

Q4FY2021 Results Preview

Sector: Consumer Goods

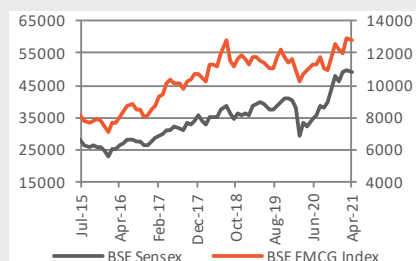
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Asian Paints	2,628	Buy	3,000
Bajaj Consumer Care	270	Buy	340
Britannia Industries	3,809	Buy	4,200
Colgate-Palmolive (India)	1,552	Buy	1,850
Dabur India	553	Buy	605
Emami Limited	507	Buy	570
Godrej Consumer Products	739	Buy	850
Hindustan Unilever	2,404	Buy	2,790
ITC	214	Buy	265
Jyothy Labs	143	Buy	188
Marico	408	Buy	477
Nestle India	17,421	Buy	19,055
Tata Consumer Products	665	Buy	740
Zydus Wellness	2,079	Buy	2,300

Source: Sharekhan Research
UR = Under Review

Price chart



Consumer goods companies are expected to post strong performance in Q4FY2021 as revenues are likely to grow by 15-40%, driven by a recovery in discretionary categories, improving demand for personal care products, higher demand for summer products and health & hygiene products amid rising COVID-19 cases. All these will be strongly supported by low base of Q4FY2020, where the fag end of the quarter was impacted by supply disruptions owing to the COVID-led lockdown. Rural demand remains high and continues to outpace urban demand. Among key channels, general trade and e-Commerce continue to see strong preference while modern trade is recovery at gradual pace. The canteen store department also saw a strong recovery in Q4. We expect paints companies such as Asian Paints to deliver yet another quarter of strong double digit volume growth on account of higher demand for decorative paints in tier-III/-IV towns and recovery in the metros and urban towns (with construction and real estate activities regaining momentum). Dabur India, Emami, Marico, Godrej Consumer Products and Bajaj Consumer Care will deliver growth of over 20% driven higher demand for healthcare and immunity boosting products, sustained high demand for value-added hair oil products and higher demand for personal wash products. HUL's core business is expected to grow by ~16% with a volume growth of 12-13%. We expect ITC's cigarette sales volume to grow by 8-9% on low base, while non-cigarette FMCG business will continue to grow in mid-teens. Tata Consumer Products (TCPL) is expected to post yet another quarter of strong double-digit revenue growth driven by strong performance of its India business. Thus overall Sharekhan's Consumer Goods universe revenues are expected to grow by ~19% in Q4FY2021. On the other hand, the surge in the input prices would lead to decline in the gross margins of most companies under our coverage. Companies such as HUL, Marico, Godrej Consumer Products (GCPL) and TCPL are expected to clock a decline of 100-700 bps in gross margins. However efficient cost saving measures, better operating leverage and judicious advertising spends would help some companies to post better operating margins during the quarter. Overall, we expect the Sharekhan universe's PAT to grow by 14% in Q4FY2021.

Outlook

FY2021 likely to end on strong note; growth momentum to sustain ahead

FY2021 started on weak note as lockdown-led supply disruptions affected Q1FY2021 performance for most consumer goods companies under coverage (barring food companies such as Britannia). Easing of lockdown norms, higher demand for health & hygiene products and strong recovery in the rural demand aided faster recovery in Q2, which sequentially further sustained in Q3. Q4FY21 will be another strong quarter led by low base of corresponding quarter last year and buoyancy in consumer demand (especially in rural markets). Though the cases have gone up significantly in the month of March and state governments have opted for localised lockdown, the primary sales (company to distributors) for most of the companies have remained intact. Companies and channel partners are well prepared for any disruptive event caused by sustained rise in COVID-19 cases and are hence unlikely to see any significant impact of stringent lockdown norms in near future. A shift in demand towards branded products, buoyancy in the rural demand, gradual recovery in the out-of-home categories and new product launches remain key revenue growth catalyst in the near to medium term. Growing caution on health among consumers will continue to fuel growth for immunity-boosting healthcare products, while increasing the importance of categories such as floor cleaners/toiler cleaners/disinfectants in the near to medium term. Raw material prices have increased in the recent past and sustenance of this trend will bring some softness in the gross margins. Judicious price hikes, sustained benefits of cost saving initiatives and prudent media spends would coupled with strong revenue growth would help OPM remain stable in FY2022.

