FIRST LIGHT

16 August 2024

RESEARCH

BOB ECONOMICS RESEARCH | TRADE

India's Foreign Trade: FYTD25

BOB ECONOMICS RESEARCH | WPI

WPI inflation eases

HERO MOTOCORP | TARGET: Rs 5,245 | +3% | HOLD

Gaining momentum; pace likely to accelerate. Maintain HOLD

MARICO | TARGET: Rs 532 | -18% | SELL

Back in play, but exposure is high and cash remains stuck. Sell

SUMMARY

INDIA ECONOMICS: TRADE

India's merchandise trade deficit was higher, as imports have risen at a sharper pace than exports (both on sequential and cumulative basis). The sequential increase in imports is attributable to non-oil non-gold imports, signaling resilient domestic demand. However, the cumulative picture gives a better picture. The increase in imports on a cumulative basis is led by oil imports, as prices have increased during the same period and Apr-Jun data also suggests lower discount from Russia. Going forward, we expect some correction in the trade deficit as some revival in the export cycle cannot be ruled out. Easier monetary conditions are expected to boost demand conditions globally.

Click here for the full report.

INDIA ECONOMICS: WPI

WPI inflation moderates to a 3-month low of 2% in Jul'24 compared with 3.4% in Jun'24, supported by softening of both food and fuel & power inflation. Our forecast for headline WPI inflation was 2.2%. A sharp drop in tomato prices dragged down the vegetables prices and resulted in deflation in Jul'24. Despite this, prices of potato continued to accelerate further. For cereal inflation both paddy and wheat continue to register an uptick. Fuel and power inflation surged to 1.7%, despite a dip in global oil prices. Manufactured products inflation edged up to 1.6% in Jul'24 from 1.4% in Jun'24.

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BOBCAPS Research
research@bobcaps.in

HERO MOTOCORP

- Q1 revenue grew by ~16% YoY to Rs 101.4bn, driven by strong volume gains of ~14% YoY and realisations gains of 2% YoY
- EBITDA margin grew 60bps YoY (flat QoQ) to 14.4% in Q1FY25, driven by operating leverage, mix improvement and pricing
- Raise TP to Rs 5,245 on revised FY26 earnings, introduce FY27 estimates and increase multiple to 17x for core business. Retain HOLD

Click here for the full report.

MARICO

- Marico Bangladesh (MB) facility has resumed operations at its usual run rate. Bulk of the sales and distribution team is back to work
- 64% of MB's FY24 assets were in cash/cash equivalents. Dividend payout has declined from 100+% run rate in FY15-FY20 to 14% in FY24
- We retain SELL on Marico given its high exposure and continued uncertainty on FX repatriation from Bangladesh

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TRADE

14 August 2024

India’s Foreign Trade: FYTD25

Dipanwita Mazumdar
Economist

India’s merchandise trade deficit was higher, as imports have risen at a sharper pace than exports (both on sequential and cumulative basis). The sequential increase in imports is attributable to non-oil non-gold imports, signaling resilient domestic demand. However, the cumulative picture gives a better picture. The increase in imports on a cumulative basis is led by oil imports, as prices have increased during the same period and Apr-Jun data also suggests lower discount from Russia. Going forward, we expect some correction in the trade deficit as some revival in the export cycle cannot be ruled out. Easier monetary conditions are expected to boost demand conditions globally.

On capital account as well, comfort is already seen in FDI and FII flows. A favourable interest rate differential for India and comparatively better growth dynamics than major EMs will help in maintaining a stable external position. Overall, we expect CAD to be in the range of 1-1.5% in FY25. INR will remain rangebound and with Fed’s rate cut cycle, some appreciation bias will prevail.

Trade performance in Jul’24: India’s trade deficit widened to US$ 23.5bn in Jul’24 from US$ 19 bn in Jun’24. This inflated deficit is attributable to faster pace of increase in imports which grew by 7.5% in Jul’24, on YoY basis to US$ 57bn. The increase in imports is led by non-oil non-gold components, which signals recovery in domestic demand. However, on a seasonally adjusted (SA basis), sequential increase of imports is much lesser at 1%. Exports on the other hand, fell by 1.5% to US$ 34bn, albeit a lower base. Even on a SA basis, fall in exports is sharper at -2.7%.

