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FIRST LIGHT

26 July 2024

RESEARCH

THE RAMCO CEMENTS | TARGET: Rs 737 | -8% | SELL

Challenges resurface; downgrade to SELL

NESTLE INDIA | TARGET: Rs 2,820 | +14% | HOLD

Weak sales growth profile over the next 12 months

PETRONET LNG | TARGET: Rs 325 | -7% | SELL

Volume growth ahead but watch for downside factors

V-GUARD INDUSTRIES | TARGET: Rs 440 | -4% | HOLD

Summer products drive revenue

TECH MAHINDRA | NOT RATED

On track with its FY27 objectives

SUMMARY

THE RAMCO CEMENTS

- Q1 revenue showed degrowth of 7% due to weak volume growth amid extreme weather and elections; pricing pressures affected realisations
- Lower cost structure led by power and fuel cost partially offset the dent in realisation, and supported EBITDA margin YoY to stay ~15%
- We lower our FY25/FY26 EBITDA estimates by 2% each, apply 10x target multiple and cut our TP to Rs 737. We downgrade TRCL to SELL

Click here for the full report.

NESTLE INDIA

- Compared to Bloomberg consensus, NEST's sales were 6% lower and EBITDA 10% lower
- Margins seem to be a priority over volumes. We downgrade our sales and EPS forecasts 5% to 7% across the forecast period
- We assume coverage on Nestle India. We retain Hold and reduce TP to Rs 2,820 from Rs 2,826

Click here for the full report.

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PETRONET LNG

- Q1 underlying EBITDA was up 19% QoQ on 12% volume growth and Rs 0.6bn of trading gain
- Q2 volume supported by Dabhol closure. Risk from slowdown due to price increase and margin reduction in Q3 due to make-up cargoes
- Maintain SELL with a revised TP of Rs 325 (from Rs 260) with 1Y forward P/E target of 13.5x (from 11.7x)

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V-GUARD INDUSTRIES

- Q1 saw a 22% YoY increase in topline, driven by CD and Electronics, fuelled by nationwide demand for cooling products amid a heatwave
- Electricals lagged with W&C declining from trade destocking, while Sunflame contracted amid subdued consumer sentiment
- We maintain our EPS for FY25E and increase FY26E by 6% as we roll forward valuations to Jun'26E. We raise our TP to Rs 440. HOLD

Click here for the full report.

TECH MAHINDRA

- 1QFY25 was broadly along expected lines and the first positive but modest step in achieving its FY27 objectives
- 1QFY25 growth was driven by its manufacturing (2.4% in QoQ US$ terms), retail CPG (5.2%), Healthcare & Life Sciences (7.9%) segments
- It did not indicate improvement in demand conditions in the last three months. We will be initiating coverage on the sector and stock soon

Click here for the full report.

SELL
TP: Rs 737 | ⩒ 8%

THE RAMCO CEMENTS | Cement | 26 July 2024

Challenges resurface; downgrade to SELL

- **Q1 revenue showed degrowth of 7% due to weak volume growth amid extreme weather and elections; pricing pressures affected realisations**
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Degrowth in revenue amid elections: TRCL's Q1FY25 revenue degrew by 7% YoY to Rs 20.88bn due to weak volume growth of 3% YoY to 4.36mt amid general elections. Volumes for the southern and eastern India markets were maintained at 76:24. Realisations fell 10% YoY to Rs 4,790/t due to weak cement prices. Premium products share was 27%/20% for South/East regions; fell in South, flat in East YoY.

Cost savings offset weak realisations: Operating cost/t declined ~10% YoY (3% QoQ) to Rs 4,057/t. Power and fuel cost per tonne in Q1FY25 decreased to Rs 1,300 from Rs 1,787 YoY while logistics cost was down 2%-3% despite flat lead distance due to softening fuel cost. EBITDA fell by 6.5% YoY (-23.4% QoQ) to Rs 3.2bn and margin slid 30bps QoQ but remained flat YoY to 15.3%. EBITDA/t fell 9.4%/5.8% YoY/QoQ to Rs 710/t.

