WILLIAM **O'NEIL INDIA**

06TH AUGUST 2020

WILL RURAL RECOVERY AID CONSUMER **GOODS MOVE IN THE FAST LANE?**

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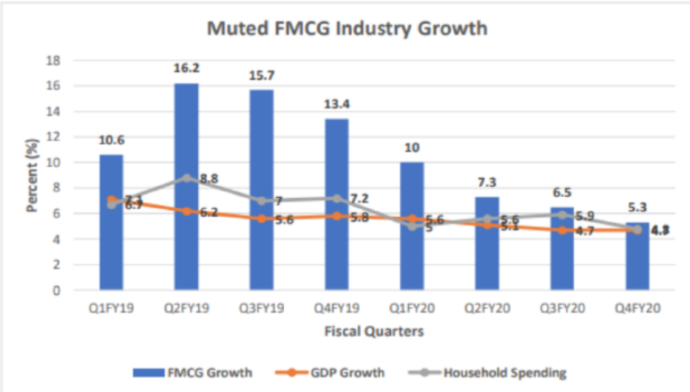
Overview: FMCG Sector

The FMCG sector in India is the fourth-largest sector in the Indian economy. It is divided into three main segments: health care (~30%), house and personal care (~50%), and food and beverage (~20%). In a pre-COVID world, the two significant structural changes that happened in the FMCG were demonetization in November 2016 and GST in July 2017. While arguably demonetization slowed FMCG growth, the implementation of GST turned out to be a tailwind. The FMCG sector grew dramatically. The growth was mainly due to disruption for local players in the aftermath of GST. The local players, who were not well-positioned to operate/adapt with GST, started exiting the market. As they started exiting the market, branded players in the category started picking up a lot of volumes. For two years, the Indian FMCG industry enjoyed double-digit growth. But the slowdown for FMCG had already begun before COVID. A slowdown started in Q3 2019. So, FMCG companies were already focusing on cutting costs, improving the supply chain, and controlling margin erosion before COVID. In COVID, FMCG companies have learned to operate even more efficiently using technology and improved supply chain. These efficiencies that companies have learned can be helpful in the post-COVID world.



Source: TCPL Investor Presentation Q4FY20

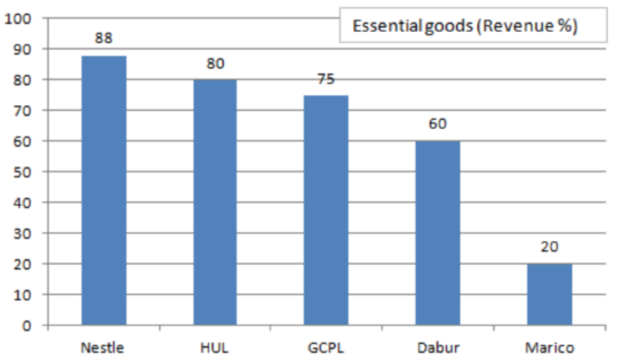
Impact of lockdown

Products that have higher consumption out of home constitute significant revenue share for many FMCG segments. It can have an adverse impact on top-line growth. Commonly, products like ice-creams, alcoholic drinks, cigarettes, and other such items have high consumption at work, food joints, airports, railway stations, weddings, parties, etc. Due to the lockdown and a lot of restrictions and increased public awareness as lockdown is lifted partially, out of home consumption may remain low for the next few months. However, products like tea, coffee, noodles, atta, dairy, biscuits will remain in demand even as people stay at home. Some products like noodles, atta, dairy may have higher demand. Demand for personal hygiene and home care products is expected to rise further in the coming days due to the growing awareness among consumers in the wake of the pandemic.

Impact of Lower Out of Home consumption	
HUL	Tea and coffee contribute 12–15% to sales. As people can have these beverages easily at home, it will remain unaffected. In fact, due to strong supply chain and online orders, branded tea and coffee sales can increase. However, ice cream (2% of revenue) will face a negative impact.
Nestle	Coffee, noodles, and packed dairy contributes more than 50% to revenue. It is positive for all these segments as people stay more at home; they may prefer these products from Nestle over others. Especially noodles are easy to make, and packed dairy products are easy to store. However, chocolates, contributing more than 10% to revenue, can have lower growth and less advantage during the upcoming festive season.
ITC	Cigarettes contribute 45–50% of revenue for ITC. As people spend more time at home and gatherings are avoided, the consumption of cigarettes is likely to be significantly lower. On the flip side, branded staples like Atta and other such essential items, contributing 20% to revenue, can see positive growth.
Beverages players	Alcoholic beverages and aerated drinks have higher consumption in parties and functions. For companies like United Spirits, United Breweries, Varun Beverages, lower out of home consumption can be negative.
Colgate	No impact due to lower out of home consumption.
Marico	Can have a positive impact due to 20% revenue from edible oils.
Britannia	Lower out of home consumption positive for bakery adjacents and dairy products of the company. However, major revenue (~80%) comes from biscuits, which will have no impact.

Companies with higher revenue share from essentials portfolio to benefit

A higher share of essentials in the portfolio will result in higher growth. If the revenue contribution from non-essential or discretionary items is higher, growth is likely to remain slow in Q2 and Q3 FY21. Food players are best placed, given the essential nature of their portfolios. Nestle and HUL stand out in this. HUL already declared Q1 FY21 results. 80% of its essential portfolio grew 6% y/y, while 15% of its discretionary portfolio declined 45% y/y. Of the home portfolio (5% of revenue) fell 69% y/y. According to consensus, a similar trend will be there for other companies as well. Parle was able to increase its market share by 5% during the lockdown. This was one of the highest in last 4 decades.



Raw Material Cost/ Input Cost

Raw material costs may remain benign. Although crude prices are up from recent all-time lows, it is notably down on a y/y basis. If crude stays around these levels ($40–45 a barrel), the benefits would be visible for home and personal care players. Copra, palm oil and sugar prices have remained largely stable whereas milk prices, which were at elevated levels before lockdown, dipped sharply in April. The prices of a few other items such as tea are very high. In the recent tea auction (June–July), prices were 20–30% inflated compared to the same period last year.

	Rs/100KG	Rs/100KG	Rs/10KG	Rs/10KG	Rs /lt	Rs / kg
DATE	COCHIN Coconut OIL	COPRA CALICUT	KARDI OIL JALNA	RICE BRAN	LIQUID PARAFFIN	HDPE
Jun-19	12,967	9,304	1,565	569	46	92
Jul-19	13,156	9,191	1,565	583	44	91
Aug-19	14,580	10,564	1,565	616	45	92
Sep-19	15,013	10,795	1,565	625	44	93
Oct-19	14,567	10,235	1,971	608	44	86
Nov-19	14,590	10,342	1,947	640	44	85
Dec-19	14,802	10,648	2,003	684	46	85
Jan-20	15,056	11,058	2,079	696	46	87
Feb-20	15,272	11,102	1,995	628	45	87
Mar-20	15,481	11,121	1,890	601	44	87
Apr-20	15,731	11,002	1,890	651	42	80
May-20	15,160	10,160	1,890	664	44	82
Jun-20	14,388	9,808	1,890	725	43	88

Source: Marico investor presentation

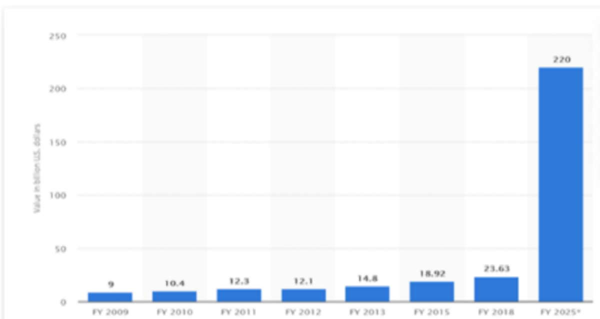
Last-Mile Delivery Concept

From implementing strategies to scale-up or re-start operations at plants and warehouses, to striking unique online and offline partnerships for last mile deliveries, FMCG companies have had to pull out all the stops to stay resilient. FMCG companies were grappling with supply chain and logistical challenges due to the countrywide lockdown imposed. To ease last-mile connectivity and distribution challenges, some FMCG majors have tied up with food delivery and hyper-local delivery apps. Marico, Godrej Consumer Products Ltd., and Britannia have tied up with Swiggy, Zomato, and Dunzo, respectively. ITC Foods has partnered with Domino's Pizza, while Tata Consumer Products has joined hands with Flipkart.

Indian Rural FMCG Market

The size of the rural FMCG market in India stood at $23.6B in FY 2018. This sector has delivered meaningful growth and contributed to more than 45% of the country's FMCG market in recent years. Growth is majorly driven by the rising non-food expenses, backed by increasing income levels.

Market Size of Rural FMCG (in billion U.S. dollars)



Source: statista.com

Rural India Picking Up the Momentum

High-Frequency Data Indicates Faster Recovery

In June, tractor sales growth regained its lost ground and advanced 12% y/y, after witnessing a contraction of 80% in April. Domestic tractor sales by Mahindra & Mahindra (M&M) and Escorts were up 12% and 23%, respectively, in June. Further, the production of fertilizers has witnessed an attractive 7.5% growth in May, though the eight core sectors declined an overall 23.4% during the same period. As per government data, point of sale (POS) of fertilizers for farmers in April–June 2020 stood at 11.1 MMT, which is 82.81% higher than 61.05 MMT during April–June 2019

Indicators Pointing Toward Better Demand in Rural Areas

Indicators % y/y	March	April	May	June
Tractor Sales	-27.3	-82.8	2.0	12.4
Fertilizer Sales	17.7	45.1	97.7	N/A
Two-wheeler Sales	-35.9	-100	-80.5	-38.0
Rural Employment	8.4	22.9	22.5	10.5

Source: CEIC

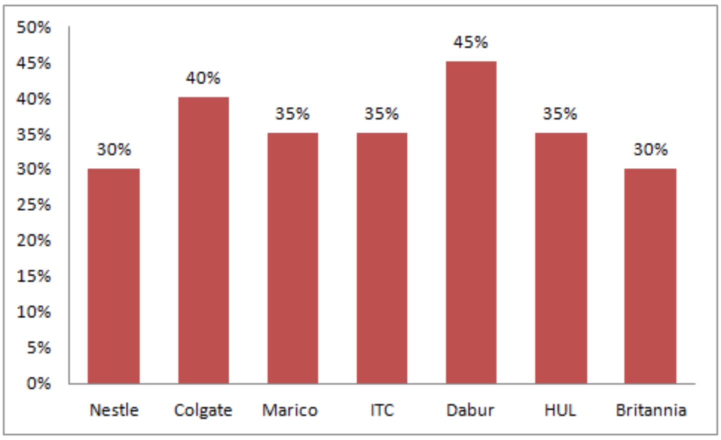
Positive Sentiment in the Agriculture Sector to Act as the Tailwind for Rural FMCG Space

The agriculture sector looks encouraging, driven by the better-than-expected output of Kharif crops and a favorable monsoon this year. The sowing of Kharif climbed 88% for the week ending July 3. Earlier, the record sowing of 104% had taken place for the week ending June 26. The boost in the sowing of crops was majorly driven by excessive rainfall in June. As of July 3, sowing of water-intensive crops such as soybean and cotton has witnessed significant growth of 398% and 100% as compared with de-growth of 66% and 16% for the same week a year ago. Further, the demand is expected to recover in the near-term on the opening of mandis and aggressive procurement of crops by the government.

