



Top Conviction Ideas: FMCG

Suhanee Shome

Price-led Growth with Rural Outpacing Urban

- **Price Hikes Drive Growth, Rural Stays Resilient:** Staples delivered modest single-digit topline growth in Q1FY26, driven by price hikes and improving urban sentiment amid easing inflation, while rural demand remained more resilient. Though, Q1 was impacted by unseasonal rains that hit peak summer demand particularly in beverages and glucose. However, management commentary indicates a gradual volume recovery over the next 2–3 quarters, with a stronger rebound expected in H2FY26 on the back of easing inflation, potential rate cuts, and a healthy harvest season.
- **Urban Weakness Persists, Recovery on Horizon:** Urban consumption, contributing 50–60% of FMCG sales, remains subdued due to discretionary slowdown, muted wage growth, higher EMIs/rentals, and competitive pressures from D2C, Q-commerce, and e-commerce. However, tax cuts, easing inflation, lower interest rates, and the recent GST reduction on mass and aspirational goods are expected to revive demand and aid volume growth in the coming quarters.
- **Rural Demand Recovery Sustains:** Easing rural inflation (with minimal impact from food inflation), higher government spending, better harvests, higher MSP and above normal rainfall outlook have improved overall sentiments in rural are expected to drive rural demand in the coming quarters as well.
- **Gross Margin Under Pressure; EBITDA Margins in ‘Wait & Watch’:** Gross margins across staple companies have been under pressure due to a surge in key raw material prices, which have impacted overall margin performance. With subdued volume growth and elevated raw material prices, EBITDA margin expansion is likely to remain constrained in the near term.

How Have Companies Performed In Q1FY26?

- **Demand Recovery Likely to be in H2FY26:** FMCG topline growth remained modest in Q1; however, the quarter was impacted by unseasonal rains affecting summer categories along with rising competition. However, rural consumption continues to outperform, aided by easing inflation, higher MSPs, and increased government spending, with a more broad-based recovery expected in H2FY26.
- Companies have highlighted that **volume recovery is likely to be seen in the next 2-3 quarters**, and a pick-up is expected only from H2FY26 on account of easing inflation, interest rate cut, above-normal monsoon, coupled with good harvest and sowing season.
- On the **Gross Margins front, most companies reported subdued performance** due to higher key raw material prices such as agri commodities.

What Makes the FMCG Sector a Good Bet?

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

Short & Medium-term Outlook

Short term

Delayed Volume Recovery

Urban slowdown is likely to play spoilsport.

Delayed Margin Recovery

Gross and EBITDA margins are likely to remain under pressure owing to an increase in RM.

Domestic Consumption Play

Better returns in this volatile environment.


Rural Demand to Pick Up

Increase in government spending;
Consumer price inflation remains stable
Favourable monsoon

Medium Term

Key Monitorables – Urban Recovery; Margins Trajectory; Competitive Intensity

Top Conviction Ideas

Stock	Reco.	TP*	Recommendation Rationale
 <p>Varun Beverages</p>	BUY	Rs 590*	<ul style="list-style-type: none"> ✓ VBL Outperforms Peers; Structural Growth Story Remains Resilient: VBL has consistently outpaced peers despite operating in a volatile environment; though unseasonal rains temporarily disrupted peak summer demand this quarter, its long-term structural growth drivers remain intact. ✓ Strategic Levers in Place to Sustain Growth Momentum: The company is expected to sustain its strong growth momentum, driven by key factors: 1) The strategic acquisition of BevCo, strengthening its presence in South Africa and DRC; 2) Expansion of its snacks portfolio beyond India, particularly in Zimbabwe and Zambia; 3) A continued push to increase distribution reach, especially in rural markets; 4) Commissioning of multiple greenfield and brownfield facilities, enhancing manufacturing capacity, expanding market reach, and optimizing transportation costs; and 5) Scaling up the high-margin Sting energy drink while expanding its value-added dairy, sports drinks (Gatorade), and juice segments. These strategic initiatives are set to drive long-term growth and profitability.

