FIRST LIGHT

23 January 2025

RESEARCH

HDFC BANK | TARGET: Rs 2,008 | +21% | BUY

A steady quarter

HINDUSTAN UNILEVER | TARGET: Rs 2,859 | +22% | BUY

Moderating demand

PERSISTENT SYSTEMS | TARGET: Rs 4,199 | -26% | SELL

Unveils ambitious FY31 target even before hitting FY27 goal

KEI INDUSTRIES | TARGET: Rs 5,000 | +21% | BUY

Momentum continues; capacity fuels growth

DALMIA BHARAT | TARGET: Rs 1,689 | -6% | SELL

Passing through a challenging phase; quick respite not in sight

BUILDING MATERIALS

Mixed trade flow: Negative for tiles/laminates; positive for MDF

SUMMARY

HDFC BANK

- CD continued to decline, while advances growth is likely to be lower than system for FY25, in line for FY26 and faster in FY27
- Asset quality was impacted by agri slippages, credit cost stood at 50bps vs. 44bps in Q2FY25
- Tough macro-economic conditions may lead to growth moderation; focus remains on profitability. Maintain BUY with revised TP of Rs 2,008

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HINDUSTAN UNILEVER

- Compared to Bloomberg consensus, 3QFY25 sales were in line, while EBITDA was 1% higher
- Commodity headwind requires LSD pricing in 4QFY25 amidst the trend of mix deterioration and “moderating” demand
- Current slow demand is transitory with long-term fundamentals of rural exposure + premiumisation still in place. BUY

Click here **for the full report.**

PERSISTENT SYSTEMS

- 3QFY25 revenue/EBIT margin beat our sub-consensus estimate. It did not say discretionary demand has turned around but said it will deliver
- It unveiled a FY31 revenue target of US$5bn while it is yet to hit its earlier goal of FY27 of US$2bn with 200-300bps of margin increase
- Raise our FPS estimates for FY26/FY27 and increase our PE Target premium to TCS from 20% to 25%. Yet it remains a ’SELL’

Click here **for the full report.**

KEI INDUSTRIES

- KEII reported a 20% YoY rise in Q3 revenue, but margins declined due to raw material price volatility and lower share of EHV sales
- KEII upgraded guidance: FY26 revenue growth of 19-20%, EBITDA margin at 11%, and exports to reach 15-17% of topline in 2-3 years
- We pare FY25/FY26/FY27 EPS estimates by 9%/6%/2% due to margin compression, with a revised TP of Rs 5,000. BUY on fair valuations

Click here **for the full report.**

DALMIA BHARAT

- Revenue declined by 12% YoY (+3% QoQ) to ~Rs 32bn as focus stays on volume growth than on guarding against realisations fall
- Cost savings of 4% driven by lower energy cost, partially helps to mitigate earnings weakness
- We lower EBITDA for FY25E/FY26E/FY27E by 4%/8%/10%, valuing stock at EV/EBITDA of 12x 1Y fwd (Dec’27). Maintain SELL; TP cut to Rs 1,689

Click here **for the full report.**

BUILDING MATERIALS

- Domestic tiles realisation to remain under pressure in the near future due to continued weak tiles exports (-13.0% YoY in Nov'24)
- Laminates net exports volume run rate was down 9.6% YoY in Nov'24 due to a weak demand environment
- MDF imports remained weak in Nov'24 on a YoY basis due to the quick ramp up of new capacity at a competitive rate

Click here for the full report.

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BUY
TP: Rs 2,008 | ⮝ 21%

HDFC BANK | Banking | 23 January 2025

A steady quarter

- **CD continued to decline, while advances growth is likely to be lower than system for FY25, in line for FY26 and faster in FY27**
- **Asset quality was impacted by agri slippages, credit cost stood at 50bps vs. 44bps in Q2FY25**
- **Tough macro-economic conditions may lead to growth moderation; focus remains on profitability. Maintain BUY with revised TP of Rs 2,008**

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3Q CD ratio continued to decline: HDFCB reported muted earnings growth of 2% YoY (-0.5% QoQ) with PPoP increasing by 6% YoY (1% QoQ). Credit growth continued to slow with advances growth at 3% YoY leading to further moderation of CD ratio which came in at 98.2% vs. 99.8% in Q2FY25 vs.110.5% in Q3FY24. The bank is focusing on bringing down the CD ratio to a normalised level (less than 90%). Management reiterated that consequently, loan growth is likely to be lower than system for FY25, in line with system for FY26 and faster than system for FY27. The bank was at a CD ratio of 85-87% pre-merger and is expected to be at these levels in two to three years.

