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FIRST LIGHT

24 January 2023

RESEARCH

RELIANCE INDUSTRIES | TARGET: Rs 2,840 | +17% | BUY

Entry opportunity; upgrade to BUY

SBI LIFE | TARGET: Rs 1,611 | +24% | BUY

Upbeat quarter; maintain BUY

POWER | Q3FY23 PREVIEW

Demand remains strong

SUMMARY

RELIANCE INDUSTRIES

- Q3 EBITDA recovers with capture of higher refining margin upside and improved natural gas realisation
- Key catalysts to watch include roadmap for new energy, market share and tariff increases post 5G launch, and retail business scale-up
- TP raised to Rs 2,840 from Rs 2,670 on rollover of valuation base to FY25; upgrade to BUY after 12% correction since Nov'22

Click here **for the full report.**

SBI LIFE

- Strong 15% YoY growth in 9M gross premium with an in-line Q3; APE clocks robust 20% increase
- VNB buoyant with a high ~30% margin at end-9M, up 480bps YoY but down vs. H1 due to a change in product mix
- We raise FY24/FY25 VNB by 5% each; on rollover, we have a revised TP of Rs 1,611 (vs. Rs 1,512); retain BUY

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Daily macro indicators

Indicator	19-Jan	20-Jan	Chg (%)
US 10Y yield (%)	3.39	3.48	9bps
India 10Y yield (%)	7.31	7.35	4bps
USD/INR	81.36	81.13	0.3
Brent Crude (US$/bbl)	86.2	87.6	1.7
Dow	33,045	33,375	1.0
Hang Seng	21,651	22,045	1.8
Sensex	60,858	60,622	(0.4)
India FII (US$ mn)	**18-Jan**	**19-Jan**	**Chg ($ mn)**
FII-D	15.4	45.6	30.1
FII-E	6.7	72.3	65.6

Source: Bank of Baroda Economics Research

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POWER | Q3FY23 PREVIEW

- High power demand led by festive season and uptick in economic activity to drive revenue growth
- Peak demand crossed 200GW in winter, indicating possible power shortages in the coming summer months akin to last year
- We assume coverage on NTPC (top pick), TPWR and CESC with BUY ratings, and on PWGR with HOLD

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BUY
TP: Rs 2,840 | ▲ 17%

RELIANCE INDUSTRIES | Oil & Gas | 24 January 2023

Entry opportunity; upgrade to BUY

- **Q3 EBITDA recovers with capture of higher refining margin upside and improved natural gas realisation**
- **Key catalysts to watch include roadmap for new energy, market share and tariff increases post 5G launch, and retail business scale-up**
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Modest uptick in Q3 EBITDA: RIL's Q3FY23 EBITDA grew 13% QoQ to Rs 352bn (ex-other income) backed by better capture of refining margin upside, owing to a lower impact of SAED, and higher natural gas realisation. While EBITDA was 5% ahead of consensus, it was broadly in line with our estimate. Increased disclosures for the retail business are a positive.

Estimates largely maintained: We cut FY23 EBITDA/adj. PAT estimates by 1.4%/ 5.2%, incorporating the Q3 results, higher depreciation and impact of increased net debt. We raise FY25 EBITDA/adj. PAT by 3.4%/2.5%, factoring in better profitability in digital services on lower costs and in oil & gas on higher gas realisations.

Upside catalysts: With start-up of the 50MW solar plant and 5GWh battery pack just a year away, potential savings for the O2C business would be a key growth catalyst, with RIL's initial plan being to consume the entire output to decarbonise the business. For JIO, material tariff hike is key, which we assume to be back-ended in FY24 linked to traction in 5G and value-added offerings. For retail, while growth is still being driven by footprint expansion, same-store-sales growth will also be key to discerning traction in the business. We believe listing of the digital services and retail arms will be linked to the achievement of operational milestones that have been delayed by Covid.

Downside risks: With RIL in the midst of its next wave of investments toward 5G rollout, new energy giga factories and consumer brands, capex needs are likely to outpace cash generation over the next two years. This could keep ROCE below potential till new businesses become self-sustainable.

