FIRST LIGHT

24 October 2024

RESEARCH

HINDUSTAN UNILEVER | TARGET: Rs 3,077 | +16% | BUY

Managing inflation; FMCG remains rational

TVS MOTOR | TARGET: Rs 2,441 | -5% | HOLD

Gearing for structural strength; valuations rich, maintain HOLD

AMBER ENTERPRISES | TARGET: Rs 6,100 | -5% | HOLD

Healthy growth to continue

TATA CONSUMER PRODUCTS | TARGET: Rs 1,311 | +29% | BUY

Share price correction is overdone: BUY

COFORGE | NOT RATED

More bullish than peers on demand conditions

BIRLASOFT | NOT RATED

Pains of trying to match Industry growth

SUMMARY

HINDUSTAN UNILEVER

- 2QFY25 sales were 1% above consensus while EBITDA was 2% higher as margins came in 15bps above expectations
- Personal Care was the main drag on sales growth. Tea inflation and lack of pricing are the drags on margin
- Rational tea industry provides comfort on margins and potential for share gains. Rural recovery will help given 40+% sales exposure. BUY

Click here **for the full report.**

BOBCAPS Research
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TVS MOTOR

- Q2 revenue grew in double digits at 13%/10% YoY/QoQ to Rs 92.3bn, backed by volume growth of 14%/13% YoY/QoQ to ~1.2mn units
- EBITDA margin rose 65bps/24bps YoY/QoQ to 11.7%; soft commodity prices helped raise gross margin to 28.5% (246bps YoY/flat QoQ)
- We maintain earnings estimates for FY25/FY26/FY27 and continue to value TVS at 30x core business. Retain HOLD, TP of Rs 2,441 (Rs2,363)

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AMBER ENTERPRISES

- Q2 achieved 82% YoY topline growth with 30bps EBITDAM expansion, although gains were tempered by the shift in product mix
- The consumer durables segment surged 98% YoY to Rs 10.8bn, driven by prolonged summers and channel filling
- We maintain estimates for FY25 and raise FY26/FY27 by 4% each. We now value AMBER at 40x; upon rollover TP is Rs 6,100

Click here for the full report.

TATA CONSUMER PRODUCTS

- Tata Consumer share price corrected ~7% post 2QFY25 result on Tea inflation and sales challenges in NourishCo. Correction is overdone
- Market has factored in Tea pricing in Feb-25. HUL is taking pricing and for TCPL we estimate a ~2% downgrade on tea is reasonable
- In FY25, TCPL has headwinds on M&A, Tea, and Gluco+ but medium / long terms prospects are intact with an above average growth profile

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COFORGE

- Unlike peers who have been tentative on demand, Coforge CEO sounded confident that demand had returned convincingly
- Expects broad-based double-digit growth across verticals in FY25. Cigniti showed strong QoQ revenue growth
- Reiterated its commitment to hit US$2bn in revenue before FY28 with better EBITDA margin. Will be initiating coverage shortly

Click here for the full report.

BIRLASOFT

- Birlasoft is trying to pivot to address both annuity and transformation deals to remain on the growth path with decent margins
- The texture of the market has changed, and pain felt on the margin front is largely to do with the pivot to address cost take out deals
- Birlasoft says that client budgets are on hold due to uncertainty on upcoming elections in the US. Initiating coverage soon

Click here for the full report.

RESULT REVIEW

BUY
TP: Rs 3,077 | ⮝ 16%

HINDUSTAN UNILEVER | Consumer Staples | 24 October 2024

Managing inflation; FMCG remains rational

- **2QFY25 sales were 1% above consensus while EBITDA was 2% higher as margins came in 15bps above expectations**
- **Personal Care was the main drag on sales growth. Tea inflation and lack of pricing are the drags on margin**
- **Rational tea industry provides comfort on margins and potential for share gains. Rural recovery will help given 40+% sales exposure. BUY**

Lokesh Gusain
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Small beat on both sales and EBITDA: HUVR reported 2QFY25 underlying EBITDA of Rs 38bn, flat YoY on 2% sales growth and 50bps margin contraction. Compared to Bloomberg consensus, sales were 1% higher with EBITDA 2% higher on 15bps higher margins.