Encouragement of Rural Employment to Boost Spending

The government released Rs 430B by the first week of July under MNREGA, out of an incremental allocation of Rs 1T for FY21. As per the data released by CMIE, the MNREGA scheme has provided employment to 43.7M households in June. Further, employment in farming has advanced 17% y/y to Rs 130M in June. This should trigger positive rural sentiment and calibrate rural consumption. Further, rural employment has received a positive trigger due to the reverse migration of labor to villages in the light of the COVID-19 outbreak.

Contribution of Rural to domestic revenue



Urban FMCG Market

As per the FMCG industry overview, revenue of the FMCG sector was $52.75B in FY18. The urban segment accounts for the major share, contributing two-third of the total FMCG sector revenue. In urban areas, demand for home and personal care categories, including skin care, household care, and feminine hygiene, is expected to grow at attractive rates. Within the foods segment, long-term growth is estimated to be driven by processed foods, bakery, and diary in both rural and urban areas.

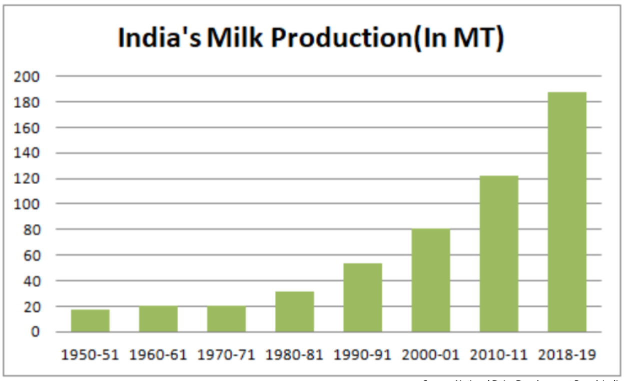
Strategy reorientation in COVID-19 context

In light of the pandemic situation, there has been a growing demand for immunity boosting supplements and hygiene products from consumers. As per Neilsen report, the hand wash segment grew 60% in March as against 7% in the preceding three months, floor cleaner growth rate doubled to 24% while hand sanitizer surged by 340% in March compared with 24% in December to February. The companies have started putting higher focus on healthcare and hygiene by launching relevant products in these categories.

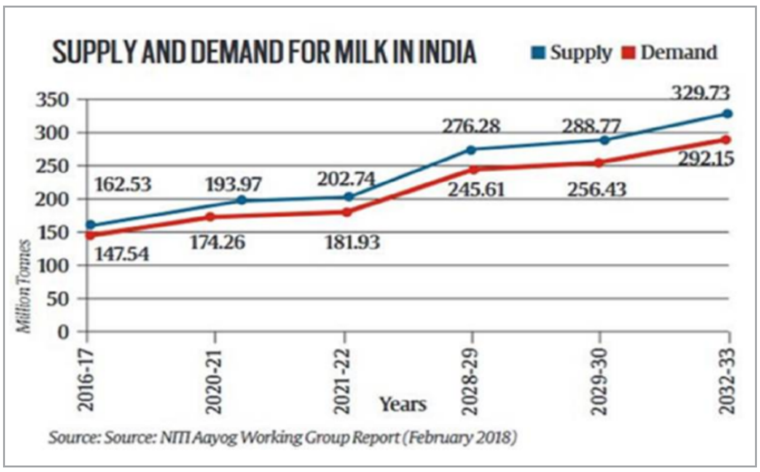
Company	Products	Brand Names
Dabur	Hand Sanitisers, disinfectant sprays, air Sanitisers, surface cleaner	Dabur Sanitize
Marico	Vegetable cleaner, immunity-boosting products	Veggie clean, zandu
Jyothy labs	Hand sanitisers	Margo
ITC	Hand Sanitisers, disinfectant sprays, immunity breverages,vegetable cleaner	Savlon, B-naturals, Nimwash

Milk and Milk Products

India continues to occupy the top position in milk production globally and is likely to keep its position intact backed by an annual growth rate of 5.5% during the last 3–4 years as against global milk production, which is growing at 2.0%. India's milk production accounts for about 50% of the global growth in milk production. The monetary value of milk produced in India is around Rs 8 lakh crore, which is more than the total value of all pulses and grains put together. India's milk production posted a superlative growth over the years and reached 187.7MT in FY19 as reported by National Dairy Development Board, India. Further, the supply-demand gap for milk in India stood at 15MT in FY17 and the gap is expected to widen in the future as shown in the figure below. In addition, Indian government recently announced Rs. 15,000 crore dairy infrastructure fund for the establishment of supply chain and dairy plants for enhancing the dairy and milk processing capacity. This is a big boost for Indian dairy industry and should result in 4–5 crore liters of additional capacity.

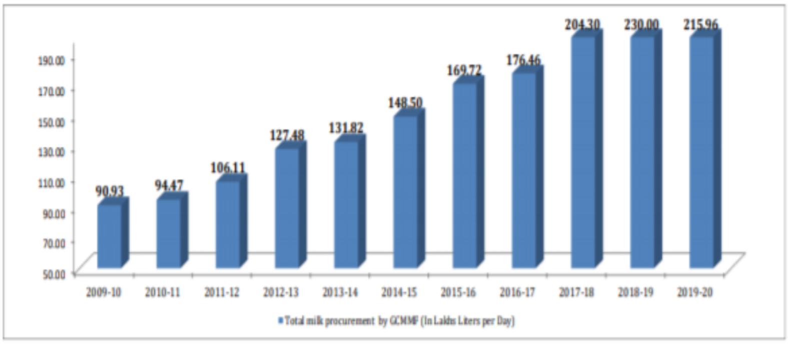


Source: National Dairy Development Board, India



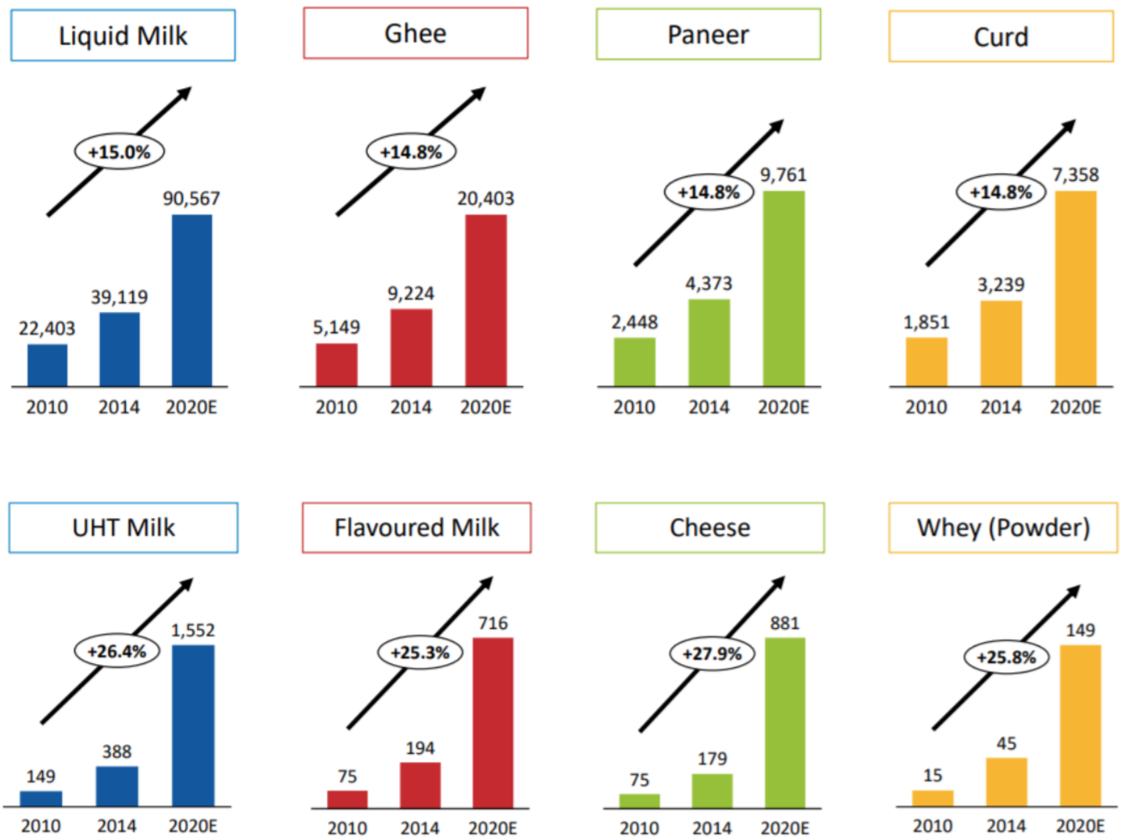
Amul leads the way

Amul's milk procurement witnessed a phenomenal increase of 138% to 215.96 lakh liters per day (LLPD) in FY20 from 90.93 LLPD in FY10. This attractive growth was majorly driven by the high milk procurement price paid to the company's farmer members which has increased by 127% from Rs 337 per kg fat in FY10 to Rs 765 per kg fat in FY20. In the lockdown period, milk unions of Gujarat procured an additional 35 lakh liters per day, which means that about Rs 800 crore additional amount was given to the rural milk producers.



Source: AMUL

Traditional products witnessed a superlative growth of 15% while modern products delivered a CAGR of 26%.



Source: company presentation-Parag Milk

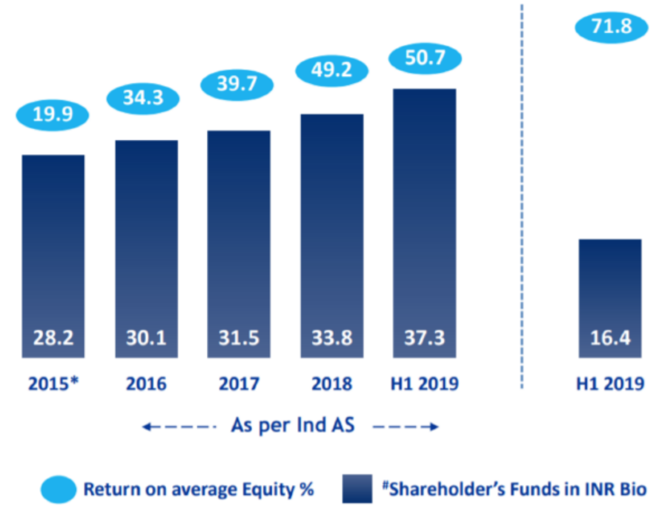
FMCG Stocks

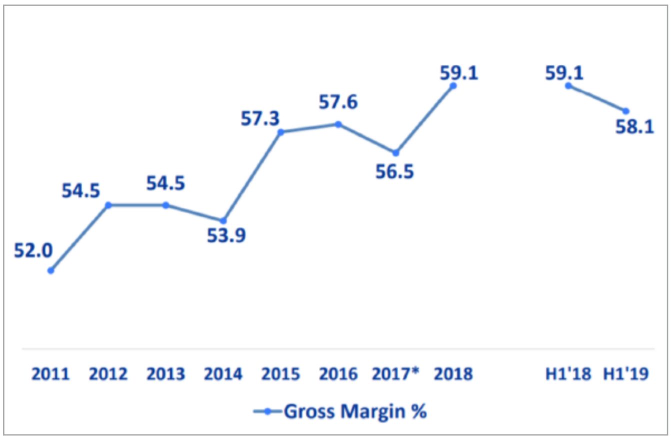
Nestle India

Nestle India is one of the largest FMCG companies in India, which owns some of the brands that are market leaders in their respective categories. Its famous brands include Nescafe, Cerelac, Lactogen Nan, Maggi, Milkybar, Kit-Kat, Bar-One, Milkmaid, and Nestea. In recent years, the company has also introduced products of daily consumption and use such as Nestle Milk, Nestle Slim Milk, Nestle Dahi, and Nestle Jeera Raita.

