FIRST LIGHT

29 January 2024

RESEARCH

BAJAJ AUTO | TARGET: Rs 6,272 | -17% | SELL

Healthy revival but priced in; downgrade to SELL

TVS MOTOR | TARGET: Rs 2,242 | +16% | BUY

On a fast track – raise to BUY

SBI CARD | TARGET: Rs 800 | +5% | HOLD

Asset quality concerns persist; downgrade to HOLD

LAURUS LABS | TARGET: Rs 305 | -24% | SELL

Challenges galore – cut to SELL

CIPLA | TARGET: Rs 1,576 | +15% | BUY

Healthy revenue growth, strong margins

MAHANAGAR GAS | TARGET: Rs 1,590 | +16% | BUY

Volume growth accelerating, reiterate BUY

DCB BANK | TARGET: Rs 172 | +27% | BUY

NII sequentially flat on high interest cost

SBI LIFE | TARGET: Rs 1,970 | +43% | BUY

ULIP-led growth; maintains market leadership

Daily macro indicators

Indicator	23-Jan	24-Jan	Chg (%)
US 10Y yield (%)	4.13	4.18	5bps
India 10Y yield (%)	7.18	7.18	1bps
USD/INR	83.16	83.13	0.0
Brent Crude (US$/bbl)	79.6	80.0	0.6
Dow	37,905	37,806	(0.3)
Hang Seng	15,354	15,900	3.6
Sensex	70,371	71,060	1.0
India FII (US$ mn)	**19-Jan**	**23-Jan**	**Chg ($ mn)**
FII-D	70.4	90.1	19.7
FII-E	(427.5)	(325.8)	101.7

Source: Bank of Baroda Economics Research

SUMMARY

BAJAJ AUTO

- Q3 revenue grew 30% YoY backed by healthy domestic 2W volume growth and revival in exports
- Gross margin stayed flat at 29% despite softer input cost; operating leverage added 100bps YoY to EBITDA margin
- Our TP rises to Rs 6,272 (vs. Rs 5,139) on a higher target P/E of 18x (vs. 17x) and rollover; cut from HOLD to SELL post rally

Click here **for the full report.**

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TVS MOTOR

- ICE 2W volume growth beats industry at 33% YoY, supporting 26% revenue growth in Q3
- Volume uptick bolstered EBITDA margin by 115bps YoY to 11.2%; gross margin also healthy at 26% (+180bps)
- Upgrade to BUY with new TP of Rs 2,242 (vs. Rs 1,531) as we raise FY24/ FY25 EPS 7% and increase our target P/E to 28x (vs. 26x)

Click here for the full report.

SBI CARD

- NIM fell 40bps YoY on a higher cost of funds and pressure likely to mount further
- NIM fell 40bps YoY on a higher cost of funds and pressure likely to mount further
- Cut from BUY to HOLD as we lower earnings and value the stock at 21x FY26E P/E (vs. 28x FY25E) for a revised TP of Rs 800 (vs. Rs 910)

Click here for the full report.

LAURUS LABS

- Fourth straight quarterly miss with upsets on all fronts; Q3 revenue/ EBITDA well short of Bloomberg consensus by 13%/79%
- EBITDA margin held sequentially at 15.2% but dropped 10ppt from last year; management expects a better Q4
- TP revised to Rs 305 (vs. Rs 340) as we cut FY24-FY25 EBITDA 30-36% and roll valuations over; downgrade from HOLD to SELL

Click here for the full report.

CIPLA

- Q3 strong with EBITDA beat of 9% over consensus, though impairment charges of Rs 1.9bn limited PAT outperformance vs consensus
- Better pricing and favourable mix aided gross margin (+90bps YoY), while prudent cost control lifted EBITDA margin (+225bps)
- TP revised to Rs 1,576 (vs. Rs 1,360) as we tweak estimates and roll valuations forward to FY26E; maintain BUY

Click here for the full report.

MAHANAGAR GAS

- Q3 beats consensus with sharp uptick in volume growth and stable margins despite lower APM gas allocation
- We raise FY23-FY26 volume growth forecasts to 6.7% CAGR (from 6.1%) and margins towards higher end of guided range
- TP hiked to Rs 1,590 (from Rs 1,255), implying FY25E target P/E of 13.8x; stock merits rerating on improved growth prospects

Click here for the full report.

DCB BANK

- NII flat QoQ (6%YoY) in Q3 on higher interest expenses; treasury gains and moderate opex aided 9% YoY PPOP growth
- Reported NIM fell 20bps QoQ to 3.5%, but management retained FY24 guidance at 3.65-3.75%
- Maintain BUY with revised TP of Rs 172 (vs. Rs 144), valuing the stock at 0.9x FY26E ABV (vs. 0.8x on FY25E)

Click here for the full report.

