FIRST LIGHT

05 August 2024

RESEARCH

MAHINDRA & MAHINDRA | TARGET: Rs 3,279 | +19% | BUY

Healthy performance to continue; upgrade to BUY

PRINCE PIPES & FITTINGS | TARGET: Rs 750 | +18% | BUY

In-line Q1; focus on market share gain and better cash flow

BOB ECONOMICS RESEARCH | MONSOON UPDATE

Monsoon and Sowing progress

BOB ECONOMICS RESEARCH | BOB ESSENTIAL COMMODITIES INDEX

“Top”pling inflation

BOB ECONOMICS RESEARCH | MONETARY POLICY EXPECTATIONS

No change in rate or stance

STATE BANK OF INDIA | TARGET: Rs 1,044 | +23% | BUY

Strong performance aided by operational efficiencies

MARUTI SUZUKI | TARGET: Rs 13,305 | +5% | HOLD

Healthy show continues; maintain HOLD on elevated valuations

ESCORTS KUBOTA | TARGET: Rs 2,514 | -36% | SELL

Weakness persists, maintain SELL

ZYDUS WELLNESS | TARGET: Rs 2,596 | +15% | HOLD

1QFY25 result review: Risk from La Nina

JK LAKSHMI CEMENT | TARGET: Rs 687 | -19% | SELL

Changed dynamics lead to challenges; maintain SELL

ORIENT ELECTRIC | TARGET: Rs 300 | +9% | HOLD

Modest quarter; Hyderabad facility gears up for growth

SOMANY CERAMICS | TARGET: Rs 900 | +20% | BUY

Near-term pain, medium-term outlook positive

METALS & MINING

Ferrous read-across: Steel industry at cycle low, ArcelorMittal

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SUMMARY

MAHINDRA & MAHINDRA

- Automotive segment grew by ~14% YoY and tractor volume an encouraging 5% YoY in a dull quarter
- Gross margin gained ~181bps YoY to 26.5% (flat QoQ). EBITDA margin improved by 172bps/227bps YoY/QoQ to 15.2%
- Raise FY25 earnings by 3%, and introduce FY27 estimates. We upgrade to BUY, valuing MM at 20x 1Y forward P/E and higher TP of Rs 3,279

Click here for the full report.

PRINCE PIPES & FITTINGS

- PRINCPIP's Q1 result came broadly in line with our estimate; gained market share even after tightening credit period in Q1
- Lowered EBITDA margin guidance to 12-13% (12-14% earlier) on increased focus towards market share and better cash flow conversion
- Upgrade to BUY with unchanged TP of Rs 750 on strong earnings prospects with improving ROE profile and reasonable valuations

Click here for the full report.

INDIA ECONOMICS: MONSOON UPDATE

Rainfall is currently 4% above the LPA till 2 Aug 2024. Pickup was noted in the last fortnight when 160.7mm rainfall was received between 20 Jul and 2 Aug, versus 123.7mm between 6 and 19 Jul. Out of 36, 27 sub-divisions (77% of the country) have received normal or above normal rainfall so far and 11 states are in the deficient zone. Region-wise, Southern peninsula (+27%) and Central region (+18%) continue to record excess rainfall, while North West (-12%) and East & North East (-16%) regions still report deficient rainfall. Supported by higher than normal rainfall, there is an improvement noted in the sown area, with higher acreage of pulses, paddy, oilseeds, sugarcane and coarse cereals compared with last year. Spatial distribution of rainfall will be critical this month as well, for sowing purposes.

Click here for the full report.

INDIA ECONOMICS: BOB ESSENTIAL COMMODITIES INDEX

BoB Essential Commodity Index (BoB ECI) has shown considerable momentum. It has risen by 2.1% and by 5%, on MoM and YoY basis, respectively. The sequential push is partly attributable to seasonal phenomenon. Importantly, inflation is not broad-based and is concentrated only on a few items. TOP (Tomato, Onion and Potato) is topping the charts, registering double digit sequential growth. In Jun'24, the volatile items (identified in our report) pushed up headline CPI by 1.3%, the Jul'24 run rate shows that these items have the potential of pushing up CPI by another 2.1%, apart from the normal rate. Thus, despite a favorable base of above 260bps, CPI is likely to be ~3.8-4% in Jul'24.

Click here for the full report.

INDIA ECONOMICS: MONETARY POLICY EXPECTATIONS

The Reserve Bank of India's Monetary Policy Committee (MPC) is likely to hold repo rate steady for the 8th consecutive meeting in Jul'24. The stance of the monetary policy is also expected to be retained at withdrawal of accommodation. Incidentally, the stance of the monetary policy was last changed in Jun'22. This is because RBI is unlikely to be comfortable with the elevated levels of food inflation in the recent months. On the other hand, domestic growth impulse has been strong giving RBI the room to keep rates at current levels until it has sufficient confidence that inflationary pressures have subsided on a durable basis.

Click here for the full report.

STATE BANK OF INDIA

- PAT declined on subdued topline and higher credit cost, while operational efficiency offset some of its adverse impact
- NIM slid 6bps QoQ to 3.2%; asset quality continued to improve despite higher slippages on seasonality; continued to guide 15% loan growth
- We maintain BUY on strong growth, stable NIM and asset quality, and revise TP to Rs 1,044 (Rs 969 earlier) set at 1.5x FY26 ABV (Jun'26)

Click here for the full report.

MARUTI SUZUKI

- Q1 revenue grew 10% YoY driven by demand in SUVs and realisations which improved 5%/4% YoY/QoQ
- Softening commodities costs and healthy volumes helped EBITDA margin expand by 344 bps YoY to 12.7% (+42bps QoQ)
- We value the stock at 25x P/E 1Y forward earnings, on par with its 10Y average, and revise its TP to Rs 13,305 (from Rs 12,965). Retain HOLD

Click here for the full report.

ESCORTS KUBOTA

- Q1 tractors volume dipped 3.2% YoY as weakness persisted in export markets and domestic market lost market share
- Softening commodity prices supported gross margin expansion by 173bps to 31.9% YoY. EBITDA margin increased by 20bps YoY
- We cut our FY26 EPS estimate by 4% and introduce FY27 estimates. We revise TP to Rs 2,514 (from Rs 2,530) and retain SELL

Click here for the full report.

ZYDUS WELLNESS

- Sales (+20%) were 7% higher on heatwave but EBITDA was in line with Bloomberg consensus. We forecast +13% sales growth in FY25
- Zydus is guiding for high teens EBITDA margin by FY26. We expect this to be doable on mix improvement and rural recovery
- We assume coverage with HOLD and TP of Rs 2,596. Rural recovery is a positive but there is risk from La Niña-driven cooler and wetter weather

Click here for the full report.

