BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

24 July 2023

RESEARCH

MPHASIS | TARGET: Rs 2,541 | +9% | HOLD

Tepid Q1; cut to HOLD post runup

GLENMARK LIFE SCIENCES | TARGET: Rs 620 | –2% | HOLD

Another good quarter; cut to HOLD post rally

RELIANCE INDUSTRIES | TARGET: Rs 3,015 | +19% | BUY

Steady she goes

HDFC LIFE | TARGET: Rs 700 | +8% | HOLD

Healthy quarter but positives priced in; maintain HOLD

360 ONE | TARGET: Rs 611 | +18% | BUY

Strong set of numbers

HINDUSTAN UNILEVER | TARGET: Rs 3,069 | +18% | BUY

Modest quarter but improvement ahead

INFOSYS | TARGET: Rs 1,760 | +21% | BUY

Guidance cut a temporary blip

COFORGE | TARGET: Rs 4,830 | +0% | HOLD

Miss on margins; deal momentum strong

METALS & MINING

Medium-term aluminium outlook strong, near-term soft – Alcoa

Daily macro indicators

Ticker	19-Jul	20-Jul	Chg (%)
US 10Y yield (%)	3.75	3.85	10bps
India 10Y yield (%)	7.08	7.08	1bps
USD/INR	82.10	81.99	0.1
Brent Crude (US$/bbl)	79.5	79.6	0.2
Dow	35,061	35,225	0.5
Hang Seng	18,952	18,928	(0.1)
Sensex	67,097	67,572	0.7
India FII (US$ mn)	**18-Jul**	**19-Jul**	**Chg ($ mn)**
FII-D	53.5	(21.4)	(74.9)
FII-E	308.1	267.2	(40.8)

Source: Bank of Baroda Economics Research

SUMMARY

MPHASIS

- Q1 missed estimates as dollar revenue slipped 3.4% QoQ following a slowdown in both direct business and DXC
- Deal TCV at record high of US$ 707mn aided by AI capabilities and wins in newer verticals and geographies
- Positives priced in post the recent stock runup; cut from BUY to HOLD with TP unchanged at Rs 2,541

Click here for the full report.

BOBCAPS Research
research@bobcaps.in

GLENMARK LIFE SCIENCES

- Strong Q1 with EBITDA/PAT beat of 10%/6% despite slight miss on revenue
- Revenue/PAT up 18%/25% YoY accompanied by gross/EBITDA margin expansion of 385bps/345bps
- Limited upside potential following 26% rally in last 3 months; reduce from BUY to HOLD with a new TP of Rs 620 (vs. Rs 600)

Click here for the full report.

RELIANCE INDUSTRIES

- Q1 results broadly in line as the energy business optimised operations and consumer business continued momentum
- Jio 2.0 building blocks shaping up and growth in retail gaining pace; roadmap for savings from new energy key to watch out
- Maintain BUY with a revised TP of Rs 3,015 (vs. Rs 3,075) as we adjust for demerger of Jio Financials

Click here for the full report.

HDFC LIFE

- Key overhang dispelled with consummation of HDFC-HDFC Bank merger and parent’s stake raise to >50%
- Maintains #2 position in private life insurance space; VNB margin weak in Q1 at 26.2% – we retain our forecast of 26.5% for FY24/FY25
- TP raised to Rs 700 (vs. Rs 600) on a higher 2.8x (vs. 2.4x) FY25E P/EV; retain HOLD

Click here for the full report.

360 ONE

- ARR robust at Rs 130bn net flows in Q1, forming 80% of revenue from operations and 65% of AUM
- Well placed to meet FY24 guidance of Rs 400bn in ARR net flows, leading us to increase estimates
- TP raised to Rs 611 (vs. Rs 540) on a 3%/4% increase in FY24/FY25 PAT estimates and a higher target P/E of 25x (vs. 23x); maintain BUY

Click here for the full report.

HINDUSTAN UNILEVER

- Q1 volume and value growth moderated; margins improved sequentially as inflation eased
- Rural markets turned positive YoY (2Y CAGR of -4%); impact of El Nino remains a key monitorable
- Focus remains on category development and margin expansion; maintain BUY with an unchanged TP of Rs 3,069

Click here **for the full report.**

INFOSYS

- FY24 revenue growth guidance slashed from 4-7% to 1-3.5%, implying continued uncertainty – a sector-wide phenomenon
- Large deal wins strong at US$ 2.3bn in Q1; pipeline healthy backed by cost efficiency, automation and vendor consolidation
- Headwinds temporary not structural; maintain BUY with an unchanged TP of Rs 1,760, set at 20.5x FY25E EPS

