FIRST LIGHT

06 June 2023

RESEARCH

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Bank credit growth in Apr'23

HINDUSTAN UNILEVER | TARGET: Rs 3,069 | +13% | BUY

Annual report analysis – Weathering the storm

CONSUMER DURABLES | Q4FY23 REVIEW

Margin worries continue

Daily macro indicators

Ticker	01-Jun	02-Jun	Chg (%)
US 10Y yield (%)	3.60	3.69	10bps
India 10Y yield (%)	6.98	6.98	0bps
USD/INR	82.41	82.30	0.1
Brent Crude (US$/bbl)	74.3	76.1	2.5
Dow	33,062	33,763	2.1
Hang Seng	18,217	18,950	4.0
Sensex	62,429	62,547	0.2
India FII (US$ mn)	**31-May**	**01-Jun**	**Chg ($ mn)**
FII-D	(12.6)	3.8	16.4
FII-E	464.2	321.6	(142.5)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: MONETARY POLICY EXPECTATIONS

In the upcoming credit policy meet of RBI, which is scheduled on 8 Jun 2023, we expect MPC to remain on hold and keep the rates unchanged. We also expect no change in stance or any future rate hikes. In fact, we anticipate earliest possible rate cut in Oct'23. Downward revision to RBI's CPI forecast for FY24 can be expected, by 10-20bps. However GDP forecasts are estimated to remain unchanged. Demonetisation of INR 2000 note may provide temporary relief to liquidity and we thus project 10Y yield to trade in the range of 6.95-7.05% this month.

Click here for the full report.

INDIA ECONOMICS: CORPORATE RESULTS

The corporate sector recorded a fairly steady performance in Q4 of FY23 though growth in sales and net profits slowed down relative to last year. The sector was affected by various forces. On the positive side pent up demand in several areas helped to push up turnover. The correction in prices also helped to bring down input costs in the latter part of the year. However, on the downside the crisis in Ukraine led to high commodity price inflation in the first part of the year. While inflation did temper down, companies did start passing on the higher input costs from Q3 onwards which affected demand in some sectors. Hence inflation had a mixed effect on the prospects

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on industry. Export markets were weak which was expected as the global economy slowed down. The RBI kept increasing the repo rate which put pressure on the interest costs of companies. Therefore, these factors had a differential impact on the performance of companies**.**

Click here **for the full report.**

INDIA ECONOMICS: CREDIT TRENDS

After increasing by 15% in Mar'23, bank credit growth picked up further to 15.9% in Apr'23. It must be noted that while RBI increased repo rate by 250bps in FY23, it kept policy rate steady in its first bi-monthly policy of FY24. Even so, interest rates remain well above historical average. However this has not translated into lower credit offtake which continues to grow at a robust pace driven by steady demand.

Click here **for the full report.**

HINDUSTAN UNILEVER

- Growth momentum continues with 16% YoY topline growth in FY23 and market share gains in >75% of the portfolio
- Premiumisation and market development in focus; the latter added Rs 100bn to turnover for the year, per management
- Expect above-industry growth to continue; maintain BUY with an unchanged TP of Rs 3,069

Click here **for the full report.**

CONSUMER DURABLES: Q4FY23 REVIEW

- Topline growth improves in Q4 amidst demand concerns, though margins remain sedate
- Demand and cost headwinds show signs of abating, raising prospects of a better FY24
- Prefer HAVL, CROMPTON and POLYCAB

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MONETARY POLICY EXPECTATIONS

03 June 2023

RBI to maintain status quo

Sonal Badhan
Economist

In the upcoming credit policy meet of RBI, which is scheduled on 8 Jun 2023, we expect MPC to remain on hold and keep the rates unchanged. We also expect no change in stance or any future rate hikes. In fact, we anticipate earliest possible rate cut in Oct'23. Downward revision to RBI's CPI forecast for FY24 can be expected, by 10-20bps. However GDP forecasts are estimated to remain unchanged. Demonetisation of INR 2000 note may provide temporary relief to liquidity and we thus project 10Y yield to trade in the range of 6.95-7.05% this month.

What has changed since the last policy?: Since the last policy, RBI will be evaluating changes in oil prices, trends in inflation, monsoon and sowing, movement of high frequency indicators and global developments.

