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FIRST LIGHT

31 October 2022

RESEARCH

BOB ECONOMICS RESEARCH | FINANCIAL SAVINGS
Bank Deposits or Mutual Funds?

RELIANCE INDUSTRIES | TARGET: Rs 2,670 | +9% | HOLD
Windfall tax limits cyclical upside; consumer business shines

JSW STEEL | TARGET: Rs 650 | -3% | HOLD
Aggressive growth policy fuels earnings volatility

SBI CARD | TARGET: Rs 1,139 | +33% | BUY
Dull quarter on high opex and credit costs

DR REDDY'S LABS | TARGET: Rs 4,700 | +5% | HOLD
US launch of gRevlimid buoys quarter

CROMPTON GREAVES | TARGET: Rs 500 | +36% | BUY
Q2 a minor blip; expect swift recovery

V-GUARD INDUSTRIES | TARGET: Rs 250 | -1% | HOLD
Margin pressure dampens performance

Daily macro indicators

Indicator	26-Oct	27-Oct	Chg (%)
US 10Y yield (%)	4.00	3.92	(8bps)
India 10Y yield (%)	7.44	7.41	(3bps)
USD/INR	82.73	82.50	0.3
Brent Crude (US$/bbl)	95.7	97.0	1.3
Dow	31,839	32,033	0.6
Hang Seng	15,318	15,428	0.7
Sensex	59,544	59,757	0.4
India FII (US$ mn)	**21-Oct**	**25-Oct**	**Chg ($ mn)**
FII-D	(4.1)	7.0	11.0
FII-E	69.6	40.0	(29.6)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: FINANCIAL SAVINGS

It has been a matter of debate whether Bank deposits are still the preferred choice of instrument of financial savings. With a changing financial landscape, volatility in the interest rate regime and risk taking appetite increasing, there has tended to be a change in the pattern of deployment of financial savings. RBI's recent report on financial assets of households show that there has been a shift in pattern, where mutual funds and equity witnessed sharp increase in FY22 with shares of 6.3% and 1.9% in overall financial assets respectively (ratio was 2.6% and 1.1% in FY20), while share of bank deposits declined to 25.5% in FY22 from 34.4% in FY20.

Click here **for the full report.**

BOBCAPS Research
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RELIANCE INDUSTRIES

- Q2 EBITDA normalised with pullback in O2C profits from record levels; consumer business continued to deliver strong YoY growth
- Key growth catalysts include roadmap for new energy, market share and tariff increases post 5G launch, and digital and retail listing
- TP lowered to Rs 2,670 from Rs 2,700 on higher debt and revised earnings; retain HOLD given low 9% potential upside

Click here for the full report.

JSW STEEL

- Q2 results weak as cost adjustment lagged price declines; we cut FY23E EBITDA by 20% as we now expect margin stabilisation in FY24
- We are more optimistic than consensus on stabilisation of margin in FY24; expect recovery in China to support margins
- Maintain HOLD with minor tweak in TP to Rs 650 (vs. Rs 655) based on 6x EV/EBITDA to reflect aggressive growth policy with higher leverage

Click here for the full report.

SBI CARD

- Operating expenses rose 33% YoY in Q2 on higher client acquisition cost; credit cost also moved up
- Lower revolver share in receivables mix coupled with increased funding cost weighed on NIM
- We cut FY23-FY25 EPS 6-12%, yielding a lower TP of Rs 1,139 (vs. Rs 1,227); maintain BUY

Click here for the full report.

DR REDDY'S LABS

- Q2 revenue up 9% YoY on sales of gRevlimid in the US; gross margin expansion aids EBITDA growth of 42% YoY
- Gross margin up 565bps YoY to 59% backed by a better product mix and PLI benefits, but higher tax limits PAT growth to 12%
- We raise FY23-FY24 EBITDA by 5% each and revise our TP to Rs 4,700 (vs. Rs 4,450); retain HOLD on limited upside triggers

Click here for the full report.

CROMPTON GREAVES

- Q2 EBITDA margin subdued at 11.4% (-410bps YoY) despite in-line revenue; BGAL's revenue back on track with double-digit margins
- Sustained brand and distribution investments position company well for BEE transition and market share gains
- FY23/FY24 EPS pared 5%/2% on subdued margins; on rollover, our TP remains unchanged at Rs 500 – retain BUY

Click here for the full report.

