



Q4FY24 Consumer Sector Preview



Consumer Sector

Consumer demand trends are yet to see a major revival

COVERAGE STOCKS

| Company | CMP (INR) | Target* (INR) | Upside (%) | Recommendation* |
|-----------------------------------|-----------|---------------|-----------------|-----------------|
| ITC (ITC) | 426 | 533 | 25.1% | BUY |
| Varun Beverages (VBL) | 1,404 | 1,732 | 23.4% | BUY |
| Godrej Consumer Products (GCPL) | 1,177 | 1,443 | 22.6% | BUY |
| Adani Wilmar (AWLTD) | 336 | 412 | 22.5% | BUY |
| Hindustan Unilever (HUVR) | 2,221 | 2,716 | 22.3% | ACCUMULATE |
| Asian Paints (APNT) | 2,830 | 3,460 | 22.3% | ACCUMULATE |
| Tata Consumer Products (TATACONS) | 1,136 | 1,352 | 19.1% | BUY |
| Britannia Industries (BRIT) | 4,741 | 5,367 | 13.2% | ACCUMULATE |
| Devyani International (DEVYANI) | 160 | 172 | 7.8% | ACCUMULATE |
| Nestle India (NEST) | 2,546 | 2,721 | 6.9% | ACCUMULATE |
| Colgate-Palmolive India (CLGT) | 2,702 | 2,548 | TA [#] | HOLD |

MARKET DATA

| | Close | 1M (%) | YTD (%) |
|------------|--------|--------|---------|
| Nifty 50 | 22,148 | 0.6 | 1.9 |
| Sensex | 72,944 | 0.3 | 0.9 |
| Nifty FMCG | 53,402 | -0.9 | -6.3 |
| USD/INR | 83.5 | 0.8 | 0.3 |

*Note: Target price and recommendation will be reviewed post detailed Q4FY24E result analysis and conference call of the said companies.

TA: Target Achieved

Source: NSE, Data as of 17th April 2024

SECTOR OVERVIEW

- Our Consumer Coverage universe is expected to see a muted revenue growth of 4.2% YoY/ 4.8% QoQ in Q4FY24E. There has been no material change in the demand environment compared to Q3FY24 despite a moderation in CPI inflation in the quarter.
- Lower crop yields post a below-normal monsoon have had lingering effects on rural demand. While there have been signs of revival in rural demand, indicated by an uptick in 2-wheeler sales, a significant uptick in FMCG sales remains to be seen.
- The gap between urban and rural growth may continue to narrow gradually. FMCG players will continue to see a growth disparity between premium and mass segments, with premium growing stronger than the bottom end.
- Topline growth will be led by **VBL (+19.1% YoY)** due to strong demand and distribution+capacity expansion, **TATACONS (+16.5% YoY)** due to its 'Growth businesses' and premiumization in the base business, and **DEVYANI (+10.2% YoY)** due to store additions while SSSG will remain weak.
- Laggards in terms of revenue growth include **AWLTD (-4.0% YoY)** due to a decline in edible oil prices, **HUVR (-2.1% YoY)** and **BRIT (+1.8% YoY)** both due to subdued demand and grammage additions/ price cuts.
- EBITDA margin performance will be a mixed bag, with margins growing by 35 bps YoY (-12 bps QoQ) for the coverage. EBITDA growth for the coverage is expected to be 5.9% YoY/ 4.3% QoQ while Net Profit growth is expected to be 4.1% YoY/ 3.1% QoQ.

