FIRST LIGHT

06 February 2023

RESEARCH

INSURANCE

Budget spoils the insurance party

TATA CONSUMER PRODUCTS | TARGET: Rs 924 | +27% | BUY

Subdued quarter; long-term story remains intact

BOB ECONOMICS RESEARCH | CURRENCY OUTLOOK

INR to remain steady

BOB ECONOMICS RESEARCH | MONTHLY ECONOMIC BUFFET

Economic Round-up: January 2023

DIVI'S LABS | TARGET: Rs 3,200 | +11% | HOLD

Big miss on revenue and margins

JINDAL STEEL & POWER | TARGET: Rs 670 | +15% | BUY

Streamlining management processes a positive; BUY

CROMPTON GREAVES | TARGET: Rs 440 | +32% | BUY

Weak lighting business dims performance

V-GUARD INDUSTRIES | TARGET: Rs 260 | +6% | HOLD

Topline intact while margin pressure persists

TATA POWER | TARGET: Rs 271 | +32% | BUY

Growth aided by coal profits again

MAHANAGAR GAS | TARGET: Rs 1,030 | +21% | BUY

Growth set to accelerate in medium term; maintain BUY

SUMMARY

INSURANCE

- Union budget negative for life insurers as it makes high-ticket purchases of traditional products unattractive from a tax perspective
- Private players to be hit in varying degrees given a focus on non-linked products, especially non-par (high-margin) policies
- We prune FY24/FY25 APE estimates by 2-11% and cut target prices by 9-25% across our coverage

Click here for the full report.

Daily macro indicators

Indicator	01-Feb	02-Feb	Chg (%)
US 10Y yield (%)	3.42	3.39	(2bps)
India 10Y yield (%)	7.28	7.30	2bps
USD/INR	81.94	82.18	(0.3)
Brent Crude (US$/bbl)	82.8	82.2	(0.8)
Dow	34,093	34,054	(0.1)
Hang Seng	22,072	21,958	(0.5)
Sensex	59,708	59,932	0.4
India FII (US$ mn)	**31-Jan**	**01-Feb**	**Chg ($ mn)**
FII-D	204.1	350.2	146.1
FII-E	(569.9)	310.6	880.5

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

TATA CONSUMER PRODUCTS

- Q3 revenue grew 8% YoY (3% QoQ), but margins contracted due to inflationary pressure and lag in pricing
- Salt revenue grew 27% YoY with market share gains of 90bps; macro headwinds impacted the tea business
- We assume coverage with BUY and a TP of Rs 924 for 27% upside

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INDIA ECONOMICS: CURRENCY OUTLOOK

A changing Fed narrative as well as a global risk-on sentiment explain the rally in global currencies in 2023. Dollar has weakened as markets continue to expect Fed terminal rate to peak lower than the Central Bank expectations. There is also a renewed optimism over global economy with reopening in China and growth resilience in Europe. Consequently, global currencies including INR, have regained some of the losses incurred last year. The gains have differed, and INR has remained an underperformer. FPI outflows as well as concerns over elevated external deficits have limited the gains in INR. The outlook remain uncertain with several conflicting factors at play. Weaker dollar and benign oil prices are likely to support INR, even as FPI flows may still remain elusive. On balance, we expect INR to trade in the range of 81.5-82.5/$ in the short-term, while ruling out any sharp swings on either side.

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INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

At the beginning of 2023, while there is hope that global economy will slow down less than previously anticipated, however uncertainties still remain. While impact of China's re-opening is visible in improvement of manufacturing and services PMI in China and Europe, macro data points in the US are still muted. With the beginning of moderation in the pace of rate hike by Fed, it is expected that growth will get support. For the time being, inflationary pressures have been cooling down across countries, however upside risks persists. If Chinese economy rebounds more sharply than expected then it will build pressure on commodity prices and reignite price pressures. Impact of re-opening on Chinese and global economy will have to be closely watched to gauge the risks.

Click here for the full report.

DIVI'S LABS

- Q3 disappoints as revenue/PAT of Rs 17bn/Rs 3bn missed consensus by 12%/38%
- Gross/EBITDA margins contracted 7ppt/10ppt QoQ, driving PAT down by 38% QoQ (and 66% YoY)
- We cut FY23/FY24 EPS 12% each and roll to FY25 with a lower 22x target EV/EBITDA for a revised TP of Rs 3,200 (vs. Rs 3,450); retain HOLD

Click here for the full report.

JINDAL STEEL & POWER

- Q3 recovered in line with street estimates and revival set to continue in Q4 on policy support in China and India
- Management's focus on improving internal processes could mitigate legacy issues and support a rerating
- TP raised to Rs 670 (vs. Rs 460) on increase in target EV/EBITDA to 5.25x (vs. 4.5x) and roll-forward to FY25; maintain BUY

Click here for the full report.

CROMPTON GREAVES

- Lighting (-20% YoY) saw tepid demand and volatile pricing in Q3 amid stiff competition; pumps fell 10%
- Strategy to push new star-rated fans over non-compliant inventory (unlike peers) hurt growth
- We cut FY23/FY24 EPS 23%/20% on delayed margin recovery and higher expenses post-acquisition; TP reduced to Rs 440 (vs. Rs 500)

Click here for the full report.