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

Top Conviction Ideas

Stock	Reco.	TP*	Recommendation Rationale
 <p>DOMS Industries</p>	BUY	Rs 2,820*	<p>✓ The company has been executing strategic initiatives over the past few years, which are expected to drive growth in the coming years. Key initiatives include:</p> <ul style="list-style-type: none"> ➤ 1) Managing end-to-end operations to enhance efficiency while maintaining high-quality standards. The new 44-acre greenfield facility will further accelerate growth. ➤ 2) Expanding beyond the small pencil segment into the larger pens category, broadening the product portfolio. Additionally, entering fast-growing segments such as bags, toys, and diapers will provide an incremental growth boost. ➤ 3) Significant potential for distribution expansion, with DOMS currently reaching 1.45 Lc outlets. The company has scope to scale up to ~3-3.5 Lc outlets, particularly in the underpenetrated east and south markets and smaller towns in India. ➤ 4) The strategic partnership with FILA, enabling DOMS to expand its global footprint while leveraging FILA's R&D capabilities, offering a long-term competitive edge.

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

Axis Securities Limited is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector banks and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.

Axis Securities Limited, is registered as a

- Stock Broker, Depository Participant, Portfolio Manager, Investment Adviser and Research Analyst with Securities and Exchange Board of India
- Corporate Agent with Insurance Regulatory and Development Authority of India
- Point of Presence with Pension Fund Regulatory and Development Authority
- Distributor for Mutual Funds with AMFI

Registration Details:

SEBI Single Reg. No.- NSE, BSE,MSEI, MCX & NCDEX – INZ000161633 | SEBI Depository Participant Reg. No. IN-DP-403-2019 | Portfolio Manager Reg. No.- INP000000654 | Investment Advisor Reg No. INA000000615 | SEBI-Research Analyst Reg. No. INH000000297 | IRDA Corporate Agent (Composite) Reg. No. CA0073| PFRDA – POP Reg. No. POP387122023 | Mutual Fund Distributor ARN- 64610.

Compliance Officer Details: Name – Mr. Rajiv Kejriwal, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in;

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Parc, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

In case of any grievances please call us at 022-40508080 or write to us helpdesk@axisdirect.in.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However, SEBI, Exchanges, Clearing Corporations and Depositories etc. have conducted the routine inspection and based on their observations have issued advise/warning/show cause notices/deficiency letters/ or levied penalty or imposed charges for certain deviations observed in inspections or in normal course of business, as a Stock Broker / Depository Participant/Portfolio Manager. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

By referring to any particular sector, Axis Securities does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors. Our research should not be considered as an advertisement or advice, professional or otherwise. This research report and its respective content by Axis Securities made available on this page or otherwise do not constitute an offer to sell or purchase or subscribe for any securities or solicitation of any investments or investment services for the residents of Canada and / or USA or any jurisdiction where such an offer or solicitation would be illegal.

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by ASL and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

The information and opinions in this report have been prepared by Axis Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Axis Securities. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite, investment objective or the particular circumstances of an individual investor. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing.

While we would endeavour to update the information herein on a reasonable basis, Axis Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Axis Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or Axis Securities policies, in circumstances where Axis Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

Disclaimer

This report is based on information obtained in good faith from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Axis Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Axis Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Axis Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months. Axis Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction. Axis Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months. Axis Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Axis Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Axis Securities nor Research Analysts and / or their relatives have any material conflict of interest at the time of publication of this report. Please note that Axis Securities has a proprietary trading desk. This desk maintains an arm's length distance with the Research team and all its activities are segregated from Research activities. The proprietary desk operates independently, potentially leading to investment decisions that may deviate from research views.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Research Analyst may have served as an officer, director or employee of subject company(ies). Axis Securities or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report. Since associates of Axis Securities and Axis Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report. Axis Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centres on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Axis Securities may have proprietary long/short position in the above mentioned scrip(s) and therefore may be considered as interested. This should not be construed as invitation or solicitation to do business with Axis Securities. Axis Securities is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation.