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FIRST LIGHT

06 February 2024

RESEARCH

BOB ECONOMICS RESEARCH | MONTHLY ECONOMIC BUFFET

Economic Round-up: January 2024

STATE BANK OF INDIA | TARGET: Rs 842 | +30% | BUY

Pension one-off hurts profitability

JSW STEEL | TARGET: Rs 830 | +1% | HOLD

Progressing on expansion but valuations fair

AMBUJA CEMENTS | TARGET: Rs 552 | -1% | HOLD

Healthy quarter, sustainability key; retain HOLD

ALEMBIC PHARMA | TARGET: Rs 970 | +1% | HOLD

Healthy quarter; PAT beat on low tax rate

CENTURY PLYBOARDS | TARGET: Rs 700 | -6% | HOLD

Margin stress across segments

VST TILLERS TRACTORS | TARGET: Rs 3,213 | +6% | HOLD

Poor demand dampens performance

Daily macro indicators

Indicator	01-Feb	02-Feb	Chg (%)
US 10Y yield (%)	3.88	4.02	14bps
India 10Y yield (%)	7.06	7.06	(0bps)
USD/INR	82.98	82.93	0.1
Brent Crude (US$/bbl)	78.7	77.3	(1.7)
Dow	38,520	38,654	0.3
Hang Seng	15,566	15,534	(0.2)
Sensex	71,645	72,086	0.6
India FII (US$ mn)	**31-Jan**	**01-Feb**	**Chg ($ mn)**
FII-D	312.1	273.4	(38.7)
FII-E	209.5	37.7	(171.8)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

IMF has raised its global growth forecasts for CY24 to 3.1% from 2.9% predicted in Oct'23. This is due to significant upward revisions to estimates for US and China. US economic strength is signalling a soft landing, as labour market still remains strong (non-farm payrolls, ADP employment) and GDP in Q4 slowed less sharply than expected. Improvement in consumer sentiment indices (conference board and University of Michigan), pick up in ISM manufacturing index, and softening inflation expectations also support this view. In case of China, as GDP growth in CY23 (5.2%), surpassed government's target (~5%) and more stimulus measures are announced, the slowdown in CY24 is estimated to be less than what was earlier predicted.

Click here **for the full report.**

BOBCAPS Research
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STATE BANK OF INDIA

- Strong business growth in Q3 but one-off pension and ex-gratia provision of Rs 71bn saw net profit drop 36% YoY
- Reported NIM fell 7bps QoQ to 3.2% on deposit repricing and is guided to stay at current level for FY24; credit cost remains low
- Maintain BUY with revised TP of Rs 842 (vs. Rs 747) on rollover

Click here for the full report.

JSW STEEL

- Q3 below consensus and also weaker than peers amid higher competitive pressure from imports and lower exports
- Progressing on expansion with both completion of BPSL project and start of phased commissioning at Vijayanagar guided for Q4FY24
- Near-full valuation makes for unfavourable risk-reward; maintain HOLD with minor change in TP to Rs 830 (from Rs 840)

Click here for the full report.

AMBUJA CEMENTS

- Standalone Q3 revenue grew 7% YoY as volumes increased 7%, ushioning flattish realisations
- EBITDA/t climbed 28% YoY to Rs 1,038/t aided by cost efficiencies and operating leverage
- Maintain HOLD with new TP of Rs 552 (vs. Rs 449) on rollover

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ALEMBIC PHARMA

- Q3 EBITDA ahead of consensus by 4% on healthy margins but strong PAT beat of 22% came from lower tax rate
- Formulations business fared well across geographies, whereas API sales declined; R&D spend curtailment on track
- TP raised to Rs 970 (vs. Rs 700) on revised estimates and higher target EV/EBITDA multiple of 14x (vs. 12.5x); maintain HOLD

Click here for the full report.

CENTURY PLYBOARDS

- Weak Q3 came as a big negative surprise considering management's upbeat outlook in last earnings call
- Near-term pain to persist on soft demand and fierce competition, but medium-term outlook remains positive
- TP reduces to Rs 700 (vs. Rs 800) as we cut FY24/FY25/FY26 EPS estimates by 10-14%; maintain HOLD

Click here for the full report.

VST TILLERS TRACTORS

- Q3 revenue down 20% YoY on steep 33% volume decline due to anaemic rural demand
- Weak topline and volumes resulted in 530bps YoY EBITDA margin contraction to 5.6%
- Maintain HOLD with revised TP of Rs 3,213 (vs. Rs 3,858) as we roll valuations forward

Click here for the full report.

