FIRST LIGHT

15 April 2025

RESEARCH

[INITIATION] ABBOTT INDIA | TARGET: Rs 35,292 | +19% | BUY

A safe pick amidst tariff woes

BOB ECONOMICS RESEARCH | IIP

IIP growth softens

BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

Uncertain times ahead

BANKING | Q4FY25 PREVIEW

Earnings to moderate with slowdown in credit growth

CONSUMER DURABLES

Hot summer returns; EMS to continue stellar run

SUMMARY

[INITIATION] ABBOTT INDIA

- Sales expected to reach USD 1bn, driven by industry-leading MR productivity of Rs 14.9mn by FY27E from Rs 11.5mn in FY24
- Healthy cash balance of Rs 21bn as on FY24 resulted in dividend payout of 72.5%. Expect the payout ratio to increase to 74% by FY27E
- Due to high growth visibility amidst tariff woes, we ascribe a PE of 41x on FY27 to arrive at TP of Rs 35,292. Initiate with a BUY

Click here for the full report.

INDIA ECONOMICS: IIP

IIP growth slowed to 2.9% in Feb'25 from 5.6% in Feb'24 and 5.2% in Jan'25. Compared with previous year (Feb'24), moderation was seen across board. Mining sector and electricity output slowed most notably, while softening was less stark in the manufacturing sector. Within manufacturing, majority of the sectors noted a slowdown in Feb'25 versus Feb'24, including certain key sub-industries like basic metals, wearing apparel, chemicals, motor vehicles etc. In contrast, output of pharmaceuticals, textile, and computers/electronics registered an improvement compared with last year. Within use-based classification, only output of capital goods improved in Feb'25 versus Feb'24.

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INDIA ECONOMICS: MONTHLY CHARTBOOK

Global market volatility has increased significantly since the start of this month as US government announced broad-based tariff measures. More recently, Trump administration has announced 90-day pause on country-specific tariff rates, except China. Escalating tensions between US and China has raised recessionary fears in the US. Major sell-off in US asset classes (bonds and stocks) has also been noted. On the domestic front, given the backdrop of global turmoil, RBI reduced policy rates by another 25bps and also revised its growth and inflation forecasts for FY26 downward. In Q4FY25, high frequency data (services PMI, diesel consumption, and air passenger traffic) shows subdued activity.

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BANKING: Q4FY25 PREVIEW

- Moderate credit growth, coupled with NIMs pressure making a case of weak earnings
- Asset quality to remain monitorable for lenders with high exposure to MFI and unsecured loans
- Overall performance to stay modest; HDFCB and ICICIBC are our top picks

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CONSUMER DURABLES

- Cooling products to report robust YoY volume growth, led by anticipation of intense summer outperforming ECD and lighting
- Wires & cables likely to post double-digit growth, driven by channel restocking and elevated copper prices
- Strong growth momentum to continue in EMS companies, led by client additions and improving product offerings

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BUY

TP: Rs 35,292 | ⮝ 19%

ABBOTT INDIA | Pharmaceuticals | 11 April 2025

A safe pick amidst tariff woes

- **Sales expected to reach USD 1bn, driven by industry-leading MR productivity of Rs 14.9mn by FY27E from Rs 11.5mn in FY24**
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- **Due to high growth visibility amidst tariff woes, we ascribe a PE of 41x on FY27 to arrive at TP of Rs 35,292. Initiate with a BUY**

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Core brands sustaining leadership – Abbott India (BOOT's) top 10 brands contribute ~76% of sales, while its top 20 brands contribute ~90% of sales of the core sales. Currently, the company has leadership in four therapies, namely Women's Health, Gastroenterology, Metabolics and Multi-Specialty. Its top 10 drugs hold the 1st or 2nd rank in their respective therapies. We expect the leadership position to sustain by big brands becoming bigger; hence, we expect core sales to grow by 13% CAGR from FY25-27E vs 9% CAGR from FY22-24.

