INSTITUTIONAL RESEARCH

FMCG & Alco Bev

2QFY21 Preview

- **Aggregate revenue/EBITDA to grow by 4/5%:** Our FMCG coverage universe is expected to deliver growth of 4/5% YoY in revenue/ EBITDA (ex-GSK, 1/1%) in 2QFY21 (vs. +6/+6% in 2QFY20 and -14/-13% in 1QFY21). Packaged foods, immunity building healthcare and hygiene segments continue to witness healthy growth while personal care, tobacco, liquor, and OOH categories continue to remain impacted, even as we see QoQ recovery trends. Given pantry loading is over, channel inventory is normalising and unlock across states is continuing, we expect growth divergence to normalise further in 3QFY21 for these categories and return to YoY growth. Personal and Homecare saw strong recovery, led primarily by recovery in the value segment. Recovery across categories has been driven by rural markets, as restrictions continued in varying degrees in most urban areas. While MT improved QoQ, growth was robust in GT and E-comm as consumers remained wary of venturing far from their homes. We expect BRIT, NEST, GCPL, MRCO, Emami to be relatively better performers in 2QFY21.
- **Discretionary categories remain impacted, expect back to positive growth in 2H:** Liquor, cigarettes and OOH categories continued to be impacted in 2QFY21. Closure of pubs and bars in most states throughout 2QFY21 has led to a loss of on-premise consumption. Even in states that opened bars, demand remained muted. However, home delivery could partially mitigate the impact of lost sales. Similarly, the loss of dine-in sales would impact QSR, but the strong recovery in delivery (YoY growth in Aug/September) would minimise the loss of sales. Localised lockdowns and supply chain disruptions impacted cigarettes and recovery is expected to be gradual. OOH categories like Juices and premium discretionary personal care were also under pressure due to fewer instances of going out.
- **Margin tailwinds continue:** We expect YoY EBITDA margin expansion for most companies as raw material remains benign (both food and crude basket down YoY). However, this will be partly negated by adverse product mix and downtrading in select categories. A&P spends remain well-calibrated, while up QoQ, and might still provide some operating leverage on a YoY basis. We expect strong EBITDA margin expansion (> 100bps YoY) for BRIT, NEST, MRCO, Emami, DABUR, CLGT and Radico while margin contraction (>100bps YoY) for ITC, UNSP and JUBI.
- **1QFY21 Outliers:** Britannia, GCPL, MRCO, Emami, Radico
- **Our view:** We believe companies with higher revenue mix from essential commodities and rural will continue to benefit. Ecomm will continue to gain pace as consumers remain wary about venturing into crowded MT stores. Hence, companies with a strong presence and diversified offerings in Ecomm will do well. However, we expect a recovery in categories like Liquor and QSR to continue to be strong, driven by easing of restrictions and strengthening demand for home delivery. While the sector has underperformed Nifty by ~25% in the past six months, we still see limited absolute upsides, given rich valuations and risk-reward remain balanced, keeping us on the sidelines. We see better opportunities in select stocks where business models are strong and valuations have normalised in the last 12-18 months.
- **We have a BUY rating on ITC, ADD rating on Radico, UNSP and Colgate.**

Company	CMP (Rs)	Reco.
HUL	2,153	REDUCE
ITC	165	BUY
Nestle	15,593	REDUCE
Britannia	3,732	REDUCE
Dabur	517	REDUCE
GCPL	682	REDUCE
Marico	363	REDUCE
United Spirits	507	ADD
Colgate	1,422	ADD
Jubilant	2,297	REDUCE
Emami	339	REDUCE
Radico Khaitan	415	ADD