Valuation

In the current uncertain environment of a sharp resurgence in COVID-19 cases, investors' penchant would be for sectors which will deliver stable performance in the coming quarters. Being a defensive bet and less affected by the pandemic, consumer goods companies with medium term growth prospects, sturdy balance sheet and decent valuation will be preferred over other stocks. In the large-cap space, we continue to like HUL and Asian Paints due to a strong earning visibility and favourable risk reward ratio. Dabur India will continue to perform strongly on the back of a strong portfolio of brands catering to different categories. GCPL will benefit from sustained strong demand in the domestic business, recovery in the African and Indonesian businesses in the coming quarters. Tata Consumer Products will continue to reap the benefits of its expanded domestic portfolio and synergistic benefits from merger of Tata Chemicals' consumer business.

Key risks: Increase in competition in some of the high penetrated categories and sustain spike in the key input prices would act as a key risk to performance of consumer goods companies.

Leaders in Q4FY2021: Asian Paints, Bajaj Consumer Care, Dabur India & Godrej Consumer Products

Laggards in Q4FY2021: ITC & Marico

Preferred picks: Asian Paints, HUL, Dabur India, Godrej Consumer Products and Tata Consumer Products

Q4FY2021 earnings estimates

Company	Net sales (Rs cr)			OPM (%)			Adjusted PAT		
	Q4FY21E	Q4FY20	YoY (%)	Q4FY21E	Q4FY20	Y-o-Y BPS	Q4FY21E	Q4FY20	Y-o-Y %
Asian Paints	5924.2	4635.6	27.8	20.3	18.5	172	794.5	480.2	65.4
Bajaj Consumer Care	244.4	175.4	39.3	18.2	13.5	470	43.3	24.5	76.4
Britannia Industries	3100.1	2867.7	8.1	17.3	15.8	146	396.7	372.5	6.5
Colgate-Palmolive (India)	1227.3	1062.4	15.5	27.2	24.7	250	223.1	197.7	12.9
Dabur India	2398.1	1865.4	28.6	18.0	18.9	-89	365.5	298.0	22.7
Emami	671.2	532.7	26.0	25.2	18.5	666	86.1	81.9	5.2
Godrej Consumer Products	2613.0	2132.7	22.5	22.9	22.3	52	389.7	298.2	30.7
Hindustan Unilever	11782.5	9011.0	30.8	21.6	22.9	-133	1745.0	1469.0	18.8
ITC	12268.5	11420.0	7.4	35.5	36.5	-96	3498.2	3457.1	1.2
Jyothy Labs	482.9	382.3	26.3	11.8	10.5	126	35.5	26.0	36.5
Marico	1829.3	1496.0	22.3	17.3	18.9	-158	232.4	207.5	12.0
Nestle India#	3624.7	3305.8	9.6	25.3	24.0	128	602.6	525.5	14.7
Tata Consumer Products	2930.8	2405.0	21.9	10.9	12.8	-191	194.6	142.8	36.2
Zyklus Wellness	536.7	487.9	10.0	22.5	21.4	110	94.6	71.9	31.6
Grand Total	49633.7	41779.8	18.8	24.1	24.6	-56	8701.9	7652.9	13.7

Source: Company, Sharekhan estimates

* Estimates for HUL and Tata Consumer Products are including the merger of acquired businesses

Nestle India is a calendar year ending company and hence, estimates are for Q1CY2021

Valuations

Company	CMP (Rs)	Reco	Price Target (Rs)	EPS (Rs)			P/E (x)		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Asian Paints	2,628	Buy	3,000	34.3	40.3	47.4	76.5	65.2	55.4
Bajaj Consumer Products	270	Buy	340	14.8	16.6	18.9	18.2	16.3	14.3
Britannia Industries	3,809	Buy	4,200	75.7	83.9	97.3	50.3	45.4	39.1
Colgate-Palmolive (India)	1,552	Buy	1,850	34.4	37.1	40.7	45.1	41.8	38.1
Dabur India	553	Buy	605	10.1	12.1	14.0	54.8	45.7	39.5
Emami Limited	507	Buy	570	15.3	18.1	21.2	33.1	28.0	23.9
Godrej Consumer Products	739	Buy	850	17.6	20.1	23.2	42.0	36.8	31.9
Hindustan Unilever*	2,404	Buy	2,790	34.2	45.0	51.6	70.4	53.4	46.6
ITC	214	Buy	265	10.2	12.4	14.0	21.0	17.2	15.3
Jyothy Labs	143	Buy	188	6.1	7.0	8.2	23.4	20.4	17.4
Marico	408	Buy	477	9.3	10.8	12.4	43.9	37.8	32.9
Nestle India#	17421	Buy	19,055	216.0	266.1	305.1	80.7	65.5	57.1
Tata Consumer Products*	665	Buy	740	10.9	12.7	14.5	61.0	52.4	45.9
Zyklus Wellness	2,079	Buy	2,300	34.2	47.9	61.1	60.8	43.4	34.0

