

**RESEARCH****CONSUMER STAPLES | Q4FY23 REVIEW**

Smooth sailing on rough seas

**SUMMARY****CONSUMER STAPLES: Q4FY23 REVIEW**

- 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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**Daily macro indicators**

Ticker	05-Jun	06-Jun	Chg (%)
US 10Y yield (%)	3.68	3.66	(2bps)
India 10Y yield (%)	7.00	6.98	(2bps)
USD/INR	82.68	82.61	0.1
Brent Crude (US\$/bbl)	76.7	76.3	(0.5)
Dow	33,563	33,573	0.0
Hang Seng	19,109	19,099	0.0
Sensex	62,787	62,793	0.0
India FII (US\$ mn)	02-Jun	05-Jun	Chg (\$ mn)
FII-D	38.9	55.7	16.8
FII-E	78.1	(62.1)	(140.2)

Source: Bank of Baroda Economics Research

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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



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**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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