Note: CMP is of 15 Oct'20

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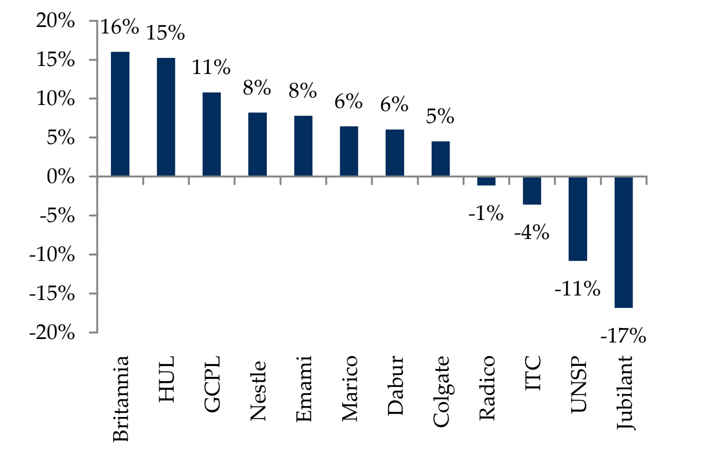
Financial Summary

Company	NET SALES (Rs bn)			Like-Like EBITDA (Rs bn)			Like-Like EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	2Q FY21E	*QoQ (%)*	*YoY (%)*	2Q FY21E	*QoQ (%)*	*YoY (%)*	2Q FY21E	*QoQ (bps)*	*YoY (bps)*	2Q FY21E	*QoQ (%)*	*YoY (%)*	2Q FY21E	1Q FY21	2Q FY20
ITC	114.5	*20.5*	*(3.6)*	42.8	*61.7*	*(6.2)*	37.4	*954*	*(104)*	33.4	*42.5*	*(17.0)*	2.7	1.9	3.3
HUL*	111.9	*7.5*	*15.2*	27.8	*9.7*	*18.9*	24.6	*51*	*78*	21.0	*11.9*	*14.7*	8.9	8.0	8.4
Nestle	34.6	*13.8*	*8.2*	8.9	*15.5*	*16.0*	25.5	*32*	*172*	6.0	*23.2*	*0.7*	62.2	50.5	61.8
Britannia	34.2	*0.0*	*16.0*	6.7	*(6.7)*	*36.0*	18.9	*(204)*	*277*	5.0	*(7.8)*	*24.2*	20.8	22.6	16.8
United Spirits	20.5	*98.8*	*(10.8)*	2.9	*(433.9)*	*(27.9)*	14.3	*2,279*	*(338)*	1.5	*(209.1)*	*(31.8)*	2.1	(1.9)	3.1
Dabur	23.5	*18.5*	*6.0*	5.4	*30.8*	*13.5*	23.2	*219*	*154*	4.7	*37.2*	*7.8*	2.7	1.9	2.5
GCPL	28.9	*25.1*	*10.8*	6.5	*37.0*	*12.3*	22.2	*191*	*30*	4.5	*41.8*	*13.1*	4.4	3.1	3.9
Marico	19.5	*1.1*	*6.4*	3.9	*(15.6)*	*15.6*	20.2	*(401)*	*160*	2.9	*(12.0)*	*18.7*	2.3	2.6	1.9
Colgate	12.8	*22.7*	*4.5*	3.6	*17.1*	*11.6*	28.2	*(136)*	*180*	2.4	*19.5*	*(3.0)*	8.7	7.3	9.0
Jubilant	8.2	*116.1*	*(16.9)*	1.9	*701.3*	*(17.9)*	23.5	*1,714*	*(31)*	0.8	*(216.5)*	*(27.5)*	5.7	(4.9)	7.9
Emami	4.8	*47.8*	*7.8*	2.2	*81.2*	*15.5*	31.3	*576*	*208*	1.7	*106.5*	*17.5*	3.9	1.9	3.3
Radico	5.6	*37.8*	*(1.1)*	1.0	*34.4*	*20.2*	18.1	*(45)*	*321*	0.6	*46.7*	*28.0*	4.9	3.3	3.8
Aggregates	**418.9**	***16.6***	***4.2***	**113.8**	***34.3***	***5.3***	**27.2**	***359***	***30***	**84.5**	***32.9***	***(2.9)***			

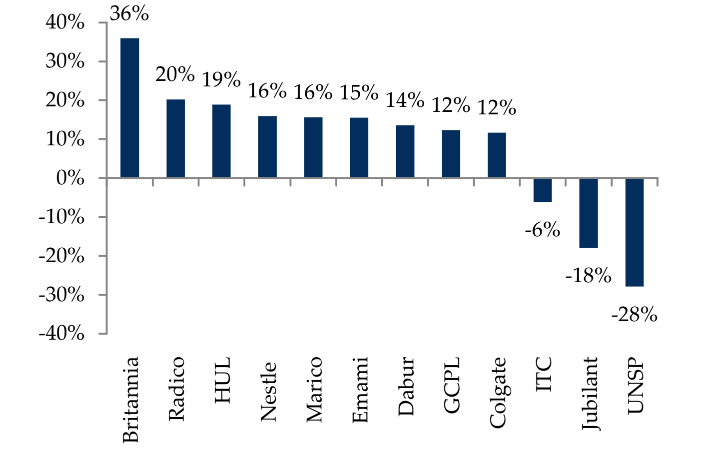
* HUL including GSK Consumer

HSIE Coverage Universe- Revenue Growth



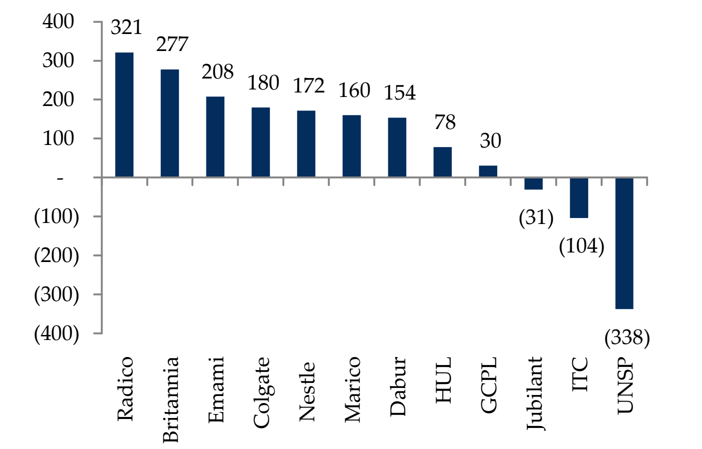
Source: Company, HSIE Research

HSIE Coverage Universe- EBITDA Growth



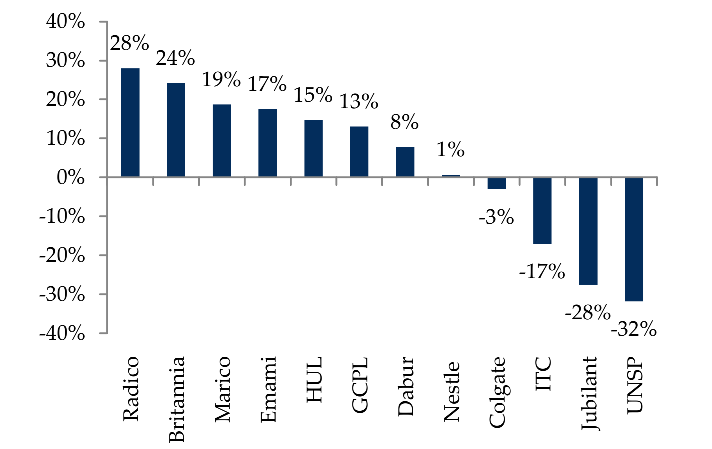
Source: Company, HSIE Research

HSIE Coverage Universe- EBITDA Margin (bps)



