

Q2FY2024 Results Preview

Sector: Consumer Goods

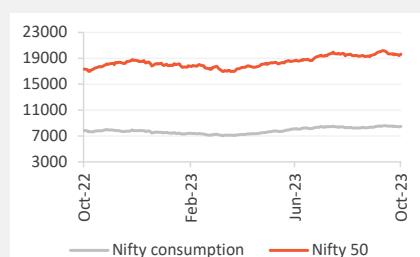
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Asian Paints	3,194	Hold	3,675
Bajaj Consumer Care	232	Buy	280
Britannia Industries	4,538	Buy	5,415
Colgate-Palmolive (India)	1,992	Hold	2,080
Dabur India	547	Buy	660
Emami	527	Buy	655
Godrej Consumer Products	972	Buy	1,250
Heritage Foods	231	Positive	343
Hindustan Unilever	2,499	Buy	3,050
Indigo Paints	1,505	Buy	1,850
ITC	442	Buy	496
Jyothy Labs	360	Buy	375
Marico	537	Buy	645
Mrs Bectors Food Specialities	1,038	Positive	1,130
Nestle India	22,916	Hold	24,650
Radico Khaitan	1,920	Buy	UR
Tata Consumer Products	875	Buy	1,010
Varun Beverages	928	Positive	970
Zydus Wellness	1,550	Buy	1,654

Source: Sharekhan Research; UR - Under Review

Price chart



Source: Sharekhan Research; NSE website

Consumer Goods

Weak demand environment; margin expansion to drive PAT growth

Summary

- We expect our consumer goods universe to register 5% y-o-y revenue growth in Q2FY2024 with low to mid-single digit volume growth, while price cuts would result in low-value growth for most consumer goods companies.
- Benign input prices would help gross margins to remain high on a y-o-y basis. A bulk of gross margin savings will be utilised for higher advertisement and promotional spends. PAT is likely to grow in double digits for most companies (largely driven by margin expansion).
- Recovery in rural demand was affected by high food inflation and volatile monsoon. It is expected to gradually improve in H2 and will aid volume growth of consumer goods companies to pick up.
- **Preferred Picks:** HUL, ITC, Britannia Industries, Heritage Foods, Jyothy Labs, Tata Consumer Products, Emami, Radico Khaitan, and Ms. Bectors Food.

High food inflation and volatile rainfall during the season affected consumer demand with rural India yet to see material recovery in consumption. This would lead to muted volume growth (in range of low-to-mid single digit) for consumer goods companies in India. The international business is expected to see good performance on constant currency basis. However, the same is expected to grow in single digits for most companies due to currency headwinds in the countries (including Nigeria). Overall, most companies under our coverage are expected to post low-to-mid single-digit revenue growth. Our consumer goods universe's revenue is likely to grow by 5% in Q2FY2024. Gross margins of all companies are expected to remain substantially higher y-o-y due to benign input prices. However, OPM expansion will be lower compared to gross margin expansion because of higher ad spends. PAT of Sharekhan's consumer goods universe is expected to grow by ~13% y-o-y during the quarter.

