FIRST LIGHT

10 October 2023

RESEARCH

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How prices look in Sep'23 and Oct'23

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A proxy for capacity utilization

DIVERSIFIED FINANCIALS | Q2FY24 PREVIEW

Expect a robust quarter across segments

SUMMARY

INDIA ECONOMICS: ESSENTIAL COMMODITIES INDEX

BoB Essential Commodity Index (BoB ECI) has fallen by 1.8% in Sep'23 compared to 0.7% increase seen in Aug'23, on a sequential basis. This is the first sequential decline in the index after Apr'23. Even on YoY basis, BoB ECI has moderated to 2.9% in Sep'23 compared to 6.3% in Aug'23. It further moderated to 2.1% for the first 6 days of Oct'23. The moderation in price pressure is broad based led by sharp correction in prices of tomatoes. Except for Onion, much of the pass through from wholesale to retail prices have happened as the gap between the two, is more or less aligned to the long term average. Even comfort in prices are visible for basic items such as milk, salt and edible oils.

Click here **for the full report.**

INDIA ECONOMICS: ASSET TURNOVER

Often when we talk about the non-financial sector, an important indicator to look at is the capacity utilization rate. This indicates the potential for fresh investment as existence of spare capacity is a disincentive to invest more. RBI data sheds light on the same. But we do not get an idea about the same in different industries. In this note, we look at the turnover to fixed assets ratio - a different way of looking at capacity utilization from the P&L and Balance sheet data of companies. It shows the output that is sold (a proxy for production) based on a level of capital stock. A higher ratio will mean improvement in the capacity utilization rate. This gives us a better sectoral picture and the aggregate industry data is almost in tandem with the direction of capacity utilization rate data published by RBI. Few important facts which emerge include:

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Daily macro indicators

Indicator	05-Oct	06-Oct	Chg (%)
US 10Y yield (%)	4.72	4.80	8bps
India 10Y yield (%)	7.22	7.34	13bps
USD/INR	83.26	83.25	0.0
Brent Crude (US$/bbl)	84.1	84.6	0.6
Dow	33,120	33,408	0.9
Hang Seng	17,214	17,486	1.6
Sensex	65,632	65,996	0.6
India FII (US$ mn)	**04-Oct**	**05-Oct**	**Chg ($ mn)**
FII-D	103.4	168.1	64.7
FII-E	(345.3)	(100.5)	244.8

Source: Bank of Baroda Economics Research

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DIVERSIFIED FINANCIALS: Q2FY24 PREVIEW

- SBILIFE – our pick among life insurers – expected to fare well with sustained efficiencies and a steady VNB margin
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- AUM growth, especially equity inflows, likely to aid core revenue growth for our AMC coverage

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ESSENTIAL COMMODITIES INDEX

06 October 2023

How prices look in Sep'23 and Oct'23

Dipanwita Mazumdar
Economist

BoB Essential Commodity Index (BoB ECI) has fallen by 1.8% in Sep'23 compared to 0.7% increase seen in Aug'23, on a sequential basis. This is the first sequential decline in the index after Apr'23. Even on YoY basis, BoB ECI has moderated to 2.9% in Sep'23 compared to 6.3% in Aug'23. It further moderated to 2.1% for the first 6 days of Oct'23. The moderation in price pressure is broad based led by sharp correction in prices of tomatoes. Except for Onion, much of the pass through from wholesale to retail prices have happened as the gap between the two, is more or less aligned to the long term average. Even comfort in prices are visible for basic items such as milk, salt and edible oils.

However, increase in prices of all categories of pulses pose some degree of upside risk to overall inflation outlook. But support will be provided with sharp correction of vegetable prices as fresh arrivals are soon to hit the market. Apart from this, core services inflation is also running far below 5%. Even RBI's recent survey of the manufacturing sector has reflected that output prices are likely to rise only at a softer rate, so weighing and counterweighing factors, we expect CPI to average around 5.5% in FY24. Our Sep'23, forecast is at 5.7%.

To get an idea about the calculation of the index, refer to our previous edition of BoB ECI.

Price picture using BoB Essential Commodity Index:

- On MoM basis, BoB ECI has declined by 1.8% in Sep'23 compared to 0.7% increase seen in Aug'23. Out of 20 commodities, retail price of 12 essential commodities have fallen. Amongst them, the biggest correction was visible in case of tomatoes where retail prices fell by 61% in Sep'23 compared to 8% decline in Aug'23. Other commodities such as Potato (remained flat in Sep'23 compared to 3% increase in Aug'23) and Onion (moderated to 11.3% from 13.2%), prices inched down. Among edible oils, moderation were visible in prices of mustard (0.7% decline in Sep'23 compared to 0.3% increase in Aug'23) and Soya oil (2% decline compared to 0.5% decline). What posed concern is the price of pulses, which showed broad based increase. Tur Dal rose the most by 5.8% compared to 2.9% in Aug'23, followed by Gram Dal (5.4% increase from 2.3%). Urad, Moong and Masur rose in the range of 1.5-2.1%.
- On a seasonally adjusted basis, BoB ECI has fallen at a sharper pace by 2.2% in Sep'23 and further fell by 1.2% in Oct'23.
- On YoY basis, BoB ECI moderated to 2.9% in Sep'23 from 6.3% in Aug'23. 35% of the commodities showed softening in its price momentum. Here also just like sequential picture, the prime drop was led by correction in prices of vegetables such as tomato and potato.

