FIRST LIGHT

27 May 2024

RESEARCH

PETRONET LNG | TARGET: Rs 260 | -15% | SELL

Volume growth visibility still low, downgrade to SELL

ASHOK LEYLAND | TARGET: Rs 247 | +17% | BUY

Healthy show, all set to continue momentum; retain BUY

STAR CEMENT | TARGET: Rs 210 | -3% | HOLD

Steady show in a trying quarter; growth intact

DIVI'S LABS | TARGET: Rs 3,000 | -27% | SELL

Strong quarter; rich valuations

Daily macro indicators

Indicator	22-May	23-May	Chg (%)
US 10Y yield (%)	4.42	4.48	5bps
India 10Y yield (%)	7.08	7.04	(4bps)
USD/INR	83.31	83.28	0.0
Brent Crude (US$/bbl)	81.9	81.4	(0.7)
Dow	39,671	39,065	(1.5)
Hang Seng	19,196	18,869	(1.7)
Sensex	74,221	75,418	1.6
India FII (US$ mn)	**17-May**	**21-May**	**Chg ($ mn)**
FII-D	107.6	86.9	(20.7)
FII-E	261.2	(225.2)	(486.4)

Source: Bank of Baroda Economics Research

SUMMARY

PETRONET LNG

- Q4 EBITDA missed consensus on provisions for delayed TOP recovery and inventory loss; provisions to muddle EBITDA reporting till FY26
- Dahej may not benefit from volume ramp-up in FY25 given granting of flexibility for make-up cargoes and increased competitive intensity
- Raise TP to Rs 260 (from Rs 220) rolling forward valuations to FY26; downgrade to SELL from HOLD given 15% downside

Click here **for the full report.**

ASHOK LEYLAND

- Healthy base keeps revenue growth listless in Q4, strong growth of 22% QoQ; volume grew a sturdy ~20% YoY/QoQ
- EBITDA margin continues to expand, rising 310bps YoY to ~14% on benign commodity costs and improving operating efficiencies
- Maintain BUY with a revised TP of Rs 247 (previously Rs 226), following upward revision in earnings for FY25E/FY26E by 5%/6%

Click here **for the full report.**

BOBCAPS Research
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STAR CEMENT

- Steady 11% growth in a challenging quarter assisted by 12% YoY volume increase; realisations softens
- Cost savings of 8% YoY helped EBITDA margin stay intact ~20%; QoQ weakness restricted too
- TP raised to Rs 210 (vs. Rs 193) as we continue to value STRCEM at 9x EV/EBITDA FY26E on revised earnings; upside capped – retain HOLD

Click here for the full report.

DIVI'S LABS

- DIVI delivered a strong quarter with all round beat. EBITDA/PAT beat Bloomberg consensus estimate by 20% each
- Company announced a capex of Rs 6.5bn-7.0bn to set up a facility to cater to a new long-term contract from an MNC
- We keep our estimates and target multiple unchanged and maintain TP of Rs 3,000. Maintain SELL rating

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TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 260 | ∀ 15%

PETRONET LNG | Oil & Gas | 25 May 2024

Volume growth visibility still low, downgrade to SELL

- **Q4 EBITDA missed consensus on provisions for delayed TOP recovery and inventory loss; provisions to muddle EBITDA reporting till FY26**
- **Dahej may not benefit from volume ramp-up in FY25 given granting of flexibility for make-up cargoes and increased competitive intensity**
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Kirtan Mehta, CFA
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Q4 below consensus: Q4 EBITDA at Rs 11.0bn was 10% below consensus despite in-line volumes. The miss was due to the factoring in of Rs 0.4bn of provisions for delayed recovery of take-or-pay (TOP) charged in FY22/FY23, which was not well understood by us earlier, and Rs 0.1bn of inventory loss.

Dahej may not benefit from volume ramp-up in FY25: While PLNG can operate the Dahej terminal at 110% capacity and potentially do so during the monsoon months on the back of diverted Dabhol cargoes, we do not yet factor in the same for the rest of FY25. Further granting of free make-up cargoes of 1.4mt/ 3.0mt for shortfall in CY21 and CY22 at our estimates (refer Fig 7) could constrain availability of capacity for FY25 and FY26. These make-up cargoes will earn only differential regas tariff and not full regas tariff.

Provisions to muddle EBITDA reporting: PLNG has decided to gradually provide for delay in recovery of TOP income over 3 years but will reverse provisions upon recovery. We believe the net effect will lower FY25 EBITDA by Rs 0.6bn but increase FY26E EBITDA by Rs 4.2bn (Fig 8). As this is not recurring EBITDA and should be separated from underlying EBITDA, we do not include the same.

