FIRST LIGHT

04 May 2023

RESEARCH

BOB ECONOMICS RESEARCH | MONTHLY ECONOMIC BUFFET

Economic Round-up: April 2023

HAVELLS INDIA | TARGET: Rs 1,500 | +21% | BUY

Moderate quarter; in-line performance

ACC | TARGET: Rs 1,964 | +13% | HOLD

Realisations soft; stock lacks strong triggers

KEI INDUSTRIES | TARGET: Rs 2,130 | +16% | BUY

Momentum continues; capacity addition to spur growth

AUTOMOBILES

PVs and 2Ws grow in April, tractors lose steam

Daily macro indicators

Ticker	01-May	02-May	Chg (%)
US 10Y yield (%)	3.57	3.42	(14bps)
India 10Y yield (%)	7.12	7.09	(2bps)
USD/INR	81.83	81.89	(0.1)
Brent Crude (US$/bbl)	79.3	75.3	(5.0)
Dow	34,052	33,685	(1.1)
Hang Seng	19,895	19,934	0.2
Sensex	61,112	61,355	0.4
India FII (US$ mn)	**27-Apr**	**28-Apr**	**Chg ($ mn)**
FII-D	66.2	(34.7)	(100.9)
FII-E	482.0	791.0	309.0

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

GDP data for Q1CY23 shows that while major economies have avoided a recession (most feared in case of Europe), slowdown in activity still continues. Growth in US has slowed down significantly while Germany is staring at stagflation. Risks on the other hand remain as major central banks continue to tighten their monetary policies further. Prices, while showing moderation, remain sticky at elevated levels (US, Europe). US Fed and ECB are expected to announce another round of rate hike (+25bps) this week. Investors will keenly await signals conveying future guidance. Analysts expect Fed to pause from Jun'23 onwards. BoE may also pause from this month or June. Further, news of one more bank failure in the US (First Republic Bank), has again reignited fears of growth in the wake of tight liquidity conditions. Course of rate actions by major central banks will decide the fate of economic growth in Q2.

Click here for the full report.

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HAVELLS INDIA

- Q4 revenue up 10% YoY to Rs 48.6bn anchored by strong switchgear sales and consistent performance in cables & wires
- Aggressive Lloyd strategy aided higher sales of Rs 12.7bn at the cost of margins (operational loss at Rs 229mn)
- We cut FY24/FY25 EPS by 8%/4% to bake in lower margins; TP intact at Rs 1,500 on rollover to FY25E – maintain BUY

Click here for the full report.

ACC

- Volume-led topline growth truncated by muted realisations (+1% YoY) in Q4, an indication of market share pressure
- Cost inflation softened QoQ on the back of easing fuel cost, but EBITDA margin under pressure at sub-10% due to limited price headroom
- We revise FY24/FY25 EPS by +12%/-4% post accounting year change, yielding a new TP of Rs 1,964 (vs. Rs 2,090); retain HOLD

Click here for the full report.

KEI INDUSTRIES

- Traction in cable business buoyed Q4 topline growth; EHV set to bounce back in FY24
- Revenue growth guidance of 16-17% with 11% EBITDA margin for FY24; capex of Rs 2.5bn-3bn/year
- We pare FY24/FY25 EPS by 3%/2% to be with margin guidance and roll over to a new TP of Rs 2,130 (vs. Rs 1,900); maintain BUY

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AUTOMOBILES

- PV sale volumes growth continues in April as compact cars lent a helping hand with a strong 27% YoY revival; SUV growth tapered off
- 2W volumes recovered as domestic sales grew in the range of 2-18% YoY, though exports remain a concern
- Tractor segment weak due to worries of a potential monsoon deficit, unseasonal rains and preponement of festivals to March

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MONTHLY ECONOMIC BUFFET

02 May 2023

Economic Round-up: April 2023

Sonal Badhan
Economist

GDP data for Q1CY23 shows that while major economies have avoided a recession (most feared in case of Europe), slowdown in activity still continues. Growth in US has slowed down significantly while Germany is staring at stagflation. Risks on the other hand remain as major central banks continue to tighten their monetary policies further. Prices, while showing moderation, remain sticky at elevated levels (US, Europe). US Fed and ECB are expected to announce another round of rate hike (+25bps) this week. Investors will keenly await signals conveying future guidance. Analysts expect Fed to pause from Jun'23 onwards. BoE may also pause from this month or June. Further, news of one more bank failure in the US (First Republic Bank), has again reignited fears of growth in the wake of tight liquidity conditions. Course of rate actions by major central banks will decide the fate of economic growth in Q2.

