FIRST LIGHT

01 August 2024

RESEARCH

INDIAN OIL CORP | TARGET: Rs 165 | -9% | SELL

Visibility on growth delivery low, downgrade to SELL

GREENPLY INDUSTRIES | TARGET: Rs 400 | +13% | HOLD

Strong Q1; upbeat outlook in a challenging environment

BOB ECONOMICS RESEARCH | CORE INDUSTRY GROWTH

Performance of heavy-weights

BOB ECONOMICS RESEARCH | GOVERNMENT FINANCES

Spending momentum slows

HINDUSTAN PETROLEUM CORP | TARGET: Rs 460 | +16% | BUY

Growth delivery remains on track, maintain BUY

IDFC FIRST BANK | TARGET: Rs 90 | +18% | BUY

Business performance in line with guidance

CROMPTON GREAVES | TARGET: Rs 520 | +15% | BUY

Strong quarter; healthy outlook

BIRLASOFT | NOT RATED

Among the weakest performers this quarter

SUMMARY

INDIAN OIL CORP

- IOCL's Q1 reflected weaker core refining margin and impact of LPG under-recovery, although it had healthy fuel marketing margins
- If recent pullback in crude prices sustain, the question likely to resurface is about passing on the benefit to consumers
- Downgrade to SELL from HOLD with a revised TP of Rs 165; visibility on delivery of aggressive expansion pipeline is still low

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GREENPLY INDUSTRIES

- Strong Q1 due to better-than-expected plywood volume and sharp improvement in MDF segment margin on better product mix
- Maintained volume growth guidance for plywood and MDF for FY25; MDF margin guidance increased by 100bps to 16-17% for FY25
- Downgrade to HOLD as bright future prospects baked into the current valuation; raise TP by 25% to Rs 400

Click here **for the full report.**

INDIA ECONOMICS: CORE INDUSTRY GROWTH

Eight core industry growth eased to 4% in Jun'24 from 6.4% in May'24. This was driven by moderation in output of petroleum and refinery products, crude oil, natural gas, steel and electricity. Output of only coal, fertilizers, and cement inched up. Drag in refinery output is reflected in drop in petroleum exports in Jun'24. Steel output noted slowdown on account of softer government spending and muted auto demand. Early onset of monsoon also helped cool temperatures and reduced electricity demand. On the positive side, start of Kharif sowing season has helped fertilizer output and government's push to increase coal production has also shown positive results in that sector. Increase in cement sector output indicates revival in construction activity. In Q1FY25, core sector output eased to 5.7% from 6% in Q1FY24. Given the latest trends in core sector growth, we expect 4-5% IIP growth in Jun'24.

Click here **for the full report.**

INDIA ECONOMICS: GOVERNMENT FINANCES

Centre's fiscal deficit remained contained at Rs. 1.4 lakh crores in Q1 FY25 which is only 8.1% of the budget estimate, compared with 25.3% of the target achieved last year. This can be attributed to muted capital expenditure due to general elections, as well as buoyant receipts growth led by a sharp increase in income tax. With the elections now over, the government's capital expenditure is expected to pick up. We expect the government to meet its revised fiscal deficit target of 4.9% of GDP in FY25, led by prudent expenditure management and supported by robust tax collections.

Click here **for the full report.**

HINDUSTAN PETROLEUM CORP

- Q1 results was below consensus. However, underlying margins show benefit of progress at Vizag and healthy fuel margins
- We expect HPCL to clock a 14% CAGR on ramp-up of Vizag refinery to full potential over FY24-27; highest earnings growth within OMCs
- Maintain BUY with a higher TP of Rs 460 (from Rs 300); progress on Vizag and Rajasthan refineries are key upside drivers

Click here **for the full report.**

IDFC FIRST BANK

- Management maintained its strong business growth target with major focus on operational leverage to improve return, C/I Ratio <65% by 2027
- NIM expected to remain stable at current level of 6.5% with stable asset quality, continues to guide for credit cost of 1.6%-1.8% for FY25
- Revise estimates with 37% PAT CAGR over FY24-FY26E and RoA/RoE approaching 1.4%/14%. Retain BUY with lower TP of Rs 90 (1.5x FY26E)

Click here for the full report.

