FIRST LIGHT

23 April 2025

RESEARCH

HCL TECHNOLOGIES | TARGET: Rs 1,320 | -11% | SELL

Revenue guidance seems a tad aggressive

HAVELLS INDIA | TARGET: Rs 1,770 | +6% | HOLD

Robust quarter; summer lag tempers optimism

AU SMALL FINANCE BANK | TARGET: Rs 717 | +17% | BUY

Secured growth with cost efficiency supported PPoP

PHARMACEUTICALS | Q4FY25 PREVIEW

Healthy earnings in a seasonally weak quarter

SUMMARY

HCL TECHNOLOGIES

- 4QFY25 was peer beating. FY26 revenue guide assumes flattish CQGR at lower end; does not square up against the cautious commentary
- Gen AI commentary like that of its peers indicates deflation laced with wallet share gains. GCC, just like for its peers, a growth driver -ironic
- Cut estimates for FY26/FY27. Maintain Target PE of 19.2x (10% discount to that of TCS) on FY27EPS. Maintain SELL

Click here **for the full report.**

HAVELLS INDIA

- Q4 Revenue grew 20% YoY/34% QoQ, driven by strong performances in Lloyd (+39% YoY) and C&W (+21% YoY)
- A tad YoY contraction in EBITDA margin to 11.6%; Lloyd margin came in at 6.1% vs 2.7% in Q4FY24
- Mild start for summer products in Q1 fades the earlier growth optimism

Click here **for the full report.**

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AU SMALL FINANCE BANK

- Advances growth driven by secured loans; deposit growth was strong compared to system levels
- Profitability impacted by accelerated provisions in unsecured book, but was partially offset by higher operating efficiency
- Asset quality improved marginally with ~100% PCR on unsecured book; Maintain BUY

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PHARMACEUTICALS: Q4FY25 PREVIEW

- 4QFY25E to report another strong quarter, driven by a healthy product mix due to increase in gRevlimid sales in the US
- Domestic sales growth for our coverage companies to grow by 11.7%, surpassing IPM growth of ~7% led by new product launches
- EBITDA margin for our coverage companies to report at 25%, driven by a healthy product mix and marketing cost rationalisation

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SELL
TP: Rs 1,320 | ∀ 11%

HCL TECHNOLOGIES | IT Services | 23 April 2025

Revenue guidance seems a tad aggressive

- **4QFY25 was peer beating. FY26 revenue guide assumes flattish CQGR at lower end; does not square up against the cautious commentary**
- **Gen AI commentary like that of its peers indicates deflation laced with wallet share gains. GCC, just like for its peers, a growth driver -ironic**
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4QFY25 was better than that for its peers with a revenue decline of 0.8% in constant currency where decline was driven entirely by the software products business (-12.9% QoQ). The services business grew QoQ by 0.7% unlike that for its peers TCS, Infosys and Wipro where it declined. HCLT stated that the quarter played out as was expected. Both the total revenue and EBIT margin performance was broadly in line with our estimates.

The revenue guidance for FY26 of 2 to 5% in constant currency terms (better than that of 0-3% of Infosys) includes 100 basis points from inorganic element. However, we think the guidance is not conservative as the assumption at the lower end is that of flat revenues from 4QFY25 levels for the four quarters of FY26. HCLT however talked about the lower end incorporating a deterioration. The lower end of the guidance does not square up with the rather cautious commentary that the company had on demand conditions going forward.

While the company did not see project pauses or ramp downs like what its peers saw in 4QFY25, it talked about macro level weakness impacting demand going forward especially in sectors like Retail CPG and in manufacturing. It also stated that the weakness would spread to other sectors quickly. This possibly hints at the weakness that it is seeing in 1QFY26 in these sectors.

Just as has been the case with its peers, HCLT too talked about Gen AI based productivity gains being passed back to customers (leading to deflation) being offset by gains from vendor consolidation. It talked about customers cutting budgets in the uncertain environment that they are currently in and the postponement of discretionary spending. It stated that the discretionary spend is done only if ROI is visible in the near term.

