FIRST LIGHT

10 February 2023

RESEARCH

BOB ECONOMICS RESEARCH | FPI FLOWS

How have FPIs performed this year?

BOB ECONOMICS RESEARCH | FINANCIAL SAVINGS

Bank Deposits or Mutual Funds?

CUMMINS INDIA | TARGET: Rs 1,600 | +1% | HOLD

Robust quarter; positives in the price

SYRMA SGS | TARGET: Rs 400 | +51% | BUY

Strong topline but margins soften

Daily macro indicators

Indicator	07-Feb	08-Feb	Chg (%)
US 10Y yield (%)	3.67	3.61	(6bps)
India 10Y yield (%)	7.31	7.34	3bps
USD/INR	82.70	82.49	0.3
Brent Crude (US$/bbl)	83.7	85.1	1.7
Dow	34,157	33,949	(0.6)
Hang Seng	21,299	21,284	(0.1)
Sensex	60,286	60,664	0.6
India FII (US$ mn)	**06-Feb**	**07-Feb**	**Chg ($ mn)**
FII-D	(48.3)	(99.6)	(51.3)
FII-E	(126.0)	(266.9)	(140.9)

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

SUMMARY

INDIA ECONOMICS: FPI FLOWS

FPI flows into India has largely remained negative this year mirroring a trend seen across EM countries. A wide of range factors such as the Russia-Ukraine war, higher global rates, strengthening dollar, China factor as well dimming global growth prospects kept investors risk averse. In India, FPI flows did witness bouts of revival but the momentum has once again derailed amidst a domestic stock market rout, further exacerbated by Fed's unyielding fight against inflation and reopening in China. FPI flows are important to India as these help to supplement the funding requirements caused by a growing current account deficit. With India's CAD expected to widen to ~3% of GDP in FY23, FDI and ECB inflows may not be enough to fund the deficit. FPIs have remained volatile for much of this year with increasing risk and hence they may not contribute positively to our balance of payments.

Click here for the full report.

INDIA ECONOMICS: FINANCIAL SAVINGS

The present financial year has been quite unusual in the sense that consumption kept ticking even with inflation being high as the pent up demand phenomenon played out. Savings were affected for sure and this was manifested in slower growth in deposits to begin with. How about mutual funds, which tend to compete with banks when it comes to savings allocation? In the foregoing analysis we look at the movement in bank deposits and AUM of mutual funds for the period April 2022 and December 2022.

Click here for the full report.

CUMMINS INDIA

- Q3 strong with revenue up 25% YoY despite supply chain constraints, as infrastructure-led demand improved; exports grew 23%
- Generator business guided to deliver sustainable long-term growth post absorption of CPCB4-related price hikes
- We raise FY23-FY25 EPS 4-12% and reset to a 35x P/E (vs. 30x) for a new TP of Rs 1,600 (vs. Rs 1,300); retain HOLD as positives priced in

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SYRMA SGS

- Q3 topline growth robust at 70% YoY led by resilient domestic demand; order book expands further to Rs 21bn
- EBITDA margin down 300bps YoY to 9.3% on higher RM cost and weakness in exports & healthcare business
- We revise FY23/FY24 EPS by +7%/-3%; on rollover, our TP moves to Rs 400 (from Rs 390) – retain BUY

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09 February 2023

How have FPIs performed this year?

Aditi Gupta
Economist

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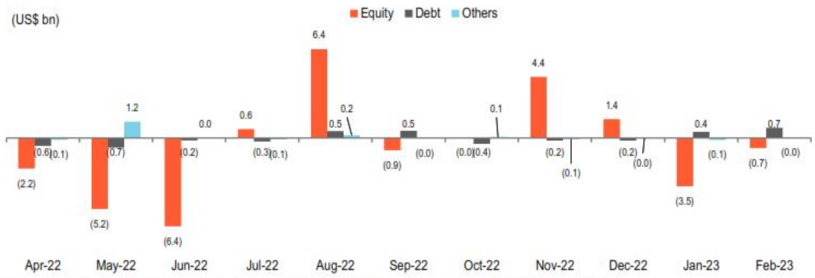
FPI movement in FYTD23

