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CONSUMER STAPLES

08 July 2024

FMCG roundup: Assessing rural indicators vs rural demand

- **Recent trading updates from FMCG companies imply a recovery in rural. The pace of recovery appears to be slow**
- **To track rural demand effectively, we have analysed drivers of rural income to identify, assess and shortlist commonly used indicators**
- **Monsoon, agri wages, CPI are key and on an improving trajectory. Coverage assumed on DABUR (BUY), BRIT (BUY), and Marico (HOLD)**

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Which rural indicators align well with FMCG demand? Rural FMCG demand has meaningful correlations with agri wages rates, rural CPI, rural unemployment rate and infrastructure spending. Recent trends are favourable and align with the FMCG trading updates implying a recovery in rural. In this note, we outline the income and FMCG demand drivers in rural. We delve into rural's low FMCG consumption relative to urban and other Asian peers to contextualise and ultimately assess the frequently referred rural indicators by managements and the analyst community.

Monsoon, real agri wage rates and rural CPI are key: Monsoon has a 75% correlation with agricultural gross value added. Agri wages are at 52% direct, while rural CPI is at 45% inverse with rural FMCG demand. Agriculture has an impact on the overall rural demand due to its spillover effect on other income streams.

We prefer exposure to rural and elastic categories: Companies with established distribution networks, high sales contribution from rural, and exposure to elastic categories stand to benefit. During recovery cycles, demand tends to respond first on high elasticity items such as personal care before spreading to packaged foods.

Dabur and Britannia well placed with 40-45% sales exposure: Continued focus on expanding rural footprint during recent weak rural demand period is likely to now drive sales acceleration with the rise in volume churn. We prefer Dabur over Britannia, given Dabur's exposure to the relatively elastic categories of Personal Care (30% of sales) and Healthcare (23% of sales). In 1QFY25, Britannia likely had an adverse impact on volumes due to a warmer than usual summer.

Downgrade Marico to HOLD: Project SETU is aimed at increasing direct reach by 50% over 3 years. The distributor reaction is natural given likelihood of sales cannibalisation – there remains a destocking risk over the next two to three quarters, in our view. While rural recovery may reflect in consumer offtake, at this stage, we expect both margin and inventory pressure from the indirect channel.

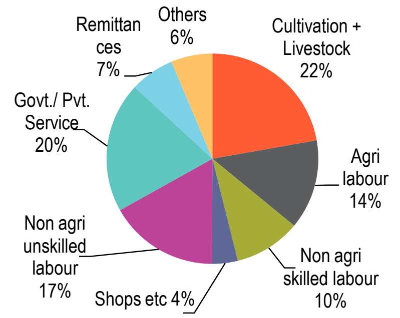
Valuation: We change valuation methodology from historical P/E average to index relative average. We raise TPs for Dabur (Rs 742 from Rs 673), Britannia (Rs 6,577 from Rs 5,980) and Marico (Rs 699 from Rs 668).

Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	5,547	6,577	BUY
DABUR IN	606	742	BUY
MRCO IN	615	699	HOLD

Price & Target in Rupees | Price as of 5 Jul 2024

Rural income breakdown: FY24



Source: NSSO, NABARD, BOBCAPS Research

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Rural consumption indicators vs rural FMCG demand

The rural market has been a drag on FMCG industry growth for quite some time. However, nearly all companies that released Mar'24 quarter results indicated early signs of improving sales trends in rural. This trend continued with recent FMCG trading updates also indicating improved demand in rural, albeit at a slow pace. The market is expecting an acceleration in volumes and sales for FY25, and this turnaround mainly hinges on a recovery in rural.

We emphasise that it is the interplay of multiple variables that culminates in the outcome on FMCG demand. A very high correlation is less likely, but certain variables show decent relationship with rural FMCG demand. We explain in detail later in the note, but see below for some observations, followed by a summary of results.

Monsoon is expected to be 106% above normal or up 7% YoY.

- **The Southwest Monsoon (SWM) and agri GVA show a 75% correlation:** This is reasonable as SWM accounts for three-fourths of the annual rainfall in India. Besides the Kharif season (Jun to Oct), the SWM serves as the primary source of water for irrigation, which is used in other seasons as well.

Real rural agri wage growth continues to remain positive on a YoY basis.

The current cycle appears to be favourable to labourers as wage rates did not fall as much as the deterioration in agri GVA. In fact, wage rates are now starting to stabilise.

- **Rural agricultural wages and agri GVA are well correlated, but with a 3-6 month lag:** This possibly reflects farm landlords deciding on agri-labour wage rates based on the prior season's performance. Despite the government announcing Minimum Support Price (MSP) before or during the beginning of the sowing season, unpredictable rainfall limits any clarity on potential income. This leaves the farm owners to solely rely on last season's income to create a budget for the current season.

  The downward trend in wage rates is quick and long, while the upward trend is usually delayed. The duration of the upward trend is also mixed. However, the current cycle appears to be favourable to labourers as wage rates did not fall as much as the deterioration in the agri GVA growth run rate. In fact, recent data suggests that wage rates are now starting to stabilise. The expected recovery in agri GVA in FY25E should reflect in agri wage rates, in our view.

RBI expects FY25 CPI at 4.5%. This is lower vs FY24 at 5.4% and FY23 at 6.7%.

- **FMCG consumption has a negative correlation with CPI:** This is reasonable as despite the rise in real wages, if rural CPI remains at a high level, it is natural for rural consumers to remain cautious on spending given their low income levels.

GFCF slowed in Mar'24 quarter but likely reflects the election year. Infrastructure remains a key priority for the current government and will likely remain a key growth driver.

- **Gross Fixed Capital Formation** as a proxy for infrastructure spend shows the highest correlation of 60% vs FMCG demand trends. This possibly reflects the rural labourers that find work in infrastructure projects. According to the National Sample Survey Office (NSSO), and our estimates, unskilled labour accounts for 16% of rural income, while pension / remittances account for ~6%.

Fig 1 – Rural FMCG volume trend vs rural income and consumption indicators | Concurrent periods

Variables Quarterly data	Correlation coefficient (%)	Does it work?
Meaningful and logical relationships		
Gross Fixed Capital Formation (constant prices)*	60	Yes
Rural real wage rates		
Real Agricultural wages	52	Yes
Real Non-agricultural wages	37	Yes
Rural CPI	(45)	Yes
Rural unemployment rate	(44)	Yes
Other indicators		
Two-wheeler sales	(24)	No, lagging indicator (24% correlation)
Tractor sales	18	No, lagging indicator (39% correlation)

Sources: MOSPI, Centre for Monitoring Indian Economy (CMIE), Press releases, BOBCAPS Research | *Proxy for infrastructure spend

Fig 2 – Rural FMCG volume trend vs rural income and consumption indicators | Alternative approaches where reasonable

Variable	Lag	Correlation coefficient (%)
Southwest monsoon (Jun to Sep)	Concurrent FY for FMCG demand - annual data	92
Agricultural gross value added - constant prices	12M lag in FMCG demand - HY data	75
Two-wheeler sales	12M lag in two-wheeler sales - HY data	24
Tractor sales	12M lag in tractor sales - HY data	39

Sources: MOSPI, CMIE, Press releases, BOBCAPS Research

What does it mean for the FMCG universe in FY25E?

What are the recent trends in rural consumption indicators?

To get a peek into the underlying trends of FMCG demand, we outline recent trends for the above-mentioned variables. We are encouraged by the way data points have moved over the past few months. Most important data points of real wages and CPI are moving favourably, in our view. This backdrop, combined with a slower CPI forecast for FY25E by the Reserve Bank of India (RBI), bodes well for the underlying rural demand scenario.

Fig 3 – Recent trends in key rural demand indicators

Variable (%)	Overall	Correlation coefficient	3M ended in		Monthly trend				
	Trend	vs FMCG demand	Dec-23	Mar-24	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
Rural real wage rates	↑	-	0.6	0.8	0.4	1.1	0.9	-	-
Real Agricultural wages	↔	56	1.2	1.2	0.8	1.4	1.3	-	-
Real Non-agricultural wages	↑	37	(0.1)	0.4	0.0	0.8	0.5	-	-
Rural unemployment rate	↑	(44)	9.3	6.9	8.0	5.8	7.8	7.1	7.8
Rural CPI	↑	(45)	5.6	5.4	5.3	5.3	5.5	5.4	5.3
Agricultural Gross Value Added - (constant prices)	↑	n/m	0.4	0.6	-	-	-	-	-
Gross Fixed Capital Formation (constant prices)	↓	60	9.7	6.5	-	-	-	-	-

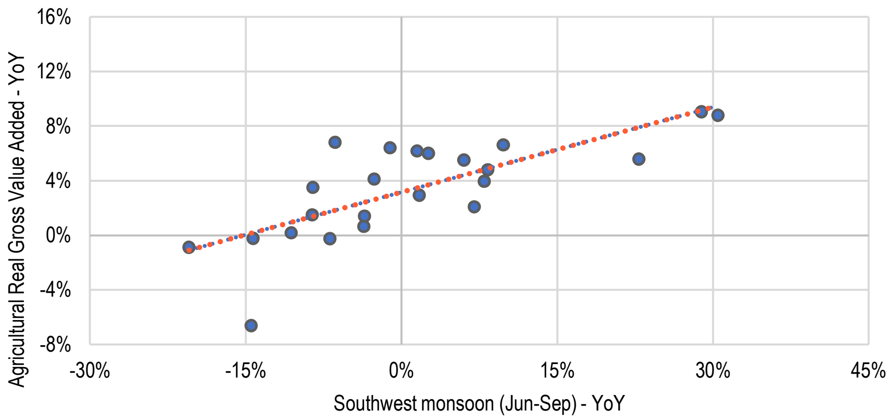
Source: BOBCAPS Research

We expect 2024 SWM being above normal, in line with IMD's forecast. Any material deviations in SWM will impact agricultural GVA and FMCG demand trends in rural. This has a bearing on our sector view, which is currently positive.

