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FIRST LIGHT

15 May 2023

RESEARCH

BOB ECONOMICS RESEARCH | CPI AND IIP

CPI cools, IIP growth slips

SIEMENS INDIA | TARGET: Rs 4,500 | +19% | BUY

Strong momentum continues

CIPLA | TARGET: Rs 1,170 | +25% | BUY

Key launches at least a year away

MARICO | TARGET: Rs 629 | +16% | BUY

Healthy volume-led growth; improved visibility

ESCORTS | TARGET: Rs 1,749 | –15% | SELL

Medium-term pain to continue

COFORGE | TARGET: Rs 4,830 | +17% | BUY

Stellar quarter; buoyant outlook

Daily macro indicators

Ticker	10-May	11-May	Chg (%)
US 10Y yield (%)	3.44	3.38	(6bps)
India 10Y yield (%)	7.04	7.02	(1bps)
USD/INR	81.99	82.09	(0.1)
Brent Crude (US$/bbl)	76.4	75.0	(1.9)
Dow	33,531	33,310	(0.7)
Hang Seng	19,762	19,744	(0.1)
Sensex	61,940	61,905	(0.1)
India FII (US$ mn)	**09-May**	**10-May**	**Chg ($ mn)**
FII-D	(115.0)	99.1	214.0
FII-E	243.9	279.9	35.9

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: CPI AND IIP

CPI print cooled off to 18-month low in Apr'23 to 4.7% against 5.7% in Mar'23. Food inflation eased to 3.8% in Apr'23 (from 4.8%) led by moderation in the following components including oils & fats, cereals, eggs and milk. Core CPI slipped down to 5.2% (from 5.8%) in Apr'23. Transport and communication and clothing and footwear dragged it down. Going forward, we expect inflationary pressures to remain in H1, supported by base effect. Weather and monsoon will hold the key in determining trajectory of food inflation. RBI will remain and wait and watch mode and deviation in inflationary trajectory will determine its 'pivot'. On the growth front, IIP data came in below our expectation. Going forward, uncertainty in global environment might see some impact on domestic economy. However, favorable base, PLI scheme, capex will play strongly in favour of manufacturing sector.

Click here **for the full report.**

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SIEMENS INDIA

- Robust execution and margins in Q2 led by smart infrastructure and mobility segments; base order inflow at Rs 57bn
- Key Rs 255bn order win for 9000HP locomotive; large tendering by Indian Railways expected to continue in FY24
- Target P/E hiked to 62x (vs. 57x) on high growth visibility, taking our TP to Rs 4,500 (vs. Rs 3,800) on rollover – reiterate BUY

Click here for the full report.

CIPLA

- Q4 EBITDA/PAT grew 57%/45% YoY but missed consensus by 5%/30% on higher R&D spend, field force expansion and other costs
- gAdvair/gAbraxane launches delayed; gAdvair being derisked via an additional manufacturing site
- FY24-FY25 EBITDA cut 11-13% and TP revised to Rs 1,170 (vs. Rs 1,250) on rollover at a lower 15x EV/EBITDA multiple; retain BUY

Click here for the full report.

MARICO

- Q4 volume growth of 5% YoY in domestic markets backed by diversification and market development
- Margin expansion continues, driven by softening input prices and a favourable portfolio mix
- We assume coverage with BUY and a TP of Rs 629, based on 47x FY25E EPS

Click here for the full report.

ESCORTS

- Unseasonal rains dented volumes (-12% QoQ) towards the end of Q4, offsetting momentum seen in the first half
- Cost inflation tailwinds benefitted gross margin QoQ, but reversal of price trends in Q1FY24 weakens margin outlook
- Short/medium-term pain to continue; we revise FY24/FY25 EPS -4%/ +3% and roll to a TP of Rs 1,749 (vs. Rs 1,742) – retain SELL

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COFORGE

- Robust Q4 revenue of US$ 264mn (+4.7% QoQ CC) with US$ 1bn milestone reached in FY23
- Order intake at US$ 301mn, the fifth consecutive quarter of US$ 300mn+ inflow
- Management confident of above-industry growth in FY24; we assume coverage with BUY and a TP of Rs 4,830

Click here for the full report.

