

India Equity Strategy

Quarterly flipbook

India Equity Strategy

Input cost benefits drive earnings growth; revenue contribution muted

Q3FY24 earnings season saw an overall in-line performance, with wide divergences across sectors and companies. Aggregate revenue/PAT grew by 5%/20% YoY and 4%/-4% QoQ across the HSIE coverage (~224 stocks), with their four-year CAGRs at 13%/18%. There was similar participation by large and midcap categories towards incremental earnings growth as large-cap grew by 20% YoY and midcap grew by 21% YoY. This is in contrast to Q2FY24 when large-cap had dominated earnings. Further, 77% of incremental YoY earnings growth came from only three sectors—energy (33%), auto (24%) and metals (20%)—reflecting heavy lifting by these sectors. Our coverage universe saw strong YoY earnings growth in auto, lending financials (ex-SBI), industrials, energy, cement, pharma, capital markets, and metal sectors. On the other hand, staples, discretionary, IT, and power sectors disappointed. Key stocks contributing to the YoY earnings growth (61% of the total) are Tata Motors, ICICI Bank, IOCL, GAIL, Tata Steel, and JSW Steel. The benefits of softer input costs continued in this quarter as well. We believe support of favourable commodity costs is largely over and FY25 earning growth must be volume-led.

Overall, the auto and energy sectors led the coverage universe's Q3FY24 PAT beat of 4.8%. Further, there was a decrease in the percentage of companies beating estimates this quarter as names from lending financials, home improvement, chemicals, infrastructure and consumer discretionary missed the estimates. The historical trend of the percentage of under-coverage companies beating estimates is as follows:

Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
48%	54%	51%	55%	40%	61%	51%	44%	38%

The changes in earnings estimates were deeply concentrated. 50% and 37% of the earning upgrades were led by the energy and auto sectors respectively while lenders, staples and discretionary were responsible for 14%, 8% and 9% of cuts respectively for FY24. Similarly, auto and energy accounted for 47% and 34% of FY25 upgrades while lenders, IT and staples led 29%, 19% and 14% of cuts for the same year respectively. Consequently, the aggregate earnings estimates saw **upgrades of 0.9% and 1.4% in FY24 and FY25** respectively.

For the HSIE coverage universe, projected **earnings growth for FY24 and FY25 stands at 30.5% and 8.2%** respectively. FY23 was an exceptionally subdued earnings year for the energy sector due to the freeze on petrol and diesel retail prices impacting OMCs and windfall tax hurting upstream. So, excluding the energy sector, earnings growths for the coverage universe for FY24 and FY25 stood at 18.9% and 16.6% respectively.

The Nifty 50 index is now trading at ~20.5x FY25 and ~18.1x FY26 consensus EPS, indicating limited upside potential in the next 12 months.

Our preferred sectors are industrial and real estate, metal, power, insurance, cement & building materials, market infrastructure, pharma and gas. We remain underweight on consumer staples, NBFC, chemicals and small banks. We have added weights in steel, media, staffing and cash/InvIT while weights have been reduced in BFSI, industrial/real estate and energy.

Model portfolio: We maintain a bias toward the economy-facing and value sectors. Key changes in the model portfolio are as follows:

Key coverage inclusions	Key coverage exclusions
Torrent Pharma, BSE, Teamlease, Mphasis, Tech Mahindra, Stylam, Sail, Motherson Sumi Wiring	Bandhan Bank, Star Health, NCC, Alkem, Coal India, IOCL, Somany

Q3FY24 deviation in estimates in comparison to previews.

Sector	Revenue	PAT
Autos	1.8%	30.0%
Banks and NBFCs	1.7%	-6.3%
Insurance	-1.4%	-8.7%
Capital Markets	3.0%	4.2%
Consumer- Staples	-0.9%	1.0%
Consumer Discretionary (ex-Autos)	-1.4%	-7.9%
Industrials (Cap Goods+ Infrastructure)	0.2%	-10.3%
Real Estate	-4.7%	-0.6%
IT and Exchanges	0.3%	2.4%
Energy (Oil & Gas)	2.4%	8.9%
Cement	0.3%	13.8%
Home improvement	-1.2%	-8.0%
Chemicals	-2.9%	-10.6%
Power/Utilities	-4.8%	12.2%
Pharma	0.5%	6.7%
Metal	-0.8%	4.3%
Total	1.8%	4.8%

Source: Bloomberg & HSIE Research

Sectoral Change in PAT Estimates in comparison to Q2FY24

Sector	FY24E	FY25E
Autos	11.5%	16.6%
Banks and NBFCs	-0.7%	-1.1%
Insurance	-4.8%	-6.3%
Capital Markets	2.6%	6.7%
Consumer- Staples	-1.7%	-2.4%
Consumer Discretionary (ex-Autos)	-8.3%	-7.6%
Industrials ((Cap	-1.9%	1.6%
Real Estate	-1.2%	-2.9%
IT and Exchanges	-0.3%	-1.3%
Energy (Oil & Gas)	3.9%	3.8%
Cement	2.7%	2.9%
Home improvement	-1.9%	-1.3%
Chemicals	-6.7%	-4.9%
Power/Utilities	-0.8%	0.7%
Pharma	5.4%	2.2%
Metal	-7.7%	1.9%
Total	0.9%	1.4%

Source: Bloomberg & HSIE Research

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Result Scorecard- Quarterly Snapshot

HSIE Coverage (INR Bn)	Q3 FY24 Preview Estimates			Q3 FY24 Actuals			Q3 FY23 Actuals			Deviation		
	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT
	Q3 FY24 E	Q3 FY24 E	Q3 FY24 E	Q3 FY24	Q3 FY24	Q3 FY24	Q3 FY23	Q3 FY23	Q3 FY23	Q3 FY24	Q3 FY24	Q3 FY24
Autos	2,503	342	153	2,547	378	199	2,109	269	113	1.8%	10.4%	30.0%
Maruti Suzuki India	331	36	28	319	39	31	278	28	24	-3.6%	7.6%	11.1%
Mahindra & Mahindra	250	33	22	253	32	25	217	28	20	1.2%	-2.0%	14.1%
Tata Motors	1,060	156	35	1,098	181	70	878	123	21	3.6%	15.7%	102.8%
Bajaj Auto	121	24	20	118	24	20	90	18	15	-2.5%	2.5%	3.9%
Eicher Motors	40	10	9	41	11	10	37	9	7	1.7%	5.9%	12.0%
Hero MotoCorp	96	13	10	97	14	11	80	9	7	0.9%	3.9%	6.2%
TVS	84	9	6	82	9	6	65	7	4	-1.7%	0.1%	7.8%
Ashok Leyland	90	10	5	93	11	6	90	8	4	2.5%	14.4%	19.6%
Balkrishna Industries	24	6	3	23	6	3	22	4	1	-1.7%	-0.2%	-9.2%
Bharat Forge	39	6	3	39	7	3	34	5	1	-1.1%	8.0%	-4.0%
Endurance	27	3	2	26	3	2	21	2	1	-3.6%	-10.2%	-7.4%
Apollo Tyres	45	8	3	66	12	5	64	9	3	46.5%	52.7%	55.3%
Motherson Sumi Wiring India	20	2	1	21	3	2	17	2	1	7.3%	14.4%	18.1%
Samvardhana Motherson International	261	23	6	257	24	5	202	16	5	-1.4%	4.5%	-16.2%
Sansera Engineering	7	1	1	7	1	0	6	1	0	0.6%	-1.7%	-4.2%
Suprajit Engineering	8	1	0	7	1	0	7	1	0	-5.9%	4.8%	-9.1%
Banks and NBFCs	1,142	743	475	1,162	774	445	1,037	763	440	1.7%	4.1%	-6.3%
ICICI Bank	183	143	100	187	147	103	165	133	83	2.0%	2.9%	2.9%
State Bank of India	396	194	127	398	203	92	381	252	142	0.5%	4.9%	-27.6%
Bajaj Finance	74	58	36	77	61	36	59	49	30	3.9%	5.8%	0.7%
Kotak Mahindra Bank	64	46	32	66	46	30	57	38	28	2.5%	-0.5%	-5.9%
Axis Bank	126	88	60	125	91	61	115	93	59	-0.2%	3.4%	1.6%
IndusInd Bank	52	39	21	53	40	23	45	37	20	1.9%	4.0%	8.2%
SBI Cards	14	16	7	14	16	5	11	12	5	-1.0%	1.7%	-19.2%
Cholamandalam Investment & Finance Company	21	15	9	22	15	9	16	11	7	2.6%	1.2%	2.3%
Bandhan Bank	25	15	6	25	17	7	21	19	3	0.3%	8.2%	15.0%
Federal Bank	21	13	9	21	14	10	20	13	8	1.3%	7.4%	11.1%
AU Small Finance Bank	12	6	4	13	7	4	12	6	4	6.3%	4.5%	-13.6%
Shriram Trans Finance	45	35	19	49	37	18	42	33	18	8.2%	6.5%	-3.1%
Mahindra & Mahindra Financial	18	12	7	17	11	6	16	10	6	-5.0%	-7.9%	-19.4%
LIC Housing	20	17	11	21	19	12	16	14	5	6.2%	9.0%	7.1%
CREDAI	7	5	3	8	6	4	5	4	2	9.2%	11.8%	6.1%
City Union Bank	5	4	2	5	4	3	6	5	2	-2.4%	2.5%	29.3%
RBL Bank	13	5	2	15	8	2	11	6	2	19.0%	49.2%	30.7%
Karur Vysya Bank	9	6	4	10	7	4	9	7	3	5.9%	10.0%	11.0%
UJJIVAN SFB	9	5	3	9	5	3	7	4	3	-0.2%	0.2%	-8.3%
DCB Bank	5	2	1	5	2	1	4	2	1	1.5%	15.1%	26.2%
Sundaram Finance	5	5	3	5	4	3	4	4	2	-3.0%	-9.2%	-0.1%
REPCO Home Finance	2	1	1	2	1	1	1	1	1	0.5%	4.1%	9.2%
Aptus	2	2	2	2	2	2	2	2	1	-2.6%	0.5%	4.7%
Aavas Financial	2	2	1	2	2	1	2	1	1	-5.9%	-7.0%	-2.0%
Homefirst	1	1	1	1	1	1	1	1	1	1.0%	5.3%	9.8%
Can Fin Homes	3	3	2	3	3	2	3	2	2	6.2%	12.2%	11.3%
PNB Housing Finance	6	6	3	6	5	3	7	7	3	-8.2%	-12.1%	-1.0%
Aditya Birla Capital	NA	NA	NA	NA	NA	NA	NA	NA	NA			

HSIE Coverage (INR Bn)	Q3 FY24 Preview Estimates			Q3 FY24 Actuals			Q3 FY23 Actuals			Deviation		
	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT
	Q3 FY24 E	Q3 FY24 E	Q3 FY24 E	Q3 FY24	Q3 FY24	Q3 FY24	Q3 FY23	Q3 FY23	Q3 FY23	Q3 FY24	Q3 FY24	Q3 FY24
Insurance	177	(2)	35	354	(2)	53	320	(4)	53	100.5%	-9.9%	53.7%
SBI Life	60	NA	17	61	NA	17	54	3	14	1.8%	NA	-1.5%
ICICI Prudential	19	NA	6	19	NA	4	18	(1)	6	-0.9%	NA	-28.5%
ICICI Lombard	44	(3)	4	43	(3)	4	38	(3)	4	-2.7%	-9.2%	7.5%
Star Health	35	1	1	33	1	1	29	1	2	-5.0%	-8.0%	-77.0%
Max Financial	18	NA	6	18	NA	5	15	3	6	-2.1%	NA	-19.9%
GIC Reinsurance	NA	NA	NA	90	NA	14	87	9	12	NA	NA	NA
New India Assurance	NA	NA	NA	90	NA	7	79	(16)	8	NA	NA	NA
Capital Markets	55	29	23	56	30	24	39	18	14	3.0%	3.7%	4.2%
Nippon Life India	4	3	3	4	3	3	4	2	2	2.0%	3.0%	3.5%
ICICI Securities	13	9	5	13	9	5	7	4	3	1.0%	2.0%	2.0%
Angel One	8	4	3	8	4	3	6	3	2	4.0%	2.0%	2.0%
Aditya Birla Sun Life AMC	3	2	2	3	2	2	3	2	2	-2.0%	-2.2%	-4.0%
CAMS	3	1	1	3	1	1	2	1	1	2.5%	1.7%	2.4%
CDSL	2	1	1	2	1	1	1	1	1	3.5%	1.6%	-1.3%
BSE	3	1	1	4	2	2	2	1	1	18.1%	29.5%	46.3%
MCX	2	0	0	2	0	(0)	1	0	0	1.2%	97.4%	-137.2%
Motilal Oswal Financial Services	13	7	6	14	7	7	9	3	2	3.0%	4.0%	7.0%
UTI AMC	3	1	2	3	1	2	3	1	1	1.5%	1.0%	1.8%
Consumer- Staples	581	154	115	576	150	116	559	145	113	-0.9%	-2.8%	1.0%
Hindustan Unilever	153	37	27	152	35	25	152	35	26	-1.0%	-3.9%	-4.7%
ITC	180	66	51	177	60	52	173	62	50	-1.7%	-8.1%	1.4%
Nestle	48	11	7	46	11	8	43	10	6	-3.5%	3.5%	1.8%
Dabur India	33	7	5	33	7	5	30	6	5	-1.6%	-0.3%	3.9%
Britannia Industries	43	8	6	43	8	6	42	8	9	-0.7%	-1.9%	-4.0%
GCPL	36	8	6	37	9	6	36	8	6	1.4%	16.3%	3.5%
Marico	24	5	4	24	5	4	25	5	3	0.1%	0.5%	3.9%
United Spirits	30	4	3	30	5	3	28	4	2	-0.6%	15.0%	24.9%
Colgate Palmolive	14	4	3	14	5	3	13	4	2	1.8%	8.7%	10.6%
Emami	10	3	3	10	3	3	10	3	3	-2.7%	-2.4%	8.5%
Radico Khaitan	10	1	1	12	1	1	8	1	1	11.1%	2.1%	7.3%
Consumer Discretionary (ex-Autos)	478	64	32	471	63	29	398	52	27	-1.4%	-0.3%	-7.9%
Avenue Supermart	132	11	8	132	11	7	113	10	6	0.0%	-1.6%	-3.3%
Titan Co	148	16	11	142	16	11	116	13	9	-4.4%	-3.9%	-2.2%
Trent	31	5	3	33	6	3	22	3	2	8.6%	31.8%	20.0%
Jubilant Foodworks	14	3	1	14	3	1	13	3	1	-3.6%	-1.9%	-15.1%
Aditya Birla Fashion	41	5	(0)	42	6	(1)	36	4	0	1.0%	7.0%	1183.3%
Metro Brands	7	2	1	6	2	1	6	2	1	-6.6%	-9.6%	-16.0%
Relaxo Footwears	8	1	0	7	1	0	7	1	0	-6.0%	-8.6%	-15.9%
Bata India	10	3	1	9	2	1	9	2	1	-10.4%	-29.9%	-51.3%
Shoppers Stop	12	2	1	12	2	0	11	2	1	0.1%	-2.5%	-31.8%
V-Mart	9	1	0	9	1	0	8	1	0	0.0%	4.8%	42.1%
FSN E-Commerce Ventures (Nykaa)	18	1	0	18	1	0	15	1	0	-0.5%	-4.6%	-18.9%
Indian Hotels Company Limited	19	7	4	20	7	5	17	5	4	2.6%	6.1%	3.4%
Lemon Tree Hotels	3	1	0	3	1	0	2	1	0	2.3%	2.2%	-2.9%
Devyani International	9	2	0	8	1	0	8	2	1	-4.6%	-15.2%	-87.4%
Westlife Foodworld	7	1	0	6	1	0	6	0	0	-8.9%	-12.3%	-42.4%
Sapphire Foods	7	1	0	7	1	0	6	1	0	-3.6%	-2.9%	-55.4%
Sai Silk (Kalamandir)	4	1	0	4	1	0	4	1	0	0.1%	-9.9%	-9.4%

HSIE Coverage (INR Bn)	Q3 FY24 Preview Estimates			Q3 FY24 Actuals			Q3 FY23 Actuals			Deviation		
	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT
	Q3 FY24 E	Q3 FY24 E	Q3 FY24 E	Q3 FY24	Q3 FY24	Q3 FY24	Q3 FY23	Q3 FY23	Q3 FY23	Q3 FY24	Q3 FY24	Q3 FY24
Industrials (Infrastructure+ Cap Goods+ Logistics)	944	112	61	946	107	55	817	95	47	0.2%	-4.4%	-10.3%
Larsen & Toubro	523	60	33	551	58	29	464	51	24	5.4%	-3.8%	-11.8%
Siemens	47	6	5	44	5	5	36	5	4	-5.9%	-5.5%	-1.8%
ABB India	31	5	4	NA	NA	NA	24	4	3	NA	NA	NA
Thermax	23	2	2	23	2	1	20	2	1	1.0%	-8.4%	-12.4%
Hitachi Energy	13	1	1	12	1	0	10	0	0	-3.5%	-40.8%	-65.5%
Cummins India	20	3	3	25	5	5	22	4	4	27.3%	71.1%	57.0%
IRB Infrastructure	18	8	1	20	9	1	15	7	1	9.4%	8.4%	-34.9%
KEC International	50	3	1	50	3	1	44	2	0	-0.1%	-6.7%	-44.2%
PNC Infratech	18	2	2	18	2	2	16	2	1	-1.9%	-2.7%	-1.6%
KNR Constructions	9	2	1	9	1	1	8	2	1	-0.5%	-9.0%	-11.8%
Kalpataru Power Transmission	42	3	1	35	3	1	35	3	1	-16.3%	1.3%	10.8%
NCC	48	5	2	47	5	2	34	3	1	-0.1%	-2.3%	-4.8%
HG Infra	13	2	1	13	2	2	11	2	1	3.1%	3.7%	85.0%
Dilip Buildcon	26	3	1	26	3	1	24	2	0	-1.3%	0.2%	56.5%
Ahluwalia Contracts	9	1	1	10	1	1	7	1	0	15.1%	19.1%	22.5%
PSP Projects	7	1	0	7	1	0	5	1	0	3.7%	-14.3%	-27.6%
Ashoka Buildcon	18	2	1	21	2	1	16	1	1	20.0%	6.1%	3.1%
J Kumar Infraprojects	12	2	1	12	2	1	11	2	1	5.2%	8.8%	10.2%
ITD Cementation	19	2	1	20	2	1	13	1	0	7.9%	11.2%	21.5%
Real Estate	112	33	21	106	32	21	103	30	20	-4.7%	-3.3%	-0.6%
DLF	14	5	6	15	5	7	15	5	5	10.7%	8.8%	4.3%
Oberoi Realty	14	8	6	11	5	4	16	9	7	-24.9%	-36.6%	-36.9%
Godrej Properties	7	0	1	3	(0)	1	2	(0)	1	-49.3%	29.2%	-52.2%
Phoenix Mills	10	6	3	10	6	3	7	4	2	2.4%	-3.3%	-3.4%
Prestige Estates	25	7	1	18	6	1	23	6	1	-27.9%	-17.4%	3.6%
Brigade Enterprises	11	3	1	12	3	1	8	2	0	11.3%	-2.8%	-28.2%
Mahindra Lifespaces	1	0	0	1	(0)	1	2	(0)	(0)	-12.3%	55.3%	-681.6%
Sobha Developers	9	1	1	7	1	0	9	1	0	-25.6%	-37.3%	-76.3%
Kolte Patil	4	1	0	1	(0)	(1)	4	(0)	(0)	-80.1%	-165.9%	-268.1%
Macrotech Developers	18	4	2	29	9	6	18	4	4	60.0%	101.9%	165.0%
IT and Exchanges	1,942	416	285	1,948	429	292	1,905	423	290	0.3%	3.1%	2.4%
Tata Consultancy Services	603	159	113	606	164	118	582	156	108	0.5%	3.3%	4.1%
Infosys Ltd	387	91	61	388	91	61	383	94	66	0.2%	0.2%	-0.5%
HCL Technologies	276	58	39	284	68	44	267	64	41	3.0%	16.1%	11.2%
Wipro	229	43	28	222	42	27	232	45	31	-3.1%	-1.4%	-2.6%
Tech Mahindra	128	12	6	131	11	5	137	21	13	2.6%	-2.5%	-17.6%
LTIMindtree	91	17	12	90	16	12	86	14	10	-1.0%	-7.2%	-5.0%
Tata Elxsi	9	3	2	9	3	2	8	2	2	0.5%	-0.3%	4.3%
Info Edge	6	2	2	6	2	2	6	2	2	0.4%	-0.2%	-0.1%
Mphasis	34	6	4	33	6	4	35	6	4	-1.5%	-0.2%	-2.7%
L&T Technologies	25	5	3	24	5	3	20	4	3	-2.5%	-1.6%	1.2%
Persistent	25	4	3	25	4	3	22	4	3	0.4%	1.9%	0.7%
IndiaMart	3	1	1	3	1	1	3	1	1	3.5%	7.2%	17.9%
Tanla Platforms	10	2	1	10	2	1	20	0	0	-0.6%	-2.0%	-1.7%
Cyient	18	3	2	18	3	2	16	3	2	0.1%	-0.4%	-1.1%
Sonata	27	2	1	25	2	1	23	1	1	-8.9%	2.7%	0.9%
TeamLease	23	0	0	24	0	0	20	0	0	7.6%	13.6%	-0.6%
Mastek	8	1	1	8	1	1	7	1	1	0.3%	0.5%	-2.4%

HSIE Coverage (INR Bn)	Q3 FY24 Preview Estimates			Q3 FY24 Actuals			Q3 FY23 Actuals			Deviation		
	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT
	Q3 FY24 E	Q3 FY24 E	Q3 FY24 E	Q3 FY24	Q3 FY24	Q3 FY24	Q3 FY23	Q3 FY23	Q3 FY23	Q3 FY24	Q3 FY24	Q3 FY24
Zensar Technologies	12	2	2	12	2	2	12	1	1	-2.7%	-0.5%	4.5%
Route Mobile	10	1	1	10	1	1	10	1	1	1.0%	-2.3%	2.1%
Birlasoft	13	2	1	13	2	2	12	0	1	1.1%	6.5%	16.9%
Happiest Minds Technologies- IT	4	1	1	4	1	1	4	1	1	-0.5%	-3.6%	-1.4%
Energy (Oil & Gas)	7,322	859	419	7,500	912	456	7,552	713	336	2.4%	6.2%	8.9%
Reliance Industries	2,344	401	171	2,251	407	173	2,167	350	158	-4.0%	1.3%	0.7%
Oil & Natural Gas Corp	350	175	97	348	172	95	386	204	110	-0.7%	-2.0%	-1.5%
Indian Oil Corp	1,890	87	37	1,991	155	81	2,047	36	4	5.4%	77.2%	119.0%
Bharat Petroleum Corp	1,084	63	33	1,155	62	34	1,192	42	20	6.5%	-0.6%	1.6%
GAIL India	337	28	20	342	38	28	354	3	2	1.6%	36.7%	41.8%
Gujarat Gas	42	5	3	39	4	2	37	6	4	-6.2%	-21.6%	-29.3%
HPCL	1,012	42	20	1,108	22	5	1,092	17	2	9.6%	-49.1%	-73.9%
Petronet LNG	149	14	10	147	17	12	158	17	12	-1.1%	19.0%	21.6%
Indraprastha Gas	35	6	4	36	6	4	37	4	3	0.6%	-9.3%	-8.5%
OIL India	57	28	17	58	21	16	59	29	17	2.2%	-23.7%	-6.6%
Gujarat State Petronet	5	4	3	6	4	3	4	3	2	7.6%	-6.2%	-4.9%
Mahanagar Gas	14	4	3	16	4	3	17	3	2	14.0%	10.4%	10.8%
IRM Energy	2	0	0	2	0	0	3	0	0	5.4%	-1.4%	-18.8%
Cement	488	92	41	490	96	46	449	61	23	0.3%	4.6%	13.8%
UltraTech Cement	168	32	17	167	33	18	155	23	11	-0.4%	0.7%	2.0%
Ambuja Cements	44	9	6	44	9	5	41	6	4	2.0%	-9.6%	-18.5%
Shree Cement	46	10	3	49	12	7	41	7	3	5.4%	21.1%	140.6%
ACC	48	7	4	49	9	5	45	4	2	1.8%	20.8%	23.5%
Dalmia Bharat	36	8	2	36	8	3	34	6	2	0.5%	3.0%	24.1%
JK Cement	29	5	2	29	6	3	24	2	0	1.2%	14.5%	34.7%
Ramco Cements	22	4	1	21	4	1	20	3	1	-4.3%	-10.0%	-25.2%
Nuvoco Vistas	25	4	0	24	4	0	26	3	(1)	-2.8%	8.8%	1207.2%
Birla Corp	23	3	1	23	4	1	20	1	(0)	-0.9%	12.1%	13.9%
JK Lakshmi Cement	17	3	1	17	3	1	16	2	1	-1.4%	7.7%	2.2%
Heidelberg Cem	6	1	0	6	1	0	5	0	0	1.1%	-26.5%	-35.6%
Star Cement	7	1	1	7	1	1	6	1	1	0.1%	9.8%	16.2%
Orient Cement	8	1	1	8	1	0	7	1	0	-3.6%	-7.5%	-13.0%
Sagar Cements	7	1	0	7	1	(0)	6	0	(0)	-5.5%	-13.4%	-245.5%
Deccan Cements	2	0	0	2	0	0	2	0	0	10.3%	2.8%	23.3%
Home Improvement	346	52	35	342	49	32	322	42	26	-1.2%	-5.5%	-8.0%
Asian Paints	92	20	14	91	21	15	86	16	11	-1.0%	4.8%	5.1%
Havells India	45	5	3	44	4	3	41	4	3	-2.6%	-7.7%	-9.6%
Berger Paints	28	5	3	29	5	3	27	3	2	1.3%	-3.8%	-3.0%
Astral Limited	14	3	2	14	2	1	13	2	1	-0.5%	-23.3%	-30.6%
Voltas	25	1	1	26	0	(0)	20	1	0	5.1%	-71.6%	-142.0%
Kansai Nerolac	19	3	2	19	2	2	18	2	1	-0.4%	-9.1%	-11.1%
Supreme Industries	25	4	3	24	4	3	23	3	2	-2.8%	-7.2%	-9.4%
Crompton Consumer	17	2	1	17	1	1	15	2	1	-2.7%	-14.0%	-13.1%
Kajaria Ceramics	12	2	1	12	2	1	11	1	1	-1.0%	-4.8%	-13.1%
TTK Prestige	7	1	1	7	1	1	7	1	1	-6.4%	-10.6%	-9.4%
Prince Pipe	7	1	1	6	1	0	7	1	0	-9.4%	-19.5%	-31.3%
V-Guard	12	1	1	12	1	1	10	1	0	1.3%	7.6%	8.7%
Symphony	2	1	1	2	0	0	2	1	1	-18.5%	-26.0%	-15.0%
Orient Electric	7	0	0	8	0	0	7	1	0	4.3%	4.1%	2.2%
Somany Ceramics	7	1	0	6	1	0	6	0	0	-8.4%	-10.8%	-25.9%

HSIE Coverage (INR Bn)	Q3 FY24 Preview Estimates			Q3 FY24 Actuals			Q3 FY23 Actuals			Deviation		
	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT
	Q3 FY24 E	Q3 FY24 E	Q3 FY24 E	Q3 FY24	Q3 FY24	Q3 FY24	Q3 FY23	Q3 FY23	Q3 FY23	Q3 FY24	Q3 FY24	Q3 FY24
Greenpanel Industries	4	1	0	4	1	0	4	1	0	-3.6%	-11.3%	-3.7%
Greenlam Industries	6	1	0	6	1	0	5	1	0	-11.0%	-14.0%	-37.0%
Century Plyboards India	10	2	1	9	1	1	9	1	1	-5.1%	-31.7%	-35.6%
Stylam Industries	2	0	0	2	0	0	2	0	0	-5.4%	7.2%	6.1%
Kaynes Technology	4	1	0	5	1	0	7	1	0	13.4%	3.7%	-2.2%
Chemicals	114	21	12	111	19	11	120	24	15	-2.9%	-10.8%	-10.6%
SRF	34	7	4	31	6	3	35	8	5	-10.0%	-12.0%	-17.6%
Deepak Nitrite	19	3	2	20	3	2	20	3	2	5.3%	-7.0%	-6.2%
Aarti Industries	15	2	1	17	3	1	17	3	1	14.0%	5.7%	32.9%
Navin Fluorine	6	1	1	5	1	1	6	2	1	-16.1%	-48.3%	-10.7%
Vinati Organics	5	1	1	4	1	1	5	2	1	-5.1%	-5.9%	-16.6%
Fine Organic	5	1	1	5	1	1	8	2	1	-3.8%	-6.6%	-4.9%
Alkyl Amines	4	1	0	3	1	0	4	1	0	-14.2%	-17.5%	-25.7%
Galaxy Surfactants	10	1	1	9	1	1	11	2	1	-1.1%	-10.5%	-8.2%
NOCIL	4	1	0	3	0	0	3	0	0	-9.1%	-9.4%	-10.7%
Neogen Chemicals	2	0	0	2	0	0	2	0	0	-10.0%	-33.7%	-93.5%
Sudarshan Chemical	6	1	0	6	1	0	5	0	0	-5.5%	-21.2%	-55.6%
Clean Science and Technology	2	1	1	2	1	1	2	1	1	-5.8%	4.5%	5.1%
Ami Organics	2	0	0	2	0	0	2	0	0	-10.1%	-20.3%	-19.0%
Aether Industries	1	0	0	2	0	0	2	0	0	10.0%	23.7%	-11.3%
Power/Utilities	874	302	103	832	279	115	828	229	112	-4.8%	-7.5%	12.2%
NTPC	452	129	40	428	114	52	446	108	48	-5.2%	-11.6%	31.2%
PGCIL	112	98	37	115	102	40	113	65	36	2.8%	3.4%	7.9%
TATA Power	156	27	7	147	26	10	141	15	9	-5.8%	-5.0%	28.1%
JSW Energy	30	14	4	25	11	2	22	3	2	-14.9%	-21.2%	-37.7%
NHPC	22	13	7	21	7	5	26	17	7	-6.0%	-43.3%	-25.8%
Torrent Power	70	12	5	64	10	4	49	13	7	-8.5%	-14.4%	-32.0%
CESC	33	8	3	32	9	3	31	8	3	-2.9%	8.1%	-2.3%
Pharma	575	134	86	578	140	92	514	95	69	0.5%	4.4%	6.7%
Sun Pharmaceutical Industries	123	33	24	124	34	25	111	23	22	0.3%	0.2%	4.0%
Cipla Ltd/India	65	16	11	66	17	11	57	11	8	1.0%	8.0%	1.6%
Dr Reddy's Laboratories	70	20	13	72	20	14	68	17	13	3.8%	3.1%	6.0%
Apollo Hospitals	49	6	3	49	6	2	43	5	1	-0.4%	-1.2%	-6.7%
Torrent Pharma	28	9	4	27	9	4	25	5	3	-1.2%	-0.1%	3.5%
Zydus Lifesciences	45	10	7	45	11	8	42	8	6	0.1%	3.6%	10.9%
Max Healthcare	17	5	3	13	4	3	11	3	2	-21.6%	-17.7%	-13.5%
Alkem Labs	33	6	4	33	7	6	30	6	5	1.2%	27.4%	37.3%
Lupin	49	9	4	52	10	6	42	3	2	6.9%	17.2%	36.5%
Aurobindo Pharma	74	15	9	74	16	9	64	10	5	-0.4%	6.5%	3.2%
Ajanta Pharma	10	3	2	11	3	2	10	1	1	5.3%	12.7%	6.0%
Narayana Health	13	3	2	12	3	2	11	2	2	-4.8%	3.5%	-3.6%
Metals	1,877	283	140	1,862	307	146	1,810	153	73	-0.8%	8.4%	4.3%
JSW Steel	423	68	22	419	72	24	387	27	5	-0.9%	5.9%	10.9%
Coal India	354	99	74	362	114	91	324	91	78	2.1%	15.0%	22.7%
Tata Steel	596	58	19	553	63	7	568	17	(23)	-7.2%	8.1%	-61.0%
Hindalco Industries	504	58	25	528	59	23	532	18	14	4.8%	0.5%	-5.7%
Total	19,530	3,634	2,035	19,882	3,763	2,133	18,882	3,110	1,773	1.8%	3.6%	4.8%

Source: Bloomberg & HSIE Research

HSIE Coverage – Earnings Estimate

HSIE Coverage	CMP	MCAP (INR Bn)	Rating	TP	Revenue Growth		PAT Growth		Change in PAT estimates	
					FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Autos					20.0%	11.3%	82.8%	10.2%	11.5%	16.6%
Maruti Suzuki India	11658	3665	BUY	12887	17.2%	15.4%	56.4%	14.1%	1.6%	0.9%
Mahindra & Mahindra	1910	2376	BUY	1862	15.3%	12.3%	24.6%	3.3%	2.0%	0.0%
Tata Motors	932	3411	SELL	596	25.6%	8.8%	2261.5%	0.0%	58.6%	123.0%
Bajaj Auto	8498	2407	SELL	5606	22.0%	14.9%	30.9%	12.7%	4.8%	8.6%
Eicher Motors	3951	1082	REDUCE	3597	9.7%	10.7%	15.3%	3.3%	0.0%	0.0%
Hero MotoCorp	4495	899	REDUCE	3535	10.0%	9.2%	28.1%	2.4%	-2.9%	0.0%
TVS	2129	1011	BUY	2211	20.4%	21.5%	50.0%	36.0%	1.8%	9.3%
Ashok Leyland	173	508	SELL	151	6.6%	5.2%	65.3%	-3.8%	2.7%	-0.6%
Balkrishna Industries	2280	441	REDUCE	2228	-9.7%	16.9%	19.1%	33.7%	-6.0%	-5.1%
Bharat Forge	1133	528	BUY	1286	20.8%	13.0%	86.9%	71.5%	-8.0%	-2.1%
Endurance	1829	257	SELL	1599	14.9%	11.5%	35.4%	21.7%	0.6%	0.6%
Apollo Tyres	523	332	REDUCE	520	3.6%	13.1%	71.7%	17.2%	-1.1%	0.0%
Motherson Sumi Wiring India	71	315	ADD	67	16.6%	12.0%	24.9%	20.5%	4.0%	4.9%
Samvardhana Motherson International	114	773	BUY	129	25.4%	12.2%	49.3%	36.6%	0.0%	0.0%
Sansera Engineering	1022	55	BUY	1190	18.6%	19.1%	30.3%	42.3%	0.0%	0.0%
Suprajit Engineering	398	55	BUY	463	4.8%	14.3%	-6.4%	59.2%	-9.2%	-1.4%
Banks and NBFCs					14.2%	13.0%	26.7%	14.1%	-0.7%	-1.1%
ICICI Bank	1063	7459	BUY	1,220	16.9%	10.8%	24.8%	14.0%	5.2%	5.2%
State Bank of India	766	6835	BUY	790	10.0%	10.2%	12.2%	8.3%	-3.8%	-3.8%
Bajaj Finance	6675	4125	ADD	8,690	28.5%	25.4%	26.4%	27.2%	0.6%	3.5%
Kotak Mahindra Bank	1725	3429	ADD	2,100	19.5%	12.7%	13.7%	17.4%	-0.6%	3.6%
Axis Bank	1101	3397	ADD	1,170	11.5%	11.9%	142.4%	10.5%	-3.4%	-11.0%
IndusInd Bank	1489	1159	REDUCE	1,380	16.5%	11.4%	18.9%	15.4%	-4.0%	-1.5%
SBI Cards	741	704	ADD	775	18.0%	27.8%	0.6%	31.6%	-13.6%	-10.4%
Cholamandalam Investment & Finance Company	1082	909	ADD	1,285	31.0%	27.8%	23.4%	32.9%	-1.2%	-1.1%
Bandhan Bank	204	328	ADD	235	6.8%	13.2%	31.6%	14.6%	-2.4%	-12.2%
Federal Bank	154	374	BUY	190	14.3%	20.3%	24.8%	17.5%	4.7%	5.9%
AU Small Finance Bank	593	396	REDUCE	560	-16.8%	11.1%	8.6%	16.8%	-5.5%	-10.8%
Shriram Trans Finance	2395	900	ADD	2,320	14.5%	15.9%	17.3%	20.0%	2.9%	9.2%
Mahindra & Mahindra Financial	291	359	ADD	290	9.2%	21.2%	-5.9%	39.1%	-14.0%	-3.7%
LIC Housing	642	353	REDUCE	530	31.0%	1.1%	61.3%	0.7%	9.5%	4.2%
CREDAI	1465	233	ADD	1,720	44.5%	23.2%	70.7%	21.1%	2.2%	0.4%
City Union Bank	135	100	BUY	165	-2.0%	6.6%	7.0%	4.9%	-0.7%	-10.1%
RBL Bank	267	161	REDUCE	225	22.2%	10.9%	25.9%	25.6%	2.6%	3.9%
Karur Vysya Bank	182	145	ADD	185	9.9%	11.1%	34.1%	12.5%	5.2%	3.6%
UJJIVAN SFB	54	105	BUY	70	22.4%	17.8%	16.4%	15.2%	-7.9%	-5.4%
DCB Bank	135	42	ADD	165	10.4%	13.7%	7.9%	29.1%	2.5%	6.3%
Sundaram Finance	4170	463	ADD	3,610	15.2%	21.5%	18.9%	19.0%	0.3%	2.0%
REPCO Home Finance	460	29	ADD	515	15.8%	9.6%	29.2%	5.5%	3.4%	0.9%
Aptus	348	173	REDUCE	280	19.3%	23.6%	20.3%	21.2%	0.9%	0.5%
Aavas Financial	1460	116	ADD	1,735	13.6%	21.4%	11.7%	25.5%	-2.1%	0.4%
Homefirst	947	84	ADD	990	25.8%	27.3%	29.8%	19.5%	2.2%	1.2%
Can Fin Homes	795	106	BUY	900	20.8%	11.1%	16.5%	12.6%	4.9%	-5.2%
PNB Housing Finance	719	187	ADD	835	6.7%	14.4%	34.3%	11.6%	4.8%	-4.4%
Aditya Birla Capital	185	480	NA	NA	NA	NA	NA	NA	NA	NA
Insurance					21.0%	10.9%	-10.6%	14.0%	-4.8%	-6.3%
SBI Life	1510	1512	BUY	1,600	17.0%	16.1%	7.5%	10.0%	-1.4%	-5.4%
ICICI Prudential	518	747	ADD	545	3.9%	9.5%	-15.9%	6.3%	-19.3%	-24.2%
ICICI Lombard	1646	811	NA	NA	14.0%	14.5%	21.3%	30.7%	0.0%	0.0%
Star Health	560	328	BUY	685	15.6%	21.1%	34.5%	19.4%	-24.5%	-19.6%
Max Financial	950	328	NA	NA	3.8%	12.1%	-4.8%	12.5%	0.0%	0.0%

HSIE Coverage	CMP	MCAP (INR Bn)	Rating	TP	Revenue Growth		PAT Growth		Change in PAT estimates	
					FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
GIC Reinsurance	430	754	NA	NA	43.2%	6.8%	-42.1%	16.9%	0.0%	0.0%
New India Assurance	282	465	NA	NA	10.9%	8.5%	17.2%	10.8%	0.0%	0.0%
Capital Markets					16.3%	16.5%	19.9%	25.6%	2.6%	6.7%
Nippon Life India	500	314	NA	NA	11.5%	11.0%	18.2%	14.6%	0.0%	0.0%
ICICI Securities	820	265	NA	NA	10.1%	9.5%	11.4%	11.8%	0.0%	0.0%
Angel One	3072	258	ADD	3,510	34.6%	27.1%	17.8%	27.5%	10.4%	28.1%
Aditya Birla Sun Life AMC	497	143	NA	NA	6.2%	6.8%	5.6%	7.9%	0.0%	NA
CAMS	2998	147	NA	NA	10.5%	8.8%	20.0%	12.4%	0.0%	0.0%
CDSL	1825	191	BUY	2,170	42.3%	18.5%	46.3%	20.2%	8.2%	16.0%
BSE	2200	298	BUY	3,050	62.3%	45.2%	70.9%	65.5%	11.8%	17.5%
MCX	3668	187	BUY	4,100	39.9%	33.8%	-26.0%	341.5%	-9.9%	9.3%
Motilal Oswal Financial Services	1658	246	NA	NA	1.8%	8.4%	30.2%	16.7%	0.0%	0.0%
UTI AMC	919	117	NA	NA	2.3%	10.1%	10.4%	17.6%	0.0%	0.0%
Consumer- Staples					7.0%	7.6%	10.5%	9.1%	-1.7%	-2.4%
Hindustan Unilever	2388	5611	REDUCE	2,550	3.4%	9.3%	6.3%	11.9%	-4.7%	-4.2%
ITC	414	5172	ADD	460	2.4%	9.4%	4.0%	7.9%	-4.2%	-3.6%
Nestle	2563	2471	REDUCE	2,100	43.3%	-11.6%	60.8%	-10.0%	28.5%	3.4%
Dabur India	542	960	ADD	650	9.2%	10.3%	17.2%	13.0%	-1.4%	-1.5%
Britannia Industries	4957	1194	REDUCE	4,700	3.5%	8.5%	5.5%	12.4%	-2.0%	-1.8%
GCPL	1256	1285	ADD	1,100	5.9%	12.9%	11.8%	24.9%	-8.1%	0.5%
Marico	539	698	ADD	650	-0.2%	9.8%	14.8%	12.9%	-1.4%	-0.6%
United Spirits	1160	844	ADD	1,100	2.7%	12.5%	23.2%	22.8%	-2.1%	0.1%
Colgate Palmolive	2540	691	REDUCE	2,100	7.6%	7.2%	20.8%	7.9%	4.9%	3.7%
Emami	461	203	REDUCE	520	5.2%	7.6%	24.1%	5.3%	-0.5%	0.3%
Radico Khaitan	1620	217	REDUCE	1,100	35.0%	15.5%	38.4%	39.6%	-1.2%	3.0%
Consumer Discretionary (ex-Autos)					19.6%	17.9%	1.3%	32.2%	-8.3%	-7.6%
Avenue Supermart	3851	2506	Sell	3400	18.5%	18.3%	9.3%	23.2%	-2.7%	-1.2%
Titan Co	3652	3242	Sell	2750	24.5%	13.0%	14.2%	17.2%	2.1%	1.1%
Trent	3954	1406	Sell	2330	51.6%	30.6%	64.6%	13.7%	12.0%	8.6%
Jubilant Foodworks	492	325	REDUCE	500	7.1%	15.4%	-35.5%	73.0%	-31.8%	-9.8%
Aditya Birla Fashion	227	216	Sell	160	14.1%	12.6%	1019.6%	-40.4%	31.1%	-255.0%
Metro Brands	1128	307	Sell	870	11.7%	18.4%	-8.8%	28.8%	-40.1%	-33.2%
Relaxo Footwears	845	210	Sell	740	6.7%	16.5%	33.7%	43.5%	-21.4%	-11.1%
Bata India	1418	182	Reduce	1450	1.9%	12.8%	-1.3%	27.3%	-28.9%	-9.0%
Shoppers Stop	731	80	Sell	580	4.9%	18.5%	-59.8%	77.5%	-42.2%	-20.3%
V-Mart	1995	39	Buy	2550	10.0%	16.9%	-325.5%	-102.1%	321.7%	-92.1%
FSN E-Commerce Ventures (Nykaa)	152	435	Reduce	145	22.5%	29.8%	-73.0%	2597.6%	-90.0%	-8.6%
Indian Hotels Company	579	824	REDUCE	456	16.1%	12.5%	23.8%	20.8%	3.9%	2.5%
Lemon Tree Hotels	138	109	BUY	152	25.0%	27.3%	42.1%	63.0%	-10.6%	-9.2%
Devyani International	165	199	REDUCE	120	19.2%	56.5%	-50.4%	44.8%	-25.6%	-16.1%
Westlife Foodworld	813	127	ADD	800	6.9%	15.1%	-21.0%	85.4%	-28.0%	-12.8%
Sapphire Foods	1453	93	REDUCE	1100	15.9%	19.3%	-44.6%	72.4%	-30.4%	-9.4%
Sai Silk (Kalamandir)	237	36	Buy	370	2.4%	25.4%	7.5%	69.8%	-8.1%	-5.8%
Industrials (Infrastructure+ Cap Goods+ Logistics)					19.0%	13.7%	27.5%	30.4%	-1.9%	1.6%
Larsen & Toubro	3364	4624	BUY	4,238	18.2%	14.0%	23.9%	35.9%	-5.4%	1.6%
Siemens	4553	1621	ADD	4,940	27.0%	13.5%	24.4%	13.8%	0.0%	0.0%
ABB India	5425	1150	NA	NA	25.8%	20.9%	67.5%	11.0%	15.0%	6.9%
Thermax	3722	443	ADD	3,732	12.5%	18.5%	31.1%	25.2%	-3.9%	-3.7%
Hitachi Energy	5819	247	ADD	6,135	12.0%	28.5%	8.0%	183.8%	-53.7%	-25.8%
Cummins India	2761	765	BUY	3,006	14.4%	16.4%	28.7%	22.2%	13.7%	15.6%
IRB Infrastructure	67	406	ADD	56	24.3%	9.3%	47.0%	30.7%	14.0%	4.7%
KEC International	664	171	REDUCE	539	15.9%	7.9%	130.9%	82.6%	-8.0%	-6.3%
PNC Infratech	410	105	BUY	520	6.4%	8.5%	4.0%	10.8%	0.0%	0.0%

HSIE Coverage	CMP	MCAP (INR Bn)	Rating	TP	Revenue Growth		PAT Growth		Change in PAT estimates	
					FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
KNR Constructions	263	74	BUY	337	6.3%	3.3%	4.2%	-0.9%	-3.3%	-11.7%
Kalpataru Power Transmission	939	153	BUY	1,045	17.6%	16.2%	39.4%	39.1%	1.9%	-2.8%
NCC	243	153	BUY	267	34.9%	13.5%	18.1%	46.7%	-10.0%	-0.5%
HG Infra	915	60	BUY	1,338	17.9%	13.5%	9.8%	12.6%	1.9%	5.8%
Dilip Buildcon	466	68	BUY	483	4.8%	5.2%	208.8%	12.2%	19.4%	11.7%
Ahluwalia Contracts	1168	78	BUY	990	33.7%	19.0%	29.3%	34.6%	-1.3%	0.9%
PSP Projects	700	25	ADD	828	32.4%	15.0%	15.9%	22.6%	-18.3%	-12.9%
Ashoka Buildcon	178	50	BUY	254	16.2%	5.3%	-20.1%	22.6%	10.5%	-2.7%
J Kumar Infraprojects	662	50	ADD	658	14.6%	10.0%	15.7%	12.6%	3.8%	7.5%
ITD Cementation	349	60	BUY	380	47.7%	21.0%	112.4%	39.9%	4.5%	14.0%
Real Estate					9.9%	12.5%	10.1%	18.7%	-1.2%	-2.9%
DLF	892	2209	BUY	868	20.1%	7.1%	18.9%	11.1%	0.0%	0.0%
Oberoi Realty	1378	501	BUY	1,533	1.0%	21.6%	-17.8%	21.9%	0.0%	0.0%
Godrej Properties	2387	664	ADD	2,077	15.0%	15.0%	10.5%	5.0%	0.0%	0.0%
Phoenix Mills	2806	501	BUY	2,956	40.9%	14.2%	13.1%	14.0%	21.2%	10.3%
Prestige Estates	1212	486	BUY	1,390	1.0%	11.2%	12.3%	10.9%	-8.5%	-26.6%
Brigade Enterprises	1004	232	BUY	1,179	8.2%	5.0%	13.5%	0.3%	0.0%	0.0%
Mahindra Lifespaces	604	94	BUY	700	30.3%	12.3%	23.8%	246.3%	0.0%	0.0%
Sobha Developers	1475	140	BUY	1,717	1.6%	16.6%	-8.8%	240.0%	-45.5%	1.4%
Kolte Patil	493	37	BUY	624	-1.9%	1.5%	-37.7%	86.6%	-71.8%	-62.2%
Macrotech Developers	1135	1095	ADD	1,111	9.5%	15.1%	40.3%	18.2%	0.0%	0.0%
IT and Exchanges					5.9%	9.2%	4.3%	16.2%	-0.3%	-1.3%
Tata Consultancy Services	4087	14787	ADD	4,040	6.7%	7.9%	10.0%	10.8%	0.8%	0.0%
Infosys	1681	6979	ADD	1,515	5.4%	7.7%	2.5%	16.5%	-0.2%	-0.2%
HCL Technologies	1686	4576	ADD	1,700	8.7%	12.6%	5.3%	16.8%	-0.5%	-1.4%
Wipro	531	2775	REDUCE	450	-0.7%	5.9%	-4.9%	13.7%	-0.8%	-3.0%
Tech Mahindra	1325	1294	REDUCE	1,160	-2.1%	4.3%	-42.7%	82.5%	-7.4%	-6.8%
LTIMindtree	5487	1625	ADD	6,490	7.6%	11.1%	7.7%	22.2%	-4.5%	-6.8%
Tata Elxsi	7791	485	SELL	7,025	14.2%	18.4%	6.0%	18.6%	-1.5%	-2.6%
Info Edge	5340	691	BUY	5,650	10.8%	9.4%	38.1%	4.7%	2.2%	-1.4%
Mphasis	2699	510	REDUCE	2,525	-3.5%	12.1%	-2.9%	17.5%	-1.4%	-3.6%
L&T Technologies	5351	566	REDUCE	4,915	20.3%	16.5%	12.2%	20.5%	-0.5%	0.3%
Persistent	8560	658	BUY	8,530	17.6%	18.6%	18.3%	31.3%	1.0%	0.3%
IndiaMart	2707	162	BUY	2,900	22.7%	19.2%	40.9%	18.5%	-0.3%	-6.1%
Tanla Platforms	1002	135	BUY	1,350	18.3%	20.7%	25.6%	19.5%	-8.1%	-10.0%
Cyient	2051	227	ADD	2,200	18.6%	14.1%	34.3%	22.6%	-3.8%	-0.2%
Sonata	844	237	ADD	730	19.2%	18.9%	16.3%	25.3%	2.6%	1.9%
TeamLease	3130	52	ADD	3,180	19.4%	18.6%	2.0%	40.7%	-2.6%	1.3%
Mastek	2964	91	ADD	3,230	19.9%	14.6%	13.1%	40.9%	-6.0%	-1.5%
Zensar Technologies	529	120	ADD	580	1.2%	8.5%	97.8%	-1.3%	0.8%	-3.4%
Route Mobile	1607	101	BUY	1,950	15.7%	25.4%	18.1%	25.4%	1.2%	-4.6%
Birlasoft	818	226	ADD	840	10.3%	15.2%	34.9%	19.4%	5.3%	2.6%
Happiest Minds Technologies	823	125	ADD	935	13.8%	19.4%	0.0%	27.1%	-3.2%	-1.2%
Energy (Oil & Gas)					4.7%	6.5%	77.8%	-15.0%	3.9%	3.8%
Reliance Industries	2963	20051	ADD	2,740	30.0%	7.2%	7.7%	8.7%	2.0%	3.7%
Oil & Natural Gas Corp	275	3456	REDUCE	230	-0.5%	5.9%	48.3%	-12.2%	-1.4%	-2.4%
Indian Oil Corp	180	2538	REDUCE	140	-6.7%	5.2%	295.9%	-38.9%	6.7%	10.0%
Bharat Petroleum Corp	626	1358	REDUCE	500	-1.7%	6.3%	1110.8%	-54.6%	9.8%	5.6%
GAIL India	182	1198	BUY	185	-7.6%	6.1%	71.4%	4.0%	14.2%	5.5%
Gujarat Gas	565	389	ADD	600	-4.4%	17.9%	-32.6%	43.7%	-6.6%	5.5%
HPCL	539	765	REDUCE	495	0.1%	6.5%	-336.8%	-42.1%	8.0%	12.6%
Petronet LNG	284	426	REDUCE	236	-8.5%	5.6%	3.8%	-0.1%	24.6%	12.0%
Indraprastha Gas	441	309	BUY	490	-21.7%	11.1%	7.3%	8.0%	-2.8%	-3.1%
OIL India	599	649	ADD	530	-8.4%	13.1%	-26.9%	18.3%	6.4%	11.0%

HSIE Coverage	CMP	MCAP (INR Bn)	Rating	TP	Revenue Growth		PAT Growth		Change in PAT estimates	
					FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Gujarat State Petronet	366	206	ADD	400	0.4%	16.1%	7.8%	12.7%	4.1%	5.0%
Mahanagar Gas	1531	151	BUY	1,550	-12.6%	7.7%	57.6%	1.9%	13.2%	15.4%
IRM Energy	552	23	BUY	665	-7.9%	56.5%	67.1%	69.1%	-9.7%	-4.3%
Cement					7.3%	11.5%	53.8%	21.6%	2.7%	2.9%
UltraTech Cement	9961	2876	BUY	10,840	12.2%	13.5%	47.0%	19.1%	-2.3%	-2.8%
Ambuja Cements	593	1177	ADD	560	-8.0%	7.3%	1.1%	25.3%	-4.9%	1.6%
Shree Cement	26603	960	REDUCE	28,700	16.4%	13.0%	95.5%	5.1%	31.3%	26.9%
ACC	2680	503	BUY	2,845	-9.7%	8.1%	88.0%	15.4%	7.0%	18.9%
Dalmia Bharat	2107	395	BUY	2,690	10.2%	15.0%	37.7%	3.9%	11.9%	-2.6%
JK Cement	4270	330	REDUCE	3,765	19.3%	8.6%	108.1%	26.8%	11.9%	9.6%
Ramco Cements	870	205	ADD	1,000	12.2%	11.1%	21.1%	70.7%	-26.3%	-14.6%
Nuvoco Vistas	342	122	BUY	515	2.1%	7.8%	-200.8%	159.1%	27.6%	9.7%
Birla Corp	1695	131	BUY	1,770	12.1%	7.5%	1232.8%	48.0%	30.0%	14.5%
JK Lakshmi Cement	939	110	BUY	1,015	9.1%	11.7%	35.9%	17.8%	-1.3%	-9.0%
Heidelberg Cem	214	49	REDUCE	160	9.1%	5.0%	92.3%	24.5%	-10.5%	-10.3%
Star Cement	210	85	BUY	245	7.8%	21.2%	23.2%	30.6%	9.2%	8.0%
Orient Cement	257	53	REDUCE	205	6.1%	7.1%	41.3%	29.3%	-13.6%	-13.6%
Sagar Cements	244	32	ADD	290	16.4%	22.4%	-57.2%	-315.2%	1795.0%	-21.6%
Deccan Cements	648	9	REDUCE	560	4.6%	16.7%	52.4%	-13.1%	0.0%	0.0%
Home Improvement					7.0%	13.2%	23.5%	19.1%	-1.9%	-1.3%
Asian Paints	3017	2894	Reduce	3,150	4.9%	10.7%	35.7%	4.7%	6.5%	2.4%
Havells India	1432	897	ADD	1,500	10.5%	14.9%	13.5%	29.1%	-12.2%	-8.5%
Berger Paints	572	666	Add	585	6.9%	12.1%	41.8%	15.0%	-4.1%	-4.6%
Astral	1965	528	BUY	2,040	9.5%	17.0%	19.5%	38.1%	-17.9%	-10.1%
Voltas	1098	363	ADD	1,150	24.3%	13.2%	-13.2%	138.4%	-31.8%	1.3%
Kansai Nerolac	309	250	Reduce	330	5.0%	12.5%	47.6%	8.3%	47.6%	10.0%
Supreme Industries	3828	486	REDUCE	4,290	7.2%	11.5%	21.3%	24.1%	-0.1%	0.7%
Crompton Consumer	292	187	BUY	375	5.6%	13.4%	-11.0%	35.1%	-23.1%	-15.8%
Kajaria Ceramics	1245	198	ADD	1,410	4.9%	15.3%	25.4%	26.2%	-14.1%	-10.3%
TTK Prestige	747	104	REDUCE	750	-0.8%	11.8%	3.9%	18.1%	-12.9%	-7.3%
Prince Pipe	588	65	ADD	675	-6.6%	16.5%	37.0%	33.2%	-15.1%	-13.7%
V-Guard	312	135	ADD	325	16.5%	12.9%	33.8%	25.3%	-11.9%	-3.6%
Symphony	916	63	REDUCE	925	-3.2%	14.3%	34.7%	23.1%	-3.3%	-5.8%
Orient Electric	207	44	ADD	260	12.7%	13.1%	0.7%	82.4%	-40.4%	-13.6%
Somany Ceramics	698	29	BUY	980	3.1%	11.3%	35.1%	24.6%	-9.2%	-8.5%
Greenpanel Industries	366	45	BUY	445	-11.6%	15.2%	-38.2%	27.3%	-15.6%	-15.2%
Greenlam Industries	523	67	ADD	575	-49.7%	19.6%	-1.1%	25.8%	-22.0%	-10.3%
Century Plyboards India	721	160	ADD	785	4.7%	16.0%	-24.7%	20.1%	-19.0%	-8.9%
Stylam Industries	1575	27	BUY	2,550	-5.1%	19.6%	29.1%	24.1%	-2.4%	-3.9%
Kaynes Technology	2865	183	BUY	2,850	61.0%	35.1%	91.2%	41.5%	4.1%	4.9%
Chemicals					-9.5%	17.4%	-26.8%	40.7%	-6.7%	-4.9%
SRF	2409	714	ADD	2449	-12.4%	13.5%	-35.1%	30.7%	-5.2%	-3.8%
Deepak Nitrite	2342	319	SELL	1448	-4.4%	14.6%	-7.9%	51.2%	-11.3%	0.6%
Aarti Industries	683	248	ADD	733	-6.5%	18.3%	-41.3%	96.4%	12.4%	4.3%
Navin Fluorine	3194	158	BUY	4014	-1.6%	35.3%	-38.2%	69.6%	-15.7%	-17.6%
Vinati Organics	1699	175	Sell	1416	-11.7%	32.8%	-22.7%	30.4%	-9.0%	-14.6%
Fine Organic	4319	132	SELL	3842	-30.3%	4.3%	-35.4%	1.6%	0.1%	1.7%
Alkyl Amines	2202	113	SELL	1979	-6.7%	24.4%	-25.6%	35.9%	7.4%	0.0%
Galaxy Surfactants	2504	89	BUY	3529	-14.1%	9.7%	-20.0%	21.2%	-0.9%	-1.5%
NOCIL	277	46	ADD	288	-8.9%	17.6%	-17.2%	52.1%	-3.0%	-1.0%
Neogen Chemicals	1329	35	BUY	2127	-0.1%	28.6%	-12.3%	70.9%	-26.8%	-22.0%
Sudarshan Chemical	598	41	REDUCE	487	3.9%	12.4%	116.4%	70.2%	-14.5%	-0.3%
Clean Science and Technology	1452	154	SELL	980	-16.1%	45.6%	-17.0%	39.5%	-5.5%	-2.8%

HSIE Coverage	CMP	MCAP (INR Bn)	Rating	TP	Revenue Growth		PAT Growth		Change in PAT estimates	
					FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Ami Organics	1082	40	ADD	1201	10.8%	22.8%	-10.6%	54.7%	-8.5%	-5.2%
Aether Industries	865	115	BUY	1124	-2.3%		-12.0%		-35.9%	-36.0%
Power/Utilities					5.7%	8.6%	6.7%	13.1%	-0.8%	0.7%
NTPC	340	3293	NA	NA	3.1%	7.1%	12.0%	15.2%	-1.1%	0.3%
PGCIL	283	2628	NA	NA	2.1%	5.3%	3.1%	4.2%	1.0%	0.3%
TATA Power	378	1208	NA	NA	12.9%	10.8%	13.6%	7.4%	12.9%	8.6%
JSW Energy	488	803	NA	NA	20.1%	26.0%	19.7%	42.9%	5.7%	7.4%
NHPC	94	945	NA	NA	-3.0%	29.0%	-5.8%	19.0%	-9.3%	-7.3%
Torrent Power	1120	538	NA	NA	9.3%	4.8%	-5.6%	39.4%	-20.0%	0.9%
CESC	130	173	NA	NA	12.0%	5.5%	4.2%	10.9%	-0.1%	4.5%
Pharma					15.2%	10.3%	38.2%	11.3%	5.4%	2.2%
Sun Pharmaceutical Industries	1558	3738	BUY	1,650	12.7%	11.9%	13.9%	19.2%	3.6%	5.3%
Cipla Ltd/India	1453	1173	NA	NA	14.9%	8.4%	48.1%	9.1%	6.4%	3.3%
Dr Reddy's Laboratories	6364	1062	REDUCE	5,650	13.7%	4.2%	20.7%	-11.5%	8.0%	-8.8%
Apollo Hospitals	6769	973	NA	NA	14.8%	17.3%	19.8%	56.4%	-1.9%	1.6%
Torrent Pharma	2608	883	NA	NA	14.1%	12.6%	30.8%	26.0%	-1.0%	0.1%
Zydus Lifesciences	904	915	BUY	930	10.8%	10.4%	75.7%	1.5%	6.1%	3.6%
Max Healthcare	858	834	NA	NA	48.4%	19.4%	19.5%	17.8%	0.5%	4.0%
Alkem Labs	5427	649	NA	NA	11.2%	10.3%	89.5%	14.2%	12.7%	9.1%
Lupin	1594	726	REDUCE	1,470	23.3%	8.4%	370.2%	10.9%	24.2%	10.1%
Aurobindo Pharma	1048	614	ADD	1,150	16.6%	7.6%	59.0%	13.5%	0.5%	-2.7%
Ajanta Pharma	2120	267	NA	NA	12.5%	12.4%	37.7%	17.3%	1.6%	2.0%
Narayana Health	1370	280	NA	NA	12.4%	15.2%	32.7%	10.6%	3.5%	6.3%
Metals					-0.1%	5.8%	-0.7%	34.6%	-7.7%	1.9%
JSW Steel	829	2026	NA	NA	7.3%	11.2%	136.5%	55.1%	-13.5%	-2.3%
Coal India	445	2743	NA	NA	9.2%	4.9%	5.3%	-3.2%	13.0%	12.1%
Tata Steel	146	1821	NA	NA	-5.2%	4.7%	-83.4%	812.2%	-80.1%	-9.7%
Hindalco Industries	521	1171	NA	NA	-5.4%	2.9%	-1.8%	13.5%	-2.6%	-0.4%
Total					7.9%	8.7%	30.5%	8.2%	0.9%	1.4%

Note: CMP as on 22.02.2024

Source: Bloomberg & HSIE Research NR – NOT RATED

HSIE Model Portfolio

HSIE Coverage	CMP	MCAP (\$ Bn)	MCAP (INR Bn)	Rating	TP	Model Portfolio as on 22nd Feb'24		
						Nifty Weight	Portfolio weight	Relative weight
Nifty	22217					100.0%	100.00%	
Autos						6.71%	5.00%	-1.71%
Maruti Suzuki India	11658	44	3665	BUY	12887	1.42%	2.50%	1.08%
Bajaj Auto	8498	29	2407	SELL	5606	0.91%		-0.91%
Mahindra & Mahindra	1910	29	2376	BUY	1862	1.56%	1.00%	-0.56%
Eicher Motors	3951	13	1082	REDUCE	3597	0.55%		-0.55%
Hero MotoCorp	4495	11	899	REDUCE	3535	0.63%	0.50%	-0.13%
Tata Motors	932	41	3411	SELL	596	1.64%		-1.64%
Motherson Sumi Wiring India	71	4	315	ADD	67		1.00%	
Banks and NBFCs						30.78%	27.07%	-3.71%
ICICI Bank	1063	90	7459	BUY	1220	7.59%	6.50%	-1.09%
Kotak Mahindra Bank	1725	41	3429	ADD	2100	2.83%		-2.83%
HDFC Bank	1420	130	10783	NA	NA	11.57%	11.57%	0.00%
Bajaj Finance	6675	50	4125	ADD	8690	2.01%		-2.01%
State Bank of India	766	82	6835	BUY	790	2.59%	3.00%	0.41%
Axis Bank	1099	41	3390	ADD	1170	3.12%	3.50%	0.38%
Federal Bank	154	5	374	BUY	190		1.50%	1.50%
IndusInd Bank	1489	14	1159	REDUCE	1380	1.07%		-1.07%
Canfin Homes	797	1	106	BUY	900		1.00%	1.00%
Insurance						2.23%	2.70%	0.47%
SBI Life	1510	18	1512	BUY	1600	0.66%	1.20%	0.54%
ICICI Prudential LI Co.	518	9	747	ADD	545		1.50%	1.50%
Bajaj Finserv Ltd	1593	31	2541	NA	NA	0.93%		-0.93%
HDFC Life	575	15	1236	NA	NA	0.64%		-0.64%
Consumer- Staples						8.04%	4.50%	-3.54%
Hindustan Unilever	2388	68	5611	REDUCE	2550	2.33%		-2.33%
ITC	414	62	5172	ADD	460	4.12%	3.50%	-0.62%
Britannia Industries	4957	14	1194	REDUCE	4700	0.65%		-0.65%
United Spirits	1160	10	844	ADD	1100		1.00%	1.00%
Nestle	2563	30	2471	REDUCE	2100	0.94%		-0.94%
Consumer Discretionary (ex-Autos)						3.76%	3.50%	-0.26%
Titan Co	3652	39	3242	Sell	2750	1.62%		-1.62%
Crompton Consumer	292	2	187	BUY	375		1.50%	1.50%
TV18 Broadcast	64	1	109	NA	NA		1.00%	1.00%
PVRInox	1383	2	136	NA	NA		1.00%	
Tata Consumer	1160	13	1105	NA	NA	0.74%		-0.74%
Asian Paints	3017	35	2894	Reduce	3150	1.40%		-1.40%
Industrials (Infrastructure+ Cap Goods+ Logistics)						5.26%	4.50%	-0.76%
Larsen & Toubro	3364	56	4624	BUY	4238	4.33%	3.00%	-1.33%
Adani Ports & Special Economic Zone	1311	34	2832	NA	NA	0.93%		-0.93%
Ashoka Buildcon	178	1	50	BUY	254		1.50%	1.50%
Real Estate						0.00%	1.50%	1.50%
Sobha	1475	2	140	BUY	1717		1.50%	1.50%
IT and Exchanges						14.19%	14.00%	-0.19%
Tata Consultancy Services	4087	178	14787	ADD	4040	4.07%	2.00%	-2.07%
Infosys	1681	84	6979	ADD	1515	6.24%	6.00%	-0.24%
HCL Technologies	1683	55	4567	ADD	1700	1.76%	1.00%	-0.76%
Wipro	531	33	2775	REDUCE	450	0.71%		-0.71%
Mphasis	2699	6	510	REDUCE	2525	0.53%	1.00%	0.47%
Tech Mahindra	1325	16	1294	REDUCE	1160	0.88%	1.00%	0.12%
MCX	3675	2	187	BUY	4100		1.00%	1.00%
BSE	2200	4	298	BUY	3050		1.00%	1.00%
Teamlease	3130	1	52	ADD	3180		1.00%	1.00%

HSIE Coverage	CMP	MCAP (\$ Bn)	MCAP (INR Bn)	Rating	TP	Model Portfolio as on 22nd Feb '24		
						Nifty Weight	Portfolio weight	Relative weight
Energy (Oil & Gas)						11.70%	9.50%	-2.20%
Reliance Industries	2963	242	20051	ADD	2740	10.16%	5.00%	-5.16%
Oil & Natural Gas Corp	275	42	3458	REDUCE	230	1.04%	1.00%	-0.04%
Bharat Petroleum Corp	626	16	1358	REDUCE	500	0.50%	0.50%	0.00%
GAIL India	182	14	1199	BUY	185		1.00%	1.00%
Indraprastha Gas	442	4	310	BUY	490		1.00%	1.00%
Mahanagar Gas	1531	2	151	BUY	1550		1.00%	1.00%
Metals & Mining						4.72%	4.00%	-0.72%
Hindalco Industries	521	14	1171	NA	NA	0.89%	1.00%	0.11%
JSW Steel	829	24	2026	NA	NA	0.82%		-0.82%
Adani enterprises	3263	45	3720	NA	NA	0.87%		-0.87%
Tata Steel	146	22	1821	NA	NA	1.17%	2.00%	0.83%
Coal India	445	33	2743	NA	NA	0.97%		-0.97%
SAIL	129	6	534	NA	NA		1.00%	1.00%
Cement & Building Materials						2.08%	3.00%	0.92%
UltraTech Cement	9964	35	2876	BUY	10840	1.24%		-1.24%
J K Lakshmi	939	1	110	BUY	1015		1.00%	1.00%
Stylam Industries	1575	0	27	BUY	2550		1.00%	1.00%
Grasim Industries	2201	18	1470	NA	NA	0.84%		-0.84%
Dalmia Bharat	2097	5	393	BUY	2690		1.00%	1.00%
Chemicals						0.28%	1.00%	0.72%
UPL	492	4	370	NA	NA	0.28%		-0.28%
Aarti Industries	686	3	249	ADD	733		1.00%	
Power/Utilities						2.83%	6.00%	3.17%
NTPC	340	40	3293	NA	NA	1.59%	2.00%	0.41%
PGCIL	283	32	2628	NA	NA	1.24%	1.00%	-0.24%
PG Invit	97	1	88	NA	NA		2.00%	
CESC	130	2	173	NA	NA		1.00%	1.00%
Pharma						4.30%	5.80%	1.50%
Sun Pharmaceutical Industries	1558	45	3738	BUY	1650	1.61%	1.50%	-0.11%
Dr Reddy's Laboratories	6364	13	1062	REDUCE	5650	0.78%	0.80%	0.02%
Cipla Ltd/India	1453	14	1173	NA	NA	0.75%	1.50%	0.75%
Torrent pharma	2611	11	884	NA	NA		1.00%	1.00%
Apollo hospitals	6757	12	972	NA	NA	0.67%		-0.67%
Divis labs	3645	12	968	NA	NA	0.49%	1.00%	0.51%
Telecom						3.12%	2.50%	-0.62%
Bharti Airtel	1136	80	6679	NA	NA	3.12%	2.50%	-0.62%
Cash							5.43%	5.43%
Total						100.0%	100.00%	0.0%

Note: CMP as on 22.02.2024 Stocks highlighted pink represent those which are a part of nifty but not under HSIE coverage

Source: Bloomberg and HSIE Research

Model Portfolio Performance relative to benchmarks

	Model Portfolio	Benchmark: Nifty 50		Benchmark: BSE 200	
		Nifty	Relative returns	BSE 200	Relative returns
1month	5.4%	4.2%	1.2%	4.9%	0.5%
3 month*	15.6%	12.6%	3.0%	15.4%	0.3%
6 month**	24.4%	15.7%	8.7%	19.8%	4.5%
1 year***	36.9%	27.1%	9.7%	34.9%	1.9%
Since 1.4.20 (From trough of Covid)(Annualised)	37.8%	31.1%	6.7%	33.2%	4.6%
Inception (since 28.2.20)(Annualised)	27.3%	20.7%	6.5%	22.7%	4.6%

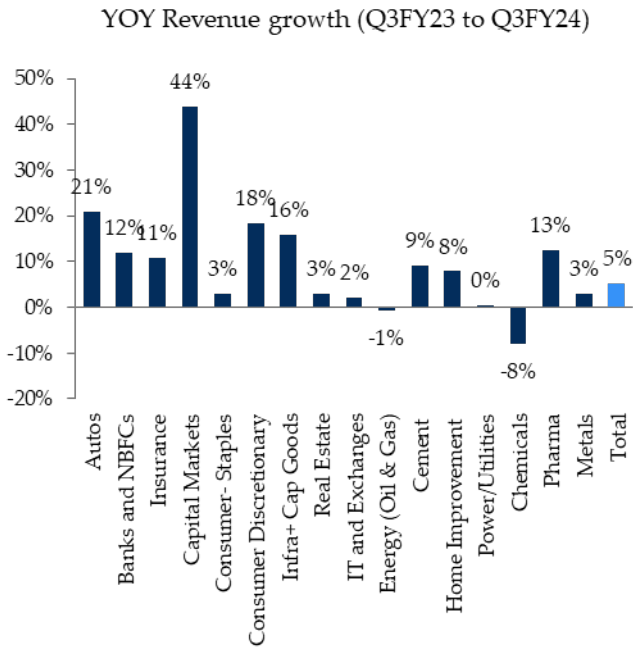
* Returns calculated from previous rebalancing done on 24th Nov 23

** Returns calculated from previous rebalancing done on 22nd Aug 23

*** Returns calculated from rebalancing done on 21st Feb 23

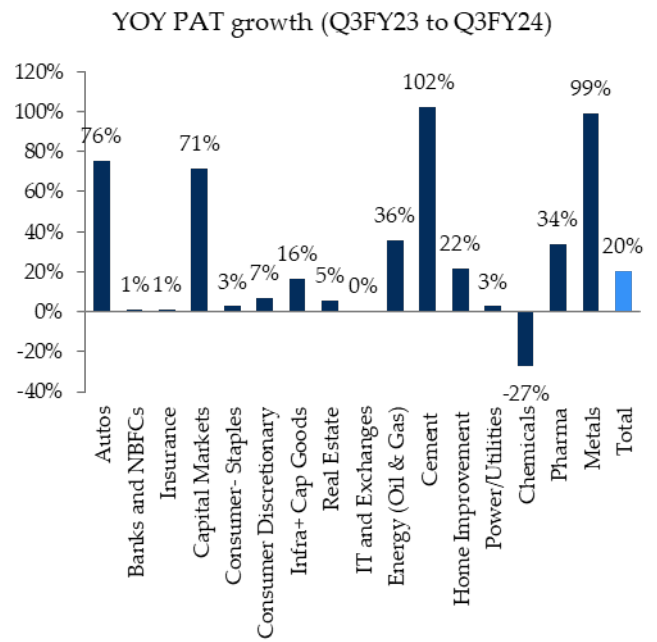
Sector wise YoY Growth - Q3FY24

YOY Revenue growth (Q3FY23 to Q3FY24)



Source: Bloomberg & HSIE Research

YOY PAT growth (Q3FY23 to Q3FY24)



Source: Bloomberg & HSIE Research

Autos

Maruti Suzuki

Margin beat despite the rise in discounts

Maruti Suzuki's Q3FY24 PAT at INR 31.3bn surpassed our estimates of INR 28.2bn, led by a better-than-expected margin. The margin beat was led by lower commodity costs, lower royalty, and positive forex impact. On the back of its aggressive launch spree over the last few quarters, MSIL continues to be the market leader in the UV segment. While its order backlog has reduced to 215k units, it is on expected lines given the improved supply. The success of GV (9-10k units per month) is a case in point that customers are considering Maruti's products as "worthy contenders" even in the >INR1500k segment, where a few investors were so far doubting the company's "right to win". With exports picking up and higher utilisation across plants (Manesar, SMG Gujarat) we expect the EBITDA margin to expand 240 bps over FY23-26E. We roll forward to Mar26 EPS (from Sept 25 earlier) and revise our TP to INR 12,887/share (from INR 12,052/ share). Maintain BUY.

- Higher margin leads to PAT beat:** The key surprise in Q3 was the 210bps YoY margin improvement to 12.3% (our estimate of 11.5%). The realisations were expected to fall QoQ due to a lower share of UVs in the volumes. In Q3FY24, the contribution of UVs to total stood at 30.7% vs 32.6% in Q2FY24. EBITDA margin declined 120bps QoQ due to lower wholesale share and higher marketing spending in the festive season. The management highlighted the impact on margins: higher share of retail (-110bps), higher discounts (-70bps), and higher ad spends (-30bps). There was a positive effect of forex (+30bps), lower royalty (+30bps), and commodity cost (+30bps). Higher non-operating income and lower depreciation led to a significant PAT beat (INR 31.4bn) vs our estimate of INR 28.2bn.
- Call takeaways:** (1) Management has maintained that the PV industry is likely to grow at 3-5% for FY25E and that MSIL would outperform the industry. (2) The current order backlog has now reduced to 215k units (from 250k units in Q2FY24) with improved availability of semiconductors. (3) The average discount per vehicle has increased 32% QoQ to INR 23,300, primarily due to weak car demand. (4) **Cost outlook:** While precious metal costs continue to soften QoQ, steel prices are again on an uptrend, which remains a cause of worry. (5) Management has maintained capex guidance of INR 80bn for FY24E. (6) Management has indicated that it would aim to launch 10 new models by 2030, taking the total number of models to 28 (including six EV models). (7) The first phase of Kharkoda capacity expansion is expected to commence operations in FY25. The expected annual capacity addition is 250k units. It plans to increase capacity to 1mn units in four such phases. (8) There could be an increase in costs due to geopolitical challenges (Red Sea crisis), which could impact export shipments.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	318,600	278,492	14.4	355,351	-10.3	1,125,008	1,317,548	1,520,870	1,720,910
EBITDA	39,079	28,331	37.9	47,842	-18.3	110,077	157,830	185,689	211,818
APAT	31,300	23,513	33.1	37,165	-15.8	80,492	125,889	143,596	162,068
Diluted EPS (INR)	99.6	74.8	33.1	118.2	-15.8	266.5	400.5	456.8	515.6
P/E (x)						37.9	25.2	22.1	19.6
EV / EBITDA (x)						23.5	16.1	13.3	11.3
RoCE (%)						16.9	19.5	19.7	19.8

Source: Company, HSIE Research

BUY

CMP (as on 31 Jan 2024)	INR10,187
Target Price	INR12,887
NIFTY	21,726

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 12,052	INR 12,887
	FY24E	FY25E
EPS %	0.9%	0.9%

KEY STOCK DATA

Bloomberg code	MSIL IN
No. of Shares (mn)	314
MCap (INR bn) / (\$ bn)	3,203/39,163
6m avg traded value (INR mn)	5,695
52 Week high / low	INR 10,933/8,127

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.0)	3.7	14.5
Relative (%)	(14.3)	(4.1)	(6.0)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	56.48	58.19
FIs & Local MFs	18.30	17.77
FPIs	20.96	20.60
Public & Others	4.26	3.43
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Tata Motors

Multiple headwinds ahead

JLR Q3 margin improved 130bps QoQ to 16.2% due to an improved mix of RR sales and a favourable regional mix towards China. Also, while the India CV margin increased by 70bps QoQ to 11.1%, the India PV margin remained steady QoQ at 6.6%. While FY24 has been an operationally strong year for JLR, we expect it to face multiple headwinds from FY25, which include: 1) demand uncertainty in key regions; 2) normalization of the mix; 3) rise in VME + FME transitioning from “demand pull” to “sales push” mode; 4) the need to raise capex amid potentially unsupportive margins; and 5) the potential impact from the ongoing Red Sea crisis. Even in India, demand macro is less encouraging, with muted volume growth expected for both CVs and PVs over the high base of the last two years. We maintain our SELL rating with a revised TP of INR596/sh (from INR 534/sh) as we roll forward to Mar-26 EPS.

- **JLR margin improves QoQ:** JLR posted 130bps QoQ margin improvement, reaching 16.2%, led by: 1) improved mix (RR mix ramped up to 2,900 units per week from 2,800 QoQ) and 2) China mix being favourable QoQ. Net debt reduced by GBP600mn to GBP 1.6bn in Q3.
- **India CV + PV post INR6bn FCF:** EBITDA margin in CV business improved 70bps QoQ to 11.1% due to better realisation and soft input costs. PV EBITDA margin improved by 10bps QoQ to 6.6%. While the PV ICE margin stood at 9.4% (+20bps QoQ), the PV EV margin came in at -8% (from -5% QoQ).
- **Con call highlights: JLR KTAs:** 1) Management indicates a costlier customer acquisition with VME rising to 2.5% from 0.6% YoY and a steady FME increase expected over FY25. 2) It expects rising break-even levels as the mix normalizes in the coming quarters. 3) While it has not faced any logistics issues so due to the Red Sea crisis, management has indicated a potential impact on exports to China (15% of revenues) and part of RoW exports (17% of revenues). 4) Employee costs could rise post-wage revision agreed with Trade Unions. 5) JLR has unveiled RR Electric which has so far garnered 16k bookings. 6) Order backlog has now reduced to below 150k units from 168k units as of Q2 end. There is, so far, no impact on the US demand and demand from Europe also remains stable. 7) Net consolidated debt has reduced to INR 292bn from INR 387bn QoQ. It aims for net debt-free status by FY25E and JLR’s target of 10% EBIT margin by FY26E. 8) Capex guidance for JLR for FY24E stands at GBP 3.2bn and for India business at INR 80bn. **India highlights:** 1) Management expects CV demand to decline in Q4 over a high base and it is likely to pick up only from H2FY25E. 2) New launches in India PVs for FY25E include Tata Punch EV, Currv EV (Q2FY25, followed by ICE variant) and Tata Harrier EV. 3) Management expects the PV industry to post <5% growth in FY25E over a high base.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY23	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	1,097,992	877,832	25.1	1,044,431	5.1	3,459,670	4,066,032	4,419,280	4,947,920
EBITDA	180,737	122,796	47.2	162,745	11.1	424,778	627,609	572,563	640,798
PAT	70,276	20,751	238.7	38,245	83.7	7,199	139,525	76,244	102,453
EPS (INR)	18.3	5.4	238.7	9.99	83.7	1.9	36.4	19.9	26.7
P/E (x)						469.8	24.2	44.4	33.0
EV / EBITDA (x)						10.0	6.7	7.3	6.4
RoCE (%)						12.4	20.4	16.1	17.6

Source: Company, HSIE Research

SELL

CMP (as on 02 Feb 2024)	INR 879
Target Price	INR 596
NIFTY	21,854

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 534	INR 596
EPS %	FY25E	FY26E
	0%	0%

KEY STOCK DATA

Bloomberg code	TTMT IN
No. of Shares (mn)	3,323
MCap (INR bn) / (\$ mn)	2,920/35,704
6m avg traded value (INR mn)	7,895
52 Week high / low	INR 902/400

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	38.1	41.1	97.6
Relative (%)	25.6	31.5	77.3

SHAREHOLDING PATTERN (%)

	Sept-23	Dec-23
Promoters	46.38	46.37
FIs & Local MFs	17.64	17.34
FPIs	18.46	18.62
Public & Others	17.52	17.60

Source : BSE

Pledged shares as % of total shares

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Mahindra & Mahindra

Steady performance

M&M's Q3FY24 PAT at INR 24.5bn beat our estimate of INR 21.5bn due to higher-than-expected other income even as the operating performance was below our estimate. While the auto segment margin was in line, the tractor margin lagged behind the estimates due to lower volumes. Strong demand for its models helped M&M gain a 110bps share in UVs to 21% in Q3FY24. While industry demand is slowly decelerating, M&M continues to enjoy a healthy order backlog at 226k units in SUVs. In the up to 3.5T LCV segment, while demand is subdued, M&M witnessed a minor dip in market share to 48.5%. In tractors, M&M was able to increase its share by 80bps to 41.8% in 9M on the back of new launches. It does not expect a major impact on the supply chain due to the Red Sea crisis. However, the delivery time for the OJA brand of tractors has increased by 4-5 weeks. We continue to remain positive on the business momentum, given: (1) a strong order backlog for UVs may help it further gain share; (2) recent new launches may help gain share in tractors; (3) focused strides taken to achieve a strong position in EVs. Maintain BUY, with a revised TP of INR1,862/sh (earlier at INR1,767/share) as we roll forward to Mar-26 EPS.

- Q3 PAT beats estimates on higher other income:** Q3 EBITDA margin, at 12.8%, came in below our estimate, due to higher other expenses. On a segmental basis, the auto segment margin came in at 8.3% (-70bps QoQ, vs our estimate of 8.5%), the FES segment margin was below our estimate at 15.5% (-50bps QoQ, vs our estimate of 16.5%). FES margins in Q3 were impacted by a 70bps one-time impact of World Cup sponsorship in Q3. Other income came in at INR7.4bn vs our estimate of INR 2.4bn, led by dividend income from subsidiaries at INR3.5bn (vs INR4.6bn YoY).
- Conference call highlights:** (1) While demand is very strong for its new launches, it is sluggish for products priced below INR10-12 lakhs like Bolero and XUV300. Both Bolero and Scorpio Classic target the rural/semi-urban markets. Due to a difference in target income groups, Bolero demand is impacted by weak rural sentiment. Scorpio Classic continues to witness good demand as it targets higher-income groups. (2) M&M is on track to ramp up SUV production capacity to 49k units/month, from the current 40-42k units/month. It is stopping XUV300 bookings as it plans a mid-cycle refresh. Hence, it expects to hit the 49k units/month milestone post-XUV300 refresh. (3) The cancellation rate on their order backlog for Q3 increased to 10% due to higher cancellations in Dec-23. The cancellation rates are in the normal below 8% range in Jan-24. (4) 3W EVs volume has been stable QoQ at 11.6k units. While M&M lost market share in Q3 (at 48.5%), it has been able to regain its dominant position in this segment with 62% market share in Jan-24. (5) **Tractor outlook:** Management expects the tractor industry to decline 10% in Q4. (6) M&M has ended 9M with a strong RoE of 19% (ahead of their target of 18%).

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY23	FY24	FY25E	FY26E
Net Sales	252,885	216,537	16.8	243,099	4.0	849,603	979,603	1,099,963	1,253,230
EBITDA	32,364	28,142	15.0	30,660	5.6	104,424	125,772	142,995	156,654
APAT	24,540	19,997	22.7	31,418	-21.9	74,778	93,158	96,253	104,603
Diluted EPS (INR)	20.5	16.7	22.7	26.2	-21.9	62.3	77.7	80.2	87.2
P/E (x) core						18.5	14.8	14.3	13.2
EV / EBITDA (x)						13.2	11.1	9.6	8.7
RoCE (%)						19.9	22.1	20.6	19.9

Source: Company, HSIE Research

BUY

CMP (on 14 Feb 2024)	INR 1,657
Target Price	INR 1,862
NIFTY	21,840

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,767	INR 1,862
EPS %	FY25E 0%	FY26E 0%

KEY STOCK DATA

Bloomberg code	MM IN
No. of Shares (mn)	1,244
MCap (INR bn) / (\$ mn)	2,061/25,196
6m avg traded value (INR mn)	3,991
52 Week high / low	INR 1,758/1,123

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	7.6	7.1	21.6
Relative (%)	(3.0)	(2.7)	3.9

SHAREHOLDING PATTERN (%)

	Sept-23	Dec-23
Promoters	19.34	19.32
FIs & Local MFs	26.16	26.26
FPIs	39.32	40.87
Public & Others	15.18	13.55
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Bajaj Auto

Good show but unlikely to sustain

Bajaj Auto's Q3 PAT at INR20.4bn was ahead of our estimate of INR 19.7bn due to a better-than-expected margin of 20.1% (estimate of 19.5%). The margin beat was due to an improved mix and better export realisation. While BAL has posted a healthy performance in FY24 so far, it is unlikely to sustain it, going forward, as (1) exports will take longer to revive in key markets like Africa and Latin America since they remain stressed due to inflation and fears linger due to current Red Sea crisis; (2) we expect growth rates in domestic motorcycles (and in 3Ws) to normalise in coming quarters on a high base and due to lack of adequate rainfall this fiscal; (3) Triumph is already available off the shelf; and (4) in 2W EVs, BAL is facing acute competitive pressure and uncertainty persists around FAME subsidy sustenance. Given its outperformance so far this fiscal, we raise estimates for FY24-25E by 3-9%. However, due to the above headwinds and expensive valuation, we downgrade BAL to SELL (from REDUCE) with a revised TP of INR 5,606 (earlier INR 4,723) as we roll forward to FY26 EPS.

- Q3 earnings ahead of estimates:** Bajaj Auto's Q3 PAT at INR20.4bn (+37% YoY) was ahead of our estimate of INR 19.7bn due to better-than-expected margin, which came in at 20.1% (+30bps QoQ and +100bps YoY) vs estimate of 19.5%. The margin was driven by improved mix and better realisation given: (1) 125cc+ segment contributed to 70% in domestic sales; (2) there was a higher premium mix in exports; and (3) USD-INR is at 83.2 vs 82.6 QoQ.
- Call takeaways:** (1) In the domestic motorcycle market, BAL grew 2x of industry retail in Q3. In its focus area of the 125cc+ segment, while BAL grew 36% YoY, the industry grew 13%. While BAL's market share in the 125cc+ segment has improved to 31%, it has gained 800bps market share in the 150-250cc segment to 40% on the back of the success of its N series Pulsar launch. (2) The export market remains uncertain and two key markets are dragging exports – Africa (at 50% of peak) and South Asia (at 70% of peak). On the other hand, while Latin America is at 107% of peak, South East Asia is at 103% of peak. (3) Chetak is now ramping up well after the pricing adjustment and ramp-up of the network (currently in 160 cities). They expect its monthly run rate to inch up to 15k units and aim to launch one new model in Q1FY25 and ramp up its presence to 200 cities by H1. BAL has launched its e-3W in 23 cities and plans to ramp up to 50 cities by Q4 and further to 200 in FY25. (4) With Triumph, they are present in 41 cities and plan to ramp up their presence to 100 cities. They have also started exports to select markets. They intend to increase their capacity to about 30k units per month over FY25. It also intends to start customer development activities for building its brand in India.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	1,18,329	90,477	30.8	1,05,190	12.5	3,53,592	4,31,241	4,95,573	5,90,857
EBITDA	24,299	17,768	36.8	21,329	13.9	65,491	86,872	99,771	1,18,580
APAT	20,419	14,914	36.9	18,361	11.2	56,276	73,675	83,011	97,711
Diluted EPS (INR)	72.2	52.7	36.9	64.9	11.2	198.9	260.4	293.4	345.3
P/E (x)						36.3	27.7	24.6	20.9
EV / EBITDA (x)						27.6	20.7	17.8	14.9
RoCE (%)						28.9	35.2	37.2	40.8

Source: Company, HSIE Research

SELL

CMP (as on 24 Jan 2024) INR 7,213

Target Price INR 5,606

NIFTY 21,454

KEY CHANGES	OLD	NEW
Rating	REDUCE	SELL
Price Target	INR 4,723	INR 5,606
EPS %	FY24E	FY25E
	3.2%	8.6%

KEY STOCK DATA

Bloomberg code	BJAUT IN
No. of Shares (mn)	283
MCap (INR bn) / (\$ mn)	2,043/24,976
6m avg traded value (INR mn)	2,772
52 Week high / low	INR 7,420/3,611

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	33.4	47.7	95.7
Relative (%)	23.4	40.7	79.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	54.99	54.94
FIs & Local MFs	9.63	8.73
FPIs	13.67	14.65
Public & Others	21.72	21.68
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Eicher Motors

Competitive pressure to be visible in coming quarters

Eicher's Q3 PAT was ahead of estimates due to a better-than-expected margin in both RE and VECV. The margin beat in RE was driven by a significant improvement in realisation, likely driven by new launches. Since Harley Davidson (in collaboration with Hero MotoCorp) and Triumph (in collaboration with Bajaj Auto) launched their models at fiercely competitive and comparable price points to RE, competition in the 250–500cc sector has increased dramatically. Even if both these peers together can ramp up to 10% of RE volumes over 6-9 months, it would cap RE's future growth potential. Given the competitive aggression, we believe that RE would be forced to reconsider its pricing/brand strategy very quickly, which will in turn drive margin pressure. Even export momentum is now derailed given the geopolitical challenges at least in the near term. Additionally, Eicher has planned 20-24 new models in the medium term, which would keep margins under pressure due to higher marketing spending. While RE's performance has held up so far, we expect it to be impacted as competitors ramp up their production in the coming quarters. Reiterate REDUCE with a revised price target of INR 3,597 (from INR 3,407) as we roll forward to Mar 26 earnings.

- RE Q3 beats estimates:** Royal Enfield's Q3 PAT at INR 9.1bn was ahead of our estimate of INR 8.1bn due to a better-than-expected margin. Aided by better realization, the EBITDA margin at 27.5% was significantly higher than our expectation of 26.6%.
- Strong VECV performance:** VECV Q3 margin improved by 140bps YoY (+20bps QoQ) to 8%. Overall, PAT improved sharply to INR 2.11bn, from INR 1.16bn YoY, led by strong volume growth and improved margins.
- Call takeaways:** (1) The VECV segment witnessed significant market share gains across segments notwithstanding the challenging macro environment. (2) RE had two launches—the new Himalayan 450cc and Shotgun 650. (3) It believes the Himalayan on the new Sherpa 450 platform is positioned to capture growth opportunities in the middleweight motorcycling segment. (4) VECV announced its entry into the Small Commercial Vehicle segment with an Electric-First offer, available from CY25. (5) The recently launched Bullet 350cc on the J-platform has been very well received in the market. (6) There has been some impact of the adverse global macro conditions. Its share in >125cc motorcycles is 30.5% for 9MFY24 (32% in 1H). (7) Management has indicated that retail in key export markets is still doing well and they are careful not to push stock with dealers in these markets. (8) It has launched 'Re-own' for buying or selling pre-owned RE motorcycles. Another program, 'Assured Buyback' has been launched to reduce ownership costs and reduce entry barriers.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	41,156	36,652	12.3	40,330	2.0	141,759	155,509	172,075	192,951
EBITDA	10,903	8,572	27.2	10,872	0.3	34,436	38,976	39,462	44,059
APAT	9,960	7,408	34.4	10,163	-2.0	29,139	33,606	34,720	38,858
Diluted EPS (INR)	36.4	27	34.4	37.2	-2.0	106.6	122.9	127.0	142.1
P/E (x)						36.6	31.7	30.7	27.4
EV / EBITDA (x)						27.2	23.5	22.8	19.9
RoCE (%)						22.7	22.9	20.8	20.5

Source: Company, HSIE Research

REDUCE

CMP (as on 13 Feb 2024) INR 3,854

Target Price INR 3,597

NIFTY 21,743

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 3,407	INR 3,597
EPS %	FY25E 0%	FY26E 0%

KEY STOCK DATA

Bloomberg code	EIM IN
No. of Shares (mn)	274
MCap (INR bn) / (\$ mn)	1,055/12,902
6m avg traded value (INR mn)	2,226
52 Week high / low	INR 4,202/2,836

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.7	13.7	18.5
Relative (%)	(4.5)	4.2	0.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	49.16	49.15
FIs & Local MFs	10.58	9.83
FPIs	28.89	29.44
Public & Others	11.37	11.58

Source : BSE

Pledged shares as % of total shares

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Hero Motocorp

Success of new launches critical for profit growth

Hero MotoCorp's Q3 margin, at 14%, was down 10bps QoQ despite the 3% QoQ volume growth and improved mix, due to higher promotional spending. The recovery in the entry segment continues to be impacted by erratic monsoons. More importantly, despite the launch of new variants in the 125cc motorcycle segment, it has seen a decline in market share, dropping by 330bps to 20.2% in H1. Even within the premium segment, the new Xtreme 160R has failed to make any significant impact. In scooters, although Xoom seems to be doing well, it has cannibalized sales of other models. Hence, despite HMC maintaining a healthy launch pipeline largely focused on the 125cc and above segments, we expect it will not lead to substantial share recovery, given its patchy track record of new launches in these segments. **Maintain REDUCE with a revised TP of INR 3,535 (from INR 2,844) – as we roll forward to Mar26 earnings.**

- Q3 margin stable QoQ:** Hero MotoCorp's Q3 margin at 14% was down 10 bps QoQ despite the 3% QoQ volume growth and improved mix, due to higher promotional spending (other expenses up 14% QoQ) for new launches. Overall, PAT grew 1.9% QoQ to INR 10.7bn.
- Call takeaways:** (1) HMC launched two products at the Hero World event in Jan 2024. The Mavrick 440 bookings opened in February with deliveries starting in April. The Xtreme 125 was launched to strengthen the 125 cc portfolio. (2) For EVs, HMC has collaborated with Ather to create charging infrastructure in the country. It is expanding its presence in cities and creating dedicated Vida Hubs as well. (3) The annualized revenue from the accessories and merchandise business has increased to INR 55bn (from earlier levels of INR 33bn). HMC is investing INR 6bn over the next two years to increase capacity for this business. The increased capacity has a peak revenue potential of INR 100bn. (4) HMC expects the industry to report double-digit revenue growth in FY25. HMC is likely to report higher growth due to the premiumisation of the portfolio and new launches. HMC indicated that 125cc motorcycles will drive the overall motorcycle portfolio growth. It expects double-digit growth in the premium portfolio, driven by X440, Karizma and the new Mavrick. (5) The inquiries from rural markets are picking up; they were ~40% in Q4FY23 and have picked up to 50-55% now. (6) The financing penetration is in the 60-65% range with Hero FinCorp at ~30%. (7) Commodity prices continue to be benign. EBITDA margin for the ICE business is ~ 16%. With an increase in brand awareness, the EV EBITDA margin has expanded 200bps to ~14%. (8) The capex would be deployed towards premium portfolio (EV) and digital technologies. Internal accruals will be used to fund the capex.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY23	FY24E	FY25E	FY65E
Net Sales	97,237	80,310	21.1	94,454	2.9	338,057	371,779	406,016	452,368
EBITDA	13,620	9,241	47.4	13,283	2.5	39,862	50,489	52,376	58,808
APAT	10,734	7,111	51.0	10,538	1.9	29,106	37,288	38,170	42,978
Diluted EPS (INR)	53.7	35.6	51.0	52.8	1.9	145.7	186.7	191.1	215.2
P/E (x)						33.7	25.5	25.7	22.8
EV / EBITDA (x)						21.7	17.0	16.3	14.4
RoCE (%)						17.4	21.4	19.9	20.9

Source: Company, HSIE Research

REDUCE

CMP (as on 09 Feb 2024) INR 4,909

Target Price INR 3,535

NIFTY 21,783

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,844	INR 3,535
EPS %	FY25E	FY26E
	0%	0%

KEY STOCK DATA

Bloomberg code	HMCL IN
No. of Shares (mn)	200
MCap (INR bn) / (\$ mn)	981/11,998
6m avg traded value (INR mn)	2,415
52 Week high / low	INR 4,924/2,246

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	54.7	60.4	91.8
Relative (%)	44.2	52.0	74.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	34.77	34.77
FIs & Local MFs	29.14	29.14
FPIs	26.80	26.80
Public & Others	9.29	9.30
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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TVS Motor

Margins continue to improve

TVS Motors' Q3 PAT at INR 5.9bn came in ahead of our estimates of INR 5.5bn due to higher other income even as operational performance was in line with our estimates. While TVS gained about 330bps market share in motorcycles for YTD FY24 to 10.5%, it has maintained its share in ICE scooters. TVS continues to outperform the industry on the back of healthy demand for its products like Raider, i-Qube, Jupiter125, etc. In exports, having established its presence in Africa, its outperformance is likely to be driven by its focus on penetrating Latin America in the coming years. Even in 2W EVs, TVS is putting the right building blocks in place to emerge as a leading player. Its investments in e-bikes in Europe, Norton and the extension of tie-up with BMW Motorrad are expected to deliver strong returns over a 2-3 year horizon. Given its steady margin improvement in each quarter in FY24 and continued market share improvement, we have raised our estimates in the range of 2-9% over FY24-25E. We maintain BUY with a revised TP of INR 2,211/sh (earlier INR 1,778), as we roll forward to FY26 EPS.

- Q3 earnings ahead of estimates due to higher other income:** TVS Motors' Q3 PAT at INR 5.9bn was ahead of our estimate of INR 5.5bn due to higher other income, even as EBITDA was in line with our estimate. Margin at 11.2% has further improved by 20bps QoQ despite the continued ramp-up of i-Qube. TVS reported INR 734mn of other income in Q3, which included a profit of INR 823mn due to gains from Sundaram Auto Components Ltd.
- Call takeaways:** (1) In the domestic market, while there are early signs of rural revival, growth has been driven by semi-urban and urban markets in Q3. (2) Exports recovery is taking a bit longer than expected. They are likely to see longer shipping times in the near term due to a lack of container availability led by the ongoing Red Sea crisis. (3) TVS has a strong line-up of EV products in place and would launch the same from Q4 onwards. It plans to double its EV touchpoints in Q4 from 400 currently. (4) TVS Credit Q3 PBT has improved to INR2.3bn from INR 1.8bn YoY and its 9M PBT at INR 5.6bn has already surpassed FY23 levels. Its book size has crossed INR 260bn with GNPA at 3.1%. (5) Retail finance penetration has increased to 65%. (6) TVS has invested INR 3bn in Q3 in TVS SG, of which INR 800mn is invested in Norton and the balance in other subsidiaries including SMEG and TVS Digital. Capex guidance for FY24 stands unchanged at INR 10bn and investments at INR 11bn. (7) TVS announced its entry into the Europe market by signing a strategic partnership with Emil Frey in Nov-23. It will launch both ICE and EV products in select markets in the EU. (8) USD-INR stood at INR 83 for Q3.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	82,450	65,454	26.0	81,446	1.2	2,63,781	3,17,713	3,86,044	4,42,864
EBITDA	9,244	6,589	40.3	8,998	2.7	26,747	35,013	45,553	55,358
APAT	5,934	3,528	68.2	5,366	10.6	14,074	21,114	28,719	36,215
Diluted EPS (INR)	12.5	7.4	68.2	11.3	10.6	29.6	44.4	60.4	76.2
P/E (x)						67.6	45.1	33.1	26.3
EV / EBITDA (x)						34.2	25.6	19.2	15.2
RoCE (%)						24.3	30.8	33.7	34.9

Source: Company, HSIE Research

BUY

CMP (as on 24 Jan 2024) INR 2,002

Target Price INR 2,211

NIFTY 21,454

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,778	INR 2,211
EPS %	FY24E 1.8%	FY25E 9.3%

KEY STOCK DATA

Bloomberg code	TVSL IN
No. of Shares (mn)	475
MCap (INR bn) / (\$ mn)	951/11,624
6m avg traded value (INR mn)	1,814
52 Week high / low	INR 2,109/971

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.2	53.1	103.4
Relative (%)	16.2	46.0	86.8

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	50.27	50.27
FIs & Local MFs	23.12	21.79
FPIs	18.51	19.27
Public & Others	8.10	8.7
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Samvardhana Motherson International

Acquisition costs a drag on profitability

SAMIL Q3 revenue was marginally below our estimate due to a slowdown in light vehicle production across its key regions. PAT was below our estimate due to higher-than-expected depreciation and finance costs. Additionally, wage pressure remains a concern across geographies. As a majority of its operations are located close to its clients, management expects minimal impact from the Red Sea conflict on its operations. We reiterate BUY on SAMIL with a target price of INR 129, valued at 20x FY26 earnings. Our confidence in the company is undeterred due to its diversified presence across components, geographies and customer base. SAMIL is emerging as the key beneficiary of the rising premiumisation trend across segments, as reflected in its order book ramp-up to USD 77.3bn. Additionally, SAMIL offers significant growth potential through inorganic opportunities, having completed 15 acquisitions since Sep 2022, totalling combined proforma revenue of USD 2.6bn (net).

- Higher finance cost and depreciation a drag:** SAMIL's Q3 revenue at INR 257bn was below our estimate of INR 261bn. With copper prices down 2% QoQ, the gross margin expanded 170bps sequentially to 44.9%. EBITDA margin improved to 9.2% (+120bps QoQ/+140bps YoY) vs our estimate of 8.7%. Higher-than-expected depreciation and finance costs dragged the PAT growth. PAT came in at INR 5.4bn, compared to our estimate of INR 6.5bn.
- Call takeaways:** (1) The wiring harness business reported 22% YoY revenue growth due to operational improvements. However, the segment result (EBITDA) was impacted by wage inflation and forex volatility. (2) The module and polymers business reported 17% YoY growth, aided by the integration of Dr Schneider acquisition. However, the organic business revenue was impacted by the model mix not going as planned by OEMs. Benign energy prices led EBITDA margin growth of 170bps QoQ to 8.8%. (3) The onboarding of new customers coupled with vertical integration and utilizing capabilities of other business divisions led to a strong growth in the revenues of integrated assemblies. (4) There was an impact of INR 69mn on consolidated EBITDA due to hyperinflation in Argentina. (5) Finance cost came in at INR 6.2bn vs INR 4.9bn in Q2 due to refinancing of low-cost debt at higher rates. (5) Depreciation is likely to be higher in the medium term due to amortization of acquired assets. (6) The focus on debt reduction continues, with leverage down from 1.9x (Q2) to 1.7x (Q3). It aims to reduce the leverage to sub 1.6x by Mar 2024. Net debt stood at INR 12.6bn compared to INR 13.4bn in Q2. (5) It has reiterated its capex guidance of INR 45bn for FY24. It had earlier announced building 11 new greenfield facilities in India, which are expected to commence production by FY25.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	256,976	202,262	27.1	234,738	9.5	787,007	987,017	1,107,614	1,212,047
EBITDA	23,696	15,753	50.4	18,888	25.5	62,077	84,841	99,181	115,225
APAT	5,426	4,547	19.3	3,886	39.6	15,653	23,376	31,935	43,734
Diluted EPS (INR)	0.8	0.7	19.3	0.6	39.6	2.3	3.4	4.7	6.5
P/E (x)						49.8	33.3	24.4	17.8
EV / EBITDA (x)						13.8	10.2	8.6	7.3
RoCE (%)						9.3	15.0	17.2	19.9

Source: Company, HSIE Research

BUY

CMP (as on 12 Feb 2024)	INR 114
Target Price	INR 129
NIFTY	21,616

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 129	INR 129
EPS %	FY25E	FY26E
	0%	0%

KEY STOCK DATA

Bloomberg code	MOTHERSO IN
No. of Shares (mn)	6,776
MCap (INR bn) / (\$ mn)	775/9,479
6m avg traded value (INR mn)	1,417
52 Week high / low	INR 123/62

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	25.7	17.2	42.6
Relative (%)	16.8	8.4	25.5

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	64.8	64.8
FIs & Local MFs	15.0	15.3
FPIs	11.4	10.8
Public & Others	8.8	9.1
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Ashok Leyland

Moderating demand to weigh on multiples

Ashok Leyland's Q3 PAT at INR 5.8bn and margin at 12% were both higher than our estimates. With a high base in Q4 and the likely impact of upcoming general elections, we expect the MHCV industry to post mid-single-digit growth for FY24. We are of the view that the best of the CV industry is now behind us, after two years of very strong growth. The stock is likely to remain range-bound from here on, given (1) a decelerating growth trend in CVs; (2) the need to support Switch in the foreseeable future, which is likely to hurt returns (AL to invest INR 12bn in Switch in FY24); and (3) the resultant rise in debt. Although AL hopes to achieve EBITDA margins in the mid-teens over the medium term, increasing financing costs will likely offset the benefit of higher margins. Reiterate SELL with a revised TP of INR 151 (from INR 155 earlier), as we roll forward to Mar-26 EPS.

