

Strategy

May 05, 2025

Thou shalt stay in the past!

We remain hopeful that the market would be able to break the spell (or curse) of the 2010s decade with respect to their view of consumption stocks. The Street is still too enchanted with the past and is overlooking fundamental changes to the sector that warrant a different valuation framework and meaningfully lower multiples.

2020s decade could be very different from the 2010s decade

In our view, the sluggish financial and operating performance of consumption-oriented stocks in the past few years should provide incontrovertible proof that the 2010s decade is well and truly over. Parts of the market seem stuck in the past decade and oblivious to (1) the changed operating environment of the sector, (2) the weaker business models of the companies and (3) the inaptness of historical valuation multiples.

2010s decade saw strong compounding in earnings, rerating in multiples

The 2010s decade was a magical era for 'consumption' stocks with (1) EPS seeing strong compounding (see Exhibit 1) and (2) multiples seeing steady rerating (see Exhibit 2). The former reflected favorable market conditions and structure that resulted in (1) steady growth in volumes (income-led penetration and usage), (2) strong growth in revenues (inflation + premiumization) and (3) steady increase in margins given ability to pass on RM inflation or retain raw RM deflation. The latter driver reflected (1) the market's confidence about strong growth in EPS and (2) very low global interest rates (see Exhibit 3).

2020s decade has seen an increase in competition, weaker business models

The 2020s decade has seen a more moderate operating and financial performance across companies (see Exhibit 4). In particular, the continued weakness in performance even three years after the Covid-19 pandemic highlights the deep structural issues in the sector. These include (1) growing competition across categories, (2) ongoing erosion of distribution moat with the emergence of new channels eroding the solid advantage of the incumbents in the general trade channel and (3) companies' margin-focused strategy, which could possibly handicap them versus more aggressive competition.

Sector may be fast running out of narratives and time

Notwithstanding the sector's muted performance, valuations have been buoyed by various narratives in the past 2-3 years—(1) periodic hopes of revival in rural and/or urban demand and (2) constant optimism about higher margins (see Exhibits 5-6), based on still-favorable market structures for incumbents (see Exhibit 7). The current narrative revolves around higher margins from declining (palm oil), expected-to-decline (tea) and low (crude oil) RM prices. In our view, the sector could see meaningful cuts in earnings and multiples if companies were to fail to show a decent uplift in margins. The market's last hopes could be tested against the twin realities of (1) weaker market structure across sectors and (2) different strategies of companies (volumes or profitability).

Key estimates summary

	2025	2026E	2027E
Nifty estimates			
Earnings growth (%)	8.6	10.8	14.8
Nifty EPS (Rs)	1,024	1,132	1,301
Nifty P/E (X)	23.9	21.6	18.8
Macro data			
Real GDP (%)	6.5	6.0	6.3
Avg CPI inflation (%)	4.6	4.0	4.2

Source: Company data, Kotak Institutional Equities estimates

Quick Numbers

Net profits of 17 consumer companies grew at 13% CAGR (13% CAGR ex-ITC) over FY2010-19

P/E multiples of the same 17 companies broadly became 2X over FY2010-19

Net profits of the same 17 companies grew at 6% CAGR (8% CAGR ex-ITC) over FY2023-25

[Full sector coverage on KINSITE](#)

