FIRST LIGHT

06 November 2023

RESEARCH

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How prices look in Oct'23

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Economic Round-up: October 2023

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Sector-wise credit deployment

AMBUJA CEMENTS | TARGET: Rs 449 | +7% | HOLD

Relatively weak show

ACC | TARGET: Rs 2,158 | +16% | BUY

Cost savings boost margin; upgrade to BUY

ORIENT ELECTRIC | TARGET: Rs 240 | +8% | HOLD

ECD-led growth; working capital rises on festive inventory

DABUR INDIA | TARGET: Rs 669 | +25% | BUY

Steady growth and market share gains

GODREJ CONSUMER PRODUCTS | TARGET: Rs 1,159 | +17% | BUY

Strong, sustained volume-led growth in India business

HERO MOTOCORP | TARGET: Rs 3,009 | -3% | HOLD

Poised for growth but upside capped

360 ONE | TARGET: Rs 615 | +16% | BUY

Yields weak but outlook robust; maintain BUY

Daily macro indicators

Indicator	1-Nov	2-Nov	Chg (%)
US 10Y yield (%)	4.73	4.66	(8bps)
India 10Y yield (%)	7.36	7.32	(4bps)
USD/INR	83.29	83.25	0.0
Brent Crude (US$/bbl)	84.6	86.9	2.6
Dow	33,275	33,839	1.7
Hang Seng	17,102	17,231	0.8
Sensex	63,591	64,081	0.8
India FII (US$ mn)	**31-Oct**	**1-Nov**	**Chg ($ mn)**
FII-D	95.9	10.7	(85.3)
FII-E	(52.0)	(215.0)	(163.0)

Source: Bank of Baroda Economics Research

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SUMMARY

INDIA ECONOMICS: BOB ESSENTIAL COMMODITIES INDEX

BoB Essential Commodity Index (BoB ECI) has edged down to 2.4% in Oct'23. Sequentially, it has inched up slightly by 0.3% against a decline of 1.8% in Sep'23. The sequential pick up is on account of correction in tomato prices (falling at a less than sharper pace than last month). However, other than that, softening in prices is broad based. Especially some degree of sequential moderation in price of pulses is a respite.

Click here for the full report.

INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

Divergent economic trends amongst major economies have come at the forefront. While in the US economy is showing signs of resilience (better than expected Q3 GDP, tightness in labour market, strength in domestic consumption), gloomy economic scenario persists in the Eurozone and China is again witnessing signs of slowdown. In Europe, continued weakness in manufacturing and service sector activity, along with elevated levels of inflation and interest rates, is pushing the economy towards a recession.

Click here for the full report.

INDIA ECONOMICS: CREDIT TRENDS

Our brief analysis of RBI's sectoral deployment of credit data shows that in YoY terms, credit growth (excluding the impact of HDFC merger) as of Sep'23 has moderated a bit this year (15.3%) compared with last year (16.4%). Most of the slowdown can be attributed to industrial sector, within which petroleum/coal, chemicals and infrastructure have pushed the growth lower. On the other hand, credit to agriculture and services sector has fared better this year. Within services, commercial real estate, aviation, professional services and transport operators contributed positively to growth. Personal loan segment growth has been relatively steady. Data from TransUnion CIBIL report shows that delinquency rate for personal loans has improved as of Jun'23.

Click here for the full report.

AMBUJA CEMENTS

- Standalone Q2 revenue grew just 8% YoY (-16% QoQ) as net volumes dropped 9% (-18% QoQ)
- EBITDA/t shot up YoY to Rs 1,018/t off a weak base and on lower costs; EBITDA more than doubled to Rs 7.7bn
- TP revised to Rs 449 (vs. Rs 435) as we raise FY24/FY25 EBITDA by 15%/1%; maintain HOLD

Click here for the full report.

ACC

- Q2 volumes flat YoY (-15% QoQ) at 6.9mt due to flood impact in key markets
- Cost-saving initiatives helped bolster operating performance, with EBITDA margin up sharply to 12.4% off a weak base
- Factoring cost synergies, we hike FY24/FY25 earnings 44%/26% and upgrade from HOLD to BUY with a new TP of Rs 2,158 (vs. Rs 1,964)

Click here **for the full report.**

ORIENT ELECTRIC

- Q2 topline up 11% YoY as ECD grew 17%, gross margin up 400bps; working capital cycle doubles due to festive stocking
- Management reiterated its strategy to boost premiumisation, increase market penetration and focus on B2B lighting
- Our TP stands revised to Rs 240 (vs. Rs 250) as we pare FY24/FY25 EPS by 8% each and roll valuations over to Sep'25E; retain HOLD

Click here **for the full report.**

DABUR INDIA

- Strong growth across categories except beverages which declined 10% YoY in Q2 due to uneven rainfall in North India
- International business fared well owing to moderation in inflation and changes in distribution
- Strong growth in food & international business and higher A&P investment to propel growth; maintain BUY, TP at Rs 669 (unchanged)

Click here **for the full report.**

GODREJ CONSUMER PRODUCTS

- Volume-led growth continues in India business at 11% YoY in Q2; margin expands despite elevated media spend
- Household insecticides and personal care had a seasonally soft quarter; integration of Raymond's acquired business complete
- Emphasis on volume-led growth backed by increased media spend yielding results; maintain BUY, TP Rs 1,159

Click here **for the full report.**

HERO MOTOCORP

- Q2 revenue grew 4% YoY driven by realisation gains as volumes stayed flat at 1.4mn units.
- Drop in raw material cost to 69% of sales vs. 72% in year-ago quarter helped boost gross margin by 340bps YoY to 31.4%
- Maintain HOLD with unchanged TP of Rs 3,009, valuing core operations at 15x FY25E EPS

Click here for the full report.

