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CONSUMER STAPLES | Q1FY24 Review | 18 August 2023

Rural growth visibility improves

- **FMCG sector grew 12.2% YoY in Q1 with volumes rising 7.5%; regional competition intensified during the quarter**
- **Urban volumes grew in double-digits; rural consumption continued to rise, growing 4% YoY in Q1**
- **Expect volume growth to improve further in H2FY24; prefer DABUR, NEST, TCPL, ITC and GCPL**

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Volume growth in Q1: As per industry data, the FMCG sector registered 12.2% YoY value growth on the back of 7.5% volume growth in Q1FY24. Urban demand continued to grow ahead of rural markets with volumes rising 10.2%. Rural markets posted positive volume growth for the second straight quarter at 4%. Most FMCG players took price cuts to pass on the benefits of lower input costs and maintain market share. Thus, growth in Q1 was largely driven by volumes – a trend that companies expect will continue. FMCG players also posted robust margin expansion during the quarter despite increased A&P spends.

Increased competition from regional players: Most FMCG companies did see higher competition from regional players in respective categories during Q1 due to price moderation in key commodities. In the wake of competitive headwinds, companies cut prices to protect market share. BRIT's Q1 volume growth was impacted by fierce local competition, though the company expects a rebound in H2FY24. Similarly, HUVR indicated that it seeing a resurgence of small and regional players, which could explain its market share loss in select categories.

Rural markets see volume pickup: Rural markets grew during the quarter but continued to show a decline (of 4%) on a two-year CAGR basis. Elements behind the ongoing recovery include moderating inflation, increased rural expenditure and higher government capex. DABUR's strong rural penetration supported higher volume growth as the company benefited from the revival in rural markets.

Outlook upbeat: We expect consumer players to sustain their growth trajectory in H2FY24 despite increased competition. Demand continues to improve with easing inflation aiding sustained volume growth in rural markets. Consumer staples players have started cutting prices in the wake of softening input costs, which will encourage volume growth with a lag of a couple of quarters. We expect companies with a strong product slate, large rural presence, robust pipeline, and localised marketing strategies to continue to grow and gain market share in their respective categories. Post earnings, we believe DABUR, NEST, TCPL, ITC and GCPL are well placed.

Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	4,502	5,844	BUY
DABUR IN	561	669	BUY
GCPL IN	1,025	1,159	BUY
HUVR IN	2,543	3,069	BUY
ITC IN	441	523	BUY
MRCO IN	558	646	BUY
NEST IN	21,668	26,430	BUY
TATACONS IN	844	994	BUY
ZYWL IN	1,529	1,556	HOLD

Price & Target in Rupees | Price as of 17 Aug 2023

Company-wise performance

Britannia Industries (BUY, TP Rs 5,844)

BRIT's Q1FY24 revenue grew at a muted 8% YoY to Rs 40.1bn as the company took price corrections in the wake of increased regional competition. EBITDA increased 38% YoY while dropping 14% QoQ to Rs 6.9bn, with operating margin expansion of 370bps YoY and a sequential decline of 270bps QoQ to 17.2%.

Despite competitive pressure, the company grew 2.2x in focus states of Uttar Pradesh, Madhya Pradesh, Gujarat, and Rajasthan as compared to its markets in the rest of India. Market share was flattish during the quarter, but BRIT widened the gap with the second largest player as the latter had ceded share last quarter.

The company scaled up its Uttar Pradesh and Tamil Nadu manufacturing capabilities and is in the process of setting up a facility in Bihar which should ease the supply constraints seen during Q1. Manufacturing capacity will continue to be augmented in FY24, and management expects to incur total capex of Rs 4bn-4.5bn.

Fig 1 – Quarterly performance

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	40,107	40,232	37,010	(0.3)	8.4	41,451	(3.2)
EBITDA	6,889	8,009	5,007	(14.0)	37.6	7,834	(12.1)
Adj. PAT	4,576	5,587	3,374	(18.1)	35.6	5,578	(18.0)
Gross Margin (%)	41.9	44.9	36.9	(300bps)	500bps	43.2	(130bps)
EBITDA Margin (%)	17.2	19.9	13.5	(270bps)	370bps	18.9	(170bps)
Adj. PAT Margin (%)	11.4	13.9	9.1	(250bps)	230bps	13.5	(210bps)

Source: Company, BOBCAPS Research

Dabur India (BUY, TP Rs 669)

Dabur reported 11% YoY revenue growth (13% CC) during Q1FY24 and continued to gain market share across 90% of its portfolio. The company indicated that it has expanded its share by 200bps in the hair oil category, 50bps in *Dabur Red* toothpaste and 320bps in immunity booster *Chyawanprash*.

