BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

28 July 2023

RESEARCH

ULTRATECH CEMENT | TARGET: Rs 9,396 | +12% | HOLD

On a strong pitch but positives priced in; revised to HOLD

BOB ECONOMICS RESEARCH | CORPORATE DEBT

Corporate debt structure in India

AXIS BANK | TARGET: Rs 1,155 | +20% | BUY

Steady growth but costs elevated

CIPLA | TARGET: Rs 1,250 | +17% | HOLD

Strong growth coupled with margin expansion

ADITYA BIRLA SUN LIFE AMC | TARGET: Rs 425 | +4% | HOLD

Healthy quarter

TATA STEEL | TARGET: Rs 145 | +21% | BUY

Thrust on expansion capex, Europe breakeven key positives

TECH MAHINDRA | TARGET: Rs 1,130 | –1% | HOLD

Toughest quarter in recent times

TATA CONSUMER PRODUCTS | TARGET: Rs 994 | +17% | BUY

Momentum continues; outlook positive

Daily macro indicators

Ticker	25-Jul	26-Jul	Chg (%)
US 10Y yield (%)	3.88	3.87	(2bps)
India 10Y yield (%)	7.10	7.10	(1bps)
USD/INR	81.87	82.00	(0.1)
Brent Crude (US$/bbl)	83.6	82.9	(0.9)
Dow	35,438	35,520	0.2
Hang Seng	19,434	19,365	(0.4)
Sensex	66,356	66,707	0.5
India FII (US$ mn)	**24-Jul**	**25-Jul**	**Chg ($ mn)**
FII-D	20.0	4.8	(15.2)
FII-E	28.1	349.0	320.8

Source: Bank of Baroda Economics Research

SUMMARY

ULTRATECH CEMENT

- Grey cement volumes grew 20% YoY to 28.6mt in Q1; utilisation healthy at ~86%
- EBITDA flat YoY at Rs 29.1bn but margin contracted 300bps to 16.9% on lower realisations and higher costs
- FY24/FY25 EBITDA estimates raised 2%/6% for a new TP of Rs 9,396 (vs. Rs 8,678); cut to HOLD as valuations factor in performance

Click here **for the full report.**

BOBCAPS Research
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INDIA ECONOMICS: CORPORATE DEBT

During the peak of Covid-19 pandemic, a phenomenon which gained prominence amongst Indian corporates was deleveraging-or a decline in overall debt. Despite lower interest rates, disruptions related to output and demand affected not only production but also investment decisions by companies which led to a decline in overall debt. Companies either repaid their costly debt or used their own funds to finance investment. In this study, an attempt has been made to understand the movement in overall debt of India Inc. over the last five years i.e. FY18 to FY22 and analysis the trends thereof.

Click here for the full report.

AXIS BANK

- Q1 PAT up 41% YoY supported by strong NII (+27%), fee income and treasury gains
- NIM (calc.) declined 7bps to 3.9% on increased cost of funds; Citi card business integration to continue to inflate opex
- TP revised to Rs 1,155 (vs. Rs 1,111) as we raise FY24/FY25 EPS by 1%/2% and increase our target P/ABV to 1.9x; retain BUY

Click here for the full report.

CIPLA

- Q1 EBITDA/PAT beat estimates by 7%/16% on the back of growth in North America and One India
- EBITDA margin expands 230bps YoY to 23.6%; FY24 guidance raised to 23% from 22%
- TP revised to Rs 1,250 (vs. Rs 1,170) as we raise FY24-FY25 EBITDA forecasts by 6-7%; maintain BUY

Click here for the full report.

ADITYA BIRLA SUN LIFE AMC

- QAAUM grew 5% YoY to Rs 2.9tn in Q1; market share inched up to 6.9% after a prolonged decline
- Net profit soared 79% YoY to Rs 1.8bn supported by core revenue growth and MTM gains
- TP raised to Rs 425 (vs. Rs 375) as we increase FY24/FY25 PAT 8%/6% and reset to 17x FY25E EPS (vs. 16x); maintain HOLD

Click here for the full report.

