FIRST LIGHT

22 May 2024

RESEARCH

APOLLO PIPES | TARGET: Rs 650 | +2% | HOLD

Another disappointing quarter on all fronts

BOB ECONOMICS RESEARCH | CAPITAL FORMATION

How different sectors fared

ASTRAL | TARGET: Rs 2,200 | +6% | HOLD

Weak quarter, strong outlook

OIL & GAS

CGDs demonstrate improved focus on volume growth

Daily macro indicators

Indicator	17-May	20-May	Chg (%)
US 10Y yield (%)	4.42	4.44	2bps
India 10Y yield (%)	7.08	7.09	2bps
USD/INR	83.50	83.33	0.2
Brent Crude (US$/bbl)	84.0	83.7	(0.3)
Dow	40,004	39,807	(0.5)
Hang Seng	19,554	19,636	0.4
Sensex	73,917	74,006	0.1
India FII (US$ mn)	**15-May**	**16-May**	**Chg ($ mn)**
FII-D	156.6	109.7	(46.9)
FII-E	(280.1)	(74.5)	205.6

Source: Bank of Baroda Economics Research

SUMMARY

APOLLO PIPES

- Weak Q4 performance on loss of market share due to rise in competitive intensity in the sector
- Target volume to grow at 25% CAGR (ex. KML acquisition) and improve ROCE to 25-30% – which appears to be overly optimistic, in our view
- Upgrade to HOLD and raise TP by 8% to Rs 650, mainly due to roll forward of our valuation

Click here **for the full report.**

INDIA ECONOMICS: CAPITAL FORMATION

When talking about the investment demand of Indian economy, the first data point which comes to our mind is the gross fixed capital formation, which basically speaks about additions to fixed assets such as machinery and equipment. Added to this, the increase in stocks of inventories give us an overall picture. National Account statistics 2024 gave us an idea about the same regarding different sectors. Two angles are explored here: 1) how shares of Gross Capital Formation (GCF) across sectors have emerged over a ten year period and 2) how productivity of capital (under certain assumptions) has moved.

Click here **for the full report.**

BOBCAPS Research
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ASTRAL

- EBITDA miss by 6% compared to our estimate on continued weak performance of paints and adhesives segment
- Strong pipe volume growth of 23% YoY in Q4FY24, but still lags its closest peer SI for ninth straight quarter
- Maintain HOLD on expensive valuations; raise TP by 10% to Rs 2,200 as we roll forward valuations

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OIL & GAS

- We compare MAHGL and IGL's volume growth, margin trends, profitability and valuations
- MAHGL has regained its margin advantage from Q4FY23; both MAHGL and IGL are geared to deliver ~7% growth over FY24-33, in our view
- We reiterate BUY on IGL and MAHGL with DCF-based TPs of Rs 525 and Rs 1,545 (lowered from Rs 1,590) respectively

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HOLD
TP: Rs 650 | 2%

APOLLO PIPES | Building Materials | 21 May 2024

Another disappointing quarter on all fronts

- **Weak Q4 performance on loss of market share due to rise in competitive intensity in the sector**
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- **Upgrade to HOLD and raise TP by 8% to Rs 650, mainly due to roll forward of our valuation**

Utkarsh Nopany
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Weak quarter: APOLP missed our Q4FY24 revenue/EBITDA/PAT estimates by 4%/18%/61% due to lower-than-expected sales volume (+14.2% YoY vs 20% estimated) and sharp gross margin pressure (-176 bps YoY/-279 bps QoQ to 26.4%) on account of rise in competitive intensity in the sector. Overall, APOLP's revenue grew by 1.5% YoY, but EBITDA/APAT fell by 13.6%/55.3% YoY in Q4FY24.

Key highlights: Despite sharp gross margin pressure, APOLP reported weak volumes for the second consecutive quarter compared to its major peers, which indicates the company has been losing market share even after selling its product at a discount in the market.

