

Consumer Sector - FMCG

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Signs of gradual recovery; Volume growth trends improving

We present 4QFY23 estimates for our FMCG sector coverage companies. Early commentaries from some of the FMCG players like Marico, Dabur and Godrej Consumer Products suggest that the sector has witnessed a gradual recovery with volume growth trends improving each quarter. Tata Consumer's (TCPL) India Beverages & India Foods business, Marico's Domestic business and Nestle India are expected to deliver relatively better 4-year volume CAGR. In terms of categories, while Beverages segment is likely to perform better on the back of a sharp rise in temperature in the last couple of months (although March'23 witnessed unseasonal rains and consequent decrease in temperature), Personal Care category is expected to remain under pressure. We are expecting our FMCG coverage universe to clock revenue growth of 9.2% YoY. Consumer Staples companies (FMCG Cos - excluding GILL and ITC) are expected to deliver a better performance, with 11.4% YoY revenue growth. Gross margins are likely to be divergent as RM costs have not seen any linear decline across the board. While prices of key commodities like Crude Oil/Malaysian Palm Oil have seen ~18%/~35% YoY correction in 4QFY23, commodities like Wheat and Milk have seen ~19%/8.7% YoY rise in prices. For the overall FMCG coverage, we expect EBITDA margin to expand by ~140bps YoY (flat YoY for Consumer Staples). **What to watch out for in 4QFY23:** We expect BRIT to deliver relatively better EBITDA growth on YoY basis. **Preference on 1-year forward basis:** BRIT, DABUR and HUL. **Key monitorables going forward are:** (1) Realisations from current harvest and subsequent impact on rural demand (2) Risk of El-Nino conditions.

BRIT: We estimate BRIT's base business volume to grow in low single digit in 4QFY23 (4-yr CAGR - ~4%) with a pricing-led topline growth of 14.8% YoY. Gross margin is expected to improve by ~290bps YoY (down 270bps QoQ), leading to EBITDA margin expansion of ~230bps YoY to 17.8%. EBITDA and APAT are estimated to grow by 31.9% YoY and 43.9% YoY, respectively.

CLGT: We expect CLGT to deliver a revenue growth of 6.4% YoY as we estimate toothpaste volume growth to be in low single digit YoY (4-yr CAGR: 1.7%). We expect operating margin to contract by ~420bps YoY to 28.8% as higher costs (A&SP and Others) will have an adverse impact on profitability. EBITDA is expected to decline by 7% YoY and APAT is likely to decline by 14.4% YoY.

DABUR: We expect Dabur to deliver 3% YoY domestic FMCG volume growth (4-yr CAGR - 3%) and 6.2% YoY revenue growth at the consolidated level. As per the company, the F&B business is likely to report strong double-digit growth while Home and Personal Care will report growth in low single digits. EBITDA margin is likely to contract by ~220bps YoY to 15.9% (down 420bps QoQ) largely due to higher investments in brands. Consequently, EBITDA is expected to decline by 6.5% YoY and APAT by 2.3% YoY.

EMAMI: We expect the company's domestic volume to decline in low to mid single digits (4-yr CAGR - 2.2%) due to rural slowdown, leading to an overall revenue growth of 7% YoY. Operating margin is expected to improve by ~100bps YoY to 22.3%. EBITDA is expected to improve by 12.2% YoY whereas APAT (before amortization) is likely to decline by 72.1% YoY on the back of a high base due to MAT credit entitlement in 4QFY22.

HUL: We expect HUL to post a moderate volume growth of 6% YoY (4-yr CAGR - 3.4%), driving 13.8% YoY sales growth (including the Nutrition business). Growth will be predominantly price-led. We expect gross margin to remain flat YoY (up 200bps QoQ) as Net Material Inflation (NMI) in 4QFY23 is likely to be lower compared to 3QFY23, resulting in ~80bps QoQ expansion (flat YoY) in EBITDA margin to 24%. EBITDA and APAT are likely to grow by 13.3% YoY and 17.5% YoY, respectively.

