invest.	-4,005	-13,865	-43,548	-3,933	-15,000	-15,000
CF from Inv. Activity	**-24,231**	**-35,461**	**-61,964**	**-28,933**	**-40,000**	**-40,000**
Change in Net Worth	26	0	7,359	1,923	1,923	1,923
Inc/(Dec) in Debt	-3,847	-9,500	8,939	0	0	0
Interest Paid	-2,419	-2,110	-1,456	-1,369	-1,506	-1,506
Dividends Paid	-9,609	-8,461	-7,885	-12,040	-12,040	-12,040
CF from Fin. Activity	**-15,848**	**-20,071**	**6,957**	**-11,486**	**-11,623**	**-11,623**
Inc/(Dec) in Cash	**-7,884**	**-747**	**-4,918**	**13,016**	**13,458**	**21,924**
Add: Beginning Balance	29,504	20,648	22,870	16,870	28,131	39,833
Closing Balance	**21,788**	**20,069**	**18,120**	**30,054**	**41,757**	**61,925**

E: MOSL Estimates

M&M Financial Services

BSE SENSEX	S&P CNX
33,478	10,327

CMP: INR437 **TP: INR500 (+14%)** **Buy**

Stock Info

Bloomberg	MMFS IN
Equity Shares (m)	565.0
M.Cap.(INRb)/(USDb)	229.4 / 3.5
52-Week Range (INR)	456 / 244
1, 6, 12 Rel. Per (%)	-1/29/32
12M Avg Val (INR M)	860.0
Free float (%)	48.8

Financials & Valuations (INR b)

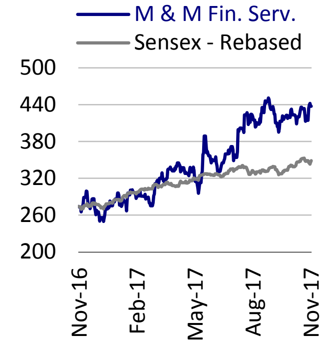
Y/E March	2018E	2019E	2020E
NII	40.1	46.5	54.8
PPP	24.6	28.4	33.7
PAT	8.0	10.8	13.6
EPS (INR)	14.2	19.1	24.0
BV/Sh.(INR)	123.0	134.3	148.6
ABV/Sh (INR)	93.6	105.8	123.1
RoA on AUM (%)	1.8	2.0	2.1
RoE (%)	11.9	14.8	17.0
Payout (%)	41.0	41.0	41.0
Valuations			
P/E (x)	30.9	22.9	18.2
P/BV (x)	3.6	3.3	2.9
P/ABV (x)	4.7	4.1	3.5
Div. Yield (%)	1.1	1.5	1.9

Shareholding pattern (%)

As On	Sep-17	Jun-17	Sep-16
Promoter	51.2	51.9	51.9
DII	10.2	10.5	9.8
FII	32.7	30.5	32.5
Others	5.9	7.2	5.8

FII Includes depository receipts

Stock Performance (1-year)



Green shoots of rural recovery visible

Growth and RoE to pick up meaningfully

- **MMFS is one of the most widely-levered NBFCs to the rural economy. The government's focus on rural spending coupled with two successive normal monsoons (2016 & 2017) bode well for rural incomes, and consequently, MMFS' fortunes.**
- **Over FY14-16, MMFS had been severely impacted on the growth and asset quality front due to slowdown in the rural economy. This was largely attributed to two consecutive subdued monsoons. However, with growth picking up over the past six quarters and asset quality stabilizing, we believe the worst is behind.**
- **The stock trades at 2.6x two-year forward standalone BV. Subsidiaries have gained scale and are significant value contributors today. We expect further re-rating to continue, given improved growth prospects and return ratios. The contribution of subsidiaries is likely to continue increasing. Buy with a target price of INR500.**

Growth has picked up after 2-3 sluggish years

Stress in the Agriculture economy over FY12-16 resulted in subdued farmer cash flows, despite higher MSP for most crops. Consequently, MMFS' AUM growth declined sharply from 37% in FY12 to 11% in FY16. At the same time, GNPL ratio increased from 3% to 8%+. However, in FY17, agricultural production increased 9%, coupled with 6.6% WPI inflation. MSP increase was 4% for wheat and 7% for rice in FY17, resulting in better cash flows for farmers. In addition, the farm loan waivers could provide respite to stressed farmers. This drove improvement in operating performance. AUM growth picked up to 14% in FY17 and has sustained at similar levels in 1HFY18. Similarly, value of assets financed too witnessed a sharp pickup in FY17 from FY14-16 run-rate levels. Asset quality, on an apples-to-apples basis, has improved over the past four quarters. Number of NPL contracts declined 7% YoY to 165k, while GNPL ratio declined 70bp to 10.3% on a 120dpd basis in 1HFY18.

Higher government spend to boost rural demand

Over FY13-15, labor expenditure under MNREGA declined ~15% cumulatively to INR242b. However, labor spending under MNREGA grew at 30% CAGR over FY15-17 to INR408b. At the same time, state government spending has also increased – 19% CAGR in spending on agriculture and 45% CAGR in spending on rural development over FY14-17. Improved government spending bodes well for rural incomes, and thus, rural demand.

Branch network investments to bear fruit

Over FY12-15, MMFS almost doubled its branch count from 607 branches to 1,108 branches. While the company did witness strong AUM growth over FY12-14, growth slowed down sharply over FY14-16. Branches opened over FY15-16 are yet to reach optimum utilization levels. C/I ratio increased 300bp over FY14-16 to 36% and almost 700bp in FY17 to 43%. Among all the major vehicle finance players, MMFS has the second-largest branch network after STF. Given the strong growth outlook, MMFS also increased its headcount by 11% over the past four quarters. We believe MMFS has made the investments necessary for growth and should witness significant operating leverage benefits over time.

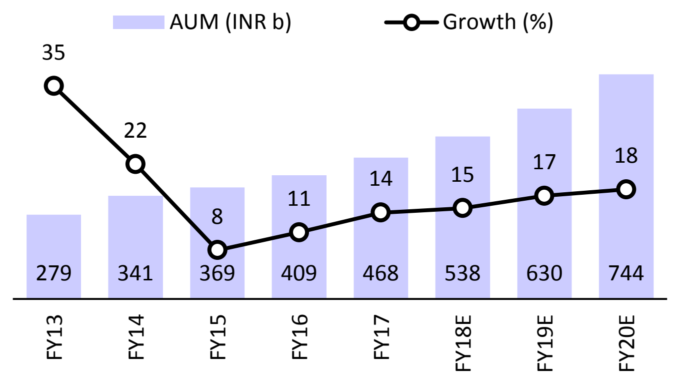
Return ratios to improve, going forward

A key feature of the financing business is that growth and asset quality are highly correlated. With the business environment getting better, there would be an improvement in revenue as well as credit costs for the company. We expect credit costs (% of loans) to decline from 3.3% in FY17 to 2% in FY20. This should drive RoA/RoE improvement from 1%/6.4% to 2.2%/17% over FY17-20.