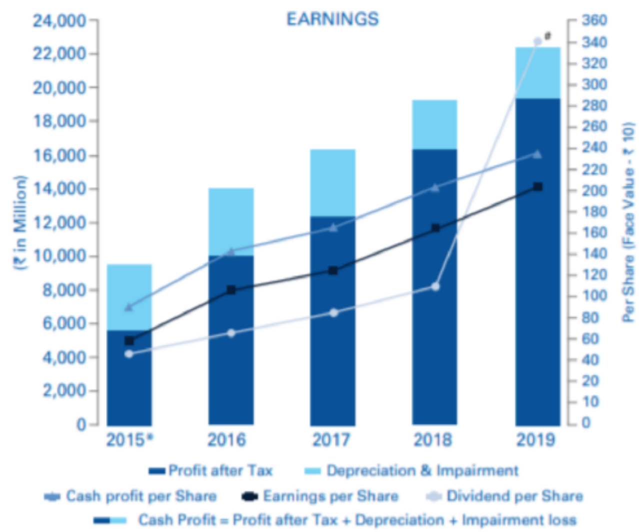
Category-wise revenue contribution

Milk products & nutrition, 46.8%; prepared dishes & cooking aids, 28.9%; confectionery, 13.9%; and powdered & liquid beverages, 10.4%.





Financial performance



Total sales and domestic sales for the year 2019 increased 9.6% and 10.9%, respectively.

Revenue from operations for the June quarter slightly increased 1.7% y/y to Rs 3,050 crore. Domestic sales constituted 95%, remaining being from exports and other operating revenues. Employee costs increased 18% to Rs 369 crore. PAT for the period grew 11% to Rs 486 crore.

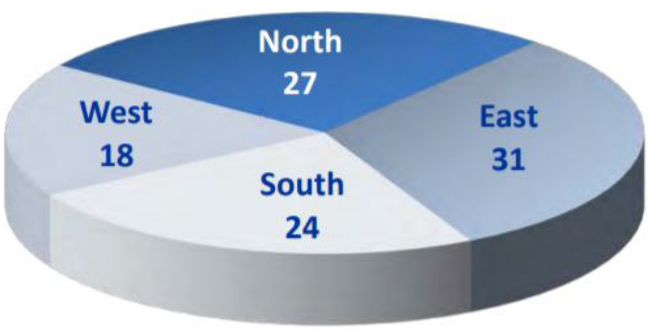
Maggi Noodles strengthened its leadership

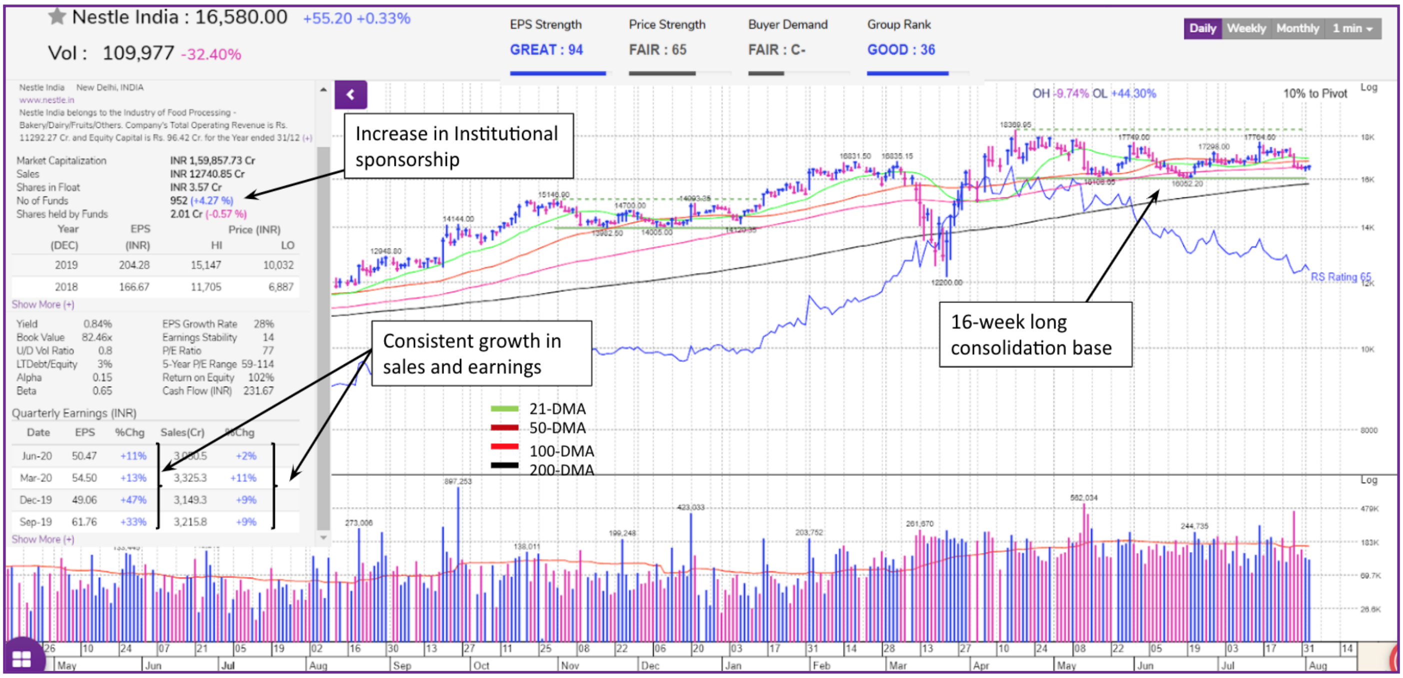
Maggi Noodles, which comes under the instant noodle category, further strengthened its leadership position in 2019. It registered a strong double-digit volume growth, mostly due to the proper intervention consisting of media and on-ground activation, which led to penetration growth and a distribution ramp-up. It also continued to focus on innovating and renovating its portfolio with the launch of MAGGI Nutrilicious Atta Noodles. It also launched MAGGI Fusian Noodles, available in flavors such as Bangkok Sweet Chilli, Hong Kong Spicy Garlic, Singaporean Tangy Pepper. Maggi has also entered the ready-to-eat category with the launch of Maggi Upma and Maggi Poha.

Margin expansion due to better product pricing

Nestle India's H1 2018 gross margin expanded to 59% in H1 2018 from 55% in H1 2017. The deflationary price trend enabled 290bps y/y gross margin expansion in Q3 2018. The price of its key raw materials remained flat (wheat) or dropped (sugar), which aided margin expansion. The rise in commodity and crude prices is a key risk in the upcoming quarters, but the company plans to reassign its product pricing to maintain the margins going forward. Per capita spending rose more than 6% on average during 2010-2016 (as per knoema.com). With food and beverages occupying 19% of the Indian fast-moving consumer goods market and the expected increase in disposable income (> 5% CAGR from 2018 to 2021) are likely to boost the spending further.

% Contribution to Domestic Sales





O'Neil Methodology and technical viewpoint:

The stock has been trading in a flat consolidation base for the past 15 weeks. It is 10% below its pivot.

It is trading near its 100-DMA and is slightly below its 50-DMA. However, it is trading 4.7% above its 200-DMA.

Its RS Rating declined to a 'Fair' category of 66.

EPS Rating, which incorporates earnings profile, is great at 93.

Buyer demand for the stock slightly decreased in recent times; thus, A/D Rating declined to C-.

There was a 4.3% increase in the number of funds invested in the company, which is a positive sign.

ROE of 102% indicates a bullish business

Nestle India	CY19	CY20E	CY21E
Revenue	122.95	133.68	150.69
Growth % y/y		9%	13%
EBITDA	0	32.24	37.09
Margin %		24%	25%
PAT	19.68	22.01	25.97
EPS in Rs	204.26	229.35	269.67
Return on Assets	26	34.1	32.6
Free Cash Flow	23.28	23.73	29.43

in Rs Billion Bloomberg Estimate

Hindustan Unilever

Hindustan Unilever is India's biggest FMCG company. It has more than 35 brands spread across categories such as, soaps, detergents, tea, coffee, shampoos, skin care, toothpaste, deodorants, packaged foods, ice creams, and others. Some of its major brands that are household names are Lux, Lifebuoy, Surf excel, Rin, Glow & Lovely, Close up, Pepsodent, Axe, Bru, Dove, Clinic Plus, Sunsilk, Kwality Wall's, and many more.

Iconic brands with more than Rs 2,000 crore turnover: Surf excel, Active Wheel, Brooke Bond, Lifebuoy, and Glow & Lovely.

Brands with over Rs 1,000 crore turnover: Ponds, Dove, Clinic Plus, Lux, Lakme, Rin, and Vim.

Brands with over Rs 500 crore turnover: Pears, Bru, Close up, Kissan, Kwality Wall's, Vaseline, Sunsilk, and Sunlight.

HUL's strategy includes the following eight building blocks: 1) strengthen the core, 2) create categories of future, 3) drive premiumization, 4) generate the fuel for growth, 5) execute brilliantly, 6) create new structures, 7) transform culture, and 8) build capabilities.

Financial performance

For Q1 FY21, total income increased 4.4% y/y to Rs 10,716 crore. PAT grew 7.2% to Rs 1,881 crore. There was an exceptional item of Rs 29 crore in the quarter compared with Rs 1 crore in the corresponding quarter last year. On April 1, the board of HUL approved the merger of GSK CH India with the company. On June 25, it acquired the intimate hygiene brand VWash from Glenmark Pharmaceuticals.

Revenue contribution by segment: home care, 33%; beauty & personal care, 39%; foods & refreshment, 28%.

Focus on innovation and premiumization help consistent growth in hair care segment

The hair care segment saw a CAGR of 11% in the last six years. Its market share rose by 560bps in the same period. The company also has a strong play in naturals, with brands such as TRESemme and Indulekha. Dove, which was launched in 2007, is now the biggest haircare brand in India.

Color cosmetics growth is driven by Agile and innovation

The color cosmetics segment had a CAGR of 15% in the last six years. Product innovation led to average launches of 150 SKUs per year. Lakme is the biggest cosmetic brand in India. Some of its products such as Brunch nude, Soft nude, and Blushing nude are trendsetters.

Premium brands working well for the company

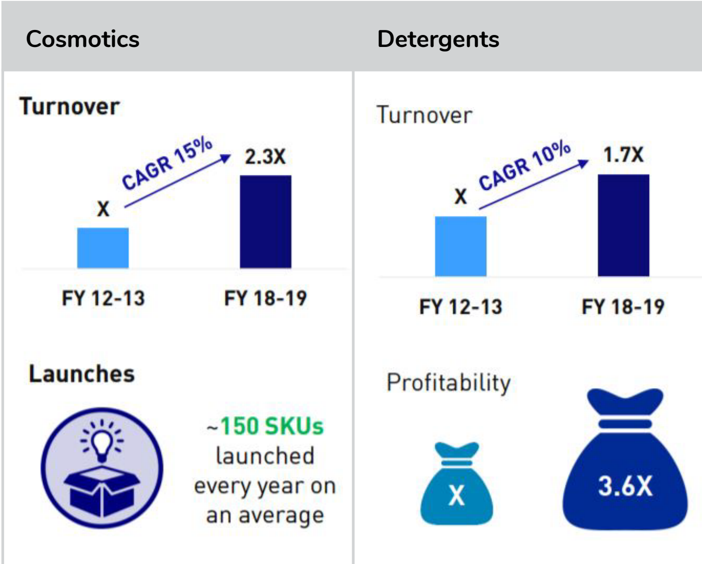
As the income is rising, people tend to shift their choices towards premium brands. HUL is banking on India's growth story and putting focus on premiumization. Some of its premium brands are Pears, Dove, Surf excel, Lipton, Taj Mahal. The brands share is 1.3x the mass brands, whereas popular brands contribute 1.1x.