Southwest Monsoon (SWM) is key to recovery in rural

The quality and progress of SWM is key to rural recovery as is evident from its strong relationship with agricultural GVA. So far, the SWM has been a bit uneven in June which accounts for close to 20% of SWM. However, the India Meteorological Department (IMD) expects 2024 SWM to be broadly 106% of the long period average (LPA). This equates to a 7% YoY increase in rainfall.

Fig 4 – Southwest monsoons vs agricultural GVA (2001-2024) – 75% correlation



Source: MOSPI, IMD, BOBCAPS Research

Retain BUY on DABUR and BRIT

We prefer DABUR to BRIT given DABUR's (1) 40-45% sales exposure to rural, and (2) presence in the high elasticity categories of personal care and healthcare.

BRIT has ~40% sales exposure to rural. While the exposure to food makes it a slightly lagged beneficiary of rural recovery, increased penetration in the rural market over the past few years despite weak demand is likely to result in accelerated sales as rural volume churn improves. While 1QFY25 could face adverse volume pressure from a warmer than usual weather, we expect a meaningful volume boost in 2HFY25. Our sales forecast is +7% in 1HFY25 and +16% in 2HFY25.

What are the drivers of FMCG spending?

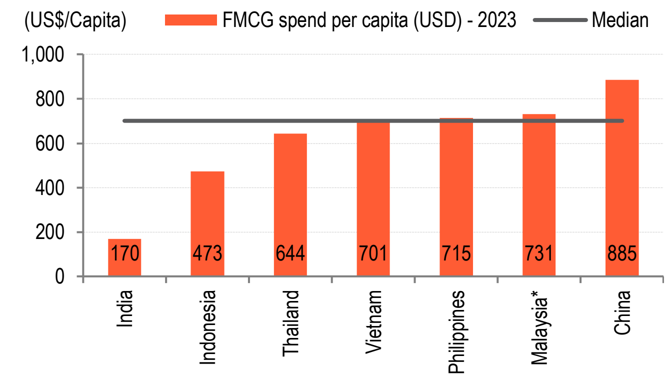
The Indian FMCG market is estimated at ~US$ 200bn, according to McKinsey Research, India Brand Equity Foundation (IBEF) and our estimates. Despite its large size, India's FMCG consumption per capita is quite low compared to its Asian peers. Within India, on our estimates, the rural FMCG consumption per capita is only about one-third that of urban. In this section, we identify the key reason for such low consumption highlighting the differences in consumer profiles between India's rural and urban markets.

How does India's FMCG spend compare with Asian peers? Why is it low?

FMCG spend per capita in India is low compared to its peer Asian economies. As shown in Figure 5, Indian FMCG spend per capita is 76% below the median of neighbouring Asian economies.

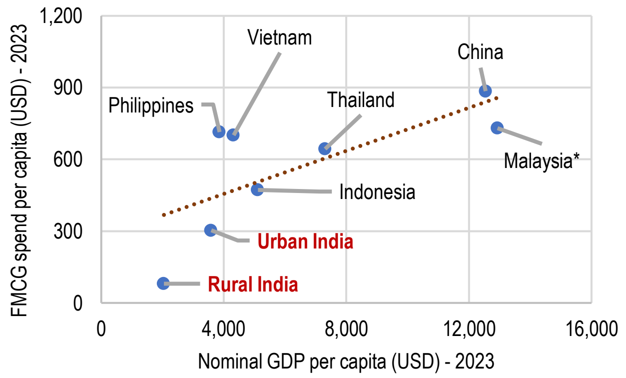
Differential in per capita income is a key factor. Using GDP per capita as a proxy for income per capita, a comparison of GDP per capita and FMCG spend per capita reveals a direct correlation of 71%, as shown in Figure 6. We segregate rural and urban markets for India given substantial differences in per capita FMCG spend and GDP. Rural and urban India, which have the lowest GDP per capita in the group, are at the bottom left of the scatter with the lowest FMCG spend per capita.

Fig 5 – FMCG spend per capita: India vs Asian peers (FY23)



Sources: McKinsey Research, IBEF, International Monetary Fund, BOBCAPS Research | *Peninsular Malaysia

Fig 6 – FMCG spend vs Nominal GDP: India vs peer economies (FY23) => 71% correlation



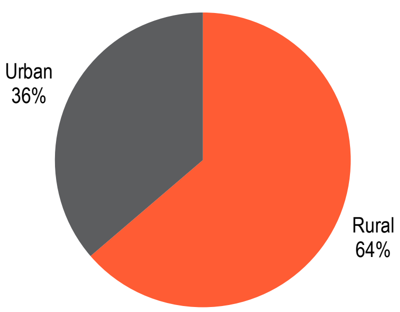
Sources: McKinsey Research, IBEF, IMF, BOBCAPS Research | *Peninsular Malaysia

Why does rural lag urban in FMCG spending?

Within the Indian FMCG market, there are wide differences between the rural and urban consumers. As shown in Figures 7 to 10, rural markets account for the bulk of the population but only 35% of the total FMCG market. The per capita FMCG spend in rural markets is one-third that of urban.

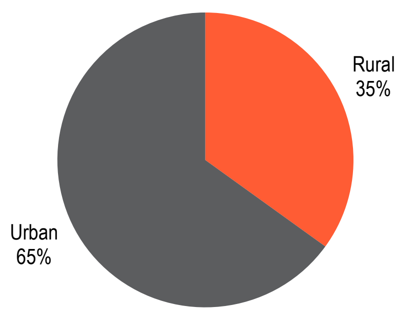
In line with the global trend that we discussed; such low consumption is due to lower per capita income. This is evident from Figure 10 – rural per capita GDP is 43% below urban markets.

Fig 7 – India population split: Rural vs urban



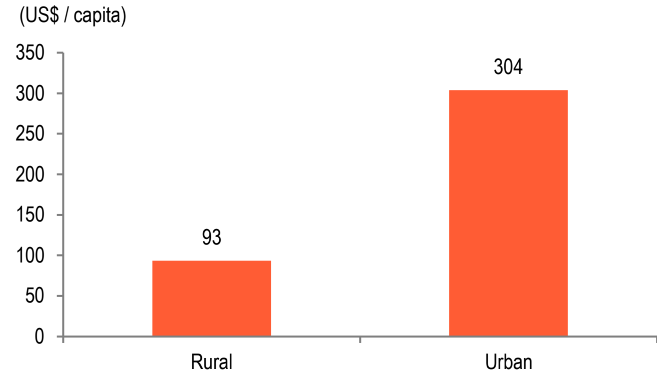
Source: MOSPI, RBI, BOBCAPS Research

Fig 8 – India FMCG spend split: Rural vs urban



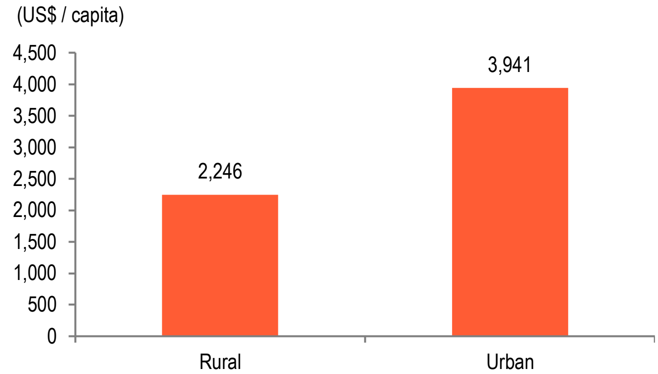
Source: MOSPI, RBI, IBEF, McKinsey Research, BOBCAPS Research

Fig 9 – FY23 annual FMCG spend per capita: Rural vs urban



Sources: McKinsey, World Bank, IMF, NITI Aayog, Bain, Confederation of Indian Industries, IBEF, BOBCAPS Research

Fig 10 – FY23 annual GDP per capita: Rural vs urban



Sources: McKinsey, World Bank, IMF, NITI Aayog, Bain, CII, BOBCAPS Research

Assessing rural indicators vs rural FMCG demand trends

Here, we explain the drivers of rural income to identify and assess rural consumption indicators against FMCG demand trends. We explain more in detail below, but our assessment of rural indicators shows some results in line with our expectations while some are surprises. For instance, we have a low correlation between agricultural GVA and FMCG spending.

However, on using a 12-month lag and half yearly data, the relationship improves to 75%. Such long lag is expected in case of larger ticket items such as tractors. For such items, farmers tend to accumulate savings over a few seasons before making the final purchase. However, we were expecting to see either no lag or at most a 3M lag in FMCG demand relative to changes in agricultural GVA. We summarise our correlation results in Figures 11 and 12. We again emphasize that it is the interplay of multiple variables that culminates in the outcome on FMCG demand. A very high correlation is unlikely, but certain variables show a decent relationship with rural FMCG demand.

Fig 11 – Rural FMCG volume trend vs rural income and consumption indicators | Concurrent periods

Variables Quarterly data	Correlation coefficient (%)	Does it work?
Meaningful and logical relationships		
Gross Fixed Capital Formation (constant prices)*	60	Yes
Rural real wage rates		
Real Agricultural wages	52	Yes
Real Non-agricultural wages	37	Yes
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Other indicators		
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Sources: MOSPI, Centre for Monitoring Indian Economy (CMIE), Press releases, BOBCAPS Research | *Proxy for infrastructure spend

Fig 12 – Rural FMCG volume trend vs rural income and consumption indicators | Alternative approaches where reasonable

Variable	Lag	Correlation coefficient (%)
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Agricultural gross value added - constant prices	12M lag in FMCG demand - HY data	75
Two-wheeler sales	12M lag in two-wheeler sales - HY data	24
Tractor sales	12M lag in tractor sales - HY data	39

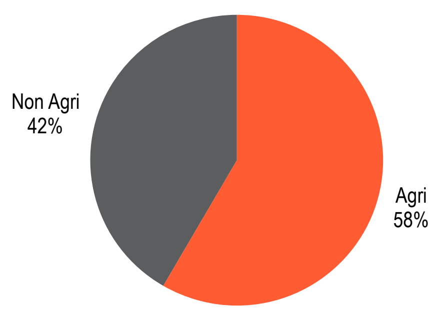
Sources: MOSPI, CMIE, Press releases, BOBCAPS Research

What are the drivers of rural income?

