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Institutional Equities

Consumer Sector - FMCG

4QFY25 Result Preview

April 11, 2025

Weakness in demand environment continues

Key Points

- Early commentaries from some FMCG players like Marico, Dabur and Godrej Consumer Products and our interactions with the management of other Consumer Staple companies suggest that the overall demand environment continues to be sluggish amid inflationary pressures across the commodity price basket and slow growth rates in urban India.
- 4QFY25 is likely to witness the effect of YoY gross margin contraction for several FMCG companies due to elevated RM prices. This, along with rising ad spends, means that cumulative EBITDA margin is likely to decrease by 200bps YoY, with decline in absolute EBITDA for the coverage universe. Commodity cost outlook is significantly elevated for some companies as highlighted in our commodity cost note released recently, with prices of RMs such as Palm Fatty Acid Distillate (PFAD), Tea and Coffee not showing signs of retreat on a YoY basis.
- We are expecting our FMCG coverage universe to clock mid single digit revenue growth of 6% YoY.
- We had upgraded PGHH in our last quarter preview note to Buy after a steep stock price fall from the peak made valuations more reasonable in a structurally attractive investment case. In 2QFY25 results, the company reported strong topline growth at ~10% YoY with 5-year sales CAGR resuming close to ~8%.
- In case of GILL, sharp share price correction of ~19% since Jan'2025, has meant that valuations have become more reasonable with the stock trading at ~53x in line with the 5 year average multiple resulting in a change in recommendation from Hold to Buy.
- For ITC, while Cigarettes business EBIT continues to be under pressure due to the absence of price hikes, valuation has come off by ~14% from the peak. We upgrade our recommendation from Hold to Buy.

Sluggish demand environment: Early commentaries from some FMCG players like Marico, Dabur and Godrej Consumer Products and our interactions with the management of other Consumer Staple companies suggest that the overall demand environment remains subdued. While improving consumption trends are sustaining in rural as it continues to outpace urban, weak urban demand persists leading to a drag on overall volume growth. GCPL indicated that in terms of categories, Personal Care continues to face a price-volume rebalancing due to high inflation in palm and related derivatives. The effect of delayed and truncated winters and urban slowdown is likely to impact Dabur's Health Care portfolio in 4QFY25.

Expect mid single digit revenue growth: We are expecting our FMCG coverage universe to clock revenue growth of 6% YoY on account of price increases to combat material cost inflation and no material improvement in volume growth. We project gross margin for most of our coverage FMCG companies to witness a decline on YoY basis on the back of significant increase in commodity costs even as moderate pricing actions remain underway. As highlighted in our recently released commodity cost note, commodity prices continue to increase YoY in key commodities like Palm Fatty Acid Distillate (PFAD), Tea (India WPI) and Coffee (India WPI) by ~45%, ~26% and ~64% respectively in 4QFY25. For the overall FMCG coverage, we expect EBITDA margin to witness a decrease by 150bps YoY led by commodity cost inflation, limiting effect of price hikes and continued strategic investments by companies on brand building and A&P. For the coverage universe, both Absolute EBITDA and APAT are estimated to decrease by ~2% YoY.