V-GUARD INDUSTRIES

- EBITDA margin deteriorated further to 6.7% in Q3; recovery on the anvil as high-cost inventory nearly exhausted
- Non-south market (+11% YoY) shored up the topline whereas core southern region declined on a high base
- We cut FY23 EPS by 23% but retain FY24 forecasts on expected margin recovery; on rollover, our TP rises to Rs 260 (vs. Rs 250) "

Click here for the full report.

TATA POWER

- Q3 net profit jumped 2x YoY to Rs 9.5bn backed by high coal profits and strong power demand
- Coal profits expected to remain elevated while under-recovery in CGPL to narrow; SPPA of CGPL a key monitorable
- We remain positive on renewable capacity addition and ROE improvement in green companies; maintain BUY and TP of Rs 271

Click here for the full report.

MAHANAGAR GAS

- Q3 marginally ahead; priority HP-HT allocation to bridge APM gas shortfall and cap on APM gas price to improve competitiveness
- Management indicated potential 10%/20% volume CAGR in GA2/GA3 over the next couple of years
- Commentary confirms our thesis of accelerated growth over FY24-FY25; maintain BUY with TP of Rs 1,030 (unchanged)

Click here for the full report.

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INSURANCE

03 February 2023

Budget spoils the insurance party

- **Union budget negative for life insurers as it makes high-ticket purchases of traditional products unattractive from a tax perspective**
- **Private players to be hit in varying degrees given a focus on non-linked products, especially non-par (high-margin) policies**
- **We prune FY24/FY25 APE estimates by 2-11% and cut target prices by 9-25% across our coverage**

Mohit Mangal
research@bobcaps.in

Budget directionally negative: We believe the FY24 budget proposal to restrict the tax exemption on traditional life insurance policies with premium above Rs 500,000 (par and non-par, ex-ULIP) is detrimental for the sector as it reduces the attractiveness of insurance products from a tax perspective, especially for larger policies. Moreover, the emphasis on driving a shift to the new tax regime, which offers no deduction on premium, could deter customers who took insurance purely for tax purposes. Separately, there is a risk that flows into insurance could migrate to debt mutual funds (eligible for tax benefits).

Estimates cut: As at end-9MFY23, non-linked insurance products formed 27-58% of APE for our coverage universe (SBI Life, IPRU, HDFC Life). Within this, non-par products have gained prominence in the product mix owing to their higher margin profile. Considering headwinds arising from the budget proposals, we prune FY24/FY25 APE estimates by 2-11% for our coverage and lower target prices across the board.

SBI Life, BUY, TP Rs 1,459: SBI Life, our top pick and a leader in the private space, is expected to be the least affected by the budget proposals. We lower our TP 9% to Rs 1,459 from Rs 1,611 to reflect a 2% cut in APE and 5% cut in VNB for both FY24 and FY25. Our TP is based on 2.2x FY25E EV, which is 1SD below the long-term mean – retain BUY.

IPRU, BUY, TP Rs 487: We scale back our TP on IPRU by 19% to Rs 487 from Rs 601 following cuts of 6% in APE and 10% in VNB for both FY24 and FY25. Our TP is set at 1.5x FY25E EV, 2SD below the long-term mean; maintain BUY.

HDFC Life, cut to HOLD, TP Rs 549: HDFC Life is likely to be the hardest hit due to its large share of non-linked products in APE (58%), with management indicating that 10-12% of APE is at risk due to the new proposals. We reduce APE estimates by 10-12% for FY24/FY25 and now bake in an APE/VNB CAGR of 13.5%/13.8% over FY22-FY25. Our TP declines from Rs 741 to Rs 549, set at 2.2x FY25E EV – between 2SD and 3SD below the long-term mean. We downgrade the stock from BUY to HOLD given unfavourable risk-reward, with upside capped at 12%.

Recommendation snapshot

Ticker	Price	Target	Rating
HDFCLIFE IN	489	549	HOLD
IPRU IN	418	487	BUY
SBILIFE IN	1,138	1,459	BUY

Price & Target in Rupees | Price as of 3 Feb 2023

RESULT REVIEW

BUY

TP: Rs 924 | ⮝ 27%

TATA CONSUMER PRODUCTS | Consumer Staples | 03 February 2023

Subdued quarter; long-term story remains intact

- **Q3 revenue grew 8% YoY (3% QoQ), but margins contracted due to inflationary pressure and lag in pricing**
- **Salt revenue grew 27% YoY with market share gains of 90bps; macro headwinds impacted the tea business**
- **We assume coverage with BUY and a TP of Rs 924 for 27% upside**

Vikrant Kashyap
research@bobcaps.in

Soft quarter in a challenging macro environment: Tata Consumer's (TCPL) revenue from operations grew 8% YoY in Q3FY23 while EBITDA declined 2%. Gross and EBITDA margins contracted 215bps and 130bps YoY respectively. India business registered growth of 8%, international business 2% and non-branded business 22%.

Momentum continues in growth businesses: Tata Sampann, Tata Soulful and NourishCo have maintained their strong growth trajectory, rising 53% YoY in Q3FY23 and collectively accounting for 13% of India business from 6% in FY20. NourishCo, in particular, delivered a robust quarter with revenue up 66% YoY.