Valuation and view

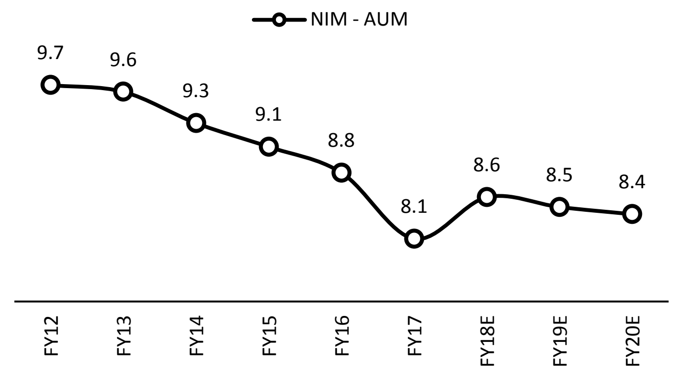
Over FY14-15, MMFS witnessed the brunt of a slow rural economy, battered by two successive deficient monsoons. The GNPL ratio more than doubled from 3% in FY13 to ~7% in FY16. At the same time, AUM growth slowed down to 13% CAGR over FY13-16, compared to 38% CAGR over the prior 3-year period. However, the business environment for MMFS seems to be getting better. With improved macroeconomic conditions (higher farm incomes, increased government spending, etc), demand is expected to recover. The company witnessed the impact of strong rural demand over FY09-12 (35% AUM CAGR with GNPL ratio declining from 8.7% to 3%). With an enhanced branch network that MMFS has invested in over the past five years, it is set to capitalize on the increased demand. This should drive strong AUM growth. Also, while reported NPLs are high (due to migration to 90dpd NPL recognition), we expect credit costs to decline sharply, given higher recoveries. This should drive ~30% PAT CAGR over FY18-20. The stock trades at 2.7x two-year forward standalone BV. **BUY** with a target price of INR500.

Exhibit 28: Trend in AUM



Source: MOSL, Company

Exhibit 29: Declining cost of funds to support margins



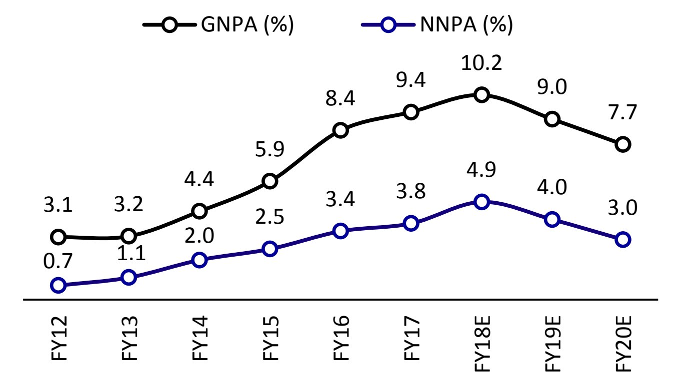
Source: MOSL, Company

Exhibit 30: Branch network trend among vehicle financiers

Number of branches	FY12	FY13	FY14	FY15	FY16	FY17
STF	502	539	654	741	853	918
- No. of rural centers		*350*	*629*	*776*	*803*	*854*
SUF	542	562	575	589	569	587
CIFC	375	518	574	534	534	703
MMFS	607	657	893	1108	1167	1182
Magma	200	275	274	232	234	284

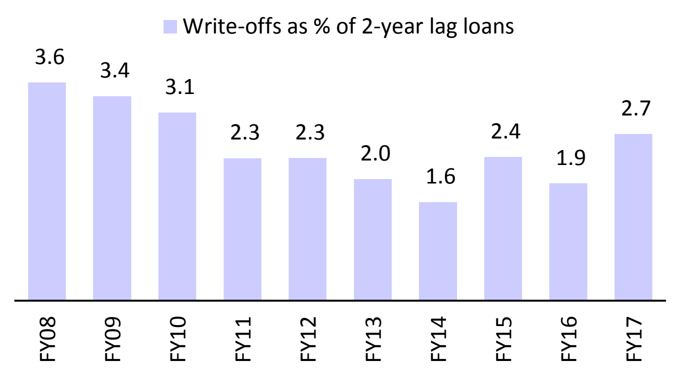
Source: MOSL, Company

Exhibit 31: Asset quality trend



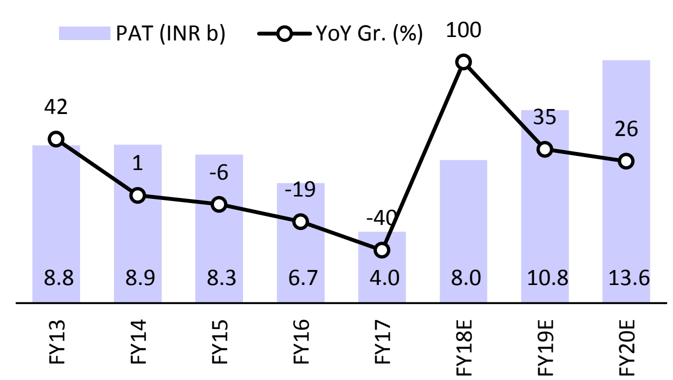
Source: MOSL, Company

Exhibit 32: Write-offs as a % of 2-year lag average loan book



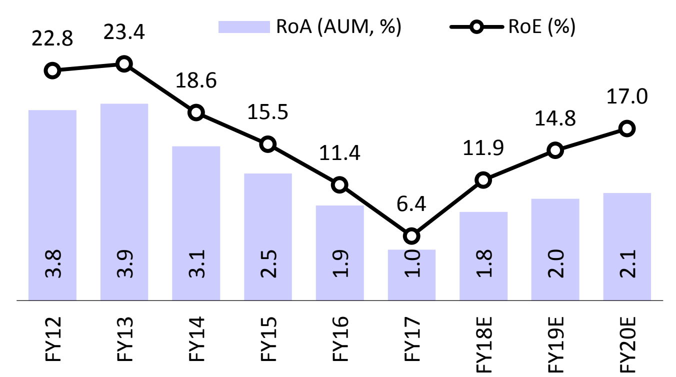
Source: MOSL, Company

Exhibit 33: Profit growth to be robust



Source: MOSL, Company

Exhibit 34: Return ratios expected to increase



Source: MOSL, Company

Financials and valuations

Income Statement						(INR Million)
Y/E March	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Interest Income	52,798	56,468	60,545	69,754	80,317	93,662
Interest Expended	24,967	26,393	28,574	30,645	35,031	40,414
Net Interest Income	**27,831**	**30,075**	**31,971**	**39,109**	**45,286**	**53,248**
Change (%)	10.4	8.1	6.3	22.3	15.8	17.6
Income from Securitisation	2,562	2,063	1,194	1,037	1,236	1,503
Other Income	486	519	636	827	1,075	1,398
Net Income	**30,880**	**32,658**	**33,801**	**40,972**	**47,597**	**56,149**
Change (%)	11.7	5.8	3.5	21.2	16.2	18.0
Operating Expenses	10,068	11,781	14,509	16,369	19,178	22,487
Operating Income	**20,811**	**20,877**	**19,292**	**24,603**	**28,419**	**33,662**
Change (%)	12.4	0.3	-7.6	27.5	15.5	18.4
Provisions and W/Offs	8,275	10,495	13,091	12,434	12,067	13,073
PBT	**12,536**	**10,382**	**6,201**	**12,169**	**16,352**	**20,589**
Tax	4,219	3,656	2,198	4,168	5,560	7,000
Tax Rate (%)	33.7	35.2	35.5	34.3	34.0	34.0
PAT	**8,318**	**6,726**	**4,002**	**8,001**	**10,792**	**13,589**
Change (%)	-6.2	-19.1	-40.5	99.9	34.9	25.9
Proposed Dividend (Incl Tax)	2,730	2,713	1,610	3,263	4,401	5,541