- Q3 earnings ahead of our estimates:** Ashok Leyland's Q3 PAT at INR 5.8bn was higher than our estimates. Notwithstanding lower volumes, gross margins expanded 130bps QoQ, aided by better realizations. The margin at 12% was higher than our estimate of 10.8%, aided by softer commodity prices. The tax rate in Q3 remained elevated at 36% due to deferred tax adjustment.
- Call takeaways:** (1) Truck demand is currently being driven by tractor-trailers and tippers. (2) Domestic M&HCV industry grew 10%/9% in H1FY24/9MFY24 respectively. Growth in Q3 was subdued due to elections in key states. Q4 is likely to remain subdued due to the high base of Q4FY23 and union elections. Recovery is expected in 2HFY25. (3) In the M&HCV segment, AL's market share has increased to 35% in 9MFY24 (31.4% in 1HFY24). With a significant competition reaction expected, AL will focus on profitability and not offer aggressive discounts to gain further market share. (4) The demand for buses is being driven by the replacement of existing fleets and increasing demand for school and staff transportation. (5) The earlier double-digit EBITDA margin guidance has been revised to mid-teens EBITDA margin for the medium term. (6) Its order book in the e-bus segment stands at 1,000 units. It plans to launch its first LCV EV by Q4FY24 and it has already received LoIs for about 12-13k e-LCVs from multiple customers. (7) AL is seeing very good traction from the defence segment and it expects to end FY24 with INR 9-10bn revenue from this segment (INR 3bn done in H1). (8) As a part of the equity infusion plan of INR 12bn in Switch Mobility announced earlier, AL has invested INR 6.6bn in Q3. The balance will be invested in one or more tranches over the next few months. (9) Capex incurred for 9MFY24 is INR 2.9bn (INR 0.9bn incurred in 3QFY24). (10) Net debt stood at INR 17.5bn, an increase of INR 6bn QoQ after fund infusion in Switch mobility.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	92,730	90,297	2.7	96,380	-3.8	361,441	385,164	405,086	429,317
EBITDA	11,139	7,973	39.7	10,798	3.2	29,307	40,635	41,319	43,790
APAT	5,806	3,544	63.8	5,839	-0.6	12,955	21,415	20,596	22,130
Diluted EPS (INR)	2.0	1.2	63.8	1.99	-0.6	4.4	7.3	7.0	7.5
P/E (x)						39.4	24.6	25.6	23.8
EV / EBITDA (x)						16.0	11.5	10.9	10.4
RoCE (%)						19.1	25.1	22.4	23.7

Source: Company, HSIE Research

SELL

CMP (on 06 Feb 2024)	INR 180
Target Price	INR 151
NIFTY	21,929

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 155	INR 151
	FY24E	FY25E
EPS %	-0.6%	-0.6%

KEY STOCK DATA

Bloomberg code	AL IN
No. of Shares (mn)	2,936
MCap (INR bn) / (\$ mn)	528/6,461
6m avg traded value (INR mn)	2,586
52 Week high / low	INR 192/133

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.4	(1.4)	17.7
Relative (%)	(4.8)	(11.2)	(1.6)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	51.53	51.53
FIs & Local MFs	16.38	14.66
FPIs	20.05	20.49
Public & Others	12.04	13.25

Source : BSE

Pledged shares as % of total shares

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Bharat Forge

Near-term weakness likely

Bharat Forge's consolidated EBITDA at INR 7bn surpassed our estimate due to a favourable product mix and effective cost optimisation. However, PAT missed the estimate due to higher-than-expected interest and depreciation. The impact of the ongoing global challenges is evident on the export business, as growth has slowed down to just 4% YoY (vs 21% YoY in Q3). Management has further highlighted that growth could moderate in Q4FY24 and FY25 from the previously projected estimate of ~20%. While it expects to report growth rates stronger than the industry average, challenges are evident in its underlying markets. Despite expectations of subdued demand in certain segments, we expect 15% revenue growth (CAGR FY23-26E), to be driven by factors like (1) ramp-up of defence revenues that are likely to increase to INR 17bn by FY25E, from INR 3.5bn in FY23, (2) ramp-up potential at JS-Auto Cast, given there is a huge demand for castings, both in India and abroad, and (3) strong order backlog in aerospace, which would boost this segment's revenue to INR 5bn over the next four years, from INR 1.7bn. Reiterate BUY with a revised TP of INR 1,286 (from INR 1185 earlier) as we roll forward to Mar-26 estimates.

- Q3 EBITDA ahead of estimates:** BHFC's Q3 consolidated EBITDA at INR 7bn was ahead of our estimate of INR 6.5bn. The margin was 18% (+400bps YoY/+150bps QoQ), higher than our estimate of 16.5%. Standalone business revenue at INR 16bn came in line with our estimate with a margin of 29.3% (+410bps YoY/+210bps QoQ), compared to our estimate of 26.5%.
- Call takeaways:** (1) While domestic CV revenue remained flat QoQ, management expects the segment to post growth in Q4FY24 due to seasonality. Exports of CVs to Europe reported a decline as economic recovery remained patchy while the US CV revenue reported an uptick. (2) It expects flattish growth in US CV revenue over CY24. Due to the shift to new emission norms, it expects a significant preponement of demand in CY24/25, which should moderate in CY26. Management highlighted it does not expect a slowdown in US Class 8 truck demand over the next two years. (3) BHFC has won INR5.5bn worth of new business from automotive, industrial, defence, aerospace, and casting segments in Q2 (INR 5bn in Q2). 90% of the new business is export-oriented. (4) **Overseas subsidiaries:** AI plant utilization in the US stands at 50% while the same for Europe stands at 70%. While losses are coming down sharply in the US business QoQ, management indicated that it will also need some pricing action to help it break even in the coming quarters. (5) Revenue from the defence segment stood at INR 3.5bn in Q3. The order book stands at INR 20bn (INR 30bn in Q2), as it is executing orders worth INR 10bn. A strong growth in defence revenue is expected over the next two years. (5) Management expects a strong double-digit growth in EBITDA as the contribution of defence revenue to consolidated revenue picks up significantly over the next 2-3 years. (6) Capex on a consolidated level is expected to be INR 10bn for the next two years.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	38,664	33,534	15.3	37,742	2.4	129,103	155,996	176,212	194,674
EBITDA	6,979	4,693	48.7	6,214	12.3	17,676	24,491	32,857	38,246
APAT	2,527	1,137	122.2	2,165	16.8	5,680	10,614	18,204	23,039
Diluted EPS (INR)	5.4	2.4	122.2	4.6	16.8	12.2	22.8	39.1	49.5
P/E (x)						92.7	49.6	28.9	22.9
EV / EBITDA (x)						31.6	23.0	17.0	14.2
RoCE (%)						7.9	11.7	16.9	19.0

Source: Company, HSIE Research

BUY

CMP (on 12 Feb 2024)	INR 1,131
Target Price	INR 1,286
NIFTY	21,616

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,185	INR 1,286
EPS %	FY25E	FY26E
	-2.0%	-3.4%

KEY STOCK DATA

Bloomberg code	BHFC IN
No. of Shares (mn)	466
MCap (INR bn) / (\$ mn)	527/6,7439
6m avg traded value (INR mn)	1,302
52 Week high / low	INR 1,330/744

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	8.2	16.4	28.1
Relative (%)	(0.7)	7.6	11.0

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	45.25	45.25
FIs & Local MFs	28.12	27.94
FPIs	16.28	16.60
Public & Others	10.35	10.21
Pledged Shares	3.22	3.22

Source : BSE

Pledged shares as % of total shares

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Balkrishna Industries

Outlook remains uncertain

Balkrishna Industries' (BKT) Q3 FY24 PAT, at INR3.1bn, came in lower than our estimate even as margins were in line due to lower other income and a higher interest burden. Management has indicated that the ongoing Red Sea crisis is likely to lead to a delay in shipments at least for Q4 and hence has guided for flat volume growth YoY in Q4. Also, while input costs are likely to remain stable QoQ, freight costs are expected to rise in Q4 due to a sharp rise in container costs globally. Also, given the uncertain global macro, management has refrained from giving any volume guidance for the next year. As a result of the rising uncertainty, we have lowered our FY24-26 earnings by 5-6%. Given the uncertain outlook, the stock at 25x FY26E appears expensive. Maintain REDUCE with a revised TP of INR2,228 (INR2,201 earlier), as we roll forward to FY26 EPS (no change in target multiple).

- Q3 PAT lower than our estimates:** Q3 revenue grew 4.5% YoY to INR 23.2bn. While tonnage grew 9.4% YoY to 72,749 MT, ASP declined 4.5% YoY to INR 318.3/kg. EBITDA margin improved 620bps YoY and 90bps QoQ to 25.3% and was in line with our estimate. Overall, PAT came in lower than our estimates at INR 3.1bn due to lower other income and higher finance. Interest cost has increased in Q3 due to MTM loss on overseas debt.
- Call takeaways:** (1) For 9MFY24, while the agri segment contributed to 58.9%, OTR was at 37.9%. Also, while Europe was at 46.3%, India improved to 27.6% and the Americas was at 16.6%. (2) They have not taken any pricing action in Q3, as per management. (3) Given the ongoing Red Sea crisis, management expects delays in shipments in Q4 and hence has guided for a flat quarter YoY in tonnage terms in Q4. Also, freight costs are expected to inch up in the near term due to the same and hence management expects some margin pressure in the near term (4) Management indicated that retail demand is stable to improving in key markets. India is likely to continue to outperform other markets, going forward. (5) The decline in crude prices is expected to be offset by an increase in rubber prices. Hence, management expects the RM basket to remain stable in Q4. (6) The hedge rate for Euro-INR for Q3 stands at INR 89-90 and they have hedged 25-30% of their export exposure for FY25 at INR 91-92. (7) Carbon black sales to third parties stand at 7.5% of revenues and are expected to increase to 8-9% in FY25. (8) Gross debt stands at INR 28.8 bn (flat QoQ), 65% of which is for working capital funding. Cash in hand is higher QoQ at INR 25.5bn. Hence, net debt declined QoQ to INR 3.3bn. (9) BKT has declared a dividend of INR 4 per share and the total dividend for YTD stands at INR 12 per share.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3	Q3	YoY	Q2	QoQ	FY23	FY24E	FY25E	FY26E
	FY24	FY23	(%)	FY24	(%)				
Net Sales	23,158	22,153	4.5	22,472	3.0	1,00,725	90,959	106,312	116,956
EBITDA	5,870	4,238	38.5	5,482	7.1	20,286	22,231	28,704	32,163
APAT	3,091	996	210.3	3,354	-7.8	10,787	12,846	17,179	19,575
Diluted EPS (INR)	16.0	5.2	210.3	17.4	-7.8	55.8	66.5	88.9	101.3
P/E (x)						45.3	38.0	28.4	25.0
EV / EBITDA (x)						24.6	22.1	16.9	14.9
RoCE (%)						13.5	15.7	19.1	19.9

Source: Company, HSIE Research

REDUCE

CMP (as on 25 Jan 2024) INR 2,527

Target Price INR 2,228

NIFTY 21,353

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,201	INR 2,228
	FY24E	FY25E
EPS %	-6.0%	-5.1%

KEY STOCK DATA

Bloomberg code	BIL IN
No. of Shares (mn)	193
MCap (INR bn) / (\$ mn)	489/5,973
6m avg traded value (INR mn)	702
52 Week high / low	INR 2,796/1,909

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.5)	5.9	12.8
Relative (%)	(12.9)	(0.6)	(4.6)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	58.29	58.29
FIs & Local MFs	21.23	21.42
FPIs	12.54	12.69
Public & Others	7.94	7.60

Source : BSE

Pledged shares as % of total shares

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Apollo Tyres

Good performance; valuation expensive

Apollo Tyres' consolidated earnings of INR 5bn were in line with our estimates. Aided by benign material costs, EBITDA margin came in at 18.3% vs our estimate of 17.5%. In India, both OEM and replacement demand outlook continues to be healthy. While there has been an impact of the geopolitical crises on competitors, Apollo Tyres has escaped unhurt. By focusing on the premium market, it saw a 6% YoY increase in business revenue in Europe and a 410bps YoY increase in EBITDA margin. With input costs expected to remain flatish, we expect Apollo's margin to sustain above its target of 15% level, aided by: (1) focus on premiumisation and profitable growth both in India and Europe; (2) pricing discipline in India; and (3) gradual ramp-up in utilisation level. Management has reiterated that it would not need incremental capacity for at least a couple of years and its strong cash generation will be utilised to reduce debt. This will help boost the RoCE, which, if annualised for H1, stands at 16%+, above its target of 15%. At 16x FY25 earnings, valuation is becoming expensive. We roll over the valuation to FY26 and downgrade the stock to REDUCE with a revised TP of INR520/sh (from INR 433 earlier), valued at 14x March 26 earnings.

- Q3 performance in line with estimates:** The consolidated earnings at INR5bn were in line with our estimates. The increase in raw material costs was lower than expected, at 2%. Higher marketing and promotion expenses led to higher other expenses, resulting in a consolidated EBITDA margin decline of 20bps QoQ to 18.3%.
- Call takeaways:** (1) In India, both replacement and export volumes grew in mid-single digits YoY. The OEM volumes were flat YoY. (2) **Demand outlook (a) India:** Volume growth is expected to be muted in the near term. Volume growth of mid-single digit expected, driven by replacement demand and exports. Red Sea crisis disruptions are likely to impact the exports to European markets. Marginal growth is expected in the PV segment and significant improvement is expected in 2HFY25. (b) **Europe:** The focus on premium categories (under the Vredestein brand) is likely to yield benefits. (3) In Europe, all the segments witnessed double-digit growth. The segment margins improved sequentially, from 5.3% in Q2FY24 to 12% in Q3FY24, led by market share gains across segments. (4) The RM cost basket is likely to remain benign in the near term, aided by a better product mix. (5) Capacity utilisation is in the mid-to-high 70% range. The company believes there is significant scope for growth without undertaking substantial capacity addition. (6) The consolidated net debt to EBITDA has declined to 0.7x from 1.4x by March-end. (7) Management has reiterated that it does not need to add capacity for the next couple of years and it will continue to pare down the debt in the near term. Capex guidance for FY24 was maintained at INR 11bn.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	65,954	64,228	2.7	62,796	5.0	245,681	255,059	288,609	317,891
EBITDA	12,081	9,134	32.3	11,598	4.2	33,137	45,014	45,600	47,684
APAT	5,072	2,921	73.6	4,828	5.1	10,821	18,581	21,781	24,083
Diluted EPS (INR)	8.0	4.6	73.6	7.6	5.1	17.0	29.3	34.3	37.9
P/E (x)						31.8	18.5	15.8	14.3
EV / EBITDA (x)						11.7	8.3	7.9	7.2
RoCE (%)						9.8	15.3	15.1	15.5

Source: Company, HSIE Research

REDUCE

CMP (as on 08 Feb 2024)	INR 539
Target Price	INR 520
NIFTY	21,718

KEY CHANGES	OLD	NEW
Rating	ADD	REDUCE
Price Target	INR 433	INR 520
	FY25E	FY26E
EPS %	0%	0%

KEY STOCK DATA

Bloomberg code	APTY IN
No. of a Shares (mn)	635
MCap (INR bn) / (\$ mn)	342/4,184
6m avg traded value (INR mn)	1,236
52 Week high / low	INR 560/303

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	31.3	23.0	62.2
Relative (%)	21.4	14.5	44.4

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	37.34	37.34
FIs & Local MFs	17.74	22.02
FPIs	22.10	17.96
Public & Others	22.75	21.10
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Motherson Sumi Wiring India

Stellar performance

MSWIL's Q3FY24 PAT at INR 1.68bn surpassed our estimate of INR 1.42bn, led by a better-than-expected margin. This margin growth is attributed to higher content per vehicle in premium models. MSWIL is emerging as one of the major beneficiaries of the evolving trends (premiumisation + EVs) in the auto sector in India wherein content is set to rise in the range of 1.1x-8x. The company has developed a sustainable competitive advantage in India, leveraging its scale advantage, backward integration capabilities, and localisation efforts. In the Indian wiring harness sector, it supplies to 10 out of the top 12 PV OEMs, 2 of the top 3 EV OEMs in PVs, and 2 of the top 5 EV OEMs in the two-wheeler segment. Having been a part of 23 new launches and 17 facelifts in FY23 across various segments, the company demonstrates a strong position across markets. With the steady ramp-up of new facilities and aided by cost pass-through mechanisms, we expect MSWIL's margin to improve 130bps over FY24-26E. Given its strong franchise and superior returns, we believe the stock deserves a premium valuation relative to peers. Maintain ADD with a TP of INR 67 (valued at 34x FY26 EPS).

- Strong beat to estimates:** MSWIL revenue growth (26% YoY/1%QoQ) outperformed industry growth due to higher sales of content for premium models. The gross margin expanded 70bps QoQ due to a better product mix. The key surprise in Q3 was the 60bps QoQ margin improvement to 12.4% (our estimate was 11.6%). Margin improvement QoQ was due to an increase in content supplied due to the rising premiumisation trend across segments, cost optimisation and benefits of operating leverage. ETR was 23.3% in Q3FY24 vs 25.8% in Q2FY24. Lower depreciation and tax led PAT to grow by 8% QoQ.
- Call takeaways:** (1) With upgrades to top-end models, there is more content of wiring harness in the car, which is beneficial for MSWIL. (2) The impact of seasonality was not evident in Q3FY24 due to higher sales of feature-rich models resulting in 1% sales growth QoQ. (3) Copper price is down QoQ from INR 754 per kg to INR 741 per kg. The impact of lower prices will be evident in subsequent quarters as the pass-through impact comes after a lag of a quarter to six months. (4) MSWIL undertakes capacity expansion as its plants start operating at 80% utilisation. Hence, it is expanding its capacities to support customer expansion plans. (5) Management has maintained a capex guidance of INR1.25mn for FY24. The capex for FY25 is likely to be higher due to expansion plans. (6) Gross debt stands at INR 80mn (stable QoQ). Cash stands at INR 2230mn (vs INR 150mn in Q2FY24). Net cash now stands at INR 2150 mn (vs INR 70mn in Q2FY24).

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	21,173	16,868	25.5	21,046	0.6	70,226	80,421	90,071	102,681
EBITDA	2,620	1,790	46.4	2,481	5.6	7,814	9,285	10,854	13,134
APAT	1,679	1,062	58.1	1,559	7.7	4,870	5,849	6,983	8,676
Diluted EPS (INR)	0.38	0.24	58.1	0.35	7.7	1.1	1.3	1.6	2.0
P/E (x)						59.3	49.4	41.3	33.3
EV / EBITDA (x)						37.0	30.0	25.2	20.7
RoCE (%)						49.6	50.8	52.9	55.6

Source: Company, HSIE Research

ADD

CMP (as on 31 Jan 2024)	INR 65
Target Price	INR 67
NIFTY	21,726

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 67	INR 67
	FY25E	FY26E
EPS %	0%	0%

KEY STOCK DATA

Bloomberg code	MSUMI IN
No. of Shares (mn)	4,421
MCap (INR bn) / (\$ bn)	287/3,517
6m avg traded value (INR mn)	407
52 Week high / low	INR 68/45

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	8.5	11.1	26.4
Relative (%)	(3.8)	3.2	5.9

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	61.7	61.7
FIs & Local MFs	17.8	17.3
FPIs	11.1	11.0
Public & Others	9.4	9.9
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Endurance Technologies

Recessionary trends in Europe remain the key concern

Endurance's Q3 consolidated EBITDA/PAT at INR 3/1.5bn came in below our estimates. The Europe business margin was flat QoQ at 15.5%. In India, while the premium segment in 2Ws is seeing good demand, growth prospects for entry 2W segment appear bleak, given the incremental impact of sub-par monsoon expected on rural sentiment. Further, consumer sentiment in Europe has sharply deteriorated, given the geopolitical issues and recessionary trends in the region. The weak consumer sentiment is visible in the slower run rate of Endurance's business wins in Europe for 9M. However, given the reduction in energy costs in Europe, we factor in that the consolidated margin will improve to 14% by FY25E (from 11.8% in FY23). While we have factored in most of the key positives, the valuation at 31x FY26E earnings appears expensive. The stock is now rated SELL with a revised target of INR 1,599 (earlier INR 1,508), as we roll forward to Mar-26 EPS (unchanged target multiple of 25x).

- Q3 performance below our estimates:** Endurance's Q2 consolidated PAT at INR 1.5bn was below our estimate. The standalone margin declined 100bps QoQ to 12.6% due to higher raw material costs. There was no state incentive received in Q3. Standalone PAT grew 44% YoY to INR1.3bn. In Q3FY24, its Europe revenue grew 5.5% YoY to Euro 63mn, in line with the 5% production growth. Lower electricity and gas prices in Europe led to an improvement of 110bps YoY in EBITDA margin to 15.5%. Maxwell revenue has improved to INR 190mn from INR 171mn QoQ. EBITDA loss was INR 33.7mn (INR 43.4mn in Q2FY24) due to the postponement of new product EV launches.
- Call takeaways:** (1) New business won in 9M stands at INR9.41bn from non-Bajaj customers. Of this, INR 5.68bn is new business wins and the balance is replacement business. (2) In the domestic market, it is seeing strong growth from premium bikes (150cc and above). (3) It has to date won INR 6.7bn worth of EV business from Ather, Bajaj, Hero Electric, Greaves Cotton, Bounce and Aptiv. Endurance is ramping up its sales to 240,000 sets per annum for EV battery packs and motor housing aluminum castings. (4) In Europe, Endurance has won only Euro 29mn worth of new business in 9M, from the Volkswagen Group and Mercedes Benz. This compares to Euro 84mn worth of new business wins in FY23. The ongoing recession continues to impact consumer sentiment in Europe. (5) It aspires to increase the share of 4W in consolidated business from 26% currently to 45% by FY30. The increase is expected to come from aluminum castings and aluminum forgings. (6) Maxwell won Battery Management Systems (BMS) business of INR 793mn in 9M (vs INR 1.2bn in FY23). It has won BMS business from Royal Enfield for INR 0.3bn with delivery starting in Q1FY25. (7) It is focusing on raising the share of the nonautomotive business, especially in aluminum casting. It aspires to reach 10% of domestic sales in the aftermarket business by FY28.

Quarterly/annual financial summary

YE Mar (INR mn)	3Q FY24	3Q FY23	YoY (%)	2Q FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	25,611	20,952	22.2	25,450	0.6	88,040	101,139	112,752	126,471
EBITDA	2,990	2,395	24.8	3,183	-6.1	10,363	13,243	15,643	17,464
APAT	1,523	1,082	40.7	1,546	-1.5	4,899	6,634	8,070	8,995
Diluted EPS (INR)	10.8	7.7	40.7	11.0	-1.5	34.8	47.2	57.4	63.9
P/E (x)						56.9	42.0	34.5	31.0
EV / EBITDA (x)						26.4	20.7	17.3	15.2
RoCE (%)						13.7	17.2	18.8	18.8

Source: Company, HSIE Research

SELL

CMP (as on 07 Feb 2024) INR 1,983

Target Price INR 1,599

NIFTY 21,931

KEY CHANGES	OLD	NEW
Rating	REDUCE	SELL
Price Target	INR 1,508	INR 1,599
	FY25E	FY26E
EPS %	0.6%	0.6%

KEY STOCK DATA

Bloomberg code	ENDU IN
No. of Shares (mn)	141
MCap (INR bn) / (\$ mn)	279/3,411
6m avg traded value (INR mn)	276
52 Week high / low	INR 2,319/1,172

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.4	18.0	39.3
Relative (%)	4.3	8.6	19.6

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	75.00	75.00
FIs & Local MFs	14.9	15.4
FPIs	8.31	7.82
Public & Others	1.79	1.77
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Sansera Engineering

Good performance despite macro headwinds

Notwithstanding the seasonal slowdown in autos and the impact of geopolitical issues on the Sweden subsidiary, Sansera's consolidated revenue grew 28% YoY/3% QoQ to INR7.1bn, in line with our estimate. While macro issues are likely to impact the performance of its Sweden subsidiary over FY25, Sansera is working on reducing costs by shifting production to Indian facilities. This may offset some of the margin pressure in FY25. Management has highlighted the current order book (INR 20.4bn) will mature over FY25-27. The focus on diversification is evident with 30%/23% of the incremental orders from auto-tech agnostic & xEV/ non-auto respectively. The shift in the order book is in line with its revenue target of 40% from the non-ICE segment for FY26 (vs 22% in FY23). Sansera has earmarked an ambitious Vision wherein it aims to achieve 20% revenue CAGR and deliver 20% margin and RoCE by FY26. Management's ability to set a three-year target highlights its confidence in the long-term growth prospects of the business. Maintain BUY with a PT of INR 1,190, valued at 18x FY26 earnings.

- Q3 revenue in line with estimates:** The consolidated revenue grew 28% YoY/3% QoQ to INR7.1bn, in line with our estimate. Gross margin remained stable at 56.7%. EBITDA margin at 16.9% (+130bps YoY/flat QoQ) was lower than our estimate of 17.3%. PAT came in at INR 480mn (+55% YoY/flat QoQ), marginally lower than our estimate of INR 501mn.
- Call takeaways:** (1) Global business, particularly in North America, saw a 32% YoY increase, which drove revenue growth. (2) The Auto-ICE segment reported 26% YoY revenue growth, led by 2Ws and PVs. The 2W-motorcycle segment continues to be a beneficiary of the premiumisation and higher content per vehicle trend and reported 28% YoY growth in revenues. Sansera is focused on increasing wallet share with customers such as Royal Enfield, TVS-BMW, Harley Hero models, and Triumph (Bajaj Auto). (3) The Auto-Tech agnostic and xEV segment contributed to 12% of the revenue in Q3 and reported 37% YoY growth in revenues. The EV segment continues to be impacted by the scaling down of the business of a domestic EV 2W customer. However, management expects an improvement in EV revenue due to the contribution of a new American multinational automotive EV customer. (4) The delays in a large order from the customer's end led to a lower-than-anticipated growth in the aerospace and defence segment in Q3. (5) Off-road sales for FY24 are expected to cross INR 1bn in FY24. (6) The order book of new business with an annual peak revenue stood at INR 20.4bn (INR 19.3bn in Q3). A majority of the new orders are from non-auto verticals. (7) Net debt was flat QoQ at INR 6.2bn.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	7,126	5,573	27.9	6,929	2.9	23,383	27,730	33,018	38,885
EBITDA	1,207	867	39.2	1,178	2.5	3,795	4,770	5,943	7,194
APAT	480	310	54.7	470	2.2	1,462	1,905	2,711	3,556
Diluted EPS (INR)	8.9	5.8	54.7	8.7	2.2	27.2	35.4	50.4	66.1
P/E (x)						36.5	28.0	19.7	15.0
EV / EBITDA (x)						15.2	12.1	9.6	7.7
RoCE (%)						14.6	16.4	19.5	21.8

Source: Company, HSIE Research

BUY

CMP (as on 13 Feb 2024) INR 993

Target Price INR 1,190

NIFTY 21,743

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,190	INR 1,190
EPS %	FY25E	FY26E
	0%	0%

KEY STOCK DATA

Bloomberg code	SANSERA IN
No. of a Shares (mn)	54
MCap (INR bn) / (\$ mn)	53/650
6m avg traded value (INR mn)	157
52 Week high / low	INR 1,090/704

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.9	6.0	32.2
Relative (%)	6.7	(3.5)	13.8

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	35.2	35.1
FIs & Local MFs	25.1	28.2
FPIs	29.0	22.7
Public & Others	10.7	14.0
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Suprajit Engineering

Good performance despite macro headwinds

SEL's Q3 PAT at INR 402mn was marginally lower than our estimate of INR 443mn. Revenue growth of 5% YoY was led by the automotive business (36% of total sales). The non-automotive segment (17% of total sales) has been muted for a few quarters now and the pain is expected to continue for a few more quarters. SEL expects the benefits of new business acquisitions to mitigate the impact of non-auto segment decline. It expects strong double-digit growth in the automotive segment in FY25 and FY26 and we believe it will continue outperforming India's auto industry growth, given its track record. SEL is emerging as one of the major beneficiaries of the global de-risking strategy by OEMs in the cables business as it remains amongst the very few large players with the ability to supply from multiple low-cost locations globally based on OEM requirements. The new products division of SEL (SED) is seeing an extremely encouraging response from OEMs and helping evolve SEL as a "beyond cables" player. Reiterate BUY with a TP of INR 463, valued at 21x FY26 earnings.

- Q3 PAT below our estimates:** Revenue grew 5%/2% YoY/QoQ to INR7.2bn, below our estimate of INR 7.7bn. Gross margin expanded 80bps QoQ to 48.5%. EBITDA margin at 12.1% (+40bps YoY/+280bps QoQ) beats our estimate of 10.8% due to lower employee costs. PAT at INR 402mn (+6% YoY/+16% QoQ) was marginally lower than our estimate of INR 443mn.
- Call takeaways:** (1) The domestic automotive segment is likely to maintain its growth momentum, led by PVs. (2) Weakness in Europe and North American markets is likely to continue in the medium term. New launches of global customers have been postponed, which impacted SEL revenue. (3) The slowdown in the non-automotive business segments catered by SEL is expected to continue for a few more quarters. (4) Shipment delays are a major problem caused by disruptions in the Red Sea for sea travel. As a result, the company is incurring large additional costs due to the sudden increases in the cost of containers and air shipments to fulfil client demands. Delays and higher expenses in North American cargoes have also resulted from some disturbances caused by low water levels in the Panama Canal. (5) **Suprajit Controls Division:** The exports division has won a single contract from a marquee North American customer with an order value of more than USD 5mn per year and USD 30mn in lifetime value. The company is undertaking a restructuring exercise to improve synergies within the division to reach double-digit margins. The UAW strike in North America led to a significant loss of sales from Matamoros (Mexico plant). (6) The domestic cable division is witnessing a recovery in the 2W and aftermarket businesses after a tepid 9M. (7) SEL is expecting double-digit revenue growth in its automotive business in FY25 and FY26. (8) The total debt stood at INR 6.2bn (flat QoQ), while the cash surplus was INR 5bn.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	7,242	6,921	4.6	7,089	2.2	27,524	28,836	32,966	37,821
EBITDA	873	809	7.9	698	25.0	3,126	3,045	3,956	4,955
APAT	402	348	15.8	348	15.8	1,521	1,424	2,268	3,049
Diluted EPS (INR)	2.9	2.5	15.8	2.5	15.8	11.0	10.3	16.4	22.0
P/E (x)						34.9	37.2	23.4	17.4
EV / EBITDA (x)						18.7	18.9	14.4	11.3
RoCE (%)						13.4	12.9	16.7	20.0

Source: Company, HSIE Research

BUY

CMP (as on 15 Feb 2024)	INR 385
Target Price	INR 463
NIFTY	21,911

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 468	INR 463
	FY25E	FY26E
EPS %	-1%	-1%

KEY STOCK DATA

Bloomberg code	SEL IN
No. of a Shares (mn)	138
MCap (INR bn) / (\$ mn)	53/651
6m avg traded value (INR mn)	107
52 Week high / low	INR 447/323

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.8	(4.1)	11.2
Relative (%)	(4.9)	(14.2)	(6.4)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	44.62	44.62
FIs & Local MFs	15.87	16.22
FPIs	4.76	4.56
Public & Others	34.8	34.6
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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BFSI

ICICI Bank

Systemic challenge to sustained growth leadership

ICICI Bank (ICICIB) managed to clock another steady quarter on the back of consistent loan growth (+18% YoY), offset by higher credit costs (39bps of loans) on account of additional provisioning for investment in AIF (INR6.27bn), while maintaining its asset quality and a healthy PCR (~81%). Healthy deposit growth (+18% YoY) came in largely in the form of retail TDs as the CASA ratio dipped further to 39.6% (-112bps QoQ), resulting in a 19-bps QoQ spike in the cost of deposits. Despite an improving retail mix, yields remained flat, and NIMs softened to 4.43% (-10bps QoQ) and are likely to trend lower. We tweak our FY24E/FY25E forecasts to factor in lower credit costs and higher opex; we maintain BUY with a SOTP-based TP of INR1,220 (standalone at 2.8x Sep-25 ABVPS).

- **Healthy retail mix not translating into better yields:** Despite growth in retail loan segments and the mix of unsecured credit growing to 13.8%, blended yields remained relatively flat (-2bps QoQ), given the limited reflation from MCLR (18% of the mix) and repo-linked portfolios (49% of loan mix). NII growth (+13% YoY) moderated sharply as funding costs spiked sequentially to 4.96% (Q2FY24: 4.78).
- **Stable asset quality offset by elevated opex:** Asset quality was benign as slippages were marginally elevated on account of the Kisan credit card portfolio, offset by stronger recoveries and upgrades in the corporate portfolio. Additional provisions for investments in AIF at INR6.27bn kept credit costs elevated. Although the management has guided for a reduction in the run rate of employee addition, investments in tech and digital transformation could keep the opex ratios elevated in the medium term.
- **Systemic liquidity a challenge to sustained growth leadership:** ICICIB has consistently sustained its growth leadership while simultaneously managing a superior asset quality. However, we believe the bank now faces the systemic challenge of tight liquidity, which is likely to call for a higher pace of deposit mobilisation to sustain loan growth. We are confident of the bank's ability to drive productivity and efficiency gains to deliver and sustain RoAs over 2%.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	186.8	164.6	13.4%	183.1	2.0%	621.3	726.3	804.4	906.9
PPOP	147.2	132.7	10.9%	142.3	3.5%	490.9	568.5	633.8	712.8
PAT	102.7	83.1	23.6%	102.6	0.1%	319.0	395.5	450.7	499.2
EPS (INR)	14.7	11.7	25.4%	14.7	-0.1%	45.7	56.5	64.4	71.3
ROAE (%)						17.2	18.4	18.1	17.2
ROAA (%)						2.1	2.3	2.3	2.2
ABVPS (INR)						270.2	306.3	355.5	413.4
P/ABV (x)						3.7	3.3	2.8	2.4
P/E (x)						22.1	17.8	15.7	14.1

Change in estimates

(INR bn)	FY24E			FY25E			FY26E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Net advances	11,741	11,907	1.4%	13,520	13,726	1.5%	15,514	15,746	1.5%
NIM (%)	4.5	4.7	14 bps	4.4	4.5	9 bps	4.4	4.5	7 bps
NII	693.6	726.3	4.7%	777.4	804.4	3.5%	892.5	906.9	1.6%
PPOP	548.7	568.5	3.6%	607.5	633.8	4.3%	700.2	712.8	1.8%
PAT	367.7	395.5	7.6%	410.1	450.7	9.9%	468.9	499.2	6.5%
Adj. BVPS (INR)	303.6	306.3	0.9%	350.4	355.5	1.5%	406.3	413.4	1.8%

Source: Company, HSIE Research

BUY

CMP (as on 20 Jan 2024) INR 1,009

Target Price INR 1,220

NIFTY 21,572

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR1,200	INR 1,220
	FY24E	FY25E
EPS %	7.6%	9.9%

KEY STOCK DATA

Bloomberg code	ICICIB IN
No. of Shares (mn)	7,016
MCap (INR bn) / (\$ mn)	7,077/86,530
6m avg traded value (INR mn)	15,381
52 Week high / low	INR 1,044/796

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	8.1	1.3	15.9
Relative (%)	(1.1)	(5.8)	(1.9)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	0	0
FIs & Local MFs	45.5	46.2
FPIs	44.4	43.6
Public & Others	10.1	9.8
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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State Bank of India

Efficiency gains, equity buffers emerge as key priorities

SBIN's Q3FY24 earnings missed estimates due to one-off additional provision of INR54bn towards pension and INR17bn for DA relief, partly offset by lower credit costs. Loan growth was healthy (+15% YoY) with domestic margins being stable at 3.4%. Deposit growth lagged loan growth with the CASA ratio (39.5%, -72bps QoQ) continuing to drift lower; however, SBIN continued to maintain surplus SLR. Given the excess liquidity, loan-to-deposit ratio (LDR) continued to stay comfortable for SBIN's growth aspirations, despite an uptick in the LDR at 74% (H1FY24: 71%). Asset quality was pristine with the gross slippage run rate (61bps) being healthy alongside strong recoveries/w-offs. We tweak our estimates to account for higher opex, partly offset by lower credit cost; maintain BUY with SOTP-based target price of INR790 (core bank at 1.4x Sep-25 ABVPS).

- **Margin optics maintained:** Despite SBIN reporting healthy loan growth (+5% QoQ) while maintaining stable margins, NII growth was flat (+0.8% QoQ). Loan growth was strong across segments with SME and retail assets (Housing and Xpress Credit) continuing their growth momentum. With bulk of the additional provisions towards wages and pension accounted for (INR54bn expected in Q4FY24), we expect cost-to-income to improve in FY25/FY26.
- **Benign asset quality:** Slippages (61bps) normalised, resulting in an improved GNPA/NNPA at ~2.4/0.6%. The bank carries a 74% PCR in addition to non-NPA provisions of INR335bn (~1% of loans). Asset quality in its Xpress Credit portfolio stayed benign (GNPA: 0.73%), given that 95% of the book comprises of government employees.
- **Efficiency and productivity gains key to sustaining RoAs:** Given its credit growth guidance of ~14-15% and stable margins, SBIN needs to ramp up other avenues of productivity (fee income and opex) in order to drive RoA reflation. Despite management's intent to maintain a capital buffer via internal accruals, we believe SBIN will need to shore up its equity buffers in the medium-term.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY(%)	Q2FY24	QoQ(%)	FY23	FY24E	FY25E	FY26E
NII	398.2	380.7	4.6%	395.0	0.8%	1,448.4	1,592.7	1,755.1	1,936.0
PPOP	203.4	252.2	-19.4%	194.2	4.7%	837.1	877.9	1,077.4	1,223.5
PAT	91.6	142.1	-35.5%	143.3	-36.1%	502.3	563.5	610.3	646.7
EPS (INR)	10.3	15.9	-35.5%	16.1	-36.1%	56.3	63.1	68.4	72.5
ROAE (%)						16.5	16.1	15.3	14.3
ROAA (%)						1.0	1.0	1.0	0.9
ABVPS (INR)						327.1	373.8	425.4	479.4
P/ABV (x)						2.0	1.7	1.5	1.4
P/E (x)						11.5	10.3	9.5	9.0

Change in estimates

(INR bn)	FY24E			FY25E			FY26E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Net advances	35,924	36,141	0.6%	40,342	40,745	1.0%	45,527	45,979	1.0%
NIM (%)	3.1	3.1	3bps	3.1	3.1	2bps	3.1	3.1	-4bps
NII	1,568.6	1,592.7	1.5%	1,725.9	1,755.1	1.7%	1,938.3	1,936.0	-0.1%
PPOP	915.5	877.9	-4.1%	1,055.2	1,077.4	2.1%	1,193.4	1,223.5	2.5%
PAT	571.3	563.5	-1.4%	595.3	610.3	2.5%	625.8	646.7	3.3%
Adj. BVPS (INR)	382.2	373.8	-2.2%	438.0	425.4	-2.9%	495.4	479.4	-3.2%

Source: Company, HSIE Research

BUY

CMP (as on 02 Feb 2024)	INR 650
Target Price	INR 790
NIFTY	21,854

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR780	INR790
	FY24E	FY25E
EPS %	-1.4%	2.5%

KEY STOCK DATA

Bloomberg code	SBIN IN
No. of Shares (mn)	8,925
MCap (INR bn) / (\$ mn)	5,798/70,895
6m avg traded value (INR mn)	10,226
52 Week high / low	INR 661/502

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.6	8.6	23.0
Relative (%)	1.1	(1.0)	2.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	57.5	57.5
FIs & Local MFs	24.4	24.2
FPIs	10.7	10.9
Public & Others	7.4	7.4
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Bajaj Finance

Strong fundamentals support relative resilience

Bajaj Finance (BAF) delivered a mixed set of earnings with robust AUM growth (+35% YoY) despite a regulatory embargo on select products and stable NIMs (11.3%), offset by elevated credit costs (1.8% annualised). BAF extended its long-range strategy (LRS) to FY28, guiding for 22-27% AUM CAGR and 20-25% earnings CAGR over FY24-FY28E. On the back of its omnichannel strategy, the widest product suite and **focus on cross-sell**, we believe BAF is poised for ~23% AUM CAGR in the medium-term, while also simultaneously delivering steady profitability. We tweak our earnings by ~2% for FY24E-FY26E to reflect stronger AUM growth, offset by higher credit costs; we maintain BUY with a revised RI-based TP of INR8,690 (implied 26x Sep-25 EPS; 5.4x Sep-25 ABVPS).

- **Steady NIMs; improving operating efficiency:** BAF reported steady NIMs (~11.3%) on the back of reflating yields and strong growth in the B2B segment (+54% YoY), offsetting an uptick in funding costs (7.8%). With rising pressure on the cost of funds, BAF has effected a ~25bps rate hike across its product suite, which is likely to help partly offset the margin pressure. Operating efficiencies continued to improve (C/I at 34%; opex-to-AUM at 4.7%) on the back of higher throughput and increasing contribution from new businesses.
- **Marginal worsening of asset quality:** GS-III/NS-III deteriorated marginally QoQ to 0.95%/0.37% (H1FY24: 0.91%/0.31%) with GS-II flat at 1.1%. As per management, this is largely emanating from B2C segments (rural and urban), with stress in urban B2C being more transient and incremental credit costs likely to remain rangebound. We argue this is an industry-wide phenomenon, with BAF's risk management likely to emerge relatively more resilient.
- **Excellent profitability metrics; maintain BUY:** BAF's focus on multi-channel customer acquisition and cross-sell of existing and new products is likely to drive robust medium-term AUM CAGR. Additionally, the relentless focus on throughput and consequent operating efficiency, alongside sustained pricing power in key segments, is likely to help sustain strong profitability.

Financial summary (Consolidated)

(INR bn)	Q3FY24	Q3FY23	YoY(%)	Q2FY24	QoQ(%)	FY23	FY24E	FY25E	FY26E
NII	76.6	59.2	29.3	72.0	6.4	229.9	294.7	369.5	455.3
PPOP	61.4	48.5	26.6	58.3	5.3	187.2	237.2	301.0	375.0
PAT	36.4	29.7	22.3	35.5	2.4	115.1	144.8	184.8	225.6
EPS (INR)	59.2	49.0	20.9	58.5	1.3	190.2	234.6	299.6	364.7
ROAE (%)						23.5%	22.2%	21.9%	22.0%
ROAA (%)						4.7%	4.6%	4.6%	4.6%
ABVPS (INR)						885	1,215	1,463	1,781
P/ABV (x)						8.1	5.9	4.9	4.0
P/E (x)						37.8	30.6	24.0	19.7

Change in estimates

INR bn	FY24E			FY25E			FY26E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	3,154	3,259	3.3%	3,891	4,021	3.3%	4,794	4,956	3.4%
NIM (%)	10.0	10.3	24bps	10.1	10.1	3bps	10.1	10.1	0bps
NII	282.4	294.7	4.3%	356.4	369.5	3.7%	440.5	455.3	3.3%
PPOP	227.2	237.2	4.4%	292.5	301.0	2.9%	363.8	375.0	3.1%
PAT	143.0	144.8	1.2%	179.9	184.8	2.7%	220.4	225.6	2.4%
ABVPS (INR)	1,213	1,215	0.1%	1,455	1,463	0.6%	1,767	1,781	0.8%

Source: Company, HSIE Research

BUY

CMP (as on 29 Jan 2024) INR 7,192

Target Price INR 8,690

NIFTY 21,738

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR8650	INR 8690
EPS %	FY24E	FY25E
	1.2%	2.7%

KEY STOCK DATA

Bloomberg code	BAF IN
No. of Shares (mn)	618
MCap (INR bn) / (\$ mn)	4,445/54,348
6m avg traded value (INR mn)	7,854
52 Week high / low	INR 8,192/5,486

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(4.2)	(2.6)	24.8
Relative (%)	(18.1)	(10.4)	5.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	55.9	54.8
FIs & Local MFs	12.9	14.1
FPIs	20.1	20.9
Public & Others	11.0	10.2
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

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Kotak Mahindra Bank

Tight liquidity poses growth-margin trade-off

Kotak Mahindra Bank's (KMB) earnings missed estimates owing to treasury loss, provisions on investments in AIF (INR1.43bn) and elevated opex, partly offset by steady loan growth (+16% YoY) and stable margins (5.2%). Deposit growth was muted (+1.9% QoQ) with a stagnation in CA and lower momentum in the active money pool (+13% QoQ), as the CASA ratio moderated further (47.7%; -52bps QoQ). Loan growth was widespread across segments, especially in high-yield segments such as CV and unsecured retail. While KMB is less impacted by the RBI's clampdown on unsecured credit, an elevated LDR (88%) remains a key bottleneck to sustaining higher growth. We believe KMB faces a classic growth-margin trade-off with its current funding mix. We tweak our estimates to adjust for higher opex and credit costs. We retain ADD with a revised SOTP-based TP of INR2,100 (standalone bank at 2.6x Sep-25 ABVPS).

- **Healthy loan growth; in-line asset quality:** Stable margins and healthy loan growth helped KMB sustain a healthy NII growth (+4.1% QoQ). The bank clocked market share gains in the CV segment (+30% YoY), concomitant with momentum in its unsecured retail book (11.6% of loans). The corporate loan book slowed due to intense pricing pressures and a shift to credit substitutes. Slippages were sequentially lower at 1.4%, thus containing GNPA's at 1.7%.
- **Opex ratios spike further:** KMB continues ramping up its investments across tech, people and distribution, reflecting in an elevated opex-to-assets ratio (~3.4%) with cost-to-income increasing further to 48.4% (Q2FY24: 46.5%). We believe that operating leverage is likely to play out over the next 18 months as new businesses approach critical scale.
- **Funding mix key to sustainable growth and margins:** We expect the loan-to-deposit ratio (9MFY24: 88%) to have peaked and hence, deposit growth to constrain loan growth incrementally. With the cost of SA deposits already at 4.15%, and deposit growth likely to outpace loan growth incrementally, we believe that operating leverage will need to offset a fall in margins to sustain RoA at current levels.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	65.5	56.5	15.9%	63.0	4.1%	215.5	257.6	290.3	317.5
PPOP	45.7	38.5	18.6%	46.1	-1.0%	148.5	185.7	218.3	244.5
PAT	30.1	27.9	7.6%	31.9	-5.8%	109.4	124.4	146.1	162.1
EPS (INR)	15.1	14.1	7.2%	16.1	-5.9%	55.1	62.6	73.5	81.6
ROAE (%)						14.0	13.9	14.2	13.8
ROAA (%)						2.4	2.4	2.4	2.3
ABVPS (INR)						398.2	458.3	529.4	608.1
P/ABV (x)						4.5	3.9	3.4	3.0
P/E (x)						32.8	28.8	24.6	22.1

Change in estimates

(INR bn)	FY24E			FY25E			FY26E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Net advances	3,695	3,695	0.0%	4,184	4,184	0.0%	4,806	4,806	0.0%
NIM (%)	5.1	5.2	7 bps	5.0	5.2	14 bps	4.9	5.1	18 bps
NII	250.4	257.6	2.9%	277.7	290.3	4.5%	304.2	317.5	4.4%
PPOP	189.7	185.7	-2.1%	211.1	218.3	3.4%	238.9	244.5	2.4%
PAT	129.7	124.4	-4.0%	144.6	146.1	1.0%	162.9	162.1	-0.5%
Adj. BVPS (INR)	460.6	458.3	-0.5%	530.5	529.4	-0.2%	608.6	608.1	-0.1%

Source: Company, HSIE Research

ADD

CMP (as on 20 Jan 2024) INR 1,807

Target Price INR 2,100

NIFTY 21,572

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR2,160	INR 2,100
	FY24E	FY25E
EPS %	-4.0%	1.0%

KEY STOCK DATA

Bloomberg code	KMB IN
No. of Shares (mn)	1,988
MCap (INR bn) / (\$ mn)	3,591/43,913
6m avg traded value (INR mn)	7,279
52 Week high / low	INR 2,064/1,644

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.1	(7.7)	2.5
Relative (%)	(7.1)	(14.8)	(15.3)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	26.0	25.9
FIs & Local MFs	20.0	21.4
FPIs	41.0	39.7
Public & Others	13.1	12.9
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Axis Bank

Deposit handicap to the fore; downgrade to ADD

AXSB still has significant ground to cover in terms of enhancing the quality of its deposit franchise and exercising better pricing power on the asset side when compared with its larger private sector banking peers. With its loan-to-deposit ratio at 93%, AXSB continues to face a trade-off between growth and quality of deposits, incrementally leaning towards the latter in recent times (outflow run rate improved 500bps over the past six quarters). With AXSB likely to sustain its investments in focus areas, we expect elevated opex ratios and deferred productivity gains. We expect the bank to offset this drag by further stretching its mix of high-yielding segments (9MFY24: ~37%). We build in meaningful loan growth deceleration at 14% CAGR over FY23-26E and softer margins, further trimming our below-consensus forecasts. We downgrade AXSB to ADD with a revised TP of INR1,170 (standalone at 2.0x Sep-25 ABVPS), implying a ~30% discount to ICICI Bank (standalone).

- Adverse starting point adds to deposit handicap:** Against the backdrop of tight system liquidity and rising competitive intensity for low-cost deposits, AXSB is faced with a massive deposit handicap, especially given its elevated loan-to-deposit ratio (9MFY24: 93%). The bank also lags its larger peers in terms of productivity metrics and the quality of its deposit franchise.
- Pricing power continues to lag peers:** While broader synergies from the Citi portfolio are likely to play out over the medium term, our analysis suggests that AXSB lags its peers on pricing power, as reflected in comparable cost-to-assets but inferior cost-to-income metrics. Given the likely pressure on NIMs, we believe that the pricing power handicap is likely to translate into AXSB assuming disproportionate risk in high-yield segments (9MFY24: 37% of loan mix), especially **unsecured retail**, as reflected over the past couple of quarters.
- Credit costs to normalise:** AXSB has benefitted from a strong recovery and upgrades environment over the past couple of years, benefitting from low (or negative) net slippages, especially given the quality of its legacy corporate back book. However, we believe these trends are already normalising during FY24 and are likely to further normalise over the course of FY25E, reflecting in incrementally higher credit costs (+10bps on average for FY25E-26E).
- Fundamental convergence still a while away; discount to widen:** While the bank is on track to deliver ~16-17% RoE over the next couple of years, the fight for deposits in a tight liquidity environment, poor pricing power, enhanced opex intensity, and normalised credit costs pose a risk to AXSB's overall profitability. With valuation multiples having converged more sharply-than-anticipated (CMP implies a 20% discount on standalone metrics against our assessment of a fair discount of 30%), we downgrade to ADD.

Financial Summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	125.3	114.6	9.4%	123.1	1.8%	429.5	485.5	536.0	602.5
PPOP	91.4	92.8	-1.5%	86.3	5.9%	197.9	351.3	404.6	475.6
PAT	60.7	58.5	3.7%	58.6	3.5%	95.8	232.3	256.7	302.2
EPS (INR)	19.7	18.8	4.7%	19.0	3.5%	31.1	75.5	83.4	98.2
ROAE (%)						8.0	17.2	16.4	16.6
ROAA (%)						0.8	1.7	1.6	1.7
ABVPS (INR)						387.5	449.1	523.6	612.1
P/ABV (x)						2.8	2.4	2.1	1.8
P/E (x)						35.0	14.4	13.1	11.1

Source: Company, HSIE Research

ADD

CMP (as on 23 Jan 2024) INR 1,089

Target Price INR 1,170

NIFTY 21,239

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	INR1,150	INR1,170
	FY24E	FY25E
EPS %	0.8%	-4.5%

KEY STOCK DATA

Bloomberg code	AXSB IN
No. of Shares (mn)	3,084
MCap (INR bn) / (\$ mn)	3,360/41,081
6m avg traded value (INR mn)	9,474
52 Week high / low	INR 1,152/814

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.0	12.1	16.8
Relative (%)	5.4	6.6	0.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	8.0	8.2
FIs & Local MFs	29.0	28.8
FPIs	53.0	54.7
Public & Others	9.8	8.3
Pledged Shares	0	0

Source: BSE

Pledged shares as % of total shares

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SBI Life Insurance

Structural offsets to sector headwinds

SBILIFE's adjusted VNB was flat YoY at INR40.4bn, as the VNB margin clocked in at 28.1% (softer 153bps YoY) on the back of a 500bps higher share of ULIP in the APE mix at 61% (9MFY23: 56%). We build in 16% YoY growth in APE for FY24 (below guidance) on account of slower growth in the retail business. Our high conviction BUY remains anchored on the three powerful and sustainable moats: (a) exclusive access to parent SBI's massive distribution network (penetration at ~2%); (b) least impacted by IRDAI draft exposure on surrender values on savings product; and (c) the lowest opex ratio among peers (9MFY24: 9.9%). We expect SBILIFE to deliver an FY23-25E APE/VNB CAGR of 16%/9% and retain BUY with a TP of INR1,600 (2.4x Mar-25E EV).

- Margin drop from inferior APE mix and rising costs:** SBILIFE clocked APE at INR143.9bn (+17% YoY) but witnessed a softer VNB margin at 28.1% (down 500bps YoY), driven by an inferior product mix. Growth in ULIPs (+27% YoY) outweighed the growth in high-margin NPAR savings (-10% YoY) and retail protection (-4% YoY) and was partly offset by growth in the group term business (+24% YoY). Operating expenses including new business commission and rewards seem to have increased on the back of rising competitive intensity and investments in distribution and technology (up by 125bps as % of APE). Persistency ratios improved across cohorts by 50-450bps except for the 37th month, which witnessed a drop of 80bps.
- NPAR savings (NPS) mix likely to settle at 16-18% levels:** Given that SBILIFE had a relatively lower mix of NPS business over INR500k ticket size (impacted by the Union Budget measures), the company has also been able to maintain the NPS mix at 17% during 9MFY24. We expect the NPS mix to settle at 16-18% of the FY24 APE.
- Least exposed to "surrender value" exposure draft:** Though SBILIFE is least exposed to the exposure draft on surrender value, we knock down our FY25E EV forecasts by 4% on the back of a below-guidance 16% APE growth, a ULIP-heavy mix (61% of APE), resulting in a lower-than-expected VNB margin.

Financial summary

(INR bn)	9MFY24	9MFY23	YoY (%)	H1FY24	FY23	FY24E	FY25E
NBP	260.0	215.1	20.9	162.6	295.9	361.0	434.3
APE	143.9	122.6	17.4	82.6	168.3	194.6	225.9
Adj. VNB	40.4	36.3	11.3	23.6	50.7	54.5	60.0
Adj. VNB (%)	28.1	29.6	-150bps	28.6	30.1	28.0	26.5
EV					460.4	548.9	648.9
MCap/EV (x)					3.0	2.5	2.1
P/VNB (x)					19.6	17.0	14.0
RoEV (%)					16.7	19.9	19.0

Source: Company, HSIE Research

Change in estimates

(INR bn)	FY24E			FY25E		
	Old	New	Δ	Old	New	Δ
APE	183.4	194.6	6.1%	209.8	225.9	7.7%
VNB	55.3	54.5	-1.4%	63.4	60.0	-5.4%
VNB Margin (%)	30.1	28.0	-210bps	30.2	26.5	-370bps
EV	571.4	548.9	-3.9%	678.7	648.9	-4.4%

Source: Company, HSIE Research

BUY

CMP (as on 25 Jan 2024) INR 1,381

Target Price INR 1,600

NIFTY 21,353

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,580	INR 1,600
	FY24E	FY25E
VNB %	-1%	-5%

KEY STOCK DATA

Bloomberg code	SBILIFE IN
No. of Shares (mn)	1,001
MCap (INR bn) / (\$ mn)	1,383/16,906
6m avg traded value (INR mn)	1,592
52 Week high / low	INR 1,495/1,039

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.1	6.1	9.8
Relative (%)	(5.3)	(0.4)	(7.6)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	55.4	55.4
FIs & Local MFs	14.3	14.6
FPIs	26.2	25.9
Public & Others	4.1	4.0
Pledged Shares	Nil	Nil

Source : BSE

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IndusInd Bank

Closer to the brink; deposit mobilisation remains key

IndusInd Bank (IIB) reported stable earnings, led by strong loan growth (+20% YoY), stable NIMs and sustained traction in fee income. Deposit growth (+13% YoY) clocked in on the back of a higher share of retail deposits (LCR at 123%; Q2FY24: 118%). However, CASA fell 85bps QoQ to 38.5%, showcasing system-wide pressure on low-cost deposits. Credit costs (119bps annualised) continued to trend higher on the back of elevated gross slippages (2.4%), primarily from a one-off corporate account, MFI, and a few categories of consumer lending. We expect medium-term cost ratios to stay elevated as the bank frontloads its investments in digital build-out, capacity building and distribution. With a further utilisation of its contingency provisions (INR2.2bn), we believe IIB will need to build an additional provisioning buffer. We tweak our FY24E and FY25E earnings estimates, factoring in higher deposit mobilisation and lower credit costs; maintain REDUCE with a revised TP of INR1,380 (1.4x Sep-25 ABVPS).

- **Strong operating performance:** IIB reported strong NII growth (+18% YoY), led by stable margins (4.3%) and healthy loan growth (+20% YoY). Consumer finance book grew 25% YoY, led by business banking, VF, MFI and PL/CC, while the wholesale book continued to shrink, partly offset by traction in the high-yielding small corporate book (+42% YoY).
- **Slippages remain stubbornly high:** Gross slippages were elevated at 2.4% (Q2FY24: 2%), largely from the MFI, and corporate book (one-off), with higher delinquencies in 2W, LAP and merchant acquiring business, indicative of IIB operating at the higher end of the risk spectrum. The management continued to guide for FY24 credit costs in the range of 110-130 bps (Q3FY24: 119bps) as the bank looks to build up its provisioning buffers.
- **Deposit-side mobilisation remains key monitorable:** With retail deposit mix at sub-optimal levels (45%) and elevated LDR at 89%, we believe that IIB faces structural liability-side challenges to sustain its pace of growth. Incremental buffers and elevated opex are likely to drag medium-term return ratios.

Financial summary

(INR bn)	3Q FY24	3Q FY23	YoY (%)	2Q FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	53.0	45.0	17.8%	50.8	4.3%	175.9	204.9	228.2	260.0
PPOP	40.4	36.9	9.7%	39.1	3.4%	143.5	158.6	183.0	210.8
PAT	23.0	19.6	17.2%	22.0	4.5%	73.9	88.5	102.1	114.9
EPS (INR)	29.6	25.3	17.0%	28.4	4.2%	95.2	114.1	131.7	148.1
ROAE (%)						14.4	15.0	15.0	14.7
ROAA (%)						1.7	1.8	1.8	1.7
ABVPS (INR)						681.9	791.2	912.3	1,048.2
P/ABV (x)						2.4	2.0	1.8	1.5
P/E (x)						16.9	14.1	12.3	10.9

Source: Company, HSIE Research

Change in estimates

(INR bn)	FY24E			FY25E			FY26E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Net advances	3,433	3,433	0.0%	3,997	3,990	-0.2%	4,640	4,631	-0.2%
NIM (%)	4.4	4.5	5 bps	4.3	4.4	4 bps	4.1	4.2	9 bps
NII	203.8	204.9	0.5%	228.4	228.2	-0.1%	257.4	260.0	1.0%
PPOP	163.3	158.6	-2.9%	183.8	183.0	-0.4%	209.1	210.8	0.8%
PAT	90.4	88.5	-2.1%	102.0	102.1	0.1%	114.1	114.9	0.7%
Adj. BVPS (INR)	793.8	791.2	-0.3%	914.6	912.3	-0.2%	1,047.3	1,048.2	0.1%

Source: Company, HSIE Research

REDUCE

CMP (as on 18 Jan 2024) INR 1,613

Target Price INR 1,380

NIFTY 21,462

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR1,280	INR1,380
	FY24E	FY25E
EPS %	-2.1%	0.1%

KEY STOCK DATA

Bloomberg code	IIB IN
No. of Shares (mn)	778
MCap (INR bn) / (\$ mn)	1,254/15,339
6m avg traded value (INR mn)	4,800
52 Week high / low	INR 1,695/990

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.6	16.0	31.9
Relative (%)	5.5	9.4	15.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	16.5	16.5
FIs & Local MFs	28.7	26.7
FPIs	41.5	42.5
Public & Others	6.1	7.4
Pledged Shares	7.2	6.9

Source : BSE

Pledged shares as % of total shares

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Cholamandam Investment and Finance Company

Healthy operating performance; priced to perfection

Chola reported healthy operating metrics with strong AUM growth and sustained NIMs, partially offset by higher opex intensity and credit costs. LAP (+35% YoY), home loans (+66% YoY) and new businesses (+120% YoY) continued to drive overall AUM growth (+40% YoY), driven primarily by increasing penetration of these products in existing branches. While Chola remains a prolific franchise with medium-term RoEs of ~20%+, we expect moderation in loan growth going ahead and subsequently limited upside in stock from current levels. We tweak our earnings estimates to build in higher AUM growth for FY24, offset by higher opex intensity and maintain ADD with a revised RI-based TP of INR1285 (implying 4.6x Sep-25 ABVPS).

- Healthy P&L outcomes:** Chola's NIM remained flat sequentially (7.4%) with yield reflation across segments offsetting the rising cost of funds. Other income witnessed a spike due to the insurance commission income of INR 1.6bn as Chola received the insurance brokerage license during Q3. Chola's investments in distribution (employees, branches etc.) are reflected in higher opex intensity (~3.7% of AUM – annualised) and have aided in improved throughput for several quarters now.
- Improving GS-II/GS-III; provisions treading as per guidance:** GS-III/NS-III improved further to 2.8%/1.6% (Q2FY24: 3.0%/1.6%) with GS-II at 3.1% (Q2FY24: 3.2%). Credit costs moderated sequentially to ~125bps (annualised), driven by the vehicle finance segment and are likely to remain within the management guidance of ~1.1-1.2% for FY24. Delinquencies in the CSEL segment have moderated post cautious stance of the management, while the SBPL segment witnessed healthy traction in Q3.
- A diversified portfolio, branch penetration to aid growth albeit some moderation ahead:** Chola continued to report stupendous AUM growth (~40% YoY) with all segments firing at a strong pace. While increasing branch penetration of non-vehicle segments (particularly home loans and LAPs) is likely to aid loan growth, we expect moderation in loan growth to ~22-25% going ahead, driven by vehicle finance (~60% of AUM). Further, the rising cost of funds is likely to drive NIMs lower, which may be partially offset by improving operating efficiency.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	21.7	16.0	35.8	20.2	7.7	63.3	83.0	106.1	131.4
PPOP	15.2	10.8	40.4	14.2	6.7	44.5	58.7	74.7	95.7
PAT	8.8	6.8	28.0	7.6	14.9	26.7	32.9	43.7	56.9
EPS (INR)	10.5	8.3	25.8	9.3	12.7	32.4	39.2	52.1	66.5
ROAE (%)						20.5	19.5	20.4	21.0
ROAA (%)						2.7	2.5	2.6	2.7
ABVPS (INR)						133.9	205.3	244.4	316.8
P/ABV (x)						9.2	6.0	5.0	3.9
P/E (x)						38.0	31.4	23.6	18.5

Change in estimates

INR bn	FY24E			FY25E			FY26E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	1,353	1,413	4.5%	1,652	1,726	4.4%	2,008	2,099	4.5%
NIM (%)	6.3	6.2	-12bps	6.3	6.2	-10bps	6.4	6.3	-13bps
NII	82.3	83.0	0.8%	102.7	106.1	3.2%	127.6	131.4	3.0%
PPOP	58.6	58.7	0.2%	73.8	74.7	1.1%	94.2	95.7	1.6%
PAT	33.2	32.9	-0.8%	43.0	43.7	1.8%	56.9	56.9	0.1%
ABVPS (INR)	199	205	3.2%	241	244	1.6%	314	317	0.9%

Source: Company, HSIE Research

ADD

CMP (as on 29 Jan 2024)	INR 1,231
Target Price	INR 1,285
NIFTY	21,738

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,280	INR 1,285
EPS %	FY24E	FY25E
	-0.8%	1.8%

KEY STOCK DATA

Bloomberg code	CIFC IN
No. of Shares (mn)	840
MCap (INR bn) / (\$ mn)	1,033/12,636
6m avg traded value (INR mn)	2,275
52 Week high / low	INR 1,310/697

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.4	8.2	73.4
Relative (%)	(8.6)	0.3	53.9

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	51.4	50.4
FIs & Local MFs	20.0	18.4
FPIs	21.5	24.7
Public & Others	7.0	6.5
Pledged Shares	0.0	

Source: BSE

Pledged shares as % of total shares

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Shriram Finance

Merger synergies at play

Shriram Finance's (SHFL) earnings were ahead of estimates on the back of sustained loan growth momentum (+21% YoY), partially offset by higher provisioning. AUM growth continued to surprise positively led by PV, 2W, MSME and PL segments, while growth in the CV portfolio continues to remain steady (+13% YoY). The merged franchise continues to seek opportunities to sustain high loan growth (~15% CAGR over next three years). Credit costs continued to inch up (~2.6% of AUM and higher than management guidance), which along with rising cost of funds in tight liquidity environment, remains a key monitorable. We tweak our earnings estimates to factor in higher loan growth, NIMs and lower tax rate, partially offset by higher credit costs and maintain ADD with a revised SoTP-based TP of INR2,320 (standalone entity at 1.7x Sep-25 ABVPS).

- **Mixed P&L outcomes:** SHFL reported healthy reflation in NIM to 9% (~47bps YoY, ~6bps QoQ), due to favorable loan mix and run down of excess liquidity. Operating efficiency remained steady (C/I at 29.3%; opex to AUM at 3.1%), while SHFL continued to invest in branches (~115 added during 9MFY24). However, elevated credit costs drove muted earnings growth of ~2% YoY.
- **Increasing credit costs, stable stress pool:** SHFL's stress pool (GS-II + GS-III) further declined marginally to 12.7% (Q2FY24: 13%). However, SHFL reported higher credit costs (~2.6% of AUM), with write-offs at ~1.5%, above management guidance of ~2%. While the credit environment continues to remain relatively benign, credit costs amidst shifting loan mix and increasing consumer leverage remains a key monitorable for SHFL.
- **Loan growth surprises positively, liabilities a key monitorable:** SHFL continued to report healthy AUM/disbursals growth of 21%/29% YoY, with increasing share of non-CV/CE segments (44.6% vs. 41.1% in Q3FY23). As per management, the cross-sell of erstwhile SCUF's products through erstwhile SHTF branches has driven higher throughput and is likely to aid in ~15% AUM growth over next three years. However, the rising cost of funds amidst increasing balance sheet size and tight liquidity environment remains a key monitorable.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	49.1	41.9	17.1	45.9	6.9	160.6	184.0	213.2	244.1
PPOP	36.9	33.0	11.7	34.8	6.0	123.4	137.6	159.7	184.7
PAT	18.2	17.8	2.3	17.5	3.9	59.8	70.2	84.2	97.6
EPS (INR)	48.3	47.3	2.2	46.5	3.8	159.7	187.4	224.9	260.7
ROAE (%)						13.7	15.2	16.1	16.3
ROAA (%)						2.9	3.2	3.3	3.3
ABVPS (INR)						963	1,095	1,257	1,441
P/ABV (x)						2.3	2.0	1.8	1.5
P/E (x)						14.4	12.3	10.2	8.8

Change in estimates

INR bn	FY24E			FY25E			FY26E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	2,186	2,223	1.7%	2,517	2,578	2.4%	2,872	2,969	3.4%
NIM (%)	8.0	8.2	21bps	7.9	8.2	25bps	7.8	8.1	22bps
NII	178.8	184.0	2.9%	204.9	213.2	4.0%	233.2	244.1	4.7%
PPOP	135.5	137.6	1.6%	154.4	159.7	3.4%	178.1	184.7	3.7%
PAT	68.2	70.2	2.9%	77.1	84.2	9.2%	88.5	97.6	10.3%
ABVPS (INR)	1,091	1,095	0.3%	1,233	1,257	1.9%	1,397	1,441	3.1%

Source: Company, HSIE Research

ADD

CMP (as on 25 Jan 2024) INR 2,307

Target Price INR 2,320

NIFTY 21,353

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR2,005	INR2,320
	FY24E	FY25E
EPS %	2.9%	9.2%

KEY STOCK DATA

Bloomberg code	SHFL IN
No. of Shares (mn)	376
MCap (INR bn) / (\$ mn)	867/10,597
6m avg traded value (INR mn)	2,637
52 Week high / low	INR 2,353/1,190

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	27.0	26.5	84.0
Relative (%)	16.7	20.0	66.5

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	25.5	25.4
FIs & Local MFs	15.2	15.8
FPIs	52.1	54.0
Public & Others	4.7	4.8
Pledged Shares	0.0	

Source: BSE

Pledged shares as % of total shares

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SBI Cards and Payment Services

Gravy train derailed; downgrade to ADD

SBI Cards (SBICARD) missed estimates on account of higher-than-anticipated provisioning (8.1% of receivables) and higher cost of funds (+50bps QoQ). The overall receivables mix remained stable with the mix of revolve + instalment loans at 61% (identical on a YoY basis). Issuances witnessed a sharp de-growth (-33% YoY) on a high base, although attrition trended lower, driving strong CIF growth (+16% YoY). Despite the revolve mix stabilising at 23% (Q1FY22: 29%), credit costs have continued to trend above management guidance of ~6% and worryingly, show no signs of easing in the medium-term. SBICARD continues to diversify its customer (self-employed) and geographic (Tier III/IV cities) profile but is still searching for the appropriate risk-reward balance. While we are sanguine about the long-term potential return ratios for SBICARD (5% RoA and 25% RoE), we hack our FY24/FY25 earnings forecasts by 12%/8% to adjust for lower margins and higher loan loss provisions; downgrade to ADD with a revised RI-based TP of INR775 (implying 4.8x Sep-25 ABVPS; 22x Sep-25 EPS).

- Margin compression accentuates P&L disappointment:** SBICARD reported modest P&L outcomes with 8% YoY growth in PAT, the disappointment largely stemming from steeper funding costs, higher opex intensity (60% cost-to-income) and elevated credit costs. We expect all these factors to continue weighing down on profitability outcomes for the next few quarters despite a steady share of interest-earning assets (61% of receivables). The mix of revolve loans remained stable at 23%, consistent with the past few quarters.
- Asset quality stability stays elusive:** Despite a stable macro environment and the revolve mix in receivables reducing to ~23% (Q1FY22: ~29%), credit costs have been stubborn post the pandemic and remain elevated at 8.1% (Q1FY22: 6.3%). In line with our recent [deep dive on unsecured credit](#), the management alluded to the build-up of general stress in the portfolio in line with systemic trends and has guided for similarly elevated credit costs for the next couple of quarters, which poses a massive drag on our earnings forecasts.
- Medium-term fundamentals likely to deteriorate:** We expect medium-term return ratios to worsen on the back of sustained opex intensity, continued repricing of bank borrowings and elevated credit costs as the franchise searches for the appropriate risk-reward balance. Under this new normal, we expect SBICARD to deliver RoAs in the 4% handle until FY26E as against our earlier thesis of a franchise that could sustainably deliver a RoA-RoE combination of 5% and 25% respectively. We downgrade to ADD with a revised RI-based TP of INR775 (implying 4.8x Sep-25 ABVPS; 22x Sep-25 EPS), an ~11% discount to our implied valuation for BAF on P/ABV basis.

Financial Summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	13.9	11.4	21.2	13.0	7.0	45.1	53.1	67.9	83.4
PPOP	16.2	12.2	33.1	15.5	4.5	51.9	62.8	76.2	90.2
PAT	5.5	5.1	7.8	6.0	(9.0)	22.6	22.7	29.9	36.7
EPS (INR)	5.8	5.4	7.8	6.4	(9.0)	23.9	24.0	31.6	38.8
ROAE (%)						25.7%	21.1%	23.0%	23.2%
ROAA (%)						5.6%	4.4%	4.8%	4.9%
ABVPS (INR)						100	120	146	178
P/ABV (x)						7.6	6.4	5.2	4.3
P/E (x)						31.9	31.7	24.1	19.6

Source: Company, HSIE Research

ADD

CMP (as on 25 Jan 2024)	INR 760
Target Price	INR 775
NIFTY	21,353

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	INR955	INR775
	FY24E	FY25E
EPS %	-12.4%	-8%

KEY STOCK DATA

Bloomberg code	SBICARD IN
No. of Shares (mn)	951
MCap (INR bn) / (\$ mn)	722/8,834
6m avg traded value (INR mn)	1,267
52 Week high / low	INR 933/691

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.3)	(13.3)	6.3
Relative (%)	(12.7)	(19.9)	(11.2)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	68.9	68.8
FIs & Local MFs	17.3	16.3
FPIs	9.1	9.4
Public & Others	4.7	5.6
Pledged Shares	0	0

Source: BSE

Pledged shares as % of total shares

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ICICI Prudential Life

Switch to growth mindset takes toll on profitability

IPRU clocked muted APE growth (+5% YoY), coupled with a very steep, off-the-cliff fall in VNB margin to 26.7% (-529bps), translating into a 15% YoY VNB de-growth. The VNB margin collapse was attributed to IPRU's recalibration of its product design, resulting in an inferior unit economics. IPRU's investments in channel diversification reflected in modest growth in the ex-ICICIBC channel (+8% YoY), which helped offset sustained de-growth in the proprietary banca channel (-18% YoY). We believe that IPRU's re-engineered business strategy, which prioritises growth over product mix, is likely to take a meaningful toll on profitability (VNB margins) and base EV. We raise our FY24E/FY25E growth forecasts while moderating our margin assumptions to adjust for the potential drag from change in product mix and margin economics - as a result, we expect VNB to clock -5% CAGR over FY23-25E (weaker than earlier forecasts). We retain ADD with a revised target price of INR545 (1.9x Mar-25E EV).

- Searching for growth offsets:** APE growth was modest (+5% YoY) on the back of a moderate pick-up in non-ICICIBC channels even as the proprietary banca channel (ICICIBC) continued to exhibit sharp de-growth (-18% YoY). Growth in the high-margin retail protection business moderated due to a higher base while ULIP sales were soft, in line with the management strategy to rebalance the product mix. Our analysis suggests that IPRU's search for growth offsets is near-complete as the ICICIBC channel has started stabilising on APE flow, and incremental growth has started clocking in from across channels.
- Growth-at-all-costs mindset:** VNB margins witnessed a 209bps QoQ decline to 26.7% (-529bps YoY), as IPRU implemented corrective product and pricing action and revised its unit cost assumptions. The management commentary suggests a definitive shift from a single-minded focus on margins to a growth mindset, which is likely to reflect in an inferior mix and a meaningful knock to margins and base EV (likely impact from adverse operating variance).
- Implications:** Given the shift to a growth-at-all-costs mindset and the likely impact on product dynamics from the surrender value exposure draft (sharp deterioration in non-linked product profitability and attractiveness), we build in an inferior ULIP-heavy product mix (>50% contribution in Individual APE) and consequent bottoming out of VNB margins at 25% in FY25E.

Financial summary

(INR bn)	9MFY24	9MFY23	YoY (%)	H1FY24	QoQ(%)	FY23	FY24E	FY25E
NBP	119.6	116.5	2.6	77.5	229.6	174.1	175.1	189.4
APE	54.3	53.4	1.7	35.2	41.1	86.4	89.8	98.3
VNB	14.5	17.1	(15.1)	10.2	31.7	27.7	23.3	24.7
VNB Margin (%)	26.7	32.0	-529bps	28.8	-209bps	32.0	25.9	25.1
EV						356.4	392.1	419.2
P/EV (x)						2.0	1.8	1.7
P/VNB (x)						13.9	14.8	12.5
ROEV (%)						12.8	10.0	13.2

Change in estimates

(INR bn)	FY24E			FY25E		
	Old	New	Δ	Old	New	Δ
APE	93.0	89.8	-3.5%	105.2	98.3	-6.5%
VNB	28.8	23.3	-19.3%	32.6	24.7	-24.2%
VNB Margin (%)	31.0%	25.9%	-510bps	31.0%	25.1%	-586bps
EV	411.2	392.1	-4.6%	473.2	419.2	-11.4%

Source: Company, HSIE Research

ADD

CMP (as on 18 Jan 2024)	INR 486
Target Price	INR 545
NIFTY	21,462

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR575	INR545
	FY24E	FY25E
VNB	-19.3%	-24.2%

KEY STOCK DATA

Bloomberg code	IPRU IN
No. of Shares (mn)	1,440
MCap (INR bn) / (\$ mn)	700/8,561
6m avg traded value (INR mn)	1,099
52 Week high / low	INR 616/381

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(6.7)	(15.4)	(0.2)
Relative (%)	(14.7)	(22.0)	(16.8)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	73.3	73.3
FIs & Local MFs	6.4	6.9
FPIs	15.5	14.7
Public & Others	4.8	5.1
Pledged Shares	Nil	Nil

Source : BSE

Pledged shares as % of total shares

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AU Small Finance Bank

Unsecured book exhibits teething troubles

AUBANK missed estimates, as credit costs inched up (60-65bps annualised run rate), largely from a normalising credit card portfolio (around 6-7% credit costs). Loan growth continued to moderate (+20% YoY) on the back of sluggish growth in the Wheels and SBL segments. Contrary to industry trends, deposit growth (+6% QoQ) outpaced loan growth, although CASA ratio dropped to 33% (-88bps QoQ), led by a drop in CASA + Retail TD mix to 64% (Q2FY24: 66%), resulting in higher funding costs (+20bps QoQ). NIMs at 5.5% were flat QoQ on the back of a largely secured loan portfolio and an unseasoned unsecured book (4-5%). We tweak our FY24E/FY25E estimates (standalone) to factor in higher credit costs, offset by higher other income; maintain REDUCE, with a revised TP of INR560 (2.5x Sep-25 ABVPS).

- **Margins under pressure:** Loan growth continued to moderate (+20% YoY), with the core Wheels and SBL segments struggling for traction. With the unsecured book yet to mature, we see limited levers for any meaningful yield refraction. Concomitant with sustained pricing pressure on deposits, we expect NIMs to stay soft (15-20bps over FY24E-26E).
- **Stress relatively elevated given a secured book:** Gross slippages (2.6%) were higher (Q2FY24: 2.4%), resulting in GNPA's clocking in at 2% despite healthy recoveries (elevated ratio due to INR27bn securitisation of loans) as the credit card book started showing signs of normalising credit cost (6-7%).
- **Structural headwinds to medium-term return ratios:** Given limited levers to yield refraction, intense competition for retail deposits, elevated opex intensity, and normalising credit costs, we expect medium-term returns to be capped. Although AUBANK's portfolio consists of a high mix of secured loans, the management expects credit costs to normalise higher as the credit card book continues to scale and the Fincare SFB merger adds the MFI portfolio, to be partly offset by a gradual reversal in contingent buffers.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	13.2	11.5	14.9%	12.5	6.1%	44.3	52.2	60.5	73.6
PPOP	6.6	5.6	18.2%	6.5	1.5%	20.2	25.0	30.2	38.4
PAT	3.8	3.9	-4.5%	4.0	-6.6%	14.3	15.5	18.1	22.9
EPS (INR)	5.6	5.9	-4.4%	6.0	-6.2%	21.4	23.3	27.2	34.3
ROAE (%)						15.5	13.2	13.5	14.8
ROAA (%)						1.8	1.5	1.5	1.6
ABVPS (INR)						159.7	181.5	206.1	239.2
P/ABV (x)						4.4	3.9	3.4	3.0
P/E (x)						33.1	30.4	26.1	20.6

Change in estimates

(INR bn)	FY24E			FY25E			FY26E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Net advances	715	716	0.1%	874	875	0.1%	1,069	1,070	0.1%
NIM (%)	5.7	5.7	0 bps	5.6	5.6	1 bps	5.6	5.6	1 bps
NII	52.1	52.2	0.1%	60.4	60.5	0.2%	73.5	73.6	0.2%
PPOP	23.8	25.0	4.9%	29.7	30.2	1.8%	38.2	38.4	0.5%
PAT	15.8	15.5	-2.1%	19.0	18.1	-4.7%	23.8	22.9	-3.8%
Adj. BVPS (INR)	183.1	181.5	-0.9%	209.3	206.1	-1.6%	243.4	239.2	-1.7%

Source: Company, HSIE Research

REDUCE

CMP (as on 25 Jan 2024) INR 708

Target Price INR 560

NIFTY 21,353

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR570	INR560
	FY24E	FY25E
EPS %	-2.1%	-4.7%

KEY STOCK DATA

Bloomberg code	AUBANK IN
No. of Shares (mn)	669
MCap (INR bn) / (\$ mn)	473/5,788
6m avg traded value (INR mn)	1,442
52 Week high / low	INR 813/548

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.2	(3.2)	14.9
Relative (%)	(10.2)	(9.8)	(2.5)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	25.5	25.5
FIs & Local MFs	19.6	20.8
FPIs	41.6	41.1
Public & Others	13.3	12.6
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Aditya Birla Capital

Diversified businesses, Distinct outcomes

Aditya Birla Capital's (ABCL) disparate performance continued as the lending businesses sustained growth momentum on the back of simultaneous build-up in balance sheet granularity (67% of the NBFC AUM is towards retail + SME + HNI) and relatively stable asset quality outcomes. This is reflected in sustained improvement in franchise earnings (RoE of NBFC/HFC at 17%/14.6%). The non-leveraged businesses (AMC, LI and HI) remain sluggish on account of policy headwinds, seasonality, and competitive intensity. We maintain ADD with a SOTP-based TP of INR187. The lending businesses contribute two-thirds to the SOTP, reflecting a challenging environment for the non-leveraged businesses.

- NBFC - growth moderation:** ABFL's AUM growth moderated (+35% YoY), driving strong NII/PPoP growth (+38%/34% YoY). The management indicated a slowdown in personal and consumer loans and a further pick-up in the secured loans segment, aiming to double the AUM in three years. While ABFL is making healthy investments in distribution, we expect further deceleration ahead, with pressure on NIMs and profitability given the slowing mix of the high-yielding portfolio. Asset quality improved QoQ with GS-II/GS-III at 2.3%/2.6% (H1FY24: 2.6%/2.6%).
- HFC business - growth sustains at the cost of margins:** ABHFL sustained healthy growth momentum (AUM/disbursals growth at +28%/+45% YoY). However, P&L outcomes were muted (NII/PPoP growth of +6%/-6% YoY) with NIM at 5.4%, driven by higher funding costs and rising share of the non-affordable segment. Asset quality improved with GS-II/GS-III at 1.4%/2.2% (H1FY24: 1.8%/2.6%), resulting in provision writebacks and RoE of ~14.6%.
- Life insurance - muted growth:** ABSLI's individual APE growth registered a soft 9MFY24 growth print (+8% YoY), driven by 17% YoY growth in number of policies, indicating a steep decline in average ticket sizes. The product mix has shifted to low-margin ULIP at 20.6% (40 bps higher YoY), driving flat net VNB margin at 15.6% (+10bps YoY). We continue to watch out for traction in new business sales, which seems to be incrementally leaning towards ULIP.
- Health insurance - profitability a steep ask:** For 9MFY24, retail GDPI grew +27% YoY, led by strong growth in proprietary (+40% YoY) and banca (+18% YoY) channels due to the 20% price hike in the non-PASA category; we remain wary of profitability in the group business that ABHI is aggressively pursuing (+35% YoY). While COR at 121% is a worry, we are skeptical of ABHI's ability to bring CORs sustainably below 100% given the rising mix of group business.

ABCL valuation - sum of the parts (SOTP)

	ABCL Share (%)	ABCL stake (INR bn)	Value /sh (INR)	Comments
ABFL	100%	296	114	RI-based multiple of 1.8x Sep-25E ABVPS
ABHFL	100%	35	14	RI-based multiple of 1.5x Sep-25E ABVPS
ABSLI	51%	67	26	1.1x Mar-25E Embedded value
ABHI	46%	31	12	Transaction multiple
ABSLAMC	50%	51	20	14.5x Mar-25 NOPLAT + Cash & inv
Others	100%	36	14	
TOTAL		517	199	
Hold co. disc.			11	20% for non-wholly-owned subsidiaries
SOTP			187	

Source: Company, HSIE Research

ADD

CMP (as on 01 Feb 2024)	INR 164
Target Price	INR187
NIFTY	21,697

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR190	INR187
	FY24E	FY25E
EPS %	NA	NA

KEY STOCK DATA

Bloomberg code	ABCAP IN
No. of Shares (mn)	2,600
MCap (INR bn) / (\$ mn)	434/5,304
6m avg traded value (INR mn)	815
52 Week high / low	INR 199/134

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(1.9)	(14.9)	22.3
Relative (%)	(14.6)	(22.7)	2.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	69.0	69.0
FIs & Local MFs	8.2	8.4
FPIs	11.3	10.6
Public & Others	11.5	12.0
Pledged Shares	0.0	

Source: BSE

Pledged shares as % of total shares

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Sundaram Finance

Growth tailwinds receding; downgrade to ADD

Sundaram Finance (SUF) earnings were largely in line with our estimates with healthy AUM growth (+26% YoY) and pristine asset quality, partially offset by NIM compression. AUM growth was driven by non-M&HCV segments, particularly retail CV (+56% YoY). SUF continues to be focused on product and geographic diversification strategy to sustain its growth momentum and drive margins. However, the rising cost of funds, concomitant with high competitive intensity, is likely to continue weighing in on margins. Further, loan growth is likely to taper off (AUM CAGR of ~19% during FY24E-FY26E) with a softening CV and PV industry outlook, which is evident in moderation of disbursements (+15% YoY vs. 35% in Q2FY24). While the asset quality continues to be pristine, driving healthy profitability (core RoE of ~17-18%), the 60% valuation re-rating over the past year leaves very little margin of safety. We downgrade SUF to ADD (from BUY) with a revised SoTP-based TP of INR3,610 (standalone entity at 3.7x Sep-25 ABVPS).

- Product diversification drives loan growth; expect moderation ahead:** SUF's product and geographic diversification strategy has helped drive loan growth with the non-M&HCV segment's loan growth at ~33% YoY, while the north region AUM grew by 29% YoY. Although this strategy is likely to sustain the growth momentum going ahead, a softer outlook on CV and PV segments is likely to moderate loan growth closer to ~17-18%.
- Yield reflation partly offsets NIM compression:** NIMs (calculated) declined 10bps QoQ to 4.9%, driven by the rising cost of funds (7.1%; +30bps QoQ). The cost of funds is likely to inch up further, given the tight liquidity environment, and limited levers (CP exposure at 11%), although SUF's cost of funds remains best-in-class. However, the shift in loan mix towards retail CVs and used vehicles has driven a marginal yield reflation and is expected to help stabilise NIMs going ahead.
- HFC subsidiary - turning the corner on growth:** SUF's HFC subsidiary continues to sustain its business momentum, with disbursements/AUM growth of 30%/23% YoY, driven by the non-housing portfolio. Investments in branches (33 added during Sep-22) and headcount are likely to sustain the growth momentum. The AMC subsidiary delivered steady AUM growth (+18.5% YoY), and better profitability (+50% YoY). The GI business continues to grapple with a high COR (116%), while GWP growth has moderated to ~4% YoY.
- Robust franchise; limited margin of safety:** SUF remains a robust franchise with strong profitability (core RoE of ~17-18%) and pristine asset quality (cross-cycle credit costs of ~50bps). The company's diversification strategy has further helped SUF solve for growth. However, most of the positives are factored into the current stock price, especially given the current stage of the cycle, driving our downgrade to ADD.

Financial Summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	5.0	4.4	14.2	4.9	3.2	16.9	19.5	23.7	27.9
PPOP	4.1	3.6	15.4	5.3	(22.0)	15.5	18.6	22.7	26.9
PAT	3.0	2.4	23.6	3.7	(18.1)	10.9	12.9	15.4	18.2
EPS (INR)	27.0	21.8	23.7	33.0	(18.1)	98.0	116.4	138.6	164.2
ROAE (%)						14.9	15.7	16.4	16.9
ROAA (%)						2.9	2.8	2.8	2.8
ABVPS (INR)						479.3	564.4	671.8	800.3
P/ABV (x)						5.8	5.0	4.2	3.5
P/E (x)						28.6	24.1	20.2	17.1

Source: Company, HSIE Research

ADD

CMP (as on 05 Feb 2024) INR3,698

Target Price INR3,610

NIFTY 21,772

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	INR 3500	INR 3610
	FY24E	FY25E
EPS %	0.0%	2.0%

KEY STOCK DATA

Bloomberg code	SUF IN
No. of Shares (mn)	111
MCap (INR bn) / (\$ mn)	411/5,024
6m avg traded value (INR mn)	239
52 Week high / low	INR 3,865/2,190

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.8	43.4	60.6
Relative (%)	3.3	34.3	42.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	38.5	37.9
FIs & Local MFs	13.1	13.5
FPIs	13.2	13.0
Public & Others	35.2	35.6
Pledged Shares	0.0	

Source: BSE

Pledged shares as % of total shares

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Federal Bank

Growth speedbumps enroute journey to top-tier bank

Federal Bank (FB) reported its highest-ever quarterly earnings, despite a miss on NII, on the back of healthy loan growth (+18% YoY), profit from stake sale in its NBFC subsidiary and lower credit costs (31bps annualised). Given the competitive intensity for low-cost deposits, FB too saw a decline in CASA ratio of 54bps QoQ taking its CASA ratio to 30.6%. Differentiated FinTech ecosystem partnerships to gain market share in relatively high-yield segments are key to drive further business productivity on both sides of the balance sheet. FB appears on track to deliver its targeted RoA of 1.4% over FY24-25; however, we see challenges to growth with the credit-deposit ratio likely to be capped, going forward. Following the RBI advisory on CEO succession, the Board of Directors has commissioned an agency to suggest internal/external candidates within 2-3 months. We tweak our estimates to factor in lower provisions offset by higher opex; maintain BUY, with a TP of INR190 (1.4x Sep-25 ABVPS).

- **Balanced growth across segments:** FB reported lower NII growth (8.5% YoY) as NIMs stayed flat at 3.2% on account of incremental deposit re-pricing. Loan growth (+18% YoY) was balanced across segments. Within retail, relatively high yielding segments - PL, CC, CV/CE, and MFI - sustained strong double-digit growth on a low base. These categories, organically and by way of FinTech partnerships, are likely to begin incrementally accounting for a meaningful mix of the loan book by FY25/26.
- **Asset quality stable:** GNPA (2.3%) was stable, excluding one-off impact from the slippage of a corporate account (INR700mn). We lower our credit cost forecasts to reflect a comfortable PCR (~70%) and stable asset quality.
- **FinTech partnerships key to build scalable profitable pools:** Continued investments in technology, ramping up branches, provisions for investment in AIFs and additional provisions for pension of employees, are likely to keep medium-term opex elevated. With credit-to-deposit ratio likely to trend lower going forward, we believe that FB needs to sustain its efforts at monetising its mature FinTech partnerships in order to maintain RoA levels at 1.4-1.5%.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	21.2	19.6	8.5%	20.6	3.3%	72.3	82.7	99.5	114.7
PPOP	14.4	12.7	12.8%	13.2	8.5%	47.9	54.6	65.6	76.5
PAT	10.1	8.0	25.3%	9.5	5.6%	30.1	37.6	44.1	50.7
EPS (INR)	4.2	3.8	10.9%	4.2	-0.2%	14.2	15.5	18.2	20.9
ROAE (%)						14.9	15.0	14.4	14.5
ROAA (%)						1.3	1.3	1.4	1.3
ABVPS (INR)						95.4	111.3	126.5	143.4
P/ABV (x)						1.6	1.3	1.2	1.0
P/E (x)						10.5	9.7	8.2	7.2

Change in estimates

(INR bn)	FY24E			FY25E			FY26E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Net advances	2,029	2,030	0.0%	2,362	2,342	-0.9%	2,757	2,706	-1.9%
NIM (%)	3.4	3.3	-11 bps	3.6	3.5	-12 bps	3.6	3.5	-10 bps
NII	85.3	82.7	-3.1%	103.1	99.5	-3.4%	119.0	114.7	-3.7%
PPOP	57.0	54.6	-4.2%	67.9	65.6	-3.4%	82.5	76.5	-7.2%
PAT	35.9	37.6	4.8%	41.7	44.1	5.8%	50.7	50.7	-0.1%
Adj. BVPS (INR)	111.2	111.3	0.1%	125.2	126.5	1.0%	143.2	143.4	0.1%

Source: Company, HSIE Research

BUY

CMP (as on 16 Jan 2024)	INR 150
Target Price	INR 190
NIFTY	22,032

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR190	INR190
	FY24E	FY25E
EPS %	4.8%	5.8%

KEY STOCK DATA

Bloomberg code	FB IN
No. of Shares (mn)	2,433
MCap (INR bn) / (\$ mn)	364/4,453
6m avg traded value (INR mn)	2,107
52 Week high / low	INR 159/121

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.8	15.8	6.7
Relative (%)	(9.7)	5.1	(15.0)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	0	0
FIs & Local MFs	46.2	44.7
FPIs	27.0	29.4
Public & Others	26.8	25.9
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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LIC Housing Finance

Growth continues to take a back seat

LICHF's earnings were ahead of our estimates due to sustained healthy NIMs, partially offset by muted loan growth (+5% YoY) and high credit costs (60bps). LICHF's NIMs continued to surprise positively at 3% (-4bps QoQ) due to muted balance sheet growth; however, the lower incremental spreads amidst elevated competitive intensity, moderation in demand and rising cost of funds are likely to normalise margins near steady state during FY25. Loan growth remains tepid (+5% YoY) across segments due to organisational and tech changes as per management and remains a key concern. The focus on sustaining margins continues to take a toll on loan growth and remains a key monitorable, going ahead. We revise our FY24/FY25 earnings estimates upwards by 9%/4% to factor in higher NIMs, partially offset by lower loan growth and maintain REDUCE, with a revised RI-based TP of INR530 (implying 1x Sep-25 ABVPS).

- **Robust NIMs; expect moderation ahead:** LICHF reported a strong NIM of 3% (-4bps QoQ) despite the rising cost of funds and elevated competitive intensity. Sustained healthy NIMs of ~3% have been largely driven by back-book repricing (250bps due to repo rate hikes), while incremental loan book is witnessing lower spreads (~170-180bps), which indicates NIM compression going ahead. Marginal cost of funds continued to inch up (7.8%), although management has indicated some respite during Q4.
- **Loan growth uptick taking long to fructify:** LICHF's loan growth continued to be disappointing (AUM/disbursements growth of +4.8%/-6% YoY), indicating a loss of market share across segments. Management has attributed tech transformation in H1 and organisational changes (decentralisation at cluster level) to muted disbursements and the company could witness an uptick from Q4 onwards. LICHF continues to grapple with a growth-margin trade-off with incremental loan growth at much lower spreads. Management has indicated a cautious approach in project loans amidst high competitive intensity, with growth likely to remain muted in the near term.
- **Asset quality stabilising, provisioning remains high:** GS-II/GS-III improved QoQ to 4.5%/4.3% (Q2FY24: 5.1%/4.3%) with improvement across segments. Management continues to explore avenues for the resolution of stressed assets in the project finance portfolio, including ARCs and expects some resolutions, going ahead. Credit cost guidance remains ~40-50bps going ahead.

Financial Summary

(INR bn)	Q3FY24	Q3FY23	YoY(%)	Q2FY24	QoQ(%)	FY23	FY24E	FY25E	FY26E
NII	21.1	11.6	81.2	22.1	(4.7)	63.3	82.9	83.8	90.8
PPOP	19.0	9.4	101.1	20.1	(5.5)	55.0	74.4	73.8	79.5
PAT	11.9	3.0	293.7	13.2	(10.1)	28.9	46.6	47.0	50.2
EPS (INR)	21.6	5.5	289.9	24.1	(10.2)	52.6	84.8	85.4	91.4
ROAE (%)						11.2%	16.0%	14.2%	13.4%
ROAA (%)						1.1%	1.6%	1.5%	1.4%
ABVPS (INR)						372.0	452.3	521.0	591.4
P/ABV (x)						1.7	1.4	1.2	1.1
P/E (x)						12.3	7.6	7.5	7.0

Change in estimates

INR bn	FY24E			FY25E			FY26E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	3,014	2,950	-2.2%	3,322	3,252	-2.1%	3,661	3,586	-2.1%
NIM (%)	2.7	2.8	15bps	2.5	2.6	11bps	2.5	2.5	8bps
NII	79.4	82.9	4.4%	82.2	83.8	1.9%	89.8	90.8	1.1%
PPOP	70.0	74.4	6.3%	72.0	73.8	2.5%	78.3	79.5	1.5%
PAT	42.6	46.6	9.5%	45.1	47.0	4.1%	47.8	50.2	5.1%
ABVPS (INR)	434	452	4.3%	496	521	5.0%	561	591	5.4%

Source: Company, HSIE Research

REDUCE

CMP (as on 05 Feb 2024)	INR 640
Target Price	INR 530
NIFTY	21,772

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 435	INR 530
	FY24E	FY25E
EPS %	9.5%	4.1%

KEY STOCK DATA

Bloomberg code	LICHF IN
No. of Shares (mn)	550
MCap (INR bn) / (\$ mn)	352/4,307
6m avg traded value (INR mn)	1,497
52 Week high / low	INR 656/315

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	38.5	50.1	60.2
Relative (%)	27.0	41.0	42.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	45.2	45.2
FIs & Local MFs	21.5	21.8
FPIs	21.2	21.9
Public & Others	12.0	11.1
Pledged Shares	0.0	

Source: BSE

Pledged shares as % of total shares

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Bandhan Bank

Elusive search for stability, predictability

Bandhan Bank's earnings were in line with estimates, with healthy loan growth (+19% YoY) and stable margins being offset by elevated opex and credit cost levels (annualised 250bps). GNPA's improved marginally to 7% (H1FY24: 7.3%), on the back of ECLGS NPAs sold to ARC (INR7.2bn). Slippages continued to be elevated (~6% annualised) with higher additions from the EEB portfolio, alongside higher recoveries. Deposit growth (+15% YoY) came in on the back of higher growth in non-retail TD (+16% QoQ), dragging CASA to 36.1% (-243bps QoQ). Given the elevated LDR levels at 94%, we believe that BANDHAN will need to sustain its investments in franchise-building to up its deposit mobilisation. Given that BANDHAN is increasing its mix of secured loans, we expect limited NIM reflation and maintain ADD with a revised TP of INR235 (1.6x Sep-25 ABVPS).

- **Asset quality impacted by back-book stress:** The GNPA/NNPA remained elevated at 7.0%/2.2% on the back of slippages from the EEB pool (INR9.9bn, 71% of total slippages). Slippages in the EEB portfolio were significantly high (~6%) during Oct-23 owing to an internal system migration and gradually improved over the next two months. Given the ongoing audit on claims, recoveries from ECLGS and CGFMU portfolios offer a limited line of sight.
- **Moving towards a higher secured book mix:** Consistent with its portfolio diversification strategy, BANDHAN continued to build traction in the non-EEB book, with strong growth in commercial banking (~60% YoY) and retail (70% YoY). While the mortgage book continued to lag, there was a healthy pick-up in disbursements. The secured loan mix stood at 44.5% as against the management's intent to increase it to 50% by FY26.
- **Need stability for earnings predictability:** With continued investments in franchise-building, operating efficiencies still seem far off with cost-to-assets at 3.8%. Limited margin reflation from the higher mix of secured loans, high competitive intensity for low-cost deposits, and continued volatility in asset quality in the core-EEB book coupled with uncertainty around CGFMU claims remain key challenges for the franchise in its search for stability.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	25.3	20.8	21.4%	24.9	1.4%	92.6	98.9	112.0	130.2
PPOP	16.6	19.2	-13.9%	15.6	6.0%	70.9	64.6	78.1	90.5
PAT	7.3	2.9	152.2%	7.2	1.6%	21.9	28.9	33.1	40.4
EPS (INR)	4.6	1.8	152.8%	4.5	1.6%	13.6	17.9	20.6	25.1
ROAE (%)						11.9	13.9	14.2	15.3
ROAA (%)						1.5	1.8	1.9	2.0
ABVPS (INR)						114.0	120.4	135.1	154.3
P/ABV (x)						1.9	1.8	1.6	1.4
P/E (x)						15.9	12.0	10.5	8.6

Change in estimates

(INR bn)	FY24E			FY25E			FY26E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Net advances	1,212	1,182	-2.5%	1,414	1,381	-2.3%	1,646	1,610	-2.2%
NIM (%)	6.6	6.8	23 bps	6.6	6.8	25 bps	6.5	6.8	23 bps
NII	98.5	98.9	0.4%	113.5	112.0	-1.4%	132.3	130.2	-1.6%
PPOP	72.1	64.6	-10.4%	87.5	78.1	-10.8%	101.3	90.5	-10.7%
PAT	28.5	28.9	1.3%	35.2	33.1	-5.9%	43.8	40.4	-7.7%
Adj. BVPS (INR)	123.4	120.4	-2.4%	142.8	135.1	-5.4%	165.7	154.3	-6.9%

Source: Company, HSIE Research

ADD

CMP (as on 09 Feb 2024)	INR 216
Target Price	INR 235
NIFTY	21,783

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 270	INR 235
	FY24E	FY25E
EPS %	1.3%	-5.9%

KEY STOCK DATA

Bloomberg code	BANDHAN IN
No. of Shares (mn)	1,611
MCap (INR bn) / (\$ mn)	348/4,259
6m avg traded value (INR mn)	2,635
52 Week high / low	INR 272/182

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.5)	(6.9)	(10.7)
Relative (%)	(10.9)	(15.4)	(28.4)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	40.0	40.0
FIs & Local MFs	17.5	14.8
FPIs	32.8	34.7
Public & Others	9.8	10.4
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Mahindra & Mahindra Financial Services

Increasing ask rate for FY25 roadmap

MMFS reported a mixed quarter with steady asset quality and healthy loan growth (+25% YoY), offset by sustained pressure on NIMs (~6.6%) and subdued disbursements (+7% YoY). Credit costs normalised in Q3 to ~1.5% and remain on track at ~1.5-1.7% in FY24, although the volatility in credit costs remains a concern. MMFS remains focused on building customer (greater affluence) and product diversification (SME, etc.), along with forging partnerships to drive fee income. However, the rising cost of funds amidst a tight liquidity environment and investments in tech and distribution are likely to provide a downside risk to a RoA of ~2.5% by FY25. We reduce our FY24/FY25E earnings estimates by 14%/4% to factor in NIM compression and higher credit costs; maintain ADD with a revised SOTP-based TP of INR290 (standalone at 1.7x Sep-25 ABVPS).

- **Higher costs of funds and provisioning drove muted P&L outcomes:** MMFS's NIM (calculated) remained under pressure (6.6% vs. 7.2% in Q3FY23), driven primarily by higher costs of funds (7.8%). With the asset mix shifting towards prime customers, NIMs are likely to remain under pressure going ahead, although recent price hikes are likely to provide some respite. Disbursements were muted (+7% YoY), primarily due to tractors (muted industry volumes) and the SME segment (recalibration of portfolio), while the auto segment reported healthy growth (+21% YoY).
- **Stabilising asset quality, steady credit costs elusive:** GS-II/GS-III remained broadly steady at 6%/4% (Q2FY24: 5.8%/4.3%), with annualised write-offs at 2.1%. While credit costs normalised to ~1.5% (H1FY24: 2.8%), volatility remains a concern, particularly during the current benign credit environment.
- **Journey towards FY25 roadmap remains WIP:** MMFS has revised its NIM guidance from 7.5% to 7% amidst rising cost of funds, while opex intensity is likely to remain elevated (~2.8%) with investments in tech and distribution. While customer diversification remains on track, the share of new businesses is likely to be below ~15% by FY25, with a shift in strategy towards SME and other new segments. We believe the trajectory of 2.5% RoA by FY25 remains an uphill task for MMFS although management has indicated some headroom for lower credit costs, due to the high provisioning buffer (PCR of 63%).

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24	FY25E	FY26E
NII	17.0	15.5	9.4	15.9	7.0	61.1	66.7	80.8	97.0
PPOP	10.6	10.0	6.4	9.4	12.7	37.5	41.5	50.8	62.4
PAT	5.5	6.3	(12.1)	2.4	135.0	20.4	19.2	26.7	33.2
EPS (INR)	4.5	5.1	(12.2)	1.9	135.3	16.5	15.6	21.6	26.9
ROAE (%)						12.5%	10.9%	13.8%	15.4%
ROAA (%)						2.4%	1.8%	2.1%	2.2%
ABVPS (INR)						115.9	125.2	137.1	154.3
P/ABV (x)						2.1	1.9	1.7	1.5
P/E (x)						16.8	17.8	12.8	10.3

Change in estimates

INR bn	FY24E			FY25E			FY26E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	1,005	1,006	0.1%	1,225	1,226	0.1%	1,485	1,486	0.1%
NIM (%)	6.9	6.6	-24bps	6.8	6.7	-15bps	6.8	6.6	-20bps
NII	70.4	66.7	-5.3%	85.1	80.8	-5.1%	101.3	97.0	-4.2%
PPOP	44.3	41.5	-6.3%	53.6	50.8	-5.2%	64.5	62.4	-3.2%
PAT	22.3	19.2	-13.9%	27.7	26.7	-3.7%	34.4	33.2	-3.5%
ABVPS (INR)	125.2	125.2	0.0%	140.5	137.1	-2.5%	160.4	154.3	-3.8%

Source: Company, HSIE Research

ADD

CMP (as on 30 Jan 2024)	INR 280
Target Price	INR 290
NIFTY	21,522
KEY CHANGES	OLD NEW
Rating	ADD ADD
Price Target	INR 295 INR 290
EPS %	FY24E FY25E
	-13.9% -3.7%

KEY STOCK DATA

Bloomberg code	MMFS IN
No. of Shares (mn)	1,236
MCap (Rs bn) / (\$ mn)	345/4,223
6m avg traded value (Rs mn)	1,206
52 Week high / low	INR 347/216

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.9	(6.7)	23.9
Relative (%)	2.9	(14.2)	4.4

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	52.2	52.2
FIs & Local MFs	25.8	27.0
FPIs	14.1	12.7
Public & Others	7.8	8.1
Pledged Shares	0.0	

Source: BSE

Pledged shares as % of total shares

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Star Health and Allied Insurance

Growth to drive re-rating; maintain BUY

STARHEAL printed soft NEP growth (+15% YoY), as the company lowered its retention ratio; retail health GDPI exhibited modest growth (+16% YoY) despite a price hike in its flagship product, exhibiting a 30bps market share erosion during 9MFY24. Loss ratios eased QoQ but continued to remain elevated at 68% (+394bps YoY), driving COR to 97.8% (-139bps QoQ). We expect STARHEAL to deliver a rebound in growth (~22% CAGR over FY24-26E) and stable loss ratios, benefitting from a price hike in its flagship product and tighter underwriting and claims review process. As the largest standalone health insurer (9MFY24 retail GDPI market share at 33%), our thesis is anchored on a strong distribution network, retail-dominated business mix and best-in-class opex ratios. We expect STARHEAL to deliver revenue/APAT CAGR of 22%/28% over FY23-25E and RoEs in the range 14-15% for FY24E/25E; maintain BUY with a revised TP of INR685 (DCF derived multiple at 39x Mar-25E P/E and 5.4x Mar-25E P/ABV).

