FIRST LIGHT

25 January 2024

RESEARCH

HITACHI ENERGY | TARGET: Rs 4,200 | -26% | SELL

In-line quarter but valuations overdone; cut to SELL

BOB ECONOMICS RESEARCH | FY25 BUDGET PREVIEW

Focus to remain on consolidation

KOTAK MAHINDRA BANK | TARGET: Rs 2,100 | +17% | BUY

NIM intact QoQ; higher provisions dull profit

AXIS BANK | TARGET: Rs 1,252 | +18% | BUY

Profits subdued despite strong business growth

HAVELLS INDIA | TARGET: Rs 1,600 | +22% | BUY

Slow quarter but summer could bring cheer; maintain BUY

KEI INDUSTRIES | TARGET: Rs 3,120 | -6% | HOLD

Decent quarter; maintain HOLD

JK CEMENT | TARGET: Rs 4,121 | -0% | HOLD

Healthy performance but priced in

GLENMARK LIFE SCIENCES | TARGET: Rs 765 | -4% | HOLD

Strong margins make up for subdued revenue growth

Daily macro indicators

Indicator	22-Jan	23-Jan	Chg (%)
US 10Y yield (%)	4.11	4.13	2bps
India 10Y yield (%)	7.18	7.18	0bps
USD/INR	83.07	83.16	(0.1)
Brent Crude (US$/bbl)	80.1	79.6	(0.6)
Dow	38,002	37,905	(0.3)
Hang Seng	14,961	15,354	2.6
Sensex	71,424	70,371	(1.5)
India FII (US$ mn)	**18-Jan**	**19-Jan**	**Chg ($ mn)**
FII-D	144.1	70.4	(73.7)
FII-E	(1,106.1)	(427.5)	678.6

Source: Bank of Baroda Economics Research

SUMMARY

HITACHI ENERGY

- Q3 EBITDA margin rose 150bps YoY to 5.3% as chip constraints eased, leading to 5x jump in PAT off a low base
- Management retains guidance of double-digit margins by end-FY25 led by HVDC, rail and export orders
- Stock has rallied sharply by 70% in FY24 YTD and current P/E of 65x on Dec'25E looks overstated – cut from HOLD to SELL

Click here **for the full report.**

BOBCAPS Research
research@bobcaps.in

INDIA ECONOMICS: FY25 BUDGET PREVIEW

With 2024-25 budget being an interim one, government will focus on maintaining continuity of policies, while committing itself to the path of fiscal consolidation. We expect centre to achieve its fiscal deficit target of 5.9% in FY24, with risks titled to the upside. These risks emerge from: lower than anticipated nominal GDP growth, and higher than budgeted expenditure. From these levels, government is expected to reduce deficit target by ~50bps in FY25BE, thus targeting 5.4-5.5% range in our base case scenario. In the wake of weak monsoon, and subdued Rabi sowing, budget will focus on steering rural growth. For this, enhanced spending on MGNREGA, PM KISAN, and PMAY can be expected. Driving investment growth will be another focus area for the government. We thus expect Rs 1.5-2 lakh crore incremental increase in capex for the next year. Markets will also keep a watchful eye on government's borrowing program, which is anticipated to increase only marginally next year.

Click here for the full report.

KOTAK MAHINDRA BANK

- Business growth held strong in Q3, but treasury losses and higher provisions weighed on PAT (-6% QoQ)
- Reported NIM was stable sequentially at 5.2%, asset quality healthy with controlled slippages, and credit cost flat ex-AIF provision
- TP revised to Rs 2,100 from Rs 2,007 as we now value the stock at 2.5x on FY26E ABV (vs. 2.7x on FY25E)

Click here for the full report.

AXIS BANK

- NII growth subdued at 9% YoY despite credit/deposit growth of 22%/18%, due to a high cost of funds
- Reported NIM declined 10bps QoQ to 4%; higher opex and provisions slowed PAT growth to ~3% YoY and QoQ
- Maintain BUY with revised TP of Rs 1,252 (vs. Rs 1,155), set at 1.7x FY26E ABV (vs. 1.9x on FY25E)

Click here for the full report.

HAVELLS INDIA

- Q3 revenue grew just 7% YoY on subdued demand; high A&P spend hurt margins even as Lloyd's cash burn continued
- Management anticipates a better Q4 on summer demand for fans and ACs; infrastructure spends to drive cables and switchgears
- We cut FY24-FY26 EPS by 4-8% post results; on rollover, our TP stays at Rs 1,600 – maintain BUY

Click here for the full report.

