FIRST LIGHT

13 February 2023

RESEARCH

BOB ECONOMICS RESEARCH | IIP

IIP growth moderates

VOLTAS | TARGET: Rs 910 | +7% | HOLD

Subpar quarter as EMP losses deepen

AUROBINDO PHARMA | TARGET: Rs 635 | +35% | BUY

Modest Q3; no respite on margin front

SHREE CEMENT | TARGET: Rs 24,656 | +3% | HOLD

Cost efficiencies to aid performance

AMBUJA CEMENT | TARGET: Rs 387 | +7% | HOLD

Steady growth continues, maintain HOLD

JK CEMENT | TARGET: Rs 3,371 | +20% | BUY

Steep costs likely to soften in Q4; maintain BUY

METALS & MINING

Steel cycle recovery underway – AMNS

Daily macro indicators

Indicator	08-Feb	09-Feb	Chg (%)
US 10Y yield (%)	3.61	3.66	5bps
India 10Y yield (%)	7.34	7.34	0bps
USD/INR	82.49	82.52	0.0
Brent Crude (US$/bbl)	85.1	84.5	(0.7)
Dow	33,949	33,700	(0.7)
Hang Seng	21,284	21,624	1.6
Sensex	60,664	60,806	0.2
India FII (US$ mn)	**07-Aug**	**08-Feb**	**Chg ($ mn)**
FII-D	(99.6)	(150.9)	(51.2)
FII-E	(266.9)	(55.2)	211.7

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: IIP

IIP growth eased to 4.3% in Dec'22 from 7.3% in Nov'22, led by a sharp moderation in manufacturing. Within manufacturing, a broad-based slowdown was visible led by computers, wearing apparel and tobacco. Within use-based classification, consumer durable output plunged sharply. With rising fears of a global slowdown, industrial output may come under pressure as exports slowdown. Domestic demand also continues to remain muted, especially in the rural area. Also, with the opening of China, some upward pressure on commodity prices cannot be ruled out which will further impact profitability and production.

Click here for the full report.

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VOLTAS

- UCP revenue up 11% YoY but EBIT margin band seems to have softened to 7-9% from 12-14% earlier
- EMP posts losses yet again as uncertainty persists over overseas contract withdrawal
- We lower FY23/FY24 EPS by 22%/3% and cut our target P/E to 40x (vs. 43x); post rollover, our TP moves to Rs 910 (vs. Rs 950)

Click here **for the full report.**

AUROBINDO PHARMA

- Q3 revenue up 7% YoY to Rs 64bn led by growth in the US and EMs along with recovery in ARV business
- EBITDA/PAT disappoint (-6%/-19% YoY) on higher R&D expense, finance cost and taxes; EBITDA margin down 200bps YoY
- We lower FY23-FY24 EPS by ~15% each; on rollover, our TP remains at Rs 635

Click here **for the full report.**

SHREE CEMENT

- Volume-led (+23%) revenue growth of 15% YoY in Q3 as realisations fell due to weak pricing in key regions
- Cost control commendable (+1% YoY); efforts to improve efficiencies likely to yield results in the short/medium term
- Current valuations fair at 14x FY25E EV/EBITDA; maintain HOLD with an unchanged TP of Rs 24,656

Click here **for the full report.**

AMBUJA CEMENT

- Q4 revenue growth of 11% YoY contributed by volume gains of 8% with realisations up 3%
- Cost inflation well in check; guided to moderate in the near term, helping EBITDA/t retrace to Rs 1,000/t
- Maintain HOLD with SOTP-based TP of Rs 387 as positives baked into valuations

Click here **for the full report.**

JK CEMENT

- Grey cement volumes grew 23% YoY in Q3 backed by capacity addition in Central India and presence in remunerative areas guarding prices
- Mix of high-cost inventory, one-off marketing expense and higher clinker transport hit profits but expected to recede in Q4
- Maintain BUY with an unchanged TP of Rs 3,371, based on 12.5x FY25E EV/EBITDA

Click here for the full report.

METALS & MINING

- AMNS' Q4CY22 earnings commentary confirms bottoming out of the global steel sector in the December quarter
- Management has a positive CY23 demand outlook on expected stability in China and 2-3% growth in ROW
- We are constructive on Indian ferrous players and prefer TATA (BUY, TP Rs 140) and JSP (BUY, TP Rs 670)

Click here for the full report.

