

PRESENTS

Money Fest 2023

Samvat 2080 – Diwali Picks

31st October, 2023



Indian equity markets have delivered a stellar performance since the last samvat, generating substantial wealth for investors. Though the Nifty was just up 9%, the broader markets performed well. Nifty Smallcap 100 and Nifty Midcap 100 indices rose 28% and 26% respectively.

Among sectors, PSU Bank index rose 44% and Realty rose 37% while Oil & Gas index was the only one to end in the negative (-2%).

Indian markets did well in most months aided by the FPI flows and local flows (that are now becoming dominant) except in early part of the calendar due to Covid resurgence fears in China, subdued Dec quarter results and Adani group revelations. However on an overall basis, Indian markets were insulated from the global financial and geo political developments till September.

The remarkable performance of the Indian economy and equity markets in the last year has underscored the country's potential as a significant player in the global financial landscape, inviting both domestic and international capital to participate in its growth story. FPIs flocked to Indian markets bringing in net inflows in all months except Jan-Feb and Sept-Oct. Part of this flows got diverted from China as that market continued to underperform. A lot of Global financial institutions and brokerages upgraded the GDP forecast for India while downgrading that of several other countries/regions.

JP Morgan will add Indian Gsec to its Government Bond Index-Emerging Markets suite of fixed income benchmarks commencing 28 June 2024 with a maximum index weight of 10%. This inclusion is likely to attract between US\$20-30bn of net foreign purchases into India's domestic debt market. Morgan Stanley on 20 October upgraded India to "standout overweight", citing the relative economic and earnings growth is improving and the macro-stability setup looks sufficient to withstand the higher real rate environment.

As we look ahead, the central bankers, Finance ministries as well as investors will struggle with inflation that is proving to be sticky so far (led by supply issues in commodities) and the resultant high interest rates. If this situation does not resolve soon, global economic slowdown cannot be averted. The new conflict in the Middle east (Israel-Hamas) in addition to the existing Russia-Ukraine conflict could divert resources, attention and curb risk appetite of investors globally. Rising bond yields are impacting equity market valuations and corporate profitability. It is essential for investors and companies to adapt to changing economic conditions and market dynamics to navigate these challenges effectively.

Indian Macros like GST Collections, Direct tax collections, PMI Manufacturing and services, Current account deficit etc remain positive while fiscal deficit and uneven spread of rainfall on foodgrain production, inflation and rural incomes need to be watched closely.

LAST YEAR'S DIWALI PICKS PERFORMANCE



Stock	Reco Price	Average Entry	Average Band	Target	Target Date	Target %	High	High %
Aster DM Healthcare Ltd	242.0	226.5	211	278.0	25-May-23	22.7%	355.0	56.7%
Bharat Dynamics Ltd	858.0	858.0	774	1022.0	27-Oct-22	19.1%	1,278.0	49.0%
Bharat Electronics Ltd	101.0	94.0	87	123.0	12-Jun-23	30.9%	147.2	56.5%
Birla Corporation Ltd	896.0	896	784	1069.0	14-Dec-22	19.3%	1,339.8	49.5%
Cipla Ltd.	1,109.0	1,050.5	992	1,283.0	10-Aug-23	22.1%	1277.9	22.5%
Deepak Ferti & Petroch Ltd	895.0	895.0	791	1,058.0	21-Oct-22	18.2%	1,062.0	18.7%
ICICI Bank Ltd	870.0	870.0	773	999.0	21-Jul-23	14.8%	1,008.7	15.9%
Rail Vikas Nigam Ltd	36.8	36.8	32.75	42.3	3-Nov-22	15.0%	199.3	442.2%
Sun TV Network Ltd	536.0	502.0	468	624.0	25-Aug-23	24.3%	666.5	32.8%
TCL Express Ltd.	1,890.4	1,765.2	1,640	2,169.0	Open		1,982.0	12.3%
Average Returns						20.7%		75.5%
Index Returns till 30th Oct		17312				10.6%	20,222	16.8%

Year	% Return	
	HSL Diwali Picks	Nifty
2019	13.0%	4.2%
2020 *	18.4%	48.2%
2021	27.2%	-4.1%
2022	20.7%	10.6%

*= Covid led fall and then sharp rise in Nifty

TOP PERFORMERS FROM OUR LAST SAMVAT PICKS



Barring a single recommendation, all the rest of Samvat 2079 picks were not only able to achieve their intended targets but also managed to scale much higher levels.

It has been a stellar samvat for many PSU companies and stock prices of many PSUs have risen multi fold. The performance heightened lately especially after a recent tacit endorsement by the honourable prime minister in the parliament, albeit half-jokingly!

We had picked 2 PSU stocks as part of our recommended 10 stocks last year.

RVNL

Railway PSU stocks have enjoyed strong support from the Indian government, which provided funding and backing for critical railway infrastructure projects.

The consistent demand for railway services in India ensured a stable revenue stream for RVNL. The company has been performing well on all the fronts from Inflows of orders to execution of the current order book, with the consultancy services helping in margin expansion. The government thrust on improving the rail transportation by adding new lines and extending/revamping electrification has led to significant jump in the order inflows and visibility going forward.

Bharat Electronics

BEL, one of our Diwali 2022 picks has performed exceptionally well, surpassing our expectations, backed by parameters like strong order inflow guidance of receiving big orders from Indian Army and non-defence orders from opportunities in CBTC and super SCADA systems. The company has also guided for strong margin outlook and the Defence acquisition council has granted acceptance of necessity to various proposals envisaging investment of approx. ₹78 bn across armed forces.

Aster DM Healthcare

Aster DM, a prominent healthcare company in India and the Middle East did exceptionally well. Most of the players in the industry registered healthy growth in revenue and profitability coupled with improvement in return ratios led by better occupancy and healthy growth in ARPOB.

Aster DM Healthcare stock was in demand on recent murmur of potential sale of its India business, on top of its efforts to restructure its Gulf (GCC) business to unlock value for its shareholders. The entire proceeds from the sale will accrue to the Indian entity and that is likely to be distributed as a special dividend/buyback.

TCI Express

This was the only recommendation that did not reach its target. The company struggled to grow its topline and bottomline through the year even as it faced excessive price competition from new age players and the shift to organised players took longer than expected.



Going forward, we expect markets to be volatile till the 1st half of 2024 even as the outcome of state and Central elections will be watched closely as would be the repercussions of the two geo political events. Though the local fund inflows have remained robust, we would need resumption of FPI flows once the global risk appetite revives. We continue to favour domestic oriented businesses and favour opportunities in the sectors like Materials, Pharma, Oil & gas, Small Finance banks, Petrochemicals, consumption, Power EPC and restructuring plays for the next year. With a focus on these themes, here are our 10 picks for Samvat 2080. These stocks have robust fundamentals and some margin of safety in their valuation to offer superior returns to investors.