- Loss ratios elevated:** NEP at INR32.4bn grew 15% YoY, on account of the company's conscious decision to shed group business (NEP: -44% YoY) and deceleration in retail segment (NEP +18% YoY). Loss ratios improved slightly to 68% (-101bps QoQ) owing to a tighter claims review process aimed at eliminating fraudulent claims. Commission ratios fell to 11.1% (-260bps QoQ) owing to higher ceding; this, alongside a lean expense ratio at 19.0% drove COR to 97.8% (-139bps QoQ) and led to PAT at INR2.9bn (+37% YoY).
- Growth deceleration:** STARHEAL has been witnessing signs of GDPI growth deceleration since the beginning of FY24 with 9MFY24 GDPI growth at a disappointing 16.7%. Given the combination of a favourable base and a 25% price hike in its flagship product "Family Health Optima (FHO)" (>50% of retail GDPI), we believe STARHEAL is likely to deliver GDPI growth in the range 20-22% during FY25. However, our analysis suggests that the flagship product re-pricing has led to a material base erosion in NOP.
- Need for fresh growth triggers:** Given the sharp price hikes in the flagship product effective May 2023 onwards, we argue that volume growth has been tepid. Given the increase in the banca tie-up limit, we await evidence of STARHEAL's progress in forging partnerships with new banks; this can significantly improve profitability from benefit-based products.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E
Net earned premium	32.9	28.7	14.9	32.1	2.7	112.6	130.2	167.9
Underwriting profits	1.1	1.3	-9.2	-0.8	NM	0.5	1.0	2.4
EBIT	3.9	2.8	38.4	1.7	133.9	8.9	11.7	14.1
EBIT margin (%)	11.8	9.8	200bps	5.2	660bps	7.9	9.0	8.4
PAT	2.9	2.1	37.6	1.3	131.1	6.2	8.3	10.1
P/B (x)						6.2	5.4	4.6
P/E (x)						54.4	40.5	33.3
ROE (%)						12.3	14.2	14.9

Source: Company, HSIE Research

Change in estimates

(INR bn)	FY24E			FY25E		
	Revised	Old	Change (%)	Revised	Old	Change (%)
Net earned premiums	130.2	138.2	-5.8	167.9	167.4	0.3
Operating profits	13.3	15.4	-13.7	15.8	17.2	-8.4
CORs	96.5	94.3	220bps	96	94.8	120bps
APAT	8.3	11.0	-24.5	10.1	12.4	-18.1
RoE (%)	14.2	18.4	-420bps	14.9	17.3	-234bps

Source: Company, HSIE Research

BUY

CMP (as on 31 Jan 2024) INR 578

Target Price INR 685

NIFTY 21,726

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR795	INR685
	FY24E	FY25E
EPS %	-24.5%	-18.1%

KEY STOCK DATA

Bloomberg code	STARHEAL IN
No. of Shares (mn)	585
MCap (INR bn) / (\$ mn)	339/4,141
6m avg traded value (INR mn)	536
52 Week high / low	INR 675/489

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.2)	(9.0)	15.7
Relative (%)	(12.5)	(16.9)	(4.8)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	58.0	57.9
FIs & Local MFs	6.1	6.1
FPIs	13.7	14.7
Public & Others	22.1	21.3
Pledged Shares	0.0	0.0

Source : BSE

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CreditAccess Grameen

Robust performance; priced to perfection

CreditAccess Grameen's (CREDAG) Q3FY24 earnings were ahead of our estimates due to sustained impressive margins (13.1%) and improving operating efficiency. While AUM growth remained healthy (31.5% YoY), disbursements were muted (10.3% YoY) as the upgrade of the CBS platform impacted the business for a couple of weeks. Asset quality deteriorated sequentially (PAR-0/GNPA at 1.8%/1% vs. 1.3%/0.8% in Q2), driving higher-than-expected credit costs (~2.5%). CREDAG remains poised to deliver healthy profitability (~5%+ ROA) and strong growth (~25% AUM CAGR during FY24-FY26E). However, as highlighted in our [Company update](#), CREDAG's peak profitability seems behind due to expected moderation in margins and loan growth, while the stock price provides little margin of safety. Maintain ADD, with RI-based TP of INR1,720 (implying 3.1x Sep-25 ABVPS).

- **Sustained strong operating performance:** CREDAG reported a robust performance with NII/PPOP growth of 49%/59% YoY (5%/7% QoQ). NIMs remained healthy at 13.1% due to steady yields and cost of funds despite a tight liquidity environment. CREDAG reduced lending rates by ~50bps in Dec-23 due to improving operating efficiency (C/I at 29%), which has been trending better than our estimates and management guidance. Borrowers' additions sustained traction (+19% YoY), although the attrition rate was elevated (~15%).
- **Marginal deterioration in asset quality:** GNPA/NNPA deteriorated marginally to 1%/0.3% with PAR-0/PAR-30 at 1.8%/1.2%. Management attributed the uptick in delinquencies to TN floods, higher growth in non-core states that have seen higher PAR and seasonality. While credit costs have been inching upwards, the risk-adjusted spreads remain healthy.
- **Poised for healthy growth:** CREDAG is poised to deliver healthy AUM CAGR of ~25% during FY24-FY26E on the back of a sustained pace of borrower additions and gradually upping its vintage curve (31% GLP above 3-year tenure). CREDAG's product diversification with newly launched products (LAP, Gold loans etc.) could provide further filip to growth in the medium term.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	8.0	5.4	48.5	7.6	5.2	21.1	30.6	37.6	46.7
PPOP	6.0	3.8	58.7	5.6	6.6	15.1	23.0	27.8	34.2
PAT	3.5	2.2	63.2	3.5	1.3	8.3	14.1	17.1	21.1
EPS (INR)	22.1	13.5	63.0	22.0	0.5	52.0	88.7	107.4	132.6
ROAE (%)						17.9	24.3	23.2	22.8
ROAA (%)						4.2	5.6	5.3	5.2
ABVPS (INR)						293.5	379.3	484.4	613.4
P/ABV (x)						5.7	4.4	3.5	2.7
P/E (x)						32.4	19.0	15.7	12.7

Change in estimates

INR bn	FY24E			FY25E			FY26E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	269.0	269.0	0.0%	332.4	332.7	0.1%	412.2	412.5	0.1%
NIM (%)	12.6	12.8	18bps	12.5	12.5	6bps	12.5	12.5	6bps
NII	30.1	30.6	1.4%	37.5	37.6	0.5%	46.4	46.7	0.5%
PPOP	22.4	23.0	3.0%	27.4	27.8	1.5%	33.9	34.2	0.9%
PAT	13.9	14.1	1.7%	17.0	17.1	0.4%	20.9	21.1	1.0%
ABVPS (INR)	378.6	379.3	0.2%	482.7	484.4	0.4%	609.6	613.4	0.6%

Source: Company, HSIE Research

ADD

CMP (as on 19 Jan 2024) INR 1,675

Target Price INR 1,720

NIFTY 21,622

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1720	INR 1720
	FY24E	FY25E
EPS %	1.7%	0.4%

KEY STOCK DATA

Bloomberg code	CREDAG IN
No. of Shares (mn)	159
MCap (INR bn) / (\$ mn)	267/3,262
6m avg traded value (INR mn)	508
52 Week high / low	INR 1,796/834

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	21.0	28.2	83.9
Relative (%)	11.8	21.4	66.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	66.7	66.7
FIs & Local MFs	15.8	15.8
FPIs	11.4	12.0
Public & Others	6.1	5.6
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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PNB Housing Finance

Stepping up on investments to drive growth

PNBHF's Q3FY24 results missed estimates due to muted loan growth (+7.4% YoY) and NIM compression (~46bps). Management has reduced its retail loan growth guidance to 15% from 17% for FY24, due to moderation in demand and internal challenges. The rebalancing of the portfolio towards retail (96% of loan book) and particularly individual housing (~69%) is weighing on loan growth and margins. However, PNBHF is making significant investments in the distribution network with 88 branches to be added in Q4FY24 and new product segments (affordable housing with ATS of ~INR1.5mn; emerging markets with ATS of ~INR2mn) to drive profitable growth. While the opex ratios are likely to further inch up, the steady turnaround in asset quality has been impressive driving lower credit costs (~35bps); maintain ADD with a revised RI-based TP of INR830 (implying 1.3x Sep-25 ABVPS).

- **Balance sheet construct, competitive intensity weigh on margins:** PNBHF's spread/NIM contracted sequentially to 2.1%/3.5% (Q2FY24: 2.6%/3.95%) due to higher cost of funds, shifting loan mix (towards individual HL to salaried segment) and elevated competitive intensity. PNBHF's focus on the affordable housing segment (ticket size of ~INR 1.5-2mn) through a dedicated distribution network and the recent credit rating upgrade are likely to partially offset the NIM compression, going ahead.
- **Positive surprise on credit costs:** Asset quality has surprised positively over the past few quarters, driving down GS-III/NS-III to 1.7%/1.2% with GS-II at 3.1%. With a negligible corporate portfolio (~4%), a large written-off pool (INR22bn) and lower stressed assets, we expect credit costs to moderate to ~35bps for FY24-FY26E.
- **Surge in investments; throughput key monitorable:** PNBHF has expanded its branch network to 212 in Dec-23 and is aiming to add another ~88 branches in Q4FY24 to increase the share of high-yielding retail loans to offset the run-down of corporate loans and loans to self-employed segment. However, branch throughput remains a key monitorable, given higher competitive intensity and elevated cost of business in the affordable housing segment.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	5.9	7.2	(17.3)	6.5	(8.2)	23.0	24.6	28.1	32.3
PPOP	5.0	6.7	(25.9)	5.5	(9.5)	21.0	20.7	23.2	26.9
PAT	3.4	2.7	25.8	3.8	(11.6)	10.5	14.0	15.7	18.3
EPS (INR)	13.0	15.9	(18.4)	14.7	(11.7)	61.9	54.1	60.4	70.7
ROAE (%)						10.0	10.9	10.0	10.6
ROAA (%)						1.6	2.0	2.0	2.0
ABVPS (INR)						556.4	543.2	600.7	666.7
P/ABV (x)						1.5	1.6	1.4	1.3
P/E (x)						13.8	15.8	14.2	12.1

Change in estimates

INR bn	FY24E			FY25E			FY26E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	741	709	-4.3%	856	801	-6.5%	989	916	-7.4%
NIM (%)	3.5	3.5	3 bps	3.5	3.5	-1 bps	3.5	3.5	-1 bps
NII	24.7	24.6	-0.7%	29.2	28.1	-3.9%	33.9	32.3	-4.7%
PPOP	21.3	20.7	-3.2%	24.9	23.2	-6.9%	29.0	26.9	-7.1%
PAT	13.4	14.0	4.6%	16.4	15.7	-4.6%	19.0	18.3	-3.4%
ABVPS (INR)	542.7	543.2	0.1%	599.9	600.7	0.1%	668.7	666.7	-0.3%

Source: Company, HSIE Research

ADD

CMP (as on 24 Jan 2024)	INR 860
Target Price	INR 830
NIFTY	21,454

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 765	INR 830
	FY24E	FY25E
EPS %	4.6%	-4.6%

KEY STOCK DATA

Bloomberg code	PNBHOU5I IN
No. of Shares (mn)	260
MCap (INR bn) / (\$ mn)	223/2,730
6m avg traded value (INR mn)	462
52 Week high / low	INR 907/383

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	20.2	24.7	86.6
Relative (%)	10.2	17.7	70.0

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	28.1	28.1
FIs & Local MFs	7.7	7.9
FPIs	24.8	24.7
Public & Others	39.3	39.3
Pledged Shares		0.0

Source: BSE

Pledged shares as % of total shares

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Aptus Value Housing Finance India

Steady quarter; expensive valuation

APTUS reported largely in-line results with steady loan growth (+28% YoY), improving opex intensity (2.6% of AUM) and steady credit costs (~40bps), partially offset by moderation in NIMs. Core spreads continued to remain under pressure, despite a run-down on negative carry, due to moderation in yields. APTUS continues to be focused on the LIG, self-employed, rural-based customers in its core markets, with gradual geographical expansion. However, the rising competitive intensity, coupled with supernormal risk-adjusted margins, poses a downside risk to loan growth and profitability and a limited margin of safety at the current valuation (4.3x Mar-25 ABVPS). We tweak our FY24/FY25 earnings estimates to factor in lower provisions; we maintain REDUCE with a revised RI-based TP of INR280 (implying 3.0x Sep-25 ABVPS).

- Funding costs continue to weigh on P&L outcomes:** APTUS's core spreads continued to moderate (-34bps YoY, 13bps QoQ), due to moderation in yields as well as rising cost of funds. While the tight liquidity environment and increase in risk weights for non-housing loans drove the cost of funds higher, an adverse loan mix (higher share of housing loans) drove flat yields sequentially, despite rate hikes during Q2. Limited room for further liquidity run down (~4% of assets), along with the rising cost of funds, is likely to drive NIMs lower.
- Steady asset quality:** Asset quality remained steady sequentially with GS-II/GS-III clocking in at 4.9%/1.2% (Q2FY24: 4.8%/1.2%), alongside steady early delinquencies (30+ dpd at 6.04%). Credit costs remained as per expectations (41bps) and the management has signalled its intent to maintain a coverage ratio of 1.1% on the overall loan book.
- Downside risks to growth; scalability remains a key monitorable:** AUM growth remained steady at 28% YoY, with increasing contributions from outside Tamil Nadu. APTUS is adding branches (31 added in 9M) in other states such as AP and Telangana and new states such as Odisha and Maharashtra to drive growth. However, the elevated competitive intensity and moderation in demand are likely to pose downside risks to aspirations of ~30%+ loan growth. Further, we remain watchful of APTUS's ability to scale beyond its core markets and core customer segments to sustain high loan growth and maintain superior profitability.

Financial summary (Consolidated)

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	2.4	2.0	19.9	2.3	5.0	7.8	9.3	11.5	14.2
PPOP	2.1	1.8	20.9	2.0	9.2	6.9	8.2	10.0	12.4
PAT	1.6	1.3	25.5	1.5	6.5	5.0	6.1	7.3	9.0
EPS (INR)	3.2	2.5	25.0	3.0	6.4	10.1	12.2	14.7	18.1
ROAE (%)						16.1	17.1	18.1	19.1
ROAA (%)						7.8	7.4	7.0	6.8
ABVPS (INR)						66.0	73.5	85.1	99.6
P/ABV (x)						5.6	5.0	4.3	3.7
P/E (x)						36.6	30.4	25.1	20.4

Change in estimates

INR bn	FY24E			FY25E			FY26E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	86	86	-0.1%	109	109	0.2%	136	137	0.8%
NIM (%)	11.5	11.5	0 bps	10.9	11.1	12 bps	10.7	10.7	1 bps
NII	9.5	9.3	-2.1%	11.7	11.5	-1.1%	14.2	14.2	0.1%
PPOP	8.2	8.2	-1.0%	10.1	10.0	-1.0%	12.4	12.4	0.3%
PAT	6.0	6.1	0.7%	7.3	7.3	0.6%	8.9	9.0	1.9%
ABVPS (INR)	73.5	73.5	0.0%	85.0	85.1	0.0%	99.3	99.6	0.4%

Source: Company, HSIE Research

REDUCE

CMP (as on 02 Feb 2024)	INR 370
Target Price	INR 280
NIFTY	21,854

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 240	INR 280
	FY24E	FY25E
EPS %	0.7%	0.6%

KEY STOCK DATA

Bloomberg code	APTUS IN
No. of Shares (mn)	499
MCap (INR bn) / (\$ mn)	185/2,258
6m avg traded value (INR mn)	242
52 Week high / low	INR 384/234

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	27.7	40.6	32.0
Relative (%)	15.2	31.0	11.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	62.1	62.1
FIs & Local MFs	2.8	5.2
FPIs	14.8	15.4
Public & Others	20.3	17.3

Pledged Shares - -

Source: BSE

Pledged shares as % of total shares

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RBL Bank

Tight liquidity poses a challenge on road to granularity

RBL Bank (RBK) missed estimates due to additional provisions towards investment in AIF (INR1.15bn) and elevated opex, partly offset by healthy loan growth (+20% YoY) and stable margins (5.5%). Deposit growth (+13% YoY) lagged loan growth as CASA dipped 190bps QoQ to 33.8% and continues to be a key challenge given the tight liquidity environment and aggressive pricing. Loan growth was driven by strong traction in retail credit (58% of loans), led by credit cards and segments like home loans and tractors. Management continues to focus on increasing its direct sourcing channels and is thus likely to keep medium-term opex ratios elevated (C/I - 67%). Given RBK's investment phase, elevated opex (branches, people, new businesses) and systemic challenges to growth, we believe that return ratios will remain muted in the medium term; maintain REDUCE with a revised TP of INR225 (0.9x Sep-25 ABVPS).

- **Steady loan growth; stable margins:** RBK reported steady loan growth (+20% YoY) while sustaining its margins at 5.5% with strong disbursal traction in housing and tractors segments. MFI disbursals were flat QoQ on account of elections in a few states. Annualised gross slippages at 3.7% were primarily from the credit card (~55%) and MFI (~15%) portfolios, keeping the GNPA's elevated (3.1%). Annualised credit costs (188 bps) included a one-off provision towards investments in AIF (INR1.15bn).
- **Target balance sheet granularity a challenge:** As part of its three-year plan, the management targets to build a higher share (30% of loans) of secured retail book (housing and tractors), while also raising the share of granular deposits to 50% (9MFY24: 45%). We believe this is likely to be a challenge, given RBK's relatively weak competitive positioning and tight liquidity conditions. Hence, we argue that a simultaneous recalibration of the balance sheet is a steep ask.
- **Direct sourcing efforts to keep opex elevated:** RBK's franchise-building efforts to enhance direct sourcing of business are likely to keep opex ratios elevated and the journey to RoA reflation protracted.

Financial summary

(INR bn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	15.5	11.5	34.6%	14.7	4.8%	175.9	54.4	60.3	67.1
PPOP	7.7	5.7	34.9%	7.3	4.7%	143.5	28.3	35.9	41.2
PAT	2.3	2.1	11.5%	2.9	-20.7%	73.9	11.1	13.9	16.3
EPS (INR)	3.9	3.5	11.5%	4.9	-21.0%	95.2	18.5	23.3	27.1
ROAE (%)						14.4	8.0	9.4	10.0
ROAA (%)						1.7	0.9	1.0	1.1
ABVPS (INR)						681.9	227.5	246.9	268.0
P/ABV (x)						2.4	1.2	1.1	1.0
P/E (x)						16.9	14.4	11.5	9.9

Source: Company, HSIE Research

Change in estimates

(INR bn)	FY24E			FY25E		
	Old	New	Δ	Old	New	Δ
Net advances	798	819	2.7%	907	931	2.7%
NIM (%)	4.6	5.0	44 bps	4.5	4.9	42 bps
NII	49.4	54.4	10.1%	54.8	60.3	10.1%
PPOP	27.8	28.3	1.8%	31.1	35.9	15.5%
PAT	10.8	11.1	2.6%	13.4	13.9	3.9%
Adj. BVPS (INR)	226.4	227.5	0.5%	244.2	246.9	1.1%

Source: Company, HSIE Research

REDUCE

CMP (as on 20 Jan 2024)	INR 269
Target Price	INR 225
NIFTY	21,572

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR135	INR225
	FY24E	FY25E
EPS %	2.6%	3.9%

KEY STOCK DATA

Bloomberg code	RBK IN
No. of Shares (mn)	604
MCap (INR bn) / (\$ mn)	162/1,983
6m avg traded value (INR mn)	3,142
52 Week high / low	INR 301/132

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.9	22.3	58.2
Relative (%)	0.7	15.2	40.4

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	0.0	0.0
FIs & Local MFs	19.5	19.7
FPIs	30.0	28.3
Public & Others	50.5	52.0
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Karur Vysya Bank

Deposit mobilisation challenge to growth momentum

Karur Vysya Bank (KVB) delivered another quarter of an all-time high PAT, led by healthy loan growth (+16% YoY) and 25bps QoQ margin reflation at 4.32%, benefitting from interest recovery from one NPA account and shedding of low-yielding corporate loans. Loan growth was steady across segments, driven by MSME (+18% YoY), LAP (77% YoY), housing (16% YoY), and PL (+291% YoY). Deposit growth was healthy (~13%) but at the cost of CASA contracting by 75bps QoQ to 31.5%, thus posing a challenge to the management of mobilising retail deposits while maintaining a steady-state growth strategy. Given likely incremental deposit repricing, we see a limited upside to margins and a narrow scope for operating leverage, given sustained investments that are likely to reflect in an elevated opex-to-assets ratio. We tweak our FY24E-25E earnings estimates to factor in higher growth offset by elevated opex and maintain ADD with a revised TP of INR185 (1.3x Sep-25 ABVPS).

- **NIM reflation alongside healthy loan growth:** NII growth (+12% YoY) was led by a one-off recovery from an NPA account (contributing 19bps of the 25bps NIM reflation) and a change in strategy to shed low-yielding highly-rated corporate loans. All-around loan momentum (+16%YoY) across segments like MSME, LAP and PL also contributed to the improvement in blended yields. Management guided that NIMs will stabilise at ~4% in the next quarter, on the back of a further 15bps hike in the cost of deposits.
- **Asset quality trends stable:** GNPA/NNPA improved slightly to 1.6%/0.4% (Q2FY24: 1.7%/0.5%) on the back of healthy recovery/upgrades run-rate and a stable SMA-1 portfolio at sub-1%. With robust PCR at ~73% and a relatively clean book, we expect credit costs to average 75bps during FY24.
- **On track to deliver 1.5% RoAs:** On the back of its strong performance, change in product mix, better cross-sell outcomes and improvement in productivity, KVB is well-placed to sustain its RoAs above 1.5%. We build in a benign loan CAGR (14%) and softening NIMs (30bps over the next four quarters), given the systemic challenge to retail deposit mobilisation.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	10.0	8.9	12.6%	9.2	9.4%	33.5	36.8	40.9	45.8
PPOP	6.8	6.9	-1.9%	6.4	6.0%	24.8	25.4	29.0	33.1
PAT	4.1	2.9	42.3%	3.8	8.7%	11.1	14.8	16.7	19.0
EPS (INR)	5.1	3.6	42.5%	4.7	9.1%	13.8	18.5	20.8	23.7
ROAE (%)						13.7	16.2	16.1	16.2
ROAA (%)						1.3	1.5	1.5	1.5
ABVPS (INR)						101.2	116.4	130.9	147.6
P/ABV (x)						1.7	1.5	1.3	1.2
P/E (x)						12.3	9.2	8.2	7.2

Change in estimates

(INR bn)	FY24E			FY25E			FY26E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Net advances	719	730	1.6%	817	835	2.2%	929	949	2.2%
NIM (%)	4.0	4.1	10 bps	4.0	4.0	1 bps	4.0	4.0	-2 bps
NII	35.7	36.8	3.1%	40.2	40.9	1.8%	45.3	45.8	1.2%
PPOP	24.8	25.4	2.4%	28.5	29.0	1.8%	32.7	33.1	1.2%
PAT	14.1	14.8	5.4%	15.8	16.7	5.5%	18.3	19.0	3.6%
Adj. BVPS (INR)	113.8	116.4	2.3%	127.8	130.9	2.4%	144.0	147.6	2.5%

Source: Company, HSIE Research

ADD

CMP (as on 20 Jan 2024)	INR 170
Target Price	INR 185
NIFTY	21,572

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 175	INR 185
	FY24E	FY25E
EPS %	5.4%	5.5%

KEY STOCK DATA

Bloomberg code	KVB IN
No. of Shares (mn)	799
MCap (INR bn) / (\$ mn)	136/1,6660
6m avg traded value (INR mn)	424
52 Week high / low	INR 177/93

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.0	30.9	61.5
Relative (%)	8.8	23.8	43.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	2.2	2.2
FIs & Local MFs	32.3	35.2
FPIs	18.1	15.6
Public & Others	47.2	46.8
Pledged Shares	0.2	0.2

Source : BSE

Pledged shares as % of total shares

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Aavas Financiers

Growth momentum remains a key monitorable

AAVAS's earnings were marginally below our estimates due to lower-than-expected AUM growth (+23% YoY) and sustained pressure on NIMs, partially offset by lower credit costs (20bps). Business momentum has been gradually gaining traction (disbursals up by 13% YoY) and is expected to witness a further uptick. AAVAS is focusing on improving its sub-par throughput by diversifying the sourcing mix, along with ongoing tech transformation that would reduce the TAT further. Further, the company is seeking an increasing share of lower ticket size loans to offset spread compression (5.1%), within their overall risk-calibrated approach towards underwriting, reflected in sustained pristine asset quality across segments. The stock's underperformance compared to peers is turning risk-reward favourable. We trim our FY24/FY25 earnings estimates marginally to factor in lower loan growth and maintain ADD with a revised RI-based TP of INR1,735 (implying 3x Sep-25 ABVPS; 21x Sep-25 EPS).

- **NIM pressure continues, marginally improving cost efficiency:** AAVAS's core spreads for 9MFY24 declined to 5.12% (-63bps YoY, 17bps QoQ) due to lower yields and higher funding costs. Management reiterated high competitive intensity driving pressure on yields and is seeking to optimise the loan mix (higher share of lower ticket-size home loans) to drive yields. The cost of funds continued to inch up (7.9%), although management has indicated the marginal cost of funds has stabilised. Opex intensity moderated marginally (opex to AUM at 3.4% vs. 3.5% in Q2FY24) and is expected to improve with improving business throughput.
- **Pristine asset quality:** Asset quality remained pristine, led by a conservative lending approach (low approval rates, conservative LTV, high due diligence etc.). GS-III/NS-III remained stable at 1.1%/0.8%, with GS-II at 1.7%.
- **A healthy uptick in business momentum key to rerating:** AAVAS's disbursements growth has been muted during 9MFY24 (+7% YoY) post the management change, which also coincided with the ongoing tech transformation. With the key tech transformations largely over, AAVAS is focusing on improving business throughput by diversifying the sourcing mix (connectors etc.) along with the streamlined processes to reduce TAT. Amidst elevated competitive intensity and moderation in demand, the uptick in loan growth remains a key monitorable for rerating.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	2.2	2.1	6.0	2.2	(0.7)	8.0	9.1	11.0	13.3
PPOP	1.6	1.4	11.7	1.6	(3.1)	5.6	6.5	8.2	10.1
PAT	1.2	1.1	9.0	1.2	(4.0)	4.3	4.8	6.0	7.4
EPS (INR)	14.7	13.5	8.9	15.4	(4.2)	54.3	60.7	76.2	93.0
ROAE (%)						14.1	13.8	15.0	15.7
ROAA (%)						3.5	3.2	3.3	3.3
ABVPS (INR)						403.7	454.7	527.6	616.8
P/ABV (x)						3.7	3.3	2.8	2.4
P/E (x)						27.3	24.4	19.5	15.9

Change in estimates

INR bn	FY24E			FY25E			FY26E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	176	173	-1.8%	217	211	-3.0%	268	259	-3.4%
NIM (%)	6.4	6.3	-13bps	6.3	6.3	-5 bps	6.3	6.2	-6 bps
NII	9.3	9.1	-2.8%	11.3	11.0	-3.0%	13.8	13.3	-3.8%
PPOP	6.8	6.5	-4.0%	8.4	8.2	-2.6%	10.6	10.1	-4.9%
PAT	4.9	4.8	-1.7%	6.0	6.0	-0.1%	7.5	7.4	-2.4%
ABVPS (INR)	456.5	454.7	-0.4%	529.1	527.6	-0.3%	620.6	616.8	-0.6%

Source: Company, HSIE Research

ADD

CMP (as on 02 Feb 2024) INR 1,484

Target Price INR 1,735

NIFTY 21,854

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1830	INR 1735
	FY24E	FY25E
EPS %	-1.7%	-0.1%

KEY STOCK DATA

Bloomberg code	AAVAS IN
No. of Shares (mn)	79
MCap (INR bn) / (\$ mn)	117/1,436
6m avg traded value (INR mn)	418
52 Week high / low	INR 2,046/1,335

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.6	(4.8)	(20.3)
Relative (%)	(10.8)	(14.4)	(40.6)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	39.1	39.1
FIs & Local MFs	14.2	15.3
FPIs	35.5	32.3
Public & Others	11.2	13.3
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

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Ujjivan Small Finance Bank

Hard grind towards a stronger customer franchise

UJJIVAN earnings were in line with estimates, driven by healthy loan growth (+31% YoY) offset by higher opex. Deposit growth was sluggish (+1.8% QoQ) even as the CASA ratio improved 140bps QoQ to 25.5%, with an incremental focus on mobilising more retail deposits. The marginal increase in the cost of deposits was offset by a similar improvement in yields, translating into sequentially flat NIMs at 8.8%. GNPA clocked in at 2.2%, improving sequentially on the back of higher write-offs. While UJJIVAN operates on an elevated investment-deposit ratio (36%), we expect a gradual substitution towards loans, thereby exerting pressure on medium-term spreads as the portfolio migrates to a higher mix of secured loans. We tweak our FY24E/25E estimates to factor in changes in the balance sheet mix and maintain BUY with a TP of INR70 (1.9x Sep-25 ABVPS).

- Strong disbursal momentum drives AUM growth:** Disbursal growth clocked in at a healthy 17% YoY, with a marginal QoQ drop in MFI disbursements, impacted by one-off factors in a few states, but offset by higher disbursements in affordable housing and FIG lending (ex-MSE). While the MFI portfolio (~71% of the mix) continues to witness strong traction across group and individual loans, UJJIVAN is looking to up the quality of its customer franchise by building a granular book with a higher mix of secured loans (9MFY24: 28%; 3–5-year target at 45-50%).
- Asset quality in check:** GNPA improved to 2.2% (H1FY24: 2.4%), driven by accelerated write-offs, offsetting elevated slippages (2.3% annualised). The management maintained its guidance for sub-1% credit costs during FY24 as collection run rates (at over 99%) have been stable at a portfolio level.
- Customer franchise investments to cap return ratios:** With its focus on brand building, new customer acquisition and granular retail deposits through investments in distribution and digital initiatives, medium-term opex is likely to stay elevated. Given the current tight liquidity environment, the impending deposit repricing, and the likely change in asset mix towards secured loans, we expect pressure on margins, thus capping medium-term return ratios.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	8.6	7.0	23.4%	8.2	4.5%	27.0	33.0	38.9	44.9
PPOP	4.6	3.9	17.6%	4.8	-5.4%	14.9	19.0	22.6	26.5
PAT	3.0	2.9	2.4%	3.3	-8.4%	11.0	12.8	14.8	17.3
EPS (INR)	1.5	1.5	2.0%	1.7	-7.3%	5.6	6.5	7.5	8.9
ROAE (%)						31.4	27.2	25.2	23.9
ROAA (%)						3.9	3.4	3.3	3.2
ABVPS (INR)						21.5	26.5	33.0	40.8
P/ABV (x)						2.6	2.1	1.7	1.4
P/E (x)						9.8	8.4	7.3	6.2

Change in estimates

(INR bn)	FY24E			FY25E			FY26E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Net advances	267	267	0.0%	326	326	0.0%	396	396	0.0%
NIM (%)	9.7	9.8	6 bps	9.5	9.6	10 bps	9.5	9.6	10 bps
NII	33.0	33.0	0.0%	39.0	38.9	-0.1%	45.0	44.9	-0.1%
PPOP	19.0	19.0	0.3%	22.5	22.6	0.4%	26.4	26.5	0.6%
PAT	12.8	12.8	0.3%	14.7	14.8	0.5%	17.2	17.3	0.6%
Adj. BVPS (INR)	26.5	26.5	0.1%	32.9	33.0	0.2%	40.7	40.8	0.3%

Source: Company, HSIE Research

BUY

CMP (as on 24 Jan 2024)	INR 55
Target Price	INR 70
NIFTY	21,454

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 70	INR 70
	FY24E	FY25E
EPS %	0.3%	0.5%

KEY STOCK DATA

Bloomberg code	UJJIVANS IN
No. of Shares (mn)	1,957
MCap (INR bn) / (\$ mn)	108/1,324
6m avg traded value (INR mn)	1,055
52 Week high / low	INR 63/23

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.6	29.8	97.0
Relative (%)	(7.5)	22.7	80.4

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	73.7	73.6
FIs & Local MFs	4.2	4.0
FPIs	3.5	3.7
Public & Others	18.6	18.7
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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City Union Bank

Loan growth paramount for sustaining peer leadership

City Union Bank's (CUBK) earnings missed estimates, on the back of sluggish growth and NIM compression from interest reversal on restructured loans that turned NPA, partly offset by lower credit costs. Loan growth continued to be soft (+0.7% QoQ) and will remain a key challenge for the bank, going forward. The management has guided for a double-digit loan growth by the end of FY24 with improvement in MSME productivity via digital initiatives and as the run-down in the KCC book is largely behind. CUBK continued to report negative net slippages, with annualised slippage at 1.8%, thus keeping GNPA's in check at 4.5%. Given incremental margin pressures from continued deposit re-pricing, and medium-term opex driven by investments in technology and people, it is imperative for CUBK to accelerate its growth outcomes at the earliest. We tweak our FY24/25E estimates to factor in margin compression, offset by lower credit cost, and maintain BUY, with a TP of INR165 (1.4x Sep-25 ABVPS).

- **Growth struggled coupled with margins compression:** CUBK's loan growth was flat (-0.1% YoY, 0.7% QoQ) with continued de-growth in the core MSME and agri segments. NII de-grew 4.2% QoQ, with NIMs at 3.5% (-24bps QoQ), owing to interest reversal from slippages in restructured accounts. We expect NIMs to stay soft from lagged deposit re-pricing in upcoming quarters.
- **Asset quality in check:** Gross slippages improved sequentially (annualised at 1.8%) (H1FY24: 2.1%), and concomitant with stronger recoveries, led to lower GNPA/NNPA at 4.5%/2.2%. Over the medium-term, the management intends to achieve pre-COVID levels of asset quality.
- **Growth imperative for P&L outcomes:** CUBK needs to ramp up on its new growth strategies such as digital lending to ETB clients and co-lending arrangements with NBFCs for secured products (VF, GL, HL) sooner to achieve its targeted growth. We believe that sustained loan growth is crucial for CUBK to improve its P&L outcomes and restore best-in-class valuations.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	5.2	5.6	-7.2%	5.4	-4.2%	21.6	21.2	22.6	23.9
PPOP	3.6	5.0	-26.8%	3.9	-5.8%	18.2	15.4	17.8	19.2
PAT	2.5	2.2	16.2%	2.8	-9.8%	9.4	10.0	10.5	11.3
EPS (INR)	3.4	2.9	17.9%	3.8	-9.5%	12.7	13.6	14.2	15.2
ROAE (%)						13.3	12.7	11.8	11.4
ROAA (%)						1.5	1.5	1.4	1.4
ABVPS (INR)						87.1	100.9	115.4	129.5
P/ABV (x)						1.7	1.4	1.2	1.1
P/E (x)						11.4	10.6	10.1	9.5

Change in estimates

(INR bn)	FY24E			FY25E			FY26E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Net advances	444	462	4.0%	484	505	4.4%	530	556	4.9%
NIM (%)	3.5	3.4	-16 bps	3.6	3.4	-18 bps	3.5	3.3	-23 bps
NII	21.8	21.2	-3.0%	23.0	22.6	-1.9%	24.6	23.9	-2.7%
PPOP	17.5	15.4	-11.8%	18.7	17.8	-4.9%	19.7	19.2	-2.9%
PAT	9.8	10.0	1.9%	10.8	10.5	-2.1%	11.4	11.3	-1.5%
Adj. BVPS (INR)	100.5	100.9	0.5%	114.3	115.4	1.0%	128.7	129.5	0.6%

Source: Company, HSIE Research

BUY

CMP (as on 01 Feb 2024) INR 144

Target Price INR 165

NIFTY 21,697

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR170	INR165
	FY24E	FY25E
EPS %	1.9%	-2.1%

KEY STOCK DATA

Bloomberg code	CUBK IN
No. of Shares (mn)	741
MCap (INR bn) / (\$ mn)	107/1,302
6m avg traded value (INR mn)	662
52 Week high / low	INR 168/120

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.7	6.8	(7.0)
Relative (%)	(7.9)	(1.0)	(26.9)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	0.0	0.0
FIs & Local MFs	33.2	32.4
FPIs	23.7	26.6
Public & Others	43.1	41.0
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Can Fin Homes

Growth fix remains elusive

Can Fin Homes (CANF) reported a mixed set of results with sub-par loan growth (+13% YoY), offset by sustained NIM reflation (3.9%), driving ~10% beat on earnings. Disbursals continued to disappoint (-23% YoY) due to moderation in demand, greater competitive intensity, and process tweaks. The management has reduced its loan growth guidance to ~12% for FY24 and expects a pick-up from FY25 onwards. Investments in branches (five branches opened in Q3) and widening of the customer funnel (digital sourcing, APF etc.) are likely to augment loan growth. As highlighted in our recent [Company Update](#), the new management is looking to strengthen its governance framework and adding new pillars for the next leg of sustainable and profitable growth. We tweak our FY24/FY25 earnings estimates for lower loan growth, offset by higher margins; maintain BUY with revised RI-based TP of INR900 (2.2x Sep-25 ABVPS).

- **Strong P&L outcomes despite muted balance sheet growth:** CANF reported healthy spread/NIM of 2.6%/3.9% (Q2FY24: 2.7%/3.8%), largely due to lagged asset re-pricing, driving robust NII growth (+31% YoY). While the company continued to optimise its cost of borrowings (share of bank borrowings rose 300bps QoQ to ~60%), incremental NIMs are likely to moderate.
- **Asset quality on expected lines:** GNPA/NNPA deteriorated to 0.91%/0.5% (H1FY24: 0.76%/0.43%), largely on account of slippages from the restructured book, along expected lines (~14% of the restructured book). With sufficient provision buffer (PCR of 46%, and adequate management overlay), we expect normalised credit costs from Q4FY24.
- **Investments to drive loan growth:** CANF's near-term growth outlook is lukewarm after muted disbursements growth during 9MFY23 (-8.5% YoY). However, CANF is making key investments in branches, people, and additional sourcing channels, alongside debottlenecking of branches to drive higher throughput. These investments, along with tech transformation, are likely to translate into higher opex intensity (~18% C/I for FY25-FY26). Sufficient headroom in non-housing (~11% of AUM) and self-employed (~28%), concomitant with higher ticket sizes, are likely to further augment loan growth.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	3.3	2.5	30.6	3.2	3.8	10.1	12.3	13.6	15.9
PPOP	2.9	2.1	37.4	2.7	8.3	8.7	10.6	11.2	13.1
PAT	2.1	1.5	36.2	1.6	30.5	6.2	7.2	8.2	9.6
EPS (INR)	15.0	11.4	32.1	11.9	26.6	46.7	54.4	61.2	71.7
ROAE (%)						18.5	18.1	17.3	17.2
ROAA (%)						2.0	2.0	2.0	2.0
ABVPS (INR)						267.7	315.6	371.7	437.2
P/ABV (x)						2.7	2.3	2.0	1.7
P/E (x)						15.5	13.3	11.8	10.1

Change in estimates

INR bn	FY24E			FY25E			FY26E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	364	355	-2.5%	428	411	-4.0%	505	486	-3.9%
NIM (%)	3.3	3.4	13bps	3.3	3.3	2bps	3.2	3.3	6bps
NII	11.9	12.3	2.6%	14.0	13.6	-2.6%	16.2	15.9	-2.2%
PPOP	10.1	10.6	5.0%	11.7	11.2	-4.2%	13.5	13.1	-3.1%
PAT	6.9	7.2	5.5%	8.5	8.2	-4.0%	9.7	9.6	-1.8%
ABVPS (INR)	313.5	315.6	0.7%	371.1	371.7	0.2%	436.5	437.2	0.2%

Source: Company, HSIE Research

BUY

CMP (as on 23 Jan 2024) INR 725

Target Price INR 900

NIFTY 21,239

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 908	INR 900
	FY24E	FY25E
EPS %	5.5%	-4.0%

KEY STOCK DATA

Bloomberg code	CANF IN
No. of Shares (mn)	133
MCap (INR bn) / (\$ mn)	97/1,181
6m avg traded value (INR mn)	780
52 Week high / low	INR 910/509

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(1.5)	(13.4)	31.4
Relative (%)	(9.1)	(18.9)	15.4

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	30.0	30.0
FIs & Local MFs	27.4	28.5
FPIs	10.6	11.0
Public & Others	31.2	30.5

Pledged Shares

Source: BSE

Pledged shares as % of total shares

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Home First Finance Company

Robust performance despite margin pressure

HOMEFIRST's Q3FY24 earnings were higher than our estimates, largely due to higher other income. Core spreads declined further to 5.3% (-26bps QoQ) and are likely to remain under pressure, primarily led by higher cost of funds and elevated competitive intensity frustrating further rate hikes (125bps since Mar-22). Loan growth continues to remain strong (+34% YoY), partly driven by its calibrated diversification strategy on product (share of non-housing at 14%) and customer (self-employed at 32%). Despite strong profitability (RoA/RoE of 3.7%/15.8%) and growth, valuations remain stretched and offer limited upside; maintain ADD with a revised TP of INR990 (implying 3.5x Sep-25 ABVPS).

- **Strong loan growth, other income drive earnings growth:** HOMEFIRST reported PAT growth of 34% YoY on the back of strong AUM growth (34% YoY), steady opex to AUM (3.1%) and benign credit costs (36bps). Other income increased by 137% YoY due to the increase in assignment income. Spreads compression was largely driven by higher costs of funds (14bps QoQ), and the management continues to maintain guidance of 5% - 5.25%.
- **Marginal uptick in early delinquencies:** HOMEFIRST's early delinquencies (dpd 1+/dpd 30+) increased sequentially to 4.5%/3%, along with an increase in bounce rates (15.1%). However, management reiterated healthy early resolutions reflected in GS-II/GS-III of 1.3%/1.7%.
- **Employee/branch productivity key monitorable:** HOMEFIRST's employee/branch disbursements per month increased by 2%/5% YoY, while average ticket size increased by 4% YoY, indicating some stagnation in volume throughput. With an aspiration of ~30% AUM growth, stagnation in productivity metrics implies the need for a higher pace of branch and employee additions taking a toll on opex ratios.
- **Earnings call key takeaways:** Cost of funds could increase further by ~10bps. There is high demand for co-lending and could become ~10% of AUM in coming years. Incremental focus is on North/Central states such as UP, MP and Rajasthan where there is strong demand for affordable housing. Branch additions guidance remains ~20-25 branches annually.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	1.3	1.1	21.4	1.3	1.7	4.2	5.3	6.7	8.4
PPOP	1.1	0.8	34.3	1.0	5.1	3.2	4.2	5.0	6.3
PAT	0.8	0.6	34.2	0.7	6.1	2.3	3.0	3.5	4.4
EPS (INR)	8.7	6.5	32.5	8.2	5.9	25.9	33.7	40.2	50.1
ROAE (%)						13.5	15.3	15.8	16.8
ROAA (%)						3.9	3.7	3.4	3.3
ABVPS (INR)						199.2	225.1	260.6	305.2
P/ABV (x)						5.0	4.5	3.9	3.3
P/E (x)						38.7	29.9	25.0	20.1

Change in estimates

INR bn	FY24E			FY25E			FY26E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	95	95	-0.1%	122	122	-0.1%	154	154	0.0%
NIM (%)	6.8	6.8	-2bps	6.6	6.5	-1bps	6.4	6.4	0bps
NII	5.3	5.3	-0.2%	6.7	6.7	-0.1%	8.4	8.4	0.1%
PPOP	4.1	4.2	2.3%	5.1	5.0	-0.8%	6.4	6.3	-1.4%
PAT	2.9	3.0	3.9%	3.5	3.5	0.2%	4.4	4.4	-0.5%
ABVPS (INR)	224.1	225.1	0.4%	259.5	260.6	0.4%	304.2	305.2	0.3%

Source: Company, HSIE Research

ADD

CMP (as on 19 Jan 2024) INR 1,009

Target Price INR 990

NIFTY 21,622

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 960	INR 990
	FY24E	FY25E
EPS %	3.9%	0.2%

KEY STOCK DATA

Bloomberg code	HOMEFIRST IN
No. of Shares (mn)	88
MCap (INR bn) / (\$ mn)	89/1,090
6m avg traded value (INR mn)	269
52 Week high / low	INR 1,061/655

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.6	25.9	37.9
Relative (%)	(3.6)	19.1	20.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	30.2	23.6
FIs & Local MFs	10.0	11.7
FPIs	17.0	24.8
Public & Others	42.8	39.8
Pledged Shares		0

Source: BSE

Pledged shares as % of total shares

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DCB Bank

Margin pressures add to stubborn asset quality

DCB Bank (DCBB) earnings were in line with estimates, on the back of healthy loan growth (+18% YoY) alongside growth in retail deposits, offset by a further 21bps QoQ moderation in NIMs. Gross slippages continued to stay elevated at 4.7%, although offset by a higher cure rate at 79% (2QFY24: 73%). Although the CASA ratio improved to 26% (+109bps QoQ), contrary to system-wide trends, the incremental cost of deposits inched up (+18bps QoQ). DCBB continues to invest in franchise-building activities to double its balance sheet over the next 3-4 years. However, given the systemic challenge for deposits and sticky asset quality, we believe that yield refraction is crucial for improvement in RoAs. On the succession front, Mr Praveen Kutty (Head- Retail & AIB Banking at DCB) has been appointed for three years as the CEO-designate beginning Apr'24. We tweak our FY24/25 earnings to build in moderate operating leverage and maintain ADD with a revised TP of INR165 (1.0x Sep-25 ABVPS).

- **Disbursals still lagging loan growth:** Disbursals at INR43bn declined ~5bps sequentially despite loan book growing QoQ by 4.5%, owing to softer traction in gold loans, corporate banking and SME disbursals, partly offset by a pick-up in mortgage and AIB disbursals.
- **Stubborn asset quality:** GNPA/NNPA continued to be elevated at 3.4%/1.2%, due to higher gross slippages (4.7%), largely from mortgage accounts that are exiting moratorium. The cure rate (recoveries and upgrades) improved to 79% of slippages (Q2FY24: 73%), thus keeping net slippages in check.
- **Sticky opex ratios:** DCBB sustained its investments in distribution, collections and frontline, reflecting in a sticky opex intensity (cost-to-income consistently at 64-65% over the past three quarters). We expect operating leverage benefits (>500bps) to kick in over the next couple of years.
- **Margin pressures to keep return ratios sub-par:** With limited levers of yield refraction and rising competitive intensity for retail deposits, we see limited levers to margin refraction and, hence, likely capping of RoAs at 1%.

Financial summary

(INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	4.7	4.5	6.3%	4.8	-0.4%	17.2	19.0	21.6	23.0
PPOP	2.1	1.9	9.0%	2.1	0.5%	7.9	8.4	11.4	13.1
PAT	1.3	1.1	11.3%	1.3	-0.2%	4.7	5.0	6.5	7.1
EPS (INR)	4.1	3.6	12.2%	4.1	-0.2%	14.9	16.1	20.8	22.9
ROAE (%)						10.8	10.5	12.1	11.9
ROAA (%)						1.0	0.9	1.0	1.0
ABVPS (INR)						134.8	145.6	161.9	182.1
P/ABV (x)						1.1	1.0	0.9	0.8
P/E (x)						9.6	8.9	6.9	6.3

Source: Company, HSIE Research

Change in estimates

(INR bn)	FY24E			FY25E			FY26E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Net advances	395	399	0.9%	454	459	0.9%	523	528	1.0%
NIM (%)	3.69	3.66	-3 bps	3.69	3.74	5 bps	3.64	3.61	-3 bps
NII	18.4	19.0	3.2%	20.6	21.6	4.7%	23.1	23.0	-0.5%
PPOP	9.0	8.4	-7.2%	11.2	11.4	2.3%	12.9	13.1	1.6%
PAT	5.1	5.0	-2.4%	6.2	6.5	4.6%	6.8	7.1	4.7%
Adj. BVPS (INR)	145.6	145.6	0.0%	161.6	161.9	0.2%	181.6	182.1	0.3%

Source: Company, HSIE Research

ADD

CMP (as on 24 Jan 2024)	INR 144
Target Price	INR 165
NIFTY	21,454

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR160	INR165
	FY24E	FY25E
EPS %	-2.4%	4.6%

KEY STOCK DATA

Bloomberg code	DCBB IN
No. of Shares (mn)	312
MCap (INR bn) / (\$ mn)	45/549
6m avg traded value (INR mn)	396
52 Week high / low	INR 163/97

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	23.4	15.2	16.5
Relative (%)	13.3	8.1	(0.1)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	14.8	14.8
FIs & Local MFs	39.0	34.2
FPIs	12.7	13.0
Public & Others	33.5	38.0
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Repc Home Finance

Steady P&L outcomes; loan growth remains elusive

REPCO's Q3FY24 earnings beat estimates on the back of sustained strong NIMs (5.3%) and muted credit costs. While the P&L outcomes have remained healthy during 9MFY24, balance sheet growth continues to stay sluggish (AUM growth of +8% YoY) and is a key monitorable for further re-rating. The management has guided for AUM CAGR of ~14% during FY24-27E, driven by improving productivity metrics on the back of recent organisational changes and branch additions (40 annually). Rebalancing of portfolio mix (towards home loans) and lower incremental spreads are likely to drag profitability, offset by muted credit costs in the near-term. We increase our FY24/FY25 forecasts to factor in lower credit costs and maintain ADD with a revised RI-based TP of INR515 (implying 1x Sep-25 ABVPS).

- Favourable loan mix and muted credit costs drive earnings beat:** REPCO's NIM remained steady at 5.3% (Q2FY24: 5.4%), driven by yield reflation from a favourable loan mix (towards non-housing loans). Cost of funds continued to inch up (8.4%) amidst a tight liquidity environment, with no sanctions from NHB during the year. Opex intensity remained elevated at 1.3% of AUM (C/I at 23%), with ongoing investments in tech and distribution, and is expected to remain elevated. Profitability continued to remain healthy with RoA/RoE prints at 3.1%/15.8% respectively.
- Asset quality - making gradual strides:** REPCO's GS-III/NS-III continued to improve at 4.7%/1.9% (H1FY24: 4.9%/2.2%; 9MFY23: 6.2%/3.5%), benefitting from increasing focus on collection and recovery efforts. Credit costs at ~9bps (annualised) remain subdued and could surprise positively going ahead with nominal write-backs and steady improvement in asset quality.
- Growth key priority for management:** Having stabilised its asset quality and with key investments largely done, REPCO is focused on driving loan growth, which has remained muted for the past several years. Recent initiatives such as expansion of the distribution footprint and introduction of separate sales and credit verticals are likely to offer growth impetus, which remains a key monitorable amidst moderation in housing demand and elevated competitive intensity across segments, and is likely to drive the next leg of re-rating.

Financial summary

(INR bn)	Q3FY24	Q3FY23	YoY(%)	Q2FY24	QoQ(%)	FY23	FY24E	FY25E	FY26E
NII	1.6	1.4	17.8	1.7	(3.6)	5.6	6.4	7.1	7.9
PPOP	1.4	1.1	24.5	1.3	2.4	4.5	5.3	5.8	6.4
PAT	1.0	0.8	23.0	1.0	1.4	3.0	3.8	4.0	4.4
EPS (INR)	15.9	12.9	23.2	15.7	1.4	47.3	61.1	64.5	71.1
ROAE (%)						12.5	14.2	13.1	12.8
ROAA (%)						2.4	2.9	2.7	2.6
ABVPS (INR)						332	422	484	544
P/ABV (x)						1.4	1.1	0.9	0.8
P/E (x)						9.6	7.4	7.0	6.4

Change in estimates

INR bn	FY24E			FY25E			FY26E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	138	136	-1.8%	155	153	-1.6%	176	174	-0.8%
NIM (%)	4.7	4.7	3 bps	4.6	4.6	3 bps	4.5	4.6	10bps
NII	6.5	6.4	-0.5%	7.1	7.1	-1.0%	7.8	7.9	0.9%
PPOP	5.3	5.3	-0.1%	5.8	5.8	-1.4%	6.4	6.4	0.0%
PAT	3.7	3.8	4.0%	4.0	4.0	1.4%	4.3	4.4	4.2%
ABVPS (INR)	406	422	4.0%	462	484	4.6%	520	544	4.7%

Source: Company, HSIE Research

ADD

CMP (as on 13 Feb 2024)	INR 456
Target Price	INR 515
NIFTY	21,743

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 480	INR 515
	FY24E	FY25E
EPS %	4.0%	1.4%

KEY STOCK DATA

Bloomberg code	REPCO IN
No. of Shares (mn)	63
MCap (INR bn) / (\$ mn)	29/349
6m avg traded value (INR mn)	127
52 Week high / low	INR 492/168

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.7	23.7	98.2
Relative (%)	(6.5)	14.2	79.8

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	37.1	37.1
FIs & Local MFs	18.4	19.1
FPIs	15.3	13.8
Public & Others	29.2	30.0
Pledged Shares		0.0

Source: BSE

Pledged shares as % of total shares

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Capital Goods

Larsen & Toubro

Robust order booking; margin recovery key

Larsen & Toubro (LT) reported a margin miss, with revenue/EBITDA/APAT at INR 551.3/57.6/29.5bn, a beat/(miss) of 5.4/(3.8)/(11.8)%. Higher execution of legacy order book and slower margin threshold hit on new order book led to core P&M margins coming in at 7.6% (-90bps/+20bps YoY/QoQ). Strong order booking, improvement in NWC/sales and a robust prospects pipeline were some of the key wins in Q3FY24. This resulted in revenue, order inflows and NWC/sales guidance upgrades whilst a slight downgrade in margins. LT expects FY25 execution to have a high share of new orders with better margins and signalled that margins will improve in the ensuing quarters on a YoY basis. Given: (1) the record-high order book (OB) of INR 4.7trn; (2) likely bottoming out of infra margins; (3) improvement in subsidiary performance; and (4) higher public capex towards a green economy, we maintain our BUY stance with an increased SOTP based target price of INR 4,238/sh.

- Q3FY24 financial highlights:** LT's revenue was a beat of 5.4% at INR 551.3bn (+18.8/+8% YoY/QoQ). EBITDA was INR 57.6bn (+13.5/+2.3% YoY/QoQ), a miss of 3.8%. EBITDA margin: 10.4% (-49/-59bps YoY/QoQ) vs. our estimate of 11.4%, mainly due to job mix and cost pressures in legacy EPC jobs in the project and manufacturing portfolio. APAT: INR 29.5bn (+22/-8.5% YoY/QoQ), a miss of 11.8% (lower other income and margins). LT has raised its FY24 revenue guidance of 12-15% YoY growth to high teens. Since a few projects within the projects and manufacturing business are yet to ramp up, they are not expected to meet the margin recognition threshold; FY24 margin guidance sees a second downgrade to 8.25-8.5% (vs 8.5-9% earlier and 9% at the start of FY24). The prospects pipeline for Q4FY24 is robust at INR 6.3trn vs. INR 4.9trn YoY (+29% YoY).
- 9MFY24 robust inflow; highest-ever OB:** During Q3/9MFY24, LT registered an order inflow (OI) of INR 760bn/INR2.3trn (+25/49% YoY), taking the OB as of Dec'23 to an all-time high of INR 4.7trn (~2.6x FY23 revenue). In Q3FY24, 33.4/66.6% of OI came from domestic/international markets. The OB is well-diversified with 61/39% of orders from the domestic/international markets. With robust OI in 9MFY24, LT has increased its FY24 OI guidance of 10-12% YoY growth to 20%+.
- Robust balance sheet:** At the consolidated level, gross/net debt stood at INR 1,204/748bn as of Dec'23 vs. INR 1,197/724bn as of Sep'23, with net D/E at 0.81x as of Dec'23 vs. 0.77x as of Sep'23. The 9MFY24 NWC to TTM sales ratio (ex-off financial services business) stands at 16.6% (-240bps/-10bps YoY/QoQ). The company has guided that the NWC to sales ratio at the end of FY24 will be 16.6%, with a potential variance of ±30 bps, as compared to the earlier range of 16-18%.

Consolidated financial summary (INR mn)

INR mn	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Revenues	551,278	463,897	18.8	510,240	8.0	1,833,407	2,167,191	2,470,121	2,811,098
EBITDA	57,590	50,730	13.5	56,320	2.3	207,533	237,213	304,917	347,611
APAT	29,474	24,169	21.9	32,226	(8.5)	103,347	128,093	174,092	203,305
EPS (INR)	21.0	17.2	21.9	23.0	(8.5)	73.5	93.2	126.7	147.9
P/E (x)						49.4	39.0	28.7	24.6
EV/EBITDA(x)						29.2	26.1	20.0	17.2
RoE (%)						12.0	14.5	18.8	19.3

Source: Company, HSIE Research

Change in estimates

(INR mn)	New	Old	% diff	New	Old	% diff	New	Old	% diff
Revenues	2,167,191	2,167,191	-	2,470,121	2,470,121	-	2,811,098	2,811,098	-
EBITDA	237,213	252,717	(6.1)	304,917	304,917	-	347,611	347,611	-
Margins (%)	10.9	11.7	(71.5)	12.3	12.3	-	12.4	12.4	-
APAT	128,093	135,357	(5.4)	174,092	171,353	1.6	203,305	200,429	1.4

Source: Company, HSIE Research

BUY

CMP (as on 30 Jan 2024) INR 3,633

Target Price INR 4,238

NIFTY 21,522

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 4,036	INR 4,238
EPS change %	FY24E (5.4)	FY25E 1.6
		FY26E 1.4

KEY STOCK DATA

Bloomberg code	LT IN
No. of Shares (mn)	1,375
MCap (INR bn) / (\$ mn)	4,994/61,067
6m avg traded value (INR mn)	5,936
52 Week high / low	INR 3,739/2,068

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	24.2	37.4	72.3
Relative (%)	13.2	29.9	52.8

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	0.0	0.0
FIs & Local MFs	37.16	37.34
FPIs	25.72	25.50
Public & Others	36.89	36.93
Pledged Shares	0.0	0.0

Source: BSE

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Siemens

Muted performance

Siemens India Ltd (SIL) delivered muted standalone Q1FY24 revenue/EBITDA/APAT of INR 44.4/5.2/4.6bn, missing our estimates by 5.9/5.5/1.8%. EBITDA margin was 11.8%(-327bps/+6bps YoY/QoQ) vs. our estimate of 11.7%. SIL received new orders worth INR 59.7bn (+9.6/+32.7% YoY/QoQ), which are the highest-ever base business orders the company has won. Robust order booking was on the back of strong wins in the energy business, driven primarily by the transmission segment. There was a decline in order booking from Digital industries automation business on account of destocking following normalisation in demand. SIL expects normalisation of the same from Q3FY24 onwards. With this, the implied order book stands at INR 216bn (+13.8/+7.7% YoY/QoQ). This doesn't include the Locomotives order worth INR263.1bn from Indian Railways. Including the same, the OB is INR 479bn. SIL's outlook on capex demand across segments is based on the premise of spending in public infrastructure, which continues to be robust. Private capex is also beginning to pick up. Given the strength in order inflows and robust order backlog, we maintain a BUY rating, with an increased TP of INR 4,940 (rolled over to 58x Mar-26 EPS).

- Q3FY23 financial highlights:** Revenue came in at INR 44.4bn (+21.7%/-17.6% YoY/QoQ, missing our estimate by 5.9%), driven largely by smart infra (SI), mobility (MO) and digital energy (DI). Segmental revenue for energy (EN)/SI/MO/DI/POC/others stood at INR 11.5/15.1/6.2/10.4/2.2/0.2bn, which is a growth of (1)%/27%/79%/33%/(8)%/(31)% respectively. The gross margin was 31.6% (-122bps/+127bps YoY/QoQ). EBITDA was INR 5.2bn (-4.8%/-17.1% YoY/QoQ, a miss of 5.5%). EBITDA margin was 11.8% (-327bps/+6bps YoY/QoQ) vs. our estimate of 11.7%. Consequently, RPAT/APAT came in at 4.6bn (+5.9%/-13.2% YoY/QoQ, a miss of 1.8%).
- Segment-wise performance:** Gas & power a.k.a. energy (26% revenue contribution): revenue at INR 11.5bn (+1.3/-38% YoY/QoQ) and EBIT margin at 10.9% (-55/-94bps YoY/QoQ). Smart infrastructure (34% revenue contribution): revenue at INR 15bn (+27/-13% YoY/QoQ) and margin at 10.9% (+65/-153bps YoY/QoQ). Mobility (14% revenue contribution): revenue at INR 6.1bn (+79/-7.5% YoY/QoQ) and margin at 5.4% (+556/+411bps YoY/QoQ). Digital industries (23% revenue contribution): revenue at INR 10.4bn (+33%/+10% YoY/QoQ) and margin at 12.7% (-142/+115bps YoY/QoQ). Portfolio of companies (POC) (5% revenue contribution): revenue at INR 2.2bn (-8%/-9% YoY/QoQ) and margin at 6.4% (-753/-420bps YoY/QoQ).

Standalone Financial summary (INR mn)

(Particulars, Sep YE)	1Q FY24	1Q FY23	YoY (%)	4Q FY23	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Revenues	44,358	36,453	21.7	53,815	(17.6)	179,651	223,161	253,292	289,669
EBITDA	5,230	5,492	(4.8)	6,312	(17.1)	22,402	29,042	33,458	38,264
APAT	4,634	4,376	5.9	5,340	(13.2)	19,113	23,444	26,685	30,217
Diluted EPS (INR)	13.0	12.3	5.9	15.0	(13.2)	53.7	65.8	74.9	84.9
P/E (x)						80.5	65.7	57.7	50.9
EV / EBITDA (x)						65.7	50.3	43.1	37.2
RoE (%)						15.8	17.1	16.9	16.7

Source: Company, HSIE Research

BUY

CMP (as on 13 Feb 2024)	INR 4,313
Target Price	INR 4,940
NIFTY	21,743

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 4,849	INR 4,940	
EPS change %	FY24E	FY25E	FY26E
	-	-	-

KEY STOCK DATA

Bloomberg code	SIEM IN
No. of Shares (mn)	356
MCap (INR bn) / (\$ mn)	1,536/18,782
6m avg traded value (INR mn)	1,278
52 Week high / low	INR 4,500/3,078

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.2	18.1	37.8
Relative (%)	16.0	8.5	19.4

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	75.00	75.00
FIs & Local MFs	7.64	7.71
FPIs	7.94	7.89
Public & Others	9.44	9.40
Pledged Shares	-	-

Source : BSE

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ABB India

Muted results; strong order booking

ABB reported muted Q4CY23 revenue/EBITDA/PAT at INR 27.6/4.2/3.4bn, missing our estimates by 11/13/13%. The company achieved strong Q4CY23/CY23 order inflow at INR 31.5/123.2bn (+35%/+23% YoY), taking the backlog to INR 84bn. Base Q4CY23 order inflows remained stable and large traction converter order aided growth. ABB has seen a large order share moving from 8% to 15% in CY23 and future growth is expected to be driven by this. Given the INR 31bn/quarter inflow in CY23, growth for CY24 on a higher base looks challenging, but large orders will be the key drivers. ABB is addressing this by expanding its product portfolio, reaching tier 2/3 cities through its online marketplace and focusing on services and exports. Brand premiumisation is helping achieve better pricing and margins. We have recalibrated our estimates to factor in likely muted H1CY24 ordering. We maintain ADD with a TP of INR 5,487/sh (rolled over to 65x Mar-26 EPS).

- Q4CY23 financial highlights:** Revenue was INR 27.6bn (+14%/-0.4% YoY/QoQ, an 11% miss). EBITDA came in at INR 4.2bn (+15%/-5% YoY/QoQ, a 13% miss). Consequently, the EBITDA margin was 15.1% (+12/-71bps YoY/QoQ, 15.4% est.). There was an INR 105mn adverse forex impact on margins. RPAT/APAT was INR 3.4bn (+11%/-6% YoY/QoQ, a 13% miss).
- Order booking strong; pick-up in large orders:** For Q4CY23/CY23, order inflow was at INR 31.5/123.2bn (+35%/+23% YoY), taking the backlog to INR 84bn, consisting mostly of short cycle orders. RA/MO/EL/PA saw order inflows of INR 0.6/14/10.4/7bn, growing -53/82/21/12% YoY and -51/-1/0.5/31% QoQ. RA saw a strong inflow from automotive/electronics. In MO, growth was led by large orders for traction converters. PA orders are driven by power, metal, logistics and service orders. EL was driven by growth across data centres, OEMs, etc. ABB is witnessing momentum in large order intake which now contributes 15% of OB vs 8% earlier.
- Outlook on growth and profitability:** ABB's efforts to support customers during COVID-19 have helped the company build a strong brand that is seen as a reliable product and service provider. ABB is now reaping the benefits as it is getting a better premium for its products and services. Whilst the commodities prices remain stable, future margin expansion will depend on productivity, better capacity utilization and value-based selling. ABB is seeing large EPC players engaged in building public infrastructure assets focusing on high-quality products, which is aiding margins.

Standalone financial summary (INR mn)

Dec Year End	4QCY23	4QCY22	YoY (%)	3QCY23	QoQ (%)	CY23	CY24E	CY25E	CY26E
Net Revenues	27,575	24,269	13.6	27,692	(0.4)	104,465	119,646	141,622	168,482
EBITDA	4,172	3,643	14.5	4,385	(4.9)	14,898	17,315	21,001	25,893
APAT	3,387	3,059	10.7	3,620	(6.4)	12,421	14,249	17,009	20,516
EPS (INR)	16.0	14.4	10.7	17.1	(6.4)	58.6	67.2	80.3	96.8
P/E (x)						85.0	74.1	62.1	51.5
EV/EBITDA (x)						68.5	58.4	47.6	38.0
RoE (%)						22.5	21.2	21.0	21.0

Source: Company, HSIE Research

Change in Estimates

Particulars	CY24E			CY25E		
	New	Old	% Change	New	Old	% Change
Revenues (Rs mn)	119,646	130,313	(8.2)	141,622	150,948	(6.2)
EBITDA (Rs mn)	17,315	17,381	(0.4)	21,001	19,976	5.1
Margins (%)	14.5	13.3	113.3	14.8	13.2	159.5
APAT (Rs mn)	14,249	14,332	(0.6)	17,009	16,257	4.6

Source: Company, HSIE Research

ADD

CMP (as on 21 Feb 2024) INR 4,985

Target Price INR 5,487

NIFTY 22,055

KEY CHANGES	OLD	NEW	
Rating	ADD	ADD	
Price Target	INR 4,987	INR 5,487	
EPS change %	CY24E -0.6	CY25E 4.6	CY26E -

KEY STOCK DATA

Bloomberg code	ABB IN
No. of Shares (mn)	212
MCap (INR bn) / (\$ mn)	1,056/12,916
6m avg traded value (INR mn)	1,126
52 Week high / low	INR 5,134/3,049

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.7	15.6	57.5
Relative (%)	4.6	4.3	37.8

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	75.00	75.00
FIs & Local MFs	7.37	6.92
FPIs	10.18	10.72
Public & Others	7.47	7.36
Pledged Shares	-	-

Source : BSE

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Cummins

Robust performance

Cummins India Ltd (CIL) reported an exceptional quarter with revenue/EBITDA/APAT surpassing our estimates by 27/71/57%. CIL witnessed strong demand in the high-margin HHP segment (+67% YoY) i.e.500KVa+ products. This favourable mix towards higher-margin HHP power gen, along with lower commodity inflation and retained pricing, led to an improved gross margin of 37% (+322bps/+35bps YoY/QoQ). CIL expects slight moderation as commodity inflation has started hardening, although it retained its guidance of 100bps expansion in EBITDA margin and growth rate 2x of GDP growth rate. The export market contribution was muted, INR 3.3bn (-41%/-36% YoY/QoQ). CIL believes that the export market has bottomed out and expects an upturn now. The company has multiple tailwinds, namely, stringent emission norms, capex cycle recovery, adoption of alternative fuels with lower carbon footprint, revival in industrials, and support for manufacturing policies. We have recalibrated our estimates higher to factor in better profitability. We maintain BUY, with an increased SOTP of INR 3,006 (42x Mar-26 EPS, vs. 39x earlier).

- Q3FY24 financial highlights:** Revenue: INR 25.3bn (+16%/+33% YoY/QoQ, a beat of 27%). Domestic sales: INR 21.8bn (+36%/+16% YoY/QoQ) and export sales of INR 3.3bn (-41%/-36% YoY/QoQ). EBITDA: INR 5.4bn (+31%/+59% YoY/QoQ, 71% beat) on account of higher gross margin. Gross margin: 37% (+322bps/+32bps Q3FY23/Q2FY24) on account of lower commodity cost, a high share of HHP, and favourable pricing. Consequently, EBITDA margin was 21.2% (+232/+340bps YoY/QoQ) vs est. of 15.8%. Other income: INR 1.1bn (+9%/-14% YoY/QoQ). APAT: INR 4.5bn (+27%/+39% YoY/QoQ, a 57% beat).
- All segments firing, exports bottomed out:** Within domestic business, the power gen segment contributed INR 10.7bn (+51%/+121% YoY/QoQ). This includes a large data centre order (CIL didn't quantify). With CPCB4+ power gen regulation implementation from Q2FY25, CIL expects a prebuy during Q1FY25. Around 25% plus of sales have come from CPCB 4+ products. CIL aspires to grow the power gen business at a CAGR of 13-15% for the next few years. The distribution segment contributed INR 6.6bn (+26%/+21% YoY/QoQ). Industrials contributed INR 4.1bn (+20%/+37% YoY/QoQ).
- Multiple growth levers:** Demand is resilient in data centres, residential and commercial real estate, infrastructure, and manufacturing and may drive growth higher. Distribution is benefiting from both expansions in services, spare parts portfolio, and reconditioning. This segment has better profitability. Exports may have bottomed out but will look up from here. Going into FY25, we may see prebuying driving Q1FY25 volume and with the share of CPCB4+ going up in the mix, we expect better profitability.

Standalone financial summary

(INR in mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Revenues	25,341	21,805	16.2	18,997	33.4	77,444	88,608	103,129	117,404
EBITDA	5,379	4,122	30.5	3,386	58.9	12,426	16,307	20,345	24,151
APAT	4,562	3,601	26.7	3,285	38.9	11,405	14,682	17,947	20,909
Diluted EPS(INR)	16.5	13.0	26.7	11.9	38.9	41.1	53.0	64.7	75.4
P/E (x)						62.8	48.8	39.9	34.3
EV/EBITDA (x)						56.0	42.3	33.4	27.5
RoE (%)						22.3	25.0	25.5	24.5

Source: Company, HSIE Research

Change in Estimates

(INR in mn)	FY24E			FY25E			FY26E		
	New	Old	% Chg	New	Old	% Chg	New	Old	% Chg
Revenues (Rs mn)	88,608	86,488	2.5	103,129	98,745	4.4	117,404	113,584	3.4
EBITDA (Rs mn)	16,307	14,746	10.6	20,345	18,266	11.4	24,151	22,032	9.6
Margins (%)	18.4	17.0	135.4	19.7	18.5	123.0	20.6	19.4	117.4
APAT (Rs mn)	14,682	13,473	9.0	17,947	16,190	10.9	20,909	19,117	9.4

Source: Company, HSIE Research

BUY

CMP (as on 08 Feb 2024) INR 2,585

Target Price INR 3,006

NIFTY 21,718

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 2,464	INR 3,006	
EPS change %	FY24E 9.0	FY25E 10.9	FY26E 9.4

KEY STOCK DATA

Bloomberg code	KKC IN
No. of Shares (mn)	277
MCap (INR bn) / (\$ mn)	717/8,763
6m avg traded value (INR mn)	1,436
52 Week high / low	INR 2,649/1,445

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	46.3	49.1	75.4
Relative (%)	36.4	40.6	57.6

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	51.00	51.00
FIs & Local MFs	21.97	23.56
FPIs	16.65	16.51
Public & Others	10.36	8.93
Pledged Shares	-	-

Source: BSE

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Thermax

Muted performance; large orders lacking

Thermax Ltd (TMX) reported revenue/EBITDA/APAT of INR 23/1.9/1.4bn, missing our estimates by 1.4/3.3/8.1%. The EBITDA margin of 8.1% was in line with our estimate of 8.2%. The margin improved by 20bps YoY. TMX recorded INR 100mn as a one-off cost revision in a refinery order, which impacted margins negatively by 43bps. Order inflow during the quarter was INR 25.1bn, taking the total OB to INR 107.2bn. TMX expects a baseline quarterly run-rate of INR 23-24bn in ordering and expects ordering to ramp up in H2CY24 on the back of converting a couple of large orders from the pipeline in power/steel, etc. TMX stands to benefit from the investment in clean energy, sustainability, decarbonisation, normalisation of the international market and impetus on cleaner air and water. We have recalibrated our estimates to factor in higher interest and depreciation on green solutions business. We maintain BUY on TMX, with a TP of INR 3,732 (48x Mar-FY26E EPS).

- Q3FY24 financial highlights:** Revenue: INR 23.2bn (+13%/+1% YoY/QoQ, a 1.4% miss); industrial products/industrial infra/green sol/chemical posted growth of 19/9/45/-2% YoY. EBITDA: INR 1.9bn (+16%/-9% YoY/QoQ, a 3.3% miss) and margin of 8.1% (+20/-82bps YoY/QoQ, 8.2% est.), an improvement on account of stable commodity prices and better execution. Segmental EBIT margin: industrial product: 9.9% (+51/-11bps YoY/QoQ); industrial infra: 3.6% (-181/-172bps YoY/QoQ); green solution: 10.6% (+436/+417bps YoY/QoQ); chemical: 20.5% (+641/+211bps YoY/QoQ. RPAT/APAT was INR 2.4/1.4bn (+9%/-15% YoY/QoQ, an 8% miss). There was an exceptional gain of INR 1.3bn on sales of vacant land.
- Order inflow stable; large order pipeline improves but delayed:** In Q3FY24, TMX received orders worth INR 25.1bn (+14%/+27% YoY/QoQ); as a result, the closing order book stands at INR 107.2bn (+9%/+4% YoY/QoQ). TMX expects INR 23-24bn as the baseline quarterly run rate for ordering. It expects better ordering in H2CY24, aided by large orders in the power sector and pick-up in steel and ethanol awards. TMX expects softer near term large orders due to delayed decision-making, but the backlog is getting bigger so that is positive. The company expects higher single-digit growth in FY24 order inflow over FY23. In Q3FY24, industrial products/industrial infra/green solutions/chemical divisions bagged INR 9.9/12.5/1/1.7bn worth of orders with their respective order books at INR 35/62/8/1bn.

Consolidated financial summary

(INR in mn)	3QFY24	3QFY22	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Revenues	23,244	20,493	13.4	23,025	1.0	80,898	91,032	107,874	120,986
EBITDA	1,874	1,611	16.4	2,046	(8.4)	5,976	7,793	10,258	12,423
APAT	1,375	1,264	8.8	1,629	(15.6)	4,507	5,909	7,397	8,747
Diluted EPS(INR)	12.2	11.2	8.8	14.5	(15.6)	40.0	52.5	65.7	77.7
P/E (x)						81.8	62.4	49.9	42.2
EV/EBIDTA (x)						58.5	44.2	33.1	26.8
RoE (%)						12.2	14.4	16.0	16.6

Source: Company, HSIE Research

Change in Estimates

	FY24E			FY25E			FY26E		
	New	Old	% Change	New	Old	% Change	New	Old	% Change
Revenues (Rs mn)	91,032	93,251	(2.4)	107,874	106,720	1.1	120,986	120,400	0.5
EBITDA (Rs mn)	7,793	7,903	(1.4)	10,258	9,625	6.6	12,423	11,334	9.6
Margins (%)	8.6	8.5	8.6	9.5	9.0	49.0	10.3	9.4	85.5
APAT (Rs mn)	5,909	6,151	(3.9)	7,397	7,680	(3.7)	8,747	9,019	(3.0)

Source: Company, HSIE Research

BUY

CMP (as on 12 Feb 24)	INR 3,312
Target Price	INR 3,732
NIFTY	21,616

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 3,705	INR 3,732	
EPS change %	FY24E -3.9	FY25E -3.7	FY26E -3.0

KEY STOCK DATA

Bloomberg code	TMX IN
No. of Shares (mn)	119
MCap (INR bn) / (\$ mn)	395/4,825
6m avg traded value (INR mn)	286
52 Week high / low	INR 3,509/1,985

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.6	30.1	55.5
Relative (%)	4.7	21.3	38.4

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	61.99	61.99
FIs & Local MFs	15.46	15.86
FPIs	12.54	12.01
Public & Others	10.02	10.14

Pledged Shares - -

Source: BSE

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Voltas

EMPS provisioning drags a good UCP performance

Voltas reported an encouraging performance in the UCP segment with 27% volume growth in Room AC (industry grew 20-22%) while segment margins expanded by 100bps YoY to 8.3%. Voltas's YTD RAC market share was stable at 19%. We expect recovery (albeit gradually) in both market share and margins, given the company (1) is scaling up its presence in the south; (2) expanding capacities and integrating backward (INR 5bn capex); (3) has a superior product range (launched 64 SKUs in FY23); (4) has an extensive channel network (25,000+ touchpoints; 260+ EBOs); and (5) is making brand investments to further leverage its strong legacy. In the EMPS segment, while domestic project business is trending well, delayed collection and termination of contracts in overseas projects (especially Qatar) has been a drag to profitability (International EBIT loss of INR 1.4bn). While we marginally increase our UCP estimates, sustained volatility and provisioning in the EMPS segment have led to a 35/6/1% cut to our FY24/FY25/FY26 EPS. We value the stock on a SOTP basis (UCP: 45x Dec25 EPS) to arrive at a TP of INR 1,150. Maintain ADD.

- Revenue grew by 5%; EMPS drags profitability:** Revenue grew by 31% YoY to INR26.3bn (5/9% above HSIE/consensus), driven by broad-based growth across all segments. Gross margin contracted by 250bps YoY to 24.5% (HSIE: 21.5%). EBITDA fell by 63% YoY to INR284mn (72/75% below HSIE/consensus) while the margin contracted by 270bps YoY to 1.1% (HSIE: 4%). Employee/other expenses grew by 17%/43%YoY. The PBT decline was restricted to 33% at INR 599mn, aided by an 89% increase in other income. JV losses widened to INR 361mn vs INR 326mn LY. Voltas reported a loss of INR 304mn vs a profit of INR 270mn LY.
- UCP margins expand 100bps YoY; EMPS losses widen:** UCP revenue grew by 21% YoY to INR14.8bn while margin expanded 100bps YoY to 8.3%. Overall volume grew by 22% while RAC saw 27% growth. Voltas's YTD RAC market share remained stable at 19%. On a 9M basis, Voltas saw 17% growth vs 16/22% growth for Lloyd/Bluestar. EMPS revenue grew by 51% YoY to INR9.8bn while margin came in at -12.2% vs -7.1% YoY. While domestic projects are witnessing healthy order booking and execution, international projects are plagued by unreasonable delays in the release of due receivables, and prolongation of execution timelines leading to cost overruns which is impacting profitability. EPS revenue grew by 31% YoY to INR1.5bn while the margin contracted by 680bps YoY to 32.2%.
- Con call takeaways:** (1) Festive season and wedding season supported demand for consumer appliances. (2) Air coolers saw lower tertiary demand. Exit market share of 8.9% as of Nov'23. #2 player. (3) Domestic projects business saw 83% growth in revenue. International projects business reported an EBIT loss of INR 1.4bn. (4) Voltbek volume grew 65% YoY. Fastest to clock 4.5mn cumulative volume since launch. (5) W/M market share is at 5.5% and refrigerator market share is at 3.3%. SAWM market share stood at 12.2%. (6) The domestic/international order book stood at c.INR 55/25bn.

Quarterly/annual financial summary

(INR mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ(%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	26,257	20,056	30.9	22,928	14.5	79,345	94,988	1,18,045	1,33,591	1,48,920
EBITDA	284	764	(62.8)	703	(59.6)	6,816	5,724	5,164	9,837	11,976
APAT	(304)	270	(212.6)	367	(182.9)	5,041	3,788	3,161	7,534	9,332
EPS (INR)	(0.9)	0.8	(212.6)	1.1	(182.9)	15.2	11.5	9.6	22.8	28.2
P/E (x)						71.8	95.5	114.5	48.0	38.8
EV / EBITDA(x)						52.1	62.5	70.1	36.8	30.1
RoE (%)						9.5	6.9	5.7	12.6	14.1

Source: Company, HSIE Research

ADD

CMP (as on 31 Jan 2024)	INR 1,093
Target Price	INR 1,150
NIFTY	21,726

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,150	INR 1,150
EPS %	FY25E -6%	FY26E -1%

KEY STOCK DATA

Bloomberg code	VOLT IN
No. of Shares (mn)	331
MCap (INR bn) / (\$ mn)	362/4,421
6m avg traded value (INR mn)	1,386
52 Week high / low	INR 1,101/745

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	30.5	40.1	36.1
Relative (%)	18.1	32.2	15.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	30.30	30.30
FIs & Local MFs	36.03	37.21
FPIs	17.83	17.17
Public & Others	15.84	15.32
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Hitachi Energy

Miss due to weak profitability

HEI reported in-line execution, on the back of supply-side constraints in chip and electronics easing off. EBITDA/APAT, at INR 680/230mn, missed our estimates by 40.8/65.5%. EBITDA margin came in at 5.3% (+152/+1.6bps YoY/QoQ) vs. our estimate of 8.9%, owing to forex loss of INR 98mn, higher logistics costs on exports, etc. In Q3FY24, HEI received orders worth INR 12.4bn (+1/-29% YoY/QoQ), taking the 9MFY24 order inflow (OI) to INR 41bn. With this, the order book (OB) as of Dec'23 stood at an all-time high of INR 75.5bn (~1.7x FY23 revenue), providing good revenue visibility for ~22 months. ~30% of the total orders in Q3FY24 are from exports. Given the strong bid pipeline across key business segments, acceleration in the digital offering, likely improvement in margins on high industry capacity utilisation, easing off of supply chain constraints and chip shortages, and robust drivers in place for long-term growth, we continue with our P/E multiple of 48x. Given the punchy valuation, we maintain our ADD on HEI, with a TP of INR 6,135/sh (Dec-25E).

- Q3FY24 financial highlights:** Revenue at INR 12.7bn (+23.2/+3.8% YoY/QoQ, a marginal miss of 0.8%) was backed by supply-side constraints in chip and electronics easing off. Gross margin was on the lower side at 35.1% (-71/-11bps YoY/QoQ). EBITDA: INR 680mn (+72.4/+4.1% YoY/QoQ, a miss of 40.8%). EBITDA margin: 5.3% (+152/+1.6bps YoY/QoQ) vs. our estimate of 8.9% owing to higher logistics and forex loss. RPAT/APAT: INR 230mn (5x/-7.2% YoY/QoQ, a miss of 65.5%).
- Robust order book augurs well for growth:** During Q3FY24, HEI received orders worth INR 12.4bn (+1/-29% YoY/QoQ), taking the 9MFY24 order inflow to INR 41bn. With this, the OB as of Dec'23 stood at INR 75.5bn (~1.7x FY23 revenue). HEI expects strong ordering from HVDC, TBCB, railways, high-speed rail, data centres, etc. Segment-wise, the order mix is well-diversified into products/projects/services at 79/14/8%. Sector-wise, it is diversified into utilities/industries/transport and infra at 64/12/24%. HVDC order book of INR 20bn is expected to be executed by H1FY25.
- Meeting export target well before time:** HEI guided for exporting a quarter of its OB in the long run. Currently, ~27% of its OB is from the international market (almost the same as its 25% guidance). HEI is seeking shareholders' approval for increasing RPT exposure to INR 7bn, which will add to the overall order booking.

Financial summary (INR mn)

YE Mar (INR mn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	12,742	10,339	23.2	12,280	3.8	44,685	50,052	64,317	76,858
EBITDA	680	395	72.4	653	4.1	2,360	2,713	5,145	9,377
APAT	230	46	401.5	247	(7.2)	940	1,015	2,881	5,927
Diluted EPS (Rs)	5.4	1.1	401.5	5.8	(7.2)	22.2	23.9	67.9	139.8
P/E (x)						256.0	236.9	83.5	40.6
EV / EBITDA (x)						102.4	89.1	47.2	25.9
RoE (%)						8.0	8.0	19.7	31.2

Source: Company, HSIE Research

Change in Estimates

(INR mn)	FY24E			FY25E			FY26E		
	New	Old	% change	New	Old	% change	New	Old	% change
Revenue	50,052	51,517	(2.8)	64,317	64,139	0.3	76,858	76,646	0.3
EBITDA	2,713	3,720	(27.1)	5,145	6,433	(20.0)	9,377	9,351	0.3
EBITDA Margin (%)	5.4	7.2	(180.0)	8.0	10.0	(203.0)	12.2	12.2	-
APAT	1,015	1,930	(47.4)	2,881	3,882	(25.8)	5,927	5,908	0.3

Source: Company, HSIE Research

ADD

CMP (as on 24 Jan 2024) INR 5,673

Target Price INR 6,135

NIFTY 21,454

KEY CHANGES	OLD	NEW	
Rating	ADD	ADD	
Price Target	INR 6,115	INR 6,135	
EPS change %	FY24E (47.4)	FY25E (25.8)	FY26E 0.3

KEY STOCK DATA

Bloomberg code	POWERIND IN
No. of Shares (mn)	42
MCap (INR bn) / (\$ mn)	240/2,940
6m avg traded value (INR mn)	187
52 Week high / low	INR 6,280/2,906

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	31.5	37.6	81.2
Relative (%)	21.4	30.6	64.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	75.00	75.00
FIs & Local MFs	8.02	8.49
FPIs	4.32	4.06
Public & Others	12.63	12.44

Pledged Shares -

Source: BSE

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KEC International

Margin miss, order inflows muted; debt recedes

KEC reported Q3FY24 consolidated numbers with a muted EBITDA margin profile. Its revenue/EBITDA/APAT miss stood at 0.1/6.7/3.1%. The standalone (~88% revenue) EBITDA margin also remained weak at 4.8%. The weak 9MFY24 order inflow at INR 128.5bn (i.e. 51% of FY24 guidance of INR 250bn) poses a risk to FY24 guidance. With L1 orders, the order book (OB) as of Dec'23 stood at the record high level of INR 380bn (~2.2x FY23 revenue). KEC collected INR 550mn from Afghanistan where it has a net exposure of INR 2.2bn as of Dec'23 vs. INR 2.8bn as of Sep'23. Although the consolidated net debt, including interest-bearing acceptances, reduced by INR 2.9bn to INR 60.5bn (from INR 63.4bn as of Sep'23), it remains our key concern. The NWC days as of Dec'23 stood at 129 and are expected to be ~110 by FY24-end (though it seems like a tall ask). KEC maintained its FY24 revenue guidance of INR 200bn (+16% YoY) but has reduced its EBITDA margin guidance to 6.6-6.7% vs ~7%. It guided for FY24 interest cost to be at ~3.25% of revenue. Given the slip in the margin, we have recalibrated our FY24/25/26E earnings lower. Given the company's debt-heavy balance sheet, we maintain REDUCE with a TP of INR 539/share (14x Dec-25E EPS). Rerating remains contingent upon debt reduction and margin recovery.

- Q3FY24 financial snapshot:** Revenue: INR 50bn (+14.4/+11.3% YoY/QoQ, in line with estimate). While execution in segments like railways at INR 6.5bn declined by 28% YoY, revenue growth was driven by growth in all the other segments. T&D (KEC) came in at INR 23.8bn (+22% YoY) and non-T&D segments like civil/oil & gas/cables came in at INR 11/1.8/3.8bn (+30/15/4% YoY). EBITDA: INR 3.1bn (+54/+12.2% YoY/QoQ, a miss of 6.7%). EBITDA margin: 6.1% (+158/+5bps YoY/QoQ, vs. our estimate of 6.6%). APAT came in at INR 969mn (+11.5x/+73.5% YoY/QoQ, a miss of 3.1%). Standalone EBITDA margin: 4.8% (vs. 4.7/4.6% Q3FY23/Q2FY24). It maintained its FY24 revenue guidance of INR 200bn (+16% YoY) and lowered EBITDA margin guidance of ~7% to 6.6-6.7%.
- Debt reduction augurs well; aims to reduce NWC days:** The consolidated net debt, including interest-bearing acceptances, stood at INR 60.5bn, a reduction of INR 2.9bn from INR 63.4bn as of Sep'23. The interest cost for Q3FY24 came in at 3.28% (vs. 3.41/3.95% YoY/QoQ) of revenue. KEC guided for FY24 interest cost to be at ~3.25% of revenue. The NWC days as of Dec'23 stood at 129 and are expected to be ~110 by FY24-end.

Consolidated financial summary (INR mn)

INR mn	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Revenues	50,067	43,746	14.4	44,990	11.3	172,817	200,215	215,953	250,884
EBITDA	3,079	1,999	54.0	2,743	12.2	8,297	13,114	18,019	22,471
APAT	969	85	1,045.3	558	73.5	1,760	4,065	7,424	10,712
EPS (INR)	3.8	0.3	1,045.3	2.2	73.5	6.8	15.8	28.9	41.7
P/E (x)						96.1	41.6	22.8	15.8
EV/EBITDA (x)						26.7	17.0	12.5	10.0
RoE (%)						4.8	10.3	16.8	20.5

Source: Company, HSIE Research

Consolidated Estimate Change Summary

INR mn	FY24E			FY25E			FY26E		
	New	Old	% change	New	Old	% change	New	Old	Chg. (%)
Revenues	200,215	200,204	0.0	215,953	224,168	(3.7)	250,884	258,180	(2.8)
EBITDA	13,114	14,055	(6.7)	18,019	19,193	(6.1)	22,471	23,460	(4.2)
EBITDA (%)	6.6	7.0	(47.0)	8.3	8.6	(21.8)	9.0	9.1	(13.0)
APAT	4,065	4,420	(8.0)	7,424	7,920	(6.3)	10,712	10,962	(2.3)

Source: Company, HSIE Research

REDUCE

CMP (as on 31 Jan 2024)	INR 658
Target Price	INR 539
NIFTY	21,726

KEY CHANGES	OLD	NEW	
Rating	REDUCE	REDUCE	
Price Target	INR 556	INR 539	
EPS Change	FY24E	FY25E	FY26E
%	-8.0	-6.3	-2.3

KEY STOCK DATA

Bloomberg code	KECI IN
No. of Shares (mn)	257
MCap (INR bn) / (\$ mn)	169/2,067
6m avg traded value (INR mn)	349
52 Week high / low	INR 748/436

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.7	3.8	44.6
Relative (%)	(7.7)	(4.1)	24.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	51.88	51.88
FIs & Local MFs	27.16	26.95
FPIs	11.25	10.90
Public & Others	9.73	10.28
Pledged Shares	-	-

Source: BSE

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Kalpataru Projects International

Strong order intake

Kalpataru Projects (KPIL) reported Q3FY24 revenue/EBITDA/APAT of INR 41.5/3.4/1.4bn, beating our estimates by (1)/1/11%. KPIL secured new orders worth INR 180.6bn in FYTD24 (excluding INR 60bn L1 vs. FY24 guidance of INR 240-250bn), taking the order book (OB) to INR 517.5bn (~3.6x FY23 revenue). It slashed its FY24 consolidated revenue growth guidance to 20-25% YoY vs. 25% earlier with an EBITDA margin band of 8-8.5% and a PBT margin band of 4.5-5%. On the monetization of BOOT assets, KPIL is looking for prospective buyers and is in the advanced stages of a non-binding offer for VEPL. It guided for NWC days as of Mar'24 to be below 100 and a capex of INR 3bn for FY24. KPIL expects robust order booking, driven by T&D and Civil, and with market share gains both in local and international markets. Given robust order booking, improving growth outlook, and stable margins, we maintain a BUY rating on the stock with a TP of INR 1,045/sh (14x Mar-26E EPS). Key risks include an adverse impact arising from geopolitical tensions, volatile commodity prices, interest rates, continued support to loss-making subsidiaries and resource scarcity.

- Q3FY24 financial highlights:** Revenue: INR 41.5bn (+18/+8% YoY/QoQ, a miss of 1%). EBITDA: INR 3.4bn (+13/+12% YoY/QoQ, a beat of 1%). EBITDA margin: 8.3% (-40/+28bps YoY/QoQ, vs. our estimate of 8.1%). RPAT/APAT: INR 1.4bn (+30/+27% YoY/QoQ, a beat 11%, aided by lower tax). It expects FY24 consolidated revenue growth of 20-25% YoY with an EBITDA margin between 8-8.5% and a PBT margin between 4.5-5%.
- Strong order inflow and robust OB:** Total orders received in FYTD24 amounted to INR 180.6bn (excluding INR 60bn L1 vs. FY24 guidance of INR 240-250bn) resulting in an order backlog of INR 517.5bn. Domestic/international orders accounted for 61/39% and across segments, T&D/B&F/water/railways/oil & gas/urban infra segments constituted 37/24/22/7/3/7%. It stated its key focus area is the international market and domestic T&D, urban infra, and B&F market for the near term.
- Stable balance sheet:** The standalone gross/net debt as of Dec'23 stood at INR 32.6/25.9bn vs. INR 29.1/22.2bn as of Sep'23. With NWC days at 117 as of Dec'23, KPIL guided for FY24-end NWC days below 100 and it will incur a capex of INR 3bn in FY24. It continues to expect the majority of the inventory of Indore real assets to be sold by FY25-end (INR 1.5bn yet to be realised).

Standalone Financial Summary (INR mn)

INR mn	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Revenues	41,470	35,090	18.2	38,440	7.9	143,370	175,471	209,687	241,350
EBITDA	3,440	3,050	12.8	3,080	11.7	11,610	14,576	18,872	23,170
APAT	1,440	1,110	29.7	1,130	27.4	4,905	6,284	9,090	12,125
EPS (INR)	8.9	6.8	29.7	7.0	27.4	30.2	38.7	56.0	74.6
P/E (x)						28.2	22.0	15.2	11.4
EV/EBIDTA (x)						13.7	10.2	7.6	6.2
RoE (%)						18.4	21.1	26.5	30.1

Source: Company, HSIE Research

Change in Estimates

INR mn	FY24E			FY25E			FY26E		
	New	Old	% chg.	New	Old	% chg.	New	Old	% chg.
Revenues	175,471	182,797	-4.0	209,687	211,073	-0.7	241,350	239,567	0.7
EBIDTA	14,576	15,521	-6.1	18,872	19,999	-5.6	23,170	23,837	-2.8
EBIDTA Margins(%)	8.3	8.5	-18.4	9.0	9.5	-47.5	9.6	10.0	-35.0
APAT	6,284	6,710	-6.4	9,090	9,791	-7.2	12,125	12,455	-2.7

Source: Company, HSIE Research

BUY

CMP (as on 08 Feb 2024) INR 850

Target Price INR 1,045

NIFTY 21,718

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 1,016	INR 1,045	
EPS %	FY24E	FY25E	FY26E
	-	-	-

KEY STOCK DATA

Bloomberg code	KPIL IN
No. of Shares (mn)	162
MCap (INR bn) / (\$ mn)	138/1,688
6m avg traded value (INR mn)	236
52 Week high / low	INR 900/480

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	40.3	36.2	74.4
Relative (%)	30.3	27.7	56.6

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	41.06	40.59
FIs & Local MFs	42.70	43.81
FPIs	8.50	7.69
Public & Others	7.73	7.92
Pledged Shares	18.30	17.25

Source: BSE

Pledge share as a % of total shares

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Cement, Building Materials

UltraTech Cement

Price and cost tailwinds bolster margin

We maintain BUY on UltraTech (UTCEM) with an unchanged target price of INR 10,840 (16.5x Mar-26E consolidated EBITDA). We continue to like UTCEM for its robust growth and margin outlook and balance sheet management. During Q3FY24, while volume growth slowed to 6% YoY, unit EBITDA recovered to a six-quarter high of INR 1,191 per MT driving consolidated revenue/EBITDA/APAT growth of 8/39/68% YoY. Healthy price uptick and falling energy costs QoQ drove the same. UTCEM's expansions are on track which will increase its capacity to INR 190mn MT by FY27 end (~10% CAGR during FY23-27E). The company noted demand outlook remains healthy and its unit opex will continue to decline in Q4FY24, benefitting from further energy cost reduction.

- Q3FY24 performance:** UTCEM delivered in-line performance. Consolidated volumes/revenue/EBITDA/APAT grew 6/8/39/68% YoY respectively. While volume growth moderated, profitability benefited from healthy pricing (the company reported a grey NSR gain of 3/2% QoQ/YoY) and falling opex (unit energy cost fell 5/16% QoQ/YoY). The share of low-cost green power has also increased to 24% vs 22/20% QoQ/YoY. These drove up unit EBITDA to a six-quarter high of INR 1,191/MT. Trade sales/blended cement share stood at 64/68% in Q3. The share of premium cement continues to rise (23% vs 22/19% QoQ/YoY).
- Con call KTAs, Capex updates and outlook:** UTCEM spent INR 26/69bn in Capex during Q3/9MFY24, towards its ongoing expansions. Its working capital increased further in Q3 by INR 5bn as UTCEM opportunistically stocked up coal which should drive down its energy cost over the next two quarters. UTCEM expects working capital to contract by March 2024. It has also increased Capex guidance to ~INR 90bn p.a. during FY24-27 (towards phase-2 and 3 expansions). The Kesoram acquisition is expected to be consummated during FY25 and will be effective from 1st April 2024 (incorporated in our projection). These will increase UTCEM's total capacity by 10% CAGR during FY23-27 to 190mn MT by FY27. We have broadly maintained our EBITDA estimates. We maintain BUY on UltraTech with an unchanged target price of INR 10,840 (16.5x Mar-26E consolidated EBITDA).

Consolidated quarterly/annual financial summary

YE Mar (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Sales (mn MT)	27.3	25.9	5.6	26.7	2.4	94.0	105.7	116.9	131.9	147.7
NSR (INR/MT)	6,127	6,002	2.1	5,999	2.1	5,595	5,983	6,073	6,103	6,164
EBITDA(INR/MT)	1,191	903	31.9	956	24.6	1,225	1,005	1,155	1,202	1,296
Net Sales	167.4	155.2	7.9	160.1	4.5	526.0	632.4	709.6	805.2	910.2
EBITDA	32.5	23.4	39.3	25.5	27.6	115.1	106.2	135.0	158.6	191.3
APAT	17.8	10.6	67.9	12.8	38.7	56.7	50.6	74.5	88.7	108.8
AEPS (INR)	61.6	36.7	67.9	44.4	38.7	196.3	175.4	257.9	301.1	369.4
EV/EBITDA (x)						25.5	27.6	21.7	19.0	15.4
EV/MT (INR bn)						24.18	21.82	20.79	17.10	16.65
P/E (x)						51.4	57.6	39.2	33.5	27.3
RoE (%)						12.0	9.7	13.0	13.3	14.2

Source: Company, HSIE Research

BUY

CMP (as on 19 Jan 2024) INR 10,094

Target Price INR 10,840

NIFTY 21,622

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 10,840	INR 10,840
EBITDA change %	FY24E 0.0	FY25E 0.0

KEY STOCK DATA

Bloomberg code	UTCEM IN
No. of Shares (mn)	289
MCap (INR bn) / (\$ mn)	2,914/35,630
6m avg traded value (INR mn)	3,014
52 Week high / low	INR 10,526/6,604

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.5	21.2	40.0
Relative (%)	9.3	14.3	22.2

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	59.96	59.96
FIs & Local MFs	15.15	13.78
FPIs	17.17	18.72
Public & Others	7.50	7.55
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Ambuja Cement

Healthy performance and outlook

We maintain our ADD rating on Ambuja Cement, with a revised TP of INR 560/share (SOTP-based). We like the company for its healthy operating performance and strong growth outlook. In Q3FY24, Ambuja recouped the volume loss it had suffered in Q2FY24 and its volume recovered 8% QoQ (both standalone and consolidated). The profitability also benefitted from healthy pricing gains across markets. While standalone unit EBITDA rose a modest INR 23/MT QoQ on high maintenance expense and rising share of traded sales, consolidated unit EBITDA shot up INR 235/MT QoQ to strong INR 1,228/MT (ACC reported strong cost controls). Ambuja detailed its expansion plans, which should accelerate consolidated capacity to ~120mn MT by FY27 end. It is also beefing up its green power infrastructure to reduce its opex.

- Q3FY24 - Standalone performance:** ACEM's volume rose 8/8% QoQ/YoY. Sales volume under MSA accelerated in Q3. NSR increased 4/2% QoQ/YoY on healthy pricing gains. Unit opex increased 4% QoQ, mainly on high maintenance expenses (12% clinker capacity under maintenance in Q3) and rising share of MSA volumes (share of traded purchase shot up to 15% vs 11/5% QoQ/YoY). Thus, unit EBITDA rose a modest INR 23/MT QoQ to INR 1,043/MT. **Consolidated performance:** Volume rose 3% YoY (+8% QoQ) on better sales traction across both ACC and Ambuja. NSR rose 2% QoQ (flat YoY). Unit opex cooled off 3% QoQ on op-lev gains and logistics cost controls. Thus, unit EBITDA shot up by INR 234/MT QoQ to INR 1,228/MT (10-quarter high).
- Capex and other updates:** Ambuja outlined organic expansion plans for 10.2/32mn MT clinker/cement capacity additions by FY27. Ambuja will also be expanding Sanghi's capacity and it will also announce more clinker expansions, going ahead. Thus, consolidated cement capacity will soar to ~120mn MT by FY27-end. The group is also investing in setting up renewal and WHRS capacity over the next 3-4 years to bolster its green power share to 60% by FY28-end. We cut our FY24 EBITDA estimate by 4% and maintain our FY25/26 estimate. Factoring in a healthy business outlook, we increase our valuation multiple for the standalone operations to 16x from 15x earlier. Thus, our SOTP-based target price increases to INR 560/share, as we value the standalone cement business at 16x Mar-26E EBITDA, its 50% holding in ACC at our target market cap for ACC, and the 57% stake in Sanghi at BV.

Standalone quarterly/annual financial summary

YE Dec (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	CY21	FY23	FY24E	FY25E	FY26E
Sales (mn MT)	8.16	7.72	5.8	7.58	7.7	27.02	37.78	34.62	37.18	41.67
NSR (INR/MT)	5,439	5,351	1.6	5,236	3.9	5,174	5,290	5,311	5,307	5,301
EBITDA (INR/MT)	1,043	829	25.8	1,020	2.2	1,190	852	1,061	1,232	1,314
Net Sales	44.40	41.29	7.5	39.70	11.8	139.79	199.85	183.89	197.32	220.89
EBITDA	8.51	6.39	33.1	7.73	10.0	32.15	32.20	36.74	45.79	54.77
APAT	5.14	4.30	19.4	6.44	(20.2)	21.49	25.61	25.89	32.45	40.67
AEPS (INR)	2.6	2.2	19.4	3.2	(20.2)	10.8	10.3	10.5	13.2	16.5
EV/EBITDA (x)						37.8	36.6	27.5	21.2	17.1
EV/MT (INR bn)						38.79	37.61	32.29	24.47	21.09
P/E (x)						64.1	53.8	53.2	42.4	33.9
RoE (%)						10.1	8.1	7.0	6.9	8.2

Source: Company, HSIE Research

ADD

CMP (as on 31 Jan 2024)	INR 560
Target Price	INR 560
NIFTY	21,726

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 510	INR 560
EBITDA revision %	FY24E (3.9)	FY25E 0.3

KEY STOCK DATA

Bloomberg code	ACEM IN
No. of Shares (mn)	1,986
MCap (INR bn) / (\$ mn)	1,113/13,604
6m avg traded value (INR mn)	1,830
52 Week high / low	INR 586/315

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	32.0	21.0	39.7
Relative (%)	19.7	13.2	19.2

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	63.19	63.19
FIs & Local MFs	15.53	15.83
FPIs	11.65	11.88
Public & Others	9.63	9.10
Pledged Shares	63.15	0.00

Source : BSE

Pledged shares as % of total shares

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Shree Cement

Margin rebounds as fuel, freight costs continue to fall

We maintain our REDUCE rating on Shree Cement, with a revised SOTP target price of INR 28,700/share, owing to its expensive valuation. Cement volume grew 11% YoY in Q3FY24 and unit EBITDA expanded INR 325/MT QoQ to INR 1,387/MT. Margin expanded on strong pricing and fuel and logistics cost reduction. We estimate its blended unit EBITDA will expand INR 300/MT in FY24E on fuel cost reduction, rising share of green power and brand premiumization. The ongoing expansions will accelerate its cement capacity to 75mn MT by FY26 vs 46mn MT at FY23 end.

