FIRST LIGHT

07 June 2022

RESEARCH

[Initiation] SBI Card | Target: Rs 1,137 | +47% | BUY

A play on India's cashless revolution - initiate with BUY

India Strategy | Q4FY22 Review

Heightened cost pressures

BOB Economics Research | Monetary Policy Expectations

More rate hikes on the cards

Voltas | Target: Rs 1,250 | +23% | BUY

Market share partly recouped in April

Daily macro indicators

Indicator	02-Jun	03-Jun	Chg (%)
US 10Y yield (%)	2.91	2.93	3bps
India 10Y yield (%)	7.43	7.46	2bps
USD/INR	77.61	77.63	0.0
Brent Crude (US$/bbl)	117.6	119.7	1.8
Dow	33,248	32,900	(1.0)
Hang Seng	21,295	21,082	(1.0)
Sensex	55,818	55,769	(0.1)
India FII (US$ mn)	**01-Jun**	**02-Jun**	**Chg ($ mn)**
FII-D	(16.3)	74.5	90.8
FII-E	(93.1)	(73.7)	19.5

Source: Bank of Baroda Economics Research

SUMMARY

[Initiation] SBI Card

- Major player in credit card domain with vast growth potential due to partnership with parent SBIN and customised offerings
- Expect earnings to log a 32% CAGR over FY22-FY25, aiding +6% ROAA and +26% ROAE in the medium term
- Initiate with BUY given strong fundamentals, structural story and compelling valuations; TP at Rs 1,137 (36x FY24E P/E)

Click here for the full report.

India Strategy: Q4FY22 Review

- Nifty 200 companies largely met consensus estimates at the aggregate level, with only 38% of them managing to beat earnings forecasts
- Operating expenses at 78% of sales are now close to levels seen prior to the global financial crisis
- We believe moderation in consensus earnings estimates through the results season largely captures the higher operating costs

Click here for the full report.

BOBCAPS Research
research@bobcaps.in

India Economics: Monetary Policy Expectations

In the upcoming credit policy of RBI which is scheduled on 8 Jun 2022, we expect MPC to raise repo rate by another 25-35bps. In the current rate hike cycle we expect repo rate to increase to 5.15% gradually. Inflation forecast is expected to be revised upward from its current projection of 5.7% for FY23. Our forecast is ~6% for FY23. To comfort the yields, OMO purchase announcement/operation switch is expected. 10Y yield is already trading +34bps compared to the last off cycle policy announcement. Further, normalisation on liquidity front (much lower currently at ~+Rs 3tn from its record high of +Rs 9tn seen during Sep'21), recent higher cut off yield at auctions across all tenor, signal higher interest rate in the near term.

Click here for the full report.

Voltas

- Claws back ~200bps of market share in April over March, taking share to 21.6%
- Management confident of double-digit margins in UCP segment in FY23 – a positive in the current inflationary scenario
- We continue to like VOLT in the RAC space; maintain BUY with TP at Rs 1,250

Click here for the full report.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,137 | ⮝ 47%

SBI CARD | NBFC | 06 June 2022

A play on India's cashless revolution – initiate with BUY

- **Major player in credit card domain with vast growth potential due to partnership with parent SBIN and customised offerings**
- **Expect earnings to log a 32% CAGR over FY22-FY25, aiding +6% ROAA and +26% ROAE in the medium term**
- **Initiate with BUY given strong fundamentals, structural story and compelling valuations; TP at Rs 1,137 (36x FY24E P/E)**

Mohit Mangal
researchreport@bobcaps.in

Competitive advantage of SBIN partnership: SBI Card's partnership with its parent State Bank of India gives it the benefits of SBIN's vast network, cheaper customer acquisition cost, better asset-quality clients and strong cross-sell opportunities. The company's strategy to expand into tier-2/3 cities should spur growth, with SBIN having the highest network reach among banks in these markets.

Open market sourcing reinforces business model: SBI Card boasts a presence in ~3,500 open market points of sale, has 148 sourcing locations and 35,000+ sales agents. It also has co-branded partnerships with over 10 non-bank entities and 8 banks that use their own channels and networks for client origination.

