10 June 2024

FMCG

Sensex: 76693

Nifty: 23290

With multiple tailwinds, re-rating on the cards

Timely monsoon to boost farm bounty. According to IMD, above-average monsoon rains (at 106% of long-term average) are expected this year. In fact, monsoon reached Kerala early, on 30th May, vs. 1st Jun normally, and has covered much of south India. With steady monsoon, healthy *kharif* crops can be expected. Further, it would result in (a) better farm income and (b) modest rise in food prices for consumers.

Per media, Nielsen tracked rural volume-growth improved to 7.6% (5.8% in Q3 FY24, 0.3% in Q4 FY23). Management commentaries by FMCG companies also painted better revenue trajectories, aided by rural demand recovery, distribution expansion and return of pricing growth. Thus, overall revenue growth, which fell to just ~6.5% in H2 FY24 (~10% earlier), per Nielsen, is likely to grow in high single to double digits for FY25.

Election results could spell more social welfare impetus. The 2024 general election results (seats lost in key states of UP, Maharashtra) could propel the Union government to enhance its social welfare focus. With Maharashtra and Bihar lined up for state elections in 2024 and the Budget likely in Jul, we expect the government to allocate more for social welfare schemes, which would drive higher rural income ahead.

Fall in crude prices to aid gross margin. Crude oil prices eased ~10% over the last 7-10 days. Crude oil and its derivatives are key inputs for several FMCG products and also their packaging. Packaging cost constitutes 5-20% of many companies' input costs. This is likely to aid FY25 gross margin gains (after strong, 230bp y/y, gains in FY24).

Valuations. Most FMCG companies are up at least 10% post the election verdict, owing to their defensive nature and optimism around better prospects. A host of tailwinds – monsoon-led rural revival, post-election focus on social welfare and crude price-led margin buoyancy – augur well for the sector. For the companies that we cover, we estimate 13% earnings CAGR over FY24-26, aided by gross-margin gains and demand recovery.

While valuations increased, we see upside potential for our preferred picks - **HUL (TP of Rs3,000), Emami (TP of Rs730)** and **Zydus Wellness (TP of Rs2,150)**. **United Breweries (TP of Rs2,300)** is our pick in consumer discretionary.

Ajay Thakur
Research Analyst

Preferred picks - Valuation matrix

Particulars	Reco	M. cap (Rs bn)	CMP (Rs)	TP (Rs)	EPS (Rs) FY25e	EPS (Rs) FY26e	P/E (x) FY25e	P/E (x) FY26e	RoE (%) FY24 %	Div. yield FY24 %
HUL	Buy	5991	2,550	3000	48.7	54.5	52.4	46.8	20.3	1.9
United Breweries	Buy	538	2,036	2300	24.4	31.9	83.4	63.9	10.0	0.5
Emami	Buy	311	708	730	19.4	22.1	36.5	32.0	29.3	1.3
Zydus Wellness	Buy	120	1,881	2150	66.5	65.0	28.3	28.9	13	0.5

Source: Bloomberg, Anand Rathi Research *Prices as on 6th June 2024*

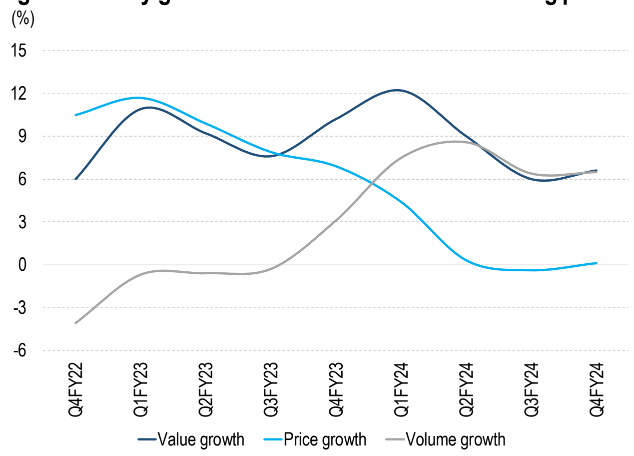
Revenue analysis

Rural demand picks up, but prices soften

Per media, Nielsen tracked revenue growth fell to ~6.5% in H2, from near double digits in prior quarters, as price increases faded due to the fall in input costs.

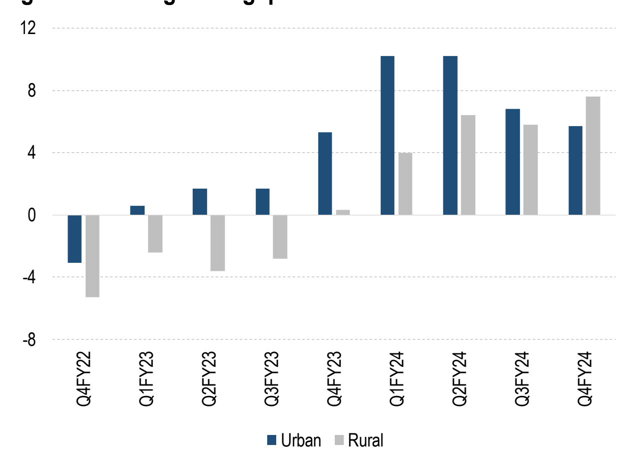
Rural volume growth, though, has seen a gradual upturn from -2% in FY23 to ~7% in Q4 FY24. This led to the 4-5% volume-growth gap between urban and rural turning to -2% in Q4. Thus, rural volume growth surpassed urban volume growth for the first time in Q4 in more than 10 quarters.

Fig 1 – Industry growth momentum moderates on fading prices



Source: Media reports, Nielsen, Anand Rathi Research

Fig 2 – Volume-growth gap between urban and rural markets



Source: Media reports, Nielsen, Anand Rathi Research

Steady monsoon, social welfare thrust to aid rural demand

Per IMD, above-average monsoon rains (106% of long-term average) are expected this year. In fact, monsoon reached Kerala early, on 30th May, vs. 1st Jun normally and covered much of south India. With steady monsoon, healthy *kharif* crops can be expected. Further, it would result in – (a) better farm income and (b) modest rise in food prices for consumers.

Fig 3 – Monsoon arrival date and forecast date

Year	Actual Onset Date	Forecast Onset Date
2019	8th June	6th June
2020	1st June	5th June
2021	3rd June	31st May
2022	29th May	27th May
2023	8th June	4th June
2024	30th May	31st May

Source: IMD, Anand Rathi Research

Fig 4 – Monsoon performance vs. LPA

Year	Actual Rainfall	Normal Rainfall	Deviation
2018	800.8	869.2	-7.9%
2019	970.2	880.6	10.2%
2020	952.2	872.9	9.1%
2021	863.7	861.1	0.3%
2022	904	837.6	7.9%
2023	820.9	868.6	-5.5%

Source: IMD, Anand Rathi Research

The 2024 general election verdict (seats lost in key states of UP, Maharashtra) could propel the Union government to enhance its social welfare focus. Two important states - Maharashtra and Bihar – are lined up for state elections in 2024. With the Budget likely in Jul, we expect the government to allocate more for social welfare schemes, which would drive higher rural income ahead.

