BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

14 February 2024

RESEARCH

SIEMENS INDIA | TARGET: Rs 4,900 | +16% | BUY

Strong topline, margins waver

EICHER MOTORS | TARGET: Rs 4,045 | +5% | HOLD

Launch momentum continues

AUROBINDO PHARMA | TARGET: Rs 1,100 | +7% | HOLD

Strong margin uptick

CERA SANITARYWARE | TARGET: Rs 7,700 | +2% | HOLD

Weak quarter on soft demand, marketing expense

HINDWARE HOME INNOVATION | TARGET: Rs 600 | +40% | BUY

Tough quarter but outlook healthy

POWER

CERC draft tariff norms: Balancing risk-reward

POWER | Q3FY24 REVIEW

Spotlight on capacity additions

Daily macro indicators

Indicator	09-Feb	12-Feb	Chg (%)
US 10Y yield (%)	4.18	4.18	0bps
India 10Y yield (%)	7.11	7.09	(1bps)
USD/INR	83.03	83.00	0.0
Brent Crude (US$/bbl)	82.2	82.0	(0.2)
Dow	38,726	38,797	0.2
Hang Seng	15,878	15,747	(0.8)
Sensex	71,428	71,072	(0.5)
India FII (US$ mn)	**08-Feb**	**09-Feb**	**Chg ($ mn)**
FII-D	319.9	(84.3)	(404.2)
FII-E	(487.5)	39.8	527.3

Source: Bank of Baroda Economics Research

SUMMARY

SIEMENS INDIA

- Robust December quarter order flows and revenue, though margins contracted due to weakness in digital industries segment
- Order book remains strong at Rs 467bn and management reiterated its positive outlook on the capex cycle
- FY24/FY25 EPS raised by 5% each, leading to a new TP of Rs 4,900 (from Rs 4,600) – maintain BUY

Click here for the full report.

BOBCAPS Research
research@bobcaps.in

EICHER MOTORS

- Q3 revenue grew 13% YoY driven by 10% higher realisations from a better product mix; volume growth muted
- Launched high-end motorcycles Himalayan 450 in India (Q3) and Shotgun 650 in UK and Europe (Jan) to counter competition
- FY24/FY25 EPS raised 6%/3%; our SOTP-based TP increases to Rs 4,045 (from Rs 3,601) on rollover – maintain HOLD

Click here **for the full report.**

AUROBINDO PHARMA

- Q3 EBITDA/PAT surged 68%/90% YoY led by growth in US/EM revenue and ~700bps jump in operating margin
- gRevlimid launch and lower price erosion supported US growth; global/ US Eugia sales healthy at US$ 150mn/US$ 112mn
- TP raised to Rs 1,100 (vs. Rs 880) on 11-16% increase in FY24-FY25 EBITDA estimates and rollover; retain HOLD

Click here **for the full report.**

CERA SANITARYWARE

- Q3 EBITDA fell 18% YoY and missed our estimate by 28% on subdued demand and higher brand & sales promotion expense
- Management sees demand blip as temporary and expects improvement over next two quarters due to uptick in real estate cycle
- TP cut by 5% to Rs 7,700 on 5-6% reduction in our EPS estimates for FY24-FY26; maintain HOLD

Click here **for the full report.**

HINDWARE HOME INNOVATION

- EBITDA fell 35% short of our estimate due to tepid demand climate and steep margin compression across segments
- Management guiding for sharp operating margin expansion from 8.6% in FY23 to 13-14% over the next two years
- TP cut to Rs 600 (vs. Rs 700) on 13% reduction in our EPS estimates for FY25 and FY26; maintain BUY

Click here **for the full report.**

POWER

- New draft tariff norms ensure stability of existing power assets and recognise risk-reward across asset classes
- Proposals are positive for hydro projects and clearly aimed at boosting storage capacity for renewable RTC power
- PSU utilities still offer valuation comfort; we maintain BUY on NTPC and PWGR while TPW remains at HOLD

Click here for the full report.

