

RESEARCH
AMBER ENTERPRISES | TARGET: Rs 3,200 | -13% | SELL

Persistent near-term challenges; cut to SELL

BOB ECONOMICS RESEARCH | CPI AND IIP

Still some pain points on inflation

BOB ECONOMICS RESEARCH | CREDIT COMPOSITION

Study on personal loans

HERO MOTOCORP | TARGET: Rs 4,671 | -5% | HOLD

Healthy quarter but positives priced in

THERMAX | TARGET: Rs 3,300 | -1% | HOLD

Improving order outlook; maintain HOLD

BANDHAN BANK | TARGET: Rs 270 | +35% | BUY

Recovery on track

INDRAPRASTHA GAS | TARGET: Rs 510 | +19% | BUY

Legacy UP, new GAs can offset slowdown, reiterate BUY

ZYDUS WELLNESS | TARGET: Rs 1,531 | -3% | HOLD

Seasonally weak quarter

Daily macro indicators

Indicator	08-Feb	09-Feb	Chg (%)
US 10Y yield (%)	4.15	4.18	2bps
India 10Y yield (%)	7.08	7.11	3bps
USD/INR	82.96	83.03	(0.1)
Brent Crude (US\$/bbl)	81.6	82.2	0.7
Dow	38,726	38,672	(0.1)
Hang Seng	15,878	15,747	(0.8)
Sensex	71,428	71,595	0.2
India FII (US\$ mn)	07-Feb	08-Feb	Chg (\$ mn)
FII-D	78.0	319.9	241.9
FII-E	(193.0)	(487.5)	(294.5)

Source: Bank of Baroda Economics Research

SUMMARY
AMBER ENTERPRISES

- Q3 a muted quarter with net loss of Rs 5mn due to lower revenue and higher interest and depreciation costs
- Headwinds continue in RAC business as more customers move production in-house; diversifying to limit risk
- Near-term challenges and a 30% run-up in stock price drive our downgrade to SELL; TP revised to Rs 3,200 (vs. Rs 2,900)

[Click here](#) for the full report.

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INDIA ECONOMICS: CPI AND IIP

CPI print came in at 5.1%, considerably higher than our estimate of 4.7% and market consensus (Bloomberg est.) of 5%. Food inflation has been still at an elevated level, with 6 out of 12 broad categories of food inflation remaining above 6%. The surprise bit of inflation came from an elevated meat and fish inflation, which noted a considerable sequential jump. Even much of the correction in vegetable prices have been behind us, as also visible in the high frequency price data of Feb'24.

[Click here](#) for the full report.

INDIA ECONOMICS: CREDIT COMPOSITION

The study aims at understanding the composition of the subsectors of personal loans and the changing trends. The two time periods chosen are December 2018 and September 2023 which were similar in terms of having similar repo rate regimes. The study also looks at composition of housing sector loans and the average ticket size across different credit limits. In the end, an analysis across population groups is presented.

[Click here](#) for the full report.

HERO MOTOCORP

- Q3 revenue grew 21% YoY steered by 17% growth in motorcycle volumes and 22% in scooters; realisations up 3%
- Lower raw material cost as proportion of sales lifted gross margin by 210bps YoY to 32.7%
- TP raised to Rs 4,671 (vs. Rs 3,009) on higher target P/E of 17x (vs. 15x) for core business and rollover; maintain HOLD

[Click here](#) for the full report.

THERMAX

- Q3 operating performance stable with EBITDA margin inching up 20bps YoY despite a Rs 100mn hit from cost overruns
- Management expects large orders to return in FY25, led by domestic power and Middle East projects
- TP raised to Rs 3,300 (vs. Rs 3,000) upon rollover and hike in our FY25/ FY26 EPS estimates by ~7% each; retain HOLD

[Click here](#) for the full report.

BANDHAN BANK

- Healthy business growth drives 21% YoY rise in Q3 NII, though muted other income induces 14% fall in PPOP
- Reported NIM stable QoQ at 7.2% and guidance retained at 7-7.5%; sale to ARC lifts asset quality
- Retain BUY with slight change in TP to Rs 270 (vs. Rs 276), set at 1.6x FY26E ABV (vs. 1.9x on FY25E)

[Click here](#) for the full report.

