FIRST LIGHT

01 February 2023

RESEARCH

BLUE STAR | TARGET: Rs 1,450 | +18% | BUY

Buoyant performance; UCP margin expansion continues

BOB ECONOMICS RESEARCH | ECONOMIC SURVEY 2022-23

Leaving no one behind

BOB ECONOMICS RESEARCH | BONDS WRAP

Fortnightly review

LARSEN & TOUBRO | TARGET: Rs 2,440 | +15% | BUY

Revenue beat; commentary optimistic

GODREJ CONSUMER PRODUCTS | TARGET: Rs 1,112 | +22% | BUY

Broad-based growth; strong margin recovery

ORIENT ELECTRIC | TARGET: Rs 290 | +11% | HOLD

Back on track with Q3 rebound

Daily macro indicators

Indicator	27-Jan	30-Jan	Chg (%)
US 10Y yield (%)	3.50	3.54	3bps
India 10Y yield (%)	7.39	7.40	1bps
USD/INR	81.52	81.50	0.0
Brent Crude (US$/bbl)	86.7	84.9	(2.0)
Dow	33,978	33,717	(0.8)
Hang Seng	22,689	22,070	(2.7)
Sensex	59,331	59,500	0.3
India FII (US$ mn)	**25-Jan**	**27-Jan**	**Chg ($ mn)**
FII-D	113.8	(71.1)	(185.0)
FII-E	(31.4)	(752.5)	(721.1)

Source: Bank of Baroda Economics Research

SUMMARY

BLUE STAR

- UCP EBIT margin expands further to 7.4% (+100bps YoY) in Q3; outlook remains positive for Q4
- EMP business gathers pace as order book continues to swell (+47% YoY)
- We tweak estimates and roll forward to a revised TP of Rs 1,450 (vs. Rs 1,350), offering 18% upside – upgrade to BUY

Click here for the full report.

INDIA ECONOMICS: ECONOMIC SURVEY 2022-23

This year Economic Survey has presented a holistic picture of the impact of government policies on growth and quality of living and also outlined the path to achieve sustainable 7-8% growth per annum over the medium term. While on one hand, this year's survey highlighted progress made in social sector (improvement in enrolment ratios, health and social sector spending, decline in mortality ratios, increased access to cooking fuel, affordable housing, water, sanitation and electricity, and all weather roads), on the other hand it noted strength on the external front (forex reserves, remittances, and import cover).

Click here for the full report.

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INDIA ECONOMICS: BONDS WRAP

Global bond yields edged down as markets are now expecting that Fed is probably nearing its terminal rate, as it got breather from softening of core PCE data. Macro prints in the US still remained weaker, thus the timing of pause remains crucial from the perspective of soft/hard landing. OIS rate are pricing in another 50bps hike in the current cycle. On domestic front, India's 10Y yield inched up ahead of the Union Budget. We expect pressure on long end yields to continue as centre is expected to borrow above Rs 16.5-17 lakh crore. Apart from this, repayment pressure of Rs 4.5 lakh crore is also there in FY24.

Click here **for the full report.**

LARSEN & TOUBRO

- Q3 revenue ahead of estimates at Rs 464bn (+17% YoY); LT confident of exceeding 13-15% revenue and order growth guidance for FY23
- Hyderabad Metro showings signs of turnaround; fund infusion guided to ebb going forward
- LT remains our preferred pick; we tweak FY24/FY25 EPS by +1%/+3% and roll to a new TP of Rs 2,440 (vs. Rs 2,390)

Click here **for the full report.**

GODREJ CONSUMER PRODUCTS

- Q3 sales grew 9% INR and 15% CC YoY; underlying volume growth stood at 1%
- Gross margin expanded 330bps QoQ and 50bps YoY to 51.1%; EBITDA margin stable at 20.2%
- We assume coverage on GCPL with BUY and a TP of Rs 1,112, set at 45x FY25E EPS

Click here **for the full report.**

ORIENT ELECTRIC

- Topline boosted by better ECD performance; profitability turns positive with sequential margin expansion
- Fans business rebounds with 15% YoY sales growth amidst BEE rating transition, though a slower Q4 expected
- We cut FY23/FY24 EPS 8%/1% on rating transition impact and roll over to a revised TP of Rs 290 (vs. Rs 280); retain HOLD

