FIRST LIGHT

15 January 2025

RESEARCH

BOB ECONOMICS RESEARCH | WPI

WPI inflation accelerates

CEMENT | Q3FY25 PREVIEW

Demand recovery though delayed to be stronger and prolonged

PHARMACEUTICALS | Q3FY25 PREVIEW

Yet another strong quarter

SUMMARY

INDIA ECONOMICS: WPI

WPI inflation rose to 2.4% in Dec'24 from to 1.9% in Nov'24, led by increase in manufactured product inflation and slower pace of deceleration in fuel and power inflation. Food inflation remained steady at 8.9% in Dec'24. With this, headline WPI averaged at 1.7% in CY24 (0.1% in CY23), with inflation for food items at 6.8% (2.8%), fuel at -1.7% (-1%) and manufactured at 0.7% (-1%). In Dec'24, within food, barring food grains and condiments and spices, all other sub-categories noted upward pressure. Amongst vegetable prices, onion and potato prices registered an increase. Within fuel, mineral oil and electricity indices decelerated at a slower pace.

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CEMENT: Q3FY25 PREVIEW

- Q3FY25 demand recovery was delayed due to multiple factors; green shoots visible only in later part of the quarter (December)
- Weak demand reflected in only 4% volume YoY growth keeping pricing under pressure (realisations weak with ~8% decline YoY)
- Average EBITDA margin (cement coverage) estimated at ~16%, vs ~20% YoY, recovers from the low QoQ; EBITDA/t at ~Rs 854, down 26% YoY

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PHARMACEUTICALS: Q3FY25 PREVIEW

- 3QFY25E to report another healthy quarter driven by good traction across geographies, cost rationalisation leading to margin increment
- Domestic sales growth for our coverage companies to grow by 10.9%, led by new product launches, surpassing IPM growth of ~7%
- US sales growth for our coverage companies to grow by 9.6% driven by niche, specialty and complex new product launches

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WPI

14 January 2025

WPI inflation accelerates

Sonal Badhan
Economist

WPI inflation rose to 2.4% in Dec'24 from to 1.9% in Nov'24, led by increase in manufactured product inflation and slower pace of deceleration in fuel and power inflation. Food inflation remained steady at 8.9% in Dec'24. With this, headline WPI averaged at 1.7% in CY24 (0.1% in CY23), with inflation for food items at 6.8% (2.8%), fuel at -1.7% (-1%) and manufactured at 0.7% (-1%). In Dec'24, within food, barring food grains and condiments and spices, all other sub-categories noted upward pressure. Amongst vegetable prices, onion and potato prices registered an increase. Within fuel, mineral oil and electricity indices decelerated at a slower pace.

Mineral oil index mirrors the movement in international oil prices. Core inflation rose for the 4th consecutive month in Dec'24. Within manufactured products, food, textiles and electronic items led inflation higher. Commodity prices broadly eased. Going forward, if Fed decides to keep to rates higher for longer, it will dent demand prospects and ease oil and other commodity prices. However, tariff announcement by Present-elect Donald Trump may exert upward pressure on prices. Imported inflation, due to stronger US$ also poses upside risk to domestic inflation.

Food inflation eased sharply:

Headline WPI inflation quickened to 2.4% in Dec'24 (BoB est.: 1.9%) from 1.9% in Nov'24. This was despite food inflation remaining broadly unchanged at 8.89% in Dec'24 (8.92% in Nov'24). Vegetable inflation remains sticky (28.7% in Dec'24 versus 28.6% in Nov'24). Inflation index for fruits (11.2% versus 8.4%), milk (2.3% versus 2.1%), and eggs/meat/fish (5.4% versus 3.2%) ticked higher. Amongst vegetables, notable increase was seen in the case of potato, onion, and green peas, while softening was driven by items like tomato, ginger, and carrot. Food grain inflation moderated (6.5% versus 7.4%). Both cereal (6.8% versus 7.8%) and pulses (5% versus 6%) inflation eased. Amongst cereals, wheat and paddy inflation softened, in line with global prices. On a global level, World Bank's pink sheet data reveals that wheat prices decelerated at a faster pace (-11.7% versus -8%). Paddy prices have also dropped further (-19.5% versus -15.9%). In CY24, international rice prices rose by 8.1% (domestic WPI: 9.9%) and wheat prices declined by (-) 16.6% (domestic WPI: +6%).

