

April 9, 2022

## Volumes to de-grow with steep price hikes...

FMCG companies are expected to witness dismal volumes in Q4FY22 given steep price hikes leading to down trading to economy brands or smaller SKUs. Further, rural regions have been witnessing a dismal demand scenario specifically in discretionary categories. Our FMCG coverage universe is expected to witness 13.1% revenue growth almost entirely driven by pricing. Most FMCG companies have taken a price hike to the tune of 10-15% over the last six months to pass on a steep increase in commodity inflation. We expect volume de-growth in HUL & Dabur due to grammage reduction in soaps, detergent & high base of health supplements categories. Marico is likely to post small volume growth in the India business contributed by foods, digital brands but edible oil continues to drag overall volumes with a steep price hike in the last one year. Similarly, Zydus Wellness is also expected to witness small volume growth given sharp price hikes are likely to adversely impact volumes for the company. We expect cigarette companies (ITC, VST) to see 7% & 10% volume growth, respectively, with volumes surpassing pre-Covid levels given offices, restaurants, pubs are completely open after lifting of all mobility restrictions. Moreover, robust wheat export due to Russia-Ukraine crisis is likely to benefit ITC's agri business sales. Within our coverage universe, Tata Consumer product (TCPL) is likely to witness positive volume growth aided by India business growth. With sharp decline in tea procurement prices, TCPL is likely to witness strong volume growth in tea moreover premiumisation trend in salt & pulses continue to aid growth in these businesses. We believe most FMCG companies will cut advertisement spends to protect margins, which has adversely impacted new product launches. Enhancement of direct distribution network & expanding presence in rural regions continues.

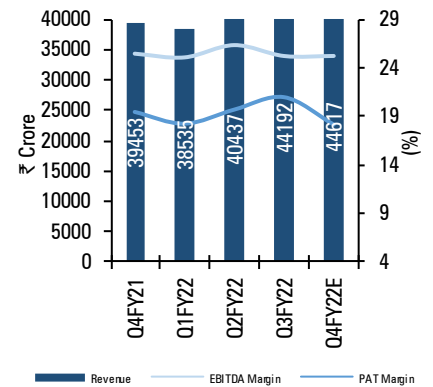
## Commodity inflation continues to hurt margin despite price hikes

After showing some signs of stabilisation in Q3FY22, crude & palm oil prices (both up ~60% YoY), started shooting up from February-end due to Russia-Ukraine crisis. This resulted in another steep rise in inflation for consumer companies. Most FMCG companies are likely to witness 200-400 bps gross margin contraction due to continued inflation in crude, palm, milk & wheat. Copra & tea prices are down 10-20% YoY. Gross margin contraction is likely to be offset by cut in ad & overhead spends. We expect a 25 bps contraction in operating margin for our coverage universe. TCPL would see ~400 bps expansion in gross as well as operating margin. We estimate 50-150 bps contraction for HUL, ITC, Dabur & Marico. With the high dividend payout, other income is likely to significantly come down for ITC. Further, taxation for Dabur, HUL, Colgate & Marico is likely to go up with expiry of tax benefits. We estimate PAT growth of 5.7% for our coverage universe in Q4FY22E.

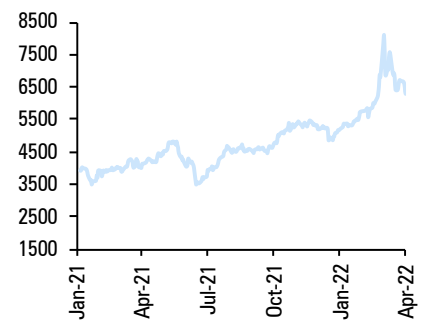
Company	Revenue			EBITDA			PAT		
	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ
Colgate Palmolive	1,351.7	5.3	5.6	408.9	-3.0	7.5	272.3	-13.5	-78.6
Dabur India Ltd	2,528.8	8.2	-14.0	439.0	-0.8	-30.0	335.9	-11.0	-33.4
HUL	13,185.7	8.7	0.7	3,128.5	5.8	-4.6	2,041.6	-4.7	-9.0
ITC	17,198.0	21.5	2.3	5,303.3	18.6	3.9	4,148.6	10.7	-0.2
Marico Ltd	2,193.8	9.0	-8.9	336.5	5.5	0.0	240.9	6.1	-24.0
Nestle India	3,987.8	10.4	6.6	984.0	5.7	13.7	629.4	4.5	62.8
Tata Consumer	3,158.7	4.0	-1.5	442.4	47.4	-4.1	243.9	228.1	-15.9
VST Industries	329.2	18.5	0.3	118.2	20.3	8.4	86.3	18.5	4.4
Zydus Wellness	683.2	12.8	76.0	144.1	-0.9	346.3	132.6	-0.4	483.5
<b>Total</b>	<b>44,617.0</b>	<b>13.1</b>	<b>1.0</b>	<b>11,305.0</b>	<b>12.1</b>	<b>1.0</b>	<b>8,131.5</b>	<b>5.7</b>	<b>-12.3</b>

