FIRST LIGHT

03 November 2023

RESEARCH

SYRMA SGS | TARGET: Rs 560 | +7% | HOLD

Miss on margins; downgrade to HOLD

INDIA STRATEGY | MONTHLY CHARTBOOK

Nifty 50 valuation now supportive

BOB ECONOMICS RESEARCH | BONDS WRAP

Fortnightly review

BOB ECONOMICS RESEARCH | CURRENCY OUTLOOK

Fortnightly forex review

SUN PHARMA | TARGET: Rs 1,200 | +8% | HOLD

Healthy quarter; better mix supports gross margin

PETRONET LNG | TARGET: Rs 220 | +14% | HOLD

PDHPP project unlikely to be value accretive

KEC INTERNATIONAL | TARGET: Rs 670 | +8% | HOLD

Interest cost mars quarter; strong pipeline for H2

BRITANNIA INDUSTRIES | TARGET: Rs 5,844 | +29% | BUY

Margin expands despite muted growth

Daily macro indicators

Indicator	31-Oct	1-Nov	Chg (%)
US 10Y yield (%)	4.93	4.73	(20bps)
India 10Y yield (%)	7.36	7.36	0bps
USD/INR	83.26	83.29	0.0
Brent Crude (US$/bbl)	87.4	84.6	(3.2)
Dow	33,053	33,275	0.7
Hang Seng	17,112	17,102	(0.1)
Sensex	63,875	63,591	(0.4)
India FII (US$ mn)	**30-Oct**	**31-Oct**	**Chg ($ mn)**
FII-D	8.0	95.9	88.0
FII-E	(203.8)	(52.0)	151.8

Source: Bank of Baroda Economics Research

SUMMARY

SYRMA SGS

- Q2 topline growth robust at 52% YoY but lower share of ODM business drove gross margin down 690bps
- Management expects ODM contribution to remain low in FY24, likely weighing on margins medium term
- We adjust FY24/FY25 EPS by -6%/+2% for a revised TP of Rs 560 (vs. Rs 600); downgrade from BUY to HOLD on limited upside

Click here **for the full report.**

BOBCAPS Research
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INDIA STRATEGY: MONTHLY CHARTBOOK

- Most major global indices slipped 2-4% in October; Nifty 50 shed 3% while Chinese stocks lost another 3-4%
- Nifty 50 forward P/E is now below its last 5Y mean, indicating limited downside
- Our model portfolio introduced in this report highlights our continued preference for consumption and capital goods sectors

Click here **for the full report.**

INDIA ECONOMICS: BONDS WRAP

US 10Y yield exhibited quite a bit of volatility. While sharp sell-off was witnessed in Oct'23, it got reversed in the last trading session. Fed policy remained on expected lines with Fed Chair acknowledging a slightly resilient economy and a tighter labour market backdrop. However, money market is pricing in end of the rate hike cycle, which in turn supported yields. Apart from US, 10Y yield in Japan noticed some change post BoJ's twitch in its YCC program by scrapping its reference to daily bond purchasing at a fixed level of 1%.

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INDIA ECONOMICS: CURRENCY OUTLOOK

INR slipped to a fresh record-low of 83.29 to the dollar in the last session, after the FOMC kept rates steady. Even so, INR has remained largely range-bound in the last fortnight supported by active currency management by the RBI. While the commentary from the Fed was mixed, markets largely believe that Fed rates have peaked, with expectations of rate cuts in the second half of CY2024. This will be positive for INR. Apart from this, while FPI outflows have continued, oil prices have eased significantly and further upside looks limited as the war in Middle-East has so far remained contained. Based on this, we expect INR to continue to trade in a narrow range in the next fortnight. We see a range of 83-83.5/$.

