FIRST LIGHT

24 July 2024

RESEARCH

KAJARIA CERAMICS | TARGET: Rs 1,450 | +1% | HOLD

In-line Q1; downgrade to HOLD on expensive valuations

BOB ECONOMICS RESEARCH | UNION BUDGET ANALYSIS 2024-25

HINDUSTAN UNILEVER | TARGET: Rs 3,349 | +21% | BUY

Sales growth in line; expect rebound in 2H

RBL BANK | TARGET: Rs 276 | +17% | BUY

Healthy loan growth, stable asset quality; maintain BUY

COFORGE | NOT RATED

CEO indicates demand bottoming out. Tepid recovery

ZENSAR TECHNOLOGIES | NOT RATED

Starts FY25 well on revenue. But challenges ahead?

SUMMARY

KAJARIA CERAMICS

- Q1 operating profit came broadly in line with our estimates, but missed our APAT estimate by 11.5% on lower other income and higher tax rate
- Maintained volume growth guidance of 11-12% for FY25, which appears to be optimistic based on current high operating rate and Q1
- Downgrade to HOLD from BUY on expensive valuation (trades at 46.2x on 1Y forward P/E vs 5Y average of 39.9x); raise TP by 4% to Rs 1,450

Click here for the full report.

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INDIA ECONOMICS: UNION BUDGET ANALYSIS 2024-25

In order to arrive at budget ratios, government makes some critical assumptions.

Government continues to expect nominal GDP to rise by 10.5% in FY25, unchanged from interim budget. We believe real GDP growth to average ~7.3-7.4% and inflation to average between 4-4.5%.

Tax structure shows that, taking into account the changes announced in direct taxes, the direct tax-GDP ratio is expected to increase from 6.6% as per FY24RE to 6.8% in FY25BE.

Click here for the full report.

HINDUSTAN UNILEVER

- Sales growth of 2% YoY was in line with Bloomberg consensus. Underlying volumes rose 4% on Home Care & Personal Care (Hair Care)
- EBITDA margin of 23.8% was above consensus. Margins increased 19bps YoY as higher A&P largely offset gross margin gains of 50bps
- Assume coverage on HUVR and retain BUY rating with a TP of Rs 3,349 (from Rs 2,617)

Click here for the full report.

RBL BANK

- Healthy loan growth led NII to grow 6%20% QoQ/YoY. Lower provision aided PAT growth of 5%/29% QoQ/YoY
- Reported NIM improved 22bps QoQ to 5.67%, while incremental stress seen in card and MFI businesses increased credit cost sequentially
- New line of business to support growth, while operational leverage to remain key watchable. Maintain BUY, but cut TP to Rs 276 from Rs 309

Click here for the full report.

COFORGE

- CEO believes demand has bottomed out. Industry demand commentary turns positive for the first time in the current cycle
- In 1QFY25, BFS saw a temporary blip. Broadbased QoQ growth indicated from 2Q; FY25 EBITDA margin higher than FY24
- Cigniti consolidation from 2QFY25. A sharp margin pick up for it likely in FY25. We will be initiating coverage shortly on the sector and stock

Click here for the full report.

ZENSAR TECHNOLOGIES

- 1Q growth was better than expected though margins were weak because of one-off client bankruptcy
- Unexpected furloughs in the TMT sector could act as a drag in 2Q. Zensar will likely eke out a mid-single USD growth in FY25 (-2% in FY24)
- EBITDA margin is expected to be in mid-teens. We will be initiating coverage on the sector and company soon

Click here for the full report.