- Q3FY24 performance:** Shree's EBITDA came in 20/15% ahead of ours/consensus estimates. Cement volume grew 11% YoY on strong sales traction in the north and south markets. It sold ~60/28% in the north/east and the rest in the south/west markets. Trade sales comprised 76% with blended cement share at 72%. Reported unit EBITDA soared from INR 325/MT QoQ to INR 1,387/MT. NSR (ex-power) improved 3% QoQ on price increases across markets. Unit opex fell 5% QoQ on continued reduction in fuel and freight costs. Fuel cost reduced by ~INR 140/MT and freight reduced by INR 65/MT QoQ. The merchant power segment delivered revenue/EBITDA of INR 3.0 /0.3bn in Q3FY24.
- Con call updates and outlook:** Shree maintained its FY24 volume growth guidance of ~12%. It expects its fuel cost to remain stable QoQ in Q4. It is targeting to expand the share of its premium cement sales to 12/15% by FY24/FY25 end (vs 7% in FY23). The Nawalgarh (Rajasthan) IU 3.5mn MT was commissioned in Jan-24 and Guntur, AP IU is expected by Mar-24. The work on the recently announced 7.2/12mn MT clinker/cement capacity (by Mar'25) across Rajasthan, Uttar Pradesh and Karnataka (capex of INR 70bn) is on track. It will also add 3.4mn MT brownfield SGU in Chhattisgarh (by Sep-25, Capex INR 5.5bn). The company is also working on a 3mn MT brownfield grinding expansion in the north. Factoring in the robust performance in Q3 and a strong outlook for FY25-26E, we raise our unit EBITDA estimates for FY24/25/26E by ~INR 150/MT each. Thus, we raise standalone EBITDA estimates by 12/13/12% respectively. Our SOTP-based TP of INR 28,700 (revised up) values its standalone cement business at 16.5x Mar-26E EBITDA and the UAE business at 1x BV.

Quarterly/annual financial summary (standalone)

YE Mar (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY23	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Sales Vol (mn MT)	8.9	8.0	10.7	8.2	8.5	27.7	31.8	36.0	40.6	44.7
NSR (INR/MT)	5,510	5,065	8.8	5,399	2.1	5,089	5,292	5,450	5,450	5,505
EBITDA (INR/MT)	1,387	881	57.4	1,062	30.7	1,315	925	1,235	1,286	1,306
Net Sales	49.01	40.69	20.4	44.25	10.8	141.16	168.37	195.97	221.45	246.03
EBITDA	12.34	7.08	74.3	8.70	41.8	36.48	29.42	44.39	52.26	58.38
APAT	7.34	2.77	165.3	4.91	49.4	22.72	11.74	22.95	24.12	23.29
AEPS (INR)	210.7	76.7	174.7	136.2	54.8	629.7	325.3	636.0	668.5	645.4
EV/EBITDA (x)						26.2	32.4	21.6	18.3	16.8
EV/MT (INR bn)						20.6	20.6	17.2	15.5	13.2
P/E (x)						45.1	87.3	44.7	42.5	44.0
RoE (%)						14.0	6.6	11.9	11.5	10.2

Source: Company, HSIE Research, EBITDA (INR/MT) is blended and includes merchant power

REDUCE

CMP (as on 31 Jan, 2024) INR 28,556

Target Price INR 28,700

NIFTY 21,726

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 24,000	INR 28,700
EBITDA revision %	FY24E 12.4	FY25E 13.4

KEY STOCK DATA

Bloomberg code	SRCM IN
No. of Shares (mn)	36
MCap (INR bn) / (\$ mn)	1,030/12,599
6m avg traded value (INR mn)	709
52 Week high / low	INR 29,250/22,601

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	11.3	18.4	20.6
Relative (%)	(1.0)	10.6	0.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	62.55	62.55
FIs & Local MFs	12.56	12.55
FPIs	12.21	12.30
Public & Others	12.68	12.59

Pledged Shares - -

Source : BSE

Pledged shares as % of total shares

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Supreme Industries

Healthy outlook; expensive valuation

We maintain REDUCE on Supreme Industries (SIL), with an unchanged TP of INR 4,290/share (SOTP-based), owing to its expensive valuation. SIL reported a healthy volume performance in Q3FY24, as volume firmed up 14% YoY (pipes up 17% YoY). However, demand softened in Q3 vs earlier quarters. In Q3FY24, there was a small inventory loss of INR 0.11bn (0.4% of sales). Blended unit EBITDA was INR 24 per kg in Q3 vs INR 22/26 per kg YoY/QoQ. For FY24/25, it expects 30/12-15% volume growth in pipes. In FY25, it expects single-digit volume growth in the packaging and consumer segment but expects margin expansion (higher sales of premium products).

- Q3FY24 performance:** SIL reported healthy volume performance in Q3FY24, driven by the pipes segment. Pipes/industrial/packaging volumes rose 17/10/3% YoY in Q3FY24, while consumer (furniture) volume declined 3% YoY. Thus, total volume rose 14% YoY (4-year CAGR: +12%). However, volume growth softened in Q3 vs earlier quarters. For 9MFY24, pipes/industrial/packaging/consumer volumes rose 30/6/7/3% YoY. Consolidated revenue went up 6% YoY only (as NSR fell 7% YoY on a fall in resin prices). In Q3FY24, it incurred INR 0.11bn inventory loss (0.4% of sales). EBITDA surged 25% YoY on strong volumes and higher inventory loss in the base quarter (200bps margin impact). Blended unit EBITDA was INR 24 per kg in Q3 vs INR 22/26 per kg YoY/QoQ. The associate's income declined 25% YoY to INR 208mn.
- Outlook:** SIL plans to increase its capacity by 25% (pipes: +30% YoY) to 1mn MT from Mar-23 to Dec-24. It has upgraded pipes volume growth guidance to 30% YoY in FY24 vs 28% guided earlier. This implies robust 30% pipe volume growth in Q4FY24, supported by a healthy demand environment and weak demand in the base quarter. For FY25, it expects 12-15% volume growth in pipes. In FY25, it expects single-digit volume growth in the packaging and consumer segment but expects margin expansion (higher sales of premium products). SIL plans to incur a Capex of ~INR 10bn in FY24, including INR 1.5bn carry forward commitments. We broadly maintained our PAT estimates. We maintain a REDUCE rating with an unchanged SOTP target price of INR 4,290. We value the core business at 40x Mar'26E EPS (valuing the pipes/non-pipes earnings at 40/17x PE) and its 30.8% holding in its associate Supreme Petrochem at a 30% discount to its current market cap.

Consolidated quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Sales (K MT)	158.0	138.4	14.2	137.8	14.7	393.9	506.5	621.1	689.0	757.9
NSR (INR/Kg)	155.0	167.0	-7.2	167.6	-7.5	195.1	180.5	157.8	158.7	160.3
EBITDA (INR/Kg)	24.0	21.9	9.3	25.9	-7.3	31.8	23.7	24.6	27.1	27.3
Net Sales	24,491	23,107	6.0	23,087	6.1	77,728	92,016	98,684	1,10,065	1,22,274
EBITDA	3,788	3,034	24.9	3,562	6.3	12,421	11,997	15,286	18,704	20,689
EBITDAM (%)	15.5	13.1		15.4		16.0	13.0	15.5	17.0	16.9
APAT	2,562	2,100	22.0	2,432	5.3	9,684	8,653	10,501	13,028	14,354
AEPS (INR)	20.2	16.5	22.0	19.1	5.3	76.2	68.1	82.6	102.5	113.0
EV/EBITDA (x)						41.5	42.8	33.5	27.3	24.5
P/E (x)						53.7	60.1	49.5	39.9	36.2
RoE (%)						27.6	21.0	22.3	24.0	22.9

Source: Company, HSIE Research

REDUCE

CMP (as on 19 Jan 2024) INR 4,124

Target Price INR 4,290

NIFTY 21,622

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR4,290	INR4,290
EPS change %	FY24E 0.0	FY25E 0.8

KEY STOCK DATA

Bloomberg code	SI IN
No. of Shares (mn)	127
MCap (INR bn) / (\$ mn)	524/6,405
6m avg traded value (INR mn)	1,467
52 Week high / low	INR 4,888/2,335

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(11.2)	18.3	70.1
Relative (%)	(20.5)	11.5	52.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	48.85	48.85
FIs & Local MFs	12.53	11.94
FPIs	23.86	24.65
Public & Others	14.76	14.56
Pledged Shares	NIL	NIL

Source : BSE

Pledged shares as % of total shares

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Astral

Demand moderation and one-offs slowed profit growth

We maintain BUY on Astral with a revised target price of INR 2,040/sh (60x its Mar-26E EPS). During Q3FY24, falling resin prices, poor show at the UK adhesive plant, inventory losses and one-off anniversary celebration expenses moderated earnings growth. Thus, consolidated revenue/EBITDA/APAT rose 8/10/22% YoY. Pipes demand has picked up in Q4 and resin prices are near the bottom (as per management). The UK operations have normalised and the Dahej adhesive plant is ramping up well. The bathware segment is also gaining pace and should turn EBITDA positive in FY25. Astral is preparing to launch the Astral brand in paints in Q1FY25E. Thus, consolidated revenue/EBITDA/APAT should grow at 15/22/26% CAGR during FY23-26E, in our view.

- Revenue traction:** During Q3FY23, pipe demand moderation, inventory losses and high one-off expenses slowed revenue and profit growth. Consolidated net sales rose 8% YoY. The plumbing segment volume/revenue rose 15/7% YoY. Even the A&P segment revenue rose just 11% YoY, dragged by slower offtake in the UK adhesive (9% YoY) business and a fall in paints revenues (-10%), while India adhesives grew 16% YoY.
- Profitability:** Both plumbing and A&P EBITDA grew ~15% YoY each. Profit growth moderated on (1) slower offtake, (2) the fact that Astral spent one-off INR 110mn on its 25th-anniversary celebration and incurred INR 200mn inventory loss in the plumbing segment, and (3) inventory losses in the UK. The bathware segment continues to see EBITDA losses as Astral is investing in brand building. Margin across both plumbing/A&P declined to 16.5/12.5% (vs 18/14.8% QoQ). However, the margin still came in higher vs 15.4/12.2% YoY. Paints margin firmed up to 18.5% vs 12.6/16% YoY/QoQ. Thus, consol EBITDA/APAT rose 10/22% YoY.
- Outlook:** Astral guided that pipes demand has accelerated in Q4 (resin prices are close to the bottom) and even the UK adhesive business has normalised. The bathware segment is slowly ramping up (adding products and distributors) and should turn EBITDA positive in FY25. Astral will be launching its own brand of paints in Q1FY25 and is beefing up its product range. In the plumbing segment, the Guwahati plant has become operational, the Hyderabad plant will start in Q2FY25, and the Kanpur plant will start in Q1FY26. Factoring in sharp earnings miss, we lower our EPS estimates for FY24/25/26E by 15/8/5%.

Quarterly/annual financial summary (consolidated)

YE Mar (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Pipes sales (K MT)	52.7	45.9	15.0	52.1	1.3	149.6	177.6	216.7	249.2	286.6
EBITDA (INR/kg)	32.0	32.1	-0.4	34.7	-7.8	42.2	36.6	33.6	38.2	38.6
Adhesives* Rev (INR mn)	3.72	3.36	10.7	3.83	-2.7	10.28	13.91	15.52	18.71	22.68
Adhesives EBITDAM (%)	12.5	12.2		14.8	15.0	13.1	13.4	14.0	15.2	15.5
Net Sales	13.70	12.68	8.1	13.63	0.5	43.94	51.59	56.50	66.13	77.94
EBITDA	2.05	1.86	10.0	2.20	-6.8	7.55	8.10	9.31	12.42	14.70
EBITDAM (%)	15.0	14.7		16.1		17.2	15.7	16.5	18.8	18.9
APAT	1.14	0.93	22.0	1.31	-13.5	4.84	4.58	5.48	7.57	9.17
Diluted EPS (Rs)	4.2	3.5	22.0	4.9	-13.5	18.1	17.0	20.4	28.1	34.1
EV / EBITDA (x)						66.5	62.3	54.3	40.4	34.0
P/E (x)						104.8	110.6	92.6	67.0	55.3
RoE (%)						22.6	17.2	17.3	20.8	21.7

Source: Company, HSIE Research, * Adhesives includes paints FY23 onwards

BUY

CMP (as on 1 Feb 2024)	INR 1,889
Target Price	INR 2,040
NIFTY	21,697

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,160	INR 2,040
APAT revision %	FY24E (15.2)	FY25E (8.2)

KEY STOCK DATA

Bloomberg code	ASTRA IN
No. of Shares (mn)	269
MCap (INR bn) / (\$ mn)	507/6,205
6m avg traded value (INR mn)	1,440
52 Week high / low	INR 2,058/1,298

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.6	(5.6)	25.7
Relative (%)	(9.1)	(13.4)	5.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	55.85	54.10
FIs & Local MFs	13.21	13.66
FPIs	18.50	19.79
Public & Others	12.44	12.44
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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ACC

Strong volume growth; margin at 10-quarter high

We maintain BUY on ACC, with a higher TP of INR 2,845/share (11x its Mar-26E consolidated EBITDA). ACC reported a strong beat, largely driven by a fall in employee/other expenses QoQ despite volume growth. In Q3, NSR recovered 2% QoQ and opex fell sharply (down 6% QoQ). So, unitary EBITDA rose by INR 350/MT QoQ to INR 1,016/MT (10-quarter high). The long-pending Ametha expansion is completed. It plans to add 1.6/2.4mn MT GU at Sindri, Jharkhand/Salai Banwa, UP, by Q4FY25/Q1FY26. Management is taking on various green initiatives to boost margins.

- Q3FY24 performance:** ACC reported a strong beat as its consolidated EBITDA came in 21/30% ahead of ours/consensus estimates. The beat is largely driven by a fall in employee/other expenses QoQ despite volume growth. Cement volume rose 10% QoQ, bolstering YoY growth at 17% (on a low base of last year). MSA volumes continue to accelerate and purchase of traded sales accounted for 14% in Q3 vs 11.5/12.4% QoQ/YoY. NSR recovered 2% QoQ in Q3 (still down 5% YoY). Opex fell sharply, down 6% QoQ as all expenses fell. Input cost remained flattish QoQ and fuel cost (kCal basis) reduced by ~INR 135/MT. Even logistics costs were reduced by INR 100/MT. Additionally, it reported lower employee and other expenses, despite rising volumes, and aided a fall in unit opex. Share of WHRS power increased to 9.1% vs 8.4/6.4% QoQ/YoY. Unitary EBITDA thus sprang by INR 350/MT QoQ to INR 1,016/MT (10-quarter high).
- Expansion update and outlook:** During Q3FY24, it commissioned a 1mn MT cement mill and 16MW WHRS at Ametha. It will be further adding 18/21.5MW across Chanda and Wadi in FY25, leading to 86 MW WHRS capacity by FY25. In Jan-24, ACC acquired the remaining 55% stake in its associate company Asian Concretes for a cash consideration of INR 4.25bn, thus adding 2.8mn MT cement capacity across HP and Punjab. It plans to add 1.6/2.4mn MT GU at Sindri, Jharkhand/ Salai Banwa, UP, by Q4FY25/Q1FY26. Adani management is also working on various cost reduction programs (WHRs AFR equipment, solar power, coal mines and direct dispatches) which should boost margin, going ahead. We upgrade our EBITDA estimates for FY24/25/26E by 4/2/3% and maintain BUY with a higher TP of INR 2,845.

Consolidated financial summary

YE Dec (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	CY21	FY23	FY24E	FY25E	FY26E
Sales (mn MT)	8.9	7.6	16.5	8.1	9.9	28.9	38.6	36.2	38.9	40.5
NSR (INR/MT)	5,185	5,450	(4.9)	5,094	1.8	5,161	5,276	5,186	5,212	5,264
EBITDA (INR/MT)	1,016	482	110.6	668	52.1	1,011	480	874	963	1,004
Net Sales	49.1	45.4	8.3	44.3	10.8	161.5	222.1	200.6	216.9	229.1
EBITDA	9.0	3.8	138.6	5.5	64.7	30.0	19.2	32.0	37.9	41.2
APAT	5.4	2.7	98.1	3.9	38.6	19.2	10.5	19.7	22.7	25.6
AEPS (INR)	28.6	10.2	179.6	20.6	38.6	102.1	44.6	104.7	120.8	136.1
EV/EBITDA (x)						13.3	22.9	13.4	10.8	9.6
EV/MT (INR bn)						11.57	12.21	10.79	9.88	9.04
P/E (x)						24.9	45.7	24.3	21.1	18.7
RoE (%)						14.2	5.9	13.2	13.7	13.8

Source: Company, HSIE Research

BUY

CMP (as on 31 Jan 2024)	INR 2,544
Target Price	INR 2,845
NIFTY	21,726

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,770	INR 2,845
EBITDA revision %	FY24E 3.6	FY25E 1.7

KEY STOCK DATA

Bloomberg code	ACC IN
No. of Shares (mn)	188
MCap (INR bn) / (\$ mn)	478/5,842
6m avg traded value (INR mn)	1,298
52 Week high / low	INR 2,584/1,592

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	34.7	26.1	29.3
Relative (%)	22.4	18.2	8.8

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	56.69	56.69
FIs & Local MFs	22.79	24.15
FPIs	7.10	6.24
Public & Others	13.42	12.92
Pledged Shares	6.64	0.00

Source : BSE

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Dalmia Bharat

Healthy performance

We maintain our BUY rating on Dalmia Bharat with an unchanged TP of INR 2,690/sh (13x its Mar-26E consolidated EBITDA). We continue to like Dalmia for its healthy margin and comfortable balance sheet outlook, even as it continues to accelerate capacity addition. During Q3FY24, Dalmia's volume rose 11% QoQ and unit EBITDA jumped INR 180/MT QoQ to INR 1137/MT (a nine-quarter high). We estimate the company to deliver 13% volume CAGR during FY23-26E, along with an average unit EBITDA of INR 1090/MT. The profitability should benefit from fuel cost reductions, the rising share of green power, and op-lev gains (as utilisation rises). Dalmia remains among our top picks in the cement sector.

- Q3FY24 performance:** Sales volume rose 8/11% YoY/QoQ. On a QoQ basis, it reported slightly better than industry growth, offsetting some of its H1 volume loss. Volumes from the to-be-acquired JPA plant accounted for ~5% of total sales volume. Dalmia noted that it would have gained market share in the east region. NSR improved 3% QoQ (better pricing across south and east). Opex stood flat QoQ /down 4% YoY. Reported input cost remained flat QoQ, while logistic cost went up 7% QoQ. This negated the op-lev gains. Unit EBITDA thus improved INR 180/MT QoQ to INR 1,137/MT (nine-quarter high). In Q3, Dalmia received final payments for Hippo retail sales (INR 1.2bn) and the second bullet payment for the refractory business sale (INR 3.2bn).
- Con call KTAs and outlook:** It remained confident of accelerated volume growth Q4FY24 onwards and expects mid-teens volume growth FY25 onwards. The JPA deal (5.4mn MT phase-1) is on the verge of completion by Mar-24 and should aid the growth aspiration. The company expects its fuel costs to further cool off from INR 1.5/mn Cal by 2-3% in Q4FY24. Even green power share should rebound to 29% in Q4 vs 25% QoQ and should cross 35% by FY25 end. Dalmia guided Capex of INR 63bn (including JPA's acquisition cost of INR 35bn) for FY24 and INR 30-35bn for FY25E, towards ongoing expansions. Excluding the JPA deal, Dalmia's capacity will increase to 50mn MT by FY25 end. We maintain our earnings estimates. During FY23-26E, we expect Dalmia to deliver 13% volume CAGR along with the average unit EBITDA of INR 1,090/MT in FY25E. Despite its aggressive expansions, Dalmia's balance sheet will remain comfortable, in our view.

Quarterly/annual financial summary (consolidated)

YE Mar (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Sales (mn MT)	6.8	6.3	8.1	6.2	10.6	22.2	25.8	28.6	32.8	37.4
NSR (INR/MT)	5,279	5,319	(0.7)	5,108	3.4	5,084	5,250	5,224	5,224	5,276
EBITDA(INR/MT)	1,137	1,021	11.3	955	19.0	1,093	898	1,050	1,090	1,117
Net Sales	36.00	33.55	7.3	31.49	14.3	112.86	135.40	149.19	171.57	197.55
EBITDA	7.75	6.44	20.3	5.89	31.6	24.26	23.16	30.00	35.81	41.83
APAT	2.63	2.00	31.5	1.19	121.0	8.10	6.56	9.03	9.39	13.52
AEPS (INR)	14.0	10.7	31.5	6.3	121.0	43.8	35.5	48.8	50.8	73.1
EV/EBITDA (x)						17.3	18.2	15.1	12.8	10.9
EV/MT (INR bn)						11.7	10.9	8.8	8.1	7.7
P/E (x)						50.3	62.1	45.1	43.4	30.1
RoE (%)						5.6	4.1	5.6	5.6	7.6

Source: Company, HSIE Research

BUY

CMP (as on 25 Jan 2024)	INR 2,205
Target Price	INR 2,690
NIFTY	21,353

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,690	INR 2,690
EBITDA revision %	FY24E 0.0	FY25E 0.0

KEY STOCK DATA

Bloomberg code	DALBHARA IN
No. of Shares (mn)	188
MCap (INR bn) / (\$ mn)	414/5,057
6m avg traded value (INR mn)	824
52 Week high / low	INR 2,431/1,672

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	7.2	15.5	27.6
Relative (%)	(3.2)	9.0	10.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	55.85	55.84
FIs & Local MFs	9.43	11.03
FPIs	14.13	12.96
Public & Others	20.59	20.16
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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JK Cement

Strong volume and margin performance continues

We maintain our REDUCE rating on JK Cement (JKCE), with a revised TP of INR 3,765 (12x Mar-26E consolidated EBITDA), owing to its expensive valuation. In Q3FY24, JKCE's consolidated volumes rose 17% YoY and NSR improved by 3% QoQ. Further, lower fuel costs, increasing green power share and Panna cost stabilisation buoyed blended unit EBITDA to industry-leading INR 1,334/MT (+INR 300/MT QoQ, +720/MT YoY). Consolidated revenue/EBITDA/APAT rose 21/153/628% YoY. We estimate JKCE's grey cement profitability will continue to benefit from its healthy ramp-up and accelerated expansion (targeting 30mn MT grey cement capacity by FY26 end), cool-off in fuel cost, large incentive accruals FY24 onwards and increasing share of low-cost green power. JKCE guided its paint business will turn EBITDA positive in FY26.

- Q3FY24 performance:** Grey cement sales volume rose 17% YoY (+6% QoQ) to 4.2mn MT (75% total utilisation), on continued healthy ramp-up of its central India capacities. NSR further improved 3% QoQ (+4% YoY). Unit opex further cooled off 3% QoQ (-13% YoY, our view) on lower fuel costs, a rising share of low-cost green power consumption (>50% in Q3), and improved market mix. Thus, unit EBITDA soared to INR 1230/MT (+300/MT QoQ: among the industry's best in Q3), in our view. Incentives accounted for ~INR 180/MT during Q3/9MFY24. Segmental EBITDA rose ~225% YoY (+40% QoQ) to ~INR 5bn (80% EBITDA share). White/Putty: sales volume rose 13% YoY (-7% QoQ) to 0.53mn MT. Segmental EBITDA in our view, rose ~35% YoY to INR 1.2bn. The paint business reported a revenue/EBITDA loss of ~INR 460mn/80mn.
- Con call KTAs and outlook:** JKCE announced another 6mn MT expansions by FY26 end, leading to 30mn MT grey cement capacity (overtaking Nuvoco). It guided a total Capex of ~INR 12/22/18bn for FY24/25/26E towards ongoing and new projects announced. Management expects the paint business to EBITDA break-even in FY26E. JKCE is targeting to increase green power share to 60/75% in FY26/30 vs 50% in 9MFY24. We estimate 17% consolidated volume growth in FY24E on a strong ramp-up of central plants. Fuel cost savings, incentive accrual (~INR 180/MT), and op-lev gains should drive unit EBITDA (consolidated) by INR 345/MT YoY to INR 1,157/MT in FY24. We build on the same to further expand to INR 1,235/MT in FY26E on rising green energy consumption. We increase our consolidated EBITDA estimates for FY24/25/26E by 7/3/7%, factoring in strong grey cement margin and volume traction. We raise the valuation multiple to 12x (11x earlier) factoring in its robust margin and expansion-led volume traction.

Consolidated quarterly/annual financial summary

YE Mar (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Sales (mn MT)	4.7	4.0	16.6	4.5	3.9	14.0	16.2	18.9	20.6	22.5
NSR (INR/MT)	6,263	6,060	3.4	6,106	2.6	5,718	6,013	6,141	6,109	6,148
EBITDA (INR/MT)	1,334	615	116.8	1,036	28.8	1,079	813	1,157	1,188	1,235
Net Sales	29.35	24.36	20.5	27.53	6.6	79.91	97.20	115.92	125.86	138.27
EBITDA	6.25	2.47	152.7	4.67	33.9	15.08	13.14	21.84	24.47	27.78
APAT	2.84	0.39	628.0	1.75	61.9	7.13	4.26	8.87	11.25	12.08
AEPS (INR)	24.8	6.3	267.2	33.0	(24.7)	92.3	55.2	114.8	145.6	156.3
EV/EBITDA(x)						21.8	25.8	15.6	13.9	12.5
EV/MT (INR bn)						16.9	12.9	12.2	11.4	9.7
P/E (x)						43.0	71.9	34.5	27.2	25.4
RoE (%)						17.8	9.5	17.7	19.2	17.7

Source: Company, HSIE Research; Operating trends are on a blended basis (grey cement+ white/putty)

REDUCE

CMP (as on 23 Jan 2024) INR 3,948

Target Price INR 3,765

NIFTY 21,239

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 3,330	INR 3,765
EBITDA revision %	FY24E 7.0	FY25E 3.1

KEY STOCK DATA

Bloomberg code	JKCE IN
No. of Shares (mn)	77
MCap (INR bn) / (\$ mn)	305/3,730
6m avg traded value (INR mn)	443
52 Week high / low	INR 4,211/2,540

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	24.3	23.9	43.2
Relative (%)	16.7	18.4	27.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	45.80	45.70
FIs & Local MFs	24.26	24.03
FPIs	14.40	15.26
Public & Others	15.54	15.01
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Kajaria Ceramics

No signs of volume recovery; strong mid-term outlook

We maintain ADD on Kajaria Ceramics (KJC) with a lower target price of INR 1,410/share (35x its Mar'26E consolidated EPS). Kajaria's Q3FY24 topline was in line, but the bottom line missed our estimate owing to higher dealer incentives. Its revenue grew by 6% YoY (volume-led). EBITDA grew by 34% YoY (fuel price cool-off). Till now, management has seen no sign of demand recovery for tiles and expects similar volume growth in Q4 as 9MFY24. KJC remains confident of outperforming tiles industry volume growth by 5-6%. For FY25, it sees a scope of 100bps EBITDA margin expansion to 17%.

- Q3FY24 performance:** Revenue came in line with our estimates. However, EBITDA/APAT missed our estimates by 5/13% (5/10% miss vs consensus too). Revenue/EBITDA/APAT grew 6/34/40% YoY. Revenue growth was volume-led. EBITDA growth was higher, owing to the cool-off in fuel prices. EBITDA margin grew 330bps YoY, declining marginally by 50bps QoQ (higher incentive to dealers and a slight increase in fuel price). APAT growth was further supported by lower tax rates, lower interest and higher other income. Tile volume growth is yet to revive; it rose 6% YoY in Q3 (in-line H1FY24) (5-yr vol CAGR: 6%). Blended NSR was down 3/1% YoY/QoQ, owing to higher incentives to dealers. Share of non-tiles revenue increased to ~12% in Q3 vs 10% YoY owing to faster growth in other businesses (low base impact). The non-tiles revenue grew 30% YoY.
- Con call KTAs and outlook:** KJC remains confident of outperforming tiles industry growth by 5-6%. As per KJC management, the tiles industry volume has been flat YoY in 9MFY24 and it has outperformed industry growth by 6%. Management highlighted that Jan-24 was a tough month, and it expects demand to pick up from FY25 onwards. Management mentioned Q3FY24 onwards, tiles exports have slowed, leading to increased plant shutdowns in Morbi and higher competition in the domestic market. It expects stable fuel prices QoQ in Q4. It expects a ~16% EBITDA margin in FY24 and 15-17% in FY25. By Jun-24E, it expects to commission a 5.1MSM plant in Nepal on a joint venture basis (delayed by a quarter). It plans to spend INR 0.5bn to acquire six MSM GVT plants in Morbi (90% share). It is targeting to double its consolidated revenue in the next 5-6 years. It will be adding ~150 dealers each year for the next 2-3 years. Owing to a delay in demand revival, we cut our APAT estimates by 11/9/8% for FY24/25/26E.

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Tiles sales (MSM)	27.1	25.5	6.4	26.5	2.3	91.7	101.7	108.4	121.9	134.1
NSR (Rs/Kg)	374	387	(3.3)	378	(1.0)	404	431	424	435	439
Tiles Revenue	10,128	9,839	2.9	9,998	1.3	33,432	39,511	41,245	47,101	51,811
Other Revenue	1,389	1,072	29.6	1,218	14.1	3,620	4,308	4,731	5,913	7,096
Net Sales	11,518	10,911	5.6	11,216	2.7	37,052	43,819	45,975	53,014	58,907
EBITDA	1,788	1,331	34.3	1,797	(0.5)	6,107	5,920	7,313	8,969	10,194
EBITDAM (%)	15.5	12.2		16.0		16.5	13.5	15.9	16.9	17.3
APAT	1,042	743	40.2	1,080	(3.5)	3,770	3,524	4,420	5,580	6,415
Diluted EPS (Rs)	6.6	4.7	40.4	6.8	(3.5)	23.7	22.1	27.8	35.0	40.3
EV / EBITDA (x)						35.5	37.0	29.8	24.1	21.1
P/E (x)						58.4	62.4	49.8	39.4	34.3
RoE (%)						18.3	15.4	17.3	19.3	19.5

Source: Company, HSIE Research, Other revenues comprise bathware, ply and adhesives

ADD

CMP (as on 31 Jan 2024) INR 1,384

Target Price INR 1,410

NIFTY 21,726

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,530	INR 1,410
EPS revision %	FY24E (10.5)	FY25E (8.5)

KEY STOCK DATA

Bloomberg code	KJC IN
No. of Shares (mn)	159
MCap (INR bn) / (\$ mn)	220/2,695
6m avg traded value (INR mn)	258
52 Week high / low	INR 1,524/1,007

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.7	(3.7)	31.2
Relative (%)	(2.6)	(11.6)	10.8

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	47.49	47.49
FIs & Local MFs	25.45	25.54
FPIs	18.48	18.32
Public & Others	8.59	8.65
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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The Ramco Cements

Volume growth slows; leverage ratio to remain elevated

We maintain an ADD rating on The Ramco Cements but lower the target price to INR 1,000/share (12x Mar-26E EBITDA). Ramco's volume growth slowed in Q3FY24 to 10% YoY, impacted by adverse weather conditions such as cyclones and rains in the south. NSR improved 4% QoQ on pricing uptick in the south and east. Opex rose 2% QoQ on higher fixed and freight costs, which was partially offset by lower input costs. Thus, unitary EBITDA expanded by a modest INR 125/MT QoQ to INR 990/MT (up INR 200/MT YoY). Ramco guided ~6/10% volume growth in Q4FY24/FY25E. It also revised its capex guidance upwards as it seeks to expand capacity by 20% during FY23-26E. This should keep its leverage ratio elevated until FY26E.

- Q3FY24 performance:** It reported a 5/10% revenue/EBITDA miss vs our estimates. Revenue/ EBITDA/ APAT rose 5/39/39% YoY. Sales volume growth slowed to 10% YoY (vs 33% in H1FY24 owing to rains and the cyclone in the south). Volumes declined 13% QoQ, as south sales fell 20% QoQ while east sales rose 14% QoQ. This also led to a fall in total trade sales share to 64% vs 67% QoQ. Cement pricing uptick across south and east drove up NSR by 4% QoQ. Op-lev loss and increased lead distance led to a 2% QoQ rise in opex. Input cost reduced by 6% QoQ, mainly on fuel cost reduction. Unitary EBITDA expanded INR 125/MT QoQ to INR 990/MT (+ INR 200/MT YoY).
- Con call updates and outlook:** Management guided ~6/10% YoY volume growth for Q4FY24/FY25E. It increased the capex guidance for FY24 to INR 20bn and guided for INR 17bn capex for FY25E. In Q3FY24, Ramco debottlenecked clinker capacity by 1mn MT. The ~1mn MT SGU expansion in Odisha is expected by Mar 2024. The 18MW CPP at Kurnool and two dry mortar plants in AP and Odisha are expected in Q4FY24. Ramco announced it will be commissioning brownfield expansion at Kurnool (3.13/1.5mnMT clinker/cement) by Q4FY26 at a capex of INR 12.5bn (including 15MW WHRS). It will also debottleneck cement capacity by 1mnMT across locations. Ramco is land-pooling in Karnataka and will start greenfield expansion work there in the next 18 months. Ramco stated it will maintain net debt at INR 50bn (current level) going ahead and gearing should reduce as profitability increases. Factoring a weak Q3, we lower our EBITDA estimates by 9/8/4% for FY24/25/26E. Additionally, we have increased capex estimates in line with management guidance. Thus, we estimate net debt/EBITDA will remain stretched at 3.2/2.8/2.4x in FY24/25/26, despite building in 24% EBITDA CAGR for FY23-26E.

Quarterly/annual financial summary – standalone

YE Mar (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Sales (mn MT)	4.0	3.6	9.9	4.6	(13.3)	11.1	15.0	17.6	19.3	21.3
NSR (INR/MT)	5,272	5,521	(4.5)	5,053	4.3	5,315	5,383	5,194	5,246	5,299
Opex (INR/MT)	4,282	4,728	(9.4)	4,188	2.2	4,195	4,614	4,275	4,232	4,243
EBITDA(INR/MT)	990	793	24.8	865	14.5	1,119	769	920	1,015	1,055
Net Sales	21.06	20.09	4.8	23.29	(9.6)	59.80	81.35	91.31	101.44	112.70
EBITDA	3.95	2.85	38.9	3.99	(0.8)	12.84	11.82	16.14	19.62	22.45
APAT	0.93	0.67	38.7	1.01	(7.8)	5.91	3.44	4.16	7.10	9.18
AEPS (INR)	4.0	2.9	38.7	4.3	(7.8)	25.0	14.5	17.6	30.0	38.8
EV/EBITDA (x)						18.3	20.8	15.5	12.7	11.1
EV/MT (INR bn)						12.1	11.2	10.9	10.4	9.8
P/E (x)						36.0	61.8	51.1	29.9	23.1
RoE (%)						9.7	5.2	6.0	9.5	11.1

Source: Company, HSIE Research

ADD

CMP (as on 09 Feb 2024) INR 902

Target Price INR 1,000

NIFTY 21,783

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,100	INR 1,000
EBITDA revision %	FY24E (8.7)	FY25E (8.3)

KEY STOCK DATA

Bloomberg code	TRCL IN
No. of Shares (mn)	236
MCap (INR bn) / (\$ mn)	213/2,605
6m avg traded value (INR mn)	465
52 Week high / low	INR 1,058/701

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(11.8)	4.3	24.5
Relative (%)	(22.2)	(4.2)	6.8

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	42.11	42.11
FIs & Local MFs	33.36	32.92
FPIs	7.85	7.94
Public & Others	16.68	17.02
Pledged Shares	9.36	9.54

Source : BSE

Pledged shares as % of total shares

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Century Plyboards India

A tough quarter

We downgrade our rating on Century Ply to ADD (from BUY) with a lower target price of INR 785/sh (35x its Mar'26E consolidated EPS). The company reported poor performance in Q3FY24. Revenue growth slowed to 6% YoY on weak offtake across plywood, MDF and particle board. Further, elevated competition in MDF, continued pain in particle board, elevated timber cost and higher branding and consulting expenses pulled down consolidated EBITDA/APAT by 18/23% YoY. The laminate segment witnessed a slight margin expansion QoQ, supported by gross margin expansion. Century's MDF and particle board expansions are progressing on track.

- Q3FY24—weak quarter:** Revenue rose a modest 6% YoY owing to muted growth across ply (6%)/laminates (3%) revenues and a decline in particle board revenue (-5%). The MDF revenue rose 13% YoY, mainly on the ramp-up of the Hoshiarpur plant. However, EBITDA/APAT fell 18/23% YoY as the margin fell sharply across all segments. Consolidated EBITDAM contracted 320/330bps QoQ/YoY. Falling raw material has led to a slight uptick in laminates margin QoQ, while all the other three panel segments reported a decline QoQ/YoY. MDF margin is impacted by the ramp-up of domestic capacities of Greenply, Action Tesa and Century Ply and has resulted in a 7-8% correction in domestic realisation in the north during H2FY24. Timber cost continues to rise (demand-supply mismatch). Additionally, the margin suffered due to higher branding, consulting, and employee expenses.
- Con call KTAs and outlook:** Century guided in Q4FY24, the ply and laminates volume will grow in single digits and MDF volumes will grow at least 20%. It expects a recovery in ply margin and flattish margin for laminates, while MDF and particle board could see further margin compression QoQ. It guided for a capex of INR 9/5.5bn in FY24/FY25E for ongoing expansions: ply capacity to increase by 80K CBM by FY25 end, greenfield MDF plant (AP: 313K CBM) by Q4FY24, greenfield laminates (in AP commenced operation in Jan-24), greenfield particle board (240K CBM in AP by FY25 end). The company expects panel demand to revive in 2025 when real estate projects will be delivered to customers. While BIS implementation for plywood is delayed, India has made BIS mandatory for MDF and particle board w.e.f 11th Feb 2024. Management believes the domestic MDF industry will benefit from this after a few months when imported inventory stocks are exhausted. We trim our FY24/25/26E EPS by 19/9/4%, factoring in weak Q3, delays in demand revival outlook and elevated cost pressure.

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	9.37	8.84	6.1	9.97	(6.0)	30.27	36.47	38.16	44.26	52.58
EBITDA	1.06	1.29	(17.6)	1.44	(26.5)	5.31	6.06	5.21	6.82	8.26
EBITDAM (%)	11.3	14.6		14.5		17.5	16.6	13.6	15.4	15.7
APAT	0.63	0.82	(23.3)	0.97	(34.9)	3.13	4.30	3.24	3.89	4.99
AEPS (INR)	2.8	3.7	(23.3)	4.4	(34.9)	14.1	19.3	14.6	17.5	22.4
EV/EBITDA (x)						31.6	27.8	33.1	25.5	20.4
P/E (x)						53.3	38.8	51.5	42.9	33.5
RoE (%)						22.2	24.8	15.7	16.2	17.6

Source: Company, HSIE Research

ADD

CMP (as on 05 Feb 2024)	INR 748
Target Price	INR 785
NIFTY	21,772

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	INR 820	INR 785
EPS	FY24E	FY25E
revision %	(19.0)	(8.8)

KEY STOCK DATA

Bloomberg code	CPBI IN
No. of Shares (mn)	222
MCap (INR bn) / (\$ mn)	166/2,032
6m avg traded value (INR mn)	155
52 Week high / low	INR 850/436

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.0	14.9	47.7
Relative (%)	7.5	5.8	29.8

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	73.04	73.04
FIs & Local MFs	14.49	14.75
FPIs	5.61	5.45
Public & Others	6.86	6.76
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Nuvoco Vistas Corporation

Sales tank but margin rebounds to 10-quarter high

We reiterate a BUY rating for Nuvoco Vistas, maintaining an unchanged TP of INR 515/share (based on 10x its consolidated Mar-26E EBITDA). In Q3FY24, Nuvoco's volume decline accelerated to 10% YoY due to weak demand and market share loss in the east. Despite this, healthy pricing gains, increasing share of low-cost linkage coal, and other cost controls contributed to a 10-quarter high unit EBITDA of INR 991/MT. Although consolidated revenue fell 7% YoY, the EBITDA rebounded 53% YoY, leading to an APAT of INR 310mn (vs a net loss YoY). Nuvoco's net debt to EBITDA ratio further improved to 3x vs 3.5x QoQ.

- Q3FY24 performance:** Cement sales volume fell 10/10% YoY/QoQ to 4.02mn MT on weak demand and market share loss in the eastern region. The share of trade sales stood at 73% vs 74/71% QoQ/YoY. Premium cement sales share remained steady at ~36% (>50% in the eastern region). Amid heightened competition, Nuvoco focused on better realisation. This along with healthy pricing across markets boosted NSR by 4/3% QoQ/YoY. Cement opex cooled off 2% QoQ on a reduction in slag prices, fuel consumption costs and other expense. Nuvoco's slag procurement cost is ~33% lower than the market rate (it also reduced QoQ). As linkage coal share increased to 28% vs 25/13% QoQ/YoY, its fuel cost fell to INR 1.67/mnCal vs INR 1.74/2.74 QoQ/YoY. Nuvoco also reduced its other expenses through various ongoing cost-reduction programs. Thus, unit EBITDA recovered INR 280/MT QoQ to 991/MT (10-quarter high).
- Capex, debt, and outlook:** Recently, 1.2mn MT Haryana SGU started commercial production, increasing cement capacity to 25mn MT. In Q2, it had completed the clinker debottlenecking at Nimbol (6k TPD) and Risda (12k TPD). The railway sidings work at Sonadih and Odisha are in progress (earlier guidance-Q4FY24). Nuvoco spent INR 4.57bn in capex towards these and will spend another INR 1.5bn in Q4. Reported net debt fell 4% QoQ to INR 45.3bn. Net debt to EBITDA improved to 3x vs 3.45x QoQ and 4.1x YoY. The company said it will focus on volume growth once demand improves in the east. We expect Nuvoco to deliver a 3.5% volume CAGR during FY23-26E (impacted by increasing competition in the east). However, effective cost controls and a high share of low-cost linkage coal may boost EBITDA at a 21% CAGR, in our view.

Quarterly/annual financial summary

YE Mar (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Sales Vol (mn MT)	4.02	4.47	(10.0)	4.46	(9.8)	17.84	18.80	18.52	19.63	20.81
NSR (INR/MT)	5,428	5,291	2.6	5,226	3.9	4,794	5,124	5,273	5,299	5,325
Opex (INR/MT)	4,437	4,724	(6.1)	4,513	(1.7)	3,962	4,511	4,398	4,355	4,350
EBITDA(INR/MT)	991	567	74.9	712	39.2	832	613	875	944	976
Net Sales	24.21	26.05	(7.0)	25.73	(5.9)	93.18	105.86	108.12	116.59	125.90
EBITDA	4.10	2.68	53.0	3.30	24.4	15.02	12.10	16.83	19.40	21.35
APAT	0.31	(0.75)		0.02	1,928.1	0.32	(1.8)	1.8	4.7	6.4
AEPS (INR)	0.87	(2.11)		0.04	1,928.1	0.9	(5.0)	5.1	13.1	18.0
EV/EBITDA (x)						11.8	14.0	9.9	8.1	7.3
EV/MT (INR bn)						7.41	7.09	6.66	6.30	6.23
P/E (x)						392.9	NM	69.6	26.9	19.6
RoE (%)						0.4	(2.0)	2.0	5.1	6.6

Source: Company, HSIE Research

BUY

CMP (as on 30 Jan 24)	INR 355
Target Price	INR 515
NIFTY	21,522

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 515	INR 515
EBITDA revision %	FY24E 2.8	FY25E 0.4

KEY STOCK DATA

Bloomberg code	NUVOCO IN
No. of Shares (mn)	357
MCap (INR bn) / (\$ mn)	127/1,551
6m avg traded value (INR mn)	141
52 Week high / low	INR 399/288

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.1	(3.4)	(0.9)
Relative (%)	(7.9)	(10.9)	(20.5)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	71.79	71.79
FIs & Local MFs	19.95	19.97
FPIs	3.15	3.05
Public & Others	5.11	5.19
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Birla Corporation

Volume momentum continues; margin trends up

We maintain BUY on Birla Corporation (BCORP), with a higher target price of INR 1,770/share (8.5x Mar-26E consolidated EBITDA). Cement sales volume grew 13% YoY (+1% QoQ) in Q3. Cement NSR rose 2% QoQ. Cement opex cooled off 3% QoQ owing to reduction in input/freight costs. Thus, unitary EBITDA rebounded to a 10-quarter high of INR 899/MT (+INR 220/MT QoQ). The greenfield SGU of 1.4mn MT in Prayagraj, UP, is expected to be commissioned by FY25 end. Maihar line-2 clinker expansion is expected to be commissioned by FY27. We expect a recovery in margins on Mukutban's ramp-up and its incentive accrual from Q4FY24 onwards, and other ongoing cost rationalisation initiatives, which will be partially set off by the expiry of Kundanganj incentives from FY24-end. We continue to like BCORP for its large retail presence in the lucrative north/central regions.

- Q3FY24 performance:** BCORP's EBITDA came in 12/10% ahead of our/consensus estimates. Cement sales volume grew 13% YoY (+1% QoQ) to 4.2mn MT. Share of blended cement production/trade sales continues to slide, down to a multi-quarter low of 83/69% in Q3. Cement NSR rose 2/2% QoQ/YoY (INR 100/MT). Cement opex cooled off 3% QoQ (INR 130/MT). Input cost reduced by INR 140/MT, owing to fuel mix optimisation (lower usage of high-cost imported fuel) and cool-off in fuel prices. Thus, fuel cost fell 10% QoQ to INR 1.58/mnCal (among the lowest in the industry). Unitary EBITDA rose to a 10-quarter high of INR 899/MT (+INR 220/MT QoQ).
- Con call KTAs and outlook:** Management expects 13% volume growth in FY24. Mukutban plant utilization is expected to increase to 60% in Q4FY24. BCORP maintained its earlier guidance of INR 850/MT EBITDA for FY24. Fuel costs are expected to remain stable QoQ in Q4. The Kundanganj SGU's incentive will expire by Mar 2024 (~INR 80/MT at the consolidated level). Mukutban's incentive will start accruing from Q4FY24 onwards. It expects that a capex of less than INR 7bn will be incurred in FY24. The greenfield SGU of 1.4mn MT in Prayagraj, UP, is expected to be commissioned by FY25-end. Maihar line-2 clinker expansion work will start next year (3mn MT capacity) and it is expected to be commissioned by FY27. This line will cater to SGUs in Bihar and UP and possibly one in the west, totalling ~5mn MT capacity. The company is also working to scale up the usage of alternative fuel, captive coal, and green power, which will further aid margin recovery. Factoring in the strong Q3 margin, we upgrade our FY24/25/26 EBITDA estimates by 15/9/5%.

Quarterly/annual financial summary (consolidated)

YE Mar (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Sales Vol (mn MT)	4.21	3.72	13.2	4.18	0.7	14.22	15.73	17.46	18.51	19.43
NSR (INR/MT)	5,302	5,177	2.4	5,211	1.7	4,955	5,237	5,289	5,369	5,422
EBITDA(INR/MT)	899	365	146.1	678	32.6	746	462	822	890	944
Net Sales	23.12	20.16	14.7	22.86	1.1	74.61	86.82	97.33	104.59	110.86
EBITDA	3.79	1.44	162.1	2.89	31.0	11.10	7.72	14.83	16.99	18.89
APAT	1.09	-0.50		0.58	87.0	4.30	0.34	4.51	6.68	8.09
AEPS (INR)	14.2	-6.5		7.6	86.2	55.8	4.4	58.6	86.7	105.0
EV/EBITDA (x)						12.7	20.0	10.2	8.7	7.5
EV/MT (INR bn)						8.74	7.53	7.37	6.79	6.51
P/E (x)						27.5	349.4	26.2	17.7	14.6
RoE (%)						8.0	0.6	7.3	10.0	11.1

Source: Company, HSIE Research

BUY

CMP (as on 07 Feb 2024) INR 1,529

Target Price INR 1,770

NIFTY 21,931

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,620	INR 1,770
EBITDA revision %	FY24E 14.7	FY25E 9.3

KEY STOCK DATA

Bloomberg code	BCORP IN
No. of Shares (mn)	77
MCap (INR bn) / (\$ mn)	118/1,439
6m avg traded value (INR mn)	188
52 Week high / low	INR 1,631/843

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.7	25.5	69.4
Relative (%)	7.6	16.1	49.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	62.90	62.90
FIs & Local MFs	16.02	16.19
FPIs	6.57	6.44
Public & Others	14.51	14.47
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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JK Lakshmi Cement

Healthy volume and margin; large expansions underway

We maintain our BUY rating on JK Lakshmi (JKLC) with a higher target price of INR 1,015/share (9x Mar-26E consolidated EBITDA). JKLC delivered healthy 8% YoY volume growth in Q3FY24. Its EBITDA margin expanded from INR 226/MT QoQ to INR 1021/MT (11-quarter high). This was driven by lower fuel costs, increasing green power consumption and lower lead distance QoQ. JKLC will commission the 2.5mn MT grinding capacity at Udaipur in Q4FY24. Over the next three years, JKLC will add 3.3/7.5mn MT clinker/cement capacity (spread across east, northeast, UP and Gujarat) costing INR 40bn.

- Q3FY24 performance:** Consolidated volume grew 8/8% YoY/QoQ. NSR was flattish QoQ. The share of trade sales declined 400bps QoQ to 58% (up 400bps YoY). Opex declined 5% QoQ on lower input costs QoQ. Its fuel cost cooled off 13% QoQ to INR 1.78/mn cal and the share of low-cost green power expanded 900bps QoQ to 44%, owing to sourcing of solar power at Durg. Even lead distance reduced by 3% QoQ. The ramp-up of the Udaipur clinker plant negated op-lev gains. Thus, unit EBITDA rose INR 225/MT QoQ to INR 1,021/MT (up INR 347/MT YoY), the highest in the last eleven quarters.
- Con call KTAs and outlook:** JKLC expects 8-10% volume growth in Q4FY24 and low double-digit volume growth in FY25. It expects fuel cost to further cool off by 4% QoQ in Q4 to ~INR 1.7/mn cal. The 2.5mn MT Udaipur grinding expansion is expected to be commissioned by March 2024. JKLC added 9MW WHRS at Udaipur in Q3 and will add 3.5MW WHRS at Sirohi in Q4FY24. It is also working to expand TSR at Sirohi from 4% currently to 16% in a phased manner by FY25 (Jan-24 was 11%). Its Surat GU expansion by 1.35mn MT is expected in FY26. JKLC announced a 2.3mn MT clinker expansion in Durg and 4.6mn MT cement capacity across east and UP to be commissioned during FY26-27. It also acquired limestone mines in the northeast region, which will be used to set up a greenfield plant (1.5mn MT) there. Project timelines are awaited. While we maintain our EBITDA estimates, we raise our capex estimates during FY24-26E to factor in new expansions. We expect its net debt/EBITDA to remain under 2x, despite speeding up capex. Factoring in the strong Q3 performance, timely execution of Udaipur expansion, and the fact that the newly announced expansions in the east won't stretch the balance sheet, we upgrade the target multiple to 9x Mar-26E EV/EBITDA (from 8x).

Quarterly/annual financial summary (consolidated)

YE Mar (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Sales (mn MT)	2.96	2.75	7.6	2.73	8.3	11.20	11.49	12.29	13.52	14.60
NSR (INR/MT)	5,753	5,677	1.3	5,762	(0.2)	4,840	5,617	5,729	5,815	5,902
EBITDA (INR/MT)	1,021	673	51.6	795	28.4	849	730	885	977	1,036
Net Sales	17.03	15.62	9.0	15.75	8.1	54.20	64.52	70.41	78.61	86.18
EBITDA	3.02	1.85	63.1	2.17	39.1	9.51	8.39	10.87	13.21	15.13
APAT	1.26	0.76	64.8	0.93	35.8	4.91	3.59	4.87	5.74	6.79
AEPS (INR)	11.5	6.5	76.4	7.9	45.4	41.7	30.5	41.4	48.8	57.7
EV/EBITDA (x)						11.5	13.1	10.9	9.1	8.0
EV/MT (INR bn)						7.89	7.92	7.23	7.33	6.85
P/E (x)						21.2	29.0	21.3	18.1	15.3
RoE (%)						21.1	13.3	15.9	16.2	16.5

Source: Company, HSIE Research

BUY

CMP (as on 13 Feb 2024) INR 886

Target Price INR 1,015

NIFTY 21,743

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 995	INR 1,015
EBITDA revision %	FY24E 0.4	FY25E 0.8

KEY STOCK DATA

Bloomberg code	JKLC IN
No. of Shares (mn)	118
MCap (INR bn) / (\$ mn)	104/1,275
6m avg traded value (INR mn)	290
52 Week high / low	INR 1,000/607

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.1	37.7	17.7
Relative (%)	2.9	28.1	(0.7)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	46.31	46.31
FIs & Local MFs	27.63	27.57
FPIs	10.53	10.83
Public & Others	15.53	15.29

Pledged Shares - -

Source : BSE

Pledged shares as % of total shares

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Star Cement

Shining bright; the best is yet to come

We maintain BUY on Star Cement with a higher TP of INR 245/share (10x its Mar-26E consolidated EBITDA). Star reported yet another stellar quarter. Consolidated volume/revenue/EBITDA/APAT rose 7/5/37/39% YoY in Q3FY24. Healthy pricing gains, lower fuel costs, and other cost controls drove up unit EBITDA to INR 1,534/MT (+INR 434/MT QoQ)—a 20-quarter high. Thus, Star also maintained a top-margin position. The best is yet to come. Star will be commissioning 3/2mnMT clinker/grinding capacities in the northeast region (NER) in Mar-24 and 2mn MT SGU in Assam by FY26E. Equipped with large incentives, Star is set to deliver both higher margin (industry best) and 20% volume CAGR during FY24-26E, accelerating its market share gain in NER. Star is also gearing up its green power consumption, which will further bolster the margin outlook.

- Q3FY24 performance:** Star Cements reported a 10/10% EBITDA beat vs ours/consensus estimates. Consolidated revenue/EBITDA/APAT rose 5/37/39% YoY. Volume rose 7/8% YoY/QoQ. NSR increased by 3% QoQ (~INR 185/MT QoQ). However, it remained down 2% YoY. Opex fell 5% QoQ (~INR 250/MT). This is driven by lower maintenance expenses (as seen in Q2), reduction in fuel consumption cost, clinker movement freight cost rationalisation and op-lev gains. Benefits were moderated on the resumption of the busy season surcharge in Q3. Unit EBITDA thus surged INR 434/MT QoQ to INR 1,534/MT, which remains the industry's best. This is also Star's best margin performance in the past 20 quarters.
- Con call KTAs and outlook:** It expects to deliver 8-10% volume growth in Q4FY24 and ~20% in FY25. The greenfield 2mn MT SGU in Guwahati and the brownfield 3mn MT clinker expansion in Meghalaya will become operational by Mar 2024. The 2mn MT Silchar SGU is expected by Q2FY26. Star is looking out for limestone mines in Rajasthan and the south for the next phase of greenfield expansion. It is targeting to become a 20mn MT company by FY30. Incentive accrual will accelerate from FY25 onwards as all three upcoming plants have incentives attached. Incentives contribution will shoot up to > INR 300/MT FY25 onwards vs INR 55/MT in FY24. This gives the company a strong competitive advantage to marginally pass on the benefits and gain more market share in its core market. Additionally, its margin will also benefit from the rising share of green power consumption. Factoring in strong Q3 performance, we upgraded our FY24/25/26 EBITDA estimates by 4/7/3%. We also raised our target multiple to 10x (vs 9x FY26E EBITDA earlier).

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Sales Vol (mn MT)	0.97	0.91	6.8	0.90	8.3	3.4	4.01	4.42	5.30	6.36
NSR (INR/MT)	6,716	6,823	(1.6)	6,532	2.8	6,527	6,739	6,604	6,670	6,470
EBITDA (INR/MT)	1,534	1,194	28.5	1,100	39.5	1,014	1,167	1,306	1,588	1,575
Net Sales	6,514	6,195	5.1	5,853	11.3	22,218	27,048	29,158	35,340	41,136
EBITDA	1,488	1,084	37.2	986	51.0	3,453	4,684	5,767	8,413	10,012
APAT	736	529	39.1	407	80.9	2,468	2,476	3,051	3,986	4,850
AEPS (INR)	1.7	1.3	33.5	1.0	80.4	6.1	6.1	7.5	9.9	12.0
EV/EBITDA (x)						20.5	15.2	14.1	9.6	8.1
EV/MT (INR bn)						12.5	12.5	10.5	10.4	8.3
P/E (x)						32.1	32.0	26.0	19.9	16.3
RoE (%)						11.6	10.8	11.9	13.9	15.0

Source: Company, HSIE Research

BUY

CMP (as on 08 Feb 2024) INR 196

Target Price INR 245

NIFTY 21,718

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 210	INR 245
EBITDA revision %	FY24E 4.3	FY25E 7.4

KEY STOCK DATA

Bloomberg code	STRCEM IN
No. of Shares (mn)	404
MCap (INR bn) / (\$ mn)	79/969
6m avg traded value (INR mn)	138
52 Week high / low	INR 198/103

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.4	20.0	71.9
Relative (%)	9.4	11.6	54.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	66.55	66.48
FIs & Local MFs	6.08	6.06
FPIs	0.77	1.05
Public & Others	26.59	26.41
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Prince Pipes and Fittings

Weak performance continues

We maintain our ADD rating on Prince Pipes, with a lower target price of INR 675/sh (30x its Mar-26E EPS). In Q3FY24, Prince reported sub-par volume, down 2% YoY, and continued to lose market share while its peers delivered double-digit volume growth. Adjusted for inventory losses, unitary EBITDA fell to INR 20/kg in Q3 vs INR 22/21 per kg YoY/QoQ. Management is hopeful of arresting its market share loss from Q1FY25 onwards, on the back of various corrective actions it has taken so far. Prince is setting up a greenfield pipe plant in Bihar (~50K MT expected in Q4FY25, Capex INR 2.2bn), which will expand its plumbing capacity by 15%. In bathware, it is ramping up its sales and distribution network and expects EBITDA to break even in the next two years.

- Q3FY24 performance:** Prince reported weak offtake (lost market share), and volume declined 2% YoY (+3% QoQ). Realisation fell 8/10% QoQ/YoY to INR 145/kg owing to falling resin prices across both CPVC and PVC. Unitary opex declined 6/13% QoQ/YoY to INR 127/kg. Inventory losses and bathware expenses moderated the opex decline, impacting the margin. Unitary EBITDA contracted INR 5/kg QoQ to INR 18/kg. In Q3, inventory loss was INR 100mn (1.6% of sales). If we adjust for inventory loss for all periods, unitary EBITDA/kg declined to INR 20 per kg in Q3 vs INR 22/21 per kg YoY/QoQ. In Q3, Prince bathware revenue was INR 60mn.
- Con call KTAs and outlook:** Management mentioned it has rolled back prices in a few categories to align it with market trend, in a bid to arrest market share loss. It has also expanded HDPE pipe capacity to speed up volume growth. It expects a 12-14% EBITDA margin in the long term. Prince is setting up an integrated greenfield pipes plant in Bihar (~50K MT capacity, CoD in Q4FY25, capex INR 2.2bn), which will increase its total capacity by 15%. The project size is increased by INR 0.7bn as this facility will also manufacture fittings under the revised plan. The company had forayed into bathware in June 2023 and is ramping up distribution currently. It aims to break even at EBITDA level in the next two years. Factoring weak performance in Q3 and another quarter of losing market share, we cut our APAT estimates by 15/13/14% for FY24/25/26E. We lower our TP to INR 675/sh (30x Mar-26E EPS) and maintain the ADD rating.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Pipes sales (K MT)	42.7	43.7	-2.4	41.5	2.7	139.0	157.7	170.3	190.8	209.9
NSR (INR/kg)	145	162	-10.3	158	-8.3	191	172	149	155	158
EBITDA (INR/kg)	18	16	11.5	23	-21.8	30	16	18	20	21
Net Sales	6,186	7,059	-12.4	6,564	-5.8	26,568	27,109	25,325	29,499	33,162
EBITDA	757	695	8.9	942	-19.7	4,157	2,503	3,087	3,904	4,443
EBITDAM (%)	12.2	9.8		14.3		15.6	9.2	12.2	13.2	13.4
APAT	376	354	6.3	527	-28.6	2,495	1,214	1,664	2,217	2,495
Diluted EPS (INR)	3.4	3.2	6.9	4.8	-28.6	22.6	11.0	15.0	20.1	22.6
EV / EBITDA (x)						18.1	29.2	23.2	18.6	16.1
P/E (x)						29.9	61.5	44.9	33.7	29.9
RoE (%)						21.6	9.2	11.5	13.6	13.6

Source: Company, HSIE Research

ADD

CMP (as on 06 Feb 2024)	INR 675
Target Price	INR 675
NIFTY	21,929

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 790	INR 675
EPS revision %	FY24E (13.4)	FY25E (14.4)

KEY STOCK DATA

Bloomberg code	PRINCPIN
No. of Shares (mn)	111
MCap (INR bn) / (\$ mn)	75/911
6m avg traded value (INR mn)	251
52 Week high / low	INR 776/532

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	8.9	1.8	10.3
Relative (%)	(2.2)	(8.0)	(9.0)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	60.94	60.94
FIs & Local MFs	18.56	18.40
FPIs	5.01	5.74
Public & Others	15.49	14.92

Pledged Shares - -

Source : BSE

Pledged shares as % of total shares

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Greenlam Industries

Weak demand hampers performance

We maintain ADD on Greenlam Industries, with a lower target price of INR 575/share (33x its Mar'26E consolidated APAT). In Q3FY24, its revenue/EBITDA grew 12/30% YoY owing to better volume and improvement in gross margin. APAT declined 12% YoY owing to higher capital charges, lower other income and higher tax rates. It expects 15/20% revenue growth in FY24/25. The greenfield particle board plant (231K CBM) is delayed by two quarters to Q2FY25. We estimate the AP laminate expansions at Q2FY24-end and entry in new segments will drive a healthy 20% revenue CAGR during FY23-26E (laminates 14% CAGR). A huge capex should keep net debt to EBITDA elevated at more than 2x during FY24/25E.

- Q3FY24 performance:** Consolidated revenue/EBITDA grew 12/30% YoY owing to better volume and improvement in gross margin to an all-time high (cool off in raw material prices). Revenue also grew owing to the foray in ply segment (3% of revenue). INR 200mn export sales (4% of revenue) were pushed to Q4FY24 owing to higher stock at the port at Q3 end (Red Sea freight issue). Laminates volume grew 9% YoY (-6% QoQ) owing to growth in both domestic/export volume of 11/6% YoY. Laminates NSR has been flat YoY/QoQ. Its laminate OPM expanded by 340bps YoY to 15.8%. Veneer segment performance has improved. The engineered wooden flooring business has turned EBITDA positive. The plywood segment just operated at ~15% utilisation in Q3 in the second full quarter of operation. Plywood EBITDA loss declined to 83mn in Q3 vs INR 101mn QoQ. APAT declined 12% YoY owing to higher capital charges, lower other income and higher tax rates.
- Project update and outlook:** It expects 15/20% revenue growth in FY24/25. The greenfield particle board plant (231K CBM) is delayed by two quarters to Q2FY25 (capex INR 7.75bn). We estimate the AP laminate expansions at Q2FY24-end and entry in new segments will drive a healthy 20% revenue CAGR during FY23-26E (laminates segment 14% CAGR). However, huge capex should keep net debt to EBITDA elevated at more than 2x during FY24/25E. Owing to weak Q3, slow ramp-up of ply and deferment of particle board expansion, we cut our FY24/25/26E APAT estimates by 16/9/5%. We like Greenlam for its leadership position in laminates. However, we are cautious regarding ramping up plants in new ply and particle board segments. We maintain ADD with a lower TP of INR 575/sh.

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Sales (mn sheet)	4.65	4.26	9.2	4.93	(5.6)	16.5	17.1	19.0	21.3	23.9
NSR (per sheet)	1,075	1,078	(0.3)	1,079	(0.3)	942	1,081	1,087	1,108	1,129
Laminates EBITDAM (%)	15.8	12.4		16.4		12.7	13.1	15.6	16.2	16.7
Net Sales	5,634	5,035	11.9	6,036	(6.7)	17,034	20,260	23,144	28,558	34,843
EBITDA	711	548	29.9	756	(5.9)	1,870	2,329	2,979	3,781	4,941
EBITDAM (%)	12.6	10.9		12.5		11.0	11.5	12.9	13.2	14.2
APAT	253	287	(11.5)	390	(35.2)	933	1,284	1,364	1,623	2,204
AEPS (INR)	2.0	2.2	(11.5)	3.1	(35.2)	7.7	10.1	10.7	12.8	17.4
EV/EBITDA (x)						36.0	28.7	23.7	20.0	15.0
P/E (x)						69.8	50.7	47.8	40.1	29.6
RoE (%)						15.2	15.8	13.2	13.9	16.5

Source: Company, HSIE Research

ADD

CMP (as on 05 Feb 2024)	INR 518
Target Price	INR 575
NIFTY	21,772

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 605	INR 575
EPS revision %	FY24E (16.2)	FY25E (8.9)

KEY STOCK DATA

Bloomberg code	GRLM IN
No. of Shares (mn)	128
MCap (INR bn) / (\$ mn)	66/807
6m avg traded value (INR mn)	57
52 Week high / low	INR 626/282

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(6.5)	15.5	68.2
Relative (%)	(17.9)	6.3	50.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	51.22	50.98
FIs & Local MFs	15.58	15.54
FPIs	1.37	1.28
Public & Others	31.82	32.20
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Orient Cement

Volume declines; margin rebounds

We maintain our REDUCE rating on Orient Cement with a revised TP of INR 205/share (7.5x Mar-26E EBITDA). In Q3FY24, cement volume declined 3% YoY owing to weak demand (especially B2C). NSR rebounded 7% QoQ (+5% YoY). Unit opex rose 3% QoQ on higher unit fixed and freight costs. This moderated the margin recovery. Thus, unitary EBITDA increased INR 220/MT QoQ to INR 628/MT (up INR 200/MT YoY). Management expects 5% YoY volume growth in Q4 to 1.8mn MT (Jan sales were weak). Management aims to commission the planned brownfield 2/3mn MT clinker/cement Chittapur expansion (for a capex of INR 15bn) by the end of FY26.

- Q3FY24:** Orient missed ours/consensus EBITDA estimates by 8/10% respectively owing to weak volumes. The company noted that state elections led to subdued sales, resulting in a 2/3% QoQ/YoY volume fall. Orient's trade sales were weak both in Telangana (down 29% YoY) and Maharashtra. Utilisation stood at 66% vs 67/67% QoQ/YoY. While volumes were weak, NSR rebounded 7% QoQ (+5% YoY). In Q3, for the first five weeks, prices were higher; however, they corrected later. Sep-23 and Dec-23 exit prices are similar. Unit opex rose 3% QoQ on higher unit fixed and freight costs. Fixed cost rose INR 55/MT (op-lev loss) and freight cost rose ~INR 55/MT QoQ. This moderated the margin recovery. Unitary EBITDA increased INR 220/MT QoQ to INR 628/MT (up INR 200/MT YoY).
- Con-call KTAs and outlook:** Management expects 5% YoY volume growth in Q4 to 1.8mn MT (Jan sales were weak). In Jan, realisation is stable. For Orient's 10MW WHRS, the maximum benefit was visible in Q3FY24 (~80% benefit) and the entire benefit will accrue in Q1FY25 (~INR 70/MT saving). It is also adding solar power. The rising share of renewable power should drive margins. Management aims to commission 2/3mn MT clinker/cement Chittapur expansion costing INR 16bn by FY26 (delayed owing to environment clearance). Additionally, a 2mn MT SGU in MP (for INR 5bn capex) and a brownfield clinker expansion at Devapur are in the pipeline. As expansion plans have been delayed due to pending government clearances, we have cut the capex estimates for FY25/26E. Factoring in the weak Q3FY24 results, we cut FY24/25/26E EBITDA estimates by 9/9/10%. However, our TP is revised upwards to INR 205/sh, as the capex has been deferred.

Quarterly/annual financial summary

YE Mar (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Sales Vol (mn MT)	1.39	1.43	(2.7)	1.43	(2.3)	5.48	5.76	6.05	6.41	6.80
NSR (INR/MT)	5,397	5,121	5.4	5,057	6.7	4,973	5,100	5,151	5,202	5,306
Opex (INR/MT)	4,568	4,489	1.8	4,449	2.7	3,895	4,467	4,416	4,400	4,459
EBITDA (INR/MT)	828	632	31.1	607	36.4	1,079	633	735	803	848
Net Sales	7.51	7.32	2.6	7.21	4.3	27.25	29.38	31.15	33.35	36.06
EBITDA	1.15	0.90	27.6	0.87	33.2	5.91	3.65	4.45	5.15	5.76
APAT	0.45	0.28	63.1	0.25	82.3	2.63	1.23	1.74	2.25	2.68
AEPS (INR)	2.2	1.3	63.1	1.2	82.3	12.8	6.0	8.5	11.0	13.1
EV/EBITDA (x)						10.0	16.3	12.8	11.1	10.1
EV/MT (INR bn)						7.0	7.0	6.7	6.7	6.9
P/E (x)						21.6	46.2	32.7	25.3	21.2
RoE (%)						18.6	7.8	10.4	12.3	13.2

Source: Company, HSIE Research

REDUCE

CMP (as on 06 Feb 2024)	INR 277
Target Price	INR 205
NIFTY	21,929

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 180	INR 205
EBITDA revision %	FY24E (9.4)	FY25E (8.5)

KEY STOCK DATA

Bloomberg code	ORCMNT IN
No. of Shares (mn)	205
MCap (INR bn) / (\$ mn)	57/695
6m avg traded value (INR mn)	381
52 Week high / low	INR 294/105

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	33.4	76.5	129.3
Relative (%)	22.3	66.7	110.0

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	37.90	37.90
FIs & Local MFs	12.89	13.15
FPIs	6.30	6.71
Public & Others	42.90	42.25

Pledged Shares	-	-
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Source : BSE

Pledged shares as % of total shares

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Heidelberg Cement

Healthy volume but margin collapses

We maintain our REDUCE rating on Heidelberg Cement (HEIM), with an unchanged target price of INR 160/share (7x Mar-26E EBITDA). During Q3FY24, HEIM continued to deliver healthy volume growth for the third consecutive quarter, after a declining trend in the preceding six quarters. However, the gains were offset by a weak operating margin (the only company to report a QoQ decline). On a 5-year basis, its Q3 volume/EBITDA contracted at 1/11% CAGR. In the absence of any major expansion, we estimate its volume rebound in FY25 will be shortlived and market share loss will resume from FY25 onwards.

- Q3FY24 performance:** Volume grew 10% YoY (+4% QoQ) owing to strong demand and a low base. Despite this, on a 5-year basis, volume contracted at 1% CAGR! Utilisation stood at 77% vs 74/70% QoQ/YoY. NSR recovered 3% QoQ as prices improved in the quarter. On a YoY basis, NSR rose 2%. Surprisingly, its unit opex increased by 5% QoQ due to overall cost inflation—no specific details are provided for this surge, and it deviates from the industry trend. Consequently, unit EBITDA contracted INR 56/MT QoQ to INR 542/MT (arguably, the only company to deliver a sequential margin compression in Q3FY24). On a very low base of last year, unit EBITDA recovered INR 203/MT. Thus, on a low base, revenue/EBITDA rose 12/77% YoY. On a 5-year basis, EBITDA still declined at 11% CAGR!
- Outlook:** Heidelberg is yet to make any progress on its planned greenfield expansion in Gujarat. Even in the near term, there is hardly any expansion in place which should support volume growth from FY25 onwards. While in FY24, Heidelberg's volume has rebounded (and arrested the market share loss), we believe this is shortlived and market share loss may resume from FY25 onwards. We lower our EBITDA estimates for FY24/25/26E by 12/9/7%, factoring in poor margin performance. However, our TP remains unchanged, as we defer capex estimates for the greenfield expansion.

Quarterly/annual financial summary

YE Mar (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Sales (mn MT)	1.21	1.10	10.3	1.16	3.9	4.78	4.39	4.94	5.14	5.35
NSR (INR/MT)	5,026	4,933	1.9	4,871	3.2	4,808	5,095	4,942	4,991	5,041
Opex (INR/MT)	4,484	4,594	(2.4)	4,273	4.9	3,899	4,528	4,255	4,214	4,224
EBITDA(INR/MT)	542	339	60.0	598	(9.3)	910	566	687	777	817
Net Sales	6.07	5.40	12.4	5.66	7.2	22.97	22.38	24.42	25.65	26.95
EBITDA	0.65	0.37	76.5	0.69	(5.8)	4.35	2.49	3.40	3.99	4.37
APAT	0.31	0.06	464.0	0.36	(12.1)	2.52	0.99	1.91	2.37	2.79
AEPS (INR)	1.4	0.2	464.0	1.6	(12.1)	11.1	4.4	8.4	10.5	12.3
EV/EBITDA (x)						11.2	19.0	13.6	11.2	10.1
EV/MT (INR bn)						7.78	7.57	7.36	6.91	6.83
P/E (x)						19.9	50.7	26.4	21.2	18.0
RoE (%)						16.5	6.6	12.8	15.3	16.8

Source: Company, HSIE Research

REDUCE

CMP (as on 02 Feb 2024) INR 223

Target Price INR 160

NIFTY 21,854

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 160	INR 160
EBITDA revision %	FY24E (11.2)	FY25E (8.8)

KEY STOCK DATA

Bloomberg code	HEIM IN
No. of Shares (mn)	227
MCap (INR bn) / (\$ mn)	50/617
6m avg traded value (INR mn)	117
52 Week high / low	INR 247/153

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.7	22.7	32.6
Relative (%)	7.2	13.1	12.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	69.39	69.39
FIs & Local MFs	9.90	10.94
FPIs	3.91	4.33
Public & Others	16.79	15.34
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Greenpanel Industries

Weak performance; bright mid-term outlook

We maintain our BUY rating on Greenpanel with a lower target price of INR 445/share (20x its Mar'26E APAT). We like Greenpanel for its leadership positioning in the high-growth MDF segment, its large retail presence (85% in FY23), healthy margin, and working capital profile. In Q3FY24, Greenpanel's revenue/EBITDA/APAT fell 8/35/8% YoY. The continued surge in imports, ramp-up of domestic capacity additions, and soaring timber prices flattened its sales volume YoY and compressed gross margin. Greenpanel expects MDF import to reduce FY25 onwards post BIS implementation. Its MDF capacity expansion by 35% (231K CBM) is likely to be commissioned by Q3FY25 end.

- Q3FY24 performance:** Greenpanel's revenue/EBITDA/APAT missed our estimates by 4/11/4% (a sharp miss of 7/25/25% compared to the consensus estimate). MDF sales volume remained flat YoY (domestic/export +4/-15% YoY). On a QoQ basis, it grew 2%, led by 9% growth in domestic sales, while exports slumped 21%. Domestic MDF NSR declined 4% QoQ, owing to a change in sales mix (higher sales to OEM). Export NSR grew 2/6% YoY/QoQ. Timber prices too rose by 2/4% QoQ in the north/south, partially offset by lower resin prices. MDF margin fell 160bps QoQ to 19.6% owing to higher ad spends. Ply revenue declined sharply 33/15% YoY/QoQ, owing to weak volume and lower NSR. OPM turned negative -4% in Q3 vs 7/6% YoY/ QoQ.
- Outlook:** It expects flattish domestic MDF volume in FY24 (implying 9% volume growth in Q4). It targets 15% domestic as well as export volume growth in FY25. Management expects some pricing pressure for MDF in the domestic market (higher incentive to dealers to gain market share). It expects timber prices to cool off from FY26. It expects domestic MDF sales to benefit as BIS implementation will reduce import influx in India. It expects the ply segment to recover from FY25 onwards and sales volume to rebound to FY23 levels. Greenpanel's MDF capacity expansion in AP (by 231K CBM, INR 6bn capex, revenue potential INR 7.7bn) is expected to be operational by Q3FY25 end. The company is expanding the share of value-added products (VAP), retail sales and marketing spending to counter the medium-term competition impact on supply influx. Factoring weak performance in Q3FY24, we lower our FY24/25/26E EPS estimates by 7/10/7% respectively.

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
MDF Sales (K CBM)	118.30	118.22	0.1	115.80	2.2	495.0	506.7	480.8	552.9	657.5
MDF NSR (INR/CBM)	29,300	30,585	(4.2)	29,376	(0.3)	26,850	30,283	29,168	29,115	29,787
MDF EBITDA (INR/CBM)	5,743	7,830	(26.7)	5,993	(4.2)	8,319	8,411	5,764	6,179	6,851
Net Sales	3,857	4,202	(8.2)	3,862	(0.1)	16,250	17,829	15,757	18,149	21,889
EBITDA	603	920	(34.5)	658	(8.4)	4,304	4,165	2,677	3,420	4,682
EBITDAM (%)	15.6	21.9		17.0		26.5	23.4	17.0	18.8	21.4
APAT	346	375	(7.8)	373	(7.1)	2,405	2,504	1,549	1,971	2,739
AEPS (INR)	2.8	3.1	(7.8)	3.0	(7.1)	19.6	20.4	12.6	16.1	22.3
EV/EBITDA (x)						11.3	11.1	17.5	14.1	10.1
P/E (x)						19.8	19.0	30.7	24.1	17.4
RoE (%)						28.6	23.3	12.3	13.9	16.9

Source: Company, HSIE Research

BUY

CMP (as on 1 Feb 2024)	INR 388
Target Price	INR 445
NIFTY	21,697

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 480	INR 445
EPS	FY24E	FY25E
revision %	(7.4)	(10.0)

KEY STOCK DATA

Bloomberg code	GREENP IN
No. of Shares (mn)	123
MCap (INR bn) / (\$ mn)	47/581
6m avg traded value (INR mn)	154
52 Week high / low	INR 450/255

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	12.2	13.4	29.3
Relative (%)	(0.5)	5.6	9.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	53.13	53.13
FIs & Local MFs	22.84	24.53
FPIs	4.41	3.22
Public & Others	19.62	19.11
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Stylam Industries

Weak volume; all-time high EBITDA margin

We maintain our BUY rating with an unchanged target price of INR 2,550/sh (22x its Mar'26E consolidated EPS). In Q3FY24, Stylam's revenue declined 8/8% QoQ/YoY owing to weak demand. EBITDAM improved 200bps QoQ to an all-time high of 22.3% on continued gross margin expansion (recovered QoQ for the seventh consecutive quarter). Thus, EBITDA/APAT rose 21/30% YoY. Stylam's ongoing laminate debottlenecking is completed, and the brownfield expansion is expected by Q3FY25. Both of these expansions will double the company's laminate revenue potential. It expects to maintain its gross and EBITDA margin. We like Stylam for its industry-leading growth and EBITDA margin, healthy balance sheet, and return ratio profile.

- Q3FY24 performance:** Stylam's revenue declined 8/8% QoQ/YoY in Q3FY24 owing to weak demand in domestic markets and lower export sales (pulled down by the Israel-Palestine conflict with a ~9% revenue impact). On a YoY basis, while domestic volume rose 1%, export volume remained 13% lower. Acrylic revenue was muted at INR 54mn in Q3 (3% of revenue). EBITDAM improved 200bps QoQ to 22.3% (up 550bps YoY) on continued gross margin expansion. Gross margin expanded 200/500bps QoQ/YoY to 49%. Stylam reported its best-ever quarterly EBITDAM during the quarter (QoQ recovery for the seventh consecutive quarter). Thus, EBITDA/ APAT rose 21/30% YoY.
- Outlook:** The company sees big growth in the US (~5% of revenue). It believes the US revenue can increase multifold and contribute 10-15% growth in revenue at a consolidated level. It expects gross and EBITDA margins to remain stable (except Q4FY24). Owing to the Red Sea crisis, ocean freight rates have increased which will be passed on with a lag effect, so Q4FY24 margin can take a hit. It is possible that within the next year, the Government might levy an anti-dumping duty for acrylic imports (an investigation on this started two weeks back). Stylam has completed laminates debottlenecking expansion in Q3FY24. It is working on laminates brownfield expansion costing INR 2-2.25bn with INR 8bn peak revenue potential. This project is expected to be commissioned by Q3FY25. Debottlenecking and brownfield expansion will double the laminate segment revenue potential. Considering the ongoing war in Israel, weak volume in the domestic market, and the expansion delays, we have cut its volume estimate by ~5% each for FY24-26. However, the higher margin lowers its impact on EBITDA/APAT. We cut our APAT estimate by 1/4% for FY24/25E and maintain the FY26 estimate. We maintain BUY with an unchanged TP of INR 2,550/sh (22x its Mar'26E consolidated EPS).

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	2,296	2,368	(3.1)	2,146	7.0	6,593	9,521	9,040	10,811	13,493
EBITDA	481	405	18.8	478	0.7	1,037	1,548	1,846	2,260	2,860
EBITDAM (%)	21.0	17.1		22.3		15.7	16.3	20.4	20.9	21.2
APAT	325	268	21.4	313	3.7	611	960	1,239	1,538	1,958
AEPS (INR)	19.2	15.8	21.4	18.5	3.7	36.1	56.6	73.1	90.8	115.5
EV/EBITDA (x)						26.7	17.6	14.3	11.9	9.0
P/E (x)						44.2	28.1	21.8	17.6	13.8
RoE (%)						21.2	26.4	26.5	26.0	26.1

Source: Company, HSIE Research

BUY

CMP (as on 05 Feb 2024) INR 1,584

Target Price INR 2,550

NIFTY 21,772

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,550	INR 2,550
EPS revision %	FY24E (0.5)	FY25E (3.5)

KEY STOCK DATA

Bloomberg code	SYIL IN
No. of Shares (mn)	17
MCap (INR bn) / (\$ mn)	27/328
6m avg traded value (INR mn)	81
52 Week high / low	INR 1,980/942

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(8.8)	(6.0)	46.6
Relative (%)	(20.3)	(15.1)	28.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	54.61	54.61
FIs & Local MFs	11.60	12.02
FPIs	4.00	3.80
Public & Others	29.80	29.56
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Sagar Cements

Sub-par volume growth; input cost inflates QoQ

We maintain our ADD stance on Sagar Cements (SGC), with an unchanged TP of INR 290/share (7.5x its Mar-26E consolidated EBITDA). We like Sagar for (1) its rising regional diversification; (2) its increased focus on green fuel and power consumption; and (3) its focus on increasing blended cement production. In Q3FY24, owing to flood and labour shortage, SGC volume grew only 14/7% YoY/QoQ (aided by the ramp-up of production by new plants). NSR growth was quite robust at 6% QoQ, owing to healthy pricing in the south. Opex increased by 3% QoQ due to a rise in input cost by INR 140/MT. Thus, unit EBITDA recovered INR 160/MT QoQ to INR 619/MT. Management expects 5.6/7mn MT volume in FY24/25. It plans to expand cement capacity by 2mn MT by FY26-end.

- Q3FY24 performance:** Sagar's volume grew 14/7% YoY/QoQ, led by the ramp-up of production of the Andhra plant. Flood in the south, state election and labour shortage moderated volume growth (vs earlier expectations). NSR growth was quite robust: +6% QoQ. Opex increased by 3% QoQ, owing to a rise in input cost by INR 140/MT. Fixed expense declined by INR 25/MT (op-lev gain) QoQ and freight was flattish QoQ. Thus, unit EBITDA recovered INR 160/MT QoQ to INR 619/MT. Standalone (including Jajpur) EBITDA improved to INR 620/MT (+INR 250/MT QoQ). The Satguru EBITDA also improved to INR 970/MT (+ INR 150/MT). Andhra volume grew 78% QoQ to 0.17mn MT with unitary EBITDA of INR 271/MT in Q3 (frequent start stops and plant stabilisation subdued margin). Net debt increased marginally QoQ by INR 0.2bn QoQ to INR 14bn.
- Con call KTAs and outlook:** Management trimmed FY24E volume guidance to 5.6mn MT (vs 6.2mn MT earlier). Cement prices have marginally corrected in Jan-24. Sagar expects an INR 150/MT QoQ cost reduction in Q4 (INR 100/50 per MT towards fuel/fixed expense). It expects to receive an INR 0.3bn incentive each year for the Jeerabad plant. So, it expects unitary EBITDA to expand INR 130/MT QoQ in Q4 to INR 750 per MT (ex-incentive benefit). It expects a 7mn MT volume in FY25 (Andhra 0.9-1mn MT). It plans to expand Andhra cement/clinker capacity by 1.18/0.65mn MT to 3/2.3mn MT at a Capex of INR 4.7bn by FY26 end. A total 2mn MT cement capacity addition is expected by FY26 end. Management expects net debt to not exceed INR 14-14.5bn (almost at peak level). We maintained our FY24E EBITDA estimates and trimmed our FY25/26E by 7/4% owing to the slow ramp-up of new plants.

Quarterly/annual financial summary (consolidated)

YE Mar (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Sales (mn MT)	1.41	1.24	13.5	1.31	7.2	3.60	4.82	5.55	6.66	7.46
NSR (INR/MT)	4,757	4,645	2.4	4,471	6.4	4,431	4,628	4,674	4,768	4,863
EBITDA (INR/MT)	619	384	61.2	459	34.9	765	318	585	728	797
Net Sales	6.69	5.76	16.3	5.87	14.1	15.97	22.30	25.94	31.75	36.27
EBITDA	0.87	0.48	83.0	0.60	44.6	2.76	1.53	3.25	4.85	5.95
APAT	-0.08	-0.22		-0.38	(79.6)	0.69	-0.89	-0.38	0.82	3.19
AEPS (INR)	-0.6	-1.7		-1.8	(66.6)	5.9	-6.8	-2.9	6.2	24.4
EV/EBITDA (x)						17.7	31.4	14.8	9.6	7.1
EV/MT (INR bn)						5.93	5.83	4.77	4.60	3.92
P/E (x)						51.2	NA	-93.5	43.4	11.1
RoE (%)						5.4	-5.9	-2.3	4.8	16.8

Source: Company, HSIE Research

ADD

CMP (as on 25 Jan 2024)	INR 269
Target Price	INR 290
NIFTY	21,353

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 290	INR 290
EBITDA revision %	FY24E 0.3	FY25E (6.7)

KEY STOCK DATA

Bloomberg code	SGC IN
No. of Shares (mn)	131
MCap (INR bn) / (\$ mn)	35/430
6m avg traded value (INR mn)	121
52 Week high / low	INR 305/180

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.3	31.5	20.2
Relative (%)	3.9	24.9	2.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	48.31	48.31
FIs & Local MFs	18.77	17.05
FPIs	2.56	2.84
Public & Others	30.35	31.80
Pledged Shares	38.32	36.35

Source : BSE

Pledged shares as % of total shares

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Somany Ceramics

Weak demand; mid-term outlook remains promising

We maintain BUY on Somany Ceramics (SOMC), with a lower target price of INR 980/share (25x Mar-26E consolidated PE). Consolidated revenue declined 2% YoY owing to lower tiles volume (down 3% YoY vs 6% growth reported by the industry leader) and NSR dip (higher channel incentives), which was partially offset by growth in non-tiles revenue. Consolidated EBITDA margin contracted 15bps QoQ to 9.6% owing to op-lev loss, while gas prices were stable. SOMC expects demand to pick up in the next few quarters and remains confident of delivering at least a 10% EBITDA margin in Q4 and FY25. It has commissioned its large-sized tiles plant in Gujarat (4.5MSM capacity at Jan-24 end), which should bolster volume, product mix, and margin.

- Q3FY24 performance:** Consolidated revenue declined 2% YoY owing to lower tiles volume and NSR, which was partially offset by growth in non-tiles revenue. EBITDA/APAT grew 46/75% YoY owing to a cool-off in fuel prices. Tiles sales volumes declined 3/7% YoY/QoQ (5-yr volume CAGR: +4%). For H1FY24, the volume growth of SOMC was similar to the industry leader. However, in Q3, SOMC volume declined 3% YoY vs 6% growth reported by the industry leader. Tiles blended NSR was down 3/2% YoY/QoQ owing to higher incentives to dealers. The non-tiles revenue formed 13% of the revenue mix, and it grew 17% YoY (5-yr CAGR: 11%). EBITDA margin contracted 15bps QoQ to 9.6% owing to op-lev loss while gas prices were stable.
- Outlook:** SOMC expects mid-single-digit tile volume growth in Q4. It expects demand to pick up in the next few quarters. SOMC expects to grow 5-6% higher than industry in upcoming years. The slowdown in exports is leading to higher dumping by Morbi in domestic markets. Going forward, it expects 12-15% revenue growth in its bathware division. Fuel prices are expected to increase by 5% QoQ in Q4. SOMC remains confident of delivering at least a 10% EBITDA margin in Q4 and FY25. SOMC's new greenfield slab manufacturing facility of ~4.5MSM in Gujarat (Capex INR 1.7bn) has started commercial production from Jan-24 end, which will bolster volume, product mix and margin. It has no major expansion in the pipeline, apart from 3.5MSM tiles manufacturing capacity in Nepal in collaboration with the Murarka Group, expected by Q3FY25. It plans to incur INR 200mn for this expansion in FY25. Factoring in weak Q3 performance, we trim our FY24/25/26E EPS estimates by 7/2/4% respectively.

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY23	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Tiles sales (MSM)	15.8	16.2	-2.5	16.9	-6.9	57.9	63.9	66.4	72.9	78.7
NSR (Rs/Kg)	327.8	336.3	-2.5	333.0	-1.5	317.2	387.9	384.4	390.2	396.8
Tiles Revenue	5,163	5,431	-4.9	5,631	-8.3	18,358	21,483	22,342	24,755	27,003
Others Revenue	806	687	17.2	785	2.7	2,247	2,782	3,200	3,680	4,232
Net Sales	6,121	6,224	-1.7	6,552	-6.6	20,945	24,785	25,542	28,435	31,234
EBITDA	590	406	45.6	641	-7.9	2,065	1,887	2,438	2,881	3,331
EBITDAM (%)	9.6	6.5		9.8		9.9	7.6	9.5	10.1	10.7
APAT	209	119	75.1	293	-28.7	887	737	996	1,240	1,603
Diluted EPS (Rs)	4.9	2.8	75.1	6.9	-28.7	20.9	17.4	24.3	30.3	39.1
EV / EBITDA (x)						16.1	18.3	14.3	11.8	10.1
P/E (x)						34.1	41.0	30.4	24.4	18.9
RoE (%)						11.3	8.5	11.4	13.8	15.7

Source: Company, HSIE Research

BUY

CMP (as on 02 Feb 2024) INR 737

Target Price INR 980

NIFTY 21,854

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,010	INR 980
EBITDA revision %	FY24E (7.3)	FY25E (1.4)

KEY STOCK DATA

Bloomberg code	SOMC IN
No. of Shares (mn)	42
MCap (INR bn) / (\$ mn)	31/383
6m avg traded value (INR mn)	44
52 Week high / low	INR 819/466

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	11.8	0.8	37.2
Relative (%)	(0.7)	(8.7)	16.9

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	54.78	55.02
FIs & Local MFs	23.64	23.33
FPIs	1.45	1.43
Public & Others	20.12	20.22
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Chemicals

SRF

Subdued performance

We retain our ADD rating on SRF, with a target price of INR 2,449, on the back of (1) deployment of capex for high-growth speciality chemicals business over the next 3-4 years to tap opportunities emerging from the agrochemical and pharmaceutical industries and (2) a strong balance sheet. Q3 EBITDA/APAT were 12/18% below our estimates, owing to a 10% fall in revenue and higher-than-expected employee expenses, partially offset by a decrease in other operating expenses.

- Chemicals business (CB):** Revenue/EBIT fell 2/7.5% QoQ to INR 13.9/3.2bn. Specialty chemicals' business performance was impacted as key customers rationalized inventory. While the revenue was impacted in the first half of the quarter, it witnessed a significant recovery in the latter half. The company launched three new products in Q3 in the agro vertical; it has a robust pipeline of new and complex products. SRF capitalised INR 11bn in 9MFY24 for specialty chemicals and a further INR7bn will be capitalised in Q4FY24. It also capitalised the PTFE and R32 plants in the fluorochemicals business in Q3.
- Packaging films business (PFB):** Revenue/EBIT decreased by 2.8/42% QoQ to INR10.90/0.45bn. EBIT margin decreased by 277bps sequentially while it was down 575bps YoY to 4%. The business was impacted by the oversupply of BOPET and BOPP. The company commenced an aluminum foil facility on 1 January 2024 and capitalized INR5.3bn.
- Technical textiles business (TTB):** Revenue/EBIT decreased by 9/8% QoQ to INR4.6/0.68bn. EBIT margin improved by 20/698 bps QoQ/YoY to 15%. Operations were impacted by the cyclone in Manali. SRF's performance in belting fabrics and polyester yarn segments improved during the quarter.
- Change in estimates:** We cut our FY24/25 EPS estimates by 4/2% to INR 47.0/62.0 to factor in the overall Q3FY24 performance.
- DCF-based valuation: Our target price is INR 2,449 (WACC 11%, terminal growth 5.5%). The stock is trading at 38x FY25E EPS.**

Financial summary (consolidated)

INR mn	3QFY24	2QFY24	QoQ(%)	3QFY23	YoY(%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	30,530	31,774	(3.9)	34,697	(12.0)	1,23,128	1,45,918	1,27,784	1,45,033	1,76,095
EBITDA	5,839	6,453	(9.5)	8,486	(31.2)	31,032	35,292	26,502	33,341	46,063
APAT	2,896	3,008	(3.7)	5,109	(43.3)	18,285	21,518	14,037	18,352	26,867
AEPS (INR)	9.8	10.1	(3.7)	17.2	(43.3)	61.7	72.6	47.4	61.9	90.6
P/E (x)						35.4	30.1	49.0	37.5	25.6
EV/EBITDA(x)						21.8	19.3	27.4	22.0	15.9
RoE (%)						23.7	22.8	12.8	14.9	18.8

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch
EBITDA (INR mn)	27,318	26,502	(3.0)	33,667	33,341	(1.0)
Adj. EPS (INR/sh)	49.4	47.4	(4.2)	62.7	61.9	(1.3)

Source: Company, HSIE Research

ADD

CMP (as on 31 Jan 2024)	INR 2,325
Target Price	INR 2,449
NIFTY	21,726

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 2,541	INR 2,449
EPS %	FY24E	FY25E
	-4.2%	-1.3%

KEY STOCK DATA

Bloomberg code	SRF IN
No. of Shares (mn)	296
MCap (INR bn) / (\$ mn)	689/8,427
6m avg traded value (INR mn)	1,068
52 Week high / low	INR 2,637/2,040

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.9	7.1	6.5
Relative (%)	(6.4)	(0.7)	(14.0)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	50.53	50.53
FIs & Local MFs	14.13	14.53
FPIs	19.79	19.60
Public & Others	15.55	15.35
Pledged Shares	0.00	0.00

Source : BSE

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Deepak Nitrite

Margin remains under pressure

We maintain SELL on Deepak Nitrite (DNL), with a price target of INR 1,448 (WACC 12%, terminal growth 4%). The stock is currently trading at 26x FY25E EPS, which we believe is contextually high. EBITDA/APAT were 7/6% below our estimates, owing to higher-than-expected raw material cost, which came in 8% above our estimates.

- Financial performance:** Revenue improved 13% QoQ while it remained flattish YoY to INR 20.09bn in Q3FY24. Revenue improved owing to the volume growth of Deepak Phenolics Ltd. EBITDA remained flattish QoQ while declining by 3% YoY to INR 3bn. The EBITDA margin decreased to 15% (-64/-184 bps YoY/QoQ), owing to increased raw material costs.
- Advanced intermediates (AI):** Revenue remained flattish QoQ while declining 17% YoY to INR 6.7bn and EBIT fell 36/9.4% YoY/QoQ to INR 0.93 bn. The performance was impacted owing to subdued demand from the end-user industry like agrochemicals, dyes & pigments, and textiles. DNL expects demand to ramp up in the coming quarters
- Deepak Phenolic (DPL):** Revenue improved 14/20% YoY/QoQ to INR 13.49bn also EBIT was up 42/6% YoY/QoQ to INR 1.8bn, owing to increased volume and realisation. End-user sectors including glass, paper and homecare have witnessed green shoots of demand revival. The phenol plant achieved an average capacity utilisation of ~150% in 9MFY24 due to debottlenecking.
- Con call takeaways:** (1) DNL signed an MoU with Gujarat Government for an investment of INR140bn. The company will manufacture polycarbonate, methyl methacrylate (MMA)/poly methyl methacrylate (PMMA) resins & compounds and aniline. The projects shall be completed in a phased manner by FY27. (2) The company repaid the remaining portion of term loan and has become debt free. (3) Photohalogenation and fluorination plant is expected to be commissioned at the end of the current financial year. The acid plant project also remains on track and shall commence commercial production in FY24. MIBK/MIBC plant is expected to be commissioned in H1FY25.
- Change in estimates:** We cut our FY24/25 EPS estimates by -8.4/1.6% to INR 57/87, to factor in the performance in Q3.

Financial summary (consolidated)

INR mn	3Q	2Q	QoQ	3Q	YoY	FY22	FY23	FY24E	FY25E	FY26E
	FY24	FY24	(%)	FY23	(%)					
Net Sales	20,092	17,781	13.0	19,911	0.9	68,022	79,721	76,187	87,280	99,227
EBITDA	3,047	3,023	0.8	3,146	(3.2)	16,036	12,894	11,541	17,580	21,766
APAT	2,020	2,051	(1.5)	2,091	(3.4)	10,666	8,520	7,845	11,859	14,836
AEPS (INR)	14.8	15.0	(1.5)	15.3	(3.4)	78.2	62.5	57.7	86.9	108.8
P/E (x)						29.2	36.5	39.5	26.3	21.0
EV/EBITDA(x)						19.6	24.2	26.8	17.3	13.5
RoE (%)						37.5	22.9	17.7	22.4	22.9

Source: Company, HSIE Research

Change in estimates (Consolidated)

Y/E Mar	FY24E	FY24E	% Ch	FY25E	FY25E	% Ch	FY26E	FY26E	% Ch
	Old	New		Old	New		Old	New	
EBITDA (INR mn)	12,683	11,541	(9.0)	17,442	17,580	0.8	21,346	21,766	2.0
Adj. EPS (INR/sh)	63.0	57.7	(8.4)	85.6	86.9	1.6	105.8	108.8	2.9

Source: Company, HSIE Research

SELL

CMP (as on 15 Feb 2024)	INR 2,283
Target Price	INR 1,448
NIFTY	21,911

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 1,451	INR 1,448
	FY24E	FY25E
EPS %	-8.4%	1.6%

KEY STOCK DATA

Bloomberg code	DN IN
No. of Shares (mn)	136
MCap (INR bn) / (\$ mn)	311/3,807
6m avg traded value (INR mn)	927
52 Week high / low	INR 2,521/1,749

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	7.7	11.1	27.0
Relative (%)	(2.0)	1.0	9.4

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	49.13	49.13
FIs & Local MFs	17.95	18.87
FPIs	6.47	6.48
Public & Others	26.44	25.52
Pledged Shares	0.00	0.00

Source : BSE

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Aarti Industries

On recovery path

We maintain our ADD recommendation on Aarti Industries (AIL), with a target price of INR 733/share. AIL's constant focus on Capex and R&D will enable it to remain competitive and expand its customer base. The toluene segment in India is mainly untapped and catered to through imports; AIL will benefit in the long term by entering this segment. EBITDA/APAT were 6/33% above our estimates, owing to higher-than-expected total revenue by 14% and lower-than-expected other operating expenses, which were offset by higher-than-expected raw material costs.

- Financial performance:** Revenue increased by 19/4% QoQ/YoY to INR 17.3bn. The performance improved on a sequential basis due to volume gains. Headwinds related to inventory destocking, demand pressure in export markets, and geopolitical uncertainties, among others, persisted in Q3. The company expects demand in discretionary applications (contributing ~60%) to rebound while the non-discretionary segment will remain under pressure. EBITDA improved by 11% QoQ but decreased 10%YoY to INR 2.6bn. EBITDA margin decreased by 230/108bps YoY/QoQ to 15% in Q3 owing to higher raw material costs.
- Con call takeaways:** (1) The company is expecting a demand revival in the dyes, pigment, additives, and polymers segments while demand in agrochemical and pharmaceutical segments remains soft as major customers are managing lean inventory due to high carrying costs and moderate demand. (2) The Red Sea crises have impacted the pricing of containers and shipping timing. Although these markets contribute to 25-30% of the exports, minimum impact is expected. (3) The company recently entered into two new long-term contracts having revenue potential of INR30bn and INR60bn over nine years and four years respectively. These contracts were part of an earlier capex program; therefore, no additional capex will be incurred. These contracts shall improve revenue visibility. (4) All the other projects including Nitrotoluene and Chlorotoluene value chain are on track and their commercialization will start in FY25. (5) The company has incurred a capex of INR8.6 bn in 9MFY24. AIL will incur a total capex of INR25bn, spread over FY24 and FY25.
- Change in estimates:** We tweak FY24/25 EPS estimates by +3.5/+4.3% to INR 8.8/17.3 to factor in performance in Q3FY24.
- DCF-based valuation:** Our target price is INR 733(WACC 11%, terminal growth 4%). The stock is currently trading at 38x FY25E EPS.

Financial summary (consolidated)

INR mn	3Q FY24	2Q FY24	QoQ (%)	3Q FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	17,320	14,540	19.1	16,677	3.9	60,855	66,186	61,905	73,239	84,957
EBITDA	2,600	2,340	11.1	2,887	(9.9)	17,201	10,890	9,399	13,358	18,006
APAT	1,240	920	34.8	1,365	(9.2)	11,857	5,452	3,197	6,279	10,071
AEPS (INR)	3.4	2.5	34.8	3.8	(9.2)	32.7	15.0	8.8	17.3	27.8
P/E (x)						20.3	44.1	75.2	38.3	23.9
EV/EBITDA(x)						15.4	24.5	29.2	21.1	15.6
RoE (%)						29.6	11.6	6.3	11.5	16.4

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch	FY26E Old	FY26E New	% Ch
EBITDA (INR mn)	9,338	9,399	0.7	13,396	13,358	(0.3)	17,896	18,006	0.6
Adj. EPS (INR/sh)	8.5	8.8	3.5	16.6	17.3	4.3	26.7	27.8	4.2

Source: Company, HSIE Research

ADD

CMP (as on 09 Feb 2024)	INR 663
Target Price	INR 733
NIFTY	21,783

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 718	INR 733
EPS %	FY24E +3.5%	FY25E +4.3%

KEY STOCK DATA

Bloomberg code	ARTO IN
No. of Shares (mn)	363
MCap (INR bn) / (\$ mn)	240/2,940
6m avg traded value (INR mn)	1,148
52 Week high / low	INR 692/438

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	30.5	40.2	22.7
Relative (%)	20.1	31.7	5.0

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	43.57	43.55
FIs & Local MFs	16.15	15.84
FPIs	10.57	10.83
Public & Others	29.70	29.76
Pledged Shares	0.00	0.00

Source: BSE

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Vinati Organics

Muted performance

Our SELL recommendation on Vinati Organics (VO) with a discounted cash flow-based target price of INR 1,416 (WACC 11%, terminal growth 5%) is driven by (1) a shift in the revenue mix towards lower-margin butyl phenol and other products as compared to ATBS, which has a higher margin, and (2) an anticipated decrease in ATBS demand due to customer destocking in FY24. Molecules that are contributing ~60% to revenue are showing either demand weakness or muted growth. We believe the current valuation is contextually high at ~43x FY25E EPS. Q3 EBITDA/APAT were 6/21% below our estimates, owing to lower-than-anticipated revenue, partially offset by lower-than-expected raw material cost.

- Financial performance:** Q3 revenue down 13%/3 YoY/QoQ at INR 4.5bn. EBITDA improved by 9.4% QoQ while it decreased by 23% YoY to INR 1.14 bn. EBITDA margin was 25.6% (down 306 bps/up 296 bps YoY/QoQ), owing to a fall in other operating expenses and raw materials by 15% and 6% QoQ respectively. The company expects inventory destocking to cease, with overall sales and demand poised to rise. Additionally, due to the scheme of arrangement between Veeral Additives and Vinati Organics, the financial results of subsequent quarters have been restated.
- Key con call takeaways:** (1) The company will invest INR 4.8bn as capex in Viral Organics, with the commissioning of the MEHQ and Guicoal plants expected in H1FY25. (2) It expects 15 to 20% revenue growth in the next three years with increased contribution from antioxidants and rising ATBS demand. (3) VO will commission 11MW and 7MW in FY24 and FY25. (4) VA's antioxidant plant is currently operating at ~25% utilisation owing to low demand. (5) The company has incurred a capex of INR 3bn in 9MFY24. (6) VO will continue with the expansion of ATBS from 40ktpa to 60ktpa. However, owing to subdued demand, the company has postponed the commissioning of the brownfield expansion by two quarters to Dec 2024.
- Change in estimates:** We have cut our FY24/25 EPS estimates by 0.7/4.3% to INR 34.4/44.9 to account for the Q3 performance.

Financial summary (consolidated)

INR mn	Q3 FY24	Q2 FY24	QoQ (%)	Q3 FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	4,480	4,629	(3.2)	5,165	(13.3)	16,155	20,727	18,417	24,461	30,190
EBITDA	1,146	1,048	9.4	1,480	(22.5)	4,341	5,712	4,648	6,241	8,218
APAT	769	724	6.2	1,069	(28.0)	3,466	4,192	3,539	4,614	6,086
AEPS (INR)	7.5	7.0	6.2	10.4	(28.0)	33.7	40.8	34.4	44.9	59.2
P/E (x)						57.3	47.4	56.1	43.0	32.6
EV/EBITDA(x)						45.8	34.4	42.1	31.1	23.2
RoE (%)						20.6	20.7	15.0	17.1	19.2

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch	FY26E Old	FY26E New	% Ch
EBITDA (INR mn)	4,681	4,648	(0.7)	6,521	6,241	(4.3)	8,808	8,218	(6.7)
Adj. EPS (INR/sh)	34.7	34.4	(0.7)	46.9	44.9	(4.3)	63.5	59.2	(6.7)

Source: Company, HSIE Research

SELL

CMP (as on 12 Feb 2024)	INR 1,613
Target Price	INR 1,416
NIFTY	21,616

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 1,479	INR1,416
	FY24E	FY25E
EPS %	-0.7%	-4.3%

KEY STOCK DATA

Bloomberg code	VO IN
No. of Shares (mn)	103
MCap (INR bn) / (\$ mn)	166/2,027
6m avg traded value (INR mn)	97
52 Week high / low	INR 2,034/1,598

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(8.2)	(11.8)	(16.8)
Relative (%)	(17.1)	(20.6)	(33.9)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	74.06	74.06
FIs & Local MFs	8.19	7.56
FPIs	4.64	4.71
Public & Others	13.11	13.67
Pledged Shares	0.00	0.00

Source: BSE

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Navin Fluorine International

Long-term contracts to drive growth

We retain a BUY on Navin Fluorine International Ltd (NFIL), with a target price of INR 4,014, on the back of (1) earnings visibility, given long-term contracts; (2) tilt in sales mix towards high-margin high-value business; (3) capacity expansion led growth; and (4) strong R&D infrastructure. EBITDA/APAT were 39/44% below our estimates, owing to a 4% fall in revenue, higher-than-expected raw material cost, other operation expenses, and employee expenses.

