BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

26 May 2023

RESEARCH

CUMMINS INDIA | TARGET: Rs 2,000 | +21% | BUY

From strength to strength; upgrade to BUY

AIA ENGINEERING | TARGET: Rs 3,500 | +20% | BUY

Robust performance

HITACHI ENERGY | TARGET: Rs 4,400 | +16% | BUY

Improving outlook

JK LAKSHMI CEMENT | TARGET: Rs 551 | –20% | SELL

Challenging road ahead

STAR CEMENT | TARGET: Rs 146 | +17% | BUY

Moving in the right direction

Daily macro indicators

Ticker	23-May	24-May	Chg (%)
US 10Y yield (%)	3.69	3.74	5bps
India 10Y yield (%)	7.01	6.99	(2bps)
USD/INR	82.81	82.67	0.2
Brent Crude (US$/bbl)	76.8	78.4	2.0
Dow	33,056	32,800	(0.8)
Hang Seng	19,431	19,116	(1.6)
Sensex	61,982	61,774	(0.3)
India FII (US$ mn)	**22-May**	**23-May**	**Chg ($ mn)**
FII-D	32.2	15.5	(16.7)
FII-E	155.8	38.6	(117.2)

Source: Bank of Baroda Economics Research

SUMMARY

CUMMINS INDIA

- Operationally strong Q4 despite supply chain constraints, with EBITDA and PAT each up ~60% YoY; exports resilient
- Strong pre-buying seen till June; demand guided to normalise in Q3 post absorption of CPCB4-related price hikes
- We raise FY24/FY25 EPS by 18% each as export and CPCB concerns abate; upgrade to BUY with a new TP of Rs 2,000 (vs. Rs 1,600)

Click here **for the full report.**

AIA ENGINEERING

- Q4 EBITDA margin expands to 24.8% on a better revenue mix; stronger margin coupled with higher other income aids a beat on PAT
- FY24 volume growth guidance at ~10% with a 20-22% margin; freight cost headwinds have abated
- FY24/FY25 EPS estimates raised 9%/12% to bake in guidance; TP revised to Rs 3,500 (vs. Rs 3,300) post rollover – retain BUY

Click here **for the full report.**

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HITACHI ENERGY

- Q4 sequentially stronger as supply chain constraints eased; chip shortage guided to recede fully in next two quarters
- EBITDA margin grew 120bps YoY to 7.1%; double-digit margin targeted by FY25 on traction in domestic projects and improving exports
- We raise FY24/FY25 EPS by 2%/19% on higher margin assumptions; retain BUY with a revised TP of Rs 4,400 (vs. Rs 3,500)

Click here for the full report.

JK LAKSHMI CEMENT

- Realisations led growth in Q4 while capacity constraints restricted volume gains (to 1% YoY)
- Cost inflation hurt operational efficiency; expect limited relief from Q1FY24 due to pricing pressure
- Valuations lofty; maintain SELL with an unchanged TP of Rs 551

Click here for the full report.

STAR CEMENT

- Q4 volume gains steady at 7% YoY; realisation gains at 3%, indicating healthy demand in key areas
- Cost inflation well controlled with overall cost softening 4-5%; expect more benefits from alternate fuel and lower coal expenses
- We tweak EPS estimates and revise our TP to Rs 146 (from Rs 138); maintain BUY

Click here for the full report.

BUY
TP: Rs 2,000 | ⮝ 21%

CUMMINS INDIA | Capital Goods | 25 May 2023

From strength to strength; upgrade to BUY

- **Operationally strong Q4 despite supply chain constraints, with EBITDA and PAT each up ~60% YoY; exports resilient**
- **Strong pre-buying seen till June; demand guided to normalise in Q3 post absorption of CPCB4-related price hikes**
- **We raise FY24/FY25 EPS by 18% each as export and CPCB concerns abate; upgrade to BUY with a new TP of Rs 2,000 (vs. Rs 1,600)**

Vinod Chari | Swati Jhunjhunwala
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Operationally strong Q4: Despite supply chain constraints, KKC achieved revenue growth of 29% YoY in Q4FY23 to Rs 19.3bn, thanks to robust demand in the power generator, distribution and industrial businesses which grew 43%, 31% and 14% YoY respectively. Exports continued to hold up, accounting for 27% of sales. The company's EBITDA margin remained robust at 17%, up 320bps YoY, due to healthy pricing power. This translated into higher net profits of Rs 3.5bn, up 61% YoY.

Exports resilient: Despite past management commentary on potential headwinds, exports have held up well, rising 16% YoY to Rs 4.9bn in Q4 (-9% QoQ as Q3 is a seasonally strong quarter for exports).

