FIRST LIGHT

12 August 2024

RESEARCH

BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

Food inflation: breaker for rate cut

GUJARAT STATE PETRONET | TARGET: Rs 370 | +13% | HOLD

Transmission volume pick up not value accretive

ASTRAL | TARGET: Rs 2,200 | +8% | HOLD

Weak quarter; guidance downgrade across segment

SAIL | TARGET: Rs 110 | -15% | SELL

Discount to peers is not unjustified

SUMMARY

INDIA ECONOMICS: MONTHLY CHARTBOOK

Major high frequency indicators are giving mixed signals regarding domestic growth. For instance, while government spending, credit and deposit growth, air passenger traffic, port cargo volumes, are pointing towards a slowdown, at the same time, higher than normal rainfall activity and pickup in Kharif sowing is positive for consumption growth. RBI however still remains cautious of food inflation. In its latest statement, it revised the forecasts for Q2 and Q3 CPI upward by 60bps and 10bps, respectively. Growth forecast for Q1FY25 was revised lower. We remain slightly more optimistic about growth (7.3-7.4%), due to expected revival in rural demand and improvement in employment prospects, supported by initiatives announced in the Union Budget. Strong domestic fundamentals, along with inflows from JP Morgan EM index, will help support INR and keep yields also range bound.

Click here **for the full report.**

GUJARAT STATE PETRONET

- Q1 EBITDA was in line with consensus. Factoring in beat to our Q1 estimate and gas consumption pick up, we raise our FY25-26 estimates
- Core transmission value is now indifferent to pick up in volumes above normative utilisation as it will be adjusted at next tariff review
- Maintain HOLD with higher TP of Rs 370 with increase in market value of investment in GUJGA; holding discount on GUJGA value is key

Click here **for the full report.**

BOBCAPS Research
research@bobcaps.in

ASTRAL

- Strong pipe volume growth of 16.4% YoY in Q1FY25, but still lags closest peer SI for the tenth straight quarter
- Revenue and margin guidance downgrade across segments; capex cost raised again with no major change in capex plan for FY25
- Maintain HOLD on expensive valuations (trades at 76.5x on 1Y forward P/E vs 5Y average of 71.2x) with unchanged TP of Rs 2,200

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SAIL

- While SAIL clocked sequential improvement in 1Q, the performance fell short of consensus and our expectations
- Higher capital intensity for the new IISCO steel plant comes as a negative surprise and raises questions on its competitiveness
- Reiterate SELL with an unchanged TP of Rs 110. Likely to lag its peers in next wave of growth and faces the risk of a stretched balance sheet

Click here for the full report.

MONTHLY CHARTBOOK

09 August 2024

Food inflation: breaker for rate cut

Economic Research Department
Sonal Badhan | Aditi Gupta
Jahnavi | Dipanwita Mazumdar
Economist

Major high frequency indicators are giving mixed signals regarding domestic growth. For instance, while government spending, credit and deposit growth, air passenger traffic, port cargo volumes, are pointing towards a slowdown, at the same time, higher than normal rainfall activity and pickup in Kharif sowing is positive for consumption growth. RBI however still remains cautious of food inflation. In its latest statement, it revised the forecasts for Q2 and Q3 CPI upward by 60bps and 10bps, respectively. Growth forecast for Q1FY25 was revised lower. We remain slightly more optimistic about growth (7.3-7.4%), due to expected revival in rural demand and improvement in employment prospects, supported by initiatives announced in the Union Budget. Strong domestic fundamentals, along with inflows from JP Morgan EM index, will help support INR and keep yields also range bound.

Domestic demand: Strengthening of domestic demand has been evident through higher growth in non-oil-non-gold, electronic imports, auto sales and digital payments. However, slower growth in personal loan, credit card needs to be monitored. Morevover, RBI's consumer confidence has been marginally lower at 120.7 vs 124.8 in Jul'24. On monsoon, the ENSO neutral conditions will take some time before transitioning to La Nina. The above normal rainfall (7.3% above LPA) has resulted in higher acreage of Kharif crops.

