FIRST LIGHT

20 July 2023

RESEARCH

HDFC BANK | TARGET: Rs 2,061 | +23% | BUY

Strong PAT on lower provisions

METALS & MINING | Q1FY24 PREVIEW

Bumpy road to recovery

POLYCAB INDIA | TARGET: Rs 5,000 | +16% | BUY

Strong momentum continues

Daily macro indicators

Ticker	17-Jul	18-Jul	Chg (%)
US 10Y yield (%)	3.81	3.79	(2bps)
India 10Y yield (%)	7.08	7.06	(2bps)
USD/INR	82.17	82.03	0.2
Brent Crude (US$/bbl)	78.5	79.6	1.4
Dow	34,585	34,952	1.1
Hang Seng	19,414	19,016	(2.1)
Sensex	66,590	66,795	0.3
India FII (US$ mn)	**14-Jul**	**17-Jul**	**Chg ($ mn)**
FII-D	5.0	23.8	18.9
FII-E	399.4	61.4	(337.9)

Source: Bank of Baroda Economics Research

SUMMARY

HDFC BANK

- Q1 PAT grew 30% YoY backed by a strong topline and lower provisions. Deposits outpaced loan growth at 19% YoY
- NIM dipped 13bps QoQ to 4.1% on a higher cost of funds, whereas credit cost stayed flat at 71bps with stable asset quality
- Maintain BUY with a revised TP of Rs 2,061 for the merged entity (vs. Rs 1,956 pre-merger)

Click here for the full report.

METALS & MINING: Q1FY24 PREVIEW

- Q1FY24 likely to be a bump in the road to recovery with a 30% QoQ pullback in aggregate EBITDA forecast for our coverage
- FY24-FY25 estimates pared to account for slower recovery and margin stabilisation only in H2FY24
- We remain constructive on the sector given earnings growth through brownfield expansion; prefer TATA and JSP

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POLYCAB INDIA

- Impressive Q1 fuelled by 47% YoY growth in wires & cables business; FMEG set to improve
- Project Leap targets likely to be achieved well before the FY26 timeline, sustaining Polycab's earnings upgrade cycle
- FY24/FY25 EPS raised ~9% each on a strong Q1 for a new TP of Rs 5,000 (vs. Rs 4,300), set at 40x FY25E EPS (vs. 38x); maintain BUY

Click here for the full report.

BUY
TP: Rs 2,061 | ⮝ 23%

HDFC BANK | Banking | 19 July 2023

Strong PAT on lower provisions

- **Q1 PAT grew 30% YoY backed by a strong topline and lower provisions. Deposits outpaced loan growth at 19% YoY**
- **NIM dipped 13bps QoQ to 4.1% on a higher cost of funds, whereas credit cost stayed flat at 71bps with stable asset quality**
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NIM contracts QoQ: HDFCB's focus on deposit mobilisation coupled with rate repricing kept cost of funds elevated. Thus, Q1FY24 NII grew just 1% QoQ (but jumped 21% YoY) and NIM contracted 13bps QoQ to 4.1%. Even so, management retained FY24 margin guidance at 3.9-4.1% citing an ongoing structural change in portfolio mix in favour of retail (now at 47% of advances vs. 46% in Q1FY23). Strong fee income and treasury gains of Rs 5.5bn supported net income growth of 27% YoY (+2% QoQ).

Deposits outpace loan growth: HDFCB's deposits pre-merger with HDFC grew 19% YoY vs. 16% loan growth. Term deposits rose 26% YoY (+5% QoQ) vs. CASA growth of 11% (-3% QoQ), leading to a 330bps drop (-190bps QoQ) in CASA ratio to 42.5%. Post-merger deposits grew 16% YoY (+1% QoQ) with a 39% CASA ratio.

Merged loan book up 18% YoY: The bank's high-yield retail (18% YoY) and CRB business (+29% YoY) did well, wherein home and personal loans led the way in retail, and vehicle (+38% YoY) and business banking drove CRB. Provisional merged loans grew only 13% YoY, impacted by run-off in the housing finance arm's wholesale book. Ex-IBPC transactions, the merged core book was up 18% YoY and management is confident of 17-18% YoY credit growth in FY24/FY25.