TATA STEEL

- Q1 EBITDA broadly in line as standalone operations continued to clock a high EBITDA margin of Rs 14k/t
- Positive signals in the form of priority accorded to TSK expansion over deleveraging and guidance of FY24 breakeven in European operations
- Maintain BUY with an unchanged TP of Rs 145 based on 5.8x 1Y fwd EV/EBITDA

Click here **for the full report.**

TECH MAHINDRA

- CME a drag (-9% QoQ) in Q1 mainly due to lower network service and discretionary spends together with deal deferrals
- Enterprise business steady (-0.3% QoQ) but no growth lever visible in the near term
- Maintain HOLD with a TP of Rs 1,130, set at 12.2x FY25E EPS

Click here **for the full report.**

TATA CONSUMER PRODUCTS

- Improved demand in core markets led to robust 16% YoY uptick in India business; rural recovery visible but still below pre-Covid levels
- Growth businesses (Sampann, Soulfull, NourishCo) continue to fire on all cylinders, climbing 58% YoY
- Expect key verticals to support a healthy 19% PAT CAGR over FY22-FY25; maintain BUY with an unchanged TP of Rs 994

Click here **for the full report.**

RESULT REVIEW

HOLD
TP: Rs 9,396 | ⮝ 12%

ULTRATECH CEMENT | Cement | 27 July 2023

On a strong pitch but positives priced in; revised to HOLD

- **Grey cement volumes grew 20% YoY to 28.6mt in Q1; utilisation healthy at ~86%**
- **EBITDA flat YoY at Rs 29.1bn but margin contracted 300bps to 16.9% on lower realisations and higher costs**
- **FY24/FY25 EBITDA estimates raised 2%/6% for a new TP of Rs 9,396 (vs. Rs 8,678); cut to HOLD as valuations factor in performance**

Milind Raginwar
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Robust performance; clearly defined growth path: UTCEM reported a 17% YoY rise in Q1FY24 revenue to Rs 172.5bn. Grey cement volumes grew 20% YoY (-5% QoQ) to 28.6mn tonnes, also contributed by ~2mt of newer capacities. Utilisation at ~86% was a positive surprise. Grey cement realisations (adjusted for incentive receipt) fell 4% YoY to Rs 5,352/t, indicating that the demand push was lacking.

Hardening cost a negative surprise: Operating cost increased 1% YoY (and QoQ) to Rs 5,013/t which came as a negative surprise, pushed up by 3% higher energy cost ex-raw material (-2% QoQ) due to increased fuel cost. Per-unit raw material cost rose 5% YoY driven by higher fly-ash and slag cost. Logistics expense per tonne increased 3% YoY and QoQ due to the busy season surcharge applied by the railways. Other expenditure was also up 11% YoY (+4% QoQ) to Rs 19.3bn.

EBITDA flat but margins slip: EBITDA was flat YoY (-7% QoQ) at Rs 29.1bn, but the margin fell to 16.9% from 19.9% in Q1FY23 (17.3% in Q4FY23), sapped by the weaker realisations and higher costs. EBITDA/t plunged 18% YoY (-2.5% QoQ) to Rs 1,017/t.

Capex continues; net debt dips: UTCEM spent ~Rs 18bn on capex in Q1, and net debt contracted by Rs 2.3bn. It commissioned 4.3mt of capacity in the northeast and western regions with another 4mt to be added through debottlenecking by FY24-end, taking capacity to 135mt. Budgeted capex is Rs 60bn-70bn over FY24-FY25.

Positives priced in; downgrade to HOLD: We believe UTCEM's strong leadership position and cost-saving initiatives will aid margin gains in FY24/FY25. The balance sheet remains strong, cushioning return ratios. We raise our FY24/FY25 EBITDA estimates by 2%/6% and continue to value the stock at 15x FY25E EV/EBITDA, in line with the 10Y mean, to arrive at a new TP of Rs 9,396 vs. Rs 8,678. At the same time, we revised UTCEM rating to HOLD from BUY as current valuations factor in the positives and offer limited upside potential. At our TP, the stock trades at a replacement cost of Rs 20bn/mt, 2.5x premium to the industry.

