FIRST LIGHT

15 January 2024

RESEARCH

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Global commodity price movements in 2023

BOB ECONOMICS RESEARCH | CPI AND IIP

Some degree of comfort on inflation

BOB ECONOMICS RESEARCH | FPI FLOWS

Trends in FPI flows in India

HDFC LIFE | TARGET: Rs 850 | +33% | BUY

Muted quarter; clear growth roadmap a positive

CONSUMER STAPLES | Q3FY24 PREVIEW

Delayed rural recovery to hurt volume growth

Daily macro indicators

Indicator	10-Jan	11-Jan	Chg (%)
US 10Y yield (%)	4.03	3.97	(6bps)
India 10Y yield (%)	7.18	7.16	(2bps)
USD/INR	83.04	83.03	0.0
Brent Crude (US$/bbl)	76.8	77.4	0.8
Dow	37,696	37,711	0.0
Hang Seng	16,097	16,302	1.3
Sensex	71,658	71,721	0.1
India FII (US$ mn)	**9-Jan**	**10-Jan**	**Chg ($ mn)**
FII-D	173.4	(23.3)	(196.7)
FII-E	(64.6)	(198.5)	(133.9)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: COMMODITY TRENDS

Global commodity prices have witnessed correction in CY23. The correction in prices is broad based and pronounced in case of energy, metals and edible oils. Muted demand conditions have also supported the same in CY23. Also PMI readings globally have pointed that input prices are falling at a sharper pace. Another thing which has come out is that for most commodities, prices are still elevated compared to CY19 (pre pandemic level). This suggest that prices are likely to converge to their mean levels. Thus statistically, it supports an even sharper downward correction. But the recent geopolitical tensions in the Red Sea may outweigh all those statistical advantages and some upside risks to overall inflation going forward cannot be discounted.

Click here **for the full report.**

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INDIA ECONOMICS: CPI AND IIP

CPI print came in lower than expected at 5.69% (BoB estimate at 5.55%). Food inflation picture is better understood this month by looking at the sequential picture. Major correction was seen in vegetable prices. Notably, CPI excluding vegetables and pulses is at 4% in Dec'23. Core continued to be on the downside and major driven demand components showed moderation. In Jan-24, CPI is likely to moderate further as seen in softer high frequency indicator of prices. Even the current flare up of tensions in the Red Sea is likely to have limited impact on retail inflation as pump prices have remained sticky. So we don't see significant upside risk to inflation going ahead.

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INDIA ECONOMICS: FPI FLOWS

After a dismal start, FPI flow into India picked up pace, cumulatively totaling US$ 28.7bn in 2023. While equity segment continued to outperform, encouraging trend was also visible in the debt segment, particularly in the last few months of the year. Improved corporate profitability, stable domestic macros, range-bound inflation and a stable political environment favour India as a preferred investment destination. India's inclusion in JP Morgan's bond index in Jun'24 as well as hopes that India might subsequently be included in other bond indices has been a key driver of FPI inflows in the debt segment. The trend is likely to persist and gather more pace in the first 2-quarters of 2024. This will be positive for INR, which is likely to trade with an appreciating bias in 2024.

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HDFC LIFE

- 9MFY24 growth low but management's clear roadmap for growth raises confidence on medium-term prospects
- ULIP share continues to increase in the APE mix; non-par business remained stable
- TP revised to Rs 850 (vs. Rs 822) as we raise FY24-FY26 EV estimates by ~3% each; maintain BUY

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CONSUMER STAPLES: Q3FY24 PREVIEW

- Q3FY24 presented weak demand trends like the previous quarter due to subdued volume recovery
- General trade continues to witness growth headwinds; regional competition remained elevated during Q3
- Expect sustained margin expansion to support earnings growth; prefer NEST, ITC and DABUR

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COMMODITY TRENDS

12 January 2024

Global commodity price movements in 2023

Dipanwita Mazumdar
Economist

Global commodity prices have witnessed correction in CY23. The correction in prices is broad based and pronounced in case of energy, metals and edible oils. Muted demand conditions have also supported the same in CY23. Also PMI readings globally have pointed that input prices are falling at a sharper pace. Another thing which has come out is that for most commodities, prices are still elevated compared to CY19 (pre pandemic level). This suggest that prices are likely to converge to their mean levels. Thus statistically, it supports an even sharper downward correction. But the recent geopolitical tensions in the Red Sea may outweigh all those statistical advantages and some upside risks to overall inflation going forward cannot be discounted.