MONTHLY ECONOMIC BUFFET

05 February 2024

Economic Round-up: January 2024

Sonal Badhan
Economist

IMF has raised its global growth forecasts for CY24 to 3.1% from 2.9% predicted in Oct'23. This is due to significant upward revisions to estimates for US and China. US economic strength is signalling a soft landing, as labour market still remains strong (non-farm payrolls, ADP employment) and GDP in Q4 slowed less sharply than expected. Improvement in consumer sentiment indices (conference board and University of Michigan), pick up in ISM manufacturing index, and softening inflation expectations also support this view. In case of China, as GDP growth in CY23 (5.2%), surpassed government's target (~5%) and more stimulus measures are announced, the slowdown in CY24 is estimated to be less than what was earlier predicted.

On the other hand, forecasts for Eurozone remain bleak, as tensions in Middle East, impact of supply chain disruptions due to tensions in Red Sea, continue to impact growth. German economy contracted in CY23 and is expected to decline further in Q1CY24. Taking note of easing inflation and pressure on growth, ECB is expected to begin cutting rates from Apr'24. US Fed and BoE will follow.

Global growth: US economy has entered CY24 on a stronger footing, while Eurozone and China are facing challenges. Weak export demand is hampering growth in both regions. In case of Europe, while tensions in Middle East pose a significant threat to growth, in case of China, it's the deepening property crisis which is a major concern. Stimulus measures announced by PBOC and those signalled by government may help revival in growth.

Global Central Banks: In Jan'24, US Fed, ECB, BoE, and BoJ continued to keep their respective rates on hold. Fed's policy statement remained dovish as the bank confirmed that it will lower rates this year. However, rate cut in Mar'24 was ruled out by Fed Chair Powell given the strength in the economy. Analysts now expect a rate cut in May'24 meet. ECB and BoE are also expected to begin their rate cut cycles around the same time. However analysts are pencilling in aggressive rate cuts by Fed, on account of cooling inflation and labour market. BoJ is expected to move away from its negative rates this year, beginning with increasing short term rates from Apr'24.

Key macro data releases: According to interim Union Budget for FY25 announced, fiscal Deficit (as % of GDP) estimated to be lower (5.8%) than targeted (5.9%) in FY24. In FY25BE, it will be brought down to 5.1%. In FY25, Centre's capex spending is expected to increase to Rs 11.1 lakh crore from Rs 9.5 lakh crore as per FY24RE. Gross borrowings for FY25BE are targeted at Rs 14.13 lakh crore, down from Rs 15.4 lakh crore as per FY24RE.

RESULT REVIEW

BUY

TP: Rs 842 | ⮝ 30%

STATE BANK OF INDIA | Banking | 05 February 2024

Pension one-off hurts profitability

- **Strong business growth in Q3 but one-off pension and ex-gratia provision of Rs 71bn saw net profit drop 36% YoY**
- **Reported NIM fell 7bps QoQ to 3.2% on deposit repricing and is guided to stay at current level for FY24; credit cost remains low**
- **Maintain BUY with revised TP of Rs 842 (vs. Rs 747) on rollover**

Ajit Agrawal
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Modest profits: SBIN's Q3FY24 NII grew only 5% YoY due to higher deposit costs. Reported NIM declined 7bps QoQ to 3.2% and is guided to remain stable at current levels as deposit rate repricing is largely complete. Wage hike provisions kept opex elevated while the bank's prudent step to set aside Rs 71bn towards pension liability (Rs 54bn) as well as ex-gratia benefits and dearness relief (Rs 17bn) saw PAT drop 36% YoY. Management expects some moderation in opex through FY25.

Strong business growth: Advances grew 14% YoY supported by robust growth in SME loans (+19%) and the retail book (+15%) which was driven by auto loans (+21%) and express credit (+16%). The corporate book posted modest growth of 11% YoY. Management expects healthy credit growth in Q4FY24 supported by strong LCR (131%) and modest LDR. Deposits grew 13% YoY, driven by term deposits. SBIN intends to focus on current accounts considering a tough savings account climate. Management is confident of achieving credit growth of 14-16% in FY24; we pencil in a credit and deposit CAGR of 15% and 13% respectively over FY23-FY26.

