FIRST LIGHT

01 November 2023

RESEARCH

MAHANAGAR GAS | TARGET: Rs 1,255 | +23% | BUY

Focus on volume growth a positive, upgrade to BUY

LARSEN & TOUBRO | TARGET: Rs 3,500 | +19% | BUY

Strong run continues; maintain BUY

TVS MOTOR | TARGET: Rs 1,531 | -4% | HOLD

Continues to deliver

AJANTA PHARMA | TARGET: Rs 2,070 | +17% | BUY

Buoyant margins but higher tax weighs on PAT

BLUE STAR | TARGET: Rs 1,100 | +26% | BUY

On a purple patch

Daily macro indicators

Indicator	27-Oct	30-Oct	Chg (%)
US 10Y yield (%)	4.83	4.89	6bps
India 10Y yield (%)	7.36	7.37	2bps
USD/INR	83.25	83.25	0.0
Brent Crude (US$/bbl)	90.5	87.5	(3.3)
Dow	32,418	32,929	1.6
Hang Seng	17,399	17,406	0.0
Sensex	63,783	64,113	0.5
India FII (US$ mn)	**26-Oct**	**27-Oct**	**Chg ($ mn)**
FII-D	(23.6)	28.2	51.8
FII-E	(768.4)	(299.6)	468.8

Source: Bank of Baroda Economics Research

SUMMARY

MAHANAGAR GAS

- Q2 results in line but margin remains above the cycle average; we raise FY24 EBITDA by 11% factoring in a strong H1
- Positive to see management incentivising CNG and industrial consumption by leveraging margins
- Upgrade to BUY from HOLD with an increased TP of Rs 1,250 (from Rs 1,210) on an improved focus on volume growth

Click here **for the full report.**

LARSEN & TOUBRO

- Strong show in Q2 led by highest ever order inflows of Rs 892bn (exit book of Rs 4.5tn), robust execution and working capital efficiency
- H2FY24 pipeline at Rs 8.8tn a big positive; key subsidiary Hyderabad metro improving its operating performance
- FY24/FY25 PAT estimates hiked 12%/10% and TP raised to Rs 3,500 (vs. Rs 3,000) on a higher core EV/EBITDA multiple of 18x (vs. 15x); retain BUY

Click here **for the full report.**

BOBCAPS Research
research@bobcaps.in

TVS MOTOR

- Q2 volume growth beats industry at 3.1%/13% YoY/QoQ with a focus on high-end products such as Apache and Raider
- EBITDA margin gains of 84bps YoY backed by softening raw material cost (74% vs. 76% of sales YoY)
- TP raised to Rs 1,531 (vs. Rs 1,440) as we tweak earnings and value the stock at 26x (vs. 25x) FY25E EPS; maintain HOLD

Click here for the full report.

AJANTA PHARMA

- Strong Q2 gross/EBITDA margins at 75%/28% drove a 7% EBITDA beat, though higher tax pulled PAT 2% below consensus
- Management optimistic of 26% EBITDA margin in FY24 vs. 25% guided earlier; we raise our full-year EBITDA forecast by 6%
- Our TP stands revised to Rs 2,070 (vs. Rs 1,860) as we increase our target FY25E EV/EBITDA to 14x (vs. 12.5x); maintain BUY

Click here for the full report.

BLUE STAR

- Sustained, strong performance marked by above-industry growth of 39% YoY in UCP segment along with higher margins in Q2
- QIP fundraise of Rs 10bn to help enhance manufacturing capabilities in the medium term and lower interest cost short term
- Our TP climbs to Rs 1,100 (vs. Rs 880) as we raise FY24/FY25 EPS by 18%/9% and roll valuations over; retain BUY

Click here for the full report.

