BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

02 November 2023

RESEARCH

TATA CONSUMER PRODUCTS | TARGET: Rs 1,038 | +15% | BUY

Strong performance; outlook positive

KEI INDUSTRIES | TARGET: Rs 2,400 | -0% | HOLD

Capacity addition to spur growth

V-GUARD INDUSTRIES | TARGET: Rs 300 | +1% | HOLD

Average topline, margins improve

DCB BANK | TARGET: Rs 144 | +27% | BUY

Steady growth

Daily macro indicators

Indicator	30-Oct	31-Oct	Chg (%)
US 10Y yield (%)	4.89	4.93	4bps
India 10Y yield (%)	7.37	7.36	(2bps)
USD/INR	83.25	83.26	(0.0)
Brent Crude (US$/bbl)	87.5	87.4	(0.0)
Dow	32,929	33,053	0.4
Hang Seng	17,406	17,112	(1.7)
Sensex	64,113	63,875	(0.4)
India FII (US$ mn)	**27-Oct**	**30-Oct**	**Chg ($ mn)**
FII-D	28.2	8.0	(20.3)
FII-E	(299.6)	(203.8)	95.7

Source: Bank of Baroda Economics Research

SUMMARY

TATA CONSUMER PRODUCTS

- Q2 topline grew 11% YoY and EBITDA margin rose 150bps on sustained domestic growth and strategic international pricing
- Growth businesses (Sampann, Soulfull, NourishCo) continued to head north, climbing 39% YoY
- Expect strong topline and margin growth in key verticals; maintain BUY with revised TP of Rs 1,038 (earlier Rs 994)

Click here **for the full report.**

KEI INDUSTRIES

- Middling Q2 performance with easing capacity constraints; cables revenue healthy but margin lagged peers
- FY24 guidance retained at 16-17% revenue growth and 11% EBITDA margin; capex plan raised to ~Rs 5bn
- TP moves to Rs 2,400 (vs. Rs 2,300) upon rollover to Sep'25E; maintain HOLD

Click here **for the full report.**

BOBCAPS Research
research@bobcaps.in

V-GUARD INDUSTRIES

- Q2 topline up 15% YoY with gross margin expansion of 460bps; markets outside South India grew 11%
- Margins guided to rise further in H2 aided by festive season demand
- Our TP stands revised to Rs 300 (vs. Rs 290) on rollover – maintain HOLD

Click here for the full report.

DCB BANK

- Q2 advances grew 19% YoY led by agri and inclusive banking (AIB) and co-lending; NIM dipped 13bs QoQ on deposit repricing
- Margin guided to hold within target range of 3.65-3.75% in FY24 on shift in loan mix; credit cost guidance cut 5-10bps to 35-40bps
- Maintain BUY with TP of Rs 144 (unchanged), valuing the stock at 0.8x FY25E ABV

Click here for the full report.

BUY
TP: Rs 1,038 | ▲ 15%

TATA CONSUMER PRODUCTS

| Consumer Staples | 01 November 2023

Strong performance; outlook positive

- **Q2 topline grew 11% YoY and EBITDA margin rose 150bps on sustained domestic growth and strategic international pricing**
- **Growth businesses (Sampann, Soulfull, NourishCo) continued to head north, climbing 39% YoY**
- **Expect strong topline and margin growth in key verticals; maintain BUY with revised TP of Rs 1,038 (earlier Rs 994)**

Vikrant Kashyap
research@bobcaps.in

Strong growth across portfolios and geographies: TCPL maintained its growth trajectory, registering a strong revenue uptick of 11% YoY (10% CC) to Rs 37.3bn in Q2FY24, driven by 11% growth in India business, 13% (8% CC) in international business and 3% in non-branded business. EBITDA increased 24% YoY with margin expansion of 150bps (-20bps QoQ) to 14.4%. India EBITDA grew 11% YoY with a 15.7% margin while the international business clocked margin expansion of 330bps YoY to 12.4% led by pricing interventions and savings from restructuring.

Growth businesses maintain upward trajectory: Tata Sampann, Tata Soulfull and NourishCo collectively grew 39% YoY, forming 18% of India business compared to 15% in Q2FY23. Sampann soared 47% YoY led by strong volume growth, Soulfull continued its growth trajectory backed by distribution gains and innovation, and NourishCo grew 25% to Rs 1.7bn in revenue. TCPL has announced the amalgamation of wholly-owned subsidiaries, including NourishCo Beverages, Tata Consumer Soulfull, and Tata SmartFoodz, with the parent.