MR productivity expected to be one of the highest - BOOT has a record of having one of the highest MR productivities in the industry —Rs 11.5 mn p.a., as on FY24. This is driven from MR count of 3,250 in FY24. Abbott has a strategy to sustain its industry-high productivity, hence intends to add nominal 100-150 MRs every year through deepening penetration into tier 2-3 cities, leveraging digital technologies and rationalising costs.

Industry-leading dividend payout – BOOT has a policy of rewarding its shareholders with a hefty dividend as the company is cash-rich. In FY21, the company paid Rs 275 per share as dividend, which has increased to Rs 410 in FY24. We believe that the company would continue its policy of paying high dividend. It will retain its payout ratio of 73%, which implies that it would have a DPS of Rs 470, Rs 540 and Rs 620 for FY25E, FY26E and FY27E respectively.

Outlook - The company also has a track record of launching 8-10 new products every year, which aids in sustaining 20% PAT CAGR from the past 10 years. We believe double-digit PAT CAGR is sustainable, as it will be least affected by the ongoing tariff woes. Hence, we initiate with a BUY. We believe the top 10 drugs would continue to strengthen its leadership position; therefore, factor in sales /EBITDA and PAT to grow at 12.7%, 15.8% and 14.4% CAGR from FY25-27E. Due to high growth visibility amidst tariff woes, higher dividend payout, an industry-high ROCE, we ascribe a PE of 41x on FY27 to arrive at a TP of Rs 35,292.

Ticker/Price	BOOT IN/Rs 29,641
Market cap	US$ 7.3bn
Free float	24%
3M ADV	US$ 5.2mn
52wk high/low	Rs 31,899/Rs 25,200
Promoter/FPI/DII	75%/0%/9%

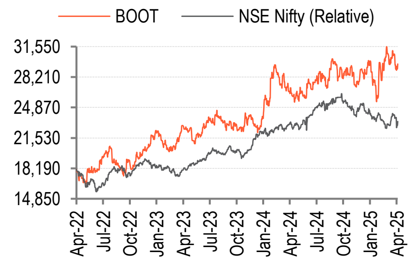
Source: NSE | Price as of 11 Apr 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	57,798	64,319	72,425
EBITDA (Rs mn)	14,531	17,197	20,025
Adj. net profit (Rs mn)	12,012	13,842	15,619
Adj. EPS (Rs)	565.3	651.4	735.0
Consensus EPS (Rs)	565.3	646.0	729.0
Adj. ROAE (%)	34.9	35.0	34.8
Adj. P/E (x)	52.4	45.5	40.3
EV/EBITDA (x)	43.4	36.7	31.5
Adj. EPS growth (%)	26.5	15.2	12.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

IIP

11 April 2025

IIP growth softens

Jahnavi Prabhakar
Economist

IIP growth slowed to 2.9% in Feb'25 from 5.6% in Feb'24 and 5.2% in Jan'25. Compared with previous year (Feb'24), moderation was seen across board. Mining sector and electricity output slowed most notably, while softening was less stark in the manufacturing sector. Within manufacturing, majority of the sectors noted a slowdown in Feb'25 versus Feb'24, including certain key sub-industries like basic metals, wearing apparel, chemicals, motor vehicles etc. In contrast, output of pharmaceuticals, textile, and computers/electronics registered an improvement compared with last year. Within use-based classification, only output of capital goods improved in Feb'25 versus Feb'24.

On the other hand, output of primary goods, intermediate goods, infrastructure goods and consumer durables eased. Consumer non-durable production fell by Feb'25, albeit at slower pace than Feb'24. Overall, on a FYTD basis, IIP growth weakened to 4.1% against 6% growth registered last year. We expect production to have improved towards the end of last fiscal year (based on high frequency data like manufacturing PMI, GST collection, E-way bill generations). In Q1FY26, growth will get support from reduced cost of borrowings, 90-day pause announced by Trump administration from implementation of country-specific tariffs, weaker commodity prices. However, headwinds still persist, on account of market volatility and uncertainty around escalating trade war between US and China.