Both the services and the products businesses are expected to grow at a similar pace in FY26. The EBIT margin guidance for FY26 has been kept at a similar rate as that of FY25 - 18 -19%.

Key changes

Target	Rating
▼	◄►

Ticker/Price	HCLT IN/Rs 1,480
Market cap	US$ 47.1bn
Free float	39%
3M ADV	US$ 55.5mn
52wk high/low	Rs 2,002/Rs 1,235
Promoter/FPI/DII	61%/19%/16%

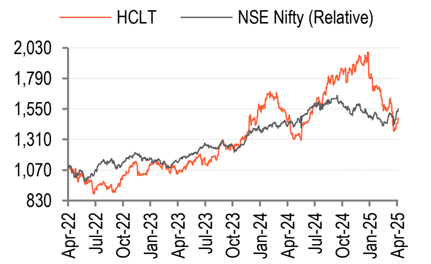
Source: NSE | Price as of 22 Apr 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	1,170,550	1,223,758	1,314,711
EBITDA (Rs mn)	255,050	272,319	285,698
Adj. net profit (Rs mn)	173,910	177,370	186,977
Adj. EPS (Rs)	64.1	65.3	68.9
Consensus EPS (Rs)	64.0	70.0	78.2
Adj. ROAE (%)	25.2	25.4	26.7
Adj. P/E (x)	23.1	22.7	21.5
EV/EBITDA (x)	15.4	14.5	13.8
Adj. EPS growth (%)	10.8	1.9	5.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 1,770 | ⮝ 6%

HAVELLS INDIA | Consumer Durables | 23 April 2025

Robust quarter; summer lag tempers optimism

- **Q4 Revenue grew 20% YoY/34% QoQ, driven by strong performances in Lloyd (+39% YoY) and C&W (+21% YoY)**
- **A tad YoY contraction in EBITDA margin to 11.6%; Lloyd margin came in at 6.1% vs 2.7% in Q4FY24**
- **Mild start for summer products in Q1 fades the earlier growth optimism**

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Robust performance; beats estimates on all fronts: HAVL's reported a strong quarter as revenue/EBITDA/PAT was 6%/29%/23% above estimates. Revenue grew 20% YoY to Rs 65.4 bn, led by strong traction in Lloyd (+39% YoY) and C&W (+21% YoY) segment. On the profitability front, volatility in raw materials led to gross margin contraction of 60bps YoY (-230bps QoQ). EBITDA margin stood at 11.6%, which contracted 10bps YoY, while absolute EBITDA rose 19.5% YoY to Rs 7.6 bn. Adjusted PAT came in at Rs 5.2 bn, up 16% YoY. During FY25, revenue grew 17% YoY, led by Lloyd (+35% YoY), C&W (+14% YoY) and ECD (+15% YoY); while switchgear (+7% YoY) and lighting (+2% YoY) reported muted growth. Adjusted EBITDA for the full year came in at Rs 21.3bn (+16% YoY) with a tad contraction (-10bps YoY) in EBITDA margin to 9.8%.

C&W posts strong growth, driven by commodity-led price hikes: C&W revenue grew 21% YoY to Rs 21.7 bn, supported equally by 10% growth in volume and value. Volume growth in cables was aided by capacity expansion in power cables, while wire volumes remained stable, accounting for ~65% of the segment mix. However, contribution margins came under pressure due to an unfavourable product mix and copper price volatility. EBIT margin stood at 11.9%, largely stable YoY. Ramp-up of the recently expanded cable capacity is still underway. On increasing competition—amidst capacity expansion plans by two large business houses—management expects sector consolidation over time with the market gradually tilting in favour of the branded and national players.