CROMPTON GREAVES

- Strong Q1 topline from higher fan, B2B lighting and pump sales, and GM expansion of 110bps driven by strategic pricing actions
- Premiumisation and buildout of presence across alternative channels on track; e-commerce sales surge 82% YoY
- We raise our FY25E/FY26E EPS by ~6%/9% and value the stock at 36x Jun'26E P/E (33x earlier). Maintain BUY with increased TP of Rs 520

Click here for the full report.

BIRLASOFT

- Big miss on revenue and margins. Significant shifts in cost items on a QoQ basis help prevent collapse in margins
- Great volatility around vertical and service line growth. The company says it is a one quarter blip and things should be on track from 2QFY25
- However, order inflow statistics do not give much comfort. We are in the process of initiating coverage on the sector and stock

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SELL
TP: Rs 165 | ∀ 9%

INDIAN OIL CORP | Oil & Gas | 01 August 2024

Visibility on growth delivery low, downgrade to SELL

- **IOCL's Q1 reflected weaker core refining margin and impact of LPG under-recovery, although it had healthy fuel marketing margins**
- **If recent pullback in crude prices sustain, the question likely to resurface is about passing on the benefit to consumers**
- **Downgrade to SELL from HOLD with a revised TP of Rs 165; visibility on delivery of aggressive expansion pipeline is still low**

Kirtan Mehta, CFA
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Q1 below consensus: IOCL's Q1 EBITDA of Rs 89bn was 4% below Bloomberg consensus. However, the apparent sequential decline of 16% was the lowest among the OMCs on account of higher inventory gain on crude in the refining segment and lower base of marketing profit last quarter. Underlying core GRM at US$ 2.8/bbl was weaker than US$ 5.4/bbl reported by HPCL. Unit marketing EBITDA/t at ~Rs 1,300/t was higher than HPCL (~Rs 700/t) but lower than BPCL (~Rs 1,740/t).

Normalisation of margin: Refining margin has started to ease with the ramp-up of a couple of large refineries improving global supply. As against, easing of marketing margin was attributable to the under-recovery of a controlled product, LPG, which is likely to be recouped at some stage. If the recent pullback in crude prices sustains, the question is likely to resurface about passing on its benefit to consumers.

Visibility on project deliveries still low: While IOCL has embarked on the most aggressive refining and petrochemical expansion plan among OMCs in our coverage, most of its projects' deliveries has shifted to FY26. Considering typical delays associated with large-scale expansion projects in construction as well as the commissioning stage, we are only accounting for a modest benefit at this stage.

Raise estimates: We raise FY25E/FY26E EBITDA by 5%/11%, factoring in a higher discount on Russian crude usage than our prior assumptions. For our estimates we effectively factor in normalisation of refining and marketing margins (R&M), which will translate to a 37% YoY decline in FY25E. We then build in a 10% EBITDA CAGR over FY25E-FY27E on delivery of growth projects.

Downgrade to SELL: We raise TP to Rs 165 (from Rs 125) with an unchanged 1Y forward EV/EBITDA target multiple of 5.5x while rolling forward to Jun'25 (from Dec'24). Given the 46% run-up since Dec'23 and 9% downside, we downgrade IOCL to SELL from HOLD. Catalysts for SELL rating: (a) floating of retail prices on downside to pass on benefit of lower crude and product price, (b) pullback in refining margin, (c) further delays to projects. Upside risks: (a) lower pressure on marketing margin with range-bound crude, (b) timely delivery of targeted expansion projects.

