

Consumer Goods

KTAs from investor meetings with multi-brand FMCG distributor

Sector Report

Sector Report

January 16, 2024

NIFTY 50: 22,032

We hosted a multi-brand, large distributor of FMCG products based in Uttar Pradesh. He noted that sector demand recovery remains elusive, with lackluster festive and winter seasons in 2023, following a weak monsoon. Food and Beverages (F&B) is seeing better growth vs the Home and Personal-care (HPC) segment. He caters to the agri belt, which has been hit by poor monsoons, but he foresees a positive consumption trend for discretionary segments (durables, telecom, automotive), wherein EMI is an enabler. He is optimistic about recovery in 2024, on the back of a low base and hopes of a better summer; the elections are unlikely to have any material effect on demand, though. Restoring channel hygiene and dialing up innovation would be key going ahead. HUL's recent margin alignment is likely to have a neutral effect on demand recovery. We maintain our preference for Dabur, ITC, and Emami, while avoiding Colgate.

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FMCG demand setting still muted; hopes of revival with a better summer

Rural weakness continues to impact FMCG growth. Winter & festive period sales stayed muted in 2023, though some regional festivals saw transient demand pick-up in select categories. EMI options gave affordability for a few discretionary segments. Surge in consumer spend is seen in higher shelf-life categories. Penetration of urban discretionary brands in Rural is helping establish new entrants. The distributor is positive about demand recovery, on a low base and expectation of a better season in FY25. F&B category is doing relatively better than HPC. Of the FMCG categories, demand for the Laundry segment remains robust, while that for health-focused, mass-end segments like HFD and Health Supplements stays weak. Innovation, which has seen a significant flag-down in the last couple of years, could be a reason for such weakness. In his catchment, there is not much competition surge, as large FMCG companies are holding on to LUP packs.

Channel hygiene restoration key for General Trade

The distributor echoed the thoughts of major FMCG distributors, stating that channel dumping continues to hurt business. Simultaneously, companies are looking to optimize trade margin, which has a bearing on profitability. This has propelled distributors towards multiple-brand offerings now. He believes that compared with the last five years, the distribution moat has diminished for large companies. To support revenue and maintain profitability, distributors are partnering with newer brands. D2C brands taking a product offline is a tad easier, as brand visibility has improved across premium retail outlets. The recent change in channel margin by HUL is likely to be neutral for the distributor, on expectation of growth recovery. If recovery stays elusive, distributors will be under pressure. With respect to HUL, he is appreciative of the OTP-based retail delivery.

Dabur, ITC, Emami remain top picks in our coverage universe

FMCG sector valuations continue to uphold on market opportunity and expected demand recovery in FY25. We remain positive on Dabur, ITC, and Emami, for which we see better execution and relatively attractive valuations. We remain negative on Colgate, given lack of structural growth and a high margin base from Q4.

Rating, Target Price and Valuation

	Rating	CMP (Rs/sh)	TP (Rs/sh)	Upside (%)	P/E (x)		EV/EBITDA (x)	
					FY25E	FY26E	FY25E	FY26E
Britannia Industries	REDUCE	5,131	5,450	6	50.6	43.7	34.6	30.5
Colgate-Palmolive	SELL	2,500	1,825	(27)	50.7	46.8	34.4	31.9
Dabur India	BUY	559	660	18	42.8	38.1	31.6	27.7
Emami	BUY	528	675	28	28.0	25.1	20.0	17.8
Godrej Consumer Products	ADD	1,123	1,325	18	47.9	40.8	32.1	28.1
Hindustan Unilever	ADD	2,569	2,800	9	52.0	46.6	36.7	32.9
ITC	BUY	472	550	16	26.6	24.5	20.6	18.9
Marico	REDUCE	532	570	7	43.2	38.7	30.7	27.6

Source: Company, Emkay Research

Top-10 takeaways from distributor meeting

We hosted a large multi-brand distributor of FMCG products based in Uttar Pradesh. Key takeaways from our road show:

- **Rural demand recovery remained elusive; expected recovery in 2024:** The demand scenario has been weak since the second Covid-19 wave and households have seen depletion in savings and hence resorted to borrowing. Government support in the form of free food grain and subsidized offerings has propped up household savings. But there is need for parking some funds towards healthcare needs. The distributor is positive about improvement in the demand setting, backed by a low base and better sales going ahead. He does not see any material improvement in demand owing to the elections, though.
- **Agriculture requires better monsoon support:** Agriculture is the prime revenue source for households in the distributor's market. The last couple of years have seen weak monsoons and thus low quality of output. He believes rain water aids better output, while usage of pump water impacts quality (wheat & paddy output thin due to use of pump water).
- **Spends on discretionary hurting FMCG consumption:** The distributor noted that consumers in his market are incrementally spending on discretionary offerings. EMI convenience has been enabling sales of durable, automotive, and telecom products. Additionally, consumers favor consumption categories like jewelry, durable products, and automotive, which have a longer shelf-life. FMCG product usage is essential, albeit limited (consumption repetitive in nature); as such, enhanced spend is missing.
- **Category insights:** Among FMCG categories, the distributor continues to see Laundry growing at a healthy pace. In his market, liquid-products share expanded to a mid-single digit, while bar-sales contribution reduced to the mid-teens. Hair oil as a category has been under pressure, wherein consumers have shifted to low-priced offerings. The toothpaste category has seen 'naturals' holding up and fresh/gel witnessing good growth. In skin care, *Glow and Lovely* is now seeing improved growth, largely driven by the Rs5 tube pack SKU. Additionally, face-wash offtake has seen improvement. In beverages, Dabur has launched *Real Koolerz* at Rs5 which is faring well. The health supplements category has been hard-pressed in the mass-end, given that consumers in his market have adopted healthy habits. Edible oil has seen increased competition from Emami. The *Saffola* brand remained distressed, given increased options for consumers. Sanitary pad as a category has seen faster growth, largely driven by local players who have been able to offer products at affordable pricing. In naturals, *Patanjali* continues to do well in the distributor's market, given a loyal consumer base.
- **F&B seeing faster growth vs HPC:** The distributor contends that significant growth has eluded Home & Personal-Care portfolio, with the exception of the detergents category. In contrast, the Foods & Beverages segment consistently propels the overall growth. Additionally, F&B presents a market opportunity that is 10x larger than BPC, where 70% of the market is dominated by unorganized players.
- **Festive and winter seasons see muted demand in 2023:** From the near-term perspective, the distributor noted that the weak winter affected tertiary sales. Even the current drop in temperature is too harsh to help revive demand. From the festive period viewpoint, the demand setting has remained muted, though there has been surge in demand for cosmetic products during some regional festivals.
- **Innovation intensity saw significant slow-down:** The distributor believes the perceived lack of material innovation in FMCG categories could be a significant reason for the slowdown in growth. In the health-food drinks category, HUL has apparently limited its introductions to small packs, potentially hindering growth. Introduction of new packs for a wider cohort has not seen material offtake. Even in health supplements, Dabur's endeavor of introducing tablets has not worked well. In select categories, traditional players lag regional peers, in terms of innovation.
- **LUP focus helps protect market share:** The distributor considers his catchment area as largely Rural, where FMCG companies have maintained presence in LUP. This is unlike other markets, where FMCG players have been making attempts to up trade consumers to bridge-packs. Unlike in other markets, the competitive setting remains firm in his market, where his coverage companies have maintained market share.

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- **Distribution – Restoring general trade hygiene key:** FMCG companies continue to rely on modern retail channels for faster growth. Some modern retail channel partners have started supply to retail outlets which is hurting distributor sales. Revenue share data from FMCG companies is factoring primary sales; on tertiary-sales basis general trade sales continuation is higher. With digitization of channels, it is easier for players to restore hygiene, but their focus has been 'growth'. Additionally, he noted the issue of bogus stores in his market, where players like HUL have started addressing this with last-mile delivery via OTP.
- **Trade margin changes from HUL may have a bearing on the persistent demand weakness:** On the recent restructuring of the margin by HUL, the distributor has a neutral stance, as he has faith in demand revival ahead, which will help distributors maintain overall margin. On the other hand, he considers a muted demand setting as margin dilutive. Additionally, with scale, distributors are unlikely to give up distribution; rather, to revive profitability, distributors are open to new company partnerships. He sees this as weakening of the moat, where new players now have a better chance of success in General Trade. Honasa Consumer has been able to make inroads into his market, with fare visibility in premium outlets.