Company Name	Industry	LTP*	Buy range	Target	Time Horizon
Dr Reddys Laboratories Ltd	Pharmaceuticals	₹5,345.35	₹4,850-5,400	₹6,250	Till Next Diwali
Equitas Small Finance Bank Ltd	Small Finance Banks	₹91.35	₹82-92	₹112	Till Next Diwali
GAIL (India) Ltd	Gas Transmission/Marketing	₹118.7	₹106-120	₹140	Till Next Diwali
Godrej Industries Ltd	Diversified	₹621.2	₹555-624	₹735	Till Next Diwali
Grasim Industries Ltd	Cement	₹1,878.3	₹1,700-1,925	₹2,275	Till Next Diwali
Gujarat Alkalies & Chemicals Ltd	Chemicals	₹712.5	₹638-718	₹875	Till Next Diwali
Indian Oil Corporation Ltd	Refineries & Marketing	₹88.25	₹78-90	₹103	Till Next Diwali
Kalpataru Projects International Ltd	Transmission & Distribution	₹649.9	₹580-660	₹795	Till Next Diwali
Reliance Industries Ltd	Refineries & Marketing	₹2,310.35	₹2,075-2,325	₹2,695	Till Next Diwali
United Spirits Ltd	Breweries & Distilleries	₹1,027.8	₹915-1,040	₹1,195	Till Next Diwali

* Price As of Oct 30, 2023

DR. REDDY'S LABORATORIES



ABOUT COMPANY

Dr. Reddy's Laboratories Ltd is one of the leading pharmaceutical companies which has presence across Domestic formulations, US generics, APIs, biosimilars and differentiated formulations. Company derived ~18% of sales from domestic formulations, 43% from US business, 19% from Emerging Markets (EM), 12% from PSAI and the balance from others. Company has robust pipeline of 175+ products and out of them 80 of them have been filed. This includes 40% Injectable/Sterile Products. Company has 22 manufacturing facilities and 8 R&D Centres. Major therapeutic areas in the domestic formulation segment are Gastro-Intestinal, Respiratory, Cardiac, Pain Management and Anti-Diabetic.

Industry	LTP	Buy range	Target	Time Horizon
Pharmaceuticals	₹5,345.35	₹4,850-5,400	₹6,250	Till Next Diwali

KEY TRIGGERS

Dr. Reddy's reported healthy numbers for FY23 with highest ever sales, strong cash flow generation and improvement in return ratios on the back of gRevlimid (lenalidomide) opportunity in the US. Even in H1 FY24, overall numbers remained strong largely led by robust US and Europe business.

Revenue from US Generics stood at ~US\$ 1.2bn, growth of 25.3% over FY22. While pricing pressure in the base business persisted, growth was supported by launch of 25 new products during the year, including Revlimid. Ex-Revlimid, US business declined in FY23 due to increased competition and price erosion in the base business.

Among the large cap pharma companies, Dr. Reddy's has maintained strong US FDA compliance track record with all its API/Formulation facilities having received Voluntary Action Initiated (VAI)/ No Action Initiated (NAI) from the US FDA.

In the domestic business, the company's focus will be to drive productivity improvement and focus on core therapeutic areas and big brands. In the medium to long term, the company's strategy would be to build a healthy pipeline of differentiated products in therapies, including biosimilars, expand presence in areas such Cardiac, Respiratory and OTC & Nutraceuticals. Company has recently announced its foray into the trade generics business.

API business recorded its second consecutive year of revenue decline in FY23 after recording strong growth in FY21 on the back of Covid-related benefits. Sales declined 5% in FY23 on the back of both volume and pricing front, which was partially offset by new launches. It filed drug master files (DMF) for 130 products during the year, including 12 filings in the US.

R&D expenses were at ₹1,938cr or 7.9% of sales for FY23. It has remained around 8-9% of sales in the last 3 years. Company launched six new products in Q1FY24 and further guided for 25 product launches in FY24 in US.

Europe business registered 21% CAGR in sales in the last 4 years. It was driven by new launches and volume traction in base business.

Gross debt declined from ₹3,390cr in FY22 to ₹1,188cr as on Sep-2023. Company has net cash & equivalents of ₹5,900cr as on Sep-2023.

DR. REDDY'S LABORATORIES



VALUATION AND RECOMMENDATION

We expect US business to grow at CAGR of 11% over FY23-25E including gRevlimid sales. Overall, we estimate 10% CAGR in sales led by strong growth from US and domestic formulation business. We expect operating margin to remain at around 26.5-27.5% on the back of niche opportunities in the US piece. Net profit is expected to see 16.5% CAGR led by healthy revenue and strong operating performance over the same period. We recommend buy on Dr. Reddy's Laboratories in the band of ₹4,850-5,400 for target price of ₹6,250 (19.5x FY25E EPS) till next diwali.

KEY CONCERNS

- Higher API/KSM prices could impact overall gross margin and overall profitability.
- Any delay in launch of niche products in the US market would impact future growth prospects of the company. Higher than expected erosion in the prices of niche products could impact US revenue and profitability.
- Any adverse action from regulatory authorities could hinder its growth prospects. Though, currently most of its facilities have clearance from US FDA.

FINANCIAL SUMMARY

Particulars (₹ Cr)	FY21	FY22	FY23	FY24E	FY25E
Revenue	19,048	21,545	24,670	28,074	29,534
EBITDA	3,870	3,768	6,349	7,809	8,044
EBITDA Margin	20.3	17.5	25.7	27.8	27.2
APAT	2,308	2,887	3,778	5,218	5,332
EPS	138.6	173.4	226.9	313.4	320.2
P/E (x)	38.5	30.8	23.5	17.0	16.7
EV/EBITDA (x)	24.0	24.7	14.3	11.6	11.2
RoE (%)	38.5	30.8	23.5	17.2	16.8

EQUITAS SMALL FINANCE BANK



ABOUT COMPANY

Equitas SFB is one of the largest small finance banks in India and offers bouquet of products and services. The key business verticals include Micro Finance, Small Business Loans (SBL), Home Loans and Vehicle Finance. The RBI in March 2022 issued new directions for microfinance lending and has eased microfinance regulations. For the long term we feel that the opportunity is huge as penetration of MFI and SFB loans in Indian market is still low. The bank is present in 18 states and UTs via 956 branches. It has a total of 356 ATMs and has employed 21,862 human resources.

Industry	LTP	Buy in band	Target	Time Horizon
Small Finance Banks	₹91.35	₹82-92	₹112	Till Next Diwali

KEY TRIGGERS

A well-diversified loan book: Despite headwinds in the micro finance as well as vehicle finance industry, Equitas SFB could report ~26% CAGR in the loan book during FY18-FY22. It is one of the largest small finance bank in the country. The key business verticals include Micro Finance (19%), Small Business Loans (37%), Home Loans (11%) and Vehicle Finance (25%) and others. Now the portfolio is largely secured in nature and around 83% of the book is of fixed-rate advances. As of Q2FY24, the total gross advances stood at ₹31,229 crores, up 43/5% YoY/ QoQ, while the disbursements for the quarter stood at ₹4,961 crores, up 29/4% YoY/QoQ. Its yield on advances stood at a healthy level of 17.41% whereas the Net Interest Margin stood at 8.43% which was aided by growth in its advances book.

Ramp up in deposit franchise and granularity: As of September 2023, the bank has reported total deposits worth ₹30,839 crores, which has grown at a healthy rate of 42/11% YoY/QoQ. This growth witnessed in the bank's deposits franchise was contributed by Term Deposits which stood at ₹20,490 crores, up 82/20% YoY/QoQ. The management has attributed this growth to its customized digital solutions. On the other hand, the bank has reported flat CASA balances at ₹10,349 crores, which consists of current account balance of ₹814 crores, up 24% YoY but down 3% sequentially, while savings account balances stood at ₹9,535 crores, down 3/3% YoY/QoQ. The bank has healthy granularity in its deposits profile. The average cost of funds for Q2FY24 is at 7.21%, up 96/27 bps YoY/QoQ.

