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FIRST LIGHT

25 April 2023

RESEARCH

BOB ECONOMICS RESEARCH | STOCK INDICES

Are Macroeconomic variables and Stock Indices related?

RELIANCE INDUSTRIES | TARGET: Rs 2,800 | +19% | BUY

Capital discipline targets positive; maintain BUY

ICICI BANK | TARGET: Rs 1,015 | +12% | HOLD

Strong NII and lower provisions aid healthy PAT

AUTOMOBILES | Q4FY23 PREVIEW

On a recovery path; rural demand key

HDFC BANK | TARGET: Rs 1,956 | +16% | BUY

RBI clears pitch for merger with HDFC

Daily macro indicators

Ticker	20-Apr	21-Apr	Chg (%)
US 10Y yield (%)	3.53	3.57	4bps
India 10Y yield (%)	7.20	7.16	(4bps)
USD/INR	82.16	82.10	0.1
Brent Crude (US$/bbl)	81.1	81.7	0.7
Dow	33,787	33,809	0.1
Hang Seng	20,397	20,076	(1.6)
Sensex	59,632	59,655	0.0
India FII (US$ mn)	**19-Apr**	**20-Apr**	**Chg ($ mn)**
FII-D	(1.7)	187.3	189.0
FII-E	20.6	(117.8)	(138.4)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: STOCK INDICES

The performance of Indian stock market (Nifty) in FY23 when compared with last year has not been up to mark. There are varied macroeconomic factors responsible for this dip, with inflation and central bank action dominating the sentiment. Add to this the uncertainty faced due to Russia-Ukraine conflict, kept the investors on the edge. The outflow from overseas funds also contributed to this dip. Supply constraints and other domestic factors added to the somber performance of market.

Click here **for the full report.**

RELIANCE INDUSTRIES

- Q4 beat led by O2C business; investor concerns appeased by introduction of a capital discipline target of 1x net debt/EBITDA
- Delivery on growth milestones in Jio Digital and Retail key to watch, along with roadmap for savings from new energy and JFS
- Maintain BUY with slight change in TP to Rs 2,800 (vs. Rs 2,810)

Click here **for the full report.**

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ICICI BANK

- Growth across asset classes coupled with higher NIM led to strong NII in Q4, but the absence of treasury gains muted other income
- Focus on granularity along with a rising cost of funds forecast to compress NIM and keep CI ratio inflated through to FY25
- Assume coverage with HOLD and a TP of Rs 1,015 (2.7x FY25E ABV plus subsidiaries at Rs 132/sh)

Click here for the full report.

AUTOMOBILES | Q4FY23 PREVIEW

- PV revenue growth likely to remain strong in Q4 at ~20% YoY for our coverage but margin pressure set to continue
- Weak exports still a drag on the 2W segment; volume data shows HMCL outdoing peers as rural economy shows signs of revival
- CV and tractor segments send mixed signals; we remain positive on AL and MM but maintain SELL on ESCORTS

Click here for the full report.

HDFC BANK

- Central bank permits leeway on PSL norms post-merger which will aid HDFCB's margins and asset quality in the immediate term
- Clarity also provided on holding pattern of listed subsidiaries such as HDFC Life and HDFC Ergo, removing a key overhang on the stock
- Maintain BUY with an unchanged TP of 1,956 (3.1x FY25E ABV)

Click here for the full report.

STOCK INDICES

24 April 2023

Are Macroeconomic variables and Stock Indices related?

Jahnavi Prabhakar
Economist

The performance of Indian stock market (Nifty) in FY23 when compared with last year has not been up to mark. There are varied macroeconomic factors responsible for this dip, with inflation and central bank action dominating the sentiment. Add to this the uncertainty faced due to Russia-Ukraine conflict, kept the investors on the edge. The outflow from overseas funds also contributed to this dip. Supply constraints and other domestic factors added to the somber performance of market.