Company (Rsmn)	Revenue			EBITDA			EBITDA margin (%)			PAT		
	4QFY25E	YoY(%)	QoQ(%)	4QFY25E	YoY(%)	QoQ(%)	4QFY25E	4QFY24	3QFY25	4QFY25E	YoY(%)	QoQ(%)
Britannia	45,000	10.6	-2.0	7,309	-7.2	-13.5	16.2	19.4	18.4	5,119	-4.9	-12.0
Colgate-Palmolive	15,866	6.5	8.5	5,488	3.1	20.8	34.6	35.7	31.1	3,978	4.7	23.2
Dabur India	28,397	0.9	-15.4	4,251	-8.9	-37.7	15.0	16.6	20.3	3,002	-14.1	-42.5
Emami	9,492	6.5	-9.6	2,174	3.0	-35.8	22.9	23.7	32.3	1,862	8.2	-38.4
Gillette India **	7,291	7.1	6.4	1,823	13.7	-0.2	25.0	23.6	26.7	1,234	24.5	-2.0
Hindustan Unilever	1,53,489	3.3	-0.4	35,415	3.1	-0.8	23.1	23.1	23.2	25,968	8.4	2.2
ITC	1,77,182	6.9	3.9	60,028	-2.6	3.0	33.9	37.2	34.2	48,171	-4.1	-1.6
Marico	26,888	18.0	-3.8	4,589	3.8	-13.9	17.1	19.4	19.1	3,339	5.0	-16.3
Nestle India **	51,270	-2.7	7.3	11,569	-13.6	4.9	22.6	25.4	23.1	7,388	-19.4	3.5
Tata Consumer	44,494	13.3	0.1	6,004	-4.6	6.3	13.5	16.0	12.7	2,973	-21.4	4.9
PGHH**	10,874	8.5	-12.8	2,847	10.6	-23.2	26.2	25.7	29.7	2,079	23.1	-22.6
GCPL	36,578	8.0	-2.9	7,225	-5.0	-4.4	19.8	22.5	20.1	4,601	-4.6	-8.4
Coverage universe	**6,06,822**	**6.0**	**0.1**	**1,48,721**	**-2.0**	**-2.3**	**24.5**	**26.5**	**25.1**	**1,09,713**	**-2.2**	**-4.2**

*Source: Company; Nirmal Bang Institutional Equities Research; **3QFY25 for Gillette India, PGHH.*

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<u>What to watch out for in 4QFY25?</u> We await a recovery in volume growth in the consumer staples segment as the pickup in rural demand continues to outpace the slow revival in urban. **<u>Our Preference:</u>** In the Consumer Staples space, we remain positive on GILL and PGHH.

Key monitorables: (1) Outlook on pricing growth (2) Moderation in inflation on key commodities, especially food (3) Any impact of increased government spending that could aid rural demand (4) Effect of a potentially strong summer season

Exhibit 1: Modest volume growth likely

Vol./SSG growth (%)	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25E	v. 4Q19#
Britannia (Base business)	2.0	0.0	0.0	5.5	6.0	8.0	8.0	6.0	7.0	*4.1*
Colgate (Toothpaste)*	-2.0	6.0	1.0	4.0	5.0	8.0	8.0	4.0	6.0	*1.4*
Dabur (Domestic FMCG)	0.0	3.0	3.0	6.0	4.2	5.2	-8.0	1.2	-1.0	*2.6*
Emami (Domestic)	2.0	3.0	2.0	-0.9	6.0	8.7	1.7	6.0	5.5	*3.8*
HUL (Domestic)*2	4.0	3.0	2.0	2.0	2.0	4.0	3.0	0.0	2.0	*2.7*
ITC (Cigarette)*	12.0	8.0	4.0	-2.0	2.0	2.5	3.0	5.5	3.0	*3.2*
Marico (Domestic)	5.0	3.0	3.0	2.0	3.0	4.0	5.0	6.0	8.0	*5.8*
Nestle (Domestic)	5.1	5.1	-5.4	4.8	4.1	1.0	-1.5	3.0	-4.0	*6.5*
TCPL (India Beverages)	3.0	3.0	3.0	2.0	0.0	0.0	-4.0	7.0	5.0	*6.5*
TCPL (India Foods)	8.0	6.0	6.0	5.0	5.0	10.0	1.0	1.0	3.0	*6.1*
Godrej Consumer Products (Domestic)	11.0	12.0	11.0	12.0	15.0	8.0	7.0	0.0	6.0	*6.3*

Source: Company; Nirmal Bang Institutional Equities Research

**Our estimates; *2 HUL standalone domestic volume excluding Nutrition; # 6-yr CAGR basis (Indexed to 4QFY19)*

BRIT: In 4QFY25, we expect BRIT's topline to grow by 10.6% YoY as we estimate the base business volume to grow in high single-digits (6-yr CAGR: 4.1%) along with continued effect of higher realisations. Gross margin is likely to decrease by 510bps YoY (up 110bps QoQ) due to elevated wheat and palm oil prices. EBITDA margin is expected to decline by 310bps YoY to 16.2% (down 220bps QoQ), led by the flow through effect of GM contraction. Both EBITDA and APAT are expected to decrease by ~7% YoY and ~5% YoY, respectively.