Deposits growth stable sequentially: Deposits grew 16% YoY and 3% QoQ. CASA deposits saw moderate growth of 4% YoY (down 1% QoQ) indicating tough macro-economic conditions. Hence, CASA ratio came in at 34% vs. 35.3% in Q2FY25 and 37.9% in Q3FY24.

Lower NIMs: NIMs contracted by 3bps QoQ (down 26bps YoY) to 3.43% in Q3FY25. This was primarily led by interest reversals in the agri book and limited growth in the retail portfolio. Faster decline in CD ratio may generate excess liquidity which may result in margin contraction going forward. About 70% of the book is floating rate loans, including 45% of repo-linked loans and the remaining 30% is the share of fixed loans.

Maintain BUY: We believe HDFCB has managed to outperform its large private sector peers in the past by effectively navigating business cycles, delivering stronger profitability and margins coupled with better asset quality. Amidst the noise on unsecured loans, tighter liquidity conditions and expectations of a CRR cut thus boosting liquidity, the bank is well-positioned to benefit. Hence, we maintain BUY on the stock with revised SOTP-based TP of Rs 2,008 (from Rs 1,872), valuing the core business at 2.5x its Dec'26 ABV.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HDFCB IN/Rs 1,666
Market cap	US$ 145.4bn
Free float	100%
3M ADV	US$ 319.0mn
52wk high/low	Rs 1,880/Rs 1,364
Promoter/FPI/DII	0%/47%/35%

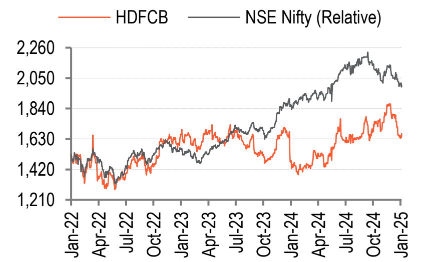
Source: NSE | Price as of 22 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
NII (Rs mn)	10,85,325	12,34,044	14,45,546
NII growth (%)	25.0	13.7	17.1
Adj. net profit (Rs mn)	6,08,123	6,66,692	8,18,711
EPS (Rs)	92.3	87.5	107.0
Consensus EPS (Rs)	92.3	92.0	107.0
P/E (x)	18.0	19.0	15.6
P/BV (x)	2.9	2.7	2.4
ROA (%)	2.0	1.8	2.0
ROE (%)	16.9	14.5	16.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 2,859 | ⮝ 22%

HINDUSTAN UNILEVER | Consumer Staples | 23 January 2025

Moderating demand

- **Compared to Bloomberg consensus, 3QFY25 sales were in line, while EBITDA was 1% higher**
- **Commodity headwind requires LSD pricing in 4QFY25 amidst the trend of mix deterioration and "moderating" demand**
- **Current slow demand is transitory with long-term fundamentals of rural exposure + premiumisation still in place. BUY**

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In line 3QFY25: HUVR reported 3QFY25 underlying EBITDA of Rs 37bn, +1% YoY on 2% sales growth with margins down 20bps. Compared to Bloomberg consensus, sales were in line but EBITDA 1% higher on 25bps higher margins.

Demand trends "moderating": HUVR noted "moderating" demand trends as opposed to its earlier comment of "stable" demand trends during its Capital Markets Day on 29 November 2024. Weaker trends have likely emerged in the November / December months. We expect slower sales in FY26 with slight margin expansion on continued mix improvement – premium portfolio continues to perform ahead of the remainder business.