Positive long-term outlook: KKC expects the implementation of CPCB4 norms in Jul'23 to drive price hikes of 20-50% for its power generation equipment. While these steep hikes could cause a temporary demand blip for one or two quarters, the company expects to return to a sustainable growth trajectory (at twice the pace of GDP) for the medium term with demand from data centres, infrastructure, real estate and hospitality. KKC has recently launched fuel-agnostic engines, which addresses a key concern for the power-gen business.

TP raised to Rs 2,000: Given visibility of sustained long-term growth in the domestic market, strong exports, and likely demand normalisation in Q3 post absorption of CPCB4-related price hikes, we raise FY24/FY25 EPS estimates by 18% each. On rollover to Mar'25E, our TP rises to Rs 2,000 (vs. Rs 1,600), set at an unchanged P/E multiple of 35x, a 30% premium to the 5Y average.

Upgrade to BUY: Our earlier HOLD rating was premised on slowing exports in H2FY23 and delayed demand recovery following CPCB norm change. However, exports have remained resilient in H2 and the outlook for FY24 is also promising. On the CPCB front, despite strong pre-buying, the company expects demand to normalise much before the Dec'23 deadline for old engine sales. Since our premise for a HOLD rating no longer stands, we upgrade the stock to BUY.

Key changes

Target	Rating
▲	▲

Ticker/Price	KKC IN/Rs 1,650
Market cap	US$ 5.6bn
Free float	49%
3M ADV	US$ 13.4mn
52wk high/low	Rs 1,715/Rs 951
Promoter/FPI/DII	51%/10%/25%

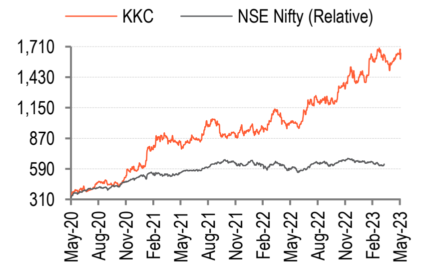
Source: NSE | Price as of 25 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	77,721	86,816	96,924
EBITDA (Rs mn)	12,477	12,786	14,584
Adj. net profit (Rs mn)	12,425	13,431	15,507
Adj. EPS (Rs)	44.8	48.5	55.9
Consensus EPS (Rs)	44.8	48.2	55.1
Adj. ROAE (%)	22.8	22.2	23.1
Adj. P/E (x)	36.8	34.1	29.5
EV/EBITDA (x)	38.3	37.7	33.3
Adj. EPS growth (%)	59.0	8.1	15.5

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

Stock performance



Source: NSE

BUY

TP: Rs 3,500 | ⮝ 20%

AIA ENGINEERING | Capital Goods | 25 May 2023

Robust performance

- **Q4 EBITDA margin expands to 24.8% on a better revenue mix; stronger margin coupled with higher other income aids a beat on PAT**
- **FY24 volume growth guidance at ~10% with a 20-22% margin; freight cost headwinds have abated**
- **FY24/FY25 EPS estimates raised 9%/12% to bake in guidance; TP revised to Rs 3,500 (vs. Rs 3,300) post rollover – retain BUY**

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Strong performance: AIAE's Q4FY23 revenue grew 16% YoY to Rs 12.7bn backed by volume/realisation growth of 1%/15% YoY. EBITDA margin swelled 410bps YoY to 24.8% due to a favourable product mix and a Rs 153mn forex gain. Management expects a 20-22% margin for FY24. PAT increased 38% YoY in Q4 to Rs 2.7bn vs. Rs 2.3bn estimated.

FY24 volume growth guided at 10%: At 291,000mt, AIAE nearly met its FY23 sales volume guidance of 295,000mt, and maintained its earlier forecast of achieving incremental volumes of 30,000mt for FY24, totaling to ~320,000mt. This is expected to be underpinned by a mix of new and existing customers.

Improving tailwinds: AIAE indicated that core industries remain strong and that it does not anticipate any major macroeconomic challenges for its customers in the mining, cement and utilities verticals over the next 12 months. Australia, North America, LATAM and CIS nations remain key geographies for the company. AIAE's strategy is to serve as a complete solution provider for grinding media and mill liners. On the cost side, management stated that freight-related challenges post Covid have abated and the company is now able to pass on freight cost to customers.

Controlled capex to augment growth: To capitalise on the mining industry's conversion trend from forged media to high chrome mill internals, AIAE plans to expand capacity from 440,000mt to 520,000mt by FY24, through brownfield capex of Rs 2bn. The company has a healthy balance sheet (net cash of Rs 25bn) with negligible leverage and strong free cash flow generation. We believe this will keep ROCE above 15%.

