India

Neutral *(no change)*

Highlighted Companies

Dabur India Ltd

ADD, TP Rs600, Rs543 close

Dabur India is expected to maintain its domestic sales growth momentum, with a gradual recovery in volume along with double-digit growth from the international business in the medium term.

Jyothy Labs Limited

ADD, TP Rs450, Rs448 close

Jyothy Labs' continued outperformance drove its management to increase the EBITDA margin outlook to 16-17% for FY24F. Sustained, consistent and profitable growth should lead to a change in investor perception.

Titan Co Ltd

ADD, TP Rs3660, Rs3346 close

Titan Company's jewellery segment's performance remained resilient within the discretionary basket. 2QFY24 revenue growth was superior to other discretionary categories.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Dabur India Ltd	48.27	41.34	35.94
Jyothy Labs Limited	44.74	40.41	36.58
Titan Co Ltd	78.28	64.82	53.31

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Dabur India Ltd	9.59	8.54	7.58
Jyothy Labs Limited	9.6	8.68	7.84
Titan Co Ltd	20.52	16.88	13.89

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Dabur India Ltd	1%	1.15%	1.31%
Jyothy Labs Limited	1.23%	1.36%	1.5%
Titan Co Ltd	0.38%	0.49%	0.6%

Consumer Staples - Overall

2QFY24 results review

- For most FMCG players, rural markets continued to lag urban markets, which were driven by alternate channels. Overall volume growth remained subdued.
- Most players reported healthy margin expansion led by benign input costs. We expect gradual volume recovery in 2HFY24F to help sustain the trend.
- In our FMCG coverage universe, we have an ADD rating on Jyothy Labs and Dabur India while we prefer Titan Company within the discretionary pack.

Gradual rural market uptick likely in 2HFY24F

FMCG companies in our coverage posted a 4.6% yoy sales growth in 2QFY24, largely impacted by the shift in festive channel-filling to 3Q and subdued rural offtake. Rural markets remained under pressure while urban markets maintained their growth momentum. Rural market volume grew 6% yoy for the industry in 2QFY24, led by resurgence of smaller players, but on a 2-year CAGR it posted a 1% decline, which is an improvement over the 4% fall witnessed in 1QFY24. In terms of channels, alternate channels (modern trade & e-commerce) continued to perform well while the general trade channel posted a relatively subdued growth. Management commentary from most companies indicated expectations of a gradual recovery in rural markets in 2HFY24F and sustained growth in urban markets.

Competitive intensity from smaller players remains firm

Consumers at the mass-end of categories like laundry, skin cleansing and tea continued to downgrade owing to inflation and increased competitive intensity from smaller players, who had vacated these segments in the last few years. Players across the industry stepped up their advertisement spending to drive volume growth, which remained subdued during the quarter. Pricing growth is likely to continue tapering off gradually while volume recovery is expected to remain gradual. Advertising expenses are likely to remain firm in the near term.

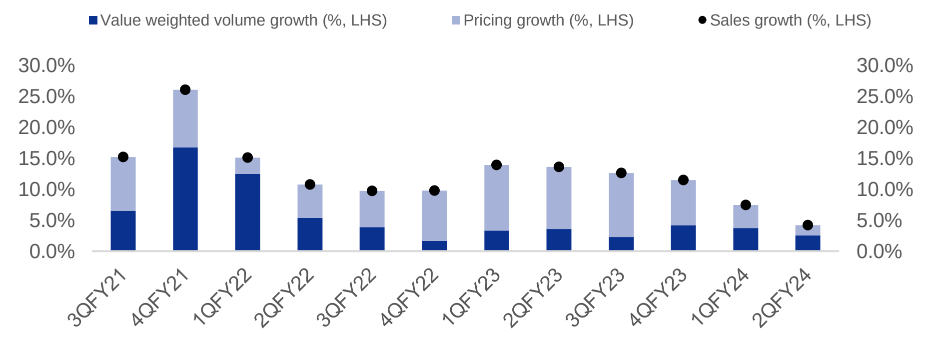
Margin expansion aided by moderation of input costs

The FMCG pack posted an EBITDA growth of 15.8%, largely led by healthy gross margin expansion, driven by moderation of key input costs and maintaining product prices. Management commentary indicated optimism towards better growth in 2HFY24F for most players, aided by healthy festive-led demand and benign raw material price environment.

ADD Dabur India, Jyothy Labs and Titan Company; HOLD Marico

Jyothy Labs's (ADD; TP: Rs450) share price delivered a 11% return since our last update and we remain optimistic on the stock given improved execution, focused distribution expansion and the focus on mid-priced brands driving growth going ahead. Dabur India's focus on expansion in rural markets, geographical expansion and innovation should augur well for the company (ADD: TP: Rs600). Due to expectations of a gradual recovery in 2HFY24F and management revising the margins upwards, we have upgraded Marico from REDUCE to HOLD (TP: Rs550). Titan Company (ADD; TP: Rs3,660) remains our preferred pick in the discretionary space, as healthy wedding/festive-led demand should uphold its jewellery division's growth momentum.

Figure 1: Pricing growth continues to taper off while volume recovery remains elusive, leading to sales growth tapering to 4.2% vs. 11.5%/7.5% in 4QFY23/1QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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2QFY24 results review

Quarterly consolidated summary

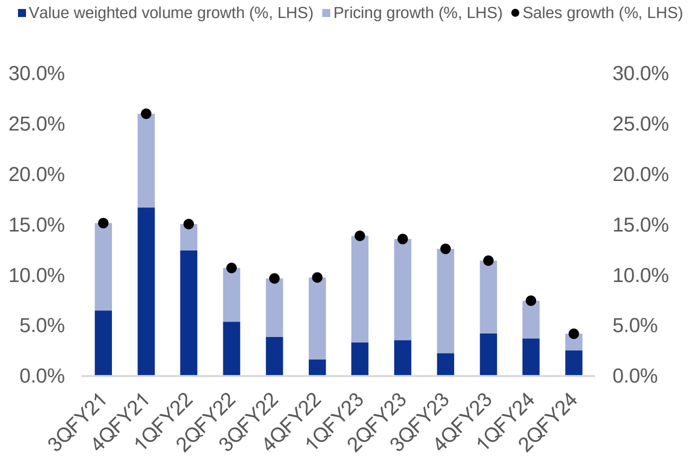
Figure 2: 2QFY24 review of our coverage universe

Company	Revenue (Rs m)	% chg (yoy)	EBITDA (Rs m)	% chg (yoy)	Net Profit (Rs m)	% chg (yoy)
Consumer staples						
Britannia Industries	44,329	1.2%	8,724	22.6%	5,876	19.1%
Colgate-Palmolive India	14,711	6.0%	4,821	18.2%	3,401	22.3%
Dabur India	32,038	7.3%	6,609	10.0%	5,151	4.6%
Emami	8,649	6.3%	2,337	19.7%	1,785	-3.0%
Godrej Consumer Products	36,020	6.2%	7,042	29.9%	4,453	16.7%
Hindustan Unilever	1,52,760	3.6%	36,940	9.4%	27,220	3.0%
Jyothy Labs	7,323	11.1%	1,354	68.3%	1,040	80.5%
Marico	24,760	-0.8%	4,970	14.8%	3,530	17.3%
Nestle India	50,095	9.4%	11,935	23.4%	8,017	21.2%
Aggregate (staples)	**3,70,685**	**4.6%**	**84,731**	**15.8%**	**60,471**	**10.1%**
Titan Company	1,25,290	36.7%	14,110	13.2%	9,150	10.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

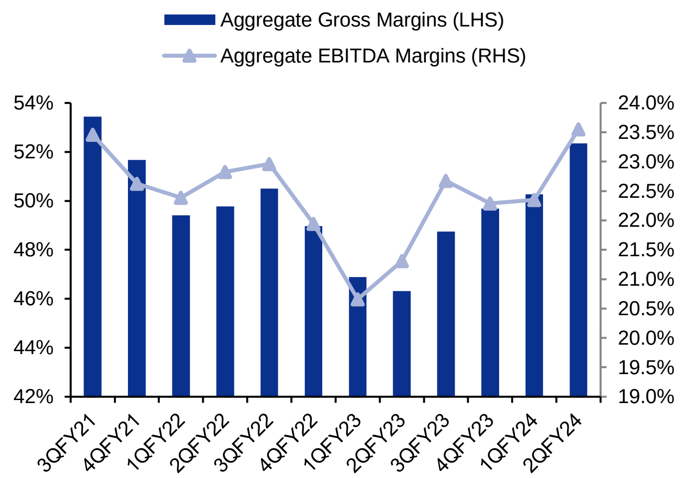
Consumer staples (standalone) aggregate – the story so far

