

FIRST LIGHT

15 December 2023

RESEARCH

BOB ECONOMICS RESEARCH | WPI

WPI out of deflation

ITC | TARGET: Rs 523 | +15% | BUY

Analyst meet takeaways: Multiple levers for growth

NIPPON LIFE INDIA AMC | TARGET: Rs 513 | +12% | BUY

Management call: MF industry to grow at smart clip

Daily macro indicators

Indicator	12-Dec	13-Dec	Chg (%)
US 10Y yield (%)	4.20	4.02	(18bps)
India 10Y yield (%)	7.27	7.26	(1bps)
USD/INR	83.39	83.40	0.0
Brent Crude (US\$/bbl)	73.2	74.3	1.4
Dow	36,578	37,090	1.4
Hang Seng	16,375	16,229	(0.9)
Sensex	69,551	69,585	0.0
India FI (US\$ mn)	11-Dec	12-Dec	Chg (\$ mn)
FI-D	39.1	74.6	35.5
FI-E	104.6	310.4	205.8

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: WPI

WPI inflation came out of deflationary zone for the first time in this financial year as it rose by 0.3% in Nov'23, up from (-) 0.5% decline in Oct'23. The reversal in trend was driven by uptick in food inflation which jumped to 4.7% in Nov'23 from 1.1% in Oct'23. Sharp increase was noted in case of vegetables, fruits, milk and eggs. Food grain inflation rose at a slower pace in Nov'23. Deflation in manufactured products slowed. Pressures were seen building up in case of basic metals, fabricated metals, other manufacturing and motor vehicles. On the contrary, fuel & power inflation fell to its 3-month low, supported by drop in mineral oil index, which in turn mirrored the movement in international oil prices. Coal prices were steady, but some build up in pressure was seen in electricity index. Going ahead, food prices are expected to remain a strain, owing to weakness in Rabi sowing. Subdued commodity prices, in particular oil prices, will provide some cushion to headline WPI.

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

ITC

- Management is guiding for 80-100bps EBITDA margin expansion every year from cost cuts, scale and premiumisation
- Cigarette volumes recovered last year but illicit trade still a worry; in F&B, conversion to branded products holds large opportunity
- We see multiple levers for growth and margin expansion; maintain BUY with unchanged TP of Rs 523

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NIPPON LIFE INDIA AMC

- Management expects India's MF industry to grow 15% in medium term assuming 10% rise in annual inflows
- Active management backed by large investment team vs. passive approach by entrants cited as strong moat for Nippon AMC
- TP retained at Rs 513 based on unchanged 27x FY26E P/E multiple; maintain BUY

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WPI

14 December 2023

WPI out of deflation

Sonal Badhan

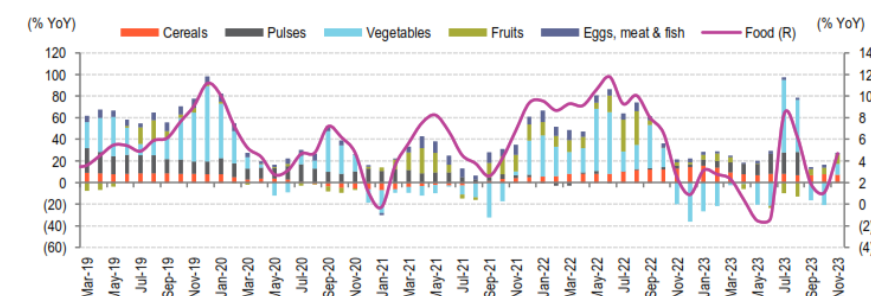
Economist

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Food inflation at 3-month high:

Headline WPI rose by 0.3% in Nov'23, lower than our estimate of 1.5%, but rebounded from (-) 0.5% decline in Oct'23. The jump was driven by food inflation which rose by 4.7% in Nov'23 from 11.1% in Oct'23. Within food, rate of inflation in case of vegetables (16.5% in Nov'23 versus 5.7% in Oct'23), fruits (1.7% versus -1%) and milk (0.4% versus -0.1%) rose significantly. Amongst vegetables, major push came from items like Onions (41.3% versus 22.7%), tomato (74.1% versus -13.5%), carrot, cucumber, and pumpkin. Inflation for items like food grains (1.3% versus 1.5%) and eggs (2.7% versus 3.3%) also rose, but at a slower pace. Within food grains, pressure was seen easing across the board, but was more notable in case of paddy (0.8% versus 1.6%). Wheat inflation also slowed a bit (1.6% versus 1.8%). These trends are in line with movement in international prices. As indicated by World Bank's pink sheet, paddy prices have moderated a bit to 39% in Nov'23 following 40.2% increase in Oct'23, while wheat prices continue to decline at a similar pace (-29% in Nov'23 versus -29.1% in Oct'23).

Figure 1: Food inflation jumps in Nov'23



Source: CEIC, Bank of Baroda Research



BUY**TP: Rs 523 | ▲ 15%****ITC**

Consumer Staples

14 December 2023

Analyst meet takeaways: Multiple levers for growth

- Management is guiding for 80-100bps EBITDA margin expansion every year from cost cuts, scale and premiumisation
- Cigarette volumes recovered last year but illicit trade still a worry; in F&B, conversion to branded products holds large opportunity
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Urban markets continue to drive growth; rural lags: ITC indicated that urban markets continue to grow ahead of rural markets on the back of premiumisation. Rural demand is witnessing green shoots and management expects a better crop, higher farm and non-farm income, real estate activities and increased government spending to rejuvenate demand.

Illicit cigarettes remain key concern: Illicit cigarettes are still a key concern for the company despite a stable tax regime over the last couple of years. India's cigarette industry had witnessed a sharp increase in tax from 2013 to 2020 which resulted in a ~20% volume drop. However, since FY22, taxes have been relatively stable, leading to a claw back of sales from illicit trade channels. This coupled with product launches and agile execution aided volume recovery for ITC in FY22 and FY23.

Large opportunities seen in FMCG business: Branded products contribute merely 18% of India's food & beverages (F&B) market, which presents significant room for ITC to grow. Apart from customer conversion from non-branded products, the company sees factors such as premiumisation, product introductions, portfolio expansion in adjacent categories and new vectors of growth, including beverages, home care, premium skin care, chocolates and frozen snacks, as large business opportunities.

Expanding in hotels, agri, paper and packaging: ITC intends to continue with its asset-right strategy in the hotels business where it has 35 hotels and 3,200 keys in the pipeline. Over the next five years, it is aiming for 200 hotels and 18,000 keys. In the agri and paper & packaging segments, the company remains focused on expanding the value-added portfolio and has planned capital allocation for growth.

Maintain BUY: ITC's focus on driving innovation, strengthening the core while growing adjacent categories, launching value-added products, harnessing emerging markets, tapping inorganic growth opportunities and lifting margins bodes well. Management has guided for 80-100bps EBITDA margin expansion every year and annual capex of Rs 30bn largely toward the FMCG and paper businesses. Given strong earnings visibility, we maintain BUY with an unchanged SOTP-based TP of Rs 523.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ITC IN/Rs 456
Market cap	US\$ 68.9bn
Free float	71%
3M ADV	US\$ 50.4mn
52wk high/low	Rs 500/Rs 325
Promoter/FPI/DII	0%/43%/57%