HOLD
TP: Rs 1,450 | ⮝ 1%

KAJARIA CERAMICS | Building Materials | 23 July 2024

In-line Q1; downgrade to HOLD on expensive valuations

- **Q1 operating profit came broadly in line with our estimates, but missed our APAT estimate by 11.5% on lower other income and higher tax rate**
- **Maintained volume growth guidance of 11-12% for FY25, which appears to be optimistic based on current high operating rate and Q1**
- **Downgrade to HOLD from BUY on expensive valuation (trades at 46.2x on 1Y forward P/E vs 5Y average of 39.9x); raise TP by 4% to Rs 1,450**

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Broadly in-line Q1: KJC's Q1FY25 operating result came broadly in line with our estimate (Revenue: +0.9%; EBITDA: -1.5%), but there was a miss in APAT by 11.5% due to lower other income and higher tax rate. Overall, KJC revenue grew by 4.6% YoY, but EBITDA/APAT de-grew by 1.3%/16.5% in Q1FY25 due to margin compression for both tiles/non-tile segments.

Key highlights: KJC gained market share in Q1FY25 as its tiles volume (+7.9% YoY) grew at a better pace than the industry (~3-4%) in Q1. However, tile segment EBIT was down 4.9% YoY in Q1FY25 due to margin contraction (-117bps YoY to 12.6%). Non-tile segment revenue grew by 11.1% YoY in Q1FY25 driven by all the products (bathware: +8.7%; plywood: +25.1%; adhesives: +58.8%), but the segment posted EBIT loss of Rs 16mn in Q1FY25 (Rs 57mn profit in Q4FY24) because of severe margin pressure (-730bps YoY to -1.5%) in bathware (due to initial cost associated with the newly commissioned plant) and plywood (higher timber prices).

Guidance intact: KJC has witnessed gradual recovery in tiles demand (low double-digit) in the domestic market over the past two months (i.e. Jun-Jul'24). Thus, management has maintained its guidance of tiles volume growth of 11-12% and consolidated EBITDA margin of 15-17% for FY25. However, we believe there is a risk attached to the company's volume growth guidance due to (a) existing tile plant operating at high rate (91% in Q1FY25), (b) reduction in tile capacity by 4.8% (due to disposal of two old lines at Gailpur from Jul'24), and (c) no major capex programme for the domestic market over the next one year.

Downgrade to HOLD, raise TP by 4% to Rs 1,450: KJC is now trading at an expensive valuation (46.2x on 1Y forward P/E vs. 5Y average of 39.9x) post a sharp rise in its stock price by 22% since the Q4 results. Hence, we downgrade our rating on the stock from BUY to HOLD. We have revised our EPS estimates (-4.2%/+0.5% for FY25E/FY26E) based on the Q1 result and introduced FY27 estimates. We have increased our TP to Rs 1,450 (Rs 1,400 earlier) as we roll forward our valuation from Mar'26 to Jun'26. Our target P/E remains unchanged at 40x.

Key changes

Target	Rating
▲	▼

Ticker/Price	KJC IN/Rs 1,442
Market cap	US$ 2.7bn
Free float	53%
3M ADV	US$ 5.7mn
52wk high/low	Rs 1,524/Rs 1,110
Promoter/FPI/DII	47%/18%/25%

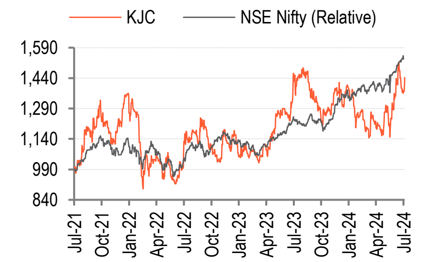
Source: NSE | Price as of 23 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	45,784	50,950	58,921
EBITDA (Rs mn)	6,997	7,799	9,222
Adj. net profit (Rs mn)	4,221	4,663	5,600
Adj. EPS (Rs)	26.5	29.3	35.2
Consensus EPS (Rs)	26.5	31.9	38.5
Adj. ROAE (%)	16.6	16.7	18.3
Adj. P/E (x)	54.4	49.3	41.0
EV/EBITDA (x)	33.1	29.7	25.2
Adj. EPS growth (%)	20.0	10.5	20.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

