

Consumer Sector

FMCG | Sector update

September 26, 2023

Vegetable, Wheat and Sugar prices remain elevated; Barley price cooling down

Key Points

- Vegetable prices increased significantly during the quarter, with prices of Onion, Potato and Tomato rising by 54.4%, 20.2% and 371.7%, respectively on a sequential basis.
- Emami (HMN) is likely to be a key beneficiary of declining Mentha costs and lower Barley prices are likely to be beneficial for United Breweries (UBBL).
- **Our top picks:** On 1-year forward basis, we continue to remain bullish on Gillette India (GILL) and Britannia Industries (BRIT). However, near term margins of BRIT maybe under pressure. We also continue to remain structurally positive on Tata Consumer Products Ltd. (TCPL), ITC Ltd, WestlifeFoodworld Ltd. (WFL), and Procter & Gamble Hygiene and Health Care Ltd (PGHH).

Key Links:

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Crude & crude derivatives: Although quarterly average Brent crude price has come off on YoY basis (down 13.2%), it remains elevated on QoQ basis (up 10.1%) due to adverse global sentiments. On the other hand, High-density Polyethylene (HDPE) prices declined by 10.1% YoY in 2QFY24 (down 2.2% QoQ). Liquid Paraffin (LLP) prices decreased by ~7.8% YoY (down 4.6% QoQ).

Currency: Average USD/INR rate was higher by 3.5% YoY in 2QFY24 (flat QoQ) and has not seen any major decline in recent months, which does not augur well for raw material imports. The exchange rate is now hovering at ~Rs83, flat MoM.

Edible Oils: Edible Oil price trends are positive due to softening domestic prices. 'Soyabean Oil Refined Mumbai' prices declined by 24% YoY and 2.2% QoQ (down 5.2% MoM). As per data till Aug'23, made available by Marico Ltd., Safflower Oil, Rice Bran Oil and Copra Calicut prices were down by 37.7%, 20.7% and 2.6% YoY, respectively, although some upward movement was seen sequentially (up 1.4%/9%/0.5%, respectively). Malaysian Palm Oil prices have fallen by 4% YoY. The price of Palm Fatty Acid Distillate (PFAD), a by-product of refined crude palm oil, has increased by 14.2% YoY (having declined for the past few quarters on YoY basis). Mentha Oil prices are down 9.9% YoY/10.2% QoQ. MRCO and HMN are expected to benefit as a result of the above price trends although price cuts taken in certain parts of their portfolios to drive volume growth may partially offset the entire flow-through of raw material price decline.

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Paint industry specific commodities: Titanium Dioxide (TiO₂-China) prices are up 3.8% MoM following an increase in crude prices, but down 9.6% YoY and 2.8% QoQ. Phthalic Anhydride India WPI prices are down 10.5% QoQ and 1.9% YoY. This indicates moderation in costs for the Paint companies like APNT and BRGR compared to the previous year.

Dairy & Agri inputs: Followed by an increase of 7.7% in 1QFY24, India WPI Milk prices saw further increase of 7.9% YoY in 2QFY24 (data till Aug'23). Wheat prices have increased by ~8% QoQ (up 4.9% YoY) on the back of shortage of supplies. NCDEX Barley Spot prices, which were on a declining trend since the past quarter, witnessed a drop of 6.5% QoQ and 37.6% YoY. These prices were last seen in 1QFY22. Sugar prices remain elevated, up 5.6% YoY/2.7% QoQ on account of inflation and deficit rains in key sugar producing parts of the country. As per data till Aug'23, overall Vegetables (WPI) have seen significant rise in prices (up 86.3% QoQ), with prices of Tomato/Potato/Onion up 371.7%/20.2%/54.4% QoQ, respectively. Coffee prices have declined by 5.4% YoY and 0.9% QoQ. Average WPI Tea prices, which were holding up well for the past few quarters, are down 6.3% QoQ and 5% YoY. Avg. Maize prices, which were on an upward trend for the past few quarters, witnessed some respite, declining by 2.2% YoY (flat QoQ and MoM). Wheat and Sugar prices remain a key monitorable and persistent inflation coupled with lower output could affect BRIT's margins in the near term. Higher Wheat, Sugar and Milk prices are also likely to affect NEST's margins in the near term. Lower Barley prices are beneficial for UBBL. Lower prices of Tea and Coffee would be beneficial for TCPL and HUVR.

Other commodities: As per data till Aug'23, Glass (India WPI) prices were slightly elevated at 0.7% QoQ after remaining flat sequentially in 1QFY24. Alkyl Benzene (India WPI) costs have declined by 21.5% YoY and 6.5% QoQ, which is positive for HUVR for its Detergents segments. Laminate Plastic (India WPI) prices were down 70bps QoQ (flat YoY) and Laminate Paper (India WPI) prices were down 1.9% QoQ (down 3.4% YoY). Price of Corrugated Paper & Paperboard and Containers (India WPI) were down 7.2% YoY; while this is positive for FMCG companies, it is likely to impact ITC's Paper & Paperboard business. Fuel & Power (India WPI) prices were down 8.6% YoY.

