BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

22 July 2024

RESEARCH

BHARAT PETROLEUM CORP | TARGET: Rs 315 | +4% | HOLD

Growth hiatus, downgrade to HOLD

DALMIA BHARAT | TARGET: Rs 2,062 | +13% | HOLD

Growth setback in the shorter term; downgrade to HOLD

RELIANCE INDUSTRIES | TARGET: Rs 3,585 | +15% | BUY

Structural position to tide over near-term hiccups

ULTRATECH CEMENT | TARGET: Rs 12,972 | +15% | BUY

Firmly on growth path; maintain BUY

JSW STEEL | TARGET: Rs 925 | +4% | HOLD

Higher volume growth is priced in

HDFC BANK | TARGET: Rs 1,872 | +16% | BUY

Continued focus on business realignment impedes growth

POLYCAB INDIA | TARGET: Rs 7,100 | +12% | HOLD

Decent quarter across; eyes on project LEAP revisions

WIPRO | NOT RATED

Disappointing outlier

PERSISTENT SYSTEMS | NOT RATED

Worry around true underlying margin

SUMMARY

BHARAT PETROLEUM CORP

- Q1 normalisation in line with consensus. Underlying fuel margin surprised on upside. Timing of compensation for LPG loss uncertain
- We forecast a 44% YoY decline in EBITDA in FY25 on normalisation of margins and tepid 2% CAGR on a pause in growth until FY28
- Downgrade to HOLD with a higher TP of Rs 315; stock is now baking in mid-cycle margins after rallying 82% since Oct'23

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DALMIA BHARAT

- Volume growth takes a back seat as focus shifts to tackling steep fall in realisation, which leads to flat revenue growth. EBITDA up by 10%
- EBITDA margin improves to 18.5% aided by better cost control of 7%, offsetting 7% YoY loss in realisations
- Prune FY25E/FY26E EBITDA by ~1.5%/6% on looming concerns for growth; downgrade to HOLD from BUY with revised TP of Rs 2,062

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RELIANCE INDUSTRIES

- RIL missed consensus; while slowdown was anticipated in Retail and O2C, the extent was bit higher
- Despite slowdown in high-margin category F&L, stable Retail margins are positive signs indicating benefit of rationalisation
- Reiterate BUY with tweak in TP to Rs 3,585 (from Rs 3,610); RIL's consumer businesses remain key beneficiaries of India's growth story

Click here for the full report.

ULTRATECH CEMENT

- Higher single digit volume growth with 80%+ capacity utilisation aids UTCEM's revenue growth despite realisation dent in a challenging Q1
- Other expenses drag cost savings, to normalise for residual FY25, EBITDA/tonne maintained at ~Rs 900/t
- Revise FY26E EBITDA/EPS by 3%. Value UTCEM at 17x (earlier 16x) EV/EBITDA and raise TP to Rs 12,974 (vs Rs 11,510). Retain BUY rating

Click here for the full report.

JSW STEEL

- Q1 EBITDA was below consensus and down sequentially on lower volumes and flat margins despite lower coking coal costs
- Benefit of proposed transfer of slurry pipeline not clear. Despite annuity charge at 39% of capex, JSTL aims to keep savings within the company
- Near-full valuation makes for unfavourable risk-reward; maintain HOLD with minor change in TP to Rs 925 (from Rs 940)

Click here for the full report.

HDFC BANK

- NII growth remained healthy, while fall in other income was offset by lower opex, provision, and adj PAT. NIM increased 3bps QoQ to 3.7%
- Focus on profit over growth led to business slowdown, while opex is likely to remain elevated with stable asset quality
- Structural changes may lead to growth moderation; focus remains on profitability. Maintain BUY with unchanged TP of Rs 1,872

Click here for the full report.

POLYCAB INDIA

- Revenue growth reasonable at 21% YoY, but EBITDA margin falls on lower exports and change in business mix
- Project LEAP target of Rs 200bn milestone to be achieved ahead of schedule, updated targets anticipated in FY25
- We maintain our FY25E/26E EPS and value the stock at 45x FY26E P/E. We maintain our TP of Rs 7,100 and HOLD rating

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WIPRO

- Underwhelming 1Q revenue performance and 2Q guidance. Cautious demand commentary compared to peers
- Green shoots visible in Capco for about nine months have not translated into downstream work. Margin the only positive
- US BFS QoQ growth (for second consecutive quarter), while relatively better than other verticals, is weak compared to its peers

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PERSISTENT SYSTEMS

- Good revenue growth QoQ. Partly helped by passthrough items and delivery shift to onsite
- The big discussion point has been around one-offs in 1Q which helped PSYS hit the 14% EBIT margin number
- Company reiterated industry-leading revenue growth in FY25 and flat margins vs FY24 (14.4%)

