FIRST LIGHT

19 February 2024

RESEARCH

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How lifestyle inflation rate has moved

BOB ECONOMICS RESEARCH | TRADE

Foreign Trade (April-January)

AUTOMOBILES | Q3FY24 REVIEW

Healthy volumes on strong PV sales, 2W revival

IRM ENERGY | NOT RATED

Management meet takeaways: Volume growth potential

Daily macro indicators

Indicator	14-Feb	15-Feb	Chg (%)
US 10Y yield (%)	4.26	4.23	(3bps)
India 10Y yield (%)	7.11	7.09	(2bps)
USD/INR	83.03	83.04	0.0
Brent Crude (US$/bbl)	81.6	82.9	1.5
Dow	38,424	38,773	0.9
Hang Seng	15,879	15,945	0.4
Sensex	71,823	72,050	0.3
India FII (US$ mn)	**13-Feb**	**14-Feb**	**Chg ($ mn)**
FII-D	83.3	(13.7)	(97.0)
FII-E	28.1	(316.3)	(344.5)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: LIFESTYLE INFLATION INDEX

In the age of growing consumerism, rising aspirations of middle class and higher share of working age group population, lifestyle products (goods and services) have become progressively important. It is generally felt that inflation for these products may not really have a sharp impact on consumption as people who migrate to consuming more of these products could become less price sensitive. This is supported by the recent development of premium products selling well as a time when other basic products have uneven demand. The purpose here is to examine how inflation for lifestyle products has moved. For this purpose a carved out approach has been followed where certain items from disaggregated CPI data have been used and an index has been constructed for the same, connoted as the 'lifestyle inflation index' (LII).

Click here for the full report.

INDIA ECONOMICS: TRADE

India's merchandise trade deficit narrowed to US$ 205.5 in FYTD24 (Apr-Jan) from US$ 229.4bn in the same period last year. On FYTD basis, exports have fallen by 4.9% and imports are down by 7%. Weaker oil prices have impacted both imports and exports of oil. Apart from this, export of gems & jewellery and chemicals has also dragged the overall export growth down. On the import side, apart from oil, non-oil-non-gold imports have been weak. Within this, capital goods, chemicals and coal imports have led the way. On the other hand, gold and electronic imports have picked up pace. Net services balance has improved in FYTD24, led by increase in export receipts and dip in import payments. We expect this trend to continue in the coming months as well. We expect CAD to come in at ~1% in FY24.

Click here for the full report.

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AUTOMOBILES: Q3FY24 REVIEW

- Q3 volumes steered by PV sales and 2W recovery on the back of festive/ wedding season demand and rural pickup
- Raw material cost savings aided gross margins; realisation gains subpar due to festive discounts and year-end offers
- Post results, we raised MSIL and TVSL to BUY on an upbeat growth outlook and cut BJAUT to SELL post rally

Click here for the full report.

IRM ENERGY

- Potential to double volumes to close to 1mmscmd in FY25 and grow to 1.5mmscmd in FY27, as per management
- EBITDA revived 29% YoY in 9MFY24 with higher margins; acceleration in CNG volumes has largely offset setback in Punjab (FS) market
- Management sees mid-term drivers from return of FS industrial volumes, ramp-up of new GA, and sustained traction in existing areas

Click here for the full report.

LIFESTYLE INFLATION INDEX

16 February 2024

How lifestyle inflation rate has moved

Dipanwita Mazumdar
Economist

In the age of growing consumerism, rising aspirations of middle class and higher share of working age group population, lifestyle products (goods and services) have become progressively important. It is generally felt that inflation for these products may not really have a sharp impact on consumption as people who migrate to consuming more of these products could become less price sensitive. This is supported by the recent development of premium products selling well as a time when other basic products have uneven demand. The purpose here is to examine how inflation for lifestyle products has moved. For this purpose a carved out approach has been followed where certain items from disaggregated CPI data have been used and an index has been constructed for the same, connoted as the 'lifestyle inflation index' (LII).

The items chosen are based on what we see as lifestyle products within the entire basket of commodities. We are however unable to distinguish certain sub-category of items where differences in prices are high. For example under the 'mobile phones' category of CPI, all price range of products are included. Thus while interpreting the index, one needs to keep this limitation in mind.

Components and weights:

A total of 69 items has been chosen from a list of 300 disaggregated items of CPI for the construction of lifestyle inflation index. It has a weight of 18.8% in the overall CPI basket and ranges from lifestyle food products such as Millets, Jowar, Bajra to Chocolates, Biscuits, Dry fruits, major packaged meals and canned beverages, foreign liquor etc. Within the clothing and footwear criteria, it includes, Cloth for Coat, Trousers, Suit, Headwear, Belts, Ties, Leather Boots. Most of the items of LII fall in the miscellaneous category. It includes Cloth For Upholstery, Curtains, Tablecloth, Domestic Servant or Cook, Monthly Maintenance Charges, Motor Car, Jeep, Air Fare, electronic items such as PC or Laptop, Camera and Photographic Equipment and other miscellaneous items such as Hotel Lodging Charges, Club Fees etc, to name a few.