Global growth: Economic activity is showing signs of slowdown in the US (Q1GDP, manufacturing production, retail sales, non-farm payrolls), and is giving mixed signals in China (FAI, manufacturing PMI is down, while home sales, exports, credit is up). In Eurozone, while the economic group managed to skirt recession in Q1, supported by dip in wholesale energy prices and fiscal stimulus, weakness in manufacturing persists at the beginning of Q2 (Apr'23). Inflation also remains sticky at elevated levels so far. Risks of stagflation in Germany also remain.

Global Central Banks: Even as turmoil in financial market continues (First Republic Bank in the US), US Fed and ECB are set to hike their respective policy rates by 25bps this week. BoJ has kept its policy stance (accommodative) unchanged for now but has tweaked its forward guidance. This lays the ground work for studying the possibility of gradual roll back of its massive monetary stimulus program (likely from this yearend). BoE decision in May'23 will either be a final 25bps hike or a pause, as inflation is expected to cool off significantly in the coming months. On the contrary, PBOC has reiterated its support to maintain loose monetary policy in order to support growth. While rates were left unchanged in the meeting last month, analysts expect a cut in rates and increase in liquidity if economy is unable to pick up along the expected lines.

Key macro data releases: On the industrial production side, core sector growth moderated to 3.6% on YoY basis in Mar'23 as against 7.2% in Feb'23. Major deceleration in growth was observed for sectors such as cement and electricity. Even fertilizer noticed quite a drop in growth. In FY23, core sector growth moderated to 7.6% from 10.4% in FY22. While growth in sectors such as coal, electricity and fertilizers held strong, sectors such as natural gas, steel and cement showed moderation.

CPI inflation eased to its lowest since Dec'22 to 5.7% in Mar'23 compared to 6.4% in Feb'23 and against our estimate of 5.8%. This was on account of favourable base (7% in Mar'22 from 6.1% in Feb'22). For FY23, headline CPI averaged to 6.7% against RBI's estimate of 6.5%.

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TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,500 | 21%

HAVELLS INDIA | Consumer Durables | 03 May 2023

Moderate quarter; in-line performance

- **Q4 revenue up 10% YoY to Rs 48.6bn anchored by strong switchgear sales and consistent performance in cables & wires**
- **Aggressive Lloyd strategy aided higher sales of Rs 12.7bn at the cost of margins (operational loss at Rs 229mn)**
- **We cut FY24/FY25 EPS by 8%/4% to bake in lower margins; TP intact at Rs 1,500 on rollover to FY25E – maintain BUY**

Vinod Chari | Nilesh Patil
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B2B aids topline growth: HAVL's Q4FY23 revenue grew 10% YoY to Rs 48.6bn, a marginal beat led by robust switchgear revenue, while EBITDA margin at 10.8% and net profit at Rs 3.6bn were in line with our expectations. B2C demand remained subdued on weak consumer sentiments, but the impact was offset by the B2B segment which saw improved construction and infrastructure-led demand. EBITDA margin contracted 90bps YoY (+50bps QoQ) due to higher staff and A&P expenses.

Lloyd remains in the limelight: HAVL's management persisted in its aggressive growth strategy for the Lloyd business, reflecting in higher sales of Rs 12.7bn (4Y CAGR of 24%) and continued losses at the operational level (Rs 229mn, flat YoY but with sequential improvement over the past three quarters). The strong balance sheet (cash position of Rs 15bn+) allows management to sustain this high-growth strategy over the medium term as it looks to maintain its pole market share position.

ECD falters while switchgears shine: HAVL's ECD portfolio declined 14% YoY to Rs 7.5bn on poor consumer sentiments. The contribution to sales reduced to 15% in Q4 vs. the earlier 2Y average of ~22%. Fans which contribute ~60% to ECD were affected by higher channel stocking on account of uncertainty over the new energy rating transition. In contrast, the switchgear segment delivered strong revenue growth of 27% YoY with a relatively better operating margin of 28.6%.

