FIRST LIGHT

09 August 2023

RESEARCH

BOB ECONOMICS RESEARCH | MONETARY POLICY EXPECTATIONS

RBI likely to stand pat

GODREJ CONSUMER PRODUCTS | TARGET: Rs 1,159 | +15% | BUY

Strong volume-led growth with margin expansion

DALMIA BHARAT | TARGET: Rs 1,934 | –4% | HOLD

Slow start; expected to catch up in H2

360 ONE | TARGET: Rs 611 | +19% | BUY

Annual report analysis – Forging ahead

Daily macro indicators

Ticker	04-Aug	07-Aug	Chg (%)
US 10Y yield (%)	4.03	4.09	5bps
India 10Y yield (%)	7.19	7.20	1bps
USD/INR	82.84	82.75	0.1
Brent Crude (US$/bbl)	86.2	85.3	(1.0)
Dow	35,066	35,473	1.2
Hang Seng	19,539	19,538	0.0
Sensex	65,721	65,953	0.4
India FII (US$ mn)	**03-Aug**	**04-Aug**	**Chg ($ mn)**
FII-D	(20.1)	34.9	55.0
FII-E	26.2	8.0	(18.2)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: MONETARY POLICY EXPECTATIONS

The Monetary Policy Committee is expected to keep the repo rate unchanged at 6.5% in the upcoming policy meet. While risks to inflation have risen, the MPC is likely to weigh on the transient nature of food prices and hence stand pat on rates. While food prices have seen an uptick, much of it could be temporary. Core inflation has also remained benign. We expect inflation to remain elevated in Jul'23 and Aug'23 led by food, before correcting in Q3FY24. Inflation in FY24, is likely to remain within RBI's target and hence a pause seems prudent. Policy stance is also expected to remain unchanged at "withdrawal of accommodation" as liquidity surplus in the system stands at over Rs 2 lakh crores. We rule out any rate action from the RBI till Dec'23. Beyond this, we do see room for a rate cut, probably in Feb'24 but will be data driven.

Click here **for the full report.**

GODREJ CONSUMER PRODUCTS

- Volume-led growth continues in India business at 12% YoY in Q1; margin expansion seen across geographies
- Household insecticides delivered strong double-digit growth; personal care business muted
- Emphasis on volume-led category development to drive profitable growth; maintain BUY, TP Rs 1,159

Click here **for the full report.**

BOBCAPS Research
research@bobcaps.in

DALMIA BHARAT

- Q1 muted as DBL restricted supply to safeguard prices but still failed to stave off a decline in realisations (-3% YoY)
- Cost/t softened marginally by 1.5% YoY but more could follow as the full benefit of lower energy cost unfolds
- TP revised marginally to Rs 1,934 (vs. Rs 1,917); retain HOLD

Click here for the full report.

360 ONE

- Shift from commission to recurring revenue model (ARR) paying off – the latter now contributes 61% of AUM and 67% of revenue at end-FY23
- Higher recurring revenue (+15% YoY) coupled with lower C/I (-530bps) led to ~200bps ROAE expansion to 22%
- Maintain BUY on rising margins, a strong platform, loyal client base and low valuations; TP unchanged at Rs 611

Click here for the full report.

MONETARY POLICY EXPECTATIONS

08 August 2023

RBI likely to stand pat

Aditi Gupta
Economist

The Monetary Policy Committee is expected to keep the repo rate unchanged at 6.5% in the upcoming policy meet. While risks to inflation have risen, the MPC is likely to weigh on the transient nature of food prices and hence stand pat on rates. While food prices have seen an uptick, much of it could be temporary. Core inflation has also remained benign. We expect inflation to remain elevated in Jul'23 and Aug'23 led by food, before correcting in Q3FY24. Inflation in FY24, is likely to remain within RBI's target and hence a pause seems prudent. Policy stance is also expected to remain unchanged at "withdrawal of accommodation" as liquidity surplus in the system stands at over Rs 2 lakh crores. We rule out any rate action from the RBI till Dec'23. Beyond this, we do see room for a rate cut, probably in Feb'24 but will be data driven.

