

Takeaways from Conversation with the CEO

With the COVID-19 crisis having impacted nearly every industry, we were interested in learning the strategies being adopted by large corporates to cope with the changing times. In this regard as well as to obtain a longer term perspective on the company prospects, we interacted with Mr Sanjiv Mehta, CEO and Managing Director of Hindustan Unilever (HUVR). Here are the key highlights from our discussion:

- **Massive opportunity in Soaps:** [As discussed in our AR](#) note earlier this week, the COVID-19 crisis offers a great opportunity to grow the laggard (in our view) Soaps business (27% of sales by our reckoning). While growth rates and usage rates of the past two to three months may not sustain, the management seems confident in the opportunity for volume momentum and premiumization momentum being much stronger than it has been in recent years.
- **Other hygiene-related categories gaining as well:** Categories such as Detergents and Home Cleaning Products are also seeing strong growth owing to a higher importance afforded to hygiene under the current crisis.
- **Timing of GSKCH acquisition fortuitous, integration flawless:** The GSKCH acquisition comes at a time when customers increasingly seek health and immunity-boosting products. With GSKCH's strong proposition on nutrition, the current scenario acts as a tailwind for the HFD category. Not only is the ongoing integration happening flawlessly despite lockdown-related challenges but it will also exemplify how to integrate two large businesses.
- **Straddling of products across price points and categories:** This makes them more resilient in tough times such as these.
- **HUVR nimble and frugal on all fronts, barring employee cost:** This would prove a key differentiator v/s peers. In FY20, the company's gross cost savings were at a massive 7% of sales. Amid the crisis, faster decisions are being made on which products and markets need to be focused on. The decisions are also being reviewed on a weekly basis.
- **On big brands and companies doing better:** The management mentioned that while market growth may not be under their control during the Covid-19 crisis, competitive growth is. Big brands die when they do not reinvent and remain contemporary, an exercise in which HUVR has succeeded for the majority of its portfolio in recent years. The freedom granted to teams as part of the WIMI strategy, coupled with the fact that smaller peers do not have the resources to cope with crisis/disruption, has worked well for HUVR in recent years.
- **Valuation and view:** HUVR's earnings growth has gained further momentum in recent years (17% EPS CAGR in the past three years v/s ~12% CAGR over 10 years). This is particularly impressive given the weak mid-single-digit earnings growth posted by (much smaller) peers in recent years. HUVR's best-of-breed analytics and execution ability (exhibited by the successful implementation of the WIMI strategy, cost-saving plans, herbals, etc.) are key factors driving the pace of earnings growth. Furthermore, as highlighted in [our detailed report in Feb'20](#), as [well as our AR note earlier this week](#), we remain positive on HUVR from a medium-term perspective due to: a) robust earnings growth potential beyond the near term owing to its portfolio and execution strengths, b) significant synergies in FY22E as a result of GSK CH, and c) RoCE levels being well ahead of peers. These factors mean premium multiples are likely to sustain. Valuing the company at 55x merged EPS, maintain TP of INR2,400 and maintain Buy.

Hindustan Unilever



**Mr Sanjiv Mehta—
CEO & Managing Director**

Sanjiv Mehta took over as the CEO and Managing Director of Hindustan Unilever (HUVR) in October 2013. He has a Bachelor's degree in Commerce (India), is a Chartered Accountant (India), and has also completed his Advanced Management Program from Harvard Business School. Sanjiv has been with Unilever for nearly 28 years, and for the last 18 years, he has led businesses in different parts of the world. He has served as Chairman and Managing Director of Unilever Bangladesh Limited (2002–06); Chairman and CEO of Unilever Philippines, Inc. (2007–08); and Chairman of Unilever - North Africa & Middle East (2008–Sept'13).

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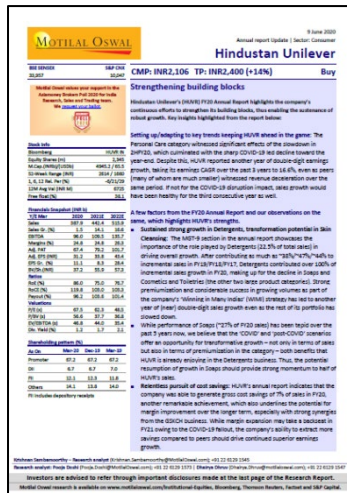


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Detailed notes from the call under relevant sections:

'There is fear but also heightened need for hygiene'

- Most people are aware that a spike in infection rates is likely as India re-opens; hence, they would prefer to stay indoors as much as possible. This cocooning effect is expected to continue in the near term and people would avoid crowded places, such as malls.
- Health and wellness products are sought by consumers to boost immunity.
- Simultaneously, the need for hygiene products is also likely to remain high on account of an increased awareness regarding the importance of maintaining hygiene in the current times.
- For this reason, skin cleansing products such as hand washes, soaps, and sanitizers are also witnessing huge demand (80–100x demand for sanitizers).
- Brands such as Dove and Pears have been doing well. Lifebuoy is now doing very well. As COVID-19 draws focus on the significance of washing hands, the sale of liquid hand washes would go up significantly.
- Importantly, while demand over the next couple of years would not remain at peak levels (as in the case of sanitizers), an evident and likely sustainable cultural change has been witnessed in people's perception of hygiene products. The impact of this could be far-reaching from a category growth point of view.
- As we noted in our [annual report analysis](#) released earlier this week, Detergents has been a runaway success story in recent years, witnessing strong growth in both volumes and premiumization. On the other hand, the Soaps category has been a laggard over the same period. HUVR's volume and earnings growth in recent years has been far superior to that of its Consumer peers; the company is likely to continue to do well over the medium to long term as well. However, as the laggard Soaps segment could now see higher growth in terms of both volume and premiumization (hand washes, sanitizers, and body washes are at a much higher price index than soaps), the company's overall earnings growth would also be elevated.