JK LAKSHMI CEMENT

- Q1 revenue fell 11.5% YoY on the back of low volume growth, down 8%, and weak realisations that fell by 4.6% YoY
- Operating cost fell ~7% to Rs 5,417 aided by lower energy cost which helped EBITDA margin add 250bps YoY to 12.8% on a weak base
- We value JKLC at 9x EV/EBITDA 1-year forward earnings (unchanged) and lower our TP to Rs 687 on revised earnings. Retain SELL

Click here for the full report.

ORIENT ELECTRIC

- Modest 7% topline growth with 240bps gross margin boost; EBITDA hit by rising staff costs
- Leadership shift and Hyderabad plant set the stage for long-term growth and market share wins
- We pare FY25E/FY26E EPS by 3%/2% on near-term margin fluctuations; raise TP to Rs 300 and rollover valuations to Jun'26. Maintain HOLD

Click here for the full report.

SOMANY CERAMICS

- Misses our revenue/EBITDA estimate by 2%/8% mainly due to lower-than-expected tiles volume
- Maintained guidance of low double-digit volume growth and margin improvement of 1.0%-1.5% for FY25, despite poor show in Q1
- Maintain BUY and TP of Rs 900 on strong earnings growth prospects with improvement in ROE profile and reasonable valuations

Click here for the full report.

METALS & MINING

- After bottoming out in Q1CY24 and some improvements in Q2, markets are again facing challenges from increased China exports
- While guiding for lower margins and stable demand in Q3, MT believes that industry is at a cycle low with unsustainable market conditions
- While we have a neutral stance on Indian ferrous coverage, correction, if any, could open up opportunities to enter cyclical recovery

Click here for the full report.

RESULT REVIEW

BUY
TP: Rs 3,279 | ⮝ 19%

MAHINDRA & MAHINDRA | Automobiles | 02 August 2024

Healthy performance to continue; upgrade to BUY

- **Automotive segment grew by ~14% YoY and tractor volume an encouraging 5% YoY in a dull quarter**
- **Gross margin gained ~181bps YoY to 26.5% (flat QoQ). EBITDA margin improved by 172bps/227bps YoY/QoQ to 15.2%**
- **Raise FY25 earnings by 3%, and introduce FY27 estimates. We upgrade to BUY, valuing MM at 20x 1Y forward P/E and higher TP of Rs 3,279**

Milind Raginwar
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Steady topline growth in challenging quarter: MM's Q1FY25 revenue grew at a steady 12.8%/8.1% YoY/QoQ to Rs 271.3bn, driven by healthy volume uptick of 10.3%/14.1% YoY/QoQ. The automotive segment grew by ~14% YoY and tractor volume by an encouraging 5% YoY in a dull quarter. Despite the volume gains, the blended realisation/vehicle stayed positive at 2.3% YoY (-5.26% QoQ).

Uptick in EBITDA margin: Inventory-adjusted raw material cost stayed benign at 73.5% of sales from 75.3%/73.5% YoY/QoQ in Q1FY25, yielding nominal gross margin gains of ~181bps YoY to 26.5% (flat QoQ). EBITDA grew 27.2% YoY to Rs 41.2bn with margin gains of 172bps/227bps YoY/QoQ to 15.2%. Other expenses rose 14.5% YoY but decreased 17.7% QoQ to Rs 19.0bn.

FES segment gaining pace: MM's automotive business continued to dominate revenue with a 70% contribution in Q1FY25. However, the Farm Equipment segment (FES) saw a healthy uptick of 9.2% YoY as tractor volumes rose 4.7% YoY. The tractor volume may gain traction following normal monsoons.

Product pipeline remains strong: MM is planning to launch the new Thar Roxx in Q2FY25, besides the 3XO in 4QFY24 with encouraging initial bookings. MM has plans for a strong launch pipeline, including nine ICE SUVs (six new launches), seven LCVs (five ICE + two EVs) and seven EVs categorised as Born EV (BEV) spread over the next six years in two tranches (till FY27 and beyond till FY30).

Overall healthy performance, upgrade to BUY: We raise our FY25 estimates by 3% to factor in the healthy outlook from the FES and automotive segment following healthy monsoons and Q1 performance. We introduce FY27E earnings as we pencil in a 3Y EBITDA/PAT CAGR of 17%/13%. We expect FES to revive stronger, and the automotive segment to maintain strong momentum benefitting from MM's focus on driving volumes and market share. We continue to value MM's core business at 24x 1-year P/E, a 10% premium to its long-term average (22x), resulting in a revised SOTP-based TP of Rs 3,279 (from Rs 3,210). This includes Rs 362/share as the value of subsidiaries. We upgrade MM to BUY from HOLD with an upside of 19%.

Key changes

Target	Rating
▲	▲

Ticker/Price	MM IN/Rs 2,750
Market cap	US$ 41.1bn
Free float	81%
3M ADV	US$ 112.7mn
52wk high/low	Rs 3,014/Rs 1,416
Promoter/FPI/DII	19%/37%/29%

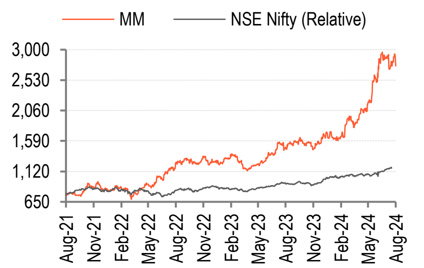
Source: NSE | Price as of 2 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	9,87,634	11,24,218	12,77,570
EBITDA (Rs mn)	1,26,662	1,56,309	1,81,302
Adj. net profit (Rs mn)	1,07,178	1,19,982	1,42,360
Adj. EPS (Rs)	89.5	100.1	118.8
Consensus EPS (Rs)	89.5	99.6	115.1
Adj. ROAE (%)	22.4	21.1	21.1
Adj. P/E (x)	30.7	27.5	23.1
EV/EBITDA (x)	26.9	21.6	18.8
Adj. EPS growth (%)	63.7	11.9	18.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 750 | ⮝ 18%

PRINCE PIPES & FITTINGS | Building Materials | 03 August 2024

In-line Q1; focus on market share gain and better cash flow

- **PRINCPIP's Q1 result came broadly in line with our estimate; gained market share even after tightening credit period in Q1**
- **Lowered EBITDA margin guidance to 12-13% (12-14% earlier) on increased focus towards market share and better cash flow conversion**
- **Upgrade to BUY with unchanged TP of Rs 750 on strong earnings prospects with improving ROE profile and reasonable valuations**

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Broadly in-line Q1: PRINCPIP slightly missed our estimate for Q1FY25 (Revenue: -1.7%; EBITDA: -3.2%) due to lower-than-expected volume (+13.5% YoY vs +15.0% estimated). Overall, Revenue/EBITDA/APAT grew by 9.2%/28.7%/25.8% YoY in Q1FY25 due to a weak base effect. However, on a 5Y CAGR basis, PRINCPIP's EBITDA grew a meagre 2.0% in Q1FY25.

