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India Consumer Sector

Southern Sojourn: Premiumisation and urbanisation

September 2023

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CONSUMER

26 September 2023

Southern Sojourn: Premiumisation and urbanisation

- Our recent visit to South India revealed compelling on-ground insights from local FMCG and durables dealers
- Well-stocked supermarkets, robust growth momentum and higher rural income are creating a semi-urban ecosystem in rural areas
- Notably, premiumisation trends have percolated beyond urban markets; we prefer plays on this theme: NEST, BRIT, HUVR, and HAVL

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Following up on our Jun'23 rural thematic, [Rural recovery taking root](#), we present interesting findings from our recent visit to Tamil Nadu and Karnataka in South India, where we met dealers and retailers across metros, tier-1-to-4 cities and mofussil markets.

Southern rural markets no longer 'rural': Our trip revealed the fast-changing face of India's tier-3/4 towns and rural markets. Every small town we visited housed a supermarket with heavy footfalls and shelves lined with premium products such as imported chocolates and coffee, rural markets were dotted with *pucca* (permanent) houses and boasted new road connectivity, and farmers pointed to higher income levels YoY due to improved productivity (~40% of large farms are mechanised) and better realisations. In a key recurring theme, we saw that premiumisation is no longer an urban play in the south but has spread into semi-urban and rural markets as well.

FMCG – Organised market gaining traction: South India is a large market for FMCG companies, populated by a brand-conscious and loyal customer base. NEST, BRIT, HUVR and ITC have a strong footing in the rural pockets we visited, despite a stiff fight from regional brands in most categories. We met several longstanding NEST dealers across markets, who concurred that all of the company's products attract strong demand. Nutrition, confectionary and coffee are NEST's top selling categories. For BRIT, biscuit brands *Milk Bikis*, *Marie Gold* and *Good Day* are bestsellers.

Durables – In need of festive cheer: The south is a brand-conscious market for durables as well. However, there is a palpable slowdown as inflation has diverted income to more basic needs. Dealers, however, are optimistic of recovery during the upcoming festive stretch (Aug-Jan). In the fans segment, we noted sluggish acceptance of new, rated products. Dealers reckon that old inventory will be exhausted by October, following which sales of rated fans will pick up. The wires and cables market is faring well in the south, and players expect double-digit growth to continue.

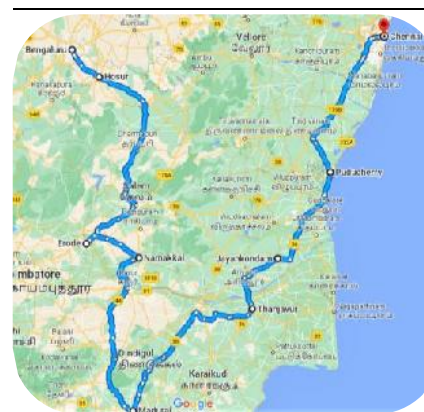
Top BUYs: We restate our view that the premiumisation story will first play out in staples and then in durables. To ride this theme, we prefer NEST (TP Rs 26,430), BRIT (Rs 5,844), ITC (Rs 523) and HUVR (Rs 3,069) in staples, and HAVL (Rs 1,600) in durables.

Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	4,570	5,844	BUY
HAVL IN	1,397	1,600	BUY
HUVR IN	2,476	3,069	BUY
NEST IN	22,639	26,430	BUY

Price & Target in Rupees | Price as of 25 Sep 2023

Places we visited



Karnataka

Bengaluru

Tamil Nadu

Hosur	Erode
Namakkal	Paramati Velur
Dindigul	Madurai
Thanjavur	Thirukadaiyur
Jayankondam	Puducherry
Chennai	



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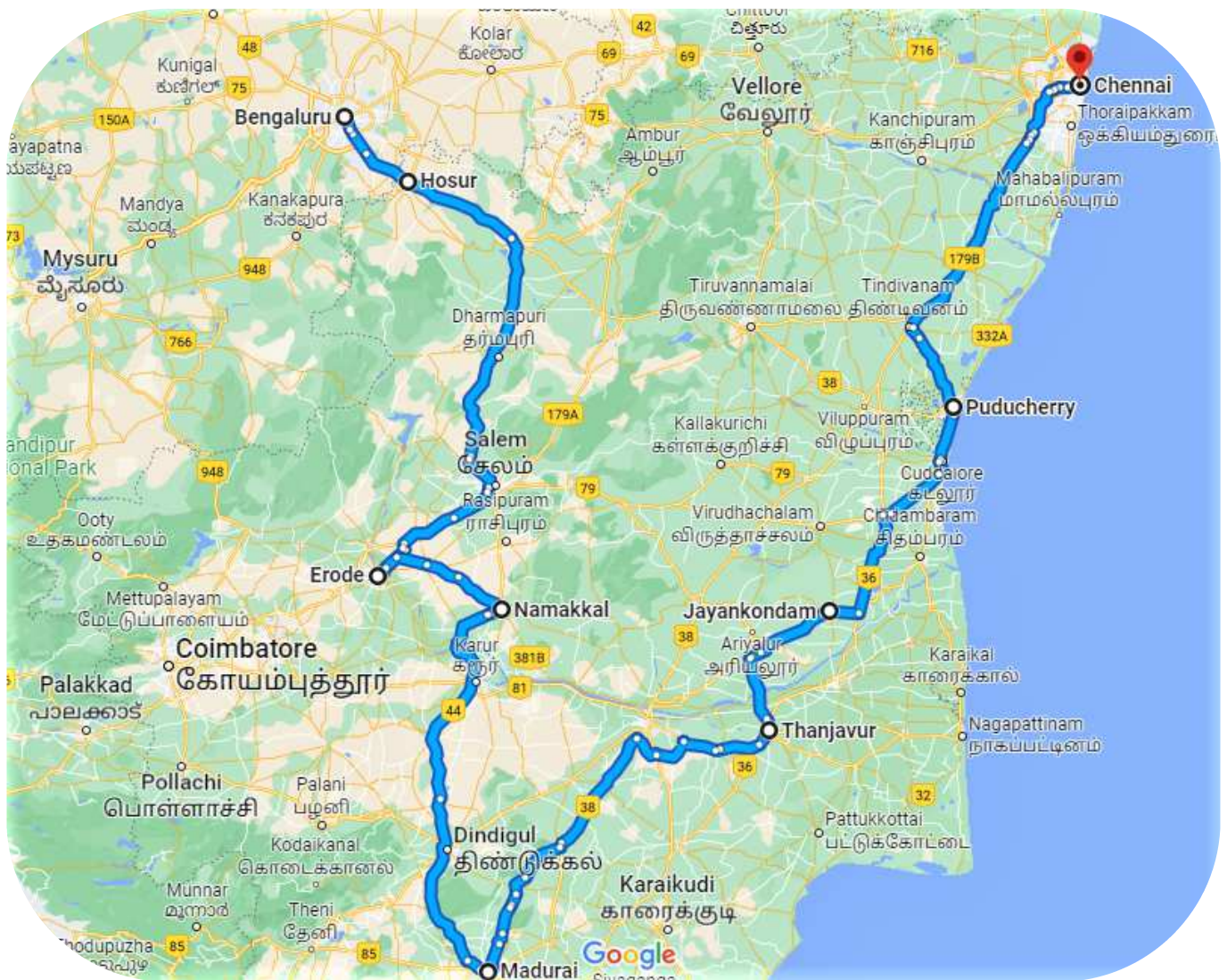
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Southern sojourn

We visited parts of South India in August end to assess the health of the consumer market and garner on-ground insights from a cross-section of dealers, traders, and retailers in the FMCG and consumer durable sectors. Our weeklong channel checks spanned 15 metros and fast-growing tier-1-to-4 cities, together with key rural markets in the states of Karnataka and Tamil Nadu where we met with small and large farmers.

We began our journey from Karnataka's capital of Bengaluru and travelled to Tamil Nadu, covering the cities of Hosur, Erode, Namakkal, Madurai, Thanjavur, Jayankondam, Puducherry, Mahabalipuram, and finally Chennai. We also connected virtually with distributors in Ramanathapuram, Rameshwaram and Kanchipuram. In all, our primary checks covered ~20 dealers across product categories, traders, retailers, and farmers.

Fig 1 – Our South India travels



Source: Google, BOBCAPS Research

Premiumisation a recurring theme

As part of our Southern Sojourn, we had planned visits to tier-2, tier-3 and tier-4 cities along with trips to adjoining rural areas. But as we travelled by road, we were surprised to find the lines between cities and villages blurring. From well-stocked supermarkets and brand-savvy buyers in small towns to villages dotted with pucca houses and roads, we discovered that the rural south is no longer 'rural'.

- Villages we visited boasted several permanent or **pucca houses**, replacing the mud-wall-thatch-roof stereotype, and most were equipped with broadband, cable television, and other not-so-basic amenities.
- Road connectivity was excellent and the rural roads we traversed were well maintained, fuelling higher mobility. Indeed, most southern rural areas we visited had **access to basic infrastructure** – from roads and power to internet penetration and farm mechanisation.
- **Two-wheelers were aplenty** and we observed the classic Indian *jugaad* as these vehicles were coopted into means of cargo (ferrying sacks of rice or produce) and public (carrying groups of four or more) transport.
- We were pleasantly surprised to find **large-format retail stores** in some tier-4 and rural regions, with shelves stocked akin to metro cities and often spilling beyond necessities into the premium category. Indeed, dealers we met across the staples space concurred that upgrading is on the rise.
- Among the products that caught our eye were **premium** coffee packs retailing at an eye-watering Rs 850-1,000 per 100gm and chocolates for a pricy Rs 170+ a pack, both of which retailers told us were fast-moving. Liquid detergents, fabric softeners (*Comfort*) and similar high-end goods also lined the shelves of several stores.

Our on-ground checks have reinforced our confidence in India's premiumisation promise and the springboard for growth it lends to consumer sectors. As stated in our Jun'23 report, [Rural recovery taking root](#), we believe this growth story will first play out in staples and in the medium-to-long-term, in durables, as elevated demand aspirations continue to percolate beyond urban India into semiurban and rural markets.

Fig 2 – Premiumisation has reached India's hinterland...



Source: BOBCAPS Research

Fig 3 – ...with uptrading visible in multiple categories



Source: BOBCAPS Research

Fig 4 – Imported Maggi chicken stock selling in tier-4...



Source: BOBCAPS Research

Fig 5 – ...and high-end imported coffee as well



Source: BOBCAPS Research

Other key findings

- **Pandemic blues behind us:** Following a consumption recovery in India's southern markets during FY23, our channel checks suggest demand for staples is now trending well above pre-pandemic levels.
- **Mechanisation lifting rural incomes:** Despite a decline in farm acreage, farmers we met felt that income levels in rural southern markets have improved over last year as higher mechanisation has enhanced productivity per acre and realisation per tonne has also risen compared to last fiscal.
- **Non-farm incomes rising as well:** Non-farm income has grown due to an increase in real estate and road construction activities. Land sale has been another significant source of non-farm income, as per some rice millers we met.
- **Rice crop unaffected by dry spell...:** Monsoons in South India were delayed by a month, but the traders and farmers we met believe this has not depleted rice acreage and expect the harvest to match last year's levels. However, the dry spell returned in August and should the rains fail to improve, farm incomes could weaken next year.
- **...and cashew harvest healthy:** Apart from rice, traders and farmers in rural Tamil Nadu highlighted that the cashew harvest – a key crop for the region we visited – has been healthy. Most of the cashew produce in the region is exported.
- **Southern markets brand conscious...:** South India is a large, brand-conscious market for FMCG and consumer durables, easing the way for prominent players to establish a toehold. NEST, BRIT, HUVIR and ITC have a strong footing in the rural pockets we visited, despite a stiff fight from regional brands in most categories.
- **...and brand loyal:** Most dealers we met concurred that the south is a brand-loyal market, where customers do not mind paying more for brands, making price hikes more palatable.

- **Localised marketing holds the key:** Branding strategies typically involve the use of local faces across product categories, necessitating differentiated campaigns for the region. Southern movie stars are the preferred brand ambassadors.
- **Extended festive bonanza ahead:** Distributors across the cities we visited expect strong festive season demand in the coming months, which will prove especially beneficial for southern players where the season runs for longer – from August to January (till *Pongal*) – than other parts of the country. The wedding calendar is also busy, further lifting dealer optimism of strong consumer spends.

FMCG: Visit takeaways

Fig 6 – Regional competition is strong in South India...



Source: BOBCAPS Research

Fig 7 – ...giving branded players a run for their money



Source: BOBCAPS Research

Fig 8 – Products are available in more varied pack sizes, especially in rural markets



Source: BOBCAPS Research

Fig 9 – Big brands in small packs: Sunfeast has a cheap Rs 3 biscuit pack



Source: BOBCAPS Research

Fig 10 – Local masala flavours are preferred in the south...



