FIRST LIGHT

07 August 2023

RESEARCH

LUPIN | TARGET: Rs 800 | –25% | SELL

Improvements visible; runup behind downgrade

BOB ECONOMICS RESEARCH | MONSOON UPDATE

Monsoon and Sowing progress

BOB ECONOMICS RESEARCH | PRICE PICTURE

How prices look in Jul'23

CUMMINS INDIA | TARGET: Rs 2,110 | +17% | BUY

Strong quarter; primed for rating transition

KEC INTERNATIONAL | TARGET: Rs 630 | –3% | HOLD

Healthy inflows, margin improvement ahead

BLUE STAR | TARGET: Rs 880 | +15% | BUY

In-line numbers, steady growth ahead

ZYDUS WELLNESS | TARGET: Rs 1,556 | +9% | HOLD

Poor showing in a seasonally strong quarter

ORIENT ELECTRIC | TARGET: Rs 250 | +4% | HOLD

Reasonably healthy quarter

DABUR INDIA | TARGET: Rs 669 | +21% | BUY

Volume growth visible in rural markets

Daily macro indicators

Ticker	02-Aug	03-Aug	Chg (%)
US 10Y yield (%)	4.08	4.18	10bps
India 10Y yield (%)	7.15	7.20	4bps
USD/INR	82.59	82.73	(0.2)
Brent Crude (US$/bbl)	83.2	85.1	2.3
Dow	35,283	35,216	(0.2)
Hang Seng	19,517	19,421	(0.5)
Sensex	65,783	65,241	(0.8)
India FII (US$ mn)	**01-Aug**	**02-Aug**	**Chg ($ mn)**
FII-D	126.9	1.8	(125.1)
FII-E	3.1	(182.0)	(185.1)

Source: Bank of Baroda Economics Research

SUMMARY

LUPIN

- Q1 a beat with revenue/EBITDA running 8%/25% ahead of consensus; gross margin improves to 65.9% (64.4 ex-licensing income)
- gSpiriva launch in Q2, turnaround in US subsidiary and higher margin guidance point to an improving performance
- On rollover, we have a new TP of Rs 800 (vs. Rs 700), but positives appear priced in post rally – cut from HOLD to SELL

Click here **for the full report.**

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INDIA ECONOMICS: MONSOON UPDATE

All India cumulative seasonal rainfall is 5% above LPA as of 4 Aug2023. The distribution of rainfall has pushed kharif sowing higher compared with last year. Sown area of rice, sugarcane and oilseeds have registered an improvement. Pulses sowing continue to lag, though there still has been some improvement since last week. In hindsight, as major part of pulses sowing has already been completed, we do not expect sowing levels to be higher than last year. On distribution of rainfall, region wise, Southern Peninsula and Eastern region have recorded lower rainfall and are in the deficient zone during this period. North West and Central region continue to register surplus rainfall.

Click here for the full report.

INDIA ECONOMICS: PRICE PICTURE

BoB Essential Commodity Index (BoB ECI) has picked up sharply by 4.9% (MoM) and 6.5% (YoY) in Jul'23. For the 4 days of Aug, it rose by 7.5% (YoY). This is attributable to sharp upswing in tomato prices followed by onion, tur, salt, milk and rice. Thus food inflation is quite broad based as of now. Tomato with a weight of 0.6% in CPI (10% of vegetable index) has shot up by 175.9% (YoY). This directly adds 17bps to the CPI data for Jul'23. Further, favourable base has also faded in Jul'23 (30bps: unfavourable base).

Click here for the full report.

CUMMINS INDIA

- Domestic pre-buying buoys quarter; new emission norms delayed but KKC well positioned to manage the transition
- Retained guidance of sustainable growth at 2x of GDP and targeted margin expansion of 100bps a year
- We raise FY24/FY25 EPS by 3% each and roll over to a new TP of Rs 2,110 (vs. Rs 2,000); maintain BUY

Click here for the full report.

KEC INTERNATIONAL

- Good Q1 with 28% YoY topline growth and 70bps EBITDA margin gains to 5.8%; management sees "improving trajectory of profitability"
- Order intake at Rs 45bn; guidance reiterated for FY24 order inflow growth (+15% YoY), revenue (Rs 200bn) and EBITDA margin (~7%)
- Improved confidence on margins leads us to raise FY24/FY25 EPS 9%/6%; on rollover, our TP rises to Rs 630 (vs. Rs 550) – retain HOLD

Click here for the full report.

BLUE STAR

- Q1 UCP revenue beat the industry, rising 7% YoY on the back of B2B sales; EMP order book robust
- Equity financing of Rs 10bn planned to contain leverage and fund future expansion and growth
- On rolling valuations forward to Jun'25E, our TP increases to Rs 880 (vs. Rs 825); maintain BUY

Click here for the full report.

