

## FMCG

### Q3FY12 Preview: A stronger quarter ahead

We expect a strong quarter from our FMCG universe with topline/EBITDA/PAT growth of 18%/19.5%/20.3% YoY, led by EBITDA margin expansion of 50bps—the first margin uptick in four quarters. Potentially strong Q3 performers include HUVR, ITC, MRCO, BRIT, GCPL, GSK Consumer and CLGT, whereas NEST, APNT, UNSP and Dabur could deliver muted PAT growth. HUVR and ITC remain our top picks, though select mid-caps look attractive as well (MRCO, BRIT, UNSP, GSK Consumer, Emami) in the wake of strong large-cap outperformance.

- ❖ **Expect sales growth of 18% YoY:** We expect sales to increase by 17.9% YoY for our FMCG universe, led by strong organic numbers from GCPL, BJCOR, MRCO, NEST and BRIT. Volume growth is likely to remain steady with CLGT, MRCO and BJCOR reporting healthy numbers. We expect large-caps HUVR and ITC to report strong topline growth YoY at 16% and 18.5% respectively.
- ❖ **Operating margins to improve 50bps YoY:** The average operating margin for our FMCG universe is likely to expand by 50bps YoY, the first increase in four quarters. Though gross margins would still contract YoY for most companies due to the higher raw material prices, the decline would be limited by a lower base and flattening of input costs QoQ. We expect EBITDA margins to improve the most for CLGT, GCPL, BRIT, HUVR and ITC while a few companies such as Dabur, JYL and APNT will continue to witness YoY declines.
- ❖ **Key issues to watch for:** (1) Any signs that a consumer spending slowdown is denting category volume growth. (2) Pricing action/strategy in highly competitive categories such as shampoos, biscuits and detergents. (3) A&P spending trend post weak H1FY12 spending. (4) Gross margin pressure on a QoQ basis. (5) Product mix shifts across categories. (6) Forex impact.
- ❖ **HUVR and ITC our top picks:** HUVR and ITC remain our top picks in the sector. However, following the strong outperformance of sector large-caps over mid-caps in the last six months, the risk-reward has now turned favourable for select mid-caps. Our preferred picks in the mid-cap space include MRCO, BRIT, GSK Consumer, Emami and UNSP. We remain UNDERWEIGHT on CLGT, NEST, APNT, UBBL and JYL.

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#### Recommendation snapshot

Company	CMP	Target	Rating
Asian Paints (APNT)	2,652	3,000	Hold
Bajaj Corporation (BJCOR)	100	130	Buy
Britannia Industries (BRIT)	447	560	Buy
Colgate India (CLGT)	991	910	Sell
Dabur India (DABUR)	101	110	Hold
Emami (HMN)	338	520	Buy
Godrej Consumer (GCPL)	383	465	Hold
GSK Consumer (SKB)	2,527	2,800	Buy
Hindustan Unilever (HUVR)	408	425	Buy
ITC (ITC)	200	235	Buy
Jyothy Labs (JYL)	162	155	Sell
Marico Ltd. (MRCO)	146	180	Buy
Nestle India (NEST)	4,099	4,250	Sell
Radico Khaitan (RDCK)	111	180	Buy
United Breweries (UBBL)	388	425	Sell
United Spirits (UNSP)	512	1,150	Buy

#### Stock price performance

Company	1m	3m	6m
Asian Paints	(7.6)	(15.6)	(20.3)
Bajaj Corporation	(13.3)	(2.5)	(14.9)
Britannia Industries	(3.3)	(2.6)	(7.8)
Colgate India	(0.7)	2.9	(0.9)
Dabur India	5.5	(2.4)	(13.7)
Emami	(14.9)	(18.2)	(31.7)
Godrej Consumer	(3.7)	(3.9)	(11.8)
GSK Consumer	1.3	5.9	3.5
Hindustan Unilever	3.1	21.8	20.9
ITC	(2.8)	3.3	(0.4)
Jyothy Labs	10.8	6.4	(24.5)
Marico Ltd.	(1.1)	2.9	(6.5)
Nestle India	(3.0)	(2.2)	(4.8)
Radico Khaitan	(7.1)	(10.0)	(13.3)
United Breweries	(2.0)	5.2	(26.0)
United Spirits	(28.3)	(33.9)	(47.9)



