

RESEARCH

BOB ECONOMICS RESEARCH | WPI

WPI continues to decelerate

HDFC BANK | TARGET: Rs 1,956 | +16% | BUY

Q4 healthy despite higher opex

CONSUMER STAPLES | Q4FY23 Preview

Early signs of recovery; expect a decent quarter

SUMMARY

INDIA ECONOMICS: WPI

WPI inflation continues to decelerate at a faster pace than CPI and was down to 1.3% in Mar'23 compared with 3.9% in Feb'23. The dip was led by significant moderation seen in fuel and power inflation, and deflation in manufactured product inflation. Food inflation too cooled down, but less sharply. Within food, while cereal, fruit and milk inflation is seen easing, pulses and vegetable inflation is showing some signs of pressure. Within fuel, the dip was mainly owing to drop in international crude prices. However, if they begin to strengthen again on account of better than anticipated demand outlook from China, then it could add pressure on our WPI. Continuous increase in electricity price index in WPI also needs to be watched. Going ahead, trajectory of food prices in the wake of ongoing heat wave conditions in the country will also be critical to monitor.

[Click here for the full report.](#)

HDFC BANK

- Deposits outpaced loan growth YoY while a higher cost of funds led to 14bps contraction in NIM to 4.2% in Q4; FY24 NIM guided at 4.1%
- Lower slippages aided improvement in GNPA/NNPA; credit cost (67bps in Q4) guided to normalise to ~1% as retail loan share rises
- Maintain BUY with a revised TP of Rs 1,956 (vs. Rs 1,943)

[Click here for the full report.](#)

Daily macro indicators

Ticker	13-Apr	14-Apr	Chg (%)
US 10Y yield (%)	3.44	3.51	7bps
India 10Y yield (%)	7.19	7.22	3bps
USD/INR	82.09	81.86	0.3
Brent Crude (US\$/bbl)	86.1	86.3	0.3
Dow	34,030	33,886	(0.4)
Hang Seng	20,344	20,439	0.5
Sensex	60,393	60,431	0.1
India FI (US\$ mn)	11-Apr	12-Apr	Chg (\$ mn)
FI-D	(53.8)	1.2	55.1
FI-E	125.5	262.2	136.7

Source: Bank of Baroda Economics Research



CONSUMER STAPLES: Q4FY23 Preview

- Visible uptick in rural demand off a low base, though urban centres expected to see relatively higher volume growth in Q4
- Margins for staples projected to improve on softer prices of key raw materials
- Changing weather patterns, El-Nino and currency depreciation among the key factors to watch

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WPI

17 April 2023

WPI continues to decelerate

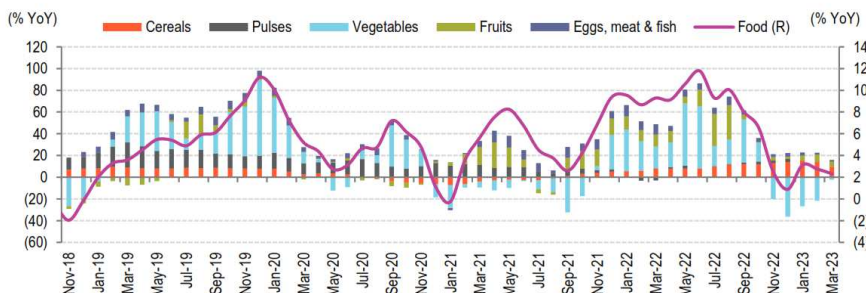
WPI inflation continues to decelerate at a faster pace than CPI and was down to 1.3% in Mar'23 compared with 3.9% in Feb'23. The dip was led by significant moderation seen in fuel and power inflation, and deflation in manufactured product inflation. Food inflation too cooled down, but less sharply. Within food, while cereal, fruit and milk inflation is seen easing, pulses and vegetable inflation is showing some signs of pressure. Within fuel, the dip was mainly owing to drop in international crude prices. However, if they begin to strengthen again on account of better than anticipated demand outlook from China, then it could add pressure on our WPI. Continuous increase in electricity price index in WPI also needs to be watched. Going ahead, trajectory of food prices in the wake of ongoing heat wave conditions in the country will also be critical to monitor.