Key changes

Target	Rating
▲	▼

Ticker/Price	IOCL IN/Rs 182
Market cap	US$ 30.6bn
Free float	29%
3M ADV	US$ 56.5mn
52wk high/low	Rs 197/Rs 86
Promoter/FPI/DII	52%/8%/10%

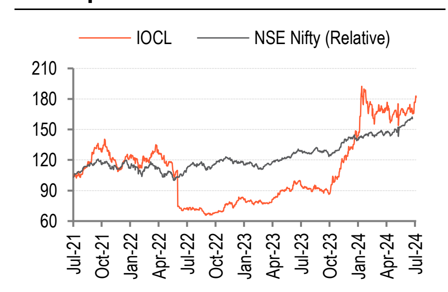
Source: NSE | Price as of 31 Jul 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	77,63,519	81,28,609	81,53,125
EBITDA (Rs mn)	7,58,652	4,95,337	5,44,003
Adj. net profit (Rs mn)	4,17,297	2,22,616	2,53,493
Adj. EPS (Rs)	30.3	16.2	18.4
Consensus EPS (Rs)	30.3	16.4	18.5
Adj. ROAE (%)	25.8	11.7	12.3
Adj. P/E (x)	6.0	11.2	9.9
EV/EBITDA (x)	5.1	7.8	6.9
Adj. EPS growth (%)	326.2	(46.7)	13.9

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

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 400 | ⮝ 13%

GREENPLY INDUSTRIES | Building Materials | 31 July 2024

Strong Q1; upbeat outlook in a challenging environment

- **Strong Q1 due to better-than-expected plywood volume and sharp improvement in MDF segment margin on better product mix**
- **Maintained volume growth guidance for plywood and MDF for FY25; MDF margin guidance increased by 100bps to 16-17% for FY25**
- **Downgrade to HOLD as bright future prospects baked into the current valuation; raise TP by 25% to Rs 400**

Utkarsh Nopany
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Strong quarter: MTLM beats our estimate for Q1FY25 (Revenue: +6.7%; EBITDA: +20.5%) due to higher plywood volume (+8.6% YoY vs 6.4% estimate) and sharp improvement in MDF margin (+250bps QoQ to 16.7% vs 13.0% estimate). Overall, MTLM Revenue/EBITDA grew by 36%/114% YoY in Q1FY25 on a low base. However, on a 5Y CAGR basis, EBITDA grew at a nominal 7% CAGR in Q1FY25.

Key highlights: Despite weak market conditions, MTLM reported (a) healthy plywood volume growth (+8.6% YoY; 5Y CAGR: +5.5%); and (b) improvement in MDF margin (+250bps QoQ to 16.7% vs margin contraction of 434bps QoQ to 11.1% for GREENP) due to improved realisation (+7.1% QoQ) on higher share of value-added products (11% in Q4FY24 to 17% in Q1FY25).

Guidance broadly intact: MTLM maintained its volume growth guidance for plywood (at 8-10%) and MDF (at 60%) for FY25. Plywood margin is expected to be relatively flat (vs improvement of 50-75bps earlier) and MDF margin to be 16-17% (vs 15-16% earlier) for FY25. The furniture fittings division is expected to start generating revenue from Q2FY25; and expected to clock revenue of ~Rs 2.5bn-3.0bn with 25%+ EBITDA margin in FY27. Management plans to spend Rs 700mn on capex in FY25 for a debottleneck project (which would help increase its plywood capacity by 5% and MDF capacity by 25%). The company also plans to set up a greenfield plywood plant at a cost of Rs 1.2bn-1.25bn over the next 18 months.

Downgrade to HOLD; Raise TP by 25% to Rs 400: We remain quite positive on MTLM's long-term prospects as we see strong earnings growth prospect (EPS to grow at a healthy 47.5% CAGR over FY24-FY27E) along with sharp improvement in ROE profile (from 10.6% in FY24 to 19.4% in FY27E). However, we downgrade the stock from BUY to HOLD as we believe its bright prospects are baked well into current valuations (trades at 29.5x on 1Y forward P/E vs. 5Y average of 22.7x). We increase our TP to Rs 400 (Rs 320 earlier) as we raise our EPS estimates (+5.6%/+11.6% for FY25E/FY26E) based on a strong Q1FY25 result and roll forward our valuation from Mar'26 to Sep'26. Our target P/E remains unchanged at 25x.

