FIRST LIGHT

27 July 2022

RESEARCH

JSW Steel | Target: Rs 655 | +12% | HOLD
Aggressive growth policy a risk – cut to HOLD

Supreme Industries | Target: Rs 2,055 | +13% | HOLD
Healthy topline but margins soft; downgrade to HOLD

Finolex Industries | Target: Rs 140 | +6% | HOLD
Near-term pain ahead; downgrade to HOLD

BOB Economics Research | Indian Economy Prognosis
What to expect in FY23

BOB Economics Research | Commodity Trends
Easing pressure on commodity prices

BOB Economics Research | Monsoon Update
Monsoon and sowing progress

Crompton Greaves | Target: Rs 500 | +33% | BUY
Temporary margin miss; expect swift recovery

IIFL Wealth | Target: Rs 2,277 | +39% | BUY
Decent set of numbers considering headwinds; Maintain 'BUY'

Orient Electric | Target: Rs 310 | +8% | HOLD
Headwinds in core portfolio, maintain HOLD

Daily macro indicators

Indicator	22-Jul	25-Jul	Chg (%)
US 10Y yield (%)	2.75	2.8	5bps
India 10Y yield (%)	7.42	7.39	(3bps)
USD/INR	79.85	79.74	0.1
Brent Crude (US$/bbl)	103.2	105.2	1.9
Dow	31,899	31,990	0.3
Hang Seng	20,609	20,563	(0.2)
Sensex	56,072	55,766	(0.5)
India FII (US$ mn)	**21-Jul**	**22-Jul**	**Chg ($ mn)**
FII-D	62.1	(103.9)	(166.0)
FII-E	234.4	(77.0)	(311.4)

Source: Bank of Baroda Economics Research

SUMMARY

JSW Steel

- With a weaker outlook for steel margins in H1, JSTL lowers capex plan for FY23 to manage leverage but maintains Rs 480bn plan over 3 years
- Stock is currently discounting EBITDA/t of Rs 11.4k based on average 5Y/10Y EV/EBITDA multiples
- Downgrade from BUY to HOLD with a reduced TP of Rs 655 (vs. Rs 810) based on 6x EV/EBITDA (vs. 6.5x) to reflect relatively higher leverage

Click here for the full report.

BOBCAPS Research
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Supreme Industries

- Q1 revenue grew 64% YoY led by increased realisations (+8%) and volume recovery (+53%) on a soft base
- EBITDA margin contracted 435bps YoY to 12.2% as RM-to-sales cost surged 900bps
- We cut FY23/FY24 PAT 17%/14% and downgrade from BUY to HOLD with a revised TP of Rs 2,055 (vs. Rs 2,400)

Click here for the full report.

Finolex Industries

- Q1 revenue increased 23% YoY as volumes/realisations rose 29%/4% in PVC pipes & fittings and 25%/0.2% in PVC resin
- EBITDA margin fell 1,110bps YoY to 10.6% on higher RM (+730bps) and other costs; PVC price volatility and tepid demand key near-term concerns
- We cut FY23/FY24 PAT 24%/13%, lower our target P/E to 16x (vs. 18x) and revise our TP to Rs 140 (vs. Rs 180); downgrade from BUY to HOLD

Click here for the full report.

India Economics: Indian Economy Prognosis

FY23 has begun on a rather sombre note for the Indian economy with mixed signals. The impact of the war on the economy has started being witnessed in different areas which has increased the level of uncertainty. Starting on 24th February, the war has lasted longer than expected with no foreseeable end in sight. The pains from the interlinkages of all countries under the umbrella of globalization has meant that gradually it is getting harder to remain insulated from the influences of both the war as well as sanctions.

Click here for the full report.

India Economics: Commodity Trends

After sharp increase in global commodity prices, post the outbreak of Russia-Ukraine war, prices have witnessed a dip in the last month. Key reasons for moderation in prices is a mix of fear of global growth slowdown and improvement in supply chains as bottlenecks eased.

Click here for the full report.

India Economics: Monsoon Update

With the advancement of South-West monsoon, rainfall is above normal at 11% above LPA till 25 Jul 2022. The actual rainfall for this period has exceeded and moved past the normal range. The recent uptick in rainfall has also resulted in pick-up of kharif sowing which rose by 0.1%. Out of 36 subdivisions, only 7 have received deficient rainfall during this period. However, there has been uneven distribution of rainfall and there is growing concern that this might translate in to lower sowing, resulting in lower production. This in turn might even adversely impact food inflation.