Click here **for the full report.**

COFORGE

- Q1 revenue in line at US$ 272mn led by BFSI but EBIT margin at 10% fell short of estimates
- Quarterly TCV the highest ever at US$ 531mn; spends by retail & commercial banks (ex-mortgage) expected to continue
- Valuations fair post recent rally; maintain HOLD with a TP of Rs 4,830 (unchanged), based on 24x FY25E EPS

Click here **for the full report.**

METALS & MINING

- Only a third of AA's 42% QoQ EBITDA decline in Q2CY23 attributable to market factors relevant to Indian companies
- Global aluminium market softened slightly in Q2 but remains in balance as weakness in supply offset slowing demand
- Indian players exposed to price decline during Q1FY24 but could see partial offset from lower coal cost

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RESULT REVIEW

HOLD

TP: Rs 2,541 | ⮝ 9%

MPHASIS | Technology & Internet | 22 July 2023

Tepid Q1; cut to HOLD post runup

- **Q1 missed estimates as dollar revenue slipped 3.4% QoQ following a slowdown in both direct business and DXC**
- **Deal TCV at record high of US$ 707mn aided by AI capabilities and wins in newer verticals and geographies**
- **Positives priced in post the recent stock runup; cut from BUY to HOLD with TP unchanged at Rs 2,541**

Saptarshi Mukherjee
research@bobcaps.in

Weak Q1: MPHL reported a dollar revenue decline of 3.4% QoQ (-3.5% QoQ CC) in Q1FY24, much below our estimate. Growth was adversely impacted by a 3.2% QoQ CC fall in direct international business. DXC, which forms 3.5% of revenue, decreased 10.9% QoQ CC but is likely to stabilise near term.

Insurance and TMT business show improvement: MPHL has historically gained market share from peers in the BFSI vertical, but this quarter saw a better showing from non-BFSI service lines (healthcare, telecom, media and technology or TMT) and geographies (Canada). The digital risk business formed 6.3% of Q1 revenue and is seeing capacity build-up from clients, backed by recovery in other segments.

Portfolio diversification: Deal TCV during the quarter was MPHL's highest ever at US$ 707mn, backed by AI-led wins which formed roughly a third of the total and included US$ 100mn+ engagements. MPHL bagged seven large deals in Q1, of which only two came from BFS, including one with US$ 100mn+ TCV. The remaining five came from non-BFS, non-top 10 clients and the Canada market, with four of these worth over US$ 100mn each. Despite material deal conversion, the pipeline is up 6% QoQ and 23% YoY.

Margin to stay range-bound in FY24: EBIT margin was stable at 15.4% as the impact of lower revenue was mitigated by higher offshore utilisation. MPHL expects BFS to remain soft in the near term but believes margins would stay within the guided range of 15.25-16.25% for the remaining quarters of this fiscal led by pyramid optimisation, better utilisation and offshore leverage. Offshore utilisation including trainees stood at 75% vs. the previous peak of 83-84%.

Cut to HOLD post runup: Despite revenue leakages, we expect continued deal wins in direct business to support revenue over FY23-FY25. That said, the positives appear priced in post the ~24% stock runup over the past 14 days. MPHL is currently trading at 24.4x/20.4x FY24E/FY25E EPS. We value the stock at 22.2x FY25E EPS – in line with the 3Y mean – and downgrade our rating from BUY to HOLD with an unchanged TP of Rs 2,541.

Key changes

Target	Rating
◀ ▶	▼

Ticker/Price	MPHL IN/Rs 2,331
Market cap	US$ 5.3bn
Free float	40%
3M ADV	US$ 14.7mn
52wk high/low	Rs 2,445/Rs 1,660
Promoter/FPI/DII	52%/29%/14%

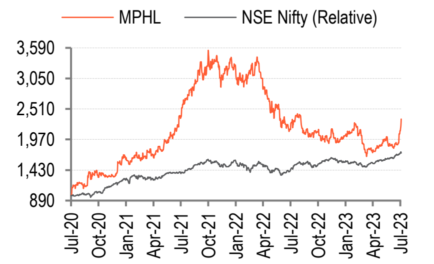
Source: NSE | Price as of 21 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,37,984	1,50,662	1,76,874
EBITDA (Rs mn)	24,239	27,119	31,838
Adj. net profit (Rs mn)	16,297	17,878	21,384
Adj. EPS (Rs)	87.2	95.7	114.4
Consensus EPS (Rs)	87.2	96.3	115.8
Adj. ROAE (%)	21.9	22.0	25.3
Adj. P/E (x)	26.7	24.4	20.4
EV/EBITDA (x)	18.1	16.1	13.6
Adj. EPS growth (%)	13.9	9.7	19.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD

TP: Rs 620 | ∀ 2%

GLENMARK LIFE SCIENCES

| Pharmaceuticals | 22 July 2023

Another good quarter; cut to HOLD post rally

- **Strong Q1 with EBITDA/PAT beat of 10%/6% despite slight miss on revenue**
- **Revenue/PAT up 18%/25% YoY accompanied by gross/EBITDA margin expansion of 385bps/345bps**
- **Limited upside potential following 26% rally in last 3 months; reduce from BUY to HOLD with a new TP of Rs 620 (vs. Rs 600)**

Saad Shaikh
research@bobcaps.in

Growth fuelled by improved demand environment: GLS continued to deliver broad-based growth as the demand climate turned favourable, with revival in the US market as well as steady traction in Europe, emerging markets, and India. Q1FY24 revenue grew 18% YoY to Rs 5.8bn backed by a healthy performance in both generic API (+13% YoY) and CDMO (+91% YoY) businesses.

External as well GPL (parent Glenmark Pharma) business delivered strong growth of 18% YoY (-15% QoQ) and 19% YoY (-2% QoQ) respectively. The company saw volumes revive from GPL and expects further improvement, with the parent's contribution for the quarter at 34% (flat YoY, -300bps QoQ).

Product mix improvement and easing RM cost aid margins: Gross margin expanded 385bps YoY (+225bps QoQ) to 57% due to rationalisation of raw material and solvent cost (~200bps benefit) and an improved product mix. EBITDA margin also improved 345bps (+20bps QoQ) to 33.4% supported by better gross margins and tighter cost control.

Capacity expansion on track; guidance reiterated: Management reiterated its guidance of mid-teens' revenue growth with stable EBITDA margin of ~30% for FY24. The ongoing brownfield and greenfield expansion projects are progressing well and GLS envisages capex of Rs 1.5bn-2bn for FY24. Per management, a CDMO partner has received approval for an additional indication, which will drive up business.

Downgrade to HOLD: GLS's shares have rallied ~26% in last three months and are trading at 14.7x/12.9x FY24E/FY25E EPS. We slightly tweak FY24/FY25 estimates and hence our two-stage DCF model yields a revised TP of Rs 620 (vs. Rs 600), implying an FY25E P/E of 12.6x. Given the limited upside potential, we downgrade the stock to HOLD from BUY.

Key changes

Target	Rating
▲	▼

Ticker/Price	GLS IN/Rs 636
Market cap	US$ 947.9mn
Free float	17%
3M ADV	US$ 1.5mn
52wk high/low	Rs 659/Rs 370
Promoter/FPI/DII	83%/3%/1%

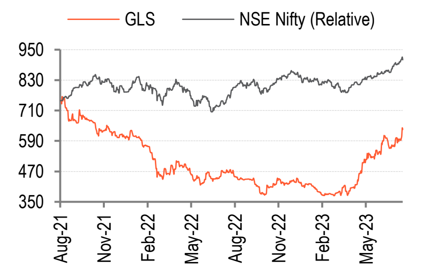
Source: NSE | Price as of 21 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	21,613	24,365	27,334
EBITDA (Rs mn)	6,424	7,317	8,342
Adj. net profit (Rs mn)	4,671	5,303	6,019
Adj. EPS (Rs)	38.1	43.3	49.1
Consensus EPS (Rs)	38.1	43.2	50.1
Adj. ROAE (%)	21.9	22.4	21.8
Adj. P/E (x)	16.7	14.7	12.9
EV/EBITDA (x)	12.4	10.1	8.8
Adj. EPS growth (%)	11.5	13.5	13.5

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

Stock performance



Source: NSE

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BUY
TP: Rs 3,015 | ⮝ 19%

RELIANCE INDUSTRIES | Oil & Gas | 24 July 2023

Steady she goes

- **Q1 results broadly in line as the energy business optimised operations and consumer business continued momentum**
- **Jio 2.0 building blocks shaping up and growth in retail gaining pace; roadmap for savings from new energy key to watch out**
- **Maintain BUY with a revised TP of Rs 3,015 (vs. Rs 3,075) as we adjust for demerger of Jio Financials**

Kirtan Mehta, CFA | Yash Thakur
research@bobcaps.in

Q1 broadly in line: RIL's Q1FY24 EBITDA at Rs 381bn was 3% ahead of our forecast (in line with consensus) with a 4% beat in the O2C business. Net income at Rs 160bn was 6% below our and consensus forecasts on higher depreciation in consumer businesses than we anticipated.

O2C reaped benefits of world-class configurations: Despite a sharp decline in fuel cracks, the O2C business managed to contain the EBITDA decline to 6% QoQ by optimising advantaged feedstocks (cheap Russian crude, ethane) as well as the product and energy mix.

Jio 2.0 building blocks taking shape: Jio demonstrated early signs of acceleration in net subscriber additions (9.2mn in Q1) and is working towards translating differentiated services to higher revenue. Growth triggers will include penetration into home broadband (targeting 100mn subscriptions over 3 years), the new JioBharat phone to move 2G consumers to 4G, and traction on digital platforms (JioCinema, JioThings).