Key changes

Target	Rating
▲	▼

Ticker/Price	MTLM IN/Rs 356
Market cap	US$ 525.3mn
Free float	48%
3M ADV	US$ 1.7mn
52wk high/low	Rs 374/Rs 149
Promoter/FPI/DII	52%/5%/30%

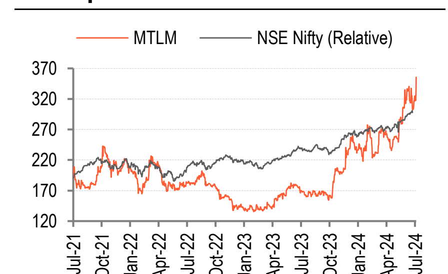
Source: NSE | Price as of 31 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	21,799	25,033	28,336
EBITDA (Rs mn)	1,868	2,634	3,500
Adj. net profit (Rs mn)	752	1,278	1,918
Adj. EPS (Rs)	6.1	10.3	15.5
Consensus EPS (Rs)	6.1	10.7	15.0
Adj. ROAE (%)	11.1	16.6	20.8
Adj. P/E (x)	58.5	34.4	22.9
EV/EBITDA (x)	21.4	14.5	11.2
Adj. EPS growth (%)	(23.7)	69.9	50.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

बैंक ऑफ़ बड़ौदा
Bank of Baroda

CORE INDUSTRY GROWTH

31 July 2024

Performance of heavy-weights

Sonal Badhan
Economist

Eight core industry growth eased to 4% in Jun'24 from 6.4% in May'24. This was driven by moderation in output of petroleum and refinery products, crude oil, natural gas, steel and electricity. Output of only coal, fertilizers, and cement inched up. Drag in refinery output is reflected in drop in petroleum exports in Jun'24. Steel output noted slowdown on account of softer government spending and muted auto demand. Early onset of monsoon also helped cool temperatures and reduced electricity demand. On the positive side, start of Kharif sowing season has helped fertilizer output and government's push to increase coal production has also shown positive results in that sector. Increase in cement sector output indicates revival in construction activity. In Q1FY25, core sector output eased to 5.7% from 6% in Q1FY24. Given the latest trends in core sector growth, we expect 4-5% IIP growth in Jun'24.

Core sector growth slows: Core sector growth eased to 4% in Jun'24 from 6.4% in May'24. On FYTD basis, in Q1FY25, core sector output moderated, as it rose by 5.7%, compared with 6% growth registered last year (Q1FY24).

Performance of heavy-weights: Out of the 8 sectors for which the data is made available, 3 sectors alone contribute to ~66% of the total weight. These are: petroleum and refinery products, steel and electricity. The largest weight is assigned to refinery products, output of which declined by (-) 1.5% in Jun'24 following 0.5% increase in May'24. This trend mimics the trend in petroleum exports, which fell by (-) 18.3% in Jun'24 versus 15.7% rise in May'24, as majority of the refining is done for export purposes. Output of other major industries also eased in Jun'24. Electricity output moderated to 7.7% from 10.2% in May'24, while that of steel registered 2.7% growth versus 6.8% in May'24. Onset of monsoon in Jun'24, cooled climatic conditions, thus reducing the peak demand for electricity. Dip in steel output can be attributed to slow start to government spending (due to general elections) and muted demand in the auto sector (FADA data shows, total vehicle sales slowing in Jun'24 versus May'24).

On FYTD basis, output of petroleum and refinery products (0.9% versus 1.9%) and steel (6.1% versus 16.5%) has noted a moderation in Q1FY25 compared with Q1FY24. Electricity output on the other hand registered an increase (10.5% versus 1.3%).

GOVERNMENT FINANCES

31 July 2024

Spending momentum slows

Aditi Gupta
Economist

Centre's fiscal deficit remained contained at Rs. 1.4 lakh crores in Q1 FY25 which is only 8.1% of the budget estimate, compared with 25.3% of the target achieved last year. This can be attributed to muted capital expenditure due to general elections, as well as buoyant receipts growth led by a sharp increase in income tax. With the elections now over, the government's capital expenditure is expected to pick up. We expect the government to meet its revised fiscal deficit target of 4.9% of GDP in FY25, led by prudent expenditure management and supported by robust tax collections.