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RESULT REVIEW

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HOLD
TP: Rs 315 | ⮝ 4%

BHARAT PETROLEUM CORP | Oil & Gas | 21 July 2024

Growth hiatus, downgrade to HOLD

- **Q1 normalisation in line with consensus. Underlying fuel margin surprised on upside. Timing of compensation for LPG loss uncertain**
- **We forecast a 44% YoY decline in EBITDA in FY25 on normalisation of margins and tepid 2% CAGR on a pause in growth until FY28**
- **Downgrade to HOLD with a higher TP of Rs 315; stock is now baking in mid-cycle margins after rallying 82% since Oct'23**

Kirtan Mehta, CFA
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Q1 normalisation in line: Adj EBITDA at Rs 57bn was in line (+1%) with Bloomberg consensus. Q1 results reflect anticipated pullback in both refining (down 43% QoQ) and marketing (down 48% QoQ after excluding inventory gains).

Underlying fuel margins surprised on the upside: Adjusting for Rs 23bn under-recovery on LPG (likely to be compensated later), underlying marketing EBITDA/t works out to Rs 3,150/t, higher than the through-the-cycle average of Rs 2,000/t, in our view. While margins surprised on the upside, their continuity at high levels remains a question given the OMC mandate to pass on benefits of lower wholesale price to consumers.

Timing of LPG compensation uncertain: Oil marketing companies (OMCs) have been allowed to recover marketing loss on LPG (still a controlled product) against future over-recovery or given a compensation through budgetary allocations.

Refining margin still in healthy zone: For BPCL, refining margin at Kochi (US$ 7.9/bbl) and Bina (US$12.8) remained healthy in Q1 in a historical context even after pullback. Margins are supported by relatively higher diesel cracks (at US$ 17) and continuing benefit of Russian crude usage with a modest discount of US$ 3-3.5).

Raise estimates: Factoring in higher margins than our earlier conservative assumptions, we raise FY25E/FY26E EBITDA by 11%/9%. With simultaneous normalisation of refining and marketing margins, we build in a 44% YoY decline in FY25 and tepid 2% CAGR over FY25-27 to reflect a pause in growth.

Downgrade to HOLD: We raise TP to Rs 315 (from Rs 262.5) with an unchanged 1Y fwd EV/EBITDA target multiple of 6x while rolling forward to Jun'25 (from Dec'24). We believe the case for BPCL to be at a premium valuation to other OMCs does not remain strong given the growth hiatus till FY28 due to a pause in investments over FY20-23. Given the 82% run-up since Oct'23 and 4% upside, we downgrade BPCL to HOLD. The restart of Mozambique LNG and approval of a field development plan in Brazil are upside catalysts as we currently factor in book value.

Key changes

Target	Rating
▲	▼

Ticker/Price	BPCL IN/Rs 304
Market cap	US$ 16.0bn
Free float	47%
3M ADV	US$ 39.5mn
52wk high/low	Rs 344/Rs 166
Promoter/FPI/DII	53%/15%/21%

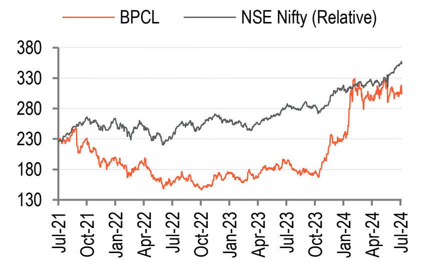
Source: NSE | Price as of 19 Jul 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	44,80,830	44,61,005	44,89,904
EBITDA (Rs mn)	4,40,820	2,48,300	2,51,649
Adj. net profit (Rs mn)	2,70,554	1,35,529	1,40,803
Adj. EPS (Rs)	63.5	31.8	33.1
Consensus EPS (Rs)	63.7	33.1	34.3
Adj. ROAE (%)	41.9	16.9	15.6
Adj. P/E (x)	4.8	9.5	9.2
EV/EBITDA (x)	4.3	7.4	6.9
Adj. EPS growth (%)	1237.9	(49.9)	3.9

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

Stock performance



Source: NSE

HOLD
TP: Rs 2,062 | ▲ 13%

DALMIA BHARAT | Cement | 20 July 2024

Growth setback in the shorter term; downgrade to HOLD

- **Volume growth takes a back seat as focus shifts to tackling steep fall in realisation, which leads to flat revenue growth. EBITDA up by 10%**
- **EBITDA margin improves to 18.5% aided by better cost control of 7%, offsetting 7% YoY loss in realisations**
- **Prune FY25E/FY26E EBITDA by ~1.5%/6% on looming concerns for growth; downgrade to HOLD from BUY with revised TP of Rs 2,062**

Milind Raginwar
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Volumes rise, realisations weak: Dalmia Bharat (DBL) reported a flat YoY (-15% QoQ) revenue at Rs 36bn in Q1FY25 as the focus shifted back to guarding against realisation decline rather than volume growth. Volume growth declined ~6% YoY (-16% QoQ) to 7.4mt. Realisations fell 7% YoY (flat QoQ) to Rs 4,895/t. Cement prices weakened in DBL's key operating regions in eastern India but could make up with sales in the southern region where prices were relatively remunerative.