Trade performance in FYTD25: Exports improved by 4.1% in Apr-Jul compared with a decline of 13.1% in same period of previous year. In terms of commodity wise exports, improvement was led by oil exports, mainly a price driven phenomenon. Even agriculture exports witnessed momentum, led by tobacco, coffee, tea and protein-based items. Higher inflationary pressure in cereals has kept a lid on exports of cereals. Textile exports also picked pace and is likely to witness further growth in the coming days as some political unrest in Bangladesh may lead to some shift.

Outlook: The current run rate of merchandise trade deficit in FYTD25 is higher at US$ 85.6bn compared to US$ 75.1bn in the same period of last year. If the same run rate is maintained for the remaining half of the year, there would be some upside risk. However, going ahead, some correction might be witnessed. Export cycle is expected to revive as Fed hints at embarking on its rate cut cycle in Sep’24.

WPI

14 August 2024

WPI inflation eases

Jahnavi Prabhakar
Economist

WPI inflation moderates to a 3-month low of 2% in Jul'24 compared with 3.4% in Jun'24, supported by softening of both food and fuel & power inflation. Our forecast for headline WPI inflation was 2.2%. A sharp drop in tomato prices dragged down the vegetables prices and resulted in deflation in Jul'24. Despite this, prices of potato continued to accelerate further. For cereal inflation both paddy and wheat continue to register an uptick. Fuel and power inflation surged to 1.7%, despite a dip in global oil prices. Manufactured products inflation edged up to 1.6% in Jul'24 from 1.4% in Jun'24.

Against this back drop, we expect WPI to ease in the coming months. So far, the kharif acreage has been better than last year and monsoon has been well distributed and 5% above LPA (1 Jun-13 Aug). Given the gradual transition from El Nino to La Nina is favourable for South West monsoon, it remains positive for the food inflation.

Food inflation cools off:

Headline WPI inflation eased down to 2% in Jul'24 from 3.4% in Jun'24, marginally lower than our estimate of a 2.2% increase. The moderation was driven by lower food inflation which softened to a 9-month low of 3.6% compared with 8.7% in Jul'24 supported by favourable base. Vegetable inflation slipped in to contraction, down to 9-month low of (-) 8.9% versus 38.8% in Jun'24. Within vegetables, tomato prices fell sharply, registering a deflation at (-) 39.6% compared with an increase of 57.8% in Jun'24. Onion prices registered some moderation at 88.8% (93.4% in Jun'24). Additionally, cereal inflation slowed down marginally to 9% (9.3% in Jun'24) led by slower pace of increase in paddy (11% versus 12.1% in Jun'24). However, wheat prices inched up to 7% (6.2% in Jun'24). Notably, global wheat prices have fallen sharply due to greater availability. On the other hand, pulses inflation eased down to 3-month low of 20.3% (21.6% in Jun'24) given the higher sown area of pulses. Moreover, higher prices of fruit (15.6% versus 10.1%) and milk (4.6% versus 3.4%) has also been noted for Jul'24. Prices of egg, meat and fish has declined at a much slower pace at (-) 1.6% in Jul'24 (-3.1% in Jun'24).

Fuel and power inflation:

Fuel and power inflation surged to 16-month high to 1.7% in Jul'24 from 1.0% in Jun'24, led by a spike in mineral oils index. The increase in the mineral oil index (3.7% versus 1.9%) was on account of higher price index of Naptha, bitumen and LPG index (6.1% from 1.5%).