Click here **for the full report.**

RESULT REVIEW

BUY

TP: Rs 1,450 | ⮝ 18%

BLUE STAR | Consumer Durables | 01 February 2023

Buoyant performance; UCP margin expansion continues

- **UCP EBIT margin expands further to 7.4% (+100bps YoY) in Q3; outlook remains positive for Q4**
- **EMP business gathers pace as order book continues to swell (+47% YoY)**
- **We tweak estimates and roll forward to a revised TP of Rs 1,450 (vs. Rs 1,350), offering 18% upside – upgrade to BUY**

Vinod Chari | Nilesh Patil
Tanay Rasal
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Strong momentum: BLSTR reported a good Q3FY23 with in-line revenue growth of 19% YoY to Rs 17.9bn in the wake of a solid performance across key verticals. EBIT margin in the unitary cooling product (UCP) business improved 100bps to 7.4% while electromechanical projects (EMP) saw its highest ever margin of 7.2%. Management remains optimistic on the near-term outlook and expects the upcoming summer season to be a key growth trigger. Market share guidance has been maintained at 15% by FY25.

EMP sees robust order booking: Traction continued in the EMP business with its best margin performance in five years and a 47% YoY rise in the carried-forward order book to Rs 4.9bn (vs. Rs 4.2bn in Q2FY23). Revenue touched the Rs 10bn mark, growing 21% YoY, primarily led by healthy order inflow. Growth momentum is expected to continue in the coming quarters led by steady order inflows from regular as well as newer verticals such as railway electrification.

UCP margin continues to rise: BLSTR was an outlier in Q2FY23 with UCP margin expansion amidst a tepid business environment – a trend that has continued into Q3 as margins expanded to 7.4% despite the gloomy festive demand. Management reiterated its optimistic 8-8.5% target for FY23. UCP revenue at Rs 7bn rose 15% YoY on channel restocking late in quarter and sustained traction in the commercial refrigeration business.

Raise to BUY with TP of Rs 1,450: BLSTR's UCP performance has been a positive departure from peers, with strong margins and an upbeat outlook for Q4FY23. In addition, the healthy EMP order book has strong tailwinds from higher infrastructure led capex and is thus expected to maintain traction near term. We increase our FY23/FY24 EPS estimates by 2%/1% given a change in depreciation methodology. On rolling valuations forward to Dec'24E, our TP moves to Rs 1,450 (from Rs 1,350), based on an unchanged 38x P/E – a 14% premium to the 3Y average on 2Y forward basis. With this, the stock offers 18% upside potential, leading us to upgrade our rating from HOLD to BUY.

Key changes

Target	Rating
▲	▲

Ticker/Price	BLSTR IN/Rs 1,229
Market cap	US$ 1.4bn
Free float	61%
3M ADV	US$ 1.1mn
52wk high/low	Rs 1,288/Rs 856
Promoter/FPI/DII	39%/11%/25%

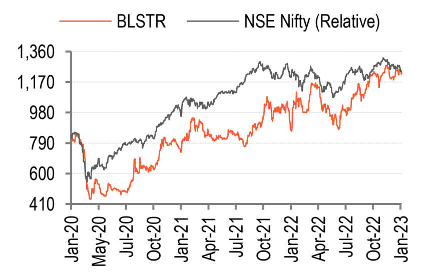
Source: NSE | Price as of 31 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	60,456	71,086	81,640
EBITDA (Rs mn)	3,465	4,165	4,950
Adj. net profit (Rs mn)	1,677	2,420	2,789
Adj. EPS (Rs)	17.4	25.1	29.0
Consensus EPS (Rs)	17.4	27.8	36.1
Adj. ROAE (%)	17.6	22.3	22.6
Adj. P/E (x)	70.6	48.9	42.4
EV/EBITDA (x)	34.2	28.4	23.9
Adj. EPS growth (%)	67.1	44.3	15.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

ECONOMIC SURVEY 2022-23

31 January 2023

Leaving no one behind

Jahnavi
Economist

Sonal Badhan
Economist

This year Economic Survey has presented a holistic picture of the impact of government policies on growth and quality of living and also outlined the path to achieve sustainable 7-8% growth per annum over the medium term. While on one hand, this year's survey highlighted progress made in social sector (improvement in enrolment ratios, health and social sector spending, decline in mortality ratios, increased access to cooking fuel, affordable housing, water, sanitation and electricity, and all weather roads), on the other hand it noted strength on the external front (forex reserves, remittances, and import cover).