Receipt growth buoyant: Centre's revenue receipts in Q1 FY25 stood at Rs. 8.3 lakh crores, registering a 41% increase over the same period last year. As a percentage of budget estimates (BE), centre's net revenue receipts stand at 27.6% of FY25 BE, higher compared with 22.4% in the same period last year. Centre's gross tax revenue rose by 23.7% on a YoY basis led by a sharp pickup in direct taxes. Direct tax revenue increased by 39.9% to Rs. 4.6 lakh crores in Q1 FY25. Within this, income tax collections picked up sharply by 49.9% to Rs. 2.9 lakh crores. Corporate tax collections also rose at a buoyant pace of 26.2% to Rs. 1.7 lakh crores.

Indirect tax collections increased by 7.9% to Rs. 3.7 lakh crores. Within this, GST collections increased by 10.6% to Rs. 2.3 lakh crores. On the other hand, customs and union excise duties declined by 4.3% and 0.9% respectively.

Spending momentum slowing: After remaining subdued in the first two months of FY25, Centre's spending momentum has picked up pace. In Q1FY25, centre has achieved 20.4% (Rs 9.7 lakh crores) of its targeted expenditure estimate, only marginally lower than 23.3% achieved last year during the same period. Within this, capital expenditure continued to remain muted at 16.3% of BE compared with 27.8% of BE in the same period last year. On the other hand, revenue expenditure has maintained a steady pace and is roughly at the same level as last year (~22%). Government's subsidies in Q1FY25 stand at 24% of BE which is only marginally higher than 23% of BE last year. Within subsidies, disbursements under food subsidy stand at 30% of FY25 BE, much higher than 21% of BE last year. On the other hand, petroleum subsidy has been significantly lower at 3% of BE versus 17% of BE in Q1FY24. In terms of YoY growth, overall expenditure growth has declined by 7.7% in Q1FY25, compared with an increase of 10.8% in Q1 FY24. This has been led by a sharp 35% decline in capital expenditure in Q1 FY25.

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BUY
TP: Rs 460 | ⮝ 16%

HINDUSTAN PETROLEUM CORP | Oil & Gas | 31 July 2024

Growth delivery remains on track, maintain BUY

- **Q1 results was below consensus. However, underlying margins show benefit of progress at Vizag and healthy fuel margins**
- **We expect HPCL to clock a 14% CAGR on ramp-up of Vizag refinery to full potential over FY24-27; highest earnings growth within OMCs**
- **Maintain BUY with a higher TP of Rs 460 (from Rs 300); progress on Vizag and Rajasthan refineries are key upside drivers**

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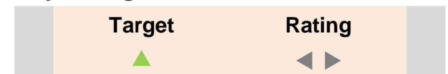
Q1 below consensus: Q1 EBITDA at Rs 21bn was 28% below consensus and 39% below our forecasts. EBITDA was down 56% QoQ impacted by weaker refining margin and under-recovery on LPG (Rs 25bn). While headline GRM was down US$ 2/bbl, underlying GRM excluding inventory loss was down only US$ 0.6/bbl and may have benefitted from higher utilisation at Vizag refinery. HPCL's marketing EBITDA per tonne has reduced to Rs 900/t and was impacted by Rs ~2,100/t of under-recovery on LPG. This indicates that underlying fuel margins were higher than historical average.

Raise estimates: We raise our FY25/FY26 EBITDA forecasts by 10%/14%, raising refining margin to account for higher benefit of Russian crude usage and faster ramp-up of Vizag refinery. We account for US$ 1.5/bbl and US$ 2.5/bbl increase in GRM at Vizag refinery in FY26 and FY27 with ramp-up of Reside Upgrade facility. While underlying fuel margin has been higher-than-historical average in Q1, we still consider a normalised margin for FY25 at Rs 2,250/t given uncertainty at the level of crude price, cracks as well as retail margin.

Valuation outlook: We raise TP to Rs 460 (from Rs 300) factoring in changes to our estimates, lower net debt with reduction in working capital in FY24 while maintaining 1Y forward EV/EBITDA at 6x. For investments, we factor in increase in market value of quoted investments and now use 1.3x (from 1x) P/B on unquoted investments to reflect progress on Rajasthan Refinery, Chhara LNG terminal and other investments. We roll-forward our valuation to Sep'25 (from Dec'24).

