BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

20 October 2023

RESEARCH

NESTLE INDIA | TARGET: Rs 28,260 | +17% | BUY

Strong all-round performance

BAJAJ AUTO | TARGET: Rs 5,139 | -6% | HOLD

On firm ground

POLYCAB INDIA | TARGET: Rs 6,100 | +15% | BUY

Impressive run continues

FEDERAL BANK | TARGET: Rs 180 | +23% | BUY

Strong growth with improving return

UTI AMC | TARGET: Rs 835 | +6% | HOLD

Equity flows yet to pick up

Daily macro indicators

Indicator	17-Oct	18-Oct	Chg (%)
US 10Y yield (%)	4.83	4.91	8bps
India 10Y yield (%)	7.33	7.35	2bps
USD/INR	83.26	83.27	0.0
Brent Crude (US$/bbl)	89.9	91.5	1.8
Dow	33,998	33,665	(1.0)
Hang Seng	17,773	17,733	(0.2)
Sensex	66,428	65,877	(0.8)
India FII (US$ mn)	**16-Oct**	**17-Oct**	**Chg ($ mn)**
FII-D	61.4	17.9	(43.6)
FII-E	(47.2)	70.9	118.1

Source: Bank of Baroda Economics Research

SUMMARY

NESTLE INDIA

- Domestic business posted double-digit growth in Q3 with continued margin expansion
- NEST announced its second interim dividend of Rs 140/sh and a 1:10 stock split
- TP rises to Rs 28,260 (vs. Rs 26,430) on rollover to Dec'25E with a revised target P/E of 65x (vs. 69.5x on CY24E)

Click here **for the full report.**

BAJAJ AUTO

- Healthy product mix in 2Ws and buoyancy in 3Ws aid 6% YoY increase in Q2 revenue
- Prudent cost checks, easing raw material inflation and realisation gains boost gross/EBITDA margins to 29%/20%
- FY24/FY25 EPS estimates raised 5-6% for a revised TP of Rs 5,139 (vs. Rs 4,837); retain HOLD on limited upside

Click here **for the full report.**

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POLYCAB INDIA

- Strong Q2 powered by 29% YoY growth in wires & cables business; FMEG set to improve gradually
- Project Leap revenue targets likely to be achieved ahead of FY26 timeline, sustaining Polycab's earnings upgrade cycle
- FY24/FY25 EPS raised 2%/5% for a new TP of Rs 6,100 (vs. Rs 5,000), set at 45x Sep'25E EPS (vs. 40x); maintain BUY

Click here for the full report.

FEDERAL BANK

- Continued healthy business momentum in Q2, with reported PAT rising 35% YoY on lower provisions
- NIM flat with guidance of 3.25% for FY24 vs. 3.3% earlier; sharp improvement in credit cost (calc.) to 9bps vs. 68bps in Q2FY23
- FY24/FY25 PAT estimates raised 10%/3% for a new TP of Rs 180 (vs. Rs 165), set at 1.4x FY25E ABV (vs. 1.3x); retain BUY

Click here for the full report.

UTI AMC

- Q2 AUM grew 14% YoY to Rs 2.7tn but equity and hybrid schemes saw cumulative outflows for the fourth straight quarter
- Yields slipped in Q2 owing to NFOs, demand for shorter duration debt products and competition in ETFs
- We raise FY24/FY25 PAT by ~3% each to bake in AUM growth, leading to a new TP of Rs 835 (vs. Rs 815); maintain HOLD

Click here for the full report.

BUY
TP: Rs 28,260 | ⮝ 17%

NESTLE INDIA | Consumer Staples | 19 October 2023

Strong all-round performance

- **Domestic business posted double-digit growth in Q3 with continued margin expansion**
- **NEST announced its second interim dividend of Rs 140/sh and a 1:10 stock split**
- **TP rises to Rs 28,260 (vs. Rs 26,430) on rollover to Dec'25E with a revised target P/E of 65x (vs. 69.5x on CY24E)**

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Domestic business continues to register double-digit growth: NEST delivered revenue growth of 9% YoY in Q3CY23 to Rs 50.1bn, with domestic sales growth of 10% YoY backed by a healthy mix of pricing and volumes. Gross margin improved 170bps QoQ and 380bps YoY to 56.5% and EBITDA margin expanded 160bps QoQ and 250bps YoY to 24.3%. NEST's quarterly revenue run-rate has crossed the Rs 50bn mark for the first time, with sustained momentum in key brands such as *Kitkat, Nescafe Classic* and *Nescafe Sunrise*. The e-commerce channel contributed 6.1% of quarterly sales led by quick commerce. Exports were subdued, dipping 6.5% YoY.