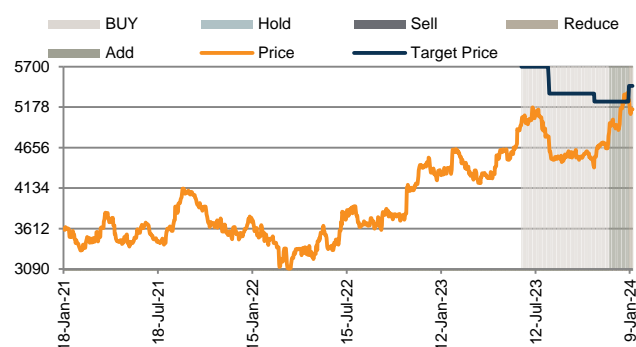
BRITANNIA INDUSTRIES

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jan-24	5,272	5,450	Reduce	Nitin Gupta
12-Dec-23	4,903	5,250	Add	Nitin Gupta
30-Nov-23	4,853	5,250	Add	Nitin Gupta
24-Nov-23	4,644	5,250	Buy	Nitin Gupta
02-Nov-23	4,527	5,250	Buy	Nitin Gupta
20-Oct-23	4,580	5,350	Buy	Nitin Gupta
03-Oct-23	4,495	5,350	Buy	Nitin Gupta
28-Aug-23	4,511	5,350	Buy	Nitin Gupta
15-Aug-23	4,500	5,350	Buy	Nitin Gupta
07-Aug-23	4,660	5,350	Buy	Nitin Gupta
06-Aug-23	4,799	5,550	Buy	Nitin Gupta
18-Jun-23	5,045	5,700	Buy	Nitin Gupta
15-Jun-23	4,975	5,700	Buy	Nitin Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

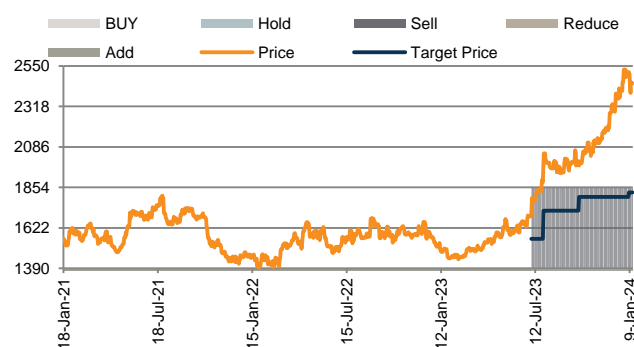
COLGATE-PALMOLIVE

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jan-24	2,515	1,825	Sell	Nitin Gupta
12-Dec-23	2,336	1,800	Sell	Nitin Gupta
30-Nov-23	2,196	1,800	Sell	Nitin Gupta
24-Nov-23	2,195	1,800	Sell	Nitin Gupta
26-Oct-23	2,034	1,800	Sell	Nitin Gupta
24-Oct-23	2,076	1,800	Sell	Nitin Gupta
20-Oct-23	2,111	1,800	Sell	Nitin Gupta
03-Oct-23	1,978	1,800	Sell	Nitin Gupta
28-Aug-23	1,936	1,720	Sell	Nitin Gupta
22-Aug-23	1,940	1,720	Sell	Nitin Gupta
15-Aug-23	1,963	1,720	Sell	Nitin Gupta
27-Jul-23	2,002	1,720	Sell	Nitin Gupta
04-Jul-23	1,705	1,560	Sell	Nitin Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

DABUR INDIA

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jan-24	569	660	Buy	Nitin Gupta
07-Jan-24	569	660	Buy	Nitin Gupta
04-Jan-24	566	650	Buy	Nitin Gupta
04-Jan-24	566	650	Buy	Nitin Gupta
12-Dec-23	549	650	Buy	Nitin Gupta
12-Dec-23	549	650	Buy	Nitin Gupta
30-Nov-23	538	650	Buy	Nitin Gupta
30-Nov-23	538	650	Buy	Nitin Gupta
24-Nov-23	537	650	Buy	Nitin Gupta
24-Nov-23	537	650	Buy	Nitin Gupta
03-Nov-23	536	650	Buy	Nitin Gupta
03-Nov-23	536	650	Buy	Nitin Gupta
20-Oct-23	525	650	Buy	Nitin Gupta
20-Oct-23	525	650	Buy	Nitin Gupta
19-Oct-23	526	650	Buy	Nitin Gupta
19-Oct-23	526	650	Buy	Nitin Gupta
06-Oct-23	547	650	Buy	Nitin Gupta
06-Oct-23	547	650	Buy	Nitin Gupta
03-Oct-23	554	650	Buy	Nitin Gupta
03-Oct-23	554	650	Buy	Nitin Gupta

