

Consumer Sector - FMCG

9 April, 2023

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)

DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as “NBEPL”) for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I, NBIE Research, the research analyst, the author(s) of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst is principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

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