Fig 1 - RCML FMCG Universe: Q3FY12 Preview

Company	CMP (Rs)	Target (Rs)	Reco	Sales (Rs mn)			EBITDA margin (%)		PAT (Rs mn)		
				Q3FY12E	Q3FY11	YoY(%)	Q3FY12E	Q3FY11	Q3FY12E	Q3FY11	YoY (%)
Asian Paints	2,652	3,000	Hold	24,143	20,996	15.0	14.3	16.4	2,180	2,203	(1.0)
Bajaj Corp	100	130	Buy	1,082	859	26.0	28.2	30.0	316	245	28.9
Britannia	447	560	Buy	12,960	10,800	20.0	7.0	5.1	626	373	67.8
Colgate	991	910	Sell	6,531	5,582	17.0	16.7	13.4	924	662	39.6
Dabur	101	110	Hold	14,040	10,800	30.0	16.9	19.4	1,652	1,544	7.0
Emami	338	520	Buy	4,669	4,060	15.0	25.5	25.1	1,058	856	23.5
GCPL	383	465	Hold	13,268	10,012	32.5	18.8	16.8	1,651	1,188	39.0
GSK Consumer	2,527	2,800	Buy	6,042	5,078	19.0	12.3	11.5	700	534	31.1
HUL	408	425	Buy	58,313	50,270	16.0	13.6	12.4	7,249	5,869	23.5
ITC	200	235	Buy	64,624	54,535	18.5	37.0	36.1	16,879	13,891	21.5
Jyothy Labs	162	155	Sell	1,737	1,484	17.0	9.1	11.3	198	169	17.4
Marico	146	180	Buy	9,976	8,177	22.0	12.7	12.2	855	695	23.0
Nestle	4,099	4,250	Sell	19,884	16,710	19.0	18.1	18.6	2,315	2,034	13.8
Radico Khaitan	111	180	Buy	3,217	2,681	20.0	14.1	13.5	217	205	6.0
United Breweries	388	425	Sell	7,815	6,096	28.2	9.9	10.8	330	298	10.8
United Spirits	512	1,150	Buy	20,300	19,601	3.6	14.9	14.1	1,127	1,061	6.2
<b>Aggregate</b>	-	-	-	<b>268,602</b>	<b>227,740</b>	<b>17.9</b>	<b>20.0</b>	<b>19.5</b>	<b>38,277</b>	<b>31,827</b>	<b>20.3</b>

Source: RCML Research

Fig 2 - Sector valuation snapshot – HPC and Foods

Company	MCAp (Rs mn)	Dividend Yield (%)	Sales Growth (%)		EPS CAGR	EBITDA Margin (%)		ROE (%)		P/E (x)		EV/EBITDA (x)	
			FY12E	FY13E	FY11-13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Asian Paints	254,276	1.4	22.5	15.4	16.7	15.4	16.2	38.4	37.6	27.0	22.2	17.8	14.7
Bajaj Corp	14,691	1.9	22.5	17.9	18.7	29.1	29.1	29.0	27.1	12.1	10.5	10.3	8.7
Britannia	53,430	2.5	18.8	19.3	45.2	6.4	6.7	61.9	64.9	24.0	18.9	16.7	13.5
Colgate	134,776	2.2	15.8	13.3	12.1	19.7	20.3	102.9	95.3	30.4	26.7	25.5	21.8
Dabur	175,773	1.3	26.1	15.0	14.9	17.9	17.9	42.3	38.5	26.2	22.6	19.8	17.2
Emami	51,075	1.1	21.8	18.8	17.3	19.3	19.6	30.7	28.8	18.2	16.2	16.3	13.5
GCPL	123,870	1.6	29.1	21.5	13.0	17.0	16.9	28.1	27.9	22.6	18.6	17.8	14.7
GSK Consumer	106,286	1.8	16.8	15.9	18.5	16.0	16.1	35.2	36.1	29.2	25.2	23.0	19.7
HUL	881,598	2.0	15.6	14.2	20.4	13.6	14.0	89.7	85.5	33.4	28.5	28.3	24.1
ITC	1,561,961	2.7	17.2	14.4	20.4	35.0	34.5	36.4	39.2	24.9	21.4	16.8	14.9
Jyothy Labs	13,062	3.1	74.1	24.8	(8.8)	8.8	9.9	5.5	9.2	38.0	22.8	19.3	13.8
Marico	89,830	0.6	24.9	20.1	22.6	12.1	13.1	30.4	31.9	28.4	21.1	20.3	15.6
Nestle	395,195	1.1	20.4	18.6	18.5	20.0	20.3	94.7	79.7	40.5	34.4	26.1	21.7

