Sector Update | 19 August 2024

Consumer

Consumption tracker: Steady demand trend; pricing to further support growth

Our vibrant consumer universe, with a revenue pool of INR4,000b and a market cap pool of INR32,000b, recorded an aggregate revenue growth of +6%/+9% in 1QFY25/FY24. The coverage includes six sub-buckets, all of which posted growth in 1QFY25/FY24 (i.e., staples +5%/+6%, paints -1%/+4%, liquor +9%/5%, Innerwear +4%/-3%, QSR +6%/+12%%, and jewelry +15%/+28% YoY). Most sub-categories maintained a similar trend in 1QFY25. The staples universe continued to experience steady volume improvement, while margin delivery was better than expected. Paints witnessed a slowdown in growth due to industry factors, with weak margins. Liquor companies sustained healthy growth in the premium segment, with improved operating margin in 1QFY25. QSR faced growth challenges, particularly in the dine-in format and reported sluggish margins. Jewelry recorded a moderation in growth due to heat waves, gold inflation, et al., but its margin performance was surprising. Though management commentary for 2HFY25 remains optimistic, backed by pricing, it appears more achievable for staple companies at present. The following summarizes the performance of all sub-categories and key areas to monitor:

- **Staples:** The consumer staples companies struggled to maintain volume growth momentum during the last two years, largely due to external challenges such as erratic monsoons and high inflation, which severely dampened consumption in the mass segment. A modest upswing in volume growth is now visible after two years of subdued demand. In 1QFY25, harsh summer conditions and election-related restrictions have affected out-of-home consumption and categories such as HI, beverages, alcoholic beverages, and paints, while boosting demand for cooling products. We expect that the volume improvement trajectory will continue in the upcoming quarter of FY25, aided by stable retail inflation, a healthy progress of the monsoon season, and the government's budgetary allocation towards boosting the rural economy.
- **Paints:** The industry has been experiencing a moderation in growth during the last 3-4 quarters, marred by price cuts. Additionally, there has been a consistent entry of new players such as Grasim Industries, Pidilite, and JSW Group, altering the competitive landscape. These companies are investing heavily in capex (INR200-220b over the next 3-4 years) to enhance capacity by 20%. Though the new entrants are helping the category shift from unbranded to branded, they are also intensifying the competitive pressure. Weak discretionary demand and the changing competitive landscape are adversely affecting growth. In 1QFY25, demand was hit by price cuts (~3.5% in 4QFY24), an unfavorable product mix, general elections, and heat waves. To combat rising raw material prices, the paint companies have taken a 1-2% price hike in Jul'24 and may further increase prices in the upcoming quarters.
- **Innerwear:** PAGE continues to experience weakness in growth amid subdued demand in the apparel industry, resulting in excess inventory at channel partners. Management is implementing several initiatives to optimize channel inventory, leading to a 10-day reduction in inventory days at channel partners in

Valuation Summary

Company	Reco	CMP (INR)	TP (INR)
Consumer			
Hind. Unilever	Buy	2,744	3,250
ITC	Buy	501	575
Asian Paints	Neutral	3,076	3,150
Nestle India	Neutral	2,504	2,500
Pidilite Inds.	Neutral	3,055	2,950
Dabur India	Buy	621	750
Britannia Inds.	Neutral	5,732	5,850
Godrej Consumer	Buy	1,404	1,700
Marico	Buy	669	750
United Spirits	Neutral	1,404	1,400
Page Industries	Neutral	41,162	38,000
P & G Hygiene	Neutral	16,969	17,000
Colgate-Palm.	Neutral	3,549	3,150
United Breweries	Sell	1,990	1,800
Emami	Buy	803	950
Indigo Paints	Buy	1,448	1,700
Jyothy Labs	Neutral	556	565
Retail			
Titan Company	Buy	3,464	4,000
Kalyan Jewellers	Buy	549	650
Senco Gold	Buy	1,123	1,350
Jubilant Food.	Neutral	634	550
Devyani intl.	Buy	170	210
Westlife Foodworld	Neutral	807	775
Sapphire Foods	Buy	1,560	1,850
Restaurant Brands	Buy	106	140
Barbeque Nation	Neutral	633	625

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1QFY25. Margins of innerwear companies were affected by increased discounts and volatile raw material prices. We are still awaiting more clarity on the near-term demand recovery and full inventory normalization at trade partners.

- **Liquor:** The P&A segment has consistently outperformed over the past three years, with pricing in key states playing a crucial role in driving revenue growth over the last 12 months. ENA continues to face inflationary pressures, while other key commodities like glass have remained stable, contributing to margin volatility for UNSP. Although barley costs, which affected margins, are now declining sharply, UBBL's margins remain hurt by the increased use of new bottles in its product mix. In 1QFY25, demand faced challenges despite the seasonality, primarily due to election-related restrictions and a lack of approvals for interstate transfers, while premium products performed well. Moving forward, a strategic focus on overcoming regulatory hurdles and capitalizing on the premiumization trends could further bolster growth.
- **QSR:** The quick-service restaurant (QSR) industry continues to face demand challenges, grappling with weak unit economics and intense market competition. There has been improvement in the delivery channel, as consumer traffic was positive, driven by consumer offers and the impact of heat waves. Dine-in demand remained weak, with most brands experiencing a double-digit decline. Both restaurant margin and EBITDA margin contracted for most of the brands over the last four to five quarters. We expect QSR companies to sustain a weak growth trajectory in the near term, although ADS appears to have bottomed out. The pace of recovery is expected to be slow, which will likely keep operating margins under pressure. Following a sharp dip in margins, any further contraction will be closely monitored. We are watchful for any signs of recovery (particularly for dine-in) in 2HFY25 and the pace of store additions in FY25.
- **Jewelry:** Despite the consumption slowdown across various categories, jewelry companies have delivered healthy growth fueled by an increase in footfalls, store additions, and healthy same-store sales growth (SSSG). However, in the first quarter, revenue growth was hit by a rise in gold prices (15% YoY), extreme heat waves, general elections, and fewer wedding days. We, however, remain optimistic about the jewelry sector and anticipate a continued rapid transition in consumer buying habits from informal/local to formalized channels. Factors such as rising ticket prices, improved shopping experiences, a wider product range, and others are driving this significant trend. The recent reduction in custom duties will further accelerate the shift from unorganized to organized retail channels.

Valuation and View: Maintain preference for staples over discretionary

In our last consumer sector thematic report published in Apr’24, we emphasized our overweight stance on staple companies owing to favorable risk-reward dynamics and anticipated volume recovery in FY25 and FY26. We noted that the earnings cut cycle had been largely reflected in stock prices, leading to 15-20% corrections in valuation multiples of staple companies compared to their own five-year averages. Consequently, an improvement in volume print is expected to reduce these valuation differentials. Over the past two quarters, we have observed steady improvement in volume growth, along with optimistic management commentary regarding further acceleration in growth in the upcoming quarters. Our preference for staple companies remains strong, as we anticipate a sustained upward trajectory in earnings that largely justifies their premium valuations.

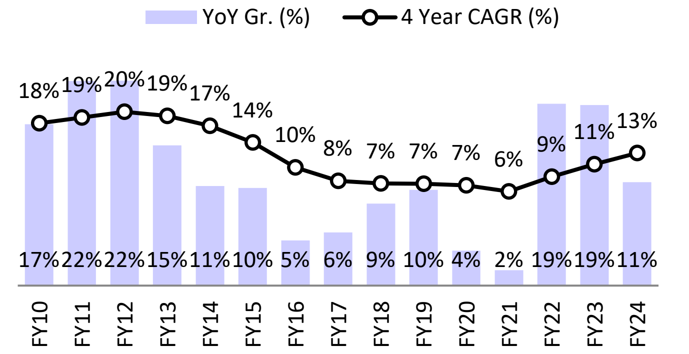
We maintain our cautious stance on discretionary stocks; however, we hold a positive view on jewelry companies. Various external and internal factors are contributing to robust earnings growth in the jewelry sector. We are monitoring QSRs, liquor, paint, and innerwear companies for indications of improved growth.
Top picks: We reiterate our overweight stance on the staple sector and continue to prefer HUL, GCPL, and Dabur as our top picks. In the discretionary space, we like jewelry companies, with Kalyan Jewelers and Titan being our top picks.

Consumption tracker

The index is based on the weighted average revenue growth of various companies, included in their respective categories

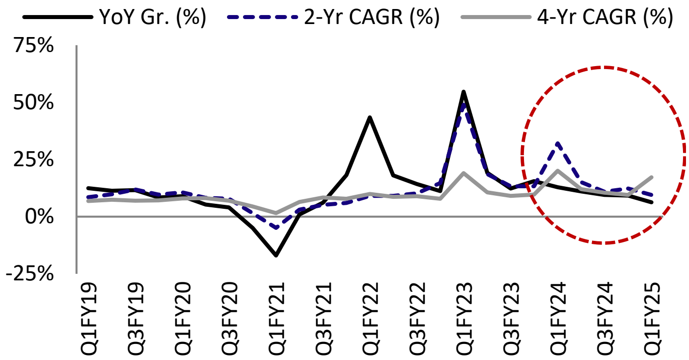
Our consumption tracker consists of various categories from both staples and discretionary baskets. The index comprises a diverse range of categories, from essentials such as oral care, hair care, personal care, and home care to discretionary items such as F&B, OTC FMCG, cigarettes, footwear, paints, QSR, dairy, liquor, and jewelry.

Exhibit 1: Consumer Index – yearly trend



Source: Companies, MOFSL

Exhibit 2: Consumer Index – quarterly trend



Source: Companies, MOFSL

Category outperformance and underperformance on an LTM basis

Performance led by oral care and dairy products within essentials; personal care weak: Oral care and dairy products have driven performance for essentials in the last four quarters, growing 9% and 12% (on an LTM basis), respectively. Personal care/hair care witnessed a revenue growth of 1% each (on an LTM basis). The revenue growth has been partially hit by the price cuts taken by the company to pass on the benefits of raw material prices in FY24. Additionally, certain categories have witnessed resurgence in local competitive intensity. We anticipate that the divergence between volume and pricing will revert to normal levels.

Sequential moderation in discretionary categories sustains: With price cuts and a moderation in volume growth, most discretionary categories continued to experience weakness in growth. Paints and footwear reported 1% decline and 1% growth in revenue on an LTM basis. It is worth noting that QSR growth was primarily driven by store additions, with most players recording a decline in SSS. Despite a slowdown in discretionary spending, the jewelry sector has performed well and jumped 25% on an LTM basis and 15% YoY in 1QFY25. The growth in discretionary categories is a key monitorable in the coming quarters.

Exhibit 3: Category outperformance and underperformance (LTM basis)

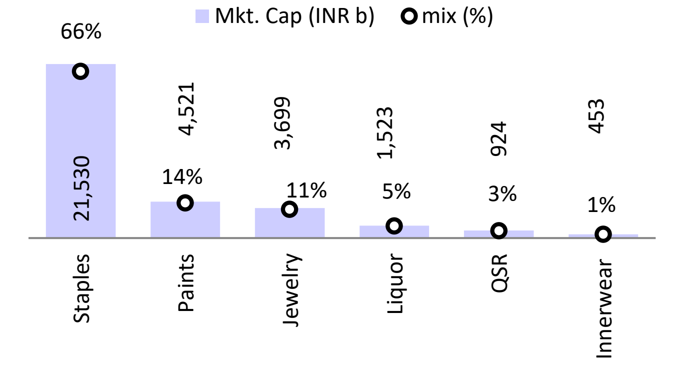
Categories	Category Gr. (1QFY25)	Category Gr. (LTM)	Out performers	Co Avg. Gr. (LTM)	Out performance (x)	Under performers	Co Avg. Gr. (LTM)	Under-performance (x)
Personal Care	0%	1%	Gillette	6%	12.0x	Emami	-5%	-9.5x
Hair Care	2%	1%	Emami (Navratna)	12%	9.0x	Emami (Kesh king)	-11%	-8.1x
Oral Care	12%	9%	Dabur	11%	1.2x	Gillette	1%	0.1x
F&B	4%	5%	Dabur	21%	4.0x	Marico	-16%	-3.1x
Home Care	5%	3%	Jyothy (Fabric care)	10%	3.3x	Jyothy (HI)	0%	0.1x
OTC FMCG	3%	3%	Amrutanjan	11%	4.4x	Dabur	0%	-0.1x
Cigarette	7%	8%	Godfrey Phillips	24%	2.8x	ITC	6%	0.7x
Liquor	10%	11%	Radico Khaitan	29%	2.6x	Pernod Ricard	6%	0.5x
QSR	7%	8%	Burger King	20%	2.6x	Sapphire (PH)	-3%	-0.3x
Dairy	9%	12%	Heritage	17%	1.4x	Parag	7%	0.6x
Paints	-1%	2%	Indigo Paints	4%	2.1x	Asian Paints	1%	0.4x
Footwear	1%	3%	Mirza International	8%	2.6x	Bata	0%	0.0x
Jewelry	15%	25%	Kalyan	31%	1.2x	Titan	23%	0.9x

Source: Companies, MOFSL

Our coverage universe

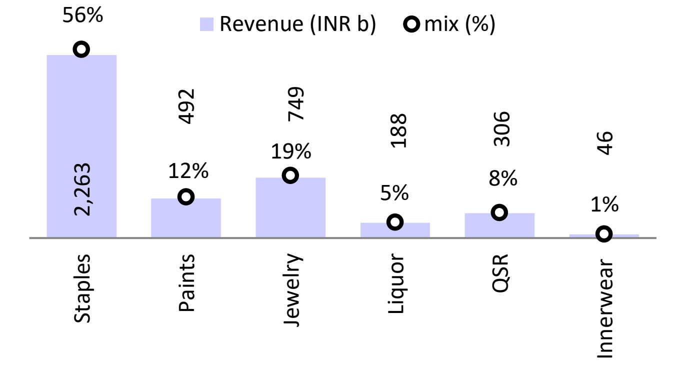
Our vibrant consumer universe, with a revenue pool of INR4,000b and a market cap pool of INR32,000b, consists of various categories from both staples and discretionary baskets. The coverage comprises a diverse range of categories, such as staples, paints, liquors, QSR, and jewelry.

