BOBCAPS
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FIRST LIGHT

20 January 2023

RESEARCH

HINDUSTAN UNILEVER | TARGET: Rs 3,069 | +16% | BUY

Growth momentum continues; margins improve sequentially

INDUSIND BANK | TARGET: Rs 1,547 | +29% | BUY

Recovery plan in play

HAVELLS INDIA | TARGET: Rs 1,500 | +24% | BUY

Modest performance amid a challenging environment

METALS & MINING

Constructive outlook despite uncertainty – Alcoa

Daily macro indicators

Indicator	16-Jan	17-Jan	Chg (%)
US 10Y yield (%)	3.50	3.55	4bps
India 10Y yield (%)	7.33	7.33	0bps
USD/INR	81.62	81.77	(0.2)
Brent Crude (US$/bbl)	84.5	85.9	1.7
Dow	34,303	33,911	(1.1)
Hang Seng	21,747	21,578	(0.8)
Sensex	60,093	60,656	0.9
India FII (US$ mn)	**13-Jan**	**16-Jan**	**Chg ($ mn)**
FII-D	146.8	50.3	(96.5)
FII-E	(459.2)	193.0	652.2

Source: Bank of Baroda Economics Research

SUMMARY

HINDUSTAN UNILEVER

- Q3 revenue grew 16% YoY with volume growth of 5%; EBITDA margin improved sequentially by 70bps
- Royalty to parent company hiked 80bps to c.3.45%, staggered over a 3Y period
- We assume coverage on HUVR with BUY and a TP of Rs 3,069, based on 52.5x FY25E EPS

Click here for the full report.

INDUSIND BANK

- Q3 PAT growth strong at 58% YoY backed by healthy core income coupled with stable opex and lower provisions
- Rebound in vehicle finance business looks sustainable, driving improvement in asset quality (FY25E GNPA/NNPA at 1.5%/0.4%)
- We assume coverage with BUY and a TP of Rs 1,547, valuing the stock at 1.7x FY25E ABV

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HAVELLS INDIA

- Middling Q3 revenue growth of 13% YoY owing to soft B2C demand; growth led purely by volumes as no price hikes undertaken on QoQ
- Margin recovery delayed to FY24 amid weak consumer sentiments and rebound in commodity prices
- FY23/FY24 EPS cut 21%/10% and target P/E lowered to 50x (vs. 53x); on rollover, our TP remains at Rs 1,500

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METALS & MINING

- Alcoa's Q4CY22 EBITDA miss vs. consensus highlights above-expected raw material cost pressure
- Management constructive on aluminium margin improvement in CY23 as demand picks up in a balanced market
- Read-across suggests pressure on margins for Indian players in H2FY23 but recovery from FY24

Click here for the full report.

BUY

TP: Rs 3,069 | ⮝ 16%

HINDUSTAN UNILEVER | Consumer Staples | 19 January 2023

Growth momentum continues; margins improve sequentially

- **Q3 revenue grew 16% YoY with volume growth of 5%; EBITDA margin improved sequentially by 70bps**
- **Royalty to parent company hiked 80bps to c.3.45%, staggered over a 3Y period**
- **We assume coverage on HUVR with BUY and a TP of Rs 3,069, based on 52.5x FY25E EPS**

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Sustained volume trajectory: HUVR's Q3FY23 revenue grew 16% YoY (3% QoQ), with underlying volume growth of 5%. The company continues to gain market share in more than 75% of its portfolio. During the quarter, the FMCG market grew in high single digits, but industry volumes continued to decline in both urban and rural centres, with a deeper slowdown in the latter areas. Given softening of inflation and early signs of recovery in the rural market, we expect increased volume growth ahead.

Broad-based growth: In Q3FY23, HUVR's home care, beauty & personal care, and foods & refreshment segment revenues grew 32%, 10% and 7% YoY respectively. Home care delivered double-digit volume growth. The fabric wash and household care segments saw similar volume trends as well as calibrated price hikes by the company. As palm oil softened, prices were reduced in the soaps portfolio. The foods business clocked double-digit volume growth led by jams, ketchup, and the Unilever food solutions business.

