

FMCG/Alco Bev & QSR

Challenging demand environment

- Demand environment continues to remain challenging:** FMCG demand sentiment has stayed consistent during the quarter, largely mirroring trends seen in Q3FY24. While urban markets continue to outgrow rural markets, price rollbacks on softening commodity inflation have aided the narrowing of the gap. Nonetheless, we expect a gradual recovery in CY2024, led by (1) moderating inflation; (2) government spending; (3) a positive outlook for rabi crop harvest; (4) conducive consumer pricing across categories; and (5) expectation of normal monsoon. Although international geographies are expected to report healthy CC growth, INR growth will be impacted on account of currency depreciation. Against this backdrop, we expect our FMCG coverage universe to deliver 3% YoY growth (8% five-year CAGR) in revenue in Q4FY24. Within QSR, sustained softness in consumption trends will keep key growth metrics (SSSG, ADS, etc.) under pressure. We expect our QSR coverage universe to report 16% YoY growth in revenues (primarily driven by store addition and KFC Thailand consolidation in Devyani). Radico is expected to deliver double-digit YoY growth.
- FMCG to report stable margin print; QSR margins to remain under pressure:** With softening commodity inflation, we expect gross margins to improve across our coverage universe. Within the FMCG universe, EBITDAM expansion will be limited given passing on RM benefits to consumers (price cuts and promotions), higher A&P spending and category-led investments. We expect our FMCG universe to deliver 5/7% YoY EBITDA growth. Within QSR, we expect pressure on RoM and EBITDAM will sustain, given the weakness in SSSG leading to negative op-lev. We expect our QSR universe to report a 14% YoY growth in EBITDA.
- Q4FY24 outliers: FMCG: Radico, Nestle; QSR: Sapphire**

- Our view:** We continue to expect a gradual recovery in FMCG demand vs the expectation of a quick rebound, more so in rural markets, as high inflation has dented the net income level of bottom-of-the-pyramid consumption. Moreover, we expect divergence between volume and value growth to normalise with volume growth back at its historical average of mid-single digit. Easing commodity inflation will help sustain gross margin expansion. With price cuts and higher consumer promotions, GM expansion will be slower in the coming quarters. Companies are also reinvesting some of these gains in product innovation, distribution expansion, and marketing spending, which shall limit operating margin expansion.

Within QSR, although we believe the industry has multi-year growth potential, given India's rising consumer base, eating-out frequency, quicker delivery and value-for-money proposition. However, given that high inflation is impacting consumer wallets, we have been highlighting that the slowdown is not transient and we expect a delayed recovery. Moreover, the pressure on the operating margin has been significant.

Please find included the [table](#) for changes in our coverage universe for estimates, target multiples, changes in target prices, and ratings. We roll forward our coverage universe TP to Mar'26. Our top picks in FMCG are Dabur, Marico and UNSP while we prefer Westlife in QSR.

Company	CMP (INR)	Reco.
FMCG/Alcobev		
HUL	2,195	REDUCE
ITC	426	ADD
Nestle	2,552	REDUCE
Britannia	4,764	REDUCE
Dabur	495	ADD
GCPL	1,177	ADD
Marico	509	ADD
UNSP	1,149	ADD
Colgate	2,672	REDUCE
Emami	452	REDUCE
Radico	1,723	REDUCE
QSR		
Jubilant	452	REDUCE
Devyani	158	REDUCE
Westlife	828	ADD
Sapphire	1,496	REDUCE

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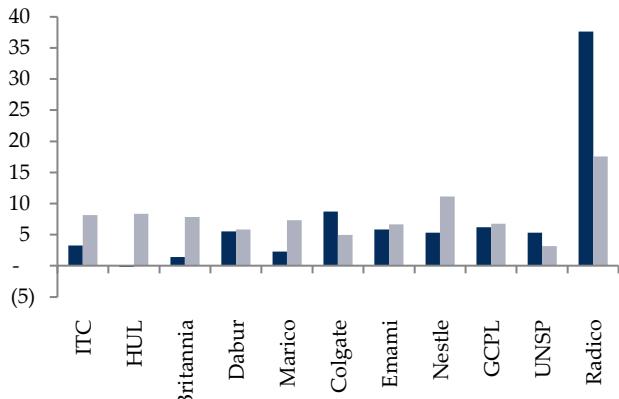
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Financial summary

