FIRST LIGHT

13 November 2024

RESEARCH

BOB ECONOMICS RESEARCH | CPI

Food inflation: a continued discomfort

BOB ECONOMICS RESEARCH | IIP

Industrial production rebounds

BRITANNIA INDUSTRIES | TARGET: Rs 5,832 | +16% | BUY

Inflation offsets being put in place just in time

SHREE CEMENT | TARGET: Rs 24,140 | -1% | HOLD

Relatively better placed to face tough challenges; retain HOLD

SUMMARY

INDIA ECONOMICS: CPI

CPI surprised on the upside led by food inflation. Sharp spiral in vegetable inflation coupled with increase in oils and fat inflation resulted in the same. The latter showed the impact of elevated international prices and an increase in customs duty to support domestic production. Core inflation showed upward correction with frontloading of festival demand. Higher gold prices also impacted subcomponent of personal care and effects. Some correction in prices especially tomatoes are already visible in Nov'24 high frequency price data.

Click here **for the full report.**

INDIA ECONOMICS: IIP

IIP growth rose by 3.1% in Sep'24, following (-) 0.1% decline in Aug'24. Manufacturing growth improved to 3.9%. Mining and electricity sector output rebounded, helped by withdrawal of monsoon and onset of festive season, respectively. Within manufacturing, jump was led by sectors such pharma, machinery, fabricated metals, motor vehicles and other transport equipment. In terms of use-based classification, both output of both primary and consumer non-durables registered a rebound. Other sub-heads also noted improvement, led by consumer durables and capital goods.

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BRITANNIA INDUSTRIES

- Compared to Bloomberg consensus, sales were 2% lower, EBITDA 12% lower as margin came in 200bps below expectations. Volumes +8.5%
- Rural recovery continues with sales up in high single digits, ~twice the urban run rate. We expect an acceleration in 2H (sales +14% vs 1H +6%)
- Retain BUY with revised TP of Rs 5,832. There is an upside potential to FY25 sales and earnings from the impending La Niña

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SHREE CEMENT

- Realisation dent drags revenue growth by a steep 19%/23% in Q2FY25, partially offset by relatively lower volume decline of 7% YoY
- Cost savings of ~9% YoY offer limited protection to EBITDA margin, falling ~300bps YoY/QoQ to ~16%, EBITDA falls 32% YoY to Rs 9.2bn
- We cut FY25E/FY26E/FY27E EBITDA by 9%/6%/2%, and assume 10-11% 3Y CAGR growth. Maintain HOLD with TP of Rs 24,140 (from Rs 25,422)

Click here for the full report.

CPI

12 November 2024

Food inflation: a continued discomfort

Dipanwita Mazumdar
Economist

CPI surprised on the upside led by food inflation. Sharp spiral in vegetable inflation coupled with increase in oils and fat inflation resulted in the same. The latter showed the impact of elevated international prices and an increase in customs duty to support domestic production. Core inflation showed upward correction with frontloading of festival demand. Higher gold prices also impacted subcomponent of personal care and effects. Some correction in prices especially tomatoes are already visible in Nov'24 high frequency price data.

This couple with a favourable base in Q3 will lend support to CPI. On rate action, there seems to be a delay as growth recovery is visible in sub segments and inflation, especially items of daily food consumption, are getting entrenched. Thus, we expect a nimble data dependent approach by RBI on the back of elevated global food prices, climate shocks and a stronger dollar. Our estimate of CPI remains at 4.5-5%, with risks tilted to the upside.

Food inflation overhang continues, core bottomed out

CPI inflation surprised significantly on the upside: CPI inflation came in at its highest since Sep'23 at 6.2% in Mar'24, on YoY basis, compared to last month's reading of 5.5%. Most of the increase in headline CPI was attributable to food inflation which went up by 164bps to 10.9% in Oct'24 from 9.2% in Sep'24. Within food, the increase was broad based. 7 out of 20 broader categories of food registered an increase in inflation. Among them, the most was visible in case of vegetable inflation (42.2% in Oct'24 compared to 36% in Sep'24). The vegetable price cycle is now becoming more entrenched, lasting for more than a year now. Other than vegetables, even oils and fat components went up considerably (9.5% from 2.5%), on account of an increase in basic custom duty to support domestic production. Adding to that, even international oilseed prices went up due to supply constraints, that also fed on domestic prices. Other items where some momentum was noticed was cereals due to rise in international price of wheat on account of harsh weather conditions in major exporting countries such as Australia and Russia.

On sequential basis, food inflation has inched up by 2.6% in Oct'24 from 1.2% in Sep'24. The strongest sequential pickup was seen in the case of vegetable inflation which firmed up by 8.2% in Oct'24 from 3.5% in Sep'24. Here our expectations have undershot, thus resulting in a lower number than the actual reading. Vegetable inflation was followed by an increase in oils and fats (6% compared to 3%) and fruit inflation (1.5% compared to 0%).

