FIRST LIGHT

12 May 2023

RESEARCH

BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

Is less than 7% the next stop for 10Y yield...?

LARSEN & TOUBRO | TARGET: Rs 2,630 | +17% | BUY

Strong finish; robust outlook for FY24

GODREJ CONSUMER PRODUCTS | TARGET: Rs 1,159 | +18% | BUY

Home and personal care segments perform well

DR REDDY'S LABS | TARGET: Rs 4,900 | +8% | HOLD

Core business remains sluggish

Daily macro indicators

Ticker	09-May	10-May	Chg (%)
US 10Y yield (%)	3.52	3.44	(8bps)
India 10Y yield (%)	7.04	7.04	(1bps)
USD/INR	82.05	81.99	0.1
Brent Crude (US$/bbl)	77.4	76.4	(1.3)
Dow	33,562	33,531	(0.1)
Hang Seng	19,868	19,762	(0.5)
Sensex	61,761	61,940	0.3
India FII (US$ mn)	**08-May**	**09-May**	**Chg ($ mn)**
FII-D	107.1	(115.0)	(222.0)
FII-E	386.8	243.9	(142.9)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: MONTHLY CHARTBOOK

Fed's latest decision signalling a prolonged pause has helped ease pressure on both domestic yields and currency. India's 10Y yield has significantly come down, and INR appreciated in Apr'23. On the demand side, breakdown of credit growth is showing that urban demand (vehicle loans, personal loans) and services sector acitivty remain roubust. On the other hand, some signs of stress are visible in auto sales, non-oil-non-gold demand, port cargo movement and employment. Going forward, rainfall activity will be the key in determining steadiness in domestic demand. On the external front, weakeness in global demand and Fed rate action will have an impact on rates and currencies.

Click here for the full report.

LARSEN & TOUBRO

- Q4 in line; FY23 order inflow and revenue beat guidance while margins were on par and order book soared to a record Rs 4tn
- Upbeat FY24 outlook given addressable order pipeline of Rs 9.7tn and expected margin gains; ROE guided to rise to ~18% in long run
- Remains among the top capex plays in India; we tweak FY24/FY25 EPS -2%/+4% and roll to a new TP of Rs 2,630 (vs. Rs 2,440); retain BUY

Click here for the full report.

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GODREJ CONSUMER PRODUCTS

- Robust volume-led growth aided 12% YoY rise in India revenue; Indonesia business saw strong recovery
- Margin expansion continues despite sustained brand investments; cost rationalisation remains in focus
- Category development and business simplification to boost growth; maintain BUY with new TP of Rs 1,159 (vs. Rs 1,112)

Click here for the full report.

DR REDDY'S LABS

- Q4 broadly in line as revenue/EBITDA grew 16%/35% YoY (-7%/-23% QoQ), albeit aided by one-offs
- Excluding one-time divestment proceeds, EBITDA margin would have been 21-22%, well below 25% guidance
- We raise FY24/FY25 EBITDA 2-4% and roll to a new TP of Rs 4,900 (vs. Rs 4,700), set at a lower 11x FY25E EBITDA; retain HOLD

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Is less than 7% the next stop for 10Y yield...?

Fed's latest decision signalling a prolonged pause has helped ease pressure on both domestic yields and currency. India's 10Y yield has significantly come down, and INR appreciated in Apr'23. On the demand side, breakdown of credit growth is showing that urban demand (vehicle loans, personal loans) and services sector acitivty remain roubust. On the other hand, some signs of stress are visible in auto sales, non-oil-non-gold demand, port cargo movement and employment. Going forward, rainfall activity will be the key in determining steadiness in domestic demand. On the external front, weakeness in global demand and Fed rate action will have an impact on rates and currencies.

Resilient demand with some signs of weakness: Uptick in credit deployment across vehicle loans, personal loans and credit card spend has been positive for urban demand. Additionally, steady growth in digital payments, fertilizer sales and acceleration in electricity demand have provided much needed support. Moreover slower pace of contraction in consumer durables output also bodes well for the sector. However, some indicators such as non-oil-non-gold-imports, electronic imports and even auto sales have been signalling slowdown. On rural front, tractor sales and consumer non-durbales output have registered improvement. A steady pick up in demand for MGNREGA work was also seen. Though, two-wheeler sales witnessed a sharp contraction. Focus is now likely to shift towards the onset of South-West Monsoon in Jun'23.

