March 27, 2020

Daily use items gain significance amid lockdown…

On account of the spread of Covid-19 on a global scale, we have seen Government of India announcing a lockdown across the country for 21 days with effect from March 24, 2020. However, the lockdown could continue for much more than 21 days. This lockdown would result in shortage of workers to factories in addition to many of our FMCG coverage companies shutting down some of their manufacturing facilities for discretionary products in addition to supply chain disruptions. However, we believe demand for daily use items such as staples, soaps, toothpaste, milk, sanitisers, grocery would gain significance in such a scenario resulting in advanced buying by the consumers during the period. The FMCG companies have been asked to ramp up production of these essential items during this period.

Advance bulk purchases to aid Q4FY20 earnings

We believe our FMCG coverage universe would post robust results in Q4FY20E due to stocking up of staples/grocery by general public due to lockdown situation in India. Most consumers have made advance purchases for a month compared to usual advance purchase of 10 days out of 90 days of a quarter. We estimate this will boost FMCG revenues by a good 10% during the quarter as people would buy additional 10 days of essentials.

Elevated operating margins to be maintained

We believe our FMCG coverage companies would post strong volume growth in Q4FY20E, FY21E and would rather pass on price reductions on account of crude and palm oil decline, which would be passed on in FY21E. Though it is difficult to assess operating margins currently, we believe FMCG companies would be able to maintain their elevated level of margins in FY21E.

Valuation & Outlook

Though it is difficult to ascertain Coronavirus impact, FMCG companies manufacturing essential items such as soaps, detergents, aata, toothpaste, milk, staples and grocery would likely have a positive impact for two quarters. Due to panic buying by people on account of lockdown, we believe FMCG sector would witness superior volume growth in the coming quarters. Also, the disposable income of general public would first shift towards basic essentials rather than discretionary items giving a much needed fillip to the slowing industry. With advance purchases already done in Q4FY20, we believe FY21E would be revenue neutral as disposable income would shift from discretionary to staples categories (discretionary categories form around 40% of overall FMCG revenues). Most FMCG companies have a cleaner balance sheet with strong cash flows, which would help them forge ahead in these turbulent times.

Sector Update

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Revised target prices

	Previous		Current		
Company	**Target Price**	**Recommendation**	**CMP**	**Target Price**	**Recommendation**
HUL	2310	Buy	2245	2310	Hold
Dabur	550	Buy	435	550	Buy
Nestle	18000	Hold	15365	18000	Buy
Marico	350	Hold	275	300	Hold
ITC	230	Buy	158	230	Buy
VST Industries	5200	Buy	2860	4000	Buy
Colgate	1430	Hold	1190	1430	Buy
Tata Consumer	450	Buy	290	375	Buy
Varun Beverages	950	Buy	580	700	Buy
Jyothy Laboratories	185	Hold	100	110	Hold

Source: Company, ICICI Direct Research

HUL: HUL's products, which reach nine out of 10 households in India, would continue to witness uninterrupted demand as most of its product categories i.e. soaps, detergents, toothpastes, tea/coffee would be in uppermost demand for a quarter or so resulting in robust results for the company. Even though soaps/detergents categories are almost fully penetrated in India, we expect per capita increase in its consumption on account of sudden shift towards maintaining hygiene in the backdrop of spread of Covid-19. HUL's Lifebuoy sanitiser product has already seen superior demand over last month. We expect this to continue, going forward also. HUL is likely to sustain robust revenue growth and strong operating margins. The company would continue to command a premium to peers being the leader in the category. However, with recent spurt in stock prices, there is little headroom for further growth. Hence, we change our recommendation from BUY to **HOLD** with a target price of ₹ 2310/share.

Exhibit 1: Key Financials

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Total Operating Income	34487.0	38224.0	41055.8	45688.2	52059.0	10.8%
EBITDA	7276.0	8637.0	10630.9	11492.6	12932.0	14.4%
EBITDA Margin %	21.1	22.6	25.9	25.2	24.8	
Net Profit	5237.0	6036.0	7392.0	8392.8	9493.5	16.3%
EPS (₹)	24.25	27.94	34.22	38.86	43.95	
P/E	92.6	80.3	65.6	57.8	51.1	
RoNW %	74.7	80.9	90.8	97.6	94.6	
RoCE (%)	79.9	85.3	106.2	112.8	110.7	

Source: Company, ICICI Direct Research

Dabur India: Dabur India's Home & Personal care segment, which forms 50% of domestic sales, would witness intensified purchases as oral care, hair care and skin care sub segments of the company are daily use items, which would help the overall financials of the company. Health supplements under healthcare segment (31% of domestic revenue) would witness structural growth through its winter product portfolio, whereas other two sub segments under healthcare such as digestives and OTC & ethicals may witness delayed purchases. Also, the foods segment (Real juices) may witness lower growth due to shutting down of its manufacturing during lockdown period. Overall, we expect Dabur to witness positive impact in FY20E and FY21E respectively. We expect Dabur to post 8.7% revenue CAGR and 10.6% PAT CAGR for FY19-22E respectively. We maintain our **BUY** recommendation on the stock with a target price of ₹ 550/share.

