

# P&G Hygiene and Healthcare

 BSE SENSEX  
35,981

 S&P CNX  
10,802

**CMP: INR9,927 TP: INR10,520 (+6%)**
**Neutral**


## Stock Info

Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	322.2 / 4.6
52-Week Range (INR)	11000 / 8714
1, 6, 12 Rel. Per (%)	3/-3/2
12M Avg Val (INR M)	72
Free float (%)	29.4

## Financials Snapshot (INR b)

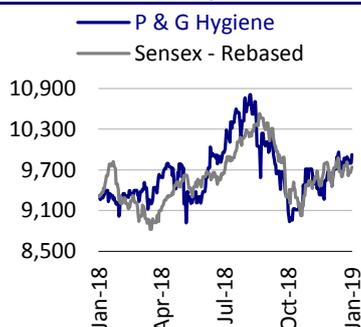
Y/E June	2018	2019E	2020E
Sales	24.6	29.1	33.6
EBITDA	6.3	8.1	9.6
Adj. PAT	3.7	5.2	6.2
Adj. EPS (INR)	117.8	157.0	191.6
EPS Gr. (%)	-11.5	33.3	22.0
BV/Sh. (INR)	248.2	298.1	357.5
RoE (%)	56.3	59.0	58.5
RoCE (%)	60.2	60.4	60.2
P/E (x)	84.4	63.3	51.9
P/BV (x)	40.1	33.3	27.8

## Shareholding pattern (%)

As On	Sep-18	Jun-18	Sep-17
Promoter	70.6	70.6	70.6
DII	10.1	10.1	9.6
FII	3.7	3.6	3.9
Others	15.6	15.6	15.8

FII Includes depository receipts

## Stock Performance (1-year)



## Signs of revival after a couple of muted years

**Distribution, new product launches and ad spends show encouraging trends**

**PGHH's recent results, its management comments in the AGM and the annual report offer an encouraging outlook pointing towards a revival in sales and earnings momentum, in our view. Of particular interest are some key points:**

- The aggression demonstrated by the PGHH management in recent quarters on increase in ad spends, new launches and price cuts, wherever required.
- Arresting the dip in *Whisper's* market share and achieving growth in share over the past six months.
- Increase in distribution of *Vicks* and *Whisper* to 3.5m outlets and 2m outlets, respectively, from 2m and 1.4m outlets four years ago.
- Continued market share gain in *Vicks*. New product - *Vicks Baby Rub*, launched in FY18 is reportedly doing very well.
- Recent change at the CEO level has made PGHH more dynamic than in the recent past.
- PGHH intends to launch their sanitary napkin recycling program in 10 major cities across the world by 2030; India will be one of the priority countries with launch in 2019. The company also aims to use 100% renewable or recyclable materials for its products and packaging; cut greenhouse gas emissions by half, power their plants with 100% renewable energy and source at least 5b liters of water from circular sources and design products.
- While we wait to see if 20% sales growth witnessed in 1QFY19 (June year-end) is sustainable, there seems little doubt that revenue and earnings growth prospects of the company are seeing a revival after a couple of tepid years. While valuations of 51.7x FY20 EPS implies that near-term upside is limited, two factors make PGHH an attractive long-term core holding: (1) Huge category growth potential in the Feminine Hygiene segment (~67% of sales) and potential for market share growth because of its considerable moats, and (2) Potentially huge margin gains from premiumization in Feminine Hygiene over the longer term. Increasing pace of distribution expansion, continuing strong pace of category development efforts in schools to boost awareness and growth, rising ad spends after a lull in preceding years, healthy pipeline of new products and willingness to take price cuts whenever required to boost growth are all encouraging developments that should aid rapid growth for the company over the long term.

**Krishnan Sambamoorthy – Research Analyst** (Krishnan.Sambamoorthy@MotilalOswal.com); +91 22 6129 1545

**Vishal Punmiya – Research Analyst** (Vishal.Punmiya@MotilalOswal.com); +91 22 6129 1547

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

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

## Feminine Hygiene Business (67% of FY18 sales) - Key points discussed in the Annual report and AGM

### New initiatives

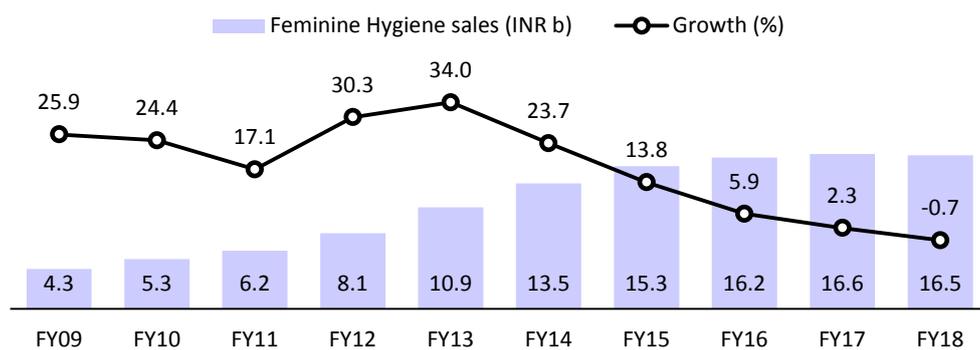
- During FY18, the annual report stated that PGHH strengthened value proposition on their longer length offerings in choice line-up as consumers are shifting towards longer length pads for a better protection experience.
- Three launches/ initiatives in this segment by PGHH in FY18.
  1. *Whisper Choice Ultra* (price reduced by 10%).
  2. Launched *Ultra Soft* (similar to cotton top sheet).
  3. Launched panty liners (an adjacency) for non- period wear.
- The company launched *Whisper Choice Aloe Vera* in 1HFY19, its first product in the naturals segment.
- PGHH built on the success of its *Whisper* portfolio expansion by extending it from 'Period protection' to overall 'Feminine Wellness' via the launch of *Whisper Daily Liners* in top channels.

### Distribution and category development

- Category development effort 'Parivartan' reached around 40,000 schools and 4.5m school-going girls last year.
- The company continued to drive depth and breadth of their portfolio via sharply defined go-to-market plans taking the category to more stores. *Whisper* now reaches around 2m outlets, up from 1.4m around four years ago.
- During FY18, P&G continued to make strong progress in growing more users for sanitary napkins, particularly among non-users in their early teen years via clutter-breaking 'Check Check' campaign and continued focus on the 'Point of Market' entry consumers via school programs. This was reflected in acceleration of *Whisper's* penetration among teens, which was significantly ahead of category penetration growth. We believe this will be a very strong long-term driver of *Whisper's* sales growth, going forward.