Exhibit 1: Over the past four years, the share of Soaps in HUVR's total revenues has been steadily declining

Y/E	FY16	FY17	FY18	FY19	FY20
Soaps sales (INR m)	95,553	1,03,278	1,03,857	1,06,954	1,03,337
Contribution of Soaps to total HUVR sales (%)	30.4	30.5	30.0	28.4	27.0
Soaps sales growth (%)	(1.0)	8.1	0.6	3.0	-3.4
Incremental Soaps sales (INR m)	(963)	7,725	579	3,097	(3,617)
Contribution of Soaps to HUVR's incremental sales (%)	(7.5)	31.6	8.0	10.2	(59.0)

Source: Company, MOFSL

Exhibit 2: Detergents – Stellar performance despite the huge size

Y/E	FY16	FY17	FY18	FY19	FY20
Detergents sales (INR m)	52,683	63,451	66,884	78,333	86,114
Contribution of Detergents to total HUVR sales (%)	16.8	18.7	19.3	20.8	22.5
Detergents sales growth (%)	5.6	20.4	5.4	17.1	9.9
Incremental Detergents sales (INR m)	2,811	10,768	3,432	11,449	7,781
Contribution of Detergents to HUVR's incremental sales (%)	21.9	44.1	47.4	37.6	126.9

Source: Company, MOFSL

Exhibit 3: Hand washes, sanitizers, and body washes – higher price index v/s soaps

Lifebuoy	x of soap*
Soap	-
Body Wash	1.9
Sanitizer	2.5
Hand Wash	2.6
Lux	x of soap*
Soap	-
Body Wash	2.2
Hand Wash	2.0
Dove	x of soap*
Soap	-
Body Wash	1.3
Hand Wash	1.0
Pears	x of soap*
Soap	-
Body Wash	2.2
Hand Wash	1.3

Source: Company, MOFSL, *Calculated based on latest INR per unit

Other segments are also benefiting

- Mr Mehta believes the Detergents and Home Care segments are also bound to do well amid the pandemic as well as later, albeit not at as accentuated a pace as currently witnessed in Skin Cleansing.
- Rising demand has been witnessed for immunity-building products and in-home consumption is also growing. Categories such as Tea and Coffee are doing well owing to a rise in in-home consumption.
- Eventually, there is also bound to be a ‘Lipstick Effect’: the consumption of small indulgences that make people feel good in challenging times.

Exhibit 4: Performances of Beauty and Personal Care

Particulars (INR b)	FY17	FY18	FY19	FY20
Beauty & Personal Care revenue	163	165	177	173
YoY growth (%)	1.8	1.0	7.2	(1.8)
Contribution to total turnover (%)	47.3	46.8	46.2	44.7
Beauty & Personal Care EBIT	38	42	47	49
YoY growth (%)	1.2	8.1	12.6	3.9
Margins (%)	23.6	25.3	26.5	28.1
Beauty & Personal Care contribution to total EBIT (%)	64.9	60.9	58.0	56.2

Source: Company, MOFSL

Exhibit 5: Performance of Home Care, including Detergents

Particulars (INR b)	FY17	FY18	FY19	FY20
Home Care revenue	113	116	129	136
YoY growth (%)	4.9	2.5	10.7	5.9
Contribution to total turnover (%)	32.9	33.0	33.7	35.2
Home Care EBIT	13	17	22	26
YoY growth (%)	19.6	34.7	27.6	18.3
Margins (%)	11.1	14.6	16.8	18.8
Home Care’s contribution to total EBIT (%)	21.2	24.8	26.8	26.6

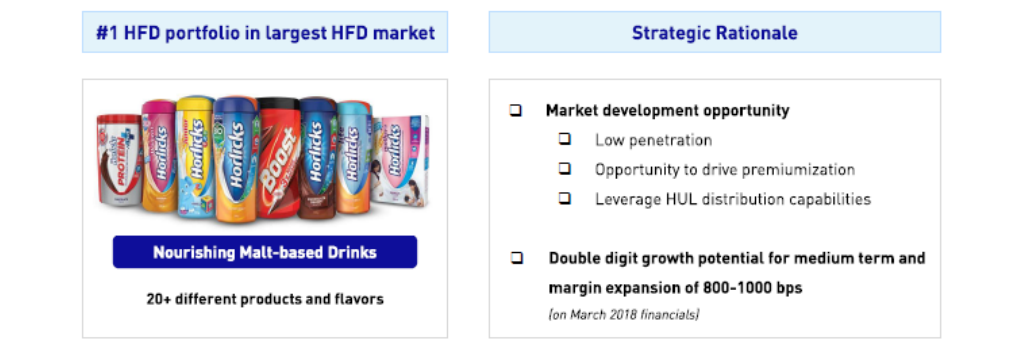
Source: Company, MOFSL

On GSKCH merger and synergies

- The timing of the Horlicks acquisition could not have been better given that GSKCH is a foods company and the rising trends of immunity-building products and in-home consumption.

- GSKCH’s integration has been near flawless. HUVR is now a big player in the Foods and Refreshment domains, with increasing market leadership in Tea. The company already leads the market in the Ketchup and Soups categories, and now leads HFD as well.
- Driving growth and realizing synergies from the merger are key focus areas for HUVR.
- The company is now in the third month of integration and aims to exemplify the integration of the two large companies in India.

