Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	81,921	0.4	13.4
Nifty-50	25,041	0.4	15.2
Nifty-M 100	59,039	1.2	27.8
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,496	0.4	15.2
Nasdaq	17,026	0.8	13.4
FTSE 100	8,206	-0.8	6.1
DAX	18,266	-1.0	9.0
Hang Seng	6,026	0.4	4.5
Nikkei 225	36,159	-0.2	8.1
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	71	-1.8	-8.9
Gold ($/OZ)	2,517	0.4	22.0
Cu (US$/MT)	8,899	-0.8	5.1
Almn (US$/MT)	2,317	-0.5	-1.2
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	84.0	0.0	0.9
USD/EUR	1.1	-0.1	-0.2
USD/JPY	142.4	-0.5	1.0
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.9	0.00	-0.3
10 Yrs AAA Corp	7.4	-0.01	-0.4
Flows (USD b)	**10-Sep**	**MTD**	**CYTD**
FIIs	0.3	1.66	6.6
DIIs	-0.03	5.72	38.1
Volumes (INRb)	**10-Sep**	**MTD***	**YTD***
Cash	1,143	1222	1298
F&O	5,00,789	3,67,817	3,78,352

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

Deepak Nitrite: Optimistic about future opportunities

- DN is allocating INR22b for integration projects like MIBK/MIBC and Photochlorination plants, expected to begin operations in FY25. Additionally, through Deepak Chem Tech, it is investing INR140b to expand into specialty chemicals and polymers, aiming for Indian market leadership.
- DN is also enhancing profitability by optimizing operations, shifting to higher-margin products, and improving efficiency. A cost-reduction strategy, including backward integration and a supply agreement with Petronet LNG, will ensure raw material availability and reduce logistics emissions by 75%.
- The company is aggressively integrating to mitigate risks and aims to become the largest player in solvents, focusing on import substitution. However, at 39x FY26E EPS, the stock appears expensive, and we maintain our Neutral rating with a target price of INR 3,060.

Research covered

Cos/Sector	Key Highlights
Deepak Nitrite	Optimistic about future opportunities
EMS	Unlocking the power of continuous growth!

Chart of the Day: Deepak Nitrite (Optimistic about future opportunities)

Key benefits achieved after APC implementation at Phenol & Cumene Plant at DPL

Parameters	Key benefit
Increase in production	2.0 – 3.5%
Reduction in chemicals, energy consumption & material loss	1.0 – 10%
Significant reduction in standard deviations	2.0 – 70%
Sustained quality at different plant loads Reduction in operator intervention	> 50%
Enhanced green index	>625 tons of CO2 reduction

Source: Company, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Swiggy increases IPO size: Company to now raise Rs5,000 crore in fresh issue up from Rs3,750 crore

The company, which was first expected to raise Rs3,750 crore (~$450m) through a fresh issue, will now issue fresh shares worth Rs5,000 crore (about $600m), an increase of Rs1,250 crore or $150m, as it readies a cash chest in a highly competitive market.

2

Century Textiles buys Nusli Wadia's land parcel worth Rs 1,100 cr in Worli

The land parcel adds an approximate booking value potential of Rs 14,000 crore to the company.

3

Reliance Retail, Delta Galil launch JV to drive apparel innovation in India

Reliance Retail Ventures and Delta Galil Industries, the global manufacturer and marketer of branded and private label intimate, activewear, loungewear, and denim apparel for ladies, men, and children announced a strategic 50/50 JV.

4

Oil India, OVL, KABIL ink pact with UAE's International Resources Holding on critical mineral supply chain

Oil India, ONGC Videsh Limited (OVL) and Khanij Bidesh India Limited (KABIL) announced the signing of an MoU with International Resources Holding RSC Ltd.

5

Honda Motorcycle and Scooter to launch its first EV by March

After much delay, India's second-largest two-wheeler maker, Honda Motorcycle and Scooter India (HMSI), is planning to launch its first electric vehicle (EV) in the country by March this fiscal year.

6

Shriram Group to list general insurance arm first, both IPOs in two years

Shriram Group, is planning to list its general insurance arm first followed by the life insurance company in the next two years.