Robustness of the financial intermediaries and, fiscal position of the government were pointed as pillars on which India's growth will leap forward in the medium-term. Further push is expected to be provided by enhancing the physical and digital infrastructure of the country, which has already changed our way of living and has helped us cope with the effects of Covid-19 pandemic faster.

GDP growth: Economic Survey expects the Indian economy to do better than the pre pandemic year as the health and economic shocks of pandemic and spike in commodity price wear off. The economy is pegged to grow by 7% in FY23 and by 6.5% (6.0-6.8%) in FY24 as global environment remains rife with uncertainty. These estimates are in line with projections made by IMF (6.1%). The economy has witnessed a fresh credit cycle led by improved and healthier balance sheet of banking, non-banking and corporate sector, along with double digit growth in bank credit in the last few months. The economy is poised to do better in the remaining decade. India is placed to grow faster and has even begun to benefit from the efficiency gains on the back of greater formalisation, higher financial inclusion and economic opportunities formed by digital technology based reforms. In the medium term, potential GDP growth of the country is likely to rise to 7-8% per annum.

Physical and Digital Infrastructure: Economic Survey acknowledges Infrastructure offers multiplier effected in the economy and thus the government had adopted the forward looking approach towards infra. Under National Infrastructure pipeline (NIP) over 89,151 projects worth Rs 141.4 lakh are under various stages of implementations. As quantum of financing under this is huge, National Monetisation plan has been formed with the investment potential of Rs 9 lakh crore. PPPs play a vital role in addressing the infrastructure gap and improve efficiency in infrastructure service delivery. IIPDF scheme has been notified recently to develop PPP projects by providing funding support to the project-sponsoring authorities. The scheme has an outlay of Rs 150 crore for 3 years from FY23-25.

The role of digital infrastructure in socio-economic development has expanded and have gathered increased importance. The focus of digital India programme rests on providing high speed internet as a core utility to citizens for delivering services, creating unique digital identity, providing shareable private space on public cloud (digitally store certificate and documents).

BONDS WRAP

31 January 2023

Fortnightly review

Dipanwita Mazumdar
Economist

Global bond yields edged down as markets are now expecting that Fed is probably nearing its terminal rate, as it got breather from softening of core PCE data. Macro prints in the US still remained weaker, thus the timing of pause remains crucial from the perspective of soft/hard landing. OIS rate are pricing in another 50bps hike in the current cycle. On domestic front, India's 10Y yield inched up ahead of the Union Budget. We expect pressure on long end yields to continue as centre is expected to borrow above Rs 16.5-17 lakh crore. Apart from this, repayment pressure of Rs 4.5 lakh crore is also there in FY24.

Any demand side measure to be announced in the budget will also be cautionary call for inflation, as core still remains elevated. We expect India's 10Y yield to remain in the range of 7.3-7.4% in the current month. We also expect some correction in short end yields as RBI is approaching end of its rate hike cycle, post the Feb'22 policy. System Liquidity is likely to remain under pressure as currency in circulation would pick up both in Q4 and FY24 ahead of the general election and widening of credit-deposit gap would persist on account of relatively stable domestic demand conditions.

Global yields edged down in Jan'23:

- Sovereign 10Y yields again reversed its direction in Jan'23. In comparison to Dec'22, where global yields broadly rose following anticipation of an above 5% terminal Fed fund rate, the situation reversed in Jan'23.

- Yields of major economies such as US, UK and Germany showed sharp moderation. Markets are now anticipating a slower pace of rate hike of 25bps by Fed, post some softening in the core PCE data. Even the recent Q4 GDP data of US, showed that personal consumption had moderated. The 1Year ahead inflation expectation data of University of Michigan has also edged down. Thus we expect that Fed is almost nearing its terminal rate and thereafter a pause cannot be ruled out considering that domestic macros are still on a weaker footing. For ECB and BoE, another 50bps rate hike is awaited in the coming policy.

