FIRST LIGHT

09 February 2024

RESEARCH

LUPIN | TARGET: Rs 1,560 | -3% | HOLD

All-round beat; margins sustain – raise to HOLD

BOB ECONOMICS RESEARCH | MONETARY POLICY REVIEW

RBI remains on hold

CUMMINS INDIA | TARGET: Rs 2,900 | +21% | BUY

Powering ahead; maintain BUY

STAR CEMENT | TARGET: Rs 193 | -2% | HOLD

Cost savings commendable, growth intact

NESTLE INDIA | TARGET: Rs 2,826 | +17% | BUY

Broad-based growth across product categories

Daily macro indicators

Indicator	06-Feb	07-Feb	Chg (%)
US 10Y yield (%)	4.10	4.12	2bps
India 10Y yield (%)	7.09	7.07	(2bps)
USD/INR	83.06	82.97	0.1
Brent Crude (US$/bbl)	78.6	79.2	0.8
Dow	38,521	38,677	0.4
Hang Seng	16,137	16,082	(0.3)
Sensex	72,186	72,152	0.0
India FII (US$ mn)	**05-Feb**	**06-Feb**	**Chg ($ mn)**
FII-D	104.8	380.6	275.8
FII-E	91.9	(56.9)	(148.8)

Source: Bank of Baroda Economics Research

SUMMARY

LUPIN

- Strong Q3 with EBITDA/PAT of Rs 10.2bn/Rs 6.1bn, beating consensus by 17%/42%
- EBITDA margin has held above 17% for last three quarters backed by sales of gSpiriva; guided to remain steady
- TP raised to Rs 1,560 (vs. Rs 1,050) as we hike FY24-FY26 EBITDA by 13-19% and apply a higher 14x multiple; upgrade to HOLD

Click here for the full report.

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INDIA ECONOMICS: MONETARY POLICY REVIEW

MPC members for the 6th consecutive time kept policy rates on hold, by keeping repo rate unchanged at 6.5%, SDF at 6.25% and MSF and bank rate at 6.75%. RBI also left its stance of "withdrawal of accommodation" unchanged. However these decisions were not unanimous, and were passed with the vote of 5-1. Central bank highlighted that interest rate transmissions are still not complete and inflation is yet to be brought down to targeted level on a durable basis. Hence, RBI's stance should be viewed in this context, and "mix of instruments" will be used by the Central Bank to manage the liquidity situation. RBI expects GDP growth to remain at solid 7% in FY25, supported by government capex, domestic consumption and corporate profits. Inflation is projected to come down to 4.5% in FY25 from 5.4% in FY24, due to satisfactory Rabi sowing, dip in vegetable prices and expectation of a normal monsoon in FY25. We foresee no change in RBI's position before Aug'24. However, in case inflation surprises on the downside, then a tweak may be expected in Jun'24 policy.

Click here for the full report.

CUMMINS INDIA

- Strong Q3 topline growth of 16% YoY despite lower exports, along with 330bps gross margin expansion as input costs eased
- Long-range growth and margin outlook intact; full migration to CPCB-IV+ norms in FY25 a key margin lever
- TP revised to Rs 2,900 (vs. Rs 2,200) as we raise FY24-FY26 EPS 9-13% and hike target P/E to 40x (vs. 35x); maintain BUY

Click here for the full report.

STAR CEMENT

- Steady growth in a challenging quarter aided by 7% YoY volume pickup; realisations softened
- Cost savings of 8% YoY supported EBITDA margin gains of 530bps on a high base to ~23%
- TP raised to Rs 193 (vs. Rs 159) as we value STRCEM at 9x EV/EBITDA (vs. 8x) and roll over to FY26E; upside capped – retain HOLD

Click here for the full report.

NESTLE INDIA

- Domestic sales continue to underpin growth, rising 8.9% YoY in the December quarter on better pricing, volumes and product mix
- Gross margin improved 370bps YoY and EBITDA margin expanded 90bps to 23.8%
- Expect growth momentum to continue; maintain BUY with unchanged TP of Rs 2,826

Click here for the full report.