Key highlights: PRINCPIP appears to have gained market share in Q1FY25 as it posted relatively better volume growth compared to its major peers in Q1FY25 (SI: +19.5%; PRINCPIP: +13.5%; APOLP standalone: -1.3%; FNXP: -1.7%) even after tightening its collection period (from 71 days in Q4FY24 to 60 days in Q1FY25). EBITDA margin improved by 146bps YoY to 9.6% in Q1FY25, but it was below the company's guidance of 12-13% as management preferred to chase volume over margin. Net cash position was up from Rs 12mn in Mar'24 to Rs 960mn in Jun'24.

Margin guidance tweaked: PRINCPIP plans to increase its capacity by 21-23% over the next 3-4 quarters to aggressively grow its volume in a favourable demand environment. The company has slightly tweaked its sustainable EBITDA margin guidance to 12-13% (12-14% earlier) as management focuses on growing market share in a competitive environment and better cash flow conversion by further tightening of the credit period to its dealers going ahead. The Bihar greenfield pipe project (with 45ktpa capacity) is expected to be operational by Jan'25 (Mar'25 earlier). With better utilisation of new plant (AP and Bihar), the company targets improving its ROE profile from 11.6% in FY24 to 16% over the next 2-3 years.

Upgrade to BUY with unchanged TP of Rs 750: We upgrade the rating on the stock from HOLD to BUY due to (a) strong earnings growth prospects (EPS to grow at a healthy 24% CAGR over FY24-FY27E) along with improvement in ROE profile (from 11.6% in FY24 to 15.4% in FY27E); and (b) reasonable valuations (trades at 31.3x on 1Y forward P/E vs 5Y average P/E of 32.5x). We have cut our EPS estimates (-4.5%/-3.7% for FY25E/FY26E) based on the Q1FY25 result, but we have kept our TP unchanged at Rs 750 due to the roll forward of our valuation from Mar'26 to Jun'26. Our target P/E remains unchanged at 30x.

Key changes

Target	Rating
◀ ▶	▲

Ticker/Price	PRINCPIP IN/Rs 635
Market cap	US$ 837.8mn
Free float	39%
3M ADV	US$ 1.8mn
52wk high/low	Rs 776/Rs 521
Promoter/FPI/DII	61%/6%/18%

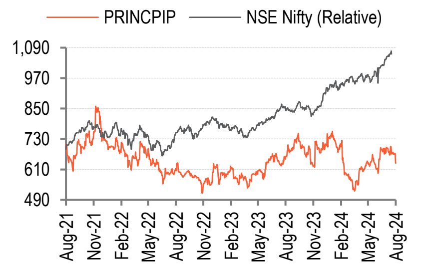
Source: NSE | Price as of 2 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	25,687	28,448	33,696
EBITDA (Rs mn)	3,074	3,530	4,527
Adj. net profit (Rs mn)	1,692	1,950	2,649
Adj. EPS (Rs)	15.3	17.6	24.0
Consensus EPS (Rs)	15.3	19.4	24.6
Adj. ROAE (%)	11.6	12.0	14.4
Adj. P/E (x)	41.5	36.0	26.5
EV/EBITDA (x)	22.9	20.1	15.4
Adj. EPS growth (%)	38.3	15.3	35.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

MONSOON UPDATE

03 August 2024

Monsoon and Sowing progress

Sonal Badhan
Economist

Rainfall is currently 4% above the LPA till 2 Aug 2024. Pickup was noted in the last fortnight when 160.7mm rainfall was received between 20 Jul and 2 Aug, versus 123.7mm between 6 and 19 Jul. Out of 36, 27 sub-divisions (77% of the country) have received normal or above normal rainfall so far and 11 states are in the deficient zone. Region-wise, Southern peninsula (+27%) and Central region (+18%) continue to record excess rainfall, while North West (-12%) and East & North East (-16%) regions still report deficient rainfall. Supported by higher than normal rainfall, there is an improvement noted in the sown area, with higher acreage of pulses, paddy, oilseeds, sugarcane and coarse cereals compared with last year. Spatial distribution of rainfall will be critical this month as well, for sowing purposes.

Where does Kharif sowing stand?

As of 2nd Aug 2024, overall sown area has improved by 2.9% compared with last year.

- Barring Jute and cotton, total sown area of other crops has inched up. Most notable increase is visible in pulses (10.9%) and paddy (5.3%).
- Within pulses, rise in acreage of Arhar (25.9%), Moong bean (12.3%) and other pulses (4%), led to jump in the headline number.
- In contrast, Kulthi, Moth and Urdbean have recorded a decline so far.
- Oilseeds have also registered 3% increase in sown area. Within this, sown area of Soybean, Groundnut, Sunflower and Niger jumped, while that of Sesamum and Castor declined.
- Amongst other major sub-heads, sown area of coarse cereals (3.2%) and Sugarcane (1%) also rose.
- Within Coarse Cereals, sown area of crops such as Maize, Jowar, and small millets inched up, while that of Bajra and Ragi fell.
- Sown area of jute & Mesta was down by (-) 5% and that of Cotton fell by (-) 8.3% compared with last year.

BOB ESSENTIAL COMMODITIES INDEX

03 August 2024

"Top"pling inflation

Dipanwita Mazumdar
Economist

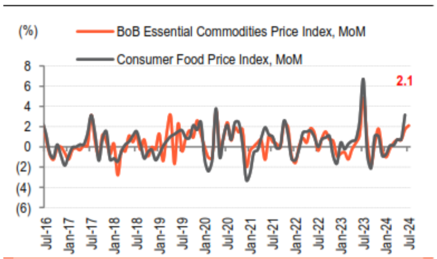
BoB Essential Commodity Index (BoB ECI) has shown considerable momentum. It has risen by 2.1% and by 5%, on MoM and YoY basis, respectively. The sequential push is partly attributable to seasonal phenomenon. Importantly, inflation is not broad-based and is concentrated only on a few items. TOP (Tomato, Onion and Potato) is topping the charts, registering double digit sequential growth. In Jun'24, the volatile items (identified in our report) pushed up headline CPI by 1.3%, the Jul'24 run rate shows that these items have the potential of pushing up CPI by another 2.1%, apart from the normal rate. Thus, despite a favorable base of above 260bps, CPI is likely to be ~3.8-4% in Jul'24.

To know more about the methodology for calculation of the index, please refer to our previous edition of BoB ECI.

