BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

12 October 2023

RESEARCH

BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

India's growth to get festive boost

METALS & MINING | Q2FY24 PREVIEW

Q2 to be a range-bound quarter

SIEMENS INDIA | TARGET: Rs 3,900 | +9% | HOLD

Innovation Day: Digitalisation key for manufacturing takeoff

SUMMARY

INDIA ECONOMICS: MONTHLY CHARTBOOK

India's growth story is expected to maintain its resilience led by festival demand. This is expected to pump up growth in this quarter. Inflationary concerns ebbed slightly as major price data showed signs of respite with vegetable prices correcting in Sep'23, as well as Oct'23. However, near term risks to inflation stem from uncertain geopolitical environment and its likely impact on oil prices and below normal rains. 10Y benchmark yield movement was striking in Oct'23 with 13bps jump (till 10Oct). Major sell-off was seen post monetary policy with RBI's announcement of OMO sales. Going forward, pressure on domestic yield would persist. Even INR has remained under pressure due to a global risk-off sentiment.

Click here for the full report.

METALS & MINING: Q2FY24 PREVIEW

- Sector EBITDA to remain range-bound with JSTL likely to retain momentum, TATA faltering in Europe and SAIL set to recover from Q1 weakness
- EBITDA forecast to stabilise at mid-cycle level in H2FY24 with seasonal demand uptick in Sep-Oct and potential production cap in China
- We remain constructive on Indian ferrous players given benefits from upcoming brownfield expansion; prefer TATA

Click here for the full report.

Daily macro indicators

Indicator	09-Oct	10-Oct	Chg (%)
US 10Y yield (%)	4.80	4.65	(15bps)
India 10Y yield (%)	7.38	7.35	(3bps)
USD/INR	83.27	83.25	0.0
Brent Crude (US$/bbl)	88.2	87.7	(0.6)
Dow	33,605	33,739	0.4
Hang Seng	17,517	17,665	0.8
Sensex	65,512	66,079	0.9
India FII (US$ mn)	**06-Oct**	**09-Oct**	**Chg ($ mn)**
FII-D	121.5	(58.5)	(179.9)
FII-E	32.5	92.8	60.3

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

SIEMENS INDIA

- SIEM has identified three broad trends in India: high public spending on infrastructure, pent-up private capex and rising decarbonisation
- Management believes digitalisation and automation will be key to India's becoming a global manufacturing hub
- SIEM retains a bullish outlook on domestic public and private capex in the medium term; we maintain HOLD, TP Rs 3,900 (unchanged)

Click here for the full report.

India's growth to get festive boost

India's growth story is expected to maintain its resilience led by festival demand. This is expected to pump up growth in this quarter. Inflationary concerns ebbed slightly as major price data showed signs of respite with vegetable prices correcting in Sep'23, as well as Oct'23. However, near term risks to inflation stem from uncertain geopolitical environment and its likely impact on oil prices and below normal rains. 10Y benchmark yield movement was striking in Oct'23 with 13bps jump (till 10Oct). Major sell-off was seen post monetary policy with RBI's announcement of OMO sales. Going forward, pressure on domestic yield would persist. Even INR has remained under pressure due to a global risk-off sentiment.

Domestic demand to remain buoyant: Domestic demand indicators are expected to improve in coming months on the back of festive demand. Service sector has been exhibiting strong growth as reflected by services PMI, pickup in vehicle registration and railway freight traffic. Consumers turned optimistic as reflected by RBI's consumer confidence (current index climbed to 4-month high) from 116.6 to 122.3. On the rural front, uneven distrution of rainfall has resulted in below normal rain this season. The erratic monsoon has resulted in lower reservoir levels which might be a challenge for winter crops. On the other hand, kharif sowing ended marginally higher while pulses sowing lagged behind.

