



INDIA CONSUMER

Product Price Tracker: Stable prices but new headwinds

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In this series, we track the monthly prices of over 150 FMCG products across 20 categories to ascertain pricing action and its likely impact on sales and margins. In the past three months, we saw minimal pricing action. However, prices of key raw materials have started inching up q-q and y-y. Given competition from unorganised players, pressure on volumes and elevated margins, we think companies will be reluctant to take price hikes. Thus, the phase of margin expansion could be behind while revenue growth may remain sluggish. We retain our negative view on consumer staples.

Product prices have seen some moderation y-y; 2-year prices still high

Highlights from our product price tracker: 1) In home care, we see price cuts in detergents and dishwasher. Our checks show that competition from unorganised players in home care remains high. 2) Our soaps basket indicates a 1% price decline in FY24 after a 20% hike in FY23. 3) In biscuits, we observe minor price cuts/grammage hikes in dairy-related categories such as Milk Bikis and 20-20 butter cookies. 4) Coffee prices have moved up, and we notice price hikes in the category.

Raw materials seeing some inflation, raising concerns on margins

After cooling off in the past few quarters, RM prices have turned inflationary. As RM prices deflated, companies had largely retained the benefits. Considering the competitive intensity, pressure on volumes and strong gross margins, we think companies would be reluctant to hike prices in the near term. Crude, palm oil, LAB and coffee prices rose q-q and y-y, while mentha and tea prices rose q-q but are still lower y-y. This poses a risk to consensus' margin assumptions. Specifically, increase in prices of cocoa (which has tripled y-y), coffee and sugar poses a risk to NEST's margins.

Growth challenges remain; we expect time correction to continue

We expect a weak 4QFY24 for FMCG companies. Pricing contribution is likely to be mostly neutral to negative, while we do not expect any major recovery in volumes. Higher RM cost is a new headwind and poses a further downside risk to consensus earnings estimates.

Key valuation metrics

	Stock Rating	Price* (LC)	TP / Upside		Mkt cap (INRm)	P/E (x)		EV/EBITA (x)		ESG Rating
						CY24e	CY25e	CY24e	CY25e	
Britannia Ind.	(+)	4,806.7	5,650	18%	1,155,715	49.0	42.5	35.2	31.2	
Dabur India	(=)	524.0	550	5%	928,315	44.6	40.0	37.8	33.0	
Emami	(+)	428.1	620	45%	190,290	22.8	20.1	19.7	16.8	
Godrej Consumer	(-)	1,231.7	1,060	-14%	1,258,993	56.9	49.0	42.4	37.1	
Hindustan Unil.	(=)	2,242.4	2,630	17%	5,268,655	46.5	42.6	35.9	32.6	
Marico	(=)	500.7	550	10%	646,674	40.6	36.7	32.3	29.1	
Nestlé India	(-)	2,553.7	2,370	-7%	2,462,120	72.3	64.6	52.6	47.2	

* Closing prices at 21 March 2024

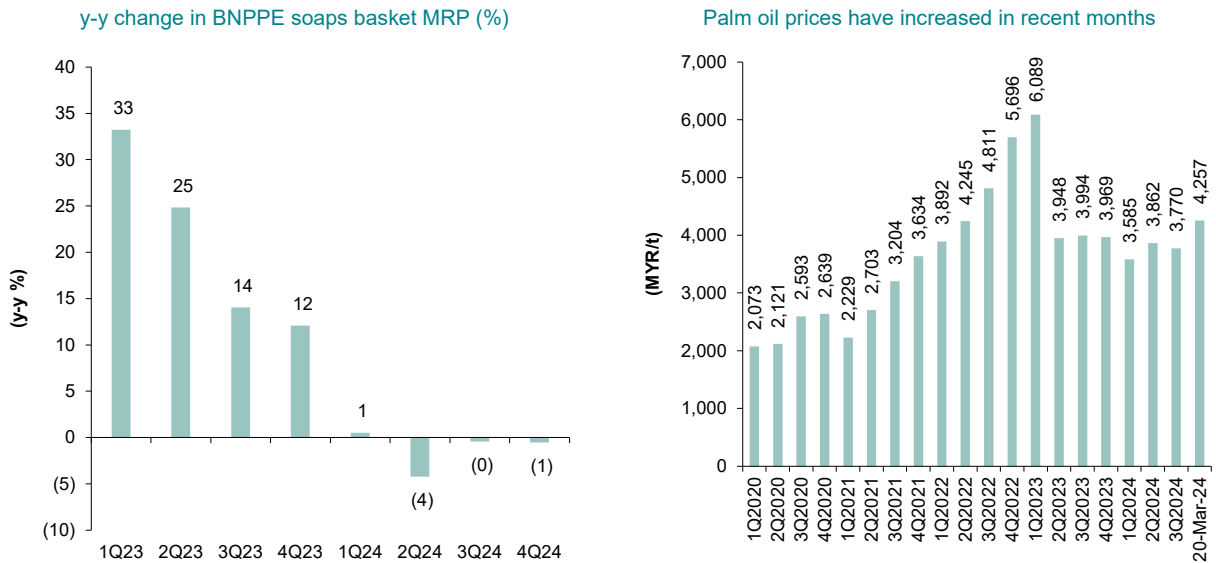
See page 20 for Analyst Certification, Important Disclosures, Non-US Research Analyst disclosures and BNP Paribas Group Corporate Social Responsibility ("CSR") policies. For time of dissemination, please refer to the Cube. In November 2023, Exane SA and BNP Paribas SA completed their legal merger, with BNP Paribas SA as the succeeding legal entity. BNP Paribas Exane is a trade name of BNP Paribas SA and its affiliates and branches. BNPP has adopted strict CSR policies that govern financing and investment in certain sectors.

Product Price Trends

Soaps: Lower prices y-y, few value-segment SKUs see price hikes

Moderation in palm oil prices resulted in increased competition from both organised and unorganised players, leading to price cuts in the value segment over the last year. On a 2-year basis, soap prices remained high. In the recent weeks, palm oil prices have started inching up after being range-bound for the past year. Overall, prices were unchanged in the past six months and have been flattish y-y, but remain 15-20% higher compared with the levels prevailing two years back. We think growth in the category will have to be volume-led and expect pricing to largely remain unchanged in the near term.

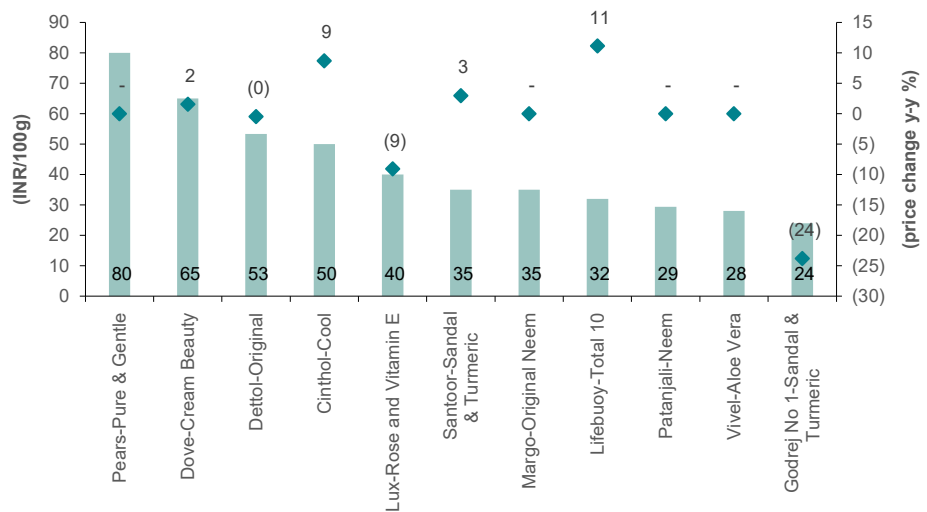
Figure 1: Soap prices remain stable in 4QFY24, while palm-oil prices have been increasing in recent months