Reported revenue growth slowed to just 3.3%

Our analysis of 11 FMCG companies (excl. ITC) shows that Q4 revenue grew just 3.3%, down sharply from ~6% in H1 and ~13% in FY23, but better than 2.1% in Q3. Management commentaries, though, for most FMCG companies are optimistic about better revenue trajectories, aided by rural demand recovery, distribution expansion and/or product launches.

We expect gradual, FY25, revenue recovery to 8.8% for the FMCG companies that we cover, led by volume growth. In the discretionary space, revenue grew 4.6% for three paint companies and 17.5% for alcoholic beverage companies in Q4. We expect 8.9% revenue growth in FY25 for paints and 17.6% for alcoholic beverages.

Fig 5 – Volume growth to revive ahead

(%)	FY21	FY22	FY23	FY24	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Staples										
HUL	3	3	5	2	5	5	3	2	2	2
ITC (Cigarettes)	-12	16	18	4	15	11	10	7	-2	2
Dabur	15	10	1	6	-3	0	3	3	4	4
GCPL	10	4	1	10	3	11	12	11	8	12
Marico	7	7	3	3	4	5	3	3	2	3
Britannia	11	3	2	3	3	2	0	1	6	6
Emami	9	11	2	2	-4	2	3	5	-2	6
Bajaj cons.	10	-1	4	6	-4	-1	3	4	8	7
Discretionary										
United Spirits (P&A)	-8	24	23	12	13	12	11	13	13	4
United Breweries	-39	33	31	4	4	3	-12	7	8	11
Radico Khaitan (P&A)	-8	25	20	20	14	18	28	22	20	14
Asian Paints	13	31	14	9	0	10	9	6	12	10
Berger paints	NA	20	16	12	7	11	13	11	9	14

Source: Companies, Anand Rathi Research

Fig 6 – Revenue growth moderating

(%)	FY21	FY22	FY23	FY24	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Staples										
HUL	18	12	16	2	16	11	7	4	0	0
Colgate	7	5	2	7	1	4	11	6	8	10
Nestle	8	10	10	11	14	21	15	10	8	9
ITC	0	24	17	2	2	6	-8	3	2	1
Dabur	10	14	6	9	3	6	11	7	7	5
GCPL	11	11	8	7	9	10	10	8	6	4
Marico	10	18	3	-1	3	4	-3	-1	-2	2
Britannia	13	8	15	3	17	13	8	1	1	1
Emami	8	11	7	5	1	9	7	6	1	7
Bajaj cons.	8	-5	12	2	0	14	8	1	4	-4
Jyothy labs	12	15	13	11	16	13	15	13	11	7
Zydus Wellness	6	8	12	12	7	11	1	2	-3	10
Discretionary										
United Spirits	-13	19	9	7	-6	-1	10	-1	8	11
United Breweries	-35	38	28	8	2	3	-7	13	13	21
Radico Khaitan	0	19	10	31	-4	5	26	23	34	15
Asian Paints	7	34	19	3	1	11	7	0	5	-1
Berger paints	7	29	21	6	6	12	10	4	7	3
Kansai Nerolac	-4	26	18	3	1	14	7	2	6	4

Source: Companies, Anand Rathi Research **Note: Positive changes of 10% or more highlighted in green*

Gross margin analysis

Q4 gross margin gains ease; >200bp rise for 10 companies

Falling input prices drove Q4 gross-margin gains for the FMCG companies that we cover (barring ITC). Of these, 11 gained ~300bps y/y on aggregate (~380bps in Q3). In the discretionary space, paint companies reported 200bp y/y gross-margin gains (550bp y/y rise in Q3). Alcoholic beverages saw on aggregate 110bps y/y gross margins gains, with higher grain prices driving increase in ENA cost, offset by lower new glass cost; the fall in barley cost helped breweries' margins. While the favourable input price trend likely to continue for FMCG/alcoholic beverage companies, we expect modest margin gains ahead.

Fig 7 – Gross-margin trend

(%)	FY21	FY22	FY23	FY24	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Staples										
HUL	52.9	50.9	47.6	51.9	47.5	48.7	49.9	52.7	51.5	51.9
Colgate	68.0	67.3	65.7	67.7	65.9	66.9	68.4	68.8	72.2	69.3
Nestle	57.5	57.0	55.1	56.8	54.9	53.8	54.8	56.5	58.6	56.8
ITC	56.1	53.4	56.3	57.4	58.9	58.6	59.5	57.3	58.4	59.9
Dabur	49.9	48.2	45.6	47.8	45.5	45.8	46.6	48.3	48.6	48.6
GCPL	55.3	50.5	49.7	55.1	51.1	52.9	53.7	54.9	55.9	55.9
Marico	47.0	42.9	45.2	50.8	44.9	47.4	50.0	50.5	51.3	51.6
Britannia	41.9	38.0	41.2	43.4	43.7	44.9	41.9	42.9	43.9	44.9
Emami	67.7	66.3	64.7	67.6	65.9	63.1	65.4	70.1	68.8	65.8
Bajaj cons.	64.2	58.1	56.1	57.4	53.9	54.7	55.4	55.1	54.0	55.5
Jyothy labs	47.1	41.6	42.3	44.5	43.1	45.7	47.9	49.2	49.8	49.5
Zydus Wellness	54.7	51.2	49.2	51.1	43.9	50.8	52.6	45.2	48.1	54.6
Discretionary										
United Spirits	45.2	45.5	42.9	46.6	40.9	45.6	54.1	43.5	43.7	45.7
United Breweries	52.2	49.9	43.1	42.7	42.0	38.8	40.6	44.7	44.2	41.9
Radico Khaitan	50.3	45.0	41.8	42.5	41.8	40.6	43.6	44.1	41.8	41.0
Asian Paints	44.3	37.1	38.7	43.4	38.6	42.5	42.9	43.4	43.6	43.7
Berger paints	43.3	38.0	36.3	40.7	34.7	39.8	39.8	41.1	41.1	40.7
Kansai Nerolac	38.0	30.5	30.2	35.2	30.2	31.6	35.3	35.7	36.2	34.8

