FIRST LIGHT

23 October 2023

RESEARCH

BOB ECONOMICS RESEARCH | BORROWING COSTS

How have interest costs responded to repo rate cycles?

HAVELLS INDIA | TARGET: Rs 1,600 | +17% | BUY

Q2 a miss but expect improvement ahead

VOLTAS | TARGET: Rs 910 | +11% | HOLD

UCP upbeat but EMP plays spoilsport

ITC | TARGET: Rs 523 | +19% | BUY

FMCG and hotels continue to shine

ULTRATECH CEMENT | TARGET: Rs 9,396 | +11% | HOLD

Steady performance with no big surprises

JSW STEEL | TARGET: Rs 840 | +9% | HOLD

Volume momentum from expansion but near-full valuation

INDUSIND BANK | TARGET: Rs 1,755 | +21% | BUY

Strong growth with stable margins and asset quality

DALMIA BHARAT | TARGET: Rs 2,286 | +6% | HOLD

Cost respite in an otherwise muted quarter

GLENMARK LIFE SCIENCES | TARGET: Rs 620 | -1% | HOLD

Revenue in line but higher opex dampens margins

CEMENT

Dealers Day: Positive demand and pricing outlook

Daily macro indicators

Indicator	18-Oct	19-Oct	Chg (%)
US 10Y yield (%)	4.91	4.99	7bps
India 10Y yield (%)	7.35	7.37	2bps
USD/INR	83.27	83.24	0.0
Brent Crude (US$/bbl)	91.5	92.4	1.0
Dow	33,665	33,414	(0.7)
Hang Seng	17,733	17,296	(2.5)
Sensex	65,877	65,629	(0.4)
India FII (US$ mn)	**17-Oct**	**18-Oct**	**Chg ($ mn)**
FII-D	17.9	46.8	28.9
FII-E	70.9	(239.0)	(309.9)

Source: Bank of Baroda Economics Research

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SUMMARY

INDIA ECONOMICS: BORROWING COSTS

When we talk about monetary policy cycles, the first thing which pops up in our mind is how these interest rate decisions will impact borrowing costs. When the repo rate is changed it is expected that the lending rate too changes for transmission to be successful. The exercise here is an attempt to capture the same, considering the two recent policy rate cycles of RBI. When the pandemic started in March 2020 there was a dramatic easing in monetary policy, with repo rate hitting record low of 4%. This was also reflected in the Weighted Average Lending rate (WALR), witnessing more than complete pass through in the same period. Subsequently the repo rate has been increased by 250 bps to 6.5%.

Click here for the full report.

HAVELLS INDIA

- Mixed quarter with 5% YoY declines in ECD and flat lighting but 8% growth in cable & wires and 9% in switches
- Aggressive 19% YoY growth at Lloyd came at a Rs 745mn operational loss; HAVL indicated a greater focus on margins ahead
- We cut FY24/FY25 EPS by 5% each post Q2; our TP remains at Rs 1,600 on rollover – retain BUY

Click here for the full report.

VOLTAS

- Q2 mixed with UCP performing well (+ 15% YoY) but EMP continuing to post losses due to collection disputes
- Medium-term outlook remains positive due to low AC penetration, product diversification via Voltbek and good prospects for EMP business
- We cut FY24/FY25 EPS by 9%/4% but retain our TP of Rs 910 on rollover – maintain HOLD given rising competitive headwinds

Click here for the full report.

ITC

- FMCG business delivered strong topline (+8% YoY) growth in Q2 led by steady portfolio expansion
- Hotels segment grew 21% YoY on the back of strong growth in ARR; EBIT swelled 50% led by retail and MICE
- Expect deepening rural recovery to aid growth; maintain BUY with an unchanged SOTP-based TP of Rs 523

Click here for the full report.

ULTRATECH CEMENT

- Q2 revenue up 15% YoY backed by 16% rise in dispatches; realisations resilient despite volume push in a monsoon quarter
- EBITDA margin climbed 240bps YoY to 15.1% on lower-than-expected fuel cost
- Positives priced in; maintain HOLD with an unchanged TP of Rs 9,396

Click here for the full report.

JSW STEEL

- Q2 result beat estimates on higher cost savings in standalone operations beyond coking coal reduction
- Dolvi expansion spurred growth and momentum likely to continue with further 9mt addition planned by FY25
- We maintain HOLD with minor tweak to TP to Rs 845 (from Rs 840) as near-full valuation makes for unfavourable risk-reward

Click here for the full report.

INDUSIND BANK

- Despite higher opex, Q2 PAT increased 22% YoY to Rs 22bn driven by steady business growth
- Reported NIM stable QoQ at 4.3% as a sustained rebound in vehicle and microfinance loans offset an increase in cost of funds
- We broadly maintain our estimates and reiterate BUY with an unchanged TP of Rs 1,755

Click here for the full report.

DALMIA BHARAT

- Q2 volume growth slowed to single digits (7% YoY) owing to fierce competition in key operating regions
- EBITDA grew 56% YoY off a weak base and aided by lower fuel cost, with healthy margin improvement
- Maintain HOLD with an unchanged TP of Rs 2,286, set at 11x FY25E EV/EBITDA

Click here for the full report.