Retain BUY: We upgrade our FY24/FY25 EPS estimates by 9%/12% to incorporate the FY23 numbers, and also roll forward to Mar'25E valuations, translating to a revised TP of Rs 3,500 (from Rs 3,300). Our target is set at an unchanged 30x P/E multiple – a 25% premium to the stock's 5Y average. We retain BUY as we remain positive on AIAE's structural growth story.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AIAE IN/Rs 2,910
Market cap	US$ 3.3bn
Free float	42%
3M ADV	US$ 2.0mn
52wk high/low	Rs 2,988/Rs 1,902
Promoter/FPI/DII	59%/18%/21%

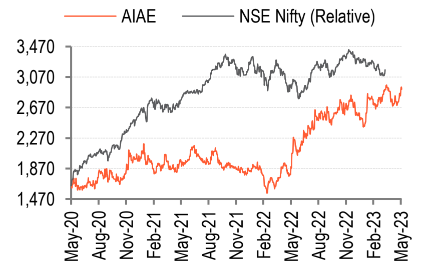
Source: NSE | Price as of 25 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	49,088	54,606	56,422
EBITDA (Rs mn)	12,406	12,800	13,114
Adj. net profit (Rs mn)	10,559	10,680	10,976
Adj. EPS (Rs)	112.0	113.2	116.4
Consensus EPS (Rs)	112.0	104.5	114.8
Adj. ROAE (%)	20.2	17.6	16.1
Adj. P/E (x)	26.0	25.7	25.0
EV/EBITDA (x)	22.1	21.1	20.5
Adj. EPS growth (%)	70.4	1.1	2.8

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

Stock performance



Source: NSE

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BUY
TP: Rs 4,400 | ▲ 16%

HITACHI ENERGY | Capital Goods | 25 May 2023

Improving outlook

- **Q4 sequentially stronger as supply chain constraints eased; chip shortage guided to recede fully in next two quarters**
- **EBITDA margin grew 120bps YoY to 7.1%; double-digit margin targeted by FY25 on traction in domestic projects and improving exports**
- **We raise FY24/FY25 EPS by 2%/19% on higher margin assumptions; retain BUY with a revised TP of Rs 4,400 (vs. Rs 3,500)**

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Improved momentum: Hitachi Energy's (Hitachi) Q4FY23 revenue of Rs 13.3bn grew 20% YoY, though the persistent chip shortage weighed on margins with gross margin down 200bps YoY to 33.9%. EBITDA margin at 7.1% was up 120bps YoY on lower other expenses. Lower other income resulted in flat adj. PAT of Rs 508mn.

Supply constraints guided to normalise by Q3: Hitachi estimates a 4% revenue loss (Rs 500mn) in Q4 due to the chip shortage vs. the Rs 1bn loss in Q3. Management expects supply chain constraints to normalise in the next couple of quarters. Further, it does not foresee major challenges from commodity prices as 65% of its orders have a variable clause.

Order inflow strong: Order inflow in Q4 stood at Rs 12.6bn, up 21% YoY, with FY23 orders rising 50% to Rs 68.2bn, resulting in a backlog of Rs 70.7bn (~20 months of sales). Exports made up 20-22% of the revenue mix, while services continued to attract healthy bookings in gas-insulated switchgears, substations, transformers and high-voltage products. FY23 also saw orders of over 1GW for solar projects.

FY24 outlook promising: Management believes HVDC is a big opportunity where at least one order could be tendered every year in India with a Rs 80bn-100bn project size, 50% of which could fall under Hitachi's total addressable market. In railways, the company sees opportunities in 9,000HP and 12,000HP locomotives and trainsets.

Targeting double-digit margins by FY25: Hitachi expects to reach a 10% EBITDA margin run-rate in FY25 if raw material prices and chip constraints ease, likely to be led by higher exports and an increased share of higher growth segments like HVDC. In addition, 65% of its projects have a price variation clause that allows for cost pass-through. We model for an ~8% EBITDA margin in FY24, rising to 10% in FY25.

