FIRST LIGHT

16 August 2023

RESEARCH

AUROBINDO PHARMA | TARGET: Rs 880 | +1% | HOLD

Broad-based growth; lower to HOLD post rally

BOB ECONOMICS RESEARCH | MONSOON UPDATE

Monsoon and Sowing progress

BOB ECONOMICS RESEARCH | CPI AND WPI

Sharp pick-up in inflation – a cautionary call

CROMPTON GREAVES | TARGET: Rs 360 | +22% | BUY

Mixed quarter

THE RAMCO CEMENTS | TARGET: Rs 585 | –30% | SELL

Pressure on operational efficiencies to continue

Daily macro indicators

Ticker	10-Aug	11-Aug	Chg (%)
US 10Y yield (%)	4.11	4.15	5bps
India 10Y yield (%)	7.15	7.20	5bps
USD/INR	82.72	82.84	(0.1)
Brent Crude (US$/bbl)	86.4	86.8	0.5
Dow	35,176	35,281	0.3
Hang Seng	19,248	19,075	(0.9)
Sensex	65,688	65,323	(0.6)
India FII (US$ mn)	**09-Aug**	**10-Aug**	**Chg ($ mn)**
FII-D	143.9	31.3	(112.6)
FII-E	120.4	247.3	126.9

Source: Bank of Baroda Economics Research

SUMMARY

AUROBINDO PHARMA

- Q1 revenue/EBITDA beat consensus by 4%/9% with adj. PAT (ex-one-off charge) running 15% ahead
- EBITDA margin climbed 130bps YoY to 16.8%; guided to exceed 18% in FY24
- FY24-FY25 EBITDA estimates raised 11-12% and TP reset to Rs 880 (vs. Rs 635), but rating cut to HOLD post recent rally

Click here **for the full report.**

INDIA ECONOMICS: MONSOON UPDATE

India's South West Monsoon slowed down marginally to 3% below LPA (5% surplus last week) compared with 8% surplus last year for the same period. The uneven distribution of rainfall has adversely impacted the sowing levels of certain crops. Overall, kharif sowing has registered an improvement on the back of higher acreage from rice, sugarcane and coarse cereals. Pulses sowing have also made some recovery since last week, thought it continues to be lower than last year. Lower acreage in pulses might have an impact on inflation in the coming months. Region wise, distribution of rainfall in South Peninsula and Eastern regions remains in the deficient zone. There is a need for careful monitoring as rainfall will begin receding in certain regions in the coming weeks.

Click here **for the full report.**

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INDIA ECONOMICS: CPI AND WPI

CPI print surprised way above expectation at 7.44%, and was the highest since Apr-22. Since the formation of MPC in 2016, it has been only on 10 occasions that headline CPI breached the 7% mark. The sequential momentum in retail food prices have been fairly strong, led by vegetables. Not only seasonality, there have been fair degree of supply side disruptions that have resulted in an upsurge in prices of major food categories. Notably, even on a seasonally adjusted MoM basis, vegetable inflation firmed up by 30.5%. In Aug'23 as well (till 11 Aug), tomato, onion, edible oils, and pulses are inching up. Our BoB ECI, is tracking at 7.5% till 11 Aug, on YoY basis. We do not see any respite on food inflation in Q2 and some spillover may be felt in Q3 as well in terms of rising household expectations.

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CROMPTON GREAVES

- ECD revenue growth at par with industry but lighting segment lagged peers in Q1
- Focus on premiumisation across fans and lighting continues; share of premium fans now at ~25% of the segment mix
- We pare FY24/FY25 EPS 8%/7% to bake in Q1 and roll over to a new TP of Rs 360 (vs. Rs 370)

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THE RAMCO CEMENTS

- New capacities (+2mt YoY) aid a 28% jump in Q1 volumes but pursuit of growth impacts realisations
- Cost curve remains high, compressing EBITDA margin by 170bps YoY and EBITDA/t by 11%
- Maintain SELL with an unchanged TP of Rs 585

