FIRST LIGHT

08 October 2024

RESEARCH

MARICO | TARGET: Rs 653 | -4% | HOLD

Marico Bangladesh operationally fine; 2QFY25 miss

BOB ECONOMICS RESEARCH | BOB ESSENTIAL COMMODITIES INDEX

Inflation may surprise on the upside

BOB ECONOMICS RESEARCH | TOTAL BANK CREDIT

Sectoral Credit-Aug'24

BANKING | Q2FY25 PREVIEW

Growth moderation to drag overall performance

METALS & MINING | Q2FY25 PREVIEW

Weak Q2; possible recovery in Q3

SUMMARY

MARICO

- MB's 1QFY25 DPS is paid out, bringing trailing 12M payout ratio to 76%. Two cash repatriations were executed within a 30-day period
- 2QFY25 update implies an EBITDA miss, but domestic volumes were up in mid-single digits (MSD) while rural demand likely accelerated vs 1Q
- Domestic business appears on track while the MB dividend payouts provide some comfort on the cash repatriation issue. Upgrade to HOLD

Click here **for the full report.**

INDIA ECONOMICS: BOB ESSENTIAL COMMODITIES INDEX

BoB Essential Commodity Index (BoB ECI) exhibited some stickiness in Sep'24. Its pace of disinflation reduced led by vegetables such as tomato and onion. For tomato, the Sep'24 mandi arrival have more than halved compared to Aug'24, on account of excess rainfall. Seasonality along with supply side disruption is making the cycles of these volatile items of CPI more entrenched. Core inflation is also likely to exhibit upward correction amidst revival in rural demand on the back of improved sowing. This coupled with ongoing festive demand and elevated gold prices as an effective hedge amidst geopolitical conflict, might pose upside pressure on core in the near term.

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INDIA ECONOMICS: TOTAL BANK CREDIT

RBI has recently released its data on sector-wise credit growth till Aug'24. In YoY terms, it is higher supported by higher food and non-food credit demand. Within non-food, credit to agriculture and industry has picked up the most. Going forward, we expect credit demand to remain steady. While personal loan and services sector will be supported by upcoming festive demand which will boost the consumption sector, credit to industry will be buoyed by improvement in investment climate and uptick in capex.

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BANKING: Q2FY25 PREVIEW

- Credit growth likely to remain broad based, while moderation in growth likely to ease C-D ratio for the entire system
- Opex remained elevated with no major asset quality shock in Q2, although unsecured retail book will likely remain under pressure
- Overall performance to remain moderate; HDFCB, KMB, IIB, SBIN are our top picks

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- Q2FY25 likely to turn out to be the second weakest quarter in terms of EBITDA profit over the past four years for our Ferrous coverage
- We believe ferrous majors experienced weaker sales in Q2 relative to industry, besides margin contraction due to pullback in prices
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HOLD
TP: Rs 653 | ∀ 4%

MARICO | Consumer Staples | 07 October 2024

Marico Bangladesh operationally fine; 2QFY25 miss

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Upgrade to HOLD. Bangladesh operationally better; 1QFY25 dividend has come through: While cash still contributes 41% of MB's total assets, two dividend repatriations in <30 days is comforting. Operationally, the Indian parent noted high single digit sales growth in MB in the Sep quarter – a strong result given the trade disruption. Operations are close to normal and long-term targets remain intact.

2QFY25 update; in-line sales but EBITDA miss; continued strength in rural: Compared to Bloomberg consensus, it implies in-line sales and a low single digit (LSD) to MSD miss on EBITDA. Rural remained ahead of urban while the group sales growth run rate also improved sequentially.

Domestic & International trends: (1) Domestic volumes grew MSD. We estimate sequential volume trend at flat to positive assuming destocking at 1Q rate. Parachute volumes were +MSD with sales up in double digits. Saffola +LSD while Value Added Hair Oil remained subdued. Foods and Digital-first brands were ahead of targets. (2) International constant FX sales were up in low teens. Bangladesh was up in the high single digits, with a largely stable demand environment.