Healthy Asset Quality Numbers: In terms of asset quality, GNPA came in at 2.27% of advances as against 2.6% in Q1FY24 and 3.82% in Q2FY23. After deducting provisions, the NNPA stood at 0.97% of advances, down 96/15bps YoY/QoQ. The Provision Coverage Ratio improved to 57.7% from 50.5% in Q2FY23. The gross slippages stood at 3.47% v/s 3.07% in Q1FY24. The bank expects its slippages to reduce in coming quarters. The credit cost reduced to 0.83% for the quarter from 1.62% in Q2FY23.



RISKS & CONCERNS

Concentration risk

The bank has presence across 18 states and UTs. However, top three states of Tamil Nadu, Maharashtra, and Karnataka contributed majority of the overall portfolio which brings geographic concentration risk. Any economic slowdown especially in the areas where the bank has strong presence could impact the business growth of the company.

Falling CASA Ratio

Since the start of FY23, the bank has seen declining CASA ratio from 52% as of March 2022, to 38% as of June, 2023 (34% as of September 2023).

Risky nature of business

Micro finance and small business are inherently risky business because of cash dealing and collateral free nature. Clients have below-average credit risk profiles and lack the access to formal credit. The bank has already taken steps to move away from such unsecured loans to secured loans, however, this will add some downward pressure on its margins.

Political risks due to nature of loans

Loan book of Equitas SFB still has considerable amount of microfinance loans and MSME loans. Political instigation in some of the states asking people not to pay back their dues, as witnessed in the past, could result in higher NPAs.

Deterioration of asset quality

A higher-than-expected deterioration in the asset quality could result in the erosion of the Tier I capital. Fresh formation of bad loans could keep provisioning high and return ratios compressed for a longer time. Further, any delay in the recovery, higher than expected haircuts or sharp rise in the slippage could impact the profitability and business growth prospects.

Rising interest rates

The rise in interest rates may impact the loan growth; the bank has high retail facing loan book and high interest rates negatively impacts the demand. Also the rise in G-sec yields could lead to MTM losses for the banking sector.

VALUATION & RECOMMENDATION

We have envisaged 24% CAGR in NII and 31% in net profit over FY23-25E, while the loan book is estimated to grow at 27% CAGR over same time frame. As the collection efficiencies have improved and economic activities have picked momentum, the asset quality has seen immense improvement. ROAA is estimated to improve to 2% by the end of FY25E. It could display steady improvement in return ratios driven by growing advances and contained slippages. We recommend investors to buy the stock in the ₹82-92 band for a target price of ₹112 (2.0x FY25E ABV) till next Diwali.

FINANCIAL SUMMARY

Particulars (₹ Cr)	FY21	FY22	FY23	FY24E	FY25E
NII	1,798	2,039	2,545	3,188	3,913
PPOP	944	720	1,176	1,428	1,802
PAT	384	281	574	794	992
EPS	3.4	2.2	5.2	7.2	8.9
ROAA (%)	1.7	1.1	1.9	2.0	2.0
ROAE (%)	12.5	7.3	12.2	14.5	16.1
ABVPS	27.5	30.1	43.6	50.2	57.3
P/ABV(x)	3.3	3.0	2.1	1.8	1.6
P/E(x)	27.1	40.7	17.7	12.8	10.2

GAIL (INDIA) LTD.



ABOUT COMPANY

GAIL is India's leading natural gas transmission and distribution company, owns over 11,500 km of natural gas pipelines, over 2,300 km of LPG pipelines, six LPG gas-processing units and a petrochemicals facility. It also has a joint-venture interest in Petronet LNG Ltd, Ratnagiri Gas and Power Pvt Ltd, and in the CGD business in several cities. GAIL has wholly owned subsidiaries in Singapore and the US for expanding its presence outside India in the segments of LNG, petrochemical trading and shale gas assets. GAIL has leveraged its position to extend its presence in power, LNG regasification, CGD, and E&P through various equity and joint venture (JV) participations.

Industry	LTP	Buy in band	Target	Time Horizon
Gas Transmission/Marketing	₹118.7	₹106-120	₹140	Till Next Diwali

KEY TRIGGERS

GAIL is the market leader in the transmission of natural gas in the country with around 15,413 km of pipeline network (i.e., around 70% of the country's pipeline) as on March 31, 2023, with a natural gas handling capacity of 206 MMSCMD. Furthermore, pipelines of around 6,000 km are under construction. GAIL's integrated pipeline network of Hazira-Vijaipur-Jagdishpur, Dahej-Vijaipur, and Vijaipur-Dadri accounts for over 65% of its natural gas transmission volumes.

GAIL depends around 44% of its total natural gas requirements through domestic sources, which include from ONGC, Panna-Mukta and Tapti, Ravva, Ravva Satellite, etc. For remaining natural gas requirement, depends on imported regasified liquefied natural gas (RLNG), which includes long-term, midterm, and spot contracts. GAIL has multiple long-term LNG contracts of around 14 MMTPA. It has a long-term contract to buy 5.8 MMTPA of LNG from the US and up to 2.85 MMTPA of LNG annually on a delivered basis from Gazprom Marketing & Trading Singapore Pte Ltd (GMTS), now known as Seft Marketing & Trading Singapore Pte Limited (SMTS), while another 4.80 MMTPA from RasGas Qatar and 0.4 MMTPA from Australia.

With multiple ongoing projects in core gas transmission space, GAIL plans to add ~6,935kms of gas transmission pipelines and 560ktpa of petrochemical capacity over the next 2-3 years, at an investment of ₹42,200 crore, ₹26,100 crore already invested. With clear visibility on offtake of a majority of pipelines and a growing market available for petrochemical expansion, growth avenues look robust for GAIL over the next 5-7 years.

GAIL already has more than 130 MW of renewable energy capacity in place and is present (either directly or via subsidiaries/JVs) in ~67 CGD geographic areas (GAs), making it the largest CGD player in the country and a large scale renewable energy player. These two segments are likely to grow materially over the next few years and it could help to generate more diversified earnings profile for GAIL over the next 3-4 years.

GAIL owns 70% of India's gas transmission network which is its stable, non-cyclical and regulated business. This is likely to remain the key operating income contributor over the medium term generating stable cash flows. GAIL's natural gas pipeline network covers 19 states and it has also increased its integration across the natural gas value chain in downstream segments, like petrochemicals, liquefied petroleum gas and other liquid hydrocarbons. GAIL has presence in both gas transportation and marketing along with petrochemical and liquid-hydrocarbon businesses. Its physical as well as operating performance is likely to remain stable supported by expansion of new gas market and construction of natural gas pipelines.



RISKS & CONCERNS

- Economic slowdown, volatility in oil and gas prices and regulatory changes in Oil and Gas industry could impact its growth story in the future. The changing macro-economic scenario can have an impact on the growth plan of the company.
- Any adverse natural gas pricing mechanism, subsidy sharing, and dividend payments, any adverse policy and decisions from Gol's could impact GAIL's profitability, cash flows and liquidity position.
- GAIL's gas-marketing segment could see price and volume related risks under its long-term Henry Hub (HH) linked contracts from the US, especially in the low crude price environment when spot Liquid Natural Gas (LNG) is cheaper than HH-linked US LNG.
- The City Gas Distribution and Gas Transmission industry is under regulatory regime wherein the Regulatory Board (PNGRB) has framed various regulations, which monitors day to day business operations. The changes in the regulations, inter-alia, and marketing exclusivity may have an adverse impact on the Company.
- Capacity utilisation of GAIL depends on not only the company's ability to market the available natural gas but also on securing an additional natural gas supply for its increasing pipeline infrastructure.

