FIRST LIGHT

22 July 2022

RESEARCH

Havells India | Target: Rs 1,500 | +19% | BUY

Short-term margin blip, better road ahead

Kajaria Ceramics | Target: Rs 1,460 | +36% | BUY

Margins healthy despite cost inflation; retain BUY

Century Plyboards | Target: Rs 735 | +27% | BUY

Impressive sequential performance

Metals & Mining

Aluminium – Read-across from Alcoa results

Daily macro indicators

Indicator	19-Jul	20-Jul	Chg (%)
US 10Y yield (%)	3.02	3.03	1bps
India 10Y yield (%)	7.44	7.45	1bps
USD/INR	79.95	79.99	0.0
Brent Crude (US$/bbl)	107.4	106.9	(0.4)
Dow	31,827	31,875	0.2
Hang Seng	20,661	20,890	1.1
Sensex	54,768	55,398	1.2
India FII (US$ mn)	**18-Jul**	**19-Jul**	**Chg ($ mn)**
FII-D	70.2	(51.6)	(121.7)
FII-E	27.5	132.5	105.0

Source: Bank of Baroda Economics Research

SUMMARY

Havells India

- Q1 EBITDA margin hit by absence of price hikes, while falling commodity prices hurt profitability in key cables and wires segment
- Sustained aggressive growth strategy and pursuit of market share fueling losses at Lloyd; expect margin to normalise by Q4
- Performance likely to improve in H2 led by cables business and Lloyd margin stabilisation; retain BUY with unchanged TP of Rs 1,500

Click here for the full report.

Kajaria Ceramics

- Q1 revenue grew 80% YoY (-8.5% QoQ) spurred by a 15% (+2% QoQ) rise in tile realisations and 53% (-10% QoQ) volume growth
- EBITDA margin expanded 90bps YoY and 17bps QoQ to 15.2% despite higher power & fuel cost (+355bps YoY, +590bps QoQ)
- We retain BUY and our TP of Rs 1,460 given strong growth prospects and attractive valuations

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Century Plyboards

- Q1 revenue/PAT came in at Rs 8.8bn/Rs 0.9bn led by healthy price realisations across segments (ex-plywood)
- EBITDA grew 137% YoY to Rs 1.5bn with 285bps margin expansion to 16.5% as employee cost/other expenses declined 670bps/480bps
- Maintain BUY with an unchanged TP of Rs 735, valuing the stock at 35x FY24E EPS

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Metals & Mining

- Alcoa's aluminium commentary sets a positive tone; management continues to see market in deficit in CY22
- With aluminium price already dipping in the cost curve and costs starting to peak out, ground being set for margins to bottom out
- Miss on Q2CY22 aluminium EBITDA indicates above-expected costs, while beat on alumina suggests possibility of better realisations

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BUY
TP: Rs 1,500 | ⮝ 19%

HAVELLS INDIA | Consumer Durables | 21 July 2022

Short-term margin blip, better road ahead

- **Q1 EBITDA margin hit by absence of price hikes, while falling commodity prices hurt profitability in key cables and wires segment**
- **Sustained aggressive growth strategy and pursuit of market share fueling losses at Lloyd; expect margin to normalise by Q4**
- **Performance likely to improve in H2 led by cables business and Lloyd margin stabilisation; retain BUY with unchanged TP of Rs 1,500**

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Demand soft: HAVL's Q1FY23 revenue grew 63% YoY to Rs 42bn, of which 40% came from volume growth and 10-12% from value growth. The 3Y revenue CAGR for the quarter was at 9-11% in ECD, lighting and switchgears, and higher at 15%/ 19% for cables & wires (C&W)/Lloyd. HAVL stated that demand was muted as corporates (B2B) held back, B2C business saw deferrals and commodity prices rose.

Margins disappoint: EBITDA margin came in at 8.5% vs. 11.5% estimated primarily due to (i) a softer C&W EBIT margin (7.3% vs. 11.7%/10.9% in Q4FY22/ Q1FY20) stemming from high-cost inventory, and (ii) continued losses in Lloyd (Rs 563mn vs. Rs 215mn in Q4FY22). Gross margin at 28.9% was down 40bps QoQ and 680bps YoY.

