

BSE SENSEX  
34,353

S&P CNX  
10,624

**CMP: INR1,340 TP: INR1,655(+23%)**

**Buy**



**Stock Info**

|                       |           |
|-----------------------|-----------|
| Bloomberg             | HMN IN    |
| Equity Shares (m)     | 227       |
| 52-Week Range (INR)   | 1,350/985 |
| 1, 6, 12 Rel. Per (%) | 3/19/1    |
| M.Cap. (INR b)        | 304.1     |
| M.Cap. (USD b)        | 4.8       |
| Avg Val, INRm         | 200       |
| Free float (%)        | 27.3      |

**Financials Snapshot (INR b)**

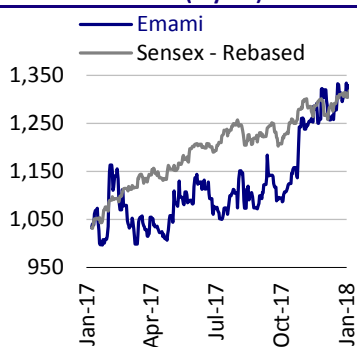
| Y/E Mar     | 2017 | 2018E | 2019E |
|-------------|------|-------|-------|
| Net Sales   | 24.9 | 26.6  | 31.5  |
| EBITDA      | 7.6  | 8.0   | 9.6   |
| PAT         | 5.9  | 6.0   | 7.5   |
| EPS (INR)   | 26.5 | 26.6  | 33.2  |
| Gr. (%)     | 4.5  | 0.2   | 25.0  |
| BV/Sh (INR) | 77.3 | 90.4  | 104.7 |
| RoE (%)     | 35.8 | 31.7  | 34.0  |
| RoCE (%)    | 31.0 | 32.1  | 37.7  |
| P/E (x)     | 50.5 | 50.4  | 40.3  |
| P/BV (x)    | 17.3 | 14.8  | 12.8  |

**Shareholding pattern (%)**

| As On    | Sep-17 | Jun-17 | Sep-16 |
|----------|--------|--------|--------|
| Promoter | 72.7   | 72.7   | 72.7   |
| DII      | 4.2    | 3.5    | 2.3    |
| FII      | 14.4   | 14.9   | 16.7   |
| Others   | 8.6    | 8.9    | 8.2    |

FII Includes depository receipts

**Stock Performance (1-year)**



**Rural recovery just the beginning of growth revival**

Valuations attractive; maintain Buy

We maintain our BUY rating on Emami, as:

- It is a great play on rural demand growth and wholesale recovery.
- Before the slowdown caused by extraordinary factors like demonetization, Emami had the best track record among peers on consistency of earnings growth, which we expect will make a comeback.
- Emami has a formidable portfolio of dominant brands, with best-in-class R&D and advertisement to support existing brands and new launches.
- Despite likely resumption of better-than-peers' earnings growth of 20% CAGR over FY18-21, the stock trades in line with peer multiples.
- Our target price of INR1655 implies a one-year upside of 23% and a two-year upside of 39%. Our bull case upside is 33% for one year and 53% for two years.

**Prime play on rural demand growth and wholesale recovery**

With the highest proportion of sales from rural and the highest proportion of sales from wholesale, Emami is a great play on recovery in both channels. Rural demand has already perked up from 2QFY18 and we believe will only pick up momentum because of a confluence of positives like near-normal monsoon, benefits of extension of DBT, rural wage increases, another year of healthy increase in minimum support prices (MSPs) and farm loan waivers granted in the past few months. In addition, the upcoming budget on February 1, 2018, the last full budget before national elections in 2019, is likely to have schemes to benefit the rural voter. The wholesale channel is likely to recover by 4QFY18. Emami will be the biggest beneficiary of the resurgence in both these channels.

**High quality play on rural recovery**

Until as recently as the quarter just before demonetization, Emami had continued its consistently best-of-breed earnings growth. Domestic EBITDA growth in 1HFY17 was 29% YoY; following 26% overall EBITDA CAGR over the preceding three years (FY13-16) at a time when peer earnings had started slowing down. Emami also has a concentrated portfolio of strong brands, with 80% of sales coming from categories that are problem solving in nature and thus less prone to slowdown compared to peers. In many key categories, penetration and distribution reach has a long runway of growth, which Emami is looking to speed up with its Project Dhanush (targeting to double rural reach in two years) and Project Race (working with AC Nielsen on urban expansion).

**Pace of innovation among the best of breed; R&D and advertising spend highest among peers**

Emami has launched 12 new products in the past 18 months at a time when there has been a scarcity of launches by peers. Its best-of-breed R&D spends (1% of sales)

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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and highest A&P to sales among peers mean that not only is its innovation pipeline among the best, support to new and existing brands is also enviably high.

**International business poised to turn around; recovery in Kesh King business key**

After declining sharply in three quarters starting from 3QFY17, the international business is showing signs of revival, aided by weak base and gradual stabilization of the economy and currency in the MENA region. Kesh King revival may have to wait until the end of the year owing to 70% contribution from wholesale, but the company seems to be getting its act together on this front with a new campaign. Higher growth in what is by far the highest margin product in the portfolio augurs very well for medium to longer term earnings growth prospects.

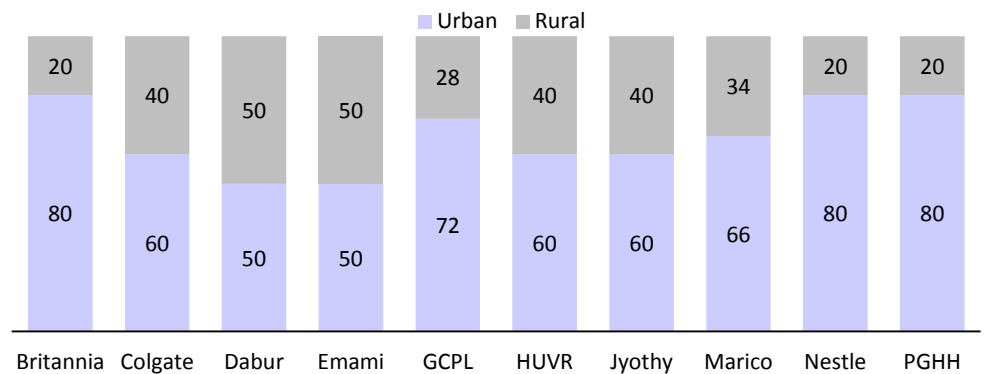
**Valuation and view**

We believe Emami remains a credible long-term play due to (a) healthy growth likely in existing product categories where it has dominant market share, (b) best-of-breed R&D spend and A&P spend, resulting innovative products as well as ability to back up innovation with strong marketing, and (c) much-needed efforts on improving direct distribution reach. All these factors make it an attractive play on rural recovery. Before demonetization and GST implementation, Emami had best-of-breed earnings growth, which we expect will resume once disruptions caused by these factors come to an end by the beginning of FY19. Earnings growth CAGR of 20% (over FY18-21) is best-of-breed and valuations are undeservedly in line with peers for a company that has the advantage of a great pedigree of brands, best-in-class R&D spend, innovation and advertising support, and RoCE of around 40% on recovery. Our base case (targeting 44x December 2019E EPS and 42x December 2020E EPS) entails a one-year upside of 23% and two-year upside of 39%, while our bull case entails an upside of 33% and 53%, respectively. Maintain **BUY**.

## Rural recovery to kick-start strong demand revival

- Emami's dependence on the rural channel is one of the highest among Consumer peers. Its growth was, therefore, sub-optimal over FY14-17, a period of rural slowdown. While drought had impacted rural demand in FY15 and FY16, demonetization washed away the benefits of a near normal monsoon in FY17.
- With another year of normal monsoon in FY18, rural growth has started exceeding urban growth (from 2QFY18 onwards) for the first time in many years, and players like Emami, HUL, Colgate and Dabur (having higher rural salience) are poised to benefit from the recovery.

**Exhibit 1: Emami has the highest share of rural among coverage consumer companies**



Source: Company, MOSL

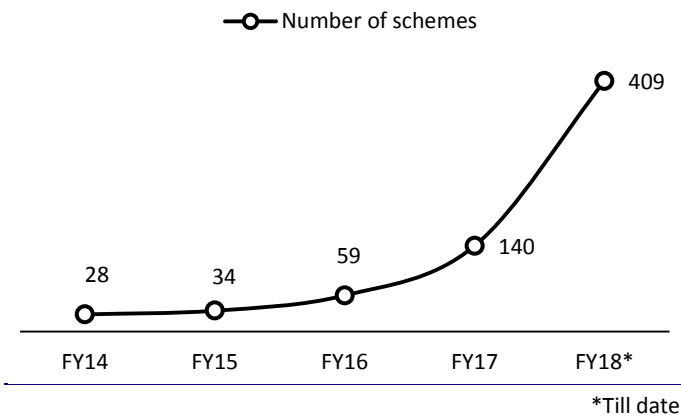
As highlighted in our Rural Strategy note ([Back on the saddle – Volume II](#)), in addition to good monsoons, there are a host of other factors contributing to the rural demand recovery:

### 1) Increase in the purview of DBT

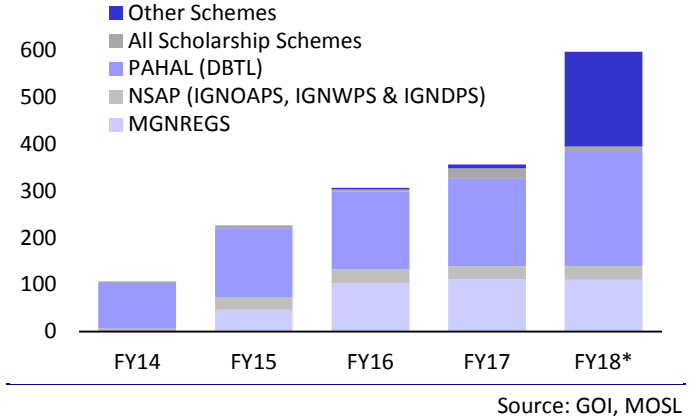
Transfer of government subsidies and payments directly into the bank accounts of beneficiaries has helped cut out middlemen and check leakages in the system. It has enabled better targeting of subsidies and increased transparency. The use of DBT continues to expand at a rapid pace in FY18.

