FIRST LIGHT

02 September 2024

RESEARCH

BOB ECONOMICS RESEARCH | CORE INDUSTRIES GROWTH

Eight core industry growth

BOB ECONOMICS RESEARCH | Q1FY25 GDP GROWTH

India-fastest growing major economy

HINDUSTAN UNILEVER | TARGET: Rs 3,349 | +20% | BUY

Management meeting: Mid/long term prospects remain positive

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

Cash repatriation debate is building up in Bangladesh

CEMENT

Prices under pressure; demand relatively steady in monsoon

SUMMARY

INDIA ECONOMICS: CORE INDUSTRIES GROWTH

Eight core industry growth rose to 6.1% in Jul'24 from 5.1% in Jun'24. This was driven by rebound in output of refinery, steel, fertilizer and cement. Revival in government spending, particularly capex has supported steel and cement sector growth. Fertilizer output has been helped by continuous improvement in Kharif sowing. Refinery production is also up, as prospects of global demand have improved (US and China). On the other hand, electricity output moderated, as progress of monsoon cooled climatic conditions and reduced demand. Other sectors which noted a decline in Jul'24 were crude oil and natural gas.

Click here **for the full report.**

INDIA ECONOMICS: Q1FY25 GDP GROWTH

India's GDP rose by 6.7% in Q1FY25, following 7.8% growth in Q4FY24. Sector-wise, growth in manufacturing, financial & real estate sector slowed down in Q1 versus Q4. Agriculture growth was tad lower than expected but is likely to rebound strongly in the coming quarters. Going forward, normal monsoon in Sep'24, pick up in government spending and robust invest trajectory is expected to boost the economy. Based on the above, we expect the economy to grow above the 7% mark in FY25.

Click here **for the full report.**

BOBCAPS Research
research@bobcaps.in

HINDUSTAN UNILEVER

- Volumes were subdued for the past couple of years but trends are improving
- Medium to long term target is high single digit EPS growth driven by sales and low to modest margin expansion
- Retain BUY. Medium term targets are reasonable given the scale. Potential upside continues from Beauty & Wellbeing and Food

Click here for the full report.

MARICO

- Similar to Marico, Indian power companies along with global MNCs are facing increased challenges in cash transfers from Bangladesh
- Marico Bangladesh's net cash position as at 30 Jun'24 was 64% of its total asset base. Retain SELL
- In a media interaction, the CEO indicated Marico was tracking ahead of FY25 plans on growth in businesses focused on diversification

Click here for the full report.

CEMENT

- Cement prices in Aug'24 fell by 9% YoY but were steady MoM as the monsoon continues to grip many regions
- Gap between trade and non-trade prices widens past Rs 50/bag indicating weak demand from the infrastructure segment
- Price hikes may be underway with Rs 20/bag from September, but small bouts of hikes likely to be absorbed easier than sharp big reversals

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CORE INDUSTRIES GROWTH

30 August 2024

Eight core industry growth

Sonal Badhan
Economist

Eight core industry growth rose to 6.1% in Jul'24 from 5.1% in Jun'24. This was driven by rebound in output of refinery, steel, fertilizer and cement. Revival in government spending, particularly capex has supported steel and cement sector growth. Fertilizer output has been helped by continuous improvement in Kharif sowing. Refinery production is also up, as prospects of global demand have improved (US and China). On the other hand, electricity output moderated, as progress of monsoon cooled climatic conditions and reduced demand. Other sectors which noted a decline in Jul'24 were crude oil and natural gas.

Coal output also eased. On FYTD basis (Apr-Jul), core sector output registered marginal slowdown (6.1% versus 6.6% last year), largely driven by moderation in output of crude oil, fertilizer, steel and cement. Given the latest trend in core sector growth, we expect ~6% IIP growth in Jul'24.

Core sector growth slows: Core sector growth accelerated to 6.1% in Jul'24 from upwardly revised 5.1% in Jun'24 (3.9% reported earlier). On FYTD basis (Apr-Jul) core sector output has eased marginally, as it rose by 6.1%, compared with 6.6% growth registered last year during the same period.