Exhibit 4: Coverage market cap and mix



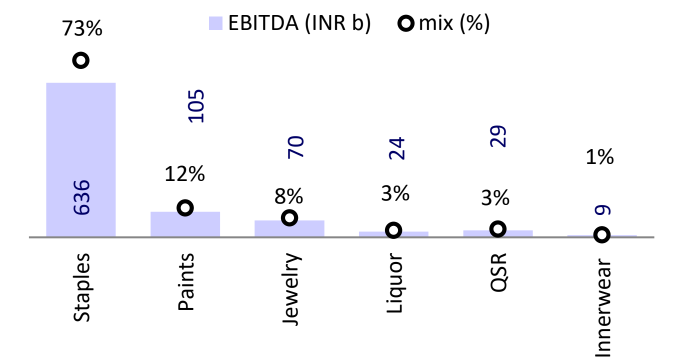
Source: Companies, MOFSL

Exhibit 5: Aggregate revenue pool of INR4,000b…



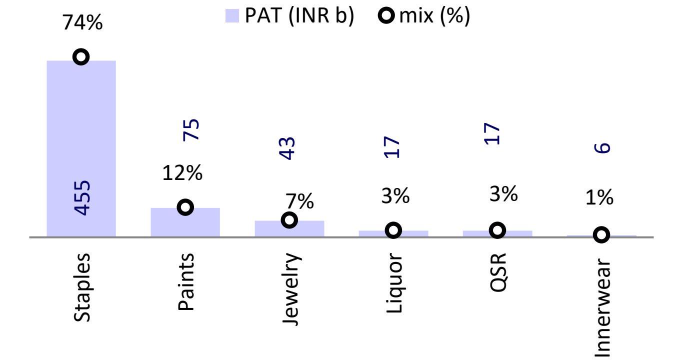
Source: Companies, MOFSL

Exhibit 6: ...delivering EBITDA of INR875b…



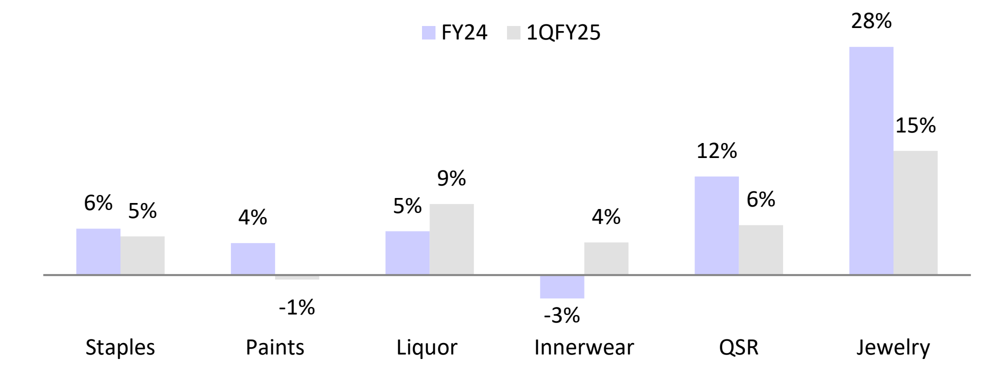
Source: Companies, MOFSL

Exhibit 7: …and PAT of INR599b



Source: Companies, MOFSL

Exhibit 8: Coverage universe growth in FY24 and 1QFY25



Source: Companies, MOFSL

Staples – volume recovery on track!

- The consumer staples companies struggled to maintain volume growth momentum during the last two years, largely due to external challenges such as erratic monsoons and high inflation, which severely dampened consumption in the mass segment. FMCG products had the highest penetration in rural areas and had been hit the most compared to other consumer baskets.
- The mass segment boasts a substantial user base, yet experiences the slowest income growth. Consequently, the high inflation rates have notably dampened consumer spending. Nevertheless, with a dip in general inflation and price reductions in the FMCG sector, the income-to-cost mix has been gradually stabilizing over the last 12 months.

Volume growth in low single digit for staple companies in FY23 and FY24

Exhibit 9: Volume growth trajectory during FY19-24

Volume Gr (%)	FY19	FY20	FY21	FY22	FY23	FY24
Asian Paints	13	11	8	33	14	10
Britannia	10	2	12	3	2	3
Colgate	6	1	4	2	(2)	1
Dabur	11	2	12	12	1	3
Emami	4	(4)	12	9	(4)	2
Godrej Consumer	5	1	10	12	1	7
HUL	10	2	3	4	5	2
ITC	6	(0)	(12)	16	18	3
Jyothy labs	9	(4)	14	10	2	9
Marico	8	1	9	7	2	3
Nestle	11	8	2	12	5	5
Page	6	(3)	(11)	28	13	(4)
UBBL	13	(3)	(38)	33	31	2
United Spirits	4	(2)	(11)	(22)	9	2

Source: Company, MOFSL

- With steady improvements in macroeconomics and price cuts taken by the FMCG companies, improvement is seen in the demand along with signs of growth in the rural markets.
- A modest upswing in volume growth is now visible after two years of muted demand. We expect that the volume improvement trajectory will continue in the upcoming quarter of FY25, aided by stable retail inflation, a healthy progress of the monsoon season, and the government's budgetary allocation towards boosting the rural economy.
- In 1QFY25, harsh summer conditions and election-related restrictions have affected out-of-home consumption and categories such as HI, beverages, alcoholic beverages, and paints, while boosting demand for cooling products. Most companies have also indicated to deliver high-single to double-digit volume growth in FY25.

Exhibit 10: Volume uptrend in 1QFY25

Volume growth (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Asian Paints	37	10	0	16	10	6	12	10	7
Britannia	-2	5	3	3	0	0	6	6	8
Colgate	-3	-3	-5	1	3	-1	-1	1	7
Dabur	5	1	-3	1	3	3	4	3	5
Emami	10	-1	-4	2	3	2	-1	6	9
Godrej Consumer	-6	-5	3	13	10	4	5	9	8
HUL	6	4	5	4	3	2	2	2	4
ITC	26	20	15	12	8	5	-1	2	3
Jyothy labs	3	1	2	3	9	9	11	10	11
Marico	-5	3	4	5	3	3	2	3	4
Nestle	7	9	-2	5	5	5	4	4	4
Page Industries	150	1	-11	-15	-12	-9	5	6	3
UBBL	121	23	4	3	-12	7	8	11	5
United spirits	18	8	-25	-27	6	1	-2	4	3

Source: Company, MOFSL

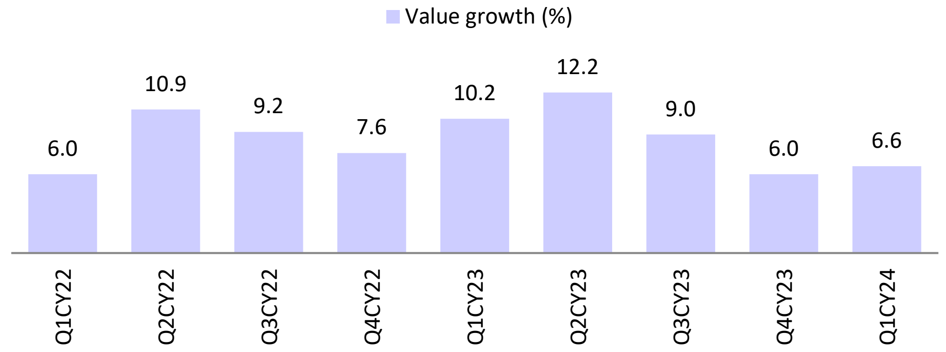
Exhibit 11: Revenue , EBITDA, and PBT growth trajectories over the last five quarters

Companies	Revenue growth (%)					EBITDA growth (%)					PBT growth (%)				
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Asian Paints	7	0	5	-1	-2	36	40	28	-9	-20	46	51	33	-7	-24
Britannia	8	1	1	1	6	38	23	0	-2	9	34	21	-1	-2	14
Colgate	11	6	8	10	13	28	18	30	18	22	33	22	36	19	26
Dabur	11	7	7	5	7	11	10	8	14	8	5	2	5	14	8
Emami	7	6	1	7	10	10	20	7	6	14	69	5	12	15	20
GCPL	10	6	2	6	-3	28	26	18	14	7	23	32	18	20	18
HUL	6	3	0	0	1	8	9	-1	-1	2	9	9	0	-2	2
Indigo Paints	29	15	26	18	8	39	25	53	18	-4	57	19	42	11	-16
ITC	-7	4	2	2	8	10	3	-3	0	1	17	7	-2	1	0
Jyothy	15	11	11	7	8	96	68	41	19	14	134	95	37	31	18
Marico	-3	-1	-2	2	7	9	15	13	12	9	14	19	12	0	7
Nestle	15	9	8	9	3	25	22	14	19	5	29	24	17	21	7
Page	-8	-8	2	3	4	-20	-2	19	22	2	-24	-6	23	36	6
Pidilite	6	2	4	8	4	34	36	50	26	15	37	43	65	27	19
UBBL	-7	12	13	21	9	-16	-16	90	166	28	-17	-20	785	724	29
UNSP	-1	-1	7	7	8	42	6	34	7	19	61	14	51	96	25

Source: Company, MOFSL

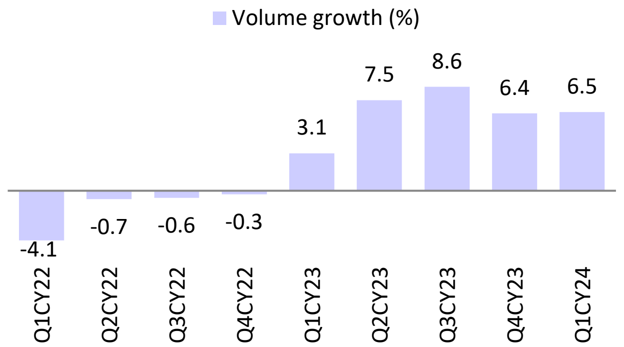
- According to the Nielsen data of 1QCY24, volume-driven growth is also visible in the FMCG companies. It shows that the FMCG industry’s value has improved 6.6% YoY, led by 6.5% YoY volume growth. The price-cut initiatives and higher promotions led the growth.

Exhibit 12: Value improved 6.6% YoY in 1QCY24…



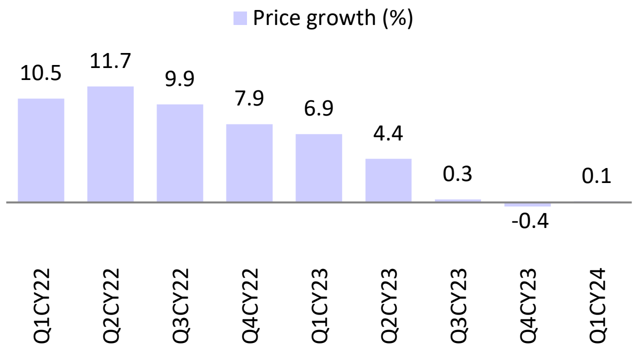
Source: Companies, MOFSL

Exhibit 13: …driven by volume growth of 6.5%...