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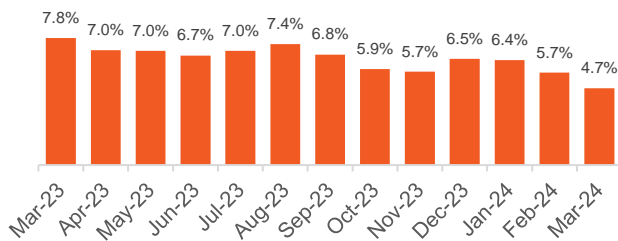
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Consumer Sector

SECTOR OVERVIEW

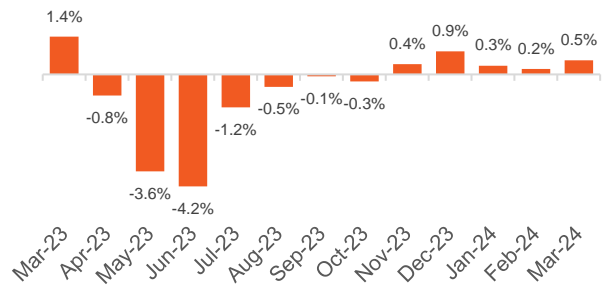
- YoY gross margin expansion continues for most companies and is being used for increasing media spending to address higher competitive intensity from local players.
- Key commodity prices have largely remained stable or moderated sequentially. Wheat, milk, sugar and tea prices have seen QoQ moderation. Conversely, coffee and cocoa have seen inflationary trends. Crude and TiO₂ prices have largely remained stable, leading to stability in input costs for paint companies.
- QSR industry has continued to suffer from muted demand. Accordingly, DEVYANI will continue to see Same-store sales growth (SSSG) for key brands declining.
- With increased competition in the paints industry, the key factors to look out for would be volume growth trajectory, pricing trends and movement in A&P spending.
- We remain positive on **VBL** due to expansion in distribution, capacity and territories, **TATACONS** due to distribution expansion, innovation, premiumization and inorganic growth, and **GCPL** due to new launches, inorganic growth and structural margin improvement in international businesses.

India- CPI inflation moderated in Q4FY24, however consumption recovery still muted



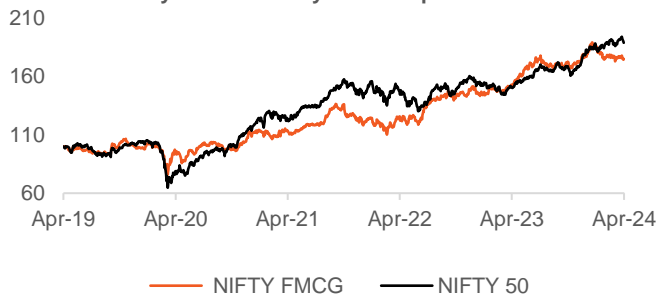
Source: Government of India, DevenChoksey Research

