

India Midcap 3QFY24 Preview: Mixed Bag

In Q3FY24, we est healthy sales / PAT growth of +16% / +24%YoY PAT for JEF covg (ex-UPL). Topline could be largely volume driven, esp in C&W (POLYCAB, FNXC). No major pricing actions seen in most product segments, due to softening input costs YoY. We foresee robust EPS growth YoY for 1) EMS players due to PLIs and new customer adds (AMBER, DIXON), 2) housing/ capex plays (KJC, PIDI, SI, ASTRA). But, UPLL could see another weak quarter due to global supply glut.

Housing, Capex to Drive Volume Growth: In Q3FY24e, we expect JEF SMID coverage (ex-UPL) sales/PAT to grow at +16%/+24%YoY, aided by +60bps OPM expansion. Topline is expected to be largely volume-driven. Due to YoY softening of key input costs, no product segment has taken any major pricing actions.

We est the highest YoY margin expansion in Building Materials, avg up +150bps YoY. For Pipes (FNXP, SI, ASTRA), softer PVC prices in Oct23 and Dec23 (-9%QoQ in Q3) is likely to entail near-term inventory losses in Q3, although better YoY. But, healthy volume growth could boost operating leverage. In Tiles (KJC), Power & Fuel cost is 20-25% of KJC's sales. In Q3, we foresee KJC's margins to expand YoY due to lower gas prices YoY. But, OPM could be weaker QoQ due to price hikes by GUJGA. In Q3, Spot LNG price has declined by -50%YoY, but up +25% QoQ.

C&W to Stay Strong: Our channel checks in early Dec23 indicated that festive season (Oct-Nov) witnessed healthy offtake in select categories such as Lighting (lower LED prices), Mobiles, Laptops, TVs (World Cup) and select Appliances (mainly) kitchen. Air Purifiers saw good demand in Delhi-NCR owing to pollution concerns. Cables&Wires (C&W - POLYCAB, FNXC, HAVL) continued to see healthy demand. Durables - Refrigerators and Washers - saw moderate demand. But, high temperatures in Oct23 aided AC sales and liquidation of channel inventory (Q1FY24 saw unseasonal rains).

UPL: Weak Qtr UPL: We est UPL's EBITDA / PBT to post a decline of -13% / -18% YoY impacted by global supply glut (lower pricing and volumes). Generally, H2 is seasonally strong for de-leveraging - mgmt commentary on the same is key to watch out for.

Company Specific Key Drivers in Q3FY24e

POLYCAB: Avg copper price has risen by +2%YoY; Given its pass-through impact, we est sales to grow +15%YoY. OPM is est to expand by +40bps YoY, aided by op-leverage from C&W volumes and softening commodities in FMEG.

SI: Sales growth est at +13%YoY, as strong volume growth in Pipes could be partially offset by -4%YoY fall in PVC price (pass-through). We expect +90bps YoY margin expansion, driving +20%YoY earnings growth.

AMBER: High temp in Oct23 could help AC sales in a seasonally weak quarter. Also, fast-growing Components can drive op-leverage. We est EBITDA/PAT up +32%/+73%YoY on a low base. But, high interest, depreciation (front-ended capex) will be a monitorable.

KJC: We foresee OPM to expand to 15% (+280bps YoY) driven by -50%YoY decline in avg gas price (spot LNG) and focus on usage of lower-cost alternative fuel. But, in Aug-Nov23, GUJGA took three price hikes in Natural Gas (total +18% price hike) - this could impact margins QoQ. Spot LNG price is up +25% QoQ in Q3.

Recent Key Research:

[2024 Outlook: India Building Products: On a Strong Footing](#)

[2024 Outlook: India Electricals, Durables and EMS: Stay Selective](#)

[Channel Checks - India Electricals and Durables](#)

[Channel Checks - India Building Materials](#)

[India Midcaps: Emerging Trends in Key Raw Materials](#)

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HAVL: We est moderate sales / PAT growth of +10% / +13% YoY, as robust volumes in C&W could offset the broader discretionary slowdown impacting ECD / Lighting.

