FIRST LIGHT

28 November 2023

RESEARCH

BOB ECONOMICS RESEARCH | CORPORATE PERFORMANCE

How have companies fared in Q2FY24?

AXIS BANK | TARGET: Rs 1,155 | +15% | BUY

Analyst meet takeaways: Balancing growth and returns

POWER | MONTHLY TRACKER

Capacity additions on track

Daily macro indicators

Indicator	22-Nov	23-Nov	Chg (%)
US 10Y yield (%)	4.39	4.40	1bps
India 10Y yield (%)	7.25	7.26	1bps
USD/INR	83.32	83.34	0.0
Brent Crude (US$/bbl)	82.0	81.4	(0.7)
Dow	35,088	35,273	0.5
Hang Seng	17,735	17,911	1.0
Sensex	66,023	66,018	0.0
India FII (US$ mn)	**21-Nov**	**22-Nov**	**Chg ($ mn)**
FII-D	81.4	156.4	75.0
FII-E	(18.3)	(163.8)	(145.5)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: CORPORATE PERFORMANCE

India Inc.'s performance based on a sample of 3,265 companies spread out across 35 sectors in Q2-FY24 has been ambivalent. The quarter was marked by increased profitability, even as sales growth remained muted. At a disaggregated level, while banks and service related sectors benefited from higher credit offtake and pent-up demand respectively, signs of stress were visible in certain pockets. Consumer oriented industries such as FMCG etc. noted muted growth as rural demand continues to lag. This will be a key factor to monitor going forward.

Click here **for the full report.**

AXIS BANK

- Focused on balancing growth ambitions and risk-adjusted returns; loan book guided to log an 18% CAGR over FY23-FY25
- NIM expected to normalise as deposit rate repricing ends, though sticky operational cost could slightly dampen PPOP margin
- Management confident of healthy asset quality and of maintaining ROA/ ROE at 2.1%/18% over the medium term

Click here **for the full report.**

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POWER: MONTHLY TRACKER

- India's power generation capacity grew 4% YoY in October to ~425GW, with solar energy topping the additions at 10.4GW
- New transmission line and substation infrastructure beat targets for the month but continued to undershoot YTD goals
- We retain NTPC and PWGR as top picks while maintaining HOLD on TPW due to expensive valuations

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CORPORATE PERFORMANCE

24 November 2023

How have companies fared in Q2FY24?

Aditi Gupta
Economist

India Inc.'s performance based on a sample of 3,265 companies spread out across 35 sectors in Q2-FY24 has been ambivalent. The quarter was marked by increased profitability, even as sales growth remained muted. At a disaggregated level, while banks and service related sectors benefited from higher credit offtake and pent-up demand respectively, signs of stress were visible in certain pockets. Consumer oriented industries such as FMCG etc. noted muted growth as rural demand continues to lag. This will be a key factor to monitor going forward.

Corporate performance of India Inc. in Q2-FY24 has been marked by higher profitability even though revenue growth has moderated to a large degree. Lower commodity prices have resulted in lowering input costs and improved profitability. On the other hand, sales growth has remained muted for the second consecutive quarter. While base effect can explain some part of this moderation, delay in festive season and patchy monsoon have also weighed on revenue growth as demand was affected.

For a sample of 3,265 companies, sales growth in the last quarter rose at a meek pace of 2.8%, compared with a 24.3% growth in Q2-FY23. Expenditure growth has declined sharply by 4.2%, after increasing by 28.5% in Q2-FY23. This was led largely by a decline in costs of raw materials. As a result, profitability parameters have shown a sharp improvement. Operating profits, profit before tax and net profits have all registered double digit growth in Q2-FY24. Profits after tax, which had declined by 2% in Q2-FY23, rose at an impressive pace of ~30% in Q2-FY24.

Table 1: Overview of performance of 3,265 companies

	In Rs. Crores		% YoY	
	Q2-FY23	Q2-FY24	Q2-FY23	Q2-FY24
Net Sales	27,96,778	28,76,102	24.3	2.8
Expenditure	23,82,711	22,83,803	28.5	(4.2)
Operating profit	5,57,470	7,26,169	1.8	30.3
PBT	2,95,348	3,93,054	1.2	33.1
PAT	2,24,215	2,91,321	(2.0)	29.9

Source: AceEquity, Bank of Baroda Research

The overall performance has been skewed to an extent due to the inclusion of BFSI sector which includes banks, finance and insurance companies. To get a clear picture, we exclude the BFSI sector (Table 2), and the sample reduces to 2,749 companies. While the overall picture remains the same of higher profits and lower sales, the magnitude is different. Excluding the BFSI sector, net sales have declined by 0.5%, which is in contrast to a small but positive growth in the overall sample. However, profit growth is even higher led by a relatively higher decline in expenses.

BUY
TP: Rs 1,155 | ⮝ 15%

AXIS BANK | Banking | 24 November 2023

Analyst meet takeaways: Balancing growth and returns

- **Focused on balancing growth ambitions and risk-adjusted returns; loan book guided to log an 18% CAGR over FY23-FY25**
- **NIM expected to normalise as deposit rate repricing ends, though sticky operational cost could slightly dampen PPOP margin**
- **Management confident of healthy asset quality and of maintaining ROA/ ROE at 2.1%/18% over the medium term**

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Analyst day takeaways: At its analyst meet yesterday, AXSB's management highlighted that: (a) the bank is well placed to sustain growth backed by a focus on business granularity, (b) investments in technology and partners will continue, enabling market share gains across verticals, (c) a thrust on high-yielding retail assets and lendable deposits would help optimise margins, (d) a focus on risk-adjusted returns would keep the asset base healthy while buffer provisioning will serve as a safeguard against sudden asset quality shocks or ECL (expected credit loss) requirements, (e) no immediate fundraising plans are on the anvil, and (f) ROA/ROE should hold at 1.8%/18%.

