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FIRST LIGHT

31 July 2023

RESEARCH

BOB ECONOMICS RESEARCH | CURRENCY OUTLOOK

INR likely to remain range-bound

BOB ECONOMICS RESEARCH | FISCAL UPDATE

Trends in state fiscal deficits

SBI CARD | TARGET: Rs 1,011 | +18% | BUY

Higher provisions dent net profit

ASHOK LEYLAND | TARGET: Rs 210 | +17% | BUY

Healthy growth trajectory; maintain BUY

INDRAPRASTHA GAS | TARGET: Rs 550 | +19% | BUY

Volume outlook soft near-term but healthy medium-term

NIPPON LIFE INDIA AMC | TARGET: Rs 365 | +15% | BUY

On a firm footing

AJANTA PHARMA | TARGET: Rs 1,860 | +15% | BUY

Q1 beat sparked by sharp margin recovery

NESTLE INDIA | TARGET: Rs 26,430 | +18% | BUY

Healthy growth backed by market penetration

Daily macro indicators

Ticker	26-Jul	27-Jul	Chg (%)
US 10Y yield (%)	3.87	4.00	13bps
India 10Y yield (%)	7.10	7.12	2bps
USD/INR	82.00	81.94	0.1
Brent Crude (US$/bbl)	82.9	84.2	1.6
Dow	35,520	35,283	(0.7)
Hang Seng	19,365	19,639	1.4
Sensex	66,707	66,267	(0.7)
India FII (US$ mn)	**25-Jul**	**26-Jul**	**Chg ($ mn)**
FII-D	4.8	2.6	(2.1)
FII-E	349.0	137.9	(211.0)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: CURRENCY OUTLOOK

Global growth and inflation continue to show diverging trends. While growth in major advanced economies has been under pressure, US economy continues to remain on a strong footing. This has made guessing the future course of policy action highly uncertain. While the dollar remained under pressure for most part of the month, robust macro data i.e. Q2CY23 GDP and jobless claims has once again raised the possibility of more rate hikes. In response, DXY has rallied which is weighing on INR. We expect INR to trade in the range of 82/$-83/$ in the next fortnight. Support is likely to come from FPI inflows and RBI intervention, while rising oil prices pose a significant risk to the trajectory.

Click here **for the full report.**

BOBCAPS Research
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INDIA ECONOMICS: FISCAL UPDATE

In order to analyse the health of state finances in FY23 and FY24, we start by looking at the trends in fiscal balance of states. Out of the 26 states analysed in this study, 12 exceeded their budgetary targets in FY23, while 14 reported consolidation. On an aggregate level, actual fiscal deficit these sample states came in at 2.9% of GSDP, unchanged from last year (FY22) and down from 3.4% projected in budgetary estimates (FY23BE).

Click here for the full report.

SBI CARD

- Q1 credit cost climbed 130bps YoY to 7.1% of loans (calc.) owing to stress from customers acquired in CY19, inducing a 5% fall in net profit
- Revolver accounts muted; NIM stable as better yields on the EMI book set off a higher cost of funds
- TP revised to Rs 1,011 (vs. Rs 1,050) as we trim FY24/FY25 PAT forecasts by 8%/4%; maintain BUY

Click here for the full report.

ASHOK LEYLAND

- Q1 revenue up 13% YoY despite weak seasonality, led by a mix of volume growth (+5%) and realisation gains (+8%)
- Gross margin up 570bps YoY to 26.4%; EBITDA margin at ~10% and guided to hold at this level
- FY24/FY25 EPS estimates raised ~4% each for a revised SOTP-based TP of Rs 210 (vs. Rs 199); maintain BUY

Click here for the full report.

INDRAPRASTHA GAS

- Q1 results benefitted from uptick in margin above long-term guidance, but volumes were soft (+4% YoY)
- Expect an 8% volume CAGR over FY23-FY26 as new GAs and CNG vehicle additions ramp up
- TP raised to Rs 550 (from Rs 520) as we roll valuations forward; we believe CNG will coexist with EVs and reiterate BUY

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NIPPON LIFE INDIA AMC

- QAAUM growth strong at 12% YoY in Q1 fuelled by 20% share of industry-wide net equity flows (ex-arbitrage and index)
- Market share inched up across categories, barring liquid schemes, with industry ranking maintained
- TP raised to Rs 365 (vs. Rs 305) as we increase FY24/FY25 PAT 15%/9% and value the stock at 24x FY25E EPS (vs. 22x); maintain BUY

Click here for the full report.