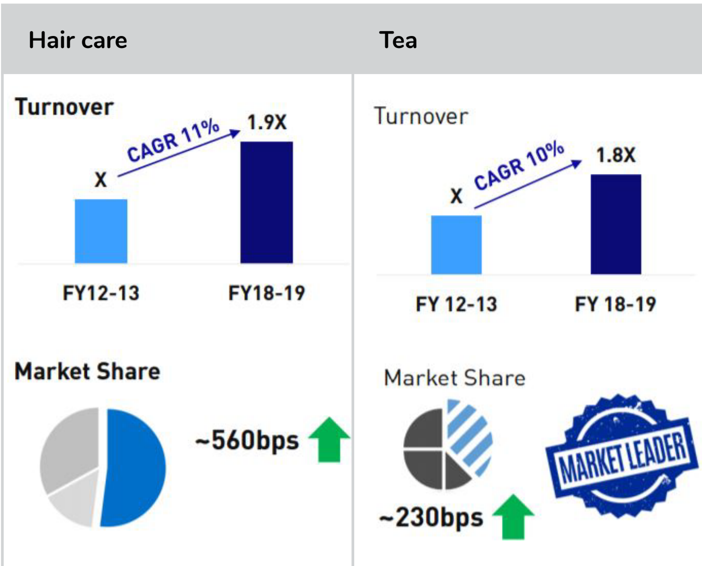
Sectoral themes such as low penetration, low consumption, and low premiumization will work well for the company.

Outlook

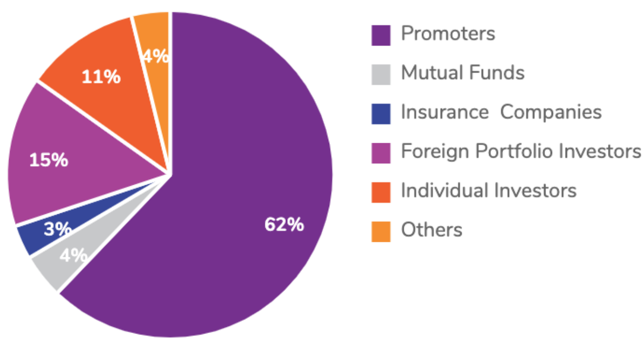
Near-term outlook is uncertain. Management believes it is difficult to estimate market growth and consumer demand due to the ongoing COVID-19 situation.

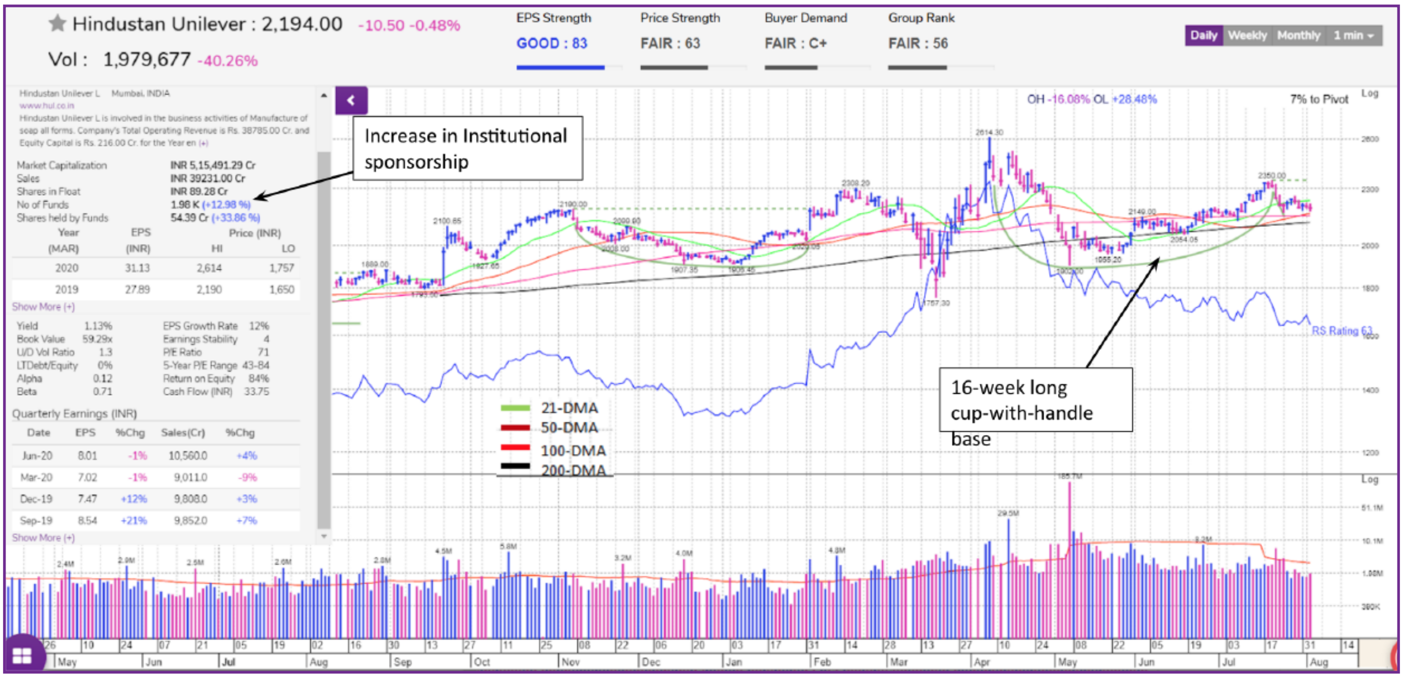
Volatility in the input costs and currency to remain for some more time.





Ownership Pattern





O'Neil Methodology and technical viewpoint:

The stock has formed a stage-one 16-week cup-with-handle base pattern. Currently, it is trading in its handle portion.

It is trading above its key moving averages, which is a good sign for investors. It is trading at 2.5% and 4.5% above its 50-DMA and 200-DMA, respectively.

Its RS Rating is slightly lower at 65. Ideally, we would want the rating to be higher than 70.

EPS Rating is good at 83.

Institutional sponsorship for the stock increased during the last quarter. Almost 13% increase in the number of funds holding the stock, and a 34% increase in the number of shares held by them.

ROE of 82% indicates strong business

HUL	FY20	FY21E	FY22E
Revenue	391.36	455.98	506.19
Growth % y/y		17%	11%
EBITDA	0	117.98	138.18
Margin %		26%	27%
PAT	68.88	83.96	99.35
EPS in Rs	31.89	35.65	42.59
Return on Assets	34.8	25.72	20.59
Free Cash Flow	70.35	-3.28	94.48

in Rs Billion Bloomberg Estimate

ITC

ITC is the third largest FMCG company in India. It is a market leader in Indian paperboards, paper, and packaging industry. In terms of revenue, it is the second largest hotel chain. Its businesses include Foods, Personal Care, Education & Stationery, Lifestyle Retailing, Safety Matches & Incense Sticks, Hotels, Agri business, and Paperboards.

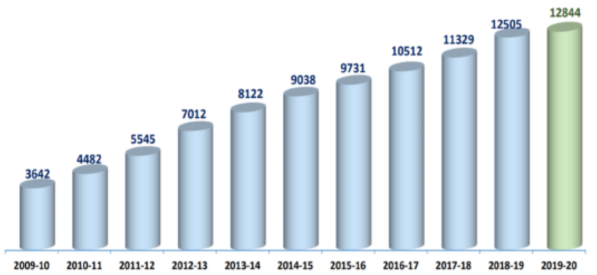
Annual consumer spends in FY19: Aashirvaad (>Rs 4,500 crore), Sunfeast (> Rs 3,800 crore), Bingo (~Rs 2,500 crore), Classmate & Yippee (>Rs 1,000 crore).

Some structural drivers of the growth include increasing affluence, rapid urbanization, low penetration, and low per capita usage.

Financial performance

Revenue from operations for Q1 FY21 declined 17% y/y to Rs 10,478 crore. Total income was down 14% to Rs 11,403 crore. PAT was down 25% to Rs 2,567 crore.

Revenue by segment: FMCG (cigarettes) 33.1%; FMCG (non-cigarettes) 25.8%; Agri business 28.8%; Paperboards, Paper, & Packaging 7.8%; others 5.5%.



(in crores)

Impactful campaigns to increase consumer connect & brand affinity

ITC has been running impactful campaigns on traditional platforms as well as on unconventional platforms. The company has been leveraging digital/social media to deepen its engagement with consumers. Rapid feedback mechanism, which is possible through digital platforms, is helping them introduce better products and services. Data analytics extracts good consumer insights, thereby helping them address consumer needs.

Focus on developing customized products to cater to regional tastes and preferences

The company has come up with innovative products to address regional taste preferences. In Bingo, it has come up with Tedhe Medhe Wakhra Style, Tomato Masti, and Pudina Twist. In its Aashirvaad brand, it has come up with Aashirvaad MP Atta and Koora Karam Spices. Yippee Wow Chicken and Sunfeast Marie Light Vita are some other innovative products that cater to regional tastes.

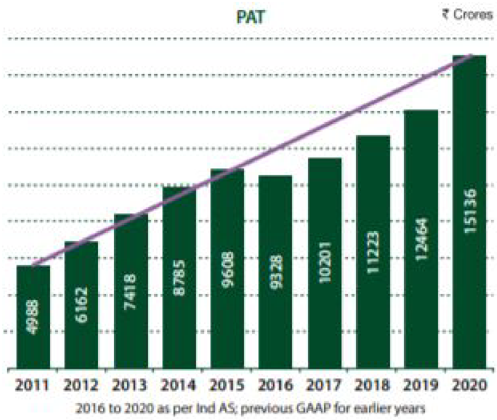
Focus on increasing market share of its premium brands

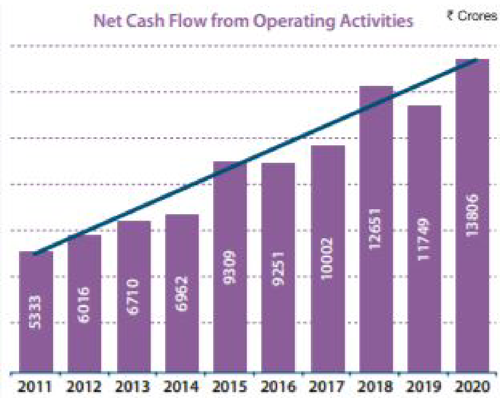
With the increase in disposable income, people tend to buy premium products. Unit sale value will also be higher for premium products compared with basic products. Hence, unit economics plays well for premium products. Thus, ITC is also investing in R&D to come out with premium products. Some of them include Dark Fantasy Yumfills and Jellifills, Aashirvaad Select Atta, Engage Lamante, Dermafique Skin Care, etc.