V-GUARD INDUSTRIES

- Q2 subdued as EBITDA margin slid 310bps YoY to 7.4% amid absorption of high-cost inventory; RM recovery guided by Q4
- Expansion yielding desired outcome as non-south markets grew at a strong 18% YoY vs. 3% in South India
- FY23/FY24 EPS pared 5%/3% on a muted Q2; post rollover, our TP stays at Rs 250 – retain HOLD

Click here for the full report.

FINANCIAL SAVINGS

27 October 2022

Bank Deposits or Mutual Funds?

Dipanwita Mazumdar
Economist

It has been a matter of debate whether Bank deposits are still the preferred choice of instrument of financial savings. With a changing financial landscape, volatility in the interest rate regime and risk taking appetite increasing, there has tended to be a change in the pattern of deployment of financial savings. RBI's recent report on financial assets of households show that there has been a shift in pattern, where mutual funds and equity witnessed sharp increase in FY22 with shares of 6.3% and 1.9% in overall financial assets respectively (ratio was 2.6% and 1.1% in FY20), while share of bank deposits declined to 25.5% in FY22 from 34.4% in FY20.

However it must be pointed out that the quantum of bank deposits is much larger, about 4.1 times than that of mutual funds denoted by AUM (assets under management). In this context, we examine whether there has been any substitution between bank deposits, mutual funds- debt and equity in the past 6 years.

Key conclusions:

- Since FY16 (till Sep-22), total bank deposits have shown an accretion of Rs 77 lakh crore. Within that, term deposits have increased by Rs 66 lakh crore. A secure interest rate regime and risk averse sentiment have worked in favour of garnering bank deposits at a faster pace.
- On the other hand, net AUM of Mutual funds rose by Rs 26.1 lakh crore, in the same period, which is just about 1/3rd of the pace of accretion in bank deposits. Most of the mobilization was in equity funds, which increased by Rs 10.8 lakh crore. Debt funds rose at a much slower pace of Rs 4.8 lakh crore. The balance was from 'others' component which comprises hybrid schemes among others.
- The 'substitution analysis' shows that the larger part of substitution that has taken place between bank deposits and Mutual Funds has been mainly with equity funds.

Table 1. How Bank deposits and MFs have moved?

Growth rates (YoY %)	O/S Bank Deposits	w/w Term Deposits	AUM-MF (Debt)	AUM-MF (Equity)	Others	Total AUM	Sensex	WADTDR
Mar-17	15.3	12.3	37.3	40.7	114.8	42.3	16.9	6.97
Mar-18	6.2	6.1	5.6	37.9	84.2	21.7	11.3	6.67
Mar-19	10.0	10.0	2.7	19.0	28.0	11.4	17.3	6.89
Mar-20	7.9	8.0	1.2	(32.4)	37.8	(6.4)	(23.8)	6.38
Mar-21	11.4	10.9	23.1	66.0	55.5	41.2	68.0	5.28
Mar-22	8.9	8.6	(7.0)	37.2	49.7	19.5	18.3	5.03
FYTD23	2.5	2.9	(14.1)	13.8	21.7	4.6	0.6	5.29*

Source: SEBI, Bank of Baroda Research, Note: FYTD: Apr-Sep, *: As on Aug-22 WADTDR: weighted average domestic term deposit rates

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HOLD
TP: Rs 2,670 | ⮝ 9%

RELIANCE INDUSTRIES | Oil & Gas | 28 October 2022

Windfall tax limits cyclical upside; consumer business shines

- **Q2 EBITDA normalised with pullback in O2C profits from record levels; consumer business continued to deliver strong YoY growth**
- **Key growth catalysts include roadmap for new energy, market share and tariff increases post 5G launch, and digital and retail listing**
- **TP lowered to Rs 2,670 from Rs 2,700 on higher debt and revised earnings; retain HOLD given low 9% potential upside**

Kirtan Mehta, CFA
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Q2 EBITDA normalises with pullback in O2C: RIL's Q2FY23 EBITDA declined 18% QoQ to Rs 312bn as supernormal profits in the Oil-to-Chemicals (O2C) business levelled off. More importantly, EBITDA grew 20% YoY (albeit off a low base) with 34% growth in consumer business profits. Net income missed consensus by 6% on higher finance costs with a sharp rise in net debt to Rs 932bn (or Rs 1,378/sh).