Sustained momentum in international business: The company's international revenue grew 13% YoY (8% CC) with a 60% rise in EBIT. Pricing action and structural initiatives helped boost margins. Revenue grew 13% YoY from the UK business and 8% from Canada due to pricing while the US fell 10%.

Starbucks store expansion continues: Tata Starbucks' revenue increased 14% YoY during the quarter. Store expansion remained in focus with 22 net additions in Q2, taking the total count to 370 stores across 49 cities.

Maintain BUY: TCPL continues to deliver strong growth in a challenging environment. We expect momentum to continue given the company's thrust on innovation, premiumisation, rural network expansion and digitisation. We increased our revenue/EBITDA/PAT CAGR forecasts to 12%/15.5%/22% (from 11.6%/14.8%/19.3%) over FY22-FY25, and raise our target FY25E EV/EBITDA multiples for India business to 39.7x (from 38.5x) and international business to 15.5x (from 13.5x). Our SOTP-based TP thus rises to Rs 1,038 (from Rs 994) – BUY.

Key changes

Target	Rating
▲	◄►

Ticker/Price	TATACONS IN/Rs 903
Market cap	US$ 10.2bn
Free float	64%
3M ADV	US$ 14.8mn
52wk high/low	Rs 928/Rs 687
Promoter/FPI/DII	34%/25%/41%

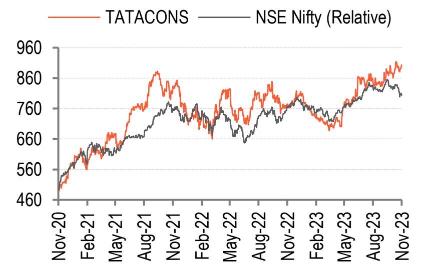
Source: NSE | Price as of 1 Nov 2023 | TATACONS = TCPL

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	137,832	154,439	174,337
EBITDA (Rs mn)	18,565	22,535	26,506
Adj. net profit (Rs mn)	10,443	14,299	17,029
Adj. EPS (Rs)	11.3	15.4	18.3
Consensus EPS (Rs)	11.3	15.2	18.1
Adj. ROAE (%)	5.2	8.1	9.1
Adj. P/E (x)	79.7	58.7	49.3
EV/EBITDA (x)	45.2	37.2	31.7
Adj. EPS growth (%)	(5.5)	62.6	17.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 2,400 | ⩔ 0%

KEI INDUSTRIES | Consumer Durables | 01 November 2023

Capacity addition to spur growth

- **Middling Q2 performance with easing capacity constraints; cables revenue healthy but margin lagged peers**
- **FY24 guidance retained at 16-17% revenue growth and 11% EBITDA margin; capex plan raised to ~Rs 5bn**
- **TP moves to Rs 2,400 (vs. Rs 2,300) upon rollover to Sep'25E; maintain HOLD**

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

Middling quarter: KEII posted Q2FY24 revenue of Rs 19.5bn, an increase of 21% YoY and a 4Y CAGR of 12.1%. Gross margin expanded 110bps YoY and 40bps QoQ to 24.1% while EBITDA margin increased 50bps YoY and QoQ to 10.5%. Adj. PAT at Rs 1.4bn grew 31% YoY, making for a 4Y CAGR of 16.5%. The company's order book moved up 11% YoY (-6% QoQ) to Rs 33.6bn.

Cables revenue performance healthy but margin lags peers: Cables revenue at Rs 17.8bn increased 22.9% YoY, as against 28.9% YoY for POLYCAB and 8.1% YoY for HAVL. Segmental EBIT margin stood at 10.8%, rising 210bps YoY, compared to expansion of 430bps for HAVL (to 11.6%) and 310bps for POLYCAB (to 14.6%).

Capacity crunch addressed: KEII underperformed peers in Q1FY24 due to a lack of capacity as the company was operating at high 90% utilisation, which in turn affected volume growth This has been ironed out in Q2, when brownfield expansion for high- and low-tension wires came onstream, as reflected in the 26% YoY volume growth in cables.

Guidance retained: KEII has retained its guidance of robust 16-17% revenue growth in both FY24 and FY25 primarily based on the capacity addition at its Silvassa plant and other greenfield expansion projects in Gujarat. It also maintained EBITDA margin guidance at ~11%. Management's strategy of expanding the retail business augurs well for the company. Further, the capex upturn in both private and public sectors is proving beneficial for KEII's core cables and engineering, procurement & construction (EPC) businesses and is likely to continue through FY24.