POWER: Q3FY24 REVIEW

- Q3 in line with flattish revenue growth YoY and healthy operational performance across our coverage universe
- Transmission capex plans hiked, NTPC remains aggressive on capacity additions, and benign gas price hits profitability for TPW
- NTPC and PWGR remain our preferred picks on strong growth plans; TPW still rated HOLD due to full valuations

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BUY
TP: Rs 4,900 | ⮝ 16%

SIEMENS INDIA | Capital Goods | 13 February 2024

Strong topline, margins waver

- **Robust December quarter order flows and revenue, though margins contracted due to weakness in digital industries segment**
- **Order book remains strong at Rs 467bn and management reiterated its positive outlook on the capex cycle**
- **FY24/FY25 EPS raised by 5% each, leading to a new TP of Rs 4,900 (from Rs 4,600) – maintain BUY**

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

Topline shines: SIEM reported strong Q1FY24 (Y/E Sep) topline growth of 20% YoY to Rs 48.2bn backed by a broad-based performance across segments, barring energy, with smart infrastructure up 22%, mobility 72% and digital industries 24%. The company received order inflows of Rs 59.7bn during the quarter led by the energy segment and closed Q1 at ~Rs 467bn. The digital industries segment saw fewer orders, which management expects will revive in the June quarter.

Margins contract: Gross/EBITDA margins declined by 140bps/260bps YoY to 32.1%/12.4% as the digital industries and energy segments saw EBIT margins contracting by 12ppt and 60bps YoY respectively, offsetting gains in smart infrastructure (190bps) and mobility (400bps). Adj. PAT for the quarter grew 9% to Rs 5.1bn.

Positive outlook on capex cycle: SIEM remains positive on the capex cycle. As outlined in its FY23 annual report, the company believes India has made progress towards becoming a global manufacturing hub and stands to gain as a stable destination for manufacturing and business. It believes elections in 2024 may cause a momentary pause in tendering for large projects but will not disrupt the long-term growth trajectory.

Hive-off proposals key to watch: SIEM's plan to sell its low-voltage (LV) motors business for Rs 22bn has been rejected by minority shareholders, leaving it with two options – revise the sale consideration or continue to run the business as is. Another proposal that will be closely monitored by investors is the planned demerger of the energy business by FY25. These two actions remain key for the stock.

Maintain BUY: SIEM's base business remains strong and enjoys a robust outlook as diverse customer segments enable the company to play the capex cycle. We raise our FY24/FY25 EPS estimates by 5% each to bake in the quarterly print, leading to a higher TP of Rs 4,900 (from Rs 4,600). We maintain our BUY rating and continue to value the stock at 52x Dec'25E P/E, in line with the 5Y mean.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SIEM IN/Rs 4,218
Market cap	US$ 18.3bn
Free float	25%
3M ADV	US$ 16.4mn
52wk high/low	Rs 4,359/Rs 3,078
Promoter/FPI/DII	75%/5%/10%

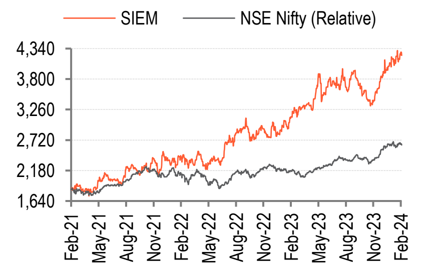
Source: NSE | Price as of 12 Feb 2024

Key financials

Y/E 30 Sep	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,95,538	2,32,804	2,81,775
EBITDA (Rs mn)	24,872	31,635	39,042
Adj. net profit (Rs mn)	19,619	25,598	31,484
Adj. EPS (Rs)	55.1	71.9	88.4
Consensus EPS (Rs)	55.1	63.4	77.0
Adj. ROAE (%)	15.9	18.1	19.1
Adj. P/E (x)	76.5	58.7	47.7
EV/EBITDA (x)	63.0	49.9	40.7
Adj. EPS growth (%)	55.5	30.5	23.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 4,045 | ▲ 5%

EICHER MOTORS | Automobiles | 13 February 2024

Launch momentum continues

- **Q3 revenue grew 13% YoY driven by 10% higher realisations from a better product mix; volume growth muted**
- **Launched high-end motorcycles Himalayan 450 in India (Q3) and Shotgun 650 in UK and Europe (Jan) to counter competition**
- **FY24/FY25 EPS raised 6%/3%; our SOTP-based TP increases to Rs 4,045 (from Rs 3,601) on rollover – maintain HOLD**

Milind Raginwar | Shree Kirloskar
research@bobcaps.in

Higher realisations lift revenue: EIM's Q3FY24 standalone revenue grew 13%/3% YoY/QoQ to Rs 40.5bn backed by realisation gains of 10%/4% YoY/QoQ to Rs 177.8k per motorcycle, as newly launched products enhanced the pricing mix. Volume growth was muted at 3% YoY (flat QoQ) to ~228k units.