Source: Companies, MOFSL

Exhibit 14: …due to stable pricing of the product

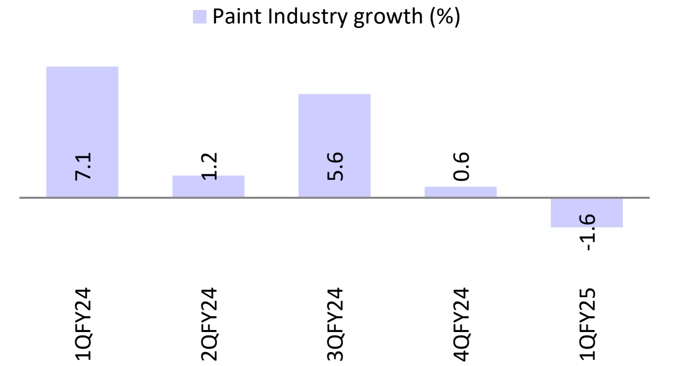


Source: Companies, MOFSL

Paints – sluggish industry trend amid rising competition

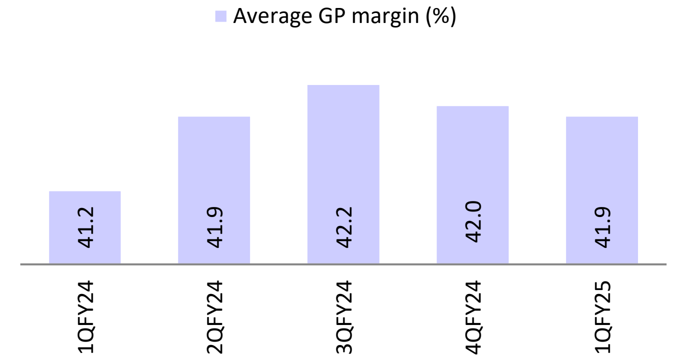
- **Weak industry growth with mounting competitive intensity:** The paints industry has been experiencing a moderation in growth during the last 3-4 quarters, marred by price cuts. Additionally, there has been a consistent entry of new players such as Grasim Industries, Pidilite, and JSW Group, altering the competitive landscape. These companies are investing heavily in capex (INR200-220b over the next 3-4 years) to enhance capacity by 20%. Though the new entrants are helping the category shift from unbranded to branded, they are also intensifying the competitive pressure.
- **Critical success factors:** Success for new entrants depends on building strong distribution networks and investing heavily in marketing and advertising. The top paint companies such as Asian Paints, Berger, Kansai Nerolac, and Akzo Nobel have a strong market presence, supported by extensive dealer networks and long-term brand equity.
- **Sluggish industry trajectory**: Weak discretionary demand and the changing competitive landscape are adversely affecting growth. In 1QFY25, demand was hit by price cuts (~3.5% in 4Q), an unfavorable product mix, general elections, and heat waves. To combat rising raw material prices, the paint companies have taken a 1-2% price hike in Jul'24 and may further increase prices in the upcoming quarters.
- **Muted operating margin**: Operating margin is likely to experience pressure due to elevated advertising expenses, R&D and distribution costs, and idle capacity overheads that could limit their profit growth over FY25-FY26E. It will be interesting to monitor the new competitor scalability in a category that is less price-sensitive and more brand-centric.

Exhibit 15: Industry growth moderating



Source: Indigo paints PPT

Exhibit 16: Average GP margin at ~42%



Source: Indigo paints PPT

Exhibit 17: Annual trajectory of the Paint companies

Sales (INR m)	FY19	FY20	FY21	FY22	FY23	FY24
Asian Paint	1,92,401	2,02,113	2,17,128	2,91,013	3,44,886	3,54,947
Berger Paints	60,619	63,658	68,176	87,618	1,05,678	1,11,989
Kansai Nerolac	54,240	52,800	50,743	63,694	75,427	78,014
Akzo Nobel	29,184	26,618	24,214	31,486	38,021	39,616
Indigo Paints	5,356	6,248	7,233	9,060	10,733	13,061
Sales growth (%)						
Asian Paint	14	5	7	34	19	3
Berger Paints	17	5	7	29	21	6
Kansai Nerolac	16	-3	-4	26	18	3
Akzo Nobel	7	-9	-9	30	21	4
Indigo Paints*	33	17	16	25	18	17
GP margin (%)						
Asian Paint	41.5	43.7	44.3	37.1	38.7	43.4
Berger Paints	46.4	48.4	50.2	45.9	43.5	47.1
Kansai Nerolac	43.4	45.0	45.6	38.9	37.6	42.0
Akzo Nobel	23.8	16.5	8.2	29.4	41.5	43.9
Indigo Paints	44.3	48.5	47.9	43.3	44.5	47.6
EBITDA (INR m)						
Asian Paint	37,655	41,618	48,556	48,036	62,598	75,850
Berger Paints	9,335	10,610	11,880	13,311	14,872	18,613
Kansai Nerolac	7,525	8,045	8,633	6,494	8,180	10,278
Akzo Nobel	3,421	3,791	3,401	4,304	5251	6320
Indigo Paints	541	910	1,225	1,360	1,815	2,381
EBITDA growth (%)						
Asian Paint	18	11	17	-1	30	21
Berger Paints	16	14	12	12	12	25
Kansai Nerolac	-5	7	7	-25	26	26
Akzo Nobel	16	11	-10	27	22	20
Indigo Paints	10	15	17	15	17	18
EBITDA margin (%)						
Asian Paint	19.6	20.6	22.4	16.5	18.2	21.4
Berger Paints	15.4	16.7	17.4	15.2	14.1	16.6
Kansai Nerolac	13.9	15.2	17.0	10.2	10.8	13.2
Akzo Nobel	11.7	14.2	14.0	13.7	13.8	16.0
Indigo Paints	10.1	14.6	16.9	15.0	16.9	18.2

Source: Company, MOFSL *Indigo Paints FY24 sales growth is ex-acquisition

Exhibit 18: Quarterly trajectory of the Paint companies

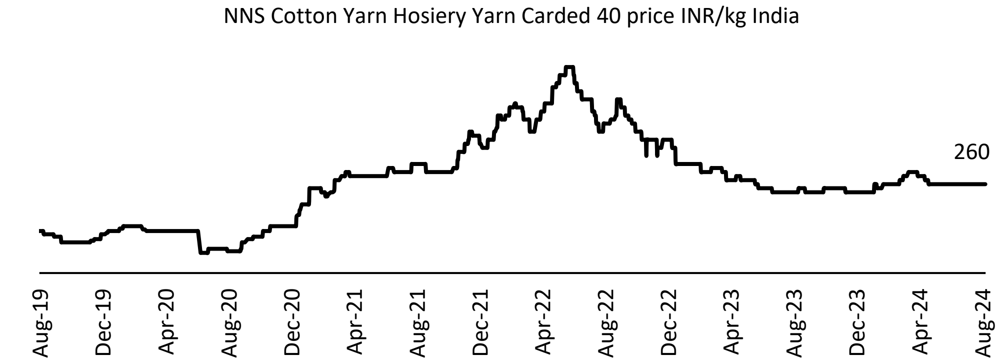
Sales (INR m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Asian Paint	86,069	84,576	86,367	87,873	91,823	84,786	91,031	87,308	89,697
Berger Paints	27,597	26,709	26,936	24,436	30,295	27,673	28,818	25,203	30,910
Kansai Nerolac	20,250	19,234	18,268	17,336	21,568	19,565	19,187	17,694	21,331
Akzo Nobel	9,377	9,262	9,868	9,514	9,992	9,563	10,327	9,734	10,363
Indigo Paints	2,240	2,426	2,813	3,255	2,884	2,790	3,538	3,849	3,110
Sales growth (%)									
Asian Paint	54	19	1	11	7	0	5	-1	-2
Berger Paints	53	20	6	12	10	4	7	3	2
Kansai Nerolac	38	19	1	14	7	2	5	2	-1
Akzo Nobel	50	25	8	10	7	3	5	2	4
Indigo Paints*	44	24	6	13	24	11	21	13	8
GP margin (%)									
Asian Paint	37.7	35.7	38.6	42.5	42.9	43.4	43.6	43.7	42.5
Berger Paints	35.7	35.3	34.7	39.8	39.8	41.1	41.1	40.7	39.9
Kansai Nerolac	29.0	28.5	30.4	31.9	35.3	35.6	36.1	34.4	36.8
Akzo Nobel	39.0	38.4	39.0	42.7	43.0	44.7	44.1	43.8	44.6
Indigo Paints	45.2	41.7	43.8	46.8	47.3	45.6	48.2	48.9	46.6
EBITDA (INR m)									
Asian Paint	15,560	12,277	16,114	18,648	21,213	17,162	20,561	16,914	16,938
Berger Paints	4,048	3,640	3,497	3,688	5,568	4,737	4,800	3,509	5,224
Kansai Nerolac	2,550	1,994	1,955	1,681	3,315	2,732	2,440	1,790	3,296
Akzo Nobel	1,211	1,064	1,429	1,547	1,621	1,418	1,664	1,617	1,689
Indigo Paints	353	338	406	717	491	421	622	846	474
EBITDA growth (%)									
Asian Paint	70	36	4	29	36	40	28	-9	-20
Berger Paints	70	3	-11	6	38	30	37	-5	-6
Kansai Nerolac	13	10	11	10	15	14	13	10	15
Akzo Nobel	13	11	14	16	16	15	16	17	16
Indigo Paints	75	44	5	33	39	25	53	18	-4
EBITDA margin (%)									
Asian Paint	18.1	14.5	18.7	21.2	23.1	20.2	22.6	19.4	18.9
Berger Paints	14.7	13.6	13.0	15.1	18.4	17.1	16.7	13.9	16.9
Kansai Nerolac	12.6	10.4	10.7	9.7	15.4	14.0	12.7	10.1	15.5
Akzo Nobel	12.9	11.5	14.5	16.3	16.2	14.8	16.1	16.6	16.3
Indigo Paints	15.7	13.9	14.4	22.0	17.0	15.1	17.6	22.0	15.2

Source: Company, MOFSL *Indigo Paints FY24 quarters sales growth is ex-acquisition

Innerwear – slow recovery; trade inventory remains high

- PAGE continues to experience weakness in growth amid muted demand in the apparel industry. Weak demand resulted in excess inventory at channel partners during the last 12 months. Management is implementing several initiatives to optimize channel inventory, leading to a 10-day reduction in inventory days at channel partners in 1QFY25. However, trade inventory has not reached the normal level; it is expected that primary growth will continue to lag behind secondary growth for a few more quarters.
- Margins of innerwear companies were affected by increased discounts and volatile raw material prices. Additionally, companies had to increase advertising and promotional (A&P) expenses to stimulate volume growth, which adversely affected operating margins.
- We are still awaiting more clarity on the near-term demand recovery. However, we expect that after a weak FY24 and 1QFY25, the channel inventory should normalize in 2HFY25.