Minimalist acquisition to accelerate premiumisation: HUVR announced the Minimalist acquisition for ~Rs 30bn, due for completion in 1QFY26. The target company has a portfolio of Masstige Beauty & Wellness products with Rs 5bn annual sales. The brand was founded in 2020 and consistently maintained a profitable track record. The bulk of Minimalist sales come from online channels. HUVR did not share any quantitative targets or synergies but the company expects to leverage its global R&D for innovation, distribution network to increase offline sales, and advanced supply chain systems to improve efficiencies and margins.

Our view and valuation: We expect the softness in consumer demand to be transitory and HUVR's long-term fundamentals of rural exposure to tap into rising consumption in the value segment and focus on premiumisation to capture a greater share of the fast growth affluent, and affluent plus consumer segments. We now value HUVR based on 5Y average 12M forward P/E. We use 54x 12M to Dec'26 P/E to derive the TP of Rs 2,859 (from Rs 3,077). Maintain BUY.

HUVR 3QFY25 result summary	Actual			Reported vs (%)	
(Rs mn)	Q3FY24	Q3FY25	YoY (%)	BOBCAPS	Cons.
Sales	155,670	158,180	1.6	(0.7)	0.2
EBITDA	36,660	36,950	0.8	(2.6)	1.2
EBITDA margin (%)	23.5	23.4	(19bps)	(46bps)	24bps

Sources: Company, Bloomberg, BOBCAPS Research

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HUVR IN/Rs 2,343
Market cap	US$ 63.8bn
Free float	38%
3M ADV	US$ 48.4mn
52wk high/low	Rs 3,035/Rs 2,172
Promoter/FPI/DII	62%/14%/24%

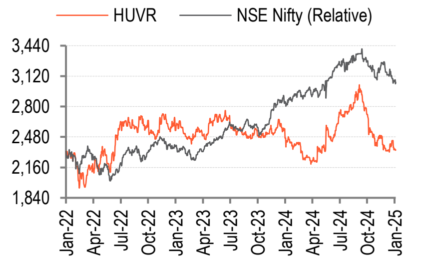
Source: NSE | Price as of 22 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	618,960	640,005	687,057
EBITDA (Rs mn)	146,630	147,222	163,222
Adj. net profit (Rs mn)	102,710	102,562	115,749
Adj. EPS (Rs)	43.7	43.6	49.3
Consensus EPS (Rs)	43.7	45.4	50.3
Adj. ROAE (%)	20.2	20.3	23.2
Adj. P/E (x)	53.6	53.7	47.6
EV/EBITDA (x)	37.5	37.4	33.6
Adj. EPS growth (%)	0.8	(0.1)	12.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

SELL
TP: Rs 4,199 | ∨ 26%

PERSISTENT SYSTEMS | IT Services | 23 January 2025

Unveils ambitious FY31 target even before hitting FY27 goal

- **3QFY25 revenue/EBIT margin beat our sub-consensus estimate. It did not say discretionary demand has turned around but said it will deliver**
- **It unveiled a FY31 revenue target of US$5bn while it is yet to hit its earlier goal of FY27 of US$2bn with 200-300bps of margin increase**
- **Raise our FPS estimates for FY26/FY27 and increase our PE Target premium to TCS from 20% to 25%. Yet it remains a 'SELL'**

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Both revenue and EBIT margin were better than our below consensus numbers: Revenue growth QoQ in CC terms came in at 4.6% versus our estimate of 3% and EBIT margin was 14.9% versus our expectation of 14.1%.

Persistent systems unveiled a revenue target of US$5bn for FY31: This is even before it hit the earlier target of US$2bn by FY27. In FY25 it is likely to clock ~US$1.4bn. The strategy seems to be to dig deeper into its current verticals of BFSI, health care & Life sciences and High-Tech and tapping into its top 100 clients. The FY31 revenue implies a 26% CAGR over FY27-FY31 versus 19% CAGR (FY23-FY27) when the US$2bn target was set. Persistent Systems stated that the road to US$5bn would be more IP/platform driven and revenue growth will be a bit more non-linear hinting at better margins.

Strategy may have to change in our view: The 26% C AGR over FY27-FY31 is an ambitious goal – especially if it is limited to growing through these three verticals. Most of its larger peers have grown by tapping into a broader set of verticals and by addressing a larger TAM. Very likely Persistent systems will do a course correction on its strategy over the next few years.

