FIRST LIGHT

03 April 2023

RESEARCH

BOB ECONOMICS RESEARCH | BORROWING CALENDAR

Centre has finely managed its H1FY24 calendar

NESTLE INDIA | TARGET: Rs 22,860 | +20% | BUY

Annual report highlights – Stellar performance in a difficult year

DIVERSIFIED FINANCIALS

Q4FY23 Preview – Cautious outlook for NBFCs; AMCs, life insurers to fare better

Daily macro indicators

Ticker	29-Mar	30-Mar	Chg (%)
US 10Y yield (%)	3.56	3.55	(2bps)
India 10Y yield (%)	7.31	7.29	(3bps)
USD/INR	82.19	82.34	(0.2)
Brent Crude (US$/bbl)	78.3	79.3	1.3
Dow	32,718	32,859	0.4
Hang Seng	20,192	20,309	0.6
Sensex	57,614	57,960	0.6
India FII (US$ mn)	**27-Mar**	**28-Mar**	**Chg ($ mn)**
FII-D	28.6	71.9	43.3
FII-E	(75.6)	236.8	312.5

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: BORROWING CALENDAR

Centre has come up with its H1FY24 borrowing calendar. The borrowing plan for H1 is pegged at Rs 8.88 lakh crore which is 57.6% of overall borrowing plan of FY24. This share is lower than the long run average of 60.8%. Maturity wise concentration is skewed towards longer end securities, especially between 10-40 year papers. This is likely to keep yield of the longer tenor papers stable.

Click here for the full report.

NESTLE INDIA

- Highest domestic revenue growth in a decade, at 14.8% in CY22, led by both volumes and pricing
- Broad-based uptick across product categories and geographies; investment in digital channels driving efficiency
- Innovation, premiumisation and product launches remain key elements of growth; maintain BUY, TP Rs 22,860

Click here for the full report.

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DIVERSIFIED FINANCIALS

- Expect SBI Life to deliver continued cost efficiency and high margins in Q4; remains our top pick among life insurers
- 360 One projected to post 12% YoY AUM growth in Q4 on strong recurring flows, with IIFL One being a major pillar
- Nippon AMC and UTI AMC likely to see a strong quarter; both remain our top picks among asset managers

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BORROWING CALENDAR

31 March 2023

Centre has finely managed its H1FY24 calendar

Dipanwita Mazumdar
Economist

Centre has come up with its H1FY24 borrowing calendar. The borrowing plan for H1 is pegged at Rs 8.88 lakh crore which is 57.6% of overall borrowing plan of FY24. This share is lower than the long run average of 60.8%. Maturity wise concentration is skewed towards longer end securities, especially between 10-40 year papers. This is likely to keep yield of the longer tenor papers stable.

Post the borrowing calendar announcement, the 10Y benchmark paper's yield has been broadly stable at 7.32% (previous close: 7.29%). Even the yield on 30Y and 40Y paper is trading at 7.4%, only 4bps up from its previous trading session. Going forward, we expect that India's yield curve is likely to have a flattening bias. Short end papers, especially the 182 days and 364 days TBIll rates are still quite elevated. Call rates are also nearing the MSF rate. Further, strain on liquidity is likely to continue due to year-end target meeting of various ministries. Further if RBI resorts to another round of rate hike in its Apr'23 meeting as the OIS papers are reflecting, pressure on short end yields will continue. However, we don't foresee much volatility on the long end curve.

Based on our calculation, average interest cost of the Centre on all these securities translates to around 7.29-7.35% for the first half borrowing programme.

Centre frontloaded 57.6% in H1FY24:

- The H1FY24 gross issuance calendar was pegged at Rs 8.88 lakh crore. This is only 57.6% of the overall borrowing. In fact, this share is lower than the long run average of 60.8% and also came in lower compared to H1FY22 and H1FY23 issuance. Net borrowing is also pegged at Rs 7.28 lakh crore in H1FY24 which is lower compared to Rs 7.89 lakh crore in H1FY23. This is because the net repayment in H1FY24 translates to Rs 1.6 lakh crore which is higher than Rs 56,103 crore in H1FY23.
- FRB issuances is not noticed in H1FY24 calendar, due to weaker appetite for this instrument in the past.

