

RESEARCH**BOB ECONOMICS RESEARCH | CURRENCY UPDATE**

Fortnightly forex review

BOB ECONOMICS RESEARCH | WPI

WPI inflation eases to 4-month low

BUILDING MATERIALS

Indian MDF industry: Not out of the woods

SUMMARY**INDIA ECONOMICS: CURRENCY UPDATE**

INR was broadly stable as it was down by only 0.03% in the first fortnight of Sep'24, following 0.2% decline in Aug'24, to currently trade at 83.90/\$, bouncing back from its lifetime low of 83.98/\$. In the 1st week of Sep'24, US\$ dollar fell more sharply than in the 2nd week. US macro data is providing a mixed picture of the economy, with headline CPI tracking the expected path, but core CPI springing an upside surprise. Labour market is also so far signalling a moderate slowdown. This has kept the investors guessing the quantum of Fed rate cut in the meeting later this week. Towards the end of the fortnight, market participants revived their bets on a supersized rate cut (50bps) by Fed in Sep'24, thus leading to revival in weakness of US\$.

[Click here](#) for the full report.

INDIA ECONOMICS: WPI

WPI inflation moderates to a 4-month low of 1.3% in Aug'24 compared with 2% in Jul'24 supported by softening of both food and fuel & power inflation. Our forecast for headline WPI inflation was at 1.6%. Lower prices of both onion and tomato has dragged down the vegetables inflation. Under foodgrains, prices of pulses and paddy eased further. Fuel and power inflation slipped in to contraction at 0.7% amidst a dip in global oil prices. Manufactured products inflation edged down to 1.2% in Aug'24 from 1.6% in Jul'24. Against this back drop, we expect WPI to ease further in the coming months. Softening of global commodity prices bodes well for this outlook. So far, the kharif acreage has been better than last year and monsoon has been 8% above LPA (1 Jun-16 Sep).

[Click here](#) for the full report.

BOBCAPS Research
research@bobcaps.in



BUILDING MATERIALS

- MDF industry's margin pressure to persist over the next 4-6 quarters as industry to operate near trough level over FY25E-FY26E
- Pricing power in Indian MDF industry to come from FY27 with the gradual rise in the industry's operating rate
- MDF industry operating near the trough of the cycle, but we are still not positive due to near-term earnings risks and expensive valuations

[Click here](#) for the full report.

CURRENCY UPDATE

16 September 2024

Fortnightly forex review

INR was broadly stable as it was down by only 0.03% in the first fortnight of Sep'24, following 0.2% decline in Aug'24, to currently trade at 83.90/\$, bouncing back from its lifetime low of 83.98/\$. In the 1st week of Sep'24, US\$ dollar fell more sharply than in the 2nd week. US macro data is providing a mixed picture of the economy, with headline CPI tracking the expected path, but core CPI springing an upside surprise. Labour market is also so far signalling a moderate slowdown. This has kept the investors guessing the quantum of Fed rate cut in the meeting later this week. Towards the end of the fortnight, market participants revived their bets on a supersized rate cut (50bps) by Fed in Sep'24, thus leading to revival in weakness of US\$.

Sonal Badhan
Economist

As a result, INR traded in the range of 83.90-83.98/\$. Its performance was helped by robust FPI inflows (both equity and debt segment) and steep decline in oil prices (MoM basis). Continued dollar demand by importers offset any significant gains made by the currency. In the next fortnight, we expect movement in INR to remain range bound. Domestic currency is expected to benefit from renewed FPI inflows and weak oil prices. However, any hawkish surprise in the tone of Fed's policy statement may support the US\$. Further, any escalation in geo-political tensions in the Middle East will also impact oil prices and also increase the demand for safe haven currencies, thus adversely impacting INR. We thus expect INR to trade in the range of 83.8-83.9/\$.

Movement in global currencies in Sep'24

In the first fortnight of Sep'24, major global currencies continued to appreciate against the dollar. The movement in global currencies was led by ongoing weakness in dollar. DXY index, measuring the dollar's value against a basket of currencies was 0.6% lower in Sep'24 so far (till 13 Sep), following 2.3% decline in Aug'24. While DXY index fell by (-) 0.5% in the 1st week, it regained some ground in the early part of 2nd week but closed the week (-) 0.1% lower. This was due to revival in dollar weakness, as analysts expect that a possibility of 50bps rate cut by Fed in Sep'24 meeting still remains. Earlier in the month, US reported mixed macro data points. On one hand, headline CPI has come in line with market expectations (0.2% in Aug'24 unchanged from last month), initial jobless claims were seen rising (230k for week ending 7 Sep versus 228k), and non-farm payrolls rose (142k in Aug'24) much less than expected (165k). On the other hand, core CPI sprung a surprise and rose by 0.3% (est.: 0.2%) and even headline PPI inched up (0.2% versus 0.1%).