Figure 3: Pricing growth continues to taper off while volume recovery remains elusive, leading to sales growth tapering to 4.2% (vs. 11.5%/7.5% in 4QFY23/1QFY24, respectively)



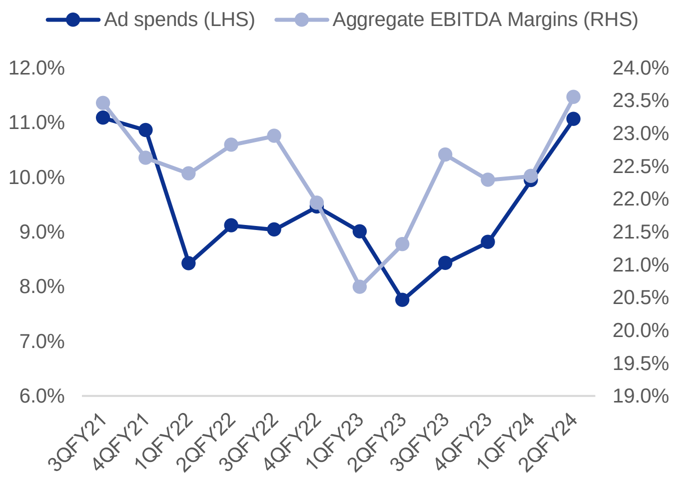
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: On a sequential basis, aggregate gross margin/EBITDA margin expanded by 207bp/121bp, respectively



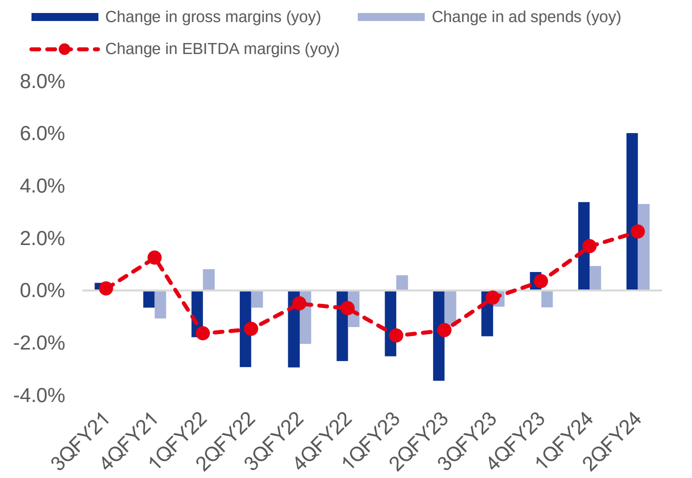
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Advertising expenses inched up in 2QFY24 and are expected to remain firm owing to higher competitive intensity



SOURCE: INCRED RESEARCH, COMPANY REPORTS

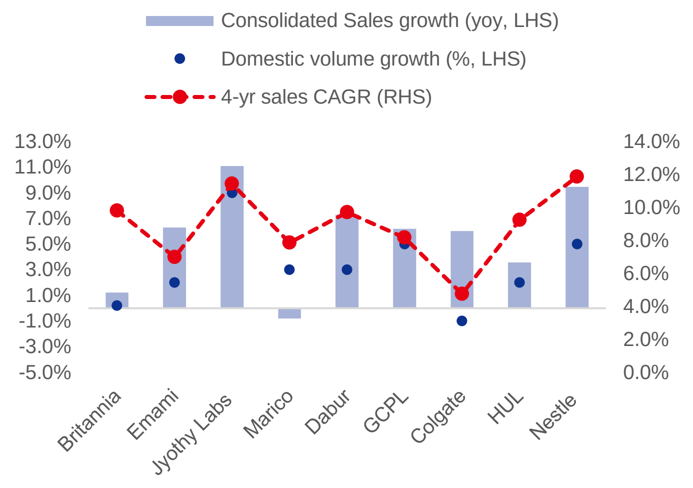
Figure 6: EBITDA margin expansion of 225bp yoy in 2QFY24 was led by moderation of input costs and a low base



SOURCE: INCRED RESEARCH, COMPANY REPORTS

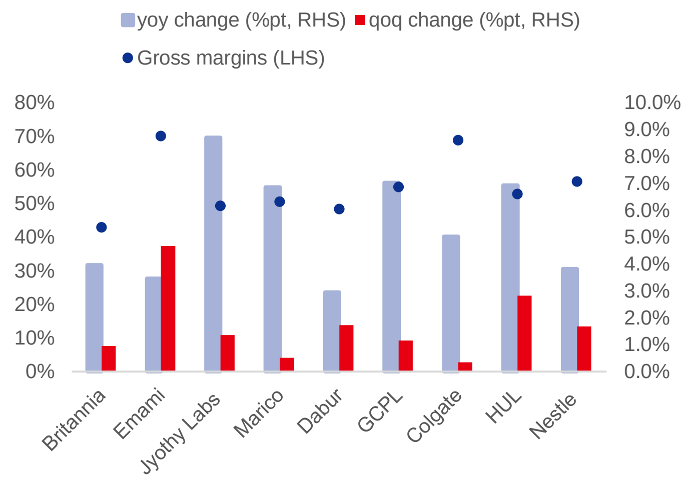
2QFY24 – the story in charts

Figure 7: Jyothy Labs continued to outperform expectations



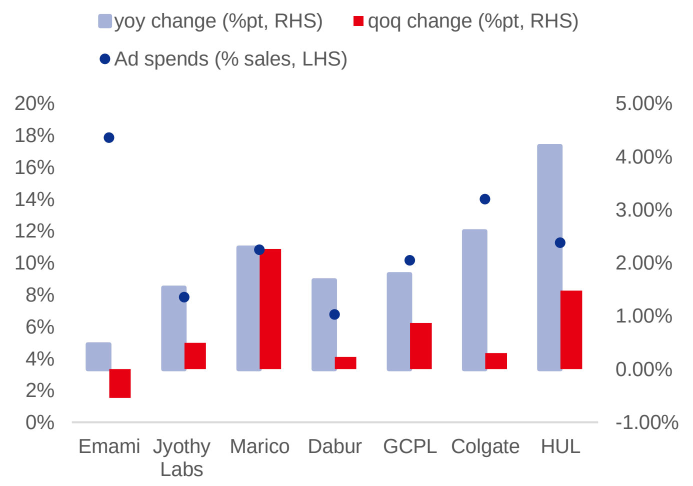
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Gross margin improvement (yoy) was led by moderation of input costs



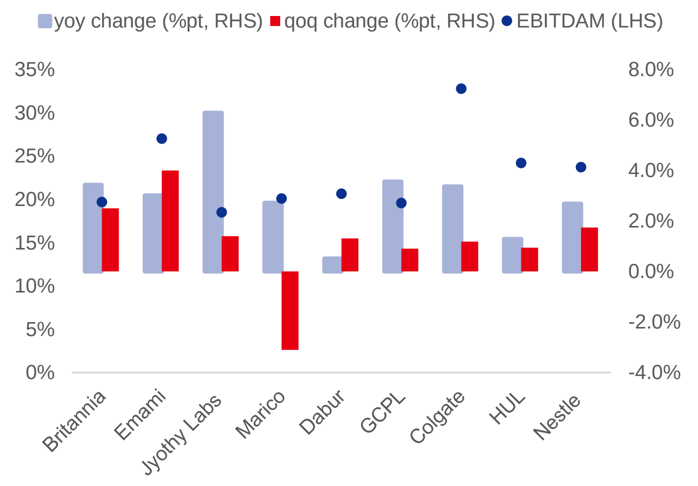
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: All players stepped up their advertising expenditure during the quarter…



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: …restricting EBITDA margin expansion on a sequential basis



