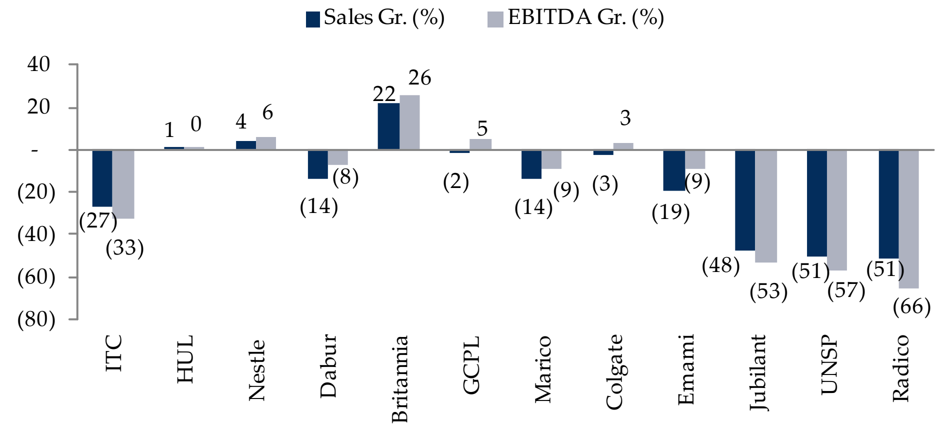
INSTITUTIONAL RESEARCH

FMCG & Alco Bev

1QFY21 Preview

- **Aggregate revenue/EBITDA to fall by 16/19%:** COVID-led lockdown will bear heavy on revenues in 1QFY21 as several companies have faced supply chain disruptions. Our FMCG coverage universe is expected to deliver a decline of 13/17% YoY (ex-GSK 16/19%) in revenue/ EBITDA in 1QFY21 (vs. -6/-9% in 4QFY20 and +4/+13% in 1QFY20). Packaged foods, health, and hygiene categories are expected to deliver superior growth. Besides, companies that had missed out channel filling opportunity in March, despite a healthy consumer offtake, will deliver strong growth in 1Q.
- **Liquor, cigarette and OOH categories most impacted:** Consumption sentiment remained weak for discretionary amid extending lockdown and consumers' prioritised essential categories. Delayed reopening of liquor stores and COVID taxes by many states have impacted consumer offtake for liquor. While the allowance of home delivery will provide a boost to the liquor industry, the loss of on-premise consumption and lower discretionary expenditure by consumers will continue to affect revenue mix in 1HFY21. Cigarette and QSR are also expected to be weak due to the lockdown, limited consumption frequencies, and weak discretionary spend. OOH categories (beauty care, juices, and ice cream) will also be impacted owing to lesser instances of going out.
- **1QFY21 outliers:** Britannia and Nestle
- **Recommendation:** We believe companies with higher revenue mix from essential commodities and rural will benefit in the near term (1HFY21). Ecommerce will continue to gain pace as consumers remain vary about venturing into crowded MT stores. Hence, companies with a strong presence and diversified offerings in ecommerce will do well. While sector does not offer value bargains yet, we see better opportunities in select stocks where business models are strong, and valuations have normalised in the past 12-18 months. We adjust our estimates and target multiples (link) to reflect slower near-term growth and lower cost of capital with falling bond yields. We roll forward our target prices to June-22. We maintain our ratings except downgrade for Radico from BUY to ADD due to limited upside.
- **We have a BUY rating on ITC; ADD rating on UNSP, Colgate and Radico**



Company	CMP (Rs)	Reco.
HUL	2,180	REDUCE
ITC	196	BUY
Nestle	16,775	REDUCE
Britannia	3,678	REDUCE
Dabur	474	REDUCE
GCPL	692	REDUCE
Marico	343	REDUCE
UNSP	625	ADD
Colgate	1,382	ADD
Jubilant	1,687	REDUCE
Emami	236	REDUCE
Radico	378	ADD

Note: CMP is of 09 July'20

Varun Lohchab
varun.lohchab@hdfcsec.com
+91-22-6171-7334

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Aditya Sane
aditya.sane@hdfcsec.com
+91-22-6171-7336