India business grew 8% YoY and international business was up 21% CC. Gross margin expanded 70bps YoY to 46.6% and is guided to rise sequentially. Dabur continues to extend the distribution network and its direct distribution reach now stands at 1.4mn outlets which the company expects will reach 1.5mn by end-FY24.

Rural volume growth in the FMCG category turned positive during the quarter at 4% YoY, and Dabur outpaced category growth with an 8% uptick in rural demand. Management expects further improvement in rural consumption as commodity prices ease.

Fig 2 – Quarterly performance

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	31,305	26,778	28,224	16.9	10.9	31,271	0.1
EBITDA	6,047	4,098	5,437	47.6	11.2	6,067	(0.3)
Adj. PAT	4,639	3,008	4,403	54.2	5.4	4,699	(1.3)
Gross Margin (%)	46.6	46.0	45.9	60bps	70bps	47.2	(60bps)
EBITDA Margin (%)	19.3	15.4	19.3	390bps	0bps	19.4	(10bps)
Adj. PAT Margin (%)	14.8	11.3	15.6	350bps	(80bps)	15.0	(20bps)

Source: Company, BOBCAPS Research

Godrej Consumer Products (BUY, TP Rs 1,159)

GCPL reported consolidated Q1FY24 revenue of Rs 34.5bn (+10% YoY, +15% CC), with volumes rising 10% YoY. India business posted an increase of 9% YoY led by 12% volume growth, in keeping with the company’s strategy of volume-driven category development. Pass-along of lower input cost to consumers resulted in lower value than volume growth.

Revenue from Africa, the US, and the Middle East region (GUAM) increased 9% YoY (16% CC), whereas Latin America and SAARC grew 18% YoY (79% CC). Backed by structural initiatives taken last year, the company’s Indonesia business grew 20% YoY in rupee terms (15% CC).

The company reported a 53.7% gross margin (+710bps YoY, +80bps QoQ), and EBITDA margin expanded 190bps YoY (-140bps QoQ) to 18.6% despite a 79% YoY rise in working media investment. EBITDA margin for the Indonesia business stood at 21.5% YoY (+420bps YoY), whereas GUAM was at 11.8% (+350bps).

Fig 3 – Quarterly performance

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	34,489	32,002	31,250	7.8	10.4	34,980	(1.4)
EBITDA	6,428	6,409	5,208	0.3	23.4	6,891	(6.7)
Adj. PAT	4,006	4,743	3,470	(15.5)	15.5	4,507	(11.1)
Gross Margin (%)	53.7	52.9	46.6	80bps	710bps	52.2	150bps
EBITDA Margin (%)	18.6	20	16.7	(140bps)	190bps	19.7	(110bps)
Adj. PAT Margin (%)	11.6	14.8	11.1	(320bps)	50bps	12.9	(130bps)

Source: Company, BOBCAPS Research

Hindustan Unilever (BUY, TP Rs 3,069)

HUVR’s Q1FY23 revenue grew 6% YoY (+1.8% QoQ) with underlying volume growth of only 3% YoY, largely due to trade destocking in anticipation of price cuts along with heightened competition from regional players. Gross margin improved 280bps YoY (+130bps QoQ.

In Q1, HUVR’s home care (HC), beauty & personal care (BPC), and foods & refreshment (F&R) segment revenues grew 10%, 4% and 5% YoY respectively. HC delivered mid-single-digit volume growth led by premiumisation and market development activities during the quarter. Volume growth in F&R was flattish due to continued downgrading in tea.

Innovation remains a focus area for HUVR, enabling the company to further strengthen its F&R portfolio by launching *Horlicks* millet biscuits, a range of *Knorr* Chinese sauces and *Bru* cold coffee millets during the quarter. In BPC, the company rolled out its *Dove* men+ care range, *Indulekha* soap, and *Pond's* anti-pigmentation serum. In HC, it introduced *Comfort* wardrobe premium fragrance hangers and *Vim Shudhham* cleaning spray and gel.

