July 8, 2022

RM prices peak out; release pressure for price hike…

FMCG companies are expected to post price led revenue growth given most companies have taken 10-15% price hikes in the last one year to pass on sharp inflation in palm oil, crude derivatives and agri commodities. Volume growth is likely to remain muted in the context of lower sales in base quarter, which was impacted by second wave of pandemic. Our FMCG universe is expected to post 14.8% revenue growth driven by strong growth in ITC & HUL. We expect 4% volume growth in HUL on account of lower sales in base quarter specifically in discretionary categories like cosmetics and skin care. Moreover, strong summer demand for ice-creams after two years of disruption would have aided growth in the foods segment. Despite high base quarter sales, Dabur is expected to post strong 8% sales growth led by 4-5% volume growth in India business. Tata Consumer Products (TCPL) is likely to witness 5% volume growth in India beverage business given tea prices remained benign in the last one year. Nestlé may see price led sales growth in Q1 with Maggi noodles continuing growth momentum and growth in milk products remains a drag. With elevated edible oil prices in most part of quarter & a high base of last year, Marico is likely to witness volume de-growth in Saffola brand. Within our coverage universe, ITC is likely to post strongest revenue growth led by full recovery in cigarette volumes, robust growth in paperboard business, recovery in stationary business & price hikes taken in FMCG business to pass on RM inflation. VST Industries is also likely to witness full recovery in cigarettes volumes to pre-Covid levels. FMCG companies have slowed down new product launches in the last few quarter given pressure on gross margins leading to reduction in ad-spends.

Commodity prices start to cool off

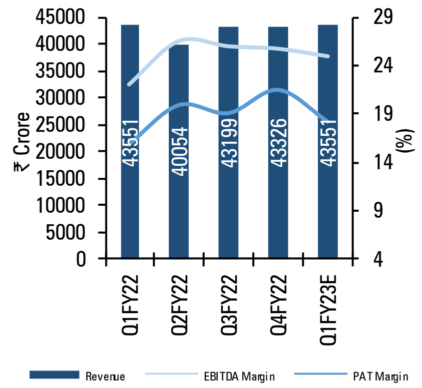
Most commodity prices seem to have peaked out in June 2022 and started cooling off considerably. Palm oil prices have dropped ~30% from the peak but average palm oil prices in Q1FY23 were up 54% against average of Q1FY22. Similarly, crude oil prices have started cooling off from the peak but still remain above US$100/ barrel. The government has proactively restricted exports of wheat and sugar, which has cooled down agri commodity prices as well. Though we believe the current quarter would continue to see gross margin contraction, the fall in commodity prices at the fag end of the quarter would release pressure on FMCG companies to take further price hikes, going forward. We estimate 20-200 bps operating margin contraction for most of our coverage companies. However, with the dip in tea & copra prices in last few quarter, Marico and TCPL are likely to see 80-140 bps operating margin expansion. We estimate 14.4% net profit growth for our FMCG coverage universe.

Exhibit 1: Estimates for Q4FY22E: (FMCG) (₹ crore)

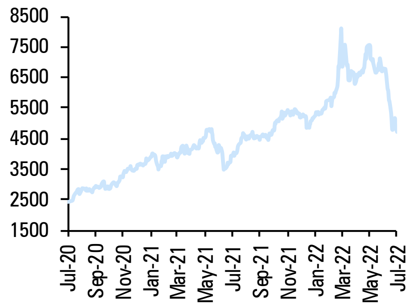
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ
Colgate Palmolive	1,236.9	6.1	-4.9	369.7	4.1	-13.9	246.6	5.7	-80.9
Dabur India Ltd	2,820.3	8.0	12.0	538.2	-2.5	18.6	430.1	-1.7	46.1
HUL	13,610.9	14.2	1.1	3,214.4	12.9	-0.9	2,256.7	9.5	-3.0
ITC	15,972.9	23.3	-2.8	4,791.4	20.0	-8.3	3,687.3	22.4	-12.0
Marico Ltd	2,565.4	1.6	18.7	522.3	8.6	51.0	382.5	4.8	48.9
Nestle India	3,837.8	10.4	-3.6	889.7	4.9	-3.8	566.1	5.1	-4.8
Tata Consumer	3,198.5	6.3	0.7	450.2	12.7	1.3	263.8	31.7	10.3
VST Industries	308.7	12.2	2.2	105.5	14.7	-0.8	81.0	15.0	-7.1
Total	**43,551.3**	**14.8**	**0.5**	**10,881.2**	**13.7**	**-2.6**	**7,914.1**	**14.4**	**-14.8**