### Stability and subsequent gain in market share

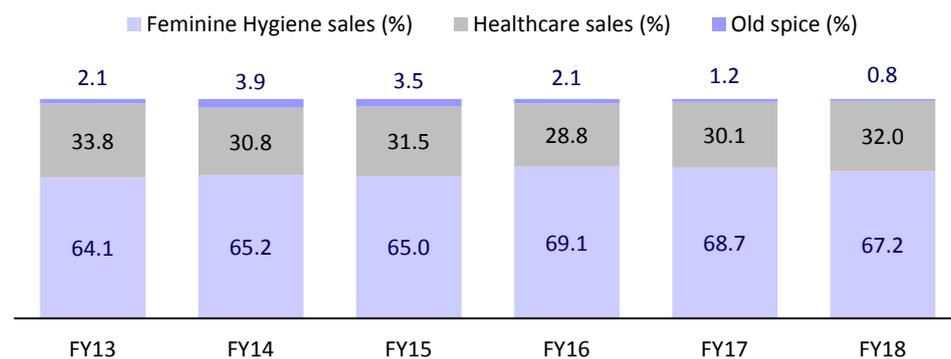
- P&G remains the dominant player in the feminine hygiene category with over 50% market share. While we reckon that there was a small blip in FY16-17 in terms of minor market share loss, management clarified at the AGM that P&G did not lose market share in *Whisper* in FY18; in fact the company grew market share in *Whisper* over the past six months.
- Revenue growth for the feminine hygiene category slowed over the past two years due to (a) IND-AS accounting and GST accounting, and (b) demonetization and GST related disruptions that affected categories dependent mainly on customer conversion for growth. There was also a blip in market share in the preceding years but is now in the past.
- The company reported 20% overall sales growth in 1QFY19 (with likely strong growth in feminine hygiene since it forms over two thirds of its sales (67% in FY18)).

**Exhibit 1: Feminine Hygiene saw a slight decline of 0.7% in FY18 to INR16.5b**

Source: Company, MOSL

**Impact of GST reduction announced after the end of the financial year**

- GST in sanitary napkins is now exempt from the earlier levy of 12%. The company has also taken price reduction whenever required. However, since the definition now says that the category is exempt and not zero GST, the input tax credit availed earlier is not available.

**Exhibit 2: Feminine Hygiene continues to form the bulk of overall sales**

Source: Company, MOSL

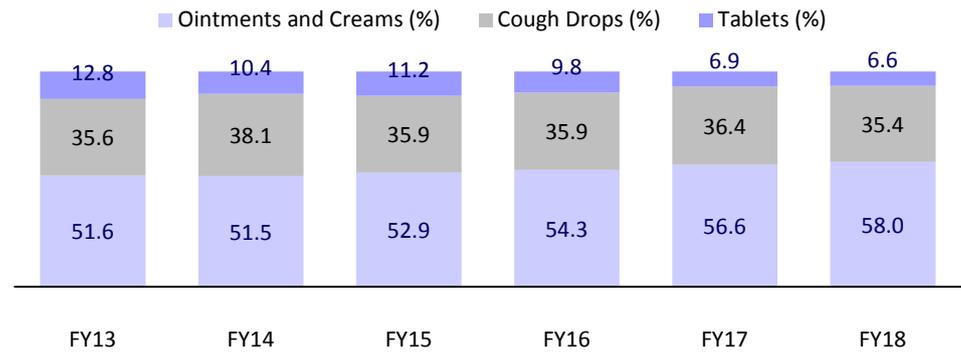
**Health Care business (32% of sales in FY18) - Key points discussed in the Annual report and AGM**

- PGHH continued to grow share in double-digits in the Cough & Cold category (excluding Cough Syrup) with a strong off take on the strength of its equity and portfolio, which includes *Vicks VapoRub*, *Vicks Cough Drops*, *Vicks Action 500 Advanced*, *Vicks Inhaler*, and *Vicks BabyRub* – its new launch in FY17-18.
- Across the three sub segments - VapoRub, Cough Drops and tablets - the company reportedly gained 0.5-4% market share in FY18.
- *Vicks BabyRub* is doing extremely well; the company even launched a smaller pack two months ago.
- Management revealed that *Vicks* now reaches 3.5m outlets, up from our estimate of ~2m four years ago.
- Growth was driven by a combination of plans to win consumers, winning versus competition and winning in whitespaces with the launch of *Vicks BabyRub*.
- *Vicks Rubs* grew penetration beyond the company's category Development Index program for the second year in a row, continuing to grow share in the

Financial Year 2017-18. *Vicks Cough Drops*' off take growth was strong with share gain in the cough lozenges category in a year of competitive launches.

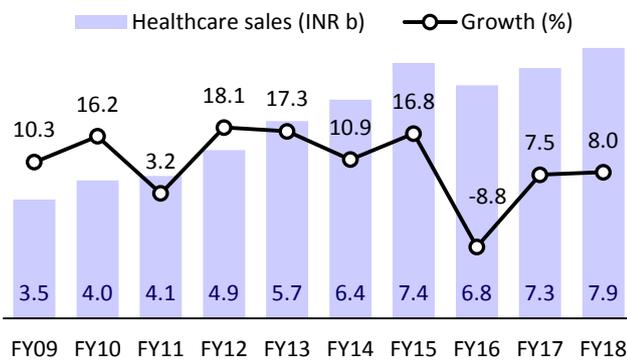
- Adjusted for Ind-AS and GST accounting impact (which is not visible in the reported data below) sales have been fairly healthy in healthcare segment (32% of sales in FY18) with *Vicks Vaporub*, in particular, driving share growth strongly.
- Share of *Vicks Vaporub* to healthcare segment is 58% of sales in FY18, from 52% in FY13. Share of tablets has come down as a proportion of segmental sales.