Source: RCML Research

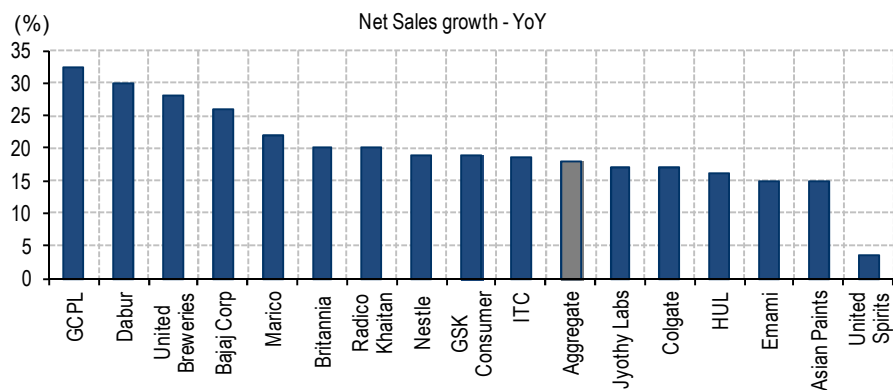
Fig 3 - Sector valuation snapshot – Alcoholic Beverages

Company	MCAp (Rs mn)	Dividend Yield (%)	Sales Growth (%)		EPS CAGR	EBITDA Margin (%)		ROE (%)		P/E (x)		EV/EBITDA (x)	
			FY12E	FY13E	FY11-13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Radico Khaitan	14,783	1.2	17.5	21.2	31.1	15.0	15.5	13.4	16.2	16.0	11.8	11.0	8.7
United Breweries	98,998	0.4	46.3	20.8	39.1	11.6	13.1	17.5	20.2	45.6	31.1	22.6	16.6
United Spirits	66,993	0.5	19.5	20.2	18.2	15.9	15.6	10.8	12.3	13.6	10.7	9.6	8.1

Source: RCML Research

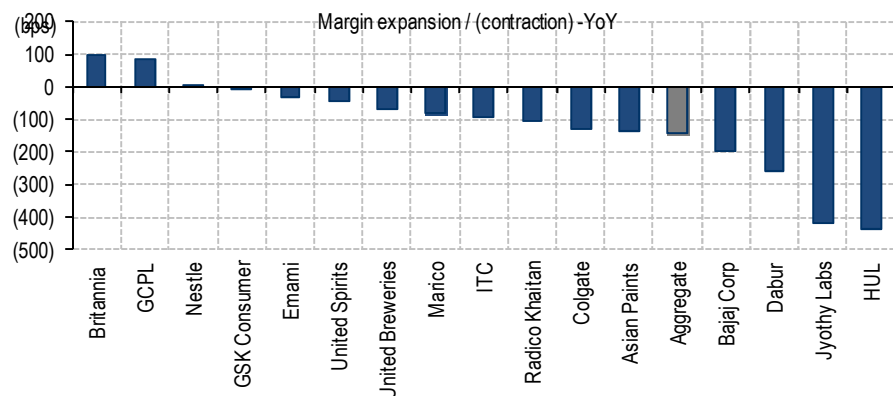
## Quarterly trends

Fig 4 - RCML FMCG universe – Sales growth – Q3 FY12E (YoY)



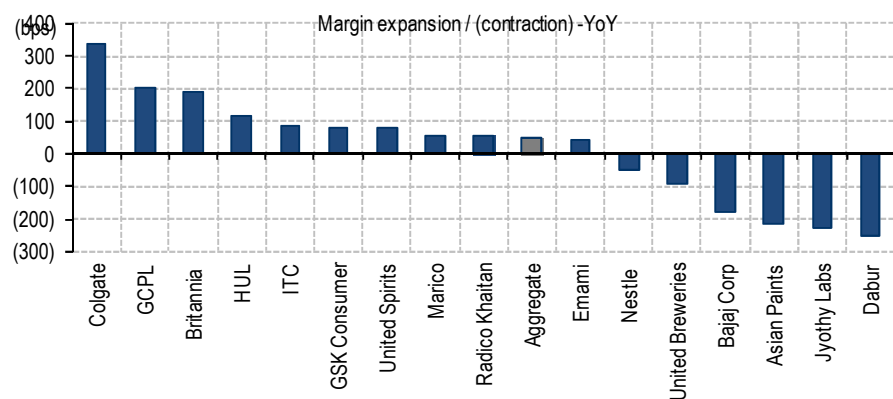
Source: RCML Research

Fig 5 - RCML FMCG universe – Gross margin change Q3 FY12E – (YoY)