Steady asset quality with lower credit cost: Asset quality remained healthy as GNPA improved 14bps QoQ to 2.4% and NNPA was steady at 0.6%, with PCR of 74%. Credit cost (calc.) increased 7bps sequentially to 8bps – amongst the best in industry, leading us to lower our FY24/FY25 estimates to 14bps/27bps from 36bps/49bps. SBIN's restructured book stood at Rs 189bn vs. Rs 208.5bn in Q2, forming 0.5% of loans vs. 0.6% in Q2, whereas the SMA-1&2 book stood at Rs 41.2bn (Rs 39.6bn in Q2). A non-NPA provision of Rs 335bn (149% of NNPA) provides a cushion against any sudden rise in stress.

Maintain BUY: Healthy business growth along with stable margins and asset quality is likely to boost profitability. We introduce FY26 forecasts and expect the bank to maintain NIM at 3% and deliver ROA/ROE of 1.1%/17% by FY26. On rolling valuations forward to FY26E, our new SOTP-based TP stands at Rs 842 (vs. Rs 747), set at an unchanged target P/ABV multiple of 1.3x for standalone operations using the Gordon Growth Model and adding in Rs 236/sh for subsidiaries – BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SBIN IN/Rs 650
Market cap	US$ 70.6bn
Free float	42%
3M ADV	US$ 122.1mn
52wk high/low	Rs 661/Rs 502
Promoter/FPI/DII	57%/11%/24%

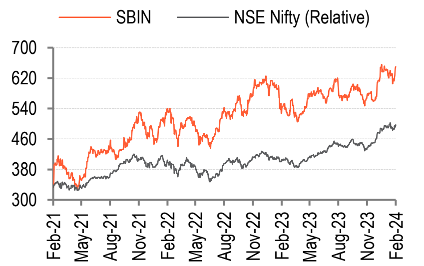
Source: NSE | Price as of 2 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	144,841	159,132	179,141
NII growth (%)	20.0	9.9	12.6
Adj. net profit (Rs mn)	50,232	62,483	67,784
EPS (Rs)	56.3	70.0	76.0
Consensus EPS (Rs)	56.3	66.0	73.0
P/E (x)	11.5	9.3	8.6
P/BV (x)	1.8	1.6	1.4
ROA (%)	1.1	1.1	1.0
ROE (%)	19.3	17.9	17.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 830 | ⮝ 1%

JSW STEEL | Metals & Mining | 05 February 2024

Progressing on expansion but valuations fair

- **Q3 below consensus and also weaker than peers amid higher competitive pressure from imports and lower exports**
- **Progressing on expansion with both completion of BPSL project and start of phased commissioning at Vijayanagar guided for Q4FY24**
- **Near-full valuation makes for unfavourable risk-reward; maintain HOLD with minor change in TP to Rs 830 (from Rs 840)**

Kirtan Mehta, CFA | Yash Thakur
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Q3 below consensus and weaker than peers: JSTL's Q3FY24 adj. EBITDA at Rs 72bn was 6% below Bloomberg consensus. The result was also weaker than peers with a 9% sequential decline in EBITDA driven by a 4% QoQ dip in sales and a Rs 1.7k/t QoQ fall in EBITDA margin to Rs 11.1k/t. The quarter was impacted by relatively higher competitive headwinds and increased costs.

Range-bound Q4: At this stage, we expect only modest sequential EBITDA growth in Q4FY24 as seasonal volume growth is likely to be offset by a somewhat weaker EBITDA margin. Management's guidance suggests an increase in coking coal cost by US$ 20-25/t and higher iron ore cost in Q4. The company expects this to be only partially mitigated by higher export volumes with better realisations and a marginal uptick in domestic realisations over February-March.

Progressing on expansion drive: JSTL is on track to complete the 1.5mtpa BPSL expansion in FY24, though we believe it is slightly behind on the 5mtpa Vijayanagar capacity build as it starts to progressively become operational from Q4FY24. We continue to factor in a buffer timeline beyond management guidance and currently assume 50% utilisation of expansion in Year 1 and 80% in Year 2.

Exciting growth prospects: We lower our FY24/FY25/FY26 EBITDA forecasts by 6%/2%/2% to account for a weaker H2FY24 outlook. We still bake in a ~30% EBITDA CAGR over FY23-FY26 and continue to model for volume ramp-up of 5.8mt over three years to 29.4mt by FY26, based on the planned capacity addition of ~9mt. We also retain assumptions of improvement in EBITDA margin from an estimated Rs 11.5k/t in FY24 to Rs 13.3k/t in FY26 as expanded capacities stabilise.

