

RESEARCH
CONSUMER STAPLES | Q2FY24 PREVIEW

Margin expansion to fuel profitability

Daily macro indicators

Indicator	12-Oct	13-Oct	Chg (%)
US 10Y yield (%)	4.70	4.61	(8bps)
India 10Y yield (%)	7.30	7.32	2bps
USD/INR	83.25	83.26	0.0
Brent Crude (US\$/bbl)	86.0	90.9	5.7
Dow	33,631	33,670	0.1
Hang Seng	18,238	17,813	(2.3)
Sensex	66,408	66,283	(0.2)
India FII (US\$ mn)	11-Oct	12-Oct	Chg (\$ mn)
FII-D	2.3	104.4	102.1
FII-E	(21.4)	(210.0)	(188.6)

Source: Bank of Baroda Economics Research

SUMMARY
CONSUMER STAPLES: Q2FY24 PREVIEW

- Volume recovery delayed due to food inflation and weak rural sentiment amid an erratic monsoon
- Margin expansion forecast to continue in Q2 on account of favourable raw material prices
- Expect better margins to support double-digit earnings growth; prefer NEST, ITC, DABUR and TCPL

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Aggregate revenue growth expected in mid-single-digits: We expect consumer staples companies under our coverage to collectively register modest mid-single-digit topline growth in the July-September quarter as volumes look muted amid high food inflation and poor rural sentiment following a delayed and erratic monsoon. Early commentary from key players, including DABUR, GCPL and MRCO, indicates low-to-mid-single-digit volume growth for the quarter. In our view, growth is likely to rally in H2FY24 on account of improving demand visibility in rural markets and extension of the festive season into Q3FY24.

Erratic monsoon dampens rural recovery: Delayed onset of the monsoon this year and rising food prices disrupted the revival in rural markets during Q2, though sentiments appear to have lifted towards the end of the quarter which should spur stronger demand momentum in H2. While earnings commentary on rural volume growth remains a key monitorable this quarter, we highlight that **our channel checks in southern markets** during the month of August revealed positive signals in the form of rising income levels and deepening premiumisation trends that have spread from urban centres to semi-urban and rural markets as well.

Margin expansion continues: During Q2, we expect gross margins for most consumer companies to expand YoY due to moderation in prices of key commodities. Most companies have stepped up their A&P spend which is likely to result in modest growth in operating profit.

Maintain positive sector outlook: We believe innovation, increased market penetration and premiumisation will continue to fuel growth for consumer staples players in the near-to-medium term. Despite expected muted volume and value growth, gross margins are forecast to improve YoY in the July-September quarter, likely resulting in double-digit earnings growth for staples players. We prefer NEST (TP Rs 26,430, BUY), ITC (TP Rs 523, BUY), DABUR (TP Rs 669, BUY) and TCPL (TP Rs 994, BUY).

Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	4,575	5,844	BUY
DABUR IN	539	669	BUY
GCPL IN	983	1,159	BUY
HUVR IN	2,569	3,069	BUY
ITC IN	448	523	BUY
MRCO IN	542	646	BUY
NEST IN	23,554	26,430	BUY
TATACONS IN	913	994	BUY
ZYWL IN	1,563	1,556	HOLD

Price & Target in Rupees | Price as of 13 Oct 2023
 TATACONS = TCPL



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Note: Recommendation structure changed with effect from 21 June 2021

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