

April 9, 2021

Growth momentum continues...

The FMCG sector has seen strong growth momentum in Q2FY21 & Q3FY21 on the back of a consumption shift in key categories from the unorganised to the organised sector. Further, new product launches and e-commerce channel sales have also seen significant uptick. We believe the growth momentum has continued in Q4FY21E as well. Further, low base due to lockdown in March 2020 has further propelled the growth numbers. Our coverage universe is expected to witness 20.2% revenue growth on account of sales decline of 7-15% in base quarter. We believe packaged foods, health supplements, edible oil, immunity boosting product have continued the stronger growth in Q4. Moreover, some discretionary categories like cosmetics, skin care, juices would have also witnessed stronger growth due to pent-up consumption. We believe categories like detergent, carbonated drinks would continue to grow at a slower pace. Further, new products launched in last one year are contributing 2-3% for FMCG companies' sales, which depicts higher product acceptance from the organised sector. Within our coverage universe, Dabur, HUL, Zydus, Tata Consumer & Marico are likely to witness robust 22-35% sales growth on the back of low base, strong demand in key categories & pricing growth in some categories like soaps, hair oil & tea. We expect ITC (FMCG) to grow 15% during the quarter. In light of the sharp increase in palm oil, copra & tea prices, the companies have taken price hikes to the tune of 5-12%. We expect ITC & VST Industries to witness 4-5% volume decline in cigarettes segment given the trend of work from home has reduced cigarette consumption, to a certain extent. We expect Nestlé to witness 10.8% revenue growth led by strong growth in noodles segment and an enhanced rural distribution network.

Sharp increase in commodity prices; margins protected

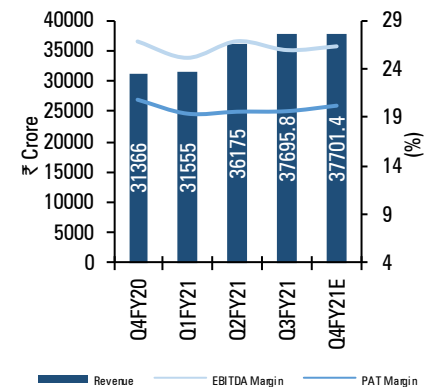
Our coverage universe is likely to see a 50 bps margin contraction due to a sharp rise in raw material prices. Palm oil, copra prices have risen 47%, 25%, respectively, in the last one year. Also, crude prices have risen above US\$60 per barrel. Further, tea prices are still up ~50% YoY. This has pushed FMCG companies to take price hikes to the tune of 5-12%. We expect gross margin contraction for HUL, Marico and Tata Consumer. However, favourable prices of sorbitol & calcium carbonate would enhance gross margins for Colgate. Though milk prices have risen sharply in the last three months, we believe inventory stocking of SMP by Zydus would have helped it in expanding gross margins. Moreover, FMCG companies always have levers of cutting marketing spends along with cut in some overhead spends, which would help them to protect operating margins, to a certain extent. We expect net profit growth of 16.8% (lower than sales growth) for our coverage universe partially impacted by flat profitability for ITC.

Exhibit 1: Estimates for Q4FY21E: (FMCG)

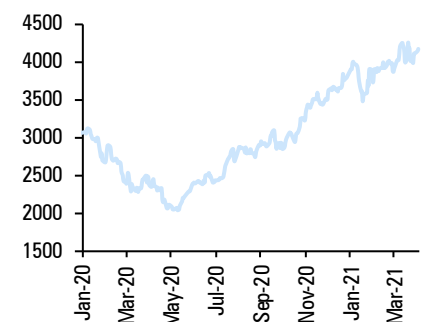
Company	₹ crore									
	Revenue		Change (%)		EBITDA		Change (%)		PAT	
	Q4FY21E	YoY	QoQ	Q4FY21E	YoY	QoQ	Q4FY21E	YoY	QoQ	
Colgate Palmolive	1,230.3	14.8	-4.3	367.2	39.7	-10.3	239.1	17.1	-12.8	
Dabur India Ltd	2,520.3	35.1	0.2	520.4	47.7	-8.6	432.5	53.6	-10.4	
HUL	11,955.1	32.7	4.5	2,829.3	37.0	-1.4	2,002.8	31.9	-0.3	
ITC	12,547.5	9.9	4.8	4,368.1	4.9	7.6	3,751.7	-1.2	16.1	
Marico Ltd	1,834.7	22.6	-7.8	333.8	18.4	-14.2	223.9	11.3	-18.0	
Nestle India	3,683.3	10.8	4.0	874.5	10.2	-1.0	587.4	11.8	0.1	
Tata Consumer	3,004.5	24.9	8.0	395.6	28.3	-1.0	202.8	LP	-25.8	
VST Industries	309.3	6.1	3.0	101.2	6.9	-10.5	74.1	5.0	-16.3	
Zydus Wellness	616.5	28.2	80.3	139.0	41.8	412.5	123.6	97.7	LP	
Total	37,701.4	20.2	0.0	9,929.2	17.9	1.5	7,638.0	16.8	7.4	