Over-optimistic guidance: On a standalone basis, APOLP guided for growing its volume at 25% CAGR over the next 3-4 years with EBITDA margin of 10% and ROCE of 25-30%. The company expects Kisan Moulding's (KML) volume to grow from 25kt in FY24 to 35-40kt in FY25 and 55-60kt in FY26 with EBITDA margin of 10% by H2FY26. We believe it would be an uphill task for APOLP to achieve its twin objectives of growing volume at a better pace than the industry and improving its return ratio profile over the medium term. We believe the KML acquisition to be a margin-dilutive step for APOLP due to an inferior product-mix profile.

Upgrade to HOLD; TP raised by 8% to Rs 650: Post the correction in APOLP's stock price over the past three months, we upgrade the rating to HOLD from SELL. We expect APOLP's sales volume to grow at a strong 32% CAGR over FY24-FY26, but we still do not have a constructive view on the stock as (a) we expect APOLP's ROE profile to be quite weak at 8.0-9.5% over FY25-FY26 in view of the rise in competitive intensity in the sector and margin-dilutive acquisition of KML; and (b) expensive valuations (trades at 42.3x on 1Y forward P/E vs 5Y average of 40.7x). We have lowered our EPS estimates (-21.6%/-10.8% for FY25/FY26) to account for the KML acquisition, but we have increased our TP to Rs 650 (Rs 600 earlier) due to the roll forward of our valuation from Sep'25 to Mar'26. Our target P/E remains unchanged at 30x on Mar'26E EPS.

Key changes

Target	Rating
▲	▲

Ticker/Price	APOLP IN/Rs 635
Market cap	US$ 307.6mn
Free float	49%
3M ADV	US$ 0.4mn
52wk high/low	Rs 799/Rs 588
Promoter/FPI/DII	49%/2%/13%

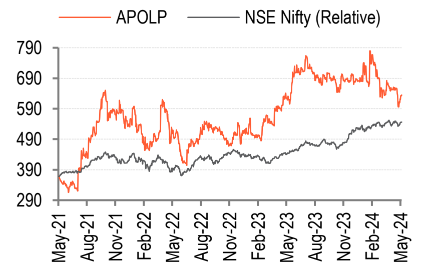
Source: NSE | Price as of 21 May 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	9,869	14,810	17,559
EBITDA (Rs mn)	958	1,207	1,737
Adj. net profit (Rs mn)	426	554	810
Adj. EPS (Rs)	10.8	13.9	20.3
Consensus EPS (Rs)	10.8	19.3	23.5
Adj. ROAE (%)	8.3	8.0	9.5
Adj. P/E (x)	58.6	45.6	31.2
EV/EBITDA (x)	26.3	20.9	14.6
Adj. EPS growth (%)	78.1	28.4	46.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

CAPITAL FORMATION

21 May 2024

How different sectors fared

Dipanwita Mazumdar
Economist

When talking about the investment demand of Indian economy, the first data point which comes to our mind is the gross fixed capital formation, which basically speaks about additions to fixed assets such as machinery and equipment. Added to this, the increase in stocks of inventories give us an overall picture. National Account statistics 2024 gave us an idea about the same regarding different sectors. Two angles are explored here: 1) how shares of Gross Capital Formation (GCF) across sectors have emerged over a ten year period and 2) how productivity of capital (under certain assumptions) has moved.

Few highlights of the same are:

- The sectors whose shares have moderated in overall capital formation are the ones whose productivity has increased. Thus, necessarily moderation in share in total is not bad, it should be looked from the perspective of deployment of existing capital and the inherent nature of industries, whether it is capital intensive or not and the lagged input-output dynamics.
- Another thing which comes out from the study is that Gross Value Added for the sectors are not showing much momentum. This means that the movement in capital formation is driving overall productivity ratios. Notably, productivity looked in the study is partial productivity and is the ratio of GVA to gross capital formation.
- The input-output dynamics show that manufacturing is still under pressure as both share of GVA and capital have moderated. There remains scope for higher capital utilisation.
- Real estate shows improvement in terms of improvement in share of GVA.