360 ONE

- ARR AUM and revenue grew 31% and 10% YoY respectively, but ARR yield (calc.) slipped 13bps YoY to 63bps
- Business outlook strong with a clear roadmap to expand to domestic HNIs and NRIs in FY25
- TP raised to Rs 615 (vs. Rs 611) on a slight increase in PAT estimates; maintain BUY

Click here for the full report.

BOB ESSENTIAL COMMODITIES INDEX

04 November 2023

How prices look in Oct'23

Dipanwita Mazumdar
Economist

BoB Essential Commodity Index (BoB ECI) has edged down to 2.4% in Oct'23. Sequentially, it has inched up slightly by 0.3% against a decline of 1.8% in Sep'23. The sequential pick up is on account of correction in tomato prices (falling at a less than sharper pace than last month). However, other than that, softening in prices is broad based. Especially some degree of sequential moderation in price of pulses is a respite.

What needs monitoring is the rise in Onion prices. In Oct'23, the retail price of Onion has increased by 36.6% on YoY basis, while in sequential terms it has risen by 12.9%. Even for the first three days of Nov'23, it has risen at a faster pace registering 88% and 54.1% increase on YoY and sequential basis, respectively. The gap between wholesale and retail price of Onion is also higher (currently at Rs 9.5/kg, long run average is Rs 6.3/kg), so a significant degree of pass through is yet to happen. However, with the arrival of Oct-Dec harvest in the market, some correction in prices is expected. Meanwhile government's intervention in the form of subsidized selling in some cities will provide temporary relief to inflation. We do not foresee significant spike as this season coincides with fresh arrival of harvest.

We expect headline CPI to settle between 4.5-4.7% in Oct'23.

To get an idea about the calculation of the index, refer to our previous edition of BoB ECI.

Price picture using BoB Essential Commodity Index:

- On YoY basis, BoB ECI moderated to 2.4% in Oct'23 from 2.9% in Sep'23. 6 out of 20 commodities have registered softening of prices. Downward spiraling of tomato prices continued. Apart from this, prices of pulses such as gram and moong dal also showed some softening. Prices of edible oils such as groundnut, mustard and sunflower oil also edged down.

- On MoM basis, BoB ECI inched up to 0.3% in Oct'23 from 1.8% decline in Sep'23. The slight inching up of the index on a sequential basis is attributable to the correction in tomato prices. On a seasonally adjusted basis, it has fallen by 0.6% in Oct'23. Notably, 11 out of 20 commodities have seen moderation in prices. Among them, commodities such as gram, tur and urad dal, rice, wheat and gur have witnessed considerable change. Only for Onion prices, some discomfort still persists.

- For the first three days of Nov'23, BoB ECI inched up by 3.1% on YoY basis and by 1.2% on a sequential basis. The slight pickup is attributable to inching up of prices of onion.

MONTHLY ECONOMIC BUFFET

03 November 2023

Economic Round-up: October 2023

Sonal Badhan
Economist

Divergent economic trends amongst major economies have come at the forefront. While in the US economy is showing signs of resilience (better than expected Q3 GDP, tightness in labour market, strength in domestic consumption), gloomy economic scenario persists in the Eurozone and China is again witnessing signs of slowdown. In Europe, continued weakness in manufacturing and service sector activity, along with elevated levels of inflation and interest rates, is pushing the economy towards a recession.

In China, lacklustre global demand and slowing infra spending in the real estate sector is hampering demand. In the wake of renewed geopolitical tensions (Israel-Palestine war) and to assess the impact of tight monetary conditions, major global central banks, including RBI, have decided to maintain their hawkish pause. Labour market conditions will be watched closely to gauge future trajectory of rate action by Fed.

Global growth: Global growth trends remain mixed. In the US while domestic consumption is supporting growth so far, led by gains in labour market and slowing inflation, manufacturing activity remains dismal. Spill overs from tight monetary conditions are further expected to play out in the coming months, thus slowing down the economy. However possibility of a recession has been ruled out by Fed. In Eurozone, both service and manufacturing sector growth has taken a hit, also leading to job losses and contraction in GDP in Q3. In Q4, conditions are likely to worsen further. Due to this, China's export growth has been impacted and it is resulting in faltering manufacturing activity as well. Restrained amount of spending in the infrastructure sector is further impacting demand conditions and consumption growth. Analysts await more monetary stimulus measures to be announced to boost growth.