COMPANY	1QFY21E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
ITC	WEAK	▪ We model a cigarette revenue decline of 35% YoY, with 39% volume dip YoY (+3.5% in 1QFY20 and -10% in 4QFY20). Non-cigarette business is expected to dip by 18% YoY (+12% in 1QFY20 and -4% in 4QFY20) with Hotel/Agri/ Paper business witnessing a decline of 80/35/35% YoY respectively while FMCG is expected to grow by 20% YoY. ▪ We expect cigarette EBIT to decline by 37% YoY (+8% in 1QFY20 and -12% in 4QFY20). We model FMCG EBIT Margin at 3.8% (2.5% in 1QFY20 and 4.6% in 4QFY20) ▪ We model overall EBITDA margin to decrease sharply by 317bps to 36.5% (+105bps in 1QFY20 and -100bps in 4QFY20). EBITDA to dip by 33% YoY (+9% in 1QFY20 and -9% in 4QFY20)	▪ Cigarette volume growth and mix impact on margin ▪ FMCG business EBIT margin ▪ Recovery in paper business, led by FMCG sector recovery ▪ Outlook on agri and hotel businesses
HUL	WEAK	▪ We expect net revenue growth of 1% YoY driven by GSK acquisition. Core business revenue is expected to decline by 11% YoY (+7% in 1QFY20 and -9% in 4QFY20). We model ex-GSK volume decline of 9% YoY (+5% in 1QFY20 and -7% in 4QFY20). ▪ We model revenue growth of 4/36% YoY in Home Care/F&R (including GSK) segments respectively while PC is expected to decline by 15% YoY. ▪ We build 96bps YoY increase in GM (+4bps in 1QFY20 and +142bps in 4QFY20) aided by benign RM inflation. EBITDA margin is expected to contract slightly by 27bps YoY to 25% (+151bps in 1QFY20 and -159bps in 4QFY20). EBITDA to remain flat YoY.	▪ Improvement in rural business ▪ Recovery in Personal Care ▪ Pricing actions and new launches strategy ▪ Sustainability of cost saving initiatives
Nestle India	GOOD	▪ We model 4% YoY revenue growth (+11% in 2QCY19 and +11% in 1QCY20). Continued demand for packaged food will drive revenue growth despite lockdown. ▪ We model 157bps YoY dip in GM (-137bps in 2QCY19 and -223bps in 1QCY20) on account of increase in input prices. We model EBITDA margin expansion of 44bps YoY to 24.3%. EBITDA to grow by 6% YoY (+6% in 2QCY19 and +5% in 1QCY20).	▪ Commentary on recovery in trade channels and rural demand ▪ New product pipeline ▪ Demand trends in packaged foods
Dabur	WEAK	▪ Consolidated revenue to decline 14% YoY (+9% in 1QFY20 and -12% in 4QFY20). We model decline of 13% YoY in domestic revenue and volumes (Revenue growth of +11% in 1QFY20 and -17% in 4QFY20, Volume growth of +10% in 1QFY20 and -15% in 4QFY20). Hair care/oral care /home care/food are expected to decline by 30/13/15/16% YoY while Healthcare revenue is expected to grow by 40% YoY driven by the surge in demand for Chyawanprash. ▪ We expect international business to decline by 13% YoY (+6% in 1QFY20 and -1% in 4QFY20) due to challenges in MENA region. ▪ We model the gross margin to decline by 51bps YoY to 49% (-9bps in 1QFY20 and -66bps in 4QFY20). Cost control initiatives will lead to Adj. EBTIDA margin expansion of 136bps YoY (+122bps in 1QFY20 and -314bps in 4QFY20). Adj EBITDA to decline by 8% YoY.	▪ Commentary on rural growth and wholesale channels ▪ Change in consumer preferences towards ayurvedic/naturals ▪ Growth in healthcare portfolio ▪ New launches strategy