AJANTA PHARMA

- Strong Q1 beat with EBITDA/PAT of Rs 2.7bn/Rs 2.1bn coming in 17%/ 39% ahead of consensus due to margin recovery
- EBITDA margin rebounded to 26.6% (+325bps YoY) on softer API prices and reduction in logistics costs; FY24 guidance at 24-26%
- TP raised to Rs 1,860 (vs. Rs 1,520) on 7-9% higher EBITDA estimates for FY24/FY25 and a 12.5x (vs. 11x) EV/EBITDA multiple; retain BUY

Click here for the full report.

NESTLE INDIA

- Q2 revenue up 15% YoY led by strong growth across categories and geographies; margins remained healthy
- RURBAN strategy boosting the distribution footprint while e-commerce now contributes 6.5% of sales
- Increased focus on innovation and brand building; maintain BUY with unchanged TP of Rs 26,430

Click here for the full report.

CURRENCY OUTLOOK

28 July 2023

INR likely to remain range-bound

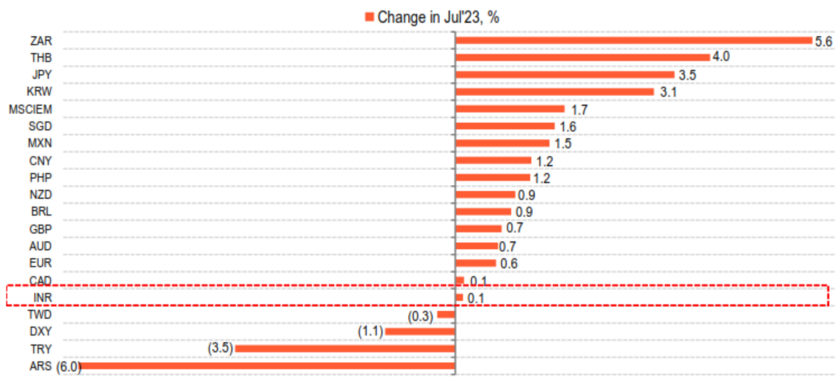
Aditi Gupta
Economist

Global growth and inflation continue to show diverging trends. While growth in major advanced economies has been under pressure, US economy continues to remain on a strong footing. This has made guessing the future course of policy action highly uncertain. While the dollar remained under pressure for most part of the month, robust macro data i.e. Q2CY23 GDP and jobless claims has once again raised the possibility of more rate hikes. In response, DXY has rallied which is weighing on INR. We expect INR to trade in the range of 82/$-83/$ in the next fortnight. Support is likely to come from FPI inflows and RBI intervention, while rising oil prices pose a significant risk to the trajectory.

Movement in global currencies in Jul'23

Barring a few exceptions, most global currencies ended higher against the dollar in Jul'23. DXY came under pressure amidst expectations that the Fed is near the end of its rate hike cycle. This was reinforced by US CPI data which showed a significant moderation in price pressures. Commentary by Fed Chair suggested that the central bank is likely to weigh incoming data before moving on rates. However, data released yesterday showed that US GDP growth was much higher than expectations and labour market remains stubbornly tight, which has swayed market expectations in favor of an additional rate hike this year, which helped the dollar recoup some of its losses in the last trading session. Even so, DXY is 1.1% lower this month, which has benefitted other currencies. EM currencies such as ZAR and THB have in particular posted solid gains.

Figure 1: Pressure on global currencies



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 27 Jul 2023| Figures in bracket denote depreciation against the dollar

JPY which remained the worst performing currency for the major part of year, reversed its course and rose by 3.5%. This was on expectations of a possible action by BoJ amidst persistently above inflation prints. With the BoJ announcing a tweak in its yield control curve (YCC), JPY has jumped even more today.

FISCAL UPDATE

28 July 2023

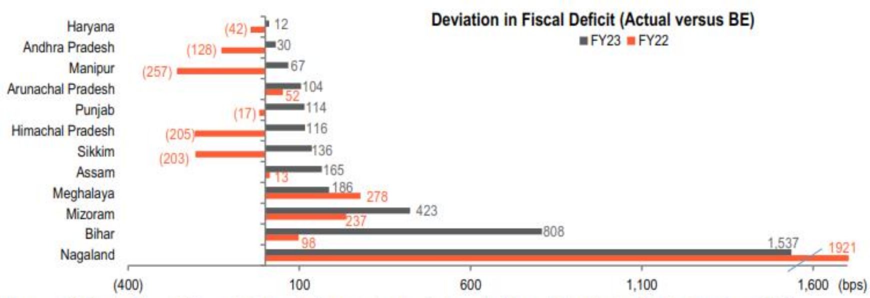
Trends in state fiscal deficits

Sonal Badhan
Economist

In order to analyse the health of state finances in FY23 and FY24, we start by looking at the trends in fiscal balance of states. Out of the 26 states analysed in this study, 12 exceeded their budgetary targets in FY23, while 14 reported consolidation. On an aggregate level, actual fiscal deficit these sample states came in at 2.9% of GSDP, unchanged from last year (FY22) and down from 3.4% projected in budgetary estimates (FY23BE).