How have shares moved?

Two quinquennium are looked at for the purpose of our analysis one ranging from FY14-FY18 and another FY19-FY23. The purpose of looking at the same is to even out odd years.

- Sector wise, real estate and other services, manufacturing, transport, storage, communication & services related to broadcasting, trade, repair, hotels and restaurants and public administration and defence are the top sectors having the maximum share (68.3%) in overall capital formation.
- Between two quinquennium's, share of manufacturing in capital formation has fallen. The major jolt was faced during pandemic (2019-20) where share of manufacturing in GCF fell to its lowest of 16%.

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HOLD
TP: Rs 2,200 | ⮝ 6%

ASTRAL | Building Materials | 21 May 2024

Weak quarter, strong outlook

- **EBITDA miss by 6% compared to our estimate on continued weak performance of paints and adhesives segment**
- **Strong pipe volume growth of 23% YoY in Q4FY24, but still lags its closest peer SI for ninth straight quarter**
- **Maintain HOLD on expensive valuations; raise TP by 10% to Rs 2,200 as we roll forward valuations**

Utkarsh Nopany
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Weak quarter: ASTRA revenue/EBITDA/APAT were below our estimates by 3.4%/6.1%/7.6% for Q4FY24, mainly due to the weak performance of the paints & adhesives segment. Overall, ASTRA's consolidated revenue grew by 7.9% but EBITDA/APAT fell by 5.6%/12.1% YoY in Q4FY24.

Key highlights: ASTRA reported strong pipe volume growth of 22.8% YoY (5Y CAGR: +11.4%) in Q4FY24, but its pipe volume growth lagged its major listed peer SI (+41.4% YoY; 5Y CAGR: +13.7%) for the ninth consecutive quarter. The adhesives (SEAL IT), paints and bathware divisions once again reported weak performances in Q4FY24, but management expects improvement from FY25. The company again surpassed its capex guidance (spent Rs 5.9bn in FY24 vs revised guidance of Rs 4.25bn in Oct'23) without any major change in the capex programme.

Guidance: ASTRA aims to double its consolidated revenue over the next five years and guided for a positive outlook for each of its divisions. Management has guided for pipes volume to grow at 15-20% rate in FY25. It expects Resinova revenue to grow at 20% rate in FY25. SEAL IT EBITDA margin is projected to improve from 4.2% in Q4FY24 to 10.0% in FY25. Paint revenue is expected to rise from Rs 1.85bn in FY24 to Rs 3.0bn-3.2bn with EBITDA margin of 14-15% in FY25. ASTRA expects bathware revenue to grow from Rs 0.8bn in FY24 to Rs 1.25bn-1.5bn and would break even in FY25. The company plans to incur capex of Rs 3.0bn in FY25 to put up a 30ktpa greenfield pipe plant in Hyderabad (by H2FY25 vs Q2FY25 earlier) and Kanpur (by H2FY26 vs Q1FY26 earlier).

Maintain HOLD; raise TP by 10% to Rs 2,200: While we expect ASTRA's EPS to grow at a strong 24.4% CAGR over FY24-FY26E, we maintain our HOLD rating on the stock due to expensive valuations (trades at 78.3x on 1Y forward P/E vs 5Y average of 68.9x). We have tweaked our EPS estimates (-3.8%/-0.4% for FY25/FY26) based on the weak Q4FY24 result, but have increased our TP to Rs 2,200 (from Rs 2,000) as we roll forward our valuations from Sep'25 to Mar'26. Our target P/E remains unchanged at 70x on Mar'26E EPS.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ASTRA IN/Rs 2,078
Market cap	US$ 6.8bn
Free float	44%
3M ADV	US$ 18.1mn
52wk high/low	Rs 2,352/Rs 1,634
Promoter/FPI/DII	56%/19%/13%