RESULT REVIEW

BUY
TP: Rs 1,255 | ⮝ 23%

MAHANAGAR GAS | Oil & Gas | 31 October 2023

Focus on volume growth a positive, upgrade to BUY

- **Q2 results in line but margin remains above the cycle average; we raise FY24 EBITDA by 11% factoring in a strong H1**
- **Positive to see management incentivising CNG and industrial consumption by leveraging margins**
- **Upgrade to BUY from HOLD with an increased TP of Rs 1,250 (from Rs 1,210) on an improved focus on volume growth**

Kirtan Mehta, CFA | Yash Thakur
research@bobcaps.in

Q2 in line, margin above cycle average: MAHGL's Q2FY24 EBITDA at Rs 4.8bn was only slightly below our (-3.5%) and consensus (-2.5%) estimates and its margin of Rs 14.6/scm remained above the mid-cycle level even after a modest Rs 2.2/scm QoQ decline.

Volumes recover but still soft: Volumes recovered 5% QoQ, above our estimate, led by a surge in industrial and commercial demand (+16% QoQ) along with a pickup in the CNG segment (+5%). However, volume growth YoY remains muted at 3% due to slower growth in CNG (+1.6%).

Sharper focus on volume growth: In a key positive, management is now promoting volume growth via targeted incentives. The company has set up incentives through a fuel card for new passenger vehicles and new and retrofitted commercial vehicles. Separately, new industrial customers are being offered a guaranteed 10% discount to alternate fuels and more contractual flexibility.

Margins to normalise gradually: Given a stronger EBITDA margin of Rs 15.6/scm in H1, MAHGL now expects the FY24 print to remain above its guided range of Rs 10-12/scm. While we raise our FY24 EBITDA margin forecast to Rs 12.5/scm from Rs 11.2/scm, we remain conservative at Rs 10.4/ Rs 10.2 for FY25/FY26 to allow for the use of price as a lever to spur volume growth.

EV risk profile different from NCT Delhi: Following the policy move in NCT Delhi to promote EVs in the cab aggregator and delivery vehicle fleet, MAHGL's stock has corrected by 9% since 19 Oct. We are currently not seeing a similar aggressive approach in Maharashtra and expect CNG to co-exist with EVs in the medium term. MAHGL's exposure to aggregator cabs is ~20% of CNG and ~15% of total volumes.

Upgrade to BUY: Factoring in the strong H1 performance, we raise FY24 EBITDA by X%. We also raise our TP to Rs 1,255 (from Rs 1,210) as we roll forward to Oct'24 (from Jul'24) and upgrade the stock to BUY from HOLD. Our TP implies an FY24E/FY25E P/E of 11.2x/13.0x, a discount to peers.

Key changes

Target	Rating
▲	▲

Ticker/Price	MAHGL IN/Rs 1,017
Market cap	US$ 1.2bn
Free float	58%
3M ADV	US$ 8.6mn
52wk high/low	Rs 1,152/Rs 820
Promoter/FPI/DII	43%/31%/16%

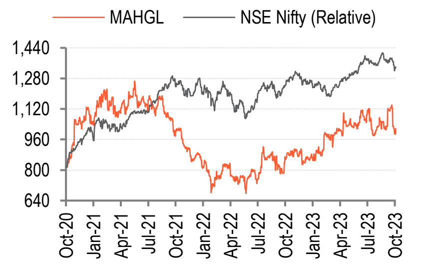
Source: NSE | Price as of 30 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	62,993	61,064	62,694
EBITDA (Rs mn)	11,842	16,461	14,610
Adj. net profit (Rs mn)	7,901	11,088	9,558
Adj. EPS (Rs)	80.0	112.2	96.8
Consensus EPS (Rs)	80.0	103.8	98.5
Adj. ROAE (%)	20.4	24.7	18.6
Adj. P/E (x)	12.7	9.1	10.5
EV/EBITDA (x)	8.1	5.9	6.7
Adj. EPS growth (%)	32.3	40.3	(13.8)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 3,500 | 19%