ZYDUS WELLNESS

- Flattish revenue growth in Q1 largely driven by a subdued performance in Glucon-D and Complan
- EBITDA margin sheds 470bps YoY on an unfavourable product mix and increased overheads
- Target P/E cut from 22.7x to 22x on muted outlook, leading to a revised TP of Rs 1,556 (vs. Rs 1,631); maintain HOLD

Click here for the full report.

ORIENT ELECTRIC

- Q1 topline grew 14% YoY led by ECD, with gross margin up 290bps though EBITDA margin was flat on higher wages
- New FY24 strategy to boost premiumisation, plug distribution gaps and train the spotlight on B2B lighting
- We retain estimates and roll over to a new TP of Rs 250 (vs. Rs 240); maintain HOLD

Click here for the full report.

DABUR INDIA

- Q1 revenue grew 11% YoY aided by strong growth across categories, except beverages that saw the impact of unseasonal rains
- Gross margin expanded 70bps YoY to 46.6% as input costs moderated; A&P spend increased 30%
- Investments in A&P, digital channels and distribution network expected to propel growth; maintain BUY with TP of Rs 669

Click here for the full report.

SELL
TP: Rs 800 | ∀ 25%

LUPIN | Pharmaceuticals | 05 August 2023

Improvements visible; runup behind downgrade

- **Q1 a beat with revenue/EBITDA running 8%/25% ahead of consensus; gross margin improves to 65.9% (64.4 ex-licensing income)**
- **gSpiriva launch in Q2, turnaround in US subsidiary and higher margin guidance point to an improving performance**
- **On rollover, we have a new TP of Rs 800 (vs. Rs 700), but positives appear priced in post rally – cut from HOLD to SELL**

Saad Shaikh
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Strong quarter: LPC delivered a strong April-June quarter with revenue growth of 9% QoQ to Rs 48bn and EBITDA/PAT surging 48%/92% sequentially to Rs 8.6bn/ Rs 4.5bn. Revenue beat consensus by 8% primarily due to strong growth in RoW and API (active pharmaceutical ingredient) business, healthy sales in North America (+3.4% QoQ to US$ 181mn) and India, as well as licensing income of Rs 2bn for the quarter. API business growth came from higher demand for cephalosporins and anti-TB drugs.

Healthy domestic performance: India business reported healthy 11% QoQ growth despite the NLEM (National List of Essential Medicines) price cap impact in Q1, on the back of double-digit growth in anti-infective, respiratory and gynaecology therapies along with four launches. The company expects to introduce over 20 products in FY24 which along with a addition of 500 marketing representatives will lay the foundation for further growth in India business.

EBITDA margin to exceed earlier guidance: Gross margin expanded 540bps QoQ to 65.9%, which along with operating leverage helped offset the rise in operating expense. EBITDA margin at 17.8% (14% ex-licensing income) was up 475bps QoQ. Given the upcoming launch of gSpiriva in Q2FY24 and a stabilising US generics market, management expects to clock an ~18% EBITDA margin in Q4FY24 and believes its full-year margin will exceed earlier guidance of ~15%. The US subsidiary has turned around in Q1 and hence management expects a lower tax rate of 21-22% in FY24, which will aid earnings.

TP revised to 800; cut to SELL given runup: Baking in the strong launch lineup (gSpiriva, gDulera, gMybetrique) and improved margin and tax guidance, we model for a 98% earnings CAGR over FY23-FY25. We expect EBITDA margin of 16.4% each for FY24/FY25 and ROE improvement to 12%/13%. Upon rollover of valuations to FY25E, we have a new TP of Rs 800 (vs. Rs 700), set at an unchanged 11x EV/EBITDA multiple – a 40% discount to frontline stock SUNP and 35% below the stock's 5Y average. Positives appear priced in following the ~50% stock rally in the last three months, leading us to move from HOLD to SELL.

Key changes

Target	Rating
▲	▼

Ticker/Price	LPC IN/Rs 1,064
Market cap	US$ 5.9bn
Free float	53%
3M ADV	US$ 12.8mn
52wk high/low	Rs 1,078/Rs 623
Promoter/FPI/DII	46%/14%/29%