WPI

17 September 2024

WPI inflation eases to 4-month low

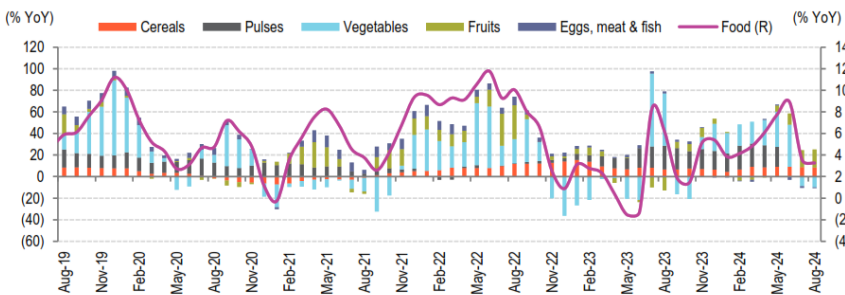
WPI inflation moderates to a 4-month low of 1.3% in Aug'24 compared with 2% in Jul'24 supported by softening of both food and fuel & power inflation. Our forecast for headline WPI inflation was at 1.6%. Lower prices of both onion and tomato has dragged down the vegetables inflation. Under foodgrains, prices of pulses and paddy eased further. Fuel and power inflation slipped in to contraction at 0.7% amidst a dip in global oil prices. Manufactured products inflation edged down to 1.2% in Aug'24 from 1.6% in Jul'24. Against this back drop, we expect WPI to ease further in the coming months. Softening of global commodity prices bodes well for this outlook. So far, the kharif acreage has been better than last year and monsoon has been 8% above LPA (1 Jun-16 Sep).

Jahnvi Prabhakar
Economist

Food inflation moderates:

Headline WPI inflation cooled off to 1.3% in Aug'24 from 2% in Jul'24, marginally lower than our estimate of a 1.6% increase. This was attributable to moderation in food inflation at 3.3% (10-month low) from 3.6% in Jul'24 supported by favourable base. Vegetable inflation contracted further in Aug'24, down (-) 10% versus (-) 8.9% in Jul'24. Within vegetables, onion prices decelerated further amidst excessive rainfall which was not spatially distributed. Tomato prices remained under deflation at (-) 52.6% compared with (-) 39.6% dip in Jul'24. Moreover, cereal inflation registered some moderation with paddy prices easing down to 9.1% (11% in Jul'24). While, domestic wheat prices inched up to a 5-month high to 7.3% in Aug'24 (7% in Jul'24), the global picture was tad different with lower global wheat prices amidst slower international demand and strong competition amongst exporters. Domestic price of pulses also edged down further in Aug'24 (18.6% from 20.3% in Jul'24). Additionally, other protein based items such as eggs and milk also registered lower prices at 5.7% (9.3% in Jul'24) and 3.5% (4.6% in Jul'24) in Aug'24 respectively.

Figure 1: Food inflation slows down



Source: CEIC, Bank of Baroda Research



BUILDING MATERIALS

17 September 2024

Indian MDF industry: Not out of the woods

- **MDF industry's margin pressure to persist over the next 4-6 quarters as industry to operate near trough level over FY25E-FY26E**
- **Pricing power in Indian MDF industry to come from FY27 with the gradual rise in the industry's operating rate**
- **MDF industry operating near the trough of the cycle, but we are still not positive due to near-term earnings risks and expensive valuations**

Utkarsh Nopany
 research@bobcaps.in

MDF industry's position in the current cycle: We believe India's MDF industry is currently operating near the trough of the cycle as the industry's EBITDA per unit has fallen (Rs 2,997/CBM in Q1FY25) well below the 10Y historical average of Rs 5,274/CBM and near the trough level seen in FY19 (Rs 2,808/CBM). EBITDA per unit of the top 4-listed MDF players fell sharply from Rs 9,465/CBM in Q4FY22 to Rs 2,997/CBM in Q1FY25 due to significant capacity addition in the domestic market (from 2.0mn CBM in FY22 to 4.1mn CBM in FY25E), rising imports pressure from the South-East Asian market as a result of weak demand from the US/EU, and steep increase in timber prices.

India's MDF industry margin to remain weak for the next 4-6 quarters: We believe (a) the industry's operating rate over the next two years (FY25E-FY26E) will remain near that of the previous bear cycle (68% in FY19), and (b) timber prices will stay elevated due to a steep increase in wood demand with the anticipated ramp up of new MDF/particleboard capacity. However, we believe the MDF industry's margin is likely to return to the normal level gradually by FY27 in anticipation of the industry's operating rate improving from 66% in Q1FY25 to 80% in FY27E. In our supply-demand model, we have assumed India's MDF demand will grow at 15% over FY24-FY27E and the import share to fall (from 25% in FY24 to 20% in FY27).

Why we are still not positive on Indian MDF industry: We see risks to earnings in the near future and expensive valuations. We see downside risk to our estimates as we have assumed a gradual recovery in EBITDA per unit from Rs 2,997/CBM in Q1FY25 to Rs 5,217/CBM in FY26E (near the 10Y historical average – despite the industry's expectation that it will operate near the trough utilisation level). We expect the MDF EBITDA per unit of our coverage universe to improve further to Rs 6,358/CBM in FY27E, which is well above the 10Y historical average level, in anticipation of an improvement in the industry operating rate to around 80%. Our MDF-based wood panel universe is trading at 42.1x on 1Y forward P/E vs 5Y average multiple of 28.1x.

Valuation Snapshot

P/E (x)	FY25E	FY26E	FY27E	5Y avg
CPBI IN	58.7	45.9	33.5	31.8
GREENP IN	42.5	24.2	15.4	21.5
GRLM IN	54.3	36.5	27.8	33.9
MTLM IN	38.0	25.3	20.1	22.9

Source: BOBCAPS Research



NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA (“US”) OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

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

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**

Logo:  **BOBCAPS**
 TRUST | INNOVATION | EXCELLENCE

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "Losses") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd ("MSL") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as "MAYBANK"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.