FIRST LIGHT

10 November 2022

RESEARCH

VST TILLERS TRACTORS | TARGET: Rs 2,802 | +18% | BUY

Gaining momentum slowly but surely

DIVI'S LABS | TARGET: Rs 3,450 | +1% | HOLD

Disappointing quarter

CERA SANITARYWARE | TARGET: Rs 5,225 | –1% | HOLD

Steady demand trends

GREENPANEL INDUSTRIES | TARGET: Rs 595 | +56% | BUY

Domestic demand remains healthy

CONSUMER DURABLES | Q2FY23 REVIEW

Walking a tight rope with margins

Daily macro indicators

Indicator	07-Nov	08-Nov	Chg (%)
US 10Y yield (%)	4.21	4.12	(9bps)
India 10Y yield (%)	7.47	7.44	(3bps)
USD/INR	82.44	81.91	0.6
Brent Crude (US$/bbl)	97.9	95.4	(2.6)
Dow	32,827	33,161	1.0
Hang Seng	16,596	16,557	(0.2)
Sensex	60,950	61,185	0.4
India FII (US$ mn)	**03-Nov**	**04-Nov**	**Chg ($ mn)**
FII-D	12.6	(9.2)	(21.7)
FII-E	93.9	193.7	99.8

Source: Bank of Baroda Economics Research

SUMMARY

VST TILLERS TRACTORS

- Q2 net revenue per vehicle grew ~5% YoY to Rs 0.22mn though volumes fell 4% due to poor tractor sales
- Gross margin took a hit YoY but rose 200bps QoQ, indicating easing input cost pressure
- Expect EBITDA/PAT CAGR of 11%/13% each over FY22-FY25 led by tillers and premium launches; assume coverage with BUY, TP Rs 2,802

Click here **for the full report.**

DIVI'S LABS

- Q2 revenue fell 7% YoY to Rs 18.5bn, weighed down by a decline in custom synthesis business
- Weaker product mix and continued input cost pressures pulled EBITDA margin down 770bps YoY to 33.5%
- We cut FY23/FY24 EBITDA 17%/13% and lower our EV/EBITDA multiple to 24x, yielding a new TP of Rs 3,450 (vs. Rs 4,250); retain HOLD

Click here **for the full report.**

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CERA SANITARYWARE

- Consolidated Q2 revenue grew 3% YoY aided by demand from home renovation and upgrade projects
- EBITDA margin expanded 105bps YoY to 16.3% on a favourable mix and lower costs, with EBITDA up 10% to Rs 679mn
- Retain TP at Rs 5,225 (32x FY24E EPS) and maintain HOLD

Click here **for the full report.**

GREENPANEL INDUSTRIES

- Q2 revenue increased 8% YoY to Rs 4.6bn led by 14% growth in MDF, though plywood business was down 17%
- Gross margin declined 80bps YoY to 58.7% and EBITDA margin fell 125bps to 25.5%
- Valuations attractive at 15x FY24E EPS; maintain BUY with an unchanged TP of Rs 595

Click here **for the full report.**

CONSUMER DURABLES: Q2FY23 REVIEW

- Price hikes deferred beyond Q2 to maintain market share/topline; commodity deflation partly negated by adverse currency
- Sales impacted ahead of new energy norms, particularly in fans and partly in ACs; soft margin outlook for H2
- Our top picks remain HAVL, CROMPTON, DIXON and POLYCAB

Click here **for the full report.**

BUY

TP: Rs 2,802 | ⮝ 18%

VST TILLERS TRACTORS | Automobiles | 09 November 2022

Gaining momentum slowly but surely

- **Q2 net revenue per vehicle grew ~5% YoY to Rs 0.22mn though volumes fell 4% due to poor tractor sales**
- **Gross margin took a hit YoY but rose 200bps QoQ, indicating easing input cost pressure**
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Q2 performance steady: VSTT's Q2FY23 revenue stayed flat YoY and QoQ, but gross margin continued to expand sequentially, rising 200bps to 29% (34% in Q2FY22) as commodity prices softened. Raw material cost at 71% of sales reduced from 73% in Q1FY23 (69% in Q2FY22). EBITDA margin thus surged QoQ to ~14% vs. 7% in Q1FY23 (16% in Q2FY22), and PAT doubled QoQ to Rs 227mn (-29% YoY).

