

Consumer Sector - FMCG

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Inflationary pressures easing; Rural yet to pick up pace

We present 3QFY23 estimates for our FMCG sector coverage companies. We continue to highlight 3-year CAGR in our estimates for most of our growth comparisons to make better sense till the Covid impact comes into the base. Nestle India, Dabur's Domestic FMCG, Marico's Domestic business and Tata Consumer's (TCPL) India Foods business are expected to deliver relatively better 3-year volume CAGR. At an aggregate level, the demand momentum has not seen any major improvement as inflationary pressures continue to affect consumer wallets. Further, the pace of growth in rural markets is yet to pick up. A delayed winter is likely to affect the winter portfolios of companies like Emami and Dabur. We are expecting our FMCG coverage universe to clock revenue growth of 9% YoY (3-yr CAGR – 11.2%). Consumer Staples companies (FMCG Cos - excluding GILL and ITC) are expected to deliver a better performance, with 10.9% YoY revenue growth (3-yr CAGR – 10.7%). While prices of certain commodities continue to remain inflationary, correction witnessed in some key commodities is likely to result in sequential expansion in gross margin for majority of our coverage companies. For the overall FMCG coverage, we expect EBITDA margin to expand by ~30bps YoY (down 120bps YoY for Consumer Staples). **What to watch out for in 3QFY23: We expect BRIT to deliver relatively better EBITDA growth on YoY basis. Preference on 1-year forward basis: BRIT, DABUR and HUL.**

BRIT: We estimate BRIT's base business volume to grow in mid-single digit in 3QFY23 (3-yr CAGR - 5%) with a pricing-led topline growth of 16.5% YoY. Gross margin is expected to improve by ~160bps YoY on the back of lower input costs leading to EBITDA margin expansion of ~120bps YoY to 16.3%. EBITDA and APAT are estimated to grow by 25.8% YoY and 26.5% YoY, respectively.

CLGT: We expect CLGT to deliver a revenue growth of 3.1% YoY as we estimate that toothpaste volume growth will remain subdued YoY (3-yr CAGR: 2.3%). We expect operating margin to contract by ~170bps YoY to 28.1% as inflationary pressure will continue to have an adverse impact on profitability. EBITDA is expected to decline by 2.7% YoY and APAT is likely to decline by 0.6% YoY.

DABUR: We expect Dabur to deliver 2% YoY domestic FMCG volume growth as delayed winter is likely to affect volume (3-yr CAGR - 7.1%), leading to 5% YoY domestic FMCG value growth. This, along with 7% YoY revenue growth in the international business (after considering currency devaluation impact) will enable Dabur to clock an overall revenue growth of 5.5% YoY. As per the company, the Healthcare segment returned to positive growth trajectory although it continues to navigate high bases of the pandemic and the Food & Beverages segment is expected to see some moderation. EBITDA margin is likely to contract by ~210bps YoY to 19.2% (down 90bps QoQ), largely due to lower gross margin compared to the base quarter. Consequently, EBITDA is expected to decline by 5% YoY and APAT by 2.8% YoY, respectively.

EMAMI: We expect the company's domestic volume to decline in low to mid-single digit (3-yr CAGR - 2.8%) as delayed winter is likely to affect growth in the company's Winter portfolio along with continued correction in Pain Management and Healthcare categories. We expect consolidated topline to decline by 1.6% YoY. Operating margin is expected to contract by ~430bps YoY to 30.8%. EBITDA is expected to decline by 13.8% YoY whereas APAT (before amortization) is likely to decline by 12.2% YoY. PAT (after amortization) will increase by 1.8% YoY.

HUL: We expect HUL to post a moderate volume growth of 4% YoY (3-yr CAGR - 3.3%), driving 12.8% YoY sales growth (including the Nutrition business). Growth will be predominantly price-led. We expect gross margin to improve by ~120bps QoQ (down 510bps YoY) as Net Material Inflation (NMI) in 3QFY23 is likely to be lower compared to 2QFY23, resulting in a marginal expansion of ~40bps QoQ (down 170bps YoY) in EBITDA margin to 23.3%. EBITDA and APAT are likely to grow by 4.9% YoY and 6.6% YoY, respectively.