Expansion plans: TRCL remains on track to achieve 30mtpa of cement capacity by FY26 by commissioning the second line in Kolimigundla by taking some de-bottlenecking initiatives. Line-2 in Kolimigundla consists of a 3.15mtpa clinker and 1.5mtpa cement grinding unit with a 15MW waste heat recovery system which is expected to be commissioned by FY26. Further, an 18MW thermal power plant was commissioned in Jul'24 and a railway siding is expected to be commissioned by Sep'24. In Q1FY25, the company incurred a capex of Rs 2.81bn and has guided for a capex of Rs 12bn for FY25 which includes maintenance capex.

EBITDA cut leads to change in rating to SELL from HOLD: We lower our FY25/FY26 EBITDA estimates by 2% each, but rationalise depreciation and interest leading to EPS revisions of Rs 20.1/Rs 25.7 (earlier Rs 24.1/Rs 30.0). The aggressive capex drive has elevated TRCL's net debt to EBITDA to ~2.6x/2.5x FY24/FY25-end and it is unlikely to get relief in the medium term. TRCL's cost-savings measures are commendable and offer respite to EBITDA margins. However, the stock's current valuations at 11.0x FY26E EV/EBITDA are at a premium. We continue to apply an unchanged 10x target multiple and revise our TP to Rs 737 (previously Rs 763) implying a replacement cost of Rs 8.1bn/mnt – a 10% premium to the industry mean. Downgrade the stock from HOLD to SELL rating.

Key changes

Target	Rating
▼	▼

Ticker/Price	TRCL IN/Rs 801
Market cap	US$ 2.3bn
Free float	58%
3M ADV	US$ 11.8mn
52wk high/low	Rs 1,058/Rs 700
Promoter/FPI/DII	42%/7%/32%

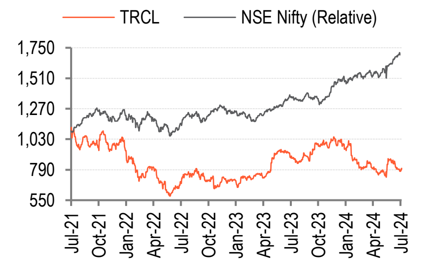
Source: NSE | Price as of 25 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	93,223	1,04,362	1,20,407
EBITDA (Rs mn)	15,250	18,412	21,606
Adj. net profit (Rs mn)	3,950	4,736	6,083
Adj. EPS (Rs)	16.7	20.0	25.7
Consensus EPS (Rs)	16.7	22.1	31.2
Adj. ROAE (%)	5.7	6.4	7.8
Adj. P/E (x)	47.9	40.0	31.1
EV/EBITDA (x)	15.2	12.8	11.0
Adj. EPS growth (%)	26.6	19.9	28.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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HOLD
TP: Rs 2,820 | ▲ 14%

NESTLE INDIA | Consumer Staples | 25 July 2024

Weak sales growth profile over the next 12 months

- **Compared to Bloomberg consensus, NEST's sales were 6% lower and EBITDA 10% lower**
- **Margins seem to be a priority over volumes. We downgrade our sales and EPS forecasts 5% to 7% across the forecast period**
- **We assume coverage on Nestle India. We retain Hold and reduce TP to Rs 2,820 from Rs 2,826**

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Sales and EBITDA miss: Nestle India reported 1QFY25 results with underlying EPS growth of 7% on +3% sales and 50bps EBITDA margin expansion. Compared to consensus, sales were 6% lower while EBITDA was 10% lower as margins came in 100bps lower vs expectations. However, gross margin of 57.6% was180bps higher vs expectations. We retain Hold and cut TP to Rs 2,820.

Nestle SA downgrade: Nestle India's parent, Nestle SA, downgraded its CY24 guidance – organic sales at +3% (+4% earlier) with operating margins flat (vs "moderate increase" earlier) and constant FX EPS +MSD (6%-10% earlier). Asia was weaker than expected with China highlighted as a major drag.

1Q25 indicates margin precedence over volumes: Nestle India's gross margin gains reduced only 20bps to +280bps despite inflationary pressures. Pricing was +3% with volume/mix contributing ~1% to sales growth. We view this as a missed opportunity to gain shelf space amidst an industry-wide inflationary cost base when Nestle had a product (KitKat) with lower-than-average cocoa proportion. Nestle's high prices likely restricted shelf space gain in the confectionary aisle.