VALUATION & RECOMMENDATION

Growing domestic gas supplies, LNG liquefaction capacity and expectations of relatively moderate pricing of the same, normalisation of LPG prices and some likely improvement in petrochemical segment imply earnings from each key segment should steadily improve over the next 2-3 years. GAIL's leadership position in the natural gas transmission business, cost effective operations, experienced management, decent dividend yield, attractive valuations and sound financials are key advantages offered by the stock apart from a decent dividend yield.

Strong domestic supply environment, improved margins for trading segment and favorable pricing scenario of LPG and petrochemical segments may improve consolidated EBITDA sharply over FY23-25E. We expect EBITDA/PAT to grow 48%/46.4% for FY24E, and 13.5%/13.4% for FY25E, respectively.

Investors can buy in the ₹106-120 band for a target of ₹140 (10x FY25E EPS & 8.8x FY25E EV/EBITDA) till next Diwali.

FINANCIAL SUMMARY

Particulars (₹ Cr)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	57,400	92,800	1,45,700	1,27,700	1,32,100
EBITDA	7,200	15,200	7,500	11,100	12,600
APAT	6,100	12,300	5,600	8,200	9,300
Diluted EPS (Rs)	9.3	18.6	8.5	12.5	14.2
RoE-%	12	20.9	8.7	11.9	12
P/E (x)	12.8	6.4	14.0	9.5	8.4
EV/EBITDA (x)	11.7	5.7	12.8	8.7	7.5





ABOUT COMPANY

Godrej Industries Ltd (GIL) is a holding company of the Godrej Group and the company is one of India's leading manufacturers of (derivatives of vegetable and animal oils & fats) on a standalone basis. The company have significant interests in consumer goods, real estate, agriculture, chemicals and financial services through its subsidiary and associate companies, across 18 countries. The company has also commenced housing finance business under Godrej Capital.

Industry	LTP	Buy in band	Target	Time Horizon
Diversified	₹621.2	₹555-624	₹735	Till Next Diwali

KEY TRIGGERS

GIL's real estate subsidiary, Godrej Properties' revenue has been more than doubled in Q1FY24, rising 282.6% YoY to ₹936cr, led by project deliveries totaling ~4.9msf in four cities. The company also launched three projects/phases in two cities in the quarter. However, the company expects the increase in pace of launches to pick up in Q2FY24. In long run, the company expects to achieve double-digit market share, it is an opportunity to increase from the current market share of 3.5% to 5% of the real estate industry.

The revenue of consumer's products subsidiary of the GIL grew by 10.4% YoY/ 7.8% QoQ in Q1FY24. Volume growth was at 10% YoY while revenue in constant currency grew by 15% YoY. Value growth was impacted due to price deflation in soaps and the currency translation impact in Nigeria due to demonetization. The company has recently acquired Raymond Consumer Care Ltd (RCCL) business, excluding which the organic revenue growth was at 6% YoY. The company has announced to incur capex of Rs 900 Cr over the next 18-36 months.

On standalone basis chemical business revenue has fallen by 26.8% YoY. Gross margin expanded 30bps YoY due to lower commodity prices while EBITDA margin contracted 230bps YoY. GIL reported net loss of Rs 28.3 Cr in Q1FY24. Chemical industry as a whole is facing strong headwinds which visible in GIL's quarterly performance as well.

The Godrej family is undergoing a split among brothers and this could lead to value unlocking for GIL as it is the holding company in the group and currently suffers from a large holding company discount. The timing of the split is uncertain but likely to be completed in the next 2-4 quarters.

GODREJ INDUSTRIES LIMITED.



VALUATION & RECOMMENDATION

While the standalone business faces some pressure in the near term, its consumer product and real estate subsidiaries are doing well and the outlook remains healthy. We expect value unlocking due to the split between the brothers and holding company discount could narrow too. Investors can buy the stock in the ₹555-624 band for a target of ₹735 till next Diwali.

FINANCIAL SUMMARY

Particulars (₹ Cr)	FY19	FY20	FY21	FY22	FY23
Net Revenue	10,848	11,291	9,334	14,130	16,740
EBITDA	690	811	313	1,043	1,510
EBITDA Margin	6.4	7.2	3.4	7.4	9.0
PAT	590	554	335	654	975
EPS	17.5	16.5	9.9	19.4	29.0
P/E (x)	35.5	37.8	62.5	32.0	21.5
EV/EBITDA (x)	54.5	46.4	120.0	36.0	24.9
RoE (%)	15.3	6.6	4.4	9.2	12.2



GRASIM INDUSTRIES LTD.



ABOUT COMPANY

Incorporated in 1947, Grasim is the flagship company of the Aditya Birla group. It commenced operations in 1948 as a textile manufacturer and is the sole producer of VSF in the domestic market. The chemicals segment comprises caustic soda, chlorine VAPs and advanced material businesses. In January 2021, Grasim announced foray into the decorative paints business with capital outlay of ₹10,000 crore. Furthermore, in July 2022, it announced foray into B2B e-commerce segment with total outlay of ₹2,000 crore over the next five years. Through its subsidiaries, UltraTech Cement (57.3%) and Aditya Birla Capital (54.2%), it is also India's prominent cement producer and a leading diversified financial services player.

Industry	LTP	Buy in band	Target	Time Horizon
Cement	₹1,878.3	₹1,700-1,925	₹2,275	Till Next Diwali

KEY TRIGGERS

Grasim Industries has announced huge capex plans over the next 2 years, specifically in the Paints business. For this purpose, the company is raising equity of ₹4000 crore through a rights issue. The promoter group has committed to fully subscribe to their entitlements and will also cover any unsubscribed portion, if applicable.

The Management believes that margins in both the key business segments, VSF and Chemical, have almost bottomed out. Lower input costs aided profitability improvement in Q1FY24 for the VSF segment and higher sales of value added products. Chlorine integration has been increasing in Chemical segment supporting margin improvement. Commissioning of Lubrizol plant as well as increase in VAP capacities will help improve chlorine integration to 72% from 61% in Jun'23 (60% in FY23)

Caustic soda prices have started to improve from their lows and should benefit in H2FY24. Additionally, VSF prices in China have experienced an uptick in the last few weeks and we believe that the Sep-23 exit price of VSF was ~4% higher than the average price in Q2FY24.

The company is targeting to commission three plants of Paints with a combined capacity of 0.63m liters by the end of FY24 and Grasim's long-term goal is to become the second-largest player in this business, which is growing at double-digits.

Ultratech posted strong results for Q2FY24 with ~5% sequential increase in cement prices. It expects fuel cost to further come off ~5% QoQ in Q3, owing to its low-cost inventory. Capex programs remain on track and it maintained its FY24E Capex guidance of ₹6000-7000 crore. The share of premium cement sales went to 22% vs 19% YoY. It is also bolstering its green power capability, reducing its clinker factor. Its phase-2 expansion of ~24.4mn MT is on track for commissioning during FY25/26E.

Financial services subsidiary ABCL's lending business is sustaining accelerated growth momentum (+43% YoY in Q1FY24) on the back of simultaneous build-up in balance sheet granularity (67% of the NBFC AUM is towards retail + SME + HNI; 42% of the HFC AUM is towards affordable loans) and stable asset quality.

GRASIM INDUSTRIES LTD.



VALUATION & RECOMMENDATION

While the standalone business faces some pressure in the near term, its cement and financial services subsidiaries are doing well and the outlook remains healthy. The company's expedited expansion in paints is likely to provide it the next leg of growth and can lead to rerating of the stock as it brings down the share of commodity business in favour of branded paints business. .

Investors can buy the stock in the ₹1,700-1,925 band for a target of ₹2,275 till next Diwali.