Services activity mixed: While services PMI rebounded sharply in Apr'23 (62.0) compared with Mar'23 (57.8), other indicators are showing mixed performance. On one hand, air passenger traffic is approaching back to pre-pandemic levels and rail freight volume growth remains steady, on the other hand, port cargo traffic is witnessing some slowdown. Vehicle registrations have also eased, and unemployment is up. PMI survey also points that despite pick up in business activity, employment did not make any meaningful gains in Apr'23. However, robust credit growth may provide some support. Within services, credit to trade and real estate is seeing some improvement, while credit to NBFC continues to lag. Going forward, performance of monsoon will hold the key in determining services demand.

India's 10Y yield went on a downswing: India's 10Y yield fell by 19bps in Apr'23 and further by 8bps till 9 May 2023. The pace of decline in yield has been much sharper compared to major EMs and other AEs. This was supported by RBI's surprise pause defying market expectation of 25bps rate hike. Further, moderation in CPI (lowest since Dec'21) in Mar'23 and excpectation of further moderation on account of favourable base also comforted yields. Liquidity on an average also remained in surplus of Rs 1.5 lakh crore in Apr'23, supported by RBI's fine tuning (SDF). However heavy supply of papers in the coming days and any upside risk to inflation (with evolution of data), will prevent yield from falling further.

INR gains: In Apr'23, INR appreciated by 0.4%. This was supported by a weaker dollar. Expectations that the Fed is likely to remain on a prolonged pause, weighed on the dollar. DXY fell by 0.8%. Apart from this, positive FPI inflows and range-bound oil prices also helped INR. While INR has shown some weakness in May'23 amidst nervousness ahead of US CPI report, we continue to remain bullish on INR.

Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified

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BUY
TP: Rs 2,630 | ▲ 17%

LARSEN & TOUBRO | Capital Goods | 11 May 2023

Strong finish; robust outlook for FY24

- **Q4 in line; FY23 order inflow and revenue beat guidance while margins were on par and order book soared to a record Rs 4tn**
- **Upbeat FY24 outlook given addressable order pipeline of Rs 9.7tn and expected margin gains; ROE guided to rise to ~18% in long run**
- **Remains among the top capex plays in India; we tweak FY24/FY25 EPS -2%/+4% and roll to a new TP of Rs 2,630 (vs. Rs 2,440); retain BUY**

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FY23 ends well: LT's Q4FY23 print was largely in line with our estimates even as the company beat its order inflow and revenue guidance for FY23. EBITDA margin was muted at 8.6% (-90bps YoY) but on par with mid-year guidance. The key positive was Q4 inflows of Rs 761bn which took the FY23 tally to Rs 2.5tn and enabled LT to close the year with a record order book of Rs 4tn (~3x book-to-bill ratio).

Good cash flow management: Despite lower margins due to cost overruns and old projects, the company maintained a healthy working capital-to-sales ratio of 16% vs. its usual range of 20-25% in FY23. This was helped by good collections as well as the strong order inflows.

FY24 outlook strong: Management guided for order inflow growth of 10-12%, revenue growth of 12-15% and a ~50bps EBITDA margin uptick in FY24. It further indicated that the addressable pipeline has risen 14% to Rs 9.7tn despite general elections drawing near. LT retains its long-term vision of taking ROE to ~18% from 12% now.

Margins to improve from H2FY24: The current order backlog was affected by cost-side pressures which resulted in a lower core operating margin of 8.6% in FY23 vs. 9% guided at the start of the year. The company has executed ~60% of these projects and the remaining 40% are to be completed in FY24. Management thus expects the core margin to improve from H2FY24 and to normalise to ~10% by FY25.

Subsidiary performance picks up: Subsidiary performance improved with lower losses in Hyderabad metro (Rs 13bn in FY23 vs. Rs 17.5bn in FY22) as ridership more than doubled to 0.4mn riders per day for the year. Similarly, the Nabha power project saw a stronger plant load factor (PLF) and was profitable in FY23.

Among our top picks: LT is a strong play on the capex story and among our top capital goods picks. We retain BUY and revise our SOTP-based TP from Rs 2,440 to Rs 2,630 as we adjust FY24/FY25 EPS estimates by -2%/+4% and roll valuations forward to Mar'25E. Given higher growth visibility, we value the core business ex-services at 15x EV/EBITDA (14x earlier) and subsidiaries at 25% holding discount.