Lower input cost and better mix enhance margins: Gross margin expanded by 445bps YoY (-65bps QoQ) to 46.1% owing to lower inventory-adjusted raw material cost at 53.9% of sales (-445bps/+67bps YoY/QoQ) and a better mix. Other expenses increased 18%/3% YoY/QoQ to Rs 4.7bn due to launch marketing spend. EBITDA grew 30%/2% YoY/QoQ to Rs 11.1bn, accompanied by 365bps YoY margin expansion to 27.5% (-42bps QoQ).

CV segment continues to revive: EIM has gained market share across its commercial vehicle sub-segments. During Q3, it launched the HD Non-Stop Pro 6000 series (Tipper – Pro 6019XPT, Haulage truck – Pro 6048XP, Tractor trucks – Pro 6055XP and Pro 6055XP 4x2), commenced delivery of an electric 5.5T truck, and unveiled EIM's entry into the small commercial vehicle (SCV) range at the Bharat Mobility Global Expo held in January.

New launches to counter competition: In the Royal Enfield business, EIM launched *Himalayan 450* in India during the quarter (~6.5k unit sales YTD) and *Shotgun 650* in the UK and European markets in January (March launch in India) – both high-end motorcycle models to tackle the fierce competition.

Maintain HOLD: We increase our FY24/FY25 EBITDA estimates by 7%/3% and PAT by 6%/3% to factor in the introduction of high-end variants, a better product mix and easing costs. Introducing our FY26 forecasts, we pencil in a revenue/EBITDA/ PAT CAGR of 11%/15%/18% for the company over FY23-FY26. We value EIM at an unchanged 25x P/E multiple – a 5% discount to the long-term average – and roll valuations over to FY26E for a revised SOTP-based TP of Rs 4,045 (vs. Rs 3,601) that includes Rs 150/sh for VECV. Our new TP carries only 5% upside to the current price and hence we retain HOLD.

Key changes

Target	Rating
▲	◄►

Ticker/Price	EIM IN/Rs 3,854
Market cap	US$ 12.8bn
Free float	51%
3M ADV	US$ 31.6mn
52wk high/low	Rs 4,200/Rs 2,836
Promoter/FPI/DII	49%/30%/9%

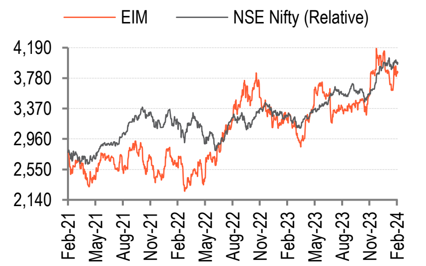
Source: NSE | Price as of 13 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,40,666	1,58,246	1,73,561
EBITDA (Rs mn)	33,935	42,518	47,176
Adj. net profit (Rs mn)	26,388	34,924	39,012
Adj. EPS (Rs)	96.1	127.4	142.3
Consensus EPS (Rs)	96.1	130.0	143.0
Adj. ROAE (%)	20.5	22.3	20.7
Adj. P/E (x)	40.1	30.3	27.1
EV/EBITDA (x)	29.8	25.0	22.3
Adj. EPS growth (%)	65.3	32.5	11.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 1,100 | ⮝ 7%

AUROBINDO PHARMA | Pharmaceuticals | 13 February 2024

Strong margin uptick

- **Q3 EBITDA/PAT surged 68%/90% YoY led by growth in US/EM revenue and ~700bps jump in operating margin**
- **gRevlimid launch and lower price erosion supported US growth; global/ US Eugia sales healthy at US$ 150mn/US$ 112mn**
- **TP raised to Rs 1,100 (vs. Rs 880) on 11-16% increase in FY24-FY25 EBITDA estimates and rollover; retain HOLD**