Estimates lowered: We lower our FY23/FY24/FY25 net income forecasts by 3.4%/4%/6.5% factoring in the Q2 results and increase in net debt. We continue to expect 17% annual growth in EBITDA over FY22-FY25 driven by a 6% CAGR in the cyclical business and a 27% CAGR in the consumer business.

Near-term drivers: Start-up and successful ramp-up of the MJ field, and successful launch of 5G services are positive drivers whereas recommendations of the Kirit Parekh Committee Report is a potential negative driver on gas price ceiling.

Long-term catalysts: Announcement of a clear roadmap with business targets for the green energy giga complex will be a key catalyst for the stock. For digital services, market share gains along with tariff increases could prove Jio's differentiated position and customer acceptance for new use cases in 5G. Listing of the digital and retail businesses will be another medium-term trigger for the stock.

Unlocking more value: RIL has announced demerger and listing of Jio Financial Services as a lending vehicle for its consumer business and an incubator for other financial services for the next three years. It also announced restructuring of its group engineering, procurement & construction (EPC) resources to create a focused entity.

Maintain HOLD: We lower our TP for RIL to Rs 2,670 (from Rs 2,700), factoring in higher net debt and estimate revisions. Our TP is based on an SOTP valuation for the refining (7.5x FY24E EV/EBITDA), petrochemicals (8.5x), telecom (Jio Infocomm: 10x) and retail (32x) businesses. Our valuation includes Rs 157/sh for the upstream business, Rs 110 for the digital services venture and Rs 117 for the new energy division. Retain HOLD given mere 9% upside potential.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	RIL IN/Rs 2,451
Market cap	US$ 201.0bn
Free float	51%
3M ADV	US$ 160.3mn
52wk high/low	Rs 2,856/Rs 2,180
Promoter/FPI/DII	49%/24%/16%

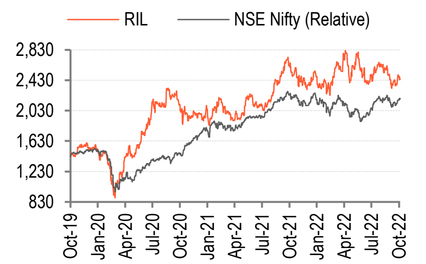
Source: NSE | Price as of 27 Oct 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	6,999,620	8,688,515	8,868,109
EBITDA (Rs mn)	1,104,600	1,463,045	1,596,450
Adj. net profit (Rs mn)	584,201	757,227	853,926
Adj. EPS (Rs)	86.4	111.9	126.2
Consensus EPS (Rs)	86.4	111.7	128.2
Adj. ROAE (%)	7.9	9.3	9.6
Adj. P/E (x)	28.4	21.9	19.4
EV/EBITDA (x)	17.4	13.1	11.9
Adj. EPS growth (%)	33.8	29.6	12.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD

TP: Rs 650 | ▼ 3%

JSW STEEL | Metals & Mining | 28 October 2022

Aggressive growth policy fuels earnings volatility

- **Q2 results weak as cost adjustment lagged price declines; we cut FY23E EBITDA by 20% as we now expect margin stabilisation in FY24**
- **We are more optimistic than consensus on stabilisation of margin in FY24; expect recovery in China to support margins**
- **Maintain HOLD with minor tweak in TP to Rs 650 (vs. Rs 655) based on 6x EV/EBITDA to reflect aggressive growth policy with higher leverage**

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Weak Q2 results: JSTL's Q2FY23 EBITDA was in line with consensus expectations of a weak quarter. Standalone adj. EBITDA was down 50% QoQ to Rs 24bn with a sharp 60% decline in EBITDA margin (to Rs 4.9k/t). Management expects profits to bottom out with ramp-up of sales in H2, rundown of high-cost inventory and seasonal pricing upside from Q4FY23.

Industry margin stabilisation delayed to FY24: While we agree with management guidance on bottoming out of profits in Q2, we remain cautious on domestic price recovery in H2FY23. China demand recovery has been slower than our expectations and we believe it will weigh on price recovery in China as well as the Asian region. We believe margin stabilisation at a mid-cycle level could materialise over FY24 (vs. FY23 earlier) as demand traction rises post the Chinese lunar holidays.

FY23 estimates cut; FY24/FY25 forecasts largely intact: Accounting for the below-par Q2FY23 and our expectation of delayed margin stabilisation, we lower our FY23 EBITDA/t estimates to Rs 9.3k/t from Rs 11.1k/t. This results in a 20% cut in our FY23 EBITDA estimate. With steel margins now likely to steady in FY24, we more or less maintain our FY24/FY25 forecasts which assume a standalone EBITDA margin of Rs 13.5k/t.