Maintain BUY: We remain positive on Hitachi's order flow momentum and raise our FY24/FY25 EPS estimates by 2%/19% to reflect the FY23 performance and anticipated margin expansion. On roll forward to Mar'25E valuations, we arrive at a revised TP of Rs 4,400 (vs. Rs 3,500), based on an unchanged 45x P/E multiple.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	POWERIND IN/Rs 3,806
Market cap	US$ 2.0bn
Free float	25%
3M ADV	US$ 1.7mn
52wk high/low	Rs 4,095/Rs 2,840
Promoter/FPI/DII	75%/5%/2%

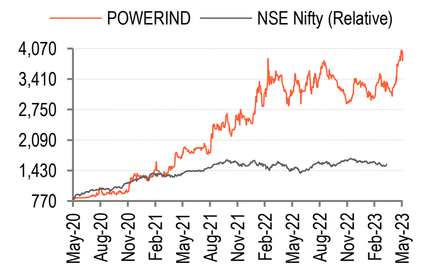
Source: NSE | Price as of 24 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	44,685	56,851	66,149
EBITDA (Rs mn)	2,359	4,707	6,766
Adj. net profit (Rs mn)	939	2,613	4,139
Adj. EPS (Rs)	22.2	61.7	97.7
Consensus EPS (Rs)	22.2	67.9	94.0
Adj. ROAE (%)	8.0	19.5	24.9
Adj. P/E (x)	171.8	61.7	39.0
EV/EBITDA (x)	68.2	34.0	24.0
Adj. EPS growth (%)	(44.0)	178.3	58.4

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

Stock performance



Source: NSE

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SELL
TP: Rs 551 | ⋎ 20%

JK LAKSHMI CEMENT | Cement | 25 May 2023

Challenging road ahead

- **Realisations led growth in Q4 while capacity constraints restricted volume gains (to 1% YoY)**
- **Cost inflation hurt operational efficiency; expect limited relief from Q1FY24 due to pricing pressure**
- **Valuations lofty; maintain SELL with an unchanged TP of Rs 551**

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Realisation gains fuel YoY topline growth: JKLC reported 15%/16% YoY/QoQ revenue growth to Rs 17.3bn in Q4FY23. Volumes grew 1%/18% YoY/QoQ to 3.1mn tonnes (including clinker sales of 0.03mt) and realisations increased 15% YoY to Rs 5,644/t (but dipped 1% QoQ due to pricing pressure in key markets).

Cost inflation rises YoY, marginal improvement QoQ: Overall cost increased by 25% YoY and declined 2% QoQ to Rs 5,027/t as energy and raw material costs climbed 29%/1% YoY/QoQ to Rs 2,346/t. Logistics cost grew 10%/2% YoY/QoQ to Rs 1,152/t as the lead distance increased to 400km from 395km in Q4FY22 and 396kms in Q3FY23. Other expenditure was up 42% YoY (-2% QoQ) to Rs 1.8bn.

Margins remain under pressure: EBITDA declined 32% YoY (+19% QoQ) to Rs 1.9bn and operating margin plunged from 18.4% in the year-ago quarter to 10.9% due to high energy cost YoY. EBITDA/t decreased 32% YoY (+1% QoQ) to Rs 617/t and PAT dropped 50% YoY (+32% QoQ) to Rs 973mn. Management has an ambitious EBITDA/t target of Rs 800/Rs 1,000 for FY24/FY25.

Capacity expansion plans: UCWL's 1.5mt clinker unit is to be commissioned by Q3FY24 and the 2.5mt cement plant expansion at UCWL by Q2FY25. The company aims to reach 18mt with the UCWL expansion and 30mt in the next phase (via 3mt brownfield expansion at Durg (Chattisgarh) and 3mt at Udaipur (Rajasthan), along with 6mt of greenfield capacity, for which it has been allocated two mines in Nagaur (Rajasthan) and Kutch (Gujarat).

Maintain SELL: JKLC continues to command premium valuations at 10.5x FY25E EV/EBITDA that have outrun earnings growth potential, in our view. Past experience also suggests that the company's capex execution has been less than ideal, typically leading to delays (in-house and at subsidiary UCWL as well). We maintain our SELL rating and continue to value the stock at 8x FY25E EV/EBITDA for an unchanged TP of Rs 551. Our TP implies a replacement cost of Rs 6.6bn/mt – a 6% discount to the industry benchmark.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	JKLC IN/Rs 691
Market cap	US$ 990.2mn
Free float	54%
3M ADV	US$ 2.6mn
52wk high/low	Rs 897/Rs 383
Promoter/FPI/DII	46%/14%/26%