Exhibit 1: Input price movement – YoY decline across most commodities; Vegetable prices remain elevated sequentially

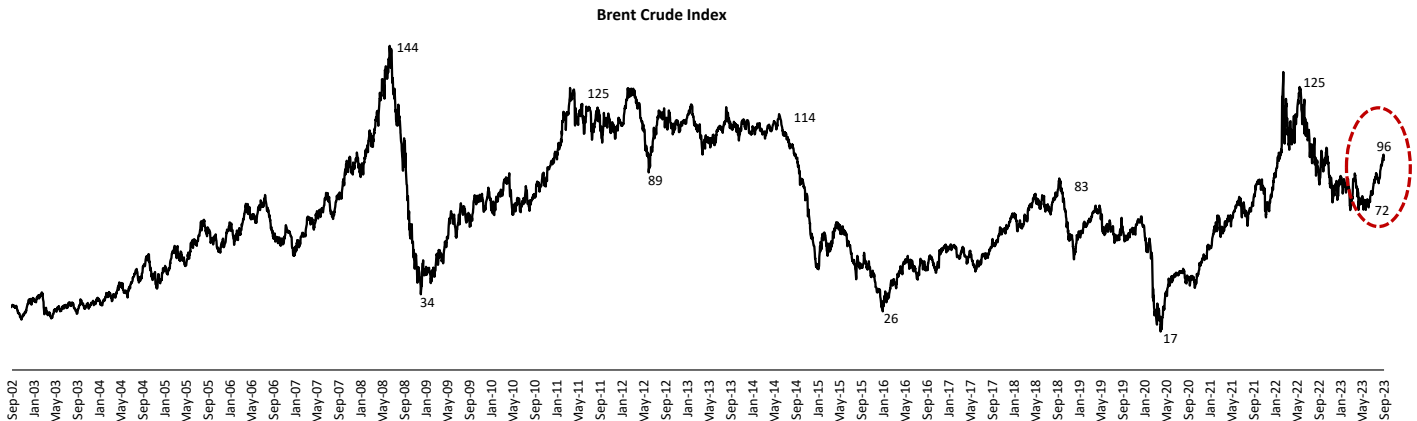
Commodities	Key segments impacted	Data till	MoM	QoQ	YoY
USD/INR rate	Imported raw materials	22-Sep-23	0.3	0.5	3.5
Brent Crude Index	Packaging & Logistics	22-Sep-23	8.4	10.1	-13.2
High-density polyethylene, HDPE (INR/Kg)	Packaging (Plastic bottles)	31-Aug-23	1.9	-2.2	-10.1
Liquid Paraffin, LLP (INR/Lt)	Hair oil	31-Aug-23	2.4	-4.6	-7.8
Copra Calicut (INR/100Kg)	Hair oil	31-Aug-23	8.3	0.5	-2.6
Safflower Oil Nominal Bombay (INR/10kg)	Edible oil	31-Aug-23	0.1	1.4	-37.7
Rice Bran oil (INR/10kg)	Edible oil	31-Aug-23	0.6	9.0	-20.7
Malaysian Palm Oil (MYR/MT)	Foods (palm oil from flesh of fruit) & Others products (mainly palm kernel oil)	22-Sep-23	-1.7	-0.7	-4.0
Palm Fatty Acid Distillate, PFAD (INR/MT)	Soaps	22-Sep-23	-4.5	6.1	14.2
India WPI Alkyl Benzene	Detergents	31-Aug-23	1.2	-6.5	-21.5
Soyabean Oil Refined Mumbai (INR/quintal)	Edible oil	22-Sep-23	-5.2	-2.2	-24.0
Wheat Prices (INR/Quintal)*	Food	22-Sep-23	2.3	7.6	4.9
India WPI Wheat Flour	Food	31-Aug-23	2.0	2.1	3.1
Sugar NCDEX Spot Price*	Food	22-Sep-23	2.3	2.7	5.6
Cashew WPI index	Food	31-Aug-23	0.6	0.0	-6.9
India WPI Tea	Beverages	31-Aug-23	-4.9	-6.3	-5.0
India WPI Coffee	Beverages	31-Aug-23	2.8	-0.9	-5.4
India WPI Milk	Food & Beverages	31-Aug-23	0.3	1.1	7.9
NCDEX Barley Spot (INR/quintal)*	Food & Beer	22-Sep-23	7.1	-6.5	-37.6
India WPI Maize	Toothpaste (Sorbitol)	31-Aug-23	0.4	0.2	-2.2
Mentha Oil (INR/kg)	Flavors & Fragrances	22-Sep-23	0.4	-10.2	-9.9
Glass WPI Index	Packaging, particularly for Alco-bev industry	31-Aug-23	-0.4	0.7	8.5
Titanium dioxide (CNY/MT)	Paints	18-Sep-23	3.8	-2.8	-9.6
India WPI Phthalic anhydride	Paints	31-Aug-23	0.2	-10.5	-1.9
India WPI Vegetables	Food	31-Aug-23	-8.3	86.3	50.3
India WPI Onion	Food	31-Aug-23	24.0	54.4	19.2
India WPI Potato	Food	31-Aug-23	0.5	20.2	-23.5
India WPI Tomato	Food	31-Aug-23	-19.4	371.7	203.4
India WPI Laminate Paper	Packaging	31-Aug-23	-0.1	-1.9	-3.4
India WPI Laminate Plastic	Packaging	31-Aug-23	0.2	-0.7	0.1
India WPI Corrugated paper & paperboard	Packaging	31-Aug-23	0.7	-0.4	-7.2
India WPI Fuel & Power	Manufacturing and Logistics	31-Aug-23	3.0	-1.1	-8.6

