

## RESEARCH

### BOB ECONOMICS RESEARCH | CAPEX TRENDS

How has state capex performed in H1FY24?

#### ABB INDIA | TARGET: Rs 4,700 | +9% | HOLD

Sprinting along

#### THE RAMCO CEMENTS | TARGET: Rs 661 | -35% | SELL

Quarterly respite, challenges may continue

#### POWER GRID CORP | TARGET: Rs 250 | +19% | BUY

In-line quarter; FY24 capex ramped up

### Daily macro indicators

Indicator	7-Nov	8-Nov	Chg (%)
US 10Y yield (%)	4.57	4.49	(7bps)
India 10Y yield (%)	7.28	7.27	(1bps)
USD/INR	83.27	83.28	0.0
Brent Crude (US\$/bbl)	81.6	79.5	(2.5)
Dow	34,153	34,112	(0.1)
Hang Seng	17,670	17,568	(0.6)
Sensex	64,942	64,976	0.1
India FII (US\$ mn)	6-Nov	7-Nov	Chg (\$ mn)
FII-D	(1.4)	179.2	180.6
FII-E	43.3	(37.5)	(80.8)

Source: Bank of Baroda Economics Research

## SUMMARY

### INDIA ECONOMICS: CAPEX TRENDS

Continuing its push on capex spending, Centre's capital expenditure in H1FY24 has shown a steady increase. On a YoY basis, Centre's capex has increased by 29% to Rs. 4.9 lakh crores. This translates to 49% of FY24BE, which is much higher than 29% in the same period last year. The Centre remains on track on delivering its budgeted target of Rs. 10 lakh crores. In comparison, based on data available for a total of 23 states, state capex has increased by a sharp 52.8% in the same period. However, in terms of meeting the budgeted target, states have been lagging the Centre. Out of a budgeted capital expenditure of Rs 8.09 lakh crores, actual capex is Rs 2.63 lakh crores, which is around 32.3% of the Budgeted amount. However, this is higher than last year. In fact, in H1FY23, states' capex spending stood at 25.2% of the budgeted amount.

[Click here for the full report.](#)

### ABB INDIA

- Robust quarter with revenue up 31% YoY and 590bps EBITDA margin expansion aided by the robotics and robotics segments
- Base order inflows grew 14% YoY despite a high comparable quarter; strong outlook given customers' large investment lineup
- CY23/CY24 EPS raised 8%/5% and TP increased to Rs 4,700 (vs. Rs 4,400) on rollover; maintain HOLD

[Click here for the full report.](#)

**BOBCAPS Research**

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**THE RAMCO CEMENTS**

- New capacities buoyed Q2 volumes by 39% YoY but realisations slipped 5%
- Fuel cost-savings aid 680bps YoY EBITDA margin improvement to 17.1% off a low base
- FY24/FY25 EBITDA estimates raised 7%/10; maintain SELL with revised TP of Rs 661 (vs. Rs 585)

[Click here](#) for the full report.

**POWER GRID CORP**

- Q2 revenue/PAT in line at Rs 104bn/Rs 38bn; ramp up of FY24 capex target to Rs 100bn from Rs 88bn a key positive
- Large Rs 1.9tn capex pipeline, RTM asset base and lower interest costs remain core strengths
- Exhibits lowest risk profile in the power sector; retain BUY with unchanged TP of Rs 250

[Click here](#) for the full report.

## CAPEX TRENDS

09 November 2023

### How has state capex performed in H1FY24?

Continuing its push on capex spending, Centre's capital expenditure in H1FY24 has shown a steady increase. On a YoY basis, Centre's capex has increased by 29% to Rs. 4.9 lakh crores. This translates to 49% of FY24BE, which is much higher than 29% in the same period last year. The Centre remains on track on delivering its budgeted target of Rs. 10 lakh crores. In comparison, based on data available for a total of 23 states, state capex has increased by a sharp 52.8% in the same period. However, in terms of meeting the budgeted target, states have been lagging the Centre. Out of a budgeted capital expenditure of Rs 8.09 lakh crores, actual capex is Rs 2.63 lakh crores, which is around 32.3% of the Budgeted amount. However, this is higher than last year. In fact, in H1FY23, states' capex spending stood at 25.2% of the budgeted amount.

