FIRST LIGHT

28 April 2023

RESEARCH

WIPRO | TARGET: Rs 420 | +12% | HOLD

Consulting business likely to dampen near-term growth

SBI LIFE | TARGET: Rs 1,520 | +34% | BUY

Strong FY23; maintain BUY

VOLTAS | TARGET: Rs 900 | +11% | HOLD

EMP underperformance overshadows resilient cooling business

HINDUSTAN UNILEVER | TARGET: Rs 3,069 | +24% | BUY

Fair performance in a challenging environment

Daily macro indicators

Ticker	25-Apr	26-Apr	Chg (%)
US 10Y yield (%)	3.40	3.45	5bps
India 10Y yield (%)	7.13	7.11	-2bps
USD/INR	81.92	81.77	0.2
Brent Crude (US$/bbl)	80.8	77.7	(3.8)
Dow	33,531	33,302	(0.7)
Hang Seng	19,618	19,757	0.7
Sensex	60,131	60,301	0.3
India FII (US$ mn)	**24-Apr**	**25-Apr**	**Chg ($ mn)**
FII-D	(121.9)	(73.1)	48.8
FII-E	(41.0)	(44.2)	(3.2)

Source: Bank of Baroda Economics Research

SUMMARY

WIPRO

- Q4 revenue grew 0.6% QoQ CC to US$ 2.8bn due to a drag in technology consumer and communication verticals
- EBIT margin remained flattish sequentially at 16.3% backed by automation-oriented services
- Topline recovery likely to be protracted; retain HOLD with a revised TP of Rs 420 (vs. Rs 440)

Click here for the full report.

SBI LIFE

- Strong performance in FY23 with gross premium up 15% YoY and APE growth of 18%
- VNB buoyant and margin up 420bps YoY to 30% for the year led by profitable non-par products
- We raise FY24/FY25 VNB by 7-8% and reset to 2.3x FY25E EV (vs. 2.2x) for a new TP of Rs 1,520 (vs. Rs 1,459); retain BUY

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VOLTAS

- UCP EBIT margin returns to double digits in Q4 after languishing at 7-8% over the first three quarters
- Provisions toward delayed collections resulted in EMP losses even though the segment showed modest topline growth
- FY24/FY25 EBITDA margin estimates cut by 50bps each; maintain HOLD with a revised TP of Rs 900 (vs. Rs 910)

Click here for the full report.

HINDUSTAN UNILEVER

- Underlying pricing growth tapered down in Q4 due to softening input cost; volume growth at 4% YoY
- Rural volume decline moderating; commodity price deflation to aid volume-led growth
- Premiumisation and innovation remain focus areas; maintain BUY with an unchanged TP of Rs 3,069

Click here for the full report.

HOLD

TP: Rs 420 | ⮝ 12%

WIPRO | Technology & Internet | 27 April 2023

Consulting business likely to dampen near-term growth

- **Q4 revenue grew 0.6% QoQ CC to US$ 2.8bn due to a drag in technology consumer and communication verticals**
- **EBIT margin remained flattish sequentially at 16.3% backed by automation-oriented services**
- **Topline recovery likely to be protracted; retain HOLD with a revised TP of Rs 420 (vs. Rs 440)**

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Global macro weakness impacts topline: WPRO's Q4FY23 revenue came in at US$ 2.8bn, up 0.6% QoQ CC and 6.5% YoY CC, in line with our estimates. Rupee revenue declined 0.2% QoQ to Rs 233.9bn due to weakness in the communication, technology and consumer verticals, and a slowdown across geographies, especially the Americas. Hyperscalers contributed 61.4% of global business, led by cloud transformation and cost takeout projects in the areas of engineering, digital transformation and cybersecurity. For Q1FY24, management expects revenue to decline in the range of -3% to -1% QoQ CC. As compared to peers, WPRO posted modest organic growth of 5% YoY (TCS 11%, INFO 8%, HCLT 11% and Accenture 5%).

Strong deal TCV continues: Deal bookings totalled ~US$ 4.1bn in Q4, driven by large deal TCV of US$ 1.1bn (+155% YoY), which was well ahead of the last four-quarter average of US$ 0.8bn. Traction in deal wins came from growth in Europe. Per management, the large deal pipeline remains strong with a higher mix of cloud transformation and cost optimisation projects during the quarter, especially in energy & utilities and healthcare. Given the easing industrywide supply-side issues, attrition moderated 200bps QoQ, landing at 19.2% on a TTM basis in Q4.

