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03 December 2024

RESEARCH

BOB ECONOMICS RESEARCH | BONDS WRAP

Fortnightly review

BOB ECONOMICS RESEARCH | CURRENCY UPDATE

Fortnightly forex review

BOB ECONOMICS RESEARCH | SECTORAL CREDIT AND INTEREST RATES

Banking sector update-Oct'24

HINDUSTAN UNILEVER | TARGET: Rs 3,077 | +23% | BUY

Premiumisation may be ahead of its time.

AUTOMOBILES

On a course correction following strong festive season

SUMMARY

INDIA ECONOMICS: BONDS WRAP

Moderation in US 10Y yield occurred because of risk alignment surrounding political developments in the region which has resulted in higher demand for sovereign debt assets. The same got reflected in yields of other major AEs (UK, Germany). The narrative of global yields hinges on the President-elect's policy discourse. Till now, the environment calls for a moderate pace of easing by Fed, going ahead. India's 10Y yield witnessed majority softening following release of Q2GDP data which surprised on the downside. In the last trading session itself, India's 10Y yield has inched down by 9bps.

Click here for the full report.

INDIA ECONOMICS: CURRENCY UPDATE

INR continues to remain under pressure and traded at record low in Nov'24. It depreciated by 0.5% last month, following 0.3% decline in Oct'24. It has started Dec'24 also on a weaker note, as it has fallen even lower to 84.7/$ mark. Stronger US$ has been the key driver of this trend. In Nov'24 alone, DXY rose by 1.7%, following 3.2% rise in Oct'24. Significantly elevated US yields are supporting dollar strength. Even though US10Y yields cooled off a bit towards the end of the month, they still remain much above the 4% mark.

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INDIA ECONOMICS: SECTORAL CREDIT AND INTEREST RATES

RBI's monthly data showed a moderation in credit growth across sectors in Oct'24. At 11.5%, credit growth eased to a 31-month low. While industry credit picked up on a YoY basis, credit growth to retail and services sector moderated. RBI's regulatory crackdown on NBFC credit and unsecured lending was reflected in a slowdown in retail and services sector. Housing loans, vehicle loans and education loans also witnessed some slowdown. Going ahead, we can expect some pickup in credit growth as economic activity is expected to rebound. The government is also likely to step-up its capex spending in the remaining part of the year to meet its budgeted target, which will have a multiplier effect across industries. Hence, we can expect a revival in credit growth in the coming months. We expect credit growth in the range of 13-14% in FY25.

Click here for the full report.

HINDUSTAN UNILEVER

- HUVR's outlook of stable demand trends for FY25 appears conservative as the building blocks for rural demand remain favourable
- Longer term, HUVR's excessive focus on premiumisation may result in below industry average growth when mass consumption picks up
- With a ~6% rise in kharif foodgrains and HUVR's 1/3rd rural sales exposure, we remain comfortable with a sales rebound in 2HFY25. Buy

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AUTOMOBILES

- Passenger vehicle domestic volumes grew in lower single digit (~2.5%) YoY with share of SUV segment continuing to stay higher
- The 2-wheeler segment fell sharply ~ 23% MoM post festive season, grows marginally by ~2.4% YoY
- Commercial vehicle segment continues to be a spot of both with decline of ~3.4%/1.6% MoM/YoY

Click here for the full report.

BONDS WRAP

02 December 2024

Fortnightly review

Dipanwita Mazumdar
Economist

Moderation in US 10Y yield occurred because of risk alignment surrounding political developments in the region which has resulted in higher demand for sovereign debt assets. The same got reflected in yields of other major AEs (UK, Germany). The narrative of global yields hinges on the President-elect's policy discourse. Till now, the environment calls for a moderate pace of easing by Fed, going ahead. India's 10Y yield witnessed majority softening following release of Q2GDP data which surprised on the downside. In the last trading session itself, India's 10Y yield has inched down by 9bps.

The trajectory of domestic yield rests on whether moderation in growth is a one-off event or not. However, we expect a downward bias to domestic yield remains from correction in FPI flows in Nov'24 due to favourable interest rate differential with the US. Apart from this, expectation reins in terms of measures from RBI to maintain adequate durable liquidity. Any development on the same would also support yields in the near term. We expect India's 10Y yield to trade in the range of 6.70-6.85% in Dec'24 and will also hinge on MPC call on repo rate and direction provided through the articulation.

