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FIRST LIGHT

21 July 2023

RESEARCH

INDUSIND BANK | TARGET: Rs 1,755 | +23% | BUY

Strong NII and lower provisions drive PAT

HAVELLS INDIA | TARGET: Rs 1,600 | +19% | BUY

Margins falter

SUMMARY

INDUSIND BANK

- Q1 PAT growth robust at 30% YoY to Rs 21.2bn on NII growth and lower provisions which offset elevated opex
- NIM stable QoQ at 4.3% as a sustained rebound in vehicle and MFI loans offset margin pressure; FY24 guidance maintained at 4.2%
- TP raised to Rs 1,755 (vs. Rs 1,550) as we tweak estimates and move to a higher 1.9x FY25E P/ABV multiple (vs. 1.7x); retain BUY

Click here for the full report.

HAVELLS INDIA

- Q1 a miss due to soft EBIT margins in ECD (-220bps YoY to 10.9%) and lighting (-210bps to 14.3%)
- Aggressive growth strategy aided sales of Rs 13.1bn at Lloyd but came at the cost of margins with a Rs 616mn operational loss
- Despite an 8%/6% cut in FY24/FY25 EPS to bake in lower margins, our TP remains at Rs 1,600 on rollover; retain BUY

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Daily macro indicators

Ticker	18-Jul	19-Jul	Chg (%)
US 10Y yield (%)	3.79	3.75	(4bps)
India 10Y yield (%)	7.06	7.08	2bps
USD/INR	82.03	82.10	(0.1)
Brent Crude (US$/bbl)	79.6	79.5	(0.2)
Dow	34,952	35,061	0.3
Hang Seng	19,016	18,952	(0.3)
Sensex	66,795	67,097	0.5
India FII (US$ mn)	**17-Jul**	**18-Jul**	**Chg ($ mn)**
FII-D	23.8	53.5	29.7
FII-E	61.4	308.1	246.6

Source: Bank of Baroda Economics Research

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BUY
TP: Rs 1,755 | ⮝ 23%

INDUSIND BANK | Banking | 20 July 2023

Strong NII and lower provisions drive PAT

- **Q1 PAT growth robust at 30% YoY to Rs 21.2bn on NII growth and lower provisions which offset elevated opex**
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Loans up 21% YoY: IIB's Q1FY24 loan growth was broad based as both CCB and CFD grew ~21% YoY with traction in vehicle finance. Management expects even higher growth during the rest of the year considering unfavourable seasonality in Q1, along with a likely change in mix in favour of CFD (to 55-56%). Corporate loans did well, led by small businesses (+10% QoQ), and IIB aims to double this book to 20% of the corporate mix in 2-3 years.

Deposits grew 15% YoY: A focus on granularity led to deposit growth of 15% YoY, wherein low-cost retail deposits (as per LCR) increased 21% YoY (forming 43% of deposits) while CASA grew 6% YoY, leading to a flat CASA ratio of 40%.

NIM stable; PAT robust despite high C/I ratio: Continued recovery in the high-yield vehicle finance (+21% YoY) and MFI business (+9% YoY) helped IIB offset margin pressure. NIM was flat QoQ at 4.3% and is guided to hold at similar levels in Q2 as deposit repricing peaks and yields move up. Opex was elevated due to employee cost, taking the C/I ratio to 46%. Management expects to exit FY24 at 45% with improvement to 41-43% by FY25. IIB posted strong 30% YoY PAT growth to Rs 21.2bn supported by NII growth of 18% and lower provisions as slippages were controlled.

Asset quality improving gradually: A decline in MFI slippages (to Rs 3.7bn vs. Rs 6bn in Q4) helped counter deterioration in CFD (mainly vehicle finance), bringing overall slippages down to Rs 13.8bn (vs. Rs 16bn). Credit cost at 134bps (146bps in Q4) despite a Rs 1.3bn provision on security receipts is in line with guidance of 110-130bps over FY23-FY26. Steady reduction in the restructured (66bps of loans vs. 88bps in Q4) and SMA book (23bps vs. 32bps) provide confidence on asset health.

Maintain BUY: Strong growth momentum in vehicle finance and MFI loans coupled with improving asset quality and a healthy loan mix put IIB on a strong wicket. We expect ROA/ROE to rise from ~1.7%/14.5% in FY23 to 1.9%/16.5% by FY25. We raise FY24/FY25 EPS estimates by 1% each and reset to a higher P/ABV multiple of 1.9x on FY25E (vs. 1.7x) based on the Gordon Growth Model, yielding a new TP of Rs 1,755 vs. Rs 1,550. BUY.