Raise forecasts: Factoring in higher underlying EBITDA margin than our estimates, we raise our FY25E/FY26E EBITDA by 4.6%/5.5%, respectively. We remain conservative on FY26 volume growth in absence of visibility on tie-up of additional contracts, completion of Kochi-Bangalore pipeline and potential make-up cargoes.

Downgrade to SELL with revised TP of Rs 260: We raise our TP for PLNG to Rs 260 (from Rs 220) factoring in our revised estimates and rolling forward valuation base to FY26, while maintaining the one-year forward target P/E at 11.7x. We strip away the Rs 58/sh at risk from the PDHPP project (Refer note). Given 15% downside to our TP, we downgrade the rating on the stock to SELL from HOLD. We remain conservative on our estimates of growth in volumes given increased competitive intensity in the country. We remain concerned about capital allocation to areas such as PDHPP increasing execution risk for the company.

Key changes

Target	Rating
▲	▼

Ticker/Price	PLNG IN/Rs 305
Market cap	US$ 5.6bn
Free float	50%
3M ADV	US$ 24.0mn
52wk high/low	Rs 323/Rs 192
Promoter/FPI/DII	50%/26%/11%

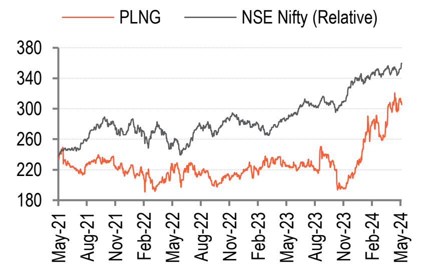
Source: NSE | Price as of 24 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	5,27,284	5,76,850	5,95,916
EBITDA (Rs mn)	52,065	53,734	59,142
Adj. net profit (Rs mn)	35,362	36,610	40,220
Adj. EPS (Rs)	23.6	24.4	26.8
Consensus EPS (Rs)	23.6	24.9	26.0
Adj. ROAE (%)	22.2	20.3	19.9
Adj. P/E (x)	13.0	12.5	11.4
EV/EBITDA (x)	8.0	7.4	6.6
Adj. EPS growth (%)	9.1	3.5	9.9

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

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 247 | ⮝ 17%

ASHOK LEYLAND | Automobiles | 25 May 2024

Healthy show, all set to continue momentum; retain BUY

- **Healthy base keeps revenue growth listless in Q4, strong growth of 22% QoQ; volume grew a sturdy ~20% YoY/QoQ**
- **EBITDA margin continues to expand, rising 310bps YoY to ~14% on benign commodity costs and improving operating efficiencies**
- **Maintain BUY with a revised TP of Rs 247 (previously Rs 226), following upward revision in earnings for FY25E/FY26E by 5%/6%**

Milind Raginwar
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Volume growth solid at ~20%, strong base leads revenue growth decline: AL's Q4FY24 revenue fell by 3% YoY to Rs 112.7bn despite strong volume growth of 20% owing to a very healthy base effect due to on board diagnostic (OBD) norms. The performance was strong QoQ with 22% growth backed by 19% volume and 2% realisation per vehicle gains. Volumes at 56.2k units were robust aided by strong traction in the bus segment where the market share rose by 5% to 38% and the LCV segment too showed healthy signs of revival.

Margins improvement continues: Raw material cost (adjusted for inventory) improved to 71.8% of net sales from 75.6% in Q4FY23 (72.2% in Q3FY24), aiding gross margin expansion by 380bps/40bps YoY/QoQ to 28.2%. Cost reduction initiatives, softening commodity costs and a better product mix saw EBITDA rise 25%/43% YoY/QoQ to Rs 15.9bn, with a 14.1% margin (+310bps/200bps YoY/QoQ). Adj. PAT rose to Rs 9.7bn from Rs 7.0bn in the year-ago quarter.

EV expansion on the cards: AL unveiled its first 14T Boss Electric Truck in 4QFY24. The company showcased an impressive lineup of future-ready vehicles, including the 9m Hydrogen Fuel Cell Bus, AVTR LNG 6×4 Tractor, 55T EV Tractor, and Switch IeV4 Electric LCV in Q4FY24. AL plans to launch 16 new models in the MHCV segment beyond the e-LCV launch shortly. AL has invested a total of Rs 15bn in FY24 in Optare PLC and OHM Global Mobility (OHM).

On the growth path in the long term: We revise our earnings for FY25E/FY26E by 5%/6% factoring in strong growth momentum, cost efficiencies and benign commodity cost estimating an EBITDA/PAT CAGR of 27%/38% for FY23-FY26. We believe AL will beat industry growth in CVs, maintain leadership in buses and deliver on launches. LCV recovery adds comfort, and inroads into EVs will add flavour to the portfolio.