Given low-income level is the primary driver of low FMCG demand, it is important to analyse the components of rural income. This forms the basis for understanding the drivers of rural consumption. We estimate sources of employment and income in rural areas in Figures 13 and 14 below.

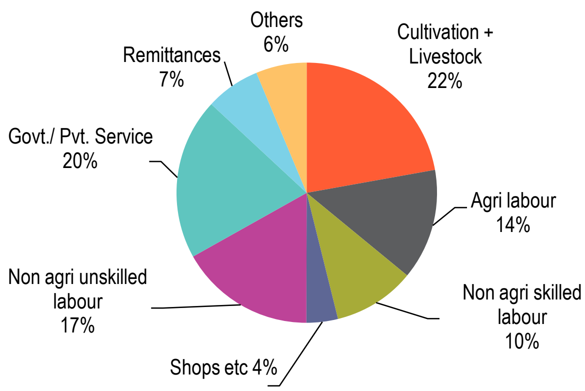
Including hired labour, agriculture is still the single largest source of employment and income in rural households. While government and private sector jobs are relatively stable sources of income, most other sources are either directly or indirectly reliant on the agricultural sector performance.

Fig 13 – Sources of employment in rural India



Sources: National Sample Survey Office (NSSO) of 2021 Survey, National Bank for Agriculture and Rural Development (NABARD), BOBCAPS Research

Fig 14 – Sources of income in rural India: FY24



Sources: NSSO (2021 Survey), NABARD, BOBCAPS Research

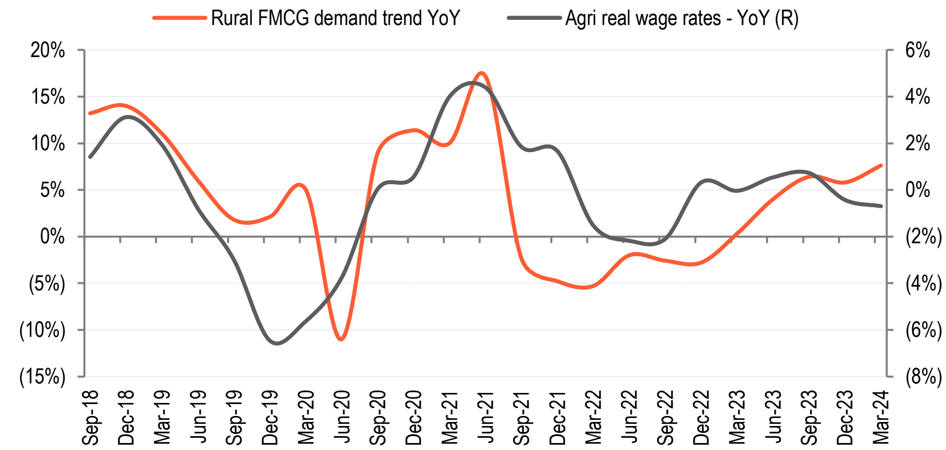
How do the commonly used rural indicators stack up vs FMCG demand trends?

- **Rural real agricultural wage rates –** Agricultural labourers are either marginal farmers who supplement their income working in other farms or are full-time labourers available for hire.

  Rural income per household is low and this group has an even lower income due to a low wage rate in agriculture vs non-agriculture. For this reason, we think the FMCG demand for this group is most sensitive to changes in income given the income is just enough for essentials. Any decrease in income likely results in a large corresponding decrease in FMCG consumption as opposed to trading down, which is a more common practice at higher levels of income.

Rural income per household is low and this group has even lower income due to a low wage rate in agriculture vs non-agriculture. For this reason, we think the FMCG demand for this group is most sensitive to changes in income.

Fig 15 – Rural real agricultural wage rates vs rural FMCG demand trends (YoY; Sep'18 to Mar'24) – 52% correlation



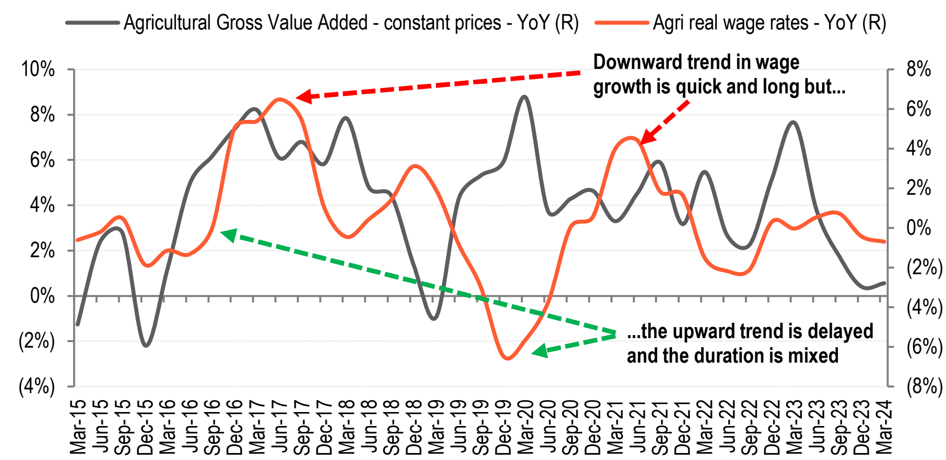
Sources: MOSPI, CMIE, Press articles, BOBCAPS Research

As shown in Figure 16, rural real agricultural wages are following the trends in agri GVA. The correlation is reasonable at 32% on six-month lagged wage growth. This is reasonable as farm owners allocate budgets for the upcoming season based on the previous season's income/performance. We expect rural agri real wages to improve in line with the expected improvement in agri GVA in FY25E. Assuming IMD's SWM forecasts come through, we estimate agri GVA (constant prices) to rise ~5% YoY in FY25E vs ~1% YoY growth in FY24.

Figure 16 shows that the downward trend in wage rates is quick and long while the upward trend is delayed. The duration of the upward trend is mixed and likely also depends on labour availability. The overall trend makes sense as the labour group usually has low bargaining power vs the farm owners. The wage rate disagreements between the farm owner groups and labourers in the northern agricultural states of Punjab and Haryana are well documented in press.

The current cycle appears to be favourable to labourers as wage rates did not fall as much as the fall in FY24 agri GVA growth run rate. In fact, wage rates are now starting to stabilise. The expected recovery in agri GVA in FY25 should reflect in agri wage rates, in our view.

Fig 16 – Rural real agricultural wage rates vs agricultural GVA (quarterly YoY; Sep'18 to Mar'24) – 32% correlation

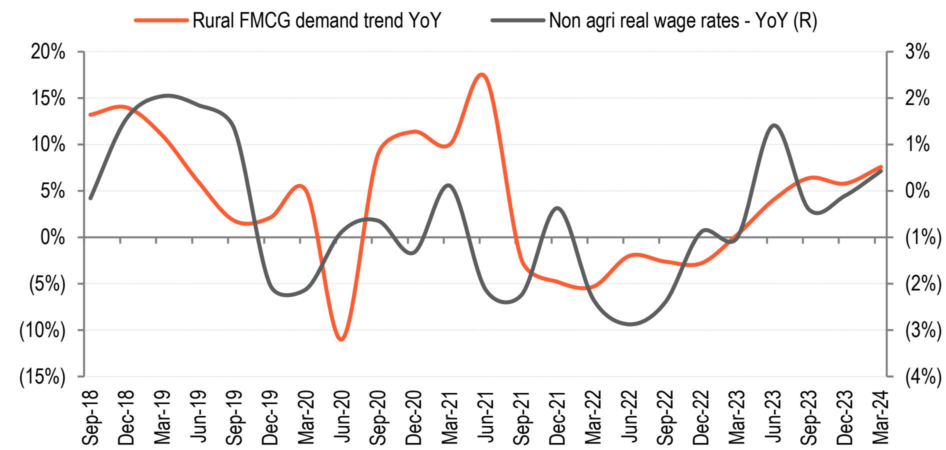


Sources: MOSPI, CMIE, Press articles, BOBCAPS Research

- **Non-agricultural labourers –** This group is engaged in (1) skilled work such as that of an electrician or a plumber; and (2) unskilled work such as shop attendant, brick maker, construction worker, etc. We expect that due to a higher and more stable income compared with the agri-labour group, this group is slightly advanced in FMCG consumption levels. Unlike the agri-labour group, this makes demand shifts in FMCG due to changes in income slightly less sensitive.

In line with expectations, rural real non-agri wage rates show a direct relationship with FMCG demand and have a correlation of 37%.

Fig 17 – Rural real non-agricultural wage rates vs rural FMCG demand trends (YoY; Sep'18 to Mar'24) – 37% correlation

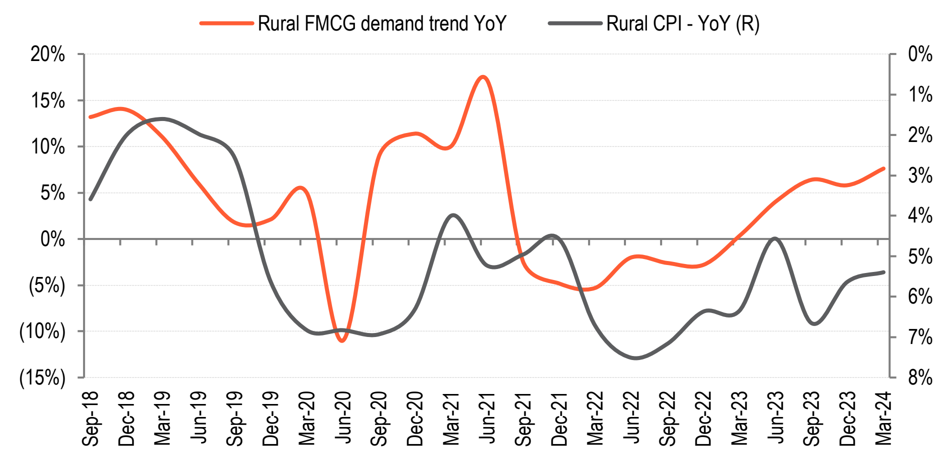


Sources: MOSPI, CMIE, Press articles, BOBCAPS Research

- **Rural CPI –** High inflation reduces purchasing power. Due to generally low income in rural areas, the impact on FMCG consumption is felt quickly. As expected, rural CPI's relationship with rural FMCG demand is reasonable at -45%.