ASSET TURNOVER

09 October 2023

A proxy for capacity utilization

Dipanwita Mazumdar
Economist

Often when we talk about the non-financial sector, an important indicator to look at is the capacity utilization rate. This indicates the potential for fresh investment as existence of spare capacity is a disincentive to invest more. RBI data sheds light on the same. But we do not get an idea about the same in different industries. In this note, we look at the turnover to fixed assets ratio - a different way of looking at capacity utilization from the P&L and Balance sheet data of companies. It shows the output that is sold (a proxy for production) based on a level of capital stock. A higher ratio will mean improvement in the capacity utilization rate. This gives us a better sectoral picture and the aggregate industry data is almost in tandem with the direction of capacity utilization rate data published by RBI. Few important facts which emerge include:

- Turnover to Fixed assets ratio of the sample companies has shown an improvement post Covid, driven by pickup in sales post normalization of economic activity. After coming down to 1.42 in FY20 and further to 1.24 in FY21 (due to lockdown), it has come to a level of 1.73 in FY23. However, it is marginally lower than the peak ratio of 1.77 in FY14. This intuitively shows that capacity utilization has improved over time after coming down during the lockdowns.
- However industries such as consumer durables, FMCG, healthcare, media and entertainment and ship building have lower ratios in FY23 compared with FY20 which indicates that their capacity utilization rates are still lower compared with pre-covid. There is hence surplus capacity in these sectors.
- The asset-turnover ratio has however surpassed the previous peak in the last 10 years in the following industries: chemicals, construction material, electricals, gas transmission, industrial gases, iron and steel, logistics, paper, realty and trading. This means that there is clear case of improved capacity utilization as these industries are generating more turnover with the given physical capital.
    - There are some industries which are nearing the peak level ratios meaning thereby that there is still potential to produce and sell more given the existing stock of gross fixed assets. These are infrastructure, hospitality, IT, mining, non-ferrous metals, power and textiles.
    - The sectors that have still to catch up with their peak ratios in the last decade are the following: telecom, realty, plastics, healthcare, diamonds & jewelry, capital goods, auto and agricultural products.

Background:

When we talk about growth in the manufacturing order books, an important term which often comes up is the underlying capacity utilization (CU) of the sector.

DIVERSIFIED FINANCIALS | Q2FY24 Preview | 09 October 2023

Expect a robust quarter across segments

- **Early AUM data points to strong Q2 profits for BAF – our top pick among NBFCs**
- **SBILIFE – our pick among life insurers – expected to fare well with sustained efficiencies and a steady VNB margin**
- **AUM growth, especially equity inflows, likely to aid core revenue growth for our AMC coverage**

Mohit Mangal
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NBFC: Early data released by BAF shows 33% YoY growth in its H1 AUM, tracking above the full-year guidance of 29-31%, implying strong profitability in Q2FY24. We bake in a 27% YoY rise in PAT. The company's decision to raise Rs 100bn points to high demand potential, which is also fuelling competition in the NBFC space. NIM contraction is likely to continue due to a higher cost of funds, whereas we expect credit cost to stay low. In the credit card space, we believe SBICARD will witness a surge in card spends and account openings.Net receivables are projected to rise 26% YoY, NIM is expected to contract, and credit cost could stay high, in line with the Q1 trend.

Life insurance: Within the private space, we expect SBILIFE/HDFCLIFE to post NBP growth of 30%/14% YoY in Q2FY24, followed by a 11% tick-up from IPRU. LIC is likely to experience a subpar quarter marked by an estimated 38% YoY drop in NBP. We project VNB growth of 20% YoY for SBILIFE and 9% for HDFCLIFE, with a flat performance for IPRU and a 7% decline for LIC. Profitable non-par and protection items remain focus segments for life insurers, likely enabling a sequential rise in VNB margin (but a fall YoY) for all companies under coverage. In light of robust systemic credit growth during the quarter, we anticipate high demand for credit life products.

AMC: Given the rise in AUM, we anticipate positive core revenue growth from listed AMCs. Gross revenue yields should benefit from a rising equity share in AUM, but the inverse relationship to TER could limit yields (regulations require that TER reduce as the asset base grows). Equity inflows, particularly through the SIP mode, would be a key driver of profitability. Due to the increase in bond yields, other income is expected to remain modest. Also, SEBI's avowed intent to regulate fees charged to mutual fund investors remains an overhang on the sector.

Wealth management: We pencil in a 16% YoY rise in AUM for 360ONE in Q2, helped by new fund inflows and MTM gains. The mix is expected to consist of 67% recurring AUM (61% at end-FY23), led by the 360 One Plus and AMC businesses. Recurring revenue is forecast to grow 25% YoY after absorbing a decline in transaction and other income. We model for a QoQ decline in cost-to-income ratio to 45% and PAT growth of 7% YoY for the quarter.

Recommendation snapshot

Ticker	Price	Target	Rating
360ONE IN	508	611	BUY
ABSLAMC IN	434	425	HOLD
BAF IN	8,169	9,105	BUY
HDFCAMC IN	2,726	2,445	HOLD
HDFCLIFE IN	631	700	HOLD
IPRU IN	559	518	SELL
LICI IN	644	770	BUY
NAM IN	335	365	BUY
SBICARD IN	798	1,011	BUY
SBILIFE IN	1,283	1,500	BUY
UTIAM IN	789	815	HOLD

Price & Target in Rupees | Price as of 6 Oct 2023

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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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