- **Volume growth at low-to-mid single digit; value growth at low single digit:** Revenue of our consumer goods universe is expected to grow by 5% y-o-y in Q2FY2024 (vs. 9% growth in Q1FY2024). Volume growth continues to remain weak as rural demand is yet to recover from its low. High food inflation and abnormal monsoons have further put stress on rural demand during the quarter. Urban demand continues to remain stable. The full impact of the price cut will be seen in Q2FY2024 and, hence, value growth is expected to be lower compared to volume growth for most companies. Overall, we expect most consumer goods companies to post low to mid-single revenue growth during the quarter. Small companies such as Ms. Bectors Foods, Jyothy Labs, Bajaj Consumer Care, and Indigo Paints might see better growth compared to large companies due to distribution expansion, entry into new markets, and market share gains.
- **Benign input prices to expand gross margins; ad and promotional spends to pick up:** Some of the key input prices such as palm oil (down by 3% y-o-y), titanium dioxide (down by 7% y-o-y), HDPE (down by 10% y-o-y), Mentha oil (down by 10% y-o-y), and copra (down by 4% y-o-y), and a decline in prices of other edible oils will help gross margins of most companies under coverage to improve substantially on a y-o-y basis. Most companies have indicated that a large part of gross margin savings will be invested behind brands. Hence, OPM expansion will be lower compared to gross margin expansion. We expect OPM of consumer goods companies to expand by 100-450 bps in Q2. Margin expansion will help most companies post double-digit PAT growth. We expect Sharekhan's consumer goods universe to register PAT growth of 13% y-o-y in Q2FY2024.
- **Sector outlook – Rural demand likely to pick up in H2FY2024:** With food inflation easing and expected stable kharif crop, managements of most consumer goods companies are confident of witnessing a pick-up in rural demand in H2FY2024. This will also be supported by the upcoming festive season and higher government spending prior to the general elections. Overall, we should expect gradual improvement in volume growth of consumer goods companies in the quarters ahead. Crude prices moved up from its low but continues to remain in a comfortable zone. Other input prices are yet to see a significant jump and will provide less stress on the profitability in the near term. Thus, we expect margin expansion to be sustained in the quarters ahead. Despite higher media spends, OPM is expected to remain high on a y-o-y basis in the near term. Most of the companies are optimistic about medium-term growth outlook of consumer goods sectors with low penetration in most categories, emerging distribution channels, and improving per-capita income.

Valuation and Picks

We continue to remain selective in the consumer goods space and would prefer companies with better earnings growth visibility along with relatively stable valuations. In the large cap space, we continue to like companies such as HUL, ITC, and Britannia Industries. Discounted valuations and improved growth prospects in the non-cigarette FMCG category make ITC a better pick in the large cap consumer goods space. Britannia Industries is expanding its market share gap versus the No. 2 player and is focusing on scaling up the adjacent categories, including dairy and bakery products to drive consistent growth ahead. HUL is focusing on achieving consistent earnings growth on account of its focused strategies of distribution expansion, innovation, category development, and premiumisation in the coming years. In the large to mid-cap space, we like Tata Consumer Products, which is expected to report double-digit earnings growth, driven by revamped strategies. In the small-cap space, we like Ms. Bectors Food, Radico Khaitan, Jyothy Labs, and Heritage Foods due to good earnings visibility in the quarters ahead. We also like Emami in the space due to its receding concerns over promoters' pledging, which will help valuations to improve ahead.

Q2FY2024 Leaders: TCPL, Jyothy Labs, Ms. Bectors Foods, and Varun Beverages

Q2FY2024 Laggards: Marico and GCPL

Preferred Picks: HUL, ITC, Britannia Industries, Heritage Foods, Jyothy Labs, Tata Consumer Products, Emami, Radico Khaitan, and Ms. Bectors Food

Q2FY2024 result estimates

Companies	Net Sales (Rs. crore)		y-o-y (%)	OPM (%)		BPS (Y-o-Y)	Adjusted PAT (Rs. crore)		y-o-y (%)
	Q2FY24E	Q2FY23		Q2FY24E	Q2FY23		Q2FY24E	Q2FY23	
Asian Paints	8,869	8,458	4.9	19.0	14.5	451	1,173	782	50.1
Bajaj Consumer Care	248	230	7.6	17.0	13.3	368	41	32	28.1
Britannia Industries	4,416	4,380	0.8	17.6	16.3	133	522	491	6.5
Colgate-Palmolive (India)	1,488	1,387	7.3	32.9	29.4	349	335	278	20.5
Dabur India	3,182	2,986	6.6	20.5	20.1	34	509	491	3.6
Emami	871	814	7.1	25.5	24.0	151	222	200	11.3
Godrej Consumer Products	3,549	3,392	4.6	19.5	16.9	253	426	382	11.6
Heritage Foods	955	816	17.0	5.4	4.9	50	26	21	23.2
Hindustan Unilever	15,317	14,751	3.8	23.5	22.9	56	2,539	2,386	6.4
Indigo Paints	287	243	18.3	17.7	13.9	376	33	21	59.6
ITC	16,326	16,130	1.2	37.8	36.4	147	4,793	4,466	7.3
Jyothy Labs	728	659	10.4	16.4	12.2	419	93	58	59.4
Marico	2,489	2,496	-0.3	19.7	17.3	232	355	307	15.7
Mrs Bectors Food Specialities	418	347	20.3	14.8	12.8	197	37	22	67.6
Nestle India*	5,165	4,591	12.5	23.9	22.0	189	831	668	24.4
Radico Khaitan	884	761	16.1	12.9	11.8	103	59	52	13.5
Tata Consumer Products	3,643	3,363	8.3	14.4	12.9	151	343	264	29.7
Varun Beverages*	3,807	3,248	17.2	21.6	21.5	8	465	395	17.7
Zydus Wellness	462	429	7.5	4.6	3.8	80	12	8	38.5
Grand Total	73,104	69,483	5.2	24.4	22.8	153	12,814	11,324	13.2

