FIRST LIGHT

02 February 2024

RESEARCH

INDIA STRATEGY | FY25 INTERIM BUDGET REVIEW

Boosting growth without breaching deficit targets

BOB ECONOMICS RESEARCH | UNION BUDGET ANALYSIS 2024-25

SUN PHARMA | TARGET: Rs 1,550 | +10% | HOLD

Strong quarter driven by specialty business

DABUR INDIA | TARGET: Rs 673 | +21% | BUY

Steady growth across portfolios

GREENPANEL INDUSTRIES | TARGET: Rs 400 | +3% | HOLD

Dismal Q3FY24; No sigh of relief for MDF in near-future

POWER | MONTHLY TRACKER

TBCB projects booming

Daily macro indicators

Indicator	30-Jan	31-Jan	Chg (%)
US 10Y yield (%)	4.03	3.91	(12bps)
India 10Y yield (%)	7.16	7.14	(1bps)
USD/INR	83.11	83.04	0.1
Brent Crude (US$/bbl)	82.9	81.7	(1.4)
Dow	38,467	38,150	(0.8)
Hang Seng	15,703	15,485	(1.4)
Sensex	71,140	71,752	0.9
India FII (US$ mn)	**29-Jan**	**30-Jan**	**Chg ($ mn)**
FII-D	(19.4)	301.6	320.9
FII-E	(512.9)	(218.3)	294.5

Source: Bank of Baroda Economics Research

SUMMARY

INDIA STRATEGY: FY25 INTERIM BUDGET REVIEW

- Budget pegs fiscal deficit at 5.8% for FY24 (vs. 5.9% BE) while setting a target of 5.1% for FY25; retains 4.5% guidance for FY26
- Capex at 3.4% of GDP in FY25 is broadly in line with FY24 levels, indicating government's comfort with pace of private capex
- FY25 defence outlay is largely flat YoY; focus on rail and electric transportation ecosystem continues

Click here **for the full report.**

BOBCAPS Research
research@bobcaps.in

INDIA ECONOMICS: UNION BUDGET ANALYSIS 2024-25

- Government expects nominal GDP to rise by 10.5% in FY25, driven by consumption and investment. We believe real GDP growth to average ~6.75% and inflation to average between 3.5-4%.
- Tax structure shows that ratio of direct tax collections to GDP surpassed expectations in FY24, as it jumped from targeted 6% (FY24BE) to 6.6% as per FY24RE. It is expected to be maintained around similar levels (6.7%) in FY25BE as well.
- Indirect tax-GDP ratio on the other hand is estimated to remain broadly stable at 5% as per FY24RE (5.1%as per FY24BE), and settle at 4.9% in FY25BE.

Click here for the full report.

SUN PHARMA

- Strong quarter with revenue/EBITDA in line and reported PAT 4% ahead of Bloomberg consensus
- High gross margin of 77.9% offset by increase in R&D and opex, keeping EBITDA margin flattish YoY at 27%
- TP raised to Rs 1,550 (vs. Rs 1,200) as we apply a higher EV/EBITDA multiple of 21x (vs. 19x) on FY26E; retain HOLD

Click here for the full report.

DABUR INDIA

- Consistent performance across segments and markets with 7% YoY revenue growth despite delayed winter and macro headwinds
- Rural markets grew ahead of urban markets for Dabur owing to sustained investment in distribution
- Investment in brands, distribution and A&P to propel growth; maintain BUY with nominal change in TP to Rs 673 (vs. Rs 669)

Click here for the full report.

GREENPANEL INDUSTRIES

- Sharp contraction in operating profit (-34% YoY) for fifth consecutive quarter owing to supply-side pressure in MDF industry
- Volume guidance downgraded once again on rising import pressure and elevated timber prices
- Maintain HOLD with unchanged TP of Rs 400 given tepid earnings growth profile and expensive valuations

Click here for the full report.