Source: Companies, Anand Rathi Research

Fig 8 – Gross-margin changes

(bps)	FY21	FY22	FY23	FY24	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Staples										
HUL	-125	-195	-332	430	-426	-84	256	692	401	316
Colgate	276	-69	-163	203	-73	4	211	502	631	244
Nestle	-27	-46	-194	170	-217	-472	93	371	374	299
ITC	-646	-265	283	113	756	544	850	33	-44	130
Dabur	1	-171	-257	217	-283	-163	74	295	310	279
GCPL	-170	-479	-85	544	48	343	715	702	474	304
Marico	-185	-410	235	560	123	294	494	685	634	417
Britannia	167	-392	313	224	574	688	506	396	21	-3
Emami	74	-146	-155	287	-153	59	241	345	291	265
Bajaj cons.	-370	-611	-199	130	-212	-231	-4	249	7	83
Jyothy labs	66	-550	70	220	206	425	800	957	666	378
Zydus Wellness	-118	-354	-204	262	-440	-3	-168	186	424	382
Discretionary										
United Spirits	-90	31	-266	375	-432	129	765	403	281	14
United Breweries	58	-229	-680	-38	-811	-1011	-385	-198	213	314
Radico Khaitan	204	-530	-316	66	-373	-215	4	259	3	42
Asian Paints	61	-717	154	470	182	379	523	764	504	121
Berger paints	178	-522	-173	439	-198	93	407	582	638	83
Kansai Nerolac	-14	-750	-30	500	-115	359	539	707	598	319

Source: Companies, Anand Rathi Research **Note: Positive changes of more than 150bps highlighted in green*

Prices of most commodities were favourable in the last six months/one year, barring prices of polypropelene, palm oil and coffee. Prices of barley and caustic soda recently rose (over 1/3/6 months), while those of mentha oil and crude oil fell. Also, wheat and milk powder were soft in the last three-to-six months.

Crude oil prices eased ~10% over the last 7-10 days. Crude oil and its derivatives are key inputs for several FMCG products and their packaging. Packaging cost constitutes 5-20% of many companies' input costs. We expect the steady input price environment to persist due to a lack of major supply-demand mismatch/disruption. Thus, we expect better gross margin trajectories for most of the companies that we cover, aided by better mix and price increases in some cases (alcoholic beverages, Emami, etc.).

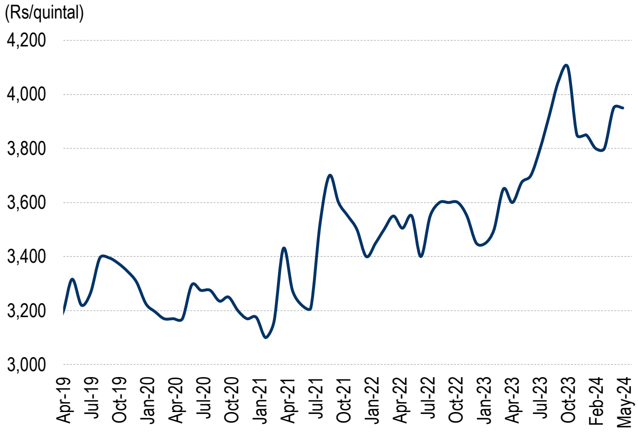
Fig 9 – Major input materials and their price changes

Inputs	Units	Price / Index	Change (%)					Companies impacted
			1-mth	3-mth	6-mth	1-yr	2-yr	
Wheat	Rs/quintal	2485	0.4	(7.3)	(7.1)	2.5	13.0	ITC, Britannia, Nestle, Adani Wilmar
Palm oil	$/lb.	3952	1.6	(1.9)	7.2	16.8	(41.6)	Godrej Cons., HUL, Britannia, Prataap Snks, Bikaji
Soda ash	Rs/50kgs	1725	0.0	0.0	(7.5)	(21.2)	(31.4)	HUL, Jyothy Labs
Sugar	Rs/quintal	3950	0.0	3.9	(1.3)	9.7	12.1	Britannia, ITC, Nestle, HUL, Zydus Wellness
TiO2	Rs/kg	343	0.3	0.9	(2.8)	(12.1)	(23.3)	Paints companies
Caustic Soda	Rs/50kgs	2175	1.2	9.3	13.6	0.0	(33.4)	All FMCG
Mentha Oil	Rs/kg	982	(3.1)	(3.4)	(2.0)	(11.5)	(16.7)	Emami, Colgate
Polypropelene	Rs/MT	1010	1.0	2.0	9.8	5.2	(17.9)	All FMCG
Milk powder	Index	170	0.2	(0.5)	(1.4)	(0.5)	7.7	Nestle, Zydus Welness, HUL, Britannia
Barley	Rs/quintal	2075	0.0	15.0	9.8	(2.1)	(33.6)	United Breweries, HUL
Crude oil	$/bbl.	78	(6.6)	(5.5)	0.4	1.0	(35.3)	All FMCG
Tea	Rs/kg	220	4.8	4.8	2.3	(15.4)	(32.3)	Tata Consumer, HUL
Coffee	$/lb.	229	11.0	17.3	18.0	24.9	(1.6)	Nestle, HUL, Tata Consumer
LAB	$/MT	1730	0.9	0.9	0.0	4.2	(6.2)	HUL, Jyothy Labs
HDPE	$/MT	1030	(1.0)	0.0	6.2	1.0	(16.3)	All FMCG

