

**Rating: Subscribe**

**Issue Offer**

**Fresh Issue of equity shares worth INR 36,000 Mn.**

**Issue Summary**

Price Band (INR)	218-230
Face Value (INR)	1
Implied Market Cap (INR Mn)	2,98,878
Market Lot	65
Issue Opens on	Jan 27, 2022
Issue Close on	Jan 31, 2022
No. of share pre-issue	1,14,29,48,860
No. of share post issue	1,29,94,70,599
Listing	NSE / BSE

**Issue Break-up (%)**

QIB Portion	50
NIB Portion	15
Retail Portion	35

**Book Running Lead Managers**

Kotak Mahindra Capital Company Ltd.
J.P. Morgan India Pvt. Ltd.
BofA Securities India Ltd.
ICICI Securities Ltd.
Credit Suisse Securities (India) Pvt Ltd.
HDFC Bank Ltd.
BNP Paribas

**Registrar**

Link Intime India Pvt. Ltd.

**Shareholding Pattern**

	Pre-Issue	Post- Issue
Promoters & Promoter Group	100%	88%
Non Promoter Public	-	12%

**Objects of the issue**

- Capital Expenditure for expanding and developing new manufacturing facilities.
- Funding strategic acquisitions and investments.
- Repayment/prepayment of borrowings.
- General corporate purposes.

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**Anushka Chitnis**

**Company Profile:** Adani Wilmar Ltd. (AWL) is one of the largest FMCG companies in India, offering a variety of household products like edible oil, wheat flour, rice, pulses, sugar, and soap products across a range of brands. Their most prevalent (flagship) brand is 'Fortune' under which the company sells edible oils. AWL's portfolio can be broadly classified into: (i) edible oil, (ii) packaged food and FMCG, and (iii) industry essentials. The first two categories accounted for 73% of AWL's sales in FY21.

**Investment Rationale:**

**Brand Leadership and Differentiated product Portfolio:** As of FY21, Fortune had a 18.3% share in the Refined Oil in Consumer Packs ("ROCP") Market. AWL is currently one of the top 5 fastest growing packaged food companies in India, based on the Revenue growth over the last five years. Additionally, AWL recently launched its FMCG segment with soaps, hand wash and sanitizers, effectively reducing dependence on a single product category. In FY21, Fortune was present in 1/3<sup>rd</sup> of the households in India. They also cater their offering to different price points, with "Fortune" being a premium product and "Bullet" being a value product. AWL is focusing on increasing the share of value-added products, including ready-to-cook products (soya chunks, khichdi, etc.) in the product portfolio to increase overall market share of the company. It also places a significant importance on providing foods with intended health benefits, such as functional edible oil products and fortified foods.

**Extensive Distribution network with strong manufacturing capabilities:** From FY19 to FY21, AWL's distribution network has grown 33%. As of H1FY22, AWL had 5,590 distributors located in 28 states and 8 union territories, catering to over 1.6 million retail outlets (approximately 35% of the retail outlets in India). Its products are also available across various Ecommerce platforms like Grofers and its online sales have grown 53.3% since FY20. The company also has end-to-end manufacturing capabilities that are fully integrated: Refineries to process crude oil imports, integrated with crushing units for edible oil. AWL currently has 22 plants (10 crushing units and 9 oil refineries) strategically located across 10 states to be near ports and raw material production bases to reduce logistic costs, sequentially allowing the company to have a competitive advantage.

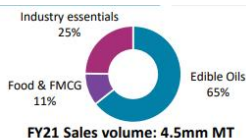
**Market Leaders with robust material sourcing capabilities:** AWL is one of the 5 largest oleo chemical manufacturers in India in terms of revenue, and the largest manufacturer of stearic acid and glycerin in India with a market share of 32% and 23%, respectively. As of FY20 AWL was the largest exporter of castor oil and among the 3 largest exporters of oleo chemicals in India. As AWL imports a significant portion of its raw material, its market leadership has secured top suppliers from international markets. In FY21, AWL was the largest importer of crude edible oil, giving them significant bargaining power over their peers. In FY21, 30% of AWL's imported raw material was sourced from the Wilmar Group. In India, AWL has a broad procurement network of channel partners and agents helping them connect to farmers.