LARSEN & TOUBRO | Capital Goods | 31 October 2023

Strong run continues; maintain BUY

- **Strong show in Q2 led by highest ever order inflows of Rs 892bn (exit book of Rs 4.5tn), robust execution and working capital efficiency**
- **H2FY24 pipeline at Rs 8.8tn a big positive; key subsidiary Hyderabad metro improving its operating performance**
- **FY24/FY25 PAT estimates hiked 12%/10% and TP raised to Rs 3,500 (vs. Rs 3,000) on a higher core EV/EBITDA multiple of 18x (vs. 15x); retain BUY**

Vinod Chari | Swati Jhunjhunwala
Arshia Khosla
research@bobcaps.in

Strong execution, record inflows: Strong project execution in Q2FY24, particularly in international orders, saw LT clock 19%/37% YoY revenue/PAT growth to Rs 510bn/ Rs 39bn. The company posted its highest ever order inflow of Rs 892bn in Q2 and the addressable pipeline for H2FY24 stands at Rs 8.8tn despite the approaching 2024 elections, driven by infrastructure (Rs 5.1tn) and hydrocarbon (Rs 2.9tn) projects.

Margins to improve gradually from H2: EBITDA margin in legacy orders slipped 40bps YoY to 11% and continued to weigh on LT's core margin which stood at a muted 7.4% in H1FY24. Management expects to complete all legacy orders this year and has hence guided for an FY24 EBITDA margin band of 8.5-9% (vs. 9% at the start of the year) from 8.6% in FY23, before normalising to ~10% by FY25.

Order and revenue guidance reiterated: LT maintained its FY24 order inflow and revenue growth guidance at 10-12% and 12-15% respectively, with a positive bias. The company ended H1 with a record Rs 4.5tn order book, up from Rs 4.1tn the previous quarter, implying a ~3x book-to-bill ratio Working capital-to-sales improved to 16.7% in H1 from the usual 20-22%, likely helped by good collections as well as strong orders, and management expects to maintain a range of 16-18% for the fiscal.

Buyback to aid ROE: Return of capital through the recent Rs 100bn share buyback along with the special dividend paid out in Q1 would boost return ratios. H1 ROE has improved 310bps YoY to 15.3% and LT retains its long-term target of ~18%.

Subsidiary performance mixed: The company's Hyderabad metro subsidiary posted lower losses as daily ridership reached 0.42-0.46mn in H1 vs. 0.4mn in FY23. The Nabha power project saw lower power demand in July but a pickup in August.

Maintain BUY: LT is a strong play on the India capex story and among our top sector picks. We hike our FY24/FY25 PAT estimates by 12%/10% and raise our SOTP-based TP from Rs 3,000 to Rs 3,500 as we roll valuations to Sep'25E and now value the core business ex-services at 18x EV/EBITDA (vs. 15x) given the enhanced order outlook and growing order book. Our fair value includes Rs 900/sh for subsidiaries. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	LT IN/Rs 2,929
Market cap	US$ 50.1bn
Free float	86%
3M ADV	US$ 67.7mn
52wk high/low	Rs 3,115/Rs 1,970
Promoter/FPI/DII	0%/21%/35%

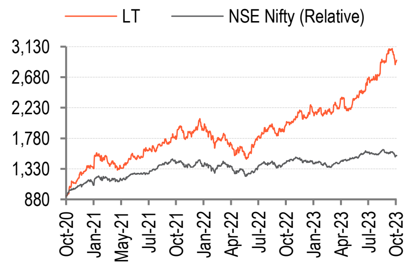
Source: NSE | Price as of 31 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	18,33,407	21,32,402	24,04,205
EBITDA (Rs mn)	2,07,533	2,77,278	3,32,050
Adj. net profit (Rs mn)	1,03,347	1,54,989	1,93,179
Adj. EPS (Rs)	73.6	112.8	140.6
Consensus EPS (Rs)	73.6	93.6	117.6
Adj. ROAE (%)	12.0	16.4	18.1
Adj. P/E (x)	39.8	26.0	20.8
EV/EBITDA (x)	17.7	13.6	11.5
Adj. EPS growth (%)	20.6	50.0	24.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD

TP: Rs 1,531 | ∀ 4%

TVS MOTOR | Automobiles | 31 October 2023

Continues to deliver

- **Q2 volume growth beats industry at 3.1%/13% YoY/QoQ with a focus on high-end products such as *Apache* and *Raider***
- **EBITDA margin gains of 84bps YoY backed by softening raw material cost (74% vs. 76% of sales YoY)**
- **TP raised to Rs 1,531 (vs. Rs 1,440) as we tweak earnings and value the stock at 26x (vs. 25x) FY25E EPS; maintain HOLD**

Milind Raginwar | Shree Kirloskar
research@bobcaps.in

Volume and realisation gains boost revenue: TVSL's Q2FY24 revenue grew 13% YoY & QoQ to Rs 81.4bn as volumes grew 3.1% YoY (+13% QoQ) to 1.1mn units and net realisation per vehicle (NRPV) rose 9.5% YoY (flat QoQ) to Rs 75.8k**.** The company continued to outperform, with its 2W volumes growing in double digits during FY24 YTD while industry growth was muted at mid-to-lower single digits.

Healthy EBITDA and margin gains: EBITDA rose 22% YoY (+18% QoQ) to Rs 9bn and the margin improved 84bps (+47bps QoQ) to 11% on realisation gains and sustained cost reduction efforts (raw material cost dropped to 74% of sales from 76.2%/74.6% YoY/QoQ). Other expenditure increased 29% YoY (+19% QoQ) to Rs 8.2bn due to promotional expenses on new launches. Adj. PAT jumped 32% YoY (+15% QoQ) to Rs 5.4bn aided by higher other income as TVSL had a one-time fair valuation gain of Rs 375mn from investments.

Steady revival in export demand: Export sales rose 22% QoQ (-7% YoY), ahead of the industry on the back of improved retail sales. TVSL has launched *Norton Commando* in the UK and expects to see results over the next few quarters. TVSL also anticipates healthy sales of *Apache*, *Raider* and *Ntorq* in LATAM markets.

Estimates revised: We expect TVSL to continue to beat industry volume growth backed by its strong presence in the high-end motorcycle segment, focus on EV introductions and export revival. Better semiconductor availability and a thrust on the premium segment should help margins. Factoring in the same, we raise our FY25 earnings estimate by ~2% while leaving FY24 unchanged

TP raised; maintain HOLD: To incorporate the long-term benefits from EV launches in the portfolio, likely payoff from investments in export markets over coming quarters and a strong outlook for high-end products such as *Apache* and *Raider,* we revise our target FY25E P/E multiple to 26x from 25x marginal premium to its long-term average. Based on our revisions, we arrive at a new SOTP-based TP of Rs 1,531 which includes Rs 33/sh for TVS Credit. Given limited upside potential, we retain HOLD.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	TVSL IN/Rs 1,591
Market cap	US$ 9.2bn
Free float	48%
3M ADV	US$ 19.3mn
52wk high/low	Rs 1,634/Rs 968
Promoter/FPI/DII	52%/13%/25%

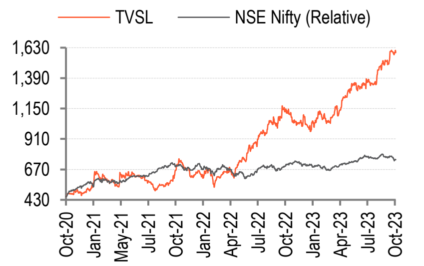
Source: NSE | Price as of 31 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	2,63,781	2,93,222	3,49,957
EBITDA (Rs mn)	26,747	33,090	43,009
Adj. net profit (Rs mn)	14,910	19,362	26,955
Adj. EPS (Rs)	31.4	40.8	56.7
Consensus EPS (Rs)	31.4	42.5	53.4
Adj. ROAE (%)	24.7	25.0	26.4
Adj. P/E (x)	50.7	39.0	28.0
EV/EBITDA (x)	28.1	22.9	17.5
Adj. EPS growth (%)	66.9	29.9	39.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 2,070 | ⮝ 17%