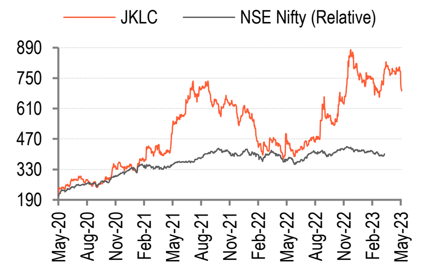
Source: NSE | Price as of 25 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	60,711	67,356	73,729
EBITDA (Rs mn)	7,043	7,860	9,558
Adj. net profit (Rs mn)	3,307	3,876	4,708
Adj. EPS (Rs)	28.1	32.9	40.0
Consensus EPS (Rs)	28.1	44.2	51.1
Adj. ROAE (%)	12.8	13.4	14.4
Adj. P/E (x)	24.6	21.0	17.3
EV/EBITDA (x)	11.5	10.7	9.7
Adj. EPS growth (%)	(26.5)	17.2	21.5

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

Stock performance



Source: NSE

BUY
TP: Rs 146 | ⮝ 17%

STAR CEMENT | Cement | 25 May 2023

Moving in the right direction

- Q4 volume gains steady at 7% YoY; realisation gains at 3%, indicating healthy demand in key areas
- Cost inflation well controlled with overall cost softening 4-5%; expect more benefits from alternate fuel and lower coal expenses
- We tweak EPS estimates and revise our TP to Rs 146 (from Rs 138); maintain BUY

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Realisations steady despite healthy volume growth: STRCEM's revenue grew by 10%/33% YoY/QoQ to Rs 8.3bn in Q4FY23 as volumes increased by 7%/36% YoY/QoQ to 1.2mn tonnes. Despite the volume gains, realisations grew by 3% YoY to Rs 6,680/t. Sales in the northeast market formed 74% of the company's total in Q4 vs. 70% in Q4FY22, helping steady realisations YoY and QoQ.

Overall cost declines: Overall cost declined by 4%/5% YoY/QoQ to Rs 5,335/t. Energy cost increased 16% YoY but declined 24% QoQ to Rs 1,335/t due to lower power cost from WHRS contribution. Raw material cost (adj. for inventory) fell by 11% YoY (+33% QoQ) to Rs 1,593/t, and logistics cost softened 20%/9% YoY/QoQ to Rs 1,137/t as STRCEM operated its own fleet. Other expenditure grew by 18%/38% YoY/QoQ to Rs 1.1bn due to higher packing cost, CSR, and employee expense regrouping.

Margin expansion: EBITDA increased 47%/53% YoY/QoQ to Rs 1.7bn and EBITDA margin rose to 20.1% from 15.1% in Q4FY22 (17.5% in Q3FY23). EBITDA/t expanded to Rs 1,346 vs. Rs 986 in Q4FY22 (Rs 1,194 in Q3FY23). Despite higher EBITDA, adj. PAT grew only 9% YoY (+82% QoQ) to Rs 961mn as tax expenses moved up due to the end of the sunset clause extended to the Guwahati unit and to subsidiary Star Cement Meghalaya

Capacity expansion plans: The grinding unit in Guwahati is due to be commissioned by Nov'23 and that in Silchar by H1FY25. The Meghalaya clinker plant (3mt) is scheduled by Jan'24.

Maintain BUY: We continue to prefer STRCEM in the cement sector for its strong presence in the remunerative northeastern market, balance sheet health despite being in capex mode and plans to derisk revenue. High demand in the core region owing to a government-led infrastructure focus is likely to trigger healthy realisations, aiding better ROE/ROCE (13-14% in FY25E). We tweak estimates and maintain BUY with a revised TP of Rs 146 (vs. Rs 138), ascribing an unchanged 8x FY25E EV/EBITDA multiple to the stock (Rs 6.7bn/mt replacement cost).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	STRCEM IN/Rs 125
Market cap	US$ 636.4mn
Free float	33%
3M ADV	US$ 0.5mn
52wk high/low	Rs 132/Rs 81
Promoter/FPI/DII	67%/1%/6%

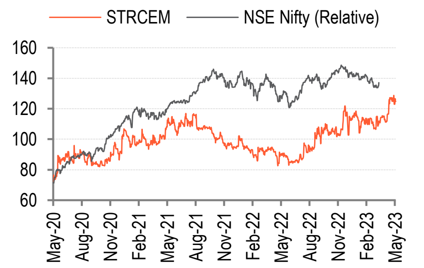
Source: NSE | Price as of 24 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	27,048	32,869	39,868
EBITDA (Rs mn)	5,205	5,405	7,043
Adj. net profit (Rs mn)	2,477	2,588	3,680
Adj. EPS (Rs)	5.9	6.2	8.8
Consensus EPS (Rs)	5.9	6.4	7.6
Adj. ROAE (%)	10.8	10.3	13.2
Adj. P/E (x)	21.1	20.2	14.2
EV/EBITDA (x)	9.5	10.2	7.2
Adj. EPS growth (%)	0.4	4.5	42.2

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

Stock performance



Source: NSE

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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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