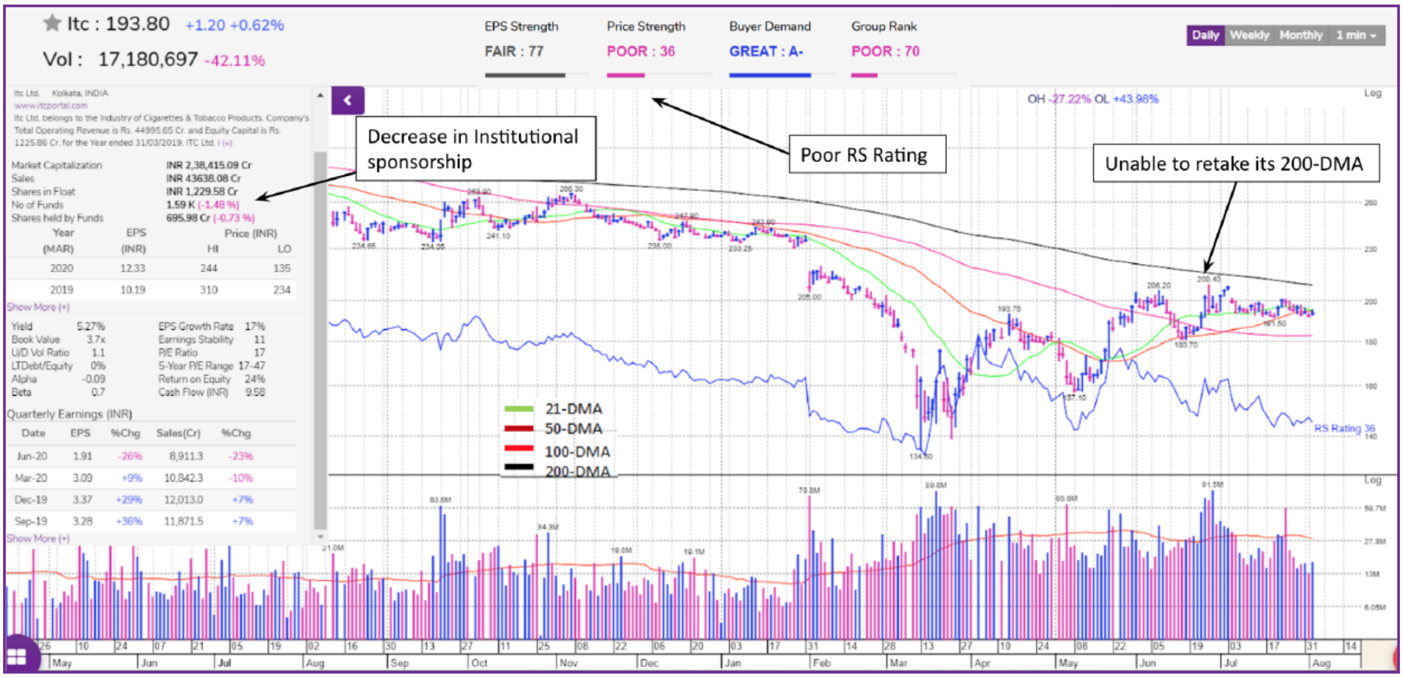
Enhanced supply chain, winning in emerging channels

Emerging channels are modern trade, e-commerce, and on-the-go. Generally, modern trade growth is 2x the general trade growth. It has installed vending machines in airports, railway stations, corporate parks, etc.

3Cs to deepen consumer engagement through digital







O'Neil Methodology and technical viewpoint:

The stock has been trading below its 200-DMA since May 2019. Recently, it retook 50- and 100-DMA.

RS Rating is poor at 33, indicating the stock's underperformance compared with the market.

EPS Rating, which is calculated based on its earnings profile, is fair at 76.

There has been some accumulation in the stock recently; thus, its A/D Rating improved to a 'Great' category A-.

A minor drop of 1.5% was seen in institutional sponsorship for the stock in the recent quarter.

ROE of 23.4% is a good sign.

ITC	FY20	FY21E	FY22E
Revenue	509.68	476.52	544.94
Growth % y/y		-7%	14%
EBITDA	0	174.99	208.95
Margin %		37%	38%
PAT	155.9	137.93	163.06
EPS in Rs	12.47	11.16	13.26
Return on Assets	20.52	20.23	22.22
Free Cash Flow	134.47	110.04	127.9

in Rs Billion Bloomberg Estimate

Dabur

Dabur is the world's largest and leading Ayurvedic and natural health care company, which offers more than 250 products in over 100 countries. Dabur operates in key consumer product categories like hair care, oral care, health care, skin care, home care, and foods. It has an expansive distribution network, covering 6.7M retail outlets with high penetration in both urban and rural markets. Dabur's five major brands are Dabur, Vatika, Real, Hajmola, and Fem.

Financial performance

During Q1 FY21, Dabur reported a 12.9% decline in its revenue to Rs 1,980 crore. The company's domestic FMCG business declined 6.9%, while volume decreased 9.7% due to the lockdown. Its international business declined 21.6%. Operating profit also declined 9% to Rs 417 crore. Operating margin improved 91bps to 21%. PAT declined 5.9% to Rs 342 crore.

Dabur continued to gain market share in its core segment Chyawanprash and hygiene products. Also, management expects a quick recovery as it has crafted a seven pronged strategy revolving around streamlining the supply chain, demand generation, and cost-cutting measures, retooling ad-spends. Additionally, now it is working on a go-to-market strategy to improve its village coverage (60K) and direct coverage to 1.5M outlets in FY21.

Risk related to COVID-19

With most products across health care, home & personal care, and food portfolio falling in the non-essential category, Dabur witnessed a decline in sales toward the end of March. Well-performing categories such as shampoo, oral care, health supplements, and digestives declined 16.8%, 15.8%, 9.5%, and 9.5%, y/y, respectively. Hair oil, skin care, as well as ethical, being more discretionary in nature, plunged 20.8%, 24.2%, and 20.6%, y/y, respectively. Foods declined 20.6% y/y as lockdown hampered Dabur's channel filling ability during the peak season. Its international business (IB) slipped 0.6% y/y with the MENA and SAARC regions being the worst affected.

New product launches to drive the top-line

Dabur has come up with various new products to cater to demand from different customers. In the honey segment, it has come up with two products, Dabur Honey Tulsi and Aswagandha. Some other products with the brand Ashwagandha are Ashwagandha Tablets and Capsules. It has come up with tetra packs for Amla, Aloe vera, Giloy Neem Tulsi, Giloy Ras juices.

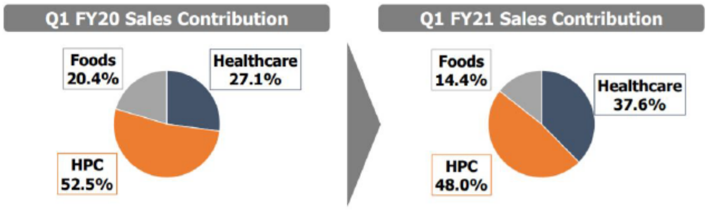
Food business de-grew; real brand business increased its market share

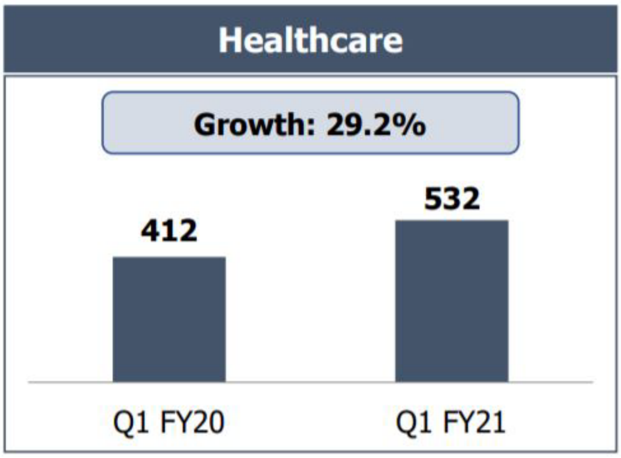
In the food business segment, beverages saw degrowth of 36.2% in Q1 FY21, whereas Real saw a good increase in its market share by ~260bps. It has launched Real Mango drink in PET format and Real Apple Mini in a Rs 10 pack. It has also launched four different milkshakes under the brand Real.

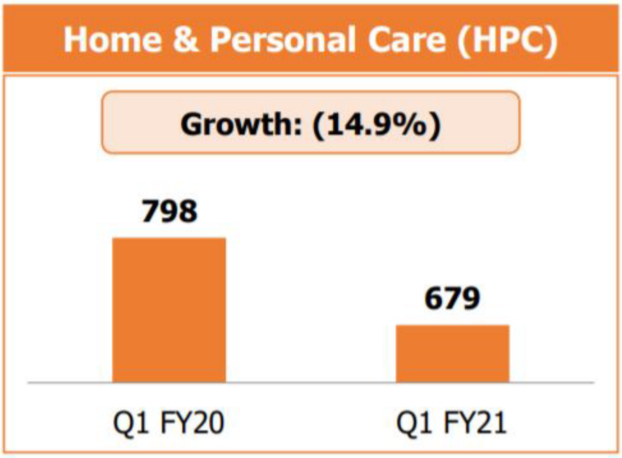
Outlook

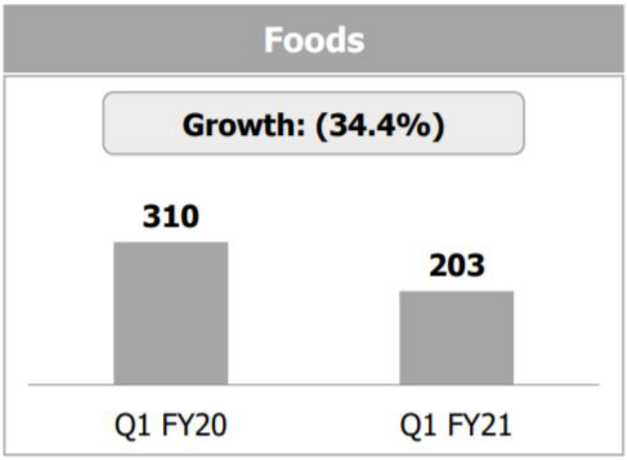
Management is anticipating a gradual easing of restrictions on lockdown and a pick up in demand in Q1 FY21. Despite the COVID-19 situation, the company is now focusing on launching new products and looking to straighten its health care and hygiene portfolio.

