FIRST LIGHT

16 April 2025

RESEARCH

BOB ECONOMICS RESEARCH | CPI

Inflation: A sigh of relief amidst turmoil

BOB ECONOMICS RESEARCH | WPI

WPI inflation higher in FY25

ICICI PRUDENTIAL LIFE | TARGET: Rs 674 | +19% | BUY

APE declines, margin expands

BUILDING MATERIALS

Margin to remain under pressure on negative trade flow

CONSUMER STAPLES | Q4FY25 PREVIEW

Rural demand and pricing are key monitorable

SUMMARY

INDIA ECONOMICS: CPI

Food driven respite again provided CPI the desired band of comfort. The major correction continued from the trajectory of vegetable inflation. In Apr'25 as well, high frequency price data is showing softening albeit at a softer pace. Our in-house BoB ECI is running at 0.2%. Going forward, the outlook on food inflation seems favourable from better Kharif production in place and Rabi statistics. Apart from these, better arrivals from TOP vegetables (tomato, onion and potato) also hint at softer inflation going forward. Commodity price cycle is also in favour. So is wholesale inflation, which shows less scope of pass-through to consumers from producers. However, some upside risks cannot be ruled in totality.

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INDIA ECONOMICS: WPI

WPI inflation in Mar'25 rose by 2% from 0.3% in Mar'24. In FY25, WPI averaged 2.3% compared with (-) 0.7% in FY24. In comparison with Mar'24, food inflation in Mar'25 was broadly stable, while fuel and manufactured product inflation inched up. Full year inflation data shows that food inflation averaged at 7.3% in FY25 (3.2% in FY24), fuel inflation at (-) 1.3% (-4.6%), manufactured product inflation at 1.7% (-1.7%), and core inflation at 0.7% (-1.4%). In Mar'25, within food, inflation index for vegetable, milk, cereals and spices and condiments eased, while for fruits it noted some upward pressure compared with last year. Wheat prices also remain elevated.

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ICICI PRUDENTIAL LIFE

- APE declines 3% YoY Q4FY25 vs our expectation of moderate growth, grew 15% YoY in FY25
- VNB margin expands in Q4FY25, contracts ~180bps in FY25 led by higher ULIPs share
- Maintain BUY with TP of Rs 674, 1.6x its FY27E P/EV, on stable performance in future

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BUILDING MATERIALS

- Domestic tiles realisation to remain under pressure in near future due to continued weak tiles exports (-10.3% MoM in Jan'25)
- Laminates net exports volume run rate was down 5.6% MoM in Jan'25 on weakening global economy
- MDF/particleboard net imports saw a steep 117% MoM/47% MoM rise in Jan'25, given the rising imports from South-East Asian countries

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CONSUMER STAPLES: Q4FY25 PREVIEW

- Sales improve sequentially, but on inflation-driven pricing. Subdued vol. due to elasticity on new pricing+full quarter impact of carryover pricing
- March'25 volume trends in rural and exit run rate on pricing will be key for the FY26 outlook on sales and margins
- Easing food inflation, lower interest rates and rising income/demand on tax restructuring are positives, but inflation is a concern until 1QFY26

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CPI

15 April 2025

Inflation: A sigh of relief amidst turmoil

Dipanwita Mazumdar
Economist

Food driven respite again provided CPI the desired band of comfort. The major correction continued from the trajectory of vegetable inflation. In Apr'25 as well, high frequency price data is showing softening albeit at a softer pace. Our in-house BoB ECI is running at 0.2%. Going forward, the outlook on food inflation seems favourable from better Kharif production in place and Rabi statistics. Apart from these, better arrivals from TOP vegetables (tomato, onion and potato) also hint at softer inflation going forward. Commodity price cycle is also in favour. So is wholesale inflation, which shows less scope of pass-through to consumers from producers. However, some upside risks cannot be ruled in totality.

On the domestic front, heatwave conditions need to be monitored closely. Apart from this, risk of imported inflation from a stringent tariff policy globally, also persists, albeit much less risk to CPI. Thus, we believe the current fiscal number which has come below RBI's forecast gives more flexibility for a softer policy, going ahead.

