

VALUATION MULTIPLE SERIES INDUSTRY FOCUS - FMCG 1ST EDITION

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011-43192000



rnm@rnm.in



www.rnmcapitaladvisors.com

Methodology for Estimating Valuation Multiples

This Report's goal is to explain how the business valuation, financial performance, and corresponding valuation multiples for companies operating in the Fast Moving Consumer Goods Industry have changed over time.

The market bases its future growth projections & prospects, business valuation, and associated valuation multiples for enterprises on past financial performance.

Employing more than 10 million people, contributing to nearly 10% of the country's GDP, FMCG is the fourth largest sector in the economy. FMCG market reached INR 4.8 trillion as of March 2023 and total revenue of FMCG market is expected to grow at a CAGR of 27.9% through 2023 to 2027, reaching nearly INR 50.3 trillion. In 2023, urban segment contributed 65% whereas rural India contributed more than 35% to the overall annual FMCG sales. Good harvest, government spending expected to aid rural demand recovery in FY24. The sector had grown 8.5% in revenues and 2.5% in volumes last fiscal year. Union Budget 2023-24 has allocated INR 77 trillion for PLI schemes that aims to reduce import costs, improve the cost competitiveness of domestically produced goods, increase domestic capacity and promote exports.

Source: Indian Brand Equity Foundation (IBEF)

We have identified FMCG as the key sector, with value creation flowing to and from related sectors, that has a significant influence on the overall Gross Domestic Output of India. Further, we have identified 10 companies ("Representative Companies") that fairly represents the technical dynamics of the FMCG Industry.

As a part of this research, we have derived cash operating margin (EBITDA Margin) and net profit margin (PAT Margin) for Representative Companies in FMCG Industry. Along with various other multiples:- Enterprise Value to Sales, Enterprise Value to EBITDA, P/E Ratio, P/B Ratio, etc.

This Report is providing the information of the Representative Companies, namely:



Established in 1933, Hindustan Unilever is headquartered in Mumbai, India with over 30,000 employees and 29 manufacturing facilities. It offers products across categories such as Home Care, Personal Care, Beauty and Wellness and Food and Refreshments. Some of its product brands include Dove, Clinic +, Lakme, Pond's, Tresemme, Surf Excel, Vim, Brook Bond, Bru, Horlicks, Kissan, Lipton, Cornetto, Magnum, Kwality walls etc. HUL earns 32% of its revenue from Home Care, 38% from Beauty and Personal Care and 28% from Food and Refreshment segment. HUL registered 75% winning market share in FY23.



Established in 1937 as a subsidiary of Colgate-Palmolive, based in the United States, Colgate Palmolive India is headquartered in Mumbai, India with over 5,000 employees and 4 manufacturing sites. It offers products in categories such as Oral Care and Personal Care. Some of its core product brands include Colgate and Palmolive include Toothpaste, Toothbrush, Toothpowder, Speciality products, Mouthwash and Rinses, Hair Conditioners, Body Wash, Shampoo, Hand Wash, Shower Gel etc. Personal care segment forms 80% of its revenue in FY23.



Established in 1988, Marico is headquartered in Mumbai, India with over 2,400 employees, 7 domestic and 6 international manufacturing facilities. Marico offers its products in categories such as Hair Care, Personal Care, Skin Care, Edible Oil and Food. Its portfolio of brands include Parachute, Saffola, Nihar Naturals, Mediker, Coco Soul, Revive, Set Wet, Livon and Beardo and Just Herbs etc. The international consumer products portfolio contributes to about 23% of the group's revenue, with brands like Parachute, Parachute Advansed, HairCode, Fiancée, Caivil, Hercules, Black Chic, Code 10, Ingwe, X-Men, Mediker SafeLife, Thuan Phat and Isoplus etc. Marico is present globally with operations in over 25 countries across Asia and Africa.

TATA CONSUMER PRODUCTS

Established as Tata Tea Limited in 1964, Tata Consumer Products was rebranded in 2020. It is headquartered in Mumbai, India with over 3900 employees. It offers products in Food and Beverage segments such as Tea, Coffee, Liquid Beverages, Ready-to-make etc. Some of its product brands include, Tata Tea, Tetley, Good Earth, Eight o'clock, Tata Coffee, Tata Copper+, Tata Gluco+, Tata Fruski, Tata Salt, Tata Sampann, Tata Gofit, Himalayan Honey and Reserves, Tata Starbucks etc. It is present globally with operations in UK, USA and Canada contributing to 29% of its branded business revenue.



