

India

September 19, 2024 - 2:40 PM

Neutral (no change)

Highlighted Companies

Dabur India

ADD, TP Rs725, Rs654 close

Dabur India is expected to continue clocking gains from the recovery in rural demand and post incremental growth. The thrust on market share gains in the oral care segment and seasonality tailwinds in the upcoming winter season, we feel, should drive growth in the healthcare range.

Godrej Consumer Products

ADD, TP Rs1665, Rs1432 close

Godrej Consumer Products is well-placed to deliver continued growth. Recent innovations, especially in household insecticides, we believe, can drive strong market share gains led by efficacy.

Emami

ADD, TP Rs925, Rs745 close

Given its large rural contribution, Emami remains a preferred pick to capitalize on improving rural market growth and relevant portfolio at the mass-end.

Summary Valuation Metrics

P/E (x)	Mar24-A	Mar25-F	Mar26-F
Dabur India	62.93	52.18	44.57
Godrej Consumer Products	-261.3	63.52	50.45
Emami	45.16	33.1	28.98

P/BV (x)	Mar24-A	Mar25-F	Mar26-F
Dabur India	11.75	10.33	9.22
Godrej Consumer Products	11.63	10.55	9.4
Emami	13.28	10.99	9.04

Dividend Yield	Mar24-A	Mar25-F	Mar26-F
Dabur India	0.83%	0.93%	1.09%
Godrej Consumer Products	0.35%	0.67%	0.83%
Emami	1.07%	1.48%	1.48%

Research Analyst(s)

Rohan KALLE

T (91) 22 4161 1561

E rohan.kalle@incredresearch.com

Nishant BAGRECHA

T (91) 22 4161 1564

E nishant.bagrecha@incredresearch.com

Saurabh SINGH

T (91) 2241611558

E saurabh.singh@incredresearch.com

Consumer Staples - Overall

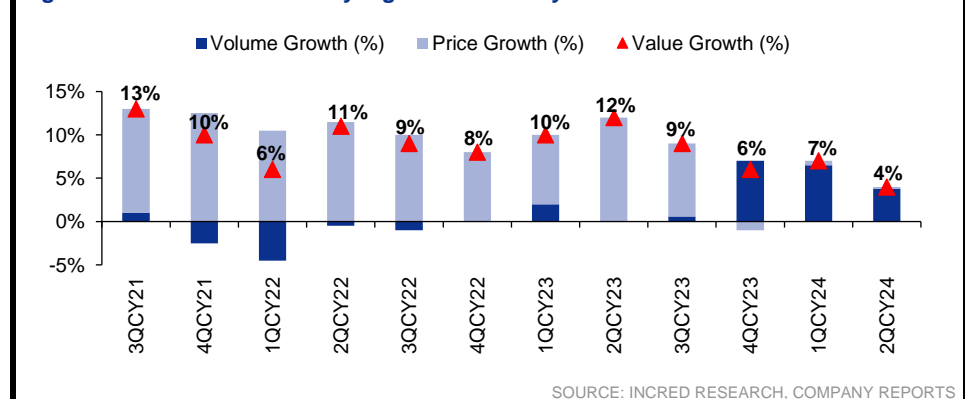
FMCG expert meet highlights

- We hosted an expert from the FMCG industry, who was associated with leading FMCG players across leadership roles in the past.
- Rural markets are likely to continue outpacing their urban counterparts, which may remain stagnant due to sluggishness in the general trade (GT) channel.
- The overall industry is expected to post mid-to-high single-digit value growth, led by improvement in volume growth, supported by recovery in rural markets.

Improving rural demand is expected to drive growth for the industry

- **Rural vs. urban market context:** Prior to 2019, rural markets were performing better than urban markets. During the Covid-19 pandemic, urban markets saw a sharper plunge, compared to rural markets, and seemed optically higher in subsequent years on a low base. Rural markets, on the other hand, were slower to decline (and slower to clock gains as well). While urban market growth is expected to remain sluggish, rural markets are likely to grow 300-400bp higher in value terms, aiding the industry growth.
- **Urban general trade channels remain sluggish:** While the general trade (GT) channel is the backbone of the FMCG industry, in urban markets standalone stores are under stress due to the sharp rise of new-age channels like quick commerce. FMCG companies are benefiting from these new-age channels, but local brick-and-mortar stores are losing customers with potentially larger shopping baskets. Leading FMCG players are engaging consultants to revive the growth in urban general trade channel. Some start-ups are also trying to upgrade kirana stores into omni-channel stores by enabling them with the ability to offer a better assortment, with direct fulfilment (like SuperK), which is like JioMart's omni-enabled offering.
- **Seasonal categories are missing the mark; non-seasonal categories fare better:** In the last few years, there have been more fluctuations in the trends of seasonal categories. Seasonal categories like beverages, ice-creams, etc, which were expected to capitalize on a prolonged summer season (with higher temperatures) missed the mark (even in previous years). Winter care products fared relatively better than the summer season contextual products in the recent past. Currently, non-seasonal items like soaps, hair oils, shampoos, skincare products, household care products, etc. are posting relatively steady growth. Categories like packaged food & beverages are performing better in rural markets vs. urban markets due to increased availability now vs. not being present in the previous years, leading to new customer growth for FMCG players.
- **Outlook:** The expert expects industry value growth to range in mid-to-high single digits, led by an improvement in volume, aided by gradually improving rural markets, which are expected to grow 300-400bp higher than urban markets (in value terms), which is in line with our view.
- **Top picks:** Considering the optimism on a continued gradual recovery momentum in rural markets and sluggish momentum expected in urban markets, we continue to prefer names like Dabur India (ADD), Godrej Consumer Products (ADD), Emami (ADD) and Jyothy Labs (ADD).

Figure 1: The FMCG industry's value growth is expected to trend in mid-to-high single-digits in the near term aided by a gradual recovery in rural markets



DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. While every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which is believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made (information barriers and other arrangements may be established, where necessary, to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short-term views, etc.) that are inconsistent with and reach a different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

Research Analyst or his/her relative(s) or InCred Research Services Private Limited or our associate may have any financial interest in the subject company.

Research Analyst or his/her relatives or InCred Research Services Limited or our associates may have actual or beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report.

Research Analyst or his/her relative or InCred Research Services Private Limited or our associate entities may have any other material conflict of interest at the time of publication of the Research Report.

In the past 12 months, IRSPL or any of its associates may have:

- a) Received any compensation/other benefits from the subject company,
- b) Managed or co-managed public offering of securities for the subject company,
- c) Received compensation for investment banking or merchant banking or brokerage services from the subject company,
- d) Received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company

We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report.

Research Analyst may have served as director, officer, or employee in the subject company.

We or our research analyst may engage in market-making activity of the subject company.

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based on any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.

Recommendation Framework	
Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.