FIRST LIGHT

07 February 2024

RESEARCH

ASHOK LEYLAND | TARGET: Rs 226 | +26% | BUY

Margins continue to improve, maintain BUY

GREENLAM INDUSTRIES | TARGET: Rs 500 | -4% | HOLD

Soft quarter on tepid demand environment

ORIENT CEMENT | TARGET: Rs 168 | -39% | SELL

Topline muted as volumes decline

PRINCE PIPES & FITTINGS | TARGET: Rs 650 | -3% | HOLD

Lacklustre quarter on sustained market share loss

Daily macro indicators

Indicator	02-Feb	05-Feb	Chg (%)
US 10Y yield (%)	4.02	4.16	14bps
India 10Y yield (%)	7.06	7.10	4bps
USD/INR	82.93	83.06	(0.2)
Brent Crude (US$/bbl)	77.3	78.0	0.9
Dow	38,654	38,380	(0.7)
Hang Seng	15,534	15,510	(0.2)
Sensex	72,086	71,731	(0.5)
India FII (US$ mn)	**01-Feb**	**02-Feb**	**Chg ($ mn)**
FII-D	273.4	350.1	76.8
FII-E	37.7	27.6	(10.1)

Source: Bank of Baroda Economics Research

SUMMARY

ASHOK LEYLAND

- Q3 revenue grew 3% YoY to Rs 92.7bn in a challenging quarter, aided by 3% higher realisation
- EBITDA margin continues to expand, rising 320bps YoY to 12% on lower commodity costs and operating efficiencies
- Maintain BUY with revised TP of Rs 226 (vs. Rs 210) on rollover

Click here **for the full report.**

GREENLAM INDUSTRIES

- Q3 PAT missed our estimate by 31% on weak laminate volumes and sharp increase in capital charge
- FY24 revenue growth guidance cut from 20% to 15% on weak domestic demand and logistical challenges for exports
- We lower our TP by 17% to Rs 500 (vs. Rs 600) on earnings downgrade; maintain HOLD amid high valuations

Click here **for the full report.**

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ORIENT CEMENT

- Q3 revenue growth subdued at 3% YoY as volumes fell 3% amid state elections and festive season
- Margin trajectory improving from lower base, but pricing pressure can reverse these gains
- TP revised to Rs 168 (vs. Rs 128) on rollover and higher 6x EV/EBITDA target multiple (vs. 5x); retain SELL on lofty valuations

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PRINCE PIPES & FITTINGS

- Q3 PAT came in 36% below our estimate on continued market share bleed and margin pressure
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- Management appears confident of regaining lost share without hurting margin profile and working capital cycle from Q1FY25
- TP cut to Rs 650 (vs. Rs 800) on 17-24% earnings downgrade for FY24-FY26; maintain HOLD

Click here **for the full report.**

BUY
TP: Rs 226 | ⮝ 26%

ASHOK LEYLAND | Automobiles | 06 February 2024

Margins continue to improve, maintain BUY

- **Q3 revenue grew 3% YoY to Rs 92.7bn in a challenging quarter, aided by 3% higher realisation**
- **EBITDA margin continues to expand, rising 320bps YoY to 12% on lower commodity costs and operating efficiencies**
- **Maintain BUY with revised TP of Rs 226 (vs. Rs 210) on rollover**

Milind Raginwar | Shree Kirloskar
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Topline gains in a challenging quarter: AL's Q3FY24 revenue grew 3% YoY (-4% QoQ) to Rs 92.7bn aided by realisations gains, whereas volumes remained muted. Net realisation per vehicle increased 3% YoY (+2% QoQ) to Rs 1,963k supported by price hikes across segments. Volumes were flat YoY (-5% QoQ) at 47.2k units due to elections in several states, with domestic MHCV volumes falling 7% YoY (vs. 7% industry growth) to 23.4k units.

Margins continue to improve: Raw material cost (adjusted for inventory) improved to 72.2% of net sales from 76.3% in Q3FY23 (73.5% in Q2FY24), aiding gross margin expansion by 400bps/130bps YoY/QoQ to 27.8%. Cost reduction initiatives, softening commodity costs and a better product mix saw EBITDA rise 40%/3% YoY/QoQ to Rs 11.1bn, with a 12% margin (+320bps/80bps YoY/QoQ). Adj. PAT increased to Rs 5.8bn from Rs 3.5bn in the year-ago quarter.

EV expansion on the cards: Notable launches during the quarter include *E-Comet 1915CNG* and *E-Comet Star 1815* in the truck segment, *LynxMac Bus Chatty* and *Viking 222 Inter-city* in the bus segment, and a tipper (Avtr 3525 RMC). AL has invested Rs 6.6bn in Optare PLC for its EV segment during the quarter, out of an approved investment plan of ~Rs 12bn, and the first batch of electric LCVs is expected to be delivered by Switch Mobility within the next few months. AL is also targeting ~Rs 9bn in revenue from the defence business.

Long-term growth trajectory intact…: We broadly maintain earnings for FY24/FY25 and introduce FY26 forecasts, with AL projected to log an EBITDA/PAT CAGR of 25%/35% for FY23-FY26. Despite the weak Q3 volumes, we believe AL will remain ahead of industry growth in CVs, maintain leadership in buses and deliver on launches. LCV recovery adds comfort and inroads into EVs will add flavour to the portfolio.

…maintain BUY: We roll valuations over to FY26E and reiterate our BUY rating for a revised SOTP-based TP of Rs 226 (v. Rs 210). We continue to assign a 20x P/E multiple to the standalone business – in line with the 5Y average multiple – and value the vehicle finance arm at Rs 12/sh.

Key changes

Target	Rating
▲	◄►

Ticker/Price	AL IN/Rs 180
Market cap	US$ 6.4bn
Free float	49%
3M ADV	US$ 32.8mn
52wk high/low	Rs 192/Rs 133
Promoter/FPI/DII	52%/17%/15%

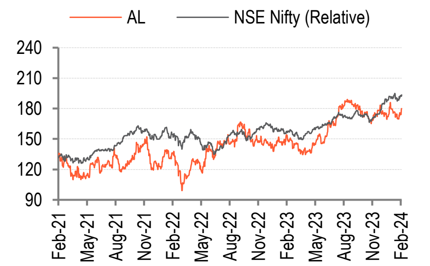
Source: NSE | Price as of 6 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	3,61,441	3,78,105	4,39,385
EBITDA (Rs mn)	29,307	41,925	50,461
Adj. net profit (Rs mn)	12,955	22,597	28,876
Adj. EPS (Rs)	4.7	7.7	9.8
Consensus EPS (Rs)	4.7	7.4	9.4
Adj. ROAE (%)	15.4	21.9	22.4
Adj. P/E (x)	38.3	23.4	18.3
EV/EBITDA (x)	18.9	13.0	10.4
Adj. EPS growth (%)	4079.0	74.4	27.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 500 | ▼ 4%

GREENLAM INDUSTRIES | Building Materials | 06 February 2024

Soft quarter on tepid demand environment

- **Q3 PAT missed our estimate by 31% on weak laminate volumes and sharp increase in capital charge**
- **FY24 revenue growth guidance cut from 20% to 15% on weak domestic demand and logistical challenges for exports**
- **We lower our TP by 17% to Rs 500 (vs. Rs 600) on earnings downgrade; maintain HOLD amid high valuations**

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Miss on all fronts: GRLM fell short of our Q3FY24 revenue/EBITDA/adj. PAT estimates by 9%/3%/31% due to soft volumes for laminates (+9% YoY vs. +18% estimated) and a sharp sequential increase in depreciation (+26% QoQ) and interest expense (+54% QoQ). Overall, the company's revenue/EBITDA grew by 12%/30% YoY, but adj. PAT fell 12%.

Key highlights: Despite higher capacity (+17% QoQ), laminate volumes slipped 6% QoQ in Q3 as a shortage of containers constrained exports. Laminate EBITDA margin dipped 55bps QoQ to 15.8% due to initial startup costs associated with the newly commissioned plant in Andhra Pradesh. Plywood segment operating loss reduced from Rs 100mn in Q2FY24 to Rs 80mn in Q3 and is guided to break even in FY25 as operations gain scale. Commencement of the greenfield particleboard project has been delayed from Q4FY24 to Q2FY25. Net debt rose from Rs 6.7bn in Sep'23 to Rs 8.5bn in Dec'23 due to debt availed for the particleboard project.

Outlook downgraded: GRLM has cut its FY24 revenue growth guidance from 20% to 15% (vs. 13% clocked in 9MFY24) due to weak domestic demand and logistical challenges for exports. The company aims to deliver revenue growth of 20% in FY25. Management does not anticipate any near-term market share loss in exports due to the Israel war and Red Sea conflict. Despite rising ocean freight rates and Kraft paper prices, management expects laminate EBITDA margins to remain relatively stable in the near term aided by a better product mix.

Maintain HOLD, TP cut to Rs 500: We maintain our HOLD rating on the stock due to current expensive valuations of 46.7x on 1Y forward P/E vs. the 5Y average of 30.7x. Our TP reduces to Rs 500 (from Rs 600) as we scale back our FY24/FY25/FY26 EPS estimates by 10%/23%/10% based on the poor quarterly result and management's weak near-term outlook. Our target P/E multiple remains unchanged at 35x on Sep'25E EPS – a 16% premium to the stock's historical multiple on strong earnings prospects and rerating of valuation multiples in the building materials sector over the past few months.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	GRLM IN/Rs 518
Market cap	US$ 801.1mn
Free float	49%
3M ADV	US$ 0.6mn
52wk high/low	Rs 626/Rs 282
Promoter/FPI/DII	51%/16%/1%

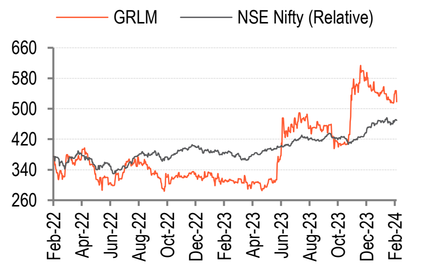
Source: NSE | Price as of 5 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	20,260	23,136	27,581
EBITDA (Rs mn)	2,333	2,895	3,463
Adj. net profit (Rs mn)	1,224	1,281	1,421
Adj. EPS (Rs)	9.6	10.1	11.2
Consensus EPS (Rs)	9.6	12.6	15.3
Adj. ROAE (%)	15.1	12.5	12.5
Adj. P/E (x)	53.8	51.4	46.3
EV/EBITDA (x)	27.6	21.9	17.5
Adj. EPS growth (%)	23.6	4.7	10.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

SELL
TP: Rs 168 | ⩔ 39%

ORIENT CEMENT | Cement | 06 February 2024

Topline muted as volumes decline

- **Q3 revenue growth subdued at 3% YoY as volumes fell 3% amid state elections and festive season**
- **Margin trajectory improving from lower base, but pricing pressure can reverse these gains**
- **TP revised to Rs 168 (vs. Rs 128) on rollover and higher 6x EV/EBITDA target multiple (vs. 5x); retain SELL on lofty valuations**

Milind Raginwar | Shree Kirloskar
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Weak volumes subdue revenue: ORCMNT's Q3FY24 revenue grew just 3%/4% YoY/QoQ to Rs 7.5bn as volumes fell 3%/2% to 1.4mn tonnes due to elections in key markets, a labour shortfall and festive season. Realisation gains were tepid at 5%/7% YoY/QoQ to Rs 5,397/t.

Margins expand off low base: Operating cost was in control, rising only 2%/3% YoY/QoQ to Rs 4,568/t, as energy expenses (raw material adjusted) declined 2% YoY (flat QoQ) to Rs 2,211/t following a 10% YoY decline in pet coke prices and flattish domestic coal prices. Logistics cost/t inched up 2%/4% YoY/QoQ owing to an increase in lead distance for Telangana markets, high transport costs in the Mumbai and Pune markets, and the busy railway season surcharge. EBITDA grew 28%/33% YoY/QoQ to Rs 1.1bn, operating margin swelled 300bps/335bps YoY/QoQ to 15.4%, and EBITDA/t rose 31%/37% YoY/QoQ to Rs 829 due to cost savings and lower volumes.

Delays dog capacity expansion: ORCMNT's expansion plans for Devapur and Chittapur continue to be delayed by a lack of regulatory clearances. Further, management does not expect any construction activity at the 3.2mt Rajasthan greenfield expansion site for at least three years. Barring debottlenecking, we do not foresee much progress on capex plans through to FY26.

Estimates revised to reflect slow expansion: We maintain our FY24 estimates but cut FY25 EPS by 3% as management commentary on the expansion drive remains unchanged and the cost levers available with ORCMNT are already captured in our model. We now introduce FY26 forecasts for the company, projecting a revenue/EBITDA CAGR of 11%/17% for FY23-FY26.

Retain SELL: Our SELL rating stands as valuations have run up over the past couple of months and, at upwards of ~10x FY26E EV/EBITDA, appear unjustified given the limited growth prospects and likelihood of mounting earnings pressure. Post estimate revision, we have a new TP of Rs 168 (vs. Rs 128), based on a higher 6x EV/EBITDA multiple (from 5x) due to better balance sheet health and rollover of valuations to FY26E. Our TP implies a replacement cost of Rs 61bn/mt, 40% below the industry mean.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ORCMNT IN/Rs 277
Market cap	US$ 691.6mn
Free float	62%
3M ADV	US$ 4.2mn
52wk high/low	Rs 294/Rs 105
Promoter/FPI/DII	38%/6%/11%

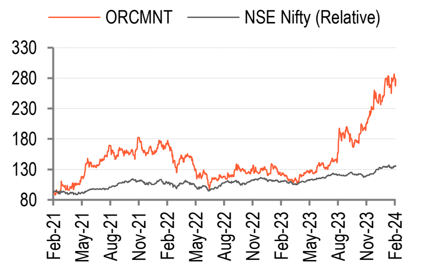
Source: NSE | Price as of 6 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	31,417	35,385	38,809
EBITDA (Rs mn)	3,646	4,577	5,272
Adj. net profit (Rs mn)	1,229	1,740	2,353
Adj. EPS (Rs)	6.0	8.5	11.5
Consensus EPS (Rs)	6.0	10.5	12.7
Adj. ROAE (%)	7.9	10.4	12.7
Adj. P/E (x)	46.2	32.7	24.1
EV/EBITDA (x)	16.5	13.3	11.5
Adj. EPS growth (%)	(53.3)	41.6	35.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 650 | ▼ 3%

PRINCE PIPES & FITTINGS | Building Materials | 06 February 2024

Lacklustre quarter on sustained market share loss

- **Q3 PAT came in 36% below our estimate on continued market share bleed and margin pressure**
- **Management appears confident of regaining lost share without hurting margin profile and working capital cycle from Q1FY25**
- **TP cut to Rs 650 (vs. Rs 800) on 17-24% earnings downgrade for FY24-FY26; maintain HOLD**

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Disappointing quarter: PRINCPIP was well short of our Q3FY24 revenue/EBITDA/PAT estimates by 16%/25%/36% due to weak volumes (-2.4% YoY vs. +10% estimated) and sharp contraction in EBITDA per unit (-22% QoQ to Rs 17.7/kg) on account of lower realisation (-8% QoQ) and MTM inventory loss of Rs 100mn. Overall, the company's revenue fell 12% YoY, whereas EBITDA/PAT grew 9%/6% YoY off a low base.

Key highlights: The company posted inferior pipe volume growth compared to peers for the sixth consecutive quarter (PRINCPIP: -2.4% YoY, APOLP: +4.8%, ASTRA: +15%, SI: +17%), despite providing an extended credit period to dealers (from 44 days in Q3FY23 to 72 days in Q3FY24). Its net cash position has dropped from Rs 1.8bn in Sep'23 to Rs 0.6bn in Dec'23 due to a spike in working capital.

Positive commentary: PRINCPIP has taken corrective action by realigning its product prices with major peers in H2CY23, which management believes will help it gradually regain lost market share from Q1FY25. EBITDA margin guidance remains in a range of 12-14% for FY25 and debtor period is expected to come down from 72 days in Q3 to ~60 days in the coming quarters.

Capex guidance raised: The company has guided for capex of Rs 1.1bn-1.2bn (vs. Rs 0.8bn-1bn earlier) and Rs 0.9bn-1bn for debottlenecking and maintenance over FY24 and FY25 respectively (ex-Bihar project). With an increase in project scope from 40ktpa to ~50ktpa to include a range of fittings, the cost of the Bihar greenfield unit has risen from Rs 1.5bn to Rs 2.2bn and it is expected to be completed by Q4FY25.

Maintain HOLD, TP cut to Rs 650: We reduce our TP to Rs 650 (from Rs 800) following a sharp cut in our EPS estimates by 19%/24%/17% for FY24/FY25/FY26 in the wake of a lacklustre Q3 print. We now model for a muted 3% EPS CAGR over FY23-FY26 and maintain our HOLD rating on the stock due to the tepid earnings growth profile coupled with expensive valuations. The stock is trading at 37.2x on 1Y forward P/E vs. its 5Y average of 32.6x. Our target P/E multiple remains at 30x on Sep'25E EPS, which is in line with the stock's historical multiple.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	PRINCPIP IN/Rs 674
Market cap	US$ 906.3mn
Free float	39%
3M ADV	US$ 3.9mn
52wk high/low	Rs 776/Rs 533
Promoter/FPI/DII	61%/5%/19%

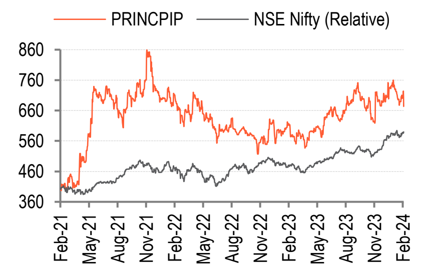
Source: NSE | Price as of 6 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	27,109	25,354	28,773
EBITDA (Rs mn)	2,517	3,106	3,681
Adj. net profit (Rs mn)	1,223	1,645	2,036
Adj. EPS (Rs)	11.1	14.9	18.4
Consensus EPS (Rs)	11.1	19.0	25.8
Adj. ROAE (%)	9.3	11.5	13.0
Adj. P/E (x)	60.9	45.3	36.6
EV/EBITDA (x)	29.7	24.1	20.7
Adj. EPS growth (%)	(51.3)	34.5	23.8

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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