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 INR747b disbursed in FY17, up ~21% from INR619b disbursed in FY16. As much as INR873b has already been disbursed through this mechanism in FY18 so far, taking the cumulative amount disbursed via DBT to INR2.7t over the last four-and-a-half years.

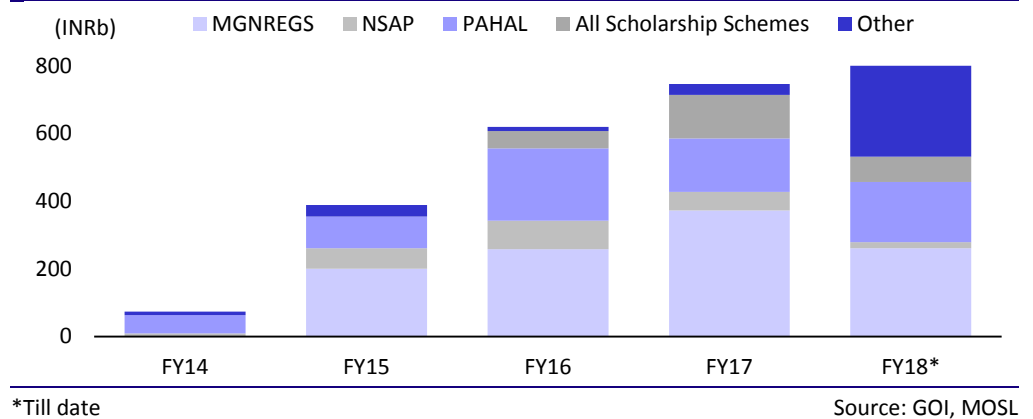
**Exhibit 2: Number of schemes covered under DBT**



**Exhibit 3: Number of beneficiaries covered under DBT**



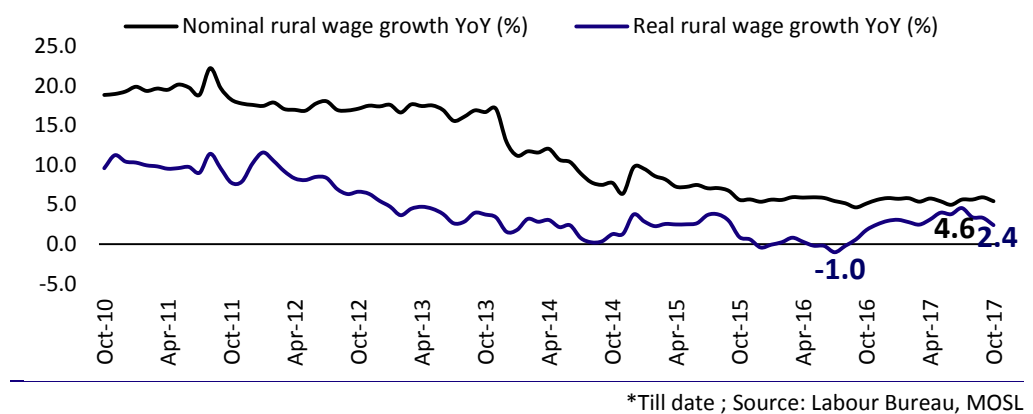
**Exhibit 4: Total funds transferred via DBT (INR b)**



**2) Rural wage increases**

Growth in nominal rural wages has remained stable at 6-6.5% in FY17 and also 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 4.6% 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)**



### 3) MSP hike higher than five-year average

The government announced MSPs for rabi crops in October 2017. 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 were increased by 6.2% in FY18 – better than the 5% growth in FY17 and the highest growth in five years.

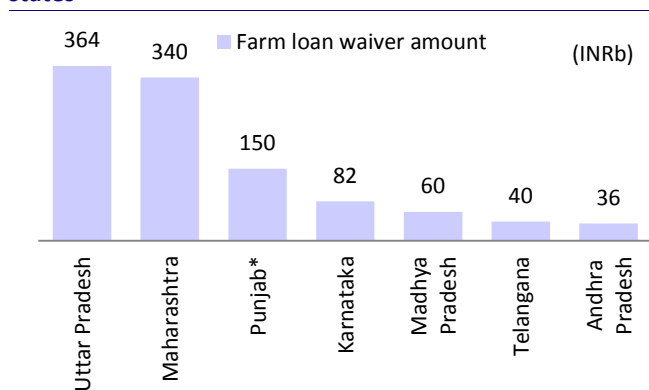
**Exhibit 7: Changes in kharif MSPs over the past six years**

| % 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     |

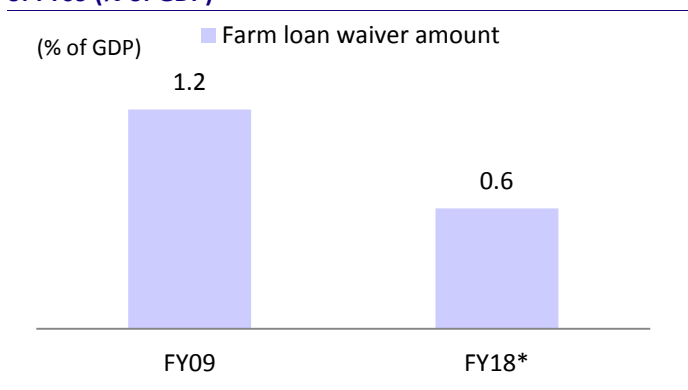
Source: Department of Agriculture, MOSL

### 4) Farm loan waivers

Beginning February 2017, a series of farm loan waivers took off in several states following the announcement of such waiver in the Uttar Pradesh (UP) election campaign by the BJP government, ruling in the center. After its landmark victory, the new BJP chief minister, Mr Yogi Adityanath, announced a farm loan waiver totaling INR364b. This opened the Pandora's Box. Post UP, Maharashtra (MH), Punjab (PB), Karnataka (KR) and Madhya Pradesh (MP) have already announced farm loan waivers and several other states including Gujarat, Haryana, Rajasthan and Tamil Nadu are under immense pressure to follow suit. Consequently, total farm loan waiver amount has crossed INR1,000b following Uttar Pradesh (INR364b), Maharashtra (INR305b), Punjab (INR150b), Karnataka (INR82b), Madhya Pradesh (INR60b), Telangana (INR40b), and Andhra Pradesh (INR36b). This has aided growth in rural demand.

**Exhibit 8: Total amount of farm loan waiver by different states**

Source: Industry Sources, MOSL

**Exhibit 9: Aggregate amount of farm loan waiver in FY18 half of FY09 (% of GDP)**

Source: Industry Sources, MOSL

The momentum created in terms of rural demand is also likely to be bolstered by government spending or sops likely to be announced ahead of the 2019 national elections with an eye on rural votes. This process is likely to begin with the national budget in February 2018. There has been a decline in rural votes in the recent state elections in Gujarat and the government may be keen to assuage the rural voter well ahead of elections in mid-2019.

Emami, with its larger rural portfolio compared to most peers, appears well placed to gain growth momentum ahead of others as a result of the ongoing revival in rural demand, which is likely to pick up momentum, going forward.

### Recovery in wholesale channel to boost sales from FY19

Apart from high rural dependence, Emami also has the highest dependence (45-50% of domestic sales) among peers on the wholesale channel. Starting from 3QFY17, during which the wholesale channel was badly affected by demonetization, followed by the impact of GST implementation, the wholesale channel has been under pressure. As compliance gradually picks up and understanding of GST implications increases, the wholesale channel is moving towards normalcy – a process that is likely to culminate by 4QFY18.

With the highest dependence on wholesale and weaker than usual base on wholesale sales for nearly a year and a half starting from 3QFY17, Emami is set to grow sales rapidly over the next few years.

The growth that could potentially happen, once rural market recovers and wholesale trade normalizes after the impact of extraordinary factors affecting growth lessens, can be gauged from the fact that as recently as 1HFY17, just before demonetization, Emami had reported 15% YoY sales growth and 29% YoY EBITDA growth. In the preceding three years (FY13-Y16) when other consumer companies had started witnessing slower earnings growth, Emami had witnessed EBITDA CAGR of 26.2% and EPS CAGR of 22.3%.