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Crompton Greaves

- Q1 miss on margins due to one-time costs; expect margins to course correct in 9MFY23 against backdrop of lower commodity costs
- BGAL integration on track and performance in line with internal forecasts
- We remain positive on Crompton due to leadership in ECD and new growth avenues from BGAL; retain BUY with unchanged TP of Rs 500

Click here for the full report.

IIFL Wealth

- Focus on expanding trail-based ARR model; recurring revenue constituted 68% share in Q1 and recurring AUM 57%
- Decline in C/I ratio to 45.4% vs. 50.3% in Q1FY22 and 52.3% in Q4FY22, in line with guidance
- Maintain BUY given strong clientele, favourable industry drivers and undervaluation; TP unchanged at Rs 2,277 (25x FY24E P/E)

Click here for the full report.

Orient Electric

- Q1 gross margin maintained but EBITDA margin drained by higher A&P spend (+108% YoY) and logistics & warranty expense (+87% YoY)
- Sustained demand slowdown and trade-channel destocking in fans dampened primary sales
- Core fans portfolio remains under pressure; maintain HOLD with TP of Rs 310 as we continue to prefer larger players

Click here for the full report.

HOLD

TP: Rs 655 | ⮝ 12%

JSW STEEL | Metals & Mining | 25 July 2022

Aggressive growth policy a risk – cut to HOLD

- **With a weaker outlook for steel margins in H1, JSTL lowers capex plan for FY23 to manage leverage but maintains Rs 480bn plan over 3 years**
- **Stock is currently discounting EBITDA/t of Rs 11.4k based on average 5Y/10Y EV/EBITDA multiples**
- **Downgrade from BUY to HOLD with a reduced TP of Rs 655 (vs. Rs 810) based on 6x EV/EBITDA (vs. 6.5x) to reflect relatively higher leverage**

Kirtan Mehta, CFA
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Q1 reflects weaker environment; capex cut to manage debt: JSTL's consolidated adj. EBITDA at Rs 61.8bn fell 32% QoQ in Q1FY23 due to a sharp 20% decline in sales volume and a modest Rs 1.4k/t reduction in EBITDA margin for standalone operations, a 55% drop in BPSL EBITDA and a loss in JSW Steel Colour Coated. Consolidated net debt soared by Rs 105bn to Rs 672bn amid significant inventory buildup and translation increase on foreign currency loans. To manage net debt levels, JSTL has lowered FY23 capex plans to Rs 150bn from Rs 200bn but maintains its three-year plan at Rs 480bn with no slowdown in expansion projects.

Margin to decline further in Q2…: Management guidance suggests sustained margin pressure in Q2 with only a modest US$ 50-60/t reduction in coking coal costs and a lag in declaration of IBM prices slowing down the reduction in iron ore cost on Odisha volumes. We expect JSTL's standalone EBITDA margin to slip further by Rs 2-5k/t QoQ in Q2 based on a potential Rs 8-12k/t decline in realisations.

… but could bottom out in Q2: Companies are currently seeing signs of demand stabilisation in India, even during the muted monsoon months. We also expect international prices to stabilise during Q2 as production cuts in China and Europe come through and as steel demand in China stabilises. Further, benefits of lower raw material prices will feed into the cost base and help improve margins from Q3.

Estimates revised down: We still expect JSTL to deliver on its annual volume guidance for FY23 assuming a demand revival during the second half. We cut our standalone FY23/FY24 EBITDA/t forecasts by 25%/7% to Rs 11.1k/Rs 13.3k. This results in a 28%/8% reduction in our consolidated EBITDA estimates.

Downgrade to HOLD: We cut our TP to Rs 655 (from Rs 810) as we reduce forecasts and also lower our target 1Y forward EV/EBITDA multiple to 6x (from 6.5x). Our valuations are based on FY24 with India HRC price forecast at US$ 642/t. We move from BUY to HOLD factoring in potential risks from the relatively higher level of gearing within the Indian steel sector. JSTL is trading at 5.9x FY24E EV/EBITDA, close to its 5Y/10Y average, and is factoring in EBITDA/t of Rs 11.4k.

