Strategy

June 29, 2025

A few years is long enough

The valuations of most consumer-facing companies fail all major valuation tests—(1) absolute, (2) relative to history and (3) relative to global peers. The first two are quite obvious, but the third is a major surprise. The market has continued to pay high multiples for stocks for a while, hoping for a turnaround. Hope alone cannot sustain valuations forever.

Valuations fail all tests

We have long struggled with the valuations of consumer companies in India, both discretionary and staples. The multiples of stocks make little sense in the context of (1) likely 'low' absolute growth in earnings in the future, (2) far lower near- and medium-term earnings growth in the future versus in the 2010s decade; multiples are higher or similar to pre-pandemic levels despite far lower near-term and medium-term growth and (3) similar near-term earnings growth, but large valuation premium to their global peers.

Absolute valuations do not make much sense

In our view, the absolute multiples of consumer stocks based on any sensible DCF framework will be far lower than their current multiples. The market clearly expects a strong recovery in the earnings of companies over the medium term. However, the ongoing dilution of brand and distribution moats does not provide much ground for such optimism. It is obvious that multiples should be far lower in the context of anemic near-term growth, especially if near-term historical growth rates were to persist in the medium term as well.

Relative valuations versus history makes little sense either

In our view, the multiples of consumer companies should be lower than historical levels, given (1) much lower revenue and earnings growth in the future versus historical levels and (2) higher cost of equity due to higher disruption risks in the future from more aggressive competition and market fragmentation. We would note that multiples have stayed at pre-pandemic levels, even as growth has collapsed across categories and companies. In our view, multiples need to be aligned to the new reality of lower growth, likely lower profitability and higher risks.

Relative valuations versus global peers are quite stark

We note that the valuations of Indian companies are far higher than those of their global peers, despite (1) likely similar growth in earnings in the near term in many cases, (2) similar earnings growth in the past five years in most categories and (3) lower-to-similar growth in several discretionary categories in the past decade; in other categories, Indian companies delivered higher growth.

Key estimates summary

	2025	2026E	2027E
Nifty estimates			
Earnings growth (%)	6.4	12.1	15.4
Nifty EPS (Rs)	1,013	1,125	1,300
Nifty P/E (X)	25.3	22.8	19.7
Macro data			
Real GDP (%)	6.5	6.2	6.5
Avg CPI inflation (%)	4.6	3.5	4.2

Source: Company data, Kotak Institutional Equities estimates

Quick Numbers

Indian consumer discretionary companies trade at 12-65X and 1-year forward EPS staples companies trade at 42-64X 1-year forward EPS

Five-year EPS CAGR for select Indian consumer discretionary companies at 2-31% and for select consumer staples companies at 0-17%

The BSE FMCG Index has given 13.4% and 12.7% returns over the past three and five years

Full sector coverage on KINSITE

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Overview: How long can the market ignore the obvious?

We see little merit in the current multiples of Indian consumer companies based on any valuation framework—(1) absolute, (2) relative to history and (3) relative to global peers. The first two are understandable, but the third is quite surprising. Indian companies have delivered lower or similar earnings growth in general versus their global peers in the past few years. In our view, their premium multiples have no basis other than hope. Their underperformance may continue.

Failing on all valuation frameworks

We struggle to justify the current multiples of Indian consumer companies in any of the usual valuation frameworks—(1) absolute valuations, (2) relative valuations to own history and (3) relative valuations to global peers. The first two points are irrefutable, given (1) mediocre growth in earnings of companies, which cannot justify the high multiples on an absolute basis and (2) lower growth in earnings of companies compared with the past, along with heightened risks to both profitability and volumes due to increasing competitive intensity across categories. We have written extensively about these issues over the past several years.

The third argument may seem surprising, but Indian companies have seen lower growth in earnings compared with their global peers over the past few years in several product categories, despite the usual arguments of (1) India's favorable demographics and (2) low penetration and usage. In fact, consensus estimates show similar-to-lower growth for Indian companies relative to their global counterparts in several categories in the near term.

- **Absolute valuations.** Indian consumer companies should logically trade at significantly lower multiples compared with their current multiples based on (1) their likely earnings growth rates and cash flows and (2) a sensible cost of equity. A simple DCF framework would show far lower multiples versus the 45-65X one-year forward multiples of Indian consumer companies. For example, a company growing at mid-single-digit growth rates (4-6%) in perpetuity and a cost of equity of 11-12% would have a theoretical P/E of 13-21X (see Exhibit 1). Even lowering the cost of equity to 10% would result in a theoretical P/E of 17-27X, still one-third to half of the current one-year forward multiples of most consumer discretionary and staple stocks.

Moderate growth implies moderate P/E

Exhibit 1: P/E based on growth and discount rates (X)

Discount rate (%)	Growth in perpetuity (%) 4	5	6
10	17	21	27
11	15	18	21
12	13	15	18

Source: Kotak Institutional Equities estimates

In reality, (1) near-term volume growth rates will likely stay at low-single-digit levels and revenue growth at mid-single-digit levels, given the weak demand environment and low visibility on a demand recovery in the near term (see Exhibits 2-3 for growth in revenues and EPS over FY2023-25), (2) medium-term growth rates may struggle to cross mid-single-digit levels, given increasing competitive intensity in most categories of the Indian consumer industry and (3) long-term and terminal growth rates may slip to low single-digit growth rates once penetration and usage reach higher levels, commensurate with the higher per capita income of the Indian economy.

Mixed performance of consumer discretionary companies over FY2023-25

Exhibit 2: Revenue and PAT data of select consumer discretionary stocks in KIE coverage, March fiscal year-ends, 2023-25

		Revenues (Rs bn)			PAT (Rs bn)			CAGR (%, FY2023-25)	
Company	Segment	2023	2024	2025	2023	2024	2025	Revenue	PAT
Asian Paints	Paint	345	355	339	42	55	40	(1)	(2)
Berger Paints	Paint	106	112	115	9	12	12	5	17
Devyani International	QSR	30	36	50	3	2	0	29	(75)
ITC	Tobacco	660	654	693	187	204	196	2	2
Jubilant Foodworks	QSR	51	53	61	4	2	2	9	(26)
Kansai Nerolac	Paint	71	74	75	5	7	7	3	18
Mahindra & Mahindra	Passenger vehicles	850	991	1,165	76	106	119	17	25
Maruti Suzuki	Passenger vehicles	1,175	1,409	1,519	80	132	148	14	36
Sapphire Foods	QSR	23	26	29	2	1	0	13	(63)
Tata Motors	Passenger vehicles	3,460	4,340	4,397	7	206	225	13	454
United Breweries	Alco-bev.	75	81	89	4	4	5	9	16
United Spirits	Alco-bev.	104	107	116	10	12	14	6	20
Varun Beverages	Bottler	132	160	200	15	21	26	23	32

Source: Companies, FactSet, Kotak Institutional Equities

Low revenue growth for consumer staples companies over FY2023-25

Exhibit 3: Revenue and PAT data of consumer staples stocks in KIE coverage, March fiscal year-ends, 2023-25

	Revenues (Rs bn)			PAT (Rs bn)			CAGR (%, FY2023-25)	
Company	2023	2024	2025	2023	2024	2025	Revenue	PAT
Britannia Industries	163	168	179	19	21	22	5	6
Colgate-Palmolive (India)	52	57	60	11	13	14	8	17
Dabur India	115	124	126	17	18	18	4	2
Godrej Consumer Products	133	141	144	18	19	19	4	4
Hindustan Unilever	591	605	615	97	101	102	2	3
Jyothy Labs	25	28	28	2	4	4	7	27
Marico	98	97	108	13	15	16	5	12
Nestle India	168	243	201	24	39	30	9	12
Tata Consumer Products	138	152	176	10	15	13	13	11

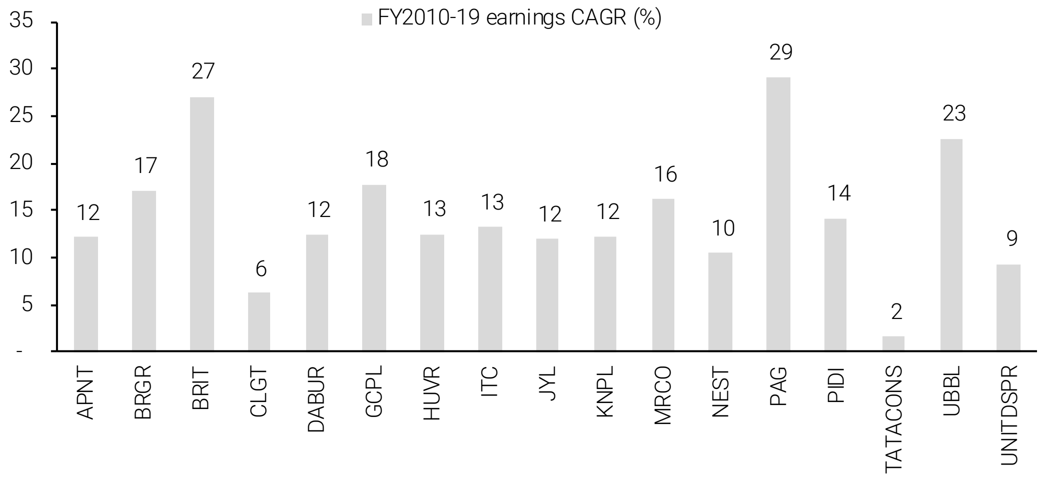
Source: Companies, FactSet, Kotak Institutional Equities

- **Historical multiples.** Indian consumer companies should logically trade at significantly lower multiples compared with their historical multiples, given (1) their likely lower future growth rates (revenues and volumes) versus historical growth rates due to increasing fragmentation of the market with the entry of several new players in every category of the consumer sector and (2) their likely lower profitability versus historical levels, given greater fragmentation of the market in every category.

  We note that the Indian consumer-facing businesses have seen a sharp rerating in their multiples in the past decade. The bulk of the rerating came over FY2011-19, when (1) Indian consumer companies delivered strong earnings growth and (2) global interest rates were low (see Exhibits 4-5).

The 2010s decade saw strong compounding in earnings of consumption stocks

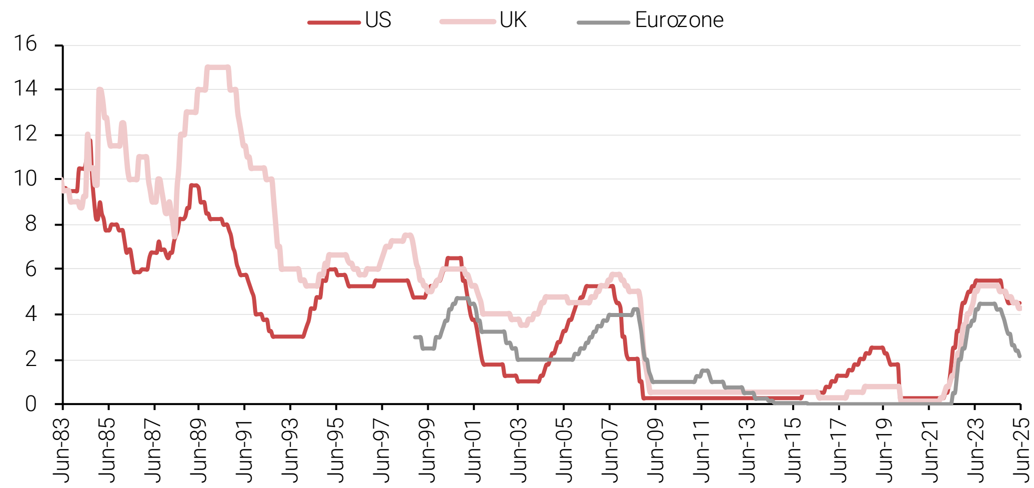
Exhibit 4: Earnings CAGR of consumption stocks in KIE coverage (LC terms), March fiscal year-ends, 2010-19 (%)



Source: Companies, Kotak Institutional Equities

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

Exhibit 5: Policy rates of Eurozone, UK and US, calendar year-ends, 1983-2025 (%)



Source: Bloomberg, Kotak Institutional Equities

In our view, most incumbents may have maximized their dominant market positioning by exploiting their pricing power and expanding their profitability sharply over this period (see Exhibits 6-8). Nonetheless, most consumer companies have delivered modest operating and financial performance over FY2023-25. However, multiples have held up, supported by (1) the market's hopes of a recovery in growth rates to historical levels and (2) the market's excessive focus on historical multiples as a benchmark of future multiples without consideration of the changed prospects of the sector and companies.

Market structure is still quite favorable for incumbents

Exhibit 6: Company market share as a percentage of retail value (RSP), calendar year-ends, 2015 and 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

Sharp increase in prices across categories over FY2019-23; prices have softened in certain categories in recent months

Exhibit 7: Prices of various discretionary and staple products in India, March fiscal year-ends, 2019-25 (Rs)

Product	Category	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	CAGR (%) Mar-25/Mar-19
Discretionary									
Cadbury Dairy Milk Silk 60gm	Chocolate bars	117	117	117	117	125	142	172	6.7
Clinic Plus Anti Dandruff 80ml	Shampoo	56	56	56	65	65	65	71	4.0
Dove Soap Moisture Cream 3*100G	Soap	172	155	160	245	280	256	249	6.4
Fair & Lovely Skin Cream Multi Vitamin 50g	Skin cream	98	102	102	110	122	125	130	4.8
Garnier- Power White, Double Action 100ml	Facewash	180	180	190	190	225	259	269	6.9
Hero Deluxe (entry segment)-Delhi prices	Motorcycle	47,450	56,025	59,900	65,890	67,138	69,790	72,420	7.3
Hero Super Splendor-Mumbai prices	Motorcycle	60,750	67,300	70,800	74,200	78,769	81,992	81,992	5.1
Honda Activa- Delhi prices	Scooter	54,322	57,043	68,422	70,600	74,478	76,233	76,684	5.9
Horlicks Standard Jar 100gm	Health drink	47	48	48	50	58	59	59	3.8
Maggi Masala 70gm	Noodles	17	17	17	17	20	20	21	3.8
McAloo Tikki Burger	Burger	39	45	49	55	58	70	70	10.2
Maruti Swift	Car	514,000	519,000	549,000	585,000	591,900	591,900	649,000	4.0
Ponds Drm Flower / Triple Vitamin 100ml	Body lotion	87	87	80	90	99	110	110	4.0
Real fruit power Orange 100 ml (Conc + added su	Fruit juice	10	11	11	12	12	13	13	4.6
Royal Enfield Classic 350 - Delhi prices	Motorcycle	150,500	155,000	167,325	186,567	198,971	198,971	199,500	4.8
Staples									
Aashirvaad Atta Whole Wheat 5kg	Wheat	235	245	245	250	286	294	310	4.7
Amul Butter 500gm	Butter	45	47	47	49	55	57	59	4.6
Amul Taaza 1L	Milk	60	64	64	66	72	74	74	3.6
Britannia Vita Marie Gold 150gm	Biscuit	13	13	13	15	20	20	20	7.0
Britannia Cookies Good Day Cashew 100gm	Biscuit	20	20	20	20	25	20	25	3.8
Colgate Toothpaste CDC 150g	Toothpaste	65	65	68	75	88	92	100	7.4
Goodknight (GK) Mat Silver Power 30P	Home insecticides	60	60	65	60	60	60	60	-
Lifebuoy Total 125gm	Soap	24	16	19.2	28	28.8	32	32	4.9
Parachute coconut oil 100ml	Hair oil	39	39	39	38	36	37	45	2.4
Nescafe Classic Box 200gm	Coffee	230	238	245	280	300	330	435	11.2
Red Label Tea Natural Care BX 500g	Tea	260	260	305	325	335	300	340	4.6
Rin Advance 1Kg	Detergent powder	75	77	73	90	103	107	111	6.8
Saffola Gold - 1L	Edible oil	159	139	170	210	199	180	217	5.3
Surf Excel Bar 95 gm	Detergent bar	10.0	10.5	10.5	11.9	12.5	12.5	12.5	3.8
Vim Drop Dishwash Green Lime 500ml	Detergent bar	22	24	24	23	25	25	25	2.2

Notes:

(a) Prices are adjusted for change in grammage, wherever applicable.

Source: Kotak Institutional Equities

Share increase in gross and EBITDA margins over FY2019-24

Exhibit 8: 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	42.7	42.5	18.2	20.6	22.4	16.5	18.2	21.4	17.8	18.0	17.8
Berger Paints	39.0	41.5	43.3	38.0	36.3	40.7	41.2	41.6	41.8	14.5	16.7	17.4	15.2	14.1	16.6	15.9	15.8	16.0
Britannia Industries	40.6	40.3	41.9	38.0	41.2	43.4	41.0	41.9	42.1	15.7	15.9	19.1	15.6	17.4	18.9	17.2	18.2	18.6
Colgate-Palmolive (India)	65.1	65.2	68.0	67.3	65.7	69.7	69.4	69.9	70.0	27.7	26.6	31.2	30.7	29.6	33.5	32.3	32.9	33.2
Dabur India	49.5	49.9	49.9	48.2	45.6	48.0	48.3	48.1	48.2	20.4	20.6	20.9	20.7	18.8	19.4	18.9	18.8	19.0
Godrej Consumer Products	55.8	57.0	55.3	50.5	49.7	55.2	55.0	55.2	55.9	20.5	21.6	21.7	19.5	18.3	20.9	20.7	21.6	22.5
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	54.4	54.6	38.5	39.2	34.1	33.6	36.3	37.4	35.4	34.9	35.3
Jyothy Labs	46.5	47.4	47.1	41.6	42.3	49.1	50.1	49.5	49.4	15.5	14.7	16.5	11.3	12.7	17.4	17.3	16.2	16.1
Kansai Nerolac	36.2	38.1	37.9	30.0	30.0	35.5	35.4	35.8	35.8	14.3	15.8	17.8	10.5	11.2	13.8	13.2	13.5	13.6
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	57.0	57.0	21.7	18.1	18.6	20.2	18.3	19.0	20.6	21.9	22.0
Pidilite Industries	49.3	53.4	53.7	45.1	42.7	51.6	54.1	54.6	54.4	19.3	21.6	23.0	18.6	16.8	21.9	23.0	23.4	23.5
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	45.5	46.5	17.6	13.5	9.0	11.9	8.2	8.6	9.7	12.0	13.4
United Spirits	48.8	44.8	43.4	43.9	41.5	43.4	44.6	44.9	45.8	14.3	16.6	12.5	16.0	13.7	16.0	17.2	18.0	19.0

Source: Companies, Kotak Institutional Equities estimates

- **Peer multiples.** Indian consumer companies should logically trade at a moderate premium compared with multiples of their global peers due to their likely higher growth rates in the future, partly offset by their higher cost of equity versus global peers. However, Indian consumer discretionary and staples companies trade at a very large premium to their global peers (see Exhibits 9-10).

