

2QFY25: Slower sales, margin pressure. Eyes on 2H

- 2QFY25 sales trends likely similar / marginally better vs the Jun quarter; with slight pickup in the latter part of Sep, coinciding with the harvest
- Margins are under pressure from commodity inflation (palm, vegetable oil, tea, coffee, etc) with only partial pass through so far
- Key things to focus on: Sep and Oct trends in rural; inventory position in General Trade; cost inflation and pricing plans

Lokesh Gusain
 research@bobcaps.in

2QFY25 summary: We expect sales trends remained flat to slightly better vs the Jun quarter. EBITDA growth likely lagged sales growth as inflation in palm oil, vegetable oil, etc, impacted gross margins towards the latter half of 2QFY25. With sequentially flat to only slightly better sales, the rise in A&P spend as a percentage of sales will appear to be higher but investors should focus on the areas of incremental spend. For instance, DABUR spend on OTC/healthcare is a positive given a wetter/cooler 2Q plus a buildup to the upcoming harsher-than-usual winter season; however, spend in Health Food Drinks by HUL is a negative.

Key focus areas: (1) Sequential trends in rural demand will be a focus. We do not expect any meaningful improvement in 2QFY25. Commentary on Sep and Oct trends will be key. Most relevant for DABUR, HUL, BRIT and MRCO. **(2)**

Destocking risk/inventory status due to channel shift from traditional to quick commerce needs to be clarified by FMCG majors – concerns post the magnitude of inventory correction at DABUR. **(3) Cost inflation and pricing plans** of FMCG companies will show the degree of rationality in the industry. Gradual small inflation will likely help in share gains from smaller/regional players.

FY25E outlook and our view: Rural indicators are favourable with CPI, monsoon and sowings improving through the Sep'24 quarter – see [here](#), [here](#) and [here](#). However, pickup in demand likely started only towards the end of Sep, coinciding with the harvesting season. We expect a meaningful boost in demand in the Dec quarter on post-Kharif cash flow for farmers combined with a favourable irrigation backdrop for Rabi. We are positive on FMCG on rural recovery with harsher winter likely to have a positive impact in select pockets of OTC/healthcare/tea/bakery.

| Name | BoB EBITDA – YoY | Consensus EBITDA – YoY | Result date | Date type (E/C*) |
|----------|------------------|------------------------|-------------|------------------|
| NEST | 5% | 4% | 17-Oct-24 | Confirmed |
| TATACONS | 13% | 17% | 18-Oct-24 | Confirmed |
| HUVR | 0% | -2% | 23-Oct-24 | Confirmed |
| ITC | -3% | -1% | 24-Oct-24 | Confirmed |
| MRCO | 6% | 7% | 29-Oct-24 | Confirmed |
| DABUR | -17% | -13% | 30-Oct-24 | Confirmed |
| GCPL | 4% | 8% | 31-Oct-24 | Estimated |
| BRIT | -5% | 2% | 07-Nov-24 | Estimated |

*E – Estimated, C – Confirmed; Sources: Refinitiv consensus as on 10 Oct'24, Company reports, BOBCAPS Research



Fig 1 – FMCG 2QFY25 preview: Sales and EBITDA snapshot

| (Rs mn) | Q2FY24 | Q2FY25E BoBCaps | YoY vs BoBCaps (%) | Q2FY25E Consensus | YoY vs Consensus (%) |
|---------------------------------|---------|--------------------|-----------------------|----------------------|-------------------------|
| FMCG Group | | | | | |
| Sales | 558,827 | 576,688 | 3 | 578,210 | 3 |
| EBITDA | 147,477 | 145,722 | (1) | 147,846 | 0 |
| EBITDA margin (%) | 26.4 | 25.3 | (112bps) | 25.6 | (82bps) |
| Dabur | | | | | |
| Sales | 32,038 | 30,436 | (5) | 31,060 | (3) |
| EBITDA | 6,609 | 5,479 | (17) | 5,768 | (13) |
| EBITDA margin (%) | 20.6 | 18.0 | (263bps) | 18.6 | (206bps) |
| Marico | | | | | |
| Sales | 24,760 | 27,030 | 9 | 26,762 | 8 |
| EBITDA | 4,970 | 5,252 | 6 | 5,306 | 7 |
| EBITDA Margin (%) | 20.1 | 19.4 | (64bps) | 19.8 | (24bps) |
| Britannia | | | | | |
| Sales | 44,329 | 46,629 | 5 | 47,581 | 7 |
| EBITDA | 8,724 | 8,288 | (5) | 8,902 | 2 |
| EBITDA margin (%) | 19.7 | 17.8 | (191bps) | 18.7 | (97bps) |
| Tata Consumer Products | | | | | |
| Sales | 37,338 | 44,178 | 18 | 43,387 | 16 |
| EBITDA | 5,371 | 6,058 | 13 | 6,263 | 17 |
| EBITDA margin (%) | 14.4 | 13.7 | (67bps) | 14.4 | 5bps |
| ITC | | | | | |
| Sales | 177,745 | 180,266 | 1 | 182,087 | 2 |
| EBITDA | 64,542 | 62,655 | (3) | 63,934 | (1) |
| EBITDA margin (%) | 36.3 | 34.8 | (155bps) | 35.1 | (120bps) |
| Hindustan Unilever | | | | | |
| Sales | 156,230 | 158,162 | 1 | 158,162 | 1 |
| EBITDA | 37,970 | 37,800 | 0 | 37,241 | (2) |
| EBITDA margin (%) | 24.3 | 23.9 | (40bps) | 23.5 | (76bps) |
| Godrej Consumer Products | | | | | |
| Sales | 36,020 | 37,110 | 3 | 36,029 | 0 |
| EBITDA | 7,042 | 7,328 | 4 | 7,633 | 8 |
| EBITDA margin (%) | 19.5 | 19.7 | 20bps | 21.2 | 164bps |
| Nestle | | | | | |
| Sales | 50,368 | 52,877 | 5 | 53,143 | 6 |
| EBITDA | 12,249 | 12,863 | 5 | 12,799 | 4 |
| EBITDA margin (%) | 24.3 | 24.3 | 1bps | 24.1 | (23bps) |

Sources: Company reports, Refinitiv consensus as on 10 Oct'24, BOBCAPS Research

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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