

RESEARCH
METALS & MINING

Steel sector risk-reward has turned unfavourable

MAHINDRA & MAHINDRA | TARGET: Rs 3,210 | +13% | HOLD

Investor day takeaways: Poised to tap growth opportunities

VOLTAS | TARGET: Rs 1,410 | -5% | HOLD

Annual report analysis: Beko to fuel growth

SUMMARY
METALS & MINING

- Ferrous steel stock valuations are now higher than the 10-year average as well as current valuation of their global peers
- We believe ferrous majors are largely pricing in volume growth, and we see lower possibility of margin surprise during the early recovery phase
- Raise TPs to account for full benefit of expansion and early recovery phase; retain HOLD on JSP, JSTL and TATA; downgrade SAIL to SELL

[Click here](#) for the full report.

MAHINDRA & MAHINDRA

- Shifts gears to tap auto segment growth with planned capex to increase capacity by 3.5x in FY26 (vs FY20) with focus on SUVs (ICE + EV)
- MM to focus on farm equipment segment and priorities tractor growth in domestic and exports markets to grow past 15-year CAGR of 7.5%
- We raise FY25E/FY26E EPS by ~2%/5% and TP to Rs 3,210 (vs Rs 2,572) as we now value MM's core business at 24x FY26E P/E. Maintain HOLD

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Daily macro indicators

Indicator	19-Jun	20-Jun	Chg (%)
US 10Y yield (%)	4.22	4.26	4bps
India 10Y yield (%)	6.97	6.98	0bps
USD/INR	83.45	83.65	(0.2)
Brent Crude (US\$/bbl)	85.1	85.7	0.8
Dow	38,835	39,135	0.8
Hang Seng	18,430	18,335	(0.5)
Sensex	77,338	77,479	0.2
India FII (US\$ mn)	18-Jun	19-Jun	Chg (\$ mn)
FII-D	264.5	101.0	(163.5)
FII-E	188.8	1,099.9	911.0

Source: Bank of Baroda Economics Research



VOLTAS

- Despite denting market share, VOLT notched sales of more than 2mn AC units
- The medium-term outlook remains optimistic considering AC underpenetration in India
- We maintain our EPS estimates and value the stock at 49x FY26E P/E (previously 44x) and raise TP to Rs 1,410; maintain HOLD

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METALS & MINING

21 June 2024

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Steel sector valuations are no longer cheap: The four steel majors are currently trading within the 2Y fwd EV/EBITDA valuation range of 6.5x-7.4x, which is already above the 10-year mean range of 5.5x-6.5x. While JSTL and TATA, the stocks with relatively lower volatility, are trading close to 2 standard deviations (SD) above the 10-year mean, JSP is trading at least 1SD above the 10-year mean multiple.

Besides its own history, the stocks are trading at a premium to their global peers.

Constructive on earnings growth: We have tweaked our FY25/FY26 EBITDA estimates by -0.3%/ +1.7% for the four majors under our coverage on an aggregate basis. We believe the steel majors on an aggregate basis are geared to deliver 25% CAGR over FY24-26 with the delivery of expansion projects.

Possibility of margin surprise low: While commodity stocks generally benefit from margin expansion during the early recovery phase, we see lower possibility of the same in the ferrous space during this recovery. We expect demand to normalise at some time next year as the western world kicks in interest cuts and China succeeds in arresting demand destruction in the real estate sector. However, we remain concerned about surplus in China, limiting regional margin below mid-cycle levels.

Raise TPs: We raise valuation to factor in (a) full benefit of committed expansion, ie, even incremental EBITDA beyond our FY26 valuation base, (b) raised sector target multiple of 6.5x (from 6.0x) to allow for uplift in the early economic recovery period, (c) roll forward of valuation to Jun'25. We apply a graded target multiple across four stocks with JSTL at 7x (for aggressive growth delivery), TATA India at 6.5x (sector), JSP at 6x (still to demonstrate delivery on growth) and SAIL at 5x (weaker margin and growth prospects). This results in increased TPs for JSP to Rs 1,055 (from Rs 805), JSTL to Rs 940 (Rs 830), SAIL to Rs 110 (Rs 90), TATA to Rs 175 (Rs 170).