Retain HOLD: Despite optimistic estimates and a target 1Y fwd EV/EBITDA multiple of 6.5x that's above the stock's historical trading range, our TP of Rs 830 (Rs 840 previously) yields just 1% upside. Considering its aggressive growth approach, JSTL aims to maintain net debt to EBITDA below a higher threshold of 3.75x. This makes the company more vulnerable than peers to any change in cyclical outlook. We continue to find risk-reward unfavourable at this juncture and thus maintain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	JSTL IN/Rs 824
Market cap	US$ 24.5bn
Free float	40%
3M ADV	US$ 20.1mn
52wk high/low	Rs 896/Rs 649
Promoter/FPI/DII	45%/11%/9%

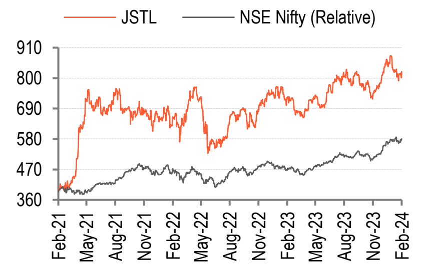
Source: NSE | Price as of 2 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs bn)	1,660	1,833	1,870
EBITDA (Rs bn)	185	301	362
Adj. net profit (Rs bn)	41	106	153
Adj. EPS (Rs)	17.1	43.4	62.7
Consensus EPS (Rs)	17.1	45.0	62.4
Adj. ROAE (%)	6.2	15.1	18.8
Adj. P/E (x)	48.0	19.0	13.1
EV/EBITDA (x)	7.8	4.8	3.8
Adj. EPS growth (%)	(79.0)	153.3	44.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 552 | ⋎ 1%

AMBUJA CEMENTS | Cement | 05 February 2024

Healthy quarter, sustainability key; retain HOLD

- **Standalone Q3 revenue grew 7% YoY as volumes increased 7%, ushioning flattish realisations**
- **EBITDA/t climbed 28% YoY to Rs 1,038/t aided by cost efficiencies and operating leverage**
- **Maintain HOLD with new TP of Rs 552 (vs. Rs 449) on rollover**

Milind Raginwar | Shree Kirloskar
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Volume-driven revenue growth: ACEM reported standalone Q3FY24 revenue growth of 7.5% YoY (+12% QoQ) to Rs 44.4bn backed by volume growth of 6.5% YoY (+8% QoQ) to 8.2mn tonnes (including master supply agreement or MSA sales to ACC). Realisations stayed flat YoY (+4% QoQ). Consolidated revenue grew 3% YoY (+9% QoQ) to Rs 81.3bn net of MSA sales, as volumes increased 3% YoY (8% QoQ) to 14.1mt. Blended cement formed 87% of total volumes and premium product contribution made up 22% of trade sales (+20bps YoY).

Cost efficiencies fuel operating performance: Operating cost fell 16% YoY (-9% QoQ) to Rs 3,818/t due to overall cost rationalisation. Energy cost declined 33% YoY (-18% QoQ) to Rs 1,047/t on a 25% YoY fall in kiln fuel cost to Rs 1.84/kcal, whereas logistics cost inched up 2.5% YoY (flat QoQ) to Rs 1,114/t. Clinker purchase cost was elevated at Rs 6.8bn, rising 3.3x YoY (+53% QoQ), as 12% of ACEM's standalone clinker capacity was under maintenance. EBITDA/t rose 28% YoY (+2% QoQ) to Rs 1,038/t and standalone EBITDA grew 36% (+10% QoQ) to Rs 8.5bn.

Capacity expansion roadmap established: Management expects to add 19.6mt of cement capacity by early FY27. This apart, ACEM plans to set up six plants, each with 2.4mt of capacity, at Maharashtra (three plants), Bihar (two) and Punjab (one), as part of its roadmap to create 140mt of installed capacity by FY28. Clinker expansion projects of 4mt each at Bhatapara (Chhattisgarh) and Maratha (Maharashtra) are due to be commissioned by Q4FY25 and Q2FY26 respectively.

