

Consumer Sector - Discretionary

2QFY24 Result Preview

October 07, 2023

Discretionary spends to remain under pressure

Key Points

- We expect overall revenue of our Consumer Discretionary coverage universe to grow by 3.6% YoY in 2QFY24, driven by QSR companies (~12% YoY growth) followed by Paint companies (~4.9% YoY growth). Cumulative revenue growth is skewed due to UNSP's divestiture of part of its Popular segment business after 2QFY23.
- EBITDA of our Consumer Discretionary coverage universe is expected to increase by 27.1% YoY while adjusted PAT (APAT) is expected to increase by 32.6% YoY.
- We expect WFL to outperform in the QSR sector but demand outlook has been subdued across all the players for the quarter as has been the case with AlcoBev companies as well, owing to a high base.

Discretionary growth to lag FMCG growth: Growth in our Consumer Discretionary coverage in 2QFY24 is expected to lag our Consumer FMCG coverage. We expect overall revenue of our Consumer Discretionary coverage universe to grow by 3.6% YoY in 2QFY24, driven by QSR companies (~12% YoY growth) followed by Paint companies (~4.9% YoY growth). Cumulative revenue growth is skewed due to UNSP, for which 2QFY23 base was the last quarter before the sale of part of its 'Popular segment portfolio. We expect overall EBITDA margin of our Consumer Discretionary coverage universe to improve strongly by ~340bps YoY as Paint companies are expected to post strong gross margin expansion (YoY) following a meaningful drop in raw material prices. EBITDA of our Consumer Discretionary coverage universe is expected to increase by 27.1% YoY while adjusted PAT (APAT) is expected to increase by 32.6% YoY. What to watch out for in 2QFY24? We expect WFL to outperform in the QSR sector on SSSG front. Preference: In the Consumer Discretionary space, we remain structurally positive on WFL and UNSP.

Paints sector: Demand in the exterior segment was impacted in July'23 due to monsoon, but Aug'23 saw an improvement on MoM basis. Sept'23 was a mixed quarter in terms of demand. We expect lower volume growth in 2QFY24 compared to previous two quarters for both companies in our coverage. But, on 4-year CAGR basis, we are still building in double-digit volume growth for the Domestic Decorative Paint business (refer exhibit 2). We expect our coverage Paint companies to record a combined topline growth of ~5% YoY. On the margin front, we expect to see EBITDA margin expansion of ~640bps YoY (down 120bps QoQ). Absolute EBITDA and APAT are expected to improve by 52% YoY and 58.4% YoY, respectively

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

2QFY24E performance summary for our Consumer Discretionary coverage universe

Company (Rsmn)	Net Sales			EBITDA			EBITDA margin (%)			PAT		
	2QFY24E	YoY (%)	QoQ (%)	2QFY24E	YoY (%)	QoQ (%)	2QFY24E	2QFY23	1QFY24	2QFY24E	YoY (%)	QoQ (%)
Asian Paints	87,959	4.0	-4.2	19,351	57.6	-8.8	22.0	14.5	23.1	12,894	64.7	-16.8
Berger Paints	28,787	7.8	-5.0	4,836	32.9	-13.1	16.8	13.6	18.4	2,975	35.6	-16.1
United Breweries	16,982	1.1	-25.3	1,443	-34.1	-35.2	8.5	13.0	9.8	751	-44.0	-44.8
United Spirits	27,092	-6.7	24.7	3,928	-11.2	5.6	14.5	15.2	17.1	2,535	-3.8	6.5
Jubilant Foodworks	13,768	7.0	5.1	2,960	-5.3	7.1	21.5	24.3	21.1	847	-29.0	12.6
Westlife Foodworld	6,354	11.0	3.4	1,067	8.0	1.4	16.8	17.3	17.1	317	-8.3	6.1
Restaurant BrandsAsia	6,612	26.0	8.3	595	136.7	23.2	9.0	4.8	7.9	-455	NA	NA
Coverage universe	1,87,553	3.6	-2.3	34,181	27.1	-7.7	18.2	14.9	19.3	19,864	32.6	-14.7

Exhibit 1: Sub-sector wise 2QFY24E performance summary for our coverage universe

Sector (Rsmn)	Net Revenue			EBITDA			EBITDA margin (%)			PAT		
	2QFY24E	YoY (%)	QoQ (%)	2QFY24E	YoY (%)	QoQ (%)	2QFY24E	YoY (%)	QoQ (%)	2QFY24E	YoY (%)	QoQ (%)
Consumer discretionary	1,87,553	3.6	-2.3	34,181	27.1	-7.7	18.2	3.4	-1.1	19,864	32.6	-14.7
Paints	1,16,745	4.9	-4.4	24,187	52.0	-9.7	20.7	6.4	-1.2	15,868	58.4	-16.7
AlcoBev	44,073	-3.8	-0.8	5,372	-18.8	-9.7	12.2	-2.2	-1.2	3,287	-17.4	-12.1
QSR	26,734	12.1	5.5	4,623	5.9	7.5	17.3	-1.0	0.3	709	-28.2	38.9

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 (%)	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24E	v. 2Q20 [#]
Paints (Domestic Decorative) ^{*1}																		
Asian Paints	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	10.0	8.0	15.3
Berger Paints	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	12.7	11.0	13.9
QSR (SSSG)																		
Jubilant Foodworks (LFL)	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	-1.3	0.0	3.3
Jubilant Foodworks	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	-3.6	-2.0	1.2
Westlife Foodworld ^{*2}	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	4.0	9.1
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	3.6	2.0	1.9
Alco-Bev																		
United Spirits ^{*4}	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	-28.6	-26.8	-5.8
United Breweries	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	-12.0	-7.0	-3.0