Source: BOBCAPS Research

Fig 11 – ...as are staples such as salt



Source: BOBCAPS Research

Fig 12 – Soaps category faces stiff competition...



Source: BOBCAPS Research

Fig 13 – ...as does Agarbatti (incense sticks)



Source: BOBCAPS Research

Fig 14 – Significant local competition in matches



Source: BOBCAPS Research

Fig 15 – Adoption of kitchen cleaning products is rising, signalling uptrading



Source: BOBCAPS Research

Fig 16 – Premium soaps sell in rural markets...



Source: BOBCAPS Research

Fig 17 – ...as do grooming products



Source: BOBCAPS Research

Fig 18 – Surprisingly, sales of diapers – classed as luxury goods – are increasing in the rural south



Source: BOBCAPS Research

Fig 19 – Imported biscuits such as Potata also attract demand



Source: BOBCAPS Research

Fig 20 – South India a rice-eating belt with 150+ varieties



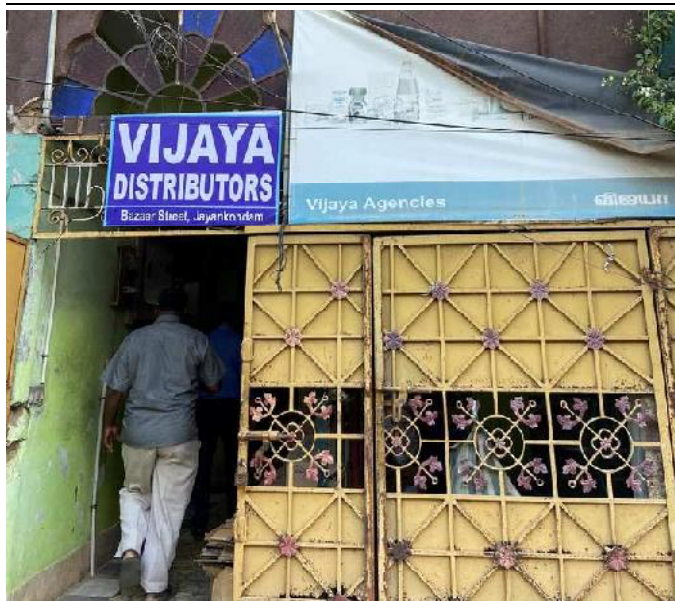
Source: BOBCAPS Research

Fig 21 – Non-basmati rice is preferred



Source: BOBCAPS Research

Fig 22 – We met a large rural distributor in Tamil Nadu with ~Rs 200mn in revenue



Source: BOBCAPS Research

Fig 23 – Larger, economical packs are in demand



Source: BOBCAPS Research

Nestle India (NEST)

- We met NEST's distributors across multiple locations in Karnataka and Tamil Nadu, who concurred that all the company's product segments are growing in double-digits. NEST has posted cumulative **value growth** of 16-18% YoY in current fiscal, spearheaded by the nutrition and confectionary segments, followed by food, beverages, milk and other product categories.
- The company's **nutrition** segment grew ~20% YoY in current fiscal. Dealers indicated that instant baby cereal *Cerelac* is the highest selling product in the south, followed by the *Nan* portfolio of spray dried infant formula. The company is yet to introduce *Gerber* in the rural south.
- With the launch of its **Munch breakfast cereal** range across India, NEST has been capturing market share in breakfast cereals from Kellogg's. Dealers indicated that **Tata Souffull** has also turned aggressive in South India.
- The south is predominantly a filter coffee market, but due to lifestyle changes where multiple members of a household are now in the workforce, consumers are warming up to the more convenient **instant coffee** option. NEST's *Nescafe Sunrise* and HUVR's *Bru* are the top brands in the segment, followed by Tata Coffee's *Grand* that has a limited presence. To tap the growing instant market, NEST recently introduced coffee with a 40% chicory blend specifically for the south, which is working well.
- Given the strong wedding calendar, **Milkmaid condensed milk** is in demand and even attracts significant advance booking. This product has a monopoly in the south and is a staple at most weddings, along with *Nescafe Sunrise* instant coffee.
- **Maggi Masala noodles** are growing well in South Indian markets. NEST's attempt to tailor this product to the southern palate failed, compelling the company to

relaunch the noodles in their original form (Masala-e-Magic). Per dealers, the product has started doing well again.

- In the **premium** segment, NEST is enjoying traction in both rural and urban markets. We observed the company's imported chocolates and coffee on store shelves in tier-3 and tier-4 markets, with high-end coffee *Nescafe Gold*, which competes with the likes of *Davidoff*, attracting healthy demand, according to the retailers we met.

Britannia Industries (BRIT)

- We met BRIT's distributor for the southern region, who indicated that the company is a clear market leader in the **biscuits** category with its bestseller *Milk Bikis* commanding 70% share, followed by *Marie Gold* and *Good Day*. Surprisingly, the south has not taken to cream biscuits, though ITC's *Dark Fantasy* is faring well in the premium segment.
- During Q1FY24, BRIT's **revenue** grew at ~10% predominantly led by price hikes, with a bulk of the volume growth coming from new launches.
- The company has an extensive **reach** in the rural south and retains its focus on improving its network and widening the product portfolio through launches.
- **Packaged coconut water**, which was recently introduced in the region, has met with a tepid response. Distributors believe this is understandable given that the south is the largest coconut growing belt in the country and has an abundance of natural coconut water. Even so, the company is sticking to its guns and continues to push the product to dealers.

Colgate (Not Rated)

- According to dealers, Colgate's basic white **toothpaste** sells the most in southern markets while DABUR and HUVR are strong in the ayurvedic and gel categories respectively.
- In **toothbrushes**, Colgate has a large market share in the Rs 20 category but sees few takers for products priced at and above Rs 80 apiece.
- A large Colgate distributor highlighted a **strategic misstep** by the company five years ago when it raised the price of its cheapest Rs 10 toothpaste pack to Rs 12, following higher input costs. Most distributors in the region had advised against this and asked that grammage be reduced instead – to no avail.

Rival DABUR identified the gap created by Colgate and began offering free samples at this price point, building a strong footprint. Later, Colgate reverted to the Rs 10 price pack but was unable to gain the lost volumes.

Fig 24 – Toothpaste market is competitive



Source: BOBCAPS Research

Fig 25 – Colgate is facing market share headwinds ...



Source: BOBCAPS Research

Fig 26 – ...though it has a deep reach in rural South India



Source: BOBCAPS Research

Fig 27 – Oral-B is a competing brand in rural markets



Source: BOBCAPS Research

Fig 28 – A Colgate distributor we met had interesting insights to share



Source: BOBCAPS Research

Fig 29 – Premium Colgate products are stocked in tier-4 markets



Source: BOBCAPS Research

Bikaji Foods (Bikaji, Not Rated)

- In South India, Bengaluru is a large market for Bikaji – India's third largest manufacturer of **traditional Indian snacks**. The company has begun to broaden its reach in tier-2-to-4 cities and rural markets across India, with the latter contributing ~10% of revenue in Q1FY24.
- Bikaji has 80 active **distributors** in the south and is strengthening its team to service more retail outlets. In Bengaluru, the company services 700 outlets out of the city's ~1,100, including supermarkets such as D-Mart and Reliance Retail.
- The market for local snacks in South India is sizeable and dominated by established regional players. **Haldiram's** has also carved a niche here, but its inability to meet demand has created a large window of opportunity for Bikaji.
- In Bengaluru, Haldiram currently has monthly **revenue** rate of Rs 100mn while Bikaji is now 20-30% of Haldiram and targets 50-60% next year. Bikaji's aims to increase market share by providing an 18-25% retail margin as compared to 15-17% given by Haldiram's.
- The market for loose (**unorganised**) products is relatively strong in Bengaluru, largely among the North Indian population. Bikaji has established a manufacturing

unit in Tumkur (Karnataka), driving better product quality and timely supply, and currently offers a selection of 25-30 packs from among the 140+ SKUs in its portfolio.

- In the **hotel and restaurant sector**, the company has a loyal customer base in the Rajasthani Marwadi community and caters to their taste preferences via 150+ traditional *mithai* (sweet) stores with outlet size varying from 100sqmt to 700sqmt.
- Demand for **traditional sweets** is increasing and Bikaji expects strong festive season demand this year.

Adani Wilmar (AWL, Not Rated)

- AWL has a **strong presence** in southern markets housing populations of 25,000+ and is extending its footprint in rural centres with populations of 5,000-6,000.
- In its key category of **edible oil**, sunflower oil is the highest selling in South India, followed by palm and mustard oil.
- AWL's *Fortune* sunflower oil is an established brand in the south and has the highest sales by tonnage across the five states in the region. Even so, the company does not lead the market in any southern state due to stiff **regional competition**. For instance, *Gold Winner* is a popular brand in Tamil Nadu with 28% market share.
- To counter competition from **loose oil**, which is popular in rural markets, AWL recently introduced a 500ml pack, garnering a good response.
- **Prices** of edible oil are stable at this juncture, and the company's rates are on par with those of competitors.
- Per dealers, demand for *atta* (wheat flour) has started to pick up in the packaged segment, though South India is predominantly a rice, rather than roti, market. Demand for other **staples**, including pulses, *rawa* (semolina) and gram flour, is also improving for AWL. It plans to launch the *Alife* soap brand in South India.

LT Foods (Not Rated)

- Dealers for LT Foods indicated that South Indian consumers prefer regular rice to basmati, with the latter commanding only a tenth of the market and selling in large packs for the most part. Demand for consumer basmati packs is low.
- *Heritage* is the largest-selling basmati brand for LT Foods in the south, followed by *Dawat*. *Heritage* competes with KRBL's *Unity* offering.
- In terms of rural coverage, *Heritage* is sold in more than 140 villages and has over 93 distributors.
- We met Venkateshwara Traders in Chennai, distributors to more than 1,500 outlets, who indicated that they earn an annual turnover of Rs 330mn. We were told that only Rs 30mn of this comes from basmati rice, including Rs 10mn from *Heritage*.
- The distributor indicated a preference for selling *Heritage* basmati due to lower margins offered on *Unity* and believes LT Foods could benefit from an entry into non-basmati rice in the south.

Fig 30 – Large rice packs are preferred in South India...



Source: BOBCAPS Research

Fig 31 – ...where a variety of brands are in the fray



Source: BOBCAPS Research

Fig 32 – Heritage is a strong brand in the south



Source: BOBCAPS Research

Fig 33 – Organised players are growing in tier-3/4 markets



Source: BOBCAPS Research

Consumer durables: Visit takeaways

- The **fans** business is seeing some product returns by dissatisfied customers in rural southern markets due to a perception of lower air flow in the new models (including BLDC) rated for energy efficiency under Bureau of Energy Efficiency (BEE) norms, as compared to older unrated fans.
- Per distributors, several buyers of **BLDC** fans have had to purchase an additional TPW (table/pedestal/wall) fan, which raises their power costs instead of achieving the savings expected from rated products.
- Dealers reckon that older **inventory** will be exhausted by September or October, following which customers will have to buy rated fans.
- BLDC models have started undergoing **price cuts**, from Rs 5,000 levels to Rs 3,500, with some entry models even available for as low as Rs 2,200-2,500.
- In Tamil Nadu, CROMPTON is the leader with ~30% **market share** in fans. Usha ranks second with ~20% share, followed by HAVL at 10%. VGRD is at ~5% and POLYCAB at 1-2%. Atomberg benefited from its cash-and-carry model as it was not forced to offer credit like competitors, but has now opted for a traditional model, with rising competition. It has also moved from a pure online setup to a hybrid model.
- Some of the cities we travelled to, such as Thanjavur in Tamil Nadu, are **feeder towns** for rural markets in the durables space. We visited the largest multi-brand retail store in the city and learnt that ~40% of its sales come from rural markets.
- The **television** space is still largely unorganised – while a 32" branded smart TV is available from Rs 13,000 onwards, one of the stores offered us an unbranded smart TV at ~Rs 8,000 with the same specifications and warranty.
- Most outlets have pinned their hopes of a demand revival on the **festival season**, which is longer in the south – beginning in August and ending with Pongal in January, though much would depend on how the monsoons pan out.

