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FIRST LIGHT

16 November 2023

RESEARCH

BOB ECONOMICS RESEARCH | FPI

How FPI flows have moved?

TATA STEEL | TARGET: Rs 150 | +21% | BUY

India growth to take centre stage; maintain BUY

CAPITAL GOODS | Q2FY24 REVIEW

Order outlook bright

CONSUMER DURABLES | Q2FY24 REVIEW

EMS, cables and wires sales buoy quarter

POWER | Q2FY24 REVIEW

Uneventful quarter

Daily macro indicators

Indicator	13-Nov	14-Nov	Chg (%)
US 10Y yield (%)	4.64	4.45	(19bps)
India 10Y yield (%)	7.30	7.28	(2bps)
USD/INR	83.34	83.33	0.0
Brent Crude (US$/bbl)	82.5	82.5	(0.1)
Dow	34,338	34,828	1.4
Hang Seng	17,426	17,397	(0.2)
Sensex	64,905	64,934	0.0
India FII (US$ mn)	**9-Nov**	**10-Nov**	**Chg ($ mn)**
FII-D	102.2	378.5	276.3
FII-E	(175.6)	639.2	814.8

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: FPI

FPI flows in the past few months have been disappointing. This was in line with muted flows globally. Heightened geopolitical tensions, pressure on currency and volatility in US treasury yields have impacted investor confidence which in turn got reflected in muted flows. Going ahead with some correction in US 10Y yield, some reversal in the trend may be expected.

Click here **for the full report.**

TATA STEEL

- Profit has likely bottomed in Q2 as operations in Netherlands return to breakeven and India's H2 demand outlook looks up
- With in-line cash restructuring costs, retain value of UK transition at Rs 6/sh; expect lower restructuring costs for Netherlands trans
- Our TP moves to Rs 150 (from Rs 155) factoring in Q2 results and UK transition; maintain BUY

Click here **for the full report.**

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CAPITAL GOODS: Q2FY24 REVIEW

- Q2 revenue for our capital goods coverage grew 17% YoY (+11% ex-LT) on strong execution; EBITDA margin stayed flat (+60bps ex-LT)
- Inflows swelled 55% YoY led by LT (-13% ex-LT); commentaries indicate a strong ordering environment (rail, power, digitalization)
- We remain positive on the sector; prefer LT, KKC and AIAE

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CONSUMER DURABLES: Q2FY24 REVIEW

- Our consumer durables universe grew 20% YoY in Q2, once again led by demand for EMS, cables and wires
- We expect H2 to be better across categories as the festival calendar spills over to the third quarter
- HAVL and POLYCAB remain our top picks, now joined by DIXON that we had raised to BUY post results

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POWER: Q2FY24 REVIEW

- Q2 an uneventful quarter for the power sector with flat revenue growth YoY for our coverage universe
- Capex plans intact with a continued spotlight on renewable capacity additions
- NTPC and PWGR remain our preferred picks; TPW still rated HOLD

Click here for the full report.

बैंक ऑफ़ बड़ौदा
Bank of Baroda

FPI

15 November 2023

How FPI flows have moved?