GLENMARK LIFE SCIENCES

- Q2 revenue in line at Rs 6bn but EBITDA/PAT 3%/6% below our estimates due to higher opex and a product mix change
- 5Y agreement with Glenmark Pharma (GPL) to safeguard business interest after stake sale to Nirma group
- We largely retain our estimates and reiterate our DCF-based TP of Rs 620 and HOLD rating

Click here for the full report.

CEMENT

- Cement prices hiked by Rs 15-20/bag in the north, west and central regions in recent weeks, taking cues from the east and south
- Southern market saw steepest increase of Rs 70-80/bag in early October, but dealers suggest hikes in small doses are easier to absorb
- Q3FY24 likely to see healthy demand as the busy season kicks off post monsoon, lending partial support to price hikes

Click here for the full report.

BORROWING COSTS

21 October 2023

How have interest costs responded to repo rate cycles?

Dipanwita Mazumdar
Economist

When we talk about monetary policy cycles, the first thing which pops up in our mind is how these interest rate decisions will impact borrowing costs. When the repo rate is changed it is expected that the lending rate too changes for transmission to be successful. The exercise here is an attempt to capture the same, considering the two recent policy rate cycles of RBI. When the pandemic started in March 2020 there was a dramatic easing in monetary policy, with repo rate hitting record low of 4%. This was also reflected in the Weighted Average Lending rate (WALR), witnessing more than complete pass through in the same period. Subsequently the repo rate has been increased by 250 bps to 6.5%.

Both these cycles involved lending rates coming down first and then going up. While borrowers may view this current cycle as imposing an additional burden, this is because abnormal conditions typified by the pandemic had made the interest rates come down to the lowest level. Hence the present level of rates may be viewed as a correction. It is nonetheless interesting to see how interest costs of borrowers have moved and whether presently it is higher than the pre-pandemic times.

Our analysis shows that interest cost on outstanding loans as of Feb 2020 (under certain assumptions) got a benefit of Rs 0.61 lakh crore in FY21 and a further Rs 0.53 lakh crore in FY22 relative to FY21. In FY20 based on the WALR the interest outgo was Rs 10.16 lakh crore on a sum of Rs 101.05 lakh cr. However, in FY22, the cost advantage compared with the base year of FY20 was Rs 1.14 lakh crore while it was Rs 61,000 cr in FY21. Therefore a sum total of Rs 1.75 lakh crore was gained by all borrowers under these assumptions.

However, post pandemic period, with inflation hitting the wrong chord and demand gaining resilience, correction in repo was soon visible. With 250 bps hike in repo in FY23 interest cost on outstanding credit has risen by Rs 0.33 lakh crore over FY22 as interest costs would have been Rs 9.35 lakh crore as against Rs 9.02 lakh crore in FY22. Extrapolating the same for FY24 on the basis of data available for 5 months till August, the interest cost would be Rs 9.91 lakh crore which is still lower than that before the repo rate was lowered in 2020 (Rs 10.16 lakh cr). .

Since pandemic started there has been significant degree of rate action by RBI. During the pandemic, policy rate was reduced to a record low level of 4% to support the growth inflation dynamics, primarily growth requiring more handholding at that juncture. In the pandemic period i.e. between Mar-20 to Apr-22, the pass through was visible in Weighted average lending rate (WALR) as well. In the pandemic period (Mar-20 to Apr-22), WALR on outstanding loans has fallen by 133bps. Thus, it is important to see how interest cost have fared during the same period, to get an idea about debt burden of borrowers.

BUY
TP: Rs 1,600 | ⮝ 17%

HAVELLS INDIA | Consumer Durables | 20 October 2023

Q2 a miss but expect improvement ahead

- **Mixed quarter with 5% YoY declines in ECD and flat lighting but 8% growth in cable & wires and 9% in switches**
- **Aggressive 19% YoY growth at Lloyd came at a Rs 745mn operational loss; HAVL indicated a greater focus on margins ahead**
- **We cut FY24/FY25 EPS by 5% each post Q2; our TP remains at Rs 1,600 on rollover – retain BUY**

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Q2 disappoints: HAVL posted muted topline growth of 6% YoY to Rs 39bn in Q2FY24, though EBITDA margin expanded 170bps YoY to 9.5% led by stronger profitability in the cables & wires business. Adj. PAT at Rs 2.5bn grew 32.4% YoY (4Y CAGR of 8.4%). Working capital was stable at 39 days and the balance sheet remained robust with ~Rs 25bn in net cash.

Cables margin expands but lags peers: The cables segment saw improved profitability with EBIT margin up 530bps YoY, while electrical consumer durables (ECD) and lighting margins were flat. Lighting was impacted by price corrections and the fans (ECD) business slowed due to erratic weather. Lloyd continued to bleed, posting a Rs 745mn EBIT loss despite 19% YoY revenue growth. Although cables & wires remains its best performing segment with 8% topline and 10% volume growth YoY, the company still lags its peer Polycab which saw 29% topline and 30% volume growth in Q2. On EBIT margin as well, HAVL was at 11.6%, 300bps below Polycab's 14.6%.

Margins to come into focus at Lloyd: HAVL continued with its strategy of prioritising market share gains over margins at Lloyd, as reflected in the subsidiary's 19% YoY topline growth and accompanying EBIT loss for Q2. It continues to invest in branding and improving share. However, management indicated that it is now focusing on margins and expects to see improvement going forward.