Fig 34 – Crompton leads the fan market



Source: BOBCAPS Research

Fig 35 – Kitchen appliances have regional brands as well



Source: BOBCAPS Research

Fig 36 – Gas stove business is competitive



Source: BOBCAPS Research

Fig 37 – Large brands jostle for space in tier-3/4 markets



Source: BOBCAPS Research

Fig 38 – Electrical market is mostly multi-brand



Source: BOBCAPS Research

Fig 39 – Lighting segment is competitive as well



Source: BOBCAPS Research

Fig 40 – Top-load washing machines continue to dominate



Source: BOBCAPS Research

Fig 41 – Rural India still a big market for torches, batteries



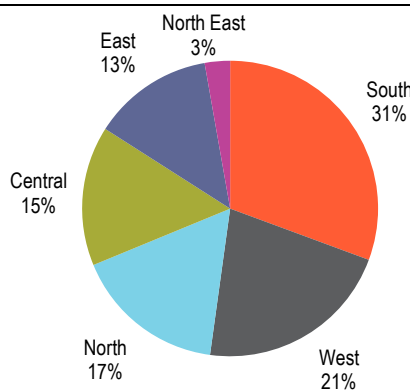
Source: BOBCAPS Research

Decoding demand drivers in South India

Southern states dominate GDP...

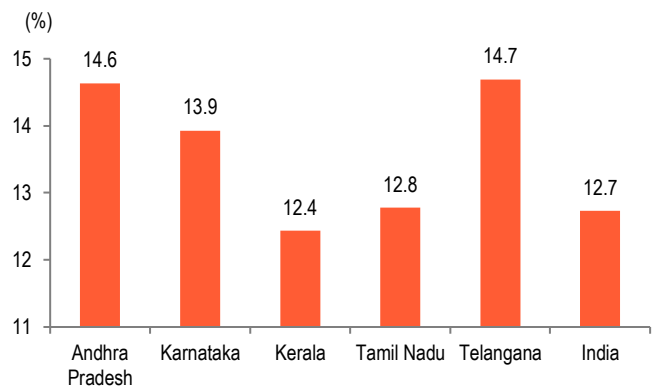
South India, comprising Andhra Pradesh, Karnataka, Kerala, Puducherry, Tamil Nadu, and Telangana, is already a near trillion-dollar economy (as of FY22) accounting for 31% of national GDP. Taking as a bloc, it is the single largest contributor to India's GDP, followed by the western region at 21%.

Fig 42 – South India contributes ~one-third to India's GDP



Source: MoSPI

Fig 43 – Southern GSDP growth outperformed national GDP



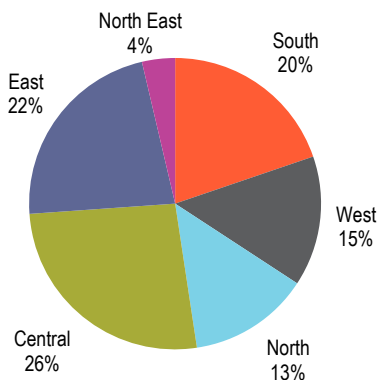
Source: MoSPI | Average growth rates of last 5 years

Further, the southern states posted average nominal GDP growth of 13.8% in the pre-Covid era over FY11-FY19, nearly 100bps higher than India's nominal growth of 12.7%. Among the southern states, undivided Andhra Pradesh and Karnataka led the way at 14-14.6%, a full 200bps higher than the national average, while Kerala has lagged.

...and per capita income

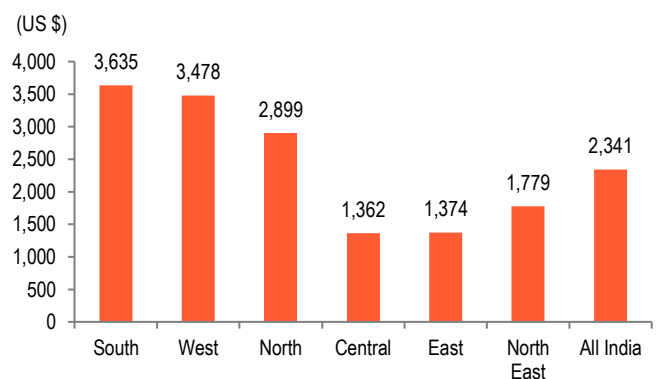
While the south contributes nearly a third of the country's real GDP, it accounts for only 20% of the population. This makes for the highest per capita income in the country, at US\$ 3,635 in FY22– 55% higher than the national average of US\$ 2,340.

Fig 44 – India's region-wise population split, FY22



Source: MoSPI

Fig 45 – ...leading to highest per capita income in South



Source: MoSPI

Tamil Nadu is India's second-richest state

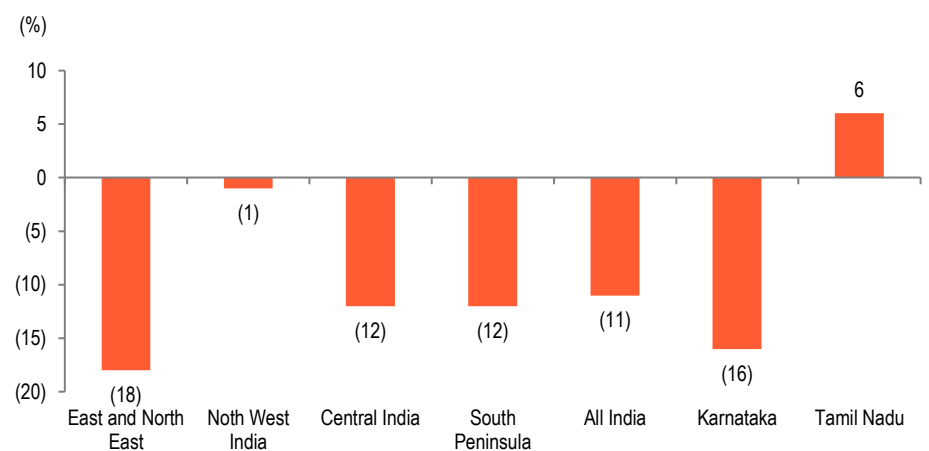
Tamil Nadu has a gross state domestic product (GSDP) of US\$ 280bn-300bn and is the second-richest state in India after Maharashtra (FY22). It has an 81% literacy rate as per the 2011 census and ~60% urbanisation. In addition, Tamil Nadu is the only state in India to have all districts covered under industrial corridor projects, thereby reducing dependency on agricultural income while simultaneously boosting demand through higher employment.

Auto and auto components, IT/ITES, chemicals, and textiles are key industries in the state along with agro and food processing. It is also seeing healthy investment in new sectors, such as renewable energy, electric vehicle-related sectors, defence and aerospace, electronics, and hardware.

Erratic monsoon a worry but less so in Tamil Nadu

After a strong July and dry August, India sits at an overall monsoon deficit of 11% (as of 5 September). Tamil Nadu, however, has seen surplus rainfall of 6% and is hence at lower risk of crop failure this year. That said, the Indian Meteorological Department expects an improvement in rainfall across the country in September, making up for the pan-India deficit.

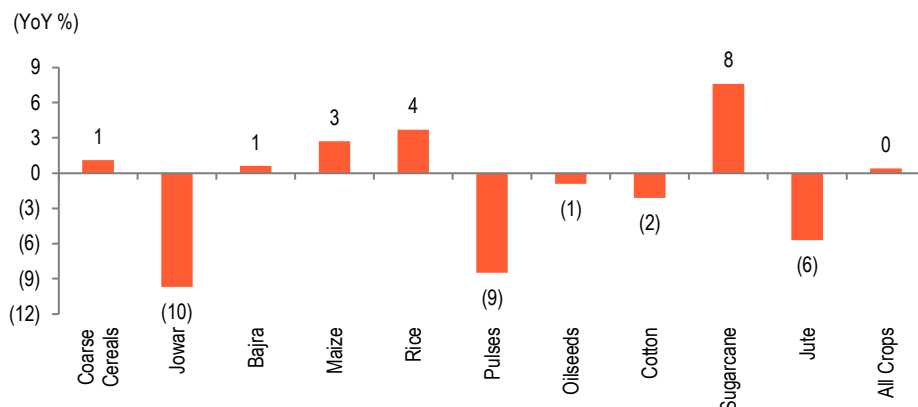
Fig 46 – Monsoon surplus/deficit against long-period average



Source: <https://mausam.imd.gov.in/>, as of 1 Sep 2023

Kharif acreage stable despite patchy monsoon

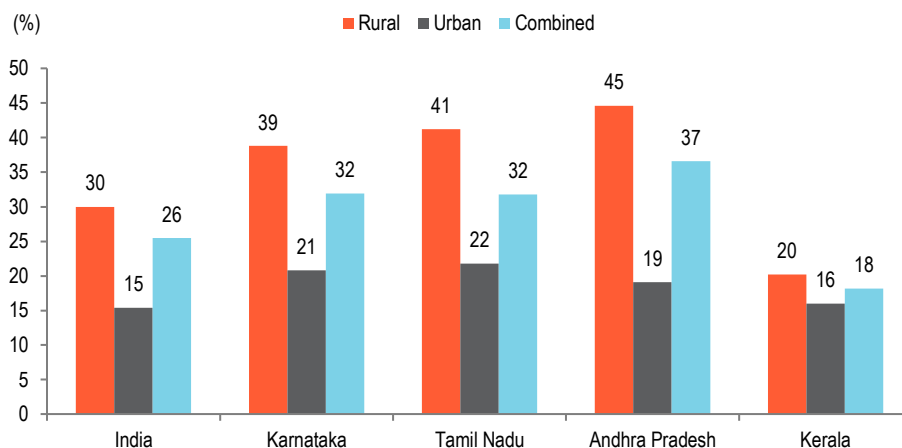
Data from Department of agriculture shows that kharif (summer) crop acreage as of 1 September is flattish across India despite an erratic monsoon – at 1,078 hectares as compared to 1,073 hectares last year. Sugarcane saw the highest growth in acreage followed by rice and maize. With sugar and rice prices expected to remain stable, disposable agricultural incomes are likely to rise.

Fig 47 – Growth in kharif crop acreage across India, YoY

Source: <https://nfsm.gov.in/areacoveragecropsdashboard.aspx>, as of 1 Sep 2023

High female labour participation a key economic driver

We believe a key reason behind the buoyancy in southern economies is the higher female labour participation as compared to the national average. Rural female participation in the workforce is 9-15ppt higher than the all-India average in all the southern states, except Kerala. We believe this will also drive purchasing decisions in the household.

Fig 48 – Women labour participation highest in South in India

Source: MOSPI | Based on 2011 census

Premiumisation picks

Our primary checks in South India show a rising wave of premiumisation in the consumer sector that is first playing out in staples and likely to follow in durables. We recommend playing this theme through NEST (TP Rs 26,430), BRIT (Rs 5,844), and HUVR (Rs 3,069) in staples, and HAVL (TP Rs 1,600) in the durables space.

Nestle India (NEST IN, BUY, TP Rs 26,430)

NEST is following in BRIT's footsteps and aggressively boosting its presence in the rural south, particularly targeting villages housing more than 2,000 people. Nutrition, confectionary and coffee are the company's top selling categories in southern markets. Its high-end brands such as *Nescafe Gold* that sell for as much as Rs 850-1,000 per 100gm are also faring well.

In our view, NEST looks well positioned to deliver strong, sustained growth underpinned by innovation, premiumisation, direct reach expansion, and new category forays. We reiterate our BUY rating with an unchanged TP of Rs 26,430, valuing the stock at 69.5x CY24E EPS, an 18% premium to the 10Y average P/E multiple.

Britannia Industries (NEST IN, BUY, TP Rs 5,844)

BRIT is the undisputed leader in South India's biscuit market with its bestselling *Milk Bikis* brand, followed by *Marie Gold* and *Good Day*. The demand pull enjoyed by the company in the south is similar to that garnered by household brand *Parle-G* in North Indian markets. BRIT continues to expand its portfolio while keeping its products relevant for both urban and rural markets.

We believe the company's thrust on market reach, brand investment and product innovation will spur profitable growth and enable it to fend off local competition. Our TP of Rs 5,844 (unchanged) is arrived at using a target P/E on 53x FY25E EPS, a 30% premium to the 10Y average multiple – maintain BUY.

Hindustan Unilever (HUVR IN, BUY, TP Rs 3,069)

HUVR's premiumisation push has translated into demand extension to liquid detergent from detergent powder and to body wash from soap. Uptrading is lifting growth across the company's FMCG categories, even in tier-3/4 towns where we saw its premium offerings lining shop shelves.

Although HUVR's volume growth has moderated in a challenging environment, the company remains focused on premiumisation as well as product and category development. We expect growth to pick up over the medium term as volumes gather momentum, particularly in smaller cities and rural markets, and hence maintain BUY. Our TP remains at Rs 3,069, set at 52.5x FY25E EPS, in line with the long-term mean.

Havells India (HAVL IN, BUY, TP Rs 1,600)

Our channel checks show that HAVL's relatively low base in South India offers a long runway for the company to deepen its presence in the region and increase market share. Management has also identified rural markets as one of the key growth drivers for the company and is expanding beyond urban geographies through the 'Rural Vistaar' initiative.

