

Consumer Sector

Consumer Staples and Discretionary | Channel Check Update

March 11, 2024

Demand recovery uncertain; Rabi crop appears promising

Key points from our channel check

- During our recent visits to the mandis (large trading market) in Jaipur, we learned that the outlook for the Rabi crop seems to be better than expected and there has been no adverse impact yet despite some unseasonal rain recently in Rajasthan.
- Britannia (BRIT) and Parle are the most preferred brands in Biscuits with Parle being a key player in deep rural markets.
- Demand environment, barring Chocolates, still remains weak, but with likely good Rabi crop, demand outlook could recover post harvesting season in April'24.
- In the Staples space, we remain positive on BRIT, Tata Consumer Products (TATACONS) and Gillette India (GILL) while in the Discretionary space, we remain positive on United Breweries (UBBL) and Westlife Foodworld (WESTLIFE).

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In continuation of our [channel check update](#) in Mumbai last month, we recently visited several mandis/retail outlets/departmental stores/modern trade stores and connected with a few distributors in Rajasthan to learn about the current demand scenario and key brands in various consumer categories in the state, particularly in Jaipur. Again, the outlets we visited were non-premium in nature and hence the key takeaways reflect more a mass consumer perspective.

The following are the key highlights from our visits:

Comments on Rabi crop: The outlook for the Rabi crop seems to be better than expected and there has been no adverse impact yet despite some unseasonal rain recently in Rajasthan. If there is no dry spell or further unseasonal rain in the next three weeks, both quality and quantity of wheat & barley are likely to be good, leading to price stability. This bodes well for BRIT and UBBL.

Comments on barley

- Barmalt (India's largest [manufacturer and supplier](#) of malt and malt extract) and UBBL are the key buyers of barley. Purchase price is therefore largely determined by them.
- The companies sometimes reject the crop based on quality and generally give payment after adjusting for the rejected crop.
- Since barley is a key crop in this region, as its water level requirement is relatively less, the farmers are bound to produce it, irrespective of the fact that pricing is determined by two large players.
- Barley is a key component for UBBL and HUVR (Horlicks).

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Following are the key highlights from our store visits

- Overall, for the outlets we visited, we have received a mixed feedback with respect to overall demand.
- A few outlets highlighted that growth post covid has moderated now and is yet to reach pre-covid levels.
- Generally, after Diwali, some slowdown is seen for a couple of months in the Packaged Foods space, including Biscuits.
- **Biscuits**
 - Products of BRIT and Parle are most preferred with Parle being a key player in deep rural markets.
 - Depending upon the location, both large packs as well as smaller SKUs are seeing offtakes with winter season having a skew towards larger packs as customers like to remain indoors during winter.
 - Similar to the Mumbai market, availability of Patanjali biscuits was restricted to a very few outlets.
 - In Flavored Biscuits, ITC's Dark Fantasy continues to see healthy offtakes vis-à-vis other brands.
 - One insight that we received from a distributor was that there is a gap in the market, through which large companies like BRIT (by being aggressive) can improve their growth rates, as currently in rural/deep rural areas customers only know Parle-G/Monaco/Krackjack.
- **Tea**
 - We gathered insights from Jaipur that the 'loose tea' market is more prominent in Rajasthan and is likely to remain significant considering its cultural heritage, economic diversity and urban-rural mix.

Exhibit 1: Loose tea in Jaipur


Source: Nirmal Bang Institutional Equities Research

- Packaged Tea generally has a higher salience in urban centers.
- Also, during winter, tea sales are higher compared to summer as in the latter season cold beverages start to gain traction.
- A few outlets stocked products of Organic India (recently acquired by Tata Consumer Products), which has a strong presence in Green Tea and Wellness Tea categories.
- On the other hand, in the Instant Tea category, Girnar is a preferred brand among the consumers.

Exhibit 2: Organic India products along with other daily use items


Source: Nirmal Bang Institutional Equities Research

Exhibit 3: Girnar Instant Tea Premix


Source: Nirmal Bang Institutional Equities Research

- **Chocolates**

- The trends observed were similar to the Mumbai market, wherein Cadbury continues to have a strong hold, with NEST's Munch and Kitkat being the No. 2 preferred brands.
- Premiumisation trend in chocolates is visible with increased proportion of sales seen at the higher end of the portfolio compared to the past.

- **Toothpaste**

- Colgate remains the preferred brand followed by products of Dabur.
- For Colgate, new innovations like Visible White is also seeing traction.
- Patanjali has relatively lower traction in toothpaste.

