



TM

Consumer Electricals

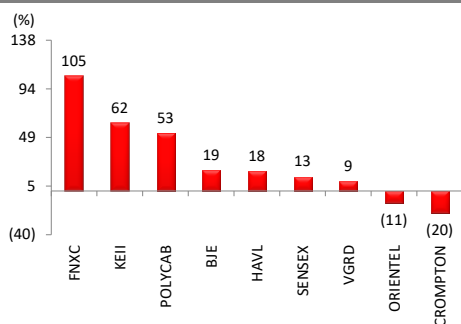
12 June 2023

Steady robust performance in C&W drives rerating; ECD demand may revive by the festival season (3Q)

SECTOR UPDATE

Industry Consumer Electricals

CE - stock price performance (1-year)



Source: BSE

Coverage universe

Company	Old Reco	New Reco	Old TP (Rs)	New TP (Rs)	Upside (%)
Bajaj Electricals (BJE)	BUY	BUY	1,347	1,347	16
Crompton Consumer (CROMPTON)	HOLD	HOLD	288	288	5
Finolex Cables (FNXC)	HOLD	HOLD	893	893	12
Havells (HAVL)	HOLD	HOLD	1,269	1,359	1
KEI Industries (KEII)	HOLD	HOLD	1,909	2,138	2
Orient Electric (ORIENTEL)	HOLD	HOLD	227	243	(1)
Polycab (POLYCAB)	HOLD	HOLD	3,533	3,533	(0)
V-Guard (VGRD)	HOLD	HOLD	268	268	4

Source: Systematix Institutional Research

Aggregate 4QFY23 revenue/EBITDA/PAT of 8 companies within our coverage universe (up 8%/8%/-1% YoY and 12%/18%/19% QoQ) was in line with our estimate. However, individual performance was a mixed bag. As expected, C&W companies sustained their robust performance (consolidated revenue up 9% YoY and 15% QoQ, led by POLYCAB, up 15% YoY and 22% QoQ) on strong volumes, as copper prices fell 2% YoY (up 12% QoQ) on a 3-month rolling basis; strong volumes translated into healthy margins for the C&W division. We had raised our FY24E/25E earnings for POLYCAB by ~5% post 4Q results, but retained the same for KEII and FNXC. Flattish revenue (YoY and QoQ) in ECD was ~8% below our estimate, led by companies (VGRD, ORIENTEL, POLYCAB) having higher exposure to fans and kitchen appliances in their portfolio. While above-normal inventory in fans (pushed during 3Q) hurt primary demand on the one hand, high inflation continued to weaken consumer sentiment on the other. Lower sales also impacted the segment margins of most companies. Weak ECD results led us to cut FY24E/25E earnings by ~8% in CROMPTON and ~5% in ORIENTEL. However, BJE saw ~7% earnings upgrade for FY25E, on expected superior margins and cash levels. Sunflame's consolidation led to 10% revenue/PAT upgrade for VGRD (we were already valuing it on proforma EPS). While our outlook stays sanguine for the C&W industry, based on continuing healthy traction in housing and infrastructure activities, we lower our return expectations, post sharp run-up and rerating in the scrips. In ECD, demand revival by festive season (3Q), as guided by management, is a key monitorable. BJE is our top pick in the sector.

Key 4QFY23 highlights and outlook

ECD – High channel inventory in fans and low consumer demand for kitchen appliances impacted growth and margins: The flattish revenue (YoY and QoQ) in the ECD segment (~8% below our estimate) was led by companies (VGRD, ORIENTEL, POLYCAB) having higher exposure to fans and kitchen appliances in their portfolio. Above-normal inventory in fans (pushed during 3Q) hurt primary demand, while high inflation continued to weaken consumer sentiment. Subdued sales also impacted segment margins of most companies. Weak results led us to chop FY24E/25E earnings by ~8% in CROMPTON and ~5% in ORIENTEL. However, BJE saw a ~7% earnings upgrade for FY25E on expected better margins and cash levels. Sunflame's consolidation led to 10% revenue/PAT upgrade for VGRD. Management is hopeful of a demand revival by the festive season (3Q).

C&W – Strong performance, earnings beat continued: C&W companies within our CE universe maintained their robust performance. Consolidated revenue of 5 leading companies under our coverage was up by 9% YoY and 15% QoQ, led by POLYCAB (up 15% YoY and 22% QoQ), on strong volumes, as copper prices fell by 2% YoY (up 12% QoQ) on a 3-month rolling basis. Margins of most companies expanded QoQ on strong volumes. We raised our FY24E/25E earnings by ~5% for POLYCAB but retained them for KEII and FNXC post 4Q results. Our sanguine outlook on the C&W industry factors in continuing healthy traction in housing and infrastructure activities.

Ashish Poddar

ashishpoddar@systematixgroup.in
+91 22 6704 8039

Pranay Shah

pranayshah@systematixgroup.in

Shraddha Kapadia

shraddhakapadia@systematixgroup.in

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COMPANY SECTION

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Finolex Cables – (HOLD, TP: Rs 893)	18
Havells – (HOLD, TP: Rs 1,359)	21
KEI Industries – (HOLD, TP: Rs 2,138)	24
Orient Electric – (HOLD, TP: Rs 243)	27
Polycab – (HOLD, TP: Rs 3,533)	30
V-Guard – (HOLD, TP: Rs 268)	33

Valuation Table

Exhibit 1: Valuation table – 1

	M-cap (Rs bn)	CMP 09-Jun	Rating	TP (Rs)	Upside (%)	Target PE FY25E (x)	1-yr forward PE (5-year)			P/E			RoIC (%)	
							Mean	+1 SD	-1 SD	FY23	FY24E	FY25E	FY23	FY25E
Bajaj Electric	134	1,162	Buy	1,347	16	30	50	72	29	62	34	26	13	23
Crompton Consumer	175	275	Hold	288	5	25	37	48	26	38	29	24	13	21
Finolex Cables	122	799	Hold	893	12	17	14	18	10	24	18	15	15	22
Havells	840	1,341	Hold	1,359	1	45	54	66	42	78	53	44	23	37
KEI Industries	190	2,104	Hold	2,138	2	28	17	23	12	40	33	28	22	23
Orient Electric	52	245	Hold	243	(1)	30	49	66	32	69	38	30	18	35
Polycab	531	3,548	Hold	3,533	(0)	30	23	30	16	42	36	30	27	31
V-Guard	111	257	Hold	268	4	30	45	51	38	59	35	29	11	16

Source: BSE, Systematix Institutional Research

Exhibit 2: Valuation table – 2

	EPS (Rs)			CAGR % (FY18-23)			CAGR % (FY23-25E)			RoE (%)		RoCE (%)		EV/EBITDA (x)	
	FY23	FY24E	FY25E	Rev	EBITDA	PAT	Rev	EBITDA	PAT	FY23	FY25E	FY23	FY25E	FY23	FY25E
Bajaj Electric	19	34	44	3	4	21	10	25	33	11	19	19	27	37	19
Crompton Consumer	7	10	12	14	10	9	8	13	17	17	21	16	23	21	14
Finolex Cables	33	43	52	10	3	9	8	13	17	12	14	13	15	22	14
Havells	17	25	30	16	9	10	8	19	21	16	22	22	30	47	27
KEI Industries	53	63	76	15	16	27	10	12	13	18	18	26	26	23	16
Orient Electric	4	6	8	12	3	4	9	24	32	13	22	22	33	30	15
Polycab	85	100	118	16	21	29	9	11	12	19	19	28	28	26	19
V-Guard	4	7	9	12	11	7	11	23	27	12	18	15	21	18	18

Source: Systematix Institutional Research

Consumer Electricals - Stock price performance (%)

	1-month	3-month	6-month	12-month	3-years
Orient Electric	11	(9)	(11)	(11)	36
Polycab	11	20	30	53	358
Crompton Consumer	7	(8)	(22)	(20)	23
Havells	7	10	13	18	146
KEI	5	28	31	62	530
V-Guard	4	4	(0)	9	42
Bajaj Electric	(2)	7	5	19	169
Finolex Cables	(10)	1	44	105	201

Source: BSE, Systematix Institutional Research

Company-wise quarterly estimates

(Rs mn)	4QFY20	4QFY21	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)
Coverage (8 companies)									
Revenue	96,822	1,28,729	1,60,514	1,42,711	1,41,165	1,54,865	1,73,712	8	12
EBITDA	10,359	16,896	17,722	13,660	13,450	16,251	19,196	8	18
EBITDA margin (%)	10.7	13.1	11.0	9.6	9.5	10.5	11.1		
PAT	6,857	12,600	13,707	9,274	8,507	11,422	13,539	(1)	19
Bajaj Electricals									
Revenue	13,007	12,585	13,343	12,291	12,255	14,845	14,901	12	0
Consumer Products	7,468	9,752	9,080	8,554	8,829	10,395	9,865	9	(5)
Lighting	-	-	3,023	2,738	2,757	2,700	3,054	1	13
EPC	5,538	2,832	1,240	999	669	1,750	1,981	60	13
EBITDA	373	726	631	748	956	1,017	856	35	(16)
EBITDA margin (%)	2.9	5.8	4.7	6.1	7.8	6.9	5.7		
PAT	(11)	546	394	430	602	611	519	32	(15)
Crompton Consumer									
Revenue	10,263	15,221	15,479	18,629	16,995	15,162	17,910	16	18
ECD	7,411	11,930	12,309	13,472	10,622	10,201	13,257	8	30
Lighting	2,853	3,291	3,170	2,623	2,696	2,477	2,786	(12)	12
Butterfly Products	1,106	2,062	1,898	2,535	3,677	2,484	1,867	(2)	(25)
EBITDA	1,412	2,280	2,288	2,199	1,931	1,524	2,114	(8)	39
EBITDA margin (%)	13.8	15.0	14.8	11.8	11.4	10.1	11.8		
PAT	1,021	2,491	1,766	1,260	1,307	882	1,316	(25)	49
Finolex Cables									
Revenue	6,514	9,214	11,869	10,157	10,908	11,503	12,243	3	6
Electrical wires	5,226	7,467	10,255	8,265	8,784	9,468	10,318	1	9
Communication cables	1,027	1,274	1,033	1,336	1,586	1,469	1,400	35	(5)
ECD + Lighting	227	393	517	503	483	515	453	(12)	(12)
EBITDA	805	1,351	1,201	1,191	987	1,459	1,457	21	(0)
EBITDA margin (%)	12.4	14.7	10.1	11.7	9.0	12.7	11.9		
PAT	645	1,676	2,245	1,196	554	1,543	1,750	(22)	13
Havells									
Revenue	22,161	33,312	44,171	42,301	36,689	41,197	48,496	10	18
ECD + Lighting	10,760	17,114	19,698	19,535	18,955	21,008	20,174	2	(4)
Cables & Wires	6,823	10,292	14,881	11,929	13,594	14,121	15,682	5	11
Lloyd	4,579	5,906	9,592	10,837	4,141	6,068	12,640	32	108
EBITDA	2,453	5,057	5,205	3,614	2,871	4,237	5,308	2	25
EBITDA margin (%)	11.1	15.2	11.8	8.5	7.8	10.3	10.9		
PAT	1,772	3,023	3,530	2,424	1,869	2,840	3,617	2	27
KEI									
Revenue	12,585	12,463	17,917	15,654	16,081	17,843	19,545	9	10
Cables & Wires	10,430	10,720	16,430	14,170	14,480	16,440	17,600	7	7
Stainless steel wires	400	450	610	610	700	540	630	3	17
EPC	1,860	1,330	1,090	840	910	950	1,350	24	42
EBITDA	1,206	1,374	1,719	1,596	1,606	1,822	2,038	19	12
EBITDA margin (%)	9.6	11.0	9.6	10.2	10.0	10.2	10.4		
PAT	608	861	1,159	1,038	1,069	1,286	1,381	19	7
Orient Electric									
Revenue	5,631	8,017	7,533	6,216	5,106	7,390	6,579	(13)	(11)
ECD	4,545	6,456	5,741	4,453	3,100	5,388	4,577	(20)	(15)
Lighting & Switchgear	1,086	1,561	1,792	1,763	2,006	2,003	2,003	12	0
EBITDA	652	968	807	382	116	549	464	(43)	(15)
EBITDA margin (%)	11.6	12.1	10.7	6.1	2.3	7.4	7.0		
PAT	358	627	488	190	(3)	326	246	(50)	(24)

(Rs mn)	4QFY20	4QFY21	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)
Polycab									
Revenue	21,294	29,427	39,700	27,366	33,324	37,152	43,237	9	16
<i>Cables & Wires</i>	18,605	25,318	35,400	24,057	29,517	33,418	40,783	15	22
<i>ECD + Lighting</i>	1,833	3,468	3,792	3,082	3,054	3,420	3,052	(20)	(11)
<i>EPC</i>	1,592	960	1,044	999	1,051	1,260	1,338	28	6
EBITDA	3,006	4,040	4,763	3,111	4,276	5,038	6,095	28	21
<i>EBITDA margin (%)</i>	14.1	13.7	12.0	11.4	12.8	13.6	14.1		
PAT	2,139	2,693	3,222	2,198	2,678	3,576	4,248	32	19
V-Guard									
Revenue	5,366	8,491	10,503	10,096	9,807	9,780	10,801	3	10
<i>Electricals (wires, switchgears etc.)</i>	2,422	3,827	5,073	4,072	4,161	4,308	5,181	2	20
<i>ECD + Lighting</i>	1,441	2,237	2,959	2,991	3,372	3,537	2,862	(3)	(19)
<i>Electronics (stabiliser, inverter etc.)</i>	1,503	2,428	2,471	3,034	2,274	1,935	2,758	12	43
EBITDA	452	1,099	1,108	819	707	605	865	(22)	43
<i>EBITDA margin (%)</i>	8.4	12.9	10.6	8.1	7.2	6.2	8.0		
PAT	325	683	906	540	431	358	463	(49)	29

Source: Company, Systematix Institutional Research; **Note:** For Crompton, Butterfly acquisition is effective from 1QFY23. Earlier quarter number are for comparison purpose

Cables & Wires – Revenue

(Rs mn)	4QFY20	4QFY21	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)
Finolex Cables	5,226	7,467	10,255	8,265	8,784	9,468	10,318	1	9
Havells	6,823	10,292	14,881	11,929	13,594	14,121	15,682	5	11
KEI	10,430	10,720	16,430	14,170	14,480	16,440	17,600	7	7
Polycab	18,605	25,318	35,400	24,057	29,517	33,418	40,783	15	22
V-Guard	2,422	3,827	5,073	4,072	4,161	4,306	5,181	2	20
Total	43,505	57,623	82,039	62,493	70,536	77,754	89,563	9	15

Source: Company, Systematix Institutional Research

ECD + Lighting – Revenue

(Rs mn)	4QFY20	4QFY21	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)
Bajaj Electricals	7,468	9,752	10,377	11,292	11,586	13,095	12,920	7	(1)
Crompton Consumer	11,370	17,283	17,378	18,629	16,995	15,162	17,910	3	18
Finolex Cables	227	393	517	503	483	515	453	(12)	(12)
Havells	10,760	17,114	19,698	19,535	18,955	21,008	20,174	2	(4)
Orient Electric	5,631	8,017	7,533	6,216	5,106	7,390	6,579	(13)	(11)
Polycab	1,833	3,468	3,792	3,082	3,054	3,420	3,052	(20)	(11)
V-Guard	1,441	2,237	2,959	2,991	3,372	3,537	2,862	(3)	(19)
Total	38,729	58,264	63,979	62,247	59,550	64,127	63,950	(0)	(0)

