

CONSUMER STAPLES

Q1FY26 Preview

04 July 2025

Rural: Due for a spurt?

- A good Rabi harvest, above LPA on both SWM & basin storage, combined with rising MSPs form a positive backdrop for rural
- 1QFY26 sales growth to improve sequentially on lower elasticity but slow volume trends to persist. Online could provide a temporary boost
- Key focus areas: Jun/Jul 2025 trends in rural and urban; sudden spike in online sales growth; industry relative pricing given slower inflation

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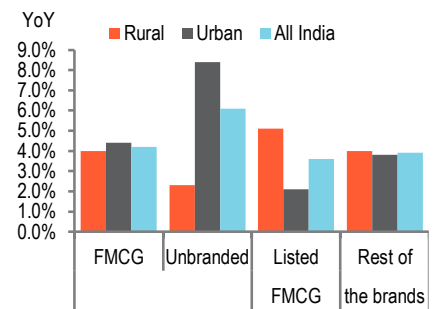
Favourable setup for agriculture and rural demand in FY26: Agriculture directly and indirectly accounts for ~70% of rural income. FY26 Agri outlook is favourable on (1) river basin storage above Long Period Average (LPA) due to sufficient South West Monsoon (SWM) in FY25, (2) the expectation of an above LPA SWM, and (3) continued rise in Kharif Minimum Support Prices (MSPs). Demand benefits will likely reflect in the September 2025 quarter and subsequently gain momentum with the completion of Kharif harvest in October 2025.

1QFY26 summary: Sequential sales growth marginally improved with stable urban and an improving rural. Weak summer likely restricted out of home consumption / impulse buy items such as single pack bakery items and beverages – both non-alcoholic (juices, energy drinks etc) and alcoholic (beer). EBITDA growth likely lagged sales growth. While commodity inflation slowed in the June 2025 quarter vs the March 2025 quarter, the impact on profits will be lagged due to forward purchase agreements of FMCG majors. Operating spending cuts will remain a partial offset to commodity headwinds.

Key focus areas: (1) **Sequential trends in rural / urban demand** – Pace of demand acceleration in rural will be key for BRIT, MRCO, DABUR and HUL. Exit run rate in both urban and rural will determine the growth trajectory for subsequent quarters for all FMCG majors. (2) **Online sales** – Any sudden spike in online should be a red flag as dark store additions by new players in quick commerce may temporarily drive inventory loading. (3) **Commodities** outlook – Key inflationary items of palm, tea, and coffee are easing off sequentially. GCPL and HUL are key beneficiaries on Palm derivatives, while BRIT and NESTLE on palm oil and sugar.

Our view: Rural indicators are favourable on easing CPI, agri output growth, and higher MSPs. While its early to assess rural strength with only 31 days on SWM, the backdrop is favourable on river basin storage and SWM expectations. Between DABUR, BRIT, HUVR and MRCO; we see BRIT, HUVR and MRCO as key beneficiaries of rural recovery. BRIT and HUVR have domestic focused businesses with high rural sales exposure (BRIT ~40%; HUVR mid-30s%).

Rural / urban FMCG YoY growth by manufacturer type: March 2025 quarter



Sources: Kantar Worldpanel, Haymarket SAC



Rural FY26: Due for a spurt?

A slow agri year, such as FY24, disrupts rural income and spending on “packaged essentials” given the low rural per capita income. It then requires at least a moderate to good cropping season to fix the rural household balance sheet, before consumption can return. For FY26, while it is early to assess rural strength with only 31 days on South West Monsoon (SWM), the backdrop is favourable on river basins, SWM and Minimum Support Prices (MSPs).

Between Dabur, Britannia, HUL and Marico we see HUL and Britannia as favourable picks on the rural theme. For Britannia, food / bakery exposure implies a slightly slow elasticity response to the rise in rural incomes.

While Dabur has the highest rural exposure amongst peers, inventory issues in general trade and exposure to the irrational, intensely competitive beverages category keeps us cautious.