CPI AND IIP

12 May 2023

CPI cools, IIP growth slips

Jahnavi | Sonal Badhan
Economist

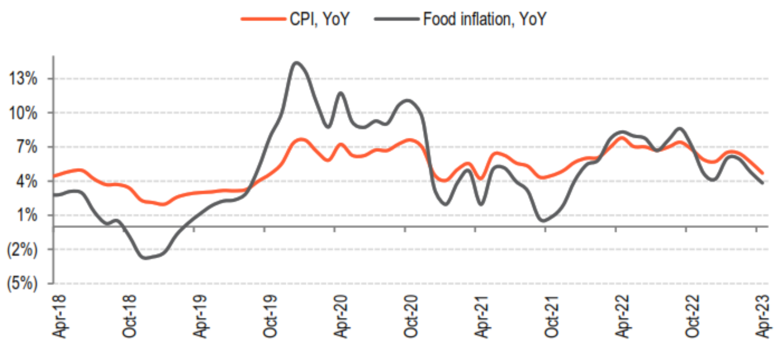
CPI print cooled off to 18-month low in Apr'23 to 4.7% against 5.7% in Mar'23. Food inflation eased to 3.8% in Apr'23 (from 4.8%) led by moderation in the following components including oils & fats, cereals, eggs and milk. Core CPI slipped down to 5.2% (from 5.8%) in Apr'23. Transport and communication and clothing and footwear dragged it down. Going forward, we expect inflationary pressures to remain in H1, supported by base effect. Weather and monsoon will hold the key in determining trajectory of food inflation. RBI will remain and wait and watch mode and deviation in inflationary trajectory will determine its 'pivot'. On the growth front, IIP data came in below our expectation. Going forward, uncertainty in global environment might see some impact on domestic economy. However, favorable base, PLI scheme, capex will play strongly in favour of manufacturing sector.

CPI inflation eases further

CPI inflation eased: CPI inflation eased to its 18-month low of 4.7% in Apr'23 compared to 5.7% in Mar'23 and broadly in line with our estimate of 4.6%. This was on account of favourable base (7.8% in Apr'22 from 7% in Mar'22).

Food inflation: CPI food index moderated to 3.8% in Apr'23 from 4.8% in Mar'23, on YoY basis. Amongst major food items, index for oils and fats fell further (-12.3% versus -7.9%), while that for cereals (13.7% versus 15.3%), eggs (3.1% versus 4.4%), milk (8.8% versus 9.3%), fruits (2.1% versus 7.6%), and spices (17.4% versus 18.2%) eased. On the other hand, price index for pulses (5.3% versus 4.4%), and sugar (1.9% versus 1%) inched up. Pace of contraction in meats and fish (-1.2% versus - 1.4%) and vegetables (-6.5% versus -8.4%) slowed. On a MoM basis, CPI food index inched up. Barring vegetables, price pressures were broad-based, including items like meat and fish, fruits, pulses, cereals, eggs, oils & fats, and sugar. Going forward we can expect food inflation to ease, owing to normal monsoon, dip in commodity prices and normalisation of supply chains.

Figure 1: CPI cools down; led by food



Source: CEIC, Bank of Baroda Research

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BUY
TP: Rs 4,500 | 19%

SIEMENS INDIA | Capital Goods | 12 May 2023

Strong momentum continues

- **Robust execution and margins in Q2 led by smart infrastructure and mobility segments; base order inflow at Rs 57bn**
- **Key Rs 255bn order win for 9000HP locomotive; large tendering by Indian Railways expected to continue in FY24**
- **Target P/E hiked to 62x (vs. 57x) on high growth visibility, taking our TP to Rs 4,500 (vs. Rs 3,800) on rollover – reiterate BUY**

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Strong Q2: SIEM reported a strong Q2FY23 (Sep Y/E) with revenue up 28% YoY to Rs 48.6bn. EBITDA margin came in at 12.8%, up 50bps YoY, aided by gains across the smart infrastructure (SI) and mobility segments. Net profit surged 43% YoY to Rs 4.7bn.

All-round growth: SIEM's power and gas revenue grew 30% YoY (to Rs 15.5bn), SI was up 16% (Rs 17.2bn), mobility 65% (Rs 4.9bn), and digital industries (DI) 31% (Rs 11.4bn). The SI segment was also buoyed by the performance of C&S Electric which grew 7% YoY to Rs 3.5bn. EBIT margin for power & gas stood at 11.4% (vs. 13.6% in Q2FY22), SI 11.3% (vs. 6%), mobility 8.7% (vs. 12.4%), and DI 11.2% (11.4%). The big swing in the SI segment was propelled by the continuing turnaround in subsidiary C&S Electric where margins swelled 420bps to 7.6%.