IIP

10 February 2023

IIP growth moderates

Aditi Gupta
Economist

IIP growth eased to 4.3% in Dec'22 from 7.3% in Nov'22, led by a sharp moderation in manufacturing. Within manufacturing, a broad-based slowdown was visible led by computers, wearing apparel and tobacco. Within use-based classification, consumer durable output plunged sharply. With rising fears of a global slowdown, industrial output may come under pressure as exports slowdown. Domestic demand also continues to remain muted, especially in the rural area. Also, with the opening of China, some upward pressure on commodity prices cannot be ruled out which will further impact profitability and production.

IIP growth lags: IIP growth slowed down to 4.3% in Dec'22 from 7.3% in Nov'22. This was below our estimate of a 5% increase. A sharp decline in exports in the same period (exports fell 12.2% in Dec'22) may explain the lower print. Manufacturing output moderated to 2.6% in Dec'22 from 6.4% in Nov'22. Slowdown in manufacturing output was broad-based with 20 out of the 23 sub-industries under this group showing a deceleration. Within this, production of computers and other electricals fell sharply by 37% versus an increase of 3% in Nov'22. Manufacture of wearing apparel (-21.9% versus -11.7%) and tobacco products (-12.1% versus -5%) continued to contract. On the other hand, 3 industries, i.e., pharma and chemicals (+16%), paper and paper products (+4.1%) and coke and refined products (+2.1%) showed an improvement.

Moderation was also seen in electricity production (10.4% versus 12.7% in Nov'22). Mining production was virtually stagnant at 9.8% (9.7% in Nov'22). In Q3FY23, IIP growth averaged 2.5% versus 0.7% in Q2FY23 and 2.1% in Q3FY22. On a FYTD basis, IIP growth stands at 5.4%.

Consumer durable output declines sharply: Within use-based, while primary goods output accelerated to 8.3% in Dec'22 from 4.8% in Nov'22, all output in all other segments lost momentum. Output of consumer durables fell sharply by 10.4% in Dec'22 from 5.3% in Nov'22 due to weakness in global demand. Intermediate goods output also contracted by 0.3% against an increase of 3.3% in Nov'22. Capital goods production also moderated to 7.6% in Dec'22, after increasing by 21.6% in Nov'22. Output of non-consumer durable segment also slowed down to 7.2% compared with 9.1% in Nov'22. High inflation and weakness in rural demand may explain this. Similar moderation was also seen in infrastructure and construction goods sector.

External headwinds rising: It must be noted that while core sector growth improved by 7.4% in Dec'22, exports growth had dipped sharply by 12.2% in the same period, which could explain the lower than expected number. With global growth expected to slowdown, exports are likely to remain weak which will also impact industrial production. Interestingly, India's manufacturing PMI eased from 57.8 in Dec'22 to 55.4 in Jan'23 as growth in new export orders eased to a 10-month low. This suggests some pressure on IIP growth going forward.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 910 | ▲ 7%

VOLTAS | Consumer Durables | 11 February 2023

Subpar quarter as EMP losses deepen

- **UCP revenue up 11% YoY but EBIT margin band seems to have softened to 7-9% from 12-14% earlier**
- **EMP posts losses yet again as uncertainty persists over overseas contract withdrawal**
- **We lower FY23/FY24 EPS by 22%/3% and cut our target P/E to 40x (vs. 43x); post rollover, our TP moves to Rs 910 (vs. Rs 950)**

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Muted Q3 as margins plunge: VOLT's Q3FY23 revenue grew 12% YoY to Rs 20.1bn (Rs 19.6bn est.), led by traction in both unitary cooling product (UCP) and electromechanical product (EMP) businesses. EBITDA margin, however, deteriorated further to 3.8% (-490bps YoY/-190bps QoQ) owing to high commodity costs and other expenses. The UCP EBIT margin remained muted at 7.4% while EMP incurred operational losses. Adj. PAT for the quarter fell 72% YoY to Rs 270mn.

UCP resilient despites challenges: UCP revenue at Rs 12.2bn increased 11% YoY (3Y CAGR: +27%) despite a seasonally weak quarter and subdued festive demand. Traction in premium products and commercial refrigeration aided growth. VOLT secured market share of 22.5% in FY23 YTD despite intensified competition, thus maintaining its leadership position. However, UCP EBIT declined by 12% YoY in Q3 with margins deteriorating 195bps YoY to 7.4%.