CLGT: We estimate CLGT to deliver revenue growth of 6.5% YoY on the back of mid single-digit (6-yr CAGR: 1.4%) Toothpaste volume growth and the effect of marginal realisations. Gross margin is likely to be flat YoY (down 80bps QoQ). We expect operating margin to contract by 110bps YoY (up 350bps QoQ) to 34.6% due to continued investments in A&P. Absolute EBITDA and APAT are estimated to increase by ~3% YoY and ~4.7% YoY, respectively.

DABUR: We expect Dabur to post flattish revenue growth of ~1% YoY on the back of low single digit decline in domestic FMCG volume YoY (6-yr CAGR: 2.6%). As per the company, while general trade continued to be under pressure, modern trade, e-commerce and quick commerce maintained their growth momentum. Within the India Foods business, 'Homemade' and 'Badshah' are expected to post double digit growth. However, the overall India FMCG business is likely to decline in mid single digits due to delayed and truncated winters and urban slowdown. Gross margin is likely to be down 70bps YoY. EBITDA margin at 15% is likely to drop by 160bps on a YoY basis and significantly decrease by 540bps QoQ due to inflationary pressures and operating deleverage. Absolute EBITDA and APAT are expected to decrease by ~9% YoY and ~14% YoY, respectively.

EMAMI: We expect the company to post overall revenue growth of 6.5% YoY on the back of mid single-digit growth in domestic volumes (6-yr CAGR: 3.8%) and the effect of pricing actions. Gross margin is estimated to be up 30bps YoY (down 430bps QoQ) due to flat to slightly high mentha costs. Operating margin is likely to decline by 80bps YoY (down 940bps QoQ) to 22.9%. EBITDA is expected to increase by ~3% YoY and APAT (before amortization) is expected to increase by 8.2% YoY.

GILL: We expect GILL to post revenue growth of 7.1% YoY in 3QFY25 (June-ending fiscal year) on an elevated base. While gross margin is expected to increase by 460bps on YoY basis, it is likely to decrease marginally by 70bps on QoQ basis. EBITDA margin is expected to rise by 140bps on YoY basis (down 170bps QoQ) to 25%. Absolute EBITDA and APAT are estimated to increase by ~13.7% YoY and ~24.5% YoY, respectively.

HUL: We estimate HUL will deliver revenue growth (including the Nutrition business) of ~3.3% YoY aided by volume growth of 2% YoY (6-yr CAGR: 2.7%) and continued realization growth. We estimate gross margin to contract by 120bps YoY (flat QoQ) on account of a slight uptick in Net Material Inflation (NMI). The decline in gross margin expansion with higher expenses, is likely to lead to flat EBITDA margin on a YoY basis (flat QoQ) to 23.1%. Absolute EBITDA and APAT are estimated to increase by 3.1% YoY and 8.4% YoY, respectively.

ITC: We expect ITC's overall topline growth to be ~7% YoY on the back of broad based growth across segments led by Agri, FMCG-Others and Cigarettes business. Cigarette sales are likely to grow by 5.5% YoY with volume growth expected to be in low-single digits YoY. Volume growth for the Cigarettes business on a 6-yr CAGR basis is likely to remain moderate at 3.2% YoY. We expect the growth momentum in Agri business to continue on a low base. The FMCG-Others business is expected to grow by 7% YoY. Paperboards, Paper & Packaging business is likely to increase by 3% YoY. We expect EBITDA margin to decline by 330bps to 33.9% (down 30bps QoQ). Both EBITDA and APAT (before amortization) are expected to decrease by ~3% YoY and ~4% YoY, respectively.

