

## Smooth sailing on rough seas

- Consumer staples players saw a robust Q4 given a healthy price-volume balance; margin expansion continues
- Urban markets still growing ahead of rural, with green shoots also visible in the latter
- Expect growth and margin expansion to sustain in FY24; prefer ITC, NEST, BRIT and GCPL

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**Strong performance in trying times:** Our consumer staples coverage registered low-double-digit growth during Q4FY23 despite macro challenges. Growth was largely driven by price hikes although volumes witnessed a modest recovery. Urban markets continued to grow ahead of rural centres, though the latter is showing signs of recovery as highlighted in our report of 15 March – [Visible signs of rural revival](#). The sector reported volume growth in Q4 after five quarters of decline, owing to softer inflation, sustained traction in urban markets and budding rural recovery.

**Margin expansion continues:** Most consumer staples players posted margin expansion at the gross as well as operating level in Q4 as costs moderated for key commodities (packaging materials, palm oil, wheat) and benefits of price hikes kicked in. Operating margins expanded despite a sustained thrust on brand investment. Softer input prices should help sustain these margins, but increased advertisement and promotion spend is expected to limit further expansion at the operating level.

**Green shoots in rural markets:** In their earnings commentary, most consumer companies alluded to a budding recovery in rural markets and believe a good crop plus increased government spending on infrastructure will support a demand uptick. El Nino is not expected to have a severe impact though the event remains a key monitorable for the sector.

**Outlook remains positive:** We expect consumer players to sustain their upward growth trajectory in FY24 as the demand environment improves amid easing inflation and rural pickup. Consumer staples players have started taking price cuts in the wake of softening input costs, which will encourage volume growth. We expect companies with a strong product portfolio, large rural presence, robust pipeline, and localised marketing strategies to continue to grow and gain market share in respective categories – these include ITC (TP Rs 486, BUY), NEST (TP Rs 24,670, BUY), BRIT (TP Rs 5,623, BUY) and GCPL (TP Rs 1,159, BUY).

### Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	4,705	5,623	BUY
DABUR IN	548	628	BUY
GCPL IN	1,055	1,159	BUY
HUVR IN	2,691	3,069	BUY
ITC IN	443	486	BUY
MRCO IN	543	629	BUY
NEST IN	21,705	24,670	BUY
TATACONS IN	792	924	BUY
ZYWL IN	1,511	1,631	HOLD

Price & Target in Rupees | Price as of 6 Jun 2023



## Q4FY23 review

### Britannia Industries (BUY, TP Rs 5,623)

BRIT's Q4FY23 revenue grew 13.3% YoY to Rs 40.2bn backed by significant distribution gains and price increases even as volume growth remained in low single digits. EBITDA grew 46% YoY while declining 2% QoQ to Rs 8bn, with robust margin expansion of 440bps YoY and 40bps QoQ to 19.9%. Going ahead, the company expects an EBITDA margin of ~17.5%.

BRIT has steadily gained market share over the past decade, widening the gap with the #2 player. The company continues to strengthen its rural presence, taking the rural distributor count to 28,000 in Q4. It commercialised two greenfield biscuit units during the quarter at Uttar Pradesh and Tamil Nadu, along with brownfield expansion in Odisha, and also started operations at three manufacturing lines for rusk, in line with its strategy of manufacturing inhouse and enhancing productivity. BRIT further increased capacity for beverages, including dairy lines, to leverage seasonal opportunities and improve supplies to the bakery division for captive consumption.

**Fig 1 – Financial performance**

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	40,232	41,968	35,505	(4.1)	13.3	163,006	141,363	15.3
EBITDA	8,009	8,176	5,497	(2.0)	45.7	28,309	22,015	28.6
Adj. PAT	5,587	5,568	3,798	0.3	47.1	19,461	15,258	27.5
Gross Margin (%)	44.9	43.7	38	120bps	690bps	41.2	38	320bps
EBITDA Margin (%)	19.9	19.5	15.5	40bps	440bps	17.4	15.6	180bps
Adj. PAT Margin (%)	13.9	13.3	10.7	60bps	320bps	11.9	10.8	110bps

Source: Company, BOBCAPS Research

### Dabur India (BUY, TP Rs 628)

Dabur reported 6% YoY revenue growth during Q4FY23 and continued to gain market share in key categories despite the inflation-led impact on consumption. During the quarter, the company increased prices by 6% to mitigate cost inflation while offering consumer promotions to soften the impact of pricing on consumption, which resulted in flattish volume growth. India business grew 6% YoY and international business increased 11% CC. Gross margin for FY23 contracted by 260bps YoY to 46%, though the contraction is moderating sequentially.