Macro headwinds impacted tea business: Demand for tea was affected by price correction, stress in rural and semi-urban markets, and a delayed winter in North and East India. The India packaged beverages business recorded a 9% revenue decline due to a 5% volume dip in tea. Since the business was deferred by a delayed winter, we expect TCPL to recover some of the lost sales in Q4FY23.

Subdued performance in international business: The international beverages business grew 4% YoY. Margins have been impacted due to input cost inflation and adverse currency movement. The company has taken further pricing action to restore profitability and is looking at structural cost-savings initiatives going forward.

Tata Starbucks does well: Tata Starbucks' revenue grew 42% YoY led by revival in out-of-home consumption and store addition. Net store addition in Q3 was at 11, taking the total count to 311 stores. The company expanded its reach to 38 cities.

BUY, TP Rs 924: We expect TCPL to deliver a strong performance due to a sustained focus on network extension in rural and semi-urban markets, premiumisation, product launches and digitisation. We model for a revenue/EBITDA/ PAT CAGR of 11%/14.5%/19% over FY22-FY25 and assume coverage with BUY for an SOTP-based TP of Rs 924.

Ticker/Price	TATACONS IN/Rs 727
Market cap	US$ 8.2bn
Free float	65%
3M ADV	US$ 11.9mn
52wk high/low	Rs 861/Rs 650
Promoter/FPI/DII	34%/26%/40%

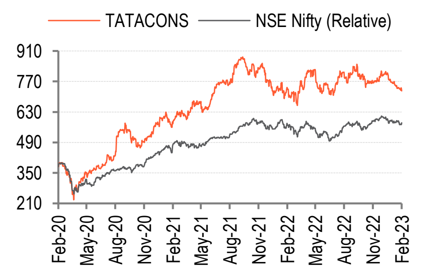
Source: NSE | Price as of 3 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,24,254	1,37,125	1,53,339
EBITDA (Rs mn)	17,188	19,018	23,162
Adj. net profit (Rs mn)	9,878	10,956	14,839
Adj. EPS (Rs)	10.7	11.8	16.0
Consensus EPS (Rs)	10.7	13.6	16.0
Adj. ROAE (%)	5.7	7.4	8.2
Adj. P/E (x)	67.8	61.6	45.5
EV/EBITDA (x)	39.3	35.5	29.1
Adj. EPS growth (%)	9.2	33.7	17.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

CURRENCY OUTLOOK

03 February 2023

INR to remain steady

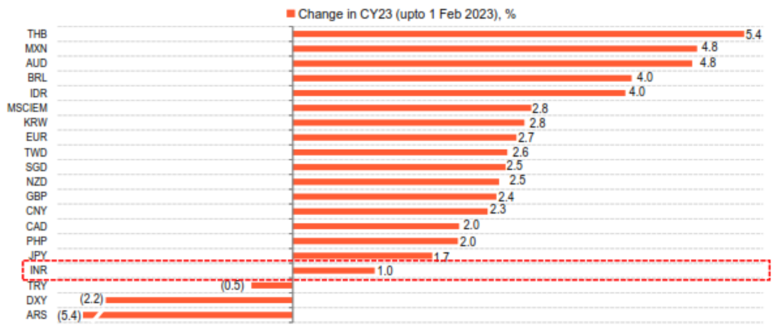
Aditi Gupta
Economist

A changing Fed narrative as well as a global risk-on sentiment explain the rally in global currencies in 2023. Dollar has weakened as markets continue to expect Fed terminal rate to peak lower than the Central Bank expectations. There is also a renewed optimism over global economy with reopening in China and growth resilience in Europe. Consequently, global currencies including INR, have regained some of the losses incurred last year. The gains have differed, and INR has remained an underperformer. FPI outflows as well as concerns over elevated external deficits have limited the gains in INR. The outlook remain uncertain with several conflicting factors at play. Weaker dollar and benign oil prices are likely to support INR, even as FPI flows may still remain elusive. On balance, we expect INR to trade in the range of 81.5-82.5/$ in the short-term, while ruling out any sharp swings on either side.

Movement in global currencies

After a seemingly capricious year, global currencies started 2023 on a positive note. While a strong dollar accentuated losses in almost major currencies in 2022, a weakness in the greenback have supported other currencies. After a stellar year, DXY has started 2023 on a somber note having fallen 0.9% since the start of the year. The stark difference in the dollar's plight can be attributed to the changing narrative around Fed rate hikes. Bets that the Fed will be overly aggressive have abated this year with a slew of economic data pointing towards a precipitous decline in economic momentum as well as inflation. In fact, Fed Chair only yesterday, noted that "the disinflationary process has started". However, the Fed statement mentioned about the need of "ongoing increases" in policy rate, with the Fed Chair too advocating for a "couple" of more rate hikes.