SBI LIFE

- 9MFY24 APE growth strong at 17% YoY with ULIPs forming 61% of total; continues to lead the market with 26.5% share in individual APE
- VNB margin remains high at 28.1% despite 150bps YoY decline in 9M owing to a product mix tilted toward ULIPs
- We broadly retain estimates and keep our TP unchanged at Rs 1,970, based on 2.5x FY26E EV; maintain BUY

Click here for the full report.

SELL

TP: Rs 6,272 | ⋎ 17%

BAJAJ AUTO | Automobiles | 27 January 2024

Healthy revival but priced in; downgrade to SELL

- **Q3 revenue grew 30% YoY backed by healthy domestic 2W volume growth and revival in exports**
- **Gross margin stayed flat at 29% despite softer input cost; operating leverage added 100bps YoY to EBITDA margin**
- **Our TP rises to Rs 6,272 (vs. Rs 5,139) on a higher target P/E of 18x (vs. 17x) and rollover; cut from HOLD to SELL post rally**

Milind Raginwar | Shree Kirloskar
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Revenue gains YoY backed by motorcycle volumes: BJAUT's Q3FY24 revenue jumped 30% YoY (+12% QoQ) to Rs 121.1bn aided by healthy volume growth of 22% (+14%) to 1.2mn units. Growth was driven by BJAUT's focus on the 125cc+ segment which outpaced the industry average. Average realisation per vehicle grew only 7% YoY (-1% QoQ) to Rs 101.2k, pointing to competitive pressure.

Gross Margin flat, operating efficiencies aide EBIDTAM: Raw material cost as a percentage of sales was stable at 71% following a softening of key input costs. Even so, gross margin was flat YoY and QoQ at 29%, whereas better operating leverage and cost management aided EBITDA margin expansion of 102bps YoY (+27bps QoQ) to 20.1%. Other expenditure fell 7% YoY (flat QoQ) to Rs 5.8k per vehicle. EBITDA for the quarter increased 37% (+14% QoQ) to Rs 24bn.

***Triumph* gains strong traction, other segments also fare well:** *Triumph* sold 15k units in Q3FY24 (8k in Q2) and *Pulsar* sold 400k units with a market share of 40% in the 150-200cc segment (32% in FY23). *Chetak* had monthly sales of >10k units in Q3 and management is aiming for >15k units in Q4FY24. Additionally, 3W sales surpassed 40k units for the month of December vs. 30k units in Q3FY23.

Exports improve sequentially: Export volumes fell 4% YoY but inched up 2% QoQ to stand at 70% of the peak levels achieved in FY22, as Red Sea disruptions affected shipments in December. BJAUT has set up a new motorcycle plant in Manaus, Brazil, which is expected to commence production by Q1FY25

Positives priced in; cut to SELL: We adjust our FY24/FY25 EPS estimates by +4%/-1% and introduce FY26 forecasts, now pencilling in an EBITDA/PAT CAGR of 21%/19% over FY23-FY26 based on BJAUT's healthy product pipeline, EV launches and gradual export revival. On rolling valuations over FY26E and valuing the stock at 18x P/E vs. 17x earlier (a 15% premium over the 10Y average), we arrive at a higher TP of Rs 6,272 (vs. Rs 5,139). However, the stock has rallied recently and current valuations of 22x P/E FY26E appear rich, prompting our downgrade from HOLD to SELL.

Key changes

Target	Rating
▲	▼

Ticker/Price	BJAUT IN/Rs 7,598
Market cap	US$ 26.8bn
Free float	46%
3M ADV	US$ 41.6mn
52wk high/low	Rs 7,625/Rs 3,626
Promoter/FPI/DII	54%/10%/13%

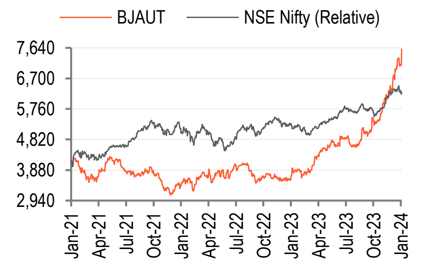
Source: NSE | Price as of 25 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	3,64,276	4,45,551	5,05,765
EBITDA (Rs mn)	65,491	86,820	98,229
Adj. net profit (Rs mn)	56,276	73,145	82,854
Adj. EPS (Rs)	197.9	258.5	292.8
Consensus EPS (Rs)	197.9	259.0	297.0
Adj. ROAE (%)	21.6	24.9	24.6
Adj. P/E (x)	38.4	29.4	25.9
EV/EBITDA (x)	33.9	25.2	22.2
Adj. EPS growth (%)	21.7	30.6	13.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 2,242 | ▲ 16%