Domestic consumer discretionary companies trade at large premium to global peers

Exhibit 9: Valuation summary of select global and Indian consumer discretionary stocks, calendar year-ends, 2025E-27E

	P/E (X)			EPS growth (%)		
Company	**2025E**	**2026E**	**2027E**	**2025E**	**2026E**	**2027E**
Auto OEMs (PVs)						
BYD Co.-A	18	15	12	38	25	21
Ferrari NV	47	41	38	14	14	10
General Motors Co.	5	5	6	(32)	(1)	(3)
Mahindra & Mahindra	29	26	24	15	13	8
Maruti Suzuki	25	23	20	11	12	11
Mercedes-Benz Group	7	7	6	(29)	7	17
Stellantis NV	6	4	3	(47)	49	30
Tata Motors	12	10	8	(26)	23	18
Tesla Inc.	165	106	80	(17)	55	33
Toyota Motor	12	11	10	(25)	6	6
Volkswagen	5	4	3	(17)	21	15
Alco-bev.						
Ambev SA	13	12	12	5	8	6
Anheuser-Busch Inbev	19	17	15	2	12	11
Diageo	16	15	14	(5)	6	6
Heineken	24	23	21	87	7	7
Kweichow Moutai Co.-A	19	17	16	10	10	9
Radico Khaitan	69	53	43	43	31	24
United Breweries	73	55	45	60	33	22
United Spirits	58	51	46	12	15	10
Wuliangye Yibin Co.-A	14	13	12	6	7	7
Bottlers						
Arca Continental SAB de CV	15	13	13	9	10	6
Coca-Cola Europacific	19	18	17	13	7	8
Coca-Cola FEMSA	14	13	12	3	12	9
National Beverage Corp.	21	21	20	6	3	3
Suntory Beverage & Food	15	14	13	(4)	12	5
Varun Beverages	48	41	36	22	18	14
Paint companies						
Akzo Nobel NV	15	13	12	8	13	10
Asian Paints	51	46	42	19	12	9
Berger Paints	53	47	43	8	13	10
Nippon Paint Holdings	16	14	14	46	11	7
PPG Industries Inc.	15	14	13	(7)	6	5
RPM International Inc.	21	20	18	1	8	10
Sherwin-Williams Co.	29	27	24	12	10	10
QSR						
Chipotle Mexican Grill Inc.	45	38	33	4	17	16
Compass Group	26	24	22	9	10	10
Darden Restaurants Inc.	20	19	18	7	6	7
Devyani International	191	113	81	1,074	68	39
Domino's Pizza Inc.	25	23	22	7	7	7
Jubilant Foodworks	117	83	68	88	42	22
Mcdonald's Corp.	24	22	20	4	7	8
Restaurant Brands International	18	16	15	78	9	6
Sapphire Foods	169	89	62	221	89	44
Starbucks Corp.	37	31	26	(27)	20	20
Texas Roadhouse Inc.	28	25	22	3	13	11
Westlife Foodworld	192	99	58	398	93	70
Yum China Holdings, Inc.	18	16	15	3	8	9
Yum! Brands Inc.	25	22	20	10	10	9
Tobacco						
British American Tobacco	10	10	9	(24)	5	5
Imperial Brands	9	9	9	10	3	4
ITC	24	22	20	(38)	11	8
Japan Tobacco Inc.	17	16	15	13	9	10
Philip Morris International	24	22	20	25	11	9

Notes:
(a) For Indian companies, 2025E represents Mar-26 and so on.

Source: Bloomberg, Kotak Institutional Equities

Domestic consumer staple companies trade at large premium to global peers

Exhibit 10: Valuation summary of select global and Indian consumer staples stocks, calendar year-ends, 2025E-27E

	P/E (X)			EPS growth (%)		
Company	**2025E**	**2026E**	**2027E**	**2025E**	**2026E**	**2027E**
Britannia Industries	56	49	44	13	13	13
Coca-Cola Co.	24	22	21	3	7	7
Colgate Palmolive (India)	43	39	37	4	10	7
Colgate-Palmolive	24	23	21	(1)	6	6
Dabur India	44	40	34	9	11	16
Estee Lauder Companies	55	37	28	(43)	48	34
Godrej Consumer Products	50	43	38	27	17	13
Henkel AG	13	12	12	3	5	5
Hindustan Unilever	50	45	39	0	10	17
Johnson & Johnson	14	14	13	26	4	7
Kimberly-Clark Corp.	18	17	16	22	7	6
L'Oreal	28	26	24	8	8	8
Marico	52	46	42	11	13	10
Mondelez International Inc.-A	22	21	19	(14)	8	8
Nestle India	69	61	55	2	13	11
Nestle SA	19	17	16	2	7	7
Pepsico Inc.	17	16	15	(4)	6	6
Procter & Gamble	23	22	21	4	3	5
Reckitt Benckiser Group	15	14	13	(24)	5	5
Shiseido Co.	94	27	21	44	244	27
Tata Consumer Products	65	53	48	32	22	12
Unilever PLC	17	17	16	6	5	5

Notes:
(a) For Indian companies, 2025E represents Mar-26 and so on.

Source: Bloomberg, Kotak Institutional Equities

The valuation premium of Indian companies over their global peers reflects market expectations of Indian companies delivering significantly superior earnings growth versus their global peers in the near, medium and long term. However, we see potential downside risks to near-term consensus estimates for Indian companies if the current weak demand environment was to persist. Consensus estimates have been too bullish in the past and most companies have seen large downgrades to earnings (see Exhibit 11 for cuts in earnings from the beginning to the end of the year for FY2024 and FY2025). We are not very sanguine about medium-term growth rates as well, given high disruption threats to volume growth and profitability.

Consumer sector consensus PAT estimates have seen sharp cuts

Exhibit 11: Actual versus one-year prior consensus PAT estimates for consumer companies, March fiscal year-ends, 2024-25

	FY2024 PAT (Rs mn)		Change	FY2025 PAT (Rs mn)		Change
Company	Beginning est.	Actual end	(%)	Beginning est.	Actual end	(%)
Asian Paints	55,774	54,602	(2)	62,110	40,303	(35)
Berger Paints	13,294	11,677	(12)	14,505	11,804	(19)
Britannia Industries	25,583	21,427	(16)	27,275	22,035	(19)
Colgate-Palmolive (India)	12,275	13,432	9	15,517	14,368	(7)
Dabur India	24,995	18,428	(26)	24,976	17,677	(29)
Devyani International	3,889	1,509	(61)	3,232	180	(94)
Godrej Consumer Products	25,574	19,163	(25)	28,534	19,155	(33)
Hindustan Unilever	128,992	101,320	(21)	127,908	102,200	(20)
ITC	230,019	204,295	(11)	245,006	195,639	(20)
Jubilant Foodworks	7,076	2,459	(65)	5,681	2,188	(61)
Jyothy Labs	3,428	3,695	8	4,941	3,747	(24)
Kansai Nerolac	7,995	6,861	(14)	8,473	6,751	(20)
Mahindra & Mahindra	99,780	106,423	7	120,238	118,550	(1)
Marico	17,344	14,810	(15)	18,264	16,290	(11)
Maruti Suzuki	129,609	132,094	2	154,592	147,925	(4)
Nestle India	33,474	39,285	17	39,240	30,237	(23)
Sapphire Foods	1,945	528	(73)	1,681	320	(81)
Tata Consumer Products	16,696	14,774	(12)	20,551	12,836	(38)
Tata Motors	157,770	205,580	30	289,053	225,030	(22)
United Breweries	9,102	4,109	(55)	9,163	4,801	(48)
United Spirits	13,442	11,665	(13)	16,711	14,155	(15)
Varun Beverages	23,188	20,559	(11)	32,321	25,946	(20)

Source: FactSet, Kotak Institutional Equities

We look at near-term growth prospects based on consensus estimates and historical growth rates to test the above-mentioned hypothesis. We conclude that (1) near-term growth rates are not very different between global and Indian companies in many categories and (2) historical growth rates of global and Indian companies are similar for the past five years and similar in certain categories even over the past decade. Exhibits 12-15 show the steady increase in valuation premium of Indian companies over their global peers.

Indian auto OEMs have been trading at a large premium to most global auto OEMs

Exhibit 12: 12-m forward P/E ratio of Indian versus global PVs, March fiscal year-ends, 2015-26E (X)

	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Current
Global PVs												
BYD Co.-A	68	40	23	26	38	76	80	76	27	16	19	17
General Motors Co.	8	6	6	6	6	5	11	6	6	5	4	5
Mercedes-Benz Group	12	8	8	7	7	8	9	6	6	6	6	7
Stellantis NV	11	7	6	6	6	4	7	3	4	5	4	5
Tesla Inc.	109	143	NA	NA	52	84	149	92	48	57	87	134
Toyota Motor	11	8	9	9	8	9	10	10	9	11	8	9
Volkswagen	10	8	6	6	5	6	12	7	5	4	4	4
Domestic PVs												
Maruti Suzuki	21	18	22	26	23	18	28	30	23	28	22	25
Mahindra & Mahindra	19	18	20	19	15	9	20	18	16	21	23	27
Tata Motors	8	9	12	8	10	9	18	19	14	15	10	12

Source: Bloomberg, Kotak Institutional Equities

Indian alcobev companies have been trading at a large premium to their global peers

Exhibit 13: 12-m forward P/E ratio of Indian versus global alcobev companies, March fiscal year-ends, 2015-26E (X)

	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Current
Global Alcobev												
Ambev SA	20	19	22	26	21	16	23	19	15	14	13	13
Anheuser-Busch Inbev	22	26	24	21	18	14	20	18	20	18	16	17
Diageo	19	20	20	20	23	20	25	25	20	19	15	15
Kweichow Moutai Co.-A	14	17	23	23	25	28	44	33	30	23	20	18
Wuliangye Yibin Co.-A	14	15	19	19	22	21	41	21	24	17	14	13
Domestic Alcobev												
United Spirits	90	57	53	58	43	33	41	53	48	57	58	57
United Breweries	63	51	51	51	52	35	51	55	56	64	67	67

Source: Bloomberg, Kotak Institutional Equities

Indian paint companies have been trading at a large premium to their global peers

Exhibit 14: 12-m forward P/E ratio of Indian versus global paint companies, March fiscal year-ends, 2015-26E (X)

	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Current
Global paints												
Akzo Nobel NV	18	14	18	17	24	16	21	15	18	16	12	13
Nippon Paint Holdings	37	22	31	33	33	36	46	30	27	19	16	15
PPG Industries Inc.	19	17	16	17	18	13	20	17	19	17	14	14
RPM International Inc.	18	17	19	15	18	16	20	19	18	22	19	20
Sherwin-Williams Co.	25	22	22	20	20	20	27	25	25	30	28	27
Domestic paints												
Asian Paints	38	38	45	44	51	48	64	65	54	48	49	50
Berger Paints	36	35	46	44	49	58	81	61	49	52	47	51

Source: Bloomberg, Kotak Institutional Equities

Indian staple companies have been trading at a large premium to their global peers

Exhibit 15: 12-m forward P/E ratio of Indian versus global consumer staple companies, March fiscal year-ends, 2015-26E (X)

	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Current
Global consumer staples												
Colgate-Palmolive	23	25	25	22	24	23	24	23	24	25	25	23
Estee Lauder Companies	26	27	23	31	30	28	43	32	37	42	32	36
Henkel AG	20	17	18	16	15	14	17	14	16	14	12	11
Johnson & Johnson	16	16	17	16	16	15	17	17	15	15	16	14
Kimberly-Clark Corp.	19	22	20	16	18	17	18	20	22	18	19	17
L'Oreal	27	24	25	26	31	30	39	35	34	33	25	26
Mondelez International Inc.-A	20	22	20	17	20	19	20	20	22	19	23	21
Nestle SA	21	21	21	19	21	22	24	25	22	19	19	18
Pepsico Inc.	20	21	21	19	22	20	23	25	25	21	18	16
Procter & Gamble	19	21	22	18	22	21	23	24	24	24	24	23
Reckitt Benckiser Group	24	24	21	18	18	21	21	19	18	14	15	14
Shiseido Co.	39	33	37	42	37	34	75	45	54	48	59	45
Unilever PLC	21	21	22	19	20	17	19	16	18	17	17	17
Domestic consumer staples												
Britannia Industries	39	33	39	49	53	41	45	41	47	49	50	54
Dabur India	35	30	33	36	40	43	48	44	44	41	43	43
Godrej Consumer Products	31	35	37	43	38	29	39	36	45	52	49	48
Hindustan Unilever	40	39	41	47	50	56	58	47	52	46	47	48
Marico	35	37	41	42	39	31	40	43	40	39	46	50
Nestle India	44	41	47	50	51	63	65	62	63	72	62	66
Tata Consumer Products	19	16	18	26	23	31	50	53	46	61	56	60
United Spirits	90	57	53	58	43	33	41	53	48	57	58	57

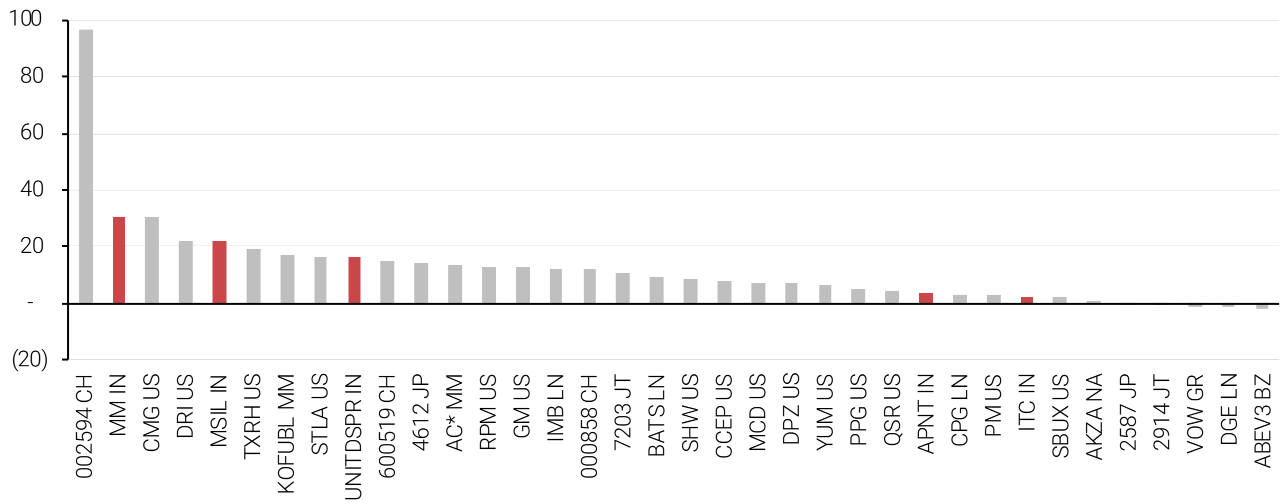
Source: Bloomberg, Kotak Institutional Equities

Most Indian consumer discretionary and staples companies delivered mid-to-high single-digit earnings growth (in US$ terms) over the past decade. However, many global companies have delivered higher growth compared with Indian companies over this period, which is quite surprising. This is more visible in the discretionary space where global companies have created new categories (EVs being a prominent example) and benefited from the growth in those categories.

Indian companies in the consumer discretionary sector have delivered weaker earnings growth compared with their global peers over the past five and 10 years (see Exhibits 16-17). However, they trade at significantly higher multiples compared with their global peers. We attribute this anomaly to the market (1) assigning higher multiples to the Indian consumer discretionary companies versus their Indian consumer staples peers, as the discretionary companies have delivered stronger earnings growth compared with their staples peers and are expected to grow faster than their staples peers, (2) using the 'incorrect' multiples of the consumer staples companies as some sort of benchmark for discretionary companies and (3) ignoring the weaker performance of the Indian discretionary companies compared with global peers.

Indian consumer discretionary companies delivered weaker growth versus some of their global peers over the past five years

Exhibit 16: 5-year earnings CAGR of major consumer discretionary companies, calendar year-ends, 2019-24 (%)

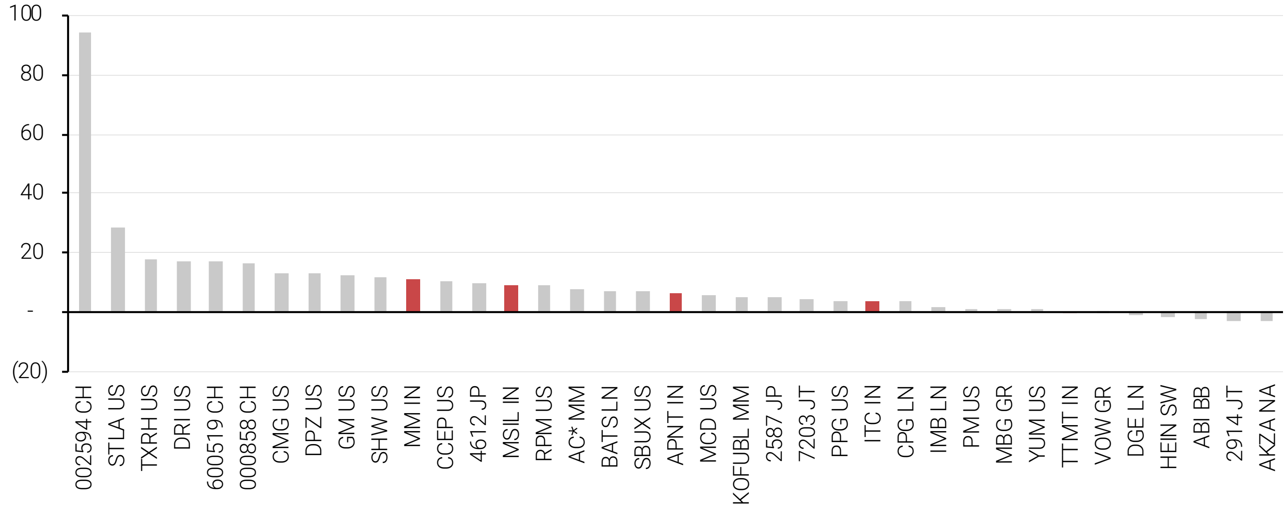


Notes:
(a) 2019 for global companies is comparable to FY2020 for Indian companies.

Source: Bloomberg, Kotak Institutional Equities

Indian consumer discretionary companies delivered weaker growth compared with their global peers over the past decade

Exhibit 17: 10-year earnings CAGR of major consumer discretionary companies, calendar year-ends, 2014-24 (%)



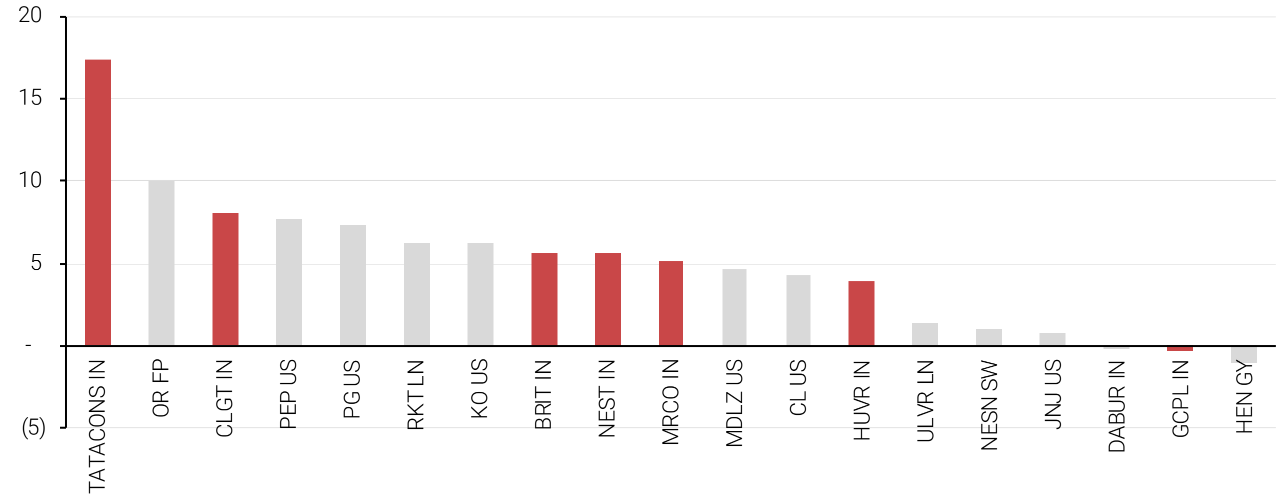
Notes:
(a) 2014 for global companies is comparable to FY2015 for Indian companies.

Source: Bloomberg, Kotak Institutional Equities

Indian companies in the consumer staples sector have delivered higher earnings growth relative to their global peers over the past five and 10 years (see Exhibits 18-19). However, the earnings profile of Indian consumer staples companies has weakened significantly over the past 3-5 years, given the recent growth and profitability issues. Global companies such as P&G and L'Oréal have outperformed their Indian peers over this period, but global staples companies have struggled in general, given (1) high penetration of staples in developed countries and (2) an increasing share of private label brands of retailers in overall sales.