Budget lowers FD target: In the budget announced for FY25, government lowered its fiscal deficit (% of GDP) target to 4.9% from 5.1% set in the interim budget. This will be helped by improvement in revenues (tax and non-tax), and without compromising on its expenditures (both revenue and capex) have seen a similar increase compared with FY24). In Q1FY25 (FYTD basis), centre's fiscal deficit ratio (% of GDP) eased considerably compared with last year. This was on account of sharp reduction in government spending as total expenditure was lower by (-) 7.7% compared with 10.8% increase as of Jun'23. Capex fell, while revenue spending rose. On income side, net revenue growth picked up sharply, led by jump in direct tax collections. Indirect tax collections was stable.

Yields southward: India's 10Y yield has fallen by 8bps in Jul'24 and by another 6bps till 8th Aug. The underlying global narrative supported a lower yield. Some volatility was noticed due to US and Japan's policy divergence. But most of the US macro indicators call for support in terms of lower borrowing cost. The quantum is still uncertain. Apart from the global rhetoric, domestic yields got support from surplus liquidity conditions and faster pace of frontloading by FPIs (debt) (US$ 2.7bn in Jul'24).

RESULT REVIEW

HOLD
TP: Rs 370 | ⮝ 13%

GUJARAT STATE PETRONET

| Oil & Gas | 10 August 2024

Transmission volume pick up not value accretive

- **Q1 EBITDA was in line with consensus. Factoring in beat to our Q1 estimate and gas consumption pick up, we raise our FY25-26 estimates**
- **Core transmission value is now indifferent to pick up in volumes above normative utilisation as it will be adjusted at next tariff review**
- **Maintain HOLD with higher TP of Rs 370 with increase in market value of investment in GUJGA; holding discount on GUJGA value is key**

Kirtan Mehta, CFA
research@bobcaps.in

Q1 ahead of our estimates: Adjusting for non-recurring inventory gain on system-use gas, GUJS Q1 EBITDA at Rs 2.9bn was in line with consensus but 30% ahead of our estimate. Volumes and blended tariff were higher than our prior forecasts.

Volume to moderate in Q2: With the increase in LNG prices above US$ 12/MMBtu, we already see pullback in LNG consumption. While GUJGA flagged on its earnings call that its Morbi industrial consumers had lowered gas usage to 2-2.5mmscmd from 5.25mmscmd in Q1, RIL has completely stopped usage of LNG. Power usage has also normalised with the onset of monsoon.

Further cut in blended tariff in Q2: Q1 blended tariff was down 36% QoQ as a result of a tariff cut for HP Gas grid effective from 1 May. We are likely to see further 15-20% QoQ cut in blended tariff in Q2 with a full quarter impact of the cut.

Raise estimates: Factoring in beat in Q1 and pick up in gas consumption, we raise FY25E/FY26E EBITDA by 19%/25%. After a 40% YoY cut in FY25E EBITDA on tariff cut, we build in a 6% CAGR over FY25-FY27E on volume growth.

Core transmission value not linked to profitability: We maintain the DCF-based value of the core transmission business at Rs 50/sh (WACC 11.1%), recognising (i) economic life only up to FY32/FY31 for HP/LP Gas grids and (ii) using cash flow and terminal value estimates used by the regulator. Any excess cash flow earned between two tariff reviews will be adjusted in present value terms at the next tariff review. Refer to our note **Decoding HP Gas grid tariff order**, published on 30 Apr.

Maintain HOLD: We raise our SOTP-based TP for GUJS to Rs 370 from Rs 335, factoring in the increase in value of investment in GUJGA at market value to Rs 283 (Rs 253) after applying a 30% holding discount. Given 13% upside, maintain HOLD.

A discount play on GUJGA: With only a modest residual fair value of core transmission business, GUJGA's value and the level of holding discount are the key drivers for GUJS now as this accounts for ~80% of GUJS's value.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	GUJS IN/Rs 327
Market cap	US$ 2.2bn
Free float	51%
3M ADV	US$ 6.0mn
52wk high/low	Rs 407/Rs 255
Promoter/FPI/DII	38%/16%/24%

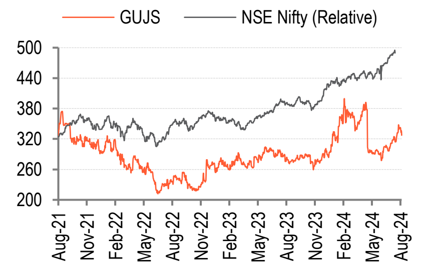
Source: NSE | Price as of 9 Aug 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	20,148	13,925	14,793
EBITDA (Rs mn)	14,875	8,829	9,309
Adj. net profit (Rs mn)	12,679	7,448	7,676
Adj. EPS (Rs)	22.5	13.2	13.6
Consensus EPS (Rs)	22.5	15.0	17.0
Adj. ROAE (%)	13.0	7.1	6.9
Adj. P/E (x)	14.6	24.8	24.1
EV/EBITDA (x)	12.2	20.3	19.3
Adj. EPS growth (%)	36.5	(41.3)	3.1