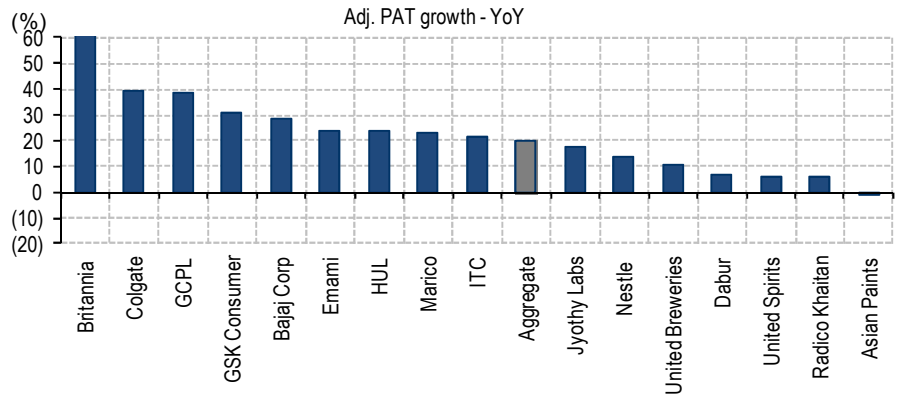
Source: RCML Research

Fig 6 - RCML FMCG universe – EBITDA margin change Q3 FY12E – (YoY)



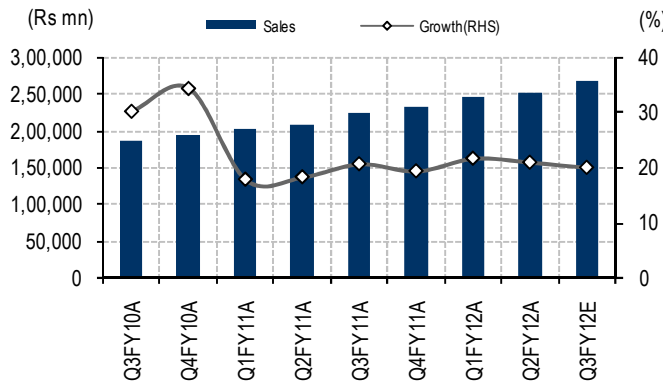
Source: RCML Research

Fig 7 - RCML FMCG universe – Adj. PAT growth – Q3 FY12E (YoY)



