FIRST LIGHT

26 August 2024

RESEARCH

BANKING | Q1FY25 REVIEW

Margins under pressure; credit cost normalised; ROA stabilised

CONSUMER STAPLES

FMCG roundup: Weather updates are favourable

MOIL | NOT RATED

Marathon run ahead after a sprint in FY24

SUMMARY

BANKING: Q1FY25 REVIEW

- Credit growth remained modest on slowdown in retail loan, C/D contracted a bit; NIMs under pressure due to increase in cost of funds
- Deposit mobilisation remained under pressure on slowdown in CASA deposits, while opex stayed elevated
- Stable asset quality normalises credit cost; revise growth estimates on competitive intensity. Top picks remain HDFCB, KMB, IIB, SBIN & RBK

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CONSUMER STAPLES

- With 3/4th of Southwest monsoon over, agri outlook has improved with a decline in “deficit rain” and a rise in “normal rain” states
- Total sowing is +2.1% vs last year & +1.5% vs past 5Y average. Another positive is “normal” crop condition for paddy across major states
- Remain positive on the FMCG sector on rural recovery. We note CPI as a risk factor given excessive rains in tomato and onion growing regions

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MOIL

- With moderation of prices, production growth is likely to be the main driver
- Post FY25, MOIL needs to deliver on Environment Clearance (EC) limit enhancements and addition of shafts to continue growth momentum
- After a sprint in FY24, MOIL still aims to deliver high single digit production growth till FY30

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BANKING

Q1FY25 Review

23 August 2024

Margins under pressure; credit cost normalised; ROA stabilised

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Margins remained under pressure: Slowdown in deposit mobilisation, specifically deceleration in low-cost CASA mobilisation, led to higher cost of funds (CoF), while increased competitive intensity in lending restricted yield on asset and led to margin compression which impacted performance for Q1. Under our coverage universe, the majority of banks witnessed margin compression (5-10bps) QoQ on higher CoF and seasonality impact. Opex remained elevated for the private banks as they continued to invest in technology and infrastructure for higher market share. The C/I ratio for public sector banks (PSBs) declined on higher base of Q4.

High competitive intensity, deposit constraints led to growth moderation: The Reserve Bank of India's concerns on C/D ratio along with strong growth in unsecured retail led to some moderation in high yielding retail asset and further moderation in credit growth considering deposits mobilisation constraints. Hence, we revise our deposits estimates by 3-4% for our coverage universe, while expecting 1-2% decline in credit book over FY25-FY26. However, we expect the slowdown in unsecured retail book to be supported by a higher share in the wholesale mix.

Operational performance remains subdued: NII grew 12% YoY (0.8% QoQ) in Q1 on higher cost of funds and being a seasonally weak quarter. PPoP grew 12% YoY (-6% QoQ) on subdued topline which offset a few gains from moderation in opex. However, we expect NII's growth trajectory to follow business growth which we expect to remain moderate (low to mid teen) for Q2 and witness some improvement thereon with probable change in interest rate cycle. Given the ongoing system dynamics and liquidity situation, we expect system credit growth of 14-15% for FY25, while deposit growth would be 12-13% over same period.

Stable asset quality: Asset quality remained stable though slippages during the quarter stayed elevated being a seasonally weak quarter and higher slippages from the agri and unsecured retail book. We expect credit cost to normalise further over the next two quarters and continue to drag the bottomline. We don't see any major challenges towards restructured/special mention accounts (SMA) books, which are expected to improve.

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23 August 2024

FMCG roundup: Weather updates are favourable

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- **Total sowing is +2.1% vs last year & +1.5% vs past 5Y average. Another positive is "normal" crop condition for paddy across major states**
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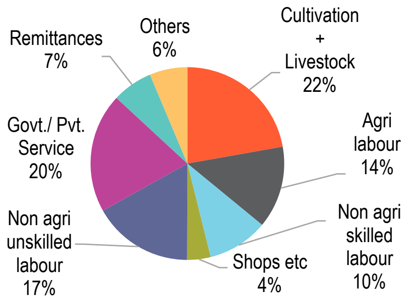
Rural household income split: FY24



Sources: NSSO, NABARD, MOSPI, RBI database, BOBCAPS Research

Mixed macro updates: Weather is now more favourable while crop sowing rate has also accelerated. Department of Agriculture has indicated "normal" paddy crop conditions across major growing states. On the flipside, inflation is a risk with excess rains in major onion /tomato producing regions. CPI is a key leading rural demand indicator. We continue to have a positive view on the FMCG sector but closely monitor inflation and unseasonal rains for any negative surprises.

River basin levels conducive to high-yielding agriculture: Water reserve levels impact agricultural GVA given the effect on irrigation efficiency through the year. See contrasting Agri GVA performance despite deficit SWM in both FY22 and FY24 in Fig 1 on page 2. With 25% of SWM still to come, river basins/water reservoirs are already at 12% surplus while monsoon is 3.5% ahead of the long period average.

