FIRST LIGHT

20 January 2024

RESEARCH

360 ONE | TARGET: Rs 747 | +19% | BUY

Steady quarter; raise to BUY post correction

INDUSIND BANK | TARGET: Rs 1,952 | +25% | BUY

Stable performance

POLYCAB INDIA | TARGET: Rs 5,200 | +18% | BUY

Fair quarter but I-T search clouds multiples

FINOLEX INDUSTRIES | TARGET: Rs 230 | -1% | HOLD

Weak quarter on slow recovery in agri pipe demand

Daily macro indicators

Indicator	17-Jan	18-Jan	Chg (%)
US 10Y yield (%)	4.10	4.14	4bps
India 10Y yield (%)	7.17	7.18	1bps
USD/INR	83.14	83.12	0.0
Brent Crude (US$/bbl)	77.9	79.1	1.6
Dow	37,267	37,469	0.5
Hang Seng	15,277	15,392	0.8
Sensex	71,501	71,187	(0.4)
India FII (US$ mn)	**16-Jan**	**17-Jan**	**Chg ($ mn)**
FII-D	285.1	110.1	(175.0)
FII-E	142.4	(1,261.0)	(1,403.4)

Source: Bank of Baroda Economics Research

SUMMARY

360 ONE

- ARR AUM and total revenue grew 33% and 14% YoY respectively in Q3; flows also stayed strong at Rs 89bn
- Business outlook appears robust with new domestic HNI and NRI segments guided to start contributing to the topline in FY25
- Upgrade from HOLD to BUY on attractive valuations post 11% stock correction in Jan'24 YTD; TP unchanged at Rs 747

Click here for the full report.

INDUSIND BANK

- Strong business growth aided a 10% YoY rise in Q3 PPOP despite higher opex; PAT increased 17% to Rs 23bn
- Reported NIM stayed stable QoQ at 4.3% as increased yield on advances offset rise in cost of deposits
- TP revised to Rs 1,952 (vs. Rs 1,755) as we tweak estimates and roll valuations over; retain BUY

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POLYCAB INDIA

- Revenue growth reasonable at 17% YoY, but EBITDA margin falls on lower exports and higher advertising expenses
- Project Leap target of Rs 200bn in revenue by FY26 retained; to be revisited post FY24
- Pending the tax search outcome, we cut our target P/E to 37x (vs. 45x); retain BUY with a new TP of Rs 5,200 (vs. Rs 6,100)

Click here **for the full report.**

FINOLEX INDUSTRIES

- Missed our Q3 EBITDA estimate by 16% on slow recovery in agri pipe demand
- Positive plastic pipe demand outlook on affordable resin prices and rising share of non-agri pipes in the mix
- Maintain HOLD on limited growth prospects and weak return ratios; TP unchanged at Rs 230

Click here **for the full report.**

BUY
TP: Rs 747 | 19%

360 ONE | Diversified Financials | 19 January 2024

Steady quarter; raise to BUY post correction

- **ARR AUM and total revenue grew 33% and 14% YoY respectively in Q3; flows also stayed strong at Rs 89bn**
- **Business outlook appears robust with new domestic HNI and NRI segments guided to start contributing to the topline in FY25**
- **Upgrade from HOLD to BUY on attractive valuations post 11% stock correction in Jan'24 YTD; TP unchanged at Rs 747**

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Strong AUM growth with respectable flows: 360 One's recurring AUM grew 33% YoY (+9% QoQ) to Rs 2.2tn, with the 360 One Plus business surging 81% YoY to Rs 736bn at end-Q3FY24. Net inflow was respectable at Rs 89bn for Q3 (Rs 275bn for 9MFY24), with the wealth and AMC businesses generating inflows of Rs 77.2bn and Rs 11.4bn respectively. Management expects to scale net flows to Rs 500bn in FY25 (Rs 600bn including new geographies). Based on the Q3 print, we broadly retain our AUM estimates for FY24 and FY25 and raise our FY26 forecast 2% while trimming our FY24/FY25 PAT by 2% each to bake in higher costs.

PAT in line: Q3 PAT increased 8% YoY (+5% QoQ) to Rs 1.9bn, in line with our estimate. Recurring revenue came in at Rs 3.4bn (+11% YoY), whereas non-recurring income declined 8% YoY to Rs 1bn, making for overall income of Rs 4.7bn (+14% YoY, +6% QoQ) – in line with our estimate. ARR yield (calc.) softened 12bps YoY to 64bps but was flat sequentially. Hiring, particularly for new segments, led to a rise in C/I ratio to 49.6% with total costs of Rs 2.3bn. The tax rate was only 17%, bringing net profit on par with our expectations. The company announced its fourth interim dividend of Rs 4.5/sh for FY24 (Rs 16.5 for FY24 YTD).

