

RESEARCH

POLYCAB INDIA | TARGET: Rs 4,300 | +22% | BUY

Annual report analysis – Project Leap well on track

TATA CONSULTANCY SERVICES | TARGET: Rs 3,580 | +10% | HOLD

Annual report analysis – Macro headwinds cloud outlook

PHARMACEUTICALS

Healthy MAT volume growth; chronic segment outperforms in May

SUMMARY

POLYCAB INDIA

- Remains market leader in core wires & cables business; FMEG segment tepid in FY23 but guided to return to form in FY24
- FY26 revenue target of Rs 200bn under Project Leap looks achievable given 26% CAGR over FY21-FY23 and strong growth tailwinds
- TP raised from Rs 3,900 to Rs 4,300 based on a higher 38x target P/E (vs. 35x) on FY25E given expected growth acceleration; maintain BUY

[Click here for the full report.](#)

TATA CONSULTANCY SERVICES

- Key spending areas for FY23 included AI/ML, data & network services, cloud and managed security services
- Pause on discretionary spend and deferral of non-critical projects dampened margins; pressure to ease in the medium term
- Demand environment volatile; maintain HOLD with an unchanged TP of Rs 3,580, set at 25x FY25E EPS

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Daily macro indicators

Ticker	09-Jun	12-Jun	Chg (%)
US 10Y yield (%)	3.74	3.74	0bps
India 10Y yield (%)	7.04	7.02	(2bps)
USD/INR	82.47	82.43	0.0
Brent Crude (US\$/bbl)	74.8	71.8	(3.9)
Dow	33,877	34,066	0.6
Hang Seng	19,390	19,404	0.1
Sensex	62,626	62,725	0.2
India FI (US\$ mn)	08-Jun	09-Jun	Chg (\$ mn)
FI-D	(33.5)	12.3	45.8
FI-E	74.2	(16.2)	(90.4)

Source: Bank of Baroda Economics Research



PHARMACEUTICALS

- IPM grew 11.3% (MAT) in May'23 led by anti-infective, respiratory and pain therapies; derma, VMN and anti-diabetic remained sluggish
- Volume growth was healthy at 3.5% on MAT basis. May'23 growth at 9.6% YoY; chronic therapies (+10.8% YoY) outpaced acute (+8.5% YoY)
- CIPLA, AJP and ERIS are our top picks in the sector

[Click here](#) for the full report.

BUY

TP: Rs 4,300 | ▲ 22%

POLYCAB INDIA

Consumer Durables

13 June 2023

Annual report analysis: Project Leap well on track

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Remains market leader in wires & cables: With 22-24% share of the organised market, Polycab remains market leader in the Indian wires & cables (W&C) industry. W&C grew 17% YoY in FY23. International business grew 50% YoY and accounted for ~10% of segmental revenue. Mass market brand *Etira* launched in FY23 did well, contributing ~12% of retail wire revenue. The company has also entered the EHV segment which has limited competition and hence holds promise in the long term.

Tepid FMEG segment to return to form in FY24: FMEG business was flat during the year on account of subdued demand and a distribution rejig by the company which necessitated a gradual reduction in supplies to outgoing channel partners. With the rejig complete, the business is expected to be on track in FY24. Management's key long-term goal for this segment is an EBITDA margin of 10-12% by FY26.

Closing in on Project Leap targets: In FY21, Polycab set a target of achieving Rs 200bn in revenue by FY26, an 18% CAGR, under Project Leap. Over FY21-FY23, it clocked a 26% CAGR, implying a 13% run-rate for the next three years. We believe this is easily achievable given the strong tailwinds for W&C as well as FMEG from rising demand, cost efficiencies, and a revamped distribution strategy. Exports that were targeted to reach 10% of sales by FY26 have done so in FY23 itself.

Robust balance sheet: Operating cash flow stood at Rs 14.3bn in FY23 (vs. Rs 5.1bn in FY22) and ROIC at 23.1% vs. the 4Y average of 21.5%. The cash conversion cycle has consistently improved and net cash as at end-FY23 was at Rs 19bn vs. targeted capex of Rs 6bn-7bn for FY24, signifying a comfortable financial position.