Note:

- 1) YoY and QoQ change captured based on average input prices available for the quarter till date;
- 2) *Sugar and Wheat prices are not available for the months of April and May 2020, Barley prices from 20th March 2020 to 20th April 2020 are not available
- 3) *Wheat prices from 2nd September 2023 to 20th September 2023 are not available

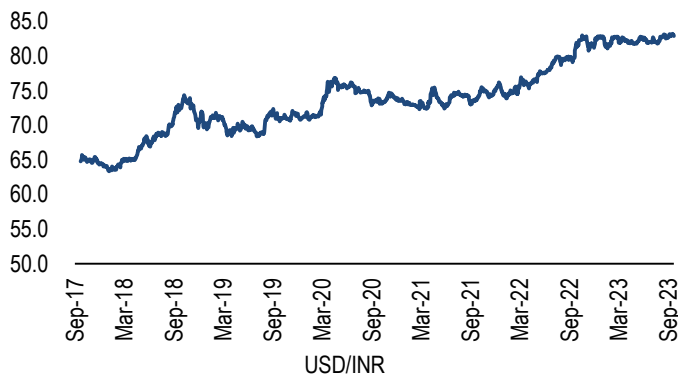
Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Long-term trend in Brent crude index - While the index peaked at 125 levels and saw correction to 72 levels, it is now seeing an upward trajectory and has moved to ~96 levels, which was earlier seen in Nov'22



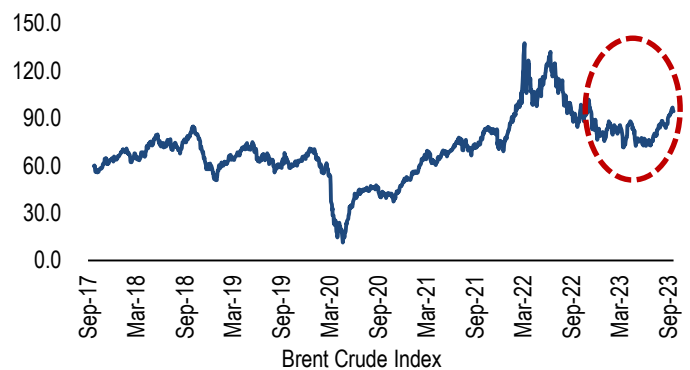
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 3: Avg. USD/INR rate flat QoQ and up 3.5% YoY



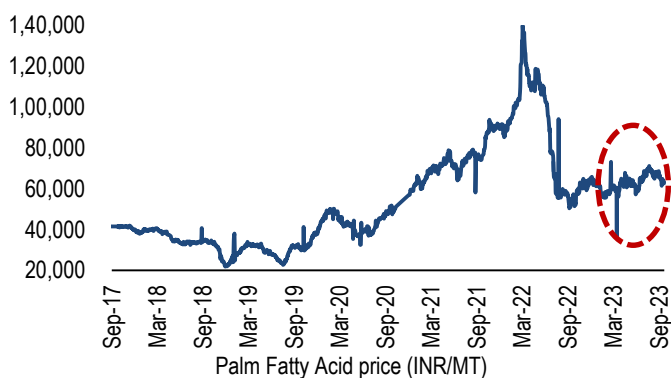
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 4: Avg. crude price up 10.1% QoQ but down 13.2% YoY



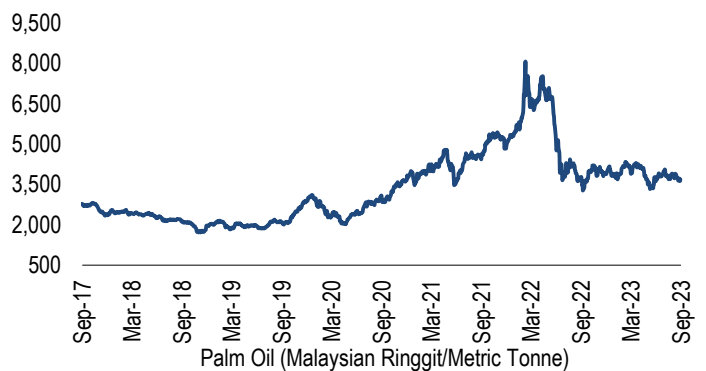
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: Avg. PFAD prices up 6.1% QoQ and 14.2% YoY



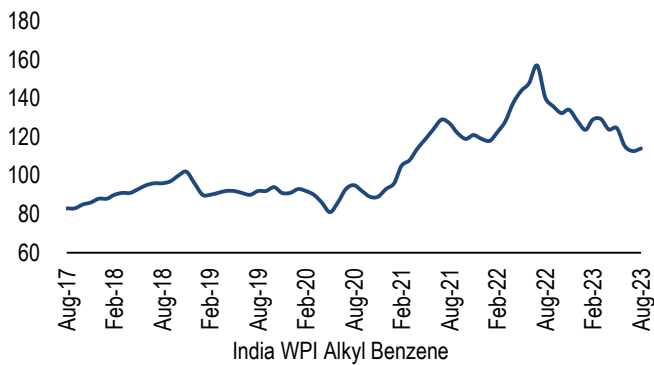
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 6: Avg. Malaysian Palm Oil prices down 0.7% QoQ and 4% YoY