India- WPI inflation remains low



Source: Government of India, DevenChoksey Research

Nifty FMCG vs Nifty 50 index performance



Source: NSE, DevenChoksey Research

Nifty FMCG P/E slightly above its 5 year average



Source: NSE, DevenChoksey Research

Consumer Sector

Exhibit.1: Quarterly result expectation for companies under coverage

| Q4FY24E (INR Mn) | Outperform | Base | Underperform | Remarks |
|------------------------------------|------------|---------|--------------|--|
| Adani Wilmar (AWLTD) | | | | |
| Sales | 135,175 | 133,177 | 131,180 | <ul style="list-style-type: none"> We expect AWLTD to report a revenue decline of 4.0% YoY (+3.8% QoQ). |
| EBITDA | 5,485 | 5,188 | 4,894 | <ul style="list-style-type: none"> While volume growth was positive at 4.0% YoY (+1.3% QoQ), a decline in edible oil prices continued to impact revenues. |
| Net Profit | 2,430 | 2,178 | 1,929 | <ul style="list-style-type: none"> EBITDA per MT is expected to stabilize sequentially (+1.6% QoQ) and grow 39.0% YoY. EBITDA margins will likely be flattish QoQ (-3 bps QoQ/ +131 bps YoY). |
| EBITDA (%) | 4.1% | 3.9% | 3.7% | |
| NPM (%) | 1.8% | 1.6% | 1.5% | <ul style="list-style-type: none"> Net Profit will likely grow 132.6% YoY/ 8.4% QoQ. |
| Asian Paints (APNT) | | | | |
| Sales | 96,353 | 94,464 | 89,741 | <ul style="list-style-type: none"> We expect APNT to deliver revenue growth of 7.5% YoY/ 3.8% QoQ due to some recovery in T3/T4 markets. Volume growth is likely to be in the high single digits. |
| EBITDA | 21,377 | 20,769 | 19,192 | |
| Net Profit | 14,525 | 14,052 | 12,811 | <ul style="list-style-type: none"> EBITDA margin will continue to be higher YoY (+77 bps) but moderate QoQ (-60 bps) despite stable RM costs, due to higher ad spending and price cuts amidst increasing competition. |
| EBITDA (%) | 22.2% | 22.0% | 21.4% | |
| NPM (%) | 15.1% | 14.9% | 14.3% | <ul style="list-style-type: none"> We expect Net Profit to grow by 13.9% YoY (-2.9 QoQ). |
| Britannia Industries (BRIT) | | | | |
| Sales | 42,174 | 40,946 | 39,717 | <ul style="list-style-type: none"> BRIT is likely to deliver revenue growth of 1.8% YoY (-3.8% QoQ), driven by mid-single-digit volume growth and the negative impact from price cuts/ grammage additions. |
| EBITDA | 8,253 | 7,931 | 7,494 | |
| Net Profit | 5,801 | 5,550 | 5,185 | <ul style="list-style-type: none"> We expect the EBITDA margin to decline by 54 bps YoY due to lack of PLI benefit and favourable raw material costs that existed in Q4FY23. We expect almost flattish EBITDA margins QoQ (+8 bps). |
| EBITDA (%) | 19.6% | 19.4% | 18.9% | |
| NPM (%) | 13.8% | 13.6% | 13.1% | <ul style="list-style-type: none"> We expect Net Profit to be almost flat on a YoY (-0.6%) and QoQ (-0.2%) basis. |

Consumer Sector

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| Q4FY24E (INR Mn) | Outperform | Base | Underperform | Remarks |
|---|------------|--------|--------------|--|
| Colgate Palmolive India (CLGT) | | | | |
| Sales | 15,237 | 14,651 | 14,358 | <ul style="list-style-type: none"> We expect CLGT's quarterly revenues to grow by 8.5% YoY (+5.0% QoQ), led by a healthy mix of volume and pricing growth. |
| EBITDA | 5,201 | 4,854 | 4,614 | |
| Net Profit | 3,735 | 3,444 | 3,232 | <ul style="list-style-type: none"> We expect EBITDA margin to contract by 33 bps YoY/ 43 bps QoQ due to high A&P and brand building spends. |
| EBITDA (%) | 34.1% | 33.1% | 32.1% | |
| NPM (%) | 24.5% | 23.5% | 22.5% | <ul style="list-style-type: none"> We expect Net Profit to grow by 8.9% YoY/ 4.3% QoQ. |
| Devyani International (DEVYANI)* | | | | |
| Sales | 8,739 | 8,323 | 7,907 | <ul style="list-style-type: none"> We expect Q4FY24E to be yet another weak quarter for DEVYANI with revenue growth of 10.2% YoY (-1.3% QoQ), driven by store additions while SSSG will continue to remain negative for core brands of KFC and Pizza Hut. |
| EBITDA | 1,695 | 1,573 | 1,455 | |
| Net Profit | 76 | 30 | -11 | <ul style="list-style-type: none"> EBITDA margin will continue to be under pressure with a contraction of 114 bps YoY (+155 bps QoQ). |
| EBITDA (%) | 19.4% | 18.9% | 18.4% | |
| NPM (%) | 0.9% | 0.4% | -0.1% | <ul style="list-style-type: none"> We expect Net Profit to be at INR 30 Mn, a decline of 95.0% YoY/ 68.3% QoQ, impacted by the lower operating metrics. |
| Godrej Consumer Products (GCPL) | | | | |
| Sales | 34,523 | 33,846 | 33,169 | <ul style="list-style-type: none"> We expect GCPL to report revenue growth of 5.8% YoY (-7.5% QoQ), driven by mid-single-digit organic revenue growth in India, and double-digit growth in Indonesia while being impacted by NGN devaluation in Africa. |
| EBITDA | 7,948 | 7,725 | 7,371 | |
| Net Profit | 5,200 | 5,030 | 4,731 | <ul style="list-style-type: none"> We expect EBITDA margin to be higher by 205 bps YoY but moderate by 190 bps QoQ due to seasonality. |
| EBITDA (%) | 23.0% | 22.8% | 22.2% | |
| NPM (%) | 15.1% | 14.9% | 14.3% | <ul style="list-style-type: none"> Net Profit is likely to grow by 11.3% YoY (-13.4% QoQ). There could be one-time accounting assessments in the quarter for the East Africa Re-organization. |