- Financial Q3 performance:** Revenue fell 6% sequentially to INR 5,018mn, mainly owing to a weak performance of specialty chemicals and CDMO business unit (BU). Sales were lower due to (1) sales of a campaign in CDMO deferred to Q3 due to a change in product specification and method of analysis and (2) the deferral of sales of two new products in specialty chemicals BU. The cost of goods sold increased because of higher-value inventory destocking. Other operating expenses increased owing to one-time expenses. EBITDA came in at INR 757mn (-23/+51% QoQ/YoY), with EBITDA margin deteriorating to ~15% (-576/-1253bps QoQ/ YoY). Management expects improved revenue visibility in FY25 on the back of a ramp-up in utilisation of the HFO plant and MPP-1 plant.
- Segmental Q3 performance:** Speciality chemicals BU (35% of revenue mix) fell 5% QoQ to INR 1.77bn owing to deferral of two campaigns at Dahej and inventory destocking. HPP BU (50% of revenue mix) was up by 5.5% QoQ to INR 2.5bn. Refrigerant gas prices remained under pressure in the international market owing to dumping by Chinese producers. The R32 plant has stabilised and is currently operating at optimum capacity. CDMO BU (14% of revenue mix) increased 52% QoQ to INR 0.73bn. The company will incur a capex of INR 4.5 bn for the set-up of new HF capacity at Dahej and INR 0.84 bn for capacity expansion of R32, to be commissioned by Q4FY25. Also, the company will incur a capex for cGMP4 amounting to INR2.88 bn, of which it will incur a capex of INR1.6 bn in phase-I which will support MSA with European API customer and will be commissioned by the end of CY2025.
- Change in estimates:** We cut our FY24/25 EPS estimates by 11/10% to INR 47/80 owing to a slower-than-expected ramp-up in the Honeywell plant and weak performance of Q3FY24.
- DCF-based valuation:** Our target price is INR 4,014 (WACC 11%, terminal growth 5.5%). The stock is trading at 36x FY25E EPS.

Financial summary (consolidated)

INR mn	2QFY24	1QFY24	QoQ(%)	2QFY23	YoY(%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	5,018	4,718	6.4	5,636	(11.0)	14,534	20,774	20,440	27,646	36,311
EBITDA	757	983	(23.1)	1,556	(51.4)	3,548	5,503	4,213	7,036	10,017
APAT	780	606	28.8	1,066	(26.8)	2,606	3,702	2,318	3,932	6,045
AEPS (INR)	15.8	12.2	28.8	21.5	(26.8)	52.6	74.7	46.8	79.4	122.1
P/E (x)						67.1	47.2	75.4	44.5	28.9
EV/EBITDA(x)						45.3	30.8	41.2	25.2	17.7
RoE (%)						15.0	18.4	10.1	15.4	20.7

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch
EBITDA (INR mn)	4,726	4,213	(10.9)	7,579	7,036	(7.2)
Adj. EPS (INR/sh)	52.7	46.8	(11.2)	88.5	79.4	(10.3)

Source: Company, HSIE Research

BUY

CMP (as on 06 Feb 2024)	INR 3,262
Target Price	INR 4,014
NIFTY	21,929

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 4,354	INR 4,014
EPS %	FY24E (11.2)	FY25E (10.3)

KEY STOCK DATA

Bloomberg code	NFIL IN
No. of Shares (mn)	50
MCap (INR bn) / (\$ mn)	162/1,977
6m avg traded value (INR mn)	879
52 Week high / low	INR 4,946/3,203

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(10.2)	(27.6)	(20.6)
Relative (%)	(21.4)	(37.4)	(39.9)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	28.81	28.81
FIs & Local MFs	26.02	28.92
FPIs	19.20	15.92
Public & Others	25.98	26.35
Pledged Shares	3.15	3.15

Source : BSE

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Clean Science and Technology

New HALS product launches in pipeline

We maintain SELL on Clean Science and Technology (CSTL) with a price target of INR 980 (WACC 11%, terminal growth 6%), owing to (1) slower-than-expected ramp-up in hindered amine light stabilisers (HALS); (2) lower offtake of performance chemicals. Gross profit margin and EBITDA margin are expected to fall by 517/341 bps by FY26 from 65/43% in FY23. Global giants are augmenting the capacities of HALS and intermediates of HALS. Q3 EBITDA/APAT were 4/5% above our estimates, owing to lower-than-expected raw material costs (by 20% below our estimates).

- Financial performance:** Revenue improved by 8% QoQ and decreased by 18% YoY. Volume de-grew 5% YoY while realisation declined 13% YoY. The moderation in raw material cost and correction in realisation have resulted in EBITDA margin improvement by 316 bps QoQ to 44.5%.
- Segmental information:** In Q3, performance chemicals declined 21%YoY owing to a fall in realisation. Pharma and agro intermediates decreased by 3.3% YoY while improving by 7.5% QoQ owing to volume-led growth. FMCG chemical performance remains stagnant.
- Con call takeaways:**
 - Contribution from major products decreased to 78% YoY from 85% due to an increase in revenue contribution from new products.
 - Overall revenue was impacted by a decrease in consumption.
 - Revenue from the domestic market was less impacted than the export market owing to a shift in product mix.
 - The company incurred a total capex of INR2.25 bn in 9MFY24, of which it invested INR2.15bn in a subsidiary (Clean Fino-Chem Limited (CFCL)). The company invested INR600mn in CFCL in Q3. Total contribution from equity remained at INR3.35 bn. CSTL will commence production of the new HALS series in Feb 2024.
 - It has started shipping of HALS 701 and 770 to China, Europe, and South America. HALS products are under pricing pressure. Currently, the HALS production is ~40-50MT per month and it is expected to reach 150MT per month by the end of FY25.
 - The company will incur INR2.30bn capex for new pharma intermediaries where commercialization is expected to start in Q2FY25. Furthermore, it is in discussions for two new products for which a capex of INR2bn is expected (INR1bn for each product).
- Change in estimates:** We tweak our FY24 EPS estimates to INR23.1, based on Q3 performance.

Financial summary (consolidated)

INR mn	3QFY24	2QFY24	QoQ (%)	3QFY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,947	1,811	7.5	2,374	(18.0)	6,849	9,358	7,855	11,438	14,058
EBITDA	866	748	15.7	1,082	(20.0)	2,999	4,021	3,365	4,762	5,546
APAT	626	522	20.0	838	(25.3)	2,285	2,952	2,449	3,416	3,948
AEPS (INR)	5.9	4.9	20.0	7.9	(25.3)	21.5	27.8	23.1	32.2	37.2
P/E (x)						67.9	52.6	63.4	45.4	39.3
EV/EBITDA(x)						51.5	38.6	46.0	32.3	27.4
RoE (%)						34.9	33.2	22.1	25.3	23.9

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch	FY26E Old	FY26E New	% Ch
EBITDA (INR mn)	3,361	3,365	0.1	4,762	4,762	-	5,546	5,546	-
Adj. EPS (INR/sh)	23.0	23.1	0.1	32.2	32.2	-	37.2	37.2	-

Source: Company, HSIE Research

SELL

CMP (as on 02 Feb 2024)	INR1,461
Target Price	INR 980
NIFTY	21,854

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 1,026	INR 980
EPS %	FY24E (17)	FY25E (39.5)

KEY STOCK DATA

Bloomberg code	CLEAN IN
No. of Shares (mn)	106
MCap (INR bn) / (\$ mn)	155/1,899
6m avg traded value (INR mn)	241
52 Week high / low	INR 1,622/1,227

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.4	11.9	(1.4)
Relative (%)	(6.1)	2.3	(21.7)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	74.98	74.98
FIs & Local MFs	5.23	5.14
FPIs	6.00	5.92
Public & Others	13.79	13.97
Pledged Shares	0.00	0.00

Source: BSE

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Fine Organic Industries

Subdued demand

Our SELL recommendation on Fine Organics with a TP of INR 3,842 is premised on (1) the delay in capacity addition; (2) sluggish demand in the US and European markets; and (3) a sharp fall in finished product prices. Q3 EBITDA/APAT were 7/5% below our estimates, owing to lower-than-expected total revenue, offset by higher-than-expected operating expenses.

- Financial performance in Q3:** The fall in revenue by 10/36% QoQ/YoY to INR4.88bn is attributed to the fall in exports by 12/57% QoQ/YoY. The exports were low courtesy sluggish demand in the US and European markets. Other operating expenses declined by 10/12% QoQ/YoY to INR 644mn owing to (1) an increase in the proportion of sales in the domestic market to 49% (+100bps QoQ) and (2) a change in product mix. EBITDA margin remains flat at 24.2%. EBITDA came in at INR1.18bn (-9.8/-26% QoQ/YoY) and APAT came in at INR942mn (-8.9/-11.3% QoQ/YoY).
- Con call highlights:** (1) Sequentially, raw material prices have remained flattish while management expects them to reduce in coming quarters. (2) Renewal of long-term contracts is still in the rolling process. (2) The contribution of exports to total revenue has fallen further to 51% in Q3FY24 (vs. 69% in Q4FY23), owing to demand slowdown in the US and European markets. (3) All plants (excluding the Patalganga plant) are running at optimum utilisation, courtesy strong product demand in the domestic market. (4) FO has applied for land in a SEZ in Maharashtra. Land allocation and approvals are expected to be in place by March 2024. Commercial production shall commence 18 months after receiving the Environmental Clearance (EC). (5) The domestic market has shown robust growth in Q3FY24 and the company has changed its product mix accordingly. (6) The Red Sea crises have increased freight costs, impacting shipping costs to the US/UK.
- Change in estimates:** We change our FY24/25 EPS estimates by -1.5/+1% to INR 130/132 to factor in the Q3 performance.
- DCF-based valuation:** Our target price is INR 3,842 (WACC 12%, terminal growth 6.0%). The stock is trading at 34x FY25E EPS.

Financial summary (consolidated)

INR mn	3Q FY24	2Q FY24	QoQ (%)	3Q FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	4,884	5,405	(9.6)	7,595	(35.7)	18,763	30,231	21,068	21,972	26,280
EBITDA	1,182	1,311	(9.8)	1,601	(26.1)	3,645	8,311	5,184	5,104	6,234
APAT	942	1,034	(8.9)	1,062	(11.3)	2,597	6,181	3,992	4,056	4,871
AEPS (INR)	30.7	33.7	(8.9)	34.6	(11.3)	84.7	201.6	130.2	132.3	158.9
P/E (x)						53.1	22.3	34.5	34.0	28.3
EV/EBITDA(x)						37.3	16.0	24.4	24.1	19.9
RoE (%)						30.7	49.4	23.0	19.2	21.1

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch	FY26E Old	FY26E New	% Ch
EBITDA (INR mn)	5,313	5,184	-2.4%	5,153	5,104	-1.0%	6,291	6,234	-0.9%
Adj. EPS (INR/sh)	132.2	130.2	-1.5%	131.0	132.3	1.0%	157.7	158.9	0.7%

Source: Company, HSIE Research

SELL

CMP (as on 06 Feb 2024)	INR 4,495
Target Price	INR 3,842
NIFTY	21,929

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 3,835	INR 3,842
EPS %	FY24E	FY25E
	-1.5%	+1.0%

KEY STOCK DATA

Bloomberg code	FINEORG IN
No. of Shares (mn)	31
MCap (INR bn) / (\$ mn)	138/1,685
6m avg traded value (INR mn)	184
52 Week high / low	INR 5,244/4,031

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.3	(2.3)	(4.8)
Relative (%)	(5.8)	(12.2)	(24.1)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	75.00	75.00
FIs & Local MFs	12.17	11.85
FPIs	3.78	3.59
Public & Others	9.05	9.57
Pledged Shares	0.00	0.00

Source: BSE

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Alkyl Amines

Getting better

We maintain SELL on Alkyl Amines (AACL) with a price target of INR 1,836 (WACC 12%, terminal growth 5%). The stock is currently trading at ~54/37x FY25/26E EPS. We believe that the current valuation already factors in positives from potential volume growth, after doubling of the acetonitrile plant capacity and ~40% additional capacities of the aliphatic amines plant. EBITDA/APAT were 18/26% below our estimates, owing to a 14% lower-than-expected revenue and higher-than-expected depreciation.

Financial performance:

Revenue fell 17/9% YoY/QoQ to INR 3.2bn, owing to pricing pressure from Chinese manufacturers. Volume growth during the quarter was ~10% YoY. EBITDA margin improved to 18.5% (55/479bps YoY/QoQ) owing to a decrease in other operating expenses. Coal price correction and commission of solar plant helped to reduce other operating expenses by 27/21% YoY/QoQ. Commissioning of the ethylamine plant increased depreciation to INR168mn in Q3 (up 58/34% YoY/QoQ). We expect margins to improve in subsequent quarters with the stabilization of raw material and finished product prices.

Key takeaways:

(1) AACL incurred capex of INR1000mn in 9MFY24 and is expected to incur INR300mn in Q4. (2) In FY25, the company is planning to incur a capex of INR750mn for new products and spend INR250mn on maintenance capex. (3) Currently, the overall plant capacity utilisation is ~60-65%. (4) AACL has taken initiatives like the installation of solar facilities and a steam-generated power plant which has helped to save power and fuel costs. (5) Realisation is expected to improve, and the company wants to increase its focus on gaining market share as it has increased its capacity.

Financial summary

INR mn	3Q FY24	2Q FY24	QoQ (%)	3Q FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	3,220	3,522	(8.6)	3,885	(17.1)	15,420	16,823	14,135	18,305	23,127
EBITDA	596	483	23.4	697	(14.6)	3,252	3,431	2,502	3,506	4,841
APAT	334	272	22.5	457	(27.0)	2,249	2,287	1,517	2,192	3,151
AEPS (INR)	6.5	5.3	22.5	8.9	(27.0)	44.0	44.7	29.7	42.9	61.7
P/E (x)						52.5	51.6	77.8	53.8	37.4
EV/EBITDA(x)						36.2	34.6	47.5	33.7	24.1
RoE (%)						25.2	21.2	12.3	15.9	19.8

Source: Company, HSIE Research

Change in estimates

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch	FY26E Old	FY26E New	% Ch
EBITDA (INR mn)	2,744	2,502	-8.8	3,649	3,506	-3.9	5,061	4,841	-4.3
Adj. EPS (INR/sh)	33.3	29.7	-10.8	45.2	42.9	-5.1	65.0	61.7	-5.2

Source: Company, HSIE Research

SELL

CMP (as on 02 Feb 2024) INR 2,309

Target Price INR 1,836

NIFTY 21,854

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 1,979	INR 1,836
EPS %	FY24E -10.8%	FY25E -5%

KEY STOCK DATA

Bloomberg code	AACL IN
No. of Shares (mn)	51
MCap (INR bn) / (\$ mn)	118/1,443
6m avg traded value (INR mn)	172
52 Week high / low	INR 2,798/2,119

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	7.5	(4.4)	(14.0)
Relative (%)	(5.0)	(14.0)	(34.3)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	71.96	71.96
FIs & Local MFs	1.13	1.07
FPIs	2.92	2.94
Public & Others	23.99	24.04
Pledged Shares	0.00	0.00

Source : BSE

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Aether Industries

Lower realisation dents profitability

We retain our BUY rating on Aether Industries, with a target price of INR 1,124, on the back of (1) capacity expansion-led growth, (2) advanced R&D capabilities, (3) technocratic management, (4) market leading position in most of its products, (5) strong product pipeline, and (6) marquee customer base. EBITDA was 1% below our estimate and PAT was 11% below estimate owing to exceptional items. The company has accounted an exceptional item of INR63.7 mn towards the compensation paid to the families of the deceased, medical expenses of the injured, and penalty paid to GPCB. Adjusting for exceptional expenses, APAT was 9% above our estimates.

- Financial performance:** Revenue/EBITDA fell 5/32% QoQ to INR 1,554/313 mn. EBITDA margin decreased by 784/814 bps QoQ/YoY to 20%. Margin impacted largely owing to (i) high-cost inventory destocking by the company in Q3 and (ii) pricing pressure resulting from dumping by China. However, sales volumes remain flattish sequentially. The management expects margins to normalise in Q4FY24.
- Key con call takeaways:** (1) Segmental revenue break-up for Q3FY24 was: 57.5% large-scale manufacturing (LSM), 14.3% CRAMS and 28.2% contract manufacturing/others. (2) The end-user industry mix of Aether for 9MFY24 was: pharmaceutical-49.5%, agrochemical-29%, photography-4%, material sciences-8%, coatings-4.4% and others-5%. (3) Exports formed 40% of the total revenue, which included exports to SEZ and EOU units in India. (4) The company spent INR 509mn on research and development, forming 10% of the revenue in 9MFY24. The R&D team strength at the end of Q3 was 277 employees. (5) The company added 15 new customers across all business models in Q3. (6) Project updates: site 3+ and 3++ expected to be commissioned by Q3FY25. A dedicated plant for an oil and gas services customer at site 4 is expected to be commissioned by February 2024. (7) At site 5, EC Approval has been received and ground levelling work started.
- DCF-based valuation: Our target price is INR 1,124 (WACC 11%, terminal growth 6%). The stock is trading at 68/45x FY25/26E EPS.**

Financial summary (consolidated)

INR mn	3QFY24	2QFY24	QoQ(%)	3QFY23	YoY(%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,554	1,642	(5.4)	1,671	(7.0)	5,900	6,511	6,361	9,837	14,374
EBITDA	313	460	(31.9)	473	(33.8)	1,681	1,862	1,495	2,602	4,004
APAT	215	367	(41.5)	350	(38.7)	1,089	1,304	1,147	1,694	2,532
AEPS (INR)	1.6	2.8	(41.5)	2.6	(38.7)	8.2	9.8	8.7	12.8	19.1
P/E (x)						105.4	88.0	100.0	67.8	45.3
EV/EBITDA(x)						69.9	61.1	71.1	42.0	27.8
RoE (%)						38.8	16.0	6.8	7.7	10.5

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch
EBITDA (INR mn)	1,519	1,495	(1.6)	2,610	2,602	(0.3)
Adj. EPS (INR/sh)	8.8	8.7	(1.7)	12.8	12.8	(0.3)

Source: Company, HSIE Research

BUY

CMP (as on 01 Feb 2024)	INR 866
Target Price	INR 1,124
NIFTY	21,697

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,117	INR 1,124
EPS %	FY24E (1.7)	FY25E (0.3)

KEY STOCK DATA

Bloomberg code	AETHER IN
No. of Shares (mn)	133
MCap (INR bn) / (\$ mn)	115/1,404
6m avg traded value (INR mn)	146
52 Week high / low	INR 1,211/788

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.5)	(20.8)	(1.5)
Relative (%)	(13.1)	(28.6)	(21.5)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	81.81	81.79
FIs & Local MFs	12.99	11.8
FPIs	2.44	1.98
Public & Others	2.76	4.43
Pledged Shares	0.00	0.00

Source: BSE

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Galaxy Surfactants

Volume focus strategy is paying off

Our BUY recommendation on GALSURF with a price target of INR 3,529 is premised on (1) the stickiness of business, as over 50% of the revenue mix comes from MNCs, and (2) the ability to pass on fluctuations in raw material costs to its customers. Q3 EBITDA/APAT was 10/8% below our estimate owing 10% lower-than-expected revenue.

- Financial performance:** Q3 revenue declined by 13/4% YoY/QoQ to INR 9.4bn. The decline was due to a change in product mix and subdued demand in AMET and Europe. The company's strategy of focusing on volume growth is paying off. In 9MFY24, total volume grew by 8.6% over 9MFY23, led by 13.6% growth in the domestic market. AMET and the Rest of the World (ROW) markets have shown single-digit volume growth in 9MFY24. EBITDA declined by 10/27% YoY/QoQ to INR 1,125mn while the margin declined to 12% (230/74 bps YoY/QoQ). EBITDA was impacted by the sudden increase in freight cost in the second fortnight of December. EBITDA per kg for the quarter was INR 17.8/kg compared to INR 19.2/26.8 per kg in Q2FY24/Q3FY23, owing to a shift in sales mix towards low-margin performance surfactants.
- Result highlights:**(1) Growth in the domestic market was led by specialty care segment volume growth. Revenue from the Indian market decreased by 4/8% YoY/QoQ to INR 3.8bn. (2) The company incurred a capex of INR 900mn in 9MFY23 and will incur INR1,320-1,500mn in FY25. (3) Revival is expected in the North American and European markets as destocking is expected to bottom out and demand is expected to ramp up. (4) The sudden increase in freight rates because of the Red Sea crisis impacted the freight cost as the company was not able to pass on the same immediately. It will be passed on to customers in subsequent quarters. (5) Supply chain disruption to and from Egypt has been impacted by the Red Sea crises which is likely to impact revenue in Q4FY24. (6) Overall capacity utilisation of plants in India remained at 70%. (7) Specialty care volume remains stagnant QoQ while increasing by 22% YoY to ~23.4kt. (8) Performance surfactant volume decreased by 5% QoQ while remaining flattish YoY to ~39.74 kt. (9) Revenue from ROW decreased by 34/6% YoY/QoQ to INR 3.1 bn while the revenue in the AMET region increased by 22/9% YoY/QoQ to INR 2.56 bn.
- DCF-based valuation: Our price target is INR 3,529 (WACC 10%, terminal growth 4%). The stock is trading at 25x FY25E EPS.**

Financial summary (consolidated)

INR mn	Q3 FY24	Q2 FY24	QoQ (%)	Q3 FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	9,405	9,831	(4.3)	10,803	(12.9)	36,857	44,452	38,184	41,904	46,721
EBITDA	1,125	1,249	(9.9)	1,541	(27.0)	4,007	5,683	4,849	5,671	6,791
APAT	714	774	(7.8)	1,062	(32.8)	2,628	3,810	3,048	3,693	4,541
AEPS (INR)	20.1	21.8	(7.8)	30.0	(32.8)	74.1	107.5	86.0	104.2	128.1
P/E (x)						35.1	24.2	30.3	25.0	20.3
EV/EBITDA(x)						22.3	16.2	19.7	17.2	14.7
RoE (%)						18.3	22.0	15.2	16.3	17.5

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch	FY26E Old	FY26E New	% Ch
EBITDA (INR bn)	4.88	4.85	(0.7)	5.74	5.67	(1.2)	6.85	6.79	(0.8)
Adj. EPS (INR/sh)	86.8	86.0	(0.9)	105.8	104.2	(1.5)	129.4	128.1	(1.0)

Source: Company, HSIE Research

BUY

CMP (as on 13 Feb 2024)	INR 2,601
Target Price	INR 3,529
NIFTY	21,743

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 3,570	INR 3,529
EPS % chg	FY24E -0.9%	FY25E -1.5%

KEY STOCK DATA

Bloomberg code	GALSURF IN
No. of Shares (mn)	35
MCap (INR bn) / (\$ mn)	92/1,128
6m avg traded value (INR mn)	77
52 Week high / low	INR 2,989/2,218

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(8.3)	(4.0)	7.0
Relative (%)	(18.5)	(13.5)	(11.4)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	70.90	70.92
FIs & Local MFs	12.57	12.44
FPIs	3.07	3.61
Public & Others	13.46	13.03
Pledged Shares	0.00	0.00

Source: BSE

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NOCIL

Improved margin as raw material prices fall

Our ADD recommendation on NOCIL with a TP of INR 288 is premised on (1) a ramp-up in capacity utilisation and (2) expansion of margin with a focus on specialised rubber chemicals. Q3 EBITDA/PAT were 9/11% below our estimates, primarily due to a 9% decline in revenue. Raw material costs were lower than expected while employee expenses and other expenses were higher than expected.

- Financial performance:** Revenue increased by 5% YoY to INR3.4 bn, attributed to a 14% increase in volume while realisation contracted by 8%. Correction in raw material prices and dumping of rubber chemicals by Chinese competitors resulted in a fall in realisation. Volume declined by 3% while realisation remained flattish sequentially. Domestic volume remained steady. EBITDA showed improvement by 11/34% QoQ/YoY to INR489mn, leading to an increase in EBITDA margin to 14.3% (+178/+311 bps QoQ/YoY), led by a decrease in the cost of raw materials and operating leverage.
- Key con call takeaways:** (1) Automobile tyre industry is projected to grow at 3% over the next 2-3 years. (2) Due to decreased domestic demand in China, there is a surge in aggressive dumping of rubber chemicals globally, significantly impacting product realisation. (3) Exports constituted 32% of total revenue, with latex contributing 16-18%. (4) Speciality volumes make up 15-17% of the company's total volume in Q3. (5) Domestic rubber market experienced minimal growth of around 1-2%, but an uptick is anticipated in 2025. (6) Non-latex revenue increased while latex revenue remained steady. (7) Aniline prices showed volatility during the quarter, prompting the company to balance sales with volume and price mix. (8) The Red Sea crises have no major impact on end-product shipping and raw material prices.
- Change in estimates:** We cut our FY24/25E EPS estimates by 3/1% to INR 7.4/11.2 to factor in the Q3FY24 performance.
- DCF-based valuation:** Our price target is INR 288 (WACC 12%, terminal growth 4%). The stock is trading at 24x FY25E EPS.

Financial summary (standalone)

INR mn	3Q FY24	2Q FY24	QoQ (%)	3Q FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	3,406	3,509	(2.9)	3,257	4.6	15,713	16,166	14,730	17,330	19,496
EBITDA	489	441	10.8	366	33.6	2,829	2,490	2,023	2,896	3,504
APAT	300	269	11.6	188	59.9	1,759	1,487	1,231	1,873	2,308
AEPS (INR)	1.8	1.6	11.6	1.1	59.9	10.6	8.9	7.4	11.2	13.9
P/E (x)						25.6	30.3	36.5	24.0	19.5
EV/EBITDA(x)						15.8	17.2	20.5	14.3	11.6
RoE (%)						13.0	10.0	7.8	11.2	12.9

Source: Company, HSIE Research

Change in estimates (standalone)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch	FY26E Old	FY26E New	% Ch
EBITDA (INR mn)	2,074	2,023	(2.4)	2,906	2,896	(0.3)	3,514	3,504	(0.3)
Adj. EPS (INR/sh)	7.6	7.4	(3.0)	11.4	11.2	(1.0)	14.0	13.9	(1.0)

Source: Company, HSIE Research

ADD

CMP (as on 08 Feb 2024)	INR 270
Target Price	INR 288
NIFTY	21,718

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 286	INR 288
	FY24E	FY25E
EPS %	-3%	-1%

KEY STOCK DATA

Bloomberg code	NOCIL IN
No. of Shares (mn)	167
MCap (INR bn) / (\$ mn)	45/550
6m avg traded value (INR mn)	333
52 Week high / low	INR 285/199

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	22.1	20.6	30.2
Relative (%)	12.2	12.1	12.5

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	33.84	33.84
FIs & Local MFs	3.62	2.85
FPIs	6.36	6.98
Public & Others	56.18	56.33
Pledged Shares	3.40	3.40

Source: BSE

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Ami Organics

Long-term contracts enhance revenue visibility

We retain our ADD rating on Ami Organics (AO), with a target price of INR 1,201 (WACC 11%, terminal growth 6%), on the back of (1) expansion of its speciality chemicals portfolio, (2) contribution from long-term contracts which shall start contributing to revenue from 4QFY24, and (3) strong product pipeline in its advanced pharma intermediate business. EBITDA was 20% short of our estimate, mainly due to a 10% lower-than-expected revenue and higher-than-expected employee expense, offset by lower-than-expected raw material cost.

- Financial performance:** Revenue increased by 9% YoY to INR 1,664mn, driven by 25% volume growth. Shifting of product mix towards lower margin products has reduced gross margin by 304 bps YoY to 43%. EBITDA decreased by 14% YoY but increased by 7% QoQ to INR265mn. EBITDA margin came in at 16% (+153/-429bps QoQ/ YoY). Adjusted PAT was down 20% YoY to INR178mn.
- Segmental information:** (1) Revenue from advanced pharma intermediates was INR 1,286mn, 1%/-4% YoY/QoQ. (2) The specialty chemicals business showed strong growth of 31% on a YoY basis.
- Con call takeaways:** (1) In 9MFY23, the company invested INR 2.2 bn in capex, funded by a mix of equity and debt, with INR 1.19 bn in debt. It revised its capex outlay for the Ankaleshwar unit to INR 3.10 bn for the CDMO contract and allied infrastructure. (2) It recently signed an MOU with a global manufacturer of electrolytes for producing electrolytes for battery cells and alloyed materials. Further, it also signed an MoU with the Gujarat government worth INR 3 bn for manufacturing electrolytes in the state. (3) Fermion contract: The company has signed a new contract for additional advanced intermediate taking the total products under CDMO business to five. Production is set to start Ankleshwar unit in Q4FY24 (4) Company will be utilizing 33% of its plant capacity of Ankaleswhar unit for Fermion deal (4) Exports accounted for 61% of sales in Q3FY24 compared to 54% in 2QFY24. (5) Finance cost has increased on account of debt for the capex outlay.
- Change in estimates:** We cut our FY24/25 EPS estimates by 7/6% to INR 20/32, owing to the Q3 performance and fall in product prices.

Financial summary (consolidated)

INR mn	3Q FY24	2Q FY24	QoQ (%)	3Q FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,664	1,724	(3.4)	1,524	9.2	5,201	6,167	6,833	8,390	10,232
EBITDA	265	248	6.8	308	(13.9)	1,052	1,226	1,208	1,771	2,285
APAT	178	44	301.9	223	(20.1)	719	833	745	1,152	1,519
AEPS (INR)	4.9	1.2	301.9	6.1	(20.1)	19.7	22.9	20.4	31.6	41.7
P/E (x)						53.1	45.9	51.3	33.2	25.2
EV/EBITDA(x)						35.4	30.7	32.2	21.9	16.8
RoE (%)						20.9	14.9	11.9	16.3	18.5

Source: Company, HSIE Research

ADD

CMP (on 12 Feb 2024)	INR 1,049
Target Price	INR 1,201
NIFTY	21,616

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,283	INR 1,201
	FY24E	FY25E
EPS %	-7%	-6%

KEY STOCK DATA

Bloomberg code	AMIORG IN
No. of Shares (mn)	37
MCap (INR bn) / (\$ mn)	39/473
6m avg traded value (INR mn)	237
52 Week high / low	INR 1,389/861

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(4.2)	(15.9)	15.8
Relative (%)	(13.1)	(24.7)	(1.3)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	38.93	39.91
FIs & Local MFs	5.94	7.58
FPIs	7.16	11.65
Public & Others	47.97	40.86
Pledged Shares	0.00	0.00

Source: BSE

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Sudarshan Chemical

Expected demand uplift

We maintain REDUCE on Sudarshan Chemical (SCIL), with a price target of INR 487 (WACC 11%, terminal growth 3.5%). SCIL has product offerings like those of the global players but it has been unable to gain market share after the exit of the global majors. The stock is trading at 24x FY25E EPS, which we believe is contextually high (RoE of 11/18% for FY24/FY25E). Q3 EBITDA/APAT was 21/56% below our estimate, owing to lower-than-expected total revenue.

- Financial performance:** Revenue grew 7% YoY and fell 6% QoQ to INR 5,658mn. EBITDA grew 49% YoY and fell 6% sequentially to INR 619mn. EBITDA margin came in at 11% (+306/+3bps YoY/QoQ), owing to the softening of raw material and coal costs. Gross profit margin remained at 45%.
- Pigment segment:** Revenue grew by 7.9% YoY (while remaining stagnant QoQ) to INR 5,215mn and EBIT grew 354/3% YoY/QoQ to INR 392mn. Revenue growth is largely driven by volumes and a change in the product mix and offset by corrections in product prices. EBIT margin for the segment came in at 7.5%, +573/+22bps YoY/QoQ.
- Call takeaways:** (1) Exports accounted for 47% of revenue for the pigment segment compared to 48% in Q3. Demand is expected to pick up domestically and in the US market in Q4FY24 as destocking is on the verge of ending; however, demand remains subdued in the European market. (2) Specialty pigments constituted 69% of the revenue for the pigment segment in Q3. (3) The plastics industry is witnessing favourable demand in the domestic market and export demand is also expected to pick up. (4) The WC cycle reduced to 88 days in Q3FY24 from 112 in Q3FY23. (5) There is healthy and progressive engagement with customers for new products, which should reach optimum capacity within four years. The current contribution from these products is insignificant. (6) Losses in the non-pigment segment can be attributed to overrun in costs due to delays in the execution of projects. (8) The company reduced its net debt to INR 4.34bn from INR 9.46 bn in Q3FY23. (9) Freight costs increased because of the Red Sea crisis and the company can pass on the same to the customer. (10) The management expects that the company will be able to sustain a gross margin at ~45%, given the softening of raw material prices and the change in product mix.

Financial summary (consolidated)

INR mn	3Q FY24	2Q FY24	QoQ (%)	3Q FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	5,658	6,007	(5.8)	5,280	7.2	22,008	23,017	23,921	26,890	29,933
EBITDA	619	656	(5.6)	416	48.7	2,748	2,106	2,790	3,555	3,887
APAT	146	871	(83.2)	6	2,398.6	1,300	448	969	1,648	1,999
AEPS (INR)	2.1	12.6	(83.2)	0.1	2,398.6	18.8	6.5	14.0	23.8	28.9
P/E (x)						27.3	79.3	36.7	21.5	17.8
EV/EBITDA(x)						15.8	20.6	13.8	10.5	9.3
RoE (%)						16.5	5.4	11.3	17.7	19.4

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch	FY26E Old	FY26E New	% Ch
EBITDA (INR mn)	2,959	2,790	(5.7)	3,522	3,555	0.9	3,833	3,887	1.4
Adj. EPS (INR/sh)	16.1	14.0	(13.0)	23.9	23.8	(0.3)	28.7	28.9	0.6

Source: Company, HSIE Research

REDUCE

CMP (as on 05 Feb 2024)	INR 533
Target Price	INR 487
NIFTY	21,772

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 479	INR 487
	FY24E	FY25E
EPS %	+116%	+70%

KEY STOCK DATA

Bloomberg code	SCHI IN
No. of Shares (mn)	69
MCap (INR bn) / (\$ mn)	37/451
6m avg traded value (INR mn)	91
52 Week high / low	INR 567/341

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.2	1.0	44.6
Relative (%)	(2.2)	(8.2)	26.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	35.82	35.82
FIs & Local MFs	13.68	13.60
FPIs	4.64	4.21
Public & Others	45.86	46.37
Pledged Shares	0.00	0.00

Source: BSE

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Neogen Chemicals

One-offs dent profitability

Our BUY recommendation on Neogen Chemicals (NCL) with a target price of INR 2,127/share is premised on (1) entry into the new-age electrolyte manufacturing business; (2) increasing contribution of the high-margin CSM business to revenue; (3) capacity-led growth momentum in legacy business; and (4) improving return ratios and strong balance sheet, going forward. NCL's EBITDA/APAT will grow at a CAGR of 38/45% over FY23-28E while RoE will improve from 11% in FY23 to 31% in FY28E. Q3 EBITDA/APAT were 34/93% below our estimates owing to 10% lower-than-expected revenue, 11% higher-than-expected operating expenses and higher tax expenses. The company has elected to opt for the tax rate as per section 115BAA of the Income Tax Act. As a result, there was an adjustment towards MAT credit which has resulted in higher tax outgo in Q3. Henceforth, the tax rate will be lower than the current tax rate.

- Financial performance:** Revenue came in at INR 1,644mn (-12%/+2% YoY/QoQ). Growth was achieved despite the softening of product prices and the prevailing global headwinds, such as inventory destocking, the rapid reopening of China and a slowdown in the EU and other markets. EBITDA decreased to INR 203 mn (-33%/-22% YoY/QoQ), with EBITDA margin coming in at 12% (-384/-369bps YoY/QoQ). Performance was weak during the quarter on account of initial expenses in the battery chemical business and the one-time impact of the liquidation of high-cost inventory in the subsidiary and parent company. This led to higher raw material costs by INR45-50mn in BuLi chemicals and by INR25mn in the standalone entity.
- Segmental information:** Organic chemicals (79% of revenue) decreased 5% YoY to INR 1,290mn. Inorganic chemicals (21%) fell 30% YoY to INR 350mn. Organic chemical revenue dropped due to a fall in bromine and other raw materials while inorganic chemicals revenue dropped due to a fall in Lithium prices.
- Key con call takeaways:** (1) Neogen Ionic Ltd, the 100% subsidiary of Neogen Chemicals, completed a land acquisition to set up a 30,000TPA electrolyte plant based on MUIS technology. The plant is expected to be commercialised by H2FY26. Besides, NCL shall set up a 3,000 tpa lithium salt capacity unit in addition to a 2,500 tpa capacity salt manufacturing unit at its existing unit in the Dahej SEZ site. The company will receive approval by March 2024 and construction for the 30KTA plant will commence in 1QFY25. (2) The company will incur a capex of INR 15bn for greenfield expansion with revenue potential of INR 25-29 bn based on normalised Lithium prices. (3) The management is confident about the robust demand for electrolytes for its MUIS-based capacity. Their demand assessment is based on (i) the large projects under implementation to set up GW capacities in India by CY25 and (ii) the number of enquiries the company is getting for electrolytes from domestic and overseas customers. (4) Developing nations are looking for non-China-based suppliers for electrolyte salts. (5) The company expects a gradual recovery in the pharma sector and selected pockets in agro.
- Change in estimates:** We cut our FY24/25 EPS estimates by 26/21% to INR 18/38 to factor in Q3FY24 performance and management guidance.
- DCF-based valuation:** Our target price is INR 2,127 (WACC 11%, terminal growth 5.5%). The stock is currently trading at 24x FY26E EPS.

Financial summary (consolidated)

INR mn	3QFY24	2QFY24	QoQ (%)	3QFY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,644	1,617	1.7	1,863	(11.7)	4,873	6,862	6,857	8,822	12,874
EBITDA	203	259	(21.7)	301	(32.7)	866	1,116	1,075	1,581	2,841
APAT	11	79	(86.6)	147	(92.8)	446	500	438	749	1,315
AEPS (INR)	0.4	3.2	(86.6)	5.9	(92.8)	17.9	20.0	17.6	30.0	52.7
P/E (x)						72.2	64.5	73.5	43.0	24.5
EV/EBITDA(x)						39.3	31.9	33.9	23.7	16.4
RoE (%)						14.3	10.8	8.7	13.5	20.4

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch	FY26E Old	FY26E New	% Ch
EBITDA (INR mn)	1,197.1	1,075	-10.2%	1,855.5	1,581	-14.8%	2,898.0	2,841	-2.0%
Adj. EPS (INR/sh)	23.8	18	-26.3%	38.1	30	-21.2%	51.6	53	2.3%

Source: Company, HSIE Research

BUY

CMP (12 Feb 2024)	INR 1,292
Target Price	INR 2,127
NIFTY	21,616

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,114	INR 2,127
EPS %	FY24E	FY25E
	-26%	-21%

KEY STOCK DATA

Bloomberg code	NEOGEN IN
No. of Shares (mn)	26
MCap (INR bn) / (\$ mn)	34/427
6m avg traded value (INR mn)	67
52 Week high / low	INR 1,859/1,232

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(16.6)	(17.2)	2.4
Relative (%)	(25.5)	(26.0)	(14.8)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	60.19	56.89
FIs & Local MFs	20.25	22.84
FPIs	4.24	4.51
Public & Others	15.32	15.75
Pledged Shares	0.00	0.00

Source: BSE

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Consumer Discretionary

Titan

Marginally misses expectations

Titan's top line grew 22% YoY to INR 141.6bn (HSIE: INR 148.2bn). Jewellery (ex-bullion) sales grew 24% YoY to INR125.6bn (in-line). Festive purchases resulted in double-digit buyer growth in jewellery; moderation was seen after Nov-23 though. Consolidated EBITDAM contracted 55 bps YoY to 11% (in-line). Jewellery EBITM (ex-bullion) contracted by 47bps to 11.8% (in-line), courtesy (1) higher marketing spends to defend market share and (2) lower studded ratio. Non-jewellery growth remained healthy (22%); however disappointed on profitability. We largely maintain our FY25/26 EPS estimates and our SELL rating with a DCF-based TP is INR2,750/sh (implying 48x FY26 P/E).

- Q3FY24 highlights:** Revenue grew 22% YoY to INR 141.6bn (HSIE: INR 148.2bn). Jewellery (ex-bullion) sales grew 24% YoY to INR125.6bn (in-line). Domestic standalone jewellery sales growth (ex-bullion) grew 21% in Q3FY24. Strong festive season kept buyer growth healthy in the double-digits. However, a moderation in demand was observed post November due to a sudden spurt in gold prices. Note: Gold price increased by 16% YoY in Q3. Secondary/LTL jewellery sales growth stood at 21/15% for Tanishq (9MFY24). Momentum in sub-INR 100k ticket sizes continues to be sluggish. Studded ratio for Q3 stood at 24% (vs 26% in Q3FY23). Jewellery EBITM (ex-bullion) contracted by 47bps to 11.8% (in-line), courtesy (1) higher marketing spends to defend market share and (2) lower studded ratio. Watches/eyewear/others grew 21.6/-3.4/46.3% YoY respectively (HSIE: 21/-3/24%). The non-jewellery segment reported an EBITM of 5% (HSIE: 8.3%; Q3FY23: 8.2%). The company has guided for 12-13% EBITM for jewellery. The company added 21/17/16/11/9/5/11 Tanishq/ Mia/Caratlane/Helios/Titan/Fastrack/Taneria stores (net) in Q3. Consolidated APAT grew 15.3% YoY to INR 10.53 bn (HSIE: INR 10.76bn).
- Outlook:** Titan's execution over FY19-24 has been on point. However, it has benefited from a sharp gold price rise and the channelling of elevated household savings during this period. Most of the heavy lifting for growth from here on has to be volume-led, which could restrain supernormal growth rates in a slowing economy. We maintain our FY25/26 EPS estimates and SELL rating on Titan with a DCF-based TP of INR2,750/sh (implying 48x FY26 P/E).

Quarterly financial summary

(Rs mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	1,41,640	1,16,090	22.0	1,25,290	13.0	2,87,990	4,05,750	5,05,011	5,70,517	6,34,216
EBITDA	15,650	13,470	16.2	14,110	10.9	30,530	44,910	50,291	59,096	67,280
APAT	10,530	9,130	15.3	9,160	15.0	22,520	32,740	37,389	43,829	50,716
EPS (Rs)	11.9	10.3	15.3	10.3	15.0	25.4	36.9	42.1	49.4	57.1
P/E (x)						146.5	100.8	88.2	75.3	65.0
EV/EBITDA (x)						110.4	75.3	67.5	57.5	50.5
Core RoCE(%)						15.4	17.5	16.4	15.6	15.3

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	5,05,011	5,05,980	(0.2)	5,70,517	5,61,134	1.7	6,34,216	6,23,655	1.7
Gross Profit	1,16,910	1,19,158	(1.9)	1,35,212	1,35,233	(0.0)	1,52,211	1,52,171	0.0
Gross Profit Margin (%)	23.1	23.5	(40 bps)	23.7	24.1	(40 bps)	24.0	24.4	(40 bps)
EBITDA	50,291	50,944	(1.3)	59,096	58,742	0.6	67,280	66,846	0.6
EBITDA margin (%)	10.0	10.1	(11 bps)	10.4	10.5	(11 bps)	10.6	10.7	(11 bps)
APAT	37,389	37,360	0.1	43,829	43,549	0.6	50,716	50,450	0.5
APAT margin (%)	7.4	7.4	2 bps	7.7	7.8	(8 bps)	8.0	8.1	(9 bps)
EPS	42.1	42.1	0.1	49.4	49.1	0.6	57.1	56.8	0.5

Source: Company, HSIE Research

SELL

CMP (as on 01 Feb 2024)	INR 3,626
Target Price	INR 2,750
NIFTY	21,697

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 2,700	INR 2,750
EPS %	FY25E +0.6	FY26E +0.2

KEY STOCK DATA

Bloomberg code	TTAN IN
No. of Shares (mn)	888
MCap (INR bn) / (\$ mn)	3,220/39,378
6m avg traded value (INR mn)	2,845
52 Week high / low	INR 3,887/2,270

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.3	20.8	54.6
Relative (%)	1.6	13.0	34.6

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	52.90	52.90
FIs & Local MFs	10.05	10.44
FPIs	19.05	18.89
Public & Others	18.00	17.77

Pledged Shares - -

Source : BSE

Pledged shares as % of total shares

Jay Gandhi

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Asian Paints

Broadly in-line performance; not much to cheer about!

APNT's revenue grew 5.4% in Q3 to INR 91.0bn (HSIE: INR 91.9bn). Decorative clocked 12/5.5% volume/value growth and industrial business grew ~11% YoY in Q3FY24. Luxury and economy products supported growth in the deco segment. Growth was balanced across rural and urban markets. Normalizing input costs coupled with operational, formulation and sourcing efficiencies led to margin expansion. GM/EBITDAM expanded 504/393bps YoY respectively to 43.6/22.6% (HSIE: 43.6/21.4%). We've cut our FY25/26 EPS estimates by 0.9/4.4% to account for lower volume growth in FY25/26. Maintain REDUCE with an unchanged DCF-based TP of INR 3,150/sh, implying 48x Mar-26 P/E.

- Q3FY24 highlights:** Q3 consolidated revenue grew 5.4% YoY to INR 91.0bn (HSIE: INR 91.9bn). The decorative and industrial business collectively clocked +12/6.1% volume/realization growth in Q3. Growth was supported by the extended festive season with some moderation in the later part of Q3. Management intends to clock double-digit volume growth in coming quarters. International business remained flat YoY at INR7.8bn as good growth in the Middle East/Africa cushioned the decline in Asia revenues (courtesy macro-uncertainties in Bangladesh). Within the industrial business, automotive (PPG-AP) and general industrial (AP-PPG) segments grew 12.3/10.1% respectively. PBT margins for PPG-AP/AP-PPG stood at 22.2/11.5% in Q3FY24. Overall, continued RM deflation (-0.2%) along with operational, formulation and sourcing efficiencies led to margin expansion. Consolidated GM/EBITDAM expanded 504/393bps YoY respectively to 43.6/22.6% (HSIE: 43.6/21.4%). Management expects this to continue in Q4. APAT grew 34.5% YoY to INR 14.75bn (HSIE: INR 14.03bn). Note: Management took a 1% price correction in Q3. APNT added 2k touchpoints in Q3. Inorganic expansion at both Khandala and Kasna has been completed (production capacity – 4,00,000/1,00,000 KL p.a. respectively).
- Outlook:** Weak demand and rising competitive intensity are likely to keep top-line growth in check (~10% CAGR over FY24-26). This is also likely to keep the pricing lever out of play for some time. We've cut our FY25/26 EPS estimates by 0.9/4.4% to account for lower volume growth. Maintain REDUCE with an unchanged DCF-based TP of INR 3,150/sh, implying 48x Mar-26 P/E.

Quarterly financial summary

(Rs mn)	3Q FY24	3Q FY23	YoY (%)	2Q FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	91,031	86,367	5.4	84,786	7.4	2,91,013	3,44,886	3,61,886	4,00,533	4,43,057
EBITDA	20,561	16,114	27.6	17,162	19.8	48,036	62,598	78,757	84,430	92,829
APAT	14,752	10,971	34.5	12,054	22.4	29,149	40,576	55,071	57,670	62,369
EPS (Rs)	15.4	11.4	34.5	12.6	22.4	30.4	42.3	57.4	60.1	65.0
P/E (x)						92.1	71.8	53.6	53.9	49.9
EV/EBITDA (x)						64.7	49.1	39.3	36.8	33.3
Core RoCE(%)						25.9	29.4	33.7	29.6	27.5

Source: Company, HSIE Research

Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	3,61,886	3,61,886	-	4,00,533	4,05,480	(1.2)	4,43,057	4,56,102	(2.9)
Gross Profit	1,55,844	1,55,844	-	1,71,352	1,74,008	(1.5)	1,89,688	1,95,680	(3.1)
Gross Profit Margin (%)	43.1	43.1	-	42.8	42.9	(13 bps)	42.8	42.9	(9 bps)
EBITDA	78,757	78,214	0.7	84,430	84,958	(0.6)	92,829	94,783	(2.1)
EBITDA margin (%)	21.8	21.6	15 bps	21.1	21.0	13 bps	21.0	20.8	17 bps
APAT	55,071	53,859	2.2	57,670	58,180	(0.9)	62,369	65,222	(4.4)
APAT margin (%)	15.2	14.9	33 bps	14.4	14.3	5 bps	14.1	14.3	(22 bps)
EPS (Rs)	57.4	56.2	2.2	60.1	60.7	(0.9)	65.0	68.0	(4.4)

Source: Company, HSIE Research

REDUCE

CMP (as on 17 Jan 2024) INR 3,242

Target Price INR 3,150

NIFTY 21,572

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 3,150	INR 3,150
EPS %	FY25E -0.9	FY26E -4.4

KEY STOCK DATA

Bloomberg code	APNT IN
No. of Shares (mn)	959
MCap (INR bn) / (\$ mn)	3,110/38,028
6m avg traded value (INR mn)	2,843
52 Week high / low	INR 3,568/2,686

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.1	(6.3)	10.2
Relative (%)	(3.5)	(13.7)	(7.6)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	52.63	52.63
FIs & Local MFs	10.05	10.58
FPIs	17.65	17.32
Public & Others	19.67	19.47
Pledged Shares	3.42	3.46

Source : BSE

Pledged shares as % of total shares,

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Avenue Supermarts

In-line print

Revenue grew by 17.2%. Sales density, though below pre-pandemic levels, continues to normalize upwards (~INR37.3k/sq ft in Q3FY24 vs INR38.7k/sq ft in Q3FY20); up 5% YoY for 9MFY24. Contribution from GM&A has stabilized, and demand trends are encouraging post-Diwali. Festive season sales were lower than management's expectations in the non-FMCG category. Within FMCG, agri-staples (ex-edible oil) continue to face the brunt of high inflation. Margins were largely in line. Gross margin stood at 14.2% (vs HSIE: 14.3%) and EBITDAM stood at 8.5% (-16bps YoY; vs HSIE: 8.6%). We largely maintain our estimates and maintain our REDUCE rating on DMART, with a DCF-based TP of INR 3,400/sh (earlier INR 3,350/sh), implying 58x Mar-26 P/E (consolidated).

- Q3FY24 highlights:** Results came in line with estimates. Revenue grew 17.2% to INR132.5bn. Revenue/EBITDA per sq ft came in at INR37.34k/3.16k per sq ft (96/93% of pre-pandemic base). Management highlighted that the contribution from GM&A has stabilized and demand trends seem to be encouraging post-Diwali. Festive season sales were lower than management's expectations in the non-FMCG category. Within the FMCG segment, agri-staples (ex-edible oil) continue to face the brunt of high inflation. Gross margin came in at 14.2% (-9bps YoY; vs HSIE: 14.3%). EBITDAM at 8.5% was 16bps lower YoY; HSIE: 8.6%. EBITDA growth came in at 15% (INR 11.2 bn vs HSIE: INR 11.4bn). The company added five stores (net) in Q3 (store count: 341, Area: 14.19mn). APAT stood at INR 7.37bn (HSIE: INR 7.62 bn). Interestingly, QIP money was almost fully utilized (INR39.28bn of the 40.78bn; INR8.85bn used in 9MFY24). CWIP + cash & eq stands at ~INR22.3bn as of Sep-23. This implies DMART might have another 55-60 stores in it. Could this potentially mean another fundraise over the next 18 months? Perhaps!
- Outlook:** The worst of margin pressures seems behind DMART with its GM&A portfolio stabilizing. The low base effect should keep PAT growth healthy from here on. We largely maintain our estimates and maintain our REDUCE rating on DMART, with a DCF-based TP of INR 3,400/sh (earlier INR 3,350/sh), implying 58x Mar-26 P/E (consolidated).

Quarterly financial summary

(Rs mn)	3Q FY24	3Q FY23	YoY (%)	2Q FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	1,32,473	1,13,046	17.2	1,23,077	7.6	3,03,525	4,18,333	4,95,666	5,86,411	6,86,005
EBITDA	11,209	9,745	15.0	10,018	11.9	25,015	36,594	42,303	51,981	62,067
APAT	7,368	6,411	14.9	6,585	11.9	16,162	25,564	27,932	34,421	41,185
EPS (Rs)	11.3	9.9	14.4	10.12	11.9	24.9	39.4	43.1	53.1	63.5
P/E (x)						153.3	97.0	88.8	72.1	60.2
EV/EBITDA (x)						103.4	70.1	60.6	49.1	40.9
Core RoCE(%)						14.8	19.1	17.5	18.3	18.5

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	4,95,666	4,95,666	-	5,86,411	5,86,411	-	6,86,005	6,86,005	-
Gross Profit	70,804	70,804	-	85,833	85,833	-	1,01,818	1,01,818	-
Gross Profit Margin (%)	14.3	14.3	-	14.6	14.6	-	14.8	14.8	-
EBITDA	42,303	42,401	(0.2)	51,981	52,098	(0.2)	62,067	62,204	(0.2)
EBITDA margin (%)	8.5	8.6	(2 bps)	8.9	8.9	(2 bps)	9.0	9.1	(2 bps)
APAT	27,932	27,957	(0.1)	34,421	34,508	(0.3)	41,185	41,288	(0.2)
APAT margin (%)	5.6	5.6	(1 bps)	5.9	5.9	(1 bps)	6.0	6.0	(1 bps)
EPS (Rs)	43.1	43.1	(0.1)	53.1	53.2	(0.3)	63.5	63.7	(0.2)

Source: Company, HSIE Research

REDUCE

CMP(as on 12 Jan 2024) INR 3,841

Target Price INR 3,400

NIFTY 21,895

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 3,350	INR 3,400
	FY25E	FY26E
EPS %	-0.3	-0.2

KEY STOCK DATA

Bloomberg code	DMART IN
No. of Shares (mn)	651
MCap (INR bn) / (\$ mn)	2,499/30,563
6m avg traded value (INR mn)	1,362
52 Week high / low	INR 4,206/3,292

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.6)	0.9	(1.8)
Relative (%)	(9.8)	(10.1)	(22.8)

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	74.65	74.65
FIs & Local MFs	6.86	7.27
FPIs	8.17	7.67
Public & Others	10.32	10.41
Pledged Shares	0	0

Source : BSE

-Pledged shares as % of total shares
-Shareholding pattern for Dec-24 is not available

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Trent

The one that got away!

Amidst the apparel slowdown, Trent remains an anomaly. Standalone revenue grew 52.5% YoY to INR33.12bn (HSIE: INR30.5bn). Zudio continues to anchor this exceptional growth. SSSG across all fashion formats stood at 10% in Q3. The F&G format Star continues to improve its value proposition/sales density and scale well (up 26% YoY; growth almost entirely SSSG-led). EBITDAM expanded 336bps to 18.8% (HSIE 15.5%) as scale-led operating leverage gains kicked in. Note Pre-IND AS EBITM expanded 450bps to 13%. We've revised our FY25/26 EBITDA estimates by 8/6% to account for higher growth. Maintain SELL with a SOTP-based TP of INR2,350/sh (includes 45x FY26 P/adj PBT for the standalone business).

- Q3FY24 highlights:** Standalone revenue grew 52.5% YoY to INR 33.12bn (vs HSIE: INR 30.5bn). SSSG across all fashion formats stood at 10% for Q2. Zudio's growth continues to anchor this blitz scale. In Q3, Westside/Zudio added 5/50 stores (net), taking their total store count to 227/460 respectively. Emerging categories contributed 19% of standalone revenue. Trent's F&G format Star grew 26% YoY in Q2 (growth was almost entirely SSSG-led). Standalone GM expanded 57bps YoY to 46% (HSIE: 44%) despite the rising skew of Zudio (low GM business) in the mix. We suspect Zudio's GM would have improved meaningfully in Q3. EBITDAM expanded 336bps YoY to 18.8% as scale-led operating leverage benefits continue to play out. Reported EBITDA grew 86% YoY to INR6.23bn (HSIE: INR4.73bn). Operating EBIT margin for Q3FY24 was 13% (8.5% for Q3FY23). Q3 PBT/PAT more than doubled to INR4.47/3.44bn (HSIE: INR3.83/2.86bn).
- Outlook:** Trent continues to run circles around peers in terms of growth. Its disciplined WC management and well-capitalised balance sheet do not allow us to fault the business. We've revised our FY25/26 EBITDA estimates by 8/6% to account for higher growth. However, its heady valuation (~100x FY26 P/E) restrains us from becoming constructive on the stock. Hence, we maintain SELL with a SOTP-based TP of INR 2,330/sh (includes 45x FY26 P/adj PBT for the standalone business).

Quarterly financial summary (standalone)

(INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23E	FY24E	FY25E	FY26E
Net Revenue	33,125	21,715	52.5	28,907	14.6	38,807	77,152	1,16,928	1,52,661	1,89,447
EBITDA	6,232	3,356	85.7	4,609	35.2	6,335	11,193	17,450	20,958	26,067
APAT	3,436	1,610	113.5	2,897	18.6	2,496	5,546	9,128	10,382	13,066
EPS (Rs)	9.7	4.5	113.5	8.2	18.6	7.0	15.6	25.7	29.2	36.8
P/E (x)						488.2	231.4	140.6	123.6	98.2
EV/EBITDA (x)						419.5	189.9	101.2	86.9	69.3
Core RoCE(%)						13.2	13.5	27.1	24.6	26.8

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	1,16,928	1,11,908	4.5	1,52,661	1,46,119	4.5	1,89,447	1,79,967	5.3
Gross Profit	51,367	49,102	4.6	65,351	62,997	3.7	81,049	77,858	4.1
Gross Profit Margin (%)	43.9	43.9	5 bps	42.8	43.1	(31 bps)	42.8	43.3	(48 bps)
EBITDA	17,450	15,632	11.6	20,958	19,446	7.8	26,067	24,594	6.0
EBITDA margin (%)	14.9	14.0	96 bps	13.7	13.3	42 bps	13.8	13.7	9 bps

Source: Company, HSIE Research

SELL

CMP (as on 07 Feb 2024) INR 3,608

Target Price INR 2,330

NIFTY 21,931

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 2,050	INR 2,330
EBITDA %	FY25E +7.8	FY26E +6.0

KEY STOCK DATA

Bloomberg code	TRENT IN
No. of Shares (mn)	355
MCap (INR bn) / (\$ mn)	1,282/15,681
6m avg traded value (INR mn)	1,814
52 Week high / low	INR 3,635/1,206

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	48.8	113.5	197.4
Relative (%)	37.7	104.1	177.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	37.01	37.01
FIs & Local MFs	8.54	9.21
FPIs	25.64	25.91
Public & Others	28.81	27.87
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Havells India

Near-term blip an opportunity to ADD

Havells reported a weak Q3 print as feeble consumer sentiment and sustained investment in strategic initiatives (branding, distribution, capability) more than offset the robust momentum seen in the B2B portfolio. While urban demand has remained steady, demand from Class B/C towns has been sluggish. However, with early signs of demand recovery visible (supported by abating inflation) and the expectation of a good upcoming summer season (on a low base), we expect improvement both in revenue and profitability from here. Through its multi-product portfolio serving a diverse consumer base, we believe Havells is well placed to benefit from the current uptick seen in private/government capex and real-estate tailwind, given (1) it has a diverse product portfolio covering 70%+ of household electric sockets; (2) it is among the top 3 players in most product categories; (3) its Lloyd portfolio is gaining traction; and (4) it has an innovation focus and its GTM expansion to become more omnipresent. We cut our FY24/25 EPS by 5/2% to reflect Q3 performance while retaining our FY26 EPS and we value the stock at 50x Dec25 EPS to arrive at a target price of INR 1,500. Maintain ADD.

- In-line revenue; weak operating performance:** Revenue grew by 7% YoY to INR44bn (HSIE: INR45bn). The B2B segment continued to drive growth while B2C demand remained subdued. However, early signs of recovery are visible. Gross margin expanded by 30bps YoY to 33.3% (HSIE: 33.5%), aided by the softening RM environment. EBITDA grew by 2% YoY to INR4.3bn (8/10% below HSIE/consensus) while the margin contracted by 50bps YoY to 9.8% (HSIE: 10.4%). Employee/A&P/other expenses grew by 14%/23%/10% YoY. As a % of sales, employee/A&P expenses saw a 60/90bps increase YoY. Adjusting for INR395mn provisions which were written back, EBITDAM stands at 9%. PBT grew by 2% YoY to INR3.9bn. APAT grew by 1% YoY to INR2.9bn.
- Margins contract across categories; Lloyd losses widen:** Switchgear revenue grew by 1% YoY to INR5.2bn while margin contracted 60bps YoY to 24.1%. **Cable** revenue grew by 11% YoY to INR15.7bn while the margin contracted 110bps YoY to 10.4%. Sustained infra demand supported cable revenue. Lighting revenue grew by 2% YoY to INR4.3bn while its margin expanded 150bps YoY to 14.2%. Professional lighting saw healthy growth while the B2C portfolio remained impacted by LED price deflation. ECD revenue grew by 3% YoY to INR9.6bn while the margin contracted 200bps YoY to 11.2%. **Lloyd** revenue grew by 7% YoY to INR6.5bn while its margin came in at -10.1% vs -9.8% YoY. We note that contribution margins remained stable across most categories. However, higher A&P spending led to a fall in EBIT margins.
- Con call takeaways:** (1) Urban demand is steady. There is inflation-led pressure on Class B/C towns. They may bounce back as inflation abates. (2) In switchgear, retail and project business grew but telecommunication and OEM (exports) were muted. (3) Festive season gains in ECD were offset by a high fan base. (4) Cable margin was impacted by changing product mix. (4) The company will build Lloyd's brand and distribution set-up overseas, which is a long-term play. (5) E-com saliency is at 5%. Higher for SDA and personal grooming. (6) 35% of Lloyd's revenue is via consumer financing.

Quarterly/Annual Financial summary

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	44,006	41,197	6.8	38,912	13.1	1,68,684	1,86,369	2,14,170	2,44,033
EBITDA	4,326	4,237	2.1	3,735	15.8	16,030	17,835	22,536	28,166
APAT	2,879	2,839	1.4	2,491	15.6	10,750	12,202	15,748	19,933
EPS (INR)	4.6	4.5	1.4	4.0	15.6	17.2	19.5	25.1	31.8
P/E (x)						76.1	67.0	51.9	41.0
EV / EBITDA (x)						49.7	44.5	34.9	27.7
RoE (%)						17.1	17.5	20.3	22.5

Source: Company, HSIE Research

ADD

CMP (as on 24 Jan 2024) INR 1,305

Target Price INR 1,500

NIFTY 21,454

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,500	INR 1,500
EPS %	FY25E -2%	FY26E 0%

KEY STOCK DATA

Bloomberg code	HAVL IN
No. of Shares (mn)	627
MCap (INR bn) / (\$ mn)	818/10,005
6m avg traded value (INR mn)	1,056
52 Week high / low	INR 1,472/1,128

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.6	0.7	9.4
Relative (%)	(8.4)	(6.4)	(7.1)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	59.43	59.43
FIs & Local MFs	9.49	10.12
FPIs	24.19	23.96
Public & Others	6.89	6.49
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Indian Hotels

Robust performance in a seasonally favourable quarter

IHCL's Q3FY24 financials were in line with revenue growth of 16.5% YoY to INR19.6bn, led by increased occupancy (69.6%, +160 bps YoY) and ARR (+12% YoY), resulting in strong RevPAR growth (+15% YoY) at domestic enterprise level. The increase in ARR/RevPAR was driven by a favourable medium-term demand-supply gap in key locations, vacation and wedding travel, and the Cricket World Cup. IHCL's EBITDA margin increased by 190 bps YoY to 37.3% in this seasonally favourable quarter, led by cost control-driven operating leverage. IHCL launched its 200th hotel recently and the total hotel count is expected to go up to 280 by 2027. We believe there is still potential for upside in ARR and occupancy from current levels. Also, we expect RevPAR to experience a low-teens CAGR over the next two years, preceding any potential supply glut. Stock has climbed up by 59% in the last year, so despite our sanguine outlook about the growth of the company we downgrade the stock to REDUCE as we roll forward to FY26 with an EV/EBITDA multiple of 24x FY26 and a TP of INR456.

- Q3FY24 highlights:** Revenue grew 16.5% YoY to INR19.6bn, 2% above consensus. EBITDA grew strongly to INR 7.3bn (+23% YoY), beating consensus by a sizable 6%. This was led by enterprise occupancy levels ~69.6% (+160 bps YoY) and increased ARR at INR 11,792 (+12% YoY) in Q3FY24. This helped the domestic enterprise RevPAR to register a robust 15% YoY growth to reach INR 8,212 in the quarter. RM and employee costs moderated YoY. Accordingly, the adj PAT increased 37% YoY to INR4.5 bn (3% beat).
- Group update:** Ginger recorded revenue of INR 1.34 bn (+34% YoY) with a 44% EBITDA margin. Ginger renovation is progressing as per management guidance and as of Q3FY24, it is 67% Lean Luxe, commanding a 25%+ rate premium. In this quarter, the much-awaited Ginger Mumbai airport has been opened; it has 371 rooms and is expected to contribute revenue/EBITDA of INR1 bn/INR 500 mn per year by FY27. Furthermore, Tajsats reported record revenue of INR 2.33 bn (+34% YoY) with a 26% EBITDA margin (+510bps YoY). Qmin and ama continued their strong performances.
- Outlook:** IHCL signed nine new hotels and opened six new hotels in Q3FY24. It plans to open 29 new hotels (2,666 rooms) in CY24, which will include 79% managed hotels. Additionally, the company is capitalizing on the industry tailwinds by planning to add ~11,114 rooms (+48% from the CY23 inventory level of 23,168) over CY24 to CY27. We remain positive about the growth outlook of the company but due to a sharp run-up of the stock price in the past year, we downgrade it to REDUCE as we roll forward to FY26 with an EV/EBITDA multiple of 24x FY26 and a TP of INR456.

Financial Summary

(INR mn, Mar YE)	3Q FY24	3Q FY23	YoY (%)	2Q FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Revenues	19,638	16,858	16%	14,332	37%	58,099	67,430	75,850	84,194
EBITDA	7,324	5,972	23%	3,548	106%	18,046	21,982	24,900	28,120
APAT	4,520	3,790	19%	1,670	171%	10,003	12,380	14,953	17,410
Diluted EPS (INR)	3.18	2.69	18%	1.2	169%	7.0	8.7	10.5	12.3
P/E (x)						71.8	57.5	47.6	40.9
EV/EBITDA						39.0	33.6	29.7	26.3
RoE (%)						13.3	14.3	15.3	15.3

Source: Company, HSIE Research

REDUCE

CMP (as on 02 Feb 2024)	INR 500
Target Price	INR 456
NIFTY	21,854

KEY CHANGES	OLD	NEW
Rating	ADD	REDUCE
Price Target	INR398	INR 456
EPS Change %	FY24E +4%	FY25E +3%

KEY STOCK DATA

Bloomberg code	IH IN
No. of Shares (mn)	1,423
MCap (INR bn) / (\$ mn)	712/8,703
6m avg traded value (INR mn)	1,299
52 Week high / low	INR 519/298

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	28.1	26.3	57.2
Relative (%)	15.6	16.8	37.0

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	38.2	38.1
FIs & Local MFs	23.1	22.2
FPIs	22.2	23.3
Public & Others	16.4	16.3
Pledged Shares	-	-

Source : BSE

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Berger Paints

In-line print

BRGR grew 7.0% YoY to INR28.8bn (HSIE: INR 28.5bn). Value/volume growth for Q3 stood at 6.4/9.1%. Decorative business outperformed with double-digit growth. In industrials, both GI and automotive clocked decent growth (on a high base), led by the commercial vehicle and two-wheeler industry. Distribution expansion remains healthy (added 2.3k retail touchpoints/1.3k tinting machines in Q3). GM expanded 638bps YoY to 41.1% (HSIE: 41.2%), courtesy (1) moderating RM prices and (2) formulation savings. EBITDAM followed suit and expanded 368bps YoY to 16.7% (HSIE: 17.5%), partially offset by higher employee and marketing expenses. We maintain our estimates and retain ADD with a DCF-based TP of INR585/sh (implying 42x FY26E P/E).

- Q3FY24 highlights:** Consolidated revenue grew 7% to INR28.8bn (HSIE: INR 28.5bn). Standalone revenue grew 6.4% YoY to INR25.7bn (HSIE: INR25.4bn). Value/volume growth for Q3 stood at 6.4/9.1%. Lower value growth in Q3 was a factor of (1) price decrease taken by the end of Nov-23 and (2) greater traction in the economy segment products; though mix improvement has narrowed the gap between value-volume growth. Decorative business clocked double-digit volume growth. Distribution expansion stays healthy (added 2.3k retail touchpoints/1.3k tinting machines in Q3). In industrials, both GI and automotive clocked decent growth (on a high base), led by the CV and two-wheeler industry. The powder coatings business clocked decent growth, aided by an uptick in the fan industry and new customer acquisition. GM expanded 638bps YoY to 41.1% (HSIE: 41.2%), courtesy (1) moderating RM prices and (2) formulation savings. EBITDAM followed suit and expanded 368bps YoY to 16.7% (HSIE: 17.5%), partially offset by (1) higher employee expenses and (2) higher marketing spending in the ICC World Cup (increase of 1.5% of revenue). Sandila plant is operating at 35% capacity utilisation; built to fulfill the North-Central area demand for at least the next 4-5 years. The company has a net cash position of INR 560mn in Q3. APAT grew 49.2% to INR 3.0 bn (HSIE: INR 3.1bn).
- Outlook:** BRGR continues to defend its market share (20%) amidst rising competitive intensity. Demand momentum to continue in the deco segment, led by the uptick in rural demand. We maintain our estimates and ADD rating with a DCF-based TP of INR585/sh (implying 42x FY26E P/E).

Quarterly financial summary

(Rs mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	28,818	26,936	7.0	27,673	4.1	87,618	1,05,678	1,12,931	1,26,554	1,41,768
EBITDA	4,800	3,497	37.3	4,737	1.3	13,311	14,872	19,838	22,231	25,187
APAT	3,002	2,012	49.2	2,921	2.7	8,330	8,604	12,200	14,034	16,215
EPS (Rs)	2.6	2.1	24.3	2.5	2.7	8.6	8.9	10.5	12.0	13.9
P/E (x)						69.1	66.9	56.6	49.2	42.6
EV/EBITDA (x)						43.5	39.1	34.7	30.5	26.6
Core RoCE(%)						19.4	17.6	21.8	24.0	26.1

No Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	1,12,931	1,12,931	-	1,26,554	1,26,554	-	1,41,768	1,41,768	-
Gross Profit	46,011	46,011	-	51,561	51,561	-	57,760	57,760	-
Gross Profit Margin(%)	40.7	40.7	-	40.7	40.7	-	40.7	40.7	-
EBITDA	19,838	19,838	-	22,231	22,231	-	25,187	25,187	-
EBITDA margin (%)	17.6	17.6	-	17.6	17.6	-	17.8	17.8	-
APAT	12,200	12,200	-	14,034	14,034	-	16,215	16,215	-
APAT margin (%)	10.8	10.8	-	11.1	11.1	-	11.4	11.4	-
EPS (Rs)	10.5	10.5	-	12.0	12.0	-	13.9	13.9	-

Source: Company, HSIE Research

ADD

CMP (as on 09 Feb 2024)	INR 554
Target Price	INR 585
NIFTY	21,783

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 585	INR 585
EPS %	FY25E	FY26E
	-	-

KEY STOCK DATA

Bloomberg code	BRGR IN
No. of Shares (mn)	1,166
MCap (INR bn) / (\$ mn)	646/7,897
6m avg traded value (INR mn)	727
52 Week high / low	INR 680/458

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(4.3)	(4.8)	16.9
Relative (%)	(14.7)	(13.3)	(0.8)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	74.99	74.99
FIs & Local MFs	4.07	4.68
FPIs	10.89	10.68
Public & Others	10.05	9.65
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Fsn E-commerce Ventures (Nykaa)

Broadly in-line performance; thesis remains on track

Nykaa's Q3 top line grew 22.3% YoY to INR17.89bn (HSIE: INR17.98bn). BPC growth continues to moderate (22.8% YoY for 9MFY24; vs 42% CAGR over FY19-23). BPC/Fashion revenue grew 19/20% respectively, lower than their respective GMV growth (24/40%), as (1) higher brand discounts put downward pressure on take rates (lower GMV-to-NSV conversion) and (2) ad/service income was lower (note: ad income is estimated to have declined by ~150bps YoY for 9MFY24). Given the rising skew of non-BPC GMV; contribution margins continued to contract (-72bps). EBITDAM for Q3 stood at 5.5% (HSIE: 5.8%). We largely maintain our FY25/26 EBITDA estimates and REDUCE rating with a DCF-based TP of INR145/sh (implying 68x FY26 EV/EBITDA).

- Q3FY24 highlights:** Revenue grew 22.3% to INR17.89bn (vs HSIE: INR17.98bn). BPC AUTC/orders grew 15.6/16.8% YoY respectively in Q3 (to 11.1mn each) and Fashion AUTC/orders grew 20.8/17.6% YoY respectively in Q3 (to 2.9/2mn resp). BPC/Fashion revenue grew 19/20% (HSIE: INR15.05/1.53bn respectively), lower than their respective GMV growth (24/40%) as (1) higher brand discounts put downward pressure on take rates (lower GMV-to-NSV conversion) and (2) ad/service income was lower (note: ad income is estimated to have declined by ~150bps YoY for 9MFY24). CAC for non-BPC segments (Fashion/eB2B) reduced meaningfully as Nykaa improved its order-to-visit conversion rates. Interestingly, in BPC, despite the higher salience of existing customers in GMV, CAC increased 90bps YoY to 8.9% in 9MFY24—could this mean the cost of retaining existing BPC traffic is getting more expensive? It certainly warrants closer monitoring. GM contracted 86bps YoY to 42.5% (HSIE: 43.5%) due to (1) rising non-BPC skew and (2) lower ad/service income. Despite this, EBITDAM expanded 18bps YoY to 5.5% (HSIE: 5.8%) as Nykaa improved on its fixed cost absorption. EBITDA/APAT grew 26/106% to INR988/175mn (HSIE: INR1,035/215mn).
- Outlook:** Ex-ad income, the lack of non-linear monetisation levers forces us to keep our valuation compass somewhere between a linear business and a pure platform. We largely maintain our FY25/26 EBITDA estimates and our REDUCE rating with a DCF-based TP of INR145/sh (implying 68x FY26 EV/EBITDA).

Quarterly financial summary

(Rs mn)	3Q	3Q	YoY	2Q	QoQ	FY22	FY23	FY24E	FY25E	FY26E
	FY24	FY23	(%)	FY24	(%)					
Net Revenue	17,888	14,628	22.3	15,070	18.7	37,739	51,438	62,992	81,787	1,02,805
EBITDA	988	782	26.4	806	22.5	1,633	2,560	2,918	5,540	8,134
APAT	175	85	105.7	78	123.8	413	248	67	1,807	3,620
EPS (Rs)	0.1	0.0	105.5	0.0	123.8	0.9	0.1	0.0	0.6	1.3
P/E (x)						183.1	1,844.5	6,835.7	253.4	126.5
EV/EBITDA (x)						519.6	390.7	273.1	117.0	75.1
Core RoCE(%)						4.4	2.6	1.4	8.1	12.0

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	62,992	63,377	(0.6)	81,787	83,233	(1.7)	1,02,805	1,05,162	(2.2)
Gross Profit	27,013	27,460	(1.6)	34,870	35,582	(2.0)	43,341	44,487	(2.6)
Gross Profit Margin(%)	42.9	43.3	(44 bps)	42.6	42.7	(11 bps)	42.2	42.3	(15 bps)
EBITDA	2,918	2,797	4.3	5,540	5,568	(0.5)	8,134	8,232	(1.2)
EBITDA margin (%)	4.6	4.4	22 bps	6.8	6.7	8 bps	7.9	7.8	8 bps
APAT	67	8	695.3	1,807	1,816	(0.5)	3,620	3,606	0.4
APAT margin (%)	0.1	0.0	9 bps	2.2	2.2	3 bps	3.5	3.4	9 bps
EPS (Rs)	0.02	0.00	695.3	0.63	0.64	(0.5)	1.27	1.26	0.4

Source: Company, HSIE Research

REDUCE

CMP(as on 06 Feb 2024)	INR 160
Target Price	INR 145
NIFTY	21,929

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 145	INR 145
	FY25E	FY26E
EBITDA%	-0.5	+0.4

KEY STOCK DATA

Bloomberg code	NYKAA IN
No. of Shares (mn)	2,855
MCap (INR bn) / (\$ mn)	458/5,601
6m avg traded value (INR mn)	1,284
52 Week high / low	INR 196/114

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	8.9	8.7	16.3
Relative (%)	(2.2)	(1.1)	(3.0)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	52.26	52.24
FIs & Local MFs	10.73	10.88
FPIs	9.84	10.65
Public & Others	27.17	26.23

Pledged Shares

Source : BSE

Pledged shares as % of total shares

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Jubilant FoodWorks

Weak quarter

Jubilant's Q3 print was impacted by weak consumer sentiment as revenue/EBITDA fell by 2/3% YoY (HSIE: +7/-1%). Despite the festive season and ICC Cricket World Cup, LFL growth was -2.9%. Delivery revenue grew by 6% YoY (positive LFL), aided by 20-minute delivery (70% of delivery volumes) and the cheesy rewards loyalty program. Combo sales and other initiatives resulted in the highest-ever ticket size in the last nine quarters. However, dine-in revenue fell 6% and was a key drag to LFL. Jubilant opened 40 new stores in India and remains on track to open 200 Domino's stores in FY24. GM improved to 77% with stable input prices. However, EBITDAM fell 120 bps YoY (flat QoQ) to 21% due to low op-lev. Notwithstanding near-term demand pressures, Jubilant continues to focus on (1) driving LFL growth by strengthening value offering; (2) improving cost efficiency and productivity; (3) elevating customer experience; (4) long-term strategic initiatives (commissary); and (5) calibrated network expansion. We cut our FY24-26 earnings by 1-3% to reflect 3Q performance and value Jubilant at 55x P/E on Dec'25 EPS to arrive at a TP of INR 500. Maintain REDUCE.

- Revenue miss on account of weak LFL growth:** Revenue grew by 3% YoY (HSIE: +7%) to INR 13.5bn. LFL growth was negative at 2.9% (+0.3% in Q3FY23, -1.3% in Q2FY24), while the four-year CAGR was c.+1%. We note that delivery LFL was positive. Delivery revenue grew 6% aided by a loyalty program and 20-min delivery. Dine-in revenue fell 6% YoY. ADS of the mature store fell by 3% YoY. We model LFL growth of -2/6.5/7.5% over FY24-26 and expect revenue to grow at 13% CAGR.
- Opened 40 new Domino's stores:** Jubilant opened 50/113 Domino's stores (net) in Q2/9M vs 60/194 stores LY, taking the total count to 1,928 stores in 407 cities. It remains on track to open 200 stores in FY24. Popeye added 10 stores and entered four new cities, taking the store count to 32 across 10 cities. Hong's Kitchen added four stores, taking the count to 22. Dunkin's store count increased by 4 to 25. We model 200-250 Domino's stores in FY24-26.
- EBITDA falls by 3% YoY:** With stable RM prices, GM improved 30bps QoQ (+120bps YoY) to 76.7%. Employee/other expenses were up 5/9% YoY. EBITDAM fell 120bps YoY (flat QoQ) to 20.9% (HSIE 20.5%) on negative op-lev. EBITDA fell 3% YoY while PBT fell 31% YoY. PBT margin was at 6%, and we model c.10-11% margin for FY25/FY26.
- Con call takeaways:** (1) Post the festive and World Cup-led spurt in November, demand again turned soft after Diwali. (2) Commissioned Bengaluru commissary in Nov'23. Payback period of four years. Ability to cater to 750 Domino's and 300 Popeye/Hong's/Dunkin stores. (3) Cheesy reward enrollment grew 10% QoQ to 21.5mn. The base of customers ordering 6-9 pizzas annually is up 10%. (4) 70% of all deliveries now happen under 20 minutes. (5) Across 15 pizza chains, the total store count is at 4,000 outlets. Dominos has 46.8% outlet share while revenue share stands at 69.7%.

Quarterly/annual financial summary

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	13,551	13,166	2.9	13,448	0.8	43,961	51,582	55,246	63,750	73,978
EBITDA	2,827	2,900	(2.5)	2,807	0.7	11,088	11,516	11,010	13,997	16,848
APAT	610	885	(31.2)	721	(15.5)	4,254	3,883	2,790	4,827	6,198
EPS (INR)	0.92	1.34	(31.2)	1.09	(15.5)	6.4	5.9	4.2	7.3	9.4
P/E (x)						80.7	88.4	123.0	71.1	55.4
EV / EBITDA (x)						41.5	40.5	43.8	32.8	26.6
RoCE (%)						23.5	16.4	12.0	16.3	19.6

Source: Company, HSIE Research

REDUCE

CMP (as on 31 Jan 2024)	INR 520
Target Price	INR 500
NIFTY	21,726

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 500	INR 500
EPS %	FY25E -3%	FY26E -1%

KEY STOCK DATA

Bloomberg code	JUBI IN
No. of Shares (mn)	660
MCap (INR bn) / (\$ mn)	343/4,192
6m avg traded value (INR mn)	1,379
52 Week high / low	INR 587/412

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.7	8.6	6.7
Relative (%)	(8.6)	0.7	(13.8)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	41.94	41.94
FIs & Local MFs	22.35	22.13
FPIs	26.14	27.75
Public & Others	9.57	8.18
Pledged Shares	0.33	0.33

Source : BSE

Pledged shares as % of total shares

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Metro Brands

Tough comparables weigh down performance

Revenue grew 6.1% YoY (on a high base) to INR 6.4bn (HSIE: INR 6.8bn). Products > INR 3,000 accounted for 49% of the mix in 9MFY24 vs. 44% in 9MFY23. KPI (sales density, margins) normalization continues, led by (1) tough comparables vs base (Q3FY23 comprised meaningful pent-up demand and higher wedding days) and (2) sales loss during World Cup weekends (per channel checks). EBITDAM declined 296bps YoY to 31.3% (HSIE: 32.4%), courtesy (a) lower sales density; ergo weak fixed-cost absorption. (2) front-loading of expansion-led costs. Store addition guidance on track (100 stores in FY24). We marginally cut our FY25/26 EPS estimates by 2.3/1.5% and maintain our SELL rating on the stock with a DCF-based TP of INR870/sh, implying 45x Mar-26E P/E.

■ **Q3FY24 highlights:** Revenue grew 6.1% YoY to INR 6.4bn (6.6% below est.; HSIE: INR 6.8bn). Reported revenue/sq ft declined by 8% (annualized revenue/sq ft stood at ~INR21.7k in Q3FY24 vs ~INR 24.75k/sq. ft. in Q3FY23) as (1) consumer purchases normalized vis-à-vis the pent-up demand-heavy base quarter and (2) loss of sales during select World Cup weekends. In-store/online/omni/others for 9M stood at 89/8/2/1%. GM increased 66bps YoY to 59.9% (HSIE: 58.2%) courtesy (i) price markups and (ii) favorable improvement in mix. EBITDAM declined 296bps YoY to 31.3% (HSIE: 32.4%), offsetting GM gains due to higher employee and other expenses. EBITDA decreased 3% YoY to INR 1.99bn. The share of discounted sales is likely to normalize upwards (at 5-7% for FY24). The company added 31 stores (net; excluding FILA) in Q3 (store count – 826) and remains on track to add 100 stores in FY24. MBL to nearly double its warehousing capacity (to 0.32mn sq. ft.) by Q3/Q4FY25, ensuring efficient distribution for all brands. Due to BIS QCO implementation, higher inventory is expected till Jun-24. FILA reported a net loss of INR 150mn and holds ~INR 300mn in inventory which it targets to liquidate by exit-FY24. APAT declined 12.6% YoY to INR 988mn (HSIE: INR 1.17 bn). Declared interim dividend of INR 2.75/sh.

■ **Valuation and outlook:** MBL certainly is among the more disciplined footwear retailers with an in-sync product-market fit. However, normalizing KPIs are likely to keep margin gains in check over FY23-26. Valuations for the company seem oversized at 60x FY26 P/E. We cut our FY25/26 EPS estimates marginally by 2.3/1.5% and maintain our SELL rating on the stock with a DCF-based TP of INR870/sh, implying 45x Mar-26E P/E.

Quarterly financial summary

(Rs mn)	Q2		YoY (%)	Q1		QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
	FY24	FY23		FY24	FY23						
Net Revenue	6,355	5,987	6.1	5,557	14.4	13,429	21,271	23,755	28,130	32,922	
EBITDA	1,990	2,052	(3.0)	1,554	28.1	4,092	6,788	6,982	8,226	9,631	
Pre-IND-AS EBITDA						3,053	5,078	5,147	6,053	7,094	
APAT	988	1,130	(12.6)	676	46.1	2,142	3,654	3,333	4,293	5,277	
EPS (Rs)	3.6	4.2	(12.6)	2.5	46.0	8.0	13.4	12.3	15.8	19.4	
P/E (x)						159.2	93.3	102.3	79.4	64.6	
EV/EBITDA (x)						107.3	65.8	64.1	53.9	45.3	
Core RoCE(%)						46.5	51.0	33.1	38.1	40.9	

Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	23,755	24,289	(2.2)	28,130	28,758	(2.2)	32,922	33,812	(2.6)
Gross Profit	13,699	13,921	(1.6)	16,081	16,339	(1.6)	18,771	19,160	(2.0)
Gross Profit Margin (%)	57.7	57.3	35 bps	57.2	56.8	35 bps	57.0	56.7	35 bps
Pre-IND AS EBITDA	5,147	5,384	(4.4)	6,053	6,239	(3.0)	7,094	7,312	(3.0)
Pre-IND AS EBITDA margin (%)	21.7	22.2	(50 bps)	21.5	21.7	(18 bps)	21.5	21.6	(8 bps)
EBITDA	6,982	7,261	(3.8)	8,226	8,461	(2.8)	9,631	9,918	(2.9)
EBITDA margin (%)	29.4	29.9	(50 bps)	29.2	29.4	(18 bps)	29.3	29.3	(8 bps)
APAT	3,333	3,545	(6.0)	4,293	4,394	(2.3)	5,277	5,355	(1.5)
APAT margin (%)	14.0	14.6	(57 bps)	15.3	15.3	(2 bps)	16.0	15.8	19 bps
EPS	12.3	13.0	(6.0)	15.8	16.2	(2.3)	19.4	19.7	(1.5)

Source: Company, HSIE Research, Consolidated Financials

SELL

CMP (as on 19 Jan 2024) INR 1,167

Target Price INR 870

NIFTY 21,622

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 870	INR 870
EPS %	FY25E	FY26E
	-2.3	-1.5

KEY STOCK DATA

Bloomberg code	METROBRA IN
No. of Shares (mn)	272
MCap (INR bn) / (\$ mn)	317/3,875
6m avg traded value (INR mn)	211
52 Week high / low	INR 1,441/736

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.3)	10.2	33.3
Relative (%)	(11.5)	3.4	15.5

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	74.20	74.17
FIs & Local MFs	6.09	5.97
FPIs	2.33	2.68
Public & Others	17.38	17.18
Pledged Shares	0	0

Source : BSE

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Kansai Nerolac

Broadly in-line print

Kansai Nerolac's (KNPL) standalone revenue grew 5.7% to INR 18.15bn (HSIE: INR 18.01bn). KNPL clocked double-digit volume growth in Q3 in the decorative segment (1.1-1.3% price correction taken in Q3). Within the industrial segment, the auto as well as non-auto segment performed well. Premium salience across the portfolio continues to increase (paint and project businesses). GM expanded 598bps YoY to 36.2% (in-line), given (1) normalizing RM prices and (2) the rising salience of premium products in the mix. EBITDAM followed suit; it increased 224bps YoY (13.2% vs HSIE: 14.1%) but was partially offset by (1) increased marketing spending and (2) higher employee expenses. We maintain our EPS estimates and have a REDUCE with an unchanged DCF-based TP of INR330/sh (implying 32x FY26E P/E).

■ **Q3FY24 highlights:** Standalone revenue grew by 5.7% YoY in Q3 (INR18.15bn, HSIE: INR18.01bn). Consolidated revenue was up 5.0% YoY to INR19.19bn. KNPL registered a double-digit volume growth in the decorative segment, led by the shift of the festive season to Q3 owing to good demand in Oct 2024. 1.1-1.3% price correction was taken in Q3 (1.7-1.9% in mid-Jan-24). Demand green shoots can be seen in rural markets. Decent growth has been registered in new and project businesses; the share of premium products continues to rise in the mix. Within the industrial segment, decent growth was seen in the PV segment while the two and three-wheeler segment saw strong double-digit growth. The non-auto segment performed well. GM expanded 598bps YoY to 36.2% (standalone; HSIE: 36.0%), given (1) normalizing RM prices and (2) the rising salience of premium products in the mix. EBITDAM followed suit; increased 224bps YoY (13.2% vs HSIE: 14.1%), partially offset by (1) increased marketing spending (4.5-5% of revenue in Q3) and (2) higher employee expenses. Capacity utilisation stood at 60% for YTD Dec-23. KNPL expects 14% EBITDAM for FY24. EBITDA/APAT grew 27.3/40.4% YoY to INR2.4/1.6bn (HSIE: INR2.54/1.6bn).

■ **Outlook:** KNPL continues to explore new business segments to increase its TAM and increase the salience of premium products in the mix. This also warrants higher marketing spending to spread awareness for new products and defend market share amid rising competition (already factored in numbers). We maintain our EPS estimates and have a REDUCE rating for KNPL with an unchanged DCF-based TP of INR330/sh (implying 32x FY26E P/E).

Quarterly financial summary (Consolidated)

(Rs mn)	Q3		YoY (%)	Q2		QoQ (%)	FY23	FY24E	FY25E	FY26E
	FY24	FY23		FY24	FY23					
Net Revenue	19,187	18,268	5.0	19,565	(1.9)	75,427	79,172	89,059	1,00,343	
EBITDA	2,440	1,955	24.8	2,732	(10.7)	8,180	10,651	11,618	12,860	
APAT	1,543	1,090	41.6	1,772	(12.9)	4,685	6,916	7,488	8,267	
EPS (Rs)	1.9	2.0	(5.6)	2.2	(12.9)	5.8	8.6	9.3	10.2	
P/E (x)						56.8	38.5	35.5	32.2	
EV/EBITDA (x)						32.6	24.0	21.9	19.9	
Core RoCE(%)						10.5	13.9	14.6	15.0	

Source: Company, HSIE Research

No Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	79,172	79,172	-	89,059	89,059	-	1,00,343	1,00,343	-
Gross Profit	27,679	27,679	-	31,305	31,305	-	35,293	35,293	-
Gross Profit Margin (%)	35.0	35.0	-	35.2	35.2	-	35.2	35.2	-
EBITDA	10,651	10,651	-	11,618	11,618	-	12,860	12,860	-
EBITDA margin (%)	13.5	13.5	-	13.0	13.0	-	12.8	12.8	-
APAT	6,916	6,916	-	7,488	7,488	-	8,267	8,267	-
APAT margin (%)	8.7	8.7	-	8.4	8.4	-	8.2	8.2	-
EPS (Rs)	8.6	8.6	-	9.3	9.3	-	10.2	10.2	-

Source: Company, HSIE Research, Standalone Financials

REDUCE

CMP (as on 09 Feb 2024)	INR 316
Target Price	INR 330
NIFTY	21,783

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 330	INR 330
EPS %	FY25E	FY26E
	-	-

KEY STOCK DATA

Bloomberg code	KNPL IN
No. of Shares (mn)	808
MCap (INR bn) / (\$ mn)	255/3,122
6m avg traded value (INR mn)	132
52 Week high / low	INR 357/249

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.7	(4.3)	13.4
Relative (%)	(6.8)	(12.8)	(4.4)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	74.99	74.99
FIs & Local MFs	11.90	11.84
FPIs	4.28	4.28
Public & Others	8.83	8.89
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Aditya Birla Fashion and Retail

Earnings power remains weak; debt remains a concern

ABFRL's Q3 top-line grew 16% YoY (in-line; INR41.7bn). Note: Standalone revenue grew 5% YoY. Lifestyle brands declined 3.1% while Pantaloons grew 11.9% in Q3. Given tepid consumer demand, management focus shifted to protecting margins over driving growth. GM/EBITDAM expanded 187/114bps YoY to 56.5/13.3% respectively (HSIE: 54.6/12.5%), led by (1) contained discounted sales, (2) favourable operating leverage in Pantaloons, (3) cost optimisation, and (3) lower inventory markdowns. The balance sheet remains stressed (net debt stood at INR40bn vs INR14bn in FY23). Accelerated depreciation and higher interest outgo led to PBT losses of INR 922mn (HSIE: -INR 113mn). We cut our FY26 EBITDA estimate by ~8% and maintain a SELL rating with a DCF-based TP of INR160/sh; implying 17x FY26E EV/EBITDA.

- Q3FY24 highlights:** Revenue grew by 16.1% YoY to INR41.67bn (HSIE: INR41.24bn). Lifestyle brands declined 3.1% YoY to INR 18.15bn (HSIE: INR19.15bn), impacted by fewer weddings and delayed arrival of winter. Pantaloons grew 11.9% to INR 12.97bn (HSIE: INR 12.58bn). Given the tepid consumer demand, management's focus moved from protecting profitability to driving growth. GM/EBITDAM expanded 187/114bps YoY to 56.5/13.3% respectively (HSIE: 54.6/12.5%) as (1) discounted sales were contained, (2) favourable operating leverage in Pantaloons, (3) cost optimisation across channels, and (3) lower inventory markdowns. SSSG for lifestyle brands remained flat to negative while for Pantaloons it stood at 3% in Q3. On segmental margins, lifestyle brands/Pantaloons/ethnic wear margins clocked 19.2/18.1/7.6% EBITDAM (vs HSIE:21/17/-4.5%) resp. D2C losses stood at INR490mn. Accelerated depreciation (INR4.44bn) coupled with higher interest outgo (INR2.45bn) led to PBT losses of INR922mn (HSIE: -INR 113mn) in Q3. Note: Pre-IND AS 116 interest outgo is estimated to have outstripped EBIT over 9MFY24. Net losses for Q3 stood at INR1.08bn (HSIE: INR84mn). Net debt stood at ~INR40bn. ABFRL added 36/7 (net) lifestyle brands/Pantaloons stores in Q3 (total: 2,696/446 stores). ABFRL added 36/7 (net) lifestyle brands/Pantaloons stores in Q3 (total: 2,696/446 stores).
- Outlook:** ABFRL's aggressive expansion strategy (inorganic), rising debt, and inefficient working capital management are concerning and have rendered its earnings power < interest servicing power. A slight misstep from here on can lead to (1) inventory liquidation-led margin loss or (2) derailed growth. We cut our FY26 EBITDA estimate by ~8% and maintain a SELL rating with a DCF-based TP of INR160/sh; implying 17x FY26E EV/EBITDA.

Quarterly financial summary

(Rs mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	41,667	35,888	16	32,264	29	81,362	1,24,179	1,41,692	1,59,571	1,78,849
EBITDA	5,533	4,356	27	3,233	71	10,999	14,936	15,093	19,020	23,078
Adj. EBITDA						1,560	3,392	4,032	7,361	10,887
APAT	(1,076)	112	(1,060)	(2,003)	(46)	(1,184)	(595)	(6,658)	(3,968)	(1,656)
EPS (Rs)	(1.13)	0.12	(1,059)	(2.11)	(46)	(1.3)	(0.6)	(6.6)	(3.9)	(1.6)
EV/EBITDA (x)						157.3	75.0	66.6	34.7	22.2
Core RoCE(%)						(1.7)	0.6	0.1	1.4	3.7

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	1,41,692	1,40,728	0.7	1,59,571	1,60,051	(0.3)	1,78,849	1,80,627	(1.0)
Gross Profit	78,342	76,824	2.0	87,909	87,052	1.0	98,350	98,063	0.3
Gross Profit Margin (%)	55.3	54.6	70 bps	55.1	54.4	70 bps	55.0	54.3	70 bps
EBITDA	4,032	3,461	16.5	7,361	7,476	(1.5)	10,887	11,803	(7.8)
EBITDA margin (%)	2.8	2.5	39 bps	4.6	4.7	(6 bps)	6.1	6.5	(45 bps)

Source: Company, HSIE Research

SELL

CMP (as on 15 Feb 2024) INR 239

Target Price INR 160

NIFTY 21,911

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 180	INR 160
EBITDA %	FY25E -1.5	FY26E -7.8

KEY STOCK DATA

Bloomberg code	ABFRL IN
No. of Shares (mn)	949
MCap (INR bn) / (\$ mn)	226/2,768
6m avg traded value (INR mn)	823
52 Week high / low	INR 266/184

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.9	12.5	(7.1)
Relative (%)	1.1	2.4	(24.7)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	55.45	55.45
FIs & Local MFs	17.01	16.99
FPIs	14.02	14.15
Public & Others	13.52	13.41

Pledged Shares 0 0

Source : BSE

Pledged shares as % of total shares

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Relaxo Footwears

Operational performance disappoints

Relaxo's Q3FY24 delivered an underwhelming Q3 print. Revenue grew 4.7% YoY to INR7.13bn in Q3 (HSIE: INR7.5bn). Volume/net realisation grew 14.6%/-8.7% YoY. Strong volume growth was a function of healthy growth in open footwear. GM expanded 400bps YoY to 49.0% (HSIE: 46.9%), led by softening of key raw material prices. EBITDAM expanded 162bps YoY to 12.2% (HSIE: 12.6%). We've cut our FY25/26 EPS estimates by 6.9/5.8% respectively to account for higher A&P/channel incentives which may help spur up demand and maintain SELL on the stock with a DCF-based TP of INR740/sh, implying 49x FY26E P/E.

- Q3FY24 highlights:** Revenue grew 4.7% YoY to INR7.12bn in Q3FY24 (HSIE: INR7.5bn). Volume/net realisation grew 14.6%/-8.7% YoY. Strong volume growth was led by healthy growth of open footwear. The company has now initiated selling directly on marketplaces and on its website to (1) control discounts and (2) establish direct connection with customers. To further spur growth, the company has initiated direct connect programs with MBOs by offering direct benefits to retailers. GM expanded 400bps YoY to 49% (HSIE: 46.9%), led by softening raw material prices. EBITDAM expanded 162bps YoY to 12.2% (HSIE: 12.6%) as higher employee and other expenses partially offset GM gains. EBITDA/APAT grew 20.7/28.1% YoY to INR 872mn/386mn (HSIE: INR 944/452mn).
- Outlook:** Relaxo remains a strong category leader, well-poised to gain market share within an immature ecosystem over the medium-to-long term. However, current consumer demand remains weak, and a profitability comeback is already priced in over FY24-26. We've cut our FY25/26 EPS estimates by 7/6% respectively to account for higher A&P/channel incentives which may help spur up demand. We maintain our SELL rating on the name with a DCF-based TP of INR740/sh, implying 49x FY26E P/E. (Note: At CMP; the stock currently trades at 58x FY26 P/E).

Quarterly financial summary

(Rs mn)	3Q		YoY (%)	2Q		FY22		FY23		
	FY24	FY23		FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	7,127	6,810	4.7	7,153	(0.4)	26,533	27,828	29,696	34,601	39,574
EBITDA	872	723	20.7	915	(4.8)	4,158	2,801	4,083	5,401	6,558
APAT	386	301	28.1	442	(12.7)	2,327	1,545	2,065	2,963	3,724
EPS (Rs)	1.6	1.2	28.1	1.8	(12.7)	9.3	6.2	8.3	11.9	15.0
P/E (x)						92.0	138.5	103.6	72.2	57.5
EV/EBITDA (x)						49.6	74.2	50.7	38.3	31.4
Core RoCE(%)						19.6	11.4	14.6	20.2	23.5

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	29,696	30,637	(3.1)	34,601	35,012	(1.2)	39,574	39,657	(0.2)
Gross Profit	14,175	14,349	(1.2)	16,655	16,818	(1.0)	19,128	19,128	(0.0)
Gross Profit Margin (%)	47.7	46.8	90 bps	48.1	48.0	10 bps	48.3	48.2	10 bps
EBITDA	4,083	4,166	(2.0)	5,401	5,657	(4.5)	6,558	6,789	(3.4)
EBITDA margin (%)	13.7	13.6	15 bps	15.6	16.2	(55 bps)	16.6	17.1	(55 bps)
APAT	2,065	2,082	(0.8)	2,963	3,182	(6.9)	3,724	3,955	(5.8)
APAT margin (%)	7.0	6.8	16 bps	8.6	9.1	(53 bps)	9.4	10.0	(56 bps)
EPS (Rs)	8.3	8.4	(0.8)	11.9	12.8	(6.9)	15.0	15.9	(5.8)

Source: Company, HSIE Research, Standalone Financials

SELL

CMP (as on 31 Jan 2024) INR 860

Target Price INR 740

NIFTY 21,726

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	765	740
	FY25E	FY26E
EPS %	-6.9	-5.8

KEY STOCK DATA

Bloomberg code	RLXF IN
No. of Shares (mn)	249
MCap (INR bn) / (\$ mn)	214/2,618
6m avg traded value (INR mn)	87
52 Week high / low	INR 974/748

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(4.2)	(9.1)	4.9
Relative (%)	(16.6)	(16.9)	(15.6)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	71.27	71.27
FIs & Local MFs	8.53	8.81
FPIs	3.24	3.40
Public & Others	16.96	16.52
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Devyani International

Weak consumer sentiment impacts profitability

Devyani continued to witness weakness across most growth metrics. While India revenue grew 9% led by store addition (+24%), international business was impacted by the devaluation of the Nigerian currency. Despite the presence of the festive season and ICC Cricket World Cup, SSSG decelerated further with KFC/PH at -5/-14% on weak consumption demand. Although GM improved for both brands, RoM for both KFC/PH contracted by 75/800bps YoY to 19/6.1%. PBT fell by a sharp 87% with the PBT margin coming in at 1.1%. We expect the recovery in demand to be gradual and thereby moderate our SSSG assumptions across brands. Moreover, we are baking in RD Thailand acquisition in our estimates. We cut our EPS for FY24/FY25 by 25/16% and value Devyani at 50x P/E on Dec'25 EPS to arrive at a TP of INR 120. Maintain REDUCE.

- Revenue up 7% YoY; pressure on SSSG:** Consolidated revenue grew by 7% YoY (HSIE: 12%) to INR 8.4bn. India revenue grew 9% led by a 24% increase in store count as SSSG remained weak. KFC revenue grew 2% YoY while SSSG weakened further to -4.7%. PH revenue fell by 2% YoY while SSSG weakened to -13% on soft demand. ADS declined by 10/14% YoY for KFC/PH. While at KFC, delivery grew ahead of dine-in, at PH, delivery fell 4% and on-premise was muted. Costa Coffee revenue grew by 36% YoY (store growth 50%; SSSG 6%) on a low base. We expect only a gradual recovery in demand. We bake in SSSG of -2.5/4.5/5.5% for KFC and --8/6/5% for PH over FY24-26. We estimate that consolidated revenue will grow at 31% CAGR over FY23-26E, benefitting from RD Thailand consolidation.
- Store addition of 250-275 in FY24:** Devyani opened 50/30/8 KFC/PH/Costa stores in Q2FY24. Management remains focused on opening 250-275 outlets with fewer PH stores (down from 100 to 70-75). We are building 395/210/140 KFC/PH/Costa addition over FY24-26.
- Operating margins remain weak:** GM improved by 130bps YoY to 70.6% on a stable RM basket. GM improvement was seen both at a consolidated level as well as brand level. However, with weak SSSG growth, the consolidated ROM/EBITDA margin contracted by 290/465bps YoY to 15/17%. KFC ROM contracted by 75bps to 19% while the weaker PH brand saw a steeper contraction of 800bps to 6.1%. Costa ROM fell 11.6ppt YoY to 14.9%.
- Con call takeaways:** (1) The macro environment is challenging due to weak consumer sentiment. Recovery will take at least a couple of quarters. (2) Pizza as a category continues to remain under pressure. Have turned cautious on PH store openings. (3) Pizza is witnessing the return of local players who had vanished at the time of COVID-19. (4) Rapid expansion in Costa stores has had an impact on RoM as stores take some time to stabilise. (5) Successfully consummated acquisition of RD Thailand. Devyani to fund its share of c.3.5bn via borrowings.

Quarterly/annual financial summary

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	8,431	7,906	6.6	8,195	2.9	20,840	29,977	35,728	55,905	66,036
EBITDA	1,463	1,739	(15.9)	1,588	(7.8)	4,760	6,551	7,272	11,094	13,661
APAT	51	710	(92.9)	304	(83.3)	1,715	2,770	1,374	1,989	3,108
EPS (INR)	0.04	0.59	(92.9)	0.25	(83.3)	1.4	2.3	1.1	1.7	2.6
P/E (x)						121.5	75.3	151.8	104.8	67.1
EV / EBITDA (x)						69.8	47.9	52.2	29.7	22.6
RoCE (%)						19.4	19.3	10.4	11.8	14.5

Source: Company, HSIE Research

REDUCE

CMP (as on 02 Feb 2024)	INR 173
Target Price	INR 120
NIFTY	21,854

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 125	INR 120
EPS %	FY25E	FY26E
	-16%	0%

KEY STOCK DATA

Bloomberg code	DEVYANI IN
No. of Shares (mn)	1,206
MCap (INR bn) / (\$ mn)	209/2,550
6m avg traded value (INR mn)	464
52 Week high / low	INR 228/134

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(6.2)	(10.8)	15.1
Relative (%)	(18.6)	(20.4)	(5.2)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	62.74	62.74
FIs & Local MFs	8.30	8.53
FPIs	13.34	12.47
Public & Others	15.62	16.26
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Bata India

Continues to be a laggard

Revenue was flat YoY at INR9.03bn (four-year CAGR: 2.2%; HSIE: INR10bn), led by weak consumer demand. Off-take in <INR1,000 product range remains weak. Volume declined by mid-single digits, while premiumization continues to backstop revenue decline. EBITDAM contracted 270bps to 20.2% (HSIE: 25.8%) despite premiumization-led GM gains as (1) Bata stepped up brand and IT investments (impact: 300 bps in Q3) and (2) negative operating leverage kicked in. We've cut our FY25/26 EPS estimates by 7/4% respectively (to account for a slower pick-up in sales momentum) and maintain a REDUCE rating with a DCF-based TP of INR1,450/sh, implying 36x FY26 P/E.

