



BOBCAPS

TRUST | INNOVATION | EXCELLENCE

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India Strategy

2024: another year of hope

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Important disclosures and analyst certifications are provided at the end of the report.



2024 outlook

Mass premiumisation

Valuation & Stock picks



Positives

- A combination of strong underlying domestic economy coupled with a visible increase in consumption of mass-premium items will likely be the dominant driver of market in 2024, in our view.
- We see continuing trend of greening up of the economy along with increase in automation across the manufacturing set up. Companies involved in these areas will likely continue to be favourably looked at by the investors.
- Given current demographic trends, we will likely see a faster increase in per capita income.
- Latest data from RBI point to reduction in capacity utilisation. We believe such data, despite increase in consumption, indicates that companies have been steadily expanding their capacity.
- Interest rates have largely peaked in US as per latest forecasts and indications by the Fed Chair. IT companies in our view are long “Duration”. Lower interest rate and easy liquidity have in past helped fund tech start-ups.

Negatives

- Complacency on climate related issues as evident by sharp rise in coal chain stocks. This was partly caused by covid related energy disruption and subsequent usage of coal in Europe. This false sense of comfort with coal chain companies is unlikely to last. We would recommend a dividend discounting model to value these companies with nil terminal value. We recommend other fossil fuel producers be valued the same way.
- Trajectory of geo-political conflicts is difficult to predict and several hot spots remain active.
- China is slowing down. This can be a double-edge sword for other developing countries. While on one hand, countries like India are gaining from China+1 strategy, a slowdown in any major economy does have a collateral negative impact on rest of the world.
- While small and mid cap stocks have had a stellar run through 2023, valuations of large cap stocks have also moved beyond their 5-yr mean.

India relatively better placed but valuation a concern; recommend a bottom up approach for 2024

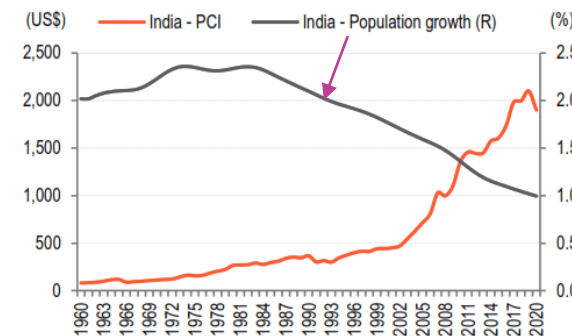


Building blocks for long term growth in place

Demographic Dividend

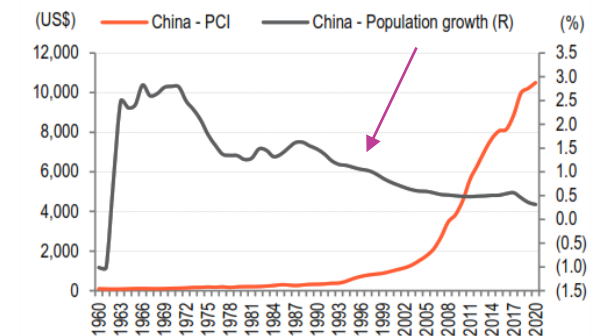
- **Common experience among developed countries:** A sharp rise in per capita income once population growth decelerates to ~1%
- India's population growth has moderated to ~1%
- Happy coincidence with implementation of several large reforms in India

India



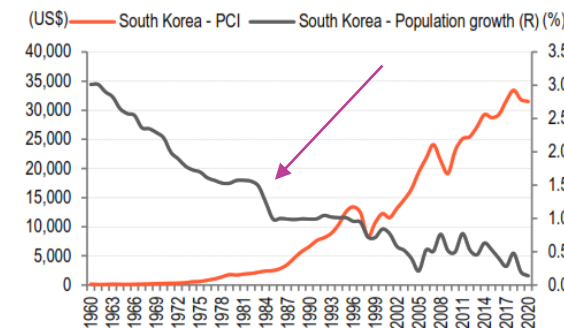
Source: BOBCAPS Research, World Bank | PCI: Per capital income

China



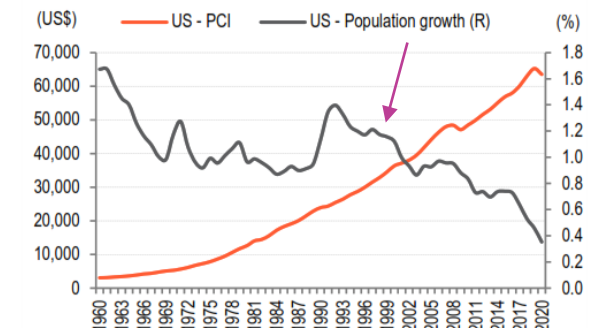
Source: BOBCAPS Research, World Bank | PCI: Per capital income

South Korea



Source: BOBCAPS Research, World Bank | PCI: Per capital income

United States



Source: BOBCAPS Research, World Bank | PCI: Per capital income

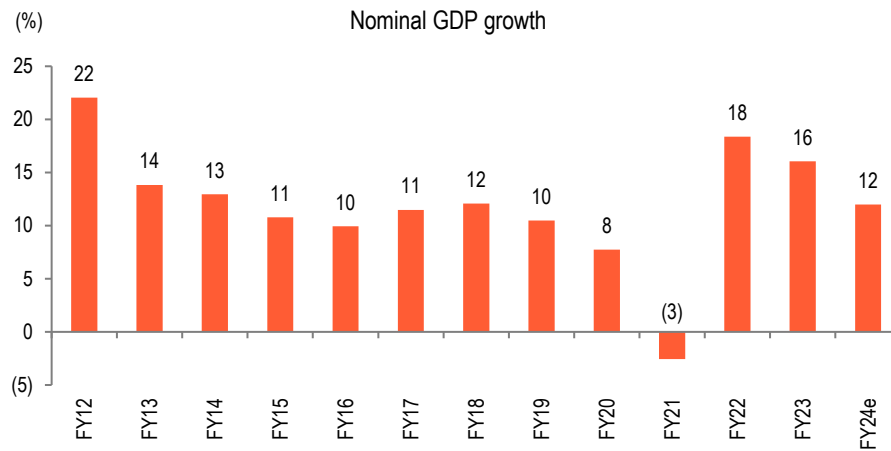
Parameter	FY10	FY22
Peak electricity deficit (%)	12.6	0
Access to electricity (%)	66	99
Mobile internet users (mn)	2.3	825
Roads (mn km)	4.6	6.4*
Basic saving bank deposit account (BSBDA) (mn)	73	663
Number of MBBS seats	35,200	91,927

Source: Various Govt ministries, Media reports, BOBCAPS Research | *Dec'19

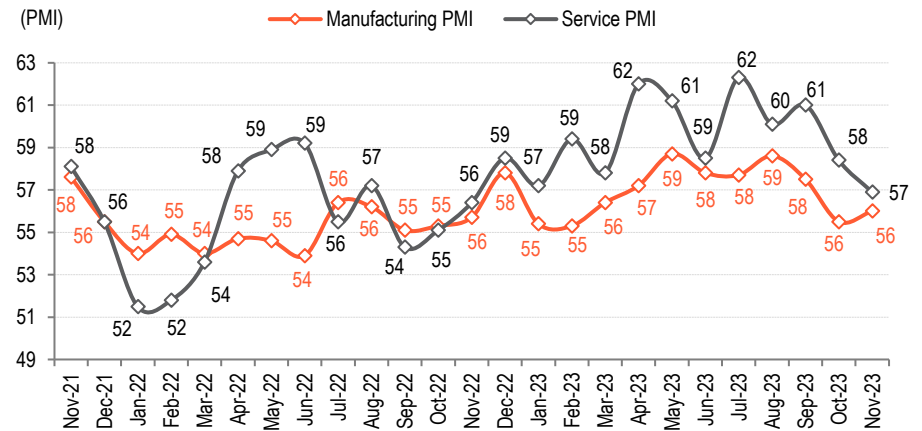


Macro data are largely supportive

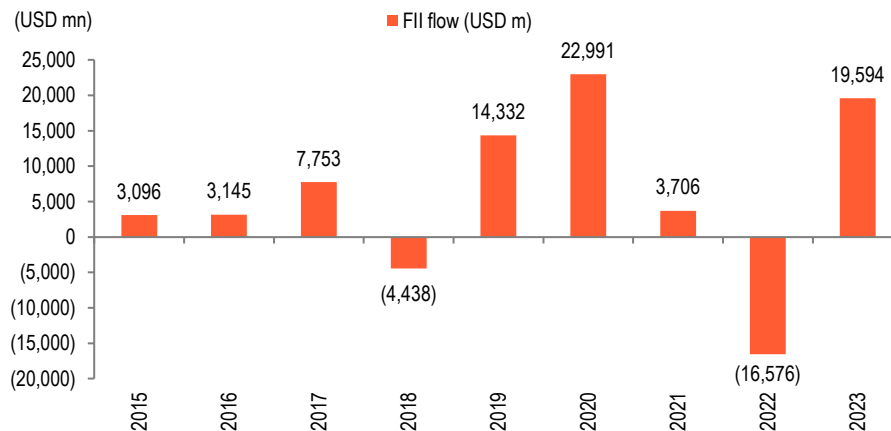
Nominal GDP Growth is healthy



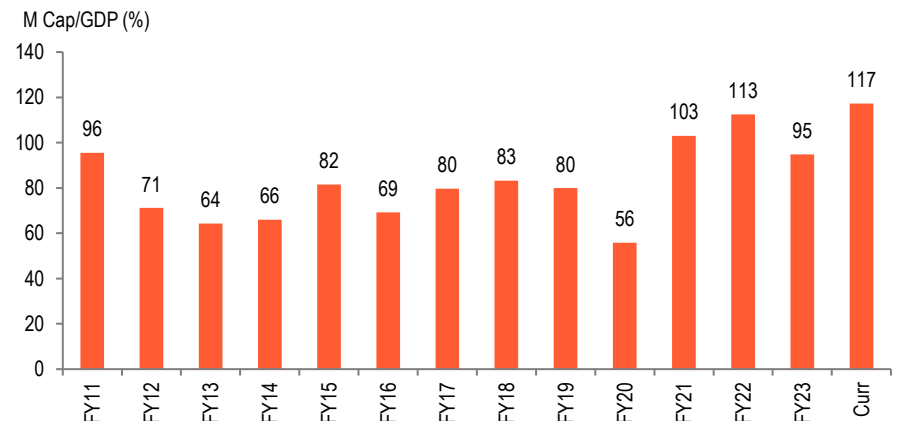
PMI remains robust



FII flow has exceeded expectation in 2023



However, market capitalisation to GDP ratio is at high levels





Popular hypothesis	Our view	Remark
Employment generation is robust	Mixed outlook	BFSI has seen robust recruitment but IT, a large employment engine has lagged significantly this year. As per various media reports, private engineering colleges have reported ~50% drop in recruitment. CAs seem to have had a better 2023 compared to 2022, while engineering graduates are facing the brunt of moderation in hiring by IT companies. Industrials have seen order book grow by ~10% CAGR over last 5 years, but employee count has grown by mere ~3% CAGR.
Rural sector is facing stress due to uneven monsoon	Not backed by ground check	While monsoon was inconsistent in 2023, our channel checks suggest that a combination of yield management, better realisation and ground water availability has cushioned impact of inconsistent monsoon. Pulse may lag but paddy & wheat may have modest growth in FY24.
More women are entering workforce	Not backed by EPFO data	Percentage of women entering the workforce has remained largely stable at around 21% over last 5 years as per EPFO payroll data.

