# FIRST LIGHT

07 August 2024

## RESEARCH

**TVS MOTOR | TARGET: Rs 2,363 | -5% | HOLD**

No challenges in performance; valuations gain pace

**MARICO | TARGET: Rs 532 | -15% | SELL**

Downgrade to SELL on Bangladesh – 22% EBITDA contribution

**SYRMA SGS | TARGET: Rs 450 | +5% | HOLD**

Robust revenue; drag on margins apparent

**ORIENT CEMENT | TARGET: Rs 177 | -48% | SELL**

No major performance triggers; valuations stretched

## SUMMARY

### TVS MOTOR

- Q1 revenue increased by 16% YoY driven by volume growth of 14.1% YoY to ~1.1mn units
- EBITDA margin was 11.5%, up 88bps/12bps YoY/QoQ. Softening commodity prices aided rise in gross margin to 28.6% (316bps YoY)
- We lower our earnings estimates by 5%/4% for FY25/FY26 and continue to value TVS at 30x core business. Downgrade to HOLD, TP of Rs 2,363

Click here **for the full report.**

### MARICO

- Marico Bangladesh (MB), operating in Household and Personal Care, accounts for 11% of MRCO's consolidated sales
- The HPC skew enables higher EBITDA contribution at 22% with margins at 42.8% vs consolidated at 21.0%. Asset base is 23% of consolidated
- Downgrade to SELL on lower P/E (51x to 38x: 15% discount to historical P/E Rel / NIFTY) on Bangladesh situation and high EBITDA contribution

Click here **for the full report.**

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## SYRMA SGS

- Strong Q1 topline growth was offset by GM contraction due to higher RM costs; dip in EBITDA margin caused by unfavourable product mix
- FY25 revenue growth guidance remains steady, with new capacities set to accelerate expansion
- We maintain our FY25E/FY26E EPS and value the stock at 30x P/E. We roll forward our valuation and raise our TP to Rs 450 (vs Rs 420). HOLD

**Click here for the full report.**

## ORIENT CEMENT

- Q1 reported revenue declined 16% YoY to Rs 1.35mn/t, impacted by ~15% YoY fall in volumes
- EBITDA/t rose 13.4% YoY to Rs 708 backed by cost of raw material and power cost savings. However, we believe it can revert to past run rate
- We introduce FY27 earnings and value the stock at 6x 1-year forward EV/EBITDA. We raise TP to Rs 177 (from Rs 147) and retain SELL

**Click here for the full report.**

**HOLD**
**TP: Rs 2,363 | ∀ 5%**

**TVS MOTOR** | Automobiles | 07 August 2024

## No challenges in performance; valuations gain pace

- **Q1 revenue increased by 16% YoY driven by volume growth of 14.1% YoY to ~1.1mn units**
- **EBITDA margin was 11.5%, up 88bps/12bps YoY/QoQ. Softening commodity prices aided rise in gross margin to 28.6% (316bps YoY)**
- **We lower our earnings estimates by 5%/4% for FY25/FY26 and continue to value TVS at 30x core business. Downgrade to HOLD, TP of Rs 2,363**

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**Strong volume growth supported topline:** TVSL's Q1FY25 revenue grew 16% YoY (2.5% QoQ) to Rs 83.7bn, backed by volume growth of 14% YoY (2.3% QoQ) to ~1.1mn units. Net realisation per vehicle (NRPV) increased by 1.7% YoY/ flat QoQ at Rs 77.0k due to better product mix**.**

**Softening commodity costs aided EBITDA margins:** Raw material costs as a percentage of sales dropped 316bps YoY to 71.4% in Q1 (~136bps QoQ fall) due to input cost decline. EBITDA grew 25.7% YoY (3.6% QoQ) to Rs 9.6bn and the margin improved 88bps (12bps QoQ) to 11.5%. Other expenditure rose by 37.9% YoY to Rs 9.5bn driven by increase in marketing expenses by Rs 0.87bn. Variable expense related to packing and freight went up ~Rs 0.6bn and digital and other innovation by Rs 0.35bn. Adj. PAT climbed 23.4% YoY (18.9% QoQ) to Rs 5.7bn.

