FIRST LIGHT

13 August 2024

RESEARCH

BOB ECONOMICS RESEARCH | CPI AND IIP

Inflation eases, IIP growth cools

STAR CEMENT | TARGET: Rs 205 | -4% | HOLD

Weak quarter; but performance to improve in medium term

HINDWARE HOME INNOVATION | TARGET: Rs 500 | +27% | BUY

Dismal quarter on muted demand and sales force rationalisation

JSW STEEL | TARGET: Rs 925 | +1% | HOLD

Access to prime coking coal in Australia at an attractive price

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SUMMARY

INDIA ECONOMICS: CPI AND IIP

CPI inflation eased to a 59-month low of 3.5% in Jul'24 from 5.1% in Jun'24, led by a favorable base. Food inflation eased on a YoY basis, even as the sequential momentum was upwards. Importantly, after witnessing a downward trend for the past few months, core inflation picked up to 3.4% in Jul'24 due to the hike in telecom tariffs. The outlook for food inflation is positive due to a pickup in rainfall activity across the country. High-frequency price data indicates a softening momentum in prices in Aug'24. Core inflation should also remain subdued given that global commodity prices have remained muted.

Click here for the full report.

STAR CEMENT

- Revenue stayed flat as volume fell marginally, and realisations remained flat YoY/QoQ at Rs 6,508/t
- EBITDA fell ~10% YoY to Rs 1.2bn as overall operating cost increased by ~2% YoY to Rs 5,502/t, which was a negative surprise
- We cut FY25/FY26 earnings estimates and introduce FY27 earnings. Maintain HOLD at 9x 1-year EV/EBITDA with TP of Rs 205 (from Rs 210)

Click here for the full report.

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HINDWARE HOME INNOVATION

- Dull Q1 on weak bathware performance due to muted demand environment and impact of sales force rationalisation
- EBITDA guided to grow at 20%+ CAGR over FY24-FY27E on demand recovery with healthy margin from H2FY25
- Maintain BUY; TP down by 17% to Rs 500 on sharp earnings downgrade post weak Q1 result

Click here **for the full report.**

JSW STEEL

- JSTL acquired access to Illawarra prime hard coking coal, equivalent to 7-9% of its hard coking coal requirements today for the next 14 years
- Acquisition is at an attractive entry price of US$ 15-16/t in NPV terms. JSTL will receive dividends in proportion to its 20% stake in operations
- We have a HOLD on JSTL with TP of Rs 925. We consider risk-reward unfavourable at near full valuation

Click here **for the full report.**

CPI AND IIP

12 August 2024

Inflation eases, IIP growth cools

Aditi Gupta | Sonal Badhan
Economist

CPI inflation eased to a 59-month low of 3.5% in Jul'24 from 5.1% in Jun'24, led by a favorable base. Food inflation eased on a YoY basis, even as the sequential momentum was upwards. Importantly, after witnessing a downward trend for the past few months, core inflation picked up to 3.4% in Jul'24 due to the hike in telecom tariffs. The outlook for food inflation is positive due to a pickup in rainfall activity across the country. High-frequency price data indicates a softening momentum in prices in Aug'24. Core inflation should also remain subdued given that global commodity prices have remained muted.

Risks however remain from an un-anchoring of household's inflation expectations. Overall, we continue to expect inflation in the range of 4.5%-5% in FY25. RBI is likely to be cautious and any move on rates will only be possible once it is sure that inflation has eased on a durable basis. We hence expect a rate cut only in Dec'24. Separately, IIP growth eased more than expected in Jun'24 as it came in at 4.2% from an upwardly revised 6.2% in May'24. This was due moderation in output seen in manufacturing and electricity. However in quarterly terms, IIP growth continues to hold ground with 5.2% growth, compared with 4.7% last year.

Favorable base pushes inflation lower

CPI inflation lower than estimate: CPI inflation moderated to 3.5% in Jul'24 (BoB estimate 3.8%), after inching up to a 3-month high of 5.1% in Jun'24. It must be noted that there was a significant base effect at play as inflation had increased by 7.4% in Jul'23. Food inflation eased significantly to 5.4% from 9.4% in Jun'24. This was led by a sharp moderation in prices of vegetables which increased at a much slower pace of 6.8% in Jul'24 compared with 29.3% in Jun'24. Much of the decline in this category can be attributed to base effect (37.4% in Jul'23), as vegetable prices were higher on a MoM basis. Fruit prices also moderated to 3.8% from 7.2% in Jun'24. Inflation in cereal items also decelerated to 8.1% from 8.8% in Jun'24, but remains high. Prices for pulses remained elevated and increased by 14.8% in Jul'24 after increasing by 16.1% in Jun'24. Inflation in this category has continued to register double-digit growth since Jun'23 amid a shortfall in domestic production. Upward momentum was visible in prices of eggs and meat and fish, while milk prices were broadly steady.