Management optimistic on H2: HAVL indicated a positive demand outlook for the festival season and expects to earn better margins in H2FY24 than the first half as a large part of the season is occurring in Q3 as opposed to Q2 last fiscal.

Maintain BUY: We remain positive on HAVL's medium-term performance given its strong presence in the consumer durables sector and improving industry sentiment. Incorporating the slower quarterly performance than anticipated, we lower our FY24/FY25 EPS estimates by ~5% each. On rolling valuations forward to Sep'25E, our TP remains at Rs 1,600, based on an unchanged 53x P/E multiple which is in line with the stock's 3Y average. BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HAVL IN/Rs 1,363
Market cap	US$ 10.4bn
Free float	41%
3M ADV	US$ 13.9mn
52wk high/low	Rs 1,466/Rs 1,025
Promoter/FPI/DII	60%/23%/10%

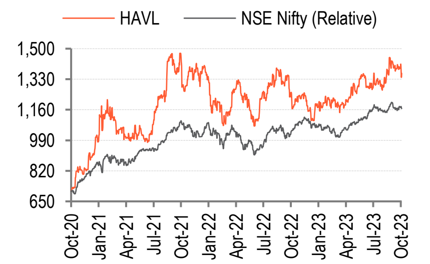
Source: NSE | Price as of 19 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,69,107	1,90,821	2,17,228
EBITDA (Rs mn)	15,991	19,063	24,291
Adj. net profit (Rs mn)	10,717	13,160	16,507
Adj. EPS (Rs)	17.1	21.0	26.3
Consensus EPS (Rs)	17.1	22.0	28.0
Adj. ROAE (%)	17.0	18.8	20.7
Adj. P/E (x)	79.7	64.9	51.7
EV/EBITDA (x)	53.4	44.8	35.1
Adj. EPS growth (%)	(10.4)	22.8	25.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 910 | ⮝ 11%

VOLTAS | Consumer Durables | 21 October 2023

UCP upbeat but EMP plays spoilsport

Vinod Chari | Swati Jhunjhunwala
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- **Q2 mixed with UCP performing well (+ 15% YoY) but EMP continuing to post losses due to collection disputes**
- **Medium-term outlook remains positive due to low AC penetration, product diversification via Voltbek and good prospects for EMP business**
- **We cut FY24/FY25 EPS by 9%/4% but retain our TP of Rs 910 on rollover – maintain HOLD given rising competitive headwinds**

UCP does well, EMP losses continue: VOLT posted 30% YoY topline growth to Rs 22.9bn and 10bps YoY gross margin expansion to 24.5% in Q2FY24. However, EBITDA margin contracted 260bps YoY to 3.1% due to higher promotion spends and employee costs. Revenue from the electro-mechanical projects (EMP) business grew 67% YoY to Rs 9.2bn, though losses continued due to provisions of Rs 860mn made on account of delayed collections in overseas projects. This caused adj. PAT to fall 64% YoY to Rs 357mn.

Room AC business lags peer HAVL: VOLT's unitary cooling products (UCP) revenue grew 15% YoY to Rs 12.1bn vs. 19% growth for rival HAVL (Lloyd). The segment's EBIT margin was up 40bps YoY to 7.7% and VOLT's exit market share stood at 19.5% (vs. 20.6% in Jun'22), with an average share of 19.2% for the last nine months.

Outlook remains positive: While competition is a key monitorable, our medium-term outlook on VOLT remains positive as the company looks to expand its footprint beyond room air conditioners (RAC) with Beko products. In the four years till FY23, Voltbek has sold an impressive 3.3mn units of refrigerators and washing machines. Similarly, in the domestic market, VOLT is targeting EMP business from solar, underground cabling and rural electrification projects. Water management is another focus area where it can handle the entire water treatment process.

EMP troubles to persist: VOLT's EMP business is currently incurring losses (Rs 490mn in Q2) due to disagreements with customers overseas, which has led to delayed collections. Management expects resolution over the next 3-4 quarters and indicated that it is being more selective in taking on projects to prevent such difficulties.

Maintain HOLD: Given market share concerns amid intensifying competition, we retain our HOLD rating on the stock. Following the Q2 results, we pare our FY24/FY25 EPS estimates by 9%/4% while retaining our TP at Rs 910 upon rolling valuations forward to Sep'25E. We continue to value the stock at a target P/E multiple of 40x, an 11% premium to the long-term average 2Y forward P/E.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	VOLT IN/Rs 819
Market cap	US$ 3.3bn
Free float	70%
3M ADV	US$ 12.5mn
52wk high/low	Rs 934/Rs 737
Promoter/FPI/DII	30%/21%/33%

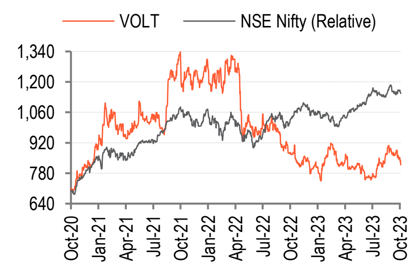
Source: NSE | Price as of 20 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	94,988	1,08,353	1,26,453
EBITDA (Rs mn)	5,724	7,413	10,057
Adj. net profit (Rs mn)	3,788	5,330	7,140
Adj. EPS (Rs)	11.4	16.1	21.6
Consensus EPS (Rs)	11.4	17.0	23.0
Adj. ROAE (%)	6.9	9.6	12.0
Adj. P/E (x)	71.5	50.8	37.9
EV/EBITDA (x)	47.3	36.5	26.9
Adj. EPS growth (%)	(24.8)	40.7	34.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
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BUY
TP: Rs 523 | ⮝ 19%

