Consumer Goods

Price stability to aid demand

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Even as FMCG players strategize for demand recovery and enhancing volume growth on a low base/expected improvement in demand, price growth has largely dried up, given easing raw-material prices for most categories (in our coverage, HUL, GCPL, Britannia have negative pricing). Inflationary trends have sustained in select categories like coffee, tea, milk, and chocolate which has led to steady price hikes. Oral care remains divergent, with players continuing to effect price hikes with enhanced formulation. We see the raw-material basket benefitting from expected easing of prices of crude/palm oil in producing countries, in 2HFY25. FMCG companies are eyeing low single-digit price growth which, along with high single-digit volume growth, would aid double-digit revenue growth in FY25. Sector valuations factor-in an improved demand milieu and healthy earnings ahead. Given the pricy valuations, we remain selective and continue to favor HUL, Dabur, Honasa Consumer, and Emami.


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Price hikes on the rise
Sector Report | Channel Checks | February 28, 2024 | NIFTY 50: 22,198


Eyes on the market
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Home and Personal care prices stable; competitive intensity on the rise

Amid a relatively better raw-material (RM) setting, most product prices in the home and personal care segment have been stable. For large product-categories like Soap and Household insecticide, the companies are done with technological upgrades which is likely to aid growth. In laundry, we see faster shift toward liquids, where increased competition is resulting in price wars. In oral care, product superiority has been a key enabler for the consistent price hikes. Discretionary segments like Shampoo/Hair color are likely to see demand recovery with onset of the festival season and higher number of weddings. Hair oil, though, would remain stressed, with consumers moving to lower priced brands (ie brand downgrade). Easing in crude prices will positively impact the RM basket. Palm oil price trajectory is crucial for price hikes, as increase in custom duty rate would drive inflation, but cut in export duty in Indonesia and surplus inventory in Malaysia would offset the inflationary impact, in our view.

Inflationary raw material prices in Foods segment, a concern for demand

Prices of RMs in the Foods segment have been inflationary, particularly of milk, cocoa, coffee, and tea. FMCG players have gradually effected price hikes in respective categories to pass on the inflation impact. In Edible oil, prices have been steady for the last three months, with easing of RM prices in the base. In Biscuits, price actions have been limited, and players have used trade promotions to pass on deflation in RM prices. Incrementally, surge in wheat/palm oil prices would limit price-cuts and a surge in competition would limit price hikes. The milk, baby foods, and functional nutrition segments continue to be impacted by inflationary prices of milk. Inflation in prices of tea continues to compel consumers to downgrade to lower-priced brands, with prices likely to further rise in the coming procurement season in 2HFY25. Coffee and Chocolate prices are still high, causing steady price hikes. Juices and Honey have seen stable prices.

Rating, Target Price and Valuation

	Rating	CMP (Rs)	TP (Rs)	Upside (%)	P/E (x) FY25E	P/E (x) FY26E	EV/EBITDA (x) FY25E	EV/EBITDA (x) FY26E
Britannia Industries	ADD	6,191	6,250	1	61.3	53.1	42.4	37.4
Colgate-Palmolive	REDUCE	3,682	2,850	(23)	65.0	59.5	45.2	41.3
Dabur India	BUY	656	750	14	55.1	46.6	40.6	34.2
Emami	BUY	761	950	25	40.2	36.4	29.7	26.7
Godrej Consumer Products	ADD	1,446	1,450	-	64.8	53.4	43.0	37.4
Hindustan Unilever	BUY	2,951	3,200	8	63.4	56.7	44.4	39.9
Honasa Consumer	BUY	474	600	26	102.2	63.7	82.2	45.8
ITC	ADD	515	520	1	29.1	26.7	22.5	20.7
Marico	REDUCE	705	700	(1)	56.8	49.4	40.8	35.8
Nestlé India	ADD	2,696	2,650	(2)	77.2	68.2	52.1	45.6

Source: Company, Emkay Research