Domestic 10Y yield traded in the range of 7.29-7.40% in Jan'23 compared to 7.21-7.33% in Dec'22 against 7.26-7.48% in Nov'22. Some pressure is visible ahead of the Budget.

Gap between long end (15Y paper) and short end (6 months paper) was reduced to 65bps in Jan'23 from 74bps in Dec'22. This is on account of slight increase in yield of long term paper, not observed in past months. Going forward, we expect some degree of steepening of yield curve. This will be on account of inching of long end yield with disclosure of borrowing plan of FY24. We expect gross borrowing to be around Rs 16.5-17 lakh crore, which is likely to keep long end yields elevated. Further, some correction in short end yields may happen as RBI is nearing its end of the rate hike cycle, post the Feb'23 meeting.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY

TP: Rs 2,440 | ⮝ 15%

LARSEN & TOUBRO | Capital Goods | 31 January 2023

Revenue beat; commentary optimistic

- **Q3 revenue ahead of estimates at Rs 464bn (+17% YoY); LT confident of exceeding 13-15% revenue and order growth guidance for FY23**
- **Hyderabad Metro showings signs of turnaround; fund infusion guided to ebb going forward**
- **LT remains our preferred pick; we tweak FY24/FY25 EPS by +1%/+3% and roll to a new TP of Rs 2,440 (vs. Rs 2,390)**

Vinod Chari | Tanay Rasal
Nilesh Patil
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Q3 net in line: LT's Q3FY23 revenue beat our estimates at Rs 464bn (Rs 431bn Bobcaps est.), rising 17% YoY. EBITDA margin stood at 10.9% (11.6% est.), down 50bps YoY mainly due to one-time LTI Mindtree integration cost. Adj. PAT was in line with our forecast at Rs 24bn, up 18% YoY. Order inflows held strong at Rs 607bn, climbing 21% YoY.

Optimism remains high for FY23 and beyond: Despite forecasting core EBITDA margin compression of 30-50bps to 8.8-9% in FY23 (9.3% in FY22), management remains confident of exceeding its revenue and order flow guidance of 13-15% growth for the fiscal year. LT's current tendering pipeline totals ~Rs 5tn, with the company's win rate at 15-20%. Net working capital-to-sales as of Mar'23 is now guided at 19-20% vs. 20-22% expected at the start of the year.

Private sector gaining traction: Q3 private sector orders accounted for 39% of LT's total inflows, up from 18% in the year-ago period, a positive trend seen for the second consecutive quarter. Management is optimistic about private capex given growing orders in the metals and buildings & factories segments. Q4FY23 order prospects from the private sector are guided to be at 10-15% of the overall order mix.

Hyderabad Metro showing signs of turnaround: Q3FY23 saw a rise in average ridership on the Hyderabad Metro to 394k passengers per day with a peak of 471k. Despite a 40% EBITDA margin in Q3, net losses on the project were high at Rs 3.3bn due to higher interest costs. Debt totals Rs 130bn with Rs 80bn in mid-term and Rs 50bn in short-term debt. Despite LT's cumulative losses of Rs 45bn on the metro, management foresees minimal fund infusion over the next two years due to support from the Telangana government (Rs 30bn) and monetisation of TOD assets (Rs 10bn-15bn p.a.). We believe this support would help offset the short-term debt.

Top pick: LT remains the best play on India's capex story and is our preferred capital goods pick. We retain BUY and revise our SOTP-based TP from Rs 2,390 to Rs 2,440 as we adjust estimates and roll valuations to Dec'24E. We continue to value the core business ex-services at 14x EV/EBITDA and subsidiaries at 25% holding discount.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	LT IN/Rs 2,113
Market cap	US$ 36.4bn
Free float	86%
3M ADV	US$ 49.2mn
52wk high/low	Rs 2,298/Rs 1,456
Promoter/FPI/DII	0%/21%/35%