Amidst these developments in global economy, there were also impending fears of recession for some of the global economies. Indian economy too witnessed some spillover effects from global economic developments coupled with their own set of unique challenges. The effect of the same was visible on a range of macroeconomic variables as well as on the financial health of the companies. This study attempts to see if there is any relation between the performance of the market indices and the macro-variables.

How has Nifty performed in FY23 vis- a-vis other global indices?

Nifty index declined by 0.6% in FY23 after gaining by 18.9% in FY22. Despite some moderation, in comparison to other global markets, India has relatively performed better, especially with respect to countries like Singapore, Hong Kong, Korea and even US. However, global indices such as France, Germany and UK have outperformed Indian indices.

Table 1: Indian markets performance against other global indices

Country/Index	Return	Country/Index	Return
France	9.6%	Malaysia	(10.4%)
Germany	8.1%	Korea	(10.2%)
UK	1.6%	Hong Kong	(7.3%)
Japan	0.8%	US (Dow Jones)	(5.2%)
India (Nifty)	(0.6%)	-	-

Source: Bloomberg, Bank of Baroda Research

Sub-Indices of Nifty Index

Even as Nifty has registered some moderation compared with last year, some of the sector indices showed improvement. This study attempts to link macroeconomic metrics like GDP, IIP growth, core sector growth with these stock indices. Table 2 gives the number of companies in various stock indices.

The outperformers:

Auto Index

The index has given a strong return of over 16% for FY23. The sector (automobile and ancillaries) has done well in terms of financial performance for last 2-quarters.

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BUY
TP: Rs 2,800 | ⮝ 19%

RELIANCE INDUSTRIES | Oil & Gas | 24 April 2023

Capital discipline targets positive; maintain BUY

- **Q4 beat led by O2C business; investor concerns appeased by introduction of a capital discipline target of 1x net debt/EBITDA**
- **Delivery on growth milestones in Jio Digital and Retail key to watch, along with roadmap for savings from new energy and JFS**
- **Maintain BUY with slight change in TP to Rs 2,800 (vs. Rs 2,810)**

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Q4 beat led by O2C: RIL's Q4FY23 EBITDA was 4% ahead of consensus primarily due to O2C outperformance, reflecting the operational flexibility to maximise margins.

Capex blowout concerns appeased: Importantly, RIL confirmed disciplined capital allocation on growth projects in line with structural profit growth. While ~90% of FY23 capex was met by cash profit, a Rs 0.75tn rise in net debt was driven by Rs 0.15tn of excess capex, Rs 0.2tn of change in working capital, Rs 0.1tn of translation effects on overseas debt, and Rs 0.3tn of other impacts (we await the annual report for clarity).

Capital discipline targets introduced: RIL plans to maintain the net debt/EBITDA ratio below 1x, which implies a sub-2x ratio even upon accounting for additional deferred payment liabilities of Rs 1.1tn.

Jio 2.0 in the making: Jio Digital Services is gearing up for its second leg of growth with a nationwide 5G rollout this year, launch of an attractive post-paid plan to increase 5G adoption, traction on the entertainment bundle, upcoming launch of AirFibre and value-add services. While we see potential, we remain conservative on our net subscriber and ARPU growth estimates at this stage, pending signs of success.

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

Reiterate BUY, TP Rs 2,800: We tweak FY24-FY25 EBITDA by ~2% as we factor in the Q4 results, and revise our SOTP-based TP to Rs 2,800 (from Rs 2,810). We maintain target multiples across the refining (7x FY25E EV/EBITDA), petrochem (8x), telecom (Jio: 9x) and retail (30x) businesses, and includes Rs 164/sh (from Rs 149) for the upstream business, Rs 104 (unchanged) for digital services and Rs 182 (Rs 121) for the new energy division and Rs 133 for JFS.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	RIL IN/Rs 2,358
Market cap	US$ 189.7bn
Free float	50%
3M ADV	US$ 205.4mn
52wk high/low	Rs 2,856/Rs 2,180
Promoter/FPI/DII	50%/22%/17%