Rural growth remained a challenge on account of high inflation and downtrading, but green shoots were visible towards the end of the quarter, especially in the states of Bihar and Uttar Pradesh. Unseasonal rains during Q4 affected Dabur's performance in key markets.

In FY23, the company's food & beverage business reported strong growth of 30% YoY while a robust performance in air fresheners aided a 23% uptick in home care, and the digestives business grew 10%. The shampoo portfolio was up 8% YoY, hair oil gained 130bps market share to 17%, its highest ever level, and oral care penetration now stands at 50.8% with 15.8% market share. The air freshener and shampoo categories saw market share rise by 140bps and 30bps respectively during the year.

**Fig 2 – Financial performance**

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	26,778	30,432	25,178	(12.0)	6.4	115,299	108,887	5.9
EBITDA	4,098	6,099	4,536	(32.8)	(9.6)	21,641	22,538	(4.0)
Adj. PAT	3,008	4,759	3,792	(36.8)	(20.7)	17,072	18,242	(6.4)
Gross Margin (%)	46	45.5	47.4	50bps	(140bps)	45.6	48.2	(260bps)
EBITDA Margin (%)	15.4	20	18	(460bps)	(260bps)	18.8	20.7	(190bps)
Adj. PAT Margin (%)	11.3	15.6	15.1	(430bps)	(380bps)	14.8	16.8	(200bps)

Source: Company, BOBCAPS Research

**Godrej Consumer Products (BUY, TP Rs 1,159)**

GCPL reported consolidated Q4FY23 revenue of Rs 32bn (+10% YoY, +6% CC), with volumes up 6% YoY. India business grew 12% YoY backed by 11% volume growth. Africa, the US, and the Middle East region (GUAM) was up 8% YoY CC, but Latin America and SAARC declined 3%. Indonesia business saw a strong recovery with revenue growing 8% YoY in rupee terms (+5% CC and 11% CC ex-hygiene). India branded business registered high volume growth of 13% led by a double-digit uptick in both home care and personal care.

The company registered 14% YoY growth in the home care segment and 17% growth in personal care backed by sustained investments in category development and a focus on penetration-led volume expansion. Household insecticides (HI) continued to improve, posting YoY growth in the mid-teens. Air fresheners delivered strong double-digit growth once again, as did personal wash and hair colour.

GCPL reported a 52.9% gross margin (+340bps YoY, +180bps QoQ) in Q4. EBITDA margin expanded 410bps YoY (-20bps QoQ) to 20% despite a 20% YoY rise in working media investment. EBITDA margin for the Indonesia business was flat at 21.5% YoY, whereas GUAM saw 660bps YoY expansion on a low base.

**Fig 3 – Financial performance**

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	32,002	35,989	29,158	(11.1)	9.8	133,160	122,765	8.5
EBITDA	6,409	7,266	4,631	(11.8)	38.4	24,304	23,917	1.6
Adj. PAT	4,743	5,538	3,838	(14.4)	23.6	17,566	18,895	(7.0)
Gross Margin (%)	52.9	51.1	49.5	180bps	340bps	49.7	50.5	(80bps)
EBITDA Margin (%)	20	20.2	15.9	(20bps)	410bps	18.3	20.3	(200bps)
Adj. PAT Margin (%)	14.8	15.4	13.2	(60bps)	160bps	13.2	15.4	(220bps)

Source: Company, BOBCAPS Research

### Hindustan Unilever (BUY, TP Rs 3,069)

HUVR's Q4FY23 revenue grew 10.5% YoY (-2.4% QoQ), with underlying volume growth of 4% YoY (vs. 5% in Q3). Price-led growth was at 7% against 11% in Q3 due to a sequential price reduction taken during the quarter. The company continued to gain market share in more than 75% of its portfolio and stepped up A&P spend by 80bps QoQ. Gross margin improved 110bps sequentially.