■ **Q3FY24 highlights:** Revenue grew 0.4% YoY to INR9.03bn (HSIE: INR10bn), led by weak consumer demand post the festive season. The sub-INR1,000 product range (~34% of sales for 9MFY24) continues to remain under pressure while premium categories continue to grow. Volume declined by mid-single digits for the quarter. SSSG is likely to be negative over 9MFY24. Bata added 54 stores (net) in Q3 (franchisee/total store count: 509/1,835). Digital sales contribution from Bata.in/B2C/B2B stood at 6/34/60% in Q3. Significant store refreshment has been done in last 18 months and it is expected to continue for next 1-2 quarters. Premiumization aided GMs (up 129bps YoY at 56.1%). However, (1) a step-up in brand and tech investments (300bps) and (2) low sales density-led negative operating leverage resulted in an EBITDAM contraction of 270bps (20.2% vs HSIE: 25.8%). Reported EBITDA/APAT declined 11.5/30.3% YoY in Q3 to INR1.82/0.58bn (HSIE: INR2.6/1.19bn).

■ **Outlook:** Treading the growth-margin equation while pivoting to different growth channels (wholesale, franchise) and realigning assortment isn't a walk in the park. Execution so far has been weak as expected. We've cut our FY25/26 EBITDA estimates by 6/4% respectively and maintain our REDUCE rating on Bata with a DCF-based TP of INR1,450/sh, implying 36x Sep-25 P/E.

Quarterly financial summary

(Rs mn)	Q3		YoY (%)	Q2		QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
	FY24	FY23		FY24	FY23						
Net Revenue	9,035	9,002	0.4	8,191	10.3	23,877	34,516	35,163	39,670	44,691	
EBITDA	1,824	2,061	(11.5)	1,817	0.4	1,318	4,822	4,862	5,618	6,709	
APAT	580	832	(30.3)	340	70.6	1,030	3,230	3,189	4,061	5,111	
EPS (Rs)	4.5	6.5	(30.3)	2.64	70.6	8.0	25.1	24.8	31.6	39.8	
P/E (x)						179.9	57.4	58.1	45.6	36.2	
EV/EBITDA (x)						133.2	37.3	36.2	30.6	24.9	
Core RoCE(%)						6.0	31.9	26.1	28.7	33.2	

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	35,163	36,425	(3.5)	39,670	41,118	(3.5)	44,691	46,341	(3.6)
Gross Profit	19,823	20,379	(2.7)	21,711	22,314	(2.7)	24,118	24,784	(2.7)
Gross Profit Margin (%)	56.4	55.9	43 bps	54.7	54.3	46 bps	54.0	53.5	49 bps
Pre-IND AS EBITDA	4,862	5,435	(10.5)	5,618	6,151	(8.7)	6,709	7,264	(7.6)
Pre-IND AS EBITDA margin (%)	13.8	14.9	(109 bps)	14.2	15.0	(80 bps)	15.0	15.7	(66 bps)
APAT	3,189	3,644	(12.5)	4,061	4,352	(6.7)	5,111	5,313	(3.8)
APAT margin (%)	9.1	10.0	(94 bps)	10.2	10.6	(35 bps)	11.4	11.5	(3 bps)
EPS	24.8	28.4	(12.5)	31.6	33.9	(6.7)	39.8	41.3	(3.8)

Source: Company, HSIE Research

REDUCE

CMP(as on 06 Feb 2024) INR 1,442

Target Price INR 1,450

NIFTY 21,929

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 1,500	Rs 1,450
	FY25E	FY26E
EBITDA %	-6.7	-3.8

KEY STOCK DATA

Bloomberg code	BATA IN
No. of Shares (mn)	129
MCap (INR bn) / (\$ mn)	185/2,267
6m avg traded value (INR mn)	486
52 Week high / low	INR 1,771/1,381

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(7.6)	(18.0)	(5.3)
Relative (%)	(18.7)	(27.8)	(24.6)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	50.16	50.16
FIs & Local MFs	19.89	19.05
FPIs	7.51	10.61
Public & Others	22.44	20.18
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Crompton Consumer

Crompton 2.0 showcases initial promise

Crompton's 3Q print was a mixed bag as encouraging core portfolio performance (standalone) of 15/13/13% revenue/EBITDA/PAT growth was marred by the soft performance of Butterfly (revenue down 6%, EBIT margin at -0.8%). ECD segment continued to outperform peers (9M: Crompton +13% vs +1/+9/+9% of Havells/Orient/V-Guard) while the trend of declining lighting revenue was arrested. Butterfly (BGAL) remains a WIP as its channel correction initiatives will continue for another two quarters. We like the Crompton 2.0 strategy, where the focus is on (1) protecting and growing the core (fans and pumps); (2) scaling up the kitchen portfolio (both SDA and LKA) as the new vector for growth; (3) transforming the lighting business; (4) premiumization of the portfolio led by innovation; (5) GTM excellence and diversification; and (6) entering 2-3 new segments. We believe sustained execution of the Crompton 2.0 strategy and industry outperformance can help rerate the stock. We cut our FY24-25 earnings (FY26 unchanged) by 4/2%, largely on account of BGAL. We value the stock at 35x Dec25 EPS to arrive at a TP of INR 375. Maintain BUY.

- BGAL drags strong core portfolio performance:** Consolidated revenue grew by 12% YoY to INR16.9bn (HSIE: INR17.3bn). Ex-BGAL, revenue grew by 15% YoY (2% above HSIE). Gross margin was flat YoY at 32.5% (in-line). EBITDA fell by 2% YoY to INR1.5bn (14% below HSIE/consensus) while the margin contracted by 120bps YoY to 8.8% (HSIE: 10%). Employee/other expenses grew by 9%/23% YoY. A&P spending was up 65%. As a % of sales, employee/A&P expenses saw a -20/+140bps change YoY. Standalone EBITDA grew by 13%, with the margin falling 20bps to 10.1%. PBT fell by 2% YoY to INR1.1bn while APAT grew by 1% YoY to INR 860mn. Standalone PBT/PAT grew by 17%/13%.
- ECD outperforms peers; lighting arrests declining trend:** ECD revenue grew by 19% YoY to INR12.1bn while margin contracted 230bps YoY to 13.6%. Fans/pumps/appliances grew by 11%/28%/23%. Crompton has outperformed peers (9M: Crompton grew 13% vs +1%/+9%/+9% of Havells/Orient/V-Guard). **Lighting** revenue grew by 1% YoY to INR2.5bn while the margin expanded 90bps YoY to 11.2%. Arrested decline has been seen over the past few quarters. B2B portfolio grew 4% while B2C saw volume growth but price erosion sustained in battens and lamps. **BGAL** revenue fell 6% YoY to INR2.3bn. Core category growth of 12% was more than offset by a 75% decline in corporate sales (INR 340mn impact). BGAL margin came in at -0.8% vs 7.3% YoY, impacted by negative op-lev, higher ad and promotional spends, capability building, and minimum wage revision.
- Earnings call takeaways:** (1) Premium fans' saliency improved by 220bps YoY to 26.5%. (2) Within pumps, agri pumps revenue grew 39%. Secured and executed solar pumps order for Haryana. (3) Registered highest quarterly sales of water heaters. #1 brand in e-comm channel. (4) Built-in kitchen appliance revenue stood at INR 190mn in Q3FY24. (5) Crompton has initiated further price hikes in the last couple of weeks in fans and pumps. (6) Operational integration of BGAL remains on track.

Quarterly/Annual Financial Summary

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	16,927	15,162	11.6	17,823	(5.0)	68,696	72,527	82,274	92,527
EBITDA	1,498	1,524	(1.7)	1,745	(14.2)	7,705	7,138	9,042	10,941
APAT	860	852	0.9	972	(11.6)	4,632	4,241	5,730	7,169
EPS (INR)	1.3	1.3	0.2	1.5	(11.6)	7.3	6.7	9.0	11.3
P/E (x)						38.9	42.4	31.4	25.1
EV / EBITDA						23.7	25.1	19.3	15.5
RoE (%)						18.1	13.1	16.0	17.6

Source: Company, HSIE Research

BUY

CMP (as on 15 Feb 2024)	INR 283
Target Price	INR 375
NIFTY	21,911

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 375	INR 375
	FY25E	FY26E
EPS %	-2%	0%

KEY STOCK DATA

Bloomberg code	CROMPTON IN
No. of Shares (mn)	640
MCap (INR bn) / (\$ mn)	181/2,217
6m avg traded value (INR mn)	733
52 Week high / low	INR 328/251

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.4	(5.7)	(7.2)
Relative (%)	(9.4)	(15.9)	(24.7)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	0.00	0.00
FIs & Local MFs	47.99	48.30
FPIs	34.86	35.58
Public & Others	17.15	16.12
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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V-Guard Industries

Margin recovery to sustain

V-Guard (VGRD) reported a promising operational performance, with EBITDA growing by 54% YoY, coupled with a 200bps expansion in the margin to 8.7%. All segments exhibited margin expansion, and revenue growth was broad-based across categories, led by the electronics segment, which benefitted from good stabilizer demand (in lieu of good room AC sales). With visible signs of demand revival (since December) and expectations of a good summer season, management is optimistic about stronger topline growth in Q4. Given its newly constituted team (including a south-focused sales team) and preparations for scaling up its e-commerce/MT presence, Sunflame's growth rate could accelerate in the upcoming quarters. We are baking in 210bps margin improvement for FY23-26 due to (1) a softening RM basket; (2) stabilizing manufacturing operations; and (3) operational leverage. We retain our estimates and value VGRD at 38x Dec25 EPS to arrive at a target price of INR 325. Maintain ADD.

- In-line revenue; surprises on operating print:** Revenue grew by 19% YoY to INR11.7bn (HSIE: INR 11.5bn). Ex-Sunflame, revenue grew by 11% YoY. Gross margin expanded by 430bps YoY to 33.9% (HSIE: 33.5%), aided by the softening RM environment. EBITDA grew by 54% YoY to INR1bn (8/7% below HSIE/consensus) while the margin expanded by 200bps YoY to 8.7% (HSIE: 8.2%). Employee/A&P/other expenses grew by 7%/19%/49% YoY. As a percentage of sales, other expenses saw a 310bps increase YoY. PBT grew by 44% YoY to INR763mn while APAT grew by 48% YoY to INR582mn.
- Margins expand across categories:** **Electronics** revenue grew by 17% YoY to INR2.2bn while margin expanded by 130bps YoY to 12.9%. VGRD has put in place strategic interventions aimed at accelerating sales and margin improvement. **Electricals** revenue grew by 8% YoY to INR4.7bn while margins were flat YoY at 9.1%. **Consumer durables** revenue grew by 11% YoY to INR3.9bn while margins turned positive YoY at 3% vs -1.3% (+320bps QoQ). **Sunflame** revenue came in at INR 763mn (up 2% YoY) with the margin at 10.8%. South revenue grew by 10.6% (54% mix) while non-south revenue grew by 11.2% (46% mix).
- Earnings call takeaways:** (1) The demand environment remained challenging for most of the quarter due to weak consumer sentiment. (2) Excluding water heaters, the improvement seen in December has sustained in January. (3) Within consumer durables, fan and kitchen appliance margins are still under indexed and there is scope for improvement. In water heaters, the company is looking to increase the premium mix. (4) The wire demand environment has remained soft for the industry due to inflation. (5) A new team is now in place for Sunflame. A new sales team has been set up for the south market. Working on increasing e-comm and MT salience. (6) To incur a capex of INR800-900mn in FY24/FY25. (7) Other expenses included INR45mn provision each on e-waste recycling and strategic interventions for the electronics segment.

Quarterly/Annual Financial summary

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	11,654	9,808	18.8	11,338	2.8	41,260	48,065	54,272	61,248
EBITDA	1,016	659	54.3	925	9.9	3,199	4,179	5,064	6,074
APAT	582	393	48.2	590	(1.2)	1,891	2,529	3,169	3,949
EPS (INR)	1.3	0.9	47.6	1.4	(1.2)	4.4	5.9	7.3	9.1
P/E (x)						70.8	53.0	42.3	33.9
EV / EBITDA (x)						43.0	32.5	26.5	21.8
RoE (%)						12.5	14.8	16.4	17.9

Source: Company, HSIE Research

ADD

CMP (as on 02 Feb 2024)	INR 310
Target Price	INR 325
NIFTY	21,854

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 325	INR 325
EPS %	FY25E	FY26E
	0%	0%

KEY STOCK DATA

Bloomberg code	VGRD IN
No. of Shares (mn)	434
MCap (INR bn) / (\$ mn)	134/1,644
6m avg traded value (INR mn)	120
52 Week high / low	INR 335/229

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.0	8.6	24.7
Relative (%)	(7.5)	(1.0)	4.5

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	55.62	54.57
FIs & Local MFs	19.36	20.45
FPIs	13.16	13.02
Public & Others	11.86	11.96
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Westlife Foodworld

Weak demand and external challenges drag profitability

Westlife reported a weak Q3 performance with revenue/EBITDA falling by 2%/13% YoY (HSIE: +8/-1%). SSSG declined by 9%, given the weakness in eating-out trends, external challenges and a high base. According to Westlife, external challenges in the form of negative global sentiment for McD (Hamas-Israel war) and floods in South India contributed to 6% of SSSG decline. While Westlife expects demand to improve from here, these external challenges can hover around for another couple of quarters. GM expanded 10bps YoY to 70% while EBITDA margin (pre-IND AS) was down by 290bps to 11.4% due to negative op-lev. PBT was down by 52%, while the margin is at 4% (down 400/100bps YoY/QoQ). Notwithstanding near-term demand pressure, Westlife remains confident of high single-digit SSSG with 45-50 yearly store additions in the medium term. In the medium term, Westlife remains best placed vs peers, given (1) a wide menu catering to various price segments across day parts; (2) sustained dine-in footfall; and (3) multiple levers for margin expansion (full McCafe roll-out, menu expansion, etc.). However, we moderate our SSSG expectation, given the weak demand environment, and only expect a gradual recovery leading to a 25/11/7% cut in our FY24/FY25/FY26 earnings. We value Westlife at 55x P/E on Dec'25 EPS to arrive at a TP of INR 800. Maintain ADD.

- Revenue fell 2% YoY, SSSG at -9%:** Revenue fell by 2% YoY (HSIE: +8%) to INR 6bn. SSSG stood at -9% on weak eating-out trends, external challenges and a high base. Adjusting for external challenges, SSSG is estimated to have fallen by 3%. On-premises revenue fell 5% due to lower footfalls in affected stores (non-affected stores saw growth in footfalls). The off-premise revenue grew 3%, led by delivery & drive-throughs. The average sales per store (TTM) was flat at INR 64.4mn (INR 64.7mn in Dec 2022). We model 5/8% SSSG for FY25/FY26. We estimate a 13% revenue CAGR over FY23-26E.
- Opens eleven stores in Q3FY24; maintains FY24 target of 40-45 store additions:** Westlife opened eleven McD stores in Q3FY24 and added three new cities. It is now present in 62 cities through 380 stores. Of the total stores, 90% have McCafes while 83% are EOTF stores. We are building a store addition of 135 over FY24-26.
- PBT fell by 52% YoY:** GM expanded by 10bps to 70.3%, led by a stable input cost basket and cost optimisation. RoM contracted by 130bps YoY to 22.5% while EBITDAM (post-IND AS) fell by 200bps YoY to 16% on account of operating deleverage. EBITDA fell 13% YoY, while PBT (better metric post-IND AS) fell 52% YoY. PBT margin was down 400bps YoY to 3.9%.
- Con call takeaways:** (1) Eating-out trends remain subdued. After the festive season, the uptick has reversed and it seems to be bottoming out. Expect improvement from here. (2) Taken various steps to highlight that McD India is a truly Indian company. Expect external issues to fade away in a couple of quarters. (3) 30% of stores across the west and south have faced a 10-50% decline in daily sales since mid-October. (4) McSpicy Fried Chicken sustained strong performance in the south. (5) To open 45-50 new stores in FY25.

Quarterly/annual financial summary

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	6,003	6,115	(1.8)	6,147	(2.4)	15,765	22,782	24,365	28,051	33,060
EBITDA	960	1,103	(12.9)	997	(3.6)	2,071	3,931	3,961	5,025	6,273
APAT	173	364	(52.6)	224	(22.8)	(17)	1,116	882	1,635	2,458
EPS (INR)	1.11	2.34	(52.6)	1.43	(22.7)	(0.1)	7.2	5.7	10.5	15.8
P/E (x)						na	116.0	146.8	79.2	52.7
EV / EBITDA(x)						99.8	43.2	43.6	33.2	25.7
RoCE (%)						4.4	12.5	9.8	13.2	16.3

Source: Company, HSIE Research

ADD

CMP (as on 31 Jan 2024)	INR 838
Target Price	INR 800
NIFTY	21,726

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 850	INR 800
EPS %	FY25E	FY26E
	-11%	-7%

KEY STOCK DATA

Bloomberg code	WESTLIFE IN
No. of Shares (mn)	156
MCap (INR bn) / (\$ mn)	130/1,598
6m avg traded value (INR mn)	156
52 Week high / low	INR 1,025/639

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.6	(10.5)	14.0
Relative (%)	(6.7)	(18.3)	(6.5)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	56.22	56.23
FIs & Local MFs	23.66	23.99
FPIs	10.44	10.47
Public & Others	9.68	9.31
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Lemon Tree

Refuelling for the next leg of growth

Lemon Tree Hotels (LTH) recorded the best-ever Q3 in terms of gross ARR, revenue, and EBITDA. Revenue grew 24% YoY in Q3FY24 to INR2.9bn, led by a healthy 10% ARR growth despite a decline in occupancy of 65.9% (-163 bps YoY, -572 bps QoQ), leading to a subdued RevPAR growth of +8% YoY. The decrease in occupancy was due to lower occupancy at the recently started Aurika, Mumbai (opened in October 2023) and Keys portfolio as well due to ongoing renovation. Additionally, Bangalore and Pune markets were soft as demand from IT sector clients was weak due to their subdued businesses. Management guided that the strong growth momentum led by supply demand mismatch and rising discretionary spending is expected to continue. LTH doesn't plan to do any large capex from here on and guides to reduce debt periodically to become debt-free in the next four years aided by increased cash flows from asset sweating. Increased ARR from the renovated "Keys portfolio" and increased occupancy & ARR of Aurika in Mumbai are the main growth levers. We expect LTH RevPAR to grow in the mid-teens for two more years, benefitting from ongoing demand tailwinds. We maintain BUY rating and roll forward with an EV/EBITDA of 17x FY26 and a TP of INR 152/share.

- Q3FY24 consolidated highlights:** Revenue grew 24% YoY to INR2.9bn and 27%QoQ, 2% above consensus. EBITDA increased by a healthy 12% YoY and 36% QoQ to INR 1.42bn as Q3FY24 was a seasonally favourable quarter. Despite a decline in occupancy in Q3 (65.9%, -163 bps YoY, -572 bps QoQ), ARR growth was 10% YoY in this quarter which helped RevPAR to rise to INR 4,176 (+8% YoY and 11%QoQ). EBITDA margin declined to 49.3% in Q3FY24 (-510 bps YoY) due to increased renovation, employee compensation and start-up related expenses of Aurika Mumbai (opened in Oct 2023). Adj PAT for the quarter was INR 438mn, which declined 10% YoY due to higher depreciation and finance expenses. An incremental debt of INR 3bn was taken in this quarter to complete Aurika. Current debt stands at ~INR 19.5bn.
- Brand-wise performance in Q3FY24:** Aurika's ARR declined 37% YoY to INR10,743 and the occupancy rate dropped by 1,070 bps to 42%; the company saw a RevPAR decline of 50% YoY. Lemon Tree Premier printed improved occupancy to 77% (+134 bps YoY) leaving minimal upside with an average ARR of INR7,437 (+8% YoY). Lemon Tree Hotel's ARR grew to INR5,935 (+8% YoY) at an occupancy of 71% (+252 bps YoY). Red Fox and Keys had an average ARR of INR4,746 (+10%YoY) and INR3,585 (+2% YoY) at occupancy rates of 73% (+15 bps YoY) and 53% (+255 bps YoY) respectively.
- Outlook:** LTH has a strong expansion plan to build a portfolio of 13,433 rooms in 155 hotels by FY27 from the current operational portfolio of 9,687 rooms across 100 hotels (owned & leased: 5,759 rooms in 41 hotels). Nine new hotels were signed and five opened in Q2FY24. We believe healthy growth in ARR and occupancy improvement to 73-75% will support a 20%+ EBITDA CAGR for the next two years. The demand outlook is positive, given the strong push in tourism and rising discretionary spending. **We maintain BUY and roll forward with an EV/EBITDA of 17x FY26 and a TP of INR152/share.**

Financial Summary

(INR mn, Mar YE)	3Q FY24	3Q FY23	YoY (%)	2Q FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Revenues	2,887	2,336	24%	2,272	27%	8,750	10,937	13,921	15,613
EBITDA	1,423	1,270	12%	1,048	36%	4,476	5,386	7,256	8,342
APAT	438	486	-10%	264	66%	1,146	1,628	2,653	3,266
Diluted EPS (INR)	0.45	0.51	-12%	0.29	55%	1.45	2.1	3.46	4.53
P/E (x)						95.6	67.3	41.3	33.5
EV/EBITDA						30.9	25.7	19.1	16.6
RoE (%)						13.6%	18.2%	21.8%	22.6%

Source: Company, HSIE Research

BUY

CMP (as on 08 Feb 2024)	INR 138
Target Price	INR 152
NIFTY	21,718

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR125	INR152
EPS Change %	FY24E -11%	FY25E -9%

KEY STOCK DATA

Bloomberg code	LEMONTRE IN
No. of Shares (mn)	792
MCap (INR bn) / (\$ mn)	110/1,340
6m avg traded value (INR mn)	976
52 Week high / low	INR 146/73

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.7	46.0	79.4
Relative (%)	7.8	37.6	61.6

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	23.3	23.2
FIs & Local MFs	13.4	15.0
FPIs	24.8	22.8
Public & Others	38.5	39.0
Pledged Shares	-	-

Source : BSE

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TTK Prestige

Challenging demand environment

TTK Prestige (TTKPT) reported a soft 3Q performance as post a decent festive season sale (below expectation), the channel resorted to de-stocking, given the prevalent challenging demand environment. Weakness in general trade persisted while e-comm, MT and exclusive stores fared better. In addition to the shift in consumer wallet, the category is witnessing a return of small/regional players, given moderating RM inflation, which has increased the competitive intensity (both online/offline channels) with brands offering discounts, especially for entry-level products. Despite higher sales promotion, TTKPT maintained its GM while growing EBITDA by 10% on better cost control/mix. However, we expect competitive pressure (more in the mid-economy segment) and slow demand to continue to impact performance in the near term. We cut our earnings by 0-4% over FY24-26 and value the stock on 30x Dec-25 EPS to derive a TP of INR 750. Maintain REDUCE.

- Demand environment continues to remain weak:** Revenue grew by 5% YoY to INR 6.9bn (Hawkins/Bajaj/BGAL/Sunflame:+6%/LSD-decline/-4%/+2%) as cooker/cookware/appliances revenue grew 2/6/5%. Domestic revenue grew by 5% YoY as demand weakened in December post a reasonable festive season. Export revenue grew 21% YoY (low base). The kitchen appliances industry continued to witness increased competitive intensity (more in the mid-economy segment) as there was increased discounting by most brands and online channels. All channels were active during the quarter with online channels growing faster. With weakening demand sentiment, the channel decided to destock post-festive season. TTK introduced 25 new SKUs across all categories. Prestige Xclusive chain stood strong at 705 stores in 378 towns. We model an 8% revenue CAGR over FY23-26E.
- GM stable, EBITDA grew by 10%:** Despite higher sales promotion, GM remained stable YoY at 40.3% (HSIE 41%), aided by a stable RM environment and a favourable channel mix. While employee expenses grew 17% YoY, other expenses fell 2% YoY on better cost control. As a result, EBITDA grew by 10% YoY while EBITDAM expanded by 50bps/30bps YoY/QoQ. PAT grew by 10% YoY to INR 630mn. We expect EBITDAM to hover at the lower end of the guidance band (14-16%) during FY24/25/26.
- Earnings call takeaways:** (1) With the festive season shifted by a month this year, Q3 started on an encouraging note before the optimism dissipated in December. (2) Positive outlook on Q4 as initial trends show single-digit growth. (3) Repositioning of Judge brand is on track with benefits expected to accrue in FY25. New packaging, SKUs and expanded distribution network in place. (4) While the general trade channel was weak, exclusive stores, e-com and MT did well. (5) The mass premium segment contributes 80%+ of revenue. (6) Free cash stood at INR 9.4bn as of 31 Dec'23.

Quarterly/annual financial summary

(INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	6,866	6,521	5.3	6,837	0.4	27,225	27,771	27,546	30,807	34,296
EBITDA	850	776	9.6	829	2.6	4,259	3,585	3,525	4,149	4,786
APAT	630	575	9.7	622	1.4	3,054	2,550	2,648	3,128	3,616
EPS (INR)	4.5	4.1	9.7	4.5	1.3	22.0	18.4	19.1	22.6	26.1
P/E (x)						35.8	42.9	41.3	35.0	30.2
EV / EBITDA (x)						24.0	28.3	28.4	23.7	20.2
RoCE (%)						29.8	21.7	19.8	23.0	25.2

Source: Company, HSIE Research

REDUCE

CMP (as on 6 Feb 2024)	INR 789
Target Price	INR 750
NIFTY	21,929

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 750	INR 750
	FY25E	FY26E
EPS %	-1%	0%

KEY STOCK DATA

Bloomberg code	TTKPT IN
No. of Shares (mn)	139
MCap (INR bn) / (\$ mn)	109/1,337
6m avg traded value (INR mn)	75
52 Week high / low	INR 833/652

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.8	(0.2)	7.9
Relative (%)	(10.4)	(10.0)	(11.4)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	70.41	70.41
FIs & Local MFs	13.42	14.62
FPIs	8.00	6.72
Public & Others	8.17	8.25
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Sapphire Foods

Resilient KFC performance in a weak environment

Sapphire, akin to most of its peers, saw continued weakness across most growth metrics, given the challenging demand environment. India revenue growth of 11% was store addition-led (+21% YoY). Despite SSSG/ADS falling by 2/8%, KFC RoM was resilient at 20.1%, down a modest 10bps YoY (Devyani KFC RoM fell 75bps to 19%). Sapphire remains on track to double KFC store openings (over Dec'21) by CY2024. Severe competition in the pizza category continues to severely impact PH, with SSSG falling by 19% leading to RoM compression of 950bps to 4.6%. With all three parties (Sapphire/Devyani/Yum) having initiated collective efforts to turn around the brand, Sapphire has toned down the store opening outlook for PH. Sapphire's overall PBT declined by 58% YoY with a PBT margin of 2.1% (down 350bps). We expect the recovery in demand to be gradual and thereby moderate our SSSG assumptions across brands leading to 17/8% cut to our FY24/25 PBT. We value Sapphire at 50x P/E on Dec'25 EPS to arrive at a TP of INR 1,100. Maintain REDUCE.

- Consolidated revenue up 12%; SSSG under pressure:** Consolidated revenue grew by 12% YoY (HSIE: 16%) to INR 6.7bn. India revenue grew by 11% (HSIE 14%), led by 21% store addition as SSSG was weak. KFC/PH revenue grew by 16/-4% YoY (Devyani: +14/-2%) while SSSG was weak at -2/-19% (Devyani: -5/-13%) due to demand softness. ADS declined by 8/22% YoY for KFC/PH (Devyani: -10/-14%). While the delivery channel grew faster for KFC; dine-in fared better for PH. Sri Lanka is showing green shoots of macroeconomic recovery leading to revenue growth of 7% in CC (+22% in INR). We remain cautious about QSR demand and expect only a gradual recovery. We bake in SSSG of -0.4/5.5/6% for KFC and -14/3/6% for PH over FY24-26. We estimate consolidated revenue will grow at 17% CAGR over FY23-26E.
- On track to double KFC store target; turn cautious for PH:** Sapphire opened 25/8 KFC/PH stores in Q3FY24 (Devyani: 50/30). Sapphire remains on track to double KFC stores (Dec'21 base) in three years. However, for PH, the outlook is now cautious. We build 260/90 KFC/PH store additions over FY24-26.
- GM improves; operating margins remain weak:** GM improved 180bps YoY (+20bps QoQ) to 68.9%. Improvement was both on a consolidated level as well as brand level. However, with weak SSSG growth, the consolidated ROM/EBITDA margin contracted by 180/130bps YoY to 16/18% (Devyani: -680/-465bps). While KFC ROM saw a modest fall of 10bps to 20.1% (Devyani: -75bps to 19%), the contraction was steep for the weaker PH brand, which saw a decline of 950bps YoY to 4.6% (Devyani: -800bps to 6.1%).
- Con call takeaways:** (1) In a challenging demand environment, the company has performed relatively better than its peers. (2) Pizza as a category is witnessing severe competitive pressure. Sapphire/Devyani/Yum working in alignment to turn around the brand. (3) 100% of PH stores now have a dragon-tail technology solution. There is QoQ improvement in ratings on aggregator apps. (4) Expect recovery in Sri Lanka operations from 2HCY2024 as green shoots of cooling inflation and GDP growth become visible.

Quarterly/annual financial summary

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	6,656	5,961	11.6	6,426	3.6	17,216	22,656	26,257	31,318	36,857
EBITDA	1,217	1,167	4.3	1,151	5.7	3,050	4,284	4,838	5,947	7,135
APAT	98	327	(69.9)	152	(35.4)	460	1,058	587	1,011	1,483
EPS (INR)	1.54	5.15	(70.0)	2.39	(35.4)	7.2	16.7	9.2	15.9	23.3
P/E (x)						190.4	82.7	149.3	86.6	59.1
EV / EBITDA (x)						47.4	32.4	29.7	22.8	17.9
RoCE (%)						6.2	9.3	5.7	7.6	9.3

Source: Company, HSIE Research

REDUCE

CMP (as on 09 Feb 2024) INR 1,379

Target Price INR 1,100

NIFTY 21,783

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1,100	INR 1,100
	FY25E	FY26E
EPS %	-8%	0%

KEY STOCK DATA

Bloomberg code	SAPPHIRE IN
No. of Shares (mn)	64
MCap (INR bn) / (\$ mn)	88/1,074
6m avg traded value (INR mn)	263
52 Week high / low	INR 1,568/1,120

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.2	0.2	9.2
Relative (%)	(4.2)	(8.3)	(8.5)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	41.68	31.30
FIs & Local MFs	28.04	31.69
FPIs	23.65	29.98
Public & Others	6.63	7.03
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Shoppers Stop

Underwhelming performance in core business continues

The top line grew 6.6% YoY to ~INR12.07bn (HSIE: 12.05bn; in-line). Sales density improved by 1.5% YoY. (SSSG stood at -1%). However, margins disappointed. GM decreased 112bps YoY to 39.7% (HSIE: 41.0%). EBITDAM followed suit (down 89bps YoY to 17.8% vs HSIE: 18.3%). Q3FY24 Pre-IND AS 116 EBITDAM stood at 4.7% (vs 6.7% in Q3FY23). Execution remains key monitorable for 'Intune'. We revise our FY25/26 EBITDA estimates downwards by 4.1/2.2% respectively to account for normalizing profitability in core business. We maintain our SELL rating, with a DCF-based TP of INR580/sh, implying 18x Mar-26 EV/EBITDA.

- Q3FY24 highlights:** Revenue grew 6.6% YoY (on a high base) to INR12.07bn (HSIE: 12.05bn). Growth was primarily expansion-led. The beauty/non-apparel/apparel business grew by 10/5/3% YoY. SSSG stood at -1% (4% for the festive period). Revenue from private brands declined by 6% YoY, courtesy poor performance in Indian western wear (13% of revenue in Q3FY24 vs 14% in base). Revenue/sq. ft. improved 1.5% YoY to ~INR11.8k/sq. ft. The average transaction value (ATV) and items per bill were up by 6/5% YoY each. GM decreased by 112bps YoY to 39.7% (HSIE: 41.0%), courtesy (i) provision for obsolescence of private brand inventory of INR 90 mn and (ii) higher discounts. EBITDAM followed suit and came in at 17.8% (down 89bps; HSIE:18.3%). "Intune" had a promising start for its festive range and reported revenue of INR 110mn with positive store-level EBITDA (ATV – 1,691). The company plans to increase the contribution of its premium brands from 47% to 55% by FY25 (aims to launch 4-5 premium brands). STOP opened 4/4/4/1 department/beauty/Intune/Airport door stores in Q3. Capex for Q3 stood at INR510mn. Inventory days inched up to 154 days in Q3 (net cash position - INR 400mn). APAT (adj. for GST interest reversal in Q3FY23) declined 21% YoY to INR356mn (HSIE: INR512mn).
- Outlook:** STOP's scale recovery and focus on store expansion and value retail are certainly encouraging; inventory management needs work though. Execution remains key monitorable for 'Intune'. We revise our FY25/26 EBITDA estimates downwards by 4.1/2.2% respectively to account for normalizing profitability in core business. We maintain our SELL rating, with a DCF-based TP of INR580/sh, implying 18x Mar-26 EV/EBITDA.

Quarterly financial summary

(Rs mn)	3Q FY24	3Q FY23	YoY (%)	2Q FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	12,068	11,317	6.6	10,252	17.7	24,938	39,984	41,946	49,686	57,644
Adj EBITDA	2,154	2,121	1.6	1,598	34.8	(234)	2,827	2,462	3,113	3,516
APAT	356	620	(42.7)	18	1,897.8	(867)	1,193	622	1,104	1,687
EPS (Rs)	3.23	5.67	(43.0)	0.61	432.3	(7.9)	10.9	5.7	10.1	15.4
EV/EBITDA (x)						(250.5)	20.7	23.4	18.5	16.0
Core RoCE(%)						(7.9)	47.3	24.9	29.5	30.1

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	41,946	42,868	(2.2)	49,686	50,153	(0.9)	57,644	57,717	(0.1)
Gross Profit	17,320	17,786	(2.6)	20,466	20,759	(1.4)	23,686	23,832	(0.6)
Gross Profit Margin (%)	41.3	41.5	(20 bps)	41.2	41.4	(20 bps)	41.1	41.3	(20 bps)
EBITDA	2,462	2,673	(7.9)	3,113	3,245	(4.1)	3,516	3,596	(2.2)
EBITDA margin (%)	5.9	6.2	(37 bps)	6.3	6.5	(21 bps)	6.1	6.2	(13 bps)

Source: Company, HSIE Research

SELL

CMP (as on 19 Jan 2024)	INR 695
Target Price	INR 580
NIFTY	21,622

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 580	INR 580
EBITDA %	FY25E -4.1	FY26E -2.2

KEY STOCK DATA

Bloomberg code	SHOP IN
No. of Shares (mn)	110
MCap (INR bn) / (\$ mn)	76/934
6m avg traded value (INR mn)	90
52 Week high / low	INR 890/574

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.6	(10.1)	3.2
Relative (%)	(6.6)	(16.9)	(14.5)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	65.55	65.55
FIs & Local MFs	21.56	21.97
FPIs	6.78	6.85
Public & Others	6.11	5.63
Pledged Shares	6.44	6.44

Source : BSE

-Pledged shares as % of total shares

-Shareholding pattern for Dec-23 is not available

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Symphony

Delicately placed ahead of the upcoming summer season

Symphony's domestic business disappointed as revenue fell both YoY/QoQ by 20/17% on account of delayed inventory pick-up by trade as channel inventory of cooling products remains higher than usual. However, given healthy advance bookings and expectation of a harsh summer, Symphony remains optimistic about the domestic demand outlook and is focusing on (1) product innovation; (2) enhancing distribution (semi-urban and rural); and (3) increasing presence in alternate channels (30% vs. 10% pre-COVID). RoW business performed relatively better with IMPCO Mexico and GSK China recording strong performance. While CT Australia remains impacted by macro headwinds, management's strategic steps have led to the narrowing of losses. Although we remain positive that domestic business will scale up, we expect only a gradual recovery in RoW execution, which is still WIP. The upcoming summer season and sustained execution of RoW turnaround remain the key monitorable. We cut our FY25/FY26 earnings by 3/2% and value the stock at 30x P/E on Dec'25E EPS to derive a TP of INR 925. Maintain REDUCE.

- Revenue falls by 21% YoY:** Standalone revenue fell 21% YoY (+53% in Q3FY23, -9% in Q2FY24). Domestic revenue fell 20% YoY to INR 1.6bn, impacted by summer-end trade inventory (of RAC and air cooler of peers). Export revenue fell 28% YoY. Persistent demand headwinds in Australia continue to impact CT performance. IMPCO Mexico and Symphony Brazil reported the highest-ever Q3 revenue, while GSK China's performance was steady. Symphony continues to maintain its leadership position in the organized market with c.50% share. There has been a delay in the pick-up of products by channel leading to delayed billing as channel inventory of cooling products is higher than normal, especially in certain pockets in northern India. We estimate a revenue CAGR of 8% over FY23-26E.
- Lower scale impact EBITDAM:** Standalone GM improved by 100bps YoY to 46.3%, aided by softening RM, calibrated price hikes and value engineering. Employee/A&P expenses were flat YoY while other expenses fell by 17% YoY. However, given the lower scale of operations, EBITDAM contracted by 200bps to 23.2%. Domestic EBIT fell 21% YoY while margins contracted by 60bps YoY. Domestic EBIT will continue to drive overall profitability.
- Con call takeaways:** (1) India's air cooler industry can grow at 10% CAGR in the long term. Symphony will grow faster, given the shift from unorganized to organized. (2) The channel has been slow in picking up inventory leading to delayed billing. Advance collection remains healthy. (3) Despite temporary challenges, long-term structural play in international markets remains due to rising heat waves. (4) In 9MFY24, CT revenue/EBITDA stood at INR 1.4bn/INR -155mn; IMPCO revenue/EBITDA stood at INR 1.3bn/INR 190mn; GSK revenue/EBITDA stood at INR 330mn/ INR 40mn. (5) Come FY25, 100% of goods sold by CT will be outsourced.

Quarterly/annual financial summary

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,770	2,230	(20.6)	1,960	(9.7)	10,391	11,876	11,497	13,139	14,894
EBITDA	410	560	(26.8)	530	(22.6)	1,607	1,384	1,792	2,338	2,751
APAT	430	520	(17.3)	500	(14.0)	1,203	1,164	1,563	1,924	2,252
EPS (INR)	6.1	7.4	(17.3)	7.1	(14.0)	17.2	16.6	22.3	27.5	32.2
P/E (x)						54.1	55.9	41.7	33.9	28.9
EV / EBITDA						39.4	46.5	35.3	26.7	22.2
RoE (%)						15.0	13.7	17.2	18.8	19.6

Source: Company, HSIE Research

* Quarter numbers are standalone

REDUCE

CMP (as on 30 Jan 2024)	INR 932
Target Price	INR 925
NIFTY	21,522

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 950	INR 925
EPS %	FY25E	FY26E
	-3%	-2%

KEY STOCK DATA

Bloomberg code	SYML IN
No. of Shares (mn)	69
MCap (Rs bn) / (\$ mn)	64/786
6m avg traded value (INR mn)	57
52 Week high / low	INR 1,219/825

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.2	7.4	(2.6)
Relative (%)	(0.8)	(0.1)	(22.1)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	73.39	73.39
FIs & Local MFs	10.44	11.04
FPIs	3.82	3.40
Public & Others	12.35	12.17
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Orient Electric

In-line performance

Orient Electric (OEL) reported an in-line Q3 print with revenue growing by 2% while EBITDA fell 11%, given sustained investments in branding, capability building, working capital efficiency and seeding alternate channels (digital channel +100%/+27% QoQ; LFR: +43% QoQ). ECD revenue was muted as fans de-grew on a high base while appliances posted robust growth. With non-rated fan channel inventory now liquidated, primary billing for rated fans should lead to healthy growth in Q4. In DTM states, revenue grew by 36% YoY leading to market share gains. Lighting posted 8% value growth (volume growth double-digit) despite price erosion witnessed in the B2C segment, given the higher mix of value-added products and higher wattage lamps. With most headwinds now seemingly behind, we expect better revenue and margin print from OEL, given (1) improving op-lev; (2) premiumisation of portfolio; (3) peaking-out of strategic spends; (4) innovation; (5) distribution expansion; and (6) brand investments. Improving margin and return profile should help re-rate the company. We retain our estimates and value the stock at 33x Dec25 EPS to arrive at a target price of INR 260. Maintain ADD.

- In-line Q3FY24 print:** Revenue grew by 2% YoY to INR7.5bn (HSIE: INR7.2bn), led by appliances, lighting and switchgear segment as fans reported muted performance on a high base. Gross margin expanded by 130bps YoY to 29.9% (HSIE: 31%), led by mix improvement and input cost reduction. EBITDA fell by 11% YoY to INR489mn (in line with HSIE) while the margin contracted by 90bps YoY to 6.5% (HSIE: 6.5%). Employee/other expenses grew by 11%/13%YoY on sustained investments in branding, distribution and capability building. As a % of sales, employee/A&P expenses saw a 70/150bps increase YoY. PBT fell 25% YoY to INR328mn as other income fell by 50% while APAT fell by 25% YoY to INR243mn.
- ECD margins at 11.3%; lighting revenue grew 8%:** ECD revenue declined by 1% YoY to INR5.4bn (in-line) while margins contracted by 70bps YoY to 11.3%. On a 9M basis, Orient's ECD/Lighting revenue grew by 9/6% vs 1%/flat growth reported by Havells. Fans saw muted growth on a high base and discounting (TPW, exhaust, premium fans grew) while heating appliances (room and water heaters) delivered robust growth. **Lighting & Switchgears** revenue positively surprised, growing by 8% YoY to INR2.2bn while margins contracted by 140bps YoY to 14.2%. B2C lighting saw double-digit volume growth while it de-grew value-wise due to price erosion. B2B growth is led by sustained spending by the government on infra and B2G initiatives.
- Earnings call takeaways:** (1) In the 7 DTM states for fans, revenue grew by 36% YoY (+68% in 9MFY24) with continued market share improvement. (2) Fans de-grew in low single digits on account of high base. Expect robust Q4. (3) Expect TPW fans' commercial production from the Hyderabad facility to begin early Q1FY25. (4) Project Sanchay led to INR 450mn cost savings in 9MFY24. (5) Digital business grew 100%/27% YoY/QoQ. LFR saw 43% QoQ growth. More LFR partners were onboarded in Q3. (6) The hunt for a new CEO is now in the final stages and should conclude this month.

Quarterly/Annual Financial summary

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	7,519	7,390	1.7	5,669	32.6	25,292	28,494	32,229	36,099
EBITDA	489	549	(10.8)	207	136.7	1,510	1,759	2,627	3,249
APAT	243	326	(25.3)	(2)	na	758	764	1,394	1,815
EPS (INR)	1.1	1.5	(25.5)	(0.0)	na	3.6	3.6	6.6	8.5
P/E (x)						61.7	61.3	33.6	25.8
EV / EBITDA (x)						30.0	26.4	17.2	13.7
RoE (%)						13.5	12.4	19.9	22.2

Source: Company, HSIE Research

ADD

CMP (as on 02 Feb 2024)	INR 220
Target Price	INR 260
NIFTY	21,854

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 260	INR 260
EPS %	FY25E 0%	FY26E 0%

KEY STOCK DATA

Bloomberg code	ORIENTEL IN
No. of Shares (mn)	213
MCap (INR bn) / (\$ mn)	47/575
6m avg traded value (INR mn)	99
52 Week high / low	INR 285/206

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.5	(4.4)	(19.1)
Relative (%)	(11.0)	(14.0)	(39.4)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	38.31	38.31
FIs & Local MFs	29.98	29.23
FPIs	5.69	5.93
Public & Others	26.02	26.53
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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V-MART Retail

Healthy print; FY25 to be the moment of truth

In our recent upgrade note, we highlighted the bottoming out of V-MART KPIs. While still early days, green shoots can be seen. Revenue grew 14.4% YoY to INR8.89bn (in-line). Core V-MART operations grew 17% YoY to INR7.28bn (in-line). 9M SSSG remained flat (Q3FY24: 4%). Footfalls/sales densities (footfalls/sq. ft) continue to recover. Limeroad losses continue to ebb (down 29% QoQ to INR141mn). FY25 is likely to be the year of efficiency wherein management focuses on (1) weeding out unprofitable stores and (2) sharpening product range in freshness and price points (factored in). We largely maintain our FY25/26 EBITDA estimates and maintain our BUY rating on VMART with a DCF-based TP of INR2,550/sh (implying 22x FY26 EV/EBITDA).

■ **Q3FY24 highlights:** V-MART reported 14.4% growth YoY (INR8.89bn; in-line). Core V-MART operations grew 17.2% YoY to INR7.28bn. In Q3, footfall density was up 3% to 17.2k/store, while annualised sales density for core VMART stood at INR9.7k/sq ft (note: for 9MFY24, annualised sales density stood at INR7.5k/sq ft; up 1.4% YoY). Transaction size declined 4% on a YTD basis to INR1,073. SSSG for Q3 stood at 4% (was flat on a YTD basis courtesy recalibration of ASPs downwards). 9MFY24 SSSG for core VMART and Unlimited format stood at 1/-5% respectively). GM/Pre-IND AS EBITDAM remained stable YoY at 35.5/7.6% (HSIE: 34/7%). Core VMART/Unlimited EBITDAM stood at 5.5/-1% respectively. Limeroad losses continue to ebb (down 29% QoQ to INR141mn). Adj. EBITDA/APAT grew 19/41% to INR675/282mn (HSIE: INR617/200mn). Inventory days remain stable at 108. Management highlighted that Q4 onwards, the focus would be to regain efficiency by (1) weeding out unprofitable stores (it plans to add 10 and close ~20 stores in Q4) and (2) sharpening the value proposition and assortment freshness. VMART added 17 stores (net) in Q3.

■ **Outlook:** Stabilising core operations + ebbing Limeroad losses could ensure a healthy FY25. The ask from execution isn't much at current valuations (<19x FY26 EV/EBITDA). Hence, we maintain our BUY recommendation on VMART with a DCF-based TP of INR2,550/sh (implying 22x FY26 EV/EBITDA).

Quarterly financial summary

(Rs mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	8,891	7,769	14.4	5,494	61.8	16,662	24,648	27,104	31,675	36,739
Adj EBITDA	675	567	19.1	(498)	(235.4)	792	909	(69)	1,463	2,273
APAT	282	200	41.3	(622)	(145.4)	116	(78)	(1,126)	23	525
EPS (Rs)	14.3	10.1	41.3	(31.5)	(145.4)	5.9	(4.0)	(57.1)	1.2	26.6
P/E (x)						356.9	(529.2)	(36.9)	1,794.5	79.2
EV/EBITDA (x)						50.4	47.0	(617.2)	29.2	18.8
Core RoCE(%)						5.1	2.1	(7.8)	6.0	11.7

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	27,104	27,799	(2.5)	31,675	32,879	(3.7)	36,739	38,582	(4.8)
Gross Profit	9,461	9,453	0.1	10,898	11,148	(2.2)	12,493	13,081	(4.5)
Gross Profit Margin (%)	34.9	34.0	90 bps	34.4	33.9	50 bps	34.0	33.9	10 bps
EBITDA	(69)	(279)	(75.3)	1,463	1,470	(0.4)	2,273	2,311	(1.6)
EBITDA margin (%)	(0.3)	(1.0)	75 bps	4.6	4.5	15 bps	6.2	6.0	20 bps

Source: Company, HSIE Research, Pre IND AS 116 financials

BUY

CMP (as on 07 Feb 2024) INR 2,121

Target Price INR 2,550

NIFTY 21,931

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,550	INR 2,550
EBITDA %	FY25E -0.4	FY26E -1.6

KEY STOCK DATA

Bloomberg code	VMART IN
No. of Shares (mn)	20
MCap (INR bn) / (\$ mn)	42/513
6m avg traded value (INR mn)	79
52 Week high / low	INR 2,682/1,591

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.2	(7.7)	(19.6)
Relative (%)	15.1	(17.1)	(39.2)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	44.3	44.3
FIs & Local MFs	29.7	31.5
FPIs	14.3	14.3
Public & Others	11.7	9.8
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Sai Silk (Kalamandir)

Externalities + weak consumer demand affect the topline

Sai Silk's (SSKL) revenue grew 1% YoY to INR3.8bn (in-line). Sales for Q3 were impacted by floods in Chennai, Pitru Paksh at the start of Q3, and a cyclone in Andhra Pradesh. SSKL added three stores in Q3 and one in Jan-24; it will add three more in FY24. GM expanded 16bps YoY to 40% (HSIE: 40.6%). EBITDAM contracted 192bps YoY to 15.2% (HSIE: 16.9%) due to (1) front-ending of new store costs, (2) a step up in A&P investments, and (3) higher employee expenses (performance bonuses paid in Q3). The company has utilized INR 1.53bn out of INR 5.66bn fresh issue proceeds raised. We cut our EPS estimates for FY25/26E by 2.6/2.9% factoring higher cost of retailing courtesy store addition; we maintain BUY with a DCF-based TP of INR370/sh (implying 22x FY26E P/E).

- Q3FY24 highlights:** Revenue grew 1% YoY to INR3.8bn (in-line). Sales for Q3 were impacted by three major events – (1) 10-12 days of sales were lost in Chennai due to floods, (2) the quarter started with 15 days of Pitru Paksh (not in the base quarter), and (3) a cyclone in Andhra Pradesh damaged crops leading reduced purchasing power. SSKL added 3/1 stores of VML in Q3FY24/Jan-24—an area addition of 24.8k sq. ft—and targets to add 3 more stores in Q4 and a total of ~50k sq ft in FY24 (SSKL intends to add 15-18 stores in FY25). SSSG for VML/KLM stood at -2/-10% in Q3. Blended SSSG for 9MFY24 stood at -7%. GM expanded 16bps YoY to 40% (HSIE: 40.6%). EBITDAM contracted 192bps YoY to 15.2% (HSIE: 16.9%) due to (1) front-ending of new store costs, (2) a step up in A&P investments, and (3) higher employee expenses (performance bonuses paid in Q3). EBITDA declined -10.3% (HSIE: INR646mn) as negative operating leverage kicked in. APAT grew +2.1% to INR320mn (HSIE: INR 353mn) due to IPO proceeds-led jump in other income.
- Outlook:** SSKL predominantly is an FY25-and-onwards story as store expansion (via IPO money) kicks in FY25. TN market execution is a key monitorable. Valuations remain cheap (~15x FY26 P/E). We cut our EPS estimates for FY25/26E by 2.6/2.9% factoring in the higher cost of retailing for store expansion and we maintain BUY with a DCF-based TP of INR370/sh (implying 22x FY26E P/E).

Quarterly financial summary

(Rs mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	3,824	3,786	1.0	3,268	17.0	11,361	13,515	13,841	17,362	21,986
Adj EBITDA	582	649	(10.3)	550	5.8	1,263	1,858	1,830	2,518	3,562
APAT	320	313	2.1	234	36.9	544	976	1,049	1,781	2,543
EPS (Rs)	2.1	2.6	(19.9)	1.5	36.9	3.5	6.4	6.8	11.6	16.6
P/E (x)						69.9	39.0	36.3	21.4	15.0
EV/EBITDA (x)						32.0	22.1	18.5	13.2	9.0
Core RoCE(%)						15.4	22.1	20.9	22.9	27.8

Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	13,841	13,951	(0.8)	17,362	17,433	(0.4)	21,986	22,065	(0.4)
Gross Profit	5,609	5,665	(1.0)	7,180	7,222	(0.6)	9,251	9,299	(0.5)
Gross Profit Margin (%)	40.5	40.6	(8 bps)	41.4	41.4	(8 bps)	42.1	42.1	(7 bps)
EBITDA	1,830	1,972	(7.2)	2,518	2,579	(2.4)	3,562	3,659	(2.6)
EBITDA margin (%)	13.2	14.1	(92 bps)	14.5	14.8	(29 bps)	16.2	16.6	(38 bps)
APAT	1,049	1,084	(3.3)	1,781	1,828	(2.6)	2,543	2,619	(2.9)
APAT margin (%)	7.6	7.8	(19 bps)	10.3	10.5	(23 bps)	11.6	11.9	(30 bps)
EPS (Rs)	6.8	7.1	(3.3)	11.6	11.9	(2.6)	16.6	17.1	(2.9)

Source: Company, HSIE Research

BUY

CMP (as on 09 Feb 2024)	INR 249
Target Price	INR 370
NIFTY	21,783

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 385	INR 370
	FY25E	FY26E
EPS %	-2.6	-2.9

KEY STOCK DATA

Bloomberg code	SSKL IN
No. of Shares (mn)	153
MCap (INR bn) / (\$ mn)	38/466
6m avg traded value (INR mn)	-
52 Week high / low	INR 312/220

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(4.2)	-	-
Relative (%)	(14.7)	-	-

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	60.80	60.80
FIs & Local MFs	18.85	19.83
FPIs	7.11	4.59
Public & Others	13.24	14.78
Pledged Shares	71.39	60.80

Source : BSE

Pledged shares as % of total shares

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Consumer Staples

Hindustan Unilever

Weak demand; recovery to be gradual

HUL reported 2% UVG (in-line; 4-year CAGR at 3%) while value growth was flat due to passing on of benefits of softening RM to consumers. The demand environment has remained challenging, witnessing only gradual recovery due to (1) erratic monsoon, delayed winter; (2) subdued festive season; and (3) slower-than-expected recovery in rural. Urban markets continued to grow ahead of rural while premium portfolio outperformance over mass has sustained (>2.5x YTD24). Value growth will remain muted in the near term. While Home Care and BPC saw mid-single-digit volume growth, F&R volumes declined in low-single digits. Given the benign input cost environment, local competitive intensity continues to remain high. HUL continued to reinvest the benefits of GM expansion (c.400bps YoY) through (1) higher A&P spending (up 33%); (2) capability building; and (3) an increase in royalty rate. As a result, EBITDAM was up a modest 10bps at 23.3%. We model a gradual recovery in demand. We cut our FY24-26 EPS estimates by 2-3% and value the stock at 47x P/E on Dec-25E EPS to derive a TP of INR 2,550. Maintain REDUCE.

■ **Volumes remain soft; rural recovery below expectations:** Revenue was flat (+16% in Q3FY23 and +4% in Q2FY24), with home care/BPC/F&R growing by -1/flat/+1% YoY. Domestic volume grew by 2% (in-line; 4-year CAGR at 3%). In-home care (MSD volume growth), fabric wash grew in the mid-single-digit led by premium portfolio while household care grew in the low-single-digit, led by dishwash. In BPC (MSD volume growth), skin cleansing declined due to price cuts. Hair care saw volume-led double-digit growth while oral care grew in the mid-single digit, led by Closeup. Skincare performance was impacted by delayed winter (winter portfolio 1/3rd mix). In F&R, beverages had a muted performance as tea continues to see down trading from 'premium' to 'loose' due to high inflation. Coffee grew in double-digits, led by pricing. HFD delivered modest price-led growth. We model mid-high single-digit volume growth in FY25/FY26.

■ **GM improvement sustains, high A&P spend limit EBITDAM expansion:** With softening commodity inflation, GM expanded by 400bps YoY to 51.5%. Employee cost fell 4% while A&P was up by 33% YoY. Other expenses were higher by 12% due to capability building and higher royalty charges (50bps). This limited EBITDAM expansion to 10bps at 23.3% (HSIE: 24%). EBITDA was flat vs. HSIE 4%. We model a 24-24.3% EBITDA margin during FY24/25/26.

■ **Con call takeaways:** (1) Rural buoyancy was below expectation as uneven monsoon impacted kharif crops impacted sentiment. (2) Rural is improving gradually. 2year CAGR in Q2FY24 was -1%; it is +1% in Q3FY24. (3) On 2-year CAGR, FMCG Urban volumes grew 3% while rural saw 1% growth. (4) Within skincare, the non-winter and premium portfolio performed well (MSD growth). (5) To split BPC segmentation as beauty wellbeing and personal care from 1st April'24.

Quarterly/annual financial summary

(INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,51,880	1,52,280	(0.3)	1,52,760	(0.6)	5,24,460	6,05,800	6,26,162	6,84,171	7,46,207
EBITDA	35,400	35,370	0.1	36,940	(4.2)	1,28,570	1,41,490	1,50,183	1,65,799	1,81,500
APAT	25,410	25,810	(1.5)	26,680	(4.8)	87,240	97,200	1,03,316	1,15,595	1,27,036
EPS (INR)	10.8	11.0	(1.5)	11.4	(4.8)	37.1	41.4	44.0	49.2	54.1
P/E (x)						69.1	62.0	58.3	52.1	47.4
EV / EBITDA (x)						46.3	42.1	39.7	35.8	32.6
Core RoCE (%)						16.6	18.0	18.6	20.3	21.6

Source: Company, HSIE Research

REDUCE

CMP (as on 19 Jan 2024) INR 2,565

Target Price INR 2,550

NIFTY 21,622

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,550	INR 2,550
EPS %	FY24E -3%	FY25E -3%

KEY STOCK DATA

Bloomberg code	HUVR IN
No. of Shares (mn)	2,350
MCap (INR bn) / (\$ mn)	6,028/73,705
6m avg traded value (INR mn)	4,127
52 Week high / low	INR 2,770/2,393

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.7	(4.0)	(3.2)
Relative (%)	(8.5)	(10.8)	(21.0)

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	61.90	61.90
FIs & Local MFs	11.55	11.97
FPIs	14.48	13.90
Public & Others	12.07	12.23
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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ITC

Weak quarter

ITC reported a weak operating print due to a soft cigarette performance along with sustained weakness seen in the agri and paper portfolio. Cigarette net revenue/EBIT growth was at 4/2%, with volume estimated to have fallen by 1% (5% 4-year CAGR) on a high base. Differentiated and premium offerings continued to perform well. With the base now catching up, we model cigarette revenue/EBIT growth of 7% over FY23-FY26. FMCG continued to report a resilient performance in a difficult environment with revenue growing by 8% (+13% on 2-year CAGR) while EBITDAM expanded by 100bps to 11%. Paper performance remained impacted by low-priced Chinese supplies, muted domestic demand and a sharp drop in realisations. Hotel revenue was up by 18%. ITC's overall revenue grew 2% while EBITDA fell 3% YoY. The recent stock run-up (~30% in LTM) and limited earnings surprise scope given a higher base further restrict rerating potential. We cut our estimates by 1% over FY24-26 to reflect Q3 performance and value ITC on a SoTP basis to derive a TP of INR 460. The implied target P/E is 24x Dec-25E EPS. Maintain ADD.

- FMCG/hotel momentum sustains; cigarette soft on a high base:** Overall revenue grew by 2% YoY as 4/8/18% growth in cigarettes (net)/FMCG/hotels was partially offset by a 2/10% decline in the agri and paper segments. Cigarette volume fell 1% YoY on a high base (4-year CAGR at 5%). FMCG saw resilient performance growing by 8% (+13% 2-year CAGR) despite a challenging demand environment. Growth was seen in both traditional and emerging channels. Hotels' performance was led by strong ARRs and occupancies across properties, driven by retail, MICE segments and the ICC Cricket World Cup. Paper revenue continued to remain impacted by low-priced Chinese supplies in global markets and muted domestic demand. Ex of wheat and rice exports, the agribusiness grew 14% YoY, driven by value-added agri products and lead tobacco. We model 7% consolidated revenue CAGR for FY23-26E.
- Soft operating print:** The cigarette/FMCG/hotel EBIT grew at 2/24/57% YoY. While agri EBIT fell 13%, paper EBIT fell 51% due to a sharp drop in realisations and an unprecedented surge in domestic wood costs. As a result, overall EBITDA fell 3% YoY. FMCG EBITDA margin expanded by 100bps YoY to 11%, led by premiumisation, supply chain optimisation, pricing actions, digital initiatives, strategic cost management and fiscal incentives. We model a 7% EBITDA CAGR for FY23-26.
- Other takeaways:** (1) Within FMCG, competitive intensity remained high in certain categories such as biscuits, snacks, noodles, and popular soaps, including from local/regional players. (2) Within cigarettes, the focus is on innovation and democratising premiumisation across segments. (3) Within paper, global demand remains subdued. Domestic recovery in slow post-festive season. (4) A facility to manufacture and export nicotine and nicotine derivative products has been commissioned. Shipments are to commence from Q4FY24. (5) Hotel demerger has received stock exchange approval.

Quarterly/annual financial summary

(INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,76,519	1,72,655	2.2	1,77,051	(0.3)	6,06,681	7,09,369	7,26,435	7,95,078	8,64,359
EBITDA	60,243	62,232	(3.2)	60,416	(0.3)	2,06,584	2,56,649	2,64,009	2,88,779	3,14,765
APAT	52,135	50,310	3.6	49,270	5.8	1,55,031	1,94,603	2,02,416	2,18,349	2,38,160
EPS (INR)	4.2	4.1	2.48	4.0	5.8	12.6	15.7	16.3	17.6	19.2
P/E (x)						35.8	28.7	27.6	25.6	23.5
EV / EBITDA						25.4	20.5	19.8	18.1	16.5
Core RoCE						43.9	52.3	53.6	58.4	62.5

Source: Company, HSIE Research

ADD

CMP (as on 29 Jan 2024)	INR 450
Target Price	INR 460
NIFTY	21,738

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 460	INR 460
EPS %	FY24E -1%	FY25E -1%

KEY STOCK DATA

Bloomberg code	ITC IN
No. of Shares (mn)	12,479
MCap (INR bn) / (\$ mn)	5,613/68,635
6m avg traded value (INR mn)	4,943
52 Week high / low	INR 500/327

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.7	(4.0)	30.8
Relative (%)	(10.2)	(11.8)	11.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	0.00	0.00
FIs & Local MFs	41.93	41.99
FPIs	14.31	14.23
Public & Others	43.76	43.78
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Nestle India

Resilient operating performance

Nestle posted a resilient operating performance with EBITDA growing by 14% (HSIE: +10%) due to a 370bps GM expansion to 58.6% (the highest in the last 20 quarters). Domestic revenue grew by 9% YoY (HSIE 12%) on the back of pricing and mix growth (around low to mid-single-digit volume growth). Coffee prices remain volatile while healthy milk flush in winter is expected to keep milk prices stable. However, rain deficit may impact the production of maize, sugar, oil seeds, and spices. EBITDA margin expansion was limited to 120bps YoY to 24.5% as Nestle increased brand investments in all product groups. It continues to focus on distribution strengthening, category expansion, and capacity building. We remain positive on OOH products and sustain growth for in-home products. We incorporate changes related to the change in the financial year from Jan-Dec to Apr-Mar (FY24 to be 15 months). We value Nestle at 52x P/E on Dec-25E EPS to derive a TP of INR 2,100. With a rich valuation, the absolute upside is limited in the medium term. Maintain REDUCE.

- Domestic business up 9%:** Revenue grew by 8% YoY (+14% in Q4CY22; +9% in Q3CY23, HSIE: 12%). Domestic revenue grew by 9% YoY (HSIE: 12%) while export revenue fell by 6%. Domestic growth was broad-based across categories, supported by pricing, mix, and volume. Strong demand for Nescafe Classic and Sunrise propelled the beverages segment to be the largest contributor to growth. All the channels sustained momentum, with e-comm now at 7% of sales. OOH channel is the fastest growing for the company.
- Margin recovery continues:** GM expanded by 370bps YoY (+210bps QoQ) to 58.6%, aided by higher net realisations and stabilising RM basket. Persistent commodity inflation has impacted Nestle's GM over the last two years (GM was 58% in CY20). Employee expenses grew 3% while other expenses grew 23% on higher brand spending. EBITDAM expanded 120bps YoY to 24.5% (HSIE: 23%). EBITDA was up by 14% YoY (HSIE 10%). Coffee prices remain volatile due to limited availability while healthy milk flush in winter is expected to keep milk prices stable. While wheat and prices are stable, a rain deficit could impact the production of maize, sugar, oil seeds, and spices.
- Press release takeaways:** (1) Milk products and nutrition saw strong double-digit growth. (2) Confectionery led by KITKAT and MUNCH delivered good growth. KITKAT entered into the premium segment with the launch of three variants. (3) The uptick in urban markets has sustained despite a challenging environment. (4) Added 5,300 villages this quarter, taking total direct reach to 196,000 villages. (5) Announced third interim dividend of INR 7/share. (6) Exceptional item of INR1.1bn due to change in the cost of servicing defined pension benefit. (7) To sell the Nestle Business Services Division (on a slump sale basis) to Purina PetCare (100% subsidiary of Nestle S.A) for INR 798mn.

Quarterly/annual financial summary

YE Dec (INR mn)	Q4 CY23	Q4 CY22	YoY (%)	Q3 CY23	QoQ (%)	CY21	CY22	FY24E	FY25E	FY26E
Net Revenue	46,004	42,568	8.1	50,368	(8.7)	1,47,406	1,68,970	2,42,134	2,14,104	2,37,879
EBITDA	11,289	9,946	13.5	12,468	(9.5)	35,960	38,146	58,167	52,355	59,557
APAT	7,517	6,309	19.1	8,344	(9.9)	22,761	24,241	38,970	35,087	39,404
EPS (Rs)	7.8	6.5	19.1	8.7	(9.9)	23.6	25.1	40.4	36.4	40.9
P/E (x)						105.9	99.4	61.8	68.7	61.1
EV/EBITDA (x)						66.6	62.7	41.2	45.7	40.0
Core RoCE (%)						60.8	52.0	73.5	tle	53.1

Source: Company, HSIE Research

REDUCE

CMP (as on 07 Feb 2024)	INR 2,500
Target Price	INR 2,100
NIFTY	21,931

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,100	INR 2,100
EPS %	FY25E +3%	FY26E +2%

KEY STOCK DATA

Bloomberg code	NEST IN
No. of Shares (mn)	964
MCap (INR bn) / (\$ mn)	2,410/29,469
6m avg traded value (INR mn)	1,941
52 Week high / low	INR 2,771/1,778

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.6	11.3	31.7
Relative (%)	(8.5)	1.9	12.0

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	62.76	62.76
FIs & Local MFs	9.32	9.19
FPIs	12.10	12.09
Public & Others	15.82	15.96
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Britannia Industries

Competitive intensity to limit margin expansion

Britannia's Q3FY24 print was largely in line with our estimates as revenue grew by 2% while EBITDA was flat YoY. Volume growth at 5.5% stood ahead of transactions (number of packets: +3-3.5%) as Britannia took pricing action (3-4% YoY) to defend its market share amidst heightened local competitive intensity on cooling inflation. Britannia's EBITDAM remained above 19% (fourth instance in the last five quarters) on improving GM and better cost control. Going ahead, Britannia will focus on driving high single-digit volume growth and defend/gain its market share through calibrated pricing actions. We expect revenue growth to be volume-led, which will require additional push (consumer offers, marketing, etc.); thus, the operating margin will have limited room for expansion. We cut our EPS estimates for FY24-26 by 1% and value Britannia at 42x P/E on Dec-25 EPS to derive a target price of INR 4,700. Maintain REDUCE.

- Revenue up 2% YoY; volume up 5.5%:** Consolidated revenue grew by 2% YoY (16% in Q3FY23 and 1% in Q2FY24) vs our estimate of 3%. Volume grew 5.5% during the quarter while transactions (number of packets sold) grew by 3-3.5%. The demand environment is recovering progressively albeit with heightened competition on a softening RM basket. As a result, Britannia undertook some price corrections to maintain competitiveness and gain market share. Despite a generally subdued rural demand, Britannia's focus states outperformed other regions (2.4x YTD). Britannia further strengthened its leadership position as the gap with its second-largest competitor increased. With softening input costs and increasing competition, Britannia will take necessary pricing actions. We expect growth to be largely volume-led and model a revenue CAGR of 7% for FY23-FY26E.
- Margin remains resilient:** Consolidated GM expanded by 20bps YoY (+100bps QoQ) to 43.9%, aided by a softening RM basket. While the price of flour has remained stable QoQ, most other commodities (palm oil, packaging materials) have seen healthy deflation. Employee expenses fell 11% YoY while other expenses grew by 1% YoY. As a result, EBITDA was flat while margin fell by 20bps YoY to 19.3% (19.5% in Q3FY23 and 19.7% in Q2FY24). We model the EBITDA margin at 18.8-19.3% for FY24-26.
- Con call takeaways:** (1) Direct reach stands at 27.6 lakh outlets (21 lakh in Mar'19). Rural distribution stands at 29k distributors (18k in Mar'19). (2) Market share gains this year are predominantly coming from the Hindi belt. (3) Urban continues to grow faster than rural markets. However, Britannia expects rural recovery to catch up and continues to expand its rural distribution. (4) Amidst declining raw material prices and heightened competitive pressure, Britannia has chosen to pass on a 3-4% benefit to consumers. (5) Its international business grew in healthy double digits and its margin profile improved for the segment. (6) YTD mix between biscuit/non-biscuit stands at 65/35%.

Quarterly/annual financial summary

(INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	42,563	41,968	1.4	44,329	(4.0)	1,41,363	1,63,006	1,68,771	1,83,063	2,00,495
EBITDA	8,211	8,176	0.4	8,724	(5.9)	22,015	28,309	31,796	34,782	38,595
APAT	5,557	9,324	(40.4)	5,865	(5.3)	15,152	20,354	21,475	24,140	27,482
EPS (INR)	23.2	27.1	(14.4)	24.3	(4.7)	62.9	84.5	89.1	100.2	114.1
P/E (x)						80.7	60.1	57.0	50.7	44.5
EV / EBITDA (x)						55.5	43.0	38.1	34.6	30.9
RoCE (%)						49.6	57.3	69.3	78.2	91.4

Source: Company, HSIE Research

REDUCE

CMP (as on 07 Feb 2024) INR 5,078

Target Price INR 4,700

NIFTY 21,931

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 4,700	INR 4,700
EPS %	FY25E	FY26E
	-1%	-1%

KEY STOCK DATA

Bloomberg code	BRIT IN
No. of Shares (mn)	241
MCap (INR bn) / (\$ mn)	1,223/14,956
6m avg traded value (INR mn)	1,741
52 Week high / low	INR 5,386/4,153

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.1	9.0	10.2
Relative (%)	(2.0)	(0.4)	(9.5)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	50.55	50.55
FIs & Local MFs	13.98	14.97
FPIs	19.66	18.99
Public & Others	15.81	15.49
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Godrej Consumers

Resilient operating performance

GCPL's Q3FY24 consolidated revenue/EBITDA grew by 2/18%YoY. The organic India growth was modest at 2% (volume 5%) as HI performance was flattish; however, the non-mosquito portfolio continued to perform well with air freshener/fabric wash delivering double-digit volume growth. Internationally, all regions exhibited healthy CC growth; however, the reported growth was 2% due to currency devaluation. Indonesian business (both revenue/EBITDA) continues to witness recovery led by HI and hair colour. The softening RM basket aided GM recovery, which expanded by 470bps to 56% while EBITDAM expanded by 340bps YoY to 25%, driven by cost synergies of RCCL. GCPL will continue to focus on (1) category development in the existing portfolio; (2) expanding TAM in India; and (3) simplifying international operations, which shall aid volume growth and margin expansion. We increase our EPS estimates by 1-2% and value the stock at 42x on Dec-25 EPS to derive a TP of INR 1,100. Maintain ADD.

- Volume-led growth:** Revenue grew 2% YoY (HSIE: flat). Domestic revenue grew 9% YoY (organic: 2%) while international revenue grew 2%. Domestic volume growth was at 12% (organic 5%). Home care revenue grew 5% YoY, HI saw LSD volume growth, air fresheners delivered double-digit volume and value growth and fabric care delivered double-digit volume growth. Personal care revenue (organic) grew by 2% driven by double-digit volume growth in hair colour and shampoo hair colour. RCCL reported revenue of INR INR139cr during the quarter. GCPL continues to focus on market expansion by driving penetration and an up-trade theme. We model a 10% domestic revenue CAGR for FY23-26E.
- International – broad-based CC growth:** International revenue grew by 2% YoY. The Indonesia revenue grew 8/7% YoY in INR/CC, led by HI and hair colour. GUAM revenue grew -8/14% in INR/CC. Latin America & SAARC sales grew -45/181% YoY in INR/CC. GAUM and LATAM were impacted by currency devaluation. Reorganisation in East Africa is to be completed by Q1FY25. We model c.8% revenue CAGR for FY23-26E.
- Margin recovery sustains:** GM expanded by 470bps YoY to 56%, aided by softening RM inflation (India GM 60%). Consolidated EBITDA margin expanded by 340bps YoY to 25% as GCPL stepped up media spending (up 172bps YoY). EBITDA margin for Indonesia/GUAM came in at 21/11% in Q3FY24. Consolidated EBITDA grew by 18% YoY. Margin expansion was on account of the cost synergies of RCCL and the minimal impact of the devaluation of Argentina's Peso. We model a 21-22% EBITDA margin for FY24-FY26.
- Con call takeaways:** (1) RCCL integrations have been completed and cost synergies have started to flow. (2) Entered INR 12bn incense stick market by launching an anti-mosquito incense stick. (3) Launched Fab Liquid detergent in select South markets. (4) Market share in fabric wash is 15-20%. (5) Green shoots visible in male grooming portfolio (Park Avenue). (6) Price decline in personal wash will be restored from Q4FY24.

Quarterly/annual financial summary

(INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	36,596	35,989	1.7	36,020	1.6	1,22,765	1,33,160	1,41,026	1,59,259	1,75,124
EBITDA	9,047	7,675	17.9	7,234	25.1	23,951	24,305	30,534	34,997	39,035
APAT	5,862	5,528	6.0	4,415	32.8	17,936	17,461	19,529	24,395	27,614
EPS (INR)	5.7	5.4	6.0	4.3	32.8	17.5	17.1	19.1	23.9	27.0
P/E (x)						66.4	68.2	61.0	48.8	43.1
EV / EBITDA(x)						49.7	49.3	47.4	38.5	33.2
RoCE (%)						18.1	16.9	17.0	17.0	18.6

Source: Company Data, HSIE Research

ADD

CMP (as on 31 Jan 2024)	INR 1,164
Target Price	INR 1,100
NIFTY	21,726

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,100	INR 1,100
EPS %	FY25E +2%	FY26E +1%

KEY STOCK DATA

Bloomberg code	GCPL IN
No. of Shares (mn)	1,023
MCap (INR bn) / (\$ mn)	1,191/14,560
6m avg traded value (INR mn)	1,113
52 Week high / low	INR 1,230/894

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.4	12.4	27.5
Relative (%)	5.0	4.5	7.0

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	63.21	63.21
FIs & Local MFs	7.65	8.39
FPIs	23.52	22.95
Public & Others	5.62	5.45
Pledged Shares	0.42	0.42

Source : BSE

Pledged shares as % of total shares

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Dabur

Margin recovery sustains

Dabur's Q3FY24 consolidated revenue/EBITDA grew by 7/10% YoY (HSIE: 9/10%). The domestic business volume/revenue grew by 6/4% while the international business grew 12% cc. Growth was driven by F&B/HPC growing at 7%YoY while healthcare grew 3%YoY. Healthcare was impacted on account of the delayed winter. Beverages grew at 7% on account of good performance delivered by RealFruit and double-digit growth in Real Active while foods grew 22%. The foods business remains on track to achieve INR 5bn of exit revenue in FY24. With softening RM prices, GM expanded 310/30bps YoY/QoQ to 49%. However, a 36% surge in A&P expenses restricted EBITDAM expansion to 50bps YoY, reaching 21%. EBITDA grew by 10%. The gap between rural and urban has narrowed from 800bps in the past three quarters to 200bps at present, as consumer sentiment has improved. Dabur remains optimistic about mid-high single-volume growth with double-digit revenue growth, led by (1) focus on power brands; (2) double-digit CAGR in healthcare; and (3) premiumisation across product categories. Besides, EBITDA margin also has several tailwinds, which have been stable (c.20%) for the past five years. We marginally tweak our EPS estimates by 1% and value the stock at 45x P/E on Dec-25EPS to derive a target price of INR 650. Maintain ADD.

- Consolidated revenue up 7% YoY:** Revenue grew by 7% YoY (+3% in Q3FY23 and +7% in Q2FY24), driven by MSD growth in HPC/F&B and LSD growth in healthcare. Shampoo grew 11/15% YoY/4-year CAGR, driven by sachet distribution in rural areas, and the entire growth was volume-led. The international business saw a 12% CC growth. Rural grew 200bps ahead of urban demand. Oral care/skin/home care grew 8/5/7%YoY. Badshah grew 33% during the quarter with food growing 22/10%YoY volume/price. MRP-led price hike of 2.5% was taken in foods on account of inflation for certain categories. We model a 10% revenue CAGR in FY23-26E.
- EBITDA up 10%:** GM expanded by 310/30bps YoY/QoQ to 48.6%, aided by the softening RM basket. Employee/other expenses grew by 7/18% YoY. Other expense (ex-legal expense) impact grew by 4%YoY. With Dabur stepping up A&P spending, which grew by 36% YoY (8% of sales), the EBITDAM expansion was restricted to 50bps YoY, touching 21% (HSIE: 20%). EBITDA grew by 10% YoY. We model a 20-21% EBITDA margin for FY24-FY26.
- Con call takeaways:** (1) To incur a capex of INR1.4bn for a greenfield plant in South India for toothpaste, Odonil and honey. (2) Hair oil market share improved by 140bps. (3) Offtakes of healthcare portfolio to come with a lag in Q4FY24 due to a delayed winter. (4) Badshah distribution to expand in Madhya Pradesh and Rajasthan and gradually inch up international business. (5) Odomos format extension from crème to LVP is gaining traction and gained 1000bps market share in the original personal application form. (6) The newly set up therapeutics division contributes INR35cr run rate per quarter.

Quarterly/annual financial summary

(INR mn)	Q3FY24	Q3FY23	YoY(%)	Q2FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	32,551	30,432	7.0	32,038	1.6	1,08,887	1,15,299	1,25,960	1,38,881	1,52,222
EBITDA	6,678	6,099	9.5	6,609	1.1	22,538	21,641	25,192	28,471	31,967
APAT	5,372	4,766	12.7	5,151	4.3	17,393	17,303	20,273	22,906	25,405
EPS (INR)	3.0	2.7	12.4	2.9	4.3	9.8	9.8	11.4	12.9	14.3
P/E (x)						54.7	55.1	47.0	41.6	37.5
EV / EBITDA (x)						40.0	41.8	35.7	31.3	27.6
RoCE (%)						57.0	46.5	46.4	52.9	61.3

Source: HSIE Research

ADD

CMP (as on 31 Jan 2024)	INR 540
Target Price	INR 650
NIFTY	21,726

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 650	INR 650
EPS %	FY24E	FY25E
	-1%	-1%

KEY STOCK DATA

Bloomberg code	DABUR IN
No. of Shares (mn)	1,772
MCap (INR bn) / (\$ mn)	956/11,692
6m avg traded value (INR mn)	1,058
52 Week high / low	INR 597/504

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.0	(6.3)	(3.3)
Relative (%)	(10.3)	(14.1)	(23.7)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	66.23	66.24
FIs & Local MFs	9.91	11.78
FPIs	18.38	16.49
Public & Others	5.48	5.49
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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United Spirits

Strong operating performance

UNSP surprised positively with EBITDA growing by 34% YoY, led by (1) gross margin improvement (+290bps YoY) and (2) better cost control. Net revenue grew by 8% YoY (in-line), driven by the P&A segment, where volume/revenue grew by 5/10% YoY. Within P&A, upper premium and luxury continued to do well whereas some weakness was seen in lower-mid prestige segments. Popular volumes fell 23% YoY on account of weak consumer demand and duty increases in salient states. Overall, despite Q3 having demand levers in terms of festive and cricket World Cup, sentiment was below expectations. Although GM remained firm (stable glass prices, headline price increase and mix), ENA is expected to remain elevated in the near-medium term, thereby limiting GM expansion. Having achieved 16%+ EBITDAM in YTD24, management expects to close FY24 with EBITDAM slightly better than earlier guidance of 15%+ given input cost pressure, demand slowdown and brand investments. In the medium-term long term, the focus remains on double-digit revenue growth with slightly higher EBITDAM growth. We largely maintain our estimates and value UNSP at 47x P/E on Dec-25E EPS (standalone) to arrive at a TP of INR 1,100 (including INR 80/share of RCB+ non-core assets). Maintain ADD.

- Revenue grew by 8% YoY led by P&A:** Net revenue grew by 8% YoY to INR 29.9bn (in line with HSIE), led by continued premiumisation trends. P&A revenue grew 10% to INR 26.3bn (HSIE: 9%), led by momentum in innovation and renovation offerings. P&A volume/realization each grew 5% YoY. Popular revenue declined 12% (HSIE: +4%) on account of weak demand and duty increase in a salient state. Popular volume fell 23% YoY while realisation grew 14% YoY (headline price increase). We model 12% revenue CAGR in P&A with 6% volume CAGR for FY23-26E.
- Gross margin remains firm:** Gross margin expanded by 290bps (flat QoQ) to 43.4% (HSIE 43%). Even though a 7% QoQ increase in ENA prices was offset by stable glass prices, the improving mix and headline price increased. With ENA prices expected to remain elevated in the near-medium term, we build in a gradual recovery in GM (48% in FY19). EBITDA margin expanded 320bps to 16.4% YoY, aided by the decline in staff cost and other expenses. A&P spending grew 18% YoY due to a Q3 festive quarter and cricket World Cup. With the launch of Don Julio Tequila, A&P spending is expected to remain elevated in Q4 as well. We model 16-17.5% EBITDA margins for FY24/25/26.
- Con call takeaways:** (1) Demand continues to be subdued. Not witnessing any downtrading; occasions have gone down. (2) Luxury and premium portfolios continue to see robust demand. (3) UNSP expects to do better than its earlier guidance of +15% EBITDA margin for FY24. (4) A&P spending could remain elevated in Q4 (Don Julio Tequila launch and spending on Popular portfolio). (5) Overall, the price mix at the portfolio level may remain in the range of 7-8%. (6) The company's expanded IMFL footprint in three new regions—Himachal Pradesh, Arunachal Pradesh, and Uttaranchal.

Quarterly/annual financial summary (standalone)

(INR mn)	Q2 FY24	Q2 FY23	YoY (%)	Q1 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	29,893	27,811	7.5	28,647	4.3	94,237	1,03,737	1,06,520	1,19,838	1,31,861
EBITDA	4,914	3,678	33.6	4,701	4.5	15,104	14,187	17,150	20,372	23,076
APAT	3,481	2,163	61.0	3,183	9.4	9,679	9,235	11,381	13,976	15,996
EPS (INR)	4.8	3.0	61.2	4.4	9.5	13.3	12.7	15.7	19.2	22.0
P/E (x)						83.4	87.4	70.9	57.8	50.5
EV / EBITDA (x)						53.5	56.1	46.0	38.2	33.2
ROIC (%)						22.6	19.1	22.7	25.5	26.8

Source: Company, HSIE Research

ADD

CMP (as on 24 Jan 2024) INR 1,112

Target Price INR 1,100

NIFTY 21,454

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,100	INR 1,100
EPS %	FY24E	FY25E
	0%	0%

KEY STOCK DATA

Bloomberg code	UNSP IN
No. of Shares (mn)	727
MCap (INR bn) / (\$ mn)	809/9,892
6m avg traded value (INR mn)	1,049
52 Week high / low	INR 1,149/731

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.9	13.8	36.2
Relative (%)	(0.2)	6.7	19.6

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	56.67	56.67
FIs & Local MFs	12.33	12.51
FPIs	16.51	16.23
Public & Others	14.49	14.59
Pledged Shares	0.67	0.67

Source : BSE

Pledged shares as % of total shares

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Colgate Palmolive

Surprises operationally

Colgate's Q3 print positively surprised with revenue growing by 8% (HSIE 6%) while EBITDA was up by 30% (HSIE 19%). Volume grew in the low single digits with price hikes continuing to support revenue growth. Domestic revenues grew by 9% supported by the strong performance of the core portfolio. GM expanded by 630bps YoY to 72% (up 340bps QoQ) and was a big contributor to 30% growth in EBITDA. Colgate relaunched "Colgate MaxFresh" with new campaigns and reached over 300 million people in urban India through its "The Sweet Truth – Brush at Night Campaign". As a result, A&P spending grew 20% YoY (c.15 % of revenues). While employee costs grew 11%, other expenses grew a modest 2% due to better cost control. EBITDAM expanded by 560bps YoY to 33.6% (HSIE: 31.5%). Colgate continues to focus on (1) increasing per capita consumption (particularly in rural where 55% of households don't brush daily); (2) premiumising through science-based innovation; and (3) building personal care. We increase our EPS estimates by 1-3% over FY24-26 to reflect the Q3 performance and value Colgate at a 40x P/E on Dec-25E EPS to arrive at a TP of INR 2,100. With the stock price running up 60%+ over the past 12 months and current valuations at 46x FY26 EPS, risk-reward has turned unfavourable. Maintain REDUCE.

- Revenue grew by 8%, domestic revenue up 9%:** Net revenue grew 8% YoY (+1% in Q3FY23; +6% in Q2FY24). Domestic revenue grew 9% YoY, supported by the strong performance of the core portfolio. Volume grew in low single digits. Colgate relaunched "Colgate MaxFresh" with new campaigns and also reached out to 300mn people in urban India through their "The Sweet Truth – Brush at Night Campaign". With gradual improvement in demand (particularly in rural), we expect sustained improvement in growth in the coming quarters. We model a 7% revenue CAGR with a 4% volume CAGR for FY23-26E.
- Gross margins surprise positively; leads to beat in EBITDA estimates:** Gross margin improved by 630/340bps YoY/QoQ to 72.2% vs. 65.9% in Q3FY23 and 68.8% in Q2FY24, better than our expectation of 69%. A&P spends were up 20% YoY (15% of sales) as Colgate ran new brand campaigns. Employee costs were up 11% YoY while other expenses grew by a modest 2% YoY due to better cost control. As a result, EBITDA grew by 30% YoY (HSIE: 20%) while EBITDAM expanded by 560bps YoY to 33.6% (HSIE: 31.5%). APAT grew by 36% YoY to INR 3.3bn. We model an EBITDA margin of c.32.6% for FY25/FY26.

Quarterly/annual financial summary

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	13,957	12,913	8.1	14,711	(5.1)	50,998	52,262	56,250	60,286	64,514
EBITDA	4,684	3,615	29.6	4,821	(2.8)	15,660	15,470	18,355	19,660	21,044
APAT	3,301	2,432	35.7	3,401	(2.9)	10,783	10,472	12,653	13,658	14,614
EPS (INR)	12.1	8.9	35.7	12.5	(2.9)	39.6	38.5	46.5	50.2	53.7
P/E (x)						63.0	64.9	53.7	49.8	46.5
EV / EBITDA (x)						42.9	43.3	36.5	33.9	31.5
RoCE (%)						146.1	105.1	138.2	146.6	162.4

Source: Company, HSIE Research

REDUCE

CMP (as on 20 Jan 2024) INR 2,536

Target Price INR 2,100

NIFTY 21,572

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,100	INR 2,100
EPS %	FY24E	FY25E
	+3%	+1%

KEY STOCK DATA

Bloomberg code	CLGT IN
No. of Shares (mn)	272
MCap (INR bn) / (\$ mn)	690/8,435
6m avg traded value (INR mn)	1,082
52 Week high / low	INR 2,550/1,435

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	20.2	38.0	69.1
Relative (%)	10.9	30.9	51.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	51.00	51.00
FIs & Local MFs	5.88	5.88
FPIs	24.08	24.62
Public & Others	19.04	18.50
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Marico

Resilient margin performance

Marico's consolidated revenue fell 2% YoY as price cuts continue to impact revenue growth. Domestic revenue is down 3% with volume growth of 2% (5% four-year CAGR). Corrective steps taken to alleviate RoI challenges faced by channel partners impacted volumes in Q3. While rural demand and mass segments continued to remain soft, urban demand sustained its moderate growth trajectory. The international business posted 6% CC (2% reported) dragged by transient macro headwinds in Bangladesh as other regions delivered resilient performances. Softening inflation and a favourable mix enabled GM expansion of 635bps YoY to 51.3%, a part of which was reinvested through higher A&P spending (up 12% YoY). As a result, EBITDA grew by 13% YoY while margins expanded by 270bps to 21%. Marico remains on track for an EBITDAM expansion of 250bps in FY24. With improving macros and the anniversary of price cuts on the horizon, we continue to build in gradual recovery in volumes in coming quarters. We model a 12% EBITDA CAGR during FY23-26E. We prefer Marico, given its thrust to drive growth in its core brands, initiatives to drive D2C/foods, and the margin upcycle. We value the stock at 45x on Dec-25 EPS to derive a target price of INR 650. Maintain ADD.

- In-line revenue performance:** Consolidated revenue fell 2% YoY (in line with HSIE with domestic revenue falling 3%. Domestic volume grew 2%. Growth was led by foods (+18%) owing to higher urban salience and penetration while mass HPC categories, just like rural markets, saw soft demand. PCNO value/volume growth was flat/3% YoY while VAHO value growth was 3%. Saffola revenue fell c26% YoY while volumes declined by mid-single digits. We estimate revenue will grow at a CAGR of 6% over FY23-26E.
- Bangladesh drags international performance:** International business saw 6% YoY CC growth as an otherwise resilient performance was dragged by transient macro headwinds in Bangladesh. Bangladesh saw a 6% CC decline, while South-East Asia/MENA/South Africa saw CC growth of 4/26/33% YoY.
- Margin improvement sustains:** Aided by softening inflation and a better mix, GM expanded 635bps YoY to 51%. Copra prices stayed at lower levels with an upward bias, while rice bran oil/LLP/HDPE exhibited a downward trend. Employee/adv/other expenses grew by 18/12/7% YoY. EBITDA margin expanded by 270bps YoY to 21%. EBITDA grew 13% YoY. Domestic/international EBIT grew by 11/16% YoY. We expect the margin to sustain recovery and build in 21-22% EBITDA margins for FY24/25/26E. We model an EBITDA CAGR of 12% for FY23-26E.
- Con call takeaways:** (1) Rural demand remains soft. Urban sustaining steady improvement. FMCG sector volumes to see a gradual recovery in CY2024. (2) PCNO gained ~40bps market share. Volume improvement to sustain. (3) Digital first portfolio clocked an exit ARR of INR 4bn+ in Q3. (4) 75% of the portfolio continues to gain/maintain market share. (5) Revenue share of foods & premium personal care was at 20% of domestic business.

Quarterly/annual financial summary

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	24,220	24,700	(1.9)	24,760	(2.2)	95,378	97,640	97,473	1,07,041	1,16,734
EBITDA	5,130	4,560	12.5	4,970	3.2	16,810	18,100	20,475	23,019	25,691
APAT	3,830	3,280	16.8	3,530	8.5	12,260	13,020	14,947	16,882	19,054
EPS (INR)	2.97	2.54	16.8	2.74	8.5	9.5	10.1	11.6	13.1	14.8
P/E (x)						54.4	51.2	44.6	39.5	35.0
EV / EBITDA (x)						39.7	36.8	32.6	29.0	26.0
RoCE (%)						58.7	53.1	59.9	67.3	75.5

Source: Company, HSIE Research

ADD

CMP (as on 29 Jan 2024)	INR 517
Target Price	INR 650
NIFTY	21,738

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 650	INR 650
	FY24E	FY25E
EPS %	0%	0%

KEY STOCK DATA

Bloomberg code	MRCO IN
No. of Shares (mn)	1,294
MCap (INR bn) / (\$ mn)	668/8,173
6m avg traded value (INR mn)	873
52 Week high / low	INR 595/463

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(3.9)	(10.1)	2.5
Relative (%)	(17.9)	(17.9)	(17.0)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	59.40	59.39
FIs & Local MFs	9.82	9.96
FPIs	25.91	25.69
Public & Others	4.87	4.96
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Radico Khaitan

P&A outlook strong

Radico reported a better-than-expected Q3 print, largely on account of higher non-IMFL revenue, which grew by 174% (HSIE 60%), led by (1) an increase in liquor prices; (2) higher country liquor volumes; and (3) alcohol sales post commissioning of Sitapur facility. IMFL revenue was up 15% with volume growing by 4% YoY to 7.24mn cases (4-year CAGR at 3%). P&A saw sustained momentum with volume growing by 20% (in-line) while the regular portfolio remained impacted as volume fell by 12%. Radico expects the momentum in its P&A portfolio to sustain with all core brands exhibiting healthy growth. Despite commodity inflation in glass and grain prices (500/370bps impact YoY/QoQ), GM sustained due to higher premium mix and price hikes in the IMFL business. Whilst we remain positive about Radico's success in product innovation and luxury portfolio scale-up, we remain cautious about margin recovery (RM volatility, growth in regular portfolio) and expect costs related to capex to impact earnings. We increase our FY24-26 earnings by 4-5% (largely non-IMFL led) and value Radico at 30x P/E on Dec-25 EPS to arrive at a TP of INR 1,100. Maintain REDUCE.

- P&A volume grows by 20%:** Net revenue grew by 47% YoY to INR 11.6bn (HSIE +32%). IMFL revenue grew 15%, with volume growing by 4% to 7.2mn cases (+3% four-year CAGR). P&A volume/revenue grew by 20/29% (HSIE 20/39%) due to degrowth in the regular category. P&A volume CAGR was 13%. Realisations grew by 8% YoY to INR1,671/case. Regular volume/revenue fell by 12/11% (HSIE -5/flat). Realisations were flat YoY at INR 640/case. Non-IMFL revenue grew 174% YoY (HSIE 60%), led by full capacity utilisation of the Sitapur plant, incremental country liquor volumes from Sitapur, and the increase in country liquor prices from 1 April 2023. We model an 8% IMFL volume CAGR for FY23-26 (P&A at 18%), with an overall revenue CAGR of 20%.
- EBITDA grew by 47%:** GM expanded by 50bps YoY to 42% (HSIE 44%). Despite commodity inflation in ENA and grain prices (500/370bps impact YoY/QoQ), GM sustained on higher premium mix and price hikes in IMFL. With ENA and glass prices expected to remain volatile in the near term, we expect gradual improvement in GM over FY24-26, given the increasing P&A mix and backward integration from the Sitapur facility. Blended margin in IMFL will be in the range of 15.5-16%. EBITDAM expanded by 10bps YoY to 12.3% (HSIE 13.4%). We model 13-15.5% EBITDAM for FY24-FY26.
- Con call takeaways:** (1) P&A saw growth across all brands and geographies. (2) Sitapur greenfield facility is now operating at optimum utilisation. Non-IMFL business run rate is likely to be INR4-4.5bn and it could reduce as captive consumption increases. (3) Radico enjoys an overall market share of 28%. (4) P&A realisation growth of c.8% includes 190-195 impact of price hike while the rest is due to product mix. (5) Net debt stood at INR 6.7bn (down INR 1bn QoQ). Radico aims to become a net cash company by FY26.

Quarterly/annual financial summary

(INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	11,609	7,922	46.6	9,250	25.5	28,756	31,428	42,424	48,984	53,467
EBITDA	1,428	969	47.4	1,212	17.8	4,149	3,584	5,401	7,005	8,287
APAT	738	571	29.4	619	19.3	2,521	2,044	2,829	3,948	4,791
EPS (INR)	5.6	4.3	29.4	4.7	19.3	18.9	15.3	21.2	29.5	35.8
P/E (x)						92.4	114.0	82.4	59.0	48.7
EV / EBITDA (x)						56.1	66.3	44.4	33.9	28.3
RoCE (%)						12.6	8.5	10.4	12.7	14.8

Source: Company, HSIE Research

REDUCE

CMP (as on 07 Feb 2024)	INR 1,745
Target Price	INR 1,100
NIFTY	21,931

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1,100	INR 1,100
EPS %	FY24E +4%	FY25E +5%

KEY STOCK DATA

Bloomberg code	RDCK IN
No. of Shares (mn)	134
MCap (INR bn) / (\$ mn)	233/2,853
6m avg traded value (INR mn)	428
52 Week high / low	INR 1,885/1,069

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	27.8	30.3	50.0
Relative (%)	16.7	20.9	30.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	40.26	40.26
FIs & Local MFs	23.93	23.99
FPIs	18.19	19.01
Public & Others	17.62	16.74
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Emami

Impacted by delayed onset of winter

Emami's 3Q print was below our expectations with revenue/EBITDA growing by 1/7% (HSIE: +4/10%) on account of the delayed onset of winter, weak rural demand and continued inflationary woes impacting discretionary offtakes. Domestic/international revenues were flat/+8% YoY, with domestic volume falling by 1% (2% four-year CAGR). While the winter portfolio fell 9%, the non-winter portfolio saw 5% growth. Domestic growth was led by Navratna and Dermicool, which grew 7%, followed by pain management/healthcare, which grew by 3%/flat. BoroPlus/Kesh King/male grooming revenues fell 9/13/6%. The alternate channel continued to report stellar performance with MT/e-commerce growing by 10/15% and now contributing 22% of domestic revenue. With prices of key RM (Menthol, LLP) benign, GM expanded by 290bps YoY to 69% while EBITDAM expanded by 160bps to 32%. Emami remains hopeful of demand recovery, especially in rural markets, led by (1) softening inflation; (2) improving agri yield and rural wages; (3) increase in government spending; and (4) accelerated scale-up of emerging channels (MT/e-comm/D2C). We increase our EPS estimates for FY24-26 by 2-4% largely emanating from lower ETR assumption. We remain cautious about the core business growth, given the limited scope to add new consumers in niche categories. We value the stock at 25x P/E on Dec-25E EPS to derive a TP of INR 520. Maintain REDUCE.

- Revenue grows 1%; domestic volume falls 1%:** Consolidated revenue grew by 1% YoY to INR 9.9bn with domestic/international revenue flat/+8% YoY. Domestic volume fell 1% YoY on account of subdued demand trends and the late onset of winter. While the winter portfolio fell by 9%, the non-winter portfolio grew by 5%. Navratna & Dermicool grew by 7% while pain management grew by 3%. Healthcare was flat while BoroPlus/Kesh King/male grooming revenues fell 9/13/6% on delayed winter and downtrading/weak discretionary demand. The Man Company and Brillare revenue grew by 80%. MT & e-commerce continued to perform well, growing by 10/15% and now contribute 22% of domestic revenue. International business grew 8% (11% CC), led by strong growth in MENAP regions. We model consolidated revenue to grow at a 7% CAGR over FY23-26.
- Margin recovery sustains:** GM expanded by 290bps YoY to 69% (HSIE 69%, in line), aided by softening of input cost. While employee expenses grew by 9%, other expenses fell by 4%. Emami stepped up A&P spending which grew by 8% YoY (17% of sales). Thus, EBITDAM expansion was limited to 160bps YoY at 32%; EBITDA grew 7% YoY. We expect GM expansion to sustain and model EBITDA margin of c.27-27.5% for FY24-26.
- Con call takeaways:** (1) Demand trend similar to last quarter. Rural recovery below expectations. The mass segment continues to struggle. (2) Launched five D2C products on the Zanducare portal (20 YTD). (3) All new launches are non-seasonal. (4) The Man Company has turned EBITDA positive. (5) Net cash as of Dec'23 at INR 4bn. (6) ETR to remain ~10% in Q4FY24 and FY25 due to MAT credit entitlement.

Quarterly/annual financial summary

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	9,963	9,827	1.4	8,649	15.2	31,881	34,057	35,834	38,555	41,262
EBITDA	3,149	2,943	7.0	2,337	34.7	9,525	8,628	9,776	10,523	11,334
APAT	2,828	2,547	11.0	1,967	43.7	7,338	6,814	8,453	8,898	9,517
EPS (INR)	6.48	5.73	13.0	4.51	43.7	16.6	15.4	19.2	20.2	21.6
P/E (x)						29.2	31.4	25.3	24.0	22.5
EV / EBITDA (x)						22.6	24.5	21.4	19.6	17.9
RoCE (%)						36.4	33.3	45.2	48.1	52.2

Source: Company, HSIE Research

REDUCE

CMP (as on 09 Feb 2024)	INR 485
Target Price	INR 520
NIFTY	21,783

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 520	INR 520
EPS %	FY24E	FY25E
	+4%	+2%

KEY STOCK DATA

Bloomberg code	HMN IN
No. of Shares (mn)	440
MCap (INR bn) / (\$ mn)	213/2,609
6m avg traded value (INR mn)	354
52 Week high / low	INR 589/341

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(6.6)	(5.9)	17.9
Relative (%)	(17.0)	(14.4)	0.2

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	54.84	54.84
FIs & Local MFs	25.22	23.95
FPIs	11.91	12.86
Public & Others	8.03	8.35
Pledged Shares	17.70	13.33

Source : BSE

Pledged shares as % of total shares

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Infra, Construction

IRB Infra

Robust performance

IRB reported revenue/EBITDA/APAT of INR 19.7/8.7/1.9bn, ahead of our estimates by 9.4/8.4/27.5%. EBITDA margin came in line with our estimate of 44.5% at 44.2% (-501/-137bps YoY/QoQ), primarily due to mix. The OB as of Dec'23 stood at INR 361.8bn (~6x FY23 adjusted revenue), with EPC contributing 19.1% (INR 69.3bn) and O&M contributing 80.9% (INR 293.7bn). The consolidated gross debt as of Dec'23 stood at INR 133.7bn vs. INR 135bn as of Sep'23. IRB expects to infuse equity of INR 4.1bn (excluding TOT-12/13 and Hyderabad ORR) in FY24 and INR 2.2bn in FY25. It maintained its FY24 construction revenue guidance at INR 50-55bn (+20-25% YoY) and construction EBITDA margin at ~25%. It expects total projects worth INR 2trn to be bid out over the next two years on a BOT toll basis. We maintain our ADD rating on the stock. Basis the new order wins, better than expected toll growth and lower interest cost, we increase our SOTP-based target price to INR 56/sh.

- Q3FY24 financial highlights:** Revenue: INR 19.7bn (+30/+12.8% YoY/QoQ, a beat of 9.4%). EBITDA: INR 8.7bn (+17/+9% YoY/QoQ, a beat of 8.4%). EBITDA margin: 44.2% (-501/-137bps YoY/QoQ, vs. our estimate of 44.5%, primarily due to revenue mix). Share of associates: INR -507mn (INR -125/-753mn in Q3FY23/Q2FY24). Consequently, APAT: INR 1.9bn (+32.6/+95.7% YoY/QoQ a beat of 27.5%). Q3FY24 BOT/TOT toll collections (IRB Infra + Pvt. InvIT) came in at INR 13.7bn (+25% YoY). Construction revenue came in at INR 13.5bn (+15.1/+37.9% YoY/QoQ). It maintained its FY24 construction revenue guidance at INR 50-55bn (+20-25% YoY) and construction EBITDA margin at ~25%.
- FYTD24 business highlights:** The OB as of Dec'23 stood at INR 361.8bn (~6x FY23 adjusted revenue), with EPC contributing 19.1% (INR 69.3bn) and O&M contributing 80.9% (INR 293.7bn). IRB InvIT bagged ToT-13 and signed the concession agreement. The execution of the Ganga Expressway project is progressing as per the schedule. Its private InvIT has declared its second distribution of INR 2.9bn, which will be reflected in Q4FY24 cash flows. It has refinanced the debt of five private InvIT SPVs with a saving of 110bps in interest cost. It expects total projects worth INR 2trn to be bid out over the next two years on a BOT basis. Currently, it has no BOT-toll projects with pending bid results.
- Comfortable balance sheet:** The consolidated gross debt as of Dec'23 stood at INR 133.7bn vs. INR 135bn as of Sep'23. IRB expects to infuse equity of INR 4.1bn (excluding TOT-12/13 and Hyderabad ORR) in FY24 and INR 2.2bn in FY25.

Consolidated Financial Summary (INR mn)

INR mn	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	19,685	15,141	30.0	17,450	12.8	59,836	74,366	81,252	90,414
EBITDA	8,695	7,446	16.8	7,946	9.4	28,610	34,119	37,214	41,319
APAT	1,874	1,414	32.6	957	95.7	4,520	6,643	8,684	11,037
Diluted EPS (Rs)	0.3	0.2	32.6	0.2	95.7	0.7	1.1	1.4	1.8
P/E (x)						86.8	59.1	45.2	35.6
EV / EBITDA (x)						18.7	16.0	14.7	13.2
RoE (%)						3.5	4.9	6.2	7.5

Source: Company, HSIE Research

Change in Est. INR mn	FY24E New	FY24E Old	Chg (%)	FY25E New	FY25E Old	Chg (%)	FY26E New	FY26E Old	Chg (%)
Revenues	74,366	68440	8.7	81,252	74541	9.0	90,414	82663	9.4
EBIDTA	34,119	32988	3.4	37,214	35892	3.7	41,319	39389	4.9
EBIDTA Margins(%)	45.88	48.2	(232)	45.8	48.15	(235)	45.7	47.7	(195)
APAT	6,643	5829	14.0	8,684	8297	4.7	11,037	9960	10.8

Source: Company, HSIE Research

ADD

CMP (as on 01 Feb 2024)	INR 65
Target Price	INR 56
NIFTY	21,697

KEY CHANGES	OLD	NEW	
Rating	ADD	ADD	
Price Target	INR 45	INR 56	
	FY24E	FY25E	FY26E
EPS %	14.0	4.7	10.8

KEY STOCK DATA

Bloomberg code	IRB IN
No. of Shares (mn)	6,039
MCap (INR bn) / (\$ mn)	393/4,807
6m avg traded value (INR mn)	1,611
52 Week high / low	INR 70/23

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	94.3	157.3	131.3
Relative (%)	81.7	149.5	111.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	34.39	34.39
FIs & Local MFs	7.38	7.85
FPIs	47.29	47.16
Public & Others	10.94	10.59
Pledged Shares	16.80	16.80

Source: BSE

Pledged shares as % of total shares

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NCC

Muted performance

NCC reported muted performance in Q3FY24, with revenue in line and EBITDA/PAT missing by 2.3/4.8%. With an order inflow of INR 212.4bn during 9MFY24 (vs. guidance of INR 260bn+), the OB as of Dec'23 stands at INR 574.4bn (~4.3x FY23 revenue) excluding an INR 40bn L1. On the back of this robust OB, NCC increased its FY24 revenue guidance from 20% to 30-35%. EBITDA/PAT margin guidance remains unchanged at 10.2/4.5%. Given the upcoming election season, NCC expects slight moderation in execution and awarding, which may have a marginal impact on FY25 growth. NCC has formed an SPV for executing the smart meter project and envisages INR 4bn of equity investment. It will divest a 50% stake to a partner at a premium, retaining INR 1bn of equity investment on its books. Owing to the robust collection, NCC recorded 92 days of NWC during 9MFY24 and expects FY24-end debt at INR 13-15bn. Given the all-time high order book, execution ramp-up, and robust balance sheet, we recalibrate FY24/25/26E estimates. We roll over our valuation to Mar-26 and increase our TP to INR 267/sh (14x Mar-26E EPS). We maintain our BUY rating on NCC.

