FIRST LIGHT

10 April 2023

RESEARCH

[INITIATION] LIC | TARGET: Rs 800 | +45% | BUY

Behemoth at a bargain; initiate with BUY

BOB ECONOMICS RESEARCH | MONTHLY ECONOMIC BUFFET

Economic Round-up: March 2023

BOB ECONOMICS RESEARCH | MONETARY POLICY REVIEW

RBI surprises with a pause

IT SERVICES | Q4FY23 PREVIEW

Global banking crisis dulls outlook

CAPITAL GOODS | Q4FY23 PREVIEW

Impetus to continue

CONSUMER DURABLES | Q4FY23 PREVIEW

A lacklustre end to FY23

Daily macro indicators

Ticker	04-Apr	05-Apr	Chg (%)
US 10Y yield (%)	3.34	3.31	(3bps)
India 10Y yield (%)	7.31	7.27	(4bps)
USD/INR	82.33	82.00	0.4
Brent Crude (US$/bbl)	84.9	85.0	0.1
Dow	33,402	33,483	0.2
Hang Seng	20,409	20,275	(0.7)
Sensex	59,106	59,689	1.0
India FII (US$ mn)	**31-Mar**	**03-Apr**	**Chg ($ mn)**
FII-D	5.7	(70.0)	(75.7)
FII-E	287.8	67.8	(220.1)

Source: Bank of Baroda Economics Research

SUMMARY

[INITIATION] LIC

- Extensive presence, brand equity and leadership in group life business serve as strong moats, supporting NBP market share of over 60%
- Thrust on profitable non-par products forecast to lift VNB margin to 19% in FY25 from 15% in FY22
- Trades at 70% discount to private peers despite solid positioning; initiate with BUY for a TP of Rs 800, set at 0.7x FY25E P/EV

Click here for the full report.

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INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

Global growth is showing signs of slowdown as mixed economic data is being reported from the US and China. While in the US labour market is beginning to show the impact of elevated rates, in China, recovery is losing momentum as is visible from official PMI readings. Even in Europe, manufacturing sector continues to suffer at the hands of weak global demand. Further, cracks that had appeared in the global financial system (due to SVB, Credit Suisse) will also put pressure on global central banks to slowdown/stop their tightening cycle. There is now a greater chance of Fed hitting a pause button from its next policy meeting in view of flattering labour market. Even BoE is likely to pause soon, while RBA has already put a stop to its rate hike spree. On the positive side, inflationary pressures have begun to cool off, leaving consumers with a higher purchasing power, which in turn may support domestic demand. Housing sector is also seeing revival in US and China.

Click here for the full report.

INDIA ECONOMICS: MONETARY POLICY REVIEW

MPC members today unanimously decided to keep the policy rates unchanged, after hiking continuously since May'22. With this, repo rate remains unchanged at 6.5%, SDF at 6.25% and MSF and bank rate at 6.75%. In doing so, the central bank maintained its stance of "withdrawal of accommodation" as inflation remains above RBI's targeted level. For FY24, inflation forecast was revised downward to 5.2% and GDP forecast upward to 6.5%. Given the baseline assumptions, we do not expect RBI to hike rates any further this year. However, in case upside risks for inflation play out and CPI begins to inch up again, RBI has kept its options open to increase rates. Our FY24 expectation for inflation is slightly on the higher side at 5.5%, while GDP forecasts are in line (6-6.5%) with the central bank.

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IT SERVICES | Q4FY23 PREVIEW

- Global IT services companies expect an anaemic Mar'23 quarter and a weak CY23; Indian players foresee near-term pressure over Apr-Sep
- Bank contagion risk (SVB/Credit Suisse) appears contained for now but long-term impact on the financial sector is unclear
- We remain selective and continue to prefer INFO (top pick) and HCLT among tier-I Indian IT players

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CAPITAL GOODS | Q4FY23 PREVIEW

- EPC players likely to maintain execution momentum in Q4 while product companies could see weaker toplines as they battle chip shortages
- Order booking expected to be strong across companies, barring TMX, with LT projected to exceed guided inflows
- Expect a stable sequential EBITDA margin for our coverage on strong EPC project execution. LT and SIEM remain our top picks

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CONSUMER DURABLES | Q4FY23 PREVIEW

- Flagging demand and unseasonal rains in March dampen our Q4 outlook for consumer durables companies
- Fan players seeing slower sales post BEE rating transition in Jan'23; AC demand resilient despite errant weather
- Expect tepid 6.4%/3.5% YoY topline/bottomline growth for our coverage; prefer HAVL, CROMPTON and BLSTR

Click here for the full report.