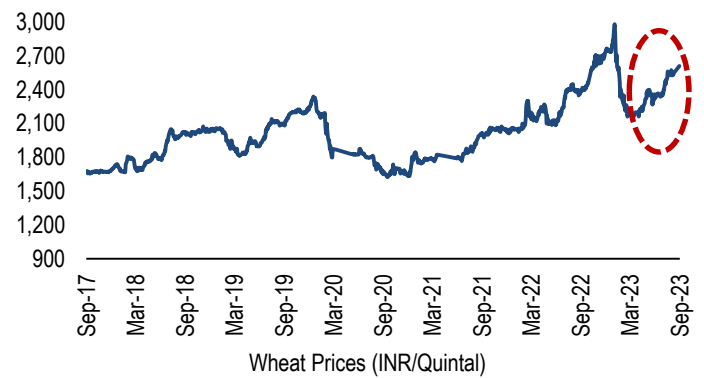
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 7: Avg. India WPI - Alkyl Benzene price down 6.5% QoQ and 21.5% YoY



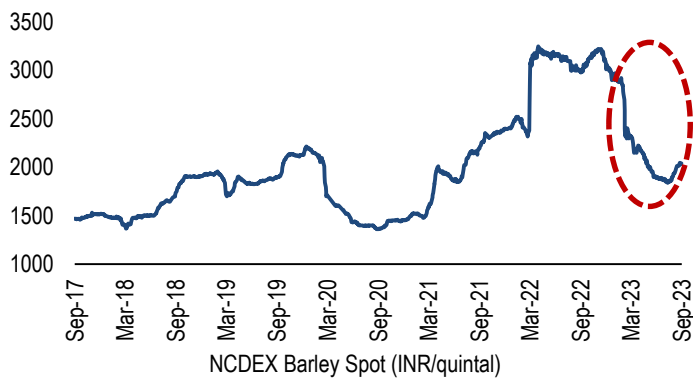
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 8: Avg. Wheat prices up 7.6% QoQ and 4.9% YoY



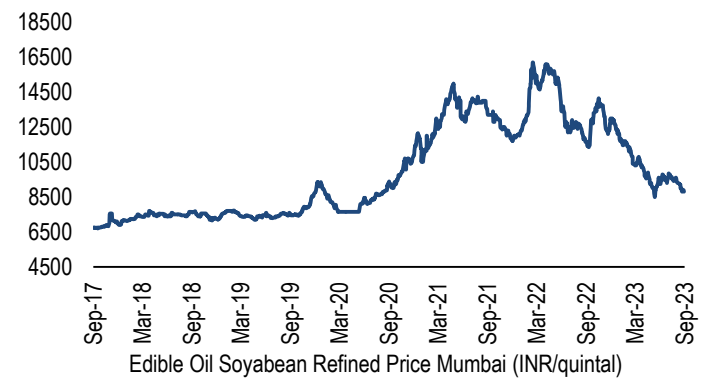
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 9: Avg. Barley prices down 6.5% QoQ and 37.6% YoY



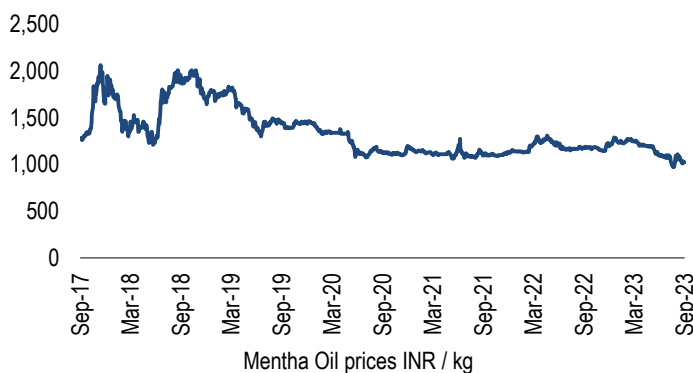
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 10: Avg. Soyabean Oil prices down 2.2% QoQ and 24% YoY



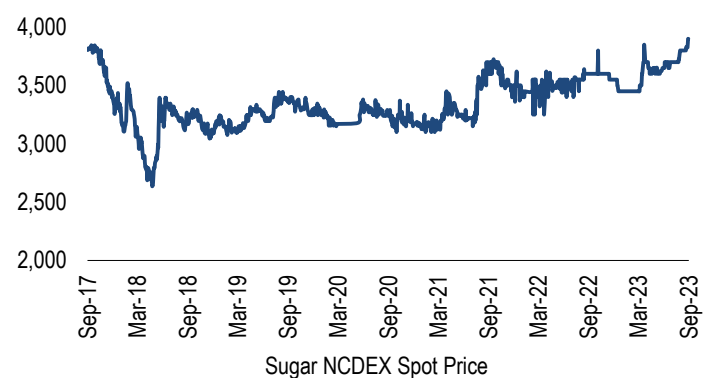
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 11: Avg. Mentha prices down 10.2% QoQ and 9.9% YoY

