FIRST LIGHT

06 August 2024

RESEARCH

BOB ECONOMICS RESEARCH | MONTHLY ECONOMIC BUFFET

Economic Round-up: July 2024

BRITANNIA INDUSTRIES | TARGET: Rs 6,862 | +20% | BUY

Leading by example: Topline focus amidst macro tailwinds

MARICO | TARGET: Rs 713 | +6% | HOLD

Focus on long term

SUMMARY

INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

Markit global manufacturing PMI noted downturn in global activity as the index slipped to 49.7 in Jul'24 from 50.8 in Jun'24. Of the 32 countries surveyed, only 15 noted expansion in activity. The biggest drag was on account of slip in new orders, with steepest decline in investment goods. Country-wise, activity weakened significantly in Germany, China and the US (ISM index). Both China and the US are now showing signs of slowdown at the start of Q3.

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BRITANNIA INDUSTRIES

- Sales were 2% higher, EBITDA 3% lower vs Bloomberg consensus. Volumes +8% along with rise in both EBITDA margins and A&P
- As expected, rural recovery is eventuating with a lag. We expect strong rebound in 2H with sales of +16.5% vs 1H with +7.6%
- Retain BUY with revised TP of Rs 6,862. There is an upside potential to FY25 sales and earnings from the impending La Niña

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MARICO

- Compared to consensus, sales were in line and EBITDA 1% higher. Volumes were +4%, an acceleration vs +2% in the Mar'24 quarter
- HPC categories are recovering faster than Food for Marico. We expect Food growth to catch up with HPC as rural recovery accelerates
- Despite being a medium-term positive, SETU reduces short term visibility on volume growth. Retain HOLD and raise TP to Rs 713

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Economic Round-up: July 2024

Sonal Badhan
Economist

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In the US, apart from the manufacturing sector, single family home starts and retail sales have also moderated. Labour market is seen cooling down. As a result, Fed in its latest statement sounded more dovish than expected and hinted at a rate cut in Sep'24. In China, weakness in manufacturing sector growth has spread from larger companies to smaller and mid-size companies as well, which are more export oriented. Real estate sector continues to reel under pressure and government post its third plenum of CPC also did not announce any major initiatives to revive growth, which worrying for global growth. On the domestic front, growth is expected to hold ground as monsoon has fared well so far. It is currently (as of 2 Aug 2024) 4% above LPA, which in turn has supported Kharif sowing (+2.9% so far).

Global Central Banks: In Jul'24, In line with market expectations, both US Fed and ECB kept their policy rates unchanged. However both are expected to announce rate cuts in the Sep'24 meeting. In the Eurozone, while the decision is expected to be driven by weaknesses economic growth, in the US, cooling labour market and inflation scenario will help make FOMC the decision to cut rates. Analysts expect 3 rate cuts by Fed this year and 2 cuts by ECB. BoE in its not so unanimous decision (5-4 vote), lowered its policy rate by 25bps for the first time in 4 years, but cautioned that it does not expect to cuts too soon, as inflation pressures persist. BoJ delivered a hawkish rate hike, as it increased its policy rate to 0.25%, up by 15bps versus est.: 10bps increase. It also announced to trim its bond buying program by 2026. This decision comes, as wage negotiations have led to highest gains in three decades, which in turn may add to inflationary pressures in Japan. RBI in its policy meeting this week, is expected to hold rates unchanged. We expect first rate cut not before Dec'24.

Key macro data releases: Union Budget for FY25 showed that the government is committed to sticking to the path of fiscal consolidation. As a result, fiscal deficit (as % of GDP) is estimated to be lower at 4.9% in FY25BE. Rainfall is currently 4% above the LPA till 2 Aug 2024. Pickup was noted in the last fortnight. There is also an improvement noted in the sown area (+2.9% YoY), with higher acreage of pulses, paddy, oilseeds, sugarcane and coarse cereals compared with last year.

RESULT REVIEW

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BUY
TP: Rs 6,862 | ⮝ 20%

BRITANNIA INDUSTRIES | Consumer Staples | 06 August 2024

Leading by example: Topline focus amidst macro tailwinds

- **Sales were 2% higher, EBITDA 3% lower vs Bloomberg consensus. Volumes +8% along with rise in both EBITDA margins and A&P**
- **As expected, rural recovery is eventuating with a lag. We expect strong rebound in 2H with sales of +16.5% vs 1H with +7.6%**
- **Retain BUY with revised TP of Rs 6,862. There is an upside potential to FY25 sales and earnings from the impending La Niña**

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Sales beat, EBITDA miss: Compared to consensus, sales were 2% higher, EBITDA 3% lower, EPS 5% higher. Continued investments to drive sales and share restricted EBITDA margin expansion as gross margins were up 150bps YoY.

Focus on topline: BRIT's volumes rose 8% YoY despite the adverse impact from heatwave. We think distribution gains helped results. For FY25 and beyond Britannia is focused on sales growth and intends to increase market share especially in under-indexed categories and regions – cheese, drinks, etc, and the Hindi belt.

Rural recovery to reflect with a lag: Focus markets did not perform as well as internal expectations. In line with our view, rural recovery is reflecting in a lagged manner. Britannia's 100% exposure to Food is limiting growth as elastic categories are the first to benefit. We expect sales to rebound strongly in 2HFY25.

