FIRST LIGHT

08 February 2024

RESEARCH

AIA ENGINEERING | TARGET: Rs 4,000 | -3% | HOLD

Soft quarter, volume growth uncertain; cut to HOLD

BOB ECONOMICS RESEARCH | BOB ESSENTIAL COMMODITIES INDEX

How prices look in Jan'24

SYRMA SGS | TARGET: Rs 550 | +5% | HOLD

Margin slide continues; retain HOLD

BRITANNIA INDUSTRIES | TARGET: Rs 5,980 | +18% | BUY

Faster volume growth to boost profitability

Daily macro indicators

Indicator	05-Feb	06-Feb	Chg (%)
US 10Y yield (%)	4.16	4.10	(6bps)
India 10Y yield (%)	7.10	7.09	(0bps)
USD/INR	83.06	83.06	0.0
Brent Crude (US$/bbl)	78.0	78.6	0.8
Dow	38,380	38,521	0.4
Hang Seng	15,510	16,137	4.0
Sensex	71,731	72,186	0.6
India FII (US$ mn)	**02-Feb**	**05-Feb**	**Chg ($ mn)**
FII-D	350.1	104.8	(245.3)
FII-E	27.6	91.9	64.3

Source: Bank of Baroda Economics Research

SUMMARY

AIA ENGINEERING

- Q3 topline and margins contracted due to change in product mix; FY24 volume guidance cut from 310,000t to 300,000t
- Uncertainty over whether volume shortfall will be met in FY25; long-term EBITDA margin target of 20-22% maintained
- Downgrade to HOLD with lower TP of Rs 4,000 (vs. Rs 4,200) as we pare FY25/FY26 EPS by ~6% each on softer volume outlook

Click here for the full report.

INDIA ECONOMICS: BOB ESSENTIAL COMMODITIES INDEX

BoB Essential Commodity Index (BoB ECI) has fallen by 1% in Jan'24, on a sequential basis. This is the sharpest drop since Sep'23. The moderation in the index was broad based with most contribution coming from correction in vegetable prices. Thus against this backdrop, we expect headline CPI to settle at ~4.7% in Jan'24. Favourable base would also provide the desired cushion to this number.

Click here for the full report.

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SYRMA SGS

- Q3 topline growth strong at 38% YoY but EBITDA margin shrank 380bps to 5.5% on weak product mix
- Revenue guidance maintained for FY24 and FY25; however, EBITDA margin guided to remain soft
- We cut FY24/FY25/FY26 EPS by 4%/12%/1% and roll forward to new TP of Rs 550 (vs. Rs 560); maintain HOLD

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BRITANNIA INDUSTRIES

- Urban markets grew ahead of rural centres largely driven by premium portfolio; volume growth revived to ~5.5% YoY in Q3
- Steady expansion of distribution footprint along with added investment in focus states to bolster growth
- Expect higher volumes and sustained margins; maintain BUY with revised TP of Rs 5,980 (vs. Rs 5,844) on rollover

Click here for the full report.

RESULT REVIEW

HOLD
TP: Rs 4,000 | ∀ 3%

AIA ENGINEERING | Capital Goods | 07 February 2024

Soft quarter, volume growth uncertain; cut to HOLD

- **Q3 topline and margins contracted due to change in product mix; FY24 volume guidance cut from 310,000t to 300,000t**
- **Uncertainty over whether volume shortfall will be met in FY25; long-term EBITDA margin target of 20-22% maintained**
- **Downgrade to HOLD with lower TP of Rs 4,000 (vs. Rs 4,200) as we pare FY25/FY26 EPS by ~6% each on softer volume outlook**

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Topline and margins contract: AIAE's Q3FY24 topline fell 5% YoY to Rs 12bn. Additionally, gross margin and EBITDA margin contracted by 490bps and 320bps YoY respectively to 58.9% and 26.6% due to a change in product mix that saw realisations decline from Rs 165/kg in the year-ago quarter to Rs 154/kg. PAT dropped 21% YoY to Rs 2.8bn

FY24 volume guidance cut yet again: Management now expects volumes of ~300,000t for FY24, down from 310,000t guided earlier on account of delayed order decisions by clients. Thereafter, AIAE is guiding for volume growth of 30,000t per annum but is uncertain whether the shortfall for FY24 will be met in FY25. The company continues to guide for at least 20-22% EBITDA margins over the medium term.