POWER: MONTHLY TRACKER

- Peak power demand for December at 214GW with no demand unmet; thermal PLFs ~200bps above target
- India added 8.7GW of renewable capacity in FY24 YTD; full-year target estimated at 20GW
- 7 TBCB projects commenced in last two months, with PWGR executing 6 of them; construction of transmission lines lags

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FY25 INTERIM BUDGET REVIEW

01 February 2024

Boosting growth without breaching deficit targets

- **Budget pegs fiscal deficit at 5.8% for FY24 (vs. 5.9% BE) while setting a target of 5.1% for FY25; retains 4.5% guidance for FY26**
- **Capex at 3.4% of GDP in FY25 is broadly in line with FY24 levels, indicating government's comfort with pace of private capex**
- **FY25 defence outlay is largely flat YoY; focus on rail and electric transportation ecosystem continues**

Kumar Manish
research@bobcaps.in

Tight leash on deficit: The interim budget proposes a prudent 5.1% fiscal deficit target for FY25 and reiterates a target of 4.5% for FY26. The revised estimate (RE) for the FY24 fiscal deficit is now at 5.8% against the budgeted estimate (BE) of 5.9%, well below the FY23 figure of 6.4%. The food, fertiliser and petroleum subsidy bill for FY25, however, is budgeted at Rs 3.8tn, 8% below FY24RE.

Thrust on green infrastructure: The focus on green infrastructure continues with expansion of capacity along certain rail traffic routes involving large manufacturing set-ups, ports and high-density traffic. We note a sustained thrust on the electrification of mass transportation. Green initiatives received a further boost with the announcement of viability gap funding for offshore wind projects. The budget also proposes to catalyse rooftop solar installation for 10mn households.

Capex outlay in line with FY24: The government has indicated a capex outlay of Rs 11.11tn for FY25, which translates to 3.4% of GDP (see Fig 4 for capex trends over the last 10 years). The current allocation suggests the government is now more comfortable with the pace of private capex.

No material change in taxes: The budget did not propose any material change in the level of direct or indirect taxes despite the proximity to national elections. This, in our view, indicates that the government is now largely comfortable with taxation levels.

Focus on housing to continue: Pradhan Mantri Awas Yojana (Gramin) is close to achieving its target of constructing 30mn houses and an additional 20mn homes are being targeted over the next five years. Budget announcements include a scheme to help the middle class to buy/build their own houses.

Sector and stock impact: The budget proposals, in our view, are an exercise in continuity, with no material incremental impact on stock markets. A lower deficit would result in moderation of the borrowing programme, with gross borrowing for FY25 planned at Rs 14.13tn against Rs 15.43tn in FY24BE, which in turn should lead to softer yields.

UNION BUDGET ANALYSIS 2024-25

01 February 2024

Madan Sabnavis
Chief Economist

Sonal Badhan | Dipanwita Mazumdar
Jahnavi | Aditi Gupta
Economists

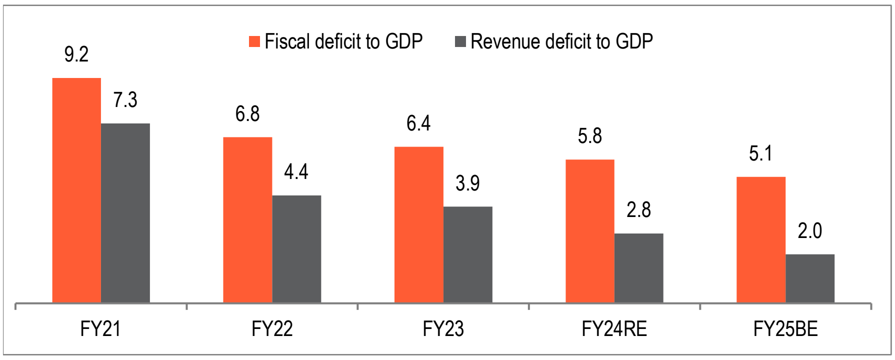
In order to arrive at budget ratios, government makes some critical assumptions.