Conservative view on demand trends? HUVR guided for stable trends through FY25 with no further improvements in demand. We differ. We suspect some of the slow growth in urban could be inventory adjustments in general trade due to channel shift to Q-Comm. Meanwhile rural continues to recover and we expect an acceleration through the December quarter.

Initial response is positive on change in soap formulation: HUVR changed its soap formulation by partly replacing palm oil to lab-developed material. The initial response was positive with volume share gains. Quarterly volumes were higher in Sep'24 vs Jun'24, even though the June quarter is seasonally stronger.

Tea industry is still rational: HUVR indicated 25% inflation in tea and clarified no material industry pricing in the Sep'24 quarter. HUVR will take calibrated pricing to complete the inflation offset by Dec'24. There is potential for share gains as smaller payers would need to raise prices immediately which will create a favourable relative price index for branded players such as Tata Consumer and HUVR.

Our view: Despite soft volumes, we expect a good monsoon, improved agri-yield and rural recovery to drive sales and earnings given HUL's industry leading distribution reach and 40+% rural sales exposure. A rational industry structure in tea provides comfort on margins and potential for share gains. We value HUVR at 64x 12M to Sep'26 P/E to derive the TP of Rs 3,077 – an implied return of 16%. BUY.

(Rs mn)	Q2FY24	Q2FY25	YoY (%)	Variation vs (%)	
				BoB	Consensus
Sales	156,230	159,260	2	1	1
EBITDA	37,970	37,930	0	0	2
EBITDA margin (%)	24.3	23.8	(49bps)	(8bps)	15bps

Source: Company, Bloomberg, BOBCAPS Research

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HUVR IN/Rs 2,659
Market cap	US$ 74.3bn
Free float	38%
3M ADV	US$ 55.9mn
52wk high/low	Rs 3,035/Rs 2,172
Promoter/FPI/DII	62%/14%/24%

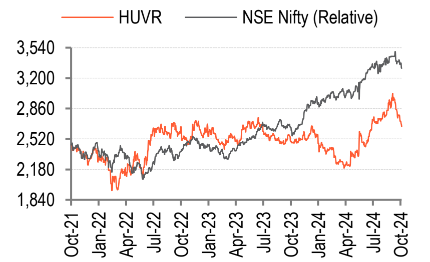
Source: NSE | Price as of 23 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	618,960	648,106	721,762
EBITDA (Rs mn)	146,630	155,098	173,040
Adj. net profit (Rs mn)	102,770	108,338	120,023
Adj. EPS (Rs)	43.7	46.0	51.0
Consensus EPS (Rs)	43.7	47.3	52.7
Adj. ROAE (%)	20.2	21.0	23.0
Adj. P/E (x)	60.8	57.8	52.2
EV/EBITDA (x)	42.6	40.3	36.1
Adj. EPS growth (%)	1.6	4.7	11.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
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HOLD
TP: Rs 2,441 | ⩔ 5%

TVS MOTOR | Automobiles | 24 October 2024

Gearing for structural strength; valuations rich, maintain HOLD

- **Q2 revenue grew in double digits at 13%/10% YoY/QoQ to Rs 92.3bn, backed by volume growth of 14%/13% YoY/QoQ to ~1.2mn units**
- **EBITDA margin rose 65bps/24bps YoY/QoQ to 11.7%; soft commodity prices helped raise gross margin to 28.5% (246bps YoY/flat QoQ)**
- **We maintain earnings estimates for FY25/FY26/FY27 and continue to value TVS at 30x core business. Retain HOLD, TP of Rs 2,441 (Rs2,363)**

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Healthy topline supported by double-digit volume gains: TVSL's Q2FY25 revenue grew in double digits at 13%/10% YoY/QoQ to Rs 92.3bn, backed by volume growth of 14%/13% YoY/QoQ to ~1.2mn units. Net realisation per vehicle (NRPV) was flat at Rs 75.1k YoY. Prices dropped 3% QoQ due to EV segment.

