



Dealmoney

World-Class Financial Services

OCTOBER 2019

SECTOR OF THE MONTH

FMCG



PICKS OF THE MONTH

Hindustan Unilever Ltd

GlaxoSmithKline Consumer Healthcare Ltd

Sector of the Month (FMCG):

The Fast-moving consumer goods (FMCG) sector is the 4th largest sector of the Indian economy. It is characterised by high turnover consumer packaged goods, i.e. goods that are produced, distributed, marketed and consumed within a short span of time. FMCG products that dominate the market today are detergents, toiletries, tooth cleaning products, cosmetics, etc. The FMCG sector in India also includes pharmaceuticals, consumer electronics, soft drinks packaged food products and chocolates. India's household and personal care is the leading segment, accounting for 50 percent of the overall market, healthcare (31percent) and food and beverages (19percent) comes next in terms of market share. Since the sector encompasses a diverse range of products, different companies dominate the market in various sub-sectors. However, some of the top FMCG companies in India are- Dabur (60%), Colgate (54.7%), Hindustan Unilever (54%).

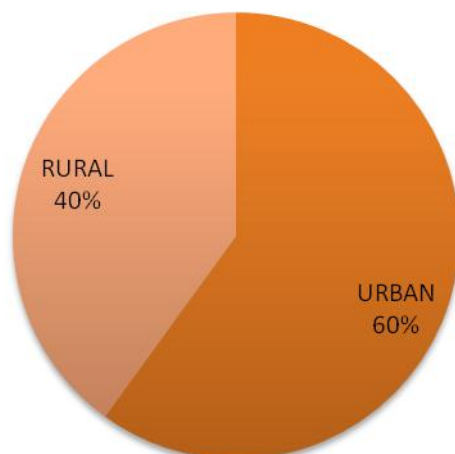
Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector. The number of online users in India is likely to cross 850 million by 2025. FMCG industry expected to grow 12-13 percent in fourth quarter FY19.

Retail market in India is estimated to reach US\$ 1.1 trillion by 2020, with modern trade expected to grow at 20 percent-25 percent per annum, which is likely to boost revenues of FMCG companies. In 2018, e-commerce segment contribution is projected to be around 1.3 percent of the overall branded packaged FMCG sales.

Rural and Urban Trends

The FMCG industry in India is divided into the demographics of rural and urban India. The urban market contributes 60% of the consumption revenue of the FMCG market in India. In 2017, this sector recorded a market size of \$ 29.4 bn. While urban areas have spearheaded the growth of the FMCG industry in India, semi-urban and rural segments are growing at a rate that cannot be ignored. Semi-urban and rural segments contribute over 40% of the overall revenues of the FMCG sector in India. FMCG companies in India have witnessed higher growth in rural areas compared to urban ones. And with 12.2% of the world's population living in the villages of India, the Indian rural FMCG market cannot be ignored by investors.

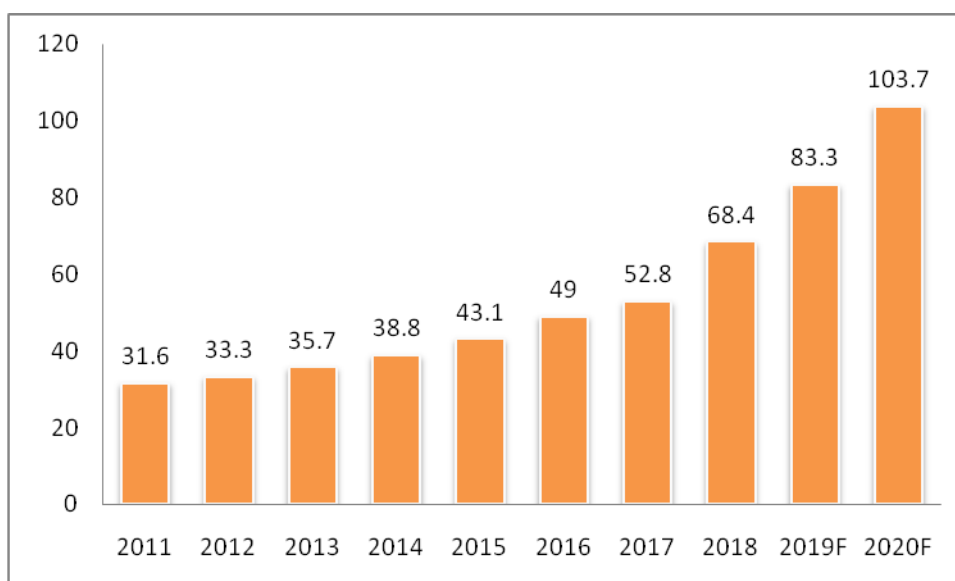
Urban –Rural industry Breakup (FY2017-18)