Source: Company, Systematix Institutional Research

Management commentary during the 4QFY23 conference call

Consumer Electricals	
Bajaj Electricals	<p>1) Fans: Transition to BEE norms and unseasonal rains impacted; High channel inventory to normalise by end 2Q; Fast premiumisation: 67% mix of eco-mid fans in FY23 vs. 74% mix of sub economy in FY22 (sub Rs 1,500 fans); BLDC fan sales will likely take time to scale up due to its premium positioning 2) Lighting: B2B up, B2C down; B2B: up 15% YoY; continues to scale up along with market share gains; B2C: witnessed noticeable industry slowdown, resulting in de-growth 3) EPC: strong order book; Aims for healthy profitable growth in FY24 4) Morphy Richard: In process to revamp business 5) De-risking channel mix: improvement in trade and alternate channel mix to 65:35 in Q4'23 from 70:30 in Q4'22; Growth across channels: Insti (45%+), E-Com (25%+), CSD (30%+), MFR (15%+)</p>
Crompton Consumer	<p>1) Healthy ECD results negated Butterfly's weak performance in 4QFY23 2) Management expects incremental growth from kitchen appliance business of Crompton & Butterfly, lighting and large appliances 3) Lighting: B2C LED and B2B trade face pricing pressures; Management cites areas of improvement to revive performance; B2B:B2C mix at 50% each; Focus more on B2C 4) Butterfly: Aims to achieve 9.1% EBITDA margin in FY23, and maintain the same ahead 5) Company is focusing on higher brand investments; innovation and R&D; expanding its GTM reach; new brand architecture in pumps and dedicated sales team in lighting</p>
Finolex Cables	<p>1) Aims Rs 11bn rev by FY28 at 12-15% CAGR; Operating margin of 13-14% in C&W is sustainable. 2) Company has taken two price cuts totaling 4% in May due to drop in copper prices, expecting revenue growth in 1QFY24 may be muted in value considering higher base of last year 3) Communication Cable: Vol growth in OFC/ Other products - >50%/ >25%; will revert back to 9-10% margin levels in next few qtrs; increased application towards 5G; Adding 20-25% capacity in LAN every year on full CU%; Capacity: OFC 8mn fibre kms on cabling side (large fibre counts— 8mn, small— 6mn); post capex 8mn capacity across all 3 OFC verticals in 2 years 4) Consumer appliances: saw muted growth on sluggish consumer spending; Rs 5bn rev target in 5 years; margins low on high brand spends 5) E-beam project: stalled on geo-political issues with China; placed orders with Korean companies now; one machine to be operational by FY24-end and second machine by FY25; Capex of Rs 600mn 6) Company is strengthening its dealer/distributor network and would be adding more retail touchpoints on a consistent basis.</p>
Havells	<p>1) 4Q and Outlook: Consumer demand remains sluggish; B2B steady led by infra (govt. spend)/ new housing construction 2) Lloyd: inventory increase due to build up for AC season; Sustained growth momentum with margin improvement; gained market share (among top-3 AC players); Started AC production at Sri City (~25-30bn revenue potential p.a.) in Mar'23 (taking total AC capacity to 2mn units p.a.); 70% revenue from ACs; will focus on improving presence in west India; Not able to fully pass on cost increase; expected price softening ahead likely to aid margins; Except for inverter compressor backward integration for all inputs at Sri City Plant 3) W&C: Low channel inventory on volatile commodity prices; Vol. and val. growth both at 6-7%; no price increase undertaken; Domestic/ Institutional Mix: 60%/ 40%; Currently operating at high CU%; new capacities to come onstream in next 12 months 4) Capex guidance: Rs 6bn in FY24; A&P spends to be sustained at current levels</p>
KEI	<p>1) FY24 revenue growth at 16-17% (majorly from LT and HW); overall Op. margins will rise ~150bps over next 4-5 years on rise in retail mix, exports and new capacities (G/f+B/f); retail mix to rise to ~48%. 2) Demand: 4Q primary sales impacted on channel de-stocking due to fall in metal prices; robust demand from mfg. sector, power dist., data centres, metros & railways and highways and for solar cables; Exports: to increase export mix to 10-12% (vs current 10%). 3) Capex: Rs 980mn expended in FY23 for Silvassa plant; Rs 2.5-3bn regular capex for next 2-3 years: B/f capex of Rs 450mn at Silvassa for LT cables (Rs 5bn rev potential); Ph-1 already started production Apr'23 onwards, Ph-2 will commence production by Sep'23; G/f capex of Rs 2-3bn at Gujarat (will start construction in Jun'23; production to start 18 months later) 4) 100-150 dealers to be added in FY24 (7-8% YoY addn); focus on strengthening existing dealer network. 5) A&P spends at Rs 350-380mn annually (0.5% of revenue)</p>
Orient Electric	<p>1) Fans: 4Q ECD revenue fell 20% YoY and 15% QoQ; ~300bps margin dip QoQ; 20%+ YoY fall in fans was due to high channel inventory and erratic weather conditions; Appliances (coolers, heaters, etc.) grew at a healthy pace; FY23 ECD revenue fell by 3% YoY, impacted by fans; Channel inventory of non-star rated products in fans was mostly liquidated; Consumer traction in star-rated category is slow currently. 2) Lighting: 4Q L&S revenue was up 12% YoY but flat QoQ; ~400bps margin uptick QoQ; Both B2B and consumer channels drove growth in the segment; superior product mix aided margins; Industry leading growth in lighting; B2B mix at 15%; FY23 revenue was up 20% YoY; lighting mix at 95%+. 3) Guidance - FY24 and beyond: Although the situation is currently a little weak, the company has built a strong foundation in last few years; It has identified products (deco fans, 4/5-star rated fans, deco lighting, B2B lighting, etc.) that have significant scale-up potential; It has the largest portfolio of BLDC fans; premium focus across BLUs; Innovative products, B2B (façade, etc) to drive the lighting category; Strong pipeline of new products – aims 15% revenue contribution in FY25; Gross margin expansion clearly visible; continued investments in A&P, people, etc., to drive gradual expansion in EBITDA margin. A&P spend: 4-5% of revenue, likely to continue. 4) McKinsey – last year of engagement on; cost savings visible; Rs 500mn savings likely in FY24 on project Sanchay</p>
Polycab	<p>1) Volume-driven growth in 4Q (up 8-10%) and FY23 (20%+); EBITDA margin: Cables - 10-11%, wires - 14-15%. 2) Outlook: C&W: Demand outlook stays robust on government infra focus and revival in private capex; FMEG: With the distribution rejig complete, POYCAB is confident of achieving healthy revenue and profits in FY24; management reiterated its guidance of 10-12% EBITDA margin by FY26; Focus on a richer product mix (wires, exports, etc.) 3) Aims for 10% and higher revenue contribution from international business by FY26 4) Capex guidance for FY24: ~ Rs6-7bn 5) Company is working towards improving its working capital and aims to achieve more improvement going forward.</p>
V-Guard	<p>1) Expect demand to revive from 2Q on easing inflation and improving consumer sentiment; Aims for 14%+ revenue CAGR over few years driven by ECD, Electronics and Electricals in the order; 2) Gross margin to expand and touch pre-COVID in few quarters; ECD: expects healthy margin recovery in fans and water heaters 3) Pumps yet to recover fully; likely to revive in FY24 4) Fans industry is likely to be driven by replacement market and value growth (premiumization), as volume growth is largely saturated 5) South market: not much scope for distribution expansion; expects 8-9% CAGR in revenue over the few years; Non-South markets are growing at 20%+ CAGR; huge scope to expand footprint 6) Capex: Rs 1bn annually 7) A&P spend: to gradually reach ~3% of revenue (FY23: 2.1%)</p>
Consumer Durables	
Blue Star	<p>1) Focus on margins and RoCE along with market-share gains; 2) 3-Year Strategy: to grow revenue at 20%+ CAGR, 20%+ RoE and 30%+ RoCE by launching more affordable range of products, deepen distribution, indigenisation and backward integration; 3) Expect 50bps margin expansion in FY24; UCP 8.5%, EMPS 6.5%; 4) Focus to expand globally; set up subsidiary in US, Europe 5) Aims 15% market share in value terms in 2 yrs from 13.5% (10% in volume terms) in FY23. 6) BS strategy: products in all segments and at all price points (from premium earlier); competitive pricing; Capex plan: ~Rs 3bn each year for 2 yrs; BS currently has 8,000 touch points and likely to reach 10,000 in coming years; Sri City plant will help in lower transportation cost and inventory due to proximity of port and Southern market. 7) E-com + MTR channels will drive 60% of total RAC market in 3 yrs; ONDC is also growing fast, can get 25% share in 3 yrs. 8) Project business: focus on more product mix over EPC and build diversified portfolio; commercial AC contribution down to 65% from 80% earlier; this along with efficient procurement and scale will help expand margin.</p>
Symphony	<p>1) Domestic: expecting prolonged summers due to delay in arrival; Modern trade (LFS, RCS, e-Com, D2C, etc) rose to 33% of domestic sales (vs. 21% in FY20) 2) Channel inventory at slightly elevated levels; likely to normalise by May-end; North: season yet to take off, Mar lowkey demand, Apr saw some buildup; West – season yet to set in (likely 10-15th May onwards); South & East: mid Apr saw good demand, currently season is low. 3) Subsidiaries – Global headwinds severely impacted performance of CT Australia (USA & Australia domestic both); Curtailment of orders by large</p>

	retailers (Home depot, etc) in the US & Australia: Mostly one-time phenomenon; Many builders were financially busted in ongoing Australia recession - company expects no bad debts though. 4) A&P spends: in FY23 at 9% (vs. 6% historically); high spends in 1QFY23 to clear stock; will moderate in FY24
Voltas	1) UCP: FY23 AC volumes more than 1.4mn units; YTD market share at 21.9% as of Feb'23. Unseasonal rains in later part of March deferred purchases despite healthy demand in early Mar; Split AC in high demand; increased share to 75% in FY23 from 63% LY in overall AC mix; >80% in 4Q; Prudent sourcing and softening input costs (though volatile) aided margins; high single digit margins to be maintained. 2) Channel inventories largely liquidated; expecting good summer demand; No price hikes in Apr (not giving into price wars); some brands resorted to unsustainably deep discounts though to garner market share. 3) EMPS: Domestic project orders of Rs 19.1bn in 4Q (v/s Rs 8.48bn in 4QFY22); single largest order of Rs 12bn in electricals; Margin expected to be ~4-5% (blended old and new orders); Lower order book in International biz as most of old projects nearing completion stage impacted topline YoY; delay in certification and collection of receivables resulted in provisions. 4) EPS: Removal of export levy on iron ore and focus on infra sustained demand for crushing & screening equipment. 5) Voltas Becko: [~Rs 10bn revenue contribution for FY23]; 3.33mn units since inception; Market share increased to 5.3% in Mar (from 4.4% earlier); Expect to be EBITDA breakeven by FY26. 6) Capex guidance of Rs 3.5-5bn (for RAC, CAC and component mfg. for G/f project at Chennai) over next 18 months (evaluating alternatives to terminated inverter compressors JV project); Will double RAC capacity to 2mn units and CAC to 0.5mn units p.a.
Contract Manufacturing	
Amber	1) 4Q witnessed customer addition in each division which drove 4Q revenues. Leader in all key segments (market share) RAC manuf. (29%); Motors component (27%); Sheet metal (35-40%); Cross flow fans (25%); Heat exchanger (OEMs have inhouse manuf.; still high market share in components) 2) RAC & Components: added new customers during FY23; realigned strategy to offer comprehensive solutions in components in tandem with the strategy of RAC customers to insource; converted gas charging customer into complete manufacturing solution; expanding geographical presence. 2) Mobility: Strong order book of Rs 7bn+ ; Commenced production of Pantry systems for Vande Bharat Express; defense application business seeing a robust growth; expanding wallet share in existing customers. 3) Electronic: Wearable segment witnessing a strong growth; Onboarded new customers in wearable and telecom sector; RAC-PCBA market share crosses 20% and consistently growing. 4) Motor: Expanding BLDC motors in ODU, WAC and commercial segment; at advanced stages to add marquee clients in exports, developing motors for new applications. Capex: FY23 Rs 6.93bn; FY24E Rs ~3.8bn in R&D, subsidiaries, b/f expansion in components etc - 65-70% CU across divisions; most of capex came in 2HFY23 > benefit should fully reflect in FY24. FY24 guidance and outlook: Overall capex intensity, customer addition and market-share gains should drive growth; RAC and Components division is expected to grow faster than the industry growth rate in FY24; RAC industry growth expectation now reduced to 12-15% (from 15-20% earlier) to ~9.5mn units over FY23 (8.4mn unit); Mobility Application division is expected to grow at 15%-20% in FY24; Electronics division is expected to grow at 35%-40% in FY24; Motors division is expected to grow at 30%-35% in FY24; Aims ~20% RoCE in 2-3 years from 15% in FY23.
Dixon	1) Outlook: First 1/1.5 months demand in consumer electronics, lightning slightly flattish; from last 2 week witnessed positive momentum; Margin improvement on product mix, Op. lev., cost optimization and price hikes in ODM; overall margin level expected at 4.2-4.5% in FY24. FY24 Capex guidance: Rs 4 bn (large for refrigeration and mobile); Aggressive growth in FY24 will outpace industry growth significantly 2) Consumer electronics: rev down due to huge correction in prices in international market; ODM sublicensing rights with Google (Android, Google TV) opened lot of opportunities with 65% of Indian market. Tied up with Samsung; Large part of rev from high margin ODM biz (share rose from 5% to 38%; expect 45-50% in FY24); margins to hold at 3.5-4.5%; Backward integration of LED wires of TV from 2HFY23 3) Lighting products: FY24 guidance: 12-15% growth; Aggressive plans for new product introduction in FY24; Received exports order from UAE and first order from Germany; In advanced discussion with customers in the US and UK; Capex is already done under PLI scheme; benefits to start flowing in FY24; Domestic market flattish; Competitive intensity is high 4) Home appliances: FY24 guidance: 20% vol. growth 4) Mobile Phones and EMS division: Confident of significantly surpassing Rs 60 bn rev in FY24
Elin	1) FY24 guidance: low double digit growth with 7-7.5% EBITDA margin 2) Fans demand (flat in FY23) is likely to be back as excess channel inventory is mostly liquidated; new product launches (TPW fans and BLDC fans) were delayed from Q4FY23 to Q1FY24 to drive strong growth for Elin; 3) to set up mixer grinder capacity to service mid-economy segment 4) Management expects gradual improvement in fan and strong growth in the small appliance in FY24, driven by new launches in new categories of small appliances 5) entering AC market with suppliers of ODU motor expected in 2QFY24 5) Company is exploring export opportunities for low-cost downlights and certain panels to Signify markets in Europe and US 6) Participating in PLI scheme for Lighting
Kaynes	1) Strong 4Q performance was driven by auto, railway, IoT and consumer verticals; added many esteemed global customers in navy, medical, IT, aerospace verticals in 2H23 2) FY24 guidance: Rs 18bn revenue with better margins; vertical mix similar to FY23; box-build share to rise; IT, Medical, Telecom are new emerging vertical for company 3) expects exports to increase in future, in medical electronics and industrials 4) Aims reduction in inflated inventory and further tighten debtors days to achieve ~70 day WC cycle (FY23: 98 days) 5) Approval for two PLIs (white goods and telecom) and has applied for the IT products PLI 6) Additional capacities at Manesar, Pune n Chanrajanagar expected to be operational during FY24 at Rs 2.2bn capex to fuel capacity 3x and drive future growth 7) R&D 1.2% of FY23 rev; may rise 8) Effective tax rate will improve in coming years
PG Electroplast	1) Guidance and outlook: 1QFY23 has also been a robust quarter for RAC sales; FY24 Revenue: up 30% YoY at Rs 28bn on existing capacity; FY24 EBITDA: up 28% YoY at Rs 2.1bn; mix change may limit overall improvement in margins. 2) Segmental guidance: Products division to grow 43% YoY to Rs 19.2bn in FY24; robust orderbook; RAC: 25-30% growth for next 2 years; ~7.5% op margin in FY24 [1.3-1.4mn units sold in FY23 (IDU+ODU)]; CU% at 80-85%; started mfg. window AC. 3) FY24 Capex: ~Rs 1.8bn; New RAC unit in Rajasthan (40-45% of planned capex) and new bldg along with SMT lines in Supa planned; Doubling RAC capacity at Supa (Rs 300-400mn capex); Rajasthan unit capacity initially at 25k-30k units p.m. for split and windows AC each; will 2x in FY25 if good results; 200k IDU, 100k ODU capacity at Supa (will increase by 50k units each ahead); Capex funding largely through internal accruals; Asset turn: 5-6x in FY25 vs. 4-4.5x in FY23/24E. 4) JVA for Google certified LED TVs will aid in huge scale up in TV biz; initial launch in Northern and NCR regions 5) Shifting sourcing from China to domestic vendors > will aid WC cycle - Imports 100% copper/ aluminum, 80% motors n compressors 6) PLI benefit of Rs 150mn expected in FY24; should reflect in other income
Syrma	1) Guidance: 35-40% rev growth in FY24 (Health./ Ind. - 12%/20%) on high customer addition; double digit EBITDA margin likely; expects to execute approximately ~75% of current orderbook in FY24 2) Onboarded 8-10 new big customers in FY23 (Auto, HVAC, Industrial park, EV charging infra, Energy and utilities); 4QFY24 onwards likely to see robust revenue flow from them 3) Consumer (telecom and smart electronics): Backward integration to aid margins in long term; ODM margin high, in line with other division; OEM is low margin but large volume business; healthy cash flows though on low working capital need; Build-to-Print: low margins, high volume biz - high asset turn 4) Healthcare: Slow rebound in FY23; Expect steep rebound 3QFY24 onwards 5) IT biz (FY23 - 7% of rev.): Revised IT PLI rolled out by govt; Syrma to submit plan shortly; low margin high value biz 6) Railway: vertical to show healthy growth despite low overall rev share; received RDSO approval 7) Capex: Rs 1.7bn for FY23; FY24 - Rs 2-2.5bn; capex is majorly for meeting FY25 requirements; will be able to >2x its revenue post capex completion

Source: Company, Systematix Institutional Research

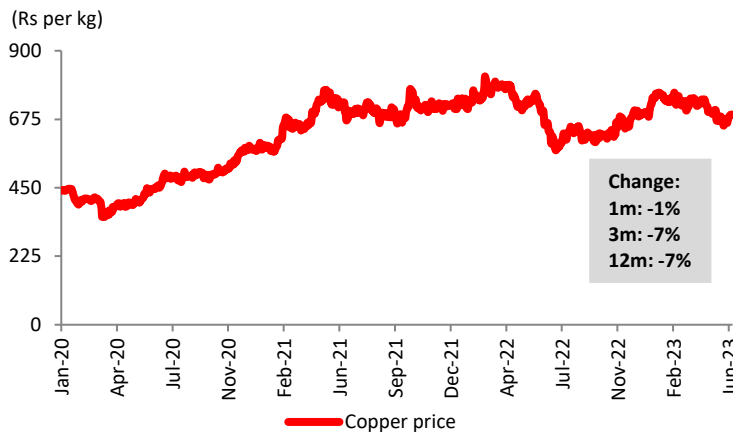
Consumer Electricals - Systematix vs. Bloomberg estimates

(Rs mn)	Estimates before 4QFY23 result		Estimates after 4QFY23 result		% Var		Bloomberg estimates		% Var vs. Systematix	
	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
Bajaj Electricals										
Total Income	61,559	69,264	62,320	71,915	1	4	61,420	69,484	(1)	(3)
EBITDA	5,692	6,766	5,615	6,998	(1)	3	5,120	6,195	(9)	(11)
EBITDA margin (%)	9.2	9.8	9.0	9.7			8.3	8.9		
PAT	3,829	4,763	3,897	5,102	2	7	3,351	4,195	(14)	(18)
EPS (Rs)	33.3	41.5	33.9	44.3	2	7				
Crompton Consumer										
Total Income	77,082	86,333	76,944	86,181	(0)	(0)	76,315	85,533	(1)	(1)
EBITDA	9,856	11,479	9,702	11,151	(2)	(3)	9,600	10,884	(1)	(2)
EBITDA margin (%)	12.8	13.3	12.6	12.9			12.6	12.7		
PAT	6,356	7,608	6,050	7,336	(5)	(4)	6,206	7,541	3	3
EPS (Rs)	10.0	12.0	9.5	11.5	(5)	(4)				
Finolex Cables										
Total Income	50,765	57,058	50,789	57,013	0	(0)	51,043	58,030	0	2
EBITDA	6,178	7,233	6,136	7,281	(1)	1	6,052	7,189	(1)	(1)
EBITDA margin (%)	12.2	12.7	12.1	12.8			11.9	12.4		
PAT	6,624	7,993	6,610	7,977	(0)	(0)	5,995	7,052	(9)	(12)
EPS (Rs)	43.3	52.3	43.2	52.2	(0)	(0)				
Havells										
Total Income	1,89,782	2,13,670	1,90,402	2,14,403	0	0	1,92,408	2,19,167	1	2
EBITDA	22,479	26,427	22,807	26,805	1	1	21,519	26,189	(6)	(2)
EBITDA margin (%)	11.8	12.4	12.0	12.5			11.2	11.9		
PAT	15,476	18,662	15,712	18,921	2	1	14,719	18,126	(6)	(4)
EPS (Rs)	24.7	29.8	25.1	30.2	2	1				
KEI										
Total Income	79,187	90,911	79,209	90,893	0	(0)	80,863	94,382	2	4
EBITDA	8,393	9,999	8,413	10,017	0	0	8,651	10,390	3	4
EBITDA margin (%)	10.6	11.0	10.6	11.0			10.7	11.0		
PAT	5,698	6,880	5,706	6,888	0	0	5,791	6,929	1	1
EPS (Rs)	63.2	76.4	63.3	76.4	0	0				
Orient Electric										
Total Income	30,018	33,620	29,085	32,844	(3)	(2)	29,565	33,448	2	2
EBITDA	2,537	3,080	2,376	2,913	(6)	(5)	2,295	3,206	(3)	10
EBITDA margin (%)	8.5	9.2	8.2	8.9			7.8	9.6		
PAT	1,471	1,895	1,357	1,726	(8)	(9)	1,340	1,781	(1)	3
EPS (Rs)	6.9	8.9	6.4	8.1	(8)	(9)				
Polycab										
Total Income	1,58,813	1,80,873	1,60,628	1,82,895	1	1	1,62,163	1,84,040	1	1
EBITDA	20,586	23,735	21,650	25,273	5	6	20,803	24,110	(4)	(5)
EBITDA margin (%)	13.0	13.1	13.5	13.8			12.8	13.1		
PAT	14,348	16,816	14,937	17,636	4	5	14,294	16,671	(4)	(5)
EPS (Rs)	96.0	112.5	99.7	117.8	4	5				
V-Guard										
Total Income	46,202	52,392	50,331	57,103	9	9	47,212	53,073	(6)	(7)
EBITDA	4,486	5,335	5,002	6,013	11	13	4,351	5,264	(13)	(12)
EBITDA margin (%)	9.7	10.2	9.9	10.5			9.2	9.9		
PAT	2,913	3,502	3,181	3,862	9	10	2,930	3,423	(8)	(11)
EPS (Rs)	6.7	8.1	7.4	8.9	9	10				