RESULT REVIEW

HOLD

TP: Rs 1,560 | ∀ 3%

LUPIN | Pharmaceuticals | 09 February 2024

All-round beat; margins sustain – raise to HOLD

- **Strong Q3 with EBITDA/PAT of Rs 10.2bn/Rs 6.1bn, beating consensus by 17%/42%**
- **EBITDA margin has held above 17% for last three quarters backed by sales of gSpiriva; guided to remain steady**
- **TP raised to Rs 1,560 (vs. Rs 1,050) as we hike FY24-FY26 EBITDA by 13-19% and apply a higher 14x multiple; upgrade to HOLD**

Saad Shaikh
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Broad-based growth led by US sales…: LPC reported 20% YoY revenue growth to Rs 52bn in Q3FY24, 7% ahead of Bloomberg consensus due to faster ramp-up of gSpiriva in the US market. The strong performance was supported by double-digit growth across businesses, barring API which was largely flat. US business grew 24% YoY but was flat QoQ as the previous quarter also had gSpiriva sales. gSpiriva market share has reached ~30% and LPC is aiming for 40%+. US base business also saw volume growth and was further supported by lower price erosion. Recent launches, including gNascobal and gProlensa, aided US growth as well.

…and India business: India business outpaced the domestic market and grew 13% YoY led by strong performances in the key therapies of respiratory, gastrointestinal and gynaecology – all of which grew ahead of the market. LPC has added seven new divisions over the last 12 months and is seeking to add a couple more in the coming months. Other geographies also fared well during the quarter, with revenue from ROW/ EMEA/growth markets rising 71%/36%/13% YoY, while API business dipped 1%.

Margins sustainable: LPC's EBITDA margin has held at over 17% for the last three quarters, backed by limited-competition drug gSpiriva, new launches and cost-control measures. Management expects margins to remain at this level in FY24 and improve gradually over the next few years. Gross/EBITDA margins were at 66.8%/ 19.7% for Q3.

Earnings call takeaways: (1) LPC doesn't expect competition in gSpiriva, but authorised generics do pose a threat. (2) The company expects 180-day exclusivity for gMyrbetriq. (3) LPC's inhalation portfolio contributed ~40% of its total US sales in Q3. (4) Remediation is complete for Tarapur and Mandideep Unit 1.

Upgrade to HOLD: We raise FY24/FY25/FY26 EBITDA estimates by 14%/13%/19% and increase our target EV/EBITDA multiple to 14x (vs. 12.5x) following the strong Q3 beat. On rollover to FY26E valuations, our TP rises to Rs 1,560 (vs. Rs 1,050). However, despite these revisions, stock price upsides appear capped due to the 30% rally over the past three months. We thus move our rating up only a notch from SELL to HOLD. Our target multiple is at 30% discount to frontline stock SUNP.

Key changes

Target	Rating
▲	▲

Ticker/Price	LPC IN/Rs 1,606
Market cap	US$ 8.9bn
Free float	53%
3M ADV	US$ 22.7mn
52wk high/low	Rs 1,700/Rs 628
Promoter/FPI/DII	46%/14%/29%

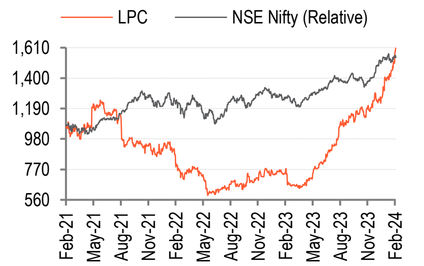
Source: NSE | Price as of 8 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	166,417	201,643	218,761
EBITDA (Rs mn)	17,982	37,706	44,549
Adj. net profit (Rs mn)	4,301	19,855	24,858
Adj. EPS (Rs)	9.5	43.9	54.9
Consensus EPS (Rs)	9.5	37.4	45.9
Adj. ROAE (%)	3.6	15.7	17.7
Adj. P/E (x)	169.0	36.6	29.2
EV/EBITDA (x)	40.8	19.8	16.7
Adj. EPS growth (%)	63.2	361.6	25.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

MONETARY POLICY REVIEW

08 February 2024

RBI remains on hold

Sonal Badhan
Economist

MPC members for the 6th consecutive time kept policy rates on hold, by keeping repo rate unchanged at 6.5%, SDF at 6.25% and MSF and bank rate at 6.75%. RBI also left its stance of "withdrawal of accommodation" unchanged. However these decisions were not unanimous, and were passed with the vote of 5-1. Central bank highlighted that interest rate transmissions are still not complete and inflation is yet to be brought down to targeted level on a durable basis. Hence, RBI's stance should be viewed in this context, and "mix of instruments" will be used by the Central Bank to manage the liquidity situation. RBI expects GDP growth to remain at solid 7% in FY25, supported by government capex, domestic consumption and corporate profits. Inflation is projected to come down to 4.5% in FY25 from 5.4% in FY24, due to satisfactory Rabi sowing, dip in vegetable prices and expectation of a normal monsoon in FY25. We foresee no change in RBI's position before Aug'24. However, in case inflation surprises on the downside, then a tweak may be expected in Jun'24 policy.