Price picture using BoB Essential Commodity Index:

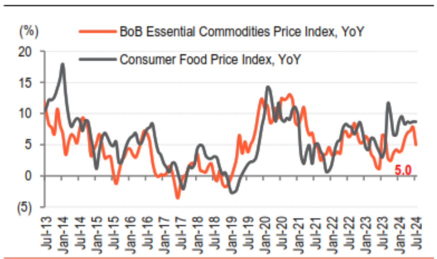
- On MoM basis, BoB ECI rose by 2.1% in Jul'24 compared to 1.7% in Jun'24. Sequentially, TOP (Tomato, Onion and Potato) topped the chart of inflation. It has risen by 57.3%, 21.4% and 16.2%, respectively in Jul'24. Apart from this, there was some degree of loss of momentum in prices of major essential commodities such as rice, all categories of pulses (Moong, Gram and urad witnessing maximum decline), and edible oils (especially mustard and sunflower oil). On a seasonally adjusted basis, the increase in BoB ECI is lesser at 1.5% in Jul'24. Thus, part of the increase is attributable to seasonal phenomenon. On YoY basis, BoB ECI inched up by 5% in Jul'24, albeit an elevated base. Price buildup for Potato and onion were considerable.

Figure 1: On MoM basis, BoB ECI has risen by 2.1% in Jul'24 from 1.7% in Jun'24



Source: CMIE, Bank of Baroda Research

Figure 2: On YoY basis, it was at 5% in Jul'24



Source: CMIE, Bank of Baroda Research

So where is CPI print headed?

High frequency price data showed that inflation is not threatening in a holistic manner. It is concentrated in a few vegetable items such as Tomato, Onion, Potato and Garlic.

MONETARY POLICY EXPECTATIONS

03 August 2024

No change in rate or stance

Aditi Gupta
Economist

The Reserve Bank of India's Monetary Policy Committee (MPC) is likely to hold repo rate steady for the 8th consecutive meeting in Jul'24. The stance of the monetary policy is also expected to be retained at withdrawal of accommodation. Incidentally, the stance of the monetary policy was last changed in Jun'22. This is because RBI is unlikely to be comfortable with the elevated levels of food inflation in the recent months. On the other hand, domestic growth impulse has been strong giving RBI the room to keep rates at current levels until it has sufficient confidence that inflationary pressures have subsided on a durable basis.

Liquidity conditions have eased significantly with the average system liquidity in surplus in Jul'24. RBI is likely to manage the evolving liquidity situation through its fine-tuning operations including scaling up its VRRR auctions. At the current juncture, the inflation trajectory faces risks from skewed distribution of rainfall, geo-political tensions in the Middle East and a depreciating currency. Taking this into cognizance, the earliest possibility of rate cut is pushed back to Dec'24.

Growth and inflation dynamics

Domestic growth remains on strong footing: High frequency indicators suggest that India's growth held ground in Q1FY25. Manufacturing PMI stood at 58.1 in Jul'24, indicating buoyant activity in the sector. Core sector output too was broadly steady at 5.7% in Q1 FY25 versus 5.8% in Q4 FY24. Services PMI signals continued momentum in the sector. On the demand side, urban demand indicators such as PV sales, toll-collections have shown some moderation. However, Centre's revenue receipts have continued to grow at a sharp double-digit pace, led by both direct as well as indirect taxes. Building on this, even rural demand is showing signs of a recovery as reflected in an improvement in tractor and 2-wheeler sales. Commentary by major FMCG companies also signalled a positive outlook for the rural economy aided by the prospects of a normal monsoon. Support to growth will also stem from Budget announcements relating to capital expenditure and employment. It is to be noted that capital expenditure by the government at both the Centre as well as state level has remained muted so far, due to elections. This should pick up in the coming months. Private sector investment too is showing some signs of recovery, even though it seems to be highly skewed in capital intensive sectors. With a pickup in government capex, there is a possibility that this becomes broad based.

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,044 | ⮝ 23%

STATE BANK OF INDIA | Banking | 05 August 2024

Strong performance aided by operational efficiencies

- **PAT declined on subdued topline and higher credit cost, while operational efficiency offset some of its adverse impact**
- **NIM slid 6bps QoQ to 3.2%; asset quality continued to improve despite higher slippages on seasonality; continued to guide 15% loan growth**
- **We maintain BUY on strong growth, stable NIM and asset quality, and revise TP to Rs 1,044 (Rs 969 earlier) set at 1.5x FY26 ABV (Jun'26)**

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Healthy profits: SBIN's NII declined 1% QoQ due to higher deposit costs. Reported NIM slid 6bps QoQ to 3.2% and it guided to remain at current levels for FY25. Other income fell 36% QoQ, mainly due to weak treasury gains (Rs 26bn vs. Rs 34.6bn in Q4) and absence of interest on IT refunds (Rs 7bn in Q4). The wage revision provision behind opex fell 15% QoQ, leading to a 188bps decline in C/I ratio, and the bank guided for further potential to improve. Provision jumped 114% QoQ mainly due to stress asset aging (Rs 23bn), dragging PAT 18% QoQ. Credit cost was 48bps (18bps in Q4) and management expects it to normalise to 50bps over FY25.

Healthy business growth: loan grew 16% YoY aided by healthy growth in SME loans (20% YoY) and overseas loans (14% YoY), while retail book grew (14% YoY), due to slowdown in auto loans (17%) and express credit (+11%). Corporate book grew a strong 16% YoY. Management expects credit growth of 13-15% for FY25 (we estimate Credit/Deposit CAGR of 15%/13% over FY24-26) given strong liquidity with excess SLR of Rs 3.7tn, LCR of 129% and modest domestic LDR (76%). Deposits grew 8.2% YoY, driven by term deposits. CASA ratio declined 45bps QoQ to 39.1%.

Asset quality continued to improve: GNPA decline 3bps QoQ to 2.2%, while NNPA stayed flat at 57bps, with PCR of 74%. Credit cost (calc.) normalised to 37bps vs. 17bps in Q4 and SBIN guiding for it stabilising at 50bps in FY25 leading us to further normalise it to 41/54bps vs. earlier estimates of 36/45bps for FY25/FY26. SBIN's restructured book was Rs 160bn, forming 0.4% of loans vs. Rs173bn in Q4, whereas SMA-1&2 book stood at Rs 46bn (Rs 33bn in Q4). A non-NPA provision of Rs 311bn (144% of NNPA) provides a cushion against any sudden rise in stress or other regulatory provision requirement

Maintain BUY: Healthy business growth, despite SBIN's size, along with stable margins and asset quality augured well. We expect stable NIM at 3% and ROA/ROE of 1%/16% by FY26. We broadly maintain our growth estimates and raise provision. Given SBIN's consistent strong performance across segments, we revise our new SOTP-based TP to Rs 1,044 (from Rs 969), set at a P/ABV (Jun'26) of 1.5x, using the Gordon Growth Model and add Rs 200/sh for subsidiaries – BUY.

