



**Comparing Companies for**

**Better Investments**

# Comparing Companies for Better Investments



# Relative Analysis

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## What is Relative Analysis ?

- Comparing key financial and operational metrics between companies within the same industry
- Helps identify value and growth opportunities by benchmarking performance

## Why it Matters ?

- Standardized Framework – Apples to apples comparison
- Identifies Outperformers
- Risk Management

# Importance of Comparing Companies

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## Identifying Undervalued Companies

- Helps identify companies that might be undervalued based on industry metrics
- If HUL has a lower PE than TCP despite similar earnings growth, it could signal an undervalued opportunity

## Uncovering inefficiencies

- Market's sometimes can be inefficient, and comparative tools can help reveal mispriced stocks
- Look for companies with strong fundamentals but a valuation lower than the industry

## Better Decision-Making

- By comparing companies across multiple metrics, investors can make more informed decisions
- ITC might seem attractive based on its PE ratio and strong brand, but more comparison with industry will reveal the discounted valuation

**What is the process?**

# What is the process?

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Financial Data

Qualitative Factors

Using AI



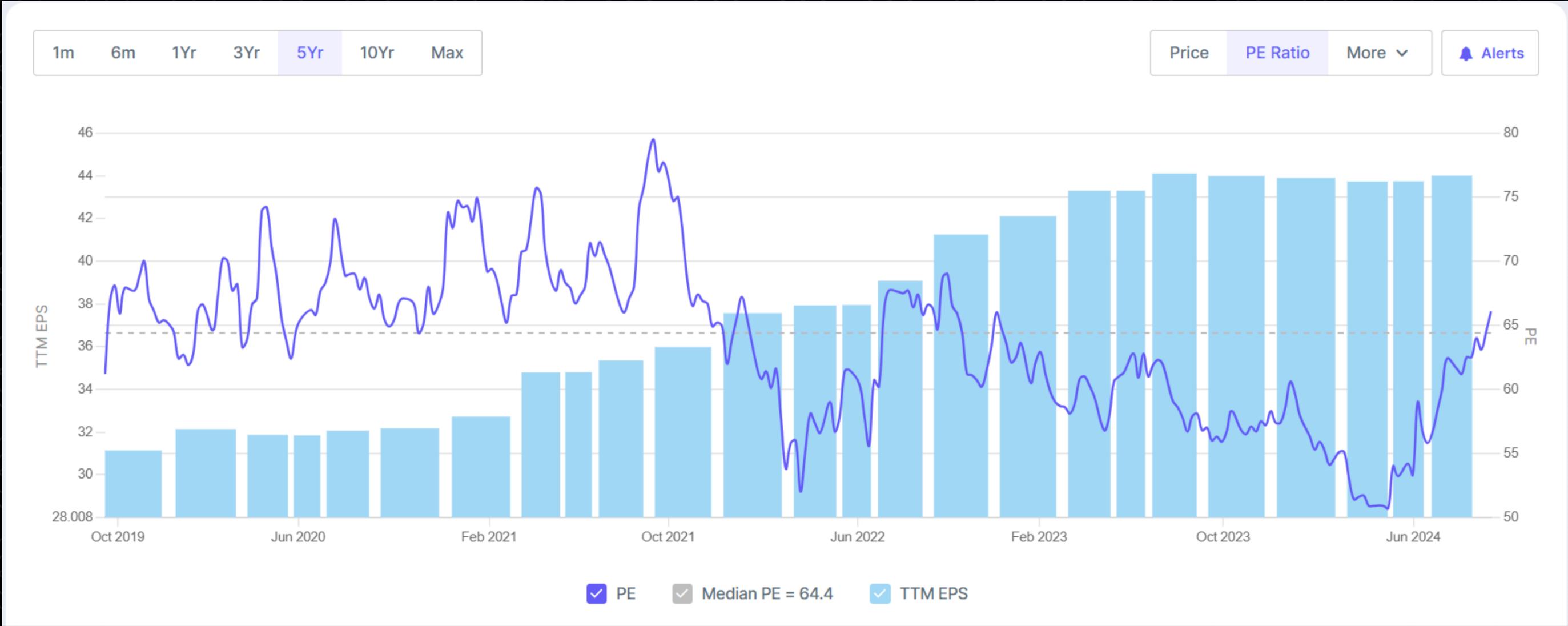
Valuation Metrics

Industry Context

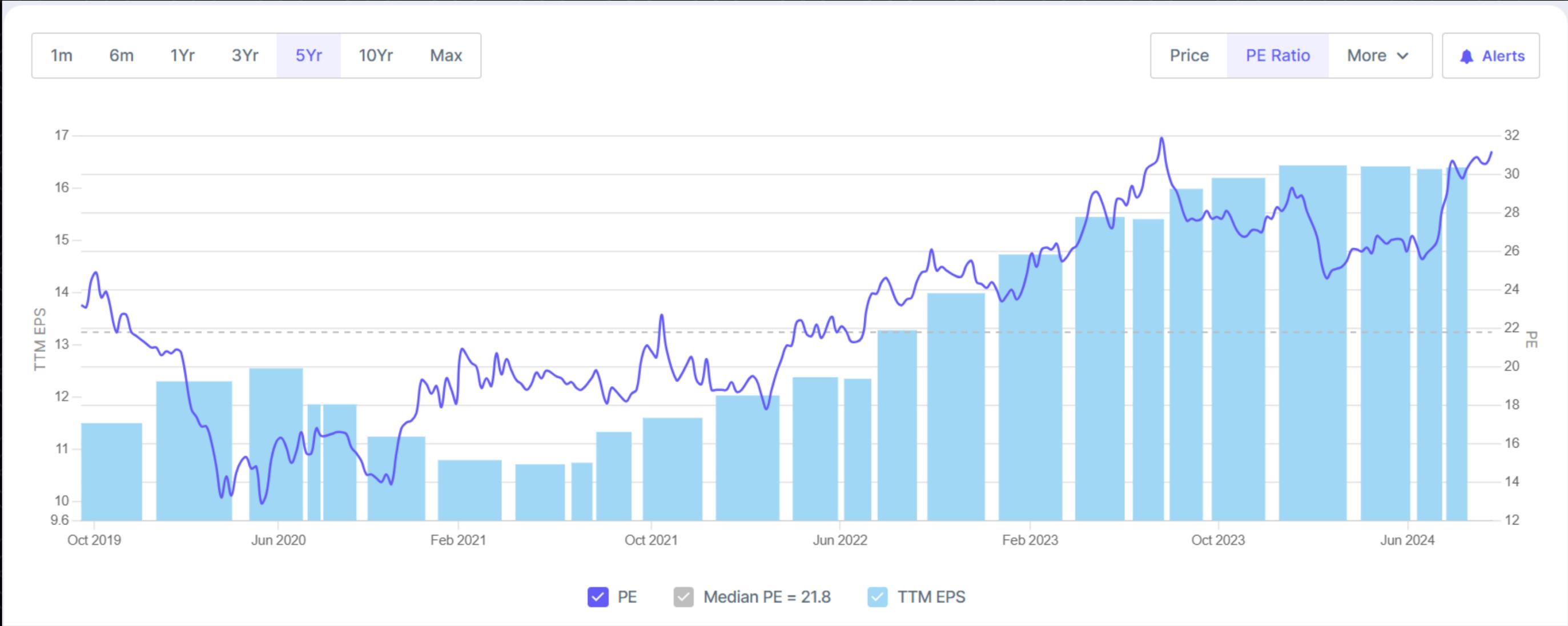
# Wisdom of the street

A company with the highest ROCE is considered the best option to invest in the FMCG industry.

# HUL PE



# ITC PE



# Marico PE



# TCP PE



# Price to Earnings

What does it reveal

# Price to Earnings – What does it reveal

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The P/E ratio helps gauge whether the market has high or low expectations for a company's earnings growth.