PIDI: Avg VAM price is lower by -19%YoY in Q3 (+3% QoQ). Thus, we expect OPM to revive by +500bps YoY to 21-22%, driving +50% YoY PAT growth. But, volatility in VAM prices will be a key monitorable (crude-linked).

DIXON: We est strong sales / PAT growth of +55% / +63% YoY, mainly driven by Mobile PLI upside and new customer addition (eg: Xiaomi).

Valuation Matrix

Exhibit 1 - India Midcaps: Valuation Matrix

Company	Rating	MCap INR bn	PE (x)		EV/EBITDA (x)		P/BV (x)		Net D/E (x)		RoE (%)		RoCE (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Electricals + Durables														
Havells India	Hold	875.9	67.9	58.1	44.7	40.7	11.6	10.3	-0.3	-0.3	18.1	18.8	23.7	24.5
Crompton Consumer	Buy	204.1	41.2	33.3	25.7	21.9	6.8	6.2	0.0	0.0	17.4	19.5	18.0	22.4
Polycab India	Buy	811.2	41.3	32.5	27.0	21.9	9.1	7.5	-0.1	-0.2	23.7	25.2	32.6	34.0
V-Guard Industries	Buy	127.8	49.5	38.6	31.0	26.1	7.1	6.3	0.1	0.0	15.0	17.3	17.7	21.0
Finolex Cables	Buy	159.2	26.4	21.4	24.8	19.9	3.8	3.3	0.0	0.0	15.2	16.7	20.1	22.0
Whirlpool of India	Hold	173.1	65.0	42.9	35.5	28.0	4.7	4.3	-0.5	-0.5	7.4	10.5	9.2	12.7
Plastic Pipes														
Supreme Industries	Buy	563.5	47.4	35.8	32.3	25.9	10.6	8.9	-0.2	-0.3	22.4	24.8	27.0	29.0
Astral Ltd.	Hold	499.9	80.0	61.8	36.1	28.6	15.1	12.5	-0.3	-0.4	20.6	22.1	25.8	27.8
Finolex Industries	Buy	131.9	30.0	20.7	22.9	16.2	2.9	2.7	0.0	0.0	9.9	13.4	13.0	17.9
Adhesives														
Pidilite Industries	Hold	1410.3	75.8	61.6	50.6	42.9	16.6	14.3	0.0	-0.1	23.5	25.0	29.7	31.4
EMS														
Amber enterprises	Buy	104.8	50.5	34.3	20.6	16.7	5.4	4.7	0.4	0.2	11.2	14.6	12.7	15.1
Dixon technologies	Hold	379.8	93.8	64.4	51.3	38.6	22.5	17.0	0.0	-0.1	27.0	30.1	29.9	34.4
Tiles / Sanitaryware														
Kajaria Ceramics	Buy	206.2	46.5	37.4	28.7	23.7	8.6	7.8	-0.2	-0.2	19.3	21.9	24.3	28.5
Agrochemicals														
UPL Limited	Buy	440.5	10.9	8.2	5.5	4.7	1.3	1.1	0.4	0.2	12.3	14.8	12.1	14.1
Graphite Electrodes														
Graphite India	Buy	104.7	46.1	12.0	112.6	8.2	1.8	1.7	-0.5	-0.5	4.2	14.4	18.2	15.0
HEG Limited	Buy	72.0	19.9	8.4	12.8	5.8	1.6	1.4	0.0	0.0	8.4	18.0	8.8	18.3