**Exhibit 3: *Vicks Vaporub* forms the majority of the healthcare business, contributing to 58% of sales**



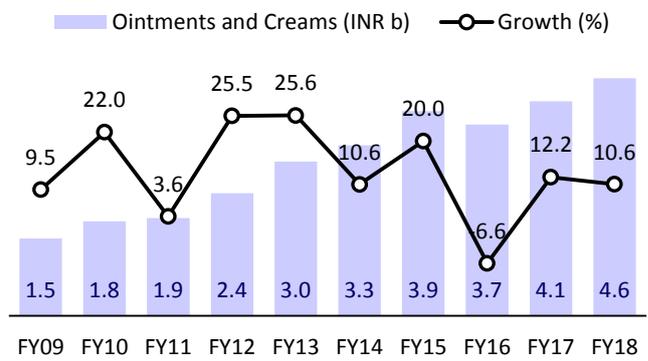
Source: Company, MOSL

**Exhibit 4: The healthcare segment saw a growth of 8%YoY in FY18 to INR7.9b**



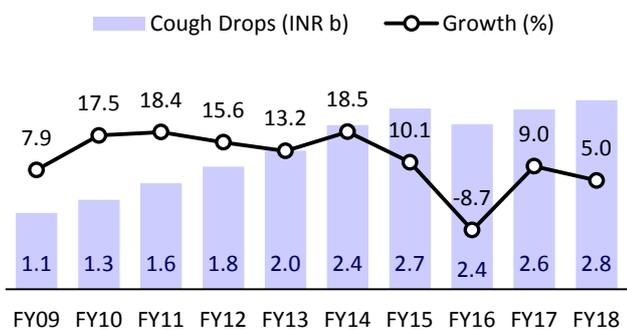
Source: Company, MOSL

**Exhibit 5: Ointments and creams saw a strong growth of 10.6% YoY in FY18**



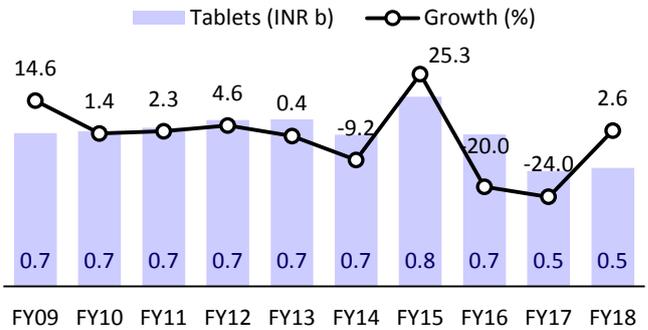
Source: Company, MOSL

**Exhibit 6: Cough drops contributed 35.4% to sales in FY18 and saw a growth of 5% YoY**



Source: Company, MOSL

**Exhibit 7: Tablets saw growth of 2.6% YoY in FY18 despite the low base of a 24% decline in FY17**



Source: Company, MOSL

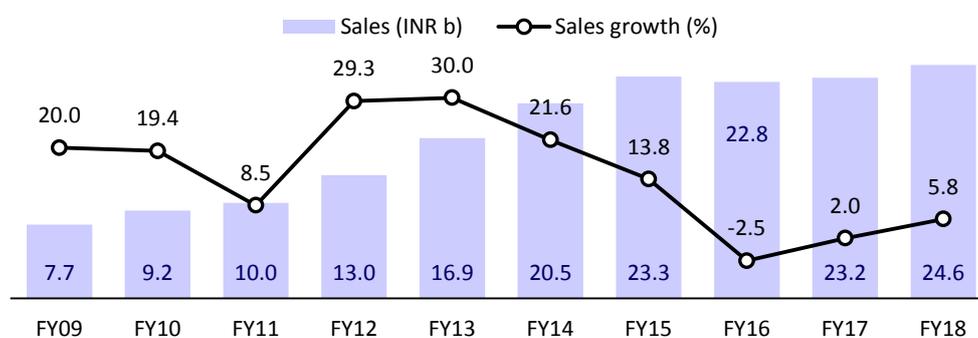
### Old Spice (1% of sales in FY18)

- *Old Spice* continued to have a challenging 2017-18 driven by sales decline. Management stated in the annual report that it is a conscious business choice to hold back investments in *Old Spice*, until a winning proposition emerges in the category, which is highly dynamic and competitive.

### Overall pace of sales growth remained moderate

- While sales growth at 6% YoY for FY18 was better than the preceding year, it was well below the average growth of the past decade.
- Adjusted for GST accounting, sales growth was up 10% YoY.
- As we have seen, moderation in sales growth was primarily led by the largest segment - Feminine Hygiene, which forms around two thirds of sales.
- There has been a revival in the past few quarters in the feminine hygiene segment. In fact, overall sales growth at 20% in 1QFY19 demonstrates initial signs of a broad-based revival.

**Exhibit 8: Overall sales growth stood at 5.8% YoY to INR24.6b in FY18**

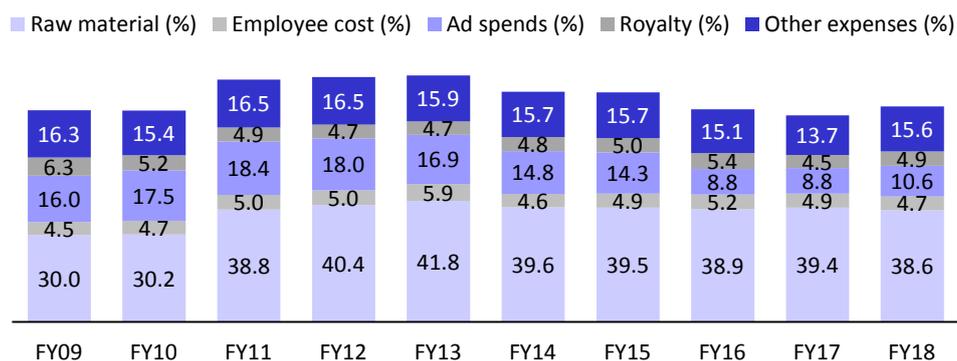


Source: Company, MOSL

### Comments on key cost items

- Over the past five years, material costs to sales have declined by 320bp (30bp down over the past two years).
- Employee costs have declined by 120bp over the past five years, including 50bp over the past two years.
- Ad spends to sales has declined by 630bp over the past five years, primarily due to netting off of promotion spends against sales as part of IND-AS. But, there was also some reduction in the ad spend intensity, which was addressed over the past three quarters (3QFY18, 4QFY18 and 1QFY19). Ad spend to sales in FY18 was up 180bp YoY.
- Royalty to sales has increased marginally by 20bp over the past five years.
- Other expense to sales has declined by 30bp over the past five years. Note that it had dipped sharply to unusually low levels in FY17, which then normalized in FY18.

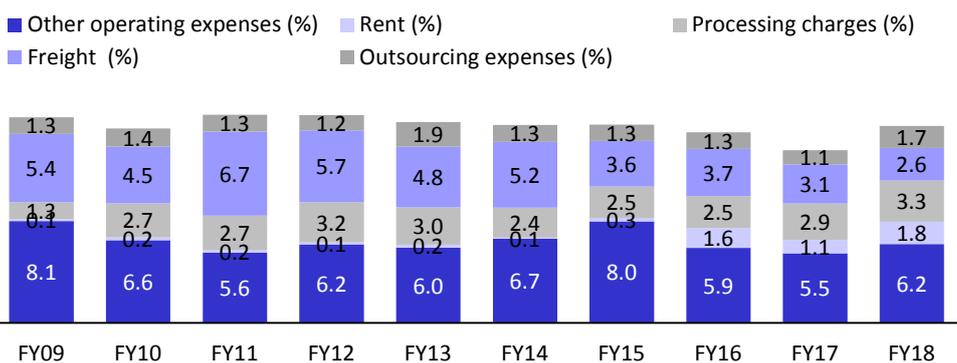
**Exhibit 9: Breakdown of key operating expenses**



Source: Company, MOSL

- Further breakdown of key other operating expenses to sales reveals that processing charges are increasing over the past few years (management attributed it to increase in contract manufacturing, which we believe is on the Vicks business). Freight costs on the other hand are steadily declining as proportion of sales. Outsourcing charges to sales has also increased sharply by 60bp YoY in FY18.