TVS MOTOR | Automobiles | 27 January 2024

On a fast track – raise to BUY

- **ICE 2W volume growth beats industry at 33% YoY, supporting 26% revenue growth in Q3**
- **Volume uptick bolstered EBITDA margin by 115bps YoY to 11.2%; gross margin also healthy at 26% (+180bps)**
- **Upgrade to BUY with new TP of Rs 2,242 (vs. Rs 1,531) as we raise FY24/ FY25 EPS 7% and increase our target P/E to 28x (vs. 26x)**

Milind Raginwar | Shree Kirloskar
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Revenue growth driven purely by volume uptick…: TVSL's Q3FY24 revenue grew 26% YoY (flat QoQ) to Rs 82.4bn backed by volume growth of 25% YoY (flat QoQ) to ~1.1mn units. Net realisation per vehicle (NRPV) remained flat YoY/QoQ at Rs 74.9k. TVSL's domestic ICE 2W volumes grew 33% YoY to ~800k units, beating the industry growth rate.

…leading to healthy EBITDA and margin gains: Raw material cost as a percentage of sales dropped 180bps YoY to 73.7% in Q3 (flat QoQ). EBITDA increased 40% YoY (+3% QoQ) to Rs 9.2bn and the margin improved 115bps (flat QoQ) to 11.2%. Adj. PAT climbed 68% YoY (+11% QoQ) to Rs 5.9bn with a 7.2% net margin, aided by other income which included gains of ~Rs 823mn from capital reduction of the subsidiary.

Steady revival in export demand: 2W export sales grew 4% YoY (-10% QoQ) to ~216k units, above the industry. TVSL anticipates a pickup in the Middle East, LATAM and ASEAN markets as well as Sri Lanka which has opened up for exports in Q3FY24. Recovery in African markets may take longer than estimated.

Estimates revised: We believe TVSL will continue to beat industry volume growth backed by a strong presence in the high-end motorcycle segment, together with its focus on EV launches and the revival in exports. This apart, easing raw material costs and the company's premium focus will add to margins. We raise our FY24/FY25 earnings estimates by 5%/7% to factor in the above and introduce FY26 projections, baking in a 3Y EBITDA/PAT CAGR of 28%/35%.

TP raised; upgrade to BUY: To factor in the strong outlook for high-end products such as *Apache* and *Raider,* launch plans, and benefits from investments in export markets over the medium term*,* we revise our target P/E multiple for the core business to 28x from 26x, in line with the stock's long-term average. On rolling valuations over to FY26E, we arrive at a new SOTP-based TP of Rs 2,239 (earlier Rs 1,531), which includes Rs 33/sh for TVS Credit and offers 16% upside potential – upgrade to BUY from HOLD. Slow recovery in export markets remains a key risk.

Key changes

Target	Rating
▲	▲

Ticker/Price	TVSL IN/Rs 1,941
Market cap	US$ 11.2bn
Free float	48%
3M ADV	US$ 23.2mn
52wk high/low	Rs 2,109/Rs 990
Promoter/FPI/DII	52%/13%/25%

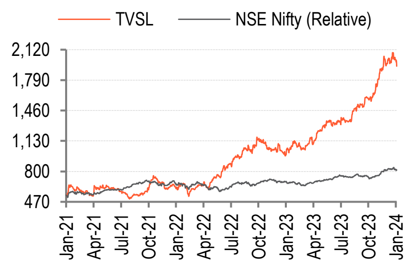
Source: NSE | Price as of 25 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	2,63,781	3,02,195	3,62,497
EBITDA (Rs mn)	26,747	34,517	45,469
Adj. net profit (Rs mn)	14,910	20,426	28,830
Adj. EPS (Rs)	31.4	43.0	60.7
Consensus EPS (Rs)	31.4	44.0	56.1
Adj. ROAE (%)	24.7	26.1	27.6
Adj. P/E (x)	61.9	45.1	32.0
EV/EBITDA (x)	34.3	26.8	20.2
Adj. EPS growth (%)	66.9	37.0	41.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 800 | ⮝ 5%

SBI CARD | NBFC | 27 January 2024

Asset quality concerns persist; downgrade to HOLD

- **Credit cost soared 66% YoY to Rs 8.8bn in Q3 amid industry-wide stress in unsecured loans; uncertainty persists**
- **NIM fell 40bps YoY on a higher cost of funds and pressure likely to mount further**
- **Cut from BUY to HOLD as we lower earnings and value the stock at 21x FY26E P/E (vs. 28x FY25E) for a revised TP of Rs 800 (vs. Rs 910)**

