ArihantCapital
Generating Wealth

12th Oct 2023

FMCG & Travel Sector_ Q2FY24 Preview

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	
CMP (INR)	4,554
Rating	Accumulate
TP	5,161
P/E FY25E	45x
Prataap Snacks	
CMP (INR)	890
Rating	Buy
TP	1,088
P/E FY25E	35x
Dodla Dairy	
CMP (INR)	678
Rating	Buy
TP	1,366
P/E FY26E	25x
Heritage Foods	
CMP (INR)	237
Rating	Buy
TP	448
P/E FY26E	20x
Parag Milk Foods	
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 Care	
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%	HUL will see a mid single digit volume growth as price corrections in Palm Fatty Acid Distillate are passed on in the detergent and soaps portfolio. The price corrections will also lead to margin expansion. There will be muted growth in the HFD and BPC divisions on account of some down trading in rural markets.
EBITDA	4,089	3,665	3,479	11.57%	17.53%	
EBITDA Margin	25.00%	23.65%	22.97%	135bps	203bps	
PAT	2,879	2,556	2,670	12.63%	7.82%	
Dabur (INR Cr)	**Q2FY24E**	**Q1FY24**	**Q2FY23**	**Q-o-Q**	**Y-o-Y**	**Remarks**
Revenue	3,057	3,130	2,818	-2.34%	8.50%	Dabur is expected to have a low single digit value/ volume growth driven by the HPC 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 emerging businesses and the international market will continue.
EBITDA	673	605	432	11.22%	55.75%	
EBITDA Margin	22.00%	19.32%	15.33%	268bps	667bps	
PAT	502	457	322	10.02%	56.04%	
Marico (INR Cr)	**Q2FY24E**	**Q1FY24**	**Q2FY23**	**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 some price cuts. The international business continues on a strong footing in constant currency terms but there was adverse currency movement during the quarter. There will be margin expansion on account of softening input prices.
EBITDA	509	574	433	-11.29%	17.59%	
EBITDA Margin	20.00%	23.17%	17.35%	-317bps	265bps	
PAT	281	312	229	-10.03%	22.58%	
Britannia (INR Cr)	**Q2FY24E**	**Q1FY24**	**Q2FY23**	**Q-o-Q**	**Y-o-Y**	**Remarks**
Revenue	4,728	3,970	4,338	19.10%	9.00%	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 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.
EBITDA	846	689	712	22.77%	18.84%	
EBITDA Margin	17.73%	17.18%	16.25%	55bps	148bps	
PAT	594	486	491	22.15%	21.09%	
Prataap Snacks (INR Cr)	**Q2FY24E**	**Q1FY24**	**Q2FY23**	**Q-o-Q**	**Y-o-Y**	**Remarks**
Revenue	491	386	450	27.14%	9.00%	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 expansion. Palm oil prices are down significantly and these benefits are expected to be passed on through grammage increases and will lead to margin expansion to 9-10%.
EBITDA	44	33	22	33.05%	97.88%	
EBITDA Margin	8.87%	8.47%	4.83%	40bps	404bps	
PAT	21	13	4	57.15%	397.37%	
Dodla Dairy (INR Mn)	**Q2FY24E**	**Q1FY24**	**Q2FY23**	**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 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.
EBITDA	615	603	489	1.88%	25.67%	
EBITDA Margin	7.80%	7.33%	7.14%	47bps	66bps	
PAT	393	350	294	12.38%	33.46%	
Heritage Foods (INR Mn)	**Q2FY24E**	**Q1FY24**	**Q2FY23**	**Q-o-Q**	**Y-o-Y**	**Remarks**
Revenue	9,467	9,237	8,162	2.50%	16.00%	Heritage will see healthy volume and value growth on account of growing VAP sales and from a hotter summer. An improved flush season will also drive down procurment prices and push up margins for the rest of FY24. The company is on route to reach the INR 6,000 Cr revenue mark in the next 3-4 years with stable margins at 8%.
EBITDA	483	403	399	19.95%	21.13%	
EBITDA Margin	5.10%	4.36%	4.88%	74bps	22bps	
PAT	223	167	190	33.25%	17.11%	
Parag Milk (INR Mn)	**Q2FY24E**	**Q1FY24**	**Q2FY23**	**Q-o-Q**	**Y-o-Y**	**Remarks**
Revenue	7,646	7,496	6,648	2.00%	15.00%	Parag has been experiencing a primising growth through its sports nutrition segment and is already a market leader in cheese and ghee. Procurment costs are lower in Q2 which will aid in margin expansion as well. Pride of cows is also taking off well and further bolsters parag's presence in the premium segment.
EBITDA	535	404	379	32.62%	41.07%	
EBITDA Margin	7.00%	5.38%	5.71%	162bps	129bps	
PAT	235	214	114	9.75%	106.34%	
Thomas Cook India (INR Cr)	**Q2FY24E**	**Q1FY24**	**Q2FY23**	**Q-o-Q**	**Y-o-Y**	**Remarks**
Revenue	1,466	1,899	1,222	-22.78%	20.00%	Thomas Cook is expected to see double digit op line growth as the company sees its first normal year post- covid. Travel remains subdued in Q2 on account of seasonality as is seen with the sequential de growth in revenues. The improving cost structure will also reflect in margins for the year.
EBITDA	73	124	42	-40.86%	76.08%	
EBITDA Margin	5.00%	6.53%	3.41%	-153bps	159bps	
PAT	16	73	0	-77.26%	-	
BajaJ Consumer Care(INR Mn)	**Q2FY24E**	**Q1FY24**	**Q2FY23**	**Q-o-Q**	**Y-o-Y**	**Remarks**
Revenue	2,462	2,657	2,297	-7.31%	7.20%	Bajaj Consumer Care is expected to clock in a low single digit volume growth as discretionary consumption across key markets in the Hindi belt and the rural areas continue to improve. Value growth will come from consistent premiumization efforts across the brand portfolio.
EBITDA	480	479	306	0.34%	56.70%	
EBITDA Margin	19.21%	17.71%	13.18%	150bps	603bps	
PAT	464	462	317	0.44%	46.63%	

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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