EBITDA margins aided by soft commodity cost: Raw material costs as a percentage of sales dropped 310bps YoY to 71.5% in Q2 (flat QoQ) due to input cost decline. However, EBITDA grew 20%/13% YoY/QoQ to Rs 10.8bn and the margin improved 65bps (24bps QoQ) to 11.7%. Other expenditure rose by ~27% YoY to Rs 10.5bn owing to related expenses and other digital and innovation-related expenses. Employee cost too increased due to investments in high-end engineering and design talent and Rs 110mn/120mn in ESOP provisions.

Product development: (a) TVSL launched Jupiter 110 and is receiving a healthy response from customers. (b) To launch super premium bikes, the first model to be available by FY26-end. (c) TVSL's I-cube launched single pack EV vehicle targeting low-end customers. (d) R&D on the CNG product underway.

Estimates maintained: Factoring H1FY25 performance in the weak business conditions we feel TVSL's earnings will deliver in FY25E despite competition and raw material costs inflation kicking in. We believe investments in electric vehicles (EV) will continue to drag overall performance. We have factored this into our earnings estimates and, hence, retain FY26/FY27 earnings estimates, baking in a 3Y EBITDA/PAT CAGR of 19%/24%.

TP revised; maintain HOLD: We estimate a healthy outlook for high-end products such as *Apache* and *Raider* and benefits from revival in export markets to offset the drag from the EV segment. The focus on premiumisation will continue to balance motorcycle portfolio across segments. We maintain our target P/E for core business at 30x – a marginal premium to TVSL's long-term average, and arrive at a new TP of Rs 2,441 (vs Rs 2,363) with the core business valued at Rs 2,408 and Rs 33/sh for TVS Credit Services. Maintain HOLD as current valuations factor in the positives.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TVSL IN/Rs 2,563
Market cap	US$ 14.5bn
Free float	48%
3M ADV	US$ 30.7mn
52wk high/low	Rs 2,958/Rs 1,549
Promoter/FPI/DII	52%/13%/25%

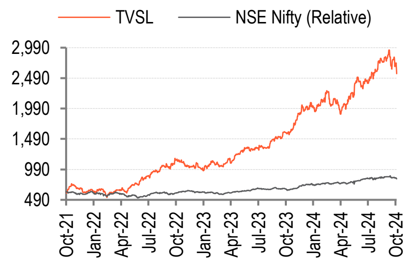
Source: NSE | Price as of 23 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	3,17,764	3,66,756	4,44,284
EBITDA (Rs mn)	35,141	43,416	53,497
Adj. net profit (Rs mn)	20,830	27,489	35,186
Adj. EPS (Rs)	43.8	57.9	74.1
Consensus EPS (Rs)	43.8	56.9	71.5
Adj. ROAE (%)	26.9	26.9	26.2
Adj. P/E (x)	58.5	44.3	34.6
EV/EBITDA (x)	34.7	28.0	22.7
Adj. EPS growth (%)	39.7	32.0	28.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
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HOLD
TP: Rs 6,100 | ▼ 5%

AMBER ENTERPRISES | Consumer Durables | 24 October 2024

Healthy growth to continue

- **Q2 achieved 82% YoY topline growth with 30bps EBITDAM expansion, although gains were tempered by the shift in product mix**
- **The consumer durables segment surged 98% YoY to Rs 10.8bn, driven by prolonged summers and channel filling**
- **We maintain estimates for FY25 and raise FY26/FY27 by 4% each. We now value AMBER at 40x; upon rollover TP is Rs 6,100**

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Topline surges; margins set to improve: AMBER's topline grew 82% YoY in Q2FY25 to Rs 16.9bn, surpassing our expectations. This robust performance was fueled primarily by the doubling of revenue in the CD and EMS segments. EBITDA margin expanded by 30bps to 6.8%, though gains were somewhat limited by a shift in the product mix towards finished goods. We expect improved operating leverage and a more premium product mix to further strengthen margin performance. PAT turned around significantly to Rs 192mn, from a net loss of Rs 69mn in Q2FY24.