Retail steadily increasing momentum: The retail business is currently on track to triple revenues by the tail end of RIL's targeted 3-5-year timeframe and is steadily gaining momentum, making up for ground lost during the pandemic.

Key growth catalysts: (a) Jio: Gains in market share and ARPU on nationwide launch of 5G and Jio AirFiber; (b) Retail: Acceleration towards 3x growth target over 3-5 years set at the FY21 AGM and demonstration of RIL's comfort in sharing performance details for major retail verticals; (c) O2C: Guidance on cost reduction with deployment of new energy; (d) E&P: Stabilisation of MJ field; (e) Listing of Jio and retail businesses.

Reiterate BUY: We tweak our FY24/FY25 EBITDA estimates and revise our SOTP-based TP to Rs 3,015 (from Rs 3,075) as we adjust for demerger of JFSL and raise our multiple for the retail business to 32x (from 30x), in line with that of peers. We maintain target multiples across refining (7x FY26E EV/EBITDA), petrochem (8x) and telecom (Jio: 9x), and include Rs 161/sh (Rs 157) for the upstream business, Rs 107 (unchanged) for digital services, and Rs 171 (unchanged) for new energy.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	RIL IN/Rs 2,539
Market cap	US$ 209.1bn
Free float	50%
3M ADV	US$ 188.8mn
52wk high/low	Rs 2,856/Rs 2,180
Promoter/FPI/DII	50%/23%/17%

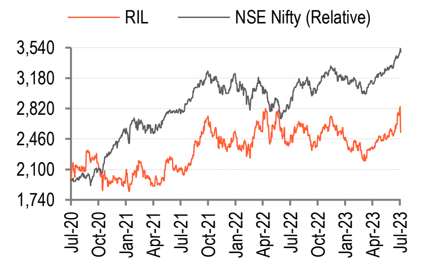
Source: NSE | Price as of 21 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	87,94,680	80,22,533	91,28,638
EBITDA (Rs mn)	14,29,080	16,68,607	18,55,656
Adj. net profit (Rs mn)	6,67,020	7,76,169	8,38,294
Adj. EPS (Rs)	98.6	114.7	123.9
Consensus EPS (Rs)	98.6	116.4	129.3
Adj. ROAE (%)	8.3	9.1	9.0
Adj. P/E (x)	25.8	22.1	20.5
EV/EBITDA (x)	13.8	11.9	10.7
Adj. EPS growth (%)	14.2	16.4	8.0

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

Stock performance



Source: NSE

HOLD
TP: Rs 700 | ⮝ 8%

HDFC LIFE | Insurance | 22 July 2023

Healthy quarter but positives priced in; maintain HOLD

- **Key overhang dispelled with consummation of HDFC-HDFC Bank merger and parent's stake raise to >50%**
- **Maintains #2 position in private life insurance space; VNB margin weak in Q1 at 26.2% – we retain our forecast of 26.5% for FY24/FY25**
- **TP raised to Rs 700 (vs. Rs 600) on a higher 2.8x (vs. 2.4x) FY25E P/EV; retain HOLD**

Mohit Mangal
research@bobcaps.in

Well positioned: HDFC Life's (merged) gross premium grew 16% YoY to Rs 117bn in Q1FY24 and APE grew 13% to Rs 23.3bn. NBP market share expanded from 20.8% at end-FY23 to 21.3% in Q1FY24, with the company retaining its #2 rank among private peers. Management has guided for a stronger H2FY24 as it makes further inroads into tier-2/3 cities. The completion of the HDFC-HDFC Bank merger has also removed a key stock overhang. The increase in the parent bank's stake to over 50% is another boost to investor confidence. HDFC Life expects to increase the bank's wallet share as the parent-subsidiary relationship spurs synergies.

Protection business gains traction; non-par moderates: HDFC Life remains focused on a balanced product mix. Non-par APE fell from an abnormal high of 38% of total APE at end-FY23 to 27% in Q1FY24 as the purchase of these products had been preponed last fiscal owing to the removal of tax exemption from Apr'23. The share of protection plans improved from 13% in FY23 to 18% with a strategy of further tapping the parent and agency channels to sell more, especially in smaller towns and cities.

VNB margin, APE estimates unchanged: The company (post Exide Life merger) generated a VNB margin of 26.2% and VNB of Rs 6.1bn for Q1FY24 and expects the merged entity to be margin-neutral by FY24-end. We continue with an unchanged VNB margin forecast of 26.5% for both FY24 and FY25 with a 7% VNB CAGR over FY23-FY25 to Rs 42bn. The company reiterated that VNB growth would come from higher APE and not margin expansion. We continue to model for a 10% APE CAGR over FY23-FY25 to Rs 160bn.

