FIRST LIGHT

12 May 2022

RESEARCH

Cipla | Target: Rs 1,100 | +19% | BUY

Strong India and US growth marred by lower margins

Polycab India | Target: Rs 3,000 | +25% | BUY

Wired for growth

Orient Electric | Target: Rs 350 | +9% | HOLD

Premiumisation is key

Cera Sanitaryware | Target: Rs 5,715 | +44% | BUY

Highest-ever EBITDA margin with healthy demand outlook

SUMMARY

Cipla

- Slight miss on Q4 revenue but EBITDA underperformed our estimate by 32% due to lower margins (incl. one-time charge of Rs 2bn)
- FY23 margin guidance at 20-21%; management optimistic on key US launches (Advair, Abraxane) in H2FY23
- We cut FY23-FY24 EBITDA by 8-11% and revise our TP to Rs 1,100 (vs. Rs 1,200); retain BUY

Click here **for the full report.**

Polycab India

- Strong quarter with the core cable and wire business performing well on revenue and margins, beside maintaining market leadership
- On track to meet its long-term revenue target of Rs 200bn in FY26, implying a 14% CAGR with double-digit margins across segments
- Robust growth profile and potential rerating towards FMEG valuations drive our BUY rating; TP Rs 3,000

Click here **for the full report.**

Daily macro indicators

Indicator	09-May	10-May	Chg (%)
US 10Y yield (%)	3.03	2.99	(4bps)
India 10Y yield (%)	7.47	7.30	(17bps)
USD/INR	77.46	77.32	0.2
Brent Crude (US$/bbl)	105.9	102.5	(3.3)
Dow	32,246	32,161	(0.3)
Hang Seng	20,002	19,634	(1.8)
Sensex	54,471	54,365	(0.2)
India FII (US$ mn)	**06-May**	**09-May**	**Chg ($ mn)**
FII-D	(215.8)	35.3	251.1
FII-E	(601.7)	(373.7)	228.0

Source: Bank of Baroda Economics Research

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Orient Electric

- ECD weakness hurt Q4 topline growth; aggressive price hikes helped to sustain gross margin despite RM cost pressure
- Management confident of gradual premiumisation as energy-efficiency trends rise and is working to deepen distribution
- ORIENTEL a strong brand but lags HAVL and CROMPTON in terms of market share – we assume coverage with HOLD and a TP of Rs 350

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Cera Sanitaryware

- Consolidated Q4 revenue up 7% YoY ex-one-offs of Anjani Tiles divestment and Ind AS-105 application; amounted to Rs 525mn
- EBITDA margin expanded 350bps YoY to a record 19.5%; EBITDA up 14% YoY to Rs 797mn
- We raise FY23/FY24 EPS by ~2% each and retain BUY with a revised TP of Rs 5,715 (vs. Rs 5,590)

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BUY
TP: Rs 1,100 | ⮝ 19%

CIPLA | Pharmaceuticals | 11 May 2022

Strong India and US growth marred by lower margins

- **Slight miss on Q4 revenue but EBITDA underperformed our estimate by 32% due to lower margins (incl. one-time charge of Rs 2bn)**
- **FY23 margin guidance at 20-21%; management optimistic on key US launches (Advair, Abraxane) in H2FY23**
- **We cut FY23-FY24 EBITDA by 8-11% and revise our TP to Rs 1,100 (vs. Rs 1,200); retain BUY**

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Domestic and US markets lead growth; API sales soft: Cipla missed our revenue/EBITDA estimates by 2%/32% in Q4FY22. Revenue grew 14% YoY to Rs 52.6bn backed by a strong performance in both the India (+21%) and US (+21%) businesses. Only the API segment recorded a YoY decline (-39%). Regions such as SAGA and international markets reported revenue growth of 12% and 8% respectively.

Core business and respiratory portfolio drive US growth; key launches in H2: In dollar terms, US revenue increased 7% QoQ to US$ 161mn (+17% YoY) due to robust momentum in the core business, strong traction in the respiratory portfolio and value unlocking in peptides. Management remains confident of its key launches in H2FY23 (Advair, Abraxane).