RBI forecasts FY25E CPI at 4.5% vs FY24 at 5.4% and FY23 at 6.7%. This bodes well for rural real income and FMCG spending outlook.

Fig 18 – Rural CPI vs rural FMCG demand trends (YoY; Sep'18 to Mar'24) – (45)% correlation

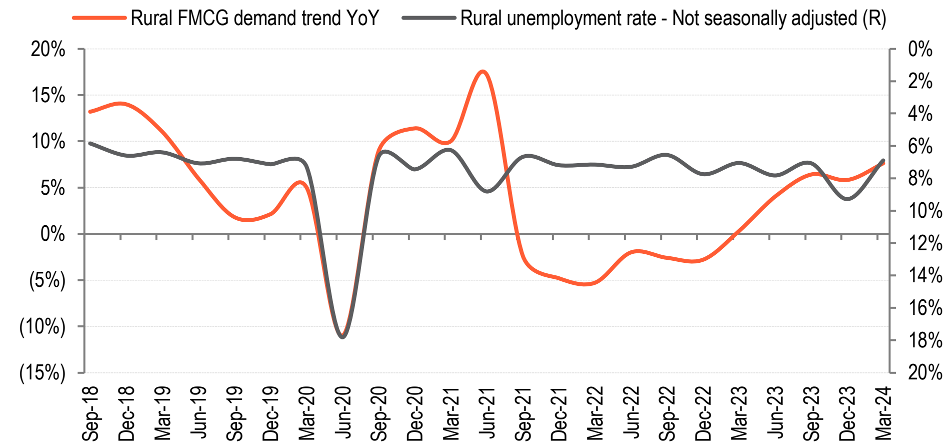


Sources: MOSPI, CMIE, Press articles, BOBCAPS Research

- **Rural unemployment rate** – Farm owners account for only 21% of total rural income, making employment levels quite relevant for rural income and consumption. While general economic trends have an impact, the overall rural economy is most impacted by positive or negative trends in agriculture.

Rural unemployment rate shows an inverse relationship with FMCG demand and has a decent correlation of -44%. Rising unemployment has a direct impact on income, which in turn leads to lower FMCG demand.

Fig 19 – Rural unemployment rate vs rural FMCG demand trends (YoY; Sep'18 to Mar'24): (44)% correlation

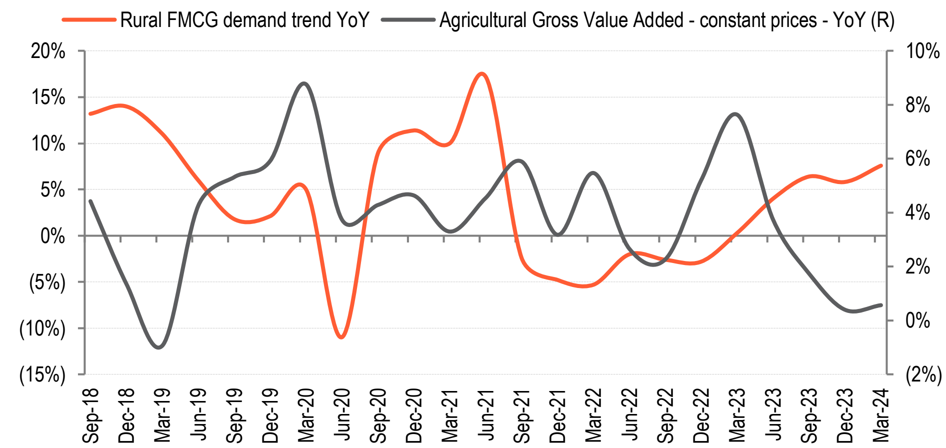


Sources: MOSPI, CMIE, Press articles, BOBCAPS Research

- **Agricultural gross value added at constant prices –** It surprisingly shows a weak relationship with FMCG demand. However, when we incorporate a 12-month lagged FMCG demand and use half yearly data to reduce noise, the relationship improves to 75%. This pattern is expected for larger ticket items such as tractors, given farmers likely accumulate savings over several seasons before making such purchases. Nevertheless, we anticipated either no lag or at most a three-month lag in FMCG demand relative to changes in agricultural GVA (Fig 20).

Agricultural GVA shows a non-meaningful correlation with FMCG demand. But when we incorporate a 12-month lagged FMCG demand and use half yearly data to reduce noise, the relationship improves to 75%.

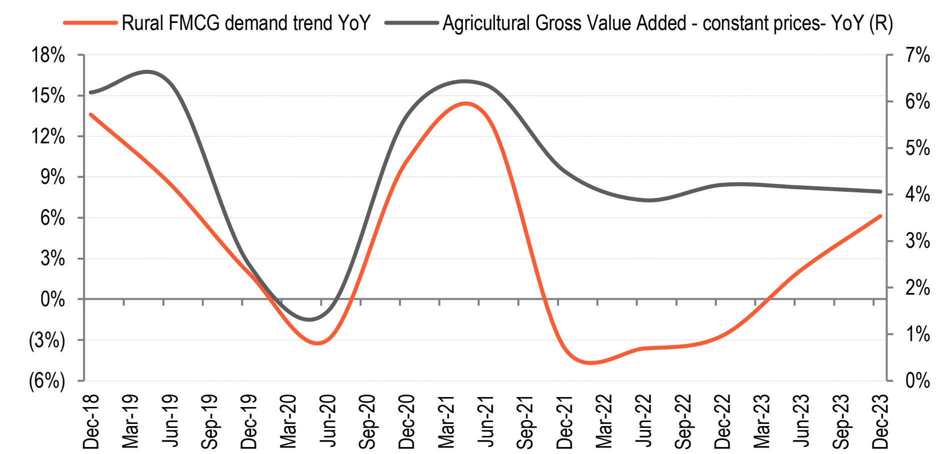
Fig 20 – Agricultural GVA vs rural FMCG demand trends (YoY; Sep'18 to Mar'24) – not a meaningful correlation



Sources: MOSPI, CMIE, Press articles, BOBCAPS Research

Using half yearly data and a 12M lag in FMCG demand, the correlation coefficient improves to 75%.

Fig 21 – Agricultural GVA vs 12M lagged rural FMCG demand (YoY; half yearly data; Dec'18 to Dec'24) – 75% correlation



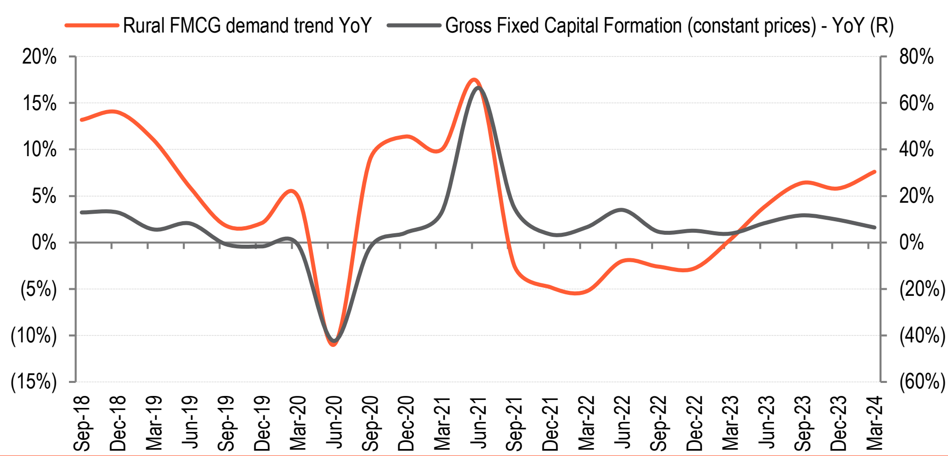
Sources: MOSPI, CMIE, Press articles, BOBCAPS Research

- **Gross fixed capital formation (constant prices) –** GFCF is a good proxy for infrastructure spending. Given the low and unstable income from agriculture, smaller farmers also tend to take up labour work in the construction industry, mostly in the infrastructure sector. This income comes to the rural household either directly or indirectly in the form of a remittance.

The GFCF correlation with FMCG demand is decent at 60%.

The prevalence of this source of income has increased over the past decade or so given the current National Democratic Alliance (NDA) government has maintained its focus on improving infrastructure since coming to power in 2014. Multiple projects remain in progress and we expect infrastructure spending to continue to drive rural income.

Fig 22 – Gross fixed capital formation (constant prices; Sep'18 to Mar'24) vs rural FMCG demand trends (YoY) – 60% correlation

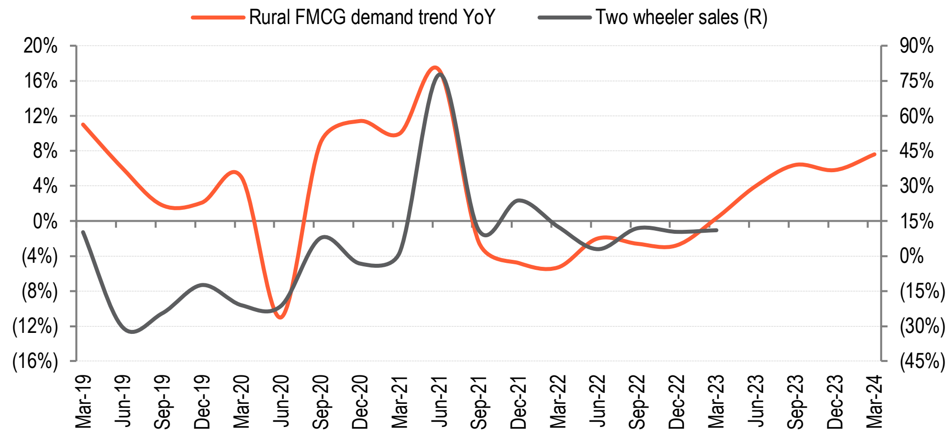


Sources: MOSPI, CMIE, Press articles, BOBCAPS Research

- **Two-wheeler sales –** While urban account for the bulk of the Indian two-wheeler market, rural is the key growth driver due to its rising penetration. Rising two-wheeler sales in rural reflects an improvement in the financial health of the rural consumer. A concurrent period relation is not meaningful relationship (negative correlation). However, it improvs to 24% if we take 12m lagged two-wheeler sales. This is reasonable as, being a larger ticket item, farmers tend to accumulate savings over a few seasons before making the final purchase of a two-wheeler.

