BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

27 July 2023

RESEARCH

UTI AMC | TARGET: Rs 815 | –0% | HOLD

Equity flows lacklustre; valuations full – downgrade to HOLD

BOB ECONOMICS RESEARCH | CRUDE IMPORTS

Growing phase

LARSEN & TOUBRO | TARGET: Rs 3,000 | +17% | BUY

Stellar quarter; solid outlook

SBI LIFE | TARGET: Rs 1,500 | +15% | BUY

Mixed quarter; robust FY24 outlook maintained

AMBER ENTERPRISES | TARGET: Rs 2,500 | +10% | HOLD

Topline wavers, margins progressing

Daily macro indicators

Ticker	24-Jul	25-Jul	Chg (%)
US 10Y yield (%)	3.87	3.88	1bps
India 10Y yield (%)	7.07	7.10	3bps
USD/INR	81.83	81.87	(0.1)
Brent Crude (US$/bbl)	82.7	83.6	1.1
Dow	35,411	35,438	0.1
Hang Seng	18,668	19,434	4.1
Sensex	66,385	66,356	0.0
India FII (US$ mn)	**21-Jul**	**24-Jul**	**Chg ($ mn)**
FII-D	27.5	20.0	(7.5)
FII-E	(171.3)	28.1	199.4

Source: Bank of Baroda Economics Research

SUMMARY

UTI AMC

- MTM gains boosted Q1 net profit growth to ~150% YoY whereas core net profit fell 25% YoY
- Equity and hybrid schemes (combined) saw outflows for four straight quarters due to flagship fund underperformance
- TP moves to Rs 815 (vs. Rs 800) as we raise FY24/FY25 PAT by 17%/2% to bake in higher other income; cut to HOLD on full valuations

Click here for the full report.

INDIA ECONOMICS: CRUDE IMPORTS

India is amongst top 5 importers of crude oil across the globe. Over 85% of India's demand for oil is met through imports on the back of the demand surge. India's import of crude oil has grown to 237mn tonne with Russia becoming one of biggest suppliers of the same in FY23. Share of Russia had grown to more than 20% in FY23 and as of FYTD'24 (Apr-May'23), it commands a share of around 39%. The Russia-Ukraine conflict resulted in easier availability of oil from Russia at a discounted price when compared with other countries or even international crude price. This note takes a look at the volume and price of crude oil in the span of 2-years.

Click here for the full report.

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LARSEN & TOUBRO

- Stellar Q1 led by inflows, execution and working capital efficiency; closed the quarter with a record Rs 4.1tn order book
- FY24 pipeline swells 34%, a key positive; return of capital through buyback and special dividends would aid ROE
- TP raised to Rs 3,000 (vs. Rs 2,630) on a higher core business EV/EBITDA multiple of 15x and valuation rollover; retain BUY

Click here **for the full report.**

SBI LIFE

- Q1 APE growth softened to 4% YoY as non-par business slowed; management optimistic of a rebound
- VNB margin sheds 160bps YoY but still strong at 28.8%; guided to stay rangebound in the near future
- TP revised to Rs 1,500 (vs. Rs 1,520) as we adjust estimates post Q1; maintain BUY

Click here **for the full report.**

AMBER ENTERPRISES

- Q1 revenue weak given the "worst of bad seasons", though margins improved on a better product mix
- Strategic shift towards components working in favour of Amber; mobility business offers a large opportunity
- TP raised to Rs 2,500 (vs. Rs 2,260) on rollover; maintain HOLD

Click here **for the full report.**

HOLD
TP: Rs 815 | ∀ 0%

UTI AMC | NBFC | 26 July 2023

Equity flows lacklustre; valuations full – downgrade to HOLD

- **MTM gains boosted Q1 net profit growth to ~150% YoY whereas core net profit fell 25% YoY**
- **Equity and hybrid schemes (combined) saw outflows for four straight quarters due to flagship fund underperformance**
- **TP moves to Rs 815 (vs. Rs 800) as we raise FY24/FY25 PAT by 17%/2% to bake in higher other income; cut to HOLD on full valuations**

Mohit Mangal
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MTM gains boost profitability: UTI AMC's Q1FY24 net profit soared ~150% YoY to Rs 2.3bn due to higher other income from MTM gains. Excluding these gains, core PAT declined 25% YoY. Revenue from operations dipped 2% YoY whereas operating expenses grew 12%, leading to poor profitability. To factor in higher other income, we raise our FY24/FY25 PAT estimates by 17%/2% to Rs 6.4bn/Rs 6.1bn.