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Raw material heatmap

Figure 11: Key raw material movement on a YoY basis

% YoY change	Companies impacted	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Copra (Rs/kg)	Marico and Dabur	-5.2%	-19.4%	-30.7%	-25.6%	-19.6%	-17.8%	-7.4%	-7.3%	-2.0%
Rice bran (Rs/kg)	Marico	59.0%	28.8%	26.3%	11.1%	-11.5%	-2.0%	-22.1%	-37.9%	-22.8%
Groundnut (Rs/kg)	Marico	15.1%	1.6%	-3.6%	5.3%	10.2%	14.3%	17.4%	2.8%	13.2%
PFAD (Rs/kg)	HUL, GCPL, Jyothy	66.4%	65.0%	64.0%	46.4%	-21.4%	-30.5%	-45.5%	-39.9%	13.6%
Sunflower oil (Rs/kg)	Marico	40.7%	6.0%	-3.2%	10.4%	4.8%	6.7%	-25.0%	-49.4%	-39.6%
Mentha oil (Rs/kg)	Emami	-3.1%	-2.5%	1.2%	11.2%	5.4%	5.4%	5.8%	-6.4%	-3.9%
Palm oil (Rs/kg)	HUL, GCPL, Jyothy, BRIT	59.4%	52.2%	55.9%	54.4%	-10.8%	-24.7%	-32.3%	-40.4%	-3.5%
Refined Palm Oil Index		64.9%	52.8%	52.0%	51.5%	-13.0%	-29.3%	-37.9%	-45.5%	-14.3%
LABSA ($/mt)		27.2%	3.0%	-8.7%	-12.0%	-12.8%	-16.7%	-10.2%	-7.3%	-4.7%
TIo2, solvents & other paints-related items										
Titanium dioxide (Du Pont) (Rs /kg)	Asian, Berger and Kansai	29.0%	62.5%	63.4%	54.9%	22.4%	-10.1%	-10.6%	-12.0%	-6.5%
Acetic acid glacial price Rs/kg	Asian, Berger and Kansai	151.3%	124.6%	18.1%	-43.3%	-41.0%	-54.8%	-38.6%	-26.6%	-13.9%
Brent (INR/bbl)	All companies	68.5%	78.7%	64.9%	70.0%	44.1%	22.3%	-8.0%	-25.9%	-9.3%
VAM (US$/mt)	Pidilite	134.3%	141.0%	30.1%	17.4%	-12.4%	-55.2%	-48.6%	-61.6%	-43.5%
VAM (Rs/mt)	Pidilite	133.4%	144.8%	34.2%	22.9%	-5.6%	-50.8%	-43.8%	-59.1%	-41.5%
China titanium dioxide (Rs/kg)	Asian, Berger and Kansai	56.3%	95.1%	52.6%	30.1%	9.7%	-31.8%	-30.2%	-28.2%	-23.6%
Foods-related (milk, tea, coffee, etc)										
Barley (Rs/kg)	HUL, Nestle	48.1%	63.5%	64.8%	67.7%	48.8%	33.5%	8.4%	-35.0%	-37.2%
Wheat (Rs/kg)	Britannia	4.6%	19.0%	19.0%	21.5%	26.1%	28.7%	17.5%	4.9%	2.1%
Sugar (Rs/kg)	HUL, Nestle, Britannia	4.0%	11.6%	9.4%	6.5%	4.0%	0.5%	0.2%	4.1%	6.0%
Milk powder Prices (Rs/L)	Nestle, Britannia	14.7%	11.5%	6.4%	31.7%	26.3%	28.5%	17.3%	1.2%	-3.9%
Leaf tea - North India (Rs/kg)	HUL, Tata Consumer	-29.7%	-7.6%	-10.9%	1.4%	18.5%	4.7%	3.0%	-6.1%	-10.8%
Leaf tea - South India (Rs/kg)	HUL, Tata Consumer	-37.9%	-33.8%	-18.8%	-13.6%	8.5%	20.6%	14.7%	10.1%	-3.1%
Leaf tea - All India (Rs/kg)	HUL, Tata Consumer	-29.4%	-12.2%	-13.5%	-2.9%	16.9%	6.0%	4.3%	-0.8%	-10.0%
Coffee Index	HUL, Nestle	4.1%	15.1%	35.7%	52.1%	43.0%	27.9%	9.7%	-1.2%	-3.6%
Packaging material										
LDPE (Rs/kg)	All companies	35.6%	36.4%	19.6%	19.8%	0.4%	-14.2%	-11.1%	-20.8%	-7.4%
HDPE (Rs/kg)	All companies	25.6%	24.5%	19.2%	25.8%	20.3%	3.7%	-1.9%	-15.1%	-9.9%
Others										
Soda ash (Rs/kg)	HUL, Jyothy	-6.1%	16.2%	47.1%	56.0%	65.0%	42.4%	12.3%	-5.3%	-6.0%
Gold prices (per 10gm)	Titan, Kalyan, Senco	-7.9%	-4.8%	5.5%	8.1%	7.7%	8.9%	14.3%	16.9%	15.7%
Inflation - WPI		11.8%	13.5%	13.8%	15.6%	14.2%	8.4%	4.5%	-1.1%	-1.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

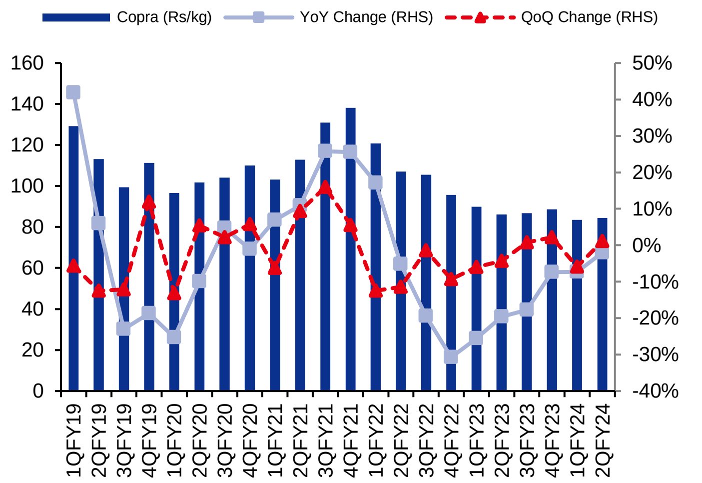
Figure 12: Key raw material movement on a MoM basis