Cost savings driven by lower energy cost: Overall cost/tonne dipped 7%/4% YoY/QoQ to Rs 3,989 due to 12%/8 YoY/QoQ softening in raw material-adjusted energy cost to Rs 1,841/t. The logistics cost stayed low at Rs 970/t, a decline of 1%/2% YoY/QoQ. The elevated cost was due to higher clinker movement to the split grinding units. Other expenditure rose by just 3% YoY and was well controlled. There is more room for cost savings with softening fuel and logistic costs.

EBITDA inflates despite weak realisations as cost provides respite: EBITDA grew by ~10%2% YoY/QoQ to ~Rs 6.7bn, and EBITDA margin rose to ~18.5% from ~17% in Q1FY24 (15.2% in 4QFY24). EBITDA/t rose by 4% YoY to Rs 877. DBL's cost saving measures will help EBITDA/t improve further.

Only organic capacity expansion underway post JAL assets under insolvency: Management expects the 0.5mt debottleneck expansion at Rohtas (Kalyanpur), Bihar, and 2.4mt greenfield expansion at Lanka, Assam, to be completed by H2FY25. Management plans to increase capacity to 49.5mt by FY25-end. The 9.4mt cement capacity (backed by 4mt of clinker) from the Jaypee acquisition is now uncertain due to insolvency proceedings and will be a temporary setback for DBL.

Downgrade to HOLD: We prune our FY25/FY26 EBITDA estimates by ~1.5%/6% to factor in expectations of slow growth due to uncertainty over JAL assets and no major alternative. We continue to assign the stock an EV/EBITDA of 12x 1-year forward but lower our TP to Rs 2,062 (earlier Rs 2,346) which reflects an implied replacement cost of Rs 7.5bn. We downgrade DBL to HOLD from BUY.

Key changes

Target	Rating
▼	▼

Ticker/Price	DALBHARA IN/Rs 1,819
Market cap	US$ 4.1bn
Free float	44%
3M ADV	US$ 11.8mn
52wk high/low	Rs 2,431/Rs 1,651
Promoter/FPI/DII	56%/12%/8%

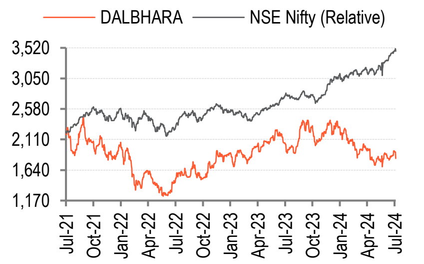
Source: NSE | Price as of 19 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,46,910	1,66,930	1,88,979
EBITDA (Rs mn)	26,390	30,286	36,665
Adj. net profit (Rs mn)	8,540	9,578	13,706
Adj. EPS (Rs)	44.9	51.8	74.1
Consensus EPS (Rs)	44.9	57.1	79.6
Adj. ROAE (%)	5.3	6.0	8.5
Adj. P/E (x)	40.5	35.1	24.5
EV/EBITDA (x)	12.9	12.5	8.5
Adj. EPS growth (%)	31.5	15.2	43.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BUY
TP: Rs 3,585 | ⮝ 15%

RELIANCE INDUSTRIES | Oil & Gas | 20 July 2024

Structural position to tide over near-term hiccups

- **RIL missed consensus; while slowdown was anticipated in Retail and O2C, the extent was bit higher**
- **Despite slowdown in high-margin category F&L, stable Retail margins are positive signs indicating benefit of rationalisation**
- **Reiterate BUY with tweak in TP to Rs 3,585 (from Rs 3,610); RIL's consumer businesses remain key beneficiaries of India's growth story**

Kirtan Mehta, CFA
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Q1 EBITDA missed consensus: Q1 EBITDA was 3% below Bloomberg consensus and 2% below our forecasts. The miss to our forecasts was driven by 5% lower EBITDA in Retail and 4% lower in Oil & Gas.

Stable Retail margin indicates benefit of rationalisation: Retail slowdown continued into Q1 after significant rationalisation in Q4 and FY24. The impact was compounded by tepid discretionary spend in its highest-margin category Fashion & Lifestyle (F&L). Still, Retail delivered flat QoQ margin, indicating that rationalisation has started improving margins. While we lower Retail EBITDA growth to 16% this year, we maintain 20%+ CAGR over the next three years on the back of its leadership position in a structural growth market.