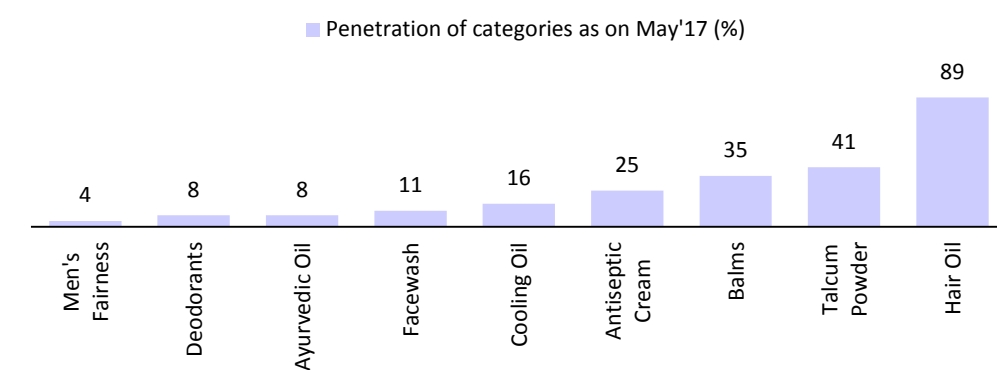
## Concentrated portfolio with authority in key categories

Emami derives 80% of its sales from categories where it is the dominant market leader and from *problem-solving* products. These categories enjoy higher growth resilience and promise sustainability of longer-term growth.

Emami's product portfolio includes ayurvedic antiseptic cream, fairness cream, prickly heat powder, cool talc, pain relievers, herbal petroleum jelly, cool oils, face washes, and ayurvedic medicines/oils. The company has seven power brands, all of which have clocked sales of at least INR1b.

Penetration is low in many categories. We note that Emami is a dominant player in its leading categories, which puts it at the forefront to drive category growth.

### Exhibit 10: Penetration is low in many categories in which Emami is present



Source: IMRB, Company, MOSL

### Exhibit 11: Emami is the dominant market leader in most of its categories

| Brands                    | Segment                       | Market Size (INR m) | Market Size (USD m) | Market share (%) 2011 | Market share (%) 2016 |
|---------------------------|-------------------------------|---------------------|---------------------|-----------------------|-----------------------|
| Navratna Oil              | Cooling oil                   | 8,500               | 131                 | 52                    | 61                    |
| BoroPlus Cream            | Antiseptic Cream              | 4,600               | 71                  | 75                    | 70                    |
| Zandu & Mentho Plus Balms | Balms                         | 9,000               | 139                 | 56                    | 59                    |
| Fair & Handsome           | Men's Fairness Cream          | 3,900               | 59                  | 58                    | 60                    |
| Kesh King                 | Ayurvedic Hair and Scalp care | 7,200               | 111                 | 0                     | 34                    |
| Navratna Cool Talc        | Cool Talc                     | 5,500               | 84                  | 131                   | 26                    |

Source: AC Nielsen, MAT Dec '16, Company, MOSL

- Brands like *Fair & Handsome* (now with a wide men's personal care portfolio) are available in only 1.4m of the 4.3m outlets Emami reaches across India.
- Balms (INR9b market size) is another category where penetration is low at 35%. *Zandu Balm* and *Mentho Plus* reach only 1.6m and 1.2m outlets, respectively.
- *Zandu* and *Mentho Plus* together have 59% market share. *Mentho Plus* witnessed strong offtake in South India in FY17, with market leadership in Andhra Pradesh and Karnataka.
- *Zandu* can also emerge as a strong ayurvedic products brand. The management believes that Emami's strength lies in its ability to validate product efficacy on the basis of data derived from systematic scientific research at NABL and Ministry of AYUSH-accredited laboratories, accreditation for which was achieved in FY17. Emami's products are herbal/vegetarian and developed via proprietary

methods using quality scientific tools. As of 31 March 2017, the company’s field-force reached more than 21,000 doctors across the country. Emami has engaged an external consultant to grow this business and has already begun test-marketing products across select states.

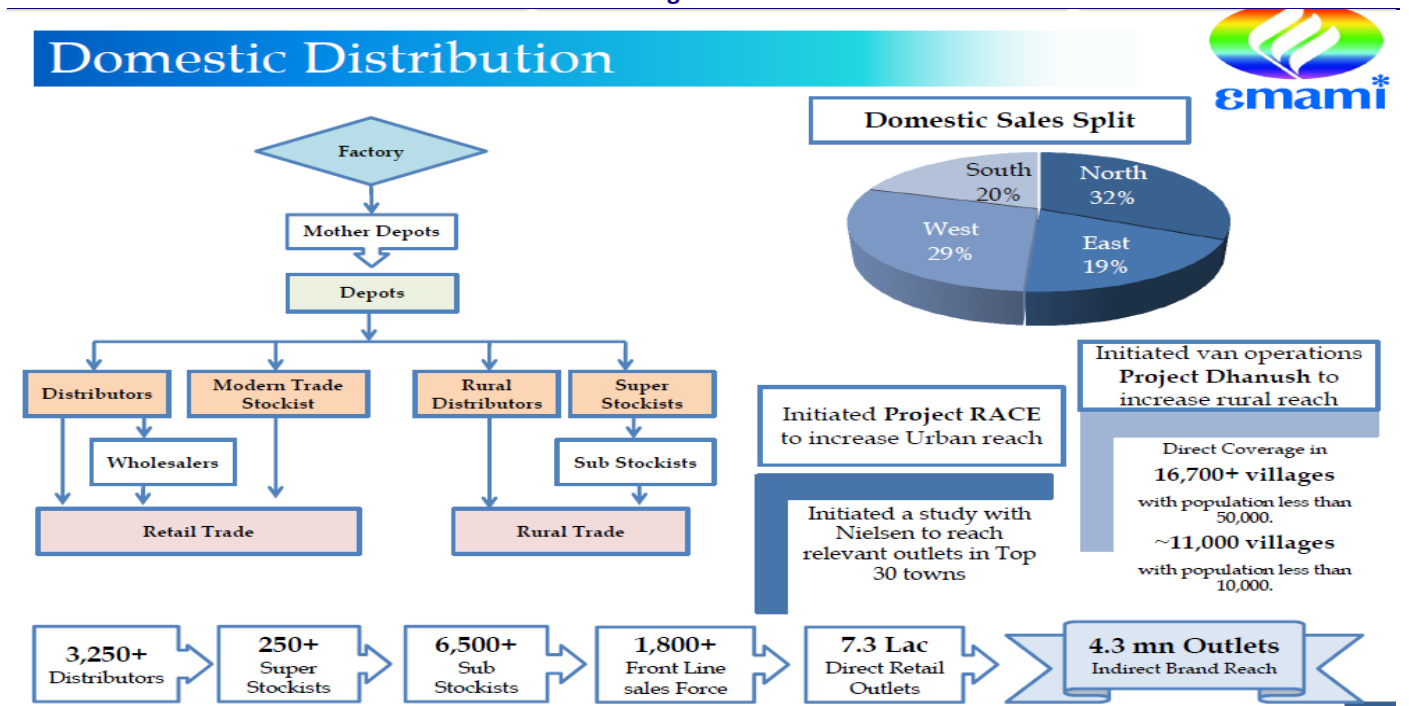
**New projects to substantially aid distribution**

As pointed out in our [FY17 annual report analysis](#), the company has initiated two projects to rapidly boost distribution.

- **Project Race:** Emami initiated ‘Project Race’ in FY17 to expand its direct reach in urban towns. It has engaged AC Nielsen to conduct a study in the top 30 towns to understand the best way to take the expansion plan forward.
- **Project Dhanush:** In FY17, the company also initiated ‘Project Dhanush’ to enhance its direct rural reach via van operations (which were introduced on ~1,500 routes covering 6,000 towns with a population of below 5,000). The target is to double rural reach in two years.

A combination of both these projects will substantially aid rapid sales growth in key categories.

**Exhibit 12: Emami reaches an overall ~4.3m outlets including ~0.73m direct retail outlets**

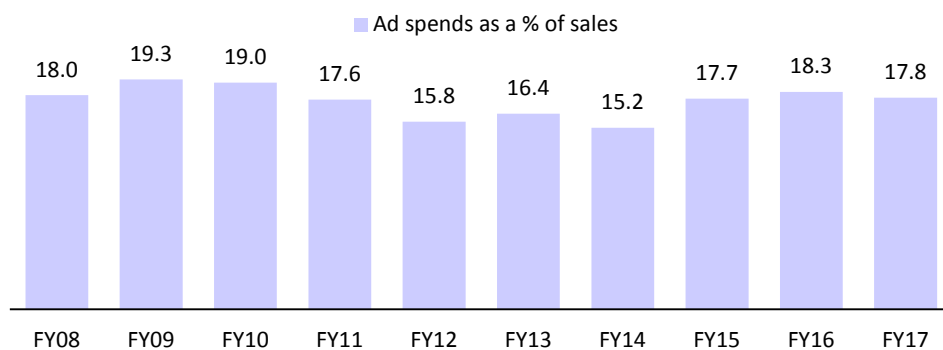


Source: Company, MOSL

**Highest ad and R&D spends among peers enables innovation and support to innovation**

- Emami spends more on R&D than most listed FMCG companies in India. FY17 spend stood at INR231m (0.99% of sales), of which INR207m was recurring R&D and INR24m was capital R&D.
- Despite demonetization, absolute A&P spend grew from INR4.3b in FY16 to INR4.43b in FY17. On a percentage of sales basis, Emami is easily among the top players in the FMCG space.