7

CEAT May Hike Tyre Prices By 2-3% In September, Says CEO Arnab Banerjee

CEAT Ltd. may hike tyre prices by 2-3% to offset the impact of a surge in raw material costs.

Deepak Nitrite

BSE SENSEX	S&P CNX
81,921	25,041

CMP: INR2,969 TP: INR3,060 (+3%) Neutral

Stock Info

Bloomberg	DN IN
Equity Shares (m)	136
M.Cap.(INRb)/(USDb)	405 / 4.8
52-Week Range (INR)	3169 / 1922
1, 6, 12 Rel. Per (%)	-6/23/2
12M Avg Val (INR M)	1008
Free float (%)	50.8

Financials Snapshot (INR b)

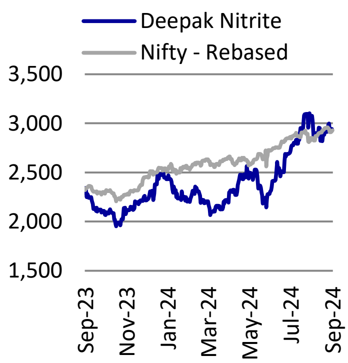
Y/E March	FY24	FY25E	FY26E
Sales	76.8	88.1	92.1
EBITDA	11.2	13.4	16.4
PAT	7.5	8.9	10.4
EPS (INR)	55.1	65.3	76.4
EPS Gr. (%)	-11.7	18.5	17.0
BV/Sh.(INR)	351.7	408.7	475.5
Ratios			
Net D:E	-0.1	0.0	0.1
RoE (%)	16.9	17.2	17.3
RoCE (%)	16.0	15.8	15.1
Payout (%)	12.6	12.6	12.6
Valuations			
P/E (x)	53.9	45.5	38.9
P/BV (x)	8.5	7.3	6.2
EV/EBITDA (x)	35.9	30.3	25.1
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	0.3	-0.9	-0.5

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	49.2	49.1	49.1
DII	21.2	19.3	15.6
FII	6.9	6.7	8.1
Others	22.7	24.9	27.2

FII Includes depository receipts

Stock performance (one-year)



Optimistic about future opportunities

- **DN is investing INR22b in integration projects, including MIBK/MIBC and Photochlorination plants, set for phased commissioning by FY25. It has also committed INR140b through Deepak Chem Tech to expand into specialty chemicals and polymers, aiming for market leadership in India.**
- **DN is also optimizing processes, shifting to high-margin products, and improving efficiency to boost profitability. Cost reduction, backward integration, and a supply deal with Petronet LNG would ensure a steady supply of raw materials and cut logistics emissions by 75%.**
- **It aims to become the largest player in solvents with a focus on import substitution and is pursuing aggressive integration to de-risk and diversify its business. We believe the current valuation at ~39x FY26E EPS seems expensive for a commodity chemical company, hence we maintain our Neutral rating with a TP of INR3,060.**

Import substitution at play with various projects underway

- DN is currently undertaking a capex of INR22b for various backward and forward (value-added products) integration projects that it plans to commission in phases in FY25. MIBK/MIBC projects are expected to be commissioned in 4QFY25, which would be a forward integration of Acetone. The Photochlorination, solvent, nitration and hydrogenation plants are also slated to be commissioned in 2HFY25.
- DN has already completed the debottlenecking of its Phenol and Acetone plant in FY24 and also commissioned its fluorination plant in Mar'24. This is backward integration for agrochemical products of DN. Advanced process control (APC) has also been deployed in DPL, which has resulted in a notable increase in production of Phenol, Acetone and IPA, driving sales and value. An R&D center in Savli, Vadodara, is also slated to be commissioned in Mar'25, which would feature advanced laboratories and pilot plants.
- Moreover, DN has also committed a capex of INR140b (through its wholly owned subsidiary Deepak Chem Tech or DCTL) over the next five years to expand its capacity in strategic areas such as speciality chemicals, phenol, acetone, and Bisphenol-A. This is an MoU signed with the Government of Gujarat.
- DCTL also plans to manufacture new polymers such as Polycarbonate Resins & Compounds (PC), Methyl Methacrylate (MMA), Poly Methyl Methacrylate (PMMA) Resins & Compounds and Aniline at its new facilities in Dahej. They would be import substitution products and give DN the first-mover advantage, establishing the company as the market leader in India.