Click here **for the full report.**

SUN PHARMA

- Q2 revenue/PAT grew 11%/5% YoY to Rs 122bn/Rs 24bn, largely in line with consensus
- Gross margin strong at 77% but higher opex led to 285bps YoY EBITDA margin contraction to 26.4%
- We tweak EBITDA estimates and maintain HOLD with a revised TP of Rs 1,200 (vs. Rs 1,160)

Click here **for the full report.**

PETRONET LNG

- PLNG has approved the PDHPP project at a capital intensity of US$ 3,000-3,650/t
- Considering higher global competitiveness, we consider capital cost above US$ 2,250/t as a risk to the fair value
- We lower our TP to Rs 220 from Rs 275, factoring in negative value of Rs 58/sh from the proposed PDHPP implementation

Click here for the full report.

KEC INTERNATIONAL

- Q2 saw in-line margins but PAT was impacted by high interest cost; margins expected to improve in H2
- H1 order intake at Rs 45bn; guidance reiterated for FY24 order inflow of Rs 250bn, revenue of Rs 200bn and EBITDA margin of ~7%
- Post Q2, we pare FY24/FY25 EPS by 7%/1% though our TP rises to Rs 670 (vs. Rs 630) on rollover – retain HOLD

Click here for the full report.

BRITANNIA INDUSTRIES

- Another soft quarter from BRIT (revenue up just 1% YoY), though EBITDA margin expanded due to lower input cost and savings
- Volume and pricing growth tepid, but management expects a rebound in H2FY24
- Investment in brands, expansion in rural markets and innovation to spur profitable growth; retain BUY, TP Rs 5,844

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HOLD
TP: Rs 560 | 7%

SYRMA SGS | Consumer Durables | 02 November 2023

Miss on margins; downgrade to HOLD

- **Q2 topline growth robust at 52% YoY but lower share of ODM business drove gross margin down 690bps**
- **Management expects ODM contribution to remain low in FY24, likely weighing on margins medium term**
- **We adjust FY24/FY25 EPS by -6%/+2% for a revised TP of Rs 560 (vs. Rs 600); downgrade from BUY to HOLD on limited upside**

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Topline robust but margins structurally lower: Syrma posted strong topline growth of 52% YoY but flattish EBITDA of Rs 490mn, with steep margin reduction to 6.9% vs. 10.1% last year. The lower margin can be attributed primarily to a larger revenue share of plain-vanilla electronics manufacturing services (EMS) as compared to original design manufacturing (ODM) in its consumer vertical.

Segment performance sound, consumer margin a drag: The auto, consumer, and industrials verticals clocked healthy YoY topline growth while healthcare and IT & railways floundered. Consumer margins halved from 32.5% in H1FY23 to 16.4% in H1FY24 due to the weaker ODM mix. Syrma has a Rs 3.8bn order book largely consisting of projects in the consumer segment.

Guidance tweaked: Management maintains its revenue guidance of Rs 30bn for FY24 and double-digit growth thereafter but expects EBITDA margin to be lower than previously anticipated due to the change in revenue composition. ODM contributed 22% of revenue in the year-ago quarter, which has reduced to 17%. Syrma expects a return to ~20% levels in FY25, but the margin differential of ~7% in the two businesses will likely result in a lower EBITDA margin for FY24.

Johari acquisition complete: During Q1, Syrma acquired a 51% stake in Johari Digital Healthcare (JDHL), a medical devices company, for Rs 2.6bn. The acquisition has now been completed and the company expects to see Rs 1bn in revenue from JDHL in H2FY24, followed by annualised revenue of ~Rs 2.5bn. Separately, Syrma indicated that it is merging with one subsidiary and one step-down subsidiary to simplify its structure.

Cut to HOLD: Syrma is facing margin headwinds due to the shift in product mix in its consumer vertical, with ODM share guided to remain low till FY25, raising concerns over margin revival. We adjust our FY24/FY25E EPS by -6%/+2% and trim our target P/E to 38x (from 40x) to build in lower margin accretion. On rolling valuations over to Sep'25E, we have a new TP of Rs 560 (vs. Rs 600). The stock has run up 116% since our initiation in Dec'22 and carries limited upside – cut from BUY to HOLD.

