

Consumer Sector - Discretionary

1QFY24 Result Preview

July 07, 2023

Discretionary spends to remain under pressure

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Key Points

- We expect overall revenue of our Consumer Discretionary coverage universe to grow by 4.8% YoY in 1QFY24, driven by QSR companies (~10% YoY growth) followed by Paint companies (~6% YoY growth).
- We expect overall EBITDA margin of our Consumer Discretionary coverage universe to improve slightly by ~50bps YoY, largely impacted by QSR companies.
- EBITDA of our Consumer Discretionary coverage universe is expected to increase by 8.2% YoY while adjusted PAT (APAT) is expected to increase marginally by 1.8% YoY.
- We expect WFL to outperform in the QSR sector.

Discretionary growth to lag FMCG growth: Growth in our Consumer Discretionary coverage in 1QFY24 is expected to lag our Consumer FMCG coverage. We expect overall revenue of our Consumer Discretionary coverage universe to grow by 4.8% YoY in 1QFY24, driven by QSR companies (~10% YoY growth) followed by Paint companies (~6% YoY growth). Overall operating margin performance across coverage companies is expected to be divergent. We expect overall EBITDA margin of our Consumer Discretionary coverage universe to improve slightly by ~50bps YoY, largely impacted by QSR companies. EBITDA of our Consumer Discretionary coverage universe is expected to increase by 8.2% YoY while adjusted PAT (APAT) is expected to increase marginally by 1.8% YoY. What to watch out for in 1QFY24: We expect WFL to outperform in the QSR sector. Preference: In the Consumer Discretionary space, we remain structurally positive on WFL, UNSP and JUBI.

Paints sector: Demand environment was steady in April'23 and picked up in June'23. We expect double-digit volume growth in 1QFY24 for both companies in our coverage. On a 4-year CAGR basis, we are still building in double-digit volume growth for the Domestic Decorative Paint business (refer exhibit 2), with APNT seeing relatively better growth because of its higher putty mix. We expect our coverage Paint companies to record a combined topline growth of ~6% YoY. On the margin front, we expect the coverage Paint companies to see EBITDA margin expansion of ~90bps YoY (down 180bps QoQ). Absolute EBITDA and APAT are expected to improve by 11.3% YoY and 11.7% YoY, respectively.

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1QFY24E performance summary for our Consumer Discretionary coverage universe

Company (Rs mn)	Net Sales			EBITDA			EBITDA margin (%)			PAT		
	1QFY24E	YoY (%)	QoQ (%)	1QFY24E	YoY (%)	QoQ (%)	1QFY24E	1QFY23	4QFY23	1QFY24E	YoY (%)	QoQ (%)
Asian Paints	90,373	5.0	2.8	17,171	10.4	-7.9	19.0	18.1	21.2	11,525	11.4	-8.0
Berger Paints	29,983	8.6	22.7	4,647	14.8	26.0	15.5	14.7	15.1	2,864	13.0	54.2
United Breweries	26,631	9.3	50.9	3,051	15.1	470.8	11.5	10.9	3.0	1,949	20.6	1,903.4
United Spirits	19,189	-11.5	-23.1	2,725	-0.6	1.3	14.2	12.6	10.8	1,457	-39.1	1.7
Jubilant Foodworks	13,023	5.0	4.0	2,696	-11.5	6.9	20.7	24.6	20.1	746	-38.4	20.2
Westlife Foodworld	6,079	13.0	9.3	1,015	10.3	10.5	16.7	17.1	16.5	296	11.1	30.0
Restaurant Brands Asia	5,822	19.0	13.3	361	23.5	31.8	6.2	6.0	5.3	-659	NA	NA
Coverage universe	1,91,099	4.8	7.3	31,666	8.2	8.2	16.6	16.0	16.4	18,177	1.8	13.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Sub-sector wise 1QFY24E performance summary for our coverage universe