Focusing on sustainable growth

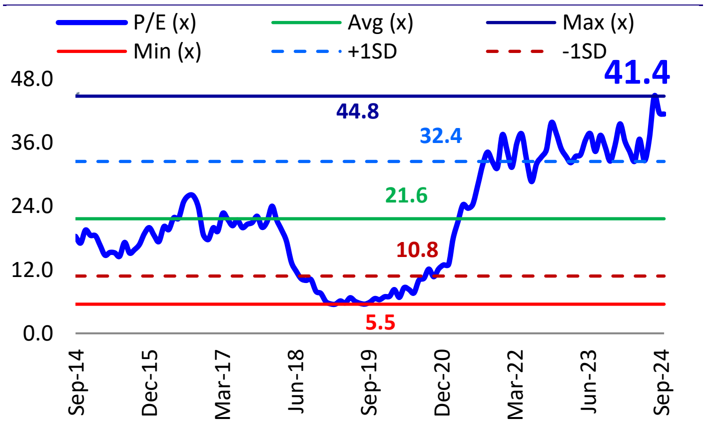
- DN is focusing currently on product and process optimization and improving efficiency of various plants and facilities, which would help it to sustainably increase its margin. It is shifting toward high-margin, value-added products by leveraging its strong market position in specialty chemicals and advanced intermediates to enhance profitability.

- It is also trying to reduce costs through continuous process optimization, productivity improvements, and energy conservation efforts. These initiatives include asset fungibility improvements to match customer demands, which would ultimately boost operating margins on a sustainable basis. Backward integration into Nitric Acid and Benzo-Tri-Fluoride (BTF) will add sustainable resilience to these businesses.
- The execution of the binding term sheet with Petronet LNG in FY24 for the supply of raw materials (DPL will procure 250ktpa of Propylene and 11ktpa of Hydrogen via pipeline) from its proposed facility at Dahej mitigates long-term project risks and ensures steady supply. All the above-mentioned projects are also expected to reduce carbon emission by more than 75% in logistics movements.

Valuation and view

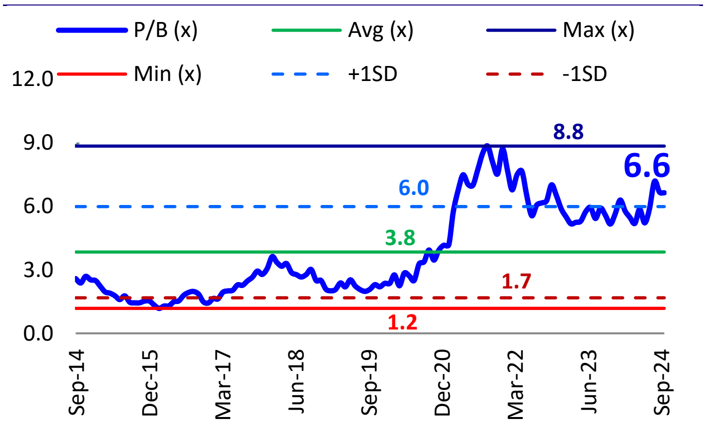
- The company aims to become the largest player in solvents, with a play on import substitution. It is foraying into Methyl Isobutyl Ketone (MIBK, 40ktpa), Methyl Isobutyl Carbinol (MIBC, 8ktpa), and Sodium Nitrite/ Nitrate, among other products. These products are taking shape and would be commissioned as per the plan. Some other previously announced capex projects have already been commissioned (fluorination plant, specialty salts unit).
- DN is aggressively pursuing both backward and forward integration projects in order to de-risk its business model and expand its product portfolio. However, its entire product portfolio consists of commodities.
- The stock trades at ~39x FY26E EPS of INR76.4 and ~25x FY26E EV/EBITDA, which we believe is expensive. We reiterate our Neutral rating with a TP of INR3,060 (40x FY26E EPS).

One year forward P/E



Source: MOFSL

One year forward P/B



Source: MOFSL

EMS

Unlocking the power of continuous growth!