Performance of heavy-weights: Out of the 8 sectors for which the data is made available, 3 sectors alone contribute to ~66% of the total weight. These are: petroleum and refinery products, steel and electricity. The largest weight is assigned to refinery products, output of which rebounded as it rose by 6.6% in Jul'24, following (-) 1.5% decline in Jun'24. This could be in anticipation of recovery in export demand, as US economy is expected to avoid recession and China may also see reversal in downturn. Output of steel industry also inched up in Jul'24 (7.2% versus 6.7%). This could be attributed to revival in government spending and pick up in auto sales. FADA data noted double digit increase in 2W and PV sales in Jul'24. In contrast, electricity output moderated further, to 7% from 8.6% in Jun'24. Normal/heavy rains in Jul'24 cooled climatic conditions, thus reducing the peak demand for electricity.

Other sectors: The other major sectors include: coal, crude oil, natural gas, fertilizers and cement. Amongst these, the industries which noted an increase in Jul'24 were fertilizers (5.3% versus 2.4%), and cement (5.5% versus 1.9%). Fertilizer sector growth continued to gain momentum from improvement seen in Kharif sowing. Rise in cement sector output is also a reflection of pickup in pace of government's capex spending.

Q1FY25 GDP GROWTH

30 August 2024

India-fastest growing major economy

Jahnavi Prabhakar
Economist

India's GDP rose by 6.7% in Q1FY25, following 7.8% growth in Q4FY24. Sector-wise, growth in manufacturing, financial & real estate sector slowed down in Q1 versus Q4. Agriculture growth was tad lower than expected but is likely to rebound strongly in the coming quarters. Going forward, normal monsoon in Sep'24, pick up in government spending and robust invest trajectory is expected to boost the economy. Based on the above, we expect the economy to grow above the 7% mark in FY25.

Q1FY25 GDP moderates

GDP growth in Q1 moderated to 6.7% from 7.8% in Q4Y24 on a YoY basis. This was lower than our expectation of 7.3%. The slower than expected growth was attributed to lower government spending, which declined down to (-) 0.2% after increasing by 0.9% in Q4FY24 given the curtailment of spending due to elections. On the other hand, investment picked up and registered a solid growth of 7.5% from 6.55 in Q4FY24. Both exports and consumption spending also recorded solid growth of 8.7% (8.1% in Q4) and 7.4% (4% in Q4) respectively. Imports recorded a sluggish growth of 4.4% (8.3% in Q4) on account of growing geo political tensions.

GVA improves

GVA growth rose by 6.8% in Q1FY25, up from 6.3% in Q4FY23. Most significant increase was noted in power and gas (10.4% form 7.7%), construction (10.5% from 8.7%) and mining and quarrying (7.2% form 4.3%). Manufacturing sector slowed but maintained a healthy growth of 7% (from 8.95 in Q4). The lower growth was on account of weaker corporate profits. Overall the industry sector registered a stable growth of 8.3% (from 8.4% in Q4). Growth in agriculture sector advanced by 2% in Q1 but was lower than expected given the adverse weather conditions such as heatwave. Services sector clocked a robust growth of 7.2% form 6.7% in Q4 with sectors such as trade, transport (5.7% from 5.1%) and public admin (9.8% from 7.8%) contributing the most. The financial, real estate & professional services registered a growth of 7.1% against a 7.6% growth in Q4. With monsoon activity noting a surplus of 7% above LPA (cumulative till 30 Aug), it is likely to be favourable for inflation specially food prices and agriculture growth is expected to improve for the coming quarters. Furthermore, steady improvement in government spending in the next 3-quarter will also provide the requisite push to the investment sector.

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BUY
TP: Rs 3,349 | ⮝ 20%

HINDUSTAN UNILEVER | Consumer Staples | 30 August 2024

Management meeting: Mid/long term prospects remain positive

- **Volumes were subdued for the past couple of years but trends are improving**
- **Medium to long term target is high single digit EPS growth driven by sales and low to modest margin expansion**
- **Retain BUY. Medium term targets are reasonable given the scale. Potential upside continues from Beauty & Wellbeing and Food**

Lokesh Gusain
research@bobcaps.in

Medium- to long-term prospects remain in place: HUL remains positive about leveraging its strong 9mn outlets penetration. Its key focus is to increase offerings and drive consumption. There is strong potential for distribution gains in high margin, innovation-driven sub-categories in Beauty and Wellbeing (~20% of sales) but may require more innovation from HUL. Food also remains a focus area.