In FY23, most significant breach was noted in case of states like Nagaland (+1537bps), Bihar (+808bps) and Mizoram (+423bps). Other states which exceeded their fiscal deficit targets by more than a percentage point, included North Eastern states (Meghalaya, Arunachal Pradesh, Assam, Sikkim), Himachal Pradesh and Punjab. Manipur, Andhra Pradesh and Haryana also exceeded their targets.

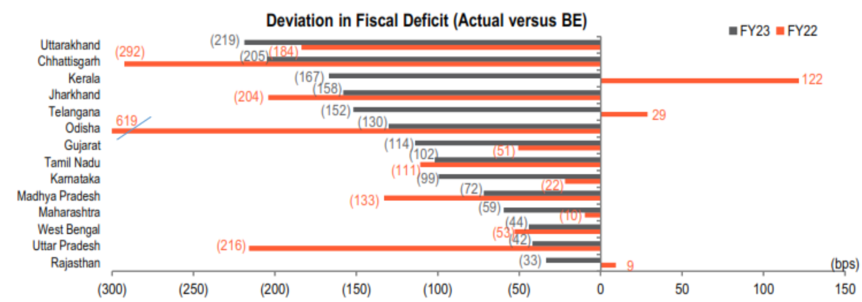
Figure 1: States which exceeded FY23 fiscal deficit ratio (BE)



Source: CEIC, Bank of Baroda Research| Note: Positive number implies breach of target, Negative implies less than target (BE)

On the other hand, states like Uttarakhand (-219bps) and Chhattisgarh (-205bps) achieved fiscal consolidation of more than two percentage points in FY23. Other states which recorded consolidation by over/near a percentage point include: Kerala (-167bps), Jharkhand, Telangana, Odisha, Gujarat, Tamil Nadu, and Karnataka (-99bps). Smaller leaps were made by Rajasthan (-33bps), UP, W. Bengal, Maharashtra and Madhya Pradesh (-72bps).

Figure 2: States which reported lower fiscal deficit ratio in FY23 versus (BE)



Source: CEIC, Bank of Baroda Research| Note: Positive number implies breach of target, Negative implies less than target (BE)

RESULT REVIEW

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BUY
TP: Rs 1,011 | ⮝ 18%

SBI CARD | NBFC | 29 July 2023

Higher provisions dent net profit

- **Q1 credit cost climbed 130bps YoY to 7.1% of loans (calc.) owing to stress from customers acquired in CY19, inducing a 5% fall in net profit**
- **Revolver accounts muted; NIM stable as better yields on the EMI book set off a higher cost of funds**
- **TP revised to Rs 1,011 (vs. Rs 1,050) as we trim FY24/FY25 PAT forecasts by 8%/4%; maintain BUY**

Mohit Mangal
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Credit cost hits profitability: SBI Card's net profit declined 5% YoY (flattish QoQ) in Q1FY24 owing to higher credit cost at Rs 7bn or 7.1% of loans (+130bps YoY, 51bps QoQ), as stress emanated from customers acquired in CY19. These accounts constitute 16% of assets and 20% of NPA (Rs 600mn or 14bps) as of Q1. The company has boosted collection efforts and reduced credit limits to guard against further defaults, guiding for lower credit cost of 5.8-6.2% for H2FY24. GNPA/NNPA were stable at 2.4%/0.9% in Q1. We now bake in credit cost of 6.3%/6.2% for FY24/FY25 (vs. 6% each earlier) and consequently prune our PAT estimates by 8%/4% to Rs 26bn/Rs 33bn.

Spends growth robust: Q1 credit card spends climbed to a peak of Rs 739bn, rising 24% YoY and 3% QoQ. Corporate spends grew 10% YoY (-4% QoQ), constituting 21% of the total. Retails spends increased 28% YoY (+5% QoQ), forming 79% share. Cards in force grew 21% YoY to 17.3mn in Q1 with 0.6mn additions.