3QFY23E performance summary for our FMCG coverage universe

Company (Rs mn)	Revenue				EBITDA			EBITDA margin (%)			PAT		
	3QFY23E	YoY(%)	3-yr CAGR (%)	QoQ(%)	3QFY23E	YoY(%)	QoQ(%)	3QFY23E	3QFY22	2QFY23	3QFY23E	YoY(%)	QoQ(%)
Britannia	41,650	16.5	11.8	-4.9	6,789	25.8	-4.6	16.3	15.1	16.3	4,710	26.5	-4.5
Colgate-Palmolive	13,196	3.1	4.8	-4.9	3,702	-2.7	-9.3	28.1	29.7	29.4	2,509	-0.6	-9.8
Dabur India	31,041	5.5	9.7	3.9	5,960	-5.0	-0.8	19.2	21.3	20.1	4,892	-2.8	-0.2
Emami	9,564	-1.6	5.6	17.5	2,946	-13.8	50.8	30.8	35.1	24.0	2,459	-12.2	18.4
Gillette India **	6,163	9.4	10.3	-0.6	1,467	28.5	8.0	23.8	20.3	21.9	929	31.8	7.1
Hindustan Unilever*	1,47,635	12.8	11.2	0.1	34,399	4.9	1.9	23.3	25.0	22.9	24,431	6.6	2.7
ITC	1,66,692	5.1	12.2	3.3	60,093	17.8	2.5	36.1	32.2	36.4	47,730	14.8	6.9
Marico	24,819	3.1	10.8	-0.6	4,542	5.4	4.9	18.3	17.9	17.3	3,146	1.5	4.5
Nestle India **	43,940	17.5	11.7	-4.3	9,489	11.5	-6.7	21.6	22.8	22.1	6,241	10.7	-7.4
Tata Consumer	34,451	7.4	11.4	2.4	4,479	-3.0	3.2	13.0	14.4	12.9	2,652	-3.5	7.7
Coverage universe	5,19,152	9.0	11.2	0.8	1,33,864	10.4	1.6	25.8	25.5	25.6	99,700	9.9	3.6
Cons. staples (ex-GILL & ITC)	3,46,296	10.9	10.7	-0.4	72,305	4.6	0.8	20.9	22.1	20.6	51,041	5.3	0.7

Source: Company; Nirmal Bang Institutional Equities Research; * 3-year CAGR for HUL (ex-Nutrition) calculated based on our estimate; **2QFY23 for Gillette India and 4QCY22 for Nestle India

Please refer to the disclaimer towards the end of the document.

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GILL: We expect GILL to post a revenue growth of 9.4% YoY in 2QFY23 (June-ending fiscal). We expect EBITDA margin to expand by ~350bps YoY to 23.8% (+190bps QoQ). Absolute EBITDA and APAT is expected to grow by 28.5% YoY and 31.8% YoY (on a low base), respectively.

ITC: We expect ITC's overall topline to grow by 5.1% YoY. Cigarette sales are likely to grow by 14% YoY, led by volume growth of 11% YoY (3-yr CAGR - 5.1%). We expect the growth momentum in Other-FMCG business to continue with ~20% YoY growth in the segment, albeit on a low base. Further, we expect the Hotels business to grow by 27% YoY as mobility seems to be on the rise amid improvement in business travel sentiments. But, Agri business is expected to decline by 20% YoY on a high base while Paper & Packaging business is expected to grow by 12.5% YoY. At the company level, we expect EBITDA margin to expand by ~390bps YoY to 36.1% (down 30bps QoQ). EBITDA and APAT are likely to grow by 17.8% YoY and 14.8% YoY, respectively.