Established in 1910, ITC is headquartered in Kolkata, India, with over 23000 employees and more than 200 manufacturing units. ITC offers products in categories such as Foods, Tobacco, Personal Care, Education and Stationery and Home Care. Some of its product brands include Classic, Gold Flake, Aashirvaad, Sunfeast, Bingo!, YiPPeel, ITC Master Chef, Mint-o, Fiamma, Savlon, Engage, Vivel, Charmis, Classmate, Paperkraft, Mangaldeep, Homelites etc. ITC has 11 facilities in states like Punjab, Odisha, Andhra Pradesh and Telangana. FMCG-Cigarettes contributes to 60% of total revenue from FMCG segment and rest 40% by other products.



Established in 1884, Dabur is headquartered in Ghaziabad, India with over 8500 employees and more than 25 manufacturing facilities in India. Dabur offers a diverse range of products under categories such as Health Care, Personal Care, Home Care, Baby Care and Food. Some of its products include Real Fruit Power Juice, Dabur Amla Hair Oil, Dabur Vatika, Dabur Chyawanprash, Hajmola, Adonil, Dabur Babool, Dabur Glucose-D, Dabur Toothpowder, Dabur Honey, Shilajit, Odomos, Dabur Pudinhara, Honitus Cough Syrup etc. Dabur is globally present with operations in Middle East, Africa, Asia and Europe.



Established in 2001 as a result of the demerger of the FMCG business from Godrej Soaps Limited, Godrej Consumer Products Limited is headquartered in Mumbai, India with over 3400 employees and more than 27 manufacturing facilities in India. It offers products in a wide range of categories such as Personal Care, Household Care and Air Care. Some of its product include Cinthol Soap, Godrej Fair flow, Good Knight Mosquito Repellent, Hit Mosquito Spray, Godrej Aer room freshener, Godrej Expert Hair Colour, Godrej Renew, and Godrej Nupur and many more. Godrej has global presence with operations in Europe, Latin America, Africa and Indonesia. It derives 55% of its revenue from India, 20% from Indonesia and remaining from rest of the world.



Established in 1892, Britannia Industries is headquartered in Kolkata, India with over 4000 employees and more than 10 manufacturing plants in India. It offers a diverse range of products in Bakery and Dairy category like biscuits, breads, cheese etc. Some of its product include Good Day, Marie Gold, Nutrichoice, 50-50, Jim Jam, Bourbon, Treat Crème Wafers, Muffins, Cheese Slices, Ghee, Toastee, White Bread, Wheat Flour Bread, Gourmet Bread and many more. It earns more than 85% of its revenue from within India sales of its products.



Established in 1959, Nestle India is headquartered in Gurgaon, India, with over 8000 employees and 8 manufacturing plants in India. It offers a diverse range of product groups such as Dairy and Milk Products, Health and Nutrition and Food and Beverages. Some of its product brands include Nescafe, Nescafe Gold, Nestea, Nestle Breakfast Cereals, Koko Crunch, KitKat, Munch, Milkbar, Nestle EveryDay, Maggi Noodles, Maggi Magic Masala, Maggi Sauces and many more. Health and Nutrition products contribute to 40% of its revenue, Food and Beverage products contribute to 43.5% and remaining is contributed by rest of the products groups.



Established in 1964, Procter and Gamble Hygiene and Health Care is headquartered in Mumbai, India with over 500 employees and 2 manufacturing facilities in India. Company's segments include Healthcare products and Hygiene products. Healthcare products segment includes Ointment and Creams, Cough Drops and Tablets. The Hygiene products segment includes feminine hygiene products and other skin care hygiene products. Its portfolio of brands includes Whisper, Vicks VapoRub, Vicks Throat Drops, Vicks Action 500 Advanced, Vicks Inhaler and Vicks BabyRub.

Financial Performance of Representative Companies

Revenue

Revenue is the money generated from normal business operations, calculated as the average sales price times the number of units sold.

