FIRST LIGHT

30 January 2024

RESEARCH

BOB ECONOMICS RESEARCH | CONSUMER GOODS

What production and price data of consumer goods say?

TATA STEEL | TARGET: Rs 155 | +15% | BUY

UK transition and TSK2 to bolster growth; maintain BUY

BAJAJ FINANCE | TARGET: Rs 10,105 | +41% | BUY

Mixed quarter; maintain BUY

DALMIA BHARAT | TARGET: Rs 2,443 | +11% | HOLD

Soft prices constrain growth

Daily macro indicators

Indicator	25-Jan	26-Jan	Chg (%)
US 10Y yield (%)	4.12	4.14	2bps
India 10Y yield (%)	7.18	7.18	(1bps)
USD/INR	83.13	83.12	0.0
Brent Crude (US$/bbl)	82.4	83.6	1.4
Dow	38,049	38,109	0.2
Hang Seng	16,212	15,952	(1.6)
Sensex	71,060	70,701	(0.5)
India FII (US$ mn)	**23-Jan**	**24-Jan**	**Chg ($ mn)**
FII-D	90.1	16.7	(73.4)
FII-E	(325.8)	(652.6)	(326.9)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: CONSUMER GOODS

A lot of talks are ongoing about the consumption picture of Indian economy. Broadly indicators of private consumption demand have painted a mixed picture. Retail credit has remained firm while some moderation in services activity such as PMI data, air passenger and passenger vehicle sales data, have shown that pent up demand phenomenon is slowing down. The core inflation data, especially core services, which also captures the consumption demand has softened considerably. As per our calculation, ‘core services’ inflation is trailing below 4% for the past three months (currently at 3.6%). Thus, we have looked at the production and price angle for both non-durables/FMCG and durable consumer goods segments.

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TATA STEEL

- Q4 results broadly in line; India beat our estimates with higher margins on leaner coking coal blend and benefit of inventory swing
- While we lower FY24/FY25 EBITDA by 7%/6% on slower UK transition, we still look for ~50% recovery in FY25 and ~25% growth in FY26
- We slightly raise TP to Rs 155 rolling forward to Jan’25; maintain BUY as UK transition dispels overhang and TSK-2 restarts growth journey

Click here **for the full report.**

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BAJAJ FINANCE

- Rural B2C business remains a sore point with overall credit costs climbing 15bps YoY in Q3 to 1.7%
- AUM growth robust at 35% YoY to Rs 3tn+; we expect BAF to surpass Rs 5tn by FY26
- Maintain BUY with new TP of Rs 10,105 (vs. Rs 9,605) on rolling valuations to FY26E with lower target P/ABV of 5.5x for standalone business

Click here for the full report.

DALMIA BHARAT

- Q3 revenue grew at a slow 7% YoY supported by 8% volume growth while realisations stayed flat
- EBITDA margin expanded 230bps YoY to 21.5% contributed by volume growth and stable cost structure
- We cut FY24/FY25 EBITDA 1%/9%; on rollover, our TP stands revised to Rs 2,443 (vs. Rs 2,286) – retain HOLD

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CONSUMER GOODS

29 January 2024

What production and price data of consumer goods say?

Dipanwita Mazumdar
Economist

A lot of talks are ongoing about the consumption picture of Indian economy. Broadly indicators of private consumption demand have painted a mixed picture. Retail credit has remained firm while some moderation in services activity such as PMI data, air passenger and passenger vehicle sales data, have shown that pent up demand phenomenon is slowing down. The core inflation data, especially core services, which also captures the consumption demand has softened considerably. As per our calculation, 'core services' inflation is trailing below 4% for the past three months (currently at 3.6%). Thus, we have looked at the production and price angle for both non-durables/FMCG and durable consumer goods segments.

For the production angle, cumulative growth rate of IIP for Apr-Nov period is compared with same period of previous year. Production is taken to be synonymous with consumption as data on the latter is not separately available. For the price picture, disaggregated data of CPI has been used. Notably for CPI, the cumulative growth rate is for Apr-Dec period and for IIP the corresponding is for Apr-Nov period, as IIP comes with a lag of one month. But nevertheless, it gives a broad idea, and the one month lag of IIP is ignored in this analysis.