Maintain BUY: We are optimistic on Polycab's prospects given moats in its core W&C business, growth in FMEG and B2C expansion. Further, ingredients for long-term growth are in place led by a focus on manufacturing (~95% of products made inhouse), premiumisation (~40 fans launched in FY23, 60% in the premium/super-premium class), and brand & network building. Given the acceleration towards Project Leap targets, we hike our target FY25E P/E to 38x (vs. 35x) – a 50% premium to the stock's 3Y average – for a new TP of Rs 4,300 (vs. Rs 3,900) and reiterate BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	POLYCAB IN/Rs 3,534
Market cap	US\$ 6.4bn
Free float	34%
3M ADV	US\$ 12.2mn
52wk high/low	Rs 3,618/Rs 2,044
Promoter/FPI/DII	66%/10%/9%

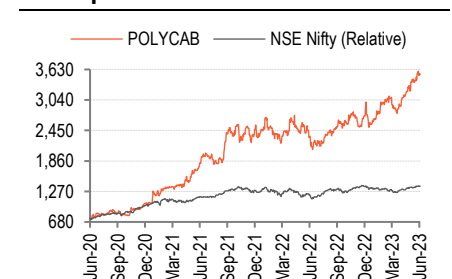
Source: NSE | Price as of 12 Jun 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	141,078	162,895	182,252
EBITDA (Rs mn)	18,521	21,899	24,645
Adj. net profit (Rs mn)	12,700	14,701	16,539
Adj. EPS (Rs)	84.9	98.2	110.5
Consensus EPS (Rs)	84.9	92.5	107.8
Adj. ROAE (%)	20.9	20.4	19.6
Adj. P/E (x)	41.6	36.0	32.0
EV/EBITDA (x)	28.5	24.1	21.5
Adj. EPS growth (%)	51.8	15.8	12.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



HOLD

TP: Rs 3,580 | ▲ 10%

TATA CONSULTANCY SERVICES

Technology & Internet

13 June 2023

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Resilient demand with strong order book: TCS reported revenue growth of 13.7% YoY CC in FY23, backed by retail & CPG (+22% YoY), communication, media and technology (18% YoY), and life science/healthcare (+20% YoY). The company saw traction in North America (+24% YoY) and the UK (11% YoY). Order book TCV stood at US\$ 10bn, of which North America contributed US\$ 5bn. Vertical-wise, BFSI/retail contributed US\$ 3bn/US\$1.3bn TCV. The board recommended final dividend of Rs 24/sh, bringing the payout for the year to Rs 115/sh (108% of FCF).

Margin under pressure but likely to improve: Operating margin declined 120bps YoY to 24.1% in FY23 primarily due to supply-side challenges, higher compensation cost (up ~1.6%) and higher travel/ visa cost (up 0.3%). Most of the margin dilution came from the manufacturing vertical which clocked a 260bps YoY drop in EBIT margin to 27.5%, followed by retail and life science which were down 200bps YoY each at 25.7% and 28% respectively. We expect margins to hover in the range of 24.5-25% in the medium term.

Other key metrics supported growth: TCS exited FY23 with 60 clients in the US\$ 100mn+ band (adding 2 YoY), 133 in the US\$ 50mn+ band (+13) and 291 in the US\$ 20mn+ band (+23). Net employee addition during the year stood at ~22,600 for a total staff strength of 615,000. Cash conversion remained strong – while pre-tax OCF/EBITDA came in at 94.5%, FCF/PAT stood at 92.2%. The company generated ROE and ROCE of 47% and 41% in FY23 vs. 44% and 37% respectively in FY22.

Reskilling/upskilling helped drive digital businesses: Per the annual report, employees logged ~48.3mn learning hours and acquired ~6mn competencies in FY23. In addition, 53,000 employees acquired hyperscaler cloud skill certifications.

Maintain HOLD: The stock is trading at 24.7x/22.7x FY24E/FY25E EPS. We believe TCS is well positioned to deliver industry-leading growth and margins in the long run. However, considering the current volatile macro environment, poor quality of deal wins and delays in client decision-making, we retain HOLD and continue to value the stock at 25x FY25E EPS for an unchanged TP of Rs 3,580.

