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FIRST LIGHT

02 May 2024

RESEARCH

HAVELLS INDIA | TARGET: Rs 1,780 | +7% | HOLD

Healthy quarter; high valuations – downgrade to HOLD

GUJARAT STATE PETRONET | TARGET: Rs 335 | +13% | HOLD

Downgrade to Hold, decoding HP Gas grid tariff order

ULTRATECH CEMENT | TARGET: Rs 11,510 | +15% | BUY

Strong growth; cost savings drive margins; maintain BUY

Daily macro indicators

Indicator	26-Apr	29-Apr	Chg (%)
US 10Y yield (%)	4.66	4.61	(5bps)
India 10Y yield (%)	7.19	7.20	1bps
USD/INR	83.35	83.47	(0.1)
Brent Crude (US$/bbl)	89.5	88.4	(1.2)
Dow	38,240	38,386	0.4
Hang Seng	17,651	17,747	0.5
Sensex	73,730	74,671	1.3
India FII (US$ mn)	**25-Apr**	**26-Apr**	**Chg ($ mn)**
FII-D	58.1	11.3	(46.8)
FII-E	3.2	(284.7)	(288.0)

Source: Bank of Baroda Economics Research

SUMMARY

HAVELLS INDIA

- Healthy 12% topline growth with EBITDA margin expansion of 90bps in Q4; though raw material prices have started inching up
- Healthy performance across segments on the back of early summer; Lloyd turns profitable after 10 quarters
- We raise FY25E/FY26E EPS by 9%/7% on healthy profitability post Q4; TP rises to Rs 1,780 on rollover, downgrade to HOLD on high valuations

Click here **for the full report.**

GUJARAT STATE PETRONET

- Sharp tariff cut due to recognition of higher volumes, adjustment of past excess revenue and extension of pipeline's economic life
- We cut value of core transmission business to Rs 50/sh from Rs 115, recognising a regulatory cap on returns for transmission pipeline
- We lower SOTP-based TP to Rs 335 and downgrade the rating to HOLD; GUJGA value and holding discount are key drivers for GUJS's value

Click here **for the full report.**

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ULTRATECH CEMENT

- Strong volume gains of ~11% YoY push revenue growth of 9% even though realisation falls by 3.5%
- Cost efficiencies (5% YoY fall) offset weak realisation; EBITDA margin climbs 300bps YoY to 20.3%, EBITDA/t to Rs 1,204 (+15% YoY)
- Maintain BUY rating with an unchanged TP of Rs 11,510 set at 16x FY26E EV/EBITDA (unchanged), earnings lowered marginally for FY25

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HOLD
TP: Rs 1,780 | ▲ 7%

HAVELLS INDIA | Consumer Durables | 30 April 2024

Healthy quarter; high valuations – downgrade to HOLD

- **Healthy 12% topline growth with EBITDA margin expansion of 90bps in Q4; though raw material prices have started inching up**
- **Healthy performance across segments on the back of early summer; Lloyd turns profitable after 10 quarters**
- **We raise FY25E/FY26E EPS by 9%/7% on healthy profitability post Q4; TP rises to Rs 1,780 on rollover, downgrade to HOLD on high valuations**

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Strong finish to the year: HAVL posted a healthy quarter with a topline of Rs 54.4bn, 12% growth YoY, and FY24 revenue at Rs 186bn (+9.9% YoY). EBITDA margin expanded to 11.7% for Q4 and 9.9% for FY24, 90bps and 40bps expansion respectively. Strong growth in Q4 was on the back of strong demand for summer products, with industrial and infrastructure demand contributing to B2B revenues.

Lloyd turns profitable: During the quarter, Lloyd grew 5.9% on topline while posting a Rs 360mn EBIT after 10 loss-making quarters. Management expects the segment to continue making profits as capacities are better utilised among other cost-saving initiatives. ECD and Wires and Cables segments performed well on topline as infrastructure-led demand saw pickup, with healthy growth in switchgears. However, Wires and Cables may face capacity constraints as is visible industry-wide. Lighting segment posted decent topline growth amid strong price erosion.

Management optimistic on FY25: FY25 has begun on a strong note as summer products are witnessing healthy demand. Early green shoots are visible in the real estate sector, which are expected to boost earnings for HAVL. Additionally, the wires and cables facility is expected to be commissioned in Q1, further augmenting revenues for the company.

Balance sheet strong: HAVL ended the year with a strong cash balance of Rs 30bn, with a working capital cycle of 37 days and healthy inventory levels geared up for the summer season. The company had a gross debt of Rs 3bn as of FY24.

High valuations priced in; downgrade to HOLD: HAVL continues to be a strong industry leader and profitability is now visible in Lloyd, along with pickup in consumer demand amid the early onset of summer. Baking in the Q4 print, we raise our FY25E/FY26E EPS by 8.9%/6.7%. We continue to value the stock at a 53x P/E, in line with its 3Y average, leading to a revised target price of Rs 1,780 (Rs 1,600 earlier) upon rollover. Though HAVL offers strong fundamentals, we cut our rating to HOLD from BUY as the stock has run up 30% since our last update.

