Consumer Sector - FMCG

4QFY24 Result Preview

April 8, 2024

Volumes and sales growth under pressure, recovery to take time

Key Points

- Early commentaries from some FMCG players like Marico, Dabur and Godrej Consumer Products and our interactions with management of other staple companies as well as channel checks done in Feb'24 and Mar'24 suggest that the overall demand environment remained subdued during the quarter and has not seen any major improvement.
- While volume growth remained under pressure, it was largely led by the urban market, which was buoyant. But, the gap between urban and rural market has narrowed further in this quarter.
- 4QFY24 is likely to witness significant YoY gross margin expansion for several FMCG companies due to deflation in raw material prices, but rising ad spends, modest realization growth vs preceding quarters and persistently tepid volume growth mean that cumulative EBITDA margin is likely to remain flat, with absolute EBITDA growing slightly ahead of revenue growth. As highlighted in our commodity cost note released in Feb'24, prices of RMs such as Vegetables and Sugar remain elevated on a YoY basis.
- We are expecting our FMCG coverage universe to clock low single-digit revenue growth of 3.3% YoY.

Depressed demand environment: Early updates from a few FMCG players such as Marico, Dabur and Godrej Consumer Products highlight that demand trends remained sluggish on a sequential basis. Rural growth has started witnessing an uptick, driven by moderation in pricing growth, which has led to narrowing of consumption trends between rural and urban markets. However, rural demand still remains a laggard vis-à-vis urban. Dabur indicated that in terms of categories, while HPC is likely to witness some positive momentum, Healthcare is expected to be affected by subdued demand on account of delay in the onset of winter. Tata Consumer's (TCPL) India Beverages business and India Foods business along with Marico are expected to deliver relatively better 5-year volume CAGR.

Expect low-single digit revenue growth: We are expecting our FMCG coverage universe to clock revenue growth of 3.3% YoY, which is muted because of lower realization growth, which has been continuing for the past few quarters along with persistently challenging volume growth, which is largely urban driven. While we expect gross margin for most of our coverage FMCG companies to witness an improvement on YoY basis, the pace of expansion is likely to be gradual. As highlighted in our Feb'24 input cost note, while prices of key commodities like Malaysian Palm Oil has seen ~3.5% YoY correction in 4QFY24, commodities like Brent Crude, Wheat and Milk have seen ~0.5%/4.3%/4.9% YoY rise in prices. For the overall FMCG coverage, we expect EBITDA margin to remain flat YoY.

Company (Rsmn)	Revenue			EBITDA			EBITDA margin (%)			PAT		
	4QFY24E	YoY(%)	QoQ(%)	4QFY24E	YoY(%)	QoQ(%)	4QFY24E	4QFY23	3QFY24	4QFY24E	YoY(%)	QoQ(%)
Britannia	41,131	2.2	-3.4	7,262	-9.3	-11.6	17.7	19.9	19.3	5,179	-7.3	-7.3
Colgate-Palmolive	14,621	8.3	4.8	4,921	8.9	5.1	33.7	33.5	33.6	3,541	11.5	7.3
Dabur India	28,214	5.4	-13.3	4,358	6.3	-34.7	15.4	15.3	20.5	3,097	3.0	-39.8
Emami	8,532	2.1	-14.4	2,055	2.9	-34.7	24.1	23.9	31.6	1,912	4.2	-33.5
Gillette India **	6,684	8.0	4.5	1,658	24.0	6.4	24.8	21.6	24.4	1,109	8.0	6.7
Hindustan Unilever	1,51,752	1.9	-0.1	34,691	-0.1	-2.0	22.9	23.3	23.3	24,403	-1.2	-4.0
ITC	1,70,341	3.9	3.3	63,871	2.9	6.0	37.5	37.9	36.5	48,947	-2.7	-12.2
Marico	22,902	2.2	-5.4	4,414	12.3	-14.0	19.3	17.5	21.2	2,714	-10.1	-29.1
Nestle India **	48,939	1.3	6.4	11,990	8.0	7.7	24.5	23.0	24.2	8,183	8.9	8.6
Tata Consumer	38,640	6.8	1.6	5,609	9.6	-2.0	14.5	14.1	15.0	3,590	33.7	28.7
PGHH**	9,361	6.0	-17.4	2,430	62.8	-21.5	26.0	16.9	27.3	1,800	9.1	-21.4
Coverage universe	**5,41,116**	**3.3**	**-0.1**	**1,43,259**	**3.5**	**-1.2**	**26.5**	**26.4**	**26.8**	**1,04,476**	**0.0**	**-9.6**