Source: Company, Emkay Research

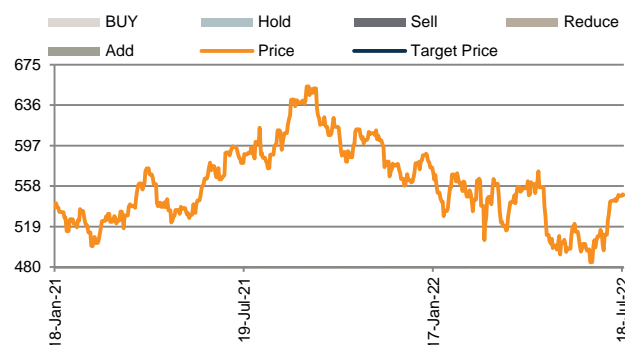
EMAMI

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jan-24	565	675	Buy	Nitin Gupta
07-Jan-24	565	675	Buy	Nitin Gupta
31-Dec-23	564	625	Buy	Nitin Gupta
31-Dec-23	564	625	Buy	Nitin Gupta
12-Dec-23	495	625	Buy	Nitin Gupta
12-Dec-23	495	625	Buy	Nitin Gupta
30-Nov-23	506	625	Buy	Nitin Gupta
30-Nov-23	506	625	Buy	Nitin Gupta
24-Nov-23	504	625	Buy	Nitin Gupta
24-Nov-23	504	625	Buy	Nitin Gupta
06-Nov-23	519	625	Buy	Nitin Gupta
06-Nov-23	519	625	Buy	Nitin Gupta
20-Oct-23	510	625	Buy	Nitin Gupta
20-Oct-23	510	625	Buy	Nitin Gupta
03-Oct-23	535	625	Buy	Nitin Gupta
03-Oct-23	535	625	Buy	Nitin Gupta
25-Sep-23	515	625	Buy	Nitin Gupta
25-Sep-23	515	625	Buy	Nitin Gupta

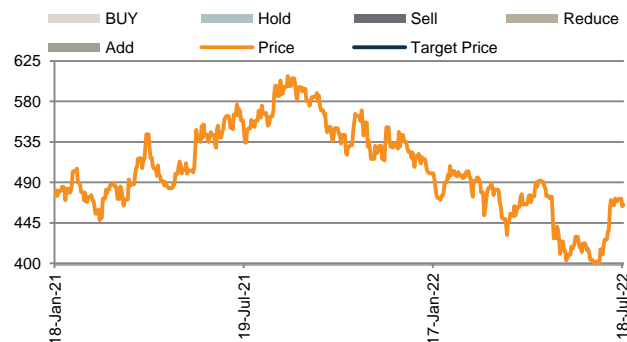
Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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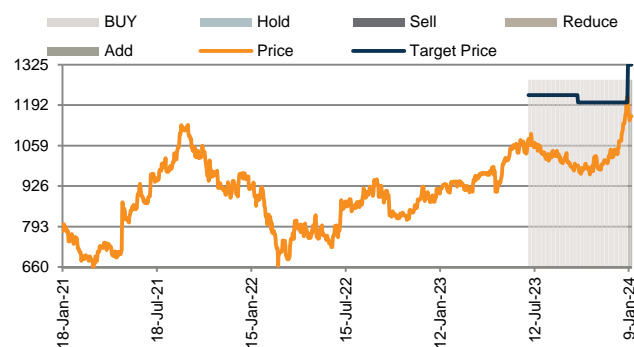
GODREJ CONSUMER PRODUCTS

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jan-24	1,220	1,325	Add	Nitin Gupta
12-Dec-23	1,032	1,200	Buy	Nitin Gupta
30-Nov-23	1,008	1,200	Buy	Nitin Gupta
24-Nov-23	1,010	1,200	Buy	Nitin Gupta
17-Nov-23	997	1,200	Buy	Nitin Gupta
01-Nov-23	975	1,200	Buy	Nitin Gupta
20-Oct-23	988	1,200	Buy	Nitin Gupta
03-Oct-23	993	1,200	Buy	Nitin Gupta
28-Aug-23	1,028	1,225	Buy	Nitin Gupta
15-Aug-23	1,036	1,225	Buy	Nitin Gupta
08-Aug-23	1,009	1,225	Buy	Nitin Gupta
30-Jun-23	1,081	1,225	Buy	Nitin Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