EMP orders healthy but withdrawals raise uncertainty: EMP revenue at Rs 6.9bn (+17% YoY, 3Y CAGR of -7%) was resilient due to traction in the domestic market. However, VOLT incurred an operational loss of Rs 461mn (ex-exceptionals). Further, it set aside provisions for cancellation of an overseas contract for the second consecutive quarter, which raised the operational loss to Rs 1.8bn (Rs 2.4bn for 9MFY23). On the other hand, the company expanded its carry-forward order book sequentially to Rs 75.4bn from Rs 60bn. Though order flows seem promising, uncertainty persists over seamless execution given overseas withdrawals.

Maintain HOLD, TP cut to Rs 910: VOLT has maintained its leadership in the room air conditioner (RAC) business but lost ground to competition in recent months. Management sees little scope for double-digit UCP EBIT margins amid rising competition. Considering the pressure on market share and margins, we trim our FY23/FY24 EPS estimates by 22%/3% and cut our target P/E multiple from 43x to 40x – in line with the 7Y average 2Y forward P/E of 41.5x. This coupled with valuation rollover to Dec'24E leads to a revised TP of Rs 910 (earlier Rs 950) – retain HOLD.

Key changes

Target	Rating
▼	◄►

Ticker/Price	VOLT IN/Rs 850
Market cap	US$ 3.4bn
Free float	70%
3M ADV	US$ 11.3mn
52wk high/low	Rs 1,348/Rs 737
Promoter/FPI/DII	30%/22%/32%

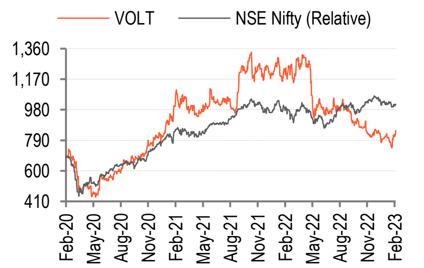
Source: NSE | Price as of 10 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	79,345	88,613	107,669
EBITDA (Rs mn)	6,816	5,497	9,108
Adj. net profit (Rs mn)	5,060	3,671	6,244
Adj. EPS (Rs)	15.3	11.1	18.9
Consensus EPS (Rs)	15.3	16.0	22.7
Adj. ROAE (%)	9.6	6.8	11.3
Adj. P/E (x)	55.6	76.6	45.0
EV/EBITDA (x)	41.3	51.2	30.9
Adj. EPS growth (%)	(4.3)	(27.5)	70.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 635 | ⮝ 35%

AUROBINDO PHARMA | Pharmaceuticals | 11 February 2023

Modest Q3; no respite on margin front

- **Q3 revenue up 7% YoY to Rs 64bn led by growth in the US and EMs along with recovery in ARV business**
- **EBITDA/PAT disappoint (-6%/-19% YoY) on higher R&D expense, finance cost and taxes; EBITDA margin down 200bps YoY**
- **We lower FY23-FY24 EPS by ~15% each; on rollover, our TP remains at Rs 635**

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Growth in US & EM; ARVs recover: ARBP reported 7% YoY growth in Q3FY23 revenue to Rs 64.1bn led by growth in the US and emerging markets, along with recovery in the antiretroviral (ARV) formulation business while sales of active pharma ingredients (API) declined YoY as well as QoQ. Europe business grew 12% QoQ on account of increased sales in France and Germany.

Injectable launches boost US sales: US revenue clocked in at US$ 366mn, rising 10% QoQ in Q3, primarily led by the injectables business which grew 40% QoQ to US$ 105mn (forming 29% of US sales). ARBP launched six injectable products in the US market during the quarter. Management is optimistic about reaching its US$ 650mn guidance for specialty/injectable sales by FY25. US revenue in Q3 was further supported by seasonality in some products as well as incremental demand as a result of adverse regulatory observations for a few competitors.

Gross margin stable; higher R&D cost impacts EBITDA margin: Gross margin for the quarter held at 54.6% (+30bps YoY/-65bps QoQ), but higher R&D spend of Rs 4.2bn (6.5% of sales) due to biosimilar clinical studies on three products dragged EBITDA margin down to 14.9% (-200bps YoY/+30bps QoQ). R&D spend as a percentage of sales is at peak levels and guided to remain in the 6-6.5% range.