Key changes

Target	Rating
▼	▼

Ticker/Price	JSTL IN/Rs 586
Market cap	US$ 17.7bn
Free float	40%
3M ADV	US$ 39.1mn
52wk high/low	Rs 790/Rs 520
Promoter/FPI/DII	60%/11%/9%

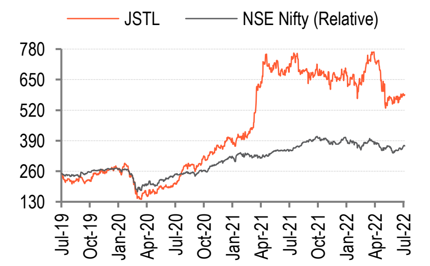
Source: NSE | Price as of 25 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,464	1,618	1,559
EBITDA (Rs mn)	390	282	360
Adj. net profit (Rs mn)	197	122	175
Adj. EPS (Rs)	81.7	50.6	72.4
Consensus EPS (Rs)	81.7	53.1	66.9
Adj. ROAE (%)	35.0	16.9	20.8
Adj. P/E (x)	7.2	11.6	8.1
EV/EBITDA (x)	2.2	3.0	2.4
Adj. EPS growth (%)	149.6	(38.1)	43.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD

TP: Rs 2,055 | ⮝ 13%

SUPREME INDUSTRIES | Plastic Products | 26 July 2022

Healthy topline but margins soft; downgrade to HOLD

- **Q1 revenue grew 64% YoY led by increased realisations (+8%) and volume recovery (+53%) on a soft base**
- **EBITDA margin contracted 435bps YoY to 12.2% as RM-to-sales cost surged 900bps**
- **We cut FY23/FY24 PAT 17%/14% and downgrade from BUY to HOLD with a revised TP of Rs 2,055 (vs. Rs 2,400)**

Ruchitaa Maheshwari
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Soft base, higher realisations and volumes aid strong topline growth: SI's Q1FY23 revenue grew 64% YoY to Rs 22bn led by volume growth of 65%/36%/ 12%/77% in plastic pipes/industrial products /packaging products /consumer products on a soft base of Q1FY22. The company reported an 8% YoY rise in blended realisations to Rs 201/kg (Rs 197/kg in Q4FY22). Overall volumes increased 53% YoY (-15% QoQ) to 108,922mt.

EBITDA margin contracts 435bps: Gross margin declined 900bps YoY to 26.5% due to a drop in polymer prices and inventory losses. Further, the prices of different polymers, particularly polypropylene (PP), LDPE and PVC, have fallen between Rs 19/kg and Rs 46/kg since Jan'22 – a reduction of 13-32%. This has driven inventory losses and, in turn, a 435bps YoY drop in EBITDA margin to 12.2% (-310bps QoQ).

Expect EBIT/kg to decline in Q2: SI posted EBIT/kg of ~Rs 20 in Q1 vs. Rs 24 in the year-ago quarter due to a correction in PVC prices. We expect a further decline in EBIT/kg for Q2FY23 (lean season) as PCV prices have fallen by another Rs 20/kg in the month of July. This will result in additional inventory losses in July and August. Management expects demand to improve from September onwards and believes PVC prices have bottomed out, with improvement likely ahead.

Superior topline performance vs. peer…: SI reported 65% YoY volume growth in plastic pipes vs. 29% for FNXP in Q1 on the back of strong agricultural demand and 7% higher realisations vs. 4% for FNXP. Revenue grew 76% YoY in plastic pipes vs. 34% for FNXP. On a three-year basis, the company's plastic pipe revenue clocked a 20% CAGR (Q1FY20-Q1FY23) vs. an 8% decline for its peer over the same period.

...but tepid outlook drives our downgrade to HOLD: While topline performance has been healthy, we expect SI's margins to remain under pressure in Q2 given the further drop in PVC prices in July and a seasonally lean second quarter. We lower our FY23/FY24 PAT estimates by 17%/14% to incorporate the Q1 numbers, PVC price volatility and tepid demand outlook. This translates to a revised TP of Rs 2,055 (vs. Rs 2,400), set at an unchanged 29x FY24E EPS – cut from BUY to HOLD.