Key changes

Target	Rating
▲	▼

Ticker/Price	UTCEM IN/Rs 8,352
Market cap	US$ 29.3bn
Free float	40%
3M ADV	US$ 29.5mn
52wk high/low	Rs 8,499/Rs 6,005
Promoter/FPI/DII	60%/15%/17%

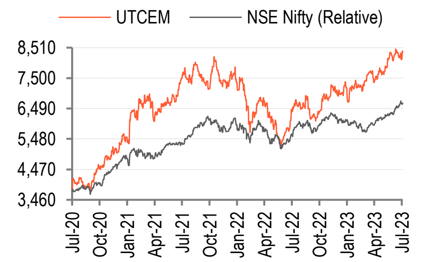
Source: NSE | Price as of 26 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	6,04,626	6,67,249	7,70,626
EBITDA (Rs mn)	99,312	1,35,942	1,75,458
Adj. net profit (Rs mn)	49,169	69,937	98,050
Adj. EPS (Rs)	170.3	242.3	339.7
Consensus EPS (Rs)	170.3	253.0	305.0
Adj. ROAE (%)	9.6	12.5	15.5
Adj. P/E (x)	49.0	34.5	24.6
EV/EBITDA (x)	23.8	17.4	13.6
Adj. EPS growth (%)	(24.7)	42.2	40.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

CORPORATE DEBT

27 July 2023

Corporate debt structure in India

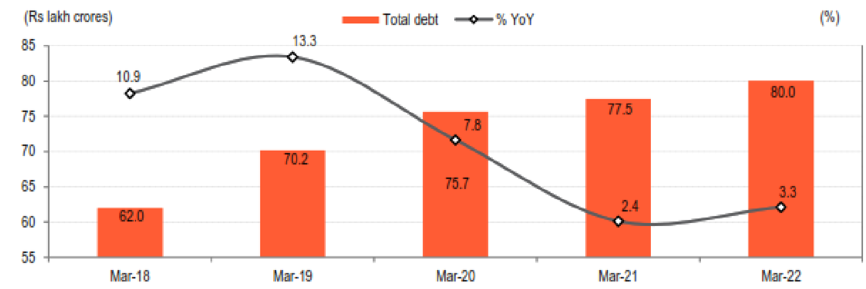
Aditi Gupta
Economist

During the peak of Covid-19 pandemic, a phenomenon which gained prominence amongst Indian corporates was deleveraging-or a decline in overall debt. Despite lower interest rates, disruptions related to output and demand affected not only production but also investment decisions by companies which led to a decline in overall debt. Companies either repaid their costly debt or used their own funds to finance investment. In this study, an attempt has been made to understand the movement in overall debt of India Inc. over the last five years i.e. FY18 to FY22 and analysis the trends thereof.

For this exercise, a sample of 6,742 companies (ex. banks) has been considered, which are spread across 34 broad sectors and is based on the audited annual reports of these companies. Following observations can be made:

- From Rs. 62 lakh crores in FY18, total debt of India Inc. increased to Rs. 75.7 lakh crores in FY20. The pace of increase has slowed down since. In fact, in terms of YoY growth, after increasing at an average pace of 10.6% between FY18 to FY20, the pace of growth has come off to just 2.9% in FY21 and FY22.
- In terms of incremental debt as well, while debt increased at an average pace of Rs. 6.6 lakh crores per year between FY18 to FY20, it increased by only Rs 4.4 lakh crores in the next two years.
- Overall, in the last 5 years, debt has grown at a CAGR of 7.4%..

Figure 1: Movement in overall debt



Source: AceEquity, Bank of Baroda Research

It is to be noted that the finance sector is the dominant one and accounts for nearly 50% of total debt in FY22. Hence, we analyze the trend in overall debt after removing the finance sector. The sample size reduces to 6,223 companies. After rising by 10.1% in FY19, the growth in debt has slowed down successively in the subsequent years. In fact, debt actually declined by 1.8% in FY21, and registered a marginal increase of 1% in FY22. In terms of absolute levels, debt has remained stagnant at ~Rs 43-44lakh crores in the last 3 years. Interestingly, this also coincides with the period of a slowdown in fixed asset creation by these companies.

BUY
TP: Rs 1,155 | ⮝ 20%

AXIS BANK | Banking | 27 July 2023

Steady growth but costs elevated

- **Q1 PAT up 41% YoY supported by strong NII (+27%), fee income and treasury gains**
- **NIM (calc.) declined 7bps to 3.9% on increased cost of funds; Citi card business integration to continue to inflate opex**
- **TP revised to Rs 1,155 (vs. Rs 1,111) as we raise FY24/FY25 EPS by 1%/2% and increase our target P/ABV to 1.9x; retain BUY**

Ajit Agrawal
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Robust business growth: AXSB's focus on the retail (mainly unsecured) and SME segments led to strong credit growth of 22% YoY in Q1FY24 (vs. 19.4%/14% in Q4/Q1FY23), even as deposits grew at a healthy 17% YoY. Loan growth was spread across the retail/corporate/SME segments which increased 21%/27%/20% YoY. Deposit growth was backed by a 22% YoY rise in CASA. We continue to project a credit/deposit CAGR of 17%/16% over FY23-FY25.