Source: Bloomberg, Systematix Institutional Research

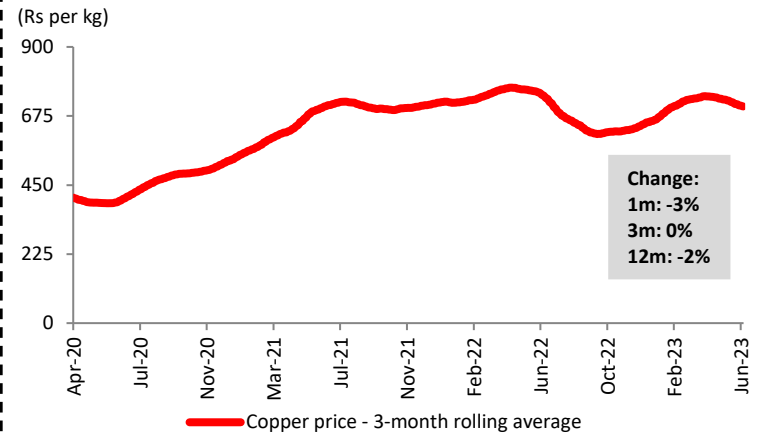
Commodity prices, currency movement

Exhibit 3: LME Copper price



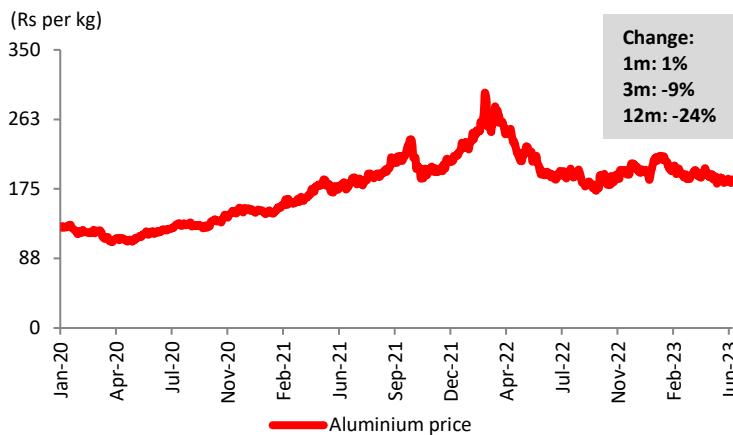
Source: Bloomberg

Exhibit 4: LME Copper price - 3-month rolling average



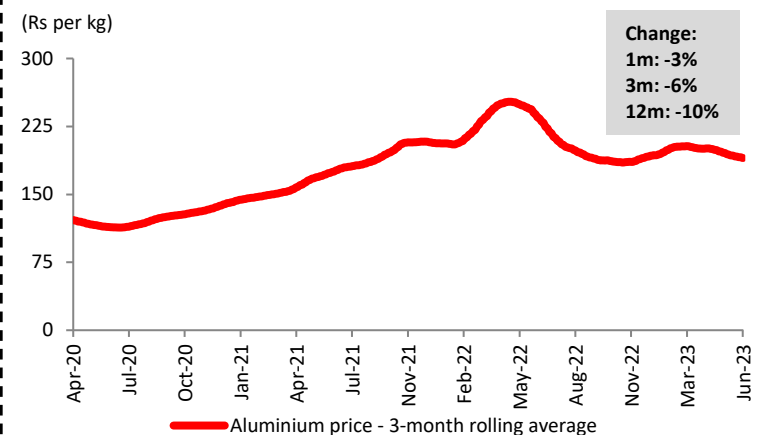
Source: Bloomberg

Exhibit 5: LME Aluminium price



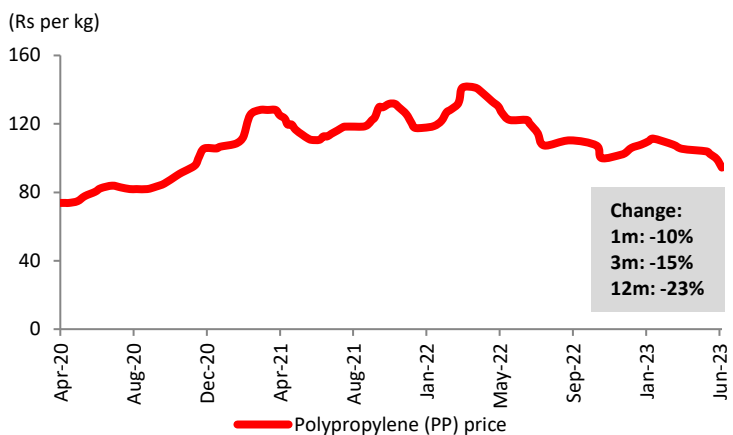
Source: Bloomberg

Exhibit 6: LME Aluminium price - 3-month rolling average



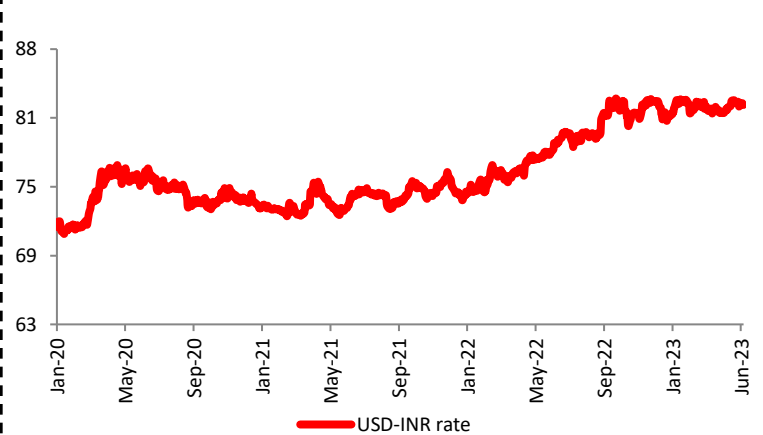
Source: Bloomberg

Exhibit 7: Polypropylene (PP) price



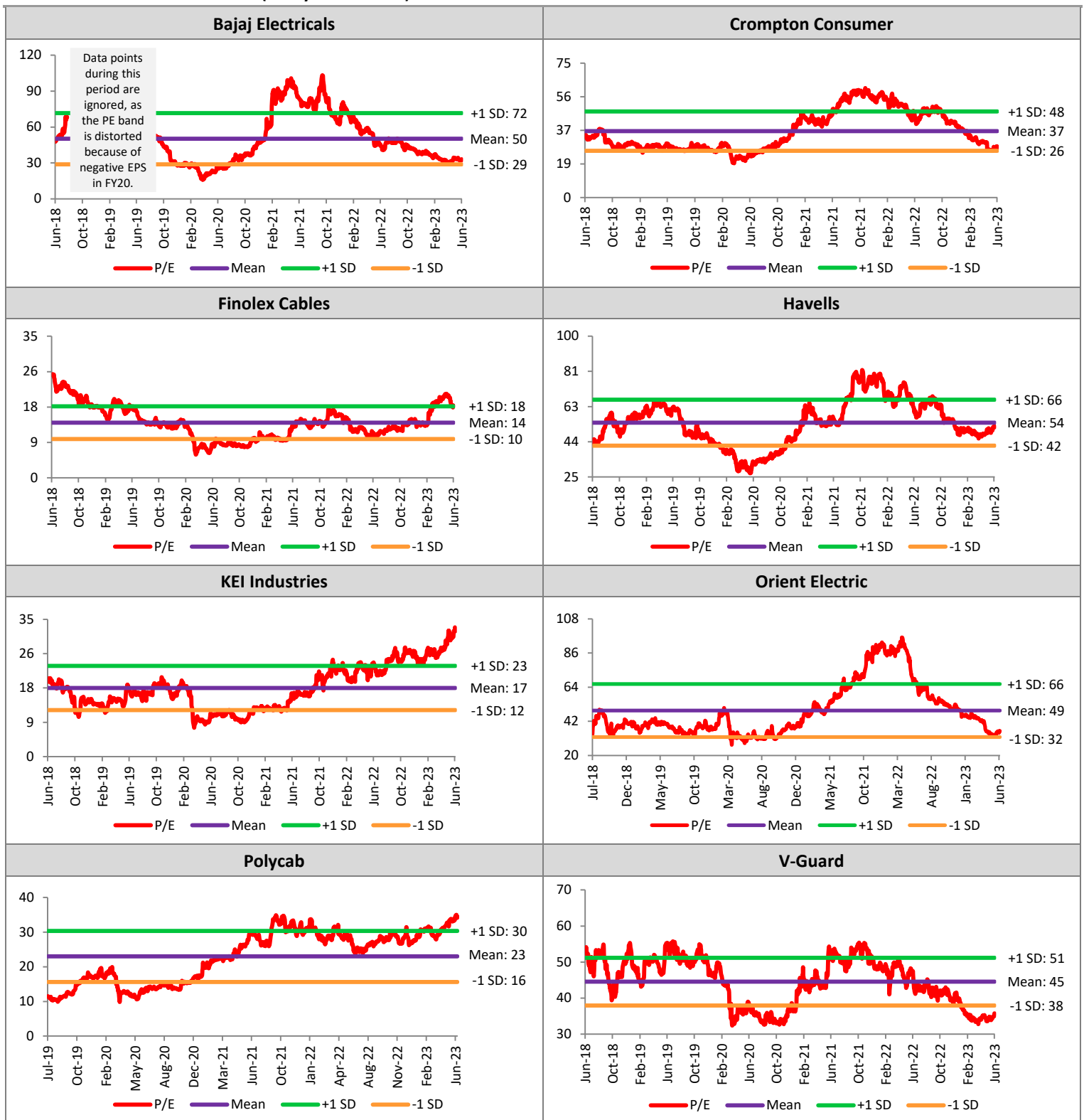
Source: Bloomberg

Exhibit 8: USD-INR rate



Source: Bloomberg

PE band and standard deviation (one-year forward)



Source: BSE, Systematix Institutional Research

COMPANY SECTION



TM

Bajaj Electricals

12 June 2023

COMPANY UPDATE

Sector: Consumer Electricals Rating: BUY

CMP: Rs 1,162 Target Price: Rs 1,347

Stock Info

Sensex/Nifty	62,626/18,563
Bloomberg	BJE IN
Equity shares (mn)	115.1
52-wk High/Low	1,248/900
Face value	Rs 2
M-Cap	Rs 134bn/ USD 1.6bn
3-m avg turnover	USD 2.3mn

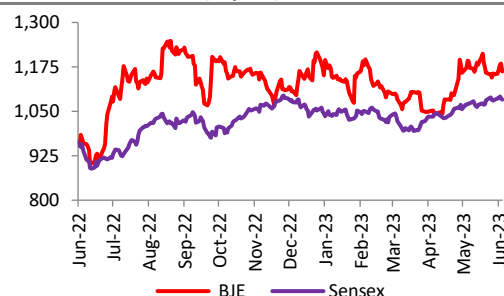
Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Net sales	54,293	62,320	71,915
EBITDA	3,577	5,615	6,998
OPM (%)	6.6	9.0	9.7
PAT (adj.)	2,162	3,897	5,102
EPS (Rs)	18.8	33.9	44.3
PE (x)	61.9	34.3	26.2
P/B (x)	7.0	5.9	4.9
EV/EBITDA (x)	36.4	23.5	18.7
RoE (%)	11.3	17.3	18.8
RoCE (%)	18.7	24.7	27.1
Net-D/E (x)	(0.2)	(0.1)	(0.2)

Shareholding Pattern (%)

	Mar'23	Dec'22	Sep'22
Promoter	62.9	62.9	62.9
- Pledged	2.6	2.6	2.6
FII	11.2	11.3	10.8
DII	12.4	12.2	12.3
Others	13.5	13.6	14.0

Stock Performance (1-year)



Industry-leading growth in ECD continues; EPC on strong footing

Bajaj Electricals' (BJE) 4Q PAT (up 32% YoY, down 15% QoQ) missed our estimate, as it posted lower EBITDA margin (5.7% vs. 7.5% estimated). However, consumer products (CP) revenue grew 9% YoY vs. 14% decline seen in Havells. Growth was driven mainly by appliances (up 16%, led by coolers). High channel inventory (likely normalised by 2Q) continued to impact Fan sales (up 2.3%), although BJE continued to gain market share. The company maintained its focus on alternate channels and premiumisation. Strong order book (Rs 16bn, 2x during FY23) boosted 4Q EPC revenue (up 60% YoY, 13% QoQ). Management's focus on profitable projects, their execution and tight cost control should help expand division's EBIT margin to 6-8% range, in our view. Our optimistic outlook on the EPC division had led us to increase BJE's FY25E earnings by 7% post 4Q results. We estimate CAGR of 15%/40%/54% in consolidated revenue/EBITDA/PAT over FY23-25E (FY18-23: 3%/ 4%/ 21%), with ~10% EBITDA margin and ~19%/27% RoE/RoCE. Our BUY rating is underpinned by BJE's industry-leading growth, healthy cash flows and corporate restructuring. We reiterate our target price of Rs 1,347 based on 32x/20x FY25E earnings for the CP/EPC businesses, respectively. Robust growth would further support a re-rating.

4Q PAT miss on lower margins: Consol. revenue/EBITDA/PAT grew 12%/35%/32% YoY (down 0%/ 16%/ 15% QoQ). Despite 385bps QoQ dip in gross margin, EBITDA margin (5.7% vs 7.5% estimated), contracted by only 111bps due to lower other expenses (down 13% QoQ). A Rs 4.5bn OCF in FY23 resulted in Rs 4.1bn net cash.

Industry-leading performance in ECD (revenue up 9% YoY) continued: BJE's CP revenue grew 9% YoY vs. 14% decline in Havells. Growth was driven mainly by appliances (up 16%, led by coolers). High channel inventory (likely normalised by 2Q) continued to impact Fans sales (up 2.3%), although BJE gained market share. The company maintained its focus on premiumisation (mix of economy-mid range fans reduced to 67% in FY23 from over 75% mix in FY22. BLDC fan sales will likely take time to scale up due to its premium positioning. Morphy Richard faced a tough FY23, as a major business revamp is underway. Debtors in CP rose by ~Rs 2bn, as BJE provided liquidity support to channel partners to push sales. Lighting revenue grew 1% YoY and 13% QoQ, driven by 15% YoY rise in B2B vertical, whereas B2C witnessed noticeable slowdown in the industry.

Alternate channels show healthy traction; trade channel in the slow lane: To de-risk its channel mix, BJE's alternate channel mix improved to 35% in 4Q'23 from 30% in 4Q'22. Growth was seen across verticals: Institutional (45%+), E-Com (25%+), CSD (30%+) and MFR (15%+).

EPC: healthy order book; focus on profitable growth stays: Strong order book (Rs 16bn, 2x during FY23) boosted BJE's 4Q EPC revenue (up 60% YoY and 13% QoQ). Management's focus on profitable projects, their execution and tight cost control should help expand division's EBIT margin to 6-8% range, in our view. With its debt levels under control, BJE aims to aggressively expand its EPC business so that it can sustain on its own post demerger (likely in 1-2 quarters).

Robust outlook; maintain BUY: We had raised BJE's FY25E earnings by 7% mainly on improved outlook for the EPC division. We estimate CAGR of 15%/40%/54% in consolidated revenue/EBITDA/PAT over FY23-25E, with ~10% EBITDA margin and ~19%/27% RoE/RoCE. Our BUY rating is premised on BJE's industry-leading growth, improved balance sheet and the proposed corporate restructuring.

Valuation and View

BJE's CP business has been on a consistent growth trajectory, with timely product launches, wide geographical reach and the RREP program. After its EPC revenues rose substantially in FY19, the company altered its strategy to bid only for select projects that offered reasonable margins. This improved cash flows and helped BJE reduce its high working capital debt.

Post 4Q, we had raised FY25E earnings by 7% mainly on our improved outlook for the EPC division (2x order book at Rs 16bn in FY23; healthy margins likely). We now estimate CAGR of 15%/ 40%/ 54% in BJE's consolidated revenue/ EBITDA/ PAT over FY23-25E (FY18-23: 3%/ 4%/ 21%) to factor in 1) management's focus on growth and profitability of its CP business, 2) tightening working capital cycle, and 3) sharp turnaround in liquidity position, enabling ~10% EBITDA margin and ~19%/27% RoE/RoCE in FY25E.

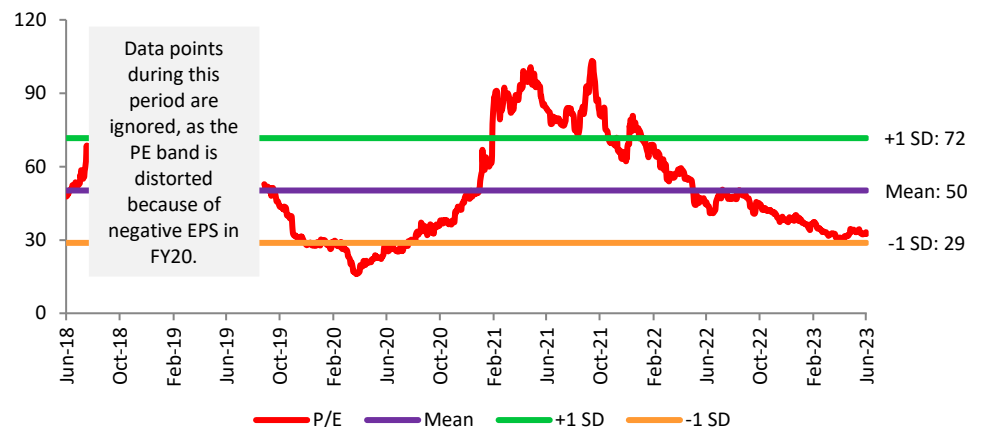
We like BJE for its industry-leading growth and improving balance sheet. The proposed corporate restructuring has supported PE re-rating in BJE's scrip, shrinking the gap with larger peers. We maintain **BUY** rating on the stock, with a target price of Rs 1,347, based on 32x and 20x FY25E earnings for the CP and EPC businesses, respectively. Robust growth would further support a re-rating.

Exhibit 1: Change in estimates

(Rs mn)	Old estimates		New estimates		% Var		Bloomberg estimates		% Var vs. Systematix	
	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
Total Income	62,320	71,915	62,320	71,915	-	-	61,420	69,484	(1)	(3)
EBITDA	5,615	6,998	5,615	6,998	-	-	5,120	6,195	(9)	(11)
EBITDA margin (%)	9.0	9.7	9.0	9.7			8.3	8.9		
PAT	3,897	5,102	3,897	5,102	-	-	3,351	4,195	(14)	(18)
EPS (Rs)	33.9	44.3	33.9	44.3	-	-				

Source: Systematix Institutional Research

Exhibit 2: P/E band – One-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

Key risks

- Inadequate price hikes amid intense competition could dent margins.
- Aggressive bidding in EPC projects, like in earlier years could again deteriorate the quality of its balance sheet.

