FIRST LIGHT

03 February 2023

RESEARCH

[SECTOR REPORT] CEMENT

Supply glut clouds prospects

POWER GRID CORP | TARGET: Rs 251 | +18% | BUY

Steady quarter; upgrade to BUY post correction

BRITANNIA INDUSTRIES | TARGET: Rs 5,623 | +23% | BUY

Strong performance in a challenging environment

UTI AMC | TARGET: Rs 983 | +35% | BUY

Dull quarter on MTM losses; maintain BUY

Daily macro indicators

Indicator	31-Jan	01-Feb	Chg (%)
US 10Y yield (%)	3.51	3.42	(9bps)
India 10Y yield (%)	7.34	7.28	(7bps)
USD/INR	81.92	81.94	0.0
Brent Crude (US$/bbl)	84.5	82.8	(2.0)
Dow	34,086	34,093	0.0
Hang Seng	21,842	22,072	1.1
Sensex	59,550	59,708	0.3
India FII (US$ mn)	**27-Jan**	**31-Jan**	**Chg ($ mn)**
FII-D	(71.1)	52.1	123.3
FII-E	(752.5)	(697.2)	55.3

Source: Bank of Baroda Economics Research

SUMMARY

[SECTOR REPORT] CEMENT

- Healthy demand growth expected over FY22-FY25 at ~8% CAGR, factoring in a spike during pre-election year FY24
- Pricing power unlikely to return in a hurry given excess supply, though softer costs could provide some respite for margins
- We initiate with a cautious sector view and select stock picks, viz. UTCEM (TP Rs 8,310), JKCE (TP Rs 3,371) and STRCEM (TP Rs 138) – all rated BUY

Click here for the full report.

POWER GRID CORP

- Steady Q3 performance with 11% YoY growth each in revenue and net profit
- Capex target of Rs 88bn and capitalisation target of Rs 100bn for FY24; strong interim dividend payout at Rs 10/sh in FY23 YTD
- We cut FY23 EPS 12% on a weak outlook for JVs but find risk-reward favourable post recent correction – upgrade to BUY, TP Rs 251

Click here for the full report.

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BRITANNIA INDUSTRIES

- Q3 revenue grew 17% YoY to Rs 42bn driven by price hikes, with adj. PAT up 50%
- BRIT sees its 39th consecutive quarter of market share gains in both volume and value terms
- We assume coverage with BUY and a TP of Rs 5,623, set at 51x FY25E EPS

Click here for the full report.

UTI AMC

- MTM loss from subsidiary UTI International coupled with softer yields dampens Q3; core MF business market share intact at ~6%
- Steadfast focus on driving growth through product launches and cost rationalisation
- Trading at compelling valuations of 13x FY25E EPS; TP unchanged at Rs 983 (18x P/E)

Click here for the full report.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

CEMENT

02 February 2023

Supply glut clouds prospects

- **Healthy demand growth expected over FY22-FY25 at ~8% CAGR, factoring in a spike during pre-election year FY24**
- **Pricing power unlikely to return in a hurry given excess supply, though softer costs could provide some respite for margins**
- **We initiate with a cautious sector view and select stock picks, viz. UTCEM (TP Rs 8,310), JKCE (TP Rs 3,371) and STRCEM (TP Rs 138) – all rated BUY**

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Infrastructure share in aggregate demand rising: We estimate cement demand growth at 8% in the next two years to FY25 driven by infrastructure spend, particularly in pre-election year FY24. The government's thrust on road and irrigation projects is expected to support a structural demand shift from the housing segment to infrastructure.

Supply growth inching up: New cement supply is estimated to log a ~6% CAGR over FY22-FY25. Clinker-converted cement availability is likely to maintain a similar pace. Though demand is outgrowing supply, we estimate a supply-demand gap of ~50/60mt (clinker-based) by FY25, indicating adequate availability to cater to demand.

Utilisation to stay range-bound: Given supply indiscipline, we do not see triggers for an upshift in capacity utilisation beyond 70% through to FY25 – well short of the 85% levels needed to support a genuine revival in pricing power for the sector.

Inflated input cost cools off marginally: Key fuel (pet coke) cost has nearly doubled in the past 4-6 quarters, before cooling off slightly, impacting the margin trajectory of cement companies. Imported coal price remains inflated. Pricing pass-through will be the key for cement companies to partially safeguard earnings.