Companies	NET SALES (INR bn)			EBITDA (INR bn)			EBITDA Margin (%)			APAT (INR bn)			Adj. EPS (INR/sh)		
	Q4 FY24E	QoQ (%)	YoY (%)	Q4 FY24E	QoQ (%)	YoY (%)	Q4 FY24E	QoQ (bps)	YoY (bps)	Q4 FY24E	QoQ (%)	YoY (%)	Q4 FY24E	Q3 FY24	Q4 FY23
FMCG/Alcobev															
ITC	180.8	2.4	3.3	63.6	5.6	2.4	35.2	105	(29)	50.5	(3.2)	0.3	4.0	4.2	4.0
HUL	148.7	(2.1)	(0.2)	34.7	(1.9)	0.0	23.3	4	4	24.4	(3.9)	(1.2)	10.4	10.8	10.5
Nestle	50.9	10.6	5.3	12.5	10.8	11.2	24.6	4	131	8.4	11.8	12.4	8.7	7.8	7.8
Britannia	40.8	(4.2)	1.4	7.9	(3.9)	(1.5)	19.3	5	(57)	5.5	(2.1)	(2.0)	22.7	23.2	23.1
UNSP	26.3	(12.1)	5.3	3.7	(25.0)	9.0	14.0	(241)	47	2.4	(31.2)	12.8	3.3	4.8	2.9
Dabur	28.3	(13.2)	5.5	4.4	(34.4)	6.8	15.5	(502)	19	3.4	(35.8)	6.8	1.9	3.0	1.8
GCPL	34.0	(7.1)	6.2	7.5	(17.4)	12.4	22.0	(273)	121	5.2	(11.0)	11.0	5.1	5.7	4.6
Marico	22.9	(5.4)	2.3	4.4	(14.6)	11.5	19.1	(206)	158	3.2	(15.9)	6.7	2.5	3.0	2.3
Colgate	14.7	5.2	8.7	5.0	6.5	10.4	34.0	41	51	3.5	4.9	9.1	12.7	12.1	11.7
Emami	8.8	(11.2)	5.9	2.1	(32.8)	5.9	23.9	(769)	1	1.8	(38.0)	18.8	4.0	6.5	3.3
Radico	11.4	(1.4)	37.6	1.4	(3.8)	74.1	12.0	(30)	252	0.7	(6.7)	85.0	5.2	5.6	2.8
Aggregates	567.5	(1.4)	3.4	147.1	(2.0)	4.0	25.9	(16)	15	108.9	(6.1)	2.6			
QSR															
Jubilant	13.1	(3.0)	5.0	2.6	(7.3)	3.9	19.9	(94)	(21)	0.4	(31.7)	(32.9)	0.6	0.9	0.9
Westlife	5.7	(5.4)	2.1	0.9	(10.0)	(6.0)	15.2	(79)	(131)	0.1	(51.8)	(58.6)	0.5	1.1	1.3
Devyani	11.0	30.4	45.6	2.1	44.2	39.4	19.2	184	(85)	0.3	581.6	(42.3)	0.3	0.0	0.5
Sapphire	6.6	(1.4)	17.1	1.2	(5.5)	17.2	17.5	(76)	2	0.0	(88.3)	(89.9)	0.2	1.5	1.8
Aggregates	36.4	5.0	16.5	6.7	4.3	13.6	18.5	(13)	(46)	0.9	(8.0)	(44.2)			

HSIE FMCG coverage universe - revenue growth

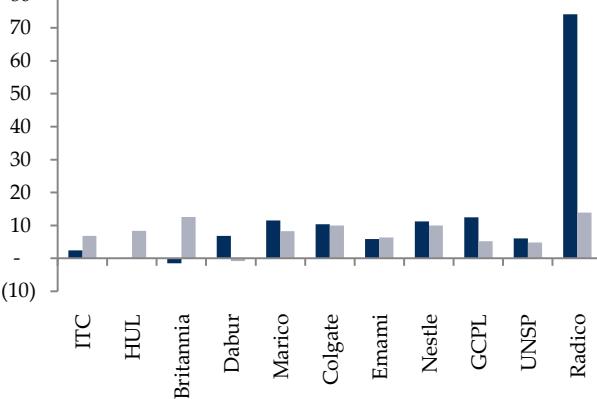
■ YoY Gr (%) ■ 5-Yr CAGR (%)



