

**FMCG Sector**

9 April 2019

**Growth Rate Could Witness Some Moderation**

After growing at a healthy pace for more than five quarters, we expect some deceleration in growth rate in 4QFY19 for the consumer sector as rural demand has possibly not measured up to expectations. Premiumisation and modern trade growth rate, in our opinion, should stay the course and support overall numbers in 4QFY19. Cost headwinds (mostly crude oil-related), after witnessing some moderation in the previous quarter, have re-emerged and will need to be watched closely along with the monsoon and also rural demand in 1HFY20. We expect the companies in our coverage universe to grow their top-line, EBITDA and net earnings by 10%, 13% and 14%, respectively, YoY. We expect growth during the quarter to be led by Quick Service Restaurant (QSR) and Alcobev (alcoholic beverage) segments. We expect margin trends to largely stay on course, although cost pressures are building up and most companies may consider price revision in 2QFY20 after taking cognisance of the government formation, budget and expected monsoon trend. On the operating margin side, we expect an overall 55bps improvement YoY wherein HPC (home and personal care) and F&B (excluding ITC) segments are likely to contribute 82bps and 96bps, respectively, while a 26bps improvement in ITC is expected. Also, the QSR space (included in F&B coverage) is expected to report healthy same-store sales growth, despite a fairly high base, supported by improved fundamentals. Overall, the leaders from our coverage universe would be United Breweries and Britannia Industries from the food and beverage space, Hindustan Unilever or HUVR and Gillette India from the HPC segment, and Jubilant FoodWorks or JUBI & Westlife Development or WLDL from the QSR space. In order to factor in some of the above demand and cost uncertainty, we have revised our earnings estimates, target price methodology and also rolled forward our target price to March 2020 for all companies under our consumer coverage.

**Demand trends are softer than expected:** We expect our coverage universe to grow its revenues by 10% on a normalised base. HPC space and F&B segment (excluding ITC) are expected to grow 11% and 11%, respectively. The growth is premised on positive consumer sentiment, benign inflation, increased marketing activity, new product launches (Colgate New Advanced Total, Hindustan Unilever or HUVR with its new ice cream flavours in Cornetto, Britannia Crème Wafers, Nestle Artisanal Chocolates, Dabur OTC products, Colgate personal care etc). Although the rural trends have not seen a significant improvement, the premiumisation trend, in our opinion, continues to grow at a healthy pace and HUVR, Nestle India or NEST, Britannia Industries or BRIT and Gillette India or GILL are key beneficiaries, in our view. Positive consumption environment coupled with company-specific product-related measures will help both JUBI and WLDL to sustain a healthy SSG.

**Margin expansion to stay on course:** The sharp decline in crude oil prices witnessed earlier along with steady trends on the premiumisation front, in our opinion, should continue to support the case for margin expansion. With soft input prices, cost rationalisation measures and operating leverage, we expect F&B (excluding ITC) companies to report a 96bps operating margin expansion YoY. Following the pressure on cigarette margin, we expect a marginal improvement in ITC at the operating level. As regards HPC, we expect its margins to expand by 82bps given the cost moderation.

Vijay Chugh  
 Research Analyst  
[vijay.chugh@nirmalbang.com](mailto:vijay.chugh@nirmalbang.com)  
 +91-22-6273 8064

Company	TP (Rs)	CMP (Rs)	Rating	Net sales			EBITDA			EBITDA margin (%)			PAT		
				4QFY19E	YoY(%)	QoQ(%)	4QFY19E	YoY(%)	QoQ(%)	4QFY19E	3QFY19	4QFY18	4QFY19E	YoY(%)	QoQ(%)
Hindustan Unilever	2,000	1,672	Buy	102,190	12.3	6.9	24,015	17.3	17.4	23.5	21.4	22.5	17,378	22.8	15.4
Gillette India	7,900	6,800	Buy	5,148	14.0	8.2	1,354	14.7	18.4	26.3	24.0	26.1	1,067	49.6	24.0
Colgate-Palmolive (India)	1,370	1,228	Accumulate	11,763	7.7	7.0	3,376	9.8	7.4	28.7	28.6	28.2	2,046	8.4	6.5
Dabur India	450	401	Accumulate	22,264	9.5	1.2	5,388	11.0	21.0	24.2	20.3	23.9	4,666	17.4	27.2
Emami	410	410	Accumulate	6,757	9.5	(16.7)	1,982	14.4	(25.7)	29.3	32.9	28.1	1,026	68.6	(25.8)
Britannia Industries	3,600	2,984	Buy	28,280	11.4	(0.5)	4,595	15.7	1.7	16.3	15.9	15.6	3,192	21.3	6.4
Nestle India	12,500	10,878	Buy	31,157	13.0	7.5	8,007	14.9	43.6	25.7	19.2	25.3	4,959	16.9	45.1
ITC	320	292	Accumulate	113,753	7.4	1.3	44,819	8.2	3.6	39.4	38.5	39.1	31,280	6.7	(2.5)
GSK Consumer	7,300	6,995	Accumulate	12,739	8.0	14.1	2,841	13.6	19.1	22.3	21.4	21.2	1,825	(13.8)	(17.4)
Jubilant FoodWorks	1,680	1,422	Buy	8,812	13.0	(5.2)	1,489	16.6	(12.7)	16.9	18.4	16.4	804	18.2	(16.7)
Westlife Development	490	420	Buy	3,572	18.0	(3.6)	304	65.6	(10.9)	8.5	9.2	6.1	78	18.3	(42.7)
United Breweries	1,620	1,409	Buy	16,631	13.2	14.6	2,545	22.2	2.7	15.3	17.1	14.2	1,192	31.1	9.2
United Spirits	710	535	Buy	23,910	10.0	(4.4)	3,443	25.6	(1.0)	14.4	13.9	12.6	2,008	25.1	(2.3)
<b>Our coverage universe</b>				<b>386,975</b>	<b>10.3</b>	<b>3.3</b>	<b>104,157</b>	<b>12.6</b>	<b>8.9</b>	<b>26.9</b>	<b>25.5</b>	<b>26.4</b>	<b>71,521</b>	<b>13.7</b>	<b>5.4</b>

