FIRST LIGHT

01 April 2024

RESEARCH

DALMIA BHARAT | TARGET: Rs 2,443 | +25% | BUY

All set for healthy growth; upgrade to BUY

PRICOL | NOT RATED

Management meet note: Balancing margins and growth

METALS & MINING

CRU meet takeaways: Outlook for steel and aluminium

Daily macro indicators

Indicator	26-Mar	27-Mar	Chg (%)
US 10Y yield (%)	4.23	4.19	(4bps)
India 10Y yield (%)	7.09	7.07	(2bps)
USD/INR	83.29	83.38	(0.1)
Brent Crude (US$/bbl)	86.3	86.1	(0.2)
Dow	39,282	39,760	1.2
Hang Seng	16,618	16,393	(1.4)
Sensex	72,470	72,996	0.7
India FII (US$ mn)	**22-Mar**	**26-Mar**	**Chg ($ mn)**
FII-D	(425.3)	297.8	723.1
FII-E	(464.5)	(380.4)	84.1

Source: Bank of Baroda Economics Research

SUMMARY

DALMIA BHARAT

- DBL gears up for healthy business growth backed by 20% clinker capacity addition by FY26 across its operations
- Expects EBITDA margin to improve ~300bps to 21.7% in FY26E from 18.5% expected in FY24
- We upgrade DBL to BUY, valuing it at 12x FY26E EV/EBITDA (currently trading at ~10x) and arrive at a TP of Rs2,443 (unchanged)

Click here **for the full report.**

PRICOL

- PRICOL is a global-level manufacturer of instrument clusters and fuel-level sensors for 2/3W with ~70% of its revenue from cluster segment
- Management targets ~Rs 40bn revenue by FY26, guides for EBITDA margin of 12-13% with limited room for swings
- New product launches E-cockpit, Disc Brakes and Battery Management System to further support revenue targets

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METALS & MINING

- India demand outlook healthy for steel and aluminium; although aluminium demand less likely to be impacted by election
- While global iron ore price easing on readjusting China outlook; coking coal price to ease through CY24 on supply recovery
- Flat steel producers need to access exports to maintain market balance, aluminium producers cost competitiveness set to improve

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BUY
TP: Rs 2,443 | ⮝ 25%

DALMIA BHARAT | Cement | 28 March 2024

All set for healthy growth; upgrade to BUY

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Set to grab growth opportunities: DBL is set to tap growth opportunities by consolidating its presence in East/North-East, West and South India. DBL plans to address the clinker shortage by enhancing capacity in its major regions of operations to 27.1mn tonnes in FY26 from 22.9mn tonnes currently. The company plans to raise cement capacity to ~49.5mn tonnes in FY26 from 43.7mn tonnes currently. The timely clinker addition will help DBL address shortages/external purchase (raising costs), rationalise costs and improve margins.

Calibrated growth across regions: DBL's current capacity utilisation (3QFY24) is 60-65%. Though DBL plans to increase capacity (to 49.5mn tonnes of cement capacity by FY26E), it has indicated its growth plans will be in line with demand across its operating regions. DBL will focus on improving capacity addition while continuing to tap organic and inorganic growth opportunities. Management expects this to help DBL maintain balance on improved asset sweating and the timely addition of capacities to tap growth.

Focus on cost-saving initiatives: DBL will enhance its alternative energy sources to 202MW by FY24 and 328MW by FY25 from 166MW in FY23 (66MW from waste heat recovery systems and 100MW from solar energy). It expects to add further renewable energy sources to reach 380MW by FY26. Also, it has applied for a coal block in Central India to rationalise its costs further (though not instantly). We expect these measures to improve DBL's EBITDA margin to 21.7% in FY26E from ~17% in FY23.

No major balance sheet stress: Our estimates indicate net debt will hover at ~ Rs30bn over the next three years (FY24E-FY26E) and debt/EBITDA to stay at ~1x despite capacity additions indicating no major balance sheet stress for the company.

Upgrade to BUY: Given its healthy margins, focus on calibrated growth and limited balance sheet stress, we feel DBL is poised for balanced growth. Factoring in the same, we value DBL at 12x FY26E EV/EBITDA (unchanged) to arrive at a TP of Rs2,443 (25% upside). We upgrade DBL to BUY (from HOLD).

Key changes

Target	Rating
◀ ▶	▲

Ticker/Price	DALBHARA IN/Rs 1,958
Market cap	US$ 4.4bn
Free float	44%
3M ADV	US$ 9.6mn
52wk high/low	Rs 2,431/Rs 1,803
Promoter/FPI/DII	56%/12%/8%

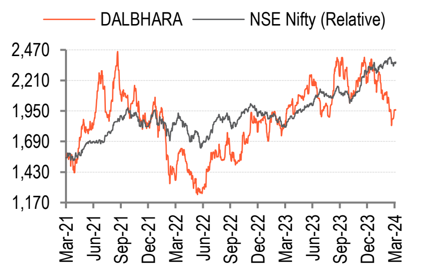
Source: NSE | Price as of 27 Mar 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,35,400	1,46,036	1,64,134
EBITDA (Rs mn)	23,160	26,958	32,269
Adj. net profit (Rs mn)	6,321	7,696	11,357
Adj. EPS (Rs)	34.2	41.6	61.4
Consensus EPS (Rs)	34.2	46.8	65.0
Adj. ROAE (%)	4.7	5.2	7.8
Adj. P/E (x)	57.3	47.1	31.9
EV/EBITDA (x)	16.0	14.6	12.3
Adj. EPS growth (%)	(41.9)	21.8	47.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

NOT RATED

PRICOL | Auto Components | 28 March 2024

Management meet note: Balancing margins and growth

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Meeting with PRICOL's management: We recently met with PRICOL's (Not Rated) senior management (Priyadarsi Bastia, Chief Financial Officer; Siddharth Manoharan, Director – Strategy), to understand its business dynamics and near-term outlook. The key takeaways from our meeting are as follows.