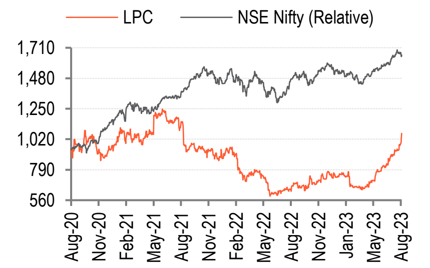
Source: NSE | Price as of 4 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,66,417	1,91,362	2,09,196
EBITDA (Rs mn)	17,982	31,410	34,385
Adj. net profit (Rs mn)	4,301	14,946	16,852
Adj. EPS (Rs)	9.5	33.0	37.2
Consensus EPS (Rs)	9.5	27.3	38.4
Adj. ROAE (%)	3.6	12.0	12.5
Adj. P/E (x)	111.9	32.2	28.6
EV/EBITDA (x)	27.1	15.9	14.5
Adj. EPS growth (%)	63.2	247.5	12.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

MONSOON UPDATE

05 August 2023

Monsoon and Sowing progress

Jahnavi Prabhakar
Economist

All India cumulative seasonal rainfall is 5% above LPA as of 4 Aug2023. The distribution of rainfall has pushed kharif sowing higher compared with last year. Sown area of rice, sugarcane and oilseeds have registered an improvement. Pulses sowing continue to lag, though there still has been some improvement since last week. In hindsight, as major part of pulses sowing has already been completed, we do not expect sowing levels to be higher than last year. On distribution of rainfall, region wise, Southern Peninsula and Eastern region have recorded lower rainfall and are in the deficient zone during this period. North West and Central region continue to register surplus rainfall.

Where does Kharif sowing stand?

Total Kharif sowing area has improved by 0.4% (was lower by 0.3% in the previous week) as of 4 Aug 2023 since last year. Sown area of rice has improved considerably, up by 3.4% (1.9% last week). Sown area of coarse cereals edged up by 1.1% led by improvement in both Bajra and Maize sowing. Sugarcane and Oilseeds continue to record higher sowing during this period, both were up by 2.5% each for the same period. On the other hand, Pulses sowing has declined by (-) 9.3%, however it has improved since last week (-11.3%). Arhar and Urad sowing was down by (-) 7.9% and (-) 13.8% respectively. Jute & Mesta (-5.6%) and Cotton (-1.4%) crops continue to register lower sowing than last year.

Table 1: Kharif Sowing

	Area sown in 2023-24 (Lakh ha)	Area sown in 2022-23 (Lakh ha)	Change (YoY %)
Coarse Cereals	164.2	162.43	1.1
Jowar	12.8	13.7	(6.6)
Bajra	66.6	66	0.9
Maize	76.1	75.4	0.9
Rice	283.0	273.7	3.4
Pulses	106.9	117.9	(9.3)
Oilseeds	179.6	175.1	2.5
Cotton	119.2	120.9	(1.4)
Sugarcane	56.1	54.7	2.5
Jute and Mesta	6.6	6.9	(5.6)
All Crops	915.5	911.7	0.4

Source: CEIC, Bank of Baroda | Data as of 28 Jul 2023

Monsoon:

For the period 1 Jun 2023 to 4 Aug 2023, South West Monsoon is 5% above LPA compared with last year.

PRICE PICTURE

05 August 2023

How prices look in Jul'23

Dipanwita Mazumdar
Economist

BoB Essential Commodity Index (BoB ECI) has picked up sharply by 4.9% (MoM) and 6.5% (YoY) in Jul'23. For the 4 days of Aug, it rose by 7.5% (YoY). This is attributable to sharp upswing in tomato prices followed by onion, tur, salt, milk and rice. Thus food inflation is quite broad based as of now. Tomato with a weight of 0.6% in CPI (10% of vegetable index) has shot up by 175.9% (YoY). This directly adds 17bps to the CPI data for Jul'23. Further, favourable base has also faded in Jul'23 (30bps: unfavourable base).

Another incipient shock may be the onion price shock which itself showed a 4.5% YoY increase in Jul'23 from 4.4% decline in Jun'23. Also production of this vegetable has been lower as per 1st AE of 2022-23 and the Dec-Jun crop have been impacted due to weather vagaries, which is reflected in prices. The Oct-Dec harvest would help in cooling off inflation, but before its arrival the Q2 inflation data might face some upside risk. The only respite is short lived cycles of vegetable inflation. Thus against this backdrop, CPI in Jul'2 is expected to settle ~5.8%, with risks titled to the upside.

To get an idea about the calculation of the index, refer to our previous edition of BoB ECI.

Price picture using BoB Essential Commodity Index:

- On MoM basis, BoB ECI has seen a momentum in the past three months. In Jul'23, the index firmed up by 4.9% from 1.2% increase in Jun'23. Notably, even on a seasonally adjusted basis, BoB ECI inched up by 4.4% in Jul'23. Thus a fair degree of price pressure is seen building up.
- The breakdown of the index shows that on a sequential basis, 10 out of 20 commodities have shown an increase, with items such as tomato showing 195% increase in Jul'23, onion prices rising by 11.4%, potato by 3.6%. Apart from this, price pressure seen for soya and mustard oil as well as rice. Notably, government's decision to impose stock limit on Tur and Urad has helped checking the price buildup to some extent which was visible since Mar'23.
- The YoY picture also shows significant price pressure with 7 out of 20 items remaining above 6% level. Double digit inflation is noticed for commodities such as Tur, Rice, Salt, Milk and Pulses. For tomato price increased by 175.9%.

