

April 10, 2023

Green shoots of volume uptick visible on price cuts

With softening of major commodity prices, FMCG companies have taken price cuts and grammage increases in the last six months. This is expected to result in volume uptick in Q4FY23. However, rural demand conditions still remain soft compared to urban demand. We estimate our FMCG coverage universe to see 9.8% revenue growth in Q4FY23 led by mix of volume & pricing. Price cuts taken in beauty & personal care (BPC) category by HUL have started benefiting in terms of pick-up in volumes. Also, home care segment has been growing at a faster pace from last one year mainly propelled by higher mobility in post Covid period. We estimate HUL to see 15.4% revenue growth led by 6% volume growth, 9% pricing growth. We expect Nestlé to see 12.8% sales growth in Q4 led by noodles & chocolate category. We believe higher milk prices would continue to impact growth in milk & related product category.

Further, ITC (FMCG) business is also expected to see strong growth of 19.1% led by higher growth in foods, discretionary & stationary segment. We also believe high growth in summer products volume would benefit Zydus Wellness in Q4 specifically for Glucon-D & Nycil brands. Tata Consumer is expected to see strong growth in India foods business (salt) mainly driven by price hikes taken in last one year on higher energy cost in production of salt. Moreover, Sampann & newly forayed high growth categories like protein products, dry fruits & others would also contribute to growth. Though Marico is expected to witness high single digit volume growth in hair oil category, the category is still underperforming given high penetration levels. Similarly oral care category is also saturated & not growing in volume terms in last few years. Dabur is expected to see adverse impact of currency depreciation of Turkish Lira. Cigarette volumes would continue to grow at faster pace (10-13%) led by stable taxation in last five years & curb on illicit cigarettes. FMCG companies are foraying in newer underpenetrated categories to offset muted growth in highly penetrated & saturated categories.

Most commodities down; margins to move upwards

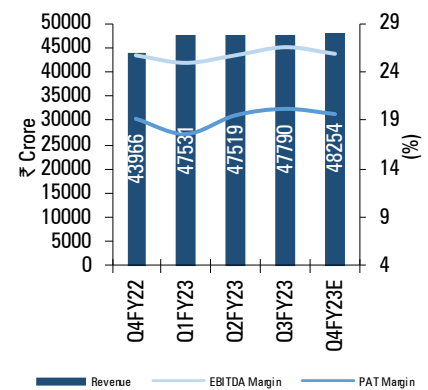
Commodity prices have declined in the last six months, which is likely to improve gross margins of FMCG companies. Average palm oil, crude & coconut oil prices have been down 35%, 16.1% & 12.7%, respectively, compared to corresponding quarter. Wheat prices have come down close to support prices of ₹ 21/kg compared to its peak of ₹ 30/kg in December 2022. However, milk prices have not only remained firm but has also inched up in Q4. We believe Nestlé and Zydus would continue to see pressure on gross margins. We estimate lower ad-spends by most FMCG companies in Q4FY23, which would aid operating margins. Our coverage universe is likely to see 90 bps improvement in Q4 likely to drive to net profit growth of 12.6%.

Exhibit 1: Estimates for Q4FY23E: (FMCG) (₹ crore)

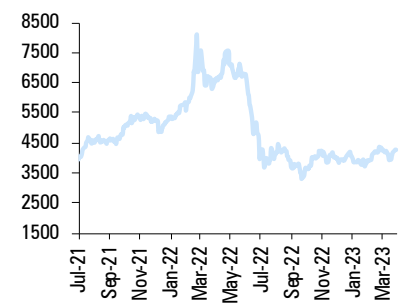
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ
Colgate Palmolive	1,376.4	5.8	6.6	448.8	4.5	24.2	311.5	-3.7	28.0
Dabur India Ltd	2,653.2	5.4	-12.8	421.3	-7.1	-30.9	338.1	14.9	-29.1
HUL	15,531.9	15.4	2.0	3,723.8	14.8	5.3	2,519.1	8.3	0.6
ITC	17,459.1	6.3	1.1	6,157.4	17.9	-1.1	4,911.8	17.2	-2.4
Marico Ltd	2,197.6	1.7	-11.0	383.0	10.7	-16.0	277.6	8.1	-16.6
Nestle India	4,488.7	12.8	5.4	960.6	3.9	-1.3	640.3	7.7	2.0
Tata Consumer	3,497.1	10.1	0.7	481.0	8.3	6.0	276.3	15.6	-24.2
VST Industries	335.5	11.1	-2.9	106.8	0.4	12.7	79.6	-8.7	0.8
Zydus Wellness	714.5	11.7	71.9	163.0	15.2	478.4	155.3	16.5	694.1
Total	48,254.0	9.8	1.0	12,845.8	13.5	0.9	9,509.7	12.6	-1.8