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HOLD
TP: Rs 880 | ▲ 1%

AUROBINDO PHARMA | Pharmaceuticals | 15 August 2023

Broad-based growth; lower to HOLD post rally

- **Q1 revenue/EBITDA beat consensus by 4%/9% with adj. PAT (ex-one-off charge) running 15% ahead**
- **EBITDA margin climbed 130bps YoY to 16.8%; guided to exceed 18% in FY24**
- **FY24-FY25 EBITDA estimates raised 11-12% and TP reset to Rs 880 (vs. Rs 635), but rating cut to HOLD post recent rally**

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Broad-based growth: ARBP reported Q1FY24 revenue growth of 10% YoY to Rs 68.5bn with double-digit growth across businesses, except antiretroviral formulations which reported a 50% YoY decline. The company fared well in Europe (+19% YoY) due to market share gains as competitors struggled with shortages. The active pharma ingredient (API) business reported healthy 14% YoY growth on the back of improved demand.

US price erosion has stabilised: US business posted healthy revenue growth of 9% QoQ (+4% YoY) to US$ 402mn as the business environment improved and price erosion stabilised. Per management, no one-off sales were recorded in Q1 and the company did not benefit from shortages arising from the plant disruption at Pfizer. ARBP plans to launch gRevlimid in the US market in October.

FY24 margin guided at 18%+: EBITDA increased 19% YoY to Rs 11.5bn accompanied by margin expansion of 130bps to 16.8% as better capacity utilisation raised operating leverage. Gross margin was flat YoY but fell 80bps QoQ on account of a product mix change and sequentially lower other operating income. Management guides for an EBITDA margin of over 18% in FY24, supported by the upcoming launch of gRevlimid, normalised export incentives and resumption of Puerto Rico operations (production halted for expansion).

Valuations full; lower to HOLD: Following the strong April-June quarter on the back of an improved business environment in the US and Europe and better margin guidance, we raise our FY24-FY25 EBITDA estimates by 11-12% and increase our FY25E EV/EBITDA multiple to 9x (from 7x) – in line with the 5Y average. Our TP thus rises to Rs 880 (from Rs 635). Even so, we downgrade our rating from BUY to HOLD as the stock has rallied ~45% in 3M and offers low upside potential at prevailing valuations of 10.2x/8.8x FY24E/FY25E EV/EBITDA.

Key changes

Target	Rating
▲	▼

Ticker/Price	ARBP IN/Rs 872
Market cap	US$ 6.2bn
Free float	48%
3M ADV	US$ 18.1mn
52wk high/low	Rs 888/Rs 397
Promoter/FPI/DII	52%/24%/16%

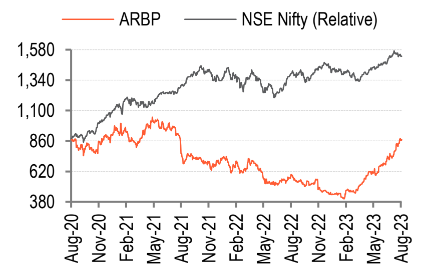
Source: NSE | Price as of 14 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	2,48,554	2,71,092	2,91,396
EBITDA (Rs mn)	37,582	48,857	55,785
Adj. net profit (Rs mn)	20,018	29,031	32,710
Adj. EPS (Rs)	34.2	49.5	55.8
Consensus EPS (Rs)	34.2	46.0	54.3
Adj. ROAE (%)	7.8	10.4	10.7
Adj. P/E (x)	25.5	17.6	15.6
EV/EBITDA (x)	13.4	10.2	8.8
Adj. EPS growth (%)	(26.0)	45.0	12.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

MONSOON UPDATE

14 August 2023

Monsoon and Sowing progress

Jahnavi Prabhakar
Economist

India's South West Monsoon slowed down marginally to 3% below LPA (5% surplus last week) compared with 8% surplus last year for the same period. The uneven distribution of rainfall has adversely impacted the sowing levels of certain crops. Overall, kharif sowing has registered an improvement on the back of higher acreage from rice, sugarcane and coarse cereals. Pulses sowing have also made some recovery since last week, thought it continues to be lower than last year. Lower acreage in pulses might have an impact on inflation in the coming months. Region wise, distribution of rainfall in South Peninsula and Eastern regions remains in the deficient zone. There is a need for careful monitoring as rainfall will begin receding in certain regions in the coming weeks.