**Exhibit 10: Breakdown of key other operating expenses**



Source: Company, MOSL

**Comments on employee costs**

- Increase in the median remuneration of employees in FY18 was 8%.
- There were 359 permanent employees on the rolls of company at end-FY18.
- The average percentage increase made in the salaries of employees other than the managerial personnel in FY18 was 6.94%, whereas increase in salaries paid to managerial personnel was 14%. The average increase every year is an outcome of the company’s market competitiveness against peer group companies.

**Personnel changes- Director and Key Managerial personnel**

- During the Financial Year, Mr. Al Rajwani ceased to be the Director and Managing Director of the Company effective 30 June 2018, consequent to his retirement after 37 years of service with the P&G group. Subsequently, Mr. Madhusudan Gopalan was appointed as Director and Managing Director of the Company effective 1 July 2018.
- Mr. Madhusudan Gopalan is an alumnus of IIM Calcutta who joined P&G in 1999. He has more than 18 years of experience working across business units and diverse geographies like India, the US and ASEAN countries. Prior to this

role, he was leading the P&G business in Indonesia where he led strong sales growth, share turnaround, strong value creation and cash productivity.

- Mr. Ishan Sonthalia ceased to be the Company Secretary and Compliance Officer of the company effective 31 March 2018. Ms. Flavia Machado has been appointed as the Company Secretary and Compliance Officer effective 18 September 2018.

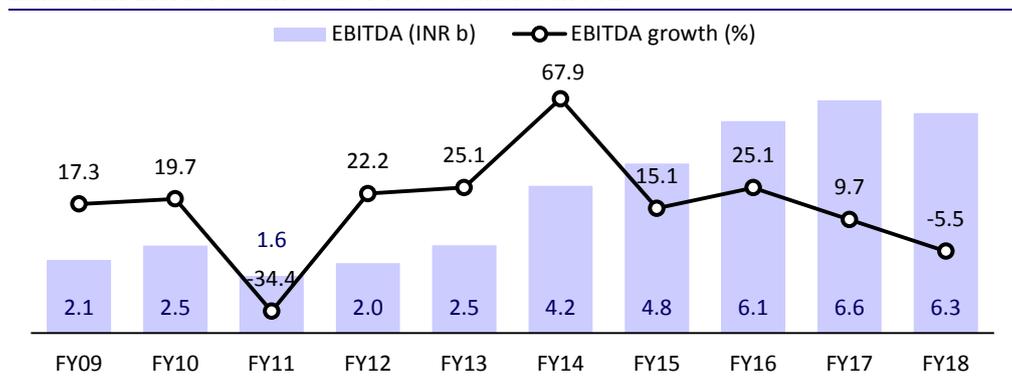
#### Exhibit 11: Remuneration of key personnel

Remuneration (INR m)	Mr. Al Rajwani* (Managing Director)		Prashant Bhatnagar (CFO)		Mr. R.A Shah (Independent Director)	
	FY17	FY18	FY17	FY18	FY17	FY18
Salary	110.5	81.6	4.6	4.8	0.0	0.0
Commission	0.0	0.0			1.1	1.1
Sitting fees	0.0	0.0			0.3	0.3
Others	32.5	0.0			0.0	0.0
<b>Total</b>	<b>110.5</b>	<b>81.6</b>	<b>4.6</b>	<b>4.8</b>	<b>1.4</b>	<b>1.4</b>
YoY change (%)		-26.2		5.0		-0.7
As a % of Sales	0.5	0.3	0.0	0.0	0.0	0.0
As a % of EBITDA	1.7	1.3	0.1	0.1	0.0	0.0
As a % of PAT	2.6	2.2	0.1	0.1	0.0	0.0

\*Ceased to be the Managing Director of the company effective June 30, 2018 Source: Company, MOSL

- Mainly due to the sharp increase YoY in other expenses and increase in ad spends off a low base, there was an EBITDA margin decline in FY18 leading to the first year of EBITDA decline since the massive price cut led impact in FY11.

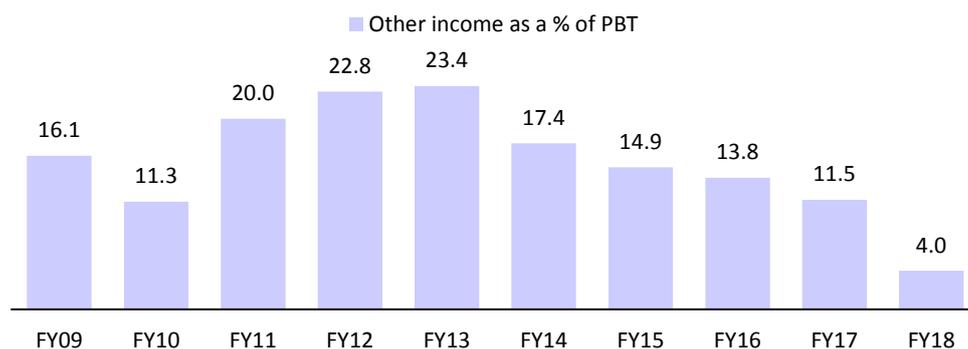
#### Exhibit 12: EBITDA declined 5.5% YoY to INR6.3b in FY18



Source: Company, MOSL

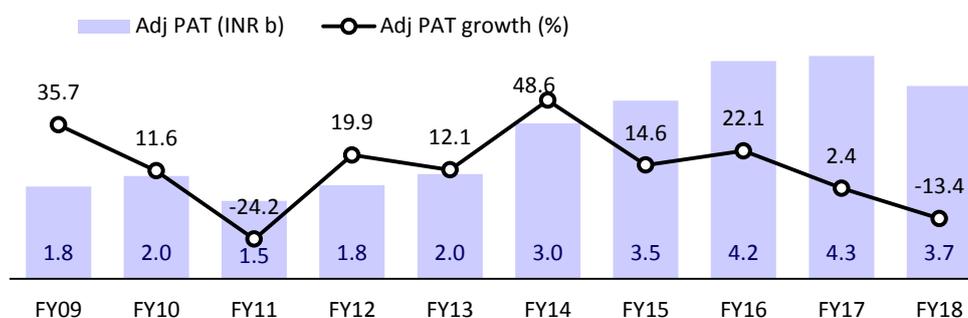
#### Reduction in salience of other income

- The massive payout of the entire cash balance meant that other income as a proportion of PBT declined significantly from 11% in FY17 to 4% in FY18.

**Exhibit 13: Other income as a % of PBT has declined significantly in FY18 to 4%**

Source: Company, MOSL

- Sharp reduction in other income, along with the absolute 5.5% EBITDA decline meant that PAT declined in double-digits YoY in FY18.

