FIRST LIGHT

28 October 2024

RESEARCH

ORIENT ELECTRIC | TARGET: Rs 258 | +23% | BUY

Strong topline; margins in line. Upgrade to BUY

JSW STEEL | TARGET: Rs 975 | +3% | HOLD

Poised for H2 recovery but risk-reward unfavourable

FINOLEX INDUSTRIES | TARGET: Rs 300 | +6% | HOLD

Dismal performance on sharp margin contraction

MAHANAGAR GAS | TARGET: Rs 1,610 | +8% | HOLD

Resetting margin expectations, reiterate HOLD

ERIS LIFESCIENCES | TARGET: Rs 1,648 | +28% | BUY

Fully vertically integrated biologics segment; maintain BUY

SUMMARY

ORIENT ELECTRIC

- Decent 16% revenue surge with 210bps gross margin boost from smart cost cuts and strategic price hikes
- ORIENTEL accelerates premiumisation in fans, while ensuring quality through in-house PCB production
- We pare FY25E/FY26E/FY27E EPS by 6% each, following sharp 30% correction in stock price since our last update. Upgrade to BUY

Click here **for the full report.**

JSW STEEL

- Q2 results was better than weak expectations, supported by lower loss on iron ore and inventory valuation. Imports had a significant impact
- Steel profits likely bottomed out with strong volume outlook for H2 and likely margin recovery from Q3
- Raise TP to Rs 975 (from Rs 925) and roll forward to Sep'25 with an unchanged multiple of 7x. Retain HOLD given unfavourable risk-reward

Click here **for the full report.**

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FINOLEX INDUSTRIES

- Gained market share in pipe segment in a difficult environment, but still missed our EBITDA estimates by 90% due to sharp margin contraction
- Revised pipe volume growth guidance for FY25 to 10-12% YoY (10-15% earlier) based on weak H1FY25 performance
- Maintain HOLD on weak return ratios and expensive valuations; TP cut by 8% to Rs 300 on earnings downgrade

Click here for the full report.

MAHANAGAR GAS

- Q2 results were broadly in line with our forecasts. Factoring in stronger growth momentum, we raise FY24-27E volume CAGR to 8.4% from 7.5%
- With advancing of lower APM gas allocation, we reset our EBITDA margin trajectory to Rs 9.5/scm on average over FY24-33E
- Lower TP to Rs 1,610 from Rs 1,875 and retain HOLD rating. Any measures to counter the impact of lower allocation is an upside risk

Click here for the full report.

ERIS LIFESCIENCES

- Q2 revenue/PAT above our estimates due to better traction in both base and acquired businesses
- EBITDA margin improvement led by fixed-cost synergies. FY25 EBITDA margin guidance of 36% for domestic business (90% of sales) retained
- We maintain our EPS estimates for FY25/FY26/FY27 and roll over valuations to Sep'26, valuing ERIS at 33x. Maintain BUY

Click here for the full report.

RESULT REVIEW

BUY
TP: Rs 258 | ⮝ 23%

ORIENT ELECTRIC | Consumer Durables | 26 October 2024

Strong topline; margins in line. Upgrade to BUY

- **Decent 16% revenue surge with 210bps gross margin boost from smart cost cuts and strategic price hikes**
- **ORIENTEL accelerates premiumisation in fans, while ensuring quality through in-house PCB production**
- **We pare FY25E/FY26E/FY27E EPS by 6% each, following sharp 30% correction in stock price since our last update. Upgrade to BUY**

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Strong revenue growth: Revenue grew 16% YoY to Rs 6.6bn, supported by strong demand in appliances and fans, boosted by digital initiatives, festive sales, and higher realisations, surpassing our and consensus estimates by 7% each. Gross margin improved by 210bps YoY to 32.4%, driven by effective cost optimisation, a favourable product mix and the impact of recent price hikes. EBITDA saw a notable 73% YoY increase to Rs 357mn, with margins rising 180bps YoY to 5.4%, in line with our estimates. Depreciation increased 38% YoY and 12% QoQ to Rs 196mn due to the new Hyderabad plant, while PAT rose to Rs 104mn.

ECD sales surge with strong performance across segments: ORIENTEL's ECD segment grew a strong 21% YoY to Rs 4.4bn, driven by a favourable product mix and increased volumes. Despite being a non-seasonal quarter, fans recorded high-teens growth, particularly in the general trade (GT) segment, while appliances, including water heaters, coolers, and kitchen appliances, experienced robust double-digit gains. EBIT margin improved by 60bps YoY to 8.8%, benefiting from better product offerings and strategic price hikes.