Key changes

Target	Rating
▲	◄►

Ticker/Price	SBIN IN/Rs 848
Market cap	US$ 90.4bn
Free float	42%
3M ADV	US$ 208.3mn
52wk high/low	Rs 912/Rs 543
Promoter/FPI/DII	58%/11%/24%

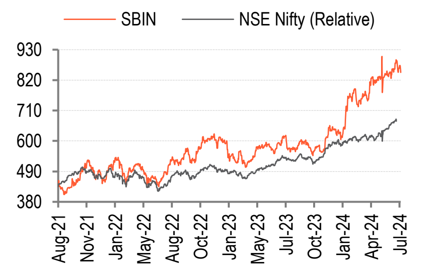
Source: NSE | Price as of 2 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
NII (Rs mn)	1,598,758	1,671,042	1,886,198
NII growth (%)	10.4	4.5	12.9
Adj. net profit (Rs mn)	610,766	701,640	753,272
EPS (Rs)	68.4	78.6	84.4
Consensus EPS (Rs)	86.9	76.0	87.0
P/E (x)	12.4	10.8	10.0
P/BV (x)	2.0	1.7	1.5
ROA (%)	1.0	1.1	1.0
ROE (%)	17.3	17.2	16.1

Source: Company, Bloomberg, BOBCAPS Research |

Stock performance



Source: NSE

RESULT REVIEW

HOLD

TP: Rs 13,305 | ↑ 5%

MARUTI SUZUKI | Automobiles | 03 August 2024

Healthy show continues; maintain HOLD on elevated valuations

- **Q1 revenue grew 10% YoY driven by demand in SUVs and realisations which improved 5%/4% YoY/QoQ**
- **Softening commodities costs and healthy volumes helped EBITDA margin expand by 344 bps YoY to 12.7% (+42bps QoQ)**
- **We value the stock at 25x P/E 1Y forward earnings, on par with its 10Y average, and revise its TP to Rs 13,305 (from Rs 12,965). Retain HOLD**

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Steady topline growth aided by realisation gains: MSIL's Q1FY25 revenue grew 10.0% YoY (-7.1% QoQ) to Rs 355bn in a challenging quarter. This was backed by 5% YoY volume gains (-10.6% QoQ) and realisation improvement of 5%/4% YoY/QoQ. Higher SUV demand continued to drive sales volume of 521.8k units. Average blended realisation/vehicle was Rs 680.8mn. MSIL extended higher discounts/vehicle for Q1FY25 (Rs 21.7k vs Rs 14.5k in Q4FY24).

Operating margin expands YoY, remained flat QoQ: Raw material cost at 71.4% of sales dropped 262bps YoY and 120bps QoQ, aiding gross margin improvement of 262bps YoY (120bps QoQ) to 29.8%. Other expenditure rose 4.3% YoY (fell 7.3% QoQ) to Rs 45.3bn. Higher sales volume, cost reduction efforts and favourable commodity prices helped EBITDA grow 50.9% YoY to ~Rs 45bn, with margin expansion of 344bps YoY to 12.7% (flat QoQ).

Capacity expansion plans: MSIL commissioned additional facility at Manesar with capacity to manufacture 0.1mn units in Q1FY25, increasing the manufacturing capacity at the Manesar facility to 0.9mn/year. MSIL also increased the capacity of Ertiga and the supply of CNG vehicles. Further, MSIL's planned expansion at Kharkhoda (Haryana) with a capacity of 0.25mn vehicles/p.a. is due to become operational in CY25. MSIL has signed an MoU with the Gujarat government to set up a 1mn unit plant by FY29 and has earmarked Rs 350bn of capex.

Maintain HOLD on steep valuation; estimates unchanged: We maintain our FY25/FY26 EPS, factoring an in-line expected show in Q1FY25. We introduce FY27 earnings with 3Y Revenue/EBITDA/PAT CAGR of 14%/15%/11%. Our gross margin assumptions hover at ~29% with EBITDA margin of ~12% over our forecast period. We factor in upbeat growth outlook backed by MSIL's focus on premiumisation, healthy capex and thrust on electric vehicles (EVs). However, the elevated valuations leave limited room for uptick. Effectively, we maintain our HOLD rating. We continue to value the stock at 25x P/E 1-year forward earnings, on par with its 10Y average, yielding a higher TP of Rs 13,305 (from Rs 12,965).

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	MSIL IN/Rs 12,726
Market cap	US$ 45.9bn
Free float	44%
3M ADV	US$ 92.8mn
52wk high/low	Rs 13,680/Rs 9,254
Promoter/FPI/DII	56%/23%/16%

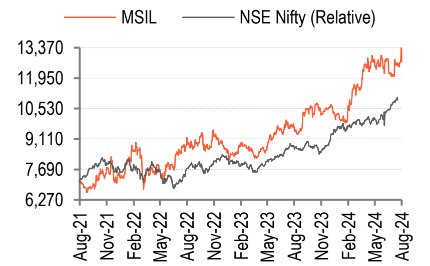
Source: NSE | Price as of 2 Aug 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	14,09,326	16,28,760	18,47,013
EBITDA (Rs mn)	1,64,011	1,93,512	2,20,664
Adj. net profit (Rs mn)	1,32,094	1,42,362	1,59,169
Adj. EPS (Rs)	437.3	471.3	526.9
Consensus EPS (Rs)	437.3	475.6	531.2
Adj. ROAE (%)	15.8	15.1	14.9
Adj. P/E (x)	29.1	27.0	24.2
EV/EBITDA (x)	23.4	20.3	17.7
Adj. EPS growth (%)	64.1	7.8	11.8

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

Stock performance



Source: NSE

BOBCAPS
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SELL
TP: Rs 2,514 | ∀ 36%

ESCORTS KUBOTA | Automobiles | 03 August 2024

Weakness persists, maintain SELL

- **Q1 tractors volume dipped 3.2% YoY as weakness persisted in export markets and domestic market lost market share**
- **Softening commodity prices supported gross margin expansion by 173bps to 31.9% YoY. EBITDA margin increased by 20bps YoY**
- **We cut our FY26 EPS estimate by 4% and introduce FY27 estimates. We revise TP to Rs 2,514 (from Rs 2,530) and retain SELL**

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Volume weakness persists: ESCORTS's Q1FY25 revenue fell 1.5% YoY to Rs 22.9bn (+10.1% QoQ) as tractor volumes fell by 3.2% YoY to ~25.7k units (+21% QoQ). This included domestic volume of 24.7k units versus 25.2k units in Q1FY24, a decline of 1.8%. The pain in exports was even higher with volume slide at 0.96k units, against 1.35k units fall of 29% YoY. Net realisation per vehicle in the segment grew 3.9% YoY but was flat QoQ to Rs 0.65mn and was the only respite.

CE segment stood strong YoY, AM stayed flat but RE declined: Revenue from the Agriculture Machinery (AM) segment stayed flat YoY in Q1FY25. The Railways Equipment (RE) segment contracted 17.8% YoY, while Construction Equipment (CE) grew 2.7%. Segmental EBIT margin was 13.2%/20.5/10.4% for the AM/RE/CE segments with only CE showing improvement. The three segments contributed 73%, 11% and 16% to revenue, respectively.