**Exhibit 13: Emami is among the top spenders on advertisement in terms of % of sales**

Source: Company, MOSL

Both of these factors mean that apart from expansion in existing categories, led by factors detailed above, new product introduction is also rapid due to healthy R&D spend and high advertising enables not just consistent support to existing categories but also helps push growth of new products. Product pipeline thus remains strong.

Over the last five years, Emami has launched more than 25 products, variants and extensions. In FY17, for example, the company launched eight new products:

1. Boro Plus Perfect Touch Cream
2. Navratna Almond Cool Oil
3. Navratna i-Cool Talc
4. Fair & Handsome 100% Oil Clear Instant Fairness Face Wash
5. He Respect Deodorant
6. He range of perfumes and deodorants
7. Kesh King ayurvedic medicinal oil with blend of coconut oil

Pace of new launches has not slowed in 1HFY18. The company launched:

1. He On-the-Go waterless face wash
2. Zandu gel, Zandu spray, Zandu roll on
3. Boro Plus Zero Oil Zero Pimple Face Wash
4. Fair & Handsome Laser 12 Advanced Whitening and Multi Benefit Cream
5. Diamond Shine Luxury Hair Colour
6. Navratna I-Cool Dynamite Talc

**Exhibit 14: Emami's new launches in FY18 YTD**

Source: Company, MOSL

Despite demonetization and GST-related disruption, Emami continued its pace of new launches, which will serve the company well in the medium to long term.

## International and domestic Kesh King business to bounce back

### Worst is over for international business

As a result of pressure from the MENAP region, international business (27% of sales) sales began declining sharply from 3QFY18. This included 38% decline in 4QFY18 and 19% decline in 1QFY18 before the 22% YoY growth reported in 2QFY18.

With weak base for the next few quarters and the economy and currency gradually stabilizing, international business could be back to healthy growth levels instead of being a drag on the business as has been the case in the past few quarters.

### Revival of Kesh King to be a key factor to watch for

Kesh King revival may have to wait until the end of the year owing to 70% contribution from wholesale, but the company seems to be getting its act together on this front with a new campaign. Higher growth in what is by far the highest margin product in the portfolio augurs very well for medium to longer term earnings growth prospects.

### Emami has a superior track record on growth compared to peers

Emami has been among the most consistent on EBITDA and PAT growth among peers.

**Exhibit 15: Emami's EBITDA CAGR over three, five and 10 years (sorted by 10-year CAGR)**

| EBITDA performance | 3yr CAGR    | 5yr CAGR    | 10yr CAGR   |
|--------------------|-------------|-------------|-------------|
| Page Industries    | 17.4        | 23.1        | 31.0        |
| <b>Emami</b>       | <b>19.5</b> | <b>22.2</b> | <b>27.7</b> |
| Godrej Consumer    | 17.7        | 17.2        | 26.5        |
| Britannia          | 29.7        | 32.9        | 24.7        |
| Pidilite Inds.     | 21.4        | 19.5        | 21.2        |
| Asian Paints       | 17.5        | 15.4        | 20.2        |
| Marico             | 15.7        | 19.3        | 19.1        |
| Colgate            | 11.7        | 10.0        | 17.2        |
| P&G Hygiene        | 16.5        | 27.1        | 16.8        |
| Jyothy Labs        | 17.4        | 24.7        | 16.7        |
| Dabur              | 9.8         | 11.7        | 15.7        |
| United Breweries   | 4.1         | 10.2        | 14.9        |
| GSK Consumer       | (2.7)       | 9.9         | 13.8        |
| Nestle             | (0.3)       | 4.8         | 13.8        |
| ITC                | 5.3         | 10.5        | 13.6        |
| Hind. Unilever     | 10.6        | 12.9        | 12.7        |
| United Spirits     | 8.7         | 0.7         | 8.7         |

Source: Company, MOSL

**Exhibit 16: Emami's adjusted PAT CAGR over three, five and 10 years (sorted by 10-year CAGR)**

| Adj. PAT performance | 3yr CAGR    | 5yr CAGR    | 10yr CAGR   |
|----------------------|-------------|-------------|-------------|
| Page Industries      | 20.1        | 24.2        | 31.6        |
| Godrej Consumer      | 20.1        | 19.4        | 25.4        |
| <b>Emami</b>         | <b>14.4</b> | <b>18.4</b> | <b>24.8</b> |
| Marico               | 18.7        | 20.5        | 23.4        |
| Britannia            | 30.7        | 34.7        | 22.9        |
| Pidilite Inds.       | 23.7        | 21.6        | 22.7        |
| Asian Paints         | 17.9        | 15.3        | 21.5        |
| GSK Consumer         | (0.9)       | 13.1        | 17.9        |
| P&G Hygiene          | 12.7        | 19.0        | 17.0        |
| Dabur                | 11.8        | 14.7        | 16.1        |
| Jyothy Labs          | 33.6        | 39.6        | 15.4        |
| United Breweries     | 0.5         | 9.4         | 15.4        |
| ITC                  | 5.1         | 10.6        | 14.3        |
| Colgate              | 5.6         | 5.3         | 14.3        |
| Nestle               | 0.5         | 3.2         | 13.7        |
| Hind. Unilever       | 6.1         | 10.6        | 10.7        |
| United Spirits       | 21.9        | 4.6         | 5.8         |

Source: Company, MOSL

Slowdown in earnings growth in the past year has meant relative underperformance in the stock price in the past year compared to its outstanding performance on a 3-year, 5-year and 10-year comparison with peers.

**Exhibit 17: Emami has underperformed v/s peers over last one year**

| CAGR return (%)  | 1yr         | 3yr         | 5yr         | 10yr        |
|------------------|-------------|-------------|-------------|-------------|
| United Spirits   | 88.8        | 9.4         | 13.7        | 6.5         |
| Page Industries  | 77.9        | 25.6        | 48.4        | 48.1        |
| Hind. Unilever   | 64.7        | 21.4        | 20.4        | 19.3        |
| Britannia        | 62.2        | 35.0        | 55.4        | 31.3        |
| Pidilite Inds.   | 49.4        | 17.4        | 31.5        | 25.3        |
| United Breweries | 35.6        | 9.0         | 3.1         | 12.9        |
| P&G Hygiene      | 35.5        | 16.9        | 28.0        | 28.0        |
| Nestle           | 33.6        | 7.5         | 10.1        | 18.3        |
| Asian Paints     | 29.3        | 14.8        | 21.7        | 26.4        |
| Godrej Consumer  | 29.0        | 26.8        | 22.2        | 30.6        |
| Dabur            | 28.5        | 14.8        | 22.7        | 19.3        |
| <b>Emami</b>     | <b>28.4</b> | <b>19.2</b> | <b>27.7</b> | <b>26.9</b> |
| GSK Consumer     | 26.3        | 2.7         | 10.7        | 24.9        |
| Marico           | 25.2        | 25.0        | 24.1        | 23.6        |
| Colgate          | 22.2        | 5.9         | 7.5         | 17.0        |
| Jyothy Labs      | 12.6        | 13.0        | 18.0        | 15.8        |
| ITC              | 6.5         | 2.0         | 6.7         | 13.5        |

Source: Company, MOSL

With earnings likely to report stronger growth of 20% CAGR over FY18-21, mainly led by a host of positives discussed above, we believe that Emami will be back to resume its impressive consistency of wealth generation.

## Base case numbers indicate healthy upside; bull case scenario indicates 53% upside over two years

### Key assumptions in bull case

- There is no change in FY18 sales growth and margins; the base and bull case remain the same for FY18.
- From FY18 onwards, there could be faster recovery in Kesh King off a weak base, which has persisted in 2HFY17 and 9MFY18. There are two reasons why sales growth was affected for this product:
  - High wholesale trade dependence at 70%, which meant that both demonetization and disruptions to the wholesale channel as a result of GST implementation had an adverse impact on sales compared to other segments. With almost complete recovery in wholesale channel likely by 4QFY18 and initiatives taken by the company to reduce wholesale dependence, the outlook looks better from FY19 onwards.
  - Competition from Patanjali: There has been some effect on sales of Kesh King because of competition from Patanjali's *Kesh Kanti*. However, the new campaign on Kesh King seems to indicate an incipient revival. Emami's advertising to sales is the highest among peers and because its business is concentrated in a few key brands, the impact is more significant when the company decides to crank up the intensity. Moreover, our channel checks confirm the Emami management contention that over half of the sales of Patanjali's *Kesh Kanti* brand come from shampoos. We are also of the belief that after being initially taken by surprise, Consumer companies have been bouncing back well in response to the Patanjali impact. Patanjali's weakness in general trade and its quest for huge topline growth taking focus away from key brands are also factors that come into play.
- Kesh King's revival will not only aid sales but also contribute disproportionately higher to profitability, as EBITDA margin is over 45%. In our bull case, we have assumed 25-30% CAGR in sales for Kesh King over the next few years compared to 20-25% growth assumed in the base case.
- In our bull case, we have assumed faster recovery off a weak base in rural sales over FY19-21, leading to 300bp higher volume growth for key categories compared to base case volume growth assumptions.
- Our bull case also assumes faster recovery in the exports business in the next three years – 20%, 15% and 15% against 12%, 10% and 10% in the base case.
- Since debt on Kesh King will be paid by the end of FY18 (the management has maintained its original target), there will be no interest payout from FY19 in both the base and bull case, leading to faster growth in PAT than in EBITDA.
- Despite stronger earnings growth in the bull case, we are not assuming a different target multiple.
- Based on past three-year averages, we get a one-year upside of 23% (44x multiple) and two-year upside of 39% (42x multiple) in base case. In the bull case, assuming the same multiples, we get a one-year upside of 33% and two-year upside of 53%.