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Credit cost to remain high: SBI Card's credit cost soared 66% YoY to Rs 8.8bn (vs. Rs 7.9bn estimated) in Q3FY24, forming 7.8% of loans (+200bps YoY, +80bps QoQ). Management cited industry-wide stress in unsecured loans and expects the pain to last for at least two more quarters. Loan write-offs increased 6% QoQ to Rs 7.2bn and GNPA/NNPA rose 43bps/16bps YoY to 2.6%/1%. At Rs 5.5bn, PAT grew 8% YoY but missed our estimate by 14%. We now factor in credit costs of 7.1%/7% for FY24/FY25 (vs. 6.8% before) and reduce our PAT forecasts by 9%/11%. We also introduce FY26 projections for SBI Card and model for a PAT CAGR of 17% over FY23-FY26.

NIM declines, cost of funds rises: NIM (calc.) slipped 40bps YoY to 10.9% (-10bps QoQ) due to an increase in cost of funds owing to higher borrowing rates and the RBI's move to raise risk weights for banks on lending to NBFCs. Management expects higher funding costs in Q4 as well. We pare our FY24/FY25 NII estimates by 1%/3% for FY24/FY25 and cut NIM projections by 20-50bps to 11%/11.1%. We expect NIM to expand to 11.4% in FY26.

Growth in spends strong: Buoyed by festival spends, SBI Card saw Q3 credit card spends climb to a new high of Rs 969bn, rising 41% YoY and 22% QoQ. Corporate spends swelled 64% YoY (+32% QoQ), constituting 24% of the total, and retail spends grew 35% YoY (+20% QoQ), forming 76% share. Cards in force increased 16% YoY to 18.5mn. Q3 saw greater use of SBI Card products on the UPI platform, with 25% of RuPay cardholders having enrolled for this feature. Monthly average UPI spends per account were at Rs 12,500 with an average ticket size of Rs 880.

Downgrade to HOLD: In light of the rising credit and funding costs, we expect SBI Card to face mounting pressure on profitability, as reflected in the downward revisions to our margin and earnings estimates. Also, considering the uncertainty around asset quality paired with cost pressures, we lower our target P/E multiple from 28x to 21x, which is 50% below the long-term trend. On rolling valuations forward to FY26E, we arrive at a reduced TP of Rs 800 (vs. Rs 910) which carries just 5% upside, leading us to downgrade the stock from BUY to HOLD.

Key changes

Target	Rating
▼	▼

Ticker/Price	SBICARD IN/Rs 760
Market cap	US$ 8.8bn
Free float	31%
3M ADV	US$ 17.1mn
52wk high/low	Rs 933/Rs 696
Promoter/FPI/DII	69%/8%/17%

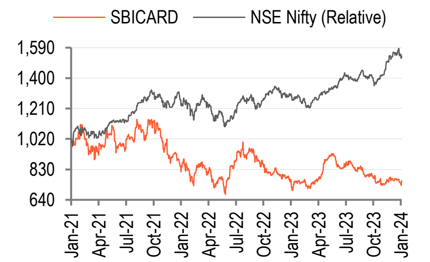
Source: NSE | Price as of 25 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
NII (Rs mn)	45,053	54,077	68,130
NII growth (%)	17.4	20.0	26.0
Adj. net profit (Rs mn)	22,585	22,493	27,703
EPS (Rs)	23.8	23.7	29.2
Consensus EPS (Rs)	23.8	25.0	31.0
P/E (x)	31.9	32.1	26.1
P/BV (x)	7.3	6.1	5.1
ROA (%)	5.6	4.4	4.4
ROE (%)	25.7	20.8	21.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

SELL

TP: Rs 305 | ⩔ 24%

LAURUS LABS | Pharmaceuticals | 25 January 2024

Challenges galore – cut to SELL

- **Fourth straight quarterly miss with upsets on all fronts; Q3 revenue/ EBITDA well short of Bloomberg consensus by 13%/79%**
- **EBITDA margin held sequentially at 15.2% but dropped 10ppt from last year; management expects a better Q4**
- **TP revised to Rs 305 (vs. Rs 340) as we cut FY24-FY25 EBITDA 30-36% and roll valuations over; downgrade from HOLD to SELL**

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CDMO business continues to decline, price erosion in ARV persists: Laurus posted disappointing 9MFY24 results owing to a steep fall in CDMO revenue, price erosion in the ARV portfolio, and operational deleverage from higher upfront cost toward capex and R&D projects. 9M revenue fell 23% YoY and PAT plunged 88% YoY, with Q3 net income down 89% – marking the fourth successive quarter of profit contraction in excess of 50%. FDF business provided some respite as growth revived to 47% YoY (+11% QoQ). API business declined 9% YoY though oncology API grew 14%. We build in revenue growth of 13%/11% for FY25/FY26.