**Product development:** (a) TVSL plans to launch 6 new products in Norton over the next 3 years with the first model available by the end of FY26. It will deliver volume post the international launch. (b) TVSL's launches include one product in ICE and one in electric vehicles (EV) in Q2-Q3 of FY25. (c) During Q1FY25, TVSL added HLX 125, a 5-gear, to its portfolio which will strengthen the international product portfolio. (d) TVSL announced the launch of TVS Apache RTR 160 racing edition.

**Estimates maintained:** Given the weak start to FY25 and severe competition with raw material costs inflation ticking in and EV investments dragging the overall performance, we lower our FY25/FY26 estimates by 5%/4%. We introduce FY27 earnings estimates, baking in a 3Y EBITDA/PAT CAGR of 19%/24%.

**TP maintained; revise to HOLD:** We estimate a healthy outlook for high-end products such as *Apache* and *Raider* and medium-term benefits from investments in export markets being offset by drag from EV segment. Further, we feel the current run-up in valuations factor in premiumisation focus. We maintain our target P/E for the core business at 30x – a marginal premium to the stock's long-term average. We arrive at a new SOTP-based TP of Rs 2,363 (vs Rs 2,382) with the core business valued at Rs 2,330 and Rs 33/sh for TVS Credit Services. Downgrade to HOLD.

### Key changes

| Target | Rating |
|---|---|
| ▼ | ▼ |

| | |
|---|---|
| Ticker/Price | TVSL IN/Rs 2,479 |
| Market cap | US$ 14.0bn |
| Free float | 48% |
| 3M ADV | US$ 30.7mn |
| 52wk high/low | Rs 2,602/Rs 1,317 |
| Promoter/FPI/DII | 52%/13%/25% |

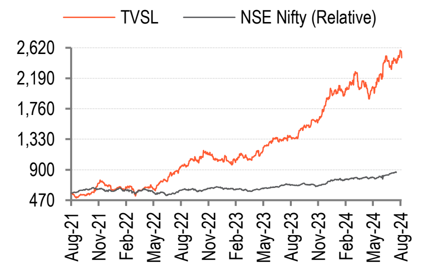
Source: NSE | Price as of 6 Aug 2024

### Key financials

| Y/E 31 Mar | FY24A | FY25E | FY26E |
|---|---|---|---|
| Total revenue (Rs mn) | 3,17,764 | 3,62,497 | 4,31,291 |
| EBITDA (Rs mn) | 35,141 | 43,312 | 53,490 |
| Adj. net profit (Rs mn) | 20,830 | 27,411 | 35,180 |
| Adj. EPS (Rs) | 43.8 | 57.7 | 74.0 |
| Consensus EPS (Rs) | 43.8 | 56.6 | 69.9 |
| Adj. ROAE (%) | 26.9 | 26.8 | 26.2 |
| Adj. P/E (x) | 56.5 | 43.0 | 33.5 |
| EV/EBITDA (x) | 33.6 | 27.2 | 22.0 |
| Adj. EPS growth (%) | 39.7 | 31.6 | 28.3 |

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance




Source: NSE

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**SELL**
**TP: Rs 532 | ⩔ 15%**

**MARICO** | Consumer Staples | 06 August 2024

# Downgrade to SELL on Bangladesh – 22% EBITDA contribution

- **Marico Bangladesh (MB), operating in Household and Personal Care, accounts for 11% of MRCO's consolidated sales**
- **The HPC skew enables higher EBITDA contribution at 22% with margins at 42.8% vs consolidated at 21.0%. Asset base is 23% of consolidated**
- **Downgrade to SELL on lower P/E (51x to 38x: 15% discount to historical P/E Rel / NIFTY) on Bangladesh situation and high EBITDA contribution**

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**Profiling Bangladesh as of FY24:** Given the situation in Bangladesh, we do a profile of MB. MRCO Consolidated holds a 90% stake in MB, which contributes 11% of MRCO's consolidated sales. MRCO products have 90% household penetration in Bangladesh. On earnings, MB accounts for 22% of EBITDA and 22% of NPAT. We downgrade MRCO to SELL on uncertainty in Bangladesh and the potential risk around cash repatriation.

**A different sales mix:** While sales contribution is only 11%, the mix is quite different with operations only in Household and Personal Care (HPC). Between FY19 and FY24, MB sales CAGR was +8% while EBITDA CAGR was +17%.

**FY24 margin profile is much stronger than consolidated:** Gross margin at MB is 720bps above consolidated while EBITDA margin is 22 percentage points higher at 42.8%. The sales mix is part of the reason but we also note a low operating cost base with Marketing, Selling & Distribution expenses at 7% and General & Administrative Expenses at 9% of sales.

**What is the sensitivity to any potential losses from Bangladesh?** Hypothetically, a 25% reduction in MRCO's Bangladesh business translates to a reduction of 3% on sales and 6% on EBITDA for MRCO consolidated. Every month of operational shutdown will have an adverse 1% impact on sales and 2% impact on EBITDA on a consolidated basis. If the situation turns for the worse, we are more concerned on the risk around cash repatriation from the region.

**Our view:** The situation in Bangladesh is fluid and it is hard to predict the political or ease of business outcome at this stage. Even then, uncertainly will prevail in the region in the near term. We keep our earnings unchanged at this stage pending clarity. However, given the uncertainty with a negative bias we review valuation. We continue to use the P/E rel method, but use a 15% discount to historical average given uncertainty and potential risk on repatriable cash from the region. On a 38x P/E 12M to Jun'26, we derive our Rs 532 TP and downgrade the stock to SELL with -15% return. On any related update, we will review our valuation and estimates.

## Key changes

| Target | Rating |
|---|---|
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|---|---|
| Ticker/Price | MRCO IN/Rs 629 |
| Market cap | US$ 9.7bn |
| Free float | 40% |
| 3M ADV | US$ 27.6mn |
| 52wk high/low | Rs 691/Rs 486 |
| Promoter/FPI/DII | 59%/25%/16% |

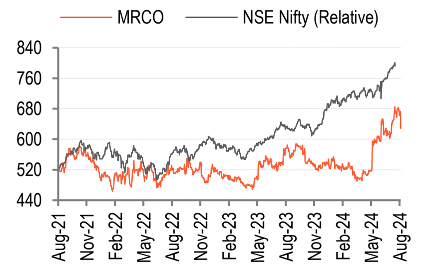
Source: NSE | Price as of 6 Aug 2024

## Key financials

| Y/E 31 Mar | FY24A | FY25E | FY26E |
|---|---|---|---|
| Total revenue (Rs mn) | 96,530 | 107,206 | 117,657 |
| EBITDA (Rs mn) | 20,260 | 22,548 | 24,304 |
| Adj. net profit (Rs mn) | 14,810 | 16,170 | 17,593 |
| Adj. EPS (Rs) | 11.5 | 12.5 | 13.6 |
| Consensus EPS (Rs) | 11.5 | 11.9 | 13.5 |
| Adj. ROAE (%) | 36.5 | 36.8 | 36.3 |
| Adj. P/E (x) | 54.7 | 50.1 | 46.1 |
| EV/EBITDA (x) | 40.0 | 36.0 | 33.4 |
| Adj. EPS growth (%) | 13.7 | 9.2 | 8.8 |

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance




Source: NSE

RESULT REVIEW

**HOLD**

**TP: Rs 450 | ▲ 5%**

**SYRMA SGS** | Consumer Durables | 06 August 2024

# Robust revenue; drag on margins apparent

- **Strong Q1 topline growth was offset by GM contraction due to higher RM costs; dip in EBITDA margin caused by unfavourable product mix**
- **FY25 revenue growth guidance remains steady, with new capacities set to accelerate expansion**
- **We maintain our FY25E/FY26E EPS and value the stock at 30x P/E. We roll forward our valuation and raise our TP to Rs 450 (vs Rs 420). HOLD**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**Revenue soars, margins dip:** Despite SYRMA's topline growth jumping 93% YoY to Rs 11.6bn, EBITDA margin experienced a significant decline of 230bps, falling to 3.8%. This decrease is primarily due to increased raw material costs and a notable rise in revenue from the telecom consumer segment, which typically has lower margins than the Original Design Manufacturer (ODM) segment, which was more prominent in the previous year. APAT fell 28% YoY to Rs 203mn.

**Consumer segment surges; Auto and Healthcare to drive future growth:** The company's Auto vertical grew 29% YoY, while the Consumer segment surged 165%, driven primarily by the Telecom business, which has lower margins. Industrials experienced healthy growth of 21%, and IT and Railways rose by 165%. Healthcare revenue tripled. SYRMA's order book is at Rs 4.5bn, with the Consumer segment holding a 38-40% share, followed by Industrials at 22-25%, Auto at 23-25%, and Healthcare at 6-7%, and the remaining with IT and Railways. Management has indicated that the Consumer segment's contribution will decrease in the coming quarters, with Healthcare and Auto expected to be the leading contributors.

**Guidance upheld; shifts focus to boost margins:** Management has reaffirmed its growth target of 35-40% for FY25 and FY26, while projecting an EBITDA margin of 7% for FY25. The company expects margins to be under pressure, primarily due to its heavy reliance on the Consumer segment, which typically operates with narrower profit margins. To address this, management has outlined a strategic shift to reduce the Consumer segment's share of the topline and focus on more margin-accretive segments such as Auto and Healthcare. It expects this strategic realignment to enhance overall margins and drive improved profitability beyond FY25.

**Maintain HOLD:** SYRMA faces margin challenges due to shifts in its product mix, with the Consumer segment being the largest contributor to topline. However, given management's confidence in reducing the Consumer segment's contribution while increasing that of Healthcare and Auto segments, we maintain our FY25/FY26 EPS estimates. We continue to value the stock at an unchanged P/E of 30x. Rolling forward to Jun'26, we raise our TP to Rs 450 (from Rs 420).

## Key changes

| Target | Rating |
|---|---|
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| | |
|---|---|
| Ticker/Price | SYRMA IN/Rs 428 |
| Market cap | US$ 900.4mn |
| Free float | 53% |
| 3M ADV | US$ 5.7mn |
| 52wk high/low | Rs 705/Rs 386 |
| Promoter/FPI/DII | 47%/5%/9% |

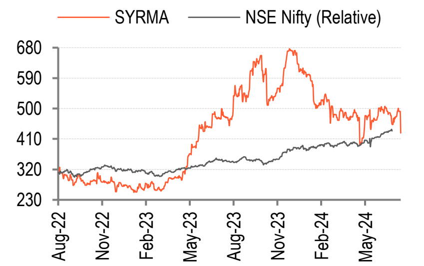
Source: NSE | Price as of 6 Aug 2024

## Key financials

| Y/E 31 Mar | FY24P | FY25E | FY26E |
|---|---|---|---|
| Total revenue (Rs mn) | 31,538 | 42,501 | 57,406 |
| EBITDA (Rs mn) | 1,986 | 2,991 | 4,154 |
| Adj. net profit (Rs mn) | 1,087 | 1,773 | 2,452 |
| Adj. EPS (Rs) | 6.1 | 10.0 | 13.9 |
| Consensus EPS (Rs) | 6.1 | 11.0 | 15.0 |
| Adj. ROAE (%) | 6.9 | 10.5 | 13.1 |
| Adj. P/E (x) | 69.6 | 42.6 | 30.8 |
| EV/EBITDA (x) | 38.1 | 25.3 | 18.2 |
| Adj. EPS growth (%) | (8.9) | 63.1 | 38.3 |

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

## Stock performance




Source: NSE

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**SELL**
**TP: Rs 177 | ∨ 48%**

**ORIENT CEMENT** | Cement | 06 August 2024

## No major performance triggers; valuations stretched

- **Q1 reported revenue declined 16% YoY to Rs 1.35mn/t, impacted by ~15% YoY fall in volumes**
- **EBITDA/t rose 13.4% YoY to Rs 708 backed by cost of raw material and power cost savings. However, we believe it can revert to past run rate**
- **We introduce FY27 earnings and value the stock at 6x 1-year forward EV/EBITDA. We raise TP to Rs 177 (from Rs 147) and retain SELL**

Milind Raginwar
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**Muted revenue performance driven by impact of volumes:** ORCMNT's Q1FY25 revenue declined 16%/22% YoY/QoQ to Rs 6.9bn and Rs 1.35mn/t as volumes fell 15%/21% YoY/QoQ. Despite this, the realisation still fell 1.1% YoY (flat QoQ) to Rs 5,135/t indicating weakness in performance. Capacity utilisation fell to 68% from 79% in Q1FY24.

**Fall in operating cost supported EBITDA margin:** Operating cost fell 3.1% YoY but rose 3.3% QoQ to Rs 4,427/t as energy expenses (raw material adjusted) fell 12% YoY (~3% QoQ) to Rs 2,046/t as a result of decline in pet coke prices. Logistics cost/t grew 3%/2% YoY/QoQ as lead distance stayed up and increased road volumes. Other expenditure fell 11%/15% QoQ/YoY to Rs 801mn. EBITDA fell 3.2%/35.2% YoY/QoQ to Rs 960mn, operating margin rose from 180bps YoY but fell 290bps QoQ to 3.8%. EBITDA/t jumped to Rs 708, rising 13.4% YoY but falling 17.5% QoQ. Adj PAT stayed flat YoY but fell 46.2% QoQ to Rs 367mn.

**Plans for capacity expansion:** ORCMNT plans to double capacity at the Chittapur plant from 3mnt of cement capacity to 6mnt with commensurate clinker expansion. At Devapur, clinkerisation expansion will be followed by split grinding capacity of 1mnt in Devapur and grinding unit capacity of 2mnt in Sarni, Madhya Pradesh.

**Estimates maintained, introduce FY27 earnings:** We retain our FY25/FY26 estimates but will watch what happens carefully. We introduce FY27 earnings estimates with Revenue/EBTIDA 3-year CAGR of 10% each. We have not factored in any major capex or expansion as clearances are still awaited.

**Retain SELL:** We maintain SELL as valuations shot up over the past 1-2 quarters and stayed above 12x-13x, which is clearly unjustified given limited growth prospects and the likelihood of mounting earnings pressure. The major run-up is on consolidation buzz with a few more companies up for grabs. Our new TP of Rs 177 (from Rs 147) is based on 6x 1-year forward EV/EBITDA based on fundamentals. Our TP implies a replacement cost of Rs 65bn/mnt, below the industry average of Rs 75bn, given size, balance sheet credentials and efficiencies of ORCMNT.

### Key changes

| Target | Rating |
|---|---|
| ▲ | ◀ ▶ |

| | |
|---|---|
| Ticker/Price | ORCMNT IN/Rs 339 |
| Market cap | US$ 827.4mn |
| Free float | 62% |
| 3M ADV | US$ 8.8mn |
| 52wk high/low | Rs 370/Rs 161 |
| Promoter/FPI/DII | 38%/6%/11% |

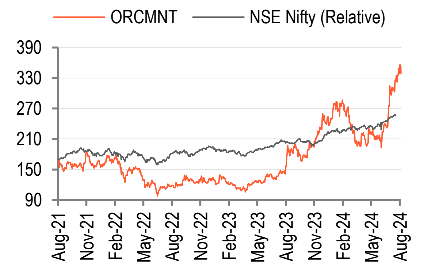
Source: NSE | Price as of 6 Aug 2024

### Key financials

| Y/E 31 Mar | FY24A | FY25E | FY26E |
|---|---|---|---|
| Total revenue (Rs mn) | 31,851 | 35,544 | 39,712 |
| EBITDA (Rs mn) | 4,492 | 4,681 | 5,473 |
| Adj. net profit (Rs mn) | 1,749 | 2,086 | 2,565 |
| Adj. EPS (Rs) | 8.5 | 10.2 | 12.5 |
| Consensus EPS (Rs) | 8.5 | 12.0 | 13.8 |
| Adj. ROAE (%) | 10.4 | 11.4 | 12.6 |
| Adj. P/E (x) | 39.7 | 33.3 | 27.1 |
| EV/EBITDA (x) | 15.7 | 14.9 | 12.6 |
| Adj. EPS growth (%) | 42.3 | 19.3 | 23.0 |

Source: Company, Bloomberg, BOBCAPS Research

### 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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