Exhibit 6: Leverage on megatrends in Health and Wellness



Source: Company, MOFSL

‘Big brands die when they don’t reinvent themselves and don’t remain contemporary’

It has been seen in recent years that larger companies and brands have started making a comeback. HUVR itself has grown much faster than peers. Mr Mehta offered several insights on the reasons for rapid growth ahead of peers.

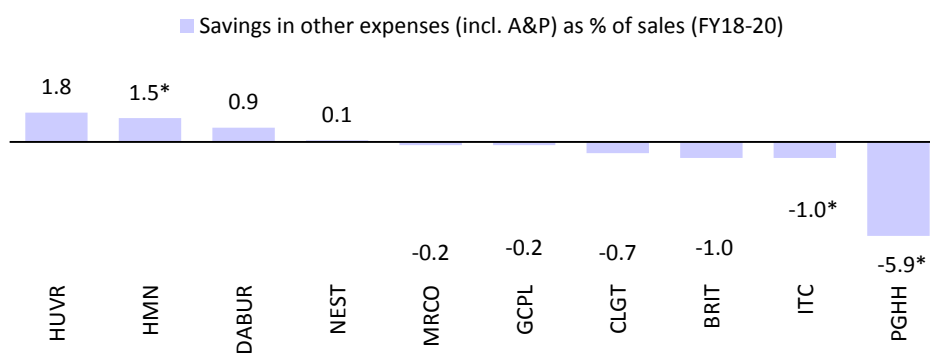
- HUVR has always been a big believer in the power of big brands as ‘brands stands for quality, trust, and experience’.
- He also noted that brands need to evolve and reinvent. He opined that as long as they made themselves contemporary and did not take customers for granted, big brands would thrive.
- **‘Best talent in the country can surmount any challenge’**: People and data have emerged as the most significant moats, in addition to brand moats. HUVR has consistently been the best employer of choice in both B-schools as well as lateral hires. Over the past decade, HUVR has reaped the benefit of investing in data and analytics. This is an area where the company has been a trendsetter and continues to widen the gap v/s peers in this period.
- Smaller companies with less recourse to financial strength and the best talent struggle in times of crisis.
- The past five years have also witnessed several disruptions such as the demonetization, GST, and now COVID-19. As a result, the organized sector has emerged faster. Furthermore, within the organized sector, larger companies have done better in terms of being prepared and/or recovering faster from these disruptions.

Exhibit 7: Other expenses (incl. A&P) to sales trend over the past four years

Companies	FY16	FY17	FY18	FY19	FY20
HUVR	27.2	26.8	26.9	25.8	25.0
Britannia	21.8	20.3	19.2	21.0	20.2
Colgate	30.8	32.0	30.6	30.7	31.3
Dabur	21.9	20.5	19.3	18.2	18.4
Emami	27.6	28.3	29.5	28.4	28.0
GCPL	23.5	24.3	24.9	24.7	25.1
ITC*	17.1	15.6	14.7	15.0	15.7
Marico	25.0	25.5	22.0	21.1	22.2
Nestle	25.8	25.0	24.0	24.8	23.9
P&G Hygiene and Healthcare*	29.3	27.0	31.1	32.9	37.0

Source: Company, MOFSL, *Estimates

Exhibit 8: HUVR has derived maximum benefit through savings in other expenses (incl. A&P expense) as a percentage of sales post GST (FY18–20)



Source: Company, MOFSL, *Estimates

‘Pace of market growth may not be in their control, but competitive growth is’

- With the success witnessed in Detergents, HUVR has learned how to grow volumes and premiumization in various geographies without vacating any position.
- The CCBT (Country-Category-Business-Team) and WIMI (Winning in Many Indias) strategies are a big part of its growth over peers as they both result in fully empowered teams.

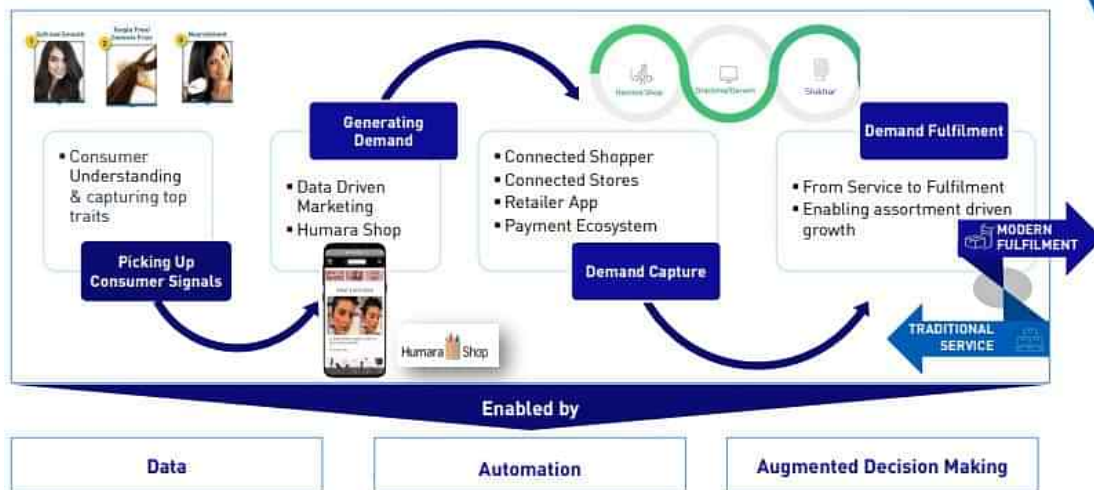
‘Big doesn’t beat small, it is the fast that beats the slow’

- Rightly positioning brands would be important in a rapidly changing environment.
- It is interesting to note that planning now happens on a weekly basis given the dynamic changes in the environment. This even extends to media strategy.
- The fluidity in changing course has increased dramatically in the last two months.
- Amid the cautious consumption in these tough economic times, HUVR’s straddling of the price pyramid across its key categories serves the company very well.
- Consumers look at value and not necessarily lower prices. Thus, while the purchasing power of consumers may shrink in the current crisis, the availability of brands, including premium ones, in smaller packs and sachets would play a

critical role in customer retention. Small packs and sachets of premium products would continue to do well.

