FIRST LIGHT

16 February 2023

RESEARCH

SIEMENS INDIA | TARGET: Rs 3,800 | +22% | BUY

Stellar quarter

PI INDUSTRIES | TARGET: Rs 3,800 | +22% | BUY

Strong quarter spurred by custom synthesis business

CESC | TARGET: Rs 108 | +44% | BUY

Stable performance; DF circles disappoint

CONSUMER DURABLES | Q3FY23 REVIEW

Margin recovery delayed

Daily macro indicators

Indicator	13-Feb	14-Feb	Chg (%)
US 10Y yield (%)	3.70	3.74	4bps
India 10Y yield (%)	7.37	7.37	0bps
USD/INR	82.73	82.76	0.0
Brent Crude (US$/bbl)	86.6	85.6	(1.2)
Dow	34,246	34,089	(0.5)
Hang Seng	21,164	21,114	(0.2)
Sensex	60,432	61,032	1.0
India FII (US$ mn)	**10-Feb**	**13-Feb**	**Chg ($ mn)**
FII-D	32.1	91.0	58.9
FII-E	209.0	181.0	(28.0)

Source: Bank of Baroda Economics Research

SUMMARY

SIEMENS INDIA

- Strong Q1 beat aided by margin expansion across segments. C&S Electric turns a corner
- Parent's upward guidance revision for SI and DI businesses signals margin expansion opportunities for India entity
- Execution momentum set to continue; retain BUY with a revised TP of Rs 3,800 (vs. Rs 3,500) on rollover

Click here for the full report.

PI INDUSTRIES

- Q3 robust with EBITDA/PAT growth of 40%/58% YoY on the back of margin improvement, low tax and higher other income
- Favourable product mix (82% CSM share) and operating leverage fuelled EBITDA margin expansion of 385bps YoY to 25.7%
- We raise FY23-FY24 EBITDA by 8-11% and roll over to a revised TP of Rs 3,800 (vs. Rs 3,020); maintain BUY

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BOBCAPS Research
research@bobcaps.in

CESC

- Stable Q3 with 4% YoY revenue growth to Rs 19bn and flattish net profit at Rs 1.9bn
- Distribution franchisee (DF) circles in Rajasthan and Malegaon continue to disappoint as losses widened
- Stock at attractive valuations of 0.8x FY25E P/BV with dividend yield at 6%; retain BUY with an unchanged TP of Rs 108

Click here for the full report.

CONSUMER DURABLES: Q3FY23 REVIEW

- Consumer durables players posted modest topline growth in Q3 as volumes moved up but pricing action faltered
- Margins recovered sequentially on exhaustion of high-cost inventory, raising hopes of a revival
- We maintain our top picks – HAVL, CROMPTON and POLYCAB

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BUY
TP: Rs 3,800 | ⮝ 22%

SIEMENS INDIA | Capital Goods | 15 February 2023

Stellar quarter

- **Strong Q1 beat aided by margin expansion across segments. C&S Electric turns a corner**
- **Parent's upward guidance revision for SI and DI businesses signals margin expansion opportunities for India entity**
- **Execution momentum set to continue; retain BUY with a revised TP of Rs 3,800 (vs. Rs 3,500) on rollover**

Vinod Chari | Tanay Rasal
Nilesh Patil
research@bobcaps.in

Strong Q1 beat: SIEM reported a stellar EBITDA margin of 14.9%, up 470bps YoY in Q1FY23 (Sep Y/E) and beating our estimate of 10.7%, aided by margin gains across segments. Execution was steady, fuelling a 13% YoY rise in revenue to Rs 40bn as the smart infrastructure business grew 18% (to Rs 15.2bn) and digital industries grew 29% (to Rs 10.2bn). Net profit surged 85% YoY to Rs 4.6bn (Rs 3.2bn est.)

C&S turns a corner: C&S Electric's revenue grew 14% YoY to Rs 3.3bn. Notably, the company achieved an EBIT margin of 3.4% and EBIT of Rs 114mn, a significant improvement compared to a loss of Rs 15mn in Q1FY22. With its strong low-voltage portfolio, we expect C&S to have a more substantial presence in export markets.

DI and SI key to margin expansion: Parent Siemens AG's focus on software-as-a-service (SaaS) is expected to boost margins of its digital industries (DI) business. Over the next 3-5 years, this move is likely to benefit India operations as the company looks to monetise its software offerings. Further, Siemens AG's recent upward revision of its DI growth guidance by 2ppt to 12-15% and EBIT margin guidance by 100bps to 20-22% for FY23 is a positive sign for the India arm.