Two-wheeler sales growth and FMCG demand show a not-meaningful relationship. However, correlation with 12m lagged two-wheeler sales growth improves to 24%. The lag reflects the fact that farmers accumulate savings over a few seasons for the purchase.

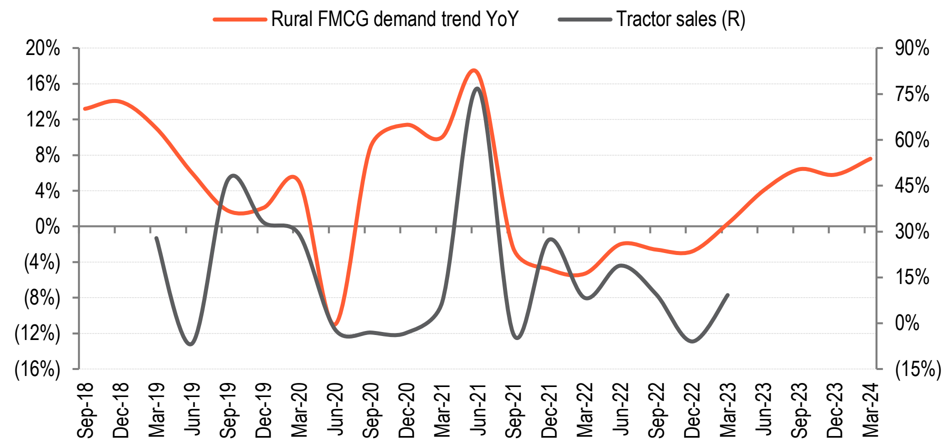
Fig 23 – 12M lagged Two-wheeler sales vs rural FMCG demand trends (YoY; Sep'18 to Mar'24) – 24% correlation



Sources: MOSPI, CMIE, Press articles, BOBCAPS Research

- **Tractor sales** – As is with two-wheelers, being a larger-ticket item, farmers tend to accumulate savings over a few seasons before making the final purchase. The correlation with FMCG demand is not meaningful for concurrent periods, but if we lag two-wheeler sales growth by 12 months, the relationship improves to 39%.

Fig 24 – 12M lagged Tractor sales vs rural FMCG demand trends (YoY; Sep'18 to Mar'24) – 39%



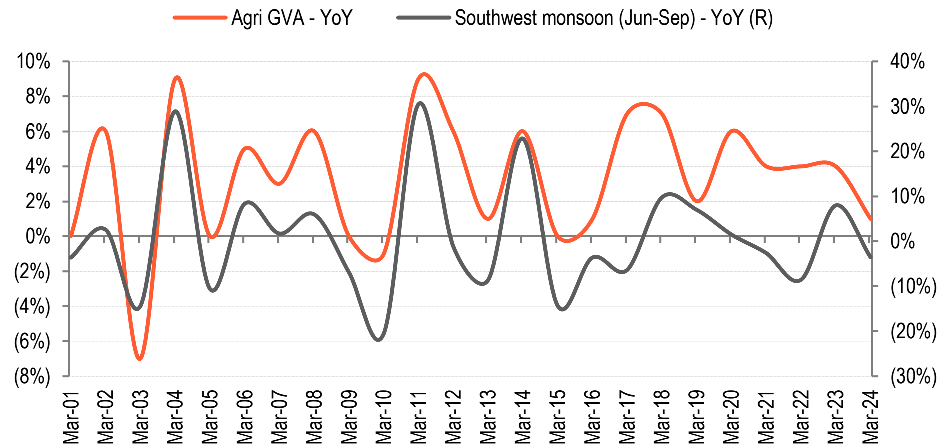
Sources: MOSPI, CMIE, Press articles, BOBCAPS Research

- **Southwest monsoon (Jun to Sep) vs agri GVA** – The Southwest monsoon accounts for 75% of India's annual rainfall. It is also the primary source of water for reservoirs used across irrigation modes – surface water (rivers, canals), rainwater harvesting (ponds, dams) and groundwater (wells, tube wells). Intuitively, the SWM should directly impact FMCG demand trends in rural given its impact on agricultural output. However, data limitations restrict assessing this relationship.

  SWM occurs between Jun and Sep, but impacts agricultural output through the year. To fairly assess its relationship with FMCG demand, we need to use annual data. Our annual FMCG data is only for five years (2018-2023) and the limited number of datapoints make any relationship non-meaningful.

The SWM relationship against annual agricultural GVA is reasonable. We get a direct 75% correlation. We use 12 months to Mar for both SWM and agricultural GVA.

Fig 25 – Southwest monsoon vs agricultural GVA (YoY; annual datapoints; FY06-FY23) – 75% correlation



Sources: MOSPI, CMIE, Press articles, BOBCAPS Research

Valuation approach: NIFTY Relative P/E reflects sector sensitivity to economic growth

We use the relative P/E valuation methodology for DABUR, BRIT and MRCO. We use this to incorporate India's general economic outlook into our FMCG valuation. The outlook for the Indian economy has gone through multiple upgrades over the past few years and more so over the past 12 months.

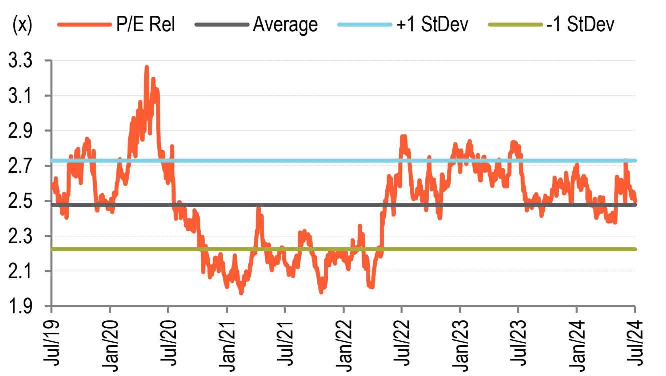
For all three companies, we apply a 10% premium to the five-year average P/E relative to NIFTY 50 on FY25E EPS. This reflects a longer growth cycle given:

- India's economic growth outlook has improved over the past 12 months as per International Monetary Fund's forecast revisions. The FMCG industry is uniquely placed against this backdrop given FMCG spending is at a very low base and incremental income is more likely to be spent on immediate and high-frequency consumption items to improve/simplify lifestyle.
- Multiple agricultural initiatives (irrigation, horticulture, etc) are likely to have a positive impact on rural income – this will have a multiplier effect on FMCG consumption per capita, which is currently at a very low base – rural consumption per capita is currently one-third that of urban.

Both BRIT and DABUR derive 40-45% of sales from rural markets. While MRCO's rural market exposure is lower at ~30%, the company has an advantage given its exposure to elastic categories in personal care and a relatively higher margin structure which enables a quicker and more meaningful response to rising rural income.

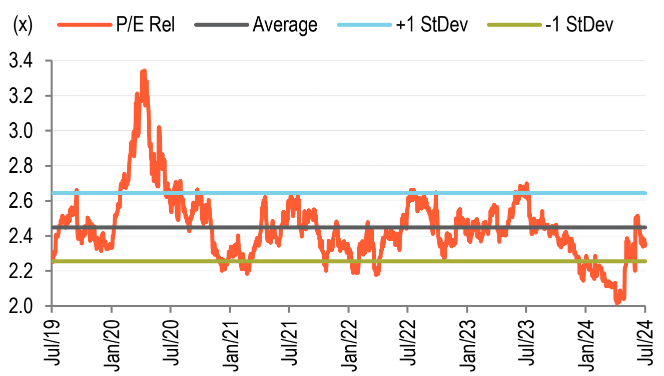
We show the relative P/E charts for all the companies and the overall NIFTY FMCG index in Figures 26 to 29.

Fig 26 – BRIT P/E Rel vs NIFTY 50



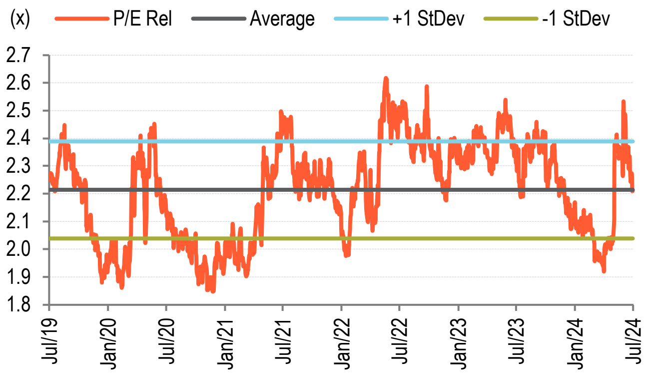
Source: BOBCAPS Research, Bloomberg

Fig 27 – DABUR P/E Rel vs NIFTY 50



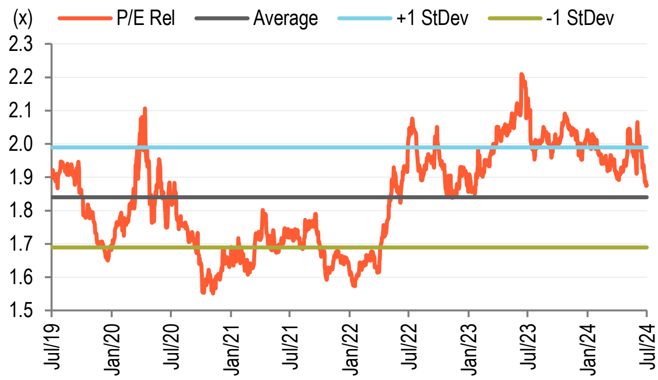
Source: BOBCAPS Research, Bloomberg

Fig 28 – MRCO P/E Rel vs NIFTY 50



Source: BOBCAPS Research, Bloomberg

Fig 29 – NIFTY FMCG P/E Rel vs NIFTY 50



Source: BOBCAPS Research, Bloomberg

DABUR: Exposure to rural and elastic categories will drive FY25E results

Investment view

We maintain our BUY rating on DABUR. With the expectation of a recovery in rural, the company is well placed on its 40-45% sales exposure to rural markets. We expect the relatively elastic categories such as Personal Care (30% of sales), Healthcare (23% of sales) and Home Care (6% of sales) to be the early beneficiaries of the rise in FMCG spending in rural. We also highlight that above-average sales growth in rural is margin accretive for DABUR due to 100% of the rural business being indirect, which is higher margin vs the direct channel.