Health of centre's finances: Fiscal deficit ratio (% of GDP, 12MMA basis) of the central government inched down to 6.4% as of Aug'23 from 7.1% as of Jul'23, led by steep revival in revenue receipts. On FYTD basis (Apr-Aug'23), centre's net revenue receipts rose by 24.1%, from 0.7% growth seen till Jul'23. This was driven by improvement in gross tax collections (16.5% versus 2.8%). Within this, direct tax receipts jumped by 26.6% (-1.1% as of Jul'23) and indirect tax collections were up by 7.8% (6.9%). On the other hand, spending momentum slowed (20.3% versus 52% as of Jul'23), led by both revenue (14.1% versus 15.9%) and capital expenditure (48.1% versus 52%). We expect spending momentum to pick up pace during festive and election months.

Pressure on India's 10Y yield: India's 10Y yield has risen by 5bps in Sep'23, the increase was far lower compared to major economies (US: +46bps, Germany: +37bps). However, the situation noticed quite a turn in Oct'23. With RBI's surprise announcement of OMO sale, pressure was felt directly on 10Y G-sec which has risen by 13bps. RBI's step was a direction towards managing core and transient liquidty. However, much depends on the actual amount of OMO sale. In the coming days we expect liquidity deficit in the range of 0.2-0.3% of NDTL to be the new normal. Upward pressure on India's 10Y yield also remains from global tightening of liquidity and higher oil prices.

INR depreciates to a record low: INR under pressure: A resurgence in dollar strength coupled with higher oil prices and FPI outflows, pushed USD/INR to a fresh record low in Sep'23. It has continued to remain under pressure even in Oct'23, even as dollar strength has abated. With escalating geo-polictical tensions in the middle-east, demand for safe-haven is likely to be higher implying pressure on riskier EM assets, including INR. RBI intervention is likely to support INR in the range of 83-83.35/$ in the near –term.

Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified

Economics Research Department
chief.economist@bankofbaroda.com

METALS & MINING | Q2FY24 Preview | 11 October 2023

Q2 to be a range-bound quarter

- **Sector EBITDA to remain range-bound with JSTL likely to retain momentum, TATA faltering in Europe and SAIL set to recover from Q1 weakness**
- **EBITDA forecast to stabilise at mid-cycle level in H2FY24 with seasonal demand uptick in Sep-Oct and potential production cap in China**
- **We remain constructive on Indian ferrous players given benefits from upcoming brownfield expansion; prefer TATA**

Kirtan Mehta, CFA | Yash Thakur
research@bobcaps.in

Expect range-bound EBITDA: We expect aggregate consolidated EBITDA for the four majors under our coverage to remain range-bound in Q2FY24 after a sharp pullback in Q1. JSTL is likely to maintain EBITDA momentum with continuing volume growth while TATA and JSP could see a QoQ reduction on weaker European operations and mean reversion respectively, and SAIL looks poised for recovery as volumes rebound after a weak Q1.

India operations likely below mid-cycle profitability: We continue to expect profitability of India operations to remain below mid-cycle levels. Amongst the four majors, we expect SAIL to post sequential improvement in EBITDA/t on sharper volume recovery than peers. On absolute EBITDA, SAIL is likely to post a sequential recovery, JSTL India could continue to show improvement through volume growth, and we expect TATA India to sustain its EBITDA revival of last quarter. JSP is forecast to post lower EBITDA amid a patchy monsoon season.

Margins to stabilise to mid-cycle level over H2: We continue to expect steel margins to stabilise at mid-cycle levels during H2FY24 as the demand-supply balance in China gradually improves with potential production cuts during Q4CY23. Stronger demand trends in India could also help steady margins.

Raw materials prices could ease in H2: Whereas iron ore prices have benefitted from a steel production uptick in China during September, coking coal prices have surged with slower supply ramp-up from Australia. As iron ore supply from both Australia and Brazil remains resilient, we believe production cuts in China could help prices retrace to US$ 100/t levels. For coking coal, stabilisation of Australian supply is essential to draw prices below US$ 250. China-led pressure on the seaborne coking coal market has significantly reduced.

Constructive on Indian ferrous sector: We are constructive on Indian ferrous players given earnings prospects from ongoing expansion but continue to see margins only at mid-cycle levels medium term. We have a BUY on TATA (TP Rs 155) and JSP (TP Rs 810).