INDRAPRASTHA GAS

- Factoring in faster e-transition for DTC buses and passenger vehicles in Delhi, we lower FY23-FY26 volume growth to 5.9% from 8.4%
- We still factor in 6.5% CAGR over FY25-FY33, the semi-explicit period of our DCF, expecting Uttar Pradesh and newer GAs to support growth
- Our DCF-based TP reduces to Rs 510 (from Rs 550) baking in slower growth; we believe CNG will coexist with EVs and reiterate BUY

[Click here](#) for the full report.

ZYDUS WELLNESS

- Q3 revenue dipped 3% YoY owing to dismal performance in food & nutrition segment
- Gross margin expanded 420bps YoY, but EBITDA margin contracted due to higher expenses
- We roll valuations over to FY26 and maintain HOLD with revised TP of Rs 1,531 (earlier Rs 1,556)

[Click here](#) for the full report.

SELL

TP: Rs 3,200 | ▼ 13%

AMBER ENTERPRISES

Consumer Durables

12 February 2024

Persistent near-term challenges; cut to SELL

- Q3 a muted quarter with net loss of Rs 5mn due to lower revenue and higher interest and depreciation costs
- Headwinds continue in RAC business as more customers move production in-house; diversifying to limit risk
- Near-term challenges and a 30% run-up in stock price drive our downgrade to SELL; TP revised to Rs 3,200 (vs. Rs 2,900)

Vinod Chari | Arshia Khosla
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Muted quarter: Amber’s topline declined 4% YoY to Rs 12.9bn in Q3FY24 and EBITDA was flat at Rs 785mn. Operating margin inched up 20bps to 6.1%, likely due to a favourable change in product mix as the contribution of components increased. The company, however, reported a Rs 5mn loss due to high interest and depreciation.

Mobility segment stands out: The consumer durables and electronics businesses contracted 15% and 8% YoY to Rs 9.3bn and Rs 2.4bn respectively during Q3, while mobility revenue at Rs 1.2bn grew 11% YoY. Sidwal’s mobility order book stood at Rs 11.6bn at the quarter’s end, with further visibility of Rs 8.5bn from Vande Bharat trains and the Pune metro. Management expects the electronics and mobility businesses to grow rapidly amid burgeoning business opportunities.

Challenges in core RAC business persist...: Amber acknowledged that most room AC (RAC) customers have shifted to in-house production, with two more customers likely to do so in the next couple of quarters. This has led the company to switch focus to non-RAC components, with a market share target of 28%.

...leading to diversification to EMS and railways: Amber’s recent purchase of a 60% stake in Ascent Circuits helps enhance its electronics manufacturing services (EMS) portfolio and facilitates backward integration into the passive components of printed circuit board (PCB) assemblies. It has also signed an MoU with Korea Circuits to cater to mobiles and semiconductors. Similarly, it has a JV with Titagarh Rail Systems through Sidwal, where it will provide coach ACs, interiors, toilets and pantographs. This will enable it to service Vande Bharat and metro trains and takes its addressable market to Rs 20mn per coach (~25% of coach cost) from Rs 3mn now.

Near-term challenges; cut to SELL: We cut FY24/FY25 EPS estimates by 26%/24% given the 9MFY24 performance and management’s soft near-term commentary but raise FY26 EPS by 16% to bake in an improved outlook for the non-AC business. We continue to value the stock at 29x P/E – a 40% discount to the 3Y mean. On rolling valuations over to Dec’25E, we arrive at a new TP of Rs 3,200 (vs. Rs 2,900). The stock has run up 30% since our last update and hence we downgrade it from HOLD to SELL.