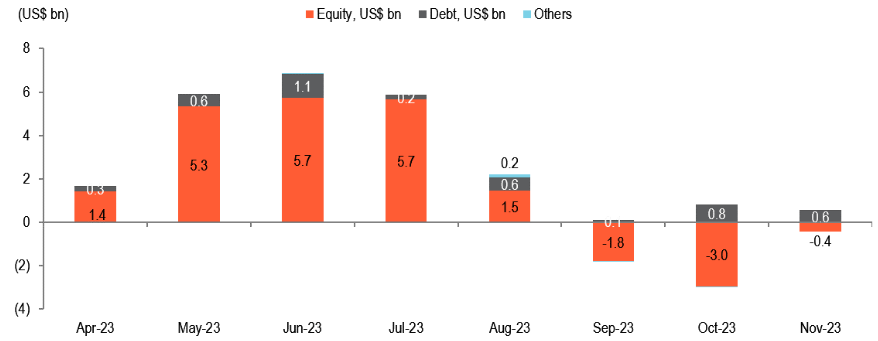
Dipanwita Mazumdar
Economist

FPI flows in the past few months have been disappointing. This was in line with muted flows globally. Heightened geopolitical tensions, pressure on currency and volatility in US treasury yields have impacted investor confidence which in turn got reflected in muted flows. Going ahead with some correction in US 10Y yield, some reversal in the trend may be expected.

How month wise flows have moved:

Since Aug'23, FPI flows have moderated considerably. From US$ 6.8bn inflow seen in May'23, it fell to US$ 2.2bn in Aug'23. Both in Sep'23 and Oct'23, outflow amounted to US$ 3.8bn. A multitude of factors came into play which resulted in somber flows. Uncertainty over Fed policy outlook and the puzzling growth inflation dynamics continue to weigh on US treasury yield, which exhibited sharp upturn. Upside risks to inflation have also not receded completely. On top of that, heightened geopolitical tensions have resulted in volatility in crude prices. Growth remained on a mixed footing. While in the US some high frequency indicators pointed towards resilience; in Eurozone and China, it remained uncertain. This impacted direction of flows.

Fig 1: Movement in FPI flows in FYTD24



Source: NSDL, Bank of Baroda Economic Research, Data for Nov'23 till 8 Nov 2023, Debt includes the VRR route as well

Interestingly, equity flows pattern and Sensex moved in tandem. In 4 out of 6 months, Sensex has moderated on a sequential basis and also witnessed flows getting hampered. Needless to say there is no one to one correspondence as some degree of support is also provided by domestic intuitional investors which have often countered these flows. In FYTD24 (Apr-Sep'23), net inflows under Mutual Fund rose to Rs 2.1bn from Rs 427mn in the same period of previous year. Better quarterly earnings of companies in Q1 especially profit indicators posting buoyant growth have helped in retaining confidence of domestic investors.

BUY
TP: Rs 150 | 21%

TATA STEEL | Metals & Mining | 15 November 2023

India growth to take centre stage; maintain BUY

- **Profit has likely bottomed in Q2 as operations in Netherlands return to breakeven and India's H2 demand outlook looks up**
- **With in-line cash restructuring costs, retain value of UK transition at Rs 6/sh; expect lower restructuring costs for Netherlands transition**
- **Our TP moves to Rs 150 (from Rs 155) factoring in Q2 results and UK transition; maintain BUY**

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Profit has likely bottomed out in Q2: While TATA's Q2FY24 performance was weak, it was only marginally below our forecasts. Management's guidance suggests sequential improvement across all three hubs – India, the UK and the Netherlands – in Q3. Whereas India can benefit from the relatively modest increase in coking coal costs, the Netherlands will benefit from BF restart after relining and the UK from the absence of inventory write-downs.

TSUK cash restructuring cost in line: TATA's assessment of cash transition cost for redundancies and asset closure at GBP 235mn is **broadly in line with our prior estimate** of GBP 250mn for decarbonisation of its UK operations. The company's estimate of GBP 326mn of impairment charge related to mothballing of assets has no impact on future value. In our view, disclosures on the carrying value of TSUK factoring in the transition will be more useful to clarify the company's cost assessment.

Transition benefit assumption unchanged at Rs 6/sh: We retain our valuation of transition benefits at Rs 6/sh assuming (a) breakeven during the transition period, (b) incremental TSUK EBITDA of ~GBP 0.4bn post transition, (c) an exit EBITDA multiple of 5.5x, (d) capex of GBP 0.75bn net of grant, (e) restructuring cost of GBP 0.25bn, and (f) discounting of the fair value by 4.5 years.