\*Quarter ended September 2018 is the first quarter for Gillette India and third quarter for Nestle India ^Adjusted PAT ; Source: Nirmal Bang Institutional Equities Research

## Exhibit 1: Change in our estimates and methodology

Company	New methodology	Old methodology	New target price (Rs)	EBIDTA			PAT		
				(% change in estimates)			(% change in estimates)		
				FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Hindustan Unilever	47.7	53	2,000	34bps	43bps	-	112bps	179bps	17bps
Gillette India	60	60	7,900	2.0	4.1	175bps	2.1	4.2	(12bps)
Colgate-Palmolive (India)	38	40	1,370	(32bps)	3.0	3.0	114bps	4.5	4.8
Dabur India	40.5	45	450	(38bps)	(44bps)	(43bps)	1.3	(57bps)	(9bps)
Emami	28.5	30	410	(91bps)	(38bps)	(38bps)	(1.1)	2bps	15bps
Britannia	47.7	53	3,600	(5bps)	(5bps)	(5bps)	(25bps)	(6bps)	(7bps)
Nestle India	55	55	12,500	1bps	75bps	(1bps)	(1bps)	1.1	28bps
ITC	SOTP (unchanged)	SOTP (unchanged)	320	96bps	(1.8)	(1.4)	1.6	(1.4)	(74bps)
GSK Consumer	28.8	32	7,300	(4.9)	3.5	(19bps)	8.9	7.2	3.2
Jubilant Foodworks	45	45	1,680	(8bps)	(1.6)	(24bps)	1.4	(1.5)	(1.8)
Westlife Development	28	28	490	(20bps)	(5.2)	(10.0)	3.2	(2.3)	(7.4)
United Breweries	47.5	50	1,620	18bps	69bps	35bps	3.2	3.0	1.4
United Spirits	45	50	710	1bps	1bps	1bps	1bps	1bps	1bps

Source: Nirmal Bang Institutional Equities Research

## Exhibit 2: Our revised estimates

Company (Rsmn)	Sales (Rsmn)			EBITDA (Rsmn)			PAT (Rsmn)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Hindustan Unilever	384,598	428,736	529,748	86,881	102,299	134,777	61,086	73,488	99,108
Gillette India	19,145	21,808	24,792	4,557	5,776	6,824	2,838	3,772	4,507
Colgate-Palmolive (India)	44,877	48,232	51,608	12,593	13,912	15,084	7,638	8,875	9,793
Dabur India	86,032	94,579	104,724	18,143	20,375	22,537	15,123	17,587	19,651
Emami	27,189	29,295	31,538	7,708	8,027	8,551	5,959	6,202	6,481
Britannia	110,793	125,950	144,049	17,543	21,371	25,876	11,686	14,437	17,975
Nestle India	112,923	126,745	141,954	26,246	30,710	34,785	15,729	19,122	21,891
ITC	447,949	489,563	531,133	173,796	193,302	213,318	123,058	133,454	147,907
GSK Consumer	47,699	51,866	56,535	11,129	11,995	12,807	9,298	10,046	10,661
Jubilant FoodWorks	35,545	40,347	45,592	6,086	7,170	8,461	3,288	4,030	4,925
Westlife Development	14,166	16,716	20,226	1,260	1,802	2,676	431	725	1,329
United Breweries	65,061	74,248	82,666	12,209	14,412	16,439	6,140	7,522	8,882
United Spirits	90,770	100,571	111,333	12,925	15,234	17,991	7,240	9,306	11,470

Source: Nirmal Bang Institutional Equities Research

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

## DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as "NBEPL") for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

**Analyst Certification:** I, Vijay Chugh, Independent Research Analyst and the author of this report, hereby certify that the views expressed in this research report accurately reflects my personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst is principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website [www.nirmalbang.com](http://www.nirmalbang.com)

**Access all our reports on Bloomberg, Thomson Reuters and Factset.**

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,  
 Nr. Peninsula Corporate Park,  
 Lower Parel (W), Mumbai-400013.  
 Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010