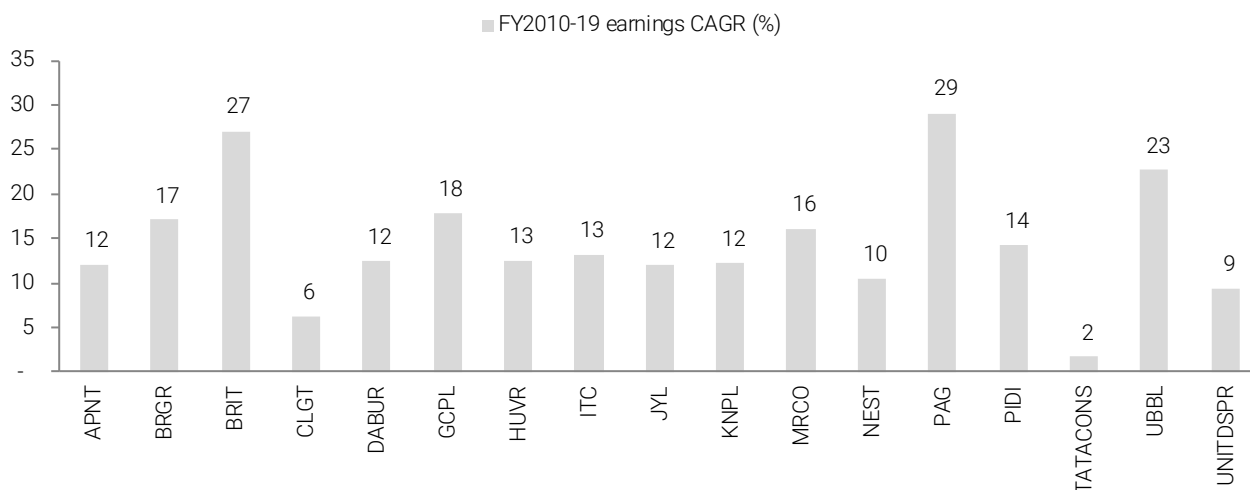
Sanjeev Prasad
sanjeev.prasad@kotak.com
 +91-22-4336-0830

Anindya Bhowmik
anindya.bhowmik@kotak.com
 +91-22-4336-0897

Sunita Baldawa
sunita.baldawa@kotak.com
 +91-22-4336-0896

2010s decade saw strong compounding in earnings of consumption stocks

Exhibit 1: Earnings CAGR of consumption stocks in KIE coverage, March fiscal year-ends, 2010-19 (%)



Source: Companies, Kotak Institutional Equities

2010s decade saw a sharp rerating in the multiples of consumption stocks

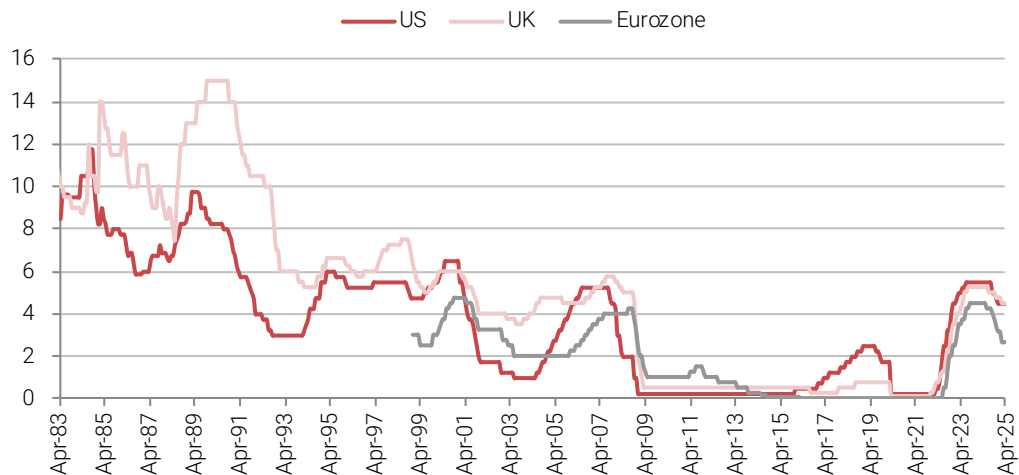
Exhibit 2: 12-m forward P/E multiple of consumption stocks in KIE universe, March fiscal year-ends, 2010-19 (X)