ALM a key monitorable: Though AXSB has demonstrated efficient asset-liability management, the bank must sustain its focus on granular, lendable deposits to fund its aggressive target of 400-600bps higher loan growth than the industry. We expect continued investments in branches, technology and partners, which could aid market share gains but also keep costs elevated (cost-to-asset ratio estimated at 2.1% for FY24E).

NIM likely to hold at current level: We expect NIM to remain at 3.75% levels (calc.) in the medium term as a growing retail book along with a focus on granularity in business and, more specifically, lendable deposits is likely to keep a lid on cost of funds. The Citibank retail business integration is in progress, wherein AXSB is looking to the acquired wealth management business to garner fee income and identify cross-selling opportunities.

Cautious on unsecured loans: Management plans to continue with buffer provisioning (1.3% of loans at present) as a measure of safety against any change in credit cycle or ECL implications, indicating its cautious approach towards unsecured retail lending and NBFC financing.

Maintain BUY: AXSB provides a strong investment case given significant improvement across verticals and return ratios over the past 2-3 years. We expect the bank's thrust on growth to help it sustain profitability and hence maintain our BUY rating with an unchanged TP of Rs 1,155, valuing the stock at 1.9x FY25E ABV (Gordon Growth Model) and including Rs 114/sh as the value of subsidiaries.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	AXSB IN/Rs 1,009
Market cap	US$ 37.8bn
Free float	92%
3M ADV	US$ 100.0mn
52wk high/low	Rs 1,048/Rs 814
Promoter/FPI/DII	8%/53%/29%

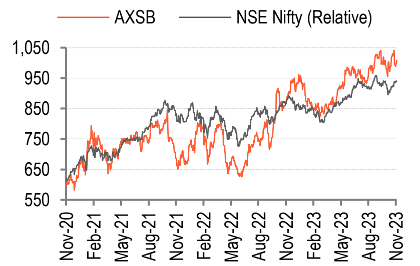
Source: NSE | Price as of 24 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	429,457	484,073	565,544
NII growth (%)	29.6	12.7	16.8
Adj. net profit (Rs mn)	95,797	249,024	295,072
EPS (Rs)	31.2	80.9	95.9
Consensus EPS (Rs)	31.2	77.9	89.1
P/E (x)	32.4	12.5	10.5
P/BV (x)	2.5	2.1	1.7
ROA (%)	0.8	1.8	1.8
ROE (%)	8.0	18.1	17.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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TRUST | INNOVATION | EXCELLENCE

POWER | Monthly Tracker | 24 November 2023

Capacity additions on track

- **India's power generation capacity grew 4% YoY in October to ~425GW, with solar energy topping the additions at 10.4GW**
- **New transmission line and substation infrastructure beat targets for the month but continued to undershoot YTD goals**
- **We retain NTPC and PWGR as top picks while maintaining HOLD on TPW due to expensive valuations**

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Improving demand-supply balance: After a supply shortage in 2022, India's power demand-supply dynamics have been better balanced this year. Power demand during September and October stood at 141.8BU and 140.7BU respectively, and demand not met was limited to ~500MU for both months. Peak demand in October surged 19% YoY to 222GW (-8.6% MoM).

Solar power on the rise: India's installed power generation capacity stood at 425.5GW in October, rising 4.1% YoY, with solar energy forming the bulk of the additions at 10.4GW for a total of 72GW. Energy generated in the country stood at 131BU in September, rising 8.8% YoY (-5.1% MoM), of which thermal generation accounted for 83% share. Thermal plants clocked 69% PLF in September as compared to 60% in the same month last year, and NTPC continued to outperform the national average, closing Q2FY23 at 75% thermal PLF.

Transmission infrastructure picking up: In all, 1,820ckm of transmission lines were laid in October, overtaking the government's target of 962ckm. This makes for 7,026ckm additions during FY24 YTD (Apr-Oct'23) as against a target of 11,420ckm. Substation additions saw a similar trend, surpassing the government's target for October but undershooting it YTD. On the tariff-based competitive bidding (TBCB) front, Adani Transmission has commissioned its Warora Kurnool project and Sterlite Power has acquired the Beawar transmission project in Rajasthan.

Short-term market gaining depth: The short-term power market recorded volumes of 25.9BU in September, constituting ~20% of electricity generated during the month (vs. just ~10% for all of FY18). The average market clearing price (MCP) stood at Rs 5.87/kWh at IEX – the dominant power exchange – an increase of 2.4% YoY.

Top picks: We continue to prefer NTPC (BUY, TP Rs 290) and PWGR (BUY, TP Rs 250) as plays on thermal capex and India's green energy corridor respectively Despite strong fundamentals, TPW remains a HOLD (TP Rs 800) as the stock has run up ~60% since April.

Recommendation snapshot

Ticker	Price	Target	Rating
NTPC IN	254	290	BUY
PWGR IN	210	250	BUY
TPW IN	816	800	HOLD

Price & Target in Rupees | Price as of 24 Nov 2023

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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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