Lighting strong; despite price erosion: Lighting and switchgear sales grew 8% YoY to Rs 2.2bn, fueled by high-teens volume growth in lighting despite LED price erosion. Although switchgear and wires faced challenges from pricing pressures and commodity cost fluctuations, overall, EBIT margin rose 40bps YoY to 13.6%, with capital employed in lighting and switchgears increasing to Rs 1.1bn.

Upgrade to BUY: Following ORIENTEL's Q2 results, we cut our EPS estimates by 6% each for FY25/FY26/FY27 to factor in a gradual pick up in the festive season and muted international business. We anticipate robust 19% revenue CAGR from FY24-27E, fueled by a low base and margin normalisation, which should drive a strong ~50% earnings CAGR. Maintaining a P/E of 30x, we upgrade ORIENTEL to BUY, driven by management's optimism regarding market share growth with the upcoming Hyderabad facility launch. We roll forward our valuations to Sep'26, with a new TP of Rs 258 (from Rs 300). With the stock down 30% since our last update, we view this as a strategic entry point to capture impressive growth ahead.

Key changes

Target	Rating
▼	▲

Ticker/Price	ORIENTEL IN/Rs 210
Market cap	US$ 530.6mn
Free float	62%
3M ADV	US$ 0.9mn
52wk high/low	Rs 297/Rs 189
Promoter/FPI/DII	38%/6%/28%

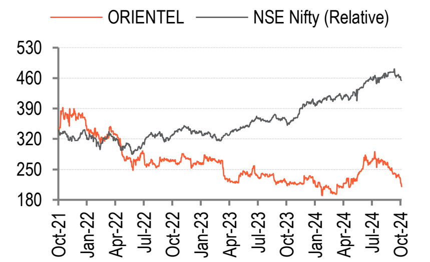
Source: NSE | Price as of 25 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	28,121	33,150	39,471
EBITDA (Rs mn)	1,443	2,443	3,140
Adj. net profit (Rs mn)	566	1,066	1,531
Adj. EPS (Rs)	2.7	5.0	7.2
Consensus EPS (Rs)	2.7	5.5	7.8
Adj. ROAE (%)	9.3	15.9	20.4
Adj. P/E (x)	79.1	42.0	29.2
EV/EBITDA (x)	30.9	18.3	14.2
Adj. EPS growth (%)	(25.4)	88.4	43.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
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HOLD
TP: Rs 975 | 3%

JSW STEEL | Metals & Mining | 28 October 2024

Poised for H2 recovery but risk-reward unfavourable

- **Q2 results was better than weak expectations, supported by lower loss on iron ore and inventory valuation. Imports had a significant impact**
- **Steel profits likely bottomed out with strong volume outlook for H2 and likely margin recovery from Q3**
- **Raise TP to Rs 975 (from Rs 925) and roll forward to Sep'25 with an unchanged multiple of 7x. Retain HOLD given unfavourable risk-reward**

Kirtan Mehta, CFA
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Q2 EBITDA beat: Amid weak expectations, Q2 EBITDA was a shade better with lower loss on iron ore and inventory valuation. Chinese imports impacted domestic market share of flats and Retail sales as well exports. Net debt rose to Rs 851bn.

Sharp growth uptick in H2: Implied H2 production/sales works out to 12%/16% YoY growth, based on the retained FY25 guidance of 28.4mt/27mt.

Margin bottomed out in Q2: With a recovery in October and healthy H2 growth outlook, realisations are likely to recover from weakness in September. While iron ore prices saw a couple of increases in October, range-bound outlook for global iron ore prices should keep Indian prices modest. With US$ 20-25/t reduction in coking coal costs (company guidance), margin can see uptick starting from Q3.

Key triggers through FY26: (a) Ramp-up of 5mtpa Vijayanagar and 1mtpa BPSL expansions over FY25 and FY26, (b) lower iron ore costs with planned ramp-up of new mines in Karnataka, Odisha and Goa. Besides better quality, it will help lower logistics cost, (c) reduction in net debt initially with inventory release (Rs 15bn-20bn) and then with improvement in profitability in FY26 with delivery on expansions.

FY24-27E EBITDA CAGR at 16%: We cut FY25E EBITDA by 15%, factoring in weaker Q2 and Q3 than our expectations at the start of Q2. With the commissioning of 5mtpa BF further derisking the Vijayanagar expansion, we tweak FY26E/FY27E EBITDA by 1%-2%. We now bake in a ~16% EBITDA CAGR over FY24-FY27E, modelling in a volume ramp-up of ~7mt over three years to 32.5mt by FY27. We build in margin improvement from Rs 10.2k/t in FY24 to Rs 12.9k/t by FY27.