Key changes

Target	Rating
▼	▼

Ticker/Price	SYRMA IN/Rs 525
Market cap	US$ 1.1bn
Free float	53%
3M ADV	US$ 7.0mn
52wk high/low	Rs 665/Rs 248
Promoter/FPI/DII	47%/5%/9%

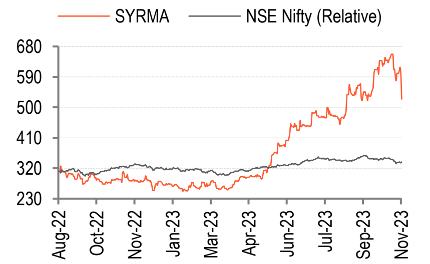
Source: NSE | Price as of 2 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	20,484	30,014	39,474
EBITDA (Rs mn)	1,878	2,404	3,730
Adj. net profit (Rs mn)	1,193	1,535	2,357
Adj. EPS (Rs)	6.7	8.7	13.3
Consensus EPS (Rs)	6.7	10.3	14.4
Adj. ROAE (%)	11.3	9.6	13.3
Adj. P/E (x)	77.7	60.4	39.3
EV/EBITDA (x)	49.4	38.6	24.9
Adj. EPS growth (%)	56.1	28.7	53.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

MONTHLY CHARTBOOK | Volume #15 | 02 November 2023

Nifty 50 valuation now supportive

- **Most major global indices slipped 2-4% in October; Nifty 50 shed 3% while Chinese stocks lost another 3-4%**
- **Nifty 50 forward P/E is now below its last 5Y mean, indicating limited downside**
- **Our model portfolio introduced in this report highlights our continued preference for consumption and capital goods sectors**

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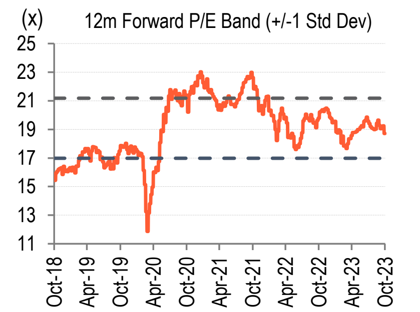
Nifty 50 slips in October tracking other global indices: Most major global indices were under pressure for the second month in a row in October. US indices fell 2-3% and both the Hang Seng and Shenzhen continued their declines from previous months. Among major domestic sectoral indices, Nifty Realty was the only index to close in positive territory with a ~6% gain. Nifty FMCG, the next best sectoral index, posted a modest 1% decline during the month.

Commodities mixed in October: Despite the attack on Israel and subsequent geopolitical tensions, Brent shed US$ 8/bbl to close the month at US$ 87.4/bbl. US natural gas remains on a steady upswing in the build up to winter, with a US$ 0.65/mmbtu increase to US$ 3.58/mmbtu. Asian LNG price moved up moderately to ~US$ 17/mmbtu. Gold surged 7% during the month, steel was largely flat and iron ore moved up moderately.

Model portfolio – OW consumption, UW IT: We introduce our model portfolio in this report, which is loosely based on stocks in the S&P BSE Sensex but with modified weights and the replacement of a few names (see Fig 1). Our stock picks reflect our continued preference for consumption-based sectors. We are overweight on FMCG and auto, equal weight on financials and energy, and underweight on IT (see our note of 14 Mar 2023, **Macro & Micro – Clear mass premiumisation trends**, for our detailed strategy view).

Limited downside from current level: We remain constructive on the consumer and capital goods sectors given their domestic focus, with a neutral-to-cautious stance on other sectors. Nifty 50 one-year forward P/E is now below its last five-year average, indicating limited downside in our view. That said, impending state election results can have a short-term bearing on the market. Polls commence on 7 November in Mizoram and Chhattisgarh, Madhya Pradesh goes to the polls on 17 November, Telangana on 25 November, and Rajasthan on 30 November. Counting for all these begins on 3 December.

Nifty valuation below 5Y average



Source: Refinitiv, BOBCAPS Research

BONDS WRAP

02 November 2023

Fortnightly review

Dipanwita Mazumdar
Economist

US 10Y yield exhibited quite a bit of volatility. While sharp sell-off was witnessed in Oct'23, it got reversed in the last trading session. Fed policy remained on expected lines with Fed Chair acknowledging a slightly resilient economy and a tighter labour market backdrop. However, money market is pricing in end of the rate hike cycle, which in turn supported yields. Apart from US, 10Y yield in Japan noticed some change post BoJ's twitch in its YCC program by scrapping its reference to daily bond purchasing at a fixed level of 1%.

