BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

31 October 2023

RESEARCH

RELIANCE INDUSTRIES | TARGET: Rs 3,015 | +33% | BUY

Jio 2.0 key to growth momentum

DR REDDY'S LABS | TARGET: Rs 5,500 | +3% | HOLD

One-offs fuel PAT beat; India business still soft

NIPPON LIFE INDIA AMC | TARGET: Rs 444 | +20% | BUY

Strong show continues

ADITYA BIRLA SUN LIFE AMC | TARGET: Rs 440 | +0% | HOLD

Mixed set of numbers; maintain HOLD

MARICO | TARGET: Rs 646 | +21% | BUY

Muted revenue growth; margins expanded

Daily macro indicators

Indicator	26-Oct	27-Oct	Chg (%)
US 10Y yield (%)	4.84	4.83	(1bps)
India 10Y yield (%)	7.37	7.36	(1bps)
USD/INR	83.23	83.25	0.0
Brent Crude (US$/bbl)	87.9	90.5	2.9
Dow	32,784	32,418	(1.1)
Hang Seng	17,045	17,399	2.1
Sensex	63,148	63,783	1.0
India FII (US$ mn)	**25-Oct**	**26-Oct**	**Chg ($ mn)**
FII-D	(15.6)	(2.9)	12.6
FII-E	49.3	(484.1)	(533.4)

Source: Bank of Baroda Economics Research

SUMMARY

RELIANCE INDUSTRIES

- Q2 results broadly in line, with continuing structural growth in both consumer businesses and resilience in cyclical energy businesses
- Jio Digital preparing for acceleration with differentiated 5G services and concerted push into home broadband and enterprise segments
- Maintain BUY with a TP of Rs 3,015; RIL's consumer businesses remain key beneficiaries of India's growth story

Click here for the full report.

DR REDDY'S LABS

- Q2 revenue in line but PAT outdid consensus by 22% on account of PLI benefits, litigation settlement and interest income
- US revenue grew 9% YoY to US$ 382mn backed by momentum in base business, Mayne integration and contribution from gRevlimid
- TP revised to Rs 5,500 (vs. Rs 4,900) as we raise FY24/FY25 revenue 6%/5% and hike margin assumptions; retain HOLD

Click here for the full report.

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NIPPON LIFE INDIA AMC

- QAAUM growth robust at 23% YoY in Q2 fuelled by 11% share of industry-wide net equity flows (ex-arbitrage and index)
- Market share improved across categories, rising one spot to #5 in equity QAAUM, with overall industry ranking steady at #4
- TP raised to Rs 444 (vs. Rs 365) as we increase FY24/FY25 PAT 4%/8% and value the stock at 27x FY25E EPS (vs. 24x); maintain BUY

Click here for the full report.

ADITYA BIRLA SUN LIFE AMC

- QAAUM grew 10% YoY to Rs 3.1tn in Q2 with equity assets rising 9%; however, market share inched down
- Higher opex pulled net profit down 7% YoY despite an 8% rise in revenue from operations
- TP raised to Rs 440 (vs. Rs 425) as we increase FY24/FY25 PAT by 4%/3% on higher AUM estimates; maintain HOLD

Click here for the full report.

MARICO

- Q2 revenue flattish YoY owing to a subdued demand environment and regional competition in select categories
- Margin expansion continued as softer raw material prices offset higher brand investments
- Steady focus on the food portfolio paying off; maintain BUY with an unchanged TP of Rs 646

Click here for the full report.

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BUY
TP: Rs 3,015 | ▲ 33%

RELIANCE INDUSTRIES | Oil & Gas | 30 October 2023

Jio 2.0 key to growth momentum

- **Q2 results broadly in line, with continuing structural growth in both consumer businesses and resilience in cyclical energy businesses**
- **Jio Digital preparing for acceleration with differentiated 5G services and concerted push into home broadband and enterprise segments**
- **Maintain BUY with a TP of Rs 3,015; RIL's consumer businesses remain key beneficiaries of India's growth story**

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Q2 broadly in line: RIL's Q2FY24 EBITDA at Rs 410bn was 2% ahead of our estimate with a slight beat in O2C (+4%) and retail (+8%). Net income at Rs 174bn was in line.

Consumer businesses delivering structural growth: Consumer businesses delivered 20% YoY growth in H1FY24, with retail growing 33% and digital services up 16% even after a pause in tariff hikes. Consolidated EBITDA grew 16% YoY as the cyclical energy business delivered 7% growth, benefitting from a tight refining market and ramp-up of the MJ field.