4QFY23E performance summary for our FMCG coverage universe

Company (Rs mn)	Revenue			EBITDA			EBITDA margin (%)			PAT		
	4QFY23E	YoY(%)	QoQ(%)	4QFY23E	YoY(%)	QoQ(%)	4QFY23E	4QFY22	3QFY23	4QFY23E	YoY(%)	QoQ(%)
Britannia	40,772	14.8	-2.9	7,250	31.9	-11.3	17.8	15.5	19.5	5,466	43.9	-17.0
Colgate-Palmolive	13,849	6.4	7.2	3,995	-7.0	10.5	28.8	33.0	28.0	2,768	-14.4	13.8
Dabur India	26,741	6.2	-12.1	4,239	-6.5	-30.5	15.9	18.0	20.0	3,519	-2.3	-26.1
Emami	8,245	7.0	-16.1	1,840	12.2	-37.5	22.3	21.3	29.9	1,175	-72.1	-54.9
Gillette India **	6,357	12.2	2.8	1,335	1.4	5.9	21.0	23.2	20.4	828	19.5	11.3
Hindustan Unilever	1,53,218	13.8	0.6	36,755	13.3	3.9	24.0	24.1	23.2	26,832	17.5	4.0
ITC	1,62,669	4.7	0.3	63,189	21.0	1.5	38.8	33.6	38.4	52,797	26.0	4.9
Marico	22,308	3.2	-9.7	4,016	13.4	-11.9	18.0	16.4	18.5	2,675	3.9	-18.5
Nestle India **	43,589	9.5	2.4	10,018	7.6	2.5	23.0	23.4	22.9	6,551	9.0	3.7
Tata Consumer	35,674	12.3	2.7	4,774	7.4	5.2	13.4	14.0	13.1	3,007	30.0	2.1
Coverage universe	5,13,421	9.2	-0.9	1,37,410	15.2	-0.8	26.8	25.4	26.8	1,05,619	15.8	-0.2
Cons. staples (ex-GILL & ITC)	3,44,395	11.4	-1.4	72,886	10.9	-2.9	21.2	21.3	21.5	51,993	7.0	-5.0

Source: Company; Nirmal Bang Institutional Equities Research; **3QFY23 for Gillette India and 1QCY23 for Nestle India

NBIE Research
institutional.research@nirmalbang.com

+91-022 6273 8176

GILL: We expect GILL to post a revenue growth of 12.2% YoY in 3QFY23 (June-ending fiscal year). We expect EBITDA margin to contract by ~220bps YoY to 21% (+60bps QoQ). Absolute EBITDA and APAT are expected to grow by 1.4% YoY and 19.5% YoY, respectively.

ITC: We expect ITC's overall topline to grow by 4.7% YoY. Cigarette sales are likely to grow by 16% YoY, led by volume growth of 14% YoY (4-yr CAGR - 4%). We expect the growth momentum in Other-FMCG business to continue, with ~19% YoY growth in the segment. Further, we expect the Hotels business to grow by 70% YoY as mobility seems to be on the rise amid improvement in business travel sentiments and higher ARR. But, the Agri business is expected to decline by 30% YoY due to a high base while Paper & Packaging business is expected to grow by 6% YoY. At the company level, we expect EBITDA margin to expand by ~520bps YoY to 38.8% (up 50bps QoQ). EBITDA and APAT are likely to grow by 21% YoY and 26% YoY, respectively.

MRCO: We expect MRCO's consolidated sales to increase by 3.2% YoY. Domestic sales are expected to be volume led, with a volume growth of 5% YoY (4-yr CAGR - 6.5%), which will be partially offset by price cuts. Gross margin is expected to expand by ~150bps YoY (+100bps QoQ). We expect EBITDA margin to expand by ~160bps YoY (down 50bps QoQ). EBITDA and APAT are likely to grow by 13.4% YoY and 3.9% YoY, respectively.

NEST: NEST is likely to post a topline growth of 9.5% YoY with flat volume growth (4-yr CAGR: 5.8%) in 1QCY23. Gross margin is likely to contract by ~40bps YoY (flat QoQ). We expect EBITDA margin to contract by ~40bps YoY (flat QoQ) to 23%. EBITDA and APAT are likely to grow by 7.6% YoY and 9% YoY, respectively.

TCPL: We expect TCPL to clock 12.3% YoY revenue growth. Volume will likely see marginal improvement at the company level. We expect low to mid single digit volume growth for both India Beverages as well as India Foods Business (4-yr CAGR of 8.2% and 5.4%, respectively). We expect 100bps QoQ gross margin expansion (down 210bps YoY). EBITDA margin is likely to come in at 13.4% (down 60bps YoY/up 30bps QoQ). EBITDA is likely to grow by 7.4% YoY and APAT by 30% YoY.

Exhibit 1: Volume growth expected to improve marginally in 4QFY23

Vol./SSG growth (%)	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23E	v. 4Q19#
Britannia (Base business)	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	2.0	3.0	3.8
Colgate (Toothpaste)*	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	-3.0	3.0	1.7
Dabur (Domestic FMCG)	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	-3.0	3.0	3.0
Emami (Domestic)	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	-3.9	-2.0	2.2
HUL (Domestic)* ²	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	5.0	6.0	3.4
ITC (Cigarette)*	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	15.0	14.0	4.0
Marico (Domestic)	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	5.0	6.5
Nestle (Domestic)	8.9	10.5	6.2	4.8	5.5	-11.2	6.7	10.0	10.3	25.2	6.3	5.0	7.8	7.0	8.8	-0.8	0.0	5.8
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	-5.0	3.0	8.2
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	4.0	4.0	5.4

Source: Company, Nirmal Bang Institutional Equities Research

*Our estimates

² HUL standalone domestic volume excluding Nutrition;

4-yr CAGR basis (Indexed to 4QFY19)

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010