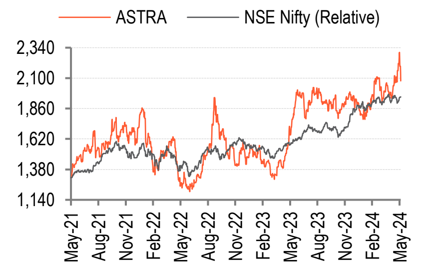
Source: NSE | Price as of 21 May 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	56,414	66,157	80,046
EBITDA (Rs mn)	9,183	11,478	13,982
Adj. net profit (Rs mn)	5,461	6,876	8,453
Adj. EPS (Rs)	20.3	25.6	31.4
Consensus EPS (Rs)	20.3	28.3	34.6
Adj. ROAE (%)	17.5	19.4	20.3
Adj. P/E (x)	102.4	81.3	66.1
EV/EBITDA (x)	61.5	49.2	40.4
Adj. EPS growth (%)	15.9	25.9	22.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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OIL & GAS

21 May 2024

CGDs demonstrate improved focus on volume growth

- **We compare MAHGL and IGL's volume growth, margin trends, profitability and valuations**
- **MAHGL has regained its margin advantage from Q4FY23; both MAHGL and IGL are geared to deliver ~7% growth over FY24-33, in our view**
- **We reiterate BUY on IGL and MAHGL with DCF-based TPs of Rs 525 and Rs 1,545 (lowered from Rs 1,590) respectively**

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Compare CGD players: We have a BUY rating on both CGD players as we believe the stock price is discounting growth below 7% over the next decade. We compare IGL and MAHGL to analyse relative advantages.

MAHGL has regained margin advantage: MAHGL has regained its advantage of lower gas purchase costs from Q4FY23, tying up term-contracts to limit exposure to adverse spot volatility and has passed on its benefit by lowering CNG prices over FY24. While MAHGL clocked higher EBITDA margin of Rs13.9/scm (vs Rs 7.7/scm for IGL), we expect margin to normalise to Rs 11.1/scm in FY25 for MAHGL.

Volume growth has picked up post Covid: Both IGL and MAHGL have clocked good volume growth CAGR of 17.7%/16.5% over FY21-FY24, benefitting from a pick-up in CNG vehicle additions, and more recently traction in industrial segment with a guaranteed discount on alternate fuel. MAHGL has seen a significant improvement from its past trends (4.7% CAGR over FY17-20). We have highlighted previously that **network expansion in GA2 (Thane Urban) is yielding results**.

7% growth over next decade possible: IGL can deliver volume CAGR of 6.8% over FY24-33 focusing on legacy GAs outside Delhi and newer GAs, and PNG growth in Delhi to counter the slowdown in Delhi CNG consumption. We believe MAHGL too can deliver consolidated volume CAGR of 6.8% over FY24-33 with the acquisition of three new GAs of UEPL adding to 5.3% CAGR from existing GAs.

Revised estimates for MAHGL: We lower our FY25/FY26 EBITDA forecasts for MAHGL by 6.6%/ 6.5% factoring in lower margin assumptions. We recently revised our IGL forecasts in our note '**Growth focus improving, reiterate Buy**'.

IGL's larger-footprint advantage: We reiterate BUY on IGL (TP of Rs 525), and MAHGL (TP lowered to Rs 1,545 from Rs 1,590). Our valuation implies target FY25 P/Es of 17.7x for IGL and 14.5x for MAHGL as we give IGL credit for its larger footprint with higher terminal growth rate of 4% vs 2.5% for MAHGL.

Recommendation snapshot

Ticker	Price	Target	Rating
IGL IN	441	525	BUY
MAHGL IN	1,298	1,545	BUY

Price & Target in Rupees | Price as of 21 May 2024

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BUY – Expected return >+15%

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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