BOBCAPS
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FIRST LIGHT

16 May 2024

RESEARCH

SIEMENS INDIA | TARGET: Rs 7,700 | +16% | BUY

Robust quarter, fresh capex announced

DIXON TECHNOLOGIES | TARGET: Rs 9,400 | +16% | BUY

Backward integration to fuel growth; maintain BUY

VST TILLERS TRACTORS | TARGET: Rs 3,167 | -6% | HOLD

Tepid performance; no major stress in the medium term

SOMANY CERAMICS | TARGET: Rs 900 | +45% | BUY

Strong show in a challenging environment

Daily macro indicators

Indicator	13-May	14-May	Chg (%)
US 10Y yield (%)	4.49	4.44	(5bps)
India 10Y yield (%)	7.12	7.11	(1bps)
USD/INR	83.53	83.51	0.0
Brent Crude (US$/bbl)	83.4	82.4	(1.2)
Dow	39,432	39,558	0.3
Hang Seng	19,115	19,074	(0.2)
Sensex	72,776	73,105	0.5
India FII (US$ mn)	**10-May**	**13-May**	**Chg ($ mn)**
FII-D	69.6	(113.1)	(182.7)
FII-E	(154.8)	(525.9)	(371.1)

Source: Bank of Baroda Economics Research

SUMMARY

SIEMENS INDIA

- Topline growth strong at 18.4% in Q2, with gross margin expanding 100bps and EBITDAM 250bps YoY
- Company announced more capex of Rs 5.2bn after the Rs 5bn capex announced in Nov; energy business to be demerged
- We increase FY24E/FY25E EPS by 10% each to bake in a strong quarter; raise SIEM's valuation to 73x Mar'26E P/E and TP to Rs 7,700

Click here **for the full report.**

DIXON TECHNOLOGIES

- Q4 revenue jumped 52% YoY, driven by mobile and EMS growth; EBITDA margin down 120bps on input cost hike
- Management upbeat about growth, especially in the mobile segment, comprising about half of total revenue
- FY25E/26E EPS up by 5%/18% to bake in strong FY24, and raise target P/E to 60x on strong return ratios; TP raised to Rs 9,400

Click here **for the full report.**

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VST TILLERS TRACTORS

- Q4 revenue down 15% YoY driven by 19% volume decline due to slower-than-estimated rural demand recovery
- Weak topline and volumes resulted in 230bps YoY EBITDA margin contraction to 14.6%
- We lower our FY25E/FY26E earnings by 1%/2% and cut TP to Rs 3,167 (vs. Rs 3,213), valuing it at 20x P/E FY26E earnings. Maintain HOLD

Click here for the full report.

SOMANY CERAMICS

- Beats our revenue/EBITDA estimate by 5%/14% due to better-than-expected tiles volume and improved margin
- Expect near-term pain but positive medium-term outlook on completion of large capex programme
- Maintain BUY with unchanged TP of Rs 900 on strong earnings growth prospects and reasonable valuations

Click here for the full report.

RESULT REVIEW

BUY
TP: Rs 7,700 | ⅄ 16%

SIEMENS INDIA | Capital Goods | 15 May 2024

Robust quarter, fresh capex announced

- **Topline growth strong at 18.4% in Q2, with gross margin expanding 100bps and EBITDAM 250bps YoY**
- **Company announced more capex of Rs 5.2bn after the Rs 5bn capex announced in Nov; energy business to be demerged**
- **We increase FY24E/FY25E EPS by 10% each to bake in a strong quarter; raise SIEM's valuation to 73x Mar'26E P/E and TP to Rs 7,700**

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Robust quarter: SIEM had a very healthy quarter with topline growth of 18.4% to Rs 57.5bn in Q2. Gross margin rose 100bps YoY to 32.5% and EBITDA margin 250bps YoY to 15.3%. Adjusted PAT was strong at Rs 8bn, up 70% YoY. The company secured orders worth Rs 51.8bn, with a closing order book of ~Rs 462bn at the end of Q2. SIEM performed well across all segments, with topline growth and EBIT margin expansion across all its segments.

Rs 10bn capex in pipeline: SIEM announced two new capacity expansions, largely to cater to export demand for blue gas insulator systems (GIS) and for turnkey metro solutions. These expansions will be commissioned in phases over the next four years, and entail a requirement of Rs 5.2bn capex, to be funded through internal accruals. This is in addition to the Rs 5bn capex SIEM announced in Nov'23, to augment its transformers and vacuum interrupters capacities.