Jio 2.0 key to accelerating growth: Though Jio is showing initial signs of pickup in net additions, an increase in ARPU will be the key to acceleration led by differential tariff for 5G services and growth in home broadband and enterprise suite solutions.

Heavy capex no burden on balance sheet: In H1FY24, operational cash flow covered 90% of RIL's capital outlay of Rs 785bn. Net debt reduced slightly by Rs 80bn to Rs 1.2tn with the receipt of Rs 105bn from a capital raise of Rs 153bn in RRVL.

Q3 outlook: Though the retail business will benefit from a festive quarter and the energy business will benefit from completion of MJ field ramp-up, we expect steady growth in digital services and a modest pullback in O2C with planned maintenance.

Key stock catalysts: (a) Jio: Early signs of market share gains and an increase in ARPU, leveraging 5G; (b) Retail: Acceleration towards the 3x growth target over 3-5 years set at the FY21 AGM and demonstration of RIL's comfort in sharing performance details for major retail verticals; (c) O2C: Guidance on cost reduction with the deployment of new energy; (d) Listing of the Jio and retail businesses.

Reiterate BUY: We lower our FY24/FY25/FY26 EBITDA estimates by -2% but maintain our SOTP-based TP at Rs 3,015 as we roll forward to Oct'24. We maintain target multiples across the refining (7x FY26E EV/EBITDA), petrochem (8x), telecom (Jio: 9x) and retail (32x) businesses and include unchanged values of Rs 161/sh for the upstream business, Rs 107 for digital services, and Rs 171 for new energy.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	RIL IN/Rs 2,266
Market cap	US$ 182.3bn
Free float	50%
3M ADV	US$ 195.1mn
52wk high/low	Rs 2,856/Rs 2,180
Promoter/FPI/DII	50%/23%/17%

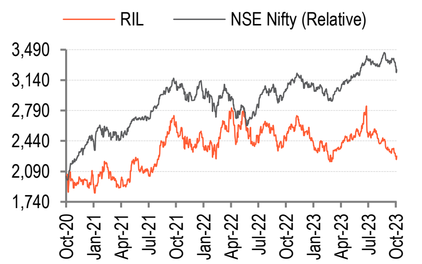
Source: NSE | Price as of 27 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	87,78,350	88,98,265	97,05,057
EBITDA (Rs mn)	14,21,620	16,35,440	18,22,881
Adj. net profit (Rs mn)	6,62,840	6,80,189	7,51,094
Adj. EPS (Rs)	98.0	100.5	111.0
Consensus EPS (Rs)	98.0	110.9	127.4
Adj. ROAE (%)	8.9	9.1	9.3
Adj. P/E (x)	23.1	22.5	20.4
EV/EBITDA (x)	12.3	10.8	9.8
Adj. EPS growth (%)	16.8	2.6	10.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 5,500 | ⮝ 3%

DR REDDY'S LABS | Pharmaceuticals | 30 October 2023

One-offs fuel PAT beat; India business still soft

- **Q2 revenue in line but PAT outdid consensus by 22% on account of PLI benefits, litigation settlement and interest income**
- **US revenue grew 9% YoY to US$ 382mn backed by momentum in base business, Mayne integration and contribution from gRevlimid**
- **TP revised to Rs 5,500 (vs. Rs 4,900) as we raise FY24/FY25 revenue 6%/5% and hike margin assumptions; retain HOLD**

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US and Europe lead growth: DRRD reported largely in-line Q2FY24 revenue at Rs 68.8bn, growing 9% YoY (+2% QoQ), as US sales increased 9% YoY (-2% QoQ) to US$ 382mn and Europe business was up 26%. In the US market, growth momentum was led by gRevlimid sales and Mayne consolidation as well traction in core business. The company launched four products in the US during Q2, and management hopes these rollouts coupled with market share gains in key products will enable it to sustain the current quarterly run rate. Sales in Russia declined 2% YoY and PSAI sales increased 9% for the quarter.

India subdued due to weak acute season and NLEM impact: Domestic business grew a mere 3% on YoY as well as QoQ basis amid weak seasonality for acute therapies. Per management, excluding divestments and the NLEM-related price impact, the India business registered mid-single-digit growth. Management expects double-digit growth in domestic revenue by the year-end and highlighted that the company is focusing on big brands for revival.