Source: Company, Sharekhan estimates

*Nestle India and Varun Beverages are calendar year-ending companies

Valuations

Companies	CMP (Rs)	Reco.	Price target (Rs.)	PE (x)		
				FY2023	FY2024E	FY2025E
Asian Paints	3,194	Hold	3,675	72.4	57.1	48.7
Bajaj Consumer Care	232	Buy	280	23.8	19.0	16.1
Britannia Industries	4,538	Buy	5,415	56.0	50.9	41.9
Colgate-Palmolive (India)	1,992	Hold	2,080	51.3	44.7	41.2
Dabur India	547	Buy	660	57.0	44.8	37.5
Emami	527	Buy	655	31.1	26.6	21.9
Godrej Consumer Products	972	Buy	1,250	57.0	46.0	38.1
Heritage Foods	231	Positive	343	32.1	14.8	10.8
Hindustan Unilever	2,499	Buy	3,050	58.6	53.5	45.9
Indigo Paints	1,505	Buy	1,850	54.3	42.4	35.8
ITC	442	Buy	496	29.0	24.9	21.9
Jyothy Labs	360	Buy	375	57.2	40.7	34.0
Marico	537	Buy	645	52.5	43.9	38.5
Mrs Bectors Food Specialities	1,038	Positive	1,130	67.5	43.9	36.3
Nestle India*	22,916	Hold	24,650	73.2	63.2	53.0
Radico Khaitan	1,920	Buy	UR	116.4	83.7	57.9
Tata Consumer Products	875	Buy	1,010	67.6	55.1	46.2
Varun Beverages*	928	Positive	970	80.5	61.3	49.1
Zydus Wellness	1,550	Buy	1,654	30.8	27.4	21.6

Source: Company, Sharekhan estimates; UR – Under Review

*Nestle India and Varun Beverages are calendar year-ending companies

Trend in key input prices

Particulars	Q2FY23	Q3FY23	Q4FY23	Q1FY24	q-o-q (%)	Q2FY24	y-o-y (%)
Copra (Rs./kg)	86.1	85.5	88.9	85.2	-3.2	82.5	-4.2
Rice bran oil (Rs./kg)	111.4	107.3	91.2	81.4	5.4	85.8	-23.0
LLP (Rs./Ltr)	81.3	76.0	78.0	78.0	-5.1	74.0	-9.0
Palm oil prices (MYR / tonne)	3,882.0	4,036.5	3,963.7	3,647.7	3.6	3,780.3	-2.6
Mentha oil (Rs./kg)	1,169.0	1,180.0	1,251.0	1,177.0	-10.5	1,053.0	-9.9
Raw tea prices	184.9	181.0	139.0	172.0	2.1	175.6	-5.0
Wheat (Rs./kg)	32.1	33.3	34.5	32.5	4.5	34.0	5.8
Sugar (Rs./kg)	36.0	35.9	34.6	36.5	2.5	37.4	3.9
HDPE (Rs./kg)	138.4	130.0	132.0	130.0	-3.8	125.0	-9.7
Titanium dioxide (Rs./kg)	401.8	382.0	397.5	393.0	-4.6	375.0	-6.7