FY25E outlook: MRCO reiterated double-digit sales growth but cautioned on 2HFY25 margins due to inflation. Another round of copra pricing went through in Sep'24. We marginally increase our sales forecasts to reflect additional pricing pass through but reduce margins to result in 2% lower EBITDA for 2QFY25. The impact from inflation in vegetable oils (import duty) and copra will be more prominent in 3QFY25 but pricing will also be better. Our FY25 sales forecasts are 1% higher but EBITDA is revised down by 1%. FY26E and FY27E EBITDA remain unchanged as we expect pricing to offset incremental inflation (copra, vegetable oil).

Valuation and our view: While repatriations are a positive development on Bangladesh exposure, this trend needs to improve with higher payouts to reduce the consolidated business's above-normal cash exposure. We continue to use the P/E rel method, but remove the 15% discount to historical average – keeping it below the average 10% premium that we apply on our FMCG group. At an implied 49.0x P/E 12M to Sep'26, we derive our Rs 653 TP with a negative 4% return. HOLD.

Key changes

Target	Rating
▲	▲

Ticker/Price	MRCO IN/Rs 679
Market cap	US$ 10.4bn
Free float	40%
3M ADV	US$ 22.5mn
52wk high/low	Rs 720/Rs 486
Promoter/FPI/DII	59%/25%/16%

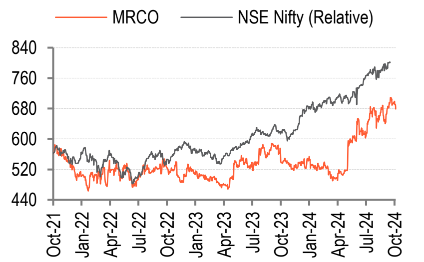
Source: NSE | Price as of 7 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	96,530	107,206	117,657
EBITDA (Rs mn)	20,260	22,331	24,304
Adj. net profit (Rs mn)	14,810	16,003	17,458
Adj. EPS (Rs)	11.5	12.4	13.5
Consensus EPS (Rs)	11.5	11.9	13.5
Adj. ROAE (%)	36.5	36.5	36.0
Adj. P/E (x)	59.1	54.7	50.2
EV/EBITDA (x)	43.2	39.2	36.0
Adj. EPS growth (%)	13.7	8.1	9.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOB ESSENTIAL COMMODITIES INDEX

05 October 2024

Inflation may surprise on the upside

Dipanwita Mazumdar
Economist

BoB Essential Commodity Index (BoB ECI) exhibited some stickiness in Sep'24. Its pace of disinflation reduced led by vegetables such as tomato and onion. For tomato, the Sep'24 mandi arrival have more than halved compared to Aug'24, on account of excess rainfall. Seasonality along with supply side disruption is making the cycles of these volatile items of CPI more entrenched. Core inflation is also likely to exhibit upward correction amidst revival in rural demand on the back of improved sowing. This coupled with ongoing festive demand and elevated gold prices as an effective hedge amidst geopolitical conflict, might pose upside pressure on core in the near term.

We expect CPI to settle around 5.1% in Sep'24, with risks tilted to the upside.

To get an idea about the calculation of the index, refer to our previous edition of BoB ECI.

Price picture using BoB Essential Commodity Index:

- Sequentially, BoB ECI is exhibiting upside surprise. The pace of disinflation has reduced to -0.3% in Sep'24 from -1.1% in Aug'24. Out of 20 essential commodities tracked in the index, 15 of them have exhibited increase in retail prices. Among them, sharpest increase was visible in case of vegetables such as Tomato (-9.1% in Sep'24 compared to -23.3% in Aug'24) and Onion (13.3% compared to 3.2%). Retail prices of major components of edible oils such as mustard, sunflower and soya oil have also increased considerably. Higher international prices of edible oils are getting reflected in the domestic basket. Price pressure was broad based and even visible in case of cereals, salt, tea and few components of pulses such as Gram, Urad and Moong. However, a lot of increase in prices is attributable to seasonal phenomenon. On a seasonally adjusted basis, the fall in BoB ECI is sharper at -0.6% in Sep'24.