**Exhibit 18: Base case implies one-year upside of 23%**

| Base case                  | FY17   | FY18E  | FY19E  | FY20E        | FY21E        |
|----------------------------|--------|--------|--------|--------------|--------------|
| Sales (INR m)              | 24,930 | 26,639 | 31,511 | 36,255       | 42,033       |
| <i>Sales growth (%)</i>    | 5.7    | 6.9    | 18.3   | 15.1         | 15.9         |
| Gross Profit (INR m)       | 16,595 | 17,515 | 20,803 | 23,991       | 27,973       |
| <i>Gross margin (%)</i>    | 66.6   | 65.7   | 66.0   | 66.2         | 66.5         |
| EBITDA (INR m)             | 7,591  | 8,013  | 9,583  | 11,208       | 13,146       |
| <i>EBITDA growth (%)</i>   | 10.5   | 5.6    | 19.6   | 17.0         | 17.3         |
| <i>EBITDA margin (%)</i>   | 30.5   | 30.1   | 30.4   | 30.9         | 31.3         |
| Depreciation               | 469    | 519    | 537    | 555          | 573          |
| Int. and Finance Charges   | 580    | 370    | 0      | 0            | 0            |
| Other Income               | 311    | 320    | 378    | 435          | 504          |
| Tax                        | 836    | 1,411  | 1,885  | 2,225        | 2,632        |
| Adj. PAT (INR m)           | 6,021  | 6,033  | 7,539  | 8,862        | 10,445       |
| <i>Adj. PAT growth (%)</i> | 4.5    | 0.2    | 25.0   | 17.6         | 17.9         |
| <i>Adj. PAT margin (%)</i> | 24.2   | 22.6   | 23.9   | 24.4         | 24.9         |
| EPS (INR)                  | 26.5   | 26.6   | 33.2   | 39.0         | 46.0         |
| <b>Target multiple (x)</b> |        |        |        | <b>44</b>    | <b>42</b>    |
| <b>Target Price (INR)</b>  |        |        |        | <b>1,655</b> | <b>1,860</b> |
| <b>Upside/downside</b>     |        |        |        | <b>23%</b>   | <b>39%</b>   |

Source: Company, MOSL

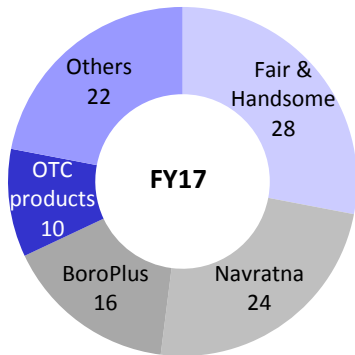
**Exhibit 19: Bull case implies one-year upside of 33%**

| Bull case                  | FY17   | FY18E  | FY19E  | FY20E        | FY21E        |
|----------------------------|--------|--------|--------|--------------|--------------|
| Sales (INR m)              | 24,930 | 26,639 | 32,328 | 38,109       | 44,710       |
| <i>Sales growth (%)</i>    | 5.7    | 6.9    | 21.4   | 17.9         | 17.3         |
| Gross Profit (INR m)       | 16,595 | 17,515 | 21,500 | 25,612       | 30,309       |
| <i>Gross margin (%)</i>    | 66.6   | 65.7   | 66.5   | 67.2         | 67.8         |
| EBITDA (INR m)             | 7,591  | 8,013  | 9,984  | 12,160       | 14,536       |
| <i>EBITDA growth (%)</i>   | 10.5   | 5.6    | 24.6   | 21.8         | 19.5         |
| <i>EBITDA margin (%)</i>   | 30.5   | 30.1   | 30.9   | 31.9         | 32.5         |
| Depreciation               | 469    | 519    | 537    | 555          | 573          |
| Int. and Finance Charges   | 580    | 370    | 0      | 0            | 0            |
| Other Income               | 311    | 320    | 388    | 381          | 447          |
| Tax                        | 836    | 1,411  | 1,969  | 2,397        | 2,877        |
| Adj. PAT (INR m)           | 6,021  | 6,033  | 7,866  | 9,589        | 11,532       |
| <i>Adj. PAT growth (%)</i> | 4.5    | 0.2    | 30.4   | 21.9         | 20.3         |
| <i>Adj. PAT margin (%)</i> | 24.2   | 22.6   | 24.3   | 25.2         | 25.8         |
| EPS (INR)                  | 26.5   | 26.6   | 34.7   | 42.2         | 50.8         |
| <b>Target multiple (x)</b> |        |        |        | <b>44</b>    | <b>42</b>    |
| <b>Target Price (INR)</b>  |        |        |        | <b>1,775</b> | <b>2,044</b> |
| <b>Upside/downside</b>     |        |        |        | <b>33%</b>   | <b>53%</b>   |

Source: Company, MOSL

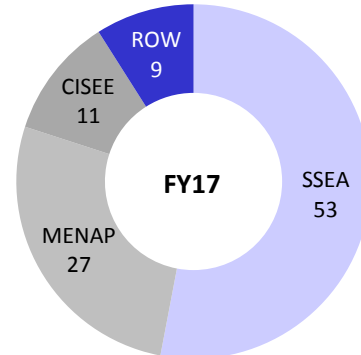
Story in charts

Exhibit 20: Brand-wise revenue share (%)



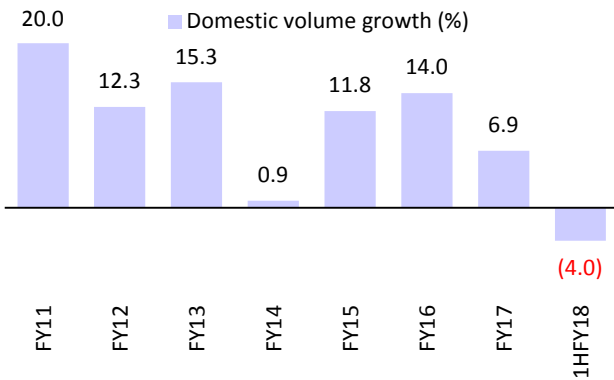
Source: Company, MOSL

Exhibit 21: Region-wise contribution to export revenues (%)



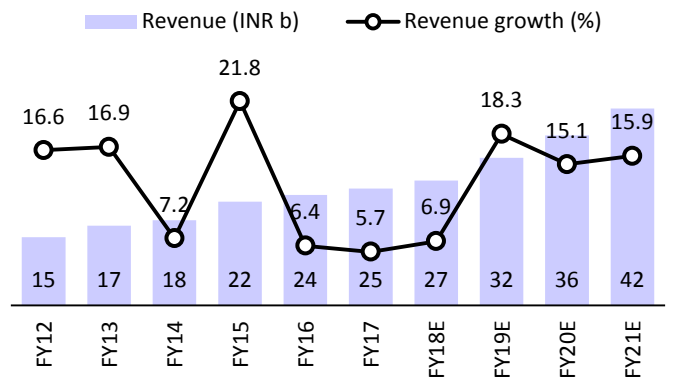
Source: Company, MOSL

Exhibit 22: Domestic volume declined 4% in 1HFY18



Source: Company, MOSL

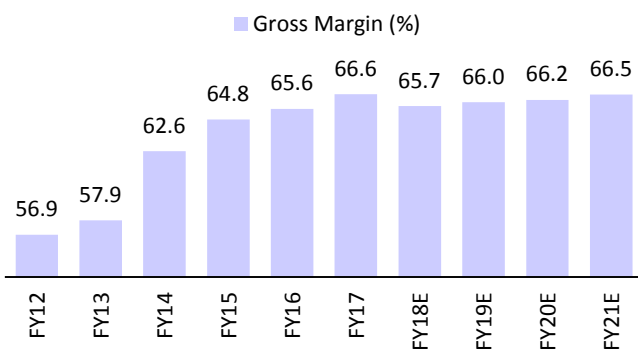
Exhibit 23: Revenue to grow at CAGR of 16.4% over FY18-21