So where is CPI print headed?

- The Jun'23 print of CPI was quiet worrisome especially on the food front. Apart from the usual seasonality shock for tomato, strains were visible even for onion, green chilies, garlic and ginger, where even the seasonally adjusted series remained elevated on a sequential basis. For other items of food as well, such as pulses and spices, the seasonally adjusted series showed considerable upside risk.

BUY
TP: Rs 2,110 | ▲ 17%

CUMMINS INDIA | Capital Goods | 04 August 2023

Strong quarter; primed for rating transition

- **Domestic pre-buying buoys quarter; new emission norms delayed but KKC well positioned to manage the transition**
- **Retained guidance of sustainable growth at 2x of GDP and targeted margin expansion of 100bps a year**
- **We raise FY24/FY25 EPS by 3% each and roll over to a new TP of Rs 2,110 (vs. Rs 2,000); maintain BUY**

Vinod Chari | Swati Jhunjhunwala
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Strong Q1 driven by pre-buying: KKC achieved revenue growth of 31% YoY to Rs 22.2bn in Q1FY24, thanks to robust demand in the domestic power generator and distribution businesses which grew 76% and 28% respectively even as the industrial business was flat YoY. Exports continued to hold up at ~Rs 5bn, forming 23% of sales. The company's EBITDA margin remained robust at 15.4% (+280bps YoY), driven by the domestic business. This translated into higher adj. PAT of Rs 3.5bn, up 67% YoY.

New emission norms delayed; KKC fully prepared for transition: The government recently extended the date until which CPCB-II-compliant power generation engines can be manufactured and sold by a year to Jun'24. Thus, for this duration, both CPCB-II and newer CPCB-IV products will be available simultaneously. KKC is making the old engines only against firm orders and has a full order book till Jun'24, which makes inventory and supply chain management for both engine types easier.

CPCB-IV engines to trigger realisation hikes: KKC expects the new CPCB-IV engines to enable price hikes of 20-50%, particularly for diesel engines designed for gensets up to 800KW. KKC indicated that it is fully prepared for the updated emission norms and expects the new engines to form 15-25% of its FY24 sales mix despite the elongated transition phase.

Positive long-term outlook: Management has reiterated expectations of a sustainable growth trajectory for KKC at twice the pace of GDP in the medium term, anchored by demand from data centres, infrastructure, real estate and hospitality. KKC has also retained its annual EBITDA margin expansion target of 100bps with a focus on cost. The company recently launched fuel-agnostic engines, addressing a key concern for the power generation engine business.

Maintain BUY: We see visibility for sustained long-term growth in the domestic power genset market (and for strong exports), with KKC best positioned to manage the ongoing transition to new emission norms. We raise our FY24/FY25 EPS estimates by 3% each post Q1. On rollover to Jun'25E, our TP rises to Rs 2,110 (vs. Rs 2,000), set at an unchanged 35x P/E, a 30% premium to the 5Y mean. BUY.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	KKC IN/Rs 1,796
Market cap	US$ 6.1bn
Free float	49%
3M ADV	US$ 15.5mn
52wk high/low	Rs 1,980/Rs 1,104
Promoter/FPI/DII	51%/10%/25%

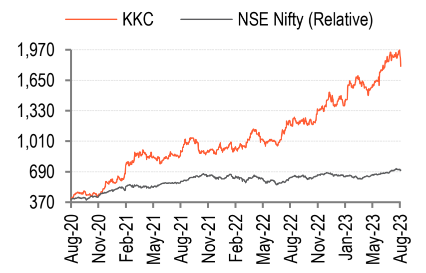
Source: NSE | Price as of 4 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	77,721	87,152	97,675
EBITDA (Rs mn)	12,477	13,299	15,245
Adj. net profit (Rs mn)	12,425	13,815	16,001
Adj. EPS (Rs)	44.8	49.8	57.7
Consensus EPS (Rs)	44.8	48.1	55.1
Adj. ROAE (%)	22.8	22.8	23.7
Adj. P/E (x)	40.1	36.0	31.1
EV/EBITDA (x)	41.5	39.3	34.5
Adj. EPS growth (%)	59.0	11.2	15.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 630 | ∨ 3%