Retain HOLD: HDFC Life is trading at 2.6x FY25E P/EV. We value the stock at a higher 2.8x FY25E P/EV (2.4x earlier) – a 30% discount to the long-term mean – for a new TP of Rs 700 (vs. Rs 600) to bake in positives from consummation of the HDFC-HDFC Bank merger and the large 50%+ stake now held by the parent, along with the below-expected tax policy impact on big-ticket insurance plans. We also factor in the negatives of a weak VNB margin and high expense ratios, which explains our steep discount to the mean multiple. Considering that our TP offers just 8% upside, we retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HDFCLIFE IN/Rs 647
Market cap	US$ 16.8bn
Free float	48%
3M ADV	US$ 36.8mn
52wk high/low	Rs 691/Rs 458
Promoter/FPI/DII	52%/26%/8%

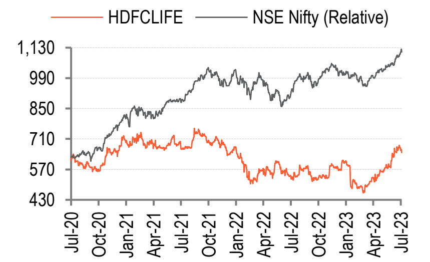
Source: NSE | Price as of 21 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
NBP (Rs mn)	2,90,851	3,38,082	3,74,392
APE (Rs mn)	1,33,400	1,38,132	1,60,231
VNB (Rs mn)	36,818	36,605	42,461
Embedded Value (Rs mn)	3,94,988	4,59,855	5,35,768
VNB margin (%)	27.6	26.5	26.5
EVPS (Rs)	185.0	215.4	251.0
EPS (Rs)	6.4	7.1	7.7
Consensus EPS (Rs)	6.4	7.6	9.0
P/EV (x)	3.5	3.0	2.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 611 | ⮝ 18%

360 ONE | Diversified Financials | 21 July 2023

Strong set of numbers

- **ARR robust at Rs 130bn net flows in Q1, forming 80% of revenue from operations and 65% of AUM**
- **Well placed to meet FY24 guidance of Rs 400bn in ARR net flows, leading us to increase estimates**
- **TP raised to Rs 611 (vs. Rs 540) on a 3%/4% increase in FY24/FY25 PAT estimates and a higher target P/E of 25x (vs. 23x); maintain BUY**

Mohit Mangal
research@bobcaps.in

Q1 above expectations: 360 One's Q1FY24 PAT grew 13% YoY and 17% QoQ to Rs 1.8bn, exceeding our expectations by 3%. The beat was due to above-expected growth in revenue from operations (8% YoY), higher yield in the annual recurring revenue segment (ARR: 72bps calc.), and other income of Rs 287mn due to MTM gains. C/I ratio increased to 48% due to one-off expenses (employee and client events), and ROAE stood at 23.1% (+170bps YoY, +280bps QoQ).

360 One Plus buoys AUM: AUM grew 16% YoY to Rs 2.9tn, in line with our estimate, as assets in the 360 One Plus business surged 68% with the onboarding of new clients and distributed assets under management grew at a strong 26%. The focus on ARR continues and it now forms 65% of AUM and 80% of revenue from operations**.**

Net flows strong: 360 One generated Rs 130bn of ARR net flows in Q1 vs. Rs 60bn in Q4 as 360 One Plus business attracted flows of Rs 90bn, largely from promoters who had offloaded their stakes in various IPOs/offers for sale in the secondary market. Non-discretionary PMS (a key monitorable) constituted a bulk of the inflows, which management does not view as a one-off. We raise our FY24 net flow (ARR plus non-ARR) estimate from Rs 302bn to Rs 329bn and forecast MTM gains of 6%. Management retained guidance of Rs 400bn in ARR net flows as at end-FY24.

Estimates increased: Based on the Q1 print, we increase our FY24/FY25 AUM estimates each by 3% and PAT estimates by 3%/4%. We now expect ~28% ROAE and ~7% ROAA by FY25. We have not factored in the planned entry into newer geographies in H2FY24 as we await more clarity.

