FIRST LIGHT

23 July 2024

RESEARCH

JK CEMENT | TARGET: Rs 4,431 | -1% | HOLD

Valuations run up faster than earnings; downgrade to HOLD

BOB ECONOMICS RESEARCH | ECONOMIC SURVEY 2023-24

Viksit Bharat roadmap by 2047

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India's fiscal deficit vs AEs and EMs

BOB ECONOMICS RESEARCH | THE EQUITY RUSH

India story and that of other countries

KOTAK MAHINDRA BANK | TARGET: Rs 2,040 | +16% | BUY

Healthy business despite higher CoF/provision dragging PAT

SUPREME INDUSTRIES | TARGET: Rs 5,400 | -5% | HOLD

Misses estimates on destocking of pipe channel inventory

SUMMARY

JK CEMENT

- Grey cement volumes at 4.3mt (excluding clinker volumes) grew by ~6% YoY (-7% QoQ) owing to listless demand
- EBITDA jumped 19% YoY (-13% QoQ) to ~Rs 4.8bn, EBITDA margin rose by 280bps YoY due to lower energy cost YoY
- We trim FY25E/FY26E EBITDA by 8%/5%, value JKCE at 14x 1Y forward EV/EBITDA and lower TP to Rs 4,431. Downgrade to HOLD

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INDIA ECONOMICS: ECONOMIC SURVEY 2023-24

The Economic Survey for FY 2023-24 lays down the roadmap for the government's objective of Viksit Bharat by 2047. The medium-term growth outlook of above 7% is achievable, but faces headwinds from increased global protectionism and fragmentation, risks of climate change, differences in levels of digitization and limited policy space. The Survey advocates focus on productive employment generation, particularly in the manufacturing sector. Agricultural reforms, removing structural bottlenecks for MSMEs, skill development, deepening domestic corporate bond market and a clear and concise energy transition policy will be key to this. Social sector reforms such as alleviating inequality and providing better health infrastructure will also aid this transformation.

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INDIA ECONOMICS: GLOBAL FISCAL ANALYSIS

Using the latest data from IMF fiscal monitor, we make a global comparison in this note to understand position of major economies, in terms of key fiscal indicators. For this purpose, we focused on 4 major issues: overall fiscal balance (% of GDP), revenue and expenditure (% of GDP) and gross debt position (% of GDP). Our analysis shows that India's general government fiscal deficit is amongst the highest when compared to other EMs, but is gradually coming closer to pre-pandemic levels. Its revenue as a % of GDP is amongst the lowest in the EM sample set, while expenditure to GDP ratio has noted a pickup in recent years, given government's impetus to reviving the investment cycle and improving the quality of spending by focusing on capex.

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INDIA ECONOMICS: THE EQUITY RUSH

Stock markets in India have caught the attention of the investors and regulators for a variety of reasons. The investors are enthused by the fact that the markets are doing well on the back of the India growth story. The regulators are worried that funds are being diverted by potential savers from conventional fixed deposits to the markets (including F & O) by individuals who may not have knowledge on how markets work. In this context it is instructive to see how the equity market has shaped up not just in India but also other countries.

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KOTAK MAHINDRA BANK

- Healthy credit growth driven by corporate; deposits remained muted due to slowdown in low-cost deposit mobilisation
- Lower other income and increased opex took a toll on PPoP, while provision normalisation dragged PAT. KGI divestment aided bottomline
- Anticipating stable asset quality, we revise our growth estimates and, hence, our TP to Rs 2,040 (from Rs 2,000) but maintain BUY

Click here for the full report.

SUPREME INDUSTRIES

- Q1 misses our estimates on lower-than-expected pipe performance due to destocking of pipe inventories in the channel in the month of Jun'24
- Maintained strong volume growth guidance of 20% (pipe: +25%) for FY25, which in our view is a difficult task to be achieved based on Q1
- Maintain HOLD on expensive valuations (trades at 52.2x on 1Y forward P/E vs. 5Y average of 29.6x); raise TP by 16% to Rs 5,400

Click here for the full report.