Exhibit 19: Yarn prices stable from the last 12-15 months



Source: Bloomberg, MOFSL

Exhibit 20: Annual trajectory of Innerwear companies

Sales (INR m)	FY19	FY20	FY21	FY22	FY23	FY24
Page	28,522	29,454	28,330	38,865	47,142	45,817
Lux	12,087	16,644	19,384	22,730	23,680	23,241
Dollar	10,288	9,671	10,370	13,425	13,938	15,491
Rupa	11,082	9,414	12,874	14,298	11,174	11,942
Sales growth (%)	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**
Page	12	3	-4	37	21	-3
Lux	12	38	16	17	4	-2
Dollar	11	-6	7	29	4	11
Rupa	-4	-15	37	11	-22	7
GP margin (%)						
Page	58.0	55.5	55.4	56.0	55.8	54.5
Lux	60.7	70.8	66.8	72.3	57.2	53.4
Dollar	57.9	53.6	57.1	54.2	45.6	53.7
Rupa	71.7	74.1	65.1	72.6	59.9	50.1
EBITDA (INR m)						
Page	6,169	5,326	5,266	7,855	8,627	8,723
Lux	1,800	2,707	3,818	4,737	2,186	2,031
Dollar	1,364	1,057	1,384	2,175	994	1,543
Rupa	1,699	1,246	2,559	2,671	887	1,163
EBITDA growth (%)						
Page	14	-14	-1	49	10	1
Lux	15	16	20	21	9	9
Dollar	13	11	13	16	7	10
Rupa	15	13	20	19	8	10
EBITDA margin (%)						
Page	21.6	18.1	18.6	20.2	18.3	19.0
Lux	14.9	16.3	19.7	20.8	9.2	8.7
Dollar	13.3	10.9	13.3	16.2	7.1	10.0
Rupa	15.3	13.2	19.9	18.7	7.9	9.7

Exhibit 21: Quarterly trajectory of Innerwear companies

Sales (INR m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Page	13,413	12,282	12,000	9,646	12,291	11,251	12,288	9,925	12,775
Lux	5,639	6,314	4,579	7,165	5,227	6,380	4,516	7,083	5,353
Dollar	3,617	3,404	2,853	4,064	3,189	4,121	3,297	4,884	3,220
Rupa	2,082	2,786	2,287	4,019	1,917	2,958	3,127	3,939	2,062
Sales growth (%)									
Page	167	13	1	-13	-8	-8	2	3	4
Lux	36	2	-30	23	-7	1	-1	-1	2
Dollar	77	-13	-25	9	-12	21	16	20	1
Rupa	-1	-22	-46	-9	-8	6	37	-2	8
GP margin (%)									
Page	54.5	57.0	53.4	57.2	53.2	55.7	53.1	56.0	54.1
Lux	53.3	48.9	49.0	42.2	59.1	54.2	53.7	47.3	58.6
Dollar	50.4	47.6	45.2	40.0	52.7	53.9	58.6	50.9	59.3
Rupa	71.9	48.6	44.5	36.8	61.2	53.1	46.3	45.4	69.6
EBITDA (INR m)									
Page	2,978	2,379	1,928	1,343	2,385	2,335	2,297	1,643	2,433
Lux	756	657	348	443	337	577	355	762	452
Dollar	372	303	194	116	248	418	322	545	323
Rupa	182	291	141	272	112	322	328	402	177
EBITDA growth (%)									
Page	771	2	-23	-50	-20	-2	19	22	2
Lux	13	10	8	6	6	9	8	11	8
Dollar	5	-51	-70	-79	-33	38	66	369	30
Rupa	-56	-59	-82	-63	-39	11	132	48	59
EBITDA margin (%)									
Page	22.2	19.4	16.1	13.9	19.4	20.8	18.7	16.6	19.0
Lux	13.4	10.4	7.6	6.2	6.4	9.0	7.9	10.8	8.4
Dollar	10.3	8.9	6.8	2.9	7.8	10.1	9.8	11.2	10.0
Rupa	8.8	10.4	6.2	6.8	5.8	10.9	10.5	10.2	8.6

Source: Company, MOFSL

Liquor – premiumization sustains; GM recovery crucial

- The P&A segment has consistently outperformed over the past three years, with pricing in key states playing a crucial role in driving revenue growth over the last 12 months. In 1QFY25, demand faced challenges despite the seasonality, primarily due to election-related restrictions and a lack of approvals for interstate transfers. However, the premium category showed resilience, with UNSP achieving a 10% YoY growth and UBBL delivering an impressive 44% YoY growth. Moving forward, a strategic focus on overcoming regulatory hurdles and capitalizing on the premiumization trends could further bolster growth.
- ENA continues to face inflationary pressures, while other key commodities like glass have remained stable, contributing to margin volatility for UNSP. Although barley costs, which affected margins, are now declining sharply, UBBL's margins remain hurt by the increased use of new bottles in its product mix. Looking ahead, managing these input cost fluctuations and optimizing the product mix will be crucial for stabilizing margins and sustaining profitability.
- We anticipate that higher volume growth, driven by a focus on premiumization and improved realizations, will contribute to revenue growth and support operating margins. The stability in excise duties, coupled with the proposed excise policy reforms in Karnataka, is likely to further strengthen demand trends for premium brands. By capitalizing on these favorable conditions, the segment is well-positioned to enhance both market share and profitability in the near term.

Exhibit 22: Liquor companies' trajectory over FY19-24

Volume growth (%)	FY19	FY20	FY21	FY22	FY23	FY24
UNSP	4	-2	-11	-22	9	2
UBBL	13	-3	-38	33	31	2
Radico Khaitan	11	12	-8	18	7	2
Premium Category Volume growth (%)						
UNSP	12	-2	-9	15	12	5
UBBL	N/A	N/A	N/A	N/A	27	17
Radico Khaitan	21	15	-8	24	20	20
Sales (INR m)						
UNSP	89,806	90,909	78,892	94,237	1,03,737	1,06,920
UBBL	64,754	65,092	42,431	58,384	74,999	81,227
Radico Khaitan	20,969	24,270	24,181	28,680	31,428	41,185
Sales growth (%)						
UNSP	10	1	-13	19	10	3
UBBL	15	1	-35	38	28	8
Radico Khaitan	15	16	0	19	10	31
GP margin (%)						
UNSP	48.8	44.8	43.4	43.9	41.5	43.4
UBBL	53.6	51.6	52.2	49.9	43.1	42.7
Radico Khaitan	51.4	48.6	50.2	45.1	41.8	
EBITDA (INR m)						
UNSP	12,874	15,061	9,877	15,104	14,187	17,080
UBBL	11,384	8,758	3,811	6,966	6,162	6,962
Radico Khaitan	3,503	3,718	4,227	4,149	3,584	5,727
EBITDA growth (%)						
UNSP	25	17	-34	53	-6	20
UBBL	18	13	9	12	8	9
Radico Khaitan	30	6	14	-2	-14	60
EBITDA margin (%)						
UNSP	14.3	16.6	12.5	16.0	13.7	16.0
UBBL	17.6	13.5	9.0	11.9	8.2	8.6
Radico Khaitan	16.7	15.3	17.5	14.5	11.4	13.9

Source: Company, MOFSL

Exhibit 23: Liquor companies' quarterly trajectory

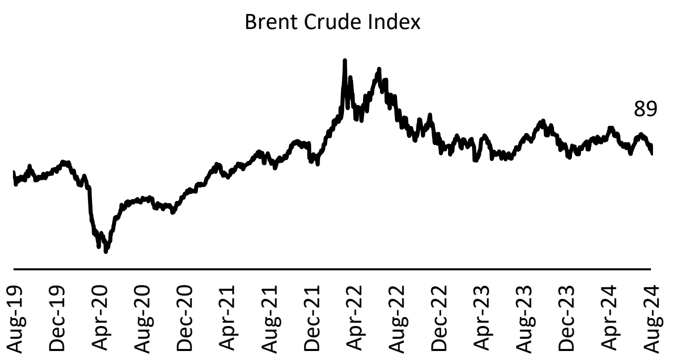
Volume growth (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
UNSP	-21	-22	-24	-27	6	1	-2	4	3
UBBL	121	23	4	3	-12	7	8	11	5
Radico Khaitan	22	11	0	-1	8	-3	4	-1	-4
Premium Category Volume growth (%)									
UNSP	24	13	4	10	10	4	5	4	5
UBBL	N/A	48	13	19	21	10	14	21	44
Radico Khaitan	30	22	14	17	27	22	20	14	14
Sales (INR m)									
UNSP	21,946	29,042	27,811	24,938	21,719	28,647	29,893	26,660	23,520
UBBL	24,367	16,796	16,110	17,645	22,732	18,880	18,227	21,315	24,730
Radico Khaitan	7,573	7,612	7,922	8,321	9,540	9,250	11,609	10,787	11,365
Sales growth (%)									
UNSP	36	19	-3	0	-1	-1	7	7	8
UBBL	118	18	2	3	-7	12	13	21	9
Radico Khaitan	27	7	5	2	26	22	47	30	19
GP margin (%)									
UNSP	40.9	39.4	40.6	45.4	43.6	43.4	43.4	43.3	44.5
UBBL	44.3	46.7	41.8	38.6	40.6	44.5	44.0	41.7	43.0
Radico Khaitan	43.5	41.5	41.3	40.6	43.6	44.1	41.8	41.0	41.5
EBITDA (INR m)									
UNSP	2,705	4,424	3,678	3,380	3,851	4,701	4,914	3,620	4,580
UBBL	2,651	2,191	766	535	2,228	1,846	1,456	1,420	2,847
Radico Khaitan	924	899	968	792	1,196	1,212	1,428	1,225	1,490
EBITDA growth (%)									
UNSP	61	4	-25	-21	42	6	34	7	19
UBBL	178	32	-63	-79	-16	-16	90	166	28
Radico Khaitan	12	12	12	10	13	13	12	11	13
EBITDA margin (%)									
UNSP	12.3	15.2	13.2	13.6	17.7	16.4	16.4	13.6	19.5
UBBL	10.9	13.0	4.8	3.0	9.8	9.8	8.0	6.7	11.5
Radico Khaitan	12.2	11.8	12.2	9.5	12.5	13.1	12.3	11.4	13.1

Source: Company, MOFSL

Commodity prices – Non-agri remains stable, agri showing inflationary trends

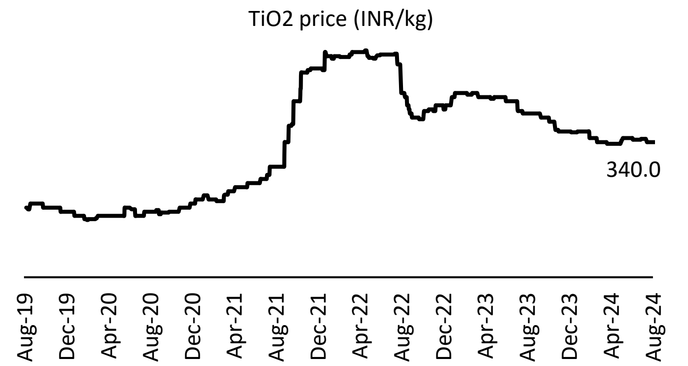
- After raw material inflation eased in FY24, which benefited margins, the company reduced prices to boost volume growth. In 1QFY25, prices of non-agricultural commodities, such as crude oil, TiO2 and VAM, declined, whereas prices of agricultural commodities like palm oil, wheat, coffee, tea, and maize increased.
- Accordingly, companies plan to increase prices in 2HFY25 to offset the rising raw material costs. Additionally, the gap between volume and value growth is expected to normalize. The strategic price adjustments, coupled with the anticipated stabilization in raw material costs, should enhance overall profitability while maintaining market competitiveness. Companies focus on balancing growth and margin expansion in the face of evolving market dynamics.

