

Q2FY22E Consumer Sector Preview



Consumer Goods

Health and Hygiene products to drive the show

MARKET DATA

	Close	1D (%)	1M (%)	YTD (%)
Nifty	17,532	-0.5	2.0	26.0
Sensex	58,766	-0.6	1.9	23.5
Nifty FMCG	40,399	-0.1	0.4	18.2
USD / INR	74.1	-0.04	1.8	1.7

COVERAGE STOCKS

Company	Current Price (INR)	Target* (INR)	Upside (%)	Market Cap. (INR mn)	Fwd P/E 2022E (x)	Recommendation*
Nestle India	19,550	20,000	2.3%	1,878,467	61.6	HOLD
Britannia Industries	3,921	4,000	2.0%	940,771	49.2	HOLD
Hindustan Unilever	2,704	2,805	3.7%	6,320,401	63.9	HOLD
ITC Ltd	235	228	-3.1%	2,913,757	17.1	ACCUMULATE
Colgate Palmolive	1,688	1,850	9.6%	458,405	40.9	ACCUMULATE
Asian Paints	3,178	3,275	3.1%	3,072,646	74.2	ACCUMULATE
BlueStar Ltd	909	900	-1.0%	85,527	82.4	BUY
Godrej Consumers	1,020	1,100	7.8%	1,054,242	52.2	HOLD
Tata Consumers	801	UR	UR	747,931	80.4	UR
Emami Ltd	570	UR	UR	249,683	56.7	UR
Avenue SuperMart	4,236	3,960	-6.5%	2,768,557	443.1	HOLD
Berger Paints	810	875	8.0%	796,365	102.7	ACCUMULATE
Whirlpool India	2,294	UR	UR	288,177	57.3	UR

**Note: TP and recommendation has been retained from previous update reports; we will review it post detailed Q2FY22 results analysis and conference call of the said companies

Source: Bloomberg, NSE; Data as of Oct 01, 2021; UR stands for Under Review

SECTOR OVERVIEW

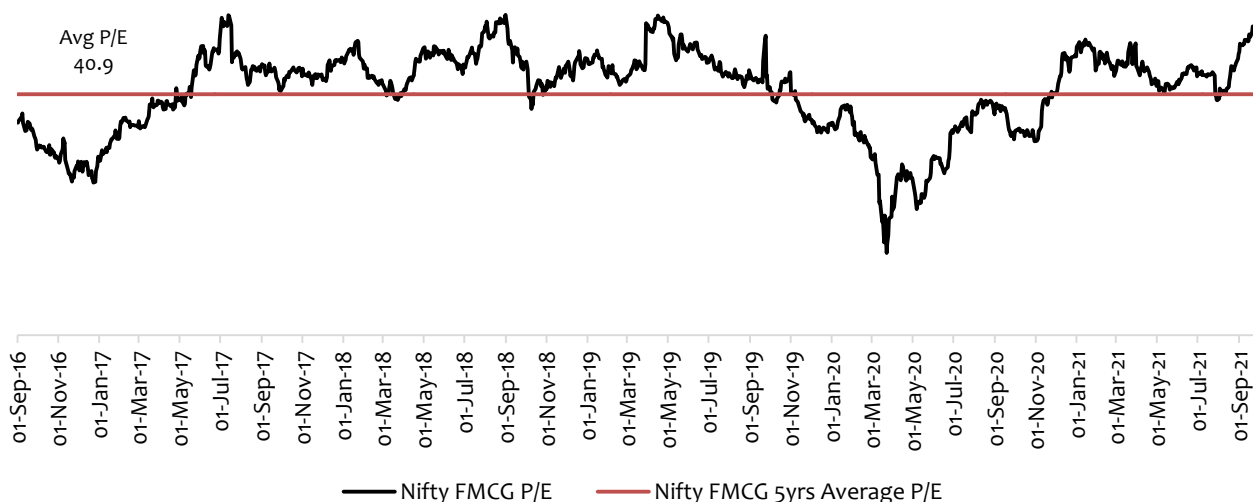
- Sharp recovery in FMCG sales with high-teen growth:** The Indian FMCG industry has recovered sharply after several states eased the lockdown restrictions as the second wave of COVID-19 slowed down in the month of June 2021. The sharp recovery during the quarter has helped the FMCG industry to compensate the loss of sales and supply disruptions experienced in Q1FY22. The FMCG sector is expected to witness double-digit revenue growth, which will be driven by price hikes (in the range of 4-5%), effected across product categories, to off set the impact of the raw material price increase. As the lockdown restrictions eased, the count of active kirana stores increased to ~30% as there was a surge in rural demand. While the second wave benefited hygiene and in-home consumption, during Q2FY22 there has been a recovery in the demand for out-of-home categories; the hotels and restaurants segments have also witnessed signs of recovery. **We see companies such as HUL, Britannia, ITC, Tata Consumer and Nestle India as the key beneficiaries.** The consumer confidence in discretionary expenditure is expected to be significantly lower during this quarter due to the second wave. However, on a yearly basis, we expect the Companies to post a strong growth, considering a low base effect, on account of the lockdown restrictions on manufacturers and supply issues faced by them last year same quarter. On the margin fronts, operating margins are expected to be at normal levels of 15-20% with a moderation of 80-100 bps due to increase in advertising expenses and rise in raw material prices.
- Demand is gradually recovering:** The pent-up demand noted in Q2FY22 in home appliances such as large capacity refrigerators, dishwashers, vacuum cleaners etc. due to self-reliance in absence of domestic help and higher time spent indoors. Consumer durables formed a significant part of the retail sales in Q2FY22 backed by strong uptake in rural markets. Additionally, entry-level products are estimated to have fared better with growth from tier 2 and smaller cities. Similarly, Paint companies such as Asian Paints and Berger paints witnessed strong rural demand; that has helped boost recovery for paints, in general. Nonetheless, consumers are cautious amidst ongoing uncertainties, and some cut in the discretionary spends are expected. We also believe customers will be on the hunt for value-for-money across the band of products from economy to luxury and cutting the clutter. **Overall, the Consumer sector stocks under our coverage are expected to clock a robust growth ranging from mid-single to double digit YoY growth in top-line.**