Equity flows soft: UTI AMC saw its fourth consecutive quarter of outflows (and its highest) in equity and hybrid schemes combined at Rs 15bn in Q1. The culprit was sustained underperformance at one of its flagship funds which also impacted SIP sales. Management remained optimistic of turnaround in this scheme in coming quarters. Strong intake in other segments led to overall inflows of Rs 102bn.

Fortifying the distribution network: UTI AMC has a strong distribution network of ~63,700 mutual fund distributors (MFD), 166 UTI financial centres (UFC), and a large footprint in B30 cities, with plans to open 29 branches in FY24. B30 MAAUM totalled 22% of its AUM mix vs. 17% for the industry at end-Q1.

Operating expenses inch up: MF yield (calc) increased just 1bps QoQ to 37bps in Q1 and is expected to remain under pressure. Operating expenses grew 12% YoY to Rs 1.7bn as other expenses surged 26% to Rs 612mn. It also guided for a Rs 610mn-620mn quarterly other expense run-rate. The company indicated that it has hired 108 low-cost management trainees who will be able to replace higher-salaried retirees.

Downgrade to HOLD: We continue to value the company at an unchanged 17x FY25E P/E – a 20% discount to mean – as we balance the negatives of sustained outflows in high-yielding equity schemes, lower core profits, and weakness in UTI International (subsidiary) against the positives of strong overall flows and good alternative business. Following our upward earnings revision, our TP rises to Rs 815 (from Rs 800). The stock has run up 15% since 1 June and we see no levers for a further price upside – we thus move from BUY to HOLD.

Key changes

Target	Rating
▲	▼

Ticker/Price	UTIAM IN/Rs 815
Market cap	US$ 1.3bn
Free float	34%
3M ADV	US$ 2.9mn
52wk high/low	Rs 908/Rs 608
Promoter/FPI/DII	0%/6%/60%

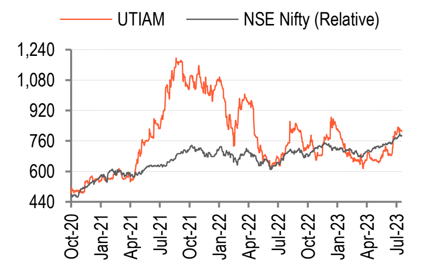
Source: NSE | Price as of 26 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	4,265	4,450	5,066
Core PBT (YoY)	(5.6)	4.3	13.9
Adj. net profit (Rs mn)	4,393	6,389	6,081
EPS (Rs)	34.4	50.3	47.9
Consensus EPS (Rs)	34.4	41.0	46.5
MCap/AAAUM (%)	4.3	3.9	3.5
ROAAAUM (bps)	18.4	24.3	20.8
ROE (%)	11.7	15.9	14.2
P/E (x)	23.7	16.2	17.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

CRUDE IMPORTS

26 July 2023

Growing phase

Jahnavi Prabhakar
Economist

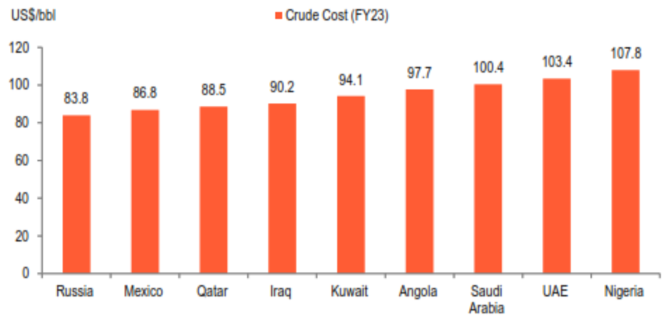
India is amongst top 5 importers of crude oil across the globe. Over 85% of India's demand for oil is met through imports on the back of the demand surge. India's import of crude oil has grown to 237mn tonne with Russia becoming one of biggest suppliers of the same in FY23. Share of Russia had grown to more than 20% in FY23 and as of FYTD'24 (Apr-May'23), it commands a share of around 39%. The Russia-Ukraine conflict resulted in easier availability of oil from Russia at a discounted price when compared with other countries or even international crude price. This note takes a look at the volume and price of crude oil in the span of 2-years.