Negative operating leverage saps margin: Gross margin improved 90bps YoY and 180bps QoQ, but the steady decline in high-margin CDMO revenue together with higher operating costs from recently commissioned projects saw EBITDA margin plummet 10ppt YoY to 15.2% (stable QoQ). Management expects the operating margin to have bottomed out in Q3 and anticipates a better fourth quarter. We reduce our FY24/FY25 EBITDA margin estimates 550bps/450bps to 17%/20%.

Earnings call highlights: (1) Laurus incurred capex of Rs 5.8bn in 9MFY24 (16% of revenue). (2) CDMO capex of US$ 100mn+ is on track, supported by a strong business pipeline. (3) Increased working capital needs because of inventory build-up saw operating cash flow decline to Rs 3.7bn in 9M vs. Rs 4.7bn in H1FY24.
(4) Integrated capability expansion is on track and the animal health unit has started commercial validation supplies.

Downgrade to SELL: We introduce FY26 estimates for Laurus and pare our FY24/FY25 EBITDA projections by 36%/30% given the company's struggle on the revenue as well as margin fronts. Upon rolling valuations over to FY26E, our TP stands revised to Rs 305 (from Rs 340), based on an unchanged target EV/EBITDA multiple of 12x- implied PE of 25x. Considering the continued deterioration in operational performance, we downgrade the stock to SELL from HOLD.

Key changes

Target	Rating
▼	▼

Ticker/Price	LAURUS IN/Rs 401
Market cap	US$ 2.6bn
Free float	74%
3M ADV	US$ 8.8mn
52wk high/low	Rs 445/Rs 279
Promoter/FPI/DII	27%/23%/5%

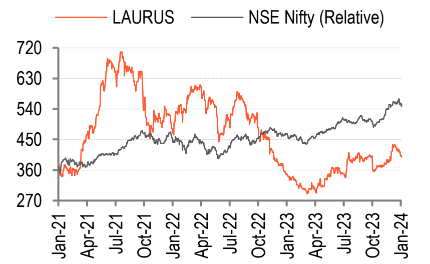
Source: NSE | Price as of 24 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	60,410	53,206	60,041
EBITDA (Rs mn)	15,926	9,045	12,008
Adj. net profit (Rs mn)	7,906	2,701	4,497
Adj. EPS (Rs)	14.7	5.0	8.4
Consensus EPS (Rs)	14.7	4.5	10.6
Adj. ROAE (%)	21.4	6.6	10.3
Adj. P/E (x)	27.2	79.7	47.8
EV/EBITDA (x)	14.6	26.1	19.7
Adj. EPS growth (%)	(4.6)	(65.8)	66.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BUY
TP: Rs 1,576 | ⮝ 15%

CIPLA | Pharmaceuticals | 25 January 2024

Healthy revenue growth, strong margins

- **Q3 strong with EBITDA beat of 9% over consensus, though impairment charges of Rs 1.9bn limited PAT outperformance vs consensus**
- **Better pricing and favourable mix aided gross margin (+90bps YoY), while prudent cost control lifted EBITDA margin (+225bps)**
- **TP revised to Rs 1,576 (vs. Rs 1,360) as we tweak estimates and roll valuations forward to FY26E; maintain BUY**

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Strong quarter…: Cipla reported a strong Q3FY24 with topline growth of 14% YoY (marginally above Bloomberg consensus) coupled with EBITDA margin expansion of 225bps to 26.5%. This resulted in PAT growth of 56% YoY before exceptional items and 32% post one-offs.

…led by N. America and recovery in SAGA: The company reported double-digit growth YoY across the Indian, US and SAGA (South Africa, Sub-Saharan Africa and Cipla Global Access) markets but saw declines in its international (-2% YoY) and API (-27%) verticals. Sales of US$ 230mn to North America (+18% YoY) were supported by volume traction in the key assets of Lanreotide (20% market share) and Albuterol, coupled with robust demand in base business. The One-India business delivered healthy 12% YoY growth as all three segments of prescription, trade generics and consumer health moved up. SAGA saw continued recovery with 20% YoY growth.

Margin tracking well above guidance: At 25.4%, Cipla's 9MFY24 EBITDA margin is running above management's 23-24% guidance for the full year. The Q3 margin of 26.5% was supported by a better product mix, improved pricing environment in the US and prudent cost control. PAT growth was further aided by higher other income as well higher other operating income during the quarter. We note that exceptional items amounting to Rs 1.9bn arose from the impairment of intangible assets due to discontinuation of the development and commercialisation of Pulmazole.