Balance Sheet						(INR Million)
Y/E March	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Equity Share Capital	1,128	1,129	1,130	1,130	1,130	1,130
Reserves & Surplus	55,566	59,752	63,642	68,381	74,773	82,821
Net Worth	**56,694**	**60,881**	**64,772**	**69,511**	**75,903**	**83,951**
Borrowings	**262,633**	**294,523**	**346,704**	**405,320**	**487,192**	**590,525**
Change (%)	9.7	12.1	17.7	16.9	20.2	21.2
Total Liabilities	**319,327**	**355,404**	**411,476**	**474,831**	**563,095**	**674,476**
Investments	10,857	15,351	20,017	22,019	24,221	26,643
Change (%)	8.0	41.4	30.4	10.0	10.0	10.0
Loans and Advances	**324,314**	**362,189**	**421,218**	**488,338**	**576,558**	**686,656**
Change (%)	11.1	11.7	16.3	15.9	18.1	19.1
Net Fixed Assets	1,101	1,135	1,120	1,360	1,577	1,769
Net Current Assets	-16,944	-23,270	-30,879	-36,885	-39,261	-40,593
Total Assets	**319,327**	**355,404**	**411,476**	**474,831**	**563,095**	**674,476**

E: MOSL Estimates

Financials and valuations

Ratios						(INR Million)
Y/E March	**2015E**	**2016**	**2017E**	**2018E**	**2019E**	**2020E**
Spreads Analysis (%)						
Yield on Portfolio	17.1	16.4	15.4	15.3	15.0	14.8
Cost of Borrowings	9.9	9.5	8.9	8.2	7.9	7.5
Interest Spread	7.1	6.9	6.4	7.1	7.2	7.3
Net Interest Margin (on AUMs)	9.1	8.8	8.1	8.6	8.5	8.4
Profitability Ratios (%)						
RoE	15.5	11.4	6.4	11.9	14.8	17.0
RoA (on balance sheet)	2.7	2.0	1.0	1.8	2.1	2.2
RoA on AUM	2.5	1.9	1.0	1.8	2.0	2.1
Average Leverage (x)	5.7	5.7	6.1	6.6	7.1	7.7
Average leverage on AUM (x)	6.2	6.1	6.4	6.8	7.4	8.0
Efficiency Ratios (%)						
Int. Expended/Int.Earned	47.3	46.7	47.2	43.9	43.6	43.1
Op. Exps./Net Income	32.6	36.1	42.9	40.0	40.3	40.0
Empl. Cost/Op. Exps.	45.6	47.4	46.9	47.8	47.0	46.1
Secur. Inc./Net Income	8.3	6.3	3.5	2.5	2.6	2.7
Asset-Liability Profile (%)						
Loans/Borrowings Ratio	123.5	123.0	121.5	120.5	118.3	116.3
Net NPAs to Adv.	2.5	3.4	3.8	4.9	4.0	3.0
Valuation						
Book Value (INR)	100.5	107.8	114.6	123.0	134.3	148.6
BV Growth (%)	11.2	7.3	6.3	7.3	9.2	10.6
Price-BV (x)	**4.3**	**4.1**	**3.8**	**3.6**	**3.3**	**2.9**
Adjusted BV (INR)	90.3	92.5	94.8	93.6	105.8	123.1
Price-ABV (x)	**4.8**	**4.7**	**4.6**	**4.7**	**4.1**	**3.5**
OPS (INR)	36.9	37.0	34.1	43.5	50.3	59.6
OPS Growth (%)	12.3	0.2	-7.7	27.5	15.5	18.4
Price-OP (x)	**11.8**	**11.8**	**12.8**	**10.0**	**8.7**	**7.3**
EPS (INR)	14.7	11.9	7.1	14.2	19.1	24.0
EPS Growth (%)	-6.4	-19.2	-40.5	99.9	34.9	25.9
Price-Earnings (x)	**29.6**	**36.7**	**61.7**	**30.9**	**22.9**	**18.2**
Dividend	4.0	4.0	2.8	5.0	6.7	8.4
Dividend Yield (%)	**0.9**	**0.9**	**0.7**	**1.1**	**1.5**	**1.9**

E: MOSL Estimates

Repco Home Finance

BSE SENSEX	S&P CNX
33,478	10,327

Repco Home Finance - We value your Dream

Stock info

Bloomberg	REPCO IN
Equity Shares (m)	62.6
M.Cap.(INR b)/(USD b)	38.5/0.6
52-Week Range (INR)	923 / 500
1, 6, 12 Rel. Per (%)	-6/-27/-16
Avg Val,(INR m)	134
Free float (%)	62.9

Financials & Valuations (INR b)

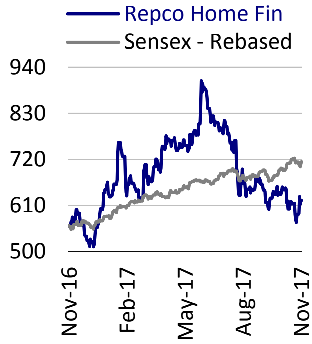
Y/E March	2018E	2019E	2020E
NII	4.5	5.1	6.1
PPP	4.1	4.7	5.6
PAT	2.3	2.6	3.1
EPS (INR)	36.0	41.9	50.0
BV/Sh. (INR)	217.8	259.7	309.7
RoAA (%)	2.3	2.3	2.3
RoE (%)	18.0	17.6	17.6
Payout (%)	8.0	8.0	8.0
Valuation			
P/E (x)	17.2	14.7	12.3
P/BV (x)	2.8	2.4	2.0
Div. Yield (%)	0.4	0.4	0.5

Shareholding pattern (%)

As On	Sep-17	Jun-17	Sep-16
Promoter	37.1	37.1	37.1
DII	26.3	25.3	21.9
FII	22.3	23.7	27.3
Others	14.2	13.9	13.8

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR617 TP: INR800 (+30%) Buy

Green shoots of recovery

Disbursements picking up; asset quality woes behind

- **FY17 was a tough year for Repco Home Finance on several counts – unfavorable regulations (Madras High Court order), severe impact of demonetization and slippage of some high-ticket LAPs into NPL.**
- **With an unfavorable Madras High Court order banning the sale of plots unapproved by the Municipal Authority coupled with the impact of demonetization on the unorganized, self-employed segment, disbursements declined sharply. At the same time, with slippages of some large-ticket LAPs into NPL, the GNPL ratio shot up.**
- **However, there are some signs of a turnaround. Disbursements in 2QFY18 picked up smartly after three sluggish quarters and were only 14% below pre-demonetization levels. Asset quality has witnessed some improvement too, and the provision buffer is healthy now.**

Growth to pick up; 1HFY17 presents a favorable base

Over FY12-16, sanctions and disbursements grew at 29% CAGR, driven by a good rural economy and increasing geographical penetration. However, on account of external factors such as the Madras High Court order, disbursements declined 7% in FY17. As a result, loan growth declined from 29% in FY15 to 16% in FY17 (and 10% in 1HFY18). However, there has been some on-the-ground resolution with regards property registrations in Tamil Nadu (which accounts for more than 60% of Repco's loan book). This, coupled with a fading impact of demonetization, should drive a pick-up in loan growth. We expect loan growth to pick up to 14% in FY18 and then 18%+ in FY19 and beyond.