% M-o-M change (sequential)	Companies impacted	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23
Copra (Rs/kg)	Marico and Dabur	-4.4%	-0.7%	-1.6%	-0.7%	-6.2%	1.0%	8.3%	-2.1%	NA	NA
Rice bran (Rs/kg)	Marico	-8.3%	-7.4%	0.8%	-3.9%	-2.1%	11.7%	0.6%	-8.2%	NA	NA
Groundnut (Rs/kg)	Marico	4.2%	0.8%	-0.5%	-3.1%	0.4%	12.5%	1.1%	-2.0%	-12.6%	-5.2%
PFAD (Rs/kg)	HUL, GCPL, Jyothy	1.0%	-0.2%	7.9%	-1.9%	-0.4%	9.2%	-1.4%	-4.4%	-2.8%	1.2%
Sunflower oil (Rs/kg)	Marico	-7.7%	-7.0%	-6.0%	-6.0%	-4.7%	7.0%	-0.2%	-8.9%	1.4%	3.6%
Mentha oil (Rs/kg)	Emami	-0.6%	0.7%	-2.1%	-2.3%	-6.3%	-3.0%	5.6%	3.7%	-3.7%	1.3%
Palm oil (Rs/kg)	HUL, GCPL, Jyothy, BRIT	0.6%	0.7%	1.8%	-9.7%	-8.1%	9.3%	-1.4%	-3.5%	-2.9%	0.9%
Refined Palm Oil Index		0.7%	1.3%	2.5%	-10.3%	-8.2%	8.3%	-2.7%	-2.7%	-3.7%	0.6%
LABSA (US$/mt)		-2.6%	-1.9%	1.0%	-3.3%	-4.2%	-0.5%	-0.9%	0.9%	-1.1%	-0.6%
TIo2, solvents & other paints-related items											
Titanium dioxide (Du Pont) (Rs /kg)	Asian, Berger and Kansai	-0.1%	-0.5%	-0.7%	0.2%	-1.3%	-3.0%	-0.9%	-0.9%	-2.4%	-2.7%
Acetic acid glacial price Rs/kg	Asian, Berger and Kansai	-5.3%	2.7%	-2.8%	0.2%	-4.7%	-2.2%	-6.7%	24.6%	12.7%	1.4%
Brent (INR/bbl)	All companies	0.0%	-5.4%	4.6%	-8.7%	-0.9%	6.6%	7.3%	8.7%	-3.3%	-6.8%
VAM (US$/mt)	Pidilite	1.8%	-3.8%	-9.6%	-7.8%	-7.2%	3.1%	5.6%	8.1%	-3.3%	-8.2%
VAM (Rs/mt)	Pidilite	2.7%	-4.1%	-9.9%	-7.5%	-7.3%	3.0%	6.4%	8.4%	-3.1%	-8.1%
China titanium dioxide (Rs/kg)	Asian, Berger and Kansai	-2.0%	1.9%	1.1%	3.7%	-0.7%	-1.0%	-0.4%	-1.0%	-0.5%	-0.5%
Foods-related (milk, tea, coffee, etc)											
Barley (Rs/kg)	HUL, Nestle	-3.5%	-18.4%	-5.9%	-5.2%	-7.4%	-2.5%	0.8%	7.3%	2.6%	3.2%
Wheat (Rs/kg)	Britannia	-12.5%	-6.1%	-5.9%	4.2%	3.3%	-0.6%	2.6%	2.0%	6.2%	1.8%
Sugar (Rs/ kg)	HUL, Nestle, Britannia	-0.6%	0.2%	6.2%	-1.2%	0.1%	1.6%	1.3%	3.0%	2.7%	2.7%
Milk powder prices (Rs/L)	Nestle, Britannia	-0.2%	-3.8%	1.8%	1.9%	-1.8%	2.0%	-2.2%	-4.4%	-3.7%	-4.6%
Leaf tea - North India (Rs/kg)	HUL, Tata Consumer	-5.5%	-0.2%	39.5%	-5.2%	9.6%	0.6%	-6.6%	-1.8%	0.3%	16.2%
Leaf tea - South India (Rs/kg)	HUL, Tata Consumer	2.7%	-2.4%	-6.1%	-4.7%	-7.1%	-2.3%	-2.5%	-1.4%	6.0%	2.2%
Leaf tea - All India (Rs/kg)	HUL, Tata Consumer	-5.3%	-4.7%	24.8%	-0.3%	6.8%	3.6%	-4.5%	-0.4%	-9.5%	-7.3%
Packaging material											
LDPE (Rs/kg)	All companies	5.8%	-0.1%	-4.7%	-0.8%	-6.1%	-1.7%	5.7%	1.6%	-0.4%	-3.4%
HDPE (Rs/kg)	All companies	2.8%	0.2%	-2.6%	-0.8%	-4.5%	0.2%	1.9%	0.0%	NA	NA
Polypropylene (Rs/kg)	All companies	9.9%	-3.1%	-3.8%	0.7%	-10.3%	-3.2%	6.9%	2.2%	0.7%	-2.8%
Others											
Gold prices - MCX (per 10gm)	Titan	0.7%	1.5%	4.6%	0.7%	-2.3%	-0.4%	-0.3%	0.2%	0.0%	2.8%
Inflation - WPI		4.8%	3.8%	1.3%	-0.9%	-3.6%	-4.1%	-1.2%	-0.5%	-0.3%	-0.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

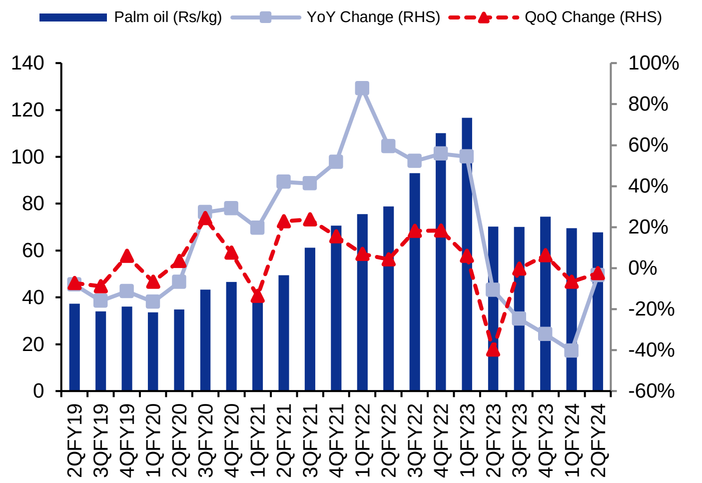
Price movement in key commodities

Figure 13: Copra prices were down 2% on a yoy basis but marginally inched up 1% on a qoq basis in 2QFY24



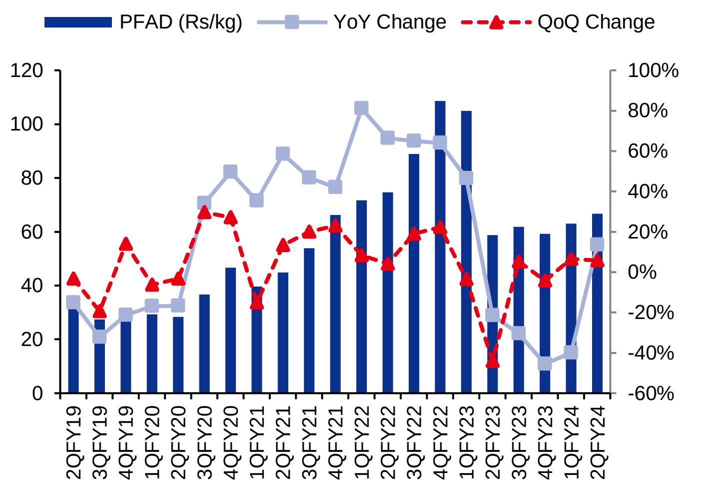
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: Palm oil prices declined 4%/2% on yoy/qoq basis, respectively, in 2QFY24



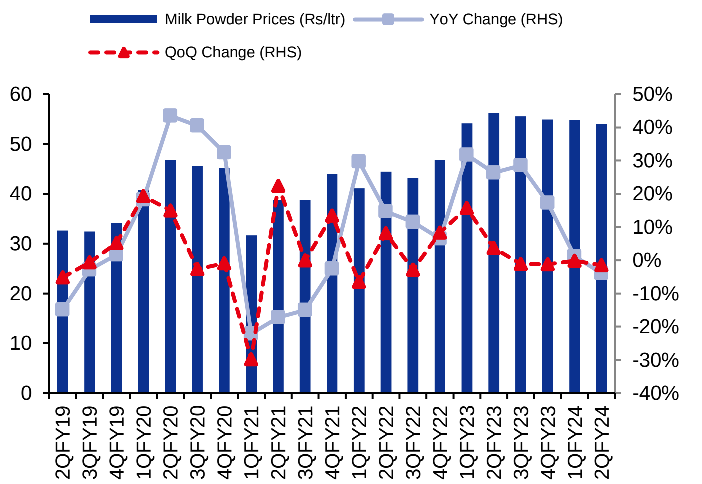
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 15: PFAD prices rose 14%/6% yoy/qoq, respectively, in 2QFY24



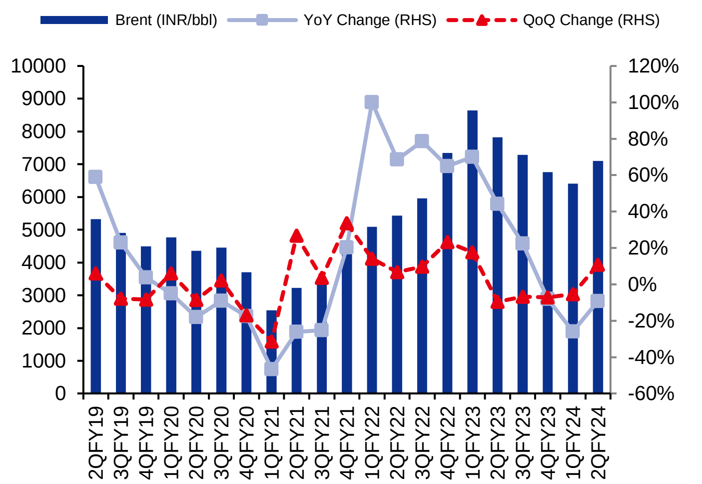
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: Milk powder prices declined by 4%/2% on yoy/qoq basis, respectively, in 2QFY24