- **High P/E:** The market expects strong future growth (may indicate overvaluation if growth doesn't materialize).
- **Low P/E:** The market might expect slower growth or undervalue the stock.

**When to Favor**

**Higher/Lower P/E**

# Low/ Falling P/E

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- If low P/E is caused due to falling EPS, it is not acceptable.
- If a low P/E is caused due to falling stock prices, it is an ideal case for investors.
- So we can say that a company with stable earnings, but experiencing a falling P/E trend, is more suitable for investing.

# Dividend Yield

# Dividend Yield

- Dividend yield is crucial for income-focused investors, as it reflects the cash return from holding a stock.
- A higher dividend yield may indicate a mature, stable company, but it can also suggest lower growth prospects.



# PEG Ratio

# Combining growth with PE

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- **Formula = PE Ratio/ EPS Growth Rate**
- **Low PEG number means stock is undervalued, and high PEG indicates overvaluation (General rule of thumb, PEG<1 = Under | PEG >1 = Over)**
- **Therefore, even if the company's P/E ratio is high, if the future growth potential supports it, the stock is worth investing in**

# Combining growth with PE

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- **PEG may not be suitable for large companies (like blue chip stocks). The EPS growth rate is small and so the market price appreciation might also slower (compared to growth stocks).**
- **Therefore, these stocks often reward it's investors more through dividend payment than by price appreciation.**
- **Moreover, just because they are large blue chip stocks, their stocks are always in high demand. But this does not means that these stocks are always overvalued. Hence, to value such companies PEG ratio may not be a sufficient tool.**

**When to Favor Higher/Lower**

**Dividend Yield**

# When to Favor Higher/Lower Dividend Yield

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- Dividend yield is particularly relevant in low-growth, stable industries or for investors with an income-focused strategy.
- Important to consider alongside other metrics—high dividend yields can sometimes signal companies that are sacrificing growth for immediate shareholder returns.

**Numbers alone don't**

**tell the full story**

# Beyond the Numbers: **Key Qualitative Factors**

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- ⦿ While valuation metrics offer crucial insights into a company's financial health, qualitative factors reveal elements that numbers can't fully capture.
- ⦿ These factors influence long-term performance, growth prospects, and a company's resilience in the market.

**Key Qualitative Factors**

**to Consider**

# Key Qualitative Factors to Consider

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**Management  
Quality**

**Competitive  
Position**

**Innovation  
and R&D**

**Corporate  
Governance**

**Comparing Management**

**across companies**

# Comparing Management across companies

- Balanced and conservative management, with a long-term focus on diversification (tobacco funding FMCG growth)
- Strong execution in tobacco, but the FMCG strategy is still evolving



- Recognized for visionary leadership, focusing on sustainability and digitization.
- Strong track record of execution, consistently meeting market expectations



- Agile management with a focus on innovation, particularly in the health and wellness space
- Known for efficient execution in both domestic and international markets



- Backed by the strategic vision of the Tata Group, focusing on expanding its FMCG footprint
- Strong execution in transitioning from a tea company to a broader FMCG player



# Comparing Competitive Positioning

- Market leader in the tobacco segment but still building its competitive edge in FMCG (e.g., food, personal care)
- Brand strength in tobacco (Gold Flake, Classic) but weaker in FMCG
- Strong distribution for tobacco, expanding FMCG distribution



- Market leader in personal care, home care, and food categories
- High brand loyalty, with strong brands like Dove, Surf Excel, and Knorr
- Extensive distribution network, unmatched in reaching both urban and rural market



- Leadership in niche segments like hair oils (Parachute) and healthy foods (Saffola)
- Strong brand loyalty in its focused product areas, with consistent consumer preference for Parachute.
- Good distribution network, particularly strong in rural and semi-urban markets.