Strong growth across portfolios: Growth momentum continued in the prepared dishes and cooking aids business driven by strong consumer engagement, especially for RURBAN (rural plus urban) markets, and targeted media campaigns. The confectionary business performed well led by *Kitkat* and supported by *Munch,* as did beverages on the back of double-digit growth in *Nescafe Classic*, *Nescafe Sunrise*, and *Nescafe Gold*.

Innovation and launches remain in focus: The company continues to drive innovation and launched two variants of Maggi noodles across 15 states in India and two variants of millet porridge as well.

Maintain BUY: NEST continues to deliver a strong performance in domestic markets supported by consumer engagement, new launches, and uptrading to branded products in small towns and large villages. We expect sustained, profitable growth underpinned by investments in innovation, premiumisation, and direct reach expansion with a rural focus. The stock is trading at 64.2x/55.5x CY24E/CY25E EPS. We introduce CY25 estimates and assign a 2Y forward multiple of 65x to NEST (earlier 69.5x on CY24E), translating to a revised TP of Rs 28,260 (earlier Rs 26,430). Retain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	NEST IN/Rs 24,132
Market cap	US$ 28.3bn
Free float	37%
3M ADV	US$ 17.5mn
52wk high/low	Rs 24,227/Rs 17,880
Promoter/FPI/DII	63%/12%/25%

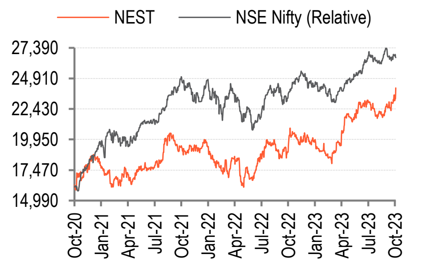
Source: NSE | Price as of 19 Oct 2023

Key financials

Y/E 31 Dec	CY22A	CY23E	CY24E
Total revenue (Rs mn)	168,969	194,416	221,824
EBITDA (Rs mn)	37,125	46,097	55,879
Adj. net profit (Rs mn)	23,905	29,819	36,218
Adj. EPS (Rs)	247.9	309.3	375.6
Consensus EPS (Rs)	247.9	306.6	350.9
Adj. ROAE (%)	97.2	105.3	103.9
Adj. P/E (x)	97.3	78.0	64.2
EV/EBITDA (x)	62.7	50.5	41.6
Adj. EPS growth (%)	1.5	24.7	21.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 5,139 | ∀ 6%

BAJAJ AUTO | Automobiles | 19 October 2023

On firm ground

- **Healthy product mix in 2Ws and buoyancy in 3Ws aid 6% YoY increase in Q2 revenue**
- **Prudent cost checks, easing raw material inflation and realisation gains boost gross/EBITDA margins to 29%/20%**
- **FY24/FY25 EPS estimates raised 5-6% for a revised TP of Rs 5,139 (vs. Rs 4,837); retain HOLD on limited upside**

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Revenue gains YoY backed by pricing: BJAUT's Q2FY24 revenue increased 6% YoY (+5% QoQ) to Rs 108bn aided by healthy realisation growth of 16% YoY (+2% QoQ) to Rs 102.5k/unit that was driven by judicious price hikes and a prudent product mix. Volumes grew 2% QoQ to 1.05mn units largely led by domestic recovery. At 50k-60k units/month, CV volumes are closing in on pre-Covid levels of ~60k.

Gross margin up 90bps QoQ: Raw material cost as a percentage of sales fell to 71% from 71.9% in Q1FY24 and 73.4% in Q2FY23 following softening costs of key inputs. Consequently, gross margin expanded 240bps YoY and 90bps QoQ to 29%. EBITDA increased 22% YoY (+9% QoQ) to Rs 21.3bn with margin expansion of 265bps YoY and 85bps QoQ to 19.8%. Although BJAUT launched new models in Q2, implying higher advertisement expenses, other expenditure stayed flat QoQ at 5.7% of sales (6% in Q2FY23).

Strong demand across segments: BJAUT's *Triumph* brand maintained its strong traction with a 10k-unit order book in Q2. The *Pulsar* brand sold 5mn+ units in H1FY24 vs. 1.8mn units in H1FY23 as management placed an increased emphasis on the 125cc+ segment, which grew to 70% of the volume mix (vs. 60% in Q1FY23). EV 3W volumes surged 2x QoQ and 3x YoY despite the Fame-II subsidy cut. BJAUT is targeting 10k units/month for the *Chetak* scooter vs. 20k in Q1FY24.