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HOLD
TP: Rs 5,245 | ▲ 3%

HERO MOTOCORP | Automobiles | 15 August 2024

Gaining momentum; pace likely to accelerate. Maintain HOLD

- **Q1 revenue grew by ~16% YoY to Rs 101.4bn, driven by strong volume gains of ~14% YoY and realisations gains of 2% YoY**
- **EBITDA margin grew 60bps YoY (flat QoQ) to 14.4% in Q1FY25, driven by operating leverage, mix improvement and pricing**
- **Raise TP to Rs 5,245 on revised FY26 earnings, introduce FY27 estimates and increase multiple to 17x for core business. Retain HOLD**

Milind Raginwar
research@bobcaps.in

Volumes surge, realisations support mid-teen revenue growth: HMCL's Q1FY25 revenue grew 15.7% YoY (6.6% QoQ) to Rs 101.4bn, driven by volume gains which saw double-digit growth of 13.5%/10.3% YoY/QoQ to 1.54mn units and was supported by 2% YoY (-3.3% QoQ) realisation (per vehicle) gains of Rs 66k. HMCL sold 10k units for electric vehicle with revenue of Rs 1.25bn in Q1FY25.

Operating leverage and pricing drive margin expansion: Raw material cost (RM) adjusted for inventory rose 13% YoY (7% QoQ) to Rs 68.26bn. However, RM cost as a percentage of sales fell to 67.7% of sales from 69.4% in Q1FY24 (66.4% in Q4FY24). Gross margin grew 170bps YoY (-130bps QoQ) to 32.3%. Contribution of spares in revenue during Q1FY25 was 12.5% vs 14.7% in Q4FY24, which led to a dip in gross margin QoQ. Other expenses climbed 34.3%/1.4% YoY/QoQ to Rs 12.1bn due to technology-related expenses. EBITDA rose 21% YoY (7.4% QoQ) to Rs 14.5bn and EBITDA margin added 60bps/10bps YoY/QoQ to 14.4% due to operating leverage, better mix and pricing. APAT grew by 36.1%/10.5% YoY/QoQ to Rs 11.2bn.

Portfolio expansion: HMCL is raising Xtreme platform's capacity from 25k/month to 40k/month in the short term. Management expects to unveil Destiny scooter in 2QFY25, followed by the Zoom series with 110cc, 125cc and 163cc. It is expanding its portfolio into the mid and affordable EV segments in FY25 and is focused on building its premium portfolio with new launches, improved retail experience, and brand building efforts besides launching a couple of new models in FY25.

Maintain HOLD: Factoring in the healthy performance, rural recovery and premium segment focus, we raise our FY26 EBITDA/PAT estimates for HMCL by 2%/1%, leaving FY25 estimates unchanged despite a challenging H1. We introduce FY27 earnings with a 3-year Revenue/EBITDA/PAT CAGR of 17%/17%/15%. We now assign 18x (17x) target P/E to core operations, in line with the 10-year average 1-year forward earnings, and raise the SOTP-based TP to Rs 5,245 (from Rs 4,776), which includes Rs 130/sh as the value of other businesses. We believe current valuations bake in the positives, with limited upside. We retain our HOLD rating.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	HMCL IN/Rs 5,072
Market cap	US$ 12.1bn
Free float	65%
3M ADV	US$ 45.2mn
52wk high/low	Rs 5,895/Rs 2,890
Promoter/FPI/DII	35%/30%/24%

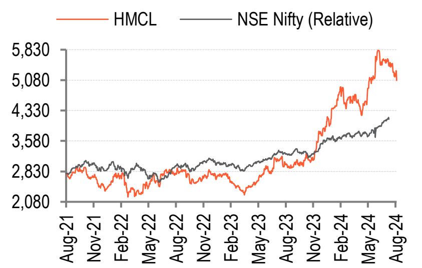
Source: NSE | Price as of 14 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	3,74,557	4,62,228	5,32,497
EBITDA (Rs mn)	52,557	63,835	73,811
Adj. net profit (Rs mn)	38,079	47,126	53,856
Adj. EPS (Rs)	190.7	236.0	269.7
Consensus EPS (Rs)	206.7	237.0	269.0
Adj. ROAE (%)	21.2	23.4	23.7
Adj. P/E (x)	26.6	21.5	18.8
EV/EBITDA (x)	19.2	15.8	13.7
Adj. EPS growth (%)	30.8	23.8	14.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

