ICICI direct Research

Result Preview

ICICI Securities – Retail Equity Research

January 9, 2021

Strong growth backed by festive, pent-up demand

With the strong demand conditions backed by festive season demand & increasing out of home activity, FMCG companies are expected to witness stronger growth in the December quarter. We believe 'at-home' consumption for branded packaged food has helped companies to accelerate the unbranded to branded consumption shift. Moreover, we believe increasing out of home activity has resulted in stronger growth for discretionary products as well. Our FMCG coverage universe is likely to witness 12.1% revenue growth (ex-ITC 16.4% increase) with strong growth in ITC (FMCG), Nestlé, Dabur, Marico, Tata Consumer Products (TCPL) & Zydus wellness. Moreover, with increase in some commodity prices (palm oil, tea), companies have taken selective price increase, which would have also contributed to growth. Aggressive new products in H1FY21 have been contributing 1-4% to sales for most FMCG companies. ITC FMCG business is expected to continue its growth momentum with higher growth in packaged foods categories. We believe Dabur would witness stronger growth in health supplement portfolio (Chyawanprash & Honey) given higher winter demand for immunity boosting products. Moreover, entire Ayurveda range of products are gaining traction for company. Marico has seen double digit volume growth in Q3 with continued traction in Saffola & foods portfolio. The growth in HUL is largely contribute by acquired businesses but mature categories (detergents, personal care) are likely to see muted sales. We expect higher 13% sales in Nestlé that is likely to be aided by higher primary sales (distribution stocking up). With increased health awareness & stronger distribution network, Zydus is likely to see 11% rise in gross sales but due to expiry of tax benefits, net sales is likely to grow 7%. With price hikes in tea & continued consumption shift from unbranded to branded, TCPL is expected to continue the growth momentum with 13.9% (like to like) increase in sales. We expected cigarettes companies (ITC, VST) to witness 6-7% YoY volume decline (Q2FY21 -12-14% volume decline) with slower recovery.

Stable operating margins despite adverse RM price movement

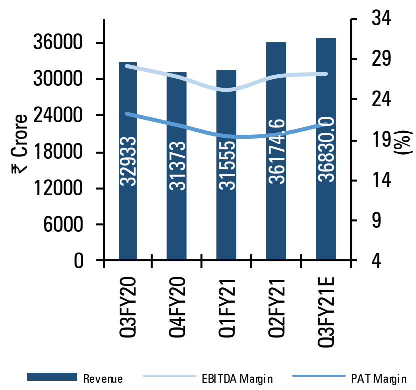
Our coverage universe is (ex-ITC) is expected to see 20 bps increase in operating margins despite high inflation in some of the commodities. Though tea prices have cooled off from 70-80% YoY higher in Q2FY21 to 30-40% higher in Q3FY21, it would impact gross margins for HUL & Tata Consumer Products given only partial price hikes have been taken in the last six months to pass on this price inflation. Similarly, palm oil prices (average) in Q3FY21 has been up 35% compared to Q3FY20. This would also partially impact FMCG company's gross margins but bigger impact would be felt in Q4 and price hikes in many categories are imminent. FMCG companies have been able to rationalise their overhead & advertisement spends to offset adverse raw material price movement. Net profit (ex-ITC) is expected to witness strong 23.1% growth.

Exhibit 1: Estimates for Q3FY21E: (FMCG) (₹ crore)

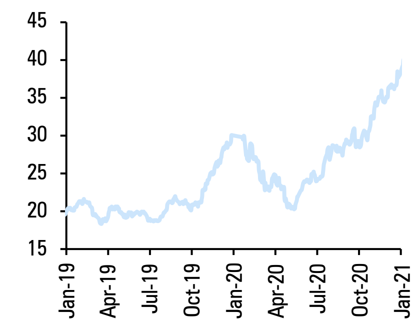
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ
Colgate Palmolive	1,225.2	6.8	-4.7	364.8	15.4	-10.9	241.0	21.1	-12.1
Dabur India Ltd	2,636.7	12.1	4.8	570.6	15.8	0.2	465.9	16.8	-3.5
HUL	11,322.3	15.4	-1.0	2,748.8	12.4	-4.2	1,913.7	18.4	-4.7
ITC	12,559.8	4.6	4.9	4,522.6	-2.0	11.4	3,806.8	-8.1	17.8
Marico Ltd	2,037.7	11.7	2.4	410.6	10.1	5.6	331.9	20.3	21.6
Nestle India	3,558.7	13.0	0.5	834.8	23.1	-5.5	552.1	16.7	-6.0
Tata Consumer	2,827.3	44.1	1.7	413.6	72.6	3.5	293.0	115.7	7.3
VST Industries	406.0	10.4	35.2	115.7	6.8	2.4	88.0	8.0	-0.6
Zydus Wellness	356.0	7.0	4.1	45.8	40.1	69.0	34.1	705.1	LP
Total	**36,929.7**	**12.1**	**2.1**	**10,027.4**	**7.8**	**3.2**	**7,726.5**	**5.5**	**8.6**