Lloyd – aggressive growth strategy at play: Management is pushing for growth at Lloyd at the cost of margins, causing losses to widen. However, this has enabled the company to regain market share in ACs and it now ranks among the top-3 players for H1CY22. Management expects Lloyd's EBIT margin to normalise by Q4FY23 led by softer raw material prices and cushioned by lower price hikes in past two quarters.

No major price hike in Q1: Except for nominal price increases in ECD (fans and small appliances) and switchgears, HAVL did not implement major hikes in Q1FY23. Lloyd walked a tightrope, particularly in ACs, to avoid upsetting demand by raising prices. It also did not effect significant hikes in ACs post the new ratings norms in July.

Capex plan in place: HAVL has exceeded its capacity utilisation threshold for C&W as well as ACs. Management reiterated its previous capex guidance of Rs 7bn-8bn for FY23, which includes Rs 3.5bn for a new AC manufacturing facility, Rs 1.5bn for C&W, and the rest for routine spends.

Maintain BUY: HAVL is a comprehensive play on consumer durables, present across all relevant categories. We believe the company is well positioned for growth and profitability in H2FY23, driven by execution in the C&W business and Lloyd margin normalisation. We lower FY23 EPS 3% post Q1 but continue to value the stock at 53x FY24E EPS, a 10% premium to its 5Y average, for an unchanged TP of Rs 1,500. BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HAVL IN/Rs 1,257
Market cap	US$ 9.9bn
Free float	41%
3M ADV	US$ 14.2mn
52wk high/low	Rs 1,504/Rs 1,037
Promoter/FPI/DII	60%/23%/9%

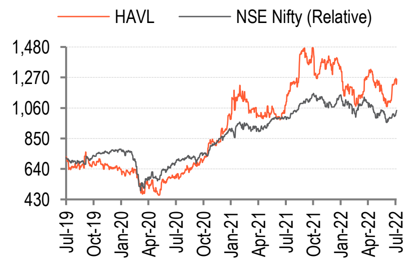
Source: NSE | Price as of 21 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,39,385	1,58,387	1,78,593
EBITDA (Rs mn)	17,604	21,073	25,352
Adj. net profit (Rs mn)	11,965	14,609	17,405
Adj. EPS (Rs)	19.1	23.3	27.8
Consensus EPS (Rs)	19.1	23.1	27.7
Adj. ROAE (%)	21.4	22.5	23.0
Adj. P/E (x)	65.8	53.9	45.2
EV/EBITDA (x)	44.7	37.4	31.1
Adj. EPS growth (%)	14.6	22.1	19.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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BUY
TP: Rs 1,460 | ⮝ 36%

KAJARIA CERAMICS | Construction Materials | 21 July 2022

Margins healthy despite cost inflation; retain BUY

- **Q1 revenue grew 80% YoY (-8.5% QoQ) spurred by a 15% (+2% QoQ) rise in tile realisations and 53% (-10% QoQ) volume growth**
- **EBITDA margin expanded 90bps YoY and 17bps QoQ to 15.2% despite higher power & fuel cost (+355bps YoY, +590bps QoQ)**
- **We retain BUY and our TP of Rs 1,460 given strong growth prospects and attractive valuations**

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Higher realisations and favourable base buoy topline: KJC's Q1FY23 revenue increased 80% YoY (-8.5% QoQ) to Rs 10bn, backed by a 15% rise in realisations to Rs 393/sqm. Sale volumes grew 53% YoY (-10% QoQ) to 23.3msm off a low base. Revenue from the tiles business rose 77% YoY to Rs 9.2bn, with the company's own manufacturing, subsidiaries and outsourcing businesses contributing Rs 5.4bn (+65% YoY), Rs 1.4bn (+76%) and Rs 2.4bn (+108%) respectively. Sanitaryware and plywood revenue climbed 117% YoY to Rs 0.9bn.

EBITDA margin maintained at 15%: Despite higher power & fuel cost (+355bps YoY, +590bps QoQ) – mainly high gas cost averaging Rs 55/scm – gross margin contracted just 50bps YoY and 60bps QoQ to 25%. EBITDA margin improved 90bps YoY and 17bps QoQ to 15.2%.