Company	12-m forward P/E multiple (X)									
	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Asian Paints	24	23	27	33	36	38	38	45	44	51
Berger Paints	15	17	17	25	27	36	35	45	44	49
Britannia Industries	19	21	28	24	23	39	33	39	49	53
Colgate-Palmolive (India)	22	24	30	28	32	40	32	40	38	40
Dabur India	23	23	24	26	29	35	30	33	36	40
Godrej Consumer Products	20	20	22	30	31	31	35	37	43	38
Hindustan Unilever	22	26	29	28	33	40	39	41	47	50
ITC	22	24	25	28	27	24	23	29	25	26
Jyothy Labs	14	16	15	24	21	28	30	33	35	27
Kansai Nerolac	20	20	19	26	24	31	36	38	43	41
Marico	22	24	26	27	25	35	37	41	42	39
Nestle India	30	35	37	34	35	44	41	47	50	51
Page Industries	18	24	26	26	36	58	46	48	59	54
Pidilite Industries	16	21	22	27	26	42	34	37	43	54
Tata Consumer Products	14	14	18	17	18	19	16	18	26	23
United Breweries	37	47	54	58	68	63	51	51	51	52
United Spirits	26	22	16	37	59	90	57	53	58	43

Source: FactSet, Kotak Institutional Equities

Low global interest rates in the post-GFC and pre-pandemic period (2010s decade)

Exhibit 3: Policy rates of Eurozone, UK and US, calendar year-ends, 1983-2025 (%)



Source: Bloomberg, Kotak Institutional Equities

Moderate operating and financial performance in the 2020s decade despite a recovery from Covid-19 lows

Exhibit 4: Revenue, EBITDA and PAT data of consumption stocks in KIE coverage, March fiscal year-ends, 2021-25

Company	Revenues (Rs bn)					EBITDA (Rs bn)					PAT (Rs bn)					CAGR (% FY2023-25)		
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	Revenue	EBITDA	PAT
Asian Paints	217	291	345	355	342	49	48	63	76	61	31	31	42	55	42	(0)	(1)	0
Berger Paints	68	88	106	112	115	12	13	15	19	18	7	8	9	12	12	4	11	17
Britannia Industries	131	141	163	168	179	25	22	28	32	31	19	15	19	21	21	5	4	4
Colgate-Palmolive (India)	48	51	52	57	61	15	16	15	19	20	10	11	11	13	15	8	13	17
Dabur India	96	109	115	124	127	20	23	22	24	24	17	18	17	18	19	5	5	4
Godrej Consumer Products	110	123	133	141	143	24	24	24	29	30	18	18	18	19	19	4	10	5
Hindustan Unilever	460	512	591	605	615	113	125	136	142	143	80	87	97	101	102	2	2	3
ITC	455	563	660	654	697	155	189	239	245	247	130	151	187	204	201	3	2	4
Jyothy Labs	19	22	25	28	29	3	2	3	5	5	2	2	2	4	4	7	25	27
Kansai Nerolac	47	59	71	74	75	8	6	8	10	10	5	4	5	7	7	3	11	18
Marico	80	95	98	97	108	16	17	18	20	21	12	12	13	15	16	5	9	12
Nestle India	133	147	168	243	201	32	35	37	57	46	21	24	24	39	30	9	13	12
Page Industries	28	39	47	46	51	5	8	9	9	10	3	5	6	6	7	4	10	12
Pidlite Industries	73	99	118	124	131	17	18	20	27	30	11	12	13	18	21	5	23	28
Tata Consumer Products	116	124	138	152	176	15	17	19	23	25	9	10	10	15	13	13	16	11
United Breweries	42	58	75	81	89	4	7	6	7	9	1	4	4	4	5	9	18	17
United Spirits	79	94	104	107	116	10	15	14	17	20	5	10	10	12	14	6	19	18

Source: Companies, Kotak Institutional Equities

We expect some moderation in gross and EBITDA margins from elevated levels of FY2024

Exhibit 5: Gross and EBITDA margins of consumer companies, March fiscal year-ends, 2019-27E (%)