Cost elevated; stable asset quality aids PAT: Opex increased 34% YoY (+4% QoQ) led by employee cost, restricting PPOP growth to 22% YoY (+0.8% QoQ). Despite higher slippages (145bps annualised vs. 130bps in Q4FY23), GNPA/NNPA were stable at 1.17%/0.3%. Credit cost at 71bps was steady QoQ with cumulative provisioning at 171% of GNPA vs. 176% last quarter. The restructured book inched down to 27bps of loans (vs. 37bps in Q4). PAT grew 30% YoY on a strong topline and lower provisions.

Maintain BUY: Post-merger with HDFC, we now bake in a higher combined credit and PAT CAGR of ~37% each for the bank over FY23-FY25. We do not anticipate major asset quality concerns and model for stable GNPA and NNPA with manageable credit cost. Given the healthy growth outlook, we retain BUY on HDFCB with a revised TP of Rs 2,061 (vs. Rs 1,956), set at 2.8x FY25E ABV for the merged entity (vs. 3.1x pre-merger) plus Rs 178/sh for subsidiaries (vs. Rs 56/sh).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HDFCB IN/Rs 1,678
Market cap	US$ 153.9bn
Free float	74%
3M ADV	US$ 350.7mn
52wk high/low	Rs 1,758/Rs 1,337
Promoter/FPI/DII	26%/33%/27%

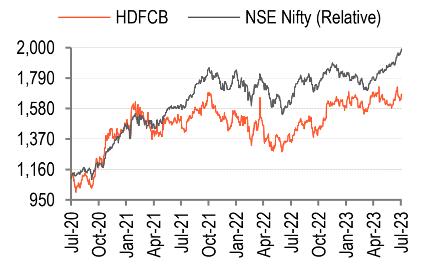
Source: NSE | Price as of 18 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Net interest income	868,422	1,018,026	1,185,894
NII growth (%)	20.6	17.2	16.5
Adj. net profit (Rs mn)	441,087	499,503	575,553
EPS (Rs)	79.3	89.5	103.2
Consensus EPS (Rs)	79.3	92.0	106.0
P/E (x)	21.2	18.7	16.3
P/BV (x)	3.3	2.9	2.6
ROA (%)	1.9	1.9	1.9
ROE (%)	17.0	16.7	16.9

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

Stock performance



Source: NSE

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METALS & MINING | Q1FY24 Preview | 19 July 2023

Bumpy road to recovery

- **Q1FY24 likely to be a bump in the road to recovery with a 30% QoQ pullback in aggregate EBITDA forecast for our coverage**
- **FY24-FY25 estimates pared to account for slower recovery and margin stabilisation only in H2FY24**
- **We remain constructive on the sector given earnings growth through brownfield expansion; prefer TATA and JSP**

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Setback to recovery: We expect Q1FY24 to be a setback to recovery for Indian steel players as consolidated EBITDA for the four majors under our coverage is projected to retract 30% QoQ with a pullback in margin and sale volumes.

Margin stabilisation more likely in H2 than H1: With the monsoons underway in India and hot, rainy weather in China during July-August, we now believe margin stabilisation is more likely in H2FY24 than H1.

China production discipline key: China recovery has slowed in April-June due to the drag from exports and real estate. While the government is working on a stimulus, the market now expects a more measured response. Back in April, China had announced plans to maintain CY23 steel production flat YoY. Implementation of this cap in H2 could lower steel production by 10% HoH, helping to restore market balance.

FY24-FY25 forecasts pared: Factoring in weaker Q1FY24 expectations and our revised steel and raw material pricing assumptions, we lower our FY24/FY25 aggregate EBITDA estimate by ~5% for the four majors under our coverage.

Capex-led growth in FY26 baked in: We roll forward valuations to FY26 to allow for earnings growth from ongoing capex and discount back to Jul'24 to arrive at our target prices. While we maintain our target 1Y fwd EV/EBITDA multiple at 5.8x (blended) for TATA and at 4.5x for SAIL, we raise this to 6.5x (from 6x) for JSTL to reflect aggressive growth delivery and to 5.5x (from 5.25x) for JSP amid streamlining of operations. Post revisions, our target prices stand revised as follows: TATA Rs 145 (vs. Rs 140), JSTL Rs 835 (Rs 715), JSP Rs 740 (Rs 625) and SAIL Rs 90 (no change).