*Source: Company; Nirmal Bang Institutional Equities Research; **3QFY24 for Gillette India, PGHH and 5QFY24* for Nestle India*

5QFY24: The BOD has approved change in the Financial Year of the Company and extended the current Financial Year upto 31st March 2024 covering a period of 15 months (comprising five quarters).*

Krishnan Sambamoorthy
Head of Research
krishnan.s@nirmalbang.com
+91-22-6273-8210

Sunny Bhadra
Research Associate
sunny.bhadra@nirmalbang.com
+91-22-6273-8176

What to watch out for in 4QFY24? We expect UBBL to outperform in the Alco-Bev sub-sector. **Our Preference:** In the Consumer staples space, we remain positive on GILL and BRIT.

Key monitorables: (1) Impact of increased government spending during upcoming general elections to revive consumer demand (2) Impact of above normal temperatures and extreme heat waves on food production, which can slow down rural demand (3) Stable rabi crop yields and its effect on supporting rural income (4) Anticipation of a good monsoon.

Exhibit 1: Moderate volume growth likely

Vol./SSG growth (%)	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24E	v. 4Q19#
Britannia (Base business)	4.5	-2.0	5.0	2.0	2.0	0.0	0.0	5.5	6.0	*4.1*
Colgate (Toothpaste)*	-3.0	-2.0	-1.0	-3.0	-2.0	6.0	1.0	4.0	4.0	*1.2*
Dabur (Domestic FMCG)	2.0	5.0	1.0	-3.0	0.0	3.0	3.0	6.0	4.0	*2.6*
Emami (Domestic)	0.0	0.0	-1.2	-3.9	2.0	3.0	2.0	-0.9	0.0	*2.6*
HUL (Domestic)*2	0.0	6.0	4.0	5.0	4.0	3.0	2.0	2.0	3.0	*2.9*
ITC (Cigarette)*	9.0	26.0	20.0	15.0	12.0	8.0	4.0	-2.0	5.0	*3.8*
Marico (Domestic)	1.0	-6.0	3.0	4.0	5.0	3.0	3.0	2.0	4.0	*6.0*
Nestle (Domestic)	7.8	7.0	8.8	-0.8	5.1	5.1	-5.4	4.8	-2.0	*5.3*
TCPL (India Beverages)	3.0	1.0	-1.0	-5.0	3.0	3.0	3.0	2.0	2.0	*6.9*
TCPL (India Foods)	-1.0	-3.0	0.0	4.0	8.0	6.0	6.0	5.0	4.0	*5.9*

Source: Company; Nirmal Bang Institutional Equities Research

**Our estimates; *2 HUL standalone domestic volume excluding Nutrition; # 5-yr CAGR basis (Indexed to 4QFY19)*

BRIT: In 4QFY24, we expect BRIT's base business volume to grow in mid single-digit (5-yr CAGR: ~4%), driven by a volume-led topline growth of 2.2% YoY as the company feels the pinch of subdued demand and lower prices. Gross margin is likely to decline by ~130bps YoY (down 30bps QoQ). EBITDA margin is expected to contract by ~230bps YoY to 17.7% (down 160bps QoQ). EBITDA and APAT are estimated to decline by ~9% YoY and ~7% YoY, respectively.

CLGT: We estimate CLGT to deliver revenue growth of ~8% YoY (albeit on a relatively low base) as we estimate Toothpaste volume growth to be similar to the previous quarter on a YoY basis (5-yr CAGR: 1.2%). Gross margin is estimated to expand strongly by 490bps YoY (flat QoQ). We expect operating margin to record flat growth on YoY as well as QoQ basis. Absolute EBITDA and APAT are estimated to increase by ~9% YoY and 11.5% YoY, respectively.

DABUR: We expect Dabur to deliver 4% YoY domestic FMCG volume growth (5-yr CAGR: 2.6%) on a weak base. Revenue growth of 5.4% YoY is likely at the consolidated level. As per the company, both F&B as well as Healthcare business is likely to achieve low single-digit growth. While F&B business had modest growth due to a high base of last year, Healthcare business was impacted by a delayed winter. HPC business is projected grow in high single digit. EBITDA margin at ~15% is likely to stay flat YoY, but contract by 510bps QoQ. Absolute EBITDA and APAT are expected to increase by 6.3% YoY and 3% YoY, respectively.