Figure 1: Global currencies were mostly lower



Source: Bloomberg, Bank of Baroda Research, Data as of 1 Feb 2023 | Note: Figures in bracket denote depreciation against USD

Apart from a weaker dollar, improved risk sentiment has also aided gains in other currencies. Reopening in China, one of the world's major economies, has helped bolster investor sentiments. IMF in its latest outlook has upgraded the global growth forecast for 2023, led by higher growth outcomes in US, Europe and China. Emerging market currencies have particularly profited from this, with the Thailand Bhat (THB) and Mexican Peso (MXN) appreciating by 5.4% and 4.8% respectively.

MONTHLY ECONOMIC BUFFET

03 December 2022

Economic Round-up: January 2023

Sonal Badhan
Economist

At the beginning of 2023, while there is hope that global economy will slow down less than previously anticipated, however uncertainties still remain. While impact of China's re-opening is visible in improvement of manufacturing and services PMI in China and Europe, macro data points in the US are still muted. With the beginning of moderation in the pace of rate hike by Fed, it is expected that growth will get support. For the time being, inflationary pressures have been cooling down across countries, however upside risks persists. If Chinese economy rebounds more sharply than expected then it will build pressure on commodity prices and reignite price pressures. Impact of re-opening on Chinese and global economy will have to be closely watched to gauge the risks.

Global growth: Global economy is giving mixed signals at the start of CY23. In the US, majority of macro data (home sales, manufacturing activity, retail sales, and consumer confidence) is showing slowdown, while labour market still remains tight. On the other hand, activity in Eurozone is seen improving (Germany Ifo, PMIs) and CPI is expected to have peaked last year. In China, following government's decision to re-open the economy, both manufacturing and services activity has rebounded, with services sector being the major beneficiary. Taking into account these new developments, IMF has upwardly revised its CY23 global growth forecast to 2.9% (2.7% estimated earlier). However, it has slightly lowered CY24 forecast to 3.1% from 3.2%.

Global Central Banks: In the latest policy meetings of US Fed, ECB and BoE, all three banks decided to raise their key policy rates. While Fed slowed its pace of increase to 25bps, both BoE and ECB maintained their pace and rose rates by 50bps. In terms of future guidance, Fed has maintained that it is unlikely to cut rates in CY23 as labour market still remains tight and can act as upside pressure on CPI, which has recently begun to cool down. BoE sounded more dovish and believes that it does not expect economy to slowdown as much as anticipated earlier. ECB too has vowed to continue hiking rates until CPI is substantially brought down. BoJ on the other hand has reaffirmed that it will maintain its ultra-loose monetary policy stance as it expects inflation to fall below the targeted 2% by mid of fiscal year 2023.

Key macro data releases: With data on the fiscal state of the government coming in till Dec'22, fiscal deficit has reached 59.8% of the targeted level, compared with 50.4% during the same period last year. Capex remains the bright spot, with spending spearing ahead and revenue expenditure also at par with last year. On the income side, net revenue witnessed further slowdown on account of moderation in both direct and indirect tax receipts.

On the industrial production side, core sector growth for December has come in at 7.4% thus taking the cumulative number to 8% for the first 3 quarters. With the exception of crude oil all segments witnessed positive growth.

HOLD
TP: Rs 3,200 | ⮝ 11%

DIVI'S LABS | Pharmaceuticals | 04 February 2023

Big miss on revenue and margins

- **Q3 disappoints as revenue/PAT of Rs 17bn/Rs 3bn missed consensus by 12%/38%**
- **Gross/EBITDA margins contracted 7ppt/10ppt QoQ, driving PAT down by 38% QoQ (and 66% YoY)**
- **We cut FY23/FY24 EPS 12% each and roll to FY25 with a lower 22x target EV/EBITDA for a revised TP of Rs 3,200 (vs. Rs 3,450); retain HOLD**

Saad Shaikh
research@bobcaps.in

Revenue disappoints: DIVI reported an 8% QoQ (-32% YoY) decline in revenue to Rs 17.1bn led primarily by an above-expected drop in the custom synthesis business (-14% QoQ). Though the YoY decline can be attributed to a lack of sales from Covid product Molnupiravir, the sequential decline hints at pricing pressure in the core API (active pharma ingredient) business, as management highlighted that API volumes did grow. DIVI expects growth to resume next quarter as demand has shifted to non-Covid products.

Sharp margin contraction: A change in product mix due to a reduced share of custom synthesis business (40% of revenue vs. 43% in Q2FY23 and 57% in Q3FY22) and continued raw material inflation led to gross margin contraction of 700bps QoQ (-10ppt YoY) to 56.7%. This along with negative operating leverage caused EBITDA margin to drop 10ppt QoQ (-21ppt YoY) to 23.9% – among the lowest levels for the company. Management expects increasing volume trends coupled with easing raw material prices to aid margin improvement ahead.

PAT contracts 38% YoY: Margin contraction coupled with a higher tax rate of 33%, up from 21% in Q2FY23 and 12% in Q3FY22, impacted net profit which declined 38% QoQ (-66% YoY), falling 38% short of consensus estimates. This was despite higher other income and forex gains (at Rs 467mn vs. Rs 308mn in Q2FY23 and a loss of Rs 310mn in Q3FY22).

