FIRST LIGHT

21 October 2024

RESEARCH

POLYCAB INDIA | TARGET: Rs 7,700 | +8% | HOLD

Strong run continues

TATA CONSUMER PRODUCTS | TARGET: Rs 1,311 | +20% | BUY

Focus on market share; weathering the tea dynamics

WIPRO | NOT RATED

Beats low expectations. Margin & large deal TCV key positives

TECH MAHINDRA | NOT RATED

Beats modest expectations; Steady move toward FY27 targets

SUMMARY

POLYCAB INDIA

- Healthy revenue growth at 30% YoY; EBITDA falls on high competition and high ad spends
- Company revises revenue guidance – to achieve Rs 200bn in FY25; capex and EBITDA guidance intact
- We cut FY25E EPS by 4%, maintain FY26E/FY27E. We value POLYCAB at 45x Sep'26E P/E, with a new TP of Rs 7,700. Maintain HOLD

Click here for the full report.

TATA CONSUMER PRODUCTS

- Compared to consensus, sales came in 3% lower while EBITDA was in line
- Inflation in salt is passed on; tea is a drag as TCPL is prioritising share over margins. Offsets from margin improvement in growth businesses
- Near-term margins in Tea are uncertain but medium- to long-term prospects from growth businesses remain intact. Retain BUY

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WIPRO

- 2QFY25 street expectations were low due to weak performance over the last many quarters. Wipro delivered a modest beat on those
- Margin and large deal TCV are probably the positive highlights. The medium-term aspirational target of 17-17.5% is within reach
- Focus on revenue growth in 4Q. Expect low single-digit EPS upgrades post 2Q. Will be initiating coverage soon

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TECH MAHINDRA

- A beat on revenue, margins and TCV against low expectations. Steadily moving to achieve its FY27 targets. Momentum to continue in 2H.
- First growth quarter (QoQ) for Telecom in six. Not clear if the worst is over. Manufacturing (auto heavy) under pressure, just like for peers.
- Industry matching growth in FY26 a challenge though EBIT margins on the right trajectory to hit 15% in FY27. Will initiate coverage soon.

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HOLD
TP: Rs 7,700 | ▲ 8%

POLYCAB INDIA | Consumer Durables | 18 October 2024

Strong run continues

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Topline beat, margins miss: POLYCAB delivered another strong quarter, with 30% YoY topline growth, reaching Rs 54.9bn (vs BoBCaps estimate of Rs 50bn). This marked the highest-ever second quarter revenue in the company's history and crossed the Rs 100bn milestone for the first half. However, despite robust revenue growth, gross margin declined by 360bps, while EBITDA margin contracted by 300bps to 11.5%. The compression was largely driven by increased competition in the W&C segment, lower contribution from the higher-margin distribution business, and increased losses in the FMEG segment due to higher ad spend and fixed costs. As a result, despite the strong revenue, PAT grew by only 4% to Rs 4.4bn.

W&C shines yet again: POLYCAB's wires and cables segment continued to shine, growing 24% YoY to Rs 47.2bn in Q2, and fueling the company's overall quarterly growth. The domestic business grew 28%, driven by strong mid-teen volume increases. However, EBIT margin contracted 230bps to 12.3%, impacted by heightened competition in the W&C market and reduced contribution from the higher-margin domestic segment. On the international front, sales declined by 15% YoY, contributing 6.1% to total revenue.

FMEG set to improve: The FMEG segment's revenue grew a strong 21% YoY, reaching Rs 4bn in a non-seasonal quarter, driven primarily by a surge in fan sales, benefiting from a low base and significant increase in online sales. Switchgears saw the strongest growth, fueled by robust demand from the real estate sector. Management anticipates further acceleration in FMEG demand in the coming year, particularly due to continued strength in the real estate market, with additional gains expected from channel realignment. However, margins remained negative, primarily due to higher A&P spends as well as elevated fixed costs.

Maintain HOLD: Following the Q2 performance and factoring in weaker margins, we cut our EPS estimates for FY25 by 4% and broadly maintain them for FY26/FY27. Also, we value POLYCAB at 45x Sep'26E P/E, resulting in a higher TP of Rs 7,700 (previously Rs 7,100). We maintain our HOLD rating due to limited upside for the stock.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	POLYCAB IN/Rs 7,120
Market cap	US$ 12.7bn
Free float	37%
3M ADV	US$ 36.8mn
52wk high/low	Rs 7,605/Rs 3,801
Promoter/FPI/DII	63%/12%/8%