PAT rises 41% YoY: A strong uptick in NII (+27% YoY) and other income (+70% YoY) supported a 41% rise in Q1 PAT to Rs 58bn. Other income grew mainly on the back of fee income from the Citi credit card business and treasury gains.

Margin contracts QoQ: Q1 Reported NIM contracted 12bps QoQ to 4.1% largely due to deposit repricing. Management expects NIM to hold steady at current levels as repricing decelerates over H2 and the unsecured book contributes higher yields. Opex increased 10% QoQ mainly due to Citi card integration costs of Rs 3.8bn. AXSB reiterated that the total integration cost of Rs 20bn would be front-loaded in FY24 itself. The C/I ratio jumped 340bps QoQ to 48.3%, though the bank is confident of maintaining cost-to-assets at 2% vs. 2.3% in Q1.

Asset quality steady: In spite of higher slippages (agricultural defaults being seasonal), asset quality was stable and we do not foresee any major concerns given AXSB's prudent provisioning strategy (standard asset coverage of 1.39%). We model for stable GNPA/NNPA/PCR at 1.7%/0.4%/79% in FY25 and factor in credit cost of 54bps each in FY24/FY25 (vs. 37bps in FY23).

Maintain BUY: AXSB's focus on growth along with healthy asset quality has helped improve return ratios, and we estimate ROA/ROE of 1.7%/17% in FY25 vs. 0.8%/8% in FY23. Smooth integration of Citi card business is likely to aid margins. The bank is well capitalised with current CAR at 17.7% even after the Citi card acquisition (with no fundraising plans). We raise FY24/FY25 EPS by 1%/2% and increase our FY25E P/ABV multiple to 1.9x (vs. 1.8x) using the Gordon Growth Model. Adding in Rs 114/sh as the value of subsidiaries, we have a new TP of Rs 1,155 (vs. Rs 1,111). BUY.

Key changes

Target	Rating
▲	◄►

Ticker/Price	AXSB IN/Rs 960
Market cap	US$ 35.9bn
Free float	92%
3M ADV	US$ 122.4mn
52wk high/low	Rs 990/Rs 708
Promoter/FPI/DII	8%/52%/30%

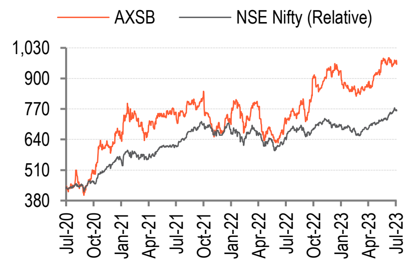
Source: NSE | Price as of 27 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	429,457	502,010	568,590
NII growth (%)	29.6	16.9	13.3
Adj. net profit (Rs mn)	95,797	245,206	279,604
EPS (Rs)	31.2	79.7	90.9
Consensus EPS (Rs)	31.2	77.9	89.5
P/E (x)	30.8	12.0	10.6
P/BV (x)	2.4	2.0	1.7
ROA (%)	0.8	1.7	1.7
ROE (%)	8.0	17.8	17.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 1,250 | 17%

CIPLA | Pharmaceuticals | 27 July 2023

Strong growth coupled with margin expansion

- **Q1 EBITDA/PAT beat estimates by 7%/16% on the back of growth in North America and One India**
- **EBITDA margin expands 230bps YoY to 23.6%; FY24 guidance raised to 23% from 22%**
- **TP revised to Rs 1,250 (vs. Rs 1,170) as we raise FY24-FY25 EBITDA forecasts by 6-7%; maintain BUY**

Saad Shaikh
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US and One India businesses shine: Backed by stellar growth in the US and a healthy uptick in One-India business, Cipla reported an 18% YoY increase in Q1FY24 revenue to Rs 63.3bn (+10% QoQ). US revenue grew 9% QoQ CC to US$ 222mn as gRevlimid and differentiated products such as Lanreotide gained traction while Albuterol stabilised. Management also attributed the US outperformance to a rebalancing of trade channels, player exits, stabilising price erosion and drug shortages. US revenue is now guided to clock a higher quarterly run-rate of US$ 210mn-215mn from ~US$ 195mn earlier.