Easing input cost aided margin expansion: Raw material cost (inventory adjusted) fell 4%YoY (+10.1% QoQ) to Rs 15.5bn as commodity softening aided relief. Gross margin rose 173bps YoY (flat QoQ) to 31.9% aided by better product mix and cost control. Other expenditure grew 7.3%/1.3% YoY/QoQ. However, EBITDA margin only expanded 20bps YoY (150bps QoQ) to 14.3%. APAT grew 2.4%/19.6% YoY/QoQ to Rs 2.9bn.

Amalgamation nod likely by Q2FY25: The amalgamation of Escorts Kubota India and Kubota Agricultural Machinery India has been reserved by National Company Law Tribunal (NCLT) and a final order from NCLT is expected in 1-2 months.

Maintain SELL: ESCORTS' tractor volumes YTD FY25 stayed muted, though MM grew by ~6% in the domestic market – indicating ESCORTS has lost domestic market share. The exports volume is even weaker by 22%. The full benefit of the Kubota integration on export sales is likely to flow in only after 12-24 months. We lower our FY26E EPS estimate by 4% and introduce FY27 estimates. Given sustained growth headwinds, we retain SELL and revise our TP to Rs 2,514 (from 2,530). Our target P/E stays at 20x – in line with the stock's long-term mean.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ESCORTS IN/Rs 3,905
Market cap	US$ 6.2bn
Free float	63%
3M ADV	US$ 14.0mn
52wk high/low	Rs 4,410/Rs 2,530
Promoter/FPI/DII	37%/22%/8%

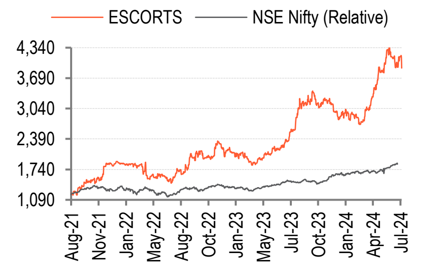
Source: NSE | Price as of 2 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	88,496	1,00,054	1,18,119
EBITDA (Rs mn)	11,667	13,831	15,779
Adj. net profit (Rs mn)	10,491	11,814	13,239
Adj. EPS (Rs)	94.9	106.9	119.8
Consensus EPS (Rs)	94.9	108.9	125.0
Adj. ROAE (%)	11.4	11.3	11.3
Adj. P/E (x)	41.1	36.5	32.6
EV/EBITDA (x)	44.3	36.4	31.2
Adj. EPS growth (%)	81.6	12.6	12.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 2,596 | ⮝ 15%

ZYDUS WELLNESS | Consumer Staples | 03 August 2024

1QFY25 result review: Risk from La Nina

- **Sales (+20%) were 7% higher on heatwave but EBITDA was in line with Bloomberg consensus. We forecast +13% sales growth in FY25**
- **Zydus is guiding for high teens EBITDA margin by FY26. We expect this to be doable on mix improvement and rural recovery**
- **We assume coverage with HOLD and TP of Rs 2,596. Rural recovery is a positive but there is risk from La Niña-driven cooler and wetter weather**

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Sales beat and in-line EBITDA: Zydus reported 35% underlying EPS growth on 20% sales and 190bps EBITDA margin expansion. Compared to consensus, sales were 7% higher but EBITDA was in line with margins coming in 130bps lower.

Sales trends strong but driven by one-off heatwave: Sales increased 20% driven by summer-centric portfolio in both Food (+15%) and Personal Care (+42%). Glucose category grew by 21% while Zydus's share declined only 11bps to 59.7%. In Personal Care, Nycil talcum also performed strongly.

Two-year outlook: Zydus expects double-digit topline growth and high teens EBITDA margin by FY26. We think this is plausible excluding the impact from heatwave which boosted sales this year but will have a tough comp impact on FY26. Over FY25/FY26, we forecast average sales +10% and EBITDA margin of 15.6%.

Our view: We have a HOLD rating on Zydus Wellness. We view 1QFY25 as a one-off given the benefit from the heatwave. While topline and margin targets over the next couple of years appear plausible, we see a risk in the portfolio given exposure to categories (for instance glucose, talcum) that are highly sensitive to seasonal changes. Unusual heat, unseasonal rains, etc, can lead to large fluctuations in reported sales and earnings. Rural recovery will be a positive for Zydus given its ~30% rural sales exposure, however, there is a risk from the impending La Niña, which will bring cooler and wetter weather, in contrast to the heatwave in 1QFY25. We value Zydus at 37x 12M to Jun'26 EPS using P/E relative to the NIFTY 50 index. We raise TP to Rs 2,596 from Rs 1,531.

Zydus Wellness 1QFY25 result summary				Reported vs (%)
(Rs mn)	Q1FY24	Q1FY25	YoY (%)	Cons.
Sales	7,021	8,410	20	7
EBITDA	1,165	1,552	33	0
EBITDA Margin (%)	16.6	18.5	186bps	(129bps)
Adj. EPS (Rs)	19.6	26.5	35	n/m

Source: Company, Bloomberg, BOBCAPS Research

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ZYWL IN/Rs 2,261
Market cap	US$ 1.7bn
Free float	21%
3M ADV	US$ 1.5mn
52wk high/low	Rs 2,484/Rs 1,425
Promoter/FPI/DII	69%/3%/28%

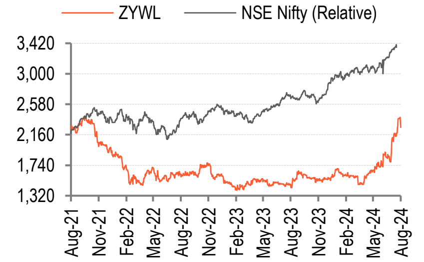
Source: NSE | Price as of 2 Aug 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	23,278	26,205	28,184
EBITDA (Rs mn)	3,082	4,048	4,431
Adj. net profit (Rs mn)	2,852	3,966	4,162
Adj. EPS (Rs)	44.8	62.3	65.4
Consensus EPS (Rs)	44.8	62.1	67.5
Adj. ROAE (%)	5.3	7.0	7.0
Adj. P/E (x)	50.4	36.3	34.6
EV/EBITDA (x)	46.7	35.5	32.5
Adj. EPS growth (%)	(8.2)	39.1	4.9

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

Stock performance



Source: NSE

SELL
TP: Rs 687 | ∀ 19%

JK LAKSHMI CEMENT | Cement | 03 August 2024

Changed dynamics lead to challenges; maintain SELL

- **Q1 revenue fell 11.5% YoY on the back of low volume growth, down 8%, and weak realisations that fell by 4.6% YoY**
- **Operating cost fell ~7% to Rs 5,417 aided by lower energy cost which helped EBITDA margin add 250bps YoY to 12.8% on a weak base**
- **We value JKLC at 9x EV/EBITDA 1-year forward earnings (unchanged) and lower our TP to Rs 687 on revised earnings. Retain SELL**

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Volumes impacted; realisations stayed weak: JKLC reported ~11.5% YoY revenue fall (-12.3% QoQ) to Rs 14.5bn in Q1FY25 as volumes fell by 8.1% YoY (8.8% QoQ) to 2.32mt (standalone) due to weak demand in a traditionally healthy Q1. Realisations (ready mix concrete-adjusted) remained weak at Rs 5,901/t, down 4.6%/3.6% YoY/QoQ. Intense competitive pressure in a weak quarter was the key reason for the overall weakness in the topline.