- Government expects nominal GDP to rise by 10.5% in FY25, driven by consumption and investment. We believe real GDP growth to average ~6.75% and inflation to average between 3.5-4%.
- Tax structure shows that ratio of direct tax collections to GDP surpassed expectations in FY24, as it jumped from targeted 6% (FY24BE) to 6.6% as per FY24RE. It is expected to be maintained around similar levels (6.7%) in FY25BE as well.
- Indirect tax-GDP ratio on the other hand is estimated to remain broadly stable at 5% as per FY24RE (5.1%as per FY24BE), and settle at 4.9% in FY25BE
- Capex spend continues to maintain momentum, with support to states also being maintained.
- Overall size of the budget increased marginally to 15.1% of the GDP as per FY24RE (14.9% as per FY24BE), but is expected to be brought down to 14.5% in FY25BE.

Trends in deficit ratios

- Interim Budget for FY25 acknowledged government's role in nudging private investment, and increased the importance given to targeted welfare schemes. This has been achieved without compromising on fiscal health of the government.
- As result, Fiscal Deficit (as % of GDP) is estimated to be lower (5.8%) than targeted (5.9%)in FY24. In FY25BE it will be brought down more significantly, to 5.1%.
- As quality of expenditure improves, level of revenue expenditure has been maintained at Rs 35-36 lakh crores. At the same time revenue receipts have seen sharp improvement owing to compliance and consumption boost.
- This has allowed Revenue Deficit-GDP ratio to decline from 2.9% as per FY24BE to 2.8% as per FY24RE and further to 2% in FY25BE.

We believe government will attain FD ratio of 4.5% by FY26.



Source: Union Budget documents, Bank of Baroda Research | BE: Budget Estimates, RE: Revised Estimates

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HOLD
TP: Rs 1,550 | ⮝ 10%

SUN PHARMA | Pharmaceuticals | 01 February 2024

Strong quarter driven by specialty business

- **Strong quarter with revenue/EBITDA in line and reported PAT 4% ahead of Bloomberg consensus**
- **High gross margin of 77.9% offset by increase in R&D and opex, keeping EBITDA margin flattish YoY at 27%**
- **TP raised to Rs 1,550 (vs. Rs 1,200) as we apply a higher EV/EBITDA multiple of 21x (vs. 19x) on FY26E; retain HOLD**

Saad Shaikh
research@bobcaps.in

Specialty portfolio and milestone payment boost Q3: SUNP reported largely in-line revenue in Q3FY24 at Rs 124bn, up 10% YoY driven by North America and India businesses. North America business grew 11% QoQ CC to US$ 477mn led by a strong performance in the specialty portfolio (especially Ilumya, Cequa and Levulan) as well as Taro business. Global specialty business at US$ 296mn had a one-time milestone payment of US$ 20mn, excluding which it grew 17% YoY CC. The quarter saw little contribution from gRevlimid.

India sales growth robust at 11% YoY: India business delivered strong market-beating growth of 11% YoY at a time when many of SUNP's large peers are struggling. Revenue from emerging markets dipped 1% YoY due to the impact of adverse currency movements and API (active pharma ingredient) business fell 10% YoY, whereas ROW and other markets grew at 14% and 18% YoY respectively.

Gross margin gain offset by increase in R&D and opex: SUNP's Q3 gross margin was strong at 77.9%, rising 285bps YoY (+75bps QoQ), but EBITDA margin inched up just 35bps YoY (+70bps QoQ) to 27.1%. This was on account of higher R&D spend on ongoing studies as well as increased opex. Given continued momentum in the specialty portfolio, especially Ilumya, Cequa and Winlevi, we expect the company to deliver stronger margins going forward. The launch of Deuruxolitinib (potentially in H2FY25) would offer added upside.

Earnings call highlights: (1) Good potential seen for Nidlegy in Europe with impressive data readouts; opportunity for the US being evaluated as well. (2) Completion of Taro's remaining stake is pending shareholder approval. (3) Deuruxolitinib filed with the USFDA; next milestone is the PDUFA date (expected Jul'24).