One-offs buoy PAT: Gross margin at 58.7% was flat YoY and QoQ while EBITDA margin contracted 110bps YoY (-140bps QoQ) to 28.9%, resulting in EBITDA growth of 5% YoY (-3% QoQ). Management expects improvement in India and Rusia business ahead coupled with PLI support to aid margins. Other operating income was higher at Rs 1.8bn (vs. Rs 0.3bn in Q2FY23) due to a Rs 980mn one-off benefit from the settlement of product-related litigation. Net finance income swelled to Rs 1.2bn (vs. Rs 0.2bn in Q2FY23) owing to profit on sale of mutual funds and other investments. This led to 33% YoY PAT growth to Rs 14.8bn, surpassing consensus estimates by 22%.

Maintain HOLD: We raise our FY24/FY25 EBITDA estimates by 22%/13% following a 6%/5% increase in our revenue forecasts and a 350bps/200bps hike in operating margin assumptions to factor in a higher contribution from gRevlimid than earlier anticipated. Our TP thus rises to Rs 5,500 (Rs 4,900), set at an unchanged 11x FY25E EV/EBITDA – 10% discount to the 5Y average multiple. We remain wary of fluctuating core margins in addition to the slowdown in India business and hence retain our HOLD rating.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DRRD IN/Rs 5,345
Market cap	US$ 10.8bn
Free float	73%
3M ADV	US$ 32.3mn
52wk high/low	Rs 5,990/Rs 4,175
Promoter/FPI/DII	27%/27%/23%

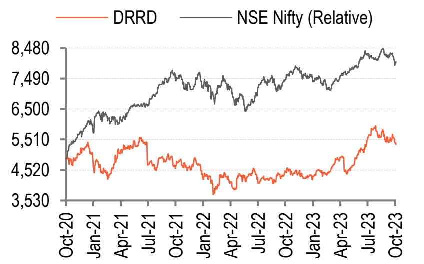
Source: NSE | Price as of 30 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	245,879	277,246	292,640
EBITDA (Rs mn)	64,129	77,629	79,013
Adj. net profit (Rs mn)	45,765	50,679	51,150
Adj. EPS (Rs)	274.7	304.2	307.0
Consensus EPS (Rs)	274.7	296.8	310.7
Adj. ROAE (%)	22.7	20.4	17.4
Adj. P/E (x)	19.5	17.6	17.4
EV/EBITDA (x)	13.8	11.1	10.4
Adj. EPS growth (%)	46.8	10.7	0.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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BUY
TP: Rs 444 | ▲ 20%

NIPPON LIFE INDIA AMC | NBFC | 30 October 2023

Strong show continues

- **QAAUM growth robust at 23% YoY in Q2 fuelled by 11% share of industry-wide net equity flows (ex-arbitrage and index)**
- **Market share improved across categories, rising one spot to #5 in equity QAAUM, with overall industry ranking steady at #4**
- **TP raised to Rs 444 (vs. Rs 365) as we increase FY24/FY25 PAT 4%/8% and value the stock at 27x FY25E EPS (vs. 24x); maintain BUY**

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Strong quarter: Nippon AMC's revenue from operations increased 20% YoY to Rs 3.5bn and other income, which represents MTM gains on its own investments, dipped 5% to Rs 779mn. At Rs 2.4bn, PAT beat our estimate by 11% and grew 19% YoY while core PAT (ex-MTM impact) increased 28% YoY to Rs 1.8bn.

AUM up 23% YoY: QAAUM grew at a robust 23% YoY to Rs 3.5tn wherein equity assets climbed 32% YoY and debt was up 20%. Nippon AMC accounted for 11% of industry net equity flows (except arbitrage and index) in Q2 as compared to 20% in Q1 but saw higher absolute flows. ETFs formed 23% of the company's QAAUM and 14% of the industry mix, reinforcing its category leadership. We bake in Q2 print by raising our FY24/FY25 AUM estimates by 9%/13% and PAT estimates by 4%/8%.

Market share rises; equity rank improves: QAAUM-based market share increased 18bps QoQ to 7.46% in Q2. Equity market share grew 26bps QoQ to 6.53% while the liquid and ETF segments clocked increases of 33ps and 16bps respectively. The company maintained its fourth rank overall and moved up one spot in equity QAAUM to fifth place.

Yields under pressure: Yield (calc.) was fairly stable QoQ at ~45bps in Q2 but declined ~1bps YoY due to the slab-wise system whereby TER declines as AUM rises. Equity yield slipped from 74-75bps in Q1 to ~70bps in Q2 owing to the larger fund size. We believe pressure on yields will continue and cut our blended yield forecasts to 40bps/39bps for FY24/FY25 (vs. 42bps/41bps earlier).