Inflation, upside risks persist: RBI in its last policy kept policy rates unchanged. Inflation prints subsequent to the meeting showed that inflation remained within RBI's target range at 4.3% and 4.8% respectively in May'23 and Jun'23. However, since then, inflationary pressures have increased. Soaring vegetable prices, driven by higher tomato prices threaten the trajectory of inflation. However, the increase in food prices appears to be temporary and prices are expected to cool once new harvest enters the market. Worryingly, price pressures can also be seen in other essential commodities (Please refer to our latest update on BoB Essential Commodities Index), which is likely to keep inflation elevated in Q2FY24. Apart from this, global oil prices have also started inching up led by production cuts from Russia and Saudi Arabia, which pose further risks to inflation. Overall, we expect inflation rate in Jul'23 to inch up closer to RBI's 6% upper limit. Even in Aug'23, inflation is expected to remain heated. It will be important to gauge RBI's assessment of recent spike in prices, and whether it leads to upward revision to its inflation forecast for FY24 which stands at 5.1%.

Growth steady: High-frequency indicators suggest a steady pace of economic activity. While manufacturing PMI remained stable in Jul'23, services PMI expanded to a 13-year high, with both sectors registering strong demand. Other indicators such as E-way bills, GST collections and credit growth are also witnessing momentum. Rainfall activity has picked up pace, which has translated into improved sowing of kharif crops. Government capex continues to be a key driver of growth. Centre's capex spending has increased by 59.1% in Q1FY24. Based on this development amongst others, we expect GDP growth in FY24 to broadly evolve as per RBI's projections. We expect GDP growth in the range of 7.5%-8% in Q1FY24, and maintain our forecast for FY24 at 6%-6.5%. Hence, the need to stimulate growth may not hold much appeal for the RBI at this juncture.

Liquidity conditions comfortable: Domestic liquidity continues to remain in surplus. Average liquidity surplus rose to Rs 1.6 lakh crores in Jul'23 from Rs 1.3 lakh crores in Jun'23. It has further increased to Rs 2.25 lakh crores in Aug'23 (8 Aug 2023).

BUY

TP: Rs 1,159 | ⮝ 15%

GODREJ CONSUMER PRODUCTS

| Consumer Staples | 08 August 2023

Strong volume-led growth with margin expansion

- **Volume-led growth continues in India business at 12% YoY in Q1; margin expansion seen across geographies**
- **Household insecticides delivered strong double-digit growth; personal care business muted**
- **Emphasis on volume-led category development to drive profitable growth; maintain BUY, TP Rs 1,159**

Vikrant Kashyap
research@bobcaps.in

Sustained volume-led growth: GCPL reported consolidated Q1FY24 revenue of Rs 34.5bn (+10% YoY, +15% CC), with volumes up 10% YoY. India business grew 9% YoY led by 12% volume growth, in line with the company's strategy of volume-driven category development. Value growth was lower than volume growth as GCPL passed on the benefits of lower input cost to consumers.

International markets robust: Revenue from Africa, the US, and the Middle East region (GUAM) was up 9% YoY (16% CC) due to healthy double-digit growth in FMCG category, and Latin America and SAARC grew 18% YoY (79% CC). Indonesia business registered strong revenue growth of 20% YoY in rupee terms (+15% CC) backed by structural initiatives taken last year.

Growth across categories: GCPL registered 14% YoY growth in the home care segment driven by double-digit volume and value growth in the household insecticides (HI) segment. Air fresheners also fared well. In insect repellants, GCPL continues to scale up distribution of access packs of *Goodknight* mini liquid vaporizer and *Hit* no-gas spray. Personal care grew 2% YoY alongside healthy volumes. *Magic* handwash delivered double-digit volume growth, whereas hair colour was muted off a high base.

Margin recovery continues: The company reported a 53.7% gross margin (+710bps YoY, +80bps QoQ). EBITDA margin expanded 190bps YoY (-140bps QoQ) to 18.6% despite a 79% YoY rise in working media investment. EBITDA margin for Indonesia business stood at 21.5% YoY (+420bps YoY), whereas GUAM was at 11.8% (+350bps).