Financial forecasts

For FY25E, our 13% EPS growth is based on EBITDA growth of 14% on +12% sales and +40bps EBITDA margin expansion to 19.8%. We explain the drivers below.

- **Sales –** We expect rural demand to pick up towards the end of Sep'24, coinciding with the harvesting season and beginning of farmer payouts for the kharif season. However, a meaningful contribution to sales and profit growth will show more prominently in the Dec'24 quarter with the conclusion of farmer payouts for the kharif season. The Consumer Care segment sales trend will continue to improve through the year and we expect strong volume gains to continue in FY26. The generally wetter and cooler winter due to the La Nina weather phenomena is also likely to help sales growth.

- **EBITDA margin –** We expect margins to rise through the year with the recovery in rural. The increase in margins will be slightly slower in the 2H as slight inflation starts to show in the income statement.

  The Consumer Care segment, where FY24 margins were 910bps higher vs the rest of the business, will be the key beneficiary of rural recovery. In addition to the improvement in portfolio mix, as mentioned above, we expect channel mix to be accretive with the recovery in rural.

Fig 30 – DABUR Financial forecasts

(Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	108,887	115,299	124,040	138,645	152,867
...YoY (%)	-	5.9	7.6	11.8	10.3
EBITDA	22,538	21,641	24,002	27,437	31,015
...YoY (%)	-	(4.0)	10.9	14.3	13.0
EBITDA margin	20.7	18.8	19.4	19.8	20.3
...YoY	-	(193bps)	58bps	44bps	50bps

Sources: Company reports, BOBCAPS Research

Valuation

The stock is currently trading at 52x FY25E EPS. DABUR has historically traded at 2.45x vs the NSE NIFTY 50 1-year forward EPS. We value DABUR at 57x FY26E EPS – a 10% premium to its historical average vs NIFTY 50.

DABUR's industry leading rural market exposure amidst rural recovery, strong distribution network and a relatively elastic portfolio enables a favourable, accelerated response to the rise in rural income. We maintain BUY and increase TP to Rs 742 from Rs 673.

Risks

Key downside risks to our estimates are:

- currency devaluation in key markets
- seasonality impacting portfolios
- increased competition in the "natural" category in HPC
- delayed rural recovery
- excess or deficit monsoon, both of which are detrimental to agriculture.

BRIT: Exposure to rural beneficial, but delayed recovery vs peers

Investment view

We expect the rural recovery benefit to show prominently in BRIT's results starting the Dec'24 quarter even though the rural sentiment is likely to be positive in the Sep'24 quarter once the monsoon comes through as expected.

We rate BRIT as BUY. Despite the delayed benefit, BRIT's 40% sales exposure to rural should ensure double-digit sales growth in FY25E. The ongoing distribution expansion project has further improved rural footprint, which should enable faster acceleration in sales. In the medium to long term, increased exposure to adjacencies should help reduce dependence on biscuits which currently contribute 75% of total sales.

Our gross margin growth forecast is +10bps in FY25E vs +220bps in FY24. Our EBITDA margin forecast is flat for FY25.

Financial forecasts

For FY25E, we forecast 13% EPS growth on 12% sales growth and flattish EBITDA margin contraction to 18.9%. We explain the drivers below.

- **Sales** – We forecast an acceleration in sales growth through FY25E. However, 1Q25 will likely have slower sales growth. We expect the warmer-than-usual weather in 1Q25 to have an adverse impact on volumes. We remind investors that the year ago period that had unseasonal rains likely benefitted Britannia. Even then, the slower inflation and somewhat lesser competition from regional players (due to price cuts in 2H24) may be a partial offset. The Sep'24 quarter could benefit from favourable / wetter / cooler weather given the expectation of La Niña and above-normal rains.

  Starting 2HFY25E, we expect a volume boost on rural recovery while inflation-driven pricing actions will also help. The La Niña phenomena of cooler-than-usual weather will likely continue and should help biscuit volumes. We expect low single digit inflation. Sugar and wheat are inflationary and the company's overall cost inflation guidance is ~3%, mostly in the second half. We expect some inflation as helpful for BRIT to gain market share from local players who compete mainly on price. Adjacencies will continue to be a growth driver.

  Our sales growth forecast is +7% in 1HFY25E and +16% in 2HFY25E.

- **EBITDA margin** – We expect gross margins to be up 10bps in FY25E. We forecast a deteriorating trend through the year as inflation is more back half weighted. Pricing will still likely offset the bulk of the ~3% inflation guidance. We expect operating cost to increase as a percentage of sales as RTM 2.0 accelerates – BRIT has indicated strong focus on revenue growth for FY25E. Our FY25E EBITDA margin forecast is flat at 18.9%.

Fig 31 – BRIT's financial forecasts

(Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	141,363	163,006	167,693	187,397	211,922
...YoY (%)	-	15.3	2.9	11.8	13.1
EBITDA	22,015	28,309	31,698	35,466	40,099
...YoY (%)	-	28.6	12.0	11.9	13.1
EBITDA margin	15.6	17.4	18.9	18.9	18.9
...YoY	-	179bps	154bps	2bps	0bps

Sources: Company reports, BOBCAPS Research

Valuation

The stock is currently trading at 55x FY25E EPS. BRIT has historically traded at 2.48x vs the NSE NIFTY 50 1-year forward EPS. We value BRIT at 57x FY26E EPS – a 10% premium to its historical average vs NIFTY 50. We raise the TP to Rs 6,577 from Rs 5,980. Maintain BUY.

BRIT is well placed to benefit from rural recovery given its ~40% rural exposure on sales and continued focus on expanding rural distribution over the past few years despite softness in the market. This rural footprint should aid in accelerating sales as the recovery comes through. Medium to long term growth prospects remain intact with an above average exposure to rural.

Risks

Key downside risks to our estimates are:

- delayed rural recovery
- lower-than-expected volume growth
- excess or deficit monsoon, both of which are detrimental to agriculture and rural demand
- heightened regional competition

MRCO: Pressure mounting from distributors amid stretched valuation. Exposure to rural and elastic categories remain positives for FY25E earnings

Investment view

Marico's project SETU is aimed at increasing direct reach by 50% over 3 years. This is sensible and a positive for the overall business given greater control on inventory, pricing and overall brand positioning. However, the transition may not be smooth, in our view.

The distributor reaction of destocking is natural given expected sales cannibalisation – destocking is likely to continue over the next 2-3 quarters. While rural recovery may reflect in consumer offtake, at this stage, we expect pressure on both margin and inventory levels in the indirect channel. Valuation for the stock is stretched. On a YTD basis, MRCO shares have risen 18% vs the overall FMCG index's 3%. We downgrade MRCO to HOLD from BUY. Our TP is higher at Rs 699 from Rs 668.

We acknowledge that exposure to personal remains a positive for FY25. We expect the combination of rising rural income on favourable monsoon and slower inflation to result in a rebound in MRCO's Personal Care portfolio. Similar to the downtrend in sales when rural turned weak, we expect an uptrend with improvement in rural.

We expect rural growth for the company starting the end of 2QFY25, coinciding with the harvesting/farmer payout season.

Financial forecasts

For FY25E, we forecast 10% EPS growth on +10% sales and 15bps EBITDA margin expansion to 21.2%. We explain the drivers below:

- **Sales** – We forecast an accelerated sales growth pattern in 2HFY25 as farmer payouts from the kharif season complete and rural recovers. While initial benefits from Project SETU start to show through in 2HFY25, distributor destocking may remain a drag over the next 2-3 quarters.

- **EBITDA margin** – Our margin expansion is more prominent in 2HFY25, in line with rural recovery. We expect accelerated sales in Personal Care to be margin accretive for MRCO.

Fig 32 – Marico financial forecasts

Rs mn	FY22	FY23	FY24	FY25E	FY26E
Revenue	95,120	97,640	96,530	106,242	116,640
...YoY (%)		2.6	(1.1)	10.1	9.8
EBITDA	16,810	18,100	20,260	22,471	24,229
...YoY (%)		7.7	11.9	10.9	7.8
EBITDA margin (%)	17.7	18.5	21.0	21.2	20.8
...YoY		87bps	245bps	16bps	(38bps)

Source: Company, BOBCAPS Research

Valuation

The stock is currently trading at 45x FY26E EPS. MRCO has historically traded at 2.21x vs the NSE NIFTY 50 1-year forward EPS. We value MRCO at 51x FY26E EPS – a 10% premium to its historical average vs NIFTY 50. We raise the TP to Rs 699 from Rs 668. Downgrade to HOLD.

MRCO's exposure to rural market in the high margin and elastic Personal Care category makes it an early beneficiary of the recovery in rural. The company's continued focus on food portfolio, product launches, normalisation of price cuts, and brand investments aid volume recovery and profitable growth. However, distributor destocking will likely be a drag on sales growth over the next 2-3 quarters.

Risks

Key downside risks to our estimates are:

- delayed recovery in the rural market,
- continued volatility in edible oil prices,
- input cost inflation, and
- Rising competition in HPC.

Key upside risks to our estimates are:

- quicker-than-expected recovery in the rural market,
- input cost deflation,
- reduced competition in Personal Care.

