

India

**Overweight** (no change)

**Highlighted Companies**

**Hindustan Unilever Ltd**

**ADD, TP Rs2600, Rs2366 close**

Hindustan Unilever has the best-in-class execution among its peers in our coverage. We believe the company's wide product portfolio across price points, focus on premiumisation and tight cost control have helped it withstand macro headwinds.

**Dabur India Ltd**

**ADD, TP Rs586, Rs543 close**

We believe Dabur India's healthcare portfolio is a beneficiary of the growing consumer preference for ayurvedic products. New management has been aggressive in product innovation and distribution expansion.

**Titan Co Ltd**

**HOLD, TP Rs1491, Rs1496 close**

Titan is a play on consumer aspirations. It is present in categories with significant opportunities to shift consumer preferences to organised players.

**Summary Valuation Metrics**

P/E (x)	Mar21-F	Mar22-F	Mar23-F
Hindustan Unilever Ltd	61.9	55.2	48.5
Dabur India Ltd	56.0	49.3	43.0
Titan Co Ltd	118.9	66.5	51.0

P/BV (x)	Mar21-F	Mar22-F	Mar23-F
Hindustan Unilever Ltd	13.9	13.7	13.6
Dabur India Ltd	13.1	11.2	9.6
Titan Co Ltd	18.4	15.5	12.7

Dividend Yield	Mar21-F	Mar22-F	Mar23-F
Hindustan Unilever Ltd	1.3%	1.5%	1.7%
Dabur India Ltd	0.6%	0.6%	0.6%
Titan Co Ltd	0.4%	0.4%	0.5%

**Analyst(s)**



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# Consumer Staples - Overall

## 3QFY21F results preview

- Sustained revenue growth in rural markets, festive demand and improving consumer sentiments have driven topline growth since Mar 2019.
- We expect winter and the discretionary portfolio to drive 3QFY21F sales growth and hygiene category sales growth to taper as COVID scare subsides.
- We expect our coverage universe to report sales/EBITDA/PBT growth of 13.8%/17.5%/17.7% yoy, respectively, in 3QFY21F.

### Strong topline growth with recovery in discretionary categories

Overall, consumer companies' sales growth will likely witness an uptick in 3QFY21F on sustained growth in rural markets, festive demand, strong winter sales and improving consumer sentiments. With the COVID-19 scare now subsiding, sales growth is likely to improve for categories whose consumption is linked to consumers stepping out, namely, detergents, beauty & skin care, jewellery and other discretionary categories. We expect improved sales growth in subsequent quarters due to lower base and normalisation of urban markets. We estimate reported sales growth at 14.5% yoy, the highest since Mar 2019.

### Raw material cost inching up

Crude oil prices (Rs/bbl) moved up sequentially by 4%, down by 30% yoy in 3QFY21. Prices of other key raw material prices rose – palm oil by 60% yoy and 31% qoq, and copra by 25% yoy. In agri commodities, wheat and sugar prices declined 20%/3% yoy, respectively, while the tea index rose 56% yoy in 3QFY21.

### Expect EBITDA to rise 17% yoy and PAT to rise 17.7% yoy

We expect consumer companies in our coverage universe to report sales/EBITDA/PAT growth of 14.5%/10.7%/8.5%, respectively, in 3QFY21F. We expect all companies, excluding Britannia and Colgate, to report double-digit sales growth. We estimate 3QFY21F sales growth of Hindustan Unilever, Dabur, Titan and Emami to be relatively higher among consumer companies at 19%/12%/16.9%/17% respectively. We expect EBITDA margin for our coverage universe to expand 45bp in 3QFY21F.

### Our top picks – Hindustan Unilever and Dabur

Hindustan Unilever and Dabur continue to remain our preferred picks. Both companies are likely to be beneficiaries of a strong rural recovery and have wide product offerings. The recovery in the discretionary portfolio and synergy benefit from the GlaxoSmithKline merger will likely drive Hindustan Unilever's PAT growth. We expect the herbal and healthcare portfolios to drive strong double-digit sales growth for Dabur.