Maintain HOLD; TP cut to Rs 3,200: Given the delays at new plants, reduced margins, the absence of abnormal pandemic-driven growth and a disappointing Q3FY23, we scale back our FY23-FY24 EPS estimates by 12% each. Further, to reflect the margin pressures and near-term challenges, we pare our target EV/EBITDA multiple to 22x (from 24x) – a discount of 15% to the stock's 5Y average, yielding a reduced TP of Rs 3,200 (vs. Rs 3,450) as we roll over to FY25 valuations. Maintain HOLD on limited upside potential.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	DIVI IN/Rs 2,884
Market cap	US$ 9.4bn
Free float	48%
3M ADV	US$ 23.3mn
52wk high/low	Rs 4,641/Rs 2,795
Promoter/FPI/DII	52%/21%/16%

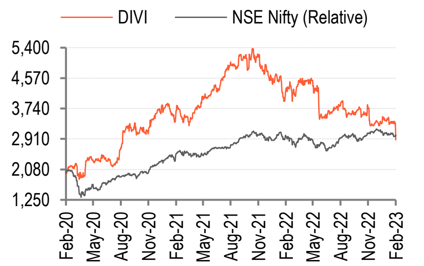
Source: NSE | Price as of 3 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	89,598	78,935	89,379
EBITDA (Rs mn)	38,819	27,667	32,668
Adj. net profit (Rs mn)	29,199	20,624	23,314
Adj. EPS (Rs)	110.0	77.7	87.8
Consensus EPS (Rs)	110.0	82.5	95.2
Adj. ROAE (%)	27.8	17.3	18.1
Adj. P/E (x)	26.2	37.1	32.8
EV/EBITDA (x)	19.3	26.8	22.3
Adj. EPS growth (%)	47.2	(29.4)	13.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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BUY
TP: Rs 670 | ⮝ 15%

JINDAL STEEL & POWER | Metals & Mining | 03 February 2023

Streamlining management processes a positive; BUY

- **Q3 recovered in line with street estimates and revival set to continue in Q4 on policy support in China and India**
- **Management's focus on improving internal processes could mitigate legacy issues and support a rerating**
- **TP raised to Rs 670 (vs. Rs 460) on increase in target EV/EBITDA to 5.25x (vs. 4.5x) and roll-forward to FY25; maintain BUY**

Kirtan Mehta, CFA
research@bobcaps.in

Q3 recovery in line with expectations: JSP's Q3FY23 EBITDA recovered 51% QoQ from a bottom in Q2. We expect this revival to continue into Q4 aided by a modest pick-up in realisations on the back of improving sentiment in China and stronger physical demand in India.

Management focus on improving processes a positive: With the new CEO and CFO taking over the reins, we see several indications of streamlining management processes. These include (a) write-off of Rs 77bn invested in overseas mining subsidiaries, (b) acknowledgement of the need to improve internal practices to achieve consistent 90% utilisation, (c) withdrawal of the export volume target, and (d) recognition of the need for washeries for Australian coal operations. Acknowledgement of issues should enable management to focus on resolution.

Project delays not unusual: Management guidance suggests a six-month delay in startup of the first phase of efficiency projects (6mtpa pellet plant and 3mtpa hot strip mill). JSP also flagged challenges in securing permissions to start work at coal mines and in the tougher terrain encountered for laying a slurry pipeline. These delays are not uncommon for large projects and we have factored them in our conservative estimates. While we account for a gradual pickup in steel margin to Rs 14.7k/ Rs 17.6k over two years, we pencil in only modest improvement to 8.2mt of steel production in FY25. We await clear guidance on coal mine ramp-up to 15mt capacity.

Monnet Power assets to improve flexibility at Angul: Though the addition of power assets after the JPL divestment appears counterintuitive, management highlighted that proximity to the Angul plant allows for expansion of the production base in future.

Maintain BUY: We increase our TP to Rs 670 (from Rs 460) as we roll forward our valuation base to FY25 and raise our target 1Y forward EV/EBITDA multiple to 5.25x (from 4.5x). Our target multiple is above the stock's 5Y average of 4.5x reflecting resumption of growth but below the 10Y average of 5.6x (and our sector target multiple of 6x). This is because JSP may have successfully navigated out of bankruptcy but needs to demonstrate the same discipline over the next investment phase.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	JSP IN/Rs 583
Market cap	US$ 7.3bn
Free float	39%
3M ADV	US$ 24.0mn
52wk high/low	Rs 623/Rs 304
Promoter/FPI/DII	61%/13%/15%

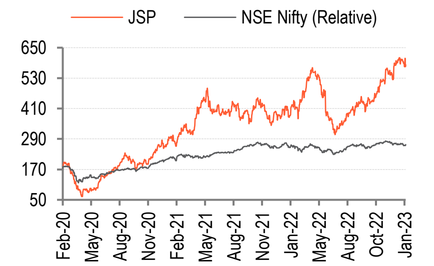
Source: NSE | Price as of 3 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	510,856	503,207	508,224
EBITDA (Rs mn)	155,134	102,151	116,282
Adj. net profit (Rs mn)	82,550	38,009	56,399
Adj. EPS (Rs)	80.9	37.3	55.3
Consensus EPS (Rs)	80.9	48.3	60.0
Adj. ROAE (%)	24.5	10.2	13.5
Adj. P/E (x)	7.2	15.6	10.5
EV/EBITDA (x)	5.6	7.5	5.9
Adj. EPS growth (%)	34.2	(54.0)	48.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 440 | ⮝ 32%