Energy business to be demerged: The company's board has approved the demerger of SIEM's Energy business into a new entity called Siemens Energy India (SEIL), which is expected to be listed after due process. This is expected to be complete by Dec'25, after all approvals are received. Post the conclusion of the demerger, the parent companies will have an identical shareholding in SIEM and SEIL. Siemens India's shareholders will receive 1 share of SEIL per SIEM share held. The energy business grew 5.3% on topline during the quarter, with an EBIT margin of 13.7%, a 230bps expansion YoY. The business had a healthy order book of Rs 97bn at the end of Q2FY24.

Maintain BUY: SIEM is benefiting from structural tailwinds in its digitalisation and automation businesses, as well as the traction mobility segment. The company is also well positioned to harness opportunities from the green energy transition. 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 10% each to bake in the quarterly print, leading to a higher TP of Rs 7,700 (from Rs 4,900). We maintain our BUY rating and value the stock at 73x Mar'26E P/E (52x earlier), a 20% premium to the 3Y mean.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SIEM IN/Rs 6,660
Market cap	US$ 28.9bn
Free float	25%
3M ADV	US$ 21.1mn
52wk high/low	Rs 6,702/Rs 3,246
Promoter/FPI/DII	75%/5%/10%

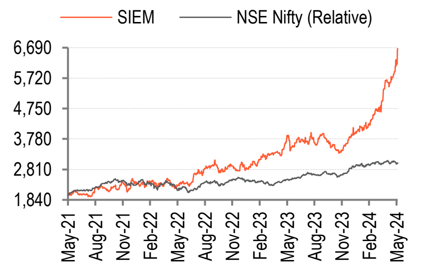
Source: NSE | Price as of 14 May 2024

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	34,428	42,262
Adj. net profit (Rs mn)	19,619	28,146	34,626
Adj. EPS (Rs)	55.1	79.1	97.3
Consensus EPS (Rs)	55.1	65.2	77.4
Adj. ROAE (%)	15.9	19.8	20.6
Adj. P/E (x)	120.9	84.2	68.5
EV/EBITDA (x)	98.0	71.1	58.3
Adj. EPS growth (%)	55.5	43.5	23.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BUY
TP: Rs 9,400 | ⮝ 16%

DIXON TECHNOLOGIES | Consumer Durables | 16 May 2024

Backward integration to fuel growth; maintain BUY

- **Q4 revenue jumped 52% YoY, driven by mobile and EMS growth; EBITDA margin down 120bps on input cost hike**
- **Management upbeat about growth, especially in the mobile segment, comprising about half of total revenue**
- **FY25E/26E EPS up by 5%/18% to bake in strong FY24, and raise target P/E to 60x on strong return ratios; TP raised to Rs 9,400**

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Sturdy quarter: In Q4FY24, Dixon witnessed robust 52% YoY growth in its topline, reaching Rs 46.5bn, driven by a 119% increase in the mobiles and EMS segment, which amounted to Rs 30.9bn. However, despite strong revenue growth, the EBITDA margin contracted by 120bps YoY to 3.9%, primarily due to increased input costs. Nonetheless, the company's PAT showed resilience, growing by 18% to reach Rs 952mn. Management remains optimistic about growth prospects across verticals, particularly the mobile segment, which contributes 50% to the topline. FY24 revenue grew 45% YoY to Rs 176.9bn.

Favourable performance: Dixon's ROE increased 280bps YoY to 25.2% and ROCE by 460bps to 38% in FY24. Anticipating the future, management expects to uphold these performance indicators through concentrated efforts to boost profitability, optimise working capital and augment asset turnover, especially in the mobile and IT hardware sectors.

Backward integration to enhance growth: In sync with its integration plan, Dixon maximises capacity and meets mold requirements. Amid rising demand, it is expanding its Noida facility and ramping up mass production for telecom, GPU, routers, and Android set-top boxes. Launching the pilot production for Airtel's 5G devices, it anticipates full-scale production by Jun-Jul. Securing a deal with Nokia further strengthens Dixon's position. Having met Production Linked Incentive (PLI) thresholds, Dixon targets growth, particularly in smartphones. Incremental investments drive expansion, prioritising enhanced manufacturing capabilities for global brands.