More optimistic on recovery in FY24 than consensus: While our FY23 estimates are in line with consensus, we are ahead on FY24/FY25 forecasts, reflecting our optimism on margins moving to mid-cycle levels. We expect China demand to gain traction after the lunar holidays with percolation of stimulus in the economy, higher investments in infrastructure, a gradual end to Covid lockdown disruptions, settling of real estate demand at a lower level and rebalancing of Chinese production given lower demand.

Maintain HOLD: We adjust our TP slightly to Rs 650 (from Rs 655) with the cut to FY23 estimates. Our target multiple of 6x FY24E EV/EBITDA is unchanged – at the highest level within the steel sector to reflect aggressive growth policy but below the stock's historical trading range of 8.1x reflecting increased economic uncertainty.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	JSTL IN/Rs 670
Market cap	US$ 19.6bn
Free float	40%
3M ADV	US$ 20.7mn
52wk high/low	Rs 790/Rs 520
Promoter/FPI/DII	60%/11%/9%

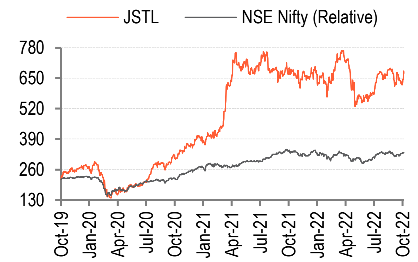
Source: NSE | Price as of 28 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,464	1,604	1,618
EBITDA (Rs mn)	390	227	365
Adj. net profit (Rs mn)	197	74	173
Adj. EPS (Rs)	81.7	30.6	71.5
Consensus EPS (Rs)	81.7	32.0	57.4
Adj. ROAE (%)	35.0	10.5	21.6
Adj. P/E (x)	8.2	21.9	9.4
EV/EBITDA (x)	2.7	4.6	2.8
Adj. EPS growth (%)	149.6	(62.5)	133.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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BUY

TP: Rs 1,139 | ⮝ 33%

SBI CARD | NBFC | 28 October 2022

Dull quarter on high opex and credit costs

- **Operating expenses rose 33% YoY in Q2 on higher client acquisition cost; credit cost also moved up**
- **Lower revolver share in receivables mix coupled with increased funding cost weighed on NIM**
- **We cut FY23-FY25 EPS 6-12%, yielding a lower TP of Rs 1,139 (vs. Rs 1,227); maintain BUY**

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NII in line…: SBI Card's Q2FY23 net interest income (NII) at Rs.11.1bn was in line with our expectations, but management expects the full effect of higher funding costs to reflect in Q3. Revolvers at 24% share of the receivables mix remained low, keeping NIM under pressure. Non-interest income grew 29% YoY to Rs 18.1bn (vs. Rs 19bn est.) and total revenue increased 28% YoY to Rs 34.5bn (3% below est.).

…but PAT disappoints: Q2 net profit rose 52% YoY (-16% QoQ) to Rs 5.3bn but was 19% lower than our estimates primarily due to (i) a rise in operating expenses by 33% YoY (10% QoQ) to Rs 18.3bn (3% above est.) due to spending on new client acquisition, and (ii) an increase in credit cost by 21% QoQ (-8% YoY) to Rs 5.5bn (2% above est.) with gross credit cost above 6%. We, accordingly, lower our net profit estimates by 6-12% for FY23-FY25.

Corporate spends low; card addition robust: SBI Card's Q2 credit card spends grew 43% YoY to Rs 623bn (Rs 675bn est.) boosted by festive season e-commerce sales in the last week of September. Retail constituted 82% share and grew 45% YoY. Corporate spend grew 34% but was affected by the company's decision to exit some unprofitable categories. We revise card spends downwards by 4-6% to Rs 2.4tn/ Rs 2.9tn/Rs 3.4tn for FY23/FY24/FY25. The company's cards in force grew 18% YoY to 14.8mn (19.1% market share at end-Sep'22) with new account additions up 36%.

Asset quality strong: GNPA/NNPA remained stable at 2.1%/0.8% at end-Q2FY23, and we expect levels of <3%/~1% over FY23-FY25. Although credit cost was higher than expected in Q2, we anticipate a climbdown in coming quarters as ECL (expected credit losses) remained lower than pre-Covid levels. We bake in credit cost of ~6% over FY23-FY25 vs. our earlier forecast of 6.5-7.0%.