COMPANY	1QFY21E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Britannia	**GOOD**	▪ We model 22% YoY revenue growth (+6% in 1QFY20 and -3% in 4QFY20) driven by volume growth of 21% YoY (+7% in 1QFY20 and flat in 4QFY20). ▪ We model 191bps YoY dip in the gross margin, driven by dairy inflation (+41bps in 1QFY20 and -152 in 4QFY20). Focus on cost optimization by the co will result in EBITDA margin expansion of 44bps to 15.1% (-69bps in 1QFY20 and +24bps in 4QFY20). EBITDA to grow by 26% YoY.	▪ Commentary on downtrading trends ▪ Commentary on new launches ▪ Commentary on the completion of plant
Godrej Consumer	**AVG**	▪ We model 2% YoY decline in consolidated revenue (-5% in 1QFY20 and -12% in 4QFY20). Domestic revenues are expected to grow by 5% YoY (+1% in 1QFY20 and -18% in 4QFY20) due to increased focus on hygiene by consumers and higher demand for HI. Decline in International biz is expected to be 11% YoY (-11% in 1QFY20 and -6% in 4QFY20). ▪ Consumer gross margin GM is expected to contract by 100bps YoY (+133bps in 1QFY20 and -97bps in 4QFY20) due to a negative impact on domestic gross margin of 61bps YoY (+4bps in 1QFY20 and -58bps in 4QFY20). ▪ Employee/ASP expenses are expected to decline by 15/20% YoY while Other Expenses are expected to grow by 2% YoY as the co focuses on cost rationalisation. As a result, EBITDA margin is expected to expand by 132bps YoY (+140bps in 1QFY20 and -151bps in 4QFY20). EBITDA is expected to grow by 5% YoY (+2% in 1QFY20 and -18% in 4QFY20).	▪ New launches ▪ Marketing initiatives ▪ Product & Geography mix
Marico	**WEAK**	▪ We model 16% YoY domestic revenue decline (+6% in 1QFY20 and -4% in 4QFY20), with domestic volume decline of 12% YoY (+6% in 1QFY20 and -3% in 4QFY20). We model PCNO val/vol decline of 20/15% YoY. Saffola revenue is expected to grow by 10% YoY driven entirely by volume growth. VAHO is expected to report 29/22% val/vol decline. ▪ We model 7% YoY decline in international revenue (+9% in 1QFY20 and -5% in 4QFY20). ▪ We model gross margin to expand slightly by 19bps YoY to 47.7% (+522bps in 1QFY20 and +23bps in 4QFY20). We expect A&P spend to dip by 25% YoY to rationalise costs. Adj. EBITDA margin to expand by 127bps YoY to 22% (+322bps in 1QFY20 and -22bps in 4QFY20). Adj EBITDA to dip by 9% YoY.	▪ Commentary on copra prices ▪ PCNO pricing strategy post copra deflation ▪ Updates on Saffola growth ▪ Commentary on CSD channel ▪ NPD pipeline ▪ Improvement in international business

COMPANY	1QFY21E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
UNSP	WEAK	▪ We expect revenue decline of 51% YoY (+10% in 1QFY20 and -11% in 4QFY20) with 50% YoY volume dip on a base of +6%. Liquor industry will be under pressure owing to closure on pubs/bars, tax increase and delayed opening of liquor stores. However, home delivery could help recover lost sales partially in the medium term. ▪ Gross margins will remain under pressure, although RM inflation eased off in 1QFY21 vs. its peak in Oct/Nov 2019. We expect 250bps YoY decline in GM to 44.8%. ▪ Like-Like EBITDA margin is expected to contract by 226bps YoY to 15.2% (17.4% in 1QFY20 and 13.2% in 4QFY20). Like-like EBITDA is expected to decline by 57% YoY (+54% in 1QFY20 and -8% in 4QFY20).	▪ Demand trends ▪ Competitive intensity ▪ A&P strategy ▪ Commodity inflation outlook ▪ Commentary on on-premise consumption in the medium term
Colgate	AVG	▪ We expect revenue to decline by 3% YoY (+4% in 1QFY20 and -7% in 4QFY20) with flat volumes (+4% in 1QFY20 and -8% in 4QFY20). New launches and re-launches in core portfolio will guard against volume decline. ▪ We model gross margin to remain flat at 65.9%. We expect moderation in ASP expense to continue. We model 12% YoY dip in ASP (12.6% of sales). ▪ EBITDA margin is expected to expand by 170bps YoY to 29.3% (+59bps in 1QFY20 and -237bps in 4QFY20). EBITDA to grow by 3% YoY (+7% in 1QFY20 and -15% in 4QFY20).	▪ Toothpaste volume growth and market share change ▪ Feedback on recent launches ▪ ASP spends, especially with increased competition from Dabur
Emami	WEAK	▪ We model 20% YoY domestic revenue decline (+2% in 1QFY20 and -19% in 4QFY20) with 25% YoY decline in volumes (flat in 1QFY20 and -19% in 4QFY20). Domestic business will be impacted as most products are discretionary. Navratana cooling will be most impacted as it has lost out on sales during prime season. Kesh King is riding on a high base and is expected to be impacted severely (we modeled 20% YoY decline in 1QFY21, co posted +30% in 1QFY20 and -26% in 4QFY20). ▪ International business is expected to post 10% YoY dip (+34% in 1QFY20 and -4% in 4QFY20). ▪ We expect moderation in raw material pressure, leading into 183bps YoY expansion in GM (-209bps in 1QFY20 and +432bps in 4QFY20). EBITDA margin is expected to expand by 263bps YoY to 23.3% (+58bps in 1QFY20 and -578bps in 4QFY20). EBITDA to decline by 9% YoY.	▪ Kesh King growth outlook ▪ Price hike strategy ▪ Commentary on new launches ▪ Outlook on Mentha oil ▪ Distribution strategy ▪ Commentary on international business

