FIRST LIGHT

05 May 2023

RESEARCH

AMBUJA CEMENTS | TARGET: Rs 375 | –2% | HOLD

Soft realisations weigh on margins

KEC INTERNATIONAL | TARGET: Rs 500 | –3% | HOLD

Standalone margin remains weak

TATA STEEL | TARGET: Rs 140 | +26% | BUY

Project visibility improving, maintain BUY

ORIENT CEMENT | TARGET: Rs 140 | +10% | HOLD

Listless performance

Daily macro indicators

Ticker	02-May	03-May	Chg (%)
US 10Y yield (%)	3.42	3.34	(9bps)
India 10Y yield (%)	7.09	7.01	(9bps)
USD/INR	81.89	81.83	0.1
Brent Crude (US$/bbl)	75.3	72.3	(4.0)
Dow	33,685	33,414	(0.8)
Hang Seng	19,934	19,699	(1.2)
Sensex	61,355	61,193	(0.3)
India FII (US$ mn)	**28-Apr**	**02-May**	**Chg ($ mn)**
FII-D	(34.7)	(126.6)	(92.0)
FII-E	791.0	365.9	(425.1)

Source: Bank of Baroda Economics Research

SUMMARY

AMBUJA CEMENTS

- Q4 revenue growth muted at 8% YoY on tepid realisations and limited volumes owing to a labour strike
- EBITDA margin down 160bps YoY despite savings from softer fuel cost and logistics cost control
- We cut FY24/FY25 EPS by 5%/4%, translating to a revised TP of Rs 375 (vs. Rs 387); maintain HOLD as positives priced in

Click here for the full report.

KEC INTERNATIONAL

- Q4 revenue/PAT ahead of estimates at Rs 55bn/Rs 722mn; revenue growth guidance of 15%+ for FY24 on strong order inflow
- SAE Brazil now EBITDA positive but falling standalone margin a worry; full-year margin guidance at ~7%
- FY24/FY25 EPS estimates upped 4%/1%; TP unchanged at Rs 500 on rollover – maintain HOLD

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TATA STEEL

- Q4 demonstrated a strong comeback from a low point in India; Europe likely to recover gradually from Q2FY24
- Improving project visibility to drive 10% EBITDA CAGR over FY23-FY26 even at mid-cycle margin assumptions
- Maintain BUY with an unchanged TP of Rs 140 based on 5.75x (blended) FY25E EV/EBITDA

Click here for the full report.

ORIENT CEMENT

- Focus on realisation gains curbed Q4 volume growth at 5% YoY, indicating lacklustre demand in key areas
- Operating efficiencies lags behind industry, keeping margins under pressure
- Maintain HOLD for a TP of Rs 140 (unchanged), valuing the stock at 5x FY25E EV/EBITDA

Click here for the full report.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD

TP: Rs 375 | ∀ 2%

AMBUJA CEMENTS | Cement | 04 May 2023

Soft realisations weigh on margins

- **Q4 revenue growth muted at 8% YoY on tepid realisations and limited volumes owing to a labour strike**
- **EBITDA margin down 160bps YoY despite savings from softer fuel cost and logistics cost control**
- **We cut FY24/FY25 EPS by 5%/4%, translating to a revised TP of Rs 375 (vs. Rs 387); maintain HOLD as positives priced in**

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Realisations soft: ACEM reported muted Q4FY23 revenue growth of 8% YoY (+3% QoQ) to Rs 42.6bn primarily owing to weak realisations. Volumes grew 8% YoY (+5% QoQ) to 8.1mn tonnes, while realisations stayed flat YoY (-2% QoQ) at Rs 5,255/t. The impact of a labour strike at the company's Himachal Pradesh unit was partly countered by clinker shift from Rajasthan to cater North and supported by an increase in blended cement)**.**

Operating cost pressure easing: Operating cost rose 2% YoY to Rs 4,282/t (-6% QoQ) as energy cost (adj to RM cost) grew 13% YoY (-8% QoQ) to Rs 2,350/t, with the clinker factor down from 62.5% to 60.6%. Kiln cost fell 10%, from 2.3/kcal to Rs 2.1/kcal on a better fuel mix and group coal procurement synergies. RM cost rose 51% YoY (+11% QoQ) to Rs 1,073/t due to higher external purchases, logistics cost fell 1% YoY (+6% QoQ) to Rs 1,151/t on better direct dispatches (78% from 64%) and a higher rail mix (30% from 26%). Other expenditure at Rs 4.6bn fell ~15% YoY/ QoQ.

