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FIRST LIGHT

26 April 2023

RESEARCH

HDFC AMC | TARGET: Rs 1,946 | +10% | HOLD

Q4 disappoints; cut to HOLD on multiple headwinds

NESTLE INDIA | TARGET: Rs 24,670 | +19% | BUY

Stellar performance; beats estimate

INDUSIND BANK | TARGET: Rs 1,550 | +38% | BUY

Gearing up for the next leg of growth

Daily macro indicators

Ticker	21-Apr	24-Apr	Chg (%)
US 10Y yield (%)	3.57	3.49	(8bps)
India 10Y yield (%)	7.16	7.10	(6bps)
USD/INR	82.10	81.91	0.2
Brent Crude (US$/bbl)	81.7	82.7	1.3
Dow	33,809	33,875	0.2
Hang Seng	20,076	19,960	(0.6)
Sensex	59,655	60,056	0.7
India FII (US$ mn)	**20-Apr**	**21-Apr**	**Chg ($ mn)**
FII-D	187.3	18.6	(168.7)
FII-E	(117.8)	(206.2)	(88.4)

Source: Bank of Baroda Economics Research

SUMMARY

HDFC AMC

- Q4 net profit missed our estimate by 7% owing to below-expected revenue of Rs 6.4bn and QAAUM of Rs 4.5tn
- Regulatory headwinds (fee review by SEBI, short-term gains tax) hinder growth prospects
- Downgrade to HOLD with a lower TP of Rs 1,946 (vs. Rs 2,310) as we cut FY24/FY25 PAT 6% and reset to 25x FY25E EPS (vs. 28x)

Click here for the full report.

NESTLE INDIA

- Highest quarterly growth in the last decade supported by a strong performance across product segments in Q1CY23
- Margins impacted by inflation in agri-commodities, partly offset by better realisations; early signs of softening in key inputs
- CY23-CY24 EPS raised 6-8% on a strong Q1, translating to a revised TP of Rs 24,670 (vs. Rs 22,860); maintain BUY

Click here for the full report.

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INDUSIND BANK

- Q4 PAT growth strong at 46% YoY backed by robust business growth that offset lower other income and higher opex
- Vehicle finance and MFI businesses on the rebound, though asset quality concerns persist
- Maintain BUY with a TP of Rs 1,550 (vs. Rs 1,547), valuing the stock at 1.7x FY25E ABV

Click here for the full report.

RESULT REVIEW

HOLD

TP: Rs 1,946 | ⮝ 10%

HDFC AMC | NBFC | 25 April 2023

Q4 disappoints; cut to HOLD on multiple headwinds

- **Q4 net profit missed our estimate by 7% owing to below-expected revenue of Rs 6.4bn and QAAUM of Rs 4.5tn**
- **Regulatory headwinds (fee review by SEBI, short-term gains tax) hinder growth prospects**
- **Downgrade to HOLD with a lower TP of Rs 1,946 (vs. Rs 2,310) as we cut FY24/FY25 PAT 6% and reset to 25x FY25E EPS (vs. 28x)**

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Below-expected growth: HDFC AMC's Q4FY23 net profit of Rs 3.8bn (+9.5% YoY) missed our estimate by 7% owing to below-expected revenue/EBITDA of Rs 6.4bn/ Rs 5bn (Rs 7bn/Rs 5.8bn est.). QAAUM grew 4% YoY to Rs 4.5tn (a 3% miss), with debt declining 18% and equity growing 17%. SIP AUM increased 21% YoY to Rs 859bn, of which ~77% has a tenure of >10Y. On annual numbers, FY23 net profit of Rs 14.2bn was 2% short of our expectations. We accordingly cut our AUM and net profit estimates by 5-6% each for FY24 and FY25.

Equity tilt; operating margin maintained: HDFC AMC maintained its #3 rank in overall MAAUM with ~11% market share in FY23 and equity MAAUM share moving up from 11.4% in FY22 to 12.2% in FY23. Equity constituted 57% of MAAUM in FY23 vs. 51% in FY22. Debt remained a drag with its share declining from 29% to 23%. Liquid and ETFs combined remained stable. Calculated revenue yield was flattish at 48bps YoY, as was PAT yield at 32bps. Operating margin held at 35bps of AUM in FY23.

Headwinds continue: AMC stocks have taken a battering owing to regulatory headwinds from a **possible reduction in TER** following a fee review announced by the regulator in Dec'22 and reiteration of the same in its March annual meet. Secondly, certain debt mutual funds were stripped of long-term tax benefits as per a March budget amendment. This could deter flows into debt schemes. Thirdly, net flows for the industry have plunged to Rs 762bn in FY23 vs. Rs 2,467bn in FY22 owing to debt mutual fund outflow.