Margins improve QoQ on lower cost inflation: EBITDA margin for Q3 expanded 70bps QoQ but contracted 170bps YoY to 23.7%. Segment EBIT margins were healthy with home care at 19%, beauty & personal care at 25%, and foods & refreshment at 18%. Gross margin contracted 430bps YoY but improved 210bps QoQ to 48%.

Increase in royalty for parent company: The board has approved a new agreement with the Unilever group for the provision of technology, trademark licenses and services to HUVR. The arrangement envisages a staggered increase of 80bps in royalty payout over a period of three years from c.2.65% to c.3.45% of turnover.

BUY, TP Rs 3,069: HUVR continues to grow ahead of the market and to gain market share despite macro challenges. With softening of inflation and improving rural demand, we expect continued volume growth across the portfolio. Sustained investment in brand building will lend further impetus to growth. The stock is trading at 52.4x/45.4x FY24E/FY25E EPS. We assume coverage on HUVR with BUY and value the stock at 52.5x FY25E EPS, in-line with the long-term mean, translating to a TP of Rs 3,069.

Ticker/Price	HUVR IN/Rs 2,650
Market cap	US$ 86.3bn
Free float	38%
3M ADV	US$ 44.4mn
52wk high/low	Rs 2,742/Rs 1,902
Promoter/FPI/DII	62%/14%/24%

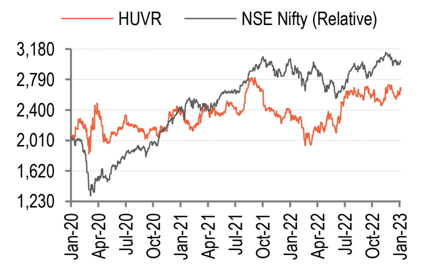
Source: NSE | Price as of 19 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	5,24,460	6,03,710	6,66,091
EBITDA (Rs mn)	1,28,570	1,42,260	1,69,178
Adj. net profit (Rs mn)	89,180	1,01,752	1,19,215
Adj. EPS (Rs)	37.9	43.3	50.7
Consensus EPS (Rs)	37.9	42.4	50.1
Adj. ROAE (%)	18.4	20.4	23.2
Adj. P/E (x)	69.8	61.2	52.2
EV/EBITDA (x)	54.6	49.4	41.5
Adj. EPS growth (%)	11.0	14.5	17.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 1,547 | 29%

INDUSIND BANK | Banking | 19 January 2023

Recovery plan in play

- **Q3 PAT growth strong at 58% YoY backed by healthy core income coupled with stable opex and lower provisions**
- **Rebound in vehicle finance business looks sustainable, driving improvement in asset quality (FY25E GNPA/NNPA at 1.5%/0.4%)**
- **We assume coverage with BUY and a TP of Rs 1,547, valuing the stock at 1.7x FY25E ABV**

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Robust quarter: IIB delivered a strong all-round Q3FY23 performance with continued improvement in loan growth (+19% YoY/+5% QoQ), supported by retail loans (+5% QoQ/+18% YoY). Retail growth was led by recovery in vehicle finance (+7% QoQ), driven by the commercial vehicle, utility vehicle and car segments (+40% YoY growth in disbursals). Management is confident of sustaining growth in the vehicle book and further diversifying the mix, which will be NIM-accretive.

The microfinance business also saw signs of revival with improvement in disbursal and CE of ~99%. Further, SME (small and medium-sized enterprises) and small corporates drove non-retail growth and faced no added asset quality challenges. Deposits were subdued at 14% YoY (3% QoQ) with CASA ratio steady at 42%.

Margin to remain stable: NIM remained flat at 4.44% despite higher yield, as slower growth in low-cost CASA deposits kept the cost of funds elevated (+42bps). Given gradual improvement in the retail book, we expect NIM to continue its upward trajectory led by granularity on the liability side. That said, higher granularity keeps the cost/income ratio elevated (expect C/I at 43%/40% in FY24/FY25).