O2C is positioned to maximise margins under normalised environment: Margin normalisation was acute this quarter, taking O2C EBITDA to the lower end of the Rs 120bn-200bn range over the past eight quarters and unit margin at US$ 89/t to a 14-quarter low. While there are near-term challenges, RIL has already demonstrated its ability to maximise margins with its highly flexible O2C configuration.

RIL is geared to deliver double-digit earnings growth: While we slow down FY25 EBITDA growth to a high single-digit (9%) on the slowdown in Retail and O2C, we continue to bake in a 11% CAGR in EBITDA over FY24-FY27, led by 22% CAGR in consumer business profits.

Key stock catalysts: (a) Jio: Signs of monetising standalone 5G roll-out beyond tariff-repair, (b) Retail: Delivery on 3x growth target over 5 years and demonstration of RIL's comfort in sharing performance details for major retail verticals. (c) O2C: Guidance on cost reduction with the deployment of new energy. (d) Media: Progress on scaling up the business. (e) Public offers: Listing of the Jio and retail businesses.

Reiterate BUY given 15% upside: We adjust our SOTP-based TP to Rs 3,585 (from Rs 3,610) factoring in changes to estimates. We retain target multiples for Refining (7.5x), Petrochemicals (8.5x), Jio Infocomm (11x) and Retail (34x).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	RIL IN/Rs 3,110
Market cap	US$ 256.1bn
Free float	50%
3M ADV	US$ 223.7mn
52wk high/low	Rs 3,218/Rs 2,220
Promoter/FPI/DII	50%/21%/17%

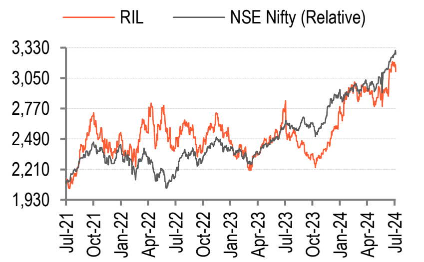
Source: NSE | Price as of 19 Jul 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	90,10,640	93,49,965	1,03,34,266
EBITDA (Rs mn)	16,22,187	17,65,754	20,32,313
Adj. net profit (Rs mn)	6,96,067	7,79,541	9,28,386
Adj. EPS (Rs)	102.9	115.2	137.2
Consensus EPS (Rs)	102.9	119.4	137.8
Adj. ROAE (%)	9.2	9.4	10.2
Adj. P/E (x)	30.2	27.0	22.7
EV/EBITDA (x)	14.6	13.4	11.6
Adj. EPS growth (%)	5.0	12.0	19.1

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

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 12,972 | ▲ 15%

ULTRATECH CEMENT | Cement | 20 July 2024

Firmly on growth path; maintain BUY

- **Higher single digit volume growth with 80%+ capacity utilisation aids UTCEM's revenue growth despite realisation dent in a challenging Q1**
- **Other expenses drag cost savings, to normalise for residual FY25, EBITDA/tonne maintained at ~Rs 900/t**
- **Revise FY26E EBITDA/EPS by 3%. Value UTCEM at 17x (earlier 16x) EV/EBITDA and raise TP to Rs 12,974 (vs Rs 11,510). Retain BUY rating**

Milind Raginwar
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Healthy volume in a weak quarter aids revenue gains: UTCEM reported ~2% YoY (-12% QoQ) revenue growth to Rs 175bn in Q1FY25 backed by healthy volume growth of ~7% to 30.5mn tonnes on a high base. The capacity utilisation at ~81% was the highlight in a challenging Q1FY25 marred by weak demand. Effectively, realisations adjusted to Rs40/t and incentives fell by 6%/3% YoY/QoQ to Rs 5,036/t.

Cost savings restricted due to non-recurring higher other expense: Operating cost/tonne fell 3% YoY (flat QoQ) in Q1 to Rs 4,865/t limiting the impact of the decline in realisations. Fuel cost (raw material adjusted) fell 10%3% YoY/QoQ) to Rs 2,408/t, with blended fuel consumption cost staying flat QoQ at US$ 149/t, down 16% YoY. Logistics cost/t fell 4%/1% YoY/QoQ at Rs 1,361/t as lead distance fell by 16km YoY. Other expenses rose 36%/20% YoY/QoQ to ~Rs 26.3bn owing to non-recurring expenses of Rs 3bn without which operating cost/t would have been down by ~7% mitigating the entire realisation loss.

Expansion on course: UTCEM's Phase-II and -III expansion of 24.4mt and 21.9mt are on schedule, which will take capacity to 157.4mt by FY25 and add a further 21.9mt by FY27 (clinker capacity addition expected at 10mt-12mt). Capex guidance for FY24/FY25 are ~Rs8bn/~Rs 90bn. The total capex commitment of Rs 300bn stays intact in FY25/FY26/FY27. The proposed transaction for Kesoram Industries (KSI) has received Competition Commission of India (CCI) approval. Following mandatory procedure, UTCEM plans to merge KSI with effect from 1 April 2024.