Exhibit 24: Brent crude prices down 3% YoY and 1% QoQ



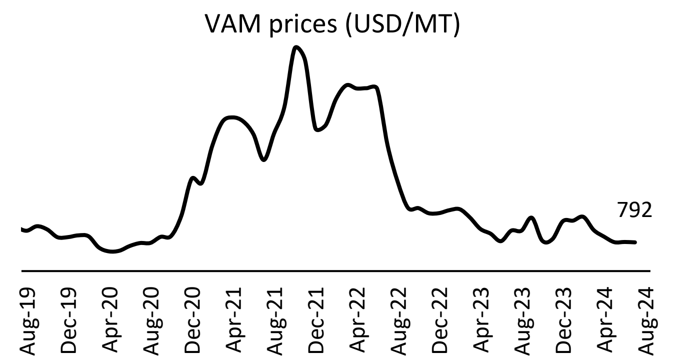
Source: Bloomberg, MOFSL

Exhibit 25: TiO2 prices decline 9% YoY while stable QoQ



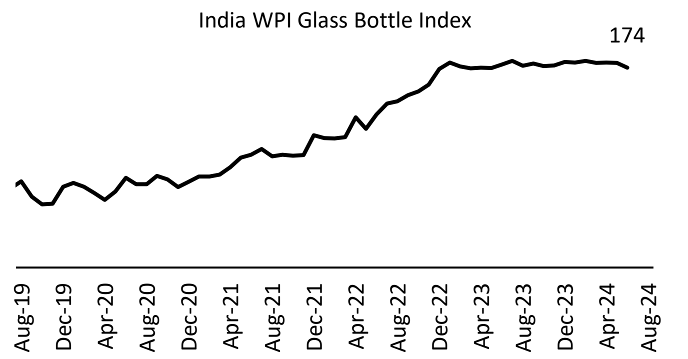
Source: Bloomberg, MOFSL

Exhibit 26: VAM prices decline 12% YoY and 3% QoQ



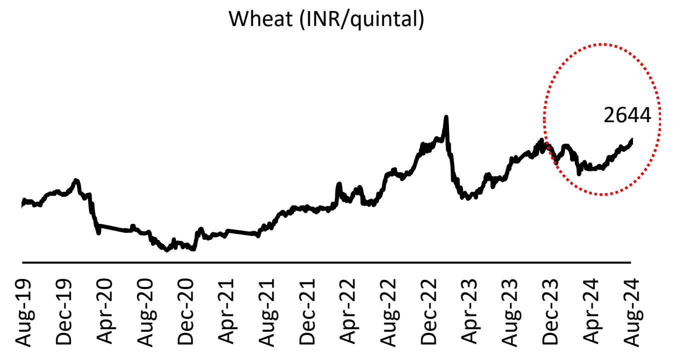
Source: Bloomberg, MOFSL

Exhibit 27: Glass cost is stable from last four-five quarters



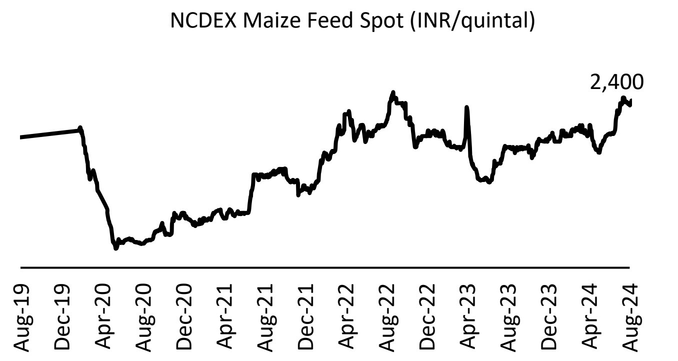
Source: Bloomberg, MOFSL

Exhibit 28: Wheat prices up 9% YoY and 6% QoQ



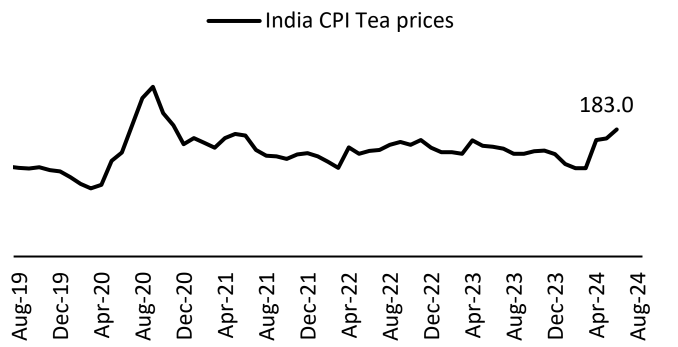
Source: Bloomberg, MOFSL

Exhibit 29: Maize price up 21% YoY and 14% QoQ



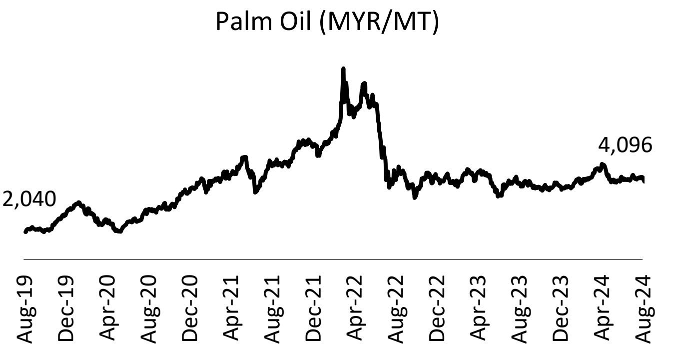
Source: Bloomberg, MOFSL

Exhibit 30: Tea prices up 7% YoY and 34% QoQ



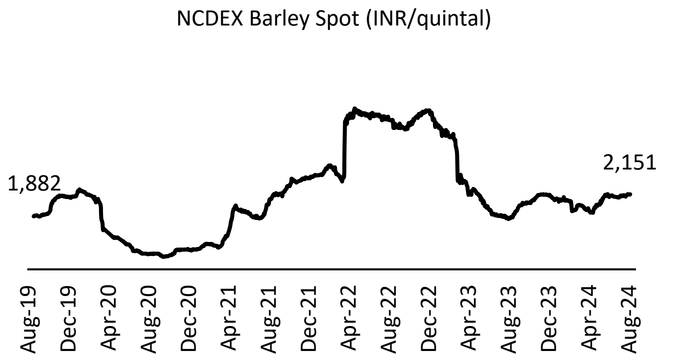
Source: Bloomberg, MOFSL

Exhibit 31: Malaysian palm oil prices up 6% YoY while flattish QoQ



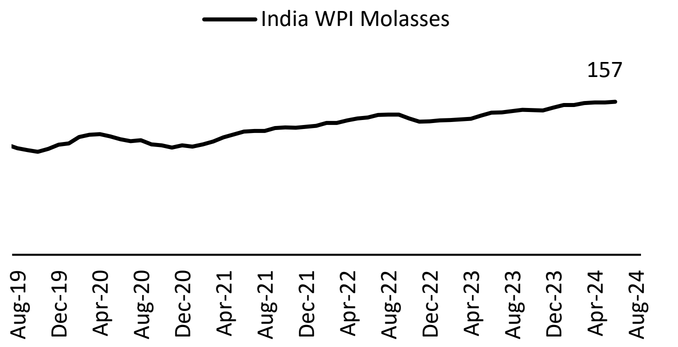
Source: Bloomberg, MOFSL

Exhibit 32: Barley prices stable after steep fall in FY24



Source: Bloomberg, MOFSL

Exhibit 33: Molasses (ENA) prices up 10% YoY and 1% QoQ

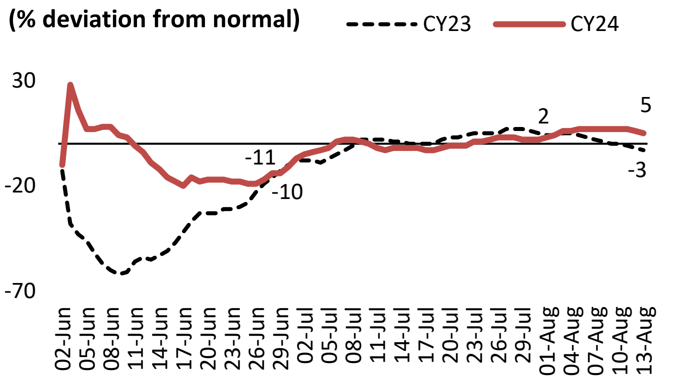


Source: Bloomberg, MOFSL

Monsoon update- Above normal rainfall

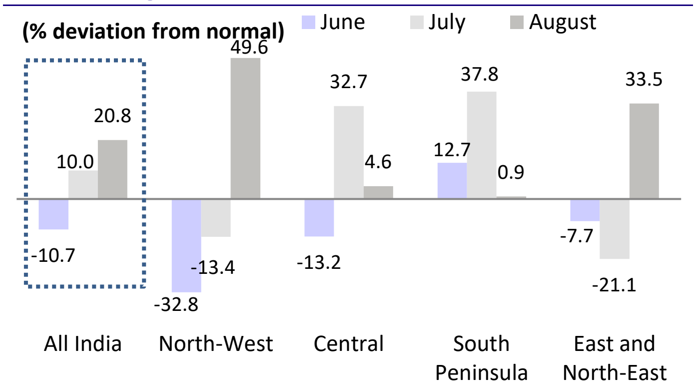
- India's Monsoon arrived early but had a poor start as almost the entire country is witnessing shortfalls, except for a few southern states and parts of the northwest gripped by heatwaves, which affected out-of-home consumption.
- All-India rainfall in Jun'24 was 10.9% below the long period average (normal). The rains were subpar everywhere, except the South, Maharashtra, West Madhya Pradesh and East Rajasthan. However, as El Niño ebbed and transitioned into a "neutral" phase, the month of Jul'24 recorded 10% above normal rains, with all regions, barring the North and East, receiving robust precipitation. Aug'24 has been even better — 21% above normal rainfall, taking the cumulative surplus for the season (Jun-Sep'24) to 5%. With the normal monsoon, we expect that volume growth trajectory will continue.

Exhibit 34: All India cumulative rainfall at 5% surplus



Source: Office of Economic Advisor, MOFSL

Exhibit 35: All four regions have received above-normal rainfall in Aug'24

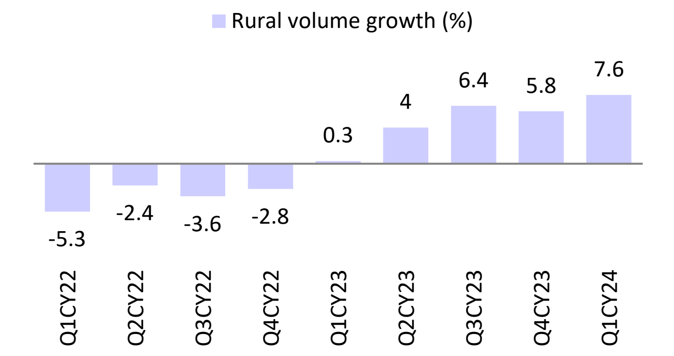


Source: Office of Economic Advisor, MOFSL

Rural growth surpasses urban growth

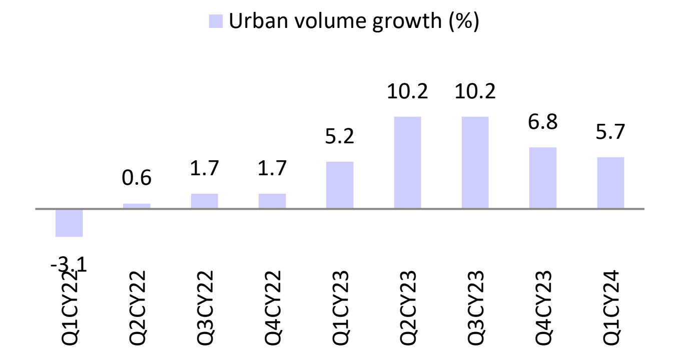
- As per AC Nielsen, rural consumption growth has gradually accelerated and surpassed urban growth in 1QCY24. Urban consumption saw a sequential decline in demand, leading to 5.7% growth in 1QCY24.

Exhibit 36: Rural volume grew by 7.6%



Source: AC Nielsen, MOFSL

Exhibit 37: Urban grew by 5.7% in 1QCY24

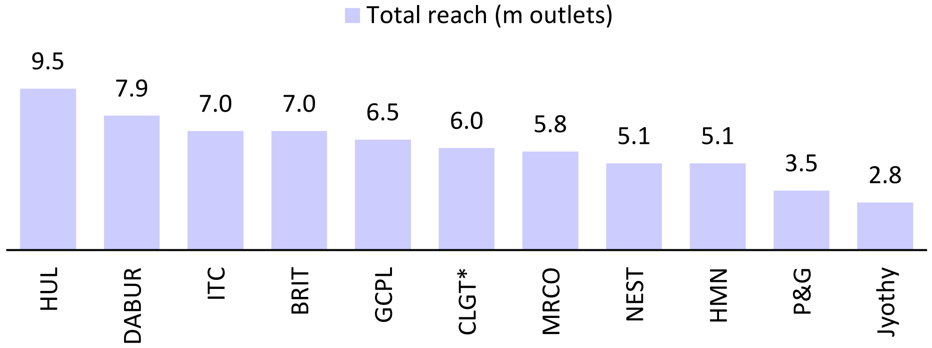


Source: AC Nielsen, MOFSL

Distribution channels - Moat to drive growth

- FMCG companies continue to focus on expanding their distribution reach to ensure that products are available in diverse location and reach to broader consumer base. Companies have undertaken initiatives to expand their reach, such as Marico's Project Setu, Emami's Project Khoj, and Godrej Consumer's Project Vistaar.

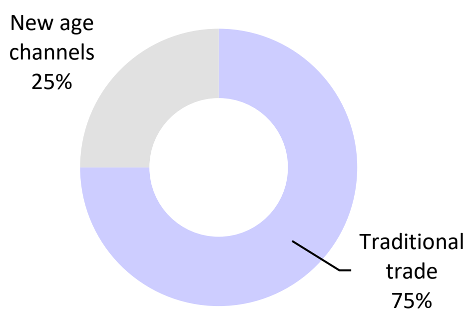
Exhibit 38: Total distribution reach of FMCG companies



Source: Companies, Industry, MOFSL

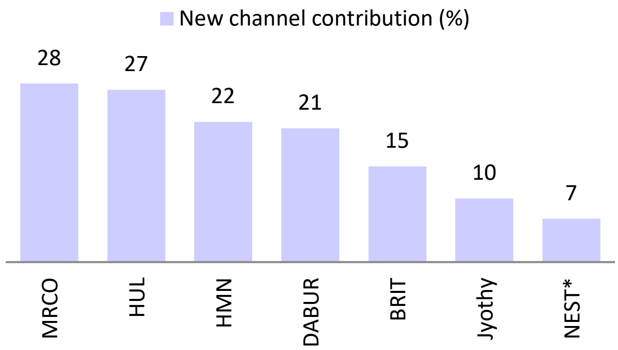
- Modern trade is clocking double-digit growth for FMCG companies, becoming an increasingly vital component of their distribution strategies. It offers extensive reach, enhanced efficiency, and valuable data insights, enabling companies to optimize inventory, tailor marketing efforts, and improve customer experiences.
- The contribution of modern trade to the FMCG industry is rising and is in the mid-twenties. Companies have consistently taken steps to increase their contribution to modern trade channels and drive growth. By expanding their presence in organized retail, they are tapping into urban consumers and leveraging the growing trend of convenience shopping.