Exports improving MoM: BJAUT's export volumes increased 8% QoQ in Q2 backed by growth in its top 15 markets. African markets, including Nigeria, grew in double digits while LATAM recovery was slow and the ASEAN market grew <10%.

Maintain HOLD: We raise our FY24/FY25 EPS estimates by 5%/6% factoring in BJAUT's healthy product pipeline, EV launches and gradual export revival. Our gross/EBITDA margin forecasts remain at ~29%/19% for both years. Estimate revision leads to a higher TP of Rs 5,139 (Rs 4,837 earlier), based on an unchanged 17x FY25E P/E multiple which is in line with the 10Y average. The stock has rallied in recent months and is trading at 18x FY25E EPS, capping upside potential. HOLD.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	BJAUT IN/Rs 5,483
Market cap	US$ 19.3bn
Free float	46%
3M ADV	US$ 25.3mn
52wk high/low	Rs 5,495/Rs 3,520
Promoter/FPI/DII	54%/10%/13%

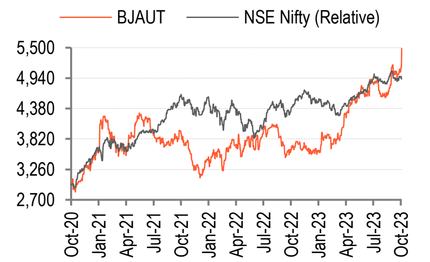
Source: NSE | Price as of 19 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	3,64,276	4,37,376	5,10,630
EBITDA (Rs mn)	65,491	81,685	97,483
Adj. net profit (Rs mn)	56,276	70,434	83,798
Adj. EPS (Rs)	197.9	247.7	294.7
Consensus EPS (Rs)	197.9	242.0	288.0
Adj. ROAE (%)	21.6	24.2	24.6
Adj. P/E (x)	27.7	22.1	18.6
EV/EBITDA (x)	24.6	19.3	16.2
Adj. EPS growth (%)	21.7	25.2	19.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 6,100 | ⮝ 15%

POLYCAB INDIA | Consumer Durables | 19 October 2023

Impressive run continues

- **Strong Q2 powered by 29% YoY growth in wires & cables business; FMEG set to improve gradually**
- **Project Leap revenue targets likely to be achieved ahead of FY26 timeline, sustaining Polycab's earnings upgrade cycle**
- **FY24/FY25 EPS raised 2%/5% for a new TP of Rs 6,100 (vs. Rs 5,000), set at 45x Sep'25E EPS (vs. 40x); maintain BUY**

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Impressive quarter: Polycab posted yet another impressive quarter, with topline growth of 27% YoY to Rs 42.2bn in Q2FY24. Management has effectively managed margins, as visible in the 30bps QoQ and 160bps YoY expansion in EBITDA margin to 14.4% despite higher A&P spend of 2.5-3%. Net profit at Rs 4.3bn surged 59% YoY. The balance sheet remains strong with net cash of Rs 15.3bn at end-Q2.

Robust W&C volumes: Wires & cables (W&C) revenue grew 29% YoY to Rs 38bn in Q2, buoying overall growth for the quarter. This was despite a ~10% QoQ fall in copper prices, implying strong volume growth of 30%. Domestic demand was robust, led by improving trends in capex and real estate, enabling the cables business to outdo wires. Exports have also done well, contributing 9.3% of sales.

FMEG set to improve: FMEG revenue grew at a sedate 8% YoY in Q2 but we expect the benefits of channel realignment to accrue going forward. Margins were negative on account of higher A&P spends and fixed costs. Polycab maintained that it is on track to achieve 10% margins by FY26, as outlined in Project Leap.

Project Leap could be fast-tracked: In FY21, Polycab had set a target of achieving Rs 200bn in revenue by FY26, an implied CAGR of 18%, under Project Leap. The company has already achieved a 26% CAGR over FY21-FY23, leaving only a 13% run-rate for the next three years, suggesting the target could be met well ahead of time. Incremental revenue potential from the extra-high voltage (EHV) business, where the company is incurring ~Rs 7bn in capex, would lend further upside.