IIP

12 November 2024

Industrial production rebounds

Sonal Badhan
Economist

IIP growth rose by 3.1% in Sep'24, following (-) 0.1% decline in Aug'24. Manufacturing growth improved to 3.9%. Mining and electricity sector output rebounded, helped by withdrawal of monsoon and onset of festive season, respectively. Within manufacturing, jump was led by sectors such pharma, machinery, fabricated metals, motor vehicles and other transport equipment. In terms of use-based classification, both output of both primary and consumer non-durables registered a rebound. Other sub-heads also noted improvement, led by consumer durables and capital goods.

However on FYTD basis, in H1FY25, growth eased to 4% from 6.2% last year. Going forward, led by festive demand and onset of harvest season, we expect further improvement in production in the coming months. In addition, as government spending recovers, we expect private investment to also follow. With the end of the monsoon season, construction activity will also pick up pace. Overall, we expect headline IIP growth to perform better in H2 compared with H1.

IIP growth steady: IIP growth rose by 3.1% in Sep'24, following (-) 0.1% decline in Aug'24. This was much higher than BoB's estimate of 2.1% increase. Favourable base effect helped. All three sub-heads recorded an improvement. Manufacturing output rose by 3.9% in Sep'24 versus 1.1% in Aug'24. Helped by onset of festive demand, electricity production was up by 0.5% (-3.7% in Aug'24), and due to withdrawal of southwest monsoon, mining activity also began picking up pace (0.2% versus -4.3%).

Within manufacturing, a total of 17 sub-sectors noted higher growth in Sep'24, and 6 sub-sectors recorded softer growth. Major bump up in production was due sectors such as- fabricated metal & products, machinery and equipment, other transport equipment, motor vehicles, furniture, pharma, and food & beverages. On the other hand, production of textiles, apparels, leather & products, wood & products basic metals, computers & electronics fell in Sep'24.

This implies, on FYTD basis (Apr-Sep), in H1FY25 IIP growth (4%) is slightly lower than what was seen last year during the same period (6.2%). Main drag to overall growth came from slowdown in output of mining (4.1% versus 8.7%) and manufacturing (3.7% versus 5.9%). In contrast, electricity output has remained stable in this fiscal so far (unchanged at 6.1%) due to record summer heat this year and withdrawal of monsoon.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 5,832 | ⮝ 16%

BRITANNIA INDUSTRIES | Consumer Staples | 12 November 2024

Inflation offsets being put in place just in time

- **Compared to Bloomberg consensus, sales were 2% lower, EBITDA 12% lower as margin came in 200bps below expectations. Volumes +8.5%**
- **Rural recovery continues with sales up in high single digits, ~twice the urban run rate. We expect an acceleration in 2H (sales +14% vs 1H +6%)**
- **Retain BUY with revised TP of Rs 5,832. There is an upside potential to FY25 sales and earnings from the impending La Niña**

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Sales and EBITDA miss on tough demand environment: Sales were in line with our estimates and 2% below Bloomberg consensus, while EBITDA was 5% below our estimates and 12% below consensus. Urban slowed but BRIT's market share remained intact. EBITDA margin came in 200bps below consensus partly due to higher share-based expenses (100bps impact).

Offsets to inflation are in place: While there was considerable inflation in palm oil, wheat, etc., the impact on Britannia 2Q results was not prominent as the company had hedged a proportion of COGS at a lower-than-current market cost. This will last until 3Q, post which BRIT plans to offset the cost increase through pricing / savings.

- **Pricing:** By Dec'24 / Jan'25 BRIT will put through 4% to 5% pricing at a consolidated level. This will be done in a calibrated manner and BRIT will remain watchful of competitor moves for market share implications.
- **Cost savings:** BRIT's cost savings programme typically takes out 2% of sales, but this year it is likely to be double that run rate.

Rural recovery on track: Rural grew in high single digits and double the run rate of urban. Recovery continues to be consistent and we expect an acceleration in 3Q and 4Q partly driven by continued improvement in agri prospects.

Our view and valuation: BRIT remains our preferred pick in FMCG given its 40% rural sales exposure and an expanding distribution network. There is also an upside scenario from La Niña driven by unseasonal rains and extended / harsh winter season. We value BRIT at 55x 12M to Sep'26 EPS – a 10% premium to its historical average vs NIFTY 50. We reduce the TP to Rs 5,832 from Rs 6,862. Maintain BUY.