\*FY16 & FY17 as per IND-AS

Source: Company, MOSL

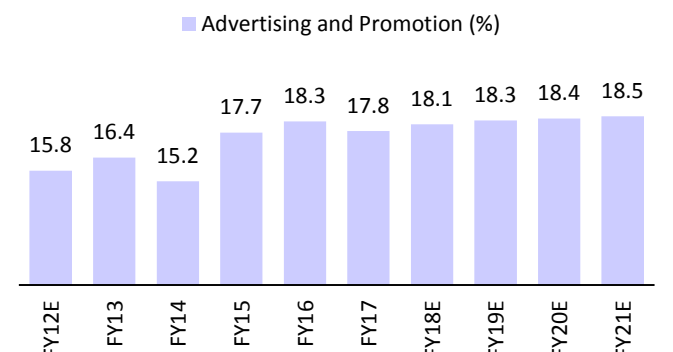
Exhibit 24: Gross margin to expand by 80bp over FY18-21



\*FY16 & FY17 as per IND-AS

Source: Company, MOSL

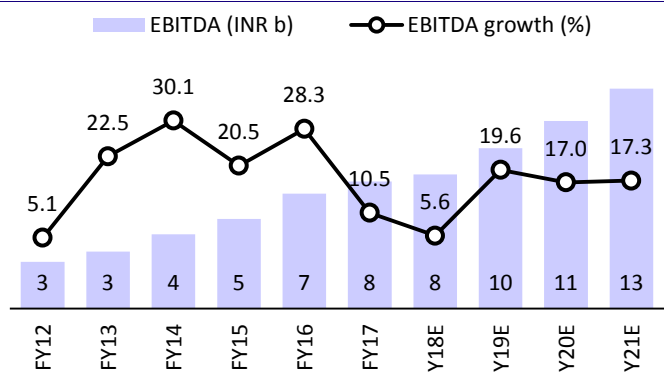
Exhibit 25: Ad spends to increase, led by spends on new launches



\*FY16 & FY17 as per IND-AS

Source: Company, MOSL

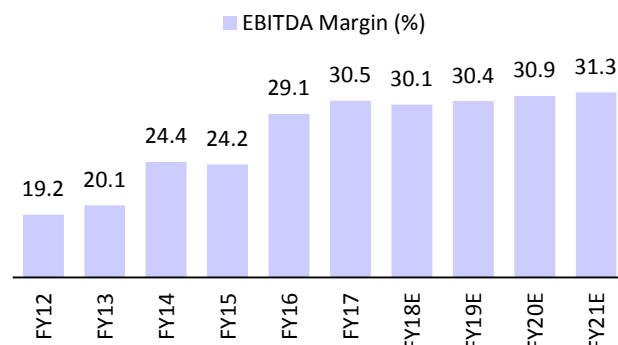
**Exhibit 26: EBITDA to grow at CAGR of 17.9% over FY18-21**



\*FY16 & FY17 as per IND-AS

Source: Company, MOSL

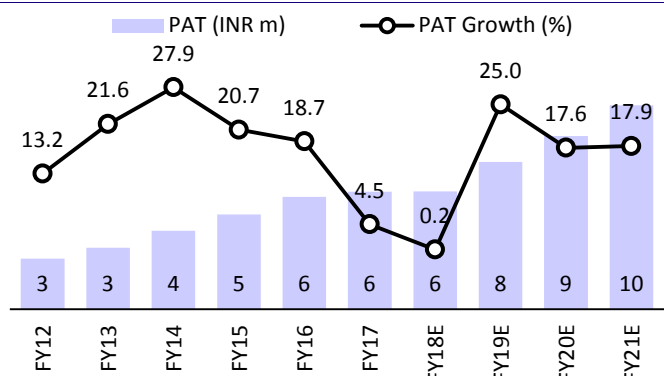
**Exhibit 27: EBITDA margin to expand by 120bp over the same period**



\*FY16 & FY17 as per IND-AS

Source: Company, MOSL

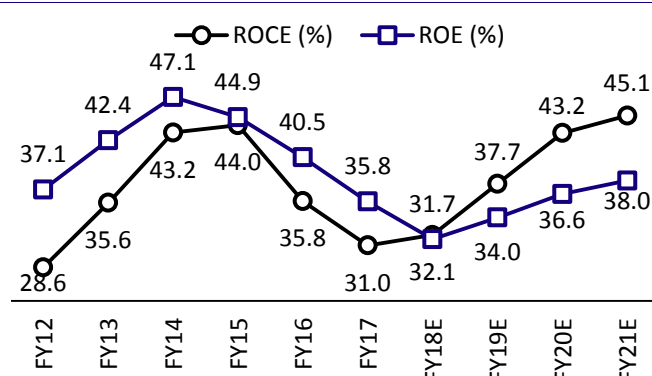
**Exhibit 28: Adjusted PAT to grow at CAGR of 20.1% over FY18-21**



\*FY16 & FY17 as per IND-AS

Source: Company, MOSL

**Exhibit 29: Return ratios expected to improve**



\*FY16 & FY17 as per IND-AS

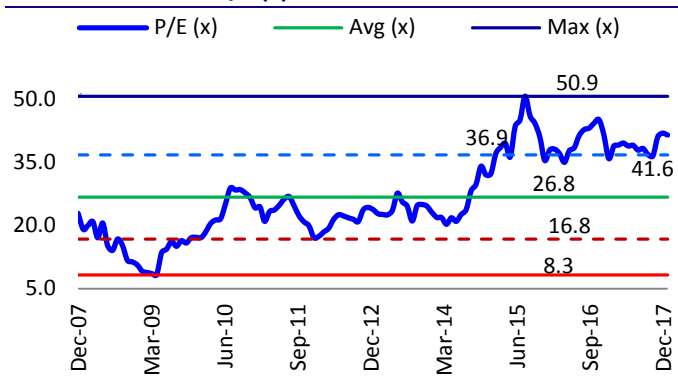
Source: Company, MOSL

**Exhibit 30: Net working capital days (average basis) increased in FY17 due to higher inventory days and lower creditor days**

| Cash conversion cycle               | FY07      | FY08      | FY09      | FY10      | FY11      | FY12      | FY13      | FY14      | FY15     | FY16     | FY17     | FY18E     | FY19E     | FY20E     | FY21E     |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|----------|----------|-----------|-----------|-----------|-----------|
| <b>INR m</b>                        |           |           |           |           |           |           |           |           |          |          |          |           |           |           |           |
| Inventory                           | 412       | 401       | 738       | 826       | 1,234     | 1,122     | 1,140     | 1,411     | 1,267    | 1,505    | 1,792    | 1,739     | 2,052     | 2,344     | 2,697     |
| Account Receivables                 | 458       | 350       | 710       | 755       | 1,087     | 1,005     | 1,122     | 793       | 1,027    | 1,309    | 970      | 1,408     | 1,578     | 1,715     | 2,105     |
| Account Payables                    | 413       | 477       | 1,201     | 890       | 883       | 1,071     | 1,061     | 1,480     | 1,990    | 2,487    | 1,847    | 2,566     | 2,508     | 2,989     | 3,430     |
| <b>Days</b>                         |           |           |           |           |           |           |           |           |          |          |          |           |           |           |           |
| Inventory days                      | 28        | 26        | 28        | 28        | 30        | 30        | 24        | 26        | 22       | 21       | 24       | 24        | 22        | 22        | 22        |
| Debtor days                         | 29        | 26        | 26        | 26        | 27        | 26        | 23        | 19        | 15       | 18       | 17       | 16        | 17        | 17        | 17        |
| Creditor days                       | 22        | 28        | 41        | 37        | 26        | 25        | 23        | 25        | 29       | 35       | 32       | 30        | 29        | 28        | 28        |
| <b>Cash conversion cycle (Days)</b> | <b>35</b> | <b>23</b> | <b>13</b> | <b>17</b> | <b>31</b> | <b>31</b> | <b>24</b> | <b>19</b> | <b>8</b> | <b>5</b> | <b>9</b> | <b>10</b> | <b>10</b> | <b>11</b> | <b>11</b> |