Maintain HOLD: We maintain our FY24 EPS estimate but rationalise FY25 earnings by 4% to build in slower volume growth than earlier expected due to sociopolitical conditions. We now introduce FY26 forecasts for ACEM and pencil in a revenue/ EBITDA/PAT CAGR of 8%/23%/13% over FY23-FY26. On rolling valuations over to FY26E, our SOTP-based TP rises to Rs 552 (vs. Rs 449), wherein we value the standalone business at Rs 447 based on an unchanged EV/EBITDA multiple of 13x and add Rs 106 for the ACC stake. Our TP implies a replacement cost of Rs 13bn/mt – ~2x premium to the industry – and carries 1% downside potential; retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ACEM IN/Rs 555
Market cap	US$ 13.4bn
Free float	37%
3M ADV	US$ 26.1mn
52wk high/low	Rs 586/Rs 324
Promoter/FPI/DII	63%/11%/17%

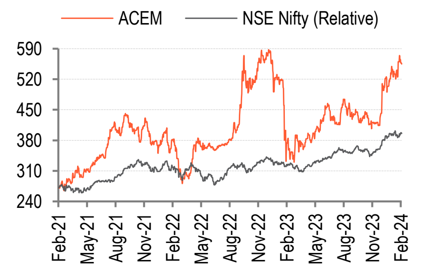
Source: NSE | Price as of 5 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	3,84,449	3,77,126	4,32,799
EBITDA (Rs mn)	51,224	65,987	75,366
Adj. net profit (Rs mn)	29,024	32,698	34,699
Adj. EPS (Rs)	11.7	16.5	17.5
Consensus EPS (Rs)	11.7	16.4	17.7
Adj. ROAE (%)	9.3	9.5	9.8
Adj. P/E (x)	47.5	33.7	31.8
EV/EBITDA (x)	21.0	16.0	14.2
Adj. EPS growth (%)	(20.0)	40.8	6.1

Source: Company, Bloomberg, BOBCAPS Research | FY23 is for 15 months due to a change in year-end from December to March

Stock performance



Source: NSE

RESULT REVIEW

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HOLD

TP: Rs 970 | ⮝ 1%

ALEMBIC PHARMA | Pharmaceuticals | 05 February 2024

Healthy quarter; PAT beat on low tax rate

- **Q3 EBITDA ahead of consensus by 4% on healthy margins but strong PAT beat of 22% came from lower tax rate**
- **Formulations business fared well across geographies, whereas API sales declined; R&D spend curtailment on track**
- **TP raised to Rs 970 (vs. Rs 700) on revised estimates and higher target EV/EBITDA multiple of 14x (vs. 12.5x); maintain HOLD**

Saad Shaikh
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Strong growth in formulation business; API decline likely transitory: ALPM reported 8% YoY revenue growth in Q3FY24 to Rs 16.3bn, in line with Bloomberg consensus, led by a strong performance in ROW markets (+32% YoY) and healthy growth in India (+9%) and US (+10%) businesses. API revenue, however, declined 11% YoY due to lower offtake from a few customers. The company expects API growth to recover in a couple of quarters.

Healthy India growth…: Domestic formulation sales grew 9% YoY and performed better than the market, even in the antibiotic and respiratory segments which are seeing an industry-wide slowdown on a high base. Therapies such as gynaecology, gastrointestinal, anti-diabetic and ophthalmology outpaced market growth.

…and continued US launch momentum: US revenue grew 7% QoQ CC to US$ 57mn led by 11 new launches in Q3 and market share gains in newly commercialised products. ALPM expects to roll out five more products in Q4FY24 which, along with products from new facilities, would likely buoy growth ahead. Management expects launch momentum to continue into FY25 and has a pipeline of 10-15 new introductions. In ROW, growth was led by robust demand across markets, new product registrations as well as dossier extensions to new geographies.

Healthy margins while lower tax rate drives PAT beat: Gross margin expanded 190bps YoY (70bps QoQ) and EBITDA margin was flattish YoY but rose 330bps QoQ to 16.3% due to sequentially lower overheads and R&D cost. EBITDA, thus, came in 4% ahead of consensus. PAT grew 48% YoY to Rs 1.8bn and was ahead of consensus estimates by 22% due to a lower tax rate of 2.2% in Q3 (vs. 19.4% LY).