Source: Economic Times, BOBCAPS Research, Media reports, Company, ICAI

Employment in businesses facing retail sectors is robust, but those in export oriented sectors are lagging

Popular hypothesis	Our view	Remark
Private sector capex is gathering pace	Early signs but not yet robust	We see early signs of private capex recovery. While CMIE private capex data remains muted, cap goods companies are now indicating modest recovery in private sector capex.
Government capex remains robust	Agree	Companies dependent on government capex continue to show robust order books including in sectors like Railway & Defense. Major listed cap goods companies have reported ~11% CAGR in order-inflow and ~10% CAGR in order book over 5 years.
Greening capex remains robust	Agree	This is backed by data and order books. The CMIE capex data details are pointing to this too. Increasing solar & wind capacity another pointer to this.

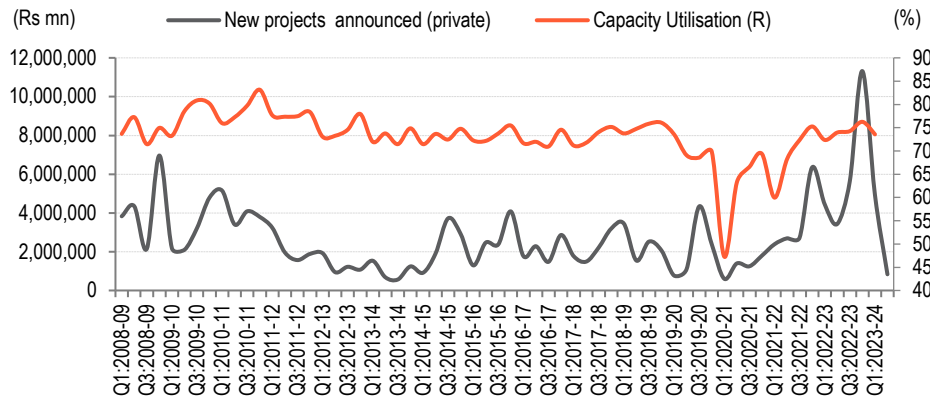
Source: CMIE Capex data, BOBCAPS Research, Company data

Government remains the fulcrum of capex, private capex is still not robust – overall orderbook CAGR of 10% over 5 yr

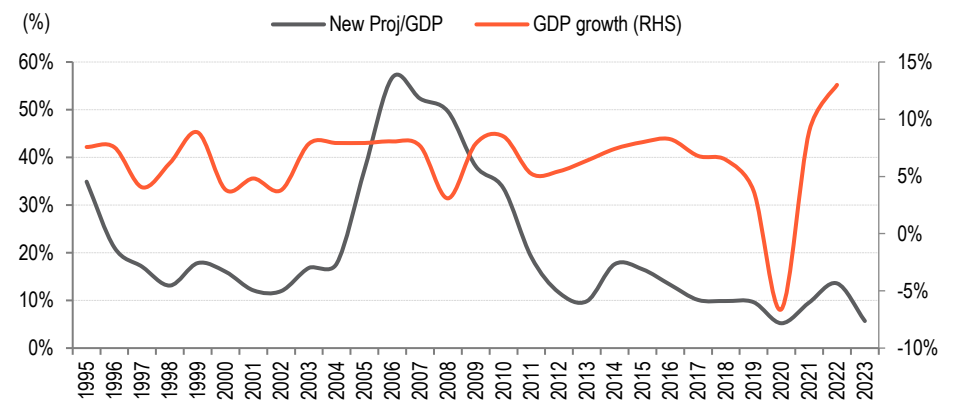


Capex cycle conundrum – no clear trend

Capacity utilisation vs new projects announcement

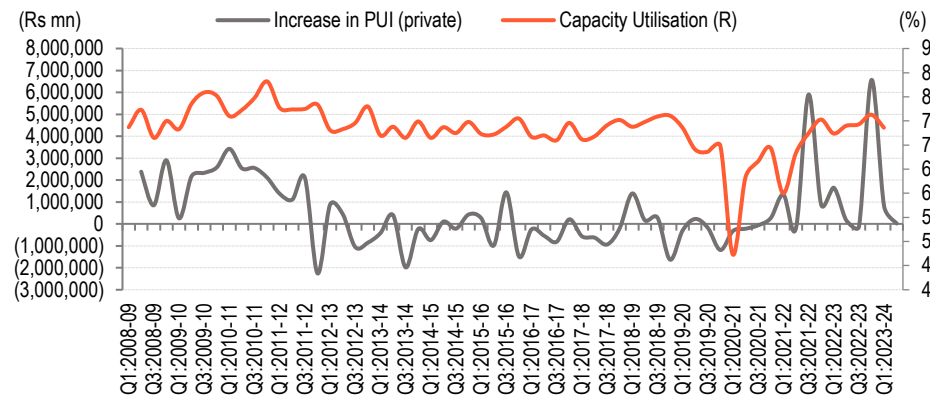


New project vs GDP

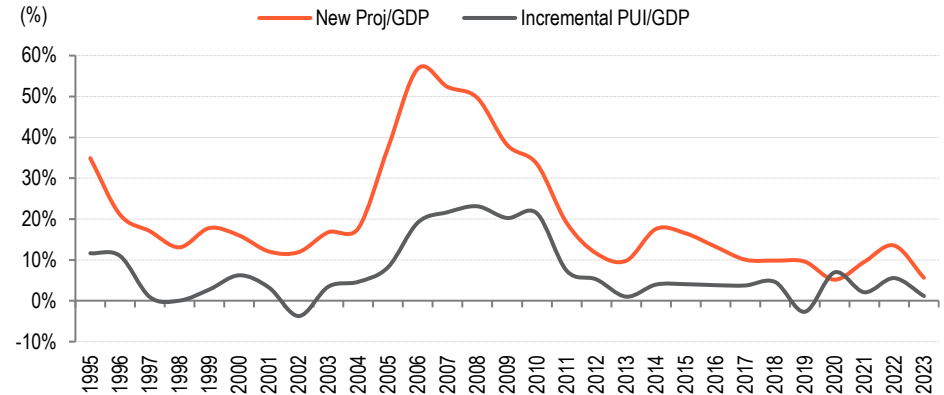


Source: CMIE, BOBCAPS Research, Refinitiv

Capacity utilisation vs incremental Project Under Implementation



Incremental PUI vs GDP



Source: CMIE, BOBCAPS Research, RBI

Source: CMIE, BOBCAPS Research, Refinitiv | PUI: Project under implementation



Geo-political landscape remains fragile

Popular hypothesis	Our view	Remark
World is closer to World War-III than ever	Situation not materially different from past years	We have had many wars fought over last several years, and we continue to see newer conflicts emerge but current situation is not materially different from past ones. That said, one cannot be too complacent that the trajectory of ongoing conflicts will continue to remain limited in scope.
Potential conflicts that can further stress global supply chain and/or economic activities	Difficult to quantify probability of a conflict	<ul style="list-style-type: none">• Chinese move on Taiwan• Widening of Israel-Gaza conflict• Increase in intensity of Russia-Ukraine war• Venezuela-Guyana conflict• Afghanistan-Iran-Pakistan conflict• Arab Spring 2.0 in Middle East catalysed by ongoing Israel-Gaza conflict

World will likely continue to face geo-political tensions but we have largely learnt to live with them



Domestic economy

Robust
outlook

Greening & Automation

Mfg.
enablers

Mass premiumisation

Auto, FMCG,
Cable

Penetration led growth

Cable, Retail
loan



High valuation

Global Macro, China

Geo political conflicts

Increasing competition

EMS,
Durable

Despite valuation concerns, risk to Retail facing sectors, Defense, Manufacturing automation & Cleantech enablers are skewed to upside



2024 outlook

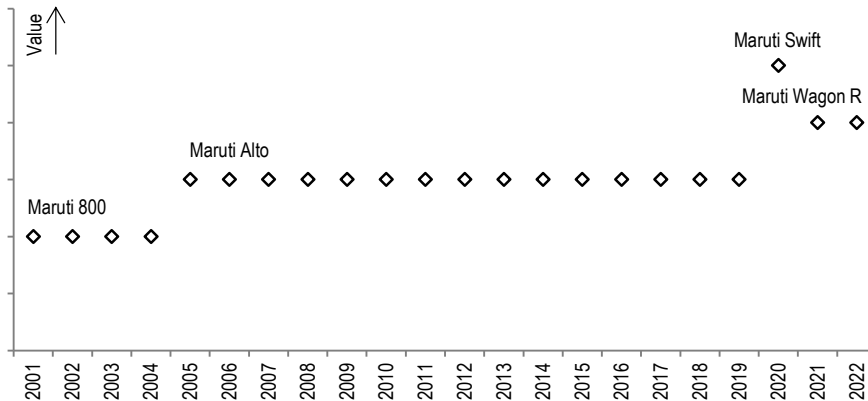
Mass premiumisation

Valuation & Sector picks

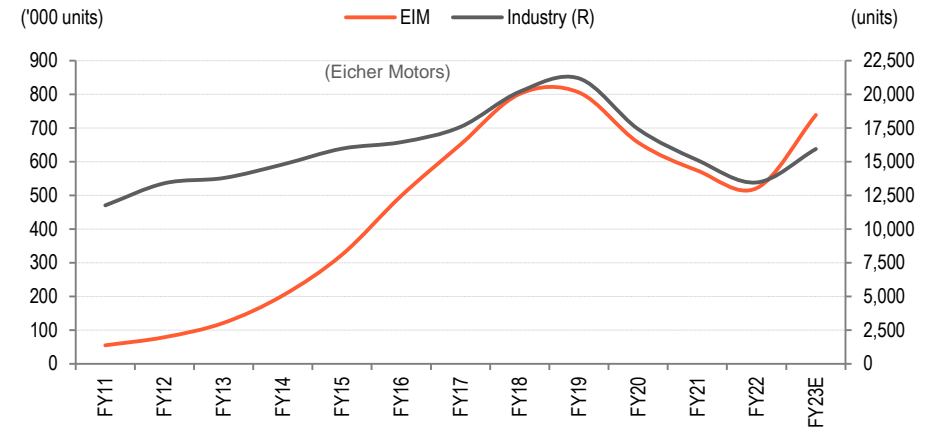


Mass premiumisation across sectors

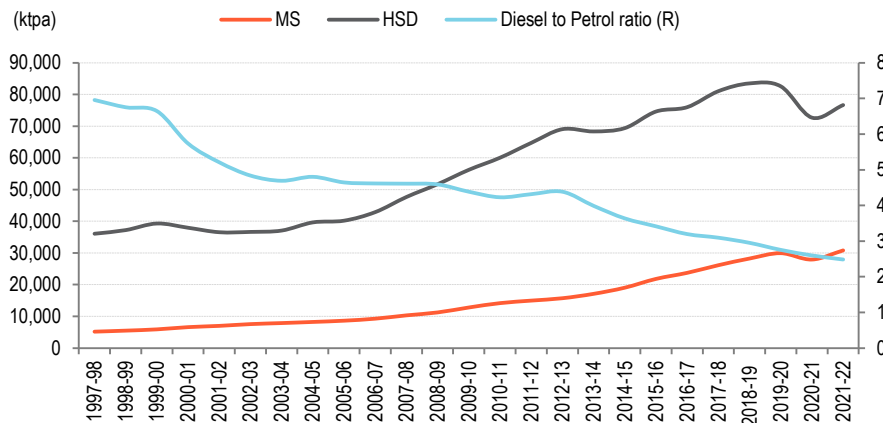
Bestselling PV model moving up the chain