Open to buyback: Given the attractive valuations at 6.2x/5.4x FY24E/FY25E EV/EBITDA, management has indicated that the company might be open to a share buyback. A final decision would be taken by the board at its next meeting in May.

Retain BUY: We cut FY23-FY24 EPS estimates by 15-16% due to the below-expected margin and higher tax rate and interest outgo in Q3. We continue to value ARBP at 7x EV/EBITDA – a 25% discount to the 5Y average, while rolling valuations over to FY25E, leaving our TP unchanged at Rs 635. We believe launch momentum and growing specialty sales would enable ARBP to retain market share in the US. Further, the ambitious Penicillin-G project, biosimilar launches and scale-up of domestic formulations should help the company generate strong cash flows beyond FY24. BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ARBP IN/Rs 469
Market cap	US$ 3.3bn
Free float	48%
3M ADV	US$ 9.4mn
52wk high/low	Rs 728/Rs 397
Promoter/FPI/DII	52%/22%/16%

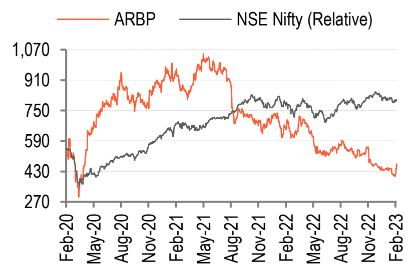
Source: NSE | Price as of 10 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	2,34,555	2,44,058	2,58,778
EBITDA (Rs mn)	43,868	38,114	44,142
Adj. net profit (Rs mn)	27,062	21,498	26,201
Adj. EPS (Rs)	46.2	36.7	44.7
Consensus EPS (Rs)	46.2	36.6	46.6
Adj. ROAE (%)	11.6	8.4	9.5
Adj. P/E (x)	10.2	12.8	10.5
EV/EBITDA (x)	6.6	7.0	5.7
Adj. EPS growth (%)	12.0	(20.6)	21.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 24,656 | 3%

SHREE CEMENT | Cement | 11 February 2023

Cost efficiencies to aid performance

- **Volume-led (+23%) revenue growth of 15% YoY in Q3 as realisations fell due to weak pricing in key regions**
- **Cost control commendable (+1% YoY); efforts to improve efficiencies likely to yield results in the short/medium term**
- **Current valuations fair at 14x FY25E EV/EBITDA; maintain HOLD with an unchanged TP of Rs 24,656**

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Volume-driven growth: SRCM reported 15% YoY and 8% QoQ revenue growth to Rs 40.7bn in Q3FY23, fully attributed to cement revenue (no segmental income). Volumes grew 23% YoY and 8% QoQ to 8.03mt, including clinker sales of 0.3mt. Realisations fell 7% YoY (flat QoQ) to Rs 5,065/t due to weak pricing in key regions.

Cost control commendable: Operating cost increased only 1% YoY to Rs 4,184/t. Energy cost including raw materials grew 29% YoY (-7% QoQ) to Rs 1,967/t due to higher fuel cost (imported coal and pet-coke) which rose 32% YoY (-2% QoQ). Logistics cost was flattish (+1% YoY, +2% QoQ) at Rs 1,174/t despite the busy-season surcharge. SRCM intends to increase rail share to rationalise costs further. Other expenditure grew only 7% YoY to Rs 6.1bn despite the strong volume gains.

EBITDA contracts: EBITDA fell 14% YoY to Rs 7.1bn (+35% QoQ) and operating margin dropped sharply by 585bps YoY to 17% (+360bps QoQ) due to volume driven growth hit by realisations. Cement EBITDA/t contracted 30% YoY to Rs 881/t (+26% QoQ) and PAT declined 44% YoY to Rs 2.8bn (+46% QoQ).

Aggressive capex plans for FY24/FY25: Commissioning of the 3mt grinding unit in Purulia, West Bengal, is targeted by Jun'24; the 3mt integrated cement unit at Nawalgarh, Rajasthan, by Q3FY24; and the 3mt integrated cement unit in Guntur, Andhra Pradesh, by Q2FY25. The goal is to have 80mt of capacity (organic) by 2030 from 46mt now.