Reverse seasonality and industry-wide cost pressure weaken margins: Cipla saw gross/EBITDA margin declines of 125bps/300bps YoY to 59.2%/14.3% due to US price erosion as well as higher raw material, logistics and R&D costs. EBITDA margin was affected by a one-time inventory charge of Rs 1.6bn on the Covid portfolio at the gross margin level and Rs 200mn in other expenses. Adjusting for these expenses, the Q4 margin was 18.1%. Management has guided for an FY23 margin of 20-21%.

Retain BUY: With a strong India franchise, rich US pipeline and relatively low risk of price erosion in the US, Cipla is poised to leverage the network reach of its robust core portfolio to launch major generics. We cut our FY23-FY24 EBITDA estimates by 8-11% to factor in rising costs but maintain our FY24E EV/EBITDA multiple at 16x, yielding a new TP of Rs 1,100 (vs. Rs 1,200); retain BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CIPLA IN/Rs 926
Market cap	US$ 9.6bn
Free float	63%
3M ADV	US$ 35.6mn
52wk high/low	Rs 1,083/Rs 850
Promoter/FPI/DII	36%/25%/21%

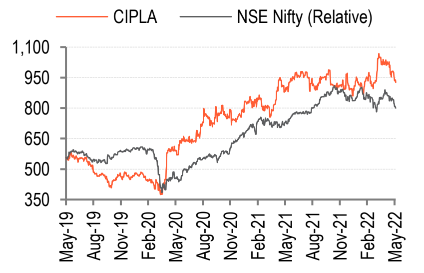
Source: NSE | Price as of 10 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	2,17,634	2,36,302	2,60,702
EBITDA (Rs mn)	45,528	48,508	54,703
Adj. net profit (Rs mn)	26,989	28,121	33,310
Adj. EPS (Rs)	33.5	34.9	41.3
Consensus EPS (Rs)	35.1	41.7	50.9
Adj. ROAE (%)	13.9	12.9	13.6
Adj. P/E (x)	27.6	26.5	22.4
EV/EBITDA (x)	16.2	14.8	12.9
Adj. EPS growth (%)	12.2	4.2	18.5

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

Stock performance



Source: NSE

BUY
TP: Rs 3,000 | 25%

POLYCAB INDIA | Consumer Durables | 11 May 2022

Wired for growth

- **Strong quarter with the core cable and wire business performing well on revenue and margins, beside maintaining market leadership**
- **On track to meet its long-term revenue target of Rs 200bn in FY26, implying a 14% CAGR with double-digit margins across segments**
- **Robust growth profile and potential rerating towards FMEG valuations drive our BUY rating; TP Rs 3,000**

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Strong results in difficult times: Polycab's Q4FY22 revenue increased 35% YoY to Rs 39.7bn due to growth across segments, primarily wires and cables (up 40% YoY). Gross margin declined by 355bps YoY to 22.2% as the company could not fully pass on the raw material price increases. EBIT margin contracted 145bps YoY to 10.7% YoY due to the reduced gross margin which was partially mitigated by better operating leverage. PAT increased 20% to Rs 3.2bn.

Market leadership in cables and wires aiding growth: Polycab is one of the largest cable and wire players in India, commanding 15-16% share in a fragmented market (22-24% organised share). We expect the ongoing revival in infrastructure alongside recovery in construction activity to benefit the cable and wire industry. Additionally, the growing demand shift from unorganised to organised players helps market leaders such as Polycab grow faster than industry.

Initiatives to recoup FMEG growth momentum: Polycab's fast-moving electrical goods (FMEG) segment posted a 39% revenue CAGR over FY16-FY21. After a stellar performance for the last five years, the momentum softened in FY22 as management realigned strategy with the Project Leap initiative. The company has taken various measures to recoup its momentum by launching products in all price bands and growing its distribution presence.

BUY, TP Rs 3,000: The ongoing increase in raw material prices has helped the company to grow its topline via price hikes, especially in cables and wires. Expansion of its product portfolio and distribution presence has also helped Polycab gain market share across product categories. We value the stock at 35x FY24E EPS, a 50% premium to the 3Y average, given its strong growth profile and potential rerating towards FMEG valuations. We assume coverage with a BUY rating and a TP of Rs 3,000.

Key downside risks to growth include higher commodity prices and weaker economic conditions, leading to a drop in demand and failure to gain market share in FMEG product categories.

