



Top Conviction Ideas: FMCG

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GST-led Temporary Disruptions; Rural Continue to Outperform

- **Temporary Logistic Disruptions due to GST 2.0 Reforms, Rural Stays Resilient:** Most Staples delivered single-digit topline growth in Q2FY26, aided by stable selective raw material prices with improving urban sentiment amid easing inflation, while rural demand remained more resilient. However, the Q2 was impacted due to temporary market disruptions caused by the transition to new pricing structures. Combined with unseasonal rains that hit peak summer demand, particularly in beverages and glucose. However, management commentary indicates a gradual volume recovery over the next 2–3 quarters, with a stronger rebound expected in H2FY26 on the back of lower GST rates, coupled with the festive season and easing inflation are expected to support household purchasing power, boost consumer sentiment, and accelerate demand recovery across rural and semi-urban regions. Overall, the consumption sector stands out as a key beneficiary, with branded FMCG products likely to witness stronger volume growth in the near term.
- **Rural Demand Recovery Sustains:** Easing rural inflation (with minimal impact from food inflation), higher government spending, better harvests, higher MSP and above normal rainfall outlook have improved overall sentiments in rural are expected to drive rural demand in the coming quarters as well.
- **Gross Margin Under Pressure; EBITDA Margins in a ‘Wait & Watch’ Mode:** Aggregate margins were contracted due to gross margin contraction, weak leverage, and stable advertisement spends.

How Have Companies Performed in Q2FY26?

- **Demand Recovery Likely to be in H2FY26:** FMCG topline growth remained mixed in Q2, impacted by GST-led disruptions, which dragged growth, coupled with unseasonal rains affecting summer categories, along with rising competition. However, rural consumption continues to outperform, aided by easing inflation, higher MSPs, and increased government spending, with a more broad-based recovery expected in H2FY26.
- Companies have highlighted that **volume recovery is likely to be seen in the next 2-3 quarters**, and a pick-up is expected only from H2FY26 on account of recent GST 2.0 reforms, easing inflation, interest rate cut, and above-normal monsoon, which is expected to boost consumption going forward.
- On the **Gross Margins** front, most companies reported muted performance.

What Makes the FMCG Sector a Good Bet?

- **Structural Growth Trajectory:** Indian FMCG companies are on a structural growth path, with several categories like shampoos and premium detergents still under-penetrated and underserved. Increasing rural penetration further strengthens the sector's growth potential. Additionally, government tax incentives, potential rate cuts, and the recent GST rate reduction are expected to further spur consumption.
- **Premiumisation Agenda Driving Overall Growth:** With rising purchasing power, Indian consumers are increasingly opting for premium and branded products. This premiumisation trend is expected to be a key growth driver for the FMCG sector.
- **Best-in-Class Return Ratios (ROCE, ROE):** In a volatile, uncertain, complex, and ambiguous (VUCA) environment, the FMCG sector stands out for delivering best-in-class return ratios such as ROCE, ROE, and dividend yield, ensuring long-term capital protection.

Short & Medium-term Outlook

Short term

Delayed Volume Recovery:
GST-led disruptions dragged growth

Delayed Margin Recovery:
Gross and EBITDA margins are likely to recover with a stable raw materials outlook

Domestic Consumption Play:
Better returns in this volatile environment.

Rural Demand to Pick Up:
Increase in government spending;
Consumer price inflation remains stable
Favourable monsoon and GST 2.0 rate reduction

Medium Term

Key Monitorables – Urban Recovery; Margins Trajectory; Competitive Intensity

Stock

Reco.

TP*

Recommendation Rationale



Nestle India

BUY

Rs 1,410*

- ✓ **Stellar Performance:** Nestlé posted a healthy ~11% YoY revenue increase, supported by robust double-digit growth in confectionery, beverages, and prepared dishes, alongside solid volume traction in MAGGI noodles. The Milk and Nutrition portfolio remained mixed. EBITDA rose ~6% YoY, though margins compressed by 105 bps to 22%, weighed down by a 216-bps decline in gross margins amid higher input costs and increased operational expenses from capacity expansion.
- ✓ **GST Reforms – A Structural Positive:** The GST rate reduction to 5% on packaged foods, dairy products, noodles, pasta, sauces, and ketchup is expected to enhance affordability and stimulate discretionary demand. Nestlé, with its wide presence in these categories, stands to be a key beneficiary, particularly in noodles and cooking aids.
- ✓ **Outlook:** Nestlé remains well-positioned for long-term growth, underpinned by its dominant domestic franchise, continued innovation, distribution-led market penetration, capacity expansion, and increasing out-of-home consumption. While volatile commodity prices, especially in coffee, cocoa, and edible oils, may keep near-term margins under pressure, the expected moderation in milk prices alongside its strong pricing power and efficiency initiatives should partly offset cost headwinds.

Note: The Target price is based on our Q2FY26 Result Update. We remain positive on the stock's long-term prospects and recommend 'BUY on Dips'.

Stock	Reco.	TP*	Recommendation Rationale
 Britannia Industries	BUY	Rs 6,750*	✓ Resilient Performance amid Transitional Headwinds: Britannia posted a steady 4.1% YoY revenue growth in Q2FY26, supported by stable input costs and ongoing efficiency gains. While the GST rate cut across most of its portfolio should aid medium-term volumes, the quarter saw temporary supply-chain and trade disruptions. Management remains focused on driving volume-led growth through deeper distribution, innovation, and continued investments in core and adjacencies. ✓ Outlook: Most FMCG players like Britannia are seeing early demand recovery across urban and rural markets, supported by stable input costs and improving margins. The recent GST cuts on key food items should enhance affordability, lift consumer sentiment, and drive stronger traction in daily-use and low-unit-price SKUs. With the festive season ahead, demand is expected to accelerate, positioning branded FMCG and discretionary categories for healthier volume growth in the near term.

Note: The Target price is based on our Q2FY26 Result Update. We remain positive on the stock's long-term prospects and recommend 'BUY on Dips'.

Stock	Reco.	TP*	Recommendation Rationale
 DOMS Industries	BUY	Rs 3,110*	The company has been executing strategic initiatives over the past few years, which are expected to drive growth in the coming years. Key initiatives include: 1) Managing end-to-end operations to enhance efficiency while maintaining high-quality standards. The new 44-acre greenfield facility will further accelerate growth. 2) Expanding beyond the small pencil segment into the larger pens category, broadening the product portfolio. Additionally, entering fast-growing segments such as bags, toys, and diapers will provide an incremental growth boost. 3) Significant potential for distribution expansion, with DOMS currently reaching 1.5 Lc outlets. The company has scope to scale up to ~3-3.5 Lc outlets, particularly in the underpenetrated east and south markets and smaller towns in India. 4) The strategic partnership with FILA, enabling DOMS to expand its global footprint while leveraging FILA's R&D capabilities, offering a long-term competitive edge.

Note: The Target price is based on our Q1FY26 Result Update. We remain positive on the stock's long-term prospects and recommend 'BUY on Dips'.

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