NIM stable; cost of funds guided to rise in Q2: NIM (calc.) was stable QoQ at ~11% as the company was able to pass on a higher cost of funds to customers. Yield on the EMI book increased 120-150bps. Non-interest income (including fee income) grew 23% YoY, showcasing high customer interest. Despite its assumption of no further rate hikes by RBI, management expects the cost of funds to increase by 5-10bps in Q2 as liabilities, especially longer-term funds, get repriced upward.

Revolving credit muted: Gross receivables rose 30% YoY to Rs 433bn in Q1, of which revolver credit grew 20%, EMIs 41% and transactors 30%. Revolver share remained muted at 24%, whereas EMI customers held at 38% of receivables.

Maintain BUY: SBI Card, India's only listed credit card player, remains in a strong position to grow backed by a wide array of offerings that drive robust spends. Q1 witnessed record growth in spends and non-interest income, but higher credit cost leads us to trim our net profit forecasts. This translates to a revised TP of Rs 1,011 (vs. Rs 1,050), set at an unchanged FY25E P/E multiple of 29x, 35% below the long-term mean. We retain BUY for a potential upside of 18%.

Key changes

Target	Rating
▼	◄►

Ticker/Price	SBICARD IN/Rs 857
Market cap	US$ 9.9bn
Free float	31%
3M ADV	US$ 13.2mn
52wk high/low	Rs 1,029/Rs 696
Promoter/FPI/DII	69%/8%/17%

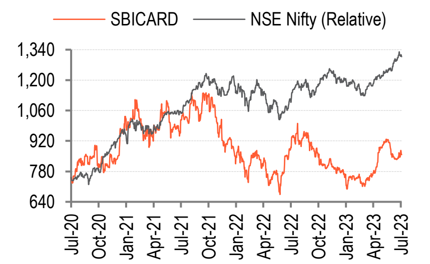
Source: NSE | Price as of 28 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income (Rs	45,053	55,743	71,840
NII growth (%)	17.4	23.7	28.9
Adj. net profit (Rs mn)	22,585	26,241	33,106
EPS (Rs)	23.8	27.6	34.8
Consensus EPS (Rs)	23.8	29.0	37.0
P/E (x)	36.0	31.0	24.6
P/BV (x)	8.3	6.7	5.4
ROA (%)	5.6	5.2	5.3
ROE (%)	25.7	23.9	24.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 210 | ⮝ 17%

ASHOK LEYLAND | Automobiles | 29 July 2023

Healthy growth trajectory; maintain BUY

- **Q1 revenue up 13% YoY despite weak seasonality, led by a mix of volume growth (+5%) and realisation gains (+8%)**
- **Gross margin up 570bps YoY to 26.4%; EBITDA margin at ~10% and guided to hold at this level**
- **FY24/FY25 EPS estimates raised ~4% each for a revised SOTP-based TP of Rs 210 (vs. Rs 199); maintain BUY**

Milind Raginwar
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Healthy topline growth: AL's Q1FY24 revenue grew 13% YoY to Rs 81.9bn in a traditionally weak quarter, contributed by volume growth of 5% to 41.3k units. Net realisation per vehicle (NRPV) grew at a strong 8% YoY to Rs 1,981k on the back of price hikes (2-4% across CVs) and a richer product mix. The company raised prices in March which bolstered realisations in Q1FY24.

Margin expansion on track: Raw material cost improved to 73.6% of net sales vs. 79.3% in Q1FY23 (75.4% in Q4FY23). Gross margin at 26.4% thus expanded 570bps YoY. Other expenses rose 9% YoY to Rs 7.9bn. EBITDA more than doubled to Rs 8.3bn from Rs 3.2bn in Q1FY23 with a 10% margin (+570bps YoY) due to better operating leverage. Management expects margins to hold at this level in FY24-25. Adj. PAT increased to Rs 4.1bn from Rs 550mn in Q1FY23.

Working capital days and leverage rise, cash generation to improve: AL's net working capital days rose by 11 days QoQ, causing net debt to increase from negative Rs 2.4bn in the year-ago quarter to Rs 14.6bn and operating working capital to rise to Rs 15.2bn. This is typical of the first quarter as demand picks up and dealer inventory is filled. Management expects the pressure to ease as demand peaks.