Key changes

Target	Rating
▲	▲

Ticker/Price	POLYCAB IN/Rs 2,394
Market cap	US$ 4.6bn
Free float	32%
3M ADV	US$ 12.4mn
52wk high/low	Rs 2,820/Rs 1,468
Promoter/FPI/DII	68%/6%/9%

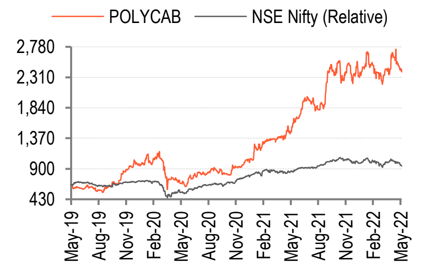
Source: NSE | Price as of 10 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	1,22,038	1,43,600	1,61,610
EBITDA (Rs mn)	12,688	16,241	20,062
Adj. net profit (Rs mn)	7,733	10,420	12,725
Adj. EPS (Rs)	51.7	69.6	85.1
Consensus EPS (Rs)	51.7	73.8	90.4
Adj. ROAE (%)	15.0	17.5	18.4
Adj. P/E (x)	46.3	34.4	28.1
EV/EBITDA (x)	27.9	21.8	17.7
Adj. EPS growth (%)	4.6	34.8	22.1

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

Stock performance



Source: NSE

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HOLD
TP: Rs 350 | ⮝ 9%

ORIENT ELECTRIC | Consumer Durables | 11 May 2022

Premiumisation is key

- **ECD weakness hurt Q4 topline growth; aggressive price hikes helped to sustain gross margin despite RM cost pressure**
- **Management confident of gradual premiumisation as energy-efficiency trends rise and is working to deepen distribution**
- **ORIENTEL a strong brand but lags HAVL and CROMPTON in terms of market share – we assume coverage with HOLD and a TP of Rs 350**

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ECD a drag on sales: ORIENTEL's Q4FY22 revenue declined 6% YoY to Rs 7.5bn primarily due to a 11% decrease in the electrical consumer durables segment, which was partially set off by a 15% increase in lighting and switchgears. Gross margin dipped 13bps YoY to 27.8% as prudent price escalations and cost reductions came up against rising raw material inflation. EBIT margin declined by 160bps YoY to 9.1% due to the lower gross margin and reduced operating leverage. Net income fell 22% YoY to Rs 488mn.

Fans segment expected to lead growth: ORIENTEL is the largest exporter of fans and the business has been a major contributor to the topline. The company has taken various steps to strengthen its market position, including the launch of energy-efficient fans. It is expanding its geographical network and has deepened its footprint in South India. Management believes rising consumer demand for premium and energy-efficient fans, a shorter replacement cycle and a shift from unorganised to organised players augur well for the company.

Stock has corrected but upside remains limited: The stock has rallied +100% since its pandemic trough of May'20, followed by a 21% correction in recent months. At 36x FY24E EPS, current valuations are still close to the peak and offer limited upside, in our view.

HOLD, TP Rs 350: While export opportunities in fans and growth in other product categories look promising, the spiralling raw material prices continue to pose a risk to margins. Further, ORIENTEL has been unable to catch up to HAVL and CROMPTON in terms of market share. We value the stock at 40x FY24E EPS, a 7% premium to its 1Y average, for a TP of Rs 350 and assume coverage with a HOLD rating. Key upside risks to our view are faster premiumisation and above-expected export opportunities. Key downside risks are loss in market share and further margin pressure from supply-side inflation.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ORIENTEL IN/Rs 321
Market cap	US$ 880.8mn
Free float	61%
3M ADV	US$ 0.8mn
52wk high/low	Rs 408/Rs 277
Promoter/FPI/DII	39%/8%/26%

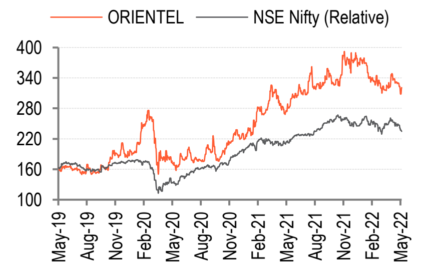
Source: NSE | Price as of 10 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	24,484	29,230	33,567
EBITDA (Rs mn)	2,313	2,951	3,474
Adj. net profit (Rs mn)	1,266	1,514	1,903
Adj. EPS (Rs)	6.0	7.1	8.9
Consensus EPS (Rs)	6.0	8.5	10.1
Adj. ROAE (%)	25.4	25.4	26.3
Adj. P/E (x)	53.9	45.1	35.9
EV/EBITDA (x)	29.3	22.6	19.2
Adj. EPS growth (%)	46.7	19.6	25.6