Value-added tillers remain key earnings driver: Management expects the power tiller segment to continue its healthy contribution with growth in the high teens over the next couple of years. EBITDA margin is accordingly guided to rise to 13-14% in FY23 from 11% in H1FY23. Contribution from export markets (currently subdued) will add a cushion to earnings.

Focus to shift toward high-powered tractors: VSTT intends to launch high-end products in the 28HP, 36HP, 45HP and 49HP segments that will boost tractor volumes. Further, a shift from compact range tractors will help the company tap the North Indian markets, adding to volumes and realisations while aiding margins in the medium term. The company will launch 'Zetor' tractors (50HP) by FY23-end, with the full effective contribution reflecting from FY24.

Working capital pressure to ease: VSTT held higher inventory during Q2 to tap the busy season, unlike the previous year when the company lost potential sales. Receivables were also elevated due to institutional sales of power tippers that carry low default risk. Management expects a return to normalcy and an easing of working capital pressure over the next two quarters

BUY, TP Rs 2,802: We expect VSTT to log an EBITDA/PAT CAGR of 11%/13% each over FY22-FY25 backed by a focus on high-end launches, healthy contribution from power tillers, and an uptick in exports. Easing commodity prices is another key positive. We estimate EPS of Rs 114/Rs 140/Rs 166 in FY23/FY24/FY25 and assume coverage with BUY for a TP of Rs 2,802, assigning a 20x P/E multiple on FY24E EPS – in line with the 10Y average.

Key changes

Target	Rating
▲	▲

Ticker/Price	VSTT IN/Rs 2,385
Market cap	US$ 254.5mn
Free float	45%
3M ADV	US$ 0.4mn
52wk high/low	Rs 3,368/Rs 2,028
Promoter/FPI/DII	55%/5%/15%

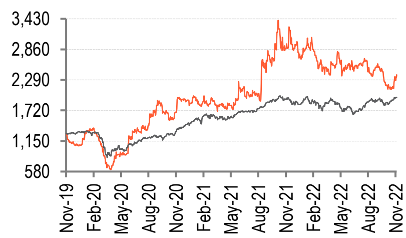
Source: NSE | Price as of 9 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	8,539	9,499	10,883
EBITDA (Rs mn)	1,242	1,147	1,432
Adj. net profit (Rs mn)	993	987	1,211
Adj. EPS (Rs)	114.9	114.2	140.1
Consensus EPS (Rs)	114.9	126.0	166.0
Adj. ROAE (%)	13.2	12.1	13.4
Adj. P/E (x)	20.7	20.9	17.0
EV/EBITDA (x)	16.3	17.8	14.3
Adj. EPS growth (%)	(4.8)	(0.6)	22.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 3,450 | ⮝ 1%

DIVI'S LABS | Pharmaceuticals | 09 November 2022

Disappointing quarter

- **Q2 revenue fell 7% YoY to Rs 18.5bn, weighed down by a decline in custom synthesis business**
- **Weaker product mix and continued input cost pressures pulled EBITDA margin down 770bps YoY to 33.5%**
- **We cut FY23/FY24 EBITDA 17%/13% and lower our EV/EBITDA multiple to 24x, yielding a new TP of Rs 3,450 (vs. Rs 4,250); retain HOLD**

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Slowdown in custom synthesis business: DIVI's Q2FY23 revenue decreased 7% YoY to Rs 18.5bn owing to a 26% decline in the custom synthesis business which offset the 20% growth in generic APIs (active pharma ingredients). Sequentially, custom synthesis revenue fell 33% due to the absence of Covid product sales (Molnupiravir), whereas growth in generic APIs was muted at just 2% QoQ.

Generic business guided to ramp up from FY24: DIVI's generic pipeline is based on patents expiring over FY23-FY25 (~US$ 20bn market) and is guided to start contributing from FY24 onwards. The company has received several phase-2/3 contracts in the custom synthesis business and expects good results from these as well as from a few fast-tracked projects in coming quarters.

EBITDA margin contracts: Q2 gross margin contracted 340bps YoY to 63.6% (stable QoQ) due to a substantially lower contribution from the high-margin custom synthesis business and elevated material costs. EBITDA margin dropped 770bps YoY to 33.5% on the back of continued inflationary pressure and negative operating leverage which pushed up power, fuel and transport costs as a percentage of sales.