Retain BUY: We reiterate our BUY rating for a revised SOTP-based TP of Rs 247 (from Rs 226). We continue to assign 20x P/E to the standalone business – in line with the 5Y average multiple – and value the vehicle finance arm at Rs 12/sh.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AL IN/Rs 211
Market cap	US$ 7.5bn
Free float	49%
3M ADV	US$ 37.4mn
52wk high/low	Rs 219/Rs 144
Promoter/FPI/DII	52%/17%/15%

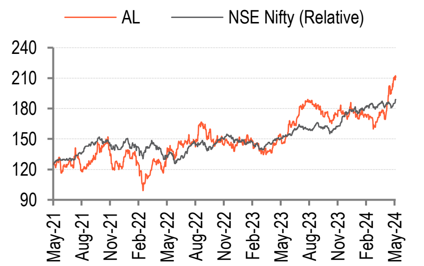
Source: NSE | Price as of 24 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	3,83,670	4,39,385	4,96,092
EBITDA (Rs mn)	46,066	52,207	59,316
Adj. net profit (Rs mn)	27,116	30,306	33,707
Adj. EPS (Rs)	8.9	10.3	11.5
Consensus EPS (Rs)	8.9	10.2	11.2
Adj. ROAE (%)	30.8	22.6	20.5
Adj. P/E (x)	23.6	20.4	18.3
EV/EBITDA (x)	13.8	11.3	9.8
Adj. EPS growth (%)	109.3	11.8	11.2

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

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 210 | ∀ 3%

STAR CEMENT | Cement | 25 May 2024

Steady show in a trying quarter; growth intact

- **Steady 11% growth in a challenging quarter assisted by 12% YoY volume increase; realisations softens**
- **Cost savings of 8% YoY helped EBITDA margin stay intact ~20%; QoQ weakness restricted too**
- **TP raised to Rs 210 (vs. Rs 193) as we continue to value STRCEM at 9x EV/EBITDA FY26E on revised earnings; upside capped – retain HOLD**

Milind Raginwar
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Volumes aid revenue growth, realisations subdued: STRCEM's revenue grew 11% YoY to Rs 9.1bn in Q4FY24 as volumes grew 12% to 1.4mn tonnes (we have refrained from QoQ comparisons due to sharp variations due to cyclicality). However, realisations fell 3% YoY to Rs 6,474/t. Cement prices stayed mostly unchanged in Northeast India but dropped ~Rs 15/bag in other regions in 4QFY24.

Operating cost savings commendable: Overall cost declined 8%/5% YoY/QoQ to Rs 5,201/t as energy costs adjusted for raw material inventory fell 21%/13% to Rs 2,313/t. However, logistics costs rose sharply (50% YoY) due to reverse movement of cement from Siliguri to Assam to cater to higher demand. Other expenditure was flat YoY at Rs 1.1bn.

Lower cost helps retain margins: Bolstered by cost savings, EBITDA increased 8% YoY (21% QoQ) to Rs 1.8bn. This helped retain margins at a flat ~20% YoY. However, EBITDA/t fell 5% to Rs 1,274 from Rs 1,346 in Q4FY23 and adj. PAT fell 9% YoY due to higher tax provision at 38%.

Capacity expansion plans: The 2mt grinding unit in Guwahati, Assam, and 3mt clinker plant in Meghalaya were commissioned in Q4FY24/Q1FY25. The Silchar grinding unit in Assam will be commissioned in H2FY26. STRCEM announced the new grinding unit (2mnt) at Jorhat in Upper Assam that would commence by FY27.

Growth prospects intact: We retain our FY25 estimates but raise our FY26 EBITDA by 3%. In our view, the government's infrastructure focus in STRCEM's core Northeast India market is likely to propel volumes. Healthy balance sheet despite being in capex mode should support ROE/ROCE expansion to an estimated 14%/19% by FY26. We assign 9x (unhanged) FY26E EV/EBITDA to the stock, which gives us a revised TP of Rs 210 (from Rs 193).