Exhibit 2: Key Financials

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Net Sales	7748.3	8533.1	9240.0	10001.2	10961.0	8.7%
EBITDA	1617.4	1739.6	1946.6	2083.3	2290.4	9.6%
EBITDA Margin %	20.9	20.4	21.1	20.8	20.9	
Net Profit	1357.7	1446.3	1578.9	1780.4	1956.7	10.6%
EPS (₹)	7.71	8.19	8.94	10.08	11.08	
P/E	56.4	53.1	48.7	43.2	39.3	
RoNW %	23.8	25.7	26.0	26.9	27.4	
RoCE (%)	26.2	29.6	30.3	30.2	30.8	

Source: Company, ICICI Direct Research

Nestlé India: All of Nestlé India's (NIL) products sold in India are food items out of which around 85% are staples, which would witness continued demand. Only chocolates, pasta and sauces, which form the remaining 15% would see a decline in growth due to shutting of operations and being discretionary in nature. Despite consumption slowdown being witnessed across the industry, NIL was able to deliver superior volume growth of ~8-12% over last year compared to its FMCG peers. With ~80% of revenue contribution from urban India, NIL enjoys a unique premium positioning among its peers. Premium portfolio and niche food categories provide a strong pricing power, which should enable them to sustain margins and insulate them from any volatility in input costs. Moreover, NIL is focusing on growth in various categories by stepping up aggression in breakfast cereals & traditional breakfast offerings, promotions and enhancing penetration. The stock price has corrected by 15% over last one month and offers an attractive entry point. We upgrade our recommendation from HOLD to **BUY** and maintain our target price of ₹ 18000/share.

Exhibit 3: Key Financials

Key Financials	CY17	CY18	CY19	CY20E	CY21E	CAGR (CY19-21E)
Net Sales	9952.5	11216.2	12295.3	13972.6	15597.7	12.6%
EBITDA	2248.3	2759.8	2864.3	3289.9	3774.2	14.8%
EBITDA Margin %	22.6	24.6	23.3	23.5	24.2	
Net Profit	1225.2	1606.9	1969.6	2329.0	2715.2	17.4%
EPS (₹)	127.07	166.66	204.27	241.55	281.60	
P/E	120.9	92.2	75.2	63.6	54.6	
RoNW %	37.5	45.6	101.9	113.4	116.0	
RoCE (%)	34.9	42.9	56.9	60.9	66.1	

Source: Company, ICICI Direct Research

Marico: Though Marico's hair oil category including Parachute and VAHO have been witnessing muted growth over last few quarters, we believe lockdown situation in the country would result in stocking up of Marico's products including Parachute and Saffola edible oil (which forms two-third of sales). This would help the company post positive results for the next two quarters. With 5-13% select price cuts in parachute in December 2019, the company is trying to revive/accelerate the unbranded to branded shift in Parachute segment. The management believes all these strategies may take two to three quarters to fructify. Hence, we maintain our **HOLD** recommendation on the stock with a revised target price of ₹ 300/share.

Exhibit 4: Key Financials

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Net Sales	6333.1	7334.0	7504.6	8022.4	8725.2	6.0%
EBITDA	1137.8	1281.0	1507.3	1564.7	1694.8	9.8%
EBITDA Margin %	18.0	17.5	20.1	19.5	19.4	
Net Profit	827.5	1135.0	1079.8	1123.8	1217.8	2.4%
Adjusted Net Profit	827.5	947.0	1079.8	1123.8	1217.8	8.7%
EPS (₹)	6.41	8.80	8.37	8.71	9.44	
P/E	42.9	31.3	32.9	31.6	29.1	
RoNW %	32.5	31.6	33.9	34.3	35.3	
RoCE (%)	38.9	38.0	41.2	41.8	43.0	