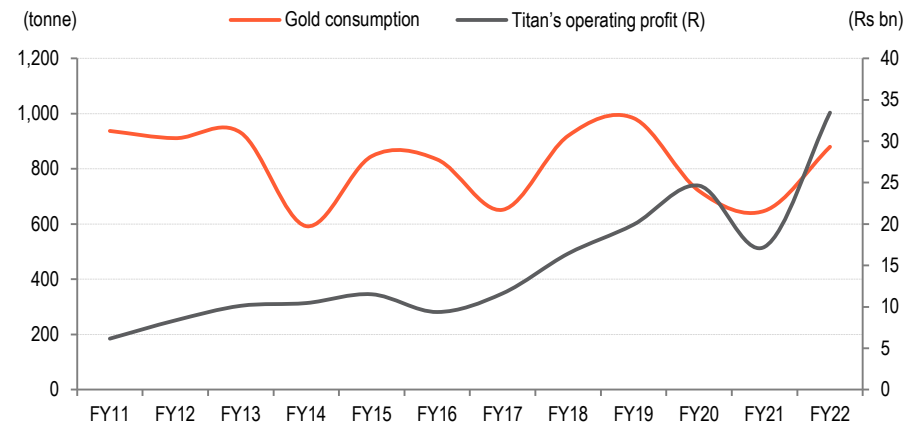
Premium two-wheelers are growing faster than industry



Ratio of diesel to petrol has been consistently declining



Sales of high-end jewellery have grown faster than gold

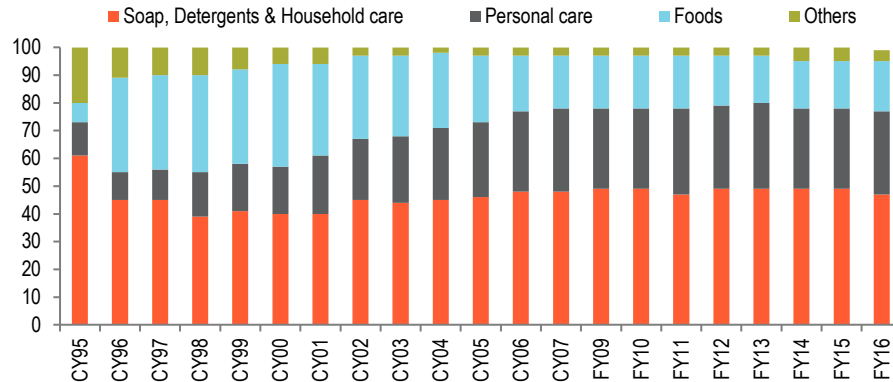


Company data, BoBCAP Research, Bloomberg, CMIE, PPAC

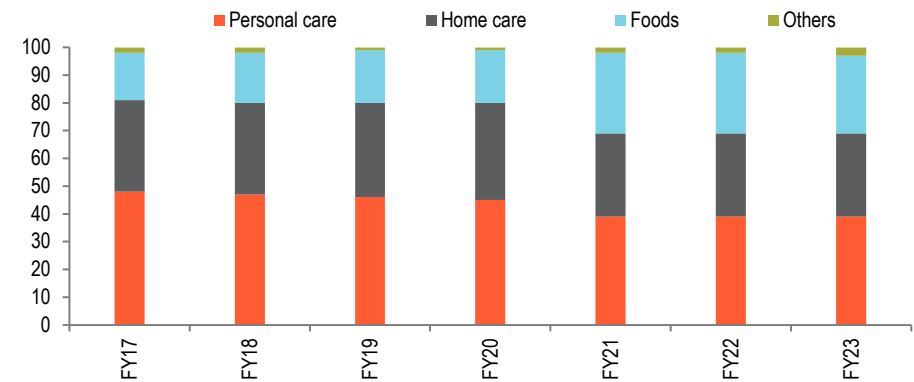


Mass premiumisation....(contd.)

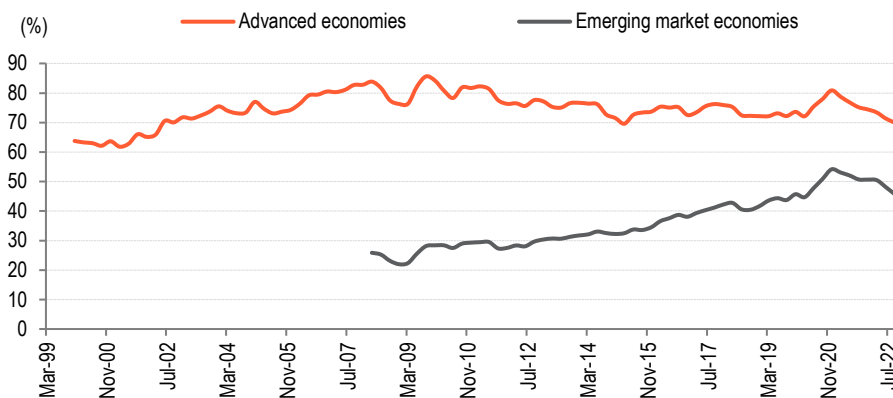
Uptick in personal care over hygiene products in last decade



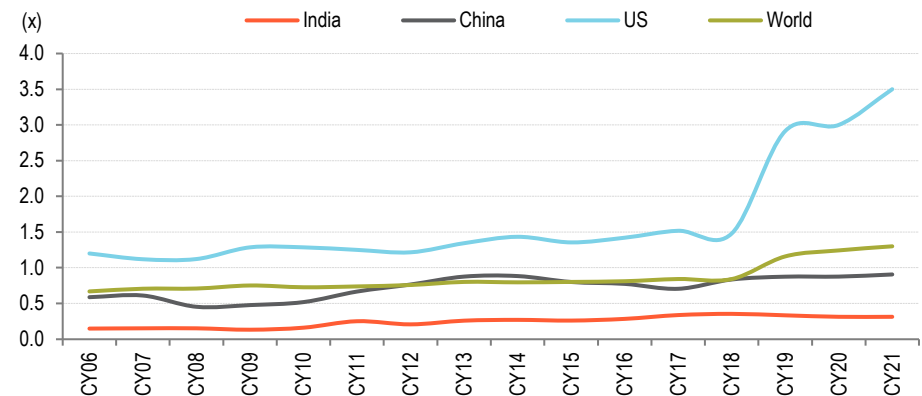
Packaged foods now taking over



Household debt as % of GDP rising in EM



India's ratio of general to life insurance premium inching up



BIS, Company data, HUVR, IRDAI



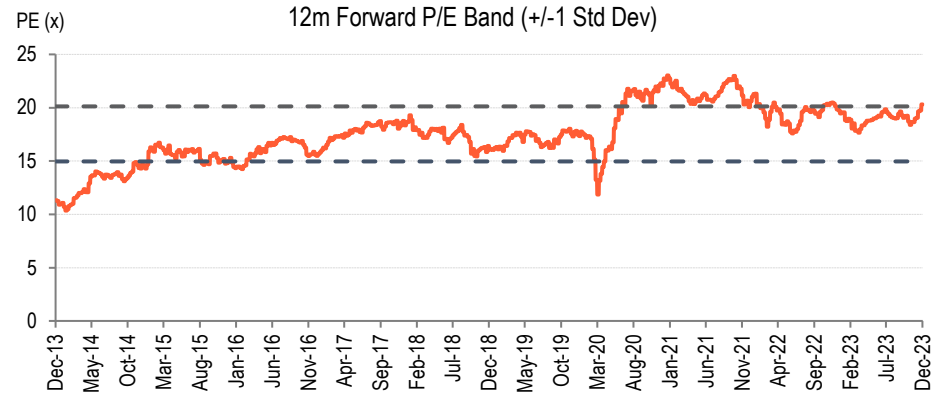
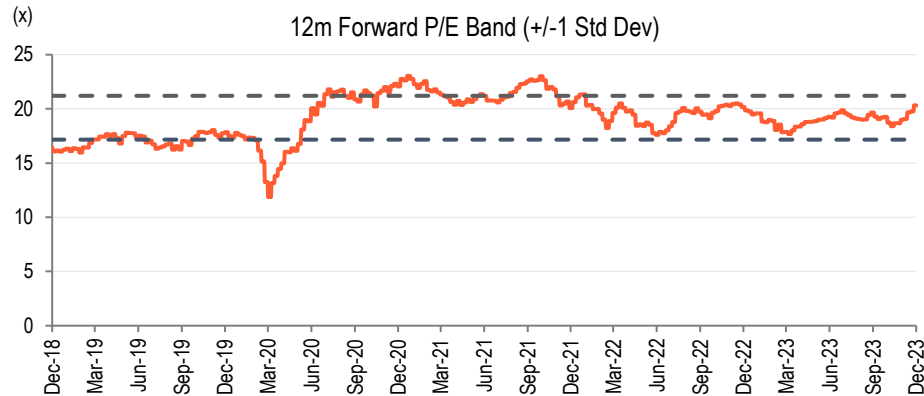
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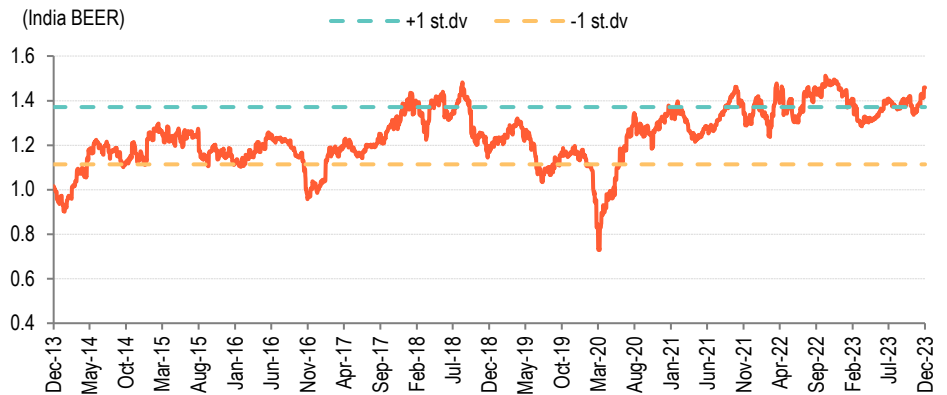
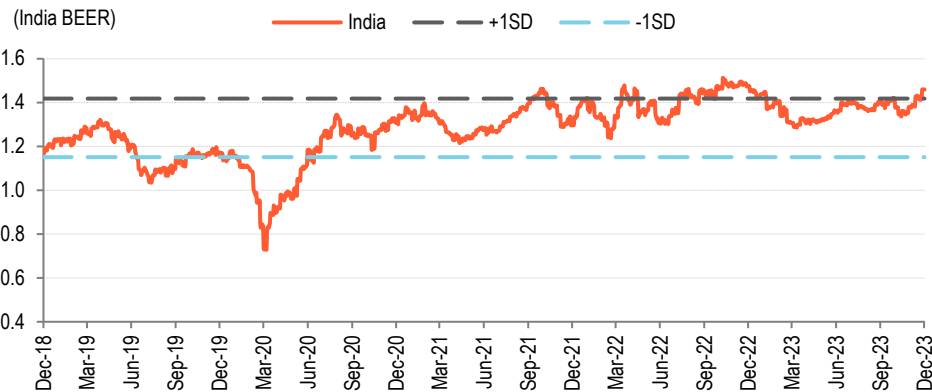
PE & BEER – range & trend