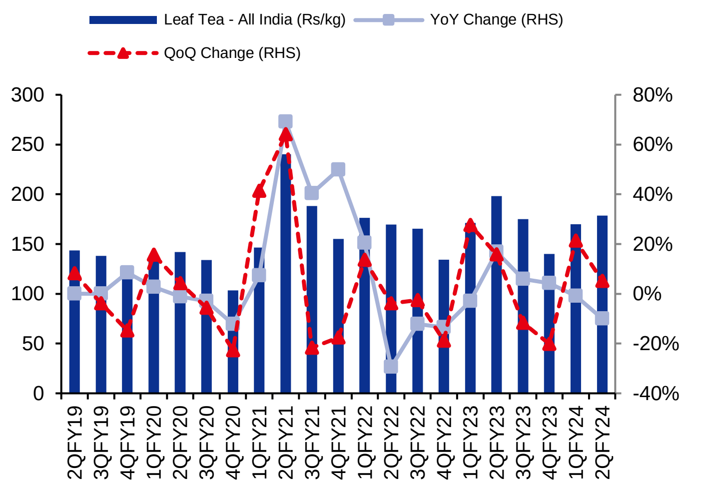
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 17: Prices of Brent crude oil declined by 9% yoy in 2QFY24



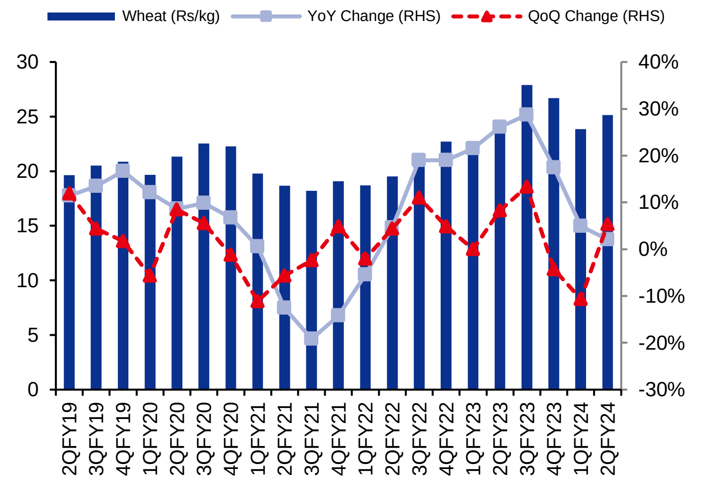
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 18: Prices of tea (All India leaf tea) declined by 10% yoy in 2QFY24



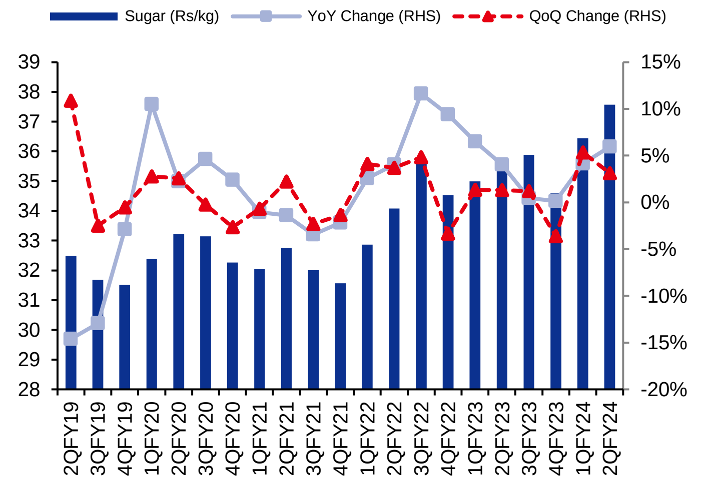
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 19: Prices of wheat grew by 5% qoq in 2QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 20: Prices of sugar rose by 6% yoy in 2QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key highlights from the earnings call in 2QFY24

Britannia Industries

- **Volume growth:** It stood at 0.2% in 2QFY24. In the first half of the quarter, there were some issues with respect to competitive intensity, which were addressed by price cuts/promotions. The focus is on growing the volume faster.
- Urban markets' contribution to the economy has gone up from 33.5% in 2018 to 35.1% in 2023. For Britannia Industries or BRIT, growth in the last 10 years has been faster in rural markets as the company was under-indexed earlier, leading to distribution-led gains. Opportunity in the rural markets was 1.3x/1.2x higher from a market share/numeric distribution lens, respectively.
- **Distribution:** Direct reach/rural distribution was up 4x/7x, respectively, over the last 10 years. The company's fill rate level grew from 75% to 90% in the modern trade channel. The route to market is being reworked to drive growth. Total distribution reach stood at 6.62m. The direct reach stood at 3.89m. The focus states (mostly rural), which witnessed 2x urban market growth earlier, are now witnessing lower-than-urban market growth. No fundamental issue, as per management, as BRIT is still growing faster than the industry in these markets. Packet products' growth in 2Q was flat.
- **Innovation:** The contribution stood at 10% of revenue. Entered four new categories/geographies (outside India). Jim Jam Pops, 50-50 Golmaal, Makhana under Better Snacks (will launch healthy products under this brand going ahead), Laughing Cow cheese (wedges and liquid cheese) contributed Rs2bn on an annualized basis.
- **Manufacturing:** Own manufacturing now stands at 65%, with 11 new plants set up in the last 10 years.
- **Digital:** SAP S4HANA integration has aided in driving efficiency. Leveraging digital channels to drive e-commerce channel growth. Dealer management system (DMS) has been digitized to drive ease of sales.
- **Adjacencies:** Rusk hasn't been performing well, which is being reworked. Cheese (base and new variants) are doing well. Processed cheddar cheese will be launched by the end of this year. Whey powder has also been launched (consumed by the company's biscuit division).
- **Snacking category:** BRIT was looking at setting up small manufacturing facilities to cater to nearby markets, but the plan will not proceed further until all aspects are worked out.

- **International markets:** The Middle East and Africa are growing in high double digits. Egypt is performing well. BRIT's recently setup operation in Kenya is facing teething troubles. Nepal is growing well (both topline and bottomline).
- **Manufacturing:** Commercialized a new plant with three product lines (phase1) in Bihta (Bihar) and will expand capacity in the Ranjangaon facility.
- **Input costs and margins:** Flour prices are up 6% yoy. Palm oil prices declined by 28% yoy. Sugar prices were up 1% yoy. Laminates/corrugated box prices were down 16%/22% yoy, respectively. Employee costs were lower due to one-offs in the base (stable otherwise). Pricing corrections were taken to the tune of 1.5%.