Downgrade to HOLD: The stock is currently trading at 22.7x FY25E EPS. Apart from scaling back our profit estimates, we also value the stock at a lower 25x FY25E EPS (28x earlier), a 30% discount to the long-term mean, translating to a revised TP of Rs 1,946 (vs. Rs 2,310). The company's focus on launching new funds, maintaining high-quality scheme performance and gaining market share appears factored in, even as industry headwinds combined with the low share of HDFC Bank in generating business will likely remain a drag on growth for a big player like HDFC AMC. We thus cut our rating from BUY to HOLD.

Key changes

Target	Rating
▼	▼

Ticker/Price	HDFCAMC IN/Rs 1,766
Market cap	US$ 4.6bn
Free float	37%
3M ADV	US$ 11.2mn
52wk high/low	Rs 2,315/Rs 1,590
Promoter/FPI/DII	63%/8%/18%

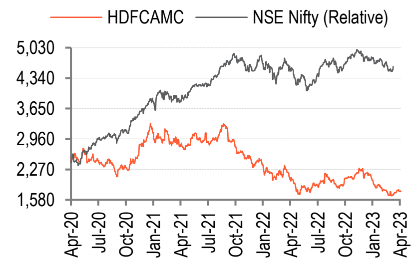
Source: NSE | Price as of 25 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Core PBT (Rs mn)	15,549	16,669	18,294
Core PBT (YoY)	1.1	7.2	9.7
Adj. net profit (Rs mn)	14,239	15,086	16,608
EPS (Rs)	66.7	70.7	77.8
Consensus EPS (Rs)	67.5	73.7	84.7
MCap/AAAUM (%)	8.4	7.9	7.2
ROAAAUM (bps)	31.7	31.7	31.6
ROE (%)	24.5	23.8	24.4
P/E (x)	26.5	25.0	22.7

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

Stock performance



Source: NSE

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BUY
TP: Rs 24,670 | ▲ 19%

NESTLE INDIA | Consumer Staples | 25 April 2023

Stellar performance; beats estimates

- **Highest quarterly growth in the last decade supported by a strong performance across product segments in Q1CY23**
- **Margins impacted by inflation in agri-commodities, partly offset by better realisations; early signs of softening in key inputs**
- **CY23-CY24 EPS raised 6-8% on a strong Q1, translating to a revised TP of Rs 24,670 (vs. Rs 22,860); maintain BUY**

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Growth at a decadal high: NEST's domestic revenue registered healthy growth of 21% YoY in Q1CY23 with a good balance between volume growth and pricing. Export revenue grew 25% YoY. In the past four quarters, NEST has delivered double-digit growth across product segments. Q1CY23 marks the highest quarterly growth for the company in the last 10 years (excluding the exceptional quarter in 2016 on a low base of 2015). NEST's increased focus on enhancing its rural footprint has started yielding results. During the quarter, the company registered strong volume-led growth in rural markets.

Strong performance across portfolios: The prepared dishes and cooking aids business continued its growth momentum in Q1 and delivered strong growth across products. Confectionary posted robust growth as well, led by *Kitkat* and *Munch* which were backed by strong consumer engagement, media campaigns and innovation. NEST gained market share and delivered high growth in the beverages business driven by *Nescafe Classic*, *Nescafe Sunrise,* and *Nescafe Gold*.

Margins impacted by cost inflation: NEST's gross profit margin contracted by 110bps QoQ/160bps YoY to 54.9% in Q1CY23 owing to inflation in agricultural commodities. Prices of milk and its derivatives, wheat flour and edible oil were relatively higher during the quarter and only partly offset by better realisations. EBITDA margin at 22.7% contracted 20bps QoQ and 50bps YoY.

Maintain BUY: The stock is trading at 65.1x/56.2x CY23E/CY24E EPS. We raise our CY23/CY24 EPS estimates 6%/8% to bake in the stellar Q1 print, leading to a new TP of Rs 24,670 (vs. Rs 22,860). Our target is set at an unchanged P/E of 67x on CY24E EPS, in line with the long-term mean. We reiterate BUY as NEST continues to outperform peers in a challenging economic climate supported by strong consumer engagement, new launches, and a strategy of penetration-led volume growth. We expect sustained growth momentum underpinned by investments in innovation and premiumisation, direct reach expansion with a rural focus, and forays into newer categories.