Exhibit 39: Average contribution of new-age channels to FMCG industry is 25%



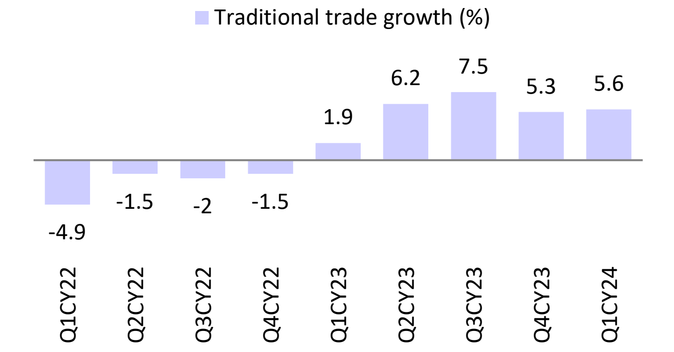
Source: Companies, Industry, MOFSL

Exhibit 40: New-age channel's contribution



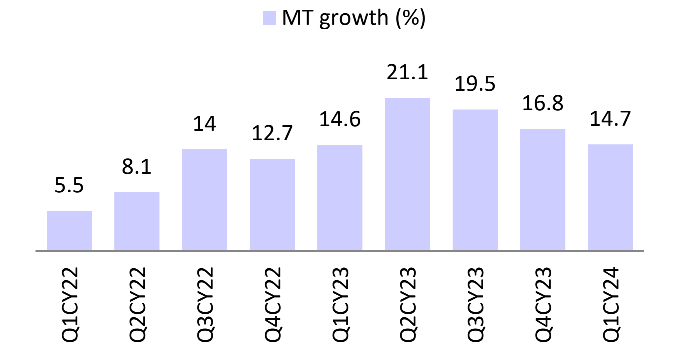
*Nestle e-commerce share only
Source: Companies, Industry, MOFSL

Exhibit 41: Traditional channel has reported stable growth



Source: Companies, Industry, MOFSL

Exhibit 42: Modern trade channel has shown healthy growth



Source: Companies, Industry, MOFSL

- By expanding their reach in both general trade and modern trade channels, companies have positioned themselves for growth. This dual-channel strategy allows them to cater to a broader range of consumers, from traditional buyers in rural areas to modern in urban. By balancing their presence across these segments, companies are able to maximize market penetration, drive sales, and adapt to the diverse shopping preferences of consumers, ultimately fueling long-term growth.

Strong margin recovery

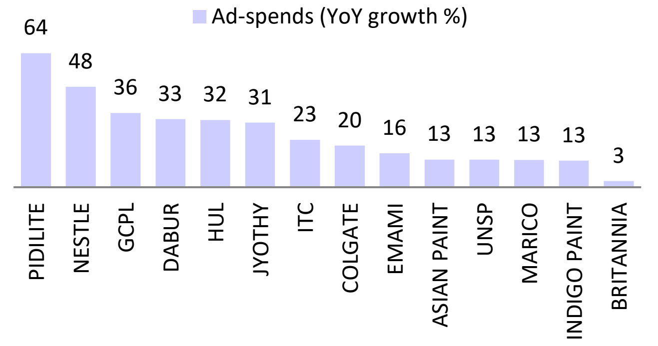
- In FY24, most companies witnessed a gross margin reversal and a sharp recovery. However, companies reinvested their gross margin gains in marketing spending. Despite volatility in gross margin, such fluctuations were not evident in EBITDA margin. EBITDA margins for most of the companies are higher than in FY19. Dabur has a slightly lower margin as compared to FY19. However, UBBL and PAGE reported significantly lower EBITDA margin in FY24 vs. FY19.

Exhibit 43: Gross and EBITDA margin trajectory

Companies name	Gross margin (%)			Gross Margin Change (bps)			EBITDA margin (%)			EBITDA Margin Change (bps)		
	FY19	FY24	FY26E	FY19-23	FY23-24	FY24-26E	FY19	FY24	FY26E	FY19-23	FY23-24	FY24-26E
ASIAN PAINT	41.5	43.4	43.8	(280)	474	45	19.6	21.4	21.0	(142)	322	(34)
BRITANNIA	40.6	43.4	44.1	51	224	70	15.7	18.9	19.4	169	154	50
COLGATE	65.1	69.7	70.3	60	400	64	27.7	33.5	34.5	190	386	108
DABUR	49.6	48.0	48.8	(394)	236	77	20.4	19.4	20.5	(160)	52	110
EMAMI	65.7	67.6	68.7	(101)	284	113	27.1	26.5	28.5	(175)	121	191
GCPL	55.8	55.2	56.3	(618)	550	112	20.4	21.8	22.7	(133)	271	96
HUL	53.0	51.9	52.8	(536)	427	88	22.6	23.7	24.5	77	33	82
INDIGO PAINT	44.3	47.6	46.9	28	309	(73)	10.1	18.2	17.6	681	132	(59)
ITC	64.0	61.6	62.2	(486)	245	64	38.1	37.0	37.0	(189)	86	1
JYOTHY	46.5	49.1	51.1	(419)	680	202	15.5	17.4	18.1	(279)	470	67
MARICO	45.2	50.8	52.0	(3)	562	119	18.1	21.0	21.9	46	245	91
NESTLE	59.4	56.1	57.4	(522)	197	130	24.4	24.2	25.2	(187)	165	94
PAGE	58.0	54.5	55.5	(228)	(127)	100	21.6	19.0	20.0	(333)	74	97
PIDILITE	49.3	51.6	53.4	(661)	888	183	19.3	21.9	23.1	(251)	504	128
UBBL	53.6	42.7	45.0	(1,042)	(40)	228	17.6	8.6	13.1	(936)	35	449
UNSP	48.8	43.4	44.5	(737)	197	107	14.3	16.0	17.3	(66)	230	133

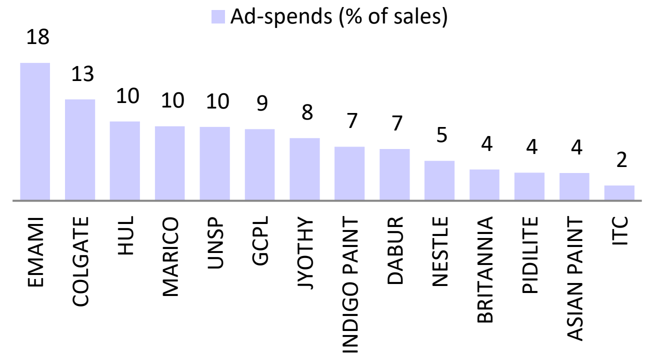
Source: Company, MOFSL

Exhibit 44: Companies ad spending growth in FY24



Source: Company, MOFSL

Exhibit 45: Companies ad spending as % of sales



Source: Company, MOFSL

- In 1QFY25, the trajectory of gross margin expansion was stable for most companies, while some experienced more expansion. Companies continue to focus on marketing and distribution, which led to slower EBITDA margin expansion than the gross margin increase.

Exhibit 46: GP margin and EBITDA margin trend

Companies name	GP margin (%)					EBITDA margin (%)				
	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Asian Paints	42.9	43.4	43.6	43.7	42.5	23.1	20.2	22.6	19.4	18.9
Britannia	41.9	42.9	43.9	44.9	43.4	17.2	19.7	19.3	19.4	17.7
Colgate	68.4	68.8	72.2	69.3	70.6	31.6	32.8	33.6	35.7	34.0
Dabur	46.6	48.3	48.6	48.6	47.8	19.3	20.6	20.5	16.6	19.6
Emami	65.4	70.1	68.8	65.8	67.7	23.0	27.0	31.6	23.7	23.9
Godrej Consumer	53.7	54.9	55.9	56.1	55.9	19.8	20.1	24.7	22.5	21.8
HUL	50.4	53.0	52.0	52.3	52.0	23.7	24.3	23.5	23.2	23.8
Indigo Paints	47.3	45.6	48.2	48.9	46.6	17.0	15.1	17.6	22.0	15.2
ITC	61.8	60.2	60.9	63.2	60.5	38.9	36.3	36.1	37.0	36.6
Jyothy	47.9	49.2	49.8	49.5	51.3	17.1	18.5	17.5	16.4	18.0
Marico	50.0	50.5	51.3	51.6	52.3	23.2	20.1	21.2	19.4	23.7
Nestle	54.8	56.5	58.6	56.8	57.6	22.9	24.8	24.5	25.5	23.3
Page Industries	53.2	55.7	53.1	56.0	54.1	19.4	20.8	18.7	16.6	19.0
Pidilite	49.0	51.3	52.9	53.4	53.8	21.6	22.1	23.7	19.9	23.9
United Breweries	40.6	44.5	44.0	41.7	43.0	9.8	9.8	8.0	6.7	11.5
United Spirits	43.6	43.4	43.4	43.3	44.5	17.7	16.4	16.4	13.6	19.5

Source: Company, MOFSL

QSR – Weakness persists, pressure on profitability

- **Consumption slowdown is broad-based:** Private consumption has been facing challenges due to overspending in FY23, impact of inflation/interest rate, etc. Over the past 4-5 quarters, same-store sales growth (SSSG) for most QSR companies has slowed significantly. Similarly, like-for-like (LFL) growth in other discretionary categories (excluding Jewelry) like watches and apparel has also declined, highlighting the widespread nature of this slowdown.
- **Sluggish demand trajectory** - QSR industry continues to face demand challenges, grappling with weak unit economics and intense market competition. There has been improvement in the delivery channel, as consumer traffic was positive, driven by consumer offers and heatwave impact. Dine-in demand remained weak, with most brands delivering a double-digit decline.
- **High competitive Intensity –** QSRs are facing growing competition from various sources: 1) regional and new players expanding their offline presence, 2) cloud kitchens, and 3) global franchises. Although aggregators initially boosted QSR performance by driving delivery growth and productivity, the competition intensified as these platforms grew, making delivery and customer reach more accessible to everyone. To maintain market share, QSRs need to focus on streamlining their preparation processes, managing sourcing complexities, and strengthening brand loyalty to counter the rising competition, particularly from cloud kitchens and emerging regional brands.
- In 1QFY25, SSSG/ADS continued to decline, barring Restaurant Brand Asia (BK) and Jubilant, which reported SSSG/LFL of 3%/3%. Westlife/Devyani KFC/Devyani PH/Sapphire KFC/Sapphire PH registered same-store sales decline of 7%/7%/9%/6%/7%.
- **Aggressive store addition affected partially** - Despite the consumption slowdown, most QSR brands have been increasing their store count at an aggressive rate (FY19-24 average CAGR: 14%) as they look to build presence. The store addition momentum partially slowed down during 1Q. Most companies maintained their store addition guidance for FY25; however, we expect slightly slower store openings in FY25.
- **Pressure on profitability** - With underlying growth remaining weak, companies witnessed a significant impact on their unit economics. Both restaurant margin and EBITDA margin contracted for most of the brands for the last four-five quarters.
- **Near-term outlook** - We expect QSR companies to sustain growth weakness in the near term, although ADS appears to have bottomed-out. The pace of recovery is expected to be slow, which will likely keep operating margins under pressure. Following a sharp dip in margins, any further dips will be closely monitored. We are watchful for any recovery signs (particularly for dine-in) in 2HFY25 and the pace of store addition in FY25.