Source: Company, HSIE Research

HSIE Coverage Universe- PAT Growth



Source: Company, HSIE Research

COMPANY	2QFY21E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
ITC	WEAK	▪ We model the cigarette revenue decline of 8% YoY, with a 10% volume dip YoY (+3% in 2QFY20 and -35% in 1QFY21). Non-Cigarette business is expected to dip by 2% YoY (+12% in 2QFY20 and -7% in 1QFY21) with Hotel/ Paper business witnessing a decline of 75/10% YoY respectively. Agri revenue is expected to remain flat YoY while FMCG is expected to grow by 13% YoY. ▪ We expect cigarette EBIT to decline by 8% YoY (+7% in 2QFY20 and -39% in 1QFY21). We model FMCG EBIT margin at 3.6% (2.8% in 2QFY20 and 3.7% in 1QFY21) ▪ We model overall EBITDA margin contraction of 104bps YoY to 37.4% (+112bps in 2QFY20 and -1,184bps in 1QFY21). EBITDA to dip by 6% YoY (+9% in 2QFY20 and -42% in 1QFY21)	▪ Recovery in Cigarette volume and mix impact on margin ▪ FMCG business EBIT margin ▪ Recovery in Paper Business led by FMCG sector recovery ▪ Outlook on Agri and Hotel businesses
HUL	AVG	▪ We expect net revenue growth of 15% YoY driven by GSK acquisition. Core biz revenue is expected to grow by 1% YoY (+7% in 2QFY20 and -7% in 1QFY21). We model ex-GSK volume decline of 2% YoY (+5% in 2QFY20 and -9% in 1QFY21). ▪ We model revenue growth of 4/71/1% YoY in Home Care/F&R (including GSK)/PC segments respectively. ▪ We build 102bps YoY increase in GM (+251bps in 2QFY20 and -222bps in 1QFY21) aided by benign RM inflation. The EBITDA margin is expected to expand by 78bps YoY to 24.6% (+191bps in 2QFY20 and -119bps in 1QFY21). EBITDA to grow by 19% YoY.	▪ Improvement in rural business ▪ Recovery in Personal Care ▪ Pricing actions and new launches strategy ▪ Sustainability of cost-saving initiatives
Nestle India	GOOD	▪ We model 8% YoY revenue growth (+10% in 3QCY19 and +2% in 2QCY20). Continued demand for packaged food will drive revenue growth despite lockdown. ▪ We model 144bps YoY expansion in GM (-216bps in 3QCY19 and -193bps in 2QCY20) on account of favourable base and product mix. We model EBITDA margin expansion of 172bps YoY to 25.5%. EBITDA to grow by 16% YoY (+2% in 3QCY19 and +7% in 2QCY20).	▪ Commentary on recovery in trade channels and rural demand ▪ New product pipeline ▪ Demand trends in packaged foods
Dabur	GOOD	▪ Consolidated revenue is expected to grow 6% YoY (+4% in 2QFY20 and -13% in 1QFY21). We model the growth of 7% YoY in domestic revenue (+5% in 2QFY20 and -7% in 1QFY21) and 10% YoY growth in volumes (+5% in 2QFY20 and -10% in 1QFY21). Haircare/oral care /Healthcare/home care are expected to grow by 3/6/25/6% YoY, while Food revenue is expected to remain flat YoY driven by the recovery in in-home consumption. ▪ We expect international business to grow by 3% YoY (+2% in 2QFY20 and -22% in 1QFY21). ▪ We model GM expansion of 21bps YoY to 51% (+142bps in 2QFY20 and -10bps in 1QFY21). Cost-control initiatives will lead to Adj. EBTIDA margin expansion of 154bps YoY (+48bps in 2QFY20 and +126bps in 1QFY21). Adj EBITDA to grow by 14% YoY.	▪ Commentary on rural growth and wholesale channels ▪ Change in consumer preferences towards ayurvedic/naturals ▪ Growth in healthcare portfolio ▪ New launches strategy