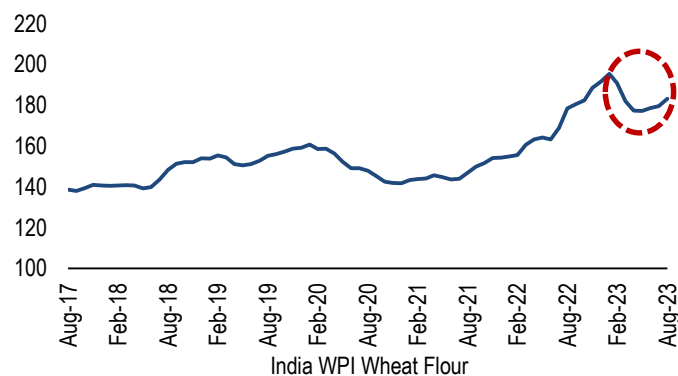


Source: Bloomberg, Nirmal Bang Institutional Equities Research

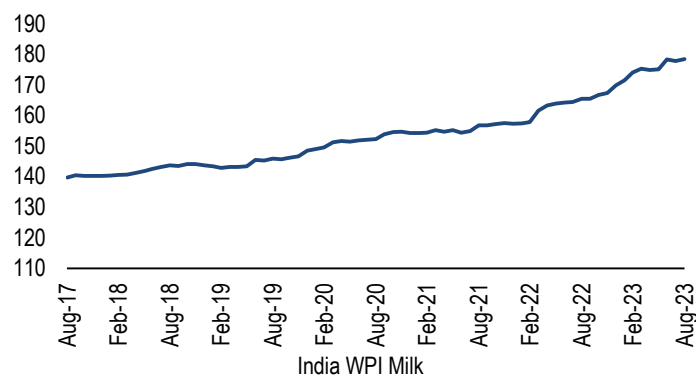
Exhibit 12: Avg. Sugar prices up 2.7% QoQ and 5.6% YoY



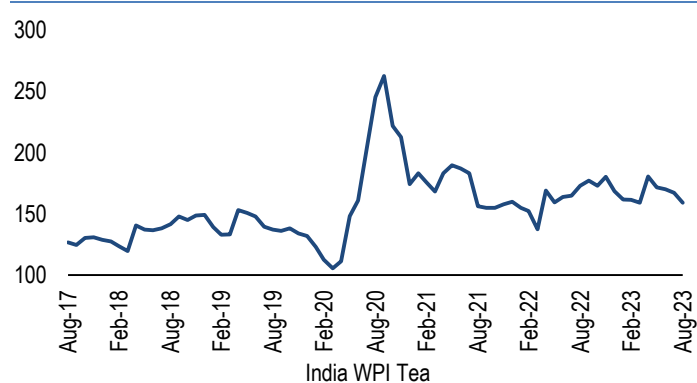
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 13: Avg. Wheat Flour up 2.1% QoQ and 3.1% YoY


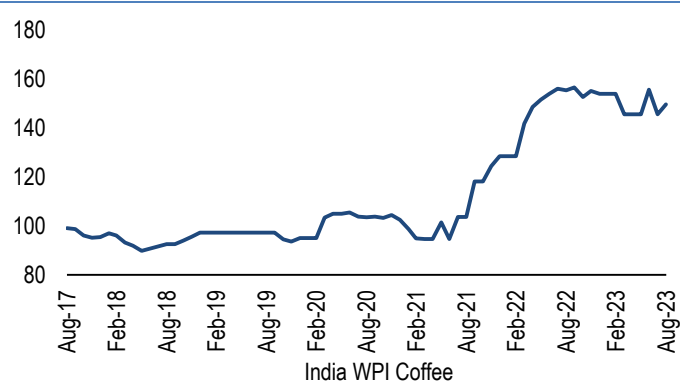
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 14: Avg. Milk prices up 1.1% QoQ and 7.9% YoY


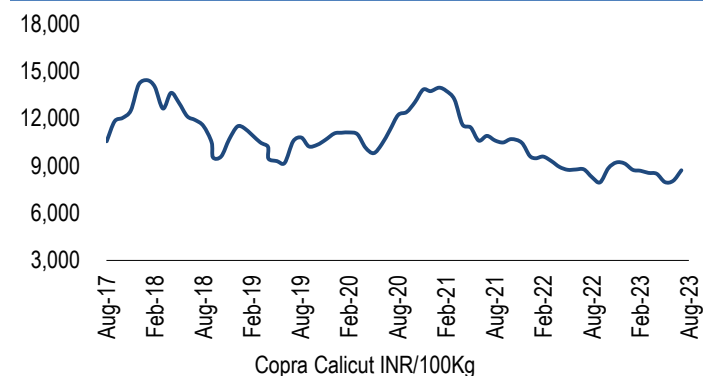
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 15: Avg. Tea prices down 6.3% QoQ and 5% YoY


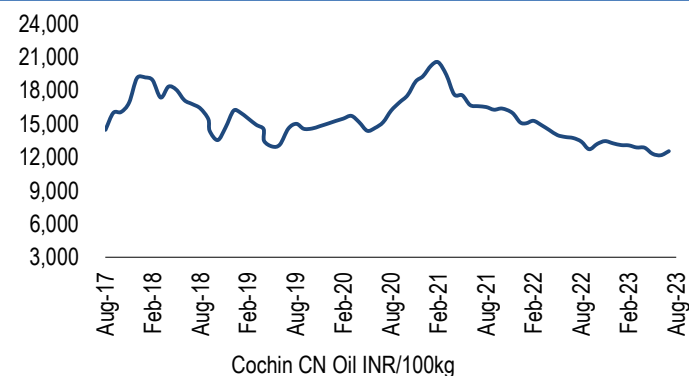
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 16: Avg. Coffee prices down 0.9% QoQ and 5.4% YoY