Source: BigBasket; Amazon; JioMart; Bloomberg; BNP Paribas Exane

Figure 2: Soaps – prices are flattish y-y for most SKUs

LHS = MRP of SKUs (INR/100g) while RHS = y-y change in MRP (%)

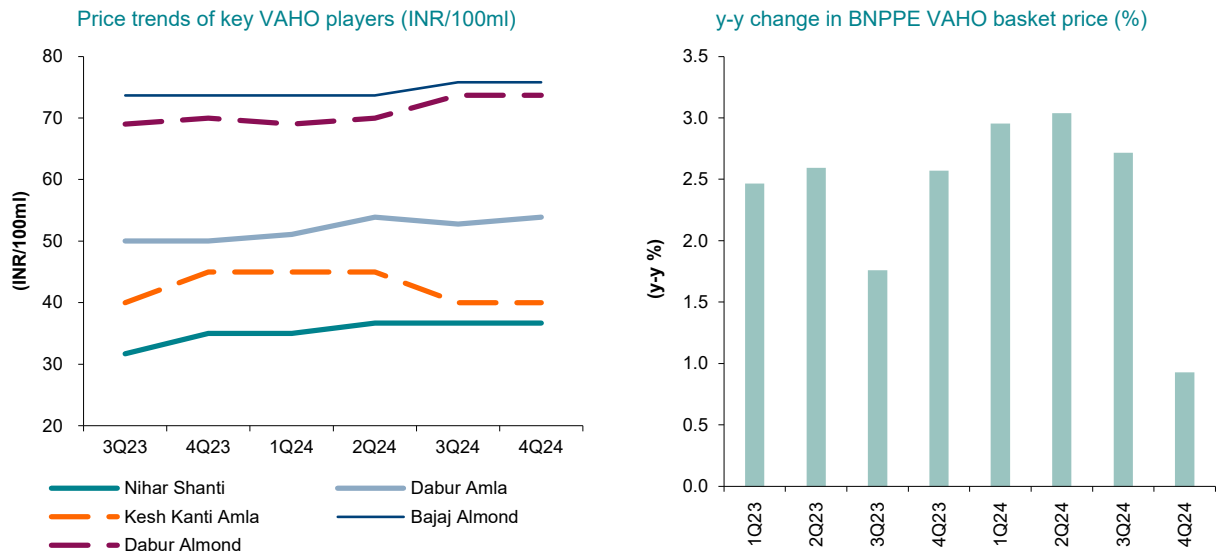


Sources: BigBasket; Amazon; JioMart; BNP Paribas Exane

Value-added hair oil (VAHO): Struggle in bottom of pyramid SKUs continues

Unlike most categories, VAHO has seen very small price hikes over the past 2-3 years and still, the category has been unable to drive volumes. The category has seen elevated competition and downtrading. Competition has been intense, especially in the value segment. Mid and premium segments are performing relatively better in demand terms. During 3QFY24, we saw small price hikes in certain SKUs, while in 4QFY24, prices were unchanged.

Figure 3: Price trends in the value-added hair oil category; BNPPE VAHO price basket indicates a sequential and y-y moderation in price hike



Source: BigBasket; Amazon; JioMart; BNP Paribas Exane

Oral care: Price hikes continue with more focus on ayurvedic and gel categories

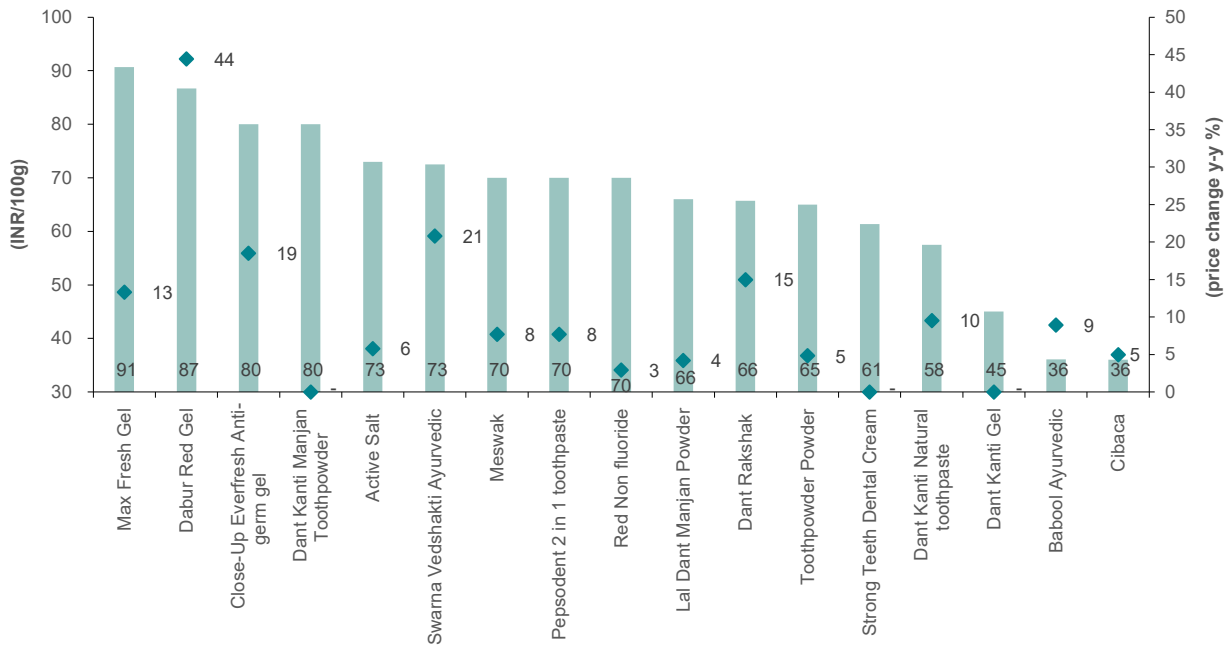
Oral care continues to see y-y price hikes. While prices have been stable in the past two months, there have been price hikes in the past six months. Unlike in home care, personal care categories, such as oral care, have very little unorganised competition, and companies have managed to drive revenue growth by raising prices. This has also resulted in margin expansion for key players.

On a 2-year basis, the oral care category has seen the largest price hikes. Not surprisingly, Colgate's EBITDA margin of 33.6% in 3QFY24 was at its all-time high. Colgate's (CLGT IN, Not Covered) EBITDA margin has expanded from 20-22% over FY10-17 to c33% in 9MFY24. However, we note that DABUR has consistently outperformed Colgate in terms of revenue growth and has been gaining market share, while Dabur is currently the No.2 player in the Indian oral care space.

The BNPPE oral care tracker indicated that for 4QFY24 so far, the y-y price change stands upwards of c3% for most brands. We observe that in the past six months, most of the price hikes have been taken in Ayurvedic and gel category products. Overall, in recent quarters, the premium and gel segments have seen higher price hikes than mass brands such as Colgate's Cibaca and Dabur's Dant Rakshak, which have seen minimal hikes. DABUR remains the market leader by value in the herbal segment, which accounts for c31% of the overall market.