Source: Jefferies estimates, FactSet; Note: CMP as of 9th Jan, 2024

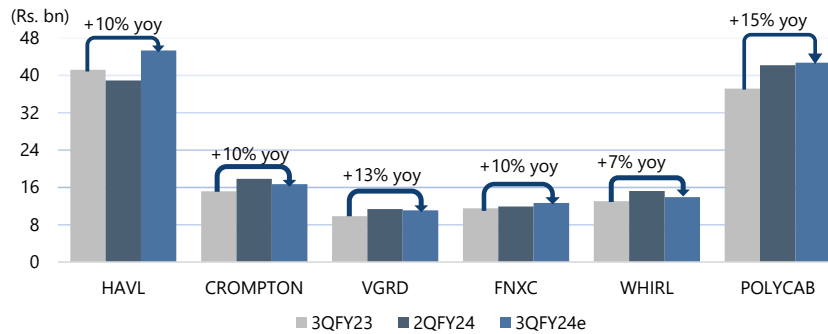
Exhibit 2 - India Midcaps: Q3FY24e Snapshot

Company Ticker	Q3FY24e (Rs mn)					Q3FY23 (Rs mn)					YoY Growth (%)			
	Revenue	EBITDA	Op-margin	PBT	Adj. PAT	Revenue	EBITDA	Op-margin	PBT	Adj. PAT	Revenue	EBITDA	PBT	Adj. PAT
AMBER IN	16180	1035	6.4%	340	245	13483	785	5.8%	222	142	20%	32%	53%	73%
ASTRA IN	14,580	2,260	15.5%	1,803	1,361	12,678	1,864	14.7%	1,295	949	15%	21%	39%	43%
SI IN	26,111	3,656	14.0%	3,051	2,513	23,107	3,034	13.1%	2,457	2,100	13%	21%	24%	20%
FNXP IN	12,147	1,275	10.5%	1,262	942	11,248	919	8.2%	921	721	8%	39%	37%	31%
KJC IN	11,893	1,784	15.0%	1,471	1,103	10,911	1,331	12.2%	997	737	9%	34%	48%	50%
PIDI IN	32,374	6,960	21.5%	6,330	4,567	29,976	4,959	16.5%	4,173	3,042	8%	40%	52%	50%
CROMPTON IN	16,678	1,718	10.3%	1,357	988	15,162	1,524	10.1%	1,146	853	10%	13%	18%	16%
HAVL IN	45,317	4,668	10.3%	4,266	3,206	41,197	4,237	10.3%	3,818	2,839	10%	10%	12%	13%
POLYCAB IN	42,725	5,981	14.0%	5,486	4,142	37,152	5,038	13.6%	4,818	3,608	15%	19%	14%	15%
VGRD IN	11,083	887	8.0%	692	526	9,808	659	6.7%	528	393	13%	35%	31%	34%
WHIRL IN	13,936	836	6.0%	706	515	13,025	440	3.4%	361	247	7%	90%	96%	108%
FNXC IN	12,653	1,556	12.3%	1,820	1,384	11,503	1,413	12.3%	1,629	1,349	10%	10%	12%	3%
DIXON IN	37,273	1,565	4.2%	1,085	845	24,047	1,112	4.6%	698	519	55%	41%	56%	63%
UPLL IN	138,158	26,250	19.0%	12,150	10,950	136,790	30,340	22.2%	14,810	11,070	1%	-13%	-18%	-1%
GRIL IN	8,200	410	5.0%	980	740	7,010	720	10.3%	890	610	17%	-43%	10%	21%
HEG IN	6,300	1,134	18.0%	964	728	5,303	1,331	25.1%	1,372	1,028	19%	-15%	-30%	-29%