India's 10Y yield exhibited a slight discomfort from RBI's surprise announcement of OMO sales in its policy document. Apart from this, volatility in crude prices and rise in US yield also retained pressure on domestic yields. Liquidity conditions continued to remain tighter with current deficit at around 0.24% of NDTL. RBI is already conducting OMO sales in the secondary market to some degree. Going forward, this may continue to rule out any additional pressure on yields from a formal calendar announcement.

We expect India's 10Y yield to trade in the range of 7.30-7.40% in the current month with risks tilted to the upside. We need to observe how indicators like growth in credit, deposits as well as inflation progress during the month.

US 10Y yield exhibited considerable volatility:

- Selling spree was visible with US 10Y yield rising at a sharp pace by 36bps in Oct'23 against Sep'23. This was buoyed by fairly resilient macros of the region. Q3 advance estimate of GDP grew at its highest pace in two years. Apart from this, retail sales, new home sales, composite PMI print all aggravated the sell-off in the US bond market. However, post the recent Fed policy, US 10Y yield exhibited quite a sharp downswing with 20bps fall in a single trading session. Though policy decision was on expected lines with Fed Chair's rhetoric of being data dependent; yet money market is pricing in nearing of the rate hike cycle. Apart from this, report of US Treasury's plans to slow the pace of increases in long term debt sales also triggered fall in US 10Y yield.
- 10Y yield in other EMs such as Korea was supported by stickier inflation (both PPI and CPI) and fairly buoyant GDP print. In Indonesia, its central bank's surprise move of a 25bps hike in policy rate to stabilize its currency has led to hardening of its yield.
- Japan's 10Y yield neared towards the 1% mark post piecemeal tweak in the YCC program by BoJ. In Germany, 10Y yield moderated as growth conditions softened and inflation showed some respite in the Eurozone.

CURRENCY OUTLOOK

02 November 2023

Fortnightly forex review

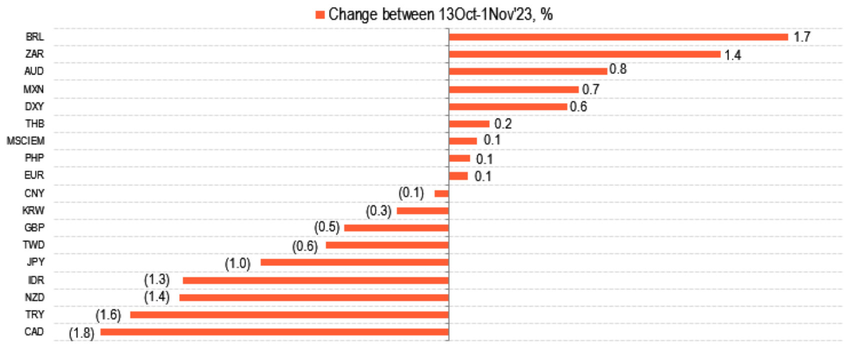
Aditi Gupta
Economist

INR slipped to a fresh record-low of 83.29 to the dollar in the last session, after the FOMC kept rates steady. Even so, INR has remained largely range-bound in the last fortnight supported by active currency management by the RBI. While the commentary from the Fed was mixed, markets largely believe that Fed rates have peaked, with expectations of rate cuts in the second half of CY2024. This will be positive for INR. Apart from this, while FPI outflows have continued, oil prices have eased significantly and further upside looks limited as the war in Middle-East has so far remained contained. Based on this, we expect INR to continue to trade in a narrow range in the next fortnight. We see a range of 83-83.5/$.

