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CONSUMER STAPLES | Q3FY24 Preview | 12 January 2024

Delayed rural recovery to hurt volume growth

- **Q3FY24 presented weak demand trends like the previous quarter due to subdued volume recovery**
- **General trade continues to witness growth headwinds; regional competition remained elevated during Q3**
- **Expect sustained margin expansion to support earnings growth; prefer NEST, ITC and DABUR**

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Sluggish demand to keep topline growth muted: We expect revenue growth for consumer staples companies under our coverage to remain muted in the October-December quarter as the demand environment was weak – like that of the preceding quarter. We expect modest low-to-mid-single-digit growth during Q3FY24 as volume recovery has been relatively slower than expected. Early commentary from key players, including DABUR, GCPL and MRCO, indicates low-to-mid-single-digit volume growth for the quarter. In our view, some volume recovery will be visible in Q4FY24 owing to a strong wedding calendar and increased government spending on account of the upcoming general elections.

Rural volume growth continues to lag behind urban markets: Initial commentary suggests growth in rural markets has remained muted during Q3FY24, as higher inflation and impact of uneven rainfall continued to dampen sentiments. Urban markets remained steady and are growing faster than rural centres. During our channel checks in India's **southern** and **eastern** regions, we observed that volume growth in general trade remains muted, but modern trade and e-commerce continue to do well. In e-commerce, most of the growth is coming from quick commerce.

Expect sustained margin expansion: We expect continued gross margin expansion for most consumer companies on a YoY basis in Q3 due to the moderation in prices of key commodities. Companies have stepped up their A&P spends to counter lost volumes and to raise brand equity, which is likely to result in double-digit growth in operating profit.

Sector outlook neutral: We believe new product launches, increased market penetration, higher capex and premiumisation will continue to fuel growth for consumer staples players in the medium-to-long term. However, near-term headwinds, including delayed rural recovery, stress in general trade and intense regional competition, are likely to impact the Q3 performance for most players. However, despite expected muted volume and value growth, gross margins are forecast to improve YoY, likely resulting in double-digit earnings growth for staples players. We prefer NEST (TP Rs 2,826, BUY), ITC (TP Rs 523, BUY), and DABUR (TP Rs 669, BUY).

Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	5,137	5,844	BUY
DABUR IN	552	669	BUY
HUVR IN	2,536	3,069	BUY
ITC IN	463	523	BUY
MRCO IN	530	646	BUY
NEST IN	2,557	2,826	BUY
ZYWL IN	1,643	1,556	HOLD

Price & Target in Rupees | Price as of 11 Jan 2024

Company-wise estimates

Fig 1 – BRIT

(Rs mn)	Q3FY24E	Q2FY24	Q3FY23	QoQ (%)	YoY (%)
Revenue	43,982	44,329	41,968	(0.8)	4.8
Gross Profit	19,264	19,011	18,321	1.3	5.1
Gross Profit Margin (%)	43.8	42.9	43.7	90bps	10bps
EBITDA	8,972	8,724	8,176	2.8	9.7
EBITDA Margin (%)	20.4	19.7	19.5	70bps	90bps
Adj. PAT	6,132	5,876	5,568	4.4	10.1
Adj. PAT Margin (%)	13.9	13.3	13.3	64bps	60bps

Remarks: We expect BRIT to report subdued revenue growth of 4.8% YoY during Q3FY24 on account of competition from regional players, which could impact volume recovery, and price cuts taken by the company in the recent past. Biscuits as a category remained resilient despite overall weakness in consumer sentiment. Gross margin is likely to remain muted YoY. Management commentary on demand and competition remain key monitorables.

Source: Company, BOBCAPS Research

Fig 2 – DABUR

(Rs mn)	Q3FY24E	Q2FY24	Q3FY23	QoQ (%)	YoY (%)
Revenue	32,813	32,038	30,432	2.4	7.8
Gross Profit	15,717	15,482	13,850	1.5	13.5
Gross Profit Margin (%)	47.9	48.3	45.5	(40bps)	240bps
EBITDA	6,759	6,609	6,099	2.3	10.8
EBITDA Margin (%)	20.6	20.6	20.0	0bps	60bps
Adj. PAT	5,243	5,151	4,759	1.8	10.2
Adj. PAT Margin (%)	16.0	16.1	15.6	(10bps)	40bps

Remarks: We expect DABUR to report high-single-digit revenue growth during the quarter backed by a consistent volume uptick in both urban as well as rural markets. Early management commentary suggests mid-to-high-single-digit volume growth across the portfolio, except the healthcare business which was affected by a delay in onset of the winter season.