Dabur India ➤

- **Demand:** The urban markets grew faster than the rural markets in 2Q, driven by faster growth in new-age channels (modern trade, e-commerce). In the rural market, demand from South India was subdued due to liquidity problems in the trade channel. Management is confident that demand in North India will improve in the upcoming winter season.
- **Distribution:** Management is targeting 1.5m in direct reach by the end of FY24F from 1.4m as of end-2QFY24. Enrolment of rural distributors (Yoddhas) continued, with 13,000+ being enrolled by end-2QFY24.
- **Beverages segment:** It posted a 10% yoy decline in 2Q (+6% excl. beverages range) due to 1) uneven rainfall in Jul-Aug 2023 in North India (50%+ salience), 2) higher competitive intensity in the coconut water segment (Rs150-200m in sales targeted in FY24F) due to expansion by players like Storia, and 3) the delay in festive season channel loading in beverages. The beverage range was up by 10% in Sep-Oct 2023, as per management. Dabur India plans to spend Rs300-400m on capacity expansion for PET bottles as the tetra pack offerings aren't delivering the expected traction.
- **Foods segment** posted a 40.4% growth led by a 16.6% growth in Badshah masala powder business and is expected to achieve Rs5bn of exit revenue in FY24F.
- **Oral care segment** posted a 4.1% yoy growth in 2QFY24. Dabur Red clocked a high single-digit growth in 2Q, with market share gains continuing. The recently launched BaeFresh Gel variant of toothpaste is seeing good traction.
- **Home care segment** posted a 15.1% yoy growth in 2Q led by robust double-digit growth in Odonil and Odomos, clocking market share gains of 160bp/560bp, respectively. Odonil posted a 23% yoy growth, faster than its overall category growth of 20% during the quarter.
- **Hair oil segment** grew 4% yoy in 2Q led by a high single-digit growth in the amla sub-segment. The recently launched cooling oil (Dabur Cool King) is receiving a good early response.
- **Shampoo segment** grew 4.1% yoy on a base growth of 9%.
- **Skin care segment** grew 5% led by a double-digit growth in the Gulabari range. Dabur India clocked a 240bp market share gain in the bleach cream sub-segment. The Gulabari range was extended to the body wash sub-segment in 2Q.
- **Health supplements segment** posted flat growth in 2Q due to muted growth in Chyawanprash as the season was delayed this time, but the honey range continued to grow.
- **Digestive segment** grew 18.1% in 2Q led by robust double-digit growth in the Hajmola range.
- **OTC segment** grew 8.4% yoy in 2Q led by robust growth in Lal Tail, Honitus and Dabur Health Juices range. The recently launched baby range is also performing well.
- **Ethicals segment** grew 7% yoy in 2Q led by healthy growth in the classicals business and double-digit growth in the recently established therapeutics division.
- **International segment** grew 23.6% in constant currency or CC terms, with the MENA region posting a 18.4% growth while Egypt/Turkey/Bangladesh

grew 35%/78%/11%, respectively. The SSA/Namaste (USA) business grew 2.3%/1% in CC terms, respectively. Management expects a double-digit growth in INR terms (high double-digit growth in CC terms) in the international business.

- **Litigation against Namaste LLC:** Industry players in the hair relaxers (less than 1% of Dabur India's consol. revenue) space, like Revlon, Loreal, etc., are in litigation with consumers in USA, who claim that their products contain cancer-causing substances which, management believes, is a baseless claim. The industry has set up a joint defence group to fight the case. Legal costs are expected to remain elevated in the medium term (Rs200m per quarter; Rs630m incurred in total as of 2Q-end).
- **Input costs and margins:** Management believes that margins in 3QFY24F will be better than those in 4QFY24F but expects the overall upside (due to stable raw material prices) in margins to continue and maintains its earlier guidance of 19.5% EBITDA margin for FY24F, despite ongoing legal costs.

Emami ➤

- **Demand:** Rural markets remained muted for Emami while urban markets led growth in 2Q. The company took a conscious call to load lower inventory into the channel (compared to last year), as it believes the overall sentiment in the market remains weak. Post Diwali festival, management will be watchful of the secondary channel's growth.
- **Channel performance:** Modern trade channel (11% of sales) grew 18% while e-commerce channels (13% of sales) were up 50% in 2Q. Management believes these channels will continue to grow at a similar pace in the near term and expects a gradual improvement in margins. The chemist channel grew 20% in 2Q, with coverage now at 1,25,000 outlets.
- **Navranta and Dermicool:** Both these brands grew 12% yoy each.
- **Pain management:** This segment grew 1% yoy.
- **Healthcare segment** grew 4% yoy led by a high single-digit growth in the OTC range. The medico business saw a decline (typical to players in this industry in 2Q). The last few months have been stronger for the OTC business (high single-digit growth) and management expects the business to trend upwards in the coming quarters.
- **BoroPlus range** declined by 4% yoy due to lower demand from price-sensitive consumers.
- **Kesh King** declined by 5% yoy owing to lower demand. Management expects growth in 3QFY24F, as sales promotion will be higher, and it believes that sales were lower in 2Q because the promotion activities were rolled back.
- **Male grooming segment** declined by 7% owing to lower demand. The Fair and Handsome brand is likely to be relaunched soon to drive growth.
- **Acquired brands**: The Man Company and Brillaire clocked 63% yoy growth in 2Q, led by higher focus, premiumization, new launches as well as expansion into retail channels (MT, large GT stores). The Man Company has achieved breakeven, but Brillaire is marginally below the breakeven level. Both these brands together account for 5% of total sales. A 26% stake in Axiom Ayurveda has been acquired by Emami. The brand clocked Rs1,290m in sales and an EBITDA margin of 10% in FY23.
- **International business:** The SAARC business was led by a double-digit growth (CC) in Nepal and Sri Lanka. Bangladesh grew in high single digits in CC terms. The Middle East and North Africa (MENA) regions posted robust growth led by the GCC region and the strong performance of the Creme 21 range. CIS markets clocked a single-digit decline on a CC basis largely due to an internal (execution) issue. Management expects a recovery in 3QFY24F/4QFY24F.

Godrej Consumer Products

- **Volume:** The volume grew 10% (reported) while India volume was up 4% (organic) in 2Q. Revenue growth lagged due to lower pricing in soaps, forex translation losses from Nigeria and the challenging environment in Argentina.
- Downtrading was visible in soaps and hair colour categories. Premium ranges performed well, aided by modern trade (MT) and e-commerce channels performing better than the general trade (GT) channel.
- Management expects better growth in 4QFY24F compared to 3QFY24F.
- **Personal care segment:** It saw a dip in Jul 2023 due to the extended Shravan period in 2Q, as customers in North India do not groom their hair during this period, which management did not anticipate. Post-Shravan, there was a visible improvement in sales growth. Lower prices of soaps and higher competitive intensity from smaller players impacted the volume in 2Q.
- **Home care segment:** The household insecticides category continued to remain subdued due to an exceptionally dry Aug 2023 impacting the offtake and continued market share loss to smaller players. The focus remains on regaining market share from smaller players, driven by new launches.
- **Raymond portfolio**: Its integration was completed in 2Q, which led to record high sales in Sep 2023 after a subdued performance in Jul-Aug 2023. The portfolio was positive at the EBITDA level by the end of 2Q. Changes made by GCPL post-acquisition: 1) c.400-500bp savings on distributor margins, 2) scale-up of advertising expenses, and 3) 70% of the costs cut compared to pre-acquisition. Management expects sales growth from the range to improve in 3QFY24F.
- **International business:** In **GUAM**, GCPL is re-organizing its hair care (dry hair only) business in North Africa, Kenya by shifting to a distributor-led model. The deal will include clearing out certain assets in those regions. In **Indonesia**, volumes were up by 11% in 2Q. Margins are below normal level, which will improve gradually (may not hit historical level as per management), led by net revenue management, ATL/BTL optimization and cost savings. In **LATAM**, the underlying volume stood at 28%, aided by increased media spending and category development.
- **Input costs and margins:** Employee costs inched up due to integration of the Raymond portfolio, which is likely to even out gradually. Management expects the EBITDA margin to improve gradually.
- **Others:** Dividend payout is expected to average at 50% of PAT going ahead.

Hindustan Unilever

- **Volume:** The FMCG industry's volume continued to recover gradually, with the rural market volume growing 6% yoy (down 1% on a two-year CAGR basis) while the overall market grew 8% yoy, led by the urban market.
- **Pricing:** Price growth continued to taper off, as FMCG players passed on the benefits to the consumers.
- **Competitive intensity:** Small players, who had vacated the market in tea and detergent bar businesses at certain price points, made a comeback. Downgrading in tea led to brands like Taaza registering better traction than its premium tea range for Hindustan Unilever or HUVR (over-indexed in its portfolio). The competitive equilibrium is likely to recover in a few quarters, as per management.
- **Digital channels:** HUVR onboarded 100,000-plus Shakti entrepreneurs on Shikhar (e-B2B platform). Direct reach stood at 3m (including Shakti entrepreneurs).
- **Channel expansion:** The ONDC partnership is being extended to small retailers through the Shikhar Kirana App. A pilot project is being run through 60 outlets and will be scaled based on the feedback from retailers.
- **Trade destocking in 1QFY24:** Channel inventory correction for HUVR has been completed.