Key changes

Target	Rating
▲	▼

Ticker/Price	AMBER IN/Rs 3,697
Market cap	US\$ 1.5bn
Free float	60%
3M ADV	US\$ 7.9mn
52wk high/low	Rs 4,614/Rs 1,763
Promoter/FPI/DII	40%/24%/14%

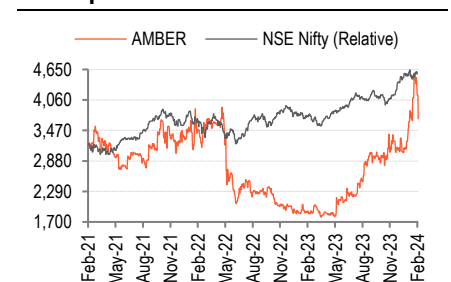
Source: NSE | Price as of 12 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	69,271	71,945	86,582
EBITDA (Rs mn)	4,179	4,977	6,031
Adj. net profit (Rs mn)	1,572	1,551	2,297
Adj. EPS (Rs)	46.7	46.0	68.2
Consensus EPS (Rs)	46.7	62.0	90.0
Adj. ROAE (%)	8.6	7.8	10.6
Adj. P/E (x)	79.2	80.3	54.2
EV/EBITDA (x)	29.8	25.0	20.7
Adj. EPS growth (%)	44.0	(1.3)	48.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



CPI AND IIP

12 February 2024

Still some pain points on inflation

CPI print came in at 5.1%, considerably higher than our estimate of 4.7% and market consensus (Bloomberg est.) of 5%. Food inflation has been still at an elevated level, with 6 out of 12 broad categories of food inflation remaining above 6%. The surprise bit of inflation came from an elevated meat and fish inflation, which noted a considerable sequential jump. Even much of the correction in vegetable prices have been behind us, as also visible in the high frequency price data of Feb'24.

Dipanwita Mazumdar | Jahnavi
Economist

RBI's wait and watch move at this current juncture is thus justified. Core provided the desired comfort. However, for housing inflation, there has been a considerable sequential jump (mainly on account of increase in House Rent, Garage Rent and Residential Building and Land component) which needs to be closely monitored.

Not much comfort on inflation

CPI inflation higher than expected: CPI inflation moderated to 5.1% in Jan'24 from 5.7% in Dec'23, on YoY basis. However, the print is slightly higher than market consensus of 5% and considerably higher compared to our estimate of 4.7%. The major discrepancy was in terms of higher protein based inflation such as meat and fish and egg, which was not incorporated in our forecast. Even the fall in vegetable prices for this month has also been at a less than sharper pace, than anticipated in our projection.

Food inflation still elevated: Consumer food price index came in at 8.3% in Jan'24 from 9.5% in Dec'24, on YoY basis. Despite some softening, inflation in categories such as cereals and products (7.8% in Jan'24), vegetables (27%), fruits (8.7%), pulses (19.5%), sugar and confectionery (16.4%) and spices (16.4%) remained above 6%. Notably, CPI excluding vegetables is running at 3.9% in Jan'24 from 4.5% in Dec'23. However, the momentum of price increase for majority of these items (except Sugar and confectionery) have shown some degree of softening in Jan'24 compared to Dec'23 (especially for spices, fruits, cereal and products and pulses). On the other hand, items such as egg (5.6% in Jan'24 from 4.4% in Dec'23), meat and fish (1.2% from 1.1%), noted increase in inflation.

On sequential basis, food inflation has fallen by 0.7%, which is at a less than sharp pace compared to previous month's decline of 0.9%. Meat and fish inflation (amongst sub-indices, most notable sequential jump observed for chicken inflation) noted quite a bit of monthly jump. Apart from this, vegetable inflation has declined at a less than sharp pace compared to Dec'23. Major comfort came from pulses, sugar and confectionery and oils and fats.



CREDIT COMPOSITION

12 February 2024

Study on personal loans

The study aims at understanding the composition of the subsectors of personal loans and the changing trends. The two time periods chosen are December 2018 and September 2023 which were similar in terms of having similar repo rate regimes. The study also looks at composition of housing sector loans and the average ticket size across different credit limits. In the end, an analysis across population groups is presented.

Jahnvi Prabhakar
Economist

Personal loans segments by Interest Rate

The subsectors of personal loans include housing, consumer durables, vehicles, personal credit card and other personal loans. Of this, sectoral share in total outstanding personal loans as of September 2023 was as follows: housing sector (53.5%), 'other personal loans' (28.9%), vehicles (9.8%), credit cards (4.8%) and consumer durables (0.7%).