Cautious industry demand commentary: It said that it is too early to determine a shift towards discretionary deals in the pipeline. While there is a more optimistic mood in certain business segments, particularly in the US, due to government policies, this has yet to translate into a significant change in the pipeline or deal closures.

Remains confident about navigating through whatever demand conditions exist: Stated that irrespective of the environment the company has grown for 19 consecutive quarters largely due to better execution.

Retain SELL but raise EPS and Target PE multiples: The outperformance in 3QFY25 and the commentary makes us raise our EPS estimate for FY26/FY27 by 5/9%. We have increased the Target PE premium to TCS from 20% to 25% thereby raising the Target PE multiple to 30.8x compared to 29.6x earlier. While all these measures raise the Target price, it remains a SELL on expensive valuations.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	PSYS IN/Rs 5,683
Market cap	US$ 10.1bn
Free float	68%
3M ADV	US$ 34.5mn
52wk high/low	Rs 6,789/Rs 3,232
Promoter/FPI/DII	31%/25%/26%

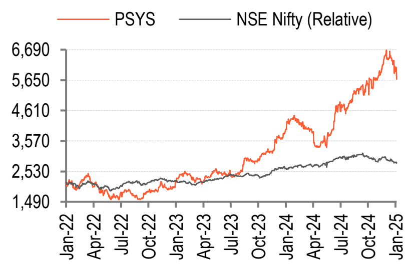
Source: NSE | Price as of 22 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	98,217	1,19,498	1,48,289
EBITDA (Rs mn)	17,257	20,547	26,217
Adj. net profit (Rs mn)	11,435	13,797	17,606
Adj. EPS (Rs)	71.2	88.9	113.0
Consensus EPS (Rs)	71.2	87.6	110.4
Adj. ROAE (%)	25.6	24.6	25.9
Adj. P/E (x)	79.8	63.9	50.3
EV/EBITDA (x)	50.2	42.1	32.9
Adj. EPS growth (%)	18.1	24.9	27.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 5,000 | ⮝ 21%

KEI INDUSTRIES | Consumer Durables | 22 January 2025

Momentum continues; capacity fuels growth

- **KEII reported a 20% YoY rise in Q3 revenue, but margins declined due to raw material price volatility and lower share of EHV sales**
- **KEII upgraded guidance: FY26 revenue growth of 19-20%, EBITDA margin at 11%, and exports to reach 15-17% of topline in 2-3 years**
- **We pare FY25/FY26/FY27 EPS estimates by 9%/6%/2% due to margin compression, with a revised TP of Rs 5,000. BUY on fair valuations**

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Resilient growth amid EHV headwinds: KEII demonstrated robust performance in Q3FY25, delivering a topline of Rs 24.6bn (in line with BOBCAP's estimate of Rs 24.7bn), ~20% YoY growth. It achieved this despite a 60bps dip in EBITDA margin to 9.8% and 120bps contraction in gross margin to 23.5% due to raw material price volatility. Challenges in the EHV segment, driven by Rest of the World (RoW) delays, and other clearances were offset by strong growth in low tension (LT), high tension (HT), and house wires (HW) segments. KEII strategically repurposed idle EHV capacity to scale HT cable production, effectively navigating delays in RoW.

Strong cables growth amid EPC decline: The Cables segment delivered strong 26% YoY growth, contributing Rs 23.5bn in revenue, driven by a 19% volume increase during 9MFY25. Cables now account for ~95% of KEII's total revenue, underscoring its core business strength. In contrast, the EPC segment saw an 80% YoY decline in revenue now contributing just 5% to the topline, aligned with management's strategy to cap EPC contribution at 5% by FY25. The stainless-steel segment posted growth of 18.5%, generating Rs 551mn in revenue. Despite the mixed performance across segments, KEII holds a strong order book valued at Rs 39bn, supporting future growth prospects.

Guidance raised: Management has raised its FY26 revenue growth guidance to 19%, driven by new facilities. It has kept its EBITDA margin guidance at 11%, expecting a 50bps improvement annually over the next two to three years as economies of scale take effect. Capex for FY26 is projected at Rs 6bn-7bn, supporting KEII's goal of achieving revenue growth of 19-20% CAGR, up from 14-15% CAGR over the past 15 years. The company aims to increase exports to 15-17% of total sales within two to three years from 11% currently.