Source: Bloomberg, Nirmal Bang Institutional Equities Research

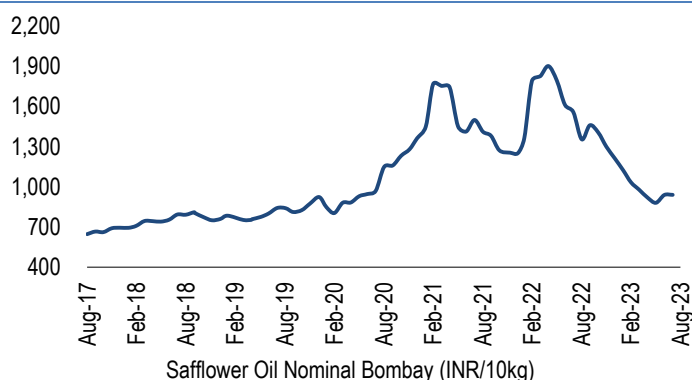
Exhibit 17: Avg. Copra Calicut prices for 2QFY24 were flat QoQ but down 2.6% YoY


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Avg. Copra Cochin prices for 2QFY24 were down 2.5% QoQ and 9.4% YoY


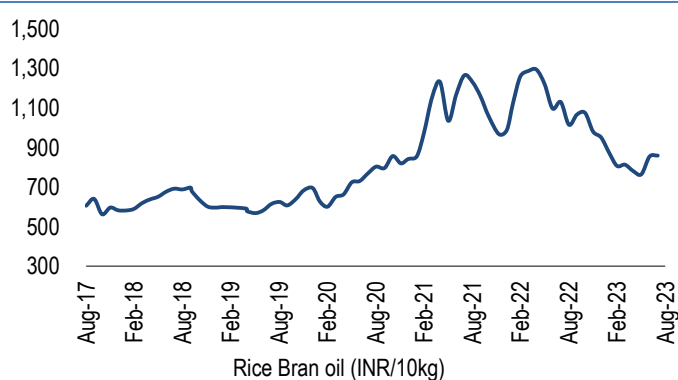
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Avg. Safflower Oil prices for 2QFY24 were up 1.4% QoQ but down 37.7% YoY



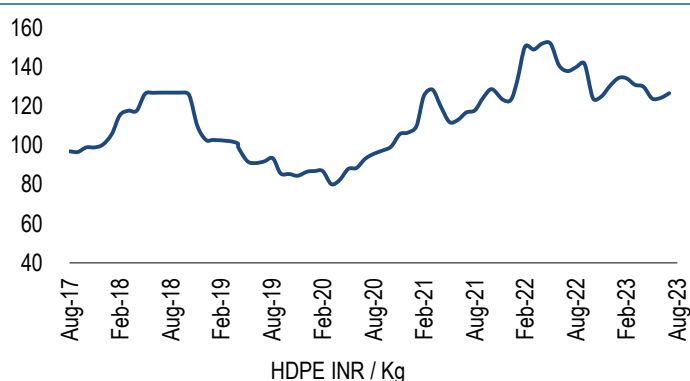
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Avg. Rice Bran Oil prices for 2QFY24 were up 9% QoQ but down 20.7% YoY



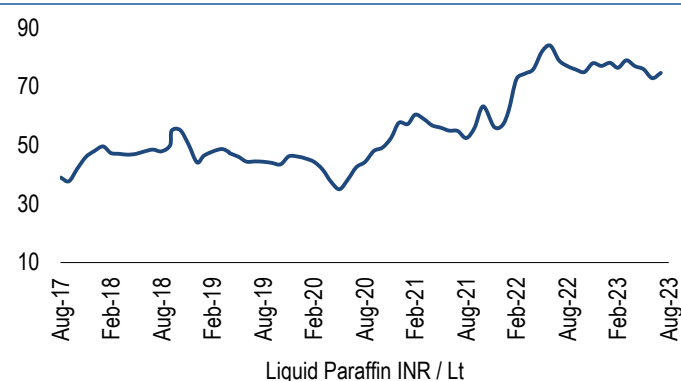
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Avg. HDPE price for 2QFY24 were down 2.2% QoQ and 10.1% YoY



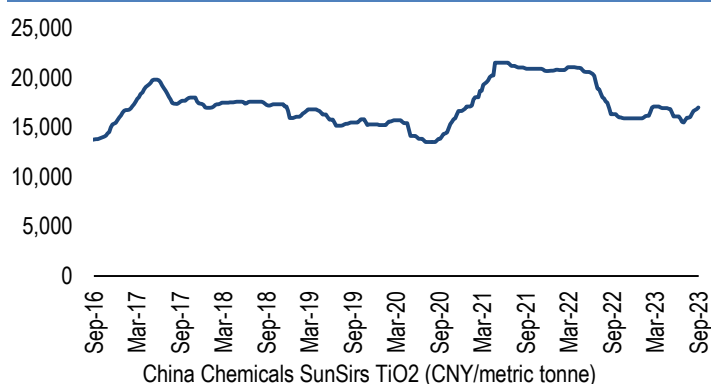
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Avg. LLP price for 2QFY24 were down 4.6% QoQ and 7.8% YoY