Valuation outlook: We retain FY25 EBITDA/EPS estimates while upgrading FY26 EBITDA/EPS estimates by 3% each backed by strong operating performance. We introduce FY27E earnings with EBTIDA/EPS estimates of Rs 224bn/Rs 453.8. Our FY24-FY27 EBITDA/PAT CAGR is baked in at 18%/23%. Given effective cost management, healthy growth and a strong balance sheet, we now value UTCEM at 17x 1-year forward EV/EBITDA (16x earlier) to arrive at a TP of Rs 12,974 (from Rs 11,510) and maintain our BUY rating on the stock. Despite aggressive capex the balance sheet remains strong and is the key, in addition to strong growth backed by effective EBITDA margins assisted by strong operating efficiencies.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	UTCEM IN/Rs 11,258
Market cap	US$ 39.5bn
Free float	40%
3M ADV	US$ 59.9mn
52wk high/low	Rs 12,078/Rs 7,988
Promoter/FPI/DII	60%/15%/17%

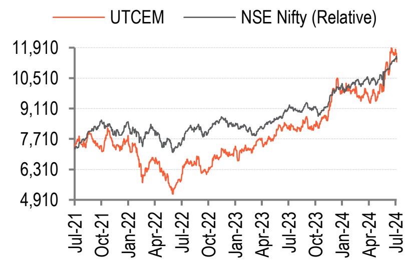
Source: NSE | Price as of 19 Jul 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	6,86,406	7,66,364	9,02,211
EBITDA (Rs mn)	1,35,678	1,61,210	2,04,324
Adj. net profit (Rs mn)	69,769	88,708	1,17,059
Adj. EPS (Rs)	241.7	307.3	405.5
Consensus EPS (Rs)	241.7	305.0	381.0
Adj. ROAE (%)	12.4	14.1	16.2
Adj. P/E (x)	46.6	36.6	27.8
EV/EBITDA (x)	23.7	19.9	15.9
Adj. EPS growth (%)	41.9	27.1	32.0

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

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 925 | ⮝ 4%

JSW STEEL | Metals & Mining | 22 July 2024

Higher volume growth is priced in

- **Q1 EBITDA was below consensus and down sequentially on lower volumes and flat margins despite lower coking coal costs**
- **Benefit of proposed transfer of slurry pipeline not clear. Despite annuity charge at 39% of capex, JSTL aims to keep savings within the company**
- **Near-full valuation makes for unfavourable risk-reward; maintain HOLD with minor change in TP to Rs 925 (from Rs 940)**

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Q1 results below consensus: JSTL's Q1 adj. EBITDA at Rs 55bn was 8% below Bloomberg consensus and was also down 10% sequentially on lower volumes due to planned shutdowns. Due to this, India margin stayed flat at Rs 9.2k/t QoQ. Trailing net debt to EBITDA ratio increased to 3x with spend on capex, build-up of working capital and US$ 300mn payout of acceptances.

FY25 guidance intact: The company aims to deliver on FY25 production/sales guidance of 28.4mt/27mt and ramp-up schedule of both expansions despite small delays due to labour availability during the election quarter. JSTL now aims to ramp-up capacity by 5mt at Vijayanagar and by 1mt at Bhushan Power & Steel (BPSL) by Q3FY25. The only change is deferring 0.5mt of the 1.5mt BPSL expansion to FY27.

Benefit of slurry pipeline transfer not clear: JSTL has proposed to transfer 30mt of slurry pipeline to a group company JSW Infrastructure at a fair value of cost of ~Rs17bn. JSTL indicates an annual charge of Rs 13.2bn for 30mt usage, take-or-pay quantum of 18mt for 20 years. The annual charge works out to 39% of planned capex of Rs 34bn and appears higher relative to other infrastructure projects with annuity structures. The transaction is a material 30% of FY24 revenue for JSW Infrastructure. While shipping charges of Rs 440/t at 30mt will result in savings, the effective charge would be higher at agreed take-or-pay levels due to sliding scale of charges. JSTL maintains it would save Rs 900-1,000/t of iron ore.

Tweak estimates: We lower our FY26 forecasts by 3% to factor in a shift in production guidance. We still bake in a ~14% EBITDA CAGR over FY24-FY27E, modelling in a volume ramp-up of ~7mt over three years to 32.5mt by FY27. We build in margin improvement from Rs 10.2k/t in FY24 to Rs 12.7k/t by FY27.

