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FIRST LIGHT

23 May 2023

RESEARCH

BOB ECONOMICS RESEARCH | BANK LIQUIDITY

Impact of withdrawal of 2000 rupee notes

CROMPTON GREAVES | TARGET: Rs 370 | +42% | BUY

Mixed quarter

DIVERSIFIED FINANCIALS

Proposed TER overhaul implies steep profit hit for AMCs

SUMMARY

INDIA ECONOMICS: BANK LIQUIDITY

RBI in its notification dated 19 May 2023 has announced gradual withdrawal of 2000 rupee notes from the system; albeit stating that it continues to be a legal tender. Against this backdrop, we have tried to look into the impact on banking system liquidity considering alternative scenarios and also the possible cost-returns analysis.

Click here **for the full report.**

CROMPTON GREAVES

- Q4 topline grew 16% YoY aided by a good ECD performance; lighting continues to disappoint
- Focus on star-rated fans helped push sales slightly ahead of peers; premium segment shines
- FY24/FY25 EPS cut 9%/7% and TP revised to Rs 370 (vs. Rs 440) on a lower target P/E of 30x (vs. 35x) due to volatility in fans; retain BUY

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DIVERSIFIED FINANCIALS

- SEBI moots all-inclusive TER with new AUM-based slabs to make mutual funds more transparent
- Regulator also targeting unnecessary churn by stripping away distributors' incentive to promote switch-outs from existing schemes to NFOs
- TER for listed players could shrink 13-34bps; expect FY25E net profit of HDFC AMC to be hardest hit while UTI AMC best placed

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Daily macro indicators

Ticker	18-May	19-May	Chg (%)
US 10Y yield (%)	3.65	3.67	3bps
India 10Y yield (%)	6.99	7.01	2bps
USD/INR	82.59	82.67	(0.1)
Brent Crude (US$/bbl)	75.9	75.6	(0.4)
Dow	33,536	33,427	(0.3)
Hang Seng	19,727	19,451	(1.4)
Sensex	61,432	61,730	0.5
India FII (US$ mn)	**17-May**	**18-May**	**Chg ($ mn)**
FII-D	182.5	(20.6)	(203.2)
FII-E	97.8	218.8	121.0

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

BANK LIQUIDITY

22 May 2023

Impact of withdrawal of 2000 rupee notes

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Dipanwita Mazumdar
Sonal Badhan
Economist

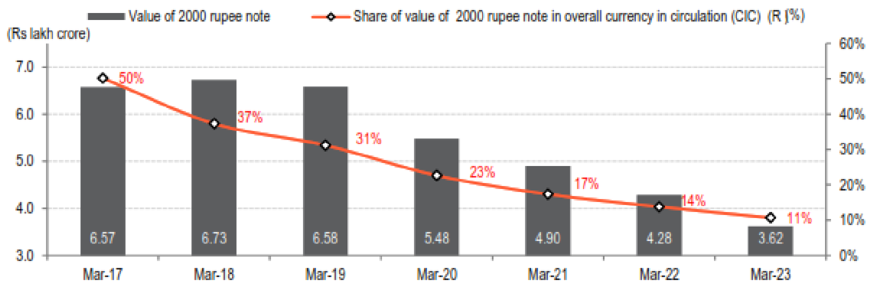
Key findings:

- Move is clearly to encourage a shift in payment behavior of the economy.
- Banks will face possible temporary influx of liquidity leading to increase in deposit base.
- This will widen credit deposit gap; and surplus liquidity with banks which can be used either for investment in government securities or lending purposes.
- This will also lead to marginal inching up of interest outflows on deposits for banks. However, there will be corresponding return on investments and the net impact may be balanced out.

Current state of 2000 rupee notes:

In its notification, RBI clearly stated its main decision towards withdrawal of this denomination has been the persistent decline in share of 2000 rupee currency notes in the overall basket. From around 50% in FY17, the share of 2000 rupee notes in value terms have fallen to 3.6% in FY23. Hence RBI's move clearly reflects the shifting pattern of payment system in the economy..

Figure 1: Continuous decline in share of 2000 rupee notes



Source: RBI, Bank of Baroda Research

Needless to mention that India's economy underwent revolutionary changes in terms of payment dynamics. In terms of CAGR, digital payment in volume terms have grown at a pace of 8.8% in the past 5 years compared to 4% CAGR in real GDP during the same 5-year span. Negative growth witnessed in FY20 and FY21 as volume of activity in the country went down due to the lockdown.

BUY
TP: Rs 370 | ⮝ 42%

CROMPTON GREAVES | Consumer Durables | 22 May 2023

Mixed quarter

- **Q4 topline grew 16% YoY aided by a good ECD performance; lighting continues to disappoint**
- **Focus on star-rated fans helped push sales slightly ahead of peers; premium segment shines**
- **FY24/FY25 EPS cut 9%/7% and TP revised to Rs 370 (vs. Rs 440) on a lower target P/E of 30x (vs. 35x) due to volatility in fans; retain BUY**

Vinod Chari | Nilesh Patil
Swati Jhunjhunwala
research@bobcaps.in

Revenue in line, PAT a miss: Crompton reported a mixed Q4FY23 amid a difficult environment. The consolidated topline at Rs 17.9bn (+16% YoY) was in line with our estimate, but EBITDA margin at 11.8%% and adj. PAT at Rs 1.3bn fell short. Organic revenue grew at a modest 5% YoY to Rs 16bn.