FINANCIAL SUMMARY

Particulars (₹ Cr)	FY21	FY22	FY23	FY24E	FY25E
Net Revenue	76,404	95,701	1,17,627	96,101	1,05,679
EBITDA	18,825	20,812	21,589	18,957	21,620
EBITDA Margin	24.6	21.7	18.4	19.7	20.5
PAT	4,067	7,034	6,827	7,676	8,472
EPS	65.6	115.0	103.9	117.0	129.2
P/E (x)	28.7	16.3	18.1	16.1	14.5
EV/EBITDA (x)	11.9	10.7	10.3	11.8	10.3
RoE (%)	6.2	9.3	8.7	8.9	9.0



GUJARAT ALKALIES & CHEMICALS LTD.



ABOUT COMPANY

Gujarat Alkalies & Chemicals Ltd. (GACL) is the second-largest player in the domestic caustic chlorine industry with integrated operations. Company has about 20% share in the domestic Caustic Soda market. It produces a wide range of products, including caustic soda, liquid and gaseous chlorine, hydrogen peroxide, phosphoric acid, Chloromethanes and aluminium chloride, which find application across a diversified group of industries, including textile, pulp and paper, aluminium, detergents, plastics, pharmaceuticals, water treatment, and agricultural chemicals etc.

Industry	LTP	Buy in band	Target	Time Horizon
Chemicals	₹712.5	₹638-718	₹875	Till Next Diwali

KEY TRIGGERS

For FY23, total revenue grew 20% YoY at ₹4,517cr. Sales volume also increased strongly for the year. Net profit declined 26.8% YoY at ₹409.6cr due to higher power & fuel costs and tax outgo. Power & fuel costs surged 51.3% YoY at ₹1118cr for the year.

GACL holds 15.3% stake in Gujarat Ind. Power (GIPCL), 3.1% stake in Gujarat Gas and 1.88% stake in GSFC. Cumulatively at current price, the total investments work out to ₹1,361cr. Further, the company has unquoted investments of ₹323cr (as per AR 2023).

In Apr-2023, As per new guidelines, all PSUs to pay out dividends either at 30 per cent of net profit or 5 per cent of net worth, whichever is higher. Firms with cash balances of ₹1,000 crore and net worth of ₹2,000 crore would need to consider stock buybacks.

Company paid dividend of ₹23.55 per share (payout of 42%) for FY23 as compared to Rs 10 per share in FY22. We expect 30-35% dividend payout to continue in the medium term.

Company has already commissioned its caustic soda project in the JV with NALCO for 800 MTPD and have also successfully completed its caustic soda expansion of 525 MTPD at its Dahej plant, which shall further consolidate its position in the chlor-alkali industry in India. No major capex is expected in the near term except the ongoing chlorotoluene project of ₹350 crore which shall be funded by internal accruals and expected to be completed by Oct-2024.

The total installed capacity of the solar power plant stood at 36.6 MW at Charanka Solar Park – Patan and Dahej. It also has a wind power generation capacity of 171.5 MW, total capacity stands at ~209 MW. GACL-Nalco Alkalies & Chemicals (GNAL) has already commissioned its 130 MW coal-based CPP, wherein the excess power generated shall be availed by GACL as required.

Global caustic soda prices have witnessed about 30% increase in the last 2 months however it still remains ~40-45% lower than highs seen in CY22. Strong prices to result into better realisations and thus strong earnings trajectory in the medium term.

GUJARAT ALKALIES & CHEMICALS LTD.



RISKS & CONCERNS

Adverse movements in the market prices of gas and power since electrolysis is an energy-intensive process and power cost constitutes a significant part of its cost structure.

During FY23, GACL commissioned major ongoing capex of expanding the caustic soda capacity by 525 TPD and chloromethane plant. Furthermore, the company commissioned a hydrazine hydrate plant in Sep-2022 and phosphoric plant in April-2023. Company is exposed to stabilisation risks associated with its recently completed projects.

Lower realization on the back of drop in key end products could hurt operational performance and profitability.

VALUATION & RECOMMENDATION

With steady increase in caustic soda prices and lower energy costs, we expect the company to register strong earnings growth in FY25E. At CMP, the stock trades at 13x FY25E EPS. Investors can buy the stock in the ₹638-718 band for target price of ₹875 (16x FY25E EPS) till next Diwali.

FINANCIAL SUMMARY

Particulars (₹ Cr)	FY21	FY22	FY23	FY24E	FY25E
Revenue	2,430	3,759	4,517	4,372	4,809
EBITDA	357	984	949	763	1,011
EBITDA Margin	14.7	26.2	21.0	17.5	21.0
PAT	166	560	410	254	400
EPS	22.6	76.2	55.8	34.7	54.8
P/E (x)	31.6	9.4	12.8	20.6	13.0
EV/EBITDA (x)	15.0	5.7	5.7	7.0	5.3
RoE (%)	3.3	10.2	7.7	4.4	6.8





ABOUT COMPANY

Indian Oil Corporation Ltd. (IOCL) is largest oil and gas PSU, engaged in refining, pipeline transportation and marketing of petroleum products, marketing of natural gas and petrochemicals. It has 10 refineries, a large network of pipelines and over 60,000 retail touchpoints, including Petrol pumps and LPG distribution agencies. The company and its subsidiaries have a total refining capacity of 80.6 Million Metric Ton Per Annum (MMTPA), which is 32% (as on March 31, 2023) of the total domestic refining capacity. The company currently operates CGD networks in five geographical areas in Uttar Pradesh through Green Gas Ltd joint venture with GAIL (India). Besides, the company is implementing CGD projects across several other cities through Indian Oil-Adani Gas Pvt Ltd. -a JV with the Adani Group. The Government of India has a 51.5% equity stake in the company, as on Sept 30, 2023.

Industry	LTP	Buy in band	Target	Time Horizon
Refineries & Marketing	₹88.25	₹78-90	₹103	Till Next Diwali

KEY TRIGGERS

IOCL's forward integration into the petrochemical segment provides operational synergies, like conversion of surplus products in the country such as naphtha, into higher value petrochemicals (like HDPE, PP etc), which could also lead to higher margins. However, strong refining margins and large inventory gain given steep rise in the Brent crude oil prices to \$85.8 /bbl in Q2FY24 versus 78/bbl in Q1FY24 could provide some relief to IOCL.

IOCL's is planning to invest ₹100,000 crore to expand its refining capacity by 26MTPA to 107MTPA. It has multiple capacity expansion projects at its various refineries. Ongoing expansion include Panipat refinery from 15MTPA to 25MTPA, Gujarat Refinery from 13.7MTPA to 18MTPA, Digboi from 0.6MTPA to 1.0MTPA, Barauni from 6MTPA to 9MTPA and CPCL from 10.5MTPA to 19.5MTPA. The company is setting up a 60 KTA Poly Butadiene Rubber (PBR) plant at Panipat. IOCL has approved for construction of the Paradip Petrochemical Complex at Paradip, Odisha at an estimated cost of ₹61,077crore. IOCL's ongoing and planned expansions could strengthen self-sufficiency in the sector and revenue generation going forward.

Benchmark Singapore refining margins have strengthened to US\$9.6/bbl in Q2FY24 vs US\$3.8/bbl in Q1FY24, on the back of rising diesel cracks. Once the retail auto fuel prices increase, the OMC companies could see more benefit to increase its marketing margin going forward. The company is likely to benefit the most among its peers from an increase in refining margin. No major refinery maintenance shutdown, a rising share of Russian discounted crude, and sharp improvement in Gasoline/diesel/ATF cracks on QoQ to aid the IOCL GRM, GRM stood at \$8.3/bbl in Q1FY24.