COMPANY	1QFY21E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Jubilant FoodWorks	WEAK	▪ Dine-in has been washed out in 1QFY21. Delivery is also expected to be under pressure as consumers remain hesitant to consume outside food. Due to lockdown, the only store expansion will be for stores that were supposed to open in 4QFY20. We model -54% YoY SSG in 1QFY21 (+4% in 1QFY20 and -3% in 4QFY20). We model 33 Domino's store additions in 1QFY21 (10 stores in 4QFY20). ▪ We model gross margin to dip by 46bps YoY to 75% due to dairy inflation (+93bps in 1QFY20 and -164bps in 4QFY20). ▪ We model Employee/Rent/Other expenses decline of 45/31/55% YoY. Thereby, our like-like EBITDA margin is expected to dip by 156bps YoY to 14.1% (-94bps 1QFY20 and -686bps in 4QFY20). Like-like EBITDA to dip by 53% YoY (+4% in 1QFY20 and -38% in 4QFY20).	▪ Commentary on growth of online ordering ▪ Commentary on demand for takeaway ordering ▪ Outlook on store addition in FY21-22 ▪ Competitive intensity, pricing strategy ▪ Outlook on sustainable SSG
Radico Khaitan	WEAK	▪ We model 51% YoY revenue decline led by 54/67/15% YoY decline in P&A/Regular/Non-IMFL. We expect 62% YoY volume decline (-55% P&A and -65% Popular) due to loss of on-premise consumption and delay in opening of liquor stores. ▪ Gross margins will remain under pressure owing to commodity inflation (ENA, molasses and glass bottles), although ENA prices have now eased off. We expect 74bps YoY decline in GM to 47% (-364bps in 1QFY20 and -628bps in 4QFY20). ▪ Cost control initiatives by the co will result in a decline in Employee/S&D/Other Expenses by 20/55/50% YoY. Like-like EBITDA margin is expected to decline by 474bps YoY to 11.1% (-185bps in 1QFY20 and -22bps in 4QFY20). Like-like EBITDA is expected to decline by 66% YoY.	▪ Industry demand trends ▪ Commentary on product launches ▪ Competitive intensity, pricing strategy ▪ Commodity inflation outlook ▪ Post COVID-19 change in debt repayment plan

Financial Summary

Company	NET SALES (Rs bn)			Like-Like EBITDA (Rs bn)			Like-Like EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	1Q FY21E	QoQ (%)	YoY (%)	1Q FY21E	QoQ (%)	YoY (%)	1Q FY21E	QoQ (bps)	YoY (bps)	1Q FY21E	QoQ (%)	YoY (%)	1Q FY21E	4Q FY20	1Q FY20
ITC	83.8	(26.6)	(27.2)	30.6	(26.5)	(33.0)	36.5	7	(317)	24.6	(35.2)	(22.5)	2.0	3.1	2.6
HUL*	101.1	13.8	1.3	25.6	30.6	0.3	25.0	321	(27)	19.2	23.0	9.8	8.9	7.2	8.1
Nestle	31.0	(6.2)	4.0	7.6	(6.5)	5.9	24.3	(7)	44	5.1	(3.0)	16.4	52.9	54.5	45.4
Britannia	33.0	0.0	22.3	5.0	9.5	26.0	15.1	(78)	44	3.8	0.6	50.9	15.6	15.5	10.8
UNSP	10.9	(45.1)	(50.7)	1.7	(36.7)	(57.1)	15.2	203	(226)	0.5	(50.6)	(73.1)	0.7	1.5	2.7
Dabur	19.6	5.3	(13.6)	4.2	21.3	(7.6)	21.1	279	136	3.5	19.3	(6.6)	2.0	1.7	2.1
GCPL	22.9	7.2	(1.9)	4.8	1.0	4.8	20.9	(127)	132	3.2	(4.0)	5.3	3.1	3.2	2.9
Marico	18.6	24.6	(13.9)	4.1	45.5	(8.6)	22.0	315	127	3.0	52.2	(7.9)	2.3	1.5	2.5
Colgate	10.5	(1.7)	(2.9)	3.1	17.6	3.1	29.3	480	170	2.0	(0.4)	20.2	7.5	7.5	6.2
Jubilant	4.9	(45.4)	(47.9)	0.7	(25.2)	(53.5)	14.0	379	(168)	0.3	(34.7)	(58.3)	2.6	3.9	6.2
Emami	5.3	(1.4)	(19.0)	1.2	24.3	(8.7)	23.3	481	263	0.9	23.7	4.7	1.9	1.5	1.8
Radico	3.0	(48.1)	(51.2)	0.3	(58.4)	(65.9)	11.1	(276)	(474)	0.1	(70.4)	(76.2)	1.0	3.4	4.2
Aggregates	**344.8**	**(6.9)**	**(12.6)**	**88.8**	**(4.3)**	**(16.6)**	**25.8**	**70**	**(124)**	**66.3**	**(12.3)**	**(8.0)**			