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CEMENT | Q3FY25 Preview | 14 January 2025

Demand recovery though delayed to be stronger and prolonged

- **Q3FY25 demand recovery was delayed due to multiple factors; green shoots visible only in later part of the quarter (December)**
- **Weak demand reflected in only 4% volume YoY growth keeping pricing under pressure (realisations weak with ~8% decline YoY)**
- **Average EBITDA margin (cement coverage) estimated at ~16%, vs ~20% YoY, recovers from the low QoQ; EBITDA/t at ~Rs 854, down 26% YoY**

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Volume growth in single digits as recovery delayed due to multiple reasons: Cement demand recovery was pushed towards the end of the quarter (December 2024) owing to extended festivities leading to labour shortages and state elections in key states like Maharashtra in early 3QFY25. Monsoon seasonality in a few states in South India and the wedding/crop seasons in North and Central India further delayed the demand recovery. Demand growth was ~4% YoY for our coverage companies, however above-normal monsoon and healthy reservoir levels should help sustain a prolonged recovery.

Price revival follows demand recovery; supply glut adds pressure: Supply excesses and listless demand kept pricing under pressure. Pan-India cement prices weakened by ~10% YoY, staying flat QoQ. Most of the impact was felt in the eastern and southern regions of India as prices fell by ~18%/15% each YoY, while Central and West remained the best regions with 4-5% YoY price declines.

Limited margin fall: Realisations of our coverage companies fell on average by ~8% YoY. However, it recovered by ~2% QoQ. With limited negative cost headwinds the margins drop was limited to an average of 375bps for the coverage companies at ~16%. Efficiently-driven companies like ACEM and UTCEM fared better than the industry decline, while the fall was sharper for SRCM, ACC and DALBHARA.

EBITDA/t recovers from lows of Q2, still lower than the higher base YoY: We estimate EBITDA/tonne at ~Rs 814 a strong recovery from the Q2FY25 weakness of ~Rs 690 owing to better cost efficiencies and partially due to late price recovery (for large size companies). However, the EBITDA/t remains lower than the YoY levels. UTCEM, ACEM, SRCM and STRCEM stayed above the industry average, while companies in oversupply region like JKLC, DALBHARA and TRCL stayed below the industry average.

Supply flow from new M&A yet to impact industry: Adani Cement's acquisition of Penna Cement and UTCEM's acquisition of India Cement are yet to be reflected in the incremental cement supply but expected to add from 4QFY25/FY26.

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Yet another strong quarter

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- **Domestic sales growth for our coverage companies to grow by 10.9%, led by new product launches, surpassing IPM growth of ~7%**
- **US sales growth for our coverage companies to grow by 9.6% driven by niche, specialty and complex new product launches**

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All-round growth in 3QFY25E: We expect sales for our coverage companies to grow by 9.5% YoY, driven by 10.9% growth in the domestic region and 9.6% growth in the US region. We expect EBITDA growth of 7.4% YoY and 4.1% QoQ to be driven by healthy product mixes, EBITDA margins to increase by 60bps YoY and 21bps QoQ to 24.7%, and PAT growth of 9.1% YoY for our coverage companies. We expect DIVI to post strong yearly growth of 24.2%, followed by DRRD with yearly growth of 16%.

Chronic sales to drive domestic growth: We expect domestic sales for our coverage companies to grow by 10.9% YoY against IPM growth of 7% driven by (1) seasonality in the acute segment, (2) value growth, (3) new product launches, (4) increase in medical representative productivity, (5) pick-up in trade generics, and (6) steady traction in the chronic segment. From our coverage companies, we believe domestic sales for DRRD to be highest at 16% followed by LPC at 15%.

US sales growth to be driven by niche launches: We expect US sales for our coverage companies to grow by 9.6% YoY and -2.1 % QoQ and driven by (1) new launches in specialty and complex products and (2) easing of price erosion in generics. From our coverage companies, we expect SUNP to report 20% growth in the US driven by Ilumya sales in the specialty segment followed by 15% for DRRD. We expect US sales to decline for ALKEM by 8% due to lack of new product launches.

Margins continue to expand due to healthy product mix: We expect margins of our coverage companies to expand by 60bps YoY and 21bps QoQ to 24.7% driven by a healthy product mix. We expect ERIS to report 36% EBITDA margin due to its heavy chronic portfolio, followed by DIVI with 30%. We expect LAURUS to report 15.2% EBITDA margin due to operating deleverage.

Our preferred picks: We prefer LPC with BUY due to its healthy US sales of complex generics and attribute a SELL to AJP due to its concentrated portfolio and lack of innovation.

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