

## Gradual recovery

- Q1FY27E is likely to be a quarter of selective growth and gradual margin recovery across the Consumer sector
- Calibrated pricing and a favourable mix should support profitability, despite the overhang of high-cost inventory
- Margin recovery to begin easing crude and palm costs, with full benefits likely from H2FY27E

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**Input cost outlook; calibrated pricing to support margins:** Q1'27E is expected to mark the beginning of a margin recovery cycle, as crude prices have corrected sharply from the recent geopolitical spike, although the quarter is still likely to reflect higher-cost inventory, with the full RM benefit expected to flow through from H2FY27E. During the quarter, crude- and palm-oil-linked inflation remained a key headwind for HUL, GCPL and TCPL. Britannia, Nestlé and Marico were relatively better placed, supported by a favourable RM basket; including Marico benefiting from copra prices correcting ~45% from peak levels. Companies continued with calibrated pricing to protect profitability, with HUL taking cumulative ~2-5% price hikes (partly reflected), GCPL raising prices across soaps, detergents and household insecticides (4–7%), Marico increasing saffola prices by ~6–11%. Overall, the crude/palm-led cost pressure is expected to be a temporary headwind for HUL, GCPL and TCPL and largely a non-event for Marico, Nestlé and Britannia given their relatively favourable raw material baskets.

**Performance Divergence Across Coverage:** Nestlé India and Marico are expected to lead our coverage this quarter, likely to deliver ~15/18% YoY sales growth resp. Nestlé should also post healthy margin expansion (+96bps to 22.6%) on favourable input costs and operating leverage. Marico's margin is expected to contract modestly (-54bps to 19.6%), as the benefit of lower copra prices will likely flow through with a lag. TCPL is likely to face pressure in its tea portfolio amid the elevated LPG prices and the heatwave, although portfolio diversification should support margins. HUL is expected deliver healthy volume growth of ~6% in Q1FY27E, driven by continued strength across its core Home Care and Beauty & Wellbeing portfolios and steady margin expansion (+29bps at 22.8%). In contrast, GCPL is expected to see margin pressure this quarter from input cost inflation and geopolitical-led raw material volatility, with recovery likely from H2FY27E (as per management). Britannia's growth may remain subdued due to weaker tea-linked consumption, though margins should stay resilient. ITC remains the key laggard, with soft cigarette volumes limiting its growth despite stable margins, while UBL is expected to report the sharpest margin contraction in our coverage.



**Valuation:** We continue to prefer Nestlé and Marico in the consumer space, Nestle for its superior earnings visibility, supported by strong domestic demand and sustained margin expansion, albeit Marico as we expect gradual revenue and margin momentum. We are also positive on TCPL as its diversified portfolio is offsetting weakness in the tea business but the stock is leaving limited valuation upside.

Within the staples pack, we expect ITC to witness the sharpest impact on volumes and earnings due to the higher tax burden. We factor in ~8% decline in cigarette volumes, while expecting the benefit of the price hikes undertaken by the company to gradually flow through over the coming quarters. Consequently, we downgrade ITC to **HOLD** from **BUY** with a target price of **Rs 321**, given the limited upside.

**Fig 1 – Q1FY27E Estimates**

Companies	Q1FY27E			Q1FY26			YoY (%)		
	Sales	EBITDA	EBITDA Margins (%)	Sales	EBITDA	EBITDA Margins (%)	Sales	EBITDA	EBITDA Margins (%)
Hindustan Unilever	178,351	40,664	22.8	165,140	37,180	22.5	8.0	9.4	29bps
ITC	196,311	58,347	29.7	210,590	62,613	29.7	(6.8)	(6.8)	(1bps)
Nestlé India	58,584	13,211	22.6	50,962	11,003	21.6	15.0	20.1	96bps
Britannia Industries	49,458	8,259	16.7	46,222	7,571	16.4	7.0	9.1	32bps
Godrej Consumer Products	40,175	7,231	18.0	36,619	6,946	19.0	9.7	4.1	(97bps)
Tata Consumer Products	54,700	7,385	13.5	47,789	6,069	12.7	14.5	21.7	80bps
Dabur India	36,679	7,067	19.3	34,046	6,678	19.6	7.7	5.8	(35bps)
Marico	38,456	7,520	19.6	32,590	6,550	20.1	18.0	14.8	(54bps)
United Breweries	30,899	2,710	8.8	28,643	3,109	10.9	7.9	(12.8)	(208bps)

Source: Company, BOBCAPS Research

**Fig 2 – Recommendation Snapshot**

	Rating	Target Price
Britannia	HOLD	6,071
Dabur India	HOLD	510
Godrej Consumer Products	HOLD	1,214
Hindustan Unilever	BUY	2,733
ITC	HOLD	318
Marico	HOLD	932
Nestle India	HOLD	1,565
Tata Consumer Products	HOLD	1,245
United Breweries	HOLD	1,511

Source: Company, BOBCAPS Research

**Fig 3 – Valuation table**

Consumer	Mcap (Rs bn)	CAGR FY26-29E (%)		PE			EV/Sales			EV/EBITDA		
		Sales	EBITDA	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
Britannia	1297	10.2	11.2	48.4	42.1	37.6	6.2	5.6	5.1	33.9	29.8	26.5
Dabur India	792	9.3	15.1	39.1	35.7	28.4	5.6	5.2	4.6	29.2	26.5	21.2
Godrej Consumer Products	1103	9.0	13.1	45.5	38.9	35.2	6.4	5.8	5.6	29.7	26.0	24.1
Hindustan Unilever	5192	9.3	10.4	42.9	39.7	34.9	7.3	6.8	6.2	31.5	28.9	25.6
ITC	3633	7.0	7.6	17.2	15.7	14.4	4.3	4.0	3.6	14.0	12.7	11.6
Marico	1112	9.5	15.0	47.8	45.4	42.1	7.3	6.7	6.2	36.9	33.7	31.2
Nestle India	2786	11.0	13.0	74.5	61.1	53.8	5.5	4.9	4.4	23.1	20.2	18.2
Tata Consumer Products	1096	10.4	14.1	56.7	48.8	43.7	4.7	4.3	3.9	31.8	28.3	25.4
United Breweries	359	11.9	27.5	52.8	38.8	36.1	3.4	3.1	2.8	30.1	24.3	22.0

Source: Company, BOBCAPS Research

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**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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