5 y

Stretched valuations

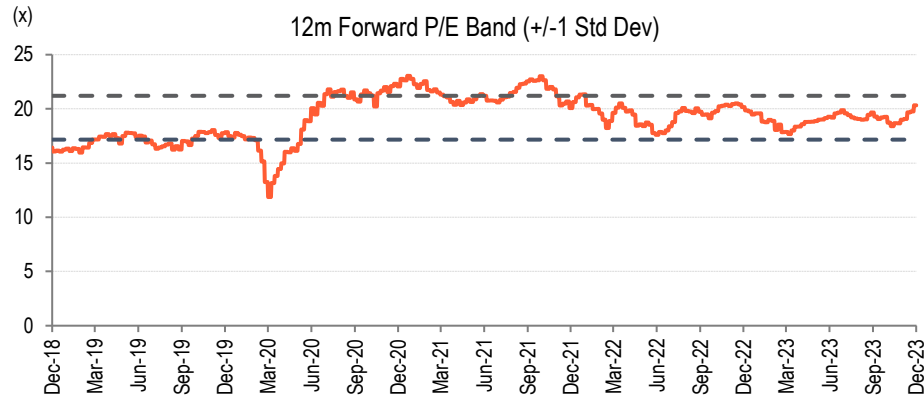
10 y



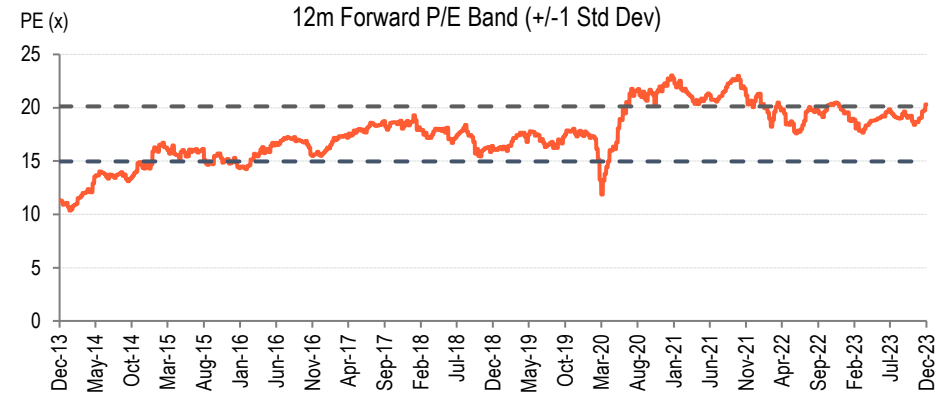
Source: Refinitiv, BOBCAPS Research



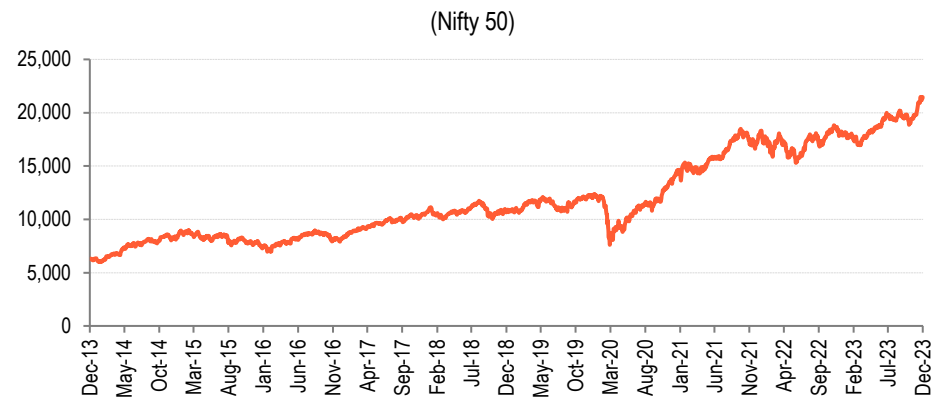
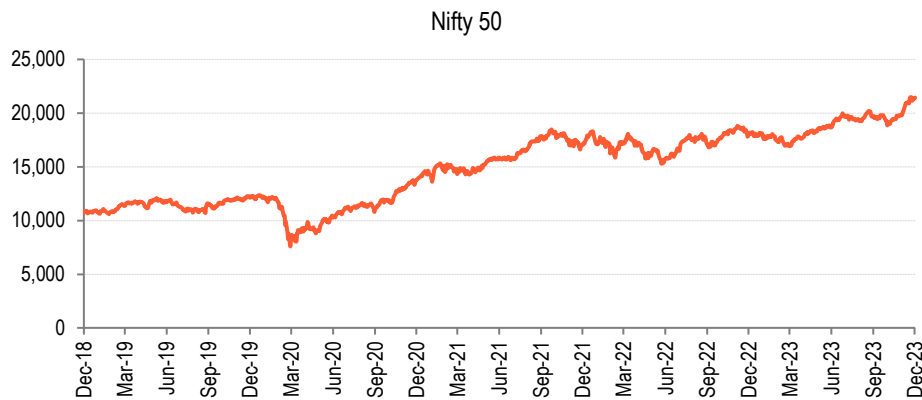
PE vs Nifty movement



5 y



10 y

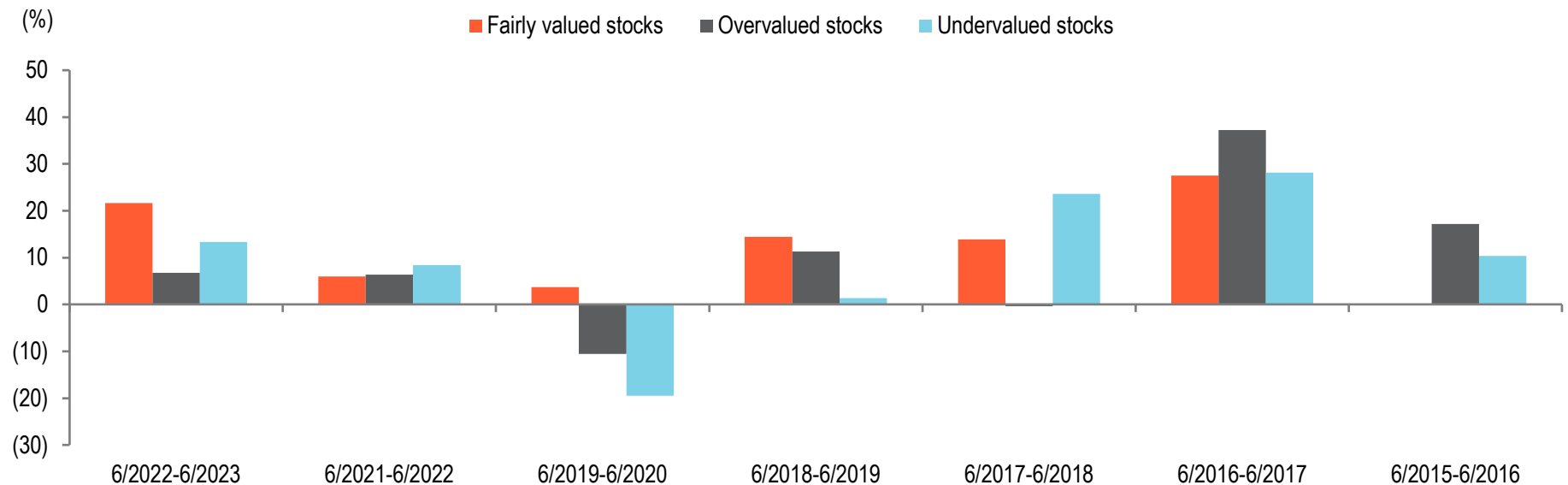


Source: Refinitiv, BOBCAPS Research



Fairly valued stocks tend to do better

Returns in one year following the date on which stocks were classified into one of the three categories



Source: BOBCAPS Research, Refinitiv

Methodology: For our analysis, we have used a daily time series to calculate the ratios of forward PE multiples of individual stocks to that of the Nifty 50 for the past ten years. We then used the distance from mean in terms of standard deviation to categorise the stocks as overvalued, undervalued and fairly valued. Thereafter, we evaluated the individual stock performance for these three categories over the next one year from the date of their classification. This exercise has been repeated for each of the last 8 years to capture trends, if any, except for the Covid shutdown year of 2020-21.



Stock classification

Current classification of top 100 stocks

Overvalued stocks	Fairly valued stocks	Undervalued stocks
Nestle, ICICI Prudential Life, Tata Consumers, HAL, HDFC Life, Chola Fin, ABB, Pidilite, SRF, Havells, Torrent Pharma, Adani Enterprise, Godrej Consumer, RIL, BEL, DIVI's Lab, Grasim, Ambuja Cement, Varun Beverages	Britannia Ind, Tata Motors, PI Industries, Hero Motocorp, Adani Transmission, IRCTC, Apollo Hospital, Power Grid, SBI Life, Marico, Canara Bank, L&T, Adani Wilmar, Tata Power, Page Ind, HUL, Info Edge, Siemens, Colgate, Dabur, TCS, United Spirits, Bharti Airtel, Wipro, Infosys, Bajaj Auto, NTPC, Bosch, JSW Steel, Indigo, D Mart, Berger Paint, Eicher Motors, ITC, Asian Paints, Titan, Tata Steel, HCL Tech, Maruti, Adani Ports, PGHH, Adani Total Gas, Bajaj Finserv, Tech Mahindra, Vedanta, DLF, LTI Mindtree, Hindalco, Muthoot, Ultratech, Sun Pharma, Bajaj Finance, Cipla, SBI Card, Shree Cement, ICICI Bank, M&M	BPCL, ICICI Lombard General Ins, IOCL, Axis Bank, Nykaa, Coal India, LIC, Dr Reddy, SBI, UPL, Bajaj Holdings, HDFC AMC, HDFC Bank, HDFC, Indusind Bank, GAIL, Motherson, ONGC, Adani Green, Kotak Bank, ACC, Indus Tower