Saad Shaikh
research@bobcaps.in

Stable base, gRevlimid launch boosted US growth: ARBP's Q3FY24 revenue was largely in line with Bloomberg consensus, but a strong margin uptick drove a 7% beat on earnings, which grew 91%/24% YoY/QoQ. Growth was led by an increase of 25%/9% YoY/QoQ CC in US revenue to US$ 456mn (including Puerto Rico), supported by volume gains, a stable demand environment and product launches (notably gRevlimid), along with neutral price erosion. Eugia sales globally and in the US grew 18% QoQ to US$ 150mn and 23% to US$ 112mn respectively. Closure of Eugia-III plant production is guided to have a ~US$ 20mn impact in Q4FY24, though ARBP expects global Eugia and gRevlimid sales to ensure strong growth momentum.

Strong performance in growth markets; ARV sales fall: Growth markets, which include India sales of Rs 600mn, reported a strong 26% YoY rise in revenue, marked by traction across countries. Europe business was largely flat (+2% YoY) due to an adverse one-time clawback tax impact of ~US$ 14mn.

Robust margins: In keeping with the general industry trend, where companies have reported abating US price erosion coupled with moderating raw material prices, ARBP saw these benefits reflecting in gross/EBITDA margin expansion of 255bps/690bps YoY to 57.1%/21.8% in Q3 (55.5%/19.4% in 9MFY24).

Earnings call highlights: (1) ARBP's Pen-G plant is due to start operations in Q1FY25, with half of the output meant for captive consumption. (2) Subsidiary CuraTeQ Biologics has signed a letter of intent (LOI) with US-based biopharma major MSD to create infrastructure for biologics. (3) The injectables portfolio witnessed low single-digit pricing erosion in Q3. (4) The tax clawback impacted quarterly revenue and EBITDA margin in Europe.

Maintain HOLD, TP revised to Rs 1,100: We raise FY24/FY25 EBITDA estimates 16%/11% to build in the 9M outperformance, while introducing FY26 forecasts in this report. On rolling forward to FY26E valuations, our TP rises to Rs 1,100 (vs. Rs 880), based on an unchanged 9x EV/EBITDA multiple – in line with the stock's 5Y average. We maintain HOLD as current valuations offer low upside potential.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	ARBP IN/Rs 1,026
Market cap	US$ 7.3bn
Free float	48%
3M ADV	US$ 35.1mn
52wk high/low	Rs 1,177/Rs 445
Promoter/FPI/DII	52%/24%/16%

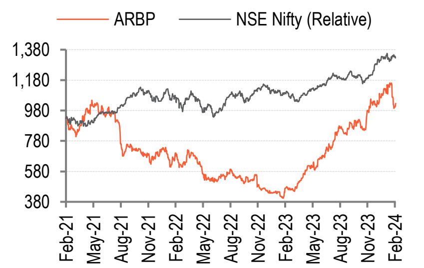
Source: NSE | Price as of 13 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	248,554	286,848	311,278
EBITDA (Rs mn)	37,582	56,831	61,986
Adj. net profit (Rs mn)	20,018	32,294	35,151
Adj. EPS (Rs)	34.2	55.1	60.0
Consensus EPS (Rs)	34.2	53.1	63.6
Adj. ROAE (%)	7.8	11.5	11.3
Adj. P/E (x)	30.0	18.6	17.1
EV/EBITDA (x)	15.8	10.4	9.4
Adj. EPS growth (%)	(26.0)	61.3	8.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 7,700 | 2%

CERA SANITARYWARE | Building Materials | 13 February 2024

Weak quarter on soft demand, marketing expense

- **Q3 EBITDA fell 18% YoY and missed our estimate by 28% on subdued demand and higher brand & sales promotion expense**
- **Management sees demand blip as temporary and expects improvement over next two quarters due to uptick in real estate cycle**
- **TP cut by 5% to Rs 7,700 on 5-6% reduction in our EPS estimates for FY24-FY26; maintain HOLD**

Utkarsh Nopany
research@bobcaps.in

Weak quarter: CRS's revenue/EBITDA/PAT fell by 4%/18%/10% YoY in Q3FY24. The company missed our EBITDA estimate by 28% due to below-expected revenue growth (-4% vs. +11% estimated) and a weak EBITDA margin (-240bps YoY to 14% vs. 16.8% estimated) that stemmed from higher brand spend (+120bps) and an increase in sales promotion expense (+70bps). However, on a 4Y CAGR basis, revenue/EBITDA grew 7.8%/8.2% in Q3.