Source: Bloomberg, Anand Rathi research

Raw material price trend

Fig 10 – Sugar prices up 10% in the last one year

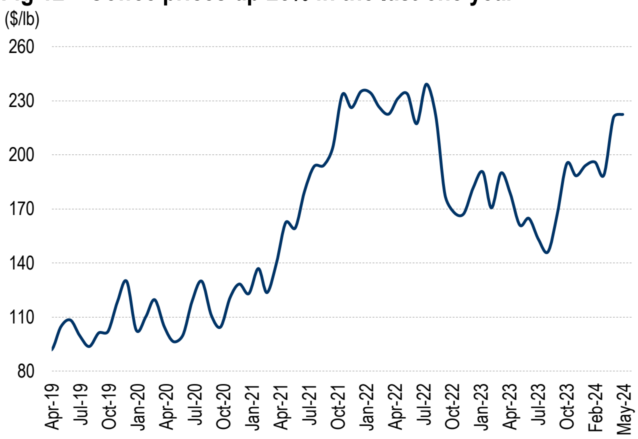


Source: Bloomberg, Anand Rathi Research

Fig 11 – Tea prices still favourable

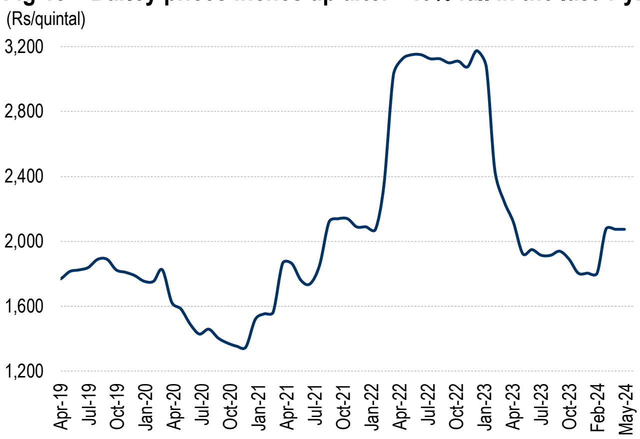
Source: Bloomberg, Anand Rathi Research

Fig 12 – Coffee prices up 25% in the last one year



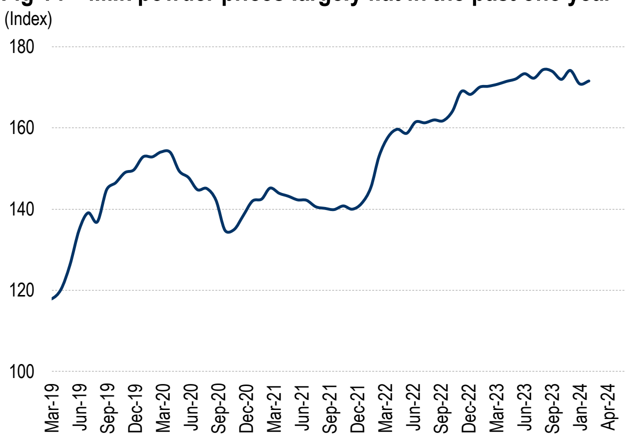
Source: Bloomberg, Anand Rathi Research

Fig 13 – Barley prices inches up after ~40% fall in the last 1-yr



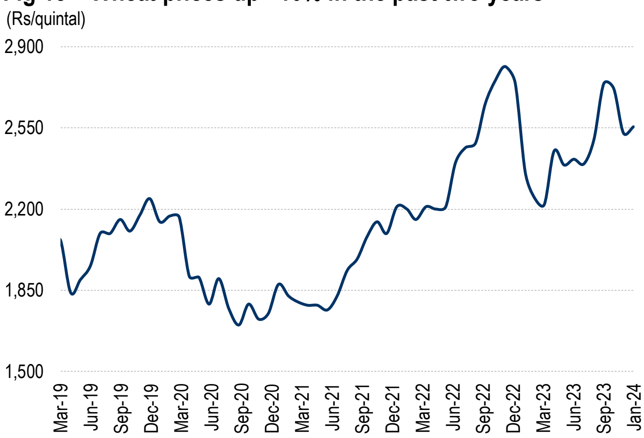
Source: Bloomberg, Anand Rathi Research

Fig 14 – Milk powder prices largely flat in the past one year



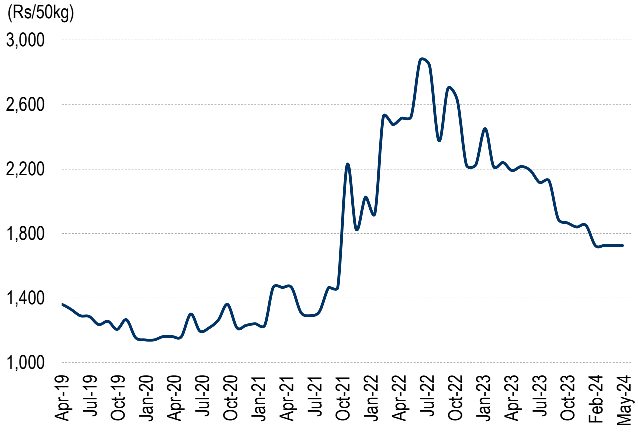
Source: Bloomberg, Anand Rathi Research

Fig 15 – Wheat prices up >10% in the past two years



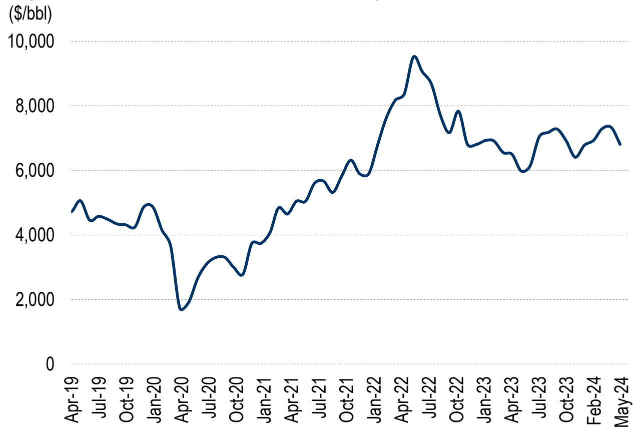
Source: Bloomberg, Anand Rathi Research

Fig 16 – Soda ash prices fell ~20% in the past one year



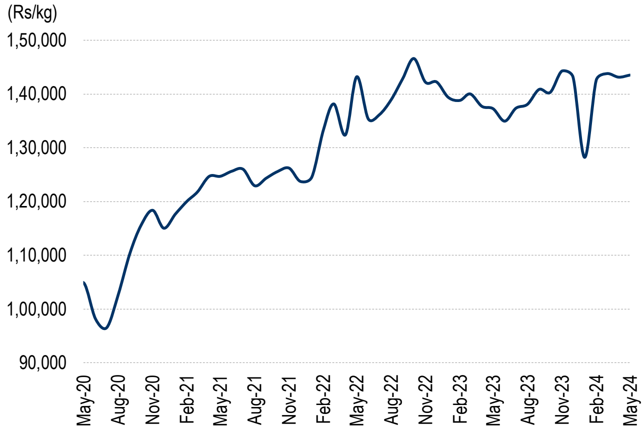
Source: Bloomberg, Anand Rathi Research

Fig 17 – Crude oil prices fell recently



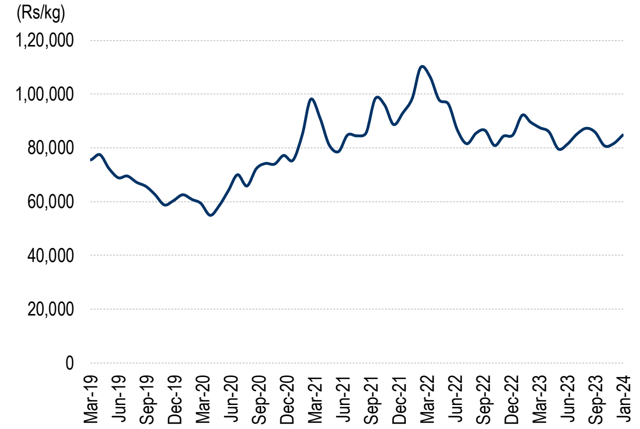
Source: Bloomberg, Anand Rathi Research

Fig 18 – LAB prices seen largely flat, after Jan blip



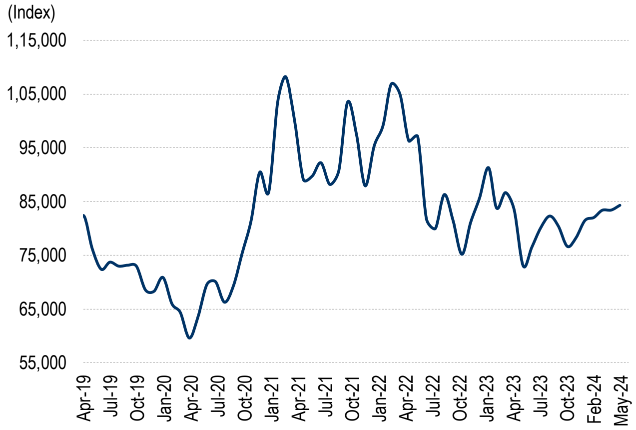
Source: Bloomberg, Anand Rathi Research

Fig 19 – HDPE prices mostly favourable



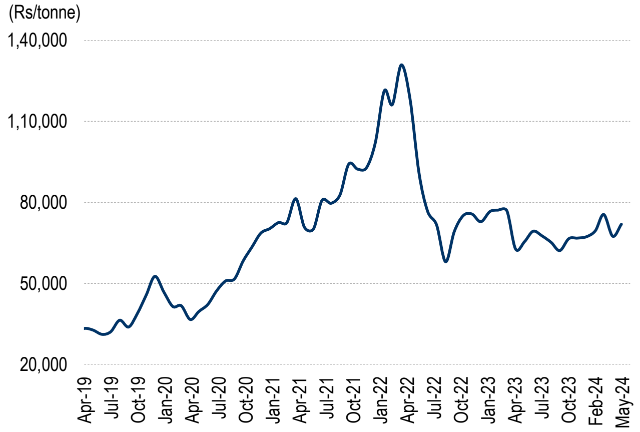
Source: Bloomberg, Anand Rathi Research

Fig 20 – Polypropylene prices rise ~10% in the last 6 months



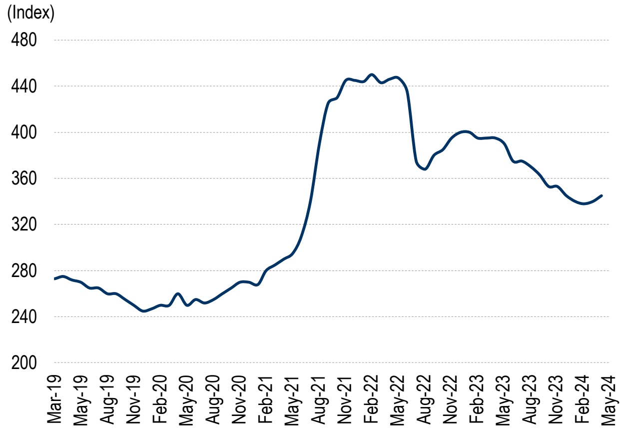
Source: Bloomberg, Anand Rathi Research

Fig 21 – Palm oil prices rise by ~15 in the last one year



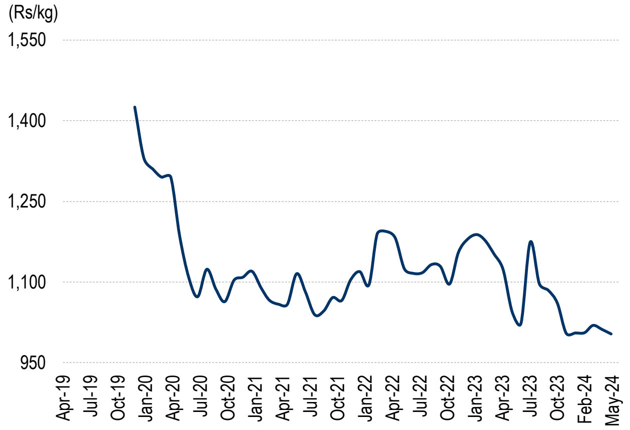
Source: Bloomberg, Anand Rathi Research

Fig 22 – TiO2 prices soften (down 12% in the last one year)



Source: Bloomberg, Anand Rathi Research

Fig 23 – Mentha oil prices still favourable



Source: Bloomberg, Anand Rathi Research

EBITDA margin analysis

A&SP spend surges in FY24 as competition grows