Most Indian consumer staples companies delivered higher growth versus their global peers over the past five years

Exhibit 18: 5-year earnings CAGR of major consumer staples companies, calendar year-ends, 2019-24 (%)

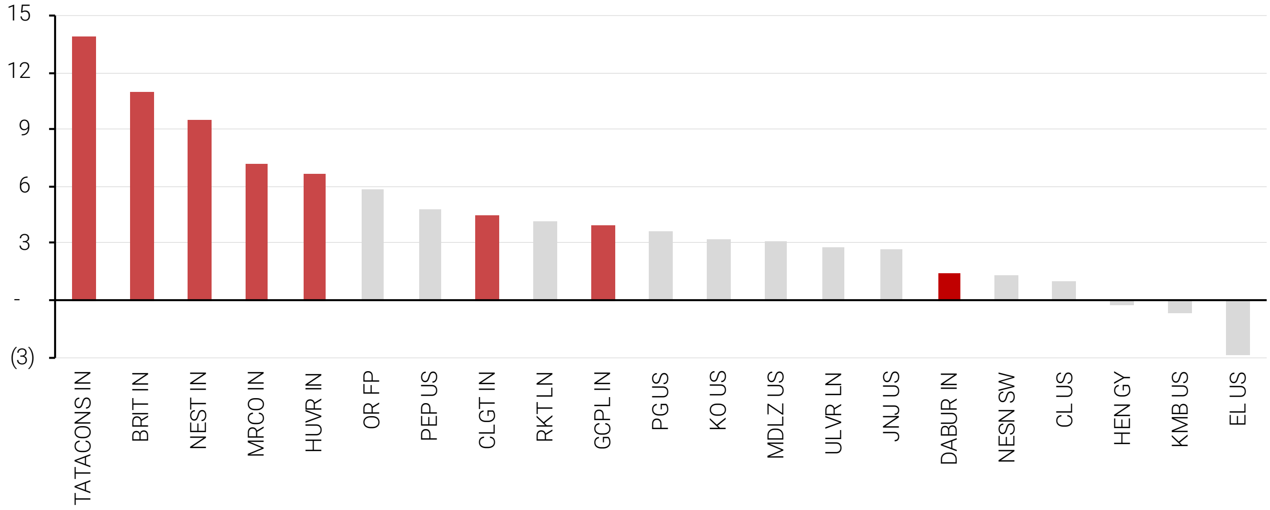


Notes:
(a) 2019 for global companies is comparable to FY2020 for Indian companies.

Source: Bloomberg, Kotak Institutional Equities

Indian consumer staples companies delivered higher growth compared with global peers over the past decade

Exhibit 19: 10-year earnings CAGR of major consumer staples companies, calendar year-ends, 2014-24 (%)



Notes:

(a) 2014 for global companies is comparable to FY2015 for Indian companies.

Source: Bloomberg, Kotak Institutional Equities

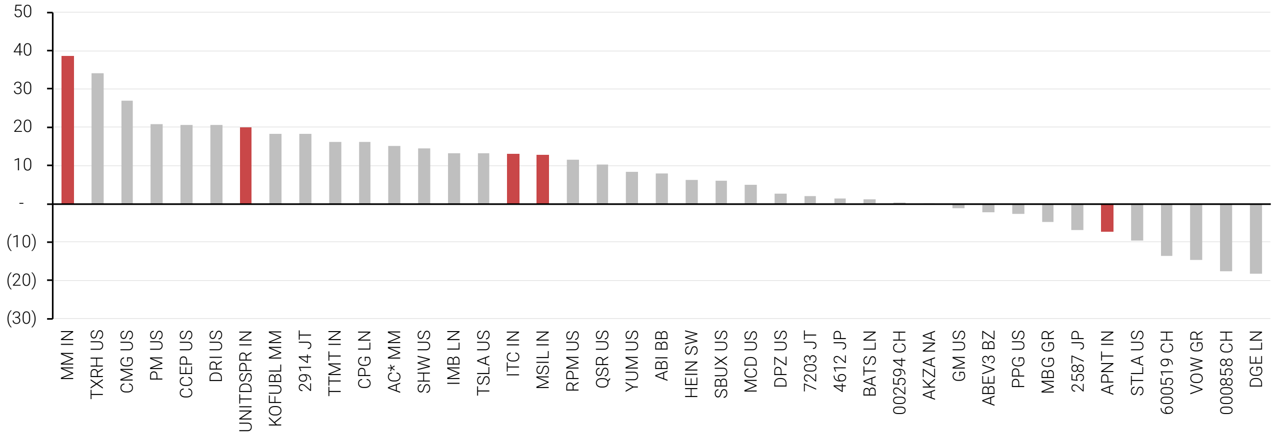
Under-performance may become worse if multiples were to reach 'correct' levels

The market may have to take cognizance of the disconnect between the mediocre growth and rich valuations of Indian consumer stocks at some point in time. The market has long ignored the negative structural changes across various consumer categories that have affected the financial performance of companies over the past 2-3 years and will affect the medium-term growth and profitability of companies. The market has stayed optimistic about an imminent recovery in volumes, revenues and profits of companies, under the mistaken assumption that the ongoing slowdown in consumption is entirely cyclical in nature.

The weak absolute and weaker-than-peer financial performance of Indian consumer companies has weighed on their market performance, even as multiples have stayed high. Most Indian staples and discretionary companies have delivered significantly weaker stock market returns versus their global peers in the past three years (see Exhibits 20-23). Several Indian discretionary companies have delivered mediocre returns and underperformed their global peers. However, Indian consumer staple companies have delivered higher returns versus their global peers over the past decade, helped by a large rerating of their multiples.

Most Indian consumer discretionary companies underperformed several of their global peers over the past three years

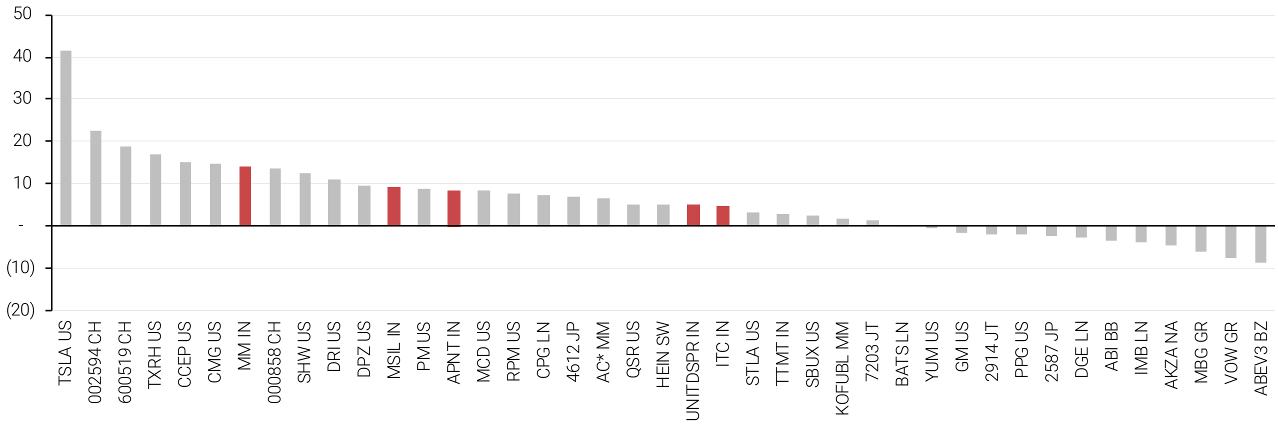
Exhibit 20: 3-year CAGR performance of Indian versus global consumer discretionary companies, calendar year-ends, 2022-25 (%)



Source: Bloomberg, Kotak Institutional Equities

Most Indian consumer discretionary companies underperformed a number of their global peers over the past 10 years

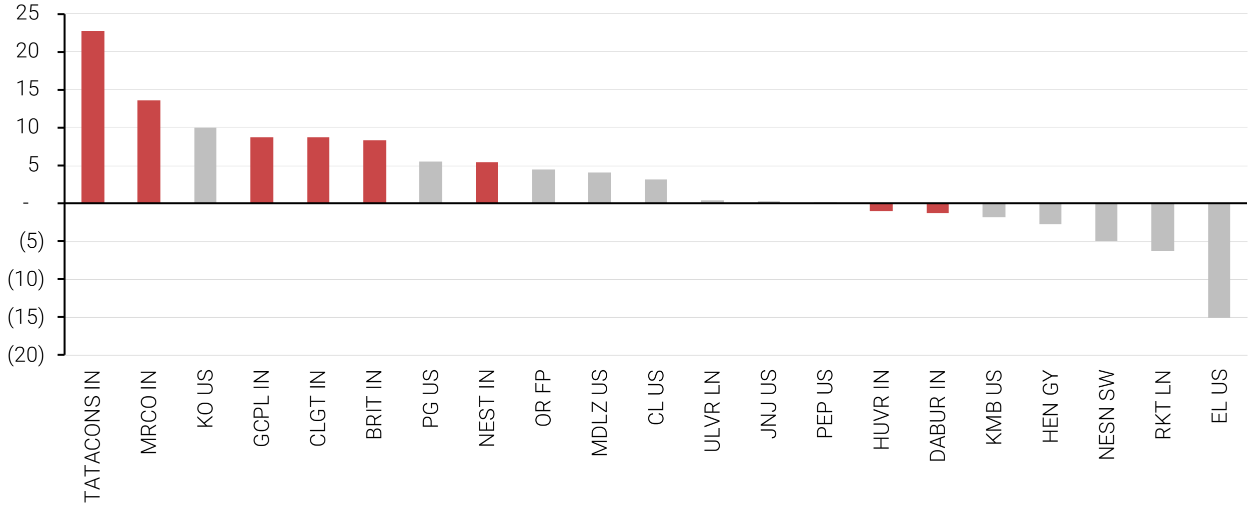
Exhibit 21: 10-year CAGR performance of Indian versus global consumer discretionary companies, calendar year-ends, 2015-25 (%)



Source: Bloomberg, Kotak Institutional Equities

Most Indian consumer staples companies outperformed their global peers over the past three years

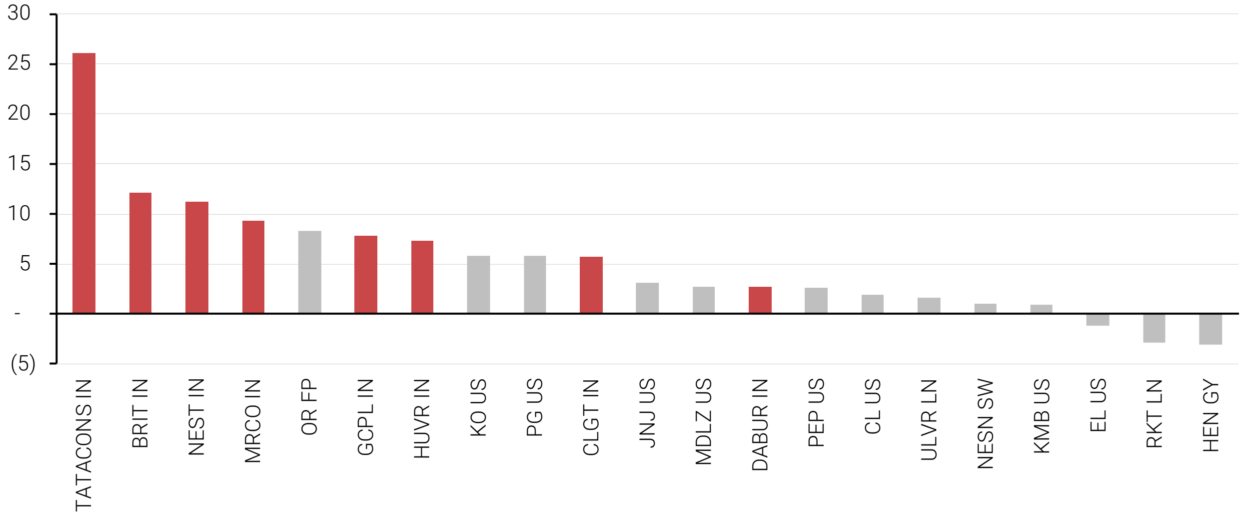
Exhibit 22: 3-year CAGR performance of Indian versus global consumer staples companies, calendar year-ends, 2022-25 (%)



Source: Bloomberg, Kotak Institutional Equities

Indian consumer staples companies outperformed their global peers over the past 10 years

Exhibit 23: 10-year CAGR performance of Indian versus global consumer staples companies, calendar year-ends, 2015-25 (%)



Source: Bloomberg, Kotak Institutional Equities

We discuss the growth prospects (absolute and relative to global peers) and the risks to the market's optimistic assumptions on growth and profitability in the next two sections in greater detail.

2

Growth: More hope, less delivery

Many Indian consumer companies have delivered middling sales growth over the past decade, similar to their global peers. Revenue growth for several consumer categories has been patchy, with select discretionary segments driving the growth. Earnings growth has been driven by improvement in profitability. India saw a 10.2% CAGR in private consumption in nominal terms and 6% CAGR in real terms over FY2015-25, led by 4.9% CAGR in real GDP per capita.

Nothing different about Indian consumer companies

Our analysis of future growth rates of global and Indian companies based on consensus earnings estimates shows that many global companies are expected to grow faster than their Indian counterparts. On a historical basis, most Indian companies have delivered higher or similar revenue growth compared with their global counterparts in the past 10 years and similar or lower revenue growth compared with their global peers in the past 3-5 years. The latter is quite strange, given India's (1) significantly lower per capita consumption, (2) higher GDP growth and per capita income growth and (3) higher inflation.

We compare the future and historical growth rates of global and Indian companies in various categories and the reasons for higher or lower growth for Indian companies relative to (1) market expectations and (2) global peers.

Indian consumer discretionary companies delivered modest revenue/PAT growth over the past decade

- **Automobile OEMS (PVs).** Consensus estimates suggest that a number of global auto OEMs (such as BYD, TSLA and VOW) are expected to outpace the growth of Indian OEMs in the near term (see Exhibit 24). Several global pure EV companies have created and expanded the EV category and benefited from explosive growth in global EV demand. However, several ICE-heavy companies will continue to struggle in the short term, until they are able to fix their EV portfolio.

A number of global auto OEMs are expected to outpace the growth of Indian OEMs in the near term

Exhibit 24: Sales growth, EBITDA margin, PAT growth and P/E comparison of global and Indian PVs, calendar year-ends, 2025E-27E (%)

	Sales growth (%)			EBITDA margin (%)			PAT growth (%)			P/E (X)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Global PVs												
BYD Co.-A	28	19	15	13	13	13	38	25	21	18	15	12
General Motors Co.	(5)	(1)	1	9	10	10	(32)	(1)	(3)	5	5	6
Mercedes-Benz Group	3	0	3	11	12	12	(29)	7	17	7	7	6
Stellantis NV	6	5	4	8	10	11	(47)	49	30	6	4	3
Tesla Inc.	(1)	21	20	14	15	17	(17)	55	33	165	106	80
Toyota Motor	8	3	3	12	12	12	(25)	6	6	12	11	10
Volkswagen	6	2	3	15	14	14	(17)	21	15	5	4	3
Domestic PVs												
Maruti Suzuki	14	11	11	12	12	12	11	12	11	25	23	20
Mahindra & Mahindra	14	12	10	15	15	14	15	13	8	29	26	24
Tata Motors	1	9	9	12	13	13	(26)	23	18	12	10	8

Notes:

(a) For Indian companies, 2025E represents Mar-26 data and so on.

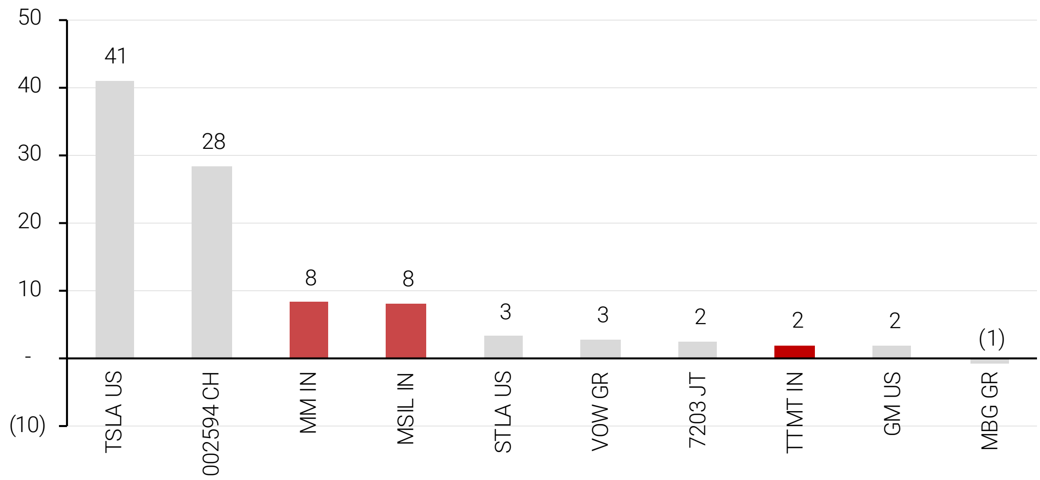
Source: Bloomberg, Kotak Institutional Equities

Indian companies seem to be in the middle, trying to build their EV portfolio while relying on their extant ICE portfolio for profits and cash flows. In our view, they have been somewhat reluctant to seize the EV opportunity. We are not sure if the reluctance reflects (1) low conviction about the EV opportunity, (2) the weak ecosystem for the adoption and uptake of EVs in the country and (3) excessive focus on profitability and free cash flow linked to expectations of stock market participants.

India auto OEMs reported a decent 8% CAGR in net sales on US$ basis over the past decade and 9% CAGR over the past five. Indian companies outperformed a number of global auto OEMs over the past decade, given the strong growth in the ICE segment over 2014-19. Nonetheless, the growth pales in comparison with the strong growth reported by global leaders, such as BYD and TSLA (see Exhibit 25).

Indian auto OEMs delivered decent revenue growth over the past 10 years, but lagged global leaders significantly

Exhibit 25: 10-year revenue CAGR of global and Indian PVs, calendar year-ends, 2014-24 (%)



Notes:

(a) For Indian companies, 2014 represents March 2015 data and so on.

Source: Bloomberg, Kotak Institutional Equities

Exhibit 26 gives the comparison of the key financial metrics of the major global PV companies and Indian PV companies. We note that Indian auto OEMs have delivered (1) better sales growth compared with global mass-market PV companies, but weaker than global EV companies and (2) declining EBITDA margins (except MM) compared with the margin improvement for global PV companies.

Indian auto OEMs have delivered similar profitability as compared with global mass market PVs

Exhibit 26: Comparison of key financial metrics of global and Indian PVs, calendar year-ends, 2014-24 (%)

	Sales (US$ bn)			EBITDA (US$ bn)			EBIT (US$ bn)			PAT (US$ bn)			EBITDA margin (%)		
	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	10y avg.
Global PVs															
BYD Co.-A	9	108	28	1	16	31	0	7	34	0	6	94	12	15	13
General Motors Co.	156	187	2	9	26	11	2	13	24	4	13	12	6	14	14
Mercedes-Benz Group	173	158	(1)	19	21	1	12	14	1	10	11	1	11	13	13
Stellantis NV	124	170	3	10	12	2	4	4	1	1	9	28	8	7	12
Tesla Inc.	3	98	41	0	14	77	(0)	7	NM	(0)	8	NM	1	14	10
Toyota Motor	249	315	2	38	46	2	25	31	2	20	31	5	15	15	14
Volkswagen	269	351	3	39	53	3	17	20	2	15	14	(0)	15	15	15
Domestic PVs															
Maruti Suzuki	8	17	8	1	2	7	1	2	9	1	2	11	14	12	12
Mahindra & Mahindra	6	14	8	1	2	11	1	1	11	1	1	10	11	14	16
Tata Motors	43	52	2	7	7	(0)	4	4	(1)	2	3	4	15	13	11

Notes:

(a) For Indian companies, 2014 represents Mar-15 data and so on.