Maintain HOLD with a positive bias: SRCM has quadrupled its capacity to 40mtpa over FY11-FY20 and further to 46mtpa in FY23 YTD, gaining a multi-regional presence. Strong cash flows have helped fund growth and preserve financial and operational levers over the long term. Opex too is better than industry and we forecast healthy ROE/ROCE of ~14% in FY25. However, current valuations of 14x FY25E EV/EBITDA fully factor in the performance. We retain our TP of Rs 24,656, set at 15x FY25E – 2.25x over the industry replacement cost. Maintain HOLD.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SRCM IN/Rs 23,971
Market cap	US$ 10.5bn
Free float	37%
3M ADV	US$ 11.4mn
52wk high/low	Rs 26,340/Rs 17,865
Promoter/FPI/DII	63%/13%/12%

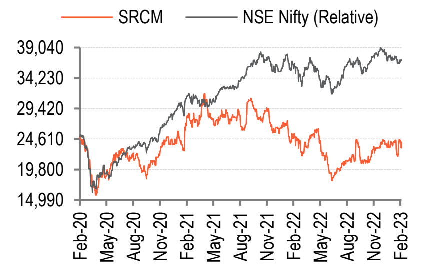
Source: NSE | Price as of 10 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	139,118	162,446	191,300
EBITDA (Rs mn)	32,201	28,227	40,321
Adj. net profit (Rs mn)	23,668	11,356	20,460
Adj. EPS (Rs)	655.3	314.4	566.5
Consensus EPS (Rs)	655.3	436.0	681.0
Adj. ROAE (%)	14.6	6.4	10.8
Adj. P/E (x)	36.6	76.2	42.3
EV/EBITDA (x)	23.9	27.6	19.2
Adj. EPS growth (%)	2.4	(52.0)	80.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 387 | ⮝ 7%

AMBUJA CEMENT | Cement | 11 February 2023

Steady growth continues, maintain HOLD

- **Q4 revenue growth of 11% YoY contributed by volume gains of 8% with realisations up 3%**
- **Cost inflation well in check; guided to moderate in the near term, helping EBITDA/t retrace to Rs 1,000/t**
- **Maintain HOLD with SOTP-based TP of Rs 387 as positives baked into valuations**

Milind Raginwar | Yash Thakur
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Steady topline growth: ACEM's revenue grew 11% YoY (+13% QoQ) to Rs 41.3bn in Q4CY22 driven by volume growth of 8% YoY (+9% QoQ) to 7.7mt, alongside realisation gains of 3% YoY (+4% QoQ) to 5,362/t. The company has a healthy presence in the remunerative central and western regions, supporting higher pricing.

Cost inflation well in check: Operating cost increased just 3% YoY to Rs 4,549/t (-4% QoQ) as a decline in logistics cost and other expenses offset higher fuel expense. Energy cost adjusted for raw materials increased by 22% YoY (+6% QoQ) to Rs 2,544/t. Logistics cost/t fell 8% YoY and QoQ due to efficiencies from network optimisation following the market supply agreement with ACC. Other expenditure at Rs 5.5bn declined 16% YoY and 17% QoQ despite the higher sale volumes.

Scope for further EBITDA improvement: ACEM's EBITDA increased 10% YoY (+106% QoQ) to Rs 6.3bn and margins recovered to Q4CY21 levels of 15.2% (8% in Q3CY22). EBITDA/t grew by 3% YoY (+90% QoQ) to Rs 813/t, and management expects to reach Rs 1,000/t in the next couple of quarters backed by cost optimisation. Adj. PAT came in at Rs 4.3bn for Q3, rising sharply due to tax adjustment provisions in Q4CY21. Reported PAT grew by 47% YoY (+168% QoQ) to Rs 3.7bn, similarly aided by lower tax provisions on prior-period reversals.

Aggressive capex plans: ACEM has earmarked Rs 100bn for capex for synergetic improvement. This includes a WHRS, debottlenecking, greenfield clinker grinding units and a brownfield kiln to be undertaken over the next ~18 months. The Ametha plant is to be commissioned in Mar'23 which includes a 3.3mt clinker and 1mt grinding unit as well as debottlenecking. Commercial production is scheduled to commence by Q2FY24.