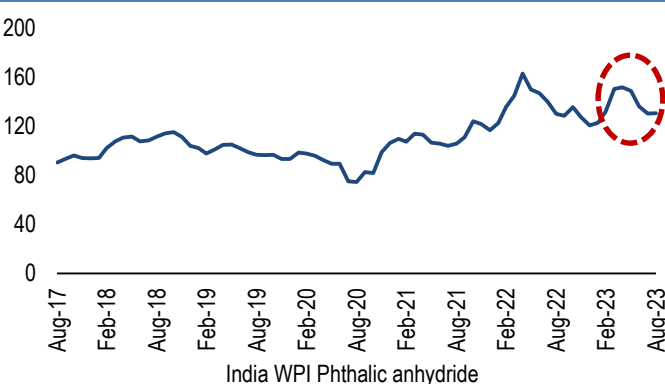
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Avg. Tio2 prices were down 2.8% QoQ and 9.6% YoY



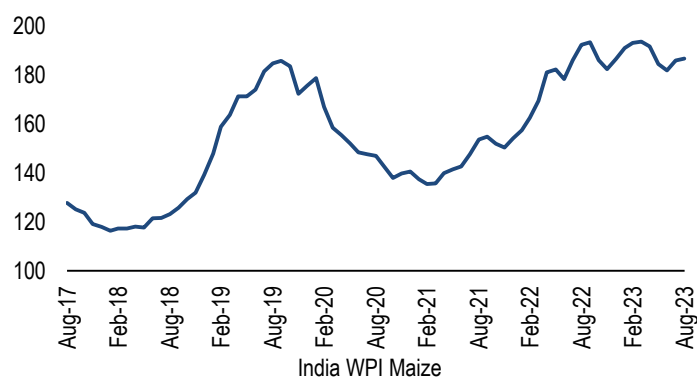
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 24: Avg. India WPI Phthalic Anhydride price wase down 10.5% QoQ and 1.9% YoY



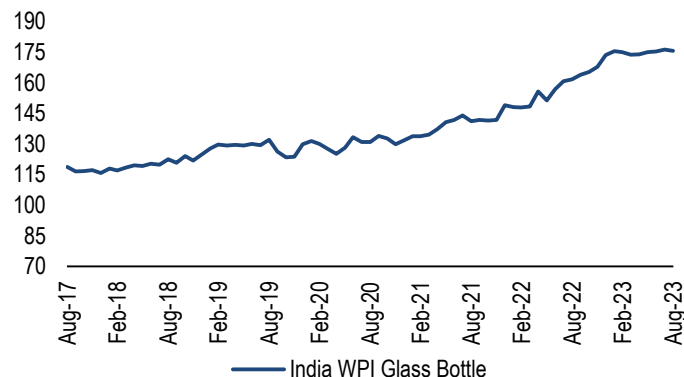
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 25: Avg. Maize prices were flat QoQ but down 2.2% YoY



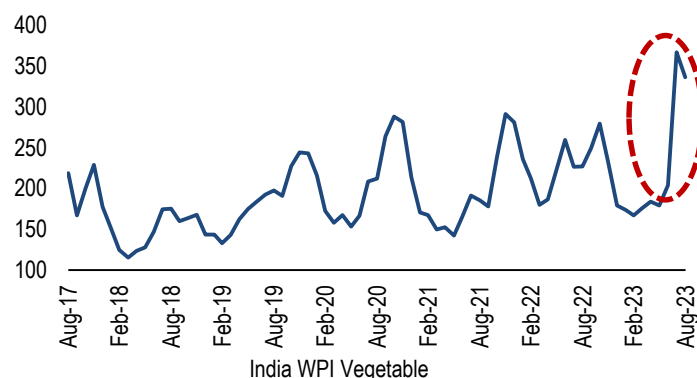
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 26: Avg. Glass Bottle prices were up 0.7% QoQ and 8.5% YoY



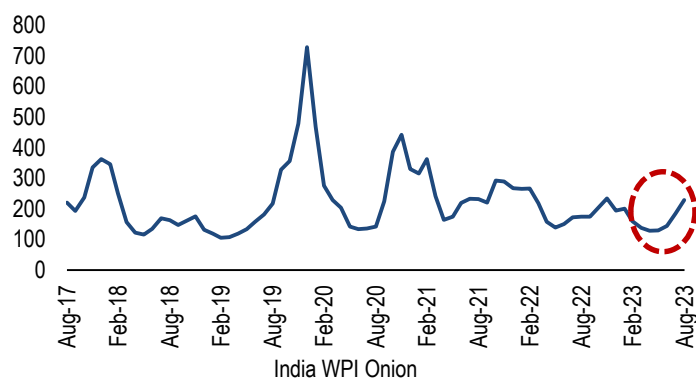
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 27: Avg. Vegetable prices were up 86.3% QoQ and 50.3% YoY



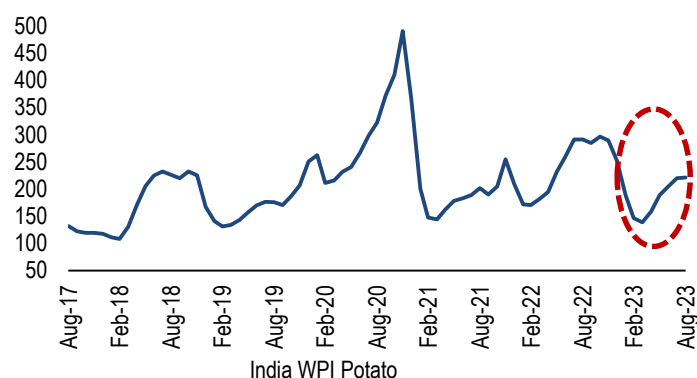
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 28: Avg. Onion prices were up 54.4% QoQ and 19.2% YoY