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



Surge in palm oil prices (MYR/tonne)



* MYR – Malaysian Ringgit

Operating margins FMCG Coverage (%)

Company	EBITDA margin %				
	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23E
Colagte	30.5	29.6	29.7	33.0	29.9
Dabur	21.1	22.0	26.9	18.0	19.1
HUL	23.9	24.6	25.0	24.1	23.6
ITC	30.8	34.1	30.4	31.8	30.0
Marico	19.0	17.5	17.9	16.0	20.4
Nestle	24.4	24.4	23.2	23.2	23.2
Tata Cons.	13.3	13.6	14.4	14.0	14.1
VST Ind.	33.4	38.5	33.2	35.2	34.2
FMCG Total	**25.2**	**26.6**	**26.1**	**25.8**	**25.0**

Top Picks

Dabur
Tata Consumer Products

Research Analysts

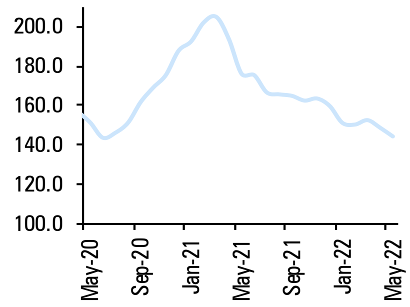
Sanjay Manyal
sanjay.manyal@icicisecurities.com

Exhibit 2: Company Specific Views (FMCG)

Company	Remarks
Colgate	Colgate is expected to register revenue growth of 6.1% led by price hikes taken in earlier quarters. Volumes are likely to remain flattish for second consecutive quarter given high inflation is leading to shift towards smaller SKUs & economy brands. With elevated crude & related packaging costs throughout the quarter, gross margins are expected to contract by 197 bps. We estimate lower advertisement & overhead spends in Q1. Operating profit is estimated to grow 4.1% with 58 bps contraction in operating margins. Net profit is expected to grow by 5.7% to ₹ 246.6 crore
Dabur	We expect Dabur to post 8% revenue growth on the back of 9.5% India business growth & 3.3% International business growth. This is strong set of numbers considering high growth of 32% in base quarter. The India business growth is likely to be led by 5% volume growth. The slower growth in international business has been adversely impacted by currency de-valuation in Turkish Lira. We estimate gross margin contraction of 214 bps given high margin Health supplements (Chyawanprash, Honey) categories expected to see sales decline on account of high sales in base quarter. We expect 206 bps contraction in operating margins. Net profit is likely to witness 1.7% de-growth in Q1
HUL	HUL is estimated to witness 14.2% revenue growth led by 10% price hike & 4% volume growth. The positive volume growth is mainly on account of lower sales in base quarter due to second wave of pandemic. We expect home care & beauty & personal care (BPC) segment to witness 20.2% & 5.3% sales growth, respectively. Foods & refreshments sales is estimated to grow 12.6%. We expect 141 bps contraction in gross margins given major raw materials like palm oil & crude derivatives were at elevated levels for most part of the quarter. With reduction in overhead spends, operating margins are likely to contract only by 28 bps. Net profit is estimated to grow 9.5% to ₹ 2256.7 crore
ITC	ITC is expected to post strong 23.3% revenue growth led by 21.8% growth in cigarettes business, 28% growth in paperboard business & 17.5% growth in FMCG business. The strong growth in cigarette business is mainly on account of recovery in cigarette volumes to the pre-Covid levels. The growth in paperboard business is contributed by high volumes from low base quarter & strong pricing growth given paper prices globally have gone up sharply due to energy shortage in Europe. The growth in FMCG business is likely to be aided by recovery in stationary business and pricing growth in foods, personal care businesses. Agri business sales is expected to be flat given wheat export was banned during the quarter & hotels business is expected to clock pre-Covid sales in Q1. We expect 81 bps contraction in operating profit & net profit growth of 22.4%
Marico	Marico is estimated to clock mere 1.6% revenue growth led by 12.5% growth in international business. However, domestic business is expected to witness 1% sales de-growth. India business volumes have declined by mid-single digit largely impacted by de-growth in Saffola sales due to high sales in base quarter & consumption shift towards lower SKUs & economy brand on account of excessive inflation. Parachute & VAHO also saw dismal sales due to muted consumer sentiments in rural India & price cuts in coconut oil due to price dip in copra prices. With the decline in copra prices, we estimate gross margin expansion of 312 bps. We estimate advertisement spend at 7.8% of the total sales. Operation profit is likely to grow by 8.6% with 131 bps margin expansion. Net profit is likely to grow by 4.8% due to increase in tax rate
Nestlé India	We expect 10.4% sales growth for Nestlé India largely led by pricing growth. We believe noodles segment continues to grow at faster pace for the company. However, milk & milk products sales continue to remain lacklustre. The inflation in milk & other agri commodities continue to remain high in Q1FY23 as well. Despite price hikes, we expect gross margin contraction to the tune of 155 bps. With some overhead spends savings, operating margins is expected to contract 121 bps. We estimate net profit growth of 5,1% during the quarter