Capex plans on track: AIAE incurred capex of Rs 1.5bn during 9MFY24, with another Rs 500mn expected in Q4. Capex for FY25 is estimated at Rs 1.5bn-2bn. The company has identified capex propositions of Rs 5bn in total, of which Rs 2bn pertains to the griding media plant (to be commissioned towards the end of FY25), Rs 2bn toward debottlenecking efforts and Rs 1bn towards renewables. AIAE maintains a high net cash balance of Rs 31bn as it remains open to potential acquisition opportunities. Working capital cycle was fairly stable during the quarter.

Red Sea conflict to have marginal impact: Management believes the impact of the Red Sea crisis will push up freight costs in coming quarters but sees only marginal impact on its operations as most of these costs are likely to be passed through to customers.

Cut to HOLD on high valuations, order uncertainty: We cut our FY25/FY26 EPS estimates by ~6% each considering the lower incremental volumes expected in FY25. Following the rollover of valuations to Dec'25E, we arrive at a revised TP of Rs 4,000 (Rs 4,200), wherein we value the stock on an unchanged 30x P/E multiple. Given the ~20% run-up in stock price over the last quarter, we find risk-reward unfavourable and downgrade our rating from BUY to HOLD.

Key changes

Target	Rating
▼	▼

Ticker/Price	AIAE IN/Rs 4,129
Market cap	US$ 4.7bn
Free float	42%
3M ADV	US$ 4.0mn
52wk high/low	Rs 4,630/Rs 2,620
Promoter/FPI/DII	59%/18%/21%

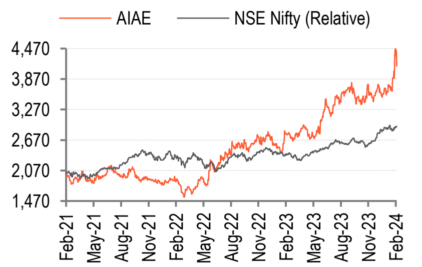
Source: NSE | Price as of 7 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	49,088	52,304	54,177
EBITDA (Rs mn)	12,406	14,005	14,466
Adj. net profit (Rs mn)	10,559	11,534	11,960
Adj. EPS (Rs)	112.0	122.3	126.8
Consensus EPS (Rs)	112.0	118.8	128.5
Adj. ROAE (%)	20.2	18.7	16.8
Adj. P/E (x)	36.9	33.8	32.6
EV/EBITDA (x)	31.4	27.5	26.6
Adj. EPS growth (%)	70.4	9.2	3.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOB ESSENTIAL COMMODITIES INDEX

07 February 2024

How prices look in Jan'24

Dipanwita Mazumdar
Economist

BoB Essential Commodity Index (BoB ECI) has fallen by 1% in Jan'24, on a sequential basis. This is the sharpest drop since Sep'23. The moderation in the index was broad based with most contribution coming from correction in vegetable prices. Thus against this backdrop, we expect headline CPI to settle at ~4.7% in Jan'24. Favourable base would also provide the desired cushion to this number.

However, what needs to be closely watched is the evolution of these numbers especially vegetable prices. In Feb'24, it is already showing some tendency to return to its mean level, thus showing a slight uptrend. But overall outlook seems favourable for inflation from the standpoint of demand-supply dynamics, stable energy price and finely balanced revenue spending of the government, which in turn might be positive for inflation in the near term.

To get an idea about the calculation of the index, refer to our *previous edition* of BoB ECI.

