FIRST LIGHT

19 April 2023

RESEARCH

BOB ECONOMICS RESEARCH | CURRENCY OUTLOOK

INR to strengthen

RELIANCE INDUSTRIES | TARGET: Rs 2,810 | +20% | BUY

Capex ramp-up likely in sync with structural growth

CEMENT | Q4FY23 PREVIEW

Strong dispatches, cost benefits to help margins gain gradually

Daily macro indicators

Ticker	14-Apr	17-Apr	Chg (%)
US 10Y yield (%)	3.51	3.60	9bps
India 10Y yield (%)	7.22	7.23	2bps
USD/INR	81.86	81.97	(0.1)
Brent Crude (US$/bbl)	86.3	84.8	(1.8)
Dow	33,886	33,987	0.3
Hang Seng	20,439	20,782	1.7
Sensex	60,431	59,911	(0.9)
India FII (US$ mn)	**12-Apr**	**13-Apr**	**Chg ($ mn)**
FII-D	1.2	93.1	91.9
FII-E	262.2	98.1	(164.1)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: CURRENCY OUTLOOK

DXY fell by 0.9% in Apr'23 so far as expectations that the Fed is nearing an end to its rate hike cycle gained momentum. ECB and BoE on the other hand are expected to continue with their rate hike cycle amidst persistent stickiness in core inflation. INR appreciated by 0.4% in Apr'23, building on a gain of 0.6% it made last month. While oil prices increased, weaker dollar, FPI inflows and improvement in external outlook supported gains in INR. We believe that INR is likely to make further gains against the dollar in the next fortnight, with a range of 81.5/$-82.25/$ most likely.

Click here for the full report.

RELIANCE INDUSTRIES

- EBITDA momentum likely to continue in Q4 propelled by both cyclical and consumer engines
- Concerns on elevated capex overdone; capex programme likely to remain in line with structural growth
- Maintain BUY with a slight change in TP to Rs 2,810 (vs. Rs 2,840) as we include Jio Financial in our valuation

Click here for the full report.

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CEMENT: Q4FY23 PREVIEW

- Cement dispatches robust in Q4, advancing ~20% YoY for our coverage companies
- Realisations fell in March due to volume pressure and the festive season; fuel cost provided some relief
- EBITDA/t gradually moving back to Rs 1,000 levels for well-managed, large players; prefer UTCEM, JKCE and STRCEM

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CURRENCY OUTLOOK

18 April 2023

INR to strengthen

Aditi Gupta
Economist

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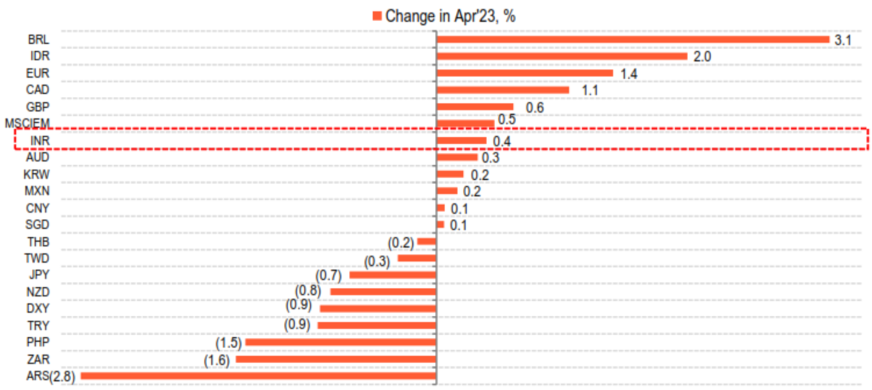
Movement in global currencies

Global currencies ended mixed in the last fortnight. The dollar index (DXY) remained under pressure and fell by 0.9%. Macro data in the US remained mixed. Importantly, FOMC minutes reflected that members were wary of the stress in the banking sector. Even staff projections showed that the banking crisis could potentially tip the economy into a "mild recession". However, stickiness in inflation prompted the Fed to hike rates by another 25bps. Since then, macro data has reinforced the view that there may be some merit in the Fed raising policy rate by another 25bps in May'23 (CMEFedWatch probability at more than 85%), which will mark its last rate hike this cycle.

Figure 1: Global currencies were mostly higher in Mar'23



Source: Bloomberg, Bank of Baroda Research, Data as of 14 Apr 2023 | Note: Figures in bracket denote depreciation against USD

On the other hand, central banks in Europe are expected to continue raising rates as inflation, more specifically core inflation still continues to remain elevated. Both the European Central Bank (ECB) and Bank of England (BoE) are likely to raise rates even as the Fed takes a pause. As a result, both EUR and GBP made gains against the dollar, rising by 1.1% and 0.6% respectively in the first fortnight of Apr'23. JPY depreciated by 0.7% as the newly appointed Bank of Japan (BoJ) Governor defended the central bank's ultra-dovish stance. MSCI EM index rose by 0.5% in Apr'23, led by gains in BRL and IDR. Other EM currencies were mostly lower as oil prices rose by ~8% following the OPEC+'s decision to cut oil production.

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BUY
TP: Rs 2,810 | ▲ 20%

RELIANCE INDUSTRIES | Oil & Gas | 18 April 2023

Capex ramp-up likely in sync with structural growth

- **EBITDA momentum likely to continue in Q4 propelled by both cyclical and consumer engines**
- **Concerns on elevated capex overdone; capex programme likely to remain in line with structural growth**
- **Maintain BUY with a slight change in TP to Rs 2,810 (vs. Rs 2,840) as we include Jio Financial in our valuation**

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EBITDA momentum to continue in Q4: We expect RIL to post Q4FY23 EBITDA ex-other income of Rs 368bn (+5% QoQ, 17% YoY), with the energy/consumer segments likely to rise 5%/3% QoQ and 18%/22% YoY. Sequential pick-up in the energy business should be supported by a return to normal throughput, an uptick in petrochem margin, and potentially higher Russian crude usage that offsets the pullback in transportation cracks. Strong annual growth in the consumer segment is likely to stem from 7% YoY growth in net Jio subscribers, a 7% rise in ARPU and 34% growth in retail EBITDA led by Covid recovery and steady footprint expansion.

Stock correction overdone: RIL's stock is down 14% from the recent peak in 30 Nov 2022 even after the modest 6% recovery since 20 Mar 2023. We attribute this correction to the company's embrace of a wider canvas for consumer goods (FMCG) and financial services (Jio Financial Services or JFS), in addition to standalone 5G. We assume an enhanced capex plan of Rs 1.2tn annually for FY24 and FY25, which would be in line with structural EBITDA growth as it is unlikely to skew net debt/EBITDA beyond 1.5x by FY25. Clearer management guidance of a 3-5-year plan for new ventures along with financial discipline targets could help assuage concerns.

Key growth catalysts: (a) O2C: Guidance on cost reduction with deployment of new energy in O2C; (b) Jio: Gains in market share and ARPU on nationwide launch of 5G, affordable 5G smartphone rollout, and Jio AirFibre; (c) Retail: Delivery on 3x growth target over 3-5 years set at the FY21 AGM and demonstration of RIL's comfort in sharing the granular performance for major retail verticals; (d) JFS: Roadmap and listing; (e) E&P: Start-up of MJ field; (f) Listing of Jio and retail businesses.

Reiterate BUY, TP Rs 2,810: We revise our TP to Rs 2,810 (from Rs 2,840) as we now account for JFS at Rs 144/sh, valuing it in line with RIL's treasury stock, and also value RIL without adjusting for treasury stock on its books. Our TP for RIL is based on an SOTP valuation for the refining (7x FY25E EV/EBITDA), petrochem (8x), telecom (Jio: 9x) and retail (30x) businesses. Apart from Rs 144/sh now added for JFS, our valuation includes Rs 149/sh for the upstream business, Rs 104 for digital services and Rs 121 for the new energy division.

