FIRST LIGHT

22 April 2024

RESEARCH

BAJAJ AUTO | TARGET: Rs 6,823 | -23% | SELL

Spotless performance priced in by rich valuations

HDFC AMC | TARGET: Rs 3,675 | -1% | HOLD

Another robust quarter but rich valuation caps upside

METALS & MINING

CRU meet takeaways: India steel to gain demand support in H2

METALS & MINING

China's steel industry needs structural readjustment: Valin Steel

Daily macro indicators

Indicator	17-Apr	18-Apr	Chg (%)
US 10Y yield (%)	4.59	4.63	5bps
India 10Y yield (%)	7.19	7.19	0bps
USD/INR	83.54	83.54	0.0
Brent Crude (US$/bbl)	87.3	87.1	(0.2)
Dow	37,753	37,775	0.1
Hang Seng	16,252	16,386	0.8
Sensex	72,944	72,489	(0.6)
India FII (US$ mn)	**15-Apr**	**16-Apr**	**Chg ($ mn)**
FII-D	1.9	(402.8)	(404.7)
FII-E	(387.5)	(391.0)	(3.5)

Source: Bank of Baroda Economics Research

SUMMARY

BAJAJ AUTO

- Q4 revenue grew 29% YoY backed by healthy domestic 2W volume growth and decent realisation gains. Export volume
- Gross margin rose to ~30% (29% QoQ) despite neutral input cost; operating leverage boosted EBITDA margin by 80bps YoY
- We raise TP to Rs 6,823 (from Rs 6,272) on a higher target P/E of 19x (vs. 18x) and increase our EPS 3%/6% for F25E/FY26E. Maintain SELL

Click here **for the full report.**

HDFC AMC

- Higher equity share drove strong overall QAAUM growth of 36% YoY in FY24; expansion in equity QAAUM market share a key positive
- PAT grew 44% YoY in Q4 on a solid topline base (+34% YoY); return ratios expand
- TP raised to Rs 3,675 (from Rs 3,425) on a higher target P/E of 33x (vs. 31x); retain HOLD

Click here **for the full report.**

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METALS & MINING

- India steel prices to improve modestly with kick-off of restocking season in Sep, met coal price to ease further, iron ore range bound
- India flat steel producer margin will stabilise over CY24-CY26 as rising domestic demand would offset the need to export at lower margins
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METALS & MINING

- We summarise key takeaways from our interaction with Director of Securities of Valin Steel, the seventh largest steel producer in China
- While Chinese steel margins are seeing initial signs of recovery with realignment of raw material prices, their sustainability is a question
- Chinese steel industry has been in a downcycle since CY22 and this could extend up to CY26/CY27 until China effectively rebalances supply

Click here for the full report.

RESULT REVIEW

SELL

TP: Rs 6,823 | ∀ 23%

BAJAJ AUTO | Automobiles | 19 April 2024

Spotless performance priced in by rich valuations

- **Q4 revenue grew 29% YoY backed by healthy domestic 2W volume growth and decent realisation gains. Export volume was steady**
- **Gross margin rose to ~30% (29% QoQ) despite neutral input cost; operating leverage boosted EBITDA margin by 80bps YoY**
- **We raise TP to Rs 6,823 (from Rs 6,272) on a higher target P/E of 19x (vs. 18x) and increase our EPS 3%/6% for F25E/FY26E. Maintain SELL**

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Revenue gains YoY backed by motorcycle volumes/realisation gains: BJAUT's Q4FY24 revenue jumped 29% YoY (-5% QoQ) to Rs 115bn aided by healthy volume growth of 25% ~to 1.1mn units. Growth was driven by BJAUT's focus on the 125cc+ segment which outpaced the industry average. Average realisation per vehicle grew by 4%/7% YoY/QoQ to Rs 107.4k despite volume gains.

Gross margin inched up, operating efficiencies aided EBIDTAM: Raw material cost as a percentage of sales was stable at 70% QoQ following indifferent key input costs. Even so, gross margin was flat YoY but inched up QoQ to 30% due to better product pricing. Better operating leverage and cost management aided EBITDA margin expansion of 80bps YoY (flat QoQ) to 20.1%. Other expenditure fell 6% YoY to Rs 6.8k per vehicle. EBITDA for the quarter rose 34% (-5% QoQ) to Rs 23bn.

***Triumph* gains strong traction, other segments fare well:** *Triumph* exported ~19,000+ bikes and commenced retail in Q4FY24 (15k in Q3). *Chetak* delivered its highest quarterly numbers of nearly 40k units with significant share gain, to 13% YoY from 5% (>10k units in Q3). EV 3-wheelers have a market share of ~30%.

Exports improved sequentially: Exports continued to be impacted by Red Sea-related headwinds. The industry volume remains about 20-25% below its peak year of FY22 (a liquidity abundant year). Volume was flattish QoQ, but up 20% against the low YoY base. Hence, recovery from a low base is 20% YoY.