BAJAJ ELECTRICALS (FINANCIALS)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net revenues	45,846	48,130	54,293	62,320	71,915
Growth (%)	(8)	5	13	15	15
Raw material expenses	29,956	32,913	37,119	41,491	47,381
Gross Margin (%)	34.7	31.6	31.6	33.4	34.1
Employee & Other exp.	12,859	12,716	13,597	15,214	17,536
EBITDA	3,032	2,502	3,577	5,615	6,998
EBITDA margins (%)	6.6	5.2	6.6	9.0	9.7
Depreciation	752	692	817	833	822
Other income	692	683	758	547	751
Finance costs	764	697	484	98	78
PBT	2,463	1,663	3,034	5,231	6,849
Effective tax rate (%)	23.3	25.2	28.7	25.5	25.5
Associates/(Minorities)	16	41	-	-	-
Net Income	1,906	1,285	2,162	3,897	5,102
Adjusted net income	1,906	1,285	2,162	3,897	5,102
Shares outstanding	115	115	115	115	115
FDEPS (Rs)	16.6	11.2	18.8	33.9	44.3
FDEPS growth (%)	na	(33)	68	80	31

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	229	230	230	230	230
Net worth	15,782	17,316	19,072	22,509	27,151
Total debt	5,026	756	722	722	722
Minority interest	-	(263)	-	-	-
DT Liability/ (Asset)	-	-	54	54	54
Capital Employed	20,808	17,808	19,848	23,285	27,927
Net tangible assets	3,670	4,263	4,785	4,752	4,730
Net Intangible assets	458	2,121	2,107	2,107	2,107
Goodwill	-	-	-	-	-
CWIP	100	282	410	405	400
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	1,307	1,357	1,763	2,763	3,763
Current Assets	36,525	30,468	34,002	32,263	35,886
Cash	616	1,425	3,705	1,013	1,176
Current Liabilities	21,869	22,108	26,924	20,018	20,135
Working capital	14,656	8,360	7,079	12,245	15,751
Capital Deployed	20,808	17,808	19,848	23,285	27,927
Contingent Liabilities	3,046	1,256	-	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
EBIT (incl. other income)	2,707	2,248	3,478	4,782	6,176
Non-cash items	752	692	817	833	822
OCF before WC changes	3,459	2,940	4,296	5,615	6,998
Incr./ (decr.) in WC	(3,239)	(6,647)	(429)	5,166	3,506
Others including taxes	116	446	228	980	1,392
Operating cash-flow	6,582	9,141	4,496	(531)	2,100
Capex	403	429	609	795	795
Free cash-flow	6,179	8,712	3,887	(1,326)	1,305
Acquisitions	0	8	-	-	-
Dividend	-	-	345	460	460
Equity raised	105	143	90	-	-
Debt raised	(5,466)	(6,582)	(669)	-	-
Fin Investments	724	1	353	1,000	1,000
Misc. Items (CFI + CFF)	654	1,548	381	(95)	(318)
Net cash-flow	(560)	732	2,229	(2,692)	163

Source: Company, Systematix Institutional Research

Ratios @ Rs 1,162

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	70.0	103.8	61.9	34.3	26.2
EV/EBITDA (x)	45.4	53.1	36.4	23.5	18.7
EV/sales (x)	3.0	2.8	2.4	2.1	1.8
P/B (x)	8.5	7.7	7.0	5.9	4.9
RoE (%)	12.1	7.4	11.3	17.3	18.8
RoCE (%)	14.0	12.9	18.7	24.7	27.1
ROIC (%)	8.1	7.8	13.5	21.3	22.6
DPS (Rs per share)	-	3.0	4.0	4.0	4.0
Dividend yield (%)	-	0.3	0.3	0.3	0.3
Dividend payout (%)	-	26.8	21.3	11.8	9.0
Net debt/equity (x)	0.2	(0.1)	(0.2)	(0.1)	(0.2)
Receivables (days)	153	103	105	95	95
Inventory (days)	79	76	72	50	50
Payables (days)	76	94	105	60	60
CFO:PAT%	345	711	208	(14)	41

Source: Company, Systematix Institutional Research



TM

Crompton Greaves Consumer

12 June 2023

Robust results, key to allay investor concerns and drive re-rating

COMPANY UPDATE

Sector: Consumer Electricals Rating: HOLD

CMP: Rs 275 Target Price: Rs 288

Stock Info

Sensex/Nifty	62,626/18,563
Bloomberg	CROMPTON IN
Equity shares (mn)	636.1
52-wk High/Low	422/252
Face value	Rs 2
M-Cap	Rs 175bn/ USD 2.1bn
3-m avg turnover	USD 13.2mn

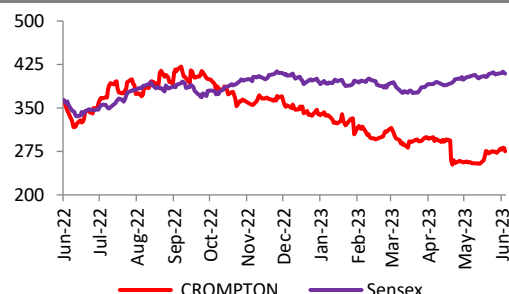
Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Net sales	68,696	76,944	86,181
EBITDA	7,769	9,702	11,151
OPM (%)	11.3	12.6	12.9
PAT (adj.)	4,632	6,050	7,336
EPS (Rs)	7.3	9.5	11.5
PE (x)	37.8	28.9	23.8
P/B (x)	6.6	5.8	5.0
EV/EBITDA (x)	23.0	18.0	15.3
RoE (%)	17.4	20.0	21.1
RoCE (%)	16.1	21.1	23.5
Net-D/E (x)	0.1	(0.0)	(0.1)

Shareholding Pattern (%)

	Mar'23	Dec'22	Sep'22
Promoter	0.0	0.0	2.5
- Pledged			
FII	39.6	39.5	39.7
DII	44.4	44.7	45.4
Others	16.0	15.7	12.3

Stock Performance (1-year)



Crompton Greaves Consumer's (CROMPTON) healthy 4Q was a mixed bag as healthy ECD result (revenue up 8% YoY and 30% QoQ; 16.4% EBIT margin; driven by pumps and appliances) was negated by weak performance in Butterfly (revenue down 2% YoY and 25% QoQ; 2% EBIT margin). Rebranding and pricing action drove strong growth in residential pumps (up 17% YoY); appliances grew 42% YoY, led by coolers and geysers. Retail channel expansion continued in built-in kitchen appliances and in Butterfly. Pricing pressures in B2C LED and B2B trade may restrict segment margin in the coming quarters. Post 4Q, we had cut our earnings by ~5% each in FY24E/25E on weak margin outlook. We now estimate CAGR of 12%/20%/26% in revenue/ EBITDA/PAT over FY23-25E (after a muted 11%/8%/7% CAGR over FY18-23), with ~13% EBITDA margin and ~24% RoCE. While we expect Butterfly's business performance to improve gradually, its weaker profile could suppress consolidated earnings and return ratios. Weak results in core business, acquisition of Butterfly and management rejig led to huge de-rating and underperformance in CROMPTON's scrip in last 1.5 years. At ~24x FY25E P/E, we maintain HOLD with TP of Rs 288 (25x FY25E P/E). Robust financials are key to allaying investor concerns and driving a re-rating, in our view.

4Q - healthy ECD results negated the weak performance in Butterfly: Consolidated revenue grew 16% YoY and 18% QoQ. EBITDA/PAT declined 8%/26% YoY but rose 39%/54% QoQ. Pumps and appliances drove ECD revenue (up 8% YoY and 30% QoQ); while rebranding and pricing action boosted growth in pumps (residential up 17% YoY), coolers and geysers accentuated appliances revenue by 42% YoY. Premium ceiling fans clocked 24% YoY growth - CROMPTON achieved top 2 status in BLDC fans. High A&P spend (3.9% of revenue vs. 2% in 4QFY22) limited the expansion in ECD EBIT margin (16.4%, down 210bps YoY, up 57bps QoQ), despite a richer product mix (pumps, appliances). Built-in kitchen appliances' suffered EBITDA loss of Rs 240mn on Rs 260mn revenue in FY23, as focus on channel expansion (55 brand stores in 12 cities) continued. Butterfly disappointed, posting 2% YoY and 25% QoQ fall in its 4Q revenue fell and wafer-thin EBIT margin of 2%. However, CROMPTON claims to hold market share in key categories. Focus on retail network (revenue up 19% YoY) expansion stayed. Saved Rs 200mn through cost-saving measures in FY23. It aims 9.1% EBITDA margin in FY23 to be maintained ahead. Lighting revenue fell by 12% YoY (up 12% QoQ), with EBIT margin remaining healthy at ~11%. Pricing pressures in B2C LED and B2B trade may restrict margins, in coming quarters.

Intense competition and continued A&P spend led to ~5% earnings cut: High A&P spend (3.9% of revenue vs. 2% in 4QFY22) limited the expansion in ECD 4Q EBIT margin (16.4%, down 210bps YoY, up 57bps QoQ), despite a richer product mix towards pumps and appliances. We had cut earnings by ~5% each in FY24E/25E, post weak 4Q on weak margin outlook. We now estimate CAGR of 12%/ 20%/ 26% in revenue/ EBITDA/ PAT over FY23-25E, with ~13% EBITDA margin and ~21% RoE. Butterfly's weak business profile could suppress consolidated earnings and return ratios. Management expects operational efficiency and cost optimisation to aid margins.

Robust growth is key in allaying investor concerns: Weak core business results, acquisition of Butterfly and management rejig have led to huge de-rating and underperformance in CROMPTON's scrip in last 1.5 years, in our view. At ~24x FY25E P/E, we maintain HOLD with TP of Rs 288 (25x FY25E P/E). Robust financials are key to allaying investor concerns and driving a re-rating, in our view.

Valuation and View

CROMPTON is a leader in fans, residential pumps and lighting segments. The company's Butterfly acquisition in 2022 gave it entry into the fast-growing kitchen appliances segment. A five-dimensional growth strategy has helped CROMPTON strengthen its position in key categories.

Strong distribution reach and a lean cost structure have helped the company gain market share in key categories and maintain strong margins over the years. Post 4Q, we had cut earnings by ~5% each in FY24E/25E on weak margin outlook. We now estimate CAGR of 12%/20%/26% in revenue/EBITDA/PAT over FY23-25E (after a muted 11%/8%/7% CAGR over FY18-23), with ~13% EBITDA margin and ~21% RoE. While we expect performance in Butterfly business to improve gradually, its weaker profile could suppress consolidated earnings and return ratios.

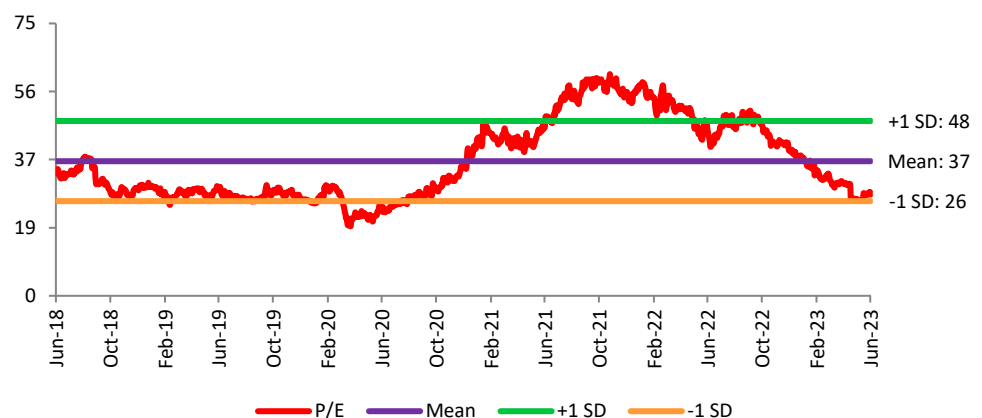
Weak operating performance in core business, acquisition of Butterfly and management rejig have led to significant de-rating and underperformance in CROMPTON's scrip in last 1.5 years. At ~24x FY25E P/E, we maintain HOLD with TP of Rs 288 (25x FY25E P/E). Robust financials are key to allaying investor concerns and driving a re-rating, in our view.

Exhibit 1: Change in estimates

(Rs mn)	Old estimates		New estimates		% Var		Bloomberg estimates		% Var vs. Systematix	
	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
Total Income	76,944	86,181	76,944	86,181	-	-	76,315	85,533	(1)	(1)
EBITDA	9,702	11,151	9,702	11,151	-	-	9,600	10,884	(1)	(2)
EBITDA margin (%)	12.6	12.9	12.6	12.9			12.6	12.7		
PAT	6,050	7,336	6,050	7,336	-	-	6,206	7,541	3	3
EPS (Rs)	9.5	11.5	9.5	11.5	-	-				

Source: Systematix Institutional Research

Exhibit 2: One-year-forward - P/E band and standard deviation



Source: BSE, Systematix Institutional Research

Key risks

- Delay or failure in integrating the new business verticals
- Keener competition from regional players as well as big brands (including CG Power's foray into small appliances)

CROMPTON GREAVES CONSUMER (FINANCIALS)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net revenues	48,035	53,941	68,696	76,944	86,181
Growth (%)	6	12	27	12	12
Raw material expenses	32,672	37,018	46,804	51,500	57,484
Gross Margin (%)	32.0	31.4	31.9	33.1	33.3
Employee & Other exp.	8,158	9,229	14,124	15,743	17,547
EBITDA	7,205	7,695	7,769	9,702	11,151
EBITDA margins (%)	15.0	14.3	11.3	12.6	12.9
Depreciation	297	423	1,159	1,183	1,238
Other income	758	727	668	385	517
Finance costs	429	353	1,092	769	603
PBT	7,236	7,515	6,121	8,134	9,826
Effective tax rate (%)	14.8	23.0	22.2	24.0	24.0
Associates/(Minorities)	-	-	(132)	(132)	(132)
Net Income	6,167	5,784	4,632	6,050	7,336
Adjusted net income	5,346	5,784	4,632	6,050	7,336
Shares outstanding	628	633	636	636	636
FDEPS (Rs per share)	9.7	9.1	7.3	9.5	11.5
FDEPS growth (%)	24	(6)	(20)	31	21

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	1,255	1,267	1,272	1,272	1,272
Net worth	19,314	24,530	26,600	30,300	34,841
Total debt	5,027	16,517	10,051	8,051	6,551
Minority interest	-	7,825	4,477	4,477	4,477
DT Liability/ (Asset)	(586)	394	123	123	123
Capital Employed	23,755	49,265	41,251	42,951	45,992
Net tangible assets	1,328	4,756	4,840	4,656	4,418
Net Intangible assets	28	15,124	15,016	15,016	15,016
Goodwill	7,794	12,855	12,855	12,855	12,855
CWIP	109	130	55	35	15
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	7,697	6,242	5,482	7,482	10,482
Current Assets	12,394	16,228	17,203	19,100	21,228
Cash	6,040	9,152	1,095	652	525
Current Liabilities	11,634	15,221	15,294	16,844	18,546
Working capital	760	1,007	1,910	2,256	2,682
Capital Deployed	23,755	49,265	41,251	42,951	45,992
Contingent Liabilities	1,782	1,922	-	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
EBIT (incl. other income)	7,136	7,734	6,804	8,518	9,912
Non-cash items	297	423	1,159	1,183	1,238
OCF before WC changes	7,433	8,157	7,963	9,702	11,151
Incr./ (decr.) in WC	(1,445)	(1,005)	1,039	346	426
Others including taxes	575	1,798	1,399	2,214	2,620
Operating cash-flow	8,303	7,364	5,526	7,142	8,105
Capex	202	1,706	708	980	980
Free cash-flow	8,101	5,658	4,818	6,162	7,125
Acquisitions	-	14	-	-	-
Dividend	1,874	1,564	1,578	2,350	2,795
Equity raised	73	603	416	-	-
Debt raised	1,300	10,769	(6,842)	(2,000)	(1,500)
Fin Investments	5,027	16,023	(2,908)	2,000	3,000
Misc. Items (CFI + CFF)	189	365	670	255	(44)
Net cash-flow	2,384	(908)	(948)	(443)	(127)

Source: Company, Systematix Institutional Research

Ratios @ Rs 275

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	28.2	30.1	37.8	28.9	23.8
EV/EBITDA (x)	22.7	22.8	23.0	18.0	15.3
EV/sales (x)	3.4	3.3	2.6	2.3	2.0
P/B (x)	9.0	7.1	6.6	5.8	5.0
RoE (%)	31.9	23.6	17.4	20.0	21.1
RoCE (%)	38.6	21.9	16.1	21.1	23.5
ROIC (%)	61.3	25.8	13.3	17.4	21.0
DPS (Rs per share)	5.5	2.5	3.0	3.7	4.4
Dividend yield (%)	2.0	0.9	1.1	1.3	1.6
Dividend payout (%)	56.7	27.5	41.2	38.8	38.1
Net debt/equity (x)	(0.5)	0.0	0.1	(0.0)	(0.1)
Receivables (days)	35	40	36	35	35
Inventory (days)	39	49	40	40	40
Payables (days)	62	68	55	55	55
CFO:PAT%	155	127	119	118	110

Source: Company, Systematix Institutional Research

Finolex Cables

12 June 2023

A soft 4Q; healthy outlook on wires, OFC demand

COMPANY UPDATE

Sector: Consumer Electricals Rating: HOLD

CMP: Rs 799 Target Price: Rs 893

Stock Info

Sensex/Nifty	62,626/18,563
Bloomberg	FNXC IN
Equity shares (mn)	153.0
52-wk High/Low	915/355
Face value	Rs 2
M-Cap	Rs 122bn/ USD 1.5bn
3-m avg turnover	USD 5.7mn

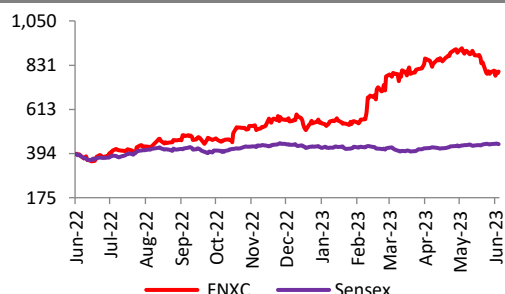
Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Net sales	44,811	50,789	57,013
EBITDA	5,094	6,136	7,281
OPM (%)	11.4	12.1	12.8
PAT (adj.)	5,043	6,610	7,977
EPS (Rs)	33.0	43.2	52.2
PE (x)	24.2	18.5	15.3
P/B (x)	2.8	2.5	2.2
EV/EBITDA (x)	21.2	17.2	13.8
RoE (%)	11.5	13.4	14.1
RoCE (%)	13.2	14.8	15.4
Net-D/E (x)	(0.4)	(0.4)	(0.4)

Shareholding Pattern (%)

	Mar'23	Dec'22	Sep'22
Promoter	35.9	35.9	35.9
- Pledged			
FII	10.8	10.2	9.7
DII	17.0	18.1	18.3
Others	36.3	35.8	36.0

Stock Performance (1-year)



Finolex Cables (FNXC) EBITDA (Rs 1.46bn, 11.9% margin) missed our estimates due to weaker margins in all segments. Volume/revenue in electrical cables grew 7%/1% YoY and ~10%/9% QoQ at 12.8% EBIT margin (down 116bps QoQ). A ~4% price cut in May'23 could impact primary sales due to low channel inventory. Post years of weakness, the revival in real estate sector seems sustainable. While we are upbeat on FNXC's growth in wires, market-share gains may be tough, as competition is taut among leading players. Communication cables could benefit from 5G rollout. The company has planned a Rs 3bn capex to manufacture Preforms to draw fiber and enhance fiber-cabling capacity. FNXC is aiming for ~10% margin over the next few quarters (from 2.2% in FY23). FMEG revenue has scaled up in last 2 years (FY23: ~Rs 2bn, took 8 years to cross Rs 1bn); continued spending on product launches, dealer schemes and A&P would continue to restrict margins. We are watchful of FNXC's Rs 5bn sales guidance in FMEG over 2-3 years. Post 4Q, we maintained our earnings estimates, HOLD rating and target price (Rs 893, assigning 18x FY25E P/E to the core business at ~14% RoE and ~22% RoIC). After a low 10%/3%/7% CAGR in revenue/EBITDA/PAT over FY18-23, we estimate high CAGR of 13%/20%/17% over FY23-25E, which factors in healthy traction in housing demand and 5G roll out. Any positive earnings surprise too could drive a re-rating.

4Q – EBITDA miss on lower margin: The electrical cables division boosted consolidated revenue (up 3% YoY and 6% QoQ), as other divisions remained in the soft lane. Gross (21.3%) and EBITDA (11.9%) margins contracted ~109bps and 78bps QoQ, respectively. Other income doubled YoY to Rs 418mn. Tight NWC cycle (56 days) aided OCF of Rs 3.6bn. Net cash (up by Rs 6bn to Rs 15.9bn in FY23) will be used to pay dividends (~Rs 1.1bn for FY23) and for future capex.

Electrical cables – healthy outlook intact: Volume/revenue in the segment grew 7%/1% YoY and ~10%/9% QoQ at 12.8% EBIT margin (down 78bps QoQ). A ~4% price cut in May'23 may impact primary sales due to low channel inventory, in our view. Post years of weakness, a revival in the real estate sector seems sustainable. While our outlook on FNXC's growth in wires has improved, market share gain may be tough, given the taut competition among leading players. EHV cables (~Rs 3bn order book; EBITDA positive in 4Q) is witnessing healthy traction.

Communication cables – huge 5G rollout opportunity; 10% margin likely soon: Revenue fell 5% QoQ but grew 35% YoY on a low base (on 50% growth in OFC and 25% in others). EBIT margin (2.3%) stayed low amid intense competition and volatile RM prices. We believe strong rebound in the segment would be driven by LAN and OFCs. Given government's thrust on digitisation and 5G rollout, FNXC has planned Rs 3bn capex to manufacture Preforms to draw fiber and enhance fiber-cabling capacity. It aims for ~10% margin over the next few quarters (from 2.2% in FY23).