Operating performance stays rangebound: Operating cost fell 6.5% YoY (flat QoQ) to Rs 5,417/t driven by lower raw material-adjusted energy cost of 9.1% YoY but rose 7.6% QoQ to Rs 2,320/t. Logistics cost fell 6% YoY to 1,224/t as lead distance was cut by 12km to 372km YoY. EBITDA grew 10.1% YoY (-33% QoQ) to ~Rs 1.8bn. EBITDA margin at 12.8% was higher YoY on a weak base. EBITDA/t rose 19.8% YoY (-26.5% QoQ) to Rs 793. APAT was flat YoY at Rs 763mn factoring in Rs 800mn of non-recurring income. Reported PAT was Rs 1.56bn.

Capacity expansion on track: JKLC is adding a 1.5mnt grinding unit at Surat by FY25-end. It is expanding its clinker capacity by 2.3mnt at its Durg plant backed by four cement grinding units aggregating 4.6mnt over the next three years. It will add GUs in Bihar and Jharkhand. Its Northeast India expansion plans await clearances.

JKLC announces merger of Udaipur Cement Works: Following the merger announcement JKLC will issue four equity shares of face value Rs 5 for every 100 equity shares of Rs 4 held in UCWL to the latter's shareholders (other than JKLC) as consideration based on the fair value swap ratio.

Revise estimates downward, maintain SELL: We cut our FY25E/FY26E EBITDA by 16% each to factor in the changing dynamics in its operating areas following intense supply pressure from large cement companies. We introduce FY27 estimates with weak EBITDA/PAT CAGR of 5%/6% given pricing pressure may be partially offset by better cost structure. Retaining lost market share will be a key challenge in competitive conditions. We value JKLC at 9x EV/EBITDA 1-year forward earnings (unchanged) and cut TP to Rs 687 (from Rs 710). Maintain SELL.

Key changes

Target	Rating
▼	◄►

Ticker/Price	JKLC IN/Rs 848
Market cap	US$ 1.2bn
Free float	54%
3M ADV	US$ 2.8mn
52wk high/low	Rs 1,000/Rs 626
Promoter/FPI/DII	46%/14%/26%

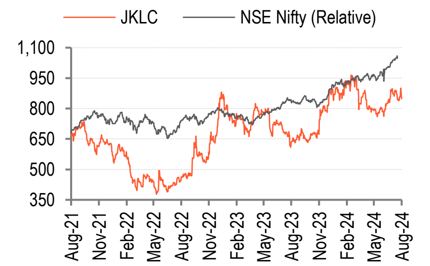
Source: NSE | Price as of 2 Aug 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	63,198	66,585	68,940
EBITDA (Rs mn)	8,637	8,362	9,346
Adj. net profit (Rs mn)	4,243	4,140	4,700
Adj. EPS (Rs)	36.1	35.2	39.9
Consensus EPS (Rs)	36.1	46.1	52.5
Adj. ROAE (%)	14.4	12.8	13.1
Adj. P/E (x)	23.5	24.1	21.2
EV/EBITDA (x)	11.0	13.0	10.5
Adj. EPS growth (%)	28.3	(2.4)	13.5

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

Stock performance



Source: NSE

BOBCAPS
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HOLD
TP: Rs 300 | ▲ 9%

ORIENT ELECTRIC | Consumer Durables | 02 August 2024

Modest quarter; Hyderabad facility gears up for growth

- **Modest 7% topline growth with 240bps gross margin boost; EBITDA hit by rising staff costs**
- **Leadership shift and Hyderabad plant set the stage for long-term growth and market share wins**
- **We pare FY25E/FY26E EPS by 3%/2% on near-term margin fluctuations; raise TP to Rs 300 and rollover valuations to Jun'26. Maintain HOLD**

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Modest growth amid capacity constraints: ORIENTEL reported a modest quarterly performance with 7% YoY growth, reaching Rs 7.5bn, driven primarily by strong demand for cooling products. Despite a 240bps improvement in gross margin, EBITDA margin fell by 90bps due to increased staff expenses, higher advertising costs, and greater discounts. APAT was Rs 143mn, marking a 27% decline from the previous year.

Growth across segments; lighting and switchgear outshine: The lighting and switchgear segment increased a notable 10%, reaching Rs 2.1bn, driven by significant market share gains and a sustained emphasis on innovative product launches and competitive tenders. Similarly, the ECD segment saw a 6% rise, totalling Rs 5.4bn. However, this growth lagged competitors like Havells (20%), V-Guard (26%), and Crompton (21%). Despite this growth, the segment's performance was somewhat hampered by capacity constraints in the table pedestal wall fan (TPW) segment, which experienced inventory stock-outs during the quarter.

Hyderabad plant poised to grow long term: On 6 May 2024, ORIENTEL officially commissioned its Hyderabad plant, designed with Industry 4.0 technologies to enhance manufacturing efficiency. This facility focuses on producing TPW fans, and is a significant step in optimising cost structures and expanding market reach. While the plant is currently serving southern and western India, it is poised to meet the demands of export markets. Management is confident of the plant's capabilities. As the plant ramps up production, ORIENTEL anticipates reductions in cost structures and expects to see significant benefits in the coming quarters, with a strategic goal of effectively serving domestic and global markets.

Maintain HOLD: Despite management's optimism about gaining market share with the launch of the Hyderabad facility, the absence of a clear timeline for expected revenue growth introduces some uncertainty. Hence, we pare our EPS estimates for FY25/FY26 by 3%/2%. Still, we uphold our stock valuation at 30x P/E, a 5% discount to the 3Y average. We roll forward our valuations to Jun'26 and raise TP to Rs 300 from Rs 230. We maintain a HOLD recommendation.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	ORIENTEL IN/Rs 274
Market cap	US$ 695.0mn
Free float	62%
3M ADV	US$ 2.0mn
52wk high/low	Rs 297/Rs 189
Promoter/FPI/DII	38%/6%/28%