Strong growth in consumer durables: AMBER delivered strong performance across its business segments in Q2FY25. The CD segment surged 98% YoY to Rs 10.8bn, driven by prolonged summers and channel filling, with RAC and non-RAC components growing 104% and 68%, respectively. Margins expanded by 110bps to 4.9%, and with lower channel inventories management expects further growth in Q3/Q4FY25. Over the next five years, the CD division's growth will be supported by increasing RAC volumes, new client additions in tower AC, cassette AC, and commercial AC, export opportunities, and diversification into the washing machine market.

Electronics surge; Mobility faces delays: AMBER's Electronics revenue nearly doubled to Rs 4.9bn in Q2FY25, with EBIT margin rising by 250bps to 7.7%, driven by new customer additions in Consumer Electronics. The Ascent Circuit plant expansion and Korea Circuit JV will strengthen its bare PCB offerings, while management maintains a 45% YoY revenue growth forecast for Electronics for FY25. The Mobility division saw a 6% revenue decline due to project delays in the Mumbai Metro and Vande Bharat projects, although a strong Rs 20.8bn order book positions the company for revenue growth in the coming years.

Maintain HOLD: Post AMBER's strong Q2 performance and management's positive outlook, supported by a robust order book and improved EBITDA margin, we maintain our estimates for FY25 EPS and raise them for FY26/FY27 by 4% each. We value AMBER at a P/E of 40x (vs 31x), in line with its 5Y average, and roll forward our valuations to Sep'26 and raise our TP to Rs 6,100 (from Rs 4,200).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AMBER IN/Rs 6,408
Market cap	US$ 2.6bn
Free float	60%
3M ADV	US$ 31.1mn
52wk high/low	Rs 6,788/Rs 2,721
Promoter/FPI/DII	40%/24%/14%

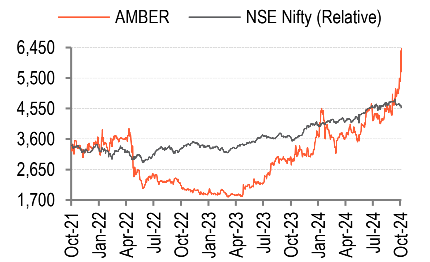
Source: NSE | Price as of 23 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	67,293	87,835	121,087
EBITDA (Rs mn)	4,919	6,359	9,100
Adj. net profit (Rs mn)	1,329	2,342	4,368
Adj. EPS (Rs)	39.4	69.5	129.6
Consensus EPS (Rs)	39.4	74.0	130.0
Adj. ROAE (%)	6.7	10.8	17.5
Adj. P/E (x)	162.5	92.2	49.4
EV/EBITDA (x)	43.9	34.0	23.7
Adj. EPS growth (%)	(15.5)	76.2	86.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,311 | ⮝ 29%

TATA CONSUMER PRODUCTS

| Consumer Staples | 24 October 2024

Share price correction is overdone: BUY

- **Tata Consumer share price corrected ~7% post 2QFY25 result on Tea inflation and sales challenges in NourishCo. Correction is overdone**
- **Market has factored in Tea pricing in Feb-25. HUL is taking pricing and for TCPL we estimate a ~2% downgrade on tea is reasonable**
- **In FY25, TCPL has headwinds on M&A, Tea, and Gluco+ but medium / long terms prospects are intact with an above average growth profile**

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Is the ~7% correction in share price post 2QFY25 result justified?: We think the close to 7% share price correction since 2QFY25 result is overdone as the downgrade to next 12m earnings in a realistic scenario is 3%. This assumes 50% tea cost recovery in the Dec-24 quarter and an increase in the retailer margin for Tata Gluco+ to get it at par with Campa Cola starting Oct-24.

