FIRST LIGHT

14 August 2024

RESEARCH

CERA SANITARYWARE | TARGET: Rs 9,000 | -9% | SELL

Another lacklustre quarter on soft demand

VST TILLERS TRACTORS | TARGET: Rs 3,295 | -17% | SELL

Weakness persists; downgrade to SELL

BOB ECONOMICS RESEARCH | MONSOON UPDATE

Monsoon and Sowing progress

SUMMARY

CERA SANITARYWARE

- Dull Q1 due to weak demand environment on account of the extreme heatwave and impact of general elections across India
- CRS maintains its revenue growth guidance of 16% CAGR over FY24-FY27 in anticipation of demand recovery from Q3FY25
- Downgrade to SELL on expensive valuations; raise TP by 17% to Rs 9,000

Click here **for the full report.**

VST TILLERS TRACTORS

- Q1 revenue fell ~23% YoY to Rs 1.9bn, dragged by lower volume at 7.38k units and down by ~30% YoY due to weak overall activity
- EBITDA fell 57.8% YoY to Rs 134mn driven by weak volume and revenue growth. Margin fell to single digits
- We cut FY25/FY26 estimates, introduce FY27 earnings. We raise TP to Rs 3,347, valuing it at 20x P/E 1Y forward earnings. Downgrade to SELL

Click here **for the full report.**

BOBCAPS Research
research@bobcaps.in

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda
Important disclosures and analyst certifications are provided at the end of the report.

INDIA ECONOMICS: MONSOON UPDATE

Rainfall is currently 6% above the LPA till 12 Aug 2024. Some slowdown in pace has been noted in the 2nd week of Aug'24 with cumulative rainfall at 75.8mm between 5 and 12 Aug 2024, compared with 83.7mm between 29 Jul and 4 Aug. Between 1 Jun and 12 Aug 2024, out of 36 sub-divisions, 30 (83% of the country) have received normal or above normal rainfall so far and 9 states are in the deficient zone. Region-wise, Southern peninsula (+22%) and Central region (+15%) continue to record excess rainfall, while North West (-2%) and East & North East (-10%) regions still report deficient rainfall.

Click here for the full report.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 9,000 | ▼ 9%

CERA SANITARYWARE | Building Materials | 13 August 2024

Another lacklustre quarter on soft demand

- **Dull Q1 due to weak demand environment on account of the extreme heatwave and impact of general elections across India**
- **CRS maintains its revenue growth guidance of 16% CAGR over FY24-FY27 in anticipation of demand recovery from Q3FY25**
- **Downgrade to SELL on expensive valuations; raise TP by 17% to Rs 9,000**

Utkarsh Nopany
research@bobcaps.in

Weak quarter: CRS's Q1FY25 result was below our estimates due to lower-than-expected revenue (-6.6% YoY vs +6.7% estimated) on account of weak demand conditions. CRS's gross margin was relatively flat at 54.8% in Q1FY25, but EBITDA margin fell sharply by 192bps YoY to 14.5% due to higher discounts offered to dealers and negative operating leverage. Overall, CRS's APAT was down 16.4% YoY, but it has grown at a healthy 21% rate on a 5Y CAGR basis in Q1FY25.

Key highlights: Product-wise, sanitaryware/faucet/tiles revenue degrew by 9%/5%/20% YoY, but wellness revenue grew by 16% YoY in Q1FY25. Blended gas consumption cost per unit fell 6.7% YoY/3.0% QoQ in Q1FY25. Advertisement spend as a percentage of sales was up 30bps YoY to 2.9% in Q1FY25. Net cash position improved from Rs 7.9bn in Mar'24 to Rs 8.6bn in Jun'24.

Guidance intact: While CRS expects the demand environment to remain weak in Q2FY25, it has maintained its revenue growth guidance of 16% CAGR over FY24-FY27 on expectation of single-digit growth in FY25 and higher growth in FY26 and FY27. Management is seeing signs of uptick in project sales from Jun'24 and expects retail sales to gain momentum from Q3FY25. CRS expects its EBITDA margin to be 16-17% for the remaining 9MFY25 and it is likely to further improve over the medium term. The land acquisition for the proposed greenfield sanitaryware unit is expected to be completed by Sep-Oct'24 (vs Jun-Jul'24) and then it would take another 18 months to complete the project at a cost of Rs 1.25bn-1.3bn.