Retain HOLD: We raise our FY25/FY26 EBITDA estimates by 2%/5% to reflect ALPM's stabilising margins, expectations of better operating leverage and strong momentum in US and ROW businesses. We also roll valuations over to FY26E and raise our target EV/EBITDA multiple to 14x (from 12.5x) – a 10% discount to the stock's 5Y average. These changes give us a revised TP of Rs 970 (from Rs 700), which carries just 1% upside. Given the full valuations, we retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ALPM IN/Rs 965
Market cap	US$ 2.3bn
Free float	31%
3M ADV	US$ 4.0mn
52wk high/low	Rs 1,038/Rs 462
Promoter/FPI/DII	70%/5%/13%

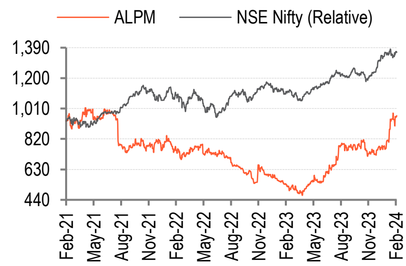
Source: NSE | Price as of 5 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	56,526	64,530	71,136
EBITDA (Rs mn)	7,083	9,699	11,640
Adj. net profit (Rs mn)	3,729	6,084	7,291
Adj. EPS (Rs)	17.4	31.0	37.1
Consensus EPS (Rs)	17.4	28.0	37.5
Adj. ROAE (%)	7.2	13.7	14.8
Adj. P/E (x)	55.5	31.2	26.0
EV/EBITDA (x)	27.6	20.2	16.8
Adj. EPS growth (%)	(34.4)	77.9	19.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
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HOLD
TP: Rs 700 | ▼ 6%

CENTURY PLYBOARDS | Building Materials | 05 February 2024

Margin stress across segments

- **Weak Q3 came as a big negative surprise considering management's upbeat outlook in last earnings call**
- **Near-term pain to persist on soft demand and fierce competition, but medium-term outlook remains positive**
- **TP reduces to Rs 700 (vs. Rs 800) as we cut FY24/FY25/FY26 EPS estimates by 10-14%; maintain HOLD**

Utkarsh Nopany
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Weak quarter: CPBI's Q3FY24 revenue was a slight miss, coming in 3% shy of our estimate as plywood volumes grew 3.8% YoY vs. 10% expected. However, EBITDA fell sharply short of our expectations by 29% due to steep margin contraction across segments. Overall, CPBI's revenue grew 6%, but EBITDA/adj. PAT declined by 18%/24% YoY.

Key highlights: The weak Q3 performance came as a big negative surprise considering that the company had provided an upbeat outlook and upgraded guidance across segments during its Q2FY24 earnings call. Going ahead, CPBI indicated a bleak near-term outlook due to soft demand, higher timber prices and rising competitive intensity in the sector. However, the medium-term outlook remains positive due to the ongoing pickup in real estate activity and implementation of BIS norms from 11 Feb 2024 that may help curb import pressure in the MDF and particleboard segments from May onwards.

Segment performance slips: Plywood EBITDA contracted 21% YoY in Q3 due to biannual dealer meet expenses of Rs 70mn and consultancy charges paid to boost the sale of prime products. Laminate EBITDA fell by 13% YoY as margins contracted 230bps to 12.4% due to higher manpower cost for the newly launched *Sainik* brand. MDF/particleboard EBITDA declined 8%/28% YoY due to sharp contraction in EBITDA margin (-410bps /-555bps YoY to 18.6%/17%) on account of lower realisations as well as higher timber prices.

Maintain HOLD: Our TP reduces to Rs 700 (vs. Rs 800) as we cut our FY24/FY25/FY26 EPS estimates by 14%/13%/10% due to the weak Q3 result and cautious near-term outlook. We now expect a nominal 5% EPS CAGR over FY23-FY26 and maintain our HOLD rating due to (a) the near-term earnings risk from a weak demand environment and supply-side pressure in MDF and particleboard; and (b) expensive valuations with the stock currently trading at 45.6x 1Y forward P/E vs. the 5Y average of 27.3x. Our target P/E remains at 40x on Sep'25E EPS – a 46% premium to the historical multiple considering CPBI could gain market share across segments given near-completion of a large growth capex drive.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CPBI IN/Rs 748
Market cap	US$ 2.0bn
Free float	27%
3M ADV	US$ 2.7mn
52wk high/low	Rs 850/Rs 436
Promoter/FPI/DII	73%/6%/14%