COMPANY	2QFY21E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Britannia	GOOD	▪ We model 16% YoY revenue growth (+6% in 2QFY20 and +26% in 1QFY21) driven by volume growth of 14% YoY (+3% in 2QFY20 and +26 in 1QFY21). ▪ We model 133bps YoY expansion in GM driven by better product mix (+12bps in 2QFY20 and +124 in 1QFY201). Focus on cost optimisation by the co will result in EBITDA margin expansion of 277bps to 18.9% (+31bps in 2QFY20 and +634bps in 1QFY21). EBITDA to grow by 36% YoY.	▪ Commentary on downtrading trends ▪ Commentary on new launches ▪ Commentary on the completion of the plant
Godrej Consumer Products	GOOD	▪ We model 11% YoY growth in consolidated revenue (-1% in 2QFY20 and -1% in 1QFY21). Domestic revenues are expected to grow by 10% YoY (+1% in 2QFY20 and +5% in 1QFY21) due to increased focus on hygiene by consumers and higher demand for HI. International business is expected to be strong with 12% YoY growth (-4% in 2QFY20 and -8% in 1QFY21). ▪ Cons GM is expected to expand by 55bps YoY (+381bps in 2QFY20 and -286bps in 1QFY21), driven by a recovery in domestic GM with an expansion of 76bps YoY (-94bps in 2QFY20 and -258bps in 1QFY21). ▪ Employee/ASP/Other expenses are expected to grow by 8/6/17% YoY due to recovery in business and COVID related costs. The EBITDA margin is expected to expand by 30bps YoY (+362bps in 2QFY20 and +77bps in 1QFY21). EBITDA is expected to grow by 12% YoY (+19% in 2QFY20 and +3% in 1QFY21).	▪ New launches ▪ Marketing initiatives ▪ Product & Geography mix
Marico	GOOD	▪ We model 7% YoY domestic revenue growth (-3% in 2QFY20 and -12% in 1QFY21), with domestic volume growth of 9% YoY (+1% in 2QFY20 and -14% in 1QFY21). We model PCNO val/vol growth of 6/7% YoY. Saffola revenue is expected to grow by 14% YoY driven entirely by volume growth. VAHO is expected to report 3/5% val/vol growth driven by a recovery in the value segment. ▪ We model 4% YoY growth in International revenue (+8% in 2QFY20 and +2% in 1QFY21). ▪ We model GM to expand slightly by 36bps YoY to 50% (+565bps in 2QFY20 and +138bps in 1QFY21). We expect Employee/A&P/Other expenses to grow by 7/9/13% YoY led by a recovery in revenue and COVID related costs. Adj. EBITDA margin to expand by 160bps YoY to 20.2% (+263bps in 2QFY20 and +291bps in 1QFY21). Adj EBITDA to grow by 16% YoY.	▪ Commentary on copra prices ▪ PCNO pricing strategy post copra deflation ▪ Updates on Saffola growth ▪ Commentary on CSD channel ▪ NPD pipeline ▪ Improvement in international business