Base orders healthy: SIEM reported order inflow of Rs 312bn in Q4 which includes base orders of Rs 57bn (+7% YoY). Apart from the base orders, the inflows include a Rs 255bn deal for the 9000HP locomotive project. This takes the company's order book to ~Rs 450bn, implying a book-to-bill ratio of 2.8x.

Outlook remains solid: Management has stated that it expects substantial tendering activity by the Indian Railways going forward, apart from the ongoing government spend on infrastructure. In the private sector, the steel, cement, logistics and electric vehicle segments continue to be prime spenders. Export markets are also attractive, and we expect C&S to play a key role here given its strong low-voltage portfolio.

Maintain BUY: SIEM remains a key beneficiary of India's capex cycle, benefiting from its digitalisation and automation businesses as well as traction in the mobility segment. We raise our target P/E multiple from 57x to 62x – a 30% premium to the 5Y average – given the high capex visibility and substantial order pipeline in the railways business. This, coupled with roll forward of valuations to Mar'25E, takes our TP to Rs 4,500 (vs. Rs 3,800). BUY.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	SIEM IN/Rs 3,797
Market cap	US$ 16.5bn
Free float	25%
3M ADV	US$ 14.3mn
52wk high/low	Rs 3,812/Rs 2,155
Promoter/FPI/DII	75%/5%/10%

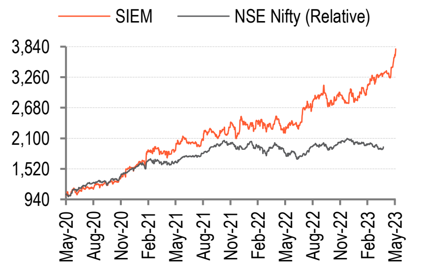
Source: NSE | Price as of 11 May 2023

Key financials

Y/E 30 Sep	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,61,378	1,96,656	2,33,094
EBITDA (Rs mn)	17,573	23,402	29,432
Adj. net profit (Rs mn)	12,619	17,228	22,202
Adj. EPS (Rs)	35.4	48.4	62.4
Consensus EPS (Rs)	35.4	47.3	61.9
Adj. ROAE (%)	11.5	14.1	16.3
Adj. P/E (x)	107.1	78.5	60.9
EV/EBITDA (x)	79.9	60.6	48.3
Adj. EPS growth (%)	22.5	36.5	28.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 1,170 | ⮝ 25%

CIPLA | Pharmaceuticals | 13 May 2023

Key launches at least a year away

- **Q4 EBITDA/PAT grew 57%/45% YoY but missed consensus by 5%/30% on higher R&D spend, field force expansion and other costs**
- **gAdvair/gAbraxane launches delayed; gAdvair being derisked via an additional manufacturing site**
- **FY24-FY25 EBITDA cut 11-13% and TP revised to Rs 1,170 (vs. Rs 1,250) on rollover at a lower 15x EV/EBITDA multiple; retain BUY**

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Seasonality subdues growth in One India: Cipla reported largely in-line Q4FY23 revenue, but EBITDA/PAT missed consensus by 5%/30% due to higher R&D and depreciation expenses. Revenue grew 9% YoY to Rs 57.4bn supported by the North America business (+39%/+5% YoY/QoQ) which saw continued market share gains and gRevlimid contribution. India business grew just 3% YoY due to high Covid-led sales in the base quarter (+16% YoY ex-Covid sales) and an unfavourable seasonal impact on the consumer health business. SAGA issues have not yet been resolved.

Below-expected margin guidance for FY24: Gross/EBITDA margins expanded 490bps/620bps YoY to 64%/20.5% in Q4, aided by new launches and a change in mix as well as the absence of a Covid inventory charge that was in the base quarter last year. Sequentially, Cipla's EBITDA margin dropped 380bps on account of gross margin compression of 145bps, higher R&D expense as well as other costs. Adj. PAT grew 69% YoY to Rs 7bn but reported PAT grew 45% to Rs 5.3bn after a one-time impairment charge of Rs 1.8bn on account of divestment of certain non-core assets in Africa and the Middle East.