Source: Company, Sharekhan estimates

UR = Under Review

Nestle India is a calendar year ending company

* Estimates for HUL and Tata Consumer Products are including the merger of acquired businesses

Trend in the key input prices

Particulars	Q4FY21	Q4FY20	yoy%	Q3FY21	qoq%
Copra (Rs/kg)	138.5	110.9	24.8	125.6	10.3
Kardi oil (Rs/kg)	166.5	198.8	-16.2	163.6	1.8
Rice bran oil (Rs/kg)	85.0	64.2	32.4	82.0	3.7
LLP (Rs/Ltr)	57.0	45.0	26.7	47.0	21.3
HDPE (Rs/kg)	108.0	87.0	24.1	98.0	10.2
Titanium dioxide (Rs/kg)	275.0	250.0	10.0	260.0	5.8
Mentha oil (Rs/kg)	1135.0	1367.5	-17.0	1135.0	0.0
Raw tea prices	160.3	110.0	45.7	207.9	-22.9
Barley (WPI)	15.0	20.5	-27.0	14.2	6.0
Wheat (Rs/kg)	27.0	31.8	-15.0	25.0	8.0
Sugar (Rs/kg)	35.5	35.0	1.4	33.0	7.6

Source: Bloomberg, Sharekhan Research

Q4FY2021 Consumer Goods earnings preview

Company wise key expectations

Company	Q4FY21E	Y-o-Y (%)	Q-o-Q (%)	Comments
Asian Paints				
Sales (Rs crore)	5924.2	27.8	(12.7)	Volume growth in decorative paints business is expected to sustain in double digit due to good demand in the tier-III and -IV towns and recovery in key metros and urban markets.
OPM (%)	20.3	172	-607	Higher crude prices would drag down gross margins by 130 bps. However, a better operating leverage and low base of last year would lead to a 172 bps improvement in the OPM.
Adjusted PAT (Rs crore)	794.5	65.4	(37.2)	PAT is expected to grow by over 60% mainly on account of strong double digit revenue growth and improvement in the OPM.
Bajaj Consumer Care				
Sales	244.4	39.3	(1.2)	Improving demand for value added hair oil products and uptick in the rural demand would help BCC to achieve close 40% revenue growth on low base.
OPM (%)	18.2	470	-737	The better operating leverage would help the OPM to expand by 470 bps to 18.2%
Adjusted PAT	43.3	76.4	(25.7)	PAT to grow by 76.4% to Rs. 43.3crore
Britannia Industries				
Sales	3100.1	8.1	(2.1)	We expect domestic business volume growth to be at 6-7%.
OPM (%)	17.3	150	-246	Efficiencies and cost saving initiatives would help OPM to expand by 150 bps to 17.3%.
Adjusted PAT	396.7	6.5	(12.4)	PAT to grow by 6.5% largely in line with single digit growth in revenues.
Colgate-Palmolive (Colgate)				
Sales (Rs crore)	1227.3	15.5	0.3	Volume growth in the toothpaste category is expected to be in low double digits due to low base; Toothbrush category sales are recovering gradually.
OPM (%)	27.2	248	-306	Expected higher volume growth and efficiencies would led to 248 bps expansion in OPM.
Adjusted PAT	223.1	12.9	(10.2)	PBT is expected to grow by over 20%, while lower incidence of tax in the base quarter would lead to a 13% growth in adjusted PAT
Dabur India				
Sales (Rs crore)	2398.1	28.6	(12.1)	Domestic volume growth is likely to sustain in double digits with strong double-digit growth expected to sustain in categories such as healthcare and OTC products while oral care, hair oil and shampoos would registered strong growth backed by market share gains.
OPM (%)	18.0	-89	-304	OPM is expected to decline by 89 bps mainly on account of higher input prices.
Adjusted PAT	365.5	22.7	(25.9)	Strong performance by domestic business would help in a PAT growth of over 20%.
Emami				
Sales (Rs crore)	671.2	26.0	(28.1)	Higher demand for summer and health care products along with low base of last year would help Emami to achieve around 26% sales growth.
OPM (%)	25.2	666	-1128	Benign mentha oil prices and higher sales growth would result in a 666 bps improvement in OPM
Adjusted PAT	86.1	5.2	(66.6)	PAT to grow by 5% due to a higher tax incidence
Godrej Consumer Products Limited (GCPL)				
Sales (Rs crore)	2613.0	22.5	(13.6)	Double-digit growth in domestic soaps, hair colour and HI category and double-digit growth in Africa business would aid a 20%+ revenue growth
OPM (%)	22.9	48	-67	Higher palm oil prices and other key input prices would result in lower gross margins. Lower ad spends and other expenses would help in OPM to expand by 50 bps
Adjusted PAT	389.7	30.7	(21.3)	PAT to grow by 31%