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



Surge in palm oil prices (₹/kg)



Operating margins FMCG Coverage (%)

Company	EBITDA margin %				
	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21E
Colagte	27.6	24.5	29.6	31.8	29.8
Dabur	20.9	18.9	21.0	22.6	21.6
HUL	24.9	22.9	25.0	25.1	24.3
ITC	38.4	36.5	27.9	33.9	36.0
Marico	20.4	18.9	24.3	19.6	20.2
Nestle	21.5	23.9	24.5	24.9	23.5
Tata Cons.	12.2	12.8	17.8	14.4	14.6
VST Ind.	29.5	24.0	40.4	37.6	28.5
Zydus Wellness	9.8	21.5	22.8	7.9	12.9

Top Picks

Dabur
Tata Consumer
Zydus Wellness

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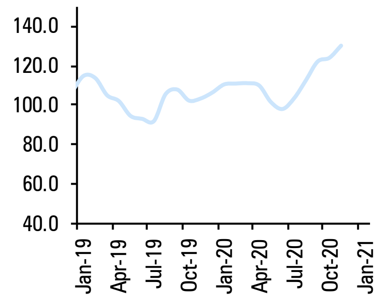
Exhibit 2: Company Specific Views (FMCG)

Company	Remarks
Colgate	We expect moderate revenue growth of 6.8% for Colgate with estimation of 5% volume growth. We believe the company would be able to protect its market share with the increasing focus on Naturals product portfolio. The company has been able to increase the penetration of Colgate Vedshakti by 70 bps in last two years. We expect 108 bps gross margins expansion mainly on account of continued benefit of low packaging cost. We expect the company to spend 12.8% of the sales as advertisement spend & it would be able to save cost through continued focus on cost cutting measures. We expect 228 bps operating margin expansion and net profit growth of 21.1% to ₹ 241 crore
Dabur	Dabur India is likely to post 12.1% revenue growth in Q3FY21 with estimated domestic sales growth of 14% & international sales increase of 5%. We expect health supplement & oral care segments to continue the growth momentum with increased focus on health & immunity boosting products (winter is peak season for Chwayanprash & Honey). Moreover several new product launched in last ten months would have helped driving growth. We expect advertisement spends would nearly come back to pre-covid levels at 8% of the sales. We estimate 70 bps operating margin expansion to 21.6%. Net profit is likely to grow by 17.7% to ₹466 crore
HUL	We estimate 15.4% revenue growth for HUL in Q3FY21 mainly on account of consolidation of acquired businesses last year. Home care & Beauty & Personal care segments are likely to witness muted 3% & 5% sales growth with nearly full recovery in urban regions. Foods & Refreshment segment is likely to witness 48% revenue growth aided by consolidation of Horlicks & Boost sales. We expect 143 bps gross margins contraction with elevated tea & palm oil prices. However, we expect the company would be able to save marketing & overhead spends to restrict operating margins contraction. We estimate 65 bps operating margins contraction to 24.3%. Net profit is likely to grow by 18.4% to ₹ 1913.7 crore
ITC	ITC is expected to post 4.6% revenue growth on the back of 4% growth in cigarettes sales. We expect 6% decline in cigarette volumes during the quarter. FMCG business is likely to continue the growth momentum with 14% sales increase backed by strong demand for packaged food. We believe the growing trend of consumption shift from unbranded to branded is working well for many of the foods categories. We expect 15% growth in agri business with better opportunity of exports backed by healthy growth in agri output. Paperboard business is expected to witness 10% growth with some pent-up demand of H1FY21. We expect 65% decline in hotels business revenue given recovery is slow with limited foreign tourist arrival. Operating margin is expcted to contract by 239 bps mainly on account of cigarettes volume decline & beleaguered hotels business sales. We expect net profit decline of 8.1% to ₹ 3806 crore in Q3FY21
Marico	Marico is likely to witness 11.7% revenue growth on account of 13% growth in domestic & 7% growrth in international business. India business to witness double digit volume growth. The company continued with the strong growth momentum in saffola & food business with double digit volume growth in the segment. Parachute is likely to witness high single digit volume growth during the quarter. VAHO segment also saw double digit sales growth contributed largely by price increases. The company cut back some promotional offers & increase prices to pass on the rise in raw material prices. We expect flattish operating margins at 20.2% & net profit growth of 20.3% during the quarter
Nestlé India	We expect Nestle to witness strong 13% sales growth on the back of increase in inventory levels at the distributor end. Our channel check suggest that October sales was strong and November-December sales were muted. However, distributor level inventories have gone up 7-10 days. We believe the increase in distributor level inventory would have driven the growth for Nestle. We expect 187 bps expansion in gross margins mainly on account of lower cost inventory of Milk. We expect similar expansion in operating margins given all other cost would have remained same. Operating margin is likely to expand by 193 bps to 23.5%. Net profit is expected to grow by 16.7% to ₹ 552.1 crore in Q4CY20.

