

CONSUMER STAPLES

Q4FY23 Preview

17 April 2023

Early signs of recovery; expect a decent quarter

- Visible uptick in rural demand off a low base, though urban centres expected to see relatively higher volume growth in Q4
- Margins for staples projected to improve on softer prices of key raw materials
- Changing weather patterns, El-Nino and currency depreciation among the key factors to watch

Vikrant Kashyap
 research@bobcaps.in

Expect healthy urban market volumes: In our view, volume growth in urban centres will remain higher than rural markets in Q4FY23 as the latter continued to witness inflationary pressure, resulting in weak consumer sentiment during the quarter. However, a rural volume recovery has been seen for essentials during the second half of the quarter and there are early signs that consumers are returning to premium brands as product prices correct alongside softer raw material costs. We expect HUVR (~5% YoY volume growth), ITC (10-11% YoY volume growth in cigarettes), BRIT and GCPL to perform relatively better during the quarter.

Gross margin expansion likely: Key raw material prices have remained stable and crude oil has declined during Q4. Palm oil, another key input, was stable which is likely to benefit most consumer companies under our coverage. We expect gross margins to improve during the quarter on the back of lower input prices and cost rationalisation initiatives. However, rising prices of milk and other agricultural commodities, including wheat, may impact margins of some companies, resulting in further price hikes or grammage reduction. We note that wheat prices did soften towards the end of the quarter while sugar remained flat.

Higher A&P spends to impact EBITDA margin for some players: Operating margins are expected to improve for our coverage on the back of reduced high-cost inventory, softening raw material prices and relatively better volume growth. However, an increase in brand-related spends could dent Q4 margins for select companies.

Changing weather patterns could delay rural recovery: Commentary from some consumer companies suggests green shoots of recovery in rural markets. Our channel checks also point to improved demand for consumer essentials in rural centres in the wake of price cuts recently taken by companies. However, erratic weather patterns and a potential El-Nino occurrence are key factors to watch as these could damage crops and push back rural recovery.

Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	4,264	5,623	BUY
GCPL IN	963	1,112	BUY
HUVR IN	2,536	3,069	BUY
ITC IN	396	459	BUY
NEST IN	19,465	22,860	BUY
TATACONS IN	720	924	BUY