Besides, its refining and petrochemical business, IOCL approved joint ventures with EverEnviro Resource Management Pvt Ltd and GPS Renewables Pvt Ltd for setting up compressed biogas (CBG) plants. IOCL has entered sustainable aviation fuel and green hydrogen production. It plans to expand its renewable energy portfolio substantially from 238 megawatts, besides installing 10,000 charging stations for electric vehicles in the next three years. IOCL has approved the capital raising via a rights issue up to an amount not exceeding Rs 22,000 crore, subject to necessary statutory approvals.

IOC also pays attractive dividends resulting in handsome dividend yield for investors.

RISKS & CONCERNS

Regulatory challenges in terms of policy changes, crude oil price volatility, Rupee depreciation, lack of fuel price rise despite crude oil price rise (pending the forthcoming elections), volatility in Singapore GRM, high inventory gains/losses, rising interest liability due to working capital/capex needs are some risks faced by the company.

VALUATION & RECOMMENDATION

IOCL's value of investments and non-core assets (stakes in Chennai Petroleum Corporation Ltd, Petronet LNG, Lanka IOC, ONGC, GAIL, OIL India other subsidiaries and JVs) accounts for nearly its entire value. We expect IOCL's strong earnings momentum to sustain in the coming quarters, supported by multiple drivers like volume recovery, auto fuel price hikes, cyclical recovery in refining margins, recovery in petchem margins, and expected inventory gain as spot crude oil price are in the \$75-85/bbl range.

We expect earnings to continue to improve as stable demand in the petrochemicals segment allows for a turnaround. With its broad and superior refining marketing mix, we believe continued demand for petroleum products and declining crude oil prices will continue to drive greater profitability.

Investors can buy the stock in the ₹78-90 band for a target price of ₹103 (5.7x FY25E EV/EBITDA, 6x FY25E EPS) till next Diwali.

FINANCIAL SUMMARY

Particulars (₹ Cr)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	3,63,900	5,89,300	8,41,800	7,54,300	7,50,600
EBITDA	41,700	47,500	31,400	45,700	47,200
APAT	22,800	25,300	10,800	22,400	23,600
Diluted EPS (Rs)	15.7	18.4	7.3	16.3	17.1
RoE-%	22	20.6	7.9	15.3	14.7
P/E (x)	5.6	4.8	12.1	5.4	5.1
EV/EBITDA (x)	5.3	4.8	7.8	5.0	4.9
RoE (%)	3.3	10.2	7.7	4.4	6.8



KALPATARU PROJECTS INTERNATIONAL LTD.



ABOUT COMPANY

With more than 4 decades of rich experience, Kalpataru Projects International Limited (KPIL) is among the largest players in the global power transmission & distribution, railways, oil & gas and civil infrastructure space. The Company offers comprehensive solutions encompassing design, testing, fabrication, erection and construction of transmission lines, oil and gas infrastructure and railway projects on a turnkey basis. The company also provides civil contracting services for Buildings & Factories, Water Infrastructure, Highways and Metro construction after its merger with JMC Projects. The company is also operating three BOOT Road assets. The company is a major player of T&D projects having global foot print across 73 countries and ongoing projects in 30+ countries.

Industry	LTP	Buy in band	Target	Time Horizon
Transmission & Distribution	₹649.9	₹580-660	₹795	Till Next Diwali

KEY TRIGGERS

Healthy Order Book & Strong revenue Outlook: The company has received fresh orders amounting to ₹5,122 crores on a consolidated basis in Q1 and ₹7,383 YTD taking total order-book to ₹47,332 crores as on June'23. The company is also L1 of orders worth ₹4,000 crores. The current order-book is approximately 3.3x of FY23 revenues. The company has indicated a strong bidding pipeline of approximately ₹1 trillion. The company is focused more on International opportunities and company is also looking for good visibility in the T&D business among domestic and international markets given the push for renewables and the requirements for new transmission lines. The company has also been successful in capturing more business in Latin America including some countries like Chile, Brazil, Peru, and Argentina. The company is one of the top 3 contractors in Chile in areas of transmission.

The company's revenue currently is at 1/3rd international 2/3rd domestic, but in coming years the company aims to be in range of 50-50 or at least ratio of 45-55 till 2025 given opportunities in 70+ countries.

Post-merger Synergy: The Company has concluded the Scheme of Amalgamation with JMC Projects Ltd. The amalgamation can result in more operating efficiency; the company is anticipating the growth in range of 20-25% in B&F segment (JMC's business). After amalgamation of the entity the company is receiving benefits on lower interest rates as the differential interest rate is in the range of 200 to 300 basis points on some of the borrowing. The company will also now qualify to bid for large projects on account of stronger balance-sheet, and the civil, mechanical and electrical skillset will also provide an opportunity.

Restructuring and Monetization of BOOT Projects: KPIL is planning to complete restructuring on Wainganga Road Project and has started due diligence for Vindychal Road Project after signing the Non-binding agreement. In case of Kurukshetra Road Project, the company has issued notice of termination and handed over the asset in line with the provisions of the concession agreement to NHAI. Also, the improvement in traffic across all the three road assets is good and per day revenue increased from ₹56.8 lakh in Q1 last year to ₹61.7 lakhs per day in Q1 this year witnessing a growth of 8.6%. The company has a refinancing option but as company is witnessing steady growth in revenues, currently company is not looking into the refinancing option and will repay the debt for VEPL and will wait for right opportunity for monetizing the assets but is more likely to conclude by Q3FY24. The company has received consent from lender for WEPL and is expecting the closure of restructuring.



RISKS & CONCERNS

Higher Debt levels & Elongated Working Capital Cycle: The company's standalone net debt stood around ₹2,216 crores. According to company, the increase in debt from Q1 is mainly due to higher working capital requirements and lower collections from T&D segment. The company is expecting the debt to reduce by year end. The net working capital cycle is currently at 106 days as on June'23. The company targets to reduce the working capital requirements but nature of business under which company is operating will require higher working capital hence will be difficult for the company to reduce its debt levels beyond a point. The increase in the Interest rates also imposes further burden by way of higher finance costs to the company.

Slower Execution to impact Revenue: The KPIL T&D segment posted a muted growth in the revenue and management expects it to grow at a lesser pace of 10% annually. The slow progress in some projects has impacted the execution of some projects for KPIL, the revenues can be adversely impacted in the near term due to slower pace in execution due to approvals and financing of the projects as order-book comprises of many freshly awarded projects. We expect the margins to improve going forward due to softening of commodity prices but revenue growth due to execution risk can be a concern.

Promoter Pledge: The promoters of the company hold 41.07% of the total capital of the company against which they have pledged 44.55% of their holdings which is significant to the proportion of the total capital held by the promoters. Though, the promoters have been constantly focused on reducing the encumbrance on the shares.

VALUATION & RECOMMENDATION

We expect Revenue/EBITDA/PAT to grow at CAGR of 18%/27%/36% over FY23-26E. The stock trades at an attractive valuation of ~9x FY26E EPS, which is at a significant discount to Indian peers. Such a discount could be due to lower contribution from India region. KPIL has reiterated its target of revenue growth by 30% YoY with a scope of improvement in its current margin level in EPC business in range of 8%-8.5% on the back of its prudent bidding discipline. As of June'2023, the order book stood at ₹47,332 Crores indicating a robust visibility of 3.3x of FY23 revenue. The company has healthy bidding pipeline indicates further positive outlook on the business generation. Investors can buy the stock in the ₹580-660 band for a target price of ₹795 (10.5x FY26E EPS) till next Diwali.