HUVR's home care, beauty & personal care, and foods & refreshment segment revenues grew 19%, 10% and 3% YoY respectively in Q4. Fabric wash delivered double-digit growth led by the premium portfolio, and household care saw double-digit volume and value growth driven by a strong performance in dishwash. Hair care registered volume-led mid-single-digit growth and oral care grew in high single digits. Skin care and colour cosmetics registered double-digit growth led by premium products. Food and ice cream saw mid-single-digit growth. As palm oil costs softened, prices were reduced in the soaps portfolio.

HUVR strengthened its food & beverages portfolio by launching Millet Chocolate Horlicks as well as new ice cream flavours. The company further augmented its offering in the beauty and personal care segment by launching skin care brand Novology in the masstige beauty segment, a new range of hair care products by Dove and Tresemme, a bathing range by Lux, and new Lakme cosmetics.

**Fig 4 – Financial performance**

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	152,150	155,970	137,670	(2.4)	10.5	605,800	524,460	15.5
EBITDA	35,740	36,940	33,010	(3.2)	8.3	141,490	128,570	10.0
Adj. PAT	25,190	25,770	22,470	(2.3)	12.1	101,600	89,180	13.9
Gross Margin (%)	49.1	48	49.5	110bps	(40bps)	47.6	50.9	(330bps)
EBITDA Margin (%)	23.5	23.7	24	(20bps)	(50bps)	23.4	24.5	(110bps)
Adj. PAT Margin (%)	16.6	16.5	16.3	10bps	30bps	16.8	17	(20bps)

Source: Company, BOBCAPS Research

### ITC (BUY, TP Rs 486)

ITC posted 6.5% YoY revenue growth to Rs 176bn in Q4FY23 supported by strong growth in cigarettes, FMCG – others, and hotels, while the paper and paperboards business slowed. The agri business remained affected by the ban on wheat and rice exports. Consolidated EBITDA margin expanded 330bps YoY (-30bps QoQ) to 35.2% despite elevated commodity prices. Adj. PAT grew 22% YoY to Rs 51bn with 360bps margin expansion. FY23 revenue/EBITDA/adj. PAT grew 17%/24%/25%.

Cigarette revenue increased by 13.7% YoY (volumes up ~12% YoY) in Q4 and continued to form ~41% of total sales, with EBIT margin stable at ~60%. Sales in the FMCG – others segment grew 19% YoY to Rs 49.5bn driven by strong growth across the major categories of branded packaged foods, viz. staples, biscuits, noodles, and beverages. Segment EBITDA margin expanded by 115bps YoY in Q4 amidst severe inflationary pressures. ITC launched more than 90 new products across markets during FY23 in the health & nutrition, hygiene, protection & care, convenience & on-the-go, and indulgence categories.

In FY23, revenue from ITC's hotels business doubled YoY and stood at 1.4x of pre-pandemic levels, with the segmental EBITDA margin at 32.2%, up 930bps over FY20. Paper and paperboard revenue increased 18.8% YoY and segment profits grew 34.9% in Q4. Agri segment revenue grew 12% YoY in FY23 despite a ban on the export of wheat and rice. Segment profitability rose 28.8% as margins expanded on the back of leaf tobacco exports and value-added agri products.

