

Consumer Sector - Discretionary

4QFY24 Result Preview

April 08, 2024

Alco-Bev companies offer respite, Paints and QSR numbers to be weak

Key Points

- While the overall consumer sentiment remains muted, we expect our Consumer Discretionary coverage universe to grow by 7.1% YoY in 4QFY24, driven by Alco-Bev companies (~9.4% YoY growth).
- EBITDA of our Consumer Discretionary coverage universe is expected to increase by 15.6% YoY while adjusted PAT (APAT) is expected to increase by 18.3% YoY. Excluding Alco-Bev companies, we expect EBITDA growth of ~8.2%.
- We expect the Alco-Bev space to perform relatively better compared to other sub-sectors with UBBL (our top pick in the discretionary segment) leading the growth.

Discretionary growth to outpace FMCG growth: While the overall consumer sentiment remains muted, we expect growth in our Consumer Discretionary coverage universe to outpace our Consumer FMCG coverage. We expect overall revenue of our Consumer Discretionary coverage universe to grow by 7.1% YoY in 4QFY24, driven by Alco-Bev companies (~9.4% YoY growth). We expect overall EBITDA margin of our Consumer Discretionary coverage universe to improve by ~130bps YoY, led by the Alco-Bev sub-sector (~460bps) as YoY margin for Paints (demand weakness and increased competition) and QSR companies (demand weakness and operating deleverage) is likely to pull down the overall sector level operating margin. Absolute EBITDA of our Consumer Discretionary coverage universe is expected to increase by 15.6% YoY while adjusted PAT (APAT) is expected to increase by 18.3% YoY.

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

Key monitorables: (1) Rabi crop harvesting and its impact on Barley and other key crops (2) Expectation of a strong summer and its impact on Beverages sales.

Paints sector: In continuation with the trends seen in previous quarters, the sector is likely to witness negative realisations. On a 5-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 ~6% YoY. On the margin front, we expect to see EBITDA margin expansion of ~50bps YoY (down 80bps QoQ). Absolute EBITDA and APAT are expected to improve by 9% YoY and 7.4% YoY, respectively.

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

4QFY24E performance summary of our Consumer Discretionary coverage universe

Company (Rsmn)	Net Sales			EBITDA			EBITDA margin (%)			PAT		
	4QFY24E	YoY (%)	QoQ (%)	4QFY24E	YoY (%)	QoQ (%)	4QFY24E	4QFY23	3QFY24	4QFY24E	YoY (%)	QoQ (%)
Asian Paints	92,454	5.2	1.6	19,805	6.2	-3.7	21.4	21.2	22.6	13,035	4.1	-10.0
Berger Paints	27,099	10.9	-6.0	4,546	23.3	-5.3	16.8	15.1	16.7	2,407	29.6	-19.7
United Breweries	20,158	14.2	10.6	2,322	334.3	59.5	11.5	3.0	8.0	1,437	1,376.5	69.3
United Spirits	26,448	6.1	-11.5	3,332	23.9	-32.2	12.6	10.8	16.4	2,200	53.5	-36.8
Jubilant Foodworks	13,274	6.0	-2.0	2,589	2.6	-8.4	19.5	20.1	20.9	380	-38.8	-37.7
Westlife Foodworld	5,480	-1.5	-8.7	849	-7.5	-7.7	15.5	16.5	15.3	131	-42.3	-23.9
Restaurant Brands Asia	5,886	14.5	-2.6	406	48.2	-40.6	6.9	5.3	11.3	-706	NA	NA
Coverage universe	1,90,801	7.1	-1.4	33,847	15.6	-6.4	17.7	16.4	18.7	18,884	18.3	-14.9