**Figure 1: 3QFY21 estimates for our coverage universe**

Company	Revenue (Rs m)	% chg (yoy)	EBITDA (Rs m)	% chg (yoy)	Net Profit (Rs m)	% chg (yoy)
Britannia	32,380	8.6%	5,735	14.2%	4,002	7.9%
Colgate	12,042	6.0%	3,608	18.3%	2,403	20.7%
Dabur	26,350	12.0%	5,536	12.3%	4,601	10.1%
Emami	9,519	17.1%	3,188	20.8%	2,586	22.1%
Godrej Consumer	30,500	9.8%	7,040	11.6%	5,125	14.1%
Hindustan Unilever	1,16,700	19.0%	29,184	19.4%	20,772	22.8%
Jyothy Labs	4,715	12.1%	730	10.0%	472	4.8%
Marico	20,417	11.9%	4,139	11.0%	3,073	10.9%
Nestle	35,254	11.0%	8,269	25.8%	5,872	18.7%
Titan	76,277	16.9%	8,577	13.1%	5,535	16.6%
<b>Total</b>	<b>3,63,650</b>	<b>14.5%</b>	<b>75,672</b>	<b>17.0%</b>	<b>48,647</b>	<b>17.7%</b>

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 2: 3QFY21F earnings preview of our coverage universe**

	3QFY20	2QFY21	3QFY21F	yoy %chg	qoq % chg	Our estimates for 3QFY21
<b>Britannia – Consolidated</b>						
Net Sales (Rs m)	29,827	34,191	32,380	8.6%	-5.3%	Biscuit demand is likely to see moderation as consumers look at other snacking options.
EBITDA (Rs m)	5,020	6,754	5,735	14.2%	-15.1%	We expect EBITDA margin to expand on the back of strong growth in international and non-biscuit categories
EBITDA Margin (%)	16.8%	19.8%	17.7%	88bp	-204bp	
Core Net Profit (Rs m)	3,707	4,987	4,002	7.9%	-19.8%	
<b>Colgate – Standalone</b>						
Net Sales (Rs m)	11,360	12,777	12,042	6.0%	-5.8%	We estimate sales volume growth of 3% yoy.
EBITDA (Rs m)	3,049	4,015	3,608	18.3%	-10.1%	We expect EBITDA margin to increase on the back of lower raw material prices.
EBITDA Margin (%)	26.8%	31.4%	30.0%	313bp	-146bp	
Core Net Profit (Rs m)	1,991	2,742	2,403	20.7%	-12.4%	
<b>Dabur – Consolidated</b>						
Net Sales (Rs m)	23,530	25,160	26,350	12.0%	4.7%	Sustained growth in the healthcare and herbal portfolios would continue to drive double-digit sales growth, in our view.
EBITDA (Rs m)	4,929	5,694	5,536	12.3%	-2.8%	We expect the company to invest gains from cost-saving initiatives in ad spend, resulting in flat EBITDA margin on a yoy basis.
EBITDA Margin (%)	20.9%	22.6%	21.0%	6bp	-162bp	
Core Net Profit (Rs m)	4,179	4,817	4,601	10.1%	-4.5%	
<b>Emami – Consolidated</b>						
Net Sales (Rs m)	8,126	7,348	9,519	17.1%	29.5%	Strong mid-teen growth on back of favourable winter season.
EBITDA (Rs m)	2,640	2,571	3,188	20.8%	24.0%	Lower raw material price to drive EBITDA margin expansion.
EBITDA Margin (%)	32.5%	35.0%	33.5%	101bp	-149bp	
Core Net Profit (Rs m)	2,119	2,133	2,586	22.1%	21.2%	
<b>Godrej Consumer – Consolidated</b>						
Net Sales (Rs m)	27,781	29,151	30,500	9.8%	4.6%	We estimate double-digit domestic sales growth on the back of strong growth in soaps and recovery in hair colour sales. International business growth would be driven by its GUAM (Godrej Africa, USA and Middle East) cluster, while Indonesia business growth is likely to post muted growth due to macro headwinds in the country.
EBITDA (Rs m)	6,307	6,729	7,040	11.6%	4.6%	Higher Palm oil prices to impact gross margins; however, prudent cost management will likely ensure modest margin expansion.
EBITDA Margin (%)	22.7%	23.1%	23.1%	38bp	0bp	
Core Net Profit (Rs m)	4,490	4,584	5,125	14.1%	11.8%	
<b>Hindustan Unilever – Standalone</b>						
Net Sales (Rs m)	98,080	1,14,420	1,16,700	19.0%	2.0%	We estimate 6% organic growth, excluding the GSK portfolio. We expect the GSK business to report double-digit growth as supply-constraint issues have now been addressed.
EBITDA (Rs m)	24,450	28,690	29,184	19.4%	1.7%	Higher input prices and lower offtake in categories linked to out-of-home consumption are likely to impact gross margins.
EBITDA Margin (%)	24.9%	25.1%	25.0%	8bp	-7bp	
Core Net Profit (Rs m)	16,910	20,350	20,772	22.8%	2.1%	
<b>Jyothy Labs – Standalone</b>						
Net Sales (Rs m)	4,208	5,045	4,715	12.1%	-6.5%	Favourable base to result in double-digit growth. We expect the Home Insecticides and Dishwash categories to drive sales growth.
EBITDA (Rs m)	663	874	730	10.0%	-16.5%	High input prices and lower sales growth in Ujala brand categories to impact gross margins, in our view.
EBITDA Margin (%)	15.8%	17.3%	15.5%	-28bp	-184bp	
Core Net Profit (Rs m)	450	601	472	4.8%	-21.5%	