MRCO: We expect MRCO's sales to increase by 3.1% YoY, led by 1.4% YoY growth in the domestic business and 9% YoY growth in the international business. Domestic sales are expected to be volume led, with a volume growth of 4% YoY (3-yr CAGR - 6.1%), which will be partially offset by price cuts. Gross margin is expected to expand by ~80bps YoY (+90bps QoQ). We expect EBITDA margin to expand by ~40bps YoY (+100bps QoQ). EBITDA and APAT are likely to grow by 5.4% YoY and 1.5% YoY, respectively.

NEST: NEST is likely to post a topline growth of 17.5% YoY with 12% YoY volume growth (3-yr CAGR: 8.9%) in 4QCY22. Gross margin is likely to expand by ~160bps QoQ (down 270bps YoY). We expect EBITDA margin to contract by ~50bps QoQ (down 120bps YoY) to 21.6%. EBITDA and APAT are likely to grow by 11.5% YoY and 10.7% YoY, respectively.

TCPL: We expect TCPL to clock 7.4% YoY revenue growth. Volume will continue to remain under pressure at the company level. While the India Beverages business is expected to post flat to low single digit volume decline, the India Foods business volume is likely to grow by 5% YoY (3-yr CAGR of 4.9% and 6.9%, respectively). We expect 100bps QoQ gross margin expansion (down 100bps YoY). EBITDA margin is likely to come in at 13% (down -140bps YoY/flat QoQ). EBITDA is likely to decline by 3% YoY and APAT by 3.5% YoY.

Exhibit 1: Volume growth will continue to remain under pressure in 3QFY23

Vol./SSG growth (%)	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	v. 3Q20#
Britannia (Base business)	7.0	7.0	3.0	3.0	3.0	0.0	21.5	9.0	4.0	8.0	1.0	2.0	6.0	4.5	-2.0	5.0	5.0	5.0
Colgate (Toothpaste)*	7.0	5.0	4.0	4.0	2.3	-8.0	-2.0	4.0	5.0	16.5	6.0	4.0	2.0	-3.0	-2.0	-1.0	0.0	2.3
Dabur (Domestic FMCG)	12.4	4.3	9.6	4.8	5.6	-14.6	-9.7	16.8	18.1	25.4	34.4	10.0	2.0	2.0	5.0	1.0	2.0	7.1
Emami (Domestic)	3.5	0.0	0.0	0.0	-2.0	-20.0	-28.0	10.0	13.0	39.0	38.0	5.5	0.0	0.0	0.0	-1.2	-4.0	2.8
HUL (Domestic)* ²	10.0	7.0	5.0	5.0	5.0	-7.0	-8.0	1.0	4.0	16.0	9.0	4.0	2.0	0.0	6.0	4.0	4.0	3.3
ITC (Cigarette)*	7.0	8.0	3.0	3.0	2.0	-12.0	-37.0	-12.0	-7.5	7.0	30.0	9.0	13.0	9.0	26.0	20.0	11.0	5.1
Marico (Domestic)	5.0	8.0	6.0	1.0	-1.0	-3.0	-14.0	11.0	15.0	25.0	21.0	8.0	0.0	1.0	-6.0	3.0	4.0	6.1
Nestle (Domestic)	9.4	8.9	10.5	6.2	4.8	5.5	-11.2	6.7	10.0	10.3	25.2	6.3	5.0	4.5	6.4	6.6	12.0	8.9
TCPL (India Beverages)	-	-	8.0	8.0	7.0	5.0	4.0	11.0	10.0	23.0	3.0	2.0	6.0	3.0	1.0	-1.0	-1.0	4.9
TCPL (India Foods)	-	-	-	-	-	-1.0	8.0	6.0	12.0	21.0	17.0	16.0	4.0	-1.0	-3.0	0.0	5.0	6.9

Source: Company, Nirmal Bang Institutional Equities Research

*Our estimates

² HUL standalone domestic volume excluding Nutrition;

3-yr CAGR basis (Indexed to 3QFY20)

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