Figure 4: Oral care prices remain elevated y-y in 4QFY24 for the majority of SKUs

LHS = MRP of SKUs (INR/100g) while RHS = y-y change in MRP (%)



Source: BigBasket; Amazon; JioMart; BNP Paribas Exane

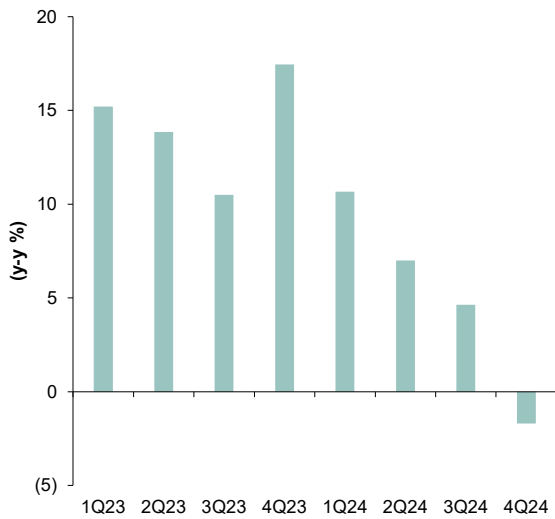
Detergents: Price cuts, increase in RM prices and elevated competition

We think the detergents category’s performance will remain weak in the coming quarters. The category has seen price cuts. Elevated competitive intensity could hurt margins and raw material prices have started inching up, but raising prices may be difficult, in our view.

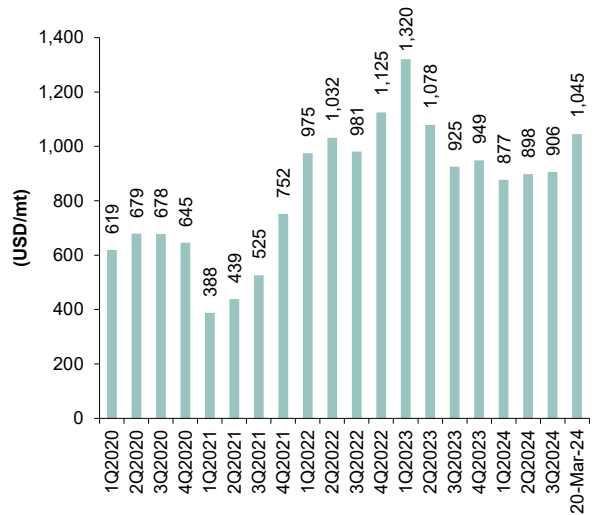
As per our tracker, the category has seen c15% price hike over the past two years, with higher hikes in premium brands than mass brands. As RM prices stabilised, competition from regional players increased significantly, especially in low-unit packs. In detergents, 50-60% of the volume comes from the mass segment, where HUVR (=) has a lower share as the company is more dominant in the premium segment. HUVR’s laundry portfolio has been premiumised over the years, with a larger contribution from liquids and other offerings under the brand ‘Surf Excel’.

Figure 5: Our detergent price tracker shows prices declining for the first time on a y-y basis, while LAB prices have been gradually increasing for past three quarters now

BNPPE detergent basket price change y-y (%)

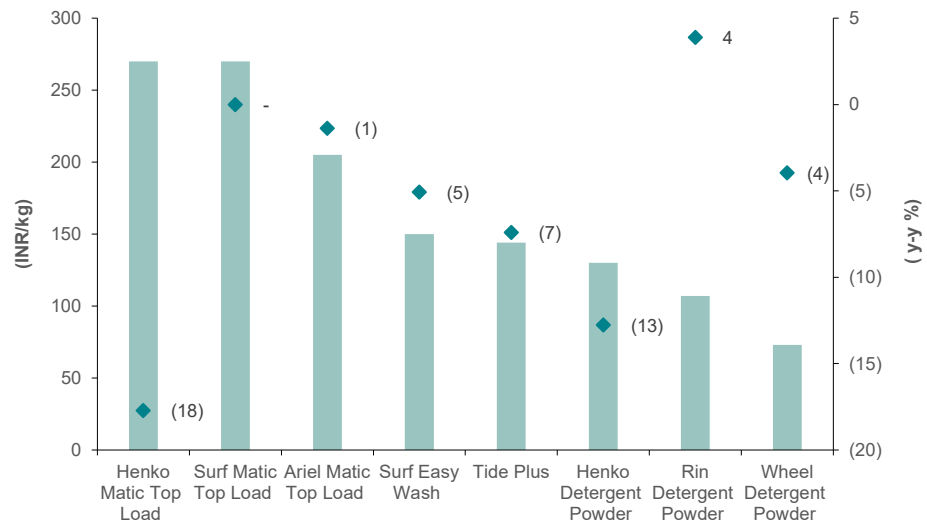


LAB prices remain flattish (USD/mt)



Source: BigBasket; Amazon; JioMart; Bloomberg; BNP Paribas Exane

Figure 6: For detergents, price cuts seen y-y, especially for premium brands
 LHS = MRP of SKUs (INR/kg) while RHS = y-y change in MRP (%)

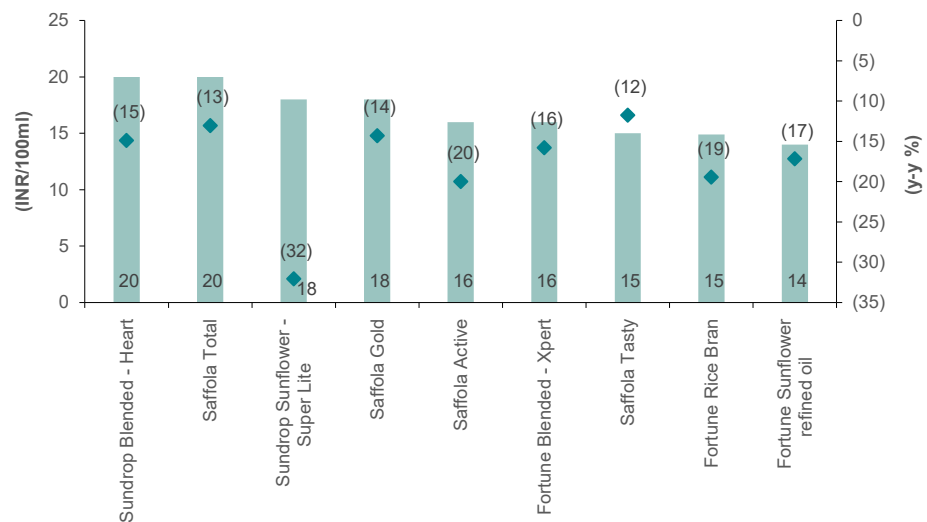


Source: BigBasket; Amazon; JioMart; BNP Paribas Exane

Edible oil: prices have stabilised q-q but declined y-y; likely to continue in 4QFY24