Moderation in IIP growth: IIP growth eased to 2.9%in Feb'25 from 5.6% in Feb'24. This was broadly in line with our estimate of 3% increase. The softening was broad-based with mining sector growth slowing to 1.6% in Feb'25 (8.1% in Feb'24), manufacturing sector to 2.9% (4.9%) and electricity output to 3.6% (7.6%). On a FYTD basis, IIP growth eased to 4.1% (6% growth last year) and registered much slower growth across the board. Mining activity growth was down to 3.2% (8.2% in FYTD24), while manufacturing sector output rose by 4.1% down from 5.4%. Even electricity growth turned out to be slower at 5% against 6.9% growth noted last year for the same period.

Within manufacturing, out of 23 sub-sectors, 18 of them reported slower growth compared with Feb'24. These included, manufacture of basic metals, wearing apparel, leather, chemicals, electrical equipment, motor vehicles, other transport equipment, amongst a few. Notably, only 5 sectors have recorded stronger growth during this period including, manufacture of textile, pharmaceuticals, other non-metallic mineral products, computers/electronics, and other manufacturing.

MONTHLY CHARTBOOK

11 April 2025

Uncertain times ahead

Economic Research Department
Sonal Badhan | Aditi Gupta
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Economist

Global market volatility has increased significantly since the start of this month as US government announced broad-based tariff measures. More recently, Trump administration has announced 90-day pause on country-specific tariff rates, except China. Escalating tensions between US and China has raised recessionary fears in the US. Major sell-off in US asset classes (bonds and stocks) has also been noted. On the domestic front, given the backdrop of global turmoil, RBI reduced policy rates by another 25bps and also revised its growth and inflation forecasts for FY26 downward. In Q4FY25, high frequency data (services PMI, diesel consumption, and air passenger traffic) shows subdued activity.

However, some bright spots are visible with auto sales, digital transactions and E-way bill generation picking up pace. Apart from global developments, domestic markets will also lookout for heat-wave conditions in the country, which will impact domestic inflation.

Demand picture: India's consumption demand has been signalling mixed trend as has been exhibited by some high frequency indicators. This includes improvement in digital payments, power demand and recovery in auto sales. However, certain indicators noted moderation such as non-oil-non-gold imports, electronic imports along with tad slower credit growth. For rural demand, both tractor and two-wheeler sales have registered an improvement supported by festive buying and lucrative discounts.

Central government finances: Centre's fiscal deficit dropped to 4.6% as of Feb'25 (12MMA basis), down from 5.3% as of Jan'25. On FYTD basis, in Feb'25, total expenditure growth slowed to 3.9%, following 6.4% rise till Jan'25. Within this, revenue expenditure growth slowed to 4.7% (6.8% in Jan'25) as it has reached 83% of the targeted expenditure (Jan'25: 74.4%). Capex growth also eased (0.8% versus 5%) and it has met 80% of the targeted expenditute, slightly lower than 85% last year. On the income side, centre's net revenue improved sharply as of Feb'25 (13.5% versus 6.9% as of Jan'25), thus reaching 78.8% of FY25RE. Within this, direct tax collection growth jumped (12.4% versus 10.7%), and indirect tax collection growth softened to 9.1% from 9.8%. Fiscal deficit in absolute terms is only at 85.8% of RE (Jan'25: 63.6%).

Yields heading southbound: India's 10Y yield witnessed considerable decline. In Mar'&Apr'25 (till date), India's 10Y yield fell by 29bps, at a sharper pace compared to major global yields. Favourable liquidity measures by RBI, fiscal prudence, stable FPI flows (FAR segment) and frontloading of demand buoyed by risk off sentiments, all contributed towards softer yields.

BANKING | Q4FY25 Preview | 11 April 2025

Earnings to moderate with slowdown in credit growth

- **Moderate credit growth, coupled with NIMs pressure making a case of weak earnings**
- **Asset quality to remain monitorable for lenders with high exposure to MFI and unsecured loans**
- **Overall performance to stay modest; HDFCB and ICICIBC are our top picks**

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Credit growth to moderate: We expect the banks to witness moderate loan growth in Q4FY25, primarily due to weak demand across segments and elevated CD ratio. System credit growth moderated to ~11% YoY in Q4FY25 vs 16.3% YoY in FY24 and 12.5% YoY in Q3FY25. Moderate credit growth was mainly driven by slowdown in unsecured retail and demand moderation in certain other secured segments. Credit growth for our coverage is expected to be at ~11% YoY/~4% QoQ for Q4FY25. We expect banks such as ICICIB, KMB, SBIN, FB, DCB and IDFCB to report healthy credit growth in the range of 13%-22.5% YoY. However, HDFCB's higher CD ratio post-merger and IIB's accounting discrepancy in its derivative portfolio are expected to result in weak credit growth (5%-5.5% YoY).