- Strong competitive position in beverages (Tata Tea, Tetley) and growing in staples (Tata Salt).
- High brand loyalty, especially in tea and salt, both household staples in India.
- Expanding distribution network as it diversifies further into broader FMCG categories.



# Comparing Innovation and R&D

- ITC's innovation efforts are focused on diversifying its FMCG product range while maintaining leadership in the tobacco sector. R&D is key in segments like food and personal care, though the company's legacy businesses take precedence.



- Focused on consumer-driven innovation, HUL invests heavily in R&D to create new products and improve existing ones. Recent focus areas include eco-friendly packaging, AI-driven consumer insights, and health-oriented products.



- Marico emphasizes innovation in health and wellness, regularly launching new products in line with emerging consumer health trends. The company is quick to adapt to shifting preferences in oils and personal care.



- Tata Consumer is focusing its R&D on expanding beyond beverages, with an emphasis on healthy and sustainable food products. Leveraging the Tata brand's credibility, the company is gradually scaling its wellness-driven offerings.



# Comparing Corporate Governance

- ITC emphasizes sustainability and governance, particularly in the context of its diversified portfolio. However, the heavy reliance on the tobacco business raises some ESG concerns
- ITC has a strong track record of stakeholder engagement and transparency



- Known for its high standards of corporate governance, with a focus on transparency, ethical business practices, and sustainability
- Regularly recognized for its corporate responsibility, with strong ESG (Environmental, Social, Governance) ratings



- Marico is recognized for its focus on ethical business practices and transparency, supported by a modern corporate culture that encourages innovation while maintaining solid governance
- The company places emphasis on sustainability, especially in the sourcing of raw materials for its products



- Backed by the Tata Group's legacy of strong corporate governance, Tata Consumer holds itself to high ethical standards
- Its sustainability initiatives are integral to its long-term strategy, focusing on responsible sourcing and manufacturing



**Which Matters More?**

# Which Matters More?

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- **In the short-to-medium term, innovation likely has a bigger impact on growth and market competitiveness. The ability to quickly adapt to consumer trends or launch breakthrough products drives revenue and market share.**
- **However, in the long run, corporate governance becomes equally critical, as it ensures that the company can sustain its growth in a responsible and transparent manner.**

# Which Matters More?

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- For growth-focused companies like HUL and Marico, innovation might be the primary driver of success in the near term.
- For more established players or companies expanding into new areas like Tata Consumer, a balance of innovation and governance is essential to ensure sustainable long-term growth.

# Limitations

**Metrics Can Be**

**Misleading**

# Metrics Can Be Misleading

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- High or low P/E ratios or other valuation metrics may not always reflect true value. For example, a company with high growth expectations might have a high P/E that is justified, while a low P/E might indicate underlying problems
- **Example:** Tata Consumer's high P/E reflects market optimism in its FMCG transition, while ITC's low P/E might indicate lower growth potential in its core tobacco business

# Overreliance on Historical Data

# Qualitative Factors Aren't Quantifiable

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- Management quality, brand loyalty, and innovation cannot always be accurately quantified, and investors need to use judgment when factoring these in
- **Example:** Marico's innovation in wellness products is a strong qualitative advantage but might not show up in immediate financial performance compared to a larger player like HUL.

# Ways to mitigate limitations

# Ways to mitigate limitations

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- **Comparative analysis relies heavily on historical data, which might not always predict future performance, especially in rapidly evolving markets or industries experiencing disruptions**
- **Example:** ITC's past success in tobacco may not guarantee future returns if regulatory risks increase, while Tata Consumer could grow more quickly than historical data suggests due to its strategic focus on health and wellness

**Qualitative Factors  
Aren't Quantifiable**

# Qualitative Factors Aren't Quantifiable

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- **Use Multiple Metrics:** Combine valuation metrics with qualitative insights to form a balanced view
- **Understand the Context:** Always consider the broader industry and macroeconomic environment
- **Regular Reassessment:** Keep revisiting and updating your comparisons as market conditions change