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FIRST LIGHT

26 July 2023

RESEARCH

DIXON TECHNOLOGIES | TARGET: Rs 4,300 | +5% | HOLD

Good quarter; cut to HOLD on limited upside

HITACHI ENERGY | TARGET: Rs 4,400 | +6% | HOLD

Supply side constraints persist; cut to HOLD

KOTAK MAHINDRA BANK | TARGET: Rs 2,122 | +12% | HOLD

Non-core income drives up profitability

JSW STEEL | TARGET: Rs 840 | +5% | HOLD

Limited upside despite exciting growth ahead

Daily macro indicators

Ticker	21-Jul	24-Jul	Chg (%)
US 10Y yield (%)	3.85	3.87	2bps
India 10Y yield (%)	7.08	7.07	(1bps)
USD/INR	81.96	81.83	0.2
Brent Crude (US$/bbl)	81.1	82.7	2.1
Dow	35,228	35,411	0.5
Hang Seng	19,075	18,668	(2.1)
Sensex	66,684	66,385	(0.4)
India FII (US$ mn)	**20-Jul**	**21-Jul**	**Chg ($ mn)**
FII-D	128.8	27.5	(101.3)
FII-E	565.4	(171.3)	(736.7)

Source: Bank of Baroda Economics Research

SUMMARY

DIXON TECHNOLOGIES

- Q1 topline strong at Rs 32.7bn (+15% YoY) with improved margins; new customer additions provide healthy visibility
- Consumer electronics business posted a flattish topline (ex-JV revenue last year); above-industry growth guided for FY24
- Downgrade to HOLD due to the sharp runup in valuations; upon rollover, our TP changes to Rs 4,300 (vs. Rs 4,100)

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HITACHI ENERGY

- Q1 EBITDA margin at just 3.2% as supply chain constraints hampered profitability; chip shortage guided to recede gradually
- Targeting double-digit margins by FY25 on the back of domestic projects (HVDC, rail) and improving exports
- We cut FY24/FY25 EPS by 5%/3% and roll over to Jun'25E, leaving our TP unchanged at Rs 4,400; downgrade to HOLD on limited upside

Click here **for the full report.**

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KOTAK MAHINDRA BANK

- Strong core and non-core revenue supported Q1 income growth of 50% YoY though NIM contracted 15bps sequentially
- Opex elevated (+26% YoY) and credit cost settling at higher levels (46bps) amid rising unsecured portfolio share
- Retain HOLD with an unchanged TP of Rs 2,122, valuing the stock at 3.1x FY25E P/ABV with subsidiary value of Rs 505

Click here for the full report.

JSW STEEL

- Q1 ahead of consensus with Indian operations limiting the decline in margin and overseas business seeing improvement
- Realisation uptick and higher value-added product share a positive, whereas cut in captive Odisha ore production for FY23 a negative
- TP revised to Rs 840 (vs. Rs 835); maintain HOLD on unfavourable risk-reward

Click here for the full report.

RESULT REVIEW

HOLD
TP: Rs 4,300 | ⮝ 5%

DIXON TECHNOLOGIES | Consumer Durables | 26 July 2023

Good quarter; cut to HOLD on limited upside

- **Q1 topline strong at Rs 32.7bn (+15% YoY) with improved margins; new customer additions provide healthy visibility**
- **Consumer electronics business posted a flattish topline (ex-JV revenue last year); above-industry growth guided for FY24**
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Vinod Chari | Swati Jhunjhunwala
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Positive surprise on margins: Dixon's Q1FY24 topline came in at Rs 32.7bn (+15% YoY) and EBITDA margin at 4% improved 50bps due to a higher share of lucrative original design manufacturing or ODM-led business. EBIT margin expanded across verticals led by the home appliances segment at 10.8% (+270bps YoY). Adj. PAT at Rs 688mn grew 51% YoY. Home appliances and mobiles aided topline growth, but the consumer electronics and lighting divisions were weak YoY.

Client signups continue in mobiles business: Though delayed client addition has clouded the outlook for the mobiles business in H2FY23, Dixon has brought in Xiaomi as a client in Q1FY24. In FY23, management had partly allayed concerns by announcing major orders from Jio and Nokia.

Making the most of PLIs: Dixon is currently operating under various production-linked incentive (PLI) schemes and all of its businesses (excluding Samsung smartphones) are eligible for incentives. The company is in discussions with global brands for production under the IT hardware PLI scheme as well.