NIMs to remain under pressure: Most of our coverage banks are expected to report margin contraction on a sequential basis by 2-22bps in Q4FY25. We expect higher sequential margin compression in BBL and RBL, due to expected interest reversal from higher slippages, mainly coming from MFI segment; while ICICIBC is expected to report marginal QoQ improvement in NIMs. With the RBI reducing repo rates by 50bps in CY2025 till date, lending yields are expected to decline. In addition, the low-cost CASA deposits (38.3% as of Dec'24 vs 43.5% as of Mar'23) accretion remains a challenge for the banks, which is expected to further pressurise margins.

Asset quality to stay monitorable: We expect the slippages for MFI lenders to remain elevated, resulting in higher credit costs. Asset quality stress to stay high for banks such as BBL, RBL, IIB and IDFCB. However, we believe that large private banks and PSU banks are expected to witness stable or lower credit cost in Q4FY25. Further, cash recovery is expected for large banks from the sale of Jaiprakash Associate loans to NARCL.

PAT to marginally decline YoY for coverage banks: We estimate coverage banks to report a marginal decline in PAT by 2.6% YoY in Q4FY25. This will be mainly driven by margin pressure, moderation in loan growth and higher credit costs for banks with a higher share of unsecured retail and MFI loans.

CONSUMER DURABLES | Q4FY25 Preview | 11 April 2025

Hot summer returns; EMS to continue stellar run

- **Cooling products to report robust YoY volume growth, led by anticipation of intense summer outperforming ECD and lighting**
- **Wires & cables likely to post double-digit growth, driven by channel restocking and elevated copper prices**
- **Strong growth momentum to continue in EMS companies, led by client additions and improving product offerings**

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A quarter of extended wedding season and onset of early summer: We expect our consumer durables coverage (incl. wires & cables) to post 14% YoY / 27% QoQ revenue growth, led by: (a) extended wedding season, as Jan-Feb'25 saw higher weddings vs last year due to the deferred Oct-Nov'24 season (Adhik Maas) (b) strong demand in cooling products, supported by IMD's forecast of above-normal temperatures and more heatwaves (c) channel restocking in wires & cables amid a ~12% YoY rise in copper prices. In EMS (DIXON, AMBER, SYRMA), growth momentum remains strong, driven by client additions (DIXON) and improving product offerings (AMBER).

Cooling products continue to outperform ECD and lighting: For 4QFY25, our coverage companies in the cooling products segment (VOLT and BLSTR) are expected to report revenue growth of 12% and 13% YoY, respectively. Their Unitary Products segment (RACs) is likely to post robust growth of 17% YoY for VOLT and 26% YoY for BLSTR. We estimate Lloyd to deliver 19% YoY growth. We expect BLSTR's AC volume growth to outpace that of VOLT and Lloyd, driven by its expanding distribution network and consequent market share gains. Looking ahead, we expect CY25 to be another strong summer for RAC volumes, as highlighted in our report. Whereas, we expect ECD segment to report revenue growth of 8-9% YoY and lighting segment to remain sluggish.

W&C to report steady vol growth on channel restocking: We estimate W&C companies to report revenue growth of 18–19% YoY (ex-other products), driven by channel restocking and sustained demand for cables, supported by government-led capex and elevated copper prices that rose ~12% YoY during the quarter. A key monitorable in the upcoming quarter will be commentaries on rising competitive intensity and its potential impact on capacity expansion plans.

Elevated input costs to weigh on gross margin: We estimate elevated input prices to dent margins for our durable coverage. However, improving product mix, insourcing and cost optimisation vs continued investment in A&P will lead to variance in operating performance**.**

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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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