Commodity prices have undergone correction in CY23:

- Global commodity prices have witnessed correction in CY23. This is broad based across all categories such as energy, grains, edible oil, cash crops, metals etc. The latest World Bank data on prices of major commodities show that the sub-category products have seen a reversal in the upward trend, which was a result of geopolitical tensions, supply side bottlenecks, amongst others seen in CY22.
- Within energy, sharp correction was visible in Natural Gas prices, with moderation being sharpest for US. Even crude oil prices have seen a downward trend in CY23 over CY22.
- Within edible oils, all categories such as coconut oil, groundnut oil, palm oil and soybean oil have fallen sharply.
- Within grains, wheat prices have fallen, whereas rice still provides some discomfort due to adverse weather conditions.
- Among, major cash crops, rubber and cotton prices have fallen. However, sugar and tobacco prices remained firm due to supply concerns.
- Within metals, the correction is broad based, with zinc and aluminium leading the decline and for precious metals, buoyant demand conditions and volatility in dollar have kept prices elevated as a resort to safe haven demand.
- For Fertilizers, Urea prices have inched down considerably, whereas phosphate prices are yet to witness some correction.

On domestic front as well, WPI data in CY23 (till Nov'23) shows the transmission of lower global commodity prices into domestic pieces. Moderation was seen across major items. Decline in prices were visible for items such as crude oil, major edible oil components such as palm, soybean and coconut oil. Grain prices remained elevated, especially rice. Among cash crops, cotton and rubber have noticed decline. Within metals, aluminium, lead and zinc have declined sharply and there has been broad based fall in metal prices.

CPI AND IIP

12 January 2024

Some degree of comfort on inflation

Dipanwita Mazumdar | Jahnavi
Economist

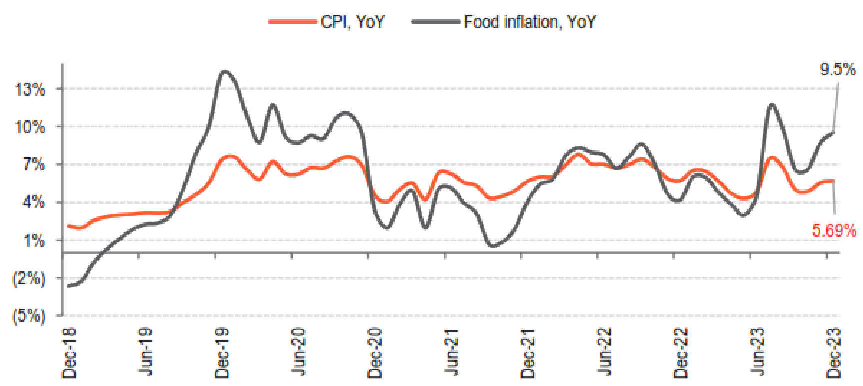
CPI print came in lower than expected at 5.69% (BoB estimate at 5.55%). Food inflation picture is better understood this month by looking at the sequential picture. Major correction was seen in vegetable prices. Notably, CPI excluding vegetables and pulses is at 4% in Dec'23. Core continued to be on the downside and major driven demand components showed moderation. In Jan-24, CPI is likely to moderate further as seen in softer high frequency indicator of prices. Even the current flare up of tensions in the Red Sea is likely to have limited impact on retail inflation as pump prices have remained sticky. So we don't see significant upside risk to inflation going ahead.

CPI inflation slightly higher due to base effect

CPI below estimates: CPI inflation surprised, coming in at lower than expected at 5.69% in Dec'23, on YoY basis (BoB Best: 5.55%) and against street estimate of 5.9%. The moderate inching up of CPI is on account of a slight unfavourable base. Food inflation remained sticky inching up to 9.5% from 8.7% in Nov'23. This was led by firming up of prices in vegetables (27.6% from 17.7%), pulses (20.7% from 20.3%) and sugar (7.1% from 6.6%). Despite some stickiness, moderation in 7 out of 20 broad categories of food has been observed. Among them, the most notable was meat and fish (1.1% from 2.2%), cereals (9.9% from 10.3%), spices (19.7% from 21.5%), amongst others.

On sequential basis, food inflation has fallen for the first time since Sep'23 by 0.3%. Among major commodities, the drop was sharpest for vegetables, fruits, pulses, sugar and spices. Correction in tomato, onion prices have provided the comfort to inflation. Seasonality came into play in bringing down prices as on a seasonally adjusted basis, food inflation inched up subtly by 0.8%.