ITC | Consumer Staples | 20 October 2023

FMCG and hotels continue to shine

- **FMCG business delivered strong topline (+8% YoY) growth in Q2 led by steady portfolio expansion**
- **Hotels segment grew 21% YoY on the back of strong growth in ARR; EBIT swelled 50% led by retail and MICE**
- **Expect deepening rural recovery to aid growth; maintain BUY with an unchanged SOTP-based TP of Rs 523**

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FMCG and hotels lead growth: ITC posted 3.9% YoY revenue growth to Rs 177.7bn in Q2FY24 despite (i) a slowdown in agricultural business on account of the ban on wheat exports, and (ii) a subdued performance in the paper and paperboard segment owing to poor demand in domestic and global markets and cheap Chinese supply. The cigarettes business continued to perform well, growing 9.1% YoY for the quarter, FMCG-others revenue was up 8.3%, and the hotels segment climbed 21.2% YoY (1.5x Q2FY20) despite a high base.

Margin expands despite stress in paper business: ITC's EBITDA margin increased 230bps YoY (-260bps QoQ) to 36.3% as the hotels business saw 170bps expansion to 30.7%, followed by FMCG-others (+150bps to 11%). Profitability in the paper and paperboard segment was dented by lower realisations and a spike in input costs. Adj. PAT grew 6% YoY to Rs 48.9bn with margin gains of 60bps.

Operating environment remains challenging: ITC mentioned that consumption demand has been relatively subdued, especially in the value segment and in rural markets due to subpar monsoons and a spike in food inflation during the quarter. However, management indicated that it is seeing green shoots of recovery as the prospects of improved agricultural output, onset of the festive season, higher rural wages, and government spending on infrastructure augur well for a recovery in rural markets.

Maintain BUY: We expect ITC's growth to pick up as the ongoing demand recovery deepens. The cigarettes business continues to deliver strong volume growth and market share gains in the absence of competition from illicit trade. Further, the FMCG-others and hotels segment have both registered a healthy performance across markets and portfolios. Given robust cigarette sales and earnings visibility in the FMCG and hotels businesses, we maintain BUY on ITC with an unchanged SOTP-based TP of Rs 523.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ITC IN/Rs 438
Market cap	US$ 66.3bn
Free float	71%
3M ADV	US$ 61.1mn
52wk high/low	Rs 500/Rs 325
Promoter/FPI/DII	0%/43%/57%

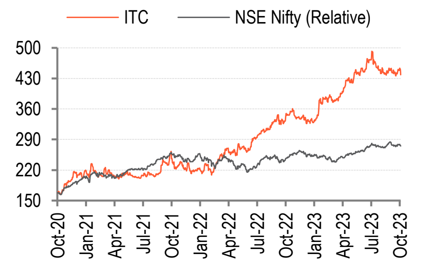
Source: NSE | Price as of 20 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	709,369	741,223	882,161
EBITDA (Rs mn)	256,649	271,482	319,342
Adj. net profit (Rs mn)	194,039	207,846	237,968
Adj. EPS (Rs)	15.4	16.5	18.9
Consensus EPS (Rs)	15.4	15.8	17.8
Adj. ROAE (%)	27.9	28.5	31.0
Adj. P/E (x)	28.4	26.5	23.2
EV/EBITDA (x)	21.2	20.1	17.1
Adj. EPS growth (%)	22.4	7.0	14.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD

TP: Rs 9,396 | ⮝ 11%

ULTRATECH CEMENT | Cement | 20 October 2023

Steady performance with no big surprises

- **Q2 revenue up 15% YoY backed by 16% rise in dispatches; realisations resilient despite volume push in a monsoon quarter**
- **EBITDA margin climbed 240bps YoY to 15.1% on lower-than-expected fuel cost**
- **Positives priced in; maintain HOLD with an unchanged TP of Rs 9,396**

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Realisations intact despite volume push: UTCEM reported 15% YoY (-10% QoQ) revenue growth to Rs 155.2bn in Q2FY24, largely in line with our estimate. Domestic grey cement volumes grew 15% YoY (-12% QoQ) to 25.1mn tonnes. As expected, capacity utilisation stood at ~75% vs. ~86% in Q1. Realisations adjusted for incentive receipt were stable YoY (+2% QoQ), indicating that UTCEM was able to shift volumes out of non-remunerative regions where prices were soft during the quarter and sell in higher paying markets.

Cost structure improves; further room for reduction: Operating cost per tonne declined 3.6% YoY (+4.1% QoQ) to Rs 5,217/t but was higher than expected due to non-recurring staff (Rs 0.4bn-0.5bn) and other expenses. The opex decline was driven by lower fuel expenses at Rs 1,586/t (-11.6% YoY/-1.3% QoQ). Blended fuel consumption cost for the quarter was US$ 162/t (-19% YoY) and UTCEM expects a further reduction in Q3. Logistics cost/t was flat YoY and fell 2.9% QoQ to Rs 1,373/t owing to lower lead distance (-25km YoY). Other expenditure increased 16.4% YoY (+11% QoQ) to Rs 21.4bn due to maintenance shutdown costs.