Promising prospects: Buoyed by the robust Q4FY24 performance and bolstered by more compelling guidance, we raise our EPS estimates by 5% for FY25 and by 18% for FY26. Anticipating widespread consensus upgrades, we increase our P/E to 60x (from 55x). We roll forward our valuations to Mar'26E, and raise our TP to Rs 9,400 (from Rs 6,900). Dixon emerges as the pre-eminent player in the EMS sector, reinforcing our recommendation to maintain a BUY rating.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DIXON IN/Rs 8,103
Market cap	US$ 5.9bn
Free float	66%
3M ADV	US$ 32.5mn
52wk high/low	Rs 8,655/Rs 2,906
Promoter/FPI/DII	34%/12%/24%

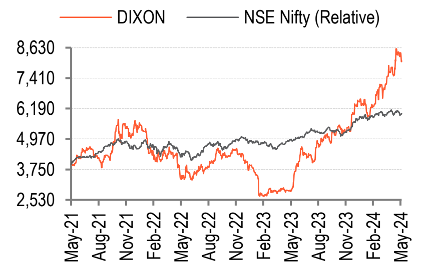
Source: NSE | Price as of 15 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	176,909	269,183	364,820
EBITDA (Rs mn)	6,976	11,454	15,576
Adj. net profit (Rs mn)	3,678	6,348	9,372
Adj. EPS (Rs)	61.8	106.6	157.4
Consensus EPS (Rs)	61.8	107.0	145.0
Adj. ROAE (%)	24.7	31.6	33.7
Adj. P/E (x)	131.2	76.0	51.5
EV/EBITDA (x)	69.2	42.1	31.0
Adj. EPS growth (%)	43.9	72.6	47.7

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

Stock performance



Source: NSE

HOLD
TP: Rs 3,167 | ▼ 6%

VST TILLERS TRACTORS | Automobiles | 15 May 2024

Tepid performance; no major stress in the medium term

- **Q4 revenue down 15% YoY driven by 19% volume decline due to slower-than-estimated rural demand recovery**
- **Weak topline and volumes resulted in 230bps YoY EBITDA margin contraction to 14.6%**
- **We lower our FY25E/FY26E earnings by 1%/2% and cut TP to Rs 3,167 (vs. Rs 3,213), valuing it at 20x P/E FY26E earnings. Maintain HOLD**

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Lower volumes drag revenue: VSTT's Q4FY24 revenue fell 15% YoY to Rs 2.7bn as volumes fell due to slow rural demand recovery. VSTT clocked overall volumes of just ~11.6k units, a drop of 19% YoY (not comparable QoQ due to very weak show) with power tiller volumes down 10% YoY to ~11.5k units and tractor volumes declining sharply by 29% YoY to ~1k units. Net realisation per vehicle grew 5% YoY to Rs 0.23mn. Management has guided for 10-15% volume growth for tractors and 15-20% for tillers in FY25.

Margin continues to contract: Raw material cost stayed listless at 67% of sales from 68% in Q4FY23 due to weak volumes, contributing to flat gross margin at ~32.6% in Q4FY24 vs. 31.8% in Q4FY23. Effectively, EBITDA fell 27% YoY to Rs 398mn with margin contraction of 230bps to 14.6%. Adj. PAT slipped 13% YoY to Rs 351mn, marginally supported by other income of Rs 104mn (2x Q4FY23) on account of treasury gains booked in 4QFY24.

Focus on higher HP and compact segments: Tractor volumes remained subdued in Q4FY24 as key markets for compact tractors in Maharashtra and Karnataka have not yet revived. VSTT's Zetor tractors are currently being seeded in the markets and management expects volume to ramp up in Q1FY25. The Zetor 5011, 4511 and 4211, all in the 41-50 HP segment, were launched in Q4. Management expects to reach Rs 20bn in total revenue by FY26, revising its earlier guidance of Rs30bn.

Maintain HOLD: Given FY24's weak performance and the likelihood of a steady revival, we cut our FY25/FY26 EPS estimates by 1%/2%, modelling for a revenue/EBITDA/PAT CAGR of 6%/7/%15% over FY23-FY26. We continue to value VSTT at 20x P/E FY26E earnings and arrive at a new TP of Rs 3,167 (vs. Rs 3,213). 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. However, we believe current valuations capture these weaknesses. Maintain HOLD.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	VSTT IN/Rs 3,353
Market cap	US$ 355.0mn
Free float	45%
3M ADV	US$ 0.5mn
52wk high/low	Rs 4,196/Rs 2,613
Promoter/FPI/DII	55%/5%/15%