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



Palm oil prices trend (MYR/tonne)



* MYR – Malaysian Ringgit

Operating margins FMCG Coverage (%)

Company	EBITDA Margin %				
	Q4'22	Q1'23	Q2'23	Q3'23	Q4'23E
Colagte	33.0	27.2	29.4	28.0	32.6
Dabur	18.0	19.3	20.1	20.0	15.9
HUL	24.1	22.8	22.9	23.2	24.0
ITC	31.8	30.8	34.2	36.0	35.3
Marico	16.0	20.6	17.3	18.5	17.4
Nestle	23.2	20.3	21.8	22.9	21.4
Tata Cons.	14.0	13.7	12.9	13.1	13.8
VST Ind.	35.2	37.5	27.0	27.4	31.8
Zydus Welln	22.1	21.3	3.8	6.8	22.8
FMCG Total	25.7	24.9	25.7	26.7	26.6

Top Picks

ITC
Tata Consumer Products

Research Analysts

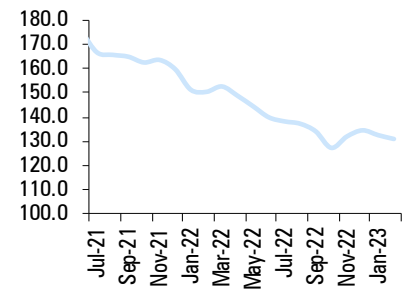
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Exhibit 2: Company Specific Views (FMCG)