CROMPTON GREAVES | Consumer Durables | 03 February 2023

Weak lighting business dims performance

- **Lighting (-20% YoY) saw tepid demand and volatile pricing in Q3 amid stiff competition; pumps fell 10%**
- **Strategy to push new star-rated fans over non-compliant inventory (unlike peers) hurt growth**
- **We cut FY23/FY24 EPS 23%/20% on delayed margin recovery and higher expenses post-acquisition; TP reduced to Rs 440 (vs. Rs 500)**

Vinod Chari | Nilesh Patil
Tanay Rasal
research@bobcaps.in

Dull quarter: Crompton's Q3FY23 results missed our estimates as lighting sales faltered. The company's topline grew 7.5% YoY to Rs 15.2bn, below our Rs 16.1bn projection due to subdued demand across verticals. The durables/lighting businesses fell 7%/20% YoY while BGAL was flat (+1%). In lighting, both the B2B and B2C verticals saw subdued demand and volatile pricing amid high competition.

Gross margin expands but EBITDA margin falls: Gross margin scaled to 32.5% (+80bps YoY, +40bps QoQ) on lower raw material cost (-11% QoQ). Higher employee (+43% YoY) and other (+39%) expenses post the BGAL acquisition continued to weigh on EBITDA margin, which contracted 420bps YoY and 130bps QoQ to 10%. Business-wise, the appliances division benefited from an improved product mix and lighting reported EBIT margin recovery on lower costs.

Fan transition well on course: Crompton looks well positioned for BEE rating transition in its largest business vertical of fans, with its entire portfolio aligned to newer energy-efficiency norms. Management also anticipates no impact on non-compliant inventory. In Q3FY23, the company adopted a different strategy than peers, prioritising sales of new star-rated fans over the clearing of non-compliant inventory This resulted in low offtake with mid-segment fans being the hardest hit.

BGAL flat: Subsidiary BGAL grew 1% YoY in Q3 despite a low performance in its core segments (modest +13% YoY in 9MFY23). A better channel mix and cost reduction aided higher EBITDA (+40bps YoY) and material (+240bps) margins. Accelerated product portfolio expansion (25 launches) contributed 14% to Q3 topline.

Maintain BUY: We believe Crompton is well-placed for rating transition in fans due to its leadership position and thrust on premiumisation. BGAL is set to bring in synergetic benefits and expand Crompton's appliances business in southern states. We cut FY23/FY24 EPS by 23%/20% to digest the delayed margin recovery and higher expenses post BGAL's acquisition. Revised estimates and valuation rollover to Dec'24E lead to a reduced TP of Rs 440 (vs. Rs 500), set at an unchanged P/E multiple of 35x. Demand and margin revival remain the key growth triggers ahead – retain BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CROMPTON IN/Rs 332
Market cap	US$ 2.6bn
Free float	100%
3M ADV	US$ 4.7mn
52wk high/low	Rs 431/Rs 312
Promoter/FPI/DII	0%/40%/45%

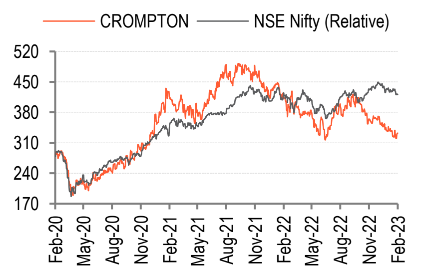
Source: NSE | Price as of 2 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	53,941	68,050	78,350
EBITDA (Rs mn)	7,694	8,015	10,048
Adj. net profit (Rs mn)	5,914	5,011	6,903
Adj. EPS (Rs)	9.3	7.9	10.9
Consensus EPS (Rs)	9.3	10.3	12.5
Adj. ROAE (%)	27.0	18.9	22.1
Adj. P/E (x)	35.6	42.0	30.5
EV/EBITDA (x)	28.3	26.9	21.1
Adj. EPS growth (%)	(4.1)	(15.3)	37.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD

TP: Rs 260 | ⮝ 6%

V-GUARD INDUSTRIES | Consumer Durables | 03 February 2023

Topline intact while margin pressure persists

- **EBITDA margin deteriorated further to 6.7% in Q3; recovery on the anvil as high-cost inventory nearly exhausted**
- **Non-south market (+11% YoY) shored up the topline whereas core southern region declined on a high base**
- **We cut FY23 EPS by 23% but retain FY24 forecasts on expected margin recovery; on rollover, our TP rises to Rs 260 (vs. Rs 250)**

Vinod Chari | Nilesh Patil
Tanay Rasal
research@bobcaps.in

Resilient topline: VGRD's Q3FY23 topline at Rs 9.8bn (flat YoY/QoQ) was in line with our expectations as the non-south region grew 11% YoY. The fans vertical posted lower growth because the company operated at a low inventory of non-BEE-compliant fans which were preferred by channel partners. Management expects improved demand from March as the non-compliant stock gets exhausted at the channel level.