Maintain HOLD; TP revised to 1,550: We raise our FY24-FY26 EBITDA estimates 4-5% to capture the stronger 9MFY24 margins and increase our target EV/EBITDA multiple to 21x (from 19x) – 2SD above the long-term mean and an implied P/E of 29x. On rolling valuations over to FY26E, our TP stands revised to Rs 1,550 (vs. Rs 1,200) and offers 10% upside potential. We therefore maintain our HOLD rating.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SUNP IN/Rs 1,408
Market cap	US$ 41.1bn
Free float	45%
3M ADV	US$ 29.8mn
52wk high/low	Rs 1,439/Rs 922
Promoter/FPI/DII	54%/16%/20%

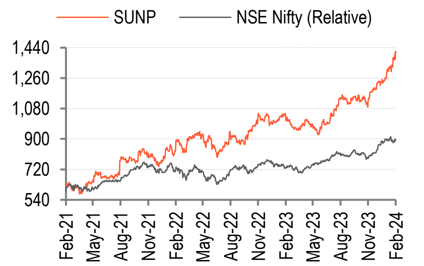
Source: NSE | Price as of 1 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	438,857	491,778	543,475
EBITDA (Rs mn)	121,740	130,959	152,100
Adj. net profit (Rs mn)	85,654	93,520	111,146
Adj. EPS (Rs)	35.7	39.0	46.3
Consensus EPS (Rs)	35.7	38.7	45.2
Adj. ROAE (%)	15.5	14.8	15.6
Adj. P/E (x)	39.4	36.1	30.4
EV/EBITDA (x)	26.6	24.6	21.1
Adj. EPS growth (%)	11.5	9.2	18.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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BUY
TP: Rs 673 | ⮝ 21%

DABUR INDIA | Consumer Staples | 01 February 2024

Steady growth across portfolios

- **Consistent performance across segments and markets with 7% YoY revenue growth despite delayed winter and macro headwinds**
- **Rural markets grew ahead of urban markets for Dabur owing to sustained investment in distribution**
- **Investment in brands, distribution and A&P to propel growth; maintain BUY with nominal change in TP to Rs 673 (vs. Rs 669)**

Vikrant Kashyap
research@bobcaps.in

Steady revenue and market share gains: Dabur reported 7% YoY revenue growth to Rs 32.6bn in Q3FY24 (+9.6% YoY CC), supported by a consistent performance in both the home & personal care (HPC) and healthcare segments, along with an improved showing in food & beverages. FMCG volume growth in its India business came in at 6% YoY and the company continued to gain market share across 90% of its product portfolio. International business maintained strong momentum, growing 11.7% YoY CC. MENA revenue grew 14%, Egypt was up 43%, Sub-Saharan Africa 55%, SAARC 6% and Turkey 44%; however, Namaste sales in Africa fell 11.5% YoY.

Margin expansion continues: Gross margin expanded 310bps YoY and 30bps QoQ to 48.6% largely due to easing inflation. Operating profit grew 9.5% YoY with a 50bps YoY rise in margin to 20.5% despite 36% higher A&P spend in the consolidated business.

Rural growth outpaces urban demand: During Q3, rural demand for Dabur grew 200bps ahead of urban markets, driven by moderating inflation coupled with improved consumer sentiment and its investment in rural footprint extension. The company's rural footprint has expanded by 17,000 villages in the current fiscal to 117,000 in all, and management expects to reach 120,000 villages.

Steady performance across categories: Dabur's digestive business grew 15% YoY and home care increased 7%. Revenue from Ayurvedic ethicals was up 7% YoY, and foods including Badshah saw an uptick of 22%.