Maintain BUY: Following the Q2 outperformance, we raise our FY24/FY25 EPS estimates by 2%/5%. We also move to a higher target P/E multiple of 45x (vs. 40x), ~50% premium to the stock's 3Y average and a PEG of 2x, as we expect the faster-than-expected growth to sustain the company's earnings upgrade cycle. This together with rollover of valuations to Sep'25E results in a revised TP of Rs 6,100 (vs. Rs 5,000). BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	POLYCAB IN/Rs 5,297
Market cap	US$ 9.6bn
Free float	34%
3M ADV	US$ 42.9mn
52wk high/low	Rs 5,494/Rs 2,500
Promoter/FPI/DII	66%/12%/8%

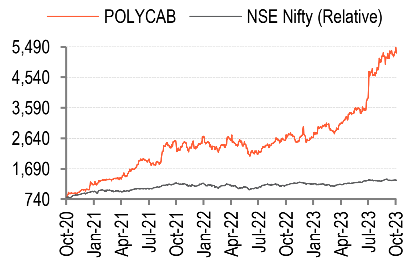
Source: NSE | Price as of 19 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	141,078	170,624	196,892
EBITDA (Rs mn)	18,521	23,595	27,501
Adj. net profit (Rs mn)	12,700	16,220	18,884
Adj. EPS (Rs)	84.9	108.4	126.2
Consensus EPS (Rs)	84.9	109.0	128.0
Adj. ROAE (%)	20.9	22.3	21.7
Adj. P/E (x)	62.4	48.9	42.0
EV/EBITDA (x)	42.8	33.6	28.8
Adj. EPS growth (%)	51.8	27.7	16.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 180 | ▲ 23%

FEDERAL BANK | Banking | 19 October 2023

Strong growth with improving returns

- **Continued healthy business momentum in Q2, with reported PAT rising 35% YoY on lower provisions**
- **NIM flat with guidance of 3.25% for FY24 vs. 3.3% earlier; sharp improvement in credit cost (calc.) to 9bps vs. 68bps in Q2FY23**
- **FY24/FY25 PAT estimates raised 10%/3% for a new TP of Rs 180 (vs. Rs 165), set at 1.4x FY25E ABV (vs. 1.3x); retain BUY**

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Strong business growth: FB's deposit growth (23.1%/4.7% YoY/QoQ) outpaced its loan growth (19.6%/5.1%) led by an increase in term deposits, causing a 67bps QoQ decline in CASA ratio to 31.2%. Loan growth was backed by a healthy rise in retail (+6% QoQ), commercial (+7%) and agri (+8%) business. Further, CV/CE and MFI fared well, growing 11% and 27% QoQ respectively, although on a lower base. Management reiterated its loan and deposit growth guidance of 18-20% for FY24. We raise our respective estimates by 1.5%/2.1% and 2.4%/4% for FY24/FY25.

NIM dips QoQ: Despite upward deposit repricing, FB's NII grew 7.2% QoQ (16.7% YoY) and reported NIM improved 1bps to 3.16%. Management has lowered its NIM guidance for FY24 to 3.25% from 3.3% to bake in a likely increase in deposit cost by 18-20bps. Other income was healthy at Rs 7.3bn and the bank expects the same run-rate going ahead. The C/I ratio climbed to 52.5% in Q2 vs. 50.9% in Q1, and FB expects operational cost to remain elevated as it has decided to front-load investments toward network expansion and branding to leverage volumes.

Slippages up QoQ but asset quality stable: Slippages were under control at Rs 3.6bn (81bps) vs. Rs 5bn (115bps) in Q1. As a result, GNPA/NNPA improved to 2.3%/0.6% from 2.4%/0.7% in Q1 with a PCR of 72.3%. Credit cost dropped to one of the lowest levels in the sector at 9bps vs. 35bps in Q1 and 68bps in Q2FY23, resulting in above-estimated PAT growth of 12% QoQ (35% YoY). Considering the Q2 print and credit cost guidance of ~40bps for FY24, we revise our FY24/FY25 estimates to 36bps/49bps from 60bps and raise our PAT forecast by 10%/3%.

Maintain BUY: FB's conservative approach towards asset quality versus asset pricing over the past year is paying off. At current valuations of 1.1x FY25E P/ABV, the bank is one of the cheapest among large-cap peers due to its relatively low return ratios. We expect strong growth with stable margins and a focus on risk-adjusted returns to raise ROE/ROA to 15%/1.2% by FY25, gradually narrowing the gap with peers. Alongside upward estimate revision, we now value the stock at 1.4x FY25E ABV (vs. 1.3x) based on the Gordon Growth Model for a revised TP of Rs 180 (vs. Rs 165). BUY.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	FB IN/Rs 147
Market cap	US$ 3.8bn
Free float	100%
3M ADV	US$ 26.9mn
52wk high/low	Rs 153/Rs 121
Promoter/FPI/DII	0%/29%/44%