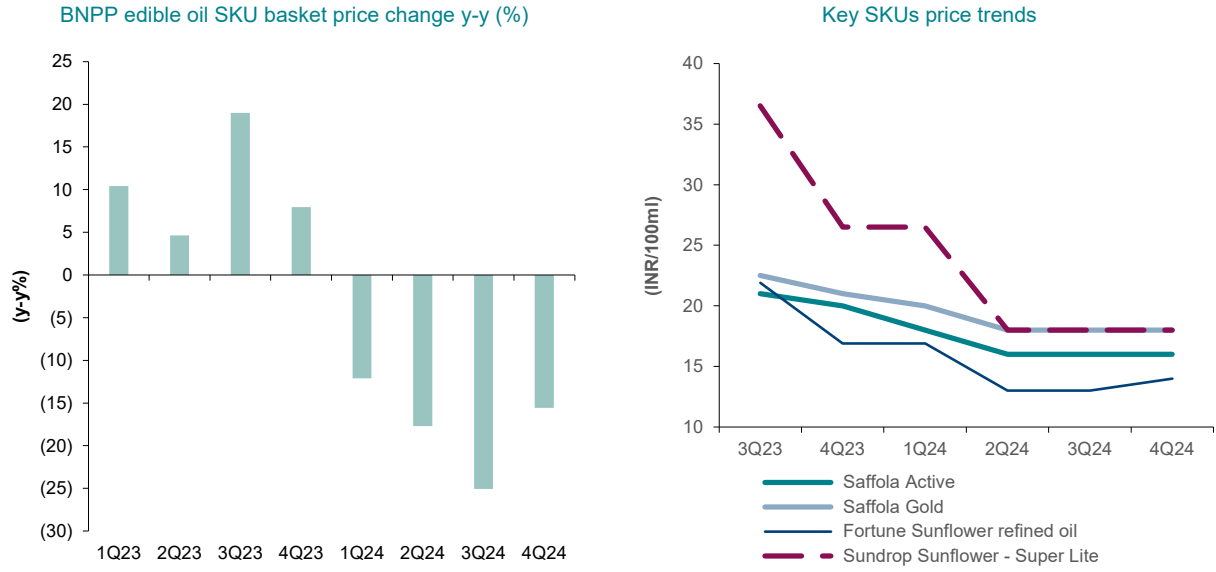
The edible oil category has been seeing price cuts since 1QFY24, following a steep correction in raw material prices from their peak in 1QFY23. In MRP terms, on a y-y basis, Sundrop saw the steepest price cuts, followed by Fortune and Saffola. We observe that the pace of decline has moderated in 4QFY24 after being the highest in 3QFY24, as prices anniversary.

Figure 7: Edible oil prices continue to correct y-y in 3QFY24, given the high base
 LHS = MRP of SKUs (INR/100ml) while RHS = y-y change in MRP (%)



Source: BigBasket; Amazon; JioMart; BNP Paribas Exane

Figure 8: Edible oil prices continue to correct y-y, given the high base, though the pace of cuts moderates as prices anniversary



Source: BigBasket; Amazon; JioMart; Marico; Bloomberg; BNP Paribas Exane

Figure 10: Home care: Detergents and dish wash have seen price cuts in last six months

Home care product price trends: 2M, 6M, 12M, and 24M change (%)

Company	Brand	Variant	Normalized Weight	Normalised price in INR (Adjusted for grammage changes)								Change (%)			
				Mar-21	Mar-22	Dec-22	Mar-23	Sep-23	Dec-23	Jan-24	Mar-24	2 M	6 M	12 M	24 M
Detergents															
Hindustan Unilever	Wheel	Detergent Powder	1 kg	52	62	73	76	76	73	73	73	-	(4)	(4)	18
	Surf	EasyWash	1 kg	118	144	150	164	164	150	150	150	-	(9)	(9)	4
	Surf	Matic Top Load	1 kg	190	199	220	270	270	270	270	270	-	-	-	36
	Rin	Detergent Powder	1 kg	73	92	103	103	103	107	107	107	-	4	4	16
P&G	Rin	Detergent Bar	1 kg	56	76	104	108	100	100	100	100	-	-	(7)	32
	Tide	Plus	1 kg	106	132	136	146	158	144	144	144	-	(9)	(1)	9
	Ariel	Matic Top Load	1 kg	225	220	235	235	160	199	205	205	-	28	(13)	(7)
Jyothy	Henko	Detergent Powder	1 kg	124	140	138	158	168	130	130	130	-	(23)	(18)	(7)
	Henko	Matic Top Load	1 kg	190	190	220	220	270	270	270	270	-	-	23	42
HI - Coil															
GCPL	Good Knight	Activ+ Low smoke	per unit	3	3	4	4	4	4	4	4	(5)	(5)	-	12
RB	Mortein	Power Gard 10 hrs	per unit	3	3	3	4	3	3	3	3	(6)	(6)	(19)	(3)
HI - Electric															
GCPL	Good Knight	Activ+ LV refill	100 ml	160	171	167	167	178	178	178	178	-	-	7	4
	Good Knight	Gold Flash LV refill	100 ml	176	176	167	167	167	172	172	172	-	3	3	(2)
SC Johnson	All Out	Ultra LV refill	100 ml	147	147	160	160	160	172	172	172	-	8	8	17
RB	Mortein	LV Refill	100 ml	160	160	144	144	149	149	149	149	-	-	3	(7)
Jyothy	Maxo	LV Refill	100 ml	149	156	160	167	156	156	156	178	14	14	7	14
Dish Wash															
Hindustan Unilever	Vim	Dishwash liquid gel - Lemon	100 g/ml	13	14	17	14	14	16	16	16	-	12	12	16
	Vim	Dishwash bar	100 g/ml	7	7	8	8	8	8	8	8	-	-	-	8
Jyothy	Prii	Dishwash liquid	100 g/ml	17	18	19	19	19	14	14	14	-	(25)	(25)	(21)
	Prii	Dishwash bar - Lime & Vinega	100 g/ml	9	10	10	11	11	11	11	11	-	-	-	10
	Exo	Anti bacterial dishwash bar	100 g/ml	8	10	9	8	8	8	8	8	-	(4)	(4)	(16)
	Exo Round	Anti bacterial dishwash bar	100 g/ml	10	10	12	12	12	12	12	12	-	-	-	18
Surface Cleaners															
RB	Lizol	Surface and floor cleaner	100 ml	19	20	20	20	22	22	23	23	-	5	16	16
Hindustan Unilever	Domex	Floor cleaner	100 ml	19	21	23	23	23	23	23	23	-	-	-	9
Toilet Cleaners															
RB	Harpic	Original	100 ml	17	19	19	20	20	20	20	20	-	-	-	6
HUL	Domex	Original	100 ml	17	20	20	20	20	20	20	20	-	-	-	4

Source: BigBasket; Amazon; JioMart; BNP Paribas Exane

Figure 11: Food and beverages: Prices have remained largely unchanged in the past six months; coffee has seen price hikes in the past one year, while edible oil prices have corrected the most over the same period
 Food and beverage product price trends: 2M, 6M, 12M, and 24M change (%)