Upgrade to BUY from HOLD: We raise our TP for RIL to Rs 2,840 (from Rs 2,670) with roll-forward of valuation to FY25, partially offset by downward revision in target multiples to reflect lower peer valuation. Our TP is based on an SOTP valuation for the refining (7x FY25E EV/EBITDA), petrochemicals (8x), telecom (Jio Infocomm: 9x) and retail (30x) businesses. Our valuation includes Rs 158/sh for the upstream business, Rs 110 for digital services, and Rs 129 for the new energy division. We upgrade to BUY as a 12% correction since Nov'22 opens up an opportunity to enter the stock.

Key changes

Target	Rating
▲	▲

Ticker/Price	RIL IN/Rs 2,430
Market cap	US$ 202.0bn
Free float	50%
3M ADV	US$ 153.6mn
52wk high/low	Rs 2,856/Rs 2,180
Promoter/FPI/DII	50%/23%/16%

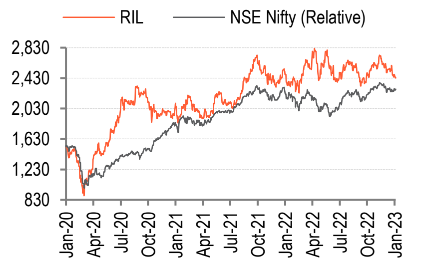
Source: NSE | Price as of 23 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	6,999,620	8,615,446	8,580,220
EBITDA (Rs mn)	1,104,600	1,442,861	1,638,439
Adj. net profit (Rs mn)	584,201	687,139	782,271
Adj. EPS (Rs)	86.4	101.6	115.6
Consensus EPS (Rs)	86.4	102.3	124.7
Adj. ROAE (%)	7.9	8.5	8.9
Adj. P/E (x)	28.1	23.9	21.0
EV/EBITDA (x)	17.3	13.2	11.7
Adj. EPS growth (%)	33.8	17.6	13.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 1,611 | ⮝ 24%

SBI LIFE | Insurance | 23 January 2023

Upbeat quarter; maintain BUY

- **Strong 15% YoY growth in 9M gross premium with an in-line Q3; APE clocks robust 20% increase**
- **VNB buoyant with a high ~30% margin at end-9M, up 480bps YoY but down vs. H1 due to a change in product mix**
- **We raise FY24/FY25 VNB by 5% each; on rollover, we have a revised TP of Rs 1,611 (vs. Rs 1,512); retain BUY**

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Strong premium growth: Gross premium grew 6% YoY and 16% QoQ to Rs 193bn in Q3FY23 (+15% YoY to Rs 473bn in 9M), meeting our estimate. NBP was flat whereas renewal premium increased 13% YoY for the quarter. For 9MFY23, APE grew at a robust 20% YoY to Rs 123bn (+19% YoY in Q3), with savings APE up 21% to form 90% of the total. The company's protection business grew 16% YoY in 9M, wherein group products did comparatively better than individual plans. We now factor in an 18% CAGR in APE over FY22-FY25 to Rs 236bn (vs. Rs 216bn earlier).

Buoyant VNB and high margin: SBI Life's VNB rose 44% YoY to Rs 36.3bn in 9MFY23 with a 29.6% margin (+480bps YoY). However, the margin declined 140bps when compared to H1FY23 because of a change in product mix in favour of ULIPs which carry lower margins. Thus, we pare our VNB margin assumptions from 28-30% to 27-29% over FY23-FY25. Following the upward revision in APE estimates, we now model for a 20% CAGR in VNB over our forecast period to Rs 64bn (Rs 60bn earlier).

Bancassurance share increases: Based on overall APE, the share of the bancassurance channel climbed to 66% in 9MFY23 (vs. 64% in 9MFY22). The banking channel has performed well even if we were to exclude SBI. Agency was also steady at 25%. The share of other channels, comprising brokers, corporate agents and direct, declined to 9% (vs. 11% in 9MFY22).

Persistency improves; cost ratios increase: Persistency in the 13th month cohort increased to 84.6% in 9MFY23 from 83.9% in the year-ago period and 61st month ratios increased to 53.6% from 48.7%. The total cost ratio expanded ~140bps YoY to 9.1% at end-Q3 (+220bps in 9M to 9.7%), with opex ratio rising to 4.5% from 4.2% in the year-ago quarter and commission ratio to 4.6% from 3.5%.