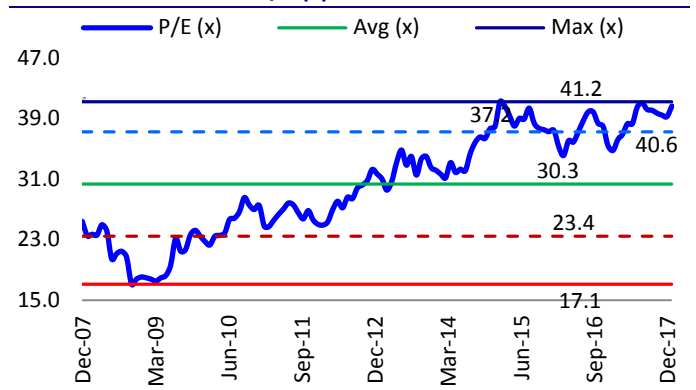
Source: Company, MOSL

**Exhibit 31: Emami P/E (x)**



Source: Company, MOSL

**Exhibit 32: Consumer P/E (x)**



Source: Company, MOSL

**Exhibit 33: Valuation matrix**

| Company          | Reco       | CMP<br>(INR) | Target Price |            | Mkt Cap    |            | EPS Growth YoY (%) |             |             | P/E (x)     |             |             | RoE (%)     | Div. (%)   |
|------------------|------------|--------------|--------------|------------|------------|------------|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|
|                  |            |              | (INR)        | Upside (%) | (INR B)    | (USD B)    | FY18E              | FY19E       | FY20E       | FY18E       | FY19E       | FY20E       |             |            |
| <b>Consumer</b>  |            |              |              |            |            |            |                    |             |             |             |             |             |             |            |
| Asian Paints     | Neutral    | 1,183        | 1,282        | 8          | 1,095      | 17.3       | 2.6                | 19.8        | 20.5        | 54.8        | 45.8        | 38.0        | 26.9        | 0.8        |
| Britannia Inds.  | Buy        | 4,681        | 6,098        | 30         | 560        | 8.8        | 14.7               | 26.4        | 25.2        | 55.4        | 43.8        | 35.0        | 34.0        | 0.0        |
| Colgate-Palm.    | Buy        | 1,117        | 1,357        | 21         | 298        | 4.7        | 10.3               | 19.8        | 20.2        | 47.7        | 39.8        | 33.1        | 48.8        | 0.9        |
| Dabur India      | Buy        | 361          | 410          | 14         | 624        | 9.8        | 6.8                | 20.0        | 17.1        | 46.6        | 38.9        | 33.2        | 26.0        | 0.7        |
| <b>Emami</b>     | <b>Buy</b> | <b>1,340</b> | <b>1,665</b> | <b>23</b>  | <b>302</b> | <b>4.8</b> | <b>0.2</b>         | <b>25.0</b> | <b>16.1</b> | <b>50.4</b> | <b>40.3</b> | <b>34.7</b> | <b>31.7</b> | <b>0.7</b> |
| Godrej Cons.     | Neutral    | 994          | 1,042        | 5          | 671        | 10.6       | 11.9               | 15.8        | 12.0        | 47.0        | 40.5        | 36.2        | 23.8        | 0.6        |
| GlaxoSmith C H L | Neutral    | 6,351        | 5,785        | -9         | 269        | 4.2        | 3.0                | 13.4        | 13.2        | 39.5        | 34.8        | 30.8        | 20.7        | 1.1        |
| Hind. Unilever   | Buy        | 1,367        | 1,497        | 9          | 2,921      | 46.0       | 16.2               | 21.0        | 17.3        | 59.9        | 49.5        | 42.2        | 75.9        | 1.2        |
| ITC              | Neutral    | 265          | 276          | 4          | 3,170      | 50.0       | 8.5                | 10.2        | 13.3        | 29.1        | 26.4        | 23.3        | 23.2        | 2.2        |
| Jyothy Lab.      | Neutral    | 384          | 375          | -2         | 69         | 1.1        | -25.0              | 25.2        | 24.4        | 45.6        | 36.4        | 29.3        | 14.3        | 1.6        |
| Marico           | Neutral    | 323          | 355          | 10         | 414        | 6.5        | -1.2               | 24.3        | 20.2        | 52.0        | 41.9        | 34.8        | 32.3        | 0.9        |
| Nestle India     | Neutral    | 7,952        | 8,173        | 3          | 757        | 11.9       | 4.0                | 14.2        | 20.9        | 61.8        | 54.1        | 44.8        | 39.1        | 0.8        |
| P & G Hygiene    | Neutral    | 9,300        | 9,461        | 2          | 305        | 4.8        | 14.0               | 16.6        | 18.5        | 61.4        | 52.6        | 44.4        | 64.8        | 3.5        |
| Page Industries  | Buy        | 24,414       | 28,650       | 17         | 274        | 4.3        | 24.3               | 39.3        | 31.8        | 82.3        | 59.1        | 44.8        | 39.8        | 0.4        |
| Parag Milk       | Neutral    | 299          | 314          | 5          | 26         | 0.4        | 147.7              | 38.7        | 35.6        | 33.5        | 24.2        | 17.8        | 10.8        | 0.0        |
| Pidilite Inds.   | Buy        | 912          | 1,044        | 15         | 467        | 7.4        | 2.9                | 20.7        | 15.5        | 53.0        | 43.9        | 38.0        | 24.1        | 0.5        |
| United Breweries | Buy        | 1,155        | 1,320        | 14         | 283        | 4.5        | 68.9               | 22.4        | 24.2        | 78.8        | 64.4        | 51.8        | 15.5        | 0.1        |
| United Spirits   | Neutral    | 3,913        | 3,449        | -12        | 523        | 8.2        | 36.5               | 53.5        | 37.3        | 107.3       | 69.9        | 50.9        | 18.9        | 0.0        |
| <b>Retail</b>    |            |              |              |            |            |            |                    |             |             |             |             |             |             |            |
| Jubilant Food.   | Sell       | 1,933        | 1,359        | -30        | 122        | 1.9        | 114.2              | 28.0        | 31.8        | 90.2        | 70.4        | 53.4        | 16.5        | 0.1        |
| PC Jeweller      | Buy        | 502          | 556          | 11         | 188        | 3.0        | 41.0               | 22.3        | 27.8        | 33.3        | 27.3        | 21.3        | 16.5        | 0.2        |
| Titan Company    | Buy        | 925          | 973          | 5          | 760        | 12.0       | 37.7               | 27.7        | 24.9        | 74.4        | 58.2        | 46.6        | 23.2        | 0.4        |

Source: Company, MOSL



## Financials and Valuations

| Income Statement         |               |               |               |               |               | (INR Million) |               |               |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Y/E Mar                  | 2013          | 2014          | 2015          | 2016          | 2017          | 2018E         | 2019E         | 2020E         |
| <b>Net Sales</b>         | <b>16,991</b> | <b>18,208</b> | <b>22,172</b> | <b>23,583</b> | <b>24,930</b> | <b>26,639</b> | <b>31,511</b> | <b>36,255</b> |
| Change (%)               | 16.9          | 7.2           | 21.8          | 6.4           | 5.7           | 6.9           | 18.3          | 15.1          |
| <b>EBITDA</b>            | <b>3,415</b>  | <b>4,444</b>  | <b>5,355</b>  | <b>6,873</b>  | <b>7,591</b>  | <b>8,013</b>  | <b>9,583</b>  | <b>11,208</b> |
| EBITDA Margin (%)        | 20.1          | 24.4          | 24.2          | 29.1          | 30.5          | 30.1          | 30.4          | 30.9          |
| Depreciation             | 220           | 352           | 343           | 423           | 469           | 519           | 537           | 555           |
| <b>EBIT</b>              | <b>3,196</b>  | <b>4,092</b>  | <b>5,012</b>  | <b>6,450</b>  | <b>7,123</b>  | <b>7,494</b>  | <b>9,046</b>  | <b>10,653</b> |
| Interest                 | 66            | 54            | 51            | 540           | 580           | 370           | 0             | 0             |
| Other Income             | 557           | 622           | 964           | 445           | 311           | 320           | 378           | 435           |
| Extraordinary items      | 0             | -89           | 0             | -2,127        | -2,617        | -2,400        | -2,400        | -2,400        |
| <b>PBT</b>               | <b>3,687</b>  | <b>4,571</b>  | <b>5,924</b>  | <b>4,228</b>  | <b>4,236</b>  | <b>5,044</b>  | <b>7,024</b>  | <b>8,688</b>  |
| Tax                      | 540           | 547           | 1,070         | 597           | 976           | 1,411         | 1,885         | 2,225         |
| Tax Rate (%)             | 14.6          | 12.0          | 18.1          | 14.1          | 23.0          | 28.0          | 26.8          | 25.6          |
| Min. Int. & Assoc. Share | 1             | 0             | 2             | 5             | 4             | 0             | 0             | 0             |
| <b>Reported PAT</b>      | <b>3,146</b>  | <b>4,024</b>  | <b>4,853</b>  | <b>3,626</b>  | <b>3,256</b>  | <b>3,633</b>  | <b>5,139</b>  | <b>6,462</b>  |
| <b>Adjusted PAT</b>      | <b>3,146</b>  | <b>4,024</b>  | <b>4,853</b>  | <b>5,752</b>  | <b>5,873</b>  | <b>6,033</b>  | <b>7,539</b>  | <b>8,862</b>  |
| Change (%)               | 21.6          | 27.9          | 20.6          | 18.5          | 2.1           | 2.7           | 25.0          | 17.6          |