Table 1 provides shares of different interest ranges for loans outstanding under each of these headings. The 4 buckets are less than 6%, 6-9%, 9-11% and above 11%. Of the total credit, most of the loans are concentrated in the 6-9% and 9-11% ranges. Over 50% of the personal loans are found in the 9-11% range at the aggregate level.

- Overall, the personal loan are largely concentrated in the 9-11% bucket. The highest is for housing loans followed by education and 'other personal loans'.
- Consumer durable and credit card loans are highly concentrated in the above 11% bucket indicating that these are high yielding loans for banks. In case of 'other personal loans' 45% of them are at rates above 11% while 43.6% are at 9-11% interest range.
- Vehicle loans are largely in the 6-11% interest range.

Table 1: Sectoral share across interest rates (Sep'23)

Share out of each sector	Less than 6%	6-9%	9-11%	Above 11%
Housing	3.4	32.8	60.4	3.4
Consumer Durables	0.4	6.0	18.1	75.4
Vehicles	2.3	45.4	36.9	15.3
Education	1.6	9.4	53.2	35.9
Personal Credit Cards	0	0.0	0.1	99.9
Other Personal Loans	1.4	10.0	43.6	45.0
Personal Loans	2.5	25.2	49.9	22.4
Total Credit	1.5	40.7	39.1	18.7

Source: RBI, Bank of Baroda



HOLD
 TP: Rs 4,671 | ▼ 5%

HERO MOTOCORP

| Automobiles

| 12 February 2024

Healthy quarter but positives priced in

- Q3 revenue grew 21% YoY steered by 17% growth in motorcycle volumes and 22% in scooters; realisations up 3%
- Lower raw material cost as proportion of sales lifted gross margin by 210bps YoY to 32.7%
- TP raised to Rs 4,671 (vs. Rs 3,009) on higher target P/E of 17x (vs. 15x) for core business and rollover; maintain HOLD

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Volumes surge, realisations flattish: HMCL's Q3FY24 revenue grew 21%/3% YoY/QoQ to Rs 97.2bn, steered by volume gains of 18%/3% YoY/QoQ to 1.46mn units. The volume surge was supported by 17% YoY (flat QoQ) growth in motorcycles and 22% YoY (+23% QoQ) growth in scooters. Net realisation per vehicle inched up 3% YoY (flat QoQ) to Rs 66.6k.

Lower commodity costs lift margin: Raw material cost adjusted for inventory increased 18% YoY (flat QoQ) to Rs 65.5bn, but declined to 67.3% of sales from 69.4%/68.6% in Q3FY23/Q2FY24 due to a benign commodity pricing environment. This led to gross margin gains of 210bps/125bps YoY/QoQ to 32.7%. Other expenses climbed 23%/14% YoY/QoQ growth to Rs 12.1bn due to festive season marketing expenses. EBITDA rose 47% YoY (+3% QoQ) to Rs 13.6bn and operating margin expanded 250bps YoY (flat QoQ) to 14%. Adj. PAT climbed 51% (+2% QoQ) to Rs 10.7bn backed by a 32% YoY gain in other income to Rs 2.4bn.

EV and premium portfolio expansion: Harley-Davidson X440 bookings stood at 30k+ units as of Q3, translating into revenue visibility for 3-4 months. Management expects production ramp-up of the X440 and Karizma XMR to ~10k units/month by Mar'24. HMCL launched Mavrick 440 and Xtreme 125R at its annual Hero World event, further expanding the premium portfolio. The company is planning a foray into EV motorcycles with the launch of three products in the performance, premium and mid-premium segments by FY26.

Positives priced in, retain HOLD: To factor in the healthy performance along with steady rural recovery and a premium segment focus, we raise our FY24/FY25 EBITDA/PAT estimates for HMCL by 4%/1% and 10%/6%. We also assign a higher 17x target P/E multiple (earlier 15x) to core operations – in line with the 10-year average – and roll valuations forward to FY26E. The higher multiple is to take cognizance of the better product basket, revival of rural demand and focus on EV segment. This gives us a new SOTP-based TP of Rs 4,671 (earlier Rs 3,009), which includes Rs 130/sh as the value of other businesses (unchanged). However, we believe current valuations bake in the positives and hence retain our HOLD rating.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HMCL IN/Rs 4,909
Market cap	US\$ 11.9bn
Free float	65%
3M ADV	US\$ 37.4mn
52wk high/low	Rs 4,924/Rs 2,246
Promoter/FPI/DII	35%/30%/24%