KEI INDUSTRIES

- Q3 revenue grew 16% YoY with 30bps EBITDA margin expansion; order book up 11% on strong domestic demand
- FY24 guidance of 16-17% revenue growth and 11% EBITDA margin maintained; annual capex to continue at Rs 5bn-6bn
- We raise FY24-FY26 EPS 4-8% and roll to a 33x P/E multiple on Dec'25E (vs. 28x) for a new TP of Rs 3,120 (vs. Rs 2,400); retain HOLD

Click here for the full report.

JK CEMENT

- Q3 revenue grew 22% YoY to Rs 27.8bn as new grey cement capacities aided 17% volume growth and realisation improved 5%
- EBITDA spiked to Rs 6.1bn with healthy margins of 21.8%, partly supported by Rs 1.2bn inventory adjustment
- TP revised to Rs 4,121 (vs. Rs 3,578) as we roll valuations over to FY26E; maintain HOLD

Click here for the full report.

GLENMARK LIFE SCIENCES

- Q3 revenue growth a miss at 6% YoY but robust 670bps expansion in gross margin helped mitigate the impact on bottomline
- EBITDA/PAT grew 19%/13% YoY on higher margins – in line with consensus
- Our DCF-based TP stands revised to Rs 765 (vs. Rs 620) as we raise FY24-FY26 EPS 4-8%; maintain HOLD as valuations look fair post rally

Click here for the full report.

SELL
TP: Rs 4,200 | ⩔ 26%

HITACHI ENERGY | Capital Goods | 24 January 2024

In-line quarter but valuations overdone; cut to SELL

- **Q3 EBITDA margin rose 150bps YoY to 5.3% as chip constraints eased, leading to 5x jump in PAT off a low base**
- **Management retains guidance of double-digit margins by end-FY25 led by HVDC, rail and export orders**
- **Stock has rallied sharply by 70% in FY24 YTD and current P/E of 65x on Dec'25E looks overstated – cut from HOLD to SELL**

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

Improved YoY numbers: Hitachi's Q3FY24 revenue grew 23% YoY to Rs 12.7bn, and the easing chip shortage aided 150bps YoY improvement in EBITDA margin to 5.3% (flat QoQ). PAT came in at Rs 230mn compared to Rs 46mn on a YoY basis.

Chip constraints reduce: The company has been plagued by chip shortages over the past few quarters, but management indicated that supply chain constraints have receded in Q3 and it is now equipped to better manage the same.

Good order inflow mix: Q3 order intake was flat at 1% YoY to Rs 12.3bn with 25% export share, taking the backlog to Rs 75.5bn which signifies 22 months of revenue visibility. This compares well will the Rs 75.9bn backlog in Q2FY24 and Rs 70.7bn in FY23. Transmission projects from multiple state utilities, renewable orders, Chennai metro rail, data centre and hydropower orders, along with exports to Africa, the Middle East and Europe drove the inflows. This mix of export and service orders augurs well for margins in coming quarters.

Guidance retained: Management maintained its guidance of reaching a double-digit EBITDA margin run-rate by the close of FY25.

Valuations overstated; cut to SELL: We remain positive on Hitachi's order prospects but lower our FY24/FY25/FY26 EPS estimates by 35%/11%/9% to reflect the below-expected 9MFY24 performance. Our TP remains at Rs 4,200 as we roll valuations forward to Dec'25E and reset to a 48x target P/E from 45x earlier to maintain our 50% valuation premium to the stock's three-year average. The stock has run up 27% since our last quarterly update of 6 Nov 2023, propelling valuations to 65x Dec'25E EPS, which we believe look overdone given the tepid margin performance so far. We downgrade the stock from HOLD to SELL and await a better entry point.

Key changes

Target	Rating
◀ ▶	▼

Ticker/Price	POWERIND IN/Rs 5,673
Market cap	US$ 2.9bn
Free float	25%
3M ADV	US$ 2.7mn
52wk high/low	Rs 6,280/Rs 2,906
Promoter/FPI/DII	75%/5%/2%

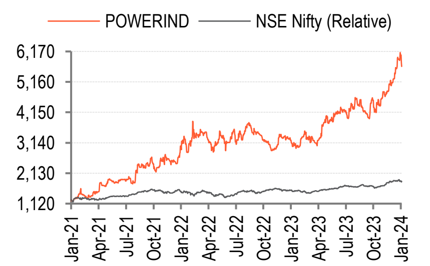
Source: NSE | Price as of 24 Jan 2024 | POWERIND = Hitachi