**Aditi Gupta**  
Economist

**Table 1: Budgeted and actual capex of the centre and states in H1FY24 (Rs crore)**

	FY24BE (Rs. Crores)	H1FY24 Actual (Rs. crores)	Achievement (%)	YoY (%)
Centre	10,00,961	4,90,628	49.0	29.0
States*	8,13,682	2,63,175	32.3	52.8

Source: CAG, Bank of Baroda Research | Note: \*23 states

### State wise capex picture

As can be seen from Table 2, out of a total of 23 states, 17 showed an improvement in capex spending this year, when compared with the same period last year. Incidentally, these states accounted for over 80% of the total capex spent so far in FY24. In fact, only 6 states, namely, Kerala, Himachal Pradesh, Gujarat, Chhattisgarh, Karnataka and Punjab have seen capex spending lower than last year.

In terms of state wise performance, the following observations can be made:

1. Telangana has performed remarkably well in terms of capex spending this year and has met 60.9% of its FY24 target, which is much higher than 26.5% in the same period last year. In YoY terms, capex spending by the state has increased at over 190%. A part of this can be attributed to the upcoming assembly elections in the state which are scheduled later in the month.
2. Andhra Pradesh which had been at the forefront of capex spending in Q1FY24, has slipped a place and is currently lagging behind Telangana in terms of capex spending. Even so, it has seen a sharp 142% increase in capex in H1FY24. This translates to around 53.4% of the budgeted expenditure in FY24, compared with 22.3% of BE in H1FY23.



**HOLD**  
 TP: Rs 4,700 | ▲ 9%

**ABB INDIA**

| Capital Goods

| 09 November 2023

**Sprinting along**

- Robust quarter with revenue up 31% YoY and 590bps EBITDA margin expansion aided by the robotics and robotics segments
- Base order inflows grew 14% YoY despite a high comparable quarter; strong outlook given customers’ large investment lineup
- CY23/CY24 EPS raised 8%/5% and TP increased to Rs 4,700 (vs. Rs 4,400) on rollover; maintain HOLD

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**Robust quarter:** ABB reported a robust Q3CY23 (Y/E Dec) backed by a favourable product mix, efficient supply chain management and better pricing power. Revenue increased 31% YoY to Rs 27.7bn led by growth of 105% in robotics (to Rs 1.2bn), 11% in the motion division (Rs 9.8bn), 18% in electrification (Rs 10.4bn), and 93% in industrial automation (Rs 6.8bn). Gross and EBITDA margins expanded 190bps and 590bps YoY to 36.7% and 15.8% respectively on the back of lower raw material prices, better operating leverage and higher capacity utilisation. ABB has maintained a strong gross margin of over 34% in the last six quarters.

**Sustained strong outlook:** Order inflows stood at Rs 30bn, advancing 14% YoY in Q3CY23 and taking ABB’s order backlog to Rs 80bn. We note that management had earlier guided for 12-15% growth in order inflows for the year (from Rs 86bn in CY22), as many end-user segments are witnessing an upcycle in investments, along with ~Rs 23bn of base orders per quarter which is visible in the quarterly flows. For CY23, management had earlier guided for revenue of Rs 100bn, a gross margin of 35-37%, and PAT margin of 10%, which looks achievable given the company’s strong 9MCY23 performance.

**Focus on short-cycle orders aiding margins and cash flows:** The short-cycle business has been performing well across segments, which is both lifting margins and shoring up the cash balance. ABB’s current cash balance stands at Rs 43.6bn vs. Rs 40.9bn in the previous quarter, some of which is earmarked for potential acquisition targets, both global and local. Inorganic investments will be targeted towards digitalisation partnerships that enhance the core portfolio and drive value-add for customers, as well as growth in energy and energy-efficiency sectors.

**Maintain HOLD:** We raise our CY23/CY24 EPS estimates by 8%/5% given the strong margins and higher confidence of sustainability. We continue to value the stock at 70x P/E – in line with the 5Y mean – and roll valuations forward to Sep’25E. Along with estimate revision, this yields a higher TP of Rs 4,700 (vs. Rs 4,400). Positives appear priced in at current valuations and hence we retain HOLD.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	ABB IN/Rs 4,311
Market cap	US\$ 11.1bn
Free float	25%
3M ADV	US\$ 13.6mn
52wk high/low	Rs 4,678/Rs 2,640
Promoter/FPI/DII	75%/4%/9%