No change in policy: In line with our expectation, RBI decided to remain on hold, thus keeping the repo rate unchanged at 6.5%. Subsequently, SDF rate remains at 6.25% and MSF and Bank rate at 6.75%. Stance was also retained at "withdrawal of accommodation". However, both decisions were not unanimous and were passed with 5-1 vote. Amongst MPC members, Prof Jayanth R. Varma voted for 25bps cut in policy rate and change in stance to "neutral". Governor Das highlighted that RBI's stance "should be seen in the context of incomplete transmission and inflation ruling above the target of 4% and our efforts to bring it back to the target on a durable basis". We thus expect earliest possible change in RBI's position only in Jun'24, that too if inflation falls significantly below RBI's expectations. If inflation follows RBI's trajectory then no change in position can be expected before Aug'24.

GDP growth: Following 7.3% growth in FY24 (as per NSO's advanced estimates), RBI expects 7% growth in FY25. Quarterly projections have also been revised upward, with growth in Q1 now estimated at 7.2% (versus 6.7% in Dec'23 policy), Q2 at 6.8% (6.5% earlier), Q3 at 7% (6.4% earlier) and Q4 at 6.9%. Robust growth in FY25 predicted on the back of: resilience shown in services activity, continued profitability of the manufacturing sector, likelihood of increased consumption demand, steady Rabi sowing, and government retaining focus on capital expenditure. Downside risks may emerge from escalation of geopolitical tensions and volatility in international financial markets. We believe RBI's FY25 growth projection to be slightly more optimistic and retain our estimates at 6.75-6.8%.

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TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 2,900 | ⮝ 21%

CUMMINS INDIA | Capital Goods | 08 February 2024

Powering ahead; maintain BUY

- **Strong Q3 topline growth of 16% YoY despite lower exports, along with 330bps gross margin expansion as input costs eased**
- **Long-range growth and margin outlook intact; full migration to CPCB-IV+ norms in FY25 a key margin lever**
- **TP revised to Rs 2,900 (vs. Rs 2,200) as we raise FY24-FY26 EPS 9-13% and hike target P/E to 40x (vs. 35x); maintain BUY**

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Strong quarter: KKC posted strong Q3FY24 topline growth of 16% YoY to Rs 25.4bn, with gross and EBITDA margin expansion of 330bps and 240bps YoY to 37.4% and 21.3% respectively. Margin gains came on the back of easing input costs, partly offset by higher other expenses. Exports fell 40% YoY on global uncertainty, but management remains optimistic that domestic demand will fuel growth led by its power genset (powergen) business. The company saw strong traction in the data centre, commercial and residential realty, infrastructure and manufacturing sectors.

Exports to improve: KKC's exports declined 40% YoY due to soft demand from its major markets. The quarter also saw year-end inventory correction in end user markets, which led to lower sales. Management believes this correction has bottomed out and expects exports to revive in coming quarters if the global demand climate improves.

CPCB-IV+ demand continues to surprise positively: KKC observed above-expected demand for CPCB-IV+ engines during Q3. This continues the trend seen in Q2 when demand bettered the company's own estimate for the new engines.

Long-term outlook intact; new engines to enhance margins: KKC reiterated its FY25 revenue growth guidance of 2x GDP growth, accompanied by 100bps operating margin improvement each year, which we believe will be led by the new CPCB-IV+ engines. Although these engines currently earn better realisations than CPCB-II products, the price benefits are not wholly reflected as less than 25% of KKC's capacity is being utilised for these engines. Better pricing clarity will emerge once the market fully transitions to the new engines in Jul'24, which we believe will hold the key to achieving targeted margin accretion in FY25.