Medium- to long-term targets: HUL is targeting high single digit EPS growth driven by sales. Volume growth will be the key growth driver with pricing in low single digits. Current volume run rate is ~4%, which should accelerate through FY25E. Margins will remain largely unchanged with a low to moderate positive bias. We view targets as reasonable given the large size of the business and building up of slightly inflationary scenario which should aid pricing, volumes and share gains.

The soap debate: HUL remains positive on the soap reformulation. Total Fatty Matter (TFM) is reduced but appearance, structure, weight, and price per unit remain unchanged. The value proposition appears favourable with better quality at the same price per unit. However, industry feedback suggests share losses and we prefer to review evidence of market share performance in the September quarter.

Horlicks performance subdued: HUL is happy with current margins but sales growth is below expectations due to a weak category. Horlicks is better placed vs others in terms of formulation – this reflects in consistent share gains. With 50+% share, HUL acknowledged the need for more initiatives to drive category sales.

FY25 outlook: Balanced sales growth across segments driven by volume with inflation-driven pricing in 2HFY25. Margins likely to remain ~23%. The growth trajectory will improve as we progress through FY25 on rural recovery and pricing.

Our view and valuation: Rural sales exposure at ~40% and skew towards Personal and Home Care enables a faster response to changes in demand due to changes in income – rural income growth is a key driver for FMCG earnings in FY25. We value HUL at 63x 12M to Jun'26 P/E to derive the TP of Rs 3,349. BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HUVR IN/Rs 2,785
Market cap	US$ 78.0bn
Free float	38%
3M ADV	US$ 70.8mn
52wk high/low	Rs 2,835/Rs 2,172
Promoter/FPI/DII	62%/14%/24%

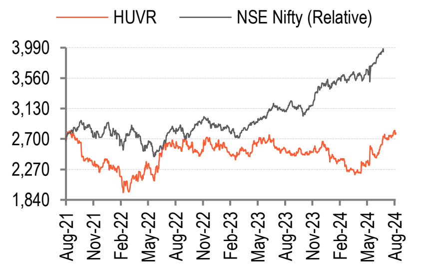
Source: NSE | Price as of 29 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	618,960	664,209	731,302
EBITDA (Rs mn)	146,630	158,043	173,319
Adj. net profit (Rs mn)	102,770	110,429	120,092
Adj. EPS (Rs)	43.7	47.0	51.1
Consensus EPS (Rs)	43.7	47.3	52.7
Adj. ROAE (%)	20.2	21.4	23.0
Adj. P/E (x)	63.7	59.3	54.5
EV/EBITDA (x)	44.6	41.4	37.8
Adj. EPS growth (%)	1.6	6.9	9.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

FLASH NOTE

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SELL
TP: Rs 532 | ∀ 18%

MARICO | Consumer Staples | 30 August 2024

Cash repatriation debate is building up in Bangladesh

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- **Marico Bangladesh's net cash position as at 30 Jun'24 was 64% of its total asset base. Retain SELL**
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Lokesh Gusain
research@bobcaps.in

Debate on MNC exposure to Bangladesh is picking up: Bangladesh's forex crises is persisting with the status and timeline of cash repatriation remaining uncertain. See here; here and here. We have previously highlighted that Marico Bangladesh's cash dividend payout deteriorated meaningfully between FY20 and FY24. More details on financials and exposure here.

Updates from the CEO: Marico's CEO Mr Saugata Gupta did a media interaction on 30 Aug'24. This included comments on International targets, and FY25 progress on businesses focused on diversification. Key discussion points below:

- **Businesses focused on increasing Marico's diversification growing ahead of FY25 targets:** The CEO indicated that Premium Personal Care, Food and Digital First businesses are tracking ahead of the FY25 plan. While the business diversification portfolio's FY25 target is not disclosed, Digital First annual sales run rate target at FY25 end is Rs 5.5bn-6.0bn.

- **Core businesses need to accelerate innovation:** Mr Gupta acknowledged that while the diversification journey overall is tracking ahead of targets this year, the core needs a bit of momentum in terms of innovation.