UNION BUDGET ANALYSIS 2024-25

23 July 2024

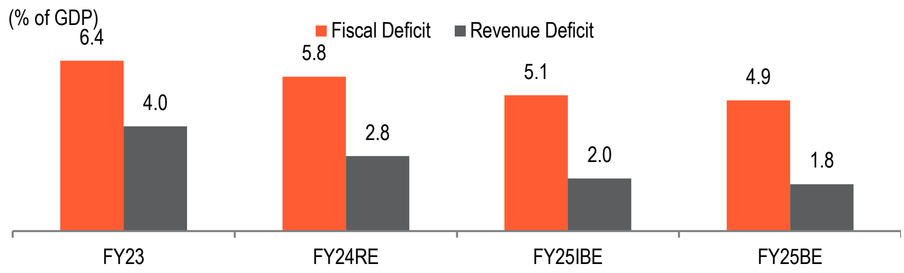
Economics Research Department
Chief Economist

- **In order to arrive at budget ratios, government makes some critical assumptions.**
- **Government continues to expect nominal GDP to rise by 10.5% in FY25, unchanged from interim budget. We believe real GDP growth to average ~7.3-7.4% and inflation to average between 4-4.5%.**
- **Tax structure shows that, taking into account the changes announced in direct taxes, the direct tax-GDP ratio is expected to increase from 6.6% as per FY24RE to 6.8% in FY25BE.**

- Indirect tax-GDP ratio on the other hand is estimated to remain broadly stable at 5% in FY25BE, unchanged from FY24RE.
- Capex spend continues to maintain momentum, with support to states also being maintained.
- Overall size of the budget, as % of GDP, has been brought down to 14.8% in FY25BE from 15.1% in FY24RE.

Trends in deficit ratios

- Union Budget for FY25 outlined key areas where government will be focusing in the next five years.
- These include: employment, education and skilling, focus of manufacturing, agriculture sector, MSMEs, infra, innovation/R&D, energy, and social justice.
- Government is also committed to stick to the path of fiscal consolidation. Thus, fiscal deficit (as % of GDP) is estimated to be lower at 4.9% in FY25BE.
- Revenue deficit (% of GDP) will also be brought down to less than 2% in FY25BE.
- Government is also set to lower its debt-GDP ratio to 56.8% in FY25BE from 58.1% as per FY24RE.
- Government is on track to attain FD ratio of <4.5% in FY26.



Source: Union Budget documents, Bank of Baroda Research | RE: Revised Estimates, IBE: Interim Budget Estimates, BE: Budget Estimates

RESULT REVIEW

BUY
TP: Rs 3,349 | ⮝ 21%

HINDUSTAN UNILEVER | Consumer Staples | 24 July 2024

Sales growth in line; expect rebound in 2H

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- **Sales growth of 2% YoY was in line with Bloomberg consensus. Underlying volumes rose 4% on Home Care & Personal Care (Hair Care)**
- **EBITDA margin of 23.8% was above consensus. Margins increased 19bps YoY as higher A&P largely offset gross margin gains of 50bps**
- **Assume coverage on HUVR and retain BUY rating with a TP of Rs 3,349 (from Rs 2,617)**

Sales beat but EBITDA miss: HUVR reported 1QFY25 underlying EBITDA of Rs 37bn, up 2.2% YoY on 1.4% sales growth and 19bps margin expansion. Sales were in line with Bloomberg consensus but EBITDA was 2% higher on higher margins.

Rural recovery to reflect prominently in Personal Care: HUVR indicated gradual recovery in rural demand. Hair Care volumes were up in double digits partly due to the heatwave but also reflecting slight improvement in rural demand. Management expects continued recovery through the year. We expect strong rebound in sales in the December quarter post farmer payouts from the kharif season. Our sales growth forecast is 4% for 1HFY25 and 11% for 2HFY25.