Key changes

Target	Rating
▲	◄►

Ticker/Price	NEST IN/Rs 20,665
Market cap	US$ 24.3bn
Free float	37%
3M ADV	US$ 15.5mn
52wk high/low	Rs 21,050/Rs 16,000
Promoter/FPI/DII	63%/12%/25%

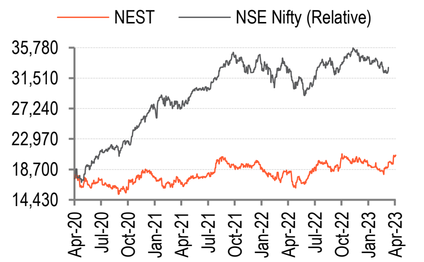
Source: NSE | Price as of 25 Apr 2023

Key financials

Y/E 31 Dec	CY22A	CY23E	CY24E
Total revenue (Rs mn)	1,68,969	1,95,111	2,19,525
EBITDA (Rs mn)	37,125	47,122	55,300
Adj. net profit (Rs mn)	23,905	30,654	35,503
Adj. EPS (Rs)	247.9	317.9	368.2
Consensus EPS (Rs)	247.9	306.6	350.9
Adj. ROAE (%)	97.2	104.7	102.3
Adj. P/E (x)	83.3	65.0	56.1
EV/EBITDA (x)	53.7	42.3	36.0
Adj. EPS growth (%)	1.5	28.2	15.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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BUY
TP: Rs 1,550 | ⮝ 38%

INDUSIND BANK | Banking | 25 April 2023

Gearing up for the next leg of growth

- **Q4 PAT growth strong at 46% YoY backed by robust business growth that offset lower other income and higher opex**
- **Vehicle finance and MFI businesses on the rebound, though asset quality concerns persist**
- **Maintain BUY with a TP of Rs 1,550 (vs. Rs 1,547), valuing the stock at 1.7x FY25E ABV**

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Robust quarter: IIB delivered a strong 46% YoY increase in PAT for Q4FY23 supported by high business growth (loans up 21% YoY/6% QoQ) in the consumer finance division (CFD) and some uptick in microfinance (MFI). In CFD, vehicle finance registered high disbursals of Rs 125bn (+22% YoY, 5% QoQ) led by the CV, UV, car and equipment finance, while MFI loans grew 9% QoQ (5% YoY) with a 30% sequential increase in disbursals. Management is confident of sustaining growth in CFD spurred by vehicle finance and expects a change in mix towards this division.

The corporate book grew 23% YoY (+7% QoQ) driven by mid and small corporates which are likely to be the next growth engine. IIB's focus on granularity led to deposit growth of 15% YoY, wherein low-cost retail deposits (as per LCR) grew 19% YoY and increased its share to 43% of total deposits (CASA flat at 40.1%).

Margin stable: Despite a better yield, NIM(Calc) was flat QoQ at 4.4% due to a higher cost of funds. Opex remained elevated with higher branch expansion, leading to a C/I ratio of 45%. Management expects C/I to stabilise at 41-43% as the bank gradually leverages retail growth. The anticipated change in mix towards CFD will also help sustain margins.

Asset quality improving gradually: MFI-led delinquencies raised overall slippages to Rs 16bn in Q4 (vs. Rs 14.6bn in Q3), although slippages from vehicle finance reduced 40% QoQ. However, higher upgrades and recoveries led to improvement in GNPA/NNPA by 8bps/3bps QoQ. Credit cost stood at 146bps (vs. 160bps in Q3) despite provisions towards security receipts (Rs 3bn), with a guidance at 110-130bps over 2023-26. Management does not expect major asset quality concerns in its vehicle finance book, which should aid stable asset quality over 2023-26.

Maintain BUY, TP Rs 1,550: Improving asset quality, robust capitalisation and a healthy loan mix put IIB on a strong wicket. Given continued growth momentum and gradual improvement in asset quality, we expect ROA/ROE to rise to 1.9%/16.3% by FY25, making the stock a prime candidate for a rerating. We retain BUY with a TP of Rs 1,550 (vs. Rs 1,547), set at 1.7x FY25E ABV (Gordon Growth Model).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	IIB IN/Rs 1,122
Market cap	US$ 10.6bn
Free float	74%
3M ADV	US$ 52.9mn
52wk high/low	Rs 1,276/Rs 763
Promoter/FPI/DII	17%/45%/39%

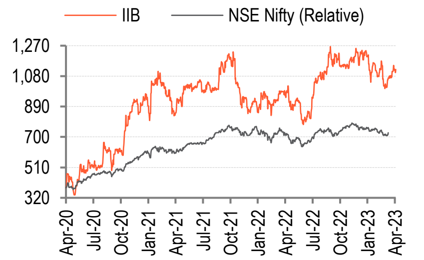
Source: NSE | Price as of 25 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Net interest income	175,921	209,382	244,129
NII growth (%)	17.3	19.0	16.6
Adj. net profit (Rs mn)	74,431	93,023	110,011
EPS (Rs)	96.0	119.9	141.8
Consensus EPS (Rs)	96.0	113.0	130.0
P/E (x)	11.7	9.4	7.9
P/BV (x)	1.6	1.4	1.2
ROA (%)	1.7	1.9	1.9
ROE (%)	14.5	15.8	16.3

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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