A&SP spends rose 24% y/y (or 180bps) for eight FMCG companies in Q4. This increase came after a 30% rise in H1 and 27% in Q3, owing to more competition (small companies became relentless due to the sharp fall in input costs) and launches. We expect A&SP spends (as % of net sales) to remain high; but its growth is likely to be modest ahead as gross-margin gains are expected to ease in FY25.

Fig 24 – Trend in A&SP spends

(%)	FY21	FY22	FY23	FY24	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Staples										
HUL	10.3	9.2	8.3	10.7	7.9	8.7	9.8	11.3	10.5	10.7
Colgate	13.0	12.7	12.2	12.5	13.2	10.6	13.7	14.0	14.6	11.3
Dabur	8.3	7.2	5.6	6.8	5.9	5.7	6.5	6.8	7.5	6.5
GCPL	9.0	8.1	9.0	11.1	7.7	7.0	9.3	10.2	12.9	8.9
Marico	8.7	8.4	8.7	9.9	8.9	9.4	8.6	10.8	10.2	9.9
Emami	15.9	16.1	16.6	18.5	15.6	15.5	18.4	17.9	16.6	20.2
Jyothy labs	6.5	7.4	7.2	7.6	6.8	7.5	7.3	7.8	9.0	9.1
Zydus Wellness	12.3	11.7	11.5	12.8	10.7	9.3	14.9	11.5	12.3	12.0
Discretionary										
United Spirits	7.1	7.2	8.7	9.3	10.0	13.7	5.5	8.4	11.0	11.8

Source: Companies, Anand Rathi Research

Fig 25 – A&SP spend changes

(bps)	FY21	FY22	FY23	FY24	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Staples										
HUL	-178	-108	-92	240	-127	-92	47	420	261	201
Colgate	-83	-30	-50	30	137	-70	8	260	148	75
Dabur	83	-110	-165	125	-216	-31	96	168	161	86
GCPL	154	-90	90	210	74	67	285	179	523	188
Marico	-124	-33	33	120	-36	-7	78	229	125	55
Emami	-185	20	50	190	-69	-395	77	47	104	471
Jyothy labs	-68	85	-17	40	-37	30	-21	149	213	161
Zydus Wellness	-84	-62	-20	140	-305	-79	106	-51	160	270
Discretionary										
United Spirits	-62	8	153	57	-14	841	-30	294	93	-184

Source: Companies, Anand Rathi Research **Note: Positive changes of 150bps or more highlighted in green*

Q4 EBITDA margin for 11 FMCG companies (excl. ITC) grew just 70bps in Q4, despite the 300bp gross-margin gain. Gross-margin gains were partly offset by higher brand spends and other expenses. The discretionary segment saw a 60bp margin decline for six companies, largely driven by a 190bp fall in Asian Paints' EBITDA margin; alcoholic beverage companies and Kansai Nerolac posted healthy margin gains.