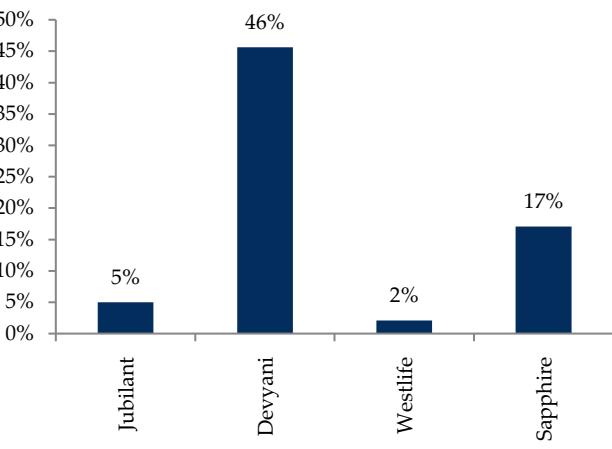
Source: Company, HSIE Research

HSIE FMCG coverage universe - EBITDA growth

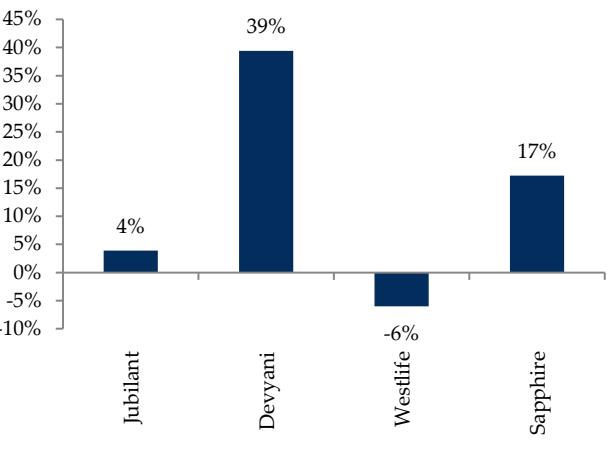
■ YoY Gr (%) ■ 5-Yr CAGR (%)



Source: Company, HSIE Research

HSIE QSR coverage universe - revenue growth


Source: Company, HSIE Research

HSIE QSR coverage universe – PBT margin


Source: Company, HSIE Research

FMCG & Alcovet

COMPANY	Q4FY24E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
ITC	AVG	<ul style="list-style-type: none"> <u>We model 3% YoY growth in cigarette revenue, with volume growth of 1% YoY (4% 5-year CAGR).</u> Hotels/Agri/Paper to grow by 9/flat/-4%. We model 7% YoY growth in FMCG. We expect cigarette EBIT to grow by 2% YoY. We model FMCG EBIT margin at 9.5% vs. 10.1% YoY. <u>EBITDA to increase by 2% YoY.</u> 	<ul style="list-style-type: none"> Cigarette volume and mix improvement New growth vectors in FMCG business Outlook on paper business Outlook on Agri, Hotel and Food tech businesses
HUL	AVG	<ul style="list-style-type: none"> We expect flat net revenue growth YoY with a volume growth of 2%. We model -1/-1/1% YoY growth for Home Care, BPC and Food business. GM is expected to see improvement/decline of ~170bps/ -100bps YoY/ QoQ. We model flat EBITDA growth YoY, EBITDA margin at 23%. 	<ul style="list-style-type: none"> Demand trends in rural Price action on moderation in inflation in Home care & Personal care Resurgence of small players Sustainability of cost-saving initiatives
Nestle India	AVG	<ul style="list-style-type: none"> <u>We model 5% YoY revenue growth. Five-year revenue CAGR at 9%.</u> We expect gross margins to improve by ~300bps YoY to 56.8% We model EBITDA growth of 11% YoY, EBITDA margin at 24.6%. 	<ul style="list-style-type: none"> Commentary on recovery in trade channels and rural demand New product pipeline Demand trends in packaged foods
Dabur	AVG	<ul style="list-style-type: none"> <u>Consolidated revenue is expected to grow 6% YoY. We model 10% YoY growth in domestic revenue with 8% YoY volume growth.</u> Hair care/Oral care /Healthcare/Home care/Foods are expected to grow by 4/9/1/5/2% YoY. Including Badshah Masala, Foods growth to be at 25% We expect international business to grow by 6% YoY. We model GM expansion of ~160bps YoY to 47%. EBITDA margin to expand by 20bps/-500bps YoY/QoQ to 15.5%. <u>EBITDA to grow by 7% YoY.</u> 	<ul style="list-style-type: none"> Commentary on rural growth and wholesale channels Change in consumer preferences towards ayurvedic/naturals Growth in healthcare portfolio New launches strategy
Britannia	AVG	<ul style="list-style-type: none"> <u>We model 3% YoY revenue growth with volume growth of 6% YoY (five-year CAGR at ~4%).</u> We model decline of ~80bps YoY in GM to 44.1%. EBITDA margin to decline by ~60bps to 19.3%. <u>EBITDA to fall by 1.5% YoY.</u> 	<ul style="list-style-type: none"> Commentary on downtrading trends Commentary on new launches Distribution expansion in rural markets
Godrej Consumer Products	AVG	<ul style="list-style-type: none"> <u>We expect consolidated revenue to be 6% YoY. Domestic revenue is expected to grow by 12% YoY (volume growth of 10%).</u> International business is expected to decline by 2% YoY on account of currency depreciation. Consolidated GM is expected to expand by ~300bps YoY to 56.1%. EBITDA margin is expected to expand by ~120bps YoY to 22%. <u>EBITDA is expected to grow by 12% YoY.</u> 	<ul style="list-style-type: none"> New launches Marketing initiatives RCCL integration Commentary on incense sticks and liquid detergent