Maintain BUY: We maintain our BUY rating on HPCL with 16% upside to our revised TP. With ~150% run-up in stock price since 27 October 2023, the stock has closed a substantial gap with its fair value zone now factoring in the benefit of healthy refining as well as marketing margins. Further upside is linked to timely delivery on Vizag Bottom residue upgrade project and Rajasthan Refinery.

Key changes



Ticker/Price	HPCL IN/Rs 396
Market cap	US$ 10.1bn
Free float	45%
3M ADV	US$ 37.1mn
52wk high/low	Rs 402/Rs 160
Promoter/FPI/DII	55%/13%/21%

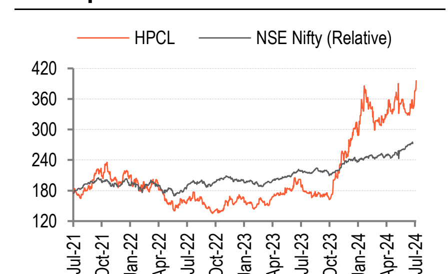
Source: NSE | Price as of 30 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	43,38,565	41,86,228	43,26,641
EBITDA (Rs mn)	2,49,278	1,72,685	2,02,734
Adj. net profit (Rs mn)	1,60,146	93,826	1,16,785
Adj. EPS (Rs)	75.2	44.1	54.9
Consensus EPS (Rs)	75.2	45.9	50.6
Adj. ROAE (%)	40.4	18.6	20.1
Adj. P/E (x)	5.3	9.0	7.2
EV/EBITDA (x)	5.5	8.5	7.0
Adj. EPS growth (%)	(329.4)	(41.4)	24.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
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BUY
TP: Rs 90 | ⮝ 18%

IDFC FIRST BANK | Banking | 30 July 2024

Business performance in line with guidance

- **Management maintained its strong business growth target with major focus on operational leverage to improve return, C/I Ratio <65% by 2027**
- **NIM expected to remain stable at current level of 6.5% with stable asset quality, continues to guide for credit cost of 1.6%-1.8% for FY25**
- **Revise estimates with 37% PAT CAGR over FY24-FY26E and RoA/RoE approaching 1.4%/14%. Retain BUY with lower TP of Rs 90 (1.5x FY26E)**

Ajit Agrawal
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Continued strong business growth: IDFCBK posted PAT of Rs 6.8bn in Q1FY25, down 6% QoQ on modest business growth (loan grew 4%/21% QoQ/YoY, while deposit grew 5%/36% QoQ/YoY). NII rose 5% QoQ on higher CoF, while lower other income QoQ (-1.4%) hit total income (up 3% QoQ). Opex growth remained flat QoQ (-0.3%), aiding PPoP growth of 13% QoQ which stayed the centre of focus. Higher provision (38%/108% QoQ/YoY), mainly from the JLG book, dragged PAT.

Stable NIM, C/I to improve: NIM fell QoQ on higher CoF and higher portion of low-yielding assets like T-Bills, while bank guiding for stable NIM with decline in high-cost borrowings. Business granularity kept its opex higher and its C/I ratio stood at 70% in Q1 (73% in Q4; industry's highest). Bank expects business volume leverage, mainly cost towards liability franchise, to reduce post FY25 and guided for C/I ratio of 65% by FY27. We model 24% NII CAGR over FY24-FY26 with C/I ratio of 67%.

Suitable portfolio mix: We expect SME and retail portfolios to drive loan book growth. Along with strong deposit growth, IDFCBK has a healthy CASA ratio of 47% in Q1FY25 (highest among its peers). Infra book constitutes 1.3% vs. 1.6% in Q4. Baking in IDFCBK's track record and industry dynamics, we assume a credit/deposit CAGR of 24%/31% over FY24-FY26E.