HOLD

TP: Rs 4,431 | ▼ 1%

JK CEMENT | Cement | 23 July 2024

Valuations run up faster than earnings; downgrade to HOLD

- **Grey cement volumes at 4.3mt (excluding clinker volumes) grew by ~6% YoY (-7% QoQ) owing to listless demand**
- **EBITDA jumped 19% YoY (-13% QoQ) to ~Rs 4.8bn, EBITDA margin rose by 280bps YoY due to lower energy cost YoY**
- **We trim FY25E/FY26E EBITDA by 8%/5%, value JKCE at 14x 1Y forward EV/EBITDA and lower TP to Rs 4,431. Downgrade to HOLD**

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Muted revenue despite volume growth as realisations drag: JKCE reported flat YoY (-10% QoQ) growth in revenues at ~Rs 26.4bn in Q1FY25 largely assisted by healthy grey cement volume growth. Grey cement volumes at 4.3mt (excluding clinker volumes) grew by ~6% YoY (-7% QoQ) owing to listless demand in JKCE's key region of operations. However, grey cement realisation fell by ~6%/5% YoY/QoQ to Rs 4,670/t indicating weak demand.

Cost savings drove margins YoY, flat QoQ: The overall cost fell 7%/3% YoY/QoQ to Rs 4,581/t, attributed to the lower energy cost which fell by 23% YoY (flat QoQ) to 1,136/t due to fuel prices falling to Rs 1.62/kcal from Rs 2.19/kcal YoY. Logistics cost was flat YoY and fell 2% QoQ to Rs 1,251/t due to lower lead distance of 415km from 426km/419km YoY/QoQ. Other expenditure fell by 3% YoY to Rs 3.9bn with potential to reverse, in our view. The trade mix reduced to 63% from 61% QoQ.

Cost offset realisation weakness, EBITDA/margins gain: EBITDA jumped 19% YoY (-13% QoQ) to ~Rs 4.8bn, EBITDA margin rose by 280bps YoY due to lower energy cost YoY offsetting weak realisations. The aggregate EBITDA/t rose sharply to Rs 1,014, ~14% higher YoY but down 6% QoQ.

Expansion plans on track: JKCE's 2mt greenfield Prayagraj grinding unit (GU) is due by Q2FY25. JKCE has announced a 3.3mt clinker line-II at Panna (with 1mt GU) to be completed by Q2/Q3FY26. The 3mt grinding unit in Bihar and 1mt each in Hamirpur and Prayagraj will be completed by 2HFY26. The total estimated project cost is ~Rs 28.5bn.

Valuations ran up fast; downgrade to HOLD: We trim our FY25/FY26 EBITDA estimates by 8%/5% due to weakness in the demand and supply hangover. We introduce FY27E with an EBITDA/PAT CAGR of 22% over FY24-27E. JKCE's long-term growth outlook continues to be healthy with timely capex, improving earnings quality and less balance sheet stress in the capex phase. However, valuations have run up faster than we expected. We value JKCE at 14x 1Y forward EV/EBITDA to arrive at a lower TP of Rs 4,431 (vs Rs 4,538) and downgrade to HOLD from BUY.

Key changes

Target	Rating
▼	▼

Ticker/Price	JKCE IN/Rs 4,472
Market cap	US$ 4.1bn
Free float	54%
3M ADV	US$ 9.2mn
52wk high/low	Rs 4,600/Rs 3,030
Promoter/FPI/DII	46%/16%/22%

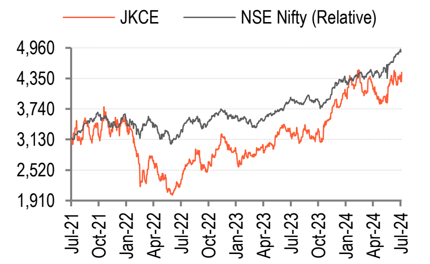
Source: NSE | Price as of 22 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,05,632	1,23,985	1,44,664
EBITDA (Rs mn)	16,502	22,047	26,322
Adj. net profit (Rs mn)	8,361	11,204	13,675
Adj. EPS (Rs)	108.2	145.0	177.0
Consensus EPS (Rs)	108.2	139.0	158.0
Adj. ROAE (%)	17.2	19.4	19.9
Adj. P/E (x)	41.3	30.8	25.3
EV/EBITDA (x)	23.6	17.8	11.4
Adj. EPS growth (%)	48.6	34.0	22.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