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	44,685	51,160	61,520
EBITDA (Rs mn)	2,359	3,029	5,487
Adj. net profit (Rs mn)	939	1,370	3,138
Adj. EPS (Rs)	22.2	32.3	74.0
Consensus EPS (Rs)	22.2	58.0	95.0
Adj. ROAE (%)	8.0	10.7	21.1
Adj. P/E (x)	256.1	175.6	76.6
EV/EBITDA (x)	101.7	79.0	43.9
Adj. EPS growth (%)	(44.0)	45.9	129.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

FY25 BUDGET PREVIEW

24 January 2024

Focus to remain on consolidation

Sonal Badhan
Economist

With 2024-25 budget being an interim one, government will focus on maintaining continuity of policies, while committing itself to the path of fiscal consolidation. We expect centre to achieve its fiscal deficit target of 5.9% in FY24, with risks titled to the upside. These risks emerge from: lower than anticipated nominal GDP growth, and higher than budgeted expenditure. From these levels, government is expected to reduce deficit target by ~50bps in FY25BE, thus targeting 5.4-5.5% range in our base case scenario. In the wake of weak monsoon, and subdued Rabi sowing, budget will focus on steering rural growth. For this, enhanced spending on MGNREGA, PM KISAN, and PMAY can be expected. Driving investment growth will be another focus area for the government. We thus expect Rs 1.5-2 lakh crore incremental increase in capex for the next year. Markets will also keep a watchful eye on government's borrowing program, which is anticipated to increase only marginally next year.

Expectations from FY25 Budget

Since the latest budget presentation for 2024-25 (FY25) will be an interim budget before the General Elections of 2024, no significant announcements are expected to be made. Government will try maintaining continuity of policies and schemes already announced, while sticking to its path of fiscal consolidation. For the central government to reach its target of 4.5% fiscal deficit target by FY26, it is likely to announce ~50bps reduction in fiscal deficit target for FY25. Challenges that may emerge include: normalisation of nominal GDP and hence receipt growth. On the other hand, quality of expenditure is unlikely to be compromised upon for two reasons—one, to crowd in private investments by boosting government capex (RBI monthly bulletin reaffirms this trend), two, to support growth and maintain continuity of key social schemes. We give here our expectations, which have been placed forth keeping in mind the practical side of fiscal space that will be available.

Key themes: Steering rural growth and investment

Given a weaker than expected monsoon in FY24 and muted Rabi sowing (+0.2% as of 19 Jan 2024), government through its budget will aim to give rural growth a boost. Government capex is also expected to maintain a healthy pace of growth to give nudge to private investment. To support these agendas, government may:

- Increase the budget allocation for PM Kisan Samman Nidhi (PM-KISAN) scheme from Rs 60,000 crore in FY24BE to ~Rs 70-75,000 crore in FY25.
- Increase the budget allocation for MG-NREGA scheme from Rs 60,000 crore in FY24BE to ~Rs 80-85,000 crore in FY25.
- Provisions under affordable housing (rural and urban) are expected to touch ~Rs 1 lakh crore from ~Rs 80,000 crore as FY24BE.

RESULT REVIEW

BUY
TP: Rs 2,100 | ⮝ 17%

KOTAK MAHINDRA BANK

| Banking | 24 January 2024

NIM intact QoQ; higher provisions dull profits

- **Business growth held strong in Q3, but treasury losses and higher provisions weighed on PAT (-6% QoQ)**
- **Reported NIM was stable sequentially at 5.2%, asset quality healthy with controlled slippages, and credit cost flat ex-AIF provision**
- **TP revised to Rs 2,100 from Rs 2,007 as we now value the stock at 2.5x on FY26E ABV (vs. 2.7x on FY25E)**

Ajit Agrawal
research@bobcaps.in

Mixed sequential performance: KMB posted modest PAT of Rs 30.1bn (+8% YoY/-6% QoQ) in Q3FY24 on account of a one-off provision of Rs 1.9bn towards exposure to AIFs along with a treasury loss of Rs 1.7bn. However, NII grew at a healthy 16% YoY (+4% QoQ) on the back of strong business growth, wherein advances rose 16% YoY (+3% QoQ) and deposits increased 19% YoY (+ 2% QoQ). Other income was muted once again (+9% YoY/-1% QoQ) due to treasury losses along with elevated opex on a sequential basis as the bank continued to invest in employee and network expansion. The C/I ratio increased by 194bps QoQ to 48.4%.