Maintain BUY: Current valuations of 21x FY25E EPS look low. Post estimate revision, we have a new TP of Rs 611 (vs. Rs 540), valuing the stock at a revised 25x FY25E P/E multiple (vs. 23x) – a 10% premium to the long-term average. Our higher multiple factors in the Q1 beat, strong ARR inflows, continued traction in the 360 One Plus and AMC businesses, and a clear expansion strategy. We expect the company to retain its niche position in wealth management and hence reiterate BUY.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	360ONE IN/Rs 516
Market cap	US$ 2.3bn
Free float	78%
3M ADV	US$ 2.2mn
52wk high/low	Rs 545/Rs 395
Promoter/FPI/DII	22%/23%/2%

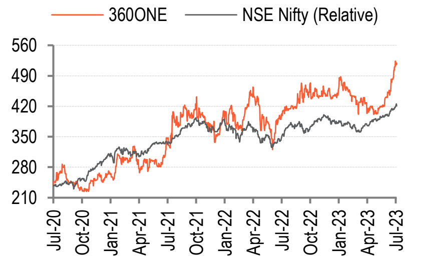
Source: NSE | Price as of 21 Jul 2023

Key financials

Y/E 31 Mar (Rs mn)	FY23P	FY24E	FY25E
PBT (Rs mn)	8,503	10,225	11,731
PBT growth (%)	13.2	20.3	14.7
Adj. net profit (Rs mn)	6,679	7,771	8,915
EPS (Rs)	18.1	21.3	24.4
Consensus EPS (Rs)	18.1	23.2	26.0
P/E (x)	28.5	24.2	21.1
MCap/AUM (%)	0.0	0.0	0.0
ROE (%)	21.8	24.7	27.6

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

Stock performance



Source: NSE

BUY
TP: Rs 3,069 | ⮝ 18%

HINDUSTAN UNILEVER | Consumer Staples | 21 July 2023

Modest quarter but improvement ahead

- **Q1 volume and value growth moderated; margins improved sequentially as inflation eased**
- **Rural markets turned positive YoY (2Y CAGR of -4%); impact of El Nino remains a key monitorable**
- **Focus remains on category development and margin expansion; maintain BUY with an unchanged TP of Rs 3,069**

Vikrant Kashyap
research@bobcaps.in

Volume and value growth soft: HUVR's Q1FY23 revenue grew 6% YoY (+1.8% QoQ) against our estimate of 8.8% YoY growth, with underlying volume growth of 3% YoY vs. ~5% estimated. Underlying volume growth was constrained by trade destocking in anticipation of price cuts along with heightened competition from regional players. The company continued to gain market share in more than 75% of its portfolio. Gross margin improved 280bps YoY (+130bps QoQ) despite sustained brand investments, with A&P spend stepped up by 110bps QoQ.

Modest growth in key categories: In Q1, HUVR's home care (HC), beauty & personal care (BPC), and foods & refreshment (F&R) segment revenues grew 10%, 4% and 5% YoY respectively. HC delivered mid-single-digit volume growth led by premiumisation and market development activities during the quarter. BPC performed similarly aided by the Tresemme, Indulekha, Clinic Plus, Lux, Hamam and Closeup brands. Volume growth in F&R was flattish as tea witnessed continued downgrading. As palm oil softened, prices were cut further in the soaps portfolio.

Focus remains on innovation: HUVR further strengthened its food & beverages portfolio by launching *Horlicks* millet biscuits, a range of *Knorr* Chinese sauces and *Bru* cold coffee millets. In BPC, the company launched its *Dove* men+ care range, *Indulekha* soap, and *Pond's* anti-pigmentation serum. In HC, it introduced *Comfort* wardrobe premium fragrance hangers and *Vim Shudhham* cleaning spray and gel.

Maintain BUY, TP Rs 3,069: HUVR's growth has moderated in a challenging environment, but the company remains focused on category development, innovation and premiumisation. We expect mid-to-high-single-digit volume growth in the medium term with gradual improvement in margins. The stock is trading at 51.7x/44.5x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 52.5x FY25E EPS, in line with the long-term mean, for an unchanged TP of Rs 3,069.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HUVR IN/Rs 2,604
Market cap	US$ 74.5bn
Free float	38%
3M ADV	US$ 46.3mn
52wk high/low	Rs 2,770/Rs 2,393
Promoter/FPI/DII	62%/14%/24%

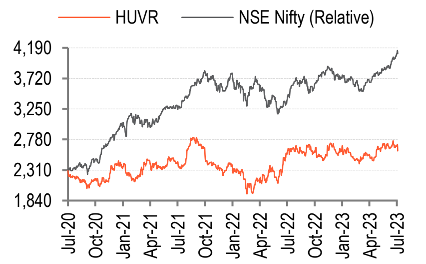
Source: NSE | Price as of 21 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	6,05,800	6,41,512	7,10,474
EBITDA (Rs mn)	1,41,490	1,66,730	1,93,320
Adj. net profit (Rs mn)	1,01,600	1,18,302	1,37,386
Adj. EPS (Rs)	43.2	50.3	58.5
Consensus EPS (Rs)	43.2	50.1	56.9
Adj. ROAE (%)	20.4	23.1	26.2
Adj. P/E (x)	60.2	51.7	44.5
EV/EBITDA (x)	43.2	36.7	31.7
Adj. EPS growth (%)	14.1	16.5	16.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 1,760 | ⮝ 21%