FMEG - we are watchful of Rs 5bn revenue guidance: A soft 4Q (revenue down 12% YoY and QoQ, ~1% EBIT margin) was impacted by a change in energy-efficiency norms, while inflationary pressures continued to suppress consumer demand. Despite its logical move of diversifying and leveraging its pan-India dealer network for wires, FNXC's entry into FMEG is yet to yield the desired outcome even after a decade. Revenues have scaled up in last 2 years (FY23: ~Rs 2bn, took 8 years to cross Rs 1bn), continued spending on product launches, dealer schemes and A&P restricted margins. We are watchful of FNXC's Rs 5bn sales guidance in 2-3 years.

Valuation and View

We like FNXC for its leadership in electrical wires, strong brand equity, pan-India distribution network, robust balance sheet, and FCF generation. However, performance over the last few years has been mixed, as i) it has not been able to replicate the success in FMEG and Finolex J-Power JV so far, and ii) its huge cash balance, currently yielding low returns, is suppressing its RoE. With the right initiatives on the profitability front, FNXC has managed to expand EBITDA margin by >400bps from 10.5% to ~15% over FY14-18, rendering the company cash rich.

Margin expansion, diversification into consumer-facing businesses and ~20% PAT CAGR led to significant re-rating in the stock price in the five years to FY18. Post FY18, the stock de-rated, largely due to flat earnings in its core businesses, lack of scale in FMEG and lower return ratios over FY17-21.

Post 4Q, we maintained our earnings estimates, **HOLD** rating and target price (Rs 893, assigning 18x FY25E P/E to the core business at ~14% RoE and ~22% RoIC). After a low 10%/3%/7% CAGR in revenue/EBITDA/PAT over FY18-23, we estimate high 13%/20%/17% CAGR over FY23-25E, factoring in healthy traction in housing demand and 5G roll out. Any positive surprise in earnings could also drive a re-rating.

Exhibit 1: FNXC - SoTP based target price calculation

	FY25E (Rs mn)	Per share (Rs)
Core business profit	5,976	
Target P/E (x)	18	
Core business market-cap	1,07,574	703
Finolex Ind m-cap on our TP (Rs 193) at 25% holdco discount	28,991	190
Target market-cap	1,36,565	893

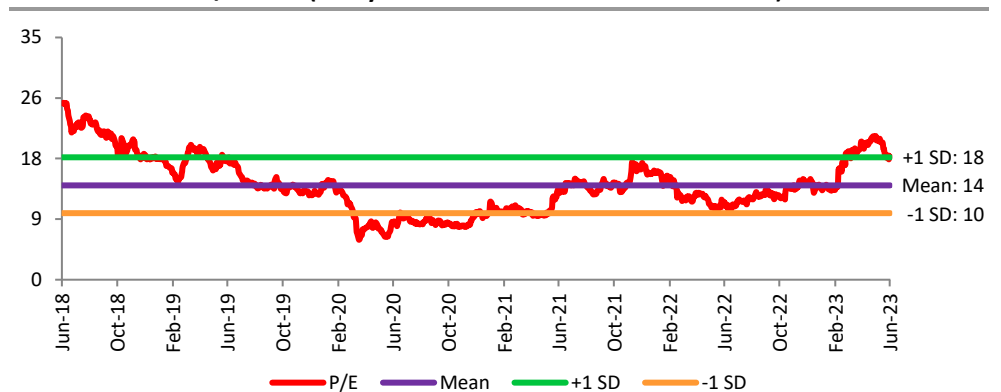
Source: Systematix Institutional Research

Exhibit 2: Change in estimates

(Rs mn)	Old estimates		New estimates		% Var		Bloomberg estimates		% Var vs. Systematix	
	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
Total Income	50,789	57,013	50,789	57,013	-	-	51,043	58,030	0	2
EBITDA	6,136	7,281	6,136	7,281	-	-	6,052	7,189	(1)	(1)
EBITDA margin (%)	12.1	12.8	12.1	12.8			11.9	12.4		
PAT	6,610	7,977	6,610	7,977	-	-	5,995	7,052	(9)	(12)
EPS (Rs)	43.2	52.2	43.2	52.2	-	-				

Source: Systematix Institutional Research

Exhibit 3: FNXC - P/E band (one-year-forward and standard deviation)



Source: BSE, Systematix Institutional Research

Key risks

- Sharp volatility in copper prices
- Continuing losses in newer businesses

FINOLEX CABLES (FINANCIALS)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net revenues	27,681	37,681	44,811	50,789	57,013
<i>Growth (%)</i>	(4)	36	19	13	12
Raw material expenses	20,514	29,663	35,445	39,792	44,258
<i>Gross Margin (%)</i>	25.9	21.3	20.9	21.7	22.4
Employee & Other exp.	3,465	3,734	4,273	4,861	5,474
EBITDA	3,702	4,285	5,094	6,136	7,281
<i>EBITDA margins (%)</i>	13.4	11.4	11.4	12.1	12.8
Depreciation	390	389	464	525	603
Other income	770	714	1,177	1,698	1,887
Finance costs	8	15	12	17	21
PBT	4,075	4,596	5,795	7,292	8,543
<i>Effective tax rate (%)</i>	41.6	40.8	25.1	31.4	30.0
Associates/(Minorities)	2,234	3,271	700	1,606	2,001
Net Income	4,615	5,991	5,043	6,610	7,977
Adjusted net income	4,615	5,991	5,043	6,610	7,977
Shares outstanding	153	153	153	153	153
FDEPS (Rs per share)	30.2	39.2	33.0	43.2	52.2
<i>FDEPS growth (%)</i>	18	30	(16)	31	21

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	306	306	306	306	306
Net worth	34,145	39,221	43,704	49,396	56,455
Total debt	3	3	3	4	5
Minority interest	-	-	-	-	-
DT Liability/ (Asset)	2,042	2,617	2,695	2,645	2,595
Capital Employed	36,190	41,841	46,402	52,045	59,055
Net tangible assets	3,942	3,799	4,335	6,310	7,707
Net Intangible assets	2	3	14	14	14
Goodwill	-	-	-	-	-
CWIP	257	868	210	60	(90)
Investments (Strategic)	8,453	10,954	10,935	10,935	10,935
Investments (Financial)	7,259	9,189	15,164	17,664	21,664
Current Assets	18,407	19,748	18,412	20,275	21,905
Cash	537	379	734	929	1,448
Current Liabilities	2,666	3,099	3,403	4,143	4,528
Working capital	15,741	16,649	15,009	16,132	17,377
Capital Deployed	36,190	41,841	46,402	52,045	59,055
Contingent Liabilities	2,415	2,377	-	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
EBIT (incl. other income)	3,484	4,167	4,747	5,737	6,781
Non-cash items	390	389	464	525	603
OCF before WC changes	3,873	4,555	5,211	6,262	7,384
Incr./ (decr.) in WC	1,565	(1,520)	318	1,123	1,245
Others including taxes	1,165	1,345	1,330	858	719
Operating cash-flow	1,144	4,731	3,563	4,281	5,420
Capex	549	668	310	2,350	1,850
Free cash-flow	595	4,063	3,253	1,931	3,570
Acquisitions	-	-	-	-	-
Dividend	838	838	915	918	918
Equity raised	-	-	-	-	-
Debt raised	(17)	(16)	(39)	1	1
Fin Investments	8,341	4,302	3,244	2,500	4,000
Misc. Items (CFI + CFF)	(288)	(1,172)	(1,296)	(1,681)	(1,865)
Net cash-flow	(8,314)	78	350	195	519

Source: Company, Systematix Institutional Research

Ratios @ Rs 799

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	26.5	20.4	24.2	18.5	15.3
EV/EBITDA (x)	31.5	26.5	21.2	17.2	13.8
EV/sales (x)	4.2	3.0	2.4	2.1	1.8
P/B (x)	3.6	3.1	2.8	2.5	2.2
RoE (%)	13.5	15.3	11.5	13.4	14.1
RoCE (%)	12.1	11.8	13.2	14.8	15.4
ROIC (%)	18.4	18.8	15.4	19.6	21.9
DPS (Rs per share)	5.5	6.0	7.0	6.0	6.0
Dividend yield (%)	0.7	0.8	0.9	0.8	0.8
Dividend payout (%)	18.2	15.3	21.2	13.9	11.5
Net debt/equity (x)	(0.2)	(0.2)	(0.4)	(0.4)	(0.4)
Receivables (days)	23	17	18	20	20
Inventory (days)	100	63	55	55	55
Payables (days)	23	18	17	20	20
CFO: PAT%	25	79	71	65	68

Source: Company, Systematix Institutional Research



TM

Havells

12 June 2023

COMPANY UPDATE

Sector: Consumer Electricals Rating: HOLD

CMP: Rs 1,341 Target Price: Rs 1,359

Stock Info

Sensex/Nifty	62,626/18,563
Bloomberg	HAVL IN
Equity shares (mn)	626.3
52-wk High/Low	1,391/1,069
Face value	Rs 1
M-Cap	Rs 840bn/ USD 10bn
3-m avg turnover	USD 9.5mn

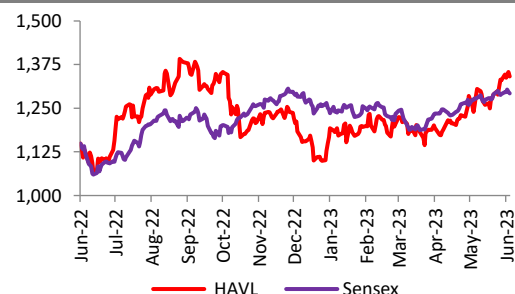
Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Net sales	1,69,107	1,90,402	2,14,403
EBITDA	15,991	22,807	26,805
OPM (%)	9.5	12.0	12.5
PAT (adj.)	10,717	15,712	18,921
EPS (Rs)	17.1	25.1	30.2
PE (x)	78.4	53.5	44.4
P/B (x)	12.7	11.2	9.6
EV/EBITDA (x)	51.4	35.5	29.9
RoE (%)	16.2	20.9	21.7
RoCE (%)	21.6	28.9	30.4
Net-D/E (x)	(0.3)	(0.4)	(0.4)

Shareholding Pattern (%)

	Mar'23	Dec'22	Sep'22
Promoter	59.5	59.5	59.5
- Pledged	-	-	-
FII	23.1	22.6	23.3
DII	10.4	10.5	9.8
Others	7.1	7.4	7.4

Stock Performance (1-year)



Switchgear outshined while ECD disappointed in 4Q

Havells (HAVL)'s ~5% PAT beat in 4QFY23 was driven by superior EBITDA margin (led by switchgear), while the company reported in line revenue (up 10% YoY). Healthy traction in B2B channels (Switchgears, Cables, professional Lighting, etc.) continued, while high inflation continued to hurt retail demand. ECD revenue (down 14% YoY) disappointed on high channel stocking of fans (60-65% segment mix) in 3Q. Lloyd focused on market share (up 32% YoY at Rs 12.7bn) over margins (Rs 229mn EBIT loss in 4Q; Rs 2.2bn loss in FY23) and maintained its top 3 status as an AC player. We expect margins to expand gradually in Lloyd, given its upfront investments in brand building, distribution set up and new launches. We maintained our estimates post 4Q. We now estimate 13%/30%/33% CAGR in revenue/EBITDA/PAT over FY23-25E (16%/9%/10% over FY18-23), respectively, likely to be driven by growth and margin expansion in all segments. Robust OCF will be utilised for capex in future, which will aid in generating strong 22% RoE and 37% RoIC in FY25E. While HAVL's long-term prospects seem healthy, at 44x FY25E P/E, the stock is fairly valued. We maintain our HOLD rating with a revised TP of Rs 1,359 (earlier Rs 1,269), based on 45x FY25E P/E (42x earlier). Strong growth, FCF and RoE are key triggers that would help sustain such premium valuations.

4Q - strong switchgear results drove 5% beat in PAT: HAVL's reported in line revenue (Rs 48.6bn, up 10% YoY), but a superior EBITDA margin of 10.8% (vs. 10.4% estimated), led to a 5% beat in PAT. Better-than-expected gross margin (30.4%, up 115bps QoQ) supported the superior margins. The demand in its B2B portfolio (switchgear, cables etc., 70% mix in HAVL's portfolio) was steady, while the B2C basket was impacted on sluggish consumer demand. A&P spend stood at Rs 1.1bn (2.3% of revenue) vs. Rs 690mn in 4QFY22 (1.6% of revenue). In FY23, HAVL spent Rs 4bn on its Lloyd AC plant in Sri City and washing machine plant in Ghiloth. Net cash reduced by ~Rs 3bn to Rs 21.2bn on built-up of AC inventory, in anticipation of a strong summer season.

B2B-driven growth; high inflation continued to hurt retail demand: As per management, high inflation continued to hurt retail demand, impacting consumer-facing businesses, while demand from the industrial and infrastructure sectors supported the B2B businesses. Switchgear (27% YoY revenue growth, ~200bps margin expansion) was the best-performing category. The muted revenue (up 5% YoY) in cables was the result of lower channel inventory because of volatile copper prices. Despite mid-teen volume growth, lighting revenue (up 3% YoY) was impacted due to fall in LED price; a favourable product mix enabled better margins (up 253bps YoY) though. ECD revenue (down 14% YoY) disappointed, impacted by high channel stocking of fans (60-65% segment mix) in 3Q; ~5% hike in BLDC fan prices should aid margins.

Lloyd - strong growth momentum sustained but losses continued too: Lloyd continues to focus on market share over margins. Even though 4Q revenue surged by 32% YoY to Rs 12.7bn, persisting EBIT losses (Rs 229mn in 4Q; Rs 2.2bn in FY23) on account of intense competition, high-cost inventory and new launch-related expenses remain key concerns. The company has doubled its RAC capacity to 2mn units after commencement of Sri City plant. HAVL expects to maintain its top 3 player status in the RAC industry by continuing to focus on improving brand visibility and channel expansion. We expect gradual margin expansion in Lloyd, given its upfront investments in brand building, distribution set up and new launches. A comprehensive portfolio (RAC, refrigerators and washing machines) and in-house manufacturing should enable sustained growth.

Valuation and View

We like HAVL for its ability to sustain its leadership position in FMEG. By leveraging its strong brand pull, mass-premium product range, vast distribution network and robust processes, the company has emerged among the top 3 players in several FMEG product categories. HAVL enjoys the highest margins among peers in many product categories and generates healthy FCF despite high capex (unlike most peers, the company has opted for in house production).

We estimate 13%/30%/33% CAGR in revenue/ EBITDA/PAT over FY23-25E (16%/9%/10% CAGR in over FY18-23), respectively, to be driven by growth and margin expansion in all segments. Robust OCF will likely be utilised for future capex and aid in generating strong 22% RoE and 37% RoIC in FY25E.

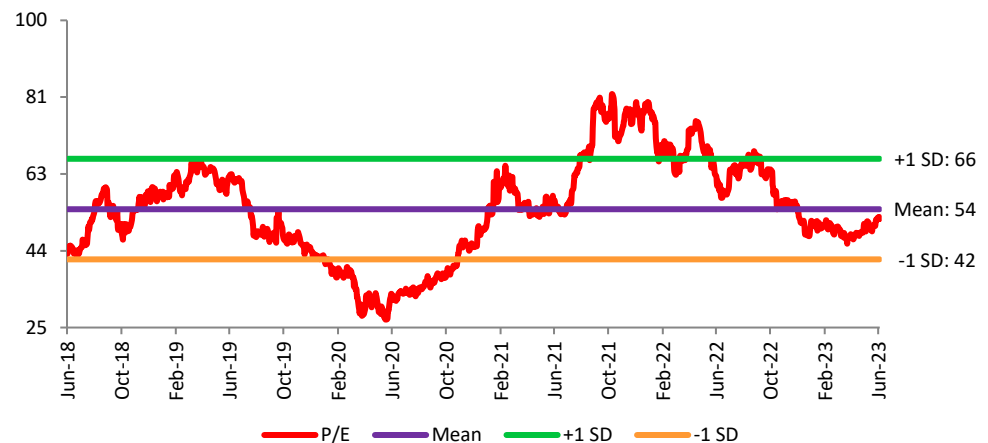
While we believe in HAVL's healthy long-term prospects, at 44x FY25E P/E, we believe the stock is fairly valued, and maintain **HOLD** rating on the stock, with a revised TP of Rs 1,359 (earlier Rs 1,269), based on 45x FY25E P/E (42x earlier). Strong growth, FCF and RoE are key triggers for HAVL to sustain its premium valuations.

Exhibit 1: Change in estimates

(Rs mn)	Old estimates		New estimates		% Var		Bloomberg estimates		% Var vs. Systematix	
	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
Total Income	1,90,402	2,14,403	1,90,402	2,14,403	-	-	1,92,408	2,19,167	1	2
EBITDA	22,807	26,805	22,807	26,805	-	-	21,519	26,189	(6)	(2)
EBITDA margin (%)	12.0	12.5	12.0	12.5			11.2	11.9		
PAT	15,712	18,921	15,712	18,921	-	-	14,719	18,126	(6)	(4)
EPS (Rs)	25.1	30.2	25.1	30.2	-	-				

Source: Systematix Institutional Research

Exhibit 2: P/E band – 1-year-forward and standard deviation



Source: BSE, Company, Systematix Institutional Research

Key Risks

- Lower-than-expected improvement in macroeconomic factors
- Weakness in real-estate activities
- Intensifying competition, with return of the non-regulated (informal) sector

HAVELLS (FINANCIALS)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net revenues	1,04,573	1,39,385	1,69,107	1,90,402	2,14,403
Growth (%)	11	33	21	13	13
Raw material expenses	64,897	94,220	1,17,055	1,27,678	1,43,077
Gross Margin (%)	37.9	32.4	30.8	32.9	33.3
Employee & Other exp.	23,958	27,561	36,061	39,918	44,521
EBITDA	15,718	17,604	15,991	22,807	26,805
EBITDA margins (%)	15.0	12.6	9.5	12.0	12.5
Depreciation	2,489	2,609	2,962	3,226	3,506
Other income	1,874	1,604	1,777	1,908	2,470
Finance costs	727	534	336	285	235
PBT	14,376	16,066	14,471	21,203	25,534
Effective tax rate (%)	27.4	25.5	25.9	25.9	25.9
Associates/(Minorities)	-	-	-	-	-
Net Income	10,443	11,965	10,717	15,712	18,921
Adjusted net income	10,443	11,965	10,717	15,712	18,921
Shares outstanding	626	626	626	626	626
FDEPS (Rs per share)	16.7	19.1	17.1	25.1	30.2
FDEPS growth (%)	42	15	(10)	47	20

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	626	626	626	626	626
Net worth	51,763	60,029	66,254	75,077	87,109
Total debt	4,922	3,955	-	-	-
Minority interest	-	-	-	-	-
DT Liability/ (Asset)	3,391	3,506	3,616	3,635	3,655
Capital Employed	60,076	67,490	69,870	78,712	90,764
Net tangible assets	19,106	20,603	22,279	24,284	25,978
Net Intangible assets	14,333	14,126	13,958	13,726	13,526
Goodwill	-	-	-	-	-
CWIP	863	568	1,634	1,634	1,634
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	-	2,727	200	10,200	20,200
Current Assets	37,693	41,729	54,802	56,774	63,190
Cash	16,528	25,480	18,702	19,125	17,673
Current Liabilities	28,447	37,742	41,705	47,032	51,437
Working capital	9,247	3,987	13,097	9,743	11,753
Capital Deployed	60,076	67,490	69,870	78,712	90,764
Contingent Liabilities	710	820	-	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
EBIT (incl. other income)	13,845	15,582	13,571	19,581	23,299
Non-cash items	2,489	2,609	2,962	3,226	3,506
OCF before WC changes	16,334	18,191	16,532	22,807	26,805
Incr./ (decr.) in WC	7,700	(3,031)	6,964	(3,355)	2,010
Others including taxes	2,031	3,944	3,919	5,382	6,504
Operating cash-flow	6,603	17,278	5,649	20,779	18,291
Capex	2,499	2,583	5,878	5,000	5,000
Free cash-flow	4,104	14,695	(229)	15,779	13,291
Acquisitions	-	-	-	-	-
Dividend	1,878	4,071	4,703	6,889	6,889
Equity raised	98	312	267	-	-
Debt raised	4,137	(1,467)	(4,563)	-	-
Fin Investments	7,296	6,051	(5,204)	10,000	10,000
Misc. Items (CFI + CFF)	(1,704)	(795)	(917)	(1,534)	(2,146)
Net cash-flow	869	4,212	(3,107)	424	(1,453)