Source: Jefferies estimates, company data

Electricals and Appliances

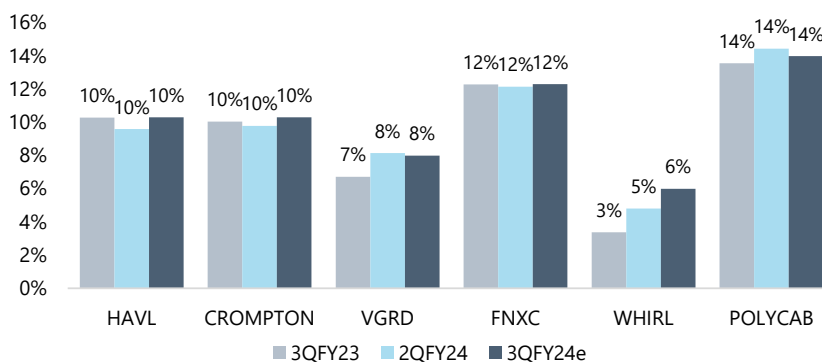
Exhibit 3 - Revenue Growth Trend



Source: Jefferies estimates, company data

Volumes in Cables and wires sales are expected to benefit from traction in capex, infra and housing. Also, festive season sales are likely to aid revenue growth for appliances players. For C&W players, avg copper price has risen by +2%YoY in Q3, which can support sales growth, given the pass-through effect.

Exhibit 4 - EBITDA Margin Trend

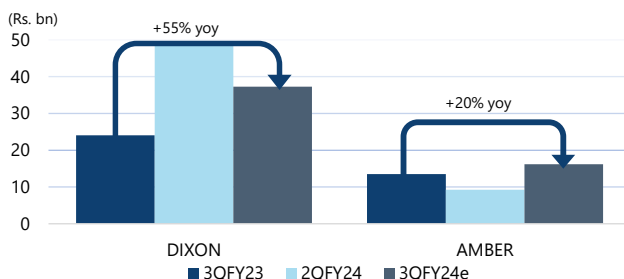


Source: Jefferies estimates, company data

We expect margins to remain largely stable for most companies as input commodities prices have largely remained stable.

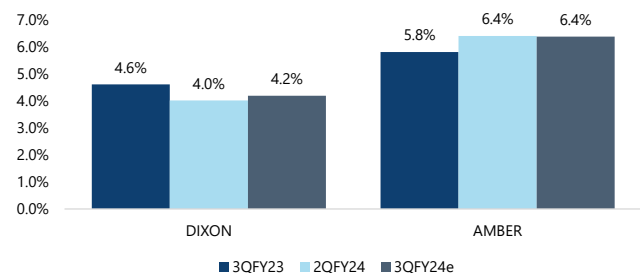
EMS (Contract Manufacturers)