Maintain BUY: Dabur continues to deliver steady growth and gain market share despite macro headwinds. Amid easing inflation and improving rural demand, we expect the company to deliver profitable growth backed by investments in A&P, distribution, branding, manufacturing and digital channels. We pare our FY24/FY25 PAT forecasts by 3%/14% and introduce FY26 estimates. The stock is currently trading at 50.8x/44.1x FY24E/FY25E EPS. We maintain BUY and continue to value Dabur at 46x FY26E EPS – in line with the 10Y average multiple – for a nominally higher TP of Rs 673 (earlier Rs 669). BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DABUR IN/Rs 554
Market cap	US$ 12.0bn
Free float	33%
3M ADV	US$ 13.7mn
52wk high/low	Rs 597/Rs 504
Promoter/FPI/DII	66%/17%/17%

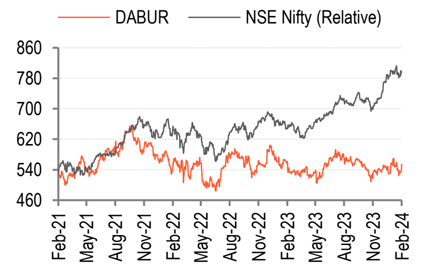
Source: NSE | Price as of 1 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	115,299	126,804	143,895
EBITDA (Rs mn)	21,641	24,898	29,067
Adj. net profit (Rs mn)	17,072	19,352	22,263
Adj. EPS (Rs)	9.6	10.9	12.6
Consensus EPS (Rs)	9.6	11.4	13.9
Adj. ROAE (%)	19.1	19.6	20.6
Adj. P/E (x)	57.5	50.8	44.1
EV/EBITDA (x)	45.4	39.5	33.8
Adj. EPS growth (%)	(2.1)	13.4	15.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD

TP: Rs 400 | ⮝ 3%

GREENPANEL INDUSTRIES

| Building Materials | 01 February 2024

Dismal Q3FY24; No sigh of relief for MDF in near-future

- **Sharp contraction in operating profit (-34% YoY) for fifth consecutive quarter owing to supply-side pressure in MDF industry**
- **Volume guidance downgraded once again on rising import pressure and elevated timber prices**
- **Maintain HOLD with unchanged TP of Rs 400 given tepid earnings growth profile and expensive valuations**

Utkarsh Nopany
research@bobcaps.in

Dismal Q3: GREENP's revenue/EBITDA/PAT fell by 8%/34%/8% YoY in Q3FY24. The company missed our EBITDA estimates by 24% due to weak volumes and relentless margin pressure (-160bps QoQ to 17.8%) in the MDF segment. While a 15% YoY drop in exports led to flat YoY volumes in MDF vs. 8% growth estimated, margin stress emanated from higher timber prices (North/South: +2%/+4% QoQ), increased brand spend (+140bps) and soft domestic realisations (-4%) due to an inferior product mix.

Key highlights: GREENP reported sharp YoY contraction in operating profit for the fifth consecutive quarter due to a continued supply overhang in the MDF industry. MDF sales volume was flat YoY (4Y CAGR: +8%) as domestic sales (+4%) absorbed the impact of weak exports (-15%). MDF segment EBITDA per unit fell 6% QoQ in Q3. The plywood segment reported a sharp volume decline for the sixth consecutive quarter (-23% YoY) due to the impact of internal restructuring and the company's exit from the decorative veneer business.

Guidance downgraded: Management has cut its volume growth guidance for MDF from 3-4% to flat growth in FY24 due to rising import pressure in the domestic market and restricted exports to large buyers on account of low profit contribution. For FY25, GREENP is targeting volume growth of 15% YoY, including the contribution from a new expansion project in Q4FY25. On the margin front, we expect pressure to persist in the coming quarters as management sees pricing headwinds in the domestic market from rising competitive intensity and believes timber costs will remain high in FY25.