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- New normal is shaping new trends in consumer behaviour:** i) With rise in unemployment, job losses, wage cuts, and a general uncertainty in future, consumers are opting for cheaper alternatives, focusing on core essentials (eatables), which have impacted demand for premium products. ii) Consumers are focusing more on immunity, health and hygiene (fruit & veggie washes/disinfectant, wipes/surface disinfectants in sachets). iii) Demand for convenience products such as dish washers, large refrigerators, larger LED TVs, RACs, etc. is on rise iv) Manufacturers have laid focus on deepening their partnership with e-commerce retailers as online sales jumped manifold, since customers are veering towards online shopping, to avoid social distancing. **Most of these trends have lasting impact on consumer behavior and are likely to remain so for quite sometime.**
- Sector Valuation:** Currently, Nifty FMCG is trading at an average P/E of 45.1x compared to its five-year average of 40.9x (implies premium of ~10.1%). In our view, stock specific premium valuation will continue for Britannia (+22% over sector), Tata Consumer Products Ltd (+102% over sector), Nestle (+50% over sector), Hindustan Unilever (+55% over sector), Asian Paints (+90% over sector), Berger Paints (+153% over sector), Blue Star (+97% over sector) and Whirlpool (+40% over sector) on the back of their solid market positioning and high demand for essentials in the light of COVID-19. We believe there is mispricing on ITC shares, as the ~58% valuation discount to sector is unwarranted and hence recommend Accumulate on the stock. Stocks like Colgate and Godrej Consumer have achieved our target price and are currently trading at a premium to the sector 5 years average P/E.