The lifestyle inflation index has been constructed since 2014-15 onwards. Notably, it has a break of two periods i.e. 2019-20 and 2020-21 as data were not available for disaggregated CPI due to the pandemic related disruption.

Lifestyle inflation rate seen moving up:

Figure 1 shows the how lifestyle inflation has evolved over the years. It is clearly seen that from FY18 onwards there has been an uptick in lifestyle inflation rate.

TRADE

16 February 2024

Foreign Trade (April-January)

Sonal Badhan
Economist

India's merchandise trade deficit narrowed to US$ 205.5 in FYTD24 (Apr-Jan) from US$ 229.4bn in the same period last year. On FYTD basis, exports have fallen by 4.9% and imports are down by 7%. Weaker oil prices have impacted both imports and exports of oil. Apart from this, export of gems & jewellery and chemicals has also dragged the overall export growth down. On the import side, apart from oil, non-oil-non-gold imports have been weak. Within this, capital goods, chemicals and coal imports have led the way. On the other hand, gold and electronic imports have picked up pace. Net services balance has improved in FYTD24, led by increase in export receipts and dip in import payments. We expect this trend to continue in the coming months as well. We expect CAD to come in at ~1% in FY24.

Trade balance: India's goods trade deficit eased to US$ 17.5bn in Jan'24, from US$ 19.8bn in Dec'23. This was due to sharper decline in imports than exports, on a sequential basis. With this, in 10 months so far in FYTD24 (Apr-Jan), our trade deficit is now at US$ 205.5bn, lower by around 9% than US$ 229.4bn during the same period in FYTD23.

Goods export: In Jan'24, export growth accelerated to 3.1% from 1% in Dec'23. This was owing to rebound in exports of oil (6.6% versus -17.6%) and agriculture & allied products (1.3% versus -1.6%). However, on FYTD basis (Apr-Jan), our export growth was down by (-) 4.9% in FYTD24, falling to US$ 354bn as of Jan'24, compared with US$ 372bn as of FYTD23 (+9.4%). Commodity-wise data shows that oil (-21.8% versus 60.1%), gems & jewellery (-14.9% versus -1.7%), and chemicals (-11.1% versus 5.6%) have contributed a significant drag to headline number. These three categories alone account of ~32% of the total exports. Another heavy weight item, engineering goods, which accounts for ~25% of total exports, has reported flat (0%) growth in FYTD24 so far, following (-) 3.7% decline last year. Agriculture and textiles have also recorded a poor performance this year. The segments which performed well are drugs and pharmaceuticals (8.1% versus 3%) and electronic goods have with 20.9% growth.

Goods import: On the imports side, India's imports rose by 3% in Jan'24, after falling by (-) 4.9% in Dec'23, driven by jump in gold and oil imports. On FYTD basis, imports have been down by (-) 7% so far (Apr-Jan), following 21.7% jump in FYTD23 during the same period. This is mainly due to drop in oil (-16.8% versus 39.7%) and non-gold-non-oil imports (-5.4% versus 21%). Oil imports alone account for ~26% of total imports and the dip is mainly reflective of drop international crude oil prices (-16.3% in FYTD24 versus +30.2% in FYTD23).

AUTOMOBILES | Q3FY24 Review | 16 February 2024

Healthy volumes on strong PV sales, 2W revival

- **Q3 volumes steered by PV sales and 2W recovery on the back of festive/ wedding season demand and rural pickup**
- **Raw material cost savings aided gross margins; realisation gains subpar due to festive discounts and year-end offers**
- **Post results, we raised MSIL and TVSL to BUY on an upbeat growth outlook and cut BJAUT to SELL post rally**

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2W segment revives: Two-wheeler (2W) OEMs under our coverage delivered 21% YoY volume growth in Q3FY24, above industry growth of ~19%, driven by festive season sales, rural demand pickup and the ongoing wedding season. Realisation gains for our 2W coverage universe were tepid at 4% YoY mainly due to festive seasons discounts and a volume push. The industry saw a steady stream of launches in high-end premium models and electric 2Ws, which aided YoY margin expansion for HMCL and TVSL.

PV growth momentum continues: Passenger vehicle (PV) OEMs under our coverage grew 9% YoY, beating industry volume growth of 7% in Q3. MM posted double-digit volume growth of 11% YoY while MSIL grew 8%. Gross margin expanded by 116bps YoY on average for MM (56 bps) and MSIL (176bps), backed by softening raw material cost. MM maintained a steady gross margin of 24.6% for the quarter, though its focus has now shifted to growth over earnings.