Where does Kharif sowing stand?

As of 11 Aug 2023, overall Kharif sowing area has improved by 0.8% (0.4% in the previous week) since last year. Acreage of rice has continued to advance further, up by 4.9% (3.4% last week) compared with last year. Even coarse cereals have registered an uptick in sowing (higher 2.2%) on the back of higher sowing in both Maize and Bajra. Sowing levels of Sugarcane too continue to be higher at 1.6% against last year. On the other hand, Pulses sowing continue to be in red (-7.9%) compared with last year, though it has made some improvement since last week (-9.3%). Urad and Arhar continue to record lower sowing at (-) 13.5% and (-) 5.4% respectively. Additionally, Cotton (-1%) along with Jute & Mesta (-5.6%) have logged lower acreage than last year. Further while the oilseeds acreage is lower than last year, these shortages are in groundnut, sunflower and Sesamum.

Table 1: Kharif Sowing

	Area sown in 2023-24 (Lakh ha)	Area sown in 2022-23 (Lakh ha)	Change (YoY %)
Coarse Cereals	171.4	167.7	2.2
Jowar	13.3	14.1	(5.6)
Bajra	68.8	68.0	1.1
Maize	79.2	77.5	2.2
Rice	328.2	312.8	4.9
Pulses	113.1	122.8	(7.9)
Oilseeds	183.3	184.6	(0.7)
Cotton	121.3	122.5	(1.0)
Sugarcane	56.1	55.2	1.6
Jute and Mesta	6.6	7.0	(5.6)
All Crops	979.9	972.6	0.8

Source: CEIC, Bank of Baroda | Data as of 11 Aug 2023

Monsoon:

For the period 1 Jun 2023 to 13 Aug 2023, South West Monsoon is 3% below LPA compared with last year.

CPI AND WPI

14 August 2023

Sharp pick-up in inflation – a cautionary call

CPI print surprised way above expectation at 7.44%, and was the highest since Apr-22. Since the formation of MPC in 2016, it has been only on 10 occasions that headline CPI breached the 7% mark. The sequential momentum in retail food prices have been fairly strong, led by vegetables. Not only seasonality, there have been fair degree of supply side disruptions that have resulted in an upsurge in prices of major food categories. Notably, even on a seasonally adjusted MoM basis, vegetable inflation firmed up by 30.5%. In Aug'23 as well (till 11 Aug), tomato, onion, edible oils, and pulses are inching up. Our BoB ECI, is tracking at 7.5% till 11 Aug, on YoY basis. We do not see any respite on food inflation in Q2 and some spillover may be felt in Q3 as well in terms of rising household expectations.

Dipanwita Mazumdar
Jahnavi Prabhakar
Economist

WPI inflation contracted at much slower pace to stand at (-) 1.4% from (-) 4.1% in Jun'23. Food inflation accelerated on the back of spike in vegetable prices. Fuel and Power inflation contracted further to (-) 12.8% in Jul'23. On the other hand, manufactured inflation declined at a slower pace of (-) 2.5% in Jul'23

CPI inflation inched up

Food gave a shock to headline CPI: CPI inflation rose way more than our expectation of 5.8% to 7.44% in Jul'23 from 4.8% in May'23, on YoY basis. The upside surprise was on account of 702bps jump in food inflation, led by 37.3% jump in vegetable inflation from 0.9% decline in Jun'23, on YoY basis. Barring eggs and meat, all components of food noted sharp pickup. Double digit inflation is seen for cereals (13% in Jul'23 from 12.7% in Jun'23), pulses (13.3% from 10.5%) and spices (21.6% from 19.2%). For milk, inflation is still above the 6% mark, albeit some moderation.

On sequential basis, 7 out of 12 broad items of CPI food have registered pickup in inflation. The most considerable increase was seen in case of vegetables (38.5% increase against 12.2% in Jun'23). Even fruits (4.5% against -0.1% in Jun'23) and oils and fats (-1% from -3.2%) pose considerable risks.