Dabur, one of the top FMCG companies in India, generates over 45% of its domestic revenue through the sale of packaged consumer goods in rural India. Hindustan Unilever, another name that has consistently dominated the list of top FMCG companies in India, earns over 35% of its revenue from rural areas. Rural India accounts for more than 40% of consumption in major FMCG categories such as personal care, fabric care, and hot beverages. In urban areas, home and personal care category- including skin care, household care, and feminine hygiene- will continue to grow at attractive rates. Within the foods segment, it is estimated that processed foods, bakery, and dairy are long-term growth categories in both rural and urban areas.

Revenues of FMCG sector reached Rs 3.4 lakh crore (US\$ 52.8 billion) in FY18 and are estimated to reach US\$ 103.7 billion in 2020F. The sector is projected to grow 11-12 percent in 2019. .

Trends in FMCG revenues over the years (US\$ billion)



The Union Budget 2019-20 initiatives to increase consumer spending among middle class are expected to boost consumer confidence and improve demand generation for branded consumer products.

Increasing online users to boost online FMCG sales

India's increasing internet penetration, rising digital maturity along with developing infrastructure has helped boost online transactions. The online FMCG market is forecasted to reach US\$ 45 billion in 2020 from US\$20 billion in 2017, backed by growth in online users from 90 million in 2017 to 200 million in 2020E. By 2020, about 40 percent of FMCG consumption is estimated to be digitally influenced. Around 72 percent Indian consumers are most likely to shop online locally for premium products.

Investments in FMCG Industry in India

Favourable demand drivers such as rising income levels and growing urbanisation, among others, have recently encouraged major and diverse investments in the FMCG sector. While top FMCG companies are expanding their capacity to feed the growing domestic demand, homegrown brands have ventured into international markets.

Factors Contributing to expansion of margins in FMCG Sector

While revenue growth of FMCG companies had slowed down over FY16-19, the earnings growth was robust due to strong margin expansion. There were factors which drove this strong margin expansion over FY16-19.

GST cost savings and rate cuts: GST rollout in FY18 brought in many tailwinds for margins. The direct impact (1) input credit was fully available which led to significant cost savings, (2) entry taxes for movement of goods was abolished, and (3) logistics became more streamlined. The other big impact was the GST rates on a large number of products like soaps, shampoo, detergent, toothpaste, etc., cut to 18% from earlier effective indirect taxes of 23-24%. While companies passed these on in price cuts, it is likely that they reduced consumer promotions leading to margin expansion. Also, there was acceleration in premiumisation as prices came down, which also helped margins.

Sharp fall in input costs in home and personal care: Input costs for home and personal care companies like crude oil derivatives and palm oil fell sharply after 2015. This helped expansion of gross margins.

The impact of recent Corporate tax rate cut from 34.9% to 25.2% Effective

The government's decision to lower tax rate from existing 34.9% to 25.2% (inclusive of surcharge and cess) was without an 'anti-profiteering clause' or any other rider whatsoever implies that the same could, , boost EPS of several consumer companies up by as high as 12-15%. Higher the present tax rate (range is between 20-21% to 35-36%), higher would be the incremental benefit.

We expect companies to pass on the tax Rate cut to the consumers in the form of price-cuts and/or sales promotions that will help revive demand in the present slower world besides boosting per-capita consumption, which will have a positive rub-off for the sector in the medium-term as well.

The tax cut provides another opportunity to fight the unorganised sector:

One-third of most FMCG categories are still in the 'unorganised' space. One reason these players are able to sell products at significantly lower prices is due to the tax arbitrage that they enjoy – we suspect that a lot of them would be evading most of both indirect and direct taxes. With GST expected to have made indirect tax evasion a bit more difficult, the current step to lower income tax for corporate taxpayers will further bridge the net-income gap between the organised sector and the unorganised one. We estimate that the latter could hitherto earn the same net profit that a tax-compliant business makes by selling goods at a minimum 20% lower price (Exhibit 5), assuming costs are same for both unorganized and organised players. With some cost arbitrage (which is likely the case), the unorganised sector possibly enjoyed an even higher pricing arbitrage in reality.