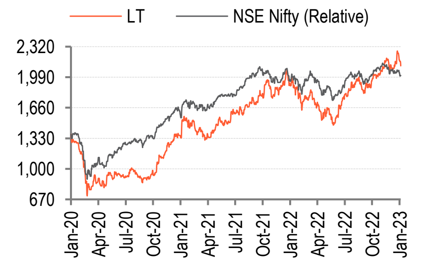
Source: NSE | Price as of 30 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	15,65,212	17,52,555	21,38,981
EBITDA (Rs mn)	1,82,173	1,96,691	2,55,255
Adj. net profit (Rs mn)	85,724	1,00,705	1,42,114
Adj. EPS (Rs)	61.0	71.7	101.2
Consensus EPS (Rs)	61.0	79.6	96.6
Adj. ROAE (%)	10.8	11.7	15.0
Adj. P/E (x)	34.6	29.5	20.9
EV/EBITDA (x)	11.6	12.9	8.8
Adj. EPS growth (%)	24.2	17.5	41.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
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BUY
TP: Rs 1,112 | ⮝ 22%

GODREJ CONSUMER PRODUCTS | Consumer Staples | 01 February 2023

Broad-based growth; strong margin recovery

- **Q3 sales grew 9% INR and 15% CC YoY; underlying volume growth stood at 1%**
- **Gross margin expanded 330bps QoQ and 50bps YoY to 51.1%; EBITDA margin stable at 20.2%**
- **We assume coverage on GCPL with BUY and a TP of Rs 1,112, set at 45x FY25E EPS**

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Double-digit CC growth: GCPL reported consolidated Q3FY23 revenue of Rs 36bn (+9% YoY, 6% QoQ), with volumes up 1% YoY. The company registered double-digit CC sales growth at 15% YoY driven by a strong performance across geographies. India business grew 11% YoY (8% value and 3% volume growth). Africa, the US, and Middle East (GUAM) was up 23% CC, the eleventh consecutive quarter of double-digit growth led by the dry hair and FMCG categories. Indonesia business ex-Saniter grew 2% CC.

Investment in category development to fuel growth: GCPL registered 10% YoY growth in the home and 14% YoY growth in personal care segment backed by consistent investment in category development and an increase in penetration and distribution. Air fresheners continue to grow ahead of category and enjoy market leadership. Household insecticides delivered an improved performance for the third straight quarter led by premium formats of electrics and aerosols. Godrej No. 1 soap became the second largest brand by volume. During the quarter, GCPL launched an anti-mosquito spray solution which it touted as the cheapest in the world.

Strong margin recovery: The company reported a 51.1% gross margin (+330bps QoQ, 50bps YoY). EBITDA margin was stable YoY at 20.2% despite increased spending on advertising and publicity. The India business posted 210bps YoY expansion in operating margin as the quality of profits continued to improve, with gross margin up 250bps YoY (590bps QoQ), despite a 28% YoY increase in working media investment. Indonesia business EBITDA margin dropped 100bps YoY due to higher marketing investment and scale deleverage, whereas GUAM saw a 160bps contraction due to significantly higher working media investment.

BUY, TP Rs 1,112: GCPL continues to display double-digit growth in the domestic market with the quality of profits improving during the quarter. We expect the company's focus on brand investment, market penetration and product launches to spur profitable growth. The stock is trading at 43.7x/37.4x FY24E/FY25E EPS. We assume coverage on GCPL with BUY and value the stock at 45x FY25E EPS, in line with the long-term mean, translating to a TP of Rs 1,112.

Ticker/Price	GCPL IN/Rs 913
Market cap	US$ 11.4bn
Free float	37%
3M ADV	US$ 11.3mn
52wk high/low	Rs 956/Rs 660
Promoter/FPI/DII	63%/24%/13%

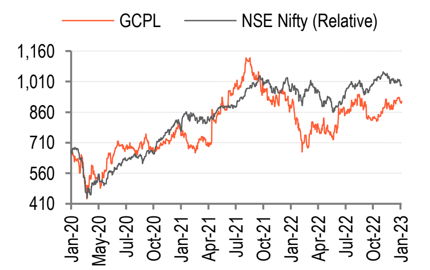
Source: NSE | Price as of 31 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,22,765	1,34,557	1,49,048
EBITDA (Rs mn)	23,951	24,475	28,858
Adj. net profit (Rs mn)	17,931	18,111	21,675
Adj. EPS (Rs)	17.5	17.7	21.2
Consensus EPS (Rs)	17.4	16.9	21.6
Adj. ROAE (%)	15.4	14.5	16.5
Adj. P/E (x)	52.1	51.5	43.1
EV/EBITDA (x)	39.0	38.1	32.3
Adj. EPS growth (%)	3.6	(0.2)	21.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 290 | ⮝ 11%

