

## FIRST LIGHT

30 May 2023

### RESEARCH

#### LIC | TARGET: Rs 775 | +28% | BUY

Focused on profitable products

#### SAIL | TARGET: Rs 90 | +7% | HOLD

Production gains momentum, higher debt a concern

#### MPHASIS | TARGET: Rs 2,541 | +29% | BUY

Dull quarter; sequential recovery guided from Q2

#### TATA CONSUMER PRODUCTS | TARGET: Rs 924 | +17% | BUY

Annual report analysis: On a strong wicket

#### Daily macro indicators

Ticker	25-May	26-May	Chg (%)
US 10Y yield (%)	3.82	3.80	(2bps)
India 10Y yield (%)	7.01	7.01	0bps
USD/INR	82.74	82.57	0.2
Brent Crude (US\$/bbl)	76.3	77.0	0.9
Dow	32,765	33,093	1.0
Hang Seng	19,116	18,747	(1.9)
Sensex	61,873	62,502	1.0
India FII (US\$ mn)	24-May	25-May	Chg (\$ mn)
FII-D	34.5	138.6	104.1
FII-E	181.1	303.5	122.5

Source: Bank of Baroda Economics Research

### SUMMARY

#### LIC

- APE grew 12.5% YoY in FY23 led by strong 36% growth in non-par products; non-par constituted 8.9% of APE vs. 7.1% in FY22
- VNB margin expanded 110bps to 16.2% in FY23 (17% est.); we expect 17%/18% margins for FY24/FY25
- We pare FY24/FY25 EV estimates 3% each and move to a new TP of Rs 775 (vs. Rs 800); maintain BUY

[Click here for the full report.](#)

#### SAIL

- Buildup of production momentum in Q4 but slower pickup in profitability on higher employee costs
- Increased risk of a stretched balance sheet through the next wave of expansion over FY24-FY31
- TP lowered to Rs 90 (vs. Rs 95) as our higher target EV/EBITDA (4.5x vs. 4x) is offset by higher debt assumptions; maintain HOLD

[Click here for the full report.](#)

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**MPHASIS**

- Weak Q4 revenue print (-4.1% QoQ); DR and DXC remained a drag on growth
- Growth in direct business likely to be back-ended with strong sequential uptick from Q2FY24
- Current deal TCV can support US\$ 120mn+ incremental revenue over FY23-FY25E; we assume coverage with BUY and a TP of Rs 2,541

[Click here](#) for the full report.

**TATA CONSUMER PRODUCTS**

- Strong FY23 performance with revenue/PAT up 11%/29%, underpinned by innovation, premiumisation and distribution
- 34 new products launched in FY23 vs. 19 in FY22, with doubling of direct reach to 1.5mn outlets
- Expect a robust revenue/PAT CAGR of 12%/19% over FY22-FY25; maintain BUY with an unchanged TP of Rs 924

[Click here](#) for the full report.

**BUY**

TP: Rs 775 | ▲ 28%

LIC

| Insurance

| 29 May 2023

## Focused on profitable products

- APE grew 12.5% YoY in FY23 led by strong 36% growth in non-par products; non-par constituted 8.9% of APE vs. 7.1% in FY22
- VNB margin expanded 110bps to 16.2% in FY23 (17% est.); we expect 17%/18% margins for FY24/FY25
- We pare FY24/FY25 EV estimates 3% each and move to a new TP of Rs 775 (vs. Rs 800); maintain BUY

**Mohit Mangal**

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**Reasonable growth, focus on profitable products:** FY23 APE grew 12.5% YoY to Rs 567bn (Rs 604bn est.), with the individual/group segments growing 9%/22%. Within the individual segment, par business grew 7% YoY and non-par 36%, with the latter rising to 8.9% of APE from 7.1% in FY22. Growth in the non-par segment was backed by LIC's focus on profitable products (guaranteed, protection and annuity), as visible from eight launches in these categories in FY23. Persistency for the 61<sup>st</sup> month cohort stood at an industry-high. We trim our FY24/FY25 APE estimates by ~3% each to bake in the below-expected FY23 print.

**VNB margin expands:** With the share of non-par business improving in the product mix, the VNB margin also expanded from 15.1% in FY22 to 16.2% in FY23 driven by a positive economic variance (1.8%) and change in assumptions (0.2%). There was a 0.9% negative impact because of benefit revision in annuity products, causing the VNB margin to come in below our 17% estimate. We thus trim our FY24/FY25 margin estimates by 100bps each to 17%/18%.