- Q3FY24 financial highlights:** Revenue: INR 47.5bn (+41/+6% YoY/QoQ, inline). EBITDA: INR 4.8bn (+37/+0.3% YoY/QoQ, a 2.3% miss). EBITDA margin: 10.1% (-24/-56bps YoY/QoQ, vs. our estimate of 10.3%, owing to lower employee expenses and fixed and other overhead expenses, with higher raw material offsetting gains). APAT: INR 2.1bn (+42%/3x, a 4.8% miss). NCC increased its FY24 revenue guidance to 30-35% from 20% YoY earlier, with an EBITDA/PAT margin guidance of 10.2/4.5%. NCC received INR 1.46bn from Sembcorp with INR 0.5bn pending. Sembcorp is claiming the pending amount as legal and other charges.
- Robust order backlog; well diversified:** With an order inflow of INR 212.4bn during 9MFY24 (vs. guidance of INR 260bn+), OB as of Dec'23 stands at INR 574.4bn (~4.3x FY23 revenue) ex of INR 40bn L1. Buildings/electrical/water and railways/transportation contributed 33/36/15/16% of the 9MFY24 OI. Business-wise, the OB is well-diversified into building/water and railways/electrical/transportation/mining at 41/16/22/14/6%.
- Comfortable debt levels:** Gross standalone debt is stable at INR 14.7bn as of Dec'23 vs. INR 14.7bn as of Sep'23. The company expects to end the year with a debt of INR 13-15bn.

Standalone Financial Summary (INR mn)

Particulars	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	47,469	33,727	40.7	44,826	5.9	133,513	180,109	204,424	229,977
EBITDA	4,793	3,488	37.4	4,779	0.3	13,425	18,443	21,056	23,688
APAT	2,128	1,499	42.0	690	208.3	5,692	6,723	9,859	11,627
EPS (INR)	3.5	2.5	42.0	1.13	208.3	9.3	11.0	16.2	19.1
P/E (x)						23.5	19.9	13.5	11.5
EV/EBITDA (x)						10.2	7.6	6.7	5.9
RoE (%)						9.4	10.1	13.2	13.7

Source: Company, HSIE Research

Standalone Estimate Change Summary

INR mn	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenues	180,109	166,892	7.9	204,424	193,594	5.6	229,977	218,761	5.1
EBITDA	18,443	17,190	7.3	21,056	20,231	4.1	23,688	22,970	3.1
EBITDA (bps)	10.2	10.3	(6.0)	10.3	10.5	(15.0)	10.3	10.5	(20.0)
APAT	6,723	6,350	5.9	9,859	9,909	(0.5)	11,627	11,757	(1.1)

Source: Company, HSIE Research

BUY

CMP (as on 08 Feb 2024) INR 219

Target Price INR 267

NIFTY 21,718

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 259	INR 267
EPS Change %	FY24E +5.9	FY25E -0.5
		FY26E -1.1

KEY STOCK DATA

Bloomberg code	NJCC IN
No. of Shares (mn)	628
MCap (INR bn) / (\$ mn)	138/1,683
6m avg traded value (INR mn)	1,199
52 Week high / low	INR 225/87

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	40.3	42.3	132.0
Relative (%)	30.4	33.9	114.2

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	22.00	22.00
FIs & Local MFs	11.03	10.52
FPIs	24.18	23.89
Public & Others	42.81	43.59
Pledged Shares	2.87	2.87

Source : BSE

Pledged shares as % of total shares

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PNC Infratech

Asset monetisation announced; in-line performance

PNC Infratech (PNC) reported Q3FY24 revenue/EBITDA/APAT of INR 18/2.4/1.5bn, missing our estimates by 2/2.7/2%. PNC announced a stake sale in 12 assets to KKR for a total equity value of INR 29bn vs equity investment of INR 17.4bn. The deal is expected to close by March 2025. The order book (OB) as of Dec'23 stood at INR 173.8bn (~2.5x FY23 revenue, including L1 of INR 55.9bn excluding GST), with the road EPC segment contributing 75% of it. It cut its FY24 revenue growth guidance to 10% YoY (vs 15% earlier), with an EBITDA margin of 13.3-13.5%, an order inflow (OI) of INR 80bn and capex of INR 0.5bn. The company plans to infuse INR 1.2/4.5/3.6bn in Q4FY24/25/26. PNC has a net cash position of INR 0.4bn as of Dec'23. Given better margins and a robust balance sheet, we maintain BUY, with an unchanged TP of INR 520/sh (14x Dec-25E, 1.6x P/BV for HAM equity investment).

- Q3FY24 financial highlights:** Revenue: INR 18bn (+11/7% YoY/QoQ, a miss of 2%; INR 5.3bn revenue from water segment). EBITDA: INR 2.4bn (+15/+5% YoY/QoQ, a miss of 2.7%). EBITDA margin: 13.3% (+50/-16bps YoY/QoQ, vs. our estimate of 13.4%, owing to higher raw material prices; largely offset by lower employee expenses). Depreciation: INR 261mn (-6/+2% YoY/QoQ). Interest cost: INR 172mn, (+6/-8% YoY/QoQ). Other income: INR 42mn (-57/-26% YoY/QoQ). RPAT/APAT: INR 1.5bn (+17/+8% YoY/QoQ, a miss of 2%). PNC has cut its FY24 revenue growth guidance of 15% YoY to 10% (HSIE estimate 7%) with an EBITDA margin of 13-13.5%. Further, with INR 13.5bn revenue from the water segment in 9MFY24, it maintained its guidance for FY24 revenue from the segment at INR 20bn+.
- Weak order inflows lend limited growth visibility:** The executable OB as of Dec'23 stood at INR 118bn. The value of five HAM projects yet to be included in OB is INR 55.9bn (excluding GST), which would take the OB to INR 173.8bn (~2.5x FY23 revenue). The road EPC segment constitutes 75% of the total OB whilst water projects constitute 25% of it. The appointed date (AD) for the new HAM projects is expected by FY24-end. Further, the company cut its FY24 OI guidance to INR 80bn (vs INR 100bn). It is also looking for non-road opportunities in metro rail, railways, and water segments.
- Robust balance sheet; 12 HAM assets stake sale to KKR announced:** With a cash balance of INR 3.2bn and gross debt of INR 2.8bn, PNC has a net cash position of INR 0.4bn as of Sep'23 vs. INR 2bn net debt as of Sep'23. The NWC days stood at 73 vs. 79 as of Sep'23. Out of INR 30bn, PNC has already infused INR 18.8bn as of Dec'23 and has a residual equity requirement of INR 10.6bn for all the HAM projects in the portfolio, of which INR 1.2/4.5/3.6bn will be done in Q4FY24/25/26. PNC has announced a stake sale in 11/1 HAM/BOT projects to KKR and the deal is expected to close by FY25-end. PNC expects to receive INR 29bn for the book value of equity invested at INR 17.4bn.

Standalone Financial Summary (INR mn)

YE Mar (INR mn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	18,027	16,270	10.8	16,930	6.5	70,608	75,158	81,546	89,701
EBITDA	2,395	2,081	15.1	2,276	5.2	9,539	9,688	10,766	12,193
APAT	1,511	1,294	16.7	1,398	8.1	5,838	6,071	6,727	7,656
EPS (INR)	5.9	5.0	16.7	5.4	8.1	22.8	23.7	26.2	29.8
P/E (x)						19.5	18.8	16.9	14.9
EV/EBITDA (x)						12.0	11.4	10.3	9.1
RoE (%)						16.0	14.5	14.2	14.1

Source: Company, HSIE Research

BUY

CMP (as on 06 Feb 2024)	INR 444
Target Price	INR 520
NIFTY	21,929

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 520	INR 520	
EPS Change %	FY24E	FY25E	FY26E
	-	-	-

KEY STOCK DATA

Bloomberg code	PNCL IN
No. of Shares (mn)	257
MCap (INR bn) / (\$ mn)	114/1,394
6m avg traded value (INR mn)	251
52 Week high / low	INR 463/261

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	33.4	26.2	30.9
Relative (%)	22.3	16.4	11.6

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	56.07	56.07
FIs & Local MFs	28.10	27.24
FPIs	10.78	10.98
Public & Others	5.06	5.72
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

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KNR Constructions

Order booking key trigger

KNR reported weak revenue/EBITDA/APAT at INR 9/1.5/0.85bn, missing our estimates by 1/9/12%. EBITDA margin came in at 16.3% (-252/-139bps YoY/QoQ vs. our estimate of 17.8%). KNR maintained its FY24 revenue at INR 40bn, with the EBITDA margin at 17-18%. Given the tepid ordering pipeline for the rest of FY24 and major bid activity now expected to pick up from H2FY25, we expect muted revenue growth for KNR during FY25. The company is targeting INR 50-60bn of new orders over the next year. Given the aggressive competition, the company is looking at projects from different segments like irrigation projects from states other than Telangana, railways, mining development, tunnelling, energy and metro. On the HAM portfolio, KNR has already invested INR 4.8bn; the balance equity requirement in NHAI HAM projects is INR 5.1bn as of Dec'23, of which INR 0.9/2.9/0.7/0.7bn will be infused in Q4FY24/FY25/26/27. Pending Telangana irrigation, receivables stand at INR 6.5bn and KNR is confident of recovering INR 4bn by Mar-24. We have cut our estimates to factor in weak order inflows during FYTD24. Given a strong balance sheet, robust execution and likely new order wins in CY24, we maintain BUY with a TP of INR 337/sh (15x Mar-26E EPS).

- Q3FY24 financial performance:** Revenue: INR 9bn (+9/-4% YoY/QoQ, a 0.5% miss). EBITDA: INR 1.5bn (-6/-11% YoY/QoQ, a 9% miss). EBITDA margin: 16.3% (-252/-139bps YoY/QoQ); vs. our estimate of 17.8%). APAT: INR 0.85bn (+6/-14% YoY/QoQ, a 12% miss). KNR maintained its FY24 revenue of INR 40bn, with an EBITDA margin of 17-18%. Given the tepid ordering pipeline for the rest of FY24 and major bid activity now expected to pick up from H2FY25, we expect muted revenue growth for KNR during FY25. Accordingly, we have cut our estimates to factor in the same. KNR needs both geographical and segment diversification to maintain the growth trajectory.
- Order booking awaited; diversification is the key:** In the absence of new major orders, the executable OB as of Dec'23 stood at INR 67.4bn. Captive (HAM project) works constitute 57% of the OB whereas state/central government/other orders constitute 32/9/2%. Business segment-wise, HAM/other roads/irrigation account for 57/20/23% of the OB. Given the aggressive competition, the company is looking at projects from different segments like irrigation projects from states other than Telangana, railways, mining development, tunnelling, energy, solar and metro. It is also open to bidding for the BOT toll project with a forward purchase agreement with Cube Highways for the same.

Standalone Financial Summary (INR Mn)

Particulars	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	9,054	8,302	9.1	9,415	(3.8)	37,438	39,781	41,079	47,252
EBITDA	1,473	1,560	(5.6)	1,663	(11.4)	7,217	6,842	7,066	8,624
APAT	855	809	5.7	999	(14.3)	4,011	4,180	4,142	5,326
EPS (INR)	3.0	2.9	5.7	3.6	(14.3)	14.26	14.86	14.73	18.94
P/E (x)						19.5	18.7	18.9	14.7
EV/EBITDA (x)						10.6	11.2	10.8	9.0
RoE (%)						16.1	14.0	12.1	14.3

Source: Company, HSIE Research

Change in Estimates

(INR mn)	FY24E			FY25E			FY26E		
	New	Old	% Change	New	Old	% Change	New	Old	% Change
Revenues (Rs mn)	39,781	39,781	-	41,079	44,029	(6.7)	47,252	49,752	(5.0)
EBITDA (Rs mn)	6,842	7,419	(7.8)	7,066	8,079	(12.5)	8,624	9,179	(6.1)
Margin (%)	17.2	18.7	(145.0)	17.2	18.4	(115.0)	18.3	18.5	(20.0)
APAT (Rs mn)	4,180	4,321	(3.3)	4,142	4,673	(11.4)	5,326	5,355	(0.5)

Source: Company, HSIE Research

BUY

CMP (as on 09 Feb 2024)	INR 272
Target Price	INR 337
NIFTY	21,783

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 332	INR 337	
EPS Change %	FY24E -3.3	FY25E -11.4	FY26E -0.5

KEY STOCK DATA

Bloomberg code	KNRC IN
No. of Shares (mn)	281
MCap (INR bn) / (\$ mn)	77/936
6m avg traded value (INR mn)	324
52 Week high / low	INR 306/226

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.4	12.0	1.8
Relative (%)	(7.0)	3.5	(16.0)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	51.09	51.09
FIs & Local MFs	32.27	29.32
FPIs	6.61	7.57
Public & Others	10.03	12.01
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

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Prestige Estates

Presales outperformance continues

Prestige Estates (PEPL) registered the second highest-ever presales in any quarter by value and volume at INR 53bn (+111%/-25% YoY/QoQ) and 5.5msf (+88%/-20% YoY/QoQ) resp. This was mainly on the back of robust presales in Prestige City Hyderabad with 12.6msf of saleable area contributing INR 24bn to the presales. On a blended basis, realisation stood at INR 9,755psf (+13%/-6% YoY/QoQ). For FY24, PEPL expects INR 200bn+ (9MFY24 – INR 163.3bn achieved). The first tower of Prestige Ocean Towers Mumbai was launched and PEPL achieved INR 4bn in sales (40% of launched inventory). Prestige Nautilus in MMR will be launched in 1QFY25. It will launch its first project in NCR, Prestige Bougainvillea Gardens, in 1QFY25 with a saleable area of 3.1msf. We maintain BUY, with an increased SOTP-based TP of INR 1,390/sh, to factor in better-than-expected realisation/presales and an improving visibility on office assets. PEPL has closed some large BD transactions in Noida/Delhi and this shall add incrementally from Q3FY25.

- Q3FY24 financial highlights:** Reported revenue was INR 17.9bn (-22%/-20% YoY/QoQ, a miss of 28%). EBITDA was INR 5.5bn (-4%/-7% YoY/QoQ, a 17% miss). EBITDA margin was 30.7% (+593/+422bps YoY/QoQ, vs. our estimate of 26.8%). APAT was INR 1.2bn (-9%/-32% YoY/QoQ, a 4% beat).
- Strong traction in presales, looking at record FY24:** Q3FY24 presales were the second-highest quarter presales with volume at 5.5msf (+88%/-20% YoY/QoQ) valued INR 53.2bn (+111%/-25% YoY/QoQ). On a blended basis, realisation stood at INR 9,755psf (+13%/-6% YoY/QoQ). The presales were supported by the highest ever 14.6msf of project launches, the largest of which was Prestige City Hyderabad with 12.6msf of saleable area contributing INR 24bn to the presales. For FY24, PEPL expects INR 200bn+ (9MFY24 – INR 163.3bn achieved).
- Robust collections to support execution:** Net debt increased to INR 69.8bn (+INR 198mn QoQ), from INR 69.6bn in Sep-23. Net D/E is at 0.6x (0.61x in Sep-23). Gross debt (excluding ongoing capex) is INR 81.8bn (vs INR 72.7bn in Sep'23). PEPL has to incur INR 47.5bn on the ongoing commercial capex and INR 65.2bn on the upcoming commercial capex. Towards retail capex, it has to spend INR 2.8bn on ongoing and INR 13.7bn on upcoming retail assets. The total exit rental for March 2024 is expected at INR 5.5bn. This includes INR 3.3bn of office rentals and 2.1bn of retail. Total collections were at INR 31.1bn (+36/+18% YoY/QoQ) with more than INR 120bn expected in FY24.

Consolidated Financial Summary

(INR in mn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	17,958	23,170	(22.5)	22,364	(19.7)	83,150	83,972	93,359	108,745
EBITDA	5,515	5,742	(4.0)	5,925	(6.9)	20,863	24,140	26,888	32,374
APAT	1,163	1,278	(9.0)	1,701	(31.6)	5,592	5,526	6,129	9,529
EPS (INR)	2.9	3.2	(9.0)	4.2	(31.6)	13.9	13.8	15.3	23.8
P/E (x)						79.3	80.2	72.3	46.5
EV/EBITDA (x)						24.3	20.9	19.1	15.9
RoE (%)						5.9	5.4	5.7	8.4

Source: Company, HSIE Research

Change in Estimates (INR mn)

Particulars (INR mn)	FY24E			FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenues	83,972	89,106	(5.8)	93,359	96,567	(3.3)	108,745	113,069	(3.8)
EBIDTA	24,140	22,245	8.5	26,888	27,236	(1.3)	32,374	34,774	(6.9)
EBIDTA Margins (%)	28.7	25.0	378	28.8	28.2	60	29.8	30.8	(98)
APAT	5,526	6,038	(8.5)	6,129	8,347	(26.6)	9,529	12,107	(21.3)

Source: Company, HSIE Research

BUY

CMP (as on 14 Feb 2024)	INR 1,101
Target Price	INR 1,390
NIFTY	21,840

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 1,241	INR 1,390	
EPS Change %	FY24E	FY25E	FY26E
	-	-	-

KEY STOCK DATA

Bloomberg code	PEPL IN
No. of Shares (mn)	401
MCap (INR bn) / (\$ mn)	441/5,395
6m avg traded value (INR mn)	1,080
52 Week high / low	INR 1,440/391

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	30.6	98.8	178.0
Relative (%)	20.0	89.0	160.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	65.48	65.48
FIs & Local MFs	12.82	13.17
FPIs	19.50	18.07
Public & Others	2.20	3.28
Pledged Shares	-	-

Source: BSE

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HG Infra

In-line performance

HG Infra (HG) reported an in-line quarter, with a beat on revenue/EBITDA/APAT by 3.1/3.7/6.3%. The OB as of Dec'23 stood at INR 96.3bn (~2.2x FY23 revenue). Its FY24 revenue guidance stands at INR 50-54bn (~20% YoY) with an EBITDA margin of ~16%. On the order inflow front, we expect INR 50-60bn, given a truncated ordering period owing to elections and weaker-than-expected NHAI ordering. Equity infusion guidance for Q4FY24/FY25/26 stands at INR 0.7/4.6/2bn. The standalone gross/net debt, as of Dec'23 stood at INR 4.7/3.3bn vs. INR 6/4.8bn, as of Sep'23. We have marginally increased our EPS estimates to reflect better EBITDA margins. Given robust OB, likely pick-up in project execution and a healthy balance sheet, we maintain BUY on HG, with an increased TP of INR 1,338 (14x Dec-25E EPS).

- Q3FY24 financial highlights:** Revenue of INR 13.5bn (+19/+55% YoY/QoQ, a beat of 3.1%). EBITDA: INR 2.1bn (+13.2/+55% YoY/QoQ, a beat of 3.7%). EBITDA margin came in at 15.9% (-83/-0.4bps YoY/QoQ, vs. our estimate of 15.8%). HG reported INR 1.1bn as an exceptional gain on earlier divested road assets. RPAT/APAT: INR 2.1/1.2bn (+6/+91% YoY/QoQ, a beat of 6.3%). Its FY24 revenue growth guidance stands at ~20% with an EBITDA margin of ~16%.
- Robust and well-diversified OB:** The OB as of Dec'23 stood at INR 96.3bn (~2.2x FY23 revenue). It is well-diversified at the client level, with government/private orders contributing toward 73/27%. 51% of the OB consisted of EPC orders, 37% were HAM orders and 12% belonged to railways. Geography-wise, 33% of orders were from Uttar Pradesh, followed by Jharkhand, Odisha, Telangana, Haryana, Karnataka and Delhi at 20/10/9/9/7/5%. Regarding the order inflow, we expect an influx of INR 50-60bn in FY24.
- Business update:** During the quarter, it received the appointed date (AD) for the Kanpur Central Railways project. It achieved a completion certificate for the Maharashtra Pckg-7 EPC project and COD for the Rewali Ateli Mandi HAM project. It expects the AD for its Varanasi-Ranchi-Kolkata Pckg-13 and 10 projects by Q4FY24/Q1FY25.
- Reduction in standalone debt levels:** The standalone gross/net debt, as of Dec'23 stood at INR 4.7/3.3bn vs. INR 6/4.8bn, as of Sep'23. The total equity requirement in HAM projects is INR 13.3bn, of which INR 6bn is already infused. HG guided for infusing INR 0.7/4.6/2bn in Q4FY24/FY25/26.

Standalone financial summary – INR mn

YE Mar – INR mn	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	13,464	11,312	19.0	8,695	54.9	44,185	52,082	59,113	67,980
EBITDA	2,142	1,893	13.2	1,384	54.8	7,103	8,298	9,159	10,419
APAT	1,181	1,114	5.9	617	91.4	4,214	4,625	5,207	5,999
EPS (INR)	18.1	17.1	5.9	9.5	91.4	64.7	71.0	79.9	92.1
P/E (x)						14.8	13.5	12.0	10.4
EV/EBITDA (x)						9.3	7.9	7.1	6.1
RoE (%)						26.8	23.2	21.0	19.8

Source: Company, HSIE Research

Change in estimates

INR mn	FY24E			FY25E			FY26E		
	New	Old	% Change	New	Old	% Change	New	Old	% Change
Revenues	52,082	52,082	-	59,113	59,113	-	67,980	67,980	-
EBIDTA	8,298	7,947	4.4	9,159	8,707	5.2	10,419	10,225	1.9
EBIDTA Margins (%)	15.9	15.3	4.4	15.5	14.7	5.2	15.3	15.0	1.9
APAT	4,625	4,538	1.9	5,207	4,922	5.8	5,999	5,878	2.1

Source: Company, HSIE Research

BUY

CMP (as on 05 Feb 2024)	INR 960
Target Price	INR 1,338
NIFTY	21,772

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 1,304	INR 1,338	
EPS Change %	FY24E 1.9	FY25E 5.8	FY26E 2.1

KEY STOCK DATA

Bloomberg code	HGINFRA
No. of Shares (mn)	65
MCap (INR bn) / (\$ mn)	63/765
6m avg traded value (INR mn)	123
52 Week high / low	INR 1,019/634

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.1	3.0	42.1
Relative (%)	(7.3)	(6.2)	24.2

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	74.53	74.53
FIs & Local MFs	13.05	12.45
FPIs	1.67	1.56
Public & Others	10.74	11.47
Pledged Shares	-	-

Source: BSE

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ITD Cementation

Robust performance

ITD Cementation (ITD) reported quarterly revenue/EBITDA/APAT beat of 8/11/21%. EBITDA margin was at 10.2% (+231/+33bps YoY/QoQ), ahead of our estimate of 9.8%, as lower employee and other expenses mitigated the impact of higher input and raw material prices. With an OI of INR 12.8bn in Q3FY24, the 9MFY24 inflow stood at INR 61bn (FY24/25 guidance of INR 80/80-100bn+), taking the Dec'23 OB to INR 208.3bn (~4.1x FY23 revenue). The total bid pipeline stands at INR 130bn. NWC is 80-85 days. The OB is well-diversified, offering a natural hedge against any slowdown in specific business segments. ITD maintained its FY24 revenue guidance at INR 70bn+ with an EBITDA margin of 10%+. For FY25, revenue is expected to be INR 90-95bn. ITD has guided for capex of INR 2.5bn for FY24/FY25, allocated towards construction plants and equipment. Given a better margin profile and stronger execution in 9MFY24, we reiterate BUY and increase the TP to INR 380/sh (14x Mar-26E EPS).

- Q3FY24 financial summary:** Revenue: INR 20.2bn (+52/+25% YoY/QoQ, a beat of 8%). EBITDA: INR 2bn (+97/+29% YoY/QoQ, a beat of 11%). EBITDA margin: 10.2% (+231/+31bps YoY/QoQ, vs. our estimate of 9.9%). RPAT/APAT: INR 784mn (+114/+46%, a beat of 21%). It maintained its FY24 revenue and margin guidance at INR 70bn+ and 10%+ respectively.
- Robust OB; well-placed to achieve guidance:** With an OI of INR 12.8bn in Q3FY24, the 9MFY24 inflow stood at INR 61bn (FY24 guidance of INR 80bn+), taking the Dec'23 OB to INR 208.3bn (~4.1x FY23 revenue). Client-wise, the OB shows diverse distribution among government, private, and PSUs accounting for 50/32/18%. Business-wise, the OB exhibits a varied allocation across marine, urban infra, highways, industrials, dams & tunnels, water, and others comprising 32/23/18/12/10/3/2%. The breakdown between domestic and international order books stands at 91.4% and 8.6%. ITD has a robust bid pipeline of ~INR 130-140bn.
- Comfortable balance sheet:** ITD's consolidated gross debt, as of Dec'23, stood at INR 8.6bn vs. INR 7.3bn, as of Sep'23, with net debt at INR 4bn vs. INR 4.6bn during Sep-23. Currently, ITD is borrowing working capital at 9.5-10.5%, term loan at 9-10% and pays a commission on bank guarantees at 0.8-1%. ITD is planning INR 2.5bn capex for FY24/FY25, allocated towards construction plants and equipment.

Consolidated Financial Summary (INR mn)

Particulars	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	20,172	13,270	52.0	16,104	25.3	50,909	75,167	90,952	104,777
EBITDA	2,048	1,040	96.8	1,582	29.5	3,999	7,359	9,107	10,896
APAT	784	365	114.6	536	46.2	1,242	2,638	3,691	4,968
Diluted EPS (INR)	4.6	2.1	114.6	3.1	46.2	7.2	15.4	21.5	28.9
P/E (x)						46.6	21.9	15.7	11.7
EV / EBITDA (x)						14.7	7.6	6.1	5.0
RoE (%)						10.4	19.1	21.7	23.2

Source: Company, HSIE Research

Change in Estimates

Rs mn	FY24E			FY25E			FY26E		
	New	Old	change/ bps	New	Old	change/ bps	New	Old	change/ bps
Revenue	75,167	72,230	4.1	90,952	80,175	13.4	104,777	90,197	16.2
EBITDA	7,359	6,795	8.3	9,107	8,004	13.8	10,896	9,927	9.8
EBITDA Margins (%)	9.8	9.4	38.2	10.0	10.0	3.0	10.4	11.0	(60.7)
APAT	2,638	2,525	4.5	3,691	3,238	14.0	4,968	4,682	6.1

Source: Company, HSIE Research

BUY

CMP (as on 09 Feb 2024) INR 336

Target Price INR 380

NIFTY 21,783

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 327	INR 380	
EPS Change %	FY24E	FY25E	FY26E
	4.5	14.0	6.1

KEY STOCK DATA

Bloomberg code	ITCE IN
No. of Shares (mn)	172
MCap (INR bn) / (\$ mn)	58/706
6m avg traded value (INR mn)	395
52 Week high / low	INR 353/93

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	52.7	71.8	210.2
Relative (%)	42.2	63.3	192.5

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	46.64	46.64
FIs & Local MFs	3.38	1.94
FPIs	14.42	13.90
Public & Others	35.56	37.53

Pledged Shares - -

Source : BSE

Pledged shares as % of total shares

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Dilip Buildcon

Good traction on deleveraging

Dilip Buildcon (DBL) reported revenue/EBITDA/APAT beat/(miss) of (1.3)/0.2/(4.8)%. EBITDA margin: 12.4% (+189/+29bps YoY/QoQ), vs. our estimate of 12.2% on account of lower input and raw material prices. In FYTD24, DBL won four projects worth INR 26.4bn, taking FYTD24 order wins to INR 26.4bn (i.e. ~33% FY24 OI guidance of INR 80bn). With this, the Dec'23 OB stood at INR 218.4bn (~2.2x FY23 revenue). The standalone net debt as of Dec'23 stood at INR 18.2bn vs. INR 20.7bn as of Sep'23, with net D/E at 0.36x. It reiterated its guidance for reducing the debt by INR 8bn by FY24-end and becoming net cash by FY26-end. It is planning to float its own InvIT with Alpha Alternatives (AA) as a strategic partner and expects INR 20/40bn in cash/InvIT units by FY25-end. Given lower interest cost on reducing debt, we recalibrate our FY24/25/26 EPS higher and maintain ADD with an increased SOTP-based TP of INR 483/sh (10x Mar-26E EPS, 1.2x P/BV HAM equity investment).

- Q3FY24 financial highlights:** Revenue: INR 25.7bn (+8/+6% YoY/QoQ, a 1.3% miss); EBITDA: INR 3.2bn (+27/+8%, YoY/QoQ, a 0.2% beat); EBITDA margin: 12.4% (+189/+29bps YoY/QoQ), vs. our estimate of 12.2% on account of lower input and raw material prices. RPAT: INR 953mn (+20/-20% YoY/QoQ). Exceptional item: INR 203mn net gain arising on GST change in law and transfer of 51% stake in Bengaluru Nidagatta Chandikhole Highways Pvt Ltd to Shrem InvIT. APAT: INR 801mn (+80/-13% YoY/QoQ, a miss of 5%). It maintained its FY24 revenue guidance to 6-8% YoY growth, with an EBITDA margin of 12-14%.
- Weak order inflow provides limited growth visibility:** In FYTD24, DBL won four projects worth INR 26.4bn, taking FYTD24 order wins to INR 26.4bn (i.e. ~33% FY24 OI guidance of INR 80bn). With this, the Dec'23 OB stood at INR 218.4bn (~2.2x FY23 revenue). Roads/mining/irrigation/water supply/tunnel/metro/other segments comprised 33/19/18/15/7/5/3% of the OB. At the contract level, EPC/HAM comprised 66/34% of the OB.
- Aiming for net cash status by FY26, strengthening balance sheet:** The standalone net debt as of Dec'23 stood at INR 18.2bn vs. INR 20.7bn as of Sep'23, with net D/E at 0.36x. It reiterated its guidance for reducing debt by INR 8bn by FY24-end and achieving a net cash status by FY26-end. DBL has entered into a long-term partnership with Alpha Alternatives (AA) for the construction, financing and monetization of road projects through its own InvIT platform. AA plans to invest INR 20bn over the next six quarters towards a 10% stake in the company and 26% in 18 HAM assets. Further, the company expects units from the InvIT worth INR 40bn leading to a cash generation of INR 4bn+ YoY.

Standalone Financial Summary (INR mn)

Particulars	3QFY24	3QFY23	YoY (%)	3QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	25,711	23,788	8.1	24,270	5.9	101,195	106,080	111,596	122,198
EBITDA	3,185	2,497	27.5	2,935	8.5	9,884	13,275	14,244	16,076
APAT	801	445	79.9	924	(13.3)	1,267	3,912	4,389	5,424
EPS (INR)	5.5	3.0	79.9	6.3	(13.3)	8.7	26.8	30.0	37.1
P/E (x)						44.8	14.5	12.9	10.5
EV/EBITDA (x)						8.1	6.3	5.7	5.1
RoE (%)						2.8	8.2	8.5	9.6

Source: Company, HSIE Research

Standalone Estimate Change Summary

Particulars	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenues	106,080	108,000	(1.8)	111,596	118,800	(6.1)	122,198	133,056	(8.2)
EBITDA	13,275	13,264	0.1	14,244	14,856	(4.1)	16,076	17,336	(7.3)
EBITDA (bps)	12.5	12.3	23.2	12.8	12.5	25.9	13.16	13.03	12.7
APAT	3,912	3,276	19.4	4,389	3,930	11.7	5,424	5,328	1.8

Source: Company, HSIE Research

ADD

CMP (as on 12 Feb 2024)	INR 388
Target Price	INR 483
NIFTY	21,616

KEY CHANGES	OLD	NEW	
Rating	ADD	ADD	
Price Target	INR 453	INR 483	
EPS	FY24E	FY25E	FY26E
Change %	+19.4	+11.7	+1.8

KEY STOCK DATA

Bloomberg code	DBL IN
No. of Shares (mn)	146
MCap (INR bn) / (\$ mn)	57/694
6m avg traded value (INR mn)	496
52 Week high / low	INR 439/160

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.3	29.5	80.8
Relative (%)	(5.6)	20.7	63.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	70.15	70.15
FIs & Local MFs	9.06	9.10
FPIs	2.69	2.89
Public & Others	18.10	17.86
Pledged Shares	17.53	17.53

Source: BSE

Pledged shares as % of total shares

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Ashoka Buildcon

Asset monetisation awaited

Ashoka Buildcon (ASBL) reported revenue/EBITDA/APAT at INR 21.3/1.8/0.9bn a beat of 20/6.1/3%. EBITDA margin: 8.3% (+77/-94bps YoY/QoQ), lower than our estimate of 9.4%, owing to weak margins in legacy projects. ASBL expects to record 10%+ EBITDA margins from Q1/Q2FY25 with further improvement to 11-11.5%. The OB as of Dec'23 stood at INR 131.7bn (~2.1x FY23 revenue). Business-wise, the OB is well-diversified with roads/power T&D/railways/buildings constituting 43/42/9/6%. The standalone gross/net debt as of Dec'23 stood at INR 11/8.3bn vs. INR 11.2/8.9bn as of Sep'23. ASBL is in the advanced stages of the HAM/BOT asset deal conclusion (by Mar/Apr-24). The company maintained its FY24 revenue growth guidance of 15% YoY. Given a truncated ordering period owing to elections and weaker-than-expected NHAH ordering, it expects bid momentum to restart from Q2FY25. Given the stable OB, improving visibility on asset monetisation, and likely cash inflow from the same (INR 31bn), we maintain BUY. We roll forward our valuation to Mar-26 and increase SOTP to INR 254/sh (11x Mar-26E EPS) while factoring in a higher valuation for HAM assets (1.4x P/BV).

- Q3FY24 financial highlights:** Revenue: INR 21.3bn (+36.8/+36.7% YoY/QoQ, 20% beat). EBITDA: INR 1.8bn (+51%/+23 YoY/QoQ, a beat of 6.1%). EBITDA margin: 8.3% (+77/-94bps YoY/QoQ, vs. our estimate of 9.4%). RPAT/APAT: INR 867mn (+30%/+22% YoY/QoQ, a beat of 3.1%). It maintained its FY24 revenue growth guidance of 15-20% YoY. ASBL expects to record 10%+ EBITDA margins from Q1/Q2FY25 with further improvement to 11-11.5%.
- Well-diversified OB; new order booking awaited:** The OB as of Dec'23 stood at INR 131.7bn (~2.1x FY23 revenue). Business-wise, the OB is well-diversified with roads/power T&D/railways/buildings constituting 43/42/9/6% of it. Region-wise, the maximum contribution is from west/south at 33/27%, followed by central/east/overseas at 13/9/10%. Client-wise, state/central governments constitute 43/29%, with overseas/HAM/private at 10/10/8%.
- Comfortable balance sheet; debt levels stable:** The standalone gross/net debt as of Dec'23 stood at INR 11/8.3bn vs. INR 11.2/8.9bn as of Sep'23. ASBL is in the advanced stages of the HAM/BOT asset deal conclusion (by Mar/Apr-24) and proceeds will be partly utilised to reduce standalone debt.

Standalone Financial Summary (INR mn)

Particulars	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	21,335	15,595	36.8	15,613	36.7	63,723	74,015	77,938	89,628
EBITDA	1,765	1,170	50.8	1,439	22.7	5,337	5,921	7,638	8,963
APAT	867	667	29.9	712	21.7	3,181	2,541	3,115	4,093
EPS (INR)	3.1	2.4	29.9	2.5	21.7	11.3	9.1	11.1	14.6
P/E (x)						16.0	20.0	16.3	12.4
EV/EBITDA(x)						11.0	10.1	7.5	6.6
RoE (%)						10.5	7.3	8.3	9.8

Source: Company, HSIE Research

Change in Estimates (INR mn)

Particulars	FY24E			FY25E			FY26E		
	New	Old	% Change	New	Old	% Change	New	Old	% Change
Revenues	74,015	71,370	3.7	77,938	79,221	(1.6)	89,628	87,143	2.9
EBITDA	5,921	5,210	13.6	7,638	7,526	1.5	8,963	8,714	2.9
EBITDA margin(%)	8.0	7.3	70.0	9.8	9.5	30.0	10.0	10.0	-
APAT	2,541	2,299	10.5	3,115	3,202	(2.7)	4,093	4,061	0.8

Source: Company, HSIE Research

BUY

CMP (as on 08 Feb 2024)	INR 181
Target Price	INR 254
NIFTY	21,718

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 239	INR 254	
EPS Change %	FY24E 10.5	FY25E (2.7)	FY26E 0.8

KEY STOCK DATA

Bloomberg code	ASBL IN
No. of Shares (mn)	281
MCap (INR bn) / (\$ mn)	51/621
6m avg traded value (INR mn)	552
52 Week high / low	INR 196/71

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	29.0	76.8	128.8
Relative (%)	19.0	68.4	111.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	54.48	54.48
FIs & Local MFs	19.96	19.72
FPIs	2.97	4.51
Public & Others	22.60	21.28

Pledged Shares - -

Source : BSE

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J. Kumar Infraprojects

Robust performance

JKIL reported yet another operationally strong quarter, with revenue/EBITDA/APAT at 12.2/1.8/0.8bn, beating our estimates by 5.2/8.8/10%. In FYTD24, it won projects worth INR 80.6bn vs. a revised FY24 inflow guidance of INR 110-120bn. The order book as of Dec'23 stood at INR 167.7bn (~4x FY23 revenue). Gross debt stood at INR 6.2bn as of Dec'23 vs. INR 6.4bn as of Sep'23, leading to a gross/net D/E of 0.24/0.03x. JKIL maintained its FY24 revenue growth guidance of +15% YoY with an EBITDA margin of 14-15%. Excluding the Chennai elevated corridor project, the FY24 capex guidance stands at INR 1.5bn. With ~72% utilisation of non-fund-based limits and 46% utilisation of fund-based limits, the company is well-placed to incur capex with a mix of debt and internal accruals. Further, it guided for FY24-end debt levels of INR 6.5bn and NWC days at 120. Given the limited upside to our TP, we maintain our ADD rating on the stock, with an increased TP of INR 658/sh (12x Dec-25E EPS).

- Q3FY24 financial performance:** Revenue: INR 12.2bn (+15/10% YoY/QoQ, a beat of 5.2%). EBITDA: INR 1.8bn (+18/+12% YoY/QoQ, a beat of 8.8%). EBITDA margin: 14.7% (+46/+28 bps YoY/QoQ, vs. our estimate of 14.3%). RPAT/APAT: INR 826mn (+16/+13% YoY/QoQ, a beat of 10%). JKIL reiterated its FY24 revenue guidance at INR 48bn (+15% YoY growth).
- Robust order inflows during 9MFY24:** JKIL won orders worth INR 80.6bn in FYTD24 and revised FY24 inflow guidance to INR 110-120bn vs INR 80bn+ earlier. The order book as of Dec'23 stood at INR 167.7bn (~4x FY23 revenue). Geographically, the OB has maximum exposure in Maharashtra at 58%, followed by Tamil Nadu/NCR/Gujarat/UP contributing 24/10/3/3%. Currently, the OB worth INR 130bn is under execution. It is planning to bid for a minimum of INR 50-100bn worth of orders in Q4FY24.
- Balance sheet comfortable:** Gross debt stood at INR 6.2bn as of Dec'23 vs. INR 6.4bn as of Sep'23, leading to a gross D/E of 0.24x (vs. 0.26x as of Sep'23). Net D/E stood at 0.03x as of Dec'23 vs. 0.04x as of Sep'23. Excluding the Chennai elevated corridor project, the FY24 capex guidance stands at INR 1.5bn. With ~72% utilisation of non-fund-based limits and 46% utilisation of fund-based limits, the company is well-placed to incur capex with a mix of debt and internal accruals. Further, it guided for FY24-end debt levels of INR 6.5bn and NWC days at 120.

Standalone Financial Summary (INR mn)

YE March (INR mn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	12,187	10,624	14.7	11,042	10.4	42,031	48,168	52,985	60,933
EBITDA	1,795	1,516	18.4	1,596	12.5	5,971	6,927	7,665	8,825
APAT	826	711	16.3	734	12.5	2,744	3,174	3,573	4,340
Diluted EPS (INR)	10.9	9.4	16.3	9.7	12.5	36.3	41.9	47.2	57.4
P/E (x)						17.7	15.3	13.6	11.2
EV / EBITDA (x)						8.9	7.4	6.4	5.3
RoE (%)						12.4	12.7	12.7	13.6

Source: Company, HSIE Research

Change in estimates

(INR mn)	FY24E new	FY24E old	% Change	FY25E new	FY25E old	% Change	FY26E new	FY26E old	% Change
Revenues	48,168	47,789	0.8	52,985	52,568	0.8	60,933	60,453	0.8
EBITDA	6,927	6,688	3.6	7,665	7,248	5.8	8,825	8,562	3.1
EBITDA Margin (%)	14.4	14.0	38.6	14.5	13.8	67.9	14.5	14.2	32.0
APAT	3,174	3,058	3.8	3,573	3,324	7.5	4,340	4,178	3.9

Source: Company, HSIE Research

ADD

CMP (as on 31 Jan 2024)	INR 642
Target Price	INR 658
NIFTY	21,726

KEY CHANGES	OLD	NEW	
Rating	ADD	ADD	
Price Target	INR 576	INR 658	
	FY24E	FY25E	FY26E
EPS Change %	3.8	7.5	3.9

KEY STOCK DATA

Bloomberg code	JKIL IN
No. of Shares (mn)	76
MCap (INR bn) / (\$ mn)	49/594
6m avg traded value (INR mn)	239
52 Week high / low	INR 680/228

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	59.3	77.7	136.8
Relative (%)	47.0	69.9	116.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	46.64	46.64
FIs & Local MFs	14.79	16.64
FPIs	10.01	8.7
Public & Others	28.54	28.00
Pledged Shares	10.57	10.57

Source: BSE

Pledged shares as % of total shares

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PSP Projects

Miss on all counts

PSP Projects (PSP) reported revenue/EBITDA/APAT of INR 6.9/0.7/0.3bn, beating/(missing) our estimates by 4/(14)/(27)%. In FYTD24, PSP was awarded orders worth INR 20bn and is L1 in INR 9.2bn, taking the OB as of FYTD24 to INR 51bn ex of INR 9.2bn L1 (~2.7x FY23 revenue). All the UP projects are on track, with INR 0.6bn of residual OB expected to be completed by FY24-end. The current bid pipeline stands at INR 60bn+. Standalone gross debt increased to INR 4.8bn as of Dec'23 vs. INR 4bn as of Sep'23, with gross D/E at 0.52x, as of Dec'23. The increase in debt is mainly due to INR 1.4/1.3bn receivable from SDB/UP projects. The revenue guidance for FY24 remains unchanged at INR 26bn, margin guidance at 11-12% and OI guidance at ~INR 30bn. Given the limited upside, we continue with our ADD rating with a reduced TP of INR 828/sh (13x Mar-26E EPS).

- Q3FY24 financial highlights:** PSP's revenue came in at INR 6.9bn (+40/+15% YoY/QoQ, a beat of 4%). EBITDA was INR 714mn (+16/-3% YoY/QoQ, a miss of 14%). EBITDA margin was 10.3% (-214/-189bps YoY/QoQ, vs. our estimate of 12.4%, due to a higher share of low-margin UP projects). RPAT/APAT came in at INR 325mn (-8/-17% YoY/QoQ, a miss of 27%). PSP maintained its FY24 revenue target of INR 26bn with an 11-12% EBITDA margin.
- Revenue visibility strong; robust bid pipeline:** In FYTD24, PSP was awarded orders worth INR 20bn and is L1 in INR 9.2bn, taking the OB as of FYTD24 to INR 51bn ex of INR 9.2bn L1 (~2.7x FY23 revenue). As of 9MFY24 order inflow and OB are INR 10.6/44.4bn. Government and institutional orders comprised a major chunk of the OB at 51/30%. Nearly 87% of the OB comes from Gujarat and the balance 13% from UP. The bid pipeline stands robust at INR 60bn+. PSP maintained its FY24 OI guidance of INR 30bn+.
- Debt levels on a rise:** Standalone gross debt increased to INR 4.8bn as of Dec'23 vs. INR 4bn as of Sep'23, with gross D/E at 0.52x, as of Dec'23. The increase in debt is mainly due to INR 1.4/1.3bn receivable from SDB/UP projects. While UP projects debtors are standard, SDB debtors are a cause of concern. PSP has filed protection against the debtor under Sec-9 and may go for arbitration to recover the same. The process may be long drawn. To fund growth, it has taken board approval to raise INR 3bn of equity given issues with debtors and debt.

Standalone financial summary (INR mn)

Particulars	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	6,966	4,974	40.1	6,071	14.7	19,266	25,500	29,325	33,724
EBITDA	714	616	15.9	737	(3.1)	2,250	2,941	3,434	4,002
APAT	325	353	(7.9)	394	(17.5)	1,330	1,542	1,890	2,292
Diluted EPS (INR)	9.0	9.8	(7.9)	10.9	(17.5)	36.9	42.8	52.5	63.7
P/E (x)						20.0	17.2	14.1	11.6
EV / EBITDA (x)						12.0	9.2	7.8	6.5
RoE (%)						17.9	17.9	18.9	19.6

Source: Company, HSIE Research

Change in Estimates

Rs mn	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Net Revenues	25,500	24,200	5.4	29,325	27,830	5.4	33,724	32,005	5.4
EBITDA	2,941	3,016	-2.5	3,434	3,484	-1.4	4,002	3,992	0.3
Margins (%)	11.5	12.5	-93.1	11.7	12.5	-80.7	11.9	12.5	-60.4
APAT	1,542	1,888	-18.3	1,890	2,170	-12.9	2,292	2,451	-6.5

Source: Company, HSIE Research

ADD

CMP (as on 09 Feb 2024)	INR 737
Target Price	INR 828
NIFTY	21,783

KEY CHANGES	OLD	NEW	
Rating	ADD	ADD	
Price Target	INR 860	INR 828	
EPS	FY24E	FY25E	FY26E
change %	-18.3	-12.9	-6.5

KEY STOCK DATA

Bloomberg code	PSPPL IN
No. of Shares (mn)	36
MCap (INR bn) / (\$ mn)	27/324
6m avg traded value (INR mn)	79
52 Week high / low	INR 846/652

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(5.5)	(7.9)	6.0
Relative (%)	(15.9)	(16.4)	(11.8)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	66.22	66.22
FIs & Local MFs	5.35	5.01
FPIs	4.23	3.30
Public & Others	24.20	25.48
Pledged Shares	-	-

Source: BSE

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IT, Exchanges

Tata Consultancy Services

Path to recovery

Tata Consultancy Services (TCS) delivered in-line revenue growth and stronger operating performance in Q3. Key positives for TCS included (1) growth visibility from mega deals (Q3/Q4 sequential improvement from BSNL deal and JLR deal) and deal market-share gains vs. Accenture outsourcing, offsetting the impact of leakage in the renewals, (2) commentary on recovery in Europe geography and BFSI vertical (sequential growth even in Q3 adj. for impact of large program completion), supported by 16% YoY in BFSI total contract value for 9MFY24, vendor consolidation deals + sequential improvement in qualified pipeline and strongest book-to-bill in Retail & CPG vertical in over a year, and (3) margin improvement and continued scope for improvement aided by declining attrition (within comfort range), sub-con optimization and higher scope for utilisation (13% growth in learning hours). Our TP of INR 4,040 is based on 26x FY26E EPS (5Y/10Y average at 26x and 23x).

- Q3FY24 highlights:** (1) TCS' revenue print stood at USD 7,281mn, +1% QoQ CC (1% QoQ CC estimate), which was the strongest sequential performance in the last four quarters perhaps indicating that the peak drawdown in renewals is behind. (2) Deal bookings were lower at USD 8.1bn as compared to USD 11.2bn in Q2 (included USD 1bn TCV each from BSNL/JLR deals) comprising NorthAm TCV at USD 4.2bn, BFSI TCV at USD 2.6bn and Retail & CPG TCV at USD 1.5bn. (3) Vertical commentary was stronger in Manufacturing, Life sciences and Healthcare as compared to BFSI and Hi-Tech. (4) EBITM at 25% (adj. for non-recurring legal settlement) was up 75bps based on sub-con reduction, better productivity and realization, which offset the impact of furlough and third-party software and license (linked to BSNL deal).
- Outlook:** We have factored Q4 growth at 0.8% and FY24/25/26E growth at 4.1%, 6.4% and 8.3% (implying 2% CQGR in FY25/26E). EBITM factored at 24.5/25.5/25.5% for FY24/25/26E respectively, translating to an EPS CAGR of 10% over FY24-26E.

Quarterly financial summary

YE March (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	7,281	7,075	2.9	7,210	1.0	25,707	27,927	29,058	30,909	33,483
Net Sales	605.83	582.29	4.0	596.92	1.5	1,917.54	2,254.58	2,405.89	2,596.35	2,846.10
EBIT	151.54	142.84	6.1	144.83	4.6	484.53	542.37	590.42	662.22	725.03
APAT	117.85	108.46	8.7	113.42	3.9	383.27	421.47	463.55	513.76	562.23
Diluted EPS (INR)	32.6	30.0	8.7	31.3	3.9	105.9	116.5	128.1	142.0	155.4
P/E (x)						35.3	32.1	29.2	26.3	24.0
EV / EBITDA (x)						24.4	22.0	20.4	18.3	16.7
RoE (%)						43.7	46.9	51.9	56.8	59.0

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	29,074	29,058	(0.1)	31,138	30,909	(0.7)	33,546	33,483	(0.2)
Revenue	2,407.11	2,405.89	(0.1)	2,615.56	2,596.35	(0.7)	2,851.38	2,846.10	(0.2)
EBIT	583.51	590.42	1.2	661.70	662.22	0.1	726.23	725.03	(0.2)
EBIT margin (%)	24.2	24.5	30bps	25.3	25.5	21bps	25.5	25.5	0bps
APAT	458.73	463.55	1.1	515.40	513.76	(0.3)	562.20	562.23	0.0
EPS (INR)	126.8	128.1	1.1	142.5	142.0	(0.3)	155.4	155.4	0.0

Source: Company, HSIE Research

ADD

CMP (as on 11 Jan 2024)	INR 3,736
Target Price	INR 4,040
NIFTY	21,647

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 3,975	INR 4,040
	FY25E	FY26E
EPS %	-0.3	-0.0

KEY STOCK DATA

Bloomberg code	TCS IN
No. of Shares (mn)	3,659
MCap (INR bn) / (\$ mn)	13,669/167,136
6m avg traded value (INR mn)	7,326
52 Week high / low	INR 3,929/3,070

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.5	14.2	14.5
Relative (%)	(4.4)	4.9	(4.8)

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	72.30	72.30
FIs & Local MFs	9.85	10.06
FPIs	12.46	12.47
Public & Others	5.39	5.17
Pledged Shares	0.35	0.35

Source : BSE

Pledged shares as % of total shares

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Infosys

Near-term upside capped

Infosys (INFO) delivered in-line performance (above consensus) while underperforming TCS sequentially and for FY24E growth. The cut/narrowed guidance implies only marginal growth at the top-end in Q4 despite the benefit from the Liberty Global deal ramp-up and normalization of the McCamish impact. The relative weakness is emanating from (1) a higher mix of discretionary services in INFO's portfolio with slower activity on digital programs, a steep decline in Top 11-25 accounts and pressure on renewals (sub-USD 1bn large deal renewal TCV as compared to USD 1.5bn quarterly average), (2) extended furlough impact in Q4 & increased competition from captives, and (3) attrition in senior management to competition. Revenue guidance for FY24E was tweaked to 1.5 to 2% CC (1 to 2.5% earlier) and margin guidance was maintained. The improving trajectory beyond FY24 is premised on (1) benefits from project 'Maximus' driving margin improvement – utilisation, pricing, pyramid, delivery efficiency, (2) new deal wins around cost optimization, SAP cloud, and (3) relative strength in manufacturing and E&U verticals (28% of revenue). Near-term upside potential is capped especially if macro recovery is protracted. Maintain ADD on INFO with TP of 1,515 based on 20x FY26E EPS.

- Q3FY24 highlights:** (1) INFO posted revenue growth of -1% QoQ/YoY CC (in line with HSIE estimates) at USD 4,663mn, impacted by furloughs and seasonality. (2) Within verticals, BFSI, communication and hi-tech lagged while manufacturing and life-sciences verticals outperformed. (3) INFO booked 23 large deals with a total contract value of USD 3.2bn (71% being net-new component), which included one mega-deal. There were 8 deals in the manufacturing vertical, 6 deals in financial services, 4 deals in E&U, 2 deals each in retail & communication and 1 deal in others vertical. (5) EBITM declined by -71bps QoQ at 20.5% (in-line) impacted by -70bps wage hike, -60bps cybersecurity incident offset by +50bps efficiency optimization & +10bps FX tailwind. However, margin guidance of 20-22% for FY24E was maintained (despite growth guidance cut over the last three quarters). (6) INFO will have a full-quarter wage hike impact in Q4FY24E as a margin headwind.
- Outlook:** We have factored INFO's USD revenue growth at 2.6/6.1/8.0% for FY24/25/26E, implying 0.7% growth in Q4 and 2.3%/1.8% CQGR for FY25/26E. EBITM factored at 21.0/22.0/22.0% for FY24/25/26E, translating into an EPS CAGR of 13% over FY24-26E. INFO trades at 22x and 20x FY25/26E valuations, which is a ~18% discount to TCS' valuations (at a historical average valuation discount).

Quarterly financial summary

YE March (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	4,663	4,659	0.1	4,718	(1.2)	16,310	18,212	18,692	19,841	21,430
Net Revenue	388.21	383.18	1.3	389.94	(0.4)	1,216.41	1,467.67	1,547.11	1,666.67	1,821.59
EBIT	79.61	82.42	(3.4)	82.74	(3.8)	280.15	309.06	325.23	366.41	399.88
APAT	61.13	65.86	(7.2)	62.15	(1.6)	221.11	240.95	246.97	287.71	313.81
Diluted EPS (INR)	14.8	15.9	(7.2)	15.0	(1.6)	53.4	58.2	59.6	69.4	75.7
P/E (x)						28.0	25.7	25.1	21.5	19.7
EV / EBITDA (x)						18.5	16.8	15.8	14.1	12.9
RoE (%)						29.2	32.0	31.7	34.6	35.1

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	18,685	18,692	0.0	19,800	19,841	0.2	21,385	21,430	0.2
Revenue	1,546.25	1,547.11	0.1	1,663.21	1,666.67	0.2	1,817.69	1,821.59	0.2
EBIT	324.89	325.23	0.1	365.71	366.41	0.2	399.10	399.88	0.2
EBIT margin (%)	21.0	21.0	1bps	22.0	22.0	0bps	22.0	22.0	0bps
APAT	246.14	246.97	0.3	287.18	287.71	0.2	313.24	313.81	0.2
EPS (INR)	59.4	59.6	0.3	69.3	69.4	0.2	75.6	75.7	0.2

Source: Company, HSIE Research

ADD

CMP (as on 11 Jan 2024) INR 1,494

Target Price INR 1,515

NIFTY 21,647

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,515	INR 1,515
EPS %	FY25E	FY26E
	+0.2	+0.2

KEY STOCK DATA

Bloomberg code	INFO IN
No. of Shares (mn)	4,150
MCap (INR bn) / (\$ mn)	6,202/75,832
6m avg traded value (INR mn)	9,258
52 Week high / low	INR 1,620/1,185

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.0)	10.8	1.6
Relative (%)	(7.9)	1.5	(17.8)

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	14.94	14.89
FIs & Local MFs	32.77	33.37
FPIs	34.44	33.59
Public & Others	17.85	18.15
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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HCL Technologies

Relative strength

HCL Tech (HCLT) posted strong Q3 performance, supported by a sharp jump in its Software business segment (seasonal), growth in services driven by Verizon mega deal ramp-up and ASAP consolidation (full-quarter impact). Importantly, the revised guidance implies a strong exit to FY24E with growth outperformance vs. peers even in FY25E. Key positives for HCLT include (1) sustainable recovery in ER&D services (scale and differentiation), (2) steady deal flow (10% growth in new deal TCV for 9MFY24 at USD 7.5bn which can support incremental USD 1.4bn revenue in FY25E) + strong growth across large client buckets, (3) uptick in fresher addition and positive headcounts adds (vs. decline in peers) and commentary of strong bookings expectation for Q4 indicative of growth momentum in FY25E, and (4) improvement in recurring revenue profile of Software segment rendering stability and margin upside. We maintain ADD on HCLT with TP of INR 1,700 based on 22x FY26E.

- Q3FY24 highlights:** (1) HCLT's revenue print stood at USD 3,415mn, +6% QoQ CC based on 3.1% QoQ in services growth (in-line) and a sharp jump in Software segment revenue supported by Q3 seasonality (increase in license and support & subscription revenue). (2) It bagged new deals of USD 1.9bn (clocked USD 7.5bn in 9MFY24) and revenue growth guidance for FY24E tweaked to 5 to 5.5% (5-6% earlier). (3) IT & Business services (72% of revenue) grew 1.9% QoQ; ER&D services (16% of revenue) grew 8.7% QoQ CC supported by 2.5% QoQ organic growth and remaining from ASAP consolidation; Software (12% of revenue) grew sharply at 34% QoQ and 5% YoY CC growth contributing ~3% to overall sequential growth. (4) EBITM came at 19.7%, +120bps QoQ, supported by expansion in ER&D services margin and Software segment margin, offset by moderation in IT&BS margin; EBITM guidance was maintained at 18-19% for FY24E.
- Outlook:** We have factored in IT & BS growth of 6.5/10.4/10.0%, ERS growth of 2.8/15.1/10.0% and Software growth of 5.7/8.9/5.1% for FY24/25/26E respectively. Factored EBITM at 18.3/19.0/19.6% for FY24/25/26E, supporting an EPS CAGR of 15% over FY24-26E. HCLT trades at 23x, 20x FY25/26E and valuations are supported by >4% FCF yield and >3.5% dividend yield (FCF/payout intensity higher than historical average).

Quarterly Financial summary

YE March (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	3,415	3,244	5.3	3,225	5.9	11,537	12,586	13,317	14,786	16,186
Net Sales	284.46	267.00	6.5	266.72	6.7	856.51	1,014.56	1,102.72	1,242.00	1,375.81
EBIT	56.15	52.28	7.4	49.34	13.8	162.04	184.96	201.71	235.97	270.07
APAT	43.50	40.96	6.2	38.32	13.5	134.99	148.52	156.34	182.60	209.14
Diluted EPS (INR)	16.0	15.1	6.2	14.1	13.5	49.7	54.7	57.6	67.3	77.1
P/E (x)						31.0	28.2	26.7	22.9	20.0
EV / EBITDA (x)						19.6	17.7	16.3	14.4	12.7
RoE (%)						22.1	23.3	23.5	26.5	28.9

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	13,150	13,317	1.3	14,542	14,786	1.7	15,929	16,186	1.6
Revenue	1,088.57	1,102.72	1.3	1,221.51	1,242.00	1.7	1,354.00	1,375.81	1.6
EBIT	196.60	201.71	2.6	233.31	235.97	1.1	265.74	270.07	1.6
EBIT margin (%)	18.1	18.3	23bps	19.1	19.0	-10bps	19.6	19.6	0bps
APAT	152.72	156.34	2.4	179.96	182.60	1.5	205.24	209.14	1.9
EPS (INR)	56.3	57.6	2.4	66.3	67.3	1.5	75.6	77.1	1.9

Source: Company, HSIE Research

ADD

CMP (as on 12 Jan 2024) INR 1,541

Target Price INR 1,700

NIFTY 21,895

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,515	INR 1,700
EPS %	FY25E	FY26E
	+1.5	+1.9

KEY STOCK DATA

Bloomberg code	HCLT IN
No. of Shares (mn)	2,714
MCap (INR bn) / (\$ mn)	4,181/51,127
6m avg traded value (INR mn)	3,369
52 Week high / low	INR 1,555/1,016

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	25.9	38.7	43.8
Relative (%)	16.6	27.8	22.7

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	60.81	60.81
FIs & Local MFs	14.70	14.92
FPIs	19.48	19.30
Public & Others	5.01	4.97
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Wipro

Jet lagged on underperformance

Wipro (WPRO) delivered in-line revenue and margin performance and guided an improved trajectory for Q4. Notwithstanding the flat revenue guide for Q4 (-1.5% QoQ to +0.5% QoQ), its trajectory is 'recovering' after a 6% drop in the quarterly revenue rate over the past three quarters. Despite improved commentary on consulting business (bookings improvement in Capco), WPRO's growth markers remain stressed such as (1) deal market-share loss to peers (including smaller peers), (2) broad-based decline within verticals (only a quarter of the business registering sequential growth), and (3) steep decline in T5 accounts (reduction in USD 200mn annual revenue rate over the past year) + risks of spend rationalization by large client. WPRO has focused on driving growth from its partner ecosystem (six largest partners driving ~50% of expansion) and is tackling improvement in operating profile based on changes in the operating structure – portfolio focus in APMEA, absorbing growth office function within the Strategic Market Units, building Delivery cadre and impetus on training & development. Maintain REDUCE on WPRO based on 17x FY26E for a TP of INR 450.

- Q3FY24 highlights:** (1) WPRO posted revenue of USD 2,656mn, -1.7/-6.9% QoQ/YoY CC (HSIE at -2% QoQ CC) and it guided for -1.5% to +0.5% QoQ CC for Q4FY24E. (2) Within the verticals, communication, manufacturing and BFSI had the steepest sequential decline; barring the healthcare and E&U vertical, which posted positive growth, all other verticals declined sequentially due to client cautiousness related to the uncertain macro environment. (3) Large deal TCV at USD 909mn was down 28.7% QoQ and total TCV at USD 3.8bn remained flat sequentially (+0.2% QoQ) in Q3. WPRO booked 14 large deals with TCV > USD 30mn each during the quarter. (4) IT services margin remained flat QoQ at 16% despite the wage hike impact and management expects margins to be range-bound in the near term. (5) WPRO has steadily reduced its low-margin business and has completed restructuring of business.
- Outlook:** We have factored in USD revenue growth of -3.1%, +4.2% and +9.2% for FY24/25/26E, following 11.5% CC in FY23. Margin recovery (+140bps) factored in FY25E as growth recovers from H1FY25, translating to an EPS CAGR of 13% over FY24-26E (6% CAGR last 10Y). At CMP, WPRO trades at 20x and 18x FY25E and FY26E EPS.

Quarterly Financial summary

YE March (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
IT revenue (USD Mn)	2,656	2,804	(5.3)	2,713	(2.1)	10,356	11,147	10,803	11,255	12,290
Net Sales	222.05	232.29	(4.4)	225.16	(1.4)	790.93	904.88	898.38	951.43	1,051.35
EBIT	32.60	36.25	(10.0)	33.08	(1.4)	133.75	135.13	131.31	152.39	174.03
APAT	26.94	30.53	(11.7)	26.46	1.8	122.19	113.50	107.88	122.71	138.11
Diluted EPS (INR)	4.9	5.6	(11.8)	4.8	1.7	23.4	21.7	20.6	23.5	26.4
P/E (x)						19.9	21.5	22.6	19.8	17.6
EV / EBITDA (x)						13.7	13.1	13.5	11.8	10.4
RoE (%)						20.2	15.8	14.2	16.2	17.4

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
IT revenue (USD Mn)	10,780	10,803	0.2	11,205	11,255	0.4	12,235	12,290	0.4
Revenue	897.41	898.38	0.1	948.99	951.43	0.3	1,048.50	1,051.35	0.3
EBIT	130.99	131.31	0.2	151.56	152.39	0.5	173.45	174.03	0.3
EBIT margin (%)	14.6	14.6	2bps	16.0	16.0	5bps	16.5	16.6	1bps
APAT	107.53	107.88	0.3	122.21	122.71	0.4	137.80	138.11	0.2
EPS (INR)	20.5	20.6	0.6	23.3	23.5	0.7	26.3	26.4	0.5

Source: Company, HSIE Research

REDUCE

CMP (as on 12 Jan 2024)	INR 465
Target Price	INR 450
NIFTY	21,895

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 420	INR 450
EPS %	FY25E +0.7	FY26E +0.5

KEY STOCK DATA

Bloomberg code	WPRO IN
No. of Shares (mn)	5,224
MCap (INR bn) / (\$ mn)	2,432/29,734
6m avg traded value (INR mn)	2,692
52 Week high / low	INR 484/352

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	11.6	18.8	18.0
Relative (%)	2.3	7.8	(3.0)

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	72.91	72.93
FIs & Local MFs	7.42	7.92
FPIs	6.32	6.47
Public & Others	13.35	12.68
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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LTIMindtree

Recovery pushed out

LTIM Mindtree (LTIM) delivered a soft Q3, impacted by higher-than-usual furlough and weakness in discretionary projects, which is likely to extend into Q4. The bright spots that provide visibility for growth acceleration in FY25E are (1) strong growth in deal bookings with 25% YoY (15% QoQ) in total contract value and (2) deal pipeline at USD 4.6bn, up by 30% YoY including several vendor consolidation and multiple services cost optimization deals, in addition to lower DSO and improved FCF. LTIM's growth deceleration in FY24E is emanating from the erstwhile Mindtree portfolio while the ERP service line is relatively resilient, driven by greater thrust on cost optimization deals. Conversely, the recovery trajectory for the company can be sharper with a pick-up in discretionary services. We continue to expect LTIM to provide a sustainable outperformance as compared to larger peers over the medium term (*LTIM- In the big league*); however, risks pertaining to a large BFS client and delayed recovery can act as deterrents. Downgrade LTIM to ADD (BUY earlier), valuing the company at 28x FY26E EPS.

- Q3FY24 highlights:** (1) LTIM's revenue print was USD 1,084mn, +0.7% QoQ CC and 3.1% YoY CC, which has decelerated from mid-teens growth pre-merger. (2) In Q3FY24, within verticals, BFSI declined a 1.7% QoQ, Hi-Tech M&E, Retail & CPG, TTH verticals declined by 3% each. (3) Total contract value of deal bookings during the quarter stood at USD 1.5bn and book-to-bill at an impressive 1.38x as compared to book-to-bill of 1.24x over the prior year. (4) LTIM's EBITM came at 15.4%, -61bps QoQ, impacted by -200bps from furlough, lower billing days, pass-through seasonality and margin outlook of 17-18% by Q4FY24 was relinquished; segmental margins moderated sequentially except Healthcare & Public services vertical. (5) Attrition/headcount dropped to 14.2% and 82,471 employees (-1.3% QoQ) respectively.
- Outlook:** We have factored LTIM's revenue growth at 5%, 9.5% and 14.4% for FY24/25/26E respectively. Factored EBITM at 16.1/17.5/18.0% for FY24/25/26E, translating into EPS CAGR of 20% over FY24-26E. LTIM is trading at 32x and 27x FY25E and FY26E EPS, following the stocks' recent ~25% move.

Quarterly Financial summary

YE March (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	1,084	1,047	3.5	1,076	0.8	3,502	4,106	4,312	4,723	5,405
Net Sales	90.17	86.20	4.6	89.05	1.2	261.09	331.83	357.06	396.75	459.46
EBIT	13.86	11.97	15.8	14.23	(2.6)	46.52	53.85	57.59	69.44	82.51
APAT	11.69	10.01	16.8	11.62	0.6	39.50	44.10	47.46	58.01	68.53
Diluted EPS (INR)	39.6	33.9	16.8	39.3	0.6	133.5	149.1	160.5	196.1	231.7
P/E (x)						47.0	42.1	39.1	32.0	27.1
EV / EBITDA (x)						34.0	29.2	27.0	22.3	18.6
RoE (%)						30.5	28.6	26.6	28.0	28.3

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE Mar (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	4,352	4,312	(0.9)	4,855	4,723	(2.7)	5,558	5,405	(2.7)
Revenue	360.40	357.06	(0.9)	407.81	396.75	(2.7)	472.41	459.46	(2.7)
EBIT	60.09	57.59	(4.2)	74.62	69.44	(6.9)	87.71	82.51	(5.9)
EBIT margin (%)	16.7	16.1	-55bps	18.3	17.5	-80bps	18.6	18.0	-61bps
APAT	48.84	47.46	(2.8)	60.73	58.01	(4.5)	71.15	68.53	(3.7)
EPS (INR)	165.1	160.5	(2.8)	205.3	196.1	(4.5)	240.5	231.7	(3.7)

Source: Company, HSIE Research

ADD

CMP (as on 17 Jan 2024)	INR 6,276
Target Price	INR 6,490
NIFTY	21,572

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	INR 6,735	INR 6,490
	FY25E	FY26E
EPS %	-4.5	-3.7

KEY STOCK DATA

Bloomberg code	LTIM IN
No. of Shares (mn)	296
MCap (INR bn) / (\$ mn)	1,859/22,727
6m avg traded value (INR mn)	2,225
52 Week high / low	INR 6,443/4,120

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	20.4	22.2	46.8
Relative (%)	12.7	14.8	28.9

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	68.67	68.66
FIs & Local MFs	12.42	12.95
FPIs	8.21	8.11
Public & Others	10.70	10.28
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Tech Mahindra

From shaky foundation to a plan with promise

Tech Mahindra's (TECHM) quarterly performance continued to be marred by abysmal operating performance (in-line). We continue to believe that the margin recovery from the current trough is a certainty, but the gradient and trade-off with growth remain unclear. The transition of leadership and injection of several 'impressive' external hires can improve the execution ahead supported by the (1) sales improvement track (twelve SBUs changed to six, focus on top accounts), (2) margin track (centralization of delivery and focused cost reduction program – pyramid/offshore/rates & service-mix), and (3) organization track (leverage group heritage and changes to incentive scheme and associate reward program). While the change management progresses, we expect the mix of the CME vertical to reduce due to enterprise client trends and competitive intensity (loss in deal market share). Weak bookings and a high share of CME will keep the growth in check even as the margin revives. Maintain REDUCE recommendation on TECHM with TP of INR 1,160, based on 15x FY26E EPS (at 10Y average multiples).

- Q3FY24 highlights:** TECHM's revenue came at USD 1.57bn +1.1% QoQ and -5.4% YoY CC (9MFY24 revenue -4.2%) with CME (36% of revenue) flat, supported by Comviva seasonality, Tech M&E and BFSI vertical declining sequentially, while Manufacturing and Retail, Transport & logistics verticals posted growth. (2) Net new deals came at USD 381mn, -40% and -50% QoQ/YoY respectively. (3) T5/10 concentration is at an all-time low and utilisation is near the high at ~88%. (4) EBITM came at 5.4% (7% normalised adjusted for portfolio rationalisation) which has dropped from 14.6% and 11.4% in FY22/23 respectively; sub-con expense improved to 11.5% of revenue (-90bps QoQ) and is near its 10Y lows. (5) Recent external hires include COO (former Infosys/Citius Tech), Chief Growth Officer (former TCS), CHRO (former Infosys), CMO (former LTI, Infosys), and Head BFSI–US (former Sonata, Infosys).
- Outlook:** We have factored USD revenue growth at -5%, +3%, and +9% for FY24/25/26E, factoring CME growth at -12%, -3%, +4% and Enterprise growth at 0%, 6%, 13% over FY24/25/26E respectively. Factored EBITM at 6.5/12.5/14.5% over FY24/25/26E resulting in earnings acceleration in FY25E, following a 43% decline in FY24E. TECHM is trading at 23x and 18x FY25/26E.

Quarterly Financial summary

YE March (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	1,573	1,668	(5.7)	1,555	1.1	5,998	6,606	6,302	6,479	7,105
Net Revenue	131.01	137.35	(4.6)	128.64	1.8	446.46	532.90	521.80	544.21	603.94
EBIT	7.03	16.46	(57.3)	6.07	15.9	65.00	60.72	33.82	67.88	87.32
APAT	5.10	12.97	(60.6)	6.43	(20.7)	55.66	50.68	29.02	52.95	68.31
Diluted EPS (INR)	5.8	14.7	(60.6)	7.3	(20.7)	63.1	57.5	32.9	60.0	77.4
P/E (x)						22.3	24.5	42.8	23.5	18.2
EV / EBITDA (x)						14.6	14.8	23.0	13.8	11.2
RoE (%)						21.5	18.5	10.3	18.3	22.6

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE Mar (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	6,247	6,302	0.9	6,635	6,479	(2.4)	7,321	7,105	(2.9)
Revenue	517.11	521.80	0.9	557.32	544.21	(2.4)	622.27	603.94	(2.9)
EBIT	33.31	33.82	1.5	69.64	67.88	(2.5)	90.26	87.32	(3.3)
EBIT margin (%)	6.4	6.5	4bps	12.5	12.5	-2bps	14.5	14.5	-5bps
APAT	28.13	29.02	3.2	55.64	52.95	(4.8)	70.80	68.31	(3.5)
EPS (INR)	31.9	32.9	3.2	63.1	60.0	(4.8)	80.3	77.4	(3.5)

Source: Company, HSIE Research

REDUCE

CMP (as on 24 Jan 2024) INR 1,408

Target Price INR 1,160

NIFTY 21,454

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1,205	INR 1,160
EPS %	FY25E	FY26E
	-4.8	-3.5

KEY STOCK DATA

Bloomberg code	TECHM IN
No. of Shares (mn)	976
MCap (INR bn) / (\$ mn)	1,374/16,806
6m avg traded value (INR mn)	3,053
52 Week high / low	INR 1,416/981

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	21.8	21.2	31.5
Relative (%)	11.8	14.1	15.0

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	35.13	35.11
FIs & Local MFs	26.02	27.79
FPIs	26.22	24.58
Public & Others	12.63	12.52
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Infoedge

Slow recovery

Infoedge reported a soft quarter with flat revenue growth and muted billings. The core recruitment segment billing was down 1.3% YoY due to the continued slowdown in IT hiring (~60% of recruitment), offset by traction in non-IT sectors like BFSI, travel, auto, construction, etc. Recruitment billings have witnessed two strong years of >30% YoY growth, which is slowing down to -4% in FY24E due to the base effect and lower hiring activity. The margin for the recruitment segment has come down to ~58% from the peak of 62.9% in Q3FY23. The non-core segments like 99acres and Jeevansathi continue to witness growth with a focus on improving profitability. The combined loss of 99acres and Jeevansathi stood at INR 0.29bn, which is down ~40% YoY due to control on expenses. The slowdown in recruitment seems to be over and recovery is expected in H2; 99 acres continues to be the growth engine. The recruitment margin will be in the range of 58-60% and continued focus on spend efficiency will drive margins. We maintain our BUY rating with a SoTP-based TP of INR 5,650, valuing Naukri at 35x EV/EBITDA, 99acres/Jeevansathi+Shiksha at 5/3x P/S, while Zomato and Policybazaar have been assigned the market value (~15% discount). The core recruitment business is trading at 30x FY26E EV/EBITDA vs the average of >35x.

- Q3FY24 highlights:** (1) Infoedge revenue grew 0.4/7.2% QoQ/YoY to INR 5.95bn, driven by -1.2/+1.7/+12.9% QoQ growth in recruitment/ 99acres/ Jeevansathi + Shiksha; (2) billings grew by -1.3/24/32% YoY for recruitment/99acres/Jeevansathi; (3) EBITDA margin for recruitment/99acres/Jeevansathi stood at 57.6/-16.6/-62.7%; (4) Standalone margin stood at 40.4% (down 24 bps QoQ), employee/admin cost were up -0.5/+15.6% QoQ while ad spend was stable at INR 0.69bn; (5) Job speak index/IT hiring index was down 11/19% YoY in Jan-23; (6) PAT grew 2.3% QoQ to INR 2.14bn; (7) net cash stands at INR 36bn and Zomato/Policybazaar account for 22/6% in SoTP.
- Outlook:** We expect a revenue CAGR of 11% over FY23-26E, led by 9/22/10/15% CAGRs in recruitment/99acres/Jeevansathi/Shiksha. EBITDA margin estimates stand at 39.3/40.9% for FY25/26E (recruitment 58/59% for FY25/26E), leading to an EPS CAGR of 18.6% over FY23-26E.

Quarterly financial summary

YE March (INR bn)	3Q FY24	3Q FY23	YoY (%)	2Q FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	5.95	5.55	7.2	5.93	0.4	15.62	21.59	23.91	26.17	29.58
EBITDA	2.41	2.17	11.0	2.41	-0.2	4.64	7.84	9.59	10.29	12.09
APAT	2.14	6.43	-66.8	2.14	-0.1	5.21	6.08	8.39	8.79	10.15
Diluted EPS (INR)	16.6	49.8	-66.8	16.6	-0.1	40.3	47.1	65.1	68.1	78.7
P/E (x)						132.4	113.4	82.1	78.4	67.9
EV / Revenue (x)						41.8	30.4	25.8	22.1	18.2
EV / EBITDA (x)						140.7	83.6	64.4	56.3	44.6
RoE (%)						10.3	15.0	29.6	25.3	24.3

Source: Company, HSIE Research, Standalone Financials

Change in estimate

YE March	FY24E	FY24E	Change	FY25E	FY25E	Change	FY26E	FY26E	Change
Revenue	24.01	23.91	-0.4	26.72	26.17	-2.1	30.81	29.58	-4.0
EBITDA	9.43	9.59	1.7	10.41	10.29	-1.1	12.34	12.09	-2.0
EBITDA%	39.3	40.1	82bps	38.9	39.3	38bps	40.0	40.9	83bps
APAT	8.21	8.39	2.2	8.92	8.79	-1.5	10.39	10.15	-2.3
EPS (INR)	63.7	65.1	2.2	69.2	68.1	-1.5	80.6	78.7	-2.3

Source: Company, HSIE Research

BUY

CMP (as on 13 Feb 2024) INR 5,342

Target Price INR 5,650

NIFTY 21,743

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 5,055	INR 5,650
	FY25E	FY26E
EPS %	-1.5	-2.3

KEY STOCK DATA

Bloomberg code	INFOE IN
No. of Shares (mn)	129
MCap (INR bn) / (\$ mn)	691/8,451
6m avg traded value (INR mn)	1,397
52 Week high / low	INR 5,545/3,308

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.4	19.7	54.2
Relative (%)	8.2	10.2	35.8

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	37.98	37.91
FIs & Local MFs	18.75	20.04
FPIs	31.21	30.47
Public & Others	12.06	11.58
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Persistent Systems

Growth premium persists

Persistent Systems (PSYS) delivered a strong quarter (in-line) with sequential growth of 3% QoQ (growth premium over Tier-1 IT continues) and the highest-ever deal bookings. PSYS is poised to sustain its outperformance with continued growth and margin improvement in the medium term (*Persistent Systems – Outperformance to continue*). Over the past year, >70% of incremental growth has been driven by T10 clients and the company has demonstrated consistent deal velocity. The recent additions to senior leadership (COO/CMO/CSO, BFSI/Europe, Hyperscaler partnerships, Consulting) and PE/advisory channel set the company up to scale (doubling in four years), supported by larger deals. PSYS' strong digital prowess and partnerships (15.5k certifications across Microsoft, AWS, Google Cloud, Salesforce, and IBM) aid its differentiation and growth premium vs larger peers. Utilisation and SG&A optimization can drive margin expansion of 200-300bps over the medium term (2-3 years). Maintain BUY on PSYS with a target price of INR 8,530, based on 35x FY26E, supported by 29% EPS CAGR over FY24-26E.

- Q3FY24 highlights:** (1) PSYS' revenue print came at USD 300mn, 3% QoQ and 13.7% YoY (HSIE at USD 299mn), led by ramp-up of large deals in healthcare vertical and broad-based growth (T50 posted 3.4% QoQ ahead of company average). (2) Deal bookings were the highest-ever, supported by Q3 seasonality in renewals; TCv came at USD 521mn (9%/18% QoQ/YoY) and net new ACV was near the all-time high at USD 183mn (which included a USD 50mn+ net-new Hi-Tech deal as compared to USD 100mn+ healthcare deal in Q2). (3) EBITM improved 80bps QoQ to 14.5%, supported by the accretive composition of IP revenue +80bps, higher utilization and lower travelling expenses +30bps and SG&A leverage +90 bps, offset by -60bps from furlough impact and -60bps from higher onsite/sub-con related to large deal. (4) Cash generation improved in Q3 with OCF/EBITDA at 101% (9MFY24 at 69% vs. 60% in 9MFY23).
- Outlook:** We have factored USD revenue growth of 15/17/19% (16% CAGR in total ACV over FY23-26E) and EBITM of 14.5/15.8/17.0% for FY24/25/26E respectively translating to 29% EPS CAGR over FY24-26E. PSYS is trading at a valuation of 32x FY26E (vs. 5Y average at 26x and mid-tier average at 27x).

Quarterly Financial summary

YE March (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23E	FY24E	FY25E	FY26E
Revenue (USD mn)	301	264	13.7	292	3.0	766	1,036	1,187	1,386	1,642
Net Sales	24.98	21.69	15.2	24.12	3.6	57.11	83.51	98.18	116.42	139.54
EBIT	3.63	3.33	9.0	3.31	9.8	7.92	12.47	14.28	18.37	23.77
APAT	2.86	2.60	10.1	2.63	8.7	6.90	9.43	11.15	14.64	18.74
Diluted EPS (INR)	37.2	33.8	10.1	34.2	8.7	89.7	122.6	145.0	190.4	243.6
P/E (x)						88.3	64.6	54.6	41.6	32.5
EV / EBITDA (x)						61.4	38.9	33.8	26.4	20.3
RoE (%)						22.4	25.1	26.1	28.5	30.1

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY24E			FY25E			FY26E		
	Old	Revised	Change %	Old	Revised	Change %	Old	Revised	Change %
Revenue (USD mn)	1,185	1,187	0.2	1,388	1,386	(0.1)	1,645	1,642	(0.2)
Revenue	98.04	98.18	0.1	116.58	116.42	(0.1)	139.85	139.54	(0.2)
EBIT	14.22	14.28	0.4	18.55	18.37	(1.0)	23.77	23.77	(0.0)
EBIT margin (%)	14.5	14.5	3bps	15.9	15.8	-14bps	17.0	17.0	4bps
APAT	11.23	11.15	(0.7)	14.79	14.64	(1.0)	18.74	18.74	(0.0)
EPS (INR)	146.0	145.0	(0.7)	192.2	190.4	(1.0)	243.6	243.6	(0.0)

Source: Company, HSIE Research

BUY

CMP (as on 20 Jan 2024) INR 7,922

Target Price INR 8,530

NIFTY 21,572

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 8,530	INR 8,530
EPS %	FY25E	FY26E
	-1.0	-0.0

KEY STOCK DATA

Bloomberg code	PSYS IN
No. of Shares (mn)	77
MCap (INR bn) / (\$ mn)	609/7,451
6m avg traded value (INR mn)	2,759
52 Week high / low	INR 7,965/3,951

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	34.1	57.1	83.6
Relative (%)	24.9	49.9	65.8

SHAREHOLDING PATTERN (%)

	Jun-23	Dec-23
Promoters	31.06	31.06
FIs & Local MFs	28.04	26.13
FPIs	21.92	24.41
Public & Others	18.98	18.40
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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L&T Technology Services

Unchanged guidance implies a strong Q4

L&T Technology Services (LTTs) maintained its FY24E outlook implying a strong exit in Q4FY24E, even as Q3 performance was lower than expected. Revenue growth was impacted by softness in the Telecom & Hi-Tech vertical (adj. for SWC seasonality). Guidance reiterated at 17.5% to 18.5% CC for FY24E implies 4-7% QoQ CC for Q4FY24E, which will be supported by (1) sequential improvement in furloughs/billing days/SWC seasonality, (2) six deals of USD 10mn+ TCV booked in Q3FY24, and (3) strategic partnership with bp (medium-term driver) and targeted mining program for top clients. While LTTs' prowess as a leading pureplay ER&D service provider with a diversified vertical base and strong credentials across domains persists, growth print is impacted by a longer deal conversion cycle and business cyclicality despite strong industrial tailwinds. Risk-reward is unfavourable for LTTs as current valuations imply >16% USD revenue CAGR over FY23-33E. Maintain REDUCE on LTTs with a TP of INR 4,915, based on 27x FY26E EPS.

- Q3FY24 highlights:** (1) LTTs reported revenue growth of +0.9% QoQ CC at USD 291mn (HSIE est. USD 299mn), driven by medical devices in Q3 and lower-than-anticipated performance in telecom & hi-tech vertical. (2) LTTs' growth was broad-based across verticals; however, softness in industrial products (+0.3% QoQ) continued due to delayed decision-making and softness in the building automation sub-segment. Medical devices reported +1.9% QoQ growth driven by digital experience and supply chain optimisation; however, the company expects softer growth in the near term due to budget constraints of enterprise clients. (3) EBITM improved 11bps QoQ at 17.2% in Q3, supported by improvement in plant engineering and transportation segmental margin. (4) LTTs bagged six deals of TCV USD 10mn+, which included one deal of USD 40mn+ and one deal of USD 20mn. Commentary on the deal pipeline was positive with multiple large deal opportunities, which provides revenue visibility for Q4. (5) The management maintained its revenue growth outlook of 17.5-18.5% for FY24E, EBITM of 17% for FY24E & 18% for H1FY26E, and DSO target of 115-125 days for FY24E.
- Outlook:** We have factored in USD revenue growth of +17.6/14.9/16.2% and EBITM of 17.3/18.0/18.5% for FY24/25/26E respectively translating into 20% EPS CAGR over FY24-26E. LTTs is currently trading at 36x FY25E and 29x FY26E, with FY24-26E EPS CAGR at 20%.

Quarterly financial summary

YE March (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	291	248	17.2	288	0.9	880	990	1,163	1,336	1,553
Net Sales	24.22	20.49	18.2	23.87	1.5	65.70	80.14	96.39	112.26	132.01
EBIT	4.16	3.83	8.7	4.08	2.1	12.01	14.79	16.66	20.26	24.40
APAT	3.36	3.04	10.7	3.15	6.6	9.57	11.70	13.12	15.82	19.21
Diluted EPS (INR)	31.8	28.7	10.7	29.8	6.6	90.7	110.8	124.4	149.9	182.0
P/E (x)						59.0	48.3	43.0	35.7	29.4
EV / EBITDA (x)						38.5	31.4	27.9	22.5	18.4
RoE (%)						25.1	25.7	24.5	25.4	26.5

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	1,171	1,163	(0.6)	1,344	1,336	(0.6)	1,547	1,553	0.4
Revenue	96.99	96.39	(0.6)	112.92	112.26	(0.6)	131.52	132.01	0.4
EBIT	16.46	16.66	1.2	20.17	20.26	0.4	24.09	24.40	1.3
EBIT margin (%)	17.0	17.3	31bps	17.9	18.0	18bps	18.3	18.5	18bps
APAT	13.04	13.12	0.7	15.77	15.82	0.3	18.98	19.21	1.2
EPS (INR)	123.5	124.4	0.7	149.4	149.9	0.3	179.9	182.0	1.2

Source: Company, HSIE Research

REDUCE

CMP (as on 16 Jan 2024) INR 5,350

Target Price INR 4,915

NIFTY 22,032

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 4,500	INR 4,915
	FY25E	FY26E
EPS %	+0.3	+1.2

KEY STOCK DATA

Bloomberg code	LTTs IN
No. of Shares (mn)	106
MCap (INR bn) / (\$ mn)	566/6,917
6m avg traded value (INR mn)	967
52 Week high / low	INR 5,568/3,216

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.1	30.6	55.9
Relative (%)	3.5	19.9	34.2

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	73.77	73.75
FIs & Local MFs	10.72	11.56
FPIs	6.64	5.63
Public & Others	8.87	9.06
Pledged Shares	0.00	0.00

Source: BSE

Pledged shares as % of total shares

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Tata Elxsi

In-line quarter; challenges in media & communication

Tata Elxsi (TELX) delivered an in-line quarter both on revenue and margin. While the growth print was resilient despite the Q3 seasonality/furlough impact, the growth deceleration has been steep in TELX's EPD business (from 35%/24% growth in FY22/23 to 9% YoY in 9MFY24). TELX has lost market share in the transportation vertical (39% of revenue) to peers on account of a lower mix of OEM customers vs Tier-1s, increased captive intensity by Tier-1s and delays in program ramp-up. The media & communication vertical (32% of revenue) recovery remains protracted, impacted by lower discretionary spending and revenue/cost pressure on enterprise clients (TELX's revenue run-rate nearly unchanged in the last seven quarters). Medical devices and healthcare, however, are likely to recover ahead based on de-risking the portfolio from a skew towards MDR programs. The industrial design and visualization segment (12% of revenue) continues to grow well but has historically been cyclical. TELX's ER&D credentials/niche remain strong but the hyper-accelerated growth trajectory (both revenue/margin) is behind. We factor 20% EPS CAGR over FY24-26E following single-digit EPS growth in FY24E and doubling of earnings over FY21-23. Maintain SELL on TELX, based on 38x FY26E EPS; TELX is trading at 54x and 44x FY25/26E.

- Q3FY24 highlights:** (1) TELX's revenue print came at USD 110mn, +3% QoQ and +9.4% YoY CC (HSIE est. USD 109mn), led by EPD growth (85% of revenue) at 1.5% QoQ CC, and IDV (12% of revenue) growth at 11.7% QoQ CC. (2) Within the EPD segment, the transportation vertical grew 1.9% QoQ, the media & communication vertical was flat, and the healthcare & medical devices vertical grew 3.9% QoQ. (3) Growth in T10 decelerated to 1.6% QoQ, following strong growth in prior quarters (5.5% CQGR). (4) Headcount increased by 2.7% QoQ to 13.2k even as gross hiring was lower. (5) EBITM came in at 26.8%, down 29bps QoQ (HSIE at 27%), impacted by higher travel & visa costs (-75bps), investment in building AI capabilities (-40bps), higher employee cost (-10bps), offset by cost optimisation (+55bps), and FX tailwind (+40bps).
- Outlook:** We expect TELX's revenue growth at 17% CAGR over FY24-26E, factoring transportation vertical growth at 19% CAGR, media & communication vertical growth at 13% CAGR and medical & healthcare vertical growth at 16% CAGR, IDV growth at 20% CAGR. Factored EBITDAM in the range of ~30%, resulting in EPS CAGR of 20% over FY24-26E. The current valuation implies USD revenue growth of 18% CAGR over FY23-33E.

Quarterly Financial summary

YE Mar (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	110	100	10.1	107	2.9	331	390	434	506	595
Net Sales	9.14	8.18	11.8	8.82	3.7	24.71	31.45	35.93	42.53	50.59
EBIT	2.45	2.25	8.5	2.39	2.6	7.10	8.80	9.74	11.49	13.92
APAT	2.06	1.95	6.0	2.00	3.2	5.50	7.55	8.00	9.49	11.52
Diluted EPS (INR)	33.1	31.3	6.0	32.1	3.2	88.3	121.3	128.5	152.4	184.9
P/E (x)						92.9	67.6	63.8	53.8	44.3
EV / EBITDA (x)						65.2	51.8	46.1	38.9	32.1
RoE (%)						37.2	41.0	35.0	34.9	35.5

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	434	434	(0.1)	512	506	(1.1)	601	595	(1.0)
Revenue	35.95	35.93	(0.1)	43.02	42.53	(1.1)	51.10	50.59	(1.0)
EBIT	9.77	9.74	(0.3)	11.53	11.49	(0.3)	13.96	13.92	(0.3)
EBIT margin (%)	27.2	27.1	-7bps	26.8	27.0	23bps	27.3	27.5	20bps
APAT	7.98	8.00	0.3	9.48	9.49	0.2	11.50	11.52	0.1
EPS (INR)	128.1	128.5	0.3	152.2	152.4	0.2	184.7	184.9	0.1

Source: Company, HSIE Research

SELL

CMP (as on 23 Jan 2024) INR 8,196

Target Price INR 7,025

NIFTY 21,239

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 7,020	INR 7,025
	FY25E	FY26E
EPS %	+0.2	+0.1

KEY STOCK DATA

Bloomberg code	TELX IN
No. of Shares (mn)	62
MCap (INR bn) / (\$ mn)	510/6,241
6m avg traded value (INR mn)	1,055
52 Week high / low	INR 9,200/5,883

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	11.7	12.1	23.1
Relative (%)	4.1	6.6	7.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	43.92	43.92
FIs & Local MFs	4.80	5.71
FPIs	13.80	15.02
Public & Others	37.48	35.35
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Mphasis

Top client overhang persists

Mphasis (MPHL) posted lower-than-estimated growth in Q3FY24, impacted by higher-than-expected furloughs and muted growth in the BFS vertical, partially offset by non-BFS performance. (1) Decline in T1 account (-1% revenue impact), (2) weakness in BFS vertical (due to seasonality and some client-specific issues with the regional banks), and (3) delay in deal ramp-ups led to muted revenue growth. The Digital Risk segment remained stable this quarter, driven by new deal wins from previous quarters. Mphasis' growth trajectory is expected to bottom out as (1) large deal signings ramp up (4 large deal wins in Q3FY24 and 14 large deal wins in 9MFY24), (2) there is an increase in the deal pipeline (12% YoY increase in non-BFS pipeline and 11.8% YoY increase in BFS pipeline), and (3) the mortgage business bottoms out. Growth traction is expected to revive in FY25E, backed by a healthy deal pipeline, large deal wins and synergy benefits from the Silverline acquisition. The key risk of weakness in renewals and discretionary spending in large banking accounts persists. The company expects revenue growth to be led by the BFS & TMT vertical with an EBIT margin band of 15.25% to 16.25% (ex- M&A impact) for Q4FY24E. We cut earnings estimates as the pace of deal conversion for recent deals has been weak and insourcing risk remains fairly high, but the new booking is expected to aid the recovery glide path. Maintain REDUCE with a TP of INR 2,525, based on 22x FY26E EPS.

- Q3FY24 highlights:** (1) MPHL posted a muted revenue at USD 402mn (HSIE est. USD 407mn), with 1% QoQ CC growth, impacted by higher-than-expected furloughs and delay in deal ramp-ups. (2) Direct business increased by 1.3% QoQ in CC, which was affected by seasonality trends in some of the clients. (3) MPHL reported a TCW win of USD 241mn (-5.5% QoQ) and for 9MFY24, the TCW stood at USD 1.2bn (+19.7% YoY). The pipeline remains strong, and conversion has been steady, though there is some slowness due to seasonality and macro uncertainty. (4) EBITM at 14.9% (HSIE est. 14.8%) declined by -57bps QoQ, impacted mainly by the Silverline acquisition (-110bps) and furloughs but this was partially offset by operational efficiencies. MPHL provided a margin band of 15.25% to 16.25% (ex- M&A impact) for Q4FY24E. (5) Top client revenue declined by -5.1% QoQ while non-top 10 revenue improved by 7.8% QoQ.
- Outlook:** We've factored in Direct International growth of -4.2%, 10.1%, and 13.4% for FY24/25/26E, assuming flat growth in Digital Risk (medium-term recovery an upside risk to estimates) and overall revenue growth of -3.5% for FY24E before it recovers to 12.1% in FY25E. We have factored in EBITM at 15.3%, 16%, and 16% for FY24/25/26E, translating to a 16.2% EPS CAGR over FY24-26E.

Quarterly Financial summary

YE March (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	402	429	(6.3)	398	1.0	1,593	1,718	1,614	1,777	2,005
Net Sales	33.38	35.06	(4.8)	32.77	1.9	119.62	137.99	133.12	149.27	170.44
EBIT	4.97	5.35	(7.1)	5.07	(1.9)	18.27	21.09	20.40	23.89	27.33
APAT	3.74	4.12	(9.4)	3.92	(4.7)	14.46	16.38	15.90	18.68	21.48
Diluted EPS (INR)	19.9	22.0	(9.5)	20.9	(4.7)	77.3	87.6	85.0	99.9	114.8
P/E (x)						33.1	29.2	30.1	25.6	22.3
EV / EBITDA (x)						21.7	18.7	18.5	15.9	13.9
RoE (%)						21.5	22.0	19.2	20.7	21.6

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	1,634	1,614	(1.2)	1,851	1,777	(4.0)	2,045	2,005	(2.0)
Revenue	134.86	133.12	(1.3)	155.51	149.27	(4.0)	173.85	170.44	(2.0)
EBIT	20.79	20.40	(1.9)	24.84	23.89	(3.8)	27.87	27.33	(2.0)
EBIT margin (%)	15.4	15.3	-10bps	16.0	16.0	3bps	16.0	16.0	0bps
APAT	16.09	15.90	(1.2)	19.39	18.68	(3.7)	21.90	21.48	(1.9)
EPS (INR)	86.0	85.0	(1.2)	103.7	99.9	(3.7)	117.1	114.8	(1.9)

Source: Company, HSIE Research

REDUCE

CMP (as on 02 Feb 2024) INR 2,560

Target Price INR 2,525

NIFTY 21,854

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,575	INR 2,525
EPS %	FY25E	FY26E
	-3.7	-1.9

KEY STOCK DATA

Bloomberg code	MPHL IN
No. of Shares (mn)	189
MCap (INR bn) / (\$ mn)	483/5,911
6m avg traded value (INR mn)	1,287
52 Week high / low	INR 2,789/1,660

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.0	16.0	22.2
Relative (%)	4.5	6.4	1.9

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	55.57	55.52
FIs & Local MFs	22.33	23.49
FPIs	16.60	15.72
Public & Others	5.50	5.27
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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BSE

Scaling new highs

BSE delivered a strong revenue growth of 18% QoQ while the PAT was impacted by a higher SGF contribution of INR 0.92bn in the quarter. The growth was led by strong cash volumes and higher revenue from the derivative segment. There was only two months' impact of higher pricing for the SENSEX contract, while BANKEX is still offered at a steep discount. BSE derivatives have reached a notional/premium market share of ~16/5.4% in Dec-23. The go-live of large discount brokers and increase in active UCCs (~2mn vs ~5mn for NSE) is driving volume for BSE. We expect the derivative segment to be the prime revenue driver with a premium market share of ~3.8/9/13% in FY24/25/26E. The clearing cost was high but will gradually come down with scale. The higher SGF contribution in the quarter was for the currency segment, with a total SGF of INR 9.22bn. The SGF contribution depends on factors such as implied volatility, single-member peak exposure, duration of exposure etc; just higher volume does not require higher SGF. We expect SGF to reach INR 12.78bn and require a contribution of ~INR 2.7bn over the next two years. We expect a revenue/PAT CAGR of ~43/57% over FY23-26E led by options revenue. We increase our EPS estimates by ~6/10% for FY25/26E and assign a SoTP-based TP of INR 3,050, based on 40x core FY26E PAT + CDSL stake + net cash ex SGF. The stock is trading at a core P/E of 39/31x FY25/26E. Maintain BUY.

- Q3FY24 highlights:** Revenue increased by 18/82% YoY/QoQ to INR 3.72bn. The transaction revenue grew +68/163% YoY/QoQ with growth in both normal and special rates, derivatives contributed revenue of INR 0.57bn in the quarter. SENSEX with the new pricing contributed for two months in the quarter. The clearing cost stood at INR 0.45bn vs INR 0.20bn last quarter. The StAR MF revenue grew +56/12% YoY/QoQ to INR 0.33bn. The normalised EBITDA margin expanded by 438bps to 49.8% led by operating leverage and a drop in employee/tech cost (-2/-15% QoQ). Net cash ex SGF stands at INR 21bn (~6% of market cap).
- Outlook:** We expect revenue growth of 62/45/25% and EBITDA margins of 44.6/55.6/57.9% in FY24/25/26E respectively. We estimate derivatives revenues of INR 1.80/7.00/10.15bn in FY24/25/26E. Core profits after taxes for FY24/25/26E stand at INR 3.96/6.84/9.06bn.

Quarterly Financial Summary

YE March (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	3,715	2,040	82.2	3,145	18.1	7,432	8,155	13,235	19,221	24,086
EBITDA	1,852	648	185.9	1,430	29.5	2,772	2,887	5,904	10,691	13,939
PAT	1,082	516	109.5	1,205	(10.2)	2,543	2,207	8,190	7,859	10,079
APAT	1,782	710	151.1	1,215	46.7	3,024	2,891	5,332	8,827	11,221
EPS (INR)	13.2	5.2	151.1	9.0	46.7	22.4	21.3	39.4	65.2	82.9
P/E (x)						114.6	120.0	65.0	39.3	30.9
EV / EBITDA (x)						118.6	113.8	55.1	30.5	23.3
RoE (%)						11.7	10.8	18.3	27.6	31.9

Source: Company, HSIE Research

Change in estimates

YE March	FY24E	FY24E	Change	FY25E	FY25E	Change	FY26E	FY26E	Change
Revenue	12,296	13,235	7.6	18,295	19,221	5.1	22,092	24,086	9.0
EBITDA	5,529	5,904	6.8	9,707	10,691	10.1	12,181	13,939	14.4
EBITDA %	45.0	44.6	-36bps	53.1	55.6	256bps	55.1	57.9	273bps
APAT	5,019	5,332	6.2	8,318	8,827	6.1	10,157	11,221	10.5
EPS (INR)	37.1	39.4	6.2	61.4	65.2	6.1	75.0	82.9	10.5

Source: Company, HSIE Research

BUY

CMP (as on 05 Feb 2024) INR 2,561

Target Price INR 3,050

NIFTY 21,772

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,490	INR 3,050
	FY25E	FY26E
EPS %	+6.1	+10.5

KEY STOCK DATA

Bloomberg code	BSE IN
No. of Shares (mn)	135
MCap (INR bn) / (\$ mn)	347/4,242
6m avg traded value (INR mn)	3,109
52 Week high / low	INR 2,599/406

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	42.3	197.3	412.1
Relative (%)	30.9	188.2	394.2

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	0.00	0.00
FIs & Local MFs	4.80	5.36
FPIs	7.90	12.03
Public & Others	87.30	82.61
Pledged Shares	0.00	0.00

Source : NSE

Pledged shares as % of total shares

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Birlasoft

Strong execution; muted new deals

Birlasoft (BSOFT) posted a strong operational performance despite the seasonal weakness in Q3. Growth continued to accelerate (YoY trajectory), supported by large account mining (T10 growing at 2x the overall rate). BSOFT continued to strengthen its leadership bandwidth with recent hires including CEO—RoW, COO, head of ERP, head of cloud & infra, strategic sales and client partners that will support addition of marquee logos, drive larger deals and improve execution (supported by 'Optimus' initiative). Key positives include steady margin improvement supported by lower cost of delivery (sub-con reduction & offshore shift) and resilience in service lines (infra & cloud services and ERP). The relative softness in new deal bookings raises the ask-rate for next quarter but the medium-term prospects remain positive (*Birlasoft – The next large mid-tier*) & (*Birlasoft – Getting better*). However, the recent rally in the stock (more than doubling in 6M) and valuation at 25x FY26E limit the near-term upside. Downgrade to ADD (BUY earlier) with a target price of INR 840, based on 26x FY26E, supported by 20% EPS CAGR over FY24-26E.

- Q3FY24 highlights:** (1) BSOFT's revenue print came in at USD 161mn, +1.9% QoQ and +8.7% YoY, led by strong growth in offshore revenue (offshore-mix at the highest mark at 54.2% of revenue). (2) T10 clients posted robust growth of 3.9% QoQ. (3) Within verticals, growth was led by energy & utilities, which grew 7.8% QoQ and manufacturing and healthcare verticals, which grew 1.6% and 1.3% QoQ respectively, while BFSI was down 0.8% QoQ, impacted by furlough; within service line, ICTS led the growth. (4) New bookings were soft at USD 94mn, -8% YoY, while renewals bookings were higher on seasonality. (5) EBITDAM trajectory continued to improve to 16%, up 14bps QoQ despite full-quarter impact of wage increase, supported by lower other operating expense. (6) APAT at INR 1.61bn was up 11% QoQ, supported by higher other income.
- Outlook:** We have factored USD revenue growth at 7.3/13.6/15.1% and EBITDAM at 15.9/17.0/17.5% over FY24/25/26E respectively, translating into 20% EPS CAGR over FY24-26E. Net new deal book-to-bill factored at 0.79x and 0.82x for FY24/25E BSOFT's valuations are at 31x and 25x FY25/26E EPS (at median of mid-tier IT).

Quarterly Financial summary

YE March (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	161	148	8.7	158	1.9	555	595	638	725	835
Net Sales	13.43	12.22	9.9	13.10	2.5	41.30	47.95	52.87	60.92	70.98
EBIT	1.93	(0.14)	-1517.1	1.86	4.1	5.64	4.38	7.53	9.40	11.31
APAT	1.61	1.02	58.3	1.45	11.0	4.64	4.50	6.07	7.25	8.86
Diluted EPS (INR)	5.9	3.7	58.3	5.3	11.0	16.8	16.3	22.1	26.3	32.2
P/E (x)						48.8	50.3	37.3	31.2	25.6
EV / EBITDA (x)						33.4	41.3	25.2	20.0	16.2
RoE (%)						19.5	17.9	22.7	22.8	23.4

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	637	638	0.3	726	725	(0.1)	824	835	1.4
Revenue	52.72	52.87	0.3	60.95	60.92	(0.1)	70.03	70.98	1.4
EBIT	7.43	7.53	1.4	9.37	9.40	0.2	10.77	11.31	5.0
EBIT margin (%)	14.1	14.3	16bps	15.4	15.4	4bps	15.4	15.9	55bps
APAT	5.78	6.07	4.9	7.23	7.25	0.2	8.46	8.86	4.7
EPS (INR)	21.0	22.1	4.9	26.3	26.3	0.2	30.7	32.2	4.7

Source: Company, HSIE Research

ADD

CMP (as on 24 Jan 2024) INR 823

Target Price INR 840

NIFTY 21,454

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	INR 800	INR 840
	FY25E	FY26E
EPS %	+0.2	+4.7

KEY STOCK DATA

Bloomberg code	BSOFT IN
No. of Shares (mn)	276
MCap (INR bn) / (\$ mn)	227/2,774
6m avg traded value (INR mn)	1,530
52 Week high / low	INR 828/250

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	56.3	114.6	168.7
Relative (%)	46.2	107.6	152.2

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	41.03	40.97
FIs & Local MFs	24.49	22.40
FPIs	11.31	17.57
Public & Others	23.17	19.06
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Cyient

Growth moderates; margin expansion possible

Cyient reported in-line revenue and margin performance, and Digital, Engineering, and Technology (DET) revenue growth stood at +1.1% QoQ CC in a seasonally weak quarter. The DET growth was driven by sustainability but offset by softness in transportation and automotive verticals. Going ahead, the DET growth will be supported by (1) growth in aerospace led by MRO, upgrades and defence spending; (2) strong order intake and large deal wins; (3) investment in sustainability (energy and renewals); and (4) growth in EV and mobility. The weakness in the communication and rail transportation segment will continue. The DET margin was down 53bps QoQ to 16% but there is scope for further expansion. For FY24E, the management has cut the growth guidance to 13-13.5% YoY CC (from 15%) growth but increased the margin guidance (expansion of ~200-250bps YoY). The higher end of the guidance assumes growth of ~2.1% for Q4 and 16.2% EBIT margin. We have lowered our revenue estimate by ~2% for FY25/26E due to growth moderation. We maintain our ADD rating with a target price of INR 2,200, based on 22x FY26E EPS. The stock is trading at 24/20x FY25/26E, a discount of ~30% to LTTS.