- **Home care segment:** In the laundry care & fabric wash categories, both Comfort and Surf Excel brands grew in double digits. Price cuts were taken for both brands to pass on the benefits to consumers. Innovation: Vim liquids were relaunched in the dishwash category.
- **Beauty and personal care (BPC) segment:** It delivered a volume-led mid-single digit growth. Both Lux and Hamam soap brands performed well. The hair care business grew in high single digits led by Clinic Plus and Indulekha. Skin care and colour cosmetics grew in double digits led by Ponds and Vaseline. Innovations: Extended Ponds and Vaseline into premium moisturizers. Indulekha anti-dandruff hair oil and shampoo were also launched.
- **Food & refreshment (F&R) segment:** It declined in mid-single digits in volume terms, clocking a 4% yoy value growth, led by pricing. The tea business witnessed moderate growth, as consumers continued to downgrade. Coffee saw a pricing-led growth, with the volume being impacted. Innovations: Launched artisanal ice creams under the 'Slow' brand, made from 100% milk. Lipton Green Tea was relaunched with a new blend.
- **Health food drinks (HFD) segment:** The focus has been on recruiting new consumers into the category, which led to an increase in penetration (vs. pre-acquisition) and market share gains. Management stated that consumption by existing users declined in the last few years, largely due to the increase in milk prices. The mix has been impacted due to strategic interventions (like the focus on smaller packs). The EBITDA margin has remained at a similar level since the time of acquisition. The focus remains on increasing the usage and premiumization of the portfolio. Management is optimistic about the HFD portfolio in the long run. Brands like Boost are growing in double digits. The women's range (Horlicks) is still at a nascent stage but has a long runway for growth.
- **Foods segment:** It grew in mid-single digits on a high base. Food solutions, mayonnaise and peanut butter continued to post strong growth.
- **Input costs and margins:** Advertising expenses (of which 33% goes towards digital channels; rest towards traditional channels) will remain firm in the near term due to heightened competition.

Jyothy Labs ➤

- **Fabric care:** All brands posted growth. The focus on both value offerings as well as the premium range yielded good results. The liquid range is doing well. Advertising campaigns for Ujala aired in key markets. Digital spending has been increased to drive usage/awareness. Ujala IDD's liquid variant was pushed across the southern markets. Media campaigns and BTL activities aided in driving the growth of the Henko brand. Distribution reach expansion in the mass category aided growth.
- **Dishwash:** Exo and Pril brands performed well. The focus on LUPs aided growth. The focus on growth of large packs also yielded positive results. Exo gel is still in the pilot phase in Kerala. Distribution expansion is underway.
- **Household insecticides:** Witnessing a consistent recovery after a challenging year. Liquid vaporizer registered healthy growth. A new campaign for Maxo Genius has been launched. Actress Kareena Kapoor has been onboarded as the new brand ambassador. The household insecticides or HI business is expected to be steady in the near term. When the liquids range reaches a 50% salience, the margin profile is expected to improve.
- **Personal care:** The Margo brand continued to grow, aided by distribution expansion. The recent launches are seeing good traction. The original variant led growth (in double digits). Media investments were stepped up to support new launches.
- **Input costs and margins:** A&P spending was stepped up to support new product launches. Price cuts were taken in the detergent and personal care segments.

- **Outlook:** Management expects double-digit sales growth led by volume growth and sees a 16-17% EBITDA margin in FY24F (vs. 15-16% earlier).

Marico

- **Demand:** Lower consumption, aggression from local players and a drop in STR or sell through rates (by three-to-four days) in the retail channel has contributed to the sluggish growth for the quarter. 2QFY24 started off with an encouraging trend in Jul 2023 but there was a noticeable drop in the sentiment in Aug 2023 and Sep 2023, with a visible uptick from the second half of Sep 2023. General trade (GT) declined due to lower offtake by the distributors, affecting their RoI and leading to lower credit in retail affecting STR (down by three-to-four days).
- **Diversification journey: 1) Drive higher gross margin from the foods segment –** Management restricted the foods segment's growth because it did not have a working model of scaling gross margin. The endeavour is to get this right over the next six months. Management believes the foods business can grow at 30%+ once the challenges are fixed. Management prefers a model of lower growth (25%-30%) with decent profitability instead of the high growth, high cash burn model. **2) Reducing cash burn in digital channels –** Management expects one or two brands to achieve breakeven by FY24F-end and believes the portfolio can witness EBITDA level, like that of the India business, in the next three years.
- **Food segment:** The oats business grew in double digits. Soya and honey businesses are nearing an annualized run rate (ARR) of Rs1bn. Strengthening the supply chain and optimizing costs should drive growth by 30% in FY25F, in our view.
- **Value added hair oils (VAHO):** Management is awaiting a pick-up in rural markets in the bottom-of-the pyramid/mass segments. Marico's VAHO range is under-indexed in alternate channels (modern trade and e-commerce). The premium hair oil segment (Rs300-350/SKU) is dominated by D2Cbrands, where Marico is not present. Downgrading persists due to significant discounting by some players at the bottom of the pyramid.
- **Parachute brand:** Pricing is at optimum levels for most stock-keeping units or SKUs as per management and should gain more market share once copra prices inch up, given their supply chain benefits.
- **D2C brands:** Beardo has done well and should become profitable soon. The burn rate is much lower than that of the competitors. Just Herbs will be the third brand to top the Rs1bn-ARR mark. For TruElements, the focus is on bringing the brand into general trade (GT) channel and Indianize some offerings, as well as drive up gross margin.
- **International business:** Vietnam business is doing well in terms of profitability. MENA and South Africa businesses also saw a turnaround. In Bangladesh, due to a larger scale, whenever there is a downturn in the economy, the system spending is reduced to maintain profitability.

Nestle India

- **Demand (long-term view):** Nestle India's management does not believe that there will be a consumption problem in India, but the challenge will be on driving consumption. Management stated that the company's total addressable market or TAM for Gen-Zs in India stood at 470m (expected to go above 700m over the next few years). Penetration remains at 40-80%, varying across segments (US$40bn market size for branded and packaged F&B products), as per management.
- **Premiumization:** Premium nutrition products accounted for 30% of the market but to price points, the rest of the market remains untouched. In the affordable segment, macro snacks (in less than Rs10/pack price points) have a market penetration of 72%. The focus going ahead will not only be on brand marketing but also on improving the service levels. New products (NPD) stood at 6.6% of sales. 10 new projects are in the innovation pipeline (expected to

be launched over the next year). Nestle India will also be focusing on driving its millets range of products.

- **Distribution:** Total reach stood at 5.2m outlets through 10,000+ distributors and redistributors (distributors stood at 2,000+). Nestle India's 10th factory will be set up in Odisha. Feet-on-street has been expanded to 3,141 as of 9MCY23-end (vs. 3,020 in CY22). The number of RURBAN smart stores grew to 19,300 from 16,000 in 2022. HAAT store (rural) activations stood at 18,331 (vs. 20,605 in CY22), which are expected to top last year's levels by the end of the year. Distribution reach is almost close to its target in terms of numeric distribution (in rural markets), after which the focus will be on sweating assets (driving weighted distribution).
- **Category-wise performance** (as of 9MCY23-end): Prepared dishes and cooking aids grew 10.7% yoy (31.6% of sales), milk products and nutrition grew 15.3% yoy (40.5% of sales), confectionery grew 21.4% yoy (16.8% of sales) and beverages grew 18.6% yoy (11.1% of sales). The out-of-home (OOH) channel grew 30% yoy.
- **Near-term outlook on category-wise performance:** The nutrition portfolio is expected to take some time to pick up momentum while in the near term, noodles, confectionery and dairy portfolios are likely to drive growth.
- **Pet Care:** Integration with the Indian entity has been completed, and now it has a much higher coverage compared to the earlier period. Early reads on the cat foods segment have been positive. Management is optimistic about driving growth from this business over the next few years.
- **Rural entrepreneurship program (Swabhimaan) and RURBAN expansion**: Generates business worth Rs80m through 1,600+ rural women entrepreneurs. Nestle India has 18,331 HAAT activations with more than 16,000 RURBAN distribution touchpoints (coverage across 7,405 towns).
- **Region-wise performance:** Mega cities have grown 15.4% on a three-year CAGR basis while metro markets grew 21% in the same period. T1 markets grew 10.2%, T2-6 grew 11.2% while villages grew 26.6% on a three-year CAGR basis. Nestle India has been deepening its rural reach with a target of 120,000 villages by 2024F, of which 1,07,844 are currently being serviced.
- **Digital analytics and technology:** Nestle India has been using its technology prowess to simplify and consolidate distribution, leveraging consumer insights (via MIDAS) and has also started a retailer self-order platform called Nesmitra. E-commerce grew 20% yoy in 9MCY23 (6.6% of sales in 9MCY23 vs. 6.5% in CY22). Quick commerce has been inching up strongly, with platforms like Blinkit now as important to Nestle India as Amazon.
- **Input costs and margins:** Barring green coffee (still not stabilized) most of the other raw material prices are stable (albeit at firm levels). Gross margin expansion was aided by lower raw material prices as well as better realization. Advertising expenses on digital channels has been increased, with a focus on driving more impressions in a cost-efficient manner.