Movement in global currencies

Global currencies closed mixed in the last fortnight as investors assessed a slew of factors such as the war in Middle-East and policy decisions of major central banks. DXY was 0.6% higher as US data continued to reinforce the underlying economic strength of the economy. Fed kept policy rates steady, even though the commentary on future policy action was mixed. While acknowledging that the substantial progress has been made in the fight against inflation, the Fed Chair reiterated that inflation is still high. The Fed Chair also alluded to the tightening financial conditions which "can have implications for the path of monetary policy". Market participants believe that the Fed rate has likely peaked. This will limit the gains in DXY going forward. The rupee remained unchanged in this period.

Figure 1: Currency movement in the last fortnight



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 1 Nov 2023

Separately, BoJ kept its policy rate unchanged but made minor changes to its yield control curve policy. Even so, JPY depreciated and traded above the 150/$ mark in the last few sessions. ECB too held rates steady, after 10 consecutive rate hikes.

How did INR fare?

INR ended the last trading session at a record-low of 83.29/$, ahead of the Fed policy decision. Post the announcement, INR is trading stronger today at ~83.26/$. INR has maintained a tight range over the course of the last few sessions.

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HOLD
TP: Rs 1,200 | ▲ 8%

SUN PHARMA | Pharmaceuticals | 02 November 2023

Healthy quarter; better mix supports gross margin

- **Q2 revenue/PAT grew 11%/5% YoY to Rs 122bn/Rs 24bn, largely in line with consensus**
- **Gross margin strong at 77% but higher opex led to 285bps YoY EBITDA margin contraction to 26.4%**
- **We tweak EBITDA estimates and maintain HOLD with a revised TP of Rs 1,200 (vs. Rs 1,160)**

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Strong domestic uptick despite industry slowdown: SUNP reported 11% YoY topline growth in Q2FY24 to Rs 122bn led by broad-based growth across markets and therapies. India business grew at a healthy 11% YoY amid an industrywide slowdown in acute and related therapies, and management expects to continue growing ahead of the market. The company launched eight new products during the quarter, including Sovateltide for strokes.

Specialty business on a firm footing: The global specialty business grew 19% YoY (+3% QoQ) to US$ 240mn backed by Ilumya, Cequa and Winlevi. US generic business remained subdued due to lower Taro sale, which was down 7% QoQ to US$ 148mn. Ex-Taro, the US business fell 10% QoQ, implying pressure in the generics segment, with lower contribution from gRevlimid. Management expects gRevlimid contribution to remain episodic. Supplies from the Halol plant have begun while Mohali is guided to gradually inch toward normalcy.

Robust gross margin…: Gross margin expanded 190bps YoY to 77.1% in Q2 on account of favourable API and raw material prices as well as a higher share of specialty products in the mix.

…but higher opex and tax constrain PAT growth: Gross margin gains were negated by higher operating expenses as the company is running clinical trial studies on six specialty assets in the pipeline. R&D investment for Q2 stood at 6.2% of revenue vs. 5.6%/5.1% in Q1FY24/Q2FY23, with specialty spends at 38% of the total and guided to rise further. EBITDA margin thus fell 285bps YoY to 26.4%. The effective tax rate for Q2 came in at 14% vs. 5.7% in the year-ago quarter, which further limited PAT growth to 5% YoY (still in line with consensus).

Retain HOLD; TP revised to 1,200: We raise our FY24-FY25 EBITDA estimates slightly by 1-2% to capture the stronger H1FY24 margins. Based on an unchanged 19x FY25E EV/EBITDA multiple – which is 1SD above the stock's 5Y average – our TP stands revised to Rs 1,200 (vs. Rs 1,160) and offers 8% upside potential. We therefore maintain our HOLD rating.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	SUNP IN/Rs 1,116
Market cap	US$ 32.6bn
Free float	45%
3M ADV	US$ 28.9mn
52wk high/low	Rs 1,170/Rs 922
Promoter/FPI/DII	54%/16%/20%