Exhibit 5 - Revenue Trend



Source: Jefferies estimates, company data

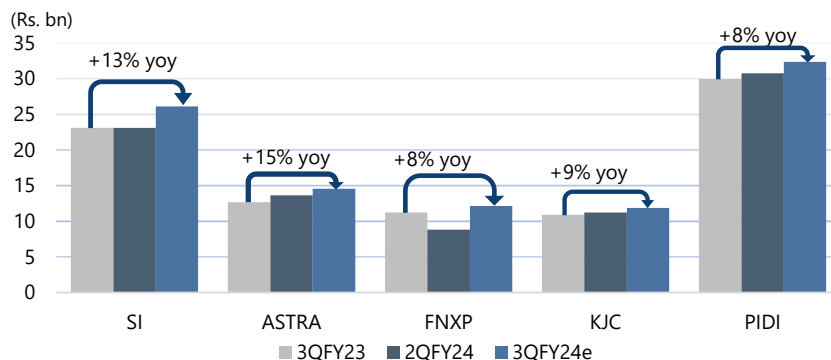
Exhibit 6 - EBITDA Margin Trend



Source: Jefferies estimates, company data

Building Materials

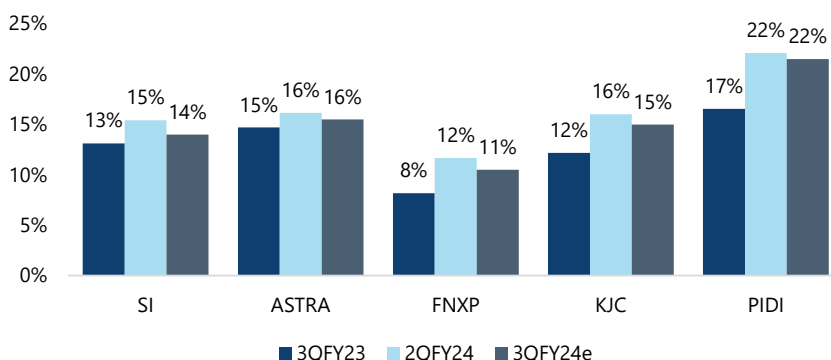
Exhibit 7 - Revenue Trend



Source: Jefferies estimates, company data

In Q3, avg PVC prices have declined by -4% YoY, which is typically a pass-through. However, we expect strong volume growth to offset the impact of PVC price fall. Volume growth is likely to be supported by infra, housing, capex.

Exhibit 8 - EBITDA Margin Trend

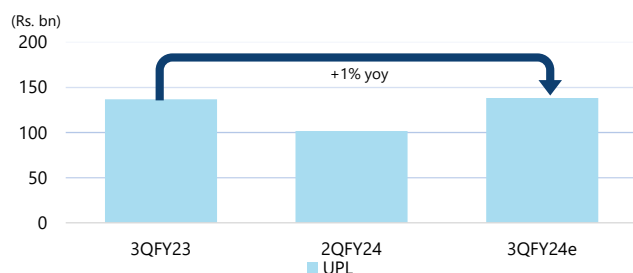


Source: Jefferies estimates, company data

In Q3, Strong volume growth coupled with stable PVC prices is likely to aid in YoY margin expansion for Pipes (SI, ASTRA, FNXP). In PIDI, margin trajectory is inversely proportional to VAM prices (key RM). Avg VAM price continues to be sharply lower YoY, down -19%YoY in Q3FY24.