Retain HOLD: We continue to value the stock at a P/E multiple of 28x – in line with the 5Y average – given the expected growth traction and improvement in working capital. On rolling valuations forward to Sep'25E, our TP rises to Rs 2,400 (Rs 2,300 earlier). However, considering the sharp 50% rally in stock price during FY24 YTD, we retain HOLD and wait for a lower entry point.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	KEII IN/Rs 2,402
Market cap	US$ 2.6bn
Free float	61%
3M ADV	US$ 9.7mn
52wk high/low	Rs 2,815/Rs 1,353
Promoter/FPI/DII	37%/27%/20%

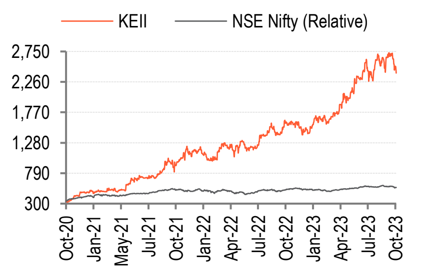
Source: NSE | Price as of 31 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	69,123	80,781	94,765
EBITDA (Rs mn)	7,062	8,735	10,758
Adj. net profit (Rs mn)	4,773	5,558	6,940
Adj. EPS (Rs)	52.9	61.6	76.9
Consensus EPS (Rs)	52.9	65.3	79.9
Adj. ROAE (%)	20.2	19.5	20.2
Adj. P/E (x)	45.4	39.0	31.2
EV/EBITDA (x)	30.7	25.3	20.6
Adj. EPS growth (%)	27.0	16.4	24.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD

TP: Rs 300 | ▲ 1%

V-GUARD INDUSTRIES | Consumer Durables | 01 November 2023

Average topline, margins improve

- **Q2 topline up 15% YoY with gross margin expansion of 460bps; markets outside South India grew 11%**
- **Margins guided to rise further in H2 aided by festive season demand**
- **Our TP stands revised to Rs 300 (vs. Rs 290) on rollover – maintain HOLD**

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

Topline growth average; gross margin shoots up: VGRD posted a Q2FY24 topline of Rs 11.3bn (Rs 10.7bn ex-Sunflame acquisition), growing 15% YoY (8.7% ex-Sunflame). Gross margin swelled 460bps YoY to 33.8% aided by softer raw material prices, whereas EBITDA margin expanded by a lower 80bps YoY to 8.2% owing to higher employee and other expenses. Management expects festive season demand to boost Q3 margins. It further indicated that lower raw material costs have helped with inventory and working capital management, but these benefits are likely to be partly offset by higher A&P spends going forward.

Consumer durables margin subdued: Electrical and electronics segments performed fairly well in Q2, with topline growth of 10% and 12% YoY respectively. EBIT margin expanded 290bps and 20bps YoY respectively, but the consumer durables vertical posted an EBIT loss due to negative operating leverage and low revenue growth of 5% due to subdued demand.

Higher growth in non-South markets: Revenue from VGRD's traditional South India market grew 7% YoY for the quarter whereas the non-southern markets increased by 11%. In terms of mix, markets outside the south contributed close to 44% of the quarter's revenue.

Sunflame disappoints: Sunflame – which the company intends to run as a separate entity – posted a disappointing topline and underperformed the kitchen industry. Though margins for the segment were intact, management believes that the kitchen industry is facing headwinds and that internal gaps in the portfolio undermined the company's performance vis-à-vis peers.

Maintain HOLD: Although VGRD has guided for stronger margins, the company is still facing headwinds in the form of inflation and rising competition in the sector. We thus retain HOLD and continue to value the stock at a 30x P/E multiple, which is a 15% discount to the 3Y average. On rolling valuations over to Sep'25E, we have a revised TP of Rs 300 (vs. Rs 290).

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	VGRD IN/Rs 298
Market cap	US$ 1.6bn
Free float	44%
3M ADV	US$ 1.8mn
52wk high/low	Rs 335/Rs 229
Promoter/FPI/DII	56%/13%/19%