Exhibit 1: Sub-sector wise 4QFY24E performance summary of our coverage universe

Sector (Rsmn)	Net Revenue			EBITDA			EBITDA margin (%)			PAT		
	4QFY24E	YoY (%)	QoQ (%)	4QFY24E	YoY (%)	QoQ (%)	4QFY24E	YoY (%)	QoQ (%)	4QFY24E	YoY (%)	QoQ (%)
Consumer discretionary	1,90,801	7.1	-1.4	33,847	15.6	-6.4	17.7	1.3	-0.9	18,884	18.3	-14.9
Paints	1,19,553	6.4	-0.2	24,350	9.0	-4.0	20.4	0.5	-0.8	15,442	7.4	-11.6
Alco-Bev	46,607	9.4	-3.1	5,653	75.4	-11.2	12.1	4.6	-1.1	3,637	137.7	-16.0
QSR	24,641	6.1	-3.7	3,844	3.5	-13.3	15.6	-0.4	-1.7	-195	NA	NA

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Volume growth/SSSG (5-yr CAGR) for Paint companies will continue to be ahead of other discretionary companies

Vol. growth/SSG (%)	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24E	v. 4Q19 [#]
Paints (Domestic Decorative)^{*1}										
Asian Paints	8.0	37.0	10.0	0.0	16.0	10.0	6.0	12.0	12.0	16.4
Berger Paints	0.0	35.0	11.0	6.6	14.5	12.7	10.9	9.1	14.0	13.2
QSR (SSSG)										
Jubilant Foodworks (LFL)	5.8	28.3	8.4	0.3	-0.6	-1.3	-1.3	-2.9	0.3	3.7
Jubilant Foodworks	3.5	26.0	6.0	-2.0	-2.9	-3.6	-3.6	-5.2	-2.0	1.2
Westlife Foodworld	23.0	97.0	40.0	20.0	14.0	7.0	1.0	-9.0	-8.0	5.8
Restaurant Brands Asia ^{*2}	17.0	66.0	27.0	8.6	8.3	3.6	3.5	2.6	2.0	3.1
Alco-Bev										
United Spirits (P&A)	9.2	24.4	12.8	3.9	9.9	10.3	3.8	4.6	4.0	3.5
United Breweries	7.0	121.0	23.0	4.0	3.0	-12.0	7.0	8.0	8.0	0.5

Source: Company, Nirmal Bang Institutional Equities Research

^{*1}Our estimates

^{*2}SSSG includes only India estimates (BKIL) for RBAL

[#]Indexing against 4QFY19 on a 5-yr CAGR basis

Alco-Bev sub-sector: We expect our coverage Alco-Bev companies to post revenue growth of ~9% YoY, led by UBBL. We are building in ~14% YoY revenue growth for UBBL and ~6% YoY growth for UNSP. The scenario on raw material costs remains similar to the previous quarter and therefore elevated costs of key RMs like ENA and Glass continue to pose some challenges while Barley prices have seen moderation, which will aid gross margin expansion YoY. We expect overall EBITDA margin to expand by ~460bps, led by UBBL as the company is likely to see strong gross margin expansion and operating leverage benefit. We are building in EBITDA margin expansion of ~850bps YoY for UBBL and ~180bps YoY for UNSP. Combined sector EBITDA is expected to increase by ~75% YoY whereas APAT is likely to increase by 137.7% YoY, again largely led by UBBL (on a low base).

QSR sector: Considering the weak quarter QSR companies had in 3QFY24 despite it being a festive period and no material uptick in recent months, we expect modest revenue growth of ~6% YoY (down ~3.7% QoQ). Within our coverage, we expect JUBI's LFL growth to remain flat YoY (-2% SSSG), seeing some improvement from the 3QFY24 LFL decline of ~2.9% YoY, leading to revenue growth of ~6% YoY amid continued store expansion. In case of WFL, we expect marginal revenue decline of 1.5% YoY (-8.7% QoQ) as the company continues to cycle a relatively higher base of previous year. On the SSSG front, we expect it to decline by 8% YoY (5-yr CAGR: 5.8%). For Restaurant Brands Asia Ltd (RBAL), we are building in 14.5% YoY revenue growth, led by 2% SSSG (5-yr CAGR: 3.1%). In terms of store openings, we expect 65, 18 and 19 net openings for Dominos India, McDonalds (West & South India) and BKI, respectively in 4QFY24. We expect EBITDA margin for our coverage universe to decline by ~40bps YoY (down 170bps QoQ). Absolute EBITDA is expected to grow by 3.5% YoY.