Figure 1: CPI inched up slightly led by food



Source: CEIC, Bank of Baroda Research

FPI FLOWS

12 January 2024

Trends in FPI flows in India

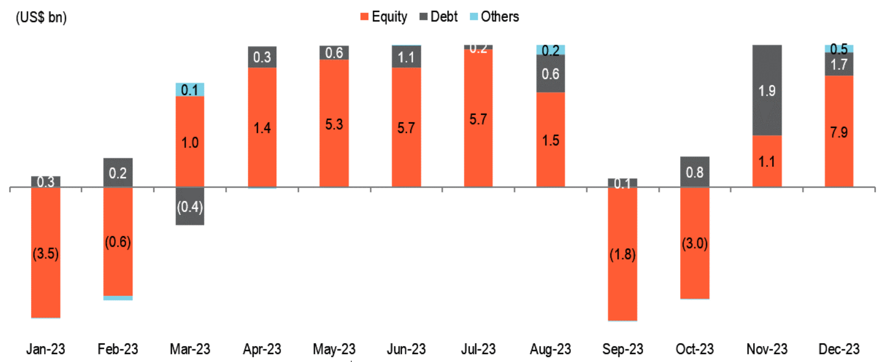
Aditi Gupta
Economist

After a dismal start, FPI flow into India picked up pace, cumulatively totaling US$ 28.7bn in 2023. While equity segment continued to outperform, encouraging trend was also visible in the debt segment, particularly in the last few months of the year. Improved corporate profitability, stable domestic macros, range-bound inflation and a stable political environment favour India as a preferred investment destination. India's inclusion in JP Morgan's bond index in Jun'24 as well as hopes that India might subsequently be included in other bond indices has been a key driver of FPI inflows in the debt segment. The trend is likely to persist and gather more pace in the first 2-quarters of 2024. This will be positive for INR, which is likely to trade with an appreciating bias in 2024.

FPI inflows in 2023:

FPI flows into India witnessed a turnaround in 2023, registering inflows of US$ 28.7bn compared with outflows of US$ 17.9bn in 2022. In fact, inflows in 2023 were the highest since 2017, when FPIs poured in US$ 30.8bn in the domestic market. However, true to their nature, FPI flows exhibited a great deal of volatility throughout the year as can be seen in Figure 1. While the first quarter of the calendar year was marked by outflows to the tune of US$ 3bn, this was more than compensated by inflows of over US$ 14bn in the next quarter. There was a steady moderation in FPI inflows thereafter. This coincided with increased uncertainty over the future Fed rate trajectory, with most investors banking heavily on the Fed's higher for longer narrative. After reaching a peak of US$ 6.8bn in Jun'23, FPI inflows started decelerating and finally turned negative in Sep'23. Outflows intensified further in Oct'23, but recovered in the last two months of the year. Expectations that Fed rates have peaked led to foreign spurred interest of foreign investors. In fact, inflows of US$ 10.1bn in Dec'23 are the highest ever monthly inflows recorded in a single month.

Figure 1: Movement in FPI flows in 2023



Source: CMIE, Bank of Baroda Economic Research | Note: Debt includes the VRR route as well

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BUY
TP: Rs 850 | ⮝ 33%

HDFC LIFE | Insurance | 12 January 2024

Muted quarter; clear growth roadmap a positive

- **9MFY24 growth low but management's clear roadmap for growth raises confidence on medium-term prospects**
- **ULIP share continues to increase in the APE mix; non-par business remained stable**
- **TP revised to Rs 850 (vs. Rs 822) as we raise FY24-FY26 EV estimates by ~3% each; maintain BUY**

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APE growth sluggish…: HDFC Life's individual and overall APE grew at a muted 6%/5% YoY as at end-9MFY24. Further, individual APE market share slipped from 16% in FY23 to 14% at end-Q3FY24, though the company retained its #2 rank among private peers. On the positive side, management indicated that it has rolled out new products, seen strong growth in tier-2/3 cities (<Rs 0.5mn premium paying customers), and continues to register a higher share of 60%+ in the HDFC Bank distribution channel.

…but expect pick up from Q4: We expect higher growth from Q4FY24 onwards due to management's targeted growth strategy of (i) expanding in tier-2/3 markets, (ii) adding new banking partnerships where APE growth is historically 30-40% in the first 15 months of onboarding, (iii) hiring new agents, (iv) driving growth in sub-Rs 0.5mn policies (+17% YoY in 9M), and (v) maintaining a balanced product mix which should hold the company in good stead when market exuberance subsides.

ULIP business gains traction; non-par stable: Owing to the buoyant equity markets, the share of ULIPs in APE has risen from 16% in FY23 to 24% in H1FY24 and 27% in 9MFY24. Non-par APE was stable at 24% in 9MFY24 but showed a decline compared to FY23. The share of protection plans fell from 17% in H1FY24 to 15% in 9M but has increased from 13% in FY23.

