

Muted quarter with visible volume growth

Hindustan Unilever	
CMP (INR)	2,556
Rating	Accumulate
TP	2,766
P/E FY25E	50x
Dabur	
CMP (INR)	544
Rating	Accumulate
TP	567
P/E FY25E	48x
Marico	
CMP (INR)	536
Rating	Accumulate
TP	569
P/E FY25E	45x
Britannia	757
CMP (INR)	4,554
Rating	Accumulate
TP	5,161
P/E FY25E	45x
Prataap Snacks	434
CMP (INR)	890
Rating	Buy
TP	
P/E FY25E	1,088 35x
-	331
Dodla Dairy	670
CMP (INR)	678
Rating TP	Buy 1,366
P/E FY26E	25x
-	23X
Heritage Foods	227
CMP (INR)	237
Rating	Buy
TP	448
P/E FY26E	20x
Parag Milk Foods	214
CMP (INR)	214
Rating	Buy
TP	450
P/E FY26E	20x
Thomas Cook India	
CMP (INR)	129
Rating	Buy
TP	207
EV/ EBIT FY26E	12x
Bajaj Consumer Car	
CMP (INR)	225
Rating	Buy
TP	373
P/E FY26E	18x

CMP as of 11th October 2023 *We will revise our target post results

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This quarter is expected to see the return of volume growth in the low- mid-single digits across all consumer staple companies since the prices of major inputs like palm oil, light liquid paraffin oil, copra, wheat, milk, laminates, etc. have come down significantly YoY. These benefits are expected to be passed down to consumers through price cuts and grammage increases mostly through economy segment goods. The dairy sector in India will have a good flush season this year, free of the lumpy skin disease which will lead to more plentiful, cheaper milk in key producing areas which will result in lower procurement costs for dairy players. The summer of 2023 was also exceptionally hot which was beneficial for dairy companies as it would result in high VAP sales (high-margin products).

These now lower input prices will lead to Gross and EBITDA Margin expansion, though most consumer companies are keeping their marketing and advertisement expenditures high to grow their brand strength as competitive intensity returns to the market post-COVID. Urban demand has remained largely resilient throughout, but Q2 and H2 are expected to see a gradual recovery in rural demand as well, which was previously subdued due to high inflation and untimely rainfall. We expect the sector to display healthy growth on the bottom line largely owing to input price corrections.

On the travel side, Q2 is seasonally weak, so we expect growth to be low on a sequential basis, but yearly recoveries are expected to be healthy in the double digits. The industry has now entered recovery mode in FY24 after the COVID-19 pandemic and is still operating on a low base. Domestic travel sentiment is positive but international travel hasn't recovered yet as many Indian citizens struggle to get travel visas.

Revenues: Domestically, urban demand remains steady, and rural demand is starting to recover. We expect there to be a mid-high single-digit growth in revenues across most companies in Foods and HPC. Most benefits from input price corrections will be passed on to consumers which will result in a return of volumes on a low base of last year. Value growth will be led by high-margin premium portfolio offerings/ Value Added Products (VAPs) as most companies in this space have been aggressively undertaking premiumization initiatives over the past couple of years and continue to do so to grow the addressable market. International businesses did well in constant currency terms but the depreciating rupee remained a concern for all players. Travel companies could see a slight de-growth in revenues due to the seasonality effect of inbound and outbound travel being low in Q2, but the recoveries from FY23 are expected to be promising- in the double digits. H2 is expected to be a stellar period for the travel industry in India.

Margins and profitability: All in all, we expect Gross Margin and EBITDA Margin recoveries across the board for the sector driven by input price corrections, and clearing out of high-cost inventories. A&P spending remains high for the industry as competition from informal players increases causing market leaders to increase brand investments to protect and grow market share. Dairy companies are well-focused on growing their share of Value Added Products to expand margins. Similarly, HPC and Food companies are expanding their product portfolios into modern trade outlets with new product developments to grow their profitability. Travel companies are expected to see stable margins sequentially, and notable margin expansion YoY.

Outlook: We expect Q2 to be sluggish for the FMCG and Travel industry, as demand hasn't returned in full swing (though is showing signs of recovery), however, private dairy players are expected to do well in this time due to hotter, extended summers.