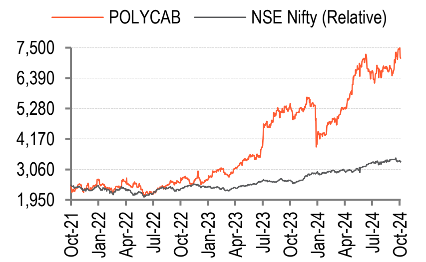
Source: NSE | Price as of 18 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	180,394	215,639	248,681
EBITDA (Rs mn)	24,918	28,786	33,927
Adj. net profit (Rs mn)	17,840	19,933	23,671
Adj. EPS (Rs)	118.9	132.8	157.7
Consensus EPS (Rs)	118.9	133.0	160.0
Adj. ROAE (%)	24.1	22.3	22.1
Adj. P/E (x)	59.9	53.6	45.2
EV/EBITDA (x)	42.8	37.0	31.4
Adj. EPS growth (%)	40.5	11.7	18.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY

TP: Rs 1,311 | ⮝ 20%

TATA CONSUMER PRODUCTS

| Consumer Staples | 19 October 2024

Focus on market share; weathering the tea dynamics

- **Compared to consensus, sales came in 3% lower while EBITDA was in line**
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Lokesh Gusain
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Sales missed but EBITDA in line: Compared to consensus, sales were 3% lower while EBITDA was in line. On a YoY basis, group sales were +13% with growth businesses +15% ex M&A. NourishCo was a drag on growth businesses with sales down 11%. Capital Foods (+25% QoQ) and Organic India (+45% QoQ) improved their sequential monthly sales run rate with rising EBITDA margins. International continued to perform well with UK margins improving further on internal initiatives and cost savings. Tea was the main drag on 2Q results and the outlook remains uncertain. However, medium- to long-term prospects remain intact with growth businesses expected to return to the ~30% sales growth run rate in FY26E.

Weathering the tea dynamics: HUL is absorbing about ~30% tea inflation. While TCPL has selectively taken pricing in its strong regions (East, parts of North India), it is being watchful of competitor price moves and market share. The company is prioritising market share over profitability, which is the right stance as regaining shelf-share can be a challenge at food retail. Despite the margin pressure, TCPL may gain share as smaller players may exit the industry if inflationary pressures remain for longer. We estimate TCPL needs mid- to high-teens pricing to offset the underlying tea inflation.

Our view: Amidst an uncertain pricing/margin outlook on Tea, company focus on market share is a reasonable approach. TCPL has an above-average sales growth profile amongst FMCG peers. Strong focus on innovation, M&A and "growth businesses" are the key drivers. TCPL is trading at 62x FY25E EPS. It has historically traded at 2.7x vs the NSE NIFTY 50 1-year forward EPS. We value TCPL at 62x 12M to Sep'26 EPS. We reduce our premium of 15% to 10% on historical average vs NIFTY 50. This reflects the uncertainty on Tea margins as the industry is currently not being rational. BUY with a TP of Rs 1,311 (from Rs 1,402).

Tata Consumer 2QFY25 result summary (Rs mn)				Reported vs (%)	
	Q2FY24	Q2FY25	YoY(%)	BoB Est.	Cons. Est.
Sales	37,338	42,145	13	(5)	(3)
EBITDA	5,371	6,263	17	3	0
EBITDA Margin (%)	14.4	14.9	48bps	115bps	43bps

Source: Company, Bloomberg, BOBCAPS Research

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	TATACONS IN/Rs 1,093
Market cap	US$ 12.4bn
Free float	64%
3M ADV	US$ 22.2mn
52wk high/low	Rs 1,269/Rs 872
Promoter/FPI/DII	34%/25%/41%

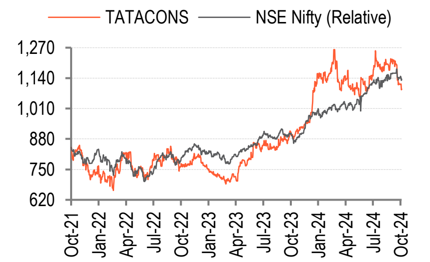
Source: NSE | Price as of 18 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	152,058	172,719	206,096
EBITDA (Rs mn)	22,841	26,555	32,532
Adj. net profit (Rs mn)	14,773	17,237	23,809
Adj. EPS (Rs)	15.9	17.7	23.6
Consensus EPS (Rs)	15.2	17.0	20.5
Adj. ROAE (%)	6.6	9.5	11.9
Adj. P/E (x)	68.7	61.9	46.3
EV/EBITDA (x)	45.6	39.2	32.0
Adj. EPS growth (%)	(5.2)	46.4	30.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

NOT RATED

WIPRO | IT Services | 18 October 2024

Beats low expectations. Margin & large deal TCV key positives

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Revenue at upper end of guidance band. EBIT margin approaches aspirational level: Revenue saw 0.6% QoQ growth in constant currency (CC) terms, a tad below our expectation of 1% but at the upper end of the guidance band (-1% to +1%). EBIT margin at 16.8% expanded 35bps QoQ and was closer to the target band of 17%-17.5%. Margin expansion resulted from operational improvements, despite one month of salary hike. BFSI (+2.7% CC QoQ), CMT (+1.6%) and Consumer (+0.3%) segments led growth.