Many of the consumer companies have effective tax rates of >30% currently which will be lowered after the tax rate cut.

Cos with Tax Rates of 29-36%

	Total Tax
Asian Paints	33.60%
Berger	35.40%
Britannia	34.60%
Colgate	32.10%
Dmart	36.50%
GSK Cons	35.00%
HUL	29.60%
ITC	33.00%
Jubilant	35.10%
Nestle	33.80%
TGB	35.50%
Titan	29.00%
Varun Bev	31.10%

Outlook

The high growth rate of the FMCG industry in India goes beyond growth drivers such as income growth and urbanisation. The consumption habits of India's new age consumers have resulted in an attitudinal shift in the market. The India of 2030 will have 370 mn generation Z consumers, with changed priorities when it comes to purchasing goods. The new Indian consumer is characterised by high awareness, an affinity for health and nutrition and high expendable income. This has led to the emergence of new FMCG sub-sectors, such as the air and water purifier market and organic food staples. These trends will further lead the development of the FMCG industry profile. Foxconn-powered SHARP has released a range of innovative air purifiers cum humidifiers, targeted specifically at the Indian market. With the growth of the traditional FMCG sector- and the emergence of sub-sectors that were non-existent until a few years ago- the future of this industry looks good for investors.

The slowdown in FMCG growth started reflecting in the quarterly numbers from 4Q FY19 and further aggravated in 1Q FY20. The cut in corporate tax will also provide further much needed push after 2 quarters of slowdown in the sector

Pick of the Month (Hindustan Unilever Ltd.): CMP: 1948

Target: 2200

Hindustan Unilever Limited (HUL) is India's largest Fast Moving Consumer Goods company with a heritage of over 80 years in India. On any given day, nine out of ten Indian households use its products to feel good, look good and get more out of life – giving an unique opportunity to build a brighter future.

HUL works to create a better future every day and helps people feel good, look good and get more out of life with brands and services that are good for them and good for others. With over 35 brands spanning 20 distinct categories such as soaps, detergents, shampoos, skin care, toothpastes, deodorants, cosmetics, tea, coffee, packaged foods, ice cream, and water purifiers, the Company is a part of the everyday life of millions of consumers across India. Its portfolio includes leading household brands such as Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk, Pepsodent, Closeup, Axe, Brooke Bond, Bru, Knorr, Kissan, Kwality Wall's and Pureit.

Topline boosted by volume growth: HUL reported 6.6% YoY growth in topline to Rs. 10,114cr, with product sales revenue contributing Rs. 9,984cr (+6.7% YoY). The revenue growth was led by improvements in the rural and urban consumer business (+7%) with underlying volume growth of 5%. By segment, revenue growth was led by home care division (+10.1% YoY to Rs. 3,465cr; volume driven growth) followed by food & refreshment business (+9.2% to Rs. 1,950cr; +8% on comparable basis; secular delivery across the portfolio), while beauty & personal care (BPC) operations witnessed muted growth of 4.1% YoY largely on dismal performance of soaps segment.

Margins expansion on improved mix and costs: EBITDA margin rose 250bps YoY to 26.2% with overall EBITDA reaching Rs. 2,647 (+17.6% YoY). On comparable basis, EBITDA margin was up 150bps YoY after adjusting for accounting impact of Ind AS 116). The margin expansion was driven by improved product mix and lower operating and advertising expenses with cost management measures. Amongst the segments, BPC (Beauty & Personal Care) division witnessed highest expansions in margins (+227bps to 29.6%) while home care and food & refreshment segment margins widened by 129bps to 20.2% and 106bps to 19.4%, respectively.

Valuations: The stock is trading at a valuations of 67x P/E FY19. We recommend **buy on Hindustan Unilever Limited** with a price target of **Rs. 2200**.