Change in soap formulations: HUL is changing its soap formulation in Lifebuoy and Lux with improved composition, which would lead to better usage and reduced environmental impact. Prices will remain unchanged but weight will reduce. This may be a risk as it remains to be seen whether consumers accept a higher rate per gram. India is the pilot market for this innovation.

Our view: Volume growth trends have been weak for HUVR but a good monsoon, improved agri yield and subsequent rural recovery can drive sales and earnings given HUL's industry-leading distribution infrastructure and 40+% rural sales exposure. A portfolio skewed towards Personal and Home Care helps as these categories respond faster to changes in demand due to the changes in income – rural income growth is the key driver for FMCG earnings over the next year. We value HUL based on P/E relative to the NIFTY 50 index and apply a 10% premium. We use 63x 12M to Jun'26 P/E to derive the TP of Rs 3,349.

HUL 1QFY25 result summary (Rs mn)	Q1FY24	Q1FY25	YoY (%)
Sales	154,960	157,070	1
EBITDA	36,650	37,440	2
EBITDA margin (%)	23.7	23.8	19bps
Adj PAT	25,920	26,600	3
Adj. EPS (Rs)	11.03	11.32	3

Source: BOBCAPS Research, Company

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HUVR IN/Rs 2,766
Market cap	US$ 77.7bn
Free float	38%
3M ADV	US$ 71.0mn
52wk high/low	Rs 2,811/Rs 2,172
Promoter/FPI/DII	62%/14%/24%

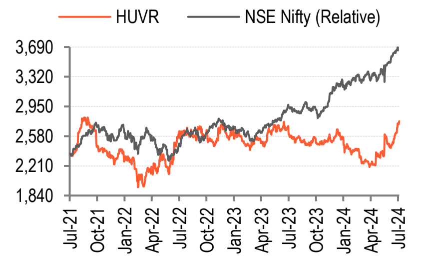
Source: NSE | Price as of 23 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	618,960	664,209	731,302
EBITDA (Rs mn)	146,630	158,043	173,319
Adj. net profit (Rs mn)	102,770	110,429	120,092
Adj. EPS (Rs)	43.7	47.0	51.1
Consensus EPS (Rs)	43.7	47.3	52.7
Adj. ROAE (%)	20.2	21.4	23.0
Adj. P/E (x)	63.3	58.9	54.1
EV/EBITDA (x)	44.3	41.1	37.5
Adj. EPS growth (%)	1.6	6.9	9.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BUY
TP: Rs 276 | 17%

RBL BANK | Banking | 23 July 2024

Healthy loan growth, stable asset quality; maintain BUY

- **Healthy loan growth led NII to grow 6%20% QoQ/YoY. Lower provision aided PAT growth of 5%/29% QoQ/YoY**
- **Reported NIM improved 22bps QoQ to 5.67%, while incremental stress seen in card and MFI businesses increased credit cost sequentially**
- **New line of business to support growth, while operational leverage to remain key watchable. Maintain BUY, but cut TP to Rs 276 from Rs 309**

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Continued focus on profitable business dynamics: RBK posted healthy credit growth of 19% YoY (+3% QoQ) in Q1 despite the slowdown in its MFI (a conscious decision) and credit card (CC) businesses due to transitional impact. RBK's non-BFL credit card now contributes 52% of business and it believes diversification and in-house sourcing will mitigate concentration risk and improve margin. We believe this may keep operating cost elevated temporarily. Reported NIM improved 22bps QoQ to 5.7% despite a 14bps rise in cost of deposits and slower growth in MFI and CC book. Factoring in market share gains in new launches and healthy growth in secured retail book, we estimate NIM will stabilise at 5.2% over FY26.

Posted healthy business growth: Loan growth in Q1 was supported by commercial banking (+25% YoY), housing loan (52% YoY) credit cards (+22%) and newly launched products such as rural vehicle finance. Microfinance and personal loans growth remained muted at 11%/12% YoY. The bank aims to sustain annual credit growth of 18-20% YoY and expects its secured loan book to drive growth. RBK maintained its Retail:Wholesale mix at 62:38 as Retail's targeted range is 60-65%. Deposits grew 18% YoY (-2% QoQ) due to subdued CASA mobilisation.

