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FIRST LIGHT

16 May 2023

RESEARCH

BOB ECONOMICS RESEARCH | WPI

WPI at 34-month low

EICHER MOTORS | TARGET: Rs 3,761 | +3% | HOLD

Overall healthy performance

POLYCAB INDIA | TARGET: Rs 3,900 | +15% | BUY

Cables business resilient

ORIENT ELECTRIC | TARGET: Rs 240 | +10% | HOLD

Weak end to a challenging FY23

Daily macro indicators

Ticker	11-May	12-May	Chg (%)
US 10Y yield (%)	3.38	3.46	8bps
India 10Y yield (%)	7.02	6.99	(3bps)
USD/INR	82.09	82.17	(0.1)
Brent Crude (US$/bbl)	75.0	74.2	(1.1)
Dow	33,310	33,301	0.0
Hang Seng	19,744	19,627	(0.6)
Sensex	61,905	62,028	0.2
India FII (US$ mn)	**10-May**	**11-May**	**Chg ($ mn)**
FII-D	99.1	123.4	24.3
FII-E	279.9	120.7	(159.2)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: WPI

WPI inflation continues went into contraction in Apr'23 as it came in at (-) 0.9%, down from 1.3% in Mar'23. All three sub-indices saw a significant decline. Dip in mineral oil index (0.9% versus 9% in Mar'23) was supported by favourable base. Food (0.2% versus 2.3%) and manufactured product inflation (-2.4% versus -0.8%) also noted significant drop. Within food, while prices of vegetables, milk, eggs, meat and fish exhibited downward pressure, upward movement in prices of food grains, particularly pulses and paddy needs to be watched more closely.

Click here for the full report.

EICHER MOTORS

- Launches aided Q4 volume growth of 18% YoY and healthy revenue gains; both Hunter and Bullet pushed up realisations
- EBITDA margin up 100bps YoY to 24.7% as cost inflation eased and exports moved up
- On rollover, we have a revised TP of Rs 3,761 (vs. Rs 3,543) set at 26x (vs. 28x) FY25E EPS; maintain HOLD

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POLYCAB INDIA

- Wires & cables shore up growth in Q4 while FMEG business struggles; international sales at a record high
- On course to achieve Project Leap revenue target of Rs 200bn by FY26, evidenced by FY21-FY23 CAGR of 27%
- We raise FY24/FY25 EPS 15%/18% and roll over to a new TP of Rs 3,900 (vs. Rs 3,300); maintain BUY

Click here for the full report.

ORIENT ELECTRIC

- Growth in lighting & switchgears (+12% YoY) offset by decline in ECD business (-20%) as fans business underperformed in Q4
- New FY24 strategy identifies “hero” products, distribution gaps and B2B lighting as focus areas
- TP cut to Rs 240 (vs. Rs 290) as we pare FY24/FY25 EPS by 12%/8% and roll forward with a revised target P/E of 30x (vs. 35x); retain HOLD

Click here for the full report.

WPI

15 May 2023

WPI at 34-month low

Sonal Badhan
Economist

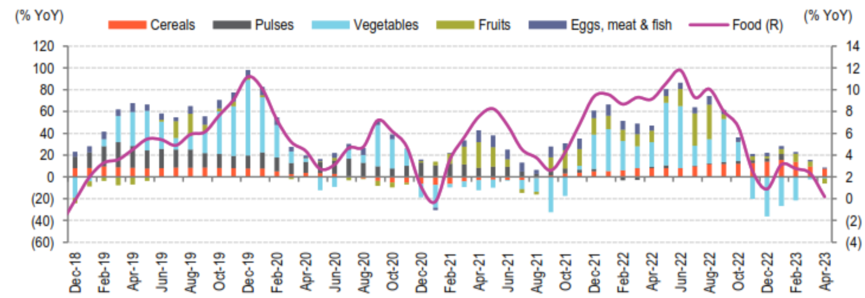
WPI inflation continues went into contraction in Apr'23 as it came in at (-) 0.9%, down from 1.3% in Mar'23. All three sub-indices saw a significant decline. Dip in mineral oil index (0.9% versus 9% in Mar'23) was supported by favourable base. Food (0.2% versus 2.3%) and manufactured product inflation (-2.4% versus -0.8%) also noted significant drop. Within food, while prices of vegetables, milk, eggs, meat and fish exhibited downward pressure, upward movement in prices of food grains, particularly pulses and paddy needs to be watched more closely.