EMS outlook upbeat: Management remains optimistic on the opportunities in the electronics manufacturing space (EMS) and expects to deliver growth significantly ahead of the industry in FY24, backed by a strong order book, client addition and resultant incremental capacity. New customers such as Voltas Beko, Itel and Xiaomi are likely to be key catalysts for growth.

Downgrade to HOLD post rally: We continue to value the stock at an unchanged P/E of 55x – a 20% premium to the 5Y average – and roll valuations forward to Jun'25E, yielding a revised TP of Rs 4,300 (vs. Rs 4,100). Though we believe Dixon remains better positioned in the EMS space than peers, the sharp 26% runup in stock price since our last quarterly update leads us to downgrade the stock from BUY to HOLD as we await a better entry point.

Key changes

Target	Rating
▲	▼

Ticker/Price	DIXON IN/Rs 4,113
Market cap	US$ 3.0bn
Free float	66%
3M ADV	US$ 29.8mn
52wk high/low	Rs 4,730/Rs 2,553
Promoter/FPI/DII	34%/12%/24%

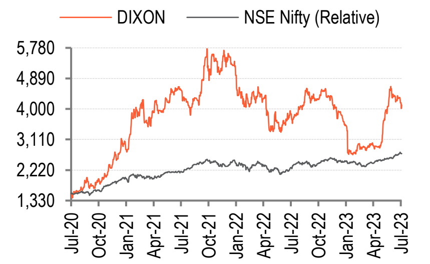
Source: NSE | Price as of 25 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,21,920	1,76,886	2,09,182
EBITDA (Rs mn)	5,128	7,556	8,409
Adj. net profit (Rs mn)	2,555	4,086	4,460
Adj. EPS (Rs)	42.9	68.6	74.9
Consensus EPS (Rs)	42.9	69.9	92.0
Adj. ROAE (%)	22.4	27.5	23.5
Adj. P/E (x)	95.9	59.9	54.9
EV/EBITDA (x)	47.8	32.4	29.1
Adj. EPS growth (%)	34.3	59.9	9.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 4,400 | 6%

HITACHI ENERGY | Capital Goods | 25 July 2023

Supply side constraints persist; cut to HOLD

- **Q1 EBITDA margin at just 3.2% as supply chain constraints hampered profitability; chip shortage guided to recede gradually**
- **Targeting double-digit margins by FY25 on the back of domestic projects (HVDC, rail) and improving exports**
- **We cut FY24/FY25 EPS by 5%/3% and roll over to Jun'25E, leaving our TP unchanged at Rs 4,400; downgrade to HOLD on limited upside**

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PAT plummets QoQ: Hitachi Energy's (Hitachi) Q1FY24 revenue grew 5% YoY to Rs 10.4bn, but the persistent chip shortage dragged EBITA margin down 400bps sequentially to 3.2%. This resulted in PAT of just Rs 24mn compared to Rs 508mn last quarter.

Chip constraints persist: Hitachi estimates a 7% revenue loss at Rs 680mn in Q1FY24 due to the chip shortage vs. a Rs 500mn loss in Q4FY23, accompanied by a Rs 200mn hit on pre-tax profit. Management expects supply chain constraints to normalise going forward. This apart, it does not foresee major challenges from commodity prices as 65% of its orders have a variable clause.

Order inflow strong: Order inflow in Q1 stood at Rs 11.5bn (+6% YoY) with a 30% export share, taking the backlog to Rs 70.2bn (~20 months of FY23 sales). This compares to a Rs 70.7bn backlog in Q4FY23 and Rs 67.7bn in Q1FY23. Exports performed well while services continued to attract healthy bookings in gas-insulated switchgears, substations, transformers, and high-voltage products.

Outlook promising: Management sees high-voltage direct current (HVDC) lines as a big domestic opportunity with the potential for at least one Rs 80bn-100bn tender to be floated every year, 50% of which could comprise Hitachi's addressable market. In railways, the company sees opportunities in high-speed rail, locomotives and trainsets. This apart, management expects to reach a 10% EBITDA margin run-rate in FY25 if raw material prices and chip constraints ease alongside higher exports and a larger share of fast-growing segments such as HVDC.

Downgrade to HOLD: We remain positive on Hitachi's order flow prospects but cut our FY24/FY25 EPS estimates by 5%/3% to reflect the Q1 performance. On rolling valuations forward to Jun'25E, our TP remains at Rs 4,400 based on an unchanged 45x P/E multiple. Given the 11% runup in stock price since our last quarterly update, we downgrade the stock from BUY to HOLD and await a better entry point.