BUY
TP: Rs 800 | ⮝ 45%

LIC | Insurance | 06 April 2023

Behemoth at a bargain; initiate with BUY

- **Extensive presence, brand equity and leadership in group life business serve as strong moats, supporting NBP market share of over 60%**
- **Thrust on profitable non-par products forecast to lift VNB margin to 19% in FY25 from 15% in FY22**
- **Trades at 70% discount to private peers despite solid positioning; initiate with BUY for a TP of Rs 800, set at 0.7x FY25E P/EV**

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Dominant force: Industry titan LIC has consistently posted NBP market share of 60%+ overall and ~80% in group business despite stiff competition from private peers. Individual APE market share has moderated from 46% in FY17 to 35% in FY23 YTD but remains healthy. More pertinent, is the growth in balance sheet from Rs 25tn in FY17 to Rs 42tn at end-FY22, an average rise of Rs 3.3tn p.a. LIC is also the largest asset manager in India with AUM of Rs 44tn as of 9MFY23 vs. Rs 40tn for MF industry. Its APE logged an 8% CAGR over FY17-FY22 to Rs 532bn, and we forecast a 13% CAGR over FY22-FY25 to Rs 763bn with NBP likely to rise at 18%.

Product mix change to bolster VNB margin: The company has traditionally maintained a par-heavy product mix (~60% of overall APE and 90%+ of individual APE) but is now intent on growing its non-par business. It introduced six non-par products in FY23 YTD and was able to raise the share of this business from 7.1% of APE at end-FY22 to 9.5% at end-9MFY23. We believe a gradual shift in mix will aid VNB margin expansion by 400bps to 19% in FY25 from 15.1% in FY22.

High agent productivity: LIC employs 50%+ industry's agency force. As of 9MFY23, 96% of individual NBP was sourced through the agency, a trend consistent with the 4Y average since FY19. With sales of 15.6 individual policies per agent at end-FY22, LIC's productivity is well ahead of listed private peers (0.9-4.6 policies).

Key concerns addressed: High sensitivity to capital markets and balance sheet volatility from equity markdowns do remain concerns, but we derive comfort from LIC's seasoned management team. Withdrawal of tax exemption on big-ticket life insurance policies from FY24 will have a minimal impact, per our analysis.

Initiate with BUY: The stock is currently trading at 0.5x FY25E EV, a 70% discount to peers which we expect will narrow. We value LIC at 0.7x FY25E EV (60% discount) for a TP of Rs 800 and initiate with BUY given the company's entrenched brand equity, clear market leadership, superior agency force, improving margin profile and robust claim settlement (95%+). Positive stock triggers include a more profitable product mix, structural rise in VNB margins and a sustained reputation for settling claims.

Ticker/Price	LICI IN/Rs 550
Market cap	US$ 42.4bn
Free float	4%
3M ADV	US$ 10.8mn
52wk high/low	Rs 919/Rs 530
Promoter/FPI/DII	97%/0%/1%

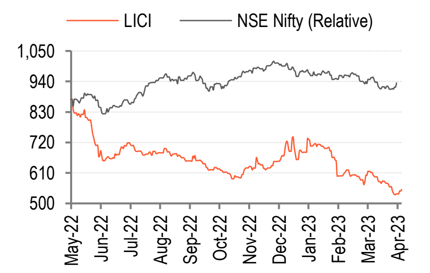
Source: NSE | Price as of 5 Apr 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
NBP (Rs mn)	19,96,918	23,91,986	28,25,760
APE (Rs mn)	5,31,599	6,04,296	6,80,532
VNB (Rs mn)	76,190	1,02,730	1,22,496
Embedded Value (Rs	54,14,930	59,50,855	65,49,419
VNB margin (%)	15.1	17.0	18.0
EVPS (Rs)	856.1	940.8	1,035.5
EPS (Rs)	6.5	27.5	32.8
Consensus EPS	6.5	30.7	33.9
P/EV (x)	0.6	0.6	0.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

MONTHLY ECONOMIC BUFFET

06 April 2023

Economic Round-up: March 2023

Sonal Badhan
Economist

Global growth is showing signs of slowdown as mixed economic data is being reported from the US and China. While in the US labour market is beginning to show the impact of elevated rates, in China, recovery is losing momentum as is visible from official PMI readings. Even in Europe, manufacturing sector continues to suffer at the hands of weak global demand. Further, cracks that had appeared in the global financial system (due to SVB, Credit Suisse) will also put pressure on global central banks to slowdown/stop their tightening cycle. There is now a greater chance of Fed hitting a pause button from its next policy meeting in view of flattering labour market. Even BoE is likely to pause soon, while RBA has already put a stop to its rate hike spree. On the positive side, inflationary pressures have begun to cool off, leaving consumers with a higher purchasing power, which in turn may support domestic demand. Housing sector is also seeing revival in US and China.