Breaking down the swing factors:

- **Gloco Plus downgrade:** Assuming Tata Consumer lowers its price-to-retail to remain competitive with Campa Cola, we estimate the gross margin hit on earnings to be ~1% on an annualized basis. NourishCo is currently a low margin business with FY24 gross margin ~31% and EBIT margins ~6%.

- **HUL is rational in tea:** We estimate Tata Consumer needs 17%-18% pricing to offset tea inflation of 25%-30%. HUL is taking calibrated pricing through the Dec-24 quarter to fully offset tea inflation. We assume 50% cost recovery for the industry, including TCPL, in the Dec-24 quarter and 100% post that. This translates into a ~2% downgrade on FY25. Tea inflation likely to settle back as prospects for new crop become clearer by the Jun-25 quarter.

What is the combined sensitivity for Tata Gluco Plus and Tea?: If full tea inflation recovery is delayed to January 1, the downgrade is 6% and if pricing doesn't comes through until April 1, the downgrade is 10%.

What is the market factoring in? With the stock down ~8%, market is factoring in no change in competitive dynamics in tea until Feb-24. We think a ~3% downgrade is more reasonable.

(Rs mn)		Assumptions
NourishCo downgrade	228	Reduction in price to retail
Tea downgrade	506	Assuming 50% pass through in Dec quarter and 100% post that
Total downgrade	734	
% of consensus FY25 EBIT pre 2QFY25 result	3.3	

Source: Company, BOBCAPS Research

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TATACONS IN/Rs 1,015
Market cap	US$ 11.5bn
Free float	64%
3M ADV	US$ 23.4mn
52wk high/low	Rs 1,269/Rs 872
Promoter/FPI/DII	34%/25%/41%

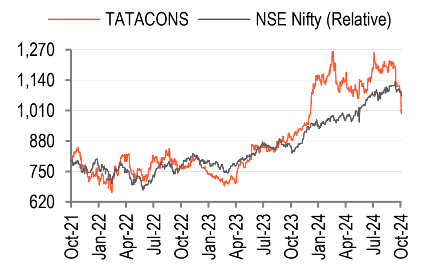
Source: NSE | Price as of 23 Oct 2024

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)	63.8	57.4	43.0
EV/EBITDA (x)	42.3	36.4	29.7
Adj. EPS growth (%)	(5.2)	46.4	30.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

NOT RATED

COFORGE | IT Services | 23 October 2024

More bullish than peers on demand conditions

- **Unlike peers who have been tentative on demand, Coforge CEO sounded confident that demand had returned convincingly**
- **Expects broad-based double-digit growth across verticals in FY25**. **Cigniti showed strong QoQ revenue growth**
- **Reiterated its commitment to hit US$2bn in revenue before FY28 with better EBITDA margin. Will be initiating coverage shortly**

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Good quarter for both Coforge and Cigniti: Coforge revenue was ahead of our estimate. Overall growth QoQ (including Cigniti) was 26.3% in CC terms (against our expectation of 22.6%). With organic QoQ revenue growth of 5.5% against our estimate of 3%. Cigniti too did slightly better than expected.

Broad based growth: Organic growth QoQ of Coforge was broad based across various verticals. The reported growth (including Cigniti) was driven by 'Others' consisting of primarily of Healthcare, Retail, Hi-Tech and Manufacturing. Coforge believes that for FY25 it is going to deliver broad-based growth with all verticals delivering double-digit growth.

12-month executable order book statistics: At US$1.31bn, it is up optically at 40% YoY for the combined entity against the Coforge only base. The executable organic order book growth for Coforge was 18% YoY. Similarly, for Ciginti it was up only 8%. We think cross-sell could potentially lead to better numbers on this front in the quarters ahead.

EBIT margin came in lower than expected due to amortization: The reported EBIT margin at 11.8% came is lower than our estimate of 12.6% largely due to higher-than-expected depreciation and amortization expenses (Cigniti acquisition related).