Key changes

Target	Rating
▲	▼

Ticker/Price	HAVL IN/Rs 1,664
Market cap	US$ 12.7bn
Free float	41%
3M ADV	US$ 21.6mn
52wk high/low	Rs 1,688/Rs 1,212
Promoter/FPI/DII	60%/23%/10%

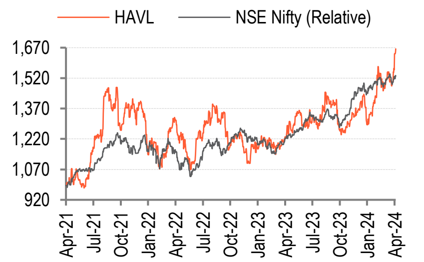
Source: NSE | Price as of 30 Apr 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	1,85,900	2,11,581	2,40,871
EBITDA (Rs mn)	18,426	23,647	28,854
Adj. net profit (Rs mn)	12,708	17,217	21,093
Adj. EPS (Rs)	20.3	27.5	33.7
Consensus EPS (Rs)	20.3	27.3	33.2
Adj. ROAE (%)	18.1	21.4	22.4
Adj. P/E (x)	82.0	60.5	49.4
EV/EBITDA (x)	56.6	44.1	36.1
Adj. EPS growth (%)	18.6	35.5	22.5

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

Stock performance



Source: NSE

HOLD

TP: Rs 335 | ⮝ 13%

GUJARAT STATE PETRONET | Oil & Gas | 30 April 2024

Downgrade to Hold, decoding HP Gas grid tariff order

- **Sharp tariff cut due to recognition of higher volumes, adjustment of past excess revenue and extension of pipeline's economic life**
- **We cut value of core transmission business to Rs 50/sh from Rs 115, recognising a regulatory cap on returns for transmission pipeline**
- **We lower SOTP-based TP to Rs 335 and downgrade the rating to HOLD; GUJGA value and holding discount are key drivers for GUJS's value**

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Sharp cut in HP Gas grid tariff: PNGRB has cut HP Gas grid's tariff by 47% to Rs 18.1/MMBtu from Rs 34/MMBtu. A sharper cut has been driven by (i) adjustment of excess cash flow from +5.3mmscmd of higher actual volume over FY18-FY24 from the prospective tariff, (ii) 5.67mmscmd of higher volume forecast over FY25-FY27 and (iii) extension of economic life by five years to FY32 assuming continuation of 31.67mmscmd. While the first two factors resulted in a tariff cut of Rs 17.2MMBtu, the third factor had an impact of Rs 4.7/MMBtu.

Lower chance of favourable outcome on appeal: The revised tariff has been significantly below GUJS's ask of Rs 50.8/MMBtu. The disallowance is primarily due to the recognition of higher volumes, un-firm capex and different basis for approval of quantity of system use gas. PNGRB has offered to review tariff next year, if the actual volume turns out to be significantly lower than the assumption. If there is an appeal on review of other aspects of the order, a favourable outcome is unlikely.

Lower core transmission value: We lower the DCF-based value of the core transmission business to Rs 50/sh from Rs 115/sh (WACC 11.1%) now recognising (i) economic life only up to FY32/FY31 for HP/LP Gas grids and (ii) using cash flow and terminal value estimates used by the regulator. Any excess cash flow will be adjusted in present value terms at the next tariff review.

Earnings forecasts reduced: We sharply cut our EBITDA estimates for FY25 by 41% and FY26 by 44%, factoring in the tariff cut from 1 May and volume reduction. We do not yet account for a risk of moving out of 5.5-6.0mmscmd of volume should three customers opt for dedicated pipelines (flagged by GUJS).

Downgrade to HOLD, lower TP to Rs 335: We downgrade GUJS's rating to HOLD from BUY as we cut our SOTP-based TP to Rs 335, from Rs 370, factoring in the cut in value of core transmission. This is offset by the increase in value of investment in Gujarat Gas (GUJGA) at market value to Rs 253 (Rs 219) after applying a 30% holding discount. GUJGA's value and the level of holding discount are the key drivers for GUJS now as this accounts for 75% of GUJS's value.