Source: Bloomberg, Kotak Institutional Equities

- **Alcobev.** The Street expects Indian alcobev companies to deliver higher revenue and PAT growth compared with their global peers in the near term, driven by expectations of stronger sales growth and margin expansion for Indian companies (see Exhibit 27).

Moderately higher growth does not justify meaningfully higher premium for Indian alcobev companies

Exhibit 27: Sales growth, EBITDA margin, PAT growth and P/E comparison of global and Indian alcobev companies, calendar year-ends, 2025E-27E (%)

	Sales growth (%)			EBITDA margin (%)			PAT growth (%)			P/E (X)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Global Alcobev												
Ambev SA	4	5	5	32	32	32	5	8	6	13	12	12
Anheuser-Busch Inbev	1	5	4	36	36	37	2	12	11	19	17	15
Diageo	(0)	3	4	31	32	32	(5)	6	6	16	15	14
Heineken	6	4	4	22	22	22	87	7	7	24	23	21
Kweichow Moutai Co.-A	10	9	8	69	69	70	10	10	9	19	17	16
Wuliangye Yibin Co.-A	6	6	7	47	47	48	6	7	7	14	13	12
Domestic Alcobev												
United Breweries	10	12	12	12	13	14	60	33	22	73	55	45
United Spirits	8	12	8	19	20	20	12	15	10	58	51	46

Notes:
(a) For Indian companies, 2025E represents Mar-26 data and so on.

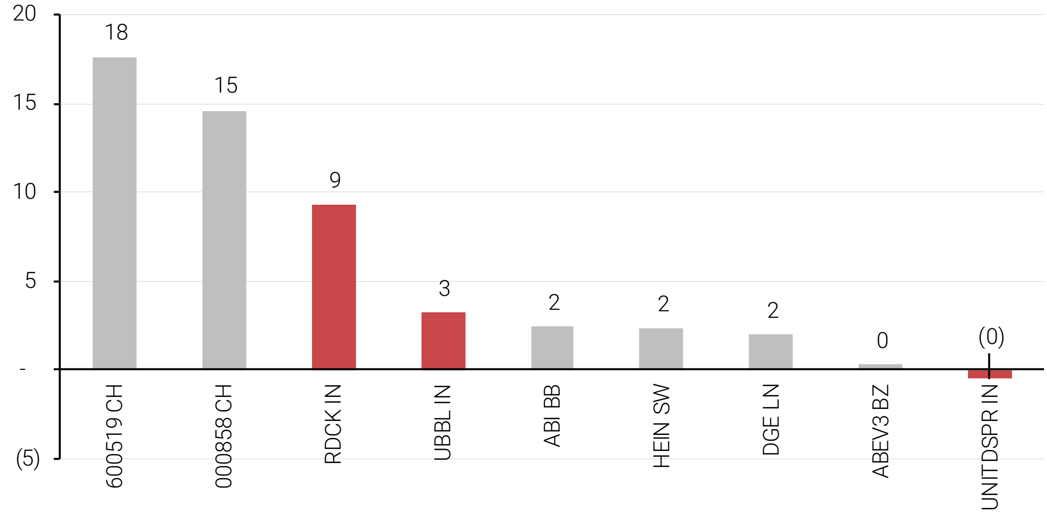
Source: Bloomberg, Kotak Institutional Equities

Indian alcobev stocks trade at a large premium to their global peers. The higher-than-peer valuations of Indian alcobev stocks probably reflect higher growth expectations in the medium term due to (1) an increase in per capita consumption of alcohol in India; India's per capita consumption is quite low relative to the per capita consumption in developed countries currently and (2) ongoing sharp decline in per capita consumption in developed economies related to health concerns. These assumptions may be broadly correct, but it remains to be seen if India's per capita consumption of alcohol will follow the usual income-linked trajectory or plateau at far lower levels on health concerns.

Indian alcobev companies reported 0-9% CAGR in net sales on US$ basis over the past decade, which was better than the revenue growth of most major global alcobev companies (see Exhibit 28). Exhibit 29 shows the comparison of the key financial metrics of the major global alcobev companies versus the Indian ones. We would clarify that the revenue growth of UNSP was flat in US$ terms due to rationalization of its portfolio (it sold the bulk of its popular portfolio in FY2023). RDCK reported strong growth while UBBL reported modest growth over the past decade. UNSP witnessed a sharp improvement in profitability due to better mix (higher share of higher-margin prestige portfolio in overall portfolio) and tighter cost management, while UBBL reported a large compression in EBITDA margin. We also note that most global alcobev companies have seen a compression in EBITDA margins over the past decade.

Indian alcobev companies reported decent revenue growth in the past decade

Exhibit 28: 10-year revenue CAGR of global and Indian alcobev companies, calendar year-ends, 2014-24 (%)



Source: Bloomberg, Kotak Institutional Equities

Indian alcobev companies delivered decent revenue growth compared with global peers

Exhibit 29: Comparison of key financial metrics of global and Indian alcobev companies, calendar year-ends, 2014-24 (%)

	Sales (US$ bn)			EBITDA (US$ bn)			EBIT (US$ bn)			PAT (US$ bn)			EBITDA margin (%)		
	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	10y avg.
Global Alcobev															
Ambev SA	16	17	0	8	5	(4)	7	4	(5)	5	3	(6)	48	32	38
Anheuser-Busch Inbev	47	60	2	18	20	1	15	15	0	9	7	(2)	39	34	36
Diageo	17	20	2	5	7	3	4	6	3	4	4	(1)	30	32	32
Heineken	26	32	2	6	6	1	4	3	(1)	2	2	(2)	22	19	22
Kweichow Moutai Co.-A	5	24	18	4	17	16	4	16	16	3	12	17	77	69	69
Wuliangye Yibin Co.-A	3	12	15	1	6	16	1	6	17	1	4	17	41	48	45
Domestic Alcobev															
Radico Khaitan	0.2	0.6	9	0.0	0.1	10	0.0	0.1	10	0.0	0.0	14	13	14	14
United Breweries	0.8	1.1	3	0.1	0.1	(1)	0.1	0.1	(0)	0.0	0.1	2	14	9	12
United Spirits	1.5	1.4	(0)	0.1	0.3	13	0.1	0.3	17	(0.3)	0.2	NM	6	21	15

Notes:
(a) For Indian companies, 2014 represents Mar-15 data and so on.

Source: Bloomberg, Kotak Institutional Equities

- **Paint.** According to consensus estimates, Indian paint companies will deliver similar earnings growth as their global peers in the near term (see Exhibit 30), despite higher expected sales growth for Indian companies. The Street expects a moderate expansion in EBITDA margin of the global paint companies and flat EBITDA margin of Indian companies, given increased competitive intensity in the Indian paint sector.

Indian and global paint companies expected to show similar PAT growth in the near term

Exhibit 30: Sales growth, EBITDA margin, PAT growth and P/E comparison of global and Indian paint companies, calendar year-ends, 2025E-27E (%)

	Sales growth (%)			EBITDA margin (%)			PAT growth (%)			P/E (X)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Global paint companies												
Akzo Nobel NV	5	3	3	14	15	16	8	13	10	15	13	12
Nippon Paint Holdings	16	7	4	18	18	18	46	11	7	16	14	14
PPG Industries Inc.	(1)	3	3	18	18	19	(7)	6	5	15	14	13
RPM International Inc.	(0)	4	3	16	16	17	1	8	10	21	20	18
Sherwin-Williams Co.	1	5	5	20	21	21	12	10	10	29	27	24
Domestic paint companies												
Asian Paints	4	9	8	18	19	18	19	12	9	51	46	42
Berger Paints	7	10	8	16	16	17	8	13	10	53	47	43

Notes:
(a) For Indian companies, 2025 represents Mar-26 data and so on.

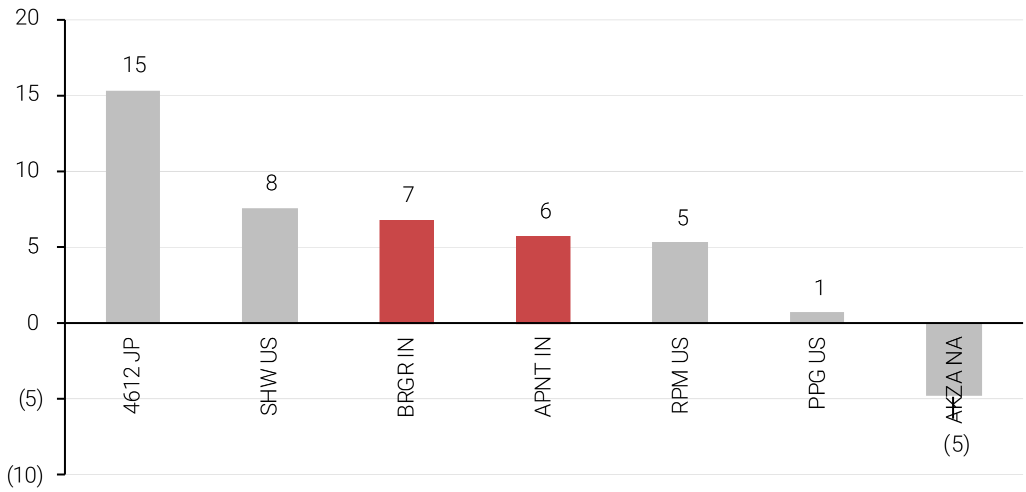
Source: Bloomberg, Kotak Institutional Equities

However, Indian paint stocks trade at a large premium to their global peers. This probably reflects Street expectations of higher growth for Indian paint companies in the medium term. We expect the domestic paint sector to grow faster than the paint industry in other countries, but the ongoing fragmentation of the domestic paint industry may affect the growth (revenues and volumes) and profitability of incumbents, which may weigh on their earnings growth.

Indian paint companies reported a modest 6-7% CAGR in net sales on US$ basis over the past decade, similar to the revenue growth of the major global peers (see Exhibit 31). Exhibit 32 shows the comparison of key financial metrics of major global paint companies versus the major Indian ones. We note that both global and Indian paint companies reported sharp improvement in margins in the past and have similar margin profiles.

Indian paint companies delivered revenue growth at par with global peers

Exhibit 31: 10-year revenue CAGR of paint companies, calendar year-ends, 2014-24 (%)



Source: Bloomberg, Kotak Institutional Equities

Indian companies delivered similar revenue and PAT growth to global peers

Exhibit 32: Comparison of key financial metrics of global and Indian paint companies, calendar year-ends, 2014-24 (%)

	Sales (US$ bn)			EBITDA (US$ bn)			EBIT (US$ bn)			PAT (US$ bn)			EBITDA margin (%)		
	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	10y avg.
Global paint companies															
Akzo Nobel NV	19	12	(5)	2	1	(4)	1	1	(3)	1	1	(3)	11	12	13
Nippon Paint Holdings	3	11	15	0	2	15	0	1	14	0	1	10	15	15	15
PPG Industries Inc.	15	16	1	2	3	3	2	2	2	1	2	4	15	19	17
RPM International Inc.	4	7	5	1	1	7	0	1	6	0	1	9	13	15	13
Sherwin-Williams Co.	11	23	8	2	5	13	1	4	11	1	3	12	14	22	18
Domestic paint companies															
Asian Paints	2	4	6	0.4	0.7	7	0.3	0.6	6	0.2	0.4	7	16	18	19
Berger Paints	1	1	7	0.1	0.2	10	0.1	0.2	10	0.0	0.1	12	12	16	16

Notes:
(a) For Indian companies, 2014 represents Mar-15 data and so on.

Source: Bloomberg, Kotak Institutional Equities

- **QSR.** The Street expects a sharp acceleration in the topline of the Indian QSR companies, resulting in significantly higher earnings growth compared with their global peers over 2025-27E (see Exhibit 33). However, this remains to be seen, as domestic growth has been quite anemic in the past 2-3 years related to (1) a general slowdown in domestic consumption, (2) rapid uptake of food delivery that has provided food options for households beyond the usual QSR fare of burgers and pizzas and (3) the entry of several unlisted new players in the key category of pizza.

Indian QSR companies expected to deliver significantly higher earnings growth compared with global peers in the near term

Exhibit 33: Sales growth, EBITDA margin, PAT growth and P/E comparison of global and Indian QSR companies, calendar year-ends, 2025E-27E (%)

	Sales growth (%)			EBITDA margin (%)			PAT growth (%)			P/E (X)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Global QSR companies												
Chipotle Mexican Grill Inc.	8	13	12	20	21	22	4	17	16	45	38	33
Compass Group	7	7	7	10	10	10	9	10	10	26	24	22
Darden Restaurants Inc.	8	4	5	17	17	17	7	6	7	20	19	18
Domino's Pizza Inc.	5	7	5	21	21	21	7	7	7	25	23	22
Mcdonald's Corp.	2	5	6	55	56	57	4	7	8	24	22	20
Restaurant Brands International	9	3	3	32	33	34	78	9	6	18	16	15
Starbucks Corp.	2	6	8	16	17	18	(27)	20	20	37	31	26
Texas Roadhouse Inc.	9	9	9	13	13	13	3	13	11	28	25	22
Yum China Holdings, Inc.	4	6	6	15	16	16	3	8	9	18	16	15
Yum! Brands Inc.	7	6	7	35	36	37	10	10	9	25	22	20
Domestic QSR companies												
Devyani International	12	15	13	18	18	19	NM	68	39	191	113	81
Jubilant Foodworks	10	15	14	20	21	20	88	42	22	117	83	68
Sapphire Foods	13	15	14	17	18	19	NM	89	44	169	89	62
Westlife Foodworld	12	16	18	15	16	17	398	93	70	192	99	58

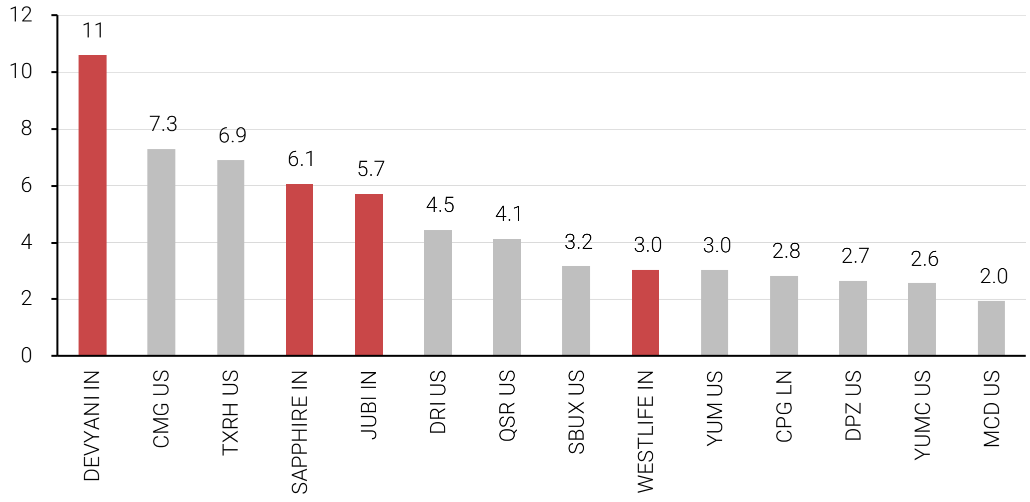
Notes:
(a) For Indian companies, 2025 represents Mar-26 data and so on.

Source: Bloomberg, Kotak Institutional Equities

Indian QSR companies saw a 3-11% revenue growth on US$ basis over the past five years, which is comparable to the growth of their global peers (see Exhibit 34). Exhibit 35 shows the comparison of the key financial metrics of the major global QSR companies versus the Indian ones. We note that Indian QSR companies delivered middling EBITDA growth and marginal improvement in PAT, despite steady sales growth. Meanwhile, global QSR companies outperformed Indian companies on PAT growth over this period. We note that Indian QSR companies have similar profitability and weaker return profiles compared with their global peers.

Indian QSR companies delivered higher growth versus their global peers

Exhibit 34: 5-year revenue CAGR of global and Indian QSR companies, calendar year-ends, 2019-24 (%)



Source: Bloomberg, Kotak Institutional Equities

Indian QSR companies delivered moderately higher revenue, but similar EBITDA growth compared with their global peers

Exhibit 35: Comparison of key financial metrics of global and Indian QSR companies, calendar year-ends, 2019-24 (%)

	Sales (US$ bn)			EBITDA (US$ bn)			EBIT (US$ bn)			PAT (US$ bn)			EBITDA margin (%)		
	2019	2024	CAGR (%)	2019	2024	CAGR (%)	2019	2024	CAGR (%)	2019	2024	CAGR (%)	2019	2024	5y avg.
Global QSR companies															
Chipotle Mexican Grill Inc.	6	11	7	1	3	11	0	2	16	0	2	14	17	24	20
Compass Group	32	42	3	3	4	3	2	3	2	2	2	2	9	9	8
Darden Restaurants Inc.	8	12	4	1	2	9	0	1	40	0	1	10	10	16	18
Domino's Pizza Inc.	4	5	3	1	1	3	1	1	3	0	1	4	20	22	21
Mcdonald's Corp.	21	26	2	12	15	2	9	12	3	6	8	4	58	59	58
Restaurant Brands International	6	8	4	2	2	3	2	2	2	1	1	2	31	27	27
Starbucks Corp.	27	36	3	6	9	5	4	5	3	3	4	1	21	24	24
Texas Roadhouse Inc.	3	5	7	0	1	7	0	1	9	0	0	9	14	14	13
Yum China Holdings, Inc.	9	11	3	2	2	2	1	1	3	1	1	3	20	19	21
Yum! Brands Inc.	6	8	3	2	3	2	2	2	2	1	2	3	37	35	35
Domestic QSR companies															
Devyani International	0.2	0.6	11	0.0	0.1	10	0.0	0.0	22	(0.0)	0.0	NM	18	17	19
Jubilant Foodworks	0.6	1.0	6	0.1	0.2	4	0.1	0.1	2	0.0	0.0	(4)	22	19	22
Sapphire Foods	0.2	0.3	6	0.0	0.1	8	(0.0)	0.0	NM	(0.0)	0.0	NM	14	17	17
Westlife Foodworld	0.2	0.3	3	0.0	0.0	2	0.0	0.0	3	(0.0)	0.0	NM	14	13	12

Notes:
(a) For Indian companies, 2019 represents Mar-20 data and so on.

Source: Bloomberg, Kotak Institutional Equities

- **Tobacco.** The Street expects global and Indian tobacco companies to deliver similar earnings growth in the near term, driven by moderate sales growth expectations for both global and Indian companies (see Exhibit 36). We note that Indian tobacco companies have reported a moderate 3-7% CAGR in net sales over the past decade in USD basis, modestly higher than the growth of their global peers (see Exhibit 37). Exhibit 38 shows the comparison of the key financial metrics of the major global tobacco companies versus the Indian ones. We note that Indian tobacco companies have outperformed global peers on EBITDA and PAT growth, despite lower margins.