South West Monsoon, sowing progress and Minimum Support Prices in FY26

SWM is expected to be 6% above normal for FY26 after an 8% above normal report for FY25. Initial trends are favourable with an early arrival. So far there is a “deficit” SWM for 16% of national rural households reliant on agri income. Acres sowed so far remains ahead but mainly due to early monsoon. On Kharif MSP, we estimate overall weighted average price up ~5% YoY for FY26. Rice, 80+% of the value of Kharif output, is up 3% YoY.

Starting point of river basin storage is 25% above LPA in FY26 vs 6% below LPA in FY25

The starting point for agri-output growth is more favourable in FY26 vs FY25. Rains in the immediately preceding 1-2 years and starting point of river basin storage levels impact soil quality and irrigational efficiency for the current crop period.

In FY22, SWM was down 9% but real Agri GVA was +4%. Consistently above LPA rains in FY18-FY21 drove river basins storage at 32% above LPA at the beginning of FY22 Kharif. Prior year rains helped soil moisture while basin storage drove irrigation efficiency – these cushioned the impact from below LPA SWM in FY22.

For FY26, pre SWM river basins are 25% above LPA vs FY25 at 6% below LPA and FY24 at 21% above LPA.

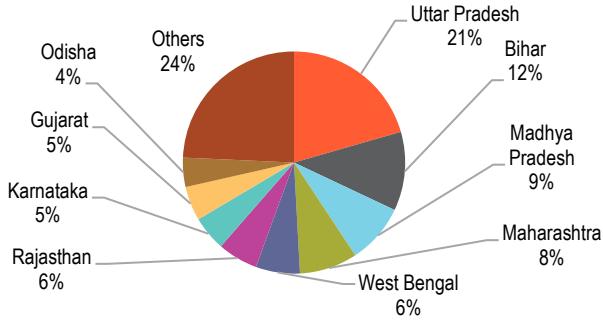
Fig 1 – Monsoon, Agri GVA, water storage update as of 03 Jul'25: FY22, FY24, FY25 and FY26E (+75% above normal)

(%)	FY22		FY24		FY25		FY26E			
SW Monsoon (vs LPA)	(9)		(4)		8		6			
Agri GVA - YoY (constant prices)	4		1		4		-			
Storage levels as on =>	01-Jun-21	30-Sep-21	01-Jun-23	05-Oct-23	01-Jun-24	22-Sep-24	01-Jun-25	19-Jun-25	26-Jun-25	03-Jul-25
Storage status of water reservoirs (% of "Normal")	132	104	121	94	94	118	125	139	153	175

Sources: Company, Bloomberg, BOBCAPS Research

Fig 2 – Statewise split of rural population that is directly reliant on agricultural income

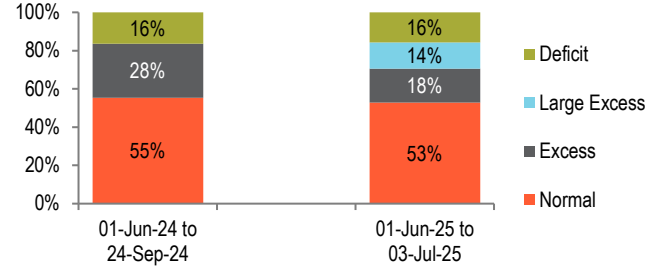
Statewise split of rural population directly reliant on Agri income



Sources: Company, Bloomberg, BOBCAPS Research

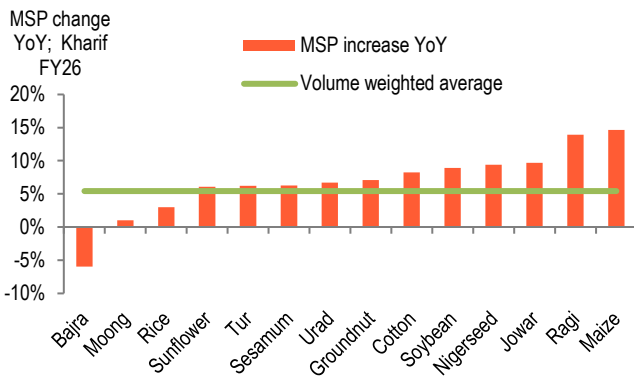
Fig 3 – Percentage split of agri-reliant rural HHs by quality of FY26 Southwest Monsoon (upto 02 Jul'25)