Maintain HOLD: Factoring in the disappointing Q3FY24 result, we cut our FY24/ FY25/FY26 EPS estimates by 11%/2%/3%. We maintain our HOLD rating with an unchanged TP of Rs 400 as we expect GREENP to deliver a tepid 5% earnings CAGR over FY23-FY26, with ROE sliding from 21.1% in FY23 to 16.5% in FY26 due to supply-side pressure in the MDF industry. Current valuations also look expensive at 24.1x on 1Y forward P/E vs. the stock's historical average of 16.7x. Our target P/E multiple remains unchanged at 20x on Sep'25E EPS – a 20% premium to the historical average.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	GREENP IN/Rs 388
Market cap	US$ 578.5mn
Free float	47%
3M ADV	US$ 2.0mn
52wk high/low	Rs 450/Rs 255
Promoter/FPI/DII	53%/4%/23%

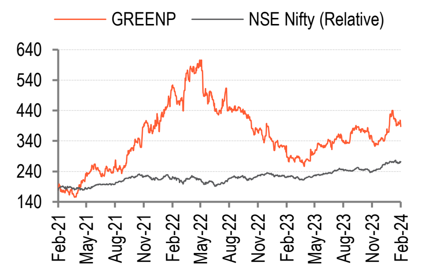
Source: NSE | Price as of 1 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	17,829	16,046	18,338
EBITDA (Rs mn)	4,165	2,722	3,576
Adj. net profit (Rs mn)	2,521	1,568	2,056
Adj. EPS (Rs)	20.6	12.8	16.8
Consensus EPS (Rs)	20.6	15.3	19.0
Adj. ROAE (%)	23.5	12.4	14.4
Adj. P/E (x)	18.9	30.3	23.1
EV/EBITDA (x)	10.9	17.7	13.5
Adj. EPS growth (%)	3.9	(37.8)	31.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

POWER | Monthly Tracker | 01 February 2024

TBCB projects booming

- **Peak power demand for December at 214GW with no demand unmet; thermal PLFs ~200bps above target**
- **India added 8.7GW of renewable capacity in FY24 YTD; full-year target estimated at 20GW**
- **7 TBCB projects commenced in last two months, with PWGR executing 6 of them; construction of transmission lines lags**

Vinod Chari | Swati Jhunjhunwala
Arshia Khosla
research@bobcaps.in

Peak demand met fully: India's peak power demand grew 3.6% YoY to 213.6GW for December, with no supply shortfall during the month. Total generation for the month was flattish YoY at 116BU. Thermal generation continues to contribute the bulk of India's power supply, at 91% for December and 86% for FY24 YTD. This compares with 89.1% in Dec'22 and 83.3% for Apr-Dec'22. Thermal PLF for the country stood at 65.2% and 68.1% for December and FY24 YTD respectively, remaining above the government's targets of 63.4% and 66.4% respectively.

Pace of renewable additions picking up: A total of 1,000MW of solar and 200MW of wind capacity was added during December, taking the country's cumulative installed capacity to 73.3GW and 44.7GW respectively. ICRA expects India to add 20GW of renewable energy (RE) capacity during FY24, of which 8.7GW has been added so far. On the thermal side, 2.8GW has been added during the current fiscal.

Transmission infrastructure lags, TBCB projects booming: Transmission line capacity totalling 1,203ckm was added in December, taking FY24 YTD capacity addition to 9,047ckm – short of CEA's target by ~35%. On the tariff-based competitive bidding (TBCB) front, PWGR has commissioned phase-II of its Ramgarh-II transmission project associated with evacuation of power from Rajasthan SEZ. Over November and December, PWGR began construction on six new projects won under the TBCB route, and TPWR started work on its first TBCB transmission project.

Outstanding dues continue to fall: Outstanding dues payable to public sector units stood at Rs 183bn as of Nov'23, falling 5.1% MoM and 11% YoY. This decline in dues on a YoY basis indicates successful implementation of the late payment surcharge (LPS) scheme, which has ensured timely payment by various state utilities.

Power exchanges capturing short-term market: IEX accounted for ~60% of short-term transactions during December, while the overall market contracted 12% YoY. The average market clearing price declined 16% YoY to Rs 4.69/kWh in the month of December.

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Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
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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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