Global growth: Economic activity is showing signs of slowdown in the US (manufacturing PMI, job openings, factory orders, retail sales), while it seems to be improving in China, albeit at a slower pace (industrial productions, real estate, FAI, retail sales). In Eurozone, while manufacturing sector still reels under the pressure of weakness in export demand, services activity is seen picking up pace. Sharp drop in energy prices in Europe has led to decline in headline CPI and leaving consumers with higher purchasing power. However, stickiness in core inflation is still worrisome and can dent consumer demand. However, the economic outlook is not as bleak as earlier anticipated and both Germany and UK expecting to avoid recession this year.

Global Central Banks: Despite turmoil in the financial markets (led by SVB and Credit Suisse), major global central banks opted for continued rate hikes. US Fed and BoE raised their key policy rates by 25bps, while ECB announced a 50bps hike. Major central banks (Fed, ECB, BoE, BoJ, Bank of Canada, & Swiss National Bank) also announced joint liquidity operations to address liquidity concerns. According to the statement, frequency of 7-day maturity operations, under the existing US dollar swap lines, will be increased from weekly to daily. Going ahead, while ECB has vowed to maintain its hawkish stance, investors are split in case of BoE and US Fed. While in case of BoE there is a 50-50 chance that it may opt for a pause, in case of Fed, the likelihood currently stands at 59%, owing to slowdown in growth. BoJ and PBOC on the other hand will maintain loose monetary policy for now.

Key macro data releases: On the industrial production side, core sector growth slowed down by 6% in Feb'23 after growing by 8.9% in Jan'23 on the back of broad-based moderation. Cumulatively, for the year, infrastructure index eased to 7.8% in FYTD23 (Apr-Feb'23) compared with a growth of 11.1% in the previous year. Production of crude oil, coal, natural gas and refinery and electricity fell.

MONETARY POLICY REVIEW

06 April 2023

RBI surprises with a pause

Sonal Badhan
Economist

MPC members today unanimously decided to keep the policy rates unchanged, after hiking continuously since May'22. With this, repo rate remains unchanged at 6.5%, SDF at 6.25% and MSF and bank rate at 6.75%. In doing so, the central bank maintained its stance of "withdrawal of accommodation" as inflation remains above RBI's targeted level. For FY24, inflation forecast was revised downward to 5.2% and GDP forecast upward to 6.5%. Given the baseline assumptions, we do not expect RBI to hike rates any further this year. However, in case upside risks for inflation play out and CPI begins to inch up again, RBI has kept its options open to increase rates. Our FY24 expectation for inflation is slightly on the higher side at 5.5%, while GDP forecasts are in line (6-6.5%) with the central bank.

Surprise pause: As against our expectation of 25bps hike, MPC members unanimously decided to keep the repo rate unchanged at 6.5%. Subsequently, SDF rate remains at 6.25% and MSF and Bank rate at 6.75%. Cumulatively, RBI has raised repo rate by 250bps since May'22. However, Governor in his statement clarified that "the decision to pause on the repo rate is for this meeting only" and that "while closely monitoring the evolving inflation outlook, the MPC will not hesitate to take further action as may be required in its future meetings". RBI governor further explained that today's decision has also been taken to assess the impact of previous rate hikes. The central bank also decided to keep its focus on "withdrawal of accommodation", as inflation currently remains above RBI's targeted band. This allows RBI to keep its options open for rate hike in case upside risks to inflation actually play out.

GDP growth forecast revised upward: For FY23, the central bank continues to assume 7% growth, which is line with NSO's estimates. However, for FY24 projection was revised upward by 10bps to 6.5% from 6.4% noted in Feb'23 policy. RBI's more optimistic economic outlook is on the back of: higher Rabi production, which will help boost agriculture sector and rural demand; continued strength in service sector activity which will help urban demand; and government's enhanced budget for capex spending in FY24. Investment activity is seen improving led by government's push to infrastructure spending and higher capacity utilization. The revisions have been made mainly for growth in H2FY24. Current RBI growth projections stand at: Q1 at 7.8%, Q2 at 6.2%, Q3 at 6.1% (6% in Feb'23 policy) and Q4 at 5.9% (5.8% in Feb'23 policy). Downside risks to growth have been sighted as: slowing global demand which can hamper our exports, prolonged geo-political tensions, and increased volatility in international financial markets.