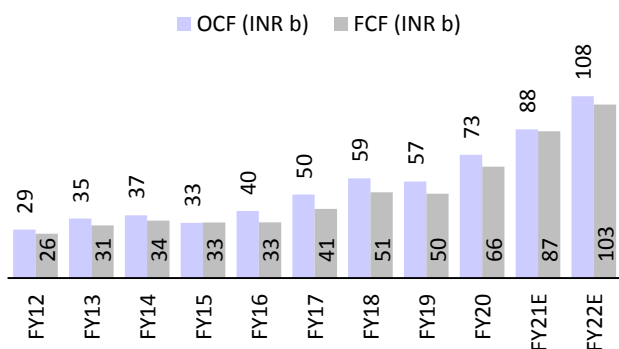
- The ongoing COVID-19 situation has reshaped channel dynamics. The renaissance of the humble grocer is being witnessed as consumers choose proximity to lower the risk of COVID-19 exposure. At the same time, e-commerce has emerged stronger due to the convenience of home delivery, which also reduces the risk of exposure. Thus, how companies serve these channels in light of the new reality determines the success they would see relative to peers.
- **‘Reimagining HUL’**: One of the cornerstones of the ‘Reimagining HUL’ strategy is the digital journey. In the current scenario, the company is exploring the means to accelerate this shift.
- Best-of-breed ROCE would be leveraged for growth.

Exhibit 9: Digital initiatives through the use of data and technology



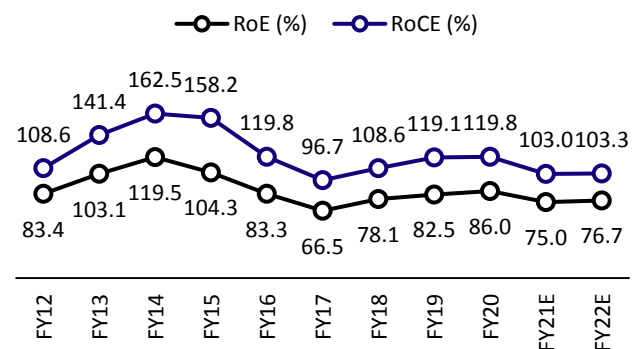
Source: Company, MOFSL

Exhibit 10: Consistent OCF and FCF generation



Source: Company, MOFSL

Exhibit 11: Robust return ratios



Source: Company, MOFSL

‘Don’t have bureaucracy of the large but strive for the capability of the large’

- Over the last few years, HUVR has emerged as a large company with the soul of a small company. The company continues to have a frugal mindset with a growth outlook.

Hindustan Unilever
13 February 2020
Update / Sector: Consumer

Significant levers for earnings growth

- Hindustan Unilever (HUVR) has been a stellar performer over the past decade, both in terms of operating and stock price. Also, it has significantly outperformed peers in the larger FMCG consumer space over the same period.
- Factors that have led to HUVR's strong earnings performance vs. competitors, amongst cost savings, penetration and best-of breed analytics are likely to benefit the company in the future as well.
- From a near-term perspective, favorable base in the cost free quarters, expanded margins in the domestic environment from FY21E, savings from the SABIC merger, price increase in soap and tissue units are likely to boost earnings. We expect HUVR's high teens earnings growth in an organic base FY20E.
- Including the SABIC merger and synergies) allowed in recent years to continue. While we expect the best FY20E among consumer peers, we believe that the operational strength generation track record of HUVR is likely to continue. We note our target multiples in the FY20E are on the upward end of our target price range changing to INR2,400 (20% upside, Maintain Buy).

Health growth in metrics in the last decade

Over a company of HUVR's size, earnings at 20% CAGR over the last 10 years (ending FY20E) have been healthy. Moreover, its CAGR performance in the last 2 years (FY18-20E) has been even more impressive, given the weak earnings growth posted by (much larger) peers in recent years.

Analyst's view on operating environment: Competitive, but FY20E price performance has been splendid with returns of 23%/34%/34% CAGR over the past 10/2/2 years with the market recording a substantial earnings growth with an equal and regional growth in retail.

Factors leading the strong earnings track record to continue:

- An aggressive operating leverage improvement or ability over the past 10 years ending FY20E has been led by factors such as (i) superior capabilities in response to the market cost and competitive stimuli, which has been backed further by best-of-breed analytics, (ii) strong execution of its following 3 major niche (niche) strategy, niche products and more recently an acquisition as well, and (iii) emphasis on penetration with digital focus on cost savings in the same time.

Remaining growth trajectory intact

Despite being such a large target these years, we believe HUVR's earnings growth trajectory will continue to be strong, led by:

- 1) Volume growth - led by the favorable base ACP/30 consumers and the eventual recovery from COVID-19 expected by the management.
- 2) Cost savings and price increases - leading to higher growth in retailation and therefore faster sales growth.
- 3) Continued penetration and price increases - leading to faster growth in retailation and therefore faster sales growth.
- 4) SABIC merger - likely to add 10% to FY21E EPS due to the 8% historical return of the size and low leverage that on manufacturing and regional synergies.