Sector pricing in volume growth: With the recent 48% rally since Nov'23 vs 23% in NIFTY 50, we believe ferrous majors are now largely pricing in the benefits of expansion. We retain our HOLD ratings on TATA, JSTL and JSP, and downgrade the rating on SAIL to SELL from HOLD.

Recommendation snapshot

Ticker	Price	Target	Rating
JSP IN	1,077	1,055	HOLD
JSTL IN	937	940	HOLD
SAIL IN	155	110	SELL
TATA IN	180	175	HOLD

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



HOLD

TP: Rs 3,210 | ▲ 13%

MAHINDRA & MAHINDRA | Automobiles

21 June 2024

Investor day takeaways: Poised to tap growth opportunities

- Shifts gears to tap auto segment growth with planned capex to increase capacity by 3.5x in FY26 (vs FY20) with focus on SUVs (ICE + EV)
- MM to focus on farm equipment segment and priorities tractor growth in domestic and exports markets to grow past 15-year CAGR of 7.5%
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Auto segment growth charted clearly: MM plans to enhance capacity to 72k/m by FY26E, implying CAGR of 25% over FY20-FY26E. The exit capacity of 64k/m in FY25E is an addition of 15k (49k/m in FY24), including 5k/m dedicated to ICE models and 10k/m to EVs. This growth will be due to MM's focus on margins.

Well-balanced growth between ICE and electric vehicle segment: MM has earmarked Rs 270bn for auto segment capex over FY25e-FY27e. The capex is well balanced for the internal combustion engine (ICE) segment at Rs 140bn, with 80% of the investments dedicated to product development. MM will invest Rs 120bn in the EV segment (additional Rs 10bn investments for cell localisation).

Strong launch pipeline: MM has plans for a strong launch pipeline, including nine ICE SUVs (six new launches), seven light commercial vehicles (five ICE + two EV) and seven EVs categorised as Born EV (BEV) spread over the next six years. The spread of the new launches will be broadly in two tranches, FY25-FY27 and FY28-FY30 cycles, ensuring well spread launches over the next 60-72 months.

Farm equipment segment to provide strong support: Strong tractor volumes in domestic and export markets, farm machinery and better technology use will potentially drive FES for MM. This will drive margins and help MM beat 7.5% growth CAGR of the past 15 years. MM has set aside Rs 50bn as capex with Rs 28bn for new products, Rs 7bn for capacity, Rs 15bn for sustenance (Rs 6bn expenses for TREM V regulations).

Last mile mobility (LMM) and other key segments: MM will focus on exploring the underpenetrated EV space in LMM (~11%) for growth. MM expects all the other major subsidiaries to be focused on growth and margin delivery.

Valuations and rating: We raise FY25E/FY26E EPS by ~2%/5% and TP to Rs 3,210 (from Rs 2,572). We value MM's core business at 24x FY26E P/E (Rs 2,848) and other businesses at Rs362/share. We maintain our HOLD rating. Further details are provided in the Valuation Methodology page.

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Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MM IN/Rs 2,840
Market cap	US\$ 43.2bn
Free float	81%
3M ADV	US\$ 103.5mn
52wk high/low	Rs 3,014/Rs 1,369
Promoter/FPI/DII	19%/37%/29%

