Narnolia™

IEA Report

RESULT PREVIEW (1Q FY19E)

FMCG

06-Jul-18

Company	Recommendition
BRITANNIA	ACCUMULATE
GODREJCP	ACCUMULATE
HINDUNILVR	ACCUMULATE
DABUR	ACCUMULATE
MARICO	ACCUMULATE
ATFL	ACCUMULATE
NESTLEIND	NEUTRAL
BAJAJCORP	BUY

Pricing power and rural to drive growth

The companies in our horizon maintained their volume growth momentum in the Q4FY18, barring few, driven by stabilization of trade channels, direct distribution ramp up and demand coming back. Most of the companies have witnessed better traction from rural market. Going forward in Q1FY19E, we expect companies to clock high single digit to double -digit volume growth on account of demand recovery in rural market, new launches, expansion of direct reach and lower base of previous year. We expect average revenue, EBITDA and PAT growth of our Horizon Company to remain 12%, 18% and 18% respectively in Q1FY19E. On International business front, the companies which have higher presence in the MENA region will be benefitted from improving macro economic condition there. CSD to remain in pressure but see gradual improvement. Modern trade will continue to perform well. We expect slight improvement in EBITDA margin led by cost efficiency measures and pricing action taken by the companies however higher input prices on account of crude inflation will keep putting pressure on the

Key parameters to watch-

☑ **Volume growth:**Due to normalization of trade channels, strong performance of modern trade, revival of rural demand, aggressive new launches, expansion of direct distribution reach and lower base, we expect double digit volume growth for BRITANNIA, HINDUNILVR, DABUR and MARICO in Q1FY19E. Rural demand revival will be key space to watch for, as it will benefit almost all companies in our FMCG horizon but we prefer HINDUNILVR and DABUR as they have higher rural exposure. New product launches and distribution expansion to drive the growth of Britannia and NESTLEIND.

☑ **Pricing action taken by the company:** Rising crude oil prices and increase in import duty in palm oil to put pressure on gross margins of most of the FMCG companies in our horizon. In last one year crude oil has jumped from ~49 dollar/barrel to ~72dollar/ barrel, up by 47%. As packaging cost and key input like LLP are related to crude hence we expect gross margin pressure in Q1FY19E. Copra prices are also at its peak. Considering inflation in input prices, pricing action taken by the company will be key monitorable. In our estimation pricing action by the company will not sufficient to cover the whole extent of inflation hence there might be some gross margin erosion. Here, the company which has higher pricing power and strong brand equity will be benefitted most. HINDUNILVR is better placed among other players. Sugar, wheat and milk prices remained benign in this period which will benefit Britannia and NESTLEIND.

Industry View:

With two consecutive good monsoon, pro rural budget, higher MSP's , government's rural infrastructure initiatives and upcoming election , we see strong rural demand going ahead which will help FMCG companies in garnering strong volume growth. Gross margin is likely to be impacted due to inflation in input prices but cost efficiency measures and price hike taken by company will help in maintaining EBITDA margin. From here on, pricing has to play greater role. On International business front, the companies which have higher presence in the MENA region will be benefitted due to improving macro economic condition there. We are optimistic on FMCG as whole for coming 2-3 years. Our top picks are Britannia and GODREJCP while we are also bullish on DABUR, HINDUNILVR and Bajajcorp considering rural demand revival.

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(Rs in Crore)

BRITANNIA	1Q FY19e	4Q FY18	YoY Gr %	1Q FY18	QoQ Gr %
Volume growth	11%	11%		2%	
Revenue	2550	2538	13%	2264	0%
EBITDA	386	397	17%	329	-3%
PAT	264	263	22%	216	0%

Key Highlights

We expect 11% volume growth for Britannia in Q1FY19E led by distribution expansion in hinterland and new product launches while pricing growth to remain ~2%. EBITDA margin may expand by 62 bps YoY backed by company's cost efficiency measures. Volume growth and commentary on future pricing action will be relevant.

GODREJCP	1Q FY19e	4Q FY18	YoY Gr %	1Q FY18	QoQ Gr %
Volume growth	9%	6%		0%	
Revenue	2399	2529	10%	2177	-5%
EBITDA	395	597	13%	349	-34%
PAT	271	617	21%	225	-56%

Key Highlights

Domestic volume growth is expected to remain 9% for GODREJCP in Q1FY19E on the back of flat base, led by strong growth in soap business. We expect ~3% pricing growth in domestic business. We expect international business to clock 7% growth led by better traction from Indonesia and African business. Improvement in EBITDA margin is expected to 43 bps YoYon account of improvement in International business margin. Indonesia business CC growth and domestic Home insecticide business growth will be key monitorable.