EV mix, pipeline and capex: AL's launch pipeline includes: (i) two Switch EV LCVs in H2FY24, (ii) an Ather bus variant, and (iii) a potential European model bus. The company will enter into pilot test programmes for EV trucks. AL infused Rs 4bn in Q1 through short-term loans and will incur another Rs 8bn of capex over FY24.

Maintain BUY: Though margins may be impacted by reversal of commodity softening trends in the short term, we now expect 150bps EBITDA margin expansion over FY23-FY25 to ~10% as we factor in AL's sustained beat over industry growth in the CV segment, continued leadership in the bus segment, new launches and entry into EVs. Export recovery will add comfort. We raise our FY24/FY25 EPS estimates by ~4% each for a revised SOTP-based TP of Rs 210 (vs. Rs 199), ascribing an unchanged 20x FY25E P/E multiple to the standalone business – in line with medium term average multiple. BUY.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	AL IN/Rs 179
Market cap	US$ 6.4bn
Free float	49%
3M ADV	US$ 24.1mn
52wk high/low	Rs 187/Rs 133
Promoter/FPI/DII	52%/17%/15%

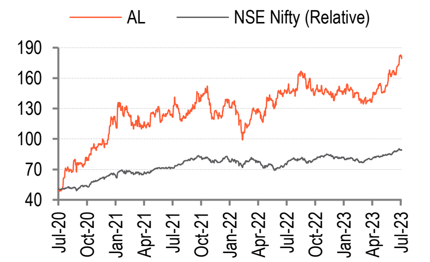
Source: NSE | Price as of 28 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	3,61,441	4,31,673	5,13,036
EBITDA (Rs mn)	29,307	40,155	49,472
Adj. net profit (Rs mn)	12,955	22,281	28,551
Adj. EPS (Rs)	4.7	7.6	9.7
Consensus EPS (Rs)	4.7	7.1	9.1
Adj. ROAE (%)	15.4	21.6	22.2
Adj. P/E (x)	38.1	23.6	18.4
EV/EBITDA (x)	18.9	13.5	10.0
Adj. EPS growth (%)	4079.0	72.0	28.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 550 | ⮝ 19%

INDRAPRASTHA GAS | Oil & Gas | 29 July 2023

Volume outlook soft near-term but healthy medium-term

- **Q1 results benefitted from uptick in margin above long-term guidance, but volumes were soft (+4% YoY)**
- **Expect an 8% volume CAGR over FY23-FY26 as new GAs and CNG vehicle additions ramp up**
- **TP raised to Rs 550 (from Rs 520) as we roll valuations forward; we believe CNG will coexist with EVs and reiterate BUY**

Kirtan Mehta, CFA | Yash Thakur
research@bobcaps.in

Q1 margin a beat but volumes soft: IGL's Q1FY24 EBITDA was 9%/5% ahead of consensus/our forecasts. EBITDA grew 38% QoQ with a Rs 2.3/scm recovery in margin to Rs 8.6/scm, though volumes declined 0.7% QoQ and grew just 4% YoY.

Soft volume growth a near-term concern…: We believe Q1 volumes were hit by a lower use in cars this summer and slowdown in CNG vehicle additions over the past 6-9 months. Further, industrial volumes fell 5% QoQ (-2% YoY) with higher competition from propane and LPG. While total volumes have now recovered to 8.3-8.35mmscmd (vs. 8.2mmscmd in Q1), heavy rains in July are likely to have some impact.

…but volumes hold promise in medium-term: Given IGL's clarification of 9mmscmd/ 10mmscmd being exit volume targets for FY24/FY25, we lower our volume growth estimates slightly by 3%/1%. We still build in a healthy 8.4% CAGR over FY23-FY26.

Volume growth drivers: Key drivers include – (a) acceleration in capex to connect new GAs (Rewari, Kanpur and Muzaffarnagar) which could add 0.2-0.3mmscmd in FY24 itself, (b) ramp-up of CNG vehicle additions to 14.4k/month in Q1FY24 from 13k in Q4FY23 with higher car sales of 7.8k in June from 5.5k in April, (c) commercial launch of the long-haul type-4 cylinder by Ashok Leyland in its 12-seater CNG vehicle, and (d) price cuts taken by IGL at Rewari to accelerate adoption and in the industrial segment to improve competitiveness over propane and LPG.

EBITDA margin healthy: While we expect the stronger EBITDA margin to sustain in H1FY24, we model for a softening in H2 to Rs 7-7.5/scm assuming price cuts in petrol and diesel. We still expect the FY24 margin to average at Rs 7.7/scm and to remain within the guided range of Rs 7.5-8.0/scm over FY24-FY26.