EBITDA margin contracts YoY: EBITDA at Rs 7.9bn was flat YoY (+26% QoQ) due to poor realisations. EBITDA margin shrank 160bps YoY (+335bps QoQ) to 18.5% and EBITDA/t declined 8% YoY (+20% QoQ) to Rs 973/t. PAT was flat YoY (+36% QoQ) at Rs 5bn. Excluding restructuring cost of Rs 0.8bn, PAT grew 18% YoY (+36% QoQ).

Capacity expansion plans: ACEM announced no plans beyond the greenfield capacity additions at Chandrapur (Maharashtra), Bhatpara (W. Bengal) and Mundra (Gujarat), where commissioning is targeted by Q2FY25 – an ambitious schedule, in our view, given that equipment ordering is yet to commence.

Maintain HOLD: ACEM's operating efficiency drive is a key positive, though capacity building is unlikely to contribute meaningfully before FY25. The stock is currently trading at 13x FY25E EV/EBITDA. We cut our FY24/FY25 EPS estimates by 5%/4% to bake in ACEM's accounting year change, leading to a revised SOTP-based TP of Rs 375 (vs. Rs 387), set at an unchanged 13x FY25E standalone EV/EBITDA. Our TP implies a replacement cost of Rs 14bn/mt (consolidated capacity) – 2x premium to the industry average. Upsides appear capped at current valuations and hence we retain HOLD.

Key changes

Target	Rating
▼	◀▶

Ticker/Price	ACEM IN/Rs 384
Market cap	US$ 9.3bn
Free float	37%
3M ADV	US$ 56.9mn
52wk high/low	Rs 598/Rs 315
Promoter/FPI/DII	63%/11%/17%

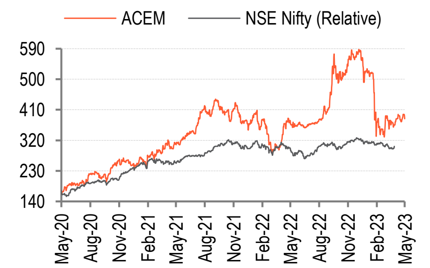
Source: NSE | Price as of 3 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	3,84,062	3,70,071	4,16,513
EBITDA (Rs mn)	51,223	55,789	68,431
Adj. net profit (Rs mn)	29,024	25,404	29,899
Adj. EPS (Rs)	11.7	12.8	15.1
Consensus EPS (Rs)	11.7	15.6	17.9
Adj. ROAE (%)	9.3	7.6	9.0
Adj. P/E (x)	32.8	30.0	25.5
EV/EBITDA (x)	14.2	9.8	7.6
Adj. EPS growth (%)	(20.0)	9.4	17.7

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

HOLD
TP: Rs 500 | ∀ 3%

KEC INTERNATIONAL | Capital Goods | 04 May 2023

Standalone margin remains weak

- **Q4 revenue/PAT ahead of estimates at Rs 55bn/Rs 722mn; revenue growth guidance of 15%+ for FY24 on strong order inflow**
- **SAE Brazil now EBITDA positive but falling standalone margin a worry; full-year margin guidance at ~7%**
- **FY24/FY25 EPS estimates upped 4%/1%; TP unchanged at Rs 500 on rollover – maintain HOLD**

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Strong topline: KECI's Q4FY23 topline at Rs 55.3bn (+29% YoY/+26% QoQ) was 14% ahead of our expectations led by strong growth in both the T&D and non-T&D businesses. Order traction continued for the T&D and civil segments. Consolidated EBITDA margin expanded sequentially while the standalone margin fell further. Adj. PAT stood at Rs 722mn (-36% YoY), ahead of our estimate of Rs 578mn. KECI aims to lower interest cost by 50bps in FY24 from 3.1% in FY23.

Standalone margin slips further: The company in Q4 posted its second quarter of sequential margin expansion following steady deterioration in the recent past. Consolidated EBITDA margin at 5.1% rose 60bps QoQ but dipped 80bps YoY. The standalone margin continued to slip further, clocking in at 4.1% (-310bps YoY, -50bps QoQ), as delayed clearances for some legacy orders weighed on profitability. With SAE Brazil turning EBITDA-positive in Q4 and newer order flows at higher rates, management expects a pronounced margin recovery in FY24.

Healthy guidance: Management has guided for revenue growth in excess of 15% for FY24 anchored by strong order inflows of Rs 240bn. EBITDA margin is guided to recover from the trough of H2FY23. Management sees a ~100bps increase in margin by H1FY24, exiting FY24 at ~7%. Net working capital days are expected to improve to ~110 days, closer to KECI's long-term target of <100 days. Order inflow traction is expected to persist on the back of industry tailwinds.