Maintain BUY: Following its strong Q3 results, revised revenue growth guidance, and focus on expanding exports, we remain optimistic on KEII's prospects. We pare our FY25/FY26/FY27 EPS estimates by 9%/6%/2%, respectively, as margins have fallen short of our expectations. Despite this, we continue to value KEII at 45x P/E, roll forward to Dec'26 with our new TP at Rs 5,000. Maintain BUY on fair valuations.

Key changes

Target	Rating
▼	◄►

Ticker/Price	KEII IN/Rs 4,128
Market cap	US$ 4.3bn
Free float	61%
3M ADV	US$ 13.5mn
52wk high/low	Rs 5,040/Rs 2,900
Promoter/FPI/DII	37%/27%/20%

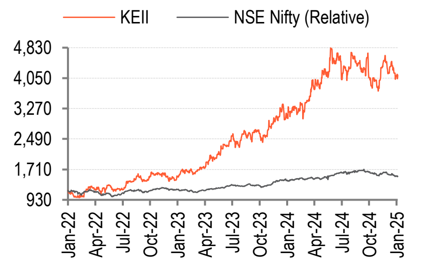
Source: NSE | Price as of 22 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	81,041	95,200	113,390
EBITDA (Rs mn)	8,375	9,844	12,906
Adj. net profit (Rs mn)	5,809	6,941	8,941
Adj. EPS (Rs)	64.4	72.7	93.6
Consensus EPS (Rs)	64.4	70.0	93.0
Adj. ROAE (%)	20.3	20.0	21.1
Adj. P/E (x)	64.1	56.8	44.1
EV/EBITDA (x)	44.9	38.4	29.2
Adj. EPS growth (%)	21.7	19.5	28.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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SELL
TP: Rs 1,689 | ∀ 6%

DALMIA BHARAT | Cement | 22 January 2025

Passing through a challenging phase; quick respite not in sight

- **Revenue declined by 12% YoY (+3% QoQ) to ~Rs 32bn as focus stays on volume growth than on guarding against realisations fall**
- **Cost savings of 4% driven by lower energy cost, partially helps to mitigate earnings weakness**
- **We lower EBITDA for FY25E/FY26E/FY27E by 4%/8%/10%, valuing stock at EV/EBITDA of 12x 1Y fwd (Dec'27). Maintain SELL; TP cut to Rs 1,689**

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Volume and realisations stay soft: DALBHARA's revenue declined by 11.7% YoY (+3% QoQ) to ~Rs 31.8bn in Q3FY25 volume and realisations stayed muted. Volume fell by 2% YoY (flat QoQ) to 6.7mn tonnes. Realisations fell 10% YoY (+3% QoQ) to Rs 4,748/t including incentives. Cement prices fell in DALBHARA's key operating regions in East and South India keeping the capacity utilisation at ~65%.

Lower energy expense was key cost savings driver, focus remains on adding RE power: Overall cost fell 4% YoY to Rs 3,985/t (flat QoQ). Power expenses (adjusted for raw materials) softened by ~12% YoY to Rs 1,758/t, driving cost savings. The energy cost declined largely due to a US$ 26/US$ 5 YoY/QoQ decline in the fuel consumption cost to about US$ 96/t. Fuel cost in Q3FY25 was Rs 1.31/kcal. The RE power share improved to 33% and DALBHARA has added new RE power of 4 MW recently. The logistics cost rose by about ~2% YoY to Rs 1,116/t as it serviced the Central India region through its eastern plants. Other expenditure was higher by 2% YoY due to maintenance cost

EBITDA fell on weak realisations: EBITDA decreased by ~34% YoY (+18% QoQ) to ~Rs 5.1bn owing to weak topline, and EBITDA margin fell to ~16.1% from ~21% in Q3FY24. EBITDA/t was lower by 34%/29% YoY/QoQ at Rs 765/t. APAT was down by 77% YoY to Rs 610mn due to lower other income.