EBITDA Margin

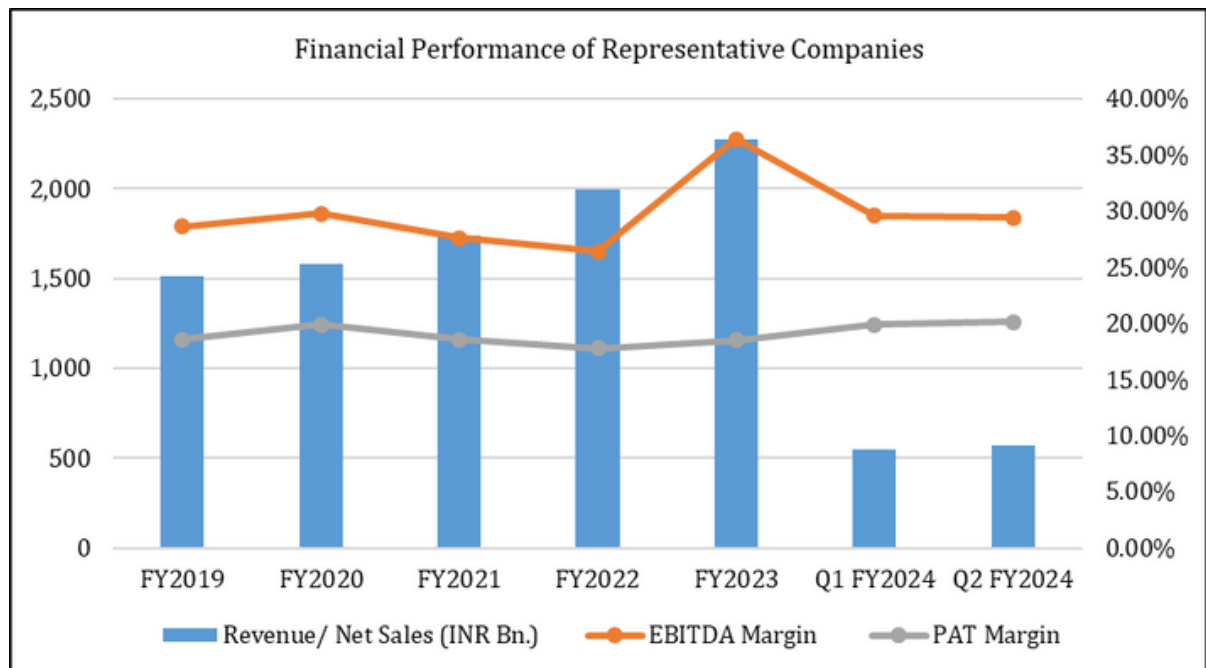
EBITDA margin is a profitability ratio that measures how much earnings a company is generating before interest, taxes, depreciation and amortization, as a percentage of revenue.

EBITDA Margin = EBITDA/Revenue. It is also referred to as 'Cash Operating margin'.

PAT Margin

Profit After Tax refers to the amount that remains after a company has paid off all of its operating and non operating expenses, interest and taxes.

EPAT Margin = PAT/Revenue.

