FIRST LIGHT

19 August 2024

RESEARCH

BOB ECONOMICS RESEARCH | CORPORATE PERFORMANCE

How have companies fared in Q1FY25?

VOLTAS | TARGET: Rs 1,600 | +4% | HOLD

Strong revenue: UCP leads; EMP turns around

IRM ENERGY | NOT RATED

Management meet takeaways: Focus on volume continues

AUTOMOBILES | Q1FY25 REVIEW

Entry level revival in 2Ws; tractor segment adds volume

SUMMARY

INDIA ECONOMICS: CORPORATE PERFORMANCE

India Inc.'s performance in Q1 FY25 was somber, with the sequential moderation in profit growth becoming much more pronounced. Sales growth continued to trail in single digits, even though it is higher than last year. Seasonal patterns and elections were the major drivers of corporate performance, having an overall dampening impact on demand. On the positive side, green shoots were visible in rural demand with FMCG, 2-wheeler and tractor sales picking up. A normal monsoon will further aid this recovery. Traction was also seen in industries such as textiles, chemicals and paper products. On the other hand, crude oil, cement and iron and steel industries were a major drag on the overall performance.

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VOLTAS

- Topline surged 46.5% YoY in Q1; EBITDA margin expanded 310bps YoY, boosted by nationwide heatwave
- UCP volumes jumped 67% YoY and market share 21.2% in Q1; EMP business turned around
- We raise FY25E/FY26E EPS by 2%/5% as EMP turns positive and domestic business looks promising. Revise TP to Rs 1,600

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IRM ENERGY

- Q1 EBITDA recovered 34% sequentially on recovery in EBITDA margin, but still 28% lower YoY on higher opex
- The company is successfully developing CNG momentum across its GAs, however, return of the FS industrial volume is progressing slowly
- Focus on volume growth to continue with fast-track infrastructure and incentive schemes, which will also aid margin recovery

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AUTOMOBILES: Q1FY25 REVIEW

- Q1 volume steered by 2W and tractor segments despite overall lull in sentiments given the extreme weather and general elections
- Raw material cost savings aided gross margins; realisation gains a mixed bag
- Post results, we raised BJAUT to HOLD (SELL) due to overall improved business sentiment and downgraded TVSL to HOLD (BUY) on valuation

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CORPORATE PERFORMANCE

17 August 2024

How have companies fared in Q1FY25?

Aditi Gupta
Economist

India Inc.'s performance in Q1 FY25 was somber, with the sequential moderation in profit growth becoming much more pronounced. Sales growth continued to trail in single digits, even though it is higher than last year. Seasonal patterns and elections were the major drivers of corporate performance, having an overall dampening impact on demand. On the positive side, green shoots were visible in rural demand with FMCG, 2-wheeler and tractor sales picking up. A normal monsoon will further aid this recovery. Traction was also seen in industries such as textiles, chemicals and paper products. On the other hand, crude oil, cement and iron and steel industries were a major drag on the overall performance.

Financial performance of corporates in Q1 FY25:

Corporate performance of a sample of close to 3,000 companies is presented in Table 1. There is an improvement in sales growth to 7.7% in Q1 FY25 compared with a growth of 2.3% in Q1 FY24. While there has been a steady improvement in sales growth, it continues to grow in single digits, which is less than ideal. There has been an increase in the expenditure of companies led by an increase in the cost of raw materials for some industries. This also got reflected in a sharp moderation in profitability. After increasing by over 30% in Q1 FY24, growth in both PBT and PAT decelerated sharply to low single-digits in Q1 FY25. A significant part of this can be attributed to an unfavorable base effect.

Table 1: Overview of performance of 2,994 companies

	In Rs. Crores		% YoY	
	Q1-FY24	Q1-FY25	Q1-FY24	Q1-FY25
Net Sales	27,89,866	30,04,055	2.3	7.7
Expenditure	22,33,841	24,02,156	-1.4	7.5
Operating profit	6,98,167	7,62,843	27.0	9.3
PBT	3,91,788	4,04,990	36.4	3.4
PAT	2,96,181	3,06,553	37.1	3.5

Source: AceEquity, Bank of Baroda Research

To get a clearer picture of the performance of India Inc., we analyze the financial performance of companies excluding the BFSI segment. This is important as banks and financial institutions have benefitted from an uptick in their business upcycle and have hence registered robust performance on all financial metrics. A summary of the financial results for the Ex. BFSI segment are presented in Table 2.