Sonal Badhan
Economist

Food inflation showing steady moderation:

Headline WPI eased sharply lower to 1.3% in Mar'23 (BoB est.: 2.4%), from 3.9% in Feb'23. This is the 10th consecutive month of moderation and has fallen significantly from the peak of 16.6% in May'22. Food inflation cooled down less slowly and was at 2.3% in Mar'23, compared with 2.8% in Feb'23. Within food, inflation index for grains, fruits, milk, spices moderated, while that of vegetables contracted less sharply and of protein based items was steady. Food grain inflation index eased to 8.2% from 11.8% in Feb'23, mainly led by cereal index (9.5% versus 13.9%). On the other hand, price index for pulses showed signs of pressure (3% versus 2.6%). Within cereals, decline in paddy and wheat prices was in line with trend in international commodity prices. As indicated by World Bank's pink sheet, paddy prices have eased to 12.8% in Mar'23 from 15.4% in Feb'23, while wheat prices have collapsed (-29.8% versus -3.2%). Amongst the vegetable index, less sharp decline in Mar'23 (-2.2% versus -21.5%) was owing to pressure buildup in prices of items such as, tomato, onion, okra, cucumber, bitter gourd. On the other hand, inflation index for fruits (4.9% versus 7%) and milk (8.5% versus 10.3%) remains low.

Figure 1: Food inflation showing signs of moderation in Mar'23



Source: CEIC, Bank of Baroda Research



BUY

TP: Rs 1,956 | ▲ 16%

HDFC BANK

| Banking

| 17 April 2023

Q4 healthy despite higher opex

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- Lower slippages aided improvement in GNPA/NNPA; credit cost (67bps in Q4) guided to normalise to ~1% as retail loan share rises
- Maintain BUY with a revised TP of Rs 1,956 (vs. Rs 1,943)

Ajit Agrawal

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Deposits outpace loan growth: HDFCB's deposits grew 21% YoY in Q4FY23, outpacing loan growth of 17%. CASA improved 40bps QoQ to 44.4%, and higher deposit mobilisation led to a 196bps decline in CD ratio. The bank retained its focus on the high-yield retail and CRB business, wherein home and personal loans led the way in retail, and vehicle (+11% QoQ/37% YoY) and business banking drove the CRB segment.

NIM down 14bps QoQ; guided to settle at 4.1%: As expected, HDFCB's focus on business granularity and deposit repricing pushed up its cost of funds. NIM thus contracted 14bps QoQ to 4.2% vs. 4.3% in Q3. Management expects margins to sustain at 4.1%, give or take 5bps, and indicated that any structural change in portfolio mix in FY24-FY25 in favour of the retail segment (now 46% of advances) can improve margins. NII grew 24% YoY and 2% QoQ. Other income was muted (+3% QoQ) due to a treasury loss of Rs 377mn vs. a gain of Rs 2.6bn in Q3FY23.

Higher opex weighs on PPOP: HDFCB's retail thrust led to higher operating cost, raising the CI ratio to 42%. However, management believes CI will settle ~40% as opex normalises over the next 6-8 quarters (costs are front loaded) and volume expansion kicks in. Core PPOP dipped 2% QoQ (+14% YoY) in Q4.

Asset quality improves but remains a monitorable: Lower slippages led to a 12bps/6bps QoQ reduction in GNPA/NNPA. The bank's PCR also improved to 76% vs. 73% in Q3FY23. Cumulative provisioning at Rs 318bn was at 176% of GNPA vs. 166% in Q3, providing an additional buffer against asset stress. Credit cost stood at 67bps in Q4 vs. 74bps/96bps in Q3FY23/Q4FY22, which management expects will normalise to pre-Covid levels (~1%) given the increasing share of retail loans. The restructured book was at 37bps of loans (vs. 50bps in Q3).