Key changes

Target	Rating
▲	◀▶

Ticker/Price	IIB IN/Rs 1,425
Market cap	US$ 13.5bn
Free float	84%
3M ADV	US$ 55.2mn
52wk high/low	Rs 1,443/Rs 893
Promoter/FPI/DII	16%/42%/26%

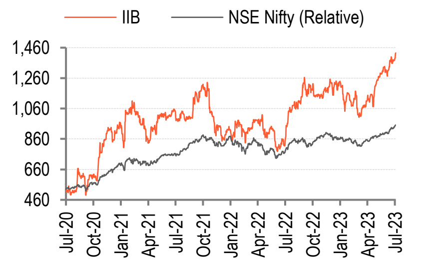
Source: NSE | Price as of 20 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Net interest income	175,921	211,126	246,915
NII growth (%)	17.3	20.0	17.0
Adj. net profit (Rs mn)	74,431	93,535	111,448
EPS (Rs)	96.0	120.6	143.6
Consensus EPS (Rs)	96.0	114.6	134.1
P/E (x)	14.8	11.8	9.9
P/BV (x)	2.0	1.8	1.5
ROA (%)	1.7	1.9	1.9
ROE (%)	14.4	15.9	16.5

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

Stock performance



Source: NSE

BUY

TP: Rs 1,600 | ⮝ 19%

HAVELLS INDIA

| Consumer Durables | 20 July 2023

Margins falter

- **Q1 a miss due to soft EBIT margins in ECD (-220bps YoY to 10.9%) and lighting (-210bps to 14.3%)**
- **Aggressive growth strategy aided sales of Rs 13.1bn at Lloyd but came at the cost of margins with a Rs 616mn operational loss**
- **Despite an 8%/6% cut in FY24/FY25 EPS to bake in lower margins, our TP remains at Rs 1,600 on rollover; retain BUY**

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Muted quarter: HAVL posted topline growth of 14% YoY to Rs 48bn as the cables & wires business grew 24% to Rs 14.8bn (4Y CAGR 15%), ECD grew 5% to Rs 8.8bn (4Y CAGR 10%), lighting was flattish at Rs 3.7bn (4Y CAGR 2%), and switchgears grew 5% to Rs 5.4bn (4Y CAGR 8%). Lloyd posted 20% growth to Rs 13.1bn (4Y CAGR 24%).

Margins a miss: The cables segment saw improved profitability with EBIT margin up 410bps YoY, while ECD (-220bps) and lighting (-210bps) saw declines. Whereas lighting was impacted by price corrections, the fans (ECD) business slowed due to erratic weather. Lloyd too remained in the red with an EBIT loss of Rs 616mn as industrywide profitability suffered on account on unseasonal rains. Management is, however, bullish on the consumer environment and also expects lighting margins to increase by 100-200bps in the medium term.

Aggressive Lloyd strategy continues: HAVL continued with its strategy of prioritising market share gains over margins at Lloyd, as reflected in the subsidiary's 20% YoY topline growth and accompanying EBIT loss of Rs 616mn. Management pegs Lloyd as among the top 3 players in the room AC industry and expects its growth strategy to also spur sales of washing machines and refrigerators. Per management, contract manufacturing with a focus on exports and a slight pricing premium to competition sets a glide path for margin improvement in the medium term.

Maintain BUY: We remain positive on HAVL's medium-term performance given its strong presence in the consumer durables sector and improving industry sentiment. Baking in the slower Q1 performance than anticipated, we adjust our FY24/FY25 EPS estimates downwards by 8%/6%. Upon rolling valuations forward to Jun'25E, our TP remains unchanged at Rs 1,600, based on an unchanged 53x P/E multiple which is in line with the stock's 3Y average. BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HAVL IN/Rs 1,348
Market cap	US$ 10.3bn
Free float	41%
3M ADV	US$ 14.8mn
52wk high/low	Rs 1,408/Rs 1,025
Promoter/FPI/DII	60%/23%/10%

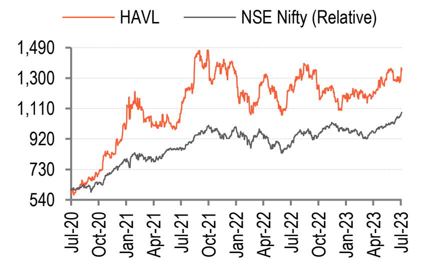
Source: NSE | Price as of 20 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,69,107	1,90,821	2,17,228
EBITDA (Rs mn)	15,991	20,077	25,417
Adj. net profit (Rs mn)	10,717	13,919	17,349
Adj. EPS (Rs)	17.1	22.2	27.7
Consensus EPS (Rs)	17.1	24.5	29.8
Adj. ROAE (%)	17.0	19.7	21.5
Adj. P/E (x)	78.8	60.7	48.7
EV/EBITDA (x)	52.8	42.1	33.2
Adj. EPS growth (%)	(10.4)	29.9	24.6

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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