

Consumer

3QFY19 Results Preview

Expect stable volume led revenue growth in festive quarter

	CMP(₹)	3M ret. (%)	Yearly (%)
Index Returns			
Nifty	10,890	3	2
NSE FMCG	30,784	8	15
Companies			
HUVR	1,773	15	28
MRCO	380	20	21
DABUR	424	4	20
APNT	1,390	10	17
KANSAI	457	10	-17
AKZO	1,752	9	-8
BERGER	323	11	24
PARAG	243	-9	-11
PRABHAT	93	-22	-57
HERITAGE	538	1	-35
HATSUN	679	9	-21
MENON	85	12	-21

3QFY19E preview – Over the last few quarters FMCG companies have delivered a very strong volume growth on the back of weak base and underlying improvement in rural demand scenario. Last quarter however we saw some moderation in volume growth on account of restocking impact in the base. Going into 2HFY19 we expect demand trends to remain largely stable and 3QFY19 will benefit from shift of festive season during the quarter. Although higher crude and crude derivative raw material prices will impact YoY gross margins, the impact is expected to get offset by selective price hikes undertaken and ongoing trend of premiumisation.

Stable growth for FMCG companies: We expect HUVR, MRCO, Dabur and APNT to report strong 13-15% revenue growth in 3QFY19 on the back of strong double digit volume growth and selective pricing action undertaken. We expect strong double digit revenue growth in Paints companies led by strong underlying volume growth during the festive season. Paint companies have also undertaken pricing action to mitigate impact of rising raw material prices as TiO2 and few other derivative prices shoot up during last two quarters. Dairy companies are expected to deliver strong results on strong growth in milk products portfolio during festive quarter.

EBITDA margin improvement for FMCG cos than other universe: EBITDA margins of key FMCG players are expected to improve YoY on the back of selective pricing actions undertaken, improved mix and operating efficiencies. However Paint and Dairy companies are expected to deliver flattish margins or shrinking margins YoY on account of high RM prices, rupee depreciation and stiff competition to attract volumes.

Outlook for CY19: (1) Investors are likely to focus on CY2019 demand outlook amidst impending general elections, (2) expected recovery in rural demand as money is expected to flow in rural India to allure votes – staples shall benefit, (3) impact of consolidation in industry and expectation of new product launches, (4) impact of last year's uneven distribution of monsoon.

Top Picks – Parag Milk, Asian Paints, and Menon.

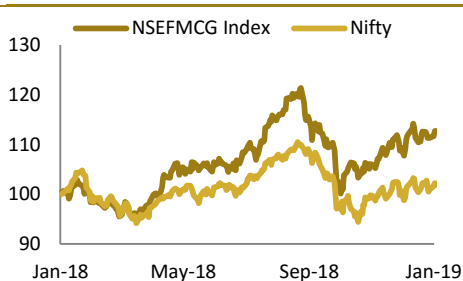
	Rating	FDEPS (₹)	
		FY19E	FY20E
HUVR	Hold	32.6	37.4
MRCO	Buy	7.1	8.6
DABUR	Buy	8.8	10.2
APNT	Hold	24.2	27.6
KANSAI	Hold	11.3	12.7
AKZO	Buy	88.5	100.3
BERGER	Hold	5.8	6.7
PARAG	Buy	12.1	14.1
PRABHAT	Buy	6.2	8.8
HERITAGE	Buy	11.9	14.9
HATSUN	Buy	9.1	13.1
MENON	Buy	4.3	6.6

Exhibit 1: Key Financials for quarter ending December 2018

(₹ mn)	Revenue	YoY (%)	EBITDA	YoY (%)	PAT	YoY (%)
HUVR	96,892	12.8	21,077	25.5	15,140	14.2
MRCO	18694	15.1	3539.5	17.2	2538	13.5
DABUR	21795	10.8	4457	10.5	3667	20.0
APNT	48,863	14.5	9,985	12.0	6,431	13.4
KANSAI	12,824	12.0	2,106	9.5	1,257	0.0
AKZO	7,850	10.2	1,104	11.6	739	-7.1
BERGER	15,394	15.1	2,530	13.7	1,471	14.9
PARAG	6,024	16.2	647	10.0	294	15.5
PRABHAT	4,524	11.9	413	9.9	164	10.1
HERITAGE	6,310	9.0	411	19.9	209	33.2
HATSUN	11,548	14.0	1,030	18.4	234	56.4
MENON	462	24.7	111	19.4	70	27.9