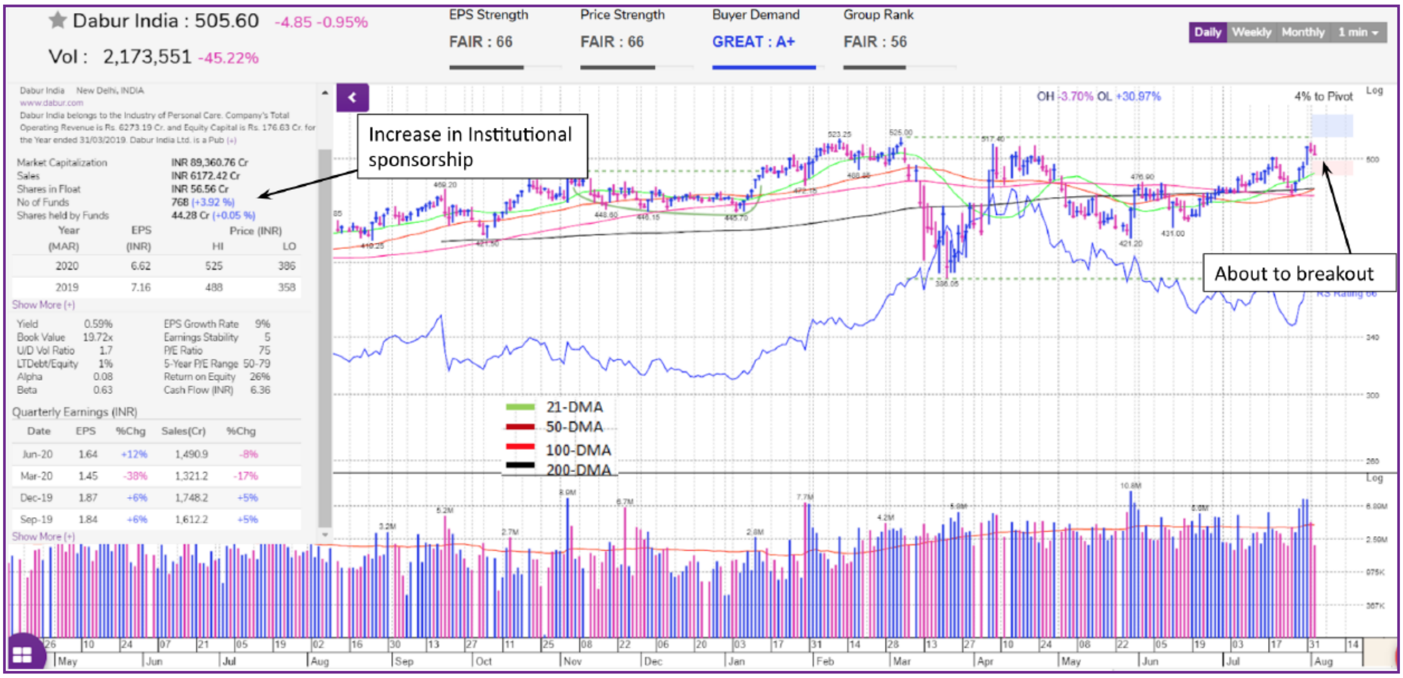
Despite the impact of the COVID-19 outbreak, the company expects Q1 FY21 revenue from operations to be in the range of Rs 4B–4.5B and PAT to range between Rs 8B and Rs 9B.











O'Neil Methodology and technical viewpoint:

The stock has made a stage-one consolidation pattern. Fresh positions can be initiated once the stock breaks out of the base on above average volume.

Price strength of 60, with an RS line moving sideways.

Its buyer demand rating stands at A, which is considered good.

EPS Rank of 69 indicates a decent fundamental profile.

The number of funds holding the stock has increased 4.2% y/y in the recent quarter.

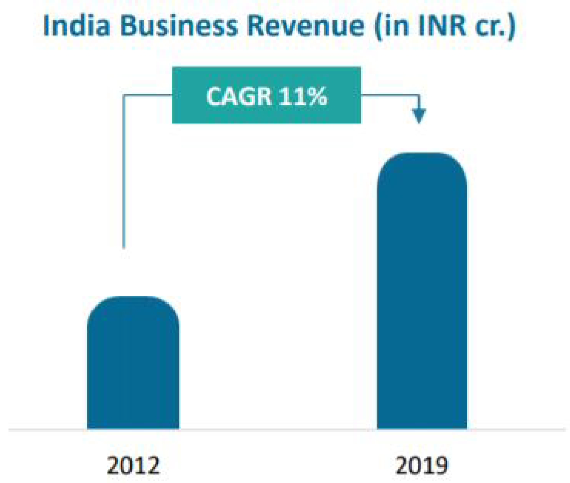
ROE is at 21.9% which is above our required 17%.

Dabur	FY20	FY21E	FY22E
Revenue	87.03	89.43	100.42
Growth % y/y		3%	12%
EBITDA	0	19.31	22.24
Margin %		22%	22%
PAT	15.15	16.38	18.82
EPS in Rs	8.57	9.31	10.76
Return on Assets	16.24	16.26	16.31
Free Cash Flow	14.16	14.5	15.62

in Rs Billion Bloomberg Estimate

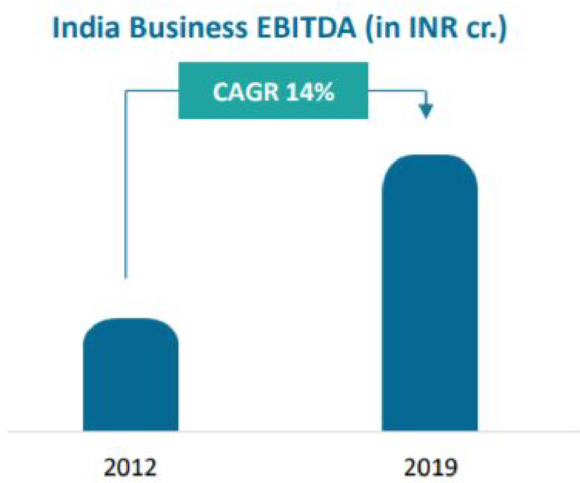
Marico

Marico is India's leading consumer products company, operating in the beauty and wellness sector. During 2019-20, Marico recorded a turnover of about Rs 73.1B through its products sold in India and chosen markets in Asia and Africa. Marico has over 25 brands in the categories of hair care, skin care, edible oils, healthy foods, male grooming, and fabric care. Marico reaches one out of every three Indians through its portfolio of brands such as Parachute, Parachute Advanced, Saffola, Saffola FITTIFY Gourmet, Coco Soul, Hair & Care, Nihar Naturals, Livon, Set Wet, Set Wet Studio X, True Roots, Kaya Youth O2, Mediker and Revive. Its international consumer products portfolio contributes about 22% of the group's revenue, with brands like Parachute, Parachute Advanced, HairCode, Fiancée, Caivil, Hercules, Black Chic, Code 10, Ingwe, X-Men, Sedure, Thuan Phat, and Isoplus.



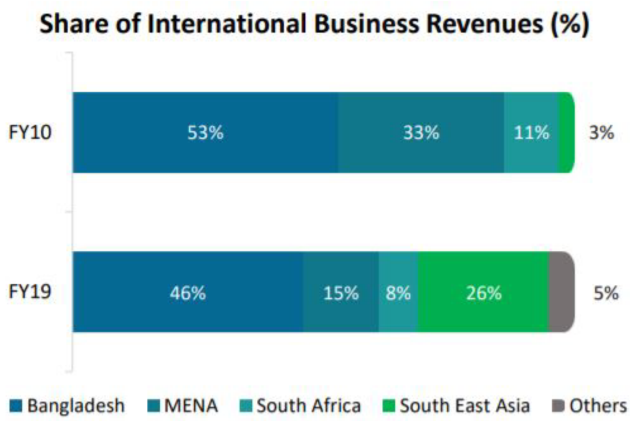
Financial performance

Marico's Q1 FY21 revenue fell 11% y/y to Rs 19.3B. EBITDA grew 1% y/y to Rs 4.7B. PAT grew 3% y/y to Rs 3.31B (excluding one-off). Gross margin expanded 140bps y/y to 48.9%. EBITDA margin expanded 300bps y/y to 24.3%. Due to a disruption in the last week of March and April, Marico's India business witnessed volume decline of 14%. Its international business also contracted 4% y/y in constant currency terms, with the MENA and South Africa businesses posting sharp declines. For the full-year FY20, sales remained flat to negative -0.3%, EBITDA grew 11%, and PAT grew 13%. EBITDA margin was up 200bps. In FY20, India volume grew 1% and the overall volume grew 2%. Marico says its domestic business clocked sales at 104% of the annual average monthly run rate of FY20. It has gained a market share in more than 90% of the portfolio on a MAT basis, with accentuated gains during Q1.



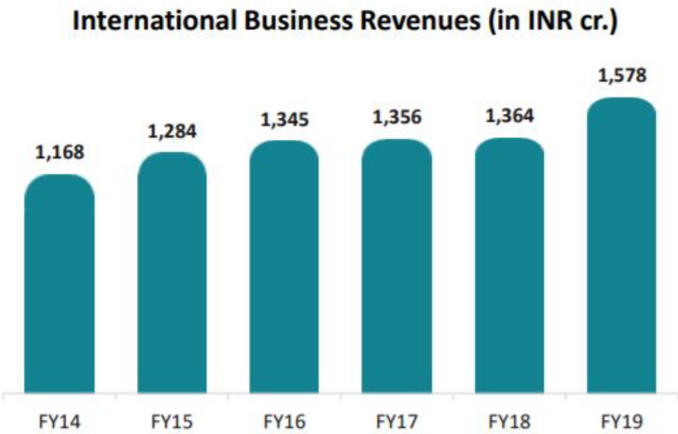
Risk related to COVID-19

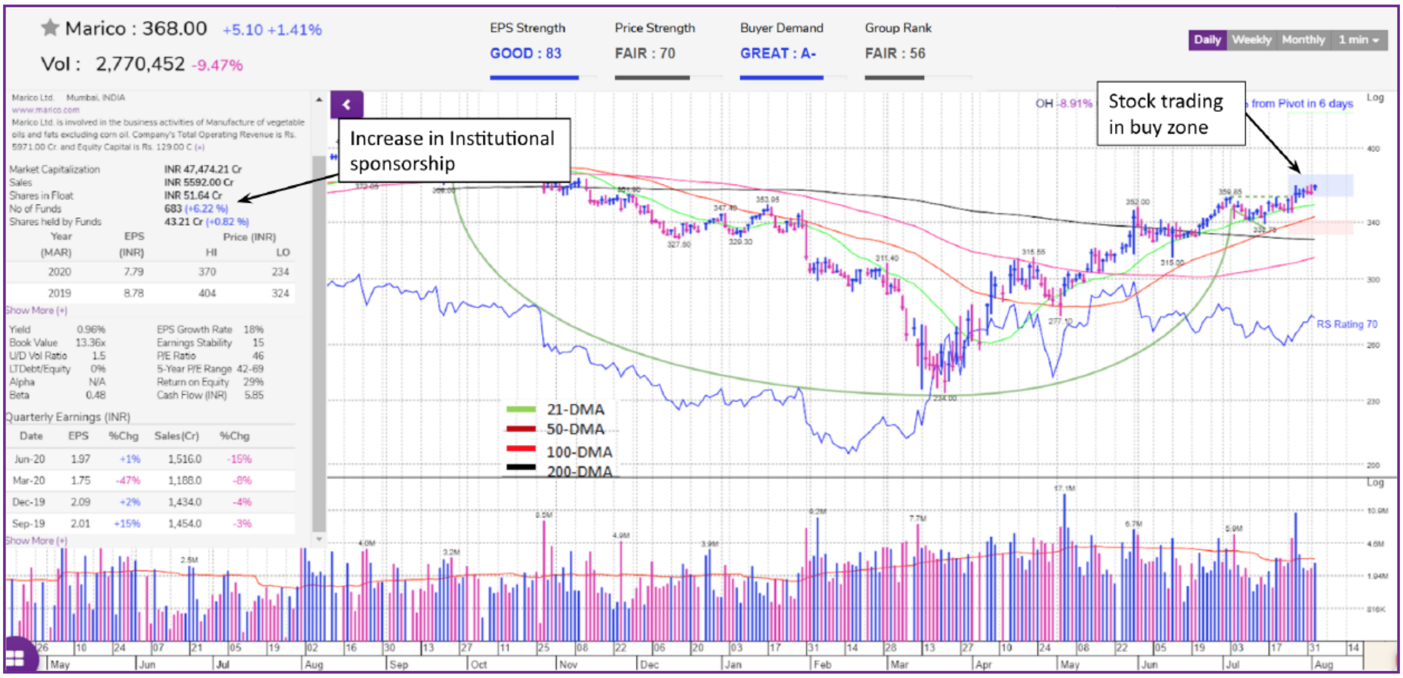
Due to the outbreak of the COVID-19 pandemic, Mario's overall sales in India fell sharply. All the category growth rate stayed muted. Traditional channels in rural areas were largely affected, but e-commerce grew healthily. The company was able to post good sales numbers as an increase in sales of Saffola oils and the food portfolio. Marico introduced Mediker Hand Sanitizer and Veggie Clean, a fruit and vegetable cleaner. In response to the COVID-19 situation, it also launched Saffola Honey and indoor and outdoor surface disinfectants under the aegis of new brands, House Protect and Travel Protect, respectively. Marico's Saffola and the food franchise posted volume growth of 16% and 30%, respectively, in Q1 FY21. But volume in other segments like Parachute and value-added hair oils declined 11% and 30%, respectively.