Key changes

Target	Rating
▼	▼

Ticker/Price	SI IN/Rs 1,823
Market cap	US$ 2.9bn
Free float	51%
3M ADV	US$ 1.4mn
52wk high/low	Rs 2,694/Rs 1,666
Promoter/FPI/DII	49%/16%/35%

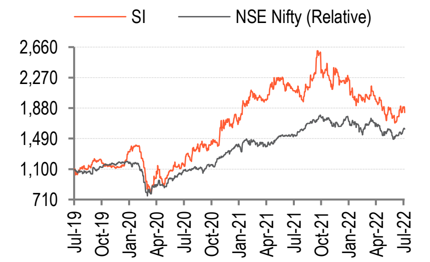
Source: NSE | Price as of 25 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	77,728	78,640	85,831
EBITDA (Rs mn)	12,421	11,674	13,018
Adj. net profit (Rs mn)	9,684	8,087	8,997
Adj. EPS (Rs)	76.2	63.7	70.8
Consensus EPS (Rs)	76.2	76.3	84.6
Adj. ROAE (%)	27.6	19.9	20.1
Adj. P/E (x)	23.9	28.6	25.7
EV/EBITDA (x)	18.6	20.1	18.2
Adj. EPS growth (%)	1.0	(16.5)	11.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 140 | ⮝ 6%

FINOLEX INDUSTRIES | Plastic Products | 26 July 2022

Near-term pain ahead; downgrade to HOLD

- **Q1 revenue increased 23% YoY as volumes/realisations rose 29%/4% in PVC pipes & fittings and 25%/0.2% in PVC resin**
- **EBITDA margin fell 1,110bps YoY to 10.6% on higher RM (+730bps) and other costs; PVC price volatility and tepid demand key near-term concerns**
- **We cut FY23/FY24 PAT 24%/13%, lower our target P/E to 16x (vs. 18x) and revise our TP to Rs 140 (vs. Rs 180); downgrade from BUY to HOLD**

Ruchitaa Maheshwari
research@bobcaps.in

Soft base, higher realisations and volumes bolster topline: FNXP reported a 23% YoY increase in Q1FY23 revenue to Rs 11.9bn (-25% QoQ) due to higher YoY volumes in PVC pipes & fittings (+29% YoY, -9% QoQ) and PVC resin (+25% YoY, -21% QoQ). In addition, realisations in PVC pipes & fittings increased 4% (-3.1% QoQ) while PVC resin was flat YoY (-5.2% QoQ).

EBITDA margin contracts 11ppt: An increase in raw material cost (+730bps) and other expenses (+420bps) resulted in a substantial fall in EBITDA margin by 1,110bps YoY to 10.6%. EBITDA declined 40% YoY to Rs 1.3bn.

PVC prices corrected further: PVC prices stood at US$ 1,450/t in Q1FY23 vs. US$ 1,563/t in Q4FY22 and have corrected further to ~US$ 1,050/t (currently). EDC prices stood at US$ 670/t in Q1 (US$ 520/t currently) vs. US$ 835/t in Q4FY22. The average PVC-EDC delta was at US$ 780/t in Q1FY23 (US$ 530/t currently) vs. US$ 728/t in Q4FY22 and US$ 834/t in Q1FY22. VCM stood at US$ 1,175/t in Q1 (US$ 880 currently). PVC/VCM spread was at US$ 275/t (US$ 170/t currently) vs. US$ 350/t in Q4FY22 and US$ 310/t in Q1FY22.

Near-term pain to worsen: We like FNXP for its pipes business and robust balance sheet but expect earnings to be lower over FY22-FY24 due to a high base and correcting PVC/EDC spreads. Demand was lukewarm in Q1 owing to pressure on PVC prices. In July, PVC pricing declined further by Rs 20/kg and is trading at ~Rs 99/kg. We expect Q2 to witness inventory loss, putting added pressure on margins. Moreover, Jul-Sep is a lean season and hence likely to see muted demand.

Cut to HOLD on declining PVC prices and lukewarm demand: We cut our PAT estimates by 24% for FY23 and 13% for FY24 to incorporate the Q1 numbers, PVC price volatility and tepid demand outlook. We have also lowered our target FY24E P/E multiple from 18x to 16x (vs. the 5Y median of 17.7x) to factor in the near-term pain. Our TP thus reduces to Rs 140 from Rs 180 and we downgrade our rating from BUY to HOLD.