Maintain BUY: In our view, KKC is best positioned to manage the ongoing transition to new emission norms and carries a robust outlook going into FY25 when full transition will occur. This leads us to raise FY24/FY25/FY26 earnings estimates by 13%/9%/12% and increase our target P/E multiple to 40x (from 35x), a 25% premium to the 3Y mean. On rolling valuations to Dec'25E, our TP rises to Rs 2,900 (vs. Rs 2,200). BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	KKC IN/Rs 2,400
Market cap	US$ 8.1bn
Free float	49%
3M ADV	US$ 13.3mn
52wk high/low	Rs 2,422/Rs 1,445
Promoter/FPI/DII	51%/10%/25%

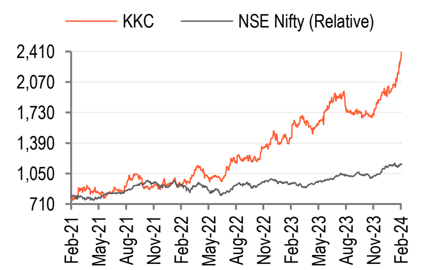
Source: NSE | Price as of 7 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	77,721	91,010	1,05,479
EBITDA (Rs mn)	12,477	16,826	18,502
Adj. net profit (Rs mn)	12,425	16,230	18,093
Adj. EPS (Rs)	44.8	58.5	65.3
Consensus EPS (Rs)	44.8	48.4	56.8
Adj. ROAE (%)	22.8	26.5	26.2
Adj. P/E (x)	53.6	41.0	36.8
EV/EBITDA (x)	54.9	41.0	37.5
Adj. EPS growth (%)	59.0	30.6	11.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 193 | ∀ 2%

STAR CEMENT | Cement | 08 February 2024

Cost savings commendable, growth intact

- **Steady growth in a challenging quarter aided by 7% YoY volume pickup; realisations softened**
- **Cost savings of 8% YoY supported EBITDA margin gains of 530bps on a high base to ~23%**
- **TP raised to Rs 193 (vs. Rs 159) as we value STRCEM at 9x EV/EBITDA (vs. 8x) and roll over to FY26E; upside capped – retain HOLD**

Milind Raginwar | Shree Kirloskar
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Volumes fuel revenue, realisations weak: STRCEM's revenue grew 5%/11% YoY/QoQ to Rs 6.5bn in Q3FY24 as volumes grew 7%/8% to 1mn tonnes. Realisations, however, fell 2% YoY (+3% QoQ) to Rs 6,716/t. Cement prices improved by Rs 7/bag in the northeast but dropped by ~Rs 20/bag in other regions at the end of the quarter.

Operating cost declines: Overall cost declined 8%/5% YoY/QoQ to Rs 5,182/t as energy cost adjusted for raw material inventory fell 10%/5% to Rs 2,666/t. Further, logistics costs softened 10% YoY but increased 13% QoQ to Rs 1,135/t. Other expenditure decreased 11% QoQ (flat YoY) to Rs 794mn.

Lower cost aids margin expansion: Bolstered by cost savings, EBITDA increased 37%/51% YoY/QoQ to Rs 1.5bn accompanied by margin expansion to 22.8% (+530bps/600bps). EBITDA/t rose to Rs 1,534 from Rs 1,194 in Q3FY23 (Rs 1,100 in Q2FY24) and adj. PAT grew 39%/81% YoY/QoQ to Rs 735mn.

Capacity expansion plans: The 2mt grinding unit in Guwahati, Assam, and 3mt clinker plant in Meghalaya are due to be commissioned by Q4FY24. Commencement of the Silchar grinding unit in Assam remains deferred to Q2FY26.

Growth prospects intact…: We raise our FY24 EPS estimate by 3% to reflect the Q3 print but keep FY25 unchanged (and now introduce FY26 forecasts). In our view, the government's infrastructure focus in STRCEM's core northeast market is likely to propel volumes even as a sound balance sheet despite being in capex mode should support ROE/ROCE expansion to an estimated 14%/19% by FY26. We thus assign a higher 9x EV/EBITDA multiple to the stock (vs. 8x earlier) while rolling valuations over to FY26E, which gives us a revised TP of Rs 193 (vs. Rs 159).

…but upside capped, retain HOLD: Current valuations of 11x/10x FY25E/FY26E EV/EBITDA cap upside potential and hence we maintain our HOLD rating. Our TP implies a replacement cost valuation of Rs 7.5bn/mt – in line with the industry average.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	STRCEM IN/Rs 196
Market cap	US$ 1.0bn
Free float	33%
3M ADV	US$ 1.6mn
52wk high/low	Rs 198/Rs 103
Promoter/FPI/DII	67%/1%/6%