Reiterate BUY: Rolling valuations forward to Jul'24, we raise our DCF-based TP to Rs 550 (from Rs 520), which assumes an 11% cost of equity, ~8% volume CAGR and ~Rs 8.0/scm average EBITDA margin over FY24-FY33, with terminal growth of 4%. Our TP implies an FY24E P/E of 20x, broadly in line with the 5Y mean forward multiple. Given ~20% upside, we reiterate BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	IGL IN/Rs 462
Market cap	US$ 3.9bn
Free float	55%
3M ADV	US$ 9.1mn
52wk high/low	Rs 516/Rs 344
Promoter/FPI/DII	45%/22%/20%

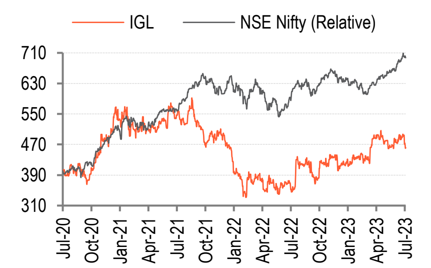
Source: NSE | Price as of 28 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,41,459	1,34,515	1,53,255
EBITDA (Rs mn)	20,398	24,338	26,828
Adj. net profit (Rs mn)	16,397	19,208	20,917
Adj. EPS (Rs)	23.4	27.4	29.9
Consensus EPS (Rs)	23.4	26.8	29.5
Adj. ROAE (%)	21.1	22.3	20.9
Adj. P/E (x)	19.7	16.8	15.5
EV/EBITDA (x)	15.2	12.5	11.0
Adj. EPS growth (%)	9.1	17.1	8.9

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

Stock performance



Source: NSE

RESULT REVIEW

BUY
TP: Rs 365 | 15%

NIPPON LIFE INDIA AMC | NBFC | 28 July 2023

On a firm footing

- **QAAUM growth strong at 12% YoY in Q1 fuelled by 20% share of industry-wide net equity flows (ex-arbitrage and index)**
- **Market share inched up across categories, barring liquid schemes, with industry ranking maintained**
- **TP raised to Rs 365 (vs. Rs 305) as we increase FY24/FY25 PAT 15%/9% and value the stock at 24x FY25E EPS (vs. 22x); maintain BUY**

Mohit Mangal
research@bobcaps.in

Strong quarter: Nippon AMC's total income grew 57% YoY (21% QoQ) to Rs 4.7bn in Q1FY24. Of this, revenue from operations increased 12% YoY to Rs 3.5bn and other income shot up to Rs 1.2bn (vs. Rs 397mn in Q4FY23 and a loss of Rs 167mn in Q1FY23) lifted by MTM gains. Consequently, PAT more than doubled YoY to Rs 2.4bn with core PAT (ex-MTM) growing 16% YoY to Rs 1.5bn.

AUM up 12% YoY: QAAUM saw robust 12% YoY growth to Rs 3.1tn with equity QAAUM increasing 20% YoY and debt flattish (but up 19% QoQ). Nippon AMC accounted for 20% of industry net equity flows (except arbitrage and index) in Q1. ETFs constituted 24% of the company's QAAUM, cementing its leadership in the category. We bake in the Q1 print by raising our FY24/FY25 AUM estimates by 5%/7% to Rs 3.4tn/3.8tn and net profit estimates by 15%/9% to Rs 8.9bn/Rs 9.5bn.

Market share stable; rank maintained: QAAUM-based market share witnessed minor gains to 7.3%. Equity market share stood at 6.3%. The debt and ETF segments clocked increases of 44bps and 12bps QoQ respectively. On MAAUM basis, the company maintained its fourth rank overall and sixth rank in equity assets.

Yields under pressure: Yield (calc.) was flattish YoY at 45bps but fell from 47bps in Q4FY23 due to (i) the mandated reduction in TER as AUM rises, (ii) lowering of yields in some debt schemes in a bid to increase volumes, and (iii) a change in AUM composition towards the low-yield ETF business.