Source: Company, ICICI Direct Research

Copra Price Trend (₹/kg)



Crude Price Trend (USD / barrel)

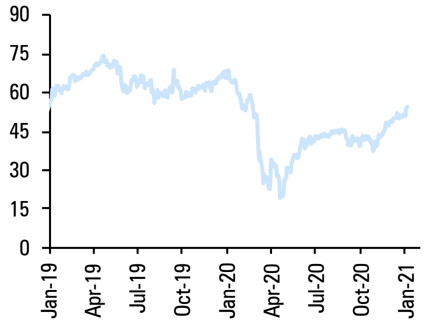


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Exhibit 3: Company Specific Views (FMCG)

Company	Remarks
Tata Consumer (TCPL)	Tata Consumer Product is likely to witness 44.1% revenue growth mainly on account of consolidation of acquired consumer business. On a like to like basis, revenue is expected to grow by 13.9%. Though, tea prices have cooled off from the peak 80% higher however, we believe the company would been holding high cost tea inventory during the quarter. We believe the company has taken ~15-20% price hike in last six months to pass on the inflation in tea prices. The higher tea prices is likely to contract gross margins however, we expect 240 bps expansion in operating margins largely due to consolidation of acquired consumer business & cut down in overhead & advertisement spends. We expect net profit at ₹ 293 crore during the quarter.
VST Industries	VST industries is likely to report gross sales growth of 10.4% to ₹ 406 crore. However, net of excise sales is expected to witness 10.9% decline during the quarter. We expect 7% cigarettes volume decline in Q3FY21. With the ~10% price hike post budget last year & cut down in various promotional schemes post covid19, the company is likely to witness ~25% realisation increase. We expect 6.8% growth in operating profit to ₹ 115.7 crore. Net profit is likely to witness 8% growth to ₹ 88 crore
Zydus Wellness	We expect Gross sales increase of 11% in Q3FY21 however net of GST sales is likely to increase by 7% given some of the GST related benefits expired in January 2020. The company has seen strong demand for sugarfree with increase health awarness post Covid19 breakout. Further, the company has launched many variants of Complan, which is likely to contribute to the growth during the quarter. With the signifcant decline in milk prices, gross margin is expected to expand by 108 bps during the quarter. Further with lower overhead spends, we expect the company to witness 304 bps expansion in operating margins. Net profit is likely to increase from ₹ 4.2 crore to ₹ 34 crore mainly on account of ₹ 27 crore dip in interest cost. The company has repaid large part of its debt after raising equity through QIP.

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)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Colgate (COLPAL)	1,615	1,700	Buy	38,812	33.4	35.4	37.8	48.4	45.6	42.7	8.4	7.7	7.2	83.5	100.8	123.9	64.2	78.0	96.5
Dabur India (DABIND)	540	595	Buy	90,864	9.6	10.7	11.8	56.4	50.4	45.9	9.5	8.6	7.8	25.9	26.7	27.1	22.3	22.7	22.9
Hindustan Unilever (HINLEV)	2,391	2,500	Buy	510,548	32.4	38.8	43.2	73.8	61.6	55.3	12.0	10.4	9.7	24.5	28.5	31.2	18.6	21.9	23.9
ITC Limited (ITC)	202	225	Buy	213,884	11.2	12.0	13.4	18.0	16.7	15.0	4.7	4.2	3.8	27.2	30.5	35.7	20.9	23.4	27.5
Jyothy Lab (JYOLAB)	149	150	Hold	4,957	5.8	6.1	6.7	26.0	24.5	22.2	2.7	2.5	2.3	31.1	30.9	31.5	25.7	25.1	25.6
Marico (MARLIM)	425	440	Buy	46,834	8.8	9.5	9.9	48.2	44.6	43.0	6.2	5.6	5.4	42.3	45.1	46.0	36.3	38.5	39.3
Nestle (NESIND)	18,306	18,000	Hold	152,970	223.4	253.4	284.2	81.9	72.2	64.4	11.5	10.4	9.5	59.9	66.6	73.7	119.1	139.2	160.6
Tata Consumer Products (TATGLO	610	605	Buy	52,158	12.0	13.5	15.1	50.8	45.1	40.3	4.8	4.4	4.1	9.8	10.5	11.1	7.8	8.6	9.3
VST Industries (VSTIND)	3,675	3,850	Hold	5,307	206.0	211.9	223.9	17.8	17.3	16.4	4.5	4.2	3.9	45.3	46.1	51.7	33.6	34.2	38.2
Varun Beverage (VARBEV)	990	730	Hold	19,429	11.3	21.7	26.6	87.6	45.6	37.2	3.0	2.5	2.3	12.3	18.6	20.7	10.1	16.7	17.6
Zydus Wellness (ZYDWEL)	2,069	2,300	Buy	11,359	27.8	65.7	71.7	74.5	31.5	28.9	6.1	5.4	5.0	6.9	8.3	8.9	5.9	8.6	9.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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