TSN cash transition cost to be similar or lower: TSN is planning to transition its 3mt BAF in phase 1 at similar capex to TSUK, but the outgo could be lower if the government's grant goes above 40% (typical ask at 40-60%). Though the cash restructuring cost could possibly be lower given continuation of the entire business, the quantum of non-cash impairment will depend upon the timing of legacy asset retiral. However, the latter does not impact future value.

Reiterate BUY: We lower our FY24/FY25/FY26 EBITDA estimates by 15%/4%/1%, factoring in the weaker Q2 results. Our SOTP-based TP reduces to Rs 150 (from Rs 155) with unchanged FY26E EV/EBITDA multiples for Indian (6x) and European (5.5x) operations and Rs 6/sh added in for the TSUK transition. We remain confident of TATA's ability to deliver earnings-accretive growth and maintain BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	TATA IN/Rs 124
Market cap	US$ 18.5bn
Free float	66%
3M ADV	US$ 50.0mn
52wk high/low	Rs 135/Rs 102
Promoter/FPI/DII	34%/21%/22%

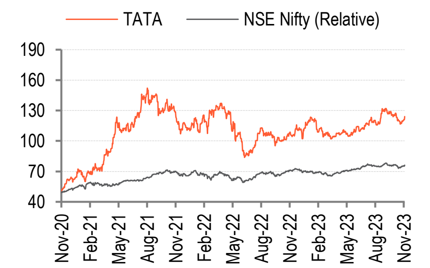
Source: NSE | Price as of 15 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs bn)	2,416	2,153	2,253
EBITDA (Rs bn)	323	243	358
Adj. net profit (Rs bn)	88	58	150
Adj. EPS (Rs)	7.2	4.7	12.3
Consensus EPS (Rs)	7.2	5.1	12.3
Adj. ROAE (%)	8.1	5.6	13.7
Adj. P/E (x)	17.3	26.2	10.1
EV/EBITDA (x)	6.7	8.7	6.2
Adj. EPS growth (%)	(78.4)	(34.0)	159.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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CAPITAL GOODS | Q2FY24 Review | 15 November 2023

Order outlook bright

- **Q2 revenue for our capital goods coverage grew 17% YoY (+11% ex-LT) on strong execution; EBITDA margin stayed flat (+60bps ex-LT)**
- **Inflows swelled 55% YoY led by LT (-13% ex-LT); commentaries indicate a strong ordering environment (rail, power, digitalization)**
- **We remain positive on the sector; prefer LT, KKC and AIAE**

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LT leads order inflows: Capital goods players under our coverage displayed impressive project execution in Q2FY24, which underpinned revenue growth of 17% YoY (11% ex-LT). Aggregate order inflow surged 55% YoY, albeit propelled mainly by LT which attracted flows of Rs 892bn (+72% YoY). Excluding LT, order inflow for the rest of our coverage declined 13% YoY.

Margins remain strong: Our coverage universe demonstrated operating leverage on the back of improved project execution. Ex-EPC (engineering, procurement, and construction) players, gross margin expanded by 70bps YoY in Q2. The aggregate EBITDA margin was flat YoY while the ex-EPC margin increased 60bps YoY.

Strong order outlook: Most management commentaries point to a strong ordering environment for capital goods companies. LT has retained its guidance of revenue and order inflow growth of 12-15% YoY and 10-12% YoY respectively for FY24, even hinting at the probability of surpassing the upper end of these bands. LT's addressable pipeline for H2FY24 totals Rs 8.8tn, spurred by demand for hydrocarbons and infrastructure. Similarly, other players such as KECI retained the FY24 guidance given at the beginning of the fiscal. TMX continues to have a mixed outlook on inflows as refining and petrochemical orders are yet to pick up.