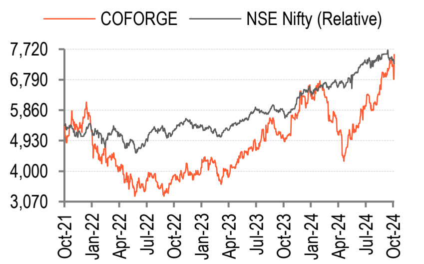
Margin of Cigniti would be higher than that guided earlier: The adjusted EBITDA margin of Ciginiti was in line with organic EBITDA margin of Coforge and is expected to increase to 18% by the end of 4QFY25 (against the earlier guidance of 16.5%).

Strong order intake: Order intake at US$516mn - eleventh consecutive quarter of US$300+mn order intake. Three large deals were signed during the quarter. Coforge (organic) had an order intake of US$448mn (up ~43% both YoY and QoQ). Cigniti standalone order intake of US$67mn was up by ~10% YoY but down QoQ a tad.

Ticker/Price	COFORGE IN/Rs 7,558
Market cap	US$ 6.0bn
Free float	99%
3M ADV	US$ 36.9mn
52wk high/low	Rs 7,649/Rs 4,287
Promoter/FPI/DII	0%/42%/48%

Source: NSE | Price as of 23 Oct 2024

Stock performance



Source: NSE

NOT RATED

BIRLASOFT | IT Services | 24 October 2024

Pains of trying to match Industry growth

- **Birlasoft is trying to pivot to address both annuity and transformation deals to remain on the growth path with decent margins**
- **The texture of the market has changed, and pain felt on the margin front is largely to do with the pivot to address cost take out deals**
- **Birlasoft says that client budgets are on hold due to uncertainty on upcoming elections in the US. Initiating coverage soon**

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Pick-up in growth was weaker than expected: Revenue grew QoQ 2.2% in CC terms against our estimate of 4% (there was a 2.7% CC QoQ decline in 1Q). It was driven by initiation of postponed projects from 1Q, resulting in broad-based growth across most industry verticals. The manufacturing and energy & E&U verticals grew by ~4.7% QoQ, while BFSI increased by 1.4% QoQ. The life sciences vertical (~21% of rev.) remained weak and is expected to stay soft for a few more quarters before returning to growth.

Cost takeout deals impacting margins: EBITDA margin has contracted from ~16% in FY24 to ~13.5% in 1HFY25. New business is driven by cost take out deals that typically require upfront investments and flexible pricing, impacting short- to medium-term margins. But over time margins are expected to improve. There is a higher onsite component to them which is expected to reduce over time.

3Q should be decent revenue wise but margins to pick up later: Despite furloughs momentum is expected to continue. The annual salary hike to hit margins further in 3Q before picking up from 4QFY25.

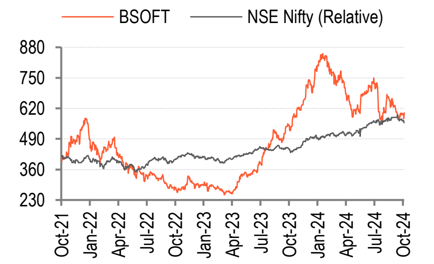
3Q TCV growth has been weak: US$136mn was down ~50% YoY and ~15% QoQ. Net new TCV was down ~47% YoY and ~5% QoQ. BSOFT acknowledged deal signings remain unsatisfactory and emphasized a strong focus on increasing them. Pipeline includes numerous transformation deals where conversion has been delayed due to "wait and watch" approach in the U.S which is 87% of the business. There is an initiative to broaden the markets addressed and a new leadership is in place to do that.

Focus on both growth and margins: BSOFT emphasized the need to address all three key parameters: revenue, margins, and order book. The strategy includes improving margins through efficiency gains and cost-cutting within existing programs while pursuing market share through vendor consolidation and digital deals.

Ticker/Price	BSOFT IN/Rs 601
Market cap	US$ 2.0bn
Free float	59%
3M ADV	US$ 29.3mn
52wk high/low	Rs 862/Rs 510
Promoter/FPI/DII	41%/12%/24%

Source: NSE | Price as of 23 Oct 2024

Stock performance



Source: NSE

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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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