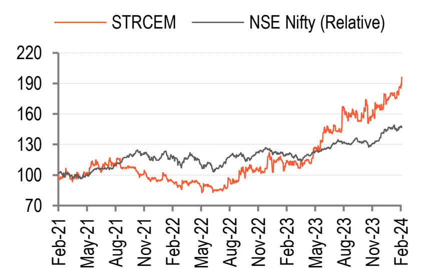
Source: NSE | Price as of 8 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	25,756	32,869	40,705
EBITDA (Rs mn)	4,684	5,355	7,776
Adj. net profit (Rs mn)	2,477	2,767	4,138
Adj. EPS (Rs)	5.9	6.6	9.9
Consensus EPS (Rs)	5.9	6.4	9.1
Adj. ROAE (%)	10.8	10.9	14.6
Adj. P/E (x)	33.2	29.7	19.9
EV/EBITDA (x)	16.9	15.5	10.8
Adj. EPS growth (%)	0.4	11.7	49.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 2,826 | ⮝ 17%

NESTLE INDIA | Consumer Staples | 08 February 2024

Broad-based growth across product categories

- **Domestic sales continue to underpin growth, rising 8.9% YoY in the December quarter on better pricing, volumes and product mix**
- **Gross margin improved 370bps YoY and EBITDA margin expanded 90bps to 23.8%**
- **Expect growth momentum to continue; maintain BUY with unchanged TP of Rs 2,826**

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Sustained growth in domestic business: NEST delivered revenue growth of 8.1% YoY in the December quarter to Rs 46bn, with domestic sales growth of 8.9% YoY backed by a healthy product mix, pricing and volumes. Exports, however, remained subdued during the quarter. Gross margin improved 370bps YoY to 58.6% and EBITDA margin expanded 90bps YoY to 23.8%. The e-commerce channel contributed 7% of sales compared to 6.1% in the previous quarter. NEST expanded its reach to 196,000 villages by adding 5,300 villages during the quarter. The board declared its third interim dividend of Rs 7/sh.

Momentum across portfolios: Growth momentum continued in the prepared dishes and cooking aids business, supported by media investments, consumer engagement and innovations aimed at developing the 'RURBAN' markets. The confectionary business performed well led by *Kitkat* and *Munch*, as did beverages on the back of double-digit revenue growth YoY in *Nescafe Classic* and *Nescafe Sunrise*.

Innovation and launches remain in focus: The company recently launched *Maggi* Korean noodles, *Maggi* oats noodles with millets and *Gerber* puffs. During the quarter, it expanded *Nestle A+* masala millet porridge to Mumbai and its *Milo* health drink for teenagers to key southern markets. Over the past seven years, the company has launched a total of 130 products that have helped bolster growth.

Maintain BUY: NEST continues to deliver a strong performance in domestic markets amid a challenging environment, supported by consumer engagement, new launches and an increasing reach in rural markets. We expect sustained, profitable growth underpinned by continued investments in innovation, premiumisation and direct reach expansion with a rural focus. The stock is trading at 66.6x/55.6x on FY25E/FY26E EPS. We introduce FY26 estimates and roll valuations over from CY25E to FY26E. Our TP remains at Rs 2,826 based on an unchanged 65x P/E multiple – in line with the long-term average.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	NEST IN/Rs 2,423
Market cap	US$ 28.4bn
Free float	37%
3M ADV	US$ 12.4mn
52wk high/low	Rs 2,769/Rs 1,788
Promoter/FPI/DII	63%/12%/25%

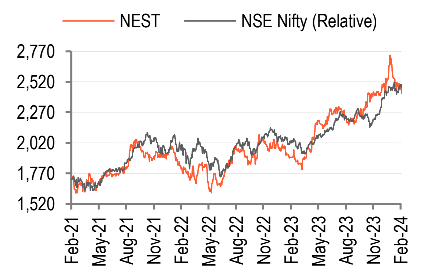
Source: NSE | Price as of 8 Feb 2024

Key financials

Y/E 31 Mar	CY22A	FY24E	FY25E
Total revenue (Rs mn)	168,969	243,176	215,459
EBITDA (Rs mn)	37,125	57,013	53,218
Adj. net profit (Rs mn)	23,905	38,108	35,082
Adj. EPS (Rs)	247.9	39.5	36.4
Consensus EPS (Rs)	247.9	38.3	36.9
Adj. ROAE (%)	97.2	125.2	98.0
Adj. P/E (x)	9.8	61.3	66.6
EV/EBITDA (x)	62.9	41.0	43.9
Adj. EPS growth (%)	1.5	(84.1)	(7.9)

Source: Company, Bloomberg, BOBCAPS Research | FY24 is for 15 months due to a change in year-end from December to March

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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