ECONOMIC SURVEY 2023-24

22 July 2024

Viksit Bharat roadmap by 2047

Jahnavi Prabhakar | Aditi Gupta
Economist

The Economic Survey for FY 2023-24 lays down the roadmap for the government's objective of Viksit Bharat by 2047. The medium-term growth outlook of above 7% is achievable, but faces headwinds from increased global protectionism and fragmentation, risks of climate change, differences in levels of digitization and limited policy space. The Survey advocates focus on productive employment generation, particularly in the manufacturing sector. Agricultural reforms, removing structural bottlenecks for MSMEs, skill development, deepening domestic corporate bond market and a clear and concise energy transition policy will be key to this. Social sector reforms such as alleviating inequality and providing better health infrastructure will also aid this transformation.

GDP growth: Economic Survey expects the Indian economy to do better with steady growth as it has recovered swiftly from the pandemic with real GDP in FY24, remaining 20% above the pre-pandemic levels. Despite the uncertainty of global economic performance, drivers of domestic growth have been steady, supported by improved balance sheets which will boost strong investment demand from the private sector. Gross fixed capital formation (GFCF) continues to remain one of the important drivers of growth with it share in the nominal GDP growing steadily. The country is currently in the midst of private capex upcycle and this has been supported by government capital expenditure. The economy is pegged to grow by 6.5-7% in FY25 with risks evenly balanced. BoB forecast is at 7.3-7.4%. The prospects of agriculture sector will improve on the back of normal monsoon as has been projected by IMD and will thus support the revival of rural demand. Structural reforms with the likes of IBC and GST have provided the desired results. Additionally, merchandise exports are expected to pick up given the growth prospects in advance economies, service exports are also expected to register improvement. The focus areas in the short to medium term include the following generating productive employment, addressing skill gap challenge, tapping the full potential of agriculture sector, easing compliance requirement and financing bottlenecks confronting MSMEs, manging green energy transition amongst others.

Inflation: CPI inflation in India was impacted by twin shocks of the pandemic and geopolitical conflict. This was exacerbated by weather induced volatility in prices of key food items. Efficient monetary policy management along with the government's supply side interventions helped keep inflationary pressures in India relatively subdued when compared with its other EM peers.

GLOBAL FISCAL ANALYSIS

22 July 2024

India's fiscal deficit vs AEs and EMs

Sonal Badhan
Economist

Using the latest data from IMF fiscal monitor, we make a global comparison in this note to understand position of major economies, in terms of key fiscal indicators. For this purpose, we focused on 4 major issues: overall fiscal balance (% of GDP), revenue and expenditure (% of GDP) and gross debt position (% of GDP). Our analysis shows that India's general government fiscal deficit is amongst the highest when compared to other EMs, but is gradually coming closer to pre-pandemic levels. Its revenue as a % of GDP is amongst the lowest in the EM sample set, while expenditure to GDP ratio has noted a pickup in recent years, given government's impetus to reviving the investment cycle and improving the quality of spending by focusing on capex.

As a result, its gross debt to GDP ratio has also seen an increase post-pandemic, but is now gradually easing. Amongst the advanced economies, the US and UK have elevated deficit levels. US also has problem of rising net debt to GDP ratio. France and UK are also facing high levels of debt-GDP ratio.

Overall fiscal balance

In this study we focus purely on IMF data to make global comparison of fiscal indicators. This data set uses figures for general government, which includes: federal/central government, state governments, and local bodies. For the purpose of our study, we have focused the discussion on 4 key indicators: overall fiscal balance (% of GDP), revenue (% of GDP), expenditure (% of GDP), and gross debt (% of GDP). In our sample, we have analysed 6 major advanced economies (AEs) and 6 major emerging economies (EMs).