FINANCIAL SUMMARY

Particulars (₹ Cr)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	12,407	14,337	18,279	21,107	23,957
EBITDA	853	1161	1,552	1,999	2,383
EBITDA Margin	6.9	8.1	8.5	9.5	10.0
Adj. PAT	302	491	671	979	1246
Adj. EPS	19.0	30.0	41.0	60.0	77.0
P/E (x)	34.2	21.7	15.9	10.8	8.4
EV/EBITDA (x)	14.0	11.0	7.0	5.0	5.0
RoE (%)	12.0	18.0	22.0	28.0	30.0



RELIANCE INDUSTRIES LTD.



ABOUT COMPANY

Reliance is India's largest private-sector enterprise, engaged across the oil and gas exploration, petroleum refining, petrochemicals, retail, telecom and digital services and Green Hydrogen. RIL enjoys the leadership position in the Indian polymer market. Globally, RIL is the third-largest producer of paraxylene and among top 10 producers of polypropylene (PP) and purified terephthalic acid (PTA). Besides, RIL is the world's largest integrated polyester producer and among the top 10 global producers of mono-ethylene glycol (MEG).

Industry	LTP	Buy in band	Target	Time Horizon
Refineries & Marketing	₹2,310.35	₹2,075-2,325	₹2,695	Till Next Diwali

KEY TRIGGERS

Reliance expects nationwide 5G coverage in India by Dec 2023 and launched Jio Bharat to gain market share and capitalize on the 2G market. JioFiber and JioAirFiber will accelerate Home broadband offerings to develop AI models and solutions customized for the Indian market. Reliance Jio added the most number of wireless subscribers over the past and we expect, Average revenue per user (ARPU) could increase to Rs 190-195 per month in FY24E from Rs 180.5 per month in Q1FY24 and ₹178.8 per month in Q4FY23.

Reliance Retail crossed the milestone of 100 crore transactions and received more than 78 crore footfalls in FY23. The registered customers grew to 25 crore and opened 3,300+ new stores last year, taking the total to 18,040, covering 6.56 cr sq.ft. Notably, 2/3rd of these stores were located in T2 and smaller towns in FY23. As per the market cap, Reliance Retail is ranked among top4/top 10 companies in India/ retailers in the world. Reliance will continue to expand in all categories viz., grocery, FMCG, electronics, fashion, etc. through physical as well as digital platforms. It also plans to launch products internationally.

Reliance's MJ field in the KG basin is set to reach ~30 million metric standard cubic metre per day of production for FY24E and it will contribute ~30% of the India's domestic gas production and 15% of the country's total gas demand. The company is working on fast-tracking various projects currently underway at Jamnagar's Dhirubhai Ambani Green Energy Giga complex.

Singapore GRMs have recovered back sharply since July'23, stood at US\$ 9.6/bbl in Q2FY24 which could also help Reliance to report strong GRMs amid rise in benchmark Singapore GRM in the coming quarters. The company is working on converting low-value refinery streams to highly specialised products. The company also intends to transition to renewable and bio-energy in order to reach Net-Zero by 2035, while also improving profitability with lower energy cost.

Reliance's priority is to set up battery Giga factory by 2026. It will manufacture battery chemicals, cells and packs, leading all the way up to energy storage solutions, and will include a battery recycling facility.



RISKS & CONCERNS

- Economic slowdown, volatility in oil and gas prices, currency fluctuations and regulatory changes in Oil and Gas/telecom industry could impact its growth story in the future. The changing macro-economic scenario can have an impact on the growth plan of the company.
- The telecom business is capital-intensive in nature and Reliance group has made large scale of investment in RJIL, to set up the infrastructure and acquire the spectrum. It may face challenges in achieving optimal returns from its investments in the medium term. Changes in technology and the regulatory environment, and intense competition with Bharti Airtel could impact its financials.
- RIL has made significant investments in the E&P business and has witnessed a healthy ramp-up in production of natural gas volumes from the KG basin. However, lower-than-anticipated production and decline in natural gas prices could impact its revenue and profitability.
- Reliance has been investing in building its new energy business, primarily clean energy, green hydrogen etc. There are several competing technologies in the clean energy space and a dominant technology platform is yet to emerge.
- An unexpected debt-funded expansion or acquisition; a significant reduction in cash flow generation on a sustained basis, accompanied by a reduction in cash and marketable securities without a commensurate reduction of the gross debt, resulting in a significant deterioration in RIL's credit metrics.
- Given the volatility in Crude oil and petroleum product prices, inventory gains/losses in each quarter can be large affecting the estimates. Any decrease in the price of the crude oil may hamper the profitability of the company. Prices of crude oil depend on various factors including policies by major producers of crude oil, global as well as regional demand variations, geopolitical situations and market sentiment.
- For the international investments undertaken, profitability is also susceptible to significant geo-political risks, as some of the overseas blocks are in countries that have political instability.

VALUATION & RECOMMENDATION

Reliance's Retail, Telecom, and new energy are poised to become the upcoming growth drivers over the next two-to-three years, given the large technological advancements and ambitious growth targets. The company to report a consolidated revenue/EBITDA/PAT CAGR of 13.5%/12.3%/10% over FY23-25E. Investors can buy in the ₹2,075-2,325 band for a target of ₹2,695 (24.25x FY25E EPS) till next Diwali.

FINANCIAL SUMMARY

Particulars (₹ Cr)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	4,66,900	7,00,000	8,77,800	11,42,700	12,26,900
EBITDA	80,700	1,10,500	1,42,200	1,64,000	1,75,600
APAT	43,700	58,400	66,700	70,400	75,300
Diluted EPS (₹)	67.8	86.4	98.6	104.1	111.3
RoE-%	7.6	7.9	8.3	9.5	9.4
P/E (x)	34.1	26.7	23.4	22.2	20.8
EV/EBITDA (x)	21.9	16.5	12.8	11.2	10.5

UNITED SPIRITS LTD.



ABOUT COMPANY

United Spirits Ltd. is India's biggest alcoholic beverage (alcobev) company. Its operations span from manufacturing Indian Made Foreign Liquor (IMFL) across all price points, from the Popular segment to Prestige and Above (P&A) division. It also imports and distributes Diageo's (parent of USL) brands as Bottled in India (BII) and Bottle in Origin (BIO) categories that form part of the P&A segment. Both BIO and BII, together, have a share of ~20-25% in the Company's business and form part of the P&A category. Owing to the trend of premiumization, the company exited a major chunk of the declining Popular segment market by way of a slump sale and franchise agreement in 2022.

Industry	LTP	Buy in band	Target	Time Horizon
Breweries & Distilleries	₹1,027.8	₹915-1,040	₹1,195	Till Next Diwali

KEY TRIGGERS

In line with its new strategy, UNSP focuses on reshaping the portfolio and improving value chain efficiency. Portfolio activation was fully aligned with the strategy.

Socializing is back with a bang, with more consumers coming to upper segments. UNSP is also seeing a lot of tourist traffic. These factors will drive demand. Mid-prestige/Upper prestige/Luxury premium grew 43%/32%/37% in FY23.

There have been some green shoots in glass prices after a correction in natural gas prices, while ENA prices remain high. Operating deleveraging on account of the sale of popular business will continue until Sep'24. However, operating leverage from the P&A portfolio would reduce the impact. Management targets EBITDA margin of ~15% in FY24 and expects it to gradually increase to 16.5% thereafter.