Key changes

Target	Rating
▼	▼

Ticker/Price	FNXP IN/Rs 132
Market cap	US$ 1.0bn
Free float	48%
3M ADV	US$ 0.7mn
52wk high/low	Rs 245/Rs 125
Promoter/FPI/DII	52%/6%/42%

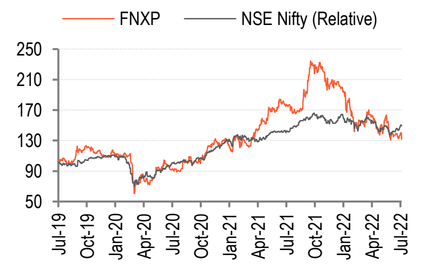
Source: NSE | Price as of 25 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	46,473	47,924	49,495
EBITDA (Rs mn)	10,237	6,684	7,899
Adj. net profit (Rs mn)	10,453	4,662	5,435
Adj. EPS (Rs)	16.8	7.5	8.8
Consensus EPS (Rs)	16.8	10.1	10.8
Adj. ROAE (%)	29.6	11.5	12.5
Adj. P/E (x)	7.8	17.6	15.1
EV/EBITDA (x)	7.7	10.7	8.6
Adj. EPS growth (%)	41.7	(55.4)	16.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

INDIAN ECONOMY PROGNOSIS

14 June 2022

What to expect in FY23

Madan Sabnavis
Chief Economist

FY23 has begun on a rather sombre note for the Indian economy with mixed signals. The impact of the war on the economy has started being witnessed in different areas which has increased the level of uncertainty. Starting on 24th February, the war has lasted longer than expected with no foreseeable end in sight. The pains from the interlinkages of all countries under the umbrella of globalization has meant that gradually it is getting harder to remain insulated from the influences of both the war as well as sanctions.

On the other side, there have been some very positive signals received from the data that has been released in first quarter of FY23 which indicates that the economy did well enough in the four months following the beginning of the war. GST collections have been buoyant and services PMI is also showing improvement. Industrial growth including crore sector growth has been impressive for April. Exports growth too has been steady though growth slowed in May, thus brushing aside initial fears of the war impact. There is always the question mark on whether this will continue on the present path or will be interrupted along the way.

Against this background we present below our expectations for the economy for FY23 where we have made projections on various economic parameters after weighing both the positive tailwinds in favour as well as the speed breakers that could be encountered. With conditions changing quite dynamically, it must be pointed out at the onset that all forecasts are subject to change as the environment is dynamic. The immediate impact of the war and sanctions was seen on crude oil prices which soared. However, with time, as the impact of sanctions set in, edible oils became more expensive due to the disruptions. This spread further to wheat, where prices have been increasing in India for various other reasons. The entire trade matrix has changed and in the midst of the Fed tightening their rates and liquidity, which was known from the beginning of the year, the tone and language in their meetings has caused currencies to gyrate at a different pace. Therefore, all these forecasts would be subject to continuous review with the evolving conditions.

COMMODITY TRENDS

14 June 2022

Easing pressure on commodity prices

Sonal Badhan
Economist

After sharp increase in global commodity prices, post the outbreak of Russia-Ukraine war, prices have witnessed a dip in the last month. Key reasons for moderation in prices is a mix of fear of global growth slowdown and improvement in supply chains as bottlenecks eased.

In early Q2CY22 major cities in China remained in lockdown to combat surge in Covid-19 cases. This impacted demand of several metals and coal. However in June, lockdown restrictions eased, also helping in easing pressure on supply chain bottlenecks. Elsewhere in the US, as CPI continues to inch up, Fed has asserted an aggressive monetary policy stance to tame prices. This has added to fears of an economic recession. Even high-frequency data prints are showing that high interest rates are beginning to take a toll on economic activity. Initial jobless claims for the week ending 16 Jul 2022 rose to 251,000 (highest since Jan'22), up by 7,000 from the previous week. In addition, US manufacturing activity slowed (Markit PMI) in Jun'22 while services activity contracted.

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MONSOON UPDATE

14 June 2022

Monsoon and sowing progress

Jahnavi Prabhakar
Economist

With the advancement of South-West monsoon, rainfall is above normal at 11% above LPA till 25 Jul 2022. The actual rainfall for this period has exceeded and moved past the normal range. The recent uptick in rainfall has also resulted in pick-up of kharif sowing which rose by 0.1%. Out of 36 subdivisions, only 7 have received deficient rainfall during this period. However, there has been uneven distribution of rainfall and there is growing concern that this might translate in to lower sowing, resulting in lower production. This in turn might even adversely impact food inflation.

Where does Kharif sowing stand?