Source: Company, Systematix Institutional Research

Ratios @ Rs 1,341

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	80.4	70.2	78.4	53.5	44.4
EV/EBITDA (x)	52.7	46.5	51.4	35.5	29.9
EV/sales (x)	7.9	5.9	4.9	4.3	3.7
P/B (x)	16.2	14.0	12.7	11.2	9.6
RoE (%)	20.2	19.9	16.2	20.9	21.7
RoCE (%)	28.5	26.0	21.6	28.9	30.4
ROIC (%)	26.7	28.0	23.0	31.2	36.9
DPS (Rs per share)	6.5	7.5	4.5	11.0	11.0
Dividend yield (%)	0.5	0.6	0.3	0.8	0.8
Dividend payout (%)	39.0	39.3	26.3	43.8	36.4
Net debt/equity (x)	(0.2)	(0.4)	(0.3)	(0.4)	(0.4)
Receivables (days)	20	20	21	18	18
Inventory (days)	91	78	80	75	75
Payables (days)	56	62	57	60	60
CFO:PAT%	63	144	53	132	97

Source: Company, Systematix Institutional Research



TM

KEI Industries

12 June 2023

In line 4Q; outlook remains promising

COMPANY UPDATE

Sector: Consumer Electricals Rating: HOLD

CMP: Rs 2,104 Target Price: Rs 2,138

Stock Info

Sensex/Nifty	62,626/18,563
Bloomberg	KEII IN
Equity shares (mn)	90.2
52-wk High/Low	2,163/1,145
Face value	Rs 2
M-Cap	Rs 190bn/ USD 2.3bn
3-m avg turnover	USD 5.4mn

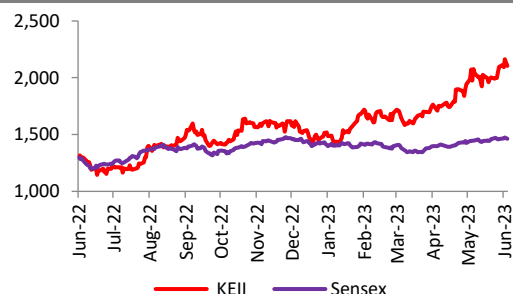
Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Net sales	69,123	79,209	90,893
EBITDA	7,062	8,413	10,017
OPM (%)	10.2	10.6	11.0
PAT (adj.)	4,773	5,706	6,888
EPS (adj.) (Rs)	52.9	63.3	76.4
PE (x)	39.8	33.3	27.5
P/B (x)	7.3	6.1	5.0
EV/EBITDA (x)	26.3	22.1	18.4
RoE (%)	18.4	18.3	18.3
RoCE (%)	25.6	26.3	26.4
Net-D/E (x)	(0.1)	(0.1)	(0.2)

Shareholding Pattern (%)

	Mar'23	Dec'22	Sep'22
Promoter	37.2	37.3	38.0
- Pledged	-	-	-
FII	27.4	26.8	27.0
DII	19.5	19.1	18.1
Others	15.9	16.7	17.0

Stock Performance (1-year)



KEI's (KEII) strong and in line 4QFY23 (revenue/EBITDA/PAT up 9%/19%/19% YoY) was driven by robust 13% volume and 15% retail sales (42% mix) growth. EBITDA margin at 10.4% expanded 83bps YoY, aided by gross margin (26.2%, up 200bps YoY). FY23 volume/ revenue/ EBITDA/ PAT grew 20%/ 21%/ 20%/ 27% YoY, with EBITDA margin of 10.2%. The company turned net cash in FY23 (Rs 1.83bn incl. acceptances). Management reiterated its guidance of 16%+ revenue growth and 10.5-11% EBITDA margin (~12% in 4-5 years) for the forthcoming years. Higher retail sales mix (FY23 mix of ~44% expected to touch 50% in 1-2 years) will continue to drive KEII's margins and cash flows ahead (to be used for future capex). Its LT cables (~Rs 500mn brownfield capex at Silvassa; ~Rs 5bn revenue potential) and a greenfield capex plant (~Rs 8bn at Baroda, to be operational in FY26) should fuel growth. We retain our estimates and expect revenue/PAT CAGR of 15%/20% over FY23-25E (FY18-23: 15%/27%), respectively, with 26% RoCE and strong OCFs. Strong industry-leading growth and cashflows have driven huge re-rating in the scrip over last 4-5 years. We remain sanguine on KEII's growth prospects, but maintain HOLD at 28x FY25E P/E (vs. 23x +1 SD 5-year mean), with a revised TP of Rs 2,138 (25x FY25E P/E). While we see limited scope for re-rating hereon, we believe consistent strong results may evince investor interest and drive upsides in KEII's scrip.

In line 4Q: KEII's revenue/EBITDA/PAT grew at 9%/19%/19% YoY and 10%/12%/7% QoQ, respectively, on strong volumes (up 13% YoY) and retail sales (up 15% YoY, 42% mix). EBITDA margin at 10.4% expanded 83bps YoY, aided by gross margin (26.2%, up 200bps YoY). In FY23, revenue/ EBITDA/ PAT grew 21%/ 20%/ 27% YoY with 10.2% EBITDA margin. KEII turned net cash (Rs 1.83bn incl. acceptances) in FY23.

Strong traction in retail sales; EHV cables to rebound in FY24: Strong retail sales (Rs 8.2bn, up 15% YoY; 42% mix, expected to touch 50% in 1-2 years) drove overall revenue in 4Q. LT cables (up 13% YoY and 14% QoQ in 4Q; up 31% in FY23) continued to be the largest and the fastest growing category for KEII. Housewires (up 3% YoY and QoQ) was a little soft though. EHV cable revenue was weak (Rs 3.7bn, down 29% YoY) in FY23 due to delay in procurement from clients. However, KEII aims to clock Rs 6bn revenue in FY24 on the back of Rs 8.5bn order book. Exports (Rs 5bn in FY23, up 24% YoY) is another focus area for KEII with US as an emerging market.

Capacity addition to fuel growth: Strong earnings and a surge in channel financing (~40% of sales) could drive healthy liquidity, which the company can use for capex to fund its LT cables (~Rs 500mn capex; likely operational in Sep'23; ~Rs 5bn revenue potential) and greenfield plant (~Rs 8bn at Baroda) over the next 3-4 years. Network expansion (by ~10% pa) should boost retail sales mix and its planned FMEG foray.

Strong and consistent earnings growth to support rich valuation: We remain upbeat on KEII's prospects and estimate revenue/PAT CAGR of 15%/20% over FY23-25E (FY18-23: 15%/27%), with 26% RoCE and strong OCFs. Strong demand for cables & wires from overall infrastructure development in the country should help KEII maintain 15%-20% CAGR in revenue/PAT and 20%+ RoIC over the next few years. Curtailment of EPC business and rise in retail sales mix (~44% in FY23, to reach 50% in 1-2 years) would further drive margins (12% in 4-5 years) and cash flows (to be used for future capex). KEII's scrip has significantly re-rated in the last five years on robust growth and huge improvement in its balance sheet. While we see limited scope for further re-rating at 28x FY25E P/E on CMP, consistent strong results could evince investor interest and drive upside in the stock, in our view.

Valuation and View

We remain optimistic on KEIL's strong earnings growth potential, supported by healthy demand in its cable business across institutional, retail and export verticals. Given the lower proportion of EPC in its overall sales mix, we believe a shorter working capital cycle should help the company in generating healthy FCF.

Post strong 15%/16%/27% CAGR in revenue/EBITDA/PAT over FY18-23, we expect KEIL's strong performance of 15%/19%/20% CAGR over FY23-25E (our estimates remain unchanged post 4QFY23 result) to continue. A combination of robust operating result, significantly reduced finance charges and lower EPC sales should support KEIL's strong cashflows, which the company could deploy towards reinvesting in growth capex.

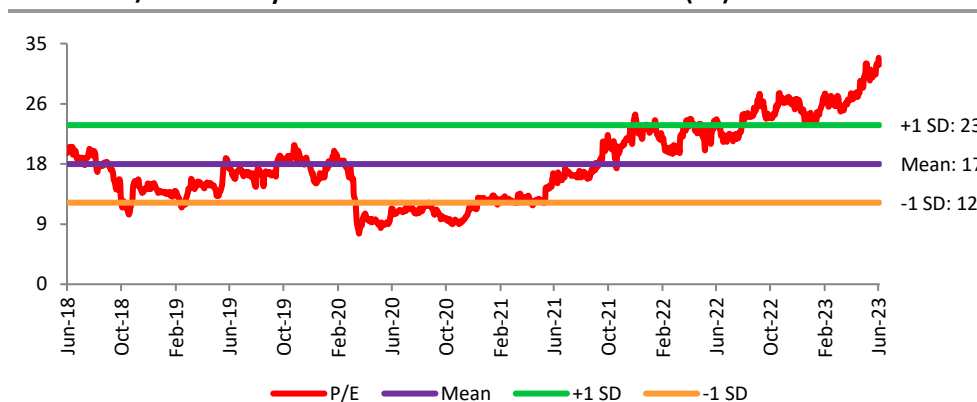
Strong industry-leading growth and cashflows have driven significant re-rating in KEIL's scrip over the last five years. We remain sanguine on KEIL's promising growth prospects. However, at 28x FY25E P/E (vs. 23x +1 SD five-year mean), we maintain our **HOLD** rating on the stock, with a revised TP of Rs 2,138 (Rs 1,909 earlier), based on 25x FY25E P/E (28x earlier). While scope for further re-rating hereon is limited, strong performance would continue to evince investor interest and drive upside in the stock, in our view.

Exhibit 1: Change in estimates

(Rs mn)	Old estimates		New estimates		% Var		Bloomberg estimates		% Var vs. Systematix	
	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
Total Income	79,209	90,893	79,209	90,893	-	-	80,863	94,382	2	4
EBITDA	8,413	10,017	8,413	10,017	-	-	8,651	10,390	3	4
EBITDA margin (%)	10.6	11.0	10.6	11.0			10.7	11.0		
PAT	5,706	6,888	5,706	6,888	-	-	5,791	6,929	1	1
EPS (Rs)	63.3	76.4	63.3	76.4	-	-				

Source: Systematix Institutional Research

Exhibit 2: P/E band – 1-year-forward and standard deviation (SD)



Source: BSE, Systematix Institutional Research

Key risks

- Volatile copper and aluminium prices
- Slowdown in government's infra push

KEI INDUSTRIES (FINANCIALS)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net revenues	41,815	57,266	69,123	79,209	90,893
Growth (%)	-14	37	21	15	15
Raw material expenses	29,146	42,142	51,724	59,109	67,647
Gross Margin (%)	30.3	26.4	25.2	25.4	25.6
Employee & Other exp.	8,114	9,237	10,338	11,687	13,230
EBITDA	4,556	5,887	7,062	8,413	10,017
EBITDA margins (%)	10.9	10.3	10.2	10.6	11.0
Depreciation	578	555	571	655	770
Other income	201	146	276	208	287
Finance costs	573	404	347	292	270
PBT	3,605	5,074	6,420	7,674	9,264
Effective tax rate (%)	25.2	25.9	25.6	25.6	25.6
Associates/(Minorities)	-	-	-	-	-
Net Income	2,696	3,759	4,773	5,706	6,888
Adjusted net income	2,696	3,759	4,773	5,706	6,888
Shares outstanding	90	90	90	90	90
FDEPS (Rs)	29.9	41.7	52.9	63.3	76.4
FDEPS growth (%)	5	39	27	20	21

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	180	180	180	180	180
Net worth	17,740	21,355	25,892	31,237	37,584
Total debt	3,293	3,520	1,572	1,462	1,352
Minority interest	(0)	(0)	(0)	(0)	(0)
DT Liability/ (Asset)	281	294	266	256	246
Capital Employed	21,313	25,170	27,730	32,955	39,182
Net tangible assets	5,353	5,288	5,656	7,501	9,232
Net Intangible assets	18	21	17	17	17
Goodwill	-	-	-	-	-
CWIP	71	165	146	246	346
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	12	20	13	1,513	3,013
Current Assets	22,419	26,176	26,498	30,949	35,326
Cash	2,212	3,600	5,372	4,013	4,017
Current Liabilities	8,772	10,101	9,972	11,283	12,768
Working capital	13,646	16,075	16,527	19,666	22,558
Capital Deployed	21,313	25,170	27,730	32,955	39,182
Contingent Liabilities	2,084	2,867	-	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
EBIT (incl. other income)	4,285	5,483	6,693	7,758	9,247
Non-cash items	579	554	571	655	770
OCF before WC changes	4,864	6,038	7,264	8,413	10,017
Incr./ (decr.) in WC	2,370	2,505	280	3,139	2,892
Others including taxes	955	1,246	1,844	1,990	2,397
Operating cash-flow	1,539	2,286	5,139	3,284	4,728
Capex	240	584	755	2,600	2,600
Free cash-flow	1,299	1,703	4,384	684	2,128
Acquisitions	-	-	-	-	-
Dividend	180	224	271	361	541
Equity raised	79	1	0	-	-
Debt raised	(567)	(191)	(202)	(110)	(110)
Fin Investments	(943)	9	550	1,500	1,500
Misc. Items (CFI + CFF)	567	(110)	2,153	73	(28)
Net cash-flow	1,007	1,389	1,208	(1,359)	5

Source: Company, Systematix Institutional Research

Ratios @ Rs 2,104

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	70.3	50.4	39.8	33.3	27.5
EV/EBITDA (x)	41.7	32.2	26.3	22.1	18.4
EV/sales (x)	4.5	3.3	2.7	2.3	2.0
P/B (x)	10.7	8.9	7.3	6.1	5.0
RoE (%)	15.2	17.6	18.4	18.3	18.3
RoCE (%)	20.6	23.6	25.6	26.3	26.4
ROIC (%)	14.9	18.5	21.7	22.9	23.1
DPS (Rs per share)	2.0	2.5	3.0	4.0	6.0
Dividend yield (%)	0.1	0.1	0.1	0.2	0.3
Dividend payout (%)	6.7	6.0	5.7	6.3	7.9
Net debt/equity (x)	0.1	(0.0)	(0.1)	(0.1)	(0.2)
Receivables (days)	118	89	73	75	75
Inventory (days)	67	69	58	60	60
Payables (days)	65	49	40	40	40
CFO: PAT%	57	61	108	58	69

Source: Company, Systematix Institutional Research



TM

Orient Electric

12 June 2023

4Q weak - lower offtake of fans; no signs of recovery

COMPANY UPDATE

Sector: Consumer Electricals Rating: HOLD

CMP: Rs 245 Target Price: Rs 243

Stock Info

Sensex/Nifty	62,626/18,563
Bloomberg	ORIENTEL IN
Equity shares (mn)	212.8
52-wk High/Low	292/219
Face value	Rs 1
M-Cap	Rs 52bn/ USD 0.6bn
3-m avg turnover	USD 0.8mn

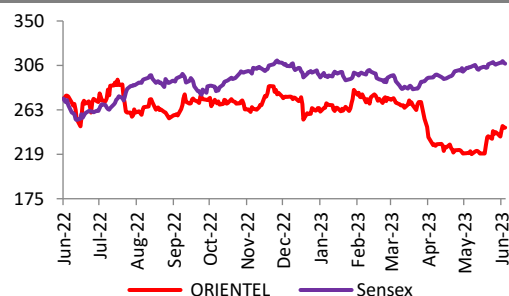
Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Net sales	25,292	29,085	32,844
EBITDA	1,510	2,376	2,913
OPM (%)	6.0	8.2	8.9
PAT (adj.)	758	1,357	1,726
EPS (adj.) (Rs)	3.6	6.4	8.1
PE (x)	68.7	38.4	30.2
P/B (x)	8.9	7.8	6.7
EV/EBITDA (x)	33.5	21.2	17.0
RoE (%)	13.0	20.3	22.2
RoCE (%)	21.6	30.3	33.1
Net-D/E (x)	(0.3)	(0.3)	(0.3)

Shareholding Pattern (%)

	Mar'23	Dec'22	Sep'22
Promoter	38.4	38.4	38.4
- Pledged			
FII	5.8	6.1	6.1
DII	27.6	26.7	27.0
Others	28.2	28.8	28.4

Stock Performance (1-year)



Orient Electric's (ORIENTEL) 4Q revenue fell 13% YoY and 11% QoQ (7% EBITDA margin), impacted by lower volume offtake in fans caused by excess channel inventory. However, the lighting segment posted a healthy 4Q, boosted by consumer and B2B channels. While channel inventory of non-star rated fans is mostly liquidated, consumer traction in star-rated fans is yet to pick up. Management expects revival in the coming quarters, on the back of its large BLDC fans portfolio, traction in B2B lighting and new products (likely ~15% mix in FY25). It estimates ~Rs 500mn surge in FY24 EBITDA, aided by cost savings (guided by McKinsey). While gross margin expansion is visible, continued investments in A&P (~4.5% of revenue), people, etc., could restrict similar EBITDA margin expansion. ORIENTEL claims to have gained market share in fans in 6 states where it has set up direct distribution. The Hyderabad facility will likely be operational (in phases) in Oct'23, and boost its fans portfolio. The ~40% drop in ORIENTEL's scrip since Nov'21 reflects its muted revenue/EBITDA/PAT CAGR of 10%/2%/3% over FY18-23. Post 4Q, we had cut FY24E/FY25E earnings by ~8% each, and estimate 14%/39%/51% CAGR over FY23-25E on a low base. Post sharp dip in FY23, we estimate higher RoE and RoCE of ~22% and ~33% in FY25. At ~30x FY25E P/E on CMP, we maintain HOLD, with a revised TP of Rs 243 (earlier Rs 227), based on 30x FY25E P/E (28x earlier). Intensifying competition poses a key risk to our growth/ margin estimates.

Weak 4Q post healthy 3Q: ORIENTEL's 4Q revenue slipped 13% YoY and 11% QoQ, impacted by weak ECD (mainly fans) performance. Gross margin was broadly flat YoY and QoQ at 28.3%. EBITDA dipped 43% YoY and 15% QoQ, with margin contracting 366bps YoY and 38bps QoQ to 7% on lower fan volumes and high A&P spend. Consequently, PAT fell 50% YoY and 24% QoQ. Excess inventory in the channel (filled during 3Q, ahead of BEE norm implementation) hurt fan volumes.

Excess channel inventory hurt primary sales of fans; strong lighting margins: ECD 4Q results (revenue down 20% YoY and 15% QoQ, ~300bps margin dip) were weak due to lower volume offtake in fans caused by high channel inventory (filled during 3Q, ahead of BEE norm implementation). Water heaters and air coolers grew healthy though. Weak fans volume also hurt FY23 ECD revenue (fell 3% YoY). Channel inventory of non-star rated products are mostly liquidated, but consumer traction in the star-rated category is yet to pick up. ORIENTEL has taken a 2-3% price hike in BLDC fans since Apr'23 (after ~4% in Jan). Lighting revenue was healthy (up 12% YoY and flat QoQ), driven by B2B and consumer channels. A superior product mix aided margins (up ~400bps YoY and QoQ). ORIENTEL achieved industry-leading growth of 20%+, with healthy margins (sustainable) in FY23. Management is hopeful of a revival soon on the back of its large BLDC fans portfolio and traction in B2B lighting; new products could constitute 15% of sales in FY25. The cost savings program (guided by McKinsey) could boost FY24 EBITDA by ~Rs 500mn. A gradual recovery in EBITDA margin expected on continued high A&P spend (~4.5% of revenue).