We view HAVL as a comprehensive play in the consumer durables space with a strong presence across categories. This coupled with a sound balance sheet enables it to nurture specific business areas, as seen in the case of Lloyd. Management remains positive on robust demand recovery in its core product portfolio in coming quarters. We restate BUY with an unchanged TP of Rs 1,600, ascribing a P/E multiple of 53x on Jun'25E EPS to the stock, in line with the 3Y average.



BUY

TP: Rs 26,430 | ▲ 17%

NESTLE INDIA

Consumer Staples

26 September 2023

Southern rural focus paying off

- Nutrition, confectionary and coffee top selling categories for NEST in South India; high-end brands such as *Nescafe Gold* also in demand
- New *Munch* breakfast cereals received well and could eat into leader Kellogg's share
- Network buildout in rural southern markets aiding volumes; retain BUY, TP Rs 26,430 (unchanged)

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Strong growth across the portfolio: We interacted with seven large distributors for NEST across South India who concurred that nutrition, confectionary and coffee are the company's top selling categories in southern markets, with each category growing in high double digits. The company is pushing its milk portfolio as well and has a near monopoly in condensed milk brand *Milkmaid*. Per dealers, growth has risen 16-18% YoY across its portfolio in the south during current fiscal.

Steady stream of launches: NEST recently introduced *Munch* breakfast cereals to a good response in the south, and distributors are confident that the company can capture market share from Kellogg's, though *Tata Souful* could put up a fight. In coffee, NEST's *Nescafe Sunrise* and HUVR's *Bru* are top brands in the segment, followed by Tata Coffee's *Grand*. To tap the growing instant market, NEST recently introduced coffee with a 40% chicory blend specifically for the south.

Premium brands in demand: We observed the company's imported chocolates and coffee on store shelves in tier-3 and tier-4 markets. Several retailers we met also indicated that NEST's premium coffee brand *Nescafe Gold*, which competes with the likes of *Davidoff*, attracts healthy demand.

Going the BRIT way in rural markets: NEST is following in BRIT's footsteps and aggressively boosting its presence in the rural south, with a thrust on villages housing populations of more than 2,000. In CY22, the company's pan-India reach across such villages had risen to over 91,600 from ~40,700 in CY20, while total village coverage had improved to 165,000+ from ~68,500. We expect the company to drive growth and market share by entering newer markets.

Maintain BUY: NEST looks well positioned to deliver strong, sustained growth underpinned by innovation, premiumisation, direct reach expansion with a rural focus, and new category forays. The stock is trading at 69.9x/59.5x CY23E/CY24E EPS. We maintain our target P/E of 69.5x on CY24E EPS, an 18% premium to the 10Y average multiple, for an unchanged TP of Rs 26,430. BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	NEST IN/Rs 22,639
Market cap	US\$ 26.6bn
Free float	37%
3M ADV	US\$ 15.1mn
52wk high/low	Rs 23,395/Rs 17,880
Promoter/FPI/DII	63%/12%/25%

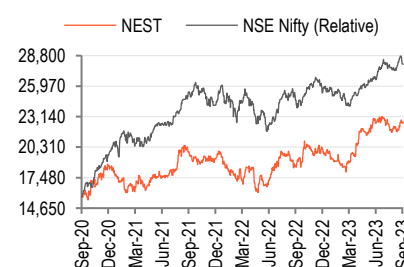
Source: NSE | Price as of 25 Sep 2023

Key financials

Y/E 31 Dec	CY22A	CY23E	CY24E
Total revenue (Rs mn)	1,68,969	1,98,192	2,25,516
EBITDA (Rs mn)	37,125	47,894	56,828
Adj. net profit (Rs mn)	23,905	31,242	36,666
Adj. EPS (Rs)	247.9	324.0	380.3
Consensus EPS (Rs)	247.9	306.6	350.9
Adj. ROAE (%)	97.2	106.4	104.8
Adj. P/E (x)	91.3	69.9	59.5
EV/EBITDA (x)	58.8	45.6	38.4
Adj. EPS growth (%)	1.5	30.7	17.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Nutrition is the largest selling segment for NEST in South India...



Source: BOBCAPS Research

Fig 2 – ...and confectionary is its second largest



Source: BOBCAPS Research

Fig 3 – Milkmaid condensed milk has a monopoly in the south



Source: BOBCAPS Research

Fig 4 – NEST's Maggie is seeing competition from Yippee



Source: BOBCAPS Research

Fig 5 – New launch Munch is doing well in breakfast cereals



Source: BOBCAPS Research

Fig 6 – Milo is getting good traction in South Indian markets



Source: BOBCAPS Research

Fig 7 – Sunrise and Bru are the largest coffee brands in southern markets



Source: BOBCAPS Research

Fig 8 – Sunrise is also available in single-serve sachets



Source: BOBCAPS Research

Fig 9 – Large coffee packs cater to the hospitality industry; instant coffee is gaining traction



Source: BOBCAPS Research

Fig 10 – Brands rely heavily on regional advertising with local brand ambassadors



Source: BOBCAPS Research

Fig 11 – Demand for premium coffee is gaining pace in the south



Source: BOBCAPS Research

Fig 12 – Imported NEST products are available in tier-3/4 supermarkets



Source: BOBCAPS Research

Fig 13 – NEST distributor in Thanjavur, Tamil Nadu



Source: BOBCAPS Research

Fig 14 – Products being unloaded at warehouse



Source: BOBCAPS Research

Valuation methodology

NEST looks well positioned to deliver strong, sustained growth underpinned by innovation, premiumisation, direct reach expansion with a rural focus, and new category forays. The stock is trading at 69.9x/59.5x CY23E/CY24E EPS. We maintain our target P/E of 69.5x on CY24E EPS, an 18% premium to the 10Y average multiple, for an unchanged TP of Rs 26,430. Maintain BUY.

Key risks

Key downside risks to our estimates are:

- continued inflation in key commodities, and
- delayed rural recovery.

Financials

Income Statement

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Total revenue	1,33,500	1,47,406	1,68,969	1,98,192	2,25,516
EBITDA	32,015	35,664	37,125	47,894	56,828
Depreciation	3,704	3,910	4,030	5,166	6,766
EBIT	28,311	31,754	33,095	42,728	50,061
Net interest inc./(exp.)	(1,642)	(2,017)	(1,546)	(1,969)	(2,132)
Other inc./(exp.)	1,459	1,202	1,010	1,236	1,353
Exceptional items	0	2,365	0	0	0
EBT	28,128	28,573	32,560	41,995	49,283
Income taxes	7,304	7,389	8,655	10,753	12,616
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	20,824	21,184	23,905	31,242	36,666
Adjustments	0	2,365	0	0	0
Adjusted net profit	20,824	23,549	23,905	31,242	36,666

Balance Sheet

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Accounts payables	15,166	17,482	19,338	24,063	26,657
Other current liabilities	1,588	1,703	2,310	2,310	2,310
Provisions	33,742	34,240	33,659	45,778	51,868
Debt funds	348	341	300	300	300
Other liabilities	7,959	9,112	9,589	9,684	9,721
Equity capital	964	964	964	964	964
Reserves & surplus	19,229	18,500	23,628	28,408	34,018
Shareholders' fund	20,193	19,464	24,592	29,372	34,982
Total liab. and equities	78,997	82,341	89,787	1,11,507	1,25,838
Cash and cash eq.	17,548	7,185	9,266	14,774	10,192
Accounts receivables	1,649	1,660	1,919	2,172	2,471
Inventories	14,165	15,927	19,288	22,035	24,410
Other current assets	976	1,942	1,963	2,357	2,682
Investments	14,638	7,740	7,775	7,775	7,775
Net fixed assets	19,680	26,530	27,058	34,892	48,125
CWIP	6,386	2,462	3,584	3,584	3,584
Intangible assets	0	0	0	0	0
Deferred tax assets, net	199	258	256	256	256
Other assets	3,756	18,638	18,679	23,663	26,342
Total assets	78,997	82,341	89,787	1,11,507	1,25,838

Cash Flows

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Cash flow from operations	24,545	22,360	27,374	50,592	49,895
Capital expenditures	(4,784)	(7,348)	(5,499)	(13,000)	(20,000)
Change in investments	20	(13,523)	1,288	1,475	0
Other investing cash flows	1,549	1,668	294	(3,653)	(1,289)
Cash flow from investing	(3,215)	(19,203)	(3,917)	(15,178)	(21,289)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(602)	0	0	0	0
Interest expenses	(90)	(917)	(980)	(1,969)	(2,132)
Dividends paid	(18,898)	(19,283)	(20,247)	(26,462)	(31,056)
Other financing cash flows	31	0	0	0	0
Cash flow from financing	(19,559)	(20,200)	(21,227)	(28,430)	(33,188)
Chg in cash & cash eq.	1,771	(17,043)	2,229	6,983	(4,582)
Closing cash & cash eq.	17,548	7,102	7,791	14,774	10,192

Per Share

Y/E 31 Dec (Rs)	CY20A	CY21A	CY22A	CY23E	CY24E
Reported EPS	216.0	222.5	247.9	324.0	380.3
Adjusted EPS	216.0	244.2	247.9	324.0	380.3
Dividend per share	196.0	200.0	210.0	274.5	322.1
Book value per share	209.4	201.9	255.1	304.6	362.8

Valuations Ratios

Y/E 31 Dec (x)	CY20A	CY21A	CY22A	CY23E	CY24E
EV/Sales	16.3	14.8	12.9	11.0	9.7
EV/EBITDA	68.2	61.2	58.8	45.6	38.4
Adjusted P/E	104.8	92.7	91.3	69.9	59.5
P/BV	108.1	112.1	88.8	74.3	62.4

DuPont Analysis

Y/E 31 Dec (%)	CY20A	CY21A	CY22A	CY23E	CY24E
Tax burden (Net profit/PBT)	74.0	74.1	73.4	74.4	74.4
Interest burden (PBT/EBIT)	99.4	90.0	98.4	98.3	98.4
EBIT margin (EBIT/Revenue)	21.2	21.5	19.6	21.6	22.2
Asset turnover (Rev./Avg TA)	169.0	179.0	188.2	177.7	179.2
Leverage (Avg TA/Avg Equity)	3.9	4.2	3.7	3.8	3.6
Adjusted ROAE	103.1	108.8	97.2	106.4	104.8

Ratio Analysis

Y/E 31 Dec	CY20A	CY21A	CY22A	CY23E	CY24E
YoY growth (%)					
Revenue	7.9	10.4	14.6	17.3	13.8
EBITDA	10.8	11.4	4.1	29.0	18.7
Adjusted EPS	4.4	13.1	1.5	30.7	17.4

Profitability & Return ratios (%)

EBITDA margin	24.0	24.2	22.0	24.2	25.2
EBIT margin	21.2	21.5	19.6	21.6	22.2
Adjusted profit margin	15.6	16.0	14.1	15.8	16.3
Adjusted ROAE	103.1	108.8	97.2	106.4	104.8
ROCE	137.8	160.3	133.0	144.0	141.9

Working capital days (days)

Receivables	5	4	4	4	4
Inventory	91	92	91	92	92
Payables	98	101	91	100	100

Ratios (x)

Gross asset turnover	2.8	2.4	6.2	5.7	4.7
Current ratio	1.7	1.0	1.1	1.2	1.1
Net interest coverage ratio	17.2	15.7	21.4	21.7	23.5
Adjusted debt/equity	1.7	1.7	1.2	1.0	0.9

Source: Company, BOBCAPS Research | Note: TA = Total Assets

BUY**TP: Rs 5,844 | ▲ 28%****BRITANNIA INDUSTRIES**

Consumer Staples

26 September 2023

Biscuit king in South India

- Our channel checks identify BRIT as a clear leader in the biscuit category in southern markets, followed by ITC
- Growth in the south has been price-led with volumes largely coming from new launches
- Investment in brands, innovation and increased reach expected to spur profitable growth; maintain BUY, TP Rs 5,844 (unchanged)

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Leads the biscuit category in South India: Distributors we met on our Southern Sojourn averred that BRIT is a clear leader in South India's biscuit market with its bestselling *Milk Bikis* brand, followed by *Marie Gold* and *Good Day*. We observed that the company's robust presence and demand pull in the south is similar to that enjoyed by household brand *Parle-G* in North Indian markets. Dealer interactions and supermarket visits revealed that BRIT corners the largest shelf space, followed by the region's No. 2 player ITC. In the premium category, the company faces stiff competition from ITC's *Dark Fantasy*.

Focused on deepening market reach: BRIT has a strong footprint in South Indian markets, and dealers believe the company plans to service more retail stores in rural areas. Its direct distribution covered 2.67mn outlets at the end of Q1FY24 and rural preferred dealers totalled 28,000 against only 8,000 in FY16. This market penetration-led growth strategy has worked well for the company over the years.