Key highlights:

- Among the 42 items of consumer non-durables or FMCG segment within IIP, production of 24 items have registered moderation in growth during Apr-Nov'23 compared to the same period of previous year.
- Within consumer durables, out of 27 items, 18 items have registered a drop in production.
- The price picture also enumerates some softening of underlying demand conditions, with sharp moderation seen in major discretionary spending reflected in softening of price of durable goods.
- The price-production data when put together clearly shows that for major consumer non-durables/FMCG food products, inflation has impacted sales, which is reflected in the moderation in production data.
- For consumer durables, the pent up demand phenomenon for major white goods has gotten diluted, which have impacted their production.
- However, moderation in production of certain items such as essential wear, passenger cars and some daily items of household consumption such as hair oil, tooth paste, despite moderation in inflation reflect certain degree of strain on the underlying demand conditions.

RESULT REVIEW

BUY
TP: Rs 155 | ▲ 15%

TATA STEEL | Metals & Mining | 29 January 2024

UK transition and TSK2 to bolster growth; maintain BUY

- **Q4 results broadly in line; India beat our estimates with higher margins on leaner coking coal blend and benefit of inventory swing**
- **While we lower FY24/FY25 EBITDA by 7%/6% on slower UK transition, we still look for ~50% recovery in FY25 and ~25% growth in FY26**
- **We slightly raise TP to Rs 155 rolling forward to Jan'25; maintain BUY as UK transition dispels overhang and TSK-2 restarts growth journey**

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Q3 EBITDA in line with consensus: Consolidated revenue/adj. EBITDA at Rs 553.1bn/Rs 57.4bn for Q3FY24 was broadly in line with consensus (-4%/+4%). However, EBITDA was Rs 12bn ahead of our forecasts with a beat in India operations, driven by a higher unit EBITDA margin of Rs 17k/t (vs. Rs 14.5k/t expected) from a leaner coking blend and an inventory swing. TATA has performed better than peers, clocking a modest US$ 4/t rise in Q3 coking coal consumption costs and guiding for US$ 10/t in Q4, against a US$ 50-60/t increase in benchmark prices. The inventory swing benefit of Rs 3k/t seen in Q3 may partly reverse in Q4 with likely inventory liquidation.

FY25 – a year of transition: We expect the company to transition to sustainable growth in FY25 in both India and European markets and model for ~50% YoY recovery in EBITDA from a weak base in FY24, retracing to FY23 levels. India will benefit from commissioning of the 5mtpa TSK-2 (Kalinganagar) plant, although TATA guides for a conservative throughput of 0.7mtpa in FY25 at this stage. We believe UK operations will slowly transition to a sustainable breakeven with a halving of losses in FY25 and the Netherlands will benefit from ramp-up of production to 6.5-7mt (from a 6.1mt average over the past three years).

FY26 – a year of growth: We currently model for ~25% YoY EBITDA growth in FY26, after ~50% recovery in FY25, with progress in both markets. We build in ~70% utilisation at TSK-2 and ramp-up of margin to Rs 15.8k/t backed by integrated operations and improved downstream utilisation. Europe operations are also projected to return to a modest profit of Rs 31bn in FY26, accompanied by an EBITDA margin of US$ 45/t as UK operations progress towards breakeven.

Reiterate BUY: Factoring in guidance for slower transition in the UK, we lower our FY24/FY25 EBITDA estimates by 7.5%/6% but raise our FY26 forecast by 2.9%. We slightly increase our SOTP-based TP for TATA to Rs 155 from Rs 150 rolling forward to Jan'25 (from Nov'24), while maintaining our target FY26E EV/EBITDA multiple for India operations at 6x and European business at 5.5x and continuing to bake in an incremental fair value of Rs 6.1/sh for the proposed UK restructuring.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TATA IN/Rs 135
Market cap	US$ 20.1bn
Free float	66%
3M ADV	US$ 53.7mn
52wk high/low	Rs 141/Rs 102
Promoter/FPI/DII	34%/21%/23%

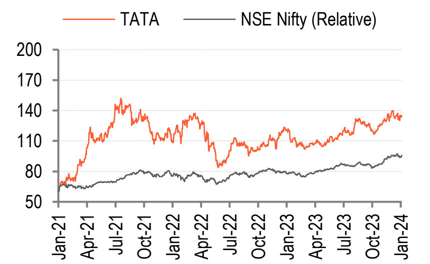
Source: NSE | Price as of 29 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs bn)	2,416	2,170	2,243
EBITDA (Rs bn)	323	224	337
Adj. net profit (Rs bn)	88	44	135
Adj. EPS (Rs)	7.2	3.6	11.0
Consensus EPS (Rs)	7.2	4.4	11.4
Adj. ROAE (%)	8.1	4.3	12.5
Adj. P/E (x)	18.8	37.5	12.3
EV/EBITDA (x)	7.1	10.0	7.0
Adj. EPS growth (%)	(78.4)	(49.8)	205.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 10,105 | ⮝ 41%