Price & Target in Rupees | Price as of 13 Apr 2023



Fig 1 – BOBCAPS Consumer Staples Universe: Q4FY23E preview

Company	Q4FY23E	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	Remarks
HUVR						
Revenue (Rs mn)	1,53,680	1,55,970	1,37,670	(1.5)	11.6	We expect HUVR to report 11.6% YoY revenue growth in Q4FY23 with volume growth of ~5%. The company continues to focus on premiumisation in its core portfolio and is likely to see sustained market share gains. Gross margins are forecast to improve sequentially amid favourable pricing of key raw materials.
Gross Profit (Rs mn)	75,918	74,890	68,110	1.4	11.5	
Gross Profit Margin (%)	49.4	48.0	49.5	140bps	(10bps)	
EBITDA (Rs mn)	37,652	36,940	33,010	1.9	14.1	
EBITDA Margin (%)	24.5	23.7	24.0	80bps	50bps	
Adj. PAT (Rs mn)	25,803	24,740	23,020	4.3	12.1	
Adj. PAT Margin (%)	16.8	15.9	16.7	90bps	10bps	
ITC						
Revenue (Rs mn)	1,71,733	1,77,045	1,65,555	(3.0)	3.7	We expect ITC to report low-double-digit volume growth (10-11% YoY) in cigarette portfolio. FMCG is projected to record healthy double-digit growth with margin expansion. Hotels should continue to perform well higher occupancy and RevPAR (revenue per available room). The paper and paperboard business is expected to do well while revenue from the agri business could remain weak.
Gross Profit (Rs mn)	1,05,273	1,08,090	92,994	(2.6)	13.2	
Gross Profit Margin (%)	61.3	61.1	56.2	20bps	510bps	
EBITDA (Rs mn)	65,774	67,047	55,994	(1.9)	17.5	
EBITDA Margin (%)	36.1	35.5	31.9	60bps	420bps	
Adj. PAT (Rs mn)	48,013	50,067	41,957	(4.1)	14.4	
Adj. PAT Margin (%)	28.0	28.3	25.3	(30bps)	270bps	
BRIT						
Revenue (Rs mn)	41,008	41,015	35,084	0.0	16.9	BRIT is likely to report healthy topline growth of 16.9% YoY during the quarter. The biscuits category remained resilient and likely gained market share during the quarter. We anticipate strong growth for BRIT in rural markets despite overall weakness. The impact of higher wheat and milk prices remains a key monitorable.
Gross Profit (Rs mn)	16,697	18,321	13,506	(8.9)	23.6	
Gross Profit Margin (%)	40.7	43.7	38.0	(300bps)	270bps	
EBITDA (Rs mn)	6,937	8,176	5,497	(15.2)	26.2	
EBITDA Margin (%)	16.9	19.5	15.5	(260bps)	140bps	
Adj. PAT (Rs mn)	4,859	5,568	3,798	(12.7)	27.9	
Adj. PAT Margin (%)	11.8	13.3	10.7	(150bps)	110bps	
GCPL						
Revenue (Rs mn)	33,185	35,989	29,158	(7.8)	13.8	We expect GCPL to record strong sales growth of 13.8% YoY, benefiting from an improved performance in the domestic market, increased ad spending and higher demand for cheaper low-unit packs (LUP). Gross margin is forecast to expand 150bps QoQ owing to lower palm oil and other key commodity prices. We expect a stable performance in GAUM and no negative surprises from Indonesia.
Gross Profit (Rs mn)	16,261	18,408	14,424	(11.7)	12.7	
Gross Profit Margin (%)	51.0	51.1	49.5	(10bps)	150bps	
EBITDA (Rs mn)	6,205	7,266	4,631	(14.6)	34.0	
EBITDA Margin (%)	18.7	20.2	15.9	(150bps)	280bps	
Adj. PAT (Rs mn)	4,315	5,538	3,838	(22.1)	12.4	
Adj. PAT Margin (%)	13.0	15.4	13.2	(240bps)	(20bps)	
TATACONS						
Revenue (Rs mn)	34,939	35,235	31,754	(0.8)	10.0	TCPL is forecast to report 10% YoY revenue growth in Q4FY23 resulting from continued growth in the salt business and volume recovery in the tea portfolio. Other businesses including Soulful, Sampann and NourishCo are likely to record healthy growth during the quarter.
Gross Profit (Rs mn)	14,535	14,425	14,167	0.8	2.6	
Gross Profit Margin (%)	41.6	41.5	44.6	8bps	(302bps)	
EBITDA (Rs mn)	4,612	4,537	4,443	1.7	3.8	
EBITDA Margin (%)	13.2	13.1	14.0	14bps	(79bps)	
Adj. PAT (Rs mn)	2,571	2,732	2,362	(5.9)	8.8	
Adj. PAT Margin (%)	7.4	7.9	7.4	(50bps)	(8bps)	
NEST						
	Q1CY23E	Q4CY22	Q1CY22	QoQ (%)	YoY (%)	
Revenue (Rs mn)	44,154	42,568	39,807	3.7	10.9	We expect NEST to report revenue growth of 10.9% YoY in Q1CY23E. The company is likely to perform better in rural markets despite overall weakness, as it continues to expand its presence in rural markets and the noodles category remained resilient. However, higher milk prices are expected to impact margins in its dairy and confectionary portfolios.
Gross Profit (Rs mn)	24,373	23,353	22,050	4.4	10.5	
Gross Profit Margin (%)	55.2	54.9	55.4	30bps	(20bps)	
EBITDA (Rs mn)	10,420	9,730	9,247	7.1	12.7	
EBITDA Margin (%)	23.6	22.9	23.2	70bps	40bps	
Adj. PAT (Rs mn)	6,592	6,281	5,947	5.0	10.8	
Adj. PAT Margin (%)	14.9	14.8	14.9	18bps	(1bps)	

Source: Company, BOBCAPS Research

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