

CONSUMER STAPLES

Q2FY24 Preview

16 October 2023

Margin expansion to fuel profitability

- Volume recovery delayed due to food inflation and weak rural sentiment amid an erratic monsoon
- Margin expansion forecast to continue in Q2 on account of favourable raw material prices
- Expect better margins to support double-digit earnings growth; prefer NEST, ITC, DABUR and TCPL

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Aggregate revenue growth expected in mid-single-digits: We expect consumer staples companies under our coverage to collectively register modest mid-single-digit topline growth in the July-September quarter as volumes look muted amid high food inflation and poor rural sentiment following a delayed and erratic monsoon. Early commentary from key players, including DABUR, GCPL and MRCO, indicates low-to-mid-single-digit volume growth for the quarter. In our view, growth is likely to rally in H2FY24 on account of improving demand visibility in rural markets and extension of the festive season into Q3FY24.

Erratic monsoon dampens rural recovery: Delayed onset of the monsoon this year and rising food prices disrupted the revival in rural markets during Q2, though sentiments appear to have lifted towards the end of the quarter which should spur stronger demand momentum in H2. While earnings commentary on rural volume growth remains a key monitorable this quarter, we highlight that **our channel checks in southern markets** during the month of August revealed positive signals in the form of rising income levels and deepening premiumisation trends that have spread from urban centres to semi-urban and rural markets as well.

Margin expansion continues: During Q2, we expect gross margins for most consumer companies to expand YoY due to moderation in prices of key commodities. Most companies have stepped up their A&P spend which is likely to result in modest growth in operating profit.

Maintain positive sector outlook: We believe innovation, increased market penetration and premiumisation will continue to fuel growth for consumer staples players in the near-to-medium term. Despite expected muted volume and value growth, gross margins are forecast to improve YoY in the July-September quarter, likely resulting in double-digit earnings growth for staples players. We prefer NEST (TP Rs 26,430, BUY), ITC (TP Rs 523, BUY), DABUR (TP Rs 669, BUY) and TCPL (TP Rs 994, BUY).

Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	4,575	5,844	BUY
DABUR IN	539	669	BUY
GCPL IN	983	1,159	BUY
HUVR IN	2,569	3,069	BUY
ITC IN	448	523	BUY
MRCO IN	542	646	BUY
NEST IN	23,554	26,430	BUY
TATACONS IN	913	994	BUY
ZYWL IN	1,563	1,556	HOLD

Price & Target in Rupees | Price as of 13 Oct 2023
 TATACONS = TCPL



Fig 1 – BRIT

(Rs mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Remarks
Revenue	46,117	40,107	43,796	15.0	5.3	We expect BRIT to report 5.3% YoY revenue growth during the quarter on account of price cuts taken by the company. The biscuit category remained strong, and we estimate low-single-digit volume growth for the company. BRIT is likely to deliver robust growth in rural markets despite overall weakness. The impact of higher wheat and milk prices remains a key monitorable.
Gross Profit	19,046	16,820	17,050	13.2	11.7	
Gross Profit Margin (%)	41.3	41.9	38.9	(60bps)	240bps	
EBITDA	8,024	6,889	7,117	16.5	12.7	
EBITDA Margin (%)	17.4	17.2	16.3	20bps	110bps	
Adj. PAT	5,496	4,576	4,908	20.1	12.0	
Adj. PAT Margin (%)	11.9	11.4	11.2	50bps	70bps	

Source: Company, BOBCAPS Research

Fig 2 – DABUR

(Rs mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Remarks
Revenue	32,175	31,305	29,865	2.8	7.7	We expect DABUR to report 7.7% YoY revenue growth during the quarter led by a consistent volume uptick in both urban and rural markets. The company has pointed to broad-based growth across the portfolio during the quarter, except for food & beverages due to a mild summer and delayed festive season.
Gross Profit	15,187	14,588	13,551	4.1	12.1	
Gross Profit Margin (%)	47.2	46.0	45.9	120bps	130bps	
EBITDA	6,467	6,047	6,007	6.9	7.7	
EBITDA Margin (%)	20.1	19.3	20.1	80bps	0bps	
Adj. PAT	5,232	4,639	4,641	12.8	12.7	
Adj. PAT Margin (%)	16.3	14.8	15.5	150bps	80bps	

Source: Company, BOBCAPS Research

Fig 3 – GCPL

(Rs mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Remarks
Revenue	35,833	34,489	33,919	3.9	5.6	We forecast revenue growth of 5.6% YoY for GCPL with mid-single-digit volume growth. Home care is projected to grow in mid-single-digits while personal care is likely to be even lower. We model for 610bps YoY expansion in gross margin despite increased investment behind brands. Further, we expect an improved performance in Indonesia, though GUAM could see an adverse currency impact.
Gross Profit	19,350	18,534	18,260	4.4	6.0	
Gross Profit Margin (%)	54.0	53.7	47.9	30bps	610bps	
EBITDA	6,844	6,428	5,421	6.5	26.2	
EBITDA Margin (%)	19.1	18.6	16.0	50bps	310bps	
Adj. PAT	4,755	4,006	3,815	18.7	24.6	
Adj. PAT Margin (%)	13.3	11.6	11.1	170bps	220bps	

Source: Company, BOBCAPS Research | GUAM: Godrej Africa, the US, and the Middle East