Second-largest cluster manufacturer: PRICOL is the second-largest manufacturer in the world for instrument cluster and fuel-level sensors for 2/3-wheeler applications and derives ~70% of its revenue from the cluster segment.

Export revenue down: The contribution of exports in the current revenue mix is at ~10% (against target of ~20% by FY25) due to the slowdown in the US and European markets. However, management expects a recovery in FY25.

FY26 roadmap: PRICOL is aiming for ~Rs 40bn revenue by FY26 (of which organic revenue targeted is at ~Rs 36bn). It expects EBITDA margins to be ~12-13% with limited room for further margin expansion as it can affect business growth.

Capex outlook internally funded: PRICOL announced an internally-funded capex outlook of ~Rs 6bn for FY23-25. Of the capex outlook, ~Rs 1.5bn was spent in FY23, ~Rs 2bn was utilised in FY24 and ~Rs 2bn is earmarked for FY25.

E-cockpit prototype ready, Disc Brakes and BMS segment underway: Prototype of E-cockpit (premium offering in Connected Vehicle Solution segment) is ready and the installation of the E-cockpit with one of the largest auto OEMs is in progress (Auto OEM to commence production from FY26). According to management, Disc Brakes and Battery Management System (BMS) is currently under development and will be launched in the next 18-24 months across the 2W segment where new age EVs will be the primary focus.

Valuation: As per Bloomberg Consensus estimates, PRICOL trades at P/E of 35.6x/25.6x/18.7x for FY24/FY25/FY26 EPS. We do not have a rating on the stock.

Ticker/Price	PRICOL IN/Rs 389
Market cap	US$ 569.1mn
Free float	57%
52wk high/low	Rs 444/Rs 193
Promoter/FPI/DII	39%/7%/7%

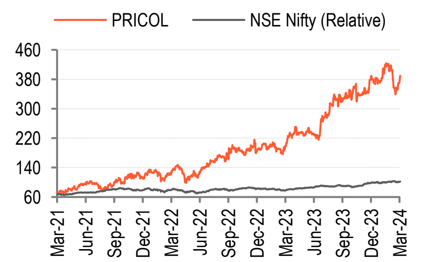
Source: NSE | Price as of 28 Mar 2024

Key financials

Y/E 31 Mar	FY21A	FY22A	FY23A
Total revenue (Rs mn)	14,131	15,447	19,586
EBITDA (Rs mn)	1,526	1,825	2,481
Adj. net profit (Rs mn)	415	510	1,247
Adj. EPS (Rs)	3.8	4.2	10.2
Consensus EPS (Rs)	3.8	4.2	10.2
Adj. ROAE (%)	9.0	9.3	19.5
Adj. P/E (x)	48.3	31.1	20.3
EV/EBITDA (x)	5.7	9.3	10.3
Adj. EPS growth (%)	-	10.0	144.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

METALS & MINING

28 March 2024

CRU meet takeaways: Outlook for steel and aluminium

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- **While global iron ore price easing on readjusting China outlook; coking coal price to ease through CY24 on supply recovery**
- **Flat steel producers need to access exports to maintain market balance, aluminium producers cost competitiveness set to improve**

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India steel demand growth healthy: CRU and industry participants concurred that healthy steel demand growth past CY24 will be driven by the Indian government's investment-led growth strategy. While CRU sees CY24 as a tale of two halves with the slowdown in H1 offset by a pickup in H2, industry is more hopeful of resilience in the absence of signs of a funding crunch for infrastructure projects.

India flats steel need to export: With ~30mt of flats supply addition over CY23-CY26, CRU highlights the need for industry to access export markets till supply is fully absorbed by CY28. It expects risk to margins if exports recovery is slower.

Iron ore domestic market to remain tight in CY24: Demand from ramp up of new steel expansions, continuing China demand for lower-grade iron ore at least in CY24, and lag in ramp up of medium- and higher-grade ore to support tight market.

Coking coal price to ease over CY24: CRU expects met coal prices to ease to US$ 250/t by mid CY24 and to US$ 200/t by end of CY24 with the supply recovery.

Long runway to domestic aluminium demand: Aluminium demand could continue its double-digit growth trend for several years, benefitting from structural trends like electrical transmission, solar power, electric vehicles, defense manufacturing.

Aluminium less exposed to election than steel: Given lower exposure to construction than steel, we believe there is a good possibility that domestic aluminium holds up better than steel demand in CY24 – an election year.

Aluminium cost competitiveness to improve: With Indian majors focusing on increasing self-sufficiency of key inputs, such as coal, alumina and bauxite, the cost of production for Indian aluminium industry is set to improve.

Our Ferrous sector view: We expect Indian steel sector margins to stay at mid-cycle level over the next two years. While we expect global steel demand to stabilise gradually, we believe supply pressure from a likely surplus in China will keep a lid on margins.

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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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