	Gross margin (%)							EBITDA margin (%)										
	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2019	2020	2021	2022	2023	2024	2025	2026E	2027E
Asian Paints	41.4	43.7	44.3	37.1	38.7	43.4	42.2	41.2	41.0	18.2	20.6	22.4	16.5	18.2	21.4	17.8	17.5	17.3
Berger Paints	39.0	41.5	43.3	38.0	36.3	40.7	41.2	40.3	39.8	14.5	16.7	17.4	15.2	14.1	16.6	15.9	15.0	14.7
Britannia Industries	40.6	40.3	41.9	38.0	41.2	43.4	41.0	41.6	41.9	15.7	15.9	19.1	15.6	17.4	18.9	17.2	17.2	17.7
Colgate-Palmolive (India)	65.1	65.2	68.0	67.3	65.7	69.7	69.4	69.2	69.3	27.7	26.6	31.2	30.7	29.6	33.5	32.3	32.2	32.5
Dabur India	49.5	49.9	49.9	48.2	45.6	48.0	48.3	48.2	48.4	20.4	20.6	20.9	20.7	18.8	19.4	18.9	19.2	19.7
Godrej Consumer Products	55.8	57.0	55.3	50.5	49.7	55.2	55.0	55.7	56.1	20.5	21.6	21.7	19.5	18.3	20.9	20.7	21.5	22.1
Hindustan Unilever	53.0	54.1	52.9	50.9	47.3	51.5	50.9	50.4	51.1	22.6	24.8	24.6	24.4	23.0	23.5	23.2	22.5	23.0
ITC	61.5	62.2	56.1	53.4	56.3	58.8	59.0	59.2	59.4	38.5	39.2	34.1	33.6	36.3	37.4	35.4	36.1	36.6
Jyothy Labs	46.5	47.4	47.1	41.6	42.3	49.1	50.1	49.7	49.6	15.5	14.7	16.5	11.3	12.7	17.4	17.3	16.9	16.8
Kansai Nerolac	36.2	38.1	37.9	30.0	30.0	35.5	35.4	34.5	34.3	14.3	15.8	17.8	10.5	11.2	13.8	13.2	12.6	12.5
Marico	45.2	48.8	46.9	42.9	45.2	50.8	50.3	50.3	51.5	17.5	20.1	19.8	17.7	18.5	21.0	19.7	19.9	20.7
Nestle India	59.1	57.5	57.3	56.7	53.8	55.9	56.4	56.7	57.1	23.7	22.9	23.7	23.6	21.7	23.6	23.2	23.6	24.2
Page Industries	58.0	55.5	55.4	56.0	55.8	54.5	54.7	55.5	55.8	21.7	18.1	18.6	20.2	18.3	19.0	20.6	21.6	21.8
Pidlite Industries	49.3	53.4	53.7	45.1	42.7	51.6	54.1	53.4	53.4	19.3	21.6	23.0	18.6	16.8	21.9	23.0	23.5	23.8
Tata Consumer Products	44.7	43.9	40.5	43.0	41.9	43.7	42.8	43.6	44.5	10.8	13.4	13.3	13.8	13.5	15.0	14.1	15.2	16.4
United Breweries	53.6	51.6	52.2	49.9	43.1	42.7	43.6	45.8	46.8	17.6	13.5	9.0	11.9	8.2	8.6	9.7	12.3	13.7
United Spirits	48.8	44.8	43.4	43.9	41.5	43.4	44.6	45.0	45.3	14.3	16.6	12.5	16.0	13.7	16.0	17.2	18.0	18.5

Source: Companies, Kotak Institutional Equities estimates

Elevated profitability for most consumer companies; moderation in margins in certain cases

Exhibit 6: Gross and EBITDA margin of consumer companies under our coverage, 4QFY23-4QFY25 (%)