Gradual improvement in asset quality: IIB's asset quality was stable with lower slippages in Q3 (GNPA/NNPA at 2.1%/0.6%), but with no major improvement in its vehicle finance book. Management expects a sharp rise in quality of this book over the next two quarters. Sequentially lower slippages resulted in 20bps improvement in credit cost (164bps). Additionally, provisioning at 130% of GNPA offers a cushion against future asset quality challenges. Core PPOP grew 20% YoY and we expect similar levels over FY22-FY25 aided by core business income and lower credit cost.

BUY, TP Rs 1,547: Stable asset quality, robust capitalisation and a suitable loan mix place IIB on a strong wicket. Assessing its past record, we believe the bank may surprise the market by surpassing its own growth target (+20% near term) backed by an improved performance across verticals. We expect ROA/ROE to rise to 1.7%/14% by FY25 and believe for a possible rerating. We assume coverage with BUY and a TP of Rs 1,547, set at 1.7x FY25E ABV which is based on the Gordon growth model.

Key changes

Target	Rating
▲	◄►

Ticker/Price	IIB IN/Rs 1,201
Market cap	US$ 11.4bn
Free float	74%
3M ADV	US$ 43.0mn
52wk high/low	Rs 1,276/Rs 763
Promoter/FPI/DII	17%/45%/39%

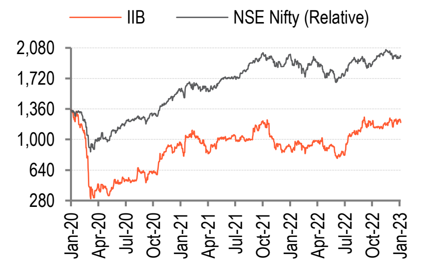
Source: NSE | Price as of 19 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Net interest income	1,50,008	1,76,407	2,05,827
NII growth (%)	10.9	17.6	16.7
Adj. net profit (Rs mn)	48,046	74,569	80,895
EPS (Rs)	62.1	96.2	104.4
Consensus EPS (Rs)	62.1	97.0	113.0
P/E (x)	19.3	12.5	11.5
P/BV (x)	1.9	1.6	1.4
ROA (%)	1.3	1.7	1.6
ROE (%)	10.5	13.9	12.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY

TP: Rs 1,500 | ⮝ 24%

HAVELLS INDIA | Consumer Durables | 19 January 2023

Modest performance amid a challenging environment

- **Middling Q3 revenue growth of 13% YoY owing to soft B2C demand; growth led purely by volumes as no price hikes undertaken on QoQ**
- **Margin recovery delayed to FY24 amid weak consumer sentiments and rebound in commodity prices**
- **FY23/FY24 EPS cut 21%/10% and target P/E lowered to 50x (vs. 53x); on rollover, our TP remains at Rs 1,500**

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Poor B2C demand weighs on performance: In line with our expectations, HAVL reported modest topline growth of 12.6% YoY to Rs 41.3bn amidst weak consumer sentiments. EBITDA margin moderated by 180bps YoY (+250bps QoQ) to 10.3% due to losses at Lloyd and high-cost inventory in the system. While B2B witnessed robust demand, the B2C segment which is a major revenue contributor was weak due to inflationary trends.

Margin recovery delayed to FY24: The rebound in commodity prices late in the quarter is likely to disrupt the margin recovery anticipated for H2FY23. Additionally, Lloyd is unlikely to show improvement on this front. However, the electronic consumer durables (ECD) and wires segments reported improved margins QoQ in Q3. In another positive, the high-cost inventory has also been exhausted (ex-Lloyd).

Fans transition – a long-term positive: BEE transition norms in the fans segment have led to destocking of higher end fans whereas cheaper products are witnessing restocking. The transition is expected to increase the market opportunity for energy-efficient fans (premium and BLDC variants), proving beneficial for premium players such as HAVL over the long term. As per management, Q4FY23 is expected to be a normal quarter for the fans verticals despite its attempts to hike prices by 3-4%.