Source: BOBCAPS Research, Refinitiv



12m forward PE multiple of 100 large stocks

Sector	12m fwd PEx		Sigma
	Current	5 yr avg	
Auto	24	31	0.2
BFSI	23	22	0.3
Chemical	27	24	0.6
Materials	21	19	0.8
Energy	21	19	0.9
FMCG	52	47	0.9
Healthcare	35	32	1.1
Industrial	46	35	1.4
Real Estate	32	27	1.3
Retail	68	69	0.0
Technology	31	25	0.8
Others	32	27	1.3
Nifty 50	20	19	0.3



Company	12m fwd PEx		Sigma
	Current	5 yr avg	
TCS	27.8	26.3	0.4
Bharti Airtel	32.1	43.6	(0.6)
Wipro	20.4	18.4	0.4
Infosys	23.9	22.6	0.3
HCL Tech	23.1	17.2	1.8
Tech Mahindra	24.1	16.6	2.4
LTI Mindtree	32.9	26.7	0.8
Indus Towers	9.1	12.7	(0.9)
Coforge	34.5	25.3	1.2
KPIT Technologies	60.0	30.5	1.9
Mphasis	28.9	21.2	1.1
Persistent Systems	42.7	24.9	1.7
Syngene Inter	41.8	41.1	0.1
Tata Communications	29.1	27.5	0.1
Average	30.7	25.3	0.8



BFSI Company	12m fwd PEx		Sigma
	Current	5 yr avg	
ICICI Prudential Life	64.3	50.1	1.2
HDFC Life	74.1	69.2	0.4
SBI Life	63	52.3	1.5
ICICI Lombard	30.4	34.7	(0.9)
Canara Bank	5.2	6.7	(0.4)
Axis Bank	12.7	14.4	(0.7)
Cholamandalam Inv	25.2	18.5	1.4
LIC	14	23.5	(0.8)
SBI	9.2	9.9	(0.5)
Bajaj Finserv	28.2	28.3	(0.0)
HDFC AMC	35.5	34.9	0.1
HDFC Bank	17.6	19.9	(0.9)
Indusind Bank	11.7	12.8	(0.4)
Muthoot Finance	12.9	11.1	1.5
Bajaj Finance	25.7	34.3	(1.2)
SBI Cards	24.4	37.3	(1.3)
ICICI Bank	17	18.3	(0.7)
Kotak Mahindra Bank	26.2	37.4	(1.8)
Aditya Birla Fin. Serv	12.1	14.4	(0.9)
Au Small Finance Bank	24.9	29	(0.9)
Bandhan Bank	9	14.4	(0.9)
Bank Of India	6	9.3	(0.5)
Federal Bank	9.2	8.7	0.4
HDFC AMC	35.5	34.9	0.1
IDFC First Bank	14.7	27.7	(0.9)
Indian Bank	6.2	4.7	1.0
Indian Railway Finance	19.4	6.6	3.6
L&T Finance Holdings	14.0	9.7	2.1
LIC Housing Finance	6.3	6.8	(0.4)
Maha.& Maha.Finl.Svs.	13.8	12.9	0.4
Max Financial Svs.	64.4	45.3	1.0
Power Finance	8.2	3.8	4.9
Poonawalla Fincorp	24.7	8.6	1.8
Tube Investments	59.0	36.2	2.4
Union Bank Of India	5.8	6.8	(0.2)
Yes Bank	27.9	26.3	0.1
Piramal Enterprises	15.4	15.1	0.1
Average	23.2	22.1	0.3

Auto Company	12m fwd PEx		Sigma
	Current	5 yr avg	
Tata Motors	13.3	99.1	(0.2)
Hero Motocorp	18.6	15.5	1.5
Bajaj Auto	23.0	18.0	3.1
Eicher Motors	26.2	26.2	0.0
Maruti	23.5	28.4	(1.2)
Samvardhana Motherson	17.8	21.6	(0.7)
Mahindra & Mahindra	18.5	17.9	0.2
Apollo Tyres	13.9	14.1	(0.0)
Ashok Leyland	17.1	28.4	(0.8)
Balkrishna Industries	27.6	23.8	0.9
Escorts Kubota	26.7	19.0	1.3
MRF	23.7	22.6	0.3
Motherson Sumi Wiring	35.1	35.2	(0.0)
Sona BLW Precision	46.1	59.4	(0.9)
Average	23.6	30.7	0.2

Energy Company	12m fwd PEx		Sigma
	Current	5 yr avg	
Bharat Petroleum	7.0	8.8	(1.2)
Adani Energy Solutions	97.6	91.5	0.1
Power Grid	13.4	9.5	2.9
Indian Oil	7.2	6.4	0.9
Coal India	8.5	6.6	1.7
Tata Power	26.6	17.4	1.2
Adani Enterprises	67.6	67.8	(0.0)
NTPC	13.9	8.2	3.8
RIL	21.5	20.0	0.4
Gail (India)	11.2	9.2	1.4
ONGC	5.3	5.3	(0.0)
Gujarat Gas	22.4	21.6	0.2
Hindustan Petroleum	5.6	6.6	(0.5)
Indraprastha Gas	15.0	22.6	(1.9)
JSW Energy	31.1	23.3	0.6
NHPC	13.9	8.5	3.9
Oil India	5.9	5.0	1.0
Petronet LNG	9.6	11.4	(1.2)
REC	7.4	3.4	4.3
Average	20.6	18.6	0.9



12m forward PE multiple of 100 large stocks

Chemicals	12m fwd PEx		
Company	Current	5 yr avg	Sigma
PI Industries	30.1	36.2	(0.9)
SRF	35.4	26.9	1.3
UPL	11.7	12.1	(0.2)
Coromandel Int	16.8	15.3	1.2
Deepak Nitrite	29.6	20.6	1.3
Gujarat Fluorochemicals	39.8	26.5	1.5
Navin Fluorine Intl.	37.6	39.0	(0.1)
Tata Chemicals	16.5	14.7	0.39
Average	27.2	23.9	0.6

Commodity	12m fwd PEx		
Company	Current	5 yr avg	Sigma
JSW Steel	14.0	11.9	0.7
Tata Steel	12.5	9.5	0.5
Vedanta	9.8	7.5	1.2
Hindalco	11.5	8.7	2.3
Ultratech Cement	31.9	28.3	1.3
Shree Cement	41.3	37.9	0.6
Ambuja Cements	27.6	22.9	1.0
ACC	19.8	21.4	(0.3)
ACC	19.8	21.4	(0.3)
Dalmia Bharat	31.5	32.9	(0.1)
NMDC	9.3	6.9	2.1
The Ramco Cements	31.6	26.0	1.6
SAIL	11.5	16.1	(0.1)
Average	20.9	19.3	0.8

Real Estate	12m fwd PEx		
Company	Current	5 yr avg	Sigma
DLF	53.7	32.5	2.0
Godrej Properties	59.0	63.4	(0.2)
Macrotech Developers	40.0	32.3	1.2
Oberoi Realty	22.8	19.7	0.7
Prestige Estates Prjs.	45.6	24.8	3.9
Average	44.2	34.5	1.5

FMCG	12m fwd PEx		
Company	Current	5 yr avg	Sigma
Hindustan Unilever	51.8	54.4	(0.8)
Britannia Inds.	52.2	47.2	1.6
Nestle India	70.5	62.4	1.5
Tata Consumer	56.0	45.6	0.9
Marico	41.0	42.2	(0.3)
Adani Wilmar	62.6	58.3	0.4
Colgate-Palmolive	48.9	39.9	2.7
Dabur India	42.9	46.5	(1.0)
United Spirits	54.8	48.5	1.0
Berger Paints	49.7	60.5	(0.8)
ITC	25.1	19.7	1.3
Asian Paints	57.2	60.5	(0.3)
Godrej Consumer	47.2	41.5	1.3
Varun Beverage	67.1	39.7	4.6
Patanjali Foods	36.3	29.6	1.6
United Breweries	62.5	56.9	0.6
Average	51.6	47.1	0.9

	12m fwd PEx		
Company	Current	5 yr avg	Sigma
Adani Ports And Sez.	23.4	18.5	1.5
Container Corp	34.8	28.8	1.4
Sun TV Network	14.0	11.6	1.5
Zee Entertainment	23.8	16.9	1.5
Interglobe Aviation	18.0	43.3	(0.4)
Grasim Industries	78.5	40.9	2.5
Average	32.1	26.7	1.3

Healthcare	12m fwd PEx		
Company	Current	5 yr avg	Sigma
Apollo Hospital	56.4	54.5	0.1
Dr Reddys	17.7	21.4	(1.2)
Torrent Pharma	38.5	32.1	2.0
P&G.Hygiene & Hlth.Care	62.4	59.6	0.6
Divis Lab	46.9	37.7	1.3
Sun Pharma	28.6	23.4	2.1
Cipla	23.5	23.2	0.1
Alkem Laboratories	31.6	22.7	4.3
Aurobindo Pharma	18.1	12.8	2.2
Biocon	25.1	31.9	(1.0)
Fortis Healthcare	38.8	56.0	(0.4)
Gland Pharma	27.9	29.7	(0.2)
Ipca Laboratories	29.3	22.7	2.7
Dr Lal Pathlabs	55.0	52.9	0.2
Laurus Labs	38.1	21.7	3.1
Lupin	29.6	26.1	1.1
Mankind Pharma	36.5	35.1	0.6
Max Healthcare Institute	43.6	37.8	1.8
Torrent Power	16.2	13.2	1.2
Average	34.9	32.3	1.1

Retail	12m fwd PEx		
Company	Current	5 yr avg	Sigma
IRCTC	52.7	48.9	0.2
Page Industries	56.6	60.1	(0.3)
Info Edge	73.6	86.7	(0.4)
Avenue Supermarts	78.9	89.5	(0.5)
Titan	73.1	63.8	0.8
Bata India	48.4	51.4	(0.3)
Devyani International	84.5	90.1	(0.1)
Jubilant Foodworks	78.1	61.8	1.0
Average	68.3	69.0	0.0



Earnings past their inflationary concerns

Quarterly financials of all listed companies

% YoY	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Income	25.2	16.5	12.6	4.5	4.3
Expenses	27	16.4	11.2	0.0	3.2
Net profit	(1.3)	5.8	17.2	44.4	46.0
PAT margin (%)	7.6	8.3	9.8	10.1	10.3

Source: CMIE

Quarterly financials of non-financial listed companies

% YoY	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Income	27.9	14.9	9.3	(1.6)	(1.1)
Expenses	31.3	15.6	8.1	(5.6)	(2.0)
Net profit	(21.4)	(10.3)	11	38.3	64.2
PAT margin (%)	5.5	6	8.3	8.3	8.4

Source: CMIE

Annual financials of all listed companies

% YoY	FY20	FY21	FY22	FY23
Income	0.7	(1.2)	26.4	19.4
Expenses	0.4	(3.5)	25.3	18.1
Net profit	(2.7)	74.2	63.1	28.7
PAT margin (%)	2.1	4.5	6.8	11.6

Source: CMIE

Annual financials of non-financial listed companies

% YoY	FY20	FY21	FY22	FY23
Income	(1.0)	(2.3)	30.7	19.3
Expenses	(0.9)	(4.2)	30.3	22.2
Net profit	(19.7)	62.1	60.8	0.6
PAT margin (%)	2.3	4.1	5.9	12.7