Launches to lend volume impetus... BRIT continues to expand its portfolio while keeping its products relevant for both urban and rural markets. In South India, growth thus far has been price-led. The company's strategy of expanding into newer categories, such as cake, croissants, and wafers, is likely to add impetus to volumes.

...but some hits, some misses: The recent introduction of packaged coconut water in South India has met with a tepid response as the region is a natural producer of the nut and has an abundance of fresh coconut water. Dealers in Tamil Nadu pointed out that the company continues to push the product despite having few takers.

Maintain BUY: We believe BRIT's thrust on market reach, brand investment and product innovation will spur profitable growth and enable it to fend off local competition. The stock is trading at 49.4x/41.4x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 53x FY25E EPS, assigning a 30% premium to the 10Y average multiple, for an unchanged TP of Rs 5,844.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	BRIT IN/Rs 4,570
Market cap	US\$ 13.4bn
Free float	49%
3M ADV	US\$ 22.6mn
52wk high/low	Rs 5,270/Rs 3,690
Promoter/FPI/DII	51%/21%/28%

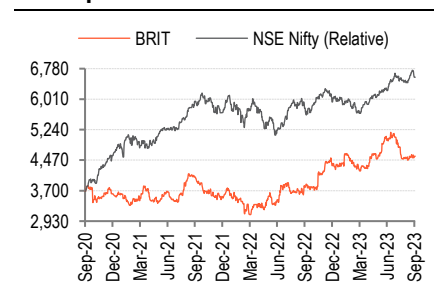
Source: NSE | Price as of 25 Sep 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,63,006	1,76,567	1,96,616
EBITDA (Rs mn)	28,309	31,600	37,222
Adj. net profit (Rs mn)	19,461	22,287	26,562
Adj. EPS (Rs)	80.8	92.5	110.3
Consensus EPS (Rs)	80.8	88.3	101.3
Adj. ROAE (%)	65.1	48.7	49.3
Adj. P/E (x)	56.6	49.4	41.4
EV/EBITDA (x)	38.9	34.8	29.6
Adj. EPS growth (%)	27.6	14.5	19.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

Fig 1 – BRIT is the largest biscuit brand in South India...



Source: BOBCAPS Research

Fig 2 – ...and commands the most shelf space



Source: BOBCAPS Research

Fig 3 – Milk Bikis is BRIT's largest selling product...



Source: BOBCAPS Research

Fig 4 – ...followed by Marie Gold



Source: BOBCAPS Research

Fig 5 – Strong competition from ITC in premium segment



Source: BOBCAPS Research

Fig 6 – BRIT's distributor in Thanjavur, Tamil Nadu



Source: BOBCAPS Research

Valuation methodology

We believe BRIT's thrust on market reach, brand investment and product innovation will spur profitable growth and enable it to fend off local competition. The stock is trading at 49.4x/41.4x FY24E/FY25E EPS.

We maintain BUY and continue to value the stock at 53x FY25E EPS, assigning a 30% premium to the 10Y average multiple, for an unchanged TP of Rs 5,844.

Key risks

Key downside risks to our estimates are:

- delayed rural recovery,
- further rise in wheat and milk prices, and
- increased regional competition.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	1,31,361	1,41,363	1,63,006	1,76,567	1,96,616
EBITDA	25,093	22,015	28,309	31,600	37,222
Depreciation	1,979	2,005	2,259	2,622	2,846
EBIT	23,114	20,010	26,050	28,978	34,376
Net interest inc./(exp.)	1,109	1,443	1,691	1,930	1,846
Other inc./(exp.)	3,129	2,228	2,159	3,291	3,687
Exceptional items	6	10	(3,756)	0	0
EBT	25,128	20,785	30,274	30,340	36,217
Income taxes	6,630	5,624	7,165	8,186	9,779
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(133)	(88)	(55)	(103)	(123)
Reported net profit	18,639	15,248	23,217	22,287	26,562
Adjustments	6	10	(3,756)	0	0
Adjusted net profit	18,645	15,258	19,461	22,287	26,562

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	13,148	13,228	14,488	16,836	18,361
Other current liabilities	1,405	1,307	1,763	1,633	1,818
Provisions	3,875	4,851	5,390	6,060	6,719
Debt funds	20,872	24,655	29,805	28,116	27,816
Other liabilities	4,949	5,377	6,435	6,634	7,299
Equity capital	241	241	241	241	241
Reserves & surplus	35,599	25,615	35,404	45,536	53,627
Shareholders' fund	35,840	25,856	35,645	45,777	53,868
Total liab. and equities	80,088	75,275	93,527	1,05,055	1,15,881
Cash and cash eq.	1,427	1,181	1,024	4,255	10,169
Accounts receivables	2,573	3,319	3,289	7,256	8,080
Inventories	10,915	13,675	11,933	12,742	13,896
Other current assets	15,349	13,312	13,207	13,629	14,432
Investments	27,949	17,763	33,649	33,849	34,049
Net fixed assets	16,343	15,841	24,722	26,669	28,323
CWIP	1,165	5,357	1,050	1,050	1,050
Intangible assets	1,444	1,552	1,424	1,424	1,424
Deferred tax assets, net	97	517	573	645	719
Other assets	2,825	2,759	2,658	3,536	3,740
Total assets	80,088	75,275	93,527	1,05,055	1,15,881

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	25,083	18,864	32,520	29,580	37,598
Capital expenditures	(2,405)	(5,502)	(7,115)	(4,500)	(4,500)
Change in investments	4,675	12,495	(10,300)	(200)	(200)
Other investing cash flows	2,086	2,116	2,244	2,333	3,411
Cash flow from investing	4,356	9,109	(15,171)	(2,367)	(1,289)
Equities issued/Others	1,032	0	0	0	0
Debt raised/repaid	5,690	(3,387)	2,292	(1,689)	(300)
Interest expenses	(1,013)	(1,186)	(1,957)	(1,930)	(1,846)
Dividends paid	(28,238)	(24,848)	(13,592)	(12,258)	(18,593)
Other financing cash flows	104	6,963	2,974	103	123
Cash flow from financing	(22,425)	(22,458)	(10,284)	(15,774)	(20,616)
Chg in cash & cash eq.	686	(353)	(192)	3,253	5,914
Closing cash & cash eq.	1,427	1,181	980	4,255	10,169

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	77.4	63.3	96.4	92.5	110.3
Adjusted EPS	77.4	63.3	80.8	92.5	110.3
Dividend per share	118.0	74.5	56.4	50.9	77.2
Book value per share	148.8	107.3	148.0	190.0	223.6

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	8.4	7.8	6.8	6.2	5.6
EV/EBITDA	43.9	50.0	38.9	34.8	29.6
Adjusted P/E	59.0	72.2	56.6	49.4	41.4
P/BV	30.7	42.6	30.9	24.0	20.4

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	74.2	73.4	76.7	73.5	73.3
Interest burden (PBT/EBIT)	80.6	76.2	89.1	76.9	77.3
EBIT margin (EBIT/Revenue)	17.6	14.2	16.0	16.4	17.5
Asset turnover (Rev./Avg TA)	164.0	187.8	174.3	168.1	169.7
Leverage (Avg TA/Avg Equity)	2.2	2.9	2.6	2.3	2.2
Adjusted ROAE	52.0	59.0	65.1	48.7	49.3

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	13.2	7.6	15.3	8.3	11.4
EBITDA	36.1	(12.3)	28.6	11.6	17.8
Adjusted EPS	31.1	(18.2)	27.6	14.5	19.2
Profitability & Return ratios (%)					
EBITDA margin	19.1	15.6	17.4	17.9	18.9
EBIT margin	17.6	14.2	16.0	16.4	17.5
Adjusted profit margin	14.2	10.8	11.9	12.6	13.5
Adjusted ROAE	52.0	59.0	65.1	48.7	49.3
ROCE	40.8	39.6	39.8	39.2	42.1

Working capital days (days)

Receivables	7	9	7	15	15
Inventory	52	57	45	45	45
Payables	63	55	55	60	60

Ratios (x)

Gross asset turnover	1.5	1.6	1.5	1.5	1.5
Current ratio	1.2	1.0	1.1	1.4	1.5
Net interest coverage ratio	20.8	13.9	15.4	15.0	18.6
Adjusted debt/equity	0.6	1.0	0.8	0.6	0.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

BUY

TP: Rs 3,069 | ▲ 24%

HINDUSTAN UNILEVER

Consumer Staples

26 September 2023

Riding the premiumisation wave

- Uptrading lifting growth across HUVR's FMCG categories, even in tier-3/4 towns where we saw premium offerings lining shelves
- Instant coffee gaining acceptance in South India – traditionally a filter coffee market; HUVR's *Bru* among the largest brands
- Portfolio and category development likely to energise growth; maintain BUY, TP Rs 3,069 (unchanged)

Vikrant Kashyap

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Visible uptrading trends: Our on-ground checks in South India reveal that premiumisation is lifting growth across multiple categories for FMCG players, with smaller cities and towns jumping on the bandwagon as well. Urbanisation, growing affluence, higher per capita income, and the rise of the nuclear family are fuelling aspirational demand. HUVR's premiumisation push has translated into category extension to liquid detergent from detergent powder and to body wash from soap.

Raft of launches fortify the portfolio: In recent months, HUVR has extended its food & beverages portfolio by launching *Horlicks* millet biscuits, a range of *Knorr* Chinese sauces, and new ice cream flavours. In beauty and personal care, the company launched its *Dove* men+ care range, *Indulekha* soap, and skin care brand *Novology*. The home care segment saw the addition of *Comfort* wardrobe premium fragrance hangers and *Vim Shudhham* cleaning spray and gel.

***Bru* gaining ground in traditional filter coffee markets:** During our visit, dealers and distributors highlighted the increased adoption of instant coffee in the filter coffee fiefdom of South India for its convenience as more household members enter the workforce. To better mimic the taste of filter coffee, companies are introducing products with a high chicory blend. HUVR's *Bru* and Nestle's *Sunrise* are the strongest players in South India's instant segment, followed by Tata Coffee *Grand* that has a limited presence. Distributors estimate that the instant coffee market is growing in the high teens in the south.

Maintain BUY: HUVR's volume growth has moderated in a challenging environment, but the company remains focused on premiumisation, innovation and category development. We expect growth to pick up over the medium term as volumes gather momentum, particularly in smaller cities and rural markets. The stock is trading at 49.2x/42.3x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 52.5x FY25E EPS, in line with the long-term mean, for an unchanged TP of Rs 3,069.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HUVR IN/Rs 2,476
Market cap	US\$ 70.8bn
Free float	38%
3M ADV	US\$ 47.3mn
52wk high/low	Rs 2,770/Rs 2,393
Promoter/FPI/DII	62%/14%/24%

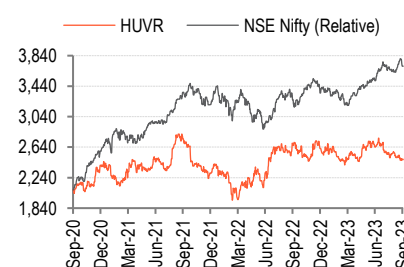
Source: NSE | Price as of 25 Sep 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	6,05,800	6,41,512	7,10,474
EBITDA (Rs mn)	1,41,490	1,66,730	1,93,320
Adj. net profit (Rs mn)	1,01,600	1,18,302	1,37,386
Adj. EPS (Rs)	43.2	50.3	58.5
Consensus EPS (Rs)	43.2	50.1	56.9
Adj. ROAE (%)	20.4	23.1	26.2
Adj. P/E (x)	57.3	49.2	42.3
EV/EBITDA (x)	41.1	34.9	30.1
Adj. EPS growth (%)	14.1	16.5	16.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Detergent category in South India’s tier-4 markets has extended beyond bars into powder



Source: BOBCAPS Research

Fig 2 – Horlicks is available in small packs in rural areas



Source: BOBCAPS Research

Fig 3 – Rival Pepsodent is targeting tier-3/4 consumers



Source: BOBCAPS Research

Fig 4 – Shampoo segment faces intense competition



Source: BOBCAPS Research

Fig 5 – Horlicks and Boost have a strong presence



Source: BOBCAPS Research

Fig 6 – Premium soaps line shelves in tier-4 markets...



Source: BOBCAPS Research

Fig 7 – ...and other high-end products such as fabric softeners are gaining acceptance



Source: BOBCAPS Research

Fig 8 – HUVR's Rin detergent is a strong brand in tier-4 & below



Source: BOBCAPS Research

Valuation methodology

HUVR's volume growth has moderated in a challenging environment, but the company remains focused on premiumisation, innovation and category development. We expect growth to pick up over the medium term as volumes gather momentum, particularly in smaller cities and rural markets.