Durables business outperforms: The consumer durables vertical remained resilient (+5% YoY) amidst a tough demand environment, whereas the electronics division declined 4% YoY and electricals was largely flat. Working capital days reduced to 70 from 89 days in the preceding quarter.

Margin contraction continues: EBITDA margin deteriorated for the third straight quarter, falling to 6.7% in Q3 (-230bps YoY, -70bps QoQ), primarily due to the consumption of high-cost inventory. A tilt in product mix towards the durables business and incremental A&P spends (2.7% of sales vs. 1.7% last year) also exerted pressure on margins. Gross margin at 29.6% (+40bps QoQ) is guided to revert to pre-Covid levels led by the anticipated reduction in expensive inventory.

Sunflame acquisition completed: VGRD has completed the acquisition of Sunflame and has guided for a flat 9MFY23 performance, in line with other appliances players. Institutional business is likely to be affected due to GST slab alteration. Management expects to expand its kitchen business to non-southern regions given Sunflame's strong brand recall in the northern and western markets.

Maintain HOLD: While long-term growth levers are intact in the form of regional diversification, thrust on the high-growth durables business, and synergies from Sunflame, the near-term outlook is hindered by benign demand, slow margin recovery and higher competition. We cut FY23 EPS by 23% to bake in the Q3 print while maintaining FY24 estimates on expected margin recovery. We continue to value the stock at 35x FY24E EPS, in line with the 3Y average on 2Y fwd basis. On rolling valuations over to Dec'24E, our TP rises to Rs 260 (vs. Rs 250); retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	VGRD IN/Rs 246
Market cap	US$ 1.3bn
Free float	44%
3M ADV	US$ 0.8mn
52wk high/low	Rs 275/Rs 181
Promoter/FPI/DII	56%/13%/19%

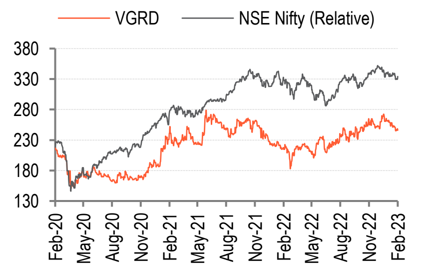
Source: NSE | Price as of 3 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	34,982	39,932	44,168
EBITDA (Rs mn)	3,382	3,140	4,595
Adj. net profit (Rs mn)	2,277	1,998	3,021
Adj. EPS (Rs)	5.3	4.6	7.0
Consensus EPS (Rs)	5.3	6.9	8.2
Adj. ROAE (%)	17.4	13.5	18.1
Adj. P/E (x)	46.6	53.2	35.2
EV/EBITDA (x)	31.4	33.8	23.1
Adj. EPS growth (%)	13.4	(12.3)	51.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 271 | 32%

TATA POWER | Power | 04 February 2023

Growth aided by coal profits again

- **Q3 net profit jumped 2x YoY to Rs 9.5bn backed by high coal profits and strong power demand**
- **Coal profits expected to remain elevated while under-recovery in CGPL to narrow; SPPA of CGPL a key monitorable**
- **We remain positive on renewable capacity addition and ROE improvement in green companies; maintain BUY and TP of Rs 271**

Anupam Goswami
research@bobcaps.in

Strong growth: TPWR posted a 30% YoY increase in revenue to Rs 143bn (including regulated income) in Q3FY23, aided by growth in CGPL and Odisha discoms. Operating profit stood at Rs 25.4bn, up 47% YoY, with a 200bps YoY rise in EBITDA margin due to improved earnings in CGPL (Mundra). Adj. net profit after minority income jumped 2x YoY to Rs 9.5bn owing to higher profits from Indonesian coal joint ventures.

CGPL overhang to narrow but continue: Although losses at CGPL have narrowed under Section 11 due to the Jan'23 CERC order that provides compensation to imported coal-based power producers for higher running costs, we expect the overhang of under-recoveries to the extent of coal profit share to continue. The supplementary power purchase agreement (SPPA) is likely to be in line with the CERC order and, hence, the under-recovery will narrow but continue for coal profits.

Margins in Tata Power Solar to improve: Execution in the Tata Power Solar EPC division was sluggish in Q3 as the company went slow on projects due to high module and commodity prices. With prices now tapering down, we expect a higher execution rate and better margins in Q4.

Profit growth aided by Indonesian Coal JVs: Coal JVs continued to post high net profit, at Rs 10bn in Q3FY23 (vs. Rs 4.2bn in the year-ago quarter) on the back of elevated coal prices. Average HBA price in Q3FY23 stood at ~US$ 306/t with similar levels in January, indicating that coal JVs profits could remain high.

Maintain BUY: TPWR fell slightly short of our estimates in Q3. We remain positive on the company as it is cautiously adding renewable capacity without compromising on margins. Resolution of CGPL's losses remains a key monitorable, and we estimate that a favourable outcome could carry upside potential of Rs 10-12/sh to our fair value. Key positive drivers at this juncture comprise growth in renewables and ROE improvement in green subsidiaries. We maintain our BUY rating on TPWR and our SOTP-based TP of Rs 271 (implied FY25E P/BV of 2.5x).