Import of Crude in the last 2-years

India relies on other countries to meet up its ever growing demand of crude and related products. The dependency on oil imports for domestic consumption as a result has been an uphill. On a volume basis, back in FY22, India's imported a total of 220mn tonnes of crude oil from the globe, with Russia having a meagre share of 2% for the year. On the other hand, India has imported a total of 237mn tonnes in FY23 and Russia's share has grown remarkably by over ten times to double digit level of 21.5%.

In terms of cost, Fig 1, highlights the price paid for 1 barrel of crude oil in US$ from different countries in FY23. Russia was charging US$ 84/bbl, while Nigeria was charging US$ 108/bbl. The average international crude price for this period was at US$ 95.1/bbl. With the beginning of the Russia-Ukraine conflict, the geo-political climate changed across the globe. It also brought to the fore the changing dynamics of the supply and demand pertaining to crude oil with certain countries imposing sanctions. Given this backdrop, Russia has turned out to be one of the largest supplier of oil to India by supplying oil at a much discounted price and even boosting profits for Indian firms.

Fig 1: Price paid for Crude across Countries in FY23



Source: CMIE, Bank of Baroda

RESULT REVIEW

BUY
TP: Rs 3,000 | ⮝ 17%

LARSEN & TOUBRO | Capital Goods | 26 July 2023

Stellar quarter; solid outlook

- **Stellar Q1 led by inflows, execution and working capital efficiency; closed the quarter with a record Rs 4.1tn order book**
- **FY24 pipeline swells 34%, a key positive; return of capital through buyback and special dividends would aid ROE**
- **TP raised to Rs 3,000 (vs. Rs 2,630) on a higher core business EV/EBITDA multiple of 15x and valuation rollover; retain BUY**

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Robust execution: Strong project execution in Q1FY24 aided revenue growth of 34% YoY to Rs 478.8bn (4Y CAGR at 12.7%), though legacy orders in the mix saw gross margin contract 570bps YoY to 35.8%. EBITDA margin at 10.2% slipped 80bps YoY while PAT grew 46% YoY to Rs 24.9bn. LT's addressable pipeline has swelled 34% YoY to Rs 10tn, above the prospective level of Rs 9.7tn at end-FY23 despite the approaching elections (Apr-May'24), driven by hydrocarbons.

Margins to improve from H2FY24: The presence of legacy orders weighed on the core EBITDA margin in FY23 and in Q1. LT had executed ~60% of these projects as of FY23 and expects to complete the remaining 40% this fiscal year. Management thus expects EBITDA margin to rise ~50bps in FY24 and normalise to ~10% by FY25.

FY24 order and revenue guidance reiterated: LT maintained its FY24 order inflow and revenue growth guidance at 10-12% and 12-15% respectively. Working capital-to-sales improved to 17% in Q1 from the usual level of 20-22%, likely helped by good collections as well as strong order inflows, and management expects to maintain a range of 16-18% for the fiscal. The company ended FY23 with a record Rs 4tn order book, which has moved up to Rs 4.1tn with a book-to-bill ratio of ~3x.

Buyback to aid ROE: The return of capital through the recently announced Rs 100bn buyback along with special dividend would boost return ratios. LT retains its long-term vision of improving ROE to ~18% from the current 12% levels.

Subsidiary performance mixed: LT saw lower losses in the Hyderabad metro as daily ridership reached 0.42-0.44mn vs. 0.4mn in FY23. However, the Nabha power project was hit by lower power demand in Q1.

Maintain BUY: LT is a strong play on the India capex story and among our top sector picks. We retain BUY and raise our SOTP-based TP from Rs 2,630 to Rs 3,000 as we roll valuations over to Jun'25E and now value the core business ex-services at a higher 15x EV/EBITDA (14x earlier) given the enhanced ordering outlook. Our fair value includes Rs 900/sh for subsidiaries valued at 20% holdco discount.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	LT IN/Rs 2,561
Market cap	US$ 43.8bn
Free float	86%
3M ADV	US$ 55.3mn
52wk high/low	Rs 2,638/Rs 1,742
Promoter/FPI/DII	0%/21%/35%