Retain HOLD: Despite optimistic estimates and target 1Y fwd EV/EBITDA multiple of 7.0x to allow for multiple expansion during the early recovery phase, our TP of Rs 925 (Rs 940 previously) yields just 4% upside. With higher target net debt to EBITDA threshold of 3.75x, JSTL is more vulnerable than its peers to any change in cyclical outlook. We continue to find risk-reward unfavourable and maintain HOLD.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	JSTL IN/Rs 889
Market cap	US$ 26.5bn
Free float	40%
3M ADV	US$ 27.6mn
52wk high/low	Rs 959/Rs 723
Promoter/FPI/DII	45%/11%/11%

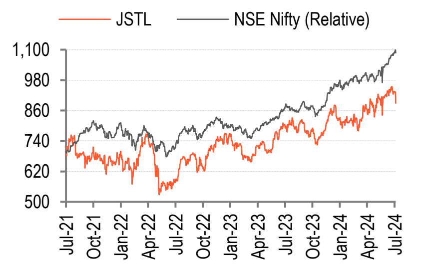
Source: NSE | Price as of 19 Jul 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs bn)	1,750	1,910	2,059
EBITDA (Rs bn)	282	339	392
Adj. net profit (Rs bn)	88	129	161
Adj. EPS (Rs)	36.0	52.9	65.9
Consensus EPS (Rs)	36.0	55.3	71.3
Adj. ROAE (%)	12.3	15.6	16.9
Adj. P/E (x)	24.7	16.8	13.5
EV/EBITDA (x)	5.7	4.4	3.6
Adj. EPS growth (%)	110.2	46.8	24.6

Source: Company, LSEG Workspace, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

BUY
TP: Rs 1,872 | ⮝ 16%

HDFC BANK | Banking | 21 July 2024

Continued focus on business realignment impedes growth

- **NII growth remained healthy, while fall in other income was offset by lower opex, provision, and adj PAT. NIM increased 3bps QoQ to 3.7%**
- **Focus on profit over growth led to business slowdown, while opex is likely to remain elevated with stable asset quality**
- **Structural changes may lead to growth moderation; focus remains on profitability. Maintain BUY with unchanged TP of Rs 1,872**

Ajit Agrawal
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1Q business growth remained subdued while C/D ratio continued to decline: HDFCB's overall business remained muted with sequential flat deposits and 1% QoQ decline in Credit leading to 87bps decline in C/D ratio (focus on faster decline in C/D ratio) to 103.5%. HDFCB's focus on liquidity led to an 8% QoQ rise in LCR to 123%. Flat deposits in Q1 was mainly due to outflow of CA (-14% QoQ), while SA mobilisation remained muted with a 0.4% decline QoQ leading to a 188bps fall in CASA ratio (36.3%). However, growth in loan book was driven by the retail segment (1.5% QoQ), while CRB/wholesale remained subdued at 1.0%/-5.3% QoQ.

NIM improved on yield rise, while it expects margin to improve with change in business mix: NII grew 26% YoY (3% QoQ), while reported NIM improved 3bps QoQ to 3.7% supported by rise in yield. Management believes the replacement of high-cost borrowings with deposits as maturity kicks in will aid margin improvement. Further, HDFCB believes increasing market penetration with new customers along with cross selling of products may improve volume leverage and support overall business growth.

Lower opex and provision helped HDFCB maintain profitability: The absence of one-offs like the stake sale in Credila and moderate treasury gain led to muted other income (-41% QoQ), while lower opex and provision (one-offs like staff ex-gratia of Rs 15bn and floating provision of Rs 109 bn in Q4FY24) supported PAT growth of 35% YoY (-2% QoQ). Bank's GNPA/NNPA increased 9bps/6bps QoQ to 1.3%/0.4% on the back of seasonality (increased stress from agri) with decline in PCR of 283bps QoQ to 71.2%. Credit cost stood at 42bps and we expect it to further normalise to 60-70bps.

Maintain BUY: We trim our FY25/FY26 PAT estimates by 2%/6% to bake in business moderation with tight liquidity conditions and future outlook. The bank's focus is on profitability with stable asset quality, and we believe overall performance would improve over FY25-FY26 and we maintain our SOTP-based TP of Rs 1,872, where we roll-over the core business at 2.2x FY26E (Jun'26) P/ABV (2.3x earlier) based on the Gordon Growth Model and include Rs 223/sh for subsidiaries.

Key changes

Target	Rating
◄ ►	◄ ►

Ticker/Price	HDFCB IN/Rs 1,607
Market cap	US$ 147.4bn
Free float	100%
3M ADV	US$ 399.7mn
52wk high/low	Rs 1,794/Rs 1,364
Promoter/FPI/DII	0%/47%/35%

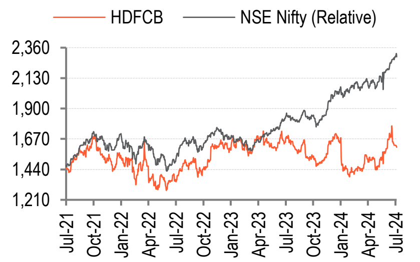
Source: NSE | Price as of 19 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
NII (Rs mn)	1,085,325	1,319,343	1,582,945
NII growth (%)	25.0	21.6	20.0
Adj. net profit (Rs mn)	608,123	728,992	828,552
EPS (Rs)	92.3	95.9	108.9
Consensus EPS (Rs)	92.3	92.0	107.0
P/E (x)	17.4	16.8	14.8
P/BV (x)	2.8	2.5	2.2
ROA (%)	2.0	1.9	1.9
ROE (%)	16.9	15.6	15.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 7,100 | ⮝ 12%

