Golden Large Cap Portfolio

June 2021 Update

June 1, 2021

Story of the stock

Titan Company (TITIND)

- Titan Company is a major player in the organised jewellery market with share of ~6%. Tanishq's penetration is still at a very nascent stage in the Indian jewellery market. This provides immense opportunity for Titan to enhance its market share, going forward. Recent regulatory changes such as gold hallmarking, GST have turned out to be highly favourable for organised players like Titan, leading to market share gains from unorganised players
- Titan is among few discretionary companies in our coverage to have reverted back to heathy sales growth post the pandemic disruptions. With a complete washout in Q1FY21 (70% decline), Titan's jewellery division ended the year strongly (Q4FY21 revenue growth of 59%) with sales growth of ~3% in FY21 (excluding gold bullion sale). This signifies the inherent strength of the business model & its strong brand patronage. Thrust on wedding space is bearing fruit with wedding jewellery becoming a critical growth driver during the year and its share in overall jewellery revenue increasing meaningfully
- Despite various headwinds, Titan has, over the years, withstood challenges and emerged as a resilient player. Focus on markets share gains and maintaining balance sheet strength (RoCE: 30%+, cash & investments: ~₹ 3400 crore) position Titan as our preferred pick in the discretionary category. We bake in revenue, earnings CAGR of 20%, 66%, respectively in FY21-23E

(₹ crore)	FY20	FY21	FY22E	FY23E
Net Sales (₹ crore)	21051.5	21644.0	25738.2	31262.3
EBITDA	2466.6	1724.0	2964.5	3961.6
EPS	16.9	11.0	21.8	30.0
P/E (x)	94.6	145.8	73.6	53.4
P/B (x)	21.3	18.9	15.7	13.0
RoNW (%)	22.5	13.0	21.3	24.3
RoCE (%)	28.7	17.6	28.3	32.2

HDFC Bank (HDFBANK)

- HDFC Bank is a large private sector bank with consistent track record of healthy business growth coupled with superior profitability. The bank has delivered more than 20% CAGR in earnings in last decade with superior liabilities franchise, focus on retail asset mix and prudent asset quality
- Second wave is expected to act as near term deterrent for business growth. However, unlocking of the economy, digital initiatives and rising economic activity are seen propelling credit growth at ~14-17% ahead
- Healthy liabilities franchise to keep margins at 4-4.4% and focus on operating efficiency to keep earnings momentum healthy at ~17% CAGR in FY21-23E to ₹ 42886 crore
- Healthy provision buffer at ~60 bps of advances to keep credit cost impact limited, thereby driving earnings growth. Restructuring was at 0.6% of advances. Prudent underwriting practices, retail business mix are expected to keep asset quality under control with GNPA expected below 2%
- Beefing up technology and enhancing digital capabilities is underway to address outage issues. Healthy traction in credit growth coupled with focus on operational efficiency and loan mix is seen keeping earnings momentum healthy. Consequently, the bank is expected to remain at premium compared to peers

(₹ Crore)	FY20	FY21	FY22E	FY23E
NII	56,186	64,880	74,383	85,620
PPP	48,750	57,362	64,265	74,885
PAT	26,257	31,117	36,584	42,886
ABV (₹)	305.4	361.3	402.1	442.2
P/E	29.8	25.3	21.5	18.4
P/ABV	4.7	4.0	3.6	3.2
RoA %	1.9	1.9	1.9	2.0
RoE %	16.4	16.6	17.0	17.9

Story of the stock

Asian Paints (ASIPAI)

- Asian Paints is India's leading paint company and ranked among the top 10 Decorative coatings companies in the world with a consolidated turnover of ~₹ 19,000 crores. Asian Paints along with its subsidiaries have operations in 15 countries across the world with 26 paint manufacturing facilities, servicing consumers in over 60 countries. Asian Paints is also present in the Home Improvement And Décor space in India through Sleek (Kitchens) and Ess Ess (Bath Fittings). Revenue wise, decorative paints contribute 84% in consolidated revenue while international, industrial and home improvement contributes 12%, 2% and 2%, respectively
- The Indian paint industry is valued at ₹ 54500 crore and is expected to grow at 12% CAGR in the next five years. The decorative paint segment constitutes ~74% of total paint sales (i.e. ~₹ 40,300 crore) and is likely to grow at CAGR 13% to ₹ 74300 crore by FY24E backed by shortening repainting cycle, rising urbanisation and aspiration level of middle class household in India. We believe Asian Paints will be a major beneficiary of increasing paint penetration in India supported by its vast Pan India dealer network of ~70,000
- Despite loss of sales in Q1, Asian Paints reported strong volume growth of 13% making up the 38% volume loss that occurred in Q1 due to lockdown. This shows its brand strength and deep penetration. For FY21-23E, we expect revenue, PAT CAGR of 18%, 17%, respectively. The balance sheet condition of the company has remained robust with cash surplus status and (RoE, RoCE of 25%, 30%, respectively). The dividend payout was higher at 56% in FY21