Source: Company, ICICI Direct Research

ITC: In the recent market fall, ITC has witnessed a significant correction of ~30%. At the current price, the stock is trading at 11x & 10x its FY20E & FY21E earnings. Though the current economic conditions would have an adverse impact on ITC's earnings for a quarter or two, we believe the company would be able to sustain the earnings growth in the long run backed by improvement in cigarettes as well as FMCG segments. There would be significant decline in cigarette sales in Q4FY20E & Q1FY21E due to non-availability of cigarettes (as all cigarettes shops are closed) & consumer would have no choice but stop consuming cigarettes. However, its FMCG segment (which is ~25% of overall sales) would witness demand improvement as most of its products are of daily use which would help stabilise overall revenues for the company. The company would also witness considerable increase in Atta sales for next two quarters (the category could also benefit due to low consumption in restaurants) or change in eating habits of people (eating at home). The company had increased dividend payout of 80-85%, giving a dividend yield of 7-8%. We maintain our **BUY** rating on the stock with a target price of ₹ 230/share.

Exhibit 5: Key Financials

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Net Sales	40254.7	44432.7	47764.2	52050.3	56893.2	8.6%
EBITDA	15541.0	17305.5	18625.7	20656.6	23145.5	10.2%
EBITDA Margin %	38.6	38.9	39.0	39.7	40.7	
Net Profit	11223.3	12464.3	15535.7	16666.0	18779.0	14.6%
EPS (₹)	9.24	10.26	12.79	13.72	15.46	
P/E	17.1	15.4	12.4	11.5	10.2	
RoNW %	21.3	21.5	24.1	23.0	23.2	
RoCE (%)	30.9	30.8	30.4	30.0	30.3	

Source: Company, ICICI Direct Research

VST Industries: With shutting down of manufacturing facilities during the lockdown period of 21 days, we expect VST Industries to be severely hit even beyond the lockdown period. We believe its financials would be impacted over two quarters (Q4FY20E and Q1FY21E) due to non-availability of cigarettes and as a result, consumers being unable to consume it. However, the company's fundamentals are robust driven by a strong capital structure, steady cash flow and consistent dividend payment of 65%. With robust volume growth in 9MFY20 change in product mix towards high priced cigarettes, we maintain our **BUY** rating on the stock with a revised target price of ₹ 4000/share.

Exhibit 6: Key Financials

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Net Sales	946.4	1097.6	1240.7	1295.1	1412.1	8.8%
EBITDA	294.0	353.1	409.4	420.4	463.2	9.5%
EBITDA Margin %	31.1	32.2	33.0	32.5	32.8	
Net Profit	181.9	226.8	300.5	300.1	325.4	12.8%
EPS (₹)	117.81	146.90	194.60	194.36	210.76	
P/E	24.3	19.5	14.7	14.7	13.6	
RoNW %	31.3	34.2	38.3	34.6	34.6	
RoCE (%)	46.9	51.4	53.0	46.9	46.9	

Source: Company, ICICI Direct Research

Colgate Palmolive India: Colgate Palmolive India (CPIL) would hugely benefit from advance purchases by consumers amid Covid-19 lockdown situation as all of its revenues comes from daily use items (toothpaste and toothbrush). The company has been reporting muted low single digit volume growth in the last five to six quarters as the company operates in single product category, which is highly penetrated in addition to intensified competition in the segment. We expect CPIL to post 10% volume growth in Q4FY20E followed by 6% volume growth each in FY20E & FY21E each. With stock correction of 20% from recent highs, the company is available at an attraction valuation. Hence, we change our recommendation from HOLD to **BUY** with a target price of ₹ 1430 per share.

Exhibit 7: Key Financials

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Total Operating Income	4188.0	4462.4	4724.8	5122.2	5513.5	7.3%
EBITDA	1113.7	1236.1	1315.9	1421.4	1544.4	7.7%
EBITDA Margin %	26.6	27.7	27.9	27.8	28.0	
Net Profit	673.4	775.6	853.5	930.9	1009.0	9.2%
EPS (₹)	24.76	28.52	31.38	34.23	37.10	
P/E	48.1	41.7	37.9	34.8	32.1	
RoNW %	44.7	52.2	60.3	65.2	67.9	
RoCE (%)	62.9	70.7	77.8	83.2	86.7	

Source: Company, ICICI Direct Research

Tata Consumer Products: Tea segment contributes 70% of Tata Consumer Products (earlier Tata Global Beverages), which has been witnessing intensified buying during this phase. We believe this rampant buying would continue till this lockdown persists. Its coffee segment is primarily US geography driven would also witness advance purchases. Also, the merged business of Tata Chemicals includes staples such as salt, pulses and spices should witness strong demand in H1FY21. Overall, it would be positive for the Tata Consumer. We maintain **BUY** recommendation on the stock with a revised target price of ₹ 375/share.