Manufactured products, have benefited much from decline in international commodity prices. This trend is likely to continue as weak global growth momentum (led by US and China) will maintain downward pressure on prices. As a result, even oil prices are seen weakening, which in turn will provide support to fuel and power inflation index. Going ahead, we maintain that trajectory of food prices in the wake of ongoing heat wave conditions and performance of monsoon will be critical.

Food inflation eases significantly:

Headline WPI fell more than expected in Apr'23. It was down by (-) 0.9% versus our estimate of (-) 0.6% and 1.3% in Mar'23. This is the first time it has entered deflationary territory since Jul'20 (-0.2%) and is currently at its 34-month low (-1.8% in Jun'20). Food inflation also cooled down significantly from 2.3% in Mar'23 to 0.2% in Apr'23. Within food, deflation in price index for milk (-0.2% in Apr'23 versus 0.7% in Mar'23), eggs, meat & fish (-0.6% versus 1.2%), and moderation in vegetable inflation (4.5% versus 5.5%) helped drag the overall index down. Within vegetables, tomato, okra, gourd and pumpkin prices exerted downward pressure. On the other hand, upward price pressures were visible in case of food grains (0.3% versus -1.3%), particularly pulses (2.2% versus 1.3%). Cereal price index fell less sharply (-0.1% versus -1.9%). Increase in paddy prices and less sharp decline in wheat prices was in line with trend in international commodity prices. As indicated by World Bank's pink sheet, paddy prices have risen by 15.4% in Apr'23 from 12.8% in Mar'23, while wheat prices continue to decline, albeit slowly (-29% versus -29.8%). Price index for fruits also noted sharp increase (8% versus 3.5%), followed by spices (2.5% versus 0.6%).

Figure 1: Food inflation showing signs of moderation in Mar'23



Source: CEIC, Bank of Baroda Research

RESULT REVIEW

HOLD

TP: Rs 3,761 | ⮝ 3%

EICHER MOTORS | Automobiles | 15 May 2023

Overall healthy performance

- **Launches aided Q4 volume growth of 18% YoY and healthy revenue gains; both *Hunter* and *Bullet* pushed up realisations**
- **EBITDA margin up 100bps YoY to 24.7% as cost inflation eased and exports moved up**
- **On rollover, we have a revised TP of Rs 3,761 (vs. Rs 3,543) set at 26x (vs. 28x) FY25E EPS; maintain HOLD**

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Revenue up 20% YoY: EIM's Q4FY23 revenue grew 20% YoY (+7% QoQ) to Rs 38.3bn as volumes increased 18% (-1% QoQ) and net realisation per vehicle grew 2% YoY (+8% QoQ) to Rs 175k/unit on the back of price hikes for *Hunter* and *Bullet*.

Operating margin continues to improve: Gross margin expanded 20bps YoY (+120bps QoQ) to 42.9% owing to lower raw material cost at 57.1% of sales (58.3% in Q3FY23) and price hikes. Other expenses at Rs 4.6bn rose 17% YoY and QoQ. EBITDA grew 25% YoY (+10% QoQ) to Rs 9.4bn and the margin expanded 100bps YoY (+80bps QoQ) to 24.7%, further contributed by better international volumes. Adj. PAT increased 35% YoY (+10% QoQ) to Rs 7.5bn.

CV segment revives: Heavy-duty truck volumes reached 247,000 in FY23, below the earlier peak (295,000), whereas light and medium duty trucks did well. In buses, management expects strong growth as the state transporter is replacing the old fleet. EIM anticipates double-digit volume growth for the domestic MHCV industry and strong replacement demand in FYxx, but noted that the global commercial vehicle (CV) market remains weak.

Large capex plans: The board has approved capex of Rs 10bn for the Royal Enfield business in FY24, largely toward product development for both the electric and traditional portfolio and for EV manufacturing. In EVs, the focus is on creating a disruptive product and developing a supply ecosystem.

Revise earnings, maintain HOLD: We cut our FY24/FY25 revenue estimates by 5%/6%, toning down our earlier volume assumptions and baking in slower price gains and stiffer competition. Our FY22-FY25 revenue/EBITDA/PAT CAGR reduces to 20%/30%/33%, albeit with healthy EBITDA margins of 25-26% over our forecast period to factor in the introduction of high-end variants and operating efficiencies. Based on our revised estimates, we value EIM at 26x EPS (vs. 28x). On rolling valuations over to FY25E and assigning Rs 150/sh to VECV (peaking business), we arrive at a revised TP of Rs 3,761 (vs. Rs 3,543), carrying just 3% upside – retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	EIM IN/Rs 3,659
Market cap	US$ 12.2bn
Free float	51%
3M ADV	US$ 25.0mn
52wk high/low	Rs 3,890/Rs 2,495
Promoter/FPI/DII	49%/30%/9%