Maintain BUY: We expect HDFCB to post a credit CAGR of 18.6% over FY22-FY25 with a PAT CAGR of 16.3% baking in elevated costs. Asset quality is likely to be stable over our forecast period (GNPA/NNPA 1.2%/0.3%) with a slight addition in credit cost. We maintain BUY with a revised TP of Rs 1,956 (vs. Rs 1,943), set at 3.1x FY25E ABV (vs. 3.5x) based on the Gordon Growth Model with Rs 56/sh for subsidiaries.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HDFCB IN/Rs 1,692
Market cap	US\$ 115.6bn
Free float	74%
3M ADV	US\$ 216.8mn
52wk high/low	Rs 1,702/Rs 1,272
Promoter/FPI/DII	26%/32%/28%

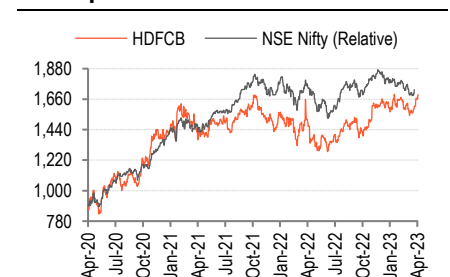
Source: NSE | Price as of 13 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Net interest income	868,422	1,018,026	1,185,894
NII growth (%)	20.6	17.2	16.5
Adj. net profit (Rs mn)	441,087	499,503	575,553
EPS (Rs)	79.3	89.5	103.2
Consensus EPS (Rs)	79.3	92.0	106.0
P/E (x)	21.3	18.9	16.4
P/BV (x)	3.4	3.0	2.6
ROA (%)	1.9	1.9	1.9
ROE (%)	17.0	16.7	16.9

Source: Company, Bloomberg, BOBCAPS Research | P - Provisional

Stock performance



Source: NSE



CONSUMER STAPLES

Q4FY23 Preview

17 April 2023

Early signs of recovery; expect a decent quarter

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Expect healthy urban market volumes: In our view, volume growth in urban centres will remain higher than rural markets in Q4FY23 as the latter continued to witness inflationary pressure, resulting in weak consumer sentiment during the quarter. However, a rural volume recovery has been seen for essentials during the second half of the quarter and there are early signs that consumers are returning to premium brands as product prices correct alongside softer raw material costs. We expect HUVR (~5% YoY volume growth), ITC (10-11% YoY volume growth in cigarettes), BRIT and GCPL to perform relatively better during the quarter.

Gross margin expansion likely: Key raw material prices have remained stable and crude oil has declined during Q4. Palm oil, another key input, was stable which is likely to benefit most consumer companies under our coverage. We expect gross margins to improve during the quarter on the back of lower input prices and cost rationalisation initiatives. However, rising prices of milk and other agricultural commodities, including wheat, may impact margins of some companies, resulting in further price hikes or grammage reduction. We note that wheat prices did soften towards the end of the quarter while sugar remained flat.

Higher A&P spends to impact EBITDA margin for some players: Operating margins are expected to improve for our coverage on the back of reduced high-cost inventory, softening raw material prices and relatively better volume growth. However, an increase in brand-related spends could dent Q4 margins for select companies.

Changing weather patterns could delay rural recovery: Commentary from some consumer companies suggests green shoots of recovery in rural markets. Our channel checks also point to improved demand for consumer essentials in rural centres in the wake of price cuts recently taken by companies. However, erratic weather patterns and a potential El-Nino occurrence are key factors to watch as these could damage crops and push back rural recovery.

Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	4,264	5,623	BUY
GCPL IN	963	1,112	BUY
HUVR IN	2,536	3,069	BUY
ITC IN	396	459	BUY
NEST IN	19,465	22,860	BUY
TATACONS IN	720	924	BUY

Price & Target in Rupees | Price as of 13 Apr 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

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