For the week ending 15 Jul 2022, overall kharif sown area has increased by 0.1% compared with last year (previous week it had declined by 9.3%). Sown area of pulses (9%) and oilseeds (7.4%) has improved. Additionally, cotton sowing has also been higher by 6.5%. However, the sowing area for rice has declined by 17.4% and is worrisome. Sugarcane and Jute and Mesta too have registered much lower sowing by 0.7% and 1.4% respectively.

Table 1: Trend in Kharif Sowing

	Area sown in 2022-23 (mn ha)	Area sown in 2021-22 (mn ha)	Growth (YoY %)
Foodgrains	29.5	30.9	(4.6)
Cereals	22.2	24.3	(8.3)
Rice	12.9	15.6	(17.4)
Pulses	7.3	6.7	9.0
Oilseeds	13.4	12.5	7.4
Cotton	10.3	9.7	6.5
Sugarcane	5.3	5.4	(0.7)
Jute and Mesta	0.7	0.7	(1.4)
Total	59.2	59.1	0.1

Source: CEIC, Bank of Baroda | Data as of 15 Jul 2022

Monsoon:

For the period 1 Jun 2022 to 25 Jul 2022, South West Monsoon is 11% above LPA compared with last year.

- Rajasthan, Gujarat, Maharashtra, Madhya Pradesh along with the states in the Southern belt such as Tamil Nadu, Telangana, Karnataka and Andhra Pradesh have been receiving excess rainfall.
- On the other hand, states such as Uttar Pradesh, Bihar, Jharkhand, West Bengal, Delhi, Kerala and Manipur have been witnessing deficient rainfall.

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY

TP: Rs 500 | ⮝ 33%

CROMPTON GREAVES | Consumer Durables | 25 July 2022

Temporary margin miss; expect swift recovery

- **Q1 miss on margins due to one-time costs; expect margins to course correct in 9MFY23 against backdrop of lower commodity costs**
- **BGAL integration on track and performance in line with internal forecasts**
- **We remain positive on Crompton due to leadership in ECD and new growth avenues from BGAL; retain BUY with unchanged TP of Rs 500**

Vinod Chari | Tanay Rasal
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Revenue beat estimates: Crompton reported Q1FY23 revenue of Rs 18.6bn (vs. Rs 16.4bn expected), driven by 52% and 58% YoY growth in ECD and lighting respectively. Gross margin held strong at 31.4% (29.9% in Q4FY22) mainly due to a robust performance in premium and TPW fans. The company has maintained market leadership every quarter for the past four years with ~28% share.

One-offs dent margin: EBITDA margin was relatively muted at 11.8% (14.3% est.), owing to an increase in other expense and employee cost (+42% QoQ) that stemmed from variable payouts to staff in Q1. Moreover, Crompton had a normal increment cycle beginning April in FY23 as compared to July last year. The company has also stepped up its A&P spends to Rs 450mn in Q1 – its highest ever quarterly spend. On top of this, it is investing in the built-in kitchen appliances business, which also impacted EBITDA margin.

Margins to recover in 9M: We expect Crompton's margins to revert to normal levels in 9MFY23 as (1) easing commodity prices translate to cost benefits from Q2 onward once the older high-cost inventory gets liquidated, (2) employee cost which was at Rs 1.2bn due to the incentives is likely to revert to a quarterly run-rate of Rs 1bn-1.05bn, and (3) A&P expenses are likely to moderate after peaking in the first quarter. We note that the Q1 exit margin has already retraced to FY22 levels.

BGAL integration on track: Subsidiary BGAL has bounced back to profitability in Q1, with sales of Rs 2.5bn and an EBITDA margin of 10.2% – in line with the company's internal forecasts. Growth was across products and channels, and we expect these numbers to sustain as the integration process continues and Crompton focuses more on non-southern markets.