Sector (Rs mn)	Net Revenue			EBITDA			EBITDA margin (%)			PAT		
	1QFY24E	YoY (%)	QoQ (%)	1QFY24E	YoY (%)	QoQ (%)	1QFY24E	YoY (%)	QoQ (%)	1QFY24E	YoY (%)	QoQ (%)
Consumer discretionary	1,91,099	4.8	7.3	31,666	8.2	8.2	16.6	0.5	0.1	18,177	1.8	13.9
Paints	1,20,356	5.9	7.2	21,818	11.3	-2.3	18.1	0.9	-1.8	14,388	11.7	0.1
AlcoBev	45,820	-0.5	7.6	5,776	7.1	79.2	12.6	0.9	5.0	3,406	-15.0	122.6
QSR	24,923	9.9	7.3	4,072	-4.4	9.6	16.3	-2.4	0.3	382	-60.5	690.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Volume growth/SSG (4-yr CAGR) for Paint companies will continue to be ahead of other discretionary companies

Vol. growth/SSG (%)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24E	v. 1Q20 [#]
Paints (Domestic Decorative) *1																		
Asian Paints	16.0	14.0	12.0	3.0	-37.0	11.0	33.0	48.0	106.0	34.0	18.0	8.0	37.0	10.0	0.0	16.0	11.0	18.5
Berger Paints	12.0	13.0	9.0	-7.0	-46.0	13.0	32.0	53.0	92.0	21.0	13.0	0.0	35.0	11.0	6.6	14.5	12.0	11.9
QSR (SSSG)																		
Jubilant Foodworks (LFL)	5.8	6.5	7.2	-2.3	-61.5	-18.8	-0.2	13.7	120.4	29.4	7.5	5.8	28.3	8.4	0.3	-0.6	-3.0	1.4
Jubilant Foodworks	4.1	4.9	5.9	-3.4	-61.4	-20.0	-1.7	11.8	114.2	26.3	5.0	3.5	26.0	6.0	-2.0	-2.9	-5.0	-0.3
Westlife Foodworld*2	6.7	7.0	9.2	-6.9	-75.0	-47.0	-24.0	10.5	182.6	83.7	44.0	23.0	97.0	40.0	20.0	14.0	7.0	10.5
Restaurant Brands Asia*3	-	-	-0.2	-5.4	-68.9	-48.6	-34.8	-4.9	120.0	62.0	30.0	17.0	66.0	27.0	8.6	8.3	6.0	4.7
Alco-Bev																		
United Spirits*4	6.0	1.0	-1.8	-13.5	-49.2	-3.9	-0.8	8.1	61.0	3.5	3.7	5.0	18.1	8.3	-24.9	-27.3	-26.6	-8.2
United Breweries	5.0	7.0	-7.0	-21.0	-77.0	-48.0	-15.0	9.0	115.0	49.0	19.0	7.0	121.0	23.0	4.0	3.0	7.0	4.0

Source: Company, Nirmal Bang Institutional Equities Research

*1 Our estimates

*2 In case of WFL, 1Q21 & 2Q21 reported SSSG decline of 54.0% & 40.7% respectively excludes closed stores; mentioned SSSG for all stores are our estimate

*3 RBAL 1QFY22 SSSG not disclosed, hence our estimate; SSG Includes only India estimates (BKI) for RBAL

*4 UNSP estimated volume decline in 1Q24E is post considering divestiture of popular portfolio

Indexing against 1QFY20 on a 4-yr CAGR basis

Alcoholic-Beverages (Alco-Bev) sector: We expect our coverage Alco-Bev companies to record revenue growth in-line with the base quarter. We are building in ~9% YoY revenue growth for UBL but ~11% YoY revenue decline for UNSP (third quarter post divestiture of the Popular portfolio). Commodity inflation is expected to persist as prices of key commodities like ENA and Glass Bottles remain elevated. We are building in ~60bps YoY EBITDA margin expansion for UBL and ~160bps YoY EBITDA margin expansion for UNSP. Combined sector EBITDA is expected to see an increase of 7% YoY whereas APAT is likely to decline by 15% YoY, largely impacted by UNSP.