3Q guidance reflects furloughs, client-specific headwinds in Europe and lower working days: Revenue growth projected at -2% to 0% in CC terms QoQ. 3Q will be impacted by furloughs which are expected to be in line with previous years. There is also a slowdown in Europe due to client-specific reasons. Despite the softness Wipro remains confident of maintaining margins within a narrow band.

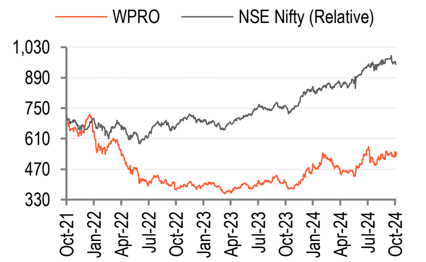
BFSI growth continues, but challenges persist in the manufacturing and energy sectors: Wipro saw a third consecutive quarter of growth in BFSI, with an increase of 1% QoQ, driven by the ramp-up of a recent large deal and momentum in existing relationships. Manufacturing remained soft, experiencing a sequential decline of 2%. Progress is being made with consulting-led industry solutions in the automotive manufacturing segment, and there are signs of an uptick in demand in the industrial segment. Focus will be on converting this demand into wins to revive growth in manufacturing. Energy and utilities also remain weak, with a sequential decline of 3.7%. However, opportunities for vendor consolidation and cost takeout are seen, particularly in the energy sector.

Strong large deal TCV: Wipro saw 19 large deal wins totaling TCV of US$ 1,489mn (up 29% QoQ and 17% YoY). This is the highest TCV number in the last 10 quarters. The improvement in the large deal momentum is attributable to pro-active client engagement, leading with consulting and AI powered solutions. Total TCV was decent at US$ 3.6bn (up 8% QoQ but down 6% YoY).

Ticker/Price	WPRO IN/Rs 549
Market cap	US$ 34.1bn
Free float	27%
3M ADV	US$ 49.8mn
52wk high/low	Rs 580/Rs 375
Promoter/FPI/DII	73%/7%/9%

Source: NSE | Price as of 18 Oct 2024

Stock performance



Source: NSE

NOT RATED

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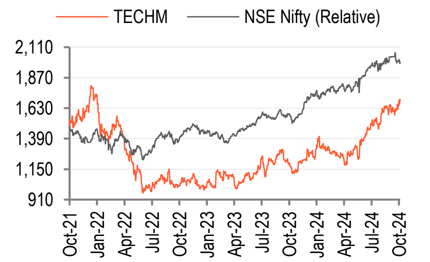
Ticker/Price	TECHM IN/Rs 1,688
Market cap	US$ 17.8bn
Free float	65%
3M ADV	US$ 42.4mn
52wk high/low	Rs 1,710/Rs 1,098
Promoter/FPI/DII	35%/24%/31%

Source: NSE | Price as of 18 Oct 2024

Stock performance



Source: NSE

Revenue, EBIT margin and order inflow better than low expectations: Tech Mahindra (TML) Delivered 0.7% against flat growth expectation in CC QoQ terms. EBIT margin saw a 110-bps improvement versus about 40 that we expected. ~US$600mn new TCV is higher than the US$500mn that the street was working with. Communication vertical grew 2.7% QoQ in USD terms, a first in 6 quarters. But not sure that is sustainable going forward. Except Manufacturing (auto heavy) declined by 4% QoQ and healthcare and life sciences (1.8%) all other verticals grew. 110bps improvement in EBIT margin was driven 70bps by Project Fortius (cost containment program) and 40bps by currency. Looks like value-based pricing and offshore shift were key levers that delivered in the quarter within Project Fortius.

Demand is indicated to be very similar to previous quarters: Said incrementally it is a bit weaker in Auto. In BFSI the CEO says things have not changed materially. This is at odds with what we are hearing from its peers.

Expect margin improvement to be more measured in 2H: Project Fortius involved 150bps investment in FY25 and 75bps in FY26. CFO talked about 2H being slightly heavier on investment compared to 1H. So, while TML is indicating margin improvement QoQ, we think it will be very gradual. Plus, TML has not indicated when and how much the compensation will increase by if at all in FY25.

New deal TCV at its highest in the last 4 quarters: With TML currently focused on margins than on growth and not bidding for low margin projects where there is little visibility on back-ended margin improvement, the improvement in net new TCV has been steady. TML is now talking about a new band of US$600-800mn per quarter going forward.

Value based pricing effort: TML's effort is to improve margins through better price realization and optimized skill utilization within the diamond-shaped organization while still integrating fresh talent. There is a focus on realizing full value from existing contracts and implementing disciplined governance in fixed-price programs, which include automation initiatives.

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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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