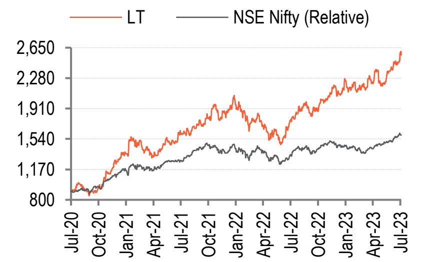
Source: NSE | Price as of 25 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	18,33,407	21,32,402	24,04,205
EBITDA (Rs mn)	2,07,533	2,55,954	3,08,008
Adj. net profit (Rs mn)	1,03,347	1,39,039	1,75,195
Adj. EPS (Rs)	73.6	99.0	124.8
Consensus EPS (Rs)	73.6	93.5	115.0
Adj. ROAE (%)	12.0	14.8	16.7
Adj. P/E (x)	34.8	25.9	20.5
EV/EBITDA (x)	15.2	12.7	10.6
Adj. EPS growth (%)	20.6	34.5	26.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 1,500 | ⮝ 15%

SBI LIFE | Insurance | 26 July 2023

Mixed quarter; robust FY24 outlook maintained

- **Q1 APE growth softened to 4% YoY as non-par business slowed; management optimistic of a rebound**
- **VNB margin sheds 160bps YoY but still strong at 28.8%; guided to stay rangebound in the near future**
- **TP revised to Rs 1,500 (vs. Rs 1,520) as we adjust estimates post Q1; maintain BUY**

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APE growth in lower single digits: SBI Life's APE grew a mere 4% YoY in Q1FY24 to Rs 30bn owing to a 29% drop in non-par plans that were impacted by new tax regulation, largely negating ULIP sales growth of 17% YoY. Per management, non-par growth should bounce back in the remainder of FY24. Gross premium grew 19% YoY to Rs 136bn. The company maintained market leadership in the private life insurance space, commanding 22% NBP and 23% individual APE share at end-Q1.

Business skewed towards ULIPs: With non-par business dropping to Rs 5.8bn in Q1FY24, its share in total APE plummeted to 19% (vs. 28% in Q1FY23). ULIPs remained in focus at 53% of APE vs. 47%. Total protection business formed 12% share vs. 11% earlier. Individual protection APE grew 5% YoY in Q1 but was outdone by group protection at 33%. Demand for annuity products has been increasing and the segment grew 86% YoY, although on a lower base.

Change in product mix hurt VNB margin: SBI Life's VNB was flat YoY in Q1 at Rs 8.7bn with a lower 28.8% margin (-160bps YoY) owing to a change in product mix. Management expects margins to remain rangebound at this level and we accordingly bake in estimates of 28.5% each (vs. 28%) for FY24/FY25. However, we pare VNB forecasts by 2%/0.4% owing to a 4%/2% cut in our APE estimates.

Mixed persistency results; cost ratios <11%: Persistency in the 13^{th} month and 25^{th} cohorts decreased by 60bps and 260bps YoY to 85.0% and 76.1% respectively in Q1, whereas that for the 61^{st} month increased to 56.7% from 50.3%. The total cost ratio declined 40bps YoY to 10.8% at end-Q1 (opex ratio up 20bps YoY to 6.8% and commission ratio down 60bps to 4%), staying below that of listed private peers.

Maintain BUY: SBI Life is trading at 1.9x FY25E P/EV. Following our estimate changes, we arrive at a revised TP of Rs 1,500 (vs. Rs 1,520), valuing the stock at an unchanged 2.3x FY25E P/EV – a 10% discount to the long-term mean. We continue to like SBI Life for its market leadership, high VNB margins, efficient cost ratios and strong brand – maintain BUY.

Key changes

Target	Rating
▼	◄►

Ticker/Price	SBILIFE IN/Rs 1,301
Market cap	US$ 15.9bn
Free float	45%
3M ADV	US$ 16.5mn
52wk high/low	Rs 1,340/Rs 1,054
Promoter/FPI/DII	55%/24%/16%