Robust business growth: Deposit growth outpaced loan growth driven by term deposits. The 'ActivMoney' product grew at a strong 23% QoQ, helping the bank fund credit demand. Healthy credit growth was fuelled by the unsecured retail book which contributed 11.6% of loans vs. 11% in Q2 – in line with the bank's strategy of taking unsecured share to the mid-teens. The corporate book grew 20% YoY while SME loan growth was modest at 11.5%. In the retail book, commercial vehicle, personal and consumer durable loans along with credit cards and the MFI book outperformed. We broadly retain FY24/FY25 loan estimates while cutting deposit estimates by 2%/3%.

NIM flat sequentially: Reported NIM at 5.2% was flat QoQ supported by an increased share of high-yielding assets which offset the higher cost of deposits. Management expects deposit repricing to continue for the next 1-2 quarters but believes a favourable loan mix would enable it to maintain margins at current levels.

Asset quality stable, credit cost dips: Controlled slippages led to flat GNPA/NNPA of 1.7%/0.3% while PCR improved 150bps QoQ. Reported credit cost (ex-AIF provision) improved to 40bps from 47bps in Q2. KMB is well capitalised at 21.3% CAR.

Maintain BUY: Given strong growth in the high-yielding unsecured portfolio, we raise our FY24/FY25 NII estimates by 2%/4%, leading to a 2%/5% hike in PAT. We introduce FY26 forecasts and roll valuations forward, leading to a revised SOTP-based TP of Rs 2,100 from Rs 2,007, set at 2.5x FY26E ABV (vs. 2.7x on FY25E) using the Gordon Growth Model. This includes Rs 659/sh as the value of subsidiaries.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	KMB IN/Rs 1,789
Market cap	US$ 46.7bn
Free float	74%
3M ADV	US$ 84.7mn
52wk high/low	Rs 2,064/Rs 1,644
Promoter/FPI/DII	26%/40%/21%

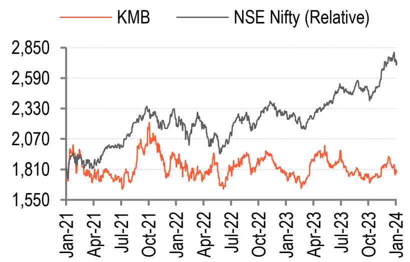
Source: NSE | Price as of 24 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	21,552	25,866	30,703
NII growth (%)	28.1	20.0	18.7
Adj. net profit (Rs mn)	10,939	12,925	15,031
EPS (Rs)	55.1	60.3	70.1
Consensus EPS (Rs)	55.1	64.9	73.1
P/E (x)	32.5	29.7	25.5
P/BV (x)	4.3	4.0	3.5
ROA (%)	2.8	2.4	2.4
ROE (%)	17.8	14.4	14.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,252 | ▲ 18%

AXIS BANK | Banking | 24 January 2024

Profits subdued despite strong business growth

- **NII growth subdued at 9% YoY despite credit/deposit growth of 22%/18%, due to a high cost of funds**
- **Reported NIM declined 10bps QoQ to 4%; higher opex and provisions slowed PAT growth to ~3% YoY and QoQ**
- **Maintain BUY with revised TP of Rs 1,252 (vs. Rs 1,155), set at 1.7x FY26E ABV (vs. 1.9x on FY25E)**

Ajit Agrawal
research@bobcaps.in

Robust business growth: AXSB's advances increased 22% YoY (+4% QoQ) during Q3FY24 on the back of robust growth in the retail segment at 27% YoY while SME loans grew 22% YoY. Corporate loans saw a modest 4% uptick. Retail growth was mainly fuelled by rural lending (+34%), LAP (+32%), personal loans (+28%) and small business banking (+40%). Deposits increased 18.5% YoY (+5% QoQ) driven by term deposits, which led to a 240bps YoY drop in CASA ratio to 42% (still amongst the best in industry). We raise our loan estimates by 3% each in FY24/ FY25 and project a credit/deposit CAGR of 17%/19% over FY23-FY26.

NIM down QoQ, opex rises: Reported NIM declined 10bps sequentially to 4% on a higher cost of deposits. The bank expects a further rise in deposit cost for the next 1-2 quarters, though an increasing share of high-yielding assets may offset some of the pressure. AXSB indicated that NIM is likely to hold at current levels with some downward bias. Other income grew 10% QoQ backed by trading gains and a better performance from DCM business. Opex increased 36% YoY on higher volumes.