NPLs have peaked; provision buffer adequate

Given the impact of demonetization on the informal sector coupled with slippages in some specific high-ticket LAP accounts, GNPLs increased sharply from INR1b in FY16 to INR2.3b in FY17 (1.3% to 2.6%). They increased further in 1QFY18 (1Q being a seasonally weak quarter) with LAP NPLs crossing 6%. However, with increased collection efforts, the GNPL ratio subsided in 2Q (with LAP GNPLs declining 120bp sequentially). However, our interaction with the management suggests that the NPLs are temporary and expected credit losses are minimal. Cumulative bad debt write-offs since inception have been less than INR60m. This lends some comfort that while repayments by borrowers may be delayed, Repco ensures final recoveries. Also, over the past six quarters, the company has more than doubled its provision buffer to INR1.4b. This implies that if the GNPL ratio returns to FY16 levels of ~1.5%, the company would have a large enough buffer to absorb any credit loss. As a result, we believe credit costs should decline from FY19

Strong and consistent return ratios

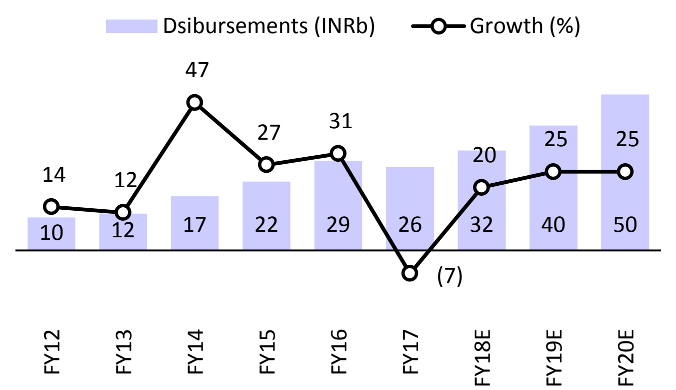
Over the past five years, Repco has generated strong and consistent RoA of 2.2-2.4% and RoE of ~17%. Despite the intense competitive pressure in the housing finance market, the company has been able to hold on to yields well (yields down just 30bp YoY in 2QFY18 compared to 50-60bp for peers like Can Fin Homes and GRUH Finance). This is a testament to the niche market that the company operates in and the strong execution capabilities of the management. We expect Repco to continue generating such return ratios. Also, if growth picks up, RoE should improve, with increasing leverage.

Valuation and view

Repco has established a strong presence in southern states and is steadily expanding to other geographies. Over the last decade, the company has built a scalable business model with a well-balanced portfolio. The impact of recent issues like the High Court ban on property registration, lingering impact of demonetization and asset quality woes in high-ticket LAP seem to be slowly fading. Strong loan growth momentum, stable margins and contained cost ratios would be strong drivers of core earnings for the company over the medium term. We use RI model to value the company to arrive at a TP of INR800 (3x September 2019E BV).