FY23 volume growth guided at 15-20%: Management has guided for volume growth of 15-20% in FY23 and +15% in FY24 led by improving demand from tier-2-and-below cities and rising exports from Morbi. However, KJC avoided giving any outlook on margins as gas prices are at a peak and supply is erratic.

85% of Morbi capacity to close for a month, benefitting organised players: The Morbi ceramic cluster intends to shut down capacity from 10 Aug to 10 Sep 2022 (and halt dispatches till mid-Sep) so as to dispose of old inventory and earn better realisations going forward. KJC believes that 85% of Morbi capacity will be closed – a positive for organised players. Further, the KJC-Morbi JV will be fully functional though outsourcing from Morbi will be at only 70% functional.

Long-term value play; retain BUY: We believe that KJC has long-term structural growth drivers from improving real estate demand in tier-2-and-below towns, domestic market share gains from Morbi and an increasing focus on exports. The stock is trading at an FY24E P/E of 29.4x vs. its 5Y median of 40.4x, which is reasonable given increasing volumes and healthy return ratios. We continue to value the stock at 40x FY24E EPS and retain our TP of Rs 1,460 with a BUY rating given strong growth prospects and attractive valuations.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	KJC IN/Rs 1,074
Market cap	US$ 2.1bn
Free float	53%
3M ADV	US$ 2.4mn
52wk high/low	Rs 1,375/Rs 885
Promoter/FPI/DII	48%/20%/33%

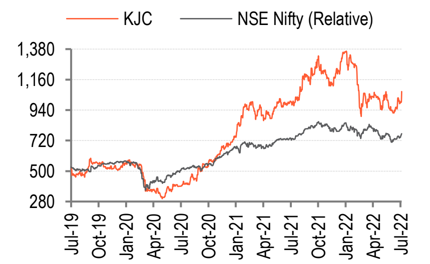
Source: NSE | Price as of 21 Jul 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	27,809	37,052	43,635
EBITDA (Rs mn)	5,088	6,107	7,643
Adj. net profit (Rs mn)	3,081	3,770	4,710
Adj. EPS (Rs)	19.4	23.7	29.6
Consensus EPS (Rs)	19.4	23.7	31.8
Adj. ROAE (%)	17.2	18.9	21.6
Adj. P/E (x)	55.4	45.3	36.2
EV/EBITDA (x)	33.3	27.6	21.9
Adj. EPS growth (%)	20.6	22.4	24.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 735 | ⮝ 27%

CENTURY PLYBOARDS | Construction Materials | 21 July 2022

Impressive sequential performance

- **Q1 revenue/PAT came in at Rs 8.8bn/Rs 0.9bn led by healthy price realisations across segments (ex-plywood)**
- **EBITDA grew 137% YoY to Rs 1.5bn with 285bps margin expansion to 16.5% as employee cost/other expenses declined 670bps/480bps**
- **Maintain BUY with an unchanged TP of Rs 735, valuing the stock at 35x FY24E EPS**

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Strong demand and favourable base spur growth: Despite weak seasonality, CPBI reported standalone Q1FY23 revenue growth of 96% YoY to Rs 8.8bn, aided by a low base due to Covid. In addition, despite Q4 being the strongest quarter, the company reported only a marginal sequential decline in revenue by 1.5% QoQ, pointing to the inherent strength in demand. Volumes in the plywood/particle board segments grew 0.8%/5% QoQ while MDF/laminates declined 5.9%/6.1%. Realisations increased 1.5% QoQ in MDF, 4% in particle boards and 1.4% in laminates, whereas plywood saw a ~1% decline.

MDF continues to perform well: MDF EBITDA margin expanded 215bps YoY to 35% backed by higher capacity utilisation and price hike benefits. Management expects stronger demand traction ahead due to (a) greater acceptance of MDF in the domestic market, and (b) lower imports owing to improved demand in respective geographies and higher shipping costs. As per management, work on its 350cbm/day MDF expansion at the existing Hoshiarpur unit is in full swing and commissioning is likely by October-end. The MDF project in Andhra Pradesh is on track to come online in H2FY24 with a capacity of 950cbm/day at a capex of Rs 6bn.