We expect EBITDA margin to rise 50bps in FY25 for six FMCG companies. Within discretionary, alcoholic beverages companies are likely to see 80bp EBITDA margin growth aided by premiumisation. The EBITDA margins of Paints companies are likely to rise 20bps in FY25 on benign input cost.

Fig 26 – EBITDA margin trend

(%)	FY21	FY22	FY23	FY24	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Staples										
HUL	24.7	24.5	23.4	23.7	23.2	23.3	23.2	24.2	23.3	23.1
Colgate	31.2	30.7	29.6	31.0	28.0	33.5	31.6	32.8	33.6	35.7
Nestle	24.0	24.4	22.2	23.8	22.9	22.7	22.7	24.3	23.8	25.6
ITC	34.1	33.5	36.3	37.4	38.4	37.9	39.5	36.5	36.5	37.2
Dabur	20.9	20.7	18.7	19.4	20.0	15.3	19.3	20.6	20.5	16.6
GCPL	21.8	19.6	18.3	21.0	20.2	20.0	18.6	19.5	25.7	23.0
Marico	19.7	17.6	18.5	21.0	18.5	17.5	23.2	20.1	21.2	19.4
Britannia	19.1	15.6	17.4	18.9	19.5	19.9	17.2	19.7	19.3	19.4
Emami	30.7	29.9	25.3	26.5	29.9	23.9	23.0	27.0	31.6	23.7
Bajaj cons.	26.2	19.8	17.6	19.4	14.1	16.7	17.2	17.7	15.6	14.5
Jyothy labs	16.5	11.3	12.7	14.8	13.8	14.7	17.1	18.5	17.5	16.4
Zydus Wellness	18.4	17.0	15.0	13.2	6.8	20.3	16.6	3.8	3.1	20.7
Discretionary										
United Spirits	12.9	16.4	13.2	17.7	13.4	9.4	26.7	16.3	16.2	12.7
United Breweries	9.0	11.9	8.2	8.6	4.8	3.0	9.8	9.8	8.0	6.7
Radico Khaitan	17.0	13.8	11.2	12.3	12.2	9.5	12.5	13.1	12.3	11.4
Asian Paints	22.4	16.5	18.2	21.4	18.7	21.2	23.1	20.2	22.6	19.4
Berger paints	17.4	15.2	14.1	16.6	13.0	15.1	18.4	17.1	16.7	13.9
Kansai Nerolac	17.0	10.2	10.8	13.2	11.0	9.5	16.1	14.6	13.2	10.8

Source: Companies, Anand Rathi Research

Fig 27 – EBITDA margin trend

(bps)	FY21	FY22	FY23	FY24	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Staples										
HUL	-5	-20	-110	30	-124	-80	49	129	8	-19
Colgate	463	-48	-111	140	-174	46	516	337	557	226
Nestle	33	44	-222	160	-29	-307	252	230	95	293
ITC	-478	-63	276	114	619	423	682	15	-181	-70
Dabur	35	-25	-200	70	-129	-271	6	51	48	128
GCPL	18	-220	-135	275	-4	399	197	357	552	296
Marico	-35	-213	94	246	56	153	253	272	272	186
Britannia	321	-353	179	153	438	442	365	343	-19	-56
Emami	470	-84	-452	117	-520	256	60	301	166	-23
Bajaj cons.	220	-640	-220	180	-905	-277	-259	311	244	-224
Jyothy labs	150	-520	144	210	232	422	705	609	374	163
Zydus Wellness	205	-145	-205	-171	-154	-184	-467	3	-363	45
Discretionary										
United Spirits	-335	345	-320	429	-422	-762	1135	125	282	259
United Breweries	-447	295	-372	38	-623	-1226	-111	-330	323	366
Radico Khaitan	167	-315	-260	110	-350	-31	31	127	8	187
Asian Paints	177	-586	164	322	57	293	502	573	393	-185
Berger paints	73	-221	-112	250	-239	-75	371	349	368	-117
Kansai Nerolac	119	-680	60	240	-142	363	298	375	224	128

Source: Companies, Anand Rathi Research **Note: Positive changes of 150bps and more highlighted in green*

Management commentaries

HUL

- Urban growth trend is stable, but rural has been subdued. Growth was seen across the portfolio, with 75% of the business seeing increased volumes and over 50% growing in mid-to-high single digits.
- The company's corporate market share rose 200bps since 2021, but recently dipped 10-20bps due to competition in mass-end detergent bars and skin-cleansing. It expects to recoup this loss by H2 CY24, despite the high base effect impacting the MAT metric.
- Aiming to recover gross margin, which regained 430bp in FY24 after a 700bp drop, the company foresees a 50-60bp EBITDA margin hit from the GSK consignment and targets 23-24% EBITDA margin in FY25.

Dabur

- With a steady operating environment, rural consumption (~8%) surpassed urban (~4%) for the first time in three years; rural grew 400bp ahead of urban. The company's distribution expansion is impressive, reaching 1.2lakh villages and 1.42m outlets directly, totalling 79lakh outlets, amongst the highest in FMCG, with two lakh outlets added this year.
- Its India business reported market share gains across 95% of the portfolio. Management indicated that Colgate and Himalaya lost volume market share, while Dabur, Patanjali and GSK gained in the oral care segment.
- FY25 should see better gross margins, albeit at a slower pace than FY24, with part reinvested in advertising and the rest boosting EBITDA. The EBITDA margin goal for FY25 is ~20%.

Godrej Consumer

- India's K-shaped recovery poses a challenge with varied growth rates (GDP ~7.5%, consumption ~3%, agriculture ~0.5%), however, strong performance was seen by the company across segments.
- The company launched project VISTAAR 2.0 to double its direct rural reach (0.4m outlets) through van operations. The project would include significant investment but is expected to pay off over the next 2-4 years.
- Its focus is on category development, launches, premiumisation in Indian and Indonesian markets, while improving profitability in African/ LATAM markets.

Zydus Wellness

- Rural demand grew gradually in Q4; rural growth converged with urban growth. Good summer and normal monsoons would augur well for the company and significantly contribute to its seasonal portfolio. The recent introduction of hub-and-spoke model would strengthen the company's supply chain capabilities and result in timely availability of products in key markets.

- It expects manageable inflation of 3-5% ahead, aiming for 17-18% EBITDA within two years, with better gross margin and operating leverage. Management expects double-digit FY25 revenue growth.

Marico

- Urban growth eased, while rural growth saw an uptick toward end-Q4. Healthy offtake was seen across key portfolios, with 75% of the business gaining or sustaining market share and 100% maintaining or increasing penetration, on MAT basis.
- In Q1 FY25, project SETU was rolled out, providing a phased three-year roadmap to augment direct reach from ~1m outlets now to 1.5m in FY27.
- The company anticipates EBITDA growth in low teens, aided by revenue expansion, with margins likely being stable in FY25; slight improvements are likely over the next 2-3 years. The company expects consolidated topline to grow in double digits.