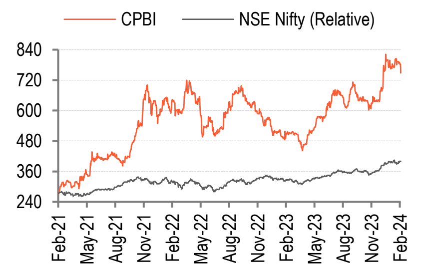
Source: NSE | Price as of 5 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	36,466	38,452	42,686
EBITDA (Rs mn)	5,927	5,367	6,032
Adj. net profit (Rs mn)	4,088	3,490	3,676
Adj. EPS (Rs)	18.4	15.7	16.5
Consensus EPS (Rs)	18.4	17.7	20.9
Adj. ROAE (%)	23.6	16.9	15.4
Adj. P/E (x)	40.7	47.7	45.3
EV/EBITDA (x)	28.2	31.0	27.1
Adj. EPS growth (%)	28.6	(14.6)	5.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 3,213 | ⮝ 6%

VST TILLERS TRACTORS | Automobiles | 05 February 2024

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- **Maintain HOLD with revised TP of Rs 3,213 (vs. Rs 3,858) as we roll valuations forward**

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Topline drops on lower volumes…: VSTT's Q3FY24 revenue dropped 20%/39% YoY/QoQ to Rs 1.7bn as volumes plummeted owing to weak rural sentiments. The company clocked volumes of just ~6k units, a drop of 33%/50% YoY/QoQ, with power tiller volumes down 32%/53% YoY to ~5k units and tractor volumes declining 36%/32% YoY/QoQ to ~1k units. Net realisation per vehicle grew 18%/23% YoY/QoQ to Rs 0.3mn. Management has revised power tiller volume growth guidance down to single digits for FY24 from 15-20%.

…leading to margin contraction: Raw material cost increased to 69% of sales from 67% in Q2FY24 (flat YoY) due to weak volumes, contributing to a gross margin decline of 20bps/185bps YoY/QoQ to ~31% in Q3FY24. Consequently, EBITDA shrank 59%/78% YoY/QoQ to Rs 95mn with margin contraction of 530bps/990bps to 5.6%. Adj. PAT slipped 13%/53% YoY/QoQ to Rs 170mn, marginally supported by other income of Rs 182mn (+99%/+31%) on account of a Rs 154mn treasury gain.

Focus on higher-HP and compact segments: Tractor volumes remained subdued in Q3FY24 as key markets in Maharashtra and Karnataka for compact tractors have not yet revived. VSTT's *Zetor* tractors are currently being seeded in the markets and management expects volume ramp-up in Q1FY25. The Zetor 42HP, 45HP and 49HP were unveiled in Q3 and production will commence from Mar'24. Management maintains guidance of reaching Rs 30bn in total revenue by FY26 (+/-6 months).

Maintain HOLD: Given the weak 9MFY24 performance and low likelihood of quick revival, we cut our FY24/FY25 EPS estimates by 19%/24%. We now introduce FY26 projections and model for a revenue/EBITDA/PAT CAGR of 7%/8/%16% over FY23-FY26. We continue to value VSTT at 20x P/E and roll valuations over to FY26E for a new TP of Rs 3,213 (vs. Rs 3,858). VSTT's performance has disappointed despite its focus on the high-end farm equipment business, sizeable contribution from non-farm business and regional diversification. Early response to Zetor has also been muted. However, we believe current valuations capture these weaknesses. Maintain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	VSTT IN/Rs 3,036
Market cap	US$ 321.5mn
Free float	45%
3M ADV	US$ 0.8mn
52wk high/low	Rs 4,196/Rs 2,100
Promoter/FPI/DII	55%/5%/15%

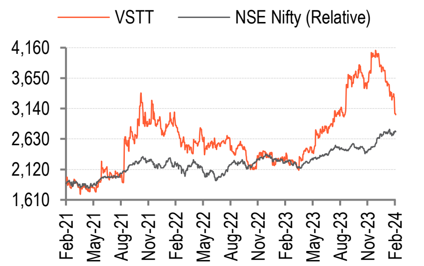
Source: NSE | Price as of 5 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	10,064	9,441	11,033
EBITDA (Rs mn)	1,272	1,048	1,399
Adj. net profit (Rs mn)	924	1,112	1,249
Adj. EPS (Rs)	106.9	128.7	144.6
Consensus EPS (Rs)	106.9	138.0	159.0
Adj. ROAE (%)	11.2	12.1	12.1
Adj. P/E (x)	28.4	23.6	21.0
EV/EBITDA (x)	20.5	25.1	18.5
Adj. EPS growth (%)	(7.0)	20.4	12.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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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