Downgrade to SELL; raise TP by 17% to Rs 9,000: We downgrade our rating on the stock from HOLD to SELL due to (a) no concrete plan to use the rising cash balance for growth capex purposes; and (b) expensive valuations (trades at 49.7x on 1Y forward P/E vs the 5Y average of 33.6x). We have reduced our EPS estimates (-6.9%/-3.1% for FY25E/FY26E) based on the weak Q1FY25 result, but we have raised our TP to Rs 9,000 (Rs 7,700 earlier) due to the increase in our target P/E (from 35x to 40x) and roll forward our valuation from Mar'26 to Jun'26.

Key changes

Target	Rating
▲	▼

Ticker/Price	CRS IN/Rs 9,880
Market cap	US$ 1.5bn
Free float	46%
3M ADV	US$ 4.4mn
52wk high/low	Rs 10,790/Rs 6,591
Promoter/FPI/DII	54%/21%/7%

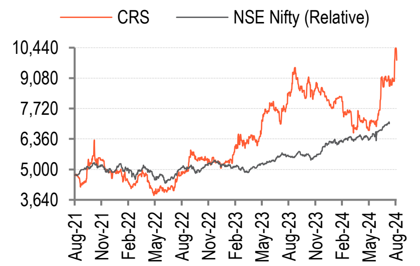
Source: NSE | Price as of 13 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	18,794	19,864	22,072
EBITDA (Rs mn)	3,033	3,065	3,532
Adj. net profit (Rs mn)	2,402	2,451	2,773
Adj. EPS (Rs)	184.7	188.5	213.2
Consensus EPS (Rs)	184.7	202.8	234.3
Adj. ROAE (%)	18.9	17.0	17.1
Adj. P/E (x)	53.5	52.4	46.3
EV/EBITDA (x)	44.3	44.3	38.7
Adj. EPS growth (%)	12.3	2.1	13.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

SELL
TP: Rs 3,295 | ∀ 17%

VST TILLERS TRACTORS | Automobiles | 13 August 2024

Weakness persists; downgrade to SELL

- **Q1 revenue fell ~23% YoY to Rs 1.9bn, dragged by lower volume at 7.38k units and down by ~30% YoY due to weak overall activity**
- **EBITDA fell 57.8% YoY to Rs 134mn driven by weak volume and revenue growth. Margin fell to single digits**
- **We cut FY25/FY26 estimates, introduce FY27 earnings. We raise TP to Rs 3,347, valuing it at 20x P/E 1Y forward earnings. Downgrade to SELL**

Milind Raginwar
research@bobcaps.in

Weak volumes drag revenue growth: VSTT's Q1FY25 revenue fell ~23% YoY to Rs 1.9bn, dragged by volume falling by ~30% YoY to ~7.4k units due to weather conditions and general elections that halted subsidy schemes in Q1FY25. Volumes fell 33% YoY to ~6.1k units for Power Tiller and 12% YoY to ~1.3k units for Tractor. Revenue from the Smart Farm Machines (SFM) segment was Rs 1bn, Tractor segment Rs 0.6bn and distribution & others Rs 0.28bn in Q1FY25. Net realisation per vehicle grew 11% YoY to Rs 258.4k. Management guided for 15% volume growth for tractors and tillers in FY25.

Muted topline keeps EBITDA under pressure: The raw material cost (adjusted for inventory) fell by ~23% YoY (down ~30% QoQ) helping gross margin to stay at ~31.9%, vs 31.6%, up 30bps YoY. Other expenditure at 12% of sales vs 9.5% YoY (10.3% QoQ) was ~Rs 221mn and employee expenses at 13.3% pulled down EBITDA by ~57.8% YoY (-66.4% QoQ) to ~Rs 134mn. EBITDA margin fell sharply to 7.0%, down ~586bps YoY (-750 bps QoQ). Effectively, APAT fell by ~31% YoY to ~Rs 229mn vs ~Rs 330mn in 1QFY24 (-34.9% QoQ) .

Focus on higher HP and compact segment: VSTT is working to expand in the dealers' network and enter Uttar Pradesh and Rajasthan. VSTT expects Zetor tractor volume to gain size over the next two years as expanding pan India will be gradual. Zetor exports are yet to kickstart but management expects this in Q3FY25.