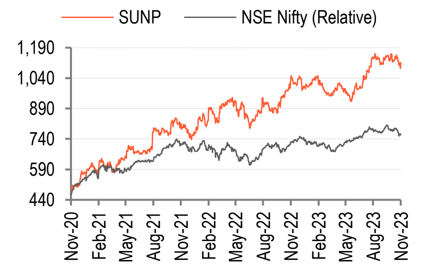
Source: NSE | Price as of 1 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	432,789	485,385	535,246
EBITDA (Rs mn)	116,468	125,087	145,204
Adj. net profit (Rs mn)	86,451	97,086	112,861
Adj. EPS (Rs)	36.0	40.5	47.0
Consensus EPS (Rs)	36.0	38.5	45.1
Adj. ROAE (%)	15.7	15.3	15.7
Adj. P/E (x)	31.0	27.6	23.7
EV/EBITDA (x)	21.8	20.2	17.3
Adj. EPS growth (%)	12.5	12.3	16.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 220 | 14%

PETRONET LNG | Oil & Gas | 02 November 2023

PDHPP project unlikely to be value accretive

- **PLNG has approved the PDHPP project at a capital intensity of US$ 3,000-3,650/t**
- **Considering higher global competitiveness, we consider capital cost above US$ 2,250/t as a risk to the fair value**
- **We lower our TP to Rs 220 from Rs 275, factoring in negative value of Rs 58/sh from the proposed PDHPP implementation**

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Approval of PDHPP project: PLNG has approved implementation of the propane dehydrogenation and polypropylene project (PDHPP) by FY28 at a capital cost of Rs 207bn, with potential project cost variation of +/-10%. Management has guided for project IRR of 20%, equity IRR of 30%, EBITDA of Rs 40bn and PAT of Rs 20bn at 100% capacity utilisation.

Pros/cons of the investment proposal: (a) Approval of the project during a downturn in the propylene cycle improves chances of a turnaround in the cycle, but visibility on the same is low. (b) Synergy benefits from proximity to regasification plants are not apparent in the high capital costs. (c) Synergy benefits from reuse of cold energy, leading to power cost savings of Rs 1.2bn-1.3bn, translate to relatively small savings of US$ 20/t of propylene, compared to EBITDA/t guidance of US$ 600/t.

Questions on viability: Questions arise from (a) the higher capital intensity range of US$ 3,000-3,650/t of propylene vs. US$ 2100-2,750 for global players, (b) disadvantages of higher propane prices vs. Middle East players and lower capital efficiency vs. Chinese players, (c) viability of ethane stripping from LNG while petrochemical operations remain under pressure, (d) practicality of the US$ 600/t EBITDA guidance and underlying assumptions of benefits from ethane stripping and hydrogen production, (e) added risk from persisting propylene surplus in global markets, and (f) execution risk typical of such large projects.

Rs 58/sh likely at risk from fair value: We believe that project cost in excess of US$ 2,250 represents a risk from an economic viability standpoint. This translates into a value of Rs 58/sh at risk from planned implementation of the PDHPP project.

Maintain HOLD, TP cut to Rs 220: We cut our TP for PLNG to Rs 220 (from Rs 275) as we strip away the Rs 58/sh at risk from the PDHPP project. Our valuation of the core business is based on an unchanged one-year forward P/E multiple of 11.6x, in line with the 5Y median. Apart from the proposed capital outlay, we also need more visibility on RLNG demand within the country to derive comfort on utilisation of the new capacity. We thus retain our HOLD rating for PLNG.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	PLNG IN/Rs 194
Market cap	US$ 3.5bn
Free float	50%
3M ADV	US$ 8.9mn
52wk high/low	Rs 254/Rs 193
Promoter/FPI/DII	50%/33%/6%

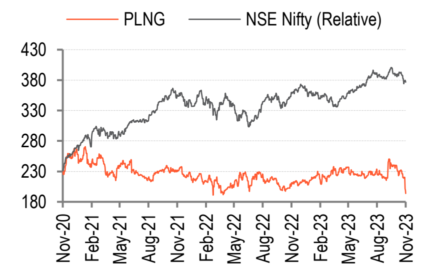
Source: NSE | Price as of 1 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	5,98,994	5,66,723	5,76,360
EBITDA (Rs mn)	48,558	48,499	51,364
Adj. net profit (Rs mn)	32,399	32,001	33,853
Adj. EPS (Rs)	21.6	21.3	22.6
Consensus EPS (Rs)	21.6	21.6	23.3
Adj. ROAE (%)	22.8	20.4	19.6
Adj. P/E (x)	9.0	9.1	8.6
EV/EBITDA (x)	5.3	5.1	4.7
Adj. EPS growth (%)	(3.4)	(1.2)	5.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD

TP: Rs 670 | 8%

KEC INTERNATIONAL | Capital Goods | 02 November 2023

Interest cost mars quarter; strong pipeline for H2

- **Q2 saw in-line margins but PAT was impacted by high interest cost; margins expected to improve in H2**
- **H1 order intake at Rs 45bn; guidance reiterated for FY24 order inflow of Rs 250bn, revenue of Rs 200bn and EBITDA margin of ~7%**
- **Post Q2, we pare FY24/FY25 EPS by 7%/1% though our TP rises to Rs 670 (vs. Rs 630) on rollover – retain HOLD**

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In-line margins; interest cost high: KECI's Q2FY24 revenue grew 11% YoY to Rs 45bn with a gross margin of 23.2%. EBITDA margin stood at 6.1% (+170bps YoY), taking the H1FY24 print to 5.9% – in line with management's 6% guidance at the start of the year. KECI reiterated expectations of a ~7% margin for FY24 led by a stronger H2 than last year as legacy orders exit the book. A 39% YoY spike in interest cost coupled with tax writebacks in the year-ago quarter kept PAT flat YoY at Rs 558mn.

Strong order flow: Order intake was Rs 45bn and KECI closed Q2 at a Rs 313bn order book, split equally between transmission and distribution (T&D) and other orders. If we include projects where the company is the lowest bidder, the book rises to Rs 350bn. Management retained FY24 revenue guidance of Rs 200bn backed by order flow expectations of Rs 250bn. KECI's current addressable order pipeline is Rs 1.2tn (vs. Rs 1tn in Q1), with Rs 750bn in T&D, Rs 200bn in rail and Rs 200bn in civil segments.

T&D and civil prospects bright: T&D has seen a pickup in tendering activities with more tariff-based competitive bid (TBCB) projects. The international order book comprises entirely of T&D projects and KECI indicated that ~Rs 500bn of its Rs 750bn T&D pipeline is non-domestic. Its civil business is seeing traction from the FMCG, metals, data centre, and water segments, with KECI securing its first order to set up the entire manufacturing infrastructure for a global FMCG major.

Interest cost remains elevated: Interest cost increased 39% YoY to Rs 1.8bn in Q2, with 65% attributed to the rise in rates and 35% due to elevated working capital debt. Debt stood at Rs 63.3bn at the end of Q2 (vs. Rs 57bn in Q1FY24). KECI expects to end FY24 with interest cost at 3-3.25% of sales. Net working capital cycle is guided to improve to 140 days in Q2 with a long-term target of <100 days.

Maintain HOLD: We pare our FY24/FY25 EPS estimates by 7%/1% on account of the sustained, high interest costs but bake in the improved H2FY24 margin outlook by raising our target P/E to 16x (vs. 15x), a 15% discount to the 5Y average. On rolling valuations over to Sep'25E, we have a new TP of Rs 670 (vs. Rs 630). The stock has run up 36% in FY24 YTD and carries little upside, leading us to retain HOLD.

Key changes

Target	Rating
▲	◄►

Ticker/Price	KECI IN/Rs 621
Market cap	US$ 1.9bn
Free float	47%
3M ADV	US$ 4.8mn
52wk high/low	Rs 748/Rs 405
Promoter/FPI/DII	52%/13%/26%

