Golden Midcap Portfolio

Update

June 1, 2021

Story of the stock

Bata India (BATIND)

- Bata India is a major player in the Indian footwear market with a presence across men's, women's and kid's footwear segment with price points ranging from the mass market to the premium category. It has a pan-India presence with the largest network of retail stores in the footwear industry with ~1420 stores. Bata has set its vision to open 500 franchisee stores by 2023. It has constantly undertaken efforts towards transforming its brand image from a mass brand to a premium brand through launch of new trendy collections, investing in marketing spends and redesigning existing store models
- In a bid to strengthen its wholesale distribution channel (~12% of revenues) Bata has significantly ramped up its touch-points with Bata now servicing~30,000 multi-branded outlets. This enables the company to leverage its brand strength in newer towns. Also, Bata has rolled out a full suite of Omni-channel solutions, allowing home delivery across 900+ stores (vs. 400 stores in FY19) in 1300 cites. Newly-launched digitally-enabled channels like Bata ChatShop, Bata Home Delivery and Bata Store on Wheels now contribute over 15% of overall sales (3x of last year). Aligning with the current demand scenario, Bata has tweaked its product portfolio by launch of new collections such as fitness-at-home, Easy-wash & Work-from-Home
- Bata has a robust balance sheet having healthy cash and bank balance worth ₹ 800 crore (as on H1FY21) negative working capital cycle and generating RoCE of 23%+. We believe with its strong brand patronage and pan-India retail reach, Bata India should be able to revive its revenue growth trajectory as and when the impact of the Covid19 is phased out

(₹ crore)	FY20	FY21E	FY22E	FY23E
Net Sales (₹ crore)	3053.5	1810.1	3243.7	3747.7
EBITDA	829.8	231.7	883.9	1062.5
EPS	25.4	-2.6	31.3	40.0
P/E (x)	60.5	-	49.2	38.5
P/B (x)	10.4	10.9	9.5	8.3
RoNW (%)	17.2	-1.8	19.2	21.6
RoCE (%)	28.2	-2.3	28.2	31.2

Trent Ltd (TRENT)

- Trent, a leading retailer with a presence across various consumer categories. Over the years, Trent's Westside division (~80% of revenue) has delivered a healthy performance with consistent same store sales growth (8-10% over the last seven years) and higher share of private label portfolio (industry best: 99%) yielding superior gross margins. Westside has a presence with 174 stores across more than 70 cities and online reach across India with exclusive listing through Tata CLiQ and its own website (5% revenue growth)
- Trent's new value fashion brand Zudio, has grown multi-fold from ₹ 144 crore in FY18 to ₹ 507 crore as on FY20, translating into robust CAGR of 88%. The company continues to aggressively add Zudio stores given scalability of brand (average store size ~6000 sq ft, one-third of Westside store) and given its shaper price points offerings (two-third of products priced < ₹ 500). It has added nearly 100 stores in FY20-21 (total store count: 133)
- Trent was one of the fastest growing companies (30%+ growth) before pandemic derailed the revenue trajectory. Inherent strength of brands (Westside, Zudio, Star, Zara) and proven business model has enabled Trent to revive its revenue's in Q4FY21 itself. Liquidity position remains healthy with cash & investments worth ₹ 752 crore which will enable it to tide over the current situation better than peers

(₹ crore)	FY20	FY21A	FY22E	FY23E
Net Sales (₹ crore)	3486.0	2593.0	4027.7	5234.7
EBITDA	544.0	171.9	616.2	848.0
EPS	3.5	-4.1	4.7	8.8
EV/Sales (x)	8.4	11.3	7.3	5.6
EV/EBITDA (x)	53.9	171.1	47.9	34.7
RoNW (%)	5.1	-6.3	6.8	11.8
RoCE (%)	15.9	4.3	16.5	22.1

Berger Paints (BERPAI)

- Berger Paints is the second largest paint company in India with a presence both in decorative and industrial paint. The decorative paints contributes 80% to the annual topline. With ~ 6 lakh metric tonnes of annual manufacturing capacity, Berger has a presence across all categories of premium, budget and economy products. Berger Paints commands 17% market share in the organised decorative market paints category
- With strong R&D expenditure and launch of innovative products Berger has improved its gross margin profile by 350 bps over the last 10 years. It witnessed a strong performance revenue, earning CAGR of 11%, 16%, respectively, in the last six years, supported by strong EBITDA margin expansion of 425 bps. The company sees a strong growth opportunity in the water proofing segment and is looking to expand its product portfolio in the said segment in the next two to three years. The Indian water proofing industry is pegged at ₹ 6000 crore currently compared to China wherein the size is pegged at US$22 billion
- We believe, given its strong semi urban and rural reach (higher than industry leader) along with government thrust on Housing for All & infrastructure development, Berger's volume growth will be in line with the market leader (~14% in FY21-23E). On the balance sheet front, despite heavy capital expenditure, Berger's balance sheet remained lean with strong return ratios (RoCE: 26%, RoE: 25%)