Table 1: Borrowing pattern in H1 in absolute amount

Amount, Rs lakh crore	H1FY15	H1FY16	H1FY17	H1FY18	H1FY19	H1FY20	H1FY21	H1FY22	H1FY23	H1FY24
H1 Gross borrowing	3.7	3.6	3.6	3.7	2.9	4.4	7.0	7.2	8.5	8.9
Total Borrowing	5.9	5.9	5.8	5.9	5.7	7.1	12.6	9.7	14.2	15.4

Source: RBI, Bank of Baroda Research, Note: For H1FY21, the revised calendar is also incorporated

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BUY
TP: Rs 22,860 | ⮝ 20%

NESTLE INDIA | Consumer Staples | 31 March 2023

Annual report highlights: Stellar performance in a difficult year

- **Highest domestic revenue growth in a decade, at 14.8% in CY22, led by both volumes and pricing**
- **Broad-based uptick across product categories and geographies; investment in digital channels driving efficiency**
- **Innovation, premiumisation and product launches remain key elements of growth; maintain BUY, TP Rs 22,860**

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Key takeaways from our analysis of NEST's 2022 annual report:

Strong double-digit growth: NEST outperformed in a year marked by a series of adversities and recorded its highest double-digit growth in a decade, aided by higher volumes and price hikes. During CY22, domestic sales grew 14.8% with a healthy balance of pricing and volumes. Export sales increased 8.2%. Growth was secular across confectionery, beverages, milk products & nutrition, and the prepared dishes & cooking aids portfolio. NEST's performance stood out in a year beset by economic uncertainty, unprecedented inflation in key raw materials, weak consumer sentiment and a prolonged slowdown in rural markets.

Innovation and premiumisation remain growth engines: Innovation remains an important element of growth and the driving force behind a diversified portfolio of strong brands. In the past seven years, NEST has introduced 110 new products and ~30 more are in the pipeline. Premiumisation is one of the growth engines that the company expects will lead to future acceleration of the business. To this end, NEST acquired Purina Petcare that delivers nutrition to pets and launched the globally renowned Gerber cereals catering to the nutrition needs of toddlers.

Digital investments to drive growth: In CY22, NEST launched its first ever direct-to-consumer (D2C) platform, www.mynestle.in, that offers products manufactured by it in India. The company continued to scale up digital capabilities during the year with a focus on data and analytics-led decision-making that enabled it to anticipate trends and launch new product variants. NEST launched the platform in Delhi–NCR and will subsequently expand to consumers in other parts of the country.

Maintain BUY: NEST's strategy of market penetration-led volume growth is yielding results. We expect the company's thrust on building volumes, deepening rural and semiurban reach, product innovation and premiumisation to fuel its growth momentum. The stock is trading at 63.8x/55.8x CY23E/CY24E EPS. We maintain BUY and continue to value the stock at 67x CY24E EPS, in line with the long-term mean, translating to an unchanged TP of Rs 22,860.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	NEST IN/Rs 19,053
Market cap	US$ 22.3bn
Free float	37%
3M ADV	US$ 12.4mn
52wk high/low	Rs 21,050/Rs 16,000
Promoter/FPI/DII	63%/12%/25%