Return ratios healthy: Credit cards are a high-margin business and SBI Card earned average ROAA/ROAE of 4.6%/29% for FY16-FY20. Amid Covid, these ratios fell to 3.8%/16.9% in FY21 before rebounding to 5.2%/23% in FY22. We expect ROAA of 6%/6.4% and ROAE of 26.2%/26.9% in FY23/FY24 as the pandemic impact ebbs.

NIM on path to recovery: SBI Card was consistently generating 15%+ NIMs but in FY22, NIM contracted to ~13% owing to a lower share of revolving accounts in the receivables mix. We believe that as economic activity revives, the share of interest-earning EMI and revolver accounts in the receivables mix will grow over the next 2-3 years, supporting better margins of ~14.5% by FY25.

Asset quality improving: The company's credit cost averaged 6% during FY16-FY19. This increased during the pandemic to 9.5%/11.4% in FY20/FY21, before ending lower at 8.4% in FY22. We expect credit cost to decline further to 7.7%/7.2%/7% for FY23/FY24/FY25. GNPA averaged 2.4% over FY17-FY20 and net NPA 0.8%. Although GNPA rose to 5.0% in FY21, it tapered to 2.2% in FY22.

Initiate with BUY: SBI Card is trading at attractive valuations of 24x FY24E EPS. We value the stock at 36x FY24E P/E– this yields a TP of Rs 1,137, implying a potential upside of 47%. Our residual income model assumes COE of 11.8% and terminal growth rate of 5.5%. Initiate with BUY.

Ticker/Price	SBICARD IN/Rs 773
Market cap	US$ 9.5bn
Free float	30%
3M ADV	US$ 24.8mn
52wk high/low	Rs 1,165/Rs 711
Promoter/FPI/DII	70%/10%/21%

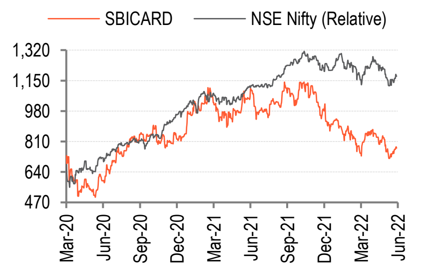
Source: NSE | Price as of 3 Jun 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Net interest income (Rs mn)	38,387	47,999	61,277
NII growth (%)	(1.7)	25.0	27.7
Adj. net profit (Rs mn)	16,161	23,064	30,012
EPS (Rs)	17.0	24.3	31.6
Consensus EPS (Rs)	17.0	24.3	31.4
P/E (x)	45.4	31.9	24.5
P/BV (x)	9.5	7.5	5.9
ROA (%)	5.2	6.0	6.4
ROE (%)	23.0	26.2	26.9

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

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

Q4FY22 REVIEW

06 June 2022

Heightened cost pressures

- **Nifty 200 companies largely met consensus estimates at the aggregate level, with only 38% of them managing to beat earnings forecasts**
- **Operating expenses at 78% of sales are now close to levels seen prior to the global financial crisis**
- **We believe moderation in consensus earnings estimates through the results season largely captures the higher operating costs**

Kumar Manish | Aseem Madan
researchreport@bobcaps.in

Nifty 200 revenue and earnings broadly in line: Nifty 200 companies largely met consensus expectations at the aggregate level in Q4FY22, posting only a modest revenue and PAT beat of 1.8% and 0.2% respectively. Out of 198 companies that reported results, just 31% outperformed consensus on revenue (41% in Q3FY22) and 38% on PAT (43% in Q3FY22).

Sector summary: Financials, industrials and real estate led the beat on revenue while IT and energy had subpar numbers. None of the IT companies beat revenue expectations. The profit beat was led by real estate and utilities, while the healthcare, consumer discretionary and energy sectors posted below-consensus results.