Migration to direct distribution model, in-house manufacturing to support growth: ORIENTEL implemented direct model framework in six states (Odisha, Bihar, UP, Karnataka, AP, Telangana) where it claims to have achieved 15% YoY growth in 4Q and market share gain in fans. A new facility in Hyderabad (Rs 1.7bn capex) should be operational (in phases) in Oct'23 and boost its ceiling and TPW fans portfolio. It expects alternate channel (e-com, MT & LFS together) contribution to double in few years.

Valuation and View

ORIENTEL is a leader in fans and lighting, and is also striving to expand in newer categories (appliances, switchgear, etc). The new management's renewed focus since 2015 has helped ORIENTEL reposition itself as a serious, young and energetic player, focused on premiumisation and innovation. From master distributor model, the company is also exploring direct-distribution channel in few markets to gain market share in these markets.

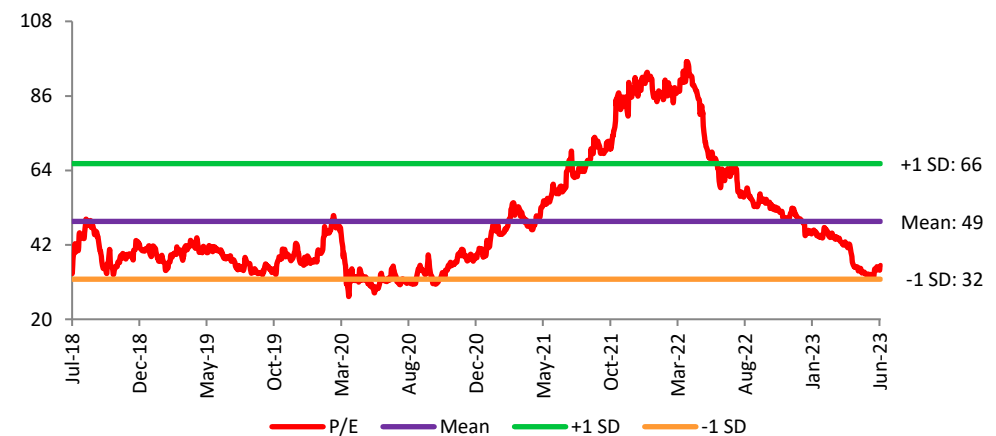
A ~40% decline in ORIENTEL's scrip since Nov'21 reflects its muted revenue/ EBITDA/ PAT CAGR of 10%/ 2%/ 3% over FY18-23, respectively. Post 4Q, we had cut FY24E/FY25E earnings by ~8% each, and estimate 14%/ 39%/ 51% CAGR over FY23-25E on a low base. Post significant dip in FY23, its RoE and RoCE should expand to ~22% and ~33%, respectively, in FY25. At ~30x FY25E P/E on CMP, we maintain **HOLD**, with a revised TP of Rs 243 (earlier Rs 227), based on 30x FY25E P/E (28x earlier). Competitive intensity poses a key risk to our growth/margin estimates.

Exhibit 1: Change in estimates

(Rs mn)	Old estimates		New estimates		% Var		Bloomberg estimates		% Var vs. Systematix	
	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
Total Income	29,085	32,844	29,085	32,844	-	-	29,565	33,448	2	2
EBITDA	2,376	2,913	2,376	2,913	-	-	2,295	3,206	(3)	10
EBITDA margin (%)	8.2	8.9	8.2	8.9			7.8	9.6		
PAT	1,357	1,726	1,357	1,726	-	-	1,340	1,781	(1)	3
EPS (Rs)	6.4	8.1	6.4	8.1	-	-				

Source: Systematix Institutional Research

Exhibit 2: P/E band – 1-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

Key risks

- Volatility in raw material prices
- Heavy dependence on summer-relevant products

ORIENT ELECTRIC (FINANCIALS)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net revenues	20,326	24,484	25,292	29,085	32,844
Growth (%)	-1	20	3	15	13
Raw material expenses	14,210	17,666	18,242	20,396	22,868
Gross Margin (%)	30.1	27.8	27.9	29.9	30.4
Employee & Other exp.	3,921	4,504	5,540	6,313	7,063
EBITDA	2,195	2,313	1,510	2,376	2,913
EBITDA margins (%)	10.8	9.4	6.0	8.2	8.9
Depreciation	432	471	535	585	655
Other income	63	58	266	137	167
Finance costs	207	203	222	104	104
PBT	1,619	1,698	1,019	1,823	2,320
Effective tax rate (%)	26.0	25.4	25.6	25.6	25.6
Associates/(Minorities)	-	-	-	-	-
Net Income	1,197	1,266	758	1,357	1,726
Adjusted net income	1,197	1,266	758	1,357	1,726
Shares outstanding	212	212	213	213	213
FDEPS (Rs)	5.6	6.0	3.6	6.4	8.1
FDEPS growth (%)	52	6	(40)	79	27

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	212	212	213	213	213
Net worth	4,557	5,413	5,846	6,671	7,759
Total debt	153	147	101	101	101
Minority interest	-	-	-	-	-
DT Liability/ (Asset)	-	-	-	-	-
Capital Employed	4,709	5,560	5,947	6,772	7,860
Net tangible assets	1,716	1,900	2,075	2,284	2,224
Net Intangible assets	230	234	216	221	226
Goodwill	-	-	-	-	-
CWIP	26	15	827	829	831
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	-	-	-	500	1,500
Current Assets	7,076	8,219	7,887	8,922	9,931
Cash	2,576	1,505	1,642	1,414	1,266
Current Liabilities	6,914	6,313	6,699	7,399	8,118
Working capital	162	1,905	1,188	1,523	1,812
Capital Deployed	4,709	5,560	5,947	6,772	7,860
Contingent Liabilities	178	178	-	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
EBIT (incl. other income)	2,044	1,930	1,144	1,791	2,258
Non-cash items	432	471	535	585	655
OCF before WC changes	2,475	2,401	1,679	2,376	2,913
Incr./ (decr.) in WC	(2,172)	1,969	(714)	336	289
Others including taxes	375	445	496	460	587
Operating cash-flow	4,273	(13)	1,897	1,580	2,037
Capex	359	423	1,136	802	602
Free cash-flow	3,914	(435)	761	778	1,435
Acquisitions	-	-	-	-	-
Dividend	265	424	425	532	638
Equity raised	-	-	89	-	-
Debt raised	(961)	(168)	(46)	-	-
Fin Investments	(1)	(1,172)	58	500	1,000
Misc. Items (CFI + CFF)	1,358	45	185	(26)	(56)
Net cash-flow	1,330	99	137	(228)	(148)

Source: Company, Systematix Institutional Research

Ratios @ Rs 245

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	43.4	41.1	68.7	38.4	30.2
EV/EBITDA (x)	22.6	21.9	33.5	21.2	17.0
EV/sales (x)	2.4	2.1	2.0	1.7	1.5
P/B (x)	11.4	9.6	8.9	7.8	6.7
RoE (%)	26.3	23.4	13.0	20.3	22.2
RoCE (%)	39.5	37.0	21.6	30.3	33.1
ROIC (%)	36.3	40.9	18.1	29.6	34.7
DPS (Rs per share)	2.0	2.0	1.5	2.5	3.0
Dividend yield (%)	0.8	0.8	0.6	1.0	1.2
Dividend payout (%)	35	34	42	39	37
Net debt/equity (x)	(0.5)	(0.3)	(0.3)	(0.3)	(0.3)
Receivables (days)	69	62	54	50	50
Inventory (days)	45	49	41	45	45
Payables (days)	93	67	65	65	65
CFO: PAT%	357	(1)	250	116	118

Source: Company, Systematix Institutional Research



TM

Polycab

12 June 2023

COMPANY UPDATE

Sector: Consumer Electricals Rating: HOLD

CMP: Rs 3,548 Target Price: Rs 3,533

Stock Info

Sensex/Nifty	62,626/18,563
Bloomberg	POLYCAB IN
Equity shares (mn)	149.7
52-wk High/Low	3,594/2,082
Face value	Rs 10
M-Cap	Rs 531bn/ USD 6.4bn
3-m avg turnover	USD 12.8mn

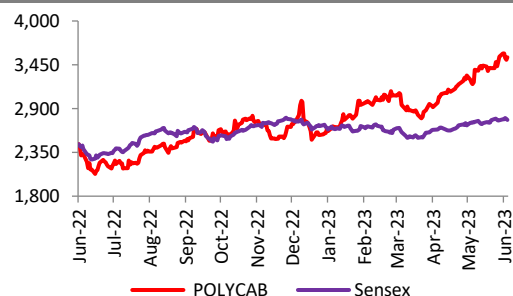
Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Net sales	1,41,078	1,60,628	1,82,895
EBITDA	18,521	21,650	25,273
OPM (%)	13.1	13.5	13.8
PAT (adj.)	12,700	14,937	17,636
EPS (adj.) (Rs)	84.8	99.7	117.8
PE (x)	41.8	35.6	30.1
P/B (x)	8.0	6.8	5.8
EV/EBITDA (x)	27.7	23.4	19.8
RoE (%)	19.2	19.2	19.4
RoCE (%)	28.3	27.6	27.8
Net-D/E (x)	(0.3)	(0.3)	(0.3)

Shareholding Pattern (%)

	Mar'23	Dec'22	Sep'22
Promoter	66.2	66.6	68.0
- Pledged	-	-	-
FII	9.8	8.1	6.4
DII	9.3	10.1	10.4
Others	14.7	15.2	15.2

Stock Performance (1-year)



Strong margins drove PAT beat; earnings upgrade continues

Polycab's (POLYCAB) strong 4Q (revenue/EBITDA/PAT up 9%/28%/32% YoY; 14.1% EBITDA margin, up 210bps YoY) was aided by 1) healthy volumes (4Q up 8-10% YoY; up 20%+ in FY23), 2) improved exports (up 125% YoY, 12.5% mix, 50%+ mix from the US), 3) judicious pricing, and 4) a richer product mix. FMEG division (revenue down 20% YoY and 11% QoQ, Rs 71mn EBIT loss) was impacted by weak volumes in fans due to excess channel inventory. Management expects strong traction in domestic C&W (on healthy public and private capex) and exports (on strong order book) to sustain. FMEG division too is expected to rebound in FY24, as the company has completed its distribution realignment. Given our optimistic outlook post 4Q, we had raised FY24E/25E earnings by ~5% each (post ~5% upgrade on 13 Apr'23) on estimated higher margins. We estimate 14%/ 17%/ 18% CAGR in revenue/ EBITDA/ PAT over FY23-25E (FY18-23: 16%/ 21%/ 29%), with healthy RoE (~20%), RoIC (~31%) and FCFs. On robust performance, POLYCAB's stock price has risen ~50% in a year and ~6x since its listing in Apr'19. While we remain sanguine on POLYCAB's long-term prospects, at ~30x FY25E P/E, we see limited potential for a re-rating. We thus maintain HOLD, with a target price of Rs 3,533, based on 30x FY25E P/E. Strong earnings growth is key to POLYCAB's stock price performance hereon, in our view.

Strong 4Q margins drove EBITDA/PAT beat: Sturdy exports drove revenue/ EBITDA/ PAT up 9%/ 28%/ 32% YoY. EBITDA margin expanded 210bps YoY to 14.1%, aided by healthy volumes, pricing action and richer product mix. FMEG division was impacted by weak fan volumes. In FY23, revenue/ EBITDA/ PAT rose 16%/ 46%/ 52% YoY with 13.1% EBITDA margin (up 270bps YoY). Higher payable days in FY23 aided working capital cycle (down 11 days to 50) and net cash (up ~Rs 8bn to Rs 18.9bn).

Strong rebound in cable exports; domestic demand outlook stays robust: Healthy volumes (4Q up 8-10% YoY; up 20%+ in FY23) drove the overall performance. 4Q C&W revenue (up 15% YoY and 22% QoQ) and EBIT margin (14.5%, up 286bps YoY and 71bps QoQ) were driven by strong rebound in exports (up 125% YoY, 12.5% mix, 50%+ mix from the US), as domestic revenue grew by 7% YoY. In FY23, cable exports grew ~50% YoY to Rs 13.8bn, with its mix increasing to 9.8% from 7.6% in FY22. A richer mix, better operating leverage and judicious pricing action aided margins (up 332bps over FY22). The merger of HDC and LDC verticals too helped. Wires normally enjoy ~4% better margins than cables. Management expects strong traction in domestic C&W (on healthy public and private capex) and exports (on strong order book) to sustain. The ~Rs 6bn capex in FY24 would mainly be on EHV cables capacity.

FMEG performance to rebound in FY24 on distribution rejig: 4Q performance (revenue fell 20% YoY and 11% QoQ; Rs 70mn EBIT loss on higher A&P, staff cost and input cost pressure) was impacted as fans category (~33% mix) suffered on heavy channel inventory stocking in 3Q (ahead of BEE norms implementation). Switches revenue grew 1.5x YoY and 1.9x QoQ, benefiting from in-house manufacturing. It introduced 40 new BEE-compliant fan SKUs during 4Q, 60% of which were in premium and super-premium categories. The new fan manufacturing plant in Halol is now operational. After a flattish revenue in FY23 (impacted by distribution channel rejig as part of project LEAP; now completed), POLYCAB is confident of achieving healthy revenue and profits in FY24; it maintained 10-12% EBITDA margin guidance by FY26. Focus on in-house capacity, alternate channels, and portfolio expansion stays.

Valuation and View

After having captured the top slot in the C&W space, POLYCAB entered the FMEG segment in FY14, and scaled it up quite fast in a relatively short time. We like the company for its large pan-India manufacturing base, distribution reach, professional management-driven business, strong promoter family and focus on cashflows. Given all these factors and its efforts to re-position itself as a consumer company, the stock has significantly re-rated since listing.

Post strong 4Q result, we had raised our FY24E/25E earnings by ~5% each (post ~5% upgrade on 13 Apr'23), as we estimate the company to record higher margins. With sustained traction across divisions, we now estimate 14%/ 17%/ 18% CAGR in revenue/ EBITDA/ PAT over FY23-25E (FY18-23: 16%/ 21%/ 29%), with RoE of ~20%, RoIC of ~31%, and likely healthy FCFs. 'Project LEAP' provides comfort on POLYCAB's long-term sustainable growth.

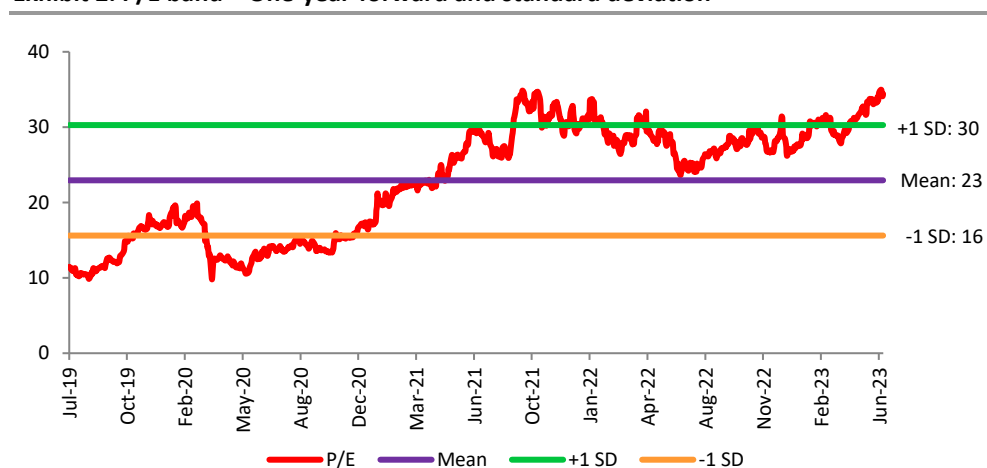
In line with POLYCAB's improving performance over last few years, the stock price has risen over ~6x since its listing Apr'19. While we remain sanguine on POLYCAB's long-term prospects, post ~50% rally in its scrip in a year and at ~30x FY25E P/E on CMP, we see limited potential for a re-rating hereon. Thus, we maintain **HOLD** rating, with a SoTP-based TP of Rs 3,533, based on 30x FY25E earnings.

Exhibit 1: Change in estimates

(Rs mn)	Old estimates		New estimates		% Var		Bloomberg estimates		% Var vs. Systematix	
	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
Total Income	1,60,628	1,82,895	1,60,628	1,82,895	-	-	1,62,163	1,84,040	1	1
EBITDA	21,650	25,273	21,650	25,273	-	-	20,803	24,110	(4)	(5)
EBITDA margin (%)	13.5	13.8	13.5	13.8			12.8	13.1		
PAT	14,937	17,636	14,937	17,636	-	-	14,294	16,671	(4)	(5)
EPS (Rs)	99.7	117.8	99.7	117.8	-	-				

Source: Company, Systematix Institutional Research

Exhibit 2: P/E band – One-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

Key risks

- Volatile copper and aluminium prices
- Slowdown in government's infra push could significantly impact POLYCAB's growth, especially given its huge investments in capacity and branding.