Estimates pared…: Considering continued investments toward differentiated products, clinical trials and field force expansion in India along with delayed launches of gAdvair and gAbraxane, we cut our FY24/FY25 EBITDA margin estimates by 100-150bps to 22%/23% and prune operating profit assumptions by 11%/13%.

…maintain BUY: Alongside estimate revision, we pare our target EV/EBITDA multiple from 17x to 15x and roll valuations forward to FY25E, which yields a lower TP of Rs 1,170 (vs. Rs 1,250). Our multiple is in line with the stock's 5Y average. We expect a still-healthy PAT CAGR of 17% over FY23-FY25, baking in new launches, recovery in SAGA/API, and continued growth momentum in One India as the consumer health business returns to form. Retain BUY for 25% upside potential.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CIPLA IN/Rs 937
Market cap	US$ 9.2bn
Free float	65%
3M ADV	US$ 26.2mn
52wk high/low	Rs 1,185/Rs 852
Promoter/FPI/DII	34%/27%/22%

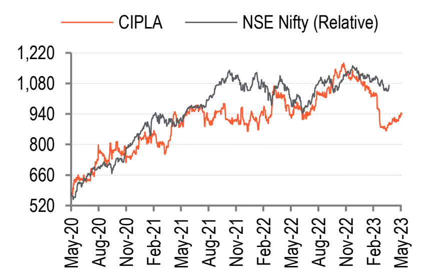
Source: NSE | Price as of 12 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	2,27,530	2,40,961	2,65,956
EBITDA (Rs mn)	50,268	53,517	60,344
Adj. net profit (Rs mn)	29,842	33,919	41,191
Adj. EPS (Rs)	37.0	42.1	51.1
Consensus EPS (Rs)	37.0	45.6	52.7
Adj. ROAE (%)	13.6	13.8	14.7
Adj. P/E (x)	25.3	22.3	18.3
EV/EBITDA (x)	14.5	13.5	11.6
Adj. EPS growth (%)	10.6	13.7	21.4

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

Stock performance



Source: NSE

RESULT REVIEW

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BUY
TP: Rs 629 | ⮝ 16%

MARICO | Consumer Staples | 12 May 2023

Healthy volume-led growth; improved visibility

- **Q4 volume growth of 5% YoY in domestic markets backed by diversification and market development**
- **Margin expansion continues, driven by softening input prices and a favourable portfolio mix**
- **We assume coverage with BUY and a TP of Rs 629, based on 47x FY25E EPS**

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Strong performance: MRCO's consolidated Q4FY23 revenue grew 4% YoY to Rs 22.4bn. India business continued to improve, posting underlying volume growth of 5%. MRCO's diversification strategy for India is progressively yielding results with the share of revenue from foods, premium personal care, and digital first brands combined rising to ~15% in FY23 from ~11% in FY22. The target is to have 20% share from these segments in FY24. International business maintained its strong growth trajectory with 16% CC growth in Q4 and 13% CC growth in FY23 despite persisting macroeconomic headwinds and currency devaluation in some economies.

Sustained margin expansion: Gross margin expanded by 290bps YoY and 250bps QoQ to 47.4% led by moderation in key input prices and a favourable portfolio mix in the India business. EBITDA grew 14% YoY with a 150bps rise in margin to 17.5% despite increased spending on brands. During the quarter, MRCO's ongoing bid to strengthen brand equity and ensure strong execution translated into market share gains, with ~90% of the portfolio either gaining or sustaining share and ~85% of the portfolio enhancing or maintaining market penetration.

Broad-based growth across categories: *Parachute* has registered a 4Y volume CAGR of 6% and gained 70bps YoY volume share during the quarter, with *Parachute Rigid* recording 9% YoY volume growth. Value-added hair oils reported 13% value growth with a 60bps gain in value market share. The *Saffola* franchise, comprising refined edible oils and foods, declined 9% YoY in value terms, whereas the premium personal care segment ended the quarter with 20%+ growth.

BUY, TP Rs 629: MRCO continues to drive growth through investments on brand and market development. We expect product launches, premiumisation trends, rising penetration, and brand investments to result in higher volumes, profitable growth and market share gains. The stock is trading at 46.2x/40.5x FY24E/FY25E EPS. We assume coverage on MRCO with BUY and value the stock at 47x FY25E EPS, in-line with the long-term mean, translating to a TP of Rs 629.