Key changes

Target	Rating
◀ ▶	▼

Ticker/Price	POWERIND IN/Rs 4,144
Market cap	US$ 2.1bn
Free float	25%
3M ADV	US$ 1.6mn
52wk high/low	Rs 4,365/Rs 2,840
Promoter/FPI/DII	75%/5%/2%

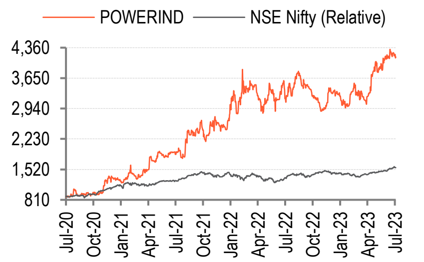
Source: NSE | Price as of 25 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	44,685	56,851	66,149
EBITDA (Rs mn)	2,359	4,525	6,628
Adj. net profit (Rs mn)	939	2,477	4,036
Adj. EPS (Rs)	22.2	58.4	95.2
Consensus EPS (Rs)	22.2	67.9	94.0
Adj. ROAE (%)	8.0	18.6	24.6
Adj. P/E (x)	187.1	70.9	43.5
EV/EBITDA (x)	74.3	38.6	26.7
Adj. EPS growth (%)	(44.0)	163.8	62.9

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

Stock performance



Source: NSE

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HOLD
TP: Rs 2,122 | ⮝ 12%

KOTAK MAHINDRA BANK | Banking | 25 July 2023

Non-core income drives up profitability

- **Strong core and non-core revenue supported Q1 income growth of 50% YoY though NIM contracted 15bps sequentially**
- **Opex elevated (+26% YoY) and credit cost settling at higher levels (46bps) amid rising unsecured portfolio share**
- **Retain HOLD with an unchanged TP of Rs 2,122, valuing the stock at 3.1x FY25E P/ABV with subsidiary value of Rs 505**

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Healthy Q1: KMB posted healthy PAT growth of 67% YoY to Rs 34.5bn in Q1FY24 supported by higher NII (+33%) and other income (+115%), with the latter bolstered by treasury gains of Rs 2.4bn vs. a loss of Rs 8.6bn in Q1FY23 and dividend income. Operating expenses grew 26% YoY and 9% QoQ, leading to a 56bps sequential rise in C/I ratio.

Steady loan growth: The bank clocked credit growth of 17% YoY (+3% QoQ) underpinned by targeted unsecured retail loans in segments such as payment products, microfinance, tractors & commercial vehicles, and home loans. The unsecured book constituted 10.7% of advances vs. a target share of under 10%.

NIM dips sequentially on higher cost of funds: NIM decreased 15bps QoQ to 5.1% owing to upward deposit rate repricing and an increased share of KMB's 'ActivMoney' product (attracts 5.25% interest vs. 3.5% for savings accounts, albeit still lower than the +7% cost for term deposits). Management retained NIM guidance for FY24 at over 5% considering rising yields on the unsecured book.

Stable asset quality; credit cost normalising: Slippages were elevated at 168bps of advances vs. 119bps in Q4, but better upgrades and recoveries steadied GNPA/ NNPA at 1.8%/0.4%. Credit cost soared to 46bps vs. 19bps in Q4 and 3bps in Q1FY23, which management believes is a process of normalisation as unsecured loan share moves up. We maintain our credit cost assumptions at 40bps each for FY24/FY25 and expect stable asset quality with GNPA/NNPA/PCR of 1.6%/0.4%/ 77% by FY25. KMB is well capitalised with CAR of 22% and CET1 at 20.9% in Q1.

Maintain HOLD: The stock is currently trading at a premium valuation of 2.6x FY25E P/ABV which is well above peers and captures KMB's high-margin business, healthy return ratios and stable asset quality, in our view. This apart, leveraging of the unsecured business would be key to watch as will the management's succession plan. We thus maintain our HOLD rating and TP of Rs 2,122 as we continue to value the bank at 3.1x FY25E ABV (Gordon Growth Model) and add in Rs 505/sh for subsidiaries.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	KMB IN/Rs 1,897
Market cap	US$ 45.9bn
Free float	74%
3M ADV	US$ 136.7mn
52wk high/low	Rs 2,064/Rs 1,644
Promoter/FPI/DII	26%/39%/21%