Outlook

Despite low volume growth, management expects some traction in some core portfolios compared to the last year's average monthly run-rate. Following gradual recovery to near-normal levels, it is expecting growth in May. Due to a sudden increase in in-house consumption, out-of-home consumption is expected to remain lower in the coming quarters. Saffola and food products will continue to perform well in the coming quarters. It expects Parachute's to grow volume in the range of 5%–7% over the medium term. In the near term, the company will be focusing on the value proposition of recruitment packs in coconut oil, scaling up availability, and the distribution of Saffola edible oils, aggressive push towards e-commerce business, which contributed more than 5% of sales in FY20. The company is expecting to reduce A&P spends by 100–150bps. The company targets medium-term 8–10% volume growth and 13–15% revenue growth. Also, comfortably maintaining an operating margin of more than 19% and 20% for the rest of the year.





O'Neil Methodology and technical viewpoint:

The stock has made a stage-one cup-with-handle pattern. Fresh positions can be initiated once the stock breaks out of the base on above average volume.

Price strength is at 60, with an RS line moving downwards.

Its buyer demand rating stands at A-, which is considered great.

EPS Rank of 78 indicates a fair fundamental profile.

The number of funds holding the stock has decreased 3.5% y/y in the recent quarter.

ROE of 33.8% indicates strong business.

Marico	FY20	FY21E	FY22E
Revenue	73.15	74.64	83.01
Growth % y/y		2%	11%
EBITDA	0	15.87	17.6
Margin %		21%	21%
PAT	10.21	11.25	12.56
EPS in Rs	7.91	8.74	9.75
Return on Assets	20.95	23.4	24.19
Free Cash Flow	10.46	11.65	11.48

in Rs Billion Bloomberg Estimate

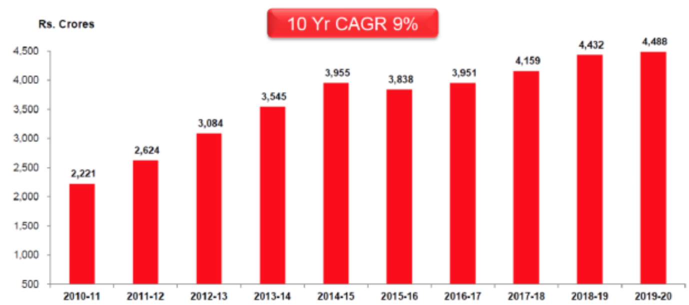
COLPAL

Colgate-Palmolive India Limited provides scientifically proven oral care products ranging from toothpastes, toothbrushes, and mouthwash under the brand 'Colgate' as well as special range of dental therapies under the banner of Colgate oral pharmaceuticals. The company also provides a range of personal care products under the brand 'Palmolive'. It operates in more than 80 countries, and products are marketed in more than 200 countries and territories. The company has more than 50 manufacturing and research facilities globally with the majority of Colgate products manufactured in Colgate-owned facilities.

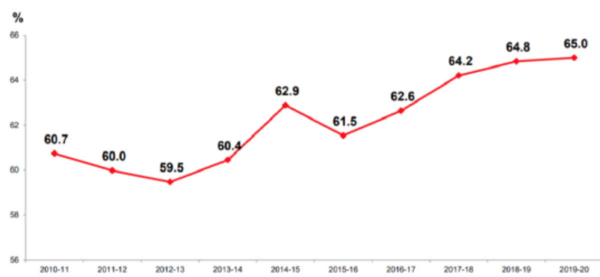
Financial performance

The company reported net sales of Rs 1,033.6 crore for the quarter ended June 30, a decrease of 3.9% over the same quarter last year. It reported net PAT of Rs 198.2 crore as against Rs 169.1 crore for the same quarter last year. The company witnessed improvements in key financial metrics with gross margins and EBITDA at 65.9% and 29.8%, respectively, despite all the uncertainties and challenges on account of the pandemic. Gross margin grew 30bps and EBITDA was up 190bps.
During FY20, the company's revenue increased 1.4% to 45.2B from 44.6B in FY19. EBITDA margin moderated 110bps to 26.6% on account of increase in employees cost. EBITDA stood at 12.0B, down 2.8% in FY20. Cash flow from operations decreased 12.8% y/y to Rs 8.2B in FY20. Capital expenditure declined 50.6% y/y to 1.2B in FY20. FCF stood flat at 6.9B.

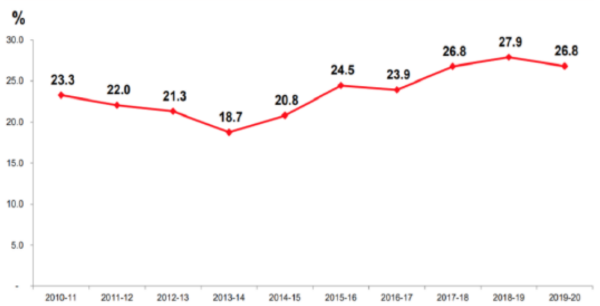
Net Sales



Gross Margin



EBITDA



Source: Company Presentation

Superior brand value

The company has emerged as the most trusted oral care brand in the country for nine years in a row. Its household penetration has ascended up 300bps in Q1 FY20. In building the brand equity, the company is focused on ensuring that they offer innovative and meaningful products to every single person, no matter who and what part of the company's portfolio the consumer prefers buying. Further, the company constantly looks to amplify its experience across multiple mediums, including a rap battle, where the company received the biggest digital award, "The Golden Digital Award" for "Best Use of Instagram".

Continued focus on innovation

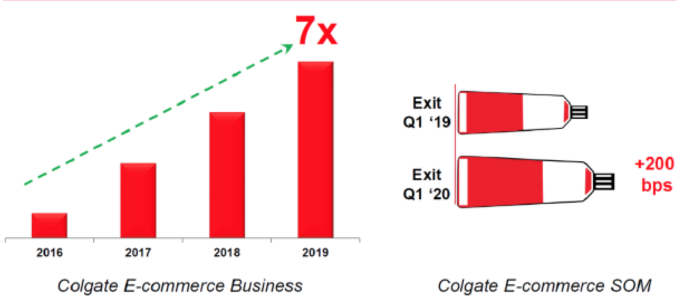
The company has calibrated series of initiatives in the direction of innovation. To begin with, the company launched first ever Colgate bamboo brush. This comes with a bamboo handle completely recyclable, zero plastic packaging and the bristles themselves once again infused with bamboo charcoal. Also, the company launched Colgate Zigzag Neem along with Super Flexi Charcoal, and Zigzag Charcoal brushes. On the toothpaste front, the company made a re-launch of flagship variant, which is Colgate Strong Teeth, again an innovation that was started in India and for India, which has been actually taken all over the world. This product is biggest revolution in oral health in decades. The company relaunched the product, highlighting "Andar se Strong" coupled with "Moms Led Digital 3.5M Engagement".

The company has broadened the entire Palmolive franchise with the launch of numerous oils. Originally, it began with just shower gels extended that from body wash to shampoos and more importantly, into liquid hand washes as well. The newest addition is Palmolive Sanitizers literally conceptualized, built, and shipped in a record time of less than two weeks, all done in April.

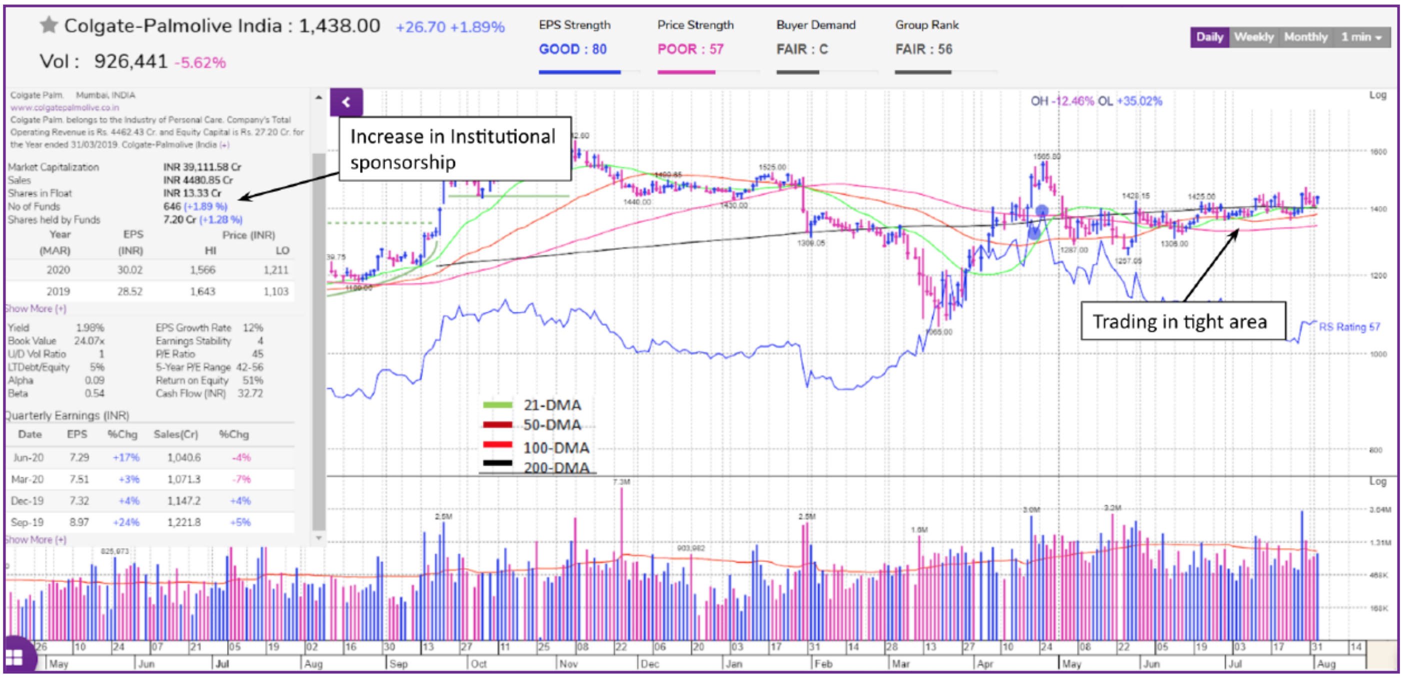
Gaining traction in e-commerce segment

The company was able to create a dedicated e-commerce team within just 60 days. In the last couple of months of 2019, the company had put in place a separate business unit, dedicated exclusively for e-com business. This has delivered the results with the company's market shares, performances in e-com already up 200bps at the first quarter as against historical trends. Further, the company has been able to register robust double-digit growth year-to-date despite facing labor shortages and delivery issues in many platforms due to the ongoing COVID-19 situation.