COMPANY	Q4FY24E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Marico	AVG	<ul style="list-style-type: none"> ■ <u>We model 1% YoY growth in domestic revenues</u>, with ~1% domestic volume growth YoY. Five-year volume CAGR at 5%. ■ We model flat PCNO revenue growth YoY while volumes to grow 2% YoY. Saffola revenue to decline by 11% YoY while volumes to grow 4%. VAHO is expected to decline by 2% value growth (flat volumes). ■ We model 5% YoY growth in International revenue. ■ We model GM expansion of ~160bps YoY to 49%. ■ EBITDA margin to expand by ~160bps YoY to 19.1%. <u>EBITDA to grow by 11% YoY.</u> 	<ul style="list-style-type: none"> ■ Commentary on copra prices ■ PCNO pricing strategy amidst firming up of copra price and revival in loose to branded conversion ■ Updates on Saffola growth ■ Measures taken to re-ignite GT distribution channel ■ NPD pipeline ■ Improvement in International business
United Spirits	AVG	<ul style="list-style-type: none"> ■ We model 5% YoY revenue growth led by 3/6% volume/value growth in P&A. ■ Gross margin to decline by ~340bps YoY to 42%. ■ We model EBITDA margin of 14%, leading to EBITDA growth of 9% YoY. 	<ul style="list-style-type: none"> ■ Demand trends ■ Competitive intensity ■ A&P strategy ■ Commodity inflation outlook ■ Commentary on on-premises consumption in the medium term
Colgate	AVG	<ul style="list-style-type: none"> ■ <u>We model 8% revenue growth led by 3% YoY volume growth.</u> ■ We model GM to expand by ~370bps YoY to 70.6% ■ We expect EBITDA margin to expand by ~50bps YoY to 34%. <u>EBITDA to grow by 10% YoY.</u> 	<ul style="list-style-type: none"> ■ Toothpaste volume growth and market share change ■ Feedback on recent launches ■ ASP spends, especially with increased competition from Dabur
Emami	AVG	<ul style="list-style-type: none"> ■ <u>Consolidated revenue is expected to grow by 6% YoY.</u> ■ GM to expand by ~240bps YoY to 66%. We expect operating margin to remain flat YoY at 23.9%. We expect EBITDA to grow 6% YoY. 	<ul style="list-style-type: none"> ■ Winter portfolio performance ■ Kesh King & Helios growth outlook ■ Commentary on new launches ■ Distribution strategy ■ Commentary on international business
Radico Khaitan	STRONG	<ul style="list-style-type: none"> ■ <u>We model 38% YoY revenue growth led by 21/137% YoY growth in P&A/Non-IMFL.</u> Regular portfolio revenue to fall by 8%. ■ We expect IMFL volumes to grow by 1% YoY (+17% P&A and -13% Regular), five-year CAGR at 7% (P&A +17%) ■ Gross margin to expand by ~150bps YoY to 42%. ■ EBITDA margin is expected to expand by ~250bps YoY to 12%. <u>EBITDA is expected to grow by 74% YoY.</u> 	<ul style="list-style-type: none"> ■ Industry demand trends ■ Commentary on P&A outlook ■ Competitive intensity, pricing strategy ■ Commodity inflation outlook