ITC expected to deliver higher revenue but similar PAT growth versus global peers in the near term

Exhibit 36: Sales growth, EBITDA margin, PAT growth and P/E comparison of global and Indian tobacco companies, calendar year-ends, 2025E-27E (%)

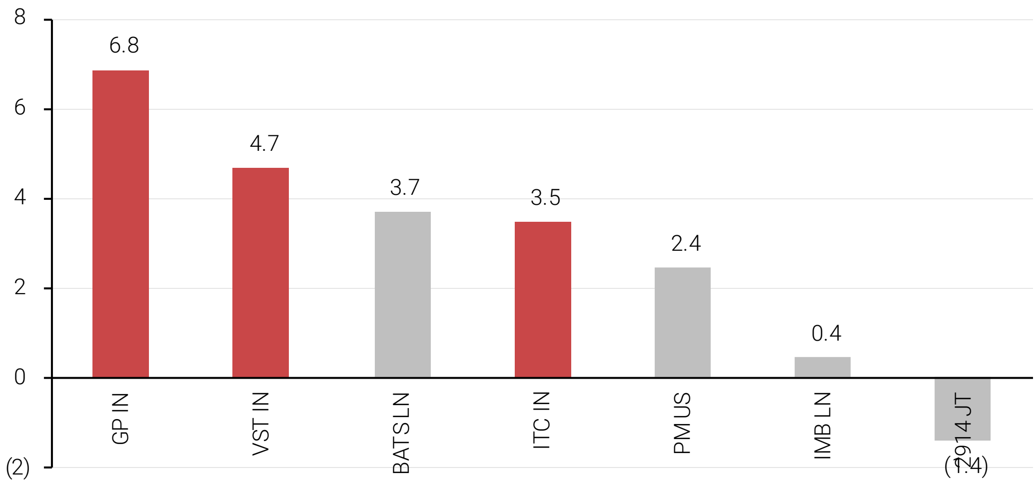
	Sales growth (%)			EBITDA margin (%)			PAT growth (%)			P/E (X)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Global tobacco												
British American Tobacco	4.2	2.5	3.7	49	49	48	(24)	5	5	10	10	9
Imperial Brands	(45)	1.8	1.8	44	44	45	10	3	4	9	9	9
Japan Tobacco Inc.	10.4	4.0	4.9	27	28	31	13	9	10	17	16	15
Philip Morris International	8.3	8.2	6.6	44	44	45	25	11	9	24	22	20
Domestic tobacco												
ITC	6.1	8.3	7.8	35	36	36	13	11	8	24	22	20

Notes:
(a) For Indian companies, 2025 represents Mar-26 data and so on.

Source: Bloomberg, Kotak Institutional Equities

Indian companies delivered modestly higher growth than global tobacco companies over the past 10 years

Exhibit 37: 10-year revenue CAGR of global and Indian tobacco companies, calendar year-ends, 2014-24 (%)



Source: Bloomberg, Kotak Institutional Equities

Indian tobacco companies delivered significantly higher revenue and PAT growth versus their global peers

Exhibit 38: Comparison of key financial metrics of global and Indian tobacco companies, calendar year-ends, 2014-24 (%)

	Sales (US$ bn)			EBITDA (US$ bn)			EBIT (US$ bn)			PAT (US$ bn)			EBITDA margin (%)		
	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	10y avg.
Global tobacco															
British American Tobacco	23	33	4	8	7	(1)	7	4	(7)	7	13	7	36	23	40
Imperial Brands	22	23	0	5	5	1	3	5	3	3	3	1	22	23	23
Japan Tobacco Inc.	24	21	(1)	8	3	(8)	6	2	(11)	4	3	(3)	32	16	30
Philip Morris International	30	38	2	13	15	2	12	13	1	8	9	1	42	41	42
Domestic tobacco															
Godfrey Phillips	0.4	0.8	7	0.1	0.1	9	0.0	0.1	11	0.0	0.1	17	14	18	18
ITC	6.3	8.8	3	2.3	3.1	3	2.1	2.9	3	1.5	2.2	4	37	35	37
VST Industries	0.1	0.2	5	0.0	0.1	8	0.0	0.1	9	0.0	0.0	4	29	40	31

Notes:
(a) For Indian companies, 2014 represents Mar-15 data and so on.

Source: Bloomberg, Kotak Institutional Equities

- **VBL.** According to consensus estimates, VBL will deliver significantly higher earnings growth compared with its global peers in the near term, driven by strong growth in sales (see Exhibit 39). We note that VBL reported a strong 19% CAGR in net sales over the past decade, which was significantly higher than the revenue growth of bottling companies in other parts of the world (see Exhibit 40). Exhibit 41 shows the comparison of the key financial metrics of the major global bottlers versus VBL. We note that VBL has delivered significantly better profitability compared with its global peers.

VBL is expected to deliver significantly higher earnings growth compared with global peers in the near term

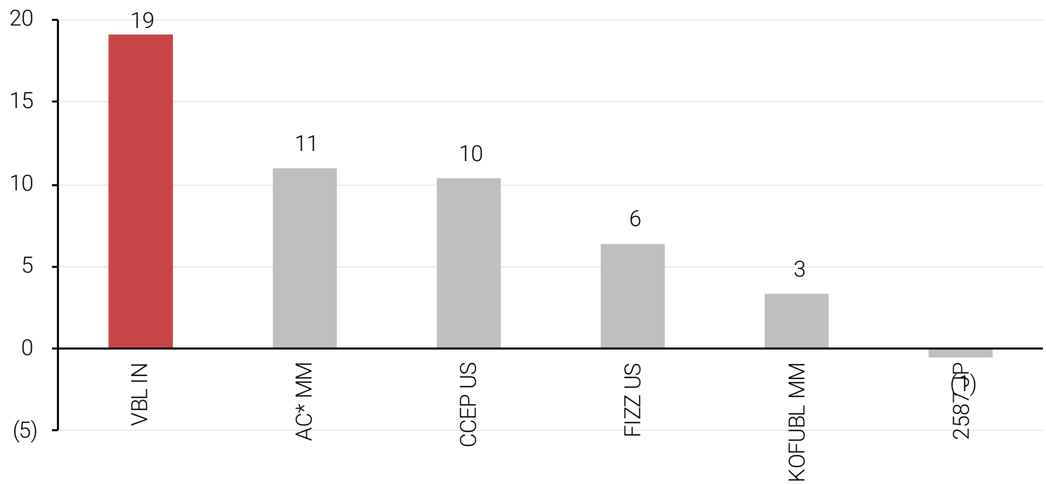
Exhibit 39: Sales growth, EBITDA margin, PAT growth and P/E comparison of global and Indian bottler companies, calendar year-ends, 2025E-27E (%)

	Sales growth (%)			EBITDA margin (%)			PAT growth (%)			P/E (X)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Global bottler companies												
Arca Continental SAB de CV	4	7	5	20	21	21	9	10	6	15	13	13
Coca-Cola Europacific	10	4	3	17	18	18	13	7	8	19	18	17
Coca-Cola FEMSA	4	8	7	20	20	20	3	12	9	14	13	12
National Beverage Corp.	(0)	3	2	21	21	21	6	3	3	21	21	20
Suntory Beverage & Food	7	5	3	14	15	15	(4)	12	5	15	14	13
Domestic bottler companies												
Varun Beverages	18	15	12	23	23	23	22	18	14	48	41	36

Source: Bloomberg, Kotak Institutional Equities

VBL reported significantly better revenue growth compared with its global peers

Exhibit 40: 10-year revenue CAGR of global and Indian bottler companies, calendar year-ends, 2014-24 (%)



Source: Bloomberg, Kotak Institutional Equities

VBL delivered significantly higher revenue and PAT growth compared with its global peers

Exhibit 41: Comparison of key financial metrics of global and Indian bottler companies, calendar year-ends, 2014-24 (%)

	Sales (US$ bn)			EBITDA (US$ bn)			EBIT (US$ bn)			PAT (US$ bn)			EBITDA margin (%)		
	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	10y avg.
Global bottler companies															
Arca Continental SAB de CV	5	13	11	1	3	10	1	2	10	1	1	8	22	20	19
Coca-Cola Europacific	8	22	10	1	3	10	1	2	9	1	2	10	16	15	16
Coca-Cola FEMSA	11	15	3	2	3	3	2	2	3	1	1	5	19	19	17
National Beverage Corp.	1	1	6	0	0	13	0	0	13	0	0	15	12	21	20
Suntory Beverage & Food	12	11	(1)	2	2	0	1	1	3	0	1	5	13	14	14
Domestic bottler companies															
Varun Beverages	0.4	2.3	19	0.1	0.6	24	0.0	0.4	32	(0.0)	0.3	NM	16	24	21

Source: Bloomberg, Kotak Institutional Equities

Indian staples delivered better sales growth over the past 10 years, but converged in the past five years

- **Food & beverages.** The Street expects Indian F&B companies to deliver significantly higher earnings growth compared with their global peers in the near term, driven by significantly higher near-term sales growth (see Exhibit 42). This expectation of superior growth of Indian companies relative to their global peers in the near term (and in the medium term) explains the high multiples of Indian F&B stocks relative to their global peers.

Indian F&B companies expected to report significantly higher earnings growth compared with global peers in the near term

Exhibit 42: Sales growth, PAT growth, P/E comparison of global and Indian F&B companies, calendar year-ends, 2025E-27E (%)

	Sales growth (%)			EBITDA margin (%)			PAT growth (%)			P/E (X)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Global F&B												
Coca-Cola Co.	2	5	5	34	34	35	3	7	7	24	22	21
Mondelez International Inc.-A	5	4	4	18	18	18	(14)	8	8	22	21	19
Nestle SA	8	3	3	20	20	21	2	7	7	19	17	16
Pepsico Inc.	(0)	3	3	19	20	20	(4)	6	6	17	16	15
Unilever PLC	7	2	4	21	22	22	6	5	5	17	17	16
Domestic F&B												
Britannia Industries	10	10	10	18	19	19	16	13	13	56	49	44
Dabur India	6	9	10	19	19	20	14	11	16	44	40	34
Hindustan Unilever	4	8	14	23	24	24	9	10	17	50	45	39
Marico	9	10	8	20	21	21	15	13	10	52	46	42
Nestle India	7	11	8	24	24	25	7	14	11	70	61	55
Tata Consumer Products	9	8	7	14	16	16	32	22	14	66	54	47

Notes:

(a) For Indian companies, 2025 represents Mar-26 data and so on.

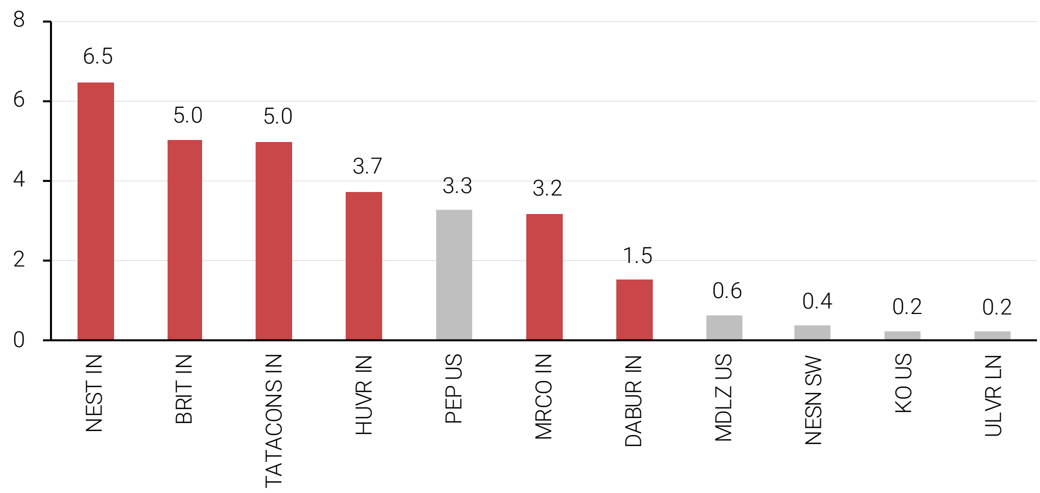
Source: Bloomberg, Kotak Institutional Equities

The Street expectations of strong earnings growth for the Indian F&B companies over FY2025-27E perhaps reflect the expectations of (1) a recovery in demand after 2-3 years of anemic revenue and volume growth and (2) a decent recovery in urban household income. However, this is not a given, due to (1) no signs of an imminent recovery in urban demand and (2) continued inflation in raw material prices that could impact both volume growth (through higher prices for consumers) and profitability. In our view, medium-term demand for F&B products, especially packaged foods, may be affected by (1) the acceptance and growth of food delivery platforms that can deliver fresh food in 20-30 minutes and (2) rising health-related concerns about packaged foods.

India F&B companies reported 1.5-6.5% CAGR in net sales on US$ basis over FY2015-25, but this was far better than the revenue growth of the major global peers (see Exhibit 43), with most global companies reporting flat or low-single digit revenue growth. Global F&B companies have been struggling with growth given a shift in household preference in developed countries to fresh food over packaged foods. It is interesting to see that the growth trajectories of Indian and global F&B companies have converged over the last five years (see Exhibit 44).

Indian F&B companies delivered higher revenue growth compared with global peers in the past 10 years

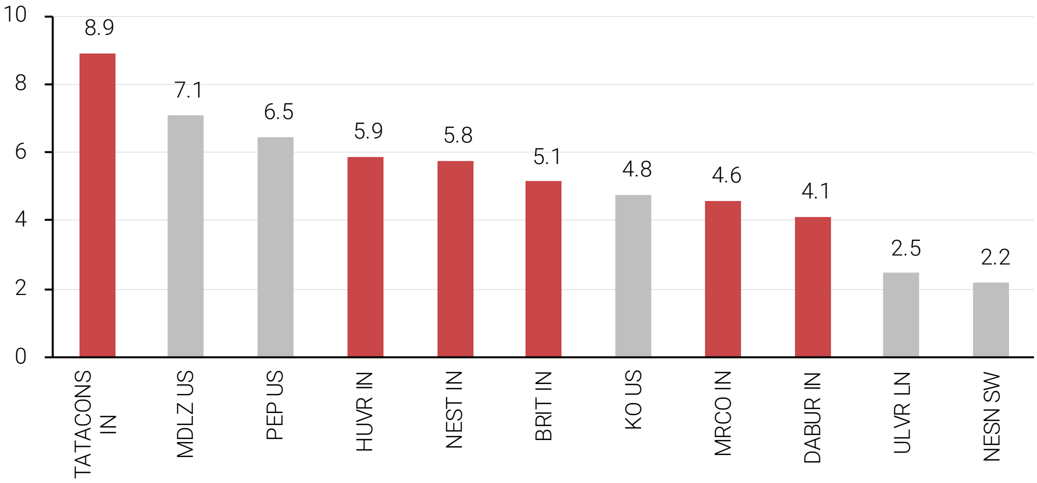
Exhibit 43: 10-year revenue CAGR of global and Indian F&B companies, calendar year-ends, 2014-24 (%)



Source: Bloomberg, Kotak Institutional Equities

Global and Indian F&B companies delivered similar revenue growth in the past five years

Exhibit 44: 5-year revenue CAGR of global and Indian F&B companies, calendar year-ends, 2019-24 (%)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 45 gives the comparison of the key financial metrics of the major global F&B companies versus the Indian ones. We note that Indian F&B companies have reported a sharp improvement in profitability over the past decade, while only a handful global F&B companies have reported an improvement in profitability. We also note that both Indian and global F&B companies have high RoEs. However, we would note that RoEs are not a material parameter for F&B companies, given that the scalability of these businesses in India does not depend on capital.

Indian F&B companies have delivered moderately higher revenue growth, but meaningfully higher PAT growth (margin expansion) compared with global peers

Exhibit 45: Comparison of key financial metrics of global and Indian F&B companies, calendar year-ends, 2014-24 (%)

	Sales (US$ bn)			EBITDA (US$ bn)			EBIT (US$ bn)			PAT (US$ bn)			EBITDA margin (%)		
	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	10y avg.
Global F&B															
Coca-Cola Co.	46	47	0	12	11	(0)	10	10	0	9	12	3	25	24	28
Mondelez International Inc.-A	34	36	1	4	8	6	3	6	7	3	5	3	13	22	19
Nestle SA	100	104	0	15	21	3	12	17	3	12	13	1	15	20	19
Pepsico Inc.	67	92	3	12	17	3	10	13	3	7	11	5	18	18	18
Unilever PLC	64	66	0	13	12	(0)	11	10	(0)	6	8	3	19	18	20
Domestic F&B															
Britannia Industries	1.3	2.1	5	0.1	0.4	10	0.1	0.3	11	0.1	0.3	11	11	18	17
Dabur India	1.3	1.5	2	0.2	0.3	2	0.2	0.2	1	0.2	0.2	1	17	18	20
Hindustan Unilever	5.1	7.4	4	0.9	1.8	7	0.8	1.6	7	0.6	1.2	7	17	24	23
Marico	0.9	1.3	3	0.1	0.3	6	0.1	0.2	6	0.1	0.2	7	15	20	19
Nestle India	1.3	2.4	6	0.2	0.6	9	0.2	0.5	10	0.1	0.4	10	20	24	23
Tata Consumer Products	1.3	2.1	5	0.1	0.3	9	0.1	0.2	8	0.0	0.1	14	10	14	13

Notes:
(a) For Indian companies, 2014 represents Mar-15 data and so on.

Source: Bloomberg, Kotak Institutional Equities

- **Homecare and personal care.** The Street expects Indian personal care and homecare companies to deliver significantly higher earnings growth compared with their global peers in the near term, driven by stronger sales growth (see Exhibit 46). This would depend on Indian companies being able to increase or protect their current high margins given the (1) entry of new players in various categories, leading to greater fragmentation and (2) weakening of the traditional moats (brand, distribution) of the incumbents, which we discuss in greater detail in the next section.

Indian HPC companies expected to deliver significantly higher earnings growth compared with global peers in the near term

Exhibit 46: Sales growth, EBITDA margin, PAT growth and P/E comparison of global and Indian HPC companies, calendar year-ends, 2025E-27E (%)

	Sales growth (%)			EBITDA margin (%)			PAT growth (%)			P/E (X)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Global HPC												
Colgate-Palmolive	1	4	4	25	25	25	(1)	6	6	24	23	21
Estee Lauder Companies	(8)	2	4	13	15	17	(43)	48	34	55	37	28
Henkel AG	5	2	3	18	18	18	3	5	5	13	12	12
Johnson & Johnson	3	4	5	38	38	39	26	4	7	14	14	13
Kimberly-Clark Corp.	(3)	1	2	20	21	22	22	7	6	18	17	16
L'Oreal	10	5	6	24	24	24	8	8	8	28	26	24
Procter & Gamble	0	3	4	28	28	29	4	3	5	23	22	21
Reckitt Benckiser Group	6	3	4	28	28	28	(24)	5	5	15	14	13
Shiseido Co.	3	3	3	11	13	14	44	244	27	94	27	21
Unilever PLC	7	2	4	21	22	22	6	5	5	17	17	16
Domestic HPC												
Colgate Palmolive (India)	4	8	7	32	33	33	2	10	9	44	40	37
Dabur India	6	9	10	19	19	20	14	11	16	44	40	34
Godrej Consumer Products	8	10	9	22	23	23	27	17	13	51	43	38
Hindustan Unilever	4	8	14	23	24	24	9	10	17	50	45	39

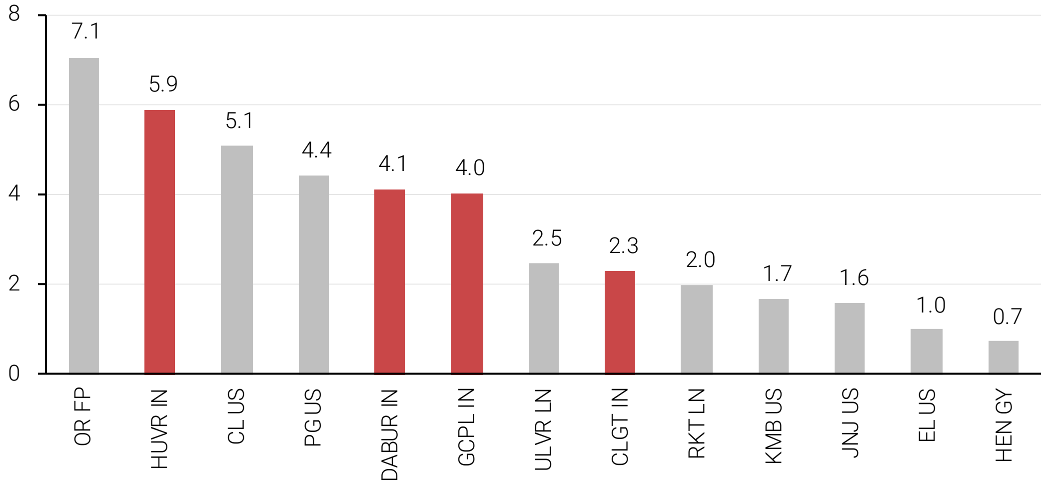
Notes:
(a) For Indian companies, 2025 represents Mar-26 data and so on.