Food continued to pull down headline

CPI reached its lowest since Aug'19: CPI inflation softened significantly to 3.3% in Mar'25, on YoY basis compared to 4.9% inflation seen in Mar'24. With this, the FY25 average inflation stands at 4.6%, lower than RBI's forecast of 4.8%. So, let's understand the underlying dynamics.

For Mar'25, the sharp downward correction came in from food inflation. The consumer food price index moderated to its lowest since Nov'21 to 2.7% in Mar'25 compared to 8.5% in Mar'24. 6 out of 12 broad categories of food showed softening. Among them, the major comfort came from vegetable inflation which went into a sharp deflation territory declining by -7% in Mar'25 compared to 28.3% in Mar'24. For the second successive month in a row, vegetable inflation is in a deflation territory. Other than vegetables, inflation in the pulses category has seen considerable loss of momentum. It also went into deflation of -2.7% in Mar'25, mirroring the same second month in a row trend as vegetable inflation. Better production coupled with government's efforts of addressing supply side bottlenecks have resulted in the same. Protein based items also witnessed significant moderation in inflation as the fear of bird flu in few pockets may have contributed towards the same. Cereal prices remained comfortable, softening to 5.9% in Mar'25, led by favourable international prices. Needless to mention, there are some items where some stickiness in inflation still prevails such as edible oils (double digit inflation since past 4 months).

WPI

15 April 2025

WPI inflation higher in FY25

Sonal Badhan
Economist

WPI inflation in Mar'25 rose by 2% from 0.3% in Mar'24. In FY25, WPI averaged 2.3% compared with (-) 0.7% in FY24 . In comparison with Mar'24, food inflation in Mar'25 was broadly stable, while fuel and manufactured product inflation inched up. Full year inflation data shows that food inflation averaged at 7.3% in FY25 (3.2% in FY24), fuel inflation at (-) 1.3% (-4.6%), manufactured product inflation at 1.7% (-1.7%), and core inflation at 0.7% (-1.4%). In Mar'25, within food, inflation index for vegetable, milk, cereals and spices and condiments eased, while for fruits it noted some upward pressure compared with last year. Wheat prices also remain elevated.

Within fuel, electricity index accelerated the most, while mineral oil index declined at a slower pace, even as international oil prices fell, thus reflecting the impact of pressure on domestic currency. Within manufactured products, textiles, basic metals (aluminium, copper, zinc and lead), equipment (electrical/ transport), chemicals and pharmaceuticals led inflation higher. Going forward, as trade war deepens further, global growth prospects remain weak. This will exert downward pressure on oil and other commodity prices, which in turn will be positive for WPI inflation.

Food inflation broadly steady:

Headline WPI inflation was at 2% in Mar'25 (BoB est.: 2.9%) versus 0.3% in Mar'24 and 2.4% in Feb'25. Food inflation was broadly stable (4.7%) compared with last year (4.8%). Owing to higher base, vegetable inflation index fell by (-) 15.9% in Mar'25 following 20.1% rise in Mar'24. This was led by decline in index for potato, tomato, ginger, peas, etc. Onion price index also noted considerable easing in Mar'25 versus Mar'24. Index for spices and condiments too declined (-13.9% versus 21.0%), while that of milk moderated (1.4% versus 5.1%). Food grain inflation index was down in Mar'25 (3.9%) compared with last year (10.5%), due to decline in index for pulses (-3% versus 17.2%). Cereals have also noted some softening (5.5% versus 9%), led by paddy (3.9% versus 11.7%). In contrast, wheat prices remain elevated (8% versus 7.5%). Even inflation index for fruits remains high (20.8% versus -3.1%). Comparing cereal prices on a global level (World Bank's pink sheet) shows that domestic prices are following international trend. Paddy prices internationally have fallen from 29.2% in Mar'24 to (-) 32.3% in Mar'25, while decline in wheat prices has slowed from (-) 23.1% to (-) 4.1%.