We anticipate growth from digitalisation services in building technologies, alongside higher margins in low-voltage products and a favourable product mix in electrification and switchgears (SF6-free). In addition, C&S Electric's EBIT turnaround post-acquisition and the parent's positive revision in growth guidance for the smart infrastructure (SI) business by 1ppt to 9-12% and margin guidance by 50bps to 13.5-14.5% for FY23 should boost outsourcing to low-cost markets such as India.

Maintain BUY: SIEM is benefiting from structural tailwinds in its digitalisation and automation businesses, as well as traction in the previously underperforming mobility segment. The company is also well positioned to harness the opportunities from green energy transition. We tweak estimates and roll valuations forward to Dec'24E, translating to a revised TP of Rs 3,800 (vs. Rs 3,500), valuing the stock at an unchanged 57x P/E – a 30% premium to the 5Y average. BUY.

Key changes

Target	Rating
▲	◀▶

Ticker/Price	SIEM IN/Rs 3,125
Market cap	US$ 13.4bn
Free float	25%
3M ADV	US$ 15.3mn
52wk high/low	Rs 3,174/Rs 2,150
Promoter/FPI/DII	75%/5%/10%

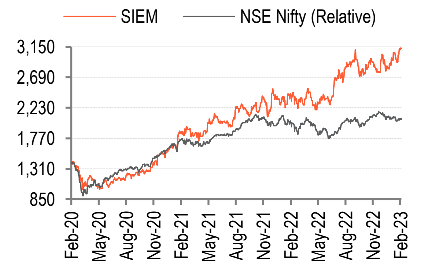
Source: NSE | Price as of 14 Feb 2023

Key financials

Y/E 30 Sep	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,61,378	1,96,656	2,33,094
EBITDA (Rs mn)	17,573	23,402	28,965
Adj. net profit (Rs mn)	12,619	17,228	21,853
Adj. EPS (Rs)	35.4	48.4	61.4
Consensus EPS (Rs)	35.4	47.3	61.9
Adj. ROAE (%)	11.5	14.1	16.1
Adj. P/E (x)	88.2	64.6	50.9
EV/EBITDA (x)	66.2	50.4	40.8
Adj. EPS growth (%)	22.5	36.5	26.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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BUY

TP: Rs 3,800 | ⮝ 22%

PI INDUSTRIES | Agrochemicals | 15 February 2023

Strong quarter spurred by custom synthesis business

- **Q3 robust with EBITDA/PAT growth of 40%/58% YoY on the back of margin improvement, low tax and higher other income**
- **Favourable product mix (82% CSM share) and operating leverage fuelled EBITDA margin expansion of 385bps YoY to 25.7%**
- **We raise FY23-FY24 EBITDA by 8-11% and roll over to a revised TP of Rs 3,800 (vs. Rs 3,020); maintain BUY**

Saad Shaikh
research@bobcaps.in

Revenue growth spurred by CSM: PI reported 19% YoY growth in Q3FY23 revenue to Rs 16bn driven purely by the export business which grew 23%. Volumes/pricing grew 9%/14%, with the latter also supported by favourable currency movement. Management expects the scale up of existing products, 4-5 new commercialisations a year, and steady flow of enquiries to support future growth.

Sharp sequential decline in domestic business: Domestic business dropped 42% QoQ, albeit on a high base of Q2, due to a demand slowdown (on account of adverse weather conditions) and higher channel inventory. PI is confident of double-digit growth in India business during FY24 based on launches over the last 2-3 years.

Better product mix and operating leverage helped margins: Gross margin expanded 70bps YoY (+200bps QoQ) as the product mix shifted in favour of custom synthesis manufacturing (CSM: 82% of revenue). This along with operating leverage took EBITDA margin to 25.7%, up 385bps YoY (+130bps QoQ). Margin improvement coupled with a lower tax rate of 12.1% (vs. 17.3%/15.9% in Q3FY22/Q2FY23) and higher other income fuelled strong 58% YoY growth in net income to Rs 3.5bn.

Earnings call highlights: (1) PI's export order book stands at ~US$ 1.8bn. (2) About 40 products are at different development stages (17+ in agrochemicals). (3) Operating cash flow stood at Rs 6.8bn in Q3 (Rs 10bn in 9MFY23). Cash on books was at Rs 29bn. (4) PI maintained its revenue guidance of 20%+ and indicated plans to intensify capacity expansion via capex of Rs 8bn-8.5bn in FY24.