Consolidation fears overdone: We believe the new entry into the sector (by a business group) will spur positive competition among top companies. Fears of consolidation look overstated as existing companies have only switched ownership, major players are still promoter-owned, leverage stress is far lower than a decade ago, and valuations are lofty.

Cash flows and debt remain comfortable: An analysis of our cement coverage indicates that cash flows and debt levels remain relatively comfortable as compared to the last decade. Though elevated input cost has impacted margins at present, companies are not burdened with excessive debt, barring a few exceptions.

Cautious sector view: We remain cautious on the sector as pricing and margin stress persists, underpinning our preference for players that deliver in challenging conditions. UTCEM (TP Rs 8,310), JKCE (Rs 3,371) and STRCEM (Rs 138) are our top picks. We also initiate coverage on seven other key cement players in this report.

Recommendation snapshot

Ticker	Price	Target	Rating
ACC IN	1,968	2,090	HOLD
ACEM IN	401	387	HOLD
DALBHARA IN	1,768	1,835	HOLD
JKCE IN	2,710	3,371	BUY
JKLC IN	736	551	SELL
ORCMNT IN	123	140	HOLD
SRCM IN	23,685	24,656	HOLD
STRCEM IN	109	138	BUY
TRCL IN	676	534	SELL
UTCEM IN	7,086	8,310	BUY

Price & Target in Rupees | Price as of 31 Jan 2023

BUY
TP: Rs 251 | 18%

POWER GRID CORP | Power | 02 February 2023

Steady quarter; upgrade to BUY post correction

- **Steady Q3 performance with 11% YoY growth each in revenue and net profit**
- **Capex target of Rs 88bn and capitalisation target of Rs 100bn for FY24; strong interim dividend payout at Rs 10/sh in FY23 YTD**
- **We cut FY23 EPS 12% on a weak outlook for JVs but find risk-reward favourable post recent correction – upgrade to BUY, TP Rs 251**

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Steady quarter: PWGR reported stable revenue at Rs 114bn in Q3FY23 (Rs 11bn excluding regulated income), an increase of 11% YoY. EBITDA/PAT grew by 12%/ 11% YoY to Rs 101bn/Rs 36bn. Growth was aided by a 7.3% rise in transmission income to Rs 105bn and a 13% increase in telecom income to Rs 2.1bn. However, consultancy revenue was flat YoY at Rs 1.7bn. Other income declined 3% YoY to Rs 2.7bn due to lower late payment surcharge. Interest expense increased 63% YoY to Rs 30.1bn, mainly on account of a resetting of interest rates.

Capex to pick up from FY25: PGWR capitalised assets worth Rs 21bn and incurred capex of Rs 22bn (consolidated) in Q3. For 9MFY23, capitalisation/capex stood at Rs 52bn/Rs 54bn, with targets of Rs 100bn/Rs 88bn for FY24. Capex is expected to increase to ~Rs 120bn p.a. from FY25 as work on the Leh transmission line will begin.

Rising competition to undermine margins: Due to intense competition in transmission projects, margins for the new tariff-based competitive bids (TBCB) are expected to be under pressure as PWGR looks to retain its 50% market share.

Asset monetisation likely to be deferred: PWGR intends to move away from the Infrastructure Investment Trust (InvIT) route in order to monetise its assets. The company's monetisation target for FY23 is at Rs 75bn, of which Rs 66bn is pending.

Second interim dividend: PWGR has announced a second interim dividend of Rs 5/sh, taking total dividend in FY23 YTD to Rs 10/sh.

Raise to BUY post correction: PWGR's Q3 results were in line with our estimates. However, given an expected decline in JV earnings due to higher interest cost, we cut our FY23 EPS estimate by 12% while marginally adjusting FY24/FY25 forecasts. We remain cautious on scale-up of PWGR's transmission network given the decreasing opportunities and intense bidding competition, but upgrade our rating on the company from HOLD to BUY as the risk-reward has turned favourable post the 5% stock correction over the past one week. Our DCF-based TP remains unchanged at Rs 251 (implied FY25E P/B of 1.7x), but now offers 18% upside.

