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FIRST LIGHT

26 April 2024

RESEARCH

NIPPON LIFE INDIA AMC | TARGET: Rs 675 | +16% | BUY

Onward and upward; upgrade to BUY

NESTLE INDIA | TARGET: Rs 2,826 | +10% | HOLD

Robust growth across portfolio

RELIANCE INDUSTRIES | TARGET: Rs 3,380 | +16% | BUY

Aligned with India growth story through energy/consumer biz

INFOSYS | TARGET: Rs 1,503 | +5% | HOLD

Muted performance; weak discretionary delays recovery

Daily macro indicators

Indicator	23-Apr	24-Apr	Chg (%)
US 10Y yield (%)	4.60	4.64	4bps
India 10Y yield (%)	7.16	7.19	2bps
USD/INR	83.34	83.32	0.0
Brent Crude (US$/bbl)	88.4	88.0	(0.5)
Dow	38,504	38,461	(0.1)
Hang Seng	16,829	17,201	2.2
Sensex	73,738	73,853	0.2
India FII (US$ mn)	**22-Apr**	**23-Apr**	**Chg ($ mn)**
FII-D	113.2	(225.0)	(338.2)
FII-E	(314.0)	(414.8)	(100.8)

Source: Bank of Baroda Economics Research

SUMMARY

NIPPON LIFE INDIA AMC

- QAAUM growth robust at 47% YoY to Rs 4.3tn at end Q4 led by a strong equity segment (+63% YoY) constituting 49% of the total
- Market share expands; overall QAAUM share at 7.97% (+30bps QoQ) and equity share at 6.76% (+9bps QoQ) at end Mar'24
- Upgrade to BUY with TP increasing to Rs 675 (from Rs 580), valuing it at a higher 30x on FY26E EPS (vs. 28x)

Click here **for the full report.**

NESTLE INDIA

- Strong growth witnessed across geographies driven by sustained growth in domestic markets and healthy double-digit growth in exports
- Gross margin improved by 300bps YoY to 56.8% and EBITDA margin expanded by 290bps YoY during the quarter
- Reduce to HOLD with unchanged TP of Rs 2,826 as we watch for developments related to sugar content in infant foods

Click here **for the full report.**

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RELIANCE INDUSTRIES

- Company delivered 26% EBITDA CAGR over FY21-FY24 clocking 29% CAGR in cyclical business and 22% in consumer businesses
- Consumer businesses contributed ~50% of EBITDA in FY24 and are still geared to deliver 25% CAGR over FY24-26 leading to 12% CAGR for RIL
- Maintain BUY with a higher TP of Rs 3,380 (from 3,175); RIL's consumer businesses remain key beneficiaries of India's growth story

Click here for the full report.

INFOSYS

- Cost optimisation/vendor consolidation to be the prime growth driver for Infosys in FY25
- Sequential decline in operating margin; orderbook stood at US$ 17.7bn in FY24
- Maintain HOLD with a new TP of Rs 1,503, based on 21.2x on FY26E EPS, as the discretionary demand climate remains volatile

Click here for the full report.

RESULT REVIEW

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BUY
TP: Rs 675 | 16%

NIPPON LIFE INDIA AMC | NBFC | 25 April 2024

Onward and upward; upgrade to BUY

- **QAAUM growth robust at 47% YoY to Rs 4.3tn at end Q4 led by a strong equity segment (+63% YoY) constituting 49% of the total**
- **Market share expands; overall QAAUM share at 7.97% (+30bps QoQ) and equity share at 6.76% (+9bps QoQ) at end Mar'24**
- **Upgrade to BUY with TP increasing to Rs 675 (from Rs 580), valuing it at a higher 30x on FY26E EPS (vs. 28x)**

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Strong growth momentum: Nippon AMC's revenue from operations increased 34% YoY to Rs 4.7bn at end-Q4FY24 (+22% YoY to Rs 16.4bn at end-FY24) and other income, which represents MTM gains on its own investments, grew 133% to Rs 923mn. The core PBT grew 41% YoY to Rs 2.8bn whereas core PAT grew 57% to Rs 2.6bn (vs. our estimate of Rs 2.1bn). PAT grew 73% YoY to Rs 3.4bn.

AUM growth robust: QAAUM grew at a robust 47% YoY to Rs 4.3tn at end Q4 FY24, wherein equity assets jumped 63% YoY and debt was up 26%. Nippon AMC experienced consistent demand growth and held a market share just hitting double digits for net equity flows (except arbitrage and index). ETFs formed 26% of the company's QAAUM. We bake in the Q4 print by raising our FY25/FY26 AUM by 13%/14% and net profit estimates by 7%/9%.