POLYCAB INDIA | Consumer Durables | 19 July 2024

Decent quarter across; eyes on project LEAP revisions

- **Revenue growth reasonable at 21% YoY, but EBITDA margin falls on lower exports and change in business mix**
- **Project LEAP target of Rs 200bn milestone to be achieved ahead of schedule, updated targets anticipated in FY25**
- **We maintain our FY25E/26E EPS and value the stock at 45x FY26E P/E. We maintain our TP of Rs 7,100 and HOLD rating**

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Decent quarter across: POLYCAB reported strong 21% YoY growth with revenue at Rs 46.9bn, driven by robust performances in the Wires and Cables, EPC, and FMEG segments. EBITDA grew by 6% YoY, though EBITDA margin declined 170bps YoY to 12.4% due to a shift towards lower-margin segments. POLYCAB's international business saw a 28% decline YoY, impacting overall profitability. Adj PAT stood at Rs 4bn, which is a 0.3% decline from Q1FY24.

Severe heat wave fuels FMEG growth: The FMEG business demonstrated robust growth of ~23% in the quarter, driven by heightened demand for fans amid a heat wave nationwide. The fan segment achieved its highest quarterly sales in recent years, while switches, switchgears and conduit pipes showed strong growth supported by demand from the real estate sector. The lights and luminaires segment faced challenges from pricing pressures and weak consumer demand.

On track with Project LEAP; mid-term guidance forthcoming: POLYCAB expects to achieve its target of Rs 200bn in annual topline, ahead of its initial target, by FY26 end. Management indicated further guidance to be announced this fiscal year as it expects targets to be achieved sooner than anticipated. Management reiterated its plan for annual capex of Rs 10bn-11bn over the next two years, with Rs 2.8bn incurred in Q1FY25.

Guidance retained: Management reiterated its EBITDA guidance of 11-13% for FY25 and capex guidance of Rs 10bn-11bn for FY25 and the next two to three years.

Valuation outlook: POLYCAB is a market leader in the wires and cables industry, and continues to gain market share. It has a strong topline and its margins are healthy and ahead of its industry peers. We maintain our EPS estimate for FY25 and raise it marginally for FY26. We continue to value POLYCAB at FY26E P/E of 45x. We maintain our HOLD rating for the stock with an unchanged TP of Rs 7,100 due to the absence of imminent catalysts, while we await potential revisions to project LEAP targets by management.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	POLYCAB IN/Rs 6,350
Market cap	US$ 11.6bn
Free float	37%
3M ADV	US$ 55.7mn
52wk high/low	Rs 7,331/Rs 3,801
Promoter/FPI/DII	63%/12%/8%

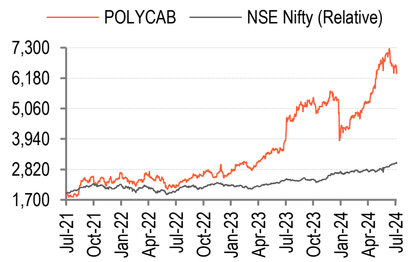
Source: NSE | Price as of 19 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	180,394	211,132	240,653
EBITDA (Rs mn)	24,918	29,821	33,843
Adj. net profit (Rs mn)	17,840	20,713	23,618
Adj. EPS (Rs)	118.9	138.0	157.4
Consensus EPS (Rs)	118.9	137.5	160.0
Adj. ROAE (%)	24.1	23.0	21.9
Adj. P/E (x)	53.4	46.0	40.4
EV/EBITDA (x)	38.1	31.9	28.1
Adj. EPS growth (%)	40.5	16.1	14.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

NOT RATED

WIPRO | IT Services | 20 July 2024

Disappointing outlier

- **Underwhelming 1Q revenue performance and 2Q guidance. Cautious demand commentary compared to peers**
- **Green shoots visible in Capco for about nine months have not translated into downstream work. Margin the only positive**
- **US BFS QoQ growth (for second consecutive quarter), while relatively better than other verticals, is weak compared to its peers**

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Margin improved: Mildly better EBIT margin performance seems to be the redeeming factor. Contrary to trends across many of its Indian IT services peers both large and mid-sized, WPRO's 1QFY25 performance and 2QFY25 guidance of were underwhelming. The 27% stock market rally since 1 June 2024 had built in expectations that the new CEO would turn things around quickly.