Winning in Ecom



Source: Company Presentation



O'Neil Methodology and technical viewpoint:

The stock has been trading in a 37-week consolidation base pattern.

For the last four months, it has been trading near its 200-DMA. RS Rating of 60 is fair.

EPS Rating of 80 belongs to a good category.

There was a marginal increase of 1.9% in the number of funds invested in the company.

The stock shall turn actionable if it closes above its pivot of Rs 1,642 on above average volume.

ROE of 131% indicates strong business.

Colgate Palmolive	FY20	FY21E	FY22E
Revenue	45.25	46.6	50.98
Growth % y/y		3%	9%
EBITDA	0	13.08	14.46
Margin %		28%	28%
PAT	8.16	8.63	9.61
EPS in Rs	30.02	31.76	35.45
Return on Assets	31.22	33.2	35.65
Free Cash Flow	8.58	9.73	10.16

in Rs Billion Bloomberg Estimate

Britannia

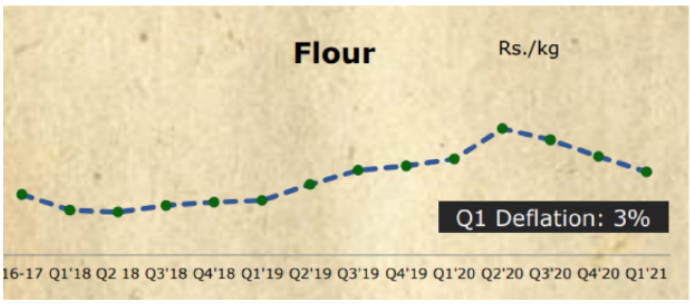
Britannia is a leading FMCG player in India, with business in biscuits, cakes, and other confectionery categories. It also sells salted snacks and dairy. The company's portfolio consists of well-known brands: Tiger (mass biscuits), Treat (cream biscuits), 50-50 (crackers), Good Day (premium cookies and its highest selling brand), Marie, Milk Bikis, and NutriChoice (premium high-fiber biscuits). It is the No. 1 player in the Indian biscuits category, with more than 30% market share in terms of value. Britannia Bread is the largest brand in the organized bread market with an annual turnover of more than 1 lakh ton in volume and Rs 450 crore in value.

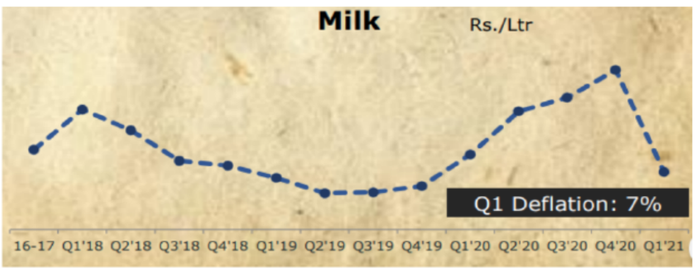
High demand for packaged food products

Due to the COVID-19 lockdown, people were consuming food at home rather than going out to restaurants, cafes, etc. This provided a big push to packaged food products like biscuits, bread, and dairy products. Also, people preferred safe and trusted brand names. Due to these reasons, sales growth was good and may continue to remain higher due to lower out of home consumption.

Margin improved due to better product mix; input cost remains benign

In Q1 FY21, the company reported revenue growth of 26.4% y/y. PAT grew 106.7% y/y and operating margin expanded to 21% from 14.6% y/y. Input cost remains lower as the price of milk and flour were down 7% and 3%, q/q, respectively. Raw material costs are expected to remain stable due to good monsoon and harvest season. In Q1 FY20, the company used 80:20 rule. It focused on 20% of brands and SKUs that gave 80% of total revenue. This not only improved productivity and manufacturing capacities but also helped the company gain efficiency in terms of factories and the distance traveled by the product, thereby saving the cost.



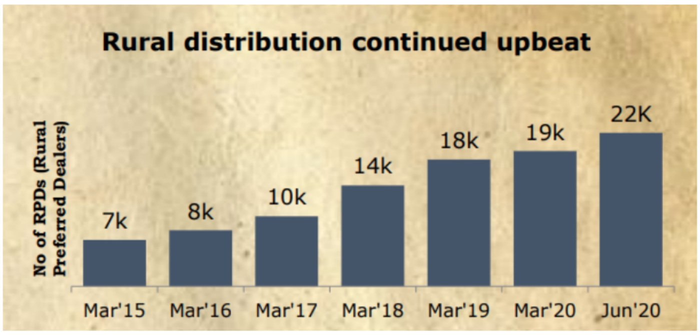


Source: Britannia Q1 FY21 Investor Presentation

Good monsoon, government initiatives, and reverse migration to spur growth

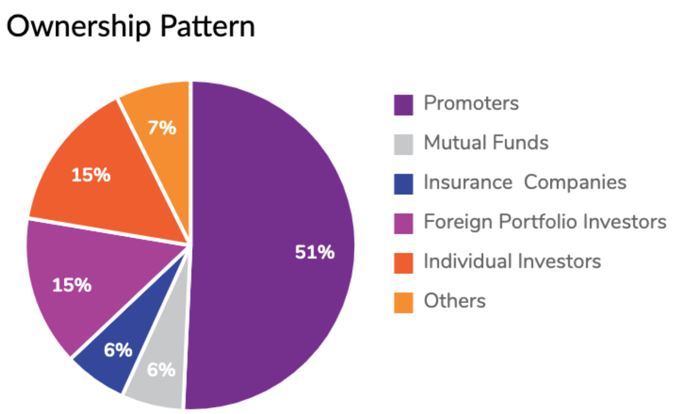
The agriculture sector looks encouraging, driven by better-than-expected output of Kharif crops and a favorable monsoon this year. The government released Rs 430B by the first week of July under MNREGA, out of an incremental allocation of Rs 1T for FY21.

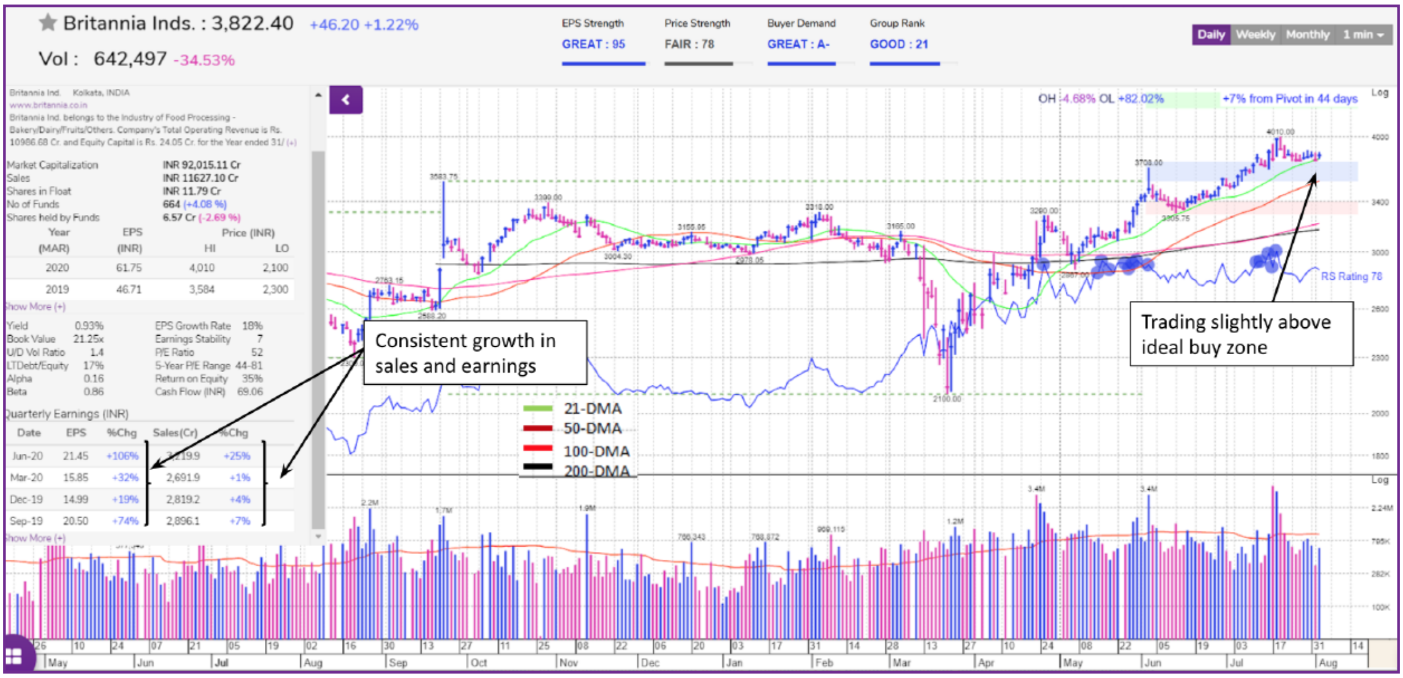
As per data released by CMIE, the MNREGA scheme has provided employment to 43.7M households in June. Further, employment in farming advanced 17% y/y to Rs 130M in June. Also, there is a huge reverse migration due to pandemic. All these factors will result in positive rural sentiment and calibrate rural consumption. Britannia has already improved its footprint in the rural market. This can be a tailwind for the company.



New launches and focus on high-margin dairy business

Britannia's value-added dairy portfolio consists of butter, milkshakes, and yogurt. It currently makes up about 5% of total turnover, which the company plans to double in the next two years. It is a margin accretive segment with a PBT margin of ~20%, versus Britannia's overall PBT margin of 16%. The company's recently launched Winkin Cow brand milkshakes have performed very well and are already the No. 2 brand within the first year of its launch. Strong performance from shakes has led to double-digit growth in this segment.





O'Neil Methodology and technical viewpoint:

In July, the stock broke out of a 35-week consolidation base. Its RS Rating has remained above 75 in the past two months. The stock has a good A/D Rating of A-, showing strong institutional support. The number of institutions holding the stock has also increased ~5% q/q in Q1 FY21. It has formed a three-week tight area on the weekly chart, which gives an additional entry point.

The stock has a strong fundamental profile with EPS Rank of 95 (improved from 91 q/q). The company has ROE of 32% and enjoys a healthy PBT margin of 16%. The stock has strong support near its 21-DMA and has managed to trade above it since April.

ROE is at 31.9%, which is very good.

Britannia	FY20	FY21E	FY22E
Revenue	114.44	134.93	146.14
Growth % y/y		18%	8%
EBITDA	0	24.78	26.05
Margin %		18%	18%
PAT	14.06	18.82	19.98
EPS in Rs	58.44	77.79	82.93
Return on Assets	19.91	22.89	21.56
Free Cash Flow	13.32	15.6	16.48

in Rs Billion Bloomberg Estimate

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Disclosure of Interest Statement	Companies where there is interest
Analyst ownership of the stock	No

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