MRCO: We expect MRCO's consolidated revenue to increase by 18% YoY, led by incremental pricing growth and high single-digit volume growth in the Domestic business (6-yr CAGR: 5.8%) aided by improving market shares across key franchises. Gross margin is expected to contract by 180bps YoY (up 30bps QoQ) due to firm prices of copra and vegetable oil at peak levels and range-bound crude oil derivatives. We expect EBITDA margin to decrease by 230bps YoY (down 200bps QoQ) to 17.1% due to the flow through effect of GM and sustained investments in brand building initiatives. EBITDA is likely to grow by 3.8% YoY and APAT is likely to increase by 5% YoY.

NEST: We estimate NEST to post a topline decline of 2.7% YoY on account of 4% likely decline in volume (6-yr CAGR: 6.5%) in 4QFY25 and supported by modest price hikes. Gross margin is likely to decrease by 140bps YoY (down 100bps QoQ) due to a sharp uptick in tea and coffee prices. We expect EBITDA margin to contract by 280bps YoY (down 50bps QoQ) to 22.6%. We estimate both EBITDA and APAT to decrease by ~13.6% YoY and ~19.4% YoY, respectively.

TCPL: TCPL is estimated to clock ~13.3% YoY revenue growth (as we also account for acquisitions of Capital Foods and Organic India). TCPL continues expansion of Capital Foods and Organic India into white spaces in the Food Services channel, major modern trade banners and pharmacy chains, respectively as it eyes improvement in run rate of these acquisitions. While we expect volume growth to be in low single-digits for the India Foods business (slightly higher than the previous quarter), the India Beverages business is projected to grow in mid single-digits (slightly lower than the previous quarter but improving over the base quarter) (6yr CAGR of India Foods business at 6.1% and India Beverages business at 6.5%). Gross margin is likely to decrease by 410bps YoY (up 100bps QoQ). EBITDA margin is estimated to come in at 13.5%, down 250bps YoY but up 80bps QoQ. We project absolute EBITDA to decrease by ~4.6% YoY and absolute APAT to decrease significantly by ~21.4% YoY.

PGHH: We expect PGHH to post a moderate revenue growth of 8.5% YoY in 3QFY25 (June-ending fiscal year) on a high base. While GM is likely to decrease by 330bps YoY, EBITDA margin at 26.2% is likely to increase only marginally by 50bps YoY (down 350bps QoQ) due to the effect of lower GM and higher operating expenses. Absolute EBITDA and APAT are expected to increase by 10.6% and 23.1%, respectively.

GCPL: We estimate GCPL to post high-single digit revenue growth of 8% YoY in 3QFY25. The volume growth for the India business is estimated to be in mid-single digits (6yr CAGR: 6.3%). The company mentioned in its 4QFY25 commentary of high single digits revenue growth in the standalone business driven by a mid-teens underlying volume growth in Home Care and mid-single digit decline in Personal Care as Personal Care continues to go through a price-volume rebalancing on account of rising input costs. EBITDA margins in the India business are likely to be in a similar range to 3QFY25 despite high inflation in palm and related derivates. On a consolidated basis, EBITDA margin is likely to decrease by 270bps YoY to 19.8%. Absolute EBITDA is expected to decrease by ~5% YoY and APAT is estimated to de-grow by ~4.6% YoY.