Key highlights: CRS appears to have lost market share as it posted inferior bathware revenue growth (-3.1% YoY) compared to HINDWARE (+5.6%) for the quarter. Its sanitaryware revenue fell 8% YoY whereas faucet revenue grew 5%.

Demand guided to improve: Management believes that the slowdown in demand over the past three months (November-January) is temporary in nature and expects a pickup over the next couple of quarters, supported by an uptick in real estate activity.

Greenfield unit in land acquisition phase: For the greenfield sanitaryware unit in Gujarat, CRS acquired 75% of the land bank in Jan'24 and expects to buy the remainder by June. Thereafter, it aims to start construction and complete the project over 18 months at a cost of Rs 1.25bn-1.3bn, funded from internal accruals.

Maintain HOLD, TP cut by 5%: CRS is currently trading at 36.5x on 1Y forward P/E vs. the 5Y average of 32.1x. We reiterate HOLD due to the company's poor capital allocation (high cash balance of Rs 7.6bn as of Dec'23 with no concrete usage plan) and expensive valuations. Our TP stands reduced to Rs 7,700 (from Rs 8,100) following a 5-6% cut in our FY24-FY26 EPS estimates as we factor in the weak Q3 result. Our target P/E remains unchanged at 35x on Sep'25E EPS – a slight premium to the stock's historical multiple due to the rerating of valuation multiples across building materials stocks over the past few months.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	CRS IN/Rs 7,535
Market cap	US$ 1.2bn
Free float	46%
3M ADV	US$ 1.6mn
52wk high/low	Rs 9,740/Rs 5,873
Promoter/FPI/DII	54%/21%/8%

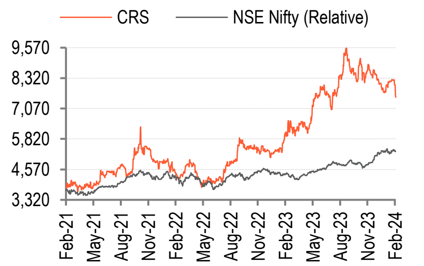
Source: NSE | Price as of 13 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	18,035	19,034	21,122
EBITDA (Rs mn)	2,939	3,048	3,419
Adj. net profit (Rs mn)	2,138	2,432	2,708
Adj. EPS (Rs)	164.4	187.0	208.2
Consensus EPS (Rs)	164.4	199.0	234.7
Adj. ROAE (%)	19.3	19.2	18.7
Adj. P/E (x)	45.8	40.3	36.2
EV/EBITDA (x)	34.9	34.1	30.7
Adj. EPS growth (%)	35.4	13.8	11.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 600 | ⮝ 40%

HINDWARE HOME INNOVATION

| Building Materials | 13 February 2024

Tough quarter but outlook healthy

- **EBITDA fell 35% short of our estimate due to tepid demand climate and steep margin compression across segments**
- **Management guiding for sharp operating margin expansion from 8.6% in FY23 to 13-14% over the next two years**
- **TP cut to Rs 600 (vs. Rs 700) on 13% reduction in our EPS estimates for FY25 and FY26; maintain BUY**

Utkarsh Nopany
research@bobcaps.in

Weak Q3: HINDWARE missed our estimates on all counts in Q3FY24, with revenue/EBITDA/adj. PAT coming in 11%/35%/79% below expectations, due to a tepid demand environment and sharp margin compression across segments. Revenue for the quarter fell 3% YoY, but EBITDA grew 2% off a low base.

