

## CONSUMER STAPLES

Q2FY24 Review

23 November 2023

## Lacklustre volume growth but margins improve

- Our FMCG coverage saw muted volume growth in Q2 due to heightened regional competition and delayed rural recovery
- Margin expansion continued for consumer companies despite a steep increase in A&P spends
- Management commentaries point to potential volume recovery in H2FY24; we retain NEST, ITC and TCPL as top picks

Vikrant Kashyap  
research@bobcaps.in

**Volume growth remains subdued:** Q2FY24 demand trends broadly mirrored those of the preceding quarter. Although the second quarter began with positive demand signals in both rural and urban markets, it ended on a weak note as a patchy monsoon and higher food inflation dampened buyer sentiment. Companies did cut prices to pass on the benefits of lower input costs, but this failed to invigorate volumes due to heightened competition from regional players and the challenging demand environment. Nevertheless, our coverage continued to post robust EBITDA margin expansion, even as A&P spends moved up.

**Competition from regional players dents growth:** For the second consecutive quarter, FMCG companies encountered intense competition in select categories from regional players due to price moderation in key commodities. Commentaries from key players concurred on the resurgence of small and regional players, which would explain the muted volume growth and market share loss in certain categories. In the wake of competitive headwinds, companies under coverage reduced prices to protect market share and now anticipate gradual volume recovery in H2FY24.

**Rural recovery falters:** Rural markets saw subdued demand recovery during Q2FY24 owing to uneven distribution of the monsoon and higher food inflation. Companies are hopeful of a recovery in rural markets amid easing inflation, rising rural wages and higher government capex.

**Top picks:** We expect the demand climate to improve in H2FY24, enabling consumer players to sustain their growth trajectory. However, regional competition remains a key monitorable along with revival in rural markets. Consumer staples players have taken price cuts which should encourage volume growth, albeit with a lag of a couple of quarters. We expect companies with a strong product slate, large rural presence, robust launch pipeline and localised marketing to continue to grow and gain market share in their respective categories. Post earnings, we believe NEST (BUY, TP Rs 28,260), ITC (BUY, TP Rs 523) and TCPL (BUY, TP Rs 1,038) are best placed.

### Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	4,694	5,844	BUY
DABUR IN	541	669	BUY
GCPL IN	1,009	1,159	BUY
HUVR IN	2,522	3,069	BUY
ITC IN	440	523	BUY
MRCO IN	533	646	BUY
NEST IN	24,351	28,260	BUY
TATACONS IN	928	1,038	BUY
ZYWL IN	1,553	1,556	HOLD

Price & Target in Rupees | Price as of 22 Nov 2023 | TATACONS = TCPL



## Company-wise performance

### Britannia Industries (BUY, TP Rs 5,844)

BRIT's Q2FY24 revenue growth was flat at 1.2% YoY (0.2% volume growth and 1% price growth) to Rs 44.3bn as the company corrected prices in the wake of input cost deflation and sustained regional competition. During Q2, EBITDA grew 23% YoY to Rs 8.7bn, with margin expansion of 340bps YoY (+250bps QoQ) to 19.7% owing to softer raw material prices and cost savings initiatives.

Despite a slowdown in rural markets, BRIT sees strong demand potential and continues to expand rural distribution. The company's domestic market share inched up during Q2, widening the gap with the second largest player. International markets are also driving profitable growth.

BRIT remains focused on new product development and indicated that revenue contribution from innovation has risen to 10%. The company continues to drive growth in adjacent businesses as well, with the launch of three variants in the cake segment.