Source: Company, ICICI Direct Research

### Topline & Profitability (Coverage Universe)



### Surge in palm oil prices (₹/kg)



### Operating margins FMCG Coverage (%)

Company	EBITDA margin %				
	Q4'21	Q1'22	Q2'22	Q3'22	14'22E
Colgate	32.9	30.5	29.6	29.7	30.3
Dabur	18.9	21.1	22.0	21.3	17.4
HUL	24.4	23.9	24.6	25.0	23.7
ITC	31.6	30.8	34.1	30.4	30.8
Marico	15.9	19.0	17.5	14.0	15.3
Nestle	25.8	24.4	24.4	23.2	24.7
Tata Cons.	9.9	13.3	13.6	14.4	14.0
VST Ind.	35.4	33.4	38.5	33.2	35.9
Zydus Wellne	24.0	23.5	8.0	8.3	21.1
<b>FMCG Total</b>	<b>25.6</b>	<b>25.2</b>	<b>26.4</b>	<b>25.3</b>	<b>25.3</b>

### Top Picks

Dabur  
Tata Consumer Products

### Research Analysts

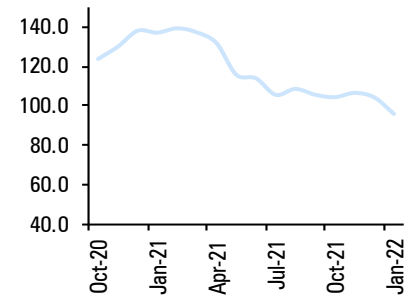
Sanjay Manyal  
sanjay.manyal@icicisecurities.com

**Exhibit 2: Company Specific Views (FMCG)**

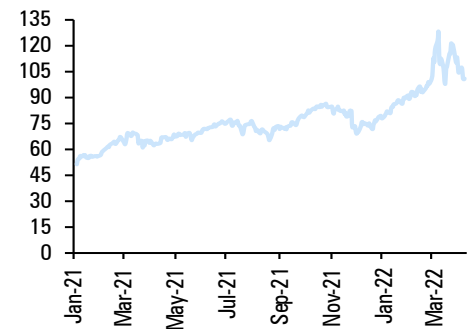
Company	Remarks
Colgate	Colgate is expected to register revenue growth of 5.3% entirely led by pricing growth. We estimate flat volumes during the quarter mainly due to dismal demand in rural & semi-urban regions. We believe price increase has also resulted in down trading and inferior product mix. The sharp increase in crude prices and simultaneous increase in packaging costs would pressurise gross margins. We expect 337 bps & 262 bps contraction in gross margins & operating margins, respectively. We estimate 100 bps lower ad spends during the quarter. Such a sharp dip in margins would result in net profit de-growth of 13.5% to ₹ 272.3 crore
Dabur	Dabur is expected to post 8.2% revenue growth led by more than 10% pricing growth. The company is estimated to witness volume de-growth during the quarter mainly impacted by dismal rural demand and high base of health supplement sales. This is likely to be partially offset by higher stocking of beverages (Real) by distributors. We estimate 220 bps gross margin contraction due to high and persistent commodity inflation in Q4. With the expectation of lower overheads and high ad-spends, operating margins are estimated to dip 158 bps to 17.4%. The sharp contraction in margins is expected to result in a 11% dip in profitability
HUL	We expect HUL to witness 8.7% revenue growth led by price hikes taken in the last one year. The company has taken price hikes to pass on steep commodity inflation in the last six months. We estimate ~5% volume decline during the quarter given rural regions are witnessing dismal demand conditions with demand shifting towards economy brands. The elevated levels of palm oil & increasing crude based raw material costs is expected to result in gross margins contraction of 227 bps in Q4. We expect 9% lower advertisement spends, which is likely to partially offset contraction in gross margins. We expect 65 bps contraction in operating margins. Net profit is likely to witness de-growth of 4.7%
ITC	We expect strong revenue growth of 21.5% for ITC led by strong recovery in cigarette business and robust growth in agri, paperboard & hotels business. We estimate 9.2% sales growth in cigarette sales with 7% volume growth. We also expect 69.5% growth in agri-business with opportunity in wheat exports after Russia-Ukraine crisis. Paperboard business may see 28.9% sales growth with complete recovery in user industries. We expect 83.6% growth in hotels business with strong occupancies & growth in ARRs. We estimate 13.1% growth in FMCG sales largely led by price hikes & recovery in education & stationary business. We estimate 76 bps contraction gross margins & 10.7% growth in profitability adversely impacted by lower other income (ITC increased dividend payout)
Marico	Marico is expected to post 9% revenue growth led by 26.5% growth in international business and 4.6% growth in domestic business. The company has registered small increase in volumes in India business in Q4. Parachute is expected to see small volume de-growth whereas VAHO segment is likely to witness low single digit value growth. The strong growth is Saffola is mainly due to sharp price hikes taken in last one year to pass on steep inflation in vegetable oil. We expect volume de-growth in Saffola edible oil. Foods & digital brand continues to grow at a stronger pace despite high base. We expect flat gross margins given dip in copra prices & aggressive price hikes taken in last six months. With the increase in marketing spends, operating margins are likely to contract 52 bps to 15.3%. Net profit is expected to grow 6.1% to ₹ 240.9 crore
Nestlé India	Nestlé India is likely to witness 10.4% revenue growth largely led by price hikes & small increase in volumes. The company has taken price increase in Maggi & milk based products to pass on steep commodity inflation. Price increases have impacted volume growth during the quarter. Inflation in milk, wheat continues to impact gross margins. We expect 205 bps contraction in gross margins in Q4. With some cost saving & reduction in ad-spend, operating margin is expected to contract 110 bps partially offsetting gross margin pressure. We expect net profit growth of 4.5% to ₹ 629.4 crore