COMPANY	2QFY21E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
United Spirits	**WEAK**	▪ We expect revenue decline of 11% YoY (+3% in 2QFY20 and -54% in 1QFY21) with 10% YoY volume dip on a base of +1%. Liquor industry will be under pressure owing to closure on pubs/bars, tax increase and delayed opening of liquor stores. However, off-premise consumption has helped companies recover some of the lost sales. ▪ Gross margins will remain under pressure, although RM inflation eased off in 2QFY21 vs. its peak in Oct/Nov 2019. We expect 200bps YoY decline in GM to 43%. ▪ Like-Like EBITDAM is expected to contract by 338bps YoY to 14.3% (17.7% in 2QFY20 and EBITDA loss in 1QFY21). Like-like EBITDA is expected to decline by 28% YoY (-8% in 2QFY20).	▪ Demand trends ▪ Competitive intensity ▪ A&P strategy ▪ Commodity inflation outlook ▪ Commentary on on-premise consumption in the medium term
Colgate	**AVG**	▪ We expect revenue to grow by 5% YoY (+5% in 2QFY20 and -4% in 1QFY21) driven by volume growth of 5% YoY (+4% in 2QFY20 and -7% in 1QFY21). New launches and re-launches in the core portfolio will drive volume growth. ▪ We model GM to expand slightly by 25bps YoY to 65%. We expect moderation in ASP expense would continue. We model a 5% YoY dip in ASP (13.1% of sales). ▪ EBITDA margin is expected to expand by 180bps YoY to 28.2% (-179bps in 2QFY20 and +196bps in 1QFY21). EBITDA to grow by 12% YoY (-2% in 2QFY20 and +3% in 1QFY21).	▪ Toothpaste volume growth and market share change ▪ Feedback on recent launches ▪ ASP spends, especially with increased competition from Dabur
Emami	**GOOD**	▪ We model 9% YoY domestic revenue growth (+3% in 2QFY20 and -26% in 1QFY21) with 2% YoY growth in volumes (+1% in 2QFY20 and -25% in 1QFY21). Recovery in domestic biz is expected to be strong. Kesh King is expected to return to growth after two consecutive weak quarters (we model 7% YoY growth in 2QFY21, co posted -11% in 2QFY20 and -33% in 1QFY21). ▪ International business is expected to post 5% YoY growth (+20% in 2QFY20 and -18% in 1QFY21). ▪ We expect moderation in raw material pressure, leading into 49bps YoY expansion in GM (+111bps in 2QFY20 and +231bps in 1QFY21). The EBITDA margin is expected to expand by 208bps YoY to 31.3% (-57bps in 2QFY20 and +487bps in 1QFY21). EBITDA to grow by 15% YoY.	▪ Kesh King growth outlook ▪ Price hike strategy ▪ Commentary on new launches ▪ Outlook on Mentha oil ▪ Distribution strategy ▪ Commentary on international business

COMPANY	2QFY21E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Jubilant FoodWorks	WEAK	▪ Impact on dine-in has continued in 2QFY21. However, recovery in delivery has been robust. Co has shut down its unprofitable stores in 2QFY21. We model -15% YoY SSG in 2QFY21 (+5% in 2QFY20 and -61% in 1QFY21). We model 105 Domino's store closures in 1QFY21. ▪ We model GM to expand by 272bps YoY to 78% led by the company charging delivery fees (+67bps in 2QFY20 and +257bps in 1QFY21). ▪ We model Employee/Rent/Other expenses decline of 13/14/11% YoY. Thereby, EBITDA margin is expected to dip by 31bps YoY to 23.5% (+705bps 2QFY20 and -1,697bps in 1QFY21). EBITDA to dip by 18% YoY.	▪ Commentary on the growth of online ordering ▪ Commentary on demand for takeaway ordering ▪ Outlook on store addition in FY21-22 ▪ Competitive intensity, pricing strategy ▪ Outlook on sustainable SSG ▪ Dunkin's EBITDA margin
Radico Khaitan	AVG	▪ We model 1% YoY revenue decline led by 7/2% YoY decline in Regular/Non-IMFL while P&A is expected to grow by 3% YoY. We expect a 5% YoY volume decline (-4% P&A and -5% Popular) due to loss of on-premise consumption and delay in the opening of liquor stores. ▪ Easing of ENA inflation will aid gross margin expansion. We expect gross margin to expand by 300bps YoY to 48.6% (-304bps in 2QFY20 and +666bps in 1QFY21). ▪ Cost control initiatives by the co will result in a decline in S&D/Other Expenses by 2/3% YoY, while Employee expenses are expected to remain flat YoY. Like-like EBITDA margin is expected to expand by 321bps YoY to 18.1% (-285bps in 2QFY20 and +271bps in 1QFY21). Like-like EBITDA is expected to grow by 20% YoY.	▪ Industry demand trends ▪ Commentary on product launches ▪ Competitive intensity, pricing strategy ▪ Commodity inflation outlook ▪ Post COVID-19 change in the debt repayment plan