Lloyd delivers ~39% YoY growth; optimism fades amid summer lag: Lloyd's revenue grew 39% YoY to Rs 18.7bn, driven by a low base and strong primary sales ahead of an expected hot summer; though a delayed season in the South somewhat fades the early optimism. EBIT margin grew to 6.2% (vs 2.8% YoY), aided by cost savings and operating leverage. Lloyd achieved full-year profitability in FY25; and while management refrained from margin guidance, they reiterated Lloyd as the key growth engine. In Q1FY26, it is key to watch the current summer season, as strong primary sales amid muted demand—if the summer turns out milder than expected—could lead to elevated channel inventory and price corrections across the industry.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	HAVL IN/Rs 1,665
Market cap	US$ 12.2bn
Free float	41%
3M ADV	US$ 18.3mn
52wk high/low	Rs 2,106/Rs 1,381
Promoter/FPI/DII	60%/23%/10%

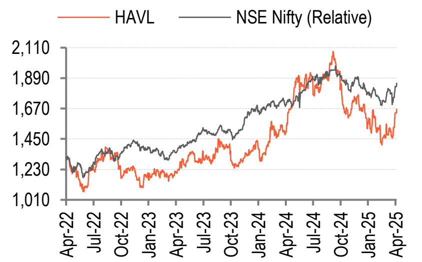
Source: NSE | Price as of 22 Apr 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,85,900	2,17,781	2,48,047
EBITDA (Rs mn)	18,426	21,309	26,378
Adj. net profit (Rs mn)	12,708	14,723	18,429
Adj. EPS (Rs)	20.3	23.5	29.4
Consensus EPS (Rs)	20.3	24.5	30.9
Adj. ROAE (%)	18.1	18.7	20.8
Adj. P/E (x)	82.1	70.8	56.6
EV/EBITDA (x)	56.6	48.9	39.5
Adj. EPS growth (%)	18.6	15.9	25.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 717 | ⮝ 17%

AU SMALL FINANCE BANK

| Banking | 23 April 2025

Secured growth with cost efficiency supported PPoP

- **Advances growth driven by secured loans; deposit growth was strong compared to system levels**
- **Profitability impacted by accelerated provisions in unsecured book, but was partially offset by higher operating efficiency**
- **Asset quality improved marginally with ~100% PCR on unsecured book; Maintain BUY**

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Credit growth led by secured portfolio: AUBANK reported gross advances growth of 6% QoQ, driven by secured portfolio (retail + commercial) growth of 6.3% QoQ. Further, the bank witnessed a degrowth in its unsecured portfolio by 10% QoQ, given the industry-wide deleverage in the MFI book and corrective actions undertaken in its credit card segment. The bank has set an internal cap of unsecured book mix to be <15% (9% now), of which MFI will be <10% (6% now). CD ratio declined to 86% in Q4FY25 vs 89% in Q3FY25, given strong growth in deposits (+27% YoY; +11% QoQ) vs system deposit growth of ~10.1% YoY. Deposit growth was largely supported by term deposits (+13% QoQ) and CASA deposits (+5% QoQ). However, CASA ratio declined to 29.2% in Q4FY25 vs 33.4% in Q4FY24.

PPoP mainly supported by operating efficiency: PPoP grew by 7.2% QoQ to Rs 12.9bn in Q4FY25, largely driven by higher operating efficiency. With control on overheads and marketing costs and synergies from Fincare merger, the bank's cost to income ratio improved to 54.7% in Q4FY25 vs 64.9% in Q4FY24. However, we expect the C/I ratio to rise to ~58% in FY26, given technology investments and ~70-80 branch addition. However, PAT declined by 4.7% QoQ in Q4FY25, due to higher credit cost at 2.4% in Q4FY25 (2.0% in Q3FY25). The steep rise in credit cost was due to accelerated provision of Rs 1.5bn in Q4FY25, largely pertaining to the unsecured segment. We expect NIMs (5.9% in FY25) to remain under pressure in FY26, given the onset of rate cut cycle; but will be partly cushioned by 63% fixed rate book. PAT is likely to be largely supported by a normalisation of credit cost in FY26.

Asset quality improved marginally; ~100% PCR on unsecured book: With lower slippages at 4.4% in Q4FY25 (-1.1% QoQ), asset quality improved marginally with GNPA at 2.28% (-3bps QoQ) and NNPA at 0.74% (-17bps QoQ). The accelerated provisions in Q4FY25 resulted in ~100% PCR on unsecured book. Also, MFI book improved with SMA book falling to 3.7% in Q4FY25 (4.4% in Q3FY25).