US 10Y yield guided movement of major global yields:

- The direction of US 10Y yield drove the narrative of major global yields. Risk off sentiment amidst ongoing uncertainty surrounding US President elect's future policy led to some frontloading of sovereign assets. The tariff threat on China, Mexico and Canada again resurfaced in the current week. Host of macro data in the US pointed to resilience of US economy. This ranged from retail sales, personal spending, core PCE and consumer confidence. FOMC minutes also highlighted that the pace of disinflation has softened and risks to core inflation persists from financial services and seasonal factors thus calling for a gradual approach to rates. We believe the terminal Fed rate might be higher in 2025 than previously priced in and future rate decisions will be more nuanced based on the evolution of growth-inflation dynamics under the new political administration. CME Fed watch tool has also pared down the probabilities of a lower terminal rate in 2025. Thus, hinting at less than expected monetary easing amidst stronger dollar and political uncertainty.

- Taking cues from a sharp rise in US 10Y yield, other Advanced Economies (AEs) also followed suit to maintain its yield differential. Germany and UK's 10Y yield has risen sharply. For Germany, yields softened albeit firming up of Euro area inflation as moderation in growth outweighed the same.

CURRENCY UPDATE

02 December 2024

Fortnightly forex review

Sonal Badhan
Economist

INR continues to remain under pressure and traded at record low in Nov'24. It depreciated by 0.5% last month, following 0.3% decline in Oct'24. It has started Dec'24 also on a weaker note, as it has fallen even lower to 84.7/$ mark. Stronger US$ has been the key driver of this trend. In Nov'24 alone, DXY rose by 1.7%, following 3.2% rise in Oct'24. Significantly elevated US yields are supporting dollar strength. Even though US10Y yields cooled off a bit towards the end of the month, they still remain much above the 4% mark.

Further, there appears to be increased likelihood that Fed will opt for gradual rate cuts in 2025, against the backdrop of President-elect Trump's continuous threats of tariff hikes for China, Mexico, and Canada (accounting for ~43% of US imports). All major currencies globally have been hit as a result. In comparison to this, INR has held ground and has depreciated the least. Slowdown in FPI outflows in Nov'24 compared with Oct'24 also helped. Investors will now focus on high frequency indicators to gauge prospects of growth in Q3. We expect the currency to trade in the range of 84.2-84.7/$ in the near-term.

Movement in global currencies in Nov'24

Global currencies continued to depreciate in Nov'24 (till 29 Nov), as US$ strengthened further. DXY index, which measures the dollar's value against a basket of currencies rose by 1.7% in Nov'24, after climbing 3.2% in Oct'24. With this, the index touched its highest level since last November. Continued strength comes from elevated US treasury yields and divergent global monetary policies. In the US, 10Y yield after jumping by 50bps in Oct'24, eased by only 4bps at the end of Nov'24. It continues to hover above 4% mark (4.24%), as markets expect slower rate cut momentum from Fed in the coming months. Recent PCE inflation data shows that, while headline numbers came in line with expectations (0.2% MoM and 2.3% YoY in Oct'24), core inflation edged up (0.3% from 0.2% in Sep'24). Services inflation rose notably, while goods inflation fell. Personal income also jumped by 0.6%, higher than estimated 0.3%. Market participants are now expecting ~66% chance of a 25bps Fed rate cut in its meeting this month. In 2025 as well, pace of cuts is expected to be shallower, as President-elect Trump plans aggressive tariff hikes on nearly 43% of US' imported goods (coming from China, Mexico and Canada). This is set to add pressure on domestic inflation. In the recent minutes released by Fed, members have cautioned against cutting rates too fast, in view of slow deflation process and relatively strong labour market.

SECTORAL CREDIT AND INTEREST RATES

02 December 2024

Banking sector update-Oct'24

Aditi Gupta
Economist

RBI's monthly data showed a moderation in credit growth across sectors in Oct'24. At 11.5%, credit growth eased to a 31-month low. While industry credit picked up on a YoY basis, credit growth to retail and services sector moderated. RBI's regulatory crackdown on NBFC credit and unsecured lending was reflected in a slowdown in retail and services sector. Housing loans, vehicle loans and education loans also witnessed some slowdown. Going ahead, we can expect some pickup in credit growth as economic activity is expected to rebound. The government is also likely to step-up its capex spending in the remaining part of the year to meet its budgeted target, which will have a multiplier effect across industries. Hence, we can expect a revival in credit growth in the coming months. We expect credit growth in the range of 13-14% in FY25.