Estimates raised; maintain BUY: The stock is currently trading at 21x FY25E EPS. Factoring in robust equity flows, rising market share and continued ETF leadership, we increase our target P/E multiple from 22x to 24x FY25E EPS – a 10% discount to mean. Together with estimate changes, this translates to a revised TP of Rs 365 (vs. Rs 305), offering 15% upside. Nippon AMC remains our top pick in the asset management space – maintain BUY. Regulatory headwinds from potential TER revision along with lower net flows for the industry could pose downside risks.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	NAM IN/Rs 317
Market cap	US$ 2.4bn
Free float	12%
3M ADV	US$ 2.8mn
52wk high/low	Rs 326/Rs 197
Promoter/FPI/DII	74%/6%/9%

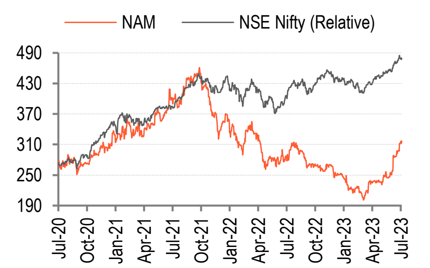
Source: NSE | Price as of 27 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	7,610	8,387	9,904
Core PBT (YoY)	0.2	10.2	18.1
Adj. net profit (Rs mn)	7,229	8,953	9,528
EPS (Rs)	11.5	14.3	15.2
Consensus EPS (Rs)	11.5	12.6	14.1
MCap/AAAUM (%)	6.8	5.9	5.2
ROAAAUM (bps)	24.7	26.7	24.8
ROE (%)	20.7	24.8	25.1
P/E (x)	27.5	22.2	20.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 1,860 | ⮝ 15%

AJANTA PHARMA | Pharmaceuticals | 28 July 2023

Q1 beat sparked by sharp margin recovery

- **Strong Q1 beat with EBITDA/PAT of Rs 2.7bn/Rs 2.1bn coming in 17%/ 39% ahead of consensus due to margin recovery**
- **EBITDA margin rebounded to 26.6% (+325bps YoY) on softer API prices and reduction in logistics costs; FY24 guidance at 24-26%**
- **TP raised to Rs 1,860 (vs. Rs 1,520) on 7-9% higher EBITDA estimates for FY24/FY25 and a 12.5x (vs. 11x) EV/EBITDA multiple; retain BUY**

Saad Shaikh
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Domestic branded formulations and US business aid revenue growth: AJP delivered a strong Q1FY24 performance with revenue up 7% YoY to Rs 10.2bn and EBITDA/PAT rising 22%/19% YoY to Rs 2.7bn/Rs 2.1bn, beating consensus by 17%/39%. India business increased 14% YoY (11% QoQ) led by market-beating growth in therapies such as cardiology (13% YoY vs. segment growth of 11%), ophthalmology (15% vs. 12%), dermatology (21% vs. 8%).

Reduced US price erosion; stabilising Euro key positives: AJP recorded healthy growth of 8% QoQ CC to US$ 26mn in the US business, with price erosion slowing from double digits to single digits. Management expects mid-single-digit growth in the US business for FY24 with the planned launch of 4-5 products. Africa business (-9% YoY) saw supply disruptions but is recovering and could also see benefits from euro appreciation against the rupee. Asia business increased just 6% YoY (+7% QoQ), but management expects growth in the mid-teens for FY24.

Margin recovery, guidance healthy: After a sub-20% EBITDA margin in Q3 and Q4 of FY23, AJP posted a rebound to 26.6% in Q1 on the back of gross margin recovery to 75.3% (+480bps YoY). This recovery was aided by softening API prices (~200bps benefit), an appreciating euro, and stabilising price erosion in the US market. EBITDA margin further benefited from a reduction in international logistics cost. Management expects an FY24 gross margin of ~75% and EBITDA margin in the range of 24-26%.

Earnings call highlights: (1) AJP plans to incur ~Rs 2bn in capex for FY24. (2) R&D is guided to hold at 6% of revenue for the fiscal year. (3) Chantix could be launched in Q4FY24 or Q1FY25.

Maintain BUY, TP raised to Rs 1,860: We increase our FY24-FY25 EBITDA estimates by considering the Q1 margin recovery and healthy guidance, in addition to a stabilising pricing environment in the US. We also raise our target FY25E EV/EBITDA multiple to 12.5x – a 15% discount to the stock's 5Y average – and accordingly move to a new TP of Rs 1,860 (from Rs 1,520). BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AJP IN/Rs 1,616
Market cap	US$ 2.5bn
Free float	31%
3M ADV	US$ 3.4mn
52wk high/low	Rs 1,735/Rs 1,112
Promoter/FPI/DII	66%/10%/15%