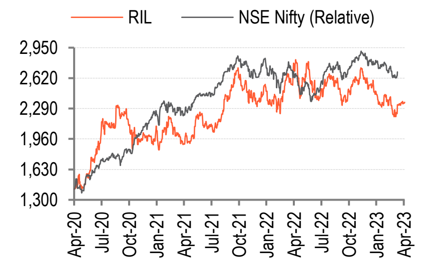
Source: NSE | Price as of 24 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	87,94,680	86,05,246	96,31,189
EBITDA (Rs mn)	14,29,080	16,72,051	19,09,488
Adj. net profit (Rs mn)	6,67,020	7,79,652	8,78,878
Adj. EPS (Rs)	98.6	115.2	129.9
Consensus EPS (Rs)	98.6	117.2	131.1
Adj. ROAE (%)	8.3	9.1	9.4
Adj. P/E (x)	23.9	20.5	18.2
EV/EBITDA (x)	12.7	10.9	9.5
Adj. EPS growth (%)	14.2	16.9	12.7

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

Stock performance



Source: NSE

RESULT REVIEW

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HOLD
TP: Rs 1,015 | ⮝ 12%

ICICI BANK | Banking | 24 April 2023

Strong NII and lower provisions aid healthy PAT

- **Growth across asset classes coupled with higher NIM led to strong NII in Q4, but the absence of treasury gains muted other income**
- **Focus on granularity along with a rising cost of funds forecast to compress NIM and keep CI ratio inflated through to FY25**
- **Assume coverage with HOLD and a TP of Rs 1,015 (2.7x FY25E ABV plus subsidiaries at Rs 132/sh)**

Ajit Agrawal
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Strong Q4 performance: ICICIBC's Q4FY23 PAT increased 10% QoQ (30% YoY) driven by healthy growth across asset classes and higher margins. NIM jumped 18bps QoQ to 4.8% supported by a lower cost of funds (deposit repricing lags credit rate), though management expects some repricing-led margin pressure in H2. A focus on the high-growth retail business led to credit growth of 5% QoQ (19% YoY) while deposit was muted at 11% YoY. CASA stood at 45.8%, up 50bps QoQ.

NII grew 7% QoQ (40% YoY), enabling PPOP growth of 4% (34% YoY) despite elevated operating cost (C/I ratio at 39.2% vs. 38.2% in Q3). Credit cost improved substantially to 67bps (vs. 96bps in Q3), supported by lower slippages (mainly corporate) and higher recoveries and upgrades. GNPA/NNPA improved QoQ by 26bps/7bps.

Focus on high yielding business to boost growth but raise costs: A steady focus on the high-yield retail business and, more lately, SMEs is likely to spur loan growth. We bake in a credit and deposit CAGR of 18.3% and 14.0% respectively over FY22-FY25. A likely thrust on deposit mobilisation (CD ratio of 86% is above the historical average) with rate repricing can lead to additional costs, likely compressing NIM to 4.4% by FY25. We estimate a 20% NII CAGR through to FY25 with C/I ratio likely to stabilise at 41%.

Asset quality to remain stable: The bank's asset quality is likely to hold steady, with GNPA/NNPA estimated at 2.6%/0.4% in FY25 and slippages controlled at 2.6%. Concentration in the unsecured portfolio may bring challenges with the change in credit cycle and is a key monitorable, though high cumulative provisions (2.2% of loans) lend comfort.

HOLD, TP Rs 1,015: We forecast a healthy PPOP CAGR of 18.5% for ICICIBC over FY22-FY25 backed by high margins and lower provisioning. In our view, the bank's ability to deliver robust growth and margins is largely priced into valuations, even as growing competition in the retail space could take the sheen off NIMs. We thus assume coverage with HOLD – our SOTP-based TP of Rs 1,015 is set at 2.7x FY25E ABV (Gordon Growth Model), with subsidiaries valued at Rs 132/sh.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	ICICIBC IN/Rs 905
Market cap	US$ 77.1bn
Free float	74%
3M ADV	US$ 198.1mn
52wk high/low	Rs 958/Rs 670
Promoter/FPI/DII	0%/44%/45%