Starting with overall balance of general government, we note that amongst the AEs, the US and UK pushed the fiscal deficit envelope the most during the Covid-19 pandemic period. US still has significantly high deficit level (8.8% in 2023 and est.: 6.5% in 2024) and has not yet returned to the pre-pandemic levels (5.8% in 2019). Same is the case with UK. In contrast, Japan government's overall fiscal balance came down only in 2021 and 2022, but since then has seen inching up again. Following a deficit of 5.8% in 2023, IMF expects deficit to increase to 6.5% in 2024. This can be attributed to new industrial policy measures, continuation of pandemic era subsidies, and tax incentives. Germany and Australia are estimated to have lowest levels of fiscal deficit in 2024.

Amongst the EMs, India has had consistently high fiscal deficit in the recent years, with China/Brazil coming close second.

THE EQUITY RUSH

22 July 2024

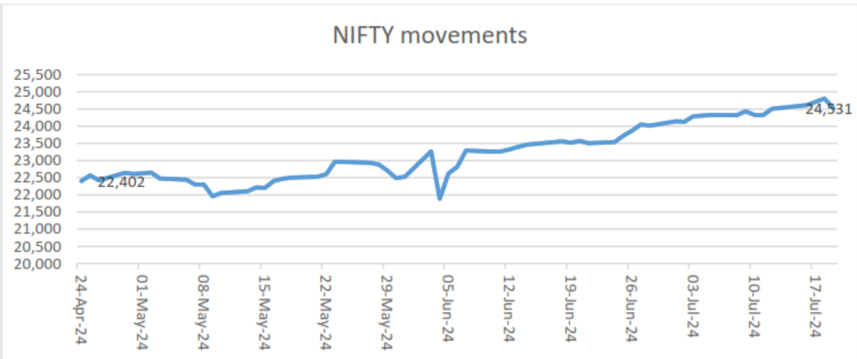
India story and that of other countries

Economics Research Department
Economist

Stock markets in India have caught the attention of the investors and regulators for a variety of reasons. The investors are enthused by the fact that the markets are doing well on the back of the India growth story. The regulators are worried that funds are being diverted by potential savers from conventional fixed deposits to the markets (including F & O) by individuals who may not have knowledge on how markets work. In this context it is instructive to see how the equity market has shaped up not just in India but also other countries.

The discussion is in two parts. The first examines the growth seen in NIFTY this year as well as the developments in the IPO market. The second part looks at how stock indices have moved in other countries for benchmarking movements witnessed in NIFTY. This is important because it does appear that markets in a number of countries have been buoyant even though the global environment is not evenly sanguine.

Movements in Nifty



Source: BoB Economic Research

On a point to point basis the NIFTY moved from 22402 to 24531 in the last 3 months. The aggregate return on the NIFTY for this period assuming it is bought and sold on a daily basis is around 10%. On a point to point basis the return was 9.5%. This three-month's return is definitely impressive which could have been a factor driving interest in IPO market too.

The primary market analysis covers 89 IPOs that were listed in the financial year up to July 12th. The listing prices have been compared with the issue prices to gauge the premium the companies enjoyed mainly due to sentiment momentum. Interestingly 80 of the IPOs listed at a premium while only 7 were at a discount. In case of 2 issuances, they listed at the issue price. The table below gives the number of IPOs which listed in the range of premium over issue price.