KEC INTERNATIONAL | Capital Goods | 04 August 2023

Healthy inflows, margin improvement ahead

- **Good Q1 with 28% YoY topline growth and 70bps EBITDA margin gains to 5.8%; management sees "improving trajectory of profitability"**
- **Order intake at Rs 45bn; guidance reiterated for FY24 order inflow growth (+15% YoY), revenue (Rs 200bn) and EBITDA margin (~7%)**
- **Improved confidence on margins leads us to raise FY24/FY25 EPS 9%/6%; on rollover, our TP rises to Rs 630 (vs. Rs 550) – retain HOLD**

Vinod Chari | Swati Jhunjhunwala
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Q1 strong on healthy inflows: KECI reported 28% YoY revenue growth to Rs 42.4bn for Q1FY24, a gross margin of 24.7% and EBITDA margin of 5.8% (+70bps YoY on lower employee costs). The company pointed to a shift in margin profile as revenues from the US business and subsidiary SAE Towers have been ramping up. Order intake stood at Rs 45bn and KECI closed the quarter with a Rs 350bn order book split equally between transmission and distribution (T&D) and other orders. The company recently won T&D orders worth Rs 10.7bn in India, Africa and the Americas.

Guidance maintained: Management retained its FY24 revenue guidance of Rs 200bn backed by order inflow expectations of Rs 250bn. KECI's current addressable order pipeline totals Rs 1tn, with the share of the T&D and civil segments at 30-40% each. EBITDA margin is guided to recover from the trough of H2FY23 as legacy orders get executed in H1FY24. KECI reiterated its guidance of a ~100bps YoY rise in margin by H1 and a further 100bps improvement in H2. Net working capital cycle is guided to improve to ~110 days (vs. 126 days in Q1), with a long-term target of <100 days.

T&D and civil projects to drive FY24: Management expects growth in the civil business (mainly data centres, water, residential, commercial projects) and power T&D business to fuel orders in FY24. It also anticipates rail orders in the international markets of Bangladesh and Nepal. The international order book currently consists entirely of T&D projects.

Interest cost jumps: Interest cost increased 59% YoY to Rs 1.6bn and the company expects this to remain high in coming quarters given the RBI's 250bps policy rate hike over the last 12 months. Debt stood at Rs 57.1bn at the end of Q1 (vs. Rs 50bn in FY23) and is expected to remain around the same level for FY24.

Maintain HOLD: Management has reiterated confidence in margin improvement which leads us to raise our FY24/FY25 EPS forecasts by 9%/6%. We continue to value the stock at a target P/E of 15x, a 15% discount to the 5Y average, and roll valuations forward to Jun'25E for a revised TP of Rs 630 (vs. Rs 500). The stock has run up 45% in FY24 YTD and carries little upside, leading us to retain HOLD.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	KECI IN/Rs 646
Market cap	US$ 2.0bn
Free float	47%
3M ADV	US$ 7.2mn
52wk high/low	Rs 699/Rs 387
Promoter/FPI/DII	52%/13%/26%

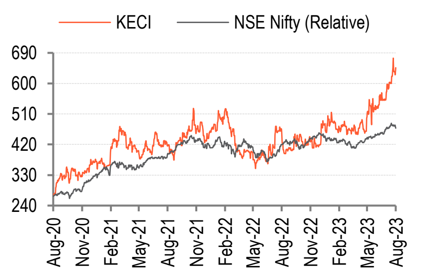
Source: NSE | Price as of 3 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,72,817	2,02,357	2,36,340
EBITDA (Rs mn)	8,297	14,423	19,543
Adj. net profit (Rs mn)	1,760	6,153	10,049
Adj. EPS (Rs)	6.8	23.9	39.1
Consensus EPS (Rs)	6.8	22.2	37.2
Adj. ROAE (%)	4.8	15.3	21.3
Adj. P/E (x)	94.4	27.0	16.5
EV/EBITDA (x)	16.6	9.4	7.3
Adj. EPS growth (%)	(53.2)	249.5	63.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 880 | ▲ 15%

BLUE STAR | Consumer Durables | 04 August 2023

In-line numbers, steady growth ahead

- **Q1 UCP revenue beat the industry, rising 7% YoY on the back of B2B sales; EMP order book robust**
- **Equity financing of Rs 10bn planned to contain leverage and fund future expansion and growth**
- **On rolling valuations forward to Jun'25E, our TP increases to Rs 880 (vs. Rs 825); maintain BUY**

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Decent Q1: BLSTR posted 13% YoY topline growth to Rs 22.3bn in Q1FY24 with healthy gross and EBITDA margins of 22.2% and 6.5% respectively on account of a lower cost of materials, partially offset by higher employee cost and other expenses.