Source: CMIE

Portfolio for a bear market

Option 1	Option 2	
Leaders	Top 10: 2000	Top 10: 2020
RIL IN	HUVR IN	RIL IN
MM IN	INFO IN	TCS IN
INFO IN	RIL IN	HDFCB IN
NEST IN	Z IN	HDFC IN
HDFC IN	ITC IN	HUVR IN
SBIN IN	SCS IN	ICICIB IN
ITC IN	MTNL IN	KMB IN
HUVR IN	SBIN IN	INFO IN
LT IN	ICICIB IN	SBIN IN
SUNP IN	NIIT IN	ITC IN
ACC IN	-	-
APNT IN	-	-
TATA IN	-	-

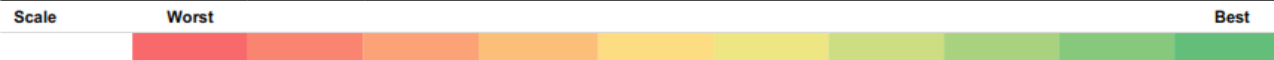
Overall portfolio performance

Period (%)	SENSEX Index	NIFTY Index	NSE500 Index	NSE50EW Index	Leaders		Top 10 2000		Top 10 Rebalanced	
					MW	EW	MW	EW	MW	EW
5Y	13.4	12.4	12.0	10.7	18.2	17.3	19.9	12.4	16.3	15.7
10Y	13.1	12.9	14.0	11.6	15.8	14.3	16.5	14.2	13.3	13.6
15Y	9.5	9.6	9.9	9.6	12.6	14.7	12.0	8.6	8.8	9.1
20Y	15.8	15.4	16.4	16.3	19.7	21.2	18.3	14.7	15.1	15.3
Overall	12.0	12.0	13.5	13.1	17.5	21.5	16.3	19.0	13.7	19.5

Source: Bloomberg, BOBCAPS Research | MW: Market-weight, EW: Equal-weight

Portfolio performance during bear markets

Date (%)	SENSEX Index	NIFTY Index	NSE500 Index	NSE50EW Index	Leaders		Top 10 2000		Top 10 Rebalanced	
					MW	EW	MW	EW	MW	EW
31-12-2000	(20.6)	(14.7)	(24.2)	(13.6)	(4.7)	(14.2)	(12.1)	(55.4)	(12.1)	(55.4)
28-02-2001	(22.0)	(18.3)	(36.1)	(6.4)	(7.9)	(19.9)	(26.6)	(70.0)	(26.6)	(70.0)
30-09-2001	(31.3)	(28.1)	(36.9)	(20.9)	(23.1)	(34.9)	(34.5)	(71.9)	(34.5)	(71.9)
31-01-2002	(23.5)	(21.2)	(27.2)	(15.6)	(16.9)	(23.4)	(24.3)	(43.0)	(24.3)	(43.0)
30-09-2008	(25.6)	(21.9)	(27.0)	(19.6)	(14.2)	(0.2)	(16.5)	(32.6)	(14.2)	(17.2)
30-11-2008	(53.0)	(52.2)	(57.0)	(50.2)	(49.5)	(33.4)	(48.0)	(49.4)	(47.2)	(44.4)
30-04-2009	(34.0)	(32.8)	(36.9)	(32.9)	(29.1)	(22.5)	(28.2)	(47.3)	(25.5)	(25.8)
31-12-2011	(24.6)	(24.6)	(27.2)	(26.5)	(22.1)	(12.0)	(22.0)	(22.8)	(24.8)	(24.8)
29-02-2016	(21.7)	(21.5)	(19.5)	(24.7)	(13.9)	(8.9)	(10.8)	(6.8)	(19.1)	(19.3)
31-03-2020	(23.8)	(26.0)	(27.6)	(32.8)	(14.9)	(15.4)	(15.4)	(33.4)	(17.9)	(17.4)
Average	(28.0)	(26.1)	(32.0)	(24.3)	(19.6)	(18.5)	(23.8)	(43.3)	(24.6)	(38.9)



Source: Bloomberg, BOBCAPS Research

Methodology: We have identified 10 bear market instances over the last 24 years where 12M rolling returns for the Sensex were less than or equal to -20% on a monthly frequency. We have also included cycle bottoms for bear markets lasting more than six months. Our study looks at bear market returns for three portfolio scenarios. Option 1 comprises stocks listed since 1998 that broadly remain amongst the leaders in their respective sectors (a total of 13 stocks). Option 2 includes the top 10 by market cap in the year 2000, and Option 3 has the top 10 by market cap in 2000 with a portfolio reset every five years. We apply two weights for each option: equal weight and market cap weight. **Option 1 has performed better than other portfolio through the bear market events.**



2024 outlook

Mass premiumisation

Stock picks



Nestle India: Investing for growth

- **Investment view:** NEST's strategy of market penetration-led volume growth is yielding results. Growth momentum will be further helped by continued investment, innovation, premiumisation, and foray into newer categories.
- **Focus on penetration-led growth in rural markets:** The company continues to see robust growth across smaller towns and rural markets driven by acceptance of its products. NEST grew its presence from 1,000 villages in 2016 to 91,683 villages in 2022, with plans to further boost its rural presence to 120,000 villages by 2024E.
- **Increasing investment in building capacity:** NEST continues to invest in the Indian market toward enhancing production capabilities, brand and operational efficiencies. In 2020, the company committed investments worth Rs 26bn. In Sep'22, Mark Schneider, chief executive at Nestle SA, announced an investment of Rs 50bn in the Indian market to build factories, research centres, strengthen the brand and explore inorganic growth opportunities.
- **Innovation and new product launches:** NEST has launched over 110 products in the last seven years and has ~30 more products in the pipeline. Premiumisation remains a key focus – it launched Gerber in India, a premium product in the toddler food segment. The company further forayed into the pet food segment and launched millet products under three brands.
- **Investment in alternate channels to drive growth:** The company has launched its first D2C platform, www.mynestle. Revenue contribution from e-commerce has increased from 0.6% of domestic sales in 2016 to 6.5% by 2022-end.
- **Valuation:** We value stock at 65x on CY25E EPS, in line with its long term mean, translating to a TP of Rs 28,260.
- **Key risks:** Continued slowdown in rural market, increased inflation in input cost

CMP (Rs)	TP (Rs)	Rating
25,562	28,260	BUY

Financial highlights

Y/E 31 Mar	CY22A	CY23E	CY24E
Total revenue (Rs mn)	168,969	194,416	221,824
EBITDA (Rs mn)	37,125	46,097	55,879
Adj. net profit (Rs mn)	23,905	29,819	36,218
Adj. EPS (Rs)	247.9	309.3	375.6
Consensus EPS (Rs)	247.9	306.6	350.9
Adj. ROAE (%)	97.2	105.3	103.9
Adj. P/E (x)	103.1	82.6	68.0
EV/EBITDA (x)	66.4	53.5	44.1
Adj. EPS growth (%)	1.5	24.7	21.5

Source: Company, Bloomberg, BOBCAPS Research

Profitability and Return ratios

Y/E 31 Mar	CY21A	CY22A	CY23E	CY24E	CY25E
YoY growth (%)					
Revenue	10.4	14.6	15.1	14.1	13.7
EBITDA	11.4	4.1	24.2	21.2	13.5
Adjusted EPS	13.1	1.5	24.7	21.5	15.7
Profitability & Return ratios (%)					
EBITDA margin	24.2	22.0	23.7	25.2	25.1
EBIT margin	21.5	19.6	20.9	22.0	22.3
Adjusted profit margin	16.0	14.1	15.3	16.3	16.6
Adjusted ROAE	108.8	97.2	105.3	103.9	101.6
ROCE	160.3	133.0	137.1	138.5	135.3

Valuation ratios

Y/E 31 Mar (x)	CY21A	CY22A	CY23E	CY24E	CY25E
EV/Sales	16.7	14.6	12.7	11.1	9.8
EV/EBITDA	69.1	66.4	53.5	44.1	38.9
Adjusted P/E	104.7	103.1	82.6	68.0	58.8
P/BV	126.6	100.2	84.1	70.7	59.7

Price as on 26 Dec 2023



ITC: Strong show continues

- **Investment view:** ITC's focus on driving innovation, strengthening the core while growing adjacent categories, launching value-added products, harnessing emerging markets, tapping inorganic growth opportunities and lifting margins bodes well. Management has guided for 80-100bps EBITDA margin expansion every year and annual capex of Rs 30bn largely toward the FMCG and paper businesses. Given strong earnings visibility,
- **Growth runway:** ITC continues to deliver robust growth driven by strong volume growth and market share gains in cigarettes business, the FMCG-others registered healthy performance driven by innovation, increasing penetration and strong brand equity. Hotel business is recording healthy growth owing to asset right strategy and industry tailwinds.
- **Large opportunities in FMCG business:** Branded products contribute merely 18% of India's food & beverages (F&B) market. A combination of premiumisation, product introductions, portfolio expansion in adjacent categories offer further growth opportunities. Beverages, home care, premium skin care, chocolates and frozen snacks will likely continue to drive growth.
- **Investments in hotels, agri, paper and packaging:** ITC intends to continue with its asset-right strategy in the hotels business and over the next five years, it is aiming for 200 hotels and 18,000 keys. In the agri and paper & packaging segments, the company remains focused on expanding the value-added portfolio and has planned capital allocation for growth.
- **Valuation:** We have a SOTP-based TP of Rs 523 based on 17.2x EV/EBITDA for Cigarette, 18.9x EV/EBITDA for Hotels and 7.1x EV/Revenue for FMCG business.
- **Key risks:** Delayed rural recovery, a further increase in duty on cigarettes, and input cost inflation.