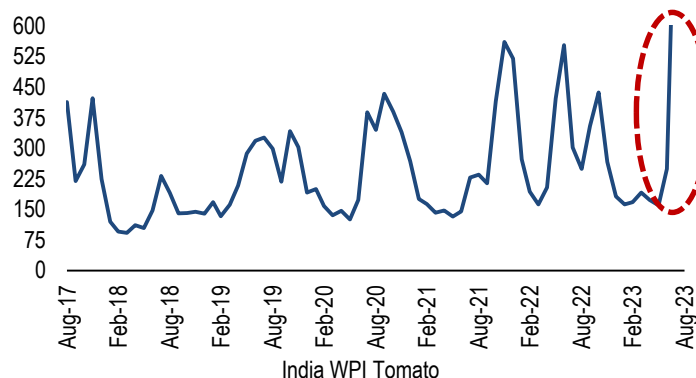
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 29: Avg. Potato prices were up 20.2% QoQ but down 23.5% YoY



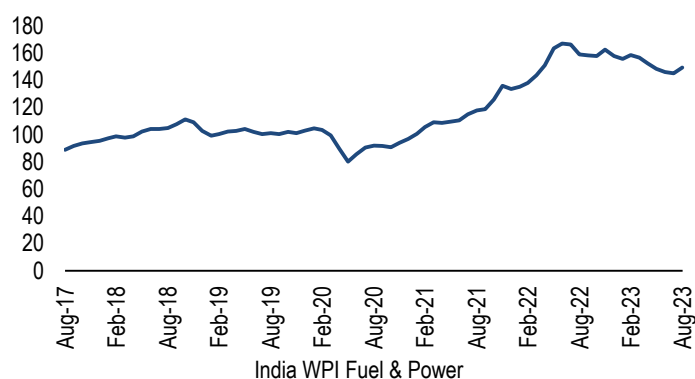
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 30: Avg. Tomato prices were up 371.7% QoQ and 203.4% YoY



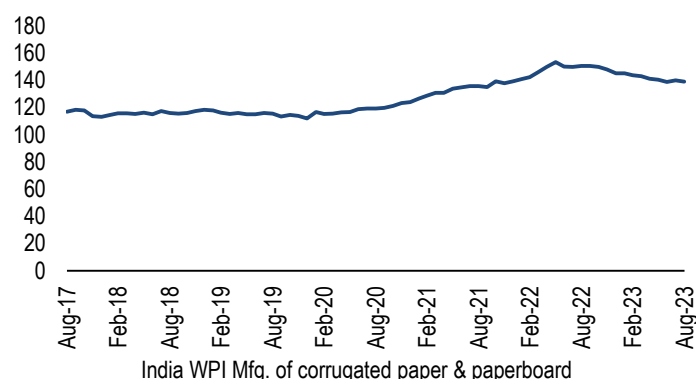
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 31: Avg. Fuel & Power prices were down 1.1% QoQ and 8.6% YoY



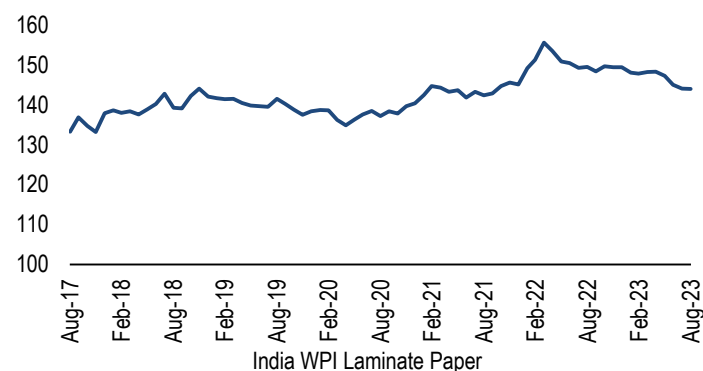
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 32: Avg. Corrugated Paper & Paperboard prices were down 0.4% QoQ and 7.2% YoY



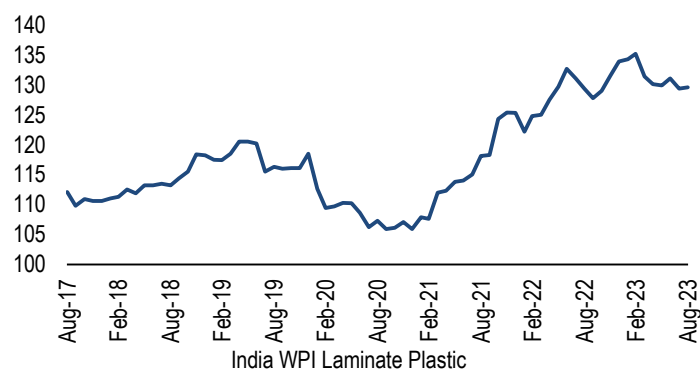
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 33: Avg. Laminate Paper prices were down 1.9% QoQ and 3.4% YoY



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 34: Avg. Laminate Plastic prices were down 0.7% QoQ and flat YoY



Source: Bloomberg, Nirmal Bang Institutional Equities Research

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