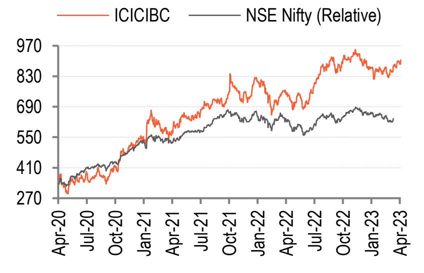
Source: NSE | Price as of 24 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Net interest income	62,129	72,330	82,133
NII growth (%)	30.9	16.4	13.6
Adj. net profit (Rs mn)	31,897	37,654	42,996
EPS (Rs)	45.8	53.9	61.6
Consensus EPS (Rs)	45.8	51.5	59.3
P/E (x)	19.8	16.8	14.7
P/BV (x)	3.1	2.7	2.4
ROA (%)	2.1	2.2	2.2
ROE (%)	17.2	17.5	17.4

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

Stock performance



Source: NSE

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AUTOMOBILES | Q4FY23 Preview | 24 April 2023

On a recovery path; rural demand key

- **PV revenue growth likely to remain strong in Q4 at ~20% YoY for our coverage but margin pressure set to continue**
- **Weak exports still a drag on the 2W segment; volume data shows HMCL outdoing peers as rural economy shows signs of revival**
- **CV and tractor segments send mixed signals; we remain positive on AL and MM but maintain SELL on ESCORTS**

Milind Raginwar | Yash Thakur
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Passenger vehicles (PV): We expect strong 20%+ YoY revenue growth for PV OEMs under our coverage (MSIL & MM) in Q4FY23, supported by a mix of volume and realisation gains (due to easing semiconductor availability and lower input cost). Sequential gross margin pressure is likely to continue (64bps/5bps QoQ decline estimated for MSIL/MM) due to limited passthrough of the cost burden (~1%). EBITDA margins are also expected to be strained with MSIL forecast to see a 30bps QoQ dip due to limited operating efficiencies.

Two-wheelers (2W): Volume data shows softness across the 2W pack (ex-HMCL) in Q4. This together with limited price hikes is likely to keep revenue growth muted at ~1% QoQ for our coverage. BJAUT's revenue is estimated to drop by a sharper ~8% QoQ due to weak exports (major contributor). Gross margin across our 2W coverage is expected to fall 50-250bps QoQ with the exception of HMCL (+70bps) where ~3% volume gains coupled with price hikes are estimated to aid ~4% revenue growth. HMCL's gains indicate that rural markets are showing signs of revival. YoY growth for 2W companies was healthy as semiconductor availability has gradually normalised.

Commercial vehicles (CV): CVs are seeing a healthy revival with AL's volumes advancing 22-25% YoY and QoQ. This is likely to fuel strong revenue growth both YoY and sequentially. AL's gross margin is expected to remain under pressure due to higher input cost, but better operating efficiencies should support EBITDA margin. TTMT's (Not Rated) volumes have gained QoQ while declining YoY, and EIM's CV segment has risen by a strong 45% QoQ and 42% YoY.

Tractors: The tractor segment was a mixed bag with VSTT delivering 64% QoQ volume growth that is estimated to boost revenue by 68% (on a low base) and aid 85bps gross margin expansion to 32% in Q4. However, ESCORTS' volumes dropped 12% QoQ and hence we bake in a sequential revenue decline of 10% to Rs 20.4bn. MM's tractor volumes fell 15% QoQ but jumped 23% YoY.

Prefer 4W OEMs over 2Ws: We retain our positive view on four-wheeler (4W) OEMs with a BUY on AL & MM and SELL on ESCORTS.