Maintain BUY: HAVL is a comprehensive play with a strong presence across all consumer durable categories. This coupled with a sound balance sheet enables it to concentrate on a select area, as seen in the Lloyd business. Management remains positive on strong recovery in its core product portfolio in coming quarters. We like HAVL's core portfolio for its prominent brand, wide network and inherent growth triggers, leading us to reiterate our BUY rating. To bake in the FY23 margin underperformance, we prune our FY24/FY25 EPS estimates by 8%/4%. Upon rolling valuations over to Mar'25E, our TP remains unchanged at Rs 1,500, based on a 50x P/E multiple, which is in-line to its 3Y average.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HAVL IN/Rs 1,241
Market cap	US$ 9.5bn
Free float	41%
3M ADV	US$ 8.9mn
52wk high/low	Rs 1,406/Rs 1,025
Promoter/FPI/DII	60%/23%/10%

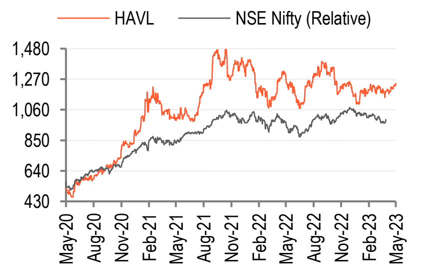
Source: NSE | Price as of 3 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	169,107	190,821	217,228
EBITDA (Rs mn)	15,991	21,604	26,938
Adj. net profit (Rs mn)	10,717	15,061	18,487
Adj. EPS (Rs)	17.1	24.0	29.5
Consensus EPS (Rs)	17.3	24.5	29.8
Adj. ROAE (%)	17.0	21.2	22.4
Adj. P/E (x)	72.6	51.6	42.1
EV/EBITDA (x)	48.6	36.0	28.9
Adj. EPS growth (%)	(10.4)	40.5	22.7

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

Stock performance



Source: NSE

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HOLD

TP: Rs 1,964 | ⮝ 13%

ACC | Cement | 03 May 2023

Realisations soft; stock lacks strong triggers

- **Volume-led topline growth truncated by muted realisations (+1% YoY) in Q4, an indication of market share pressure**
- **Cost inflation softened QoQ on the back of easing fuel cost, but EBITDA margin under pressure at sub-10% due to limited price headroom**
- **We revise FY24/FY25 EPS by +12%/-4% post accounting year change, yielding a new TP of Rs 1,964 (vs. Rs 2,090); retain HOLD**

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Volume-led growth; realisations remain weak: ACC reported a 11% YoY (+6% QoQ) increase in Q4FY23 revenue to Rs 47.9bn led by volume growth of 8% YoY (+10% QoQ) to ~8.5mn tonnes. Volumes remained healthy despite a strike at the HP unit, as it was supported by an increase in blended cement, efficient route planning and operational synergies with ACEM. However, realisations grew only 1% YoY and declined 4% QoQ to Rs 5,269/t due to the volume push.

Cost inflation softens QoQ: Operating cost was up 6% YoY (but dipped 6% QoQ) to Rs 5,088/t, pushed up by energy cost/t (adj. for raw material cost) that rose 21% YoY (-6% QoQ) as the clinker factor declined 130bps QoQ. Energy cost/t fell 16% YoY (-24% QoQ) to Rs 1,108/t as fuel cost moved from Rs 2.6/kcal to Rs 2.4/kcal with a change in coal basket, group procurement synergies and higher alternates

Raw material cost/t increased 9% YoY (+19% QoQ) owing to higher purchase of clinker. Logistics cost/t declined 9% YoY (-7% QoQ) to Rs 1,219/t as the lead distance reduced by 165km to 161km (despite clinker sourced from other plants due to the HP strike) and direct dispatches improved (45% to 46%). Other expenditure declined 8% YoY (+5% QoQ) to Rs 5.6bn despite the strong volume push

Margins under pressure: EBITDA at Rs 4.7bn reduced 26% YoY due to higher fuel cost, EBITDA margin slipped 460bps YoY (-140bps QoQ) to 9.7%, and EBITDA/t shrank 32% YoY (+12% QoQ) to Rs 549/t. PAT at Rs 2.4bn contracted 40% YoY (+114% QoQ) due to restructuring cost of Rs 0.6bn incurred in Q4. Adjusted for this one-off, PAT declined 23% YoY (+60% QoQ) to Rs 3bn.