Retain Hold: Nestle SA's focus appears to be on margins over volumes. Surprisingly, this seems to have trickled down to the Indian operations. We view this as a negative given India is still in a growth phase and far from maturity. We value Nestle India based on P/E relative to the NIFTY 50 index. Given its pricing driven, slower-than-average sales growth profile over the next 12 months, we do not apply any premium on Nestle India's relative P/E. We use 66x 12M to Jun'26 P/E to derive the TP of Rs 2,820 from Rs 2,826. Retain Hold.

Quarter ended in	Jun-23	Jun-24	YoY (%)
Sales (Rs mn)	46,585	48,140	3
EBITDA (Rs mn)	10,555	11,143	6
EBITDA margin (%)	22.7	23.1	49bps
Adj EPS (Rs)	7.24	7.74	7

Sources: Company reports, BOBCAPS Research

Key changes

Target	Rating
▼	◄►

Ticker/Price	NEST IN/Rs 2,481
Market cap	US$ 28.6bn
Free float	37%
3M ADV	US$ 25.9mn
52wk high/low	Rs 2,769/Rs 2,145
Promoter/FPI/DII	63%/12%/25%

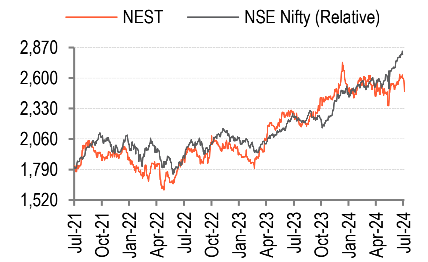
Source: NSE | Price as of 25 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	243,939	206,626	233,177
EBITDA (Rs mn)	58,198	50,070	60,199
Adj. net profit (Rs mn)	39,236	31,949	39,685
Adj. EPS (Rs)	40.7	33.1	41.2
Consensus EPS (Rs)	40.7	37.7	42.2
Adj. ROAE (%)	117.4	83.4	89.4
Adj. P/E (x)	61.0	74.9	60.3
EV/EBITDA (x)	41.1	47.8	39.7
Adj. EPS growth (%)	(83.6)	(18.6)	24.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

SELL
TP: Rs 325 | ∀ 7%

PETRONET LNG | Oil & Gas | 25 July 2024

Volume growth ahead but watch for downside factors

- **Q1 underlying EBITDA was up 19% QoQ on 12% volume growth and Rs 0.6bn of trading gain**
- **Q2 volume supported by Dabhol closure. Risk from slowdown due to price increase and margin reduction in Q3 due to make-up cargoes**
- **Maintain SELL with a revised TP of Rs 325 (from Rs 260) with 1Y forward P/E target of 13.5x (from 11.7x)**

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Q1 EBITDA ahead: Underlying EBITDA excluding provisions for UOP charges and inventory gains at Rs 14.9bn was up 19% QoQ. Volume growth was driven by 12% QoQ and margin growth by 7% to Rs 57/MMBtu. Trading gain contributed Rs 2.2/MMBtu to margin out of the Rs 3.6/MMBtu increase. The EBITDA was Rs 1bn ahead of our estimate with 7% of higher volume and Rs 0.6bn of trading gain.

Q2 support from Dabhol closure: Dabhol utilisation is likely to stay resilient in Q2 on additional cargoes due to the closure of Dabhol LNG terminal during monsoon.

Demand could slow on LNG price increase: (a) 50% rise in LNG prices over the past three months could potentially drag LNG demand particularly from refining and other industrial fuel applications. Even LNG demand from the power sector has backed down with the onset of the monsoon.

Make-up cargoes could lower margin in Q3: Potential make-up cargoes in the Q3 (Sep-Dec) window could lower EBITDA margin as they earn just Rs 8-11/MMBtu compared to the current regas tariff of Rs 66/MMBtu for Dahej. Buyers have an entitlement of 4mtpa cargoes against CY21 and CY22 UOP charges.

Dahej pick-up limited to 20mmtpa till FY27: Until the third jetty comes up, Dahej's capacity utilisation will be restricted to 20mmtpa. While contracts are yet to be signed, we believe the terminal will be able to ramp up to 20mtpa by FY27 with a good possibility of demand increase in India with the global glut in LNG. We build in 7% volume CAGR and 11% CAGR EBITDA growth over FY24-27.