Source: Trust

Nifty vs NSE FMCG



ANALYST

Tushar Chaudhari

+91-22 4224 5119

tushar.chaudhari@trustgroup.co.in



Exhibit 2: Results preview for quarter ending December 2018

₹ Mn		Dec'18	Dec'17	YoY (%)	Sept'18 QoQ (%)	Comments	
Hindustan Unilever	Revenues	96,892	85,900	12.8	92,340	4.9	We expect 13% revenue growth in domestic FMCG business led by 9% UVG and 3.5% price-led growth. On a segmental basis, we estimate 14% YoY revenue growth for Home Care and Personal Care.
	EBITDA	21,077	16,800	25.5	20,190	4.4	We expect EBITDA margin to expand 220 bps YoY aided by improved mix and operating cost leverage efficiencies.
	PAT	15,140	13,260	14.2	15,250	-0.7	PAT to grow at 14% YoY. Commentary on urban and rural demand scenario ahead of upcoming elections.
Marico	Revenues	18,694	16,243	15.1	18,368	1.8	We expect 7-8% domestic FMCG volume growth led by rigids partially offset by weaker Saffola and VAHO.
	EBITDA	3,540	3,021	17.2	2,941	20.4	We expect EBITDA margin to improve by 35 bps YoY to 18.9% aided by softened RM and pricing action.
	PAT	2,538	2,235	13.5	2,183	16.3	PAT to grow at 13.5% YoY. Commentary on copra prices and rural demand outlook.
Dabur	Revenues	21,795	19,664	10.8	21,250	2.6	We expect 11-12% YoY growth in domestic FMCG business, with ~10% volume growth and 2% mix/realization improvement. International business revenue to grow ~5-7% in CC terms.
	EBITDA	4,457	4,035	10.5	4,508	-1.1	We expect consolidated EBITDA margin to shrink 7bps YoY led by higher A&SP spends and weakness in international business.
	PAT	3,667	3,056	20.0	3,830	-4.3	PAT to grow at 20% YoY. Commentary on rural demand and outlook on global business.
Asian Paints	Revenues	48,863	42,675	14.5	46,391	5.3	We expect 14.5% YoY growth in domestic decorative business led by 13% volume growth and rest by price hikes/mix-led growth. Strong volume growth is due to shift of festive season this year in 3QFY19.
	EBITDA	9,985	8,912	12.1	7,842	27.3	We expect higher input costs to impact gross margins. EBITDA margin to shrink 50bps to 20.4% on YoY basis as RM headwinds would be offset by tight cost control and operating leverage.
	PAT	6,431	5,672	13.4	5,060	13.4	PAT to grow 13.4% YoY
Kansai Nerolac	Revenues	12,824	11,450	12.0	12,939	-0.9	We expect 12% YoY growth in revenue led by double digit volume growth and price hikes/mix-led growth in decorative. Look for management commentary on price hikes in Industrial business.
	EBITDA	2,106	1,922	9.6	1,950	8.0	Higher input costs to impact gross margins on both businesses. EBITDA margin to shrink 35bps to 16.4% on YoY basis led by RM headwinds and inability to pass on cost push in industrial business.
	PAT	1,257	1,252	0.5	1,220	3.1	PAT to remain flat YoY.
Akzo Nobel India	Revenues	7,850	7,120	10.2	7,138	9.9	We expect 10% YoY growth in revenue led by strong volume growth in festive season and price hikes/mix-led growth in decorative.
	EBITDA	1,104	989	11.6	652	69.3	Higher input costs to impact gross margins. EBITDA margin to improve 17bps to 14% on YoY basis led by price hikes during the quarter.
	PAT	739	795	-7.1	367	101.0	PAT to decline 7% YoY but on QoQ look good.
Berger Paints	Revenues	15,394	13,386	14.7	14,901	3.3	We expect 15% YoY growth in revenue led by 13-14% volume growth during festive season and price hikes/mix-led growth in decorative.
	EBITDA	2,530	2,226	13.7	2,068	22.3	Higher input costs to impact gross margins. EBITDA margin to shrink by 20bps YoY to 16.4% on YoY basis despite two price hikes in H1.
	PAT	1,471	1,280	14.9	1,176	25.0	PAT to grow 15% YoY.
Parag Milk Foods	Revenues	6,024	5,193	15.9	5,735	5.2	We expect strong volume growth in milk products during the quarter leading to 16% revenue growth.
	EBITDA	647	588	10.1	581	11.3	We expect 60bps decline in EBITDA margin YoY to 10.7% on favorable base quarter and rise in procurement cost.
	PAT	294	255	15.5	304	-3.3	Commentary on procurement prices and milk pricing scenario over next few quarters.