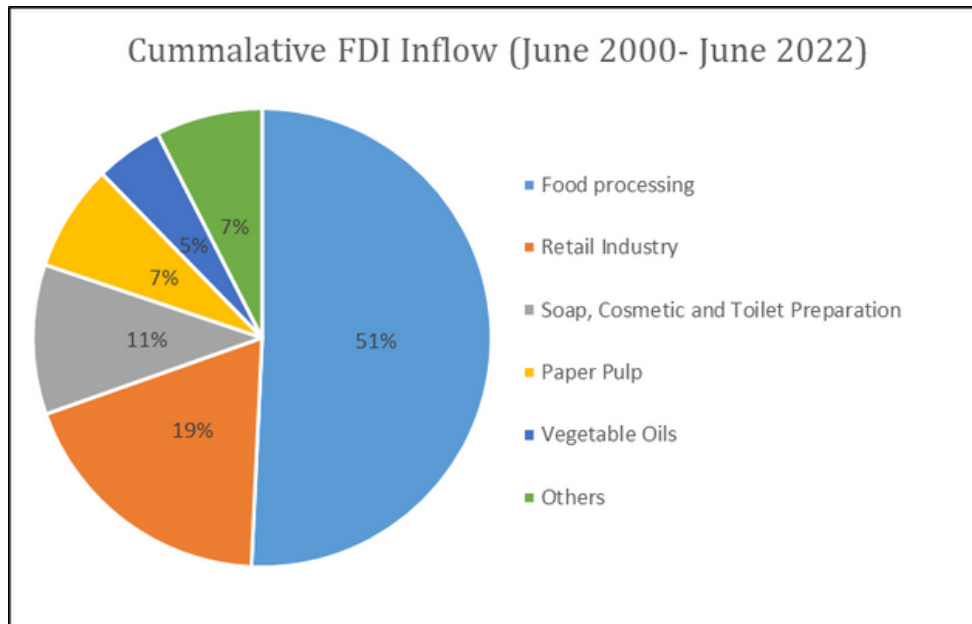


The FMCG Industry has grown at a steady rate over the last 5 years with revenue growth at a CAGR of 10.65% from FY19 to FY23.

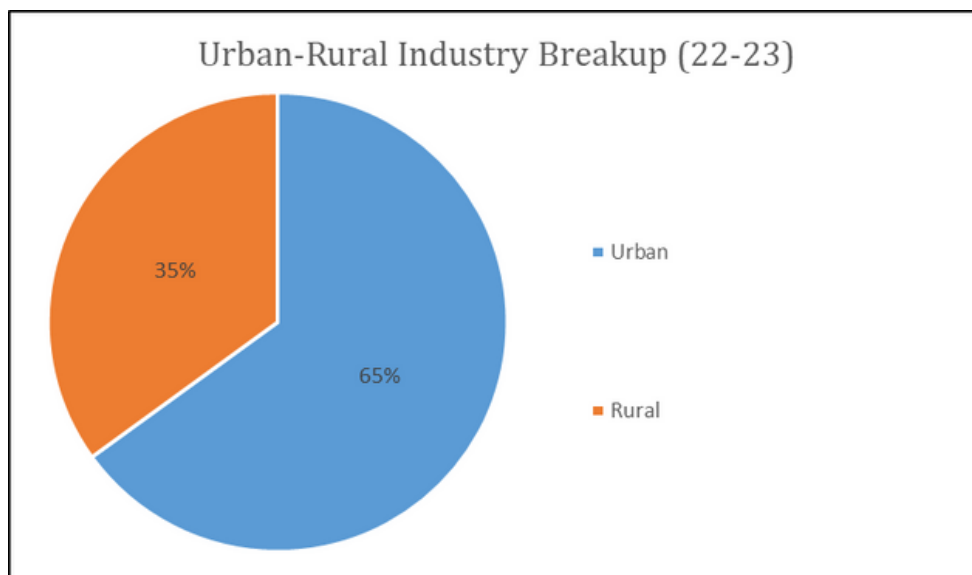
- The revenue numbers have been growing steadily from INR 1516 billion to INR 1743 billion in FY19 and FY 21 respectively. Further it increases to INR 2272 billion in FY23.
- The EBITDA margin increases from 28.64% to 29.77% in FY19 and FY20 respectively. After which it falls to 27.63% in FY22 post which it rises swiftly to 36.45% in FY23.
- The PAT margins increased from 18.6% to 19.89% in FY19 and FY20 respectively. Further it falls to 18.55% and 17.79% in FY21 and FY22 respectively post which it rises to 18.49% in FY23.
- Revenue numbers have increased by 4% QoQ in FY24, while PAT and EBITDA margins have remained constant.
- Margins are seen rising FY22 onwards due to increased inflationary pressure in western countries and increased domestic consumption.



FDI and Industry Break Up for FMCG Industry



- 100% FDI is allowed in food processing and single-brand retail and 51% in multi-brand retail.
- The sector recorded an FDI of INR 1.6 trillion between June 2000-June 2022.