Oil prices: At the time of the last policy (6th Apr 2023), international crude oil price was trading at $ 85.1/bbl, and since then it has come down to US$ 76.1/bbl, thus registering a 10.6% decline. Worries of global growth slowdown led by China and the US, and US narrowly averting a debt default dragged the crude prices down. In addition, strong US$ (+2.2% during the same period) also acted as a drag on dollar denominated oil prices.

Domestic inflation scenario: Most recent CPI print shows that retail inflation has come down to 18-month low of 4.7% in Apr'23 from 5.7% in Mar'23. This was largely on account of favourable base. CPI food index also moderated on the same account. Core CPI was down to 5.2% in Apr'23, supported by dip in transport and communication. Current dip international oil prices, food prices and other commodity prices, we expect inflation to remain with RBI's targeted band in coming months. Persistent favorable base will also help. We thus expect RBI to revise its current inflation forecast from 5.2% for FY24 to 5-5.1%. However, upside risks do persist. Delayed onset of the monsoon, voluntary production cuts announced by OPEC+ members to support crude oil prices, and passing of the debt ceiling deal in the US might exert upward pressure on commodity/domestic food prices.

Monsoon and sowing: IMD has recently confirmed that onset of monsoon in Kerala has missed its 4th June 2023 deadline and is now expected to be delayed by another 2-3 days. Under normal circumstances, monsoon in Kerala begins from 1 June and it gradually covers the entire country by 15 Jul. Further it has also warned that conditions might change following the arrival and low pressure area may move away from the coast of India, thus impacting the progress of monsoon. This will have an impact on domestic food prices, and rural demand. RBI will await more details on status of actual rainfall before taking any action.

CORPORATE RESULTS

03 June 2023

How have companies fared in Q4FY23?

Aditi Gupta
Economist

The corporate sector recorded a fairly steady performance in Q4 of FY23 though growth in sales and net profits slowed down relative to last year. The sector was affected by various forces. On the positive side pent up demand in several areas helped to push up turnover. The correction in prices also helped to bring down input costs in the latter part of the year. However, on the downside the crisis in Ukraine led to high commodity price inflation in the first part of the year. While inflation did temper down, companies did start passing on the higher input costs from Q3 onwards which affected demand in some sectors. Hence inflation had a mixed effect on the prospects on industry. Export markets were weak which was expected as the global economy slowed down. The RBI kept increasing the repo rate which put pressure on the interest costs of companies. Therefore, these factors had a differential impact on the performance of companies.

Our earlier studies for Q2 and Q3 showed that while top line growth was steady, net profits of non-BFSI sample companies had declined. Q4-FY23 has been different. Against this background, Table 1 and Table 2 show two things. Growth in sales was steady though lower than last year. Growth in net profits has slowed down for both the aggregate sample as well as the one which excludes BFSI companies. The difference from the past is that growth in net profit is positive indicating some recovery.

Table 1: Performance of 2096 companies (Rs crore)

2096 companies	2021	2022	2023	2022	2023
	Rs crore			% change	
Net Sales	20,08,906	24,30,415	27,21,090	21.0	12.0
Profit after tax	1,87,499	2,36,501	2,77,513	26.1	17.3
PAT margin	9.3	9.7	10.2		

Table 1 reveals that growth in sales has slowed down from 21% in Q4-FY22 to 12% in Q4-FY23 for the sample of 2096 companies while that in net profits has moved from 26.1% to 17.3% during this period. There has been improvement in net profit margin in both the years.

Table 2 excludes BFSI companies. Here the performance is relatively muted with sales growth of 8.8% and net profit of 7.5%. The higher base effect as well as dilution of pent up demand in some sectors contributed to this slower growth. The net profit margin however has been falling over the last two years of this quarter though the dip in Q4-FY23 has been very marginal.

A significant observation here is that the interest cover ratio for the sample of 1797 companies came down to 5.82 from 6.45 last year after witnessing an improvement in FY22. This was a result of both lower growth in PBIT as well as higher interest costs due to the lending rates increasing in the banking system. PBIT had grown by just 4.8% this quarter compared with 9.4% last year. However, interest costs increased sharply by 16.3% compared with 4.7% in Q4-FY22.