Poor performance across segments: HINDWARE reported better revenue growth (+5.6% YoY) compared to CRS (-3.1%) for the bathware segment in Q3. However, its bathware EBITDA margin fell sharply by 255bps QoQ to 13.6% owing to higher advertising spend. Plastic pipe volumes declined 3% YoY and segment EBITDA margin dropped 310bps QoQ to 7.7% following a steep decline in resin prices. Consumer appliance revenue declined 5% YoY and operating loss has risen sequentially as the company exited non-performing product categories.

Margin guidance intact: Management believes demand conditions could remain challenging ahead of India's general elections. The company expects consolidated revenue to grow 15-17% and EBITDA margin to improve sharply to 13-14% over the next two years. CRS retained guidance of expanding bathware EBITDA margin to 18% over two years, with plastic pipe volumes targeted to grow at more than 15% and the segmental margin improving to 10-12%. Management also expects the consumer segment to fare better over the next 2-3 quarters due to rationalisation of the product portfolio. The company plans to exit the loss-making retail business soon.

Maintain BUY, TP cut 14%: We reduce FY24/FY25/FY26 EPS estimates for CRS by 36%/13%/13% to account for the disappointing quarter. Even so, we still expect the company to clock a robust EPS CAGR of 48.8% over FY23-FY26. This coupled with reasonable valuations leads us to maintain our BUY rating. The stock is trading at 26.5x on 1Y forward P/E vs. its historical average of 33.6x. We value CRS at an unchanged P/E multiple of 30x on Sep'25E EPS – close to its historical average – and have a revised TP of Rs 600 (Rs 700 earlier) following estimate changes.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	HINDWARE IN/Rs 430
Market cap	US$ 378.1mn
Free float	49%
3M ADV	US$ 0.7mn
52wk high/low	Rs 664/Rs 325
Promoter/FPI/DII	51%/7%/9%

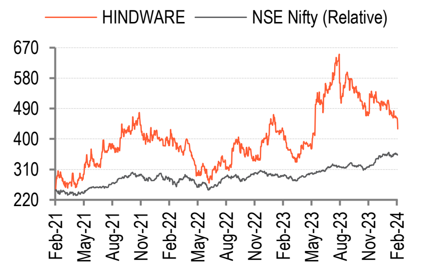
Source: NSE | Price as of 13 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	28,733	27,862	30,693
EBITDA (Rs mn)	2,469	2,622	3,510
Adj. net profit (Rs mn)	574	492	1,220
Adj. EPS (Rs)	7.9	6.8	16.9
Consensus EPS (Rs)	7.9	18.1	28.1
Adj. ROAE (%)	10.4	8.1	17.8
Adj. P/E (x)	54.1	63.2	25.5
EV/EBITDA (x)	12.1	10.3	6.9
Adj. EPS growth (%)	(51.8)	(14.4)	148.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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POWER

13 February 2024

CERC draft tariff norms: Balancing risk-reward

- **New draft tariff norms ensure stability of existing power assets and recognise risk-reward across asset classes**
- **Proposals are positive for hydro projects and clearly aimed at boosting storage capacity for renewable RTC power**
- **PSU utilities still offer valuation comfort; we maintain BUY on NTPC and PWGR while TPW remains at HOLD**

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

New norms signal policy stability: The new draft tariff norms released by the Central Electricity Regulatory Commission (CERC) for the period FY25-FY29 ensures the stability of existing power assets by keeping their regulated returns unchanged. It also recognises risk-reward across power asset classes by proposing additional returns for pumped and storage-based hydro projects while marginally lowering returns for transmission assets.

Boost to hydro power: The proposed tariff guidelines maintain 15.5% ROE for thermal generation stations over FY25-FY29, in line with current norms (FY19-FY24). CERC has given a fillip to hydro-based power by hiking ROE 50bps to 17% for storage-based hydro plants as well as pumped storage hydro plants (PSHP). This is clearly aimed at driving investments for storage capacity as PSHP is a viable solution to make renewable power available round the clock (RTC). On the transmission side, CERC has marginally reduced regulated ROE by 50bps to 15%.

Coverage stocks likely to be largely unaffected: We expect the new proposals to have little impact on our coverage universe as the regulated ROE on NTPC and TPW's generating assets remains the same, whereas PWGR could see a marginal negative impact as the bulk of its new capex is earmarked for tariff-based competitive bidding (TBCB).