**Valuation and Outlook:** At the upper price band of INR 230, the company is valued at a P/E multiple of 36x based off its FY21 EPS share of INR 6. The company has cemented its market leadership in the edible oil industry in India and has consistently been churning profits since FY19. We Recommend that investors **Subscribe to the issue as the company has a promising growth trajectory enforced by its capable management and constant product innovation.**

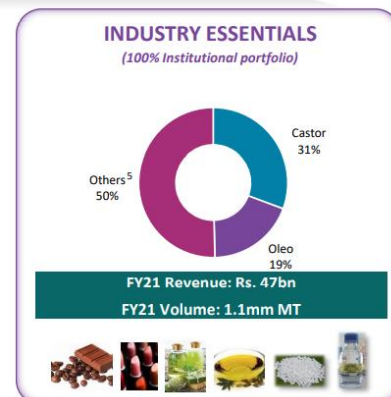
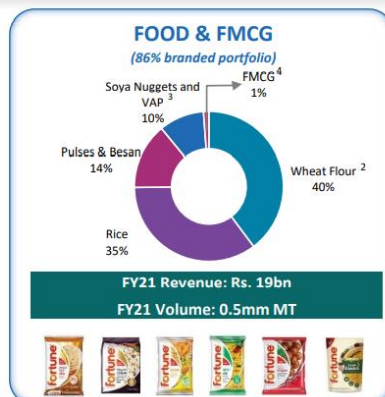
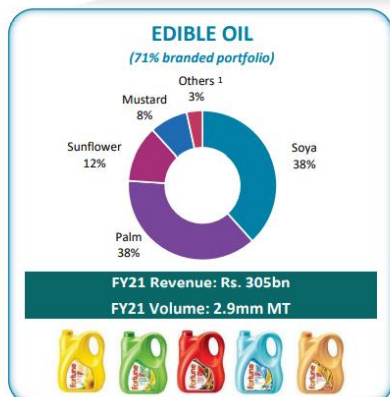
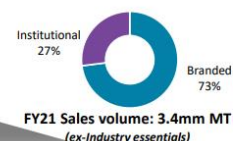
## Conference Call Takeaways:

- AWL has 22 of their own factories and 28 factories where they outsource production. 95-96% of sales comes from their own factories because they are bigger and produce more. Edible oils sold are processed, packed and discharged from their own factories.
- There is not much seasonality when it comes to demand patterns. There is some variation during summer as demand goes down then and volumes reduce. Festive season from October to March has a 15% higher consumption than the rest of the FY. The 2<sup>nd</sup> wave of COVID heavily impacted consumption but that is fading away now.
- Rural sales are 35% of volumes, and 65% of the volumes from urban areas. 35% of staple product sales come from rural areas. Hence they are very important and cannot be overlooked.
- From a trend perspective, the share of branded sales has grown at a rate 4-5% faster than other segments, even though COVID impacted the sales of 1L pouches. 70% of the edible oil sales comes from 1L pouches, 15% from large tins and the remaining comes from 5L and 2L pouches. The best margins are in the 5L pouches as consumers who go for them are generally well-to-do and care less about price points.
- AWL was among the first companies to introduce flaxseed oil in India. Flax is known to balance omega 3 and 6 fatty acids. They have also developed a premium range to control diabetes, cholesterol, and balance fatty acids. AWL has also been studying olive oil and might consider adding it to the value added segment along with pasta and noodles. They have recently introduced poha as well.
- Ecommerce sales have done well during COVID. 75% of the business of edible oil comes from general trade, 5% comes from ecommerce, and the remaining from stores like big bazaar, dmart, wlamart, etc. In places like Bangalore, Pune, and Gurgaon, Ecommerce sales are close to 40% as the market is developed there. Ecommerce also has its own private labels, but consumers care more about the brand, and subsequently the market for branded oils is growing fast.
- AWL times inventories based on seasonality, especially for products like rice. They keep churning inventory positions as needed. This is to keep consistency in quality which is required for products like atta. They generally keep a 45 day inventory for edible oils.
- Margins are better in soft oils like sunflower, soya, mustard, etc.
- AWL will use its market understanding to deal with any price fluctuations going ahead. Wilmar is a very large international buyer: The largest buyer of soybean in the world, and also the largest processor of palm and sunflower oil. This gives them a clear understanding of how the market is behaving and the demand and supply situation. AWL also employs strict hedging mechanisms and risk management policies.
- They have an advantage over their competition with their 10 port based refineries. Plants are located such that shortages in one plant can be compensated by another in a short span of time.
- North and east India are big markets for the company. Retail penetration Delhi is over 95%. Their presence is not so strong in south and they are trying to push themselves there.
- Inflationary pressure is still present with edible oil prices up 15-17% this year. The government intervened and reduced duties which cooled down the market. Freight prices have also gone up and so have packaging prices which were passed on to consumers. However, all of this is normalizing now.
- Fortune oil is available in 50 countries. The most important export is basmati rice which has large markets in the Middle East, Australia, New Zealand, Sri Lanka, Singapore, etc. Mustard oil also has large demand in exports. Atta is also a big export commodity, namely to Australia and the Middle East. Soy chunks too have large demand from Indian expats. The company spreads its operations by packing sunflower oil in Ukraine and shipping it worldwide. This was started 6 months ago as they started working on creating a distribution network in international markets that will work with distributors from India. Basmati rice and mustard oils are big commodities in Bangladesh, AWL has an extensive network set up there for distribution.
- AWL is a large player in B2B specialty packs. It allows buyers to design and customize products with the company. Products are designed in labs with advanced product formulation. E.g. they supply specialized oils to KFC, and many specialized products to the food industry.
- AWL is the largest oleo chemical player in India and the largest manufacturer of soap noodles (soap base) in India. The company plays with this in smaller (rural) markets. Their soap noodle quality is the best in the country, and toilet soaps are in high demand growing at 40%. However, they have not taken any market share in this segment. That being said, they are strong players in their selected few markets.

