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FIRST LIGHT

07 November 2023

RESEARCH

DIVI'S LABS | TARGET: Rs 2,800 | -20% | SELL

Growth remains elusive; cut to SELL

BOB ECONOMICS RESEARCH | STATE ELECTIONS

State of states as they go for elections

STATE BANK OF INDIA | TARGET: Rs 747 | +30% | BUY

Wage provisions weigh on profits

JINDAL STEEL & POWER | TARGET: Rs 735 | +18% | BUY

Last leg of streamlining, reiterate BUY

THERMAX | TARGET: Rs 3,000 | +2% | HOLD

Sound operations, measured commentary

AIA ENGINEERING | TARGET: Rs 4,200 | +15% | BUY

Volume spillover to FY25

HITACHI ENERGY | TARGET: Rs 4,200 | -5% | HOLD

Chip constraints receding

CROMPTON GREAVES | TARGET: Rs 330 | +15% | BUY

ECD robust; lighting and kitchen appliances falter

ESCORTS | TARGET: Rs 2,343 | -24% | SELL

No major positive surprises; maintain SELL

Daily macro indicators

Indicator	2-Nov	3-Nov	Chg (%)
US 10Y yield (%)	4.66	4.57	(9bps)
India 10Y yield (%)	7.32	7.31	(1bps)
USD/INR	83.25	83.29	0.0
Brent Crude (US$/bbl)	86.9	84.9	(2.3)
Dow	33,839	34,061	0.7
Hang Seng	17,231	17,664	2.5
Sensex	64,081	64,364	0.4
India FII (US$ mn)	**1-Nov**	**2-Nov**	**Chg ($ mn)**
FII-D	10.7	131.7	121.1
FII-E	(215.0)	(142.7)	72.3

Source: Bank of Baroda Economics Research

SUMMARY

DIVI'S LABS

- Dull Q2 with EBITDA/PAT plunging 21%/29% YoY, missing consensus by a wide margin
- Gross/EBITDA margins contracted 600bps/780bps YoY amid price erosion, inventory write-off and product mix change
- We cut FY24/FY25 EBITDA margin forecasts 300-400bps and downgrade from HOLD to SELL with revised TP of Rs 2,800 (vs. Rs 3,200)

Click here for the full report.

BOBCAPS Research
research@bobcaps.in

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INDIA ECONOMICS: STATE ELECTIONS

India will witness the State Assembly Elections in this month ahead of Lok Sabha Elections scheduled in the summer of 2024. This Report studies the socio-economic profile of each of the states heading for Elections. It also captures other indicators that help in assessing how well the states have been performing lately. A brief overview of parameters such as GSDP, per capital income and inflation rate offers the macroeconomic view of state performance. To this one can add indicators on general standard of living and infrastructure development. A look at Public Finances is also taken to make the picture complete. It may be stated upfront that economic elements may not have a significant bearing on the Elections outcomes. This note hence only profiles the socio-economic position for these states to provide a perspective in relative terms.

Click here **for the full report.**

STATE BANK OF INDIA

- Q2 PPOP growth dropped 23% QoQ owing to one-time wage revision provisions
- NIM (calc.) down 5bps QoQ to 3% on deposit repricing and guided to stay at current level for FY24; lower credit cost a positive
- We trim FY24/FY25 credit cost estimates to 36bps/49bps; maintain BUY with a new TP of Rs 747 (vs. Rs 729)

Click here **for the full report.**

JINDAL STEEL & POWER

- Management revises expansion capex to factor in the addition of more downstream and project components to temper risk profile
- Delivery on new timeline and capex will be key to narrowing JSP's valuation discount to peers
- We lower earnings on more conservative project assumptions and cut our TP to Rs 735 (from Rs 810); maintain BUY

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THERMAX

- Q2 operating performance strong with 210bps YoY margin expansion, half of which management believes is sustainable
- Guidance on order pipeline measured; new energy investments to continue
- TP raised to Rs 3,000 (vs. Rs 2,600) upon rollover and hike in FY24/FY25 EPS by 12%/9%; retain HOLD

Click here **for the full report.**

AIA ENGINEERING

- Q2 sales flat YoY but operating leverage enables EBIDTA margin gains of 600bps to 29.5%
- FY24 volume guidance cut from 330,000t to 310,000t with balance likely spilling over to FY25; capacity expansion plans on track
- We revise FY24/FY25 EPS -1%/+5% to bake in guidance and Q2 print; retain BUY with revised TP of Rs 4,200 (vs. Rs 4,000)

Click here **for the full report.**

HITACHI ENERGY

- Q2 EBITDA margin rose sequentially to 5.3% as chip constraints eased but PAT still down 33% YoY
- Management now expects double-digit margins only by end-FY25 led by domestic projects (HVDC, rail) and improving exports
- We cut FY24/FY25 EPS by 15%/12% following a subpar H1, yielding a new TP of Rs 4,200 (vs. Rs 4,400); retain HOLD

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CROMPTON GREAVES

- ECD revenue growth ahead of peers but lighting segment declines in Q2
- Management reiterates focus on scaling up distribution and spurring growth in ecommerce and rural markets
- Our TP moves to Rs 330 (vs. Rs 360) as we trim FY24/FY25 EPS by 7%/11% and roll valuations over; maintain BUY

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ESCORTS

- Q2 tractor volumes dipped 7% YoY as sales flagged towards the quarter's end after an initial pickup
- Lower raw material cost aided gross/EBITDA margin expansion of ~470bps YoY each
- Lower volumes and market share remain concerns; maintain SELL with TP unchanged at Rs 2,343

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SELL
TP: Rs 2,800 | ∨ 20%

DIVI'S LABS | Pharmaceuticals | 06 November 2023

Growth remains elusive; cut to SELL

- **Dull Q2 with EBITDA/PAT plunging 21%/29% YoY, missing consensus by a wide margin**
- **Gross/EBITDA margins contracted 600bps/780bps YoY amid price erosion, inventory write-off and product mix change**
- **We cut FY24/FY25 EBITDA margin forecasts 300-400bps and downgrade from HOLD to SELL with revised TP of Rs 2,800 (vs. Rs 3,200)**

Saad Shaikh
research@bobcaps.in

Modest revenue growth: DIVI reported modest revenue growth of 3% YoY (+7% QoQ) to Rs 19.1bn, coming in 2% below Bloomberg consensus. Per management, excluding Covid-led growth from both the year-ago base and current quarter, consolidated revenue grew in double digits. On a reported basis, generic APIs grew just 5% YoY (+6% QoQ) to Rs 9.4bn and custom synthesis declined 4% (+7% QoQ) to Rs 7.6bn, while nutraceuticals posted a strong 26% uptick (+15% QoQ) to Rs 2.1bn.

Pricing pressure, inventory write-off and poor product mix sap margins: Gross/ EBITDA margins contracted 600bps/780bps YoY to 57.6%/25.7% due to a product mix change towards generics, pricing pressure in generic APIs and inventory write-off for Covid products (~Rs 200mn). With the likely commencement of Unit-3 by FY25, the company expects opex to rise in tandem, making margin recovery elusive, in our view.

Earnings call highlights: (1) DIVI's generic-to-custom synthesis revenue breakup was at 60:40 in Q2. (2) Forex gain stood at Rs 110mn vs. Rs 310mn in the year-ago quarter. (3) Exports formed ~87% of revenue with sales to Europe/US at ~68% of the revenue. (4) DIVI capitalised assets worth Rs 910mn/Rs 1.2bn in Q2/H1. (5) CWIP was ~Rs 5bn, including Rs 2.6bn for Kakinada. (6) As of 30 Sep 2023, the company had cash on books of Rs 36bn, receivables of Rs 18.6bn and inventory of Rs 29.7bn.

Downgrade to SELL: We lower our FY24-FY25 revenue estimates by 8% each and cut our EBITDA margin assumptions by 300-400bps in light of the weak H1FY24 performance. The guidance of higher opex in FY25 upon commercialisation of Unit-3 reinforces our expectations of added margin pressure. DIVI is trading at FY24E/ FY25E EV/EBITDA valuations of 33x/28x which appear rich. We continue to ascribe an FY25E EV/EBITDA multiple of 22x to the stock, which is a 25% discount to the 5Y average multiple. Based on our revised estimates, our TP is reset to Rs 2,800 (vs. Rs 3,200) and carries 20% downside – we thus downgrade the stock to SELL from HOLD.

Key changes

Target	Rating
▼	▼

Ticker/Price	DIVI IN/Rs 3,507
Market cap	US$ 11.3bn
Free float	48%
3M ADV	US$ 18.4mn
52wk high/low	Rs 3,935/Rs 2,730
Promoter/FPI/DII	52%/15%/22%

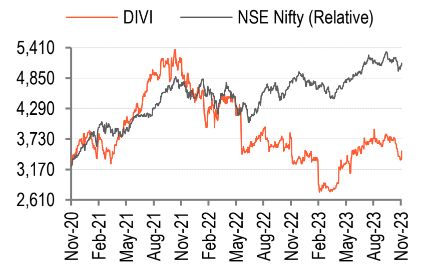
Source: NSE | Price as of 6 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	77,675	82,391	92,119
EBITDA (Rs mn)	23,678	26,908	31,467
Adj. net profit (Rs mn)	16,937	19,773	20,824
Adj. EPS (Rs)	63.8	74.6	78.4
Consensus EPS (Rs)	63.8	71.0	89.0
Adj. ROAE (%)	13.8	15.2	15.0
Adj. P/E (x)	55.0	47.0	44.7
EV/EBITDA (x)	38.3	33.3	28.2
Adj. EPS growth (%)	(42.0)	17.0	5.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

STATE ELECTIONS

04 November 2023

State of states as they go for elections

Jahnavi Prabhakar
Economist

India will witness the State Assembly Elections in this month ahead of Lok Sabha Elections scheduled in the summer of 2024. This Report studies the socio-economic profile of each of the states heading for Elections. It also captures other indicators that help in assessing how well the states have been performing lately. A brief overview of parameters such as GSDP, per capital income and inflation rate offers the macroeconomic view of state performance. To this one can add indicators on general standard of living and infrastructure development. A look at Public Finances is also taken to make the picture complete. It may be stated upfront that economic elements may not have a significant bearing on the Elections outcomes. This note hence only profiles the socio-economic position for these states to provide a perspective in relative terms.

Introduction

In the coming days, 5 States across the country will be witnessing the assembly elections. This will be the last round of state elections in 2023 and will be followed by the general elections scheduled to be held in May'24. Following states are going in for elections: Chhattisgarh, Mizoram, Madhya Pradesh, Rajasthan and Telangana. The only state to have elections in 2-phases is Chhattisgarh, with polling beginning from 7 Nov and second phase on 17th Nov. The results of all the 5-assembly elections will be declared on 3rd December 2023. A total of 1.77 lakh polling stations have been created across the 5-states with over 60-lakh first time voters expected to participate. Around 680 seats are being contested for these states as shown in Table 1 below.

Table 1: Date and total seat for upcoming assembly election

States	Polling Date	Total assembly seats
Mizoram	07-Nov	40
Chhattisgarh	07-Nov*	90
Madhya Pradesh	17-Nov	230
Rajasthan	23-Nov	200
Telangana	30-Nov	119

Source: ECI, Bank of Baroda | Note: * For phase-I and 17 Nov for 2nd Phase

Table 2 highlights the GSDP of each of the state including the current growth levels as well as the CAGR for FY19-23. Rajasthan has registered a growth of 8.2%, while Chhattisgarh and Telangana have grown at a robust pace of 8% and 7.8% respectively in FY23. On CAGR basis too, most of the states have grown at a healthy pace of 3%-4.5% considering this includes the pandemic period too which witnessed lockdowns.

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BUY
TP: Rs 747 | ⮙ 30%

STATE BANK OF INDIA | Banking | 06 November 2023

Wage provisions weigh on profits

- **Q2 PPOP growth dropped 23% QoQ owing to one-time wage revision provisions**
- **NIM (calc.) down 5bps QoQ to 3% on deposit repricing and guided to stay at current level for FY24; lower credit cost a positive**
- **We trim FY24/FY25 credit cost estimates to 36bps/49bps; maintain BUY with a new TP of Rs 747 (vs. Rs 729)**

Ajit Agrawal
research@bobcaps.in

Modest profits: SBIN's Q2FY24 NII grew 12% YoY but stayed flat sequentially due to higher deposit cost. NIM (calc.) contracted 5bps QoQ to 3%. Management expects an additional 3-5bps dip in domestic NIM over H2FY24 but is confident of maintaining overall NIM at 3% for the fiscal. Higher opex from a one-time provision of Rs 34bn towards wage revision led to an 8% YoY (-23% QoQ) decline in PPOP.

Healthy business growth: Advances grew 13% YoY supported by strong growth in SME loans (+23%) and the retail book (+16%) which was driven by auto loans (+20%) and express credit (+18%). The corporate book remained muted at 7% YoY though management expects better momentum in H2FY24 given pending disbursals of Rs 1.4tn and a loan pipeline of Rs 3.4tn. Deposits grew 12% YoY, driven by term deposits. SBIN intends to focus on current accounts considering a tough savings account climate due to deposit rate repricing. Management is confident of achieving credit growth of 14% in FY24; we pencil in 13% growth as a conservative measure.

Steady asset quality with lower credit cost: Asset quality improved due to lower slippages and higher upgrades and recoveries. GNPA/NNPA reduced by 20bps/ 7bps QoQ to 2.6%/0.6% while PCR stood at 75.4%. Credit cost fell 9bps QoQ to 22bps supported by a reversal in standard asset provisions; we thus lower our FY24/FY25 estimates to 36bps/49bps from 60bps/63bps. SBIN's restructured book has reduced to Rs 208.5bn from Rs 227bn in Q1, forming 0.6% of loans, whereas the SMA-1&2 book declined to Rs 39.6bn (vs. Rs 72.2bn). A non-NPA provision of Rs 34bn (158% of NPA) provides a further cushion against any sudden rise in stress.

Maintain BUY: Healthy business growth along with stable margins and asset quality are likely to boost profitability. We expect the bank to maintain NIM at 3% with ROA/ROE at 1%/16% by FY25. Given the bank's growth prospects and consistent asset quality, we maintain BUY with a revised TP of Rs 747 (vs. Rs 729), based on an unchanged multiple of 1.3x on FY25E ABV (Gordon Growth Model) and adding in Rs 171/sh for subsidiaries.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	SBIN IN/Rs 574
Market cap	US$ 62.4bn
Free float	42%
3M ADV	US$ 110.3mn
52wk high/low	Rs 630/Rs 499
Promoter/FPI/DII	57%/11%/24%

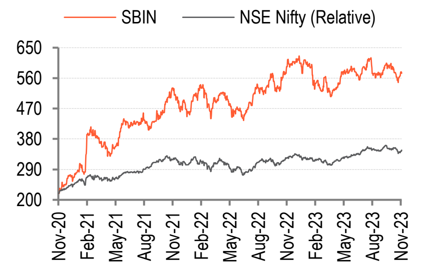
Source: NSE | Price as of 6 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	144,841	160,779	178,442
NII growth (%)	20.0	11.0	11.0
Adj. net profit (Rs mn)	50,232	61,880	63,247
EPS (Rs)	56.3	69.3	70.9
Consensus EPS (Rs)	56.3	65.8	69.6
P/E (x)	10.2	8.3	8.1
P/BV (x)	1.6	1.4	1.2
ROA (%)	1.1	1.1	1.0
ROE (%)	19.3	17.6	15.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 735 | ⮝ 18%

JINDAL STEEL & POWER | Metals & Mining | 06 November 2023

Last leg of streamlining, reiterate BUY

- **Management revises expansion capex to factor in the addition of more downstream and project components to temper risk profile**
- **Delivery on new timeline and capex will be key to narrowing JSP's valuation discount to peers**
- **We lower earnings on more conservative project assumptions and cut our TP to Rs 735 (from Rs 810); maintain BUY**

Kirtan Mehta, CFA | Yash Thakur
research@bobcaps.in

Streamlining of expansion project nearing an end: JSP finally seems to have settled on a roadmap to maximising value from the Angul expansion project. It has also adhered to implementation of BF-II and BOF-II by Q2FY25 and removed the two-quarter buffer to integrated operations for both.

Improving value-add from expansion: JSP has reassessed existing capacity for the plate mill at 2.5mt (from 2.2mt) and rail mill at 1.0mt (from 0.75mt) and has added 0.5mt of Q&T plate capacity and a 1.2mt CRM complex to the project scope. This will increase the total finished steel capacity to 13.25mt (from 12.2mt) and together with the shift to BOF from EAF will improve the value-add margin. Management is also investing at Paradip port to open the sea route for flat steel transfer to the southern market, adding rail rakes to improve the availability of coal and adding some components to complete project scope.

Revised capex announced: The company has reassessed the total capex plan at Rs 310bn for the Angul expansion project till FY26, raising capex for Angul CPP-II to Rs 30bn (from Rs 20bn) and adding Rs 50bn for the new scope. While Rs 20bn of the latter has been added for coal mines, Rs 30bn is attributed to other scope changes as discussed above. Though the revision is higher than street expectations, it is good to see closure on the last leg of streamlining with final capex revision. We now look forward to delivery of this plan.

Estimates pared: We lower our FY24/FY25/FY26 EBITDA estimates by 4%/1%/ 10% to factor in more conservative assumptions on project ramp-up. We are now assuming steel sales at 7.7mt/8.2mt/11.2mt for our forecast years and have also used more conservative assumptions on efficiency improvement.

Reiterate BUY: We lower our TP to Rs 735 (from Rs 810) as we account for conservative assumptions and higher annual growth capex, while retaining our target 1Y forward EV/EBITDA multiple at 5.5x. We maintain BUY as our TP implies 18% upside using conservative earnings growth estimates and as our target valuation multiple is below the sector average.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	JSP IN/Rs 622
Market cap	US$ 7.7bn
Free float	39%
3M ADV	US$ 17.7mn
52wk high/low	Rs 723/Rs 471
Promoter/FPI/DII	61%/12%/16%

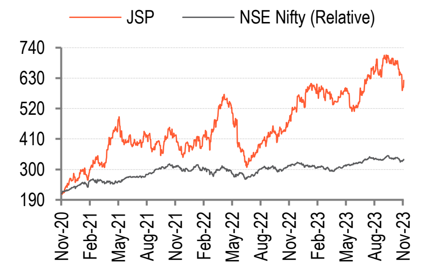
Source: NSE | Price as of 6 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	5,27,112	4,87,303	5,23,336
EBITDA (Rs mn)	99,349	99,962	1,29,036
Adj. net profit (Rs mn)	31,511	50,496	70,629
Adj. EPS (Rs)	30.9	49.5	69.2
Consensus EPS (Rs)	30.9	48.6	64.1
Adj. ROAE (%)	8.5	12.3	15.1
Adj. P/E (x)	20.1	12.6	9.0
EV/EBITDA (x)	8.1	7.3	5.6
Adj. EPS growth (%)	(61.8)	60.3	39.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 3,000 | ⮝ 2%

THERMAX | Capital Goods | 06 November 2023

Sound operations, measured commentary

- **Q2 operating performance strong with 210bps YoY margin expansion, half of which management believes is sustainable**
- **Guidance on order pipeline measured; new energy investments to continue**
- **TP raised to Rs 3,000 (vs. Rs 2,600) upon rollover and hike in FY24/FY25 EPS by 12%/9%; retain HOLD**

Vinod Chari | Arshia Khosla
Swati Jhunjhunwala
research@bobcaps.in

Strong operating performance: TMX reported topline growth of 11% YoY to Rs 23bn, with gross and EBITDA margin expansion of 380bps and 210bps YoY to 44.4% and 8.9% respectively. Management expects only half of the operating margin gains to sustain as employee costs will trend upward now that a large project is nearly complete. Adj. PAT rose 45% YoY to Rs 1.6bn during the quarter, largely due to operational leverage.

Industrial segment shines: The industrial infrastructure and industrial products segments – together ~90% of sales – delivered robust topline growth of 18% YoY and 13% YoY respectively, while the green solutions and chemical businesses declined. On the EBIT margin front, all segments clocked expansion YoY.

Order pipeline commentary measured: Order inflow stood at Rs 19.7bn for the quarter, a slight dip of 2% YoY, with TMX indicating that one key order worth Rs 3bn-4bn will spill into H2FY24. The company closed Q2 with a Rs 102.6bn order book (+8.2% YoY), of which the power and metals segments accounted for more than a quarter. Management continues to see enquiries across most end-customer segments, except for refining and petrochemicals where it anticipates a lull in ordering for 4-5 quarters followed by a pickup.

Investments continue in new energy initiatives: TMX continues to invest in the solar business under subsidiary FEPL and in biomass-to-hydrogen under TOESL, though these will take time to evolve. It has invested Rs 2.5bn so far in these entities. Management plans to cap its equity at Rs 7bn-8bn in both subsidiaries and expects the two entities to take on combined debt of Rs 15bn-20bn without recourse to TMX's balance sheet.

Retain HOLD: We increase our FY24/FY25 EPS forecasts by 12%/9% on better profitability in H1FY24 and a positive outlook. On rolling valuations forward to Sep'25E, we have a revised TP of Rs 3,000 (earlier Rs 2,600). Our TP is set at an unchanged 40x P/E multiple, in line with the stock's 5Y average.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TMX IN/Rs 2,941
Market cap	US$ 4.3bn
Free float	32%
3M ADV	US$ 2.2mn
52wk high/low	Rs 3,230/Rs 1,831
Promoter/FPI/DII	62%/12%/16%

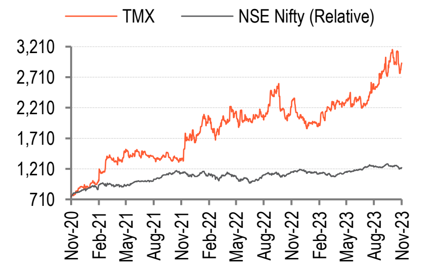
Source: NSE | Price as of 3 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	80,898	95,857	1,09,346
EBITDA (Rs mn)	5,976	7,621	9,558
Adj. net profit (Rs mn)	4,507	5,981	7,791
Adj. EPS (Rs)	37.8	50.2	65.4
Consensus EPS (Rs)	37.8	43.3	60.1
Adj. ROAE (%)	12.2	14.8	17.4
Adj. P/E (x)	77.8	58.6	45.0
EV/EBITDA (x)	59.6	46.4	38.0
Adj. EPS growth (%)	44.3	32.7	30.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 4,200 | ▲ 15%

AIA ENGINEERING | Capital Goods | 06 November 2023

Volume spillover to FY25

- **Q2 sales flat YoY but operating leverage enables EBIDTA margin gains of 600bps to 29.5%**
- **FY24 volume guidance cut from 330,000t to 310,000t with balance likely spilling over to FY25; capacity expansion plans on track**
- **We revise FY24/FY25 EPS -1%/+5% to bake in guidance and Q2 print; retain BUY with revised TP of Rs 4,200 (vs. Rs 4,000)**

Vinod Chari | Swati Jhunjhunwala
Arshia Khosla
research@bobcaps.in

Topline flat, margins expand: AIAE's Q2FY24 topline was flattish at Rs 13bn. However, gross/EBITDA margin expanded 110bps/600bps YoY to 57.8%/29.5% due to a reduction in raw material and freight costs combined with a better product mix. PAT grew 32% YoY to Rs 3.2bn.

FY24 volume guidance to be missed by a quarter: AIAE reduced its forecast of incremental volumes of 30,000mt for FY24 to 10,000-15,000mt, totalling to ~310,000mt (330,000t earlier). Of this, 150,000mt of production was achieved in H1FY24. The guidance cut was attributed to international mining orders that take ~1-1.5 years for approval and hence possible delays of 1-2 quarters at most, pushing the incremental volumes to FY25. AIAE continues to guide for a 22-24% EBITDA margin as a bottom range in the medium term.

Capex to spur growth: To capitalise on the conversion trend from forged media to high chrome mill internals in the mining industry, AIAE is expanding capacity from 440,000mt to 520,000mt by the end of FY24 with brownfield capex of Rs 2bn. The company has a healthy balance sheet (net cash of Rs 31.4bn in H1FY24) with negligible leverage and strong free cash flow generation. We believe this will keep ROCE at ~20% for the fiscal.

Brazilian market could open up in near term: The 5Y sunset review for anti-dumping duty in Brazil has begun. AIAE had supplied 6,000-8,000mt to Brazil in FY23 and expects to export a marginally higher quantity in FY24. Management is not worried about the ruling as the worst possible scenario is a continuation of the status quo, i.e., no duty removal.

Maintain BUY: We adjust our FY24/FY25 EPS estimates by -1%/+5% to incorporate the Q2FY24 numbers as well as volume spillover to FY25. Following rollover of valuations to Sep'25E, we have a revised TP of Rs 4,200 (from Rs 4,000). Our TP is set at an unchanged 30x P/E multiple – a 10% premium to the stock's 5Y average. We retain BUY as we remain positive on AIAE's structural growth story.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AIAE IN/Rs 3,637
Market cap	US$ 4.2bn
Free float	42%
3M ADV	US$ 3.2mn
52wk high/low	Rs 3,830/Rs 2,384
Promoter/FPI/DII	59%/18%/21%

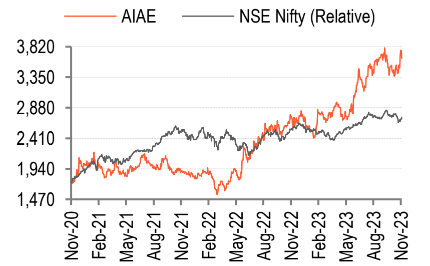
Source: NSE | Price as of 6 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	49,088	52,304	57,393
EBITDA (Rs mn)	12,406	14,081	15,511
Adj. net profit (Rs mn)	10,559	11,639	12,770
Adj. EPS (Rs)	112.0	123.4	135.4
Consensus EPS (Rs)	112.0	118.8	128.5
Adj. ROAE (%)	20.2	18.9	17.8
Adj. P/E (x)	32.5	29.5	26.9
EV/EBITDA (x)	27.7	24.0	21.8
Adj. EPS growth (%)	70.4	10.2	9.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 4,200 | ∀ 5%

HITACHI ENERGY | Capital Goods | 06 November 2023

Chip constraints receding

- **Q2 EBITDA margin rose sequentially to 5.3% as chip constraints eased but PAT still down 33% YoY**
- **Management now expects double-digit margins only by end-FY25 led by domestic projects (HVDC, rail) and improving exports**
- **We cut FY24/FY25 EPS by 15%/12% following a subpar H1, yielding a new TP of Rs 4,200 (vs. Rs 4,400); retain HOLD**

Vinod Chari | Arshia Khosla
Swati Jhunjhunwala
research@bobcaps.in

Sequentially better numbers: Hitachi Energy's (Hitachi) Q2FY24 revenue grew 18% QoQ (+10% YoY) to Rs 12.3bn and the easing chip shortage aided a 210bps sequential improvement in EBITDA margin to 5.3% (albeit with a contraction of 150bps YoY). PAT came in at Rs 247mn compared to Rs 24mn last quarter, though this is still 33% lower on a YoY basis.

Chip constraints reduce: Hitachi has been plagued by chip shortages during the past few quarters and estimates that this caused a revenue loss of Rs 680mn in Q1FY24 and Rs 500mn in Q4FY23. Management indicated that supply chain constraints have receded in Q2 and will continue to normalise going forward.

Order inflow strong: Q2 order intake soared 52% YoY to Rs 17.5bn with a 25% export share, taking the backlog to Rs 75.9bn which signifies 22 months of revenue visibility. This compares well with the Rs 70.2bn backlog in Q1FY24 and Rs 70.7bn in FY23. Transmission projects from multiple utilities, especially related to the new green energy corridors, along with renewable orders propelled the strong growth.

Outlook remains positive: Management sees high-voltage direct current (HVDC) lines as a big domestic opportunity, with potential for at least one Rs 80bn-100bn tender to be floated every year, half of which would constitute Hitachi's addressable market. In railways, opportunities continue in high-speed rail, locomotives and trainsets. From an open-ended timeframe of FY25 earlier, management now expects to reach a double-digit EBITDA margin run-rate only by the close of that fiscal.

Retain HOLD: We remain positive on Hitachi's order flow prospects but cut our FY24/FY25 EPS estimates by 15%/12% to reflect the below-expected H1FY24 performance. Upon rolling valuations forward to Sep'25E, our TP reduces to Rs 4,200 (vs. Rs 4,400) based on an unchanged 45x P/E multiple. The stock price has remained flat since our last quarterly update of 25 Jul 2023 when we had downgraded our rating from BUY to HOLD – we maintain our stance and await a better entry point.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	POWERIND IN/Rs 4,405
Market cap	US$ 2.3bn
Free float	25%
3M ADV	US$ 1.6mn
52wk high/low	Rs 4,800/Rs 2,840
Promoter/FPI/DII	75%/5%/2%

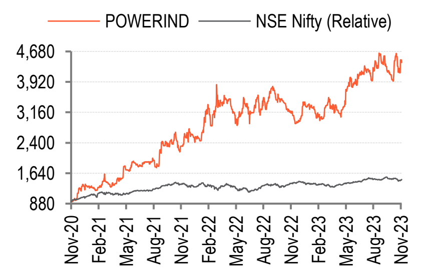
Source: NSE | Price as of 6 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	44,685	56,851	66,149
EBITDA (Rs mn)	2,359	4,013	5,967
Adj. net profit (Rs mn)	939	2,094	3,541
Adj. EPS (Rs)	22.2	49.4	83.5
Consensus EPS (Rs)	22.2	58.0	95.0
Adj. ROAE (%)	8.0	16.0	22.4
Adj. P/E (x)	198.8	89.2	52.7
EV/EBITDA (x)	79.0	46.2	31.4
Adj. EPS growth (%)	(44.0)	123.0	69.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 330 | ⮙ 15%

CROMPTON GREAVES | Consumer Durables | 06 November 2023

ECD robust; lighting and kitchen appliances falter

- **ECD revenue growth ahead of peers but lighting segment declines in Q2**
- **Management reiterates focus on scaling up distribution and spurring growth in ecommerce and rural markets**
- **Our TP moves to Rs 330 (vs. Rs 360) as we trim FY24/FY25 EPS by 7%/11% and roll valuations over; maintain BUY**

Vinod Chari | Arshia Khosla
Swati Jhunjhunwala
research@bobcaps.in

Mixed bag: Crompton reported muted 5% YoY revenue growth to Rs 17.8bn in Q2FY24 due to softness in lighting and kitchen appliances (Butterfly Gandhimathi: BGAL). The electrical consumer durables (ECD) business bettered industry growth, whereas its lighting segment declined due to price erosion in the B2C category. Gross margin contracted 80bps YoY to 31.3% and EBITDA margin shed 160bps to 9.8% on higher A&P spend, pulling adj. PAT down 20% YoY to Rs 1bn. Management expects cost synergies to kick in ahead coupled with a better product mix.

ECD improves; lighting falters: ECD revenue at Rs 12.4bn increased 17% YoY, accompanied by an EBIT margin of 14.2% (-290bps), led by strong sales momentum in fans (+18%) and domestic appliances (+17%). Pumps also registered 10% YoY growth. Crompton's ECD topline growth compares favourably against peers, such as HAVL (which reported a decline of 5% YoY), POLYCAB (+8%) and VGRD (+5%), while matching ORIENTEL's print (+17%). Lighting revenue at Rs 2.4bn dipped 12% YoY but with a stronger EBIT margin of 10.5%. Subsidiary BGAL clocked a 17% YoY drop in revenue to Rs 3bn and 440bps contraction in EBIT margin to 6.6%.

Premium thrust to strengthen topline: Management's strategy going forward is to boost the share of premium products in its fans and lighting portfolios. In fans, this includes higher quality products and higher price points, apart from a larger share of energy-efficient BLDC (brushless direct current) fans. The revenue share of premium fans has already risen from the high teens to ~28% of Crompton's fan portfolio mix in Q2. In lighting, the company is targeting a higher contribution from ceiling lighting solutions, which have a better margin profile. Per the company, a smart go-to-market strategy has helped double e-commerce business to Rs 1bn.

Maintain BUY: We pare our FY24/FY25 EPS estimates by 7%/11% given slower growth than estimated in Q2. We value the stock at an unchanged P/E multiple of 30x – a 15% discount to the 5Y average – and roll valuations over to Sep'25E, arriving at a revised TP of Rs 330 (vs. Rs 360). Though the energy rating change has led to uncertainty in the fans industry, we believe Crompton will do better on account of its market leadership and growing share in the premium segment.

Key changes

Target	Rating
▼	◄►

Ticker/Price	CROMPTON IN/Rs 287
Market cap	US$ 2.2bn
Free float	100%
3M ADV	US$ 9.6mn
52wk high/low	Rs 377/Rs 251
Promoter/FPI/DII	0%/40%/44%

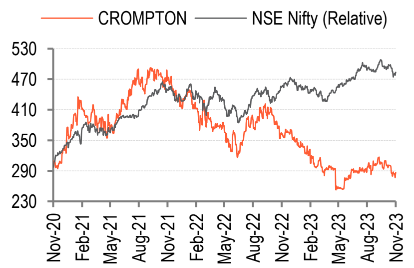
Source: NSE | Price as of 3 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	68,696	79,054	91,036
EBITDA (Rs mn)	7,705	8,443	9,711
Adj. net profit (Rs mn)	4,632	5,420	6,474
Adj. EPS (Rs)	7.3	8.5	10.2
Consensus EPS (Rs)	7.3	8.0	10.0
Adj. ROAE (%)	18.1	18.8	19.3
Adj. P/E (x)	39.4	33.6	28.2
EV/EBITDA (x)	24.3	21.0	18.0
Adj. EPS growth (%)	(21.7)	17.0	19.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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SELL
TP: Rs 2,343 | ⩔ 24%

ESCORTS | Automobiles | 06 November 2023

No major positive surprises; maintain SELL

- **Q2 tractor volumes dipped 7% YoY as sales flagged towards the quarter's end after an initial pickup**
- **Lower raw material cost aided gross/EBITDA margin expansion of ~470bps YoY each**
- **Lower volumes and market share remain concerns; maintain SELL with TP unchanged at Rs 2,343**

Milind Raginwar | Shree Kirloskar
research@bobcaps.in

Performance driven by realisations: Escorts' Q2FY24 revenue grew 9% YoY (-12% QoQ) to Rs 20.5bn as realisation gains offset muted volumes. Tractor volumes dipped 7% YoY (-17% QoQ) owing to a weakening of sales towards the end of the quarter after an early pickup. Net realisation per vehicle (NRPV) in the tractor segment grew 1% YoY (+3% QoQ) to Rs 0.63mn on the back of price hikes aggregating 1.7% taken by the company towards the end of Q1 and Q2FY24.

Rail and CE segments post strong growth: Revenue from the railways and construction equipment (RE and CE) segments grew by a robust 29% and 72% YoY respectively. Agricultural machinery, however, fell 4% YoY. Segmental EBIT margin improved across the board, coming in at 12.2% for agri machinery (vs. 8.4% in the year-ago quarter), 10% for CE (1%) and 18.5% for RE (14.6%). The tractor, CE and RE businesses contributed 70%, 20% and 10% of revenue respectively.

Receding raw material inflation aids margin gains: Raw material cost (inventory adjusted) stayed flat YoY (-15% QoQ) at Rs 13.8bn as commodity price inflation was contained. As a result, gross margin jumped to 32.3% (+470bps YoY, +210bps QoQ) and EBITDA margin rose to 12.9% (+476bps YoY, -110bps QoQ). Adj. PAT grew 47% YoY (-17% QoQ) to Rs 2.4bn. After a 13.5% print in H1, management is targeting a 14-15% EBITDA margin by FY24-end if commodity prices stay stable.

Amalgamation nod likely by Q4FY24: The amalgamation of Escorts Kubota India and Kubota Agricultural Machinery India with Escorts Kubota has received National Company Law Tribunal (NCLT) approval and is awaiting shareholder approval.

Maintain SELL: Escorts' tractor volumes have fallen 4% YoY during H1FY24. This apart, the company has lost substantial market share in the high-end 31-40HP segment, from 14.5% in FY18 to 11.1% in FY23, and stagnated at ~10.5% in the 44-50HP segment, with only minimal gains seen in H1FY24. Exports too have been weak and though the amalgamation with Kubota is likely to boost sales, clarity will emerge only in late-FY25. We maintain SELL and continue to value the stock at 20x FY25E EPS at marginal premium to LT average – for an unchanged TP of Rs 2,343.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ESCORTS IN/Rs 3,080
Market cap	US$ 4.9bn
Free float	63%
3M ADV	US$ 17.3mn
52wk high/low	Rs 3,440/Rs 1,808
Promoter/FPI/DII	37%/22%/8%

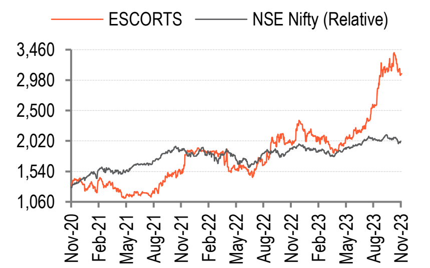
Source: NSE | Price as of 6 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	84,287	99,836	1,09,970
EBITDA (Rs mn)	7,775	12,125	14,324
Adj. net profit (Rs mn)	6,897	10,516	12,486
Adj. EPS (Rs)	52.3	95.2	113.0
Consensus EPS (Rs)	52.3	100.0	119.0
Adj. ROAE (%)	8.4	11.5	12.1
Adj. P/E (x)	58.9	32.4	27.3
EV/EBITDA (x)	51.2	33.7	27.7
Adj. EPS growth (%)	(6.4)	82.0	18.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
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