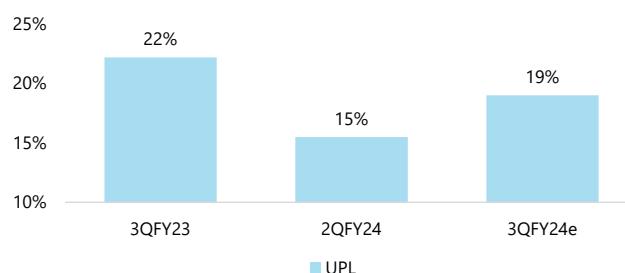
UPL

Exhibit 9 - UPL Revenue Trend



Source: Jefferies estimates, company data

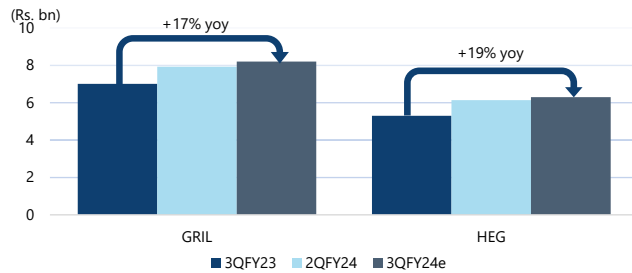
Exhibit 10 - UPL: EBITDA Margin Trend



Source: Jefferies estimates, company data

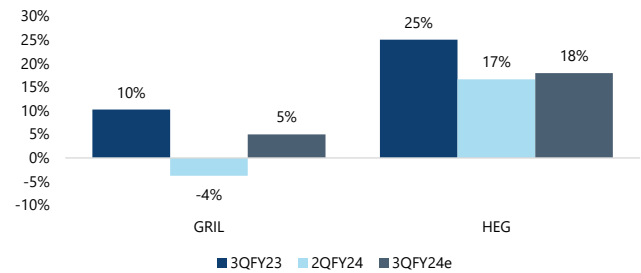
Graphite Electrodes

Exhibit 11 - Revenue Trend



Source: Jefferies estimates, company data

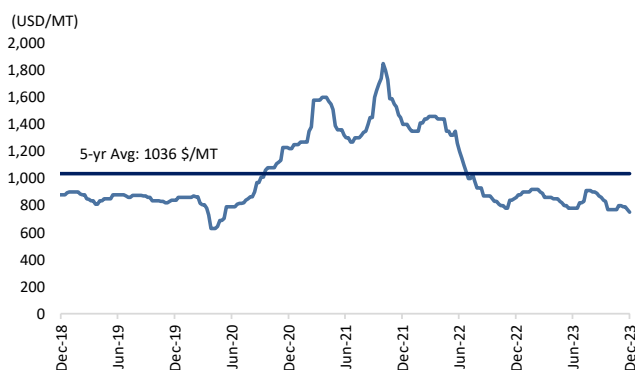
Exhibit 12 - EBITDA Margin Trend



Source: Jefferies estimates, company data

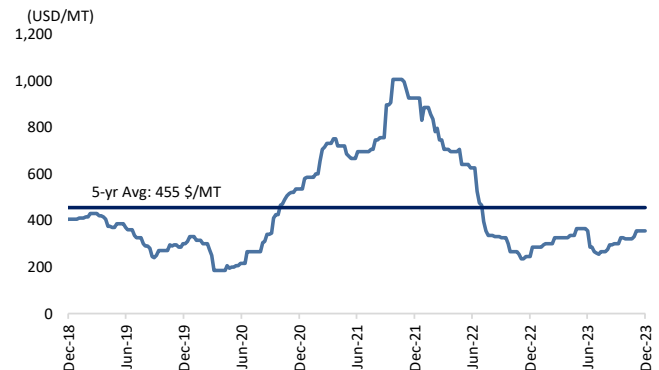
Raw Material Charts

Exhibit 13 - PVC Price Trend



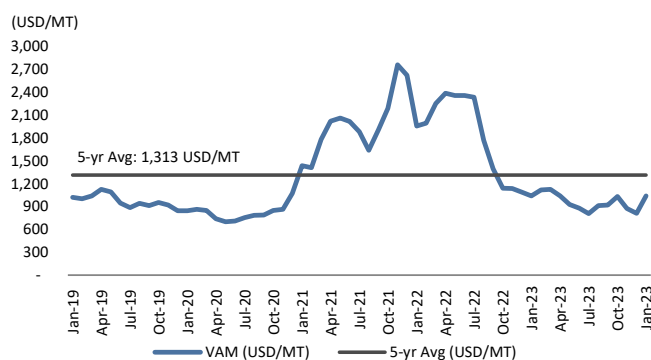
Source: Jefferies, Bloomberg

Exhibit 14 - ECD Price Trend



Source: Jefferies, Bloomberg

Exhibit 15 - VAM Price Trend



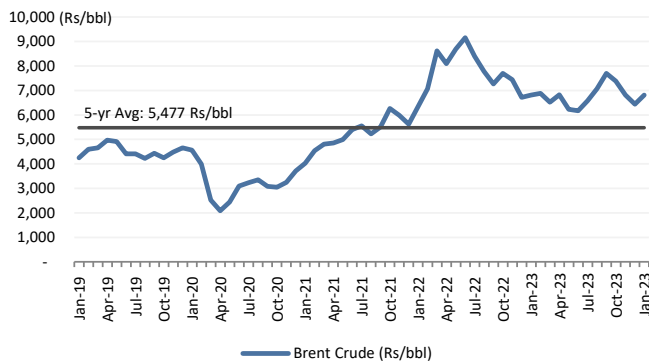
Source: Jefferies, Bloomberg

Exhibit 16 - LME Copper Price Trend



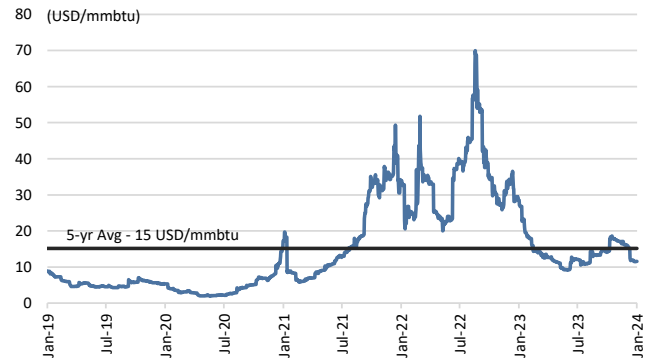
Source: Jefferies, Bloomberg

Exhibit 17 - Trend in Brent Crude Prices



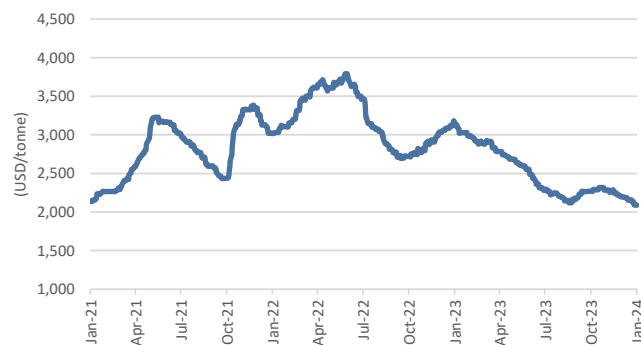
Source: Jefferies, Bloomberg

Exhibit 18 - Spot LNG Price Trend



Source: Jefferies, Bloomberg

Exhibit 19 - China Graphite Electrode HP D500mm Prices



Source: Jefferies, Bloomberg

Exhibit 20 - China Graphite Electrode UHP D500mm Prices



Source: Jefferies, Bloomberg

Valuation Charts

Exhibit 21 - HAVL IN: Trend in Fwd PE Multiple



Source: Jefferies, Factset

Exhibit 22 - CROMPTON IN: Trend in Fwd PE Multiple



Source: Jefferies, Factset

Exhibit 23 - POLYCARB IN: Trend in Fwd PE Multiple



