FIRST LIGHT

16 March 2023

RESEARCH

BOB ECONOMICS RESEARCH | CURRENCY OUTLOOK

INR is likely to remain range-bound

CONSUMER STAPLES

Visible signs of rural revival

Daily macro indicators

Ticker	13-Mar	14-Mar	Chg (%)
US 10Y yield (%)	3.57	3.69	12bps
India 10Y yield (%)	7.36	7.37	1bps
USD/INR	82.13	82.49	(0.4)
Brent Crude (US$/bbl)	80.8	77.5	(4.1)
Dow	31,819	32,155	1.1
Hang Seng	19,696	19,248	(2.3)
Sensex	58,238	57,900	(0.6)
India FII (US$ mn)	**10-Mar**	**13-Mar**	**Chg ($ mn)**
FII-D	(89.6)	38.6	128.2
FII-E	(215.1)	367.3	582.4

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: CURRENCY OUTLOOK

The recent turmoil in the financial markets has caused an upheaval in global markets and has also changed to an extent the Fed's narrative from aggressive monetary tightening as was initially anticipated to slower pace of rate hikes. Markets have now priced in 25bps rate hike instead of 50bps with fading of hawkish tilt, going ahead. However, the recent US CPI inflation data might keep Fed in predicament over its next course of action. Dollar has changed course and other currencies have appreciated. INR has scope to perform much better than other currencies, given the FPI flows, forex reserves and moderation in oil prices. Improved demand outlook by OPEC for China is expected to lift oil prices. Against the above backdrop, we expect INR to remain range bound and trade in the range of 82-83/$ in the next fortnight. All eyes on Fed for now.

Click here **for the full report.**

CONSUMER STAPLES

- Green shoots visible in rural markets (~40% of FMCG industry volumes) after a prolonged slowdown; policy measures to lend a further boost
- Improved rural penetration driving volume growth and market share gains for FMCG majors even in a tough macro environment
- BRIT and NEST remain our preferred picks on the back of their improving distribution networks beyond tier-1 markets

Click here **for the full report.**

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CURRENCY OUTLOOK

15 March 2023

INR is likely to remain range-bound

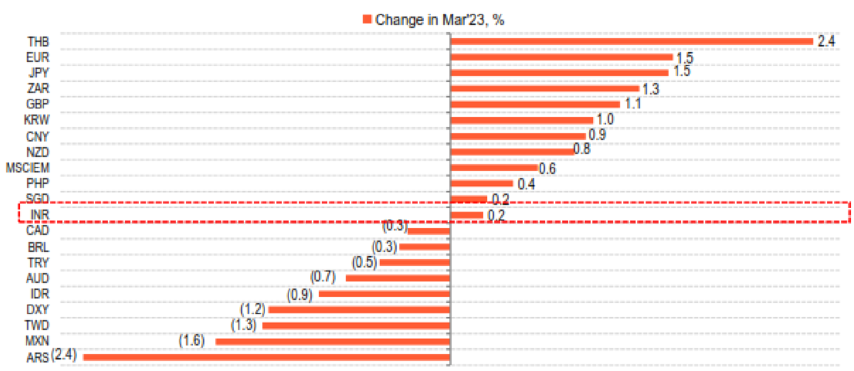
Jahnavi Prabhakar
Economist

The recent turmoil in the financial markets has caused an upheaval in global markets and has also changed to an extent the Fed's narrative from aggressive monetary tightening as was initially anticipated to slower pace of rate hikes. Markets have now priced in 25bps rate hike instead of 50bps with fading of hawkish tilt, going ahead. However, the recent US CPI inflation data might keep Fed in predicament over its next course of action. Dollar has changed course and other currencies have appreciated. INR has scope to perform much better than other currencies, given the FPI flows, forex reserves and moderation in oil prices. Improved demand outlook by OPEC for China is expected to lift oil prices. Against the above backdrop, we expect INR to remain range bound and trade in the range of 82-83/$ in the next fortnight. All eyes on Fed for now.

Movement in global currencies

Global currencies yet again regained strength as dollar came under pressure. In Mar'23, DXY reversed its previous month gains and weakened by 1.2%. Last week, the market witnessed the collapse of the US bank, second largest failure in history, resulting in ripple effects across US and international markets. Fed announced emergency measures in order to curtail the risk and protect depositors. Against such measures, the risk of contagion has somewhat faded. Separately, US headline inflation eased marginally, while core CPI edged upwards at 0.5% in Feb'23 from 0.4% in Jan'23 on MoM basis. On the other hand, US payroll addition strengthened rising by 311,000 against the expectation of 225,000 in Feb'23. Though, wage growth slowed and unemployment rate rose. Against this backdrop, all eyes would shift towards Fed as it is confronted with multiple challenges of elevated inflation, strong labor market conditions, weak consumer spending and carefully monitoring stability in the financial system. Analysts have priced in 85% likelihood of 25bps rate hike in the upcoming meet with terminal funds rate peaking to 5.4%.

Figure 1: Global currencies were mostly lower in Mar'23



Source: Bloomberg, Bank of Baroda Research, Data as of 14 Mar 2023 |Note: Figures in bracket denote depreciation against USD

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CONSUMER STAPLES

15 March 2023

Visible signs of rural revival

- **Green shoots visible in rural markets (~40% of FMCG industry volumes) after a prolonged slowdown; policy measures to lend a further boost**
- **Improved rural penetration driving volume growth and market share gains for FMCG majors even in a tough macro environment**
- **BRIT and NEST remain our preferred picks on the back of their improving distribution networks beyond tier-1 markets**

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Recovery in rural markets holds the key: Rural consumption, which forms close to 40% of the FMCG industry's volumes, has been sluggish over the past six quarters, but green shoots have emerged towards the end of 2022. Policy measures such as wage hikes under the MGNREGA scheme, free foodgrains, hikes in minimum support crop prices, direct benefit transfer, and higher budget allocation for infrastructure development in the hinterland bode well for a rural recovery. Further, respite from inflation and strong winter crop sowing should boost consumption in these markets.

Raw material inflation has hit margins…: FMCG players have faced unprecedented raw material inflation over the last 5-6 quarters, depleting margins and prompting a rash of price hikes and grammage cuts. The relentless price increases across categories drove demand contraction, especially in rural markets, even as the economic slowdown prevented companies from passing on the full cost burden to consumers, eroding margins.

…but channel checks suggest respite ahead: Inflation headwinds have started to moderate from Q2FY23. Key inputs such as crude oil and palm derivatives have corrected 35-50% from peaks, the benefit of which will percolate through in coming quarters. Though prices of several agricultural commodities remain firm, most consumer staples players expect to see moderation in raw material cost. Our channel checks with key players in the FMCG supply chain, including distributors, wholesalers and stockists, indicate that the revival in rural markets has continued in the current quarter and volume offtake has been better than previous quarters.

Valuation and Top picks: We continue to prefer BRIT (BUY, TP Rs 5,623) and NEST (BUY, TP Rs 22,860) for their strong network buildup in rural India which offers scope for market share gains and lends a measure of resilience even amid a difficult macroeconomic climate. BRIT is trading at 44x/39x FY24E/FY25E EPS and we continue to value the stock at 51x FY25E EPS. NEST is trading at 62x/54x CY23E/CY24E EPS and we value it at 67x CY24E EPS.

Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	4,293	5,623	BUY
GCPL IN	915	1,112	BUY
HUVR IN	2,442	3,069	BUY
ITC IN	380	459	BUY
NEST IN	18,265	22,860	BUY
TATACONS IN	693	924	BUY

Price & Target in Rupees | Price as of 14 Mar 2023

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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