QSR

COMPANY	Q4FY24E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Jubilant FoodWorks	WEAK	<ul style="list-style-type: none"> With sustained weakness in demand for QSR, we expect SSSG to decline 3.5% for Jubilant. We model 5% revenue growth with LFL SSSG -1.3% (five-year CAGR at 1%). We model GM of 77.7%, up ~250bps YoY. EBITDA margin is expected to fall ~20bps YoY to 19.9%. EBITDA is expected to grow by 4% YoY. 	<ul style="list-style-type: none"> Commentary on overall demand trends Commentary on demand for delivery/ dine-in Outlook on demand/ store addition in FY25 Competitive intensity, pricing strategy Outlook on sustainable SSG
Westlife	WEAK	<ul style="list-style-type: none"> We expect Westlife to report SSSG to decline by 5% YoY (five-year CAGR of 6%). We model 2% YoY revenue growth. We expect GM to decline 140bps YoY at 70.5%. EBITDA margin is expected to fall 130bps YoY to 15.2%. EBITDA is expected to fall by 6% YoY 	<ul style="list-style-type: none"> Commentary on demand for takeaway ordering/ dine-in Outlook on demand/ store addition in FY25 Competitive intensity, pricing strategy Outlook on sustainable SSG
Devyani	WEAK	<ul style="list-style-type: none"> We expect KFC to report 17% YoY growth in revenues aided by store openings. SSSG is likely to decline by 3% YoY. PH is expected to report 5% fall in revenues with weak SSSG of -10%. We model consolidated revenue to grow by 46% YoY on KFC Thailand consolidation. We expect GM to decline by 40bps YoY to 69.2%. EBITDA margin is expected to fall ~80bps YoY to 19%. EBITDA is expected to grow by 39% YoY. 	<ul style="list-style-type: none"> Outlook on demand/ store addition in FY25 for KFC/PH Commentary on demand for takeaway ordering/ dine-in Competitive intensity, pricing strategy Outlook on sustainable SSG
Sapphire	WEAK	<ul style="list-style-type: none"> We expect KFC to report 18% YoY growth in revenues aided by store openings. SSSG is likely to be flat YoY. PH is expected to report 2% growth in revenues with SSSG of -12%. We model consolidated revenue to grow by 17% YoY We expect GM to expand by ~70bps YoY to 68.6%. EBITDA margin is expected to flat YoY at 18%. EBITDA is expected to grow by 17% YoY. 	<ul style="list-style-type: none"> Outlook on demand/ store addition in FY25 for KFC/PH Commentary on demand for takeaway ordering/ dine-in Competitive intensity, pricing strategy Outlook on sustainable SSG