Fig 4 – HUVR

(Rs mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Remarks
Revenue	159,876	154,960	151,440	3.2	5.6	We expect HUVR to report 5.6% YoY value growth (~3% volume growth) owing to moderate growth in the home, beauty and personal care segments. Gross margin is likely to improve by 460bps YoY. HUVR plans to continue focusing on premiumisation in its core portfolio and looks set to gain further market share.
Gross Profit	80,737	78,170	69,470	3.3	16.2	
Gross Profit Margin (%)	50.5	50.4	45.9	10bps	460bps	
EBITDA	38,050	36,650	34,790	3.8	9.4	
EBITDA Margin (%)	23.8	23.7	23.0	10bps	80bps	
Adj. PAT	27,026	25,920	26,940	4.3	0.3	
Adj. PAT Margin (%)	11.5	10.9	11.5	60bps	4bps	

Source: Company, BOBCAPS Research

Fig 5 – ITC

(Rs mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Remarks
Revenue	177,716	171,645	171,080	3.5	3.9	ITC is projected to report high-single-digit volume growth in cigarettes with strong double-digit growth and margin expansion in the FMCG segment. Hotels should continue to perform well led by higher occupancy and RevPAR. We expect the paper and paperboard business to do well on both the growth and margin front, though revenue from the agri business is likely to stay subdued.
Gross Profit	109,282	106,148	103,198	3.0	5.9	
Gross Profit Margin (%)	61.5	61.8	60.3	(30bps)	120bps	
EBITDA	68,763	66,701	62,591	3.1	9.9	
EBITDA Margin (%)	38.7	38.9	34.0	(20bps)	470bps	
Adj. PAT	51,384	51,049	46,198	0.7	11.2	
Adj. PAT Margin (%)	28.9	29.7	27.0	(80bps)	190bps	

Source: Company, BOBCAPS Research | RevPAR: Revenue Per Available Room

Fig 6 – MRCO

(Rs mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Remarks
Revenue	24,636	24,770	24,960	(0.5)	(1.3)	We expect MRCO to report a slight YoY decline in revenue owing to price correction and likely muted volume growth in the domestic market. The company expects to report low-single-digit volume growth in <i>Parachute</i> oil and <i>Saffola</i> edible oil and low-single-digit value growth in value-added hair oil. Favourable copra and edible oil prices could help it expand gross margin YoY.
Gross Profit	12,121	12,380	10,890	(2.1)	11.3	
Gross Profit Margin (%)	49.2	50.0	43.6	(80bps)	560bps	
EBITDA	4,952	5,740	4,330	(13.7)	14.4	
EBITDA Margin (%)	20.1	23.2	17.3	(310bps)	280bps	
Adj. PAT	3,403	4,270	2,750	(20.3)	23.7	
Adj. PAT Margin (%)	13.8	17.2	11.0	(340bps)	280bps	

Source: Company, BOBCAPS Research

Fig 7 – NEST

(Rs mn)	Q3CY23E	Q2CY23	Q3CY22	QoQ (%)	YoY (%)	Remarks
Revenue	51,954	46,585	46,018	11.5	12.9	NEST is projected to report revenue growth of 12.9% YoY during the quarter driven by a healthy mix of pricing and volumes. The company continues to expand its presence in rural markets. Gross margin is forecast to expand by 290bps YoY, though higher milk and coffee prices are likely to impact margins of the beverage and confectionary portfolios.
Gross Profit	28,887	25,535	24,241	13.1	19.2	
Gross Profit Margin (%)	55.6	54.8	52.7	80bps	290bps	
EBITDA	12,417	10,555	10,041	17.6	23.7	
EBITDA Margin (%)	23.9	22.7	21.8	120bps	210bps	
Adj. PAT	8,078	6,983	6,615	15.7	22.1	
Adj. PAT Margin (%)	15.6	15.0	14.4	60bps	120bps	

Source: Company, BOBCAPS Research

Fig 8 – TATACONS

(Rs mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Remarks
Revenue	37,254	37,412	33,631	(0.4)	10.8	We expect TCPL to report 10.8% YoY revenue growth resulting from growth in the salt business and recovery in tea portfolio volumes. Growth businesses, including Soufull, Sampann and NourishCo, are likely to perform well even as the Tata Starbucks JV is expected to maintain growth momentum and improve margins.
Gross Profit	15,758	15,779	14,038	(0.1)	12.3	
Gross Profit Margin (%)	42.3	42.2	41.7	10bps	60bps	
EBITDA	5,402	5,450	4,338	(0.9)	24.5	
EBITDA Margin (%)	14.5	14.6	12.9	(10bps)	160bps	
Adj. PAT	3,381	3,217	2,167	5.1	56.0	
Adj. PAT Margin (%)	9.1	8.6	6.4	50bps	270bps	

Source: Company, BOBCAPS Research

Fig 9 – ZYWL

(Rs mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Remarks
Revenue	4,664	70,214	4,295	(93.4)	8.6	We estimate revenue growth of 8.6% YoY for ZYWL in a seasonally weak quarter. Gross profit is expected to rise 11.6% with margin expansion of 120bps YoY. Volume growth and market share gains remain key monitorables in the food & nutrition category.
Gross Profit	2,075	3,691	1,860	(43.8)	11.6	
Gross Profit Margin (%)	44.5	52.6	43.3	(810bps)	120bps	
EBITDA	280	1,165	163	(76.0)	71.8	
EBITDA Margin (%)	3.8	16.6	6.0	(1,280bps)	(220bps)	
Adj. PAT	198	1,104	85	(82.1)	132.9	
Adj. PAT Margin (%)	4.2	15.7	2.0	(1,150bps)	220bps	

Source: Company, BOBCAPS Research

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