- As highlighted in our [annual report analysis](#), the company was able to obtain gross cost savings of 7% of turnover last year, which is remarkable given the strong pace of cost savings in the preceding years.
- Cost savings would be an important focus area for the future as well.
- So long as it is not related to people, costs can be pruned. We highlighted further cost savings potential as one of the cornerstones of our investment thesis in [our detailed report in Feb'20](#).
- Efforts are also on to convert a larger portion of fixed costs to variables, particularly as the crisis is not going to go away anytime soon, especially with the lifting of the lockdown.
- **Growing the pie:** HUVR believes this is the responsibility of the largest player and would undertake efforts in this regard.
- **Medium-term focus:** HUVR would focus on both volumes and value.

Exhibit 12: Robust gross margins

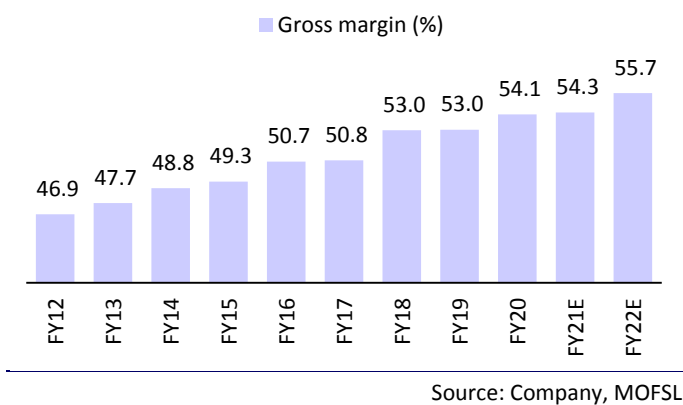


Exhibit 13: Highest ever operating margins in FY20

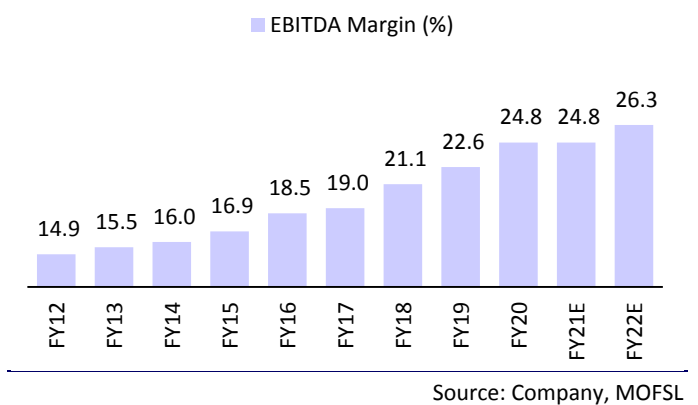


Exhibit 14: Margin expansion trajectory to continue in the medium term

Y/E March (INR b)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Gross Profit	152	158	162	183	203	210	240	287
Gross Margin (%)	49.3	50.7	50.8	53.0	53.0	54.1	54.3	55.7
Gross margin change – YoY (bps)	50	140	10	220	0	110	10	140
EBIDTA	52	57	60	73	86	96	110	136
EBITDA Margin (%)	16.9	18.5	19.0	21.1	22.6	24.8	24.8	26.3
EBITDA margin change – YoY (bps)	90	160	50	210	150	220	0	150

Source: Company, MOFSL

Exhibit 15: 9MFY20 domestic consumer sales growth stood at 6% even on a high base...

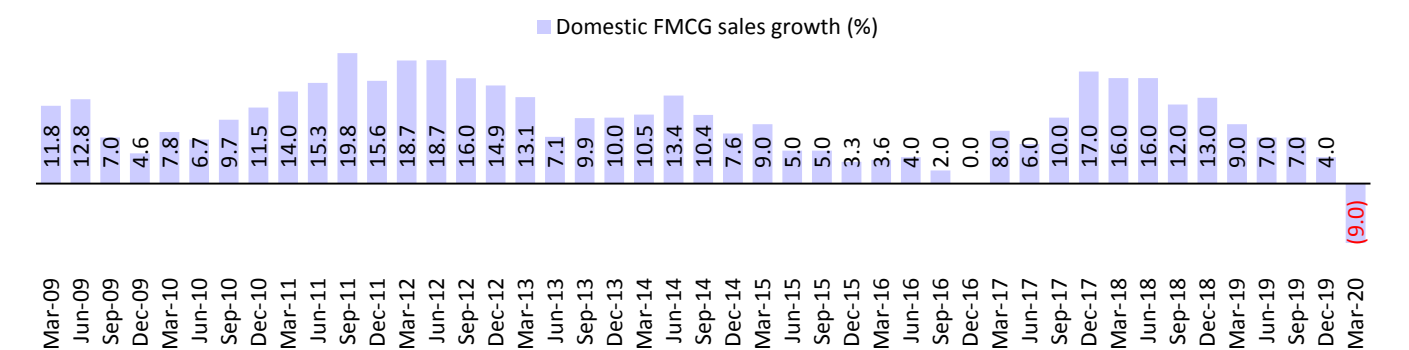
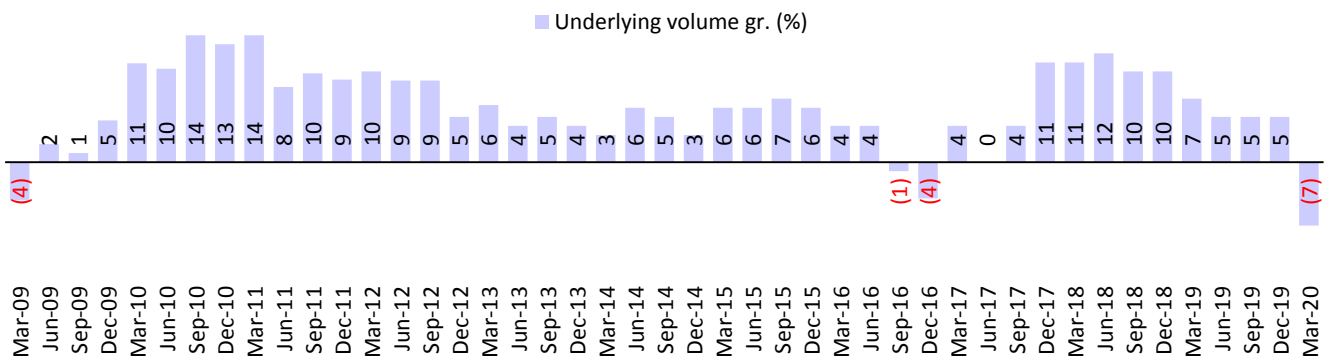