Source: Company, BOBCAPS Research

Fig 3 – HUVR

(Rs mn)	Q3FY24E	Q2FY24	Q3FY23	QoQ (%)	YoY (%)
Revenue	159,312	156,230	155,970	2.0	2.1
Gross Profit	82,205	82,780	74,890	(0.7)	9.8
Gross Profit Margin (%)	51.6	53.0	48.0	(140bps)	360bps
EBITDA	37,120	37,970	36,940	(2.2)	0.5
EBITDA Margin (%)	23.3	24.3	23.0	(100bps)	30bps
Adj. PAT	26,262	26,610	25,770	(1.3)	1.9
Adj. PAT Margin (%)	16.5	17.0	16.5	(50bps)	0bps

Remarks: HUVR is forecast to report just 2.1% YoY value growth in Q3FY24 owing to soft volume growth (~2%) across the portfolio. General trade has been flattish during the quarter due to stress in the mass segment. We expect gross margin to improve by 360bps YoY led by favorable RM prices and cost rationalisation initiatives taken by the company. HUVR continues to focus on premiumisation in its core portfolio which is likely to aid sustained market share gains.

Source: Company, BOBCAPS Research

Fig 4 – ITC

(Rs mn)	Q3FY24E	Q2FY24	Q3FY23	QoQ (%)	YoY (%)
Revenue	183,995	177,745	177,045	3.5	3.9
Gross Profit	110,067	107,058	108,090	2.8	1.8
Gross Profit Margin (%)	59.8	60.2	61.1	(40bps)	(130bps)
EBITDA	66,460	64,542	67,047	3.0	(0.9)
EBITDA Margin (%)	36.1	36.3	35.5	(20bps)	60bps
Adj. PAT	50,198	48,981	50,067	2.5	0.3
Adj. PAT Margin (%)	27.3	27.4	28.3	(10bps)	(100bps)

Remarks: We expect ITC to report mid-single-digit volume growth in its cigarette portfolio. The FMCG business is projected to record strong double-digit growth with expansion in margins. Hotels should continue to perform well on higher occupancy and RevPAR. The paper and paperboard business continues to suffer from the impact of volatility in pulp prices and Chinese competition.

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

Fig 5 – MRCO

(Rs mn)	Q3FY24E	Q2FY24	Q3FY23	QoQ (%)	YoY (%)
Revenue	24,181	24,760	24,700	(2.3)	(2.1)
Gross Profit	12,221	12,260	11,780	(0.3)	3.7
Gross Profit Margin (%)	49.2	50.5	44.9	(130bps)	430bps
EBITDA	5,172	4,970	4,560	4.1	13.4
EBITDA Margin (%)	21.5	20.1	18.5	140bps	300bps
Adj. PAT	3,753	3,530	3,280	6.3	14.4
Adj. PAT Margin (%)	15.6	14.3	13.3	130bps	230bps

Remarks: We forecast a 2.1% YoY decline in revenue for MRCO owing to price correction and muted volume growth in the domestic market. The company expects to report low-single-digit volume growth in *Parachute* oil and *Saffola* edible oil and low-single-digit value growth in value-added hair oil (VAHO). For the international business, management expects to deliver mid-single-digit revenue growth in constant currency terms.

Source: Company, BOBCAPS Research

Fig 6 – NEST

(Rs mn)	Q4CY23E	Q3CY23	Q4CY22	QoQ (%)	YoY (%)
Revenue	47,877	50,368	42,568	(4.9)	12.5
Gross Profit	27,194	28,452	23,353	(4.4)	16.4
Gross Profit Margin (%)	56.8	56.5	54.9	30bps	190bps
EBITDA	12,017	12,249	9,730	(1.9)	23.5
EBITDA Margin (%)	25.1	24.3	22.9	80bps	220bps
Adj. PAT	7,874	9,081	6,281	(13.3)	25.4
Adj. PAT Margin (%)	16.5	18.0	14.8	(158bps)	170bps

Remarks: We project revenue growth of 12.5% YoY for NEST during Q3FY24 driven by a healthy mix of pricing and volumes. We believe the company will drive growth in rural markets as it continues to expand its presence. Gross margin is expected to expand 190bps YoY due to softer input cost. Management commentary on volume growth, new product launches and market penetration remains key to watch.

Source: Company, BOBCAPS Research

Fig 7 – ZYWL

(Rs mn)	Q3FY24E	Q2FY24	Q3FY23	QoQ (%)	YoY (%)
Revenue	4,314	4,399	4,156	(1.9)	3.8
Gross Profit	1,911	1,987	1,823	(3.8)	4.8
Gross Profit Margin (%)	44.3	45.2	43.9	(90bps)	40bps
EBITDA	298	168	282	77.4	5.7
EBITDA Margin (%)	6.9	3.8	6.8	310bps	10bps
Adj. PAT	226	59	196	283.1	15.3
Adj. PAT Margin (%)	5.2	1.3	4.7	390bps	50bps

Remarks: We estimate that ZYWL will report revenue growth of 3.8% YoY in a seasonally weak quarter. Gross profit is forecast to grow by 4.8% with margin expansion of 40bps YoY. Volume growth and market share gains in the food & nutrition category remain key aspects to monitor.

Source: Company, BOBCAPS Research

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