Maintain BUY: Based on the 9MFY23 print, we raise FY23-FY24 EBITDA estimates 8-11%. This along with rollover of valuations to FY25E yields a new TP of Rs 3,800 (vs. Rs 3,020), which is set at 25x EV/EBITDA – in line with the stock's 5Y average. We expect PI's differentiated capabilities in the CSM export segment (US$ 1.8bn order book) and launch pipeline in India to drive 25%+ EPS growth and 30%+ ROIC over FY22-FY25. The company has performed well in 9MFY23 on a high revenue base and shown resilience on the margin front by passing along costs and improving its product mix. Retain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	PI IN/Rs 3,122
Market cap	US$ 5.7bn
Free float	53%
3M ADV	US$ 11.8mn
52wk high/low	Rs 3,698/Rs 2,351
Promoter/FPI/DII	46%/19%/24%

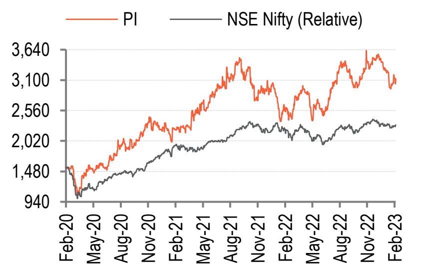
Source: NSE | Price as of 15 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	52,995	65,589	77,136
EBITDA (Rs mn)	11,424	15,376	18,298
Adj. net profit (Rs mn)	8,438	11,971	14,029
Adj. EPS (Rs)	55.7	79.0	92.5
Consensus EPS (Rs)	55.7	77.0	94.4
Adj. ROAE (%)	14.5	17.8	17.9
Adj. P/E (x)	56.1	39.5	33.7
EV/EBITDA (x)	40.3	29.3	24.5
Adj. EPS growth (%)	14.3	41.9	17.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY

TP: Rs 108 | ⮝ 44%

CESC | Power | 15 February 2023

Stable performance; DF circles disappoint

- **Stable Q3 with 4% YoY revenue growth to Rs 19bn and flattish net profit at Rs 1.9bn**
- **Distribution franchisee (DF) circles in Rajasthan and Malegaon continue to disappoint as losses widened**
- **Stock at attractive valuations of 0.8x FY25E P/BV with dividend yield at 6%; retain BUY with an unchanged TP of Rs 108**

Anupam Goswami
research@bobcaps.in

Flat performance: CESC's standalone Q3FY23 net revenue (including regulated income) grew 4% YoY to Rs 19bn, slightly above our estimate. Standalone EBITDA including regulatory income increased 10% YoY to Rs 4.5bn. The company posted regulatory income of only Rs 2.3bn during the quarter as against Rs 2bn in the year-ago period. Standalone net income was flat YoY at Rs 1.9bn (Rs 1.7 bn est.). On a consolidated basis, revenue grew 11% YoY to Rs 31bn, EBITDA (incl. regulatory income) was flat at Rs 8.3bn and net income was also flat at Rs 3.4bn.

Demand stable due to early winter in Kolkata circle: Power sales during Q3FY23 stood at 2,201MU, an increase of only 2.6% YoY.

Losses in DF circles widen: CESC's Rajasthan distribution franchisees (DF) continued to post losses in 9MFY23 at Rs 290mn vs. Rs 190mn in 9MFY22. Malegaon DF losses also widened to Rs 670mn from Rs 410mn.

Dhariwal performance has stabilised: PLF (plant load factor) for subsidiary Dhariwal Infrastructure stood at 80% vs. 63.4% in Q3FY22 on the back of a three-year power purchase agreement (PPA) for Unit-1. Net profit for 9MFY23 came in higher at Rs 1.7bn compared to Rs 1.1bn in the corresponding year-ago period.

Retain BUY: CESC's generation and distribution assets in Kolkata remain a cash cow for the company, producing strong cash flows and high ROE. A steady performance at Dhariwal due to the new PPA should continue to broaden earnings visibility and cash generation. This apart, CESC's dividend yield is high at 6%, and we find current valuations attractive at 0.8x FY25E P/BV. We thus maintain BUY with an unchanged SOTP-based TP of Rs 108 for 44% upside potential. Turnaround in DF circles, however, remains a key monitorable.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	CESC IN/Rs 75
Market cap	US$ 1.2bn
Free float	48%
3M ADV	US$ 1.8mn
52wk high/low	Rs 88/Rs 68
Promoter/FPI/DII	52%/13%/35%