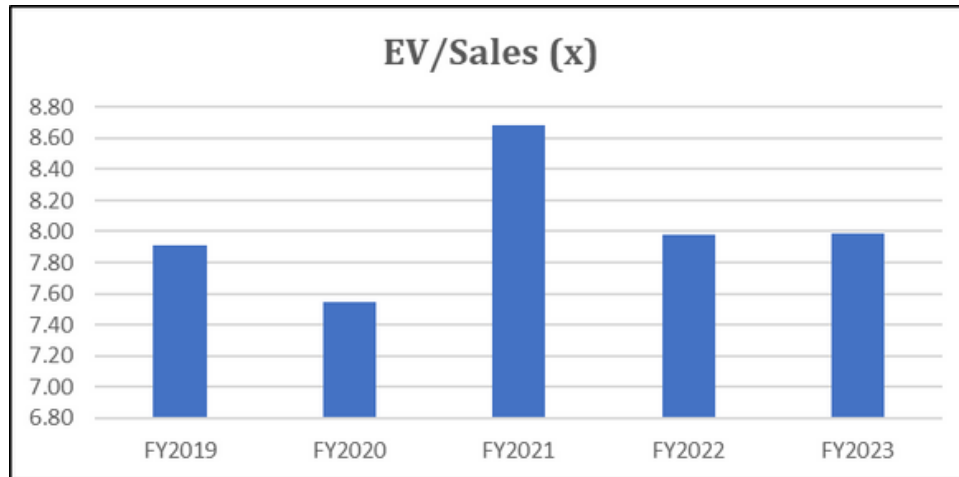


- Accounting for a revenue share of around 65%, urban segment is the largest contributor to the overall revenue generated by the FMCG sector in India in 2023.
- India's villages contributed more than 35% to overall annual FMCG sales in 2023.

Multiples: FMCG

EV/Sales

Enterprise value-to-sales (EV/sales) is financial valuation measure that compares the enterprise value (EV) of a company to its annual sales. The EV/sales multiple gives a quantifiable metric of how to value a company based on its sales while taking account of both the company's equity and debt.

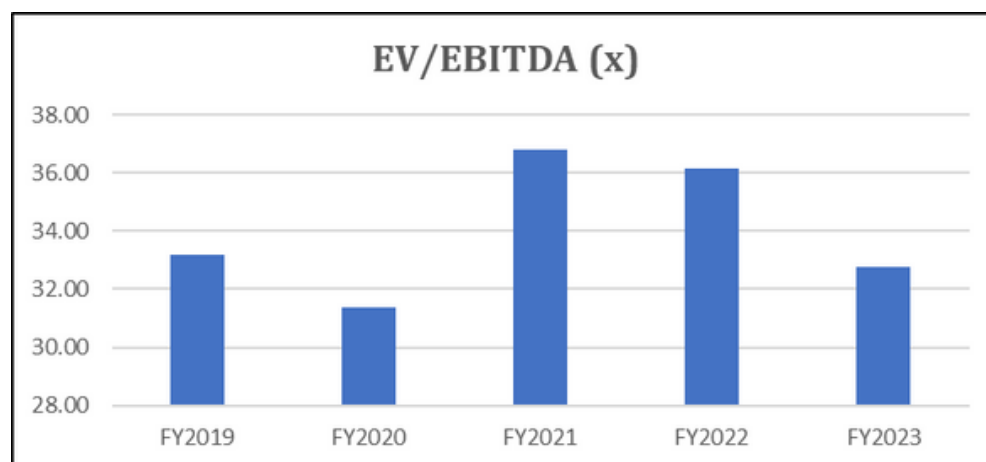


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
EV/Sales (x)	7.91	7.55	8.68	7.98	7.99

EV/Sales falls from 7.91x to 7.55x in FY19 and FY20 respectively, post which it starts to recover swiftly to 8.68x in FY21, further it falls to 7.98x in FY22 and remains constant at 7.99 at FY23.

EV/EBITDA

EV/EBITDA multiple is used to project the Enterprise Value (EV) of a company in terms of the EBITDA.