	Gross margin (%)									EBITDA margin (%)								
	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25
Asian Paints	42.6	42.9	43.4	43.6	43.7	42.5	40.8	42.4	43.0	21.3	23.1	20.2	22.6	19.4	18.9	15.4	19.1	17.8
Berger Paints	39.8	39.8	41.1	41.1	40.7	39.9	41.7	41.6	42.4	15.1	18.4	17.1	16.7	13.9	16.9	15.6	15.9	16.0
Britannia Industries	44.9	41.9	42.9	43.9	44.9	43.4	41.5	38.7	40.6	19.9	17.2	19.7	19.3	19.4	17.7	16.8	18.4	16.8
Colgate-Palmolive (India)	66.9	68.4	68.8	72.2	69.3	70.6	68.5	69.9	67.1	33.5	31.6	32.8	33.6	35.7	34.0	30.7	31.1	31.5
Dabur India	45.8	46.6	48.3	48.6	48.6	47.8	49.3	48.1	48.1	15.3	19.3	20.6	20.5	16.6	19.6	18.2	20.3	17.0
Godrej Consumer Products	52.9	53.7	54.9	55.9	56.1	55.9	55.6	54.1	54.7	20.0	18.6	19.5	23.0	22.3	21.7	20.7	20.1	20.6
Hindustan Unilever	48.7	49.9	52.7	51.5	51.9	51.4	51.0	50.7	50.5	23.3	23.2	24.2	23.3	23.1	23.5	23.5	23.2	22.8
ITC	58.6	59.5	57.3	58.4	59.9	57.7	52.9	54.4	56.1	37.9	39.5	36.5	36.5	37.2	37.0	32.8	34.2	35.0
Jyothy Labs	45.7	47.9	49.2	49.8	49.5	51.3	50.2	49.8	49.2	14.8	17.1	18.5	17.5	16.4	18.0	18.9	16.4	15.7
Kansai Nerolac	31.6	35.3	35.7	36.2	34.8	37.0	34.0	35.3	34.5	9.5	16.1	14.6	13.2	10.8	16.3	11.5	13.4	11.4
Marico	47.4	50.0	50.5	51.3	51.6	52.3	50.8	49.5	48.6	17.5	23.2	20.1	21.2	19.4	23.7	19.6	19.1	16.8
Nestle India	53.8	54.8	56.5	58.6	56.8	57.6	56.6	56.4	56.2	23.0	22.7	24.4	24.2	25.4	22.9	22.9	23.1	25.2
Page Industries	56.6	53.2	55.7	53.0	56.2	54.1	56.5	56.3	57.5	13.9	19.6	20.8	18.5	16.8	19.0	22.6	23.0	20.2
Pidlite Industries	46.8	49.0	51.3	52.9	53.4	53.8	54.4	54.3	54.4	17.1	21.6	22.1	23.7	19.9	23.9	23.8	23.7	19.9
Tata Consumer Products	41.8	42.2	42.5	43.8	46.1	44.9	43.6	41.1	41.9	14.1	14.6	14.4	15.0	16.0	15.3	14.9	12.7	13.5
United Breweries	38.6	40.6	44.5	44.0	41.7	43.0	43.8	43.1	43.5	3.0	9.8	9.8	8.0	6.7	11.5	10.7	7.1	8.0
United Spirits	42.6	43.0	43.4	43.4	43.3	44.5	45.2	44.7	44.6	10.7	17.1	16.4	16.4	13.6	19.5	17.8	17.1	15.4

Source: Companies, Kotak Institutional Equities

Market structure is still quite favorable for the incumbents

Exhibit 7: Company market share as a % of retail value (RSP), calendar year-ends, 2015, 2024

Beauty and Personal Care								
Shampoos			Soaps			Toothpaste		
2015	2024		2015	2024		2015	2024	
HUL	44.3	46.4	HUL	40.9	37.1	Colgate	49.0	43.4
P&G	24.8	20.3	GCPL	11.3	11.2	HUL	19.7	18.8
L'Oreal	5.7	5.3	Wipro	9.6	11.2	Dabur	12.2	16.6
Home Care								
Dish wash			Home insecticides			Laundry care		
2015	2024		2015	2024		2015	2024	
HUL	59.9	62.0	GCPL	49.5	61.7	HUL	41.9	48.0
Jyothy	11.3	11.4	Reckitt Benckise	15.3	14.1	RSPL	15.1	12.3
Henkel	7.1	7.6	SC Johnson	19.5	11.9	P&G	15.2	9.2
Foods and Beverages								
Baby Food			Biscuits			Chocolate confectionary		
2015	2024		2015	2024		2015	2024	
Nestle	60.3	60.9	Britannia	30.0	30.2	Mondelez	58.0	57.2
Abbott	17.5	18.0	Parle	32.2	29.3	Nestle	13.2	16.1
Danone	6.2	8.1	ITC	10.4	13.3	Ferrero	12.9	7.4
Coffee			Flavored Powder Drinks			Tea		
2015	2024		2015	2024		2015	2024	
Nestle	21.1	32.6	HUL-GSK	62.4	55.7	TCPL	29.3	29.2
HUL	22.6	25.6	Mondelez	12.6	13.1	HUL	27.2	27.7
Narasu's Coffee	1.5	1.3	Others	25.0	31.2	Gujarat Tea Proc	7.6	7.4

Source: Euromonitor, Kotak Institutional Equities

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ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5+5% returns over the next 12 months.