Price picture using BoB Essential Commodity Index:

- On MoM basis, BoB ECI fell by 1% in Jan'24 from 0.4% decline seen in Dec'23. This is the sharpest pace of sequential decline in the index since Sep'23. 18 out of 20 commodities that is captured in the index have registered a decline in Jan'24 compared to Dec'23. Among them, sharpest correction was visible in case of Onion prices, which fell by 24.3% in Jan'24 from 14.8% decline seen in Dec'23. Other vegetables such as Tomato and Potato also continued its downward spiral, falling by 14.9% and 5.1%, respectively, in Jan'24. Retail prices of all categories of edible oils such as Groundnut, Mustard, Soya and Sunflower Oil, continued to soften. Even price of pulses saw a correction with Tur/Arhar prices falling the most among other categories of pulses, by 2.6% in Jan'24. Cereal prices moderated compared to last month. Prices of Sugar and Gur also inched down.
- **On YoY basis, BoB ECI softened to 3.9% in Jan'24.** 17 out of 20 commodities have registered softening of prices. Notable ones include Onion, Tomato, some items of pulses such as Tur/Arhar, Moong, cereals such as Atta (wheat) and other miscellaneous items of food such as milk, sugar, tea etc.
- For the first 5 days of Feb-24, BoB ECI has fallen by another 0.3% on MoM basis. However, as seen in the vegetable prices data, much of the correction has already happened and the difference between retail and wholesale price of these vegetables have also come down, which suggests that much of the pass through has occurred. So the evolution of price data for these volatile items, needs to be monitored carefully in the coming days.

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HOLD
TP: Rs 550 | ⮝ 5%

SYRMA SGS | Consumer Durables | 07 February 2024

Margin slide continues; retain HOLD

- **Q3 topline growth strong at 38% YoY but EBITDA margin shrank 380bps to 5.5% on weak product mix**
- **Revenue guidance maintained for FY24 and FY25; however, EBITDA margin guided to remain soft**
- **We cut FY24/FY25/FY26 EPS by 4%/12%/1% and roll forward to new TP of Rs 550 (vs. Rs 560); maintain HOLD**

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Strong topline, soft margins: Syrma posted strong topline growth of 38% YoY to Rs 7.1bn but a steep 380bps YoY EBITDA margin reduction to 5.5% due to high raw material costs and a larger revenue share of plain-vanilla electronics manufacturing services (EMS) as compared to original design manufacturing (ODM) in its consumer vertical.

Segment performance sound, healthcare stands out: The company's auto vertical grew 40% YoY, consumer 24%, industrials 21%, and IT and railways 26%, while healthcare surged 7.5x. Syrma has a Rs 4.8bn order book, largely consisting of projects in the consumer segment, and expects ~Rs 4.5bn of these to be fulfilled over the next 12 months.

Revenue guidance intact but margin guidance cut: Management retained its revenue guidance of Rs 30bn for FY24 and continues to expect a ~35% growth rate in FY25 and FY26. The FY24 outlook implies revenue of Rs 10bn in Q4FY24, of which the company has already clocked Rs 3.6bn in the month of January. EBITDA margin is guided to be lower than earlier anticipated, at 7-7.5% for FY24 and FY25, on account of a reduced share of ODM business in the consumer segment. This is also below the 9.2% EBITDA margin reported by the company in FY23.

New capacity to boost growth: Syrma has incurred capex of Rs 2.4bn in 9MFY24 and expects to spend Rs 400mn-500mn in Q4FY24. It has added new manufacturing facilities in Gurgaon and Noida and is setting up plants in Bawal (Haryana) and Pune covering 350,000sq ft. This apart, surface mount technology (SMT) capacity has been raised to 6.3mn components per hour from 3.2mn, which should help the company achieve its guided growth trajectory

Maintain HOLD: Syrma is facing margin headwinds due to the shift in product mix in its consumer vertical, with ODM share guided to remain low till FY25. We reduce our FY24/FY25/FY26 EPS estimates by 4%/12%/1% to build in lower margins. On rolling valuations over to Dec'25E, we have a new TP of Rs 550 (vs. Rs 560), based on an unchanged target P/E of 38x.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SYRMA IN/Rs 524
Market cap	US$ 1.1bn
Free float	53%
3M ADV	US$ 5.2mn
52wk high/low	Rs 705/Rs 251
Promoter/FPI/DII	47%/5%/9%