Estimates lowered; maintain BUY: Tepid consumer demand led to a moderate performance in Q3FY23. While Lloyd continues to suffer operational losses, margins in other segments are showing signs of improvement which is encouraging amidst a challenging business environment. In light of the uneven demand trends and delayed margin recovery, we cut our FY23/FY24 EPS estimates by 21%/10% and value the stock at a 50x P/E multiple vs. 53x earlier. Upon rolling valuations over to Dec'24E, our TP remains at Rs 1,500 – retain BUY.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	HAVL IN/Rs 1,205
Market cap	US$ 9.3bn
Free float	41%
3M ADV	US$ 11.8mn
52wk high/low	Rs 1,406/Rs 1,025
Promoter/FPI/DII	60%/23%/11%

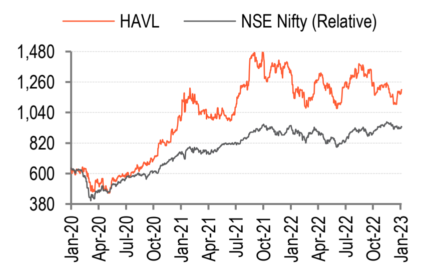
Source: NSE | Price as of 19 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	139,385	161,198	181,787
EBITDA (Rs mn)	17,604	15,435	21,636
Adj. net profit (Rs mn)	11,965	10,433	14,781
Adj. EPS (Rs)	19.1	16.7	23.6
Consensus EPS (Rs)	19.1	23.1	27.7
Adj. ROAE (%)	21.4	16.6	21.0
Adj. P/E (x)	63.1	72.4	51.1
EV/EBITDA (x)	42.9	48.9	34.9
Adj. EPS growth (%)	14.6	(12.8)	41.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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METALS & MINING

19 January 2023

Constructive outlook despite uncertainty: Alcoa

- **Alcoa's Q4CY22 EBITDA miss vs. consensus highlights above-expected raw material cost pressure**
- **Management constructive on aluminium margin improvement in CY23 as demand picks up in a balanced market**
- **Read-across suggests pressure on margins for Indian players in H2FY23 but recovery from FY24**

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Alcoa reports a weak Q4: Alcoa's Q4CY22 adj. EBITDA of US$ 29mn nosedived 86% QoQ, coming in 73% below consensus. As the decline in realisations was a known factor, the underperformance stemmed primarily from high raw material costs. While prices of pitch/coke used for making anodes in aluminum smelters rose 70%/30% YoY, caustic soda used in alumina refining was up 39% YoY. Alcoa sees signs of costs softening from early-CY23 and is also seeing a return of pricing power.

Near-term demand outlook positive: Alcoa remains positive on aluminium demand improvement in CY23, citing loosened Covid restrictions and stimulus measures in China, continuing demand strength in the US, and some pullback in uncertainty in Europe with the easing of power and natural gas costs.

Market to remain in balance and support margin recovery: The US aluminium major sees a limited (1mt) rise in China's capacity under the swap policy in CY23 and believes the industry remains intent on adhering to the self-imposed 45mt cap. Management highlighted the 2.5mt of production curtailments in China and anticipates further cuts in Europe as the operating environment remains difficult. Per Alcoa, 15-25% of European smelters were cash-negative at Dec'22 average prices. With the aluminium market already in a small deficit in China and the rest of the world in CY22, and record-low inventory (49 days vs. the 10Y average of 70), the physical market balance is tight.

Upbeat long-term view: Alcoa is positive on long-term demand fundamentals, pointing to strong offtake in transportation and packaging. The global EV market has clocked 7x growth over 2016-23 with China ramping up EV capacity to 6.9mn vehicles in CY22 and further to 9.0mn in CY23. Per management, packaging demand (aluminium cans) has also posted strong ~40% demand growth over 2016-23.

Read-across for Indian aluminium players: Alcoa's results point to weaker Q3FY23 margins for domestic aluminium players and the possibility of continued cost pressure in Q4 from expensive raw material inventory. However, margins could look up in FY24 aided by demand recovery and pullback in raw material costs.

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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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