Clear plans for new markets: The company is on track to launch its HNI platform with a client base worth Rs 50mn-250mn in Apr'24 and the global business by Jul'24. Management expects a visible impact on the topline from FY25 onwards with a stronger upside from FY26 along with retention (yield) of 70-75bps for both businesses, together with solid returns in the longer term.

Upgrade to BUY post correction: We retain our TP of Rs 747 and continue to value the stock at an unchanged 25x FY26E P/E multiple – a 10% premium to the long-term average. However, we upgrade our rating from HOLD to BUY as current valuations look attractive at 21x FY26E EPS following an 11% correction in stock price during January so far. We remain positive on 360 One considering continued traction in the ARR model, where recurring AUM has hit Rs 2.2tn in Q3, and a well-defined expansion strategy.

Key changes

Target	Rating
◄ ►	▲

Ticker/Price	360ONE IN/Rs 629
Market cap	US$ 2.8bn
Free float	78%
3M ADV	US$ 5.1mn
52wk high/low	Rs 735/Rs 395
Promoter/FPI/DII	22%/23%/2%

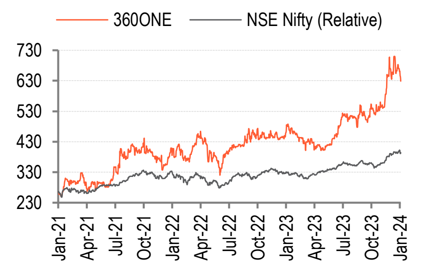
Source: NSE | Price as of 19 Jan 2024

Key financials

Y/E 31 Mar (Rs mn)	FY23A	FY24E	FY25E
PBT (Rs mn)	8,503	9,358	11,193
PBT growth (%)	13.2	10.1	19.6
Adj. net profit (Rs mn)	6,679	7,486	8,843
EPS (Rs)	18.1	20.3	24.0
Consensus EPS (Rs)	18.1	20.0	23.0
P/E (x)	34.7	31.0	26.2
ROE (%)	21.8	23.5	26.8

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

Stock performance



Source: NSE

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BUY
TP: Rs 1,952 | ⮝ 25%

INDUSIND BANK | Banking | 19 January 2024

Stable performance

- **Strong business growth aided a 10% YoY rise in Q3 PPOP despite higher opex; PAT increased 17% to Rs 23bn**
- **Reported NIM stayed stable QoQ at 4.3% as increased yield on advances offset rise in cost of deposits**
- **TP revised to Rs 1,952 (vs. Rs 1,755) as we tweak estimates and roll valuations over; retain BUY**

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Loans up 20% YoY: IIB continued its strong credit growth trajectory, with advances rising 20% YoY (+4% QoQ) in Q3FY24, driven by the CFD book (+24% YoY/+5% QoQ), wherein both vehicle and non-vehicle finance along with MFI beat expectations. CCB growth was muted at 15% YoY (2% QoQ) despite a healthy performance from small corporates which grew 43% YoY (5% QoQ). Deposit growth was subdued at 13% YoY (3% QoQ), wherein low-cost retail deposits as per LCR grew 20% YoY to 45% (vs. 43.7% in Q2) while the CASA ratio fell 85bps QoQ to 38.5%.

NIM stable; PAT robust despite high C/I ratio: Continued recovery in high-yield advances (+15bps QoQ) supported a stable reported NIM of 4.3% despite a 9bps QoQ rise in deposit cost. IIB continues to guide for NIM of 4.2-4.3% in FY24. NII growth was healthy at 18% yoY(4% QoQ) as was non-interest income growth at 15% YoY (5% QoQ). Opex stayed elevated due to the bank's continued investment in human capital, digital launches and marketing initiatives that raised the C/I ratio by 56bps QoQ to 47.4%, with guidance at 45-46% for FY25. Led by a strong topline, PPOP grew 10% YoY (+3% QoQ).

Asset quality stable: Slippages were high at Rs 17.6bn vs. Rs 14.6bn in the previous quarter, wherein corporate slippages were at Rs 3.1bn (vs. Rs 2.1bn) and CFD at Rs 14.5bn (vs. Rs 12.5bn). The latter was mainly from vehicle finance where the bank expects improvement in Q4. Credit cost (calc.) stood at 121bps vs. 126bps in Q2, which is within the guided range of 110-130bps over FY23-FY26. GNPA/NNPA were stable at 1.9%/0.57% with PCR of 70.6%. A continued decline in the restructured book (to 48bps of advances vs. 52bps in Q2) and SMA book (19bps vs. 26bps) and total provisions of 2.2% (114% of GNPA) provide confidence on asset health.