Fig 4 – Quarterly performance

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	154,960	152,150	146,240	1.8	6.0	159,170	(2.6)
EBITDA	36,650	35,740	34,020	2.5	7.7	37,246	(1.6)
Adj. PAT	25,920	25,190	23,930	2.9	8.3	26,216	(1.1)
Gross Margin (%)	50.4	49.1	47.6	130bps	280bps	48.6	180bps
EBITDA Margin (%)	23.7	23.5	23.3	20bps	40bps	23.4	30bps
Adj. PAT Margin (%)	16.7	16.6	16.4	10bps	30bps	16.5	20bps

Source: Company, BOBCAPS Research

ITC (BUY, TP Rs 523)

Slower agricultural business (-24% YoY) following a ban on wheat exports and a subdued showing in the paper and paperboard segment (-6% YoY) caused ITC's Q1FY24 revenue to decline 7% YoY (+11% excluding agricultural business) to Rs 171.6bn.

The cigarettes business continued to do well, growing 12% YoY for the quarter. FMCG-others revenue was up 16% YoY and the hotels segment grew 8% off a high base. EBITDA margin in the FMCG-others segment posted the largest increase of 325bps YoY (510bps over Q1FY20) to 11%, and hotels clocked 140bps YoY expansion to 33.9%. Profitability in the paper and paperboard segment was dented by lower realisations and a spike in input costs.

ITC announced the demerger of its hotels business by creating a wholly-owned subsidiary, ITC Hotels, that it expects to list on the bourses in ~15 months. ITC shareholders will get 1 share of ITC Hotels for every 10 shares held.

Fig 5 – Quarterly performance

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	171,645	176,349	184,895	(2.7)	(7.2)	187,608	(8.5)
EBITDA	66,701	66,240	60,771	0.7	9.8	69,907	(4.6)
Adj. PAT	51,049	51,026	43,898	0.0	16.3	51,585	(1.0)
Gross Margin (%)	61.8	61.6	53.7	20bps	810bps	61	80bps
EBITDA Margin (%)	38.9	35.2	30.9	370bps	800bps	37.3	160bps
Adj. PAT Margin (%)	29.7	28.9	23.7	80bps	600bps	27.5	220bps

Source: Company, BOBCAPS Research

Marico (BUY, TP Rs 646)

MRCO's consolidated Q1FY24 revenue dipped 3% YoY to Rs 24.8bn as trade destocking in *Saffola* oil and trade scheme rationalisation by the company in core categories subdued underlying volume growth (3%) in the India business. International business grew 9% YoY CC. Gross margin expanded 500bps YoY and 260bps QoQ to 50% as prices of key inputs moderated. EBITDA grew 9% YoY with a 260bps rise in margin to 23.2% despite increased spending on brands.

MRCO indicated that ~85% of its portfolio either gained or sustained market share as well as market reach. The food business continued to do well with value growth of 24% YoY driven by steady growth in core and newer franchises. Premium personal care products were steady and are guided to contribute ~10% of domestic revenue in FY24.

Fig 6 – Quarterly performance

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	24,770	22,400	25,580	10.6	(3.2)	24,966	(0.8)
EBITDA	5,740	3,930	5,280	46.1	8.7	5,817	(1.3)
Adj. PAT	4,270	3,020	3,710	41.4	15.1	4,090	4.4
Gross Margin (%)	50.0	47.4	45.0	260bps	500bps	50.2	(20bps)
EBITDA Margin (%)	23.2	17.5	20.6	570bps	260bps	23.3	(10bps)
Adj. PAT Margin (%)	17.2	13.5	14.5	370bps	270bps	16.4	80bps

Source: Company, BOBCAPS Research

Nestle (BUY, TP Rs 26,430)

NEST posted healthy topline growth of 15% YoY in Q2CY23 supported by a better product mix, prudent pricing, and higher volumes. Export revenue saw strong double-digit growth. Gross margin expanded 100bps QoQ and 80bps YoY to 54.8% in Q2 owing to price correction in edible oil, wheat, and packaging material, along with stability in fresh milk rates. Robusta coffee prices were elevated and are expected to stay volatile. EBITDA margin at 22.7% was up 200bps YoY (unchanged sequentially).