Earnings call highlights: (1) Cipla has submitted revised data to the USFDA for the Indore site. Symbicort is a key Indore filing and a backup site transfer is underway but will take more than two years to secure approval. (2) Abraxane is likely to be launched from the Goa facility.

Maintain BUY: We continue to expect strong margins and a healthy 20% PAT CAGR over FY23-FY26 on the back of new launches in US, recovery in SAGA and API business, and continued momentum in One-India. On rolling valuations over to FY26E, our TP rises to Rs 1,576 (vs. Rs 1,360), based on an unchanged EV/EBITDA multiple of 15.5x, which is 1SD above the 5Y average. We retain BUY for 15% upside.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	CIPLA IN/Rs 1,370
Market cap	US$ 13.4bn
Free float	65%
3M ADV	US$ 27.0mn
52wk high/low	Rs 1,425/Rs 852
Promoter/FPI/DII	33%/25%/24%

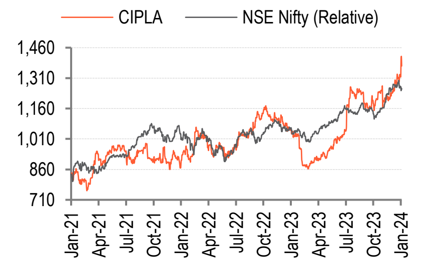
Source: NSE | Price as of 25 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	227,530	255,535	282,858
EBITDA (Rs mn)	50,268	61,731	69,434
Adj. net profit (Rs mn)	29,842	40,803	45,145
Adj. EPS (Rs)	37.0	50.6	56.0
Consensus EPS (Rs)	37.0	49.2	54.6
Adj. ROAE (%)	13.6	16.4	15.8
Adj. P/E (x)	37.0	27.0	24.4
EV/EBITDA (x)	21.5	17.3	15.1
Adj. EPS growth (%)	10.6	36.7	10.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 1,590 | ⮝ 16%

MAHANAGAR GAS | Oil & Gas | 27 January 2024

Volume growth accelerating, reiterate BUY

- **Q3 beats consensus with sharp uptick in volume growth and stable margins despite lower APM gas allocation**
- **We raise FY23-FY26 volume growth forecasts to 6.7% CAGR (from 6.1%) and margins towards higher end of guided range**
- **TP hiked to Rs 1,590 (from Rs 1,255), implying FY25E target P/E of 13.8x; stock merits rerating on improved growth prospects**

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Q3 beats consensus: MAHGL's Q3FY24 EBITDA at Rs 4.5bn was 9%/5% above Bloomberg consensus/our estimates. This was driven by an uptick in volume growth and continuing strength in margins (Rs 13.3/scm) despite lower APM gas allocation.

Focus on volumes starting to yield results: Q3 volumes at 3.67mmscmd increased 7.6% YoY supported by growth across segments – CNG (6.4%), households (6.3%) and industrial and commercial (15.9%). For CNG, we are seeing our thesis (see Growth set to accelerate in medium term, 5 Feb 2023) playing out – acceleration in vehicle additions from targeted station additions in Thane Urban (GA2).. Further, the company has added 0.15mmscmd of new industrial volumes due to the success of an incentive scheme offering a guaranteed 10% discount over alternate fuels and more contractual flexibility to new industrial consumers.

Volume growth forecasts revised up: We raise FY23-FY26 volume growth forecasts to 6.7% CAGR (from 6.1%), higher than the historical trend of 5% growth over FY18-FY23. We primarily raise industrial/commercial growth to 11.5% CAGR factoring in the recent traction. We have been assuming CNG growth at 5.9% CAGR based on our thesis of pickup in vehicle additions from H2FY24.

Margin forecasts increased as well: As MAHGL is demonstrating the ability to deliver higher-than-historical average margins along with pickup in volume growth, we raise per unit EBITDA margin forecasts for FY24/FY25/FY26 to Rs 14.1/Rs 11.9/ Rs 11.7, towards the higher end of the guided range of Rs 10-12/scm. We believe margins on CNG would remain strong amid modest costs of priority sector gas.