Maintain HOLD: ACC's accounting year-end change (Dec to Mar) has led to a realignment of +9%/-3% in our EBITDA and +12%/-4% in our earnings estimates for FY24/FY25. We see limited earnings levers for the company owing to the lower efficiencies at old plants and its presence in regions crowded with more economical peers. We thus retain HOLD and continue to value ACC at 10x FY25E EV/EBITDA, implying a replacement cost of Rs 7.8bn/mt (12% premium to the industry average). Post estimate revision, we have a new TP of Rs 1,964 (vs. Rs 2,090). Retain HOLD.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	ACC IN/Rs 1,744
Market cap	US$ 4.0bn
Free float	43%
3M ADV	US$ 16.6mn
52wk high/low	Rs 2,785/Rs 1,592
Promoter/FPI/DII	57%/12%/19%

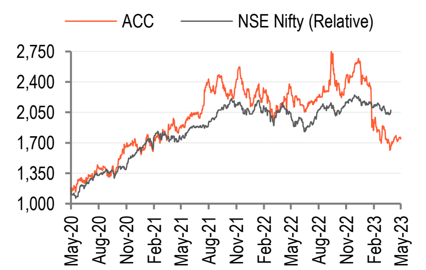
Source: NSE | Price as of 3 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	2,19,192	1,96,593	2,18,812
EBITDA (Rs mn)	19,400	20,823	28,754
Adj. net profit (Rs mn)	10,926	11,482	16,747
Adj. EPS (Rs)	46.5	61.1	89.1
Consensus EPS (Rs)	46.5	64.8	101.3
Adj. ROAE (%)	7.9	7.9	11.2
Adj. P/E (x)	37.5	28.5	19.6
EV/EBITDA (x)	16.4	12.2	8.1
Adj. EPS growth (%)	(54.3)	31.4	45.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional | FY23 is for 15 months due to a change in year-end from December to March

Stock performance



Source: NSE

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BUY
TP: Rs 2,130 | ⮝ 16%

KEI INDUSTRIES | Consumer Durables | 03 May 2023

Momentum continues; capacity addition to spur growth

- **Traction in cable business buoyed Q4 topline growth; EHV set to bounce back in FY24**
- **Revenue growth guidance of 16-17% with 11% EBITDA margin for FY24; capex of Rs 2.5bn-3bn/year**
- **We pare FY24/FY25 EPS by 3%/2% to be with margin guidance and roll over to a new TP of Rs 2,130 (vs. Rs 1,900); maintain BUY**

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Traction maintained: KEII posted a fair set of numbers for Q4FY23 wherein the topline came in ahead of our expectations at Rs 19.5bn (8.5% beat) and EBITDA margin was in line at 10.4%. The topline was supported by 13% YoY volume growth amidst easing metal prices. The cable and stainless-steel segments registered 8% and 6% YoY growth to Rs 17.6bn and Rs 649mn respectively while EPC project business remained flat at Rs 2.2bn (+3% YoY). Pending orders moved up to Rs 35.7bn vs. Rs 34bn in Q3FY23.

EHV business set to bounce back: Extra high voltage (EHV) product sales at Rs 3.6bn in FY23 have lagged vs. Rs 5.1bn the previous year owing to project delays. Management indicated that the business has an order book of Rs 8.5bn which combines projects from both domestic as well as international regions. As the delayed orders get booked and new orders flow in, we estimate that EHV sales will rise to Rs 5bn-6bn in FY24.

Retail nearly at par with institutional wire business: Management's efforts to scale up the retail business are visible from the segment's improving contribution to total sales, from ~34% in FY21 to ~44% in FY23, against lower institutional sales. The company further aims to bolster retail share to 50% over the medium term.

Strong growth prospects…: KEII has guided for robust 16-17% revenue growth in FY24 primarily based on the capacity addition at its Silvassa plant and other greenfield expansion projects. Management's strategy of expanding its retail business also augurs well for the company. Further, the capex boost in both private and public sectors is turning beneficial for KEII's core cable and EPC businesses, and is likely to continue in FY24.