Upside capped, retain HOLD: Current valuations of 11x/10x FY25E/FY26E EV/EBITDA cap upside potential and, hence, we maintain our HOLD rating. Our TP implies a replacement cost valuation of Rs 7.5bn/mt – in line with the industry average.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	STRCEM IN/Rs 217
Market cap	US$ 1.1bn
Free float	33%
3M ADV	US$ 2.2mn
52wk high/low	Rs 256/Rs 127
Promoter/FPI/DII	67%/1%/6%

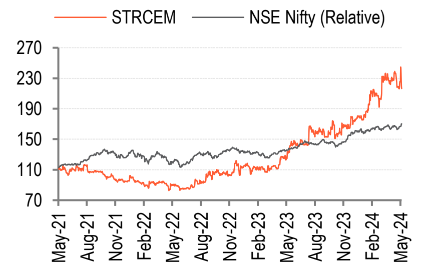
Source: NSE | Price as of 24 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	29,107	36,147	43,600
EBITDA (Rs mn)	5,563	7,690	8,860
Adj. net profit (Rs mn)	2,951	4,009	4,525
Adj. EPS (Rs)	7.0	9.6	10.8
Consensus EPS (Rs)	7.0	9.4	11.1
Adj. ROAE (%)	11.5	13.9	13.8
Adj. P/E (x)	30.8	22.6	20.1
EV/EBITDA (x)	16.4	11.8	10.2
Adj. EPS growth (%)	19.1	35.9	12.9

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

Stock performance



Source: NSE

SELL
TP: Rs 3,000 | ∀ 27%

DIVI'S LABS | Pharmaceuticals | 25 May 2024

Strong quarter; rich valuations

- **DIVI delivered a strong quarter with all round beat. EBITDA/PAT beat Bloomberg consensus estimate by 20% each**
- **Company announced a capex of Rs 6.5bn-7.0bn to set up a facility to cater to a new long-term contract from an MNC**
- **We keep our estimates and target multiple unchanged and maintain TP of Rs 3,000. Maintain SELL rating**

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Strong revenue growth driven by custom synthesis business: DIVI posted 18% YoY rise in its fourth quarter revenue to Rs 23bn with a beat of 10% vs Bloomberg consensus estimates primarily on account of strong 47% YoY growth in custom synthesis business due to recent commercialisation of new projects. The company has seen increased enquiries in this segment.

Generic API pricing remains a challenge: Generic API business continues to see pricing challenge which is offset by stable demand and volume gains. Company expects pricing challenges to persist in the near future. The company continues to see strong demand for its key products and benefits from strong backward integration despite the pricing and geopolitical challenges.

Capex announcement for new long-term contract: DIVI announced the signing of a new long-term contract for custom synthesis business with a pharma MNC. As this contract requires specific technology the company needs to invest in a new facility at one of its USFDA approved locations. The company estimates this project needs a capex of Rs 6.5bn-7.0bn and would be commercialised by FY27.

Operational efficiencies drive margin improvement: Company continues to see a decline in raw material costs which were elevated until recently. Gross margin improved 320bps YoY to 60.8%, while remaining flat QoQ. Operating leverage from higher revenue and operational efficiencies drove EBITDA margin expansion of 700bps/480bps YoY/QoQ to 31.7% (above 30% after five quarters). EBITDA for the quarter grew 51% YoY to Rs 7.3bn (beat of 20% over consensus). Net profit jumped 68% YoY to Rs 5.4bn with beat of 20% over consensus.

Maintain SELL: We have kept our FY25/26 estimates largely unchanged and factor in 14% revenue CAGR over FY24-26 and expect EBITDA margin in the range of 32%-34%. DIVI is trading at FY25E/FY26E EV/EBITDA valuations of 37x/31x which appear rich. We continue to ascribe the stock a 22x EV/EBITDA (implied P/E of 35x), which is a 10% discount to the 10-year average, which translates to an unchanged TP of Rs 3,000 with 27% downside after a recent rally. Maintain SELL.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	DIVI IN/Rs 4,122
Market cap	US$ 13.3bn
Free float	48%
3M ADV	US$ 22.9mn
52wk high/low	Rs 4,175/Rs 3,295
Promoter/FPI/DII	52%/15%/22%

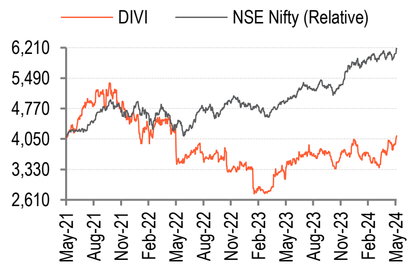
Source: NSE | Price as of 24 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	78,450	89,779	101,568
EBITDA (Rs mn)	22,050	28,289	34,035
Adj. net profit (Rs mn)	15,700	18,790	22,914
Adj. EPS (Rs)	59.1	70.8	86.3
Consensus EPS (Rs)	59.1	75.9	95.0
Adj. ROAE (%)	11.9	13.7	15.6
Adj. P/E (x)	69.7	58.2	47.8
EV/EBITDA (x)	47.9	37.2	31.1
Adj. EPS growth (%)	(7.6)	19.7	21.9

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

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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