Exhibit 16: ...underlying volumes stood at 5% YoY in 9MFY20



Source: Company, MOFSL

Other points

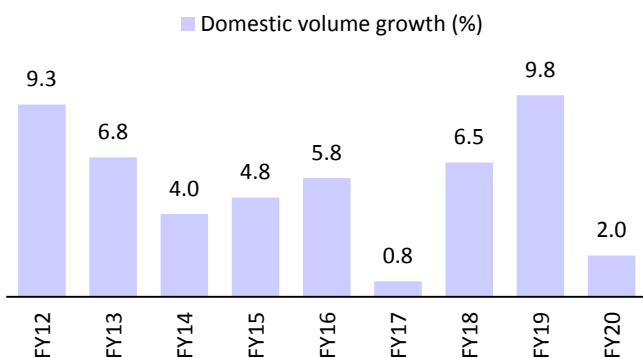
Highly confident of India bouncing back sooner than other countries

- HUVR is highly optimistic of India bouncing back sooner than other countries.
- The management is confident in HUVR’s ability to emerge much stronger and better from the ongoing COVID-19 crisis.

March quarter impact and unpredictable near-term outlook

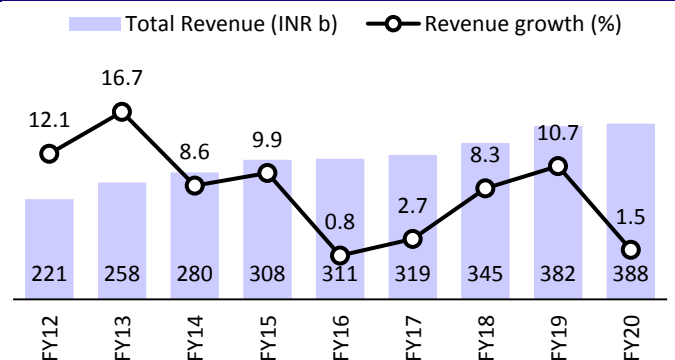
- Mr Mehta indicated that half of the sales impact in the second half of March was due to distributor stocks falling. Of the remaining 50% impact, half was due to a reduction in retailer stocks / trade pipelines as distributors were unable to meet supply. The final component that played a part (25% of the total impact in the second half of March) was due to institutional and out-of-home businesses (OOH, ICD, UFS) being severely impacted.
- While all factories are now operational, 20–25% of stores across the country are still closed.
- Modern trade stores at malls in many parts of the country are still closed. Even after businesses reopen, it would take time for normalcy to return from a footfall perspective.
- Mr Mehta reckons that it is too early to predict the mid-term impact of the COVID-19 crisis and the pace of growth.

Exhibit 17: Volume growth stood at 2% in FY20



Source: Company, MOFSL

Exhibit 18: Tepid revenue growth due to COVID-19 impact



Source: Company, MOFSL

Plan to deal with the current crisis

- **People safety:** Ensuring safe working conditions, strict standards of social distancing, and the necessary infrastructure and equipment across operations
- **Getting supply lines right:** Working closely with the government, prioritizing key SKUs, making planning cycles more agile, and creating flexible alternatives
- **Sensing demand and innovation:** Moving categories quickly to re-plan innovations, adjusting to consumer-buying in different channels, and re-working brand communication to remain relevant
- **Cash and costs, and frugality:** Focusing on the long-term health of the business and keeping its ambition of savings unchanged
- **Supporting the community:** Right from donating Lifebuoy soaps to spreading awareness through a nationwide campaign in partnership with the UNICEF