Going forward, especially in Q2, considerable risks emanate from food inflation. Notably, even on a seasonally adjusted MoM basis, vegetable inflation firmed up by 30.5%. In Aug'23 as well (till 11 Aug), tomato, onion, edible oils, and pulses are inching up. Monsoon (cumulative till 14 Aug) is also 4% below LPA. With most part of sowing of pulses being over and sowing being comparatively lower, a near term spiraling of pulses cannot be ruled out. We do not see any respite for food for the remaining part of CY23, as cycles of vegetables are generally for 6-7months and the fresh harvest also might be impacted due to weather vagaries and logistic issues.

Food inflation excl. vegetables was also higher at 6.3% compared to 5.5% in Jun'23, thus indicating that price pressures are broad based in nature.

BUY
TP: Rs 360 | ⮝ 22%

CROMPTON GREAVES | Consumer Durables | 14 August 2023

Mixed quarter

- **ECD revenue growth at par with industry but lighting segment lagged peers in Q1**
- **Focus on premiumisation across fans and lighting continues; share of premium fans now at ~25% of the segment mix**
- **We pare FY24/FY25 EPS 8%/7% to bake in Q1 and roll over to a new TP of Rs 360 (vs. Rs 370)**

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Q1 mixed: Crompton's Q1FY24 topline grew only 0.7% YoY to Rs 18.8bn due to softness in the lighting and kitchen appliances (BGAL) businesses. Electrical consumer durables (ECD) revenue increased 6% YoY whereas the lighting segment declined 13%. Subsidiary BGAL's revenue also slipped 14% YoY. Gross and EBITDA margins contracted 60bps and 190bps YoY respectively to 30.8% and 9.9%. Consequently, adj. PAT fell 7% YoY to Rs 1.2bn.

ECD performance average; lighting lags: Crompton's ECD segment performed around the industry median, but lighting lagged peers. Against its ECD growth of 6% YoY, peers such as HAVL grew 4.5%, POLYCAB 2%, ORIENTEL 16% and VGRD 11%. The segment's EBIT margin stood at 12.7% for the company vs. 10.9%, -1.8%, 9.5% and 0.3% for peers respectively. In lighting, Crompton's 13% decline compares unfavourably with a 0.7% dip for HAVL and 3% growth for ORIENTEL. EBIT margins here stood at 11.9%, 14.3% and 16.1% respectively.

Premiumisation strategy to bolster topline: Going forward, the company is increasing the share of premium products in its fans and lighting portfolios. In fans, this includes higher quality products and higher price points, apart from a larger share of energy-efficient brushless direct current (BLDC) fans. The share of premium fans has increased from the high-teens to ~25% of Crompton's fan portfolio mix. In lighting, the company is targeting a higher contribution from ceiling lighting solutions, which entail a better margin profile.

Maintain BUY: Incorporating lower profitability from the fans business in Q1, we pare our FY24/FY25 EPS estimates by 8%/7%. We value the stock at an unchanged P/E multiple of 30x – a 15% discount to the stock's 5Y average, and roll valuations over to Jun'25E, arriving at a revised TP of Rs 360 (vs. Rs 370). Though the energy rating change has led to uncertainty in the fans industry, we believe Crompton is a better bet than peers on account of its market leadership and growing share in premium fans.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CROMPTON IN/Rs 296
Market cap	US$ 2.3bn
Free float	100%
3M ADV	US$ 10.3mn
52wk high/low	Rs 429/Rs 251
Promoter/FPI/DII	0%/40%/44%

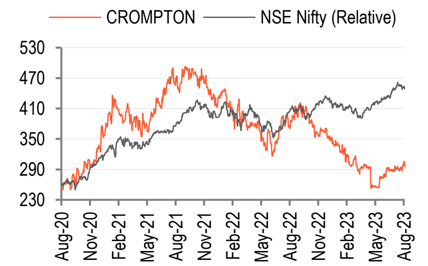
Source: NSE | Price as of 11 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	68,696	79,054	91,036
EBITDA (Rs mn)	7,705	8,996	10,803
Adj. net profit (Rs mn)	4,632	5,834	7,292
Adj. EPS (Rs)	7.3	9.2	11.5
Consensus EPS (Rs)	7.3	9.0	11.1
Adj. ROAE (%)	18.1	20.2	21.3
Adj. P/E (x)	40.6	32.2	25.8
EV/EBITDA (x)	25.1	20.4	16.7
Adj. EPS growth (%)	(21.7)	25.9	25.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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SELL
TP: Rs 585 | ∀ 30%