Global Central Banks: In Oct/Nov'23, US Fed, ECB, BoE, BoJ and Bank of Canada held rates unchanged. Fed's policy statement remained hawkish as it reiterated that future rate hikes cannot be ruled out inflation continues to remain elevated and economic growth is proving to be more resilient than previously anticipated. BoE and ECB have also maintained that they will allow policy to remain restrictive by keeping rates higher for longer in order to bring inflation back to targeted levels on a durable basis. BoJ, while maintained its stance of keeping the policy ultra-loose, it tweaked the YCC again, thus signalling a possible shift towards roll-back of accommodative policy measures.

Key macro data releases: Corporate performance of India Inc. in Q2FY24 shows that at the aggregate level, while sales growth has slowed down substantially, profit growth has seen a stellar revival. However, if we exclude the BFSI sector, net sales growth this year is showing a contraction of 1.8%.

CREDIT TRENDS

03 November 2023

Sector-wise credit deployment

Sonal Badhan
Economist

Our brief analysis of RBI's sectoral deployment of credit data shows that in YoY terms, credit growth (excluding the impact of HDFC merger) as of Sep'23 has moderated a bit this year (15.3%) compared with last year (16.4%). Most of the slowdown can be attributed to industrial sector, within which petroleum/coal, chemicals and infrastructure have pushed the growth lower. On the other hand, credit to agriculture and services sector has fared better this year. Within services, commercial real estate, aviation, professional services and transport operators contributed positively to growth. Personal loan segment growth has been relatively steady. Data from TransUnion CIBIL report shows that delinquency rate for personal loans has improved as of Jun'23.

Broad-classification: At the end of H1FY24, bank credit (excluding the impact of HDFC merger) as of Sep'23 has risen by 15.3% (YoY) compared with 16.4% last year (Sep'22). The pace of growth of non-food credit has been the same this year so far (15.3%), easing from 16.9% as of Sep'22. Within non-food credit, trends were mixed. While credit to industry slowed notably, credit to agriculture and services sector showed improvement and that as personal loans was broadly stable.

Credit growth to agriculture sector picked up to 16.8% this year (as of Sep'23) compared with 13.4% as of Sep'22 and that to services sector rose by 21.3% from 20.2% last year. On the other hand, credit to industry slowed significantly (6.5% versus 12.6%). Growth in personal loan segment settled at 18.2% versus 19.4% noted as of Sep'22.

Table 1: Major sector wise credit growth

Sectors, %YoY	Sep-22	Sep-23
Total bank credit	16.4	15.3
Food credit	(65.1)	20.0
Non-food credit	16.9	15.3
--Agriculture	13.4	16.8
--Industry	12.6	6.5
--Services	20.2	21.3
--Personal loan	19.4	18.2

Source: RBI, Bank of Baroda Research

Industry-wise growth: Out of the 19 sub-sectors tracked under industry, 9 sectors witnessed a slowdown in credit growth as of Sep'23 compared from last year. Amongst these, steepest decline was noted in sectors like petroleum/coal products, chemicals, rubber/plastic products, infrastructure, engineering, leather, paper, and mining sector. On the other hand, most improvement was noted in sectors like beverages & tobacco, glassware, cement and products, gems & jewellery and basis metals.

HOLD
TP: Rs 449 | ⮝ 7%

AMBUJA CEMENTS | Cement | 04 November 2023

Relatively weak show

- **Standalone Q2 revenue grew just 8% YoY (-16% QoQ) as net volumes dropped 9% (-18% QoQ)**
- **EBITDA/t shot up YoY to Rs 1,018/t off a weak base and on lower costs; EBITDA more than doubled to Rs 7.7bn**
- **TP revised to Rs 449 (vs. Rs 435) as we raise FY24/FY25 EBITDA by 15%/1%; maintain HOLD**

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Volume growth muted as floods dampened sales in key markets: ACEM reported standalone Q2FY24 revenue growth of only 8% YoY (-16% QoQ) to Rs 39.7bn as net volumes dropped 10% (-18% QoQ). Realisations stayed flat YoY/QoQ at Rs 5,223/t as ACEM's key operating markets were affected by floods. Consolidated revenue growth was also muted at 5% YoY to Rs 71.1bn as volumes grew only 2% to 13.1mn tonnes. Blended cement formed ~89% of total volumes while premium product contribution rose 80bps YoY to 23.4% of trade sales.

Cost efficiencies fueling operating performance: Operating cost/tonne fell 11% YoY to Rs 4,206/t from Rs 4,741/t (Rs 4,848/t in Q1FY24) as fuel cost dropped by Rs 700/t+ YoY to Rs 1,270/t. Energy cost adjusted for raw material also fell ~8% to Rs 2,226/t, and freight and raw material cost softened YoY. Consequently, EBITDA/t shot up YoY to Rs 1,018/t from a weak base of Rs 429/t (-16% QoQ) and standalone EBITDA grew more than 2x to Rs 7.7bn from Rs 3bn in the year-ago quarter (-18% QoQ). Consolidated EBITDA rose to Rs 12.7bn from a weak base of Rs 3.1bn in Q2FY23 and EBITDA/t jumped to Rs 995 from Rs 255.