Building buffer provisions: Although the bank saw increased stress in the MFI and card businesses, GNPA/NNPA were stable QoQ at 2.7%/0.7%. Despite lower provision, credit cost increased 6bps to 59bps and we expect credit cost to remain elevated over FY25/FY26 dragging PAT by 17%/15% over the same period. Restructured loans declined further to 0.4% of advances vs. 0.7% in Q4FY24. RBK continued to hold 1% contingent provision (Rs 2.8bn) on its CC and MFI books, which provided some cushion against any asset quality shock.

Maintain BUY: Accounting for healthy business growth with Credit/Deposit CAGR of 18%/17% over FY24-FY26 and a growing share of secured retail assets, we forecast a PPOP/PAT CAGR of 18% for the same period. Considering the bank's healthy asset quality and prudent but increasing credit cost, we now value the stock at 1x FY26E (Jun'26) ABV (vs. 1.1x) using the Gordon Growth Model and lower TP to Rs 276 (from Rs 309) and maintain our BUY rating.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	RBK IN/Rs 236
Market cap	US$ 1.7bn
Free float	100%
3M ADV	US$ 20.0mn
52wk high/low	Rs 301/Rs 209
Promoter/FPI/DII	0%/28%/20%

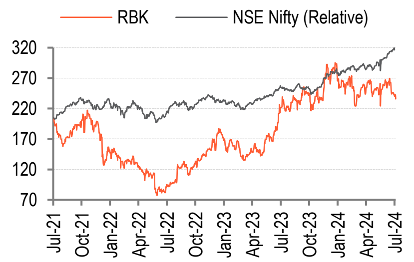
Source: NSE | Price as of 23 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
NII (Rs mn)	60,429	69,278	81,688
NII growth (%)	35.8	14.6	17.9
Adj. net profit (Rs mn)	11,679	12,291	16,200
EPS (Rs)	19.4	20.3	26.7
Consensus EPS (Rs)	20.0	26.0	33.5
P/E (x)	12.2	11.6	8.8
P/BV (x)	1.0	0.9	0.8
ROA (%)	0.9	0.8	1.0
ROE (%)	8.2	8.0	9.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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NOT RATED

COFORGE | IT Services | 24 July 2024

CEO indicates demand bottoming out. Tepid recovery

- **CEO believes demand has bottomed out. Industry demand commentary turns positive for the first time in the current cycle**
- **In 1QFY25, BFS saw a temporary blip. Broadbased QoQ growth indicated from 2Q; FY25 EBITDA margin higher than FY24**
- **Cigniti consolidation from 2QFY25. A sharp margin pick up for it likely in FY25. We will be initiating coverage shortly on the sector and stock**

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CEO turns positive for the first time in the cycle: According to Coforge's CEO Sudhir Singh, demand is not just bottoming out, but it is picking up though only at a tepid clip. In the previous quarters his industry growth commentary was cautious, though he was bullish on Coforge's own prospects based on its superior execution capabilities. In a media interview a few months ago Mr Singh 'admitted' to 10-11% organic growth for both itself and for Cigniti, the acquired entity, in FY25. While no specific growth numbers were discussed in the 1QFY25 call, the CEO commentary seems to buttress that number with upsides possible.

Cigniti – consolidation from 2QFY25: Cigniti acquisition is on track and big margin expansion likely in rest of FY25; threat to testing business downplayed. On the Cigniti acquisition, about 28% of shares was acquired and as of 5 July 2024 Coforge is in control of the company and Cigniti's numbers will be consolidated with Coforge from 2QFY25.