CMP (Rs)	TP (Rs)	Rating
457	523	BUY

Financial highlights

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	709,369	741,223	882,161
EBITDA (Rs mn)	256,649	271,482	319,342
Adj. net profit (Rs mn)	194,039	207,846	237,968
Adj. EPS (Rs)	15.4	16.5	18.9
Consensus EPS (Rs)	15.4	15.8	17.8
Adj. ROAE (%)	27.9	28.5	31.0
Adj. P/E (x)	29.6	27.7	24.2
EV/EBITDA (x)	22.1	20.9	17.8
Adj. EPS growth (%)	22.4	7.0	14.5

Source: Company, Bloomberg, BOBCAPS Research

Profitability and Return ratios

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	(0.3)	23.1	16.9	4.5	19.0
EBITDA	(11.7)	21.5	24.2	5.8	17.6
Adjusted EPS	(13.4)	15.8	22.4	7.0	14.5
Profitability & Return ratios (%)					
EBITDA margin	34.5	34.1	36.2	36.6	36.2
EBIT margin	31.2	31.2	33.6	34.0	33.7
Adjusted profit margin	27.2	25.6	27.4	28.0	27.0
Adjusted ROAE	22.0	24.7	27.9	28.5	31.0
ROCE	25.3	30.1	34.3	34.6	38.7

Valuation ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	11.5	9.4	8.0	7.7	6.4
EV/EBITDA	33.4	27.5	22.1	20.9	17.8
Adjusted P/E	42.0	36.2	29.6	27.7	24.2
P/BV	9.3	9.0	8.2	7.8	7.4

Price as on 27 Dec 2023



Siemens: Positive outlook continues

- **Investment View:** SIEM's base business remains strong and enjoys a robust outlook as diverse customer segments enable it to play the capex cycle. The large railway order will drive the mobility segment, while structural tailwinds in its digitalization and automation businesses continue to help along.
- **Signs of private capex pick up:** SIEM is seeing on-ground interest from private companies and some of these orders have started to get converted into tenders.
- **All-round growth:** SIEM saw double-digit growth across segments during the quarter, with mobility posting the highest increase of 61% YoY. Margins expanded YoY across segments for FY23 (Sep-ending), except mobility which saw a 280bps YoY decline to 5.4% due to factory ramp up costs and R&D expenses for the new rail order
- **Confident of rail order profitability:** The 9000HP locomotive orders is for supply of 1,200 coaches over 11 years with a 35-year maintenance contract. SIEM is confident of making good margins on this order.
- **Hive-offs to happen in next 2 years:** SIEM continues to run its low-voltage (LV) motors business. We await more clarity on its sale. Another proposal that will be closely monitored is the demerger of the energy business by 2025
- **Valuation:** We value the company at 52x P/E, in-line with the stock's 5-year average with a TP of Rs 4,600.
- **Key risks :** Slowdown in capex, delay in execution leading to lower margins, and lower profitability in the tender-based business.

CMP (Rs)	TP (Rs)	Rating
3,978	4,600	BUY

Financial highlights

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,95,538	2,30,779	2,78,689
EBITDA (Rs mn)	24,872	31,167	38,343
Adj. net profit (Rs mn)	19,619	24,357	29,968
Adj. EPS (Rs)	55.1	68.4	84.2
Consensus EPS (Rs)	55.1	63.4	77.0
Adj. ROAE (%)	15.9	17.3	18.4
Adj. P/E (x)	72.2	58.1	47.3
EV/EBITDA (x)	59.6	47.9	39.3
Adj. EPS growth (%)	55.5	24.1	23.0

Source: Company, Bloomberg, BOBCAPS Research

Profitability and Return ratios

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	32.7	22.3	21.2	18.0	20.8
EBITDA	48.3	18.1	41.5	25.3	23.0
Adjusted EPS	33.8	22.5	55.5	24.1	23.0
Profitability & Return ratios (%)					
EBITDA margin	11.3	10.9	12.7	13.5	13.8
EBIT margin	9.0	8.9	11.1	11.8	12.2
Adjusted profit margin	7.8	7.8	10.0	10.6	10.8
Adjusted ROAE	10.4	11.5	15.9	17.3	18.4
ROCE	10.7	11.9	15.7	17.1	18.3

Valuation ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	11.2	9.1	7.6	6.5	5.4
EV/EBITDA	99.0	83.5	59.6	47.9	39.3
Adjusted P/E	137.5	112.2	72.2	58.1	47.3
P/BV	13.7	12.2	10.8	9.4	8.1

Price as on 27 Dec 2023



Polycab: Project Leap – well on track

- **Investment View** :Polycab is the market leader in the wires and cables space with an extensive product portfolio and distribution reach coupled with accelerated growth in the FMEG space which augurs well for growth visibility. Polycab's 5 year road map to achieve Rs. 200 Bn revenue in FY2026E with higher focus towards brand positioning and business growth provides healthy visibility.
- **Demand outlook strong**: Demand outlook for wires and cables remains robust, aided by favorable market conditions. Also, the domestic demand for W&C will remain robust, backed by improving trends in capex and real estate, which should enable the cables business to outdo wires. Polycab expects the current 70:30 mix of cables to wires in revenue to continue . B2C business, which forms 33% of the mix, fetches better margins
- **New brand identity to boost FMEG business**: Polycab unveiled a new brand logo towards the end of September, aimed at encapsulating the company's leadership in wires & cables (W&C), the fast-moving electrical goods (FMEG) business and future readiness. Management believes the brand repositioning will bolster sales traction, deepen the company's pan-India presence and particularly help the FMEG business
- **Project Leap targets likely to be met ahead of time**: In FY21, Polycab had set a target of achieving Rs 200bn in revenue by FY26 under Project Leap, an implied 18% CAGR. The company is on track to achieving this milestone well before time and can indicate revisions to the target, if any, by the end of FY24. Polycab is also nearing its goal of 10% exports in the topline, reaching 9.3% in Q2FY24.
- **Valuation** : We value the stock at 45x, ~50% premium to the stock's 3Y average and a PEG of 2x, as we expect the faster than-expected growth to sustain the company's earnings upgrade translating to a TP of Rs. 6100.
- **Key risk**: i) commodity price volatility, ii) weak FMEG performance.

CMP (Rs)	TP (Rs)	Rating
5,395	6,100	BUY

Financial highlights

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	141,078	170,624	196,892
EBITDA (Rs mn)	18,521	23,595	27,501
Adj. net profit (Rs mn)	12,700	16,220	18,884
Adj. EPS (Rs)	84.9	108.4	126.2
Consensus EPS (Rs)	84.9	109.0	128.0
Adj. ROAE (%)	20.9	22.3	21.7
Adj. P/E (x)	63.6	49.8	42.7
EV/EBITDA (x)	43.6	34.2	29.3
Adj. EPS growth (%)	51.8	27.7	16.4

Source: Company, Bloomberg, BOBCAPS Research

Profitability and Return ratios

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	38.8	15.6	20.9	15.4	12.8
EBITDA	13.9	46.4	27.4	16.6	13.3
Adjusted EPS	(0.2)	51.8	27.7	16.4	15.2
Profitability & Return ratios (%)					
EBITDA margin	10.4	13.1	13.8	14.0	14.0
EBIT margin	8.7	11.6	12.2	12.3	12.4
Adjusted profit margin	6.9	9.0	9.5	9.6	9.8
Adjusted ROAE	16.2	20.9	22.3	21.7	21.0
ROCE	17.8	23.1	23.0	21.2	20.6

Valuation ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	6.6	5.7	4.7	4.1	3.6
EV/EBITDA	63.8	43.6	34.2	29.3	25.9
Adjusted P/E	96.5	63.6	49.8	42.7	37.1
P/BV	14.6	12.2	10.2	8.5	7.2

Price as on 26 Dec 2023



Power Grid: FY24 capex ramped up

- **Investment view:** Power grid is a play on growth of India's transmission system over the next decade as country has to build capacity to account for higher renewable in the grid system. Company has already indicated a mega Rs 1.9trn capex that includes Rs 1.7tn for transmission infrastructure, Rs 10bn for solar generation, Rs 150bn for smart metering infrastructure, and Rs 10bn for the data centre business.
- **Expect asset growth to resume:** Following completion of the national grid setup during the last decade, PWGR registered a decline in its capex and capitalisation from a peak of Rs 250bn-300bn over FY16-FY19 to Rs 80bn-100bn over FY20-FY23. Consequently, the company was able to generate free cash flow and pay out higher dividends over the last four years. These payouts however capped growth in assets, in turn constrained valuations. We believe this is set to change given the company's recent announcement of a mega Rs 1.9tn capex pipeline through to 2032.
- **Capex to move up from FY25 onwards:** Management has planned capex of Rs 125bn and capitalisation of Rs 170bn for FY25. The Indian government has also approved the Rs 207bn green energy corridor project at Ladakh with a 40% grant, which should start around Q1FY26, taking the company's works-in-hand to a total of Rs 505bn.
- **RTM projects lend a cash flow cushion:** PWGR has a monopoly in India's interstate transmission system (ISTS) with a strong balance sheet to fall back on. The company has gross fixed assets of Rs 2.7tn, comprising mainly of regulated assets that generate consistent cash flows, allowing it to invest in various transmission projects.
- **Competitive edge in TBCB:** An AAA credit rating enables PWGR to enjoy low interest cost – a key lever in TBCB projects. The company typically averages a hefty 40% market share in TBCB awards that has swelled to 55% of projects awarded in the last 12 months. It has won five such projects in FY24 YTD, in addition to the 11 in hand.
- **Valuation:** We value the stock at 2.1x P/B at 5-10% premium to 5-year ex-covid mean given the lowest risk profile in the power value chain.

CMP (Rs)	TP (Rs)	Rating
233	250	BUY

Financial highlights

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	4,33,431	4,73,050	5,16,573
EBITDA (Rs mn)	3,72,738	4,14,803	4,53,817
Adj. net profit (Rs mn)	1,53,330	1,46,278	1,81,403
Adj. EPS (Rs)	16.5	15.7	19.5
Consensus EPS (Rs)	16.5	15.6	16.8
Adj. ROAE (%)	19.3	16.8	18.8
Adj. P/E (x)	14.2	14.8	12.0
EV/EBITDA (x)	9.4	8.3	7.3
Adj. EPS growth (%)	(10.3)	(4.6)	24.0

Source: Company, Bloomberg, BOBCAPS Research

Profitability and Return ratios

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	6.0	8.5	9.1	9.2	5.1
EBITDA	5.7	6.7	11.3	9.4	5.1
Adjusted EPS	43.2	(10.3)	(4.6)	24.0	10.5
Profitability & Return ratios (%)					
EBITDA margin	87.5	86.0	87.7	87.9	87.8
EBIT margin	56.0	56.1	49.7	51.7	51.5
Adjusted profit margin	33.4	35.4	30.9	35.1	36.9
Adjusted ROAE	18.3	19.3	16.8	18.8	18.5
ROCE	10.4	12.0	11.6	13.6	14.6

Valuation ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	8.8	8.1	7.3	6.4	5.8
EV/EBITDA	10.1	9.4	8.3	7.3	6.6
Adjusted P/E	12.7	14.2	14.8	12.0	10.8
P/BV	2.8	2.6	2.4	2.1	1.9

Price as on 26 Dec 2023



RIL: Jio 2.0 key to growth momentum

- A play on India growth story with significant exposure to Digital, Retail and New Energy
- While consumer businesses continue to deliver structural growth (20% growth in H1), Jio 2.0 is the key to maintain acceleration
- **Jio 2.0:** Net additions are showing initial signs of acceleration, increase in ARPU to be the next driver once JIO is in position to levy differential tariff for 5G and broadband gains traction
- **Other catalysts:** a) Retail: build-up on recent growth momentum to deliver on 3X target over FY21-FY26, b) listing of JIO and retail businesses, c) Guidance of cost reduction in O2C with development of new energy businesses
- We expect 14% annual growth in RIL's EBITDA over FY23-FY26 mainly driven by a 26% CAGR for the consumer business
- Our SOTP-based **TP of Rs 3,015** implies target FY25E PE of 22x

CMP (Rs)	TP (Rs)	Rating
2,578	3,015	BUY

Financial highlights

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	8,778,350	8,898,265	9,705,057
EBITDA (Rs mn)	1,421,620	1,635,440	1,822,881
Adj. net profit (Rs mn)	662,840	680,189	751,094
Adj. EPS (Rs)	98.0	100.5	111.0
Consensus EPS (Rs)	98.0	110.9	127.4
Adj. ROAE (%)	8.9	9.1	9.3
Adj. P/E (x)	26.3	25.6	23.2
EV/EBITDA (x)	14.1	12.3	11.1
Adj. EPS growth (%)	16.8	2.6	10.4