Asset quality steady: Despite an increase in slippages to Rs 37.1bn from Rs 32.5bn in Q2, GNPA improved to 1.6% due to the upgrade of a large restructured corporate account. NNPA was flat at 0.4% and PCR declined 165bps QoQ to 77.8%. Credit cost (ex-AIF provision of Rs 1.8bn) was flat at 38bps.

Adequately capitalised for growth: CET1 stood at 13.7% (CAR at 16.6%), and AXSB is confident of funding credit growth internally (added 39bps of CET1 in 9MFY24 despite using 70bps to meet regulatory changes).

Maintain BUY: AXSB continues to deliver a healthy performance backed by a sustained focus on growth, healthy portfolio mix, stable asset quality and steady investment in network expansion. We introduce FY26 forecasts and roll valuations forward, translating to a new SOTP-based TP of Rs 1,252 from Rs 1,155, set at 1.7x FY26E ABV (vs. 1.9x on FY25E) using the Gordon Growth Model. Our target includes Rs 133/sh as the value of subsidiaries.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	AXSB IN/Rs 1,059
Market cap	US$ 39.8bn
Free float	92%
3M ADV	US$ 115.6mn
52wk high/low	Rs 1,152/Rs 814
Promoter/FPI/DII	8%/55%/29%

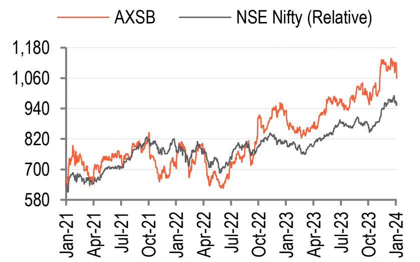
Source: NSE | Price as of 24 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	429,457	499,177	584,054
NII growth (%)	29.6	16.2	17.0
Adj. net profit (Rs mn)	95,797	241,498	277,785
EPS (Rs)	31.2	78.4	90.1
Consensus EPS (Rs)	31.2	77.8	87.5
P/E (x)	34.0	13.5	11.8
P/BV (x)	2.6	2.2	1.9
ROA (%)	0.8	1.7	1.7
ROE (%)	8.0	17.8	17.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,600 | ⮝ 22%

HAVELLS INDIA | Consumer Durables | 24 January 2024

Slow quarter but summer could bring cheer; maintain BUY

- **Q3 revenue grew just 7% YoY on subdued demand; high A&P spend hurt margins even as Lloyd's cash burn continued**
- **Management anticipates a better Q4 on summer demand for fans and ACs; infrastructure spends to drive cables and switchgears**
- **We cut FY24-FY26 EPS by 4-8% post results; on rollover, our TP stays at Rs 1,600 – maintain BUY**

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

Slow quarter: HAVL posted soft topline growth of 6.9% YoY to Rs 44bn as consumer demand remained subdued. Gross margin improved by 30bps YoY to 33.3% but increasing promotional expenditure during the festive season caused EBITDA margin to contract 50bps to 9.8%. A&P spend rose to ~4% of sales as against the usual rate of ~3%.

Cables & wires lead growth: The cables & wires business grew 11.4% YoY on the back of infrastructure demand and remains HAVL's best performing segment. However, the company still lags peer POLYCAB, which saw 18% topline growth, as well as KEII, which grew 14% in Q3. HAVL's lighting segment outperformed peers, growing at 2.4% YoY amid continued price erosion, largely led by professional lighting. The electrical consumer durables (ECD) business was flattish YoY due to a high base quarter that saw fan inventory liquidation due to energy norm changes.

Losses at Lloyd continue: Lloyd posted an EBIT loss of Rs 646mn in Q3, with topline growth remaining in single digits for the quarter at 8% YoY. HAVL expects the next couple of quarters to be stronger with the onset of the summer season.

Management optimistic on Q4: HAVL indicated a positive demand outlook for the upcoming summer season and expects to earn better margins in Q4FY24 compared to those seen in Q3, as it expects a pickup in demand for fans and air conditioners. Cables, wires and switches are also expected to do well on the back of rising infrastructure spending.