Inflation continues to deplete profits: The **banking** sector clocked above-expected asset quality and strong loan growth in Q4, but saw stiff pricing and margin pressures. Cost ratios inched up for **insurers**. The c**ement** sector posted lower EBITDA as fuel and logistics costs spiralled. Margin gains proved elusive for **consumer durables** as the sector was buffeted by Covid-19 headwinds in H1FY22 and cost inflation in the second half.

Demand momentum across the **building materials** space remained robust with healthy recovery for most companies in Q4. **Auto** players posted positive results on the back of calibrated price hikes. In **OMCs**, RIL, GAIL and upstream players benefitted from commodity price increases, and **CGDs** recovered from margin pressure. OMCs need a pullback in crude to return to a healthy profit zone.

IT sector growth was tepid due to weakness in the BSFI vertical and rising wages. However, underlying demand remains robust. **Steel** majors were able to tide over rising costs with better throughput. **Pharmaceutical** companies continued to see the impact of price erosion in US formulations coupled with increasing raw material cost pressures. Logistics costs, too, remained elevated.

Investment view: As noted in our recent report entitled **Mixed outlook**, we continue to favour sectors linked to domestic as opposed to export demand. Recent trends in earnings and subsequent revisions reaffirm our thesis.

Reporting season trends

India Q4FY22	QoQ (%)	YoY (%)
Net Sales	9.0	22.8
Raw materials	12.0	35.3
Salaries and wages	2.8	12.2
Interest expenses	1.4	1.6
Net Profit (after tax)	6.6	25.0
Q4 surprise	**Revenue (%)**	**Income (%)**
Weighted	1.8	0.2
Average	4.9	29.6

Source: Bloomberg, BOBCAPS Research

MONETARY POLICY EXPECTATIONS

06 June 2022

More rate hikes on the cards

Dipanwita Mazumdar
Economist

In the upcoming credit policy of RBI which is scheduled on 8 Jun 2022, we expect MPC to raise repo rate by another 25-35bps. In the current rate hike cycle we expect repo rate to increase to 5.15% gradually. Inflation forecast is expected to be revised upward from its current projection of 5.7% for FY23. Our forecast is ~6% for FY23. To comfort the yields, OMO purchase announcement/operation switch is expected. 10Y yield is already trading +34bps compared to the last off cycle policy announcement. Further, normalisation on liquidity front (much lower currently at ~+Rs 3tn from its record high of +Rs 9tn seen during Sep'21), recent higher cut off yield at auctions across all tenor, signal higher interest rate in the near term.

What has changed since last off-cycle policy held on 4 May 2022?

1) **Centre intervention:** The centre has announced several measures to assuage supply side concerns. Major ones include additional excise duty on petrol and diesel, fertilizer subsidy and subsidy on gas cylinders, reduction in customs duty on few products. These measures though will provide temporary relief on the inflation front; will entail a fiscal impact of Rs ~2.9 lakh crore. Fiscal deficit may slip to 6.6-6.7% in FY23. Thus through the fiscal channel as well, there might be a secondary impact on inflation.

2) **Oil prices remain elevated:** International crude prices was trading at US$ 105/bbl in the last policy. However, post that it rose by 14.1% to US$ 120+/bbl. Even OPEC+ recent decision to increase output by 648,000/bpd/month (432,000bpd/month earlier), could not support prices. Notably, another important development has been EU countries reaching an agreement to ban most of Russian oil imports under the 6th set of sanctions on Russia. The President of European Council has confirmed that this will immediately impact 75% of Russian oil imports and ~90% imports by end of CY22.

3) **Inflation still elevated:** Major food items which has a prime share in CPI food basket is seen inching up in May'22 as well. Even core inflation is creating a pressure.

4) **Market rates signal more rate hikes:** The cut off yield for both short and long end yields are increasing off late, clearly signaling rising interest rate cycle. Even the recent 10Yr corporate bond spread rose from its record low in May'22. We expect 10Y bond yields to remain elevated in the range of 7.5-7.75%. We also expect some intervention in the form of OMO purchase announcement/operation twist by RBI. Normalisation on liquidity front is quite visible as in May'22 as it averaged at Rs 4.5tn (currently at + Rs 3tn), far below its high of above Rs 9tn seen in Sep'22. In the past whenever, liquidity withdrawal has occurred, 10Y yield has risen.