Key changes

Target	Rating
▼	▼

Ticker/Price	GUJS IN/Rs 296
Market cap	US$ 2.0bn
Free float	51%
3M ADV	US$ 11.4mn
52wk high/low	Rs 407/Rs 255
Promoter/FPI/DII	38%/16%/25%

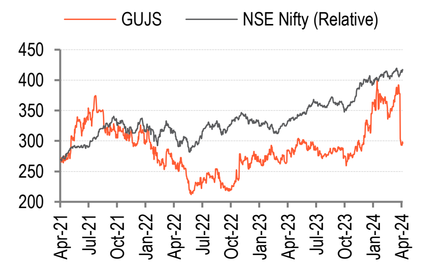
Source: NSE | Price as of 30 Apr 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	17,458	20,495	13,263
EBITDA (Rs mn)	12,427	14,799	7,425
Adj. net profit (Rs mn)	9,289	12,453	6,436
Adj. EPS (Rs)	16.5	22.1	11.4
Consensus EPS (Rs)	16.5	22.7	14.9
Adj. ROAE (%)	10.5	12.8	6.2
Adj. P/E (x)	18.0	13.4	25.9
EV/EBITDA (x)	13.8	11.1	21.5
Adj. EPS growth (%)	(5.1)	34.1	(48.3)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 11,510 | ⮝ 15%

ULTRATECH CEMENT | Cement | 30 April 2024

Strong growth; cost savings drive margins; maintain BUY

- **Strong volume gains of ~11% YoY push revenue growth of 9% even though realisation falls by 3.5%**
- **Cost efficiencies (5% YoY fall) offset weak realisation; EBITDA margin climbs 300bps YoY to 20.3%, EBITDA/t to Rs 1,204 (+15% YoY)**
- **Maintain BUY rating with an unchanged TP of Rs 11,510 set at 16x FY26E EV/EBITDA (unchanged), earnings lowered marginally for FY25**

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Strong volume push aids revenue gains in a challenging quarter: UTCEM reported 9% YoY (+23% QoQ) revenue growth to Rs 198bn in Q4FY24 backed by strong volume growth of 11% to 33.4mn tonnes on a high base. Capacity utilisation at ~98% was the highlight but typical in the busy Q4. Effectively, realisations adjusted to Rs60/t, incentives fell by 3.5%/6% YoY/QoQ at Rs 5,193/t.

Cost savings remain the highlight: Operating cost/tonne fell 5% YoY (-8% QoQ) in Q4 to Rs 4,729/t offsetting the realisations decline. This was aided by raw material, fuel and logistics cost efficiencies. Fuel cost (raw material adjusted) fell 10% YoY (-5% QoQ) to Rs 1,490/t, with blended fuel consumption cost staying flat YoY at US$ 150/t. Logistics cost/t stayed flat YoY at Rs 1,374/t (+2% QoQ) while other expenses rose 18% YoY (2% QoQ) to ~Rs 22bn. Better operating leverage helped cost gains.

Cost savings lend margins push: EBITDA increased 28% YoY (+32% QoQ) to Rs 40.2bn and margins jumped 300bps YoY (+150bps QoQ) to 20.3%. Helped by cost savings, EBITDA/t climbed 15% YoY (+1 QoQ) to Rs 1,204/t.

Expansion on track: UTCEM's Phase-II and -III expansion of 24.4mt and 21.9 mt is on schedule, which will take capacity to 157.4mt by FY25 and further add 21.9mt by FY27 (clinker capacity addition expected at 10mt-12mt). Capex guidance for FY24 is now ~Rs 90bn. The capex will be ~Rs324bn spread over FY25/FY26/FY27. The capex guidance for FY25 is 95bn followed by Rs100bn/Rs110bn in FY26/FY27. The Kesoram Industries proposed transaction has received CCI approval. UTCEM plans to merge the KSI assets and is awaiting approval from SEBI and the stock exchanges, following which the scheme will be submitted to the NCLT.

Maintain BUY rating: We cut FY25 EBITDA/EPS estimates by ~3.5% amid elections/ global uncertainties, while retaining our FY26 forecasts. Our FY23-FY26 EBITDA/PAT CAGR is baked in at 26%/32%. Given effective cost management, healthy growth and a strong balance sheet, we continue to value UTCEM at 16x FY26E EV/EBITDA to arrive at a TP of Rs 11,510 (unchanged) and maintain our BUY rating on the stock.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	UTCEM IN/Rs 9,972
Market cap	US$ 35.0bn
Free float	40%
3M ADV	US$ 39.7mn
52wk high/low	Rs 10,526/Rs 7,434
Promoter/FPI/DII	60%/15%/17%

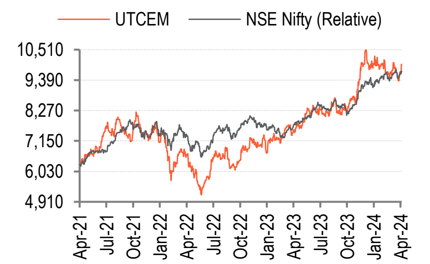
Source: NSE | Price as of 30 Apr 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	6,86,406	7,66,364	8,91,821
EBITDA (Rs mn)	1,35,678	1,61,210	1,98,627
Adj. net profit (Rs mn)	69,769	88,708	1,13,360
Adj. EPS (Rs)	241.7	307.3	392.7
Consensus EPS (Rs)	241.7	305.0	381.0
Adj. ROAE (%)	12.4	14.1	15.8
Adj. P/E (x)	41.3	32.4	25.4
EV/EBITDA (x)	20.9	17.6	14.4
Adj. EPS growth (%)	41.9	27.1	27.8

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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