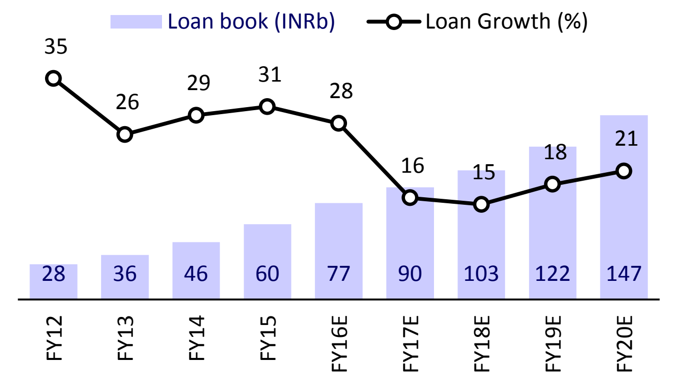
Story in charts

Exhibit 35: Disbursement growth to pick up…



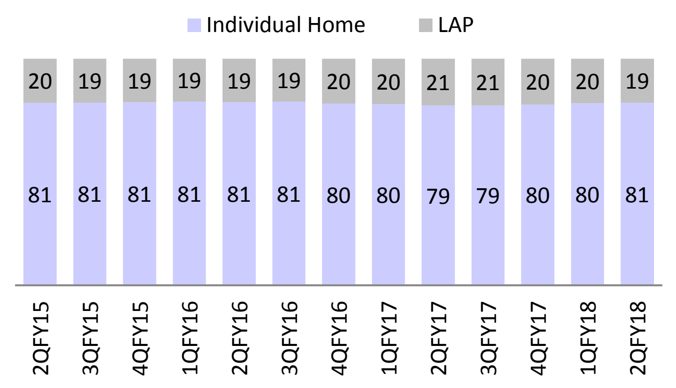
Source: Company, MOSL

Exhibit 36: …leading to stronger loan growth



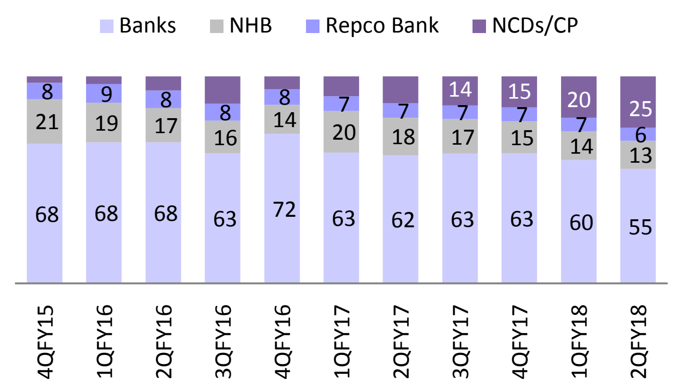
Source: Company, MOSL

Exhibit 37: Keeping share of LAP stable to mitigate risk



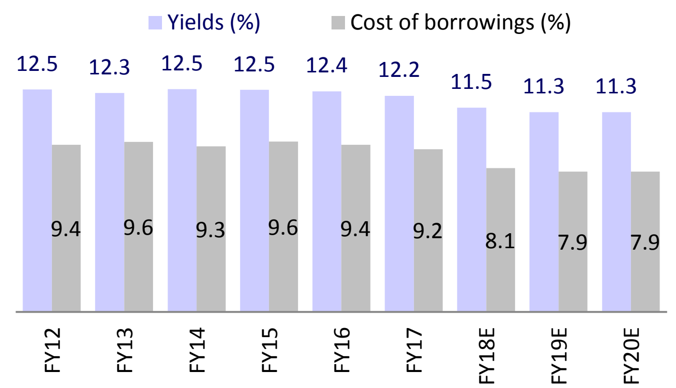
Source: Company, MOSL

Exhibit 38: Diversification of liability profile…



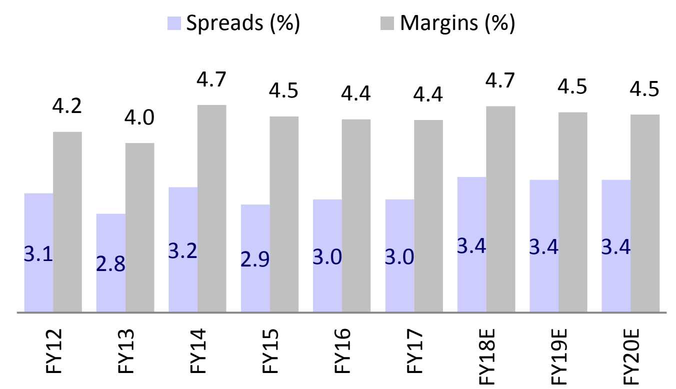
Source: Company, MOSL

Exhibit 39: ..will lead to sharp decline in cost of funds



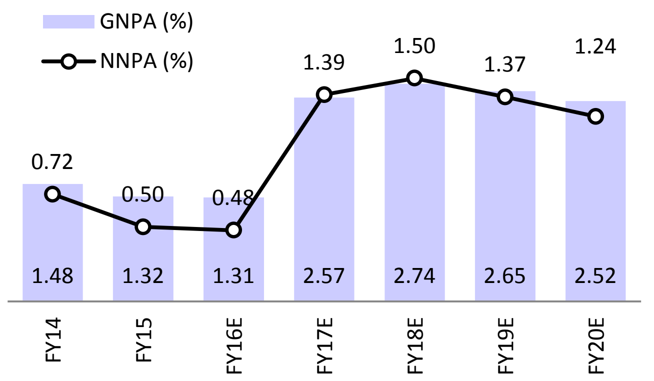
Source: Company, MOSL

Exhibit 40: Spreads to improve hereon



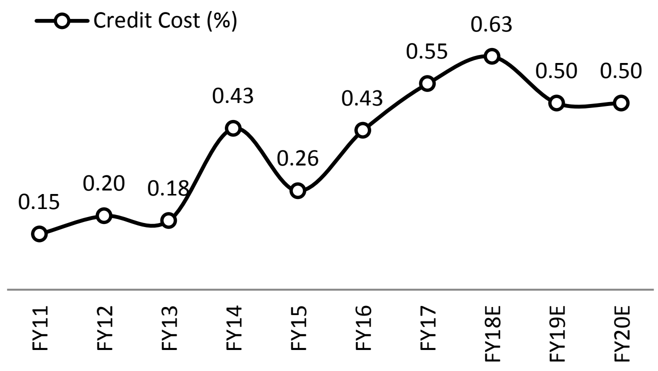
Source: Company, MOSL

Exhibit 41: Stable asset quality…



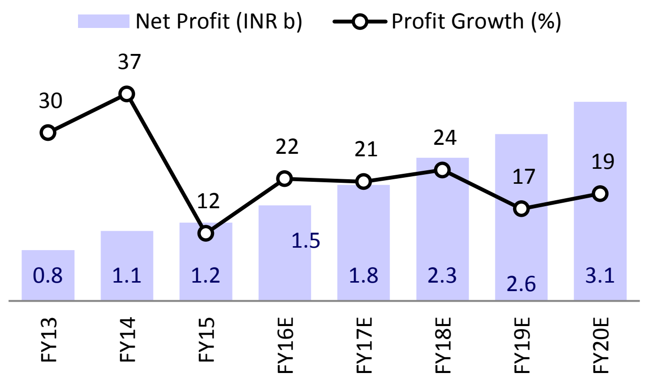
Source: Company, MOSL

Exhibit 42: ..will result in credit costs moderating



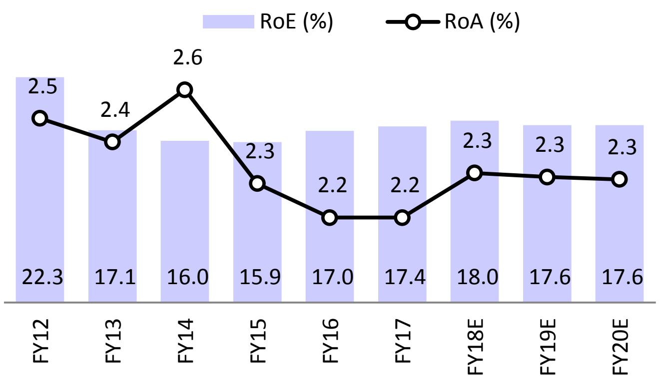
Source: Company, MOSL

Exhibit 43: PAT growth to be robust



Source: Company, MOSL

Exhibit 44: RoA/RoE to remain elevated



Source: Company, MOSL

Financials and Valuations

Income statement						(INR Million)
Y/E March	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Interest Income	6,695	8,521	10,141	11,084	12,678	15,159
Interest Expended	4,317	5,483	6,463	6,593	7,547	9,077
Net Interest Income	**2,378**	**3,039**	**3,678**	**4,491**	**5,131**	**6,081**
Change (%)	24.6	27.8	21.0	22.1	14.3	18.5
Other Operating Income	235	297	318	318	350	420
Net Income	**2,613**	**3,336**	**3,996**	**4,809**	**5,481**	**6,502**
Change (%)	24.3	27.7	19.8	20.3	14.0	18.6
Operating Expenses	547	643	676	727	825	936
Operating Income	**2,065**	**2,693**	**3,320**	**4,082**	**4,656**	**5,566**
Change (%)	20.5	30.4	23.3	23.0	14.1	19.5
Provisions/write offs	203	392	518	656	663	804
PBT	**1,862**	**2,301**	**2,802**	**3,426**	**3,993**	**4,762**
Tax	631	800	979	1,175	1,370	1,633
Reported PAT	**1,231**	**1,501**	**1,823**	**2,251**	**2,623**	**3,128**
Change (%)	12.1	21.9	21.4	23.5	16.5	19.3

Balance sheet						(INR Million)
Y/E March	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Capital	624	625	626	626	626	626
Reserves & Surplus	7,497	8,923	10,747	12,998	15,621	18,749
Net Worth	**8,121**	**9,548**	**11,372**	**13,623**	**16,246**	**19,375**
Borrowings	**51,044**	**65,379**	**75,604**	**87,197**	**103,861**	**125,938**
Change (%)	30.8	28.1	15.6	15.3	19.1	21.3
Other liabilities	1,592	2,705	3,457	3,630	3,811	4,002
Total Liabilities	**60,757**	**77,632**	**90,433**	**104,450**	**123,918**	**149,315**
Loans	**60,129**	**77,049**	**89,578**	**103,192**	**122,189**	**147,296**
Change (%)	30.8	28.1	16.3	15.2	18.4	20.5
Investments	**124**	**124**	**156**	**179**	**206**	**237**
Change (%)	0.0	0.0	25.8	15.0	15.0	15.0
Net Fixed Assets	89	93	91	96	101	106
Other assets	415	366	609	983	1,422	1,676
Total Assets	**60,757**	**77,632**	**90,433**	**104,450**	**123,918**	**149,315**