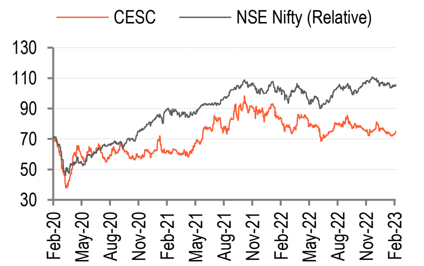
Source: NSE | Price as of 14 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,32,810	1,42,934	1,45,859
EBITDA (Rs mn)	36,540	37,161	38,092
Adj. net profit (Rs mn)	14,026	15,829	16,783
Adj. EPS (Rs)	10.5	11.9	12.6
Consensus EPS (Rs)	10.5	11.6	12.1
Adj. ROAE (%)	13.5	14.3	14.2
Adj. P/E (x)	7.1	6.3	6.0
EV/EBITDA (x)	5.9	5.9	5.5
Adj. EPS growth (%)	2.1	12.9	5.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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CONSUMER DURABLES | Q3FY23 Review | 15 February 2023

Margin recovery delayed

- Consumer durables players posted modest topline growth in Q3 as volumes moved up but pricing action faltered
- Margins recovered sequentially on exhaustion of high-cost inventory, raising hopes of a revival
- We maintain our top picks – HAVL, CROMPTON and POLYCAB

Vinod Chari | Nilesh Patil
Tanay Rasal
research@bobcaps.in

Topline intact but margins stressed: Our consumer durables universe posted modest topline growth of 10% YoY in Q3FY23 against our estimate of 14% (ex-DIXON), reinforcing our thesis of volume over value growth as all players refrained from taking price hikes. EBITDA margins, however, remained weak, dashing industry hopes of recovery from H2FY23 onwards. Players expect a better Q4FY23, laying the foundation for price hikes and margin recovery thereafter.

Traction in fans: Most companies posted strong growth in the fans business, particularly for lower-end products, as distributors pushed sales of non-compliant fan inventory at discounted prices ahead of BEE rating transition. In contrast, market leader CROMPTON chose to focus on its new star-rated fans, dampening growth.

RAC players pin hopes on a better summer season: RAC players reported resilient Q3 sales amidst a seasonally weak period and subdued demand. However, margin pressure persisted (ex-BLSTR). The industry outlook for the upcoming summer season remains optimistic, with expectations of higher volumes and price hikes.

Margin recovery likely: In line to our thesis, our coverage basket saw EBITDA margins deteriorating YoY but expanding sequentially (barring VOLT & VGRD). Margins were muted by high-cost inventory & rebound in commodity prices late in quarter. We expect margin recovery in core CD pack ahead as most of expensive inventory has been exhausted & commentary points to price hikes in Q4FY23.

EMS traction continues: Our EMS basket clocked strong topline growth YoY (ex-DIXON) and robust order booking, implying continued traction in the near future. While AMBER and SYRMA beat our topline estimates but saw muted margins, DIXON recorded a lower topline but better margin. DIXON's steep cut in topline guidance and delays in mobile client addition make for an uncertain near-term outlook.

Retain top picks: Barring DIXON, our top picks remain intact following target price adjustments due to valuation rollover and Q3 performance. We retain our positive bias on HAVL (TP Rs 1,500), CROMPTON (TP Rs 440, BUY), and POLYCAB (TP Rs 3,300).

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	1,857	2,100	HOLD
BLSTR IN	1,385	1,450	BUY
CROMPTON IN	305	440	BUY
DIXON IN	2,702	4,100	BUY
HAVL IN	1,218	1,500	BUY
KEII IN	1,613	1,900	BUY
ORIENTEL IN	273	290	HOLD
POLYCAB IN	3,006	3,300	BUY
SYRMA IN	264	400	BUY
VGRD IN	246	260	HOLD
VOLT IN	859	910	HOLD

Price & Target in Rupees | Price as of 15 Feb 2023

Consumer durables: Q3 result reviews

Company	Result review link
AMBER IN	Strong topline but margins remain muted
BLSTR IN	Buoyant performance; UCP margin expansion continues
CROMPTON IN	Weak lighting business dims performance
DIXON IN	Dull Q3 as mobiles business dials down
HAVL IN	Modest performance amid a challenging environment
KEII IN	Upbeat numbers
ORIENTEL IN	Back on track with Q3 rebound
POLYCAB IN	Buoyant quarter
SYRMA IN	Strong topline but margins soften
VGRD IN	Topline intact while margin pressure persists
VOLT IN	Subpar quarter as EMP losses deepen

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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