Exhibit 19: Clear imperatives and consistent strategy

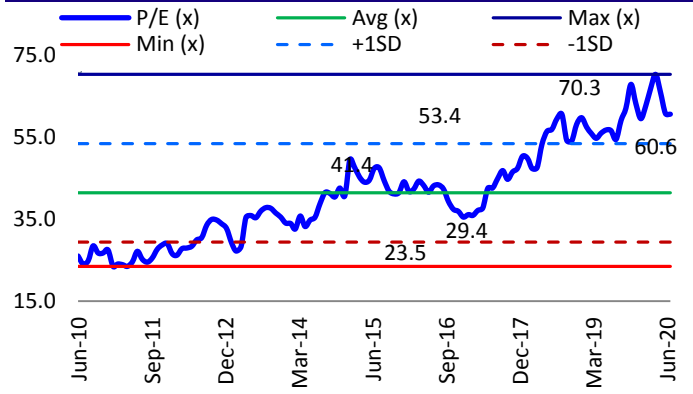


Source: Company, MOFSL

Valuation and view

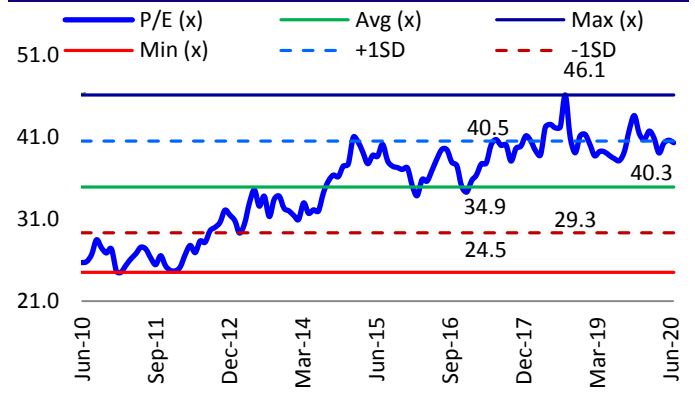
- Despite being the largest consumer company in India, its 10-year sales/EBITDA/PAT growth has been healthy at an 8.1%/13.3%/12.4% CAGR. Earnings growth has consistently gained momentum in recent years, which is particularly impressive given the weak mid-single-digit earnings growth posted by (much smaller) peers in recent years. HUVR has delivered an EBITDA/PAT CAGR of 13%/13.1% in the last five years; conversely, the company reported EBITDA/PAT at a ~17% CAGR each in the last three years ending FY20.
- HUVR's best-of-breed analytics and execution ability (exhibited by the successful implementation of the WIMI strategy, cost-saving plans, herbals, etc.) are the key factors driving the pace of earnings growth. Additionally, our conviction over the medium term is further strengthened by its: a) strong balance sheet, b) robust cash flow generation and increasing willingness in recent years to use cash flow for inorganic growth, c) excellent management quality / corporate governance, and d) proven track record of consistent delivery even in a weak consumption environment.
- Furthermore, as highlighted in our detailed report in Feb'20, we remain positive on HUVR from a medium-term perspective due to: a) robust earnings growth potential beyond the near term owing to its portfolio and execution strengths, b) significant synergies in FY22E as a result of GSK CH, and c) RoCE levels being well ahead of peers. These factors mean premium multiples are likely to sustain. We value the company at 55x merged EPS to arrive at a TP of INR2,400; maintain **Buy**.

Exhibit 20: HUVR P/E (x)



Source: Bloomberg, Company, MOFSL

Exhibit 21: Consumer sector P/E (x)



Source: Bloomberg, Company, MOFSL

Financials and valuations

Income Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E*	FY22E*
Net Sales	3,01,705	3,04,990	3,12,980	3,39,260	3,76,600	3,82,730	4,37,187	5,10,410
Other Oper. Income	6,351	5,619	5,920	5,990	5,640	5,120	5,222	5,484
Total Revenue	3,08,056	3,10,609	3,18,900	3,45,250	3,82,240	3,87,850	4,42,409	5,15,893
Change (%)	9.9	0.8	2.7	8.3	10.7	1.5	14.1	16.6
COGS	1,56,236	1,53,053	1,56,850	1,62,320	1,79,600	1,77,930	2,02,348	2,28,767
Gross Profit	1,51,821	1,57,556	1,62,050	1,82,930	2,02,640	2,09,920	2,40,061	2,87,127
Gross Margin (%)	49.3	50.7	50.8	53.0	53.0	54.1	54.3	55.7
Operating Exp	99,738	1,00,070	1,01,580	1,10,170	1,16,270	1,13,920	1,30,521	1,51,428
% of sales	32.4	32.2	31.9	31.9	30.4	29.4	29.5	29.4
EBIDTA	52,082	57,486	60,470	72,760	86,370	96,000	1,09,540	1,35,698
Change (%)	16.4	10.4	5.2	20.3	18.7	11.1	14.1	23.9
Margin (%)	16.9	18.5	19.0	21.1	22.6	24.8	24.8	26.3
Depreciation	2,867	3,208	3,960	4,780	5,240	9,380	10,846	11,593
Int. and Fin. Charges	168	150	220	200	280	1,060	1,047	1,068
Other Income - Recurring	6,184	5,640	5,260	5,690	6,640	7,330	10,060	12,915
Profit before Taxes	55,231	59,769	61,550	73,470	87,490	92,890	1,07,707	1,35,952
Change (%)	15.1	8.2	3.0	19.4	19.1	6.2	16.0	26.2
Margin (%)	18.3	19.6	19.7	21.7	23.2	24.3	24.6	26.6
Tax	19,060	18,160	18,650	21,480	27,480	23,940	28,464	34,219
Deferred Tax	-338	-70	410	-1,000	-790	1,520	0	0
Tax Rate (%)	33.9	30.3	31.0	27.9	30.5	27.4	26.4	25.2
Profit after Taxes	36,510	41,679	42,490	52,990	60,800	67,430	79,243	1,01,733
Change (%)	2.7	14.2	1.9	24.7	14.7	10.9	17.5	28.4
Margin (%)	12.1	13.7	13.6	15.6	16.1	17.6	18.1	19.9
Non-rec. (Exp)/Income	6,643	-310	2,410	-620	-440	-50	0	0
Reported PAT	43,153	41,369	44,900	52,370	60,360	67,380	79,243	1,01,733

