Q1FY2008 FMCG earnings preview

Growth momentum to continue

- Backed by a pick-up in rural demand, the fast moving consumer goods (FMCG) sector has seen the volume growth getting better every quarter. The revenue growth for the current quarter is likely to be driven by the volume growth as well as improved pricing power of the FMCG players.
- Rising input prices is a concern for the industry. Palm oil has witnessed a 17% increase in the last three months. Price increases as well as cost savings would help the FMCG companies to maintain their margins.
- We expect market leader Hindustan Unilever Ltd's (HUL) earnings to grow by 12.5% year on year (yoy) backed by a 10% growth in the home and personal care (HPC) segment and price increases in the other key product segments. We expect the margin to improve from 13.45% in Q2CY2006 to 13.75% in Q2CY2007, primarily due to the price hike taken in many of its products as well as an improved product mix.
- ITC's profits are expected to grow by a strong 11.7% yoy. We expect the growth to be broad based with the magnitude of the losses in the non-FMCG businesses coming down. The imposition of the value added tax (VAT) and the price hike taken by the company are expected to affect the growth of the cigarette business and the results of this quarter would give us a better idea.
- The long-term potential of this sector appears good with the rise in the disposable income of Indians and consumer spending. We believe with strong free cash flows, high return on capital employed and sustainable growth the sector still looks attractive.

HUL

We expect market leader HUL's profits to grow by 12.5% yoy backed by a strong growth in the HPC segment and price increases in the other key product segments. We expect a double-digit growth in the soaps & detergent and personal product segments.

We expect the margin to improve from 13.45% in Q2CY2006 to 13.75% in Q2CY2007 primarily due to the price hike taken in many of its products as well as a better product mix. We also expect the margin in the soaps & detergent segment to get slightly affected by the strong palm oil prices.

(Rs cr)	Net sales			PAT		
	Q2CY07	Q2CY06	% chg	Q2CY07	Q2CY06	% chg
HUL	3,461.3	3,083.3	12.3	427	379.4	12.5

ITC

ITC's profits are expected to grow by a 11.7% yoy. We expect the growth to be broad based with the magnitude of losses in the non-FMCG businesses coming down.

The implementation of a 12.5% VAT would result in a lower growth or no growth in the cigarette volumes. The company has increased prices by 10-25% across segments. We believe the stock would continue to underperform till clarity emerges on how the subsequent price hikes would affect the company's volumes. But looking at the rising disposable income of Indians and the addictive nature of cigarette consumption, we believe the volumes will not fall drastically and any decline in the stock's price would be a good opportunity to buy.

(Rs cr)	Net sales			PAT		
	Q1FY08	Q1FY07	% chg	Q1FY08	Q1FY07	% chg
ITC	3,419.60	2849.7	20.0	728.5	652.2	11.7

Marico

In Q1FY2008 the net revenues of Marico are expected to grow by 30% yoy to Rs484 crore. The top line growth would be mainly on account of the full contribution from the acquired brands of *Fiancée* and *HairCode*, and the strong growth in the focused brand portfolio.

Marico has acquired two Egyptian brands: *Fiancée* and *HairCode*. These two brands command over 50% of the Rs170.0-crore Egyptian hair care market. In the current quarter we expect both these brands to contribute around Rs20 crore.

Copra prices had softened in the quarter with the arrival of fresh supply during this period. But higher advertising spend during the same period is expected to put pressure on the margins.

In the first quarter, a new health care clinic (Kaya Life) was also launched in Juhu, Mumbai.

(Rs cr)	Net sales			PAT		
	Q1FY08	Q1FY07	% chg	Q1FY08	Q1FY07	% chg
Marico	484.60	372.7	30.0	41.6	30.27	37.4

ICI

The revenue and profitability of ICI are not comparable on a year-on-year basis due to the discontinuation of some businesses during the quarter under review. This quarter will not include revenue from the Uniqema and auto refinish businesses.

The company effected a price increase in the range of 0.75-1% across segments in January this year which would provide some cushion to the margins, which are reeling under the pressure of the hardening crude oil prices.

We expect the paint business to grow by 21% and the chemical business to see a growth of 10%. We expect the top line to increase by 3.4% in Q1FY2008 and the profit after tax (PAT) to be higher by 5% to Rs19.1 crore.

(Rs cr)	Net sales			PAT		
	Q1FY08	Q1FY07	% chg	Q1FY08	Q1FY07	% chg
ICI	270.00	261	3.4	19.1	18.16	5.2

IHCL

For the first quarter ended FY2008, we expect Indian Hotels Company Ltd (IHCL) to report a top line growth of 33% at Rs343 crore whereas the bottom line is expected to show a growth of 66.8%. This quarter would also reflect the effect of the merger of the five companies that resulted into additional room inventory of around 400 rooms.

We also expect the licence fees to be lower than that in Q1FY2007 due to the merger of Taj Lands End into IHCL. This licence fees paid to Taj Lands End would be shown under "Interest cost". The strong movement of the rupee is also expected to affect the performance of this quarter.

(Rs cr)	Net sales			PAT		
	Q1FY08	Q1FY07	% chg	Q1FY08	Q1FY07	% chg
IHCL	343.00	257.3	33.3	64.2	38.5	66.8

The author doesn't hold any investment in any of the companies mentioned in the article.