E: MOSL Estimates

Financials and Valuations

Ratios						
Y/E March	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Spreads Analysis (%)						
Avg Yield on Housing Loans	**12.5**	**12.4**	**12.2**	**11.5**	**11.3**	**11.3**
Avg. Yield on Earning Assets	12.6	12.4	12.2	11.5	11.2	11.2
Avg. Cost-Int. Bear. Liab.	**9.6**	**9.4**	**9.2**	**8.1**	**7.9**	**7.9**
Interest Spread	**3.0**	**3.0**	**3.0**	**3.4**	**3.3**	**3.3**
Net Interest Margin	**4.5**	**4.4**	**4.4**	**4.7**	**4.5**	**4.5**
Profitability Ratios (%)						
RoE	15.9	17.0	17.4	18.0	17.6	17.6
RoA	2.28	2.17	2.17	2.31	2.30	2.29
Int. Expended/Int.Earned	64.5	64.3	63.7	59.5	59.5	59.9
Other Inc./Net Income	9.0	8.9	8.0	6.6	6.4	6.5
Efficiency Ratios (%)						
Op. Exps./Net Income	21.0	19.3	16.9	15.1	15.0	14.4
Empl. Cost/Op. Exps.	61.2	63.7	63.8	65.3	66.1	67.0
Asset Quality (%)						
Gross NPAs	791	1,009	2,328	2,865	3,278	3,767
Gross NPAs to Adv.	1.3	1.3	2.6	2.7	2.6	2.5
Net NPAs	298	368	1,243	1,547	1,678	1,830
Net NPAs to Adv.	0.5	0.5	1.4	1.5	1.4	1.2
VALUATION						
Book Value (INR)	130.2	152.7	181.8	217.8	259.7	309.7
Price-BV (x)			**3.4**	**2.8**	**2.4**	**2.0**
EPS (INR)	19.7	24.0	29.1	36.0	41.9	50.0
EPS Growth YoY	11.8	21.6	21.4	23.5	16.5	19.3
Price-Earnings (x)			**21.2**	**17.2**	**14.7**	**12.3**
Dividend per share (INR)	1.5	1.8	2.0	0.0	0.0	0.0
Dividend yield (%)			**0.3**	**0.0**	**0.0**	**0.0**

E: MOSL Estimates

Manpasand Beverages

BSE SENSEX	S&P CNX
33,478	10,327

CMP: INR414 TP: INR492(+19%) Buy

Stock Info

Bloomberg	MANB IN
Equity Shares (m)	57.2
52-Week Range (INR)	512/253
1,6,12 Rel. Perf. (%)	-12/-7/-8
M.Cap. (INR b)	49.9
M.Cap. (USD b)	0.8
Avg Val, INRm	85.0
Free float (%)	55.9

Financials & Valuations (INR b)

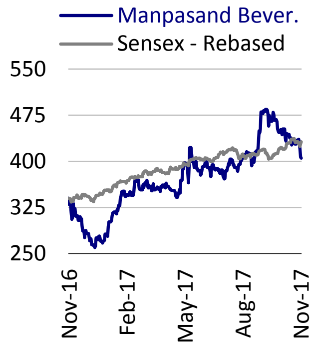
Y/E Mar	FY18E	FY19E	FY20E
Net Sales	9.9	14.7	19.2
EBITDA	1.9	2.9	3.8
PAT	1.1	1.8	2.3
EPS (INR)	9.9	15.4	20.5
Gr. (%)	56.4	54.8	33.1
BV/Sh (INR)	108.3	119.9	135.3
RoE (%)	8.4	13.5	16.0
RoCE (%)	9.5	15.3	18.2
P/E (x)	42.3	27.3	20.5
P/BV (x)	3.9	3.5	3.1

Shareholding pattern (%)

As On	Sep-17	Jun-17	Sep-16
Promoter	44.1	44.1	44.1
DII	28.9	30.0	33.0
FII	22.2	21.0	19.4
Others	4.8	4.9	3.5

FII Includes depository receipts

Stock Performance (1-year)



Strong growth led by revival in rural demand

Further expansion into rural geographies to sustain growth

Expansion into rural markets to continue

MANB is primarily focused on the rural market. This is evident in its competitively-priced small SKUs and continuously-expanding rural distribution network. In the last one year its rural outlets have doubled to ~500k. Moreover, with access to 4.5m Parle outlets pan-India, MANB is in a sweet spot to penetrate the rural market across geographies. The pilot project of distribution of Mango Sip (the company's flagship product) through Parle's distribution channel has already commenced in West Bengal and would gradually be implemented pan-India.

Capacity expansion to aid expansion in distribution network

MANB has a total capacity (cases/day) of 42,500 PET CSD, 82,500 PET Juice and 50,000 tetrapack running at a blended utilization of ~54%. However, the utilization varies from ~100% in 1Q and 4Q to ~30% in 2Q and 3Q. Its existing capacity is adequate to cater to its own distribution network, but MANB doesn't have enough capacity to accommodate Parle's distribution network in the peak season. MANB is coming up with new plants in Vadodara, Varanasi, Sri City and in the North East (location yet to be finalized). Each of these plants will have a capacity of 50,000 cases per day; while two of these (Vadodara and Varanasi) are expected to be commissioned in FY18, the other two would get commissioned by 2HFY19. The added capacity would allow the company to cater to Parle's distribution network across geographies and the proposed plant in the North East would also aid export opportunities in Nepal.

New products to diversify product portfolio

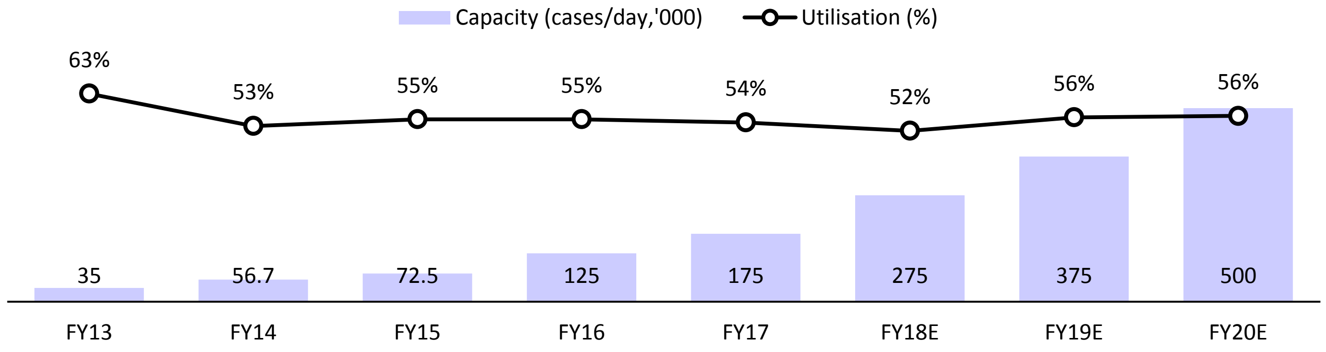
Besides focusing on increasing penetration in its existing markets and expanding into new geographies, MANB has also been expanding its product portfolio. Apart from its flagship product, Mango Sip, the company has witnessed strong growth in its natural fruit-based drink, Fruits Up. This product now constitutes ~25% of its total revenue, and because of its non-seasonality, MANB is able to maintain utilization levels at ~55% despite capacity addition of 102,500 cases per day over FY15-17. Its most recent launch, Jeera Sip has also started gaining traction. MANB plans to venture into health-based drinks, which would not only raise utilization in the off season but also aid product diversification. It would continue tapping the rural market, with competitively-priced small SKUs. The company secures ~57% of its revenue from smaller SKUs of <250ml.

Valuation and view

Penetration of soft drinks in India remains low (30%) and per capita consumption stands at just 16 litres against 166 litres in the US. The growth opportunity is immense, especially considering that a large part of the rural market remains untapped. MANB secures most of its revenues from the rural markets and would be a key beneficiary of revival in rural demand. We expect sales CAGR of 43% and PAT CAGR of 56% over FY17-19. We maintain our Buy rating, with a target price of INR492 (32x FY19E EPS) – 17% upside.

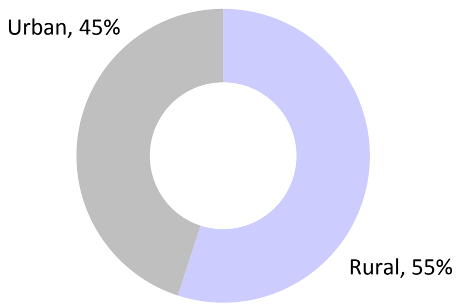
Operating metrics

Exhibit 45: Utilization to grow on expanded capacities



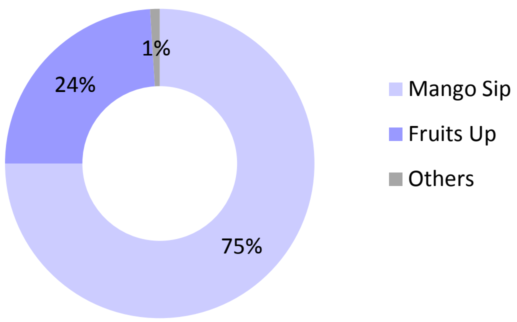
Source: Company, MOSL

Exhibit 46: Rural market contributes ~55% of revenue



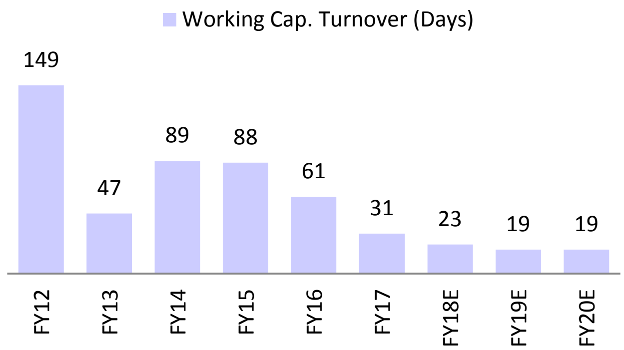
Source: Company, MOSL

Exhibit 47: Revenue mix in FY17



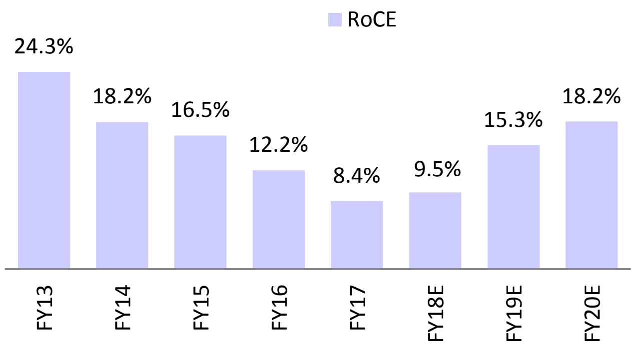
Source: Company, MOSL

Exhibit 48: Working capital days to reduce further



Source: Company, MOSL

Exhibit 49: RoCE to pick up from FY18



Source: Company, MOSL

Financials and Valuations

Standalone - Income Statement						(INR Million)
Y/E March	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
Total Income from Operations	**3,669**	**5,320**	**7,171**	**9,881**	**14,694**	**19,194**
Change (%)	22.2	45.0	34.8	37.8	48.7	30.6
EBITDA	**641**	**1,103**	**1,398**	**1,927**	**2,880**	**3,762**
Margin (%)	17.5	20.7	19.5	19.5	19.6	19.6
Depreciation	205	571	738	868	1,161	1,438
EBIT	**436**	**533**	**660**	**1,058**	**1,719**	**2,324**
Int. and Finance Charges	107	57	12	0	0	0
Other Income	4	91	179	233	279	335
PBT bef. EO Exp.	**334**	**567**	**827**	**1,291**	**1,999**	**2,659**
EO Items	0	0	0	0	0	0
PBT after EO Exp.	**334**	**567**	**827**	**1,291**	**1,999**	**2,659**
Current Tax	36	61	86	155	240	319
Deferred Tax	-2	1	15	0	0	0
Tax Rate (%)	10.2	10.9	12.2	12.0	12.0	12.0
Less: Mionrity Interest	0	0	0	0	0	0
Reported PAT	**300**	**505**	**726**	**1,136**	**1,759**	**2,340**
Adjusted PAT	**300**	**505**	**726**	**1,136**	**1,759**	**2,340**
Change (%)	46.2	68.6	43.8	56.4	54.8	33.1
Margin (%)	8.2	9.5	10.1	11.5	12.0	12.2

Standalone - Balance Sheet						(INR Million)
Y/E March	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
Equity Share Capital	376	501	572	1,144	1,144	1,144
Total Reserves	1,534	5,515	10,963	11,247	12,573	14,338
Net Worth	**1,909**	**6,016**	**11,535**	**12,392**	**13,718**	**15,482**
Deferred Tax Liabilities	0	0	0	0	0	0
Total Loans	1,179	0	3	3	3	3
Capital Employed	**3,088**	**6,016**	**11,538**	**12,394**	**13,720**	**15,485**
Gross Block	1,345	3,730	6,173	8,673	10,673	13,286
Less: Accum. Deprn.	499	1,069	1,807	2,675	3,836	5,274
Net Fixed Assets	**847**	**2,660**	**4,366**	**5,997**	**6,837**	**8,012**
Capital WIP	1,316	1,339	2,016	2,016	2,016	1,403
Total Investments	**0**	**6**	**2,054**	**2,054**	**2,054**	**2,054**
Curr. Assets, Loans&Adv.	**1,341**	**2,451**	**3,665**	**3,319**	**4,400**	**6,158**
Inventory	424	704	616	828	1,230	1,607
Account Receivables	593	677	752	920	1,208	1,578
Cash and Bank Balance	43	973	2,248	1,472	1,815	2,782
Loans and Advances	280	97	49	99	147	192
Curr. Liability & Prov.	**417**	**593**	**798**	**1,227**	**1,821**	**2,377**
Account Payables	225	448	672	926	1,376	1,797
Other Current Liabilities	95	135	121	296	441	576
Provisions	98	11	5	5	5	5
Net Current Assets	**924**	**1,858**	**2,867**	**2,092**	**2,579**	**3,781**
Deferred Tax assets	1	152	235	235	235	235
Appl. of Funds	**3,088**	**6,016**	**11,538**	**12,394**	**13,720**	**15,485**
E: MOSL Estimates						**0**