EMAMI: We expect the company's domestic volume to register flat growth, leading to a realization led overall revenue growth of 2.1% YoY. Gross margin is estimated to improve by 170bps YoY (down 390bps QoQ) due to a decline in mentha oil prices. While operating margin is expected to remain flat on a YoY basis, it is likely to contract significantly by 750bps QoQ to 24.1%. EBITDA and APAT (before amortization) are expected to increase moderately by ~3% YoY and ~4% YoY, respectively.

GILL: We expect GILL to post revenue growth of 8% YoY in 3QFY24 (June-ending fiscal year). Gross margin is expected to increase by 400bps YoY (down 110bps QoQ). EBITDA margin is likely to improve by ~320bps YoY to ~24.8% on account of flow-through effect of gross margin expansion. While Absolute EBITDA is expected to increase significantly by 24% YoY, APAT is likely to witness a rise of 8% YoY.

HUL: We expect HUL to post modest volume growth of 3% YoY (5-yr CAGR: 2.9%), leading to a slight increase of 1.9% YoY in revenue growth (including the Nutrition business). We estimate gross margin to expand by 230bps YoY, but on a QoQ basis, it is likely to see a slight fall of 50bps on account of a modest uptick in Net Material Inflation (NMI) and price cuts. While gross margin expansion is likely to be strong on YoY basis, lower sales growth and higher ad spends are expected to result in slight fall in EBITDA margin by 40bps YoY (down 40bps QoQ) to 22.9%. EBITDA is likely to be flat YoY whereas APAT is expected to fall by 1.2% YoY.

ITC: We expect ITC's overall topline growth to be moderate at ~4% YoY on the back of Cigarettes business growth partially getting offset by relatively lower sales in FMCG-others business and decline in the Agri business. Cigarette sales are likely to grow by 10% YoY with expected volume increase of 5% YoY. Volume growth on a 5-yr CAGR basis is likely to remain healthy at 3.8% YoY. We expect the growth momentum in Other-FMCG business to continue, although it is likely to be relatively lower with 7% YoY growth in segment revenue. Further, we expect the Hotels business to grow by 13% YoY and the Agri business to decline by 4% YoY. Paperboards, Paper & Packaging business is expected to decline by 5% YoY. At the company level, we expect EBITDA margin to decline by ~40bps to 37.5% (up 90bps QoQ) as we expect lower profitability in the Cigarettes business, FMCG-others business and Paperboards, Paper & Packaging business. EBITDA is likely to grow by 2.9% YoY and APAT is likely to decrease by 2.7% YoY.

MRCO: We expect MRCO's consolidated revenue to increase modestly by ~2% YoY, led by low single-digit volume growth in the Domestic business (5-yr CAGR: 6%)], as the effect of pricing cuts in key domestic portfolios anniversarizes. Gross margin is expected to expand by ~210bps YoY (contract 180bps QoQ), led by stable edible oil and crude oil derivatives even as copra prices saw a slight increase. We expect EBITDA margin to increase by ~170bps YoY (down 190bps QoQ). EBITDA is likely to grow by ~12% YoY, but APAT is likely to fall by ~10% YoY.

NEST: NEST is likely to post a moderate topline growth of 1.3% YoY, led by growth in realizations, as volume is expected to decline by 2% YoY (5-yr CAGR: 5.3%) in 5QFY24. Gross margin is likely to expand significantly by ~470bps YoY (flat QoQ) due to softening milk prices. We expect EBITDA margin to increase by 150bps YoY to 24.5% (up 30bps QoQ). EBITDA and APAT are likely to grow by 8% YoY and ~9% YoY, respectively.

TCPL: TCPL is estimated to clock ~7% YoY revenue growth. We expect volume growth to be in low single-digits for India Beverages business and in mid-single digits for India Foods business (5yr CAGR: ~7% and ~6%, respectively). Gross margin is likely to witness an expansion of 180bps YoY (flat QoQ). EBITDA margin is estimated to come in at 14.5%, up 40bps YoY (down 50bps QoQ). While we expect EBITDA to grow by 9.6% YoY, we project APAT to increase strongly by 33.7% YoY as we estimate lower tax rate for this quarter.

PGHH: We expect PGHH to post revenue growth of 6% YoY in 3QFY24 (June-ending fiscal year). While EBITDA margin is likely to expand materially by 910bps YoY to 26% on a weak base, it is projected to contract by 140bps QoQ, normalizing slightly from the 8-quarter high of 27.3% recorded in 2QFY24. Absolute EBITDA is expected to increase significantly by ~63% YoY on a deflated base. APAT is estimated to grow by 9.1% YoY on an elevated base.

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% to15%

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.

*"Registration granted by SEBI and certification from NISM in no way guarantee the performance of the intermediary or provide any assurance of returns to investors."

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