Earnings call highlights: (1) DIVI's generic/custom synthesis product mix stood at 57%/43% in Q2. (2) Nutraceutical revenue was at Rs 1.6bn. (3) Assets worth Rs 890mn/Rs 2bn were capitalised in Q2/H1. (4) Overall capacity utilisation stood at 80-83% (80% for nutraceuticals). (6) In constant currency terms, Q2/H1 revenue fell 13%/2%. Forex gain for these periods totalled Rs 308mn/Rs 872mn.

Maintain HOLD; TP cut to Rs 3,450: Given the high base of FY22, strong ~83% capacity utilisation, delays at new plants, reduced margins, and the absence of abnormal pandemic-driven growth, we cut FY23/FY24 EBITDA estimates by 17%/13%. Further, to reflect the lack of immediate triggers, we lower our FY24E EV/EBITDA multiple to 24x (from 26x) – in line with stock's 5Y average. This yields a revised TP of Rs 3,450 (vs. Rs 4,250). Maintain HOLD on limited upside potential.

Key changes

Target	Rating
▼	◄►

Ticker/Price	DIVI IN/Rs 3,415
Market cap	US$ 11.1bn
Free float	48%
3M ADV	US$ 25.4mn
52wk high/low	Rs 5,093/Rs 3,366
Promoter/FPI/DII	52%/21%/16%

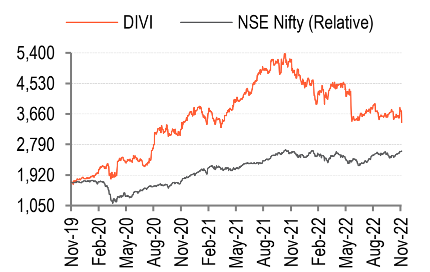
Source: NSE | Price as of 7 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	89,598	86,077	94,685
EBITDA (Rs mn)	38,819	31,891	36,974
Adj. net profit (Rs mn)	29,199	23,577	26,664
Adj. EPS (Rs)	110.0	88.8	100.4
Consensus EPS (Rs)	110.0	93.0	100.0
Adj. ROAE (%)	27.8	19.6	20.3
Adj. P/E (x)	31.0	38.5	34.0
EV/EBITDA (x)	22.9	27.6	23.5
Adj. EPS growth (%)	47.2	(19.3)	13.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD

TP: Rs 5,225 | ∀ 1%

CERA SANITARYWARE | Construction Materials | 09 November 2022

Steady demand trends

- **Consolidated Q2 revenue grew 3% YoY aided by demand from home renovation and upgrade projects**
- **EBITDA margin expanded 105bps YoY to 16.3% on a favourable mix and lower costs, with EBITDA up 10% to Rs 679mn**
- **Retain TP at Rs 5,225 (32x FY24E EPS) and maintain HOLD**

Ruchitaa Maheshwari
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Modest rise in consolidated revenue: CRS's consolidated Q2FY23 revenue increased 3% YoY (+5% QoQ) to Rs 4.2bn on the back of demand for home upgrades and renovations. Standalone revenue grew 5% YoY (+5% QoQ) to Rs 4.1bn, with sanitaryware up 10% and faucetware up 7%. In the wake of softening raw material costs, the company took a price cut during Q2 in its new premium products (36% revenue share) with a view to gaining market share. Management retained guidance of doubling revenue within 3.5 years and achieving 50-75bps EBITDA margin expansion every year.

Better mix and lower cost drive margin gains: Consolidated gross margin increased 250bps YoY to 56% led by sweating of assets and lower raw material cost. EBITDA margin improved 105bps YoY (+50bps QoQ) to 16.3% as higher revenue contribution from the sanitaryware and faucetware segments (88% in Q2FY23 vs. 86% in Q2FY22) offset an increase in employee cost (+120bps YoY) from the company's capacity expansion spree. Standalone gross margin rose 525bps YoY to 56% and EBITDA margin was up 120bps to 16%.

Stable gas cost: In Q2, 54% of CRS's gas requirement was met by GAIL where prices remained at Rs 25.72/cbm (Rs 25.69/cbm in Q1FY23, Rs 11.13 in FY22). The balance 46% was met via Sabarmati Gas where prices stood at Rs 75.38/cbm (Rs 73.58/cbm in Q1FY23, Rs 59.46 in FY22). The weighted average price was at Rs 48.56/scm in Q2FY23 vs. Rs 32.93 in FY22. Gas cost is just 3.1% of the company's topline.