BUY
TP: Rs 2,040 | ⮝ 16%

KOTAK MAHINDRA BANK | Banking | 23 July 2024

Healthy business despite higher CoF/provision dragging PAT

- **Healthy credit growth driven by corporate; deposits remained muted due to slowdown in low-cost deposit mobilisation**
- **Lower other income and increased opex took a toll on PPoP, while provision normalisation dragged PAT. KGI divestment aided bottomline**
- **Anticipating stable asset quality, we revise our growth estimates and, hence, our TP to Rs 2,040 (from Rs 2,000) but maintain BUY**

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Strong QoQ performance: KMB posted PAT of Rs 62.5bn (51% QoQ), including exceptional gain of Rs 27.3bn by divesting its Kotak Mahindra General Insurance stake to Zurich Insurance**.** NII slid 1% QoQ on higher cost of fund along with lower yield on assets due to regulatory restrictions on new CC issuance and onboarding of clients on digital platform which are high yielding. QoQ flat ActivMoney took a toll on cost of deposits leading to 26bps QoQ decline in NIM to 5.02%.

Lower other income and higher opex dragged PPOP: Other income decline 2% QoQ on lower treasury gains while opex remained elevated due to rise in employee cost (annual increment inclusive) leading to a 147bps rise in C/I ratio to 46.2%. KMB guided for it to remain elevated with higher spends on tech (upgradation to address regulatory issues) and branch expansion to cater to new clients. As guided, the bank is focusing on deepening its client engagement to cross sell retail products like LAP and CV/CE, which are high yielding. Hence, PPoP declined 4% QoQ.

Robust business growth: Deposits stayed flat QoQ due to the slowdown in low-cost deposits (CASA declined 2.5% QoQ) mobilisation, while its fast-paced ActivMoney also remained flat during Q1. Healthy credit growth was fuelled by growth across segments, wherein corporate growth (7% QoQ) outpaced retail (4% QoQ). Unsecured retail contributed 11.6% of loans, vs 11.8% in Q4FY24, and KMB retained its guidance on unsecured retail mix in the mid-teens. We broadly retain credit/deposit growth estimates, while on lower provision PAT estimates rise by 8%/6% for FY25/FY26.

Stable asset quality: Despite rise in stress from the unsecured retail book and MFI book, GNPA/NNPA remained flat QoQ at 1.4%/0.35% with PCR of 75%. Credit cost normalised to 62bps from 29bps in Q4. CAR remained healthy at 22.4%.

Maintain BUY: KMB's business moderation seems temporary and we expect performance to improve hereon. We estimate RoA/RoE at 2.2%/13% over FY26 and roll-over our SOTP-based TP to Rs 2,040 (vs Rs 2,000) set at 2.1x FY26E (Jun'26) ABV (2.3x earlier) using the GGM. This includes Rs 699/sh as the value of subsidiaries.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	KMB IN/Rs 1,758
Market cap	US$ 41.8bn
Free float	74%
3M ADV	US$ 181.4mn
52wk high/low	Rs 1,988/Rs 1,544
Promoter/FPI/DII	26%/33%/28%

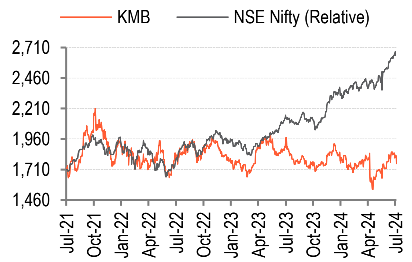
Source: NSE | Price as of 22 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
NII (Rs mn)	259,932	292,061	347,309
NII growth (%)	20.6	12.4	18.9
Adj. net profit (Rs mn)	137,896	147,571	166,133
EPS (Rs)	69.4	74.2	83.6
Consensus EPS (Rs)	69.3	73.1	80.6
P/E (x)	25.3	23.7	21.0
P/BV (x)	3.6	3.0	2.6
ROA (%)	2.5	2.3	2.2
ROE (%)	15.3	13.8	13.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD

TP: Rs 5,400 | ∀ 5%

SUPREME INDUSTRIES | Building Materials | 22 July 2024

Misses estimates on destocking of pipe channel inventory

- **Q1 misses our estimates on lower-than-expected pipe performance due to destocking of pipe inventories in the channel in the month of Jun'24**
- **Maintained strong volume growth guidance of 20% (pipe: +25%) for FY25, which in our view is a difficult task to be achieved based on Q1**
- **Maintain HOLD on expensive valuations (trades at 52.2x on 1Y forward P/E vs. 5Y average of 29.6x); raise TP by 16% to Rs 5,400**