Key changes

Target	Rating
◄ ►	▲

Ticker/Price	PWGR IN/Rs 213
Market cap	US$ 18.0bn
Free float	49%
3M ADV	US$ 23.5mn
52wk high/low	Rs 248/Rs 186
Promoter/FPI/DII	51%/33%/16%

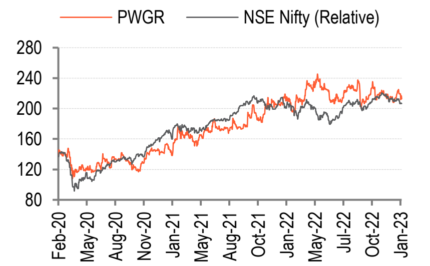
Source: NSE | Price as of 2 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	4,10,866	4,58,418	4,87,415
EBITDA (Rs mn)	3,60,372	3,95,388	4,30,175
Adj. net profit (Rs mn)	1,63,648	1,72,987	2,12,598
Adj. EPS (Rs)	23.5	24.8	30.5
Consensus EPS (Rs)	23.5	23.2	28.6
Adj. ROAE (%)	22.1	20.8	23.2
Adj. P/E (x)	9.1	8.6	7.0
EV/EBITDA (x)	0.3	0.4	0.4
Adj. EPS growth (%)	3.0	28.1	22.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 5,623 | ⮝ 23%

BRITANNIA INDUSTRIES | Consumer Staples | 02 February 2023

Strong performance in a challenging environment

- **Q3 revenue grew 17% YoY to Rs 42bn driven by price hikes, with adj. PAT up 50%**
- **BRIT sees its 39th consecutive quarter of market share gains in both volume and value terms**
- **We assume coverage with BUY and a TP of Rs 5,623, set at 51x FY25E EPS**

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Growth momentum continues led by price hikes: BRIT's Q3FY23 revenue grew 17% YoY largely driven by price increases while volumes grew in low single digits. Despite taking price hikes, the company continued to gain market share for the 39th consecutive quarter. Market share gains were visible in both volumes and value, as well as in rural centres. BRIT's focus on enhancing direct distribution reach, marketing, innovation and driving adjacent categories is fueling growth.

Robust operating performance: The company reported strong margin expansion driven by softening commodity prices and cost rationalisation initiatives. EBITDA grew 52% YoY and 15% QoQ to Rs 8.2bn. EBIDTA margin expanded 440bps YoY and 320bps QoQ to 19.5% on the back of forward covers in flour and correction in refined palm oil (RPO) prices.

Focus remains on innovation and adjacent categories: BRIT continues to invest in innovation – during the quarter, the company launched plum cake in the east and south, 'Tic Tac Toe' (snack) in the south, and a fresh portfolio of paneer in the western region. The company is also scaling up its recent launches in cake, croissant and biscuits. Management expects to roll out cheddar cheese in Q1FY24 and processed cheese in Q2FY24.

Update on JV with Bel, France: The joint venture is working on joint branding, simplifying the organisation structure, and finalising the portfolio. It will import some products from Bel, Vietnam, to begin with and plans to gradually set up production facilities in India.

BUY, TP Rs 5,623: BRIT continues to report double-digit growth with improvement in margins. We expect the company's focus on innovation, brand investment, direct reach expansion, and product launches to spur profitable growth. The stock is trading at 46.6x/41.5x FY24E/FY25E EPS. We assume coverage with BUY and value the stock at 51x FY25E EPS, in line with the long-term mean, translating to a TP of Rs 5,623.

Ticker/Price	BRIT IN/Rs 4,573
Market cap	US$ 13.4bn
Free float	49%
3M ADV	US$ 19.4mn
52wk high/low	Rs 4,596/Rs 3,050
Promoter/FPI/DII	51%/17%/32%