**Fig 1 – Financial performance**

(Rs mn)	Q2FY24	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	44,329	40,107	43,796	10.5	1.2	46,117	(3.9)
EBITDA	8,724	6,889	7,117	26.6	22.6	8,024	8.7
Adj. PAT	5,876	4,576	4,908	28.4	19.7	5,496	6.9
Gross Margin (%)	42.9	41.9	38.9	100bps	400bps	41.3	160bps
EBITDA Margin (%)	19.7	17.2	16.3	250bps	340bps	17.4	230bps
Adj. PAT Margin (%)	13.3	11.4	11.2	190bps	210bps	11.9	140bps

Source: Company, BOBCAPS Research

### Dabur India (BUY, TP Rs 669)

Dabur reported 7.3% YoY revenue growth in Q2FY24 (+10.4% YoY CC) to Rs 32bn supported by a consistent performance in both the home & personal care and healthcare segments. India FMCG volume growth came in at 3% YoY (including 5.8% for *Badshah*), and international business maintained strong momentum, growing 23.6% YoY CC, with MENA revenue up 18%, Egypt up 35% and Turkey up 78%.

Gross margin expanded 290bps YoY and 170bps QoQ to 48.3% largely due to deflation in input cost. EBITDA grew 10% YoY with 50bps margin expansion to 20.6% despite a steep 43% rise in A&P spend.

Dabur's digestive business posted 18% YoY growth, the home care business grew 15%, and the Ayurvedic OTC and ethicals business grew 8% each. Foods posted a 40% increase with Badshah growing 6%. However, unseasonal rains in the company's key North Indian markets impacted the beverage portfolio which declined 10% YoY.

Management remains optimistic on future growth as it is seeing green shoots of recovery in rural markets and indicated that while rural growth still lags urban growth, the gap has reduced. Urban demand witnessed sequential improvement led by new-age channels.

**Fig 2 – Financial performance**

(Rs mn)	Q2FY24	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	32,038	31,305	29,865	2.3	7.3	32,175	(0.4)
EBITDA	6,609	6,047	6,007	9.3	10.0	6,467	2.2
Adj. PAT	5,151	4,639	4,901	11.0	5.1	5,232	(1.6)
Gross Margin (%)	48.3	46.6	45.4	170bps	290bps	47.2	110bps
EBITDA Margin (%)	20.6	19.3	20.1	130bps	50bps	20.1	50bps
Adj. PAT Margin (%)	16.1	14.8	16.4	130bps	(30bps)	16.3	(20bps)

Source: Company, BOBCAPS Research

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

GCPL reported consolidated revenue of Rs 36bn (+6% YoY, +16% CC), with volumes up 10% YoY in Q2FY24. India business grew 9% YoY led by 11% volume growth despite a challenging operating environment. The company registered a muted 5% YoY rise in the home care business owing to flattish growth in its household insecticides segment due to the poor monsoons.

Indonesia business registered strong revenue growth of 16% YoY in rupee terms (+14% CC) backed by increased advertising spends. Revenue from Africa, the US, and the Middle East region (GUAM) grew 17% YoY CC, though rupee revenue was lower due to the devaluation of the naira.

The company reported a 54.9% gross margin (+700bps YoY, +120bps QoQ) and EBITDA margin expanded to 19.5% (+350bps YoY, +90bps QoQ) despite a 33% YoY rise in working media investment. EBITDA margin for the Indonesia business stood at 17.9% (+80bps YoY), whereas GUAM was at 8.5% (+310bps YoY).

**Fig 3 – Financial performance**

(Rs mn)	Q2FY24	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	36,020	34,489	33,919	4.4	6.2	35,833	0.5
EBITDA	7,042	6,428	5,421	9.5	29.9	6,844	2.9
Adj. PAT	4,453	4,006	3,815	11.2	16.7	4,755	-6.4
Gross Margin (%)	54.9	53.7	47.9	120bps	700bps	54.0	90bps
EBITDA Margin (%)	19.5	18.6	16.0	90bps	350bps	19.1	40bps
Adj. PAT Margin (%)	12.4	11.6	11.2	80bps	120bps	13.3	-90bps

Source: Company, BOBCAPS Research

**Hindustan Unilever (BUY, TP Rs 3,069)**

HUVR's revenue grew 3.2% YoY (+0.8% QoQ) with underlying volume growth of 2% YoY vs. ~3% estimated. Delayed rural recovery and stiffer competition from regional players impacted volumes. Even so, the company continued to gain volume market share in more than 75% of its portfolio and value market share in 60% of its portfolio. EBITDA margin expanded 130bps YoY (+60bps QoQ) despite a sharp increase in brand investments during the quarter as A&P spend was stepped up by 420bps YoY.