Source: Bloomberg, Kotak Institutional Equities

Indian homecare and personal care companies reported a weak 0.9-3.7% CAGR in net sales on US$ basis, similar to the revenue growth of their major global peers (see Exhibits 47-48). The homecare segment of major Indian companies grew at 4.7% CAGR, while the personal care segment of these companies grew at 8.3% CAGR in INR terms over FY2015-25 (see Exhibit 49). It is important to note that ITC used its cashflows from the cigarette business to grow its homecare and personal care businesses, while incumbents delivered middling growth over this period.

Global and Indian HPC companies reported similar revenue growth over the past five years

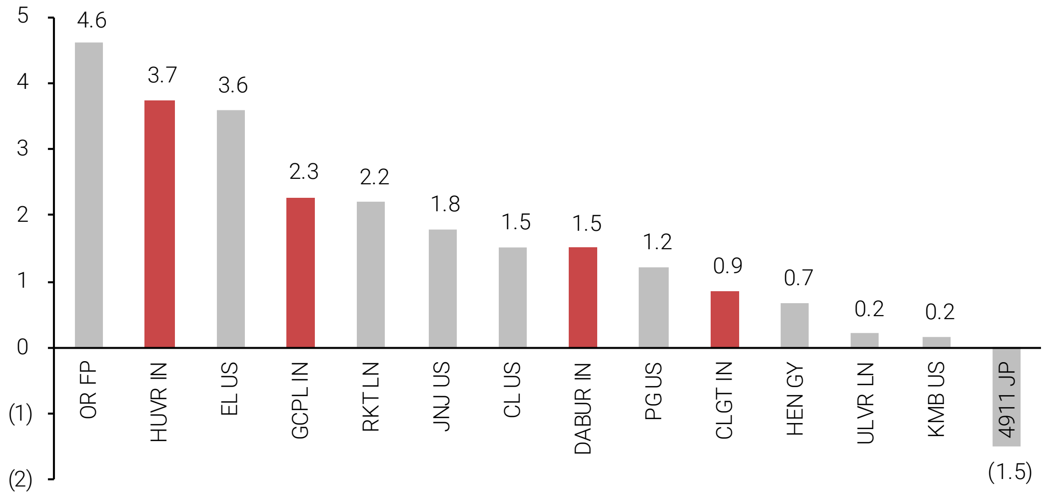
Exhibit 47: 5-year revenue CAGR of global and Indian HPC companies, calendar year-ends, 2014-24 (%)



Source: Bloomberg, Kotak Institutional Equities

Indian HPC companies reported similar revenue growth compared with their global peers in the past 10 years

Exhibit 48: 10-year revenue CAGR of global and Indian HPC companies, calendar year-ends, 2014-24 (%)



Source: Bloomberg, Kotak Institutional Equities

BPC revenues of domestic FMCG companies increased at 8.3% CAGR over FY2015-25, while homecare revenues increased at 4.7% CAGR

Exhibit 49: BPC and homecare revenues of major domestic FMCG companies, March fiscal year-ends, 2015-25 (Rs bn)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	CAGR (%)
BPC revenues												
Colgate - overall	40	39	40	42	45	45	48	51	52	57	60	4.3
Dabur (HPC + health supplements) - domestic	39	39	37	40	45	46	55	60	59	63	63	4.9
GCPL (ex-HI) - domestic	24	25	27	30	33	32	36	41	47	54	59	9.5
HUVR (BPC)	88	158	161	161	173	170	177	192	215	218	218	9.5
ITC (HPC)	5	5	5	6	6	8	9	10	11	13	15	13.0
Marico - domestic	39	40	39	42	49	46	45	52	52	49	51	2.9
Total	**155**	**228**	**231**	**239**	**261**	**255**	**267**	**295**	**325**	**334**	**344**	**8.3**
Homecare revenues												
Dabur (HC) - domestic	3	3	3	4	4	4	4	5	6	6	7	7.2
GCPL (HI) - domestic	20	23	24	23	23	22	25	27	28	29	31	4.1
HUVR (HC)	146	106	111	115	128	136	139	165	211	218	228	4.5
Jyothy Labs	15	16	17	17	18	17	19	22	25	28	28	6.6
Total	**185**	**148**	**155**	**158**	**172**	**179**	**187**	**218**	**270**	**281**	**294**	**4.7**

Source: Companies, Kotak Institutional Equities

Exhibit 50 shows the comparison of the key financial metrics of the major global homecare and personal care companies versus the Indian ones. We note that Indian companies have delivered (1) sales growth comparable to global peers, (2) a sharp improvement in profitability and (3) RoEs similar to global peers. Despite the large improvement in EBITDA margins, Indian companies delivered mid-single-digit earnings growth in US$ terms.

Indian HPC companies have delivered similar revenue and moderately higher PAT growth versus their global peers

Exhibit 50: Comparison of key financial metrics of global and Indian HPC companies, calendar year-ends, 2014-24 (%)

	Sales (US$ bn)			EBITDA (US$ bn)			EBIT (US$ bn)			PAT (US$ bn)			EBITDA margin (%)		
	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	CAGR (%)	2014	2024	10y avg.
Global HPC															
Colgate-Palmolive	17	20	2	4	5	2	4	4	2	3	3	1	23	25	25
Estee Lauder Companies	11	16	4	2	2	0	2	1	(6)	1	1	(3)	20	14	19
Henkel AG	22	23	1	4	4	1	3	3	0	3	2	(0)	16	16	16
Johnson & Johnson	74	89	2	25	29	1	21	21	0	16	20	3	33	32	33
Kimberly-Clark Corp.	20	20	0	3	4	2	3	3	2	2	2	(1)	17	21	19
L'Oreal	30	47	5	6	11	6	5	9	7	4	7	6	20	23	23
Procter & Gamble	74	84	1	17	22	2	14	19	3	11	16	4	23	26	24
Reckitt Benckiser Group	15	18	2	4	5	2	4	3	(1)	3	4	4	26	26	19
Shiseido Co.	8	7	(1)	1	1	(5)	0	0	(20)	0	0	(15)	12	8	12
Unilever PLC	64	66	0	13	12	(0)	11	10	(0)	6	8	3	19	18	20
Domestic HPC															
Colgate Palmolive (India)	0.7	0.7	1	0.1	0.2	6	0.1	0.2	6	0.1	0.2	4	21	33	29
Dabur India	1.3	1.5	2	0.2	0.3	2	0.2	0.2	1	0.2	0.2	1	17	18	20
Godrej Consumer Products	1.3	1.7	2	0.2	0.4	5	0.2	0.3	5	0.1	0.2	4	17	21	21
Hindustan Unilever	5.1	7.4	4	0.9	1.8	7	0.8	1.6	7	0.6	1.2	7	17	24	23

Notes:

(a) For Indian companies, 2014 represents Mar-15 data and so on.

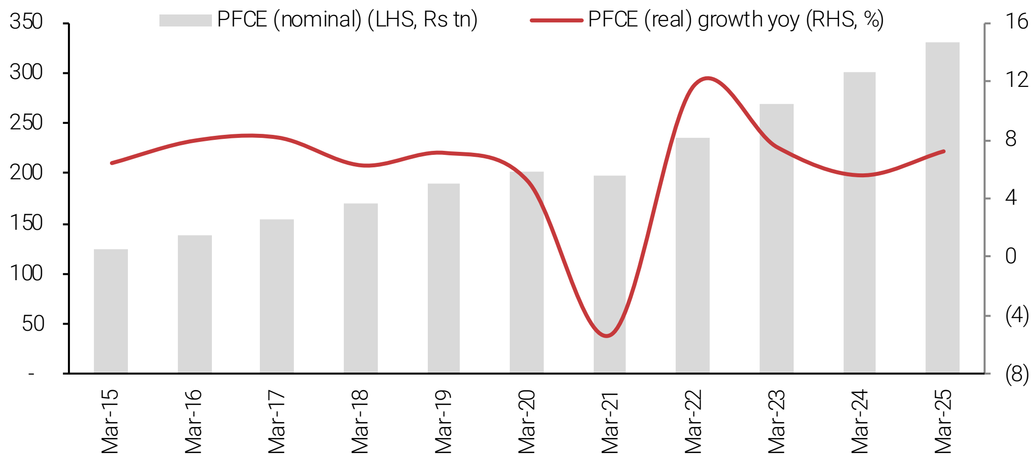
Source: Bloomberg, Kotak Institutional Equities

Private consumption in India increased at 10.2% CAGR over FY2015-25, outpacing major economies

India has seen decent growth in private consumption over the past decade, with private final consumption expenditure increasing at 10.2% CAGR on a nominal basis and 6% CAGR on a real basis over the past decade (see Exhibit 51). The strong growth in Indian consumption was driven by a steady increase in India's per capita real GDP to 4.9% over this period. The growth in overall private consumption in India significantly outpaced consumption growth in other major economies over this period (see Exhibit 52). Within private consumption, growth was driven by stronger growth in consumption of discretionary categories over this period (see Exhibits 53-54). However, the steady increase in private consumption was in sharp contrast to the modest revenue growth seen in a number of listed consumer categories in India.

India's PFCE increased at 10.2% CAGR in nominal terms and 6% CAGR on real basis over the past decade

Exhibit 51: Nominal PFCE and real PFCE growth yoy, March fiscal year-ends, 2015-25 (Rs tn)



Source: CEIC, Kotak Institutional Equities

Indian household consumption has seen strong increase over the past decade, compared with major economies

Exhibit 52: Household final consumption expenditure of major economies, calendar year-ends, 2013-23 (US$ bn)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	CAGR (%)
Australia	861	805	758	688	737	789	754	695	791	827	870	0.1
Brazil	1,526	1,546	1,153	1,154	1,331	1,239	1,220	932	1,025	1,231	1,377	(1.0)
China	3,429	3,845	4,178	4,344	4,745	5,353	5,605	5,611	6,792	6,686	6,963	7.3
France	1,536	1,551	1,318	1,342	1,401	1,504	1,463	1,408	1,556	1,484	1,628	0.6
Germany	2,037	2,078	1,779	1,831	1,923	2,071	2,020	1,952	2,112	2,084	2,260	1.0
India	1,070	1,185	1,241	1,361	1,557	1,603	1,727	1,634	1,930	2,044	2,153	7.2
Indonesia	519	509	495	539	582	594	648	624	660	700	746	3.7
Italy	1,304	1,310	1,116	1,129	1,182	1,259	1,203	1,101	1,222	1,228	1,343	0.3
Japan	3,030	2,822	2,479	2,737	2,693	2,761	2,792	2,733	2,695	2,366	NA	NA
Korea	692	741	712	719	772	829	803	763	836	805	838	1.9
Malaysia	167	177	163	165	177	206	218	206	217	235	242	3.7
Mexico	939	966	839	767	812	847	875	742	900	1,036	1,257	3.0
Netherlands	399	404	345	350	370	403	396	383	427	433	486	2.0
South Africa	256	243	221	205	240	259	250	212	260	258	245	(0.4)
Spain	799	814	699	718	766	826	800	717	813	807	879	1.0
Thailand	221	214	206	207	223	248	271	265	264	270	297	3.0
United Kingdom	1,803	1,972	1,877	1,741	1,721	1,857	1,823	1,598	1,883	1,911	2,065	1.4
United States	11,388	11,874	12,297	12,727	13,291	13,934	14,438	14,226	16,114	17,691	18,823	5.2
World	**43,912**	**45,160**	**42,749**	**43,685**	**46,239**	**48,744**	**49,534**	**47,431**	**53,659**	**56,237**	**59,977**	**3.2**

Source: World Bank, Kotak Institutional Equities

Strong growth in India's PFCE over the past decade, driven by a few categories

Exhibit 53: Major components of personal final consumption expenditure (nominal), March fiscal year-ends, 2014-24 (Rs tn)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	CAGR (%)
Food and non alcoholic beverages	21	22	24	28	30	32	35	39	43	48	52	9.8
Alcoholic beverages	**0**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**10.9**
Tobacco	1	1	1	1	1	1	1	1	1	1	2	5.8
Clothing and footwear	5	5	6	6	7	7	7	6	9	10	9	7.2
Housing, water, electricity, gas and other fuels	10	12	12	13	14	16	17	17	20	22	23	8.3
Health	2	3	3	4	4	5	6	6	7	8	10	15.0
Transport: purchase of vehicles	**1**	**1**	**1**	**1**	**1**	**2**	**2**	**2**	**2**	**3**	**3**	**14.3**
Communication	1	2	2	2	2	3	3	3	4	4	5	12.7
Recreation and culture	1	1	1	1	1	1	1	1	1	1	1	9.0
Education	2	3	3	4	4	5	6	5	6	7	8	13.4
Restaurants and hotels	**1**	**1**	**2**	**2**	**2**	**2**	**3**	**1**	**2**	**3**	**4**	**11.6**
Misc. goods and services	**8**	**10**	**12**	**14**	**15**	**17**	**19**	**18**	**21**	**24**	**27**	**12.4**
Misc. goods and services: Personal care	1	1	1	1	1	1	2	1	2	2	2	11.7
Misc. goods and services: Personal effects N.E.C.	0	1	1	1	1	1	1	1	1	1	1	6.9
Misc. goods and services: Insurance	1	1	1	1	1	1	1	1	1	2	2	8.3
Misc. goods and services: financial services ex. insurance	2	3	3	3	3	4	4	5	5	6	7	11.4
Misc. goods and services: other services	4	5	7	8	8	10	11	10	12	13	15	14.2

Source: CEIC, Kotak Institutional Equities

Indian consumption basket has seen steady shift toward discretionary consumption

Exhibit 54: Trend in percentage composition of MPCE by items across various consumption expenditure surveys (%)

	Rural India						Urban India					
	1999-00	2004-05	2009-10	2011-12	2022-23	2022-23(1)	1999-00	2004-05	2009-10	2011-12	2022-23	2022-23(1)
Cereals and products	**22.2**	**17.5**	**13.8**	**10.8**	**4.9**	**6.9**	**12.4**	**9.6**	**8.2**	**6.7**	**3.6**	**4.5**
Pulses and products	3.9	3.1	3.3	2.9	2.0	2.0	3.0	2.1	2.5	2.0	1.4	1.4
Sugar and salt	2.6	2.5	2.3	1.8	0.9	0.9	1.8	1.6	1.5	1.2	0.6	0.6
Milk and products	8.8	8.2	7.6	8.0	8.3	8.1	8.7	7.5	6.9	7.0	7.2	7.2
Vegetables	**6.2**	**5.9**	**8.3**	**6.6**	**5.4**	**5.3**	**5.1**	**4.2**	**5.7**	**4.6**	**3.8**	**3.8**
Fruits	1.7	1.8	2.4	2.8	3.7	3.6	2.4	2.1	3.2	3.4	3.8	3.8
Egg, fish, and meat	3.3	3.2	4.7	4.8	4.9	4.8	3.1	2.6	3.6	3.7	3.6	3.5
Edible oil	3.7	4.4	3.7	3.7	3.6	3.5	3.1	3.3	2.7	2.7	2.4	2.4
Spices	2.7	2.2	3.4	3.5	3.0	2.9	2.1	1.5	2.2	2.4	2.1	2.1
Beverages, packaged food, etc.	**4.2**	**4.4**	**7.4**	**7.9**	**9.6**	**9.4**	**6.4**	**5.9**	**8.0**	**9.0**	**10.6**	**10.5**
Food and beverages (total)	**59.4**	**53.1**	**57.0**	**52.9**	**46.4**	**47.5**	**48.1**	**40.5**	**44.4**	**42.6**	**39.2**	**39.7**
Pan, tobacco, and intoxicants	2.9	2.6	3.0	3.2	3.8	3.7	1.9	1.5	1.5	1.6	2.4	2.4
Fuel and light	7.5	9.8	8.0	8.0	6.7	6.5	7.8	9.5	6.9	6.7	6.3	6.2
Household consumables	**4.7**	**4.8**	**4.0**	**4.0**	**5.1**	**5.0**	**5.5**	**4.7**	**3.9**	**3.9**	**5.0**	**4.9**
Education	1.9	3.1	3.6	3.5	3.3	3.2	4.3	6.7	8.1	6.9	5.8	5.7
Medical (incl. hospitalization)	6.1	6.3	5.4	6.7	7.1	7.0	5.1	5.2	5.0	5.5	5.9	5.9
Conveyance	**2.9**	**3.6**	**3.5**	**4.2**	**7.6**	**7.4**	**5.5**	**6.2**	**5.6**	**6.5**	**8.6**	**8.5**
Consumer services (excl. conveyance)	3.0	3.7	4.2	4.0	5.1	5.0	4.7	6.7	6.3	5.6	5.9	5.9
Entertainment	0.4	0.6	0.8	1.0	1.1	1.1	1.2	1.8	1.6	1.6	1.6	1.6
Rent	0.4	0.5	0.5	0.5	0.8	0.8	4.5	5.4	5.8	6.2	6.6	6.5
Other taxes and cesses	0.2	0.2	0.2	0.3	0.1	0.1	0.7	0.8	0.8	0.8	0.2	0.2
Clothing and footwear	**8.0**	**7.8**	**6.2**	**7.0**	**6.1**	**6.0**	**7.2**	**6.6**	**5.8**	**6.4**	**5.4**	**5.4**
Durable goods	**2.6**	**4.0**	**3.7**	**4.9**	**6.9**	**6.8**	**3.6**	**4.5**	**4.3**	**5.6**	**7.2**	**7.1**
Non-food (total)	**40.6**	**46.9**	**43.0**	**47.1**	**53.6**	**52.5**	**51.9**	**59.5**	**55.6**	**57.4**	**60.8**	**60.3**
Total expenditure	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:
(a) Data is without imputation of free goods. 2022-23(1) data is with imputation of free goods.

Source: HCES 2022-23, Kotak Economics Research

3

Risks: Increasing competitive and disruptive intensity

We expect the incumbents in various consumer-facing categories to face varying degrees of threats from (1) rising competition, (2) declining efficacy of distribution and (3) increasing standardization. We expect higher competition across product categories to eventually impact both the growth and profitability of incumbents. At the same time, evolving consumer behavior and regulatory changes could pose medium-term risks to the consumption of certain categories.

Brands are getting diluted, categories more crowded

We believe that brands will increasingly become less important in several categories as a major decision factor for consumers. The extent of dilution of brands will depend on the category of products—(1) low association or (2) high association of a consumer. We see three potential sources of risks to brands—(1) new competition, (2) eroding distribution advantage and (3) standardization. We discuss the company-wise implications of the three sources in more detail later in the same section. Exhibit 55 summarizes the key disruption themes for various sectors while Exhibit 56 gives our assessment of the level of risk of dilution to brands in various consumer categories arising from various types of disruption.