Hindustan Unilever (INR Cr)	Q2FY24E	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y	Remarks	
Revenue	16,356	15,496	15,144	5.55%	8.00%		
EBITDA	4,089	3,665	3,479	11.57%	17.53%	HUL will see a mid single digit volume growth as price corrections in Palm Fatt Distillate are passed on in the detergent and soaps portfolio. The price correction	
EBITDA Margin	25.00%	23.65%	22.97%	135bps	203bps	also lead to margin expansion. There will be muted growth in the HFD and BPC divisions	
PAT	2,879	2,556	2,670	12.63%	7.82%	on account of some down trading in rural markets.	
Dabur (INR Cr)	Q2FY24E	O1FY24		Q-o-Q	Y-o-Y	Remarks	
Revenue	3,057	3,130		-2.34%	8.50%		
EBITDA	673	605	432	11.22%		Dabur is expected to have a low single digit value/ volume growth driven by the HPC	
	22.00%					portfolio. Softening of commodity prices will lead to margin expansion. The domestic business will have a good footing in the later half of this year, and high growth in	
EBITDA Margin				268bps	007003	emerging businesses and the international market will continue.	
PAT	502	457	322	10.02%	56.04%		
Marico (INR Cr)	Q2FY24E	Q1FY24	1	Q-o-Q	Y-o-Y	Remarks	
Revenue	2,546	2,477	2,496	2.78%	2.00%	We expect Marico to see a low single digit growth in volumes driven by edible oils and	
EBITDA	509	574	433	-11.29%	17.59%	some price cuts. The international business continues on a strong footing in constant	
EBITDA Margin	20.00%	23.17%	17.35%	-317bps	200000	currency terms but there was adverse currency movement during the quarter. There will be margin expansion on account of softening input prices.	
PAT	281	312	229	-10.03%	22.58%	se margin expansion on deceant of softening input prices.	
Britannia (INR Cr)	Q2FY24E	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y	Remarks	
Revenue	4,728	3,970	4,338	19.10%	9.00%		
EBITDA	846	689	712	22.77%	18.84%	Britannia will see mid single digit volume and price growth with some market share gains across the Hindi belt. The company remains headstrong with new product launches in	
EBITDA Margin	17.73%	17.18%	16.25%	55bps		the premium segment. Softening commodity prices will be passed on by way of	
						grammage increases. However, the moderating inflation would lead to higher competitive intensity.	
PAT	594	486	491	22.15%	21.09%	competate intensity.	
Prataap Snacks (INR Cr)	Q2FY24E	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y	Remarks	
Revenue	491	386	450	27.14%	9.00%		
EBITDA	44	33	22	33.05%	97.88%	Prataap Snacks is eyeing a growth of 10-15% in the medium term as they continue to expand the product portfolio, penetrate deeper into existing markets, and geographical	
EBITDA Margin	8.87%	8.47%	4.83%	40bps	404bps	expansion. Palm oil prices are down significantly and these benefits are expected to be	
PAT	21	13	4	57.15%		passed on through grammage increases and will lead to margin expansion to 9-10%.	
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Dodla Dairy (INR Mn)	O2FY24E	O1FY24	O2FY23	0-0-0	Y-o-Y	Remarks	
Dodla Dairy (INR Mn)	Q2FY24E			Q-o-Q	Y-o-Y	Remarks	
Revenue	7,881	8,234	6,853	-4.29%	15.00%	Dodla's Dairy's top line growth will be driven by higher VAP volumes leading to better	
Revenue EBITDA	7,881 615	8,234 603	6,853 489	-4.29% 1.88%	15.00% 25.67%	Dodla's Dairy's top line growth will be driven by higher VAP volumes leading to better realizations and improved profitability. The flush season this year, unmarred by the	
Revenue EBITDA EBITDA Margin	7,881 615 7.80%	8,234 603 7.33%	6,853 489 7.14%	-4.29% 1.88% 47bps	15.00% 25.67% 66bps	Dodla's Dairy's top line growth will be driven by higher VAP volumes leading to better	
Revenue EBITDA EBITDA Margin PAT	7,881 615 7.80% 393	8,234 603 7.33% 350	6,853 489 7.14% 294	-4.29% 1.88% 47bps 12.38%	15.00% 25.67% 66bps 33.46%	Dodla's Dairy's top line growth will be driven by higher VAP volumes leading to better realizations and improved profitability. The flush season this year, unmarred by the lumpy cow disease which prevailed last year, will be more plentiful and drive down procurement volumes which will lead to margin expansion.	
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Source: Arihant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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