Margin flattish: IT services EBIT margin was steady at 16.3%, broadly in line with our estimate, led by an improved supply chain, better delivery, and automation of operations. Operating cash flow during the quarter stood at 115% of net income. With the consulting business slowing down, risks to profitability continue to rise due to weakness in Capco and Agile.

Maintain HOLD: The stock is trading at 15.6x/13.8x FY24E/FY25E EPS. Disappointing revenue guidance implies that the softness in the US market is likely to linger over the near term. We also believe that WPRO will face challenges defending its margin in the medium term due to an increased risk profile of the business. We, therefore, revise our target P/E from 16x to 15.5x FY25E EPS, translating to a lower TP of Rs 420 (vs. Rs 440) – retain HOLD.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	WPRO IN/Rs 374
Market cap	US$ 25.1bn
Free float	26%
3M ADV	US$ 16.4mn
52wk high/low	Rs 529/Rs 352
Promoter/FPI/DII	73%/7%/20%

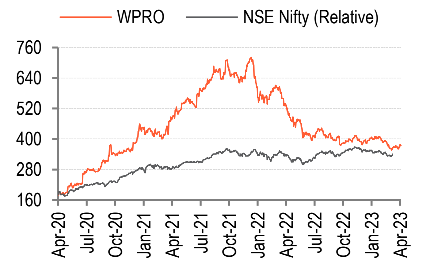
Source: NSE | Price as of 27 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	9,19,636	10,20,406	11,10,930
EBITDA (Rs mn)	1,64,671	1,94,460	2,20,889
Adj. net profit (Rs mn)	1,10,515	1,31,326	1,48,956
Adj. EPS (Rs)	20.1	23.9	27.2
Consensus EPS (Rs)	20.1	25.8	26.8
Adj. ROAE (%)	16.7	19.5	21.3
Adj. P/E (x)	18.6	15.6	13.8
EV/EBITDA (x)	11.8	10.1	8.9
Adj. EPS growth (%)	(6.8)	18.8	13.4

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

Stock performance



Source: NSE

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BUY
TP: Rs 1,520 | ⮝ 34%

SBI LIFE | Insurance | 27 April 2023

Strong FY23; maintain BUY

- **Strong performance in FY23 with gross premium up 15% YoY and APE growth of 18%**
- **VNB buoyant and margin up 420bps YoY to 30% for the year led by profitable non-par products**
- **We raise FY24/FY25 VNB by 7-8% and reset to 2.3x FY25E EV (vs. 2.2x) for a new TP of Rs 1,520 (vs. Rs 1,459); retain BUY**

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Buoyant VNB and high margin: SBI Life's VNB rose 37% YoY in FY23 to Rs 50.7bn with an above-expected 30.1% margin (+420bps) due to its focus on lucrative non-par products. Based on the outperformance, we increase our VNB margin assumptions from 26% to 28% each for FY24/FY25 and raise VNB estimates by 7-8% for our forecast period to Rs 65bn at end-FY25 (Rs 61bn earlier). Operating ROEV was strong at 22.8% at end-FY23.

Robust FY23 performance: APE grew 18% YoY in FY23 to Rs 168bn. For Q4, APE growth was low at 10% YoY in the absence of big-ticket non-linked policy sales. We believe the predictability of growth is higher for the future as the company was comparatively least affected by the budget proposals (see our note of 3 February). Gross premium grew 15% YoY to Rs 673bn, as per expectations.

Non-par savings grew in the product mix: SBI Life's non-par business grew 120% YoY to Rs 37.5bn in FY23 (forming 22% of APE vs. 12% in FY22). The 'Smart Platina Plus' policy is boosting growth in the non-par segment. ULIPs (55% of APE) remained flattish in FY23 with a decline in Q4, but management expects growth to bounce back. Total protection business stood at 11% of APE. Individual protection APE grew 7% YoY in FY23 but was outdone by group protection at 29%. Demand for annuity products has been increasing and these now constitute 3% of APE.

Persistency improves; cost ratios <10%: Persistency in the 13th month cohort increased to 85.5% in FY23 from 85.2% in FY22, and 61st month ratios increased to 55.6% from 49.5%. The total cost ratio expanded ~90bps YoY to 9.6% at end-FY23 (opex ratio was flat YoY at 5.1% and commission ratio rose 90bps to 4.5%), but remained below 10% and below that of listed private peers.