Strong prospects but priced in: The recent capacity debottlenecking and 40-50% expansion announced (to commence in 12-36 months) would lead the next leg of growth. Overall, we believe CRS's timely expansion plan, focus on product mix improvement, extensive distribution, healthy balance sheet and rising return ratios bode well for sustainable earnings growth. However, the positives appear priced in at current valuations of 32x FY24E EPS. We retain our TP of Rs 5,225, set at 32x FY24E EPS – a 12.5% discount to the stock's 5Y median of 36x – and maintain HOLD. Any weakness in stock price can be used as an opportunity to enter.

Key changes

Target	Rating
◄►	◄►

Ticker/Price	CRS IN/Rs 5,256
Market cap	US$ 838.4mn
Free float	46%
3M ADV	US$ 1.1mn
52wk high/low	Rs 5,955/Rs 3,515
Promoter/FPI/DII	54%/18%/28%

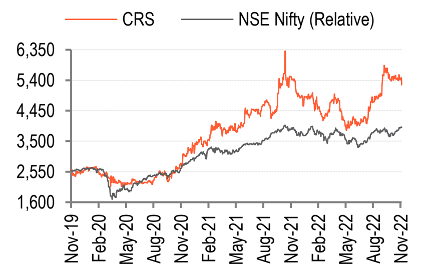
Source: NSE | Price as of 9 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	14,458	16,850	19,634
EBITDA (Rs mn)	2,287	2,694	3,202
Adj. net profit (Rs mn)	1,568	1,802	2,124
Adj. EPS (Rs)	120.6	138.5	163.3
Consensus EPS (Rs)	120.6	135.4	158.4
Adj. ROAE (%)	16.6	16.7	17.5
Adj. P/E (x)	43.6	37.9	32.2
EV/EBITDA (x)	29.6	25.2	21.4
Adj. EPS growth (%)	55.6	14.9	17.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 595 | ⮝ 56%

GREENPANEL INDUSTRIES

| Construction Materials | 09 November 2022

Domestic demand remains healthy

- **Q2 revenue increased 8% YoY to Rs 4.6bn led by 14% growth in MDF, though plywood business was down 17%**
- **Gross margin declined 80bps YoY to 58.7% and EBITDA margin fell 125bps to 25.5%**
- **Valuations attractive at 15x FY24E EPS; maintain BUY with an unchanged TP of Rs 595**

Ruchitaa Maheshwari
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Steady quarter: GREENP's consolidated Q2FY23 revenue grew 8% YoY (-1% QoQ) to Rs 4.6bn as blended MDF realisations increased 28% YoY (flat QoQ). MDF revenue grew 13.5% YoY whereas plywood fell 17%. Consolidated EBITDA margin declined to 25.5% vs. 26.8% in Q2FY22 (28.3% in Q1FY23) due to lower plywood volumes and higher cost inflation. Management has guided for revenue of Rs 1.9bn-1.95bn in FY23.

Slowdown in exports hurt MDF volumes: Domestic MDF demand remained robust, but MDF exports dropped 41% YoY, pulling down volumes by 8%. Export realisation increased 21% YoY to Rs 22,906/cbm and domestic realisation grew 24% to Rs 33,554/cbm. However, the segment's EBITDA margin declined 100bps YoY and 290bps QoQ to 30.4% due to high raw material costs. As MDF continues to earn high margins compared to the historical 25-27% levels, we believe the industry will refrain from price hikes in the near future, in turn safeguarding volumes.

Management has guided for domestic MDF volume growth of 12% and flat exports in FY23 (14-15% blended growth in FY24). EBITDA margin is expected to be similar to Q2 levels of 30% for FY23 and at 27-28% in the long term.

Plywood margin declines: During Q2, plywood volumes fell 22% YoY and 19% QoQ. Lower volumes and higher raw material cost induced a 630bps YoY contraction in segmental operating margin to 7.3%. The company took a 2% price hike in Jul'22 which was insufficient to absorb cost inflation. Management has lowered its plywood margin guidance to 10% from 11-11.5% for FY23.