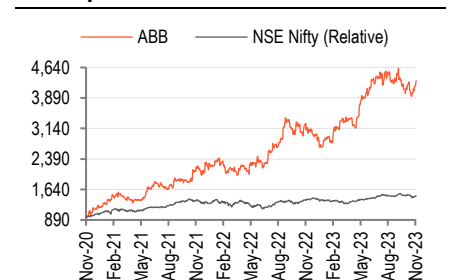
Source: NSE | Price as of 9 Nov 2023

**Key financials**

Y/E 31 Dec	CY22A	CY23E	CY24E
Total revenue (Rs mn)	85,675	1,07,745	1,29,144
EBITDA (Rs mn)	9,619	14,655	17,504
Adj. net profit (Rs mn)	6,864	11,567	13,739
Adj. EPS (Rs)	32.4	54.6	64.8
Consensus EPS (Rs)	32.4	51.6	62.5
Adj. ROAE (%)	15.3	21.4	21.2
Adj. P/E (x)	133.1	79.0	66.5
EV/EBITDA (x)	94.9	62.3	52.2
Adj. EPS growth (%)	54.8	68.5	18.8

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**SELL**

TP: Rs 661 | ▼ 35%

**THE RAMCO CEMENTS**

Cement

09 November 2023

**Quarterly respite, challenges may continue**

- New capacities buoyed Q2 volumes by 39% YoY but realisations slipped 5%
- Fuel cost-savings aid 680bps YoY EBITDA margin improvement to 17.1% off a low base
- FY24/FY25 EBITDA estimates raised 7%/10; maintain SELL with revised TP of Rs 661 (vs. Rs 585)

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**Volume-led topline growth:** TRCL's Q2FY24 revenue grew 33% YoY (+4% QoQ) to Rs 23.3bn as volumes surged 39% (+9% QoQ) to 4.6mn tonnes. The eastern region contributed 19% of volumes, lower than the 22%/21% levels seen in Q2FY23/Q1FY24 due to the wet season. Realisations contracted 5% YoY and QoQ to Rs 5,053/t on account of pricing pressure in southern markets.

**Cost pressure eases:** EBITDA doubled YoY (+17% QoQ) to ~Rs 4bn and the company's operating margin soared 680bps (+190bps QoQ) to 17.1% on a weak base and as costs declined. Overall cost/tonne moved down 13% YoY (-7% QoQ) to Rs 4,188/t as raw material-adjusted energy cost fell 18% YoY (-9% QoQ) to Rs 2,317/t due to lower fuel cost, and logistics cost also reduced to Rs 1,025/t. Consequently, EBITDA/t jumped 61% YoY (+8% QoQ) to Rs 843/t.

**Capacity expansion plans:** Commissioning timelines for TRCL's expansion projects are as follows – (i) Odisha grinding unit line II with 0.9mtpa of cement capacity: H2FY24; (ii) 3MW of waste heat recovery system capacity in Kurnool: Q2FY24 (commissioned); (iii) 18MW thermal power plant and rail siding at Kurnool: Q3FY24 and Q1FY25 respectively, and (iv) two dry mortar plant units in Andhra Pradesh and Odisha: Q3FY24. Management indicated that the next phase of expansion will begin with Kurnool line II (3mt cement, 2.25mt clinker). The company has already acquired limestone-bearing land in Andhra Pradesh and Karnataka to secure mining reserves.

**Valuations high; retain SELL:** TRCL is likely to see continued volume-led growth (Q2 capacity utilisation at 84%), albeit with tough pricing conditions. To factor in the higher volumes, we raise our FY24/FY25 EBITDA estimates by 8%/11%, leading to a higher TP of Rs 661 (vs. Rs 585). Despite this, current valuations of 14.5x FY25E EV/EBITDA look lofty given high gearing, single-digit return ratios and an unsteady margin profile. We maintain SELL, valuing the stock at an unchanged 10x FY25E EV/EBITDA multiple, implying a replacement cost of Rs 8.1bn/mt – a 10% premium to the industry average.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	TRCL IN/Rs 1,022
Market cap	US\$ 2.9bn
Free float	58%
3M ADV	US\$ 5.4mn
52wk high/low	Rs 1,040/Rs 634
Promoter/FPI/DII	42%/7%/32%

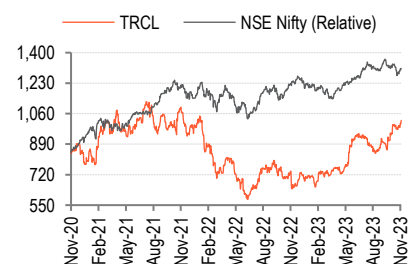
Source: NSE | Price as of 9 Nov 2023

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	81,004	97,124	1,11,386
EBITDA (Rs mn)	11,156	16,043	19,558
Adj. net profit (Rs mn)	3,435	5,863	7,992
Adj. EPS (Rs)	14.5	24.8	33.8
Consensus EPS (Rs)	14.5	26.0	36.5
Adj. ROAE (%)	5.2	8.3	10.4
Adj. P/E (x)	70.3	41.2	30.2
EV/EBITDA (x)	25.5	17.8	14.7
Adj. EPS growth (%)	(61.6)	70.7	36.3