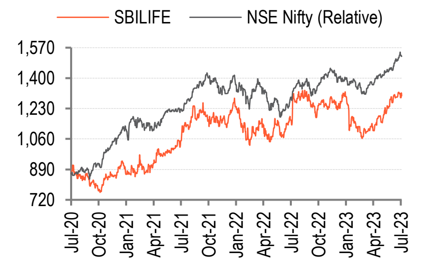
Source: NSE | Price as of 25 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
NBP (Rs mn)	2,95,886	3,31,392	3,76,130
APE (Rs mn)	1,68,100	1,92,103	2,26,789
VNB (Rs mn)	50,700	54,749	64,635
Embedded Value (Rs mn)	4,60,600	5,51,496	6,60,003
VNB margin (%)	30.1	28.5	28.5
EVPS (Rs)	475.2	566.8	674.0
EPS (Rs)	17.2	17.7	19.2
Consensus EPS (Rs)	17.2	20.6	23.5
P/EV (x)	2.7	2.3	1.9

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

Stock performance



Source: NSE

RESULT REVIEW

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HOLD
TP: Rs 2,500 | ⮝ 10%

AMBER ENTERPRISES | Consumer Durables | 26 July 2023

Topline wavers, margins progressing

- **Q1 revenue weak given the "worst of bad seasons", though margins improved on a better product mix**
- **Strategic shift towards components working in favour of Amber; mobility business offers a large opportunity**
- **TP raised to Rs 2,500 (vs. Rs 2,260) on rollover; maintain HOLD**

Vinod Chari | Swati Jhunjhunwala
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Revenue a miss, margins shine: Amber's topline at Rs 17bn (-7% YoY) faltered due to unseasonal weather patterns and sluggish demand in the room air conditioner (RAC) business. On the other hand, EBITDA grew 33% YoY with 230bps margin expansion owing to a favourable change in product mix as the contribution of components increased.

Segmental performance: The RAC and components business (73% of revenue) declined 14% YoY during the quarter, while motors, electronics and mobility business grew by 5%, 28% and 9% respectively. Management expects the mobility business to grow rapidly amid burgeoning business opportunities.

Industry expected to grow ~8% in FY24: The AC industry had a poor first quarter on account of unseasonal rains during peak summer season which saw industry sale volumes decline 20-25%. However, management expects the industry to post full-year growth of 7-8% to ~9mn units, with Amber's RAC business growing 3-4% ahead of the industry.

Upbeat guidance: Management has maintained its EBITDA growth guidance of 25-30% for FY24 and continues to expect above-market growth in the RAC business. The electronics, motors and mobility divisions are guided to grow by 35-40%, 20-25% and 15-20% respectively for the year, despite one of the worst seasons in Q1.

Soft RAC outlook: The structural shift in RAC manufacturing, where outsourcing has fallen to 30% in FY23 vs. 41% in FY21 due to production-linked incentive announcements, appears to have been offset by Amber's prudent shift towards component manufacturing. That said, the RAC business remains beset by challenges from an unfavourable demand climate, competition and erratic weather.

Retain HOLD: We value the stock at an unchanged 27x P/E multiple – a 40% discount to the stock's 3Y average – and roll valuations over to Jun'25E, leading to a revised TP of Rs 2,500 from Rs 2,260. Given the soft RAC outlook and limited upside potential post runup in Amber's stock price, we retain HOLD.

Key changes

Target	Rating
▲	◄►

Ticker/Price	AMBER IN/Rs 2,265
Market cap	US$ 928.6mn
Free float	60%
3M ADV	US$ 6.4mn
52wk high/low	Rs 2,580/Rs 1,763
Promoter/FPI/DII	40%/24%/14%

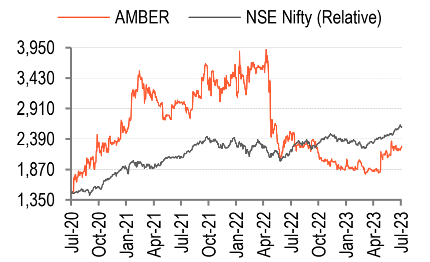
Source: NSE | Price as of 25 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	69,271	85,232	1,01,221
EBITDA (Rs mn)	4,179	5,173	6,343
Adj. net profit (Rs mn)	1,572	2,034	2,822
Adj. EPS (Rs)	46.7	60.4	83.8
Consensus EPS (Rs)	46.7	65.5	91.7
Adj. ROAE (%)	8.6	10.1	12.6
Adj. P/E (x)	48.5	37.5	27.0
EV/EBITDA (x)	18.3	14.7	12.0
Adj. EPS growth (%)	44.0	29.4	38.8

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

Stock performance



Source: NSE

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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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