*DEVYANI estimates do not include the numbers from the RD Thailand acquisition

Consumer Sector

Exhibit.1: Quarterly result expectation for companies under coverage

| Q4FY24E (INR Mn) | Outperform | Base | Underperform | Remarks |
|----------------------------------|------------|---------|--------------|--|
| Hindustan Unilever (HUVR) | | | | |
| Sales | 153,349 | 148,883 | 145,905 | <ul style="list-style-type: none"> We expect muted performance to continue for HUVR as demand trends have not changed much since last quarter. |
| EBITDA | 35,237 | 33,466 | 32,067 | <ul style="list-style-type: none"> We expect revenue growth to decline by 2.1% YoY/ 4.4% QoQ, impacted by muted low single-digit volume growth and negative pricing. |
| Net Profit | 25,132 | 23,656 | 22,453 | <ul style="list-style-type: none"> EBITDA margin is likely to contract by 101 bps YoY/ 107 bps QoQ due to higher A&P spending and the 2nd tranche of increase in royalty. |
| EBITDA (%) | 23.0% | 22.5% | 22.0% | |
| NPM (%) | 16.4% | 15.9% | 15.4% | <ul style="list-style-type: none"> We expect Net Profit to decline by 9.0% YoY/ 5.7% QoQ due to the muted topline and operating performance. |
| ITC | | | | |
| Net Revenue | 194,009 | 188,359 | 178,941 | <ul style="list-style-type: none"> We expect ITC's revenue growth to be 6.8% YoY/ 4.5% QoQ. Cigarette volumes are likely to continue the consolidation phase and grow by a muted ~1.0% YoY. |
| EBITDA | 70,503 | 67,319 | 63,238 | <ul style="list-style-type: none"> Growth will continue to be led by FMCG and Hotels business. |
| Net Profit | 53,844 | 51,146 | 47,873 | <ul style="list-style-type: none"> We expect an EBITDA margin contraction of 182 bps YoY/ 35 bps QoQ due to continued pressure on the Paperboards and Agri segments. |
| EBITDA (%) | 36.3% | 35.7% | 35.3% | |
| NPM (%) | 27.8% | 27.2% | 26.8% | <ul style="list-style-type: none"> Net Profit is likely to decline 1.2% YoY/ 4.1% QoQ. |
| Nestle India (NEST)* | | | | |
| Sales | 54,752 | 53,157 | 51,562 | <ul style="list-style-type: none"> We expect NEST to continue to see healthy revenue growth at 10.0% YoY/ 15.5% QoQ. NEST is likely to see growth in all segments, aided by its distribution expansion in RURBAN. |
| EBITDA | 13,975 | 13,462 | 12,646 | <ul style="list-style-type: none"> We expect EBITDA margin to expand by 241 bps YoY (+121 bps QoQ) due to lower RM costs, pricing, premiumization and cost efficiencies. |
| Net Profit | 9,641 | 9,254 | 8,563 | <ul style="list-style-type: none"> We expect Net Profit to grow by 25.6% YoY/ 41.1% QoQ due to the strong operating performance and a favourable base sequentially as Q3FY24 had exceptional costs. |
| EBITDA (%) | 25.5% | 25.3% | 24.5% | |
| NPM (%) | 17.6% | 17.4% | 16.6% | |