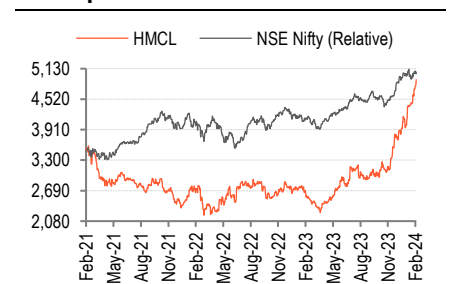
Source: NSE | Price as of 9 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	3,38,057	3,89,963	4,53,665
EBITDA (Rs mn)	39,862	51,668	61,017
Adj. net profit (Rs mn)	29,106	39,628	45,795
Adj. EPS (Rs)	145.8	198.5	229.3
Consensus EPS (Rs)	145.8	199.5	228.0
Adj. ROAE (%)	17.4	22.4	23.1
Adj. P/E (x)	33.7	24.7	21.4
EV/EBITDA (x)	24.6	18.9	16.0
Adj. EPS growth (%)	17.7	36.2	15.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



HOLD
 TP: Rs 3,300 | ▼ 1%

THERMAX

| Capital Goods

| 12 February 2024

Improving order outlook; maintain HOLD

- Q3 operating performance stable with EBITDA margin inching up 20bps YoY despite a Rs 100mn hit from cost overruns
- Management expects large orders to return in FY25, led by domestic power and Middle East projects
- TP raised to Rs 3,300 (vs. Rs 3,000) upon rollover and hike in our FY25/ FY26 EPS estimates by ~7% each; retain HOLD

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Decent operating performance: TMX reported topline growth of 13% YoY to Rs 23bn, with gross and EBITDA margin expansion of 50bps and 20bps YoY to 44.6% and 8.1% respectively. PAT rose 87% YoY to Rs 2.4bn during the quarter, which includes a one-time gain and loss of Rs 1.2bn and Rs 100mn respectively.

Robust industrial segment performance; green solutions on track: The industrial products and industrial infra segments – together ~90% of sales – delivered robust topline growth of 20% YoY and 10% YoY respectively. EBIT margins were healthy across segments, but with green solutions accounting for ~50% of the interest costs, losses continue at the net level for that segment. However, these losses remain aligned with TMX’s internal targets and the segment is guided to turn profitable in FY26.

Large-order pipeline to improve in FY25: TMX expects big-ticket orders to make a comeback in FY25, led by orders from the power sector. It has seen strong inquiries for coal-fired plants in the last three months from utilities as well as entities seeking captive power units. Management expects the formal bidding cycle for power projects to commence over the next two quarters and is already working to structure packages as per customer requirements. Large orders are also expected from the international business, especially in the downstream sector in the Middle East.

Temporary slowdown in domestic business: TMX is witnessing a slight slowdown in order inquiries in the domestic market but believes this will change within a quarter. Sectors such as food & beverages and pharmaceuticals remain positive while there has been a slackening of demand in the ethanol space. Management also noted a lull in orders for waste heat recovery systems from the cement sector and distilleries but expects this to reverse in a quarter.

Retain HOLD: We cut our FY24 EPS estimate by 12% to reflect the 9MFY24 numbers but increase our FY25/FY26 forecasts by ~7% each given management’s positive commentary. On rolling valuations forward to Dec’25E, we have a revised TP of Rs 3,300 (earlier Rs 3,000). Our TP is set at an unchanged 40x P/E multiple, in line with the stock’s 5Y average. We maintain HOLD on limited upside potential.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TMX IN/Rs 3,350
Market cap	US\$ 4.9bn
Free float	32%
3M ADV	US\$ 4.3mn
52wk high/low	Rs 3,509/Rs 1,992
Promoter/FPI/DII	62%/12%/16%