Stable VNB margin: HDFC Life generated VNB of Rs 22.7bn (+5% YoY) with a stable margin of 26.5% at end-9M and retained guidance of staying margin-neutral by FY24-end. We continue to factor in a VNB margin of 26.5% for FY24 but expect FY25 to have a margin of 27% (vs. 26.5% earlier), with a similar level in FY26. We now pencil in a 12% VNB CAGR over FY23-FY26 to Rs 52bn and a 13% APE CAGR to Rs 188bn.

Maintain BUY: HDFC Life is trading at 2.1x FY26E P/EV. We continue to value the stock at 2.8x FY26E P/EV– a 30% discount to the long-term mean – while raising our FY24-FY26 embedded value (EV) estimates by ~3% each to bake in the strong economic variance seen this quarter. This yields a higher TP of Rs 850 (vs. Rs 822). We maintain BUY given robust demand in tier-2/3 markets, rising market share in the HDFC Bank channel and new distribution partnerships.

Key changes

Target	Rating
▲	◄►

Ticker/Price	HDFCLIFE IN/Rs 638
Market cap	US$ 16.6bn
Free float	48%
3M ADV	US$ 23.9mn
52wk high/low	Rs 711/Rs 458
Promoter/FPI/DII	52%/26%/8%

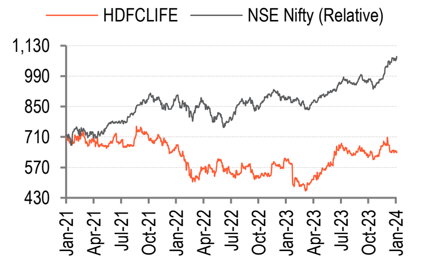
Source: NSE | Price as of 12 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
NBP (Rs mn)	2,90,851	3,26,323	3,71,049
APE (Rs mn)	1,33,400	1,44,107	1,65,134
VNB (Rs mn)	36,818	38,188	44,586
Embedded Value (Rs mn)	3,94,988	4,75,439	5,54,723
VNB margin (%)	27.6	26.5	27.0
EVPS (Rs)	185.0	222.7	259.8
EPS (Rs)	6.4	7.0	8.6
Consensus EPS (Rs)	8.9	8.9	8.9
P/EV (x)	3.4	2.9	2.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

CONSUMER STAPLES | Q3FY24 Preview | 12 January 2024

Delayed rural recovery to hurt volume growth

- **Q3FY24 presented weak demand trends like the previous quarter due to subdued volume recovery**
- **General trade continues to witness growth headwinds; regional competition remained elevated during Q3**
- **Expect sustained margin expansion to support earnings growth; prefer NEST, ITC and DABUR**

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Sluggish demand to keep topline growth muted: We expect revenue growth for consumer staples companies under our coverage to remain muted in the October-December quarter as the demand environment was weak – like that of the preceding quarter. We expect modest low-to-mid-single-digit growth during Q3FY24 as volume recovery has been relatively slower than expected. Early commentary from key players, including DABUR, GCPL and MRCO, indicates low-to-mid-single-digit volume growth for the quarter. In our view, some volume recovery will be visible in Q4FY24 owing to a strong wedding calendar and increased government spending on account of the upcoming general elections.

Rural volume growth continues to lag behind urban markets: Initial commentary suggests growth in rural markets has remained muted during Q3FY24, as higher inflation and impact of uneven rainfall continued to dampen sentiments. Urban markets remained steady and are growing faster than rural centres. During our channel checks in India's **southern** and **eastern** regions, we observed that volume growth in general trade remains muted, but modern trade and e-commerce continue to do well. In e-commerce, most of the growth is coming from quick commerce.

Expect sustained margin expansion: We expect continued gross margin expansion for most consumer companies on a YoY basis in Q3 due to the moderation in prices of key commodities. Companies have stepped up their A&P spends to counter lost volumes and to raise brand equity, which is likely to result in double-digit growth in operating profit.

Sector outlook neutral: We believe new product launches, increased market penetration, higher capex and premiumisation will continue to fuel growth for consumer staples players in the medium-to-long term. However, near-term headwinds, including delayed rural recovery, stress in general trade and intense regional competition, are likely to impact the Q3 performance for most players. However, despite expected muted volume and value growth, gross margins are forecast to improve YoY, likely resulting in double-digit earnings growth for staples players. We prefer NEST (TP Rs 2,826, BUY), ITC (TP Rs 523, BUY), and DABUR (TP Rs 669, BUY).

Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	5,137	5,844	BUY
DABUR IN	552	669	BUY
HUVR IN	2,536	3,069	BUY
ITC IN	463	523	BUY
MRCO IN	530	646	BUY
NEST IN	2,557	2,826	BUY
ZYWL IN	1,643	1,556	HOLD

Price & Target in Rupees | Price as of 11 Jan 2024

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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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