Maintain SELL with revised TP of Rs 325: We raise TP for PLNG to Rs 325 (from Rs 260) factoring in (i) marginally higher forecasts, (ii) increase in the one-year forward target P/E to 13.5x (from 11.7x) based on 7Y average to factor in rerating for demand improvement and (iii) roll forward valuation to Jun'25. We strip away the Rs 47/sh (Rs 58/sh) at risk from the PDHPP project (Refer note) now accounting as value at risk above capex of US$ 2,500/t (from US$ 2,250/t). Given 7% downside to our TP, we maintain our SELL rating on the stock.

Key changes

Target	Rating
▲	◄►

Ticker/Price	PLNG IN/Rs 351
Market cap	US$ 6.3bn
Free float	50%
3M ADV	US$ 22.3mn
52wk high/low	Rs 358/Rs 192
Promoter/FPI/DII	50%/26%/13%

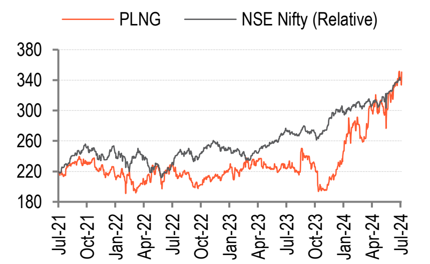
Source: NSE | Price as of 24 Jul 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	5,27,284	5,82,578	6,22,526
EBITDA (Rs mn)	52,065	54,550	60,708
Adj. net profit (Rs mn)	35,362	36,957	40,170
Adj. EPS (Rs)	23.6	24.6	26.8
Consensus EPS (Rs)	24.4	26.1	30.8
Adj. ROAE (%)	22.2	20.5	19.8
Adj. P/E (x)	14.9	14.2	13.1
EV/EBITDA (x)	9.3	8.6	7.6
Adj. EPS growth (%)	9.1	4.5	8.7

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

Stock performance



Source: NSE

HOLD
TP: Rs 440 | ⩒ 4%

V-GUARD INDUSTRIES | Consumer Durables | 25 July 2024

Summer products drive revenue

- **Q1 saw a 22% YoY increase in topline, driven by CD and Electronics, fuelled by nationwide demand for cooling products amid a heatwave**
- **Electricals lagged with W&C declining from trade destocking, while Sunflame contracted amid subdued consumer sentiment**
- **We maintain our EPS for FY25E and increase FY26E by 6% as we roll forward valuations to Jun'26E. We raise our TP to Rs 440. HOLD**

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Exceeds estimates on all fronts: VGRD kicked off Q1FY25 on a high note, benefitting from strong summer demand in the Consumer Durables sector, aided by the countrywide heatwave. Consolidated net revenue was Rs 14.8bn with robust YoY growth of 21.6%. VGRD saw double-digit growth YoY in the Consumer Durables segment and in Electronics. EBITDAM beat expectations at 10.5%, exceeding internal estimates by 130bps and consensus estimates by 80bps. APAT surged to Rs 990mn, reflecting a substantial 54% YoY increase.

Consumer Durables and Electronics outshine: In Q1, VGRD experienced robust double-digit revenue growth in its CD and Electronics segments, with Electronics leading the charge with a strong 41% YoY increase driven by high demand for AC stabilisers. Consumer Durables followed closely with 26% growth, boosted by strong demand for cooling products amid an intense summer nationwide. Electricals also grew 7% YoY despite challenges in W&C due to trade destocking caused by falling raw material prices. Conversely, Sunflame's revenue fell 7% due to subdued consumer demand for kitchen appliances. Management remains optimistic about the strong start to the year, forecasting continued growth momentum in FY25.

Regional revenue surge: Across various geographical regions, strong performance has been evident for VGRD. The non-South India market recorded a significant 30% increase in revenue compared to the previous year, highlighting robust expansion. Similarly, the South market achieved notable growth with revenue increasing 17% YoY. For the first time ever, contributions from the non-South market surpassed 50% of total revenue, underscoring the increased significance of other regions within VGRD's revenue mix**.**

Valuation outlook: We maintain our FY25E EPS and raise our FY26E EPS by 6% as we expect VGRD's commitment to new strategies, particularly for Sunflame, to improve margins. We roll forward valuations to Jun'26E, raise our TP to Rs 440 (from Rs 390). However, we maintain HOLD due to ongoing challenges like increased competition and pricing issues and continue to value the stock at FY26E P/E of 37x, in line with the 5Y average.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	VGRD IN/Rs 460
Market cap	US$ 2.4bn
Free float	44%
3M ADV	US$ 3.8mn
52wk high/low	Rs 528/Rs 276
Promoter/FPI/DII	56%/13%/19%