Changes in estimates

Exhibit 2: Estimates slightly increased for BRIT on the back of realization improvement

Y/E March	Earlier Estimates			New Estimates			*Change (%)*		
(Rsmn)	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	*FY25E*	*FY26E*	*FY27E*
Net Sales	1,78,813	1,97,006	2,19,827	1,80,105	1,98,390	2,21,323	*0.7*	*0.7*	*0.7*
EBITDA	30,904	33,581	38,560	31,128	33,815	38,816	*0.7*	*0.7*	*0.7*
EBITDA margin (%)	*17.3*	*17.0*	*17.5*	*17.3*	*17.0*	*17.5*	*0.0*	*0.0*	*0.0*
Adj PAT	21,324	23,475	27,290	21,493	23,653	27,485	*0.8*	*0.8*	*0.7*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Marginal cut in estimates for CLGT

Y/E March	Earlier Estimates			New Estimates			*Change (%)*		
(Rsmn)	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	*FY25E*	*FY26E*	*FY27E*
Net Sales	61,900	66,914	72,436	61,643	66,636	72,135	*-0.4*	*-0.4*	*-0.4*
EBITDA	20,192	21,802	23,697	20,088	21,691	23,570	*-0.5*	*-0.5*	*-0.5*
EBITDA margin (%)	*32.6*	*32.6*	*32.7*	*32.6*	*32.6*	*32.7*	*0.0*	*0.0*	*0.0*
Adj PAT	14,873	15,684	17,023	14,796	15,600	16,928	*-0.5*	*-0.5*	*-0.6*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Moderation in expectations for DABUR as pressure in primary sales along with continued A&P investments remain monitorable

Y/E March	Earlier Estimates			New Estimates			*Change (%)*		
(Rsmn)	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	*FY25E*	*FY26E*	*FY27E*
Net Sales	1,27,176	1,42,321	1,56,864	1,25,726	1,40,743	1,55,190	*-1.1*	*-1.1*	*-1.1*
EBITDA	23,668	27,034	30,279	23,146	26,275	29,478	*-2.2*	*-2.8*	*-2.6*
EBITDA margin (%)	*18.6*	*19.0*	*19.3*	*18.4*	*18.7*	*19.0*	*-0.2*	*-0.3*	*-0.3*
Adj PAT	17,879	20,456	23,077	17,477	19,868	22,449	*-2.2*	*-2.9*	*-2.7*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Slight Improvement in HMN estimates

Y/E March	Earlier Estimates			New Estimates			*Change (%)*		
(Rsmn)	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	*FY25E*	*FY26E*	*FY27E*
Net Sales	37,872	39,061	41,141	37,954	39,768	41,894	*0.2*	*1.8*	*1.8*
EBITDA	10,398	10,984	11,555	10,231	11,283	11,843	*-1.6*	*2.7*	*2.5*
EBITDA margin (%)	*27.5*	*28.1*	*28.1*	*27.0*	*28.4*	*28.3*	*-0.5*	*0.3*	*0.2*
Adj PAT	9,110	9,351	9,216	8,959	9,626	9,463	*-1.7*	*2.9*	*2.7*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Estimates moderated for HUVR as volume growth likely to be under pressure

Y/E March	Earlier Estimates			New Estimates			*Change (%)*		
(Rsmn)	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	*FY25E*	*FY26E*	*FY27E*
Net Sales	6,20,419	6,85,367	7,33,619	6,16,039	6,80,593	7,28,511	*-0.7*	*-0.7*	*-0.7*
EBITDA	1,44,654	1,58,683	1,71,634	1,43,645	1,58,032	1,71,027	*-0.7*	*-0.4*	*-0.4*
EBITDA margin (%)	*23.3*	*23.2*	*23.4*	*23.3*	*23.2*	*23.5*	*0.0*	*0.1*	*0.1*
Adj PAT	1,04,268	1,13,246	1,22,034	1,03,028	1,12,574	1,21,228	*-1.2*	*-0.6*	*-0.7*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Slight decrease in ITC estimates

Y/E March	Earlier Estimates			New Estimates			*Change (%)*		
(Rsmn)	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	*FY25E*	*FY26E*	*FY27E*
Net Sales	6,99,717	7,72,561	8,47,215	6,97,935	7,70,623	8,45,147	*-0.3*	*-0.3*	*-0.2*
EBITDA	2,43,928	2,66,260	2,93,275	2,40,412	2,64,713	2,91,631	*-1.4*	*-0.6*	*-0.6*
EBITDA margin (%)	*34.9*	*34.5*	*34.6*	*34.4*	*34.4*	*34.5*	*-0.4*	*-0.1*	*-0.1*
Adj PAT	1,99,542	2,15,105	2,36,167	1,95,062	2,13,947	2,34,937	*-2.2*	*-0.5*	*-0.5*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: MRCO estimates improved mainly aided by price hikes and gradual uptick in volume growth