(₹ crore)	FY20	FY21E	FY22E	FY23E
Revenue	6,366	6,584	8,373	9,785
EBITDA	1,061.0	1,171.9	1,427.6	1,752.4
Net Profit	656.1	738.4	944.3	1,201.0
EPS (₹)	6.8	7.6	9.7	12.4
P/E (x)	156.8	118.9	105.6	82.6
RoE (%)	20.1	24.7	23.4	26.0
RoCE (%)	26.2	26.6	26.1	30.0

Abbott India (ABBIND)

- Abbott India is one of the fastest growing listed MNC pharma companies. It has outperformed the industry growth on a consistent basis in its key segments. The company's top five brands including (Duphaston–gynaecological, Thyronorm– thyroid, Udiliv, Duphalac– both GI and Vertin-CNS) together posted revenue CAGR of ~13% in March 2017-21 (MAT basis). Thus, revenue growth has been driven by top brands (power brands). Additionally, continuous new launches and line extension in existing and new segments is also driving growth. We expect future launches of new products from key divisions, along with brand extensions and access to innovative molecules from global parent to drive growth
- EBITDA margins have recovered from lows of 11.8% in FY14 to 21.4% in FY21. Core margins of the company could have been even better after excluding Novo Nordisk diabetic portfolio. Apart from this, erstwhile tax amendments have had the effect of reducing its tax rate from 36% in FY19 to 25-26% from FY20 onwards. Continued new product launches, volume led growth in Abbott India's top brands and intermittent price hikes in its portfolio provide comfort on overall financials. The company has also declared a ₹ 275 dividend (final: ₹ 120 + special:₹ 155) per share for FY21
- Covid-19 related disturbances notwithstanding, companies from the pharma MNC staple like Abbott continue to generate investor's interest with robust and sustainable business model backed by stable growth, debt-free b/s, favourable market dynamics with doctor prescription stickiness and lower perceived risk factor

	FY20	FY21	FY22E	FY23E
Revenues	4093.1	4310.0	4922.7	5513.5
EBITDA	756.4	921.5	1078.8	1254.0
EBITDA margins (%)	18.5	21.4	21.9	22.7
Net Profit	592.9	690.7	878.2	1021.9
EPS (₹)	279.0	325.0	413.3	480.9
PE (x)	57.7	49.5	39.0	33.5
RoCE (%)	30.7	33.8	38.7	36.6
ROE	24.4	26.5	30.3	28.4

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Tata Consumer Product (TATGLO)

- Tata Consumer (TCPL) is the market leader in the branded tea market by volume and second-largest in terms of value in India's ₹ 30000 crore tea market, which is 50% organised. Its steady growth in the category has been well supported by increase in tea consumption, brand strength with an established distribution network and new premium segment launches. The company has a strong portfolio of brands including Tata Tea, Tetley, Eight O'Clock Coffee and Good Earth. With the merger of Tata chemical's consumer business (Tata Salt, Tata Sammpan), the product portfolio has increased. It also has JVs with Starbucks to operate cafes in India
- TCPL's focus has shifted from base products to valued added products in each category, which would not only drive revenues but also expand margins upwards. It has launched black Tata Tea variants , Tata Sampann Poha (thin) & Quick chai (RTD tea) in India. We believe consumption shift from loose to branded packaged food would drive volumes in Tea and pulses categories. We expect 10.9% revenue CAGR during FY21-23E backed by volume growth in tea, pulses, Premiumisation in salt and considerable increase in new products launches in last few quarters
- With merger of food business, the product portfolio has presence of high growing categories like pulses & spice. We believe the growth prospects largely depend on converting loose or semi branded consumption to branded given tea, pulses, spices have a very large unorganised market. We also see margins expansion possibility in the long run with low raw material price volatility (current times are exception)

(₹ crore)	FY20	FY21	FY22E	FY23E
Net Sales	9637.4	11602.0	13149.9	14274.6
EBITDA	1292.2	1543.8	1797.0	2027.8
EBITDA Margin %	13.4	13.3	13.7	14.2
Adjusted Net Profit	641.8	932.6	1144.0	1335.9
EPS (₹)	5.0	10.1	12.4	14.5
P/E	132.0	65.3	53.1	45.5
RoNW %	4.6	6.4	7.6	8.5
RoCE (%)	6.9	8.0	9.1	10.0

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