Emami

- The company is witnessing early signs of market recovery, with rural gradually bouncing back. Its enhanced investment in A&P would strengthen brand visibility and strategic distribution initiatives like Project Khoj and other digital interventions are expected to provide impetus to sales ahead.
- Its outlook is positive for the near and mid-term. It aims at delivering healthy growth, supported by a favourable operating environment. For FY25, it expects 10% revenue growth aided by the lower base due to winter.

Britannia

- The company's focus is on volume growth, with a slightly inflationary outlook. It expects manageable, 3%, inflation for wheat and sugar, with proactive measures in place to secure the best commodity prices.
- It aims to increase market share and managed distribution by expanding into more resilient villages to maximise its rural potential.
- Its strategy is to balance market share growth with sustained profits, maintaining stability despite increased competition from smaller companies. RTM 2.0 aims at driving multiple adjacent businesses through outlet segmentation, utilising AI predictive ordering to target high-potential outlets, with FY24 seeing expansion to 2.8m outlets and 30,000 rural distributors.
- Focus is on revenue over margins, with expectations for FY25 margins broadly within a similar range.

Tata Consumer

- Tea business volumes are expected to grow at mid-single digit in the medium to long term. Growth businesses account for 30% of consolidated revenue, growing at 30%.

- The company is implementing split-route strategies in over a million towns, expanding distributors in >50,000 towns, and establishing a network for smaller towns. Tata Starbucks targets 1,000 stores by FY28.
- It expects margin expansion post integration of acquisitions.

Discretionary

Asian Paints

- Urban grew a tad faster than rural markets, with the latter showing positive resurgence in Apr. The company would like to maintain a gap of 5-6% in value and volume. It maintains strong shares across economy, premium, and luxury markets, with the economy segment comprising about 70% of the market.
- The company launched a new latex technology product in Jan'24, designed for the bottom-of-the-pyramid market (worth ~Rs50bn), offering better durability and coverage at the cost of distemper, driving strong growth in urban, especially rural.
- It anticipates strong double-digit volume growth for the year ahead, driven by favourable monsoon, a promising Diwali, deferred Q4 demand, and more government spending on infrastructure and development.
- It sees launches by new entrants not being innovative or unusual. It welcomes competition and believes that it is important to increase the overall pie rather than fighting on the same pie.

Berger Paints

- GDP growth is also largely driven by investment, which is growing at ~10%, whereas the consumption category is growing at 3% in the GDP. Hence, GDP is driven more by investment than by consumption. And therefore, with 3% consumption growth, any consumer category will not grow at a very, very fast pace. Automotive and general industrial business saw an improved performance on some uptick in 2W demand, with muted demand in CVs and tractors.
- Management expects double-digit volume growth to continue in Q1 and FY25, with mid-single-digit value growth due to price cuts and the adverse mix. Birla Opus poses serious competition, but the company hasn't seen a significant impact yet, with no changes in rebates or discounts due to the new entrant. Management anticipates better EBITDA margin ahead, with a steady 15-17% guidance.

Kansai Nerolac

- Rural growth, impacted for the last 1.5-2 years, has been showing signs of recovery in the past six months, particularly in the B2B segment, with B2C expected to follow, mirroring past trends. Rural demand weakness is reflected in 2W growth, especially in B2B, while automotive demand was strong in FY24, with management expecting more stable demand in this segment compared to earlier cyclical trends.

- As prices decline, rural market volume growth would surpass value growth, and in the medium to long term, the paint industry's strong correlation with GDP would be restored. It expects a one to two-quarter easing in high-performance coatings and general industrial segments, followed by recovery driven by infrastructure spends.
- The company leads in industrial paints, holding 58-60% of the automotive market, with strong shares in the economy category, passenger vehicles, and two-wheelers, over 40% in powder paints, single digits in the refinish business, and ~10% in decorative paints, with recent efforts aiding in stable market share.

United Spirits

- The year saw sequentially easing demand on sustained consumer inflation and post-pandemic consumption normalisation. The fundamentals of the industry and premiumisation is intact across the industry portfolio, even in segments where it is seeing consumption slowdown due to pressure on the wallet. However, consumers are not downtrading. The company's brands are performing competitively, growing ahead of the category.
- Margins would certainly not be in the range that it achieved in FY23-24, but the company is targeting modest margin expansion. Its first task is to get back P&A to 13-14% growth, leading to overall double-digit portfolio growth.

United Breweries

- The company estimates the industry growing 6-7% in 2024, depending on post-election regulatory policies, particularly state-level decisions like duty hikes on beer. In the last quarter, it gained over 100bp market share all India (upward of north of 50%).
- The company's margin improvement relies on shift to a multi-brand model, prioritising innovation and quality, with expected q/q EBITDA margin growth. The company is targeting high single-digit revenue growth.

Radico Khaitan

- P&A volumes grew 20% in FY24 and 14% in Q4, and management is confident of delivering >15% growth in FY25. The company has attained leading position in India in white spirits (vodka and gin). Management believes that it is also leading in brandy in the premium and super-premium categories.
- The company enjoys 8% market share in alcohols. Within the premium segment, its share would be higher, at 13-14%.
- With normal monsoon expected and better crop yield, management sees early signs of softer grain prices. It believes that the worst is behind and expects benefits from tailwinds in raw material prices in FY25. Further, margin uptick is likely from Q2, with mid-teen margins expected in FY25 and 16-17% in FY26. Management expects the company to be debt-free by FY26.

Valuations

Most FMCG companies have risen by at least 10% post the election verdict owing to their defensive nature and also fueled by optimism around better prospects. A host of tailwinds, monsoon-led rural revival, post-election focus on social welfare, and crude price-led margin buoyancy augur well for the sector.

We expect an upswing in revenue of FMCG companies, more so from Q2, led by rural demand recovery and return of pricing. Also, discretionary in the P&A/premium portfolios should continue to do well. Margins are likely to improve for staples and discretionary, aided by favourable input prices (primarily due to benign crude-oil prices). Competition, though, is expected to be intense across staples and discretionary, on aggression by smaller companies in FMCG and existing/new entrants in paints/beers. For the companies that we cover, we estimate 13% earnings CAGR over FY24-26, aided by margin gains and demand recovery.

While valuations increased, we see upside potential for our preferred picks - **HUL (TP of Rs3,000), Emami (TP of Rs730)** and **Zydus Wellness (TP of Rs2,150)**. **United Breweries (TP of Rs2,300)** is our pick in consumer discretionary.