UCP growth guided to track industry in FY24: The unitary cooling products (UCP) division grew 7% YoY with a 7.5% EBIT margin despite the disruption caused by unseasonal rains. In comparison, Lloyd grew 20% (albeit with operational losses) and the industry declined 10% for the quarter. BLSTR commands 13.5% market share, which is flattish sequentially. Management expects the air conditioner industry to grow from 8mn units to 10mn in FY24 and BLSTR to correspondingly move from 0.8mn to 1mn units. It has a long-term target of 15% market share and 8.5% EBIT margins.

EMP business robust: The electro-mechanical projects (EMP) business delivered a topline of Rs 9.5bn and EBIT margin of 7% (+130bps YoY) in Q1. The segment's order book soared 45% YoY to Rs 40.2bn, backed by public and private capex, with healthy bookings from factories and data centres.

Rs 10bn fundraise planned to shore up balance sheet: BLSTR plans to raise up to Rs 10bn in equity to shore up its balance sheet. Net debt stood at Rs 2.8bn and gross debt at Rs 6bn as of Q1. Net debt-to-EBITDA was at 0.57x against the company's internal target of <0.3x, prompting it to raise equity. Moreover, management has capex plans of ~Rs 7.5bn over the next three years. This additional equity will shore up the company's net worth of ~Rs 13bn (end-FY23), which it can leverage to fund future expansion and growth.

Maintain BUY: BLSTR's UCP segment is deftly balancing margins with growth while its EMP business benefits from a robust order backlog and strong industry tailwinds. We maintain estimates but revise our TP to Rs 880 (vs. Rs 825) as we roll valuations forward to Jun'25E. We continue to value the stock at an unchanged P/E multiple of 38x, an ~18% premium to the 3Y average. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BLSTR IN/Rs 762
Market cap	US$ 1.8bn
Free float	61%
3M ADV	US$ 1.4mn
52wk high/low	Rs 820/Rs 489
Promoter/FPI/DII	39%/11%/25%

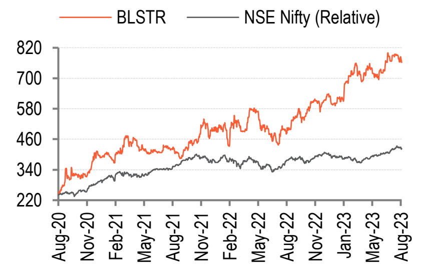
Source: NSE | Price as of 4 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	79,773	92,035	1,07,564
EBITDA (Rs mn)	4,928	6,300	8,140
Adj. net profit (Rs mn)	2,601	2,949	4,174
Adj. EPS (Rs)	13.5	15.3	21.7
Consensus EPS (Rs)	13.5	19.9	26.8
Adj. ROAE (%)	22.1	21.6	28.1
Adj. P/E (x)	56.5	49.8	35.2
EV/EBITDA (x)	29.8	23.3	18.0
Adj. EPS growth (%)	55.1	13.4	41.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 1,556 | ⮝ 9%

ZYDUS WELLNESS | Consumer Staples | 04 August 2023

Poor showing in a seasonally strong quarter

- **Flattish revenue growth in Q1 largely driven by a subdued performance in Glucon-D and Complan**
- **EBITDA margin sheds 470bps YoY on an unfavourable product mix and increased overheads**
- **Target P/E cut from 22.7x to 22x on muted outlook, leading to a revised TP of Rs 1,556 (vs. Rs 1,631); maintain HOLD**

Vikrant Kashyap
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Subdued growth in a seasonally strong quarter: ZYWL reported flattish sales growth in Q1FY24, largely due to underperformance in *Glucon-D* which normally contributes a significant portion of first-quarter sales due to the summer season. The energy drink saw market share contract 57bps YoY in Q1. The health food drinks (HFD) category posted just 2% YoY growth and ZYWL lost 31bps market share in *Complan*. The company did maintain leadership in four brands – Sugar Free, Glucon-D, Everyuth scrub, Everyuth peel-off face mask, and Nycil.

Margins impacted: Gross margin contracted 170bps YoY to 52.6% primarily due to the unfavourable product mix. EBITDA margin fell 470bps YoY and 370bps QoQ to 16.6% as other expenses increased 14% YoY on account of the high cost of alternative fuel and statutory wage rate hikes which continued to impact manufacturing cost. Profitability was further impacted by a one-time expense of Rs 142mn toward a worker settlement, legal charges, and inventory write-off provisions for the Sitarganj plant. Reported PAT fell 19% YoY but adjusting for exceptional items was down 11% to Rs 1.2bn.

International expansion remains a focus area: ZYWL continues to expand its global presence and operationalised a subsidiary in Bangladesh during the year to expand its presence in the Indian subcontinent. The company aims for 8-10% revenue from international markets in the next 4-5 years. *Sugar Free* and *Complan* currently constitute ~90% of overseas business and the top five markets constitute ~80% share.