NSE / BSE Code	HINDUNILVR/500696
Sector	FMCG
Industry	Household & Personal Products
Face value / Book Value (₹ per share)	1 / 43.4
Dividend yield (%)	1.1
52 H/L (Rs.)	2102 / 1478
Market Cap. (Rs. Cr)	4,217,054
Shares Outstanding (Cr)	2,164.8
NSE / BSE Code	308,609

(In Rs.Cr)	Q1FY20	Q4FY19	Q3FY19	Q2FY19
Net Sales	9,984.0	9,809.0	9,357.0	9,138.0
EBITDA	2,647.0	2,321.0	2,046.0	2,019.0
PAT	1,755.0	1,538.0	1,444.0	1,525.0
EBITDA %	27%	24%	22%	22%
PAT %	18%	16%	15%	17%

(In Rs.Cr)	FY16	FY17	FY18	FY19
Net Sales	323,030	332,520	355,500	393,110
Sales Growth	1.0%	2.9%	6.9%	10.6%
EBITDA	60,130	63,270	75,010	88,800
EBITDA Margin	18.6%	19.0%	21.1%	22.6%
PAT	41,600	44,900	52,270	60,600
NPM%	12.9%	13.5%	14.7%	15.4%
Adj. EPS (Rs. `)	19.2	20.7	24.1	28.0

	FY16	FY17	FY18	FY19
P/E (x)	101.4	93.9	80.7	69.6
P/B (x)	67.2	62.5	57.9	53.6
EV/Sales(x)	12.9	12.5	11.7	10.6
EV/EBITDA(x)	69.2	65.8	55.5	46.9
ROCE(x)	119.2%	94.4%	102.5%	113.3%
ROE(x)	83.4%	67.8%	74.9%	80.3%

Source: Ace equity, CARE, IBEF

Pick of the Month (GSK Consumer Ltd.): CMP: 8343

Target: 9176

Glaxosmithkline Consumer Healthcare's (GCH) core business is manufacturing of health drinks under the brand Horlicks. The history of the company goes way back in 1950s when bottled Horlicks was imported from England. But in the year 1955 due to change in import policy, import of Horlicks was stopped.

During 1956-57 a team of Horlicks visited India to explore possibilities for setting up a plant in India. For this the company approached Maharaja of Nabha, Pratap Singh in Punjab. Later in October 1958 with the support of Maharaja, Hindustan Milkfood Manufacturer (HMML) was established to produce Horlicks. In the year 1969 Beecham plc acquired Horlicks England, which led the company to become major shareholder in HMML. In 1979 Beecham India was merged with Hindustan Milkfood Manufacturer. Later Beecham plc, UK got merged with SmithKline USA. In January 2000 the name was changed to Glaxosmithkline Consumer Healthcare. GSK Consumer Healthcare Ltd is an associate of GlaxoSmithKline plc of U.K, one of world's largest consumer healthcare companies. We have a heritage that goes back over 160 years. Our purpose is to help more people around the world to do more, feel better and live longer with everyday healthcare products.

Raw material cost trend reversing: Gross margin expanded by 40bps, driven by pricing and deflation, resulting in better overhead absorption. However, raw material cost trend, which was favourable, has started reversing as barley prices witnessed inflation to the tune of 30% YoY because of poor monsoon and bullish international markets. Similarly, dairy prices witnessed a steep rise in prices owing to significant reduction in supply in eastern and northern market

Financial performance: During the current year, the company managed to increase its total distribution footprint by 13%, taking it to 2mn outlets. Operating profit growth during the quarter was 22% YoY, driven by pricing and cost saving initiatives. PBT grew by 24% YoY on the back of a sharp increase in other income, which was up on YoY basis because of a one-off increase on account of clearing of old vendor balances. The underlying increase in PBT adjusted for one off increase in other income was 18% YoY.

Valuations: The stock is trading at a valuations of 34.12x P/E FY19. We recommend **buy on GlaxoSmithKline Consumer Healthcare Limited** with a price target of **Rs. 9176**

NSE/BSECode	GSKCONS/500676
Sector	FMCG
Industry	ConsumerFood
Facevalue/BookValue(` pershare)	10/1032.6
Dividendyield(%)	1.3
52H/L(Rs.)	8926/6340
MarketCap.(Rs.Cr)	350,785
SharesOutstanding(Cr)	42.1
NSE/BSECode	8,692

(InRs.Cr)	Q1FY20	Q4FY19	Q3FY19	Q2FY19
NetSales	1,194.3	1,286.1	1,116.8	1,272.0
EBITDA	280.4	318.5	238.5	353.7
PAT	248.1	285.8	221.1	275.5
EBITDA%	23%	25%	21%	28%
PAT%	21%	22%	20%	22%

(InRs.Cr)	FY16	FY17	FY18	FY19
NetSales	41,363	39,913	43,165	47,820
SalesGrowth	-4.0%	-3.5%	8.1%	10.8%
EBITDA	8,382	8,383	8,834	11,410
EBITDAMargin	20.3%	21.0%	20.5%	23.9%
PAT	6,873	6,567	7,001	9,828
NPM%	16.6%	16.5%	16.2%	20.6%
Adj.EPS(Rs.`)	163.4	156.2	166.5	233.7