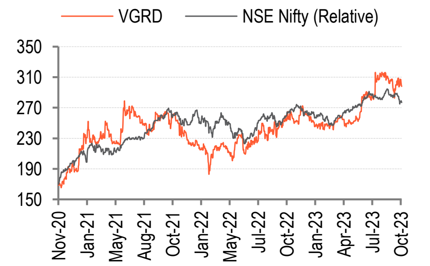
Source: NSE | Price as of 1 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	41,260	51,095	57,608
EBITDA (Rs mn)	3,199	5,507	6,145
Adj. net profit (Rs mn)	1,891	3,458	3,849
Adj. EPS (Rs)	4.4	8.0	8.9
Consensus EPS (Rs)	4.4	6.6	8.4
Adj. ROAE (%)	12.5	19.8	18.8
Adj. P/E (x)	68.1	37.2	33.5
EV/EBITDA (x)	40.3	23.4	21.0
Adj. EPS growth (%)	(16.9)	82.9	11.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BUY
TP: Rs 144 | ⮝ 27%

DCB BANK | Banking | 01 November 2023

Steady growth

- **Q2 advances grew 19% YoY led by agri and inclusive banking (AIB) and co-lending; NIM dipped 13bs QoQ on deposit repricing**
- **Margin guided to hold within target range of 3.65-3.75% in FY24 on shift in loan mix; credit cost guidance cut 5-10bps to 35-40bps**
- **Maintain BUY with TP of Rs 144 (unchanged), valuing the stock at 0.8x FY25E ABV**

Ajit Agrawal
research@bobcaps.in

Targeting 2x growth in balance sheet: Despite the absence of TreDS business, DCBB's advances grew 19% YoY in Q2FY24 driven by AIB (+30%) and co-lending (+91%). In the mortgage book (+24% YoY), management plans to shift focus from home to business loans in the midterm to support margins. Deposit growth was strong at 23% YoY driven by term deposits. DCBB reiterated its plan to double the balance sheet in 3Y. We factor in a credit/deposit CAGR of 18.4%/20.1% over FY23-FY25.

Margin to improve…: Reported NIM contracted 14bps QoQ to 3.7% due to a higher cost of deposits (+16bps QoQ) and flat yield on advances. Management expects deposit rate repricing to be completed over the next two quarters, supporting a stable margin within its earlier guided range of 3.65-3.75% for FY24.

…but C/I ratio to remain high: On the operational front, the bank reiterated sustained investments in network expansion and frontline employee addition, maintaining its previous guidance of adding 25-30 branches per year. Factoring in volume leverage, DCBB is targeting a C/I ratio of 55% and cost-to-average assets of 2.4-2.5% in the near term from 2.65% currently. We expect sticky operating cost to result in a much higher C/I ratio of 63% in FY24 (and 60% in FY25).

Asset stress expected to ease: With no moratorium in place, slippages stayed elevated at 4.5%, mainly from the restructured and mortgage book, pushing up both GNPA and NNPA by 10bps QoQ. Management is confident of stronger asset quality as it expects the loan repayment cycle to be streamlined over 3-4 months. The bank also cut FY24 credit cost guidance to 35-40bps from 40-45bps, leading us to lower our FY24/FY25 estimates – albeit more conservatively – to 43bps/45bps from 54bps/60bps.

Maintain BUY: Baking in healthy growth, steady margins and improving asset quality, we expect DCBB to clock ROA/ROE of 1%/13% in FY25 vs. 0.96%/10.8% in FY23. However, the sustainability of business growth, along with smooth top management transition as the current CEO completes his tenure next April, would be key to watch. The stock is trading at 0.7x FY25E ABV. We retain BUY and continue to value DCBB at 0.8x FY25E ABV (Gordon Growth Model) for an unchanged TP of Rs 144.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	DCBB IN/Rs 113
Market cap	US$ 428.6mn
Free float	85%
3M ADV	US$ 2.3mn
52wk high/low	Rs 141/Rs 97
Promoter/FPI/DII	15%/13%/39%

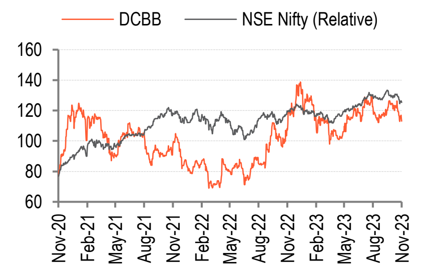
Source: NSE | Price as of 1 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	17,170	19,764	23,073
NII growth (%)	26.5	15.1	16.7
Adj. net profit (Rs mn)	4,656	5,450	7,027
EPS (Rs)	15.0	17.5	22.6
Consensus EPS (Rs)	15.0	17.3	21.7
P/E (x)	7.6	6.5	5.0
P/BV (x)	0.8	0.7	0.6
ROA (%)	1.0	1.0	1.0
ROE (%)	10.8	11.3	13.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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**
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BUY – Expected return >+15%

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Note: Recommendation structure changed with effect from 21 June 2021

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