**Exhibit 14: Adj. PAT declined sharply by 13.4% YoY in FY18 to INR3.7b**

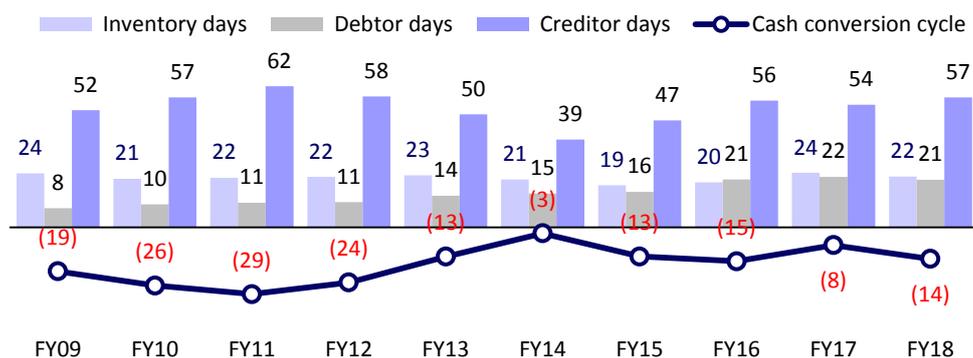
Source: Company, MOSL

- With revival in sales momentum leading to better fixed costs absorption, eventual moderation in ad spends to sales YoY, and premiumization, we expect EBITDA margins to grow, going forward. Severe impact of low cash and equivalents witnessed after the payout in May 2017 is also unlikely to be repeated in later years, which should boost other income.

**Balance Sheet-Working capital improves YoY, cash payout also boosts ROCE**

- Negative Net Working Capital days declined to 14 days in FY18 from eight days in FY17.
- Reduction in inventory days and higher creditor days led to the improvement.
- From a longer-term perspective, FY18 goes back to the trend of double-digit negative NWC days witnessed by the company before FY17.

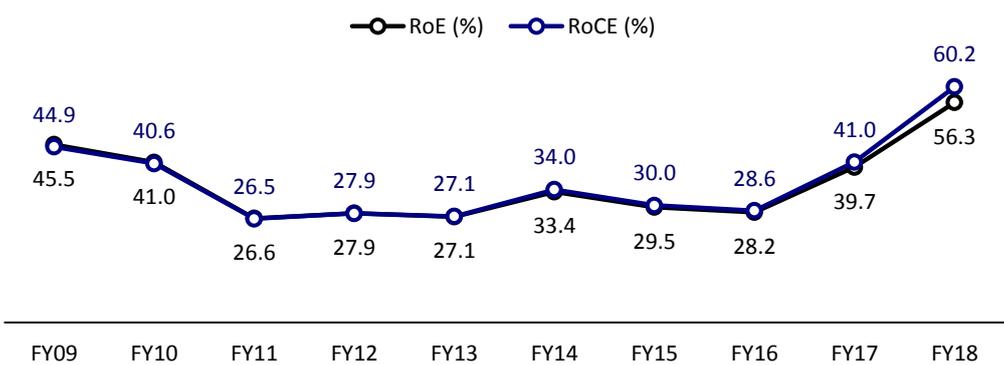
**Exhibit 15: Sharp improvement in working capital, with cash conversion cycle down to negative 14 days in FY18**



Source: Company, MOSL

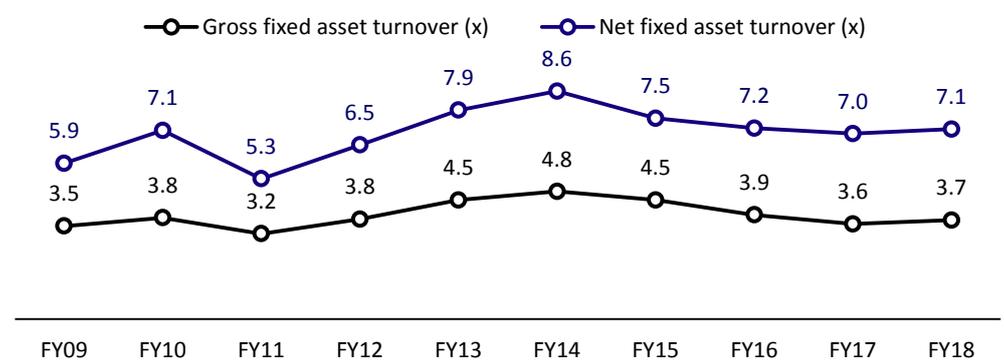
- Massive special dividend payout in May 2017 means that return ratios were significantly higher in FY18 compared to the preceding years, despite tepid P&L performance.

**Exhibit 16: Return ratio's saw significant improvement in FY18**

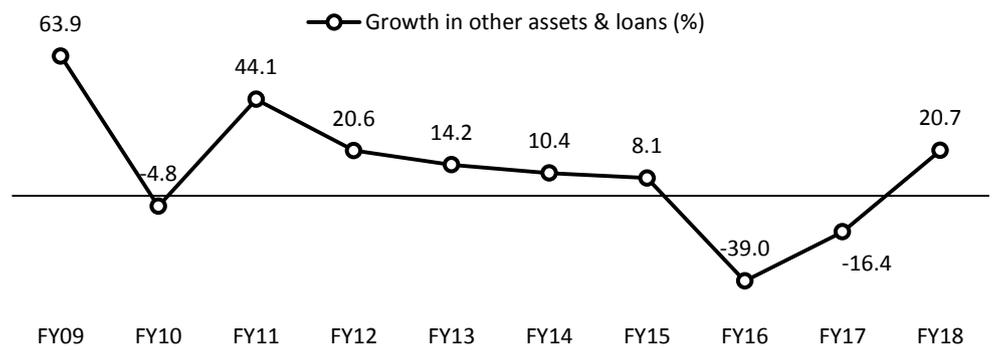


Source: Company, MOSL

**Exhibit 17: Fixed asset turns inched up further in FY18**



Source: Company, MOSL

**Exhibit 18: Other assets grew 20.7% YoY in FY18 after a couple of preceding years of decline**

Source: Company, MOSL

- Increase in other assets YoY was not on account of loans to related parties, which declined from INR 1.5b in FY17 to INR 1b in FY18 but was on account of higher advance tax paid.