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



Surge in palm oil prices (₹/kg)



Operating margins FMCG Coverage (%)

Company	EBITDA margin %				
	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21E
Colagte	24.5	29.6	31.8	30.1	29.8
Dabur	18.9	21.0	22.6	21.0	20.6
HUL	22.9	25.0	25.1	24.1	23.7
ITC	36.5	27.9	33.9	34.0	34.8
Marico	18.9	24.3	19.6	19.5	18.2
Nestle	23.9	24.5	24.9	22.6	23.7
Tata Cons.	12.8	17.8	14.4	11.8	13.2
VST Ind.	32.5	40.4	37.6	34.8	32.7
Zydus Welln	20.4	22.8	7.9	13.0	22.5
FMCG Total	26.8	25.1	26.9	25.9	26.3

Top Picks

Dabur
Tata Consumer
Zydus Wellness

Research Analysts

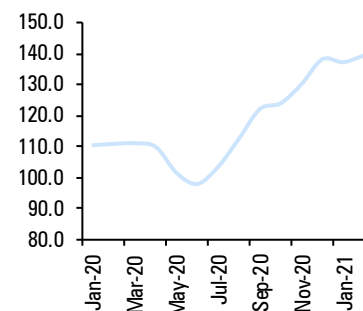
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Exhibit 2: Company Specific Views (FMCG)

Company	Remarks
Colgate	Colgate is expected to post 14.8% revenue growth in Q4FY21E mainly on the back of 7% sales decline in the corresponding quarter, which was impacted by lockdown in the last 10 days of March 2020. We expect ~10% volume growth given base quarter saw an 8% volume decline. With favourable prices of key raw material like sorbitol & calcium carbonate, we expect gross margin expansion of 470 bps in Q4FY21E. The company would keep marketing spend at ~14% of sales. We expect operating margin expansion of 531 bps to 29.8%. PAT is likely to grow 17.1% to ₹ 239.1 crore
Dabur	Dabur is likely to post strong revenue growth of 35.1% with robust growth in the healthcare & oral care segment. We also believe the beverage segment should see higher growth given the segment was significantly impacted by lockdown in the base quarter. The 12.3% revenue decline in the base quarter can be attributed to expected strong growth in Q4FY21E. We believe the company would be able to maintain gross margins with smaller price increases in the quarter. We expect a 180 bps YoY improvement in operating margins but down 40 bps QoQ. The company is likely to witness 53.6% increase in PAT to ₹ 432.5 crore in Q4FY21E
HUL	HUL is likely to post 32.7% revenue growth in Q4FY21E given 9.4% sales decline in the base quarter due to lockdown in the last 10 days of March 2020. Home care and Beauty & Personal care segment is expected to grow by 3.1% & 26.2% respectively. Moreover, consolidation of acquired nutrition business would also add to revenues. We expect an 81 bps contraction in gross margin given the sharp increase in palm oil & tea prices. Moreover, crude based raw material also started to witness some inflation. We expect a 75 bps improvement in operating margins with low base effect but margins are expected to contract 40 bps QoQ. PAT is likely to grow 31.9% to ₹ 2002.8 crore
ITC	We expect revenue growth of 9.9% with cigarette business expected to grow 7.5%. The company had taken a cigarette price hike in February 2020 while base quarter sales were impacted by the lockdown in the last 10 days of March 2020. The FMCG business is likely to continue the growth momentum in the packaged foods business given consumption shift from loose to branded products. We expect 35% & 5% growth in agri & paper business, respectively, on the back of sales decline in base quarter. We expect hotels business to see 38.6% QoQ sales growth but it is still expected to be down 30% YoY. Operating profit is likely to increase 4.9% on the back of lower gross margins. The company would continue the cost cutting measures to protect profitability of the business. We expect 1.2% decline in PAT to ₹ 3751.7 crore in Q4FY21E
Marico	We estimate 22.6% revenue growth for Marico with robust growth in Parachute, Saffola & foods business. The base quarter witnessed 7% sales decline due to 10 days lockdown in March 2020. Though the growth in Parachute can be attributed to low base quarter sales strong, the growth in Saffola edible oil & foods business on a high base is most certainly a positive sign. Copra prices have risen ~25% in the last one year. We estimate gross margins contraction of 258 bps in Q4. However, continued savings from overhead spends is likely to protect operating margins. We expect a 66 bps contraction in operating margin. PAT is expected to grow 11.3% to ₹ 223.9 crore
Nestlé India	Nestlé is likely to report 10.8% revenue growth with sustainable growth in Maggi noodles. Moreover, new products launches & distribution expansion in rural regions are also aiding growth. We expect the company to maintain its operating margins at 23.7% (11 bps lower). The increase in milk prices has been offset by cost cutting measures & rationalisation in media spends. Net profit is likely to grow by 11.8% to ₹ 587.4 crore. The company was able to grow at a slower pace at 7.9% in CY20 despite strong growth momentum in packaged foods mainly due to supply constraints in the noodles segment. We believe Nestlé would continue to witness moderate growth in Q4FY21E