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BUY
TP: Rs 674 | ▲ 19%

ICICI PRUDENTIAL LIFE | Insurance | 16 April 2025

APE declines, margin expands

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VNB growth moderated: IPRU's VNB grew moderate at 2.4% YoY to Rs 7.95bn in Q4FY25, below our estimate of Rs 8.1bn; while APE de-grew 3% YoY in Q4FY25, on a high base of 4QFY24. This was primarily driven by lower growth in ULIPs (de-grew 3% YoY in Q3FY25, up 42% in Q3FY25, up 40% YoY in Q2FY25) and annuity business during the quarter. VNB margin expanded by ~120bps YoY to 22.7%, aided by increase in the non-linked business growth. For FY25, APE witnessed a strong 15% YoY growth, on a lower base and VNB rose 6% YoY. We expect APE to grow at 13% CAGR in FY24-FY27E. VNB margin was at 22.8% vs 24.6% in FY24. Management reiterated to continue focusing on higher VNB growth leading to APE growth.

Non linked segment share increased: Non-linked share in the product mix increased to 28.6% in Q4FY25 vs16.3% in Q3FY25. Share of linked business declined to 43.4% vs 49.2% in Q3FY25. Group funds share, too, declined to 7.2% vs 11% in Q3FY25.

Bancassurance growth comes off: APE from bancassurance moderated to 7% YoY (vs 19% YoY growth in Q3FY25), owing to the company's focus on its proprietary channels- agency and direct channels. Both the agency and direct channels increased 27% YoY and 20% YoY, constituting 27% and 13% of the distribution mix respectively. ICICI Bank contributed approximately 14–15% to the company's APE in FY25.

Maintain BUY on IPRU: For IPRU, APE outpaced the industry growth in FY25, driven by broad-based growth among distribution channels, as the company continues to invest in distribution with the launch of industry-first innovative products. With respect to margins, it is expected to stabilise, as the ULIP share is likely to decline, given the moderation in market buoyancy in future, coupled with large potential headroom for non-par products to provide tailwinds. Hence, we maintain BUY on IPRU with TP of Rs 674 (earlier Rs 662), implying 1.6x its FY27E P/EV.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	IPRU IN/Rs 567
Market cap	US$ 9.5bn
Free float	27%
3M ADV	US$ 9.9mn
52wk high/low	Rs 797/Rs 515
Promoter/FPI/DII	73%/15%/7%

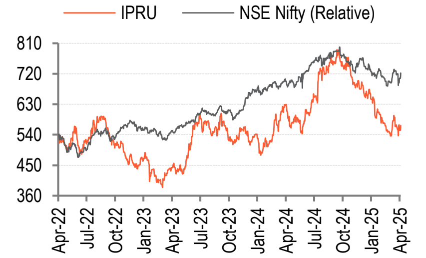
Source: NSE | Price as of 15 Apr 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NBP (Rs mn)	2,32,306	2,30,511	2,52,410
APE (Rs mn)	1,04,070	1,17,287	1,32,769
VNB (Rs mn)	23,700	27,445	31,732
Embedded Value (Rs mn)	4,79,510	5,45,888	6,22,060
VNB margin (%)	22.8	23.4	23.9
EVPS (Rs)	333.0	379.4	432.8
EPS (Rs)	8.3	9.5	13.2
Consensus EPS (Rs)	-	-	-
P/EV (x)	1.7	1.5	1.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUILDING MATERIALS

15 April 2025

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Key takeaways from the Ministry of Commerce trade statistics for the building materials (BM) sector, for the month of Jan'25:

Tiles: India's monthly net exports value run rate remained weak in Jan'25 (-10.3% MoM to Rs 15.2bn). We believe domestic tiles realisation is likely to remain under pressure until we see a sharp recovery in exports. Going ahead, Indian tiles exports may remain weak due to the impact of Trump tariff in the form of lower exports to US market (forms 8% of Indian tiles exports) and slowdown in global demand (forms 24% of the Indian tiles industry).