Tractor volumes decline, high-end segment in focus: Volumes in the tractor segment remained weak, with VSTT/ESCORTS/MM seeing declines of 36%/7%/4% as patchy rainfall and a delayed crop harvest dampened rural sentiments. Management interactions indicates higher demand in 40HP-50HP segment. We expect the tractor segment to recover from Q2FY25 (in the preliminary monsoon forecast guidance for 2024, Skymet expects the upcoming monsoon to be 'normal').

Rating changes post-Q3: In our quarterly result notes, we have upgraded both MSIL (TP Rs 12,234) and TVSL (TP Rs 2,242) to BUY given their focus on premiumisation, EVs and launch plans over the medium term, while downgrading BJAUT to SELL (TP Rs 6,272) due to the recent stock runup.

Top picks – AL and MM: We remain positive on AL (BUY, TP Rs 226) following its strong market share gains, regional penetration and bus segment order book. We also reiterate BUY on MM (TP Rs 2,077) for its focus on volume growth, capacity buildup to cater to additional demand, timely addition of variants and strong launch pipeline.

Recommendation snapshot

Ticker	Price	Target	Rating
AL IN	175	226	BUY
BJAUT IN	8,123	6,272	SELL
EIM IN	3,917	4,045	HOLD
ESCORTS IN	2,905	2,389	SELL
HMCL IN	4,817	4,671	HOLD
MM IN	1,765	2,077	BUY
MSIL IN	11,090	12,234	BUY
TVSL IN	2,093	2,242	BUY
VSTT IN	3,237	3,213	HOLD

Price & Target in Rupees | Price as of 15 Feb 2024

COMPANY UPDATE

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IRM ENERGY | Oil & Gas | 16 February 2024

Management meet takeaways: Volume growth potential

- **Potential to double volumes to close to 1mmscmd in FY25 and grow to 1.5mmscmd in FY27, as per management**
- **EBITDA revived 29% YoY in 9MFY24 with higher margins; acceleration in CNG volumes has largely offset setback in Punjab (FS) market**
- **Management sees mid-term drivers from return of FS industrial volumes, ramp-up of new GA, and sustained traction in existing areas**

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We met IRM Energy's (IRMEL, Not Rated) CEO Karan Kaushal and CFO Harshal Anjaria. Key meeting takeaways:

Early-stage CGD player: IRMEL has the potential to expand natural gas volumes from 0.5mmscmd in FY23 to close to 1mmscmd by FY25 and 1.5mmscmd by FY27, as per management.

Diversified business: Relative to peers, IRMEL covers diverse geographical areas (GA), with exposure to three states across the north, south and west. Further, it has a balanced exposure to the industrial/commercial and CNG/household segments.

Sharp recovery over 9MFY24: The company has posted a 29% YoY recovery in EBITDA over 9MFY24, supported by a better margin of Rs 8.8/scm (from Rs 6.6/scm in 9MFY23), despite a setback at the Fatehgarh Sahib (FS) GA in Punjab that led to a 7% YoY drop in blended volumes. IRMEL has been largely able to offset the decline in volumes at FS by way of stronger CNG volume growth in Q3FY24.

Medium-term growth drivers: Management believes key volume growth drivers include: (a) potential recovery in FS volumes by 0.2mmscmd in a relatively short time should the green tribunal reimpose its ban on pollutant fuels used by industries in Guru Gobind Singh Mandi, (b) ramp-up of operations in new GA, Namakkal and Trichy (NT), which has the potential to add 0.1mmscmd by end-FY25, (c) continuing double-digit CNG growth in older GAs.

Peer comparison: IRMEL's 9MFY24 net income has risen 51% YoY vs. +97%/+22%/ -36% YoY for MAHGL/IGL/GUJGA.

Ticker/Price	IRMENERG IN/Rs 564
Market cap	US$ 282.0mn
Free float	50%
3M ADV	US$ 2.1mn
52wk high/low	Rs 615/Rs 435
Promoter/FPI/DII	50%/0%/31%

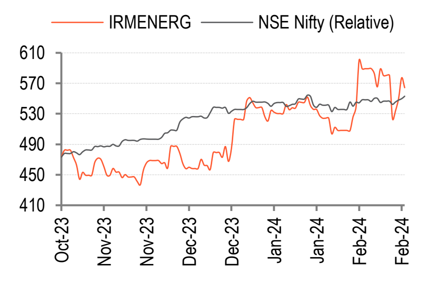
Source: NSE | Price as of 16 Feb 2024

Key financials

Y/E 31 Mar	FY21A	FY22A	FY23A
Total revenue (Rs mn)	1,896	5,071	9,801
EBITDA (Rs mn)	732	1,864	1,123
Adj. net profit (Rs mn)	351	1,136	565
Adj. EPS (Rs)	12.5	38.9	18.9
Consensus EPS (Rs)	12.5	38.9	18.9
Adj. ROAE (%)	36.5	65.4	20.4
Adj. P/E (x)	45.2	14.5	29.8
EV/EBITDA (x)	32.5	13.1	21.6
Adj. EPS growth (%)	44.8	212.0	(51.3)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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

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