**Exhibit 19: Breakdown of other assets & loans over the past five years**

Particulars (INR m)	FY13	FY14	FY15	FY16	FY17	FY18
<b>Loans &amp; Advances</b>						
Loan to related party	4,300	4,832	4,632	2,417	1,469	1,009
Other deposits	936	1,050	1,026	775	723	900
Balances with custom & excise	88	96	21	72	120	583
Advance tax paid	864	847	1,739	1,070	1,436	1,958
<b>Total loans &amp; advances</b>	<b>6,188</b>	<b>6,826</b>	<b>7,418</b>	<b>4,334</b>	<b>3,748</b>	<b>4,450</b>
<b>Other assets</b>						
Interest accrued on Loan to fellow subsidiary	53	62	9	163	52	135
Interest accrued on bank deposits	1	0	1	1	2	2
Others	2	7	26	53	2	5
Total other assets	56	69	36	217	56	142
<b>Total other assets &amp; loans</b>	<b>6,245</b>	<b>6,894</b>	<b>7,454</b>	<b>4,550</b>	<b>3,803</b>	<b>4,591</b>

Source: Company, MOSL

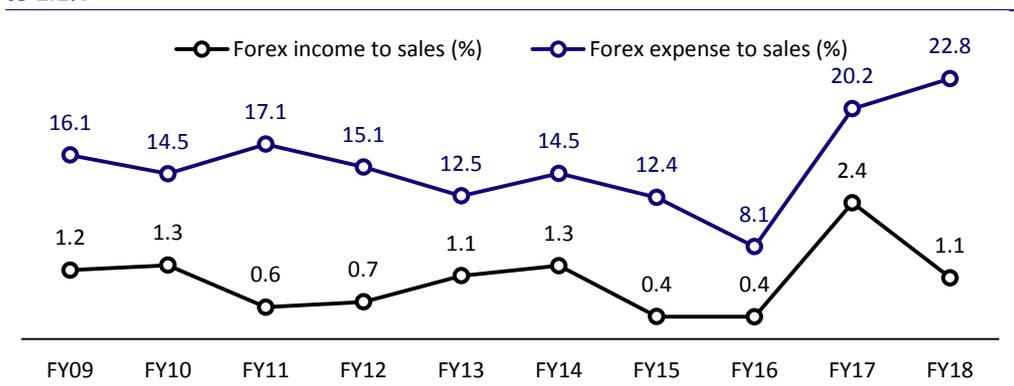
**Other comments**

- Forex income declined sharply YoY in FY18, whereas forex expenses, already a high number at 20.2% of sales in FY17 increased further to 22.8% of sales in FY18.

**Exhibit 20: Breakdown of net forex earnings**

Particulars (INR m)	FY17	FY18
Foreign Exchange earnings	554	264
Change (%)		-52.4
Foreign Exchange outgo	4,678	5,600
Change (%)		19.7
<b>Net Foreign Exchange earnings</b>	<b>(4,124)</b>	<b>(5,336)</b>
Change (%)		29.4

Source: Company, MOSL

**Exhibit 21: Forex expense to sales increased to 22.8% while Forex income to sales declined to 1.1%**

Source: Company, MOSL

- The company managed to fulfil its CSR obligation of INR 122m for FY18.

**Exhibit 22: PGHH left no amount of its prescribed CSR expenditure unspent**

Year	FY18
Average net profit for last 3 years	6,101
<b>Prescribed CSR expenditure for FY18 (2% of average net profit)</b>	<b>122.0</b>
Total amount actually spent on CSR activities	122.0
<b>Amount unspent</b>	<b>Nil</b>

Source: Company, MOSL

### Dividend

- The Directors recommended a final dividend of INR40/- for each Equity Share for the Financial Year ended 30 June 2018. Payout at 35% was lower-than-expected and harks back to the period before the special dividend was paid.

### Environmental sustainability front:

- On the environmental sustainability front, PGHH is making good progress as its already on the way to achieve several goals set for 2020.
- Looking ahead, they have established broad-reaching Ambition 2030 goals aimed at enabling positive impact on the environment while creating value for consumers and shareholders.

### Safety & Sustainability in supply chain:

- **Manufacturing:** Between the procurement of raw materials and the creation of a product, the company has strived to reduce waste, water, energy, and CO<sub>2</sub> through systemic conservation efforts. PGHH applies smart eco-design through innovative construction process improvements, and it re-uses when feasible, giving new life to what was once waste.
- **Finished Product Logistics:** In the logistics stage, the company reduces waste in customization by applying more sustainable designs. The company has also optimized its transportation efficiency by making changes to the rate, route, mode and method of transportation. PGHH has focused on eliminating inefficiencies such as loading and unloading delays, rush transport upcharges, dead legs (empty trucks) and P&G production line stoppage.
- **Supplier Engagement:** The company has collaborated closely with suppliers across the entire supply chain. It has implemented a supplier sustainability

scorecard, which assesses the environmental footprint of its suppliers, enabling P&G to partner and help reduce the environmental impact along the supply chain.

### **Environmental Protection:**

- As the company is on its way to achieve many of its 2020 environmental sustainability goals, during the last year, the company announced its broad-reaching global environmental sustainability goals for 2030 titled - Ambition 2030. As a responsible corporate citizen, environmental sustainability is one of PGHH's focus areas and it continues to positively impact communities that it operates in.
- P&G's Ambition 2030 environmental sustainability goals aim to enable and inspire positive impact while creating value for the company, its partners, and consumers.
- The framework for PGHH's goals span across four areas – brands, supply chain, society and employees. It seeks to address two of the world's most pressing environmental challenges – finite resources and growing consumption.
- The company's vision is to bring about a positive difference by aiming to use 100% renewable or recyclable materials for its products and packaging; cut greenhouse gas emissions by half, power its plants with 100% renewable energy, and source at least 5b liters of water from circular sources and design products that delight consumers while maximizing conservation of resources.
- The new Managing Director, Mr. Madhusudan Gopalan announced the company's broad-reaching environmental sustainability goals designed to enable responsible consumption and sustainable manufacturing:
  - a) All of P&G's brands will enable responsible consumption through packaging that is 100% recyclable or reusable by 2030.
  - b) As a company, it will launch sanitary napkin recycling programs in 10 major cities across the world by 2030; with India as one of the priority countries where PGHH will launch in 2019.
  - c) By 2030, 100% of P&G's manufacturing sites across the globe will cut greenhouse gas emissions in half as compared to their 2010 baseline. Globally, the company will source at least 5b liters of water by re-using water it uses in existing operations.
- Company's Head Office in Mumbai reduced its annual energy consumption by over 23.5% over the last 15 years. The company's Goa plant is a 'zero waste to landfill' site, which means there is no manufacturing discharge into the environment.
- In the last five years, the Goa plant has reduced its carbon emission by 17.5%. During this period, the plant also improved its energy and water consumption at 78.9%.
- The plant is also leveraging technology, experts, employees and renewable sources of energy to reduce overall footprint and make its operations more sustainable.