Financials and Valuations

Ratios

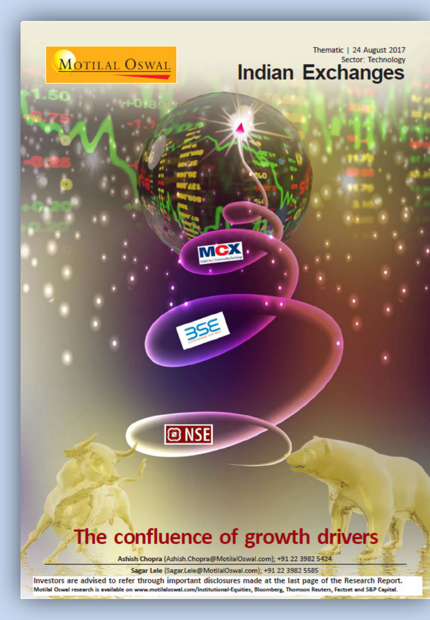
Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)						
EPS	**2.6**	**4.4**	**6.3**	**9.9**	**15.4**	**20.5**
Cash EPS	4.4	9.4	12.8	17.5	25.5	33.0
BV/Share	16.7	52.6	100.8	108.3	119.9	135.3
DPS	0.4	0.4	0.6	2.0	3.1	4.1
Payout (%)	19.7	12.2	12.3	24.6	24.6	24.6
Valuation (x)						
P/E	160.5	95.2	66.2	42.3	27.3	20.5
Cash P/E	95.2	44.7	32.8	24.0	16.5	12.7
P/BV	25.2	8.0	4.2	3.9	3.5	3.1
EV/Sales	13.4	8.9	6.4	4.7	3.1	2.4
EV/EBITDA	76.7	42.7	32.8	24.2	16.1	12.0
Dividend Yield (%)	0.1	0.1	0.2	0.5	0.7	1.0
Return Ratios (%)						
RoE	18.8	11.4	7.3	8.4	13.5	16.0
RoCE	16.5	12.2	8.4	9.5	15.3	18.2
RoIC	23.2	17.5	13.0	15.4	20.6	
Working Capital Ratios						
Asset Turnover (x)	1.2	0.9	0.6	0.8	1.1	1.2
Inventory (Days)	42	48	31	31	31	31
Debtor (Days)	59	46	38	34	30	30
Creditor (Days)	22	31	34	34	34	34
Working Cap. Turnover (Days)	88	61	31	23	19	19
Growth (%)						
Sales	22.2	45.0	34.8	37.8	48.7	30.6
EBITDA	40.4	72.0	26.7	37.8	49.5	30.6
PAT	46.2	68.6	43.8	56.4	54.8	33.1
Leverage Ratio (x)						
Debt/Equity	0.6	0.0	0.0	0.0	0.0	0.0

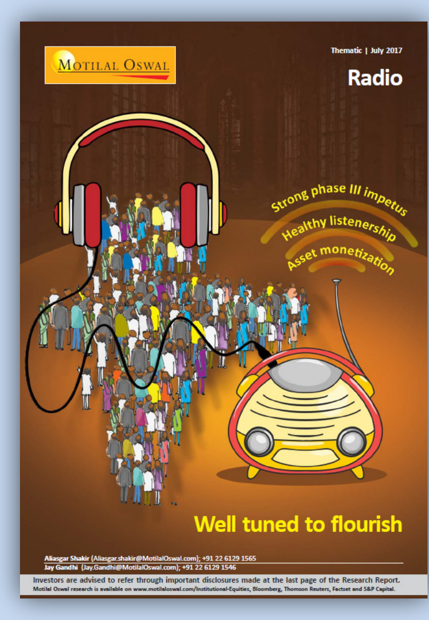
Standalone - Cash Flow Statement **(INR Million)**

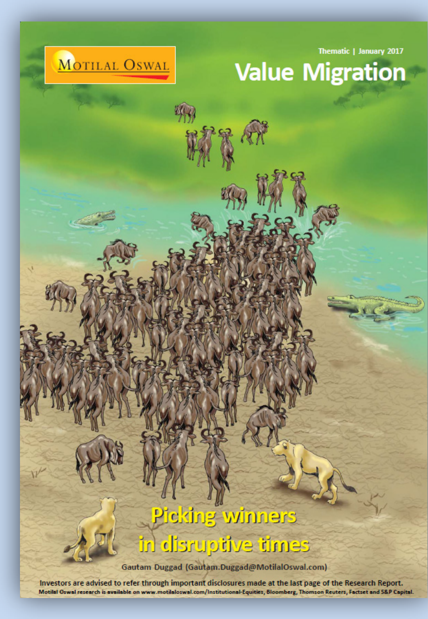
Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	333	567	827	1,291	1,999	2,659
Depreciation	205	571	738	868	1,161	1,438
Interest & Finance Charges	102	-34	-167	-233	-279	-335
Direct Taxes Paid	-55	-154	-101	-155	-240	-319
(Inc)/Dec in WC	-65	-188	266	-1	-143	-235
CF from Operations	**521**	**763**	**1,563**	**1,770**	**2,497**	**3,208**
Others	6	13	0	0	0	0
CF from Operating incl EO	**527**	**776**	**1,563**	**1,770**	**2,497**	**3,208**
(Inc)/Dec in FA	-1,586	-2,316	-3,120	-2,500	-2,000	-2,000
Free Cash Flow	**-1,059**	**-1,540**	**-1,557**	**-730**	**497**	**1,208**
(Pur)/Sale of Investments	0	-6	-2,048	0	0	0
Others	4	72	179	233	279	335
CF from Investments	**-1,582**	**-2,250**	**-4,989**	**-2,267**	**-1,721**	**-1,665**
Issue of Shares	263	4,000	5,001	0	0	0
Inc/(Dec) in Debt	436	-1,179	3	0	0	0
Interest Paid	-101	-63	-12	0	0	0
Dividend Paid	-4	-110	-89	-279	-433	-576
Others	458	-244	-201	0	0	0
CF from Fin. Activity	**1,051**	**2,404**	**4,701**	**-280**	**-433**	**-576**
Inc/Dec of Cash	**-4**	**930**	**1,275**	**-776**	**343**	**967**
Opening Balance	47	43	973	2,248	1,472	1,815
Closing Balance	**43**	**973**	**2,248**	**1,472**	**1,815**	**2,782**

E: MOSL Estimates

THEMATIC/STRATEGY RESEARCH GALLERY







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