Maintain HOLD, TP Rs 1,556: ZYWL has been able to maintain its leadership in key categories, but performance in frontline products slowed during Q1. Margins too felt the pinch from an unfavourable product mix, high cost of alternative fuel and increase in wage rate during the quarter. Market share loss and volume growth decline in the HFD business continue to hurt the company's performance. Considering these negatives, we value the stock at a lower 22x (earlier 22.7x) FY25E P/E multiple, translating to a revised TP of Rs 1,556 (earlier Rs 1,631), and retain our HOLD rating.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ZYWL IN/Rs 1,431
Market cap	US$ 1.1bn
Free float	23%
3M ADV	US$ 0.9mn
52wk high/low	Rs 1,791/Rs 1,370
Promoter/FPI/DII	67%/3%/30%

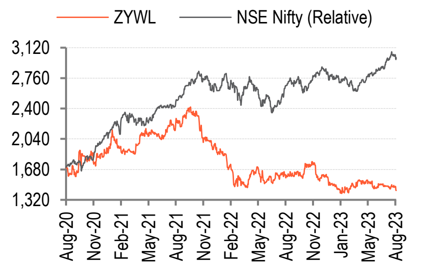
Source: NSE | Price as of 4 Aug 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	22,549	24,458	27,403
EBITDA (Rs mn)	3,373	4,017	4,812
Adj. net profit (Rs mn)	3,205	3,852	4,500
Adj. EPS (Rs)	50.4	60.5	70.7
Consensus EPS (Rs)	50.4	66.2	69.9
Adj. ROAE (%)	6.1	7.1	7.8
Adj. P/E (x)	28.4	23.6	20.2
EV/EBITDA (x)	27.0	22.7	18.9
Adj. EPS growth (%)	0.5	24.0	16.8

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

Stock performance



Source: NSE

RESULT REVIEW

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HOLD
TP: Rs 250 | ⮝ 4%

ORIENT ELECTRIC | Consumer Durables | 04 August 2023

Reasonably healthy quarter

- **Q1 topline grew 14% YoY led by ECD, with gross margin up 290bps though EBITDA margin was flat on higher wages**
- **New FY24 strategy to boost premiumisation, plug distribution gaps and train the spotlight on B2B lighting**
- **We retain estimates and roll over to a new TP of Rs 250 (vs. Rs 240); maintain HOLD**

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Healthy Q1: ORIENTEL posted 14% YoY topline growth in Q1FY24 led by the electrical consumer durables (ECD) and switchgears businesses. The ECD segment grew 16% YoY to Rs 5.2bn while lighting and switchgears grew 8% to Rs 1.9bn. ECD growth surpassed HAVL's 5% and POLYCAB's 2% print during Q1. Exports increased 38% YoY despite headwinds in key international markets of Sudan, Sri Lanka and Ghana. The company aims to achieve an overall topline of US$ 1bn in the next 5-6 years.

Gross margin improvement offset by wage costs: Gross margin expanded 290bps YoY to 30.7% on the back of (i) a favourable product mix with a higher contribution from "hero" products that the company defines as premium products that are expected to foster higher growth, (ii) Project Sanchay – a cost savings programme that led to savings of Rs 150mn in Q1 (Rs 600mn in FY23), and (iii) lower commodity prices that were partially offset at the EBITDA level by higher employee cost and other expenses.

Working capital has improved: The working capital cycle reduced to 13 days during the quarter (vs. 25 days in Q1FY23). This can be attributed to two reasons – firstly, sluggish consumer demand led to an inventory pileup last year, causing a greater difference in the working capital cycle on an annual basis. Secondly, the company demonstrated better inventory and cash management in terms of receivables collection and payables.

New FY24 strategy: ORIENTEL is adopting a strategy to boost premiumisation and increase its focus on B2B lighting, especially B2G, while targeting ~5% revenue growth from switchgears and wires in FY24. Further, the company has identified gaps in distribution and plans to launch its own D2C network in FY24. Management expects e-commerce and large-format retail sales to double in two years.