The stock is trading at 49.2x/42.3x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 52.5x FY25E EPS, in line with the long-term mean, for an unchanged TP of Rs 3,069.

Key risks

Key downside risks to our estimates are:

- continued decline in underlying volume growth,
- impact of potential monsoon deficit on rural income, and
- sustained food inflation.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	4,70,280	5,24,460	6,05,800	6,41,512	7,10,474
EBITDA	1,16,260	1,28,570	1,41,490	1,66,730	1,93,320
Depreciation	10,740	10,910	11,370	12,416	14,260
EBIT	1,05,520	1,17,660	1,30,120	1,54,314	1,79,060
Net interest inc./(exp.)	1,170	1,060	1,140	1,398	1,468
Other inc./(exp.)	4,100	2,580	5,120	5,790	6,079
Exceptional items	(2,390)	(440)	(640)	(380)	0
EBT	1,06,060	1,18,740	1,33,460	1,58,326	1,83,671
Income taxes	26,060	29,870	32,010	40,324	46,285
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	40	130	230	80	84
Reported net profit	79,960	88,740	1,01,220	1,17,922	1,37,386
Adjustments	(2,390)	(440)	(640)	(380)	0
Adjusted net profit	82,350	89,180	1,01,600	1,18,302	1,37,386

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	88,020	90,680	95,740	94,413	1,02,336
Other current liabilities	5,880	6,650	7,640	8,090	8,960
Provisions	20,850	19,260	17,520	18,323	19,875
Debt funds	0	0	980	980	980
Other liabilities	95,880	97,710	1,03,770	1,09,702	1,21,157
Equity capital	2,350	2,350	2,350	2,350	2,350
Reserves & surplus	4,74,590	4,88,520	5,02,870	5,14,742	5,28,481
Shareholders' fund	4,76,940	4,90,870	5,05,220	5,17,092	5,30,831
Total liab. and equities	6,87,570	7,05,170	7,30,870	7,48,601	7,84,140
Cash and cash eq.	44,710	38,460	46,780	49,313	71,439
Accounts receivables	17,580	22,360	30,790	32,605	36,110
Inventories	35,790	40,960	42,510	41,921	45,439
Other current assets	23,190	25,190	28,680	30,364	33,615
Investments	27,090	35,210	28,820	38,862	38,943
Net fixed assets	61,160	61,690	69,490	70,862	72,232
CWIP	7,450	13,130	11,320	11,320	11,320
Intangible assets	2,79,300	2,79,070	2,82,630	2,82,630	2,82,630
Deferred tax assets, net	170	110	100	106	117
Other assets	1,91,130	1,88,990	1,89,750	1,90,618	1,92,295
Total assets	6,87,570	7,05,170	7,30,870	7,48,600	7,84,140

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	91,630	90,480	99,910	1,34,346	1,62,952
Capital expenditures	(7,410)	(12,250)	(11,740)	(14,113)	(15,630)
Change in investments	39,600	(7,910)	(3,670)	(10,000)	0
Other investing cash flows	3,000	1,580	2,600	0	0
Cash flow from investing	(12,280)	(17,280)	(14,940)	(24,155)	(15,711)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,940)	0	780	0	0
Interest expenses	(860)	(820)	(880)	(1,398)	(1,468)
Dividends paid	(88,110)	(75,260)	(84,740)	(1,06,130)	(1,23,648)
Other financing cash flows	(4,060)	(4,070)	(4,690)	0	0
Cash flow from financing	(93,090)	(80,150)	(89,530)	(1,07,528)	(1,25,115)
Chg in cash & cash eq.	(13,740)	(6,950)	(4,560)	2,663	22,125
Closing cash & cash eq.	18,420	11,470	7,010	9,673	31,799

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	34.0	37.8	43.1	50.2	58.5
Adjusted EPS	35.0	37.9	43.2	50.3	58.5
Dividend per share	37.5	32.0	36.0	45.2	52.6
Book value per share	203.0	208.9	215.0	220.0	225.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	12.4	11.1	9.6	9.1	8.2
EV/EBITDA	50.0	45.3	41.1	34.9	30.1
Adjusted P/E	70.7	65.2	57.3	49.2	42.3
P/BV	12.2	11.9	11.5	11.3	11.0

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	75.4	74.7	75.8	74.5	74.8
Interest burden (PBT/EBIT)	100.5	100.9	102.6	102.6	102.6
EBIT margin (EBIT/Revenue)	22.4	22.4	21.5	24.1	25.2
Asset turnover (Rev./Avg TA)	68.4	74.4	82.9	85.7	90.6
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.4	1.5
Adjusted ROAE	16.8	18.1	20.0	22.8	25.9

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	18.2	11.5	15.5	5.9	10.8
EBITDA	17.9	10.6	10.0	17.8	15.9
Adjusted EPS	9.0	11.0	14.1	16.5	16.5
Profitability & Return ratios (%)					
EBITDA margin	24.7	24.5	23.4	26.0	27.2
EBIT margin	22.4	22.4	21.5	24.1	25.2
Adjusted profit margin	17.5	17.0	16.8	18.4	19.3
Adjusted ROAE	29.4	18.4	20.4	23.1	26.2
ROCE	23.2	15.1	16.4	18.5	20.8
Working capital days (days)					
Receivables	11	14	16	18	18
Inventory	52	54	48	49	47
Payables	135	127	107	111	106
Ratios (x)					
Gross asset turnover	0.7	0.7	0.8	0.8	0.8
Current ratio	1.3	1.4	1.4	1.5	1.7
Net interest coverage ratio	90.2	111.0	114.1	110.4	122.0
Adjusted debt/equity	0.0	0.0	0.2	0.2	0.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**NOT
RATED**

ADANI WILMAR

| Consumer Staples

| 26 September 2023

From oils to foods

- **AWL's *Fortune* sunflower oil a strong brand in South India but attracts stiff competition from regional players**
- ***Xpert* range of "healthy" edible oils dovetails with the company's innovation and premiumisation thrust**
- **Growth strategy entails portfolio expansion, bundling of oil and food products, and rural network ramp-up**

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Established edible oil brand in southern belt: Adani Wilmar (AWL, Not Rated) is the fourth-largest edible oil player in South India, which is the biggest domestic market for sunflower oil, followed by palm oil. AWL's *Fortune* sunflower oil is an established brand and has the highest sales by tonnage across the five states in the region. Even so, the company does not enjoy leadership in any southern state due to regional rivalry (from brands such as *Gold Winner*). It also faces stiff competition from loose oil in rural southern markets and has introduced a smaller 500ml pack to counter this challenge.

Expanding its wings in rural markets: Close to a third of AWL's revenue comes from rural markets across India and the company is seeking to capitalise on the large opportunity by expanding its reach. Its go-to-market strategy is to bolster rural distribution through the sub-distributor model to improve the reach of *Fortune* as well as other masstige brands. In South India, the company has a large presence in markets housing populations of 25,000+ and is extending its footprint into rural centres with populations of 5,000-6,000.

Extending from oil to food and FMCG segments: AWL has a two-fold strategy for the South Indian markets: (i) to improve its distribution network in major cities of the south that are its largest consumption markets, and (ii) to focus on the food and FMCG segments to deepen its presence. The company is bundling oil and food and incentivising its sales and distributor channels to drive volumes and market share.

Portfolio expansion to enhance addressable market: Per dealers, product launches and premiumisation have been strategic areas for the company, coming together in the rollout of its *Fortune Xpert* range of edible oils that are marketed as offering health benefits. As per dealers, demand for the company's wheat flour has started to pick up in the packaged segment and other staples such as *suji* (semolina), *maida* (refined white flour) and *besan* (gram flour) offer large growth opportunities. AWL is also launching its *Alife* soap brand in southern markets.

Ticker/Price	AWLTD IN/Rs 340
Market cap	US\$ 5,314mn
Free float	12%
52wk high/low	Rs 819/Rs 327
Promoter/FPI/DII	88%/1%/11%

Source: NSE | Price as of 25 Sep 2023

Key financials

Y/E 31 Mar	FY21A	FY22A	FY23A
Total revenue (Rs mn)	370,904	542,136	581,848
EBITDA (Rs mn)	13,253	17,363	16,610
Adj. net profit (Rs mn)	7,276	8,037	5,821
Adj. EPS (Rs)	5.6	6.2	4.5
Consensus EPS (Rs)	5.6	6.2	4.5
Adj. ROAE (%)	24.8	14.7	7.4
Adj. P/E (x)	60.8	55.0	75.9
EV/EBITDA (x)	31.9	24.4	25.5
Adj. EPS growth (%)	57.9	10.5	(27.6)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Fortune is emerging as a strong brand in South India



Source: BOBCAPS Research

Fig 2 – Sunflower oil is the largest selling edible oil in southern markets



Source: BOBCAPS Research

Fig 3 – Local brands put up stiff competition



Source: BOBCAPS Research

Fig 4 – Oil sells in small packs too



Source: BOBCAPS Research

Fig 5 – Premium products are available in tier-3/4 towns



Source: BOBCAPS Research

Fig 6 – Wheat flour is emerging as a regular staple despite the preference for rice in South India



Source: BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A
Total revenue	296,570	370,904	542,136	581,848
COGS	253,702	324,898	487,914	482,081
Employee Expense	2,239	3,217	3,922	3,938
Other expense	27,534	29,536	32,938	39,469
EBITDA	13,095	13,253	17,363	16,610
EBITDA margin (%)	4.4	3.6	3.2	2.9
Depreciation	2,413	2,673	3,091	3,585
EBIT	10,683	10,580	14,272	13,025
Net interest inc./(exp.)	5,692	4,066	5,408	7,749
Other inc./(exp.)	1,100	1,052	1,723	2,614
Exceptional items	-	-	-	-
EBT	6,090	7,566	10,588	7,889
Income taxes	2,060	1,039	2,844	2,354
Extraordinary items	-	-	-	-
Min. int./Inc. from assoc.	578	749	294	286
Reported net profit	4,609	7,276	8,037	5,821
Adjustments	-	-	-	-
Adjusted net profit	4,609	7,276	8,037	5,821

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A
Accounts payables	56,971	51,927	92,424	20,501
Other current liabilities	4,660	11,971	10,411	74,022
Provisions	311	344	604	91
Debt funds	23,003	29,499	25,681	22,257
Other liabilities	7,208	6,547	7,990	11,269
Minority Interest	-	-	-	-
Equity capital	1,143	1,143	1,300	1,300
Reserves & Surplus	24,564	31,847	74,764	80,358
Shareholders Fund	25,707	32,990	76,064	81,658
Total liab. and equities	117,860	133,278	213,174	209,798
Cash and cash eq.	14,321	11,885	44,940	37,241
Accounts receivables	9,212	15,151	22,186	19,314
Inventories	38,264	47,777	77,165	76,812
Other current assets	-	500	500	11,503
Investments	11,518	11,762	14,470	3,921
Net fixed assets	35,080	34,658	42,879	43,266
CWIP	3,249	5,305	3,760	3,240
Other assets	6,217	6,241	7,274	14,501
Total assets	117,860	133,278	213,174	209,798

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A
Cash flow from	7,813	9,260	11,600	6,633
Capital expenditures	(6,307)	(4,620)	(5,356)	(6,793)
Change in investments	505	(451)	(32,357)	10,098
Other investing cash flows	738	233	(899)	2,020
Cash flow from investing	(5,064)	(4,838)	(38,612)	5,325
Equities issued/Others	-	-	35,071	-
Debt raised/repaid	4,282	(3,623)	(4,591)	(3,774)
Other financing cash flows	(4,360)	(3,687)	(2,770)	(5,508)
Cash flow from financing	(78)	(7,310)	27,711	(9,282)
Chg in cash & cash eq.	2,671	(2,888)	698	2,677

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23A
Reported EPS	33.3	52.5	58.0	42.0
Adjusted EPS	33.3	52.5	58.0	42.0
Dividend per share	-	-	-	-
Book value per share	185.5	238.0	548.8	589.2

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23A
EV/Sales	0.3	0.2	0.2	0.1
EV/EBITDA	6.2	6.1	4.7	4.9
Adjusted P/E	21.8	13.8	12.5	17.3
P/BV	3.9	3.1	1.3	1.2

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23A
Tax burden (Net profit/PBT)	0.8	1.0	0.8	0.7
Interest burden (PBT/EBIT)	0.6	0.7	0.7	0.6
EBIT margin (EBIT/Revenue)	3.6	2.9	2.6	2.2
Asset turnover (Rev./Avg TA)	8.5	10.7	12.6	13.4
Leverage (Avg TA/Avg Equity)	1.5	1.2	0.8	0.5
Adjusted ROAE	19.7	24.8	14.7	7.4

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23A
YoY growth (%)				
Revenue	3.0	25.1	46.2	7.3
EBITDA	15.8	1.2	31.0	(4.3)
Adjusted EPS	22.7	57.9	10.5	(27.6)
Profitability & Return ratios (%)				
EBITDA margin	4.4	3.6	3.2	2.9
EBIT margin	3.6	2.9	2.6	2.2
Adjusted profit margin	1.6	2.0	1.5	1.0
Adjusted ROAE	19.7	24.8	14.7	7.4
ROCE	21.9	16.9	14.0	12.5
Working capital days (days)				
Receivables	11	15	15	12
Inventory	47	47	52	48
Payables	70	51	62	13
Ratios (x)				
Gross asset turnover	8.5	10.7	12.6	13.4
Current ratio	1.0	1.2	1.4	1.5
Net interest coverage ratio	1.9	2.6	2.6	1.7
Adjusted debt/equity	0.9	0.9	0.3	0.3

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**NOT
RATED**
BIKAJI FOODS

| Consumer

| 26 September 2023

Localised product and marketing strategy

- **Unorganised regional players command an estimated ~90% of India's southern savoury snack market**
- **Bikaji's strategy for entry caters to local tastebuds through a pipeline of regional offerings, such as Madras mix**
- **Brand visibility being raised via regional marketing and use of modern trade channels**

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Untapped opportunity: The South Indian snack market is an untapped opportunity for most organised players due to uniquely local tastes and preferences. This has left the field open for informal regional players who dominate close to 90% of the market. Industry sources estimate that demand for savoury snacks in India is led by the northern region (43% share), followed by the west (30%), east (16%) and south (11%).