Sizeable increase in EBITDA; scope for further margin gains: EBITDA rose 37% YoY (-19% QoQ) to Rs 23.5bn with margin expansion to 15.1% from 12.7% in Q2FY23 (~17% in Q1FY24) on the back of cost savings. EBITDA/t increased 18% YoY (-8% QoQ) to Rs 931/t. Without the one-off staff expense and with added fuel cost savings, EBITDA margin is likely to expand further next quarter.

Capex mode continues: UTCEM added 2.5mt of capacity in Q2 (including ~1.2mt of debottlenecking), taking its total cement capacity to 132.4mt. Capex spend in Q2FY24/H1FY24 was Rs 25.4bn/Rs 45bn, out of management's full-year guidance of Rs 60bn-70bn. Net debt increased by Rs 22.1bn.

Maintain HOLD: We maintain our FY24/FY25 forecasts and continue to value the stock at 15x FY25E EV/EBITDA, in line with the 10Y mean, retaining our TP of Rs 9,396. At our TP, the stock trades at a replacement cost of Rs 20bn/mt, 2.5x premium to the industry. Maintain HOLD on limited upside potential.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	UTCEM IN/Rs 8,461
Market cap	US$ 29.7bn
Free float	40%
3M ADV	US$ 32.8mn
52wk high/low	Rs 8,751/Rs 6,316
Promoter/FPI/DII	60%/15%/17%

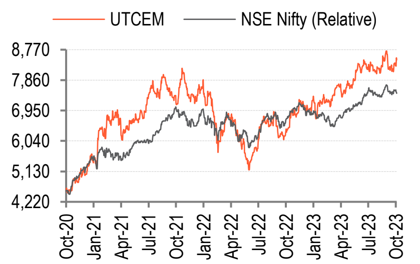
Source: NSE | Price as of 20 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	6,04,626	6,67,249	7,70,626
EBITDA (Rs mn)	99,312	1,35,942	1,75,458
Adj. net profit (Rs mn)	49,169	69,937	98,050
Adj. EPS (Rs)	170.3	242.3	339.7
Consensus EPS (Rs)	170.3	266.0	326.0
Adj. ROAE (%)	9.6	12.5	15.5
Adj. P/E (x)	49.7	34.9	24.9
EV/EBITDA (x)	24.2	17.7	13.8
Adj. EPS growth (%)	(24.7)	42.2	40.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 840 | ⮝ 9%

JSW STEEL | Metals & Mining | 23 October 2023

Volume momentum from expansion but near-full valuation

- **Q2 result beat estimates on higher cost savings in standalone operations beyond coking coal reduction**
- **Dolvi expansion spurred growth and momentum likely to continue with further 9mt addition planned by FY25**
- **We maintain HOLD with minor tweak to TP to Rs 845 (from Rs 840) as near-full valuation makes for unfavourable risk-reward**

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Q2 beat: JSTL's consolidated EBITDA was 11% ahead of consensus and 9% ahead of our estimates, driven by a beat from standalone operations which posted 2% higher sales volume and Rs 2.1k/t higher EBITDA margin at Rs 12.8k/t than we expected.

Volume momentum from expansion drive: With completion of the Vijayanagar expansion, JSTL's production/sales volumes grew 27%/37% YoY in H1FY24.

Margin improvement likely include lower loss on sale of iron ore to BPSL: Despite a Rs 4.5k/t QoQ reduction in realisation, JSTL has clocked a sequential EBITDA/t improvement of Rs 2.9k/t (standalone) as it achieved cost savings of Rs 7.4k/t. Although the company clocked a US$ 54/t reduction in coking coal cost due to a better blend this quarter, this explains only Rs 3-3.5k/t of the savings. Additional savings could have accrued from lower iron ore cost, lower conversion cost and possibly lower loss on sale of iron ore to BPSL due to reduced ore production.

Q3 margin likely to be range-bound: While JSTL expects to face higher coking coal cost of US$ 30/t in Q3FY24, most of this is likely to be offset by price increases taken by the company over August-October. We remain watchful of any reversal in cost savings (iron ore sales to BPSL usually normalise in the post-monsoon quarter).

Exciting growth: We broadly retain our FY24-FY26 forecasts and bake in a 32% EBITDA CAGR over FY23-FY26. We factor in volume ramp-up of 5.8mt over three years to 29.4mt by FY26, based on planned capacity addition of ~9mt. We also assume improvement in EBITDA margin from an estimated Rs 12.2k/t in FY24 to Rs 13.6k/t in FY26 as expanded capacities stabilise.