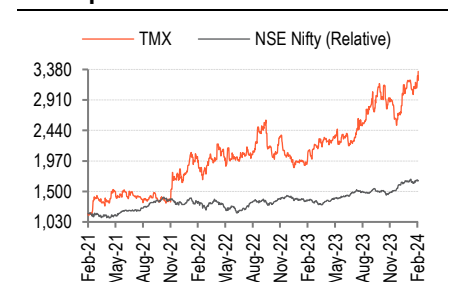
Source: NSE | Price as of 9 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	80,898	90,597	1,09,735
EBITDA (Rs mn)	5,976	7,318	9,886
Adj. net profit (Rs mn)	4,507	5,259	8,385
Adj. EPS (Rs)	37.8	44.1	70.4
Consensus EPS (Rs)	37.8	43.3	60.1
Adj. ROAE (%)	12.2	12.9	18.5
Adj. P/E (x)	88.6	75.9	47.6
EV/EBITDA (x)	67.8	55.0	41.8
Adj. EPS growth (%)	44.3	16.7	59.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



BUY
 TP: Rs 270 | ▲ 35%

BANDHAN BANK

| Banking

| 12 December 2023

Recovery on track

- **Healthy business growth drives 21% YoY rise in Q3 NII, though muted other income induces 14% fall in PPOP**
- **Reported NIM stable QoQ at 7.2% and guidance retained at 7-7.5%; sale to ARC lifts asset quality**
- **Retain BUY with slight change in TP to Rs 270 (vs. Rs 276), set at 1.6x FY26E ABV (vs. 1.9x on FY25E)**

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Healthy recovery: Bandhan Bank witnessed a healthy recovery in Q3FY24, wherein the loan book grew 20% YoY and deposits increased 15%, leading to NII growth of 21%. Despite a rise in deposit cost, the bank was able to maintain NIM (reported) at 7.2%, flat QoQ, aided by a rise in yield. The secured loan book stood at 44.4% of loans – on course to reaching the bank’s 50% target by FY26. Management is also targeting a cost-to-asset ratio of 3.5% vs. 3.6% guided for FY24, as most of the bank’s technological transformation is complete.

NIM guidance maintained: The bank expects cost pressure to continue for another 1-2 quarters but believes higher yields would help it maintain NIM at current levels (target NIM of 7-7.5% for FY24). Other income declined 47% YoY in Q3 in the absence of treasury gains. Factoring in higher costs and subdued other income, we lower our PPOP assumptions by 8%/5%/4% for FY24/FY25/FY26 while raising provision estimates, leading to a 13%/8%/7% cut in PAT.

Asset quality a key monitorable: Slippages stayed elevated at Rs 13.9bn vs. Rs 13.2bn in Q2 (~45% of Q3 slippages stemmed from system migration followed by the festive season). The bank sold Rs 7.2bn of housing loans to the ARC, lifting asset quality – GNPA/NNPA stood at 7%/2.2% in Q3 vs. 7.3%/2.3% in Q2. Management expects to see controlled slippages and improvement in the SMA book, along with recovery from the CGFMU and ECLGS portfolios. Credit cost guidance remains at 2% (+/-20bps) for FY24; we conservatively factor in 2.2% each for FY24/FY25/FY26.

Maintain BUY: Baking in gradual improvement in both operational costs and asset quality, along with stable margins, we forecast a PAT CAGR of 30% over FY23-FY26, albeit on a lower base, with ROA/ROE rising to 2.1%/17.3% in FY26. We roll valuations over to 1.6x FY26E ABV using the Gordon Growth Model (earlier 1.9x on FY25E), leading to a slightly revised TP of Rs 270 (earlier Rs 276). The recent stock price correction provides a further investment opportunity. Maintain BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	BANDHAN IN/Rs 201
Market cap	US\$ 3.9bn
Free float	60%
3M ADV	US\$ 36.3mn
52wk high/low	Rs 272/Rs 182
Promoter/FPI/DII	40%/33%/17%

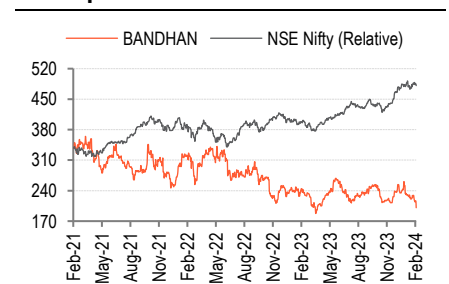
Source: NSE | Price as of 12 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	92,596	102,759	124,946
NII growth (%)	6.3	11.0	21.6
Adj. net profit (Rs mn)	21,946	31,205	39,546
EPS (Rs)	13.6	19.4	24.5
Consensus EPS (Rs)	13.6	19.6	24.8
P/E (x)	14.7	10.4	8.2
P/BV (x)	1.7	1.4	1.3
ROA (%)	1.5	1.9	2.1
ROE (%)	11.9	14.9	16.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