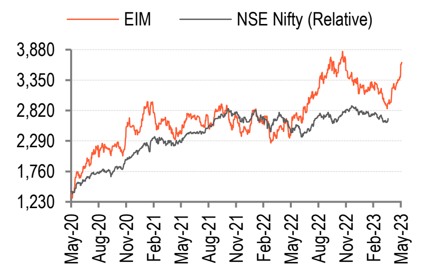
Source: NSE | Price as of 15 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,40,666	1,57,097	1,75,538
EBITDA (Rs mn)	33,935	39,941	46,177
Adj. net profit (Rs mn)	26,226	32,728	37,893
Adj. EPS (Rs)	96.1	120.0	138.9
Consensus EPS (Rs)	96.1	118.8	137.7
Adj. ROAE (%)	20.4	21.3	20.5
Adj. P/E (x)	38.1	30.5	26.3
EV/EBITDA (x)	28.2	25.2	21.8
Adj. EPS growth (%)	65.3	24.8	15.8

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

Stock performance



Source: NSE

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BUY
TP: Rs 3,900 | ⮝ 15%

POLYCAB INDIA | Consumer Durables | 15 May 2023

Cables business resilient

- **Wires & cables shore up growth in Q4 while FMEG business struggles; international sales at a record high**
- **On course to achieve Project Leap revenue target of Rs 200bn by FY26, evidenced by FY21-FY23 CAGR of 27%**
- **We raise FY24/FY25 EPS 15%/18% and roll over to a new TP of Rs 3,900 (vs. Rs 3,300); maintain BUY**

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Buoyant performance: Polycab reported an all-round beat in Q4FY23 as revenue and EBITDA at Rs 43.2bn (+9% YoY) and Rs 6.1bn (+28% YoY) surpassed our expectations by 6% and 19% respectively. A better performance in wires & cables led by both domestic and international business underpinned growth. EBITDA margin at 14.1% was above management's guidance of 11-13% on better operating leverage and higher exports. Net profit at Rs 4.2bn (+32% YoY) hit a peak.

W&C traction to persist: The wires & cables (W&C) segment carried forward its strong momentum to Q4 as revenue rose 15% YoY to Rs 40.8bn (4Y CAGR at 17.7%) on healthy volume growth. Management foresees robust order inflows for the domestic business given a strong demand climate led by higher public and private capex. Exports grew 125% YoY in Q4 and 50% in FY23. Prudent price revisions and higher exports resulted in segmental EBIT margin expansion of 290bps YoY.

FMEG finding its feet: Polycab's FMEG business was flat in FY23 (-19.5% YoY in Q4) despite weak consumer sentiments, uncertainty in the fans business amid rating transition, and distribution channel restructuring. The company is adopting a premium product strategy in fans, evident from the higher share of premium launches (~60%) relative to total launches following rating transition. Now that headwinds are largely abating, management expects the FMEG business to rebound, aiding overall performance.

On track to meet Rs 200bn revenue target: Polycab has posted a 27% topline CAGR over FY21-FY23, putting the company on course to meet its FY26 revenue target of Rs 200bn set under 'Project Leap'. We believe it is set to solidify moats in the W&C segment and deliver above-industry growth in the FMEG business.

Maintain BUY: We remain optimistic on Polycab's growth prospects considering the moats in its core W&C business, growth in FMEG and B2C expansion. We raise our FY24/FY25 EPS estimates by 15%/18% to build in the strong FY23 performance and bright outlook. On rolling valuations to Mar'25E, our TP rises to Rs 3,900 (vs. Rs 3,300), based on an unchanged 35x P/E – 50% premium to the 3Y mean. BUY.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	POLYCAB IN/Rs 3,389
Market cap	US$ 6.2bn
Free float	34%
3M ADV	US$ 11.2mn
52wk high/low	Rs 3,400/Rs 2,044
Promoter/FPI/DII	66%/10%/9%

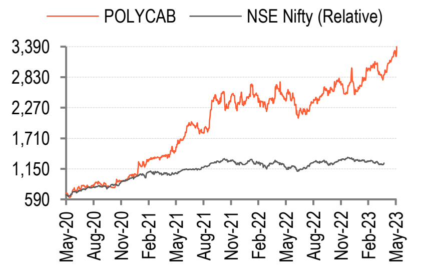
Source: NSE | Price as of 12 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,41,078	1,62,895	1,82,252
EBITDA (Rs mn)	18,521	21,899	24,645
Adj. net profit (Rs mn)	12,700	14,701	16,539
Adj. EPS (Rs)	84.9	98.2	110.5
Consensus EPS (Rs)	84.9	92.5	107.8
Adj. ROAE (%)	20.9	20.4	19.6
Adj. P/E (x)	39.9	34.5	30.7
EV/EBITDA (x)	27.4	23.2	20.6
Adj. EPS growth (%)	51.8	15.8	12.5