The threat of disruption has accelerated across sectors in the past few years

Exhibit 55: Key disruption themes for Indian consumer sectors

Disruption			
Environment	**Formalization**	**Standardization**	**Technological disruption**
Clean air and higher share of renewables in India's energy mix	Shift from unorganized to organized will gather pace	Products will be more generic/standardized	Technological advancement will lead to disruption of business models along with increasing productivity
Key beneficiaries: Automobiles (EV), renewables, pollution control equipment suppliers	Key beneficiaries: Consumer companies in sectors with high share of unorganized sector, private banks, large real-estate developers and organized retailers		Key beneficiaries: Adaptive businesses, automobiles (EV), private banks, clean energy companies
Key losers: Automobiles (ICEV), coal, oil (E&P and R&M)	Key losers: Building component companies, NBFCs	Key losers: Semi-branded commodities such as building components and consumer appliances	Key losers: Automobiles (ICEV), coal, jewelry (diamonds), oil, semi-branded businesses

Source: Kotak Institutional Equities Estimates

Most consumer brands face modest-to-high threats from various factors

Exhibit 56: Assessment of disruption threats to brands for various consumer sectors

	New competition	Eroding distribution	Standardization
Alcobev	Low	Low	Modest
Automobiles-2W	High	Low	High
Automobiles-4W	High	Low	Modest
Cables and wires	Modest	High	High
Cement	Modest	High	High
Consumer durables	High	Moderate	High
Paints	High	Low	High
Personal care	Modest	Modest	Low
Home care	High	Modest	Modest
QSR	Moderate	Modest	High
Tobacco	Low	Low	High

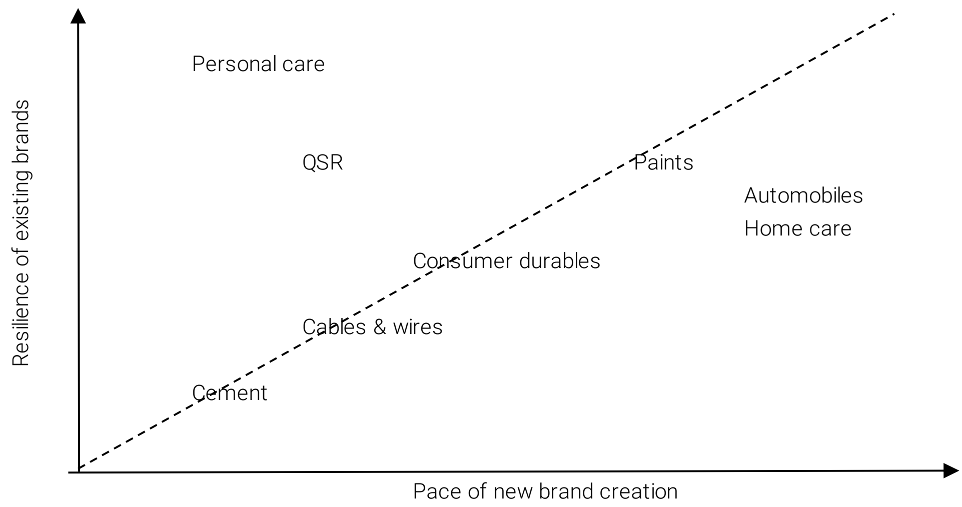
Source: Kotak Institutional Equities estimates

Dilution risk from availability of more brands

Exhibit 57 shows our qualitative assessment of the impact across various consumer categories, based on our understanding of the pace of creation of new 'brand' offerings and the resilience of incumbents to competition in various categories. We believe many homecare and packaged food brands may see a high degree of dilution due to the proliferation of brands, which would make it difficult for any particular brand to stand out among the plethora of 'branded' products.

Varying level of vulnerabilities in various consumer categories

Exhibit 57: Threat of new entrants to brands across various consumer categories



Source: Kotak Institutional Equities estimates

Incumbents in most consumer segments will face increasingly higher competition, resulting in a significant negative change in market structure, with (1) the entry of new players (non-consumer companies) into several product categories and (2) expansion by consumer companies into new product categories. Exhibit 58 illustrates the instances of existing companies foraying into newer categories. GRASIM and ITC are two notable examples in recent years, where companies forayed into adjacent categories. GRASIM's entry into the paint market has already disrupted the paint industry in the form of lower market share and profitability of incumbents (see Exhibits 59-61).

A number of consumer companies are increasingly foraying into other categories

Exhibit 58: Instances of existing companies foraying into other segments

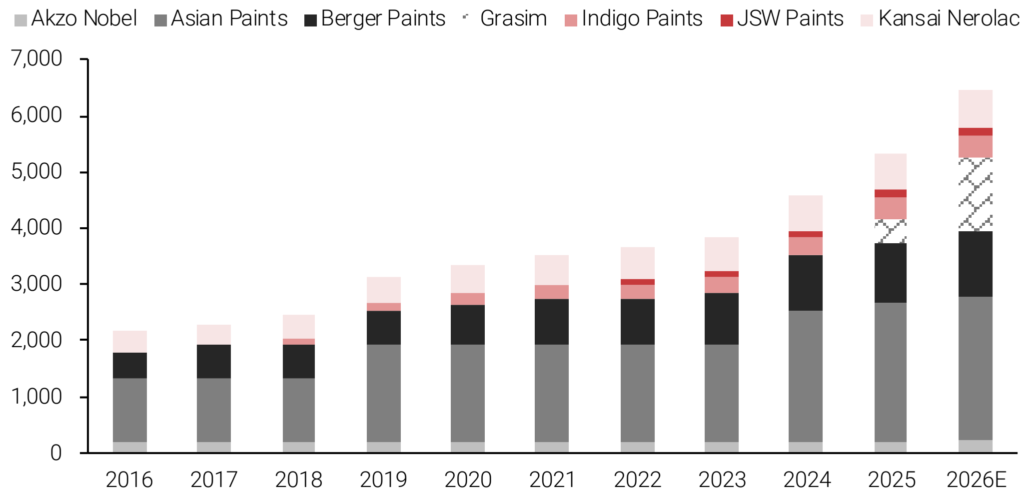
Company	Existing categories	New category
Asian Paints	Decorative and industrial paints	Aggressive inroads into waterproofing/construction chemicals segments
Bata	Footwear	Recently announced launch of Power branded apparel
Britannia	Biscuits	Launched dairy beverages (milkshakes) under Winkin Cow brand
Dabur	Beauty/personal care, Home care and F&R	Spices foray through acquisition of Badshah Masala
Dabur	Beauty/personal care, Home care and F&R	Forayed into feminine hygiene space through Fem brand
Dabur	Beauty/personal care, Home care and F&R	Entered HFD segment with the launch of Dabur Vita
Dabur	Beauty/personal care, Home care and F&R	Increased the addressable market of Real through launch of juice drinks
Godrej Consumer	HI, Hair/Air care, Soaps	Ramped up presence in deodorants market through RCCL (Park Avenue) acquisition
HUL	Beauty/personal care, Home care and F&R	Health food drinks through acquisition of GSK-CH's Horlicks
ITC	Cigarettes, FMCG, Paper/Packaging, Hotels	Forayed into deodorants category with launch of Engage deodorants
ITC	Cigarettes, FMCG, Paper/Packaging, Hotels	Forayed into spices category and later acquired Sunrise spices to strengthen its portfolio
Marico	Personal care and Foods	Entered breakfast cereals through launch of Saffola Oats
Marico	Personal care and Foods	Saffola forayed into several categories such as honey, chyawanprash, noodles etc.
Nestle	Dairy, F&B, Confectionery	Entered petcare category by buying parent's stake in Purina Petcare
Pidilite	Adhesives and construction chemicals	Range expansion announced in decorative paints with Haisha brand
Tata Consumer	Foods and beverages	Ventured into RTE/RTC through acquisition of Soulfull, Smartfoodz
Tata Consumer	Foods and beverages	Entered several niche businesses under Sampann such as dry fruits
Tata Consumer	Foods and beverages	Forayed into the spreads/preserves category through Himalaya brand
Titan	Jewelry, watches and eyewear	Introduced a new brand Taneira for women's ethnic wear segment
Titan	Jewelry, watches and eyewear	Launched Skinn, its fragrance brand suited for Indian preferences/weather conditions
Varun Beverages	Carbonated soft drinks, Water, Juice drinks	Introduced energy drink Sting into India
Westlife Foodworld	QSR (burgers)	Entered the fried chicken category through McSpicy Fried Chicken

Notes:
(a) Above list is indicative and might not be exhaustive.

Source: Companies, Kotak Institutional Equities

Paint sector has seen sharp increase in competitive intensity, led by Grasim's entry

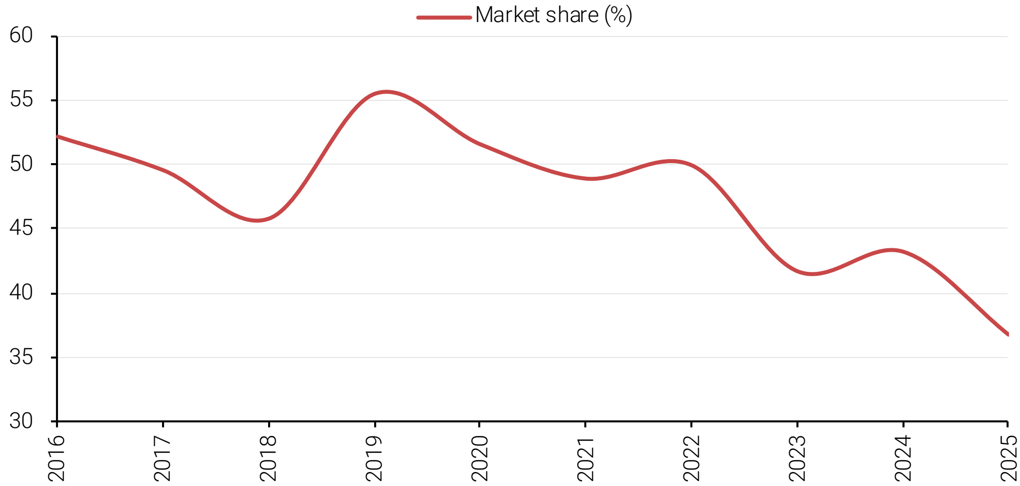
Exhibit 59: Capacities of major paint companies in India, March fiscal year-ends, 2016-26E (mn liters)



Source: Companies, Kotak Institutional Equities

APNT's market share of industry capacity has come down

Exhibit 60: Capacity market share of APNT, March fiscal year-ends, 2016-25 (%)



Source: Company, industry data, Kotak Institutional Equities

Profitability of incumbents saw a sharp decline in FY2025 and is expected to remain weak over FY2026-28E

Exhibit 61: Gross and EBITDA margins of paint companies, March fiscal year-ends, 2019-28E (%)

	Gross margin (%)										EBITDA margin (%)									
	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Asian Paints	41.4	43.7	44.3	37.1	38.7	43.4	42.4	42.7	42.5	42.0	18.2	20.6	22.4	16.5	18.2	21.4	17.7	18.0	17.8	17.8
Berger Paints	39.0	41.5	43.3	38.0	36.3	40.7	41.4	41.6	41.8	42.1	14.5	16.7	17.4	15.2	14.1	16.6	16.1	15.8	16.0	16.5
Kansai Nerolac	36.2	38.1	37.9	30.0	30.0	35.5	35.3	35.8	35.8	36.0	14.3	15.8	17.8	10.5	11.2	13.8	13.0	13.5	13.6	14.1

Source: Companies, Kotak Institutional Equities estimates

We see more challenges in the homecare and packaged food categories, given the low association of consumers with brands in these product categories. It is quite difficult to differentiate products in low-association products such as homecare and low-value-added products such as packaged foods. However, personal care products may fare better, given higher consumer preference to stick to trusted brands. Exhibit 62 shows the estimated share of revenues of major consumer staples companies from high-association and low-association products in home care and personal care.

Most companies have a reasonable share of 'low-association' products in their portfolio, which may be susceptible to competition

Exhibit 62: Share of revenues of consumer companies in high-association and low-association categories, March fiscal year-end, 2025 (%)

	Revenue salience (%)				
	Home care		Personal care		Others
	High-association	Low-association	High-association	Low-association	
Colgate	—	—	82	18	—
Dabur	—	4	30	—	66
Godrej Consumer	10	15	6	26	44
Hindustan Unilever	15	17	23	16	29
Jyothy Labs	10	75	—	11	4
Marico	—	—	22	37	41

Notes:
(a) CLGT: Toothpaste and skin care considered in high-association whereas toothbrushes in low.
(b) DABUR: Hair/oral/skin care considered in high-association while air freshener/toilet cleaner/mosquito repellents in low.
(c) GCPL: HI liquid vaporizer in high and coils/incense sticks/aerosols/air freshener in low; hair color in high and soaps in low.
(d) HUVR: In HC, Surf Excel considered in high-association and rest of the portfolio in low. In PC, soaps is considered in low-association whereas all other PC (skin/oral/hair care/color cosmetics) categories in high.
(e) MRCO: Coconut oils considered in low-association while all other PC segments (VAHO/premium personal care) in high.
(f) JYL: Ujala Fabric whitener considered in high-association and others in low.
(g) International revenues for all companies considered in others.

Source: Companies, Kotak Institutional Equities estimates

We see more competition from (1) incumbents who have already entered or will want to enter new product categories outside their established categories and (2) new entrants who have entered or will enter the market, enticed by the high profitability of incumbents. Retailing companies have launched their own private label brands for packaged foods and their growing reach in the modern trade channel should result in them garnering volumes at the expense of the incumbent consumer staple companies (see Exhibit 63). Similarly, the growing acceptance of home delivery through quick commerce (q-com) platforms for purchase of HPC and other staples may result in (1) households trying new brands available on QC platforms and (2) QC companies launching their own private label brands over time.

DMART and Reliance Retail have large offerings of private labels across categories

Exhibit 63: Private labels of DMART and Reliance Retail versus incumbents

	DMART	Reliance Retail	Incumbents
Beverages	Go Fruit	Yeah!, Campa Cola, Bubbles	Real (DABUR), Tropicana (Pepsico), Coca Cola, Pepsi
Biscuits & snacks	Bisky Bites, Gula Gula, Nutri Delite	Snactac	Britannia, Parle, Sunfeast (ITC)
Coffee, tea	House Coffee	Kaffe, Aarambh	Red label (HUVR), Tata Tea (TCPL), Nescafe
Dairy		Reliance Dairy Life	Amul, Everyday (NEST)
Food products	Premia, Swaad, Home Chef, Royal, Coconourish	Best Farms, Good Life, Reliance Select, Desi Kitchen	Aashirvaad (ITC), Haldiram, Knorr (HUVR), MTR, MasterChef (ITC), McCain
Home care	Star Bright, Sparkle, Reflect, Force10, Sof n Fluffy, Priskleen	Puric, My home, Enzo, Samvaad	Surf (HUVR), Vim (HUVR), Harpic (Reckitt Beckinser), Good night (GCPL), Hit (GCPL), Lizol (Reckitt Beckinser), ITC (Mangaldeep)
Instant noodles		Snactac	Maggi (NEST), Yippee (ITC), Saffola Oodles (MRCO)
Personal care	Grace, Ayurmix, OralDent, HandAid	Calcident, Get Real, Petals, Safe Life	Colgate (CLGT), Life Buoy (HUVVR), Lux (HUVR), Cinthol (GCPL), Dettol (Reckitt Beckinser), Whisper (P&G)

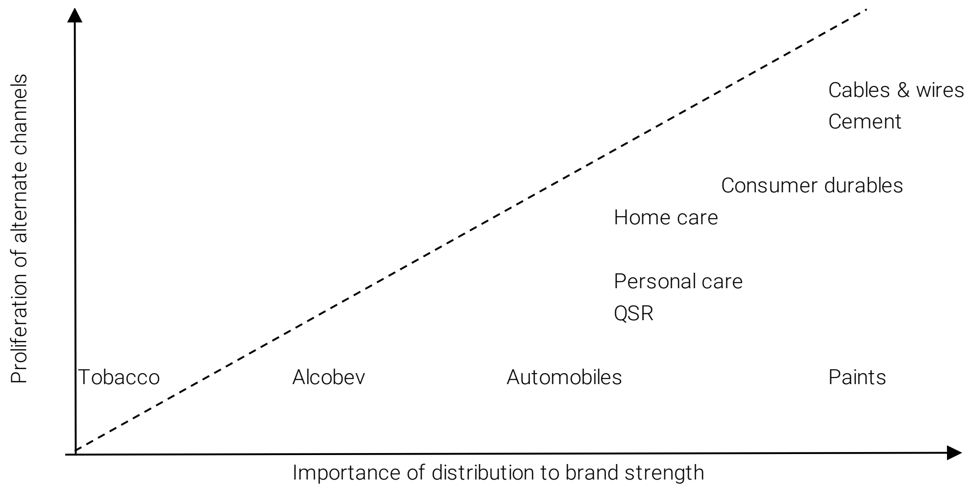
Source: Companies, Kotak Institutional Equities

Dilution risk from change in distribution

Exhibit 64 details our assessment of the threat to incumbents in these segments due to ongoing changes in the distribution channels. In our view, several semi-branded commodities, especially in the building and construction materials sectors (cables & wires, cement, pipes & fittings, plywood/laminates and tiles, among others) could potentially become commodities due to a change in the distribution channel to B2B or institutional channel from the extant B2C or retail channel.

Semi-branded commodities are at greatest risk from erosion of their distribution moats

Exhibit 64: Impact of erosion of distribution moats across consumer categories

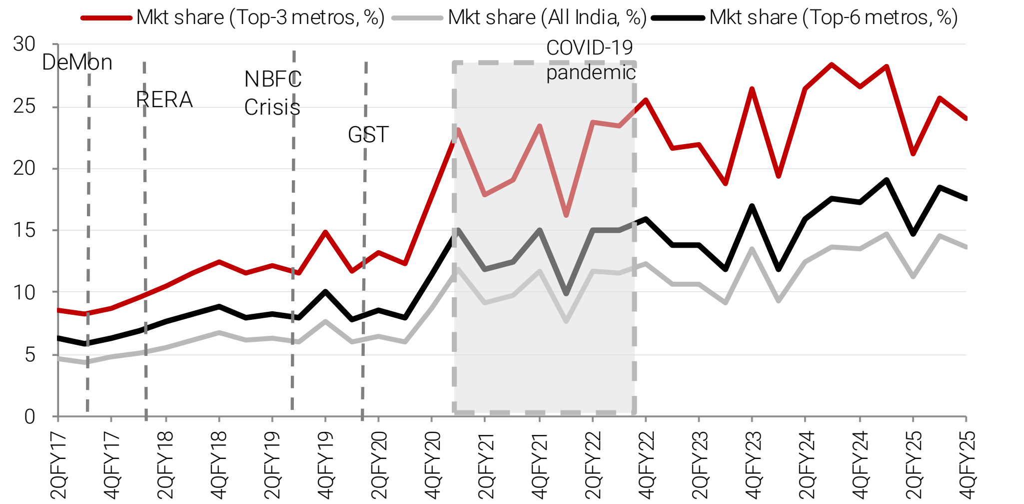


Source: Kotak Institutional Equities estimates

- **Building and construction materials.** We note that India's residential real estate market is steadily transitioning from single-house developments to multi-apartment and multi-building developments, with the market share of large developers seeing a steady increase in the past decade (see Exhibit 65), which may increase the bargaining power of developers. We expect the share of B2B sales in overall sales to increase over time, which would reduce the relevance of the B2C distribution channel (except for replacement). The higher sales of B2B or institutional sales will likely have negative implications on pricing, profitability and returns of building material companies.

Steady increase in market share of listed real estate players over the past eight years

Exhibit 65: Market share of listed real estate players, March fiscal year-ends, 2017-25 (%)



Notes:

(a) Listed players include Brigade, DLF, Godrej, Lodha, Oberoi, Prestige, Sobha and Sunteck.

(b) Lodha has been included in the list of players from 4QFY20.

Source: PropEquity, Kotak Institutional Equities

- **Consumer staples.** We expect the evolution of non-traditional distribution channels (D2C, modern trade including e-com and q-com) to result in (1) a steady increase in competitive intensity across consumer staples products and (2) gradual erosion in the market share of the incumbent consumer staples companies.