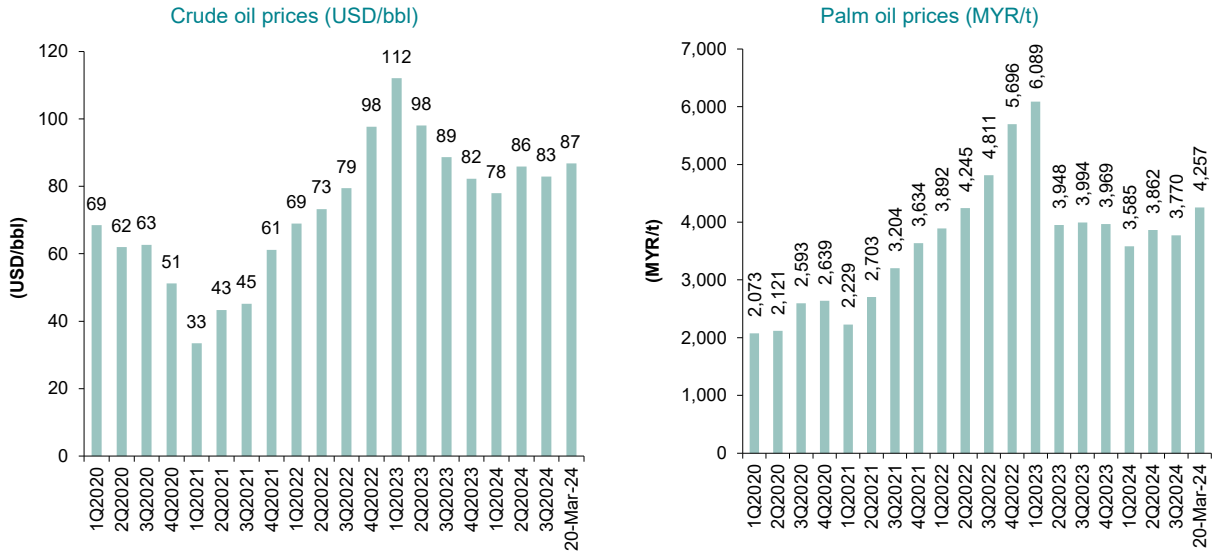
Company	Brand	Variant	Normalized Weight	Normalised price in INR (Adjusted for grammage changes)								Change (%)			
				Mar-21	Mar-22	Dec-22	Mar-23	Sep-23	Dec-23	Jan-24	Mar-24	2 M	6 M	12 M	24 M
Britannia	Tiger	Glucose	100 g	8	10	12	12	12	12	12	12	-	-	-	17
	Milk Bikis		100 g	10	13	16	19	23	23	16	15	(4)	(36)	(20)	20
	Marie Gold		100 g	12	13	14	14	15	15	15	15	-	-	7	15
	Tiger Krunch	Chocochip	100 g	13	19	16	16	16	16	16	16	-	-	-	(14)
	Good Day	Cashew	100 g	17	19	19	19	19	19	19	19	-	-	-	1
	Bourbon	Chocolate Cream	100 g	17	20	20	20	20	20	20	20	-	-	-	20
	Treat	Orange	100 g	17	17	18	20	20	20	20	20	-	-	-	1
	Nutri Choice	Hi Fibre Digestive	100 g	20	25	20	20	20	20	20	20	-	-	-	(20)
	50-50 Maska Chaska	Salted	100 g	21	22	25	25	25	25	25	25	-	-	-	12
	Jim Jam	Cream	100 g	25	25	27	27	27	27	27	27	-	-	-	9
	Chocolush		100 g	40	47	47	47	47	53	53	53	-	14	14	14
	Nutrichoice	Ragi Cookies	100 g	47	50	50	50	50	47	47	47	-	(7)	(7)	(7)
	Parle-G	Glucose	100 g	8	8	10	10	10	10	10	10	-	-	-	20
	Parle	Krack-Jack		100 g	13	14	16	16	16	16	16	16	-	-	-
20-20		Butter cookies	100 g	13	17	10	17	15	18	18	15	(14)	-	(10)	(10)
Monaco		Salted	100 g	15	18	20	20	20	20	20	20	-	-	-	14
Hide & Seek			100 g	25	30	30	30	30	30	30	30	-	-	-	-
ITC	Milano	Center filled chocolate	100 g	40	40	53	53	53	53	53	53	-	-	-	33
	Sunfeast	Glucose	100 g	8	8	10	10	10	10	10	10	-	-	-	25
	Sunfeast	Marie Light	100 g	13	13	13	13	13	16	16	16	-	20	20	29
	Sunfeast Bounce	Orange Cream	100 g	13	13	17	17	17	17	17	17	-	-	-	31
	Sunfeast Mom's Magic	Cashew & Almond	100 g	17	17	20	20	20	20	20	20	-	-	-	17
	Sunfeast Farnite	Nuts Digestive	100 g	25	25	25	25	25	25	25	25	-	-	-	-
	Sunfeast Farnite	Oats & Almonds	100 g	33	40	43	43	43	43	43	43	-	-	-	8
	Sunfeast	Dark Fantasy	100 g	40	47	53	53	53	53	53	53	-	-	-	14
Mondelez	Oreo	Vanilla	100 g	25	25	25	31	31	31	34	34	-	11	11	37
Noodles															
Nestle	Maggi	Masala	100 g	17	20	20	20	20	20	20	20	-	-	-	-
ITC	Yippee	Masala	100 g	17	20	20	23	23	23	23	23	-	-	-	15
Marico	Saffola Oodles	Yummy Masala	100 g	43	43	38	38	42	47	47	47	-	14	25	8
Cheese Slices															
Britannia	Britannia	Slice	100 g	90	90	105	105	109	109	109	109	-	-	4	21
Amul	Amul	Slice	100 g	71	73	78	80	80	80	85	85	-	6	6	16
Go	Go	Slice	100 g	80	80	90	99	99	99	99	99	-	-	-	24
Butter															
Britannia	Britannia	Butter	100 g	57	57	75	75	65	65	75	75	-	15	-	32
Amul	Amul	Butter	100 g	48	50	54	56	56	58	58	58	-	4	4	16
Tea															
Hindustan Unilever	Brooke Bond	Red Label	100 g	45	40	45	47	50	55	55	55	-	10	17	38
Tata Consumer	Taj Mahal		100 g	75	85	90	95	95	95	95	95	-	-	-	12
	Tata Tea	Gold	100 g	58	40	58	58	60	50	55	55	-	(8)	(5)	38
Coffee															
Nestle	Nescafe	Sunrise Chicory Mixture (Pouch)	100 g	150	180	190	210	240	240	240	240	-	-	14	33
Hindustan Unilever	Nescafe	Classic (Pouch)	100 g	280	290	320	320	330	378	378	378	-	14	18	30
	Bru	Instant (Pouch)	100 g	120	140	200	210	220	320	320	320	-	45	52	129
Juices															
Dabur	Real	Mixed Fruit	100 ml	11	12	12	12	13	13	13	13	-	-	8	11
Pepsi	Tropicana	Mixed Fruit	100 ml	11	14	14	15	13	13	13	13	-	-	(14)	(7)
ITC	B Natural	Mixed Fruit	100 ml	11	12	13	13	13	13	13	13	-	-	-	8
Edible Oils															
Marico	Saffola 1L Pouch	Active	100 ml	18	20	21	18	16	16	16	16	-	-	(11)	(18)
	Saffola 1L Pouch	Tasty	100 ml	16	17	19	17	15	15	15	15	-	-	(12)	(12)
	Saffola 1L Pouch	Gold	100 ml	19	21	23	20	18	18	18	18	-	-	(10)	(14)
	Saffola 1L Pouch	Total	100 ml	20	22	23	22	20	20	20	20	-	-	(9)	(7)
Adani	Fortune 1L Pouch	Rice Bran	100 ml	16	19	21	19	17	15	15	15	-	(10)	(19)	(19)
	Fortune 1L Pouch	Blended - Xpert	100 ml	18	19	23	19	16	16	16	16	-	-	(16)	(16)
	Fortune 1L Pouch	Sunflower refined oil	100 ml	23	18	22	17	13	13	13	14	8	8	(17)	(22)
Agro Tech	Sundrop 1L Pouch	Sunflower - Gold	100 ml	24	24	30	30	30	30	30	30	-	-	-	28
	Sundrop 1L Pouch	Sunflower - Super Lite	100 ml	24	22	37	27	18	18	18	18	-	-	(32)	(16)
	Sundrop 1L Pouch	Blended - Heart	100 ml	21	20	24	24	20	20	20	20	-	-	(15)	-