ORIENT ELECTRIC | Consumer Durables | 31 January 2023

Back on track with Q3 rebound

- **Topline boosted by better ECD performance; profitability turns positive with sequential margin expansion**
- **Fans business rebounds with 15% YoY sales growth amidst BEE rating transition, though a slower Q4 expected**
- **We cut FY23/FY24 EPS 8%/1% on rating transition impact and roll over to a revised TP of Rs 290 (vs. Rs 280); retain HOLD**

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Solid recovery: ORIENTEL reported a strong sequential recovery in Q3FY23 after a blip in the previous quarter. The topline grew 9% YoY and 45% QoQ to Rs 7.4bn led by a better performance in the core electrical consumer durables (ECD) division (+12% YoY; 3Y CAGR 18%). Fans and water heaters drove ECD growth while appliances sales were muted. EBITDA margin expanded 510bps QoQ to 7.4%, and the company returned to the black (Rs 326mn net profit vs. Rs 3mn loss in Q2FY23).

Fans segment rebounds amidst uncertainty: After a weak performance from the fans division in H1FY23, the business rebounded in Q3FY23 with its high-volume growth (~15% YoY), aided by an aggressive push by trade partners to clear stocks of lower-end fans ahead of the new energy rating norms. Consequently, the company's entire non-BEE compliant inventory is out of stock and with new BLDC launches in the pipeline, ORIENTEL seem well placed amid the rating transition.

Distribution realignment starts to deliver: The company has implemented a direct-to-market strategy in four states which yielded 60% YoY revenue growth for Q3. This strategy will be put in place in Andhra Pradesh and Telangana by end-Q4.

Lighting remains resilient: The lighting segment was stable (+2% YoY) amid a benign demand environment. Traction continued in the B2B segment which reported double-digit YoY growth on the back of higher government infrastructure spend. Additionally, the momentum in facade lighting continued as the completion of several large projects buoyed growth.

Maintain HOLD: Now that its non-compliant inventory of fans has been exhausted, ORIENTEL is focusing on higher-end BLDC fans, with distribution realignment and product launches expected to boost performance medium term. We lower our FY23/FY24 EPS estimates by 8%/1% on rating transition impact and roll over to Dec'24E valuations for a revised TP of Rs 290 (vs. Rs 280). We continue to value the stock at 35x P/E – a 30% discount to the 3Y average on 2Y forward basis. Retain HOLD as we believe that HAVL and CROMPTON are better ways to play the energy rating transition in fans.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	ORIENTEL IN/Rs 261
Market cap	US$ 680.6mn
Free float	62%
3M ADV	US$ 0.6mn
52wk high/low	Rs 358/Rs 244
Promoter/FPI/DII	38%/6%/27%

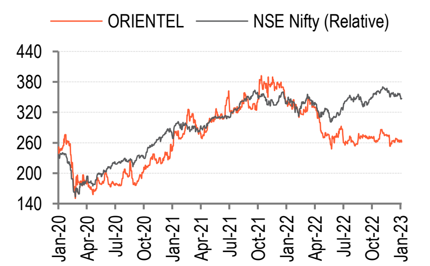
Source: NSE | Price as of 30 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	24,484	26,652	30,798
EBITDA (Rs mn)	2,313	1,827	2,584
Adj. net profit (Rs mn)	1,266	974	1,489
Adj. EPS (Rs)	6.0	4.6	7.0
Consensus EPS (Rs)	6.0	8.2	10.0
Adj. ROAE (%)	25.4	17.1	23.3
Adj. P/E (x)	43.8	56.9	37.3
EV/EBITDA (x)	24.0	30.4	21.5
Adj. EPS growth (%)	46.1	(23.1)	52.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Disclaimer

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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