Healthy growth in One India; South Africa showing sign of revival: One India business grew 12% YoY (+23% QoQ) on the back of traction in chronic therapies which neutralised the impact of the NLEM price cap. The new launches and in-licensed products such as Galvus and Scapho, along with various operational measures mitigated the price cap impact. The South Africa private market bounced back from the lows of last year to post double-digit growth (+13% YoY CC) in Q1. Focused therapies in the prescription business saw an uptick while OTC reported 16% YoY growth in local currency.

FY24 margin guidance raised: A better product mix and operational efficiency propelled gross/EBITDA margin expansion of 230bps each in Q1 to 64.7%/23.6%, aiding PAT growth of 45% YoY to Rs 9.9bn. EBITDA margin expanded despite a 27% YoY increase in R&D expense to Rs 3.5bn driven by clinical trials on the differentiated portfolio as well as other developmental efforts. Management has raised FY24 margin guidance from 22% to 23%.

Maintain BUY: We raise our FY24-FY25 EBITDA estimates by 6-7% to bake in the strong Q1 print and higher guidance. We now expect Cipla to clock a healthy PAT CAGR of 22% over FY23-FY25, factoring in new launches, recovery in SAGA/API, and continued momentum in One India as the consumer health business returns to form. Our TP thus stands revised to Rs 1,250 (vs. Rs 1,170), based on an unchanged FY25E EV/EBITDA multiple of 15x – in line with 5-year average. Retain BUY for 17% upside potential.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	CIPLA IN/Rs 1,069
Market cap	US$ 10.5bn
Free float	65%
3M ADV	US$ 20.6mn
52wk high/low	Rs 1,185/Rs 852
Promoter/FPI/DII	33%/25%/24%

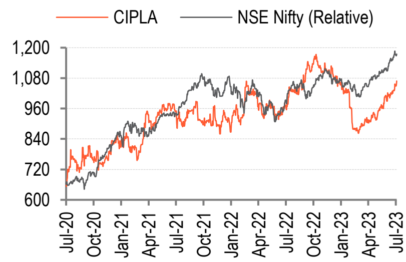
Source: NSE | Price as of 26 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	2,27,530	2,51,669	2,77,546
EBITDA (Rs mn)	50,268	56,554	64,819
Adj. net profit (Rs mn)	29,842	36,512	44,712
Adj. EPS (Rs)	37.0	45.3	55.5
Consensus EPS (Rs)	37.0	44.2	51.0
Adj. ROAE (%)	13.6	14.8	15.7
Adj. P/E (x)	28.8	23.6	19.3
EV/EBITDA (x)	16.6	14.6	12.4
Adj. EPS growth (%)	10.6	22.4	22.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 425 | 4%

ADITYA BIRLA SUN LIFE AMC | NBFC | 27 July 2023

Healthy quarter

- **QAAUM grew 5% YoY to Rs 2.9tn in Q1; market share inched up to 6.9% after a prolonged decline**
- **Net profit soared 79% YoY to Rs 1.8bn supported by core revenue growth and MTM gains**
- **TP raised to Rs 425 (vs. Rs 375) as we increase FY24/FY25 PAT 8%/6% and reset to 17x FY25E EPS (vs. 16x); maintain HOLD**

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A better Q1: ABSL AMC's QAAUM grew 5% YoY to Rs 2.9tn at end-Q1FY24 and its market share increased slightly to 6.9% (+10bps QoQ) after a prolonged decline. Equity QAAUM grew 2% YoY to Rs 1.2tn (market share down 20bps QoQ) and its share in the mix stood at 39.9% (vs. 42.1% in Q4FY23). The liquid segment was a key highlight with QAAUM increasing from Rs 501bn in Q4FY23 to Rs 571bn.

MTM gains inject buoyancy: Revenue from operations grew 2% YoY to Rs 3.1bn whereas total income swelled 42% to Rs 3.9bn boosted by MTM gains. Operating expenses increased 15% YoY as employee cost climbed 20% to Rs 774mn (including Rs 66mn in ESOP cost) due to recruitment in the alternatives business. Net profit grew 79% YoY to Rs 1.8bn.

Passive funds gaining traction: The company's passive AUM has more than doubled YoY to Rs 287bn from Rs 127bn in Q1FY23, with a 40-product suite. About 0.5mn investor folios are serviced for ETFs, FOFs and index funds. The company raised commitments of Rs 8.9bn in its India Equity Services Fund (Category-III AIF).