Company	Remarks
Colgate	Colgate is expected to post 5.8% revenue growth led entirely by pricing growth. Volume is expected to remain muted in Q4FY23 similar to the trend in 9MFY23 numbers. With the cool down of many commodities, gross margins would improve sequentially by 70 bps but it is likely to be 18 bps lower on a YoY basis. We estimate higher marketing spend & lower overhead spends during the quarter. Operating margin is expected to decline 39 bps to 32.6%. We estimate net profit to decline by 3.7% to ₹ 311.5 crore
Dabur	Dabur is likely to post dismal results during the quarter with 5.4% revenue growth largely led by prices. Though urban demand conditions have improved during the quarter, rural volumes continue to remain dismal. India sales in expected to grow by 5.6% led by double digit growth in beverage category. Health supplement segment is expected to witness moderate growth despite high base in corresponding quarter. Most commodities have softened in the last six months resulting in gross margin improvement in India business but adverse currency movement in international business would result in 98 bps contraction in gross margin at consolidated levels. We estimate operating margin contraction of 213 bps to 15.9% in Q4. Adjusted net profit is expected to see a decline of 10.9% to ₹ 338.1 crore
HUL	HUL is expected to witness 15.4% revenue growth led by 9% pricing growth & 6% volume growth. Home care & beauty & personal care (BPC) business is likely to grow 15% & 19.7%, respectively. The company has started incorporating price cuts in soaps, detergent after decline in most of the commodity prices in last six months. Foods & refreshment segment is expected to see moderate 4.6% growth as high milk prices are still pressurising growth in MFD category. We estimate gross margin improvement of 190 bps sequentially however slightly (12 bps down) on YoY basis. We expect 123 bps lower ad spends in Q4. Operating profit is likely to grow 14.8% to ₹ 3723.8 crore with 24 bps contraction in operating margin to 24.4%. Net profit is expected to grow 8.3% to ₹ 2519.1 crore
ITC	We estimate 6.3% revenue growth for ITC led by strong 15.9% growth in cigarettes business. we estimate ~13% volume growth in cigarettes. Moreover, FMCG business is expected to see 19.1% sales growth led by strong traction in foods, discretionary & stationary categories. Hotels segment is estimated to grow 77.8% led by post-covid pent up demand. The growth in paperboard segment is expected to moderate given RM prices have declined & companies are taking price cuts accordingly. The segment is likely to grow 7.6% in Q4. Agri business is likely to see 25.4% sales decline on account of export restriction on wheat. We expect 340 bps gross margin improvement & similar expansion in operating margins to 35.3%. Net profit is expected to grow 17.2% to ₹ 4911.8 crore
Marico	Marico is likely to see muted sales growth of 1.7% in Q4 mainly due to expected 2% dip in India business & 14.9% growth in international business. The decline in sales growth in mainly due to sharp price cuts taken in Parachute & Saffola edible oil categories in last one year. Parachute oil would see mid-single digit volume growth & Saffola edible oil is likely to see volume de-growth due to high base. Value added hair oil (VAHO) is expected to witness double digit value growth in Q4. Foods business, digital first brands & premium personal care businesses are growing at faster pace & maintaining strong growth momentum. With decline in major commodity prices, gross margin is expected to expand by 152 bps. We estimate operating profit growth of 10.7% to ₹ 383 crore. Operating margin is expected to expand by 142 bps to 17.4%. We estimate net profit growth of 8.1% to ₹ 277.6 crore
Nestlé India	Nestlé India is expected to maintain strong growth momentum with 12.8% sales growth led by mix of volume & pricing growth. Maggi noodles & chocolate categories are expected to grow at faster pace but milk & related product categories to see moderate sales given high milk prices are adversely impacting growth. We estimate gross margin contraction of 173 bps in Q4. Operating profit is estimate to grow 3.9% with contraction of 186 bps in operating margins to 21.5%. We estimate 7.7% growth in net profit to ₹ 640.3 crore

Source: Company, ICICI Direct Research

Cochin Coconut Oil Price Trend (₹/kg)



Crude Price Trend (USD / barrel)

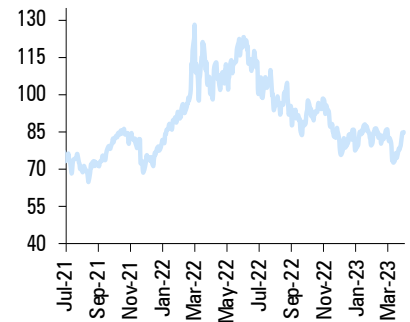


Exhibit 3: Company Specific Views (FMCG)

Company	Remarks
Tata Consumer (TCPL)	<p>TCPL is expected to witness revenue growth of 10.1% led by 33.5% growth in India foods business. The growth in India foods business is likely to be led by pricing growth. India beverage business is estimate to grow by 3.8% led by NaurishCo business. Tea volumes & prices are expected to witness flat sales during the quarter. International sales is estimated to grow 1.1% in Q4 largely led by growth in Canada business. We estimate 123 bps gross margin contraction due to high tea procurement prices in International markets. We estimate 75 bps lower ad-spends (as percentage to sales) in Q4. Operating profit is likely to grow 8.3% to ₹ 481 crore with 24 bps contraction in operating margin to 13.8%. We estimate PAT growth of 15,6% to ₹ 276.3 crore</p>
VST Industries	<p>We estimate 11.1% sales growth for VST Industries led by 17.1% growth in tobacco sales on account of high export demand. Cigarettes sales is likely to grow at 9.1% largely led by volume growth. With stable taxation & curb on contraband, illicit cigarettes, the industry is witnessing strong volume traction in last one year. Given, high tobacco prices, gross margin are expected to dip by 605 bps. We estimate operating profit of ₹ 106.8 crore with 333 bps contraction in operating profit. Net profit is expected to decline 8.7% to ₹ 79.6 crore</p>
Zydus Wellness	<p>Zydus Wellness is expected to see strong 11.7% growth during the quarter led by 6% pricing & 5% volume growth. The summer brands Glucon-D & Nycil is expected to drive growth for the company in peak quarters. However, high milk prices would continue to put pressure on gross margin. We estimate 243 bps contraction in gross margins. We estimate 123 bps & 164 bps lower marketing & overhead spends, respectively, in Q4. This would help in growing operating profit by 15.2% to 163 crore. We estimate 70 bps uptick in operating margin to 22.8%. Net profit is likely to grow 16.5% to ₹ 155.3 crore in Q4FY23</p>

