Consumer Sector - FMCG

2QFY24 Result Preview

October 7, 2023

Muted topline and volume growth persists

Key Points

- Early commentaries from some of the FMCG players like Marico, Dabur and Godrej Consumer Products suggest that the overall demand environment remains muted.
- On rural demand, we believe that the overall recovery is not that sharp and is not broad-based across categories.
- 2QFY24 will witness significant YoY gross margin expansion for several companies but rising ad spends (off a low base), significantly lower realization growth vs preceding quarters and persistently tepid volume growth mean that YoY growth at EBITDA margin level will not be material for most players. As highlighted in our commodity cost note released recently, some raw material prices (especially food related) remain elevated and crude oil has also witnessed a spurt recently.
- We are expecting our FMCG coverage universe to clock revenue growth of 5.2% YoY.

Steady demand environment: Early commentaries from a few FMCG players like Marico, Dabur and Godrej Consumer Products suggest that the overall demand environment remains muted with some signs of a gradual recovery. On rural demand, we believe that the overall recovery, although not sharp, is witnessing some signs of slow revival. Marico indicated that the anticipated pick-up in rural demand was hindered due to an upward trend in food prices and below-normal distribution of rainfall. In terms of categories, while Beverages segment revenue is likely to decline on account of a mild summer and delayed festive season, Home Care category is expected to witness some positive momentum. Dabur India, Tata Consumer's (TCPL) India Foods business and Nestle India are expected to deliver relatively better 4-year volume CAGR.

Expect mid single-digit revenue growth: We are expecting our FMCG coverage universe to clock revenue growth of 5.2% YoY, which is muted because of significantly lower realization growth vs preceding quarters along with persistently tepid volume growth. We expect gross margin for most of our coverage companies to improve on YoY basis. As highlighted in our recently released input cost note, while prices of key commodities like Brent Crude/Malaysian Palm Oil have seen ~13%/~4% YoY correction in 2QFY24, commodities like Wheat and Milk have seen ~5%/8% YoY rise in prices. For the overall FMCG coverage, we expect EBITDA margin to expand by ~110bps YoY.

What to watch out for in 2QFY24: We expect HMN to deliver relatively better EBITDA growth on YoY basis. Preference on 1-year forward basis: GILL and BRIT.

Key monitorables: (1) Effect of late monsoon recovery on rural income and the consequent impact on rural demand (2) Impact of festive season on off-takes.

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

Company (Rsmn)	Revenue			EBITDA			EBITDA margin (%)			PAT		
	2QFY24E	YoY(%)	QoQ(%)	2QFY24E	YoY(%)	QoQ(%)	2QFY24E	2QFY23	1QFY24	2QFY24E	YoY(%)	QoQ(%)
Britannia	45,986	5.0	14.7	7,864	10.5	14.2	17.1	16.3	17.2	5,442	10.3	18.9
Colgate-Palmolive	15,198	9.5	14.8	4,708	15.4	12.6	31.0	29.4	31.6	3,278	17.9	13.8
Dabur India	32,397	8.5	3.5	6,544	8.9	8.2	20.2	20.1	19.3	5,004	2.1	7.9
Emami	8,827	8.5	6.9	2,560	31.0	34.7	29.0	24.0	23.0	2,231	7.5	38.7
Gillette India **	6,826	10.1	10.2	1,392	2.6	-3.1	20.4	21.9	23.2	884	1.9	-3.6
Hindustan Unilever	1,51,935	3.0	0.3	34,945	3.5	-0.8	23.0	22.9	23.2	25,000	5.1	0.0
ITC	1,67,924	4.1	6.1	64,651	10.2	3.4	38.5	36.4	39.5	50,137	12.3	2.3
Marico	24,514	-1.8	-1.0	4,976	14.9	-13.3	20.3	17.3	23.2	3,448	14.6	-19.2
Nestle India **	50,850	10.5	9.2	11,720	16.0	10.7	23.0	21.9	22.7	7,891	18.2	12.5
Tata Consumer	37,262	10.8	-0.4	5,478	26.3	0.5	14.7	12.9	14.6	3,480	6.1	9.9
PGHH**	11,471	10.0	34.6	2,580	20.6	20.1	22.5	20.5	25.2	1,868	21.0	23.5
Coverage universe	**5,53,190**	**5.2**	**5.1**	**1,47,419**	**10.1**	**3.7**	**26.6**	**25.5**	**27.0**	**1,08,663**	**10.3**	**3.9**

*Source: Company; Nirmal Bang Institutional Equities Research; **1QFY24 for Gillette India, PGHH and 3QCY23 for Nestle India*

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Exhibit 1: Expect moderate volume growth

Vol./SSG growth (%)	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24E	v. 2Q20#
Britannia (Base business)	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	2.0	0.0	3.0	*4.7*
Colgate (Toothpaste)*	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	-2.0	6.0	5.0	*3.0*
Dabur (Domestic FMCG)	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	0.0	3.0	4.0	*7.8*
Emami (Domestic)	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	3.0	5.0	*4.7*
HUL (Domestic)*2	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	4.0	3.0	3.0	*3.0*
ITC (Cigarette)*	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	12.0	8.0	-2.0	*3.1*
Marico (Domestic)	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	3.0	3.0	*6.2*
Nestle (Domestic)	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	5.1	5.1	7.0	*7.2*
TCPL (India Beverages)	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	3.0	3.0	*3.7*
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	8.0	6.0	8.0	*7.3*

Source: Company; Nirmal Bang Institutional Equities Research

**Our estimates; *2 HUL standalone domestic volume excluding Nutrition; # 4-yr CAGR basis (Indexed to 2QFY20)*

BRIT: We expect BRIT's base business volume to grow in low single digit in 2QFY24 (4-yr CAGR: ~5%) with a volume-led topline growth of 5% YoY. Gross margin is expected to improve by ~360bps YoY (up 60bps QoQ), leading to EBITDA margin expansion of ~80bps YoY to 17.1% (down 10bps QoQ). EBITDA and APAT are estimated to grow by 10.5% YoY and 10.3% YoY, respectively.