Maintain HOLD: While we like ACEM for its operating efficiency, presence in key demand centres and recent thrust on capacity building, we believe these positives are factored into valuations. We maintain HOLD and retain our SOTP-based TP of Rs 387 which values the standalone business at 13x CY24E EV/EBITDA and ACEM's 50% stake in ACC at 10% holding company discount. Our TP implies a replacement cost of Rs 14bn/mt (consolidated capacity) – a 2x premium to the industry average.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ACEM IN/Rs 361
Market cap	US$ 8.7bn
Free float	37%
3M ADV	US$ 68.3mn
52wk high/low	Rs 598/Rs 274
Promoter/FPI/DII	63%/11%/17%

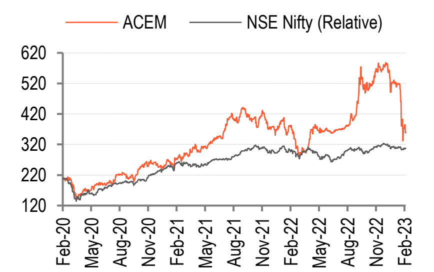
Source: NSE | Price as of 10 Feb 2023

Key financials

Y/E 31 Dec	CY21A	CY22E	CY23E
Total revenue (Rs mn)	285,926	339,083	373,473
EBITDA (Rs mn)	62,103	55,103	57,656
Adj. net profit (Rs mn)	29,007	20,133	26,720
Adj. EPS (Rs)	14.6	10.1	13.5
Consensus EPS (Rs)	14.6	10.7	15.2
Adj. ROAE (%)	12.4	9.0	8.7
Adj. P/E (x)	24.7	35.6	26.8
EV/EBITDA (x)	9.7	10.3	9.4
Adj. EPS growth (%)	14.1	(30.6)	32.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 3,371 | ⮝ 20%

JK CEMENT | Cement | 10 February 2023

Steep costs likely to soften in Q4; maintain BUY

- **Grey cement volumes grew 23% YoY in Q3 backed by capacity addition in Central India and presence in remunerative areas guarding prices**
- **Mix of high-cost inventory, one-off marketing expense and higher clinker transport hit profits but expected to recede in Q4**
- **Maintain BUY with an unchanged TP of Rs 3,371, based on 12.5x FY25E EV/EBITDA**

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Healthy volume-led growth: JKCE reported 18% YoY (+7% QoQ) revenue growth to Rs 22.9bn in Q3FY23 propped up entirely by volumes (+18% YoY, +8% QoQ). Grey cement volumes grew by 23% YoY (+10% QoQ) to 3.6mt (including clinker) and realisations improved by 1% YoY/QoQ to Rs 4,905/t, helped by the company's presence in West and North India. White cement volumes (including putty) fell 11% YoY (-9% QoQ) to 0.38mt, but realisations grew 11% YoY (+3% QoQ) to Rs 12,856/t.

Higher clinker production pushes up costs: Operating expense increased 9% YoY (+2% QoQ) to Rs 5,152/t in Q3 driven by a 21% YoY (+3% QoQ) spike in energy cost (adj. for raw material cost) due to increased clinker production (Rs 200mn impact). Logistics expense rose 8% YoY (+4% QoQ), contributing to the cost spiral due to transport of clinker to new grinding units in Uttar Pradesh (Rs 100mn impact). Additionally, JKCE incurred non-recurring promotional spends of Rs 200mn. We expect a better Q4 as one-offs recede and fuel costs likely ease.

Earnings contract: Q3 EBITDA declined 29% YoY (-11% QoQ) to Rs 2.6bn as cost inflation pulled margins down by 8ppt YoY (-3ppt QoQ) to 11.5%. Aggregate EBITDA/t fell 40% YoY (-18% QoQ) to Rs 669/t, which includes a one-off cost of ~Rs 150/tn. Adj. PAT fell 42% YoY and 23% QoQ to Rs 966mn.

Panna unit commissioned: In Q3, JKCE commissioned the 4mt greenfield plant in Central India and 2mt grinding units each in Panna (Madhya Pradesh) and Hamirpur (Uttar Pradesh). The Panna clinkerisation unit was commissioned in Nov'22. Capex for Panna totalled Rs 27.2bn (Rs 14.6bn funded by borrowing) vs. Rs 29.7bn guided earlier.