Source: Jefferies, Factset

Exhibit 24 - VGRD IN: Trend in Fwd PE Multiple



Source: Jefferies, Factset

Exhibit 25 - FNXC IN: Trend in Fwd PE Multiple



Source: Jefferies, Factset

Exhibit 26 - WHIRL IN: Trend in Fwd PE Multiple



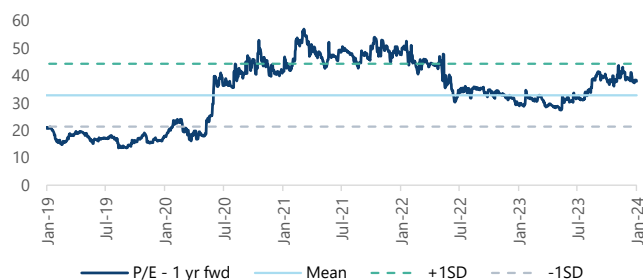
Source: Jefferies, Factset

Exhibit 27 - DIXON IN: Trend in Fwd PE Multiple



Source: Jefferies, Factset

Exhibit 28 - AMBER IN: Trend in Fwd PE Multiple



Source: Jefferies, Factset

Exhibit 29 - SI IN: Trend in Fwd PE Multiple



Source: Jefferies, Factset

Exhibit 30 - ASTRA IN: Trend in Fwd PE Multiple



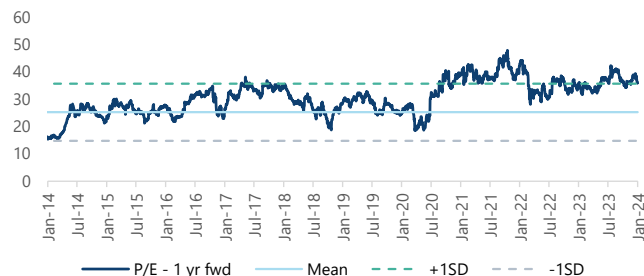
Source: Jefferies, Factset

Exhibit 31 - FNXF IN: Trend in Fwd PE Multiple



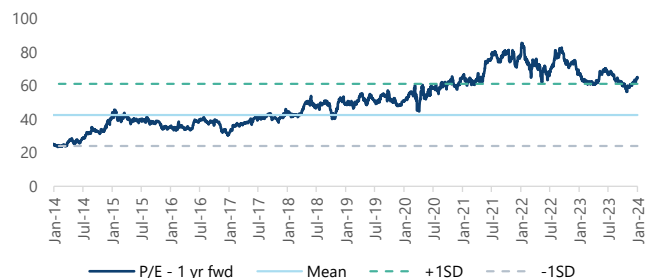
Source: Jefferies, Factset

Exhibit 32 - KJC IN: Trend in Fwd PE Multiple



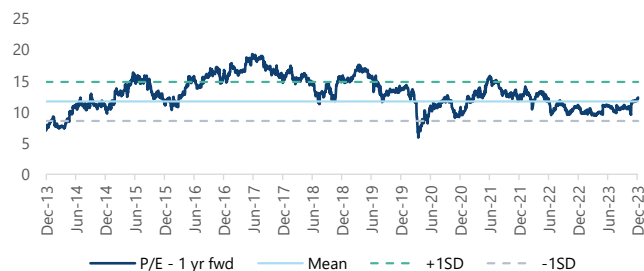
Source: Jefferies, Factset

Exhibit 33 - PIDI IN: Trend in Fwd PE Multiple



Source: Jefferies, Factset

Exhibit 34 - UPLL IN: Trend in Fwd PE Multiple



Source: Jefferies, Factset

Exhibit 35 - HEG IN: Trend in EV/EBITDA Multiple



Source: Jefferies, Factset

Exhibit 36 - GRIL IN: Trend in EV/EBITDA Multiple



Source: Jefferies, Factset

Company Valuation/Risks

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

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Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