Maintain BUY: We remain positive on HAVL's medium-term performance given its strong presence in the consumer durables sector and improving industry dynamics. Incorporating the slower quarterly performance than anticipated, we lower our FY24/FY25/FY26 EPS estimates by 8%/4%/4%. On rolling valuations forward to Dec'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 1,313
Market cap	US$ 10.0bn
Free float	41%
3M ADV	US$ 11.4mn
52wk high/low	Rs 1,472/Rs 1,132
Promoter/FPI/DII	60%/23%/10%

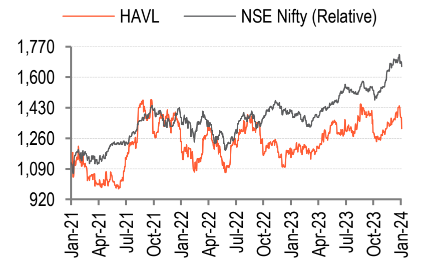
Source: NSE | Price as of 23 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,69,107	1,83,659	2,09,084
EBITDA (Rs mn)	15,991	17,428	22,768
Adj. net profit (Rs mn)	10,717	12,142	15,809
Adj. EPS (Rs)	17.1	19.4	25.2
Consensus EPS (Rs)	17.1	21.2	27.2
Adj. ROAE (%)	17.0	17.4	20.2
Adj. P/E (x)	76.8	67.8	52.0
EV/EBITDA (x)	51.4	47.2	36.1
Adj. EPS growth (%)	(10.4)	13.3	30.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD

TP: Rs 3,120 | ⋎ 6%

KEI INDUSTRIES | Consumer Durables | 24 January 2024

Decent quarter; maintain HOLD

- **Q3 revenue grew 16% YoY with 30bps EBITDA margin expansion; order book up 11% on strong domestic demand**
- **FY24 guidance of 16-17% revenue growth and 11% EBITDA margin maintained; annual capex to continue at Rs 5bn-6bn**
- **We raise FY24-FY26 EPS 4-8% and roll to a 33x P/E multiple on Dec'25E (vs. 28x) for a new TP of Rs 3,120 (vs. Rs 2,400); retain HOLD**

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

Decent quarter: KEII posted Q3FY24 revenue of Rs 20.6bn, an increase of 15.5% YoY and 11.9% on a 4Y CAGR basis. Gross margin expanded 60bps YoY to 23.8% and EBITDA margin increased 30bps YoY to 10.5%. Adj. PAT at Rs 1.5bn grew 17% YoY, making for a 4Y CAGR of 20%. The company's order book moved up 11% YoY and 13.8% QoQ to Rs 38.3bn.

Cables revenue sound: Cables business revenue at Rs 18.7bn increased 14.4% YoY, as against 16.8% YoY for POLYCAB and 11.4% for HAVL. Segmental EBIT margin rose 120bps YoY to 10.6%, compared to a flat margin for HAVL at 10.4% and 30bps expansion for POLYCAB to 14%.

Guidance retained: Management maintained guidance of 16-17% revenue growth for the next few years and an ~11% EBITDA margin for FY24 and FY25. KEII sees scope for improving margins by a further 50-75bps.

Tackling a capacity crunch: In our view, the key reason KEII lags peers is a lack of capacity. During Q3, the company operated at 95% utilisation in cables and 70% in house wires, which affected volume growth. This was partly addressed in Q2FY24 when brownfield expansion for high- and low-tension wires came onstream. The company is incurring further capex to tackle the capacity crunch – it spent Rs 3bn in 9MFY24, with another ~Rs 1.5bn planned for Q4FY24 and Rs 5bn-6bn guided for FY25.

Demand outlook positive: Management sees substantial export opportunities and expects domestic demand for wires and cables to sustain on the back of continuing private and public sector capex. Demand from key verticals such as highways, metros, hotels, hospitals and other real estate is gaining traction as well.

Maintain HOLD: We raise our FY24-FY26 EPS estimates by 4-8% post Q3 and now value the stock at 33x P/E (vs. 28x earlier) – in line with the sector average and at a 15% discount to POLYCAB. On rolling valuations over to Dec'25E, we arrive at a higher TP of Rs 3,120 (vs. Rs 2,400). However, given the sharp 32% run-up in stock price during the last quarter, we maintain our HOLD rating.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	KEII IN/Rs 3,315
Market cap	US$ 3.6bn
Free float	61%
3M ADV	US$ 12.5mn
52wk high/low	Rs 3,419/Rs 1,508
Promoter/FPI/DII	37%/27%/20%