Core CPI (excl. food and fuel) inches up: Reversing a trend seen over the past few months, core inflation inched up to 3.4% in Jul'24 from 3.1% in Jun'24. The increase was led by acceleration in the transport and communication category which inched up to 2.5% in Jul'24 from 1% in Jun'24.

HOLD

TP: Rs 205 | ▼ 4%

STAR CEMENT | Cement | 12 August 2024

Weak quarter; but performance to improve in medium term

- **Revenue stayed flat as volume fell marginally, and realisations remained flat YoY/QoQ at Rs 6,508/t**
- **EBITDA fell ~10% YoY to Rs 1.2bn as overall operating cost increased by ~2% YoY to Rs 5,502/t, which was a negative surprise**
- **We cut FY25/FY26 earnings estimates and introduce FY27 earnings. Maintain HOLD at 9x 1-year EV/EBITDA with TP of Rs 205 (from Rs 210)**

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Revenue stayed flat amid flat realisations and volumes: STRCEM's revenue fell 1.2% YoY (down ~18% QoQ) to Rs 7.5bn in Q1FY25 as volume stayed flat (fell ~18% QoQ) at 1.15mnt. Northeast India volume was 74% and eastern India's volume contributed 24%. Realisations stayed flat YoY/QoQ at Rs 6,508/t (Rs 6,533/t in Q1FY24).

Fall in EBITDA as operating cost spikes: Operating cost jumped by ~2%/6% YoY/QoQ to Rs 5,502/t driven by inventory. Raw material-adjusted cost rose 14% YoY to Rs 1,477/t due to higher clinker purchase of Rs 300mn on clinker unit stabilisation. Logistic cost jumped by ~50% YoY to Rs 1,628/t due to higher clinker movement. Energy expenses fell by ~23% YoY to Rs 2,469/t (+~7% QoQ) due to softening fuel cost. Other expenditure rose by ~24% YoY to Rs 0.99bn due to non-recurring expenses of Rs 60mn. Effectively, EBITDA fell by ~10% YoY to ~Rs 1.2bn and EBITDA margin fell by 150bps to 15.5% from 17% in 1QFY24. EBITDA/t fell ~10% YoY to ~ Rs 1,006 in Q1FY25. Adj PAT fell sharply by 67% YoY to Rs 0.31bn on account of higher depreciation provision due to capacity expansion.

Capacity expansion plans: STRCEM expects WHRS to start from Oct'24 in two phases. The first phase of 6 megawatt (MW) will start in Oct'24 and in the second phase another 6MW will start from Nov'24. STRCEM plans to add a 2mnt grinding unit (GU) at Silchar (Assam) in Q3FY26 and another 2mnt in Jorhat by Q2FY26.

Growth prospects intact: Though we cut our FY25 EBITDA estimates sharply by 18% to factor in a weak 1H, we lower our FY26 estimates by 8% as the government's focus on infrastructure in STRCEM's core Northeast India market is likely to propel volumes. We introduce FY27 earnings forecasts with EBITDA/PAT three-year CAGR of 21%/23%. We assign 9x (unchanged) 1-year EV/EBITDA to the stock, which gives us a revised TP of Rs 205 (from Rs 210).

Upside capped, retain HOLD: Current valuations of 11x/9x FY26E/FY27E EV/EBITDA cap upside potential and, hence, we maintain our HOLD rating. Our TP implies replacement cost valuation of Rs 7.5bn/mnt – in line with the industry average.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	STRCEM IN/Rs 214
Market cap	US$ 1.1bn
Free float	33%
3M ADV	US$ 2.0mn
52wk high/low	Rs 256/Rs 147
Promoter/FPI/DII	67%/1%/6%