BAJAJ FINANCE | NBFC | 29 January 2024

Mixed quarter; maintain BUY

- **Rural B2C business remains a sore point with overall credit costs climbing 15bps YoY in Q3 to 1.7%**
- **AUM growth robust at 35% YoY to Rs 3tn+; we expect BAF to surpass Rs 5tn by FY26**
- **Maintain BUY with new TP of Rs 10,105 (vs. Rs 9,605) on rolling valuations to FY26E with lower target P/ABV of 5.5x for standalone business**

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Credit costs swell: BAF's credit costs climbed 48% YoY and 16% QoQ to Rs 12.5bn as against our estimate of Rs 11.6bn and formed 1.7% of average loans (+15bps YoY and +12bps QoQ), due to continued stress from the rural B2C segment. The urban B2C segment also showed stress in Q3. Though the company has slowed growth in rural B2C lending as a precautionary measure, we now raise our credit cost estimates to 165-190bps over FY24-FY26 – tracking management's guidance of 175-185bps (ex-management overlay). BAF's GNPA and NNPA remained robust at 1% and 0.4% respectively as of 9MFY24.

NIM declines: NIM (calc.) fell 40bps YoY to 10.3% due to a higher cost of funds and the regulatory increase in risk weights on bank loans to NBFCs. Though management intends to mitigate the impact by raising loan yields, this measure will be constrained by competitive pressures, especially from public sector banks. We cut our NIM estimate for FY25 by 16bps to 10.1% and introduce our FY26 forecast at 10%.

Strong growth: BAF delivered 35% YoY AUM growth to Rs 3.1tn at end-9MFY24. The mortgage business (31% of AUM) grew 31% YoY and urban B2C (20% share) was up 29%. SME lending (13% share) grew 39% to Rs 414bn. Two- and three-wheeler financing climbed 64% YoY, contributing 6.2% of AUM from 5.1% at end-9MFY23, as the company continues to finance non-Bajaj Auto products as well. The newer business is also progressing well. We expect a 29% CAGR in AUM over FY23-FY26 to Rs 5.3tn and a 24% PAT CAGR over the same period. Capital adequacy remained strong at 23.9% as of Dec'23 with tier-1 capital at 22.8%.

Maintain BUY: Although we remain bullish on BAF, we factor in the funding and credit cost pressures by reducing our target P/ABV multiple for the standalone business from 6.3x to 5.5x, bringing it on par with the stock's long-term mean. Baking in our revised estimates and target multiple, along with rollover of valuations to FY26E, we arrive at a fair value of Rs 9,488/sh for standalone operations (Rs 9,125 earlier). Adding Rs 617/sh for subsidiaries, we have a new SOTP-based TP of Rs 10,105 (Rs 9,605 earlier) for BAF that offers 41% upside. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BAF IN/Rs 7,192
Market cap	US$ 16.6bn
Free float	44%
3M ADV	US$ 102.0mn
52wk high/low	Rs 8,192/Rs 5,486
Promoter/FPI/DII	56%/20%/13%

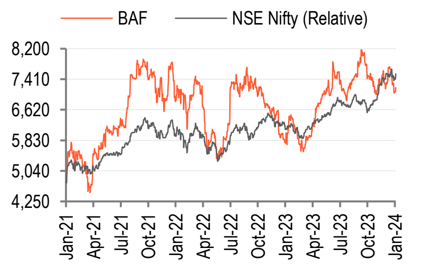
Source: NSE | Price as of 29 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
NII (Rs mn)	2,29,903	2,89,375	3,73,320
NII growth (%)	31.2	25.9	29.0
Adj. net profit (Rs mn)	1,15,077	1,40,431	1,78,464
EPS (Rs)	116.8	189.6	227.1
Consensus EPS (Rs)	116.8	241.0	298.0
P/E (x)	61.6	37.9	31.7
P/BV (x)	9.9	8.0	5.9
ROA (%)	4.7	4.3	4.2
ROE (%)	23.5	21.7	21.4

Source: Company, Bloomberg, BOBCAPS Research | Consensus EPS is yet to factor in the impact of the recent capital raise.