Maintain BUY: The stock is trading at 1.7x FY25E P/EV. Given strong growth momentum, we raise our target FY25E P/EV multiple to 2.3x (from 2.2x), a 10% discount to the long-term mean. This coupled with estimate revision yields a new TP of Rs 1,520 (vs. Rs 1,459), offering 34% upside. We 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 1,137
Market cap	US$ 13.9bn
Free float	45%
3M ADV	US$ 19.7mn
52wk high/low	Rs 1,340/Rs 1,033
Promoter/FPI/DII	55%/24%/16%

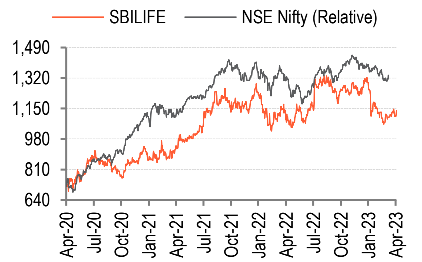
Source: NSE | Price as of 27 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
NBP (Rs mn)	2,95,886	3,37,310	3,84,533
APE (Rs mn)	1,68,100	1,99,489	2,31,855
VNB (Rs mn)	50,700	55,857	64,919
Embedded Value (Rs mn)	4,60,600	5,52,603	6,61,490
VNB margin (%)	30.1	28.0	28.0
EVPS (Rs)	475.2	566.8	674.0
EPS (Rs)	17.2	17.2	18.4
Consensus EPS (Rs)	17.2	21.6	24.6
P/EV (x)	2.4	2.0	1.7

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

Stock performance



Source: NSE

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HOLD
TP: Rs 900 | ⮝ 11%

VOLTAS | Consumer Durables | 27 April 2023

EMP underperformance overshadows resilient cooling business

- **UCP EBIT margin returns to double digits in Q4 after languishing at 7-8% over the first three quarters**
- **Provisions toward delayed collections resulted in EMP losses even though the segment showed modest topline growth**
- **FY24/FY25 EBITDA margin estimates cut by 50bps each; maintain HOLD with a revised TP of Rs 900 (vs. Rs 910)**

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Strong topline with lower margins: VOLT's Q4FY23 topline at Rs 29.6bn came in 9% ahead of our expectations, albeit in line with consensus despite a challenging business environment. EBITDA margin at 7.4% (-240bps YoY) fell short of our/ consensus estimates by 90bps/140bps on account of higher raw material cost (+13% YoY) and other expenses (+35%). Adj. PAT stood at Rs 1.4bn (-21% YoY), below our/consensus forecasts of Rs 1.6bn/Rs 1.8bn on weakness in EMP business.

EMP underperformance continues: The company reported EMP revenue growth of 8% YoY to Rs 7.5bn despite a high base, bolstered by its carry-forward order book that expanded to Rs 81.5bn from Rs 53.6bn in Q4FY22. Domestic order booking maintained traction, scaling up to Rs 19.1bn against Rs 8.5bn in Q4FY22. However, the business incurred losses to the tune of Rs 140mn on account of provisioning towards collection delays, which dragged down VOLT's overall Q4 performance.

UCP gaining traction: UCP revenue was resilient at Rs 20.5bn (+13% YoY) in the face of unseasonal rains and weak consumer sentiments, laying the ground for a strong performance in the seasonally favourable June quarter. UCP EBIT margin climbed back to double digits at 10%. Sustainability at these levels remains a key monitorable. VOLT's UCP market share was at 21.9% YTD as of Feb'23, down 360bps when compared with the 25.4% clocked in Jan'22 (22.5% YTD Dec'22).

Highly JV called-off: VOLT has terminated the joint venture agreement with Highly International for compressor manufacturing in India as it did not receive the requisite regulatory approvals.