…maintain BUY: We raise FY24/FY25 revenue estimates by 1%/4% while bringing EBITDA margin assumptions in line with guidance, translating to a 3%/2% cut in EPS. We concurrently raise our target P/E multiple to 28x (25x earlier) given the growth traction and improvement in working capital, while rolling valuations forward to FY25E, taking our TP to Rs 2,130 (Rs 1,900 earlier) – maintain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	KEII IN/Rs 1,836
Market cap	US$ 2.0bn
Free float	61%
3M ADV	US$ 3.9mn
52wk high/low	Rs 1,940/Rs 1,040
Promoter/FPI/DII	37%/27%/20%

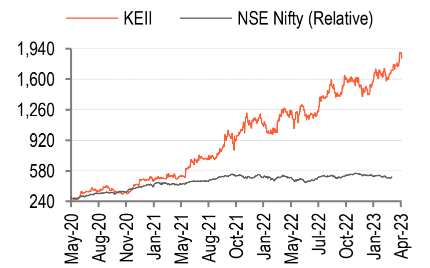
Source: NSE | Price as of 3 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	69,123	80,048	93,909
EBITDA (Rs mn)	7,062	8,634	10,638
Adj. net profit (Rs mn)	4,773	5,489	6,858
Adj. EPS (Rs)	52.9	60.9	76.0
Consensus EPS (Rs)		64.9	85.3
Adj. ROAE (%)	20.2	19.3	20.0
Adj. P/E (x)	34.7	30.2	24.1
EV/EBITDA (x)	23.5	19.6	16.0
Adj. EPS growth (%)	27.0	15.0	25.0

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

Stock performance



Source: NSE

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AUTOMOBILES

03 May 2023

PVs and 2Ws grow in April, tractors lose steam

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- **2W volumes recovered as domestic sales grew in the range of 2-18% YoY, though exports remain a concern**
- **Tractor segment weak due to worries of a potential monsoon deficit, unseasonal rains and preponement of festivals to March**

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PV segment growth continues, rural demand key for stronger revival: Domestic PV industry volumes continued to grow in the month of April, rising 22% YoY and 3% MoM. The focus on SUVs and MUVs continued, and growth here could have been higher but for the supply chain issues that continued to afflict the high-end models (+8% YoY). The UV order book stayed healthy. The industry is gradually recovering from peak chip shortage constraints, but the high-end auto segment remains vulnerable due to the greater complexity involved. Clarity over sales in this segment hinges on the revival of rural demand, which in turn depends on the monsoons and the pinch of price hikes due to the new emission norms.

2W segment revs up: The 2W segment recovered in April steered by strong domestic demand which helped counter the continuing weakness in export markets across players. Volumes for TVSL/EIM grew by 5%/18% YoY in Apr'23, contributed largely by domestic volume growth of 29%/28%. Market leader BJAUT's aggregate sales grew ~2% YoY while HMCL declined in both domestic and export markets. All the OEMs are continuing to ramp up EV volumes after seeing good traction and robust monthly sales in Q3FY23.

Tractor segment weak: Farm equipment sales declined on account of the preponement of key festivals from April to March this year coupled with unseasonal rains. Thus, the total sale volumes of key manufacturers such as MM/ESCORTS/VSTT declined by 11%/9%/19% YoY in April. Management commentary across the three players suggests confidence in a demand pick-up ahead.

Mixed trend in CVs: AL and EIM reported 10% and 19% YoY volume growth in CVs (albeit weak MoM), whereas TTMT delivered the weakest performance both in the M&HCV and LCV segments with declines of 18% and 32% YoY respectively.

Top picks: We remain positive on MM (BUY, TP Rs 1,496) among PV OEMs and AL (BUY, TP Rs 169) in the CV OEM segment. We maintain HOLD on MSIL (TP Rs 9,858) and BJAUT (TP Rs 4,188) with a positive bias on MSIL.

Recommendation snapshot

Ticker	Price	Target	Rating
AL IN	144	169	BUY
BJAUT IN	4,498	4,188	HOLD
EIM IN	3,356	3,543	HOLD
ESCORTS IN	1,986	1,742	SELL
HMCL IN	2,496	2,712	HOLD
MM IN	1,237	1,496	BUY
MSIL IN	8,777	9,858	HOLD
TVSL IN	1,158	1,252	HOLD
VSTT IN	2,442	2,802	BUY

Price & Target in Rupees | Price as of 2 May 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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