CREDIT TRENDS

03 June 2023

Bank credit growth in Apr'23

Aditi Gupta
Economist

After increasing by 15% in Mar'23, bank credit growth picked up further to 15.9% in Apr'23. It must be noted that while RBI increased repo rate by 250bps in FY23, it kept policy rate steady in its first bi-monthly policy of FY24. Even so, interest rates remain well above historical average. However this has not translated into lower credit offtake which continues to grow at a robust pace driven by steady demand.

Table 1 below compares the credit growth across sectors in Apr'23 versus Mar'23. Outstanding credit for both the periods is also given. Interestingly, while growth in bank credit to agriculture, industry and services sector picked up, growth in personal loan segment showed some moderation, on a YoY basis. Based on the table, the following observations can be made:

- Credit to agriculture has picked up to 16.7% in Apr'23 compared with 15.4% in Mar'23 ahead of key cropping season.
- Growth in credit to industry though muted, has shown some improvement and increased by 7% versus 5.7% in Mar'23.
    - This was driven by large companies (5.3% versus 3%).
    - Credit to medium industry continued to register strong growth at 19.1%.
    - However, credit growth to micro and small industry dipped to 9.7% in Apr'23, compared with 12.4% in Mar'23.
- Services segment saw an improvement in credit growth to 21.6% compared with 19.8% in Mar'23.
    - Credit growth in the aviation sector increased sharply by 30% in Apr'23 compared with 18.1% in Mar'23 as air travel continues to surge.
    - Amongst other sectors, credit growth picked up in transport, computer software and PFIs.
    - Credit growth to trade related sectors also improved led by retail.
    - On the other hand, growth in credit to HFCs has decelerated to 7.7% compared with 11.6% in Mar'23.

COMPANY UPDATE

BUY

TP: Rs 3,069 | ⮝ 13%

HINDUSTAN UNILEVER | Consumer Staples | 05 June 2023

Annual report analysis: Weathering the storm

- **Growth momentum continues with 16% YoY topline growth in FY23 and market share gains in >75% of the portfolio**
- **Premiumisation and market development in focus; the latter added Rs 100bn to turnover for the year, per management**
- **Expect above-industry growth to continue; maintain BUY with an unchanged TP of Rs 3,069**

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Steady growth momentum with market share gains: HUVR reported 16% YoY revenue growth in FY23 to Rs 581.5bn, backed by volume growth of 5%. Despite persisting macroeconomic challenges, including tepid market growth, high commodity inflation and geopolitical uncertainties, the company continued to gain market share in more than 75% of its portfolio. It indicated that consumers prioritised essentials over discretionary spends due to the high inflation.

Market development and innovation remain core: HUVR sees a large opportunity to accelerate market development and premiumisation across the face wash, hair post-wash, body lotion, body wash, mask, and serum segments. With a strong portfolio of brands including *Lakmé*, *Dove*, *Pond's* and *TRESemmé*, the company is tapping into emerging demand through new launches such as Dove Hair Fall Therapy shampoo, Lakmé Vitamin C facewash, Pond's Light Hydration moisturiser, Lakmé Sunscreen, and TRESemmé Pro Pure shampoo. Market development activities added Rs 100bn to the company's turnover in FY23, per the annual report.

Strong distribution network and resilient supply chain: HUVR has a footprint in ~9mn retail outlets out of the 11mn outlets present in the country. The company reaches over 2mn of these directly through its network of 3,500+ traditional distributors. Its 'Shikhar' app is used by 1.2mn retail outlets, allowing them to place orders directly with distributors. HUVR has also strengthened its D2C platform to 16 websites serving 19,000 pin codes in the country. It has an extensive supply chain network of 29 owned factories and 50+ manufacturing partners, producing over 65bn units during the year.