Making its southern foray: Per our channel checks, Bikaji Foods (Bikaji, Not Rated) has a three-pronged strategy to build its southern presence: (i) launch regional offerings such as Madras mixture, and *chakli*; (ii) promote neutral products like peanuts, soya sticks, and *soan papdi*; and (iii) introduce eats popular in northern markets.

Localised marketing strategy: Bikaji has a localised marketing strategy for the south and conducts promotional activities in the regional languages of Tamil, Telugu, and Kannada. The company has rolled out its product line through the modern trade channel, placing products on the shelves of large supermarkets such as Reliance Retail, Metro Cash and Carry, and D-Mart (ex-Kerala). Dealers expect the company to introduce another 10-12 product packs in the south over the next few quarters.

Network buildout in progress: After establishing a strong presence in metro cities in the northern and western regions, Bikaji is now expanding into the southern market where it has achieved direct distribution to 12,000 stores, largely in the states of Karnataka, Telangana, Tamil Nadu, Andhra Pradesh, and Goa. Sales in Tamil Nadu are yet to pick up whereas Goa has a smaller number of stores but a higher per-store contribution than other states. Per dealers, the company plans to increase its direct distribution in phases to 37,000+ stores.

New plant close to target markets: Bikaji has set up a 12,000tpa manufacturing facility in Tumkur (Karnataka) to target South Indian markets, with room to add capacity as demand picks up. The company follows a centralised sourcing strategy for raw materials while packaging is sourced locally.

Ticker/Price	BIKAJI IN/Rs 491
Market cap	US\$ 1,476mn
Free float	22%
52wk high/low	Rs 533/Rs 303
Promoter/FPI/DII	75%/6%/19%

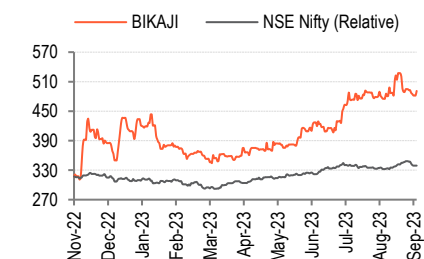
Source: NSE | Price as of 25 Sep 2023

Key financials

Y/E 31 Mar	FY21A	FY22A	FY23A
Total revenue (Rs mn)	13,107.0	16,110.0	19,661.0
EBITDA (Rs mn)	1,448.0	1,395.0	2,136.0
Adj. net profit (Rs mn)	902.0	780.0	1,285.0
Adj. EPS (Rs)	3.6	3.1	5.1
Consensus EPS (Rs)	3.6	3.1	5.1
Adj. ROAE (%)	15.9	10.9	14.5
Adj. P/E (x)	136.1	157.4	95.5
EV/EBITDA (x)	85.1	88.4	57.7
Adj. EPS growth (%)	59.9	(13.5)	64.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A
Total revenue	10,746	13,107	16,110	19,661
COGS	7,449	9,369	11,703	13,952
Employee Expense	646	699	901	1,030
Other expense	1,704	1,592	2,111	2,542
EBITDA	946	1,448	1,395	2,136
EBITDA margin (%)	8.8	11.0	8.7	10.9
Depreciation	342	331	383	471
EBIT	604	1,116	1,012	1,665
Net interest inc./(exp.)	51	30	67	106
Other inc./(exp.)	84	115	105	147
Exceptional items	-	-	-	-
EBT	636	1,201	1,050	1,706
Income taxes	73	298	290	440
Extraordinary items	-	-	-	-
Min. int./Inc. from assoc.	-	1	(19)	(19)
Reported net profit	564	902	780	1,285
Adjustments	-	-	-	-
Adjusted net profit	564	902	780	1,285

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A
Accounts payables	143	425	428	534
Other current liabilities	401	447	445	698
Provisions	68	48	28	33
Debt funds	523	862	1,412	1,435
Other liabilities	339	314	501	493
Minority Interest	-	18	(1)	(14)
Equity capital	243	243	250	250
Reserves & Surplus	5,049	5,814	7,958	9,287
Shareholders Fund	5,292	6,075	8,207	9,523
Total liab. and equities	6,766	8,171	11,021	12,716
Cash and cash eq.	883	874	902	959
Accounts receivables	417	473	733	792
Inventories	365	568	729	784
Other current assets	361	443	1,061	1,654
Investments	365	688	1,263	203
Net fixed assets	3,904	4,071	4,789	6,007
CWIP	29	361	494	697
Other assets	442	693	1,050	1,620
Total assets	6,766	8,171	11,021	12,716

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A
Cash flow from	607	1,172	575	1,762
Capital expenditures	(411)	(744)	(1,090)	(865)
Change in investments	(18)	(119)	(1,157)	(363)
Other investing cash flows	(206)	(278)	(69)	(53)
Cash flow from investing	(635)	(1,141)	(2,316)	(1,281)
Equities issued/Others	-	-	1,499	-
Debt raised/repaid	(144)	(186)	479	141
Other financing cash flows	(171)	95	(290)	(190)
Cash flow from financing	(315)	(91)	1,688	(49)
Chg in cash & cash eq.	(343)	(60)	(53)	432

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23A
Reported EPS	4.1	6.5	5.6	9.3
Adjusted EPS	4.1	6.5	5.6	9.3
Dividend per share	-	-	-	-
Book value per share	38.2	43.7	59.2	68.8

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23A
EV/Sales	9.4	7.7	6.3	5.1
EV/EBITDA	106.9	69.9	72.5	47.4
Adjusted P/E	178.5	111.6	129.0	78.3
P/BV	19.0	16.6	12.3	10.6

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23A
Tax burden (Net profit/PBT)	0.9	0.8	0.7	0.8
Interest burden (PBT/EBIT)	1.1	1.1	1.0	1.0
EBIT margin (EBIT/Revenue)	5.6	8.5	6.3	8.5
Asset turnover (Rev./Avg TA)	2.8	3.2	3.4	3.3
Leverage (Avg TA/Avg Equity)	0.8	0.7	0.7	0.7
Adjusted ROAE	11.3	15.9	10.9	14.5

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23A
YoY growth (%)				
Revenue	19.3	22.0	22.9	22.0
EBITDA	2.3	53.1	(3.7)	53.1
Adjusted EPS	10.6	59.9	(13.5)	64.7
Profitability & Return ratios (%)				
EBITDA margin	8.8	11.0	8.7	10.9
EBIT margin	5.6	8.5	6.3	8.5
Adjusted profit margin	5.2	6.9	4.8	6.5
Adjusted ROAE	11.3	15.9	10.9	14.5
ROCE	10.4	16.1	10.5	15.2
Working capital days (days)				
Receivables	14	13	17	15
Inventory	12	16	17	15
Payables	5	12	10	10
Ratios (x)				
Gross asset turnover	2.8	3.2	3.4	3.3
Current ratio	3.7	2.7	3.9	3.4
Net interest coverage ratio	11.8	37.2	15.1	15.7
Adjusted debt/equity	0.1	0.1	0.2	0.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

BUY**TP: Rs 1,600 | ▲ 15%****HAVELLS INDIA**

Consumer Durables

26 September 2023

Southern markets hold promise

- Potential for HAVL to expand its wings in brand-conscious South India market off a low base (10% share in fans)
- Rural markets identified as strategic growth driver by the company with various initiatives taken to bolster sales
- HAVL remains a strong play on consumer durables; maintain BUY with TP of Rs 1,600 (unchanged)

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Scope to make inroads in South India: Our channel checks in Karnataka and Tamil Nadu showed that HAVL lags competitor brands in several categories. For instance, in fans, we found that CROMPTON is the leader with ~30% market share, followed by Usha at ~20% and HAVL a distant third at 10%. Similarly, in the wires segment, dealers indicated that FNXP and POLYCAB were leaders and that even a local brand like Orbit was ahead of HAVL. This low base offers a longer runway for the company to deepen its presence in the south and increase market share, leveraging its brand and products.

Rural markets among strategic growth drivers: Management has identified rural markets as one of the key growth drivers for the company and is expanding beyond urban geographies through the 'Rural Vistaar' initiative. As of FY23, HAVL had a distributor presence in 3,000 towns with populations of 10,000-50,000 via 42,000+ retail points. It is also present in towns housing fewer than 10,000 people by way of 400+ 'Utsav' exclusive stores, which are targeted to increase to 2,000 by FY24.

Key rural market commentary: HAVL believes rural demand could improve during H2FY24. In its Q1FY24 earnings commentary, management said that "we are seeing more traction in tier-1 to tier-3 cities because of construction activity as well as increased professional or infrastructure demand. But during the second half of the year, we see more consumer demand coming up, and that's where the hope is that the rural sector should also start doing much better".

Maintain BUY: HAVL is a comprehensive play in the consumer durables space with a strong presence across categories. This coupled with a sound balance sheet enables it to nurture specific business areas, as seen in the case of Lloyd. Management remains positive on robust demand recovery in its core product portfolio in coming quarters. We like HAVL for its prominent brand, wide network and inherent growth triggers, and hence reiterate BUY. We continue to ascribe a P/E multiple of 53x on Jun'25E EPS to the stock, in line with the 3Y average, for an unchanged TP of Rs 1,600.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HAVL IN/Rs 1,397
Market cap	US\$ 10.7bn
Free float	41%
3M ADV	US\$ 16.2mn
52wk high/low	Rs 1,466/Rs 1,025
Promoter/FPI/DII	60%/23%/10%

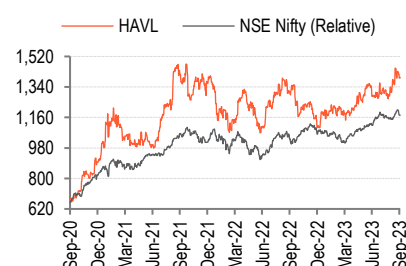
Source: NSE | Price as of 25 Sep 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,69,107	1,90,821	2,17,228
EBITDA (Rs mn)	15,991	20,077	25,417
Adj. net profit (Rs mn)	10,717	13,919	17,349
Adj. EPS (Rs)	17.1	22.2	27.7
Consensus EPS (Rs)	17.1	24.5	29.8
Adj. ROAE (%)	17.0	19.7	21.5
Adj. P/E (x)	81.7	62.9	50.4
EV/EBITDA (x)	54.7	43.6	34.4
Adj. EPS growth (%)	(10.4)	29.9	24.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Valuation methodology

HAVL is a comprehensive play on the consumer durables sector with a presence across the product spectrum. Additionally, a strong balance sheet allows it to nurture promising segments (such as Lloyd) during lossmaking phases. Management commentary points to a pickup in performance of the core product portfolio in coming quarters. Further, apart from its existing markets, our channel checks indicate that South India holds promise for HAVL to broaden its presence and deepen market share.

We remain positive on the company and reiterate our BUY rating. Our TP is unchanged at Rs 1,600, based on a 53x P/E multiple on Jun'25E, which is in line with the stock's three-year average. Maintain BUY.