## Financials and Valuations

Standalone - Income Statement							(INR M)
Y/E June	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Total Income from Operations</b>	<b>23,338</b>	<b>22,754</b>	<b>23,204</b>	<b>24,553</b>	<b>29,119</b>	<b>33,580</b>	<b>39,885</b>
Change (%)	13.8	-2.5	2.0	5.8	18.6	15.3	18.8
Raw Materials	9,209	8,848	9,150	9,487	11,269	12,895	15,156
% of Sales	39.5	38.9	39.4	38.6	38.7	38.4	38.0
Employees Cost	1,133	1,174	1,141	1,152	1,427	1,645	1,875
% of Sales	4.9	5.2	4.9	4.7	4.9	4.9	4.7
Other Expenses	8,152	6,674	6,267	7,634	8,353	9,485	11,367
% of Sales	34.9	29.3	27.0	31.1	28.7	28.2	28.5
<b>Total Expenditure</b>	<b>18,494</b>	<b>16,696</b>	<b>16,558</b>	<b>18,273</b>	<b>21,049</b>	<b>24,024</b>	<b>28,398</b>
% of Sales	79.2	73.4	71.4	74.4	72.3	71.5	71.2
<b>EBITDA</b>	<b>4,844</b>	<b>6,059</b>	<b>6,646</b>	<b>6,280</b>	<b>8,070</b>	<b>9,555</b>	<b>11,487</b>
Margin (%)	20.8	26.6	28.6	25.6	27.7	28.5	28.8
Depreciation	525	517	597	524	562	658	748
<b>EBIT</b>	<b>4,319</b>	<b>5,542</b>	<b>6,049</b>	<b>5,756</b>	<b>7,508</b>	<b>8,897</b>	<b>10,739</b>
Int. and Finance Charges	57	63	104	53	35	35	36
Other Income	746	876	773	241	448	572	587
<b>PBT bef. EO Exp.</b>	<b>5,008</b>	<b>6,355</b>	<b>6,718</b>	<b>5,944</b>	<b>7,921</b>	<b>9,433</b>	<b>11,289</b>
EO Items	0	0	0	0	-126	0	0
<b>PBT after EO Exp.</b>	<b>5,008</b>	<b>6,355</b>	<b>6,718</b>	<b>5,944</b>	<b>7,795</b>	<b>9,433</b>	<b>11,289</b>
Total Tax	1,547	2,130	2,390	2,116	2,693	3,207	3,838
Tax Rate (%)	30.9	33.5	35.6	35.6	34.5	34.0	34.0
<b>Reported PAT</b>	<b>3,461</b>	<b>4,225</b>	<b>4,327</b>	<b>3,828</b>	<b>5,102</b>	<b>6,226</b>	<b>7,451</b>
<b>Adjusted PAT</b>	<b>3,461</b>	<b>4,225</b>	<b>4,327</b>	<b>3,746</b>	<b>5,228</b>	<b>6,226</b>	<b>7,451</b>
Change (%)	14.6	22.1	2.4	-13.4	39.6	19.1	19.7
Margin (%)	14.8	18.6	18.6	15.3	18.0	18.5	18.7

Standalone - Balance Sheet							(INR M)
Y/E June	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	325	325	325	325	325	325	325
Total Reserves	13,133	16,193	4,937	7,730	9,351	11,281	13,591
<b>Net Worth</b>	<b>13,457</b>	<b>16,518</b>	<b>5,261</b>	<b>8,055</b>	<b>9,676</b>	<b>11,606</b>	<b>13,915</b>
Deferred Tax Liabilities	-40	-89	-263	-230	-253	-278	-306
Total Loans	0	0	0	0	0	0	0
<b>Capital Employed</b>	<b>13,418</b>	<b>16,428</b>	<b>4,999</b>	<b>7,825</b>	<b>9,423</b>	<b>11,328</b>	<b>13,610</b>
Gross Block	5,222	5,819	6,505	6,612	7,504	8,604	9,748
Less: Accum. Deprn.	2,128	2,645	3,173	3,169	3,731	4,389	5,138
<b>Net Fixed Assets</b>	<b>3,093</b>	<b>3,174</b>	<b>3,332</b>	<b>3,443</b>	<b>3,773</b>	<b>4,215</b>	<b>4,611</b>
Capital WIP	390	347	408	215	422	422	420
<b>Total Investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>15,962</b>	<b>18,053</b>	<b>8,073</b>	<b>11,308</b>	<b>16,744</b>	<b>19,926</b>	<b>24,011</b>
Inventory	1,191	1,275	1,774	1,236	1,755	2,024	2,404
Account Receivables	1,139	1,496	1,328	1,485	1,675	1,932	2,295
Cash and Bank Balance	6,178	10,732	1,168	3,996	8,708	11,350	14,674
Loans and Advances	7,454	4,550	3,803	4,591	4,605	4,621	4,638
<b>Curr. Liability &amp; Prov.</b>	<b>6,027</b>	<b>5,146</b>	<b>6,815</b>	<b>7,140</b>	<b>11,517</b>	<b>13,236</b>	<b>15,433</b>
Account Payables	3,723	3,241	3,632	4,062	4,570	5,267	6,252
Other Current Liabilities	2,234	1,838	2,625	2,548	2,803	3,083	3,391
Provisions	70	67	558	530	4,143	4,886	5,790
<b>Net Current Assets</b>	<b>9,934</b>	<b>12,907</b>	<b>1,258</b>	<b>4,168</b>	<b>5,227</b>	<b>6,691</b>	<b>8,578</b>
<b>Appl. of Funds</b>	<b>13,418</b>	<b>16,428</b>	<b>4,999</b>	<b>7,825</b>	<b>9,423</b>	<b>11,328</b>	<b>13,610</b>

E: MOSL Estimates

## Financials and Valuations

### Ratios

Y/E June	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>106.5</b>	<b>130.0</b>	<b>133.1</b>	<b>117.8</b>	<b>157.0</b>	<b>191.6</b>	<b>229.3</b>
Cash EPS	122.8	146.1	151.7	131.5	178.4	212.1	252.6
BV/Share	414.6	508.9	162.1	248.2	298.1	357.5	428.7
DPS	0.0	36.0	389.0	40.0	111.1	132.3	158.4
Payout (%)	0.0	27.7	292.2	34.0	70.8	69.0	69.0
<b>Valuation (x)</b>							
P/E	93.3	76.5	74.7	84.4	63.3	51.9	43.4
Cash P/E	80.9	68.0	65.5	75.6	55.7	46.9	39.4
P/BV	24.0	19.5	61.3	40.1	33.3	27.8	23.2
EV/Sales	13.6	13.7	13.9	13.0	10.8	9.3	7.7
EV/EBITDA	65.3	51.5	48.4	50.7	38.9	32.6	26.8
Dividend Yield (%)	0.0	0.4	3.9	0.4	1.1	1.3	1.6
FCF per share	131.4	92.5	123.7	116.3	240.4	198.0	244.7
<b>Return Ratios (%)</b>							
RoE	29.5	28.2	39.7	56.3	59.0	58.5	58.4
RoCE	30.0	28.6	41.0	60.2	60.4	60.2	59.9
<b>Working Capital Ratios</b>							
Asset Turnover (x)	1.7	1.4	4.6	3.1	3.1	3.0	2.9
Inventory (Days)	19	18	24	22	22	22	22
Debtor (Days)	16	19	22	21	21	21	21
Creditor (Days)	47	51	54	57	57	57	57
<b>Leverage Ratio (x)</b>							
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0