Only organic capacity expansion underway post insolvency of JAL assets: DALBHARA is on track to reach 49.5mnt by FY25-end following 0.5mt of debottlenecking at Kalyanpur, Bihar, and 2.4mt of greenfield expansion at Lanka, Assam. The debottlenecking of clinker capacity of 0.9mt was completed in Q3.

Maintain HOLD: We prune our FY25/FY26/FY27 EBITDA estimates by 4%/8% and 10%, to factor in expectations of slow pricing growth and no major substitutes for JAL assets. We continue to assign the stock an EV/EBITDA of 12x 1-year forward (Dec'27) given the growth trajectory and healthy balance sheet (as of now). However, we lower our TP to Rs 1,689 (from Rs 1,773), reflecting a replacement cost (implied) of Rs 8.5bn. We maintain our SELL rating on DALBHARA.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	DALBHARA IN/Rs 1,799
Market cap	US$ 3.9bn
Free float	44%
3M ADV	US$ 7.2mn
52wk high/low	Rs 2,300/Rs 1,651
Promoter/FPI/DII	56%/12%/8%

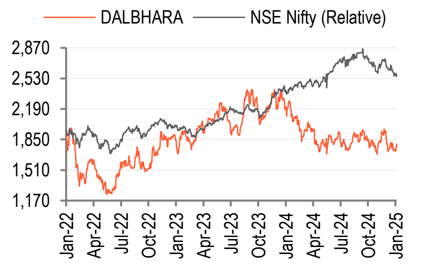
Source: NSE | Price as of 22 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,46,910	1,43,228	1,57,942
EBITDA (Rs mn)	26,390	24,061	27,608
Adj. net profit (Rs mn)	8,540	5,613	7,709
Adj. EPS (Rs)	44.9	30.3	41.7
Consensus EPS (Rs)	44.9	40.9	58.4
Adj. ROAE (%)	5.3	3.6	5.1
Adj. P/E (x)	40.0	59.3	43.2
EV/EBITDA (x)	12.8	15.6	11.2
Adj. EPS growth (%)	31.5	(32.5)	37.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUILDING MATERIALS

22 January 2025

Mixed trade flow: Negative for tiles/laminates; positive for MDF

- **Domestic tiles realisation to remain under pressure in the near future due to continued weak tiles exports (-13.0% YoY in Nov'24)**
- **Laminates net exports volume run rate was down 9.6% YoY in Nov'24 due to a weak demand environment**
- **MDF imports remained weak in Nov'24 on a YoY basis due to the quick ramp up of new capacity at a competitive rate**

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These are key takeaways from Ministry of Commerce trade statistics for the building materials (BM) sector for the month of Nov'24.

Tiles: India's monthly net exports value run rate remained weak in Nov'24 (-13.0% YoY to Rs 13.0bn). We believe the domestic tiles realisation is likely to remain under pressure till the time we see a sharp recovery in exports. Going ahead, the Indian tiles industry exports may remain weak if the US government imposes an anti-dumping duty on Indian tiles products (for which an investigation was initiated in May'24 based on a petition filed by a US tiles manufacturer to impose high tariffs of 408%-828%). The US comprised 8% of India's total tiles exports in FY24.

Laminates: India's laminates monthly net export volume run rate was down 9.6% YoY in Nov'24 due to weak global demand. Note that exports form roughly 30-50% of total sales of major domestic laminates companies.

MDF: India's MDF monthly net import volume run rate was down sharply by 35.9% YoY to 9,583 CBM in Nov'24. This we believe is on account of the quick ramp up of new domestic capacities at a competitive rate. Despite weak imports and rising timber prices, local MDF players are not able to take price hikes due to supply-side pressures in the domestic market. Going ahead, we believe the recovery in MDF sector margin to normal level is likely to be gradual in nature in anticipation of the industry's operating rate improving from 66% in Q2FY25 to ~80% in FY27E.

Particleboard: India's particleboard monthly net import volume run rate saw a steep increase (+76.0% YoY in Nov'24). The particleboard sector margin is likely to remain weak over the medium term on account of large capacity additions (by Merino, GRLM, CPBI) in H2FY25 and high timber prices.

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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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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