**Fig 5 – Financial performance**

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	176,349	177,045	165,555	(0.4)	6.5	709,369	606,681	16.9
EBITDA	66,240	67,047	55,994	(1.2)	18.3	256,649	206,584	24.2
Adj. PAT	51,026	50,067	41,957	1.9	21.6	194,039	155,031	25.2
Gross Margin (%)	61.6	61.1	56.2	50bps	540bps	59.1	56.51	259bps
EBITDA Margin (%)	35.2	35.5	31.9	(30bps)	330bps	36.18	34.05	213bps
Adj. PAT Margin (%)	28.9	28.3	25.3	60bps	360bps	27.35	25.55	180bps

Source: Company, BOBCAPS Research

**Marico (BUY, TP Rs 629)**

MRCO's consolidated Q4FY23 revenue grew 4% YoY to Rs 22.4bn. India business continued to improve, posting underlying volume growth of 5%. MRCO's diversification strategy for India is progressively yielding results with the share of revenue from foods, premium personal care, and digital-first brands combined rising to ~15% in FY23 from ~11% in FY22. Management's target is to have 20% share from these segments in FY24. International business maintained its strong growth trajectory, rising by 16% CC in Q4 and 13% CC in FY23 despite persisting macroeconomic headwinds and currency devaluation in some economies.

Gross margin expanded by 290bps YoY and 250bps QoQ to 47.4% in Q4 due to moderation in key input prices and a favourable portfolio mix in the India business. EBITDA grew 14% YoY accompanied by a 150bps rise in margin to 17.5% despite increased spending on brands.

Parachute registered a four-year volume CAGR of 6% and gained 70bps YoY volume share during the quarter, with *Parachute Rigid* recording 9% YoY volume growth. Value-added hair oils reported 13% value growth with a 60bps gain in value market share. The Saffola franchise, comprising refined edible oils and foods, declined 9% YoY in value terms, whereas the premium personal care segment ended the quarter at 20%+ growth.

**Fig 6 – Financial performance**

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	22,400	24,700	21,610	(9.3)	3.7	97,640	95,120	2.6
EBITDA	3,930	4,560	3,460	(13.8)	13.6	18,100	16,810	7.7
Adj. PAT	3,020	3,280	2,510	(7.9)	20.3	13,020	12,250	6.3
Gross Margin (%)	47.4	44.9	44.5	250bps	290bps	45.2	42.85	235bps
EBITDA Margin (%)	17.5	18.5	16	(100bps)	150bps	18.54	17.67	87bps
Adj. PAT Margin (%)	13.5	13.3	11.6	20bps	190bps	13.33	12.88	45bps

Source: Company, BOBCAPS Research

### Nestle India (BUY, TP Rs 24,670)

NEST's domestic revenue registered healthy growth of 21% YoY in Q1CY23 underpinned by a good balance between volume growth and pricing. Export revenue also grew 25% YoY. In the past four quarters, NEST has delivered double-digit growth across product segments. Q1CY23 marks the highest quarterly growth for the company in the last 10 years (excluding the exceptional quarter in 2016 on a low base of 2015).

Gross margin, however, contracted by 110bps QoQ and 160bps YoY to 53.8% in Q1 owing to inflation in agricultural commodities. Prices of milk and its derivatives, wheat flour and edible oil were relatively higher during the quarter and only partly offset by better realisations. EBITDA margin at 22.7% contracted 20bps QoQ and 50bps YoY.

In terms of segmental performance, the prepared dishes and cooking aids business continued its growth momentum and delivered strong growth across products. Confectionary did well too, led by *Kit Kat* and *Munch* which were backed by strong consumer engagement, media campaigns and innovation. NEST gained market share in the beverages business driven by *Nescafe Classic*, *Nescafe Sunrise*, and *Nescafe Gold*.

**Fig 7 – Financial performance**

(Rs mn)	Q1CY23	Q4CY22	Q1CY22	QoQ (%)	YoY (%)	CY22	CY21	YoY (%)
Revenue	48,305	42,568	39,807	13.5	21.3	168,969	147,406	14.6
EBITDA	10,955	9,730	9,247	12.6	18.5	37,125	35,664	4.1
Adj. PAT	7,366	6,281	5,947	17.3	23.9	23,905	23,549	1.5
Gross Margin (%)	53.8	54.9	55.4	(110bps)	(160bps)	54.1	56.9	(280bps)
EBITDA Margin (%)	22.7	22.9	23.2	(20bps)	(50bps)	22.0	24.2	(220bps)
Adj. PAT Margin (%)	15.3	14.8	14.9	50bps	31bps	14.1	16.0	(190bps)