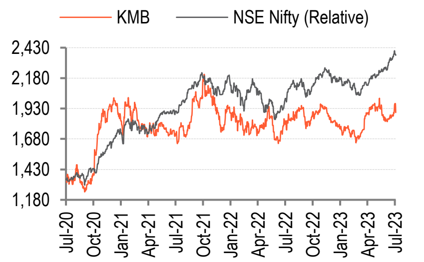
Source: NSE | Price as of 24 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Net interest income	21,552	24,496	28,056
NII growth (%)	28.1	13.7	14.5
Adj. net profit (Rs mn)	10,939	11,838	13,716
EPS (Rs)	55.1	59.6	69.0
Consensus EPS (Rs)	55.1	60.1	69.3
P/E (x)	34.5	31.8	27.5
P/BV (x)	4.5	4.0	3.5
ROA (%)	2.8	2.2	2.2
ROE (%)	17.9	13.3	13.5

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

Stock performance



Source: NSE

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HOLD
TP: Rs 840 | ▲ 5%

JSW STEEL | Metals & Mining | 25 July 2023

Limited upside despite exciting growth ahead

- **Q1 ahead of consensus with Indian operations limiting the decline in margin and overseas business seeing improvement**
- **Realisation uptick and higher value-added product share a positive, whereas cut in captive Odisha ore production for FY23 a negative**
- **TP revised to Rs 840 (vs. Rs 835); maintain HOLD on unfavourable risk-reward**

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Q1 result ahead of consensus: JSTL's Q1FY24 EBITDA at Rs 70bn was 39%/ 33% ahead of consensus/our forecasts as all cylinders fired during the quarter. Indian operations managed to limit the sequential decline in EBITDA margin to Rs 1.1k/t despite a pullback in realisation and higher coking coal cost. Overseas subsidiaries benefitted from rail orders in Italy and higher plate margins in the US.

Key positives: (a) The Q1 realisation uptick was partly driven by a higher share of value-added and special products (VASP) at above 60% of the sales volume mix for two successive quarters (though benefits of higher export realisation may not continue). (b) Italy operations have booked rail orders for a year, raising growth visibility. (c) Plates and pipes could see sustained demand from the US renewables sector.

Key negatives: (a) EBITDA margin is likely to remain below the mid-cycle level in H1FY24. (b) JSTL has scaled down iron ore production from Odisha to 17.7mt in FY23 from 22mt in FY22, likely reflecting lower competitiveness of captive mines under higher premium commitments. (c) Net debt has risen to Rs 668bn with a net debt-to-TTM EBITDA ratio of 3.1x, a potential risk should the steel cycle turn negative. Note, we do expect leverage to improve to 1.1x by FY26 even in a mid-cycle margin environment assuming JSTL delivers on volume ramp-up.

Exciting growth…: We largely retain our forecasts which build in a 32% EBITDA CAGR over FY23-FY26. We factor in volume ramp-up of 5.8mt over the next three years to 29.4mt by FY26, based on planned capacity addition of ~9mt. We also expect the steel margin environment to stabilise at mid-cycle levels in H2FY24 and assume that EBITDA margin improves from an estimated Rs 12.2k/t in FY24 to Rs 13.8k/t in FY26 as JSTL progresses on expansion at Vijaynagar and BPSL.

…but we retain HOLD: Despite optimistic estimates and a target 1Y fwd EV/EBITDA multiple above with the historical trading range at 6.5x, our TP of Rs 840 (revised from Rs 835) yields just 5% upside. Given the spike in net debt after the downturn in steel cycle in H1FY23, JSTL is more vulnerable than peers to any change in cyclical outlook. We find risk-reward unfavourable at this juncture and thus maintain HOLD.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	JSTL IN/Rs 801
Market cap	US$ 23.6bn
Free float	40%
3M ADV	US$ 28.8mn
52wk high/low	Rs 823/Rs 582
Promoter/FPI/DII	45%/11%/10%

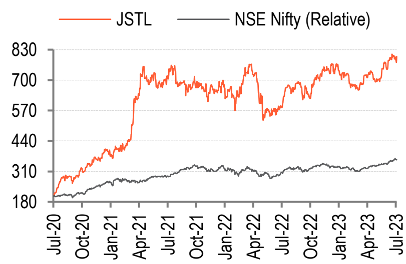
Source: NSE | Price as of 25 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,660	1,582	1,632
EBITDA (Rs mn)	185	317	369
Adj. net profit (Rs mn)	41	120	153
Adj. EPS (Rs)	17.1	49.8	63.4
Consensus EPS (Rs)	17.1	50.7	65.6
Adj. ROAE (%)	6.2	16.9	18.4
Adj. P/E (x)	46.7	16.1	12.6
EV/EBITDA (x)	7.3	4.3	3.6
Adj. EPS growth (%)	(79.0)	190.4	27.3

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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