Exhibit 8: Key Financials

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Net Sales	6815.4	7251.5	7646.9	10315.2	11041.3	15.0%
EBITDA	838.9	785.9	982.7	1467.7	1642.7	27.9%
EBITDA Margin %	12.3	10.8	12.9	14.2	14.9	
Net Profit	556.5	457.0	524.0	888.0	1011.5	30.3%
EPS (₹)	8.8	7.2	8.3	9.6	11.0	
P/E	32.9	40.0	34.9	30.1	26.4	
RoNW %	8.1	6.5	7.1	6.6	7.3	
RoCE (%)	8.7	8.4	9.0	8.7	9.5	

Source: Company, ICICI Direct Research

Varun Beverages: With the company shutting manufacturing facilities for its carbonated, juices and energy drinks, the company's financials would be severely hit for at least two quarters. Only bottled water (which is 10% of revenue) would see its revenue spurting during this period. Overall, we believe the company would be negatively impacted during the lockdown phase. We have reduced our revenue and earnings estimates for Q4FY20E and FY21E respectively. However, with stock price correction of over 30%, we maintain our **BUY** recommendation on the stock with a revised target price of ₹ 700/share.

Exhibit 9: Key Financials

Key Financials	CY17	CY18	CY19	CY20E	CY21E	CAGR (CY19-21E)
Net Sales	4003.5	5105.3	7129.6	7513.6	8397.2	8.5%
EBITDA	835.9	1006.6	1447.7	1404.2	1582.4	4.6%
EBITDA Margin %	20.9	19.7	20.3	18.7	18.8	
Net Profit	214.0	299.9	472.2	455.1	596.4	12.4%
EPS (₹)	11.72	16.42	16.63	16.03	21.00	
P/E	49.5	35.3	34.9	36.2	27.6	
RoNW %	12.1	15.0	14.2	13.6	15.6	
RoCE (%)	12.7	14.2	15.5	15.2	17.8	

Source: Company, ICICI Direct Research

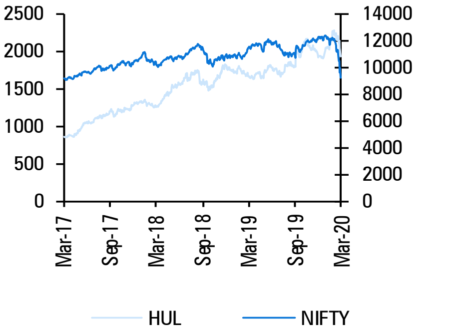
Jyothy Laboratories: Jyothy Laboratories has been reporting subdued numbers in 9MFY20 due to slackness in rural demand. With most of its categories falling under essential items such as detergents and soaps, we believe the company would benefit in Q4FY20E to a larger extent. However, as 40% of sales comes from rural regions, we believe without revival in rural demand, growth in FY21E for the company would remain a challenge. We maintain **HOLD** recommendation on the company with a revised target price of ₹ 110/share.

Exhibit 10: Key Financials

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Net Sales	1626.2	1768.9	1855.0	2015.3	2230.0	8.0%
EBITDA	264.1	285.8	217.9	250.1	268.9	-2.0%
EBITDA Margin %	16.2	16.2	11.7	12.4	12.1	
Net Profit	160.5	193.2	117.4	160.2	169.6	-4.2%
Adjusted EPS (₹)	4.37	5.26	3.20	4.36	4.62	
P/E	22.6	19.0	31.3	22.9	21.7	
RoNW %	23.5	22.6	14.0	18.5	18.7	
RoCE (%)	35.1	28.6	18.6	23.9	24.5	

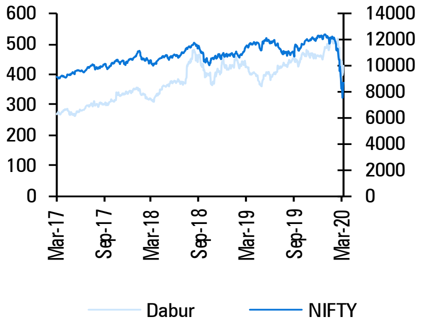
Source: Company, ICICI Direct Research

HUL



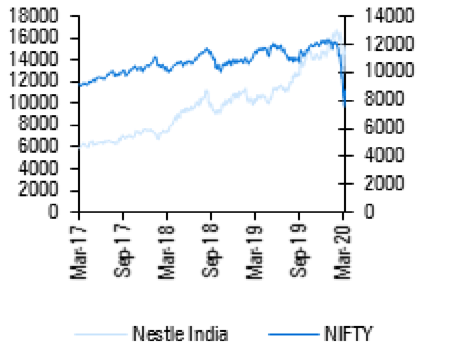
Source: Bloomberg, ICICI Direct Research