Laminates: India's laminates monthly net export volume run rate was down 2.3% YoY/ 5.6% MoM in Jan'25, due to weak global demand. Going ahead, Indian laminates exports may remain weak due to the impact of Trump tariff in the form of lower exports to US market (forms 4% of Indian laminates exports) and slowdown in global demand (forms 26% of Indian laminates industry).

MDF: India's MDF monthly net import volume run rate has gone up sharply 117% MoM to 18,815 CBM in Jan'25, owing to higher imports (+38.9%) and weak exports (-15.8%). Going forward, we believe imports pressure is likely to persist, given the imposition of high tariff by the US across the South-East Asian countries (Vietnam: 46%; Thailand: 36%; Indonesia: 32%; Malaysia: 24%). We believe pricing power in the sector is likely to stay weak in near-future, due to cheap import pressure from South-East Asian countries and supply side pressure in the domestic market.

Particleboard: India's particleboard monthly net import volume run rate saw a steep increase (+47.1% YoY in Jan'25). Particleboard sector margin is likely to stay weak over the medium term, on account of cheap imports pressure and large capacity additions (by Merino, GRLM, CPBI) in H2FY25 and high timber prices.

CONSUMER STAPLES | Q4FY25 Preview | 15 April 2025

Rural demand and pricing are key monitorable

- **Sales improve sequentially, but on inflation-driven pricing. Subdued vol. due to elasticity on new pricing+full quarter impact of carryover pricing**
- **March'25 volume trends in rural and exit run rate on pricing will be key for the FY26 outlook on sales and margins**
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4QFY25 summary: Sales trends likely improved sequentially, but on inflation-driven pricing. We see some downside risk to sequential volume trends on elasticity, due to new pricing and the full quarter impact of carryover pricing, partly offset by continued demand recovery in rural. EBITDA growth will lag sales growth on inflation in palm oil, wheat, coffee, tea, etc., which impacted gross margin percentage. The FMCG majors are rightly focused on restoring rupee margins given the high magnitude of inflation. Operating spending cuts will be a partial offset to commodity headwinds.

Key focus areas: (1) Sequential trends in rural / urban demand – Pace of acceleration in rural will be key for BRIT, MRCO, DABUR and HUL. While there may be commentary on demand pickup in urban by companies reporting in May, it would be too short a period to gauge a sustainable rate. **(2) Exit run rate on pricing –** Dec'24 quarter pricing by FMCG majors was insufficient to offset inflation. On our estimates, the lag effect led to quarterly inflation being higher in Mar'25 vs Dec'24. While additional pricing is taken across FMCG companies, timing varied. March 2025 exit run rate is key for the FY26 margin outlook. **(3) Outlook on commodities** – Inflation trends are mixed, with tea, coffee and sugar remaining elevated while palm, cocoa and wheat showing signs of tapering off. Relevant for the sector especially GCPL, TATACONS, BRIT, NESTLE and MRCO.

Our view: Rural indicators are favourable on easing CPI trend, agri output growth, and higher MSPs. Overall lower food inflation, potential urban demand boost from tax restructuring, and lower interest rates will result in a pickup in the overall FMCG demand and earnings trajectory for FY26E. However, we are cautious in the intermediate term, considering the inflation-driven pricing/volume elasticity dynamic.

4QFY25e	BOB EBITDA - YoY	Cons.* EBITDA - YoY	Date	Estimated / confirmed
HUVR	1%	0%	24-Apr-25	Confirmed
NEST	4%	-6%	24-Apr-25	Confirmed
TATACONS	2%	3%	28-Apr-25	Estimated
MRCO	3%	4%	02-May-25	Confirmed
DABUR	-10%	-2%	06-May-25	Confirmed
GCPL	-2%	-2%	07-May-25	Confirmed
BRIT	-11%	-4%	07-May-24	Estimated
ITC	-1%	-6%	07-May-25	Estimated

Sources: *Bloomberg, BoB Research

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Note: Recommendation structure changed with effect from 21 June 2021

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