(₹ crore)	FY20	FY21	FY22E	FY23E
Revenue	20211.3	21712.8	25275.0	30069.1
EBITDA	4161.8	4855.6	5307.8	6500.8
EPS (₹)	21.4	23.1	29.0	33.4
P/E (x)	110.7	88.2	76.4	69.6
RoE (%)	23.4	27.4	25.0	26.2
RoCE (%)	28.9	30.5	29.6	30.8

Hindustan Unilever (HINLEV)

- Hindustan Unilever is the largest FMCG company is India with more than 40 strong brands across categories. The dominant categories for company has been detergent, soaps & personal care. However, after the acquisition of Horlicks, Boost, the food product portfolio has also become sizable. The acquired nutrition brands Horlicks, Boost have been growing at a faster pace mainly driven by introduction of affordable pouch pack, national launch of Boost, new communication strategy & driving sachets in semi-urban & rural regions. Further, the company expects to benefit from its large distribution network (2-3x of GSK existing network). It is also getting traction in chemist channel with the introduction of two new variants (Mother's Profit plus & Women Profit Plus). We believe the category would drive revenues and margins for the company
- HUL has adopted a strategy of climbing its consumers on premium ladder in almost every category. We have seen successful execution of this in detergent (from Wheel to Surf Excel Matic) and shampoos (from Clinic Plus to TRESemme). We believe premiumisation trend & incubation of new products would result in sustainable volume & pricing led growth. Also, despite elevated margins, acquired brands (Horlicks, Boost) give opportunity to further improve margins by eliminating common costs
- Given strong growth in nutrition business, judicious price hikes and continued strong growth in hygiene & foods business, we estimate 11.8% revenue growth in FY21-23E. We believe synergetic benefits of acquired nutrition brands would reflect in margin expansion, going forward, and expect earnings CAGR of 15.3% in FY21-23E

(₹ crore)	FY20	FY21	FY22E	FY23E
Total Operating Income	38785.0	45996.0	53365.2	57541.2
EBITDA	9600.0	11324.0	13444.9	14816.2
EBITDA Margin %	24.8	24.6	25.2	25.7
Net Profit	6738.0	7954.5	9517.7	10583.2
EPS (₹)	31.2	33.9	40.5	45.0
P/E	74.7	68.8	57.5	51.7
RoNW %	85.7	17.1	20.0	21.6
RoCE (%)	89.5	18.9	25.6	27.7

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Nestlé India (NESIND)

- Nestlé witnessed a sudden surge in demand for noodles as consumption for packaged instant food increased significantly given demand surge for 'at home' consumption products. Though initially the company faced supply issues due to closure of factories in April 2020, supplies improved significantly. Further, new launches across categories are gaining traction (71 new products launched in last five years contributing 3.4% to the sales). The company expanded its breakfast ready to eat in Maggi Poha & Maggi Upma, which would have gained traction during pandemic. We believe the company has been net beneficiary of change in consumption trend in last six months. We expect packaged food category would continue to drive growth, going forward
- The company intends to spend ₹ 2600 crore on capex in the next three to four years. The new factory at Sanand would be commissioned by the end of the year. The new capex would be largely for the existing categories like noodles, coffee & confectionary. We believe this capacity addition would help the company grow at a faster pace to capture the demand tailwinds of consumption shift towards package foods
- Nestlé India has been able to grow at a consistent pace over the last four years. However, volume growth has moderated to 2.6% in CY20. We expect certain supply constraints during peak of the pandemic & relatively smaller presence in rural regions to have impacted growth last year. However, we believe the company is well placed to capture growth now with increasing rural presence & capacity addition in existing categories

(₹ crore)	CY19	CY20	CY21E	CY22E
Net Sales	12295.3	13290.2	14763.6	16145.7
EBITDA	2864.3	3201.5	3656.9	4055.2
EBITDA Margin %	23.3	24.1	24.8	25.1
Net Profit	1969.6	2082.4	2456.6	2736.8
EPS (₹)	204.27	215.97	254.78	283.84
P/E	83.7	79.2	67.1	60.2
RoNW %	101.9	103.1	124.2	142.1
RoCE (%)	56.9	54.6	62.7	69.1

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