- In Instant Noodles category, NEST's Maggi remains the market leader followed by ITC's Yippee with other players not posing any major threat currently.
- Traction in the RTE/RTC segment is lower as families prefer home cooked food - unlike Mumbai where both the working members drive growth in this segment.
- Similarly, in case of Protein Bars, the segment is yet to see any significant traction, particularly in the GT channel as currently consumer acceptance is lower and only trial purchases are driving growth.

- **Others**

- In Spices, Everest is the preferred brand with other brands like Kedara witnessing good traction.
- In Soaps, HUL's Lifebuoy and Lux are the preferred brands.

Our view

Consumer Staples: India's Branded Packaged Foods market is valued at US\$40bn and it is growing rapidly, thereby offering immense scope for growth. Most companies are expanding their total as well direct reach along with significant capacity expansions. We continue to remain structurally positive on three companies, viz. BRIT, TATACONS and GILL in the listed space with BRIT being the preferred pick.

BRIT has been investing heavily over the past few years on expanding its distribution reach, capacity expansion, tie-ups and innovation so as to take optimum advantage of the large opportunity.

Now that these investments have been completed/are nearing completion, the next few years could see significantly higher topline growth once the near term impact on demand caused by high inflation dissipates, thus continuing the period of clear outperformance vs FMCG peers.

We are currently building in ~13%/15.5% Revenue/PAT CAGR for BRIT over FY24E-FY26E. While current valuation of ~49x/42x FY25E/FY26E is not cheap, sustained strong mid-teens earnings growth in the next few years looks possible - unlike the rest of the Staples space.

We value BRIT at 52x Dec'25E EPS given the structurally attractive opportunity in the Packaged Foods space, high RoE vs peers in Domestic Staples, healthy dividend payout and potential addition of new categories going ahead. We have a BUY on BRIT with a TP of Rs5,910 (~20% upside).

Along with BRIT, we continue to remain positive on **GILL**. While return ratios were always healthy for GILL and dividend payout has been increasing in recent years, growth in topline as well as earnings, which was lacking, also seems to have revived over the past few years. Valuation is inexpensive at ~43x FY25E EPS (despite nearly 40% run-up in the stock since our [detailed report in June 2023](#)), especially if double-digit earnings growth can sustain. We have a BUY with a TP of Rs7,915 (~24% upside), valuing the company at 50x Dec'25E EPS.

We also have a BUY on **TATACONS** as we remain positive on the company over the medium to long term on the back of: (1) Improvement in margins and gradual recovery in volume growth in the core businesses of India Foods as well as India Beverages (2) Premiumisation initiatives (particularly in Salt) and (3) Robust growth in new businesses (including recent acquisitions of Capital Foods and Organic India). The stock is currently trading at ~64x/48x FY25E/FY26E. We value the company at 55x Dec'25E EPS with a TP of Rs1,305 (~7% upside).

Consumer Discretionary: In the Consumer Discretionary space, we remain positive on **UBBL** and **WESTLIFE**.

After a few years of weak earnings caused by Covid-19 and steep increase in barley costs, **UBBL** is in a sweet spot, underpinned by a healthy demand environment, growth initiatives being taken by the new CEO and a sharp decline in barley costs. If the demand environment remains favourable and RM costs benign, we believe that the company can potentially nearly triple EBITDA over FY23-FY26E and potentially more than double EBITDA during FY24E-FY26E. We had upgraded UBBL to BUY [after the 2QFY24 results](#), highlighted key investment arguments in a [detailed report in November 2023](#) and chronicled the evolution of competition among the three large MNCs that dominate the Indian beer market in a [detailed report in December 2023](#). The stock has been a significant outperformer in our Consumer Discretionary coverage universe over this period and we expect the same to continue. We have a BUY rating with a TP of Rs2,050 (~21% upside), valuing UBBL at 32x Dec'25E EBITDA.

We also have BUY rating on **WESTLIFE** despite the current slowdown seen in the QSR space. We believe that once the demand situation improves, WESTLIFE will be the key beneficiary and will likely grow ahead of peers on the back of strong product portfolio, mid to high single digit SSSG and increased store expansion pace in-line with its vision 2027. With recent correction in stock price, the stock is now trading at ~30x/24x FY25E/FY26E Pre-IndAS EBITDA, providing a good entry point. We value the company at 33x Dec'25E Pre IND-AS EBITDA with a TP of Rs960 (~28% upside).

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