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

Stock performance



Source: NSE

RESULT REVIEW

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HOLD
TP: Rs 240 | 10%

ORIENT ELECTRIC | Consumer Durables | 15 May 2023

Weak end to a challenging FY23

- **Growth in lighting & switchgears (+12% YoY) offset by decline in ECD business (-20%) as fans business underperformed in Q4**
- **New FY24 strategy identifies "hero" products, distribution gaps and B2B lighting as focus areas**
- **TP cut to Rs 240 (vs. Rs 290) as we pare FY24/FY25 EPS by 12%/8% and roll forward with a revised target P/E of 30x (vs. 35x); retain HOLD**

Vinod Chari | Nilesh Patil
Swati Jhunjhunwala
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Subdued quarter: While ORIENTEL recovered in Q3FY23 after hitting a trough in Q2, its performance has slipped once again in Q4. Revenue at Rs 6.6bn fell 13% YoY and was 17%/19% below our/consensus estimates owing to a weaker print in electrical consumer durables (ECD: -20% YoY), partly set off by 12% growth in lighting and switchgears. Gross margin expanded 50bps YoY on lower raw material costs (-13%), but higher other expenses (+14%) dragged EBITDA margin down 370bps YoY to 7%.

ECD demand tepid: ECD revenue at Rs 4.6bn declined 20% YoY (4Y CAGR of -1%) due to muted consumer sentiments and unseasonal rains. Additionally, sales of fans remained weak on account of high channel inventory that had been stockpiled in Q3 ahead of energy rating transition. The company offset rating transition-led costs with effective measures, but lower fan sales led to a 310bps YoY drop in ECD EBIT margin to 9.7%.

Lighting maintains momentum: Improving B2B demand in the lighting and switchgears division aided 12% YoY revenue growth. While the push for infrastructure development is boosting demand for lighting, growth in house wires is aiding offtake in the switchgears segment. The lighting and switchgears division posted a strong 19.5% EBIT margin (+380bps YoY) on the back of a better product mix.

FY24 strategy unveiled: ORIENTEL is adopting a "hero" product strategy to boost premiumisation and increasing its focus on B2B lighting, while targeting ~5% revenue growth from switchgears and wires in FY24. Further, the company has identified gaps in distribution and plans to launch its own D2C distribution in FY24. Management expects e-commerce and large-format retail sales to double in two years.

Maintain HOLD: We cut our FY24/FY25 EPS estimates by 12%/8% following a weak FY23 and uncertainty over demand recovery. We value the stock at 30x P/E (earlier 35x) as ORIENTEL lags HAVL (well-positioned in the premium segment) and CROMPTON (overall market leadership) in our pecking order. On rollover to Mar'25E valuations, our TP stands revised to Rs 240 (vs. Rs 290) – HOLD.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	ORIENTEL IN/Rs 219
Market cap	US$ 564.9mn
Free float	62%
3M ADV	US$ 0.7mn
52wk high/low	Rs 309/Rs 216
Promoter/FPI/DII	38%/6%/28%

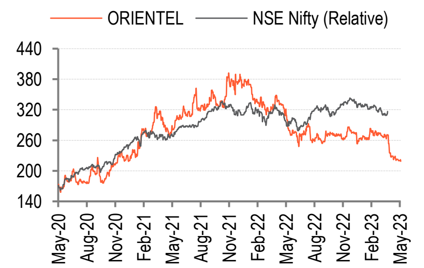
Source: NSE | Price as of 12 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	25,292	29,591	34,326
EBITDA (Rs mn)	1,510	2,518	3,094
Adj. net profit (Rs mn)	759	1,322	1,698
Adj. EPS (Rs)	3.6	6.2	8.0
Consensus EPS (Rs)	3.6	10.0	10.0
Adj. ROAE (%)	13.5	21.2	23.8
Adj. P/E (x)	61.4	35.2	27.4
EV/EBITDA (x)	30.7	18.4	15.0
Adj. EPS growth (%)	(40.3)	74.2	28.5

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

Stock performance



Source: NSE

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BUY – Expected return >+15%

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Note: Recommendation structure changed with effect from 21 June 2021

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