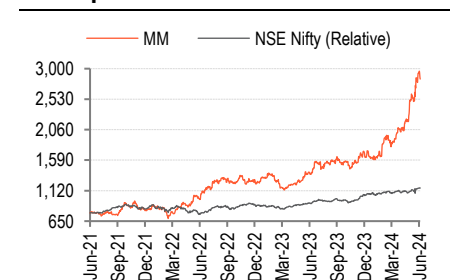
Source: NSE | Price as of 21 Jun 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	9,87,634	11,32,898	12,84,925
EBITDA (Rs mn)	1,26,662	1,59,261	1,89,763
Adj. net profit (Rs mn)	1,07,178	1,16,835	1,42,164
Adj. EPS (Rs)	89.5	97.5	118.7
Consensus EPS (Rs)	89.5	99.9	115.4
Adj. ROAE (%)	22.4	19.9	19.8
Adj. P/E (x)	31.7	29.1	23.9
EV/EBITDA (x)	27.8	21.9	18.3
Adj. EPS growth (%)	63.7	9.0	21.7

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

Stock performance



Source: NSE



HOLD
 TP: Rs 1,410 | ▼ 5%

VOLTAS

| Consumer Durables

| 21 June 2024

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Healthy topline; market share losses persist: VOLT's market share dropped to 18.7% in FY24 from 26.1% in FY23. Despite this, VOLT's AC volume growth jumped 35%, crossing 2mn AC unit sales in FY24. Also, the company's topline grew 31.4%, but its gross margin contracted 95bps and EBITDA margin 220bps YoY, mainly due to provisions for the electro-mechanical projects (EMP) business and cost escalations. APAT for FY24 was Rs 2.5bn.

Voltbek to fuel growth: VOLT's medium-term outlook remains positive, in our view, as its reach expands beyond room air conditioners. In just five years, Voltbek has become the fastest-growing Indian consumer durables brand, selling 5mn units of home appliances, and aims to expand its current 11,400 touchpoints. Also, VOLT achieved 12% of sales from e-commerce channels and consistently introduced new products across categories to meet diverse consumer needs in FY24.

Domestic EMP robust: VOLT is concentrating on large-scale solar, subterranean cabling, and rural electrification projects in its home market. Through the PM Surya Ghar plan, it has dabbled in rooftop solar, which offers significant prospects for the business. VOLT dominates the spinning machinery market with a 65% share. Additionally, the business has obtained a sizable Powerscreen order in the mining and construction sectors offering revenue visibility for the next five years.

Balance sheet remains robust: Despite a dismal FY24, VOLT maintains a healthy balance sheet with cash and equivalents of Rs 26bn. It has planned capex of Rs 4.5bn-5bn in FY25, of which ~Rs 2.7bn will be used to commission the Chennai factory and ~Rs 2bn will fund other factory capacity enhancements.

Maintain HOLD: We believe that moving forward EMP's profits will increase as most of the provisioning has been completed. Profit visibility is enhanced by the unitary cooling product segment's margin expansion, Voltbek's continuous development, and capacity expansion in the next two years. We value VOLT at 49x FY26E P/E in line with 3Y avg (from 44x in line with the 2Y avg), and increase TP to Rs 1,410 from Rs 1,260. Maintain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	VOLT IN/Rs 1,484
Market cap	US\$ 6.0bn
Free float	70%
3M ADV	US\$ 34.8mn
52wk high/low	Rs 1,560/Rs 745
Promoter/FPI/DII	30%/21%/33%

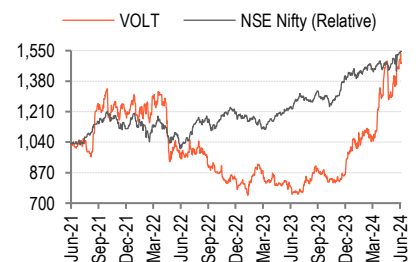
Source: NSE | Price as of 20 Jun 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	124,812	144,906	165,272
EBITDA (Rs mn)	4,746	11,264	13,513
Adj. net profit (Rs mn)	2,520	8,001	9,507
Adj. EPS (Rs)	7.6	24.2	28.7
Consensus EPS (Rs)	7.6	24.0	31.0
Adj. ROAE (%)	4.5	13.1	14.0
Adj. P/E (x)	194.9	61.4	51.7
EV/EBITDA (x)	103.5	43.6	36.3
Adj. EPS growth (%)	(33.5)	217.5	18.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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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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