Retain HOLD: Despite optimistic estimates and a target 1Y fwd EV/EBITDA multiple above the historical trading range at 6.5x, our TP of Rs 840 (Rs 845 previously) yields just 9% upside. With aggressive growth approach, JSTL aims to maintain net debt to EBITDA below 3.75x. However, this makes JSTL more vulnerable than peers to any change in cyclical outlook. We continue to find risk-reward unfavourable at this juncture and thus maintain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	JSTL IN/Rs 769
Market cap	US$ 22.9bn
Free float	40%
3M ADV	US$ 22.2mn
52wk high/low	Rs 840/Rs 617
Promoter/FPI/DII	45%/11%/10%

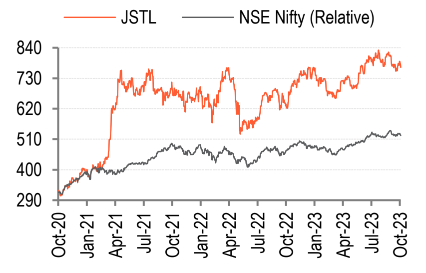
Source: NSE | Price as of 20 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs bn)	1,660	1,789	1,863
EBITDA (Rs bn)	185	319	371
Adj. net profit (Rs bn)	41	119	163
Adj. EPS (Rs)	17.1	48.9	66.6
Consensus EPS (Rs)	17.1	49.2	62.7
Adj. ROAE (%)	6.2	16.9	19.6
Adj. P/E (x)	44.9	15.7	11.6
EV/EBITDA (x)	7.0	4.1	3.4
Adj. EPS growth (%)	(79.0)	185.0	36.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,755 | ⮝ 21%

INDUSIND BANK | Banking | 20 October 2023

Strong growth with stable margins and asset quality

- **Despite higher opex, Q2 PAT increased 22% YoY to Rs 22bn driven by steady business growth**
- **Reported NIM stable QoQ at 4.3% as a sustained rebound in vehicle and microfinance loans offset an increase in cost of funds**
- **We broadly maintain our estimates and reiterate BUY with an unchanged TP of Rs 1,755**

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Loans up 21% YoY: IIB continued its strong credit growth trajectory with advances rising 21.3% YoY (+4.7% QoQ) in Q2FY24, driven by the CFD book (+6.4%/+24.5% QoQ/YoY), wherein the vehicle finance, non-vehicle finance and MFI segments outperformed. CCB growth remained muted (+2.7%/+17.6% QoQ/YoY) despite a strong performance from small corporates which grew 8.2% QoQ (+50.2% YoY). Deposit growth was subdued at 3.6% QoQ (+14% YoY), wherein low-cost retail deposits as per LCR grew 21% YoY to 43.7% of the mix while the CASA ratio fell 55bps to 39.3%.

NIM stable; PAT robust despite high C/I ratio: Continued recovery in the high-yield CFD business supported a stable reported NIM of 4.3% despite a 23bps QoQ rise in deposit cost. IIB continues to guide for NIM of 4.2-4.3% in FY24. NII growth was healthy at 4.3% QoQ (+18% YoY) while non-interest income growth was muted at 3% (+13% YoY). Opex stayed elevated due to the bank's continued investment in human capital, digital launches and marketing initiatives that raised the C/I ratio by 102bps to 47%. Muted other income coupled with higher opex limited PPOP growth to 2% QoQ (+10% YoY).

Asset quality stable: Retail slippages continued to decline (Rs 8.6bn vs. Rs 10.6bn in Q1), while corporate slippages increased to Rs 2.1bn (vs. Rs 0.4bn) with Rs 1.7bn of this coming from a single account. Credit cost(calc.) stood at 126bps vs. 134bps in Q1FY24 and 180bps in Q2FY23, in line with guidance of 110-130bps over FY23-FY26. GNPA/NNPA were stable at 1.9%/0.57% with PCR of 70.5%. Steady reduction in the restructured book (54bps of loans vs. 66bps in Q1) and a flat SMA book (26bps vs. 23bps) provide confidence on asset health. IIB expects further improvement in asset quality given the favourable macro conditions.

Maintain BUY: Strong growth momentum in retail and recovery in the MFI book led to stable margins despite higher costs. We expect IIB's favourable loan mix and stable asset quality to aid improvement in ROA/ROE to 1.9%/16.2% in FY25 vs. 1.7%/14.5% in FY23. We broadly maintain our estimates post Q2 and retain BUY with an unchanged TP of Rs 1,755, valuing the stock at 1.9x FY25E P/ABV (Gordon Growth Model).

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	IIB IN/Rs 1,450
Market cap	US$ 13.7bn
Free float	84%
3M ADV	US$ 47.0mn
52wk high/low	Rs 1,476/Rs 990
Promoter/FPI/DII	16%/41%/28%

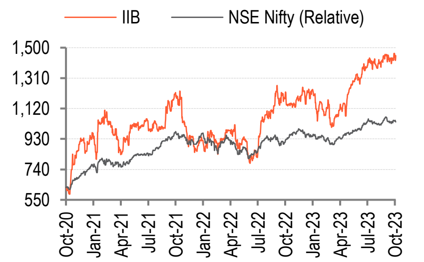
Source: NSE | Price as of 19 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	175,921	206,754	244,507
NII growth (%)	17.3	17.5	18.3
Adj. net profit (Rs mn)	74,431	91,483	109,519
EPS (Rs)	96.0	117.9	141.2
Consensus EPS (Rs)	96.0	119.2	141.1
P/E (x)	15.1	12.3	10.3
P/BV (x)	2.0	1.8	1.6
ROA (%)	1.7	1.9	1.9
ROE (%)	14.4	15.5	16.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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HOLD
TP: Rs 2,286 | ⮝ 6%