APNT: We expect APNT to clock 12% YoY volume growth in the Domestic Decorative Paint business (5-yr CAGR: 16.4%). We are currently building in 5.2% YoY net revenue growth. Gross margin is expected to expand by ~80bps YoY as the company reaps the benefit of lower RM costs. We expect EBITDA margin to expand by ~20bps YoY to 21.4% (down 120bps QoQ). EBITDA and APAT are likely to grow by 6.2% YoY and 4.1% YoY, respectively.

BRGR: We expect BRGR to clock 14% YoY volume growth in the Domestic Decorative Paint business (5-yr CAGR: ~13.2%). Revenue is expected to grow by 10.9% YoY. On the margin front, we expect gross margin to expand by ~110bps YoY (down 20bps QoQ) and EBITDA margin to expand by 170bps YoY (up 10bps QoQ). EBITDA is likely to grow by 23.3% YoY while APAT is likely to increase by 29.6% YoY.

UBBL: UBBL is expected to report volume growth of ~8% YoY [5-yr CAGR: 0.5%] with revenue growth of 14.2% YoY. Gross margin is likely to expand sharply by ~740bps YoY and we expect EBITDA margin expansion of ~850bps YoY to 11.5% (up 350bps QoQ). EBITDA and APAT are likely to increase by ~334% YoY and 1376% YoY, respectively on a low base.

UNSP: We believe that UNSP will register marginal volume growth of ~1.6% YoY. We are building in 4% YoY volume growth for the Prestige & Above portfolio while the Popular portfolio's volume is expected to decline by ~8% YoY, leading to overall revenue growth of ~6% YoY. Gross margin is expected to expand by ~50bps YoY (down ~30bps QoQ). We are building in ~180bps YoY expansion in EBITDA margin to 12.6%. EBITDA and APAT are likely to grow by 23.9% YoY and 53.5% YoY (on a low base which was impacted by divestiture of popular portfolio), respectively.

JUBI: JUBI is likely to report flat LFL growth YoY (SSS decline of ~2%; 5-yr SSSG CAGR - +1.2%), leading to sales growth of 6% YoY. Gross margin is expected to increase by ~120bps YoY (down 20bps QoQ) as Milk and Cheese prices remain stable. EBITDA margin is likely to contract by ~60bps YoY (down ~140bps QoQ). EBITDA is expected to grow by 2.6% YoY whereas APAT is likely to decline by 38.8% YoY on the back of higher depreciation and lower other income.

WFL: We expect WFL to report SSS decline of 8% YoY on a relatively higher base and subdued demand conditions (5-yr CAGR: 5.8%), leading to sales decline of 1.5% YoY. We expect gross margin to decline by ~140bps YoY (up 20bps QoQ). EBITDA margin is expected to contract by 100bps YoY (up 20bps QoQ). EBITDA (including the impact of IND AS-116) is likely to decline by 7.5% YoY while APAT is likely to decline by 42.3% YoY on account of higher depreciation and operating deleverage.

RBA (Consolidated): We expect RBAL's India operations to report SSSG of 2% YoY (5-yr CAGR: 3.1%), leading to sales growth of 14.5% YoY. Indonesia business is likely to see marginal revenue decline of 1.3% YoY, as per our estimates. Consolidated EBITDA margin is expected to come in at 6.9%. Absolute EBITDA (including the impact of IND AS-116) is likely to improve by ~48.2% YoY whereas loss at the APAT level is expected to come in at Rs706mn, largely due to the Indonesia operations.

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