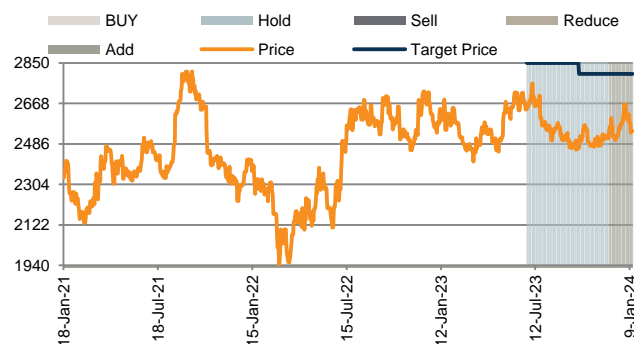
HINDUSTAN UNILEVER

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jan-24	2,620	2,800	Add	Nitin Gupta
12-Dec-23	2,503	2,800	Add	Nitin Gupta
30-Nov-23	2,546	2,800	Add	Nitin Gupta
24-Nov-23	2,515	2,800	Hold	Nitin Gupta
20-Oct-23	2,495	2,800	Hold	Nitin Gupta
03-Oct-23	2,469	2,800	Hold	Nitin Gupta
28-Aug-23	2,556	2,850	Hold	Nitin Gupta
15-Aug-23	2,533	2,850	Hold	Nitin Gupta
20-Jul-23	2,703	2,850	Hold	Nitin Gupta
25-Jun-23	2,642	2,850	Hold	Nitin Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

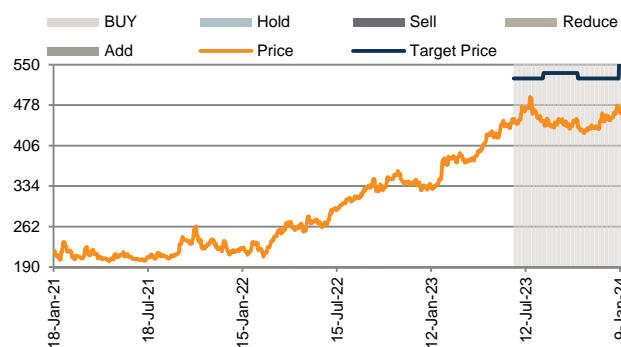
ITC

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jan-24	474	550	Buy	Nitin Gupta
13-Dec-23	456	525	Buy	Nitin Gupta
12-Dec-23	453	525	Buy	Nitin Gupta
30-Nov-23	436	525	Buy	Nitin Gupta
24-Nov-23	438	525	Buy	Nitin Gupta
20-Oct-23	438	525	Buy	Nitin Gupta
03-Oct-23	440	535	Buy	Nitin Gupta
28-Aug-23	441	535	Buy	Nitin Gupta
15-Aug-23	449	535	Buy	Nitin Gupta
28-Jul-23	468	525	Buy	Nitin Gupta
24-Jul-23	471	525	Buy	Nitin Gupta
15-Jul-23	473	525	Buy	Nitin Gupta
19-Jun-23	454	525	Buy	Nitin Gupta

Source: Company, Emkay Research

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Source: Bloomberg, Company, Emkay Research

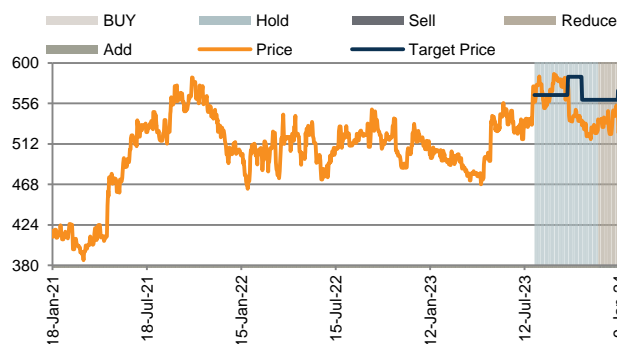
MARICO

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jan-24	546	570	Reduce	Nitin Gupta
12-Dec-23	540	560	Reduce	Nitin Gupta
30-Nov-23	539	560	Reduce	Nitin Gupta
24-Nov-23	524	560	Hold	Nitin Gupta
30-Oct-23	532	560	Hold	Nitin Gupta
20-Oct-23	542	585	Hold	Nitin Gupta
04-Oct-23	571	585	Hold	Nitin Gupta
03-Oct-23	576	585	Hold	Nitin Gupta
28-Aug-23	558	565	Hold	Nitin Gupta
15-Aug-23	568	565	Hold	Nitin Gupta
31-Jul-23	561	565	Hold	Nitin Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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