FIRST LIGHT

31 January 2023

RESEARCH

NTPC | TARGET: Rs 210 | +26% | BUY

Another strong quarter

TECH MAHINDRA | TARGET: Rs 1,160 | +12% | HOLD

Weak performance; expect a muted FY23

INDRAPRASTHA GAS | TARGET: Rs 520 | +25% | BUY

Dull quarter; focus shifting to non-bus CNG volumes

NIPPON LIFE INDIA AMC | TARGET: Rs 347 | +47% | BUY

Healthy quarter; retain BUY

Daily macro indicators

Indicator	26-Jan	27-Jan	Chg (%)
US 10Y yield (%)	3.49	3.50	1bps
India 10Y yield (%)	7.35	7.39	4bps
USD/INR	81.59	81.52	0.1
Brent Crude (US$/bbl)	87.5	86.7	(0.9)
Dow	33,949	33,978	0.1
Hang Seng	22,567	22,689	0.5
Sensex	60,205	59,331	(1.5)
India FII (US$ mn)	**24-Jan**	**25-Jan**	**Chg ($ mn)**
FII-D	134.1	113.8	(20.3)
FII-E	(14.0)	(31.4)	(17.4)

Source: Bank of Baroda Economics Research

SUMMARY

NTPC

- Q3 revenue (+43% YoY) a beat and PAT in line; on track for 18GW capacity addition over 3Y at projected Rs 750bn capex
- Renewable energy monetisation likely by end-FY23; valuation multiple the key monitorable
- Under-recoveries targeted to halve next quarter; retain NTPC as top pick with unchanged TP of Rs 210

Click here for the full report.

TECH MAHINDRA

- Q3 revenue growth subdued at 0.2% QoQ CC, though marginally above our estimate vs street's estimate of 0.4%QoQ CC
- EBIT margin robust at 12%, a tad ahead of our forecast; net new deal wins grew 13% YoY to US$ 795mn
- Maintain HOLD and TP of Rs 1,160, set at 12.5x FY25E EPS

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INDRAPRASTHA GAS

- Q3 results weak but in line with consensus; capping of APM gas price could help restore margins and reboot structural growth
- Focused on accelerating growth from new segments and GAs given state government's move to shift to electric buses
- Maintain BUY with unchanged TP of Rs 520

Click here for the full report.

NIPPON LIFE INDIA AMC

- Market share intact at ~7% with Q3 QAAUM up 4% YoY to Rs 2.9tn; competitive edge in ETFs maintained
- MFDs contributed a bulk of distributed assets at 58%; banks/national distributors constituted 22%/20%
- Valuation compelling at 16x FY25E EPS; retain BUY with unchanged TP of Rs 347

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BUY
TP: Rs 210 | ⮝ 26%

NTPC | Power | 30 January 2023

Another strong quarter

- **Q3 revenue (+43% YoY) a beat and PAT in line; on track for 18GW capacity addition over 3Y at projected Rs 750bn capex**
- **Renewable energy monetisation likely by end-FY23; valuation multiple the key monitorable**
- **Under-recoveries targeted to halve next quarter; retain NTPC as top pick with unchanged TP of Rs 210**

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Strong results: NTPC reported robust standalone Q3FY23 revenue growth of 43% YoY to Rs 414bn (Rs 397bn including regulated income), beating our estimates, led by a 3% increase in units sold and a 1% rise in realisation. Higher revenue also included a one-time reversal of the regulatory deferral account. Standalone net profit stood at Rs 44.8bn (+8% YoY). Consolidated revenue was at Rs 446bn (+34% YoY) and net profit at Rs 48bn (+5%).

Operational performance flat: During the quarter, NTPC sold 73BU, an increase of 3% YoY. For 9MFY23, the company's PLF stood at 74.5% while the all-India average was at 63%. Coal consumption during Q3 was down 2.6% YoY to 54MT.

Lower under-recoveries: The company has brought fixed cost under-recovery down to Rs 6bn in 9MFY23 vs. Rs 6.9bn in 9MFY22, with a deeper reduction to Rs 3bn targeted in Q4FY23. We expect this to improve profitability and return ratios.

Steady growth in capacity addition: Installed capacity at the group level has increased by 3.1GW YoY and 630MW QoQ. The company indicated that it is on track to meet its previous guidance of adding 18GW of capacity over the next three years at a capex of ~Rs 750bn (12GW brownfield thermal, 4.8GW renewable and 1.2GW hydro). The company is also contemplating a foray into nuclear energy and aims to set up 4.2GW of nuclear capacity by 2035.