Source: BigBasket; Amazon; JioMart; BNP Paribas Exane

Raw materials: inching up sequentially

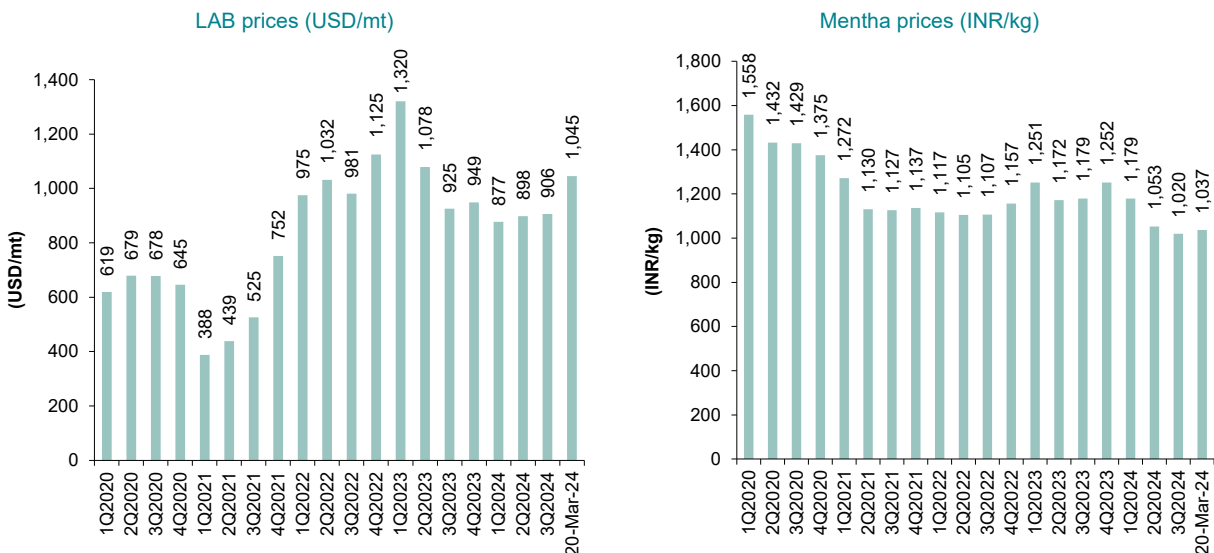
We observe that most RM prices are seeing some inflation and few are largely range bound over the past few quarters. The cooling of RM prices had resulted in meaningful gross margin expansion for most companies under our coverage. We see the increase in RM prices in the current demand environment as a negative development for the sector.

Figure 12: Crude and palm oil have seen a sequential uptick in prices



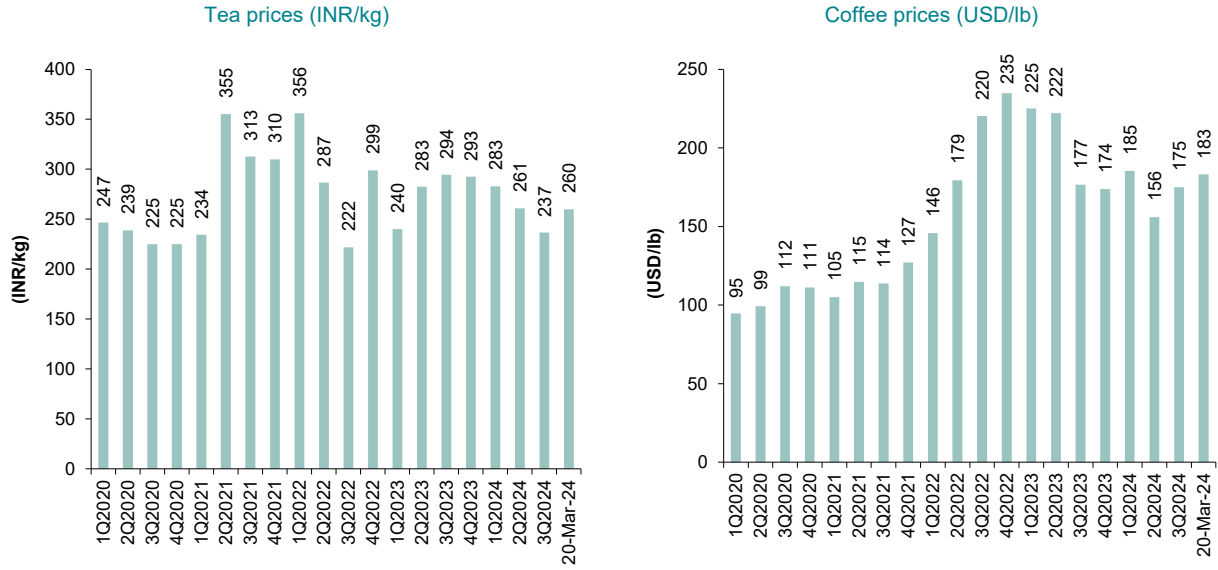
Source: Bloomberg; BNP Paribas Exane

Figure 13: LAB prices have been marginally inching up in the past three quarters; mentha prices have remained stable



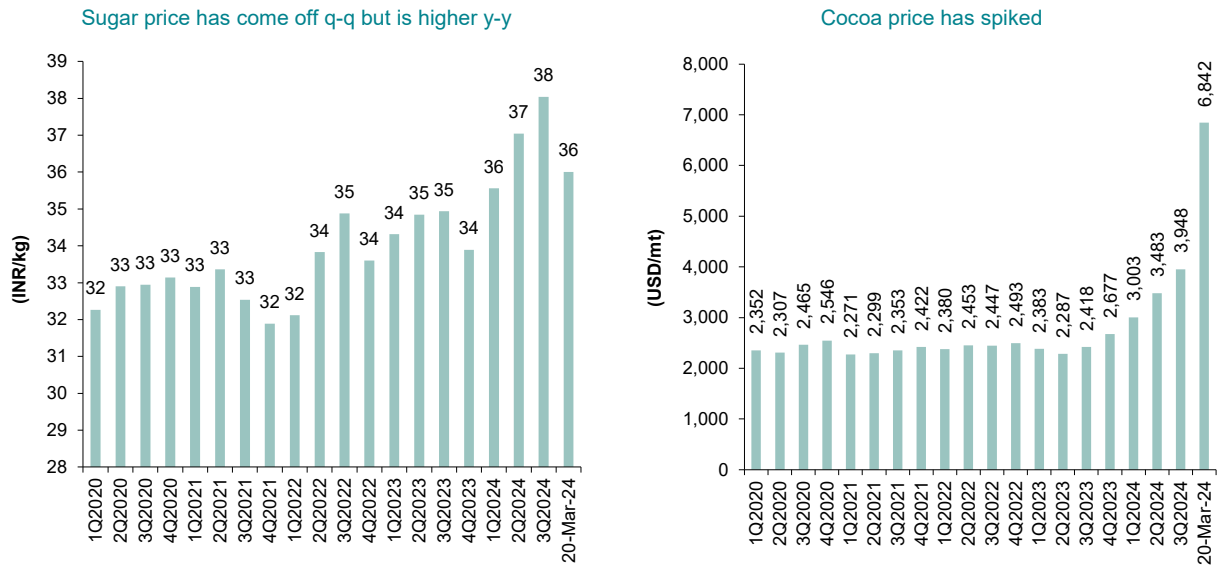
Source: Bloomberg; BNP Paribas Exane

Figure 14: Tea prices remain range bound, while coffee prices have been increasing for two straight quarters after cooling off in 2QFY24