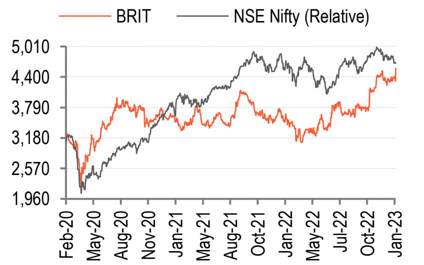
Source: NSE | Price as of 2 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,41,363	1,64,314	1,84,375
EBITDA (Rs mn)	22,015	28,282	34,629
Adj. net profit (Rs mn)	15,258	19,356	23,645
Adj. EPS (Rs)	63.3	80.3	98.2
Consensus EPS (Rs)	63.3	74.4	88.3
Adj. ROAE (%)	59.0	65.3	55.7
Adj. P/E (x)	72.2	56.9	46.6
EV/EBITDA (x)	50.0	38.9	31.8
Adj. EPS growth (%)	(18.2)	51.6	2.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY

TP: Rs 983 | ⮝ 35%

UTI AMC | NBFC | 02 February 2023

Dull quarter on MTM losses; maintain BUY

- **MTM loss from subsidiary UTI International coupled with softer yields dampens Q3; core MF business market share intact at ~6%**
- **Steadfast focus on driving growth through product launches and cost rationalisation**
- **Trading at compelling valuations of 13x FY25E EPS; TP unchanged at Rs 983 (18x P/E)**

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Dull Q3: UTI AMC's Q3FY23 net profit fell 53% YoY to Rs 600mn due to a Rs 172mn MTM loss, primarily in subsidiary UTI International which witnessed currency losses on a fund it had invested in. Operating expense also increased 8% YoY to Rs 1.6bn as employee cost grew 7% to Rs 1bn (ESOP at Rs 150mn). Moreover, the company had a one-time legal expense toward opening an office in Paris. Yields remained low due to an increase in share of lower yielding (5-6bps) ETF products to 34% of QAAUM vs. 31% in Q2 (27% in Q3FY22). Equity share held above 40% in QAAUM, but outflow in equity schemes in Q3 remains a key addressable area.

Stable market share: UTI AMC registered QAAUM growth of 7% YoY (3% QoQ) to Rs 2.4tn, maintaining market share of 6% with a further goal to reverse the loss in equity share (4.8% in Q3 vs. 5.3% in the year-ago quarter) by pushing flagship schemes. In our view, key strengths that can help expand market share include a strong distribution network of 61,500+ MFDs, 166 UTI financial centres (UFC), a large footprint in B30 cities with its MAAUM share in these markets totaling 23% vs. 17% for the industry at end-Q3, and the launch of three new funds in January with a pipeline of five more funds.

Targeted cost reduction strategy: Employee cost typically forms over 60% of operating expenses for UTI AMC. The company has 1,379 employees (including 1,318 in the MF business), but is showing a clear trend of retirees over the next 4-5 years (60 in FY23, 50 in FY24, 71 in FY25, 111 in FY26). Only a few of these would be filled and those too by low-cost employees.

Maintain BUY: UTI AMC enjoys considerable moats in the form of a sizeable AUM base, credibility from over five decades of experience, a differentiated non-MF business, growing market share and robust distribution channels (for details, see our recent initiation report). We continue to value the stock at an unchanged 18x FY25E EPS – (between -1SD and mean) to the long-term multiple, translating to a TP of Rs 983, and maintain 'BUY' rating.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	UTIAM IN/Rs 726
Market cap	US$ 1.1bn
Free float	34%
3M ADV	US$ 3.7mn
52wk high/low	Rs 908/Rs 656
Promoter/FPI/DII	0%/6%/60%

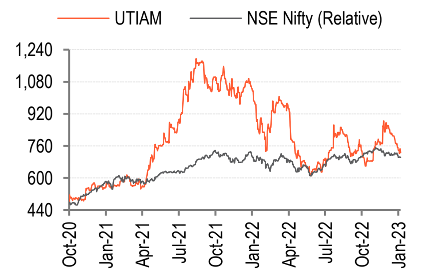
Source: NSE | Price as of 2 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Core PBT (Rs mn)	4,519	4,820	5,682
Core PBT (YoY)	90.5	6.7	17.9
Adj. net profit (Rs mn)	5,347	5,291	6,061
EPS (Rs)	42.0	41.5	47.6
Consensus EPS (Rs)	42.0	43.3	49.9
MCap/AAAUM (%)	4.1	3.9	3.4
ROAAAUM (bps)	23.9	22.1	22.6
ROE (%)	15.5	14.1	15.1
P/E (x)	17.3	17.5	15.3

Source: Company, Bloomberg, BOBCAPS Research

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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