Maintain BUY: The stock is trading at ~15x FY24E EPS which is attractive given GREENP's strong growth prospects, leadership position in MDF, and an improving balance sheet and return ratios. We continue to value the stock at 23x FY24E EPS (a 34% discount to peer CPBI) and retain our TP of Rs 595 with a BUY rating.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	GREENP IN/Rs 381
Market cap	US$ 572.3mn
Free float	47%
3M ADV	US$ 1.3mn
52wk high/low	Rs 626/Rs 350
Promoter/FPI/DII	53%/6%/41%

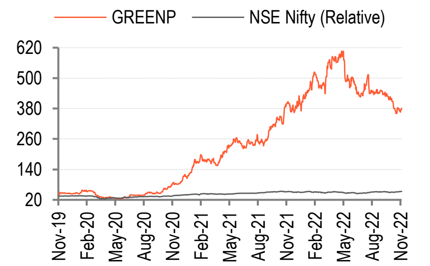
Source: NSE | Price as of 7 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	16,250	18,543	20,553
EBITDA (Rs mn)	4,304	4,700	5,302
Adj. net profit (Rs mn)	2,405	2,673	3,171
Adj. EPS (Rs)	19.6	21.8	25.9
Consensus EPS (Rs)	19.6	22.3	25.6
Adj. ROAE (%)	28.6	25.6	25.4
Adj. P/E (x)	19.4	17.5	14.7
EV/EBITDA (x)	11.9	10.4	8.8
Adj. EPS growth (%)	197.6	11.2	18.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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CONSUMER DURABLES | Q2FY23 Review | 09 November 2022

Walking a tight rope with margins

- **Price hikes deferred beyond Q2 to maintain market share/topline; commodity deflation partly negated by adverse currency**
- **Sales impacted ahead of new energy norms, particularly in fans and partly in ACs; soft margin outlook for H2**
- **Our top picks remain HAVL, CROMPTON, DIXON and POLYCAB**

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Price hikes delayed: The consumer durables industry deferred price hikes to Q3FY23 amid the ongoing transition phase to new energy norms (for room ACs, fridge and fans) and rupee depreciation. Raw material deflation helped cut costs but was partially offset by unfavourable currency movement. While the industry largely managed to meet consensus topline estimates for Q2FY23, it underperformed on margins owing to inflationary pressures in the economy.

BEE transition hurting sales of ECD: The impact of Bureau of Energy Efficiency (BEE) energy norms was visible across electronic durable categories, particularly fans, sparking channel destocking in Q2FY23. Commentaries across players point to a slump in fans and a dull outlook for Q3, followed by improvement in Q4 as the BEE transition draws near an end. Premium players see an opportunity to grab market share from low-to-mid segment players aided by better, diversified portfolios.

AC margins falter as competition intensifies: During the seasonally weak second quarter, demand was tepid and margins contracted YoY across the board (except for BLSTR). Management commentaries reflect a gloomy margin outlook for H2FY23. A&P expenses increased and returned to normal after a Covid-led hiatus, while inventories swelled more than usual. Competition intensified as players put market share gains ahead of profitability. For AMBER, the key challenge is insourcing plans by manufacturers (OEMs) looking to avail of production-linked benefits.

EMS a mixed bag: Electronic manufacturing services (EMS) players are working to strengthen original design manufacturing (ODM) to gain end-to-end capabilities, drive client engagement and thus boost margins. Leading EMS companies under our coverage had a mixed performance in Q2. DIXON is confident of a guidance beat in FY23 led by a better September-ending quarter and deal wins, even as AMBER's sustained capex drive eases the uncertainty stoked by OEM insourcing.

Retain top picks: We have maintained our ratings for coverage stocks in Q2 while adjusting target prices to bake in the results. Our top picks remain HAVL (TP Rs 1,500), CROMPTON (TP Rs 500, BUY), DIXON (TP Rs 5,200), and POLYCAB (TP Rs 3,300).

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,019	2,100	HOLD
BLSTR IN	1,202	1,350	HOLD
CROMPTON IN	357	500	BUY
DIXON IN	4,540	5,200	BUY
HAVL IN	1,203	1,500	BUY
ORIENTEL IN	261	280	HOLD
POLYCAB IN	2,687	3,300	BUY
VGRD IN	262	250	HOLD
VOLT IN	837	1,000	HOLD

Price & Target in Rupees | Price as of 9 Nov 2022

Consumer durables: Q2 result reviews

Company	Result review link
AMBER IN	Structural growth overhang persists
BLSTR IN	Best Q2 performer among AC pack
CROMPTON IN	Q2 a minor blip; expect swift recovery
DIXON IN	Buoyant numbers, bright prospects
HAVL IN	Margins hit trough; expect recovery in H2
ORIENTEL IN	One-offs mar performance
POLYCAB IN	Beat on all fronts
VGRD IN	Margin pressure dampens performance
VOLT IN	Dismal Q2; UCP margins at decadal low

Source: BOBCAPS Research

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

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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