₹ Mn		Dec'18	Dec'17	YoY (%)	Sept'18	QoQ (%)	Comments
Prabhat Dairy	Revenues	4,524	4,039	12.1	4,184	8.1	We expect strong volume growth in milk products during the quarter leading to 12% revenue growth.
	EBITDA	413	375	9.5	392	5.2	We expect 20bps decline in EBITDA margin YoY to 9.1% on favorable base quarter and rise in procurement cost.
	PAT	163	148	9.5	122	33.4	PAT to grow 10% YoY. Commentary on milk pricing scenario in MH over next few quarters.
Heritage Foods	Revenues	6,310	5,789	9.2	6,194	1.9	We expect better volume growth in milk products during festive quarter leading to 9% revenue growth.
	EBITDA	410	347	18.1	487	-15.8	We expect 50bps increase in EBITDA margin YoY to 6.5% on improved volumes and prices.
	PAT	209	160	30.5	222	-5.9	PAT to grow 30% YoY on a weak base. Commentary on milk pricing scenario over next few quarters.
Hatsun Agro	Revenues	11,548	10,129	13.8	11,871	-2.7	We expect better volume growth in milk products during festive quarter leading to 14% revenue growth.
	EBITDA	1,030	870	18.4	1,235	-16.6	We expect 33bps increase in EBITDA margin YoY to 9% on improved volumes and mix.
	PAT	234	150	56.4	383	-38.8	PAT to grow 56% YoY on a weak base. Commentary on milk pricing scenario over next few quarters.
Menon Bearings	Revenues	462	371	24.7	465	-0.6	We expect strong growth in revenue led by strong MHCV volumes during quarter and commissioning of new machine at Alkop.
	EBITDA	111	93	19.4	116	-4.1	We expect near term EBITDA margin to decline 50-100bps YoY to 23-24% as new plant is being set up for Alkop. Volumes to improve in next few quarters.
	PAT	70	55	27.9	73	-4.2	PAT to grow strong 28% YoY on strong volume growth in engine bearing business.

Source: Company, Trust

**Exhibit 3: Valuation matrix**

	Rating	PER (x)		EV/EBITDA (x)		RoE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
HUVR	Hold	54.4	47.3	37.8	32.7	78.7	66.1
MRCO	Buy	55.1	44.2	39.0	31.4	34.2	40.8
DABUR	Buy	47.9	42.1	39.7	35.2	27.4	29.2
APNT	Hold	57.3	50.4	35.5	31.1	23.8	23.5
KANSAI	Hold	40.4	35.9	25.8	22.8	18.2	18.0
AKZO	Buy	19.8	17.4	14.4	13.3	25.6	26.4
BERGER	Hold	56.8	49.1	32.2	27.9	20.7	20.8
PARAG	Buy	20.1	17.3	10.7	9.5	13.2	13.9
PRABHAT	Buy	15.2	10.7	6.1	4.9	7.8	9.9
HERITAGE	Buy	45.8	36.2	17.3	14.4	12.8	16.1
HATSUN	Buy	75.0	52.0	28.1	23.1	30.2	34.9
MENON	Buy	19.9	13.0	11.5	8.0	26.3	32.2

Source: Trust estimates



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Sales				
Vijay Shah	Sales		vijay.shah@trustgroup.in	+91-22-4084-5090
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4084-5028
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Consumer, Commodities & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119

**DISCLAIMER**

This document has been prepared by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) to provide information about the company (ies) and/sector(s), if any, covered in the report. This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and TFCSP is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

Information and opinions presented in this report were obtained or derived from sources that TFCSP believes to be reliable, but TFCSP makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. TFCSP accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to TFCSP. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by TFCSP and are subject to change without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Other Disclosures by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) under SEBI (Research Analysts) Regulations, 2014 with reference to the subject companies(s) covered in this report:

TFCSP is engaged in the business of Retail & Institutional Stock Broking. TFCSP is a member of the National Stock Exchange of India Limited, BSE Limited and Metropolitan Stock Exchange of India Limited.

The associate/subsidiary companies of TFCSP are engaged in the businesses of Merchant Banking, portfolio management, lending, wealth management etc.

TFCSP's activities were neither suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years.

TFCSP has not been debarred from doing business by any Stock Exchange / SEBI or any other authority.

No disciplinary action has been taken by any regulatory authority against TFCSP impacting its equity research analysis activities.

TFCSP and its associate/subsidiary companies may have managed or co-managed public offering of securities, may have received compensation for merchant banking or brokerage services, may have received any compensation for products or services other than merchant banking or brokerage services from the subject company in the past 12 months.

TFCSP and its associate/subsidiary companies have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of TFCSP or its associate/subsidiary companies during twelve months preceding the date of distribution of the research report. TFCSP and/or its associate/subsidiary companies and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report.

TFCSP is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000001543.

Analyst Certification: The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject company securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of TFCSP research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Name of Company
Analyst Ownership of Stock	No
Served as Director or Employee	No

Stock Ratings are defined as follows :- Recommendation Interpretation

Recommendation **Expected absolute returns (%) over 12 months**

Buy More than 15%

Hold 15% to -15%

Sell Less than -15%

Regional Disclosures (outside India): 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 TFCSP or its associate/subsidiary companies to registration or licensing requirements within such jurisdictions.