Rainfall status by split of rural HH reliant on agri income: SWM 2025 vs SWM 2024



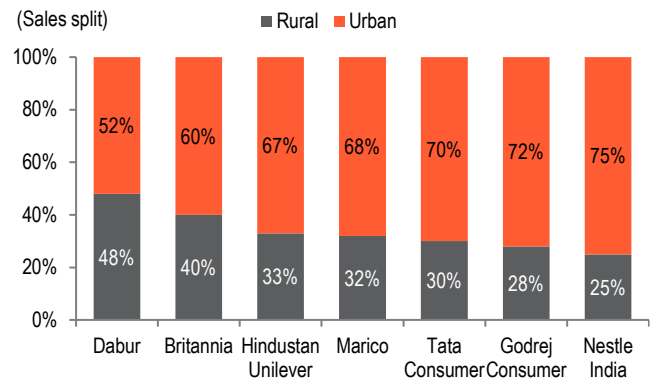
Sources: Company, Bloomberg, BOBCAPS Research

Fig 4 – FY26 MSP for Kharif crops



Source: Company, Bloomberg, BOBCAPS Research

Fig 5 – Rural urban India sales split for FMCG majors



Source: Company, Bloomberg, BOBCAPS Research

Fig 6 – FMCG 1QFY26 sales and EBITDA forecasts

Rs million	Q1FY25	Q1FY26E	YoY vs BoB (%)	Consensus - Q1FY26E	YoY vs Consensus (%)
FMCG Group					
Sales	586,999	624,124	6	614,498	5
EBITDA	151,169	150,414	0	152,276	1
EBITDA margin (%)	25.8	24.1	(165bps)	24.8	(97bps)
Britannia					
Sales	42,503	46,179	9	48,076	13
EBITDA	7,537	8,228	9	8,861	18
EBITDA margin (%)	17.7	17.8	9bps	18.4	70bps
Dabur					
Sales	33,491	33,867	1	31,119	(7)
EBITDA	6,550	6,264	(4)	4,718	(28)
EBITDA margin (%)	19.6	18.5	(106bps)	15.2	(440bps)
Godrej Consumer Products					
Sales	33,316	35,274	6	35,319	6
EBITDA	7,262	7,098	(2)	7,108	(2)
EBITDA margin (%)	21.8	20.1	(168bps)	20.1	(167bps)
Hindustan Unilever					
Sales	157,070	161,981	3	161,925	3
EBITDA	37,440	35,780	(4)	37,705	1
EBITDA margin (%)	23.8	22.1	(175bps)	23.3	(55bps)
ITC					
Sales	177,778	188,124	6	183,065	3
EBITDA	65,448	65,118	(1)	65,645	0
EBITDA margin (%)	36.8	34.6	(220bps)	35.9	(96bps)
Marico					
Sales	26,430	32,193	22	30,806	17
EBITDA	6,260	6,488	4	6,032	(4)
EBITDA margin (%)	23.7	19.2	(450bps)	19.6	(410bps)
Nestle					
Sales	48,140	51,028	6	50,768	5
EBITDA	11,143	11,668	5	11,846	6
EBITDA margin (%)	23.1	22.9	(28bps)	23.3	19bps
Tata Consumer Products					
Sales	43,521	48,269	11	45,397	4
EBITDA	6,674	6,111	(8)	6,471	(3)
EBITDA margin (%)	15.3	12.7	(267bps)	14.3	(108bps)
United Breweries					
Sales	24,751	27,208	10	28,024	13
EBITDA	2,854	3,658	28	3,891	36
EBITDA margin (%)	11.5	13.4	191bps	13.9	235bps

Source: Company, Bloomberg, BOBCAPS Research

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