Reiterate BUY: Following revised margin and volume forecasts, our FY24/FY25/ FY26 EBITDA projections rise 25%/18%/19% with an EBITDA CAGR of 14.5% (from 8.9%) over FY23-FY26. This coupled with roll-forward of valuation to Jan'25 (from Oct'24) results in a higher TP of Rs 1,590 (from Rs 1,255). Our TP implies an FY24E/FY25E P/E of 11.9x/13.8x, higher than the 3Y/5Y mean one-year forward P/E of 10.8x/11.9x. We believe MAHGL deserves a rerating as it looks set to deliver higher volume growth than its own historical range over the medium term.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MAHGL IN/Rs 1,374
Market cap	US$ 1.7bn
Free float	58%
3M ADV	US$ 7.5mn
52wk high/low	Rs 1,387/Rs 831
Promoter/FPI/DII	43%/31%/17%

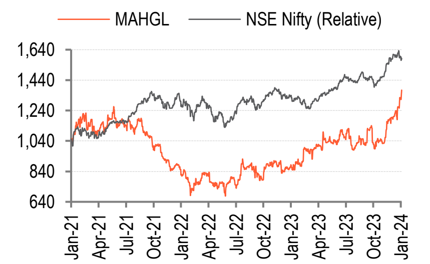
Source: NSE | Price as of 25 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	62,993	63,927	65,458
EBITDA (Rs mn)	11,842	18,615	16,884
Adj. net profit (Rs mn)	7,901	13,190	11,379
Adj. EPS (Rs)	80.0	133.5	115.2
Consensus EPS (Rs)	80.0	131.2	117.7
Adj. ROAE (%)	20.4	28.9	21.3
Adj. P/E (x)	17.2	10.3	11.9
EV/EBITDA (x)	11.1	7.2	7.9
Adj. EPS growth (%)	32.3	67.0	(13.7)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 172 | ⮝ 27%

DCB BANK | Banking | 25 January 2024

NII sequentially flat on high interest cost

- **NII flat QoQ (6%YoY) in Q3 on higher interest expenses; treasury gains and moderate opex aided 9% YoY PPOP growth**
- **Reported NIM fell 20bps QoQ to 3.5%, but management retained FY24 guidance at 3.65-3.75%**
- **Maintain BUY with revised TP of Rs 172 (vs. Rs 144), valuing the stock at 0.9x FY26E ABV (vs. 0.8x on FY25E)**

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Strong business growth: DCBB's advances grew at a healthy 18% YoY in Q3FY24 led by AIB (+28%), mortgage (+25%) and co-lending (+59%). The absence of TreDS business slowed down SME and MSME lending (-22%). In a deposit-constrained scenario, the bank is focusing on LAP rather than home loans within its mortgage business to support margins (100bps rate differential). Deposit growth was strong at 19% YoY as term deposits increased while CASA grew at a healthy 13% YoY, leading to a 110bps QoQ rise in CASA ratio. DCBB reiterated its plan to double the balance sheet in three years, and we factor in a credit/deposit CAGR of 19%/19% for FY23-FY26.

Margin to improve…: Reported NIM contracted 21bps QoQ to 3.5% due to a higher cost of deposits (+22bps QoQ vs. +16bps in Q2) and a 12bps fall in yield on advances. Management expects deposit rate repricing to be completed over the next two quarters, supporting margins within its earlier guided range of 3.65-3.75% for FY24.

…but C/I ratio to remain high: DCBB's C/I ratio for Q3 came in at 65%. The bank expects to optimise opex and slow down investments in employees even as it continues with network expansion (25-30 branches p.a.) and is targeting cost-to-average assets of 2.4-2.5% in the near term from 2.6% currently. We expect sticky operational costs to keep the C/I ratio elevated at 64% in FY24 with some moderation by FY26 to 61%.

Asset stress expected to ease: With no moratorium in place, slippages stayed high at 4.7%, mainly from mortgage and gold loans, pushing up GNPA by 7bps QoQ while NPA declined 6bps. The bank maintained its FY24 credit cost guidance at 40-45bps (28bps reported in Q3), but we bake in ~45bps on a conservative basis.

Maintain BUY: Considering healthy growth, relatively stable margins and likely improvement in asset quality, we expect DCBB to clock ROA/ROE of 1%/13% in FY25 vs. 1%/11% in FY23. We introduce FY26 forecasts for the bank and roll valuations forward, translating to a new TP of Rs 172 (vs. Rs 144), set at 0.9x FY26E ABV (vs. 0.8x FY25E ABV) using the Gordon Growth Model. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DCBB IN/Rs 135
Market cap	US$ 513.7mn
Free float	85%
3M ADV	US$ 6.7mn
52wk high/low	Rs 163/Rs 97
Promoter/FPI/DII	15%/13%/34%