QSR sector: We expect the demand environment to remain similar to 4QFY23 for QSR companies. Revenue is likely to witness an uptick on the back of summer vacation and IPL season and we are building in ~10% YoY revenue growth for our coverage companies. Within our QSR coverage, we expect JUBI's LFL and SSG to decline by 3% YoY and 5% YoY, respectively, leading to revenue growth of ~5% YoY amid continued store expansion. For our dine-in centric brands, we expect growth to be relatively higher. For WFL, we expect revenue growth of 13% YoY, led by 7% SSG (4-yr CAGR: 10.5%). For Restaurant Brands Asia Ltd (RBAL), we are building in 19% YoY revenue growth, led by 6% SSG (4-yr CAGR: 4.7%). In terms of store openings, we expect 40, 6 and 17 net openings for Dominos India, McDonalds (West & South India) and BKI, respectively in 1QFY24. We expect EBITDA margin for our coverage universe to contract by ~240bps YoY (flat QoQ). Absolute EBITDA is expected to decline by 4.4% YoY and APAT is expected to decline sharply by ~61% YoY.

APNT: We expect APNT to clock 11% YoY growth in the Domestic Decorative Paint business volume (4-yr CAGR: 18.5%). We are currently building in 5% YoY net revenue growth. Gross margin is expected to expand by ~530bps YoY as the company reaps the benefit of lower raw material costs. We expect EBITDA margin to expand by ~90bps YoY to 19% (down 220bps QoQ). EBITDA and PAT are likely to grow by 10.4% YoY and 11.4% YoY, respectively.

BRGR: We expect BRGR to clock 12% YoY growth in the Domestic Decorative Paint business volume (4-yr CAGR: ~12%). As per the company, demand was tepid in May'23 due to unseasonal rains and higher-than-normal heat levels, but remained steady in April'23 and June'23. We are building in 8.6% YoY net revenue growth. On the margin front, we expect gross margin to expand by ~330bps YoY (down 80bps QoQ) and EBITDA margin to expand by 80bps YoY (+40bps QoQ). EBITDA is likely to grow by 14.8% YoY while APAT is likely to increase by 13% YoY.

UBL: UBL is expected to report volume growth of ~7% YoY (4-yr CAGR: 4%), leading to revenue growth of 9.3% YoY. We expect EBITDA margin to expand by ~60bps YoY (+840bps QoQ). EBITDA and APAT will increase by 15.1% YoY and 20.6% YoY, respectively.

UNSP: We believe that UNSP will register an overall volume decline of 26.6% YoY (third quarter post the divestiture of the Popular portfolio). We are building in 10% YoY volume growth for the Prestige & Above portfolio while the Popular portfolio volume is expected to decline by ~69% YoY, leading to revenue decline of 11.5% YoY. Gross margin is expected to expand by ~180bps YoY (flat QoQ). We are building in ~160bps YoY expansion in EBITDA margin to 14.2%. EBITDA and APAT are likely to decline by 0.6% YoY and 39.1% YoY, respectively.

JUBI: JUBI is likely to report LFL decline of 3% YoY (Negative SSSG of 5%; Flat 4-yr SSSG CAGR), leading to sales growth of 5% YoY. Gross margin is expected to decline by ~140bps YoY (flat on QoQ basis) and EBITDA margin is likely to contract by ~390bps YoY (up ~60bps QoQ). EBITDA is expected to decline by 11.5% YoY whereas APAT is likely to decline by 38.4% YoY.

WFL: We expect WFL to report SSSG of 7% YoY (4-yr CAGR: 10.5%), leading to sales growth of 13% YoY. We expect gross margin to improve by 690bps YoY (down 70bps QoQ). EBITDA margin is expected to contract by 40bps YoY (up 20bps QoQ). Absolute EBITDA (including the impact of IND AS-116) is likely to increase from Rs920mn in 1QFY23 to Rs1bn in 1QFY24 while APAT is likely to grow by 11.1% YoY.

RBA (Consolidated): We expect RBAL's India operations to report SSSG of 6% YoY (4-yr CAGR: 4.7%), leading to sales growth of 19% YoY. Indonesia business revenue is likely to remain under pressure and we are baking in flat revenue growth. Consolidated EBITDA margin is expected to come in at 6.2%. Absolute EBITDA (including the impact of IND AS-116) is likely to grow by 23.5% YoY to Rs361mn whereas loss at the APAT level is expected to come in at Rs659mn, largely dragged by Indonesia operations.

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