RESULT REVIEW

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HOLD
TP: Rs 1,600 | ⮝ 4%

VOLTAS | Consumer Durables | 16 August 2024

Strong revenue: UCP leads; EMP turns around

- **Topline surged 46.5% YoY in Q1; EBITDA margin expanded 310bps YoY, boosted by nationwide heatwave**
- **UCP volumes jumped 67% YoY and market share 21.2% in Q1; EMP business turned around**
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Strong revenue outpaces estimates: VOLT delivered a strong performance in Q1, with topline growing 46.5% YoY to Rs 49.2bn, exceeding our estimate of Rs 45.3bn. Despite the robust revenue, gross margin contracted by 20bps, largely attributable to the rise in raw material prices. However, EBITDAM improved 310bps YoY, driven primarily by the strong performance of the Unitary Cooling Products (UCP) segment, where volume grew 67%. The EMP business turned around significantly, reporting bottom-line profits after 6 consecutive quarters of losses. APAT stood at Rs 3.3bn.

UCP leads; results in expanded market share: The UCP segment achieved strong topline growth of 51.2% in Q4, surpassing peers such as Blue Star (+44%) and Lloyd (+47%). The EBIT margin for UCP reached 8.6%, reflecting 40bps YoY expansion. Although this margin remains above Lloyd's 3.3%, it falls slightly short of Blue Star's 9.1%. By the end of Jun'24, UCP's market share in the RAC segment climbed to 21.2%, up from 18.7% in Mar'24. This performance is notable given that UCP sold 1mn units in Q1 alone, compared to 2mn units sold over the entire FY24, highlighting significant volume growth.

EMP segment surges; with strong turnaround: The Electro-Mechanical Projects and Services (EMP) segment rebounded strongly in Q1, with topline growing a notable 39.8%, and turning positive after six consecutive loss-making quarters. EBIT margin improved to 7.1%, reversing the previous EBIT loss of Rs 519mn from Q1FY24. Management has retained its guidance of 4-5% EBIT margin in this business, and expects the domestic business to grow well within this segment. The order book stood at Rs 75bn, of which the domestic business accounted for Rs 47.6bn and international business Rs 27.3bn.

Profit outlook brightens: EPS upgraded, TP increased to Rs 1,600: With the EMP segment turning around, we anticipate sustained profits moving forward. Margin expansion in the UCP segment, continued growth in VOLTBEK, and planned capacity expansions over the next two years could enhance profit visibility, in our view. Hence, we raise our FY25/FY26 EPS estimates by 2%/5%, and continue to value VOLT at 49x, in line with its 3Y average. Our revised TP is Rs 1,600. HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	VOLT IN/Rs 1,535
Market cap	US$ 6.1bn
Free float	70%
3M ADV	US$ 27.2mn
52wk high/low	Rs 1,599/Rs 800
Promoter/FPI/DII	30%/21%/33%

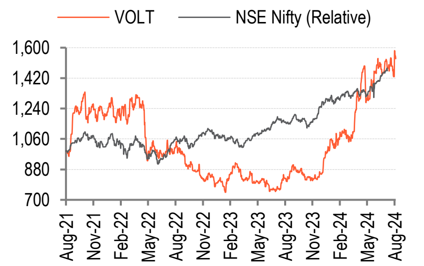
Source: NSE | Price as of 16 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	124,812	148,986	174,086
EBITDA (Rs mn)	4,746	11,533	14,251
Adj. net profit (Rs mn)	2,520	8,187	10,022
Adj. EPS (Rs)	7.6	24.7	30.3
Consensus EPS (Rs)	7.6	24.5	31.0
Adj. ROAE (%)	4.5	13.4	14.7
Adj. P/E (x)	201.6	62.0	50.7
EV/EBITDA (x)	107.0	44.0	35.6
Adj. EPS growth (%)	(33.5)	224.9	22.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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IRM ENERGY | Oil & Gas | 17 August 2024

Management meet takeaways: Focus on volume continues

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- **The company is successfully developing CNG momentum across its GAs, however, return of the FS industrial volume is progressing slowly**
- **Focus on volume growth to continue with fast-track infrastructure and incentive schemes, which will also aid margin recovery**

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Q1 results show recovery: Q1 EBITDA at Rs 303mn recovered 34% QoQ but remained 28% lower YoY impacted by higher opex.

Strong CNG momentum: The company clocked 7% QoQ growth in CNG volumes in kg terms (although 3% in scm terms due to use of higher calorific value gas) and 18% YoY growth even in scm terms in Q1. The company is seeing high traction across most of its geographic areas (GAs).

NT GA developing traction: The company is seeing good traction in the new NT GA with 60% QoQ growth in volumes, entry into the commercial vehicle space with the addition of 10 buses, six large LCVs (10t), 20 small LCVs (1t) and strong momentum in 3-wheelers and 4-wheelers, with ~550-600 vehicles in each.

Slow recovery in FS Industrial volume: With directions from the NGT and notices from PPCB, Q1 volumes recovered 6% QoQ. While volume recovered to 0.23mmscmd in July from a low point of 0.17mmscmd, it is still below the previous peak of 0.32mmscmd in Sep'22. The company sees full potential at 0.42mmscmd.

Volume prospects still strong: IRMENERG's management aims to focus on volume growth and looking to reach 1mmscmd in volume by FY26 with success in regaining volumes at the FS GA or latest by FY27 even without its recovery.