- On YoY basis, BoB ECI rose by 4.7% in Sep'24. The YoY picture broadly mirrors the sequential one, with major increase concentrated in Tomato (16.6%) and Onion (53%). For onion, the increase is significant as it comes in the wake of an elevated base.

- BoB ECI in Oct'24 (first 4 days) further inched up by another 1.4% on sequential basis and on YoY basis, it is at 5.9%, with the increase in tomato prices even sharper than seen in Sep'24.

TOTAL BANK CREDIT

05 October 2024

Sectoral Credit-Aug'24

Jahnavi Prabhakar
Economist

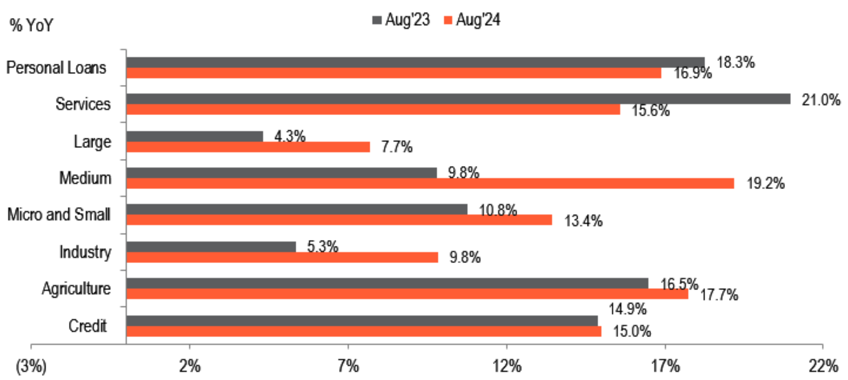
RBI has recently released its data on sector-wise credit growth till Aug'24. In YoY terms, it is higher supported by higher food and non-food credit demand. Within non-food, credit to agriculture and industry has picked up the most. Going forward, we expect credit demand to remain steady. While personal loan and services sector will be supported by upcoming festive demand which will boost the consumption sector, credit to industry will be buoyed by improvement in investment climate and uptick in capex.

Overall trends in credit growth:

Total bank credit remain (excl merger) steady registering a growth of 15% on YoY basis as of Aug'24, similar growth level in Jul'24 and 14.9% as of Aug'23. The non-food credit demand has also grown by 15% in Aug'24 with broadly similar growth last year. On the other hand, the food credit demand has seen some moderation as it registered a growth of 25.9% in Aug'24 from 35.3% in Jul'24 after declining by (-) 30.3% in Aug'23. For the financial year, the overall bank credit demand has slowed down by 3.5% (Aug'24 over Mar-end) from 4.7% in the previous year.

For Aug'24, the credit to agriculture sector rose at a steady pace of 17.7% from 18.1% in Jul'24 and higher than 16.5% growth in Aug'23. Credit to industry sector has slowed down marginally to 9.8% (10.8% in Jul'24) from 5.3% growth back in Aug'23. While the credit demand for the services sector remains robust at 15.6% in Aug'24 from 15.4% in Jul'24 and 21% in Aug'23.

Figure 1: Total credit demand



Source: RBI, Bank of Baroda Research

BANKING | Q2FY25 Preview | 07 October 2024

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Healthy business growth continued: According to Reserve Bank of India data, system credit grew 13.1% YoY, declining 250bps QoQ for the fortnight ended 20 Sep'24. Although growth is likely to remain broad based, we expect some moderation in unsecured retail book. Further, given the ongoing system dynamics and liquidity situation, we expect system credit growth to converge with deposit growth and remain stable at 12-13% for FY25.