Gen AI threat downplayed: The Gen AI threat for Cigniti's testing business was dismissed. Mr Singh stated that Cigniti was acquired to create three new verticals – in healthcare, retail and high tech. He believes that while Coforge will show industry-leading growth, Cigniti will grow faster than Coforge in the coming quarters and years. As indicated by him post the Cigniti acquisition announcement, non-functional testing will help gain business in the Gen AI era especially in mission-critical applications like those used by airlines.

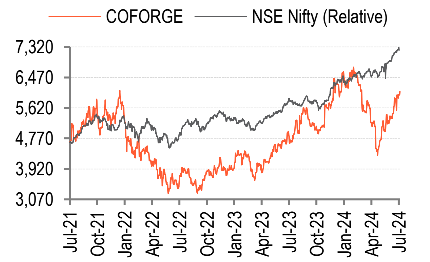
Cigniti's 1QFY25 performance: In 1QFY25 Cigniti delivered 2.4% QoQ US$ revenue growth (US$56 mn), 160bps QoQ expansion in EBITDA margin (12.6% vs 11% in 4QFY24). Coforge indicated that it will drive EBITDA margin up to 16% for FY25 for Cigniti.

1QFY25 growth driven by non-BFSI verticals: Growth was driven by 'others' (Healthcare, Retail, Hi-Tech and Manufacturing), Travel, Tourism and Hospitality (TTH) and government verticals. The BFS sector showed a QoQ decline for Coforge, unlike many of its peers in 1QFY25.

Ticker/Price	COFORGE IN/Rs 6,179
Market cap	US$ 4.6bn
Free float	43%
3M ADV	US$ 47.1mn
52wk high/low	Rs 6,847/Rs 4,287
Promoter/FPI/DII	70%/13%/17%

Source: NSE | Price as of 23 Jul 2024

Stock performance



Source: NSE

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| IT Services | 24 July 2024

Starts FY25 well on revenue. But challenges ahead?

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- **Unexpected furloughs in the TMT sector could act as a drag in 2Q. Zensar will likely eke out a mid-single USD growth in FY25 (-2% in FY24)**
- **EBITDA margin is expected to be in mid-teens. We will be initiating coverage on the sector and company soon.**

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Delivers a strong quarter due to US BFSI: Zensar delivered better-than-expected revenue growth of 4.3% in constant currency (CC) terms QoQ. For the second consecutive quarter, it registered sequential QoQ growth across all its verticals. The BFSI vertical (~40% of revenue) at 6.8% CC QoQ drove growth. BFSI contributed ~60% of incremental revenue of US$ 6.3mn QoQ. This seems to be coming from US geography, which grew by 6.6% QoQ. This is in line with commentary we have heard on US BFSI from most of Zensar's peers, both large and mid-sized.

New age services drove growth: In service lines, Data Engineering and Analytics grew QoQ by 17.9%. Advanced Engineering Services grew by 9.3%. Data Engineering and Analytics growth is seen across many service providers in 1QFY25 and probably is in preparation of Gen AI initiatives.

One offs hit margins: However, the 1Q EBIT margin dropped 130bps QoQ and 200bps YoY. This is even before salary hikes that kick in from 1 July 2024. Excluding the one-offs in both direct costs as well as SGA, EBITDA margin would have been 15.6% (reported 15.2%), a 90 bps drop QoQ and 320bps YoY. Gross margin for the quarter stood at 30.4%, a drop of 20bps QoQ. Travel, visa, licences had a negative margin impact of 150 bps, offset by exchange benefit of 20bps. Utilisation and volume positively impacted margin by 40bps. There was also a one-time benefit of 70bps on account of R&D credit.

Zensar CEO wants to drive revenue growth in FY25. It was all about margins in FY24: EBITDA margin improved from 8.5% to 17.8% in FY24, during CEO Manish Tandon's tenure (last six quarters). He highlighted that in FY25 there were opportunities to optimise EPS growth by focusing on revenues, contrary to FY24 where there were opportunities to improve margins. For FY25, Zensar aims to grow higher than the industry average by winning larger deals, focus on true verticalisation, and execute more annuity-like managed services projects.

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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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