The company introduced three new products in India during Q1, besides delivering double-digit growth across segments for the fifth consecutive quarter, with management pointing to a broad-based uptick across markets. The e-commerce channel now contributes 6.5% of sales led by quick commerce.

Fig 7 – Quarterly performance

(Rs mn)	Q2CY23	Q1CY23	Q2CY22	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	46,585	48,305	40,366	(3.6)	15.4	47,638	(2.2)
EBITDA	10,555	10,955	8,355	(3.7)	26.3	11,195	(5.7)
Adj. PAT	6,983	7,366	5,314	(5.2)	31.4	7,116	(1.9)
Gross Margin (%)	54.8	53.8	54	100bps	80bps	55.6	(80bps)
EBITDA Margin (%)	22.7	22.7	20.7	0bps	200bps	23.5	(80bps)
Adj. PAT Margin (%)	15.0	15.3	13.2	(26bps)	183bps	14.9	9bps

Source: Company, BOBCAPS Research

Tata Consumer Products (BUY, TP Rs 994)

TCPL registered strong revenue growth of 12.5% YoY (11% CC) to Rs 37bn in Q1FY24, meeting our expectations. India business grew 16% YoY, while international business was up by 3% CC and non-branded business by 5% CC. Tata Sampann, Tata Soulful and NourishCo collectively grew 58% YoY, forming 20% of India business compared to 15% in Q1FY23.

Tata Starbucks continued to perform well with revenue growing 21% YoY and the JV staying EBIT-positive. Net store additions stood at 16 in Q1, taking the total count to 348 stores across 46 cities.

EBITDA increased 19% YoY with margin expansion of 82bps (+43bps QoQ) to 14.6%, aiding adj. PAT growth of 15% YoY to Rs 3.2bn accompanied by 20bps margin improvement (+100bps QoQ).

Fig 8 – Quarterly performance

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	37,412	36,187	33,268	3.4	12.5	37,497	(0.2)
EBITDA	5,450	5,117	4,573	6.5	19.2	5,156	5.7
Adj. PAT	3,218	2,750	2,794	17.0	15.2	3,250	(1.0)
Gross Margin (%)	42.2	41.8	42.6	36bps	(42bps)	42.2	(2bps)
EBITDA Margin (%)	14.6	14.1	13.8	43bps	82bps	13.8	77bps
Adj. PAT Margin (%)	8.6	7.6	8.4	100bps	20bps	8.7	(10bps)

Source: Company, BOBCAPS Research

Zydus Wellness (HOLD, TP Rs 1,556)

ZYWL reported flattish YoY sales growth in Q1FY24 largely due to sluggish sales of *Glucon-D* which normally contributes a significant portion of first-quarter sales due to the summer season. Profitability was further impacted by a one-time expense of Rs 142mn toward a worker settlement, legal charges, and inventory write-off provisions for the Sitarganj plant. Reported PAT fell 19% YoY but adjusting for exceptional items was down 11% to Rs 1.2bn.

The health food drinks (HFD) category posted just 2% YoY growth and ZYWL lost 31bps market share in *Complan*. The energy drink saw market share contract 57bps YoY in Q1. The company did maintain leadership in four brands – Sugar Free, Glucon-D, Everyuth scrub, Everyuth peel-off face mask, and Nycil.

ZYWL continues to expand its global presence and operationalised a subsidiary in Bangladesh during the year. The company aims for 8-10% revenue from international markets in the next 4-5 years.

Fig 9 – Quarterly performance

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	7,021	7,130	6,969	(1.5)	0.7	7,805	(10.0)
EBITDA	1,165	1,446	1,482	(19.4)	(21.4)	1,694	(31.2)
Adj. PAT	1,246	1,525	1,400	(18.3)	(11.0)	1,611	(22.7)
Gross Margin (%)	52.6	50.8	54.3	180bps	(170bps)	53.9	(130bps)
EBITDA Margin (%)	16.6	20.3	21.3	(370bps)	(470bps)	21.7	(510bps)
Adj. PAT Margin (%)	17.7	21.4	20.1	(370bps)	(240bps)	20.6	(290bps)

Source: Company, BOBCAPS Research

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