Capacity expansion roadmap: Management reiterated that ~40mt of clinker capacity (10 new cement kilns) will be added as part of its medium-term plan of reaching 140mt largely in brownfield capacity by FY28. Further, ACEM is targeting ~35 new grinding units (2 units at the upcoming clinker facility at Bhatapara, Chattisgarh; and 1 each at Sankaren, Kolkata; Farakka, West Bengal; and Chandrapur, Maharashtra). ACEM is in the process of securing environment clearance for the Chandrapur unit.

Maintain HOLD: To factor in the cost savings & capacity addition (Sanghi Industries acquisition), we raise our FY24/FY25 EBITDA estimates by 15%/1% and EPS by 21%/3%, leading to a revised SOTP-based TP of Rs 449 (vs. Rs 435). We assign an unchanged FY25E EV/EBITDA multiple of 13x to the standalone business and add in Rs 84/sh for the ACC stake. Our TP implies a replacement cost of Rs 14bn/mt (consolidated capacity), which is a 2x premium to the industry average. However, upside potential appears limited at current valuations and hence we retain HOLD.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	ACEM IN/Rs 421
Market cap	US$ 10.2bn
Free float	37%
3M ADV	US$ 16.3mn
52wk high/low	Rs 598/Rs 315
Promoter/FPI/DII	63%/11%/17%

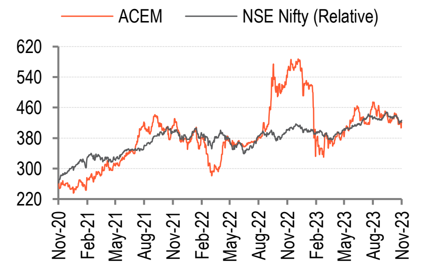
Source: NSE | Price as of 3 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	3,84,449	3,77,126	4,38,193
EBITDA (Rs mn)	51,224	65,987	77,738
Adj. net profit (Rs mn)	29,024	32,698	36,075
Adj. EPS (Rs)	11.7	16.5	18.2
Consensus EPS (Rs)	11.7	16.2	18.2
Adj. ROAE (%)	9.3	9.5	10.1
Adj. P/E (x)	36.0	25.6	23.2
EV/EBITDA (x)	15.8	12.0	9.8
Adj. EPS growth (%)	(20.0)	40.8	10.3

Source: Company, Bloomberg, BOBCAPS Research | FY23 is for 15 months due to a change in year-end from December to March

Stock performance



Source: NSE

RESULT REVIEW

BUY
TP: Rs 2,158 | ⮝ 16%

ACC | Cement | 03 November 2023

Cost savings boost margin; upgrade to BUY

- **Q2 volumes flat YoY (-15% QoQ) at 6.9mt due to flood impact in key markets**
- **Cost-saving initiatives helped bolster operating performance, with EBITDA margin up sharply to 12.4% off a weak base**
- **Factoring cost synergies, we hike FY24/FY25 earnings 44%/26% and upgrade from HOLD to BUY with a new TP of Rs 2,158 (vs. Rs 1,964)**

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Volumes disappoint: ACC reported a 13% YoY (-15% QoQ) increase in Q2FY24 revenue to Rs 44.3bn off a low base (includes other operating income). Volumes were flat YoY (-15% QoQ) at 6.9mn tonnes (netting 1.2mt of sales to ACEM under the master supply agreement or MSA). Realisations fell 5% YoY (-1% QoQ) to Rs 5,125/t amid the supply push from competition and demand weakness in some pockets (key operating markets of ACC like North India) that were severely affected by floods in July. Revenue from ACC's ready-mix concrete (RMC) segment fell 13% YoY (-15% QoQ) to Rs 3.1bn, with segmental earnings at Rs 33mn.

Cost benefits a bright spot: Operating cost softened 17% YoY (+2% QoQ) to Rs 4,798/t owing to lower energy and logistics cost. Additionally, ACC had earlier realigned staff and other expenses and hence both showed a decline. Energy cost fell sharply by 43% YoY to Rs 1,093/t due to lower pet coke prices but was down only 15% YoY when adjusted for raw material cost. Logistics cost declined 18% YoY (-5% QoQ) to Rs 1,177/t on the back of synergies with ACEM. Consequently, ACC's cement EBITDA/t jumped to Rs 676 vs. Rs 44 in Q2FY23 and its operating margin climbed to 12.4% off a low base of 0.4% (-240bps QoQ)**.**

Capacity expansion on track: Expansion at Ametha (Uttar Pradesh) became operational during Q2FY24, adding 3.3mt of clinker and 1mt of cement capacity. Clinker will be fully utilised by ACC's split grinding units in UP. ACC has a defined roadmap to double capacity from 70mt to 140mt by FY28 together with cost-saving measures such as captive power and waste heat recovery systems.