Maintain BUY: NTPC's strong Q3 print exceeded our revenue estimate and was in-line at the net profit level. Apart from near-term triggers, we believe the company is well placed to tap growth opportunities over the long term, mainly given its competitive, low-cost debt. NTPC remains our top pick in the utility space as the best transition play from the regulated (bulk thermal power) business to the green energy business. The stock is currently trading at 1x FY25E P/B. We maintain BUY with an unchanged SOTP-based TP of Rs 210, implying an FY25E P/B of 1.25x, based on improving ROE and transition to cleaner energy.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	NTPC IN/Rs 166
Market cap	US$ 19.8bn
Free float	49%
3M ADV	US$ 22.8mn
52wk high/low	Rs 183/Rs 124
Promoter/FPI/DII	51%/16%/33%

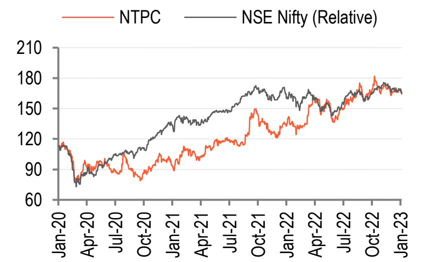
Source: NSE | Price as of 27 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	13,41,558	15,74,736	16,11,718
EBITDA (Rs mn)	4,17,660	4,56,131	4,55,618
Adj. net profit (Rs mn)	1,66,759	1,75,963	1,79,983
Adj. EPS (Rs)	17.2	18.1	18.6
Consensus EPS (Rs)	17.2	18.7	19.1
Adj. ROAE (%)	12.3	12.2	11.8
Adj. P/E (x)	9.7	9.2	9.0
EV/EBITDA (x)	8.6	8.0	8.4
Adj. EPS growth (%)	14.2	5.5	2.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 1,160 | ⮝ 12%

TECH MAHINDRA | Technology & Internet | 30 January 2023

Weak performance; expect a muted FY23

- **Q3 revenue growth subdued at 0.2% QoQ CC, though marginally above our estimate vs street's estimate of 0.4%QoQ CC**
- **EBIT margin robust at 12%, a tad ahead of our forecast; net new deal wins grew 13% YoY to US$ 795mn**
- **Maintain HOLD and TP of Rs 1,160, set at 12.5x FY25E EPS**

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Communication, technology and retail businesses aid growth: TECHM's Q3FY23 dollar revenue grew 1.8% QoQ (0.2% QoQ CC) to US$ 1.7bn. Rupee revenue grew 4.6% QoQ to Rs 137.3bn, driven by the communication (+1.9%), technology (3.3%) and retail (6%) businesses. Exposure to engineering, research & development (ER&D), customer experience (CX) and network services is dampening the performance as large spends in these areas are discretionary in nature and adversely impacted in a recessionary climate.

Delayed decision-making leads to weak deal TCV: TECHM reported net new deal TCV at US$ 795mn in Q3 (13%/11% YoY/QoQ), its eighth consecutive quarter of wins above US$ 700mn. Management indicated that it is closely monitoring existing as well as new accounts for weakness. The IT services headcount declined by ~7k QoQ, which indicates a probable muted H2FY23 due to (1) low exposure to relatively resilient geographies, (2) macro headwinds combined with furloughs spilling over to January, (3) further rationalization of low-margin business, (4) account-specific volatility, and (5) restructuring of a couple of large clients in Europe.

Margins to improve in Q4: With incremental pressure from low operating leverage in H2, TECHM indicated that it is unlikely to meet its operating margin guidance of 14% in FY23. The company reported a margin of 12% in Q3, aided by discontinuation of low-margin business, divestment of non-strategic assets, synergy with the newer acquisitions, tailwinds from forex, and operational efficiencies such as higher utilization and lower subcontracting expenses We believe that portfolio rationalization will continue in H2FY23 and provide margin tailwinds but impact revenue in the near term.