UK FTA is on the agenda for UK-India talks, but the timing and extent of benefits are not yet clear. If basic customs duty reduces from 150% to 100% or 50%, then there could be 6-7% or 12-13% price reductions respectively, which can boost volumes.

UNSP has wiped out all accumulated losses of the past in Q1FY24 and the company will now look at establishing a dividend payout policy.

Regulatory changes in terms of taxes, distribution, marketing ban, interstate moves etc, rise in raw material and packing costs, slowdown in spend on drinking or downtrading are some keys risks faced by the company.

UNITED SPIRITS LTD.



VALUATION & RECOMMENDATION

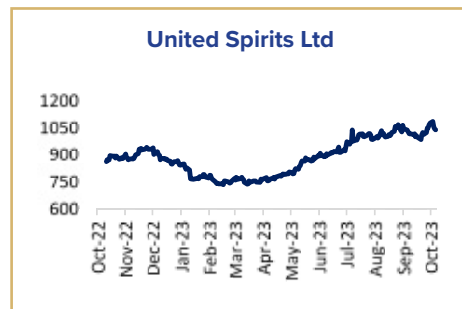
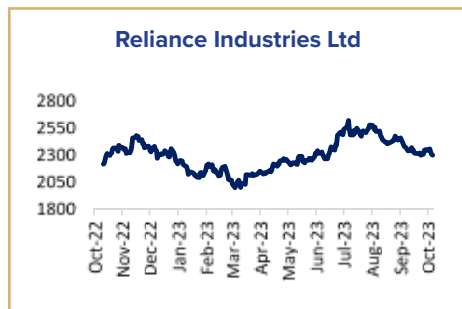
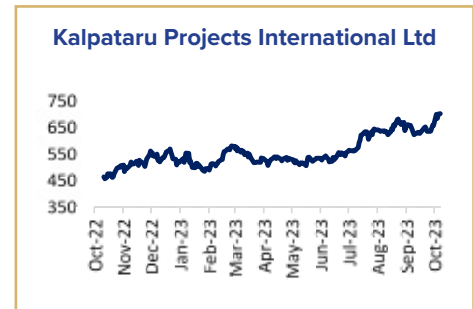
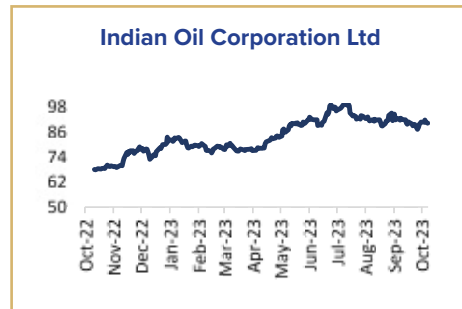
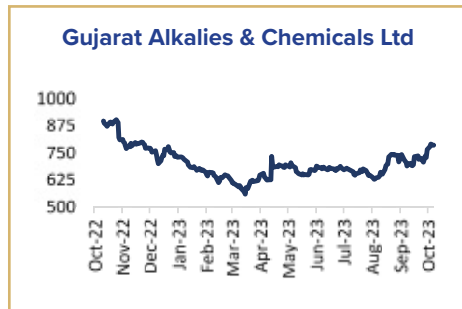
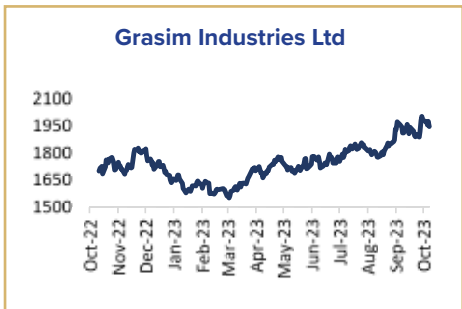
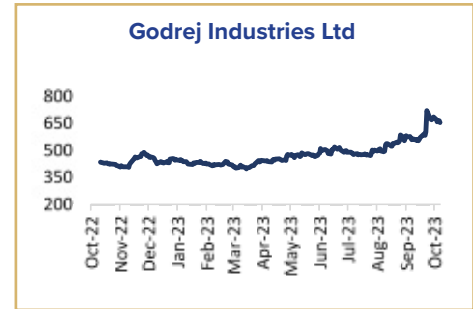
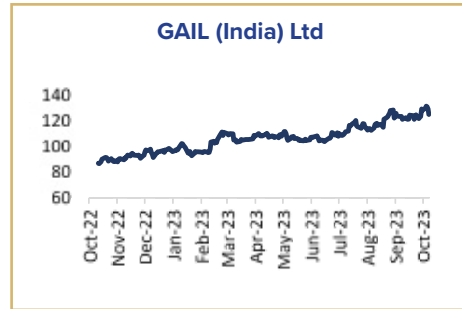
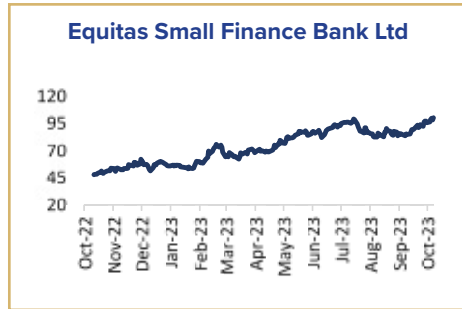
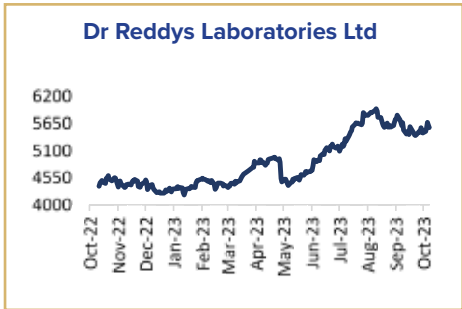
UNSP will continue to focus on driving profitable growth, led by (1) double-digit topline growth; (2) sustained A&P investments; (3) improving pricing and premium mix; and (4) productivity gains. Investors can buy the stock in the ₹915-1,040 band for a target of ₹1,195. We value UNSP at 56.5x P/E on FY25E EPS (standalone) to arrive at a TP of ₹1,195 (including INR 70/share of RCB+ non-core assets).

FINANCIAL SUMMARY

Particulars (₹ Cr)	FY21	FY22	FY23	FY24E	FY25E
Revenue	7,889	9,424	10,374	11,422	12,649
EBITDA	988	1,510	1,419	1,805	2,087
PAT	424	968	924	1,198	1,430
EPS	5.8	13.3	12.7	16.5	19.7
ROIC (%)	11.2	22.6	19.1	23.6	25.6
P/E (x)	177	77	81	62	52
EV/EBITDA (x)	63	50	52.4	40.8	34.8



ONE YEAR PRICE CHART





Company Name	Analyst	Qualification	Holding
Dr Reddys Laboratories Ltd	Kushal Rughani	MBA	No
Equitas Small Finance Bank Ltd	Varun Manek	ACA	No
GAIL (India) Ltd	Abdul Karim	MBA	Yes
Godrej Industries Ltd	Atul Karwa	MMS-Finance	No
Grasim Industries Ltd	Atul Karwa	MMS-Finance	No
Gujarat Alkalies & Chemicals Ltd	Kushal Rughani	MBA	No
Indian Oil Corporation Ltd	Abdul Karim	MBA	No
Kalpataru Projects International Ltd	Jinesh Kothari	ACA	No
Reliance Industries Ltd	Abdul Karim	MBA	No
United Spirits Ltd	Harsh Sheth	MCom	No

Disclosure:

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Any holding in stock – No, Yes for GAIL of Abdul

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