Home care (HC), beauty & personal care (BPC), and foods & refreshment (F&R) segment revenues grew 3%, 4% and 4% YoY respectively. HC and BPC delivered mid-single-digit volume growth; however, F&R saw a mid-single-digit decline largely due to sustained inflation in coffee and health food drinks (HFD). The company cut prices in

fabric wash and household care to pass on the benefits of lower cost inflation to customers but took judicious hikes in the F&R segment to bake in food inflation.

HUVR continues to strengthen its core portfolio by launching products across segments. In HC, the company rolled out *Comfort Intense* fabric conditioner and *Vim Pure*. In skin care, it strengthened its *Pond's* moisturiser range and also introduced a new range of *Indulekha* anti-dandruff hair oil and shampoo during the quarter. In food & beverages, the company launched the *Horlicks Plus* range with two new variants in select geographies and channels.

**Fig 4 – Financial performance**

(Rs mn)	Q2FY24	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	156,230	154,960	151,440	0.8	3.2	159,876	(2.3)
EBITDA	37,970	36,650	34,790	3.6	9.1	38,050	(0.2)
PAT	26,610	25,920	26,940	2.7	(1.2)	27,006	(1.5)
Gross Margin (%)	53.0	50.4	45.9	260bps	710bps	50.5	250bps
EBITDA Margin (%)	24.3	23.7	23.0	60bps	130bps	23.8	50bps
PAT Margin (%)	17.0	16.7	17.8	30bps	(80bps)	16.9	10bps

Source: Company, BOBCAPS Research

### ITC (BUY, TP Rs 523)

ITC posted 3.9% YoY revenue growth to Rs 177.7bn in Q2FY24 despite (i) a slowdown in agricultural business on account of the ban on wheat exports, and (ii) a subdued performance in the paper and paperboard segment owing to poor demand in domestic and global markets and cheap Chinese supply. The cigarettes business continued to perform well, growing 9.1% YoY, FMCG-others revenue was up 8.3%, and the hotels segment climbed 21.2% despite a high base.

ITC's EBITDA margin increased 230bps YoY (-260bps QoQ) to 36.3% as the hotels business saw 170bps expansion to 30.7%, followed by FMCG-others (+150bps to 11%). Profitability in the paper and paperboard segment was dented by lower realisations and a spike in input costs. Adj. PAT grew 6% YoY to Rs 48.9bn with margin expansion of 60bps.

Certain categories such as biscuits, snacks, noodles and popular soaps witnessed rising competitive intensity, including from regional players, against the backdrop of commodity price deflation. The company indicated that it is seeing green shoots of recovery as the prospects of improved agricultural output, onset of the festive season, higher rural wages, and government spending on infrastructure augur well for a recovery in rural markets.

**Fig 5 – Financial performance**

(Rs mn)	Q2FY24	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	177,745	171,645	171,080	3.6	3.9	177,716	0.0
EBITDA	64,542	66,701	62,591	(3.2)	3.1	68,763	(6.1)
Adj. PAT	48,981	51,049	46,198	(4.1)	6.0	51,384	(4.7)
Gross Margin (%)	60.2	61.8	60.3	(160bps)	(10bps)	61.5	(130bps)
EBITDA Margin (%)	36.3	38.9	34.0	(260bps)	230bps	38.7	(240bps)
Adj. PAT Margin (%)	27.6	29.7	27.0	(210bps)	60bps	28.9	(130bps)

Source: Company, BOBCAPS Research

### Marico (BUY, TP Rs 646)

MRCO's consolidated Q2FY24 revenue was flattish YoY at Rs 24.8bn as India business posted muted underlying volume growth of 3% for the second straight quarter. International business grew 13% YoY CC despite persisting macroeconomic headwinds and geopolitical tensions in some markets.