Titan Company ›

- **Demand:** Sales growth benefited in 2QFY24 from the shift in the Shraad period delayed to Oct this year (occurred in Sep last year), which proved to be a tailwind. Management stated that the first 15 days of Oct 2023 saw a lower growth on this account.
- **Pricing:** Prices of solitaires (high-carat range) were rationalized in line with the excess supply of rough diamonds from the international market as well as higher demand for lab-grown diamonds, which may impact realization from the studded range over the next six-to-seven months. In the US, the mix of lab-grown diamonds is c40%, indicating a lower preference for natural diamonds in the region.
- There is a rising trend of consumers demanding certificates for exchange of natural diamonds.
- **Tanishq/Caratlane** clocked same-store sales growth or SSSG of 22%/10%, respectively.

- Titan Company has approved the proposal of raising funds through unsecured non-convertible debentures (NCDs) on a private placement basis for up to Rs25bn. The company's board has also approved long-term unsecured loans up to a limit of Rs10bn from banks and financial institutions.
- **Zoya** is expected to expand from 8 stores currently to 15 by the next Diwali festival season and the company is optimistic about its performance, expecting a 50%+ growth, because it clocked Rs1.4bn in sales last year.
- Average ticket prices for Caratlane, Mia and Tanishq stood at Rs25,000/Rs33,000/Rs1,40,000, respectively, in 2QFY24.
- **Caratlane** grew 45.1% yoy to Rs6.5bn, driven by campaigns around the Raksha Bandhan festival and the promotions related to exchange of old gold items.

Dodla Dairy (Unrated) ➤

- **Volume:** In Karnataka, price hikes were taken in the last two-to-three quarters, which led to an impact on volume (as pack sizes have become smaller). Unseasonal rains also led to a drop in volume.
- **Market share:** Dodla Dairy has about 8-9% market share in Karnataka.
- **Sales mix:** Value-added products grew 13.1% yoy (26.1% of sales in 2QFY24 vs. 32% in 1QFY24), led by distribution expansion. Sales of curd was up 5.8% yoy to Rs1,600m, at 309.3mtpd (vs. 292.4mtpd in 2QFY23). No bulk sales were done in 2Q.
- **Milk procurement:** The procurement (93.4% procured directly from farmers) grew 18.9% yoy to 17LLpd (vs. 14.3LLpd in 2QFY23). Average milk sales stood flat at 10.9LLpd.
- **Cattle feed:** Posted a 13% yoy growth in 2Q. The volume is expected to inch up next year. Realization stood at Rs25 per kg (vs. Rs23-24 per kg typically) in 2Q. Raw material prices are likely to remain stable in the near term.
- **Africa business:** Because of seasonality, there has been some fluctuation in sales growth. Sometimes, in the lean season, procurement prices go up, which leads to lower profitability. Usually, 1Q has a higher profitability, which declines by 2Q and again inches up by 3Q. Revenue growth is expected to be flattish in FY24F.
- **Margins:** Margin improvement was primarily led by lower raw material costs (procurement price was Rs39.3/L while the sale price was Rs57.5/L on a consolidated basis). Margins can be in double digits (10-11%) in 3QFY24F, as per management, but on a full-year basis they should remain in high single digits.
- **Capacity:** A new milk procurement plant is being set up at Solapur in Maharashtra to aid expansion in the region. Management believes there is a higher mix of private players in Maharashtra market vs. co-operative societies and sees an opportunity to grow in the region.
- **Outlook:** Management stated that it has geared up (in portfolio terms) for the upcoming flush season and have increased inventory (inventory days can go up to 28-30 days in FY24F). The value-added portfolio is expected to continue its growth momentum.

Tata Consumer Products (Unrated) ➤

- **Demand:** Rural and urban markets grew along similar lines in 2Q. Initiatives on split routes (vs. non-split) posted good results.
- **Distribution:** The distribution reach now stood at 3.8m touch points, with the direct reach at 1.5m.
- **India foods:** Salt value table has gone up as many new entrants have entered the market. Once prices are stable, will get back to growth. Value-added salt now accounts for 6.6% of the portfolio. For the rest of FY24F, salt business growth will be volume-led.
- **India beverages:** Premiumization led to higher value growth (vs. volume). **Tea:** On a qoq basis, market share was flat but slightly negative on a MAT basis. Distribution expansion will drive the share to move up again.

- **Nourishco**: Grew 25% yoy in 2Q, led by a broad-based growth across products and markets. Due to a shift in festive dates this year, MT channels are expected to pick up in 3QFY24F (vs. 2Q). The e-commerce business performed better, aided by digital-specific portfolios.
- **Sampann:** The range (Rs9-10bn expected in FY24F) was extended into vermicelli, walnuts and seeds, saffron (mid-range) and gulab jamun mix (launched ahead of the Diwali festival as a pilot project; will expand if successful). Long-term aspiration of 30% from the Sampann range.
- **Soulfull:** It has completed the breakfast portfolio and is being expanded into snacking.
- **Tata Coffee:** Was up 2% yoy, with a 9% volume decline (buyers held off procurement as coffee prices started to ease). Extractions grew by 11%. The Vietnam market contributed to profitability.
- **Starbucks:** Revenue grew 14% yoy. 22 stores were added in 2Q, taking the total to 370 stores.
- **UK:** Tetley was relaunched. Black tea's share stood at 19.5%. The focus remains on specialty tea through tea pigs.
- **USA:** Coffee/tea business declined by 10%/9%, respectively. Sales were impacted due to changes in the price pack architecture. Tetley continued to outperform vs. mainstream hot black tea category.
- **Canada:** Grew 8% in 2Q. Specialty tea business declined by 9% yoy. Market share stood at 27%.
- **Outlook:** Demand trend remains stable, but rural markets remain stressed. Branded tea and coffee categories continue to face demand headwinds in international markets. Tata Coffee's merger is expected to be completed this year.

Bikaji Foods International (Unrated)

- **Demand:** Witnessed some slowdown in the market on a sequential basis. Volume grew 5.1% while revenue rose by 5.5%. Ethnic snacks grew 10% yoy. Packaged sweets declined by 12% due to the shift in the Diwali festival dates this year. Western snacks business was up 9% yoy while the papad business declined by 6% due to the monsoon season (denting supply).
- **ATL/BTL:** Consumer offers were stepped up. Even core/flagship products saw 10% promotion (like Bikaneri Bhujia, which accounted for 33% of sales). Shopboards, wobblers, danglers, chips racks, shelf tapes, banners, etc. were rolled out in core and focus markets.
- **Product mix:** Usually there is a stronger contribution of sweets but due to a shift in the Diwali festival dates this year, the mix was slightly lower.
- **Core markets:** They were up 6.3%, focus markets grew 11.2% while other markets declined by 5.3% on account of lower demand for sweets and gifting. Exports were flat. Modern trade was flat due to a shift in demand from 2Q to 3Q.
- **Focus markets:** In core states, the market share was around 40% (pull is higher in these markets). Focus markets (lower brand recall; push-based model) are six, accounting for 40% of the category business. The Uttar Pradesh market itself is a large opportunity.
- **Region-wise growth:** The eastern region grew 1.3%, northern region grew 9.6%, southern region grew 13.4% while the western region declined by 8.4%.
- **Supply chain:** Added four new depots in Varanasi, Ghaziabad, Ahmedabad and Pune.
- **Distribution:** Direct reach now at 208k outlets (from 149k in Mar 2023) of which 107k are in focus markets. Moving from sub-stockist to the direct reach model. Sub-stockists will largely be leveraged to expand in rural/smaller markets. No change in margins for retailers, or stockists.

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