Retail thrust with sticky SIP book: ABSL AMC's monthly SIP book advanced 10% YoY to Rs 9.9bn, closing Q1 with a total of 3.3mn SIP accounts and AUM of Rs 575bn. Systematic investments stagnated sequentially on account of a rise in cancellations and expiries as well as operational issues related to client verification. The company added 205,000 new SIP registrations in Q1 and indicated that 91% of SIPs have a tenure of over five years and 83% have been running for over ten years, indicating long-tenured inflows.

Maintain HOLD: Buoyant Q1 net profit owing to MTM gains compels us to increase our FY24/FY25 PAT estimates by 8%/6%. ABSL AMC is currently trading at 16.3x FY25E earnings. Baking in a healthy Q1, we value the stock at a higher 17x FY25E P/E multiple (vs. 16x earlier), a 20% discount to the long-term mean, leading to a revised TP of Rs 425 (vs. Rs 375). Maintain HOLD as we await sustainable equity QAAUM growth and consistent market share gains.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ABSLAMC IN/Rs 407
Market cap	US$ 1.4bn
Free float	7%
3M ADV	US$ 0.4mn
52wk high/low	Rs 503/Rs 307
Promoter/FPI/DII	87%/2%/5%

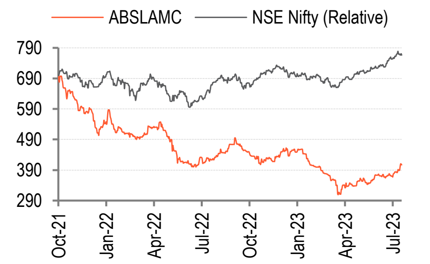
Source: NSE | Price as of 27 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	6,668	7,028	7,740
Core PBT (YoY)	(14.4)	5.4	10.1
Adj. net profit (Rs mn)	5,964	6,797	7,222
EPS (Rs)	20.7	23.5	25.0
Consensus EPS (Rs)	20.7	23.5	26.8
MCap/AAAUM (%)	4.3	4.0	3.7
ROAAAUM (bps)	21.7	23.1	22.7
ROE (%)	25.3	25.6	24.6
P/E (x)	19.7	17.3	16.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 145 | 21%

TATA STEEL | Metals & Mining | 27 July 2023

Thrust on expansion capex, Europe breakeven key positives

- **Q1 EBITDA broadly in line as standalone operations continued to clock a high EBITDA margin of Rs 14k/t**
- **Positive signals in the form of priority accorded to TSK expansion over deleveraging and guidance of FY24 breakeven in European operations**
- **Maintain BUY with an unchanged TP of Rs 145 based on 5.8x 1Y fwd EV/EBITDA**

Kirtan Mehta, CFA | Yash Thakur
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In-line Q1: TATA's recurring Q1FY24 EBITDA at Rs 53bn was 6% ahead of consensus but 1% below our forecast (excluded non-recurring gains of Rs 9bn). Standalone EBITDA margin moderated by Rs 2.6k/t QoQ but remained robust at Rs 14.1k/t.

TSK expansion prioritised over leverage targets: Despite a rise in leverage (net debt-to-TTM EBITDA) to 2.9x, above its long-term target range of 2.0-2.5x, TATA confirmed that it will put capex ahead of deleveraging. TATA is also likely to prioritise spends for TSUK resolution over leverage targets.

Q2 India margin likely to be flattish: TATA's guidance implies a flat operating margin for the India business as lower coking coal cost is likely offset by weaker steel prices. We see a possibility of modest upside from savings on in-house pellets.

Europe breakeven in FY24 also a positive signal: Despite likely high losses in H1 in European operations, TATA guides for breakeven in FY24 as TSN (Netherlands operations) likely turns positive. Historically, TSN has earned EBITDA/t of EUR 70-140/t and generated an average of EUR 200mn in annual free cash flow.

Earnings growth: We model for a 9% EBITDA CAGR over FY23-FY26 factoring in conservative ramp-up assumptions for upcoming projects (including 70% utilisation for the 5mtpa TSK expansion by FY26) and mid-cycle margins.

Key triggers: (a) Europe operations turning EBITDA-positive in H2, (b) potential resolution of UK operations' restructuring in H2, (c) start-up of the 5mtpa blast furnace at TSK (Kalinganagar) in Feb-Mar'24, (d) ramp-up of the 2.2mtpa CRM complex in FY25, and (e) finalisation of NINL expansion in FY25.