DALMIA BHARAT | Cement | 21 October 2023

Cost respite in an otherwise muted quarter

- **Q2 volume growth slowed to single digits (7% YoY) owing to fierce competition in key operating regions**
- **EBITDA grew 56% YoY off a weak base and aided by lower fuel cost, with healthy margin improvement**
- **Maintain HOLD with an unchanged TP of Rs 2,286, set at 11x FY25E EV/EBITDA**

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Realisations decline, volume growth softens: Dalmia Bharat's (DBL) Q2FY24 revenue growth was muted at 6% YoY (-13.1% QoQ) to Rs 31.5bn because of flat realisations and soft volume growth. Volumes grew just 6.9% YoY (-11.4% QoQ) to 6.2mt while realisations fell ~1% YoY (2% QoQ) to Rs 5,079/t due to continued weakness in southern markets and market share losses in the eastern region.

Cost structure improves: Notwithstanding inflated staff expense of Rs 365/t (+11.9% YoY), overall cost/t was down 8% YoY (-4.1% QoQ) to Rs 4,129 due to a 14% (-5.3% QoQ) decline in energy cost (adjusted to raw material) to Rs 1,985/t and an 4.0% (-8.4% QoQ) decrease in the logistic cost (outward logistic) to Rs 897/t. Management expects a marginal reduction of ~3% in fuel cost in H2FY24.

EBITDA growth off a weak base: Despite weak realisations and subpar volume growth, EBITDA grew 56.2% YoY (-3.4% QoQ) to Rs 5.9bn off a low base, further aided by reduced costs. EBITDA margin expanded 600bps YoY and 185bps QoQ to 18.7% and EBITDA/t stood at Rs 950 (+52.5% YoY/12.5% QoQ).

Capacity expansion underway: DBL closed Q2 with cement capacity of 43.7mn tonnes and is on track to reach 46.6mt by FY24-end. Clinker capacity of 22.2mt is expected to reach 22.9mt by the end of the fiscal. DBL's capex guidance for FY24 is ~Rs 65bn, of which Rs 35bn is earmarked for the Jaypee acquisition and the balance for organic expansion. We retain our EBITDA forecasts but cut FY25 EPS 10% (FY24 unchanged) to accommodate capex-related depreciation and interest cost.

Fairly valued; retain HOLD: With the ongoing expansion by FY24/FY25, DBL's chase for volumes will only intensify, but narrowing the gap between its regional dispatches and capacities will be a challenge. Of late, the company has focused on improving the balance sheet and controlling debt with fair success. However, its aggressive capex spree does imply intermittent periods of higher leverage in the short/medium term. We find current valuations fair and maintain HOLD with an unchanged TP of Rs 2,286 as we continue to value the stock at 11x FY25E EV/EBITDA – an implied replacement cost of Rs 8.4bn/mt.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	DALBHARA IN/Rs 2,158
Market cap	US$ 4.9bn
Free float	44%
3M ADV	US$ 9.1mn
52wk high/low	Rs 2,425/Rs 1,511
Promoter/FPI/DII	56%/12%/8%

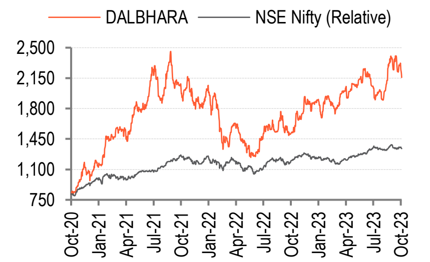
Source: NSE | Price as of 20 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,35,400	1,53,921	1,77,753
EBITDA (Rs mn)	23,160	27,895	37,447
Adj. net profit (Rs mn)	6,321	9,537	15,138
Adj. EPS (Rs)	34.2	51.5	81.8
Consensus EPS (Rs)	34.2	53.7	75.5
Adj. ROAE (%)	4.7	6.4	10.1
Adj. P/E (x)	63.2	41.9	26.4
EV/EBITDA (x)	17.6	15.4	11.3
Adj. EPS growth (%)	(41.9)	50.9	58.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 620 | ∀ 1%

GLENMARK LIFE SCIENCES

| Pharmaceuticals | 21 October 2023

Revenue in line but higher opex dampens margins

- **Q2 revenue in line at Rs 6bn but EBITDA/PAT 3%/6% below our estimates due to higher opex and a product mix change**
- **5Y agreement with Glenmark Pharma (GPL) to safeguard business interest after stake sale to Nirma group**
- **We largely retain our estimates and reiterate our DCF-based TP of Rs 620 and HOLD rating**

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Revenue growth led by generic APIs; CDMO disappoints: GLS reported 17% YoY revenue growth in Q2FY24 to Rs 6bn led by a 20% increase in generic API sales that comprised robust business from GPL and steady external API income. Regulated markets, including the US, Europe, LATAM and India, continued to spearhead growth, with the CVS and CNS API portfolios faring well. CDMO business contracted 18% YoY due to a temporary blip in demand for one product. Management stated that it is in talks with several companies globally and expects to add 2-3 CDMO projects to its portfolio in the next 2-3 years.