Maintain HOLD: The constant drop in market share amid intensified competition has been a challenge for the company in the recent past. We cut our FY24/FY25 EBITDA margin estimates by 50bps each and EPS by 9%/8% to bake in the FY23 numbers. On rolling valuations over to FY25E, we have a revised TP of Rs 900 (vs. Rs 910), set at an unchanged P/E multiple of 40x – 11% premium to the stock's long-term average 2Y forward P/E. Maintain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	VOLT IN/Rs 808
Market cap	US$ 3.3bn
Free float	70%
3M ADV	US$ 14.3mn
52wk high/low	Rs 1,299/Rs 737
Promoter/FPI/DII	30%/21%/33%

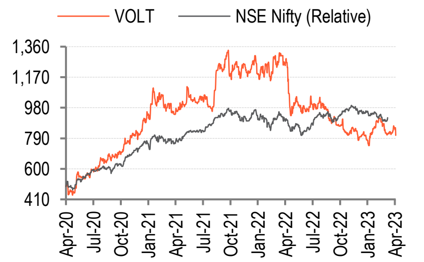
Source: NSE | Price as of 27 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	94,988	107,632	127,104
EBITDA (Rs mn)	5,724	8,631	10,941
Adj. net profit (Rs mn)	3,788	5,866	7,471
Adj. EPS (Rs)	11.4	17.7	22.6
Consensus EPS (Rs)	16.0	22.7	27.9
Adj. ROAE (%)	6.9	10.4	12.3
Adj. P/E (x)	70.6	45.6	35.8
EV/EBITDA (x)	46.7	31.0	24.4
Adj. EPS growth (%)	(24.8)	54.9	27.4

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

Stock performance



Source: NSE

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BUY
TP: Rs 3,069 | ⮝ 24%

HINDUSTAN UNILEVER | Consumer Staples | 27 April 2023

Fair performance in a challenging environment

- **Underlying pricing growth tapered down in Q4 due to softening input cost; volume growth at 4% YoY**
- **Rural volume decline moderating; commodity price deflation to aid volume-led growth**
- **Premiumisation and innovation remain focus areas; maintain BUY with an unchanged TP of Rs 3,069**

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Moderate volume and value growth: HUVR's Q4FY23 revenue grew 10.5% YoY (-2.4% QoQ), with underlying volume growth of 4% YoY (vs. 5% in Q3). Price-led growth was at 7% against 11% in Q3 due to a sequential price reduction taken during the quarter. The company continues to gain market share in more than 75% of its portfolio. Gross margin improved 110bps sequentially. The company continued to invest in its brands, stepping up A&P spend by 80bps QoQ.

Key categories healthy: In Q4, HUVR's home care, beauty & personal care, and foods & refreshment segment revenues grew 19%, 10% and 3% YoY respectively. Fabric wash delivered double-digit growth led by the premium portfolio. Household care segments saw double-digit volume and value growth driven by a strong performance in dishwash. Hair care registered volume-led mid-single-digit growth and oral care grew in high single digits. Skin care and colour cosmetics registered double-digit growth led by premium products. Food and ice cream saw mid-single-digit growth. As palm oil softened, prices were reduced in the soaps portfolio.

Continues to strengthen the product portfolio: HUVR strengthened its food & beverages portfolio by launching *Millets Chocolate Horlicks* as well as new ice cream flavours. The company further augmented its offering in the beauty and personal care segment by launching skin care brand *Novology* in the masstige beauty segment, a new range of hair care products by *Dove* and *Tresemme*, a bathing range by *Lux*, and new *Lakme* cosmetics.

Maintain BUY, TP Rs 3,069: HUVR continues to grow ahead of the market and to gain market share despite persisting macro challenges. Increased investment in brand building and innovation is expected to lend further impetus to growth. The stock is trading at 51.9x/45.0x 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 2,469
Market cap	US$ 79.9bn
Free float	38%
3M ADV	US$ 44.5mn
52wk high/low	Rs 2,742/Rs 2,100
Promoter/FPI/DII	62%/14%/24%

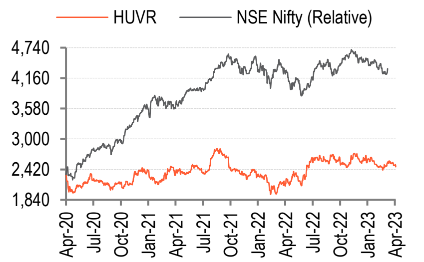
Source: NSE | Price as of 27 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	6,05,800	6,68,526	7,39,348
EBITDA (Rs mn)	1,41,490	1,68,452	1,94,908
Adj. net profit (Rs mn)	1,01,600	1,19,321	1,38,273
Adj. EPS (Rs)	43.2	50.8	58.8
Consensus EPS (Rs)	43.2	50.1	56.9
Adj. ROAE (%)	20.4	23.3	26.4
Adj. P/E (x)	57.1	48.6	42.0
EV/EBITDA (x)	46.2	38.8	33.6
Adj. EPS growth (%)	14.1	17.9	15.9

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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