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

Stock performance



Source: NSE

RESULT REVIEW

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BUY
TP: Rs 5,715 | ⮝ 44%

CERA SANITARYWARE | Construction Materials | 11 May 2022

Highest-ever EBITDA margin with healthy demand outlook

- **Consolidated Q4 revenue up 7% YoY ex-one-offs of Anjani Tiles divestment and Ind AS-105 application; amounted to Rs 525mn**
- **EBITDA margin expanded 350bps YoY to a record 19.5%; EBITDA up 14% YoY to Rs 797mn**
- **We raise FY23/FY24 EPS by ~2% each and retain BUY with a revised TP of Rs 5,715 (vs. Rs 5,590)**

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Consolidated revenue down 6.5% YoY due to one-offs: CRS reported a 6.5% YoY decline in Q4FY22 consolidated revenue to Rs 4.1bn owing to the divestment of its stake in Anjani Tiles and application of Ind AS-105. The accounting change lowered revenue by Rs 525mn. Adjusted for both factors, revenue would have risen by 6.8% YoY. Standalone revenue grew 1.7% YoY to Rs 4.4bn.

Operating margin expands: Consolidated gross margin declined by 385bps YoY to 53.2%. However, a higher revenue contribution of sanitaryware and faucetware at 87% in Q4FY22 vs. 78% in Q4FY21 had a positive bearing on operating margin. This coupled with price hike benefits and lower other expenses spurred EBITDA margin gains of 350bps YoY (+300bps QoQ) to 19.5%. Standalone gross margin expanded by 630bps YoY to 53.5% and EBITDA margin by 415bps YoY (+300bps QoQ) to 18.8%.

Healthy demand outlook: CRS has guided for 18-20% of topline growth in FY23 and FY24 with a 50-75bps rise in EBITDA margin each year. In addition, management is confident of doubling revenue within the next 3.5 years from 5 years earlier.

Capex of Rs 2bn by FY24 from internal accruals: CRS is expanding capacity by 1.2mn pieces each in sanitaryware (greenfield; 24-30 months) for Rs 1.3bn and in faucetware (brownfield; by Jun'23) for Rs 0.7bn.

In a sweet spot: We believe CRS is in a sweet spot as it continues to witness growth in its bathroom solutions segment aided by (a) market share gains across the portfolio amid a sizeable shift from the unorganised to organised sector, and (b) demand pickup in the housing sector (both new construction and replacement).

TP raised, maintain BUY: To incorporate the capacity expansion and cost efficiencies, we raise our FY23/FY24 PAT estimates by 2.7%/2.3%. Our TP stands revised to Rs 5,715 (earlier Rs 5,590), based on an unchanged 35x FY24E EPS. CRS is trading at 24.3x FY24E EPS which is reasonable compared to its 5Y median of 37.6x. We retain BUY given the company's strong growth prospects, lean balance sheet, capacity expansion, high asset turnover and rising return ratios.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	CRS IN/Rs 3,972
Market cap	US$ 668.8mn
Free float	46%
3M ADV	US$ 1.3mn
52wk high/low	Rs 6,450/Rs 3,515
Promoter/FPI/DII	54%/20%/26%

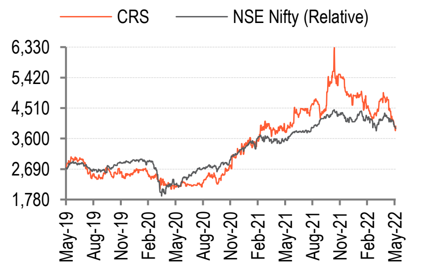
Source: NSE | Price as of 11 May 2022

Key financials

Y/E 31 Mar	FY22P	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)	116.2	135.4	158.4
Adj. ROAE (%)	16.6	16.7	17.5
Adj. P/E (x)	32.9	28.7	24.3
EV/EBITDA (x)	22.3	19.0	16.2
Adj. EPS growth (%)	55.6	14.9	17.9

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

Stock performance



Source: NSE

Disclaimer

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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