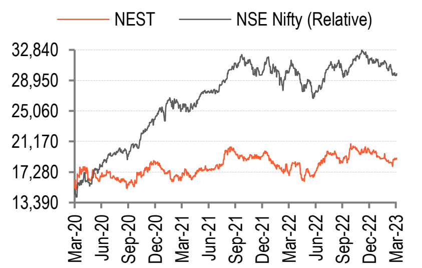
Source: NSE | Price as of 29 Mar 2023

Key financials

Y/E 31 Dec	CY22A	CY23E	CY24E
Total revenue (Rs mn)	1,68,969	1,85,923	2,05,890
EBITDA (Rs mn)	37,125	44,859	51,879
Adj. net profit (Rs mn)	23,905	28,775	32,897
Adj. EPS (Rs)	247.9	298.5	341.2
Consensus EPS (Rs)	247.9	306.6	350.9
Adj. ROAE (%)	97.2	99.2	96.7
Adj. P/E (x)	76.8	63.8	55.8
EV/EBITDA (x)	49.5	40.9	35.4
Adj. EPS growth (%)	1.5	20.4	14.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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DIVERSIFIED FINANCIALS | Q4FY23 Preview | 31 March 2023

Cautious outlook for NBFCs; AMCs, life insurers to fare better

- **Expect SBI Life to deliver continued cost efficiency and high margins in Q4; remains our top pick among life insurers**
- **360 One projected to post 12% YoY AUM growth in Q4 on strong recurring flows, with IIFL One being a major pillar**
- **Nippon AMC and UTI AMC likely to see a strong quarter; both remain our top picks among asset managers**

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Life insurance: We maintain a positive stance on the life insurance industry as a focus on profitable non-participating and protection products is expected to help our coverage companies maintain robust VNB margins (SBI Life, HDFC Life, IPRU) in Q4FY23. We project gross premium growth of 16% YoY for top pick SBI Life (BUY, TP Rs 1,459) and a total cost ratio of less than 10% even after baking in an increase of 50-60bps YoY. We believe **budgetary announcements** remain directionally negative for the sector.

Asset management: We are cautious on AMC stocks due to (a) SEBI initiating a detailed study of the fees and expenses charged by mutual funds, and (b) the abrupt removal of long-term tax benefits for debt mutual funds. We had **initiated** on the sector with an upbeat outlook on **UTI AMC** (BUY, TP Rs 983) and **Nippon AMC** (BUY, TP Rs 347). For Q4, we believe a focus on equity funds, SIPs, and higher yielding B-30 cities will continue to drive topline growth whereas cost rationalisation should aid the bottom-line. Commentary on the impact of changing regulations is a key monitorable.

Wealth management: We expect 360 One to post 12% YoY AUM growth in Q4FY23 boosted by fresh fund flows and MTM gains despite high volatility in equity markets. Recurring AUM is forecast to constitute 58% of the mix (55% at end-FY22) with IIFL One being a key pillar. Revenue could be flattish as estimated increases of 13% YoY in recurring revenue and 7% YoY in other income are likely to be offset by a decline in transactional revenue. We expect the company to have a cost-to-income ratio of 44.8% and deliver PAT growth of 3% YoY.

Credit cards: Sectoral credit card spends continued to gain traction in January and February, crossing the Rs 1tn mark in each of these months. SBI Card regained second position and we estimate 16% YoY growth in spends for the company in Q4. Its market share stood at ~20% in credit cards outstanding and ~18% in spends at the end of February. Net receivables are forecast to grow 30% YoY. We believe NIM would take time to return to pre-Covid levels. Provisions are expected to remain low (+30bps YoY, -7bps QoQ), and we place credit cost at 5.7%. Data on operating costs, revolver balances and credit cost would be key to watch.

Recommendation snapshot

Ticker	Price	Target	Rating
360ONE IN	439	591	BUY
ABSLAMC IN	317	488	HOLD
HDFCAMC IN	1,678	2,310	BUY
HDFCLIFE IN	496	549	HOLD
IPRU IN	427	487	BUY
NAM IN	204	347	BUY
SBICARD IN	720	1,034	BUY
SBILIFE IN	1,099	1,459	BUY
UTIAM IN	616	983	BUY

Price & Target in Rupees | Price as of 29 Mar 2023

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

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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