Exhibit 47: Weak demand persists for the last four-five quarters

Particulars	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Revanue Growth									
Barbeque Nation	209%	41%	14%	12%	3%	-3%	1%	6%	-6%
Devyani	100%	45%	27%	28%	20%	10%	7%	5%	6%
Jubilant	41%	17%	10%	8%	6%	5%	3%	6%	10%
Sapphire	80%	36%	17%	13%	20%	14%	12%	13%	10%
Restaurant Brands	64%	47%	21%	29%	25%	19%	15%	16%	6%
Westlife	108%	49%	28%	22%	14%	7%	-2%	1%	0%
Total	**75%**	**34%**	**18%**	**17%**	**14%**	**9%**	**6%**	**7%**	**6%**
SSSG									
Barbeque Nation	182%	23%	-1%	-3%	-8%	-11%	-5%	1%	-7%
Devyani - KFC	64%	13%	3%	2%	-1%	-4%	-5%	-7%	-7%
Devyani - PH	32%	3%	-6%	-3%	-5%	-10%	-13%	-14%	-9%
Jubilant (LFL)	28%	8%	0%	-1%	-1%	-1%	-3%	0%	3%
Sapphire - KFC	65%	15%	3%	2%	0%	0%	-2%	-3%	-6%
Sapphire - PH	47%	23%	-4%	-4%	-9%	-20%	-19%	-15%	-7%
Restaurant Brands	66%	27%	9%	8%	4%	4%	3%	2%	3%
Westlife	97%	40%	20%	14%	7%	1%	-9%	-5%	-7%
Store (India)									
Barbeque Nation	195	205	212	216	212	212	210	211	213
Devyani	961	1,047	1,120	1,184	1,230	1,298	1,387	1,429	1,473
Jubilant	1,676	1,753	1,814	1,863	1,891	1,949	2,007	2,096	2,148
Sapphire	516	550	599	627	660	692	725	748	762
Restaurant Brands	328	334	379	391	396	404	441	455	456
Westlife	331	337	341	357	361	370	380	397	403
PBT (INR M)									
Barbeque Nation	208	69	67	(125)	(55)	(151)	75	(9)	(55)
Devyani	771	700	736	412	603	330	97	44	381
Jubilant	1,642	1,619	1,194	930	1,014	963	819	508	683
Sapphire	356	269	336	123	336	214	140	8	118
Restaurant Brands	(509)	(551)	(559)	(800)	(541)	(507)	(399)	(921)	(522)
Westlife	318	420	480	277	406	302	231	20	45
PBT Margins									
Barbeque Nation	7%	2%	2%	-4%	-2%	-5%	2%	0%	-2%
Devyani	11%	9%	9%	5%	7%	4%	1%	0%	3%
Jubilant	13%	13%	9%	7%	8%	7%	6%	4%	5%
Sapphire	7%	5%	6%	2%	5%	3%	2%	0%	2%
Restaurant Brands	-10%	-10%	-11%	-16%	-9%	-8%	-7%	-15%	-8%
Westlife	6%	7%	8%	5%	7%	5%	4%	0%	1%

Source: Company, MOFSL

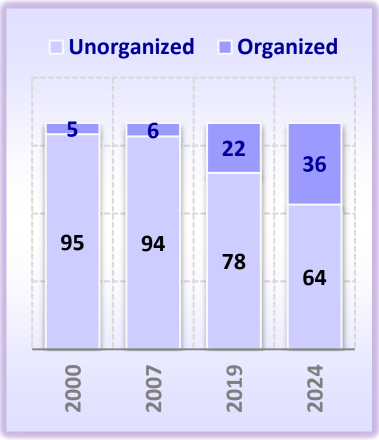
Exhibit 48: SSSG and store additions over FY19-24

Particulars	FY19	FY20	FY21	FY22	FY23	FY24
SSSG						
Barbeque Nation	6%	-2%	-44%	65%	28%	-7%
Devyani - KFC	5%	3%	-34%	49%	16%	-5%
Devyani - PH	5%	-4%	-30%	45%	4%	-11%
Jubilant (LFL)	16%	3%	-18%	37%	7%	-4%
Sapphire - KFC	14%	5%	-30%	52%	15%	-1%
Sapphire - PH	5%	-5%	-35%	42%	12%	-16%
Restaurant Brands	29%	0%	-35%	70%	23%	3%
Westlife	17%	4%	-24%	58%	36%	-2%
Store (India)						
Barbeque Nation	133	164	164	185	216	211
Devyani	533	575	655	892	1,184	1,420
Jubilant	1,265	1,370	1,406	1,621	1,863	2,096
Sapphire	311	361	365	482	627	748
Restaurant Brands	187	260	265	315	391	455
Westlife	296	319	305	326	357	397

Source: Company, MOFSL

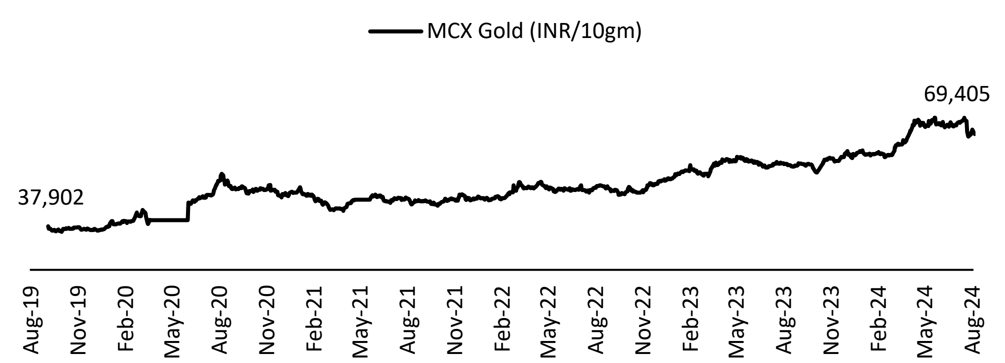
Jewelry – On growth runway; beat on margin

Visible shift toward organized jewelry players



- Despite the consumption slowdown across categories, jewelry companies have delivered healthy growth. The jewelry sector has been experiencing a significant trend toward formalization, with the organized market accounting for 36-38% of the total jewelry market, compared to ~22% in FY19.
- **Subdued revenue growth; improvement in margins in 1Q**- Revenue growth was muted in 1QFY25 due to a rise in gold prices (+15% YoY), extreme heatwaves, elections and fewer wedding days. However, after a reduction in customs duty, the demand environment is healthy and a revival in footfalls is visible. Operating margin also expanded despite high gold prices and competitive pressure. For Kalyan Jewelers, a higher revenue mix from franchise stores affected reported margin.
- **Store addition pace continue** – Most jewelry players have been increasing store count at an aggressive rate (FY19-24 average CAGR: 14%) as they look to build presence. The pace of store addition will continue in FY25, with Titan (Jewelry), Kalyan, and Senco has added 37/24/6 stores during the quarter (taking total count to 974/277/165).
- **Outlook** - We are optimistic about the jewelry category and anticipate ongoing rapid shifts in consumer purchasing behavior, transitioning from unorganized/local to organized channels. Factors such as increasing ticket prices, enhanced shopping experiences, greater product variety, et al. are driving this trend. The recent cut in customs duty will further increase the pace of shift from unorganized to formalized channels.

Exhibit 49: Gold price taper down post custom duty



Source: Bloomberg, MOFSL

Exhibit 50: Key metrics of jewelry companies over FY19-24

Jewelry companies	FY19	FY20	FY21	FY22	FY23	FY24
Sales (INRb)						
Titan (Total)	197.8	210.5	216.4	288.0	405.8	510.8
Titan (Jewelry)	163.9	173.2	193.2	255.2	359.1	455.2
Titan (Jewelry ex-bullion)	163.9	173.2	179.6	244.9	337.1	414.1
Kalyan (Consol)	97.7	101.0	85.7	108.2	140.7	185.5
Senco	24.8	24.2	26.6	35.3	40.8	52.4
Sales growth (%)						
Titan (Total)		6%	3%	33%	41%	26%
Titan (Jewelry)		6%	12%	32%	41%	27%
Titan (Jewelry ex-bullion)		6%	4%	36%	38%	23%
Kalyan (Consol)		3%	-15%	26%	30%	32%
Senco		-3%	10%	33%	15%	29%
Stores						
Titan (Jewelry)	395	461	514	582	763	937
Titan (Total)	1670	1831	1909	2178	2710	3035
Kalyan (India)	103	107	107	124	149	217
Kalyan (Total)	137	144	137	154	182	253
Senco	97	108	111	127	136	159
Studded mix(%)						
Titan	30%	31%	27%	28%	29%	29%
Kalyan (India)	26%	25%	23%	24%	26%	28%
Senco			9%	8%	10%	11%
GP margin (%)						
Titan	27.2%	28.0%	24.2%	24.9%	25.2%	22.8%
Kalyan	16.1%	16.9%	17.0%	15.6%	15.6%	14.6%
Senco	15.0%	17.5%	14.1%	15.7%	16.1%	15.3%
EBIT margin (%)						
Titan (Total)	10.2%	10.8%	7.1%	11.1%	11.7%	10.3%
Titan (Jewelry)	11.6%	11.8%	8.8%	12.1%	12.2%	10.6%
Kalyan	3.7%	5.2%	4.3%	5.4%	6.2%	5.6%
Senco	5.9%	7.4%	5.1%	6.7%	6.6%	6.0%
Inventory turnover (x)						
Titan		2.8	2.6	2.6	2.7	2.9
Kalyan		2.2	1.7	1.9	2.2	2.4
Senco		2.5	2.5	2.9	2.5	2.4

Source: Company, MOFSL

Exhibit 51: Jewelry companies quarterly trends

Jewelry companies	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Sales (INRb)									
Titan (Total)	94.4	91.6	116.1	103.6	119.0	125.3	141.6	124.9	132.7
Titan (Jewelry)	83.5	80.0	104.5	91.2	107.0	110.8	127.4	110.1	118.1
Titan (Jewelry ex-bullion)	80.0	75.2	101.3	80.7	97.6	92.7	125.6	98.2	108.1
Kalyan (Consol)	33.3	34.7	38.8	33.8	43.8	44.1	52.2	45.3	55.4
Senco	10.1	9.1	13.4	8.1	13.1	11.5	16.5	11.4	14.0
Sales growth (%)									
Titan (Total)	172%	22%	16%	33%	26%	37%	22%	21%	12%
Titan (Jewelry)	174%	22%	15%	33%	28%	39%	22%	21%	10%
Titan (Jewelry ex-bullion)	204%	18%	13%	24%	22%	23%	24%	22%	11%
Kalyan (Consol)	113%	13%	12%	17%	34%	32%	40%	38%	29%
Senco					30%	26%	23%	40%	8%
Stores									
Titan (Jewelry)	606	645	685	763	792	844	898	937	974
Kalyan (India)	127	132	137	149	161	175	201	217	241
Kalyan (Total)	158	162	167	180	192	206	228	253	277
Senco	131	134	136	136	142	145	155	159	165
Studded mix(%)									
Titan	26%	32%	26%	33%	26%	33%	24%	33%	26%
Kalyan (India)	24%	26%	27%	28%	29%	29%	27%	29%	30%
Senco	9%	10%	12%	10%	11%	12%	10%	13%	10%
GP margin (%)									
Titan	25.5%	27.6%	23.9%	24.3%	22.2%	23.4%	23.3%	22.3%	22.1%
Kalyan	15.5%	15.2%	16.0%	15.8%	15.1%	14.3%	14.6%	14.6%	14.3%
Senco	13.5%	11.9%	19.3%	18.9%	12.5%	11.8%	18.7%	17.1%	17.3%
EBIT margin (%)									
Titan (Total)	12.0%	13.1%	11.4%	10.5%	9.3%	11.1%	10.9%	9.5%	9.1%
Titan (Jewelry)	12.6%	13.6%	11.9%	11.0%	9.6%	11.0%	11.6%	9.9%	9.3%
Kalyan	6.2%	5.9%	6.8%	5.7%	5.9%	5.6%	5.7%	5.1%	5.4%
Senco	4.5%	2.5%	11.3%	6.5%	4.2%	2.3%	10.0%	6.1%	6.5%

Source: Company, MOFSL

Valuation and recommendation

In our last consumer sector thematic published in Apr'24, we highlighted our overweight stance on staple companies owing to favorable risk-reward and expectations of volume recovery in FY25 and FY26. We mentioned that the earnings cut cycle had overly played out in stocks, leading to 15-20% corrections in the valuation multiples of staple companies as compared to their own five-year average. Thereby, an improving volume print will also narrow down the valuation gaps. We have witnessed steady improvement in volume growth in the last two quarters, along with positive management commentary for further growth acceleration in the coming quarters. We continue to like staple companies as we believe they will sustain the upward earnings trajectory, which largely justifies the rich valuation.

We remain cautious about discretionary stocks, but within this category, we continue to like jewelry companies. Multiple external and internal factors are driving healthy earnings growth for the jewelry sector. We are watchful for QSR, liquor, paints and innerwear companies for signs of growth improvement.

Top picks: We maintain our overweight call on the staple sector and continue to prefer HUL, GCPL and Dabur as our top picks. In the discretionary sector, we like jewelry companies, and our top picks are Kalyan Jewelers and Titan.