Maintain HOLD: We retain our estimates and continue to value the stock at a 30x P/E multiple – at a 5% discount to the stock's 3Y average. On rolling valuations over to Jun'25E, our TP stands revised to Rs 250 (vs. Rs 240), which offers just 4% upside and leads us to maintain our HOLD rating.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	ORIENTEL IN/Rs 240
Market cap	US$ 619.8mn
Free float	62%
3M ADV	US$ 1.1mn
52wk high/low	Rs 291/Rs 216
Promoter/FPI/DII	38%/6%/28%

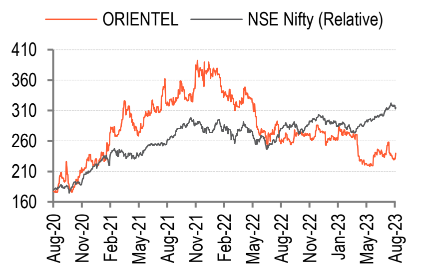
Source: NSE | Price as of 4 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	25,292	29,591	34,326
EBITDA (Rs mn)	1,510	2,518	3,094
Adj. net profit (Rs mn)	759	1,322	1,698
Adj. EPS (Rs)	3.6	6.2	8.0
Consensus EPS (Rs)	3.6	7.1	8.4
Adj. ROAE (%)	13.5	21.2	23.8
Adj. P/E (x)	67.3	38.6	30.1
EV/EBITDA (x)	33.7	20.2	16.5
Adj. EPS growth (%)	(40.3)	74.2	28.5

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

Stock performance



Source: NSE

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BUY
TP: Rs 669 | ⮝ 21%

DABUR INDIA | Consumer Staples | 04 August 2023

Volume growth visible in rural markets

- **Q1 revenue grew 11% YoY aided by strong growth across categories, except beverages that saw the impact of unseasonal rains**
- **Gross margin expanded 70bps YoY to 46.6% as input costs moderated; A&P spend increased 30%**
- **Investments in A&P, digital channels and distribution network expected to propel growth; maintain BUY with TP of Rs 669**

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Strong growth amid macro headwinds: Dabur reported 11% YoY revenue growth during Q1FY24 (13% CC growth) and continued to gain market share across 90% of its portfolio despite persisting headwinds in domestic and international markets. India business grew 8% YoY and international business grew 21% CC. Gross margin expanded 70bps YoY to 46.6% and is guided to expand sequentially. Dabur continues to extend the distribution network and its direct distribution reach now stands at 1.4mn outlets which the company expects will reach 1.5mn by end-FY24.

Rural volume growth turns positive: Per management, rural volume growth in the FMCG category turned positive during the quarter at 4% YoY, and Dabur outpaced category growth with an 8% uptick in rural demand. Urban markets continue to grow ahead of rural centres, but the gap has narrowed significantly. Management expects further improvement in rural consumption as commodity prices ease.

Growth across key categories: Dabur's healthcare portfolio reported 10% growth YoY and a 4Y CAGR of 10.6%. Home and personal care (HPC) revenue increased 11% YoY and over-the-counter (OTC) business reported healthy 24% growth led by demand for *Honitus* cough syrup. The digestive business was up 14% YoY and homecare 14.5%. Foods delivered an increase of 35% YoY, but the beverages portfolio was adversely impacted by unseasonal rains. Dabur indicated that it has expanded market share by 200bps in the hair oil category, by 50bps in its *Dabur Red* toothpaste and by 320bps in immunity booster *Chyawanprash*.

Maintain BUY, TP Rs 669: Dabur continues to outperform the market and to gain share despite macro headwinds in key categories. Given easing inflation and improving rural demand, we expect sustained volume momentum across the portfolio. Increased investment in advertising & promotion, distribution network and digital channels will lend further impetus to growth. The stock is currently trading at 48.9x/40.6x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 46x FY25E EPS – assigning a 10% premium to the stock's 10Y average multiple – for an unchanged TP of Rs 669.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	DABUR IN/Rs 555
Market cap	US$ 12.0bn
Free float	33%
3M ADV	US$ 13.2mn
52wk high/low	Rs 611/Rs 504
Promoter/FPI/DII	66%/20%/14%

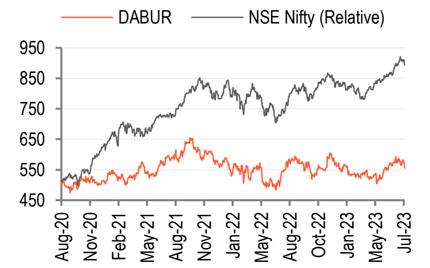
Source: NSE | Price as of 3 Aug 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,15,299	1,30,189	1,47,820
EBITDA (Rs mn)	21,641	25,510	31,060
Adj. net profit (Rs mn)	17,072	20,106	24,193
Adj. EPS (Rs)	9.6	11.3	13.7
Consensus EPS (Rs)	9.6	12.1	13.9
Adj. ROAE (%)	19.1	20.3	22.2
Adj. P/E (x)	57.6	48.9	40.6
EV/EBITDA (x)	45.4	38.6	31.7
Adj. EPS growth (%)	(2.1)	17.8	20.3

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

Stock performance



Source: NSE

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