FPI flows have always been unpredictable and this year too was not an exception. While there was considerable volatility in the movement in FPI flows, overall the year saw total FPI outflows of US$ 5.7bn. This is on top of outflows of US$ 16bn in FY22. The trend in FPI flows this year has largely been negative, with the first three months of FY23 witnessing outflows of US$ 14.3bn. Some of these losses were recovered in Q2FY23 with inflows of US$ 6.9bn and US$ 4.9bn in Q3FY23. However, the situation has quickly reversed since then with Jan'23 witnessing outflows of US$ 3.2bn. It must be noted that the equity flows have dominated the overall trend in FPI flows as these account for the bulk of FPI inflows. FPI movement in debt and debt related instruments has remained largely muted this year.

Figure 1: FPI flows in FYTD23



Source: NSDL, Bank of Baroda Research, Data as of 6 Feb 2023 |Note: Others include Debt-VRR and Hybrid

FPI movement over the years

In the last 5 years (FY18 to FY22), total FPI flows have remained negative for 3 years with the exception of FY18 and FY21. Both these years saw sizeable FPI inflows of more than US$ 20bn, which more than offset the outflows seen in the other years. Interestingly, debt inflows of US$ 18.5bn accounted for the bulk of FPI inflows in FY18 (inflows of US$ 22.5bn). However, in FY21, which saw inflows of US$ 36.2bn, equity segment saw huge FPI influx of US$ 37bn.

FINANCIAL SAVINGS

09 February 2023

Bank Deposits or Mutual Funds?

Dipanwita Mazumdar
Economist

The present financial year has been quite unusual in the sense that consumption kept ticking even with inflation being high as the pent up demand phenomenon played out. Savings were affected for sure and this was manifested in slower growth in deposits to begin with. How about mutual funds, which tend to compete with banks when it comes to savings allocation? In the foregoing analysis we look at the movement in bank deposits and AUM of mutual funds for the period April 2022 and December 2022.

It is important to note that as RBI kept hiking the repo rate there was a tendency for bank deposits to also increase to match the increasing demand for credit. Notably, higher deposit rates have garnered an increase in deposits in the last few months. MFs on the other hand have been impacted by downside risks to global growth and tighter financial conditions, which impacted market fundamentals. Increase in Sensex (point to point) has also been considerably lower at 3.3% in FYTD'23 (last close: 06 Feb 2023) compared to 18.3% increase seen in FY22.

Thus, overall AUM of MFs have risen by only Rs 2.3 lakh crore and if the same momentum is maintained it will not be able to reach Rs 6.1 lakh crore accretion seen in FY22. Equity still holds up in FYTD23 compared to debt segment. The rising interest rate cycle has acted as a deterrent due to the discounting factor involved in pricing. The degree of substitutability between MF and bank deposits which in FY22 was slightly tilting towards MF, is showing reversal with Bank deposits being the preferred choice of allocation.

What has been the situation in FYTD23?

- In the first 9 months of FY23 (Apr-Dec), AUMs of MFs have increased to Rs 39.9 lakh crore in Dec'22 from Rs 37.6 lakh crore seen in Mar'22. This is an accretion of Rs 2.3 lakh crore. During this same period, Bank deposits have increased by Rs 12.7 lakh crore.
- Within MFs, equity funds have shown the maximum increase from Rs 13.7 lakh crore to Rs 15.3 lakh crore, an accretion of Rs 1.6 lakh crore. This is line with 3.3% increase in Sensex during the same period. Allocation in small cap and multi cap funds rose the most.
- Hybrid funds which invest 65 to 100% in equity also showed slight increase in the first 9 months of FY23. From Rs 4.8 lakh crore, it rose to Rs 4.9 lakh crore. This is led by Dynamic Asset Allocation/Balanced Advantage Fund, where investment in equity/debt that is managed dynamically and Multi Asset Allocation Fund.
- Debt funds on the other hand, have been a disappointment. The inflow in this segment moderated to 12.7 lakh crore in Dec'22 from Rs 13.5 lakh crore in Mar'22, thus showing decline of Rs 0.9 lakh crore. This is led by fall in allocation towards Banking and PSU Fund and other short duration funds.