| Balance Sheet                  |              |              |               |               |               | (INR Million) |               |               |
|--------------------------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Y/E Mar                        | 2013         | 2014         | 2015          | 2016          | 2017          | 2018E         | 2019E         | 2020E         |
| Share Capital                  | 151          | 227          | 227           | 227           | 227           | 227           | 227           | 227           |
| Reserves                       | 7,623        | 9,094        | 12,079        | 15,889        | 17,320        | 20,292        | 23,544        | 24,462        |
| <b>Net Worth</b>               | <b>7,775</b> | <b>9,321</b> | <b>12,306</b> | <b>16,116</b> | <b>17,547</b> | <b>20,519</b> | <b>23,771</b> | <b>24,689</b> |
| Debt                           | 1,201        | 450          | 470           | 6,838         | 4,846         | 2,846         | 0             | 0             |
| Deferred Tax                   | 137          | 48           | 120           | 90            | 422           | 422           | 422           | 422           |
| <b>Total Capital Employed</b>  | <b>9,113</b> | <b>9,819</b> | <b>12,942</b> | <b>23,086</b> | <b>22,829</b> | <b>23,801</b> | <b>24,206</b> | <b>25,124</b> |
| Gross Fixed Assets             | 9,394        | 10,341       | 6,393         | 24,162        | 27,341        | 28,841        | 29,841        | 30,841        |
| Less: Acc Depreciation         | 5,472        | 6,382        | 1,882         | 4,408         | 7,357         | 7,846         | 8,351         | 8,874         |
| <b>Net Fixed Assets</b>        | <b>3,922</b> | <b>3,959</b> | <b>4,511</b>  | <b>19,754</b> | <b>19,983</b> | <b>20,995</b> | <b>21,489</b> | <b>21,967</b> |
| Capital WIP                    | 475          | 119          | 265           | 616           | 129           | 129           | 129           | 129           |
| Investments                    | 1,631        | 2,958        | 5,013         | 474           | 1,277         | 849           | 764           | 688           |
| <b>Current Assets</b>          | <b>6,088</b> | <b>5,987</b> | <b>6,934</b>  | <b>6,037</b>  | <b>4,687</b>  | <b>5,905</b>  | <b>5,992</b>  | <b>7,184</b>  |
| Inventory                      | 1,140        | 1,411        | 1,267         | 1,505         | 1,792         | 1,739         | 2,052         | 2,344         |
| Debtors                        | 1,122        | 793          | 1,027         | 1,309         | 970           | 1,408         | 1,578         | 1,715         |
| Cash & Bank                    | 2,817        | 2,700        | 3,541         | 1,084         | 501           | 1,379         | 731           | 1,247         |
| Loans & Adv, Others            | 1,009        | 1,083        | 1,100         | 2,138         | 1,425         | 1,379         | 1,632         | 1,878         |
| <b>Curr Liabs &amp; Provns</b> | <b>3,049</b> | <b>3,203</b> | <b>3,821</b>  | <b>3,836</b>  | <b>3,288</b>  | <b>4,118</b>  | <b>4,209</b>  | <b>4,883</b>  |
| Curr. Liabilities              | 1,328        | 1,821        | 2,458         | 3,147         | 2,469         | 3,135         | 3,030         | 3,468         |
| Provisions                     | 1,721        | 1,383        | 1,363         | 689           | 819           | 983           | 1,179         | 1,415         |
| <b>Net Current Assets</b>      | <b>3,039</b> | <b>2,783</b> | <b>3,113</b>  | <b>2,200</b>  | <b>1,399</b>  | <b>1,787</b>  | <b>1,783</b>  | <b>2,300</b>  |
| <b>Total Assets</b>            | <b>9,113</b> | <b>9,819</b> | <b>12,942</b> | <b>23,086</b> | <b>22,829</b> | <b>23,801</b> | <b>24,206</b> | <b>25,125</b> |

## Financials and Valuations

### Ratios

| Y/E Mar                         | 2013 | 2014 | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|---------------------------------|------|------|------|------|------|-------|-------|-------|
| <b>Basic (INR)</b>              |      |      |      |      |      |       |       |       |
| EPS                             | 20.8 | 17.7 | 21.4 | 25.4 | 26.5 | 26.6  | 33.2  | 39.0  |
| Cash EPS                        | 22.3 | 19.3 | 22.9 | 27.2 | 28.6 | 28.9  | 35.6  | 41.5  |
| Book Value                      | 51.4 | 41.1 | 54.2 | 71.0 | 77.3 | 90.4  | 104.7 | 108.8 |
| DPS                             | 8.0  | 7.0  | 7.0  | 3.0  | 8.7  | 9.0   | 9.0   | 9.0   |
| Payout (incl. Div. Tax.)        | 38.5 | 39.5 | 32.7 | 11.8 | 33.0 | 33.9  | 27.1  | 23.0  |
| <b>Valuation(x)</b>             |      |      |      |      |      |       |       |       |
| P/E                             | 64.1 | 75.2 | 62.3 | 52.5 | 50.5 | 50.4  | 40.3  | 34.3  |
| Price / Book Value              | 26.0 | 32.5 | 24.6 | 18.8 | 17.3 | 14.8  | 12.8  | 12.3  |
| EV/Sales                        | 11.7 | 16.3 | 13.3 | 13.1 | 12.3 | 11.4  | 9.6   | 8.3   |
| EV/EBITDA                       | 58.1 | 67.0 | 55.0 | 44.8 | 40.5 | 38.0  | 31.6  | 27.0  |
| Dividend Yield (%)              | 0.6  | 0.5  | 0.5  | 0.2  | 0.7  | 0.7   | 0.7   | 0.7   |
| <b>Profitability Ratios (%)</b> |      |      |      |      |      |       |       |       |
| RoE                             | 42.4 | 47.1 | 44.9 | 40.5 | 35.8 | 31.7  | 34.0  | 36.6  |
| RoCE                            | 35.6 | 43.2 | 44.0 | 35.8 | 31.0 | 32.1  | 37.7  | 43.2  |
| RoIC                            | 49.1 | 56.3 | 50.9 | 39.1 | 28.1 | 27.3  | 31.7  | 36.2  |
| <b>Turnover Ratios (%)</b>      |      |      |      |      |      |       |       |       |
| Asset Turnover (x)              | 1.7  | 1.6  | 1.4  | 1.1  | 1.1  | 1.1   | 1.3   | 1.5   |
| Debtors (No. of Days)           | 24   | 16   | 17   | 20   | 22   | 19    | 18    | 17    |
| <b>Leverage Ratios (%)</b>      |      |      |      |      |      |       |       |       |
| Net Debt/Equity (x)             | -0.2 | -0.2 | -0.2 | 0.4  | 0.2  | 0.1   | 0.0   | -0.1  |

### Cash Flow Statement

(INR Million)

| Y/E Mar                       | 2013          | 2014          | 2015          | 2016           | 2017          | 2018E         | 2019E         | 2020E         |
|-------------------------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|
| Adjusted EBITDA               | 3,415         | 4,444         | 5,355         | 6,873          | 7,591         | 8,013         | 9,583         | 11,208        |
| Non cash opr. exp (inc)       | 0             | 0             | 0             | 0              | 0             | 0             | 0             | 0             |
| (Inc)/Dec in Wkg. Cap.        | 187           | 139           | 512           | -1,544         | 218           | 491           | -644          | -1            |
| Tax Paid                      | -540          | -547          | -1,070        | -472           | -966          | -1,411        | -1,885        | -2,225        |
| Other operating activities    | -61           | 123           | 961           | 165            | 141           | -370          | 0             | 0             |
| <b>CF from Op. Activity</b>   | <b>3,002</b>  | <b>4,159</b>  | <b>5,758</b>  | <b>5,022</b>   | <b>6,984</b>  | <b>6,723</b>  | <b>7,054</b>  | <b>8,981</b>  |
| (Inc)/Dec in FA & CWIP        | -723          | -591          | 3,802         | -18,121        | -2,691        | -1,500        | -1,000        | -1,000        |
| <b>Free cash flows</b>        | <b>2,278</b>  | <b>3,568</b>  | <b>9,560</b>  | <b>-13,099</b> | <b>4,293</b>  | <b>5,223</b>  | <b>6,054</b>  | <b>7,981</b>  |
| (Pur)/Sale of Invt            | -828          | -1,327        | -2,054        | 4,539          | -803          | 428           | 85            | 76            |
| Others                        | 0             | 0             | 0             | 0              | 0             | 0             | 0             | 0             |
| <b>CF from Inv. Activity</b>  | <b>-1,551</b> | <b>-1,918</b> | <b>1,748</b>  | <b>-13,582</b> | <b>-3,494</b> | <b>-1,072</b> | <b>-915</b>   | <b>-924</b>   |
| Inc/(Dec) in Net Worth        | 0             | 0             | 0             | 0              | 0             | 0             | 0             | 0             |
| Inc / (Dec) in Debt           | -410          | -751          | 19            | 6,369          | -1,992        | -2,000        | -2,846        | 0             |
| Interest Paid                 | 0             | 0             | 0             | 0              | 0             | 0             | 0             | 0             |
| Divd Paid (incl Tax) & Others | -983          | -1,607        | -6,683        | -266           | -2,082        | -2,772        | -3,941        | -7,541        |
| <b>CF from Fin. Activity</b>  | <b>-1,394</b> | <b>-2,358</b> | <b>-6,664</b> | <b>6,103</b>   | <b>-4,074</b> | <b>-4,772</b> | <b>-6,788</b> | <b>-7,541</b> |
| <b>Inc/(Dec) in Cash</b>      | <b>57</b>     | <b>-117</b>   | <b>842</b>    | <b>-2,457</b>  | <b>-584</b>   | <b>879</b>    | <b>-649</b>   | <b>516</b>    |
| Add: Opening Balance          | 2,760         | 2,817         | 2,700         | 3,541          | 1,084         | 501           | 1,379         | 731           |
| <b>Closing Balance</b>        | <b>2,817</b>  | <b>2,700</b>  | <b>3,541</b>  | <b>1,084</b>   | <b>500</b>    | <b>1,379</b>  | <b>730</b>    | <b>1,247</b>  |

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