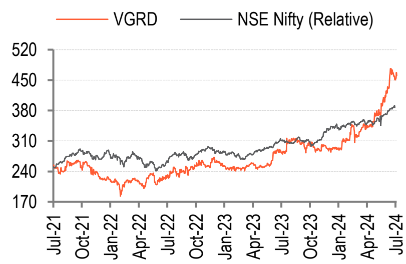
Source: NSE | Price as of 25 Jul 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	48,567	55,893	65,108
EBITDA (Rs mn)	4,267	5,761	6,904
Adj. net profit (Rs mn)	2,576	3,800	4,822
Adj. EPS (Rs)	6.0	8.8	11.2
Consensus EPS (Rs)	6.0	8.4	10.2
Adj. ROAE (%)	15.1	19.3	20.8
Adj. P/E (x)	77.2	52.3	41.2
EV/EBITDA (x)	46.6	34.5	28.8
Adj. EPS growth (%)	36.2	47.5	26.9

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

Stock performance



Source: NSE

NOT RATED

TECH MAHINDRA | IT Services | 26 July 2024

On track with its FY27 objectives

- **1QFY25 was broadly along expected lines and the first positive but modest step in achieving its FY27 objectives**
- **1QFY25 growth was driven by its manufacturing (2.4% in QoQ US$ terms), retail CPG (5.2%), Healthcare & Life Sciences (7.9%) segments**
- **It did not indicate improvement in demand conditions in the last three months. We will be initiating coverage on the sector and stock soon**

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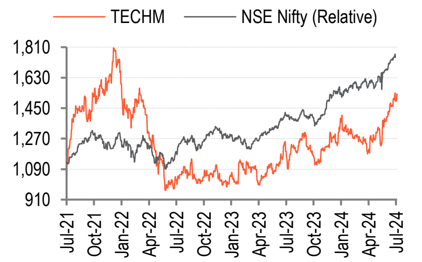
Ticker/Price	TECHM IN/Rs 1,530
Market cap	US$ 16.0bn
Free float	64%
3M ADV	US$ 40.0mn
52wk high/low	Rs 1,548/Rs 1,082
Promoter/FPI/DII	36%/39%/25%

Source: NSE | Price as of 25 Jul 2024

Stock performance



Source: NSE

1QFY25 broadly in line: TECHM's 1QFY25 was broadly along expected lines and the first positive but modest step in achieving its FY27 objectives: (1) growing revenue ahead of its peer average (2) delivering 15% EBIT margin and (3) ROCE>30%. Hence, the ~24% upmove since 1 June 2024 may be a bit overdone in the short term. TECHM does not think the demand environment has changed materially over the last three months, either generally or in the BFSI space.

Comviva seasonality impacts modestly: TECHM's 1QFY25 revenue was a tad below our estimate (0.7% growth in constant currency (CC) and USD terms while we were expecting 1%) while the EBIT margin was 60bps higher (see Figure 1). The reason for the US$ number being higher than ours is because we had assumed a higher cross currency impact. 1Q is a seasonally weak quarter because of the absence/lower revenue booked on Comviva, TECHM's mobility solutions entity. However, the seasonal impact of Comviva has been reducing over time based on our understanding. About 50bps was the impact both on the revenue and the EBIT margin (QoQ) due to Comviva.

Reiterates that FY25 will be better than FY24: TECHM, which is in the very early stages of its three-year turnaround journey (as laid out three months ago), indicated it was happy with the progress. It reiterated in its results press conference the view that growth in FY25 will be better than FY24 (4.7% CC decline).

Telecom growth still negative but less so compared to the past: 1QFY25 growth was driven by its Manufacturing (2.4% in QoQ US$ terms), Retail CPG (5.2%), and the Healthcare and Life Sciences (7.9%) segments. The Telecom segment remains stressed though the pain is lessening. While growth remains in negative territory YoY, the decline has moderated from teens to single digits.

No improvement in BFSI or general demand: TECHM stated that demand remains broadly like what it was three months ago but slightly better YoY. While BFSI, especially in the US, has done well for most players, TECHM did not see a material change in demand conditions here either.

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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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