Source: Sharekhan Research

Company-wise expectations

Company	Q2FY24E	Y-o-Y (%)	QoQ (%)	Comment
Asian Paints				
Sales (Rs. crore)	8,869	4.9	-3.4	We expect 5% volume growth and 3% value-led growth (realisation decline of 2% due to mix change). Domestic decorative paints and home improvement are expected to grow by 4% and 12% y-o-y, respectively.
OPM (%)	19.0	451	-408	Gross margin is expected to improve by ~480 bps y-o-y due to softening of raw-material prices, while OPM is likely to improve by ~450 bps y-o-y, largely led by gross margin expansion.
Adjusted PAT (Rs. crore)	1,173	50.1	-22.8	Adjusted PAT is likely to grow by 50% y-o-y, largely driven by ~37% y-o-y operating profit growth.
Bajaj Consumer Care				
Sales (Rs. crore)	248	7.6	-8.2	Revenue growth is expected to be at 8% y-o-y, aided by volume growth of ~8%.
OPM (%)	17.0	368	-72	OPM is expected to increase by ~370 bps y-o-y, aided by a ~270 bps y-o-y improvement in gross margin and better operating efficiencies.
Adjusted PAT (Rs. crore)	40.7	28.1	-11.9	Higher depreciation charges would lead to lower PAT growth of ~28% y-o-y compared to 37% y-o-y operating profit growth.
Britannia Industries				
Sales (Rs. crore)	4,416	0.8	10.1	Revenue is expected to be largely flat y-o-y with low-mid single-digit volume growth.
OPM (%)	17.6	133	41	Gross margin is expected to expand by ~300 bps y-o-y aided by a correction in input prices, while OPM is likely to be up by ~130 bps y-o-y due to higher employee and other expenses.
Adjusted PAT (Rs. crore)	522	6.5	15.4	Operating profit is expected to grow by 9% y-o-y. However, higher depreciation expenses would limit PAT growth to 6.5% y-o-y.
Colgate-Palmolive (India)				
Sales (Rs. crore)	1,488	7.3	12.4	Revenue is expected to grow by 7% y-o-y with expected volume growth of 3.5% in the toothpaste category.
OPM (%)	32.9	349	131	Gross margin/OPM are expected to improve by 425/350 bps y-o-y, largely due to softening of raw-material prices.
Adjusted PAT (Rs. crore)	335.1	20.5	18.8	PAT is expected to grow by 20% y-o-y; in line with 20% y-o-y operating profit growth.
Dabur India				
Sales (Rs. crore)	3,182	6.6	1.7	Revenue growth of ~7% y-o-y would be driven by mid to high single-digit growth in the domestic business, double-digit constant currency growth in the international business, and high-teen growth in Badshah business.
OPM (%)	20.5	34	113	Reduction in inflation would help in ~160 bps y-o-y expansion in gross margin. However, consolidated OPM is expected to remain flat y-o-y as a large part of gross margin savings will be diverted to higher A&P spends.
Adjusted PAT (Rs. crore)	509	3.6	9.4	Higher brand amortisation would lead to lower PAT growth of ~4% y-o-y compared to y-o-y operating profit growth of ~8%.
Emami				
Sales (Rs. crore)	871	7.1	5.5	Revenue is expected to grow by 7% y-o-y with volume growth expected at 3%.
OPM (%)	25.5	151	251	Gross margin is expected to expand by ~240 bps y-o-y, aided by a correction in input prices, while OPM is likely to be higher by ~150 bps y-o-y due to increased employee and advertisement expenses.
Adjusted PAT (Rs. crore)	222	11.3	43.7	PAT is likely to grow by ~11% y-o-y, largely in line with 14% y-o-y growth in operating profit.