Maintain BUY: We lower EPS estimates by 6-12% over FY23-FY25 to factor in higher expenses and funding costs leading to a revised TP of Rs 1,139 (vs. Rs 1,227). Our TP reflects an unchanged FY24E P/E of ~36x, 1SD below the long-term mean. The stock is currently trading at an attractive valuation of 27x FY24E P/E. We retain BUY for a potential upside of 33%.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	SBICARD IN/Rs 858
Market cap	US$ 9.9bn
Free float	31%
3M ADV	US$ 16.4mn
52wk high/low	Rs 1,157/Rs 656
Promoter/FPI/DII	69%/9%/17%

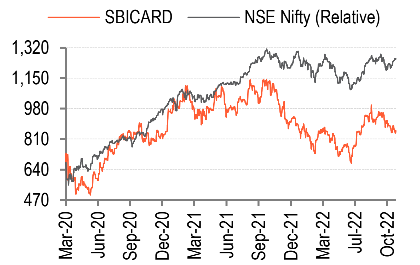
Source: NSE | Price as of 27 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Net interest income (Rs	38,387	45,730	58,782
NII growth (%)	(1.7)	19.1	28.5
Adj. net profit (Rs mn)	16,161	22,690	30,063
EPS (Rs)	17.0	23.9	31.6
Consensus EPS (Rs)	17.0	26.5	33.2
P/E (x)	50.4	35.9	27.1
P/BV (x)	10.5	8.3	6.5
ROA (%)	5.2	5.8	6.3
ROE (%)	23.0	25.9	27.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD

TP: Rs 4,700 | ▲ 5%

DR REDDY'S LABS | Pharmaceuticals | 29 October 2022

US launch of gRevlimid buoys quarter

- **Q2 revenue up 9% YoY on sales of gRevlimid in the US; gross margin expansion aids EBITDA growth of 42% YoY**
- **Gross margin up 565bps YoY to 59% backed by a better product mix and PLI benefits, but higher tax limits PAT growth to 12%**
- **We raise FY23-FY24 EBITDA by 5% each and revise our TP to Rs 4,700 (vs. Rs 4,450); retain HOLD on limited upside triggers**

Saad Shaikh
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US launch of gRevlimid drives topline: DRRD's Q2FY23 revenue grew 9% YoY (+21% QoQ) to Rs 63bn led solely by the US market which posted sales of US$ 344mn (+35% QoQ) following the launch of gRevlimid. PSAI (pharmaceutical services and active ingredients) declined 23% YoY (-9% QoQ) due to lower volumes as the base quarter had Covid product sales, which was partly offset by new product sales and favourable forex rates.

India business muted: India business grew just 1% YoY on a high Covid-led base (adjusted growth in double digits) and declined sequentially by 14% on account of divestment of a few brands in Q1FY23. Others segment declined 63% YoY due to licensing fee in the base quarter.

Better product mix and PLI benefit lift margins: Gross margin at 59.1% soared 565bps YoY in Q2 led by a better product mix (aided by launches) and accrued benefits from the government's production-linked incentive scheme, which more than compensated for price erosion and Covid inventory provisions (~Rs 1bn). Global generics/PSAI margins stood at 65.4%/3.6%. Excluding Covid-related provisions, PSAI gross margin would be in the high single digits. EBITDA margin rose to 30% (+685bps YoY, +1,230bps QoQ), and management retained its FY23 margin guidance at 25%.

Higher tax curbs PAT growth: The effective tax rate for the quarter stood at 31.2% vs. 19.1%/22.2% in Q1FY23/Q2FY22, which limited PAT growth to 12% YoY at Rs 11bn (vs. PBT growth of 29% YoY). The higher tax outgo was on account of a change in jurisdiction mix. Management expects an FY23 tax rate of 25-26%.