Aggregate revenue performance

%	CAGR FY21-24	CAGR FY24-26E
Kaynes	62	62%
Avalon	8	24%
Cyient DLM	24	33%
Syrma SGS	53	40%
Data Patterns	32	29%
Dixon	40	57%
Amber	30	23%
Aggregate	**37**	**47%**
Aggregate (ex Dixon & Amber)	**38**	**42%**

EBITDA performance

Growth %	CAGR FY21-24	CAGR FY24-26E
Kaynes	84	71%
Avalon	-2	53%
Cyient DLM	34	50%
Syrma SGS	25	48%
Data Patterns	34	29%
Dixon	35	59%
Amber	31	30%
Aggregate	**34**	**49%**
Aggregate (ex Dixon & Amber)	**35**	**52%**

India's Electronics Manufacturing Services (EMS) industry is witnessing a strong revenue growth trajectory, primarily driven by healthy industry demand, the addition of new segments and onboarding of new customers, increasing domestic manufacturing, import substitution, and global partnerships. In this report, we discuss the healthy revenue growth visibility within the sector and the scope to improve margin, leading to a strong earnings growth trajectory. Our coverage universe includes Kaynes Technology (KAYNES), Avalon Technologies (AVALON), Syrma SGS Technology (SYRMA), Cyient DLM (CYIENTDL), Data Patterns (DATAPATT), Dixon Technologies (DIXON), and Amber Enterprises (AMBER).

- **The industry reflects strong growth visibility with an aggregate order book (excluding Dixon and Amber) of INR141b as of Jun'24 (almost twice the FY24 aggregate revenue). Moreover, majority of the players are working on adding new segments and are on-boarding new customers, which suggests sustained order inflows going ahead.**
- **EMS companies witnessed strong revenue growth in FY24/1QFY25; however, the margin contraction hindered their earnings growth trajectory. We believe that a substantial part of the challenges is behind the companies, and majority of the players are expected to either recover or at least maintain their current margin profile.**
- **Accordingly, we expect earnings growth momentum in the EMS industry to accelerate, led by a strong execution of the growing order book from existing and new end-user industries, coupled with margin recovery. We expect our EMS coverage companies to report a CAGR of 47%/49%/51% in revenue/EBITDA/adj. PAT over FY24-FY26.**

Strong order inflows and onboarding of customers provide future growth visibility

- EMS companies witnessed strong order inflows. The aggregate order book for the coverage universe (excluding Dixon and Amber) grew 28% YoY and 7% QoQ to INR141b as of Jun'24 (~1.9x of FY24 aggregate revenue; refer to Exhibit 6).
- Incrementally, the companies have onboarded numerous clients and are actively working on multiple projects across a range of end-user industries, indicating a high visibility of order inflows going ahead.
- **Avalon** witnessed an order inflow of INR3b in Q1, taking its order book to INR14.6b as of Jun'24 (up 32% YoY and 7% QoQ). In its Indian business, the company is witnessing traction in railways (actively working with customers for Kavach), CDAC (expecting the allocation of server in the next six months), and industrial segments (power and infra). It has expanded its customer base in Q1 by adding new customers in the rail, aerospace, mobility, and industrial sectors.
  - Avalon has onboarded four new customers in the US – two Auto component companies (one is a leader in battery management and others in motion control systems) and two industrial customers (large four to five decades old MNCs). Existing US customers have also started restocking inventory, leading to higher order inflows in upcoming quarters (2HFY25 onwards).
- **Kaynes** witnessed a robust order inflow of INR14.3b in Q1 (order run rate doubling on YoY basis), taking its order book to INR50.4b as of Jun'24 (up 68% YoY and 22% QoQ), despite some lag in orders from the government due to elections.
  - It is experiencing strong traction in the medical segment (increased export orders, onboarded a significant customer, and was qualified as a supplier for a

globally leading medical equipment provider). It has also received a long-horizon order within the aerospace, outer space, industrial (large two-year order; ~10% of order book), and EV sectors.