Company-wise expectations

Company	Q2FY24E	Y-o-Y (%)	QoQ (%)	Comment
Godrej Consumer Products				
Sales (Rs. crore)	3,549	4.6	2.9	GCPL is expected to post weak performance in Q2FY2024, with the organic domestic business likely to register mid-single volume growth; home care volumes are expected to grow in mid-single digit; while the personal care segment is likely to grow in low single digit. On the international front, Indonesia would post double-digit value and volume growth, while Africa business's performance was affected by adverse currency translation impact.
OPM (%)	19.5	253	-31	Gross margin is expected to expand by ~560 bps y-o-y, aided by correction in input prices, while OPM is likely to be up by 250 bps y-o-y due to higher ad spends.
Adjusted PAT (Rs. crore)	426	11.6	3.1	Higher depreciation charges and interest expenses would lead to lower PAT growth of ~12% y-o-y compared to 20% y-o-y operating profit growth.
Heritage Foods				
Sales (Rs. crore)	955	17.0	3.4	We expect 17% y-o-y revenue growth to be driven by 25% y-o-y growth in value-added products and 14% y-o-y growth in milk products.
OPM (%)	5.4	50	103	Gross margin/OPM is expected to improve by 55/50 bps y-o-y.
Adjusted PAT (Rs. crore)	26	23.2	42.6	Higher interest expenses would lead to lower PAT growth of ~23% y-o-y compared to 29% y-o-y operating profit growth.
Hindustan Unilever				
Sales (Rs. crore)	15,317	3.8	1.1	Revenue is expected to grow by ~4% y-o-y, aided by 6%/2%/5% y-o-y growth in the homecare/personal care/foods and refreshments categories. Volume growth is expected to be at 3-4%.
OPM (%)	23.5	56	21	Gross margin is expected to be higher by 370 bps y-o-y, aided by softening of raw-material prices. However, OPM is expected to be up by just ~60 bps y-o-y due to higher advertisement and other expenses.
Adjusted PAT (Rs. crore)	2,539	6.4	1.6	PAT is expected to grow by ~6% y-o-y, in line with ~6% y-o-y operating profit growth.
Indigo Paints				
Sales (Rs. crore)	287	18.3	3.6	We expect ~18% y-o-y revenue growth led by 15-16% volume growth.
OPM (%)	17.7	376	37	We expect a 530 bps y-o-y expansion in gross margin, driven by the softening of raw-material prices. However, OPM is expected to expand by 375 bps y-o-y due to higher other expenses.
Adjusted PAT (Rs. crore)	33	59.6	5.2	Strong revenue growth further aided by ~50% y-o-y growth in operating profit would lead to 60% y-o-y PAT growth.
ITC				
Sales (Rs. crore)	16,326	1.2	3.1	Cigarette business revenue is expected to be up by 9% y-o-y, aided by 5-6% volume growth, while the non-cigarette FMCG business is expected to grow by 15% y-o-y. The hotel business is expected to grow by 16% y-o-y, aided by sustained strong demand. Paper business is expected to grow by 4% y-o-y, while the agri business is likely to decline by 10% y-o-y.
OPM (%)	37.8	147	-166	Gross margin/OPM is expected to improve by ~185/150 bps y-o-y, largely due to the softening of raw-material prices.
Adjusted PAT (Rs. crore)	4,793	7.3	-2.3	In line with 5% y-o-y growth in operating profit, PAT is expected to grow by 7% y-o-y.
Jyothy Labs				
Sales (Rs. crore)	728	10.4	5.9	Revenue is expected to grow by 10% y-o-y, aided by 13%/12% y-o-y growth in the fabric care/dishwashing segment, while the mosquito repellents segment is expected to grow by 4% y-o-y.
OPM (%)	16.4	419	-70	Softening of raw-material prices would aid in 600 bps and 420 bps y-o-y expansion in gross margin and OPM, respectively.
Adjusted PAT (Rs. crore)	93	59.4	-3.4	Operating profit growth of 48% y-o-y coupled with higher other income and lower interest expense would lead to 59% y-o-y PAT growth.
Marico				
Sales (Rs. crore)	2,489	-0.3	0.5	Volume growth in the domestic consumer business is likely to be in low single digits. Parachute and Saffola edible oil registered low single-digit volume growth, while value-added hair oil registered low single value growth. Foods and premium personal care portfolio continued to perform well. The international business registered double-digit constant current growth; but currency depreciation in some international markets led to lower growth in rupee term.
OPM (%)	19.7	232	-351	Gross margin is expected to improve by 440 bps y-o-y, while high advertisement expenses would moderate OPM expansion to 230 bps y-o-y.
Adjusted PAT (Rs. crore)	355	15.7	-15.3	In line with 13% y-o-y growth in the operating profit, PAT is expected to grow by ~16% y-o-y.