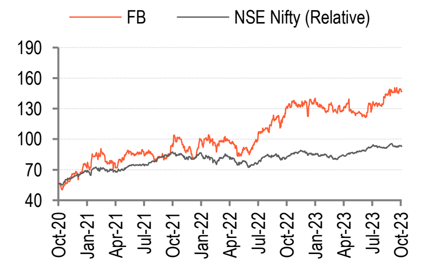
Source: NSE | Price as of 19 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	72,322	84,940	96,809
NII growth (%)	21.3	17.4	14.0
Adj. net profit (Rs mn)	30,106	36,413	38,597
EPS (Rs)	14.3	17.2	18.2
Consensus EPS (Rs)	14.3	16.0	18.5
P/E (x)	10.3	8.5	8.1
P/BV (x)	1.4	1.3	1.1
ROA (%)	1.3	1.3	1.2
ROE (%)	14.9	15.9	14.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD
TP: Rs 835 | ⮝ 6%

UTI AMC | NBFC | 19 October 2023

Equity flows yet to pick up

- **Q2 AUM grew 14% YoY to Rs 2.7tn but equity and hybrid schemes saw cumulative outflows for the fourth straight quarter**
- **Yields slipped in Q2 owing to NFOs, demand for shorter duration debt products and competition in ETFs**
- **We raise FY24/FY25 PAT by ~3% each to bake in AUM growth, leading to a new TP of Rs 835 (vs. Rs 815); maintain HOLD**

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Healthy quarter…: UTI AMC's AUM grew 14% YoY to Rs 2.7tn in Q2FY24. Gross inflow mobilised through SIPs stood at Rs 16.5bn for the quarter, with SIP AUM rising 29% YoY to Rs 265bn. B30 MAAUM formed 23% of the mix vs. 17% for the industry at end-Sep'23. In H1FY24, the company launched four NFOs and opened 29 branches taking its total to 195. Considering the above-estimated AUM growth, we raise FY24/FY25 AUM and PAT estimates by ~3% each.

…but net outflow continues: UTI AMC saw its fourth consecutive quarter of outflows in equity and hybrid schemes combined at Rs 3bn in Q2FY24 (Rs 15bn in Q1FY24), owing to weak scheme performance. The company stressed that it has a detailed strategy to recoup market share, including repositioning well-performing equity schemes. ETFs and index funds attracted inflows of Rs 24bn in Q2 but with Rs 67bn moving out of its liquid schemes, the company saw overall outflows of Rs 37bn.

Yields contract: Q2 yield (calc.) fell to 35bps from 37bps in Q1FY24 owing to a decline across fund categories, barring equity. The hybrid category saw a sequential drop from 90bps to 84bps primarily due to a new NFO which earned a lower rate of 32-35bps. Equity yield was largely unchanged QoQ at 72-73bps but ETFs saw a decrease from 7bps to 4bps due to intense competition in EPFO fund management. In debt, inflows into shorter-duration funds caused yield to drop from 26bps in Q1 to 22bps.

Operating expenses inch up: Operating expenses increased 5% YoY to Rs 1.7bn mainly due to an 8% rise in employee cost to Rs 1.1bn. Other expenses were flat YoY at Rs 611mn. Management has guided for a salary hike of 2-3% in the standalone MF business in FY24 and 4-5% at the consolidated level. Owing to the opening of 29 branches, opex is guided to increase by Rs 6mn-7mn in FY24.

Maintain HOLD: We continue to value the stock at an unchanged 17x FY25E P/E – a 15% discount to mean. Following our upward earnings revision, our TP rises to Rs 835 (from Rs 815) which offers just 6% upside – HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	UTIAM IN/Rs 786
Market cap	US$ 1.2bn
Free float	65%
3M ADV	US$ 1.6mn
52wk high/low	Rs 908/Rs 608
Promoter/FPI/DII	0%/6%/60%

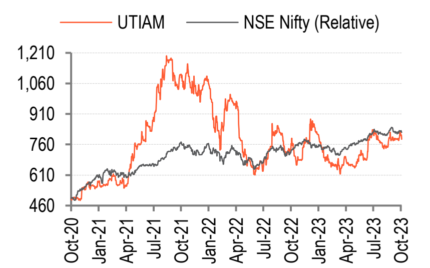
Source: NSE | Price as of 19 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	4,265	4,581	5,208
Core PBT (YoY)	(5.6)	7.4	13.7
Adj. net profit (Rs mn)	4,393	6,555	6,234
EPS (Rs)	34.4	51.6	49.1
Consensus EPS (Rs)	34.4	46.0	48.0
MCap/AAAUM (%)	4.2	3.7	3.3
ROAAAUM (bps)	18.4	24.3	20.8
ROE (%)	11.7	16.3	14.5
P/E (x)	22.8	15.2	16.0

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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