Maintain BUY: Strong growth momentum in retail, recovery in MFI and a favourable asset-liability mix led to stable margins despite higher costs. We expect IIB to deliver healthy return ratios (ROA/ROE to 2%/16.8% in FY26 vs. 1.7%/14.4% in FY23). We retain BUY and revise our TP from Rs 1,755 to Rs 1,952 as we tweak estimates and roll valuations forward to FY26E with an unchanged target P/ABV multiple of 1.9x (Gordon Growth Model).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	IIB IN/Rs 1,561
Market cap	US$ 14.8bn
Free float	84%
3M ADV	US$ 66.9mn
52wk high/low	Rs 1,695/Rs 990
Promoter/FPI/DII	16%/42%/26%

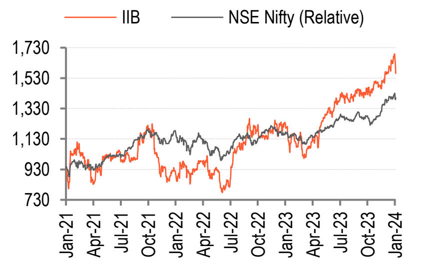
Source: NSE | Price as of 19 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	175,921	207,577	246,215
NII growth (%)	17.3	18.0	18.6
Adj. net profit (Rs mn)	74,431	89,577	107,193
EPS (Rs)	96.0	115.3	137.8
Consensus EPS (Rs)	96.0	115.6	135.4
P/E (x)	16.3	13.5	11.3
P/BV (x)	2.2	2.0	1.7
ROA (%)	1.7	1.8	1.9
ROE (%)	14.4	15.5	16.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BUY

TP: Rs 5,200 | ⮝ 18%

POLYCAB INDIA | Consumer Durables | 19 January 2024

Fair quarter but I-T search clouds multiples

- **Revenue growth reasonable at 17% YoY, but EBITDA margin falls on lower exports and higher advertising expenses**
- **Project Leap target of Rs 200bn in revenue by FY26 retained; to be revisited post FY24**
- **Pending the tax search outcome, we cut our target P/E to 37x (vs. 45x); retain BUY with a new TP of Rs 5,200 (vs. Rs 6,100)**

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Growth continues: Polycab posted a respectable quarter, with topline growth of 17% YoY to Rs 43.4bn in Q3FY24. Its EBITDA margin, however, contracted by 50bps YoY and 130bps QoQ, largely due to increased promotional expenses and lower exports, which stood at 2.1% of revenue. EBITDA margin has expanded in 9MFY24 to 13.9% (vs. 12.7% in 9MFY23), which can be attributed to a favourable product mix and strategic pricing revisions.

W&C growth decelerating, FMEG drags: Wires & cables (W&C) revenue grew 17% YoY (vs. 29% in Q2FY24 and 47% in Q1FY24) to Rs 39bn on the back of strong volume growth, institutional business growth ahead of distribution business, and demand momentum due to continued public and private capex. FMEG business declined 13% YoY in Q3, largely due to weakness in consumer demand, a high base effect in the fans segment and continuing price erosion in the lighting segment. Increased A&P spends and the absence of economies of scale magnified segmental EBIT loss to Rs 366mn (vs. a Rs 24mn loss in Q3FY23).

Project Leap targets retained: In FY21, Polycab had set a target of achieving Rs 200bn in revenue by FY26 under Project Leap, an implied CAGR of 18%. The company has retained this target for now and will revisit it after the current fiscal year.

No new comment on I-T search: The income tax (I-T) department recently carried out searches at various premises of Polycab. However, the company reiterated that it is yet to receive any official communication regarding the outcome of the searches and refrained from commenting further on the matter.

Cut multiples but retain BUY: Pending the outcome of the I-T search, we halve the 50% valuation premium earlier ascribed by us to 25% over the stock's 3Y average multiple. This lowers our target P/E to 37x (vs. 45x) and upon rollover to Dec'25E, we have a reduced TP of Rs 5,200 (vs. Rs 6100). Even so, we maintain our BUY rating given 17% upside potential following a sharp correction in stock price. The outlook for the W&C business remains positive, and Polycab has the highest market share while also comparing well with peers on financial parameters.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	POLYCAB IN/Rs 4,423
Market cap	US$ 8.1bn
Free float	34%
3M ADV	US$ 68.5mn
52wk high/low	Rs 5,733/Rs 2,738
Promoter/FPI/DII	66%/12%/8%