* HUL including GSK Consumer

Estimate Change

Companies	Old Rating	New Rating	Old TP	New TP	Old Target multiple	New Target multiple	Old EPS		New EPS		Est Chg (%)	
							FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
HUL	REDUCE	REDUCE	1,969	2,016	47	50	37.1	41.9	35.5	39.4	(4.4)	(5.9)
ITC	BUY	BUY	221	236	17	18	11.3	13.0	11.4	12.9	1.3	(0.5)
Nestle	REDUCE	REDUCE	14,042	14,103	47	50	237.6	278.2	230.5	263.3	(3.0)	(5.4)
Britannia	REDUCE	REDUCE	2,852	3,120	38	40	65.6	75.1	65.5	75.4	(0.2)	0.4
Dabur	REDUCE	REDUCE	404	433	40	42	9.0	10.1	9.1	10.1	1.3	0.2
GCPL	REDUCE	REDUCE	529	628	30	35	15.7	17.6	15.6	17.4	(0.8)	(1.3)
Marico	REDUCE	REDUCE	283	351	30	35	8.4	9.4	8.5	9.8	1.3	3.7
UNSP	ADD	ADD	586	594	40	42	11.0	14.0	9.8	13.0	(11.2)	(7.1)
Colgate	ADD	ADD	1,328	1,432	38	40	31.2	35.0	31.3	34.9	0.4	(0.4)
Jubilant	REDUCE	REDUCE	1,420	1,387	40	42	20.7	35.5	20.7	31.6	0.2	(11.0)
Emami	REDUCE	REDUCE	207	225	17	18	10.9	12.2	11.0	12.3	1.1	0.7
Radico	BUY	ADD	363	391	16	18	18.2	22.7	15.7	20.8	(13.9)	(8.3)

Valuation Summary

Company	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			Core RoCE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
HUL	4,719	2,180	REDUCE	2,016	35.5	39.4	43.0	61.4	55.3	50.6	42.6	38.0	32.2	43.8	27.2	61.6
ITC	2,414	196	BUY	236	11.4	12.9	13.8	17.2	15.2	14.2	11.3	9.9	9.1	39.5	43.6	45.7
Nestle	1,617	16,775	REDUCE	14,103	230.5	263.3	300.8	72.8	63.7	55.8	49.7	43.7	38.7	66.3	61.3	66.6
Britannia	884	3,678	REDUCE	3,120	65.5	75.4	85.9	56.2	48.8	42.8	40.9	35.7	31.6	49.0	56.3	60.6
Dabur	837	474	REDUCE	433	9.1	10.1	10.9	52.0	46.8	43.6	43.4	38.6	35.1	40.5	43.4	44.8
GCPL	707	692	REDUCE	628	15.6	17.4	19.6	44.4	39.8	35.3	33.3	30.9	28.2	18.8	21.1	23.6
Marico	443	343	REDUCE	351	8.5	9.8	10.8	40.4	35.2	31.6	28.7	25.5	23.0	43.2	48.3	52.9
UNSP	454	625	ADD	594	9.8	13.0	15.3	64.0	48.0	40.9	33.7	27.4	24.1	17.9	22.6	24.2
Colgate	376	1,382	ADD	1,432	31.3	34.9	38.6	44.1	39.6	35.8	28.4	25.7	23.5	65.7	78.2	89.8
Jubilant	223	1,687	REDUCE	1,387	20.7	31.6	37.3	81.3	53.4	45.2	44.8	31.7	27.2	11.6	19.1	24.1
Emami	107	236	REDUCE	225	11.0	12.3	13.1	21.4	19.2	18.0	15.5	14.1	13.0	24.6	31.1	37.4
Radico	50	378	ADD	391	15.7	20.8	24.3	24.1	18.2	15.5	14.5	11.6	9.9	11.4	14.1	15.2

Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600 HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com