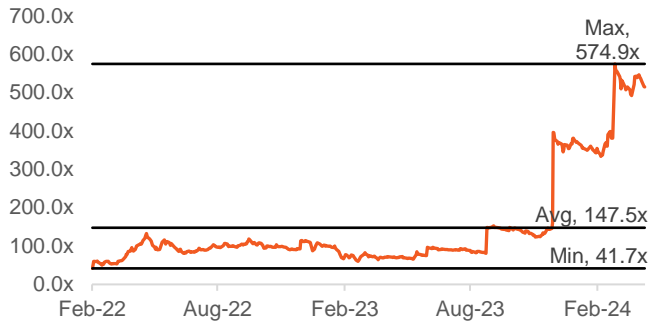
*For NEST, due to a change in its financial year from CY ending December to FY ending March, the 3-month period from Jan to Mar 2024 will be the 5th quarter of an extended financial year ended 31st March 2024.

Consumer Sector

Exhibit.1: Quarterly result expectation for companies under coverage

| Q4FY24E (INR Mn) | Outperform | Base | Underperform | Remarks |
|--|------------|--------|--------------|---|
| Tata Consumer Products (TATACONS) | | | | |
| Sales | 43,018 | 42,175 | 39,644 | <ul style="list-style-type: none"> We expect TATACONS' revenue to grow by 16.5% YoY/ 10.9% QoQ. |
| EBITDA | 6,712 | 6,412 | 5,829 | <ul style="list-style-type: none"> Revenue growth will be aided by strong performance in India foods & beverages, and international tea segments and the addition of the acquired business of Capital Foods. |
| Net Profit | 4,216 | 3,796 | 3,489 | <ul style="list-style-type: none"> EBITDA margin is likely to expand by 106 bps YoY/ 16 bps QoQ due to lower input costs, premiumization, pricing in international business and efficiencies. |
| EBITDA (%) | 15.6% | 15.2% | 14.7% | |
| NPM (%) | 9.8% | 9.0% | 8.8% | <ul style="list-style-type: none"> We expect Net Profit to grow by 41.3% YoY/ 36.1% QoQ. |
| Varun Beverages (VBL) (Q1CY24) | | | | |
| Revenue (net of excise) | 47,299 | 46,367 | 42,690 | <ul style="list-style-type: none"> We expect VBL to report revenue growth of 19.1% YoY supported by continued strong volume growth of 19.6% YoY. Revenue growth will be strong QoQ (+73.8%) due to seasonality. |
| EBITDA | 10,614 | 10,313 | 8,982 | |
| Net Profit | 6,211 | 5,995 | 4,880 | <ul style="list-style-type: none"> We expect EBITDA margins to expand by 174 bps YoY due to lower RM prices and efficiencies, and by +656 bps QoQ due to seasonality. |
| EBITDA Margin (%) | 22.4% | 22.2% | 21.0% | |
| NPM (%) | 13.1% | 12.9% | 11.4% | <ul style="list-style-type: none"> Margins may underperform our estimate, depending on the level of production scale-up in VBL's new plant in Maharashtra. |
| Volume (Mn unit cases) | 271 | 268 | 249 | |
| Realization per case (INR) | 178 | 176 | 174 | <ul style="list-style-type: none"> We expect Net Profit to grow by 39.7% YoY due to the strong operating performance and by 354.3% QoQ due to seasonality. |

Consumer Sector

Adani Wilmar 2-Yr PE (x)


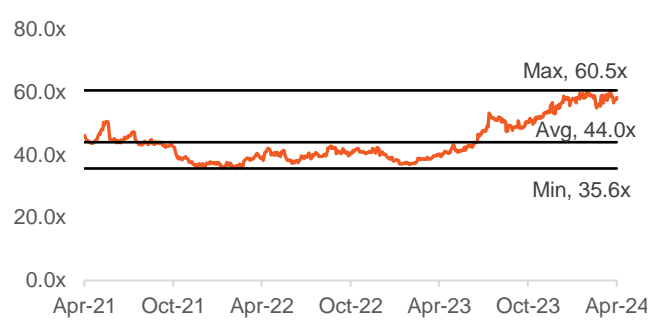
Source: Factset, DevenChoksey Research

Asian Paints 3-Yr PE (x)