Downgrade to SELL: Factoring in weak performance in H1FY25 and the likelihood of a steady revival, we cut our FY25/FY26 EPS estimates by 5%/2%. We introduce FY27 earnings modelling for revenue/EBITDA/PAT CAGR of 10%/11%/9% over FY24-FY27E. We continue to value VSTT at 20x P/E 1-year forward earnings and arrive at a new TP of Rs 3,347 (from Rs 3,167). VSTT's performance has disappointed despite its focus on the high-end farm equipment business, sizeable contribution from non-farm business and regional diversification. The early response to Zetor has been muted and, hence, a pan-India presence will be delayed, in our view. We believe the recent run up in valuation is decoupled with earnings and, hence, unjustified. We downgrade the stock to SELL from HOLD rating.

Key changes

Target	Rating
▲	▼

Ticker/Price	VSTT IN/Rs 3,994
Market cap	US$ 413.8mn
Free float	45%
3M ADV	US$ 0.7mn
52wk high/low	Rs 4,392/Rs 2,975
Promoter/FPI/DII	55%/5%/15%

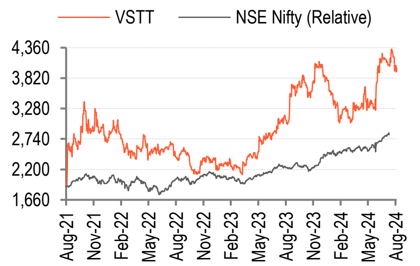
Source: NSE | Price as of 13 Aug 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	9,681	10,328	11,687
EBITDA (Rs mn)	1,242	1,276	1,465
Adj. net profit (Rs mn)	1,215	1,176	1,370
Adj. EPS (Rs)	140.6	136.1	158.5
Consensus EPS (Rs)	140.6	144.6	166.6
Adj. ROAE (%)	13.1	11.4	11.9
Adj. P/E (x)	28.4	29.3	25.2
EV/EBITDA (x)	27.9	26.9	23.4
Adj. EPS growth (%)	31.6	(3.2)	16.4

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

Stock performance



Source: NSE

MONSOON UPDATE

13 August 2024

Monsoon and Sowing progress

Sonal Badhan
Economist

Rainfall is currently 6% above the LPA till 12 Aug 2024. Some slowdown in pace has been noted in the 2nd week of Aug'24 with cumulative rainfall at 75.8mm between 5 and 12 Aug 2024, compared with 83.7mm between 29 Jul and 4 Aug. Between 1 Jun and 12 Aug 2024, out of 36 sub-divisions, 30 (83% of the country) have received normal or above normal rainfall so far and 9 states are in the deficient zone. Region-wise, Southern peninsula (+22%) and Central region (+15%) continue to record excess rainfall, while North West (-2%) and East & North East (-10%) regions still report deficient rainfall.

Supported by higher than normal rainfall, there has been slight improvement in the sown area (+1.4% YoY), with higher acreage of pulses, paddy, oilseeds, sugarcane and coarse cereals compared with last year. With few weeks of sowing season remaining, distribution of rainfall continues to remains a critical factor for farming activity. So far, only sugarcane's sowing has exceeded the normal area acreage.

Where does Kharif sowing stand?

As of 12 Aug 2024, overall sown area has improved by 1.4% compared with last year.

- Barring Jute and cotton, total sown area of other crops has inched up further. Most notable increase is visible in pulses (6.7%) and paddy (4.3%).
- Within pulses, rise in acreage of Arhar (15.8%), Moong bean (9.7%) and other pulses (2.4%), led to jump in the headline number.
- In contrast, Kulthi, Moth and Urdbean continue to record a decline.
- Oilseeds have also registered 0.8% increase in sown area. Within this, sown area of Soybean, Groundnut, Sunflower and Niger rose further, while that of Sesamum, Castor and other oilseeds declined.
- Amongst other major sub-heads, sown area of coarse cereals (1%) and Sugarcane (1%) also rose.
- Within Coarse Cereals, sown area of crops such as Maize, Jowar, and small millets inched up, while that of Bajra and Ragi continues to decline.
- Sown area of jute & Mesta was down by (-) 9.2% and that of Cotton fell by (-) 8.9% compared with last year.

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.