Seasonality, mix change and higher opex hurt margins QoQ: Gross margin expanded 125bps YoY, but EBITDA margin was flat at 28.1% due to higher opex, specifically employee cost. Sequentially, gross/EBITDA margins contracted 300bps/530bps due to a change in product mix towards the low-margin generic business, as CDMO revenue contribution halved to 4% from 8% in the previous quarter. Seasonality also had a role to play. EBITDA/PAT thus declined 14%/12% QoQ to Rs 1.7bn/Rs 1.2bn in Q2, falling 3%/6% short of our estimates.

Guidance intact; growth plans seen unaffected by management change: Last month, detergent soap maker Nirma acquired a 75% stake in GLS for ~Rs 56.5bn. GLS's management reiterated that the change in ownership will not have any impact on growth plans and profitability. The company has a five-year agreement with GPL that will ensure business continuity but will lower dependance on the GPL in the long run as planned earlier. Management reiterated its mid-teens revenue growth and ~30% EBITDA margin guidance for FY24.

Maintain HOLD: GLS's shares are trading at 14.6x/12.7x FY24E/FY25E EPS. We leave our FY24/FY25 estimates largely unchanged and introduce FY26 forecasts. Our two-stage DCF model yields a TP of Rs 620, implying an FY25E P/E of 12.4x. Given the low upside potential, we maintain our HOLD rating on the stock.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	GLS IN/Rs 624
Market cap	US$ 930.0mn
Free float	17%
3M ADV	US$ 2.1mn
52wk high/low	Rs 675/Rs 370
Promoter/FPI/DII	83%/4%/1%

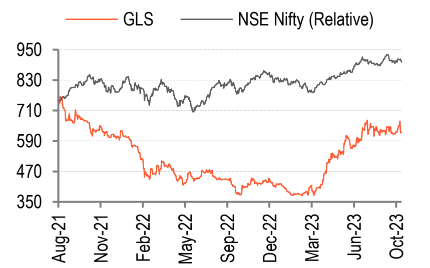
Source: NSE | Price as of 20 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	21,613	24,497	27,480
EBITDA (Rs mn)	6,424	7,295	8,388
Adj. net profit (Rs mn)	4,691	5,235	6,036
Adj. EPS (Rs)	38.3	42.7	49.3
Consensus EPS (Rs)	38.3	47.7	51.5
Adj. ROAE (%)	22.0	22.1	21.9
Adj. P/E (x)	16.3	14.6	12.7
EV/EBITDA (x)	12.2	10.0	8.7
Adj. EPS growth (%)	12.0	11.6	15.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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CEMENT

20 October 2023

Dealers Day: Positive demand and pricing outlook

- **Cement prices hiked by Rs 15-20/bag in the north, west and central regions in recent weeks, taking cues from the east and south**
- **Southern market saw steepest increase of Rs 70-80/bag in early October, but dealers suggest hikes in small doses are easier to absorb**
- **Q3FY24 likely to see healthy demand as the busy season kicks off post monsoon, lending partial support to price hikes**

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We hosted a call with regional cement dealers and experts across India to gauge post-monsoon demand and pricing trends along with festive season expectations. Takeaways:

Price hikes in east and south have spread to other regions: Our dealer checks indicate that cement prices in India's northern, western and central regions have risen by Rs 15-20/bag in recent weeks, following hikes implemented in the eastern and southern markets. In the east, cement is selling at Rs 410/bag after prices were raised by ~Rs 35 in September. In the south, a hefty increase of Rs 70-80 in early October sent rates to Rs 380-390/bag, with our expert panel anticipating another imminent hike to make up for losses incurred over Q1-Q2FY24 and to tap into festive season demand.

Demand turns soft following steep hikes…: Per dealers, hikes in small doses are easier to digest than large ones. Demand in the southern and eastern regions has softened due to the stiffer pricing, plunging 20-30% in some areas. The lack of customer support has prompted a partial rollback, with prices declining to Rs 370/bag in recent days. In the east, levels upward of Rs 380/bag lead to strong customer attrition. Dealers also highlighted that offtake in some pockets, such as rural centres in western India (Maharashtra in particular), is sluggish due to lower cash flow from the agriculture sector.

…but likely to improve: Though the buyer response signals resistance to higher prices, the consensus among panelists was that demand is likely to pick up across regions due to ongoing government projects and the festive season through to December.

OPC and PPC trends: Per dealers, the recent hikes covered both Pozzolana Portland Cement (PPC) and Ordinary Portland Cement (OPC) in central and north India, but largely PPC in the south. In the eastern region, the gap between OPC and PPC for the non-trade segment has widened to an abnormal level of ~Rs 100/bag.

Positive outlook for Q3: Our expert panel believes cement demand is likely to gather pace in Q3FY24 and early-Q4FY24 till the model code of conduct is announced for the 2024 general elections. This leaves room for at least half of the announced price hikes to be absorbed, implying potentially strong realisations across regions in Q3.

Recommendation snapshot

Ticker	Price	Target	Rating
ACC IN	2,031	1,964	HOLD
ACEM IN	437	435	HOLD
DALBHARA IN	2,208	2,286	HOLD
JKCE IN	3,345	3,474	HOLD
JKLC IN	676	551	SELL
ORCMNT IN	205	128	SELL
SRCM IN	26,298	25,731	HOLD
STRCEM IN	172	159	HOLD
TRCL IN	993	585	SELL
UTCEM IN	8,519	9,396	HOLD

Price & Target in Rupees | Price as of 19 Oct 2023

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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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