- **CYIENTDL** witnessed an order inflow of INR2.1b in Q1, taking its order book to INR21.2b as of Jun'24 (down 15% YoY and 2% QoQ). The order book is lumpy in nature and the company expects an uptick in orders from 2HFY25.
  - The company added four new global customers in 1Q, including a global semiconductor company, a global defense OEM, a med-tech company, and another large defense and aerospace company. It will ramp up supplies to these new customers over the next couple of years.
- **SYRMA** witnessed an order inflow of INR11.6b in Q1, taking its order book to INR45b as of Jun'24 (up 29% YoY; while flat on QoQ basis), led by healthy order inflows from the consumers, automotive, industrial, and healthcare segments.
  - The company has also received an order to design medical devices for a global company. This will increase its healthcare mix in the coming years.
- **DATAPATT** witnessed a relatively lower order inflow of INR381m in Q1, taking its order book to INR10.2b as of Jun'24 (up 5% YoY while down 6% QoQ). However, it expects ~INR10b of new order intake in FY25, with the bulk of the order coming from Radar, EW, and Avionics.
- **DIXON/AMBER** is also likely to witness healthy revenue growth going ahead, driven by strong traction in the industry.
  - **Dixon's** revenue will be driven by strong growth in the mobiles and EMS, consumer electronics, and other emerging segments (refrigerator, wearables & hearables, and telecom networking products).
  - Whereas **Amber's** revenue will be driven by volume growth in the core AC business, coupled with its diversification in high-growth electronic segments and railway subsystems.

Margin recovery to support earnings growth trajectory

- Majority of the EMS companies witnessed EBITDA margin contraction during FY24 (down 40bp YoY to 6.4% for the aggregate of coverage companies), primarily on account of unfavorable business mix (high mix of lower margin business), which was partly offset by favorable operating leverage.
- The contraction continued in 1QFY25 (aggregate EBITDA margins down 80bp YoY to 6%), which hindered the earning growth trajectory across the sector.
- **Kaynes** witnessed minimal contraction in the EBITDA margin (down 90bp/30bp YoY to 14.1%/13.3% in FY24/1QFY25) despite subdued gross margins (down 440bp/350bp YoY). The company is expected to improve its margin profile to 15%, led by continued operating leverage and a strong focus on value addition.
- On the other hand**, Syrma SGS** witnessed the highest reduction in margins in FY24/1QFY25 (gross margin down 430bp/710bp YoY to 20.5%/15%, led by an increasing share of the low-margin consumer business). This was partly offset by operating leverage, with the EBITDA margin contracting 290bp/230bp YoY to 6.3%/3.8% in FY24/1QFY25. Going ahead, the rationalization of a mix of low-margin business, coupled with increased ODM and export sales, is likely to lead margin recovery.

- Meanwhile, **Cyient DLM** witnessed a contraction in the EBITDA margin (down 120bp/150bp YoY to 9.3%/7.8% in FY24/1QFY25), primarily due to higher investments in SG&A (strengthening the management team) despite improved gross margins (up 30bp YoY each).
- **Avalon** was the only player that witnessed a decline in revenues YoY (due to poor demand in the US business), leading to adverse operating leverage, which contracted the margins of the company (down 470bp each in FY24/1QFY25 to 7.2%/2.2%). Going ahead, profitability is likely to improve due to cost rationalization in the US business, operating leverage following recovery in the US business, and strong growth in the Indian business.
- **Data Pattern** was an exceptional player in terms of margin as it witnessed margin expansion (EBITDA margin up 475bp/470bp YoY to ~43%/35.7% in FY24/1QFY25). The company's high margin can be attributed to the nature of the business, where majority of the product/systems/components are developed in-house with a building block model.
- **Dixon** witnessed an EBIDTA margin contraction of 30bp YoY each in FY24/1QFY25 to 3.9%/3.8%, driven by a higher input cost. Going ahead, the EBITDA margin is expected to marginally expand ~4% by FY26, led by backward integration and an improving mix of the high-margin segment.
- On the other hand, **Amber** witnessed a margin recovery of 130bp/40bp YoY in FY24/1QFY25 to ~7.3%/8.2%, led by operating leverage. The annual EBITDA margin is likely to expand ~8.2% by FY26 on account of improved revenue mix in favor of higher margin segments.