Market share rises: The company maintained its fourth rank on an overall basis with an uptick in market share. QAAUM-based share increased 30bps QoQ to 7.97% in Q4 from 7.67% in Q3FY24. Equity market share improved 9bps QoQ to 6.76% and ETF share grew the most at 135bps QoQ to 16.7% with the company retaining a dominant chunk of volumes and folios. The systematic flow market share improved 90bps QoQ to 12.1%.

Yields under pressure: Yield (calc.) fell ~1bps QoQ at ~43bps in Q4 but declined 4bps YoY due to the regulatory slab system, whereby TER declines as AUM rises. Equity yields have corrected and are now in the early 60s owing to the company's large fund size. The pressure on yields is expected to continue. We bake in 41bps/39bps on a blended basis for FY25/FY26 as compared to 45bps for FY24.

Upgrade to BUY: The stock is trading at 26x FY26E EPS. Factoring in robust equity flows, SIP flows, rising market share and continued ETF leadership, we increase our target P/E from 28x to 30x on FY26E EPS – a 15% premium to the long-term mean. Together with our estimate changes, we raise our TP of Rs 675 (from Rs 580). Our new TP carries upside potential of 16%, leading us to upgrade our rating to BUY from HOLD.

Key changes

Target	Rating
▲	▲

Ticker/Price	NAM IN/Rs 584
Market cap	US$ 4.5bn
Free float	12%
3M ADV	US$ 6.7mn
52wk high/low	Rs 623/Rs 230
Promoter/FPI/DII	74%/6%/9%

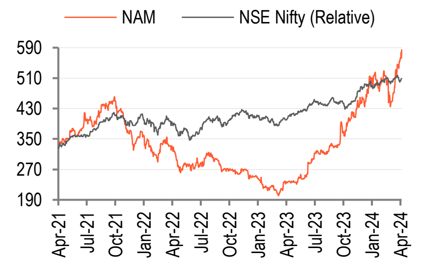
Source: NSE | Price as of 24 Apr 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Core PBT (Rs mn)	9,584	12,257	14,433
Core PBT (YoY)	25.9	27.9	17.8
Adj. net profit (Rs mn)	11,063	12,072	14,155
EPS (Rs)	17.5	19.1	22.4
Consensus EPS (Rs)	15.4	18.5	20.8
MCap/AAAUM (%)	8.6	7.2	6.1
ROAAAUM (bps)	25.6	23.4	23.0
ROE (%)	29.5	29.8	33.9
P/E (x)	33.3	30.5	26.1

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

Stock performance



Source: NSE

RESULT REVIEW

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HOLD
TP: Rs 2,826 | ↑ 10%

NESTLE INDIA | Consumer Staples | 25 April 2024

Robust growth across portfolio

- **Strong growth witnessed across geographies driven by sustained growth in domestic markets and healthy double-digit growth in exports**
- **Gross margin improved by 300bps YoY to 56.8% and EBITDA margin expanded by 290bps YoY during the quarter**
- **Reduce to HOLD with unchanged TP of Rs 2,826 as we watch for developments related to sugar content in infant foods**

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Growth momentum in domestic business sustained: NEST delivered revenue growth of 9.3% YoY in the Mar quarter to Rs 52.7bn, with domestic sales crossing the Rs 50bn mark for the first time in a quarter, registering growth of 8.9%, despite challenges posed by rising food inflation and volatile commodity prices. Exports showed healthy recovery during the quarter, growing 19% YoY. Gross margin improved 300bps YoY to 56.8% and EBITDA margin 290bps YoY to 25.6%. The Out-of-Home business reported strong growth and e-commerce sustained its upward trajectory, contributing 6.8% of sales. The board declared a final dividend of Rs 8.5 per share.

Momentum across portfolios: In FY24, confectionery delivered a strong performance, fuelled by KitKat – making India the second-largest market for the brand globally. The beverages business too recorded a robust performance. Milk products and nutrition witnessed strong growth despite inflationary pressures. Prepared dishes and cooking aids registered strong growth across the portfolio led by MAGGI noodles and MAGGI Masala-ae-Magic.

Nestlé to launch NESPRESSO in India: NESPRESSO is a pioneer of premium coffees and will launch its exclusive range in India by the end of 2024. NESPRESSO coffees and machines will be available in both Original and Professional systems. NEST expects to open its first NESPRESSO boutique in Delhi, before expanding to other key cities. NESPRESSO will also be sold online through e-commerce platforms.

Reduce to HOLD: NEST continues to deliver a strong performance in domestic markets amid a challenging environment. We expect sustained, profitable growth underpinned by continued investments in innovation and direct reach expansion with a rural focus. The stock is trading at 71.8x/59.0x on FY25E/FY26E EPS. We maintain our TP at Rs 2,826 based on an unchanged 65x P/E in line with the long-term average. However, we reduce our rating to HOLD from BUY as we wait for developments on the sugar content in infant foods and take into account the recent rise in stock price.