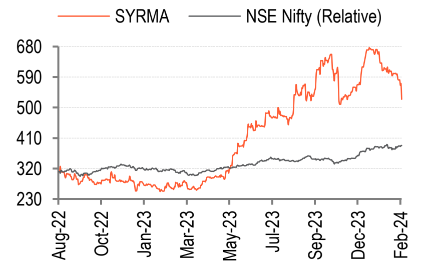
Source: NSE | Price as of 7 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	20,484	30,014	40,165
EBITDA (Rs mn)	1,878	2,249	3,304
Adj. net profit (Rs mn)	1,193	1,468	2,073
Adj. EPS (Rs)	6.7	8.3	11.7
Consensus EPS (Rs)	6.7	9.3	13.0
Adj. ROAE (%)	11.3	9.2	11.8
Adj. P/E (x)	77.7	63.1	44.7
EV/EBITDA (x)	49.4	41.2	28.1
Adj. EPS growth (%)	56.1	23.0	41.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 5,980 | ⮝ 18%

BRITANNIA INDUSTRIES | Consumer Staples | 07 February 2024

Faster volume growth to boost profitability

- **Urban markets grew ahead of rural centres largely driven by premium portfolio; volume growth revived to ~5.5% YoY in Q3**
- **Steady expansion of distribution footprint along with added investment in focus states to bolster growth**
- **Expect higher volumes and sustained margins; maintain BUY with revised TP of Rs 5,980 (vs. Rs 5,844) on rollover**

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Volumes pick up pace: BRIT's Q3FY24 revenue growth was flat at 1.4% YoY, but volumes increased 5.5% YoY as compared to 0.2% in Q2. While the company continued to take price corrections in the wake of sustained regional competition, management highlighted higher growth in urban markets during the quarter as the premium portfolio gained traction. BRIT expects continued growth momentum in coming quarters and guides for a high-single-digit uptick in volumes. The company's domestic market share inched up in Q3 after a flattish trend for the last couple of quarters.

Focused on deepening presence in Hindi belt: BRIT saw continued market share gains in its focus states of Uttar Pradesh (UP) and Bihar during the quarter. The company has set up its second facility in Bihar and is committed to making further investments in UP as well. These investments are expected to drive growth and also yield operational efficiencies for the company.

Margins flat: Gross margin expanded by 20bps YoY and 100bps QoQ owing to favourable raw material prices, whereas EBITDA margin contracted by 20bps YoY and 40bps QoQ to 19.3% largely due to higher employee cost.

Distribution network widens: Direct distribution rose to 2.76mn outlets and the rural distribution footprint increased to 29k distributors at the end of Q3FY24. Despite a challenging demand environment, the company continues to grow 2.4x faster in focus states as compared to its markets in the rest of India.

Maintain BUY: BRIT has delivered a muted 9MFY24 performance as local competition intensified amid easing input costs, although we note the recovery in Q3 volume growth to 5.5%. We believe the company's focus on innovation, brand investment, rural reach expansion and product launches will spur profitable growth. The stock is trading at 50.3x/45x FY25E/FY26E EPS. We maintain BUY and continue to value the stock at a P/E multiple of 53x – ~20% premium to long term average multiple – while rolling valuations forward to FY26E, yielding a revised TP of Rs 5,980 (earlier Rs 5,844).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BRIT IN/Rs 5,078
Market cap	US$ 14.9bn
Free float	49%
3M ADV	US$ 19.4mn
52wk high/low	Rs 5,386/Rs 4,153
Promoter/FPI/DII	51%/19%/30%

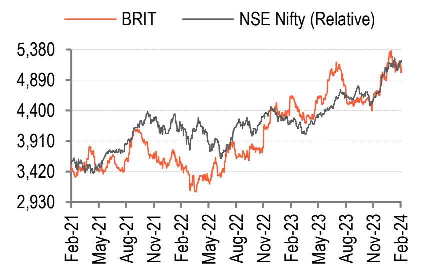
Source: NSE | Price as of 7 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	163,006	169,082	188,273
EBITDA (Rs mn)	28,309	31,988	35,888
Adj. net profit (Rs mn)	19,461	21,584	24,309
Adj. EPS (Rs)	80.8	89.6	100.9
Consensus EPS (Rs)	80.8	89.5	102.0
Adj. ROAE (%)	65.1	47.5	46.0
Adj. P/E (x)	62.9	56.7	50.3
EV/EBITDA (x)	43.2	38.2	34.1
Adj. EPS growth (%)	27.6	10.9	12.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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