Source: Company, ICICI Direct Research

Copra Price Trend (₹/kg)



Crude Price Trend (USD / barrel)

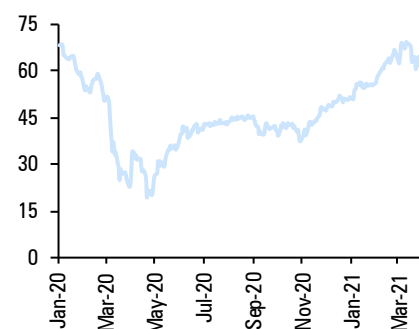


Exhibit 3: Company Specific Views (FMCG)

Company	Remarks
Tata Consumer (TCPL)	TCPL is likely to report 24.9% revenue growth in Q4FY21E largely due to price hikes taken in the tea segment on account of a sharp (50-60%) increase in tea procurement prices. Moreover, growth momentum in packaged food (salt, pulses & tea) is continuing post pandemic. We believe there was a considerable shift in consumption from loose to packaged food. We estimate contraction of 492 bps in gross margins due to a sharp increase in tea procurement prices. We estimate 40 bps increase in operating margins given the company has been able to cut the marketing, overhead & employee spends. Adjusted PAT is likely to grow 90.8% to ₹ 202.8 crore considering ₹ 264 crore of exceptional spend in the base quarter
VST Industries	We expect VST Industries to post revenue growth of 6.1% led by price hikes taken last year. We estimate cigarette volume decline of 4% during the quarter. We believe the company would be able to maintain its operating margin at 32.7%, 24 bps higher YoY. However, it would be down 210 bps QoQ given promotional offers have been restored, which were taken back during lockdowns. We expect a 5% increase in PAT to ₹ 74.1 crore in Q4FY21E
Zydus Wellness	Zydus Wellness is likely to witness 28.2% revenue growth with strong growth in Sugarfree, Glucon-D & Complian. The company lost sales of ~₹ 100 crore in the base quarter due to lockdown imposed in the last 10 days of March 2020. We expect 314 bps gross margin expansion as the company was holding low cost inventory of skimmed milk powder (SMP). We estimate 217 bps improvement in operating margins. Further, repayment of debt is likely to reduce the interest cost by ₹ 25 crore. PAT is likely to grow 97.7% to ₹ 123.6 crore during the quarter

Source: Company, ICICI Direct Research

Exhibit 4 : ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E
Colgate (COLPAL)	1,590	1,860	Buy	43,654	35.0	37.8	40.5	45.4	42.0	39.3	9.3	8.5	8.0	76.7	80.2	83.7	58.7	61.5	64.3
Dabur India (DABIND)	559	620	Buy	91,067	9.9	11.0	12.3	56.4	50.8	45.6	9.4	8.5	7.7	26.5	27.0	27.4	22.9	23.0	23.3
Hindustan Unilever (HINLEV)	2,410	2,600	Hold	561,507	33.6	40.5	45.0	71.7	59.5	53.6	12.4	10.8	10.0	25.3	29.4	31.7	19.1	22.5	24.3
ITC Limited (ITC)	213	245	Hold	267,970	10.7	12.8	14.1	19.9	16.7	15.1	5.8	5.1	4.7	26.3	31.0	33.1	20.1	23.7	25.3
Jyothy Lab (JYOLAB)	146	175	Hold	5,728	5.9	6.4	7.1	24.9	22.8	20.5	3.1	2.8	2.6	30.6	31.1	31.6	26.0	25.9	26.3
Marico (MARLIM)	415	490	Buy	53,156	9.1	9.8	10.9	45.6	42.4	37.9	6.8	6.1	5.5	42.9	45.4	48.2	37.1	38.6	40.9
Nestle (NESIND)	17,716	18,000	Hold	155,214	216.0	254.2	283.8	82.0	69.7	62.4	11.7	10.6	9.6	54.6	62.6	69.1	103.1	124.3	142.5
Tata Consumer Products (TAT)	671	700	Buy	53,448	11.0	12.5	14.1	60.9	53.7	47.5	4.6	4.3	4.0	8.9	9.8	10.5	7.2	8.1	8.8
VST Industries (VSTIND)	3,378	4,200	Hold	5,809	202.4	218.7	235.2	16.7	15.4	14.4	5.1	4.7	4.3	44.7	47.4	52.8	33.2	35.2	39.0
Varun Beverage (VARBEV)	1,001	965	Hold	26,011	12.5	21.0	26.5	79.8	47.8	37.8	4.0	3.4	3.1	10.9	17.2	20.1	10.3	15.1	16.5
Zydus Wellness (ZYDWEL)	2,068	2,500	Buy	12,343	19.0	60.3	71.3	109.0	34.3	29.0	6.6	5.8	5.3	6.2	7.8	9.0	5.5	8.0	9.3

Source: Company, ICICI Direct Research

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