Strong earnings trajectory; raise to BUY: Factoring in ACC's strong H1FY24 performance backed by cost savings partly from MSA-led synergies, we increase our FY24/FY25 EBITDA estimates by 33%/21% and EPS by 44%/26%. Our TP thus rises to Rs 2,158 (from Rs 1,964), set at an unchanged 10x FY25E EV/EBITDA multiple. Our TP implies a replacement cost of Rs 9bn/mt – a 30% premium to the industry average of Rs 7bn/mt – given ACC's pan-India presence, size (38mt) and operating efficiencies. We upgrade the stock from HOLD to BUY for 16% upside potential.

Key changes

Target	Rating
▲	▲

Ticker/Price	ACC IN/Rs 1,864
Market cap	US$ 4.3bn
Free float	43%
3M ADV	US$ 13.8mn
52wk high/low	Rs 2,675/Rs 1,592
Promoter/FPI/DII	57%/12%/19%

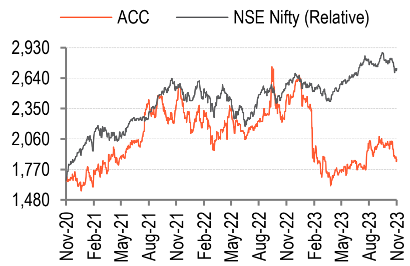
Source: NSE | Price as of 2 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	217,883	196,593	218,812
EBITDA (Rs mn)	19,400	27,692	34,422
Adj. net profit (Rs mn)	10,926	16,871	21,146
Adj. EPS (Rs)	46.5	93.8	110.0
Consensus EPS (Rs)	46.5	93.0	114.0
Adj. ROAE (%)	7.9	11.4	13.6
Adj. P/E (x)	40.1	19.9	16.9
EV/EBITDA (x)	17.9	11.9	8.8
Adj. EPS growth (%)	(54.3)	93.0	25.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 240 | 8%

ORIENT ELECTRIC | Consumer Durables | 03 November 2023

ECD-led growth; working capital rises on festive inventory

- **Q2 topline up 11% YoY as ECD grew 17%, gross margin up 400bps; working capital cycle doubles due to festive stocking**
- **Management reiterated its strategy to boost premiumisation, increase market penetration and focus on B2B lighting**
- **Our TP stands revised to Rs 240 (vs. Rs 250) as we pare FY24/FY25 EPS by 8% each and roll valuations over to Sep'25E; retain HOLD**

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Growth led by ECD: ORIENTEL posted 11% YoY topline growth to Rs 5.7bn in Q2FY24 as the electrical consumer durables (ECD) business grew 17% to Rs 3.6bn, surpassing HAVL's -4% and POLYCAB's 8% print for the quarter. Lighting and switchgears grew at a muted 1.4% YoY to Rs 2bn. The company's exports have doubled YoY.

Cost savings lift gross margin, one-off buoys PAT: Gross margin swelled 400bps YoY to 30.3% aided by better pricing from premium products, cost reduction and mix improvement. The company's *Sanchay* cost control programme led to Rs 140mn in savings for Q2 (Rs 150mn in Q1), albeit partly offset at the EBITDA level by higher employee, marketing and logistics costs. EBITDA margin thus expanded at a slower 135bps YoY to 3.6%. ORIENTEL expects margins to remain under pressure in the near term as it invests in longer-term growth. PBT stood at Rs 234mn boosted by gains of Rs 187mn from land sale (Rs 47mn ex-one-off), leading to PAT of Rs 185mn.

Working capital rises on higher inventory: The company's working capital cycle climbed to 26 days from 13 days in Q1FY24, with management citing inventory stocking ahead of the festive season. Capex incurred during H1FY24 totalled Rs 780mn, of which Rs 630mn was spent on the upcoming Hyderabad plant. Net cash stood at Rs 2.9bn as of H1FY24.

Product premiumisation and direct distribution strategy: ORIENTEL is adopting a strategy to boost product premiumisation and to increase its own DTM (direct to market) network. The company has added a seventh state (Gujarat) to its DTM network in Q2 and is evaluating two more markets during H2. Management is also looking to transform its service model into a key differentiator for the company and to raise focus on the B2B lighting business.

Maintain HOLD: We pare our EPS estimates by 8% each for FY24/FY25 while continuing to value the stock at a 30x P/E multiple – a 5% discount to the 3Y average. On rolling valuations forward to Sep'25E, our TP moves to Rs 240 (vs. Rs 250), which offers just 8% upside and leads us to maintain our HOLD rating.

