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RESULT PREVIEW (4Q FY18E)

FMCG

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Company	Recommendition
BRITANNIA	ACCUMULATE
GODREJCP	HOLD
HINDUNILVR	ACCUMULATE
DABUR	ACCUMULATE
MARICO	ACCUMULATE
NESTLEIND	ACCUMULATE
BAJAJCORP	ACCUMULATE
MANPASAND	BUY

Recovery in volume to continue while margin may shrink

Last quarter was decent for almost all FMCG companies in our horizon in terms of volume growth which was driven by stabilization of trade channels, demand coming back as well as lower base of previous year. Some companies also witnessed better growth from rural market while some has witnessed market share gain from unorganized sector but most of the companies maintained a cautious view on rural demand recovery.

In Q4FY18E, we expect companies to maintain high single digit volume growth on account of demand recovery in rural market, stabilization of trade channels and lower base of previous year while margin will be in pressure as most of the companies have not taken price hike and prices of key raw materials have risen from previous year level. As far as international business is concern, the companies which has higher presence in the MENA region will be benefitted from improving economic condition there.CSD to remain in pressure.Modern trade will continue to perform well.

Key parameters to watch-

- ☑ **Volume growth:** Due to normalization of trade channels, strong performance of modern trade,revival of rural demand and lower base, we expect high single digit volume growth for most of the FMCG companies.New product launches and continuous expansion of distribution is key to watch for in which we prefer BRITANNIA, NESTLEIND and GODREJCP.

- ☑ **Margin outlook:** Rising crude oil prices and recent increase in import duty in palm oil to put pressure on gross margins of most of the FMCG company. In last 10 months crude oil has jumped from ~46 dollar/barrel to 61dollar/ barrel, up by 33%. As packaging cost and key input like LLP are related to crude hence we expect margin deterioration in Q4FY18. Copra prices are also at its peak. Secondly most of the company's management guidance suggests that price hike is only expected to happen in Q1FY19. Exception will be Company like Britannia where we are expecting margin improvement due to lower sugar and milk prices and its cost efficiency measures. GODREJCP is also expected to witness less deterioration in margin due to improvement in International business margin.

- ☑ **Advertising and promotion expenses:** FMCG companies most of the time use this lever to protect their margin.In Q4FY18E we expect company to do lower A&P expenses to protect their margins specially those companies which input is diectly linked to crude.

- ☑ **International business:** Key trackable for GODREJCP will be growth in the Indonesian and African business in Q4FY18. Dabur is expected to report better international growth on the back of revival in MENA business.

Industry View:

With two consecutive moderately good monsoon, pro rural budget,higher MSP's and government's rural infrastructure initiatives, we see strong rural demand recovery going ahead. We are optimistic on FMCG as whole for coming 2-3 years. Our top picks are Britannia, Nestleind, Godrejcp and Manpasand while we also bullish on Dabur,Hindunilvr and Bajajcorp considering rural demand revival.

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(Rs in Crore)

BRITANNIA	4Q FY18e	4Q FY17	YoY Gr %	3Q FY18	QoQ Gr %
Volume growth	8%	2%		11%	
Revenue	2464	2244	10%	2567	-4%
EBITDA	402	308	31%	398	1%
PAT	263	211	25%	264	0%

Key Highlights

We expect better volume growth led by distribution expansion in hinterland and new product launches. The company may witness gross margin improvement due to lower sugar and milk prices. Commentary on future pricing action will be relevant.

GODREJCP	4Q FY18e	4Q FY17	YoY Gr %	3Q FY18	QoQ Gr %
Volume growth	10%	5%		18%	
Revenue	2648	2489	6%	2630	1%
EBITDA	596	551	8%	589	1%
PAT	429	390	10%	430	0%

Key Highlights

We expect better volume growth led by soap and hair colour business. Gross margin may deteriorate but improvement in the African and Indonesian business margin will give some cushion. Commentary on future pricing action will be relevant.

HINDUNILVR	4Q FY18e	4Q FY17	YoY Gr %	3Q FY18	QoQ Gr %
Volume growth	8%	4%		11%	
Revenue	8672	8213	6%	8590	1%
EBITDA	1864	1651	13%	1680	11%
PAT	1172	1183	-1%	1326	-12%

Key Highlights

We are expecting lower realization QoQ due to transfer of GST benefit to the consumer. The company may see gross margin deterioration of 104 bps in Q4FY18. Overall volume growth will be 8% led by rural demand recovery. Tax provisioning and A&P expenses will be key trackable in Q4FY18 result. Commentary on pricing will be relevant.

DABUR	4Q FY18e	4Q FY17	YoY Gr %	3Q FY18	QoQ Gr %
Volume growth	10%	2%		13%	
Revenue	2034	1915	6%	1966	3%
EBITDA	424	418	2%	404	5%
PAT	350	333	5%	333	5%

Key Highlights

We expect better domestic volume growth for Dabur in Q4FY18 on account of rural demand revival. We have assumed stable margin as per management guidance. Tax provisioning and promotion expanses for Q4FY18 is important trackable. Commentary on pricing will be relevant.

(Rs in Crore)

MARICO	4Q FY18e	4Q FY17	YoY Gr %	3Q FY18	QoQ Gr %
Volume growth	8%	10%		9%	
Revenue	1472	1322	11%	1624	-9%
EBITDA	268	259	3%	302	-11%
PAT	192	171	12%	223	-14%

Key Highlights

Marico's volume is expected to remain 8% for Q4FY18 on the back of strong growth in Parachute Rigid portfolio and value added hair oil segment. The outlook on copra prices and Saffola's volume will be relevant. International business is expected to better in this quarter.

NESTLEIND	1Q CY18e	1Q CY17	YoY Gr %	4Q CY17	QoQ Gr %
Volume growth					
Revenue	2821	2592	9%	2601	8%
EBITDA	594	517	15%	533	11%
PAT	357	307	16%	312	14%

Key Highlights

We expect EBITDA margin to expand by 110 bps in this quarter led by lower milk prices. Our yearly estimate of volume growth for CY18 is 8%led by new launches. The company has launched more than 40 products in last 1-2 years.

BAJAJCORP	4Q FY18e	4Q FY17	YoY Gr %	3Q FY18	QoQ Gr %
Volume growth	6%	-7%		5%	
Revenue	224	205	9%	208	8%
EBITDA	68	66	3%	68	0%
PAT	54	53	2%	55	-2%

Key Highlights

We expect 176 bps YoY deterioration is EBITDA margin led by 205 bps QoQ decline in gross margin. Gross margin decline is expected due to rise in light liquid paraffin (LLP) prices. Outlook on LLP and Commentary on pricing will be relevant.

MANPASAND	4Q FY18e	4Q FY17	YoY Gr %	3Q FY18	QoQ Gr %
Volume growth					
Revenue	397	273	45%	143	178%
EBITDA	72	52	38%	27	167%
PAT	42	31	35%	12	250%

Key Highlights

We expect overall volume growth of 33% for entire year of FY18 for Manpasand. Completion of Varanasi facility which expected to complete in April 2018 will be key trackable.

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