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Q1 miss: SI missed our estimates (Revenue/EBITDA/APAT: -1.0%/-9.0%/-7.9%) driven by lower pipe volume (+19.5% vs +23.0% estimate due to destocking of pipe inventory in the channel in the month of Jun'24) as well as slightly weak pipe margin (-29bps QoQ to 15.7% vs 16.0% estimate due to inferior mix). Overall, SI's Revenue/EBITDA/ APAT grew by 11.3%/20.4%/26.8% YoY in Q1FY25 due to weak base. However, SI's EBITDA grew 13% on a 6Y CAGR basis in Q1FY25.

Key highlights: Pipe sales volume grew at 19.5% YoY (5Y CAGR: +10.5%) in Q1FY25, indicating demand momentum slowed from 26.8% YoY in Apr-May'24 to 6.8% YoY in Jun'24 on account of destocking of pipe inventory in the channel due to volatile resin prices. Despite higher PVC resin prices, SI's pipe realisation was down 2.2% QoQ in Q1FY25 due to inferior product mix. Consequently, the pipe segment margin was down 29bps QoQ to 15.7% in Q1FY25. Non-pipe segment volume grew at +7.7% YoY (5Y CAGR: +3.6%), but the segment EBITDA grew sharply by 17.9% YoY in Q1FY25 due to a sharp improvement in the packaging segment margin (up 310bps YoY to 14.7% over a low base).

Concall KTAs: SI has maintained its total volume growth guidance of 20% YoY (pipe: +25%) for FY25. This implies an asking run rate of pipe volume growth of 26.7% YoY for the remaining 9MFY25 – which in our view is a difficult task to be achieved based on Q1 and weak demand in the month of Jul'24. EBITDA margin guidance has been tweaked to 15.0-15.5% for FY25 from 15.5% earlier. SI's target is to increase its total capacity from 950ktpa (pipe: 740ktpa) in FY24 to 1,250ktpa (pipe: 1,000ktpa) by Mar'26 at a capex cost of Rs 15bn.

Maintain HOLD, raise TP by 16% to Rs 5,400: We maintain our HOLD rating on the stock due to expensive valuations (trades at 52.2x on 1Y forward P/E vs. 5Y average of 29.6x). We have raised our TP to Rs 5,400 (Rs 4,650 earlier) due to a slight increase in our EPS estimates (+1.5%/3.5% for FY25E/FY26E due to a sharp increase in profit from associates), increase in our target P/E multiple (from 40x to 45x due to re-rating of valuation multiple in the past one year) and roll forward of our valuation from Mar'26 to Jun'26. We have introduced FY27 estimates.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	SI IN/Rs 5,694
Market cap	US$ 8.8bn
Free float	51%
3M ADV	US$ 19.3mn
52wk high/low	Rs 6,460/Rs 3,182
Promoter/FPI/DII	49%/24%/13%

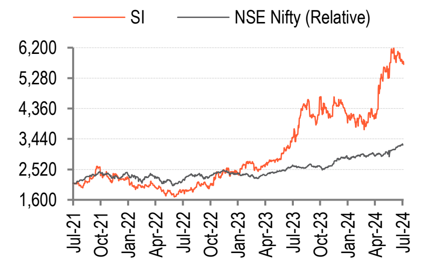
Source: NSE | Price as of 22 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,01,343	1,16,487	1,36,165
EBITDA (Rs mn)	15,473	18,630	21,886
Adj. net profit (Rs mn)	10,697	13,135	15,289
Adj. EPS (Rs)	84.2	103.4	120.3
Consensus EPS (Rs)	84.2	102.9	121.6
Adj. ROAE (%)	22.5	23.7	23.5
Adj. P/E (x)	67.6	55.1	47.3
EV/EBITDA (x)	47.2	39.4	33.7
Adj. EPS growth (%)	23.6	22.8	16.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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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