Key changes

Target	Rating
▲	◄►

Ticker/Price	LT IN/Rs 2,242
Market cap	US$ 38.4bn
Free float	86%
3M ADV	US$ 58.7mn
52wk high/low	Rs 2,416/Rs 1,456
Promoter/FPI/DII	0%/25%/39%

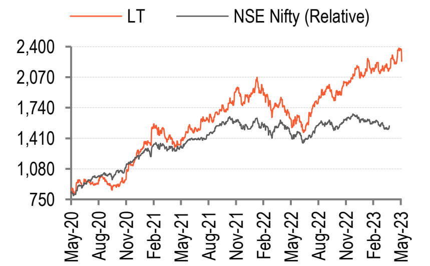
Source: NSE | Price as of 11 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,833,407	2,132,402	2,404,205
EBITDA (Rs mn)	207,533	255,954	308,008
Adj. net profit (Rs mn)	103,347	139,039	175,195
Adj. EPS (Rs)	73.6	99.0	124.8
Consensus EPS (Rs)	73.6	96.6	111.2
Adj. ROAE (%)	12.0	14.8	16.7
Adj. P/E (x)	30.5	22.6	18.0
EV/EBITDA (x)	13.1	11.0	9.2
Adj. EPS growth (%)	20.6	34.5	26.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

BUY
TP: Rs 1,159 | ⮝ 18%

GODREJ CONSUMER PRODUCTS | Consumer Staples | 11 May 2023

Home and personal care segments perform well

- **Robust volume-led growth aided 12% YoY rise in India revenue; Indonesia business saw strong recovery**
- **Margin expansion continues despite sustained brand investments; cost rationalisation remains in focus**
- **Category development and business simplification to boost growth; maintain BUY with new TP of Rs 1,159 (vs. Rs 1,112)**

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Strong volume-led growth: GCPL reported consolidated Q4FY23 revenue of Rs 32bn (+10% YoY, +6% CC), with volumes up 6% YoY. India business grew 12% YoY led by 11% volume growth. Africa, the US, and the Middle East region (GUAM) was up 8% YoY CC, but Latin America and SAARC declined 3%. Indonesia business saw a strong recovery with revenue growing 8% YoY in rupee terms (+5% CC and 11% CC ex-hygiene). India branded business registered high volume growth of 13% led by a double-digit uptick in both home care and personal care.

Sustained thrust on category development: GCPL registered 14% YoY growth in the home care segment and 17% growth in personal care backed by sustained investments in category development and a focus on penetration-led volume growth. Household insecticides (HI) continued to improve, with YoY growth in the mid-teens. Air fresheners delivered strong double-digit growth once again, as did personal wash and hair colour. In HI, GCPL is scaling up distribution of access packs for its *Goodknight* liquid vaporiser and *HIT* no-gas spray. During the quarter, the company launched *Godrej Selfie* shampoo hair colour at Rs 15, predominantly in South India.

Margin recovery continues: The company reported a 52.9% gross margin (+180bps QoQ, +340bps YoY) in Q4. EBITDA margin expanded 410bps YoY (-20bps QoQ) to 20% despite a 20% YoY rise in working media investment. EBITDA margin for the Indonesia business was flat at 21.5% YoY, whereas GUAM saw 660bps YoY expansion on a low base.

Maintain BUY, TP Rs 1,159: GCPL continues to display double-digit growth in the domestic market with high volume growth across categories along with improvement in the quality of profits. We expect the company's emphasis on category development, brand investment, market penetration and product launches to spur profitable growth. The stock is trading at 46.7x/38.2x FY24E/FY25E EPS. We revise our FY24/FY25 EPS estimates by -1%/+4%, translating to a new TP of Rs 1,159 (earlier Rs 1,112), based on an unchanged P/E multiple of 45x on FY25E EPS – in line with the long-term mean. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	GCPL IN/Rs 983
Market cap	US$ 12.2bn
Free float	37%
3M ADV	US$ 13.9mn
52wk high/low	Rs 992/Rs 709
Promoter/FPI/DII	63%/24%/13%