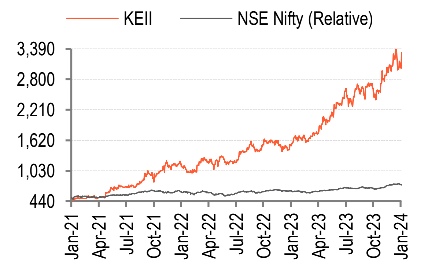
Source: NSE | Price as of 24 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	69,123	80,781	94,765
EBITDA (Rs mn)	7,062	8,735	10,947
Adj. net profit (Rs mn)	4,773	6,001	7,409
Adj. EPS (Rs)	52.9	66.5	82.2
Consensus EPS (Rs)	52.9	65.3	79.9
Adj. ROAE (%)	20.2	20.9	21.1
Adj. P/E (x)	62.6	49.8	40.3
EV/EBITDA (x)	42.4	34.7	27.6
Adj. EPS growth (%)	27.0	25.7	23.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD

TP: Rs 4,121 | ∀ 0%

JK CEMENT | Cement | 24 January 2024

Healthy performance but priced in

- **Q3 revenue grew 22% YoY to Rs 27.8bn as new grey cement capacities aided 17% volume growth and realisation improved 5%**
- **EBITDA spiked to Rs 6.1bn with healthy margins of 21.8%, partly supported by Rs 1.2bn inventory adjustment**
- **TP revised to Rs 4,121 (vs. Rs 3,578) as we roll valuations over to FY26E; maintain HOLD**

Milind Raginwar | Shree Kirloskar
research@bobcaps.in

Healthy topline growth continues: JKCE reported 22%/8% YoY/QoQ standalone revenue growth to Rs 27.8bn in Q3FY24. Grey cement volumes at 4.2mn tonnes increased 17%/6% YoY/QoQ while realisation improved 5%/4% to Rs 5,164/t. White cement volumes (including putty) grew 10%/3% YoY/QoQ to 0.4mt and realisation was flat YoY but grew 2.5% QoQ to Rs 12,877/t.

Margins double as cost savings continue: Operating costs fell 8% YoY (-3% QoQ) to Rs 4,756/t as raw material-adjusted energy cost dropped 22% (-10% QoQ) to Rs 1,971/t due to reduced pet coke prices. Logistics cost rose 4%/11% YoY/QoQ to Rs 1,290/t owing to added lead distance to service new markets and busy season surcharge. Other expenditure increased 13% YoY (-5% QoQ) to Rs 4.2bn. Fuel cost savings and a Rs 1.2bn inventory adjustment saw EBITDA surge 2.3x YoY to Rs 6.1bn with strong margin gains to 21.8%. EBITDA/t doubled YoY to Rs 1,330/t.

Expansion plans on track: JKCE's 1.5mtpa greenfield Ujjain expansion has been commissioned in Q3FY24 and the 2mt greenfield Panna expansion is due by Q2FY25. The company has also announced a 6mt expansion in Central India (3mt grinding unit in Bihar and 1mt each in Panna, Hamirpur & Prayagra) and 3.3mt clinker line II at Panna at a total project cost of ~Rs 28.5bn, with commissioning within 24 months. Further, an 18MW WHRS unit at Karnataka is expected to be commissioned by Q1FY25.

Positives priced in, retain HOLD: We maintain our FY24/FY25 estimates and introduce FY26 forecasts, modelling for an EBITDA/PAT CAGR of 34%/31% over FY23-FY26. Factoring in higher depreciation and interest payment following capex execution, EPS growth is projected to be relatively slower in FY26. Even so, our TP rises to Rs 4,121 (from Rs 3,578) as we roll valuations over to FY26. Our target FY26E EV/EBITDA multiple remains at 13x target EV/EBITDA multiple, premium to its long-term average – to account for both JKCE's healthy growth outlook and balance sheet stress in the capex phase. Maintain HOLD as the positives appear priced in at current valuations.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	JKCE IN/Rs 4,138
Market cap	US$ 3.9bn
Free float	54%
3M ADV	US$ 6.9mn
52wk high/low	Rs 4,211/Rs 2,540
Promoter/FPI/DII	46%/16%/22%