Maintain BUY: The stock is currently trading at 23x FY25E EPS. Factoring in robust equity flows, SIP flows, rising market share and continued ETF leadership, we increase our target P/E multiple from 24x to 27x FY25E EPS – in line with the long-term mean. Together with estimate changes, this translates to a revised TP of Rs 444 (vs. Rs 365) which offers 20% upside. Nippon AMC remains our top pick in the asset management space – maintain BUY. Regulatory headwinds from potential TER revision along with lower net flows for the industry could pose downside risks.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	NAM IN/Rs 371
Market cap	US$ 2.8bn
Free float	12%
3M ADV	US$ 3.7mn
52wk high/low	Rs 398/Rs 197
Promoter/FPI/DII	74%/6%/9%

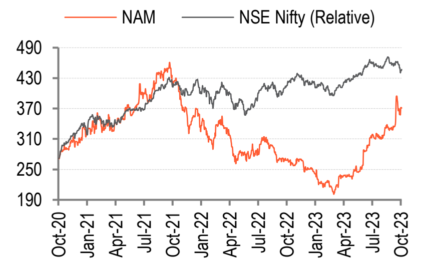
Source: NSE | Price as of 30 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	7,610	8,935	10,836
Core PBT (YoY)	0.2	17.4	21.3
Adj. net profit (Rs mn)	7,229	9,340	10,319
EPS (Rs)	11.5	14.9	16.5
Consensus EPS (Rs)	11.5	13.5	15.0
MCap/AAAUM (%)	7.9	6.4	5.4
ROAAAUM (bps)	24.7	25.5	23.7
ROE (%)	20.7	26.1	27.6
P/E (x)	32.2	24.9	22.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 440 | ▲ 0%

ADITYA BIRLA SUN LIFE AMC | NBFC | 30 October 2023

Mixed set of numbers; maintain HOLD

- **QAAUM grew 10% YoY to Rs 3.1tn in Q2 with equity assets rising 9%; however, market share inched down**
- **Higher opex pulled net profit down 7% YoY despite an 8% rise in revenue from operations**
- **TP raised to Rs 440 (vs. Rs 425) as we increase FY24/FY25 PAT by 4%/3% on higher AUM estimates; maintain HOLD**

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Mixed quarter: ABSL AMC's QAAUM grew 10% YoY to Rs 3.1tn at end-Q2FY24. Equity QAAUM registered the best annual growth in the last five quarters at 9% YoY to Rs 1.3tn (42% of the total). However, the company's overall QAAUM market share slipped 20bps from FY23 levels to 6.6%. Management reiterated that steps are being taken to arrest market share loss.

Revenue from operations up 8% YoY: Revenue from operations grew 8% YoY to Rs 3.3bn but total income was flat at Rs 3.9bn as MTM gains dipped. Operating expenses increased 11% YoY owing to higher employee, fee and commission costs, causing net profit to decline 7% YoY to Rs 1.8bn.

Passive funds gaining traction: The company's passive AUM soared 68% YoY to Rs 284bn from Rs 169bn in Q2FY23, with a 40-product suite. About 540,000 investor folios are serviced for ETFs, FOFs and index funds. Fund raising is underway in the ABSL India Special Opportunities Fund (Category-III AIF) while that for ABSL Structured Opportunities Fund (Cat II AIF) is in the pipeline.

Growth in SIP book muted but sticky: ABSL AMC's monthly SIP book advanced 4% YoY to Rs 9.7bn (vs. industry growth of 23%), closing Q2 with a total of 3.2mn SIP accounts and AUM of Rs 608bn. The company added 213,000 new SIP registrations in Q2 and indicated that 91% of the systematic investments have a tenure of over five years with 83% running for over ten years, pointing to long-tenured inflows.