Source: Company, ICICI Direct Research

Copra Price Trend (₹/kg)



Crude Price Trend (USD / barrel)

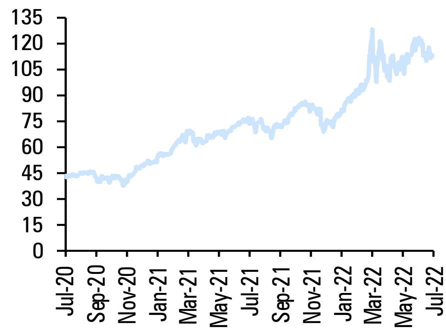


Exhibit 3: Company Specific Views (FMCG)

Company	Remarks
Tata Consumer (TCPL)	TCPL is expected to witness 6.3% sales growth during the quarter led by 14.3% in international sales mainly due to low base. However, India beverage business sales is expected to grow 2.3% as the company took price cuts due to decline in tea prices. India food business sales is expected to remain flat due to higher sales in base quarter. With the decline in tea prices, gross margins are expected to expand 349 bps with 12.7% growth in operating profit. Loss from associate is expected to come down, which is expected to result in strong 31.7% growth in net profit
VST Industries	VST Industries is expected to witness 12.3% revenue growth led by 7.5% growth in cigarettes sales & 41.8% growth in tobacco sales. The expected growth in cigarette business was mainly led by recovery in cigarette volumes to pre-Covid levels. Further, high growth in tobacco sales was mainly on account of low base impacted by container availability problems. We expect 14.7% growth in operating profit given tobacco prices remain benign. Net profit is expected to grow 15% to ₹ 81 crore

Source: Company, ICICI Direct Research

Exhibit 4 : ICICI Direct coverage universe (FMCG)

	CMP	TP		M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Colgate (COLPAL)	1,566	1,700	Hold	42,593	39.6	41.6	45.1	39.5	37.6	34.8	8.4	7.8	7.2	77.8	84.9	90.2	62.2	64.6	68.8
Dabur India (DABIND)	544	680	Buy	96,113	9.9	11.7	13.1	55.2	46.3	41.4	8.8	8.0	7.2	24.9	25.3	26.1	20.8	22.7	22.9
Hindustan Unilever (HINLEV)	2,497	2,200	Hold	5,86,610	37.5	39.5	43.6	66.5	63.2	57.2	11.7	10.6	9.9	20.2	21.9	24.2	18.1	19.1	21.2
ITC Limited (ITC)	293	310	Buy	3,60,223	12.4	14.0	15.5	23.6	20.9	18.9	6.1	5.6	5.1	31.4	34.9	36.6	24.5	26.7	28.1
Jyothy Lab (JYOLAB)	166	145	Hold	6,077	4.3	5.6	6.4	38.9	29.6	26.0	2.8	2.5	2.3	18.7	24.2	27.7	16.6	21.2	23.8
Marico (MARLIM)	504	530	Hold	64,929	9.7	10.6	11.7	51.8	47.6	43.0	6.8	6.3	5.8	41.2	46.8	52.9	37.5	41.4	47.4
Nestle (NESIND)	18,419	19,050	Hold	1,75,243	222.4	252.9	291.6	82.8	72.8	63.2	12.0	10.8	9.8	58.7	58.8	62.9	111.3	110.4	111.8
Tata Consumer Products (TAT	761	910	Buy	71,514	11.0	15.0	17.5	69.1	50.9	43.6	5.8	5.2	4.8	8.4	10.3	11.3	7.0	8.8	9.8
VST Industries (VSTIND)	3,266	3,425	Hold	4,986	229.3	252.9	290.5	14.2	12.9	11.2	4.2	3.9	3.6	39.2	44.6	50.6	30.0	33.4	37.8
Varun Beverage (VARBEV)	849	900	Buy	55,179	17.2	17.3	20.2	49.3	49.2	42.0	6.3	5.1	4.5	17.1	25.6	29.7	18.3	22.8	23.0

Source: Company, ICICI Direct Research

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Pankaj Pandey	Head – Research	pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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