Source: Company, BOBCAPS Research

### Tata Consumer Products (BUY, TP Rs 924)

TCPL registered robust revenue growth of 14% YoY (12% CC) in Q4FY23, supported by 15% growth in India business, 6% in international business and 9% in non-branded business. EBITDA increased 15% YoY accompanied by margin expansion of 15bps (+110bps QoQ) to 14.1%. Adj. PAT grew 16% YoY with 15bps margin improvement (-26bps QoQ). TCPL continued to focus on innovation, launching 34 new products during the year and improving its innovation-to-sales ratio from 0.8% in FY20 to 3.4% in FY23 (2.7% in FY22).

*Tata Sampann*, *Tata Soulful* and *NourishCo* have maintained their strong upward trajectory, growing 53% YoY in FY23 and collectively accounting for 15% of India business compared to 10% in FY22 and 6% in FY20. The international beverages business grew 8% YoY in Q4 on the back of price increases taken in all markets to mitigate the impact of inflation.

Tata Starbucks' revenue grew 48% YoY during the quarter led by the revival in out-of-home consumption and store addition. Net store addition was at 22 in Q4, taking the total count to 333 stores and the reach to 41 cities.

**Fig 8 – Financial performance**

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	36,187	34,746	31,754	4.1	14.0	137,832	124,254	10.9
EBITDA	5,117	4,537	4,443	12.8	15.2	18,565	17,188	8.0
Adj. PAT	2,750	2,732	2,362	0.7	16.4	10,443	9,878	5.7
Gross Margin (%)	41.8	41.5	44.6	30bps	(280bps)	41.9	43.0	(110bps)
EBITDA Margin (%)	14.1	13.1	14.0	108bps	15bps	13.5	13.8	(30bps)
Adj. PAT Margin (%)	7.6	7.9	7.4	(26bps)	16bps	11.3	11.6	(30bps)

Source: Company, BOBCAPS Research

**Zydus Wellness (HOLD, TP Rs 1,631)**

ZYWL reported sales growth of 11.4% YoY (3Y CAGR of 13.5%) during Q4FY23 driven by price hikes whereas volume growth for the quarter stood at 4%. The company maintained segmental leadership in five of six categories during the year. Adequate pricing and an improved product mix helped it maintain gross margin at 50.8% in Q4, but EBITDA margin contracted 180bps YoY to 20.3% due to a spike in other expenses (though close to half the increase was one-time in nature). Adj. PAT grew 14% YoY (3Y CAGR of 28.5%).

The company continued to strengthen its market leadership in most categories.

*Glucon-D* remains the #1 brand in the energy drink category and reached market share of 60.1%, up 160bps YoY. ZYWL maintained market share in *Sugar Free* at 96% and improved share in *Nycil* prickly heat powder/*Everyuth* scrub/*Everyuth* peel-off by 157bps/68bps/7bps YoY. However, it shed 50bps YoY in *Complan* to 4.5% as the health food drink (HFD) category continued to slow, dipping 1.1%.

ZYWL is steadily expanding its global presence and is now in 25 countries, with the top 5 contributing ~80% of revenue. During the year, it operationalised a subsidiary in Bangladesh to expand its presence in the Indian subcontinent. The company aims for robust growth in international markets where the sugar-free franchise and Complan constitute ~90% of the business.

**Fig 9 – Financial performance**

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	7,130	4,156	6,398	71.6	11.4	22,549	20,091	12.2
EBITDA	1,446	282	1,415	412.8	2.2	3,373	3,447	(2.1)
Adj. PAT	1,525	196	1,333	678.1	14.4	3,205	3,088	3.8
Gross Margin (%)	50.8	43.9	50.9	690bps	(10bps)	49.2	51.2	(200bps)
EBITDA Margin (%)	20.3	6.8	22.1	1,350bps	(180bps)	15.0	17.2	(220bps)
Adj. PAT Margin (%)	21.4	4.7	20.8	1,670bps	60bps	16.9	14.2	270bps

Source: Company, BOBCAPS Research



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