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

Stock performance



Source: NSE

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HOLD
TP: Rs 2,200 | ⮝ 8%

ASTRAL | Building Materials | 09 August 2024

Weak quarter; guidance downgrade across segment

- **Strong pipe volume growth of 16.4% YoY in Q1FY25, but still lags closest peer SI for the tenth straight quarter**
- **Revenue and margin guidance downgrade across segments; capex cost raised again with no major change in capex plan for FY25**
- **Maintain HOLD on expensive valuations (trades at 76.5x on 1Y forward P/E vs 5Y average of 71.2x) with unchanged TP of Rs 2,200**

Utkarsh Nopany
research@bobcaps.in

Weak quarter: ASTRA's Q1FY25 result came below our estimates (Revenue: -5.2%; EBITDA: -10.3%; APAT: -13.7%) due to lower-than-expected pipe volume (+16.4% YoY vs 20.0% estimated) and continued weak performance of SEAL IT and the paints business. Overall, ASTRA's revenue/EBITDA grew at a muted pace of 7.8%/6.3% YoY and APAT was flat (+0.4% YoY) due to sharp rise in capital charge.

Key highlights: ASTRA reported strong pipe volume growth of 16.4% YoY (5Y CAGR: +12.0%) in Q1FY25, but plumbing segment EBITDA grew at a modest pace of 11.8% YoY in Q1FY25 due to contraction in pipe EBITDA per unit (-4.4% YoY to Rs 31.0/kg). ASTRA's pipe volume growth lagged its major listed peer SI (+19.5% YoY) for the tenth consecutive quarter. Resinova's EBITDA grew by 14.8% YoY in Q1FY25 driven by higher revenue (+13.8%) along with slight improvement in EBITDA margin (+15bps YoY to 16.5%). The company's SEAL IT and paints business also posted weak performance for the sixth consecutive quarter.

Guidance downgrade: ASTRA has revised down its guidance for all its segments for FY25 – pipes volume to grow at 15%+ (15-20% earlier) with EBITDA margin of 16-18%; Resinova revenue to grow at 15-20% YoY (20% earlier) with EBITDA margin of 14-16%; SEAL IT revenue to grow at 8-10% rate with EBITDA margin of 8% (10% earlier); bathware revenue to be Rs 1.0bn-1.25 bn (Rs 1.25bn-1.50bn earlier); paint division to register healthy growth from Q3FY25 (earlier growth expectation of 62%-73% YoY for FY25). The company once again raised its capex guidance (from Rs 3.0bn to Rs 3.5bn for FY25) without any major change in the capex programme.

Maintain HOLD with unchanged TP of Rs 2,200: We expect ASTRA's EPS to grow at a strong 22% CAGR over FY24-FY27E. However, we maintain our HOLD rating on the stock due to expensive valuations (trades at 76.5x on 1Y forward P/E vs 5Y average of 71.2x). We have lowered our EPS estimates (-4.9%/-4.7% for FY25E/FY26E) based on the weak Q1FY25 result, but have kept our TP unchanged at Rs 2,200 as we roll forward our valuations from Mar'26 to Jun'26. Our target P/E remains unchanged at 70x.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ASTRA IN/Rs 2,031
Market cap	US$ 6.5bn
Free float	44%
3M ADV	US$ 16.5mn
52wk high/low	Rs 2,454/Rs 1,740
Promoter/FPI/DII	54%/22%/12%

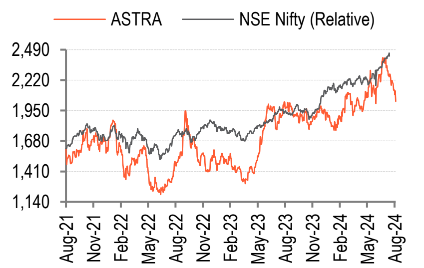
Source: NSE | Price as of 9 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	56,414	65,035	78,095
EBITDA (Rs mn)	9,247	11,002	13,394
Adj. net profit (Rs mn)	5,509	6,538	8,055
Adj. EPS (Rs)	20.5	24.3	29.9
Consensus EPS (Rs)	20.5	27.5	34.6
Adj. ROAE (%)	17.7	18.5	19.6
Adj. P/E (x)	99.2	83.6	67.8
EV/EBITDA (x)	59.7	50.2	41.3
Adj. EPS growth (%)	16.7	18.7	23.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