Maintain HOLD: The stock is trading at 13.3x/11.2x FY24E/FY25E EPS. Growth hinges on positive pipeline commentary, improvement in the services portfolio (design, engineering and consulting), acquisition synergies, 5G-related spend, and deals in media & entertainment. Given the subdued revenue and margin outlook, we retain HOLD and continue to value the stock at 12.5x FY25E EPS – ~20% discount to WPRO given the overhang from sluggish 5G rollout – for an unchanged TP of Rs 1,160.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TECHM IN/Rs 1,036
Market cap	US$ 11.1bn
Free float	64%
3M ADV	US$ 28.7mn
52wk high/low	Rs 1,575/Rs 944
Promoter/FPI/DII	36%/39%/25%

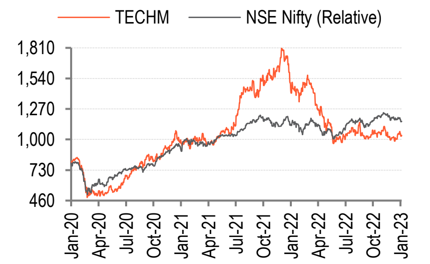
Source: NSE | Price as of 30 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	4,46,460	5,37,442	6,07,222
EBITDA (Rs mn)	80,201	82,605	99,771
Adj. net profit (Rs mn)	55,662	53,171	68,487
Adj. EPS (Rs)	63.9	60.5	77.9
Consensus EPS (Rs)	63.9	71.6	80.9
Adj. ROAE (%)	21.2	18.4	21.4
Adj. P/E (x)	16.2	17.1	13.3
EV/EBITDA (x)	11.2	10.7	8.6
Adj. EPS growth (%)	26.9	(5.4)	28.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BUY
TP: Rs 520 | ⮝ 25%

INDRAPRASTHA GAS | Oil & Gas | 30 January 2023

Dull quarter; focus shifting to non-bus CNG volumes

- **Q3 results weak but in line with consensus; capping of APM gas price could help restore margins and reboot structural growth**
- **Focused on accelerating growth from new segments and GAs given state government's move to shift to electric buses**
- **Maintain BUY with unchanged TP of Rs 520**

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Q3 weak but in line with consensus: IGL's Q3FY23 EBITDA declined 19% QoQ to Rs 4.3bn with a reduction in EBITDA margin to Rs 5.7/scm from Rs 7.1/scm in Q2.

Growth triggers: We believe a key stock trigger for IGL would be the delivery of double-digit volume growth over the medium term. The company is looking to ramp up from 8mmscmd in 9MFY23 to 9mmscmd in FY24 and 10mmscmd in FY25. A ban on polluting fuels in the National Capital Region (NCR) is driving new industrial and commercial connections, and could underpin growth in FY24. IGL is completing the Ajmer-Kanpur steel pipeline over the next few months, which should help accelerate growth in new geographical areas (GA). It is also expediting infrastructure development in new GAs with Rs 13bn-16bn in annual capex planned over the next five years.

Focusing on alternate volumes to offset loss in bus segment: Cognizant of the potential loss of volumes from the Delhi Transport bus segment (DTC: 9-10% of current volumes) over the medium term, IGL is working to open up new segments. Initiatives include long-haul buses to Dehradun, Jaipur, Haryana and Uttar Pradesh, along with conversion of dumpers, other heavy vehicles and tractors to CNG. More importantly, it is accelerating development of new GAs, which currently form ~14% of volumes.

Implementation of Parikh Committee recommendations: Media reports suggest that the oil ministry has accepted the Parikh Committee's pricing proposal on administered (APM) gas and has initiated consultations with other ministries ahead of a cabinet committee note. IGL's management sees the possibility of implementation by mid-Mar'23, which could restore competitiveness of natural gas against liquid fuel and, in turn, normalise margins and support structural growth.

Reiterate BUY: We tweak our estimates to incorporate the Q3 results but maintain our DCF-based TP of Rs 520, which assumes an 11% cost of equity, ~8% volume CAGR and Rs 7.6/scm average EBITDA margin over FY22-FY33, with terminal growth of 4%. Our TP implies an FY24E P/E of 20x, broadly in line with the 5Y mean forward multiple.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	IGL IN/Rs 416
Market cap	US$ 3.6bn
Free float	55%
3M ADV	US$ 9.3mn
52wk high/low	Rs 452/Rs 321
Promoter/FPI/DII	45%/22%/20%