NIFTY FMCG P/E and 5 Yr Average



Source: NSE

Consumer Goods

Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn	Q3CY21E	Q3CY20A	YoY	Q2CY21A	QoQ	Remarks
Nestle India						
Sales	39,136	35,417	10.5%	34,767	12.6%	Nestle India is expected to post revenue growth of 10.5% YoY in Q3CY21, owing to double-digit growth in domestic sales, driven by increased demand for ready-to-eat food products. We anticipate significant increase for in-home consumption as a result of the second wave Covid lockdown. We expect a marginal improvement in EBITDA and PAT margins on QoQ basis due to operational efficiencies, which can lower variable costs to offset the effect of rising raw material prices. Key Parameters: (1) Guidance on price and volume (2) Capacity utilization levels (3) Mix of segmental products (4) New product launches/ Innovations (5) Cost control initiatives.
EBITDA	9,706	8,836	9.8%	8,480	14.5%	
Net Profit	6,497	5,871	10.7%	5,386	20.6%	
EBITDA (%)	24.8%	24.9%	-15 bps	24.4%	41 bps	
NPM (%)	16.6%	16.6%	2 bps	15.5%	111 bps	
INR Mn	Q2FY22E	Q2FY21A	YoY	Q1FY22A	QoQ	Remarks
Britannia Industries						
Sales	36,310	34,191	6.2%	34,035	6.7%	Sales expected to grow by 6.2% YoY mainly due to a very high base in the same quarter last year; we expect recovery in the volumes due to ease of lockdown restriction. Margins may remain under pressure due to increase in raw material costs. We anticipate the advertising cost to be higher compared to last year impacting the margins. Net profit is expected to be flat YoY with higher operating base in Q2FY21. Key Parameters: (1) Investment in new product launches and their marketing spends (2) Commencement of manufacturing facilities and capacity utilization (3) Inventory levels (4) Store coverages (5) Commentary on Inter-corporate loans.
EBITDA	6,628	6,754	-1.9%	5,538	19.7%	
Net Profit	5,050	4,995	1.1%	3,896	29.6%	
EBITDA (%)	18.3%	19.8%	-150 bps	16.3%	198 bps	
NPM (%)	13.9%	14.6%	-70 bps	11.4%	246 bps	
Hindustan Unilever Ltd						
Sales	128,049	116,830	9.6%	121,940	5.0%	We expect overall sales to grow by 9.6% YoY/ 5% QoQ led by health, hygiene and nutrition categories, which will be supported by the volume growth in Discretionary category such as ice cream and out of home consumption categories. Sales in the health food category (Horlicks/Boost) will grow on the back of strong distribution network of HUL. PAT Margins may improve marginally on YoY basis due to operational efficiency. The rural demand has also shown signs of revival as the distribution network under the project shakti has doubled in FY21. Key Parameters: (1) Guidance on volume and price in FY21 (2) Impact on premiumization and new product launches (3) Supply disruptions for raw materials and corresponding impact on cost (4) GSKCH portfolio performance.
EBITDA	30,732	28,660	7.2%	29,210	5.2%	
Net Profit	21,559	18,960	13.7%	20,970	2.8%	
EBITDA (%)	24.0%	24.5%	-53 bps	23.95%	5 bps	
NPM (%)	16.8%	16.2%	61 bps	17.20%	-36 bps	
ITC Ltd						
Sales	141,996	131,478	8.0%	142,408	-0.3%	We expect sales to grow by 8% YoY; driven by increasing demand for hygiene product (soaps handwash - Savlon), Floor disinfectant (Nimyle) and FMCG products such as Noodles, Packaged Atta and biscuits. Cigarette segment will likely continue to grow in sales and volume terms. The agri business will continue to see strong traction. The hotel business is expected to recover, considering ease in the lockdown. FMCG margins are on a strong upward trend due to premiumization strategies. Key parameters: (1) Guidance on price and volume (2) Cigarette inventory levels (3) Adoption of newly launched products.
EBITDA	42,507	44,010	-3.4%	44,437	-4.3%	
Net Profit	32,903	33,682	-2.3%	32,765	0.4%	
EBITDA (%)	29.9%	33.5%	-354 bps	31.2%	-127 bps	
NPM (%)	23.2%	25.6%	-245 bps	23.0%	16 bps	