### Standalone - Cash Flow Statement

Y/E June	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>(INR)</b>							
PBT	5,008	6,355	6,718	5,818	7,795	9,433	11,289
Depreciation	525	517	597	524	562	658	748
Net interest expense	-658	-785	-644	-147	-413	-537	-551
Others	212	66	146	225	0	0	0
(Inc)/Dec in WC	1,225	-615	135	466	3,653	1,178	1,437
Taxes	-2,056	-2,013	-2,500	-2,731	-2,693	-3,207	-3,838
<b>CF from Operations</b>	<b>4,256</b>	<b>3,525</b>	<b>4,453</b>	<b>4,155</b>	<b>8,904</b>	<b>7,526</b>	<b>9,086</b>
(Inc)/Dec in FA	10	-523	-438	-381	-1,100	-1,100	-1,142
<b>Free Cash Flow</b>	<b>4,266</b>	<b>3,002</b>	<b>4,015</b>	<b>3,774</b>	<b>7,804</b>	<b>6,426</b>	<b>7,944</b>
(Pur)/Sale of Investments	0	0	0	0	0	0	-1
Others	274	2,770	2,009	115	551	547	559
<b>CF from Investments</b>	<b>284</b>	<b>2,247</b>	<b>1,571</b>	<b>-266</b>	<b>-549</b>	<b>-553</b>	<b>-584</b>
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0	0
Dividend Paid	-893	-1,182	-15,550	-1,055	-3,607	-4,296	-5,141
Interest Paid	-9	-35	-37	-6	-35	-35	-36
Others	-152	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-1,053</b>	<b>-1,217</b>	<b>-15,587</b>	<b>-1,061</b>	<b>-3,642</b>	<b>-4,331</b>	<b>-5,177</b>
<b>Inc/Dec of Cash</b>	<b>3,487</b>	<b>4,554</b>	<b>-9,564</b>	<b>2,828</b>	<b>4,712</b>	<b>2,642</b>	<b>3,324</b>
Opening Balance	2,691	6,178	10,732	1,168	3,996	8,708	11,350
<b>Closing Balance</b>	<b>6,178</b>	<b>10,732</b>	<b>1,168</b>	<b>3,996</b>	<b>8,708</b>	<b>11,350</b>	<b>14,674</b>

E: MOSL Estimates

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

\*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

#### Disclosures

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations). Motilal Oswal Securities Ltd. (MOSL)\* is a SEBI Registered Research Analyst having registration no. INH000000412. MOSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOSL is a subsidiary company of Motilal Oswal Financial Service Ltd. (MOFSL). MOFSL is a listed public company, the details in respect of which are available on [www.motilaloswal.com](http://www.motilaloswal.com). MOSL is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange of India (MCX) & National Commodity & Derivatives Exchange Ltd. (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) & National Securities Depository Limited (NSDL) and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products. Details of associate entities of Motilal Oswal Securities Limited are available on the website at <http://onlinereports.motilaloswal.com/Dormant/documents/List%20of%20Associate%20companies.pdf>

MOSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report

MOSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. Details of pending Enquiry Proceedings of Motilal Oswal Securities Limited are available on the website at <https://galaxy.motilaloswal.com/ResearchAnalyst/PublishViewLitigation.aspx>

A graph of daily closing prices of securities is available at [www.nseindia.com](http://www.nseindia.com), [www.bseindia.com](http://www.bseindia.com). Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOSL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

#### Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOSL & its group companies to registration or licensing requirements within such jurisdictions.

#### For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

#### For U.S.

Motilal Oswal Securities Limited (MOSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition MOSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOSL, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

#### For Singapore

In Singapore, this report is being distributed by Motilal Oswal Capital Markets Singapore Pte Ltd ("MOCMSPL") (Co.Reg. NO. 201129401Z) which is a holder of a capital markets services license and an exempt financial adviser in Singapore. As per the approved agreement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of First Schedule of Financial Advisors Act (CAP 110) provided to MOCMSPL by Monetary Authority of Singapore. Persons in Singapore should contact MOCMSPL in respect of any matter arising from, or in connection with this report/publication/communication. This report is distributed solely to persons who qualify as "Institutional Investors", of which some of whom may consist of "accredited" institutional investors as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Accordingly, if a Singapore person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform MOCMSPL.

#### Specific Disclosures

- 1 MOSL, Research Analyst and/or his relatives does not have financial interest in the subject company, as they do not have equity holdings in the subject company.
- 2 MOSL, Research Analyst and/or his relatives do not have actual/beneficial ownership of 1% or more securities in the subject company
- 3 MOSL, Research Analyst and/or his relatives have not received compensation/other benefits from the subject company in the past 12 months
- 4 MOSL, Research Analyst and/or his relatives do not have material conflict of interest in the subject company at the time of publication of research report
- 5 Research Analyst has not served as director/officer/employee in the subject company
- 6 MOSL has not acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- 7 MOSL has not received compensation for investment banking/ merchant banking/brokerage services from the subject company in the past 12 months
- 8 MOSL has not received compensation for other than investment banking/merchant banking/brokerage services from the subject company in the past 12 months
- 9 MOSL has not received any compensation or other benefits from third party in connection with the research report
- 10 MOSL has not engaged in market making activity for the subject company

The associates of MOSL may have:

- financial interest in the subject company
- actual/beneficial ownership of 1% or more securities in the subject company
- received compensation/other benefits from the subject company in the past 12 months
- other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
- received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.

The associates of MOSL has not received any compensation or other benefits from third party in connection with the research report

Above disclosures include beneficial holdings lying in demat account of MOSL which are opened for proprietary investments only. While calculating beneficial holdings, It does not consider demat accounts which are opened in name of MOSL for other purposes (i.e holding client securities, collaterals, error trades etc.). MOSL also earns DP income from clients which are not considered in above disclosures.

#### Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

#### Terms & Conditions:

This report has been prepared by MOSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOSL will not treat recipients as customers by virtue of their receiving this report.

#### Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022-3980

4263; www.motilaloswal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 3080 1000. Compliance Officer: Neeraj Agarwal, Email Id: [na@motilaloswal.com](mailto:na@motilaloswal.com), Contact No.:022-38281085.

Registration details: MOSL: SEBI Registration: INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL: IN-DP-16-2015; NSDL: IN-DP-NSDL-152-2000; Research Analyst: INH000000412. AMFI: ARN 17397. Investment Adviser: INA000007100. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670) offers PMS and Mutual Funds products. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) offers wealth management solutions. \*Motilal Oswal Securities Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs, Insurance and IPO products. \*Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. offers Real Estate products. \* Motilal Oswal Private Equity Investment Advisors Pvt. Ltd. offers Private Equity products.

\* MOSL has been amalgamated with Motilal Oswal Financial Services Limited (MOFSL) w.e.f August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Bench. The existing registration no(s) of MOSL would be used until receipt of new MOFSL registration numbers.