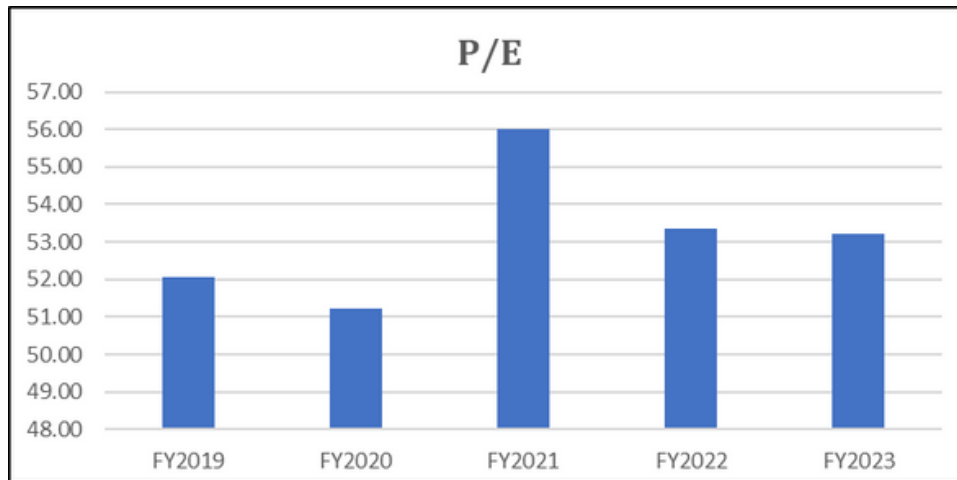


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
EV/EBITDA (x)	33.18	31.39	36.82	36.14	32.79

EV/EBITDA falls from 33.18x to 31.39x in FY19 and FY20 respectively, further it increases to 36.82x in FY21, post which it falls marginally to 36.14x and 32.79x in FY22 and FY23 respectively.

P/E

Price to earnings ratio measures the company's current share price relative to its earnings per share. P/E ratios are used to determine the relative value of a company's shares.

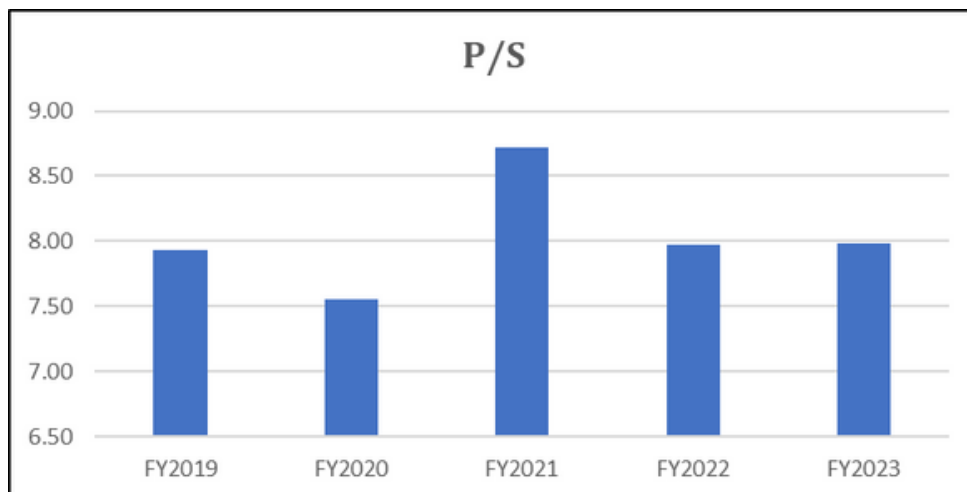


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
EV/Sales (x)	52.04	51.22	56.02	53.36	53.22

P/E begins to fall from 52.04x to 51.22x in FY19 to FY20 respectively. Further it starts to recover and registers a multiple of 56.02x in FY21. Further, it falls and reaches 53.36x in FY22 and then falls marginally to 53.22 in FY23.

P/S

P/S ratio shows a company's market capitalization divided by the company's sales for the previous 12 months. It is a measure of the value investors are receiving from a company's stock by indicating how much equity is required to generate \$1 of revenue.