Key changes

Target	Rating
▼	◄►

Ticker/Price	ORIENTEL IN/Rs 221
Market cap	US$ 571.2mn
Free float	62%
3M ADV	US$ 0.9mn
52wk high/low	Rs 291/Rs 208
Promoter/FPI/DII	38%/6%/28%

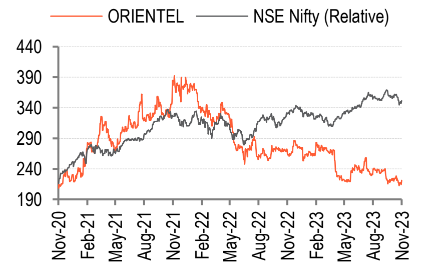
Source: NSE | Price as of 3 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	25,292	29,591	34,326
EBITDA (Rs mn)	1,510	2,372	2,906
Adj. net profit (Rs mn)	759	1,212	1,558
Adj. EPS (Rs)	3.6	5.7	7.3
Consensus EPS (Rs)	3.6	5.9	7.3
Adj. ROAE (%)	13.5	19.3	21.8
Adj. P/E (x)	62.1	38.8	30.2
EV/EBITDA (x)	31.1	19.8	16.1
Adj. EPS growth (%)	(40.3)	59.8	28.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 669 | ⮝ 25%

DABUR INDIA

| Consumer Staples | 04 November 2023

Steady growth and market share gains

- **Strong growth across categories except beverages which declined 10% YoY in Q2 due to uneven rainfall in North India**
- **International business fared well owing to moderation in inflation and changes in distribution**
- **Strong growth in food & international business and higher A&P investment to propel growth; maintain BUY, TP at Rs 669 (unchanged)**

Vikrant Kashyap
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Steady performance amid macro headwinds: Dabur reported 7.3% YoY revenue growth in Q2FY24 (10.4% YoY CC growth) to Rs 32bn supported by a consistent performance in both the home & personal care and healthcare segments. India FMCG volume growth came in at 3% YoY (including 5.8% for *Badshah*). Dabur continued to gain market share across 90% of its product portfolio. International business maintained strong momentum with 23.6% growth in CC terms. MENA revenue grew 18%, Egypt was up 35% and Turkey 78%.

Margin expansion continues: Gross margin expanded 290bps YoY and 170bps QoQ to 48.3% largely due to easing inflation. EBITDA grew 10% YoY with 50bps margin expansion to 20.6% despite a 43% rise in A&P spend in the consolidated business.

Rural growth continues to lag urban demand: Management remains optimistic on future growth as it is seeing green shoots of recovery in rural markets and indicated that while rural growth still lags urban growth, the gap has reduced. Urban demand witnessed sequential improvement led by new-age channels.

Steady performance across key categories: Dabur's digestive business grew 18% YoY and the home care (HC) business increased 15%. The Ayurvedic OTC and ethicals business grew 8% each. Foods posted a 40% YoY increase with Badshah growing 6%. However, unseasonal rains in the company's key North Indian markets impacted the beverage business which declined 10% YoY.

Maintain BUY, TP Rs 669: Dabur continues to deliver steady growth and gain share despite macro headwinds in key categories. Amid easing inflation and improving rural demand, we expect the company to deliver profitable growth backed by investments in A&P, distribution network and brand, manufacturing and digital channels. The stock is currently trading at 47.8x/36.8x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 46x FY25E EPS – assigning a 10% premium to the 10Y average multiple – for an unchanged TP of Rs 669.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	DABUR IN/Rs 536
Market cap	US$ 11.5bn
Free float	33%
3M ADV	US$ 11.8mn
52wk high/low	Rs 611/Rs 504
Promoter/FPI/DII	66%/18%/16%

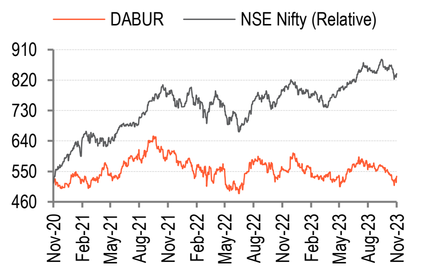
Source: NSE | Price as of 3 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	115,299	128,881	150,845
EBITDA (Rs mn)	21,641	25,436	32,814
Adj. net profit (Rs mn)	17,072	19,868	25,769
Adj. EPS (Rs)	9.6	11.2	14.5
Consensus EPS (Rs)	9.6	11.4	13.9
Adj. ROAE (%)	19.1	20.1	23.6
Adj. P/E (x)	55.6	47.8	36.8
EV/EBITDA (x)	43.8	37.3	28.9
Adj. EPS growth (%)	(2.1)	16.4	29.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 1,159 | ⮝ 17%

GODREJ CONSUMER PRODUCTS | Consumer Staples | 03 November 2023

Strong, sustained volume-led growth in India business

- **Volume-led growth continues in India business at 11% YoY in Q2; margin expands despite elevated media spend**
- **Household insecticides and personal care had a seasonally soft quarter; integration of Raymond's acquired business complete**
- **Emphasis on volume-led growth backed by increased media spend yielding results; maintain BUY, TP Rs 1,159**

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Sustained volume-led growth: GCPL reported consolidated Q2FY24 revenue of Rs 36bn (+6% YoY, +16% CC), with volumes up 10% YoY. India business grew 9% YoY led by 11% volume growth despite a tough operating environment. The board announced a dividend of Rs 5/sh during the quarter.

Improved performance in international markets: Indonesia business registered strong revenue growth of 16% YoY in rupee terms (+14% CC) backed by increased advertising spends. A pickup in general trade distribution and portfolio renovation also aided sales in Indonesia. Revenue from Africa, the US, and the Middle East region (GUAM) increased 17% YoY CC, though rupee revenue was lower due to the devaluation of the naira.