Maintain BUY: GCPL reported strong volume growth across categories in the domestic market and saw improvement in the quality of profits. We expect the company's emphasis on category development, brand investment, market penetration and product launches to support profitable growth. The stock is trading at 48.9x/40x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at a P/E multiple of 45x on FY25E EPS – in line with the long-term mean – for an unchanged TP of Rs 1,159.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	GCPL IN/Rs 1,009
Market cap	US$ 12.6bn
Free float	37%
3M ADV	US$ 12.8mn
52wk high/low	Rs 1,102/Rs 794
Promoter/FPI/DII	63%/24%/13%

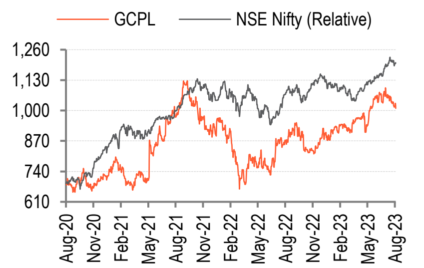
Source: NSE | Price as of 8 Aug 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,33,160	1,53,493	1,72,797
EBITDA (Rs mn)	24,304	29,652	36,905
Adj. net profit (Rs mn)	17,566	21,527	26,323
Adj. EPS (Rs)	17.2	21.1	25.8
Consensus EPS (Rs)	17.2	21.6	24.7
Adj. ROAE (%)	12.3	13.5	14.2
Adj. P/E (x)	58.7	47.9	39.2
EV/EBITDA (x)	42.4	34.8	28.0
Adj. EPS growth (%)	(4.5)	26.4	22.3

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

Stock performance



Source: NSE

HOLD
TP: Rs 1,934 | ∀ 4%

DALMIA BHARAT | Cement | 08 August 2023

Slow start; expected to catch up in H2

- **Q1 muted as DBL restricted supply to safeguard prices but still failed to stave off a decline in realisations (-3% YoY)**
- **Cost/t softened marginally by 1.5% YoY but more could follow as the full benefit of lower energy cost unfolds**
- **TP revised marginally to Rs 1,934 (vs. Rs 1,917); retain HOLD**

Milind Raginwar
research@bobcaps.in

Volume push restricted to safeguard realisations: Dalmia Bharat's (DBL) Q1FY23 revenue growth was muted at 10% YoY (-7% QoQ) to Rs 36.2bn as volumes and pricing were tepid. Volumes grew just 13% YoY (-5% QoQ) to 7mt while realisation fell 3% (-2% QoQ) to Rs 5,177/t as DBL restricted its volume push in a bid to safeguard pricing, indicating listless demand in its key operating regions.

Operational cost rises but cost curve turning favourable: Per-unit raw material cost rose 4% QoQ (+9% YoY) due to higher fly ash and slag prices, whereas logistics cost increased 5% QoQ (and YoY) pushed up by freight surcharge and increased interregional clinker movement. Despite this, the cost curve is showing signs of heading down as per-unit power and fuel cost fell 15% YoY.

EBITDA growth muted: EBITDA increased only 4% YoY (-14% QoQ) to Rs 6.1bn and the margin fell to 16.8% from 17.8% in the year-ago quarter on account of the soft realisations. EBITDA/t fell 9% YoY and QoQ to Rs 844 while adj. PAT dropped 34% YoY (-36% QoQ) to Rs 1.3bn.

Capacity expansion underway: DBL's cement capacity is currently at 41.6mn tonnes (Q1FY24) and the company is targeting 46.6mt by FY24-end. Further, it will add 2mt of clinker capacity over the same period to 23.7mt. The company has incurred Rs 9bn in capex during Q1 and expects to spend Rs 6bn-7bn in Q2 with total annual capex at Rs 63bn, of which Rs 35bn will be financed by debt.

Fairly valued; retain HOLD: With the ongoing expansion by FY24, DBL will have enough headroom to cater to incremental demand. Narrowing of the gap between regional dispatches and capacities will, however, be a challenge. The company has focused on sustainable balance sheet improvement and made a conscious effort to control debt. Even so, its relentless capex mode does imply intermittent periods of higher leverage going forward. Overall, we find current valuations fair at 11x FY25E EV/EBITDA. We revise our TP slightly to Rs 1,934 (vs. Rs 1,917), set at an unchanged 11x FY25E EV/EBITDA – an implied replacement cost of Rs 8.4bn/mt. HOLD.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	DALBHARA IN/Rs 2,016
Market cap	US$ 4.5bn
Free float	44%
3M ADV	US$ 6.1mn
52wk high/low	Rs 2,289/Rs 1,476
Promoter/FPI/DII	56%/12%/8%