ECD shores up revenue: Electrical consumer durables (ECD) grew 8% YoY, ahead of HAVL (-14% YoY) and ORIENTEL (-20% YoY), due to a relatively good performance in fans, particularly in the premium segment. However, weakness persisted in the lighting business (-12% YoY) as the B2C segment underperformed. Subsidiary BGAL (home appliances) continued to deliver flattish revenue (-2% YoY), shored up by the retail segment (+19% YoY).

Fan strategy turning favourable: Deviating from the industry trend of offloading non-star-rated fans, Crompton had pushed its new, compliant portfolio following the energy rating transition. This tactic backfired in Q3 but has showed traction in Q4, and management indicated that the company has performed ahead of peers in H2FY23. The premium segment has also been performing well since the rating transition (+24% YoY in Q4), with BLDC fans witnessing strong traction (+2.5x YoY).

Pumps to revive: The company seems to have tackled product inferiorities via new architecture and also altered pricing to become more competitive in the pumps business. Management expects better results here from H1FY24 onwards.

Maintain BUY; reduce TP to Rs 370: We lower our FY24/FY25 EPS estimates by 9%/7% and cut our target P/E to 30x (earlier 35x) to bake in the fluid demand environment in the fans business amidst the recent rating transition. On rollover to Mar'25E valuations, our TP stands revised to Rs 370 (vs. Rs 440). Though the rating change has led to an uncertainty in the fans industry, we believe Crompton is a better bet than peers on account of its market leadership and growing share in premium fans. Additionally, its strategy to focus on star-rated fans appears to be gaining traction. We thus retain our BUY rating on the stock.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CROMPTON IN/Rs 260
Market cap	US$ 2.0bn
Free float	100%
3M ADV	US$ 11.3mn
52wk high/low	Rs 429/Rs 251
Promoter/FPI/DII	0%/40%/44%

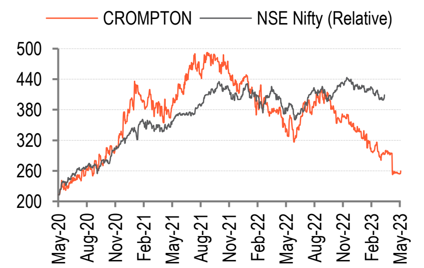
Source: NSE | Price as of 22 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	68,696	79,054	91,036
EBITDA (Rs mn)	7,705	9,629	11,532
Adj. net profit (Rs mn)	4,632	6,307	7,837
Adj. EPS (Rs)	7.3	9.9	12.3
Consensus EPS (Rs)	7.3	9.8	11.8
Adj. ROAE (%)	18.1	21.6	22.5
Adj. P/E (x)	35.7	26.2	21.1
EV/EBITDA (x)	22.1	16.7	13.7
Adj. EPS growth (%)	(21.7)	36.2	24.3

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

Stock performance



Source: NSE

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Mohit Mangal
research@bobcaps.in

New slabs proposed: SEBI, in its recent consultation paper, proposes to set TER slabs at the AMC level, not at the scheme level. The revised slabs will be different for (i) equity and equity-based AUM and (ii) other-than-equity-based AUM, with the maximum fee that can be charged for an equity scheme being 2.55% for the first AUM slab (up to Rs 25bn). Per SEBI, the impact of the revised TER slabs on AMCs collectively would result in a ~5% reduction in expenses of equity, hybrid and solution-oriented schemes for investors.

Other key proposals: (i) The TER limit should be inclusive of all additional expenses such as brokerage, transaction expenses and GST. (ii) Additional commission to distributors may continue for inflows from B30 cities but with conditions in order to prevent unnecessary churn. (iii) TER could be made variable based on scheme performance. (iv) Exit load of open-ended schemes may be cut from 5% of NAV to 2%.

Safeguarding investors against misselling: Among the new proposals is one that entitles distributors to the lower of the commissions offered under the two schemes pertaining to any switch transaction. This is aimed at avoiding misselling by distributors due to the lure of higher commissions, given that the current rules permit a new scheme to charge higher TER than an existing one.

TER of listed players could shrink by 13-34bps: Assuming that the new rules are restricted to active equity schemes, our analysis shows that if all expenses are included in TER, then the negative impact could range from 13-34bps. Assuming 60% of expenses are passed along to distributors, then listed players with a large equity AUM corpus could see a sharp drop-off in FY25 net profit in the range of 6-15%, with HDFC AMC bearing the brunt. UTI AMC is the only exception with a 1% PAT upside.

Scenario analysis suggests some wiggle room: If our base-case brokerage and STT expense assumptions are halved (from 22bps to 11bps), then the decline in FY25 profitability would lessen to 2-11% (ex-UTI AMC). However, if expenses are halved but AMCs are able to only transfer 25% of these to distributors, then the hit on PAT would widen to a range of 5-23%, impacting all listed players.

Recommendation snapshot

Ticker	Price	Target	Rating
ABSLAMC IN	344	375	HOLD
HDFCAMC IN	1,787	1,946	HOLD
NAM IN	237	305	BUY
UTIAM IN	669	800	BUY

Price & Target in Rupees | Price as of 22 May 2023

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Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

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Note: Recommendation structure changed with effect from 21 June 2021

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