(Rs mn)	Q2FY24	Q2FY25	YoY (%)	Reported vs (%) BOBCAPS	Reported vs (%) Consensus
Sales	44,329	46,676	5	0	(2)
EBITDA	8,724	7,834	(10)	(5)	(12)
EBITDA margin	19.7	16.8	(290bps)	(99bps)	(198bps)

Sources: Company, Bloomberg, BOBCAPS Research

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	BRIT IN/Rs 5,028
Market cap	US$ 14.3bn
Free float	49%
3M ADV	US$ 23.2mn
52wk high/low	Rs 6,470/Rs 4,626
Promoter/FPI/DII	51%/19%/30%

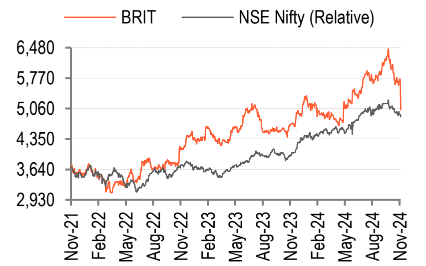
Source: NSE | Price as of 12 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	167,693	184,182	211,267
EBITDA (Rs mn)	31,698	34,485	40,750
Adj. net profit (Rs mn)	21,427	23,627	27,845
Adj. EPS (Rs)	88.9	98.1	115.6
Consensus EPS (Rs)	88.9	100.0	113.6
Adj. ROAE (%)	54.0	50.1	50.6
Adj. P/E (x)	56.5	51.3	43.5
EV/EBITDA (x)	38.2	35.1	29.7
Adj. EPS growth (%)	10.1	10.3	17.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 24,140 | ▼ 1%

SHREE CEMENT | Cement | 12 November 2024

Relatively better placed to face tough challenges; retain HOLD

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Dent in realisations drag revenue: SRCM's revenue fell steeply by ~19%/23% YoY/QoQ to Rs 37.3bn in Q2FY25, driven by the fall in realisations. Volume fell by 7% YoY (~21% QoQ) to ~7.6mnt vs 8.4mnt in Q2FY24. Realisations fell to Rs 4,904/t, falling 12% YoY but only 2% over Q1FY25. SRCM's QoQ volume drop will be watched very keenly and is expected to be only for the short term.

Cost savings efforts offer limited protection to margins: The overall operating cost dropped by 9% YoY (+2% QoQ) to Rs 4,124/t. Raw material-adjusted energy costs declined 17% YoY (flat QoQ) to Rs 1,857/t, owing to a 17% YoY reduction in fuel cost to Rs 1.71/kcal (from Rs 2.05/kcal in Q2FY24). Logistics cost was flat YoY/QoQ to Rs 1,173/t following a rationalisation of lead distance YoY. Other expenditure fell sharply by 18%/22% YoY/QoQ to Rs 5.8bn and was commendable. EBITDA fell 31%/35% YoY/QoQ to ~Rs 5.9bn and EBITDA margin was at ~16% (-300bps YoY/QoQ). EBITDA/t fell 24%/18% YoY/QoQ to Rs 780/t in Q2FY25. Adj PAT was Rs 931mn, a drop of 81% YoY due to higher depreciation provision.

Capex plans: SRCM's ongoing expansion projects include Jatra in Rajasthan with 6mn tonnes, Karnataka and Uttar Pradesh ~3mn tonnes, and Baloda Bazar (Chhattisgarh) ~3.4mn tonnes. SRCM spent Rs 18.60bn in H1FY25 and roughly Rs 40bn every year for the next four years. SRCM's ongoing expansion projects in Jaitaran (Rajasthan), Kodla (Karnataka), Baloda Bazar (Chhattisgarh), Etah (UP) are on track, and expected to be completed by Q1FY26.

Earnings estimates cut; maintain HOLD: We cut our EBITDA estimates for FY25/FY26/FY27 by ~9%/6%/2% owing to weak 1HFY25 expectations and strong leg of capacity addition by cement companies, including SRCM, leading to excess supply in FY26 and keeping price hikes at bay. Our revenue/EBITDA/PAT CAGR estimates are now 10%/11%/7% over FY24-FY27E. We maintain a HOLD rating valuing SRCM at 15x (unchanged) 1-year forward EV/EBITDA as SRCM gains size (79mnt) without any meaningful dent in operating efficiencies and maintains margins. We lower our TP to Rs 24,140 (from Rs 25,422) while valuing the stock at 15x FY26E EV/EBITDA – 2.0x over the industry replacement cost.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SRCM IN/Rs 24,418
Market cap	US$ 10.4bn
Free float	37%
3M ADV	US$ 9.1mn
52wk high/low	Rs 30,738/Rs 23,700
Promoter/FPI/DII	63%/13%/12%

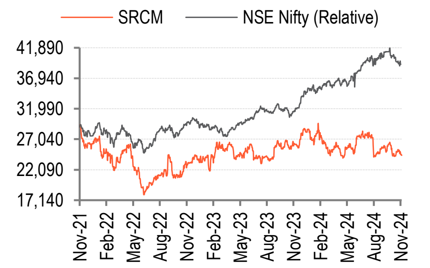
Source: NSE | Price as of 11 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,92,372	1,86,577	2,17,473
EBITDA (Rs mn)	39,859	35,144	45,329
Adj. net profit (Rs mn)	24,684	13,900	22,221
Adj. EPS (Rs)	684.2	385.3	615.9
Consensus EPS (Rs)	684.2	539.1	692.0
Adj. ROAE (%)	12.8	6.7	10.2
Adj. P/E (x)	35.7	63.4	39.6
EV/EBITDA (x)	19.7	22.3	21.6
Adj. EPS growth (%)	85.9	(43.7)	59.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY – Expected return >+15%

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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