Public utilities still offer valuation comfort…: Power stocks have rallied in the past three months, with the BSE Power index up ~50% and both public and private sector utilities showing strong gains. However, the valuation gap between the two is still 60%, with the average TTM P/B of major private players at 3.2x vs. 2.1x for PSUs. This gap rises to ~100% if we exclude CESC which has been a relative underperformer. Given their pedigree and track record, we see no reason why NTPC and PWGR should not enjoy valuations closer to private sector peers.

…NTPC and PWGR remain our top picks: The valuation comfort in PSU stocks leads us to retain our BUY ratings on NTPC (TP Rs 370) and PWGR (TP Rs 320) – our top picks in the utilities space.

Recommendation snapshot

Ticker	Price	Target	Rating
NTPC IN	316	370	BUY
PWGR IN	270	320	BUY
TPW IN	1,131	1,140	HOLD

Price & Target in Rupees | Price as of 12 Feb 2024

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POWER | Q3FY24 Review | 13 February 2024

Spotlight on capacity additions

- **Q3 in line with flattish revenue growth YoY and healthy operational performance across our coverage universe**
- **Transmission capex plans hiked, NTPC remains aggressive on capacity additions, and benign gas price hits profitability for TPW**
- **NTPC and PWGR remain our preferred picks on strong growth plans; TPW still rated HOLD due to full valuations**

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

In-line quarter: Q3FY24 was an in-line quarter with strong plant load factors (PLF) for power generation companies, loss reduction in distribution businesses, and healthy growth for transmission companies.

NTPC reiterates thrust on capacity addition: Renewable energy and hydropower now account for 3.4GW and 3.7GW respectively of NTPC's total 73.9GW capacity. The company plans to add 20GW of renewable capacity by FY27 and a further 40GW by FY32. For FY24, capex is budgeted at Rs 284bn on a consolidated basis and Rs 225bn standalone (~76% incurred in 9M). Management has also identified 14GW of pumped hydro capacity to be executed over 6-9 years. In thermal energy, it has 10GW of projects under construction and expects to award 16.8GW by FY27, in line with the Indian government's target of ~88GW of thermal capacity addition by FY32.

PWGR raises capex outlay: PWGR has planned for capex of Rs 150bn (Rs 125bn earlier) and capitalisation of Rs 170bn in FY25. Beyond this, it has a Rs 2.1tn (Rs 1.9tn earlier) capex plan for the next decade that includes Rs 1.9tn (Rs 1.7tn earlier) for transmission infrastructure, Rs 10bn for solar generation, Rs 150bn for smart metering infrastructure, and Rs 10bn for the data centre business. As the pace of battery-related storage systems is yet to pick up as much as previously anticipated, the scope for transmission capex has increased.

TPW's gas profits winding down: TPW had a slow December quarter as the benefits of gas trading began diminishing with steadier LNG prices. Operational performance held strong as generation grew 62% YoY, DGEN clocked a decent PLF, and T&D losses reduced. The company has aggressive plans on the renewable front, but we expect profitability to be lower until newer projects materialise.

Prefer NTPC, PWGR: We maintain our preference for NTPC (BUY, TP Rs 370) and PWGR (BUY, TP Rs 320) as they continue to ramp up capex plans. Although TPW (HOLD, TP Rs 1,140) is a well-run utility, valuations look full and we would wait for a better entry point for investment.

Recommendation snapshot

Ticker	Price	Target	Rating
NTPC IN	316	370	BUY
PWGR IN	270	320	BUY
TPW IN	1,131	1,140	HOLD

Price & Target in Rupees | Price as of 12 Feb 2024

Power: Q3 result reviews

Company	Result review link
NTPC IN	Normal quarter, aggressive expansion; maintain BUY
PWGR IN	In-line quarter, FY25 capex hiked; maintain BUY
TPW IN	Dull quarter; high valuations – maintain HOLD

Source: BOBCAPS Research

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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**
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HOLD – Expected return from -6% to +15%

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Note: Recommendation structure changed with effect from 21 June 2021

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