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 3: 3QFY21F earnings preview of our coverage universe**

	3QFY20	2QFY21	3QFY21F	yoy %chg	qoq % chg	Our estimates for 3QFY21
<b>Marico – Consolidated</b>						
Net Sales (Rs m)	18,240	19,890	20,417	11.9%	2.7%	Recovery in hair oil portfolio and sustained growth momentum in the food segment to result in double-digit sales growth.
EBITDA (Rs m)	3,730	3,890	4,139	11.0%	6.4%	
EBITDA Margin (%)	20.4%	19.6%	20.3%	-18bp	72bp	Higher input prices likely to put pressure on gross margins.
Core Net Profit (Rs m)	2,770	2,970	3,073	10.9%	3.5%	
<b>Nestle – Standalone</b>						
Net Sales (Rs m)	31,307	35,254	34,750	11.0%	-1.4%	Broad-based growth in all categories, with strong growth in prepared dishes and confectionary, likely to drive double-digit sales growth.
EBITDA (Rs m)	6,309	8,269	7,935	25.8%	-4.0%	
EBITDA Margin (%)	20.2%	23.5%	22.8%	268bp	-62bp	Muted raw material costs to drive EBITDA margins.
Core Net Profit (Rs m)	4,730	5,872	5,614	18.7%	-4.4%	
<b>Titan – Consolidated</b>						
Net Sales (Rs m)	65,274	45,530	76,277	16.9%	67.5%	Festive and wedding season drives growth in the jewellery business. There has been good recovery in the watches and eyewear segment. Management has indicated 15% growth in jewellery business, excluding raw gold sales.
EBITDA (Rs m)	7,584	3,130	8,577	13.1%	174.0%	
EBITDA Margin (%)	11.6%	6.9%	11.2%	-37bp	437bp	We build in a 12% EBIT margin for the jewellery business
Core Net Profit (Rs m)	4,746	1,750	5,535	16.6%	216.3%	

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

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## Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

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1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

### Recommendation Framework

#### Stock Ratings

Definition:

<b>Add</b>	The stock's total return is expected to exceed 10% over the next 12 months.
<b>Hold</b>	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
<b>Reduce</b>	The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

<b>Overweight</b>	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
<b>Neutral</b>	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
<b>Underweight</b>	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

<b>Overweight</b>	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
<b>Neutral</b>	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
<b>Underweight</b>	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.