Well placed to benefit from sustainable demand: We expect CPBI's growth momentum to sustain over the near-to-medium term supported by (a) double-digit growth in plywood and laminates given a pickup in the housing sector alongside a gradual demand shift from unorganised to organised players, and (b) double-digit growth and sustainable margins in MDF and particle boards amid buoyant demand for readymade furniture and exports. Overall, we believe the company's EBITDA margin will expand backed by a higher MDF contribution, superior product mix, operating leverage and cost rationalisation.

Valuations reasonable, BUY: CPBI is trading at 27.6x FY24E EPS compared to its 5Y median of 34.1x. We find valuations attractive and retain our BUY rating with a TP at Rs 735, set at an unchanged 35x FY24E P/E multiple. In our view, CPBI's long-term growth story remains intact given its strong fundamentals, impressive return ratios and healthy balance sheet.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	CPBI IN/Rs 580
Market cap	US$ 1.6bn
Free float	27%
3M ADV	US$ 1.1mn
52wk high/low	Rs 749/Rs 342
Promoter/FPI/DII	73%/7%/20%

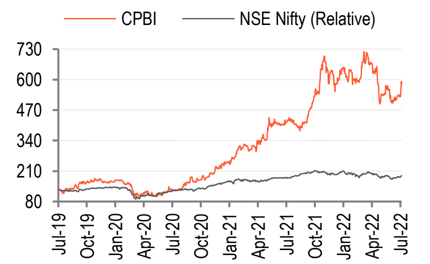
Source: NSE | Price as of 21 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	30,270	35,677	41,343
EBITDA (Rs mn)	5,308	6,407	7,420
Adj. net profit (Rs mn)	3,148	4,012	4,675
Adj. EPS (Rs)	14.2	18.1	21.0
Consensus EPS (Rs)	14.2	17.0	21.4
Adj. ROAE (%)	22.3	23.0	21.7
Adj. P/E (x)	40.9	32.1	27.6
EV/EBITDA (x)	24.5	20.1	17.4
Adj. EPS growth (%)	57.7	27.5	16.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

METALS & MINING

21 July 2022

Aluminium: Read-across from Alcoa results

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- **Alcoa's aluminium commentary sets a positive tone; management continues to see market in deficit in CY22**
- **With aluminium price already dipping in the cost curve and costs starting to peak out, ground being set for margins to bottom out**
- **Miss on Q2CY22 aluminium EBITDA indicates above-expected costs, while beat on alumina suggests possibility of better realisations**

Aluminium market commentary positive: Despite economic uncertainty, Alcoa still expects positive demand growth and global deficit in the aluminium market in CY22. The company continues to have a full order book and is seeing strong premiums with healthy demand for value-added products. Its stock was up 3% in post-market trades, reflecting the positive commentary.

Aluminium price has already dipped in cost curve: Alcoa highlighted the support to aluminium price from the cost curve. While 10-20% of global smelters are underwater at the June-price level, half of the Chinese smelters are lossmaking at July prices.

Near-term prices volatile: While the impact of China stimulus and near-term economic growth are key demand uncertainties, exports from Russia and further energy-driven curtailments hold the key on the supply-side. In terms of supply, Russian aluminium production has continued to surpass expectations, indicating that the country is managing adequate imports of alumina.

Q2 aluminium miss vs. alumina beat: Alcoa's adj. EBITDA fell 15% QoQ primarily on lower metal prices in late-Q2CY22 and higher costs for raw materials, energy and production. While company EBITDA was in line, aluminium EBITDA missed consensus by 6% on higher costs whereas alumina was 8% ahead on better realisations.

Q3 guided to see further decline in EBITDA: Alcoa guides for a further sequential decline in EBITDA as higher costs of energy and raw materials in the aluminium and alumina segments will be only partially offset by an increase in shipments. Indian smelters may face a higher decline than Alcoa owing to higher linkages to coal.

Cost peak-out could lead to margin bottoming out: Management sees signs of costs peaking out, with a reduction in cost of alumina from Q3, caustic soda over Q2-Q3, and petroleum coke and pitch over Q3-Q4.

Structural story intact: Alcoa demonstrated its confidence in the cycle by announcing another US$ 500mn share buyback on top of US$ 350mn in H1CY22.

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

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Note: Recommendation structure changed with effect from 21 June 2021

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