Segmental performance impacted by seasonality: GCPL registered muted 5% YoY growth in the home care business owing to flattish growth in the household insecticides (HI) segment due to the poor monsoons. Air fresheners maintained a strong performance and reported double-digit volume and value growth. Personal care declined 1% YoY and registered low-single-digit volume growth. Within this segment, *Magic* handwash continued to deliver a strong double-digit uptick in volumes.

Margins on upward trajectory: The company reported a 54.9% gross margin (+700bps YoY, +120bps QoQ) while EBITDA margin expanded to 19.5% (+350bps YoY, +90bps QoQ) despite a 33% YoY rise in working media investment. EBITDA margin for the Indonesia business stood at 17.9% YoY (+80bps YoY), whereas GUAM was at 8.5% (+310bps YoY).

Maintain BUY: GCPL has reported strong volume growth in the domestic market and seen an improvement in the quality of profits. We expect the company's emphasis on category development, brand investment, market penetration and business reorganisation to support profitable growth. The stock is trading at 49x/ 38.5x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at a P/E multiple of 45x on FY25E EPS – in line with the long-term mean – for an unchanged TP of Rs 1,159.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	GCPL IN/Rs 991
Market cap	US$ 12.3bn
Free float	37%
3M ADV	US$ 9.9mn
52wk high/low	Rs 1,102/Rs 794
Promoter/FPI/DII	63%/24%/13%

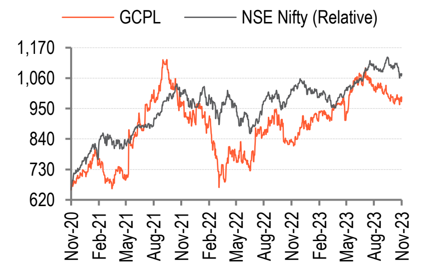
Source: NSE | Price as of 2 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	133,160	148,458	168,366
EBITDA (Rs mn)	24,304	29,995	36,445
Adj. net profit (Rs mn)	17,566	20,696	26,329
Adj. EPS (Rs)	17.2	20.2	25.8
Consensus EPS (Rs)	17.2	20.5	24.7
Adj. ROAE (%)	12.3	12.5	14.3
Adj. P/E (x)	57.7	49.0	38.5
EV/EBITDA (x)	41.7	33.8	27.8
Adj. EPS growth (%)	(4.5)	16.0	33.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 3,009 | ∀ 3%

HERO MOTOCORP | Automobiles | 03 November 2023

Poised for growth but upside capped

- **Q2 revenue grew 4% YoY driven by realisation gains as volumes stayed flat at 1.4mn units.**
- **Drop in raw material cost to 69% of sales vs. 72% in year-ago quarter helped boost gross margin by 340bps YoY to 31.4%**
- **Maintain HOLD with unchanged TP of Rs 3,009, valuing core operations at 15x FY25E EPS**

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Volumes flat, realisations move up: HMCL's Q2FY24 revenue grew 4% YoY (+8% QoQ) to Rs 94.5bn steered by realisation gains as volumes stayed flat (+5% QoQ) at 1.4mn units. Net realisation per vehicle (NRPV) grew 5% (+3% QoQ) to Rs 66.7k.

Operating leverage aids margin improvement: Raw material cost adjusted for inventory was flat YoY (+7% QoQ) and reduced as a percentage of sales to 69% from 72% in Q2FY23, aiding gross margin improvement of 340bps YoY (+80bps QoQ) to 31.4% However, new launches added to promotional cost, pushing other expenses up 11% YoY (+18% QoQ) to Rs 10.6bn. EBITDA rose 28% YoY (+10% QoQ) to Rs 13.3bn, with 260bps (+30bps QoQ) margin expansion to 14.1%. Adj. PAT climbed 47% YoY (+7% QoQ) to Rs 10.5bn, further backed by a 170% surge in other income to Rs 2.5bn due to revaluation of investments.

Focus on launches: *Karizma XMR* bookings currently stand at ~14k units. Deliveries for the Harley-Davidson *X440* (>2k units) have commenced across 100 stores and the order book was at 25k+ as of Q2. Management is looking to ramp up production for Karizma and Harley to ~10k units/month, besides indicating aggressive launches across segments over FY24. The focus will be on recovery in the 125cc segment, building the premium portfolio and improving market share.

Rural demand picking up: Rural demand moved up in the festive season (Sep-Nov) with volume growth of 15% (as guided by the management) evenly split between rural and urban demand – a positive signal as HMCL remains a market leader in entry-level motorcycles.