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S&P stocks will continue to have a 15% stop loss, and the remainder will have a 20% stop. Franchise Picks are not intended to represent a recommended portfolio of stocks and is not sector based, but we may note where we believe a Pick falls within an investment style such as growth or value.

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Other Companies Mentioned in This Report

- Amber Enterprises India Limited (AMBER IN: INR3,402.60, BUY)
- Astral Limited (ASTRA IN: INR1,821.40, HOLD)
- Crompton Greaves Consumer Electricals Limited (CROMPTON IN: INR314.40, BUY)
- Dixon Technologies (India) Limited (DIXON IN: INR6,354.00, HOLD)
- Finolex Cables Limited (FNXC IN: INR1,035.45, BUY)
- Finolex Industries Limited (FNXP IN: INR238.05, BUY)
- Graphite India Limited (GRIL IN: INR534.25, BUY)
- Gujarat Gas Ltd. (GUJGA IN: INR514.45, UNDERPERFORM)
- Havells India Limited (HAVL IN: INR1,379.10, HOLD)
- HEG Limited (HEG IN: INR1,810.80, BUY)
- Kajaria Ceramics Limited (KJC IN: INR1,373.25, BUY)
- Pidilite Industries Limited (PIDI IN: INR2,725.40, HOLD)
- Polycab India Limited (POLYCAB IN: INR4,867.55, BUY)
- Supreme Industries Limited (SI IN: INR4,286.35, BUY)
- UPL Limited (UPLL IN: INR558.10, BUY)
- V-Guard Industries Limited (VGRD IN: INR292.05, BUY)
- Whirlpool of India (WHIRL IN: INR1,368.55, HOLD)

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			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1939	58.28%	323	16.66%	114	5.88%
HOLD	1223	36.76%	107	8.75%	18	1.47%
UNDERPERFORM	165	4.96%	5	3.03%	3	1.82%

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