Mixed bag for product companies: KKC saw faster adoption of the newer CPCB-IV products than anticipated and hinted at a strong outlook for H2FY24. AIAE expects a drop in revenue for the second half, with ~5% of the expected FY24 volumes likely spilling over to FY25. Hitachi has deferred its margin target as it continues to battle chip shortages and now expects to exit FY25 at double-digit operating margins rather than achieving the same sometime during the fiscal.

Maintain positive sector view: The capital goods sector has strong growth visibility considering the government's capex thrust and carries scope for gradual margin improvement as supply bottlenecks ease. We anticipate structural demand tailwinds in the areas of automation, digitalisation and electrification, and retain our bullish view on LT (BUY, TP Rs 3,500), KKC (BUY, TP Rs 2,200), and AIAE (BUY, TP Rs 4,200).

Recommendation snapshot

Ticker	Price	Target	Rating
ABB IN	4,263	4,700	HOLD
AIAE IN	3,597	4,200	BUY
KECI IN	572	670	HOLD
KKC IN	1,778	2,200	BUY
LT IN	3,049	3,500	BUY
POWERIND IN	4,363	4,200	HOLD
TMX IN	2,901	3,000	HOLD

Price & Target in Rupees | Price as of 13 Nov 2023 | POWERIND = Hitachi

Capital goods: Q2 result reviews

Company	Result review link
ABB IN	Sprinting along
AIAE IN	Volume spillover to FY25
KECI IN	Interest cost mars quarter; strong pipeline for H2
KKC IN	Strong operating performance; maintain BUY
LT IN	Strong run continues; maintain BUY
POWERIND IN	Chip constraints receding
TMX IN	Sound operations, measured commentary

Source: BOBCAPS Research

CONSUMER DURABLES | Q2FY24 Review | 15 November 2023

EMS, cables and wires sales buoy quarter

- **Our consumer durables universe grew 20% YoY in Q2, once again led by demand for EMS, cables and wires**
- **We expect H2 to be better across categories as the festival calendar spills over to the third quarter**
- **HAVL and POLYCAB remain our top picks, now joined by DIXON that we had raised to BUY post results**

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C&W and EMS bolster aggregate revenue: Our consumer durables coverage grew 20% YoY on average in Q2FY24, underpinned by the cables & wires (C&W) and electronics manufacturing services (EMS) segments. Aggregate EMS revenue grew 30% YoY in Q2. Domestic C&W demand was robust amid improving trends in capex and real estate, with aggregate revenue growth at 21% YoY despite a 10-11% correction in copper prices (pass-through) during the quarter.

Lower raw material costs negated by A&P spends: Most players did not take any major price hikes during Q2, barring CROMPTON which raised fan prices in September. Raw material costs moderated, enabling aggregate gross margin expansion of ~70bps YoY, but higher A&P spends limited EBITDA margin gains to ~40bps.

BLSTR stood out in room AC segment: Backed by volume growth, BLSTR's unitary cooling products (UCP) topline increased 39% YoY to Rs 7.3bn, which compares favourably with VOLT's 15.4% and Llyod's 18.5% YoY prints for the quarter. The company's EBIT margin also expanded 220bps YoY to 8.4%, whereas VOLT reported an increase of only 40bps to 7.7%. Lloyd continues to report losses.

DIXON led the EMS charge: EMS companies under our coverage delivered a robust performance in Q2, growing 30% YoY. DIXON, which accounted for 75% of our EMS universe revenue, looks to maintain strong return ratios and positive cash flow. AMBER's focus is on expanding its non-AC businesses**.** SYRMA saw lower margin slippage due to a change in revenue mix toward the consumer business.

FMEG a mixed bag: In fast-moving electric goods (FMEG), B2B categories such as industrial switchgears, professional lighting and power cables saw healthy growth. Lighting delivered decent volume growth, but price deflation in LEDs hurt the segment's topline. Premiumisation in fans continues with high-end products faring well.

Top picks: HAVL (TP Rs 1,600), DIXON (TP Rs 6,300) and POLYCAB (TP Rs 6,100) are our top picks, with DIXON being added to our preferred list in the wake of strong Q2FY24 results and an even stronger outlook.