Maintain BUY, TP Rs 3,069: HUVR continues to grow ahead of the market and to gain market share despite persisting macro challenges. We expect investments in brand building and innovation to lend further impetus to growth. The stock is trading at 53.5x/46.4x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 52.5x FY25E EPS, in line with the long-term mean, for an unchanged TP of Rs 3,069.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HUVR IN/Rs 2,717
Market cap	US$ 77.7bn
Free float	38%
3M ADV	US$ 44.6mn
52wk high/low	Rs 2,742/Rs 2,100
Promoter/FPI/DII	62%/14%/24%

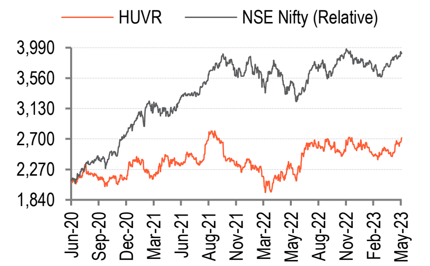
Source: NSE | Price as of 2 Jun 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	6,05,800	6,68,526	7,39,348
EBITDA (Rs mn)	1,41,490	1,68,452	1,93,787
Adj. net profit (Rs mn)	1,01,600	1,19,321	1,37,436
Adj. EPS (Rs)	43.2	50.8	58.5
Consensus EPS (Rs)	43.2	50.1	56.9
Adj. ROAE (%)	20.4	23.3	26.2
Adj. P/E (x)	62.8	53.5	46.5
EV/EBITDA (x)	45.1	37.9	32.9
Adj. EPS growth (%)	14.1	17.9	15.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

CONSUMER DURABLES | Q4FY23 Review | 05 June 2023

Margin worries continue

- **Topline growth improves in Q4 amidst demand concerns, though margins remain sedate**
- **Demand and cost headwinds show signs of abating, raising prospects of a better FY24**
- **Prefer HAVL, CROMPTON and POLYCAB**

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Topline resilient but margins lack vigour: In Q4FY23, our consumer durables universe clocked similar trends as in Q3, with topline growth of 16% YoY but a slight 20bps dip in EBITDA margin. The pickup in revenue was reasonable considering inflationary pressure and weather disruptions, but margins flagged owing to price discounts to push sales. Thus, margin recovery stands delayed beyond our earlier expectation of H2FY23 to H1FY24 which should see tailwinds from seasonal summer demand and price hikes

Patchy demand in fans and ACs…: Room air conditioning players saw uneven demand while the fans segment suffered from the overhang of energy rating transition. CROMPTON led the charge in fans with its strategy of pushing new star-rated products vs. peers who promoted older inventory and had a muted quarter. Higher channel inventory dampened sale volumes even as price discounts weighed on margins. The kitchen appliances division exhibited slow demand trends and sedate margins for CROMPTON (Butterfly Gandhimathi) and VGRD (Sunflame).

…but seasonal boost ahead: The outlook for both ACs and fans looks promising for H1FY24 amidst a seasonally favourable period, channel refilling and scope for price hikes.

EMS on a strong footing: In contrast to consumer durables players, electronic manufacturing services (EMS) companies across our coverage saw robust demand traction and strong topline growth (only DIXON posted flat YoY growth). In addition to healthy order books, our coverage companies added new clients and incurred capex to cater to future demand, reflection demand traction.

Top picks: We now prefer **HAVL** (TP Rs 1,500, BUY), **CROMPTON** (TP Rs 370, BUY), and **POLYCAB** (TP Rs 3,900, BUY) in the consumer durables space. In the air conditioning space, we continue to prefer BLSTR (TP Rs 1,650, BUY).

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,182	2,260	HOLD
BLSTR IN	1,442	1,650	BUY
CROMPTON IN	273	370	BUY
DIXON IN	3,966	4,100	BUY
HAVL IN	1,331	1,500	BUY
KEII IN	2,094	2,130	BUY
ORIENTEL IN	240	240	HOLD
POLYCAB IN	3,552	3,900	BUY
SYRMA IN	386	440	BUY
VGRD IN	252	270	HOLD
VOLT IN	819	900	HOLD

Price & Target in Rupees | Price as of 2 Jun 2023

Consumer Durables: Q4 result reviews

Company	Result review link
AMBER IN	Strong performance on new client and capacity addition
BLSTR IN	Momentum continues; outlook bright
CROMPTON IN	Mixed quarter
DIXON IN	In-line quarter; strong guidance reiterated
HAVL IN	Moderate quarter; in-line performance
KEII IN	Momentum continues; capacity addition to spur growth
ORIENTEL IN	Weak end to a challenging FY23
POLYCAB IN	Cables business resilient
SYRMA IN	Strong show; positive outlook intact
VGRD IN	Sunflame key for FY24
VOLT IN	EMP underperformance overshadows resilient cooling business

Source: BOBCAPS Research

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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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