Valuation Summary

Company	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			Core RoCE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
HUL	5,058	2,153	REDUCE	2,016	35.4	39.4	43.0	60.7	54.6	50.0	42.7	38.3	35.0	43.8	26.9	61.3
ITC	2,031	165	BUY	236	11.5	13.0	13.9	14.4	12.7	11.9	9.2	8.0	7.3	40.5	44.8	46.8
Nestle	1,503	15,593	REDUCE	14,103	230.5	263.3	300.8	67.7	59.2	51.8	45.4	39.9	35.3	66.3	61.3	66.6
Britannia	898	3,732	REDUCE	3,479	79.4	84.9	93.1	47.0	43.9	40.1	33.9	31.7	28.7	55.5	53.3	55.8
Dabur	914	517	REDUCE	433	9.1	10.1	10.8	56.8	51.1	47.7	47.1	41.9	38.1	40.4	43.3	44.7
GCPL	697	682	REDUCE	628	15.6	17.4	19.6	43.7	39.2	34.7	32.8	29.5	26.9	18.7	21.0	23.6
Marico	469	363	REDUCE	351	8.4	9.7	10.8	43.3	37.4	33.7	29.6	26.6	23.9	43.9	49.3	54.5
United Spirits	368	507	ADD	569	6.4	12.4	14.7	78.6	40.7	34.6	37.4	24.0	21.0	12.8	22.0	23.4
Colgate	387	1,422	ADD	1,491	31.6	36.0	39.9	45.1	39.5	35.6	29.2	25.7	23.5	65.9	79.9	91.5
Jubilant	303	2,297	REDUCE	1,758	18.9	36.3	41.8	121.7	63.3	54.9	66.1	35.6	30.9	10.8	25.4	31.7
Emami	151	339	REDUCE	232	11.6	12.7	13.5	29.3	26.8	25.2	20.7	19.0	17.8	26.2	32.1	37.1
Radico Khaitan	55	415	ADD	426	17.7	22.7	26.4	23.4	18.3	15.7	14.6	11.9	10.1	12.8	15.2	16.4

FMCG Stock Performance

Companies	1D (%)	1M (%)	3M (%)	6M (%)	12M (%)	3Yr (%)	5Yr (%)
HUL	(0.3)	1.3	(7.8)	(9.7)	3.9	68.0	174.3
ITC	(1.6)	(9.2)	(14.9)	(12.3)	(32.3)	(38.3)	(29.0)
Nestle	(0.5)	(2.8)	(9.5)	(10.0)	8.6	114.1	137.4
Dabur	0.1	2.3	5.4	5.6	13.4	60.7	89.7
Britannia	(1.5)	(0.1)	(1.4)	31.8	17.5	64.4	131.2
GCPL	(2.5)	(3.4)	(2.6)	3.1	(3.5)	4.8	69.3
UNSP	(3.3)	(6.4)	(16.2)	(4.4)	(19.1)	4.7	(18.8)
Marico	0.3	(0.5)	2.2	20.9	(4.6)	14.0	81.5
Colgate	(1.8)	0.1	(0.3)	3.1	(6.8)	33.7	57.2
Emami	(2.3)	(14.7)	39.3	56.9	6.5	(40.7)	(36.8)
Jubilant	(0.8)	(2.8)	30.9	48.4	76.7	196.1	193.9
Radico	(0.7)	(6.6)	6.1	26.6	38.7	93.2	345.3
Jyothy	(1.2)	(9.4)	15.9	24.4	(12.1)	(27.4)	(10.1)
Bajaj Corp	0.4	(2.7)	4.1	14.9	(25.7)	(55.8)	(56.0)
Tata Consumer	(3.2)	(12.6)	12.1	46.1	72.1	126.2	253.8
NSE FMCG	**(1.1)**	**(3.5)**	**(5.7)**	**1.5**	**(4.1)**	**15.8**	**45.1**
Nifty 50	**(2.4)**	**1.4**	**7.1**	**26.0**	**1.9**	**14.2**	**41.8**

Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

We, **Varun Lohchab, PGDM, Naveen Trivedi, MBA & Aditya Sane, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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