**Agents dominate the distribution channel:** LIC's moat is its strong agency network (1.35mn) which commands 51% market share and contributed 96% of individual NBP at end-FY23. Given a focus on non-par and annuity products, the company is specially training agents to sell these types of products. The bancassurance and alternate channels grew 26% YoY in FY23 to Rs 20bn. LIC intends to add new banking partners but reiterated that it intends to leverage the existing partnerships to grow premiums.

**Maintain BUY:** The stock is currently trading at 0.5x FY25E EV, a 70% discount to private listed peers which appears unwarranted. We remain positive and value LIC at an unchanged 0.7x FY25E EV, a narrower 65% discount to peers. Following estimate revision, we have a revised TP of Rs 775 (vs. Rs 800), which offers 28% upside – maintain BUY given the company's entrenched brand equity, clear market leadership, superior agency force, improving margin profile and robust claim settlement ratio (see our [initiation report](#) of 6 Apr 2023 for details).

## Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	LICI IN/Rs 604
Market cap	US\$ 46.5bn
Free float	4%
3M ADV	US\$ 9.0mn
52wk high/low	Rs 841/Rs 530
Promoter/FPI/DII	97%/0%/1%

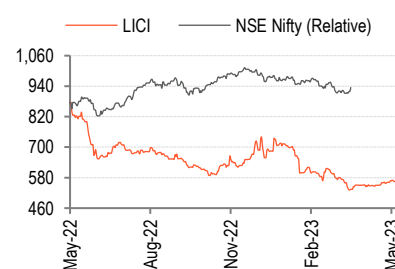
Source: NSE | Price as of 26 May 2023

## Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
NBP (Rs mn)	23,20,506	27,41,608	31,96,750
APE (Rs mn)	5,83,860	6,57,633	7,37,660
VNB (Rs mn)	91,560	1,11,798	1,32,779
Embedded Value (Rs)	58,22,440	63,81,059	69,95,863
VNB margin (%)	16.2	17.0	18.0
EVPS (Rs)	920.5	1,008.9	1,106.2
EPS (Rs)	57.6	68.0	75.8
Consensus EPS (Rs)	57.6	65.0	75.0
P/EV (x)	0.7	0.6	0.5

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

## Stock performance



Source: NSE



**HOLD**

TP: Rs 90 | ▲ 7%

**SAIL**

| Metals & Mining

| 29 May 2023

## Production gains momentum, higher debt a concern

- Buildup of production momentum in Q4 but slower pickup in profitability on higher employee costs
- Increased risk of a stretched balance sheet through the next wave of expansion over FY24-FY31
- TP lowered to Rs 90 (vs. Rs 95) as our higher target EV/EBITDA (4.5x vs. 4x) is offset by higher debt assumptions; maintain HOLD

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**Q4 production momentum builds, debt a concern:** SAIL's Q4FY23 production/sales at 5mt/4.7mt grew 5%/13% QoQ. However, EBITDA was 13% below consensus with a slower pickup in EBITDA/t due to employee costs. Gross debt more than doubled in FY23 to Rs 308bn and poses a concern ahead of the next expansion wave.

**FY24 to benefit from better operational momentum...:** We currently model for 65% YoY growth in FY24 EBITDA as we factor in a 12% YoY increase in sale volumes (vs. 15% guided) and improvement in EBITDA/t to Rs 7.3k (from Rs 5.0k) in FY24 on the back of improved utilisation of existing operations.

**...but legacy issues to weigh on further pickup:** We believe profitability will remain constrained by the presence of legacy blast furnaces that account for nearly half of production and earn US\$ 80-90/t lower EBITDA margins than new furnaces. We also expect improvement in employee cost per tonne to remain sluggish as SAIL's annual manpower reduction by 3,000-4,000 staff is being partly negated by cost inflation. We currently model for EBITDA/t of Rs 7.3k/Rs 7.6k for FY25/FY26.

**Likely to lag peers in next growth phase:** SAIL plans to add 3mt of capacity via debottlenecking over the next 3-4 years and deliver 13mt by way of staggered brownfield expansion over FY24-FY31. We believe the company will deliver a slower growth trajectory than peers who have put into motion capex over FY24-FY26.

**Higher risk of stretched balance sheet for next expansion wave:** We expect SAIL to begin the expansion drive at a net debt-to-EBITDA ratio of 1.5x if it succeeds in starting over FY25. With limited scope for operational improvement in the existing setup and the peak of capex planned over FY28-FY29, we see increased risk of a stretched balance sheet during the next capex wave.

**Maintain HOLD:** We lower our TP to Rs 90 (vs. Rs 95) as higher net debt assumptions more than offset the benefit of an increase in target FY25E EV/EBITDA multiple to 4.5x (vs. 4x) on improved operational momentum. Retain HOLD as we expect SAIL to lag peers in the next growth phase and face higher balance sheet risk.

## Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SAIL IN/Rs 84
Market cap	US\$ 4.2bn
Free float	35%
3M ADV	US\$ 13.1mn
52wk high/low	Rs 94/Rs 64
Promoter/FPI/DII	65%/5%/13%

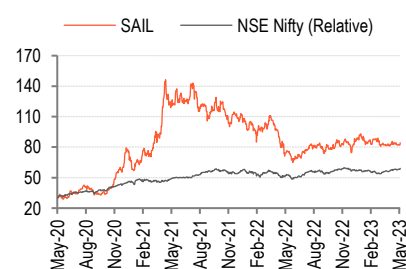
Source: NSE | Price as of 29 May 2023

## Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,044	1,054	993
EBITDA (Rs mn)	80	132	134
Adj. net profit (Rs mn)	22	56	57
Adj. EPS (Rs)	5.3	13.5	13.7
Consensus EPS (Rs)	5.3	10.3	10.9
Adj. ROAE (%)	4.0	9.9	9.4
Adj. P/E (x)	16.0	6.2	6.1
EV/EBITDA (x)	7.7	4.4	4.6
Adj. EPS growth (%)	(82.2)	157.0	1.5

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

## Stock performance



Source: NSE



**BUY****TP: Rs 2,541 | ▲ 29%****MPHASIS**

Technology &amp; Internet

29 May 2023

**Dull quarter; sequential recovery guided from Q2**

- **Weak Q4 revenue print (-4.1% QoQ); DR and DXC remained a drag on growth**
- **Growth in direct business likely to be back-ended with strong sequential uptick from Q2FY24**
- **Current deal TCV can support US\$ 120mn+ incremental revenue over FY23-FY25E; we assume coverage with BUY and a TP of Rs 2,541**

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**Q4 weak:** MPHL reported a dollar revenue decline of 4.1% QoQ (4.5% QoQ CC) in Q4FY23, much below consensus estimates of a 0.3% QoQ dip. Growth was adversely impacted by a 3.4% QoQ CC decline in direct international business (owing to a 26% QoQ drop in Digital Risk – DR). DXC, which forms 3.8% of revenue, fell 25% QoQ CC following some stability in the last two quarters.

**Mortgage business to stabilise in Q2:** MPHL has historically gained market share from peers (especially in BFSI), but management expects tighter spends and lower conversions to limit share gains and increase the ask-rate for bookings (which was lower in Q4 adjusted for large deals). That said, mortgage business represented by DR still forms 7% of MPHL's revenue and has largely bottomed out, per management.

**Portfolio diversification via non-BFSI deal pipeline:** Net new deal TCV of direct international business stood at US\$ 309mn (including a US\$ 150mn deal in BFSI) in Q4, taking the FY23 bookings to US\$ 1.3bn (-8% YoY). The pipeline is up 9% QoQ and 35% YoY, but pipeline to TCV conversion is slowing due to delayed decision-making. TCV to revenue conversion has also slowed to 0.8x vs. 0.9x in Q4FY22.

**Margin to stay range-bound in FY24:** EBIT margin was flat sequentially at 15.3% as the impact of lower revenue was mitigated by higher offshore utilisation and fresher deployment. MPHL expects the softness in BFS to continue in Q1FY24 and is guiding for margins within a range of 15.25-16.25% for all the quarters of FY24, led by a focus on pyramid optimisation, better utilisation and offshore leverage. Offshore utilisation including trainees is at 75% vs. the previous peak of 83-84%.

**BUY, TP Rs 2,541:** The stock is currently trading at 20.6x/17.3x FY24E/FY25E EPS. We expect MPHL to perform well led by (i) DR and DXC combined run rate (US\$ 173mn on annualised run-rate in Q4), and (ii) strong net new TCV at >US\$ 1bn+ (5Y average) that can support US\$ 120mn+ in incremental revenue over FY23-FY25E. We thus assume coverage on MPHL with BUY and have a TP of Rs 2,541, valuing the stock at 22.2x FY25E EPS – in line with the 3Y mean.