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Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn	Q2FY22E	Q2FY21A	YoY	Q1FY22A	QoQ	Remarks
Colgate Palmolive						
Sales	13,623	12,855	6.0%	11,660	16.8%	We expect Colgate Palmolive to witness revenue growth of 6% YoY, driven by increase in volume in the toothpaste category. The Company showed preparedness to face the lockdown impact. Advertisement spending is likely to be on an increasing trajectory. EBITDA is expected to increase by ~4% YoY, while PAT is likely to grow by ~5.5%YoY. Key Parameters: (1) Status check of distribution channels (2) Volume and Price impact (3) Market share gains (4) Outlook on advertisement spends (5) Ramping up of new products.
EBITDA	4,257	4,093	4.0%	3,552	19.8%	
Net Profit	2,893	2,742	5.5%	2,332	24.0%	
EBITDA (%)	31.3%	31.8%	-59 bps	30.5%	78 bps	
NPM (%)	21.2%	21.3%	-9 bps	20.0%	123 bps	
Asian Paints						
Sales	64,203	53,502	20.0%	55,854	14.9%	We expect sales to increase by 20% on YoY basis led by pent-up demand noted during the quarter, however, on sequential basis the growth was impacted due partial lockdowns in some parts of the country. We expect International revenues (~12-13% of revenue) to remain subdued due to global supply disruption and lesser demand in foreign countries. EBITDA margins are expected to contract by ~265bps YoY, due to increase in Brent crude prices. PAT margins also expected to contract by around ~102 bps YoY. Key Parameters: (1) Sustainable volume growth (2) Raw material price trends (3) Inventory levels (4) Rural demand outlook (5) Demand for newly launched home décor product.
EBITDA	13,483	12,652	6.6%	9,136	47.6%	
Net Profit	9,309	8,304	12.1%	5,685	63.8%	
EBITDA (%)	21.0%	23.6%	-265 bps	16.4%	464 bps	
NPM (%)	14.5%	15.5%	-102 bps	10.2%	432 bps	
Blue Star						
Sales	10,419	9,021	15.5%	10,520	-1.0%	We expect sales to grow 15.5% YoY on the back of strong order book and healthy order inflow in the EMPS segment. The subdued growth on QoQ basis is due to slow execution pace of the orders, due to partial lockdowns and company's preference of being balance-sheet prudent, with prompt payment from customers over its overall growth. EBITDA and margins may also impact due to subdued execution of the projects. Key Parameters: (i) Guidance on price and volume (2) Plans and strategies for consumer revival (3) New launches and product innovations (4) Cost cutting measures (5) Extension of credit period (6) Impact of price cut across industry.
EBITDA	521	551	-5.4%	1,018	-48.8%	
Net Profit	208	153	36.0%	127	64.0%	
EBITDA (%)	5.0%	6.1%	-111 bps	9.7%	-468 bps	
NPM (%)	2.0%	1.7%	30 bps	1.2%	79 bps	
Godrej Consumer Products						
Sales	32,066	29,151	10.0%	28,945	10.8%	The demand trend remained stable and improved sequentially across key geographies. We expect sales to grow by 10% YoY, led by hygiene (including soap) and household insecticide categories. Notable recovery has been witnessed in hair color, personal care and air fresheners, on quarterly basis. Within International business, Indonesia revenue is expected to recover due to majors taken by govt to improve macroeconomic factors, however, the growth momentum may continue in rest of regions. Key Parameters: (1) Impact on working capital (2) Strategies to manage the supply disruption (3) Capacity utilization levels (4) Cost cutting measures.
EBITDA	6,894	6,729	2.5%	6,000	14.9%	
Net Profit	4,854	4,586	5.9%	4,137	17.3%	
EBITDA (%)	21.5%	23.1%	-158 bps	20.7%	77 bps	
NPM (%)	15.1%	15.7%	-59 bps	14.3%	85 bps	