Maintain BUY: We like Crompton for its leadership position in the ECD category and demonstrated market share gains. We continue to value the stock at 35x FY24E EPS, in line with its 5Y average, and maintain BUY with an unchanged TP of Rs 500. Key downside risks include loss of market share and slower-than-expected integration of BGAL.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	CROMPTON IN/Rs 377
Market cap	US$ 3.0bn
Free float	94%
3M ADV	US$ 7.6mn
52wk high/low	Rs 513/Rs 312
Promoter/FPI/DII	6%/37%/45%

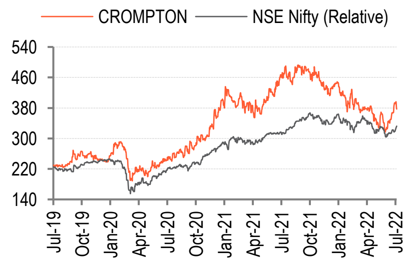
Source: NSE | Price as of 22 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	53,941	76,000	87,520
EBITDA (Rs mn)	7,694	10,273	12,607
Adj. net profit (Rs mn)	5,914	6,845	8,848
Adj. EPS (Rs)	9.3	10.8	14.0
Consensus EPS (Rs)	9.3	10.3	12.5
Adj. ROAE (%)	27.0	25.1	26.4
Adj. P/E (x)	40.4	34.9	27.0
EV/EBITDA (x)	32.0	23.7	19.1
Adj. EPS growth (%)	(4.1)	15.8	29.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY

TP: Rs 2,277 | 39%

IIFL WEALTH | Diversified Financials | 26 July 2022

Decent set of numbers considering headwinds; Maintain 'BUY'

- **Focus on expanding trail-based ARR model; recurring revenue constituted 68% share in Q1 and recurring AUM 57%**
- **Decline in C/I ratio to 45.4% vs. 50.3% in Q1FY22 and 52.3% in Q4FY22, in line with guidance**
- **Maintain BUY given strong clientele, favourable industry drivers and undervaluation; TP unchanged at Rs 2,277 (25x FY24E P/E)**

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In recurring mode: IIFL Wealth is focused on building a larger share of recurring revenue streams (ARR), with 57% of AUM and 68% of revenue based on ARR at end-Q1FY23, which we expect will grow to 61% and 81% respectively by FY25.

Volatility impacted Q1 but net flows encouraging: The company's AUM grew 7% YoY (but declined 4% QoQ) to Rs 2.5tn in Q1FY23. Headwinds in financial markets have had a negative MTM impact on AUM. However, the company managed to garner net flows of ~Rs 60bn during the quarter which is positive. We expect net flows/ net new money of Rs 340bn/Rs 405bn/Rs 452bn by end-FY23/FY24/FY25 with AUM reaching Rs 3.1tn/Rs 3.8tn/Rs 4.5tn.

C/I reduces as per guidance: The cost-to-income (C/I) ratio stood at 45.4% in Q1 following a 30% QoQ reduction in employee costs as one-time costs completed in FY22 were absorbed. We have baked in a 45% C/I vs. official guidance 44% for FY23. ROAE increased from 11% in Q1FY21 to 21.4%, although it declined 165bps QoQ. We expect ~28% ROAE and ~7% ROAA by FY25 based on higher total income (14% CAGR over FY17-FY22) coupled with a decline in C/I ratio to 44% in FY25 vs. 51% in FY22. Similarly, we forecast a net profit CAGR of 18% over FY22-FY25 to Rs 9.6bn.

Q1 yield at 59bps: IIFL Wealth clocked yields of 59bps on a blended basis whereas it earned 71bps on recurring business. The company earned Rs 133mn as carry income in Q1FY23. Over FY23-FY25, we expect ARR yield to sustain at >70bps and overall yield at >50bps.

Inorganic story continues: The company acquired 91% in MAVM Angels Network Private Limited (MANPL), a private investment platform for early-stage ventures. This is in line with its strategy to grow inorganically, as seen over several years now.

Maintain BUY: IIFL Wealth is trading at 18x FY24E EPS and appears undervalued, in our view. We reiterate BUY with a TP of Rs 2,277 (39% upside) set at 25x FY24E EPS – a 10% premium to the 3Y average given a robust model, strong fundamentals and supportive macro (for details, see our report: Juggernaut rolling; initiate with BUY).

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	IIFLWAM IN/Rs 1,640
Market cap	US$ 1.9bn
Free float	77%
3M ADV	US$ 0.9mn
52wk high/low	Rs 1,908/Rs 1,236
Promoter/FPI/DII	23%/22%/3%