POLYCAB (FINANCIALS)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net revenues	87,922	1,22,038	1,41,078	1,60,628	1,82,895
Growth (%)	(0)	39	16	14	14
Raw material expenses	65,171	94,657	1,05,109	1,19,032	1,35,350
Gross Margin (%)	25.9	22.4	25.5	25.9	26.0
Employee & Other exp.	11,639	14,729	17,448	19,946	22,272
EBITDA	11,111	12,652	18,521	21,650	25,273
EBITDA margins (%)	12.6	10.4	13.1	13.5	13.8
Depreciation	1,762	2,015	2,092	2,517	2,910
Other income	1,193	899	1,333	1,361	1,687
Finance costs	427	352	598	413	372
PBT	10,116	11,184	17,165	20,081	23,678
Effective tax rate (%)	16.8	24.2	24.8	25.0	25.0
Associates/(Minorities)	(33)	(113)	(216)	(123)	(123)
Net Income	8,821	9,086	12,700	14,937	17,636
Adjusted net income	8,821	9,086	12,700	14,937	17,636
Shares outstanding	149	149	150	150	150
FDEPS (Rs)	59.2	60.8	84.8	99.7	117.8
FDEPS growth (%)	16	3	39	18	18

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	1,491	1,494	1,498	1,498	1,498
Net worth	47,539	55,437	66,311	77,654	90,977
Total debt	2,487	831	1,551	1,451	1,351
Minority interest	188	251	374	411	452
DT Liability/ (Asset)	418	272	409	399	389
Capital Employed	50,633	56,791	68,646	79,916	93,170
Net tangible assets	18,602	16,522	20,466	24,944	27,029
Net Intangible assets	94	230	203	208	213
Goodwill	-	-	-	-	-
CWIP	991	3,755	2,508	508	488
Investments (Strategic)	118	93	-	-	-
Investments (Financial)	6,231	7,641	13,505	19,505	26,505
Current Assets	38,798	41,809	50,607	55,344	62,784
Cash	5,313	4,071	6,952	6,776	6,664
Current Liabilities	19,514	17,328	25,596	27,368	30,512
Working capital	19,284	24,481	25,011	27,976	32,272
Capital Deployed	50,633	56,791	68,646	79,916	93,170
Contingent Liabilities	1,594	2,564	-	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
EBIT (incl. other income)	10,467	11,342	16,945	19,433	22,363
Non-cash items	1,866	2,088	2,092	2,517	2,910
OCF before WC changes	12,333	13,430	19,037	21,950	25,273
Incr./ (decr.) in WC	(2,600)	4,974	1,058	2,965	4,296
Others including taxes	2,408	3,340	3,704	4,891	5,791
Operating cash-flow	12,525	5,115	14,275	14,094	15,187
Capex	1,870	5,265	4,584	5,000	4,980
Free cash-flow	10,655	(150)	9,691	9,094	10,207
Acquisitions	-	-	-	-	-
Dividend	-	1,492	2,094	3,594	4,313
Equity raised	-	-	-	-	-
Debt raised	(1,217)	(168)	332	(100)	(100)
Fin Investments	8,351	(769)	7,665	6,000	7,000
Misc. Items (CFI + CFF)	431	121	252	(724)	(1,095)
Net cash-flow	656	(1,161)	11	123	(112)

Source: Company, Systematix Institutional Research

Ratios @ Rs 3,548

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	60.0	58.4	41.8	35.6	30.1
EV/EBITDA (x)	46.8	41.0	27.7	23.4	19.8
EV/sales (x)	5.9	4.3	3.6	3.2	2.7
P/B (x)	11.1	9.6	8.0	6.8	5.8
RoE (%)	18.6	16.4	19.2	19.2	19.4
RoCE (%)	23.3	21.5	28.3	27.6	27.8
ROIC (%)	23.3	21.6	27.2	29.3	31.0
DPS (Rs per share)	10.0	14.0	20.0	24.0	28.8
Dividend yield (%)	0.3	0.4	0.6	0.7	0.8
Dividend payout (%)	16.9	23.0	23.6	24.1	24.5
Net debt/equity (x)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Receivables (days)	65	41	34	35	35
Inventory (days)	83	66	76	70	70
Payables (days)	56	36	53	50	50
CFO: PAT%	142	56	112	94	86

Source: Company, Systematix Institutional Research



TM

V-Guard

12 June 2023

COMPANY UPDATE

Sector: Consumer Electricals Rating: HOLD

CMP: Rs 257 Target Price: Rs 268

Stock Info

Sensex/Nifty	62,626/18,563
Bloomberg	VGRD IN
Equity shares (mn)	432.2
52-wk High/Low	273/208
Face value	Rs 1
M-Cap	Rs 111bn/USD 1.3bn
3-m Avg turnover	USD 0.4mn

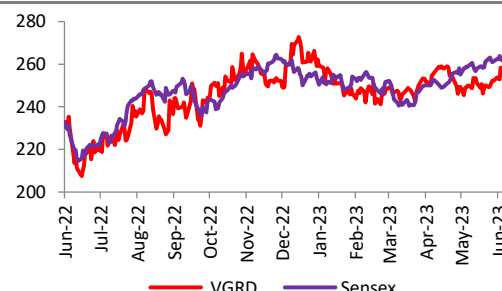
Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Net sales	41,260	50,331	57,103
EBITDA	3,199	5,002	6,013
OPM (%)	7.8	9.9	10.5
PAT (adj.)	1,891	3,181	3,862
EPS (Rs)	4.4	7.4	8.9
PE (x)	58.6	34.9	28.7
P/B (x)	6.9	6.0	5.1
EV/EBITDA (x)	18.8	22.9	18.8
RoE (%)	11.8	17.1	17.8
RoCE (%)	14.7	19.2	20.7
Net-D/E (x)	0.3	0.2	0.1

Shareholding Pattern (%)

	Mar'23	Dec'22	Sep'22
Promoter	55.8	55.9	55.9
- Pledged			
FII	12.8	12.9	12.9
DII	19.1	18.9	18.1
Others	12.3	12.3	13.1

Stock Performance (1-year)



4Q PAT missed on weak margins; revival likely by festivals (2Q)

V-Guard (VGRD) 4Q PAT fell short of our estimates, as the company recorded lower margins in all segments. Revenue in Electronics/Electricals was up 10%/2% YoY, but ECD declined 3%. VGRD expects demand to revive and gross margin to normalise by 2Q, on likely easing inflation. Management has guided CAGR of 14%+ in revenue over the next few years. Non-southern markets (up ~10%/26% YoY in 4Q/FY23; ~46% mix) continued to outpace the southern ones (YoY up -3%/10%). Integration of the Sunflame business is underway; management expects EBITDA margin to taper to 12-13% in FY24 (from a high of 14.1% in 4Q on account of lower ad spend) with revenue of ~Rs 4.2bn. Post 4Q, we had raised revenue/earnings estimates by ~10% each to factor in the Sunflame consolidation. We estimate CAGR of 18%/37%/43% in revenue/EBITDA/PAT over FY23-25E (FY18-23: 12%/11%/7%), to be led by healthy growth across categories and superior margins, as cost pressures recede. Tight working capital management should aid healthy OCF with 20%+ RoCE. We maintain HOLD rating on the stock, given the limited potential in the scrip at ~29x FY25E EPS; our TP is unchanged at Rs 268 (30x FY25E). Growth/margin trajectory in all segments incl. Sunflame are key monitorables.

PAT miss on lower margins in all segments: Despite healthy revenue (ex-ECD), up 8% YoY and 16% QoQ, EBITDA/PAT fell 12%/41% as all segments recorded lower margins). Despite 212bps YoY rise in gross margin, EBITDA margin dipped 192bps at 8.7%, due to Sunflame acquisition (Rs 100mn, 0.9% impact) and normalising A&P spend. Lower net WC days (75 vs. 83 in Mar'22) led to robust OCF (Rs 4.2bn); a Rs 7.3bn outflow towards Sunflame acq. impacted cash levels (net debt of Rs 4.1bn).

Electronics/Electricals revenue up 10%/2% YoY, ECD down 3%; margin pressure may subside: Lower offtake in fans (channel inventory) and kitchen appliances impacted ECD revenue. Wire demand was soft in 2H, as copper prices fell post strong 1H. Demand could revive from 2Q, on likely easing inflation and improving consumer sentiment; management has guided 14%+ CAGR in revenue, to be driven in the order of ECD, Electronics and Electricals. Gross margin may touch pre-COVID levels in few quarters on easing RM prices. VGRD claims it has gained market share in fans, water heaters and e-commerce channels, and expects pumps to revive in FY24. New channels (modern trade, e-commerce), deeper penetration in rural/ non-south areas, in-house manufacturing and new categories remain focus areas.

Non-southern markets will likely continue to outpace southern ones: Non-southern revenue mix (4Q/FY23: 45.7%/45.3%; FY22: 41.6%) again outdid (YoY up ~10%/26% in 4Q/FY23) the southern markets (YoY up -3%/10%). The former (~60% distribution strength) provides potential for robust growth and margin expansion over 3-5 years.

Sunflame acquisition to fasten non-southern expansion: VGRD acquired 100% stake in Sunflame for ~Rs 6.8bn (Rs 2.8bn debt funded). At 2x sales and 20x FY22 PAT, valuations are reasonable; the acquisition will likely fasten VGRD's expansion in kitchen appliances (cooktops and chimneys contribute ~60%), especially in the non-south markets (80% revenue mix). Management expects EBITDA margin to taper to 12-13% in FY24 (high 14.1% in 4Q on lower ad spend), with revenue of ~Rs 4.2bn.

Post 4Q, we raised revenue/earnings by ~10% for FY24/25E on Sunflame consolidation: We estimate CAGR of 18%/37%/43% in revenue/EBITDA/PAT over FY23-25E (FY18-23: 12%/11%/7%), led by healthy growth across categories and better margins, as cost pressures recede. Tight WC management to aid healthy OCF and 20%+ RoCE.

Valuation and View

VGRD, a Kochi-based company founded in 1977, started its journey with voltage stabilisers, and has now well-diversified into consumer appliances; it also offers a wide range of light electrical products. A leader in South India, VGRD is expanding its non-Southern footprint as well. New channels (modern trade, e-commerce, ~10% of sales), deeper penetration in rural/ non-southern regions, in-house manufacturing and new categories are VGRD's key focus areas.

Post 4Q, we had increased revenue/earnings estimates by ~10% for FY24/25E, factoring in Sunflame business consolidation; we believe CAGR of 18%/37%/43% in revenue/EBITDA/PAT over FY23-25E (FY18-23: 12%/11%/7%) would be led by healthy growth across categories and better margins, as cost pressures recede. Tight WC management would aid healthy OCFs and 20%+ RoCE.

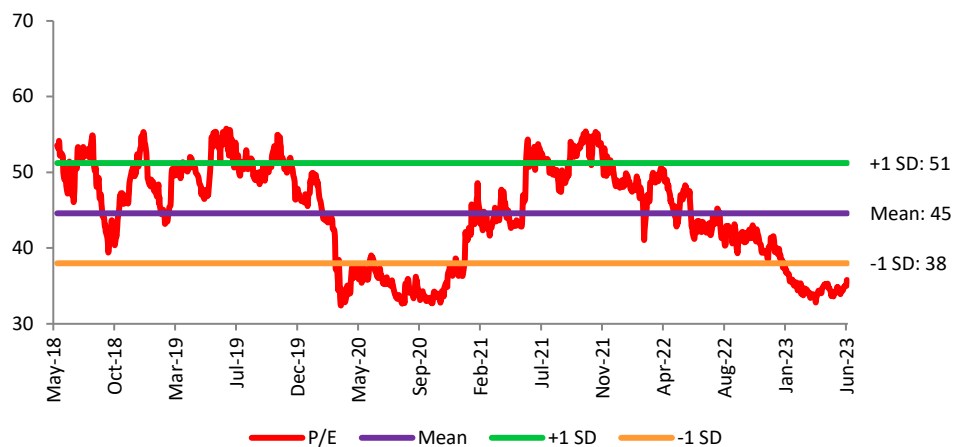
While we like VGRD's 1) strength in south India, 2) strategy to expand pan India and its product portfolio, and 3) healthy OCF generation, we see limited upside potential in its scrip at ~29x FY25E EPS. We thus maintain **HOLD** rating on the stock, with an unchanged target price of Rs 268 (30x FY25E). Growth and margin trajectory in all segments including Sunflame would be key monitorables.

Exhibit 1: Change in estimates

(Rs mn)	Old estimates		New estimates		% Var		Bloomberg estimates		% Var vs. Systematix	
	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
Total Income	50,331	57,103	50,331	57,103	-	-	47,212	53,073	(6)	(7)
EBITDA	5,002	6,013	5,002	6,013	-	-	4,351	5,264	(13)	(12)
EBITDA margin (%)	9.9	10.5	9.9	10.5			9.2	9.9		
PAT	3,181	3,862	3,181	3,862	-	-	2,930	3,423	(8)	(11)
EPS (Rs)	7.4	8.9	7.4	8.9	-	-				

Source: Systematix Institutional Research

Exhibit 2: P/E band – 1-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

Key risks

- High and volatile key raw material prices may impact demand and margins.
- Any slowdown in VGRD's high exposure in the southern region (fraught with severe challenges such as prolonged impact of COVID-19, natural calamity, etc) could impact the company's performance and suppress its growth versus peers.

V-GUARD (FINANCIALS)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net revenues	27,212	35,002	41,260	50,331	57,103
Growth (%)	9	29	18	22	13
Raw material expenses	18,525	24,139	28,844	35,057	39,461
Gross Margin (%)	31.9	31.0	30.1	30.3	30.9
Employee & Other exp.	5,566	7,461	9,217	10,272	11,629
EBITDA	3,121	3,402	3,199	5,002	6,013
EBITDA margins (%)	11.5	9.7	7.8	9.9	10.5
Depreciation	386	491	644	734	825
Other income	207	108	164	234	258
Finance costs	61	79	162	232	263
PBT	2,881	2,940	2,557	4,269	5,183
Effective tax rate (%)	29.9	22.3	26.1	25.5	25.5
Associates/(Minorities)	11	7	-1	-1	(1)
Net Income	2,008	2,277	1,891	3,181	3,862
Adjusted net income	2,008	2,277	1,891	3,181	3,862
Shares outstanding	430	432	216	432	432
FDEPS (Rs)	4.7	5.3	4.4	7.4	8.9
FDEPS growth (%)	7	13	(17)	68	21

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	430	432	432	432	432
Net worth	12,113	14,070	16,076	18,609	21,736
Total debt	676	662	5,119	5,119	5,119
Minority interest	47	55	-	-	-
DT Liability/ (Asset)	-	-	1,033	1,033	1,033
Capital Employed	12,836	14,786	22,227	24,760	27,887
Net tangible assets	3,576	4,505	5,665	5,931	6,106
Net Intangible assets	129	200	6,822	6,822	6,822
Goodwill	-	-	-	-	-
CWIP	185	92	237	187	137
Investments (Strategic)	3	3	18	18	18
Investments (Financial)	334	334	334	834	1,834
Current Assets	11,711	15,220	15,324	18,411	20,754
Cash	2,812	613	669	602	1,193
Current Liabilities	5,914	6,180	6,842	8,046	8,978
Working capital	5,797	9,040	8,482	10,365	11,776
Capital Deployed	12,836	14,786	22,227	24,760	27,887
Contingent Liabilities	2,996	3,334	-	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
EBIT (incl. other income)	2,985	3,213	2,668	4,268	5,188
Non-cash items	386	491	644	734	825
OCF before WC changes	3,372	3,705	3,313	5,002	6,013
Incr./ (decr.) in WC	413	3,185	(1,414)	1,883	1,411
Others including taxes	737	888	488	824	1,057
Operating cash-flow	2,222	(368)	4,238	2,295	3,544
Capex	648	1,245	7,627	950	950
Free cash-flow	1,574	(1,613)	(3,389)	1,345	2,594
Acquisitions	-	-	-	-	-
Dividend	1	516	561	648	735
Equity raised	46	46	20	-	-
Debt raised	(52)	(84)	3,964	-	-
Fin Investments	(919)	(3)	106	500	1,000
Misc. Items (CFI + CFF)	(88)	36	141	262	269
Net cash-flow	2,573	(2,200)	(213)	(66)	591

Source: Company, Systematix Institutional Research

Ratios @ Rs 257

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
P/E (x)	55.2	48.7	58.6	34.9	28.7
EV/EBITDA (x)	34.7	32.6	18.8	22.9	18.8
EV/sales (x)	4.0	3.2	1.5	2.3	2.0
P/B (x)	9.2	7.9	6.9	6.0	5.1
RoE (%)	16.6	16.2	11.8	17.1	17.8
RoCE (%)	25.2	21.9	14.7	19.2	20.7
ROIC (%)	21.1	18.8	10.6	14.2	16.0
DPS (Rs per share)	1.2	1.3	1.3	1.5	1.7
Dividend yield (%)	0.5	0.5	0.5	0.6	0.7
Dividend payout (%)	25.8	24.6	29.7	20.4	19.0
Net debt/equity (x)	(0.2)	(0.0)	0.3	0.2	0.1
Receivables (days)	52	50	50	50	50
Inventory (days)	85	90	68	68	68
Payables (days)	64	51	43	43	43
CFO:PAT%	111	(16)	224	72	92

Source: Company, Systematix Institutional Research

Institutional Equities Team

Nikhil Khandelwal	Managing Director	+91-22-6704 8001	nikhil@systematixgroup.in
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Equity Research

Analysts	Industry Sectors	Desk-Phone	E-mail
Dhananjay Sinha	Co Head of Equities & Head of Research - Strategy & Economics	+91-22-6704 8095	dhananjaysinha@systematixgroup.in
Ashish Poddar	Consumer Durables, Building Materials, Small & Midcaps	+91-22-6704 8039	ashishpoddar@systematixgroup.in
Himanshu Nayyar	Consumer Staples & Discretionary	+91-22-6704 8079	himanshunayyar@systematixgroup.in
Manjith Nair	Banking, Insurance	+91-22-6704 8065	manjithnair@systematixgroup.in
Pradeep Agrawal	NBFCs & Diversified Financials	+91-22-6704 8024	pradeepagrawal@systematixgroup.in
Pratik Tholiya	Specialty & Agro Chem, Fertilisers, Sugar, Textiles and Select Midcaps	+91-22-6704 8028	pratiktholiya@systematixgroup.in
Rahul Jain	Metals & Mining	+91-22-6704 8066	rahuljain@systematixgroup.in
Sudeep Anand	Oil & Gas, Logistics, Cement	+91-22-6704 8085	sudeepanand@systematixgroup.in
Vishal Manchanda	Pharmaceuticals and Healthcare	+91-22-6704 8064	vishalmanchanda@systematixgroup.in
Aniket Shah	Banking, Insurance	+91-22-6704 8034	aniketshah@systematixgroup.in
Beza Deboo	Pharmaceuticals and Healthcare	+91-22-6704 8046	bezaddeboo@systematixgroup.in
Chetan Mahadik	Consumer Staples & Discretionary	+91-22-6704 8091	chetanmahadik@systematixgroup.in
Hena Vora	NBFCs & Diversified Financials	+91-22-6704 8045	henavora@systematixgroup.in
Pranay Shah	Consumer Durables, Building Materials, Small & Midcaps	+91-22-6704 8017	pranayshah@systematixgroup.in
Pratik Oza	Midcaps	+91-22-6704 8036	pratikoza@systematixgroup.in
Prathmesh Kamath	Oil & Gas, Logistics, Cement	+91-22-6704 8022	prathmeshkamath@systematixgroup.in
Purvi Mundhra	Macro-Strategy	+91-22-6704 8078	purvimundhra@systematixgroup.in
Rajesh Mudaliar	Consumer Staples & Discretionary	+91-22-6704 8084	rajeshmudaliar@systematixgroup.in
Shraddha Kapadia	Consumer Durables, Building Materials, Small & Midcaps	+91-22-6704 8019	shraddhakapadia@systematixgroup.in
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@systematixgroup.in
Varun Gajaria	Midcaps	+91-22-6704 8081	varungajaria@systematixgroup.in

Equity Sales & Trading

Name		Desk-Phone	E-mail
Vipul Sanghvi	Co Head of Equities & Head of Sales	+91-22-6704 8062	vipulsanghvi@systematixgroup.in
Sidharth Agrawal	Sales	+91-22-6704 8090	sidharthagrawal@systematixgroup.in
Saumil Bhatia	Sales	+91-22-6704 8068	saumilbhatia@systematixgroup.in
Chintan Shah	Sales	+91-22-6704 8061	chintanshah@systematixgroup.in
Pawan Sharma	Director and Head - Sales Trading	+91-22-6704 8067	pawansharma@systematixgroup.in
Mukesh Chaturvedi	Vice President and Co Head - Sales Trading	+91-22-6704 8074	mukeshchaturvedi@systematixgroup.in
Vinod Bhuwad	Sales Trading	+91-22-6704 8051	vinodbhuwad@systematixgroup.in
Rashmi Solanki	Sales Trading	+91-22-6704 8097	rashmisolanki@systematixgroup.in
Karan Damani	Sales Trading	+91-22-6704 8053	karandamani@systematixgroup.in
Vipul Chheda	Dealer	+91-22-6704 8087	vipulchheda@systematixgroup.in
Paras Shah	Dealer	+91-22-6704 8047	parasshah@systematixgroup.in
Rahul Singh	Dealer	+91-22-6704 8054	rahulsingh@systematixgroup.in

Corporate Access

Pearl Pillay	Sr. Associate	+91-22-6704 8088	pearlpillay@systematixgroup.in
--------------	---------------	------------------	--------------------------------

Production

Madhu Narayanan	Editor	+91-22-6704 8071	madhunarayanan@systematixgroup.in
Mrunali Pagdhare	Production	+91-22-6704 8057	mrunalip@systematixgroup.in
Vijayendra Achrekar	Production	+91-22-6704 8089	vijayendraachrekar@systematixgroup.in

Operations

Sachin Malusare	Vice President	+91-22-6704 8055	sachinmalusare@systematixgroup.in
Jignesh Mistry	Manager	+91-22-6704 8049	jigneshmistry@systematixgroup.in
Sushant Chavan	Manager	+91-22-6704 8056	sushantchavan@systematixgroup.in

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I, **Ashish Poddar, Pranay Shah, Shraddha Kapadia**; hereby certify that (1) views expressed in this research report accurately reflect my/our personal views about any or all of the subject securities or issuers referred to in this research report, (2) no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by **Systematix Shares and Stocks (India) Limited (SSSIL)** or its group/associate companies, (3) reasonable care is taken to achieve and maintain independence and objectivity in making any recommendations.

Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

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NOT RATED (NR): The analyst has no recommendation on the stock under review.

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Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051

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