Stock performance

Fig 33 – BRIT

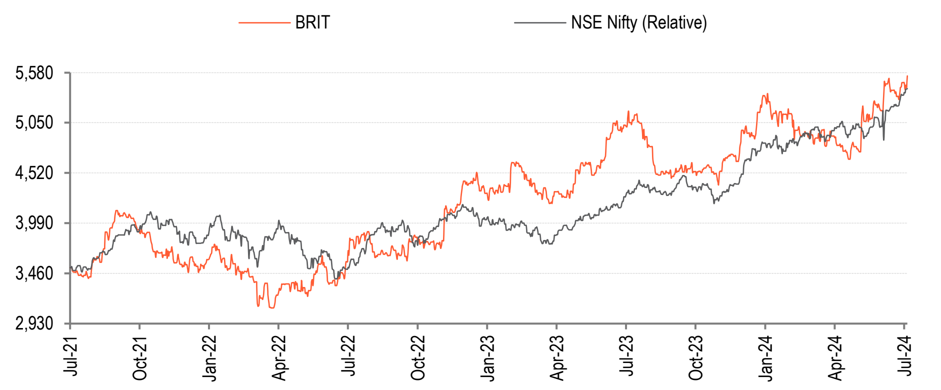


Fig 34 – DABUR

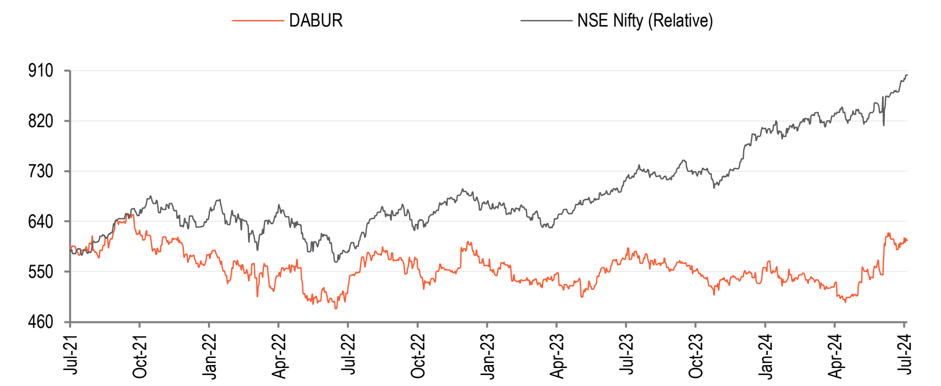
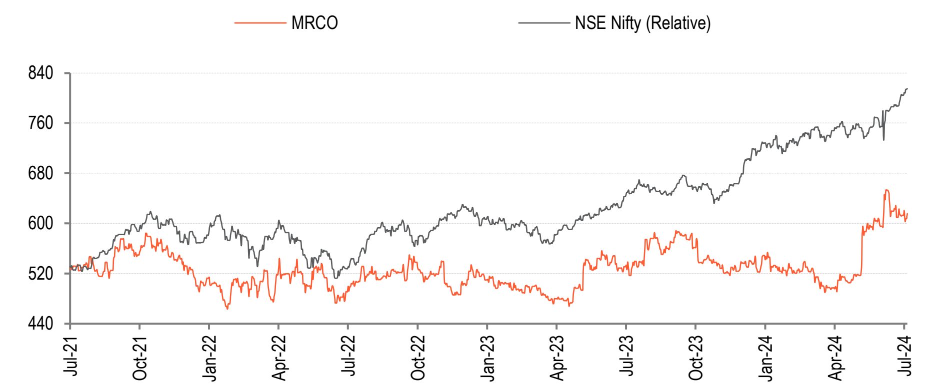


Fig 35 – MRCO



Source: NSE

Financials – BRIT

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Total revenue	**141,363**	**163,006**	**167,693**	**187,397**	**211,922**
EBITDA	22,015	28,309	31,698	35,466	40,099
Depreciation	2,005	2,259	3,005	3,288	3,288
EBIT	20,010	26,050	28,694	32,179	36,811
Net interest inc./(exp.)	1,443	1,691	1,640	1,216	1,216
Other inc./(exp.)	2,228	2,159	2,142	2,142	2,142
Exceptional items	10	(3,756)	29	0	0
EBT	20,785	30,274	29,167	33,105	37,737
Income taxes	5,624	7,165	7,793	8,938	10,189
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(88)	(55)	(56)	(112)	(128)
Reported net profit	**15,248**	**23,217**	**21,398**	**24,279**	**27,676**
Adjustments	10	(3,756)	29	0	0
Adjusted net profit	**15,258**	**19,461**	**21,427**	**24,279**	**27,676**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Accounts payables	13,228	14,488	16,275	18,151	20,533
Other current liabilities	1,307	1,763	1,673	1,869	2,114
Provisions	4,851	5,390	5,898	6,555	7,372
Debt funds	24,655	29,805	20,412	20,112	19,812
Other liabilities	5,377	6,435	6,818	7,514	8,380
Equity capital	241	241	241	241	241
Reserves & surplus	25,615	35,404	39,419	46,815	55,246
Shareholders' fund	25,856	35,645	39,660	47,056	55,487
Total liab. and equities	**75,275**	**93,527**	**90,736**	**101,258**	**113,699**
Cash and cash eq.	1,181	1,024	3,228	8,603	14,792
Accounts receivables	3,319	3,289	3,933	4,395	4,971
Inventories	13,675	11,933	11,812	13,174	14,903
Other current assets	13,312	13,207	12,548	13,337	14,318
Investments	17,763	33,649	27,942	27,942	27,942
Net fixed assets	15,841	24,722	26,029	28,363	31,033
CWIP	5,357	1,050	1,875	1,875	1,875
Intangible assets	1,552	1,424	1,407	1,407	1,407
Deferred tax assets, net	517	573	439	490	555
Other assets	2,759	2,658	1,521	1,670	1,855
Total assets	**75,275**	**93,527**	**90,736**	**101,258**	**113,651**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash flow from operations	**18,864**	**32,520**	**33,379**	**36,390**	**41,574**
Capital expenditures	(5,502)	(7,115)	(5,615)	(5,622)	(6,358)
Change in investments	12,495	(10,300)	8,302	0	0
Other investing cash flows	2,116	2,244	2,068	1,944	1,895
Cash flow from investing	**9,109**	**(15,171)**	**4,755**	**(3,678)**	**(4,462)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(3,387)	2,292	(10,275)	(300)	(300)
Interest expenses	(1,186)	(1,957)	(1,643)	(1,216)	(1,216)
Dividends paid	(24,848)	(13,592)	(17,325)	(16,995)	(19,373)
Other financing cash flows	6,963	2,974	938	112	128
Cash flow from financing	**(22,458)**	**(10,284)**	**(28,305)**	**(18,399)**	**(20,733)**
Chg in cash & cash eq.	**(353)**	**(192)**	**2,180**	**5,375**	**6,189**
Closing cash & cash eq.	**1,181**	**1,024**	**3,228**	**8,603**	**14,792**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24A	FY25E	FY26E
Reported EPS	63.3	96.4	88.8	100.8	114.9
Adjusted EPS	63.3	80.8	88.9	100.8	114.9
Dividend per share	74.5	56.4	71.9	70.5	80.4
Book value per share	107.3	148.0	164.6	195.3	230.3

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24A	FY25E	FY26E
EV/Sales	9.4	8.2	8.0	7.1	6.3
EV/EBITDA	60.7	47.2	42.1	37.7	33.3
Adjusted P/E	87.6	68.7	62.4	55.0	48.3
P/BV	51.7	37.5	33.7	28.4	24.1

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	73.4	76.7	73.4	73.3	73.3
Interest burden (PBT/EBIT)	76.2	89.1	74.6	75.5	75.2
EBIT margin (EBIT/Revenue)	14.2	16.0	17.1	17.2	17.4
Asset turnover (Rev./Avg TA)	187.8	174.3	184.8	185.1	186.5
Leverage (Avg TA/Avg Equity)	2.9	2.6	2.3	2.2	2.0
Adjusted ROAE	59.0	65.1	54.0	51.6	49.9

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24A	FY25E	FY26E
YoY growth (%)					
Revenue	7.6	15.3	2.9	11.8	13.1
EBITDA	(12.3)	28.6	12.0	11.9	13.1
Adjusted EPS	(18.2)	27.6	10.1	13.3	14.0
Profitability & Return ratios (%)					
EBITDA margin	15.6	17.4	18.9	18.9	18.9
EBIT margin	14.2	16.0	17.1	17.2	17.4
Adjusted profit margin	10.8	11.9	12.8	13.0	13.1
Adjusted ROAE	59.0	65.1	54.0	51.6	49.9
ROCE	39.6	39.8	47.8	47.9	48.9
Working capital days (days)					
Receivables	9	7	9	9	9
Inventory	57	45	45	45	45
Payables	55	55	63	63	63
Ratios (x)					
Gross asset turnover	1.6	1.5	1.5	1.5	1.5
Current ratio	1.0	1.1	1.2	1.3	1.4
Net interest coverage ratio	13.9	15.4	17.5	26.5	30.3
Adjusted debt/equity	1.0	0.8	0.5	0.4	0.4