Maintain HOLD: We raise TP to Rs 975 (from Rs 925) with changes to our estimates and roll forward valuation to Sep'25 (from Jun'25). Despite optimistic estimates and target 1Y fwd EV/EBITDA of 7.0x to allow for multiple expansion during the early recovery phase, our TP yields just 3% upside. With higher target net debt to EBITDA threshold of 3.75x, JSTL is more vulnerable to any change in cyclical outlook than its peers. Maintain HOLD with unfavourable risk-reward.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	JSTL IN/Rs 944
Market cap	US$ 27.5bn
Free float	40%
3M ADV	US$ 25.3mn
52wk high/low	Rs 1,063/Rs 723
Promoter/FPI/DII	45%/11%/11%

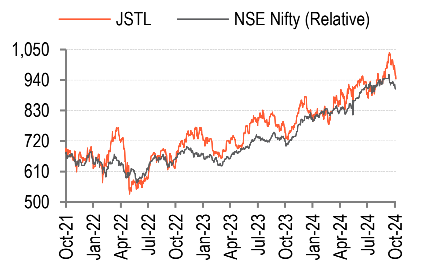
Source: NSE | Price as of 25 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs bn)	1,750	1,893	2,025
EBITDA (Rs bn)	276	290	397
Adj. net profit (Rs bn)	82	90	160
Adj. EPS (Rs)	33.4	36.9	65.5
Consensus EPS (Rs)	33.4	38.3	71.2
Adj. ROAE (%)	11.4	11.1	17.5
Adj. P/E (x)	28.3	25.6	14.4
EV/EBITDA (x)	6.3	5.6	3.8
Adj. EPS growth (%)	94.9	10.6	77.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 300 | ▲ 6%

FINOLEX INDUSTRIES | Building Materials | 26 October 2024

Dismal performance on sharp margin contraction

- **Gained market share in pipe segment in a difficult environment, but still missed our EBITDA estimates by 90% due to sharp margin contraction**
- **Revised pipe volume growth guidance for FY25 to 10-12% YoY (10-15% earlier) based on weak H1FY25 performance**
- **Maintain HOLD on weak return ratios and expensive valuations; TP cut by 8% to Rs 300 on earnings downgrade**

Utkarsh Nopany
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Weak quarter: FNXP reported healthy pipe volume growth (+10.2% YoY vs 7.0% estimate), but EBITDA was 90% lower than our estimate due to sharp margin contraction (-1,038 bps YoY to 1.3%) on account of weak resin prices. Overall, FNXP revenue/EBITDA/APAT de-grew by 6%/90%/59% YoY in Q2FY25.

Key highlights: FNXP gained market share in the plastic pipe segment as it posted healthy volume growth in Q2FY25 (FNXP: 10.2% YoY; SI: -0.7%; APOLP standalone: -17.0% YoY). Pipe segment reported operating loss of Rs 261mn in Q2FY25 vs profit of Rs 811mn in Q2FY24 due to the steep decline in PVC resin prices. PVC resin segment EBITDA per unit also remained weak at Rs 9.1/kg (vs historical average run rate of Rs 15/kg) in Q2FY25 due to weak resin spread.

Guidance downgrade: FNXP lowered its volume growth guidance to 10-12% YoY (10-15% earlier) for FY25, which implies an asking growth run rate of 16-20% YoY for H2FY25. Pipe segment margin is expected to return to the normal level in Q3FY25 as resin prices are likely to remain stable in the near future. Management expects a favourable outcome on ongoing anti-dumping duty (ADD) investigation on PVC resin by Dec'24, which would boost the PVC resin segment margin in future. Pipes & fittings capacity to increase by 50ktpa to 520ktpa by Q4FY25 at a cost of Rs 1.5bn (vs Rs 0.54bn spent in H1FY25). The company is also exploring options to put up a greenfield pipe facility.

Maintain HOLD; TP cut by 8% to Rs 300: We believe FNXP's business risk profile will improve structurally over the medium term due to falling B2B PVC resin segment revenue share (as it operates at almost full capacity) and improving profitability of plastic pipe segment due to rising share of non-agri pipe. We expect FNXP's EPS to grow at a healthy 18.3% CAGR over FY24-FY27E due to a low base. However, we maintain our HOLD rating on the stock due to (a) weak returns profile amidst poor capital allocation, and (b) expensive valuations (trades at 27.8x on 1Y forward P/E vs 5Y average of 21.4x). We have cut our TP to Rs 300 (vs Rs 325) due to earnings downgrade (-24.3%/-7.8%/-12.6% for FY25E/FY26E/FY27E) based on lower resin prices. Our target P/E remains unchanged at 25x on Sep'26E (Jun'26 earlier).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	FNXP IN/Rs 284
Market cap	US$ 2.1bn
Free float	48%
3M ADV	US$ 4.9mn
52wk high/low	Rs 356/Rs 186
Promoter/FPI/DII	52%/6%/12%