  Exhibit 66 shows that the general trade (GT) channel still accounts for the major share of revenues of the FMCG companies. This highlights the risks to the incumbent companies, as the share of the modern trade and digital (e-com, q-com) will increase rapidly over time at the expense of the GT channel. The new trade channels will also make it easier for (1) entrants and incumbents to offer new offerings in other product categories and (2) modern, e-com and q-com retailers to launch their private label brands. We expect the distribution edge of incumbents to gradually diminish, especially in the case of urban sales. We note that urban India accounts for a larger share of overall revenues of FMCG companies. Exhibit 67 shows the approximate share of urban and rural sales for a few consumer companies under our coverage.

General trade still accounts for the major share of revenues of FMCG companies in India

Exhibit 66: Channel-wise revenue split of FMCG companies in India (%)

Particulars	General trade	Modern trade	E-com./ Quick-com.
Dabur	75	15	10
Hindustan Unilever	70	20	10
ITC	75	15	10
Marico (domestic sales)	70	19	11
Nestle	79	13	9
Tata Consumer (India revenue ex NourishCo)	71	14	15

Notes:

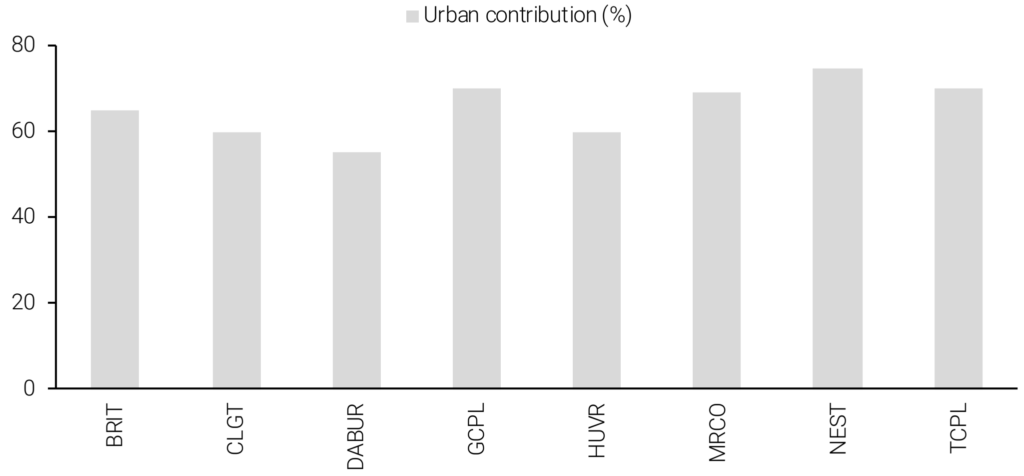
(a) HUL's channel split is as per KIE estimates. HUL disclosed digital demand capture at 30%.

(b) GT/MT splits of HUL, NEST, DABUR are as per KIE estimates

Source: Company, Kotak Institutional Equities estimates

Urban sector has higher share of revenues of consumer staple companies

Exhibit 67: Share of urban in revenues of major consumer staple companies, March fiscal year-end, 2025 (%)



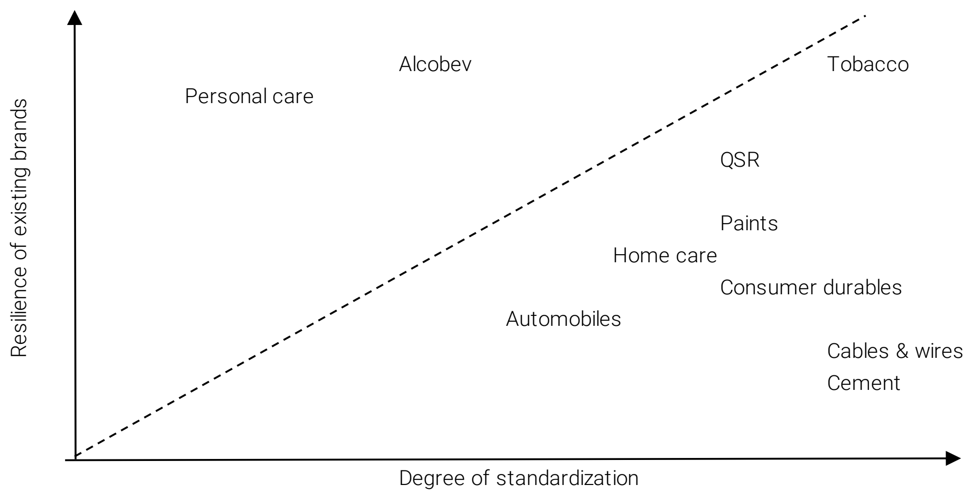
Source: Company, Kotak Institutional Equities

Dilution risk from standardization

Exhibit 68 shows our qualitative assessment of the impact across various consumer categories, based on our understanding of the ease of 'standardization' and resilience of incumbents. In our view, the consumer durables sector appears to be under the highest threat from increasing standardization, with the threat of standardization being minimal for 'high-involvement' products, where consumer companies create a more personalized offering. More importantly, the price-value proposition of various brands is broadly similar (see Exhibits 69-70), which makes it very hard for any particular brand to stand out on any of the parameters relevant to brands.

Standardization is a large threat across many consumer categories

Exhibit 68: Threat of standardization across various consumer categories



Source: Kotak Institutional Equities estimates

AC prices are mostly cluttered around similar price points

Exhibit 69: Price comparison of 1-ton 5-star rated inverter split AC, June 2025 (Rs)

Source: Industry, Kotak Institutional Equities

Most AC companies have limited product differentiation and similar customer satisfaction scores

Exhibit 70: Technical comparison and customer rating scores across major AC companies for their 1.5 ton 5-star inverter ACs

Company	Key specifications	Customer rating (#)
Blue Star	60 months warranty, Wi-Fi smart, convertible 5-in-1 cooling, AI pro, voice command, DigiQ Hepta sensors, 4 way swing	3.6 out of 5 stars
Daikin	PM 2.5 filter, triple display, dew clean technology	4.2 out of 5 stars
LG	Super convertible 6-in-1 cooling, 4 way swing, HD filter with antivirus protection	4.0 out of 5 stars
Lloyd	5-in-1 convertible, copper, anti-viral + PM 2.5 filter	4.1 out of 5 stars
Panasonic	Wi-Fi inverter, copper condenser, 7in1 convertible, 4-Way, PM 0.1 Filter,	4.0 out of 5 stars
Voltas	4-in-1 adjustable mode, anti-dust filter, 2023 model	4.0 out of 5 stars
Godrej	5-in-1 convertible cooling, heavy-duty cooling at 52 deg Celsius	3.8 out of 5 stars

Source: E-commerce portals, Kotak Institutional Equities

Risk from change in consumer behavior

In our view, several consumer products and segments could face moderation in growth in the medium term (3-5 years) and a decline in volumes on a per capita basis in the long term (>5 years) as consumers switch over to other products or reduce consumption of the products for (1) environment, (2) health and/or (3) lifestyle reasons. We place various product categories in various 'risk' buckets in Exhibit 71.

A number of consumer categories are facing modest to high threats from the change in consumer behavior

Exhibit 71: Assessment of long-term volume risk to various consumer products from the change in consumer behavior

	Environment	Health	Lifestyle
Alcobev	Low	High	High
Automobiles-ICE	High	Low	Modest
Cables and wires	Low	Low	Low
Cement	High	Low	Low
Consumer durables	Moderate	Low	Low
Home care	High	Low	Moderate
Jewelry	Low	Low	Moderate
Paints	High	Low	Low
Personal care	High	Low	Moderate
QSR	Low	Moderate	Moderate
Tobacco	Low	High	High

Notes:
(a) Environment risk of home and personal care stems from their high use of plastic packaging.

Source: Kotak Institutional Equities estimates

We see two major risks that may change the growth prospects of certain products versus market expectations—(1) top-down government regulations and policies on harmful products such as alcohol, sugar and tobacco and (2) bottom-up consumer behavior changes.

- **Alcobev.** Consumption trends of alcohol in India may be shaped by two contrasting factors—(1) tailwinds from a young demography and income-led increase in per capita consumption versus (2) headwinds from growing health awareness and moderation in per capita consumption for 'established' consumers (tipplers). We note that India's per capita alcohol consumption is quite low and has seen steady growth (see Exhibit 72). However, per capita consumption of alcohol has seen a modest decline across a number of OECD countries (see Exhibit 73).

India's per capita alcohol consumption is quite low

Exhibit 72: Cross-country comparison of alcohol consumption, calendar year-end, 2024 (l/capita)

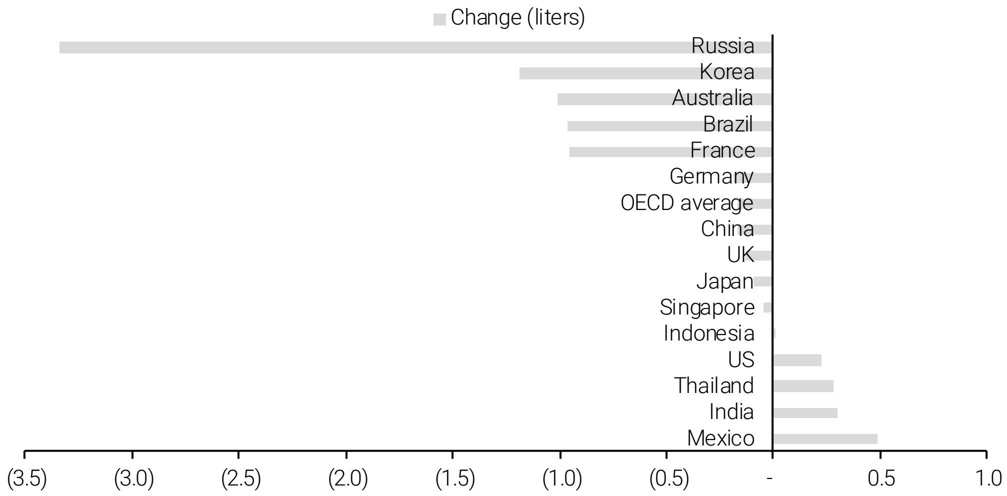
	Beer	Spirits	Wine
Brazil	75	4.9	2
China	33	7.1	2
France	50	5.8	53
Germany	111	5.0	25
India	5	3.3	0
Japan	27	4.6	3
Spain	92	5.8	30
UK	70	5.9	29
USA	78	8.4	14
World	**32**	**5.4**	**5**

Notes:
(a) Spirits consumption includes unorganized sector sales.
(b) Organized sector volumes is only 15-20% of total spirits volumes.

Source: Company, Euromonitor, World Bank, Kotak Institutional Equities

OECD countries have seen a decline in per capita alcohol consumption over 2010-19

Exhibit 73: Change in per capita alcohol consumption in major countries over 2010-19 (liters)



Source: WHO, Kotak Institutional Equities

Furthermore, the Indian alcobev sector faces the perpetual risk of state governments changing regulations and policies to discourage alcohol consumption. We note that excise duties and VAT account for a large proportion of the maximum retail price (MRP) of alcoholic products in India and have high variance across states, which constrains the overall profitability of the sector; see Exhibit 74 for the math of beer as an example.

Sharp variance in profitability across states for beer due to large variance in state taxes in India

Exhibit 74: Snapshot of volumes, volume share, ex-brewery price (EBP), MRP and estimated gross profit across states

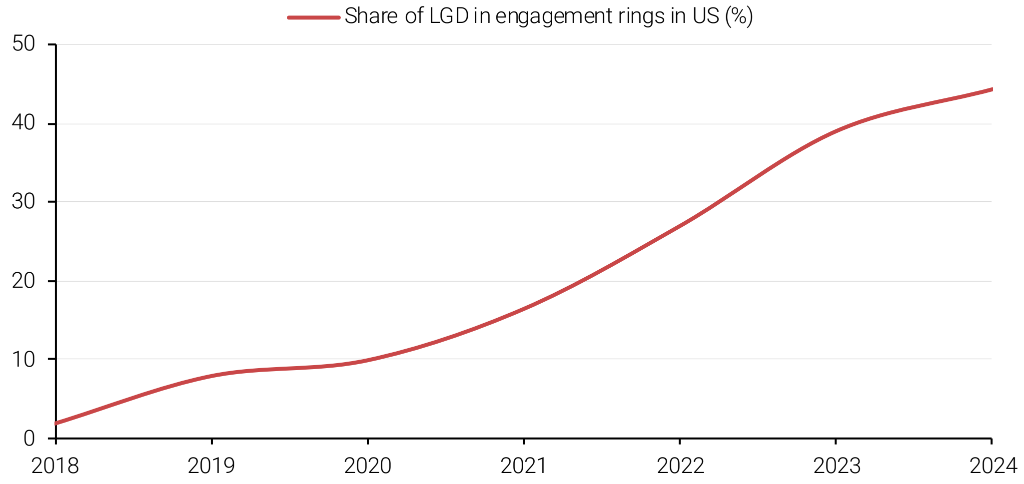
	Mainstream (650 ml x 12)			Mainstream (650 ml x 12)			Premium (650 ml x 12)			Premium (650 ml x 12)		
	RM cost	Gross Profit	GM	EBP	MRP	EBP/MRP	RM cost	Gross Profit	GM	EBP	MRP	EBP/MRP
State	(Rs/case)	(Rs/case)	(%)	(Rs/case)	(Rs/case)	(%)	(Rs/case)	(Rs/case)	(%)	(Rs/case)	(Rs/case)	(%)
States with healthy profitability												
Assam	210	210	50	420	1,560	27	230	456	66	686	2,400	29
Delhi	210	230	52	440	1,620	27	230	417	64	647	2,400	27
Goa	210	369	64	579	1,200	48	230	523	69	753	1,560	48
Karnataka	210	377	64	587	1,860	32	230	515	69	745	2,340	32
Madhya Pradesh	210	379	64	589	2,376	25	230	572	71	802	3,240	25
Maharashtra	210	270	56	480	2,220	22	230	380	62	610	2,760	22
Tamil Nadu	210	343	62	553	1,560	35	230	489	68	719	2,028	35
Uttar Pradesh	210	509	71	719	1,440	50	230	770	77	1,000	1,680	60
Total	**180**	**316**	**64**	**496**	**1,586**	**31**	**197**	**430**	**69**	**627**	**2,028**	**31**
States with low profitability												
Andhra Pradesh	210	139	40	349	2,520	14	230	270	54	500	3,120	16
Haryana	210	170	45	380	1,800	21	230	373	62	603	2,160	28
Kerala	210	175	45	385	1,320	29	230	271	54	501	1,716	29
Odisha	210	154	42	364	1,680	22	230	470	67	700	2,520	28
Rajasthan	210	107	34	317	1,740	18	230	422	65	652	3,180	21
Telangana	210	100	32	310	2,280	14	230	191	45	421	3,000	14
West Bengal	210	150	42	360	1,620	22	230	270	54	500	2,160	23
Total	**210**	**126**	**38**	**336**	**2,016**	**17**	**230**	**278**	**55**	**508**	**2,805**	**18**
Total (for all states)	**204**	**187**	**48**	**391**	**1,526**	**26**	**224**	**327**	**59**	**554**	**2,114**	**26**

Source: Industry, Kotak Institutional Equities estimates

- **Jewelry.** In our view, the Indian jewelry industry and the jewelry purchase mix of households will both evolve over the next few years with the emergence of LGDs at far lower prices than natural diamonds (NDs). Indian households could change the established pattern of consumption of jewelry (through gold or studded gold jewelry) by separating the dual role of gold jewelry (store of value and statement of fashion) into (1) the purchase of gold bullion for store of value and (2) the purchase of LGD-studded jewelry rather than ND-studded jewelry for fashion, given very low resale value of NDs and LGDs. We note that LGDs have seen a steady increase in market share in global markets over the past decade (see Exhibit 75).

Sharp increase in share of LGDs in US engagement ring market

Exhibit 75: Share of LGD in engagement rings in the US, calendar year-ends, 2018-24 (%)



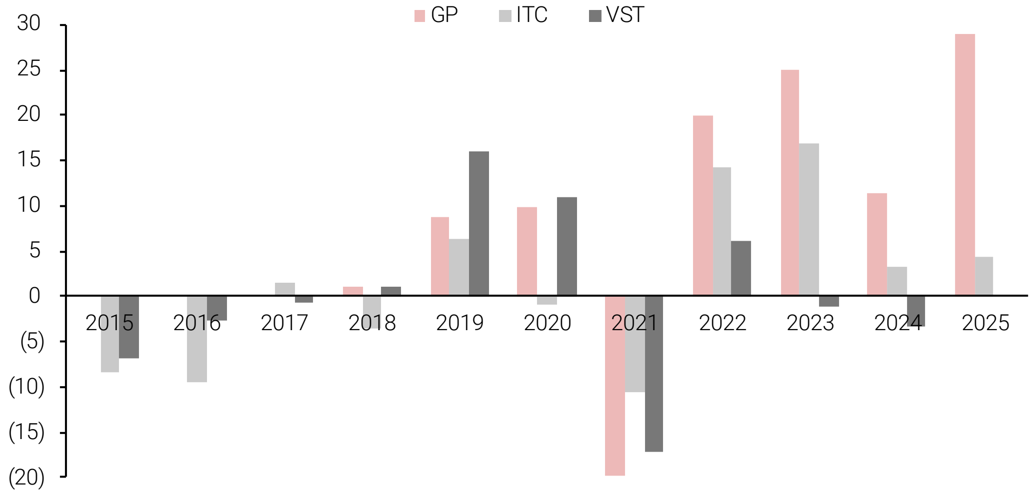
Source: Industry, Kotak Institutional Equities

The key questions are (1) the level of acceptance and (2) the pace of uptake of LGDs in studded jewelry by Indian households. At this early stage, we will take the risk of hypothesizing (1) women will probably use a combination of NDs and LGDs in studded jewelry, (2) the share of LGD-studded jewelry in overall household jewelry purchases will likely increase over time and (3) the mix of gold, natural diamond- and LGD-studded jewelry among households will depend on education and income levels.

- **Tobacco.** The health risks associated with consumption of tobacco products is a well-understood danger to the long-term volume assumptions of tobacco companies. However, consumption of cigarettes has been broadly steady in India in recent years, despite the well-advertised harmful impact of tobacco. We note that ITC's cigarette volume growth has seen steady growth while GP has seen explosive growth in recent years (see Exhibit 76), after witnessing large weakness over FY2014-16, led by sharp increase in taxes during this period.

ITC has seen a modest volume growth, while Godfrey has seen strong volume growth in cigarettes in recent years

Exhibit 76: Volume growth of major cigarette companies in India, March fiscal year-ends, 2015-25 (%)



Source: Companies, Kotak Institutional Equities

The continued strong growth in cigarette volumes may prompt a rethink in the taxation policy of the government. The government has opted for a low increase in tax on cigarettes in the past few years versus a much higher increase in tax on cigarettes prior to that. We would note that the current tax rate on cigarettes in India at around 53% is still lower than the WHO's recommended tax rate of 75% of the retail price. As such, tobacco will run the perpetual risk of an increase in tax rates, especially if cigarette consumption was to grow strongly in India.

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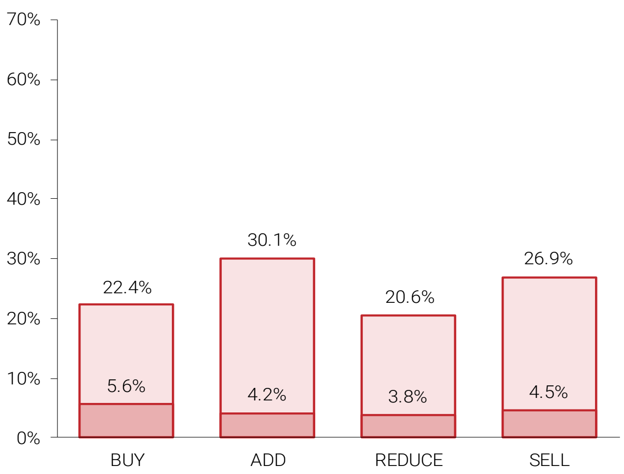

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Source: Kotak Institutional Equities

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