Retain HOLD: We raise our FY23-FY24 EBITDA estimates by 5% each to bake in the H1FY23 results. Our TP stands revised to Rs 4,700 (vs. Rs 4,450) based on an unchanged 12.5x FY24E EV/EBITDA multiple – a 15% discount to the stock's 5Y average. With upsides from gRevlimid already in the price, a slowdown in meaningful launches in the US and subdued growth in other regions off a high base, we see limited upside triggers for the stock and hence maintain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DRRD IN/Rs 4,460
Market cap	US$ 9.0bn
Free float	73%
3M ADV	US$ 20.5mn
52wk high/low	Rs 4,931/Rs 3,654
Promoter/FPI/DII	27%/29%/16%

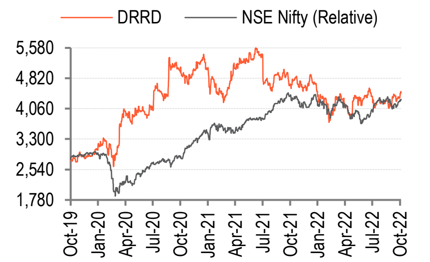
Source: NSE | Price as of 28 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	2,14,392	2,40,459	2,60,578
EBITDA (Rs mn)	46,632	55,306	61,236
Adj. net profit (Rs mn)	31,130	35,262	38,462
Adj. EPS (Rs)	187.1	211.9	231.1
Consensus EPS (Rs)	187.1	200.0	238.0
Adj. ROAE (%)	18.2	18.0	16.6
Adj. P/E (x)	23.8	21.0	19.3
EV/EBITDA (x)	15.8	13.3	11.8
Adj. EPS growth (%)	17.8	13.3	9.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 500 | ⮝ 36%

CROMPTON GREAVES | Consumer Durables | 28 October 2022

Q2 a minor blip; expect swift recovery

- **Q2 EBITDA margin subdued at 11.4% (-410bps YoY) despite in-line revenue; BGAL's revenue back on track with double-digit margins**
- **Sustained brand and distribution investments position company well for BEE transition and market share gains**
- **FY23/FY24 EPS pared 5%/2% on subdued margins; on rollover, our TP remains unchanged at Rs 500 – retain BUY**

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EBITDA margin muted: Crompton's Q2FY23 revenue at Rs 17bn was broadly in line while EBITDA margin came in lower at 11.4% vs. our/consensus estimates of 13.8%/13.1%. However, gross margin expanded 70bps QoQ to 32.1% backed by a better product mix, premiumisation trends and strategic pass-through of costs. The electrical consumer durables (ECD) business declined 3% YoY due to a muted performance in fans, whereas a sequential fall in conventional lighting sales weighed on the lighting segment which dipped 7%.

Fans segment slows in Q2 but maintains traction in H1: Apart from market share gains, revenue from the fans division increased 22% YoY in H1FY23 despite a relatively weak Q2 (growth declined to mid-single-digits) amidst seasonality. Channel destocking and a transitionary phase in view of upcoming energy norms resulted in subdued growth. Management anticipates a relatively better H2 for fans and believes Crompton is well placed to capture market share in the low-to-mid segments post new BEE (Bureau of Energy Efficiency) norms.

BGAL run-rate back on track: Subsidiary Butterfly Gandhimathi Appliances (BGAL) recorded a double-digit EBITDA margin (11.2%) for the second consecutive quarter with improved profitability. Management affirmed 10% as a base margin hereafter for BGAL, which we find reasonable given Crompton is implementing its cost-saving structure for the subsidiary (cost reduction to the tune of 0.5% of sales, aiding 50bps margin improvement p.a.). Crompton is focussed on backend integration with BGAL, with synergies in areas such as commodity procurement and designing aid.

Maintain BUY: Crompton has constantly expanded its leadership position in fans and maintained its industry-leading market share in pumps over the years. The BGAL acquisition should fuel market share gains in kitchen appliances as well. In our view, premiumisation trends and the company's pricing power give it an edge over peers. Muted Q2 margins compel us to trim FY23/FY24 EPS estimates by 5%/2%, though we do expect a better H2FY23 as retail inflation cools, aiding volumes. We continue to value the stock at 35x FY24E EPS, in line with its 5Y average. Estimate revision coupled with valuation rollover to Sep'24E leaves our TP unchanged at Rs 500; retain BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	CROMPTON IN/Rs 367
Market cap	US$ 2.8bn
Free float	94%
3M ADV	US$ 12.1mn
52wk high/low	Rs 493/Rs 312
Promoter/FPI/DII	6%/37%/45%