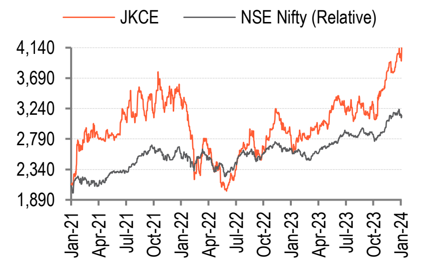
Source: NSE | Price as of 24 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	87,768	1,09,319	1,27,032
EBITDA (Rs mn)	11,175	17,964	23,918
Adj. net profit (Rs mn)	5,626	7,999	10,887
Adj. EPS (Rs)	72.8	103.5	140.9
Consensus EPS (Rs)	72.8	107.0	134.0
Adj. ROAE (%)	12.9	16.2	18.6
Adj. P/E (x)	56.8	40.0	29.4
EV/EBITDA (x)	31.0	19.5	14.7
Adj. EPS growth (%)	(26.0)	42.2	36.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD

TP: Rs 765 | ▲ 4%

GLENMARK LIFE SCIENCES | Pharmaceuticals | 24 January 2024

Strong margins make up for subdued revenue growth

- **Q3 revenue growth a miss at 6% YoY but robust 670bps expansion in gross margin helped mitigate the impact on bottomline**
- **EBITDA/PAT grew 19%/13% YoY on higher margins – in line with consensus**
- **Our DCF-based TP stands revised to Rs 765 (vs. Rs 620) as we raise FY24-FY26 EPS 4-8%; maintain HOLD as valuations look fair post rally**

Saad Shaikh
research@bobcaps.in

External business fares well; GPL declines: GLS reported 6% YoY growth in Q3FY24 revenue to Rs 5.7bn, a miss of 5% compared to Bloomberg consensus. The subdued topline growth stemmed from lower sales in its Glenmark Pharma (GPL) business which declined 2% YoY (-23% QoQ), whereas external business reported a healthy 9% YoY (+6% QoQ) uptick. Management highlighted that the slowdown in GPL business is temporary and was mainly on account of a few developed markets (including Japan which had inventory issues), while emerging markets led the growth. The company did not see any decline in volumes for Q3.

CDMO business rebounds; new multi-year contract to begin in FY25: The CDMO business reported strong revenue growth of 27% YoY and 40% QoQ to Rs 355mn on account of recovery in demand. GLS signed a definitive multi-year agreement with an innovator for the supply of APIs, which is scheduled to be commercialised in FY25. In addition, management indicated that multiple discussions are ongoing with companies globally for further business opportunities in the CDMO space.

Better product mix and favourable input costs lift gross margin: GLS's gross margin expanded 670bps YoY to 57.7% due to a better product mix tilted towards the high-margin CDMO business. Input costs too were favourable as well as the Chinese supply chain has improved and shipments are on track. Employee cost, however, was on the higher side at 13% of sales vs. an average of 9% because of incentive disbursement. Management expects costs to normalise from Q1FY25 onwards. EBITDA margin increased 320bps YoY to 30.1%, supporting EBITDA/PAT growth of 19%/13% YoY to Rs 1.7bn/Rs 1.2bn for the quarter.

Fully valued; maintain HOLD: We raise our FY24 earnings estimate by 6% to reflect the sharp uptick in gross and EBITDA margins and our expectations of a similar trend in Q4FY24. We also raise FY25/FY26 earnings by 8%/4% to factor in the new CDMO contract. Our two-step DCF model yields a revised TP of Rs 765 (from Rs 620), but still offers only 4% upside following the recent stock rally. We thus maintain our HOLD rating.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	GLS IN/Rs 800
Market cap	US$ 1.2bn
Free float	17%
3M ADV	US$ 1.3mn
52wk high/low	Rs 808/Rs 370
Promoter/FPI/DII	83%/5%/1%

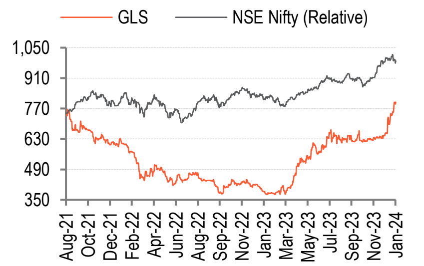
Source: NSE | Price as of 24 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	21,613	24,495	27,847
EBITDA (Rs mn)	6,424	7,638	9,098
Adj. net profit (Rs mn)	4,691	5,545	6,551
Adj. EPS (Rs)	38.3	45.3	53.5
Consensus EPS (Rs)	38.3	41.8	50.5
Adj. ROAE (%)	22.0	23.4	23.4
Adj. P/E (x)	20.9	17.7	15.0
EV/EBITDA (x)	15.5	12.3	10.3
Adj. EPS growth (%)	12.0	18.2	18.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
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Note: Recommendation structure changed with effect from 21 June 2021

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