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)	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Colgate (COLPAL)	1,538	1,440	Hold	39,473	39.6	37.7	40.3	41.7	38.8	40.7	38.2	36.9	7.8	7.6	7.1	6.7	77.8	81.9	92.8	99.9	62.2	62.4	70.9	76.5
Dabur India (DABIND)	526	700	Buy	97,880	9.9	10.3	12.0	13.4	53.4	51.2	43.7	39.1	9.0	8.5	7.7	6.9	24.9	23.9	26.1	27.2	20.8	20.5	22.2	22.7
Hindustan Unilever (HINLEV)	2,565	2,800	Hold	6,04,971	37.5	42.0	46.7	51.3	68.3	61.0	55.0	50.0	12.0	10.3	9.4	8.6	20.2	22.9	25.6	28.0	18.1	20.3	22.4	24.5
ITC Limited (ITC)	387	450	Buy	4,67,841	12.4	14.7	16.0	17.4	31.2	26.4	24.2	22.3	7.9	6.8	6.2	5.7	31.4	36.0	37.5	39.1	24.5	27.7	28.7	29.9
Jyothy Lab (JYOLAB)	197	215	Hold	7,485	4.3	6.7	7.8	8.5	46.3	29.5	25.3	23.2	3.5	3.1	2.8	2.6	18.7	27.5	31.4	32.6	16.6	24.2	27.0	27.9
Marico (MARLIM)	479	555	Hold	63,710	9.7	10.3	11.1	12.4	49.3	46.5	43.1	38.7	6.7	6.5	6.0	5.6	41.2	44.0	46.2	49.9	37.5	38.5	40.6	43.8
Nestle (NESIND)	19,777	22,000	Hold	1,89,184	222.4	247.9	293.2	336.5	88.9	79.8	67.4	58.8	12.9	11.3	10.2	9.2	57.3	54.4	56.3	60.6	104.1	87.0	84.2	87.5
Patanjali Foods (RUCSOY)	966	1,750	Buy	50,721	27.3	30.9	43.5	52.7	35.4	31.2	22.2	18.3	2.1	1.7	1.5	1.4	13.2	15.6	17.3	19.0	13.1	11.3	14.2	15.3
Tata Consumer Products (TAT)	731	950	Buy	66,879	11.0	14.3	15.8	18.3	66.3	50.9	46.2	39.9	5.4	4.9	4.4	4.0	8.4	8.8	10.3	11.5	7.0	7.6	9.0	10.2
Varun Beverage (VARBEV)	1,394	1,340	Hold	79,300	17.2	23.9	26.1	30.0	80.9	58.4	53.5	46.5	9.0	6.0	5.4	4.9	17.1	23.8	27.2	30.6	18.3	30.4	26.6	25.5
VST Industries (VSTIND)	3,266	3,300	Hold	4,807	207.4	214.1	229.4	263.9	15.7	15.3	14.2	12.4	4.1	3.6	3.4	3.2	39.2	41.8	49.1	49.4	30.0	31.9	36.9	37.1
Zydus Wellness (ZYDWEL)	1,544	2,000	Buy	8,979	48.5	55.0	67.4	75.6	31.8	28.1	22.9	20.4	4.5	4.0	3.6	3.2	6.1	6.8	8.1	9.2	6.4	7.1	8.3	9.0

Source: Company, ICICI Direct Research

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