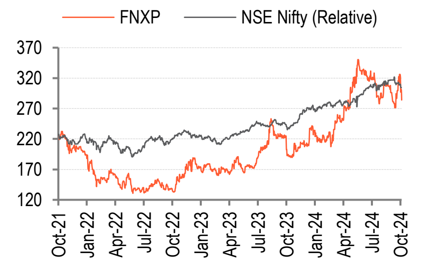
Source: NSE | Price as of 25 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	43,174	45,521	49,388
EBITDA (Rs mn)	5,882	5,918	8,457
Adj. net profit (Rs mn)	4,757	5,377	6,997
Adj. EPS (Rs)	7.7	8.7	11.3
Consensus EPS (Rs)	7.7	11.9	11.5
Adj. ROAE (%)	9.0	9.1	10.8
Adj. P/E (x)	36.9	32.7	25.1
EV/EBITDA (x)	32.5	32.6	23.1
Adj. EPS growth (%)	83.0	13.0	30.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 1,610 | ⮝ 8%

MAHANAGAR GAS | Oil & Gas | 26 October 2024

Resetting margin expectations, reiterate HOLD

- **Q2 results were broadly in line with our forecasts. Factoring in stronger growth momentum, we raise FY24-27E volume CAGR to 8.4% from 7.5%**
- **With advancing of lower APM gas allocation, we reset our EBITDA margin trajectory to Rs 9.5/scm on average over FY24-33E**
- **Lower TP to Rs 1,610 from Rs 1,875 and retain HOLD rating. Any measures to counter the impact of lower allocation is an upside risk**

Kirtan Mehta, CFA
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Q2 broadly in line: While MAHGL's Q2 EBITDA was broadly in line with our forecasts, volume growth was stronger at 13% (vs 9%) and EBITDA margin was a tad lower at Rs 10.7/scm (vs 11.2/scm).

Resetting margins: While the company has retained EBITDA margin guidance for FY25 at Rs 10-12/scm after 20% deallocation of APM gas, we lower our FY25E margin to Rs 10.4/scm from Rs 11.5/scm, still within the guidance range. We now factor in H2 margin at Rs 9.6/scm vs Rs 11.3/scm in H1 building in higher gas purchase cost during H2 and recognising constraints from limited headroom with diesel price (16%). Similarly we lower FY26E-FY27E margins to Rs 9.6-9.7/scm below the current guidance range. While industry is discussing several approaches with government, including reduction in excise duty to lower the impact of allocation cut, we wait for a decision on it.

Strong growth momentum: MAHGL has clocked sequential growth for five quarters in a row at a quarterly run rate of 3.4% and clocked 13% YoY growth in H1. With this momentum, we raise FY25 growth to 11% (from 9%), above company guidance of 10%, and FY24-27E CAGR to 8.4% (from 7.5%), above the company guidance range of 6-7%. For the consolidated operations including UEPL, we raise FY24-33E growth estimates to 7.9% (from 7.7%).

Lower TP to Rs 1,610: Factoring in lower margins, partially offset by higher growth, we cut FY25E-27E EBITDA by 7%-12%. We also cut our DCF-based TP to Rs 1,610 (from Rs 1,875). Our TP implies FY26E P/E of 15.5x after consolidating UEPL, above the 1Y forward mean P/E of 11.7x/12.3x over the past 5Y/10Y. We believe MAHGL deserves a higher multiple as it is set to deliver 7.9% CAGR over FY24-33E along with UEPL – double the CAGR clocked over FY19-FY24.

Retain HOLD: MAHGL stock has corrected 18% since 15 Oct after the deallocation of 20% APM gas for the CNG segment. The correction reflects the reset of margin expectations with advancing of lower APM allocation by at least 3 years ahead of our prior assumptions. Given 8% upside to our lower TP, we retain our HOLD rating.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	MAHGL IN/Rs 1,497
Market cap	US$ 1.8bn
Free float	58%
3M ADV	US$ 14.4mn
52wk high/low	Rs 1,988/Rs 979
Promoter/FPI/DII	33%/34%/15%