**Key changes**

Target	Rating
▼	▲

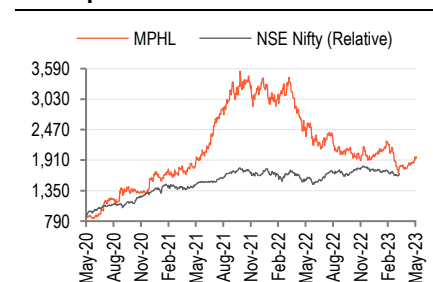
Ticker/Price	MPHL IN/Rs 1,975
Market cap	US\$ 4.5bn
Free float	40%
3M ADV	US\$ 12.5mn
52wk high/low	Rs 2,700/Rs 1,660
Promoter/FPI/DII	52%/29%/14%

Source: NSE | Price as of 26 May 2023

**Key financials**

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,37,984	1,50,662	1,76,874
EBITDA (Rs mn)	24,239	27,119	31,838
Adj. net profit (Rs mn)	16,297	17,878	21,384
Adj. EPS (Rs)	87.2	95.7	114.4
Consensus EPS (Rs)	87.2	96.3	115.8
Adj. ROAE (%)	21.9	22.0	25.3
Adj. P/E (x)	22.6	20.6	17.3
EV/EBITDA (x)	15.3	13.6	11.5
Adj. EPS growth (%)	13.9	9.7	19.6

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

**Stock performance**

Source: NSE



**BUY**

TP: Rs 924 | ▲ 17%

**TATA CONSUMER  
PRODUCTS**

| Consumer Staples

| 29 May 2023

**Annual report analysis: On a strong wicket**

- **Strong FY23 performance with revenue/PAT up 11%/29%, underpinned by innovation, premiumisation and distribution**
- **34 new products launched in FY23 vs. 19 in FY22, with doubling of direct reach to 1.5mn outlets**
- **Expect a robust revenue/PAT CAGR of 12%/19% over FY22-FY25; maintain BUY with an unchanged TP of Rs 924**

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**Broad-based growth:** TCPL's focus on growing the core business and increasing its addressable market enabled 11% YoY growth (10% CC) in FY23. India revenue grew 10% YoY as (i) the salt business increased 25% led by price hikes and volume growth, and (ii) growth businesses soared 53% driven by expansion in distribution reach. India beverage sales declined marginally owing to price correction and weakness in some key markets. International business was up 5% YoY CC on account of price increases taken across markets. Within this, non-branded sales grew 21% CC led by higher realisations in the coffee plantation and extraction business.

**Innovation remains key catalyst for growth:** TCPL accelerated the pace of innovation during the year with a focus on health & wellness, convenience and premiumisation. The company launched 34 products in FY23 compared to 19 in FY22 and 14 in FY21, besides raising the innovation-to-sales ratio to 3.4% in FY23 from 0.8% in FY20. It entered new categories including plant-based meat, protein supplements, ready-to-eat (RTE) and ready-to-cook (RTC).

**Sustained focus on wider reach:** In FY23, the company increased its direct distribution network by 15% to 1.5mn outlets (more than double FY21 levels) and now has a total reach of 3.8mn outlets. TCPL remains focused on enhancing semiurban and rural distribution.

**Maintain BUY, TP 924:** We expect TCPL's focus on strengthening core businesses along with accelerating innovation and unlocking efficiencies to spur growth. The company intends to continue exploring new growth opportunities, both organic and inorganic. We expect TCPL to deliver a strong performance due to a sustained focus on network extension, premiumisation, market share gains, product launches and digitisation. We model for a strong revenue/EBITDA/PAT CAGR of 11.6%/14.8%/ 19.3% over FY22-FY25 due to TCPL's sustained thrust on network extension, premiumisation, market share gains, product launches and digitisation. We thus maintain BUY while retaining our SOTP-based TP of Rs 924.

**Key changes**

Target	Rating
◀ ▶	◀ ▶

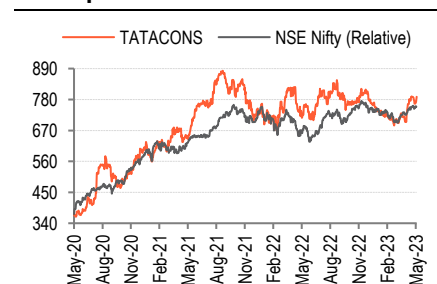
Ticker/Price	TATACONS IN/Rs 790
Market cap	US\$ 8.9bn
Free float	64%
3M ADV	US\$ 10.6mn
52wk high/low	Rs 861/Rs 687
Promoter/FPI/DII	34%/25%/41%

Source: NSE | Price as of 26 May 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	15,498	17,297
Adj. EPS (Rs)	11.3	16.7	18.6
Consensus EPS (Rs)	11.3	16.0	18.7
Adj. ROAE (%)	7.0	8.6	9.0
Adj. P/E (x)	70.0	47.3	42.4
EV/EBITDA (x)	39.5	31.4	28.2
Adj. EPS growth (%)	28.2	28.1	11.6

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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