Trends in sectoral credit growth:

Growth in bank credit moderated sharply from 20% in Oct'23 to 11.5% in Oct'24. Even on a sequential basis, credit growth eased from 13% in Sep'24. Barring industry, credit growth slowed down across all sector in Oct'24 vis-à-vis Oct'23. Agriculture credit growth decelerated (15.5% in Oct'24 compared with 16.7% in Oct'24), but continued to grow in double-digits. However, credit growth to industry was higher at 7.9% in Oct'24 versus just 5.4% in the same period last year. Within industry, credit growth to medium and large industries noted a pickup on YoY basis. On the other hand, credit to micro and small enterprises dipped to 10% compared with 16.5% in Oct'23.

Table 1: Credit growth across sectors in FY25

Sector	Oct-23	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
Non-Food Credit	20.1	19.1	19.8	17.4	13.7	13.6	13.0	11.5
Agriculture and Allied Activities	17.4	19.8	21.6	17.4	18.1	17.7	16.4	15.5
Industry	5.4	7.4	9.4	8.1	10.2	9.7	8.9	7.9
-Micro and Small	16.5	15.5	15.5	11.0	13.3	13.4	13.4	10.0
--Medium	12.0	13.3	15.5	12.6	17.2	19.2	20.5	19.6
--Large	2.1	4.7	7.1	6.9	8.6	7.7	6.5	6.0
Services	24.0	22.0	23.2	17.4	14.5	13.9	13.7	12.7
Personal Loans	29.6	26.7	28.7	25.6	13.9	13.9	13.4	12.9

Source: CEIC, Bank of Baroda Research

Within industry sectors which saw a sharp contraction in credit growth in Oct'24 include, ports (-20.1%), telecommunications (-12%), mining and quarrying (-6.3%), edible oils (-4.3%) and gems and jewllery (-3.2%). Credit to cement sector moderated sharply to 0.4% in Oct'24 versus 13.5% in Oct'23. However, credit to the construction sector remained steady at 7% in Oct'24.

FLASH NOTE

BUY
TP: Rs 3,077 | ⮝ 23%

HINDUSTAN UNILEVER | Consumer Staples | 02 December 2024

Premiumisation may be ahead of its time.

- **HUVR's outlook of stable demand trends for FY25 appears conservative as the building blocks for rural demand remain favourable**
- **Longer term, HUVR's excessive focus on premiumisation may result in below industry average growth when mass consumption picks up**
- **With a ~6% rise in kharif foodgrains and HUVR's 1/3rd rural sales exposure, we remain comfortable with a sales rebound in 2HFY25. Buy**

Lokesh Gusain
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Conservative view on FY25: HUVR guided to stable demand trends amidst a soft urban and gradual recovery in rural. We differ. Nielsen shows sequential improvement in rural FMCG volumes in the Sep-24 quarter. We expect improvement was towards the end of the quarter coinciding with the harvesting period. Building blocks to rural demand remain favourable with 2024 Kharif foodgrains +6% YoY. We continue to expect an acceleration in HUVR sales in 2HFY25 driven by rural.

Long term targets: HUVR guided to double digits EPS growth driven by topline and mix driven slight margin expansion. On topline, portfolio is divided into three parts. "Core"; value focused portfolio, will retain market share and work with current levels of investment. "Future Core"; premiumised portfolio, will have slight increase in investments with sales rising 1.25x vs category. "Market Makers"; new, high growth, most premium segment, will grow 1.50x vs category. Overall volume growth will be 100bps ahead of the market. This appears ambitious and depends on the pace of economic growth in India and its impact on household composition by income.

Broad focus on premiumization: HUVR is focused on premiumisation across the portfolio. Margin is a consideration, including new products, with quality prioritised over pricing. Affordability is in the form of lower pack sizes even as price per unit remains higher vs competition. This may restrict trials from new consumers and the ones looking to shift brands.

Food and B&W are key growth drivers: HUVR is up-trading the affluent class into higher end / masstige portfolio, while expanding the beauty regime from one to two products for the lower end consumers. The Nano Manufacturing approach is enables flexibility to work on premium / high-end innovation despite low scale.

Our view: Near term, we expect favourable monsoon, improved agri-yield and rural recovery to drive sales and earnings in 2HFY25 given HUL's industry leading distribution reach and 1/3rd rural sales exposure. A rational industry structure in tea provides comfort on margins and potential for share gains. Longer term, we view HUVR's excessive focus on premiumization as slightly ahead of its time given the mass consumption is yet to pickup in India.