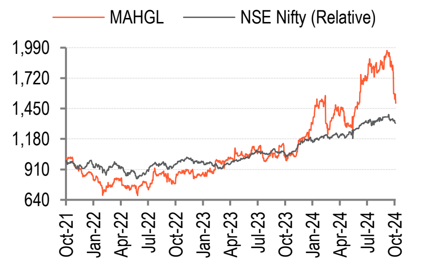
Source: NSE | Price as of 25 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	62,445	67,644	73,504
EBITDA (Rs mn)	18,426	15,283	15,339
Adj. net profit (Rs mn)	12,891	10,216	10,094
Adj. EPS (Rs)	130.5	103.4	102.2
Consensus EPS (Rs)	130.5	116.8	123.7
Adj. ROAE (%)	27.8	18.7	16.6
Adj. P/E (x)	11.5	14.5	14.7
EV/EBITDA (x)	7.9	9.5	9.4
Adj. EPS growth (%)	63.2	(20.7)	(1.2)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,648 | ⮝ 28%

ERIS LIFESCIENCES | Pharmaceuticals | 26 October 2024

Fully vertically integrated biologics segment; maintain BUY

- **Q2 revenue/PAT above our estimates due to better traction in both base and acquired businesses**
- **EBITDA margin improvement led by fixed-cost synergies. FY25 EBITDA margin guidance of 36% for domestic business (90% of sales) retained**
- **We maintain our EPS estimates for FY25/FY26/FY27 and roll over valuations to Sep'26, valuing ERIS at 33x. Maintain BUY**

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Robust revenue growth: ERIS's revenue grew strongly at 47% YoY to Rs 7.4bn in Q2FY25, supported by traction in its base and acquired businesses. The newly-acquired business of Swiss Parenterals contributed Rs 820mn to revenue in Q2FY25. It expects the domestic branded formulations business to clock organic growth of Rs 2.6bn in FY25 from Rs 1bn in H1FY25. With its diversification strategy, ERIS's concentration in the top three therapies has reduced to 54% from 80%.

Synergies from acquisition drove margins: EBITDA for the quarter grew 46% YoY to Rs 2.6bn, 3% above Bloomberg expectations. This was due to the increase in production capacity and utilisation rate which drove base business gross margin to 86% and 79% for the Derma business. EBITDA margin was 35.7% on account of fixed-cost synergies from acquired businesses. We expect ERIS to maintain EBITDA margin of 34-35% in FY25 driven by (1) higher productivity, (2) fixed-cost synergies and (3) several new launches in H2 mostly First to File (FtF).

Participated in GLP1 opportunity: ERIS has acquired a 30% stake in Levim Lifetech for developed and commercialised Liraglutide, Streptokinase and Pegaspargase from basic stages. During the quarter, ERIS launched ERLY whose API would be manufactured in the Levim facility. With the success of Liraglutide, we believe the company can scale up to tap the opportunity of GLP1 products.

Fully-integrated biologics: ERIS is now fully vertically-integrated for its biologics presence, where it will conduct initial stage activities like product development and commercial manufacturing through Levim, fill finish through Chemman Labs and market products through Biocon's acquired portfolio of insulin, oncology and critical care business. This vertical integration is likely to lead to incremental profitability.

Valuation outlook: We maintain our BUY rating and value the stock at a P/E of 33x on Sep'26, ~54% premium to its five-year mean, which yields a TP of Rs 1,648. We expect such a premium valuation to sustain due to: (1) increased medical representative productivity, (2) higher traction in value-added products, and (3) synergies from scaling up acquired businesses.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ERIS IN/Rs 1,292
Market cap	US$ 2.1bn
Free float	29%
3M ADV	US$ 4.7mn
52wk high/low	Rs 1,522/Rs 804
Promoter/FPI/DII	55%/13%/16%

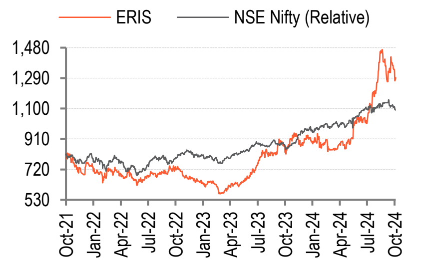
Source: NSE | Price as of 25 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	20,092	29,741	34,372
EBITDA (Rs mn)	6,748	10,214	11,924
Adj. net profit (Rs mn)	3,920	4,194	5,922
Adj. EPS (Rs)	28.9	30.9	43.6
Consensus EPS (Rs)	28.9	32.9	42.3
Adj. ROAE (%)	15.7	14.3	18.3
Adj. P/E (x)	44.8	41.8	29.6
EV/EBITDA (x)	26.6	18.3	16.0
Adj. EPS growth (%)	2.6	7.0	41.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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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