Maintain BUY: We maintain our SOTP-based TP of Rs 145, assigning the stock an unchanged blended FY26E EV/EBITDA multiple of 5.8x which values Indian operations at 6x and European operations at 4.5x, and discounting fair value back to Jul'24. We remain confident of TATA's ability to weather the downturn and deliver on earnings-accretive growth – BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TATA IN/Rs 120
Market cap	US$ 17.8bn
Free float	66%
3M ADV	US$ 45.4mn
52wk high/low	Rs 124/Rs 95
Promoter/FPI/DII	34%/21%/21%

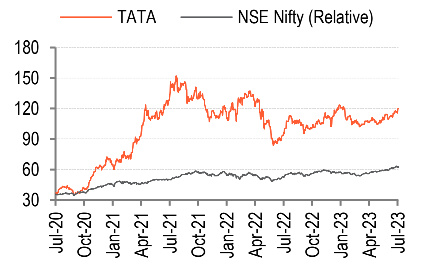
Source: NSE | Price as of 27 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	2,416	2,145	2,199
EBITDA (Rs mn)	323	307	375
Adj. net profit (Rs mn)	88	113	164
Adj. EPS (Rs)	7.2	9.3	13.4
Consensus EPS (Rs)	7.2	9.6	13.2
Adj. ROAE (%)	8.1	10.6	14.1
Adj. P/E (x)	16.7	12.9	8.9
EV/EBITDA (x)	6.5	6.7	5.7
Adj. EPS growth (%)	(78.4)	29.2	44.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 1,130 | ∀ 1%

TECH MAHINDRA | Technology & Internet | 27 July 2023

Toughest quarter in recent times

- **CME a drag (-9% QoQ) in Q1 mainly due to lower network service and discretionary spends together with deal deferrals**
- **Enterprise business steady (-0.3% QoQ) but no growth lever visible in the near term**
- **Maintain HOLD with a TP of Rs 1,130, set at 12.2x FY25E EPS**

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All-round miss; CME stumbles: TECHM reported the slowest Q1FY24 amongst peers, marked by a revenue decline of 4.2% QoQ CC (-0.9% YoY CC) to US$ 1.6bn as the communications, media & entertainment (CME) vertical weakened sharply (-9.4%/-8.2% QoQ/YoY to US$ 605mn). Enterprise services revenue was flattish (-0.3% QoQ) while the manufacturing vertical led growth at 2% QoQ, supported by the auto, aerospace and industrial segments. Management attributed the Q1 revenue slowdown to the adverse external climate, client discretionary spending cuts, higher telecom exposure, client-specific ramp-downs and seasonality at Comviva.

Near-term deal headwinds to continue: Net new deal TCV stood at US$ 359mn, down 39% QoQ (-50% YoY) in Q1 which will impact near-term growth. Europe/RoW witnessed material declines of 6.7%/8.2% QoQ in deal TCV and America was flat (-0.5%). Management expects the deal environment to remain tepid over the next couple of quarters.

One-off EBIT margin impact: Operating margin contracted 438bps QoQ to 6.8% on the back of provisions created toward bankruptcy filed by one client (-200bps margin impact), lower operating leverage due to softer revenue, wage hike impact (-130bps) and cyclicality at Comviva (-50bps). We expect margins to pick up led by better utilisation (+400bps YoY to 87% in Q1FY24) and lower subcontracting expense (-230bps), both areas where management sees headroom for further improvement.

Maintain HOLD: The stock is trading at 14.7x/12.3x FY24E/FY25E EPS. Despite a dull Q1, we believe that 5G rollout will spearhead growth in the communications vertical once the new spending cycle kicks in. Given a subdued revenue and margin outlook for the next 2-3 quarters, we maintain our target P/E at 12.2x FY25E EPS (~20% discount to WPRO), translating to an unchanged TP of Rs 1,130, and retain our HOLD rating.