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

Financials – DABUR

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Total revenue	**108,887**	**115,299**	**124,040**	**138,645**	**152,867**
EBITDA	22,538	21,641	24,002	27,437	31,015
Depreciation	2,529	3,110	3,992	4,490	5,038
EBIT	20,009	18,532	20,010	22,947	25,977
Net interest inc./(exp.)	386	782	1,242	1,235	1,057
Other inc./(exp.)	3,932	4,454	4,824	4,848	4,872
Exceptional items	(850)	0	0	0	0
EBT	22,705	22,203	23,593	26,560	29,792
Income taxes	5,264	357	5,474	6,109	6,852
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	31	(58)	(314)	(329)	(346)
Reported net profit	**17,392**	**17,072**	**18,427**	**20,776**	**23,260**
Adjustments	(850)	0	0	0	0
Adjusted net profit	**18,242**	**17,072**	**18,427**	**20,776**	**23,260**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Accounts payables	20,180	21,866	24,217	25,028	27,242
Other current liabilities	914	667	1,124	1,256	1,385
Provisions	2,497	2,784	3,182	3,262	3,341
Debt funds	6,173	7,002	6,221	6,289	5,660
Other liabilities	3,385	3,758	4,272	4,775	5,265
Equity capital	1,768	1,772	1,772	1,772	1,772
Reserves & surplus	82,451	92,643	101,259	112,361	124,834
Shareholders' fund	84,219	94,414	103,031	114,133	126,606
Total liab. and equities	**122,845**	**136,544**	**151,227**	**163,225**	**177,351**
Cash and cash eq.	5,701	3,259	6,664	10,933	14,203
Accounts receivables	6,462	8,488	8,987	9,876	10,889
Inventories	19,114	20,242	19,470	21,563	23,470
Other current assets	3,346	3,136	5,010	5,599	6,174
Investments	62,102	62,574	69,254	73,511	79,341
Net fixed assets	19,680	22,376	25,609	25,356	26,738
CWIP	1,675	1,751	2,322	2,322	2,322
Intangible assets	397	8,887	8,035	8,035	8,035
Deferred tax assets, net	7	21	63	71	78
Other assets	4,035	5,427	5,532	5,652	5,770
Total assets	**122,845**	**136,544**	**151,226**	**163,225**	**177,351**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash flow from operations	**18,023**	**14,787**	**20,135**	**28,321**	**27,674**
Capital expenditures	(3,741)	(5,091)	(5,639)	(5,823)	(6,420)
Change in investments	(12,731)	(137)	(7,978)	(4,257)	(5,831)
Other investing cash flows	3,668	3,942	3,870	0	0
Cash flow from investing	**(12,755)**	**(5,865)**	**(9,717)**	**(10,080)**	**(12,251)**
Equities issued/Others	1	4	0	0	0
Debt raised/repaid	5,408	488	(472)	(699)	(629)
Interest expenses	(219)	(779)	(1,067)	(1,235)	(1,057)
Dividends paid	(9,723)	(9,213)	(9,658)	(9,349)	(10,467)
Other financing cash flows	0	(491)	0	0	0
Cash flow from financing	**(4,905)**	**(10,352)**	**(11,612)**	**(11,283)**	**(12,153)**
Chg in cash & cash eq.	**364**	**(1,431)**	**(1,195)**	**6,958**	**3,270**
Closing cash & cash eq.	**2,272**	**879**	**(212)**	**6,746**	**10,016**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24A	FY25E	FY26E
Reported EPS	9.8	9.6	10.4	11.7	13.1
Adjusted EPS	10.3	9.6	10.4	11.7	13.1
Dividend per share	5.5	5.2	5.5	5.3	5.9
Book value per share	47.5	53.3	58.2	64.4	71.5

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24A	FY25E	FY26E
EV/Sales	9.9	9.3	8.7	7.8	7.0
EV/EBITDA	47.7	49.7	44.8	39.2	34.6
Adjusted P/E	58.8	62.9	58.3	51.7	46.2
P/BV	12.8	11.4	10.4	9.4	8.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	76.6	76.9	78.1	78.2	78.1
Interest burden (PBT/EBIT)	113.5	119.8	117.9	115.7	114.7
EBIT margin (EBIT/Revenue)	18.4	16.1	16.1	16.6	17.0
Asset turnover (Rev./Avg TA)	88.6	84.4	82.0	84.9	86.2
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.5	1.4	1.4
Adjusted ROAE	22.6	19.1	18.7	19.1	19.3

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24A	FY25E	FY26E
YoY growth (%)					
Revenue	13.9	5.9	7.6	11.8	10.3
EBITDA	12.5	(4.0)	10.9	14.3	13.0
Adjusted EPS	2.7	(2.1)	7.9	12.7	12.0
Profitability & Return ratios (%)					
EBITDA margin	20.7	18.8	19.4	19.8	20.3
EBIT margin	18.4	16.1	16.1	16.6	17.0
Adjusted profit margin	16.8	14.8	14.9	15.0	15.2
Adjusted ROAE	22.6	19.1	18.7	19.1	19.3
ROCE	17.2	17.9	13.6	14.3	14.9
Working capital days (days)					
Receivables	20	24	26	25	25
Inventory	118	115	112	107	107
Payables	127	122	130	128	125
Ratios (x)					
Gross asset turnover	0.8	0.7	0.7	0.7	0.7
Current ratio	1.3	1.2	1.4	1.6	1.7
Net interest coverage ratio	51.8	23.7	16.1	18.6	24.6
Adjusted debt/equity	10.3	10.6	11.2	9.6	7.7

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

Financials – MRCO

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Total revenue	**95,120**	**97,640**	**96,530**	**106,242**	**116,640**
EBITDA	16,810	18,100	20,260	22,471	24,229
Depreciation	1,390	1,550	1,580	1,894	1,894
EBIT	15,420	16,550	18,680	20,577	22,336
Net interest inc./(exp.)	390	560	730	652	652
Other inc./(exp.)	980	1,440	1,420	1,491	1,566
Exceptional items	0	0	0	0	0
EBT	16,010	17,430	19,370	21,417	23,250
Income taxes	3,460	4,210	4,350	4,926	5,347
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	300	200	210	210	223
Reported net profit	**12,250**	**13,020**	**14,810**	**16,281**	**17,679**
Adjustments	0	0	0	0	0
Adjusted net profit	**12,250**	**13,020**	**14,810**	**16,281**	**17,679**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Accounts payables	13,440	14,520	15,810	14,148	15,505
Other current liabilities	2,240	2,170	2,110	2,322	2,550
Provisions	220	480	80	81	82
Debt funds	3,450	4,750	3,830	3,830	3,830
Other liabilities	4,460	7,980	10,690	11,457	12,277
Equity capital	1,290	1,290	1,290	1,290	1,290
Reserves & surplus	32,760	38,270	40,400	44,680	49,323
Shareholders' fund	34,050	39,560	41,690	45,970	50,613
Total liab. and equities	**57,860**	**69,460**	**74,210**	**77,808**	**84,857**
Cash and cash eq.	5,790	7,560	9,430	8,567	11,193
Accounts receivables	6,520	10,150	10,690	12,225	13,422
Inventories	14,120	12,250	13,360	15,005	16,444
Other current assets	2,210	2,460	3,960	4,350	4,768
Investments	8,280	10,960	6,020	6,365	6,735
Net fixed assets	6,000	6,330	7,000	7,042	7,720
CWIP	390	670	440	440	440
Intangible assets	3,060	5,600	9,370	9,370	9,370
Deferred tax assets, net	1,870	1,460	680	748	822
Other assets	9,620	12,020	13,260	13,500	13,758
Total assets	**57,860**	**69,460**	**74,210**	**77,614**	**84,673**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash flow from operations	**10,160**	**14,190**	**14,360**	**15,000**	**19,822**
Capital expenditures	(1,320)	(1,820)	(1,530)	(2,656)	(2,916)
Change in investments	3,370	(3,890)	1,480	0	0
Other investing cash flows	2,200	(2,940)	1,810	(345)	(369)
Cash flow from investing	**4,250**	**(8,650)**	**1,760**	**(3,001)**	**(3,285)**
Equities issued/Others	410	90	340	0	0
Debt raised/repaid	(30)	1,280	(910)	0	0
Interest expenses	(280)	(420)	(540)	(652)	(652)
Dividends paid	(12,170)	(6,070)	(12,290)	(12,211)	(13,259)
Other financing cash flows	(830)	(480)	(2,020)	0	0
Cash flow from financing	**(12,900)**	**(5,600)**	**(15,420)**	**(12,862)**	**(13,911)**
Chg in cash & cash eq.	**1,510**	**(60)**	**700**	**(863)**	**2,626**
Closing cash & cash eq.	**2,760**	**2,070**	**2,280**	**1,417**	**4,043**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24A	FY25E	FY26E
Reported EPS	9.5	10.1	11.5	12.6	13.7
Adjusted EPS	9.5	10.1	11.5	12.6	13.7
Dividend per share	9.4	4.7	9.5	9.5	10.3
Book value per share	26.4	30.7	32.3	35.6	39.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24A	FY25E	FY26E
EV/Sales	8.3	8.1	8.2	7.5	6.8
EV/EBITDA	47.2	43.9	39.2	35.3	32.8
Adjusted P/E	64.8	61.0	53.6	48.8	44.9
P/BV	23.3	20.1	19.0	17.3	15.7

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	76.5	74.7	76.5	76.0	76.0
Interest burden (PBT/EBIT)	103.8	105.3	103.7	104.1	104.1
EBIT margin (EBIT/Revenue)	16.2	17.0	19.4	19.4	19.1
Asset turnover (Rev./Avg TA)	164.4	140.6	130.1	136.9	137.8
Leverage (Avg TA/Avg Equity)	1.7	1.8	1.8	1.7	1.7
Adjusted ROAE	36.0	32.9	35.5	35.4	34.9

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24A	FY25E	FY26E
YoY growth (%)					
Revenue	18.2	2.6	(1.1)	10.1	9.8
EBITDA	5.7	7.7	11.9	10.9	7.8
Adjusted EPS	4.5	6.3	13.7	9.9	8.6
Profitability & Return ratios (%)					
EBITDA margin	17.7	18.5	21.0	21.2	20.8
EBIT margin	16.2	17.0	19.4	19.4	19.1
Adjusted profit margin	12.9	13.3	15.3	15.3	15.2
Adjusted ROAE	36.8	35.4	36.5	37.1	36.6
ROCE	30.9	28.0	28.0	28.2	28.1
Working capital days (days)					
Receivables	20	31	39	39	40
Inventory	85	90	98	99	100
Payables	83	95	117	105	95
Ratios (x)					
Gross asset turnover	1.5	1.3	1.2	1.2	1.2
Current ratio	1.6	1.6	1.6	1.9	2.0
Net interest coverage ratio	39.5	29.6	25.6	31.6	34.3
Adjusted debt/equity	10.1	12.0	9.2	8.3	7.6

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

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