Dabur India



Source: Bloomberg, ICICI Direct Research

Nestlé India



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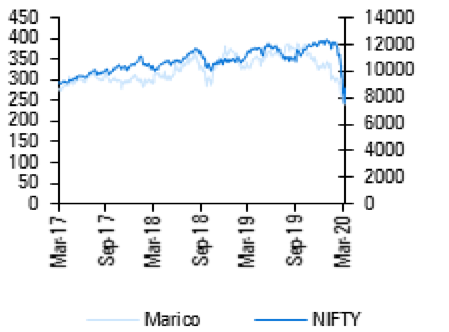
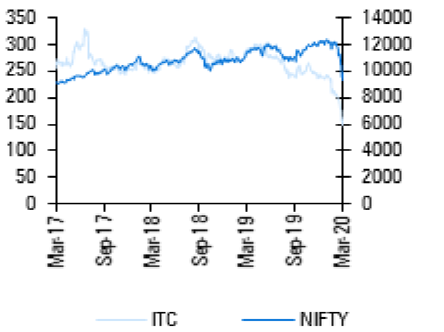
Marico



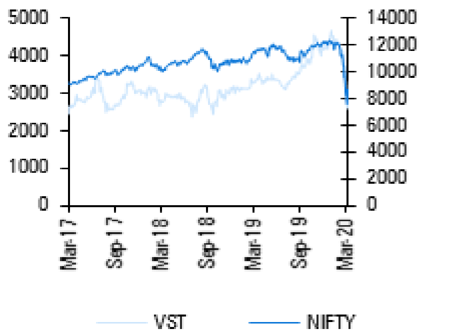
Source: Bloomberg, ICICI Direct Research

ITC



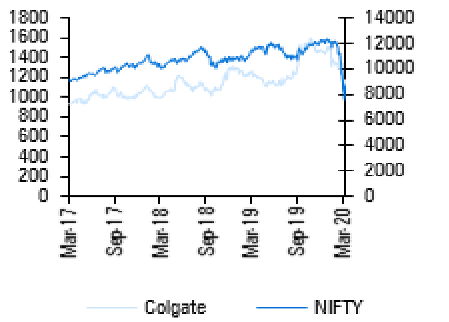
Source: Bloomberg, ICICI Direct Research

VST Industries



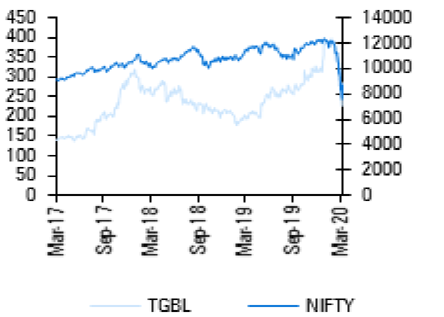
Source: Bloomberg, ICICI Direct Research

Colgate



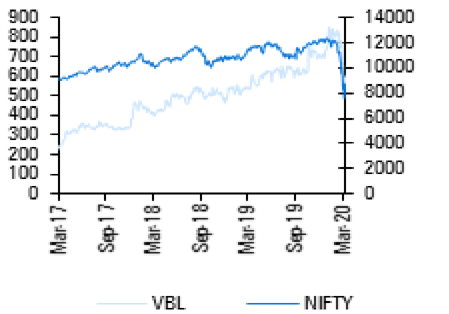
Source: Bloomberg, ICICI Direct Research

Tata Consumer



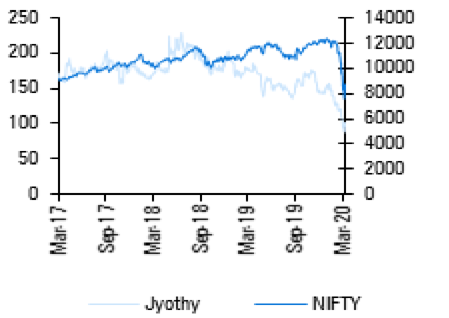
Source: Bloomberg, ICICI Direct Research

Varun Beverages



Source: Bloomberg, ICICI Direct Research

Jyothy Laboratories



Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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