Exhibit 52: Our coverage universe CAGR during FY24-26E

Companies Name	Revenue	Gross Profit	EBITDA	PAT
ITC	8	9	8	7
HUL	8	8	9	11
NESTLE	9	11	11	11
DABUR	10	11	13	12
BRITANNIA	9	10	11	13
GCPL	9	10	11	16
MARICO	10	11	12	12
COLGATE	10	10	11	12
EMAMI	9	10	12	14
P&G	10	10	11	12
JYOTHY	10	12	12	13
UNSP	9	11	14	10
UBBL	13	16	40	48
ASIAN PAINT	9	10	8	6
PIDILITE	11	13	15	18
INDIGO PAINT	14	13	12	11
PAGE	12	13	15	17
Retail				
TITAN	16	18	18	20
KALYAN JEWELERS	30	22	25	40
SENCO GOLD	18	14	22	27
JUBILANT	26	31	30	45
DEVYANI	23	23	27	64
WESTLIFE	13	13	17	54
SAPPHIRE	16	16	20	71
BARBEQUE	11	11	16	NM
RBA	18	19	41	NM

Source: Company, MOFSL

Exhibit 53: Valuation summary

Company	Reco	CMP	Target Price	Mkt Cap	EPS (INR)			EPS Growth YoY (%)			P/E (x)			RoE (%)	Div. (%)
		(INR)	(INR)	(INR B)	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY24
Hind. Unilever	Buy	2,744	3,250	6,458	43.7	47.9	53.6	0.7	9.6	11.9	62.8	57.3	51.2	20.2	1.5
ITC	Buy	501	575	6,161	16.4	17.3	18.8	9.0	5.5	8.7	30.6	29.0	26.7	28.5	2.7
Asian Paints	Neutral	3,076	3,150	2,924	57.9	58.0	65.7	30.9	0.1	13.3	53.1	53.1	46.8	32.0	1.4
Nestle India	Neutral	2,504	2,500	2,435	41.0	36.8	40.8	62.5	-10.2	10.7	61.0	68.0	61.4	136.5	1.3
Pidilite Inds.	Neutral	3,055	2,950	1,569	35.9	43.3	49.8	42.2	20.8	14.9	85.2	70.5	61.4	23.3	0.5
Dabur India	Buy	621	750	1,094	10.6	11.8	13.2	9.2	11.8	11.8	58.7	52.5	46.9	19.9	1.1
Britannia Inds.	Neutral	5,732	5,850	1,377	88.7	101.2	113.9	10.1	14.1	12.5	64.6	56.6	50.3	57.2	1.3
Godrej Consumer	Buy	1,404	1,700	1,435	19.3	22.4	27.1	13.2	15.8	21.3	72.7	62.7	51.7	15.0	0.4
Marico	Buy	669	750	852	11.5	13.0	14.3	13.7	12.8	10.7	58.3	51.7	46.7	38.8	1.6
United Spirits	Neutral	1,404	1,400	1,021	18.1	19.3	22.0	42.7	6.3	14.1	77.5	72.9	63.9	18.9	0.5
Page Industries	Neutral	41,162	38,000	456	510.3	576.2	699.4	-0.4	12.9	21.4	80.7	71.4	58.9	35.6	0.9
P & G Hygiene	Neutral	16,969	17,000	551	250.6	284.7	314.7	31.0	13.6	10.5	67.7	59.6	53.9	83.9	1.3
Colgate-Palm.	Neutral	3,549	3,150	961	49.2	57.7	62.2	26.8	17.4	7.8	72.1	61.5	57.0	74.5	1.1
United Breweries	Sell	1,990	1,800	521	15.5	25.7	34.2	24.7	65.3	33.2	128.1	77.5	58.2	10.1	0.5
Emami	Buy	803	950	366	18.0	21.0	23.4	17.0	16.3	11.7	44.5	38.3	34.2	33.2	1.2
Indigo Paints	Buy	1,448	1,700	68	31.0	32.5	38.3	27.5	4.9	17.9	46.7	44.5	37.8	17.6	0.2
Jyothy Labs	Neutral	556	565	203	9.8	11.1	12.4	54.8	12.8	12.3	56.7	50.2	44.7	21.5	0.6
Retail															
Titan Company	Buy	3,464	4,000	3,065	39.3	46.0	56.9	6.8	17.1	23.8	88.2	75.3	60.9	32.9	0.3
Kalyan Jewellers	Buy	549	650	590	5.8	8.4	11.3	29.9	45.4	34.1	94.7	65.1	48.6	15.3	0.2
Senco Gold	Buy	1,123	1,350	87	23.3	31.3	37.4	1.6	34.4	19.5	48.2	35.9	30.0	15.7	0.1
Jubilant Food.	Neutral	634	550	425	3.9	5.5	8.3	-32.9	39.5	51.1	160.7	115.2	76.2	12.0	0.3
Devyani intl.	Buy	170	210	205	0.8	1.0	2.1	-66.5	27.8	111.7	220.1	172.2	81.3	9.2	0.0
Westlife Foodworld	Neutral	807	775	126	4.4	6.2	10.5	-38.0	40.5	69.2	181.9	129.4	76.5	12.0	0.0
Sapphire Foods	Buy	1,560	1,850	99	8.2	13.0	23.8	-52.5	59.5	82.7	191.2	119.9	65.6	4.0	0.0
Restaurant Brands	Buy	106	140	53	-4.8	-2.3	-0.2	Loss	Loss	Loss	NM	NM	NM	-32.1	0.0
Barbeque Nation	Neutral	633	625	25	-2.9	-0.7	1.7	PL	Loss	LP	NM	NM	370.8	-2.8	0.0

Source: Company, MOFSL

Exhibit 54: Valuation changes vs. historical averages

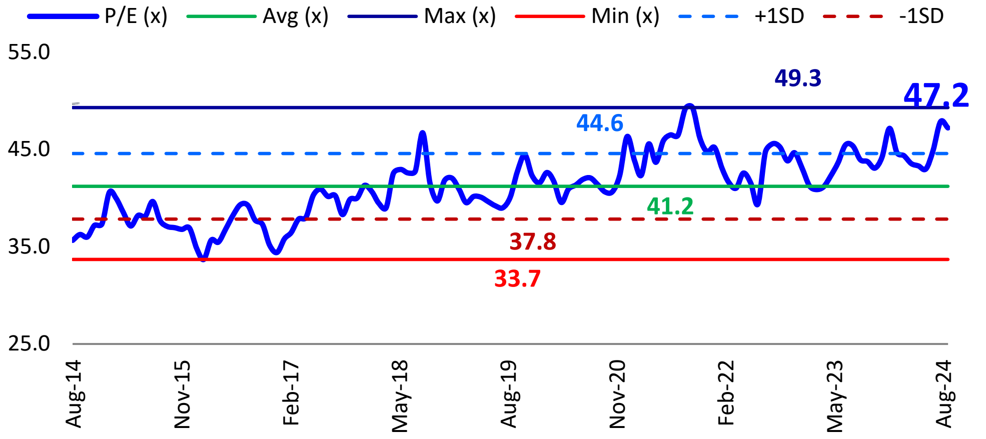
Companies	Current P/E (x)	Average P/E (x)			Prem / Disc P/E (x) vs.		
		15 YR	10 YR	5 YR	15 YR	10 YR	5 YR
Consumer	**47.2**	**36.9**	**41.2**	**43.6**	**27.9**	**14.6**	**8.3**
Consumer Ex ITC	**56.2**	**36.9**	**51.1**	**56.1**	**52.3**	**10.0**	**0.2**
Asian Paints	50.8	46.0	54.3	61.3	10.3	-6.5	-17.1
Britannia Inds.	53.7	38.4	46.0	48.6	40.1	16.8	10.5
Colgate-Palm.	56.5	32.4	39.6	39.4	74.5	42.5	43.3
Dabur India	50.5	39.1	45.3	51.8	29.1	11.6	-2.4
Emami	35.4	22.3	27.7	26.1	58.5	27.8	35.9
Godrej Consumer	60.2	39.2	44.5	47.4	53.3	35.1	26.9
Hind. Unilever	53.5	44.7	52.2	57.7	19.7	2.5	-7.2
Indigo Paints	41.0	67.2	67.2	67.2	-39.0	-39.0	-39.0
ITC	27.3	24.3	24.0	20.4	12.6	14.0	33.6
Jyothy Lab.	44.6	34.1	34.1	29.0	30.8	31.0	53.8
Marico	48.9	33.6	42.0	44.9	45.5	16.5	9.0
Nestle India	64.8	48.7	58.6	66.9	33.0	10.6	-3.2
P & G Hygiene	57.9	53.1	63.2	66.0	8.9	-8.5	-12.3
Page Industries	65.8	52.6	66.0	70.3	25.2	-0.3	-6.4
Pidilite Inds.	69.5	46.7	58.3	74.2	49.0	19.4	-6.3
Tata Consumer	65.9	41.2	46.8	56.6	60.0	41.0	16.6
United Breweries	68.3	84.7	91.8	110.4	-19.4	-25.7	-38.1
United Spirits	69.7	NA	62.5	60.6	-99.1	11.5	15.1
Varun Beverages	68.9	44.3	44.3	46.1	55.5	55.5	49.3

Source: Bloomberg, MOFSL

The sector was trading at around 30x P/E during 2014, but it has since undergone a re-rating, with multiples increasing to 40-45x since 2019.

Sector charts: The sector's valuation has seen a consistent re-rating over the last 10-15 years. The sector was trading at around 30x P/E during 2014, but it has since undergone a re-rating, with the multiple increasing to 40-45x after 2019. However, over the last 2-3 years, the sector's valuation has de-rated.

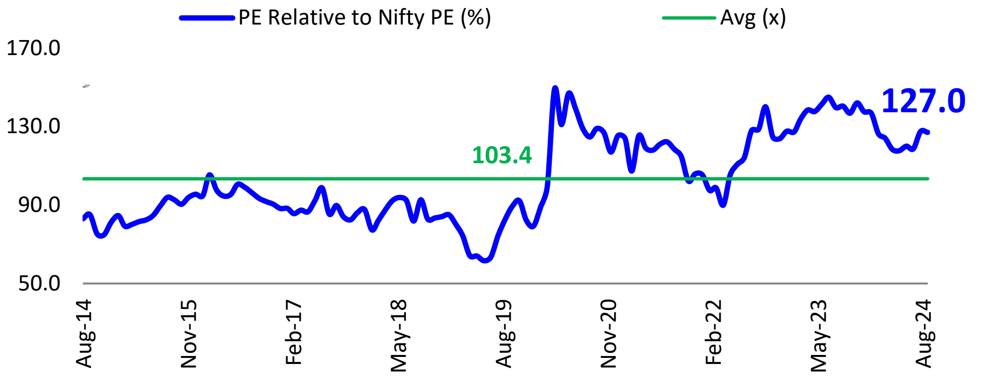
Exhibit 55: Consumer sector's P/E band (x)



Source: Bloomberg, MOFSL

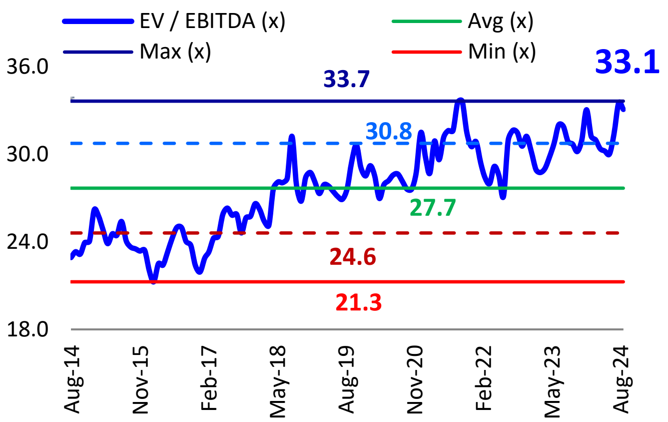
ITC, despite the run-up over the last two years, has still sustained healthy valuation premium vs. the Nifty.

Exhibit 56: Consumer sector's P/E relative to the Nifty P/E (%)



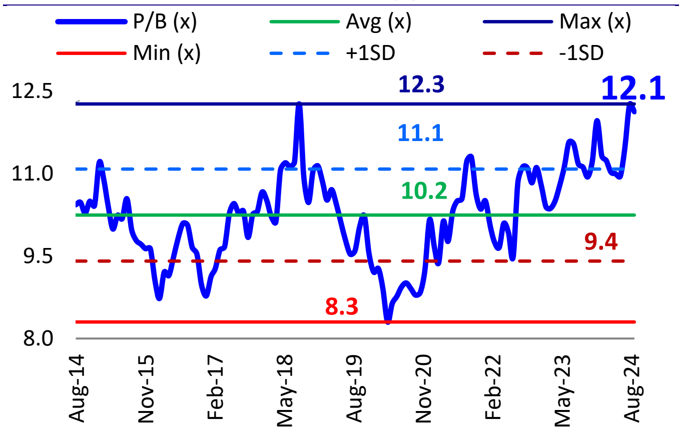
Source: Bloomberg, MOFSL

Exhibit 57: Consumer sector – EV/EBITDA (x)



Source: Bloomberg, MOFSL

Exhibit 58: Consumer sector – P/B (x)



Source: Bloomberg, MOFSL

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