Source: Factset, DevenChoksey Research

Britannia Industries 3-Yr PE (x)


Source: Factset, DevenChoksey Research

Colgate Palmolive (India) 3-Yr PE (x)


Source: Factset, DevenChoksey Research

Devyani International 3-Yr PE (x)


Source: Factset, DevenChoksey Research

Godrej Consumer Products 3-Yr PE (x)


Source: Factset, DevenChoksey Research

Hindustan Unilever 3-Yr PE (x)


Source: Factset, DevenChoksey Research

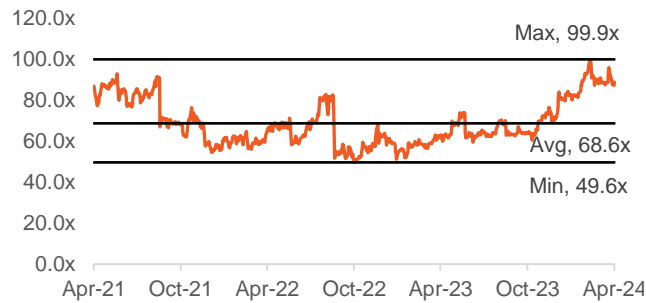
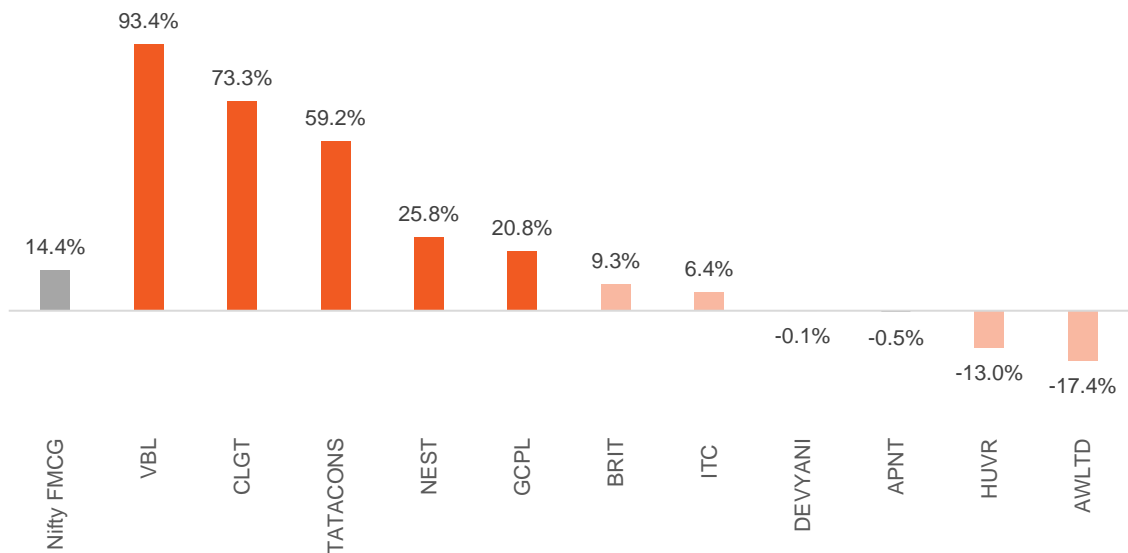
ITC 3-Yr PE (x)


Source: Factset, DevenChoksey Research

Consumer Sector

Nestle India 3-Yr PE (x)

Tata Consumer Products 3-Yr PE (x)

Varun Beverages 3-Yr PE (x)

Coverage stock returns & Nifty FMCG 1 Yr (%)


Consumer Sector

| Rating Legend (Expected over a 12-month period) | |
|---|----------------|
| Our Rating | Upside |
| Buy | More than 15% |
| Accumulate | 5% – 15% |
| Hold | 0 – 5% |
| Reduce | -5% – 0 |
| Sell | Less than – 5% |

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