Ticker/Price	MRCO IN/Rs 542
Market cap	US$ 8.5bn
Free float	40%
3M ADV	US$ 8.7mn
52wk high/low	Rs 554/Rs 463
Promoter/FPI/DII	59%/25%/16%

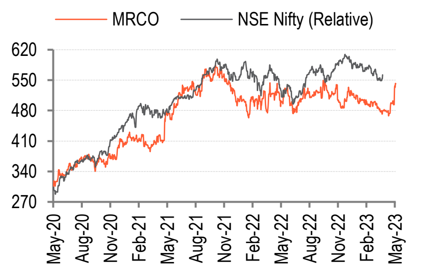
Source: NSE | Price as of 12 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	97,640	1,08,052	1,20,565
EBITDA (Rs mn)	18,100	21,151	24,457
Adj. net profit (Rs mn)	13,020	15,129	17,258
Adj. EPS (Rs)	10.1	11.7	13.4
Consensus EPS (Rs)	10.1	11.8	13.5
Adj. ROAE (%)	35.4	35.3	34.5
Adj. P/E (x)	53.7	46.2	40.5
EV/EBITDA (x)	38.6	33.0	28.6
Adj. EPS growth (%)	6.3	16.2	14.1

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

Stock performance



Source: NSE

SELL

TP: Rs 1,749 | ∨ 15%

ESCORTS | Automobiles | 12 May 2023

Medium-term pain to continue

- **Unseasonal rains dented volumes (-12% QoQ) towards the end of Q4, offsetting momentum seen in the first half**
- **Cost inflation tailwinds benefitted gross margin QoQ, but reversal of price trends in Q1FY24 weakens margin outlook**
- **Short/medium-term pain to continue; we revise FY24/FY25 EPS -4%/ +3% and roll to a TP of Rs 1,749 (vs. Rs 1,742) – retain SELL**

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Topline up YoY but dips sequentially: Escorts' Q4FY23 revenue grew 17% YoY to Rs 21.8bn as volumes increased 13% YoY. However, the company posted a sequential revenue decline of 4% as volumes dropped 12% QoQ due to weak sales in March amid unseasonal rains and crop damage. Net realisation per vehicle (NRPV) in the tractor segment grew 1% YoY (+3% QoQ) to Rs 0.63mn on the back of price increases (1.5-2%) taken by the company at the end of Q3FY23.

Cost inflation hits performance, improvement QoQ: Raw material cost spiked 19% YoY to Rs 15.6bn due to commodity price inflation, while improving 7% QoQ as prices softened. Gross margin at 28.5% fell 140bps YoY but expanded 300bps QoQ. EBITDA margin contracted 265bps YoY while rising 240bps QoQ due to a 10.8% price hike, commodity softening and a better product mix. Reported PAT was down 8% YoY (-1% QoQ) to Rs 1.8bn due to impairment provisions, excluding which growth was at 4% YoY (+13% QoQ).

Rail and CE segments post strong growth: Revenue from the agricultural machinery, railways and construction equipment (CE) segments grew 14%, 37% and 21% YoY respectively. However, earnings for railways and CE improved 46% and 173% respectively, whereas agri machinery earnings declined 27%.

Margin outlook: Management is targeting a 14-15% EBITDA margin by FY24-end. However, commodity softening will be the key to achieve this objective, apart from benefits flowing from cost initiatives and a better product mix.

Maintain SELL: We revise FY24/FY25 EPS estimates by -4%/+3% to Rs 67/Rs 84 to factor in a marginal growth slowdown in the shorter term, and also roll valuations over to FY25E. Our TP moves to Rs 1,749 (earlier Rs 1,742) wherein we continue to value the core business at 20x EPS. Current valuations of 24.5x FY25E EPS appear unjustified given our expectations of slow margin expansion, stiff competition in the tractor business and Escorts' narrow focus on the compact tractor segment. The merger with global partner Kubota Corp has been delayed, adding further uncertainty. SELL.