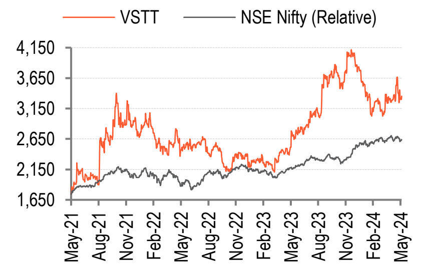
Source: NSE | Price as of 15 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	9,681	10,897	12,003
EBITDA (Rs mn)	1,242	1,385	1,555
Adj. net profit (Rs mn)	1,215	1,237	1,396
Adj. EPS (Rs)	140.6	143.2	161.6
Consensus EPS (Rs)	140.6	144.6	167.6
Adj. ROAE (%)	13.1	11.9	12.1
Adj. P/E (x)	23.8	23.4	20.8
EV/EBITDA (x)	23.4	20.8	18.1
Adj. EPS growth (%)	31.6	1.8	12.8

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

Stock performance



Source: NSE

RESULT REVIEW

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BUY
TP: Rs 900 | ⮝ 45%

SOMANY CERAMICS | Building Materials | 15 May 2024

Strong show in a challenging environment

- **Beats our revenue/EBITDA estimate by 5%/14% due to better-than-expected tiles volume and improved margin**
- **Expect near-term pain but positive medium-term outlook on completion of large capex programme**
- **Maintain BUY with unchanged TP of Rs 900 on strong earnings growth prospects and reasonable valuations**

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Strong quarter: SOMC beats our revenue/EBITDA estimates by 5%/14% due to better-than-expected tile volume (+7.3% YoY vs +5.5% estimate) and improved margin (+180bps YoY to 10.8% vs 9.9% estimate). Overall, SOMC revenue/EBITDA/APAT grew by 9%/30%/14% YoY in Q4FY24.

Key highlights: SOMC tiles volume grew at 4.2% on a 5Y CAGR basis in Q4FY24. Despite a higher share of GVT sales (+400bps YoY to 36%), gross margin fell sharply by 248bps YoY to 51.7% in Q4FY24 due to pricing pressure and higher discounts offered to dealers in weak market conditions. However, EBITDA margin improved by 180bps YoY to 10.8% in Q4FY24 due to benefit of lower energy cost.

Guidance: Management expects the domestic demand environment for tiles to remain weak in Q1FY25 due to the general elections, but expects it to pick up from H2FY25. SOMC aims to grow its tile volume at a low double-digit rate (vs 4-6% for the industry) in FY25. Management expects EBITDA margin to improve by 100-150bps YoY in FY25 in anticipation of better product mix (GVT share to rise by 200bps to 38%) and operating leverage benefit. It aims to increase the share of project sales from 20% in FY24 to 25-27% over the medium term. The company has a limited capex plan of Rs500mn-600mn for maintenance. The Nepal plant is expected to become operational by H2FY26 (Q3FY25 earlier).

Maintain BUY: We maintain our BUY rating on the stock as we see (a) strong earnings growth prospects (EPS to log 23% CAGR over FY24-FY26E); (b) better return ratios (ROE to rise from 11.4% in FY24 to 15.2% in FY26E) on improved margin profile due to the benefit of completion of major growth capex projects; and (c) reasonable valuation (trades at 22.1x on 1Y forward P/E vs 5Y average of 23.4x). We have cut our EPS estimates by 16.2%/19.1% for FY25/FY26 due to expected weak domestic demand in H1FY25, but we have kept our TP unchanged at Rs 900 as we roll forward our valuation from Sep'25 to Mar'26. Our target P/E remains unchanged at 25x Mar'26E EPS.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SOMC IN/Rs 621
Market cap	US$ 309.9mn
Free float	45%
3M ADV	US$ 0.3mn
52wk high/low	Rs 819/Rs 542
Promoter/FPI/DII	55%/1%/24%

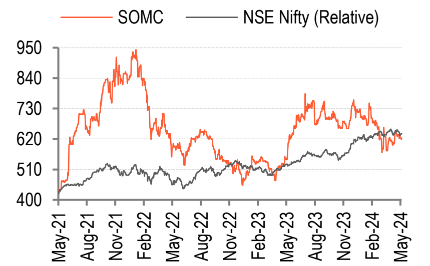
Source: NSE | Price as of 15 May 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	25,914	27,006	29,997
EBITDA (Rs mn)	2,532	2,744	3,170
Adj. net profit (Rs mn)	983	1,085	1,481
Adj. EPS (Rs)	24.0	26.5	36.1
Consensus EPS (Rs)	24.0	34.0	42.8
Adj. ROAE (%)	11.4	12.4	15.2
Adj. P/E (x)	25.9	23.5	17.2
EV/EBITDA (x)	8.9	8.3	7.4
Adj. EPS growth (%)	37.0	10.4	36.5

Source: Company, Bloomberg, BOBCAPS Research

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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