Key changes

Target	Rating
▼	◄►

Ticker/Price	RIL IN/Rs 2,340
Market cap	US$ 193.0bn
Free float	50%
3M ADV	US$ 208.9mn
52wk high/low	Rs 2,856/Rs 2,180
Promoter/FPI/DII	50%/23%/16%

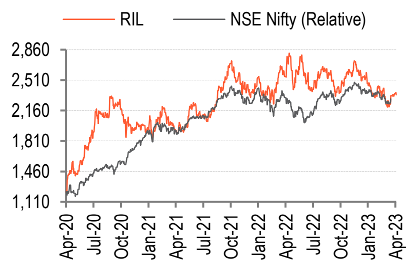
Source: NSE | Price as of 18 Apr 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	69,99,620	86,15,446	85,80,220
EBITDA (Rs mn)	11,04,600	14,42,861	16,38,439
Adj. net profit (Rs mn)	5,84,201	6,87,139	7,82,271
Adj. EPS (Rs)	86.4	101.6	115.6
Consensus EPS (Rs)	86.4	104.7	120.3
Adj. ROAE (%)	7.9	8.5	8.9
Adj. P/E (x)	27.1	23.0	20.2
EV/EBITDA (x)	16.8	12.8	11.4
Adj. EPS growth (%)	33.8	17.6	13.8

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

Stock performance



Source: NSE

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CEMENT | Q4FY23 Preview | 19 April 2023

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- **Realisations fell in March due to volume pressure and the festive season; fuel cost provided some relief**
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Strong volume-driven topline: We expect our cement coverage universe to report an average EBITDA margin of 16.5% in Q4FY23 vs. 18.6% in the year-ago quarter. Though operating cost is likely to have moderated sequentially, it is expected to remain high YoY. Demand momentum has been steady but dispatch momentum was strong to meet year-end volume targets, rising ~20% YoY (and equally QoQ). This, in turn, has lent a healthy impetus to sales that are estimated to rise by an average of 22-23% YoY (and QoQ) for our coverage.

Demand recovery underway but excess supply impeding price hikes: Our management interactions and channel checks in Q4FY23 indicate ongoing demand revival backed partially by pick-up in the rural sector and execution impetus in the infrastructure (year-end project completion) and urban real estate segments. However, the price hikes that are typically backed by a pick-up in demand have lagged (pan-India price flat YoY at Rs 357/bag), despite the intermittent jumps in fuel price.

Cost respite to help maintain EBITDA/t QoQ: The cost of key fuels (imported coke and coal) had softened by 4-8% QoQ at the end of Q3FY23. The fall has continued in Q4 as well but was even sharper (20-30% in different regions). This will help cement companies in Q4 and subsequently, as fuel ranges from 25% to 30% of their total cost. Thus, cement price weakness in March should not be a cause for concern as lower fuel cost will likely help players restore operating margins.

Volume growth to drive cost synergies: We expect the strong volume growth in Q4 to temper overall cost QoQ as other expenses decline due to synergies of scale. We estimate a 3-5% QoQ dip in operating cost per tonne for our coverage driven by lower fuel cost and other expenses. This will continue to benefit EBITDA margins.

Top picks: We continue to recommend BUY on UTCEM (TP Rs 8,310), JKCE (Rs 3,371) and STRCEM (Rs 138) while retaining our SELL ratings on JKLC (Rs 551) and TRCL (Rs 534).

Recommendation snapshot

Ticker	Price	Target	Rating
ACC IN	1,760	2,090	HOLD
ACEM IN	383	387	HOLD
DALBHARA IN	2,035	1,835	HOLD
JKCE IN	3,010	3,371	BUY
JKLC IN	762	551	SELL
ORCMNT IN	121	140	HOLD
SRCM IN	25,264	24,656	HOLD
STRCEM IN	113	138	BUY
TRCL IN	756	534	SELL
UTCEM IN	7,595	8,310	BUY

Price & Target in Rupees | Price as of 18 Apr 2023

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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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