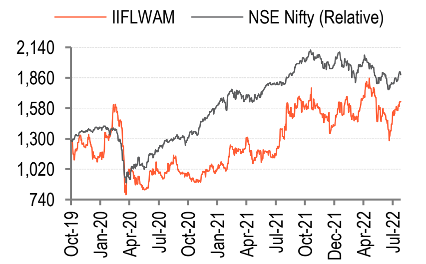
Source: NSE | Price as of 26 Jul 2022

Key financials

Y/E 31 Mar (Rs mn)	FY22P	FY23E	FY24E
PBT (Rs mn)	7,513	9,271	10,947
PBT growth (%)	54.9	23.4	18.1
Adj. net profit (Rs mn)	5,818	6,954	8,210
EPS (Rs)	64.1	77.1	91.1
Consensus EPS (Rs)	64.1	77.0	89.0
P/E (x)	25.6	21.3	18.0
MCap/AUM (%)	5.6	4.7	3.9
ROE (%)	20.0	22.7	25.5

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

RESULT REVIEW

HOLD

TP: Rs 310 | ⮝ 8%

ORIENT ELECTRIC | Consumer Durables | 26 July 2022

Headwinds in core portfolio, maintain HOLD

- **Q1 gross margin maintained but EBITDA margin drained by higher A&P spend (+108% YoY) and logistics & warranty expense (+87% YoY)**
- **Sustained demand slowdown and trade-channel destocking in fans dampened primary sales**
- **Core fans portfolio remains under pressure; maintain HOLD with TP of Rs 310 as we continue to prefer larger players**

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EBITDA margin still under pressure: While ORIENTEL's Q1FY23 gross margin was flat QoQ at 27.8%, EBITDA margin was soft at 6.1% (-460bps QoQ) owing to higher A&P spend (+108% YoY) and logistics and warranty expense (+87% YoY). ECD/lighting EBIT margins remained under pressure at 8.3%/13.2% as the company faced a double whammy of slowing demand (from the second half of Q1FY23) and high-cost inventory. Nonetheless, management believes that margins will recover in coming quarters as softer commodity prices come into play.

Fans facing the heat: ORIENTEL's Q1 revenue stood at Rs 6.2bn (-18% QoQ). The 3Y CAGR for ECD/lighting remained muted at 1%/8% (vs. 10%/10% for HAVL). ECD revenue was under pressure in the second half of Q1 due to a fall in consumer demand and expectations of a price drop amid the correction in commodities – this resulted in destocking by the trade channel and lower primary sales. Lighting, on the other hand, demonstrated resilience led by B2C orders, increasing by 79% YoY. Compared to other segments, the fans segment which accounts for 60-65% of sales was the most affected.

Change in distribution strategy: In Q4FY22, ORIENTEL adopted a direct-to-dealer approach in fans in the underpenetrated markets of Odisha and Bihar. Following a positive response, the company has expanded its distribution model to the states of Uttar Pradesh and Karnataka. In addition, as part of its long-term plan, management is also focusing on (i) go-to-market strategy – increasing distribution reach and depth, (ii) channel proliferation – limited reliance on distribution model and focus on growing through e-commerce, (iii) targeting the B2C space in lighting segment with a focus on façade lighting, and (iv) a deeper focus on innovation-led product development.

Maintain HOLD: The company's core portfolio of fans continues to face headwinds and is likely to remain weak over the next few months. Pertinently, margin pressure persists. We continue to prefer larger, leading players with a strong track record. Maintain HOLD on ORIENTEL with a TP of Rs 310, valuing the stock at an unchanged 35x FY24E EPS.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ORIENTEL IN/Rs 287
Market cap	US$ 763.5mn
Free float	62%
3M ADV	US$ 1.0mn
52wk high/low	Rs 408/Rs 244
Promoter/FPI/DII	39%/6%/29%

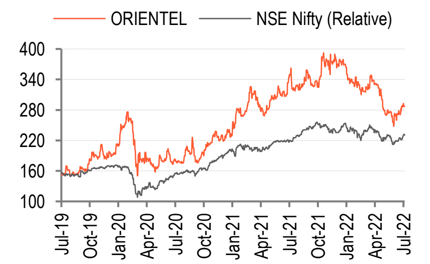
Source: NSE | Price as of 25 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	24,484	28,826	33,150
EBITDA (Rs mn)	2,313	2,718	3,269
Adj. net profit (Rs mn)	1,266	1,509	1,857
Adj. EPS (Rs)	6.0	7.1	8.7
Consensus EPS (Rs)	6.0	8.2	10.0
Adj. ROAE (%)	25.4	25.9	27.3
Adj. P/E (x)	48.1	40.3	32.8
EV/EBITDA (x)	26.3	22.4	18.6
Adj. EPS growth (%)	46.1	19.2	23.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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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