Key risks

Key downside risks to our estimates are:

- aggressive capital allocation toward Lloyd, and
- subdued growth and profitability in the core product portfolio.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	1,04,573	1,39,385	1,69,107	1,90,821	2,17,228
EBITDA	15,718	17,604	15,991	20,077	25,417
Depreciation	2,489	2,609	2,962	2,899	3,737
EBIT	13,229	14,995	13,030	17,179	21,680
Net interest inc./(exp.)	(727)	(534)	(336)	(436)	(445)
Other inc./(exp.)	1,874	1,604	1,777	1,866	1,959
Exceptional items	0	0	0	0	0
EBT	14,376	16,066	14,471	18,608	23,194
Income taxes	3,932	4,101	3,753	4,689	5,845
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	10,443	11,965	10,717	13,919	17,349
Adjustments	0	0	0	0	0
Adjusted net profit	10,443	11,965	10,717	13,919	17,349

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	15,971	23,800	26,432	31,368	35,709
Other current liabilities	10,525	10,881	11,562	13,046	14,852
Provisions	0	0	0	0	0
Debt funds	4,922	3,955	2,231	2,908	2,965
Other liabilities	5,341	6,567	5,095	5,750	6,545
Equity capital	626	626	627	627	627
Reserves & surplus	51,137	59,403	65,628	74,222	86,246
Shareholders' fund	51,763	60,029	66,255	74,848	86,872
Total liab. and equities	88,523	1,05,232	1,11,574	1,27,920	1,46,943
Cash and cash eq.	19,591	27,014	18,702	30,046	39,217
Accounts receivables	5,637	7,663	9,739	10,740	12,369
Inventories	26,199	29,681	37,086	41,241	47,293
Other current assets	1,778	1,708	5,135	1,279	1,456
Investments	0	0	0	0	0
Net fixed assets	32,904	34,336	36,236	39,337	40,600
CWIP	899	572	1,634	1,844	2,099
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	1,515	4,258	3,042	3,433	3,908
Total assets	88,523	1,05,232	1,11,574	1,27,920	1,46,943

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	6,603	17,278	5,649	21,938	19,375
Capital expenditures	(1,536)	(2,528)	(5,855)	(6,000)	(5,000)
Change in investments	0	0	5,004	0	0
Other investing cash flows	(6,096)	(5,067)	1,201	54	65
Cash flow from investing	(7,632)	(7,595)	350	(5,946)	(4,935)
Equities issued/Others	98	312	267	0	0
Debt raised/repaid	14,883	0	(4,563)	677	57
Interest expenses	0	0	0	0	0
Dividends paid	(13,083)	(5,783)	(4,773)	(5,325)	(5,325)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	1,898	(5,472)	(9,069)	(4,648)	(5,269)
Chg in cash & cash eq.	869	4,212	(3,070)	11,344	9,171
Closing cash & cash eq.	19,591	27,014	18,702	30,046	39,217

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	16.7	19.1	17.1	22.2	27.7
Adjusted EPS	16.7	19.1	17.1	22.2	27.7
Dividend per share	6.5	7.5	7.5	8.5	8.5
Book value per share	82.6	95.8	105.8	119.5	138.7

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	8.4	6.3	5.2	4.6	4.0
EV/EBITDA	55.7	49.7	54.7	43.6	34.4
Adjusted P/E	83.8	73.1	81.7	62.9	50.4
P/BV	16.9	14.6	13.2	11.7	10.1

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	72.6	74.5	74.1	74.8	74.8
Interest burden (PBT/EBIT)	108.7	107.1	111.1	108.3	107.0
EBIT margin (EBIT/Revenue)	12.7	10.8	7.7	9.0	10.0
Asset turnover (Rev./Avg TA)	3.2	4.1	4.7	4.9	5.4
Leverage (Avg TA/Avg Equity)	0.7	0.6	0.6	0.6	0.5
Adjusted ROAE	22.0	21.4	17.0	19.7	21.5

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	10.8	33.3	21.3	12.8	13.8
EBITDA	52.8	12.0	(9.2)	25.6	26.6
Adjusted EPS	42.0	14.6	(10.4)	29.9	24.6
Profitability & Return ratios (%)					
EBITDA margin	15.0	12.6	9.5	10.5	11.7
EBIT margin	12.7	10.8	7.7	9.0	10.0
Adjusted profit margin	10.0	8.6	6.3	7.3	8.0
Adjusted ROAE	22.0	21.4	17.0	19.7	21.5
ROCE	19.3	18.5	17.0	22.3	21.1

Working capital days (days)

Receivables	20	20	21	21	21
Inventory	91	78	80	79	79
Payables	56	62	57	60	60

Ratios (x)

Gross asset turnover	2.5	3.2	3.5	3.6	3.7
Current ratio	1.9	1.8	1.8	1.9	2.0
Net interest coverage ratio	18.2	28.1	38.8	39.4	48.7
Adjusted debt/equity	0.1	0.1	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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SEBI Research Analyst Registration No: **INH0000000040 valid till 03 February 2025**

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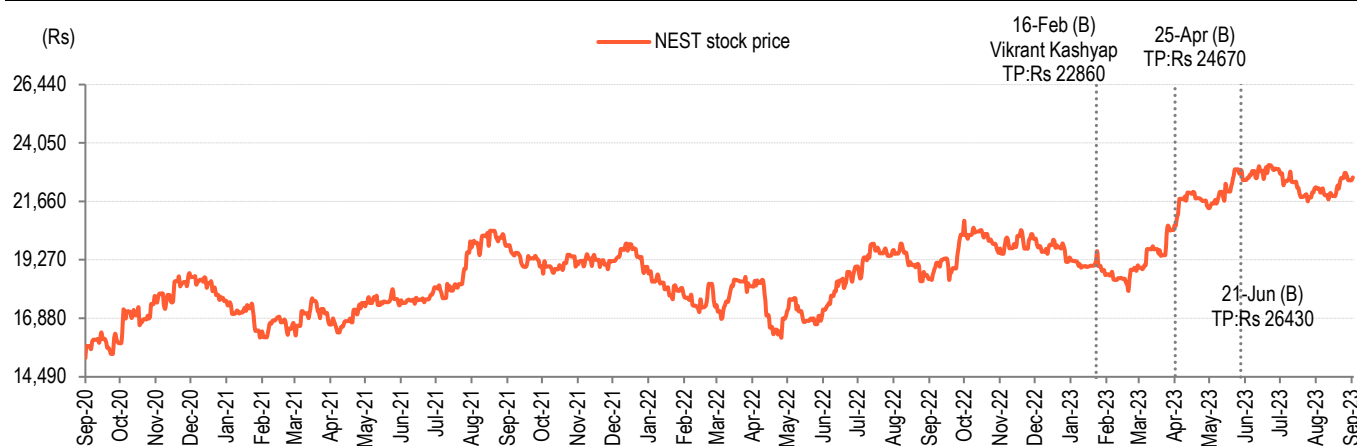
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

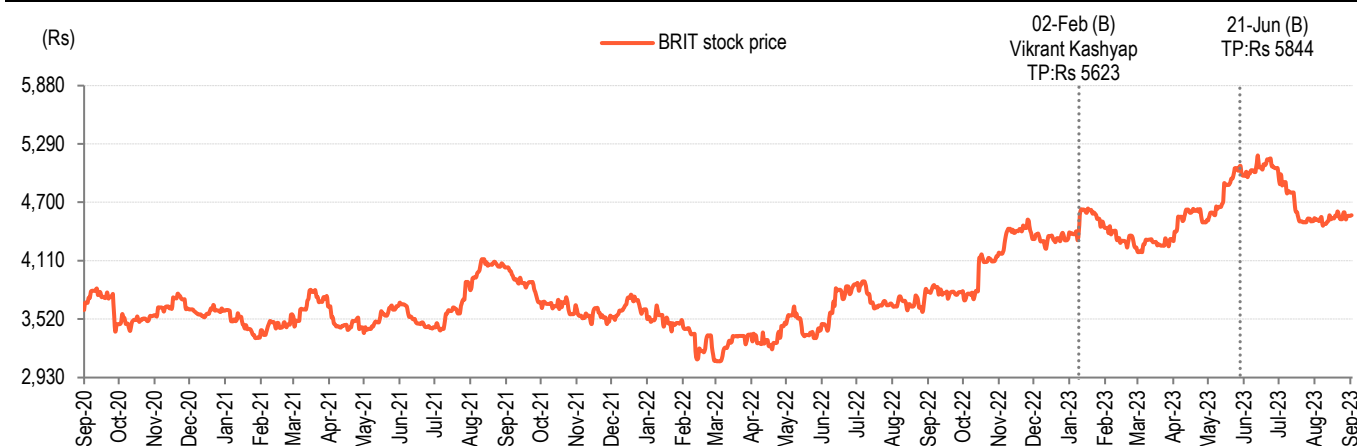
Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): NESTLE INDIA (NEST IN)

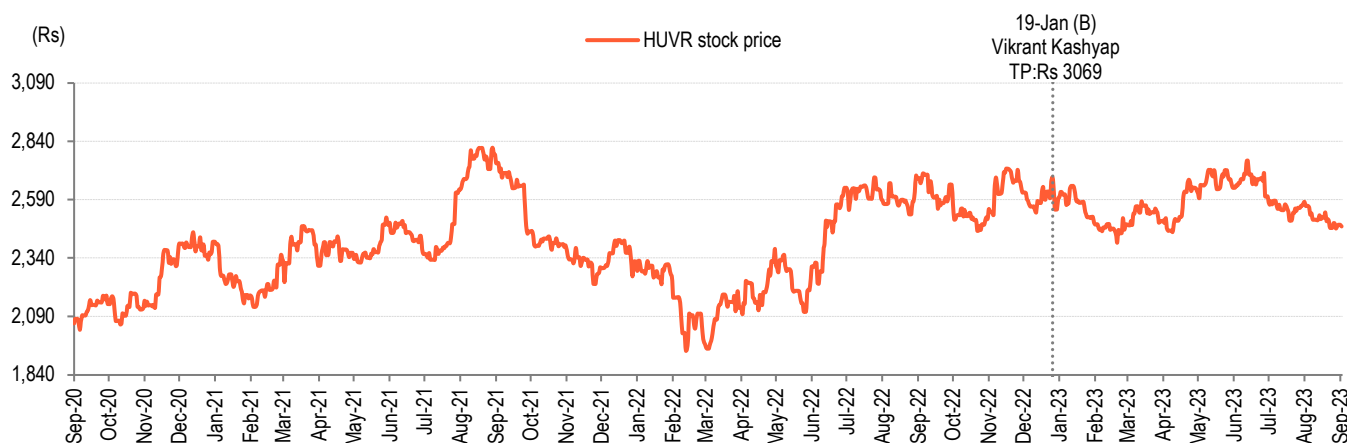


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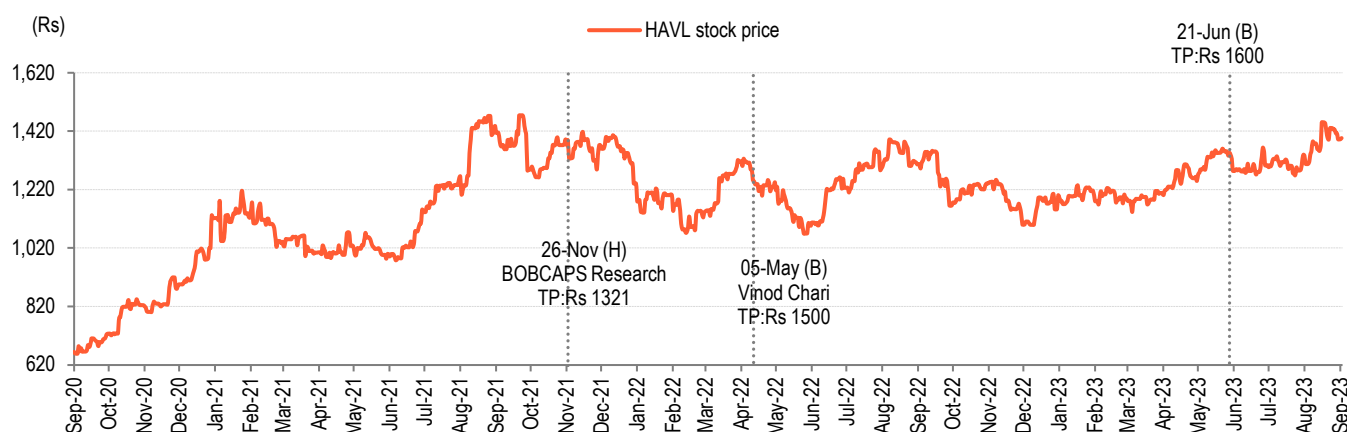
Ratings and Target Price (3-year history): BRITANNIA INDUSTRIES (BRIT IN)



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Ratings and Target Price (3-year history): HINDUSTAN UNILEVER (HUVR IN)


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