SELL
TP: Rs 532 | ∀ 18%

MARICO | Consumer Staples | 15 August 2024

Back in play, but exposure is high and cash remains stuck. Sell

- **Marico Bangladesh (MB) facility has resumed operations at its usual run rate. Bulk of the sales and distribution team is back to work**
- **64% of MB's FY24 assets were in cash/cash equivalents. Dividend payout has declined from 100+% run rate in FY15-FY20 to 14% in FY24**
- **We retain SELL on Marico given its high exposure and continued uncertainty on FX repatriation from Bangladesh**

Lokesh Gusain
research@bobcaps.in

Uncertainty amidst high cash exposure: While the Bangladesh situation is gradually improving, full operational recovery will take time. Despite high sales, EBITDA and asset contribution to consolidated, dividend payout ratio has decreased for MB. The cash repatriation status continues to deteriorate and warrants a cautious stance. Refer page 2 for FY20-FY24 trend on multiple metrics.

Gradual return to normal: MB's manufacturing operations have resumed at their usual scale with the bulk of sales force and distributors also back to work.

No clarity on FX repatriation status: While general conditions in Bangladesh are sequentially better than the events over 5-7 Jul'24, there is no clarity yet on FX repatriation. Given the unfavourable balance of payment situation, high inflation, a volatile currency, and change in political regime, we remain cautious.

What is at stake as of FY24? As a percentage of consolidated, MB accounted for 11% of sales and 22% of EBITDA. Of MB's total assets, cash and equivalents accounted for 64%. This is 11% of consolidated total assets. See page 3 in our **downgrade note** for financials and EBITDA sensitivity to the Bangladesh situation.

How has dividend payout trended at Bangladesh vs Consolidated? The FX crisis in Bangladesh had an adverse impact on MB's dividend payout – a decline from 100+% in FY15-FY20 to 61% in FY23 and 14% in FY24. We do not see the situation changing given the current level of uncertainty.

Our view on business in India: Project SETU is a great positive for Marico. There is potential for share, mix, and margin improvement. However, in the transitory phase, sales will remain volatile with inventory adjustments through the duration of the project. Lack of clarity on the pace, and milestones/timeline for project SETU restricts visibility on volume performance. This is uncharacteristic of a typical FMCG company, where investors seek stability/reliability in sales and earnings.

Our view and valuation: Our TP of Rs 532 is based on a 38x P/E 12M to Jun'26. We continue to use the P/E rel method with a 15% discount to historical average given high exposure to Bangladesh combined with uncertainty and potential risk on cash repatriation. Retain SELL.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	MRCO IN/Rs 650
Market cap	US$ 10.0bn
Free float	40%
3M ADV	US$ 22.6mn
52wk high/low	Rs 691/Rs 486
Promoter/FPI/DII	59%/25%/16%

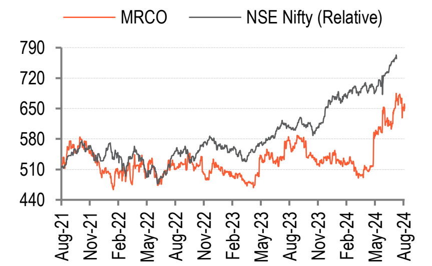
Source: NSE | Price as of 14 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	96,530	107,206	117,657
EBITDA (Rs mn)	20,260	22,548	24,304
Adj. net profit (Rs mn)	14,810	16,170	17,593
Adj. EPS (Rs)	11.5	12.5	13.6
Consensus EPS (Rs)	11.5	11.9	13.5
Adj. ROAE (%)	36.5	36.8	36.3
Adj. P/E (x)	56.6	51.9	47.7
EV/EBITDA (x)	41.4	37.2	34.5
Adj. EPS growth (%)	13.7	9.2	8.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
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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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