Retain HOLD: We continue to model for a revenue/ EBITDA/adj. PAT CAGR of 16%/21%/21% over FY22-FY25, with EBITDA margin averaging at ~13%. Steady rural recovery, export market revival and the response to HMCL's aggressive launch programme remain key to watch. Our SOTP-based TP remains at Rs 3,009, based on an unchanged P/E multiple of 15x FY25E for core operations. Maintain HOLD as positives are in the price.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HMCL IN/Rs 3,089
Market cap	US$ 7.5bn
Free float	65%
3M ADV	US$ 19.5mn
52wk high/low	Rs 3,275/Rs 2,246
Promoter/FPI/DII	35%/30%/24%

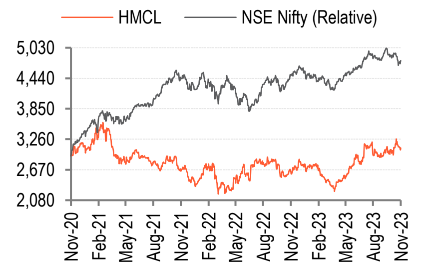
Source: NSE | Price as of 3 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	3,38,057	3,89,963	4,57,480
EBITDA (Rs mn)	39,862	49,606	60,382
Adj. net profit (Rs mn)	29,106	36,131	43,386
Adj. EPS (Rs)	145.8	180.9	217.3
Consensus EPS (Rs)	145.8	190.0	213.0
Adj. ROAE (%)	17.4	19.7	21.0
Adj. P/E (x)	21.2	17.1	14.2
EV/EBITDA (x)	15.4	12.4	10.0
Adj. EPS growth (%)	17.7	24.1	20.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 615 | ⮝ 16%

360 ONE | Diversified Financials | 03 November 2023

Yields weak but outlook robust; maintain BUY

- **ARR AUM and revenue grew 31% and 10% YoY respectively, but ARR yield (calc.) slipped 13bps YoY to 63bps**
- **Business outlook strong with a clear roadmap to expand to domestic HNIs and NRIs in FY25**
- **TP raised to Rs 615 (vs. Rs 611) on a slight increase in PAT estimates; maintain BUY**

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Q2 PAT in line: 360 One's Q2FY24 PAT increased 7% YoY (+2% QoQ) to Rs 1.9bn, in line with our estimate. While recurring revenue of Rs 3.1bn (+10% YoY) was 12% short of our estimate, 41% QoQ growth in non-recurring revenue to Rs 1.2bn brought overall income in line at Rs 4.4bn (+3% YoY +2% QoQ). ARR yields (calc.) softened 13bps YoY and 9bps QoQ to 63bps. Hiring, particularly for new segments, led to a rise in C/I ratio to 48.6% with total costs of Rs 2.1bn (8% above our projections). The tax rate was only 18%, bringing net profit on par with our expectations.

New market forays planned: The company intends to launch a digital-first HNI platform with a client base worth Rs 50mn-250mn in Apr'24 and to raise the number of cities it can service from 20 to 50 over the next five years. It has also hired senior personnel for the global Indian and NRI segments in key developed markets. Management expects these segments to collectively add 20-30% to incremental business over the next 3-4 years**.**

Strong AUM growth despite muted flows: Recurring AUM grew 31% YoY (+6% QoQ) to Rs 2tn while 360 One Plus surged 71% YoY to Rs 627bn at end-Q2. However, net inflow of Rs 57bn at end-Q2 was low vs. Rs 130bn in Q1 and there was an outflow of Rs 21bn in the AMC business. Management expects net AMC inflows over H2FY24 to be invigorated by fresh private equity fund raises. Based on the Q2 print, we increase our FY24/FY25 recurring AUM estimates by 3% each while lowering our FY24 PAT forecast by 2.5% with a slight increase for FY25 to bake in higher expansion costs but a lower tax rate.

Maintain BUY: Current valuations of 21.5x FY25E EPS look low. We continue to value the stock at an unchanged 25x FY25E P/E multiple – a 10% premium to the long-term average. This coupled with estimate revision translates to a revised TP of Rs 615 (vs. Rs 611) that offers 16% upside – we maintain BUY considering continued traction in the ARR model where recurring AUM has hit the Rs 2tn mark and a well-defined expansion strategy.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	360ONE IN/Rs 531
Market cap	US$ 2.3bn
Free float	78%
3M ADV	US$ 3.6mn
52wk high/low	Rs 570/Rs 395
Promoter/FPI/DII	22%/23%/2%

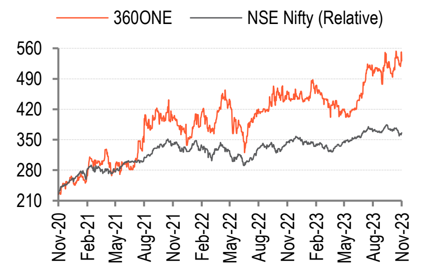
Source: NSE | Price as of 3 Nov 2023

Key financials

Y/E 31 Mar (Rs mn)	FY23A	FY24E	FY25E
PBT (Rs mn)	8,503	9,468	11,356
PBT growth (%)	13.2	11.3	19.9
Adj. net profit (Rs mn)	6,679	7,574	8,971
EPS (Rs)	18.1	20.8	24.6
Consensus EPS (Rs)	18.1	21.5	25.8
P/E (x)	29.3	25.6	21.6
MCap/AUM (%)	0.0	0.0	0.0
ROE (%)	21.8	23.8	27.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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