	FY16	FY17	FY18	FY19
P/E(x)	51.0	53.4	50.1	35.7
P/B(x)	12.5	11.2	10.1	8.6
EV/Sales(x)	7.8	8.1	7.5	6.8
EV/EBITDA(x)	38.6	38.6	36.7	28.4
ROCE(x)	43.0%	34.1%	32.5%	39.9%
ROE(x)	28.0%	22.2%	21.2%	25.9%

Source: Ace equity, CARE, IBEF

Analysts: -

Brijesh Bhatia - Research Head

brijesh.bhatia@dealmoney.in

Rohitkumar Rai - Research Analyst

rohitkumar.rai@dealmoney.in

For private circulation only

Website: www.dealmoneyonline.com

SEBI Research Analyst Registration No: INH000002319

DISCLAIMER

Dealmoney Securities Private Limited (hereinafter referred to as "Dealmoney") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and MCX Stock Exchange Limited. Dealmoney is also registered as a Depository Participant with CDSL. Dealmoney is in the process of making an application with SEBI for registering it as a Research Entity in terms of SEBI (Research Analyst) Regulations, 2014. Dealmoney or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market and no material disciplinary action has been taken by SEBI/other regulatory authorities impacting Dealmoney's Equity Research Analysis. Dealmoney or its associates/analyst including its relatives do not hold any actual/beneficial ownership of more than 1% in the company/ies covered by Analyst (hereinafter referred to as "Subject Company/ies"). Dealmoney or its associates/analyst including its relatives may hold financial interest in the company/ies covered by Analyst (hereinafter referred to as "Subject Company/ies"). Dealmoney or its associates/analysts or his/her relative does not receive any compensation or other benefits from the subject company/ies mentioned in this research report (hereinafter referred to as "Report") or from a third party in connection with preparation of the report. Accordingly, Dealmoney or its associates/analyst or his/her relative does not have any other material conflict of interest at the time of publication of the Report.

Research analyst/s engaged in preparation of the Report, has not received any compensation / managed or co-managed public offering of securities of the subject company/ies / has not received compensation for investment banking or merchant banking or brokerage services from the subject company/ies / has not received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company/ies / has not received compensation or other benefits from the subject company/ies or third party in connection with the Report of the subject company/ies during the past twelve months / has not served as an officer, director or employee of subject Company/ies and is not engaged in market making activity of the subject Company/ies.

Dealmoney or its associates are engaged in various financial services business, thus, it might have, received any compensation / managed or co-managed public offering of securities of the subject company/ies / received compensation for investment banking or merchant banking or brokerage services from the subject company/ies / received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company/ies / received compensation or other benefits from the subject company/ies or third party in connection with the Report of subject company/ies during the past twelve months engaged in market making activity for the subject company/ies.

Dealmoney group companies provides finance related product services like distribution of financial products and as such is a provider of many services like loans, mutual funds, tax & trust planning etc. mentioned in this brochure. And hence, Dealmoney do not warranty / guarantee about performance of any products and customer servicing w.r.t third party products per se.

Third party products are subject to code of conduct to be adhered to by the representatives of Dealmoney and Dealmoney is not responsible for the losses, whether actual or notional incurred by any investor. Services assured and expected may vary from actual service and Dealmoney does not guarantee about the quality of services. Investments in securities and commodities are subject to market and other risks and there is no assurance or guarantee that the objectives of any of the Investments/Schemes/product would be achieved. Past performances are only indicative and returns are not assured and guaranteed by Dealmoney group companies. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

Information/ opinion conveyed through this material/document/Report are strictly meant for the registered Clients of Dealmoney group of Companies of the respective segments. This information is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Dealmoney or its affiliates to any registration requirement within such jurisdiction or country. This information does not constitute an offer to sell or a solicitation of an offer to buy any financial products to any person in any jurisdiction where it is unlawful to make such an offer or solicitation. No part of this material may be duplicated in whole or in part in any form and / or redistributed without the prior written consent of Dealmoney. This material/document/Report is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on directly or indirectly.

Recipients of the Report shall always independently verify reliability and suitability of the Report and opinions before investing.

For Company details, please visit our website www.Dealmoney.com

For research related query, write to us at research@Dealmoney.com