- **Long term international targets unchanged:** With reference to disturbances in neighboring countries and the general geopolitical tensions, Mr Gupta indicated Marico's strong sales and profits track record in International. Long-term target of double-digit sales growth remains unchanged for Marico.

- **M&A criteria:** Marico is looking to supplement current sales growth with small M&As in India. In International, Asia and Africa are in focus with others (EU/US/UK, etc) likely to remain export markets.

Our view: 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 647
Market cap	US$ 10.0bn
Free float	40%
3M ADV	US$ 23.0mn
52wk high/low	Rs 693/Rs 486
Promoter/FPI/DII	59%/25%/16%

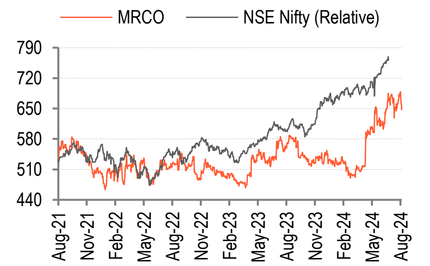
Source: NSE | Price as of 30 Aug 2024

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)	56.4	51.6	47.5
EV/EBITDA (x)	41.2	37.0	34.3
Adj. EPS growth (%)	13.7	9.2	8.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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CEMENT

30 August 2024

Prices under pressure; demand relatively steady in monsoon

- **Cement prices in Aug'24 fell by 9% YoY but were steady MoM as the monsoon continues to grip many regions**
- **Gap between trade and non-trade prices widens past Rs 50/bag indicating weak demand from the infrastructure segment**
- **Price hikes may be underway with Rs 20/bag from September, but small bouts of hikes likely to be absorbed easier than sharp big reversals**

Milind Raginwar
research@bobcaps.in

Prices weaken as monsoon intensifies: All India cement prices in Aug'24 were ~9% lower YoY (down 1% MoM) at Rs 322/bag compared to Rs 353/bag in Aug'23 (Rs 326/bag in Jul'24). According to our channel checks, MoM prices stayed range-bound with a negative bias as prices began to fall in Jul'24 when the monsoon started across the country.

Non-trade segment more vibrant; prices in trade segment stay listless: Cement prices in the trade segment continued to be listless. However, the gap between trade and non-trade prices widened (more than the normal Rs 30-40/bag) and touched ~Rs 80/bag in some regions of India. Prices weakened by Rs 20/bag in the non-trade segment, going as low as Rs 220-230/bag in pockets of eastern and southern India. However, volumes stayed tepid in the trade segment, but were more vibrant in the non-trade segment. The overall demand remained dull due to weak construction activity and lack of rural support to agri-related work which is in full swing.

South India the biggest loser YoY: Cement prices weakened the most in the South with a 13% fall YoY (flat MoM), while East and West fell by ~9% each and North and Central India by 5%/6% each. Prices in Western and Central India fell MoM too by 1-2%. However, demand was steady in the southern region, indicating lower prices were luring demand, while activity was very slow in western and eastern India largely due to the monsoon. This indicates that the price reversal will be faster in the southern region while pickup will be steady in eastern India.

Price hikes on the cards, but meaningful reversal only post monsoon: Early indications from our channel checks (23 across the country) indicate that prices will be hiked in the trade and non-trade segment in an average range of ~Rs 20/bag. However, sustainability will be key to maintaining higher prices due to continued wet season and heavy supply pressure especially from market leaders.

No change in stance: We retain our BUY rating on UTCEM, and retain our HOLD ratings on JKCE and ACEM with a positive bias. There is no change in our negative stance on TRCL, JKLC and ORCMNT and we maintain our SELL rating.

Recommendation snapshot

Ticker	Price	Target	Rating
ACC IN	2,329	2,569	HOLD
ACEM IN	617	667	HOLD
DALBHARA IN	1,891	2,062	HOLD
JKCE IN	4,454	4,431	HOLD
JKLC IN	788	687	SELL
ORCMNT IN	305	177	SELL
SRCM IN	25,482	25,403	HOLD
TRCL IN	831	737	SELL
UTCEM IN	11,302	12,972	BUY

Price & Target in Rupees | Price as of 30 Aug 2024

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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**
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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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