Key changes

Target	Rating
◄►	▼

Ticker/Price	NEST IN/Rs 2,563
Market cap	US$ 30.1bn
Free float	37%
3M ADV	US$ 30.5mn
52wk high/low	Rs 2,769/Rs 2,047
Promoter/FPI/DII	63%/12%/25%

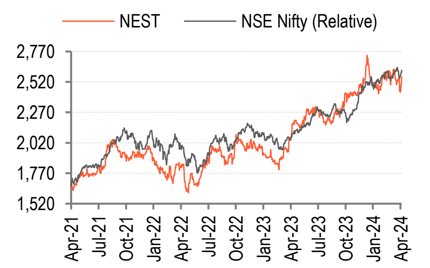
Source: NSE | Price as of 25 Apr 2024

Key financials

Y/E 31 Mar	CY22A	FY24P	FY25E
Total revenue (Rs mn)	168,969	243,939	215,459
EBITDA (Rs mn)	37,125	58,198	53,218
Adj. net profit (Rs mn)	23,905	39,136	34,412
Adj. EPS (Rs)	247.9	40.7	35.7
Consensus EPS (Rs)	247.9	40.7	35.3
Adj. ROAE (%)	97.2	117.4	89.0
Adj. P/E (x)	10.3	63.0	71.8
EV/EBITDA (x)	66.4	42.3	46.5
Adj. EPS growth (%)	1.5	(83.6)	(12.3)

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional | FY24 is for 15 months due to a change in year-end from December to March

Stock performance



Source: NSE

RESULT REVIEW

BUY
TP: Rs 3,380 | ⮝ 16%

RELIANCE INDUSTRIES | Oil & Gas | 25 April 2024

Aligned with India growth story through energy/consumer biz

- **Company delivered 26% EBITDA CAGR over FY21-FY24 clocking 29% CAGR in cyclical business and 22% in consumer businesses**
- **Consumer businesses contributed ~50% of EBITDA in FY24 and are still geared to deliver 25% CAGR over FY24-26 leading to 12% CAGR for RIL**
- **Maintain BUY with a higher TP of Rs 3,380 (from 3,175); RIL's consumer businesses remain key beneficiaries of India's growth story**

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Q4 EBITDA in line except for Retail: While RIL's Q4 EBITDA was in line with our and consensus estimates, Retail was 6% below our estimate. We attribute it to one-off rationalisation being undertaken in Retail with 500 stores closed in Q4 alone. The company managed capex of Rs 1.3tn with Rs 1.4tn of cash profit in FY24.

Consumer businesses gaining dominance: Digital Services and Retail now account for ~50% of capital employed but ~80% of net debt accounting for deferred payment liabilities as of FY24. They contribute ~50% of EBITDA and more than ~40% of net income (see business split charts on page 4).

Consumer business to drive double-digit earnings growth: We lower FY25/ FY26 EBITDA by 2.1%/3.5% factoring in the benefit of increase in telecom tariff from H2FY25 and lowering EBITDA growth CAGR for Retail to 22% (from 26%) over FY24-26. We bake in a 12% CAGR in EBITDA over FY24-FY26 led by 25% CAGR in consumer business profits.

Next phase of energy growth initiated: RIL hinted about commencing the next phase of India-centric capacity expansion. We believe this could include investment in PVC/ CPVC, repurposing of i) PX/PTA at Patalganga to produce MX and PIA and ii) ACN plant to produce carbon fibre, etc (refer to **Derisking the O2C business**). In Oil & Gas, we believe RIL will be able to extend plateau production period with production of 4-5mmscmd from additional wells in R and Satellite clusters.

Key stock catalysts: (a) Jio: Clear signs of monetising standalone 5G roll-out. (b) Retail: Delivery on 3x growth target over FY21-FY26 and demonstration of RIL's comfort in sharing performance details for major retail verticals. (c) O2C: Guidance on cost reduction with the deployment of new energy. (d) Media: Progress on scaling up the business. (e) Public offers: Listing of the Jio and retail businesses

Reiterate BUY: We raise our SOTP-based TP to Rs 3,380 (from Rs 3,175) by raising target multiples for Refining, Petrochemicals and Digital Services to reflect increase in valuation for peers and rolling forward fair value to Apr'25 (Jan'25). BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	RIL IN/Rs 2,920
Market cap	US$ 240.4bn
Free float	50%
3M ADV	US$ 210.3mn
52wk high/low	Rs 3,025/Rs 2,220
Promoter/FPI/DII	50%/22%/17%