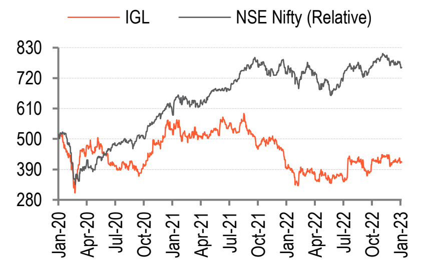
Source: NSE | Price as of 30 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	77,100	140,309	145,190
EBITDA (Rs mn)	18,811	20,621	24,150
Adj. net profit (Rs mn)	15,023	16,187	18,199
Adj. EPS (Rs)	21.5	23.1	26.0
Consensus EPS (Rs)	21.5	21.9	24.6
Adj. ROAE (%)	21.6	19.8	19.2
Adj. P/E (x)	19.4	18.0	16.0
EV/EBITDA (x)	14.6	13.5	11.5
Adj. EPS growth (%)	28.1	7.8	12.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BUY

TP: Rs 347 | ⮝ 47%

NIPPON LIFE INDIA AMC | NBFC | 30 January 2023

Healthy quarter; retain BUY

- **Market share intact at ~7% with Q3 QAAUM up 4% YoY to Rs 2.9tn; competitive edge in ETFs maintained**
- **MFDs contributed a bulk of distributed assets at 58%; banks/national distributors constituted 22%/20%**
- **Valuation compelling at 16x FY25E EPS; retain BUY with unchanged TP of Rs 347**

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Core fundamentals intact: Nippon AMC maintained its No. 4 position in the AMC industry with QAAUM of Rs 2.9tn (+4% YoY) at end-Q3FY23 and a stable market share of ~7%. Although equity QAAUM market share remained soft, management was confident of improvement based on top-quartile scheme performance, higher incremental flows and slower redemptions over the last 12 months. About 30% of MAAUM was generated from retail customers vs. 25% for the industry, pointing to a strong retail thrust. The SIP quarterly book grew 45% YoY to Rs 29.1bn with high stickiness as 14% of folios have continued for over five years vs. 11% for the industry.

Competitive advantage in ETFs: The company is a leader in the ETF industry with 69%/61% volume/folio share on both exchanges (NSE, BSE) at end Dec'22. ETFs within its QAAUM swelled from 6% (Rs 125bn) at end-FY17 to 23% (Rs 683bn) at end-Q3FY23 backed by a comprehensive product suite.

Yields firm up: The overall yield (calc.) was flat YoY at ~48bps (+1bps QoQ) as (a) the share of equity in QAAUM increased YoY from 42.8% to 44.5%, (b) a higher contribution from B30 cities boosted equity yields, (c) there were no NFOs in Q3 (a drag on yields), and (d) debt and ETF schemes earned higher realisations.

MF distributors continue to contribute lion's share of assets: Mutual fund distributors (MFD) contributed a lion's share of distributed assets at 58% in Q3; banks/national distributors constituted 22%/20%. The company's distribution network remains robust with 74 banks, 91 national distributors, 78 alternate channels (incl. state-owned banks) and 88,800+ MFDs (1,900 added in Q3).

Maintain BUY: Nippon AMC is currently trading at an attractive valuation of 16x FY25E EPS. We value the stock at an unchanged 24x FY25E EPS, 1SD below the long-term mean, to arrive at a TP of Rs 347. We like the company for its competitive advantage in ETFs, stable market share, high retail focus, diversified distribution network and sustained high dividend payout (for details, see our recent initiation report) – maintain BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	NAM IN/Rs 235
Market cap	US$ 1.8bn
Free float	12%
3M ADV	US$ 1.2mn
52wk high/low	Rs 357/Rs 233
Promoter/FPI/DII	74%/6%/9%

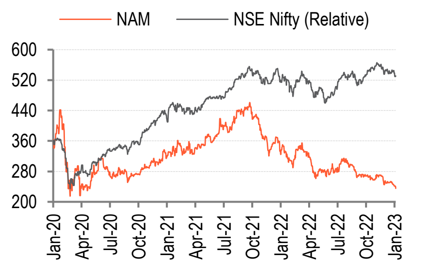
Source: NSE | Price as of 30 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Core PBT (Rs mn)	7,597	7,528	8,249
Core PBT (YoY)	46.1	(0.9)	9.6
Adj. net profit (Rs mn)	7,434	7,259	8,177
EPS (Rs)	11.8	11.6	13.0
Consensus EPS (Rs)	11.8	11.6	13.6
MCap/AAAUM (%)	5.2	4.8	4.4
ROAAAUM (bps)	26.2	23.5	24.1
ROE (%)	22.6	20.7	22.5
P/E (x)	19.9	20.4	18.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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