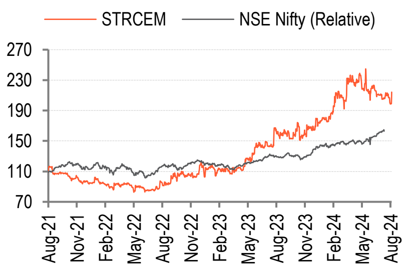
Source: NSE | Price as of 12 Aug 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	29,107	34,225	41,885
EBITDA (Rs mn)	5,563	6,309	8,161
Adj. net profit (Rs mn)	2,951	3,031	4,255
Adj. EPS (Rs)	7.0	7.2	10.1
Consensus EPS (Rs)	7.0	9.4	10.8
Adj. ROAE (%)	11.5	10.7	13.5
Adj. P/E (x)	30.4	29.6	21.1
EV/EBITDA (x)	16.2	14.3	10.9
Adj. EPS growth (%)	19.1	2.7	40.4

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

Stock performance



Source: NSE

BUY
TP: Rs 500 | ⮝ 27%

HINDWARE HOME INNOVATION

| Building Materials | 12 August 2024

Dismal quarter on muted demand and sales force rationalisation

- **Dull Q1 on weak bathware performance due to muted demand environment and impact of sales force rationalisation**
- **EBITDA guided to grow at 20%+ CAGR over FY24-FY27E on demand recovery with healthy margin from H2FY25**
- **Maintain BUY; TP down by 17% to Rs 500 on sharp earnings downgrade post weak Q1 result**

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Dismal quarter: HINDWARE's Q1FY25 result was significantly lower than our estimates (Revenue/EBITDA: -7%/-28%) due to the impact of the bathware segment's weak performance. Overall, the company's revenue/EBITDA degrew by 3.7%/31.2% YoY in Q1. The share of loss from associates rose from Rs 22mn in Q1FY24 to Rs 38.9mn in Q1FY25. HINDWARE had a loss of Rs 40mn in Q1FY25.

Key highlights: Bathware EBITDA was down by 31.4% YoY in Q1 driven by lower revenue (-9.9% YoY on muted demand and rationalisation of sales force by 25%) as well as sharp margin contraction (-399bps YoY to 12.8%). It appears that HINDWARE lost market share in Q1 due to the impact of sales force rationalisation. Despite higher volumes (+24.1% YoY), Pipe EBITDA grew by only 4.8% YoY in Q1 driven by weak realisation (-15.7%) and inferior mix. Consumer appliances EBITDA grew sharply by 114% YoY in Q1 on a low base. Net debt has gone up from Rs 8.5bn in Mar'24 to Rs 9.5bn in Jun'24.

Outlook: HINDWARE targets to grow its revenue by 15-20% CAGR and EBITDA by 20%+ CAGR over FY24-FY27E. Bathware inventories at the dealer level are quite high at present due to weak secondary demand (which is expected to improve from H2FY25). The company aims to grow its pipe volume by 16-18% (15-17% earlier) with low double-digit EBITDA margin in FY25. It raised capex guidance to Rs 1.7bn-1.8bn (from Rs 1.2bn-1.4bn) for FY25. The company plans to raise equity of Rs 2.05bn through a rights issue to deleverage its balance sheet.

Maintain BUY; TP cut by 17% to Rs 500: We maintain our BUY rating on the stock due to its strong earnings prospects (EBITDA/EPS to grow at 18%/76% CAGR over FY24-FY27E) and improvement in return ratio profile (ROE to improve from 4.8% in FY24 to 19.1% in FY27E). We have reduced our TP to Rs 500 (Rs 600 earlier) due to the downward revision of our EPS forecasts (-41.0%/-25.5% for FY25E/FY26E based on weak Q1). Our target P/E remains unchanged at 30x on Jun'26E. At CMP, the stock trades at 39.9x on 1Y forward P/E vs 5Y average of 47.7x.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HINDWARE IN/Rs 394
Market cap	US$ 339.1mn
Free float	49%
3M ADV	US$ 1.3mn
52wk high/low	Rs 615/Rs 315
Promoter/FPI/DII	51%/6%/7%