Prefer TATA and JSP: We are constructive on the steel sector with players positioned to benefit from India's growth trajectory through expansion projects. Lower capital intensity of brownfield expansion and margin enhancements/efficiency improvement projects are likely to improve return profiles. We prefer TATA and JSP given the possibility of a rerating for these stocks on resolution of uncertainty in UK operations and demonstration of capital discipline respectively.

Recommendation snapshot

Ticker	Price	Target	Rating
JSP IN	640	740	BUY
JSTL IN	792	835	HOLD
SAIL IN	91	90	HOLD
TATA IN	117	145	BUY

Price & Target in Rupees | Price as of 19 Jul 2023

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BUY
TP: Rs 5,000 | ▲ 16%

POLYCAB INDIA | Consumer Durables | 19 July 2023

Strong momentum continues

- **Impressive Q1 fuelled by 47% YoY growth in wires & cables business; FMEG set to improve**
- **Project Leap targets likely to be achieved well before the FY26 timeline, sustaining Polycab's earnings upgrade cycle**
- **FY24/FY25 EPS raised ~9% each on a strong Q1 for a new TP of Rs 5,000 (vs. Rs 4,300), set at 40x FY25E EPS (vs. 38x); maintain BUY**

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Strong momentum: Polycab posted yet another impressive quarter, with topline growth of 42% YoY to Rs 38.9bn in Q1FY24, ahead of consensus and our estimates. Management has effectively managed margins, as visible in a stable EBITDA margin QoQ and 270bps YoY expansion to 14.1%, a notable result given the seasonal dip in Q1. Net profit at Rs 4bn surged 82% YoY. Polycab performed well on the back of strong volume growth in the wires & cables (W&C) business and accelerated growth in international sales, with operating leverage acting in its favour.

Robust W&C volumes: W&C revenue grew 47% YoY to Rs 35.3bn in Q1, buoying overall growth for the quarter. This was despite a ~10% YoY fall in copper prices, implying strong volume growth of 50-60%. Domestic demand was robust led by improving trends in capex and real estate, enabling the cables business to do better than wires.

FMEG set to improve: FMEG revenue grew just 2% YoY in Q1 but we expect the benefits of channel realignment to accrue going forward. Margins were negative on higher A&P spends and fixed costs. This business is likely to improve as channel inventory of fans non-compliant with the new energy ratings has been exhausted, leading to fresh stocking of newer models.

Project Leap targets could be met before time: In FY21, Polycab had set a target of achieving Rs 200bn in revenue by FY26 under Project Leap, an implied CAGR of 18%. So far, it has clocked a 26% CAGR over FY21-FY23, 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 and see a strong probability of this goal being reached well before FY26.

Maintain BUY: Following the Q1 outperformance, we raise our FY24/FY25 EPS estimates by 8.6%/8.5%. On rolling valuations forward to Jun'25E, our TP rises to Rs 5,000 (vs. Rs 4,300), based on a 40x P/E (vs. 38x), ~40% premium to the stock's 3Y average. We have increased our multiple to factor in the faster-than-expected growth which can sustain the current earnings upgrade cycle. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	POLYCAB IN/Rs 4,309
Market cap	US$ 7.8bn
Free float	34%
3M ADV	US$ 19.5mn
52wk high/low	Rs 4,325/Rs 2,193
Promoter/FPI/DII	66%/10%/9%

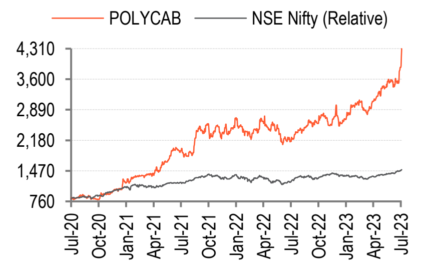
Source: NSE | Price as of 19 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,41,078	1,68,104	1,88,047
EBITDA (Rs mn)	18,521	23,599	26,541
Adj. net profit (Rs mn)	12,700	15,966	17,952
Adj. EPS (Rs)	84.9	106.7	120.0
Consensus EPS (Rs)	84.9	92.5	107.8
Adj. ROAE (%)	20.9	22.0	20.8
Adj. P/E (x)	50.8	40.4	35.9
EV/EBITDA (x)	34.8	27.3	24.3
Adj. EPS growth (%)	51.8	25.7	12.4

Source: Company, Bloomberg, BOBCAPS Research

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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