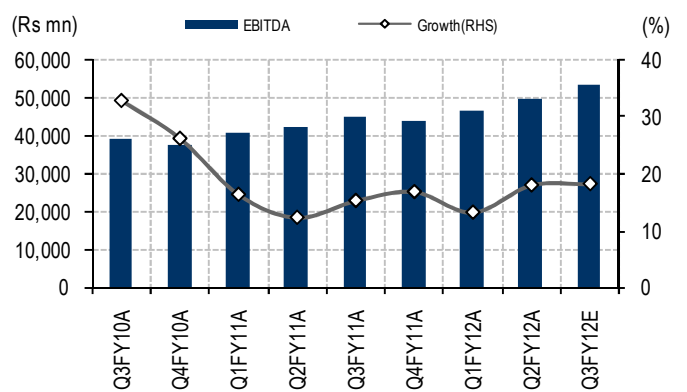
Source: RCML Research

Fig 8 - RCML FMCG universe – Sales growth trend



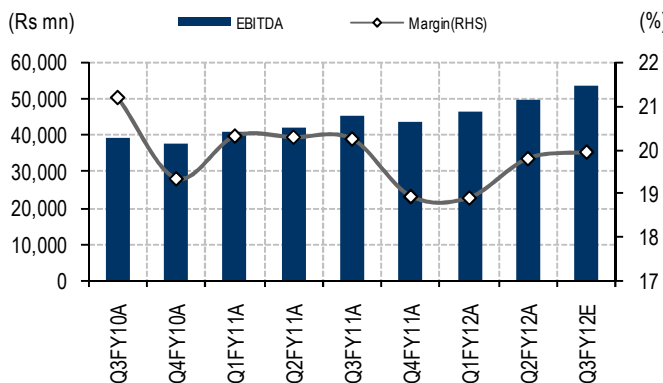
Source: RCML Research

Fig 9 - RCML FMCG universe – EBITDA growth trend



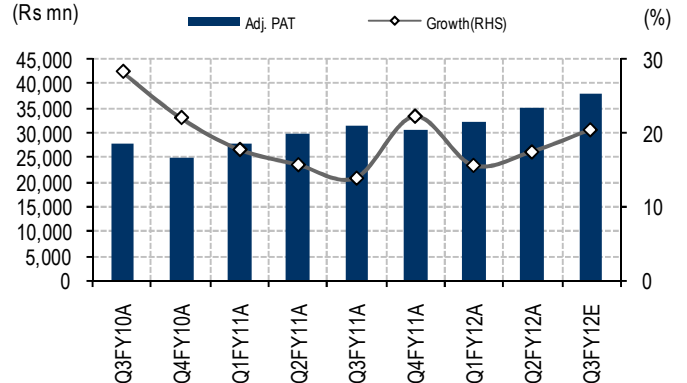
Source: RCML Research

Fig 10 - RCML FMCG universe – EBITDA margin trend



Source: RCML Research

Fig 11 - RCML FMCG universe – Adj. PAT growth trend



Source: RCML Research

## Companies

**Fig 12 - Asian Paints**

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	24,143	20,996	15.0	Expect lower consolidated revenue growth due to a high base (Q3 last year benefitted from spillover demand from Q2FY11 which was hit by erratic monsoons).
EBITDA	3,445	3,449	(0.1)	
EBITDA margin (%)	14.3	16.4	(215 bps)	Margin contraction to stem from a decline in gross margins as crude oil and titanium dioxide prices are up YoY.
Adj. PAT	2,180	2,203	(1.0)	
Adj. PAT margin (%)	9.0	10.5	(145 bps)	

Source: RCML Research

**Fig 13 - Bajaj Corp**

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	1,082	859	26.0	Strong sales growth YoY on the back of a 10% price increase.
EBITDA	305	257	18.5	
EBITDA margin (%)	28.2	30.0	(180 bps)	Decline in EBITDA margins due to high input prices (LLP and glass).
Adj. PAT	316	245	28.9	Higher other income YoY to offset EBITDA margin decline.
Adj. PAT margin (%)	29.2	28.5	65 bps	

Source: RCML Research

**Fig 14 - Britannia**

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	12,960	10,800	20.0	Strong sales growth momentum to continue despite high base.
EBITDA	905	552	63.9	
EBITDA margin (%)	7.0	5.1	185 bps	EBITDA margins to improve YoY led by stronger gross margins (on account of lower sugar and wheat prices).
Adj. PAT	626	373	67.8	
Adj. PAT margin (%)	4.8	3.5	140 bps	

Source: RCML Research

**Fig 15 - Colgate**

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	6,531	5,582	17.0	Net sales growth largely volume-led.
EBITDA	1,091	746	46.3	
EBITDA margin (%)	16.7	13.4	335 bps	Margin improvement likely on the back of a low base last year.
Adj. PAT	924	662	39.6	
Adj. PAT margin (%)	14.2	11.9	230 bps	

Source: RCML Research

**Fig 16 - Dabur**

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	14,040	10,800	30.0	Namaste consolidation to aid revenue growth – expect organic revenue growth of ~15%.
EBITDA	2,367	2,095	13.0	
EBITDA margin (%)	16.9	19.4	(255 bps)	Operating margins to decline due to pressure on gross margins and lower Namaste margins.
Adj. PAT	1,652	1,544	7.0	Interest costs of acquisition to impact PAT growth.
Adj. PAT margin (%)	11.8	14.3	(255 bps)	

Source: RCML Research

Fig 17 - Emami

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	4,669	4,060	15.0	
EBITDA	1,190	1,018	16.9	Expect lower volume growth on account of a delayed winter.
EBITDA margin (%)	25.5	25.1	40 bps	Margins to expand on lower A&P expenses.
Adj. PAT	1,058	856	23.5	
Adj. PAT margin (%)	22.7	21.1	155 bps	

Source: RCML Research

Fig 18 - GCPL

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	13,268	10,012	32.5	22% YoY sales growth would be organic in nature with the balance on account of consolidation of Darling group.
EBITDA	2,493	1,678	48.6	
EBITDA margin (%)	18.8	16.8	200 bps	Margins in the domestic soaps business likely to improve sequentially. Consolidated margins set to improve by 200bps YoY.
Adj. PAT	1,651	1,188	39.0	
Adj. PAT margin (%)	12.4	11.9	60 bps	Higher interest costs to impact PAT growth.