INFOSYS | Technology & Internet | 21 July 2023

Guidance cut a temporary blip

- **FY24 revenue growth guidance slashed from 4-7% to 1-3.5%, implying continued uncertainty – a sector-wide phenomenon**
- **Large deal wins strong at US$ 2.3bn in Q1; pipeline healthy backed by cost efficiency, automation and vendor consolidation**
- **Headwinds temporary not structural; maintain BUY with an unchanged TP of Rs 1,760, set at 20.5x FY25E EPS**

Saptarshi Mukherjee
research@bobcaps.in

Tepid Q1 sparks steep guidance cut: INFO reported disappointing Q1FY24 revenue of US$ 4.6bn, up just 1% QoQ CC (+4.2% YoY CC) owing to sequential softness in the key verticals of BFSI, retail and communication. Management downgraded its revenue growth guidance for the fiscal from 4-7% to 1-3.5%, which implies a 0-0.82% CQGR over the next three quarters. Guidance has been cut for the second consecutive quarter and mainly stemmed from subpar volumes and delayed project ramp-up in Q1.

Strong traction in large deal TCV despite global macro weakness: Large deal wins during the quarter stood at US$ 2.3bn in Q1 (vs. US$ 9.8bn in FY23) and included US$ 1.3bn of net new components (vs. US$ 3.9bn in FY23). The recent deal signings are likely to flow through towards the end of the fiscal year which means INFO could see a spillover of contract value to bill conversion in FY25. Management thus expects growth to pick up next fiscal.

FY24 margin guidance maintained at 20-22%: EBIT margin declined 24bps QoQ to 20.8% as the benefits of higher productivity (+70bps) were erased by wage cost intervention (-90bps). Despite the steep revenue guidance cut, INFO has maintained its FY24 margin guidance at 20-22% mainly on the back of a newly adopted strategy of pricing intervention, pyramid improvement, automation to raise productivity, introduction of Gen AI, portfolio mix enhancement (revenue/client trend), and general & administrative expense optimisation.

Maintain BUY: The stock is trading at 19.9x/16.9x FY24E/FY25E EPS. Despite INFO's cautious outlook on a few verticals, we believe its strength in managing the twin journeys of digital transformation (Cobalt) and cost takeout will drive growth leadership. While the guidance cut is concerning and negative for the share price in the short term, we view the miss as more temporary than structural in nature. We thus maintain our BUY rating and continue to value the stock at 20.5x FY25E EPS, translating to an unchanged TP of Rs 1,760.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	INFO IN/Rs 1,450
Market cap	US$ 74.2bn
Free float	86%
3M ADV	US$ 113.7mn
52wk high/low	Rs 1,673/Rs 1,185
Promoter/FPI/DII	15%/36%/49%

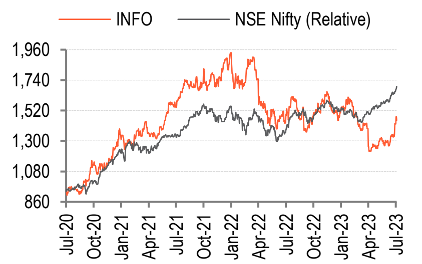
Source: NSE | Price as of 20 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	14,93,753	17,29,592	19,71,116
EBITDA (Rs mn)	3,57,354	4,39,059	5,02,757
Adj. net profit (Rs mn)	2,47,056	3,07,276	3,61,187
Adj. EPS (Rs)	58.7	73.0	85.8
Consensus EPS (Rs)	58.7	69.3	81.0
Adj. ROAE (%)	30.6	33.5	34.4
Adj. P/E (x)	24.7	19.9	16.9
EV/EBITDA (x)	16.5	13.4	11.5
Adj. EPS growth (%)	11.3	24.4	17.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 4,830 | ⮝ 0%

COFORGE

| Technology & Internet | 21 July 2023

Miss on margins; deal momentum strong

- **Q1 revenue in line at US$ 272mn led by BFSI but EBIT margin at 10% fell short of estimates**
- **Quarterly TCV the highest ever at US$ 531mn; spends by retail & commercial banks (ex-mortgage) expected to continue**
- **Valuations fair post recent rally; maintain HOLD with a TP of Rs 4,830 (unchanged), based on 24x FY25E EPS**

Saptarshi Mukherjee
research@bobcaps.in

Broad-based revenue growth: Coforge's Q1FY24 revenue increased 2.7% QoQ CC and was spread across service lines. BFS/insurance led the way, rising 4.7%/ 3.1% QoQ, while the travel, transportation & hospitality (TTH) vertical was up 1.2% QoQ. Growth momentum in BFSI was backed by the recent ramp-up in large deals and robust traction in top accounts. Among geographies, the US (+5.8% QoQ) market helmed growth even as the EU and ROW slowed. Management maintained its FY24 dollar revenue growth guidance of 13-16% YoY CC.