Y/E March	Earlier Estimates			New Estimates			*Change (%)*		
(Rsmn)	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	*FY25E*	*FY26E*	*FY27E*
Net Sales	1,07,214	1,19,870	1,32,261	1,07,898	1,20,628	1,33,091	*0.6*	*0.6*	*0.6*
EBITDA	21,551	24,303	27,460	21,399	24,749	28,290	*-0.7*	*1.8*	*3.0*
EBITDA margin (%)	*20.1*	*20.3*	*20.8*	*19.8*	*20.5*	*21.3*	*-0.3*	*0.2*	*0.5*
Adj PAT	16,325	17,230	19,517	16,199	17,561	20,157	*-0.8*	*1.9*	*3.3*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Marginal moderation in estimates for NEST

Y/E March	Earlier Estimates			New Estimates			*Change (%)*		
(Rsmn)	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	*FY25E*	*FY26E*	*FY27E*
Net Sales	1,99,756	2,29,648	2,57,647	1,98,247	2,27,811	2,55,469	*-0.8*	*-0.8*	*-0.8*
EBITDA	45,994	55,104	62,054	45,296	54,232	60,998	*-1.5*	*-1.6*	*-1.7*
EBITDA margin (%)	*23.0*	*24.0*	*24.1*	*22.8*	*23.8*	*23.9*	*-0.2*	*-0.2*	*-0.2*
Adj PAT	30,085	35,890	40,059	29,564	35,238	39,269	*-1.7*	*-1.8*	*-2.0*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Estimates increased for GCPL on the back of moderation in input costs

Y/E March	Earlier Estimates			New Estimates			*Change (%)*		
(Rsmn)	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	*FY25E*	*FY26E*	*FY27E*
Net Sales	1,44,241	1,57,606	1,74,776	1,44,241	1,57,606	1,74,776	*0.0*	*0.0*	*0.0*
EBITDA	29,079	31,833	36,747	29,664	32,460	37,138	*2.0*	*2.0*	*1.1*
EBITDA margin (%)	*20.2*	*20.2*	*21.0*	*20.6*	*20.6*	*21.2*	*0.4*	*0.4*	*0.2*
Adj PAT	18,883	21,688	25,624	19,311	22,196	25,985	*2.3*	*2.3*	*1.4*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Change in Target Prices

Company Name	Old Multiple	New Multiple	Target Price (Rs)		Rating		CMP (Rs)	Upside/ (Downside)
			Old	New	Old	New		
Britannia	50	50	5,465	5,705	Hold	Hold	5,355	7%
Colgate	48	45	2,945	2,800	Hold	Hold	2,492	12%
Dabur	49	45	620	570	Buy	Buy	461	24%
Emami	29	29	615	630	Hold	Hold	605	4%
Gillette India	55	53	9,720	9,685	Hold	Buy	7,942	22%
Hindustan Unilever	50	48	2,550	2,475	Hold	Hold	2,367	5%
ITC	26	26	480	490	Hold	Buy	422	16%
Marico	45	45	660	705	Hold	Hold	708	0%
Nestle India	60	60	2,430	2,445	Hold	Hold	2,361	4%
Tata Consumer	51	51	1,115	1,280	Buy	Buy	1,098	17%
PGHH	55	50	17,400	16,400	Buy	Buy	13,680	20%
GCPL	46	48	1,110	1,220	Hold	Hold	1,224	0%

Source: Company; Nirmal Bang Institutional Equities Research

Note: (i) New TP for all companies based on FY27E EPS

DISCLOSURES

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BUY > 15%

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