Source: RCML Research

Fig 19 - GSK Consumer

(Rs mn)	Q4CY11E	Q4CY10A	Change %	Comments
Net Sales	6,042	5,078	19.0	
EBITDA	744	584	27.5	Sales growth backed by 12–13% volume growth.
EBITDA margin (%)	12.3	11.5	80 bps	Better gross margins to aid EBITDA margin expansion.
Adj. PAT	700	534	31.1	
Adj. PAT margin (%)	11.6	10.5	110 bps	

Source: RCML Research

Fig 20 - HUL

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	58,313	50,270	16.0	Expect 8–9% volume and ~7–8% positive price hike impact YoY.
EBITDA	7,907	6,243	26.7	
EBITDA margin (%)	13.6	12.4	115 bps	Operating margin to see 115bps YoY improvement on account of lower A&P expenses.
Adj. PAT	7,249	5,869	23.5	
Adj. PAT margin (%)	12.4	11.7	75 bps	

Source: RCML Research

Fig 21 - ITC

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	64,624	54,535	18.5	
EBITDA	23,885	19,690	21.3	Expect cigarettes to deliver ~16–17% revenue growth (and ~7–8% volumes)
EBITDA margin (%)	37.0	36.1	85 bps	EBITDA and Adj. PAT growth to broadly mirror revenue growth.
Adj. PAT	16,879	13,891	21.5	
Adj. PAT margin (%)	26.1	25.5	65 bps	

Source: RCML Research

Fig 22 - Jyothy Labs

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	1,737	1,484	17.0	
EBITDA	158	168	(6.2)	Sales growth expected at 17% YoY on the back of ~7% price hike in Ujala.
EBITDA margin (%)	9.1	11.3	(225 bps)	No Henkel consolidation this quarter.
Adj. PAT	198	169	17.4	
Adj. PAT margin (%)	11.4	11.4	5 bps	

Source: RCML Research

Fig 23 - Marico

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	9,976	8,177	22.0	
EBITDA	1,270	997	27.4	<i>Parachute</i> (~15–16% carry-over pricing and 7–8% volume growth) to drive strong domestic topline growth. International business should also do well with ~20% YoY growth.
EBITDA margin (%)	12.7	12.2	55 bps	
Adj. PAT	855	695	23.0	Operating margins to improve as <i>copra</i> prices have stabilised to some extent.
Adj. PAT margin (%)	8.6	8.5	5 bps	

Source: RCML Research

Fig 24 - Nestle

(Rs mn)	Q4CY11E	Q4CY10A	Change %	Comments
Net Sales	19,884	16,710	19.0	
EBITDA	3,605	3,115	15.7	Net sales growth to be aided by healthy mix of price (~7–8% YoY) and volume growth (~10–11% YoY).
EBITDA margin (%)	18.1	18.6	(50 bps)	
Adj. PAT	2,315	2,034	13.8	Margins to decline 50bps YoY. Higher interest costs to impact PAT growth.
Adj. PAT margin (%)	11.6	12.2	(55 bps)	

Source: RCML Research

Fig 25 - Radico Khaitan

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	3,217	2,681	20.0	
EBITDA	453	363	24.7	Sales growth to remain strong at 20% YoY, largely led by IMFL volumes.
EBITDA margin (%)	14.1	13.5	55 bps	Expect marginal improvement in margins YoY. Higher interest costs to hurt PAT growth.
Adj. PAT	217	205	6.0	
Adj. PAT margin (%)	6.8	7.6	(90 bps)	

Source: RCML Research

Fig 26 - United Breweries

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	7,815	6,096	28.2	
EBITDA	772	659	17.1	Strong sales growth aided by consolidation of MAPL, ABDL, Empee Breweries and Chennai Breweries. Organic growth pegged at ~20% YoY.
EBITDA margin (%)	9.9	10.8	(95 bps)	
Adj. PAT	330	298	10.8	Margins down 95bps YoY due to higher barley and packaging costs.
Adj. PAT margin (%)	4.2	4.9	(65 bps)	

Source: RCML Research

Fig 27 - United Spirits

(Rs mn)	Q3FY12E	Q3FY11A	Change %	Comments
Net Sales	20,300	19,601	3.6	
EBITDA	3,022	2,761	9.4	Sales growth lower at 3.6% YoY as Balaji Distilleries' numbers (for 9 months) are in the base. Expect 20% organic growth.
EBITDA margin (%)	14.9	14.1	80 bps	
Adj. PAT	1,127	1,061	6.2	Margin expansion led by base effect.
Adj. PAT margin (%)	5.5	5.4	15 bps	

Source: RCML Research

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Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

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