Gross margin expanded 690bps YoY and 50bps QoQ to 50.5% due to moderation in prices of key inputs during the quarter. EBITDA grew 15% YoY with a 280bps YoY expansion in margin to 20.1% despite increased investment in brands that pushed up A&P spend by 26% YoY. EBITDA margin stood at 21.6% for the domestic business, up 320bps YoY, and at 25.1% for the international business, up 270bps YoY.

India business posted a 3% YoY decline in revenue to Rs 18.3bn owing to weakness in the edible oil and hair oil categories. *Parachute Rigid* volumes grew just 1% YoY, value-added hair oils saw a flat quarter, and *Saffola* edible oil registered low-single-digit volume growth with its revenue growth slipping to the low 20s owing to price corrections.

The food business continued to do well, however, with value growth of 25% YoY driven by double-digit growth in *Saffola Oats* and continued traction in newer categories. Premium personal care products delivered a steady performance and are on track to contribute ~10% of domestic revenue in FY24.

**Fig 6 – Financial performance**

(Rs mn)	Q2FY24	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	24,760	24,770	24,960	0.0	(0.8)	24,636	0.5
EBITDA	4,970	5,740	4,330	(13.4)	14.8	4,952	0.4
Adj. PAT	3,530	4,270	3,010	(17.3)	17.3	3,403	3.7
Gross Margin (%)	50.5	50.0	43.6	50bps	690bps	49.2	130bps
EBITDA Margin (%)	20.1	23.2	17.3	(310bps)	280bps	20.1	0bps
Adj. PAT Margin (%)	14.3	17.2	12.1	(290bps)	220bps	13.8	50bps

Source: Company, BOBCAPS Research

### Nestle India (BUY, TP Rs 28,260)

NEST delivered revenue growth of 9% YoY in Q3CY23 to Rs 50.1bn, with domestic sales growth of 10% YoY backed by a healthy mix of pricing and volumes. Gross margin improved 170bps QoQ/380bps YoY to 56.5% and EBITDA margin expanded 160bps QoQ/250bps YoY to 24.3%.

The company's quarterly revenue run-rate has crossed the Rs 50bn mark for the first time, with sustained momentum in key brands such as *Kitkat*, *Nescafe Classic* and *Nescafe Sunrise*. The e-commerce channel contributed 6.1% of quarterly sales led by quick commerce. Exports were subdued, dipping 6.5% YoY. The company continues to drive innovation and launched two variants of *Maggi* noodles across 15 states in India and two variants of millet porridge as well.

Growth momentum continued in the prepared dishes and cooking aids business driven by strong consumer engagement, especially for RURBAN markets, and targeted media campaigns. The confectionary business performed well led by *Kitkat* and supported by *Munch*, as did beverages on the back of double-digit growth in *Nescafe Classic*, *Nescafe Sunrise*, and *Nescafe Gold*.

**Fig 7 – Financial performance**

(Rs mn)	Q3CY23	Q2CY23	Q3CY22	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	50,095	46,585	46,018	7.5	8.9	51,954	(3.6)
EBITDA	12,249	10,555	10,041	16.0	22.0	12,417	(1.4)
Adj. PAT	8,017	6,983	6,615	14.8	21.2	8,078	(0.8)
Gross Margin (%)	56.5	54.8	52.7	170bps	380bps	55.6	90bps
EBITDA Margin (%)	24.3	22.7	21.8	160bps	250bps	23.9	40bps
Adj. PAT Margin (%)	15.9	15.0	14.4	93bps	152bps	15.6	37bps

Source: Company, BOBCAPS Research

**Tata Consumer Products (BUY, TP Rs 1,038)**

TCPL maintained its growth trajectory, registering a strong revenue uptick of 11% YoY (10% CC) to Rs 37.3bn in Q2FY24, spurred by growth of 11% in India business, 13% (8% CC) in international business and 3% in non-branded business. EBITDA increased 24% YoY with margin expansion of 150bps (-20bps QoQ) to 14.4%. India EBITDA grew 11% YoY with a 15.7% margin while the international business clocked margin gains of 330bps YoY to 12.4% led by pricing interventions and savings from restructuring.

The company's international revenue grew 13% YoY (8% CC) with a 60% rise in EBIT. Pricing action and structural initiatives helped boost margins. Revenue from the UK business grew 13% YoY and from Canada by 8% due to pricing while the US fell 10%.

Tata Starbucks' revenue increased 14% YoY during the quarter. Store expansion remained in focus with 22 net additions in Q2, taking the total count to 370 stores across 49 cities. Tata Sampann, Tata Soulfull and NourishCo collectively grew 39% YoY, forming 18% of India business compared to 15% in Q2FY23. *Sampann* revenue soared 47% YoY led by strong volume growth, *Soulfull* continued its growth trajectory backed by distribution gains and innovation, and *NourishCo* was up 25% to Rs 1.7bn.

**Fig 8 – Financial performance**

(Rs mn)	Q2FY24	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	37,338	37,412	33,631	(0.2)	11.0	37,254	0.2
EBITDA	5,371	5,450	4,338	(1.4)	23.8	5,402	(0.6)
Adj. PAT	3,528	3,217	2,167	9.7	62.8	3,381	4.3
Gross Margin (%)	42.5	42.2	41.7	30bps	80bps	42.3	20bps
EBITDA Margin (%)	14.4	14.6	12.9	(20bps)	150bps	14.5	(10bps)
Adj. PAT Margin (%)	9.4	8.6	6.4	80bps	300bps	9.1	30bps

Source: Company, BOBCAPS Research

### Zydus Wellness (HOLD, TP Rs 1,556)

ZYWL reported only 2% YoY revenue growth to Rs 4.4bn in Q2FY24 owing to uneven rain distribution that affected offtake during the quarter and kept volume growth flat. The company did maintain leadership in four brands – *Sugar Free*, *Glucon-D*, *Everyuth* (scrub and peel-off face mask), and *Nycil*. It also continues to strengthen sales on new-age platforms, with the revenue contribution from e-commerce rising to 10% from 8% in Q2FY23.

Gross margin expanded 190bps YoY to 45.2% as key commodity prices continued to moderate sequentially and the benefits of calibrated price hikes kicked in. EBITDA margin, however, was unchanged YoY at 3.8% as other expenses increased 11% YoY and employee cost rose 11% during the quarter. Reported PAT fell 30% YoY to Rs 59mn due to a deferred tax liability on non-cash items.

ZYWL reported strong double-digit growth in international markets during H1FY24, barring Nigeria business which continued to suffer from currency devaluation. The company is targeting 8-10% revenue from international markets in the next 4-5 years. *Sugar Free* and *Complan* currently constitute ~90% of overseas business and the top five markets constitute ~80% revenue share. The company expects to launch a range of new products in international markets in Q3FY24 under its *Sugar Free D'lite* portfolio.

**Fig 9 – Financial performance**

(Rs mn)	Q2FY24	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	4,399	7,021	4,295	(37.3)	2.4	4,664	(5.7)
EBITDA	168	1,165	163	(85.6)	3.1	280	(40.0)
Adj. PAT	59.0	1,104	85	(94.7)	(30.6)	198	(70.2)
Gross Margin (%)	45.2	52.6	43.3	(740bps)	190bps	44.5	70bps
EBITDA Margin (%)	3.8	16.6	3.8	(1,280bps)	(0bps)	3.8	0bps
Adj. PAT Margin (%)	1.3	15.7	2.0	(1,440bps)	(70bps)	4.2	(290bps)

Source: Company, BOBCAPS Research



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