Company-wise expectations

Company	Q2FY24E	Y-o-Y (%)	QoQ (%)	Comment
Mrs Bectors Food Specialities				
Sales (Rs. crore)	418	20.3	11.7	Revenue is expected to grow by 20% y-o-y, driven by 22% y-o-y growth in the biscuit segment (18% volume growth) and 20% y-o-y growth in the bakery segment (15% volume growth).
OPM (%)	14.8	197	-73	Gross margin/OPM is expected to improve by 150/200 bps y-o-y, largely due to the softening of raw-material prices.
Adjusted PAT (Rs. crore)	37	67.6	6.2	Strong revenue growth, 39% y-o-y growth in operating profit, higher other income, and lower interest expense would lead to ~68% y-o-y growth in PAT.
Nestle India				
Sales (Rs. crore)	5,165	12.5	10.9	Revenue growth is expected to be at 13% y-o-y, led by mid-high single-digit volume growth. India business is likely to report ~12% y-o-y growth, while the international business is expected to grow by ~15% y-o-y.
OPM (%)	23.9	189	124	Gross margin/OPM is expected to improve by 220/190 bps y-o-y, largely due to the softening of raw-material prices.
Adjusted PAT (Rs. crore)	831	24.4	19.1	Adjusted PAT is likely to grow by 24% y-o-y, largely driven by ~22% y-o-y operating profit growth.
Radico Khaitan				
Sales (Rs. crore)	884	16.1	-7.3	Revenue growth of 16% y-o-y would be led by 14-15% y-o-y volume growth in Prestige and above segment, while the regular segment is expected to post low single-digit volume growth.
OPM (%)	12.9	103	33	Gross margin/OPM is expected to improve by 140/103 bps y-o-y, largely due to the softening of raw-material prices.
Adjusted PAT (Rs. crore)	59	13.5	-6.9	Despite 26% y-o-y operating profit growth, PAT is expected to grow by ~14% y-o-y due to higher interest and depreciation expenses.
Tata Consumer Products				
Sales (Rs. crore)	3,643	8.3	-2.6	Revenue is expected to grow by ~8% y-o-y, driven by 15% y-o-y growth in the foods business (7% volume growth), 6% y-o-y growth in Tata Coffee (subsidiary), and 8% y-o-y growth in the India beverages business. Volume growth in the domestic tea business is expected to be at 5%.
OPM (%)	14.4	151	-16	Gross margin is expected to remain flat y-o-y, impacted by higher raw-material prices. However, lower other expenses would lead to ~150 bps y-o-y improvement in OPM.
Adjusted PAT (Rs. crore)	343	29.7	-5.5	PAT is expected to grow by 30% y-o-y, in line with 21% y-o-y growth in operating profit and higher other income.
Varun Beverages				
Sales (Rs. crore)	3,807	17.2	-33	We expect 17% y-o-y revenue growth, driven by a mix of ~12% y-o-y volume growth and 5% y-o-y growth in realisations.
OPM (%)	21.6	8	-490	We expect both gross margin and OPM to remain largely flat y-o-y
Adjusted PAT (Rs. crore)	465	17.7	-53.7	In line with 18% y-o-y growth in operating profit, PAT is expected to grow by ~18% y-o-y.
Zydus Wellness				
Sales (Rs. crore)	462	7.5	-34.2	Revenue is expected to grow by ~8% y-o-y, driven by mid single-digit volume growth.
OPM (%)	4.6	80	-1,403	Gross margin is expected to improve by 120 bps y-o-y, while high advertisement expenses would moderate OPM expansion to 80 bps y-o-y.
Adjusted PAT (Rs. crore)	12	38.5	-90.4	In line with 30% y-o-y growth in operating profit, PAT is expected to grow by ~39% y-o-y.

Source: Sharekhan Research

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Sharekhan

by BNP PARIBAS

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