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; SSSG includes only India estimates (BKI) for RBAL

^{*4} UNSP estimated volume decline in 2Q24E is post considering divestiture of popular portfolio

[#] Indexing against 2QFY20 on a 4-yr CAGR basis

Alcoholic-Beverages (Alco-Bev) sector: We expect our coverage Alco-Bev companies to post revenue decline primarily because UNSP's base quarter 2QFY23 had the 'Popular segment' portfolio, which was sold towards the end of the quarter. We are building in ~1% YoY revenue growth for UBL but ~6.7% YoY revenue decline for UNSP (fourth 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. Barley prices have seen moderation, which will aid gross margin expansion for UBL, but EBITDA margin will remain under pressure as the de-leverage impact kicks in. We are building in EBITDA margin contraction of ~450bps YoY for UBL and ~70bps YoY for UNSP. Combined sector EBITDA is expected to decrease by ~18.8% YoY whereas APAT is likely to decline by 17.4% YoY, largely impacted by UBL.

QSR sector: We expect the demand environment to remain relatively muted for QSR companies due to 'Shravan' fasting season. We are building in ~12% YoY revenue growth for our coverage companies. Within our QSR coverage, we expect JUBI's LFL growth to remain flat and SSSG to decline by ~2% YoY, leading to revenue growth of ~7% 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 11% YoY, led by 4% SSSG (4-yr CAGR: 9.1%). For Restaurant Brands Asia Ltd (RBAL), we are building in 26% YoY revenue growth, led by 2% SSSG (4-yr CAGR: 1.9%). In terms of store openings, we expect 50, 10 and 17 net openings for Dominos India, McDonalds (West & South India) and BKI, respectively in 2QFY24. We expect EBITDA margin for our coverage universe to contract by ~100bps YoY (+30bps QoQ). Absolute EBITDA is expected to grow by 5.9% YoY while APAT is expected to decline by ~28% YoY.

APNT: We expect APNT to clock 8% YoY volume growth in the Domestic Decorative Paint business (4-yr CAGR: 15.3%). We are currently building in 4% YoY net revenue growth. Gross margin is expected to expand by ~730bps YoY as the company reaps the benefit of lower RM costs. We expect EBITDA margin to expand by ~750bps YoY to 22% (down 110bps QoQ). EBITDA and PAT are likely to grow by 57.6% YoY and 64.7% YoY, respectively.

BRGR: We expect BRGR to clock 11% YoY volume growth in the Domestic Decorative Paint business (4-yr CAGR: ~13.9%). As per the company, demand was impacted in July'23 by monsoon but recovered in Aug'23. We are building in 7.8% YoY net revenue growth. On the margin front, we expect gross margin to expand by ~350bps YoY (down 100bps QoQ) and EBITDA margin to expand by 320bps YoY (down 160bps QoQ). EBITDA is likely to grow by 32.9% YoY while APAT is likely to increase by 35.6% YoY.

UBL: UBL is expected to report volume decline of ~7% YoY [4-yr CAGR: (-)3%] with marginal revenue growth of 1% YoY. We expect EBITDA margin to contract by ~450bps YoY (down 130bps QoQ). EBITDA and APAT will decrease by 34.1% YoY and 44% YoY, respectively.

UNSP: We believe that UNSP will register an overall volume decline of 26.8% YoY (fourth quarter post the divestiture of the Popular portfolio). We are building in 4% YoY volume growth for the Prestige & Above portfolio while the Popular portfolio volume is expected to decline by ~70% YoY, leading to revenue decline of 6.7% YoY. Gross margin is expected to expand by ~380bps YoY (flat QoQ). We are building in ~70bps YoY contraction in EBITDA margin to 14.5%. EBITDA and APAT are likely to decline by 11.2% YoY and 3.8% YoY, respectively.

JUBI: JUBI is likely to report flat LFL growth YoY (Negative SSSG of 2%; 4-yr SSSG CAGR - +1.2%), leading to sales growth of 7% YoY. Gross margin is expected to decline by ~20bps YoY (flat QoQ) as milk and cheese prices remained elevated. EBITDA margin is likely to contract by ~280bps YoY (up ~40bps QoQ). EBITDA is expected to decline by 5.3% YoY whereas APAT is likely to decline by 29% YoY.

WFL: We expect WFL to report SSSG of 4% YoY (4-yr CAGR: 9.1%), leading to sales growth of 11% YoY. We expect gross margin to improve by 500bps YoY (flat QoQ). EBITDA margin is expected to contract by 50bps YoY (down 30bps QoQ). EBITDA (including the impact of IND AS-116) is likely to increase by 8% YoY while APAT is likely to decline by 8.3% YoY on account of higher depreciation.

RBA (Consolidated): We expect RBAL's India operations to report SSSG of 2% YoY (4-yr CAGR: 1.9%), leading to sales growth of 22% YoY. Indonesia business revenue is likely to continue its momentum seen in 1QFY24 as we build in revenue growth of 35.4% YoY. Consolidated EBITDA margin is expected to come in at 9%. Absolute EBITDA (including the impact of IND AS-116) is likely to more than double whereas loss at the APAT level is expected to come in at Rs455mn, largely due to the Indonesia operations.

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/We Krishnan Sambamoorthy, Research Analyst and Sunny Bhadra, Research Associate, 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	-
Krishnan Sambamoorthy	Head of Research	krishnan.s@nirmalbang.com	+91 22 6273 8210
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