SELL
TP: Rs 110 | ⩔ 15%

SAIL | Metals & Mining | 10 August 2024

Discount to peers is not unjustified

- **While SAIL clocked sequential improvement in 1Q, the performance fell short of consensus and our expectations**
- **Higher capital intensity for the new IISCO steel plant comes as a negative surprise and raises questions on its competitiveness**
- **Reiterate SELL with an unchanged TP of Rs 110. Likely to lag its peers in next wave of growth and faces the risk of a stretched balance sheet**

Kirtan Mehta, CFA
research@bobcaps.in

Q1 missed consensus: SAIL's Q1FY25 EBITDA of Rs 22.2bn was 8% below consensus and 19% below our estimates. The miss to our estimate was due to EBITDAM being lower by Rs 1.2k/t. Net debt rose by Rs 51bn QoQ to Rs 414bn on the build-up of coking coal stocks ahead of mine shutdowns planned by vendor.

Q2 to face margin pullback: With a decline of Rs 2k-2.5k/t in blended realisation and flat coking coal costs (due to stocking up in Q1), SAIL's EBITDA margin is likely to decline in Q2. This would be partially offset by higher volumes with return of Bokaro Hot Strip Mill (HSP) from maintenance. The company is looking to increase sales from 17mt in FY24 to 19.26mt with liquidation of excess out of 1.8mt inventory.

High capital intensity for IISCO expansion: SAIL's guidance of Rs 370bn in project cost for a new 4mt steel plant at IISCO implies a capital intensity of Rs 92.5bn. This is significantly higher than the industry convention of Rs 70bn (US$ 850/t) for a greenfield plant and ~US$ 650/t for brownfield expansions by some of its peers. While SAIL has estimated IRR of 18% in the detailed feasibility report, higher capital intensity raises questions about the plant's competitiveness.

Increase in leverage: We reckon the company will begin its expansion drive at a net debt-to-EBITDA ratio of 2.6x if it succeeds in starting over in FY25. Given the limited scope for operational improvement in the existing set-up and heavy capex plan over FY27-FY28, we see increased risk of a stretched balance sheet.

To lag peers in next wave of growth: While SAIL is targeting >10mt of capacity increase over FY25-31, capex pick-up on the first 4mtpa IISCO plant is likely only from FY27. Even debottlenecking plan for 3-4mt addition is progressing slow.

Reiterate SELL: Factoring in Q1 miss, we lower FY25E EBITDA by 6% and now build in 9% CAGR over FY24-27E on the back of 5% ramp-up in sales. We maintain our TP of Rs 110 with an unchanged 1Y fwd EV/EBITDA target multiple of 5.5x. The multiple is at a discount to peers and reflects SAIL's weak profitability and pause in capex programme over the past three years. Given 15% downside, reiterate SELL.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SAIL IN/Rs 129
Market cap	US$ 6.4bn
Free float	35%
3M ADV	US$ 60.0mn
52wk high/low	Rs 175/Rs 82
Promoter/FPI/DII	65%/3%/16%

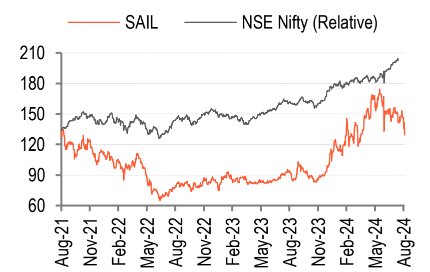
Source: NSE | Price as of 9 Aug 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs bn)	1,054	1,105	1,115
EBITDA (Rs bn)	111	116	138
Adj. net profit (Rs bn)	31	35	54
Adj. EPS (Rs)	7.4	8.4	13.2
Consensus EPS (Rs)	7.4	9.3	11.1
Adj. ROAE (%)	5.5	6.0	8.8
Adj. P/E (x)	17.4	15.3	9.8
EV/EBITDA (x)	6.9	7.4	6.3
Adj. EPS growth (%)	40.9	13.8	55.7

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

Stock performance



Source: NSE

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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