Maintain HOLD: Strong growth in AUM, especially the equity component in Q2, leads us to increase our FY24/FY25 estimates by 6.5%/8.5% and thus PAT estimates by 4%/3%. However, lower growth in the SIP book and market share losses remain key concerns. Our forecast changes yield a revised TP of Rs 440 (vs. Rs 425), based on an unchanged target P/E multiple of 17x on FY25E EPS, a 15% discount to the long-term mean. We maintain HOLD as we await sustainable equity QAAUM growth and consistent market share gains before revisiting our estimates.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	ABSLAMC IN/Rs 438
Market cap	US$ 1.5bn
Free float	7%
3M ADV	US$ 0.5mn
52wk high/low	Rs 472/Rs 307
Promoter/FPI/DII	87%/2%/5%

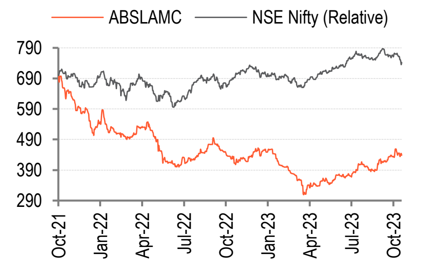
Source: NSE | Price as of 27 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	6,668	6,908	7,684
Core PBT (YoY)	(14.4)	3.6	11.2
Adj. net profit (Rs mn)	5,964	7,054	7,468
EPS (Rs)	20.7	24.4	25.9
Consensus EPS (Rs)	20.7	24.0	26.0
MCap/AAAUM (%)	4.6	4.0	3.7
ROAAAUM (bps)	21.7	22.5	21.7
ROE (%)	25.3	26.5	25.3
P/E (x)	21.2	18.0	17.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 646 | ⮝ 21%

MARICO | Consumer Staples | 30 October 2023

Muted revenue growth; margins expanded

- **Q2 revenue flattish YoY owing to a subdued demand environment and regional competition in select categories**
- **Margin expansion continued as softer raw material prices offset higher brand investments**
- **Steady focus on the food portfolio paying off; maintain BUY with an unchanged TP of Rs 646**

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Another muted quarter: MRCO's consolidated Q2FY24 revenue was flattish YoY at Rs 24.8bn as India business posted muted underlying volume growth of 3% for the second straight quarter. International business grew 13% YoY CC despite persisting macroeconomic headwinds and geopolitical tensions in some markets.

Domestic business remains soft: India business posted a 3% YoY decline in revenue to Rs 18.3bn owing to weakness in the edible oil and hair oil categories. *Parachute Rigid* posted just 1% YoY volume growth, value-added hair oils saw a flat quarter, and *Saffola* edible oil registered low-single-digit volume growth while revenue growth declined to the low 20s owing to price corrections. The food business, however, continued to do well with value growth of 25% YoY driven by double-digit growth in *Saffola Oats* and continued traction in newer categories. Premium personal care products also delivered a steady performance and are on track to contribute ~10% of domestic revenue in FY24.

Margins expansion continues: Gross margin expanded 690bps YoY and 500bps QoQ to 50.5% as prices of key inputs moderated in Q2. EBITDA grew 15% YoY with a 280bps YoY expansion in margin to 20.1% despite increased spending on brands that pushed up A&P spend by 26% YoY. EBITDA margin stood at 21.6% for the domestic business, rising 320bps YoY, and at 25.1% for the international business, up 270bps YoY.

Maintain BUY, TP Rs 646: MRCO continued to display a soft performance for the second straight quarter due to a challenging demand environment and increased competition from regional players in select categories. Management expects a relatively better performance in H2FY24. In our view, a continued focus on the food portfolio, product launches, and increased brand investments will result in higher volumes and profitable growth. The stock is trading at 43.9x/38.7x FY24E/ FY25E EPS. We maintain our TP at Rs 646 and continue to value the stock at an unchanged 47x FY25E P/E multiple – in line with long-term mean; BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	MRCO IN/Rs 532
Market cap	US$ 8.4bn
Free float	40%
3M ADV	US$ 10.7mn
52wk high/low	Rs 595/Rs 463
Promoter/FPI/DII	59%/25%/16%

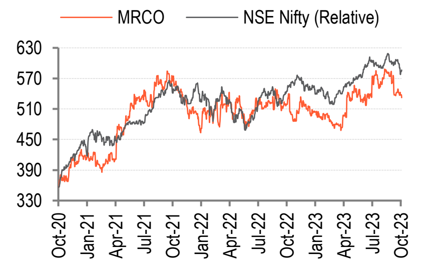
Source: NSE | Price as of 30 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	97,640	99,696	111,267
EBITDA (Rs mn)	18,100	21,496	24,677
Adj. net profit (Rs mn)	13,020	15,632	17,735
Adj. EPS (Rs)	10.1	12.1	13.7
Consensus EPS (Rs)	10.1	11.8	13.5
Adj. ROAE (%)	35.4	36.3	35.1
Adj. P/E (x)	52.7	43.9	38.7
EV/EBITDA (x)	37.9	31.9	27.8
Adj. EPS growth (%)	6.3	20.1	13.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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

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