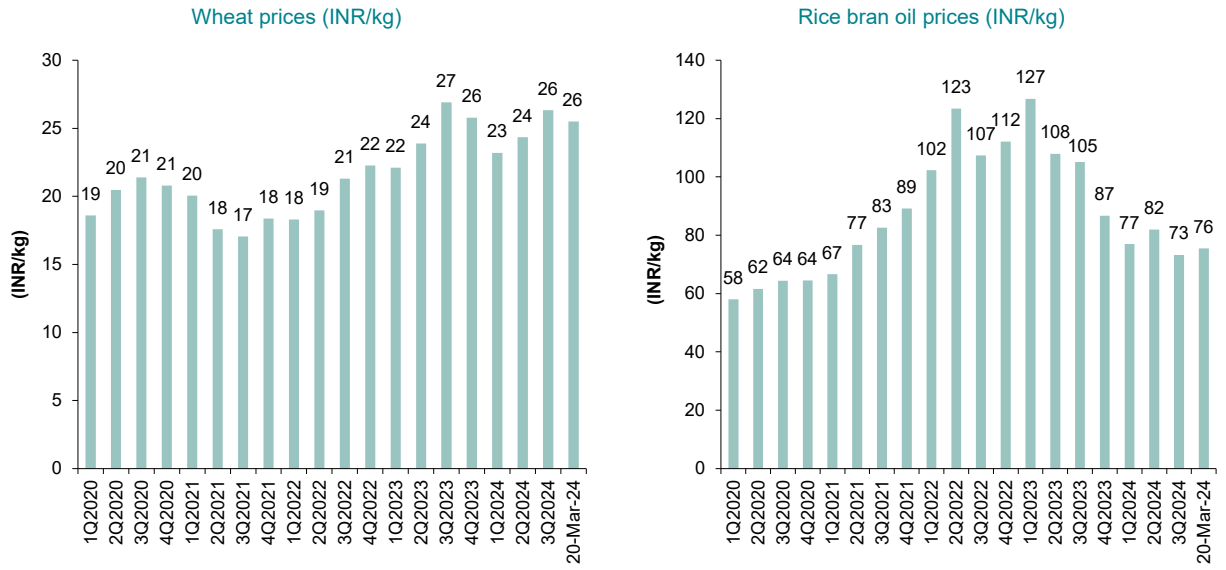
Source: Bloomberg; BNP Paribas Exane

Figure 15: Higher sugar and cocoa prices pose a risk to NEST's margins



Source: Bloomberg; BNP Paribas Exane

Figure 16: Wheat prices have stabilised; price of rice bran oil has remained range bound



Source: Bloomberg; BNP Paribas Exane

Investment case, valuation and risks

Britannia Industries (Outperform, Target Price INR5650)

Investment case

We expect sales growth of branded food and beverages to outpace that of home and personal care due to relatively lower penetration. Over the last decade, Britannia's revenue and earnings growth have been at the top end of our FMCG coverage universe, and we expect this trend to continue. Britannia has consistently gained volume market share in the biscuits category, and it has been investing in adjacencies such as dairy and bakery products.

Valuation methodology

We value BRIT at 50x Dec-25E EPS, at c20% premium to our target P/E multiple for peers such as Marico and Dabur, because of our higher revenue growth expectations for BRIT than for the other two. We expect BRIT's sales and earnings to grow faster than those of HPC companies including HUL, but our valuation multiple for BRIT is at par with that of HUL which continues to be assigned a premium for better corporate governance.

Risks

To the upside:

While we continue to see opportunities for industry growth and volume market share improvement in biscuits, stronger-than-expected performance from new categories could present an upside risk.

To the downside:

An increase in competitive intensity and resultant weakness in volumes and margins are risks for Britannia.

Dabur India (Neutral, Target Price INR550)

Investment case

Dabur has a diversified portfolio of home and personal care (HPC) and food, with leadership in the natural and Ayurvedic range. Around 75% of its sales comes from India, while the rest are from its well-diversified international business. In India, its food and beverage portfolio, which accounts for c20% of FY23 sales, has been the fastest growing category for Dabur in the last three years. Healthcare saw strong growth during the pandemic, but the gains are largely behind it now. HPC is the largest contributor to sales, accounting for 45-50% of sales. In this regard, hair care growth has been muted due to weak rural demand and high competitive intensity. In oral care, while the industry growth is weak, Dabur has consistently gained market share as the industry is moving towards naturals. Overall, we like Dabur's portfolio, but its valuation does not seem compelling, and we rate Dabur as Neutral.

Valuation methodology

We value Dabur at 42x Dec-25E EPS, which is its last decade average NTM P/E.

Risks

To the upside:

Recovery in rural growth and an acceleration in growth in some of the laggard categories are key upside risks.

To the downside:

Sustained weakness in rural demand can result in growth disappointment.

Emami (Outperform, Target Price INR620)

Investment case

Emami has a high rural and wholesale dependence, and it has underperformed peers on revenue and operating profit growth metrics in the last five years. Some of its categories, such as male grooming, have struggled in recent years. Its healthcare division was also impacted in FY23 due to the high base post-pandemic, which resulted in margin pressure. We are seeing early signs of a recovery in growth and margins. Investors have also been concerned about the high promoter pledge in Emami, which was recently addressed after the sale of the hospital business by the promoters. Emami is the only stock in our FMCG coverage that is trading at a discount to its last decade average, and we find the risk-reward balance favourable.

Valuation methodology

We value Emami at 29x Dec-25E EPS, lower than its last decade average NTM P/E of 31x. We value larger peers at over 40x. If the sales growth recovers, we see a potential for further re-rating.

Risks

To the upside:

A recovery in rural demand would benefit Emami. It could result in a higher growth rate and in expansion of valuation multiple.

To the downside:

Emami's growth rate in recent years has disappointed investors. Continued disappointment on growth metrics is a risk.

Godrej Consumer Products (Underperform, Target Price INR1060)

Investment case

GCPL is geographically the most diversified company in our FMCG coverage, with nearly half of its revenue coming from international operations, including in Africa and Indonesia. The company recently acquired Raymond's consumer business. It faced issues in Africa previously and Indonesia more recently. In India, its largest category, Household Insecticides (HI), faces competition from illegal incense stick players. Its revenue and earnings growth over FY18-23 have lagged those of peers. GCPL is working on new initiatives to drive growth including launching HI products using a new and more effective molecule. We will watch out for the impact of these launches. At current valuation, we do not find the stock attractive.

Valuation methodology

We value GCPL at 42x Dec-25E EPS, which is the last decade's average NTM P/E of the company.

Risks

To the upside:

Under the leadership of Sudhir Sitapati, GCPL has worked on several new initiatives. In India, GCPL has introduced low unit packs across its product portfolio. In Africa, GCPL is moving to a royalty model in some of the markets. GCPL has acquired exclusive rights to a new molecule, with which it expects to launch more efficacious products in its largest category (Household Insecticides) and gain market share. A sharp turnaround led by some of these initiatives is an upside risk.

To the downside:

We think the narrative for the GCPL stock is positive, with expectations of a recovery in revenue growth and margins across markets. Our estimates are below those of consensus. Weaker-than-expected growth in the Home Insecticides category, a slow

turnaround of Raymond Consumer, and a cut in consensus earnings estimates and valuation multiples are downside risks.