Cautious commentary: Management commentary was more cautious than its peers in the current results season. The only redeeming part was the margin stance where it has added an 'upward bias' to its 'narrow band' commentary. The CEO Mr Srini Pallia said, "We did not see a significant shift in the demand environment. Clients remain cautious and our discretionary spending continued to be muted." This is different from the slightly positive commentary from its peers who had declared results thus far.

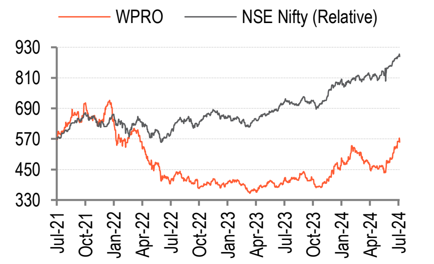
Revenue weaker than street estimate: The 1QFY25 revenue decline of 1% was a tad weaker than street expectations of 0.5% decline to flat revenues. However, the EBIT margin at 16.5% may have been a mild positive. The revenue performance came in at the lower end of the -1.5% to 0.5% constant currency revenue QoQ growth guidance of three months ago.

Slowing win rate a concern: The total contract value for total deals was US$ 3.3bn, down 11.8%, and for large deals US$ 1.2bn, down 3.6%. Of these, one was a US$ 500mn deal for five years from a US communications major which was net new. Except for BFSI and the consumer sectors, all other sectors showed a decline in QoQ CC terms. The Manufacturing, and Energy, Utilities & Resources businesses saw significant declines of 3% and 6.3%, respectively, as projects ended but could not be replaced. This points to WPRO's relatively weak order generation engine. So, while WPRO also talks of a robust pipeline, the conversion/win rate seems to be the issue.

Ticker/Price	WPRO IN/Rs 557
Market cap	US$ 37.2bn
Free float	26%
3M ADV	US$ 50.9mn
52wk high/low	Rs 574/Rs 375
Promoter/FPI/DII	73%/7%/20%

Source: NSE | Price as of 19 Jul 2024

Stock performance



Source: NSE

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PERSISTENT SYSTEMS | IT Services | 19 July 2024

Worry around true underlying margin

- **Good revenue growth QoQ. Partly helped by passthrough items and delivery shift to onsite**
- **The big discussion point has been around one-offs in 1Q which helped PSYS hit the 14% EBIT margin number**
- **Company reiterated industry-leading revenue growth in FY25 and flat margins vs FY24 (14.4%)**

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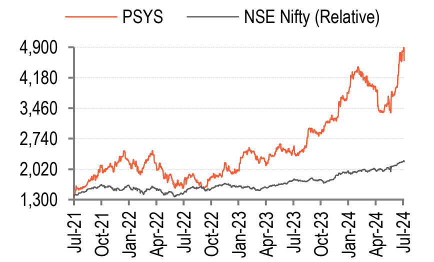
Ticker/Price	PSYS IN/Rs 4,583
Market cap	US$ 4.2bn
Free float	70%
3M ADV	US$ 32.0mn
52wk high/low	Rs 4,929/Rs 2,317
Promoter/FPI/DII	30%/26%/44%

Source: NSE | Price as of 19 Jul 2024

Stock performance



Source: NSE

Better-than-expected revenue growth: The company's revenue grew QoQ constant currency (CC) to 5.6% compared to the 5% it anticipated for 1QFY25. EBIT margin at 14% was in line with management's expectations. The street anticipated only about 3-3.5% QoQ growth until very recently.

Revenue growth supported by pass through items and delivery mix shift onsite: While there was no discussion on the call, there was a 160bps increase in passthrough (software support charges) which would have inflated the QoQ revenue growth number too. The QoQ revenue growth has also been supported, to an extent, by a shift in delivery mix towards onsite.

Healthcare and Life Sciences drive revenue growth: Revenue growth in the quarter was driven by the strong performance of the Healthcare and Life Sciences (HC & LS) vertical. In fact, HC & LS has been growing at a mid-teen rate QoQ for the last three quarters and has been essentially driving revenue growth for PSYS. PSYS indicated that the HC & LS growth was broad-based due to multiple clients and would continue. The banking, financial services & insurance (BFSI) vertical grew by 6% QoQ in USD terms. Management said that in the foreseeable future growth would be led by Healthcare and Life Sciences, followed by BFSI and High-Tech. In 1QFY25, BFSI also drove part of QoQ growth. The Hi-Tech vertical has been showing weak performance for the last three quarters.

BFSI vertical springs new business: BFSI has done well for PSYS as it won new deals from existing clients and business from new clients by dislodging incumbents, including some of the larger ones. The wins are because of fresh thinking and a platform-based approach to execution.

Reiterates revenue goal for FY27: PSYS reiterated its revenue goal of hitting US$ 2bn by FY27 (including inorganic elements) with an EBIT margin which would be around 17-18% by then.

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