AJANTA PHARMA | Pharmaceuticals | 31 October 2023

Buoyant margins but higher tax weighs on PAT

- **Strong Q2 gross/EBITDA margins at 75%/28% drove a 7% EBITDA beat, though higher tax pulled PAT 2% below consensus**
- **Management optimistic of 26% EBITDA margin in FY24 vs. 25% guided earlier; we raise our full-year EBITDA forecast by 6%**
- **Our TP stands revised to Rs 2,070 (vs. Rs 1,860) as we increase our target FY25E EV/EBITDA to 14x (vs. 12.5x); maintain BUY**

Saad Shaikh
research@bobcaps.in

Broad-based growth led by US and India: AJP reported 10% YoY revenue growth in Q2FY24 to Rs 10.3bn, coming in 2% below consensus estimates. Except Asia, which declined 8% YoY, all other geographies fared well, with the US (+28%) and India (+13%) in the lead. Asia business was impacted due to the spillover of business to Q3 and management expects low-to-mid-teens growth in FY24. India growth was primarily steered by volume gains, followed by pricing and new introductions. The company introduced 10 products, including 4 first to market, during the quarter. India business was also fuelled by productivity improvements.

EBITDA margin guidance raised to 26%: AJP's Q2 gross margin expanded 280bps YoY on account of lower API prices as well as moderating price erosion. Further, cost-saving measures and a return of logistics costs to pre-Covid levels supported EBITDA margin expansion of 730bps YoY to 28.3%, driving a 7% EBITDA beat over consensus. Historically, Q2 has been the company's strongest quarter and management now expects to exit FY24 with margins of 26% (vs. 25% earlier). A higher tax rate of 29.2% (vs. 23% each in Q1FY24/Q2FY23) and lower other income negated the EBITDA beat, pulling PAT 2% below consensus at Rs 1.9bn (+25% YoY).

Earnings call highlights: (1) The US demand environment is improving and price erosion is easing. AJP expects the US revenue run-rate to be in line with Q2. Capital allocation priorities remain intact and the company plans to continue with 8-10 filings a year in the US. (2) R&D is guided to remain at 5-6% of revenue in FY24 and beyond. (3) Higher tax in Q2 stemmed from higher profitability and dividend received from the subsidiary; management expects an FY25 tax rate of ~25%. (4) Asia/Africa branded businesses are guided to deliver low-to-mid-teens growth in FY24.

Maintain BUY, TP revised to Rs 2,070: We scale up our FY24 EBITDA estimate by 6% to build in the H1 margin recovery, healthy guidance and stabilising US price environment. For these reasons, we also raise our target FY25E EV/EBITDA multiple to 14x (vs. 12.5x) – a 10% discount to the stock's 5Y average. Our TP thus rises to Rs 2,070 (from Rs 1,860) and we reiterate BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AJP IN/Rs 1,763
Market cap	US$ 2.7bn
Free float	31%
3M ADV	US$ 4.3mn
52wk high/low	Rs 1,904/Rs 1,132
Promoter/FPI/DII	66%/10%/15%

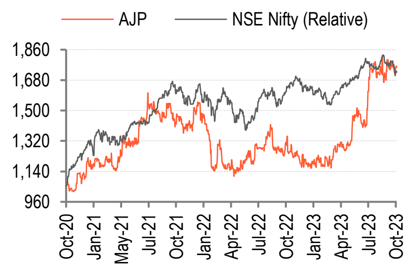
Source: NSE | Price as of 31 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	37,426	41,897	47,205
EBITDA (Rs mn)	7,832	11,042	12,252
Adj. net profit (Rs mn)	5,879	8,008	8,986
Adj. EPS (Rs)	46.5	63.4	71.1
Consensus EPS (Rs)	46.5	61.5	72.4
Adj. ROAE (%)	17.6	21.6	20.5
Adj. P/E (x)	37.9	27.8	24.8
EV/EBITDA (x)	28.2	20.0	17.9
Adj. EPS growth (%)	(43.9)	36.2	12.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BUY
TP: Rs 1,100 | 26%