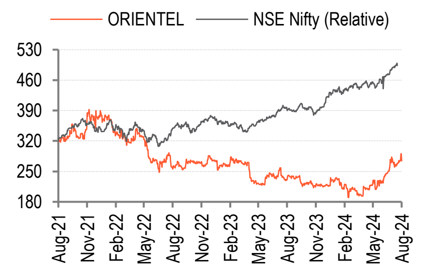
Source: NSE | Price as of 2 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	28,121	33,686	40,337
EBITDA (Rs mn)	1,443	2,529	3,279
Adj. net profit (Rs mn)	566	1,128	1,631
Adj. EPS (Rs)	2.7	5.3	7.7
Consensus EPS (Rs)	2.7	5.5	7.8
Adj. ROAE (%)	9.3	16.8	21.6
Adj. P/E (x)	103.1	51.7	35.8
EV/EBITDA (x)	40.3	23.0	17.8
Adj. EPS growth (%)	(25.4)	99.4	44.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 900 | ⮝ 20%

SOMANY CERAMICS | Building Materials | 03 August 2024

Near-term pain, medium-term outlook positive

- **Misses our revenue/EBITDA estimate by 2%/8% mainly due to lower-than-expected tiles volume**
- **Maintained guidance of low double-digit volume growth and margin improvement of 1.0%-1.5% for FY25, despite poor show in Q1**
- **Maintain BUY and TP of Rs 900 on strong earnings growth prospects with improvement in ROE profile and reasonable valuations**

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Weak quarter: SOMC reported a weak Q1FY25 result as it misses our estimates (Revenue: -1.9%; EBITDA: -8.4%; APAT: -14.5%) mainly due to lower-than-expected tiles sales volume (-0.9% YoY vs +3.0% estimated). Overall, SOMC revenue/EBITDA/APAT fell by 1.4%/3.2%/35.7% YoY in Q1FY25.

Key highlights: SOMC tiles volume was down 0.9% YoY, but it grew at 5.5% on a 5Y CAGR basis in Q1FY25. Despite lower tiles realisation (-2.0% YoY), gross margin improved by 407bps YoY to 57.1% in Q1FY25 due to better mix (GVT tiles share up 400bps to 37%) and lower input costs. However, EBITDA margin was down 16bps YoY to 8.5% in Q1FY25 due to higher employee cost (+14.1%) and negative operating leverage. Net debt rose slightly from Rs 2.6bn in Mar'24 to Rs 2.7bn in Jun'24 due to higher inventory (from 43 days in Q4FY24 to 59 days in Q1FY25) as well as debtors (from 41 days in Q4FY24 to 43 days in Q1FY25).

Optimistic guidance: The company has maintained its guidance of growing volume at a low double-digit rate and improving EBITDA margin by 1.0%-1.5% in FY25 – which we believe is at a risk based on the poor show in Q1 and expectation of demand recovery from Q4FY25. Over the medium term, the company targets to grow its revenue at a double-digit rate over the next three to four years. Max plant operated at a loss in Q1FY25 due to low capacity utilisation (at 35-37%), but the operating margin from this plant is expected to steadily improve over the next few quarters with rise in capacity utilisation. The company has no major capex plan and has put its Nepal plant on hold due to unfavourable market dynamics.

Maintain BUY and TP of Rs 900: We maintain our BUY rating on the stock as we see (a) strong earnings growth prospects (EPS to log 20% CAGR over FY24-FY27E) along with improvement in ROE profile (from 11.4% in FY24 to 15.1% in FY27E); and (b) reasonable valuation (trades at 25.7x on 1Y forward P/E vs. 5Y average of 24.0x). We cut our EPS estimates by 4.6%/4.3% for FY25E/FY26E based on weak Q1, but we have kept our TP unchanged at Rs 900 as we roll forward valuations from Mar'26 to Jun'26. Our target P/E remains unchanged at 25x.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SOMC IN/Rs 748
Market cap	US$ 366.3mn
Free float	45%
3M ADV	US$ 1.1mn
52wk high/low	Rs 873/Rs 561
Promoter/FPI/DII	55%/2%/24%

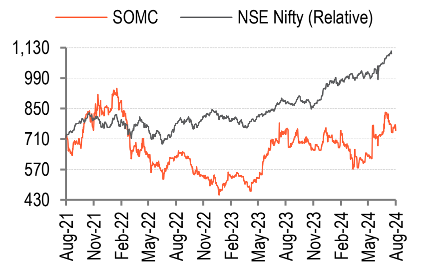
Source: NSE | Price as of 2 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	25,914	26,621	29,605
EBITDA (Rs mn)	2,532	2,612	2,962
Adj. net profit (Rs mn)	983	1,035	1,417
Adj. EPS (Rs)	24.0	25.3	34.6
Consensus EPS (Rs)	24.0	32.4	41.7
Adj. ROAE (%)	11.4	11.8	14.4
Adj. P/E (x)	31.2	29.6	21.6
EV/EBITDA (x)	11.0	10.7	9.7
Adj. EPS growth (%)	37.0	5.3	36.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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METALS & MINING

03 August 2024

Ferrous read-across: Steel industry at cycle low, ArcelorMittal

- **After bottoming out in Q1CY24 and some improvements in Q2, markets are again facing challenges from increased China exports**
- **While guiding for lower margins and stable demand in Q3, MT believes that industry is at a cycle low with unsustainable market conditions**
- **While we have a neutral stance on Indian ferrous coverage, correction, if any, could open up opportunities to enter cyclical recovery**

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Challenging market conditions… : After margins bottomed out in Q1CY24 and improved in Q2, western markets are still experiencing overall lacklustre demand and no signs of restocking activity with customers still in a wait-and-see mode. China's steel surplus has not only dragged domestic steel spreads in China but transmitted the impact to other regions via aggressive exports.

… but unsustainable: Steel prices in Europe and the US are eating well into the marginal cost curve. With domestic steel prices in China below US$ 500/t, steel mills are facing cash losses. This is unsustainable as per ArcelorMittal (MT).

Catalysts for recovery: (a) end of destocking to indicate reaching low point, (b) start of interest rate cut cycle to support demand recovery, (c) start of restocking to show market confidence on upcoming recovery, (d) supply adjustment with exit of high-cost producers and effective protection against cheap imports competition.

MT not backing down supply yet: MT is largely running its plants at full capacity. MT does not see any material sequential weakness in its Q3 order book except for seasonal summer pullback in Europe. The company is confident of YoY growth in apparent demand in H2CY24 in absence of significant destock. With low inventory levels, particularly in Europe, MT expects restocking to start in H2CY24.

Global demand outlook: MT still maintains a positive demand growth outlook (2.5%-3.0%) outside China and flattish demand growth in China in CY24.

Trade actions underway globally: EU has extended its steel safeguards for another two years. US has modified its Section 232 tariffs to prevent circumvention through Mexico. Brazil has introduced quota and levied tariff on excess imports.

Read-across for Indian players: With increased trade action globally, import pressure is likely to grow in India until we see material production cuts in China. If MT is right on arrival of low point of cycle, material correction, if any, in Indian steel stocks could be considered as another entry point to play upcoming recovery. We presently have a Neutral stance on unfavourable risk-reward.

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Name of the Research Entity: **BOB Capital Markets Limited**
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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

Logo:

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Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

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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