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INR Mn	Q2FY22E	Q2FY21A	YoY	Q1FY22A	QoQ	Remarks
Tata Consumer Products						
Sales	31,164	28,076	11.0%	30,085	3.6%	We expect overall sales to improve by ~11% YoY, however, we expect the incremental revenue from merger with Tata Chemical consumer business segment and with volume growth across all segments will support the topline. In addition, demand for essential products such as salt, staples and tea is expected to be higher due to higher in-house consumption amidst recovery in consumption level. While EBITDA margin may remain under pressure during the quarter due to rise in raw material prices. Key Parameters (1) Performance of the FMCG portfolio (2) Digitalization of distribution channels / Cancellation of agreement with distributors(3) Outlook for FY22E (4) Steps undertaken to mitigate the supply disruptions.
EBITDA	4,363	3,996	9.2%	3,995	9.2%	
Net Profit	2,805	2,571	9.1%	1,852	51.5%	
EBITDA (%)	14.0%	14.2%	-23 bps	13.3%	72 bps	
NPM (%)	9.0%	9.2%	-16 bps	6.2%	285 bps	
Emami Ltd						
Sales	8,046	7,348	9.5%	6,610	21.7%	We expect sales to improve 9.5% YoY/21.7% QoQ due to low base in the same quarter last year and increase in volume for Zandu, and hygiene products. Gross margin expansion is expected to be under pressure due to spike in raw material prices, however, with cost rationalization and low advertising spends, we expect PAT margins to improve, on YoY bases and QoQ basis. Key Parameters (1) Guidance on price and volume for FY22E (2) Lockdown impact on manufacturing facilities and capacity utilization (3) COVID-19 impact on international business (4) Strategies to be undertaken for consumer revival (5) Diversification into hygiene space (6) Promoter pledging details. (7) Rural outlook (8) Performance of new hygiene category space.
EBITDA	2,414	2,571	-6.1%	1,697	42.2%	
Net Profit	1,609	1,184	35.9%	778	106.9%	
EBITDA (%)	30.0%	35.0%	-499 bps	25.7%	432 bps	
NPM (%)	20.0%	16.1%	388 bps	11.8%	823 bps	
Avenue SuperMart						
Sales	71,634	53,062	35.0%	51,831	38.2%	We expect sales to grow by 35% YoY to INR 71,634 Mn on the back of increasing footfall in the stores, store expansion and ease in lockdown restrictions, in the last quarter. EBITDA margin is set to grow by ~180 bps YoY to 8%, while PAT margin is expected to grow by ~170 bps YoY to 5.4%, due to low corporate taxation. Key Parameters: (1) New store additions (60 stores in FY21 and FY22) (2) Penetrate further into its e-commerce operations (3) Product/ category mix (4) DMart Ready outlet additions (5) Measures to tackle supply disruptions (6) Cost cutting initiatives undertaken (7) Inventory write offs.
EBITDA	5,731	3,295	73.9%	2,242	155.6%	
Net Profit	3,895	1,985	96.2%	954	308.4%	
EBITDA (%)	8.0%	6.2%	179 bps	4.3%	367 bps	
NPM (%)	5.4%	3.7%	170 bps	1.8%	360 bps	

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INR Mn	Q2FY22E	Q2FY21A	YoY	Q1FY22A	QoQ	Remarks
Berger Paints						
Sales	20,039	17,426	15.0%	17,985	11.4%	We expect Berger paints revenue to grow 15% YoY, led by low base and recovery in rural economy including tier II, III, and IV towns. However, there is slower improvement in decorative paint sale in metro and other urban markets. Nearly 70% of the demand is for repainting. International business (~5-7%) is expected to be affected due to disruption and halt in export. The recent spike in the input cost likely to put pressure on the margins. Key parameters: (1) Performance of industrial and automotive segment (2) Raw material cost fluctuations (3) Crude Price Impact (4) Commentary on the lockdown impact of manufacturing facilities (5) Timely commencement of Jejuri plant.
EBITDA	3,497	3,352	4.3%	2,385	46.6%	
Net Profit	2,204	2,209	-0.2%	1,406	56.8%	
EBITDA (%)	17.5%	19.2%	-179 bps	13.3%	419 bps	
NPM (%)	11.0%	12.7%	-168 bps	7.8%	318 bps	
Whirlpool						
Sales	18,314	15,995	14.5%	13,406	36.6%	We expect sales to grow 14.5% YoY, mainly due to lower base in the corresponding quarter of last year, sales are likely to be driven on the back of higher demand for refrigerators due to more in-home consumption mainly from Tier2-3 towns. Additionally, entry-level products would see better growth from tier 2 and smaller cities, which would benefit Whirlpool through its strong distribution reach. Key Parameters (1) Guidance on price and volume (2) Supply environment for domestic & international business (3) New product launches (4) Share of Elica JV (49% stake) (5) Urban and rural mix.
EBITDA	2,106	1,812	16.3%	555	279.7%	
Net Profit	1,557	1,337	16.4%	255	510.2%	
EBITDA (%)	11.5%	11.3%	17 bps	4.1%	736 bps	
NPM (%)	8.5%	8.4%	14 bps	1.9%	660 bps	

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Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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KRChoksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

ANALYST

Vikrant Kashyap, research2@krchoksey.com, +91-22-6696 5413

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is also available on Bloomberg KRCS<GO>
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Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com