Key changes

Target	Rating
◄►	◄►

Ticker/Price	TPWR IN/Rs 205
Market cap	US$ 8.0bn
Free float	53%
3M ADV	US$ 24.7mn
52wk high/low	Rs 298/Rs 190
Promoter/FPI/DII	47%/10%/44%

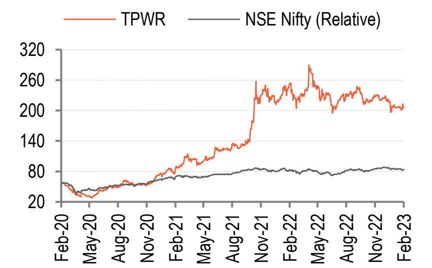
Source: NSE | Price as of 3 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	4,28,157	4,79,068	5,60,054
EBITDA (Rs mn)	72,717	76,066	95,915
Adj. net profit (Rs mn)	27,737	43,749	48,849
Adj. EPS (Rs)	8.7	13.7	15.3
Consensus EPS (Rs)	8.7	12.3	14.8
Adj. ROAE (%)	11.7	17.1	16.7
Adj. P/E (x)	23.7	15.0	13.4
EV/EBITDA (x)	15.0	14.8	11.3
Adj. EPS growth (%)	54.5	109.8	15.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BUY

TP: Rs 1,030 | ⮝ 21%

MAHANAGAR GAS | Oil & Gas | 05 February 2023

Growth set to accelerate in medium term; maintain BUY

- **Q3 marginally ahead; priority HP-HT allocation to bridge APM gas shortfall and cap on APM gas price to improve competitiveness**
- **Management indicated potential 10%/20% volume CAGR in GA2/GA3 over the next couple of years**
- **Commentary confirms our thesis of accelerated growth over FY24-FY25; maintain BUY with TP of Rs 1,030 (unchanged)**

Kirtan Mehta, CFA
research@bobcaps.in

Q3 marginally ahead: Q3 EBITDA was 3% ahead of consensus with a Rs 0.3/scm QoQ increase to Rs 8.2/scm, offsetting a 1% decline in volumes.

Margin set to normalise: On 13 January, the government took the first step to bridge the shortfall of APM gas for the priority sector by according the sector precedence in allocation at HP-HT gas auctions when bid at ceiling price. As a result, MAHGL has substituted its entire spot LNG with HP-HT gas from the gas exchange in February and passed on the reduction of Rs 2.5/scm to CNG consumers. The next auction by RIL will indicate whether CGD companies can bid at ceiling price to get priority allocation.

Confirms our thesis of medium-term growth bump-up: In our **18 January note**, we highlighted that MAHGL can accelerate growth from a 3% CAGR over FY17-FY22 to 7% over FY24-FY25 given the ramp-up of network development in GA2 and GA3. On the earnings call, management confirmed that the company can expand volumes at a 10% CAGR in GA2 and 20% CAGR in GA3 vs. 5-6% growth in GA1 over the next couple of years. GA2 is material and accounts for 44% of the current mix and could help propel overall growth for MAHGL to 8% over the next couple of years.

Growth triggers: Accelerated capex starting from FY22 has improved the run-rate of CNG station additions and domestic consumer additions, particularly in GA2 and GA3. Completion of the city gas station in GA3 will provide a further boost from new industrial customers and conversion of CNG stations to online mode.

Retain BUY: We have conservatively accounted for 7% volume growth and stabilisation of margin to Rs 9/scm, translating into 11.5% EBITDA growth over FY24-FY25. Our DCF-based TP of Rs 1,030 assumes cost of equity of 11%, volume CAGR of ~5% over FY23-FY33 (we are more conservative than MAHGL), average EBITDA margin of Rs 8.4/scm, and terminal growth of 2.5%. Our TP implies an FY24E P/E of 12.7x, marginally above the mean 1Y forward multiple of 12.4x on an improving medium-term outlook. MAHGL's discount to peers is largely attributable to slower volume growth, but the medium-term outlook is now improving.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	MAHGL IN/Rs 850
Market cap	US$ 1.0bn
Free float	58%
3M ADV	US$ 3.8mn
52wk high/low	Rs 925/Rs 666
Promoter/FPI/DII	43%/30%/16%

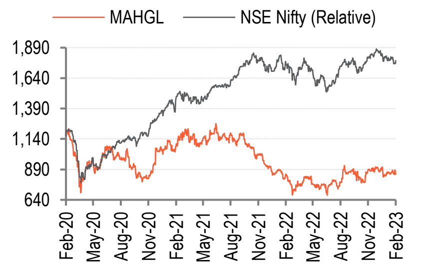
Source: NSE | Price as of 3 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	35,602	64,697	62,188
EBITDA (Rs mn)	9,243	10,853	12,597
Adj. net profit (Rs mn)	5,970	6,954	7,995
Adj. EPS (Rs)	60.4	70.4	80.9
Consensus EPS (Rs)	60.4	70.6	83.7
Adj. ROAE (%)	17.5	18.4	19.2
Adj. P/E (x)	14.1	12.1	10.5
EV/EBITDA (x)	8.7	7.4	6.4
Adj. EPS growth (%)	(3.7)	16.5	15.0

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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