Key changes

Target	Rating
◄►	◄►

Ticker/Price	TECHM IN/Rs 1,143
Market cap	US$ 12.1bn
Free float	64%
3M ADV	US$ 34.0mn
52wk high/low	Rs 1,271/Rs 981
Promoter/FPI/DII	36%/39%/25%

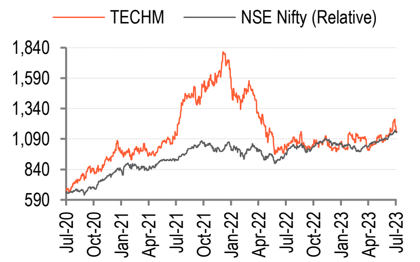
Source: NSE | Price as of 26 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	5,37,442	6,07,222	6,79,583
EBITDA (Rs mn)	82,605	99,771	1,18,617
Adj. net profit (Rs mn)	53,171	68,487	81,638
Adj. EPS (Rs)	60.5	77.9	92.8
Consensus EPS (Rs)	60.5	80.9	93.6
Adj. ROAE (%)	18.4	21.4	22.7
Adj. P/E (x)	18.9	14.7	12.3
EV/EBITDA (x)	11.8	9.6	7.9
Adj. EPS growth (%)	(5.4)	28.8	19.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 994 | ⮝ 17%

TATA CONSUMER PRODUCTS | Consumer Staples | 27 July 2023

Momentum continues; outlook positive

- **Improved demand in core markets led to robust 16% YoY uptick in India business; rural recovery visible but still below pre-Covid levels**
- **Growth businesses (Sampann, Soulfull, NourishCo) continue to fire on all cylinders, climbing 58% YoY**
- **Expect key verticals to support a healthy 19% PAT CAGR over FY22-FY25; maintain BUY with an unchanged TP of Rs 994**

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Momentum continues: TCPL maintained its upward trajectory and registered strong revenue growth of 12.5% YoY (11% CC) to Rs 37bn in Q1FY24, in keeping with our expectations. India business grew 16% YoY, while international business was up by 3% CC and non-branded business by 5% CC. EBITDA increased 19% YoY with margin expansion of 82bps (+43bps QoQ) to 14.6%. Adj. PAT grew at a healthy 15% YoY to Rs 3.2bn accompanied by 20bps margin improvement (+100bps QoQ).

Growth businesses robust: Tata Sampann, Tata Soulful and NourishCo collectively grew 58% YoY in Q1FY24, forming 20% of India business compared to 15% in Q1FY23. Sampann soared 51% YoY on a soft base, Soulfull continued its growth trajectory led by distribution gains and innovation, and NourishCo grew 60% to Rs 2.9bn in revenue despite adverse weather conditions during the quarter.

Strong performance in international business: The international beverages business grew 7% YoY (3% CC) on the back of a strong performance and market share gains in Tetley, Good Earth and Teapigs in the UK. Revenue from UK business grew 6% YoY while that from Canada declined 7% due to softness in tea sales and US revenue fell 5% amid price increases and a continued slowdown in coffee sales.

Starbucks expansion drive: Tata Starbucks' revenue rose 21% YoY during the quarter and the JV stayed EBIT-positive. Store expansion remained in focus with net additions at 16 in Q1, taking the total count to 348 stores across 46 cities.

Maintain BUY, TP Rs 994: We expect growth momentum to continue given continued TCPL's thrust on innovation, premiumisation, network expansion in rural and semiurban markets, and digitisation. We continue to model for a revenue/ EBITDA/PAT CAGR of 11.6%/14.8%/19.3% over FY22-FY25 and maintain BUY for an unchanged SOTP-based TP of Rs 994.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TATACONS IN/Rs 850
Market cap	US$ 9.6bn
Free float	64%
3M ADV	US$ 14.6mn
52wk high/low	Rs 884/Rs 687
Promoter/FPI/DII	34%/25%/41%

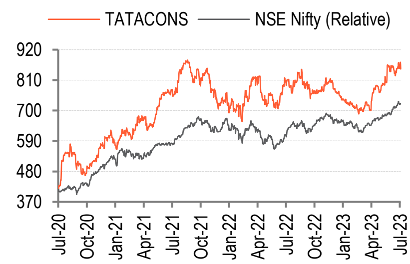
Source: NSE | Price as of 27 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,37,832	1,54,545	1,73,125
EBITDA (Rs mn)	18,565	23,343	26,024
Adj. net profit (Rs mn)	10,443	14,968	16,781
Adj. EPS (Rs)	11.3	16.1	18.1
Consensus EPS (Rs)	11.3	16.0	18.7
Adj. ROAE (%)	5.2	8.4	8.9
Adj. P/E (x)	75.4	52.8	47.1
EV/EBITDA (x)	42.5	33.8	30.3
Adj. EPS growth (%)	28.2	23.7	12.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Note: Recommendation structure changed with effect from 21 June 2021

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