Hindustan Unilever (Neutral, Target Price INR2630)

Investment case

Hindustan Unilever (HUL) is the largest consumer staples company in India. It has a well-diversified business, with presence across home care, personal care and food business. HUL's home care division has reported strong growth in the recent years, led by premiumisation of the detergent portfolio. However, the division is now seeing higher competitive intensity. Beauty and personal care categories have seen a slowdown for all key players, and HUL is no exception. HUL's food and beverages division is impacted by downtrading in tea, and inflation in milk is hurting the health food drinks (HFD) business that it had acquired from GSK. While the near-term growth prospects appear muted, margin improvement is set to drive earnings growth. We are Neutral on the stock.

Valuation methodology

We value HUL at 50x Dec-25E EPS, which is at a slight premium to its last decade average NTM P/E.

Risks

To the upside:

A stronger-than-expected demand recovery led by an improvement in rural consumption is a key upside risk.

To the downside:

Weak demand and an increase in competitive intensity can keep hurting the volume growth. This could result in contraction in valuation multiple.

ITC (Outperform, Target Price INR525)

Investment case

ITC has reported c10% earnings CAGR over FY13-23, which is the median for our FMCG coverage over that period. ITC offers the highest dividend yield in our FMCG coverage. Its growth outlook has improved in years since the implementation of GST due to a stable taxation regime. Its valuation looks attractive in an expensive Indian consumer stocks universe.

Valuation methodology

We value ITC based on sum of the parts (SOTP) method, with c90% of our fair value of ITC coming from its cigarette and FMCG divisions. We value the cigarette division at 20x EV/EBITDA, which is at a 50% discount to its FMCG peers' average to factor in a relatively weaker volume growth potential and regulatory risk. We value the FMCG division at 4x sales, which is at the lower end of our FMCG coverage due to its relatively lower margins.

Risks

To the upside:

Upside risks include: 1) stable taxation on cigarettes resulting in further recovery in volumes; 2) FMCG division seeing higher-than-peer revenue growth; and 3) an improvement in margins.

To the downside:

The cigarette division has seen a recovery over the last two years on a low base and stable taxation policy. Any regulatory measures to curb cigarette consumption, including a sharp hike in duty on cigarettes, would be a risk to our positive view.

Jubilant Foodworks (Underperform, Target Price INR400)

Investment case

JUBI's revenue per store has stagnated over the last five years as organised and unorganised competition intensified. JUBI is seeing pressure on its EBITDA and an increase in capex, which are hurting its FCF generation. JUBI saw a sharp cut in Bloomberg consensus earnings estimates in the last six months, but the stock has been resilient due to hopes of recovery. We see a risk to earnings estimates as well as valuation multiples. We rate JUBI as Underperform.

Valuation methodology

We value JUBI at 50x FY26E EPS, which is its past 10-year average NTM P/E (excluding the pandemic-impacted years).

Risks

To the upside:

JUBI's earnings are highly sensitive to same store sales growth (SSSG). While we are already building in an improvement in SSSG, a stronger-than-expected SSSG is a risk to our negative view on the stock. A stronger-than-expected ramp up of Popeye is another upside risk.

To the downside:

JUBI's growth has been led by store expansion amid a weakness in revenue per store. If the demand weakness continues, we think store expansion would also need to be curtailed. Weak growth could result in earnings cuts and contractions in valuation multiples.

Marico (Neutral, Target Price INR550)

Investment case

Marico derives c75% of its revenue from India, and the remaining 25% comes from international business, of which Bangladesh is the largest. Parachute coconut oil is Marico's largest selling product and accounts for 35-40% of sales. It's a mature category, but Marico continues to gain market share from loose coconut oil. Value added hair oil (VAHO) accounted for 20-22% of sales in recent years, with a mid-single-digit CAGR in the last five years. The performance of Saffola edible oil business is linked to edible oil prices, which have been volatile recently. Saffola's revenue has declined in recent quarters due to a sharp decline in edible oil prices. Marico's food business and D2C brands have become important drivers of growth in recent years. Among international operations across companies, Marico's Bangladesh operations have seen the most consistent growth. However, it has slowed slightly in recent quarters. We see moderate growth potential in the business, with a high dependence on new initiatives such as food and D2C to drive growth.

Valuation methodology

We value Marico at 40x Dec-25E EPS, which is based on the last decade's average NTM P/E.

Risks

To the upside:

Faster-than-expected scaling up of the food business and D2C brands may reduce its dependence on hair oil and edible oil. Acceleration in revenue growth of the VAHO portfolio is another upside risk.

To the downside:

Consumer fatigue in the hair oil category may result in a structurally lower growth rate compared to those of other beauty and personal care categories.

Nestlé India (Underperform, Target Price INR2370)

Investment case

NEST reported revenue, EBITDA and earnings CAGR of 11%, 12% and 13%, respectively, over CY17-22, which is higher compared to those of peers. NEST's key segments, such as prepared dishes, confectionary and beverages, have delivered strong volume growth, while its largest segment, milk products and nutrition, has not recorded volume growth in the last decade.

Entering a major capex cycle over CY23-25, NEST is set to see an increase in capex and opex over the next two years. Management expects to spend INR50b (8% of BNPPe FY23-26 sales), which, in our opinion, is high for an FMCG company. At the same time, NEST's advertisement spend as a % of sales in CY22 was the lowest in the last 15 years. NEST's royalty contract with its parent is up for renewal in CY24. We think an increase in the pace of innovation, a larger distribution reach and stronger volumes will be required to monetise the investments. NEST trades at c68x CY24E EPS. While the business prospects look mixed, we find the valuation unappetizing.

Valuation methodology

We value NEST at 60x Dec 2025E EPS, which is at a slight premium to its last decade average NTM P/E.

Risks

To the upside:

NEST has a large capex plan over CY23-25, while the underlying demand trends have weakened. If the company manages to drive volume growth well ahead of its peer group, the premium valuations are likely to sustain.

To the downside:

Strong volume growth will be critical for the stock to continue to trade at a significant premium to the peer group. An increase in royalty fees is also a risk.

Titan (Outperform, Target Price INR4150)

Investment case

Titan is India's largest jewellery and watch company. Despite being the market leader, it accounts for only 7-8% of the industry's revenue. The jewellery industry has gone through structural changes, such as mandatory disclosure of PAN card and hallmarking of jewellery, which benefit large, national and trusted brands such as Tanishq (owned by Titan). Titan's management has set ambitious goals for each division and expects the jewellery division's sales to grow at a CAGR of c20% in the medium term. The company has met this target, despite the slowdown in the broader consumption space. We see opportunities such as expansion of store count, market share gains and international expansion to help drive revenue and earnings growth.

Valuation methodology

We value TTAN's standalone business at 62x FY26E EPS, which is 1SD above its last decade NTM average P/E because of its strong growth when most other consumer

companies are facing demand issues. We value its high growth subsidiary, CaratLane, at 6x FY26E sales.

Risks

To the upside:

We see TTAN as an earnings compounding story. A positive surprise can come from higher-than-expected market share gains in India. Its international business is still at a nascent stage but appears promising. Faster-than-expected ramp-up of international business could result in a positive surprise.

To the downside:

Slowdown in affluent consumption in India due to global or local factors is a risk. Also, laboratory-made diamonds are hurting diamond demand in markets such as China and the US. Its potential impact on the Indian market is a factor to watch out for.

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