FLASH NOTE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY

TP: Rs 1,250 | 23%

VOLTAS | Consumer Durables | 06 June 2022

Market share partly recouped in April

- **Claws back ~200bps of market share in April over March, taking share to 21.6%**
- **Management confident of double-digit margins in UCP segment in FY23 – a positive in the current inflationary scenario**
- **We continue to like VOLT in the RAC space; maintain BUY with TP at Rs 1,250**

Vinod Chari | Tanay Rasal
Someel Shah
researchreport@bobcaps.in

Regains some ground in April: In its recent analyst meet, VOLT stated that the company has clawed back ~200bps of market share in April – this indicates an effective share of 21.6% vs. 19.6% in March (and 23.4% in FY22). Its March figure has been raised by 110bps from the earlier 18.5% by market research agency GfK. VOLT has a multi-pronged strategy in place to improve its positioning in the South, especially in Tamil Nadu and Kerala, where it is relatively weaker (see our report of 12 May: **Strong strategy for southern market holds the key**). Data for the month of May is likely to be slightly weaker than April, especially in West and South India, where the monsoon sets in toward the end of the month, dampening AC sales.

Balancing market share and margins: While VOLT is trying to recoup market share, it is taking a balanced approach so that margins don't suffer. Management is confident of achieving double-digit margins (~10%) in the UCP segment in FY23, which is commendable in the current inflationary scenario. The ~3% pricing gap for VOLT vs. competition still continues in the AC segment. There have been no major price hikes across the industry as players wait for the energy label change in July.

New capacities unlikely to dent pricing: VOLT has planned Rs 5bn in capex over the next three years, primarily for (i) backward integration of inverter AC compressors in the JV with Hong Kong-based Highly International, and (ii) capacity expansion for RAC and commercial refrigerators as part of the PLI scheme. The company is not unduly worried about most players adding capacities over the next 3-5 years as it believes that market growth will ensure the new capacities are absorbed, implying a limited impact on pricing.

Reiterate BUY: VOLT continues to be the strongest player in the RAC business and expects to deliver double-digit margins. We are confident of the company's growth trajectory and continue to value the stock at 50x FY24E EPS, a 40% premium to its 5Y average, for an unchanged TP of Rs 1,250.

Ticker/Price	VOLT IN/Rs 1,012
Market cap	US$ 4.3bn
Free float	70%
3M ADV	US$ 22.1mn
52wk high/low	Rs 1,357/Rs 923
Promoter/FPI/DII	30%/26%/28%

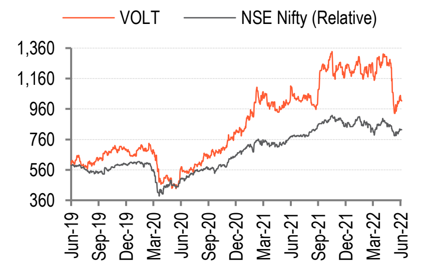
Source: NSE | Price as of 6 Jun 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	78,411	91,792	1,10,200
EBITDA (Rs mn)	5,861	8,308	10,902
Adj. net profit (Rs mn)	4,107	6,130	8,210
Adj. EPS (Rs)	12.4	18.5	24.8
Consensus EPS (Rs)	12.4	23.8	29.6
Adj. ROAE (%)	7.8	10.6	12.6
Adj. P/E (x)	81.6	54.6	40.8
EV/EBITDA (x)	56.3	39.7	29.9
Adj. EPS growth (%)	(3.6)	49.3	33.9

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

Stock performance



Source: NSE

Click here for our last detailed report

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Rating distribution

As of 31 May 2022, out of 116 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 69 have BUY ratings, 25 have HOLD ratings, 5 are rated ADD*, 1 is rated REDUCE* and 16 are rated SELL. One company rated ADD has been an investment banking client in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities —that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.