THE RAMCO CEMENTS | Cement | 14 August 2023

Pressure on operational efficiencies to continue

- **New capacities (+2mt YoY) aid a 28% jump in Q1 volumes but pursuit of growth impacts realisations**
- **Cost curve remains high, compressing EBITDA margin by 170bps YoY and EBITDA/t by 11%**
- **Maintain SELL with an unchanged TP of Rs 585**

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Volume-led topline growth: TRCL's Q1FY24 revenue grew 28% YoY (-12% QoQ) to Rs 22.4bn driven by a 28% YoY (-9% QoQ) jump in volumes to 4.2mt. The eastern region contributed 21% of volumes, lower than the 27%/23% levels seen in Q1FY23/Q4FY23 due to the wet season. Realisations stay flat YoY at Rs 5,298/t while dipping 4% QoQ on account of pricing pressure in southern markets.

Operating performance weak: EBITDA increased 14% YoY (-17% QoQ), but the margin fell 170bps YoY (-80bps QoQ) to 15.2% owing to listless pricing and marginal cost inflation. Overall cost moved up 1% YoY to Rs 4,491/t as energy cost increased (+13% YoY, +8% QoQ) to Rs 1,787/t due to high-cost inventory. Logistics cost was flat both YoY and sequentially at Rs 1,082/t, though staff expenses increased 17% (+12% QoQ) to Rs 1.3bn. Effectively, EBITDA/t fell 11% YoY (-10% QoQ) to Rs 784/t. We expect only a marginal improvement in efficiencies ahead.

Capacity expansion plans: Commissioning timelines for TRCL's expansion projects are as follows – (i) Odisha grinding unit line II with 0.9mtpa of cement capacity: H2FY24; (ii) 4MW of waste heat recovery system capacity in Kurnool: Q2FY24 (commissioned); (iii) 18MW thermal power plant and railway siding: FY24-end; and (iv) two dry mortar plant units in Andhra Pradesh and Odisha: FY24-end. Management indicated that the next phase of expansion will begin with Kurnool line II (3mt cement, 2.25mt clinker), followed by the Karnataka greenfield plant (land acquisition for Bommanahalli project is underway).

Valuations high; retain SELL: TRCL is likely to see continued volume-led growth (Q1 capacity utilisation at 77%), albeit with tough pricing conditions. We maintain our FY24/FY25 EPS estimates but are keenly watching price and cost developments. At current valuations of 13.7x FY25E EV/EBITDA, valuations look expensive given high gearing, single-digit return ratios and a weak margin profile. We maintain SELL, valuing the stock at an unchanged 10x FY25E EV/EBITDA multiple, implying a replacement cost of Rs 8.1bn/mt – a 10% premium to the industry average. Our TP remains at Rs 585.

Key changes

Target	Rating
◄►	◄►

Ticker/Price	TRCL IN/Rs 841
Market cap	US$ 2.4bn
Free float	58%
3M ADV	US$ 6.5mn
52wk high/low	Rs 953/Rs 634
Promoter/FPI/DII	42%/7%/32%

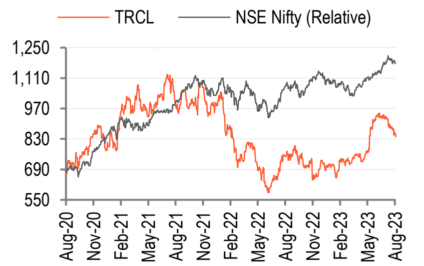
Source: NSE | Price as of 14 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	81,004	93,036	1,04,850
EBITDA (Rs mn)	11,156	14,889	17,705
Adj. net profit (Rs mn)	3,435	4,997	6,602
Adj. EPS (Rs)	14.5	21.1	27.9
Consensus EPS (Rs)	14.5	26.0	32.5
Adj. ROAE (%)	5.2	7.1	8.8
Adj. P/E (x)	57.8	39.7	30.1
EV/EBITDA (x)	21.6	16.3	13.7
Adj. EPS growth (%)	(61.6)	45.5	32.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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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