Headwinds yet to abate; maintain HOLD: A burgeoning order book of Rs 300bn+ and structural industry tailwinds bode well for KECI. However, margin recovery, debt and working capital management remain concerns. Additionally, pending recoveries from the Middle East pose a risk. We raise our FY24/FY25 EPS estimates by 4%/1% to bake in the Q4FY23 performance and roll valuations over to Mar'25E, which keeps our TP unchanged at Rs 500. We continue to value the stock at a 14x P/E multiple – a 20% discount to the five-year average – and maintain HOLD.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	KECI IN/Rs 514
Market cap	US$ 1.6bn
Free float	47%
3M ADV	US$ 1.9mn
52wk high/low	Rs 526/Rs 346
Promoter/FPI/DII	52%/13%/26%

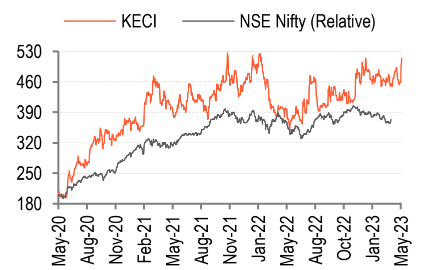
Source: NSE | Price as of 4 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	172,817	202,357	236,340
EBITDA (Rs mn)	8,297	13,747	18,742
Adj. net profit (Rs mn)	1,760	5,647	9,450
Adj. EPS (Rs)	6.8	22.0	36.8
Consensus EPS (Rs)	6.8	25.5	37.7
Adj. ROAE (%)	4.8	14.1	20.4
Adj. P/E (x)	75.1	23.4	14.0
EV/EBITDA (x)	12.6	7.4	5.8
Adj. EPS growth (%)	(53.2)	220.8	67.4

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

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 140 | ⮝ 26%

TATA STEEL | Metals & Mining | 04 May 2023

Project visibility improving, maintain BUY

- Q4 demonstrated a strong comeback from a low point in India; Europe likely to recover gradually from Q2FY24
- Improving project visibility to drive 10% EBITDA CAGR over FY23-FY26 even at mid-cycle margin assumptions
- Maintain BUY with an unchanged TP of Rs 140 based on 5.75x (blended) FY25E EV/EBITDA

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Strong Q4 recovery from a low point: TATA's adj. Q4FY23 EBITDA at Rs 72bn was 26% ahead of Bloomberg consensus and 40% ahead of our forecast driven by a beat in the standalone business, which clocked a Rs 16.7k/t EBITDA margin.

Q1 likely to be flat: We expect softer margins in India and limited improvement in Europe for Q1FY24. While a planned maintenance shutdown would weigh on India, natural gas hedges and partial operations in the Netherlands would keep costs high for Europe. High coking coal consumption cost and softer steel prices would impact both.

Improving project visibility …: At Kalinganagar, TATA commenced production of FHCR coils and pellets, besides guiding for a halt to external pellet buying from Q2FY24, commissioning of the 2.2mtpa CRM complex over the next 12-18 months and start-up of the new 5mtpa BF over 12 months. At the Netherlands, TATA has started relining of BF6 in April with a completion target of H1FY24 and is close to completing the 1.6mt cold mill upgrade. At NINL, it has ramped up the plant to a 1mt annualised run-rate within two quarters of start-up and is now working on stabilising margins. TATA is also targeting board approval for the NINL expansion in FY24.

…to kick-off earnings growth: We currently model for a 10% EBITDA CAGR over FY23-FY26 factoring in conservative ramp-up assumptions for upcoming projects, including 70% utilisation for the 5mtpa TSK expansion and mid-cycle margins.

Hard decision on UK operations could dispel overhang: TATA cautioned that stability issues at the UK upstream plant may force stakeholders to decide a viable replacement option for the plant over the next 12-18 months. Even in the worst case, a restructuring would mean the continuation only of downstream operations, where management believes the impact is likely to be under GBP 1bn.

Maintain BUY: We maintain our SOTP-based TP of Rs 140, assigning the stock an unchanged blended FY25E EV/EBITDA multiple of 5.75x which values Indian operations at 6x and European operations at 4.5x, adding incremental value for the Kalinganagar expansion at Rs 92bn. Given 26% upside potential, we maintain BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TATA IN/Rs 111
Market cap	US$ 16.5bn
Free float	66%
3M ADV	US$ 56.4mn
52wk high/low	Rs 132/Rs 83
Promoter/FPI/DII	34%/21%/21%