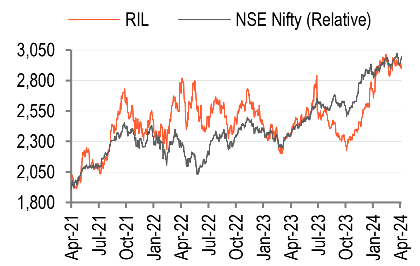
Source: NSE | Price as of 25 Apr 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	90,10,640	94,70,586	1,04,66,229
EBITDA (Rs mn)	16,22,187	17,86,119	20,42,221
Adj. net profit (Rs mn)	6,96,067	7,94,724	9,43,701
Adj. EPS (Rs)	102.9	117.5	139.5
Consensus EPS (Rs)	102.9	121.9	140.3
Adj. ROAE (%)	9.2	9.6	10.4
Adj. P/E (x)	28.4	24.9	20.9
EV/EBITDA (x)	13.8	12.5	10.9
Adj. EPS growth (%)	5.0	14.2	18.7

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

Stock performance



Source: NSE

HOLD
TP: Rs 1,503 | ⮝ 5%

INFOSYS | Technology & Internet | 25 April 2024

Muted performance; weak discretionary delays recovery

- **Cost optimisation/vendor consolidation to be the prime growth driver for Infosys in FY25**
- **Sequential decline in operating margin; orderbook stood at US$ 17.7bn in FY24**
- **Maintain HOLD with a new TP of Rs 1,503, based on 21.2x on FY26E EPS, as the discretionary demand climate remains volatile**

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Lower-than-expected revenue growth driven by a few sectors: Company reported muted revenue growth in Q4FY24, down 2.2% QoQ CC, due to 100bps impact of one-off rescoping of revenue at a large BFSI client and weak discretionary spending despite the ramp-up of mega deals and absence of furloughs. Major verticals, such as BFSI/Retail/Life Science, were down in Q4 but Telecom and Hi-Tech drove growth. Revenue guidance for FY25 stood at 1-3%, lower than the Street's expectation. Incremental improvement in revenue visibility will be possible on the back of large/mega deal revenue contribution and slower ramp down in the existing business. Infosys announced the acquisition of the Germany-based ER&D company in-tech Holding GmbH, with US$ 180mn in revenue. The acquisition is likely to close in H1FY25 (not included in the revenue guidance).

Despite robust deal wins, weakness in discretionary services continues: Infosys posted a strong TCV of US$ 4.5bn, up by 39% QoQ backed by 30 large deal wins.16 large deal wins came from the Americas, bringing relief in terms of revival of geography. Large deal bookings of US$ 17bn in FY24, including US$ 9.2bn of net new large deals, will help FY25 growth momentum despite slower discretionary spending. INFO's deal activity is driven by cost optimisation deals and vendor consolidation deals with strength in services such as SAP S4/Hana implementation.

Limited upside potential for margin due to poor exit run rate: Despite increasing utilisation, lower subcontracting cost and recalibration of employee pyramid, elevated levels of pass-through and third-party hardware/software expenses dragged the operating model, along with recent client-specific issues and the McCamish cybersecurity incident. Its operating margin guidance remained at 20-22% for FY25.

Valuation outlook: Despite near-term weakness, we expect Infosys to be a key beneficiary of the acceleration in IT spending in the medium term. INFO trades at 22.3x FY25E and 20.3x FY26E EPS and our TP of Rs 1,503 (previously Rs 1,592) is based on 21.2x (20% discount to TCS) on FY26E EPS. INFO extending its payout policy by five years for 85% of FCF is a positive.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	INFO IN/Rs 1,431
Market cap	US$ 72.1bn
Free float	86%
3M ADV	US$ 132.7mn
52wk high/low	Rs 1,733/Rs 1,215
Promoter/FPI/DII	15%/36%/49%

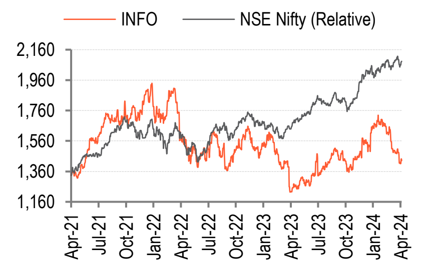
Source: NSE | Price as of 24 Apr 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	15,36,710	15,93,572	17,11,085
EBITDA (Rs mn)	3,63,410	3,76,083	4,08,949
Adj. net profit (Rs mn)	2,62,480	2,68,117	2,93,451
Adj. EPS (Rs)	63.4	64.8	70.9
Consensus EPS (Rs)	63.4	68.2	76.1
Adj. ROAE (%)	32.1	29.7	31.1
Adj. P/E (x)	22.6	22.1	20.2
EV/EBITDA (x)	15.9	15.4	14.1
Adj. EPS growth (%)	9.1	2.1	9.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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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