HINDUNILVR	1Q FY19e	4Q FY18	YoY Gr %	1Q FY18	QoQ Gr %
Volume growth	11%	11%		0%	
Revenue	9463	9097	11%	8529	4%
EBITDA	2155	2048	15%	1866	5%
PAT	1449	1351	13%	1283	7%

Key Highlights

HINDUNILVR is likely to clock ~11% volume growth in Q1FY19E on the back of better traction from rural business and growth across product portfolio. We expect strong growth in Natural business led by Lever Ayush and Indulekha. Gross margin may be slightly lower due to higher input prices but cost efficiency measures are expected to boost EBITDA margin by 89 bps YoY. Key monitorable: volume and pricing growth.

DABUR	1Q FY19e	4Q FY18	YoY Gr %	1Q FY18	QoQ Gr %
Volume growth	12%	8%		-4%	
Revenue	2005	2033	12%	1790	-1%
EBITDA	376	485	22%	309	-23%
PAT	321	397	21%	264	-19%

Key Highlights

We expect ~12% volume growth for Dabur in Q1FY19E on the back of strong growth in LUP's ,lower base and rural demand revival while pricing growth is expected to be around ~2%. International business growth to remain ~20% in CC terms led by strong traction from Middle East business. Currency headwinds to continue. We expect company to keep gaining market share led by LUP's. We expect EBITDA margin to improve by ~148 bps YoY led by lower employee and other expenses by 87 and 60 bps YoY. Key monitorable: Domestic business volume growth, market share in Juices and International business CC growth.

(Rs in Crore)

MARICO	1Q FY19e	4Q FY18	YoY Gr %	1Q FY18	QoQ Gr %
Volume growth	11%	1%		-9%	
Revenue	1936	1480	14%	1692	31%
EBITDA	354	252	9%	324	40%
PAT	259	183	10%	236	42%

Key Highlights

Marico's volume in Q1FY19E is expected to be 11% on the back of 14% and 13% growth in Parachute Rigid and Value Added Hair Oils portfolio. Gross margin is expected to deteriorate by 136 bps YoY led by higher Copra prices while EBITDA margin is expected to decline by 86 bps YoY. We expect Saffola volume to remain at ~5% on the back of lower base of -9% YoY in Q1FY18. International business is expected to grow at ~12% CC terms. Key monitorable: Copra Prices, Saffola volume and growth from Veitnam business.

NESTLEIND	2Q CY18e	1Q CY18	YoY Gr %	2Q FY17	QoQ Gr %
Volume growth					
Revenue	2713	2757	13%	2402	-2%
EBITDA	596	697	29%	462	-14%
PAT	363	424	38%	263	-14%

Key Highlights

NESTLEIND is expected to clock 13% YoY growth in revenue in Q2CY18E led by strong volume growth in newly launched products. The company had launched 43 new products in the last year. We expect EBITDA to grow by 29%while PAT growth to remain 38% YoY. Gross and EBITDA margin is expected to expand by 292 bps and 274 bps YoY led by benign milk and SMP. Key monitorable: revenue and margin.

BAJAJCORP	1Q FY19e	4Q FY18	YoY Gr %	1Q FY18	QoQ Gr %
Volume growth	8%	7%		-7%	
Revenue	224	222	14%	197	1%
EBITDA	70	72	16%	61	-2%
PAT	58	55	5%	55	4%

Key Highlights

We expect BAJAJCORP to report 8%YoY volume growth led by stabilization of trade channels , expansion of direct reach and lower base (-7% in Q1FY18). We expect EBITDA margin to improve by 79 bps YoY led by benefits of operating leverage and lower other expenses. Key monitorable: Volume growth in ADHO, other expenses and price hike taken by the company.

ATFL	1Q FY19e	4Q FY18	YoY Gr %	1Q FY18	QoQ Gr %
Volume growth					
Revenue	199	214	6%	188	-7%
EBITDA	14	16	-1%	15	-8%
PAT	7	8	10%	6	-5%

Key Highlights

ATFL is expected to report 6% YoY revenue growth in Q1FY19 led by strong volume growth in Peanut butter and Sundrop Oil. We expect ACT-2 consumer business to clock ~ 15%volume growth in Q1FY19E. We expect deterioration in gross margin by 347 bps YoY on the back of passing of GST benefits to the consumer and higher input prices especially palm oil. EBITDA margin is expected to shrink by 49 bps YoY. Pricing action taken by the company will be key thing to watch. PAT growth to remain 9.6% led by lower other and A&P expenses.

Peer Comparison

Company	Revenue growth%		EBITDA gr %		PAT growth%		ROE%		P/E(X)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
BRITANNIA	15	17	23	21	25	21	31	31	53	43
GODREJCP	12	14	13	15	11	17	24	25	51	43
HINDUNILVR	13	14	19	17	18	18	82	98	56	48
DABUR	13	12	14	20	13	22	26	28	45	37
MARICO	14	16	15	20	15	20	35	38	45	38
NESTLEIND	15	14	26	13	32	16	43	46	60	51
BJAJCORP	13	14	26	13	32	16	43	46	26	23
ATFL	8	12	6	25	15	35	10	12	47	35

Note: NESTLEIND has CY reporting, hence please read CY18E and CY19E in the place of FY19E and FY20E.

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