Key changes

Target	Rating
▲	◄►

Ticker/Price	ESCORTS IN/Rs 2,070
Market cap	US$ 3.3bn
Free float	63%
3M ADV	US$ 7.7mn
52wk high/low	Rs 2,358/Rs 1,307
Promoter/FPI/DII	37%/22%/8%

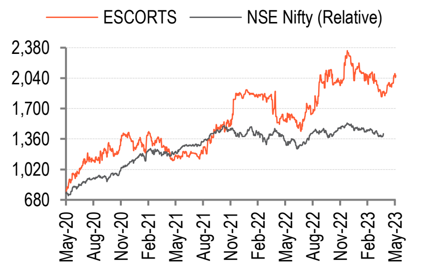
Source: NSE | Price as of 11 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	83,450	89,931	1,00,124
EBITDA (Rs mn)	7,737	10,306	12,976
Adj. net profit (Rs mn)	6,974	8,845	11,133
Adj. EPS (Rs)	52.9	67.0	84.4
Consensus EPS (Rs)	52.9	78.3	94.3
Adj. ROAE (%)	8.3	9.8	11.1
Adj. P/E (x)	39.2	30.9	24.5
EV/EBITDA (x)	34.2	26.7	20.8
Adj. EPS growth (%)	(5.3)	26.8	25.9

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

Stock performance



Source: NSE

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BUY
TP: Rs 4,830 | ⮝ 17%

COFORGE | Technology & Internet | 12 May 2023

Stellar quarter; buoyant outlook

- **Robust Q4 revenue of US$ 264mn (+4.7% QoQ CC) with US$ 1bn milestone reached in FY23**
- **Order intake at US$ 301mn, the fifth consecutive quarter of US$ 300mn+ inflow**
- **Management confident of above-industry growth in FY24; we assume coverage with BUY and a TP of Rs 4,830**

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Stellar growth despite weak macro: Coforge reported Q4FY23 revenue of US$ 264.4mn, up 4.7% QoQ CC and 5% QoQ in dollar terms. Rupee revenue stood at Rs 21.7bn, up 5.6% QoQ (+24.5% YoY). BFS grew 47% for the year, travel was up 21.5%, insurance declined 3.7%, and the others vertical grew 23% in CC terms. The company achieved a US$ 1bn revenue milestone in FY23 and is aiming for US$ 2bn in the coming years

Upbeat topline guidance: After successfully surpassing its guidance for the year, management expects revenue growth of 13-16% CC in FY24. Coforge believes that growth across its three core verticals, including insurance, will be in line with the overall guided range. However, rising concerns over the prospects of large economies along with prevailing supply-side constraints raise uncertainty over near-term growth for the company.

Margin guided to hold at FY23 levels: The Q4 EBITDA margin contracted 120bps YoY to 18.8% largely due to hedge losses, offsetting higher utilisation and a favourable currency mix during the quarter. Management expects margins to hold at this level in FY24. Net profit stood at Rs 2.3bn, rising 2% QoQ.

Robust deal wins continue: Coforge reported robust order intake of US$ 301mn in Q4 (US$ 345mn in Q3). It signed two large deals during the quarter, one each in the BFS and travel verticals. The order book to be executed over the next 12 months stood at US$ 869mn, up 21% YoY. Ten new logos were added during the quarter.

Relatively bullish outlook: Coforge aspires to achieve above-industry growth of 7-10% in FY24 and is confident of clocking quarterly growth of 3-5%. Consistent deal wins and good revenue visibility support our bullish outlook on the company. We assume coverage with BUY and a TP of Rs 4,830 based on 24x FY25E EPS – a 20% discount to midcap peer PSYS.

Key changes

Target	Rating
▼	◄►

Ticker/Price	COFORGE IN/Rs 4,125
Market cap	US$ 3.1bn
Free float	43%
3M ADV	US$ 25.8mn
52wk high/low	Rs 4,512/Rs 3,210
Promoter/FPI/DII	70%/13%/17%

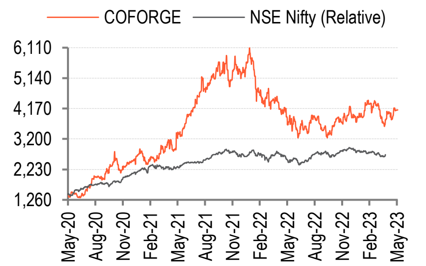
Source: NSE | Price as of 11 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	80,146	92,191	1,00,830
EBITDA (Rs mn)	14,062	16,318	18,351
Adj. net profit (Rs mn)	6,847	10,566	12,142
Adj. EPS (Rs)	113.4	175.0	201.1
Consensus EPS (Rs)	113.4	176.0	197.0
Adj. ROAE (%)	22.1	28.3	27.5
Adj. P/E (x)	36.4	23.6	20.5
EV/EBITDA (x)	17.6	15.2	13.5
Adj. EPS growth (%)	6.0	54.3	14.9

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

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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