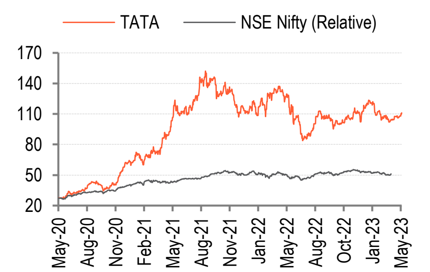
Source: NSE | Price as of 4 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	2,416	2,181	2,203
EBITDA (Rs mn)	323	338	397
Adj. net profit (Rs mn)	88	123	176
Adj. EPS (Rs)	7.2	10.1	14.4
Consensus EPS (Rs)	7.2	10.7	14.2
Adj. ROAE (%)	8.1	11.5	15.0
Adj. P/E (x)	15.5	11.0	7.7
EV/EBITDA (x)	6.1	5.8	5.1
Adj. EPS growth (%)	(78.4)	41.0	42.5

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

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 140 | ⮝ 10%

ORIENT CEMENT | Cement | 04 May 2023

Listless performance

- **Focus on realisation gains curbed Q4 volume growth at 5% YoY, indicating lacklustre demand in key areas**
- **Operating efficiencies lags behind industry, keeping margins under pressure**
- **Maintain HOLD for a TP of Rs 140 (unchanged), valuing the stock at 5x FY25E EV/EBITDA**

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Steady revenue growth, focus on realisation gains: ORCMNT's Q4FY23 revenue grew 9% YoY (+20% QoQ) to Rs 8.7bn. Volume recovery was slow at 5% YoY (+20% QoQ) to 1.7mn tonnes as the company focused on realisation gains (+4% YoY, flat QoQ as prices were 0.5% lower than Q3).

Cost driven by high energy cost, softening QoQ: Operating cost rose 8% YoY (-5% QoQ) to Rs 4,287/t due to higher energy expenses which climbed 22% YoY (+2% QoQ) to Rs 1,620/t (Rs 2,242/t adjusting for raw material cost, +15% YoY, flat QoQ). Logistics cost rose 6% YoY (-1% QoQ) to Rs 1,364/t owing to higher transportation by road during Q4 (84% from 75% in the year-ago quarter) and average distance slightly above 300km. Other expenditure declined 6% YoY (-2% QoQ) to Rs 797mn.

Cost inflation keeps margins under pressure: EBITDA declined 9% YoY (+54% QoQ) to Rs 1.4bn with 315bps YoY margin contraction to 15.9% (+360bps QoQ from a lower base of 12.3%). EBITDA/t was at Rs 812/t vs. Rs 933/t in Q4FY22. Adj. PAT fell 8% YoY (+145% QoQ) to Rs 674mn.

Capacity expansion plans: Chittapur expansion will double capacity from the current 3mt (2mt clinker), with work to commence from Q3FY24. Devapur expansion is guided to be delayed until the grinding unit is under construction as the Tiroda project has been cancelled. The company plans to set up a 2mt grinding unit at Madhya Pradesh, with work to commence by FY26.

Performance triggers weak, retain HOLD: We expect the pace of capacity expansion to slow considerably following the cancellation of Tiroda plans and attendant delays for the linked Devapur clinkerisation. The Chittapur and Madhya Pradesh grinding units are unlikely to fructify before FY26. This would guard the balance sheet from stress but cap growth triggers. Cost inflation is likely to constrain margin gains as well. We thus maintain our HOLD rating for a TP of Rs 140 (unchanged), valuing the stock at 5x FY25E EV/EBITDA, which implies a replacement cost of Rs 40bn/mt – 42% below the industry average.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ORCMNT IN/Rs 127
Market cap	US$ 317.5mn
Free float	62%
3M ADV	US$ 0.7mn
52wk high/low	Rs 149/Rs 96
Promoter/FPI/DII	38%/6%/11%

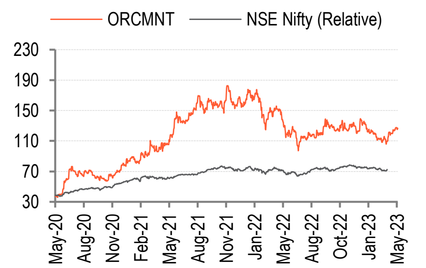
Source: NSE | Price as of 4 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	29,375	37,917	42,259
EBITDA (Rs mn)	3,738	4,693	6,017
Adj. net profit (Rs mn)	1,228	1,757	2,725
Adj. EPS (Rs)	6.0	8.6	13.3
Consensus EPS (Rs)	6.0	11.7	12.4
Adj. ROAE (%)	7.8	10.5	14.6
Adj. P/E (x)	21.1	14.8	9.5
EV/EBITDA (x)	7.7	5.8	4.3
Adj. EPS growth (%)	(53.4)	43.1	55.1

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

Stock performance



Source: NSE

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BUY – Expected return >+15%

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Note: Recommendation structure changed with effect from 21 June 2021

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