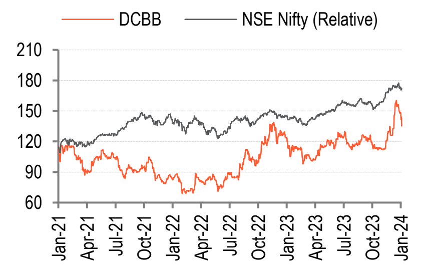
Source: NSE | Price as of 25 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	17,170	19,200	23,118
NII growth (%)	26.5	11.8	20.4
Adj. net profit (Rs mn)	4,656	5,127	6,279
EPS (Rs)	15.0	16.4	20.1
Consensus EPS (Rs)	15.0	16.5	20.1
P/E (x)	9.0	8.2	6.7
P/BV (x)	0.9	0.8	0.8
ROA (%)	1.0	0.9	0.9
ROE (%)	10.8	10.7	11.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 1,970 | ⮝ 43%

SBI LIFE | Insurance | 27 January 2024

ULIP-led growth; maintains market leadership

- **9MFY24 APE growth strong at 17% YoY with ULIPs forming 61% of total; continues to lead the market with 26.5% share in individual APE**
- **VNB margin remains high at 28.1% despite 150bps YoY decline in 9M owing to a product mix tilted toward ULIPs**
- **We broadly retain estimates and keep our TP unchanged at Rs 1,970, based on 2.5x FY26E EV; maintain BUY**

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Market leadership maintained: SBI Life's APE grew at a strong 17% YoY to Rs 143.9bn in 9MFY24 (+13% YoY to Rs 61bn in Q3FY24) and gross premium increased 19% to Rs 562bn. The company maintains market leadership in private life insurance, commanding 29.3% share in individual APE at end-Q3 and 26.5% at end-9M – well ahead of the #2 player by a margin of 1,500bps and 1,150bps in each period respectively. We raise our premium and APE projections slightly by 1% each over FY24-FY26.

Business skewed towards ULIPs: ULIPs remained in focus for SBI Life, growing 27% YoY as at end-9MFY24 and constituting 61% of APE vs. 56% in 9MFY23. Non-par business declined 10% YoY to Rs 24.5bn in 9MFY24, causing its share in total APE to reduce to 17% (vs. 22% in 9MFY23). Total protection business formed 11% of APE in 9M vs. 10% in the year-ago period. Individual protection APE declined 4% YoY, but group protection grew 58%. Demand for annuity products has been increasing and the segment grew 32% YoY at end-9MFY24, albeit on a low base.

VNB margin to remain rangebound: SBI Life's VNB increased from Rs 36.3bn at end-9MFY23 to Rs 40.4bn at end-9MFY24. Over this period, the VNB margin has fallen from 29.6% to 28.1% owing to the shift in product mix towards ULIPs. We marginally trim our FY24 VNB margin assumption to 28% from 28.5% while retaining our forecasts at 28.5%/29% for FY25/FY26.

Persistency ratios improve, expense ratio rises: Persistency in the 13^{th} month cohort improved to 85.3% at end-9MFY24 from 84.6% in the year-ago period and in the 61^{st} month to 58.1% from 53.6%. The expense ratio increased 64bps YoY and 26bps QoQ to 9.7% in Q3 (9.9% in 9M) but stayed below that of listed private peers.

Our top pick – BUY: SBI Life is trading at 1.7x FY26E P/EV. Considering the company's consistent performance and market leadership, we broadly retain our estimates and assign an unchanged multiple of 2.5x FY26E P/EV to the stock – in line with the long-term mean. Our TP remains at Rs 1,970 and carries 43% upside. SBI Life continues to be our top pick among life insurers – retain BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SBILIFE IN/Rs 1,381
Market cap	US$ 16.8bn
Free float	45%
3M ADV	US$ 21.6mn
52wk high/low	Rs 1,495/Rs 1,054
Promoter/FPI/DII	55%/24%/16%

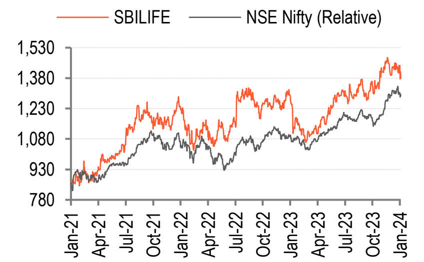
Source: NSE | Price as of 25 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
NBP (Rs mn)	2,95,886	3,53,982	4,22,348
APE (Rs mn)	1,68,100	1,93,898	2,28,805
VNB (Rs mn)	50,700	54,291	65,209
Embedded Value (Rs mn)	4,60,600	5,51,038	6,60,081
VNB margin (%)	30.1	28.0	28.5
EVPS (Rs)	459.9	550.2	659.1
EPS (Rs)	17.2	16.6	18.7
Consensus EPS (Rs)	17.2	16.5	18.5
P/EV (x)	3.0	2.5	2.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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