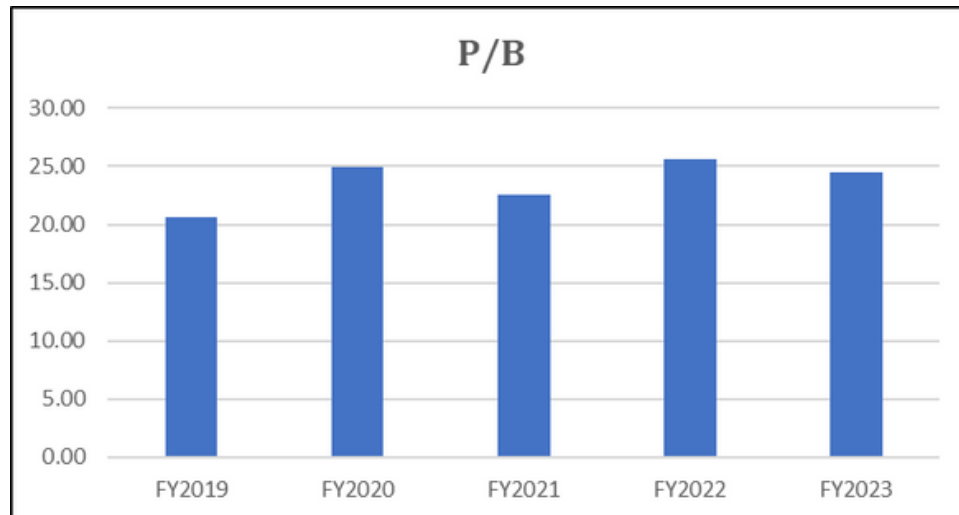


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
EV/Sales (x)	7.93	7.55	8.72	7.98	7.98

P/S falls from 7.93x to 7.55x in FY19 and FY20 respectively, further it shows a positive trend and registers its highest P/S(x) at 8.72x in FY22 respectively, after which it decreases to 7.98x in FY23.

P/B

Price to book ratio compares a firm's market capitalization to its book value and is usually used to locate undervalued companies. This multiple is calculated by dividing the company's current stock price per share by its book value per share.



Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
EV/Sales (x)	20.67	24.89	22.54	25.66	24.53

P/B rises from 20.67x to 24.89x in FY19 and FY20, respectively. Further, it falls to 22.54x in FY21 before rising to 25.66x in FY22, post which it registers a multiple of 24.53x in FY23.



About RNM Capital Advisors

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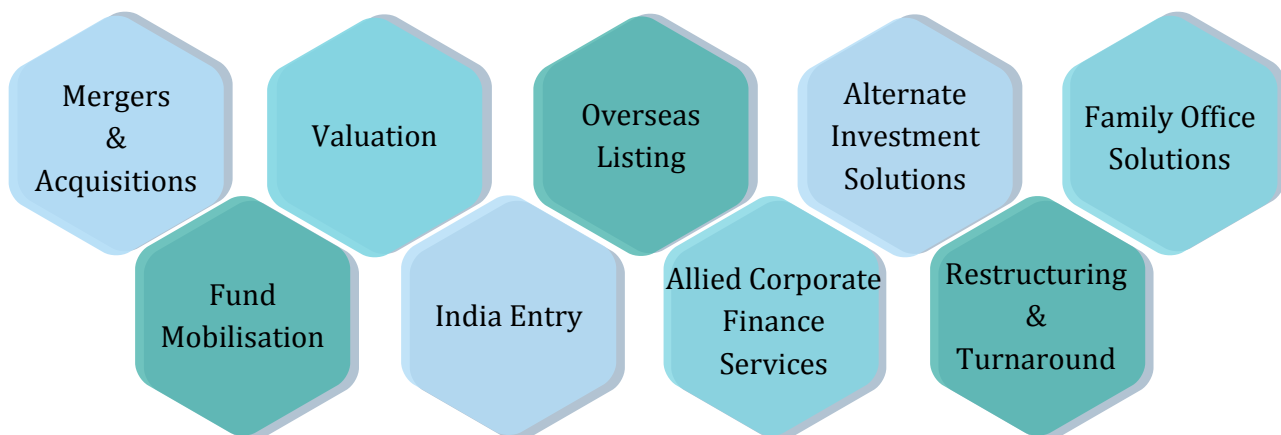
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CONTACT US



Raghu Marwah

Managing Partner

Email: raghu.m@rnm.in

Office: +91 11 43192000

Hand phone: +91 9810121340



Varun Verma, CFA

Executive Director

Email:

varun.v@rnmcapitaladvisors.com

Office: +91 11 43192000

Hand phone: +91 9953500174



Abhiram Sanduja

Corporate Finance Analyst

Email:

Team1@rnmcapitaladvisors.com

Office: +91 11 43192000

Hand phone: +91 9818287979

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