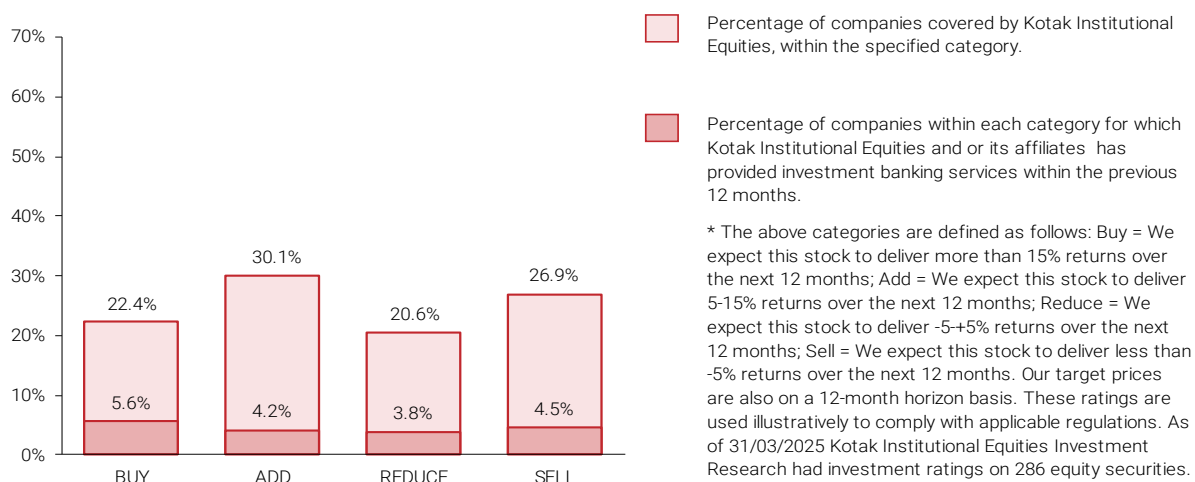
SELL. We expect this stock to deliver <-5% returns over the next 12 months.

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As of March 31, 2025

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Corporate Office

Kotak Securities Ltd.
27 BKC, Plot No. C-27, "G Block" Bandra Kurla
Complex, Bandra (E) Mumbai 400 051, India
Tel: +91-22-43360000

Overseas Affiliates

Kotak Mahindra (UK) Ltd
8th Floor, Portoken House
155-157 Minories, London EC3N 1LS
Tel: +44-20-7977-6900

Kotak Mahindra Inc
PENN 1,1 Pennsylvania Plaza,
Suite 1720, New York, NY 10119, USA
Tel: +1-212-600-8858

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Details of	Contact Person	Address	Contact No.	Email ID
Customer Care/ Complaints	Mr. Ritesh Shah	Kotak Towers, 8th Floor, Building No.21, Infinity Park, Off Western Express Highway, Malad (East), Mumbai, Maharashtra - 400097	18002099393	ks.escalation@kotak.com
Head of Customer Care	Mr. Tabrez Anwar		022-42858208	ks.servicehead@kotak.com
Compliance Officer	Mr. Hiren Thakkar		022-42858484	ks.compliance@kotak.com
CEO	Mr. Shripal Shah		022-42858301	ceo.ks@kotak.com
Principal Officer (For the purpose of Research Analyst activities)	Mr. Kawaljeet Saluja	Kotak Securities Limited, 27BKC, 8th Floor, Plot No. C-27, G Block, Bandra Kurla Complex, Bandra (East), Mumbai - 400051	022-62664011	ks.po@kotak.com

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