Stable asset quality: Controlled slippages led to stable asset quality and GNPA /NNPA stood flat at 1.9%0.6%. Restructured book fell to 26bps vs. 31bps in Q4 while SMA book increased 16bps QoQ to 1% mainly from the JLG book. Credit cost was 1.9% and bank guided for the same level in Q2 while expecting improvement post H2, and maintained its FY25 target at 1.65%. We expect its asset quality to remain stable with a GNPA/NNPA of 1.8%/0.6% over FY26E with a PCR of 70%.

Valuation outlook: Factoring in growth moderation, we revise growth estimates and cut PAT by 7%/3% for FY25/FY26. However, bank's focus on operational efficiencies would be key to improving ROA/ROE (1.4%/14% in FY26E). Considering sustainable growth and the bank's stable asset quality, we value it at 1.5x FY26E (Jun'26) ABV (1.6x earlier) using the GGM and lower our TP to Rs 90 (from Rs 96).

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	IDFCBK IN/Rs 76
Market cap	US$ 6.4bn
Free float	65%
3M ADV	US$ 37.2mn
52wk high/low	Rs 101/Rs 71
Promoter/FPI/DII	35%/20%/13%

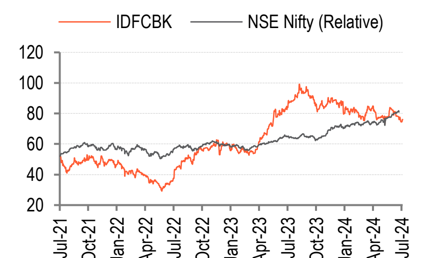
Source: NSE | Price as of 31 Jul 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
NII (Rs mn)	164,508	204,496	252,772
NII growth (%)	30.2	24.3	23.6
Adj. net profit (Rs mn)	29,565	36,105	55,294
EPS (Rs)	4.3	5.1	7.8
Consensus EPS (Rs)	4.3	5.8	7.8
P/E (x)	17.6	14.9	9.7
P/BV (x)	1.7	1.5	1.3
ROA (%)	1.1	1.1	1.4
ROE (%)	10.2	10.5	14.1

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

Stock performance



Source: NSE

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BUY
TP: Rs 520 | ⮝ 15%

CROMPTON GREAVES | Consumer Durables | 01 August 2024

Strong quarter; healthy outlook

- **Strong Q1 topline from higher fan, B2B lighting and pump sales, and GM expansion of 110bps driven by strategic pricing actions**
- **Premiumisation and buildout of presence across alternative channels on track; e-commerce sales surge 82% YoY**
- **We raise our FY25E/FY26E EPS by ~6%/9% and value the stock at 36x Jun'26E P/E (33x earlier). Maintain BUY with increased TP of Rs 520**

Arshia Khosla
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Strong quarter: CROMPTON reported consolidated topline growth of ~14% YoY, reaching Rs 21.4bn (in line with our estimate). The company's gross margin (GM) expanded by 110bps to 31.9%, driven by strategic pricing actions. EBITDA margin also improved by 100bps to 10.9%. On a standalone basis (excluding BGAL), gross margin rose by 190bps to 31.3%, and EBITDA margin by 140bps to 11.4%. Adjusted PAT stood at Rs 1.5bn. Promotional expenditure for standalone revenues rose to 4.5%, from 3.1% in the previous quarter.

Growth across segments; BGAL declines: The ECD segment's topline grew a robust 21% in Q1, fuelled by favourable summer demand across the country, and EBIT margins expanded by 230bps YoY to 15%. The lighting sector delivered steady performance, with B2B lighting experiencing strong volume growth and a modest revenue increase of about 2% YoY for Q1FY25. BGAL's revenue declined 19% YoY due to decreased e-commerce sales but made a notable recovery, turning positive after two quarters with EBIT reaching Rs 41mn.

Strategies driving success: CROMPTON's cost savings initiatives, premiumisation efforts, and focus on alternative channels are starting to yield results. Alternative channels grew 30% YoY, with e-commerce sales surging 82% and contributing over Rs 1bn in Q1. It has had the same run rate over the past four quarters, driven by fans and appliances. The company repaid Rs 3bn of debt from the Butterfly acquisition, but still carries Rs 3bn of debt on its books. Despite this, CROMPTON remains net cash positive and continues to generate strong cash flow.