Inflation projections lowered: For the current fiscal year (FY24), RBI projects inflation to moderate to 5.2% compared with 5.3% estimated in its Feb'23 policy. Some of the key factors which led to the downward revision of CPI forecast included: correction in wheat prices, moderation in global commodity prices, dip in inflation expectations of households, and sharp downward revision in RBI's assumption of crude prices (US$ 85/bbl versus US$ 95/bbl assumed in Feb'23).

IT SERVICES | Q4FY23 Preview | 06 April 2023

Global banking crisis dulls outlook

- **Global IT services companies expect an anaemic Mar'23 quarter and a weak CY23; Indian players foresee near-term pressure over Apr-Sep**
- **Bank contagion risk (SVB/Credit Suisse) appears contained for now but long-term impact on the financial sector is unclear**
- **We remain selective and continue to prefer INFO (top pick) and HCLT among tier-I Indian IT players**

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Dull outlook…: A deteriorating global macroeconomic environment alongside possible recession in the US and Europe has dampened the near-term growth prospects of Indian IT companies. Enterprises have started to prune discretionary spends and shift focus to cost savings. Deal pipelines have not yet shrunk, but conversion to wins is taking longer. Recent guidance from global IT services companies points to a weak CY23 fronted by an anaemic Mar'23 quarter. Q3FY23 (Oct-Dec) earnings commentary from the Indian IT industry also indicates weakness over the next few quarters with a pickup in revenue growth only in H2FY24.

…but recovery likely in FY25: Gartner expects IT services spends to grow by 5.5% YoY in constant currency (CC) in CY23 vs. 3% YoY CC in CY22 despite the volatile macro situation. We anticipate a subdued year for the sector but a healthy recovery in FY25 as structural demand remains intact.

BFSI woes dampen Q4FY23 outlook: With the global banking sector in turmoil, we expect a flight to safety to bank deposits of larger banks over regional ones. Indian IT companies' exposure to US regional banks is a low-to-mid-single-digit percentage of overall revenue, but their overall exposure to the BFSI vertical is significant (ranging from 16-38% for tier-I players. This may cause a decline in sequential revenue growth in Q4FY23.

Impact of banking crisis yet to fully unfold: The actions of global central banks in relation to the Silicon Valley Bank (SVB) and Credit Suisse collapses appear to have contained the risk for now, but the long-term fallout remains unclear.

Stay selective on Indian IT: We remain selective on the Indian IT services space and continue to like INFO (our top pick, BUY, TP Rs 1,760) and HCLT (BUY, Rs 1,240) within tier-I IT. Any correction in these names can be used as an opportunity to accumulate.

Recommendation snapshot

Ticker	Price	Target	Rating
HCLT IN	1,111	1,240	BUY
INFO IN	1,424	1,760	BUY
TCS IN	3,240	3,580	HOLD
TECHM IN	1,104	1,160	HOLD
WPRO IN	370	440	HOLD

Price & Target in Rupees | Price as of 5 Apr 2023

CAPITAL GOODS | Q4FY23 Preview | 06 April 2023

Impetus to continue

- **EPC players likely to maintain execution momentum in Q4 while product companies could see weaker toplines as they battle chip shortages**
- **Order booking expected to be strong across companies, barring TMX, with LT projected to exceed guided inflows**
- **Expect a stable sequential EBITDA margin for our coverage on strong EPC project execution. LT and SIEM remain our top picks**

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EPC players to maintain momentum, product companies to slow: We expect EPC players under our coverage to maintain their strong project execution momentum in Q4FY23, aiding estimated revenue growth of 19% QoQ. LT is likely to surpass its topline growth guidance of 12-15% for FY23. Conversely, product-based companies such as KKC, SIEM and ABB typically experience a seasonal slowdown during the fourth quarter – we thus expect a 1% QoQ decline in their aggregate topline. Overall, our coverage universe is expected to achieve substantial sequential revenue growth of 16% QoQ and respectable YoY growth of 7%.

Order inflows to gain pace: We expect the vigorous order momentum seen in 9MFY23 to continue into Q4. LT has an impressive order pipeline of Rs 4.9tn for the rest of FY23, and the announcement of orders in the range of Rs 270bn-Rs 465bn for the March quarter hints at potential inflow of Rs 700bn+ assuming a 50% disclosure rate. On the other hand, we expect order inflows for TMX to moderate compared to H1FY23 given the company's shift in focus to smaller projects. Meanwhile, SIEM and ABB are continuing with large programmes focused on digitalisation, decarbonisation and energy efficiency solutions.