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	3,095	2,900	HOLD
BLSTR IN	960	1,100	BUY
CROMPTON IN	279	330	BUY
DIXON IN	5,234	6,300	BUY
HAVL IN	1,251	1,600	BUY
KEII IN	2,579	2,400	HOLD
ORIENTEL IN	218	240	HOLD
POLYCAB IN	5,132	6,100	BUY
SYRMA IN	534	560	HOLD
VGRD IN	291	300	HOLD
VOLT IN	814	910	HOLD

Price & Target in Rupees | Price as of 13 Nov 2023

Consumer durables: Q2 result reviews

Company	Result review link
AMBER IN	Healthy topline; RAC outlook still soft
BLSTR IN	On a purple patch
CROMPTON IN	ECD robust; lighting and kitchen appliances falter
DIXON IN	Strong quarter, even stronger outlook – upgrade to BUY
HAVL IN	Q2 a miss but expect improvement ahead
KEII IN	Capacity addition to spur growth
ORIENTEL IN	ECD-led growth; working capital rises on festive inventory
POLYCAB IN	Impressive run continues
SYRMA IN	Miss on margins; downgrade to HOLD
VGRD IN	Average topline, margins improve
VOLT IN	UCP upbeat but EMP plays spoilsport

Source: BOBCAPS Research

POWER | Q2FY24 Review | 15 November 2023

Uneventful quarter

- **Q2 an uneventful quarter for the power sector with flat revenue growth YoY for our coverage universe**
- **Capex plans intact with a continued spotlight on renewable capacity additions**
- **NTPC and PWGR remain our preferred picks; TPW still rated HOLD**

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No surprises: Our power coverage reported aggregate flat revenue growth YoY, while aggregate PAT grew 11% due to prior-period items in the case of NTPC and PWGR and lower tax in the case of TPW.

NTPC reiterates thrust on renewables: Renewable and hydropower currently account for 3.4GW and 3.7GW respectively of NTPC's total 73.8GW 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. Thus far, ~47% of the capex has been incurred in H1. Further, management has identified 14GW of pumped hydro capacity to be executed over 6-9 years.

PWGR's capex to move up from FY25 onwards: PWGR has planned capex of Rs 125bn and capitalisation of Rs 170bn for FY25. Beyond this, it has a Rs 1.9tn capex plan for the next decade that includes Rs 1.7tn for transmission infrastructure, Rs 10bn for solar generation, Rs 150bn for smart metering infrastructure, and Rs 10bn for the data centre business. The government recently approved the Rs 207bn Ladakh green energy corridor project with a 40% grant, which should begin around Q1FY26.

TPW adding large renewable capacities: TPW has 920MW of wind and 263MW of solar energy capacity as of H1FY24. The company plans to commission 300MW each of solar and wind power by FY24 and FY25 respectively, with no plans for thermal additions going forward. TPW is also exploring opportunities in new areas such as green hydrogen and electric vehicle charging. On the pumped hydro side, regulatory approvals are pending, and management expects to commission any approved projects in a 5-6-year timeframe.

Prefer NTPC, PWGR: We maintain our preference for NTPC (BUY, TP Rs 290) and PWGR (BUY, TP Rs 250) as they continue to ramp up capex plans. Although TPW (HOLD, TP Rs 800) is a well-run utility, we would await a better entry point.

Recommendation snapshot

Ticker	Price	Target	Rating
NTPC IN	246	290	BUY
PWGR IN	212	250	BUY
TPW IN	820	800	HOLD

Price & Target in Rupees | Price as of 13 Nov 2023

Power: Q2 result reviews

Company	Result review link
NTPC IN	No surprises; maintain BUY
PWGR IN	In-line quarter; FY24 capex ramped up
TPW IN	Gas trading tapers

Source: BOBCAPS Research

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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

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