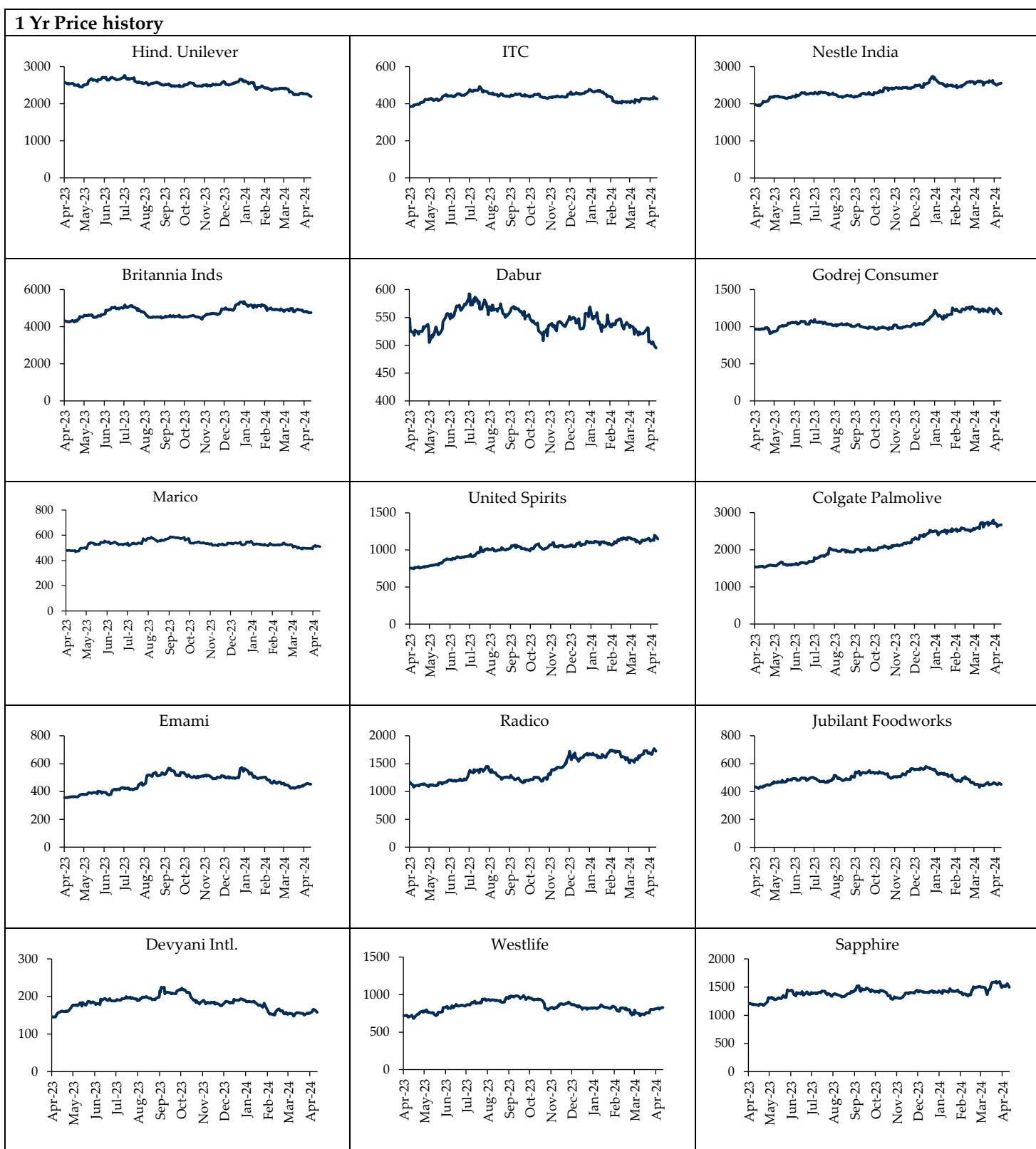
Valuation summary

Companies	MCa				EPS (INR)				P/E (x)				EV/EBITDA (x)				Core RoCE (%)			
	p (INR bn)	CMP (INR)	Reco.	TP (INR)	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
FMCG/Alcobev																				
HUL	5,158	2,195	REDUCE	2,550	41.4	43.5	48.8	54.0	53.1	50.4	45.0	40.7	35.9	34.4	30.8	27.9	20.5	20.3	22.2	24.4
ITC	5,294	426	ADD	460	15.7	16.2	17.6	19.2	27.2	26.4	24.3	22.2	19.3	18.9	17.1	15.6	52.3	53.2	58.4	62.4
Nestle	2,461	2,552	REDUCE	2,100	25.1	40.4	36.3	40.4	101.5	63.1	70.3	63.1	64.1	42.0	46.8	41.3	52.0	73.5	52.9	52.5
Britannia	1,148	4,764	REDUCE	4,700	84.5	88.9	99.6	113.0	56.4	53.6	47.8	42.2	40.4	35.8	32.6	29.2	36.8	35.2	38.3	39.0
Dabur	877	495	ADD	630	9.8	10.8	12.5	14.0	50.7	46.0	39.7	35.3	38.3	34.8	29.5	26.0	46.5	43.2	51.3	59.7
GCPL	1,204	1,177	ADD	1,150	17.1	19.1	24.0	27.2	68.9	61.5	49.0	43.3	49.9	48.0	38.9	33.3	16.9	17.0	17.1	18.8
Marico	657	509	ADD	650	10.1	11.5	12.8	14.5	50.4	44.2	39.8	35.2	36.3	32.5	29.1	26.1	53.1	59.5	65.8	73.8
UNSP	835	1,149	ADD	1,125	12.7	15.7	19.2	22.0	90.4	73.3	59.7	52.2	58.1	47.6	39.6	34.4	19.1	22.7	25.5	26.8
Colgate	727	2,672	REDUCE	2,200	38.5	47.4	51.6	55.2	69.4	56.3	51.8	48.4	46.4	38.3	35.3	32.8	105.1	140.5	149.6	165.2
Emami	199	452	REDUCE	520	15.4	18.6	19.5	20.8	29.3	24.3	23.1	21.7	22.9	20.5	18.8	17.3	33.3	43.9	46.7	50.4
Radico	229	1,723	REDUCE	1,100	15.3	20.0	28.9	35.3	112.7	86.0	59.5	48.8	65.5	45.5	34.3	28.5	8.5	9.9	12.5	14.5
OSR																				
Jubilant	298	452	REDUCE	475	5.9	4.1	6.6	8.7	76.8	109.1	68.1	52.0	35.2	38.2	29.8	23.9	16.4	11.9	15.5	18.7
Devyani	193	158	REDUCE	125	2.3	1.1	1.6	2.5	69.6	142.8	100.2	63.5	44.3	49.2	27.9	21.2	19.3	10.3	11.5	14.2