BUY
 TP: Rs 510 | ▲ 19%

INDRAPRASTHA GAS

Oil & Gas

12 February 2024

Legacy UP, new GAs can offset slowdown, reiterate BUY

- Factoring in faster e-transition for DTC buses and passenger vehicles in Delhi, we lower FY23-FY26 volume growth to 5.9% from 8.4%
- We still factor in 6.5% CAGR over FY25-FY33, the semi-explicit period of our DCF, expecting Uttar Pradesh and newer GAs to support growth
- Our DCF-based TP reduces to Rs 510 (from Rs 550) baking in slower growth; we believe CNG will coexist with EVs and reiterate BUY

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Delhi growth slowing down: IGL highlighted at the Q3FY24 call that Delhi CNG growth has slowed to 3% over 9MFY24 with the loss of ~40% of DTC buses. We estimate that the loss of the remaining 60% over the next 12-18 months could further impact CNG volumes by 2-3%. Even within passenger vehicles (TPV category a proxy for cabs/buses), we note that EV additions have risen to >40% of the total over FY23-10MFY24 (Fig 1) ahead of the impact of aggregator policies.

Volume growth lowered: For FY25/FY26, we conservatively cut volume growth by 5%/7% to 9mmscmd/9.6mmscmd, below management guidance as we factor in the slowdown in Delhi. While we do believe that growth would continue outside Delhi for IGL, we are building in a couple of slower years for now.

New growth levers: (a) Increase in CNG-based passenger vehicles outside Delhi – the contribution of Noida and Ghaziabad has increased to 45% of TPV additions for IGL, ahead of Delhi at <30% (Fig 2), and new GA (6th to 11th rounds) contribution too has risen to 25%. (b) Improvement in consumer sentiment, leading to higher additions of private cars –monthly average adds of 6.8k/6.0k over the past 6/10 months from 4.5k in FY23 (Fig 6). (c) Success on the start of a pilot for long-haul buses in UP, Uttarakhand and Rajasthan. (d) Move away from monopolistic pricing in new GAs and for industrial consumers.

Profit estimates cut: We lower our FY25/FY26 EBITDA forecasts for IGL by 5%/7%, incorporating the cuts in volume growth. Despite this, we still expect an 11% EBITDA CAGR (from 14%) over FY23-FY26.

Reiterate BUY: Rolling valuations forward to Jan'25, we cut our DCF-based TP to Rs 510 (from Rs 550), which assumes an 11% cost of equity, 6.5% (from 7.3%) volume CAGR and ~Rs 8.0/scm (unchanged) average EBITDA margin over FY25-FY33, with terminal growth of 4%. Our TP implies an FY25E P/E of 17.9x, below the 5Y mean forward multiple of 18.7x. While the stock has recovered ~13% from the recent bottom in Nov'23, it is still 12% below the recent peak in mid-October. Given 19% upside to our TP, we reiterate BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	IGL IN/Rs 427
Market cap	US\$ 3.6bn
Free float	55%
3M ADV	US\$ 12.8mn
52wk high/low	Rs 516/Rs 376
Promoter/FPI/DII	45%/18%/23%

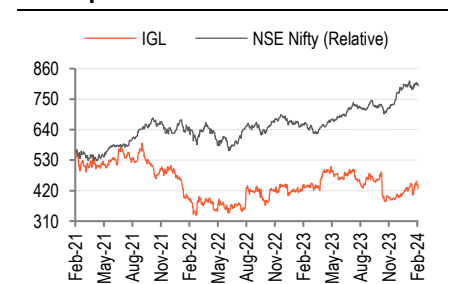
Source: NSE | Price as of 12 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,41,459	1,36,505	1,45,388
EBITDA (Rs mn)	20,398	24,936	25,482
Adj. net profit (Rs mn)	16,397	19,689	19,920
Adj. EPS (Rs)	23.4	28.1	28.5
Consensus EPS (Rs)	23.4	29.1	31.8
Adj. ROAE (%)	21.1	22.8	19.9
Adj. P/E (x)	18.2	15.2	15.0
EV/EBITDA (x)	14.0	11.2	10.7
Adj. EPS growth (%)	9.1	20.1	1.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