Positives priced in; maintain SELL: We raise our FY25E/FY26E EPS estimates by +3%/6% to factor in high-end segment growth (domestic and exports), 3-wheeler (3W) segment revival and 2-wheeler (2W) electric vehicle (EV) products besides a strong Pulsar show through new launches. We now factor in an EBITDA/PAT CAGR of 22%/21% over FY23-FY26. On FY26E earnings we value the stock at 19x P/E, 18x earlier (20% premium over the 10-year average), and arrive at a higher TP of Rs 6,823 (previously Rs 6,272). However, the current valuation of 25x FY26E P/E appears rich, prompting us to maintain SELL.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BJAUT IN/Rs 8,805
Market cap	US$ 31.0bn
Free float	46%
3M ADV	US$ 56.2mn
52wk high/low	Rs 9,358/Rs 4,252
Promoter/FPI/DII	54%/10%/13%

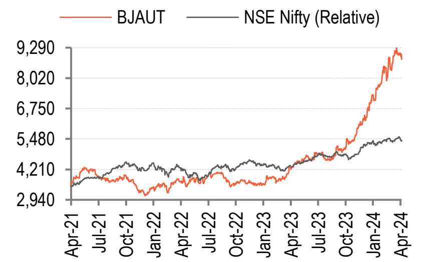
Source: NSE | Price as of 19 Apr 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	4,46,852	5,11,199	5,93,730
EBITDA (Rs mn)	88,176	99,533	1,19,771
Adj. net profit (Rs mn)	74,735	83,706	1,00,253
Adj. EPS (Rs)	267.7	299.8	359.1
Consensus EPS (Rs)	267.7	309.0	361.0
Adj. ROAE (%)	30.1	24.7	25.5
Adj. P/E (x)	32.9	29.4	24.5
EV/EBITDA (x)	28.8	25.2	21.2
Adj. EPS growth (%)	35.3	12.0	19.8

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

Stock performance



Source: NSE

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HOLD
TP: Rs 3,675 | ∀ 1%

HDFC AMC | NBFC | 20 April 2024

Another robust quarter but rich valuation caps upside

- **Higher equity share drove strong overall QAAUM growth of 36% YoY in FY24; expansion in equity QAAUM market share a key positive**
- **PAT grew 44% YoY in Q4 on a solid topline base (+34% YoY); return ratios expand**
- **TP raised to Rs 3,675 (from Rs 3,425) on a higher target P/E of 33x (vs. 31x); retain HOLD**

Mohit Mangal
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Above estimates: HDFC AMC's QAAUM grew 36% YoY to Rs 6.1tn at end FY24 (vs. our estimate of Rs 5.6tn) with the equity segment growing at an even higher 58% YoY. SIP AUM grew 63% YoY to Rs 1.4tn, constituting 37% of actively managed equity AUM. Revenue/EBITDA at Rs 8.5bn/Rs 6.9bn increased 34%/37% YoY at end Q4. Revenue included other income (MTM gains) of Rs 1.6bn. PAT grew 44% YoY to Rs 5.4bn whereas core PAT grew 38% YoY to Rs 4.2bn (vs. our estimate of Rs3.6bn). Live accounts totalled 16.6mn as of Mar'24 and unique customers clocked in at 9.6mn with a higher market share (22% vs. 18% in Mar'23). Based on Q4 print, we increase our AUM estimates by 10% each in FY25/FY26 to Rs 7.2tn/Rs 8.4tn.

Equity market share improves: HDFC AMC had an 11.3% market share in QAAUM in FY24 vs. 11.1% in FY23 and actively managed equity QAAUM share moved up to 12.8% from 12.0%. Equity constituted 63% of QAAUM at end FY24 vs. 54% in FY23. Debt QAAUM grew 16% YoY to Rs 1.4tn, with a stable market share of 13.4%. Liquid QAAUM declined 8% YoY to Rs 674bn with a market share of 11.6% (13.1% in FY23).

Yield compression not a concern: Owing to its growing AUM base, the revenue yield (calc.) declined ~2bps YoY to 47bps at end FY24, which is not a concern as absolute revenue is increasing. Operating margin was stable at 35bps.

Return ratios improve: The ROAE expanded 500bps YoY to 29.5% (+225bps YoY excluding other income) at end FY24. The payout ratio increased to 77% in FY24 (72% in FY23), an increasing trend seen over the last few years.

Maintain HOLD: The stock is trading at 33x FY26E EPS. Apart from raising AUM estimates, we value the stock at a higher 33x FY26E P/E (31x earlier) – a 5% discount to the long-term mean – translating to a revised TP of Rs 3,675 (vs. Rs 3,425). Our multiple upgrade stems from a gradual recouping of market share, improved equity scheme performance and above-expected profitability. Valuations too look high after a 16% stock rally in CY24 (YTD) vs. 2% for the index. We thus retain our HOLD rating.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	HDFCAMC IN/Rs 3,708
Market cap	US$ 9.6bn
Free float	37%
3M ADV	US$ 22.0mn
52wk high/low	Rs 4,067/Rs 1,728
Promoter/FPI/DII	63%/8%/18%