Balance Sheet

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E*	FY22E*
Share Capital	2,164	2,164	2,164	2,164	2,165	2,160	2,345	2,345
Reserves	35,084	60,630	62,740	68,590	74,430	78,150	1,28,607	1,31,963
Capital Employed	37,248	62,794	64,904	70,754	76,595	80,310	1,30,952	1,34,307
Net Fixed Assets	24,575	29,147	40,240	41,420	43,430	50,560	40,714	34,121
Capital WIP	4,790	3,860	2,030	4,300	3,730	5,130	5,256	5,256
Investment in Subsidiaries	6,541	3,130	2,540	2,540	2,540	2,500	2,500	2,500
Current Investments	26,238	24,670	35,250	28,570	26,950	12,500	13,500	14,500
Deferred Charges	1,960	1,680	1,600	2,550	3,390	2,610	3,749	3,749
Curr. Assets, L&A	72,236	76,509	65,850	92,110	98,615	1,22,720	2,13,629	2,39,381
Inventory	26,027	25,284	23,620	23,590	24,220	26,360	34,670	40,412
Account Receivables	7,829	10,645	9,280	11,470	16,730	10,460	18,697	21,787
Cash and Bank Balance	25,376	27,590	16,710	33,730	36,880	50,170	1,15,448	1,30,765
Others	13,005	12,990	16,240	23,320	20,785	35,730	44,814	46,417
Curr. Liab. and Prov.	99,093	76,202	82,606	1,00,736	1,02,060	1,15,710	1,48,396	1,65,199
Account Payables	48,515	54,980	60,060	70,130	70,700	73,990	92,056	1,05,267
Other Liabilities	29,828	12,382	13,826	16,376	15,860	25,560	32,452	34,075
Provisions	20,749	8,840	8,720	14,230	15,500	16,160	23,888	25,858
Net Current Assets	-26,857	307	-16,756	-8,626	-3,445	7,010	65,233	74,182
Application of Funds	37,248	62,794	64,904	70,754	76,595	80,310	1,30,952	1,34,308

E: MOFSL Estimates, *Merged with GSK CH FY21 onwards

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E*	FY22E*
Basic (INR)								
EPS	16.9	19.3	19.6	24.5	28.1	31.2	33.8	43.4
Cash EPS	18.2	20.7	21.5	26.7	30.5	35.6	38.4	48.3
BV/Share	17.2	29.0	30.0	32.7	35.4	37.2	55.9	57.3
DPS	15.0	15.5	17.0	20.0	22.0	25.0	35.0	44.0
Payout %	90	97	98	99	95	96	104	101
Valuation (x)								
P/E	124.8	109.3	107.3	86.0	75.0	67.5	62.3	48.5
Cash P/E	115.7	101.5	98.1	78.9	69.0	59.2	54.8	43.6
EV/Sales	15.0	14.8	14.5	13.3	12.0	11.7	11.0	9.4
EV/EBITDA	86.9	78.7	75.0	62.1	52.3	46.8	44.0	35.4
P/BV	122.3	72.6	70.2	64.4	59.5	56.6	37.7	36.8
Dividend Yield (%)	0.7	0.7	0.8	0.9	1.0	1.2	1.7	2.1
Return Ratios (%)								
RoE	104.3	83.3	66.5	78.1	82.5	86.0	75.0	76.7
RoCE	158.2	119.8	96.7	108.6	119.1	119.8	103.0	103.3
Working Capital Ratios								
Debtor (Days)	9	13	11	12	16	10	16	16
Asset Turnover (x)	8.1	4.9	4.8	4.8	4.9	4.8	3.3	3.8
Leverage Ratio								
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E*	FY22E*
OP/(loss) before Tax	55,231	59,770	61,550	72,850	85,220	90,920	1,07,707	1,35,952
Financial other income	-3,559	-1,910	-920	-2,800	-770	-1,630	-10,060	-12,915
Depreciation	2,867	3,210	3,960	4,780	5,240	9,380	10,846	11,593
Net Interest Paid	-1,890	-3,160	-2,400	-2,460	-2,950	-3,940	1,047	1,068
Direct Taxes Paid	-17,775	-17,040	-18,040	-21,880	-26,850	-24,650	-28,464	-34,219
(Incr)/Decr in WC	-2,156	-1,130	5,380	8,640	-2,610	2,970	7,055	6,368
CF from Operations	32,719	39,740	49,530	59,130	57,280	73,050	88,131	1,07,847
Other Items	3,506	6,004	450	4,880	4,460	22,660	64,670	20,153
(Incr)/Decr in FA	263	-6,740	-8,520	-8,270	-7,240	-7,020	-1,126	-5,000
Free Cash Flow	32,982	33,000	41,010	50,860	50,040	66,030	87,005	1,02,847
(Pur)/Sale of Investments	1,182	3,290	-9,700	7,790	3,270	22,490	-1,000	-1,000
CF from Invest.	4,951	2,554	-17,770	4,400	490	38,130	62,544	14,153
Dividend Paid	-29,123	-33,420	-35,610	-38,960	-45,460	-62,440	-82,062	-1,03,163
Others	-5,403	-6,660	-7,030	-7,550	-9,160	-4,320	-3,520	-3,520
CF from Fin. Activity	-34,504	-40,080	-42,640	-46,510	-54,620	-66,760	-85,397	-1,06,683
Incr/Decr of Cash	3,166	2,214	-10,880	17,020	3,150	44,420	65,278	15,317
Add: Opening Balance	22,210	25,376	27,590	16,710	33,730	5,750	50,170	1,15,448
Closing Balance	25,376	27,590	16,710	33,730	36,880	50,170	1,15,448	1,30,765

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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