CLGT: We expect CLGT to deliver revenue growth of 9.5% YoY as we estimate Toothpaste volume growth to be in mid single digit YoY (4-yr CAGR: 3%). We expect operating margin to expand by ~160bps YoY to 31%, albeit on a low base. EBITDA is expected to increase by 15.4% YoY and APAT is likely to increase by 17.9% YoY.

DABUR: We expect Dabur to deliver 4% YoY domestic FMCG volume growth (4-yr CAGR: 7.8%) and ~8.5% YoY revenue growth at the consolidated level. As per the company, both Healthcare and HPC businesses are projected to achieve high single-digit growth while the F&B business is likely to witness marginally lower growth on YoY basis on account of a mild summer and change in the timing of the festive season. EBITDA margin is likely to stay flat YoY at 20.2% (up ~90bps QoQ). EBITDA is expected to increase by 8.9% YoY and APAT by 2.1% YoY.

EMAMI: We expect the company's domestic volume to grow in mid single digit, leading to an overall revenue growth of 8.5% YoY. Operating margin is expected to improve by ~500bps YoY to 29% on a low base. EBITDA is expected to increase by 31% YoY whereas APAT (before amortization) is likely to improve by 7.5% YoY.

GILL: We expect GILL to post revenue growth of 10.1% YoY in 1QFY24 (June-ending fiscal year). We expect EBITDA margin to decline by ~150bps YoY to ~20.4% (down 280bps QoQ). Absolute EBITDA and APAT are expected to increase by 2.6% YoY and 1.9% YoY, respectively.

HUL: We expect HUL to post moderate volume growth of 3% YoY (4-yr CAGR: 3%), driving 3% YoY revenue growth (including the Nutrition business). Revenue growth is largely reflecting volume growth as we expect no material benefit from realisations. We expect gross margin to significantly expand by 440bps YoY, but on a QoQ basis it is likely to see a modest rise of 30bps as there has been no material moderation in Net Material Inflation (NMI). While gross margin expansion is likely to be strong on YoY basis, no material increase in EBITDA margin is expected due to lower sales growth and higher ad spends, resulting in flat EBITDA margin on both QoQ as well as YoY basis at 23%. EBITDA and APAT are likely to grow by 3.5% YoY and 5.1% YoY, respectively.

ITC: We expect ITC's overall topline to be muted at ~4% YoY due to likely decline on Paperboards, Paper & Packaging segment owing to lower pulp prices and relatively lower Cigarette segment sales growth on a high base. Cigarette sales are likely to grow by a muted rate of 3% YoY due to volume decline of 2% YoY. But, volume growth on a 4-yr CAGR basis is likely to remain healthy at 3.1%. We expect the growth momentum in Other-FMCG business to continue, with ~10% YoY growth in the segment. Further, we expect the Hotels business to grow by 10% YoY and the Agri business to grow by 12% YoY on a high base. But, Paperboards, Paper & Packaging business is expected to decline by 3% YoY. At the company level, we expect EBITDA margin to expand by ~210bps YoY to 38.5% (down 100bps QoQ) on the back of improved profitability in Other-FMCG segment and Agri business segment on YoY basis. EBITDA and APAT are likely to grow by 10.2% YoY and 12.3% YoY, respectively.

MRCO: We expect MRCO's consolidated revenue to decline by 1.8% YoY [with low single-digit volume growth in the Domestic business (4-yr CAGR: 6.2%)], as price cuts taken in the Edible Oils portfolio will weigh on the overall growth, along with negative impact of currency depreciation in some overseas markets. Gross margin is expected to expand by ~490bps YoY (down 150bps QoQ). We expect EBITDA margin to expand by ~300bps YoY (down 290bps QoQ). EBITDA and APAT are likely to grow by 14.9% YoY and 14.6% YoY, respectively.

NEST: NEST is likely to post a topline growth of 10.5% YoY with 7% YoY volume growth (4-yr CAGR: 7.2%) in 3QCY23. Gross margin is likely to expand by ~230bps YoY (flat QoQ). We expect EBITDA margin to expand by ~110bps YoY to 23% (+30bps QoQ). EBITDA and APAT are likely to grow by 16% YoY and 18.2% YoY, respectively.

TCPL: We expect TCPL to clock 10.8% YoY revenue growth. Volume will likely see improvement at the company level. We expect volume growth to be in low single-digits for India Beverages and high single-digits for India Foods businesses (4-yr CAGR: 3.7% and 7.3%, respectively). We expect gross margin to expand by 80bps on YoY basis (+30bps QoQ). EBITDA margin is likely to come in at 14.7% (up 180bps YoY and flat QoQ). EBITDA is likely to grow by 26.3% YoY and APAT by 6.1% YoY.

PGHH: We expect PGHH to post revenue growth of 10% YoY in 1QFY24 (June-ending fiscal year). We expect EBITDA margin to expand by ~200bps YoY to 22.5% (down 270bps QoQ). Absolute EBITDA and APAT are expected to increase by 20.6% YoY and 21% YoY, respectively.

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