Westlife	130	828	ADD	825	7.2	4.9	9.8	14.8	116.3	169.1	85.1	56.3	43.3	44.9	34.0	26.5	12.5	9.2	12.5	15.4
Sapphire	95	1,496	REDUCE	1100	16.7	8.0	15.2	22.9	89.7	185.9	98.1	65.1	35.2	32.8	24.9	19.5	9.3	5.3	7.4	9.2

CMP as on 15 April 2024

Estimate, Target Multiple, TP, and Rating change

Company	CMP	Rating		TP (INR)		Target P/E (x)		Old EPS		New EPS		Est Chg (%)	
		Old	New	Old	New	Old	New	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
FMCG/Alcobev													
HUL	2,195	REDUCE	REDUCE	2,550	2,550	47	47	49.2	54.1	48.8	54.0	(0.8)	(0.2)
ITC	426	ADD	ADD	460	460	24	24	17.6	19.2	17.6	19.2	(0.0)	(0.0)
Nestle	2,552	REDUCE	REDUCE	2,100	2,100	52	52	36.4	40.9	36.3	40.4	(0.3)	(1.0)
Britannia	4,764	REDUCE	REDUCE	4,700	4,700	42	42	100.2	114.1	99.6	113.0	(0.6)	(1.0)
Dabur	495	ADD	ADD	650	630	45	45	12.9	14.3	12.5	14.0	(3.6)	(2.2)
GCPL	1,177	ADD	ADD	1,100	1,150	42	42	23.9	27.0	24.0	27.2	0.8	0.7
Marico	509	ADD	ADD	650	650	45	45	13.1	14.8	12.8	14.5	(2.2)	(2.2)
UNSP	1,149	ADD	ADD	1,100	1,125	47	47	19.2	22.0	19.2	22.0	0.0	0.0
Colgate	2,672	REDUCE	REDUCE	2,100	2,200	40	40	50.2	53.7	51.6	55.2	2.8	2.8
Emami	452	REDUCE	REDUCE	520	520	25	25	20.2	21.6	19.5	20.8	(3.2)	(3.5)
Radico	1,723	REDUCE	REDUCE	1,100	1,100	30	30	29.5	35.8	28.9	35.3	(2.0)	(1.5)
OSR													
Jubilant	452	REDUCE	REDUCE	500	475	55	55	7.3	9.4	6.6	8.7	(9.3)	(7.5)
Devyani	158	REDUCE	REDUCE	120	125	50	50	1.7	2.6	1.6	2.5	(3.2)	(2.3)
Westlife	828	ADD	ADD	800	825	55	55	10.5	15.8	9.8	14.8	(6.8)	(6.3)
Sapphire	1,496	REDUCE	REDUCE	1100	1,100	50	50	15.9	23.3	15.2	22.9	(4.3)	(1.7)


Rating Criteria

BUY:	>+15% return potential
ADD:	+5% to +15% return potential
REDUCE:	-10% to +5% return potential
SELL:	> 10% Downside return potential

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