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**BUY**  
 TP: Rs 250 | ▲ 19%

**POWER GRID CORP**

| Power

| 09 November 2023

**In-line quarter; FY24 capex ramped up**

- Q2 revenue/PAT in line at Rs 104bn/Rs 38bn; ramp up of FY24 capex target to Rs 100bn from Rs 88bn a key positive
- Large Rs 1.9tn capex pipeline, RTM asset base and lower interest costs remain core strengths
- Exhibits lowest risk profile in the power sector; retain BUY with unchanged TP of Rs 250

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**In-line quarter; FY24 capex ramped up:** PWGR posted flat consolidated Q2FY24 revenue of Rs 104bn and 5% YoY growth in PAT to Rs 37.9bn. Capex for the quarter stood at Rs 27.4bn and capitalisation at Rs 23.8bn, taking the FY24 YTD totals to Rs 42.5bn and Rs 40bn respectively. Management also increased its FY24 capex target from Rs 88bn to Rs 100bn, split equally between projects awarded under the regulated tariff mechanism (RTM) route and those awarded under tariff-based competitive bidding (TBCB).

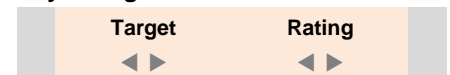
**Capex to move up from FY25 onwards:** Management has planned capex of Rs 125bn and capitalisation of Rs 170bn for FY25. Longer term, the company has a Rs 1.9tn capex plan for the next decade that includes Rs 1.7tn for transmission infrastructure, Rs 10bn for solar generation, Rs 150bn for smart metering infrastructure, and Rs 10bn for the data centre business. The Indian government has also approved the Rs 207bn green energy corridor project at Ladakh with a 40% grant, which should start around Q1FY26, taking the company's works in hand to a total of Rs 505bn.

**RTM projects lend a cash flow cushion:** PWGR has a monopoly in India's inter-state transmission system (ISTS) with a strong balance sheet to fall back on. The company has gross fixed assets of Rs 2.7tn, comprising mainly of regulated assets that generate consistent cash flows, allowing it to invest in various transmission projects. Regulated equity stood at Rs 820bn in H1FY24.

**Competitive edge in TBCB:** An AAA credit rating enables PWGR to enjoy low interest cost – a key lever in TBCB projects. The company typically averages a hefty 40% market share in TBCB awards that has swelled to 55% of projects awarded in the last 12 months. It has won five such projects in FY24 YTD, in addition to the 11 in hand.

**Maintain BUY:** We continue to value the stock at a P/B multiple of 2.1x on Sep'25E, ~30% premium to its 5Y mean, yielding an unchanged TP of Rs 250. We believe PWGR warrants this premium given its superior ROE of 15-19%, high 5.6% dividend yield in FY23 and lowest risk profile in the power sector – retain BUY.

**Key changes**



Ticker/Price	PWGR IN/Rs 210
Market cap	US\$ 23.7bn
Free float	49%
3M ADV	US\$ 31.2mn
52wk high/low	Rs 211/Rs 153
Promoter/FPI/DII	51%/33%/16%

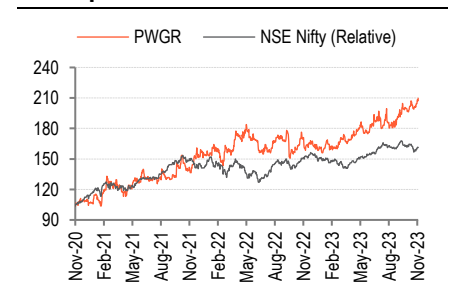
Source: NSE | Price as of 9 Nov 2023

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	4,33,431	4,73,050	5,16,573
EBITDA (Rs mn)	3,72,738	4,14,803	4,53,817
Adj. net profit (Rs mn)	1,53,330	1,46,278	1,81,403
Adj. EPS (Rs)	16.5	15.7	19.5
Consensus EPS (Rs)	16.5	15.6	16.8
Adj. ROAE (%)	19.3	16.8	18.8
Adj. P/E (x)	12.7	13.3	10.8
EV/EBITDA (x)	8.9	7.8	6.8
Adj. EPS growth (%)	(10.3)	(4.6)	24.0

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



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**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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