Maintain BUY: The stock is trading at 1.9x FY25E P/EV. Given SBI Life's strong growth, market leadership, healthy solvency margins and high persistency ratios, we value the stock at 2.4x FY25E P/EV, which is the average of its long-term mean and 1SD below the mean multiple. Based on our revised estimates and rollover of valuations to FY25E, we have a new TP of Rs 1,611 (vs. Rs 1,512).

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	SBILIFE IN/Rs 1,296
Market cap	US$ 16.0bn
Free float	45%
3M ADV	US$ 14.8mn
52wk high/low	Rs 1,340/Rs 1,004
Promoter/FPI/DII	55%/24%/16%

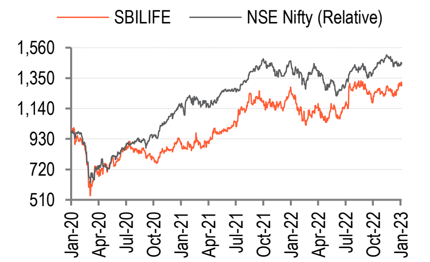
Source: NSE | Price as of 20 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
NBP (Rs mn)	2,54,574	2,92,933	3,42,554
APE (Rs mn)	1,43,000	1,72,874	2,03,227
VNB (Rs mn)	37,037	50,133	54,871
Embedded Value (Rs mn)	3,96,030	4,74,841	5,64,694
VNB margin (%)	25.9	29.0	27.0
EVPS (Rs)	395.5	475.2	566.8
EPS (Rs)	15.0	19.3	20.4
Consensus EPS (Rs)	15.0	19.5	22.4
P/EV (x)	3.3	2.7	2.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

POWER | Q3FY23 Preview | 23 January 2023

Demand remains strong

- **High power demand led by festive season and uptick in economic activity to drive revenue growth**
- **Peak demand crossed 200GW in winter, indicating possible power shortages in the coming summer months akin to last year**
- **We assume coverage on NTPC (top pick), TPWR and CESC with BUY ratings, and on PWGR with HOLD**

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Power demand on the rise: India's power consumption logged high growth of 9.6% to 343bn units in Q3FY23 compared to the year-ago period. The robust growth indicates sustained momentum in economic activity during the quarter. The highest supply in a day (or peak power demand met) rose to 205GW in Dec'22 amidst the harsh winter season.

Coal inventory satisfactory: Coal inventory at power plants has improved significantly led by increased use of imported coal. The number of stations facing subcritical inventory levels declined to 43 in Dec'22 vs. 69 in the year-ago quarter and 54 in Q2FY23. As on Dec'22, the coal stock stood at 32MT, 50% of the normative requirement, compared to 23.3mt as in Dec'21 or 40% of the requirement.

Capacity addition tepid: About 2.5GW of total capacity has been added during Q3FY23, all in the renewable energy sector. India's power deficit normalised to 0.4% in Q3 vs. 0.6% in Q2, while average merchant rates declined 3% YoY and 12% QoQ to Rs 4.8/unit.

Significant improvement in dues to gencos: Total outstanding dues owed by electricity distribution companies (discoms) to power producers (gencos) nearly halved to Rs 675bn as of Dec'22 compared to Rs 1,210bn as of Dec'21. This was mainly due to various steps taken by the government such as implementation of late payment surcharge rules and provision of a facility for equated monthly installments (EMI) to utilities.

Players with domestic coal linkages to outperform: Given the high demand and possible coal shortage scenario going forward, we expect companies with domestic coal linkages to outperform the industry in the medium term. We assume coverage with BUY ratings on NTPC (top pick, TP Rs 210), TPWR (TP Rs 271), and CESC (TP Rs 108), and with a HOLD rating on PWGR (TP Rs 251).

Recommendation snapshot

Ticker	Price	Target	Rating
CESC IN	74	108	BUY
NTPC IN	169	210	BUY
PWGR IN	223	251	HOLD
TPWR IN	207	271	BUY

Price & Target in Rupees | Price as of 20 Jan 2023

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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

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