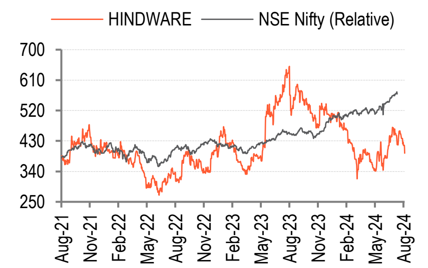
Source: NSE | Price as of 12 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	28,000	29,231	33,008
EBITDA (Rs mn)	2,377	2,580	3,314
Adj. net profit (Rs mn)	286	527	1,077
Adj. EPS (Rs)	4.0	7.3	14.9
Consensus EPS (Rs)	4.0	13.2	20.3
Adj. ROAE (%)	4.8	8.4	15.4
Adj. P/E (x)	99.6	54.0	26.4
EV/EBITDA (x)	10.3	8.1	6.2
Adj. EPS growth (%)	(50.2)	84.2	104.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 925 | ⮝ 1%

JSW STEEL | Metals & Mining | 12 August 2024

Access to prime coking coal in Australia at an attractive price

- **JSTL acquired access to Illawarra prime hard coking coal, equivalent to 7-9% of its hard coking coal requirements today for the next 14 years**
- **Acquisition is at an attractive entry price of US$ 15-16/t in NPV terms. JSTL will receive dividends in proportion to its 20% stake in operations**
- **We have a HOLD on JSTL with TP of Rs 925. We consider risk-reward unfavourable at near full valuation**

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Acquisition of equity interest in prime coking coal: JSTL effectively acquired a 20% stake in Illawarra Metallurgical Coal operations with the transaction's likely closure in Sep'24. JSTL will be making an upfront equity payment of US$ 120mn, a deferred payment of US$ 50mn in CY30 and price-linked contingent payments.

Back-to-back terms with original transaction: JSTL's acquisition terms are back-to-back with the original transaction agreement between the consortium of Golden Resources and M Resources with South 32. The total consideration represented ~7.2x the average annual free cash flow for Illawarra Metallurgical Coal.

Access to premium quality coking coal: JSTL will have effective equity interest in 1.3mtpa of prime hard coking coal (HCC) output for ~14 years or 18.5mtpa of reserves. Illawarra Metallurgical Coal mines have total marketable reserves of 99mt of prime hard coking coal as on Jun'23 and have produced on average 6.5mtpa over the past five years.

Effective low entry cost: Effective entry cost works out to US$ 15-16/t in levellised (present value) terms at a discount rate of 10% considering 1.3mtpa of coking coal for 14 years. Against this, JSTL will be entitled to dividends for its 20% stake.

Improving coking coal security: At a 35mt steel operation level, JSTL will require around 28mtpa of coking coal and 15-20mt of hard coking coal in the blend. This transaction gives access to ~7-9% of annual hard coking coal requirements. This is the second transaction carried out by JSTL to improve its coking coal security. Earlier JSTL acquired a pre-development mine in Mozambique with 270mt of prime HCC resources at an attractive EV of US$ 80mn plus closing adjustments.

Maintain HOLD: Despite optimistic estimates (refer note) and target 1Y fwd EV/EBITDA of 7.0x to allow for multiple expansion during the early recovery phase, our TP of Rs 925 yields just 1% upside. With higher target net debt to EBITDA threshold of 3.75x, JSTL is more vulnerable than its peers to any change in cyclical outlook. We consider risk-reward unfavourable and maintain HOLD.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	JSTL IN/Rs 917
Market cap	US$ 26.7bn
Free float	40%
3M ADV	US$ 26.4mn
52wk high/low	Rs 959/Rs 723
Promoter/FPI/DII	45%/11%/11%

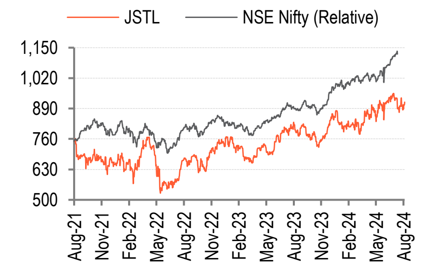
Source: NSE | Price as of 12 Aug 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs bn)	1,750	1,910	2,059
EBITDA (Rs bn)	282	339	392
Adj. net profit (Rs bn)	88	129	161
Adj. EPS (Rs)	36.0	52.9	65.9
Consensus EPS (Rs)	36.0	55.3	71.3
Adj. ROAE (%)	12.3	15.6	16.9
Adj. P/E (x)	25.5	17.3	13.9
EV/EBITDA (x)	5.9	4.6	3.8
Adj. EPS growth (%)	110.2	46.8	24.6

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

Stock performance



Source: NSE

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BUY – Expected return >+15%

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Note: Recommendation structure changed with effect from 21 June 2021

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