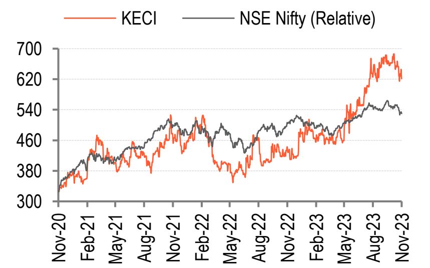
Source: NSE | Price as of 1 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	172,817	202,357	236,340
EBITDA (Rs mn)	8,297	14,423	19,543
Adj. net profit (Rs mn)	1,760	5,244	9,342
Adj. EPS (Rs)	6.8	20.4	36.3
Consensus EPS (Rs)	6.8	22.2	37.2
Adj. ROAE (%)	4.8	13.2	20.4
Adj. P/E (x)	90.8	30.5	17.1
EV/EBITDA (x)	15.9	9.0	7.0
Adj. EPS growth (%)	(53.2)	197.9	78.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 5,844 | ⮝ 29%

BRITANNIA INDUSTRIES | Consumer Staples | 02 November 2023

Margin expands despite muted growth

- **Another soft quarter from BRIT (revenue up just 1% YoY), though EBITDA margin expanded due to lower input cost and savings**
- **Volume and pricing growth tepid, but management expects a rebound in H2FY24**
- **Investment in brands, expansion in rural markets and innovation to spur profitable growth; retain BUY, TP Rs 5,844**

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Muted growth in Q2 as well: BRIT's Q2FY24 revenue growth was flat at 1.2% YoY (0.2% volume growth and 1% price growth) to Rs 44.3bn as the company took price corrections in the wake of sustained regional competition. Management expects growth to revive in H2FY24. Despite a slowdown in rural markets, BRIT sees strong demand potential and continues to expand rural distribution. The company's domestic market share inched up, widening the gap with the second largest player. International markets are also driving profitable growth.

Substantial margin expansion: During Q2, EBITDA grew 23% YoY to Rs 8.7bn, with margin expansion of 340bps YoY (+250bps QoQ) to 19.7%. This stemmed from softer raw material prices and concerted efforts by the company to drive cost savings.

Innovation to fuel growth: BRIT remains focused on new product development and indicated that revenue contribution from innovation has risen to 10%. The company continues to strengthen its portfolio, launching two biscuit variants, the *Better* brand of snacks and creamy cheese in Q2 and guiding for annualised revenue contribution of Rs 2bn from these products. BRIT continues to drive growth in adjacent businesses as well, with the launch of three variants in the cake segment.

Distribution network deepens: Direct distribution rose to 2.73mn outlets at end-Q2FY24. Despite a challenging demand environment, the company continues to grow faster in its focus states of Uttar Pradesh, Madhya Pradesh, Gujarat and Rajasthan as compared to its markets in the rest of India.

Maintain BUY: BRIT has reported a muted first half as local competition intensified due to easing input costs. Even so, margins expanded during Q2 as the company stepped up cost-saving initiatives and derived continued benefits from lower input costs. We believe BRIT's focus on innovation, brand investment, rural reach expansion and product launches will spur profitable growth. The stock is trading at 49x/41.1x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 53x FY25E EPS, assigning a 30% premium to the 10Y average multiple, for an unchanged TP of Rs 5,844.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	BRIT IN/Rs 4,527
Market cap	US$ 13.3bn
Free float	49%
3M ADV	US$ 22.8mn
52wk high/low	Rs 5,270/Rs 3,705
Promoter/FPI/DII	51%/20%/29%

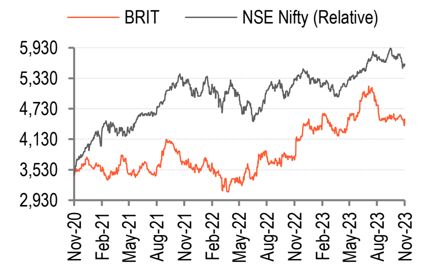
Source: NSE | Price as of 2 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	163,006	171,708	191,206
EBITDA (Rs mn)	28,309	32,794	38,604
Adj. net profit (Rs mn)	19,461	22,276	26,564
Adj. EPS (Rs)	80.8	92.5	110.3
Consensus EPS (Rs)	80.8	88.3	101.3
Adj. ROAE (%)	65.1	48.7	49.3
Adj. P/E (x)	56.0	49.0	41.1
EV/EBITDA (x)	38.5	33.2	28.2
Adj. EPS growth (%)	27.6	14.5	19.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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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