BLUE STAR | Consumer Durables | 31 October 2023

On a purple patch

- **Sustained, strong performance marked by above-industry growth of 39% YoY in UCP segment along with higher margins in Q2**
- **QIP fundraise of Rs 10bn to help enhance manufacturing capabilities in the medium term and lower interest cost short term**
- **Our TP climbs to Rs 1,100 (vs. Rs 880) as we raise FY24/FY25 EPS by 18%/9% and roll valuations over; retain BUY**

Vinod Chari | Swati Jhunjhunwala
Arshia Khosla
research@bobcaps.in

Strong quarter: BLSTR reported strong 20% YoY topline growth to Rs 18.9bn, along with 110bps expansion in EBITDA margin to 6.5% due to lower raw material costs. The unitary cooling products (UCP) and electromechanical projects (EMP) businesses reported healthy traction, and management remains optimistic about overall performance in H2FY24 given a strong start to the festive season. Adj. PAT came in at Rs 707mn, growing 66% YoY.

UCP performance ahead of peers: Backed by volume growth, the company's UCP topline increased 39% YoY to Rs 7.3bn, which compares favourably with VOLT's 15.4% and Llyod's 18.5% YoY print for the quarter. Segmental EBIT margin also expanded 220bps YoY to 8.4%, whereas VOLT reported just 40bps expansion to 7.7%. Despite a slowdown in cooling product sales during the first quarter, BLSTR managed to regain momentum and outgrow its peers in Q2.

EMP follows suit: The EMP vertical also fared well during the quarter with 12% YoY topline growth to Rs 10.8bn. Demand from data centres, railway electrification, healthcare and factories was healthy, while order finalisation in the commercial buildings sector was dogged by delays.

Balance sheet robust with recent fund raise: BLSTR ended H1FY24 with net cash of Rs 2.9bn as opposed to net borrowings of Rs 3.9bn as at H1FY23. During Q2, the company raised Rs 10bn through a QIP and expects to use these funds to enhance manufacturing capacity, invest in research and development, increase digitalisation, and meet higher working capital requirements given its growth plans.

Maintain BUY: BLSTR's UCP business continues to grow apace, staying ahead of competitors and maintaining a profitable market share. The EMP business derives benefits from a robust order book and strong industry tailwinds. Following the all-round outperformance in Q2, we increase our FY24/FY25 EPS estimates by 18%/ 9% and raise our target P/E multiple to 40x (vs. 38x) – ~15% premium to the 3Y average. On rolling valuations forward to Sep'25E, we have a revised TP of Rs 1,100 (vs. Rs 880). The company remains our top pick in the AC space – BUY.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	BLSTR IN/Rs 872
Market cap	US$ 2.0bn
Free float	61%
3M ADV	US$ 4.2mn
52wk high/low	Rs 950/Rs 553
Promoter/FPI/DII	39%/11%/25%

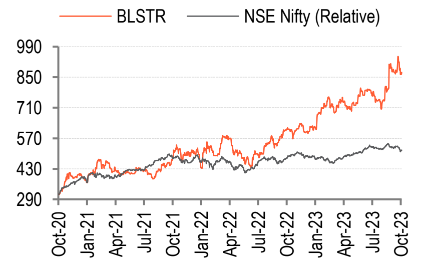
Source: NSE | Price as of 30 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	79,773	92,035	1,07,564
EBITDA (Rs mn)	4,928	6,668	8,140
Adj. net profit (Rs mn)	2,601	3,476	4,564
Adj. EPS (Rs)	13.5	18.0	23.7
Consensus EPS (Rs)	13.5	18.8	25.0
Adj. ROAE (%)	22.1	17.8	16.6
Adj. P/E (x)	64.6	48.3	36.8
EV/EBITDA (x)	34.1	25.2	20.6
Adj. EPS growth (%)	55.1	33.7	31.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
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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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