Recommendation snapshot

Ticker	Price	Target	Rating
JSP IN	693	810	BUY
JSTL IN	777	845	HOLD
SAIL IN	89	90	HOLD
TATA IN	125	155	BUY

Price & Target in Rupees | Price as of 11 Oct 2023

HOLD
TP: Rs 3,900 | ⮝ 9%

SIEMENS INDIA | Capital Goods | 11 October 2023

Innovation Day: Digitalisation key for manufacturing takeoff

- **SIEM has identified three broad trends in India: high public spending on infrastructure, pent-up private capex and rising decarbonisation**
- **Management believes digitalisation and automation will be key to India's becoming a global manufacturing hub**
- **SIEM retains a bullish outlook on domestic public and private capex in the medium term; we maintain HOLD, TP Rs 3,900 (unchanged)**

Vinod Chari | Arshia Khosla
Swati Jhunjhunwala
research@bobcaps.in

We attended SIEM's Annual Innovation Day where the theme was 'Accelerate the Digital Transformation'. Following are the key takeaways:

Public spending inducing a knock-on effect: India has sustained its capex levels over the last decade through public spending. The government has budgeted for a 33% increase in capital outlay for FY24 to Rs 10tn, including rail expenditure of Rs 2.4tn and production-linked incentive (PLI) outlay of Rs 300bn, thereby creating a positive capex environment in the country.

Private capex expected to pick up: Capacity utilisation in the private sector has reached 75%, a level not seen in recent times. This is typically the point at which companies draw up capex plans. SIEM is seeing substantial on-ground interest from private companies and is optimistic that these enquiries will be converted to orders.

India to become a manufacturing hub: India has an ambitious long-term target of raising the share of manufacturing from the current 15% of GDP to 25%. This will entail capex of close to US$ 1tn in manufacturing, which will drive energy demand and, in turn, boost outlay on power generation and transmission.

Digitalisation key for efficiency: India's manufacturing efficiency is 75% vs. 99% for Europe, per SIEM. The company believes this gap can be bridged by automation and digitalisation across the manufacturing and supply chain, presenting a ripe market for digital products considering the country's ~60mn micro, small and medium enterprises.

Solar to lead India's decarbonisation efforts: India is a key country in global renewable energy targets, where RE is targeted to form 50% of the energy mix, coal-fired supply shrinks to 50% or less and gas-based power reduces to 10% from 25% by 2050. India is a natural solar market with 300 sunny days a year. Solar energy prices have fallen with lower module prices and the scale effect, which should sustain capex.

Maintain HOLD: We continue to value the stock at 52x Jun'25E EPS, in line with the 5Y average, for an unchanged TP of Rs 3,900. HOLD.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SIEM IN/Rs 3,591
Market cap	US$ 15.6bn
Free float	25%
3M ADV	US$ 16.3mn
52wk high/low	Rs 4,069/Rs 2,692
Promoter/FPI/DII	75%/5%/10%

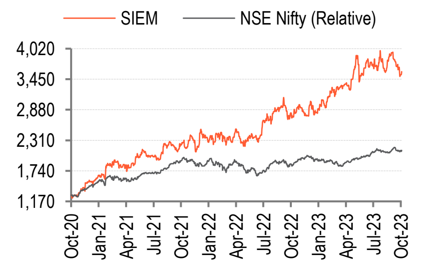
Source: NSE | Price as of 10 Oct 2023

Key financials

Y/E 30 Sep	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,61,378	1,92,754	2,28,441
EBITDA (Rs mn)	17,573	24,085	30,236
Adj. net profit (Rs mn)	12,619	17,740	22,803
Adj. EPS (Rs)	35.4	49.8	64.1
Consensus EPS (Rs)	35.4	53.0	63.4
Adj. ROAE (%)	11.5	14.4	16.5
Adj. P/E (x)	101.3	72.1	56.1
EV/EBITDA (x)	75.7	55.8	44.7
Adj. EPS growth (%)	22.5	40.6	28.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

Logo:

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "**Losses**") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd) ("**MSL**") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as **"MAYBANK**"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.