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 1,600 | ⮝ 1%

CUMMINS INDIA | Capital Goods | 09 February 2023

Robust quarter; positives in the price

- **Q3 strong with revenue up 25% YoY despite supply chain constraints, as infrastructure-led demand improved; exports grew 23%**
- **Generator business guided to deliver sustainable long-term growth post absorption of CPCB4-related price hikes**
- **We raise FY23-FY25 EPS 4-12% and reset to a 35x P/E (vs. 30x) for a new TP of Rs 1,600 (vs. Rs 1,300); retain HOLD as positives priced in**

Vinod Chari | Tanay Rasal
Nilesh Patil
research@bobcaps.in

Strong Q3: Despite supply chain constraints, KKC achieved revenue growth of 25% YoY in Q3FY23 to Rs 21.9bn (Rs 21.1bn est.), thanks to robust demand in both domestic and export markets which grew by 27% and 23% YoY respectively. The infrastructure segment, which had been lagging, showed significant improvement, and exports continued to hold up. The company's EBITDA margin remained robust at 18.9%, up 330bps YoY, due to healthy pricing power. This translated into higher net profits of Rs 4.1bn (Rs 2.8bn est.), up 66% YoY.

Exports a bright spot: Despite past management commentary on potential headwinds, exports have held up well, rising 23% YoY (+2% QoQ) to Rs 5.4bn in Q3. Notably, sales to Europe – an area where management had previously expressed a cautious outlook – improved by 39% QoQ to reach Rs 970mn.

Positive long-term outlook: KKC expects the implementation of CPCB4 norms in July'23 to drive price hikes of 30-50% on its power generation equipment. While these steep hikes could cause a temporary demand blip for one or two quarters, the company expects to return to a sustainable growth trajectory (at twice the pace of GDP) for the next 2-3 years underpinned by demand from data centres, infrastructure, real estate and hospitality. We note that KKC has recently launched fuel-agnostic engines which addresses a key concern for the power-gen business.

Supply chain still constrained: Supply chain troubles continue to plague the company, marked by shortages of key electronics and components. Management indicated that any uptick in demand from China could further aggravate the situation.

Retain HOLD: Given guidance of sustained long-term growth in the domestic market and with exports holding strong, we raise FY23/FY24/FY25 EPS estimates by 12%/4%/4% and hike our target P/E multiple to 35x from 30x – a 30% premium to the 5Y average. Upon rolling valuations forward to Dec'24E, we reset to a higher TP of Rs 1,600 (vs. Rs 1,300). However, we retain our HOLD rating as the stock has run up 14% over the past 2 months, pricing in the positives and capping upside potential at just 1%.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	KKC IN/Rs 1,578
Market cap	US$ 5.3bn
Free float	49%
3M ADV	US$ 11.6mn
52wk high/low	Rs 1,618/Rs 909
Promoter/FPI/DII	51%/10%/25%

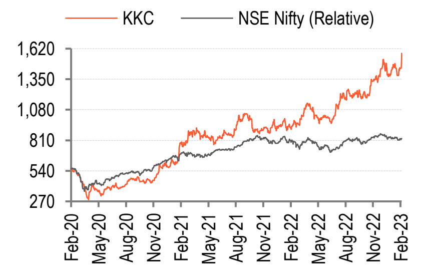
Source: NSE | Price as of 9 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	61,709	72,950	81,549
EBITDA (Rs mn)	8,681	11,408	11,611
Adj. net profit (Rs mn)	7,814	10,690	11,347
Adj. EPS (Rs)	28.2	38.6	40.9
Consensus EPS (Rs)	28.2	34.5	40.7
Adj. ROAE (%)	16.0	19.9	19.3
Adj. P/E (x)	56.0	40.9	38.6
EV/EBITDA (x)	51.9	40.1	39.6
Adj. EPS growth (%)	25.5	36.8	6.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BUY