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)	Tata Consumer Products is expected to post 4% revenue growth on the back of strong volume growth & pricing decline. India beverage & international beverage segment is expected to register flat sales whereas India food business (salt, pulses & others) is expected to register 19% sales growth. Average tea procurement prices in north India have witnessed ~15% decline in FY22, which is expected to result in 437 bps gross margin expansion. We expect 47.4% growth in operating profit with operating margin expansion of 412 bps. Adjusting for one-off in the base quarter, the company is expected to witness 76.4% growth in profitability
VST Industries	VST Industries is expected to witness 18.5% revenue growth & 10% volume growth in Q4. With the rationalisation in dealer offers, 8% growth would be contributed by realisation growth. The full resumption of offices, restaurants, pubs has resulted in cigarette volumes reaching above pre-Covid levels. We expect 20.3% growth in operating profit during Q4FY22 with 54 bps expansion in operating margins. Net profit is expected to grow 18.5% to ₹ 86.3 crore
Zydus Wellness	Zydus Wellness is expected to witness 12.8% revenue growth largely led by price hikes given the company has taken price increases to pass on high inflation in milk & palm oil. With the elevated prices of these commodities along with sharp increase in packaging costs due to increasing crude prices, we estimate 453 bps contraction in gross margins. We expect reduction in overhead spends, which is expected to partially offset dip in gross margins. We estimate 290 bps contraction in operating margins & flat profits in Q4FY22

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)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
Colgate (COLPAL)	1,565	1,575	Hold	37,937	38.1	38.5	40.8	41.1	40.7	38.3	7.9	7.4	6.8	106.4	109.6	112.7	88.8	84.9	86.6
Dabur India (DABIND)	558	745	Buy	98,242	9.6	10.9	12.2	58.1	51.4	45.8	10.3	8.9	8.1	24.5	26.0	27.3	22.1	22.7	23.2
Hindustan Unilever (HINLEV)	2,183	2,460	Hold	537,543	33.9	37.2	41.0	64.5	58.6	53.2	11.9	10.6	9.7	18.9	23.7	25.9	17.1	18.5	20.3
ITC Limited (ITC)	268	260	Hold	287,822	10.7	12.6	14.6	25.0	21.3	18.4	6.0	5.0	4.8	28.2	32.4	35.9	22.1	25.0	27.7
Jyothy Lab (JYOLAB)	154	150	Hold	5,133	5.2	4.2	6.2	29.7	36.2	24.7	2.7	2.3	2.2	26.0	19.1	26.6	20.4	16.5	23.1
Marico (MARLIM)	517	550	Buy	60,768	9.3	10.0	11.4	55.7	51.5	45.3	7.6	6.3	5.9	40.3	42.6	47.5	37.0	38.4	41.4
Nestle (NESIND)	18,431	19,500	Hold	174,371	216.0	222.4	262.2	85.3	82.9	70.3	13.1	11.9	10.7	54.6	58.7	60.5	103.1	111.3	110.0
Tata Consumer (TATGLO)	817	910	Buy	70,404	10.1	11.7	14.1	81.0	69.7	58.2	6.1	5.6	5.1	8.0	8.9	9.9	6.4	7.2	8.3
VST Industries (VSTIND)	3,129	3,425	Hold	4,900	201.3	203.0	217.4	15.5	15.4	14.4	4.4	4.2	4.0	43.4	43.4	47.6	33.0	32.2	35.6
Varun Beverage (VARBEV)	963	1,050	Hold	41,121	8.4	17.2	20.5	115.1	55.9	47.0	6.4	4.7	4.2	10.9	17.1	20.5	10.3	18.3	18.9
Zydus Wellness (ZYDWEL)	1,634	2,200	Buy	10,819	18.7	51.4	62.6	87.6	31.8	26.1	5.8	5.3	4.8	6.2	6.7	8.0	5.5	6.9	8.3

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com

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