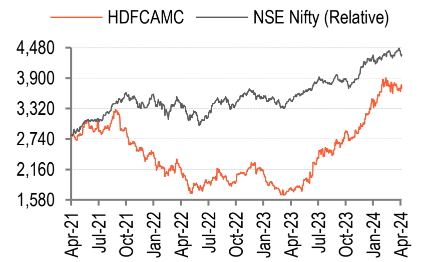
Source: NSE | Price as of 19 Apr 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Core PBT (Rs mn)	18,960	22,351	25,907
Core PBT (YoY)	21.9	17.9	15.9
Adj. net profit (Rs mn)	19,427	20,779	23,805
EPS (Rs)	90.9	97.2	111.4
Consensus EPS (Rs)	90.9	97.0	113.0
MCap/AAAUM (%)	12.9	11.0	9.4
ROAAAUM (bps)	31.7	28.8	28.3
ROE (%)	29.5	28.1	29.6
P/E (x)	40.8	38.1	33.3

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

Stock performance



Source: NSE

METALS & MINING

19 April 2024

CRU meet takeaways: India steel to gain demand support in H2

- **India steel prices to improve modestly with kick-off of restocking season in Sep, met coal price to ease further, iron ore range bound**
- **Indian steel margins to initially find support in pull back in met coal prices and then with a modest increase in steel prices post Sep**
- **India flat steel producer margin will stabilise over CY24-CY26 as rising domestic demand would offset the need to export at lower margins**

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China's steel margin to improve modestly: While steel demand in China is likely to be weak in CY24, supply response is likely to support recovery in steel margins in China. While China's government has announced a stimulus to offset weakness in the real estate sector, the lack of clarity on the funding structure to support equipment upgrade raises questions on its effectiveness.

Indian steel margin to improve in H2CY24: With infrastructure and real estate consumers procuring on an as-needed basis, steel price and margins were muted in Q1CY24. This could improve in H2CY24 as pullback in met coal prices feed through the cost base and is followed by a modest increase of Rs2-2.5/kg in steel price in the next restocking cycle from September.

India's flat steel producer margin will rise gradually over CY25-27: With 21mt of HRC capacity under implementation, India's steel industry needs to increase exports to 15-18% of HRC production until domestic demand catches up in late CY26/early CY27. Lower export margin will weigh on average margin for flat steel producers.

India's steel industry at an advantage: Relative to Chinese industries, India's steel industry has the advantage of domestic/captive iron ore and a more balanced mix between blast and electric arc furnaces, which limit the downside from faster curtailments.

Met coal prices to ease further: After a sharp drop to US$ 230/t, met coal prices are likely to ease to US$ 200/t by end CY24 with the ramp-up of Australian supplies.

Iron ore prices to be range bound: Iron ore prices to average US$ 106/t in CY24 and fall below US$ 100/t with seasonal recovery in supply amid weak demand. This could dip to US$ 90/t with the ramp up of Simandou project (Republic of Guinea).

Our Ferrous sector view: We expect Indian steel margins to stay at mid-cycle level over the next two years. While we expect global steel demand to stabilise gradually, we believe supply pressure from a likely surplus in China will keep a lid on margins.

METALS & MINING

20 April 2024

China's steel industry needs structural readjustment: Valin Steel

- **We summarise key takeaways from our interaction with Director of Securities of Valin Steel, the seventh largest steel producer in China**
- **While Chinese steel margins are seeing initial signs of recovery with realignment of raw material prices, their sustainability is a question**
- **Chinese steel industry has been in a downcycle since CY22 and this could extend up to CY26/CY27 until China effectively rebalances supply**

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China steel demand started on a weak note: Q1CY24 steel demand has been weak from both the infrastructure, real estate and related construction machinery segments. Demand strength is visible in select pockets such as shipbuilding, new energy, household appliances, containers, etc. While there are early signs of improvement in April, underlying demand is still weak in YoY terms.

Stimulus details still awaited: While government has announced stimulus in the form of infrastructure investments and incentive schemes to promote equipment upgrades and trade-in of consumer appliances, details for the latter are still awaited for its implementation.

China steel margin under pressure: With weak steel margins in Q1, 80% of steel industry was loss making in Q1. This has resulted in a supply response with crude steel production declining 8% YoY in March. Iron ore prices have corrected in anticipation of this supply response. This, together with reduction in coking coal prices, are resulting in some improvement in margins. While the company believes steel margins have bottomed out, its sustainability remains a question, with raw material prices seeing a recovery last week and the possibility of return of supplies.

Weak steel cycle could extend up to CY26-CY27: China's steel industry has entered a downcycle from CY22 with the shrinkage of domestic demand and is seeing increased exports along the lines of CY15. While exports rose to ~10% in CY23, it still is below the 16% level seen in CY15. The company expects a gradual decline in domestic demand to 800mt levels over 8-10 years. The company sees a possibility of the downcycle extending up to CY26/ CY27 until China's steel industry balances capacity with underlying demand. While China has initiated consolidation, more is needed for structural adjustment.

Our Ferrous sector view: We expect Indian steel margins to stay at mid-cycle level over the next two years. While we expect global steel demand to stabilise gradually, we believe supply pressure from a likely surplus in China will keep a lid on margins.

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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