Indicators of upside potential from La Niña: The sequential demand trends from 1QFY25 to 2QFY25 are showing a higher-than-average acceleration. This likely reflects increased consumption in hot beverages and accompaniments on the pickup in monsoon actively. We view this as an indicator of demand trends that will likely follow once the La Niña-driven harsher and extended winter season kicks in.

Savings rate to offset inflation: There was concern on inflation vs pricing vs the impact on margins and/or market shares. We think the annual savings target of ~2% of sales should be sufficient to offset inflation of ~3%-4%. We retain our forecasts with slightly higher sales and margins to reflect the benefit of incentives related to manufacturing operations in Ranjangaon, Uttar Pradesh and Bihar.

Our view & valuation: Britannia remains our preferred stock in FMCG given its 40+% rural sales exposure and an increasing distribution network. Recovery will be slightly delayed but there is a potential upside scenario from La Niña driven by unseasonal rains and extended/harsh winter season. We value BRIT at 57x 12M to Jun'26 EPS – a 10% premium to its historical average vs NIFTY 50. We raise the TP to Rs 6,862 from Rs 6,577. Maintain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BRIT IN/Rs 5,698
Market cap	US$ 16.4bn
Free float	49%
3M ADV	US$ 23.8mn
52wk high/low	Rs 6,005/Rs 4,348
Promoter/FPI/DII	51%/19%/30%

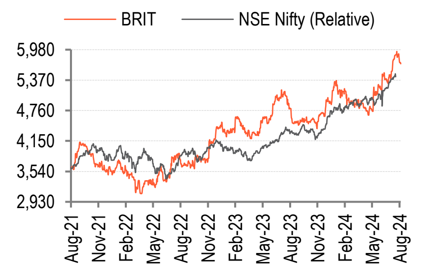
Source: NSE | Price as of 5 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	167,693	187,788	212,382
EBITDA (Rs mn)	31,698	36,302	41,032
Adj. net profit (Rs mn)	21,427	25,038	28,272
Adj. EPS (Rs)	88.9	103.9	117.4
Consensus EPS (Rs)	88.9	100.5	113.3
Adj. ROAE (%)	54.0	52.6	50.8
Adj. P/E (x)	64.1	54.8	48.6
EV/EBITDA (x)	43.3	37.8	33.4
Adj. EPS growth (%)	10.1	16.9	12.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 713 | ⮝ 6%

MARICO | Consumer Staples | 06 August 2024

Focus on long term

- **Compared to consensus, sales were in line and EBITDA 1% higher. Volumes were +4%, an acceleration vs +2% in the Mar'24 quarter**
- **HPC categories are recovering faster than Food for Marico. We expect Food growth to catch up with HPC as rural recovery accelerates**
- **Despite being a medium-term positive, SETU reduces short term visibility on volume growth. Retain HOLD and raise TP to Rs 713**

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Broadly in-line result: MRCO reported 9% underlying EPS growth on 7% sales and 51bps EBITDA margin expansion to 23.7%. Compared to Bloomberg consensus, sales were in line (1% above our estimate), EBITDA 1% higher (in line with our estimate), and EPS 1% lower than our estimate.

Distributor ROI destocking is "one-off": While the distributor ROI is regularly evaluated, the current phase of inventory destocking was on weak sales and volume profile – especially in the Value Added Hair Oil (VAHO) segment due to irrational discounting. This discounting anniversary is in Aug/Sep'24 and so there is possibly one more round of destocking in the Sep quarter.

Project SETU positive medium term, but low visibility on volumes in the short term: Project SETU is a medium to long term positive given increased visibility and control on sales, inventory, ranging, mix, pricing, and promotions. There is a potential to increase sales, mix and share. However, the transitory period will have low visibility on quarterly volume growth profile. The pace and progress of the project remains undisclosed which partly limits the ability to estimate the impact on inventory levels and volume growth. For instance, Project SETU-driven inventory corrections done in the Jun quarter resulted in a volume growth gap with retail offtake. This gap will be bridged in the Mar'25 quarter, which will also include the impact from additional destocking.

FY25 forecasts: On our estimates, 1QFY25 volumes increased +6% ex inventory adjustments in Parachute. For FY25, we forecast 11% sales growth on low single digit pricing and high single digit volumes. We expect 11% growth in EBITDA with margin pressure in 2H.

Our view and valuation: We acknowledge MRCO's strategy to increase direct distribution given above-mentioned benefits. Project SETU for now has reduced visibility on volume growth in the near term, while evidence of success is yet to be seen. We retain HOLD with a TP of Rs 713. We value MRCO at 51x 12M to Jun'26 EPS based on relative valuation vs NIFTY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MRCO IN/Rs 672
Market cap	US$ 10.3bn
Free float	40%
3M ADV	US$ 26.9mn
52wk high/low	Rs 691/Rs 486
Promoter/FPI/DII	59%/25%/16%

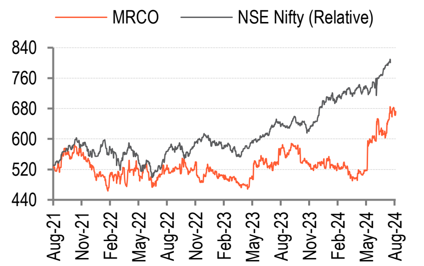
Source: NSE | Price as of 5 Aug 2024

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)	58.5	53.6	49.3
EV/EBITDA (x)	42.8	38.5	35.7
Adj. EPS growth (%)	13.7	9.2	8.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY – Expected return >+15%

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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