TP: Rs 400 | ⮝ 51%

SYRMA SGS | Consumer Durables | 09 February 2023

Strong topline but margins soften

- **Q3 topline growth robust at 70% YoY led by resilient domestic demand; order book expands further to Rs 21bn**
- **EBITDA margin down 300bps YoY to 9.3% on higher RM cost and weakness in exports & healthcare business**
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Q3 ahead of estimates: Syrma beat our Q3FY23 estimates as resilient domestic demand more than compensated for weakness in exports. The topline increased 70% YoY to Rs 5.1bn (Rs 4.1bn est.) as the auto/consumer electricals & appliances segments continued to witness strong traction, growing 70%/3x YoY. This offset a 76% YoY contraction in the healthcare segment amidst inflationary pressures in overseas markets, especially Europe. A stronger topline coupled with higher other income aided Q3 net profit of Rs 332mn (Rs 233mn est.), up 68% YoY.

Margins moderate: A doubling of raw material cost YoY dragged the gross margin down to 25.4% (-890bps YoY, -400bps QoQ). Additionally, the margin-accretive industrials and healthcare segments delivered slower growth than the low-margin auto and durables businesses. EBITDA margin thus moderated 300bps YoY (-80bps QoQ) to 9.3% vs. 9.8% expected. Net working capital days inched up marginally to 83 days on a sequential basis.

Strong order book; guidance maintained: As of Dec'22, Syrma had outstanding orders worth Rs 21bn (vs. Rs 17bn in Q2FY23), with fresh intake of ~Rs 9bn from the industrial, consumer and auto verticals. Management continues to guide for revenue growth in line with the industry over the next couple of years and aims to achieve lower-double-digit margins on a sustainable basis. Exports (currently 35-40% of business) are guided to remained muted for the next two quarters but should be compensated for by domestic demand, thereby minimising the topline impact.

Maintain BUY: We believe Syrma has multiple growth levers in the form of a strong order book, timely capacity addition and traction in the auto, industrial and consumer verticals. Exports and working capital management are, however, key areas to watch in the near term. We adjust our FY23/FY24 EPS estimates by +7%/-3% to incorporate the Q3FY23 print as well as the shift in product mix. On rolling valuations forward to Dec'24, our TP increases to Rs 400 (earlier Rs 390), based on an unchanged 35x P/E multiple, a 15% discount to our EMS coverage comprising DIXON and AMBER. Maintain BUY.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	SYRMA IN/Rs 265
Market cap	US$ 566.7mn
Free float	53%
3M ADV	US$ 1.6mn
52wk high/low	Rs 343/Rs 248
Promoter/FPI/DII	47%/5%/8%

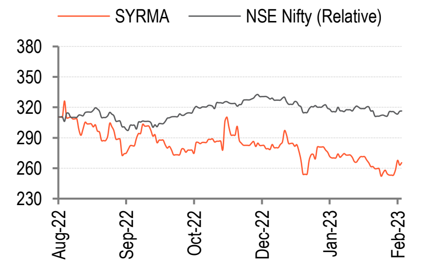
Source: NSE | Price as of 9 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	12,666	18,945	25,319
EBITDA (Rs mn)	1,260	1,783	2,502
Adj. net profit (Rs mn)	765	1,170	1,606
Adj. EPS (Rs)	4.3	6.6	9.1
Consensus EPS (Rs)	4.3	-	-
Adj. ROAE (%)	13.8	11.0	9.9
Adj. P/E (x)	61.2	40.0	29.1
EV/EBITDA (x)	37.1	26.2	18.7
Adj. EPS growth (%)	16.7	53.0	37.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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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