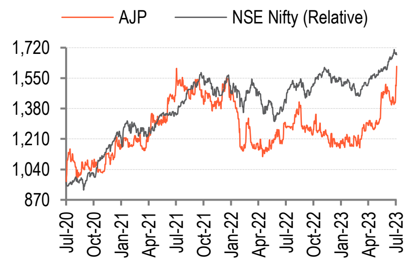
Source: NSE | Price as of 28 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	37,426	41,804	47,096
EBITDA (Rs mn)	7,832	10,390	12,223
Adj. net profit (Rs mn)	5,879	7,661	8,949
Adj. EPS (Rs)	46.5	60.6	70.8
Consensus EPS (Rs)	46.5	58.8	70.2
Adj. ROAE (%)	17.6	20.7	20.5
Adj. P/E (x)	34.7	26.6	22.8
EV/EBITDA (x)	25.8	19.4	16.4
Adj. EPS growth (%)	(43.9)	30.3	16.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 26,430 | ⮝ 18%

NESTLE INDIA

| Consumer Staples | 28 July 2023

Healthy growth backed by market penetration

- **Q2 revenue up 15% YoY led by strong growth across categories and geographies; margins remained healthy**
- **RURBAN strategy boosting the distribution footprint while e-commerce now contributes 6.5% of sales**
- **Increased focus on innovation and brand building; maintain BUY with unchanged TP of Rs 26,430**

Vikrant Kashyap
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Growth momentum continues: NEST posted healthy topline growth of 15% YoY in Q2CY23 supported by a better product mix, prudent pricing, and higher volumes. Export revenue registered strong double-digit growth. NEST has delivered double-digit growth across product segments for the fifth consecutive quarter and indicated that it has performed well across megacities, metros, tier-1-to-6 towns, and rural markets. The e-commerce channel now contributes 6.5% of sales led by quick commerce. The company continues to drive innovation and launched three new products in India.

Strong growth across portfolios: The prepared dishes and cooking aids business delivered double-digit growth driven by *Maggie* noodles. Confectionary performed well led by *Kitkat* and *Munch* which were backed by strong consumer engagement and media campaigns. The beverages segment registered robust double-digit growth on the back of *Nescafe Classic*, *Nescafe Sunrise*, and *Nescafe Gold*. The milk and nutrition portfolio posted strong double-digit growth despite inflation in *Milkmaid* and *Peptamen*.

Margins remained healthy: NEST's gross profit margin improved by 100bps QoQ and 80bps YoY to 54.8% in Q2 owing to price correction in edible oil, wheat, and packaging material, along with stability in fresh milk. Robusta coffee prices remain elevated and are expected to stay volatile. EBITDA margin at 22.7% expanded 200bps YoY but remains unchanged sequentially.

Maintain BUY: NEST continues to deliver a strong performance in a challenging economic climate supported by strong consumer engagement, new launches, and a strategy of penetration-led volume growth. We expect sustained, profitable growth underpinned by investments in innovation and premiumisation, direct reach expansion with a rural focus, and forays into newer categories. The stock is trading at 70.9x/60.4x CY23E/CY24E EPS. Given the sustained outperformance, we maintain our target P/E at 69.5x on CY24E, 18% premium to the 10Y average multiple, for an unchanged TP of Rs 26,430. BUY.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	NEST IN/Rs 22,325
Market cap	US$ 26.2bn
Free float	37%
3M ADV	US$ 18.5mn
52wk high/low	Rs 23,395/Rs 17,880
Promoter/FPI/DII	63%/12%/25%

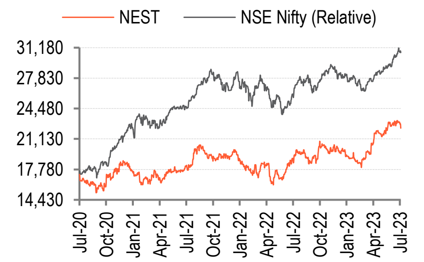
Source: NSE | Price as of 27 Jul 2023

Key financials

Y/E 31 Dec	CY22A	CY23E	CY24E
Total revenue (Rs mn)	1,68,969	1,98,192	2,25,516
EBITDA (Rs mn)	37,125	47,894	56,828
Adj. net profit (Rs mn)	23,905	31,242	36,666
Adj. EPS (Rs)	247.9	324.0	380.3
Consensus EPS (Rs)	247.9	306.6	350.9
Adj. ROAE (%)	97.2	106.4	104.8
Adj. P/E (x)	90.0	68.9	58.7
EV/EBITDA (x)	58.0	44.9	37.9
Adj. EPS growth (%)	1.5	30.7	17.4

Source: Company, Bloomberg, BOBCAPS Research

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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