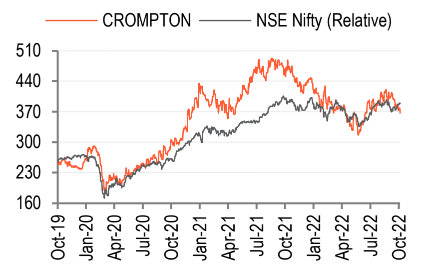
Source: NSE | Price as of 27 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	53,941	75,785	87,274
EBITDA (Rs mn)	7,694	9,853	12,341
Adj. net profit (Rs mn)	5,914	6,531	8,649
Adj. EPS (Rs)	9.3	10.3	13.6
Consensus EPS (Rs)	9.3	10.3	12.5
Adj. ROAE (%)	27.0	24.1	26.1
Adj. P/E (x)	39.3	35.6	26.9
EV/EBITDA (x)	31.2	24.1	19.0
Adj. EPS growth (%)	(4.1)	10.4	32.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
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HOLD
TP: Rs 250 | ⋎ 1%

V-GUARD INDUSTRIES | Consumer Durables | 28 October 2022

Margin pressure dampens performance

- **Q2 subdued as EBITDA margin slid 310bps YoY to 7.4% amid absorption of high-cost inventory; RM recovery guided by Q4**
- **Expansion yielding desired outcome as non-south markets grew at a strong 18% YoY vs. 3% in South India**
- **FY23/FY24 EPS pared 5%/3% on a muted Q2; post rollover, our TP stays at Rs 250 – retain HOLD**

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Revenue in line: VGRD's Q2FY23 revenue at Rs 9.9bn (+9% YoY, 3Y CAGR of 16.5%) was largely in line with our estimate. Topline growth was driven by the consumer durables segment (3Y CAGR 24%) despite a higher base and softer demand.

Margin stress continues: EBITDA margin deteriorated for the second successive quarter, falling 70bps QoQ (-310bps YoY) to 7.4% vs. the 3Y average of 10.3%. Gross margin contracted 80bps QoQ to 29.2%. Though we had factored high-cost inventory into our margin estimates (8.6% vs. 9.9% for consensus), lower realisations from price cuts in the wires business, and elevated input cost in other categories (ex-electricals) led to the miss. Additionally, less-than-expected water heaters growth & moderately higher inventory than usual, weighed on the margins. While the electricals margin dropped sharply, CD recouped to 2.9% after a two-quarter lull. A&P expenses rose to 2.2% of sales (vs. 1.5% in Q2FY22), adding pressure on margins. Consequently, PAT fell 26% YoY to Rs 437mn.

Geographical diversification on track: VGRD's thrust on expanding beyond its core southern market is yielding desired outcomes. Non-south markets contributed 42.7% of Q2 revenue vs. 39.4% in the year-ago quarter, growing at 18% YoY vs. 2.6% for the southern market. On a 3Y CAGR basis, the non-core markets have posted strong growth of 22% in Q2 vs. a more modest 13% for the southern market.

Maintain HOLD: VGRD's expansion beyond its core geography is helping to derisk business concentration but has come at the cost of margins. Recovery in ECD margin is a positive sign. Incorporating the muted Q2 performance, we pare FY23/FY24 EPS estimates by 5%/3%. We continue to value the stock at 35x FY24E EPS, a 7.5% discount to its 4Y average. On rolling valuations forward to Sep'24E, we have an unchanged TP of Rs 250; retain HOLD.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	VGRD IN/Rs 253
Market cap	US$ 1.3bn
Free float	44%
3M ADV	US$ 1.2mn
52wk high/low	Rs 264/Rs 181
Promoter/FPI/DII	56%/13%/18%

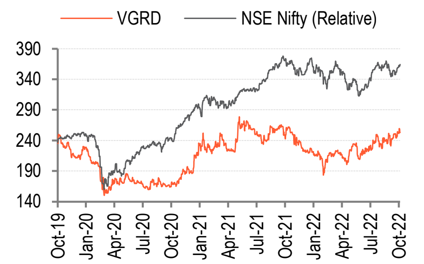
Source: NSE | Price as of 28 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	34,982	40,013	44,258
EBITDA (Rs mn)	3,382	3,992	4,611
Adj. net profit (Rs mn)	2,277	2,588	2,990
Adj. EPS (Rs)	5.3	6.0	6.9
Consensus EPS (Rs)	5.3	6.9	8.2
Adj. ROAE (%)	17.4	17.2	17.3
Adj. P/E (x)	48.0	42.2	36.5
EV/EBITDA (x)	32.3	27.3	23.7
Adj. EPS growth (%)	13.4	13.7	15.5

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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