Margins to sustain: We anticipate a stable EBITDA margin QoQ of 11.1% for our capital goods universe. For EPC players, projects booked during the inflationary period over the past 12-15 months will now be executed. Pertinently, we remain cautious on LT's operating margin. Product-based companies are still grappling with supply chain constraints and chip shortages despite efforts to localise production. We expect a 250bps QoQ contraction for these players (partly due to normalisation of margins). Hitachi Energy could face a persistent chip shortage in Q1FY24 as well.

Top picks: We believe LT will exceed its guidance of 12-15% growth in order inflow and revenue for FY23, though its margin is expected to remain under pressure. SIEM, ABB, TMX and KKC are likely to see a soft quarter for their product-based businesses, whereas KECI could deliver a positive surprise in terms of working capital with subsidiary SAE Brazil also expected to perform well. LT (BUY, TP Rs 2,440) and SIEM (BUY, TP Rs 3,800) remain our top picks.

Recommendation snapshot

Ticker	Price	Target	Rating
ABB IN	3,374	3,220	HOLD
AIAE IN	2,966	3,300	BUY
KECI IN	455	500	HOLD
KKC IN	1,569	1,600	HOLD
LT IN	2,258	2,440	BUY
POWERIND IN	3,224	3,500	BUY
SIEM IN	3,351	3,800	BUY
TMX IN	2,324	2,200	HOLD

Price & Target in Rupees | Price as of 5 Apr 2023

CONSUMER DURABLES | Q4FY23 Preview | 06 April 2023

A lacklustre end to FY23

- **Flagging demand and unseasonal rains in March dampen our Q4 outlook for consumer durables companies**
- **Fan players seeing slower sales post BEE rating transition in Jan'23; AC demand resilient despite errant weather**
- **Expect tepid 6.4%/3.5% YoY topline/bottomline growth for our coverage; prefer HAVL, CROMPTON and BLSTR**

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Weak demand mars Q4 prospects: We expect Q4FY23 to be a slow quarter as inflationary pressures, poor rural offtake and unseasonal rains have weighed on demand and deterred anticipated price hikes. Players in the fan (CROMPTON, HAVL, ORIENTEL, POLYCAB) and air conditioner (VOLT, BLSTR, HAVL) businesses remain optimistic of ending the summer season on a good note and hence registering a better June quarter. Overall, we project tepid 6.4% YoY topline and 3.5% YoY bottomline growth for our consumer durables coverage in Q4.

Fan and AC sales likely to underperform: The Jan'23 energy rating transition in the fans vertical has proved unfavourable for companies. Our channel checks indicate that dealers had stocked up inventory ahead of the rating change which was then offered at a discount due to weak demand. Primary billing thus remained stagnant. The month of February saw strong sales, but March was slow as unseasonal rains curbed demand. AC sales also saw the impact of the errant weather with MoM demand improvement only in January and February, per our dealer checks. We expect margins to remain under pressure amidst weaker sales and inadequate price hikes.

Momentum to continue for wires & cables players: Higher commodity prices (average copper prices up 12% QoQ) have laid the foundation for volume growth in the wires & cables segment in Q4FY23. Price hikes of ~5% during the quarter augur well for operating margins, as does stronger traction in B2B over B2C business.

Margin recovery likely to fall short of expectations: We expect higher EBITDA margins QoQ for our coverage companies in Q4 but a slower recovery than earlier anticipated. Companies had been optimistic about a strong margin rebound in H2FY23, but this may be capped by inadequate pricing action, discounts and poor demand.

Maintain picks: We prefer HAVL (BUY, TP Rs 1,500) – a diversified play on consumer durables that is relatively better placed to tap into the premiumisation theme than peers; CROMPTON (BUY, TP Rs 440) – market leader in fans that is likely to turn the rating transition into an opportunity and is attractively valued; and BLSTR (BUY, TP Rs 1,450) – for its resilient AC business in a challenging climate.

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	1,848	2,100	HOLD
BLSTR IN	1,433	1,450	BUY
CROMPTON IN	300	440	BUY
DIXON IN	2,929	4,100	BUY
HAVL IN	1,201	1,500	BUY
KEII IN	1,744	1,900	BUY
ORIENTEL IN	246	290	HOLD
POLYCAB IN	2,938	3,300	BUY
SYRMA IN	275	400	BUY
VGRD IN	253	260	HOLD
VOLT IN	818	910	HOLD

Price & Target in Rupees | Price as of 5 Apr 2023

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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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