Encouraging signs on sowing progress and paddy crop conditions: National crop sowings are +2.1% YoY, and +1.5% vs "normal" sowings/past five years average. Paddy crop conditions are "normal" for all major producing states of Punjab, Haryana and Uttar Pradesh.

Where is the risk in inflation? There have been excessive rains in Maharashtra, Karnataka and Andhra Pradesh, which have a combined share of ~60% of Kharif onion supply. Vegetable prices were already high in the Jun'24 quarter and if such a trend persists, rural inflation may also reflect the same in the Sep'24 quarter. A rising cost of living can restrict rural sentiment and consumption.

Any risk in La Niña? While generally supportive of a rising Agri GVA output, La Niña also creates a risk of unseasonal rains during harvest. This can adversely impact agri yields, output and overall sentiment and income in rural.

Our view: Current indicators are supportive of a rebound in agri GVA and rural FMCG demand in FY25E. However, weather remains a crucial factor. We retain our positive view on FMCG with Dabur as our top pick. The company stands to benefit from its strong rural distribution network and large exposure to elastic/non-food categories. There is potential upside from the high margin OTC/healthcare portfolio from La Niña due to a likely harsher/extended winter in FY25E.

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MOIL | Metals & Mining | 23 August 2024

Marathon run ahead after a sprint in FY24

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- **Post FY25, MOIL needs to deliver on Environment Clearance (EC) limit enhancements and addition of shafts to continue growth momentum**
- **After a sprint in FY24, MOIL still aims to deliver high single digit production growth till FY30**

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Price surge duration was shorter: With a 13% increase in realisation and 15% in volume in Q1, MOIL delivered growth of 30% in revenue and 73% in EBITDA. However, Q2 is likely to demonstrate a sequential deceleration with a sharp pullback in manganese prices over past two months and seasonal slowdown in production.

Sprint in FY24, marathon ahead: MOIL delivered 35%/ 30% YoY growth in production/ sales to 1.76mt/ 1.54mt. MOIL is now targeting c15% growth in FY25 and 8% CAGR over FY25-30 with a target of 3.5mt. MOIL is still targeting a significant acceleration compared to the sales volume growth of 1% over FY17-23.

Mix of brownfield and greenfield growth: While MOIL is targeting a brownfield growth from 1.8mt in FY24 to 2.1mt in FY25 and to 3.0mt at existing mines, the company is also planning 0.5mt of greenfield growth. For brownfield growth, MOIL is working on EC enhancements and addition of shafts. For greenfield growth, MOIL has accelerated exploration efforts and expansion of business in other states.

Progressing EC enhancements: Against the existing EC limit of 2.45mt, MOIL is targeting to raise it to 3.4mt by FY25 and 5mt by FY26.

Adding shafts: MOIL has approved 2 production shafts at two existing mines– Balaghat (0.8mt capacity) and Gumgaon (0.5mt capacity). The company also plans to add one more production shaft and two more ventilation shafts to enhance capacity. Production typically reaches the full potential of shaft over 5 years

Greenfield growth: MOIL has increased focus on exploration and has accelerated pace of resources addition (8mt in FY24 with exploration of 87.7km). MOIL is targeting 3 greenfield projects towards 0,5mt of production from new mines by FY30.

Stock performance: While the stock price almost doubled over Mar-Jun'24 on a price surge, the stock has corrected c30% after easing of Manganese prices. With pull back in prices, production growth will become the key driver for the stock ahead.

Ticker/Price	MOIL IN/Rs 412
Market cap	US$ 999.6mn
Free float	35%
3M ADV	US$ 17.9mn
52wk high/low	Rs 588/Rs 207
Promoter/FPI/DII	65%/3%/10%

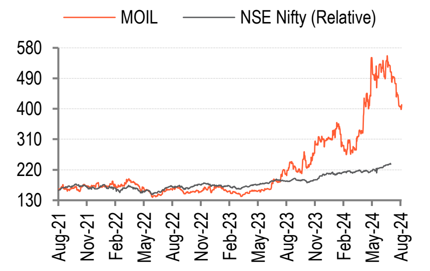
Source: NSE | Price as of 23 Aug 2024

Key financials

Y/E 31 Mar	FY22A	FY23A	FY24A
Total revenue (Rs mn)	14,363	13,416	14,494
EBITDA (Rs mn)	5,415	3,652	4,346
Adj. net profit (Rs mn)	3,770	2,467	2,902
Adj. EPS (Rs)	16.1	12.1	14.3
Adj. ROAE (%)	14.6	9.3	10.2
Adj. P/E (x)	25.5	34.0	28.9
EV/EBITDA (x)	15.0	22.2	18.8
Adj. EPS growth (%)	117.0	(24.9)	17.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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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