Key changes

Target	Rating
◄ ►	◄ ►

Ticker/Price	HUVR IN/Rs 2,496
Market cap	US$ 69.4bn
Free float	38%
3M ADV	US$ 56.0mn
52wk high/low	Rs 3,035/Rs 2,172
Promoter/FPI/DII	62%/14%/24%

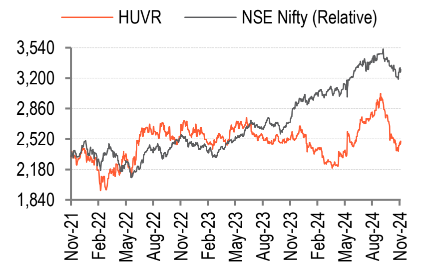
Source: NSE | Price as of 29 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	618,960	648,106	721,762
EBITDA (Rs mn)	146,630	155,098	173,040
Adj. net profit (Rs mn)	102,770	108,338	120,023
Adj. EPS (Rs)	43.7	46.0	51.0
Consensus EPS (Rs)	43.7	47.3	52.7
Adj. ROAE (%)	20.2	21.0	23.0
Adj. P/E (x)	57.1	54.2	49.0
EV/EBITDA (x)	40.0	37.8	33.9
Adj. EPS growth (%)	1.6	4.7	11.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

AUTOMOBILES

02 December 2024

On a course correction following strong festive season

- **Passenger vehicle domestic volumes grew in lower single digit (~2.5%) YoY with share of SUV segment continuing to stay higher**
- **The 2-wheeler segment fell sharply ~ 23% MoM post festive season, grows marginally by ~2.4% YoY**
- **Commercial vehicle segment continues to be a spot of both with decline of ~3.4%/1.6% MoM/YoY**

Milind Raginwar
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Passenger vehicle segment: Domestic PV industry volumes grew 2.56% YoY however fell ~ 18% MoM following the pre-festive season sharp jump. MSIL's volume grew 10.4% YoY as the SUV segment continues to offset the decline in compact segment sales (declined 12.1% MoM). Exports grew 24.8% YoY but slipped 13.7% MoM. TTMT volumes were flat YoY/MoM and MM grew/fell 15.6%/15.2% YoY/MoM driven by record sales of SUV. Hyundai India's domestic volume grew by 24% YoY and continued its second position (fall of 12.6% MoM).

Two-wheeler segment: The 2W segment grew 2.37% YoY however slipped steeply by ~23% MoM on account of normalization of volumes post festivities. HMCL fell 6.4%/32.3% YoY/MoM. BJAUT delivered a tepid growth of 5.5% YoY, BJAUT's domestic volume fall of 6.9% YoY was offset by a 26.1% growth in exports. TVSL's volume grew 11.5% YoY contributed by both domestic and export volumes. EIM's volume grew marginally by 2.5% YoY whereas declined 26% MoM.

Three-Wheeler segment: Volumes were flat (0.7%) YoY (-18%MoM) due to drop in domestic volumes and exports. BJAUT's domestic 3W volume decreased 4.9%/22.3% YoY/MoM and TVSL's overall volume fell 27.6% YoY dragged by exports.

Tractors segment: Overall tractor sales grew 5.1%YoY but was down 49% MoM as normalcy was restored post festivals. ESCORTS, MM and VSTT volume grew in the domestic markets YoY, dropped MoM; MM exports grew 62.4%/44.8% YoY/MoM in contrast ESCORTS exports fell sharply by 39.5%/10% YoY/ MoM.

Commercial vehicles: CV segment volume fell ~1.6%/3.4% YoY/MoM. Domestic and export volumes were flat YoY, but grew/slipped 5.2%/25% YoY/MoM. M&HCV segment volume fell 3.07%/16.04% YoY/MoM. In the M&HCV TTMT volumes fell 8.1%/24.3% YoY/MoM however, AL volume grew 2.3% YoY but dropped 6.2% MoM. In the LCV segment TTMT grew 1.5% YoY and decreased 18% MoM, and AL fell by 13.9%/19% YoY/MoM. Overall, the segment fell 2%/18.21% YoY/MoM.

Key ratings: BUY rating on MSIL, MM and AL, and SELL on ESCORTS and VSTT.

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