Stock performance



Source: NSE

HOLD
TP: Rs 2,443 | ▲ 11%

DALMIA BHARAT | Cement | 29 January 2024

Soft prices constrain growth

- **Q3 revenue grew at a slow 7% YoY supported by 8% volume growth while realisations stayed flat**
- **EBITDA margin expanded 230bps YoY to 21.5% contributed by volume growth and stable cost structure**
- **We cut FY24/FY25 EBITDA 1%/9%; on rollover, our TP stands revised to Rs 2,443 (vs. Rs 2,286) – retain HOLD**

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Volumes rise, realisations weak: Dalmia Bharat (DBL) reported a muted 7% YoY (+14% QoQ) increase in revenue to Rs 36bn in Q3FY24 despite healthy volume growth of 8% YoY (+10% QoQ) to 6.8mn tonnes, as realisations were flat YoY (+4% QoQ) at Rs 5,294/t. Prices increased in the eastern and southern markets at the start of Q3 only to correct by the quarter's end due to volume pressure.

Cost structure stable: Overall cost per tonne dipped 3% YoY (flat QoQ) to Rs 4,154 due to a 6% YoY decline (flat QoQ) in raw material-adjusted energy cost to Rs 1,988/t while logistics cost increased 7% YoY (-2% QoQ) to Rs 1,093/t owing to lower lead distance. Other expenditure increased 6% YoY (+8% QoQ) to Rs 5.1bn driven by shutdowns amid capacity addition.

EBITDA grows off a weak base: EBITDA rose 20% YoY (+32% QoQ) to Rs 7.8bn and the margin expanded 230bps YoY (280bps QoQ) to 21.5% aided by volume growth and a stable cost structure. EBITDA/t stood at Rs 1,113 (+12%/20% YoY/QoQ) and management has targeted levels of Rs 1,100-1,200/t in FY25.

Capacity expansion underway: DBL closed Q3 with cement capacity of 44.6mt (vs. 43.7mt in Q2) and is on track to reach 46.6mt by FY24-end and 49.5mt by FY25 backed by healthy clinker capacity. Capex guidance has been retained at ~Rs 30bn for FY24 (ex-Jaypee Cement deal outflows), with Rs 30bn-35bn guided for FY25 including maintenance outlay of ~Rs 2.5bn. We have not factored in Jaypee assets.

Fairly valued; retain HOLD: With the planned expansion in FY25/FY26, DBL will continue its efforts to drive market share. However, narrowing the gap between its regional dispatches and large capacities will be a challenge. The company has retained focus on improving the balance sheet and controlling debt with good success. However, its aggressive capex plans do imply intermittent periods of high leverage in the short-to-medium term. We cut FY24/FY25 EBITDA 1%/9% and roll valuations over to FY26, assigning the stock a 12x EV/EBITDA (vs. 11x). This yields a revised TP of Rs 2,443 (vs. Rs 2,286) – we maintain HOLD as current valuations look fair.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	DALBHARA IN/Rs 2,205
Market cap	US$ 5.0bn
Free float	44%
3M ADV	US$ 10.3mn
52wk high/low	Rs 2,431/Rs 1,672
Promoter/FPI/DII	56%/12%/8%

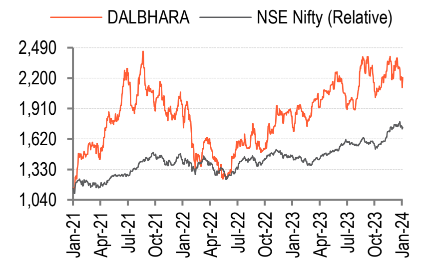
Source: NSE | Price as of 25 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,35,400	1,49,452	1,67,161
EBITDA (Rs mn)	23,160	27,584	34,057
Adj. net profit (Rs mn)	6,321	8,083	12,048
Adj. EPS (Rs)	34.2	43.7	65.1
Consensus EPS (Rs)	34.2	48.7	68.8
Adj. ROAE (%)	4.7	5.5	8.2
Adj. P/E (x)	64.5	50.5	33.9
EV/EBITDA (x)	17.9	16.0	13.0
Adj. EPS growth (%)	(41.9)	27.9	49.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY – Expected return >+15%

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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