Source: Company, Bloomberg, BOBCAPS Research

Profitability and Return ratios

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	49.1	26.1	1.4	9.1	11.9
EBITDA	34.3	31.1	15.0	11.5	15.8
Adjusted EPS	30.0	16.8	2.6	10.4	22.9
Profitability & Return ratios (%)					
EBITDA margin	15.6	16.2	18.4	18.8	19.4
EBIT margin	11.3	11.6	12.9	13.5	14.4
Adjusted profit margin	8.2	7.6	7.6	7.7	8.5
Adjusted ROAE	7.7	8.9	9.1	9.3	10.4
ROCE	5.6	6.8	6.8	7.3	8.3

Valuation ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	2.9	2.3	2.3	2.1	1.9
EV/EBITDA	18.6	14.1	12.3	11.1	9.7
Adjusted P/E	30.7	26.3	25.6	23.2	18.9
P/BV	2.2	2.4	2.2	2.1	1.9

Price as on 26 Dec 2023



HDFC Bank: Steady ship

- We expect HDFCB to outgrow the industry with a credit CAGR of 18% over FY23-FY25E.
- Despite the rising interest rate cycle, we expect HDFCB to retain its NIM at 4.0% levels given strong credit growth, a controlled cost of funds and a likely change in portfolio mix (increase in retail share; current retail/wholesale mix at 45:55).
- That said, with moderation in wholesale loan growth, the bank's focus on the retail segment through network expansion is likely to keep its C/I ratio higher (~40% vs. 38%: 3Y average), although some moderation may be visible in FY25.
- On the back of strong topline growth coupled with gradual recovery in non-core income, we expect HDFCB's PPOP to post 34% CAGR over FY23-25e.
- Overall asset quality is likely to remain healthy with GNPA/NNPA/PCR of 1.3%/0.32%/75% in FY25e. We expect credit cost to remain below 1%.
- The bank is well capitalised to capture market share; CAR is projected to remain strong (currently at 19.5% with CET1 of 17.3%).
- **Valuation:** We have an SOTP-based TP of Rs 1,929 set at 2.9x FY25E ABV, which includes a value of Rs 182/sh for the bank's subsidiaries.
- **Key risks:** Higher competitive intensity, regulatory hurdles to merger, inability to raise enough deposits, asset quality deterioration, managerial effectiveness

CMP (Rs)	TP (Rs)	Rating
1,682	1,929	BUY

Financial highlights

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	868,422	1,171,471	1,500,426
NII growth (%)	20.6	34.9	28.1
Adj. net profit (Rs mn)	441,087	595,675	750,092
EPS (Rs)	79.3	90.5	98.9
Consensus EPS (Rs)	79.3	92.0	106.0
P/E (x)	21.2	18.6	17.0
P/BV (x)	3.4	3.0	2.6
ROA (%)	1.9	1.9	1.9
ROE (%)	17.0	16.9	16.6

Source: Company, Bloomberg, BOBCAPS Research

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Net interest income	3.8	3.8	3.8	3.8	3.9
Non-interest income	1.5	1.4	1.5	1.4	1.4
Operating expenses	2.0	2.1	2.1	2.0	2.0
Pre-provisioning profit	3.4	3.1	3.2	3.2	3.3
Provisions	0.8	0.5	0.6	0.7	0.7
PBT	2.6	2.6	2.6	2.5	2.6
Tax	0.6	0.6	0.6	0.6	0.7
ROA	1.9	1.9	1.9	1.9	2.0
Leverage (x)	8.6	8.7	8.8	8.7	8.7
ROE	16.7	17.0	16.9	16.6	17.1

Valuation ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
P/E	25.2	21.2	18.6	17.0	14.5
P/BV	3.9	3.4	3.0	2.6	2.3
Dividend yield (%)	0.4	1.1	1.1	1.4	1.6

Price as on 26 Dec 2023



Nippon AMC: Gaining strength

- **Key competitive advantage in ETFs:** The company has successfully leveraged its first-mover advantage to cement leadership in ETF volumes and folios, commanding 67% and 61% of the market respectively (NSE and BSE combined). Offerings in the segment comprise an extensive bouquet of 25 ETFs – the largest in the industry – spread across equities, debt and commodities. The company's overall QAAUM posted a 5.8% CAGR during FY19-FY23 to Rs 2.9tn, with ETFs soaring from Rs 210bn (9% of the mix) to Rs 700bn (24%) over this period – a 35% CAGR in absolute terms. At H1FY24-end, the QAAUM grew at a robust 23% YoY to Rs 3.5tn, with ETF's clocking a faster 27% YoY growth to end at Rs 808bn.
- **High share of equity flows:** In Q2FY24, Nippon AMC accounted for 11% of industry net equity flows (excluding arbitrage and index - 20% in Q1FY24), with greater absolute flows in Q2. This confirms that customers are interested in the company's equity schemes.
- **Market share rises; equity rank improves:** In Sep'19, Nippon Life Insurance acquired 75% stake in Reliance Nippon Life Asset Management (RNAM) and rechristened it as Nippon AMC. If we evaluate market share performance in the wake of this management change, we find that the company has been able to retain 7%+ of the market over FY21-FY23. Moreover, market share increased 18bps QoQ to 7.46% at end Q2 FY24. Equity market share grew 26bps QoQ to 6.53% while the liquid and ETF segments clocked increases of 33ps and 16bps respectively. The company maintained fourth rank overall and moved up one spot in equity QAAUM to fifth place.
- **Robust retail franchise:** Despite being a non-bank affiliated entity (and hence lacking a captive base of banking clients), Nippon AMC has been able to build a strong retail franchise. Retail investors contributed 30% of its MAAUM vs. 26% for the industry on average at end-H1 FY24. Performance in the overall individual segment (retail & HNI) is also healthy at 58% of MAAUM vs. 59% for the industry.
- **Valuation:** We value the stock at 27x FY26E EPS, in line with long-term mean, to arrive at a TP of Rs 513.
- **Key risks:** 1) Decline in AUM growth due to increased competition 2) Prolonged weakness in equity markets 3) Regulatory risks like expense ratio decline etc.

CMP (Rs)	TP (Rs)	Rating
444	513	BUY

Financial highlights

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	7,610	8,935	10,836
Core PBT (YoY)	0.2	17.4	21.3
Adj. net profit (Rs mn)	7,229	9,340	10,319
EPS (Rs)	11.5	14.9	16.5
Consensus EPS (Rs)	11.5	14.2	16.4
MCap/AAAUM (%)	9.5	7.6	6.4
ROAAAUM (bps)	24.7	25.5	23.7
ROE (%)	20.7	26.1	27.6
P/E (x)	38.5	29.8	26.9

Source: Company, Bloomberg, BOBCAPS Research

Annual Average AUM

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
AAAUM (Rs bn)	2,832	2,930	3,664	4,349	5,122
YoY Growth (%)	23.9	3.5	25.0	18.7	17.8
% of AAAUM					
Equity	42	44	47	47	48
Debt	26	18	19	19	18
Liquid	12	13	10	9	8
Others	20	24	24	25	26

Valuation ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
P/E	37.6	38.5	29.8	26.9	23.3
P/BV	8.0	7.9	7.6	7.3	7.0
Dividend yield (%)	2.5	2.6	2.9	3.2	3.7

Price as on 26 Dec 2023



SBI Life: Market leader in a growing industry

- **Market leadership with strong growth:** SBI Life is a market leader in the private life insurance space with 22.3% share at end-FY23 and 24.7% at end YTD FY24, and has strong brand equity and parentage. SBI Life's VNB growth and margins remained strong and we model for an 13% CAGR in VNB over FY23-FY25 to Rs 65bn. We baked in 28.5% VNB margins over FY24/FY25. It remains the least impacted among listed players with the change in budgetary proposal that restricts the tax exemption on traditional policies with premium above Rs 500,000 (par and non-par, ex-ULIP).
- **Strong distribution network:** The company maintains a strong and diversified distribution network. The bancassurance channel has demonstrated strong growth, and management remains positive on public sector bank partnerships. Bancassurance constituted 60% of APE at end-H1FY24, whereas the share contributed by agents was stable at 26%. SBI Life added 28,204 agents during H1, taking the total count to 236,978 (+33% YoY). It has 148 brokers, 73 corporate agents, 14 bancassurance partners with more than 41,000 partner branches.
- **Business skewed towards ULIPs:** ULIPs remained in focus at 56% of APE. Management indicated that it is targeting a balanced product mix. Total protection business formed 13% of APE in H1 vs. 11% in the year-ago period. Individual protection APE remained flat YoY but group protection grew 86%. Demand for annuity products has been increasing and the segment grew 45% YoY at end H1FY24, albeit on a low base.
- **Persistency ratios improve:** Persistency in the 13th month cohort improved to 85.4% at end-H1FY24 from 85.2% in H1FY23 and in the 61st month from 52.5% to 57.5%..
- **Cost ratios within reasonable limits:** The total costs ratio averaged 9.7% over FY18-FY23. At end H1FY24, the total cost ratio was 10%.
- **Valuation:** Given strong growth, market leadership, healthy solvency margins and high persistency ratios, we value the company at 2.5x FY25E P/EV – in line with the long-term mean. This translates to a TP of Rs 1,650.
- **Key risks:** 1) regulatory changes (change in income tax rules etc.) 2) Weak capital markets (hamper ULIP sales) and 3) unexpected increase in surrender of policies.

CMP (Rs)	TP (Rs)	Rating
1,395	1,650	BUY

Financial highlights

Y/E 31 Mar	FY23A	FY24E	FY25E
NBP (Rs mn)	2,95,886	3,48,179	4,15,424
APE (Rs mn)	1,68,100	1,92,762	2,26,678
VNB (Rs mn)	50,700	54,937	64,603
Embedded Value (Rs mn)	4,60,600	5,51,684	6,60,176
VNB margin (%)	30.1	28.5	28.5
EVPS (Rs)	475.2	566.8	674.0

Source: Company, Bloomberg, BOBCAPS Research

Key Metrics

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
AUM (Rs mn)	22,08,710	26,74,000	30,73,390	35,93,143	41,99,462
NBP (Rs mn)	2,06,242	2,54,574	2,95,886	3,48,179	4,15,424
APE (Rs mn)	1,14,500	1,43,000	1,68,100	1,92,762	2,26,678
VNB (Rs mn)	23,358	37,037	50,700	54,937	64,603
VNB margin (%)	20.4	25.9	30.1	28.5	28.5
Embedded value (Rs mn)	3,33,630	3,96,030	4,60,600	5,51,684	6,60,176
ROEV (%)	19.1	20.7	22.9	20.4	20.2
Opex ratio (%)	4.8	5.1	5.1	5.3	5.3
Cost ratio (%)	8.3	8.7	9.6	10.3	10.3
Solvency ratio (%)	214.7	204.8	215.4	211.6	219.4

Valuation ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
P/EV (x)			2.9	2.5	2.1

Price as on 26 Dec 2023

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