HOLD
 TP: Rs 1,531 | ▼ 3%

ZYDUS WELLNESS

Consumer Staples

12 February 2024

Seasonally weak quarter

- Q3 revenue dipped 3% YoY owing to dismal performance in food & nutrition segment
- Gross margin expanded 420bps YoY, but EBITDA margin contracted due to higher expenses
- We roll valuations over to FY26 and maintain HOLD with revised TP of Rs 1,531 (earlier Rs 1,556)

Vikrant Kashyap
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Dismal performance amid seasonal weakness: ZYWL reported a 3% YoY dip in revenue to Rs 4bn in Q3FY24 owing to a 5% decline in the food & nutrition segment. Personal care, on the other hand, grew 16% YoY. The company expects a return to double-digit topline growth in FY25. ZYWL has a distribution reach of 2.9mn outlets which the company aims to take to 3.5mn in three years. It also continues to strengthen sales on new-age platforms, with the revenue contribution from e-commerce rising to 11% from 10% in Q3FY23 and 8% in Q3FY22.

Gross margin continues to improve on lower input cost: Gross margin expanded 420bps YoY and 290bps QoQ to 48.1% as key commodity prices continued to moderate sequentially and calibrated price increases were taken across the portfolio. EBITDA margin, however, contracted sharply by 370bps YoY (-70bps QoQ) to 3.1% as A&P spend increased 12%, other expenses grew 17% and employee cost rose 11%, leading to a 55% YoY drop in EBITDA.

International markets continue to perform despite headwinds: ZYWL reported strong double-digit growth in international markets during 9MFY24 and is targeting 8-10% revenue from these markets in the next 4-5 years. *Sugar Free* and *Complan* currently constitute ~90% of overseas business and the top five markets constitute ~80% revenue share. The company extended its *Sugar Free D'Lite* and *Complan* portfolio in international markets during the quarter.

Maintain HOLD: ZYWL has been able to maintain leadership in key categories despite macro headwinds, anchored by strong growth in the personal care businesses. However, the food & nutrition segment has had a disappointing quarter, even accounting for seasonal weakness. Gross margin improved during the quarter, though higher employee, A&P spend and other expenses dented operating margin. Considering the weak performance, we retain our HOLD rating on the stock. Our TP moves to Rs 1,531 (earlier Rs 1,556) as we roll valuations over to FY26E and reset to a 21x P/E multiple (earlier 22x) – in line with the stock's 10Y average multiple.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ZYWL IN/Rs 1,582
Market cap	US\$ 1.2bn
Free float	21%
3M ADV	US\$ 0.7mn
52wk high/low	Rs 1,721/Rs 1,392
Promoter/FPI/DII	69%/3%/28%

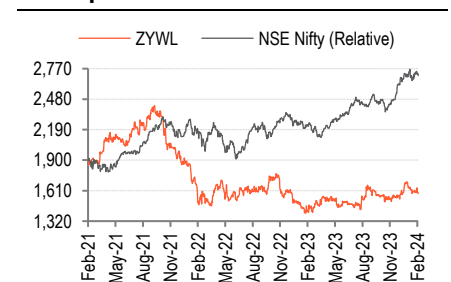
Source: NSE | Price as of 12 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	22,549	23,509	26,354
EBITDA (Rs mn)	3,373	2,886	4,314
Adj. net profit (Rs mn)	3,205	2,662	4,016
Adj. EPS (Rs)	50.4	41.8	63.1
Consensus EPS (Rs)	50.4	46.0	69.2
Adj. ROAE (%)	6.1	5.0	7.1
Adj. P/E (x)	31.4	37.8	25.1
EV/EBITDA (x)	29.8	34.9	23.3
Adj. EPS growth (%)	0.5	(14.3)	50.9

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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