Maintain BUY: We model for a 16.5%/19.9%/16.6% revenue/EBITDA/PAT CAGR for JKCE over FY22-FY25 and retain BUY with an unchanged TP of Rs 3,371, based on 12.5x FY25E EV/EBITDA. The stock currently trades at ~11x, well below its 3Y average. We expect a rerating given the strong growth outlook, well-managed balance sheet and healthy return ratios. (ROE/ROCE of 17-19% in FY25E). Our valuation implies a replacement cost of Rs 11.6bn/mt, 65% premium to the industry average based on JKCE's presence in comparatively remunerative regions.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	JKCE IN/Rs 2,803
Market cap	US$ 2.6bn
Free float	54%
3M ADV	US$ 4.3mn
52wk high/low	Rs 3,294/Rs 2,004
Promoter/FPI/DII	46%/16%/22%

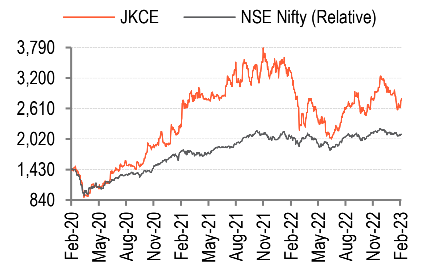
Source: NSE | Price as of 10 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	75,291	89,733	103,023
EBITDA (Rs mn)	13,325	15,105	17,976
Adj. net profit (Rs mn)	7,608	7,800	9,481
Adj. EPS (Rs)	98.5	100.9	122.7
Consensus EPS (Rs)	98.5	89.3	117.0
Adj. ROAE (%)	18.9	17.0	17.8
Adj. P/E (x)	28.5	27.8	22.8
EV/EBITDA (x)	18.5	16.8	13.8
Adj. EPS growth (%)	(1.2)	2.5	21.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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METALS & MINING

10 February 2023

Steel cycle recovery underway: AMNS

- **AMNS' Q4CY22 earnings commentary confirms bottoming out of the global steel sector in the December quarter**
- **Management has a positive CY23 demand outlook on expected stability in China and 2-3% growth in ROW**
- **We are constructive on Indian ferrous players and prefer TATA (BUY, TP Rs 140) and JSP (BUY, TP Rs 670)**

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Early signs of improvement in global steel market: AMNS sees several signs of a turn in the steel cycle. While the outlook on China has improved with the end of Covid restrictions, the company's order book trends suggest the destocking cycle has peaked outside China. This together with material pullback in energy prices is likely to support demand and underpin recovery from unsustainably low steel spreads in Q4CY22.

Constructive demand outlook for CY23: AMNS expects China's demand growth to stabilise at -1% to 1% in CY23 from a ~5% decline in CY22. Outside China, it expects 2-3% growth as apparent demand starts tracking underlying real demand given a peaking of the destocking cycle. AMNS still doesn't assume any inventory rebuild in its forecasts. The company expects broad-based demand growth across major regions, viz. the US (1.5-3.5%), EU27 (0.5-2.5%), Brazil (3-5%), India (6-8%) and CIS (-2% to 0%). Using this outlook, the company also guides for 5% growth in shipments in CY23.

December quarter likely to be the bottom: With an initial pickup in steel prices, signs of improvement in demand and an expected decline in costs, AMNS views the Dec'22 quarter as the low point of the cycle. It is cautiously optimistic on the CY23 steel outlook and will watch actual recovery in China after the holiday season and energy inflation due to the Russia-Ukraine war for confirmation.

Strategic project spends denote confidence in recovery: AMNS has guided for higher capex of US$ 4.5bn-5bn for CY23 (US$ 3.5bn in CY22) led by allocation to strategic projects and positive free cash flow, testifying to its confidence in the recovery.

European market to pick up in CY23: Elevated destocking in Europe put spreads under pressure in Q4CY22. Given that real demand was positive in CY22, AMNS is looking for 0.5-2.5% growth from EU27 and 5% growth in automotive demand in CY23. The company has already started bringing back its plants from maintenance in response to an increasing order book.

Retain constructive view on Indian ferrous players: We retain our constructive outlook and continue to prefer **TATA** (BUY, TP Rs 140) and **JSP** (BUY TP Rs 670).

Recommendation snapshot

Ticker	Price	Target	Rating
JSP IN	597	670	BUY
JSTL IN	724	715	HOLD
SAIL IN	85	90	HOLD
TATA IN	111	140	BUY

Price & Target in Rupees | Price as of 9 Feb 2023

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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