## About the Business



**adani  
wilmar**



## Key Strategies

- **Pursue strategic acquisitions to expand geographic presence and grow the product portfolio:** AWL is looking to acquire regional companies in the south that operate in edible oil and food as they have a strong local presence. They also seek to acquire FMCG brands and businesses to expand manufacturing and distribution capabilities.
- **Multiple methods of Margin Expansion:** Focus on improving market share, paving the way to premium pricing, better operational efficiency through strategic location of manufacturing hubs, achieve economies of scale, and leverage this scale to procure raw materials at competitive prices.
- **Expand Distribution Network:** Though an omni-channel approach, use ecommerce platforms to expand online reach from 25 to 100 cities. Empower kiranas and retailers with the newly launched “Fortune Business” mobile application.

## Key Risks

- Significant dependence on imports leaves procurement costs to the mercy of external factors like import restrictions and policy changes in the exporting country, fluctuations in exchange rate, etc.
- COVID-19 has significantly affected transportation costs and logistics. This may continue to persist in the near future.
- Shortages or non availability of certain manufacturing inputs could adversely affect operations in a material way.

## Peer Comparison

Company	Revenue (INR Mn)	P/E (x)	EPS (INR)	RoNw (%)	NAV per share (INR)
<b>Adani Wilmar Limited</b>	<b>3,71,957</b>	<b>36.11</b>	<b>6.37</b>	<b>22.06</b>	<b>28.86</b>
Hindustan Unilever Limited	4,70,280	69.63	34.03	16.8	202.99
Britannia Industries Limited	1,31,361	46.73	77.40	51.6	148.80
Tata Consumer Products Limited	1,16,020	78.65	9.30	6	169.57
Dabur India Limited	95,617	59.05	9.58	22	43.57
Marico Limited	80,480	54.03	9.08	36.8	25.23
Nestle India Limited	1,33,500	89.73	215.98	103.1	209.44

## Management

Key Person	Description
<b>Kuok Khoon Hong</b>	Kuok Khoon Hong is the Non-Executive Chairman. He has over 40 years of experience in the agribusiness industry and is the co founder of Wilmar International Limited and currently, he is the Chairman and Chief Executive Officer of Wilmar International Limited.
<b>Angshu Mallick</b>	Angshu Mallick is the Chief Executive Officer and Managing Director. He has over 35 years of experience in marketing and sales in the food industry. Previously, he was working with Gujarat Co-operative Milk Marketing Federation Limited as Manager, Marketing and Distribution.
<b>Pranav Vinod Adani</b>	Pranav Vinod Adani is the Non-Executive, Non-Independent Director. He has been working with the Adani Group since 1999 and currently heads the oil and gas, city gas distribution and agri infrastructure businesses of the Adani Group.
<b>Malay Ramesh Mahadevia</b>	Malay Ramesh Mahadevia is a Non-Executive, Non-Independent Director. He has been working with the Adani Group since 1993 and was the Group HR Director of Adani Group.

Source: RHP, Company IPO Presentation, Arianth Capital Research



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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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