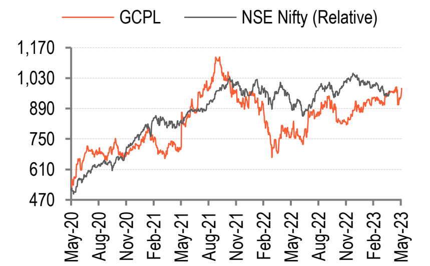
Source: NSE | Price as of 11 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,33,160	1,53,493	1,72,797
EBITDA (Rs mn)	24,304	29,652	36,905
Adj. net profit (Rs mn)	17,566	21,527	26,323
Adj. EPS (Rs)	17.2	21.1	25.8
Consensus EPS (Rs)	17.2	21.6	24.7
Adj. ROAE (%)	12.3	13.5	14.2
Adj. P/E (x)	57.2	46.7	38.2
EV/EBITDA (x)	41.3	33.9	27.2
Adj. EPS growth (%)	(4.5)	26.4	22.3

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD

TP: Rs 4,900 | ▲ 8%

DR REDDY'S LABS | Pharmaceuticals | 11 May 2023

Core business remains sluggish

- **Q4 broadly in line as revenue/EBITDA grew 16%/35% YoY (-7%/-23% QoQ), albeit aided by one-offs**
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- **We raise FY24/FY25 EBITDA 2-4% and roll to a new TP of Rs 4,900 (vs. Rs 4,700), set at a lower 11x FY25E EBITDA; retain HOLD**

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gRevlimid and divestment income save the day: DRRD reported a 7%/23% QoQ decline in Q4FY23 revenue/EBITDA to Rs 62.9bn/Rs 15.8bn owing to lower sequential contribution from gRevlimid. On a YoY basis, growth was at 16%/35% primarily driven by gRevlimid sales (which began from Q2FY23) and the one-off divestment of non-core brands in the India business. US revenue grew 27% YoY but declined 17% QoQ (-18% QoQ CC to US$ 308mn). The end of exclusivities in key strengths for DRRD and rising competition in gRevlimid further undermine the growth outlook in the US.

India business grew 32% YoY (+14% QoQ), but stripped of divestment income of Rs 2.6bn, growth drops to just 5%. Management aims to beat market growth via a focus on core therapies/brands and is open to partnerships and M&A to spur growth.

Guidance of 25%+ EBITDA margin and ROCE reiterated: Gross/EBITDA margins expanded 430bps/360bps YoY to 57%/25% due to the absence of gRevlimid and divestiture income in the base quarter, but contracted sequentially by 205bps/520bps on lower gRevlimid contribution. Adjusted net income grew 21% YoY (-20% QoQ), missing consensus estimates by 7% due to a higher tax outgo. Management expects a better gross margin going forward on the back of double-digit growth across geographies and a slew of launches.

Maintain HOLD; TP revised to Rs 4,900: We expect DRRD's core business to remain under pressure amid continued deep price erosion and a lack of meaningful near-term launches (ex-Revlimid) in the US. Thus, while we raise our FY24-FY25 EBITDA estimates by 2-4% to bake in the full-year print, we lower our target EV/EBITDA multiple to from 12.5x to 11x. Upon rolling valuations forward to FY25E, we arrive at a revised TP of Rs 4,900 (Rs 4,700 earlier). Our target multiple is at a 15% discount to the stock's 5Y average. Given weak upside potential from the current market price, we maintain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DRRD IN/Rs 4,532
Market cap	US$ 9.2bn
Free float	73%
3M ADV	US$ 20.6mn
52wk high/low	Rs 4,989/Rs 3,790
Promoter/FPI/DII	27%/27%/23%

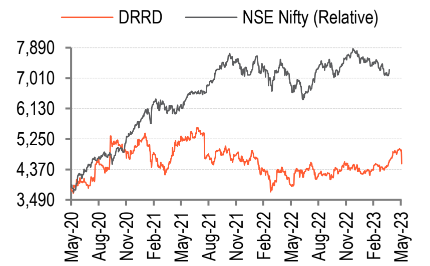
Source: NSE | Price as of 11 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	2,45,880	2,60,858	2,79,192
EBITDA (Rs mn)	64,130	63,910	69,798
Adj. net profit (Rs mn)	45,766	41,037	46,467
Adj. EPS (Rs)	274.7	246.3	278.9
Consensus EPS (Rs)	274.7	257.6	283.0
Adj. ROAE (%)	22.7	16.9	16.4
Adj. P/E (x)	16.5	18.4	16.2
EV/EBITDA (x)	11.7	11.4	9.9
Adj. EPS growth (%)	46.8	(10.3)	13.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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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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