Strong deal momentum: Q1 saw the highest ever deal TCV for Coforge at US$ 531mn, backed by two large wins in the BFS vertical and includes a US$ 300mn project from an existing BFSI client with a minimum average contract value of US$ 60mn+. These wins resulted in a robust 12M executable order book of US$ 897m (+20% YoY).

Steep miss on margins; guided to improve gradually: EBIT margin contracted 168bps QoQ to 10.1% in Q1 vs. our estimate of 13.6% due to the full impact of compensation hikes, a bigger bench, visa costs and continued investments toward sales. Management is confident of a sharp margin recovery on the back of ramp-ups in large margin-accretive deals, rising utilisation and an improved offshore mix for the sales team.

Valuation fair post rally; retain HOLD: The stock is trading at 27.5x/24x FY24E/ FY25E EPS. Coforge aspires to achieve above-industry growth of 7-10% in FY24 and is confident of clocking quarterly growth of 3-4%. Consistent deal wins in a stressed demand environment and good revenue visibility support our positive outlook on the company. However, following the recent runup in stock price, valuations look fair, leading us to retain our HOLD rating. Our TP stays at Rs 4,830 based on 24x FY25E EPS – a 20% discount to midcap peer PSYS

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	COFORGE IN/Rs 4,819
Market cap	US$ 3.7bn
Free float	43%
3M ADV	US$ 17.2mn
52wk high/low	Rs 5,055/Rs 3,210
Promoter/FPI/DII	70%/13%/17%

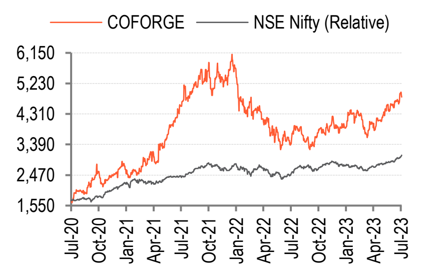
Source: NSE | Price as of 20 Jul 2023

Key financials

Y/E 31 Mar	FY23A	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)	42.5	27.5	24.0
EV/EBITDA (x)	20.6	17.8	15.8
Adj. EPS growth (%)	6.0	54.3	14.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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METALS & MINING

21 July 2023

Medium-term aluminium outlook strong, near-term soft: Alcoa

- **Only a third of AA's 42% QoQ EBITDA decline in Q2CY23 attributable to market factors relevant to Indian companies**
- **Global aluminium market softened slightly in Q2 but remains in balance as weakness in supply offset slowing demand**
- **Indian players exposed to price decline during Q1FY24 but could see partial offset from lower coal cost**

Kirtan Mehta, CFA | Yash Thakur
research@bobcaps.in

AA's Q2CY23 headline slump overstates the impact on markets: Alcoa (AA US, Not Rated) posted a US$ 103mn drop in Q2CY23 adj. EBITDA (-42% QoQ). However, only a third of the decline (US$ 35mn) was driven by factors relevant to Indian players. In this context, the impact of lower aluminium metal prices (US$ 70mn) was partially offset by higher alumina API prices (US$ 20mn) and lower raw material costs (US$ 24mn). The remaining two-thirds of the decline stemmed from factors specific to AA such as lower bauxite grade at its Australian mines along with an unfavourable change in volume and price mix.

Aluminium markets have softened slightly: Demand for aluminium has weakened further in Europe and North America, but this was largely offset by softer supply, keeping aluminum markets balanced, per AA. Sluggish sales of billets and slabs reflect additional weakness in the construction and packaging segments. China's real estate downturn continues to have an impact on construction-led aluminium demand. Against this, the automotive and electrical grid markets are registering strong growth both in and outside China. On the supply front, some Yunnan supply is looking to return, but restarts outside China look challenging due to the high energy costs.

Raw material deflation to aid margins: Market indices of two key raw materials – caustic soda (-44% YoY) for alumina and calcined petroleum coke (-30% YoY) for aluminium – have finally corrected meaningfully in Q2, though coal tar pitch remains high. This improvement will start to percolate to the cost base from Q3CY23, a lag of 1-2 quarters as AA carries inventory of 3-6 months for these raw materials.

AA has a cautious stance for FY24: This is reflected in (a) a US$ 60mn reduction in CY23 capex guidance by not refilling delayed project spends, and (b) sticking to dividend payouts rather than buybacks at this point in the cycle.

Read-across for Indian players: Indian aluminium players are also exposed to the aluminium price decline in the April-June quarter but could see a partial offset from reduction in coal cost. Hindalco's guidance on its last call, however, was for flat cost QoQ in view of entry into the monsoon quarter.

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
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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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