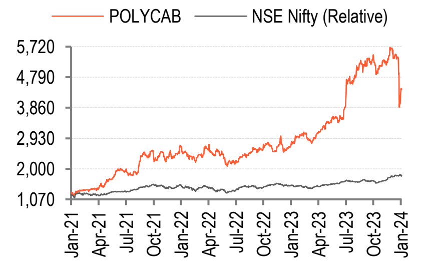
Source: NSE | Price as of 19 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,41,078	1,70,624	1,96,892
EBITDA (Rs mn)	18,521	24,717	27,673
Adj. net profit (Rs mn)	12,700	16,626	18,894
Adj. EPS (Rs)	84.6	110.8	125.9
Consensus EPS (Rs)	84.6	109.0	129.0
Adj. ROAE (%)	20.9	22.8	21.6
Adj. P/E (x)	52.3	39.9	35.1
EV/EBITDA (x)	35.7	26.8	23.9
Adj. EPS growth (%)	51.3	30.9	13.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 230 | ⩔ 1%

FINOLEX INDUSTRIES | Building Materials | 19 January 2024

Weak quarter on slow recovery in agri pipe demand

- **Missed our Q3 EBITDA estimate by 16% on slow recovery in agri pipe demand**
- **Positive plastic pipe demand outlook on affordable resin prices and rising share of non-agri pipes in the mix**
- **Maintain HOLD on limited growth prospects and weak return ratios; TP unchanged at Rs 230**

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Weak quarter: FNXP missed our revenue/EBITDA/adj. PAT estimates for Q3FY24 by 17%/16%/11% due to lower-than-expected pipe volumes (-10% YoY vs. our estimate of +5%), as agricultural pipes saw slow demand and a high base (+92% YoY in Q3FY23). Overall, FNXP's revenue declined 9% YoY whereas EBITDA/adj. PAT grew 30%/24% YoY owing to a low base (on account of MTM inventory loss). Net cash balance has improved slightly from Rs 15bn in Sep'23 to Rs 15.7bn in Dec'23.

Key result highlights: FNXP's pipe volumes fell 10% YoY but grew at a healthy 11.4% on a 4Y CAGR basis in Q3FY24. Despite lower volumes, pipe segment EBITDA grew 10% YoY in Q3 as pipe EBITDA per unit rose 23% YoY to Rs 10.7/kg, surpassing the pre-Covid range of Rs 7-9/kg due to a rising share of non-agri pipes in the mix. PVC resin segment EBITDA climbed 47% QoQ due to a 26% QoQ rise in segment EBITDA per unit to Rs 7.6/kg, albeit still well below the historical average of Rs 15/kg. Management believes PVC resin prices are likely to remain range bound and affordable, which would drive demand for plastic pipes.

Maintain HOLD: We maintain our TP of Rs 230 and HOLD rating on the stock due to the company's limited growth prospects (EPS estimated to log a slow 9% CAGR over FY19-FY26) and weak return ratio profile amidst poor capital allocation. We cut our EPS estimates by 18% for FY24 due to the weak third-quarter results, but largely maintain our forecasts for FY25/FY26. At CMP, the stock trades at 24.3x one-year forward P/E. Our target P/E multiple remains unchanged at 22x on Sep'25E EPS, a 10% premium to the stock's 5Y average to account for an improving risk profile.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	FNXP IN/Rs 231
Market cap	US$ 1.7bn
Free float	47%
3M ADV	US$ 3.1mn
52wk high/low	Rs 260/Rs 158
Promoter/FPI/DII	52%/7%/12%

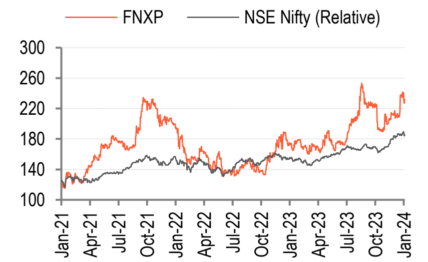
Source: NSE | Price as of 19 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	43,971	41,747	45,236
EBITDA (Rs mn)	3,258	4,679	8,200
Adj. net profit (Rs mn)	2,604	3,736	6,276
Adj. EPS (Rs)	4.2	6.0	10.1
Consensus EPS (Rs)	4.2	8.0	9.9
Adj. ROAE (%)	5.9	7.5	11.8
Adj. P/E (x)	54.9	38.3	22.8
EV/EBITDA (x)	47.7	33.9	19.3
Adj. EPS growth (%)	(65.9)	43.5	68.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY – Expected return >+15%

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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