Recommendation snapshot

Ticker	Price	Target	Rating
AL IN	136	169	BUY
BJAUT IN	4,332	3,636	HOLD
EIM IN	3,183	3,543	HOLD
ESCORTS IN	1,956	1,742	SELL
HMCL IN	2,501	2,712	HOLD
MM IN	1,208	1,496	BUY
MSIL IN	8,466	9,989	HOLD
TVSL IN	1,102	1,252	HOLD
VSTT IN	2,418	2,802	BUY

Price & Target in Rupees | Price as of 24 Apr 2023

BUY
TP: Rs 1,956 | ⮝ 16%

HDFC BANK | Banking | 24 April 2023

RBI clears pitch for merger with HDFC

- **Central bank permits leeway on PSL norms post-merger which will aid HDFCB's margins and asset quality in the immediate term**
- **Clarity also provided on holding pattern of listed subsidiaries such as HDFC Life and HDFC Ergo, removing a key overhang on the stock**
- **Maintain BUY with an unchanged TP of 1,956 (3.1x FY25E ABV)**

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PSL norms eased: RBI has relaxed priority sector lending (PSL) norms for the HDFCB and HDFC Ltd (HDFC) merger, permitting adjusted net bank credit (ANBC) for the latter to be calculated as a third of the housing financier's outstanding loans (as on effective merger date) for the first year and the remaining two-thirds equally over the next two years**.** We believe gradual inclusion of HDFC's loans for PSL calculation is a positive as the bank will have extra time to fulfill PSL norms requiring 40% of ANBC to be deployed for agriculture (18%), micro enterprises (7.5%) & weaker sections (12%).

No relaxation of reserve requirements: RBI indicated that HDFCB shall continue to comply with extant requirements of CRR, SLR and LCR without exceptions. We see only a limited impact as the bank has indicated its preparedness for the same.

Clarity on subsidiary holding pattern: RBI has permitted investments of HDFC's subsidiaries and associates to be considered as investments of the bank and allowed HDFCB to raise its stake to >50% each in HDFC Life and HDFC Ergo General Insurance ahead of the merger date (HDFCB holds 48.6% and 50.5% resp. as of Mar'23). This removes the overhang on the listed arm and provides clarity on holding pattern.

RBI has also allowed HDFCB to continue holding HDFC's stake (100%) in HDFC Education & Development Services for two years from the merger date. In HDFC Credila Financial Services (NBFC), HDFCB needs to bring down its holding to 10% (from 100%) within two years without onboarding new customers

Customer mapping: HDFCB is required to undertake a one-time mapping of HDFC's borrowers for benchmark and spreads. All retail, MSME and floating rate loans sanctioned by the housing arm must be linked to appropriate benchmarks within six months of merger. Asset classification in HDFCB's books will be as per norms applicable to banks.

View: RBI's clarification helps dispel the uncertainty surrounding merger contours and offers some leeway on regulatory norms which is positive for the bank. We reiterate BUY on HDFCB with an unchanged TP of Rs 1,956, set at 3.1x FY25E ABV based on the Gordon Growth Model with Rs 56/sh for subsidiaries.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HDFCB IN/Rs 1,688
Market cap	US$ 115.0bn
Free float	74%
3M ADV	US$ 231.2mn
52wk high/low	Rs 1,720/Rs 1,272
Promoter/FPI/DII	26%/32%/28%

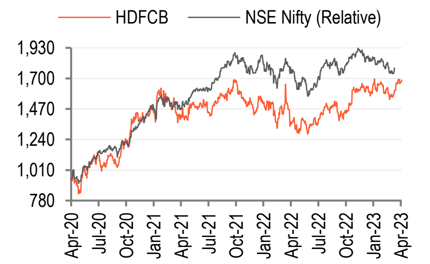
Source: NSE | Price as of 24 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Net interest income	8,68,422	10,18,026	11,85,894
NII growth (%)	20.6	17.2	16.5
Adj. net profit (Rs mn)	4,41,087	4,99,503	5,75,553
EPS (Rs)	79.3	89.5	103.2
Consensus EPS (Rs)	79.3	92.0	106.0
P/E (x)	21.3	18.9	16.4
P/BV (x)	3.4	3.0	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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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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