Maintain BUY: The bank expects to receive universal bank license by 2025 which is likely to support its growth and improve its market positioning. We expect bank to deliver RoA of 1.6-1.8% in FY25-FY28E. Our TP is Rs 717, set at 2.3x FY27E ABV.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	AUBANK IN/Rs 614
Market cap	US$ 5.4bn
Free float	77%
3M ADV	US$ 22.3mn
52wk high/low	Rs 755/Rs 478
Promoter/FPI/DII	23%/36%/27%

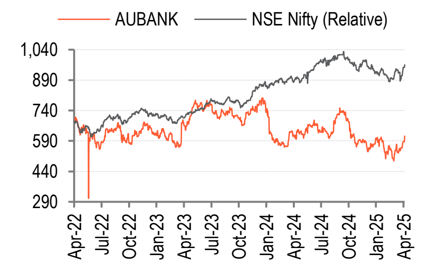
Source: NSE | Price as of 22 Apr 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	80,116	99,072	1,25,841
NII growth (%)	55.4	23.7	27.0
Adj. net profit (Rs mn)	21,059	27,749	37,696
EPS (Rs)	29.8	37.3	50.6
Consensus EPS (Rs)	28.2	35.9	46.2
P/E (x)	20.6	16.5	12.1
P/BV (x)	2.7	2.3	1.9
ROA (%)	1.6	1.6	1.8
ROE (%)	14.2	15.0	17.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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PHARMACEUTICALS | Q4FY25 Preview | 22 April 2025

Healthy earnings in a seasonally weak quarter

- **4QFY25E to report another strong quarter, driven by a healthy product mix due to increase in gRevlimid sales in the US**
- **Domestic sales growth for our coverage companies to grow by 11.7%, surpassing IPM growth of ~7% led by new product launches**
- **EBITDA margin for our coverage companies to report at 25%, driven by a healthy product mix and marketing cost rationalisation**

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Another strong quarter in 4QFY25E: We expect sales for our coverage companies to grow by 13.3% YoY to Rs 557 bn, driven by 11.7% growth in the domestic region and 6.9% growth in the US region. We expect EBITDA growth of 22.4% YoY to Rs 135 bn to be driven by a healthy product mix and marketing cost rationalisation, resulting in increase in EBITDA margin by 155bps YoY to 25.1%. Subsequently, we expect PAT growth of 20.3% to Rs 92.8bn.

Chronic sales to drive domestic growth: We expect domestic sales for our coverage companies to grow by 11.7% vs IPM growth of 7%, driven by (1) higher MR productivity (2) value growth (3) new product launches (4) recovery in the acute segment. From our coverage companies, we believe domestic sales for ERIS to be the highest at 35% amidst diabetes brand Empaglifozin going off-patent followed by SUN at 13%, due to volume growth. In the acute segment, expect ALKM to report 9% and surpass IPM growth in acute therapy of 6%.

US sales growth to be driven by niche products: We expect US sales for our coverage companies to grow by 6.9% to Rs 128 bn. In cc terms, we expect sales to grow by 5.2% to USD 1.9 bn, driven by (1) a strong gRevlimid quarter (2) stable sales from complex products like gMirabegron, gSpiriva, Peptides and specialty sales (3) easing of price erosion in generics. From our coverage companies, in INR terms, we expect SUN to report 14% growth driven by Ilumya sales in the specialty segment; while in cc terms, we expect LPC to report 15% growth at USD 240mn.

Higher gRevlimid sales to drive margins: We expect margins of our coverage companies to expand by 155bps YoY to 25.1%, largely driven by healthy gRevlimid sales and specialty/ complex generic products. We expect ERIS to report higher margin increment of 533 bps to 35%, followed by 350 bps increment for LPC driven by gMirabegron launch.

Our preferred picks: We prefer SUN as BUY post the Checkpoint acquisition and CIPLA post the gAbraxane approval amongst the US focus companies. On the domestic front, we prefer ABBOTT due to healthy leadership core brands.

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