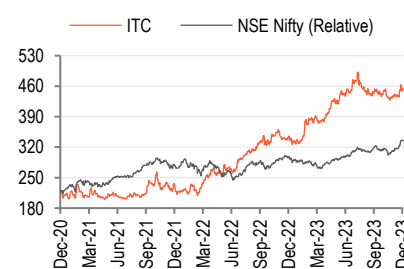
Source: NSE | Price as of 13 Dec 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	709,369	741,223	882,161
EBITDA (Rs mn)	256,649	271,482	319,342
Adj. net profit (Rs mn)	194,039	207,846	237,968
Adj. EPS (Rs)	15.4	16.5	18.9
Consensus EPS (Rs)	15.4	15.8	17.8
Adj. ROAE (%)	27.9	28.5	31.0
Adj. P/E (x)	29.5	27.6	24.1
EV/EBITDA (x)	22.1	20.9	17.7
Adj. EPS growth (%)	22.4	7.0	14.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



BUY**TP: Rs 513 | ▲ 12%****NIPPON LIFE INDIA AMC | NBFC**

14 December 2023

Management call: MF industry to grow at smart clip

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- TP retained at Rs 513 based on unchanged 27x FY26E P/E multiple; maintain BUY

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We hosted Prateek Jain, CFO & head offshore biz of Nippon AMC. Key takeaways:

Industry AUM growth led by equity while debt lags: India's mutual fund AUM crossed the Rs 49tn mark in November (vs. Rs 39tn in March), with equity AUM constituting 55% of the total (vs. 51%). Debt assets have fallen from 29% of AUM to 23% over eight months, continuing the downward spiral of the past few years, owing to volatile interest rates, new tax legislation that restricts the long-term capital gain benefit on debt funds, and higher deposit rates offered by banks.

Hybrid funds could bridge the gap: Nippon AMC believes growing traction in hybrid funds can help bridge the divide between debt and equity flows, even as the softening of yields could lure corporates back to debt funds. Management expects the MF industry to grow 15% in the medium term assuming 10% incremental inflows each year and market appreciation of 5-7%.

Eye on non-MF products: AMCs are increasingly targeting lucrative non-core products, such as PMS (portfolio management services) and AIFs (alternative investment funds). Nippon AMC has employed senior personnel to capitalise on this revenue stream and hopes its presence in the upcoming financial hub of Gift City, Gujarat, will attract more investments.

Competitive moats: Despite newer entrants flocking to the AMC industry, Nippon AMC remains the #4 player and believes its competitive edge stems from (a) active fund management backed by a large investment team, as against a focus on passive schemes by newer players that rely on third-party research, and (b) 70%+ share in exchange-traded fund (ETF) volumes. Moreover, it was among the early players to have a separate risk team and audit done at both the AMC and scheme level.

Maintain BUY: The stock is trading at 24x FY26E EPS. Factoring in robust equity flows (including SIPs), rising market share and sustained ETF leadership, we continue to value the company at 27x FY26E EPS – in line with the long-term mean – for an unchanged TP of Rs 513. Nippon AMC remains our top pick – BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	NAM IN/Rs 460
Market cap	US\$ 3.5bn
Free float	12%
3M ADV	US\$ 4.2mn
52wk high/low	Rs 473/Rs 197
Promoter/FPI/DII	74%/6%/9%

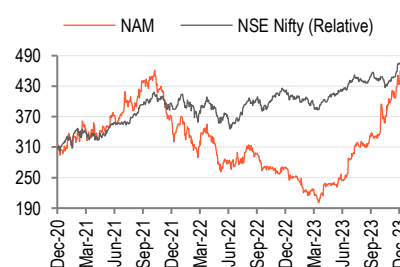
Source: NSE | Price as of 13 Dec 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	7,610	8,935	10,836
Core PBT (YoY)	0.2	17.4	21.3
Adj. net profit (Rs mn)	7,229	9,340	10,319
EPS (Rs)	11.5	14.9	16.5
Consensus EPS (Rs)	11.5	14.2	16.4
MCap/AAAUM (%)	9.9	7.9	6.6
ROAAAUM (bps)	24.7	25.5	23.7
ROE (%)	20.7	26.1	27.6
P/E (x)	39.9	30.9	27.9

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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