Maintain BUY: CROMPTON is a market leader in fans, and has tackled the ongoing price erosion in the lighting industry well. However, BGAL is facing industry-related issues such as subdued consumer demand, which we expect will subside over the next 2-3 quarters. We raise FY25E/26E EPS estimates by ~6%/9% on a likely turnaround in BGAL, margin expansion in the ECD segment as a result of ongoing efforts in premiumisation, sales from alternative channels, and e-commerce sales. We roll forward our valuation to Jun'26E and raise our TP to Rs 520 (from Rs 400), which is based on 36x P/E (33x earlier) in line with the 5Y average. Maintain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	CROMPTON IN/Rs 451
Market cap	US$ 3.4bn
Free float	100%
3M ADV	US$ 23.9mn
52wk high/low	Rs 461/Rs 261
Promoter/FPI/DII	0%/40%/44%

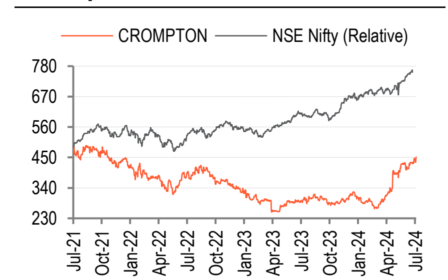
Source: NSE | Price as of 31 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	73,128	89,082	107,110
EBITDA (Rs mn)	7,137	10,050	12,103
Adj. net profit (Rs mn)	4,399	6,812	8,449
Adj. EPS (Rs)	6.9	10.7	13.3
Consensus EPS (Rs)	6.9	10.0	13.5
Adj. ROAE (%)	15.5	21.1	22.3
Adj. P/E (x)	65.3	42.2	34.0
EV/EBITDA (x)	39.6	27.9	23.5
Adj. EPS growth (%)	(5.0)	54.8	24.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

NOT RATED

BIRLASOFT | IT Services | 01 August 2024

Among the weakest performers this quarter

- **Big miss on revenue and margins. Significant shifts in cost items on a QoQ basis help prevent collapse in margins**
- **Great volatility around vertical and service line growth. The company says it is a one quarter blip and things should be on track from 2QFY25**
- **However, order inflow statistics do not give much comfort. We are in the process of initiating coverage on the sector and stock**

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A big revenue decline QoQ: Birlasoft's 1QFY25 constant currency (CC) QoQ revenue declined 2.7%, significantly lower than our 2% estimate. Our revenue growth expectations were built on the view management held three months ago that it would be among the growth leaders in FY25. Also, it clocked 9.5% revenue growth in FY24 (ex Invacare). While it was not the best among Tier-2 peers, the performance was commendable.

Lack of project starts the key issue: The CEO Angan Guha indicated that "challenging operating environment and tightened discretionary spends by customers continued to impact revenue". Deals that were supposed to ramp up were pushed back into 2Q and beyond. Much of the pushback of deal ramp-ups was in manufacturing (largely connected with ERP work) and some in the Healthcare vertical. The revenue compression was probably accentuated by a significant delivery shift offshore – by 430bps QoQ.

BFSI did well but manufacturing dragged: Banking, financial services and insurance (BFSI) and Energy & Utilities and Infrastructure drove growth QoQ at 8.1%, 3.6%, ~37%, respectively. But the weakness was due to Life Sciences and Manufacturing declining by 9.2% and 6% QoQ, respectively. In the service lines, Data & Digital declined 4.4% QoQ, while Enterprise Resource Planning (ERP) declined by 10.1%.

2Q should see growth: Birlasoft is calling 2QFY25 a growth quarter as some deferred projects come back, but it is not willing to point out the strength.

EBIT margin was a miss but could have been worse: EBIT margin came in at 13.1% compared to our estimate of 14.8%– a big miss. The big decline in margin happened as Birlasoft had staff to deliver on some projects that got deferred and that led to utilisation falling QoQ by 460bps. The miss would have been greater had there not been a one-off tailwind of 167bps in the quarter due to the reversal of provisions made towards a Long-Term Special Award formulated for a select group of senior leaders. This reversal lowered employee cost.

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