Company wise key expectations

Company	Q4FY21E	Y-o-Y (%)	Q-o-Q (%)	Comments
Hindustan Unilever (HUL)				
Sales (Rs crore)	11782.5	30.8	(0.7)	Core business volume growth is expected to be at low double digits with strong demand for home care and personal wash products and a recovery in the discretionary categories.
OPM (%)	21.6	-133	-248	Higher palm oil prices and packaging cost would result in 133 bps decline in the OPM to 21.6%
Adjusted PAT	1745.0	18.8	(10.6)	PAT to grow by 19%
ITC				
Sales (Rs crore)	12268.5	7.4	(2.5)	Cigarette sales volume are expected to be at 8-9%; Non cigarette FMCG business to maintain growth in the mid-teens.
OPM (%)	35.5	-96	147	Change in revenue mix and sustained losses in the hotel business would affect overall profitability.
Adjusted PAT	3498.2	1.2	(4.5)	Adjusted PAT is expected to remain flat.
Jyothy Labs (JLL)				
Sales (Rs crore)	482.9	26.3	2.9	Dishwashing, HI and soaps categories are expected to post double digit growth on back of sustained good demand and low base. Fabric whitener would also post a sequential recovery in sales.
OPM (%)	11.8	126	-524	Higher input prices such as crude derivatives and palm oil prices would drag down gross margins by 96 bps. However prudent ad spends and lower other expenses would help margins remain almost flat at 10.9%.
PAT	35.5	36.5	(31.9)	PAT to marginally decline by 3.8% y-o-y to Rs. 25 crore.
Marico				
Sales (Rs crore)	1829.3	22.3	(13.8)	Parachute Coconut Oil posted stellar volume growth. Saffola Edible Oils grew in double digits for the sixth quarter in a row, despite a very high base. Value-added hair oils firmly moved along a sustainably recovering trajectory with high double-digit volume growth in the quarter.
OPM (%)	17.3	-158	-219	Higher prices of copra and other key edible oils would result in significant reduction in the gross margins.
Adjusted PAT	232.4	12.0	(25.5)	With decline in the OPM the PAT is expected to grow by 12% lower than the strong topline growth.
Nestle India				
Sales (Rs crore)	3624.7	9.6	6.1	Volume growth is expected to be at high single digits. This will largely driven by sustained strong demand for Maggi, infant foods and improving demand for instant coffee.
OPM (%)	25.3	132	254	OPM is expected to decline by 89 bps mainly on account of higher input prices.
Adjusted PAT	602.6	14.7	24.7	Adjusted PAT is expected to grow by 12% led by margin expansion.
Tata Consumer Products (TCPL)				
Sales (Rs crore)	2930.8	21.9	(4.5)	India beverage and foods businesses are expected to maintain double-digit growth, while international markets are expected to post mid-single digit growth.
OPM (%)	10.9	-191	-86	Gross margins will be lower by 695 bps due to higher domestic tea prices and higher international coffee prices. Synergy benefits would help in reducing stress at the operating level.
Adjusted PAT	194.6	36.2	(19.5)	PAT is expected to grow by 36% due to higher incidence of tax in the base quarter.
Zydus Wellness (Zydus)				
Sales (Rs crore)	536.7	10.0	42.6	Revenues are expected to grow 10% as Q4 starts seeing demand for summer products.
OPM (%)	22.5	107	952	Better product mix would result in a 107 bps improvement in OPM.
Adjusted PAT	94.6	31.6	225.4	The decent operating performance and lower interest cost would result in 32% growth in adjusted PAT.

Source: Sharekhan estimates

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