Valuation and view: EMS industry witnessing an uptrend

- Our aggregate revenue for the EMS coverage basket is expected to clock a 47% CAGR over FY24-FY26, driven by order flows from new as well as existing segments in both domestic and international markets in areas such as high computing servers, railways, A&D, medical and healthcare, clean energies, EV, automotive, and industrials.
- Consequently, the combined EBITDA margin is likely to expand ~20bp over FY24-FY26, led by favorable operating leverage. Accordingly, EBITDA is expected to clock a CAGR of ~49% during FY24-FY26.
- We reiterate our **BUY** rating on **KAYNES/AVALON/CYIENTDL/SYRMA/DIXON/AMBER** with a TP of INR5,550/INR630/INR880/INR540/INR15,000/INR5,000 for FY26. We retain our **Neutral stance** on **DATAPATT** with a TP of INR2,900 for FY26.

Comparative valuation

Peers	CMP	TP	MCap	EPS			P/E			RoE (%)			RoCE (%)		
	(INR)	(INR)	(INR b)	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Kaynes	4,649	5,550	297.1	28.7	54.3	90.6	162.0	85.7	51.3	10.6	13.0	18.5	11.6	13.6	18.2
Avalon	522	630	34.3	4.3	6.5	14.0	122.6	80.8	37.2	5.2	7.5	14.5	5.2	7.3	13.4
Cyient DLM	702	880	55.7	7.7	14.5	21.9	91.0	48.4	32.0	11.1	11.9	15.6	11.2	12.3	16.9
Syrma SGS	420	540	74.5	6.1	9.0	15.4	68.6	46.6	27.3	6.9	9.5	14.6	7.5	9.8	14.4
Data Pattern	2,736	2,900	153.2	32.4	39.9	53.1	84.3	68.5	51.5	14.6	15.6	17.6	15.1	16.1	18.0
Dixon	12,515	15,000	748.4	61.5	111.2	162.8	203.5	112.5	76.9	24.7	32.9	34.5	25.4	37.7	38.3
Amber	4,445	5,000	149.8	40.1	68.1	105.1	110.8	65.3	42.3	6.8	10.5	14.3	7.8	9.8	12.1

Source: MOFSL

Maruti Suzuki: Expect Hybrids To Contribute To 25% Of Industry Car Sales; Partho Banerjee, Head of Marketing & Sales

- Witnessed 10% increase in deliveries on the occasion of Ganesh Chaturthi
- Optimistic about growth during the festive season
- Saw 11% growth in Kerala bookings ahead of Onam
- 16% of the sales of Grand Vitara & Invicto are for hybrid models
- Expect hybrids to contribute 25% to industry car sales by 2030
- Expect EVs to contribute 15-17% to car sales by 2030

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EPACK Durable: Will definitely surpass industry growth of 30% this year; Ajay Singhania, MD & CEO

- See momentum continue in AC growth and sales
- Will definitely surpass industry growth of 30% this year
- Looking at 45-50% topline growth for FY25
- Started production for washing machine, will begin with its sales from October
- Margin will be around 8.5% for FY25

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Dixon Technologies: To make pcs & laptops for HP, Targets Rs 3,500 Crore revenue in FY26; Atul Lall, MD

- HP brand in elite position in market share
- Very big agreement and targeting to start production by Q4FY25
- Already have top 4 largest brands in portfolio
- Lenovo production to start shortly

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Ashok Leyland: Expect a pick-up in demand for the CV industry from October; Shenu Agarwal, MD & CEO

- Everyone expected H1FY24 will be weak for CVs
- Industry view on CVs has now changed
- Think it will be a positive year for CVs, M&HCV and Trucks
- Buses are doing very well
- Light commercial vehicles should also see a pick-up
- July & August have not fared very well, but that is temporary

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Tata Motors: Expectations for future demand and company's growth roadmap; Girish Wagh, Executive Director

- Seeing green shoots emerging in CV space after muted demand
- Mining space seeing new demand coming
- More growth in CV space in H2, YoY
- Introducing alternate fueland electric vehicles in CV space
- No immediate plans to raise prices but will take call going forward

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Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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