Margin recovery: EBITDA margin recovered Rs 1.5/scm QoQ to Rs 6.2/scm. Management is in discussions with its promoters to rationalise licence fees, which could further improve margin by up to Rs 0.9/scm. While opex has increased with the ramp-up of new CNG stations in the NT GA and high proportion of daughter-booster CNG stations, it will fall as volume ramps-up in the NT GA.

Management transition underway: After the Chairman and CEO's departures, the board reconstituted all its committees and is looking to fill the CEO post in Q2. There is no change to the rest of the management team (CFO, COO and Marketing Head). Badri Narayan Mahapatra, sector expert on the board, will resume his active role.

Ticker/Price	IRMENERG IN/Rs 409
Market cap	US$ 199.8mn
Free float	50%
3M ADV	US$ 0.8mn
52wk high/low	Rs 641/Rs 404
Promoter/FPI/DII	50%/0%/11%

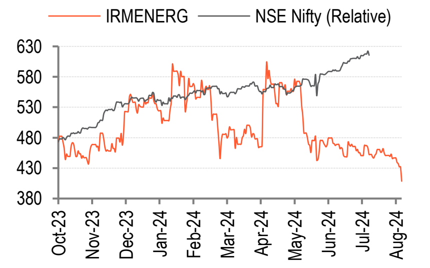
Source: NSE | Price as of 16 Aug 2024

Key financials

Y/E 31 Mar	FY22A	FY23A	FY24A
Total revenue (Rs mn)	5,071	9,801	8,905
EBITDA (Rs mn)	1,864	1,123	1,489
Adj. net profit (Rs mn)	1,136	565	915
Adj. EPS (Rs)	38.9	18.9	30.7
Adj. ROAE (%)	65.4	20.4	14.7
Adj. P/E (x)	10.5	21.6	13.3
EV/EBITDA (x)	9.7	15.9	12.3
Adj. EPS growth (%)	212	(51.3)	62

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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AUTOMOBILES | Q1FY25 Review | 16 August 2024

Entry level revival in 2Ws; tractor segment adds volume

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- **Raw material cost savings aided gross margins; realisation gains a mixed bag**
- **Post results, we raised BJAUT to HOLD (SELL) due to overall improved business sentiment and downgraded TVSL to HOLD (BUY) on valuation**

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2W segment revives: Two-wheeler (2W) OEMs under our coverage delivered sub-par ~9% YoY volume growth in Q1FY25, further muted to 3.5% QoQ, driven by extreme weather in North and Central India, a shorter wedding season, and listless sentiments due to general elections. Realisation gains for our 2W coverage universe were tepid at 2% YoY due to volume push (inventory clearance) and extending discounts. The 2W segment came with flat margins of +98bps/+18bps YoY/QoQ driven by commodity softening and higher exports (BJAUT).

PV growth momentum continues: Passenger vehicle (PV) OEMs in our coverage grew 9.2% YoY, in line with industry volume growth of 9.3% in Q1. MM posted double-digit volume growth of 14% YoY driven by SUVs, while MSIL grew 5% due to the slow revival in the small car segment. Gross margin expanded by 222bps YoY on average for MM (181bps) and MSIL (262bps), backed by softening raw material cost and focus on high-end products. MM maintained a steady gross margin of 26.5% in Q1FY25 and MSIL improved to 29.8% (soft commodity cost).

Tractor volumes healthy, driven by market leaders: Volumes in the tractor segment revived, with MM gaining 7% YoY and ESCORTS's volume falling by 3%. VSTT was unable to recover from weak volumes. The major boost for tractor sales was the above-normal monsoon prediction by the India Meteorological Department. Higher demand continues to be in the 40HP-50HP segment.

Rating changes post Q1: In our quarterly result notes, we have upgraded BJAUT (TP Rs 9,286) from SELL to HOLD and MM (TP Rs 3,279) to BUY from HOLD given the overall positive business outlook for these companies, but downgraded TVSL (TP Rs 2,363) to HOLD (BUY earlier) due to fair valuations.

Top picks – AL and MM: We remain positive on AL (BUY, TP Rs 283) following its strong market share gains in the light commercial vehicle (LCV) segment, regional penetration and bus segment order book. We prefer MM (TP Rs 3,279) for its focus on volume growth, capacity buildup to cater to additional demand, timely addition of variants and strong launch pipeline.

Recommendation snapshot

Ticker	Price	Target	Rating
AL IN	256	283	BUY
BJAUT IN	9,888	9,286	HOLD
EIM IN	4,818	4,724	HOLD
ESCORTS IN	3,732	2,514	SELL
HMCL IN	5,128	5,245	HOLD
MM IN	2,840	3,279	BUY
MSIL IN	12,213	13,305	HOLD
TVSL IN	2,600	2,363	HOLD
VSTT IN	3,765	3,295	SELL

Price & Target in Rupees | Price as of 16 Aug 2024

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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

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