Fig 28 – Earnings growth for the companies we cover

	Revenue (Rs m)				EBITDA margins (%)			PAT (Rs m)			
	FY24e	FY25e	FY26e	2-yr CAGR	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e	2-yr CAGR
Staples											
HUL	6,18,960	6,67,809	7,28,162	8.5	23.7	24.0	24.5	1,02,753	1,14,350	1,28,084	11.6
GCPL	1,41,819	1,56,568	1,73,947	10.7	21.0	22.7	23.3	19,647	24,556	29,014	21.5
Dabur	1,25,987	1,37,286	1,48,881	8.7	19.4	20.0	20.4	18,376	20,868	23,180	12.3
Marico	98,079	1,08,362	1,19,962	10.6	20.8	20.6	21.0	15,140	16,529	18,695	11.1
Emami	35,781	39,875	43,986	10.9	26.5	27.3	28.1	7,301	8,468	9,655	15.0
Zydus Wellness	23,263	25,854	28,672	11.0	14.0	17.0	17.9	2,990	4,229	4,138	17.6
Discretionary											
Asian Paints	3,61,833	3,94,036	4,27,135	8.6	21.6	21.7	22.0	54,080	58,695	63,827	8.6
Berger Paints	1,13,453	1,24,239	1,35,048	9.1	16.8	17.0	17.3	11,517	13,237	14,995	14.1
Kansai Nerolac	79,493	85,932	93,064	8.2	13.8	14.5	14.9	7,089	8,263	9,399	15.1
United Spirits	1,10,355	1,26,450	1,38,143	11.9	18.1	18.4	19.0	13,627	16,168	18,895	17.8
United Breweries	81,227	91,567	1,01,423	11.7	8.6	11.1	12.7	4,109	6,451	8,424	43.2
Radico Khaitan	36,411	50,214	53,263	20.9	14.7	13.3	15.6	2,932	3,804	5,028	31.0

Source: Bloomberg, Anand Rathi Research

Fig 29 – Valuation parameters for the companies we cover

	CMP	M cap	EV	EPS (Rs)			PE (x)			EV / EBITDA (x)		
	Rs / sh	Rs bn	Rs bn	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e
Staples												
HUL	2,550	5,991	5,886	43.7	48.7	54.5	58.3	52.4	46.8	40.1	36.7	33
GCPL	1,402	1,434	1,444	19.2	24.0	28.4	73.0	58.4	49.4	48.6	40.7	35.6
Dabur	597	1,058	1,053	10.4	11.8	13.1	57.6	50.7	45.6	43.0	38.3	34.7
Marico	638	826	821	11.7	12.8	14.5	54.3	49.8	44.0	40.1	36.8	32.5
Emami	708	311	308	16.7	19.4	22.1	42.3	36.5	32.0	32.4	28.3	24.9
Zydus Wellness	1,881	120	120	47.0	66.5	65.0	40.0	28.3	28.9	36.8	27.3	23.4
Discretionary												
Asian Paints	2,905	2,786	2,775	56.4	61.2	66.5	51.5	47.5	43.7	35.4	32.5	29.5
Berger Paints	477	556	559	9.9	11.4	12.9	48.3	42.0	37.1	29.4	26.4	23.9
Kansai Nerolac	274	221	208	8.8	10.2	11.6	31.2	26.8	23.5	19.0	16.7	15.0
United Spirits	1,305	950	933	18.8	22.3	26.0	69.6	58.7	50.2	46.9	40.1	35.6
United Breweries	2,036	538	537	15.5	24.4	31.9	131.0	83.4	63.9	77.2	52.8	41.7
Radico Khaitan	1,695	227	234	22.0	28.5	37.7	77.1	59.5	45.0	43.6	35.1	28.2

Source: Bloomberg, Anand Rathi Research *Prices as on 6th June 2024*

Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) (Research Entity, SEBI Regn No. INH000000834, Date of Regn. 29/06/2015) is a subsidiary of the Anand Rathi Financial Services Ltd. ARSSBL is a corporate trading and clearing member of Bombay Stock Exchange Ltd (BSE), National Stock Exchange of India Ltd. (NSEIL), Metropolitan Stock Exchange of India Ltd. (MSE), and also depository participant with National Securities Depository Ltd (NSDL) and Central Depository Services Ltd. (CDSL), ARSSBL is engaged into the business of Stock Broking, Depository Participant, Mutual Fund distributor.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

General Disclaimer: This Research Report (hereinafter called "Report") is meant solely for use by the recipient and is not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through ARSSBL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by ARSSBL to be reliable. ARSSBL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of ARSSBL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report. The price and value of the investments referred to in this Report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. ARSSBL does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding taxation aspects of any potential investment.

Opinions expressed are our current opinions as of the date appearing on this Research only. We do not undertake to advise you as to any change of our views expressed in this Report. Research Report may differ between ARSSBL's RAs and/ or ARSSBL's associate companies on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold ARSSBL, its employees and associates responsible for any losses, damages of any type whatsoever.

ARSSBL and its associates or employees may; (a) from time to time, have long or short positions in, and buy or sell the investments in/ security of company (ies) mentioned herein or (b) be engaged in any other transaction involving such investments/ securities of company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) these and other activities of ARSSBL and its associates or employees may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall ARSSBL and its associates or employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind.

Details of Associates of ARSSBL and Brief History of Disciplinary action by regulatory authorities & its associates are available on our website i.e. www.rathionline.com

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject ARSSBL to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by ARSSBL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. ARSSBL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to ARSSBL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Statements on ownership and material conflicts of interest, compensation - ARSSBL and Associates

Answers to the Best of the knowledge and belief of ARSSBL/ its Associates/ Research Analyst who is preparing this report

Research analyst or research entity or his associate or his relative has any financial interest in the subject company and the nature of such financial interest.	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company	No
ARSSBL/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation or other benefits from the subject company or third party in connection with the research report	No
ARSSBL/its Associates/ Research Analyst/ his Relative have served as an officer, director or employee of the subject company.	No
ARSSBL/its Associates/ Research Analyst/ his Relative has been engaged in market making activity for the subject company.	No

Other Disclosures pertaining to distribution of research in the United States of America

Research report is a product of Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) under Marco Polo Securities 15a6 chaperone service which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Research reports are intended for distribution by only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, ARSSBL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

1. ARSSBL or its Affiliates may or may not have been beneficial owners of the securities mentioned in this report.
2. ARSSBL or its affiliates may have or not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. ARSSBL or its affiliates may have or not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more of ARSSBL or its Affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon, either on their own account or on behalf of their clients.
5. As of the publication of this report, ARSSBL does not make a market in the subject securities.
6. ARSSBL or its Affiliates may or may not, to the extent permitted by law, act upon or use the above material or the conclusions stated above, or the research or analysis on which they are based before the material is published to recipients and from time to time, provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.

As of the publication of this report, ARSSBL does not make a market in the subject securities.

Additional information on recommended securities/instruments is available on request.

Compliance officer-Deepak Kedia, email id - deepakkedia@rathi.com, Contact no. +91 22 6281 7000.

Grievance officer-Madhu Jain-email id- grievance@rathi.com, Contact no. +91 22 6281 7191

ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.

Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.