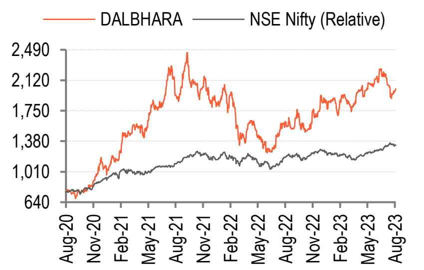
Source: NSE | Price as of 8 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,35,400	1,53,921	1,73,932
EBITDA (Rs mn)	23,160	27,895	35,108
Adj. net profit (Rs mn)	6,321	9,537	15,078
Adj. EPS (Rs)	34.2	51.5	81.5
Consensus EPS (Rs)	34.2	53.7	72.2
Adj. ROAE (%)	4.7	6.4	10.0
Adj. P/E (x)	59.0	39.1	24.7
EV/EBITDA (x)	16.4	14.5	11.3
Adj. EPS growth (%)	(41.9)	50.9	58.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

COMPANY UPDATE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 611 | ⮝ 19%

360 ONE | Diversified Financials | 08 August 2023

Annual report analysis: Forging ahead

- **Shift from commission to recurring revenue model (ARR) paying off – the latter now contributes 61% of AUM and 67% of revenue at end-FY23**
- **Higher recurring revenue (+15% YoY) coupled with lower C/I (-530bps) led to ~200bps ROAE expansion to 22%**
- **Maintain BUY on rising margins, a strong platform, loyal client base and low valuations; TP unchanged at Rs 611**

Mohit Mangal
research@bobcaps.in

Sustainable ARR model: 360 One continues to derive benefits from its shift to a recurring revenue business model in FY20. Annual recurring revenue (ARR) grew 15% YoY to Rs 10.5bn in FY23 (25% CAGR over FY20-FY23) and recurring AUM grew 16% to Rs 1.7tn (39% CAGR). At end-FY23, 61% of AUM and 67% of revenue were based on ARR, which management expects will grow further. Net flows stood at Rs 252bn, a bulk of which were recurring in nature. The company has a strong outlook and aims to raise the wallet share of existing clients while expanding operations beyond its traditional base of tier-1 cities and into selective offshore locations.

360 One Plus and 360 AMC in focus: The 360 One Plus business reported AUM of Rs 423bn (+29% YoY) and yield of 25bps in FY23. A transparent fee-only pricing model along with the flexibility for clients to choose the level of engagement helped the company gain traction. In the AMC business, 360 One expanded its product range across four asset classes: listed equities, private equities, credit and real assets. Following a slew of fund launches and commitments raised in the AIF category, it closed the year at Rs 583bn in AUM (+5% YoY) and 69bps in yield. Listed and private equities were the top asset classes with AUM of Rs 247bn and Rs 205bn respectively.

Stable financial parameters: Higher recurring revenue (+15% YoY) coupled with operating leverage supported expansion in ROAE from 20% in FY22 to 22% in FY23 and in ROAA from 6.0% to 6.1%. The cost-to-income ratio fell 530bps YoY to 46% in FY23 and is expected to remain steady. Asset-liability management was healthy and contingent liabilities remained under control. Per management, the business is backed by a robust central risk management department with a well-defined policy to mitigate risks. On the dividend front, the company retains its policy of distributing 70-80% of profits to shareholders.

Maintain BUY: The stock is trading at 21x FY25E EPS and appears undervalued, in our view. We retain BUY with an unchanged TP of Rs 611 set at 25x FY25E EPS – a 10% premium to the 4Y average, given a robust model, strong fundamentals and a supportive macro climate.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	360ONE IN/Rs 511
Market cap	US$ 2.3bn
Free float	78%
3M ADV	US$ 2.1mn
52wk high/low	Rs 545/Rs 395
Promoter/FPI/DII	22%/23%/2%

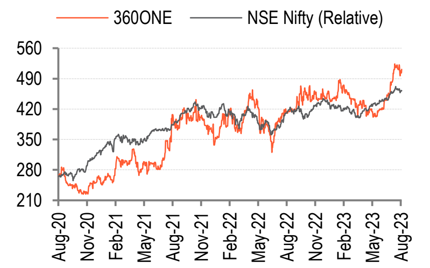
Source: NSE | Price as of 8 Aug 2023

Key financials

Y/E 31 Mar (Rs mn)	FY23A	FY24E	FY25E
PBT (Rs mn)	8,503	10,225	11,731
PBT growth (%)	13.2	20.3	14.7
Adj. net profit (Rs mn)	6,679	7,771	8,915
EPS (Rs)	18.1	21.3	24.4
Consensus EPS (Rs)	18.1	23.2	26.0
P/E (x)	28.2	24.0	20.9
MCap/AUM (%)	0.0	0.0	0.0
ROE (%)	21.8	24.4	27.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
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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

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