Sequential moderation in credit offtake to ease C-D ratio: Deposit mobilisation continued to recover although from a lower base, while sequential moderation in credit growth is likely to drag the C-D ratio, in our view. The rising interest rate trend in the deposit rate was somewhat moderate aiding banks in margin compression, while higher competitive intensity in retail along with wholesale book limited the expansion in margin for Q2. Banks continued to depend on borrowing programmes like infrastructure bonds and term deposits (TDs) to fund assets. Higher dependence on TDs is likely to keep the CASA ratio under pressure. Continued rise in CoF is likely to keep margin under pressure and we expect a 3-5bps decline in margin for the system for Q2 as well while expecting better H2 in terms of growth and margin.

Slippages to remain in check: We expect incremental stress from unsecured retail vs. agriculture in Q1 (seasonality) leading to flat GNPA and NNPA with stable PCR. Credit cost normalisation will continue to drag bottomline, in our view. Although we don't see any major challenges for stress generation both in standard and restructured book, movement in SMA would be key to watch. In our view, business growth moderation will likely take a toll on topline while increased cost of funds will limit margin expansion. Opex will remain elevated as banks strive for higher deposit mobilisation to fund assets. Sequential rise in provisions is likely to drag PAT and we expect overall performance for the system to remain under pressure for Q2 while expecting better H2 both in terms of growth and margin following reversal in interest rate cycle. We continue to prefer HDFCB (BUY, TP Rs 1,872), KMB (BUY, TP Rs 2,000), IIB (BUY, TP Rs 1,844), SBIN (BUY, TP Rs 1,044) and RBK (BUY, TP Rs 276) in the sector.

METALS & MINING | Q2FY25 Preview | 07 October 2024

Weak Q2; possible recovery in Q3

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- **While Q3 starts on a positive note with possible fiscal stimulus in China, steel margin surprise will also need solution to surplus in China**

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Second weakest quarterly EBITDA over past 4 years: We expect Q2FY25E EBITDA for Indian operations of the four ferrous majors under our coverage (Ferrous coverage) to be Rs 133bn, resulting in a 21% sequential and 34% YoY decline. Similarly, consolidated EBITDA at Rs 124bn, as per our estimates, is also likely to see a decline of 29% QoQ and 32% YoY. This turns out to be the second weakest quarter over the past four years.

Majors' volume weaker than industry: We expect sales volume to decline by 6% YoY for our Ferrous coverage in Q2 in sharp contrast to 12% YoY consumption growth over Jul-Aug'25 for the industry as a whole. JSP and SAIL are likely to see higher declines with higher focus on long products. We attribute the weakness to lower exports, higher competition from imports and secondary players, slower resumption of infrastructure spend post election and softer demand for flat products.

Margin contraction: We expect EBITDA/t margin for our Ferrous coverage to decline by Rs 2.1k/t QoQ to Rs 7.9k/t in Q2. The decline is the result of a sharp decline in prices to the order of Rs 3.0k-3.5k/t for flat products and Rs 4.8k-5.4k/t for long products, and is only partially offset by a sequential reduction of US$ 15-30/t in coking coal costs. While iron ore costs declined by Rs 0.5k/t, only limited benefit will flow through for JSTL and JSP due to inventories and lag in adjustment of taxes.

Q3 starts on a positive note: With the expectation of release of fiscal stimulus in China to stabilise domestic economy, China's domestic HRC prices (14% from the recent lows), export HRC prices (4%) and iron ore prices (10%) rallied over the last week. However, the sustenance of this rally will depend on the actual implementation of previously-announced measures and announcement of follow-up support measures. Ferrous markets in China also need supply-side adjustments to tide over more than 100mt of surplus capacity.

Key drivers for the Indian ferrous sector: We have a neutral stance on Indian ferrous players with stocks largely pricing in future volume growth. For any margin surprise beyond mid-cycle levels, China needs to address domestic surplus.

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Note: Recommendation structure changed with effect from 21 June 2021

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