Key changes

Target	Rating
◀▶	◀▶

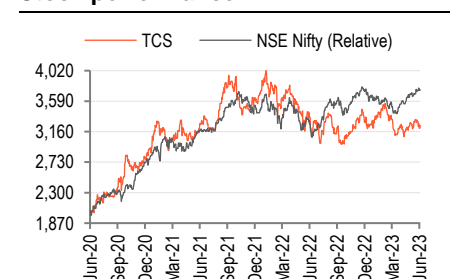
Ticker/Price	TCS IN/Rs 3,247
Market cap	US\$ 144.6bn
Free float	28%
3M ADV	US\$ 80.0mn
52wk high/low	Rs 3,575/Rs 2,926
Promoter/FPI/DII	72%/17%/11%

Source: NSE | Price as of 12 Jun 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	22,23,757	24,76,435	27,26,137
EBITDA (Rs mn)	5,82,248	6,66,207	7,37,388
Adj. net profit (Rs mn)	4,16,294	4,80,791	5,24,296
Adj. EPS (Rs)	113.8	131.4	143.3
Consensus EPS (Rs)	113.8	128.3	142.5
Adj. ROAE (%)	43.5	44.5	43.4
Adj. P/E (x)	28.5	24.7	22.7
EV/EBITDA (x)	20.3	17.7	15.9
Adj. EPS growth (%)	9.8	15.5	9.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



PHARMACEUTICALS

13 June 2023

Healthy MAT volume growth; chronic segment outperforms in May

- IPM grew 11.3% (MAT) in May'23 led by anti-infective, respiratory and pain therapies; derma, VMN and anti-diabetic remained sluggish
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Saad Shaikh

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IPM May'23 MAT growth at 11.3%: The Indian pharma market (IPM) reported strong growth of 11.3% in May'23 on moving annual total (MAT) basis, according to IQVIA, in line with the 3Y CAGR. Contributors to this growth were higher pricing (5.2%), volumes (3.5%) and new launches (2.6%). Chronic and acute therapies matched pace at 11% MAT each. For the month of May, the market grew 9.6% YoY (-4% QoQ), with chronic therapies growing faster (+10.8% YoY) than the acute segment (8.5% YoY).

Chronic therapies outperform in May: Barring anti-diabetic drugs, the top 6 therapies outperformed the IPM (+11%) on MAT basis. The anti-infective (+16%), respiratory (+15%) and pain (+14%) segments recorded the highest growth, whereas dermatology (+7%), VMN (vitamins, minerals, nutrients: +8%) and anti-diabetic drugs (+8%) grew the lowest. On a monthly basis, outperformance in chronic therapies such as cardiac (+12% YoY), neurology (+11%) and anti-diabetic (+10%) resulted in higher growth than acute therapies. In the acute segment, dermatology (+11% YoY) and pain (+10%) therapies did well. Gastrointestinal (+5% YoY), VMN (+7%) and gynaecology (+8%) reported the lowest growth for the month.

ALKEM and AJP lead growth on MAT and monthly basis: On MAT basis, Mankind (+17%), ALKEM (+16%), Intas (+16%) and Macleods (+16%) grew the fastest among the top 10 ranked companies in IPM. For May'23, Intas posted the highest growth followed by Mankind. All companies in the top 25 list maintained their revenue market share ranks for MAT May'23 (vs. MAT Apr'23), except DRRD which lost its 11th place to ZYDUSLIF.

From our coverage, ALKEM (+16%), AJP (+16%) and CIPLA (+13%) grew the fastest on MAT basis while DRRD (+6%), LPC (+8%), ERIS (+8%) lagged in single digits. On a monthly basis, AJP (+16% YoY), SUNP (+11%) and ALPM (+10%) grew the fastest while ALKEM (+7%), DRRD (+7%), ERIS (+9%) and LPC (+9%) grew at a slower pace.

Top picks: **CIPLA** (BUY, TP Rs 1,170), **AJP** (BUY, TP Rs 1,520) and **ERIS** (BUY, TP Rs 800) are our top picks in the pharma sector.

Recommendation snapshot

Ticker	Price	Target	Rating
AJP IN	1,439	1,520	BUY
ALKEM IN	3,348	3,000	SELL
ALPM IN	582	615	HOLD
CIPLA IN	960	1,170	BUY
DRRD IN	4,676	4,900	HOLD
ERIS IN	660	800	BUY
LPC IN	819	700	HOLD
SUNP IN	985	1,130	BUY

Price & Target in Rupees | Price as of 12 Jun 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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