- Q3FY24 highlights:** (1) DET revenue stood at USD 179.2mn, +1.1/16.9% QoQ/YoY CC (vs estimate of USD 178.5mn); (2) DET EBIT margin contracted 53bps QoQ to 16% (estimate of 16.3%) due to increase in S&M cost; (3) eight large deal wins with TCV of USD 136.8mn (vs 183.9mn QoQ), order intake in DET improved 22% YoY to USD 297.3mn; (4) LTM attrition dropped by 200bps QoQ to 18.4%, still higher than peers; (5) the value of DLM is INR 277/share, taking 15% holding discount; (6) transportation and new growth areas was down 2.2/3.4%, communications was flat while sustainability grew 8.2% QoQ CC; (7) group revenue was up 1.8% QoQ due to strong DLM (+8.5% QoQ), with DLM margin up 134bps QoQ to 6.7%.
- Outlook:** We have factored in +13.5/9.9/12.6% DET USD revenue growth for FY24/25/26E. The DET margin is estimated at 16.1/16.9/17.4% for FY24/25/26E, resulting in a consolidated EPS CAGR of 25% over FY23-26E.

Quarterly Financial Summary

YE March (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	219	197	11.1	215	1.8	608	746	862	969	1,116
Net Sales	18,214	16,182	12.6	17,785	2.4	45,344	60,156	71,344	81,403	95,413
EBIT	2,599	2,084	24.7	2,600	0.0	6,295	7,674	10,364	12,786	15,128
APAT	1,917	1,627	17.8	1,831	4.7	5,221	5,651	7,588	9,306	11,071
Diluted EPS (INR)	17.4	14.7	17.8	16.6	4.7	47.3	51.2	68.7	84.3	100.3
P/E (x)						42.7	39.5	29.4	24.0	20.1
EV / EBITDA (x)						26.1	22.0	17.2	14.1	11.8
RoE (%)						17.2	17.2	20.8	22.8	24.1

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE Mar (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	865	862	-0.4	984	969	-1.5	1,135	1,116	-1.6
Revenue	71.62	71.34	-0.4	82.65	81.40	-1.5	97.00	95.41	-1.6
EBIT	10.70	10.36	-3.1	13.27	12.79	-3.7	15.97	15.13	-5.3
EBIT margin (%)	14.9	14.5	-41bps	16.1	15.7	-35bps	16.5	15.9	-61bps
APAT	7.78	7.59	-2.5	9.48	9.31	-1.9	11.51	11.07	-3.8
EPS (INR)	70.5	68.7	-2.5	85.9	84.3	-1.9	104.2	100.3	-3.8

Source: Company, HSIE Research

ADD

CMP (as on 25 Jan 2024) INR 2,020

Target Price INR 2,200

NIFTY 21,353

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 2,350	INR 2,200
	FY25E	FY26E
EPS %	-1.9%	-3.8%

KEY STOCK DATA

Bloomberg code	CYL IN
No. of Shares (mn)	111
MCap (INR bn) / (\$ mn)	224/2,737
6m avg traded value (INR mn)	873
52 Week high / low	INR 2,459/831

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.1	37.7	137.8
Relative (%)	15.7	31.2	120.4

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	23.20	23.20
FIs & Local MFs	21.57	22.69
FPIs	35.71	34.11
Public & Others	19.52	20.00
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Sonata Software

Top-quartile performance

Sonata delivered a strong quarter with International IT services (IITS) revenue growth of 3.0% QoQ CC and IITS margin at 22.6% was higher than estimate. The strong growth was led by the ramp-up of large deals won in the retail and travel verticals. The management maintains its IITS+DPS revenue target of USD 1.5bn by FY26 (implies IITS CQGR of ~4% and DPS CAGR of ~19%) with EBITDA margins in the low 20s. The large deals momentum remains strong (three large deals in the quarter) and the book-to-bill stood at 1.24 (~TCV of USD 104mn). The large deal pipeline remains strong with ~49 large deals under pursuit and ~45% of the large deals are with Fortune 500 clients. The ramp-up of large deals is on track and provides growth visibility. The quant and encore acquisitions have outperformed estimates resulting in an additional earn-out payment of ~USD 21mn. Strong large deal pipeline, improving quality of top-10 accounts, the ramp-up of deals won, Microsoft fabric, AI bets and cross-sell opportunities provide revenue growth visibility. We maintain our EPS estimate and ADD rating with a target price of INR 730, based on 25x FY26E EPS. The stock is trading at a P/E of 33/26x FY25/26E EPS.

- Q3FY24 highlights:** IITS revenue stood at USD 83.7mn, +3.5% QoQ growth vs our estimate of USD 84.1mn. Among the verticals, TMT grew +16.9% QoQ, healthcare +3.5% QoQ, emerging +65.5% QoQ while BFSI vertical de-grew by -16.2% QoQ and retail & manufacturing de-grew by -3.7% QoQ. IITS EBITDA margin stood at 22.6%, down 53bps QoQ but was higher than estimate. Utilisation stood at 85.8% (+160bps QoQ) and IITS headcount improved by 42 to 6,134. DPS EBITDA margin stood at 3.3% (-120bps QoQ). Consolidated revenue improved by 30.4% QoQ, mainly supported by healthy growth in DPS revenue (+44.7% QoQ). The company had three large deal wins in Q3 (USD 8.7mn-1Y, USD 6.5mn 5Y, USD 5mn 3Y) and 49 large deals are in the pipeline (RMD -18, TMT-11, HLS-8, BFSI-7 and emerging-5 deals). The client quality has improved with 50% of top-10 clients being F-500 companies vs 30% last year. Four clients within the top 10 are F-500 companies and outside of the top 10 clients, sonata added 11 new Fortune 500 logos.
- Outlook:** We expect IITS growth of ~36.5% (organic ~16%)/18.1/18.5% and DPS growth of ~11.3/18.5/20% for FY24/25/26E respectively. IITS margin will be at 21.9/21.8/22.3% and DPS margin at 3.8/3.9/3.9% for FY24/25/26E respectively. IITS revenue/consolidated EPS CAGR for FY23-25E is expected to be +24/22%.

Quarterly Financial Summary

YE March (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
IITS Revenues (USD mn)	83.7	60.5	38.3	80.9	3.5	203	241	329	389	461
Net Sales	24.93	22.61	10.3	19.13	30.4	55.53	74.49	88.76	105.57	126.67
EBIT	1.74	1.43	22.0	1.64	6.1	4.16	5.45	6.75	8.32	10.37
APAT	1.29	1.18	9.2	1.24	3.5	3.76	4.52	5.25	6.59	8.19
Diluted EPS (INR)	4.6	4.2	9.2	4.4	3.5	13.4	16.1	18.7	23.5	29.2
P/E (x)						57.0	47.5	40.8	32.6	26.2
EV / EBITDA (x)						45.1	36.7	27.0	22.2	17.7
RoE (%)						37.6	37.7	37.8	40.1	40.8

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
IITS Revenue (USD mn)	330	329	(0.4)	391	389	(0.6)	457	461	0.7
Revenue	90.56	88.76	(2.0)	107.79	105.57	(2.1)	128.82	126.67	(1.7)
EBIT	6.68	6.75	1.0	8.34	8.32	(0.3)	10.41	10.37	(0.3)
EBIT margin (%)	7.4	7.6	23bps	7.7	7.9	14bps	8.1	8.2	11bps
APAT	5.10	5.25	3.0	6.51	6.59	1.1	8.17	8.19	0.2
EPS (INR)	18.2	18.7	3.0	23.2	23.5	1.1	29.1	29.2	0.2

Source: Company, HSIE Research

ADD

CMP (as on 01 Feb 2024)	INR 765
Target Price	INR 730
NIFTY	21,697

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 730	INR 730
EPS %	FY25E	FY26E
	+1.1	+0.2

KEY STOCK DATA

Bloomberg code	SSOF IN
No. of Shares (mn)	280
MCap (INR bn) / (\$ mn)	214/2,622
6m avg traded value (INR mn)	512
52 Week high / low	INR 804/301

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	33.7	46.1	146.6
Relative (%)	21.0	38.3	126.6

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	28.17	28.17
FIs & Local MFs	16.38	17.60
FPIs	14.98	14.47
Public & Others	40.47	39.76
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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CDSL

Growth story compelling

CDSL posted another quarter of strong growth (+52% YoY), led by growth in market-linked revenue and a stable annuity stream. The growth was driven by a jump in transaction revenue, IPO/corporate action, and KYC fetch/creation, offset by seasonally weak e-voting revenue. The Demat account addition is breaking all records; CDSL added ~8.5mn accounts in the quarter (+88% YoY) and the Jan-24 run rate is 28% higher than the peak of Oct-21. CDSL maintains its leadership position with a 75.6% market share and 90% incremental share. We expect strong growth, supported by (1) strong BO account addition, (2) higher transaction revenue, and (3) stable annuity revenue. The insurance opportunity remains an option value and will aid growth subject to regulatory push. The compulsory Demat of non-small private limited companies will aid issuer growth. Higher investment in technology, increasing employee cost and regulatory compliance are leading to higher costs (+30% in 9MFY24), and EBITDA margins will be in the range of 60-63%. We increase our growth/EPS and multiple to adjust for better growth and market share gain. We maintain our BUY rating with a target price of INR 2,170, based on 40x FY26E EPS. Stock trades at a P/E of 42/36x FY25/26E EPS, generating RoE/RoIC of 33/80%.

- Q3FY24 highlights:** CDSL revenue grew 3.5/51.9% QoQ/YoY to INR 2.15bn, led by growth in transaction/IPO corporate action/KYC charges +18/19.2/7.7% QoQ. The annual issuer charges, which is the annuity component, were up 1.6/39.1% QoQ/YoY. E-cas/e-voting was up 51/4% YoY in 9MFY24. CDSL has 65mn KYC records (~60% unique BO accounts). Employee costs grew by 5.5% QoQ, while technology expenses were up 4.5/60.2% QoQ/YoY. EBITDA margin contracted 111bps QoQ to 61.3%. CDSL has 108.8mn Demat accounts and added ~4.1mn incremental Demat accounts in Jan-24, which is a rate of ~153K accounts per day. The share delivery volume is at a multi-year high, leading to higher transaction revenue.
- Outlook:** We expect revenue growth of +42/19/16% and an EBITDA margin of 60.4/61.7/62.8% for FY24/25/26E. The revenue CAGR of 25% over FY23-26E assumes +26/16/30/38/20% CAGR in annual issuer charges/transaction/IPO & corporate action/online data charges/others revenue. Core PAT CAGR over FY23-26E is at +27%.

Quarterly financial summary

YE March (INR mn)	3Q FY24	3Q FY23	YoY (%)	2Q FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	2,145	1,412	51.9	2,073	3.5	5,513	5,551	7,901	9,358	10,855
EBITDA	1,315	852	54.3	1,294	1.6	3,669	3,233	4,775	5,775	6,813
APAT	1,074	746	43.9	1,089	(1.3)	3,112	2,759	4,038	4,854	5,667
Diluted EPS (INR)	10.3	7.1	43.9	10.4	(1.3)	29.8	26.4	38.6	46.4	54.2
P/E (x)						65.8	74.1	50.7	42.2	36.1
EV / EBITDA (x)						52.7	60.0	40.3	33.0	27.6
RoE (%)						31.6	23.9	31.2	33.0	33.7
Cash/Mcap (%)						4.7	4.3	4.8	5.6	6.5

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

INR Mn	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue	7,344	7,901	7.6	8,224	9,358	13.8	9,711	10,855	11.8
EBITDA	4,323	4,775	10.5	4,865	5,775	18.7	5,920	6,813	15.1
EBITDA margin (%)	58.9	60.4	158bps	59.2	61.7	255bps	61.0	62.8	180bps
APAT	3,731	4,038	8.2	4,183	4,854	16.0	5,011	5,667	13.1
EPS (INR)	35.7	38.6	8.2	40.0	46.4	16.0	48.0	54.2	13.1

Source: Company, HSIE Research

BUY

CMP (as on 07 Feb 2024) INR 1,958

Target Price INR 2,170

NIFTY 21,931

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,700	INR 2,170
	FY25E	FY26E
EPS %	+16.0	+13.1

KEY STOCK DATA

Bloomberg code	CDSL IN
No. of Shares (mn)	105
MCap (INR bn) / (\$ mn)	205/2,502
6m avg traded value (INR mn)	2,312
52 Week high / low	INR 1,999/881

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	23.8	63.2	95.6
Relative (%)	12.7	53.8	75.9

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	15.00	15.00
FIs & Local MFs	21.79	21.33
FPIs	10.80	13.59
Public & Others	52.41	50.08
Pledged Shares	0.00	0.00

Source : NSE

Pledged shares as % of total shares

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Multi Commodity Exchange

Options drive; costs realign

MCX has reported a strong growth of 16% QoQ in revenue, driven by options. However, the profitability was impacted by a payout made to 63moons, licensing/CDP cost, and higher SGF contribution. There has been a realignment of the cost structure post the implementation of the new CDP, with the SSC now comprising licensing fees (linked to options revenue) and platform running costs. The new platform's amortization will lead to an increase in depreciation as well. The rising SGF cost is a concern for exchanges, with MCX having an SGF of INR 7.59bn, and an additional contribution may be required if there is a spike in volatility or a rise in client concentration/default risk. We have assumed an SGF contribution of INR 0.40/0.50bn for FY25/26E. The focus now is on product launches and scaling FPI and DII volumes, with the approvals for HFT and DMA in place. The launch of monthly series contracts and Index options will boost options volume but is subject to regulatory approvals. We expect options notional/premium CAGR of +85/67% over FY23-26E. We remain constructive on the options growth story, supported by increasing active traders, a new tech platform, shorter-duration options, and regulatory tailwinds. We have increased our revenue/EPS estimates by ~13/6% for FY26E. Our BUY rating remains intact, with a target price of INR 4,100, based on a P/E of 33x FY25E core PAT + net cash ex SGF.

- Q3FY24 highlights:** MCX revenue grew 16/33% QoQ/YoY to INR 1.92bn (vs our estimate of INR 1.89bn). Futures ADTV was up 9.2% QoQ to INR 205bn, led by bullion (+17%) and energy (+3.5%), but offset by metals (-17.3% QoQ). EBITDA margin was negative due to a payout of INR 1.25 to the erstwhile tech vendor and higher licensing and CDP costs. Options notional/premium ADTV stood at INR 945/19.35bn and options contributed ~INR 1.01bn to revenue (~53% of total revenue). Crude/natural gas/bullion contributed 77/14/9% to options volume. The SSC cost estimate has increased to INR 1.07bn in FY25E vs the previous estimate of INR 0.40bn. The impact of higher SGF and SSC charges was offset by higher revenue from options. The traded options UCC went up by 7/78% QoQ/YoY to reach ~349K.
- Outlook:** We estimate a -3.3/+66% futures/options ADTV CAGR for FY23-26E, resulting in +32/62% revenue/APAT CAGRs over the same period. The core PAT CAGR estimated for FY23-26E is 81%.

Quarterly financial summary

YE March (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,915	1,436	33.4	1,651	16.0	3,668	5,135	7,185	9,613	11,888
EBITDA	(66)	327	(120.1)	-173	(62.0)	1,622	1,497	1,269	6,381	8,288
APAT	(54)	388	(113.8)	-191	(71.9)	1,639	1,490	1,102	4,867	6,346
EPS (INR)	(1.1)	7.6	(113.8)	-3.7	(71.9)	32.2	29.3	21.7	95.6	124.7
P/E (x)						108.4	119.2	161.1	36.5	28.0
EV / EBITDA (x)						101.7	113.4	133.8	26.4	20.1
RoE (%)						11.6	10.3	7.5	31.4	37.0

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

INR mn	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue	6,985	7,185	2.9	8,561	9,613	12.3	10,460	11,888	13.6
EBITDA	1,299	1,269	-2.3	5,872	6,381	8.7	7,380	8,288	12.3
EBITDA Margin (%)	18.6	17.7	-93bps	68.6	66.4	-221bps	70.6	69.7	-84bps
APAT	1,396	1,102	-21.1	4,810	4,867	1.2	6,015	6,346	5.5
EPS (INR)	27.4	21.7	-21.1	94.5	95.6	1.2	118.2	124.7	5.5

Source: Company, HSIE Research

BUY

CMP (as on 12 Feb 2024) INR 3,489

Target Price INR 4,100

NIFTY 21,616

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 3,650	INR 4,100
	FY25E	FY26E
EPS %	+1.2	+5.5

KEY STOCK DATA

Bloomberg code	MCX IN
No. of Shares (mn)	51
MCap (INR bn) / (\$ mn)	178/2,176
6m avg traded value (INR mn)	3,007
52 Week high / low	INR 3,990/1,285

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	30.6	121.5	144.5
Relative (%)	21.7	112.7	127.4

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	0.00	0.00
FIs & Local MFs	56.44	53.02
FPIs	25.31	26.61
Public & Others	18.25	20.37
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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IndiaMART InterMESH

Volume remains soft; realisation driving growth

IndiaMART posted revenue growth of 3.6% QoQ, led by continued improvement in realisation. The paid supplier addition remains soft (added ~2K QoQ) due to higher churn in the silver monthly bucket (~50% of the paying supplier base). Once the impact of the price hike is absorbed, the churn is expected to stabilise. The management has refrained from giving any target but expects a revival in two quarters. The collections growth stood at 17% YoY, slightly lower due to soft additions in the last two quarters. However, the ARPU improvement continues (+11.5% YoY) led by migration to a higher price/tenure package and lower churn in the gold and platinum bucket (~50% of paid suppliers and ~75% of revenue and monthly churn is ~1%). The growth engine is tuned to deliver ~20% growth in collections and the stickiness of high-paying customers reflects the quality of the platform. Margin expansion will be limited, higher investments will be required to step up supplier addition, and the operating range will be 28-30%. We lower our EPS estimate by ~6/9% for FY25/26E due to moderation in growth. We maintain our BUY rating with a DCF-based TP of INR 2,900 (~39x FY26E EPS), supported by revenue/EPS CAGR of 19/20% over FY24-26E.

- Q3FY24 highlights:** (1) IndiaMART revenue grew 3.6/21.4% QoQ/YoY to INR 3.05bn, driven by +1.0/+3.0% growth in paid suppliers/ARPU; (2) cash collections from customers stood at INR 3.32bn, up 17.3% YoY; (3) ~20% of the registered buyers are active on the platform and ~9% of the visitors place a business enquiry; (4) EBITDA margin was up 94bps QoQ at 28.1%, with +4.5/-3.7% QoQ change in manpower/outsourced sales cost; (5) for Q3, BUSY revenue was down 2.3% QoQ to INR 0.13bn, while EBITDA margin declined to 9% due to slower growth; (6) standalone margin stood at 30%+100bps QoQ; and (7) net cash stood at INR 20bn (~13% of mcap).
- Outlook:** We expect revenue growth of +23/19/20%, based on paid supplier growth of +6/6.9/7% and ARPU growth of +16/11.7/12.1% for FY24E/25/26E respectively. EBITDA margin estimates stand at 27.6/28.1/28.7% for FY24E/25/26E, leading to an EPS CAGR of 20% over FY24-26E.

Quarterly financial summary

YE March (INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	3,053	2,514	21.4	2,947	3.6	7,535	9,854	12,090	14,407	17,259
EBITDA	857	702	22.0	799	7.2	3,079	2,679	3,334	4,044	4,952
APAT	818	1,128	-27.5	694	17.9	2,971	2,210	3,117	3,694	4,443
EPS (INR)	13.6	18.7	-27.5	11.5	17.9	48.3	36.1	51.7	61.5	74.0
P/E (x)						51.5	69.0	48.1	40.5	33.6
EV / EBITDA (x)						42.0	48.4	38.9	30.6	23.5
RoE (%)						17.0	11.2	16.1	18.9	19.5

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

YE March (INR mn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue	12,215	12,090	-1.0	14,981	14,407	-3.8	18,337	17,259	-5.9
EBITDA	3,409	3,334	-2.2	4,453	4,044	-9.2	5,647	4,952	-12.3
EBITDA margin (%)	27.9	27.6	-33 bps	29.7	28.1	-166 bps	30.8	28.7	-210 bps
APAT	3,125	3,117	-0.3	3,933	3,694	-6.1	4,907	4,443	-9.5
EPS (INR)	51.9	51.7	-0.3	65.5	61.5	-6.1	81.7	74.0	-9.5

Source: Company, HSIE Research

BUY

CMP (as on 18 Jan 2024)	INR 2,489
Target Price	INR 2,900
NIFTY	21,462

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 3,200	INR 2,900
	FY25E	FY26E
EPS %	-6.1	-9.5

KEY STOCK DATA

Bloomberg code	INMART IN
No. of Shares (mn)	60
MCap (INR bn) / (\$ mn)	149/1,825
6m avg traded value (INR mn)	720
52 Week high / low	INR 3,336/2,180

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(11.0)	(13.9)	10.3
Relative (%)	(19.0)	(20.5)	(6.3)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	49.21	49.21
FIs & Local MFs	5.46	8.23
FPIs	27.33	24.16
Public & Others	18.00	18.40
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Tanla Platforms

Muted show; platform deal promising

Tanla reported a revenue decline of 0.6% in a seasonally strong quarter, due to muted growth in both enterprise and platform segments. The enterprise revenue was impacted by a decline in ILD volume and platform revenue was stressed due to the gradual ramp-down of VI network revenue. The steep price hike in ILD prices has impacted volumes as enterprises are exploring alternatives like WhatsApp. The NLD price hike has been absorbed and promotional traffic is resuming. The volume growth in NLD (~50% of revenue) will be ~15% driven by a continued rise in OTP and transactional traffic. The platform segment growth will be powered by Wisely and Trubloq. Tanla has closed its first Wisely ATP (anti-phishing product) deal with a large private bank. The ATP deal will offset the impact of the Wisely Network deal termination. The EBITDA margin stood at 19.2% and the target range is ~19-20%. The low-margin VF Middle East business will be integrated in Q4. We cut our revenue/EPS estimate by ~8/9% for FY26E due to a slowdown in ILD (~25% of revenue). We maintain our BUY rating and assign a TP of INR 1,350, based on 23x FY26E EPS. The stock is trading at a P/E of 21/18x FY25/26E, RoE is ~31% and net cash stands at INR 6.16bn (~4.4% of mcap).

- Q3FY24 highlights:** The enterprise segment (90% of revenue and 65% of gross profit) grew -0.7/+14.6% QoQ/YoY to INR 9.07bn while gross margin was down 40bps QoQ to 19.5%. Platform revenue (10% of revenue and 35% of gross profit) was up 0.5% QoQ to INR 0.96bn and gross margin stood at 97.5%. Organic growth was 5% YoY, led by platforms +22% YoY. Consolidated EBITDA margin at 19.2% was down 30bps QoQ and APAT was down 1.7% QoQ to INR 1.40bn. The >500mn revenue bucket declined by 13% QoQ while the INR 100-500mn revenue bucket increased by 13% QoQ. The revenue from new customers in 9MFY24 was up +140% YoY.
- Outlook:** We estimate +19/21% revenue/EPS CAGRs over FY23-26E, led by +26/18% revenue CAGRs (enterprise organic CAGR of 11%) and +21/22% gross profit CAGRs for platform and enterprise segments respectively.

Quarterly financial summary

YE March (INR bn)	3Q FY24	3Q FY23	YoY (%)	2Q FY24	QoQ (%)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	10.03	8.70	15.3	10.09	-0.6	23.41	32.06	33.54	39.69	47.90	56.14
Gross Profit	2.70	2.17	24.5	2.76	-2.3	5.78	9.08	8.36	10.68	12.81	14.96
EBITDA	1.93	1.51	27.4	1.97	-2.0	4.33	7.00	5.88	7.71	9.12	10.71
APAT	1.40	1.17	20.3	1.43	-1.7	3.56	5.39	4.48	5.62	6.72	7.97
Diluted EPS (INR)	10.3	8.6	20.3	10.5	-1.7	26.3	39.8	33.0	41.5	49.6	58.8
P/E (x)						39.9	26.4	31.8	25.3	21.2	17.8
EV/EBITDA (x)						31.5	19.1	23.1	17.7	14.5	11.9
ROE (%)						44.7	48.0	31.2	32.7	31.2	30.0

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

INR bn	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue	41.44	39.69	(4.2)	51.73	47.90	(7.4)	60.92	56.14	(7.8)
EBITDA	8.04	7.71	(4.1)	9.84	9.12	(7.3)	11.61	10.71	(7.7)
EBITDA margin (%)	19.4	19.4	3bps	19.0	19.0	2bps	19.1	19.1	3bps
APAT	6.12	5.62	(8.1)	7.46	6.72	(9.9)	8.80	7.97	(9.4)
EPS (INR)	45.2	41.5	(8.1)	55.1	49.6	(9.9)	64.9	58.8	(9.4)

Source: Company, HSIE Research

BUY

CMP (as on 24 Jan 2024) INR 1,049

Target Price INR 1,350

NIFTY 21,454

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,440	INR 1,350
	FY25E	FY26E
EPS %	-9.9%	-9.4%

KEY STOCK DATA

Bloomberg code	TANLA IN
No. of Shares (mn)	134
MCap (INR bn) / (\$ mn)	141/1,725
6m avg traded value (INR mn)	1,219
52 Week high / low	INR 1,318/493

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.9	(17.7)	56.4
Relative (%)	(6.2)	(24.7)	39.9

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	44.17	44.15
FIs & Local MFs	0.38	0.90
FPIs	14.56	15.46
Public & Others	40.88	39.49
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Happiest Minds Technologies

Set-up for acceleration in FY25E

Happiest Minds (HAPPSTMN) posted soft (in-line) performance in Q3FY24, which was impacted by higher furloughs and lower working days (higher T&M base) impacting sequential growth by ~3.5%. Most of the seasonality is expected to reverse barring the headwind in the T1 account in Q4FY24. We reckon that the company has a high potential to scale which is supported by its service portfolio, approval ratings, strong execution, and stable leadership (*Happiest Minds- Higher for longer*). HAPPSTMN has a higher susceptibility to discretionary services and is overlaid by client-specific ramp-down leading to deceleration in FY24E. The new organizational structure (PDES unit and GenAI unit) can leverage the multi-disciplinary strengths of the company and investments in leadership and sales can accelerate growth in FY25E. The current scale of the business, the distinction in quality and the disproportionate impact from potential recovery in discretionary services in the sector can keep valuation higher than peers. Maintain ADD on HAPPSTMN with TP of 935, based on 38x FY26E.

- Q3FY24 highlights:** (1) HAPPSTMN revenue stood at USD 49.4mn, 0.5% QoQ and 9% YoY (9MFY24 revenue growth at 10.8%). (2) Growth was impacted by a 10% QoQ decline in the T1 account (-1.2% impact on sequential revenue growth of the company) and the impact of furlough and lower working days (-3.5% impact on sequential growth of the company). (3) The company added 10 new logos during the quarter which included four in industrial manufacturing and two each in Healthcare and Hi-Tech verticals. (4) HAPPSTMN will set up five industry groups under the PDES unit taking the company to a verticalized structure.
- Outlook:** We have factored USD revenue growth of 10.5%, 17.7%, and 23.0% for FY24/25/26E. Factored EBITM at 17.2/18.1/18.6% over the same period translating to an EPS CAGR of 25% over FY24-26E. Faster recovery in discretionary spending in the sector and value accretive acquisition ahead can be positive triggers for the stock which currently trades at 45x and 36x FY25E and FY26E (vs. historical average of 55x).

Quarterly Financial summary

YE Mar (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	49.4	45.3	9.0	49.1	0.5	147	178	196	231	284
Net Sales	4.10	3.67	11.7	4.07	0.8	10.94	14.29	16.26	19.42	24.17
EBIT	0.66	0.80	(16.9)	0.68	(2.9)	2.25	3.17	2.79	3.52	4.50
APAT	0.59	0.64	(8.4)	0.58	0.1	1.87	2.37	2.37	3.01	3.75
Diluted EPS (INR)	4.0	4.0	(0.5)	3.9	1.5	12.3	15.6	15.6	19.8	24.7
P/E (x)						71.9	56.7	56.8	44.7	35.8
EV / EBITDA (x)						50.5	36.9	37.4	29.9	23.4
RoE (%)						30.9	31.5	20.4	19.1	20.9

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE Mar (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	197	196	(0.5)	236	231	(2.0)	289	284	(1.6)
Revenue	16.34	16.26	(0.5)	19.82	19.42	(2.0)	24.57	24.17	(1.6)
EBIT	2.86	2.79	(2.5)	3.67	3.52	(4.1)	4.58	4.50	(1.8)
EBIT margin (%)	17.5	17.2	-34bps	18.5	18.1	-40bps	18.6	18.6	-2bps
APAT	2.39	2.37	(0.8)	3.05	3.01	(1.2)	3.74	3.75	0.4
EPS (INR)	15.7	15.6	(0.8)	20.0	19.8	(1.2)	24.5	24.7	0.4

Source: Company, HSIE Research

ADD

CMP (as on 18 Jan 2024)	INR 884
Target Price	INR 935
NIFTY	21,462

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 935	INR 935
	FY25E	FY26E
EPS %	-1.2	+0.4

KEY STOCK DATA

Bloomberg code	HAPPSTMN IN
No. of Shares (mn)	152
MCap (INR bn) / (\$ mn)	135/1,646
6m avg traded value (INR mn)	500
52 Week high / low	INR 1,023/763

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.7	(5.5)	0.3
Relative (%)	(2.4)	(12.1)	(16.3)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	51.35	50.24
FIs & Local MFs	2.43	2.41
FPIs	5.14	5.05
Public & Others	41.08	42.30
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Zensar Technologies

Focus on reviving growth

Zensar witnessed a revenue decline of -3% QoQ but the margin performance was better than expected. The revenue was impacted by higher furloughs in the hi-tech vertical and project completions in the HLS vertical, offset by stable BFSI. The company reported a strong TCW number of USD 168mn with a higher component of net new deals from existing clients. The farming engine is on track, but the company will have to focus on winning new logos and large deals to revive growth. The focus on margin improvement over the last five quarters has yielded results (YoY expansion of ~600bps) but there is limited scope for further improvement from the current level of 17%. The management indicated continued challenges in consumer and hi-tech verticals and cited uncertainty in the current demand environment and extended furloughs with delays in decision-making. We expect FY24E growth to be muted and recovery to be protracted. We cut our FY26E revenue/EPS estimates by ~2.7/3.3% for 26E. We maintain our ADD rating with a TP of INR 580, based on 18x FY26E EPS. The stock is trading at a P/E of 20/18x FY25/26E EPS, higher than its five-year average P/E multiple.

- Q3FY24 highlights:** (1) Zensar's revenue at USD 144.7mn lower than our estimates of USD 148.7mn, -3.2/-1.3% QoQ/YoY CC. (2) Among verticals, banking remained flat sequentially (+0.1% QoQ CC) while hi-tech/manufacturing/healthcare declined -8.0/-1.9/-5.6% QoQ CC respectively impacted by higher-than-expected impact of the furloughs and project completions. The company expects extended furloughs' impact in Q4, especially in the hi-tech vertical. (3) Within geographies, North America was down -3.7% QoQ and Europe/Africa also declined by -4.3/-2.1% QoQ. (4) EBITDAM declined 136bps QoQ to 17.2% due to furloughs & lower 185utilization (-200bps), FX headwind (-20bps) and provision for bonus reversal (-160bps), offset by operational efficiency (+140bps) and reversal of doubtful debt (+110bps). (5) The headcount was down by 105 employees and attrition moderated to 12% (-110bps QoQ).
- Outlook:** We expect USD revenue growth of -1.9/+6.9/+12.4% and an EBITDA margin of 18.2/17.8/18% for FY24/25/26E respectively, resulting in revenue/EPS CAGRs of +9.6/+6.5% over FY24-26E.

Quarterly Financial Summary

YE March (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD Mn)	145	146	(0.8)	150	(3.7)	569	604	593	633	712
Net Sales	12.04	11.98	0.5	12.41	(3.0)	42.44	48.48	49.05	53.21	60.50
EBIT	1.76	0.85	107.3	1.94	(9.2)	4.72	3.69	7.44	7.80	9.15
APAT	1.62	0.77	111.2	1.74	(7.0)	4.16	3.28	6.48	6.40	7.35
Diluted EPS (INR)	7.1	3.4	110.6	7.6	(7.0)	18.2	14.3	28.4	28.0	32.2
P/E (x)						30.8	39.2	19.8	20.1	17.5
EV / EBITDA (x)						17.5	19.9	11.9	10.7	8.8
RoE (%)						16.3	11.3	19.6	17.2	17.6

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	601	593	-1.3	649	633	-2.4	732	712	-2.7
Revenue	49.70	49.05	-1.3	54.54	53.21	-2.4	62.18	60.50	-2.7
EBIT	7.43	7.44	0.1	7.91	7.80	-1.4	9.47	9.15	-3.3
EBIT margin (%)	14.9	15.2	22bps	14.5	14.7	15bps	15.2	15.1	-10bps
APAT	6.44	6.48	0.6	6.50	6.40	-1.6	7.60	7.35	-3.3
EPS (INR)	28.2	28.4	0.6	28.4	28.0	-1.6	33.3	32.2	-3.3

Source: Company, HSIE Research

ADD

CMP (as on 20 Jan 2024)	INR 562
Target Price	INR 580
NIFTY	21,572

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 600	INR 580
	FY25E	FY26E
EPS %	-1.6	-3.3

KEY STOCK DATA

Bloomberg code	ZENT IN
No. of Shares (mn)	227
MCap (INR bn) / (\$ mn)	127/1,556
6m avg traded value (INR mn)	1,060
52 Week high / low	INR 644/216

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.8	21.6	157.2
Relative (%)	0.6	14.5	139.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	49.20	49.20
FIs & Local MFs	16.55	16.45
FPIs	17.46	17.12
Public & Others	16.79	17.23
Pledged Shares	0.00	0.00

Source: BSE

Pledged shares as % of total shares

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Route Mobile

ILD impacts growth; revival on the cards

Route reported a muted revenue growth of 1% in a seasonally strong quarter due to a slowdown in ILD volumes and a delay in deal ramp-up. The ILD billable transaction was impacted for two months in the quarter due to cost-saving initiatives by large e-commerce and OTT players. The VI firewall deal rollout timeline has shifted by one quarter to April 2024. The management has cut the growth guidance for FY24E to 15-20% from 20-25% due to the ILD slowdown and shift in VI deal timelines. This implies ~7% QoQ growth for the lower end of the band. The VI A2P SMS firewall deal has a revenue potential of ~USD 100mn. The revival in ILD volume (e-commerce deal in Europe), new wins in the domestic market and contribution from VI will aid growth for FY25E. The deal with Proximus Group is expected to close in Q1CY24. The combined entity will bring synergies of USD 100mn and the target is to reach USD 1bn revenue with a 15% EBITDA margin to become the third largest CPaaS player globally. We cut our revenue/EPS estimate for FY26E by ~4% due to a delay in deal ramp-up. We maintain our BUY rating with a TP of INR 1,950, based on 22x FY26E EPS. The stock is trading at 22/18x FY25/26E EPS.

- Q3FY24 highlights:** Revenue grew +1/3.9% QoQ/YoY to INR 10.24bn, led by volume/realisation growth of -0.3/1.3% QoQ. New product sales grew 14.3% QoQ to INR 673mn, powered by WhatsApp and RCS. Gross profit was up 0.9% INR 2.17bn, while GP margin was flat at 21.2%. Reported EBITDA declined 2.3% QoQ to INR 1.25bn and the margin stood at 12.2%, down 41bps QoQ. Adjusted for one-off (50bps) and consultancy fees (30bps), the margin was at 13%. India terminations (~48% of revenue) were up 5.1% QoQ while Africa (4% of revenue) and Europe (~8% of revenue) were down 48/31% QoQ. The top client revenue was down 33% QoQ due to the ILD slowdown and growth was driven by Top 6-10 and Top-11-50 clients.
- Outlook:** We estimate +10/20% revenue/EPS CAGR for FY23-26E, led by +15.7/25.4/15.8% revenue growth and 12.6/12.8/12.9% EBITDA margin for FY24/25/26E respectively.

Quarterly financial summary

YE March (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	10.24	9.86	3.9	10.15	1.0	20.02	35.69	41.29	51.78	59.97
Gross Profit	2.17	2.20	-1.6	2.15	0.9	4.20	7.87	8.78	11.08	12.95
EBITDA	1.25	1.25	0.5	1.28	-2.3	2.19	4.44	5.19	6.61	7.74
APAT	0.91	0.82	10.0	0.89	2.1	1.62	3.19	3.76	4.72	5.55
EPS (INR)	14.5	13.2	10.0	14.2	2.1	25.9	50.9	60.1	75.4	88.6
P/E (x)						62.6	31.9	27.0	21.5	18.3
EV / EBITDA (x)						41.7	21.1	17.5	13.3	10.8
RoE (%)						14.0	18.3	19.0	20.1	20.0

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

INR bn	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue	43.25	41.29	-4.5	53.72	51.78	-3.6	62.47	59.97	-4.0
EBITDA	5.49	5.19	-5.6	6.89	6.61	-4.1	8.05	7.74	-3.8
EBITDA	12.7	12.6	-14bps	12.8	12.8	-7bps	12.9	12.9	3bps
APAT	3.72	3.76	1.1	4.95	4.72	-4.6	5.79	5.55	-4.2
EPS (INR)	59.4	60.1	1.1	79.1	75.4	-4.6	92.4	88.6	-4.2

Source: Company, HSIE Research

BUY

CMP (as on 23 Jan 2024) INR 1,624

Target Price INR 1,950

NIFTY 21,239

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,975	INR 1,950
EPS %	FY25E	FY26E
	-4.6	-4.2

KEY STOCK DATA

Bloomberg code	ROUTE IN
No. of Shares (mn)	63
MCap (INR bn) / (\$ mn)	102/1,243
6m avg traded value (INR mn)	283
52 Week high / low	INR 1,760/1,131

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.2	8.9	42.2
Relative (%)	(3.4)	3.4	26.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	58.15	58.15
FIs & Local MFs	5.50	5.99
FPIs	21.76	21.59
Public & Others	14.59	14.27
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Mastek

Deal booking to drive growth

Mastek reported a modest quarter with revenue growth of +2.7% QoQ CC (including BizAnalytica) along with margin expansion. The performance was in line with our estimate, organic growth stood at 0.7% QoQ CC, supported by traction in the US (+2% QoQ organic), offset by the seasonally weak UK government. The order book at USD 248mn was impressive, clocking the second consecutive quarter of ~20% YoY growth fueled by wins in healthcare and life sciences (US) and the UK government (Home Office). The NHS is showing signs of stability and recovery will be in FY25E. The US organic growth is set to recover led by MST (Salesforce) and BizAnalytica (AWS and Snowflake) capabilities, mining top-15 accounts along with cross-sell and deal wins in the healthcare and manufacturing vertical. The focus will be on driving profitable US growth, penetration within UK government departments, and cross-selling in the Middle East. The EBITDA margin in the quarter expanded ~95bps QoQ to 17%, led by a recovery in US margins (13 quarter high) and better utilization; the desired range is ~17-19%. We have marginally tweaked our revenue/EPS estimate for FY25/26E and maintain our ADD rating, with a TP of INR 3,230, based on 20x FY26E EPS. The stock is trading at 22/18x FY25/26E.

- Q3FY24 highlights:** (1) Revenue, at USD 94.0mn (+1.5/+17.4% QoQ/YoY), came in line with our estimate of USD 94.0mn. The US geography reported growth of 7.2% QoQ, led by the integration of BizAnalytica (one month impact) while the UK declined by 1.5% QoQ led by furlough; (2) Financial services/healthcare/government improved +3.3/9.5/0.1% but manufacturing/retail declined 1.1/2.5% QoQ; (3) EBIT margin expanded 90bps QoQ to 14.2% (vs our estimate of 14.3%), led by expansion in US margins (15.9%) and better utilisation of 85.4%; (4) Digital engineering was up 0.9% QoQ while Oracle cloud declined 3% QoQ; Oracle and Salesforce are ~45% of total revenue; (5) Mastek headcount declined by 80 in Q3 and attrition stood at elevated level of 20% (+90bps QoQ).
- Outlook:** We expect USD revenue growth of 16.6/13.0/14.2% in FY24/25/26E (organic growth of 11.2% in FY24E) and an EBITDA margin of 17.2/18.8/19.3% in FY24/25/26E, resulting in revenue/EPS CAGRs of 14/30% in FY24-26E.

Quarterly Financial summary

YE Mar (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY23	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	94	80	17.4	93	1.5	293	318	371	419	479
Net Sales	7.84	6.59	19.1	7.66	2.4	21.84	25.63	30.73	35.21	40.69
EBIT	1.12	0.94	18.7	1.02	9.4	4.20	3.88	4.47	5.71	6.83
APAT	0.75	0.64	17.4	0.67	12.5	2.95	2.68	3.03	4.27	5.11
Diluted EPS (INR)	23.81	20.73	14.9	21.65	10.0	96.6	86.6	95.7	134.9	161.6
P/E (x)						30.0	33.5	30.3	21.5	18.0
EV / EBITDA (x)						17.9	19.9	17.1	13.3	10.8
RoE (%)						30.6	19.4	16.7	20.2	20.4

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE Mar (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD Mn)	371	371	(0.0)	419	419	(0.1)	480	479	(0.2)
Revenue	30.71	30.73	0.1	35.23	35.21	(0.1)	40.79	40.69	(0.2)
EBIT	4.43	4.47	0.9	5.60	5.71	1.9	6.79	6.83	0.7
EBIT margin (%)	14.4	14.5	12bps	15.9	16.2	32bps	16.6	16.8	15bps
APAT	3.02	3.03	0.4	4.20	4.27	1.5	5.10	5.11	0.3
EPS (INR)	95.3	95.7	0.4	132.9	134.9	1.5	161.1	161.6	0.3

Source: Company, HSIE Research

ADD

CMP (as on 18 Jan 2024) INR 2,902

Target Price INR 3,230

NIFTY 21,462

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 2,900	INR 3,230
	FY25E	FY26E
EPS %	+1.5	+0.3

KEY STOCK DATA

Bloomberg code	MAST IN
No. of Shares (mn)	31
MCap (INR bn) / (\$ mn)	89/1,088
6m avg traded value (INR mn)	273
52 Week high / low	INR 3,070/1,475

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	22.9	34.6	71.1
Relative (%)	14.8	28.1	54.5

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	36.50	36.47
FIs & Local MFs	5.99	6.41
FPIs	13.93	14.10
Public & Others	43.58	43.02
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Teamlease Services

Improving metrics

Teamlease reported 7.6% QoQ revenue growth and margins expanded for the second consecutive quarter. The margin expansion was led by a gradual improvement in PAPM, stable core employee costs, recovery in DA, and better profitability in HR services (ed-tech). The general staffing volume growth was strong (+20% YoY), given festive demand in the consumer and BFSI verticals. The degree apprenticeship (DA) headcount registered a 2.5% QoQ growth (despite a decline in NEEM), following four quarters of decline. We expect DA volume growth to resume; DA ex-NEEM has a lower PAPM but a better GM. Specialised staffing volume remains under pressure due to a slowdown in IT hiring, partially offset by GCCs. The volume growth in specialised staffing will recover with the return of IT sector hiring. The overall growth will be supported by (1) volume growth in general staffing, (2) the addition of new logos, (3) growth in DA, and (4) the recovery in IT sector hiring. The EBITDA margin will gradually improve to ~1.7%, led by improving PAPM, lower wage inflation, stable core cost, and better specialised and HR margins. We increase our EPS estimates for FY25/26E by ~1/3% and maintain ADD with a TP of INR 3,180, based on 25x FY26E EPS. The stock is trading at a P/E of 29/22x FY25/26E EPS.

- Q3FY24 highlights:** Revenue stood at INR 24.45bn, up 21.8/7.6% YoY/QoQ, led by +7.9/ 9.5/-14.0% QoQ growth in general/specialised staffing/other HR services. The PAPM improved marginally to INR 688 in the quarter and the associate/core ratio grew to 367 +1.7% QoQ. EBITDA margin for core staffing/specialised staffing/HR services stood at 1.2/7.0/12.5%. The focus is on adding new clients (added 107 new logos) and delivering ~20%+ volume growth in general staffing. DA added ~1K associates, and growth will be driven by NAPS and WILP. The balance of ~7K NEEM associates will exit by Q1FY25E. ~650 lower-margin telecom mandates were shifted to general staffing, leading to a decline of 9.3% QoQ in specialised staffing headcount. Net cash stood at INR 3.53bn (~7% of market cap) and the outstanding income tax receivable is INR 2.32bn.
- Outlook:** We expect revenue growth of 19.4/18.6/18.4% and an EBITDA margin of 1.4/1.7/1.8% in FY24/25/26E respectively, leading to revenue and EPS CAGRs of 19% and 23% over FY23-26E.

Quarterly financial summary

YE March (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	24.45	20.08	21.8	22.73	7.6	64.80	78.70	93.93	111.44	131.96
EBITDA	0.36	0.32	14.0	0.32	13.6	1.42	1.22	1.31	1.85	2.35
APAT	0.27	0.29	(5.1)	0.28	(0.6)	1.10	1.14	1.16	1.63	2.13
Diluted EPS (INR)	16.4	17.3	(5.1)	16.5	(0.6)	64.5	66.5	69.1	97.3	127.2
P/E (x)						43.3	42.0	40.4	28.7	21.9
EV / EBITDA (x)						31.4	35.8	32.4	22.1	16.4
RoE (%)						16.4	15.1	14.2	18.1	19.6

Source: Company, HSIE Research

Change in estimate

INR bn	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue	93.24	93.93	0.7	111.24	111.44	0.2	130.89	131.96	0.8
EBITDA	1.29	1.31	1.3	1.83	1.85	1.0	2.29	2.35	2.8
EBITDA margin (%)	1.4	1.4	1bps	1.6	1.7	1bps	1.7	1.8	3bps
APAT	1.19	1.16	(2.4)	1.61	1.63	1.1	2.07	2.13	2.9
EPS (INR)	70.8	69.1	(2.4)	96.2	97.3	1.1	123.6	127.2	2.9

Source: Company, HSIE Research

ADD

CMP (as on 30 Jan 2024)	INR 2,792
Target Price	INR 3,180
NIFTY	21,522

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 2,900	INR 3,180
EPS %	FY25E	FY26E
	+1.1	+2.9

KEY STOCK DATA

Bloomberg code	TEAM IN
No. of Shares (mn)	17
MCap (INR bn) / (\$ mn)	47/572
6m avg traded value (INR mn)	145
52 Week high / low	INR 3,326/2,007

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.6	20.6	24.0
Relative (%)	3.6	13.1	4.4

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	31.61	31.61
FIs & Local MFs	30.41	35.33
FPIs	30.47	26.26
Public & Others	7.51	6.80
Pledged Shares	0.50	0.50

Source : BSE

Pledged shares as % of total shares

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Oil & Gas

Reliance Industries

Growth in retail, Jio and O&G businesses

Our ADD rating on Reliance Industries (RIL) with a price target of INR 2,740/sh is premised on (1) recovery in the O2C businesses; (2) EBITDA growth in the digital business, driven by improvement in ARPU, subscriber addition, and new revenue streams; and (3) potential for further value unlocking in the digital and retail businesses. RIL's consolidated EBITDA at INR 407bn (+16% YoY; -0.8% QoQ) and APAT at INR 173bn (+9% YoY; -0.7% QoQ) came in marginally above our estimates, supported by better performance from its retail, digital and O&G segments, partially offset by weak O2C segment performance.

- Oil to chemicals (O2C) segment:** O2C EBITDA declined -14% QoQ to INR 141bn, impacted by weak downstream chemical margins and maintenance and inspection shutdown. Crude throughput came in lower-than-expected at 18.7mmt (-0.5% YoY, -6.5% QoQ), while production meant for sale stood at 16.4mmt (+1.2% YoY, -4% QoQ).
- Oil & gas:** Revenue grew sharply to INR 67bn (+50% YoY, +1.5% QoQ) while EBITDA improved to INR 58bn (+50% YoY, +22% QoQ), owing to an increase in production from the KG D6 block. The average KG D6 production for Q3 was at 30mmcmd, up +58% YoY, +6% QoQ. The average gas realization in Q3 was at USD 9.66/mmbtu (-14.5% YoY, -7.6% QoQ).
- RJPL:** Revenue improved to INR 325bn (+11% YoY, +3% QoQ) due to a sharp rise in net subscriber addition of 11.2mn. The total customer base stands at 470.9mn, as of Q3. ARPU came in at INR 181.7 (+2% YoY, flat QoQ).
- Reliance Retail (RR):** Net revenue grew 23.8% YoY to INR 743.7bn (HSIE: INR 702.2bn). Core retail revenue is estimated to have clocked ~29% YoY to ~INR 574bn (HSIE: INR 536bn). Grocery/F&L/consumer electronics grew 41/28/19% respectively. Footfalls were up 40% YoY at 282mn. Digital + New Commerce contribution remains healthy at 19% of core retail sales. EBITDA grew 30.1% YoY to INR 60.6bn (HSIE: INR 58.1bn). Retail EBITM expanded 30bps YoY to 6.3% (HSIE: 6.5%). RR added 252 stores in Q3, taking the store count to 18,774 and the retail area stood at 72.9mn sq. ft.
- Debt:** RIL's Q3 consolidated net debt increased marginally to INR 1,194bn (vs net debt of INR 1,177bn, as of Sep-23), owing to accelerated capex in retail operations, 5G network rollout, and new energy business. However, total capex incurred in Q3 declined to INR 301bn (-20% YoY, -22% QoQ).
- Change in estimates:** We raise our FY24/25/26 consolidated EPS by 2/3/7/4.1% to INR 106.1/115.4/121.1 to factor in better-than-expected performance from Retail, Jio and O&G segments, delivering a revised target price of INR 2,740.
- Valuation:** We use EV/EBITDA to value downstream at Mar-25E EV/e, retail on peer benchmarked EV/e and E&P and Jio on DCF. The stock is currently trading at 11.8x Mar-25E EV/EBITDA and 23.7x Mar-25E EPS.

Financial summary – consolidated

Year Ending March (INR bn)	Q3 FY24	Q2 FY24	QoQ (%)	Q3 FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	2,251	2,319	(2.9)	2,167	3.9	7,000	8,778	11,412	12,234	13,040
EBITDA	407	410	(0.8)	350	16.1	1,105	1,422	1,645	1,784	1,878
PAT	173	174	(0.7)	158	9.3	584	667	718	781	819
Diluted EPS (INR)	25.5	25.7	(0.7)	23.3	9.3	86.4	98.6	106.1	115.4	121.1
P/E (x)						31.7	27.7	25.8	23.7	22.6
EV / EBITDA (x)						19.1	14.9	12.8	11.8	11.2
RoE (%)						7.9	8.9	9.7	9.7	9.4

Source: Company, HSIE Research

ADD

CMP (as on 19 Jan 2024) INR 2,735

Target Price INR 2,740

NIFTY 21,622

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 2,515	INR 2,740
EPS %	FY24E +2.0%	FY25E +3.7%

KEY STOCK DATA

Bloomberg code	RIL IN
No. of Shares (mn)	6,766
MCap (INR bn) / (\$ mn)	18,503/2,26,256
6m avg traded value (INR mn)	17,457
52 Week high / low	INR 2,793/1,986

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.6	5.6	21.4
Relative (%)	9.4	(1.2)	3.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	50.27	50.30
FIs & Local MFs	16.07	16.68
FPIs	22.60	22.14
Public & Others	11.06	10.88
Pledged Shares	0.0	0.0

Source : BSE

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ONGC

Earnings muted

We maintain our REDUCE rating on ONGC, with a target price of INR 230, given: (1) limited upside potential for ONGC's crude price realisation in the current environment of windfall tax and (2) gas price realisation too is unlikely to change significantly, as APM gas price is frozen till March 2025 and 95% of ONGC's gas sales fall under APM. In Q3FY24, reported EBITDA stood at INR 172bn (-16% YoY, -7% QoQ), falling below our estimate, owing to higher-than-expected other expenses and employee costs. Similarly, PAT at INR 95bn (-14% YoY, -7% QoQ) also missed our estimate, impacted by higher-than-expected depreciation, albeit partially offset by higher-than-expected other income. Total crude oil and gas production and sales came below our estimates.

- Standalone financial performance:** EBITDA, at INR 172bn (-16% YoY, -7% QoQ), fell below our estimate due to higher-than-expected employee costs of INR 7.2bn (+5% YoY, +8% QoQ) and higher other expenses of INR 74bn (+17% YoY, +38% QoQ). Statutory levies came in below our estimate at INR 95bn (-15% YoY, -12% QoQ). PAT at INR 95bn (-14% YoY, -7% QoQ) came in below our estimate, owing to higher depreciation of INR 51bn (+5% YoY, +8% QoQ) and exploratory cost of INR 23bn (+45% YoY, +87% QoQ). Interest cost at INR 10bn (+48% YoY, +1% QoQ) was broadly in line. Higher-than-expected other income at INR 34bn (+2.4x YoY, +63% QoQ) supported earnings.
- Standalone operational performance:** Q3 net crude oil realisation stood at USD 73.6/bbl (-16% YoY, -0.5% QoQ) while windfall tax was at USD 9.2/bbl. Gas realisation stood at USD 6.8/mmbtu (-22% YoY, flat QoQ). Crude oil production was at 5.2mmt (-3% YoY, -1% QoQ) while gas production was at 5.1bcm (-4% YoY, -1.5% QoQ), coming in below our estimate. Total oil sales volume, including JV, was at 4.7mmt (+1% YoY, +1% QoQ), broadly in line, while gas sales volume was at 3.97bcm (-6% YoY, -2% QoQ), below estimates.
- Key takeaways:** (1) Capex guidance of ~INR 330/350bn for FY24/25. (2) Other expenses in Q3 were higher due to higher contractual payments for activities in KG 98/2, higher repairs and maintenance and higher charges towards water injections due to increased activities in the western offshore. (3) Currently, ONGC produces ~12,000bpd of oil and 1.75mmscmd gas from the KG 98/2; should ramp up oil production from Q4FY24 onwards. (4) Management has guided production to grow by 5-6% over FY24/25.
- Change in estimates:** We revise our FY24/25/26 consolidated EPS estimates by 1.4/2.3/4.1% to INR 46.3/40.7/44.6 to factor in the marginal cut in oil and gas production and higher expenses. We increase our P/E multiple to 5x (from earlier 4.5x) and increase the value of investments based on the current market price, delivering a revised target price of INR 230/sh.
- We value ONGC's standalone business + OVL at 5x Mar-25E EPS at INR 165 and investments at INR 65. The stock is currently trading at 6.3x Mar-25E EPS.**

Standalone financial summary

YE March (INR bn)	Q3 FY24	Q2 FY24	QoQ (%)	Q3 FY23	YoY (%)	FY22*	FY23*	FY24E*	FY25E*	FY26E*
Revenues	348	352	(1.1)	386	(9.8)	5,318	6,848	6,811	7,215	7,687
EBITDA	172	184	(6.5)	204	(15.9)	858	857	1,142	1,054	1,139
APAT	95	102	(6.7)	110	(13.7)	512	393	583	512	561
AEPS (INR)	7.6	8.1	(6.7)	8.8	(13.7)	40.7	31.2	46.3	40.7	44.6
P/E (x)						6.3	8.3	5.6	6.3	5.8
EV/EBITDA (x)						5.2	5.1	3.3	3.5	3.1
RoE (%)						21.3	14.5	19.2	14.9	14.7

Source: Company, HSIE Research | *Consolidated

REDUCE

CMP (as on 12 Feb 2024)	INR 258
Target Price	INR 230
NIFTY	21,616

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 216	INR 230
	FY24E	FY25E
EPS change	-1.4%	-2.3%

KEY STOCK DATA

Bloomberg code	ONGC IN
No. of Shares (mn)	12,580
MCap (INR bn) / (\$ mn)	3,244/39,672
6m avg traded value (INR mn)	3,274
52 Week high / low	INR 276/146

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	31.1	45.5	75.8
Relative (%)	22.2	36.7	58.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	58.89	58.89
FIs & Local MFs	19.59	18.73
FPIs	8.38	9.19
Public & Others	13.14	13.19
Pledged Shares	0.00	0.00

Source: BSE

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Gail (India)

Trading and petchem segments aid earnings

Our BUY recommendation on GAIL with a target price of INR 185 is based on (1) an increase in gas transmission volume to 130mmcmd by FY25 on the back of an increase in domestic gas production, (2) completion of major pipelines in eastern and southern India, and (3) expectation of improvement in earnings from the petchem segment. Q3FY24 reported EBITDA/PAT at INR 38/28bn, which came in above our estimates, driven by higher natural gas marketing margins and improvement in petchem segment earnings. Higher-than-expected other income of INR 8bn (+18% YoY, +45% QoQ) also supported earnings. Depreciation was at INR 7.8bn (+26% YoY, +4.5% QoQ) and interest cost at INR 1.6bn, (+49% YoY, -9% QoQ).

- NG marketing:** Marketing volume of 98mmcmd (+9% YoY) and trading margin of INR 2.3/tscm (+5% QoQ) came ahead of estimates, delivering a strong marketing EBITDA of INR 21bn (+6% QoQ). Management has indicated earnings will remain robust from this segment.
- Petchem:** Q3 petchem EBITDA came in at INR 2bn – the first profit seen in the last six quarters, supported by an improvement in sales volume at 215kT, (+3.3x YoY, +28% QoQ) and an improvement in petchem production at 205kT (+3x YoY, +28% QoQ), implying capacity utilisation of 92%. Realisation continues to remain under pressure at INR 95/kg (-17% YoY, -8% QoQ).
- NG transmission:** Reported the highest-ever transmission volume at 121.5mmcmd (+17% YoY, +1% QoQ); however, it came in below estimate, while transmission tariffs came broadly in line at INR 2,393/tscm (+38% YoY, 0.1% QoQ). EBITDA at INR 16bn (+2.2x YoY, -5% QoQ) came in below the estimate, owing to lower-than-expected transmission volumes.
- LPG & Liquid Hydro Carbon:** The LPG & LHC segment reported EBITDA at INR 3bn, coming in above our estimate, supported by higher-than-estimated realisations of INR 52/kg (-5% YoY, +22% QoQ).
- Key takeaways:** (1) The company has guided a capex of INR ~170bn in FY25: INR 30bn towards the pipeline segment, INR 44bn towards the petchem segment, INR 30bn towards achieving net zero targets, INR 7.5bn towards operational capex and INR 50bn towards equity contribution to JV's/subsidiaries. (2) Management has guided gas transmission volume will improve by 12-13mmcmd over FY25-26. (3) Management expects the petchem segment to break even in FY24 and generate profits in FY25.
- Change in estimates:** We increase our FY24/25/26E EPS by +14/+5.5/2.7% to INR 14.6/15.2/15.9 to factor in higher transmission volumes, marketing margins and petchem production delivering a revised TP of INR 185/sh.
- Our SOTP, at INR 185/sh, is based on 10x Mar-25E EV/e for the natural gas, LPG transmission and gas marketing business, 5.5x EV/e for the petchem and LPG/LHC businesses, and INR 49 for investments. The stock is currently trading at 11.3x Mar-25E EPS and 9.2x EV/EBITDA.**

Standalone financial summary

YE March (INR bn)	Q3 FY24	Q2 FY24	QoQ (%)	Q3 FY23	YoY (%)	FY22*	FY23*	FY24E*	FY25E*	FY26E*
Revenue	342	318	7.6	354	(3.2)	928	1,457	1,346	1,428	1,465
EBITDA	38	35	9.5	3	1,362.7	152	75	133	138	146
PAT	28	24	18.2	2	1,056.8	123	56	96	100	104
EPS (INR)	4.3	3.7	18.2	0.4	1,056.8	18.6	8.5	14.6	15.2	15.9
P/E (x)						9.2	20.1	11.7	11.3	10.8
EV / EBITDA (x)						8.0	17.5	9.8	9.2	8.5
RoE (%)						20.9	8.7	13.8	12.6	11.6

Source: Company, HSIE Research | *Consolidated

BUY

CMP (as on 29 Jan 2024)	INR 172
Target Price	INR 185
NIFTY	21,738

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 145	INR 185
EPS change	FY24E +14.2%	FY25E +5.5%

KEY STOCK DATA

Bloomberg code	GAIL IN
No. of Shares (mn)	6,575
MCap (INR bn) / (\$ mn)	1,129/13,808
6m avg traded value (INR mn)	2,895
52 Week high / low	INR 175/91

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	45.2	46.2	73.2
Relative (%)	31.3	38.3	53.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	51.91	51.90
FIs & Local MFs	27.04	27.28
FPIs	14.76	14.24
Public & Others	6.29	6.59
Pledged Shares	0.0	0.0

Source : BSE

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Bharat Petroleum Corporation

In-line estimates

We maintain our REDUCE rating on Bharat Petroleum (BPCL), with a target price of INR 500, owing to the risk of (1) lower auto-fuel marketing margins because of either a bounce-back in crude oil price or retail price cuts ahead of general elections and (2) moderation in refining margins. Q3FY24 EBITDA came broadly in line at INR 62.3bn, while APAT, at INR 34bn, was marginally above our estimate. Earnings were supported by higher-than-estimated other income and lower interest costs. Reported GRMs came in at USD 13.4/bbl (-USD 2.6/bbl YoY, -USD 5.1/bbl QoQ).

- Refining:** BPCL's reported crude throughput, including the Bina refinery, was at 9.86mmt (+5% YoY, +5.5% QoQ), above our estimate. The overall GRM stood at USD 13.4/bbl, with the Mumbai refinery GRM at USD 7.9/bbl, the Kochi refinery GRM at USD 14/bbl and the Bina refinery GRM at USD 20/bbl. We expect the GRMs to moderate going ahead on account of a decline in product cracks as new refining capacities come onstream amidst IEA's forecast of a slower global oil demand growth of only 1.2mbpd in 2024. We estimate GRMs for FY24/25/26E at USD 12.5/8.4/9 per bbl.
- Marketing:** Domestic marketing sales volume was at 12.9mmt (+1% YoY, +6% QoQ). The blended gross marketing margin for Q3 stood at INR 3.7/lit, down QoQ, impacted mainly by lower gross marketing margins for diesel. We factor blended gross marketing margins (for all petroleum products) of INR 6.1/4.8/4.8 per lit for FY24/25/26E respectively.
- Con call takeaways:** (1) BPCL's gross debt in Q3 further declined by 29% QoQ to INR 160bn. (2) The company has guided a capex of INR 100/150bn for FY24/25 and has spent around INR 80bn in 9MFY24; BPCL has a planned capex of ~INR 1.4-1.5trn for the next five years. (3) Management indicated that the Mozambique project would restart by June-July 2024. (4) The share of Russian crude in Q3 was at 40%. (5) The Mumbai refinery thruput was lower due to the 40-day planned shutdown. (6) The shutdowns at the Kochi and Bina refineries are being planned for a period of ~16 days. (7) Despite the threat of EVs, management expects MS/HSD volumes to see a ~4/2% volume growth over the next five years. (8) The company has approved an interim dividend of INR 21/sh.
- Change in estimates:** We increase our FY24/25/26E EPS by 2.8/5.5/2.7% to INR 121.2/55.1/60.6, to factor in lower depreciation, interest cost and higher other income, delivering a revised target price of INR 500/sh.
- SOTP-based valuation:** Our target price comes to INR 500/sh (5.5x Mar-25E EV/e for refining, marketing and pipeline businesses, and INR 140/sh for other investments). The stock is currently trading at 9.2x on Mar-25E EPS.

Standalone financial summary

YE March (INR bn)	Q3 FY24	Q2 FY24	QoQ (%)	Q3 FY23	YoY (%)	FY22*	FY23*	FY24E*	FY25E*	FY26E*
Revenues	1,155	1,030	12.1	1,192	(3.1)	3,468	4,732	4,653	4,945	5,288
EBITDA	62	129	(51.8)	42	47.1	191	109	388	202	223
APAT	34	85	(60.0)	20	73.4	117	21	258	117	129
AEPS (INR)	16.0	39.9	(60.0)	9.2	73.4	54.9	10.0	121.2	55.1	60.6
P/E (x)						9.2	50.4	4.2	9.2	8.3
EV/EBITDA (x)						8.0	14.4	3.8	8.0	7.3
RoE (%)						22.2	4.0	39.1	15.7	17.2

Source: Company, HSIE Research | *Consolidated

REDUCE

CMP (as on 30 Jan 2024)	INR 504
Target Price	INR 500
NIFTY	21,522

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 475	INR 500
EPS %	FY24E +2.8%	FY25E +5.5%

KEY STOCK DATA

Bloomberg code	BPCL IN
No. of Shares (mn)	2,169
MCap (INR bn) / (\$ mn)	1,094/13,374
6m avg traded value (INR mn)	2,732
52 Week high / low	INR 518/314

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	45.3	35.0	50.5
Relative (%)	34.4	27.5	30.9

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	52.98	52.98
FIs & Local MFs	23.11	22.13
FPIs	12.55	14.21
Public & Others	11.36	10.37
Pledged Shares	0.00	0.00

Source: BSE

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Oil India

Miss on higher expenses

Our ADD recommendation on Oil India with a target price of INR 530 is premised on oil production growth at 8% CAGR and gas production growth at 26% CAGR over FY24-26E. Q3FY24 EBITDA stood at INR 21bn (-26% YoY, -15% QoQ), and PAT at INR 15.8bn (-9% YoY, +4.9x QoQ) fell short of our estimate, mainly impacted by higher other expenses, provision for service tax/GST on royalty, decline in realisations and higher depreciation. However, this was partially offset by higher-than-expected oil and gas production.

- Standalone financial performance:** EBITDA in Q3 stood at INR 21bn (-26% YoY, -15% QoQ), below our estimate, owing to higher-than-expected other expenses of INR 31bn (+26% YoY, +2% QoQ), provision for service tax/GST on royalty of INR 2.4bn, and a decline in crude oil and natural gas realisations. Reported PAT at INR 16bn (-9% YoY, +4.9x QoQ) was also impacted by higher-than-expected depreciation of INR 5bn (+10% YoY, +18% QoQ). Interest cost of INR 1.8bn (-10% YoY, -19% QoQ) came in lower than our estimate.
- Standalone operational performance:** In Q3, the net crude oil realisation, adjusting for the windfall tax stood at USD 74.3/bbl (-0.3% YoY, -2% QoQ); gas realisation was at USD 6.8/mmbtu, (-21% YoY, +1% QoQ). Earnings were supported by higher-than-expected oil production of 0.86mmt (+6% YoY, +3% QoQ) and gas production of 0.82bcm (+2% YoY, +1% QoQ). Oil sales volume was at 0.85mmt (+10% YoY, -1% QoQ), while gas sales volume was at 0.68bcm (+6% YoY, +4% QoQ).
- Key highlights:** (1) In Q3, production increased owing to improvement in production from the existing fields and the introduction of new technologies for production from old wells. (2) Management has indicated oil/gas production of 3.8mmt/3.8bcm for FY25 and 4mmt/5bcm for FY26, implying an 8/26% CAGR over FY24-26E; production to improve due to accelerated drilling activities. (3) The company has guided a standalone capex of INR 60bn for FY25. (4) Numaligarh Refinery (NRL) has achieved 55-60% physical completion and is expected to be completed by Jul 2025. (5) In Q3, NRL reported an EBITDA of ~INR 12.2bn with a GRM of USD 12.7/bbl; NRL's cumulative capex for the expansion at the end of Q3 was at INR 150bn.
- Change in estimates:** We have raised our consolidated EPS estimates for FY24/25/26E by 6/10.5/22.8% to INR 58.8/69.6/79.6 per sh, to factor in higher production estimates and higher other income. We increased our P/E multiple to 5x for OIL's standalone business and 5.5x for NRL and the increased value of investments, which gives us a target price of INR 530/sh.
- We value Oil India's standalone business at INR 303 (5x Mar-25E EPS) and its investments at INR 227. The stock is currently trading at 7.2x Mar-25E EPS.**

Standalone financial summary

YE March (INR bn)	Q3 FY24	Q2 FY24	QoQ (%)	Q3 FY23	YoY (%)	FY22*	FY23*	FY24E*	FY25E*	FY26E*
Revenues	58	59	(1.7)	59	(1.1)	300	410	376	425	516
EBITDA	21	25	(15.4)	29	(26.2)	105	153	123	134	155
APAT	16	3	387.0	17	(9.3)	56	87	64	76	86
AEPS (INR)	14.6	3.0	387.0	16.1	(9.3)	51.8	80.5	58.8	69.6	79.6
P/E (x)						9.6	6.2	8.5	7.2	6.3
EV/EBITDA (x)						6.8	4.8	6.1	5.5	4.6
RoE (%)						20.7	25.3	15.5	15.8	15.2

Source: Company, HSIE Research | *Consolidated

ADD

CMP (as on 14 Feb 2024)	INR 499
Target Price	INR 530
NIFTY	21,840

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 320	INR 530
	FY24E	FY25E
EPS change	+6.0%	+10.5%

KEY STOCK DATA

Bloomberg code	OINL IN
No. of Shares (mn)	1,084
MCap (INR bn) / (\$ mn)	541/6,613
6m avg traded value (INR mn)	1,464
52 Week high / low	INR 525/238

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	58.7	78.5	93.5
Relative (%)	48.1	68.7	75.8

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	56.66	56.66
FIs & Local MFs	15.89	15.97
FPIs	11.26	11.00
Public & Others	16.19	16.38
Pledged Shares	0.00	0.00

Source : BSE

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Petronet LNG

Volumes improve

Our REDUCE recommendation on Petronet LNG (PLNG) with a TP of INR 236 is based on: (1) limited visibility of near-term earnings growth, (2) an increased capex outlook, and (3) subdued return ratios resulting from a high capex cycle anticipated over the next five years. In Q3, the reported EBITDA stood at INR 17.1bn (+2% YoY, +40% QoQ) while PAT came in at INR 11.9bn (+1% YoY, +46% QoQ), surpassing our estimates. This outperformance is attributed to the company recognising Use or Pay charges for CY23 in other operating income, arising from lower capacity utilisation by its customers. Volumes were at 232tbtu (+39% YoY, +4% QoQ), broadly aligning with expectations.

- Financial performance:** The reported EBITDA/PAT, standing at INR 17.1/11.9bn, exceeded our estimate. The beat was on account of Use or Pay charges amounting to INR 6.1bn for CY23 recognised in the P&L, attributed to reduced utilisation by its customers. Adjusting for the Use or Pay charges and a provision of INR 2.3bn for receivables of Use or Pay charges for CY21 and CY22, the adj. EBITDA/PAT was at INR 13.2/8.1bn, +60%/+2.4x YoY, falling below our estimate. An inventory gain of INR 1.5bn, a trading gain of INR 400mn and higher marketing margins of USD 7.6/mmbtu supported earnings. Other expenses stood at INR 3.7bn (+87% YoY, +2x QoQ). Other income came in at INR 1.6bn (-15% YoY, flat QoQ) while interest costs were INR 697mn (-14% YoY, -7 QoQ).
- Terminal-wise Q3 performance:** Utilisation at Dahej terminal was at 97.7% while that at Kochi was at 22%. Volumes at Dahej and Kochi were 218tbtu and 14tbtu, with total volume at 232tbtu (+39% YoY, +4% QoQ).
- Con call takeaways:** (1) PLNG has given its customers three years ending CY24 and CY25 to settle the Use or Pay charges of INR 4,480mn and INR 8,489mn for CY21 and CY22 respectively, either by bringing in additional volumes over and above the contracted volume or by encashing their bank guarantees. (2) The company's ongoing projects are progressing well, as planned; the Dahej expansion from 17.5mtpa to 22.5mtpa is expected to be completed by Mar 2025. (3) An agreement is signed for the Floating Storage Regasification Unit (FSRU); the company may opt for a land-based terminal in case of unavailability of an FSRU. (4) Negotiations are on for the renewal of the long-term LNG contract with Qatar; this remains a key monitorable.
- Change in estimates:** We have increased our FY24/25/26 EPS estimates by 24/12.7/2% to INR 22.4/22.4/23.9 per share to factor in 9M performance, higher volumes, higher marketing margins and recognition of Use or Pay charges from the customers, delivering a revised target price of INR 236/sh.
- DCF valuation:** Our TP of INR 236 is based on the Mar-25E cash flow (WACC 12%, terminal growth rate 3%). The stock is trading at 11.9x Mar-25E EPS.

Financial summary

YE March (INR bn)	Q3 FY24	Q2 FY24	QoQ (%)	Q3 FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	147	125	17.7	158	(6.5)	432	599	548	579	632
EBITDA	17	12	40.4	17	1.8	53	49	51	53	57
APAT	12	8	45.5	12	0.9	34	32	34	34	36
AEPS (INR)	7.9	5.5	45.5	7.9	0.9	22.3	21.6	22.4	22.4	23.9
P/E (x)						12.0	12.4	11.9	11.9	11.2
EV/EBITDA (x)						7.3	7.5	7.0	6.9	6.9
RoE (%)						26.7	22.8	21.8	20.4	20.5

Source: Company, HSIE Research

REDUCE

CMP (as on 30 Jan 2024)	INR 268
Target Price	INR 236
NIFTY	21,522

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 208	INR 236
	FY24E	FY25E
EPS change	+24%	+12.7%

KEY STOCK DATA

Bloomberg code	PLNG IN
No. of Shares (mn)	1,500
MCap (INR bn) / (\$ mn)	401/4,907
6m avg traded value (INR mn)	1,138
52 Week high / low	INR 285/187

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	37.5	21.0	26.3
Relative (%)	26.5	13.4	6.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	50.00	50.00
FIs & Local MFs	5.93	10.96
FPIs	33.31	26.83
Public & Others	10.76	12.22
Pledged Shares	0.00	0.00

Source: BSE

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Gujarat Gas

Margin weakness persists

Our ADD recommendation on Gujarat Gas (GGL), with a price target of INR 600/sh, is premised on (1) volume growth of only ~10% CAGR over FY24-26E compared to ~18% volume growth seen over FY19-22 and (2) increased pricing competition from alternate fuel in the industrial/commercial segment. Q3FY24 EBITDA/PAT at INR 4/2.2bn came in below our estimates, owing to lower-than-expected volumes and per unit EBITDA margin. Volume stood at 9.16mmscmd (+26% YoY, -2% QoQ).

- Volumes:** Blended volume in Q3 stood at 9.16mmscmd (+26% YoY, -2% QoQ), coming in below the estimate. CNG volume came in at 2.78mmscmd growing by +14% YoY and +6% QoQ, while industrial volume came in at 5.53mmscmd (+37% YoY, -6% QoQ). Domestic PNG volume stood at 0.71mmscmd (+6% YoY, +1% QoQ). Commercial PNG volume stood at 0.14mmscmd (flat YoY, flat QoQ). Volumes grew on a YoY basis supported by an improvement in the industrial and CNG volumes; however, on a QoQ basis, industrial volumes declined due to a QoQ increase in gas cost. We estimate volumes at 9.3/10.3/11.3mmscmd for FY24/25/26E.
- Margin:** Per-unit gross spread, at INR 8.4/scm (-34% YoY, -9% QoQ), and EBITDA margin at INR 4.8/scm (-45% YoY, -18% QoQ) came in below our estimate, owing to lower-than-expected realisation of INR 46.6/scm (-15% YoY, +4% QoQ) and higher-than-expected gas cost of INR 38.2/scm (-9% YoY, +7% QoQ). EBITDA margin was also impacted by higher-than-expected opex of INR 3.6/scm (-11% YoY, +5% QoQ). We estimate GGL's per unit EBITDA margins at INR 5.2/6.2/7 per scm over FY24/25/26E.
- Key takeaways:** (1) Management has maintained its per-unit EBITDA margin guidance of INR 4.5-5.5/scm over the long term and volume growth of 10% CAGR over FY24-26E. (2) GGL expects CNG segment volumes to grow at 15% CAGR over FY24-26E; the company expects the domestic PNG, industrial (non-Morbi) and commercial segments to also contribute towards its volume growth target. (3) GGL has guided a capex of INR 9-10bn for FY24/25/26 of which ~60% is earmarked for the new geographical areas. (4) GGL has introduced the FDODO (Full Dealer Owned Dealer Operated) scheme to fast-track the development of CNG station infrastructure; the company plans to add over 200 CNG stations under this scheme over the next 2-3 years.
- Change in estimates:** We cut our EPS estimates for FY24 by -8.1% to INR 14.9/sh to factor 9M performance. However, we raise FY25/26E EPS by 8.9/6.7% to INR 21.5/27.2, to factor in higher volumes, delivering a revised DCF-based target price of INR 600/sh.
- DCF-based valuation:** Our target price of INR 600/sh is based on Mar-25E free cash flow (WACC 11%, terminal growth rate 3%). The stock is currently trading at 27.1x Mar-25E EPS.

Standalone financial summary

YE March (INR bn)	Q3 FY24	Q2 FY24	QoQ (%)	Q3 FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	39	38	2.2	37	6.6	165	168	160	189	209
EBITDA	4	5	(19.3)	6	(31.2)	21	24	18	23	29
APAT	2	3	(26.0)	4	(40.7)	13	15	10	15	19
AEPS (INR)	3.2	4.3	(26.0)	5.4	(40.7)	18.5	22.2	14.9	21.5	27.2
P/E (x)						31.3	26.2	38.9	27.1	21.4
EV / EBITDA (x)						19.5	16.4	22.1	16.4	12.9
RoE (%)						25.4	24.2	13.9	17.9	19.8

Source: Company, HSIE Research

ADD

CMP (as on 15 Feb 2024)	INR 581
Target Price	INR 600
NIFTY	21,911

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 453	INR 600
	FY24E	FY25E
EPS change %	-8.1%	+8.9%

KEY STOCK DATA

Bloomberg code	GUJGA IN
No. of Shares (mn)	688
MCap (INR bn) / (\$ mn)	400/4,889
6m avg traded value (INR mn)	685
52 Week high / low	INR 621/397

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	37.7	27.2	20.2
Relative (%)	28.0	17.0	2.6

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	60.89	60.89
FIs & Local MFs	13.09	13.99
FPIs	3.80	3.34
Public & Others	22.21	21.78
Pledged Shares	0.0	0.0

Source : BSE

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Indraprastha Gas

Margin blip; outlook positive

We maintain our BUY recommendation on Indraprastha Gas (IGL) with a target price of INR 490, given (1) strong volume growth of ~11% CAGR over FY24-26E, (2) healthy margins supported by higher allocation of gas from the high-pressure, high-temperature (HPHT) fields to the priority sector, and (3) a strong portfolio of new geographical areas (GAs) ensuring volume growth visibility. Q3FY24 EBITDA/APAT at INR 5.6/3.9bn were up 32/41% YoY respectively but below our estimates, owing to lower-than-expected margins, partially offset by the higher-than-expected volume of 8.5mmscmd (+4% YoY; +2% QoQ).

- Volumes:** Blended volume stood at 8.5mmscmd (+4% YoY, +2% QoQ). CNG volume stood at 6.33mmscmd (+4% YoY, +1% QoQ), domestic PNG at 0.62mmscmd (+11% YoY, +7% QoQ), industrial/commercial at 1.04mmscmd (+4% YoY, +6% QoQ) and trading volume at 0.5mmscmd (+0.5% YoY, -0.3% QoQ). Overall, PNG volume was at 2.15mmscmd (+5% YoY, +5% QoQ). We expect infrastructure expansion in existing and new areas to support our volume growth estimate of ~11% CAGR over FY24-26E. We estimate a volume of 8.4/9.4/10.4mmscmd for FY24/25/26E.
- Margins:** Per-unit gross margin came in at INR 12.9/scm (+14% YoY, -8% QoQ) and per-unit EBITDA margin came in at INR 7.2/scm (+26% YoY, -16% QoQ), below our estimate due to lower allocation (~78% of total priority demand) of Administered Pricing Mechanism (APM) gas. This shortfall was met through expensive HPHT and contracted term gas, resulting in an increase in gas cost to INR 32.6/scm (+5% QoQ). Opex at INR 5.7/scm (+2% YoY, +4% QoQ), too, came above the estimate. Realisation stood at INR 45.6/scm (-8% YoY, +1% QoQ). We estimate a per unit EBITDA margin of INR 8/7.8/7.8 per scm for FY24/25/26E.
- Key takeaways:** (1) IGL will focus on converting commercial trucks and dumpers to CNG to reduce the impact of EV policy in Delhi/NCR. (2) The company is also focusing on expanding its infrastructure in its new GAs. (3) Management has maintained its guidance of exit volume rate of ~9/10mmscmd by Q4FY24/FY25. (4) 9M capex was at INR 8.6bn; FY25 capex guidance is INR 14-15bn. (5) Management is expecting all 3,200 DTC buses to convert to EV by FY25; 40% of the buses have already been converted.
- Change in estimates:** Our consolidated EPS for FY24/25/26 is cut by 3.4/4.7/6.1% to INR 28.3/30.6/33.9 to factor higher lower per unit EBITDA margins, partially offset by higher volume. We have cut our target price to INR 490/sh to factor in the 9MFY24 performance.

DCF-based valuation: Our target price is INR 490 (WACC 12%, terminal growth rate 1%). The stock is trading at 13.7x Mar-25E EPS.

Standalone financial summary

YE March (INR bn)	Q3 FY24	Q2 FY24	QoQ (%)	Q3 FY23	YoY (%)	FY22*	FY23*	FY24E*	FY25E*	FY26E*
Revenues	35.6	34.6	2.8	37.1	-4.2	77.1	141.5	110.7	123.0	136.6
EBITDA	5.6	6.6	-14.1	4.3	31.7	18.8	20.4	24.6	26.7	29.4
APAT	3.9	5.3	-26.7	2.8	40.9	12.8	13.9	17.6	19.0	21.0
AEPS (INR)	5.6	7.6	-26.7	4.0	40.9	21.5	23.4	28.3	30.6	33.9
P/E (x)						19.5	17.9	14.8	13.7	12.4
EV/EBITDA (x)						14.9	13.1	10.6	9.4	7.9
RoE (%)						21.6	21.1	22.7	20.5	19.3

Source: Company, HSIE Research | *Consolidated

BUY

CMP (as on 29 Jan 2024)	INR 419
Target Price	INR 490
NIFTY	21,738

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 500	INR 490
EPS change	FY24E -3.4%	FY25E -4.7%

KEY STOCK DATA

Bloomberg code	IGL IN
No. of Shares (mn)	700
MCap (INR bn) / (\$ mn)	293/3,587
6m avg traded value (INR mn)	978
52 Week high / low	INR 516/376

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.7	(9.3)	0.3
Relative (%)	(4.3)	(17.1)	(19.2)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	45.00	45.00
FIs & Local MFs	26.24	27.74
FPIs	20.94	17.90
Public & Others	7.82	9.36
Pledged Shares	0.00	0.00

Source: BSE

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Gujarat State Petronet

Higher tariff offsets volume weakness

Our ADD rating on Gujarat State Petronet with a TP of INR 400/sh is premised on (1) volume growth of ~7% CAGR over FY24-26E and (2) limited upside triggers in the near term. Hence, we believe that, at present, the stock is fairly valued with a RoE of 17.1/16.3/15.7% in FY24/25/26E and a combined FCF of INR 42bn over FY24-26E.

- View on the result:** Q3FY24 EBITDA at INR 3.8bn (+41% YoY, -7% QoQ) and APAT at INR 2.6bn (+53% YoY, -51% QoQ) came in below our estimates, owing to lower-than-expected volumes and higher other expenses of INR 1.4bn (+29% YoY, +35% QoQ), partially offset by marginally higher-than-expected tariffs and higher-than-expected other income of INR 211mn (+62% YoY, -92% QoQ).
- Volume:** Gas transmission volume in Q3 stood at 29mmscmd (+30% YoY, -4% QoQ), coming in below our estimate. Volumes were impacted mainly by lower offtake from the power sector. Volume break-up in mmscmd was: refinery 6.4, power 2.5, CGD 10.9, fertilizers 4.7 and others 4.6.
- Tariffs:** Calculated blended transmission tariff for the quarter stood at INR 1,628/tscm (-3% YoY, +2.5% QoQ), coming in above our estimate.
- Change in estimates:** We increase our consolidated earnings for FY24/25/26E by 3/7.1/6.1% to INR 31.4/35.3/39.9 per sh to factor in higher transmission tariff for GSPL's standalone business and increase in Gujarat Gas' earnings estimates. In addition to this, our revised target price of INR 400/sh also factors in higher investment value in Gujarat Gas.
- DCF-based valuation:** We value the transmission business using discounted cash flow (DCF) at INR 159/sh. To this, we add INR 241/sh as the value of its investments in Gujarat Gas, Sabarmati Gas, etc., to arrive at a target price of INR 400/sh. The stock is trading at 10.6x Mar-25E PER.

Standalone financial summary

YE March (INR bn)	Q3 FY24	Q2 FY24	QoQ (%)	Q3 FY23	YoY (%)	FY22*	FY23*	FY24E*	FY25E*	FY26E*
Revenue	5.5	5.3	4.7	4.0	37.7	180	181	182	211	232
EBITDA	3.8	4.1	(7.5)	2.7	40.6	35	37	35	41	47
APAT	2.6	5.3	(50.7)	1.7	53.4	17	16	18	20	23
AEPS (INR)	4.6	9.4	(50.7)	3.0	53.4	29.4	29.1	31.4	35.3	39.9
P/E (x)						12.7	12.8	11.9	10.6	9.4
EV / EBITDA (x)						6.9	6.2	6.3	5.1	4.1
RoE (%)						23.2	18.9	17.1	16.3	15.7

Source: Company, HSIE Research | *Consolidated

Change in estimates

	FY24E			FY25E			FY26E		
	Old	New	Ch%	Old	New	Ch%	Old	New	Ch%
EPS (INR/sh)	30.4	31.4	3.0	33.0	35.3	7.1	37.6	39.9	6.1

Source: Company, HSIE Research

ADD

CMP (as on 15 Feb 2024)	INR 374
Target Price	INR 400
NIFTY	21,911

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 315	INR 400
EPS change %	FY24E +3.0%	FY25E +7.1%

KEY STOCK DATA

Bloomberg code	GUJS IN
No. of Shares (mn)	564
MCap (INR bn) / (\$ mn)	211/2,578
6m avg traded value (INR mn)	447
52 Week high / low	INR 407/255

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	33.5	36.8	38.7
Relative (%)	23.8	26.6	21.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	37.63	37.63
FIs & Local MFs	25.17	24.76
FPIs	16.01	16.03
Public & Others	21.19	21.58
Pledged Shares	0.0	0.0

Source: BSE

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Mahanagar Gas

Volume growth improves

Our BUY recommendation on Mahanagar Gas (MGL) with a target price of INR 1,550 is premised on (1) a pick-up in volume growth, (2) robust margin, and (3) attractive valuation. Q3FY24 EBITDA, at INR 4.5bn (+75% YoY, -6% QoQ), and APAT at INR 3.2bn (+84% YoY, -6% QoQ), came well above our estimates, owing to higher-than-expected volumes and per unit EBITDA margins.

- Highest-ever volumes:** MGL reported the highest-ever quarterly volume of 3.67mmscmd, (+7.6% YoY, +2.7% QoQ), above our estimate. CNG volume came in higher than expected at 2.63mmscmd (+6.4% YoY +1.9% QoQ). PNG segment volume came in at 1.04mmscmd, (+10.8% YoY, +4.7% QoQ), driven by strong industrial and commercial segment volume of 0.51mmscmd (+15.9% YoY, +1.5% QoQ). Domestic PNG volume was at 0.53mmscmd (+6.3% YoY, +8% QoQ). We estimate MGL's volumes at 3.6/3.9/4.2mmscmd for FY24/25/26E.
- Robust margins:** The gross spread, at INR 19.1/scm, improved by INR 5.4/scm YoY; however, it declined by INR 1.3/scm QoQ owing to decline in realisation due to a CNG retail price cut of INR 3/kg taken in October. EBITDA/scm continued to remain robust at INR 13.3/scm vs INR 8.2/scm YoY; however, it declined by INR 1.3/scm QoQ owing to lower QoQ realisation. Gas cost remained largely flat QoQ at INR 27.3/scm. Opex stood at INR 5.8/scm (+5% YoY, -0.5% QoQ). Given the favourable gas sourcing mix and pricing power, we factor robust EBITDA margins of INR 14/13.3/13.3 per scm for FY24/25/26E.
- Earnings call takeaways:** (1) In Q3, MGL reported the highest quarterly volume growth seen over the last five quarters, driven by growth in the CNG and industrial and commercial (I&C) segments. Acquisition of new customers in the I&C segment and the addition of new MSRTC buses over the next few months should support volume growth for the company. (2) As of Q3, the company operates 320 CNG stations; it also added 98 new industrial/commercial PNG customers in Q3, taking the count to 4,691. 1,18,215 new domestic households (HH) were connected in Q3. (3) In Raigad, the company has ~75,432 HH connections, 32 operational CNG stations and has laid ~404km of pipeline connectivity. (4) Vehicle conversions to CNG in Q3 improved to ~22,000 vehicles, driven by promotional activities undertaken in Q3. (5) The company has incurred a Capex of ~INR 5bn in 9M and has guided for a Capex of INR 7.5bn for FY24. (5) UEPL transaction to be completed by Q4FY24.
- Change in estimates:** We increase our FY24/25/26 EPS estimates by +9.8/+9.7/+9.8% to INR 126.1/128.5/138.3, to account for higher EBITDA margin and other income, delivering a revised target price of INR 1,550/sh.
- DCF-based valuation:** Our target price of INR 1,550/sh is based on Mar-25E free cash flow (WACC 12%, terminal growth rate 1%). The stock is currently trading at 10.5x Mar-25E EPS.

Financial Summary

YE March (INR bn)	Q3 FY24	Q2 FY24	QoQ (%)	Q3 FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	16	16	(0.1)	17	(6.1)	36	63	55	59	66
EBITDA	4	5	(6.3)	3	75.2	9	12	18	19	20
APAT	3	3	(6.3)	2	84.3	6	8	12	13	14
AEPS (INR)	32.1	34.3	(6.3)	17.4	84.3	60.4	80.0	126.1	128.5	138.3
P/E (x)						22.3	16.8	10.7	10.5	9.7
EV / EBITDA (x)						12.7	9.9	6.3	5.9	5.1
RoE (%)						17.5	20.4	27.6	24.1	22.6

Source: Company, HSIE Research

BUY

CMP (as on 24 Jan 2024) INR 1,346

Target Price INR 1,550

NIFTY 21,454

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,535	INR 1,550
	FY24E	FY25E
EPS %	+9.8%	+9.7%

KEY STOCK DATA

Bloomberg code	MAHGL IN
No. of Shares (mn)	99
MCap (INR bn) / (\$ mn)	133/1,626
6m avg traded value (INR mn)	660
52 Week high / low	INR 1,354/831

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	32.1	28.3	54.1
Relative (%)	22.1	21.3	37.6

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	32.50	32.50
FIs & Local MFs	16.10	17.23
FPIs	30.51	30.85
Public & Others	20.89	19.42
Pledged Shares	0.0	0.0

Source : BSE

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IRM Energy

Outlook remains robust

Our BUY recommendation on IRM Energy (IRM) with a target price of INR 665/sh is premised on (1) a ~40% CAGR volume growth over FY24-26E and (2) robust margins. In Q3FY24, EBITDA stood at INR 422mn (+15% YoY, +1% QoQ), broadly in line, while consolidated PAT totalled INR 238mn (+20% YoY, -9% QoQ), below our estimates due to higher-than-expected depreciation and interest costs, partially offset by higher other income. Volume at 0.55mmscmd (-1% YoY, +7% QoQ) surpassed our estimate.

- Volume:** IRM's volume at 0.55mmscmd (-1% YoY, +7% QoQ) came in above our estimate. CNG volume stood at 0.29mmscmd (+31% YoY +9% QoQ), domestic PNG segment volume was at 0.02mmscmd, (+50% YoY, +39% QoQ), and industrial and commercial segment volume was at 0.2mmscmd (-37% YoY, -6% QoQ). Trading volume came in at 0.04mmscmd (+9x YoY, +77% QoQ). We expect IRM to maintain its CGD network expansion, which should support our projected ~40% CAGR volume growth from FY24-26E owing to (i) an anticipated rise in the number of CNG vehicles due to favourable economics and rapid expansion of the CNG retail network and (ii) expectation of an increased demand from industrial consumers in Mandi Gobindgarh in Fatehgarh Sahib and Namakkal and Tiruchirappalli (N&T) in Tamil Nadu. Our volume estimates for FY24/25/26E stand at 0.53/0.80/1.03mmscmd.
- Resilient margins despite APM shortfall:** The gross spread, at INR 12.4/scm, improved by INR 3/scm YoY; however, it declined INR 0.85/scm QoQ owing to INR 1.7/scm QoQ decline in realisation to INR 45/scm compared to only INR 0.9/scm QoQ decline in gas cost at INR 32.5/scm. We also note that despite a decline in the allocation of Administered Pricing Mechanism gas to CNG and DPNG segments in November and December 2023, IRM's gas cost decreased QoQ due to its favourable gas sourcing mix. EBITDA/scm came in at INR 8.4/scm (+15% YoY, -6% QoQ), below our estimate; however, it was supported by lower opex of INR 4.1/scm (-1% YoY, -8% QoQ). Given higher pricing power and a favourable gas sourcing mix, we factor EBITDA margins of INR 8.8/9.2/9 per scm for FY24/25/26E.
- Key highlights:** (1) IRM prepaid borrowings of INR 1.35bn, so outstanding borrowings declined to INR 1.8bn from INR 3.3bn at the end of Q2FY24 (-45% QoQ). (2) It achieved the highest-ever quarterly average CNG volume of 0.29mmscmd in Q3. (3) In 9MFY24, the company added 12,305 domestic household connections, 52 commercial customers, six industrial customers and 12 CNG stations (of which seven stations were added in N&T GA).
- Change in estimates:** We cut our FY24/25/26 EPS estimates by 9.7/4.3/6.1% to INR 25.7/43.4/55.1, factoring in lower volume and EBITDA margin (considering the 9M performance). While we reduce our medium-term volume growth, we marginally increase our long-term per unit EBITDA margin estimate and increase terminal growth to 2% (from 1% earlier), delivering a revised target price of INR 665/sh.
- DCF-based valuation:** Our target price of INR 665/sh is based on Mar-25E free cash flow (WACC 13.3%, terminal growth rate 2%). The stock is currently trading at 13.4x Mar-25E EPS.

Consolidated financial summary

YE March (INR mn)	Q3 FY24	Q2 FY24	QoQ (%)	Q3 FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,261	2,201	2.7	2,661	(15.0)	5,071	9,801	9,023	14,124	19,263
EBITDA	422	420	0.7	368	14.7	1,864	1,122	1,684	2,702	3,372
APAT	238	260	(8.6)	198	19.8	1,280	631	1,054	1,783	2,261
AEPS (INR)	5.8	6.3	(8.6)	4.8	19.8	31.2	15.4	25.7	43.4	55.1
P/E (x)						18.6	37.7	22.6	13.4	10.5
EV / EBITDA (x)						13.3	22.6	12.8	8.0	6.2
RoE (%)						70.9	21.4	16.1	17.0	18.2

Source: Company, HSIE Research

BUY

CMP (as on 09 Feb 2024)	INR 580
Target Price	INR 665
NIFTY	21,783

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 580	INR 665
	FY24E	FY25E
EPS %	-9.7%	-4.3%

KEY STOCK DATA

Bloomberg code	IRMENERG IN
No. of Shares (mn)	41
MCap (INR bn) / (\$ mn)	24/291
6m avg traded value (INR mn)	-
52 Week high / low	INR 615/435

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.0	-	-
Relative (%)	15.5	-	-

SHAREHOLDING PATTERN (%)

	23 Oct-23	Dec-23
Promoters	50.07	50.07
FIs & Local MFs	11.77	12.64
FPIs	1.28	0.50
Public & Others	36.88	36.78
Pledged Shares	0.0	0.0

Source : BSE

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Pharma

Sun Pharmaceutical Industries

Steady Q3; growth visibility in specialty and India intact

EBITDA growth (+11% YoY) was led by 10% YoY sales growth (US: +11% QoQ; global specialty: +26% YoY; India: +11% YoY, RoW: +14% YoY) and higher gross margin (+284 bps) was partly offset by higher staff/R&D/SG&A (+16/26/13% YoY). SUNP continues to invest in specialty businesses to scale up this business. The prescription trend for key products (Ilumya, Cequa, and Winlevi) was strong and it expects to sustain specialty sales rate. It expects its India business to outperform IPM growth over the next few years. It has reduced debt by ~USD 640 mn in 9M'23; net cash is at USD 2.3 bn (ex-Taro at USD 990 mn) and the focus is on M&A. We have marginally tweaked estimates. We raise our TP to INR 1,650 based on 31x Dec'25E EPS (vs. INR 1,600 at 30x earlier). Maintain BUY, given growth drivers like —(1) specialty scale-up (traction in Ilumya, Winlevi, Cequa; launch of Concert's Deuruxolitinib–PDUFA date in Jul'24), (2) traction in US generics (new launches), (3) India (MR addition, new launches, in-licensing), and (4) steady margin—are intact.

- Q3 highlights—revenue growth led by US and India:** Revenue growth of 10% YoY to INR 123.8 bn was led by +11% QoQ growth in the US to USD 477 mn (+13% YoY). Global specialty sales are up 26% YoY at USD 296 mn (+23% QoQ) including USD 20 mn milestone (in RoW; ex-milestone grew 24% YoY). Taro US was up 6% QoQ to USD 103 mn (assuming 65% of Taro's sales). India business grew 11% YoY to INR 37.78 bn. While RoW grew 14% YoY, EMs were flat. API declined 10% YoY.
- EBITDA growth on higher GM:** Gross margin was up 284 bps YoY to 77.9%. Higher staff/R&D/SG&A (+16/26/13% YoY) led to 11% YoY growth in EBITDA to INR 33.5 bn and margin came in at 27.1% (+33 bps YoY). Higher other income (+44%) led to a reported PAT of INR 25.2 bn (+17% YoY). PAT adjusted for forex and one-off (~INR 698 mn for gLipitor settlement) was at INR 24.7 bn (+20% YoY).
- Key takeaways from con call:** In Q3, specialty growth was led by traction in Ilumya, Cequa, and Levulan, the prescription trend remains strong, and specialty R&D was at ~39% of total R&D. SUNP's investment focus remains on scaling up its key specialty products. No major impact on the market/volume share of Ilumya from the competition coming from bHumira. The company expects the EMA filing of Nidlegly (for the Europe market) in H2FY24. Some delays in a few R&D assets like the initiation of Phase 3 for MM-II (pain in osteoarthritis) and Phase 2 for GL0034 (type-2 diabetes) from early CY24 to H2CY24. In our view, the US (ex-Taro/specialty) was flat QoQ due to plant issues (Halol and Mohali); no major contribution from gRevlimid; in Q3FY23, launched 3 products in the US. It expects India business to outpace IPM (focus on new launches/in-licensing). Capital allocation—focus on M&A and dividend payout. It expects R&D spend to be at the lower end of guidance of 7-8% in FY24 (9M'23 was at ~6.2% of sales).
- Outlook and valuation:** We expect SUNP to see steady growth, led by scale-up in specialty and stable growth in India. Margin to remain at 27-28% despite higher R&D. Strong balance sheet enables its M&A activity (strong track record of M&A execution). Maintain BUY with revised TP of INR 1,650, based on a 31x Dec'25E.

Quarterly financial summary

(INR mn)	3Q FY24	3Q FY23	YoY (%)	2Q FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	1,23,807	1,12,410	10	1,21,924	2	3,86,545	4,38,857	4,87,661	5,45,817	6,08,445
EBITDA	33,523	30,069	11	32,135	4	1,02,438	1,17,729	1,32,644	1,51,191	1,69,756
APAT	24,769	20,691	20	24,048	3	76,048	86,481	96,480	1,14,965	1,31,918
EPS (INR)	10.3	8.6	20	10.0	3	31.7	36.0	40.2	47.9	55.0
P/E (x)						44.7	39.3	35.3	29.6	25.8
EV/EBITDA (x)						32.4	28.5	24.8	21.3	18.5
RoCE (%)						17	16	17	19	19

Source: Company, HSIE Research, PAT adjusted for one-offs

BUY

CMP (as on 31 Jan 2024) INR 1,418

Target Price INR 1,650

NIFTY 21,726

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1600	INR 1650
EPS %	FY25E (0.2)	FY26E (0.2)

KEY STOCK DATA

Bloomberg code	SUNP IN
No. of Shares (mn)	2,399
MCap (INR bn) / (\$ mn)	3,403/41,614
6m avg traded value (INR mn)	2,478
52 Week high / low	INR 1,439/922

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	30.3	24.1	37.1
Relative (%)	18.0	16.2	16.6

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	54.48	54.48
FIs & Local MFs	19.67	19.52
FPIs	16.79	17.07
Public & Others	9.06	8.93
Pledged Shares	1.33	2.44

Source: BSE

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Dr Reddy's Laboratories

Muted EBITDA; base business pressure to stay

EBITDA was muted (+4% YoY) as +7% YoY sales growth (+6% QoQ US, +16% YoY in EU, and +16% YoY in RoW; +5% YoY in India) was offset by lower gross margin (-59 bps YoY; price erosion in key products and adverse mix) and higher costs (staff/R&D up 9%/15% YoY). DRRD expects to sustain growth in the US over the next few years (gRevlimid to be a meaningful contributor for the next two years); price erosion was stable in Q3. The company expects India formulation to see double-digit growth in FY25. Its R&D focus is on long-term differentiated assets for the global markets (NCEs, biosimilars, OTC, peptides, specialty, etc.); their monetization can take 2-3 years. Factoring Q3, we have marginally tweaked estimates. We believe the gRevlimid opportunity will play out, but we are cautious about base business performance, given intense competition and escalating costs (especially R&D). We have a REDUCE rating with a TP of INR 5,650 (24x Dec'25E of a core EPS + INR 150/ share from gRevlimid).

- Q3 highlights—US-led sales growth:** Sales grew 7% YoY to INR 72.37 bn as the US (~46% of sales) grew by 6% QoQ to USD 403 mn (+9% YoY), led by market share gains in a few products, launches, and volume growth in the base business but partly offset by price erosion. India (~16%) grew 5% YoY to INR 11.8 bn as traction from new launches was offset by lower base business volume. EM (~18%) sales were down 2% YoY as 16% YoY growth in RoW markets was offset by a 14% YoY decline in Russia and a muted CIS (+5% YoY). Revenue from the EU (~7%) grew 16% YoY, led by product launches. PSAI (~11) sales were flat at (1%) YoY.
- Muted EBITDA on lower GM and steady costs:** Gross margin was lower at 69.9% (-59 bps YoY) due to price erosion in key products and a weak product mix. Higher staff and R&D costs (+9% and +15% YoY) were partially offset by muted SG&A (+1% YoY) leading to an EBITDA of INR 20.3 bn (+4% YoY) and a margin of 28.1% (-64 bps YoY). Higher other income (+268% YoY) and lower interest cost (-6%), partly offset by higher depreciation (+15%), led to a PAT of INR 13.8 bn (+11% YoY). Core PAT (adjusted for one-offs) was flat YoY/QoQ at INR 13.02 bn.
- Key takeaways from con call:** DRRD expects to sustain growth momentum in the US business (gRevlimid traction to sustain for the next two years). It has identified ~26 product launches for the next 3-5 years. It expects the filing rate to improve; further, it expects 20+ launches in FY24 (12 in 9MFY24) and a similar launch rate to continue. It expects double-digit growth in India for FY25, led by in-licensing/partnership, traction in existing portfolio, and focus on scaling specific brands that hold potential for faster-than-market growth. R&D costs increased due to investments toward long-term differentiated assets for global markets. GLP-1 development is ongoing – launch across key markets on patent expiry. Also, there is a focus on other complex peptide assets. The company expects to launch six biosimilars by FY30 (the first by CY27). It expects ETR at 24-25% in FY24. It has received nine approvals in China in 9M'24 (three in Q3).
- Outlook and valuation:** While DRRD is on track to achieve its 25% EBITDA margin/RoCE target in the near term, we are cautious about its core earnings, given the increasing costs and intense competition in its key products in the US. We have a REDUCE rating and a target price of INR 5,650.

Quarterly financial summary

(INR mn)	3Q	3Q YoY (%)	2Q	2Q QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E	
Net Revenue	72,368	67,898	7	69,026	5	2,15,452	2,46,697	2,79,460	2,91,210	3,08,006
EBITDA	20,341	19,519	4	20,138	1	46,981	64,189	79,646	76,879	75,769
APAT	13,025	12,963	0	12,868	1	24,214	35,229	53,370	48,118	47,426
EPS (INR)	78.2	77.8	0	77.2	1	145.2	211.2	320.0	288.5	284.3
P/E (x)						40.3	27.7	18.3	20.3	20.6
EV/EBITDA (x)						20.5	14.4	11.3	11.3	11.0
RoCE (%)						18	26	27	20	18

Source: Company, HSIE Research, PAT adjusted for one-offs

REDUCE

CMP (as on 30 Jan 2024) INR 5,841

Target Price INR 5,650

NIFTY 21,522

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 5650	INR 5650
	FY25E	FY26E
EPS %	(0.1)	0.0

KEY STOCK DATA

Bloomberg code	DRRD IN
No. of Shares (mn)	167
MCap (INR bn) / (\$ mn)	974/11,913
6m avg traded value (INR mn)	2,638
52 Week high / low	INR 5,990/4,281

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.3	4.6	34.9
Relative (%)	(1.7)	(2.9)	15.4

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	26.66	26.65
FIs & Local MFs	21.04	18.65
FPIs	42.21	43.96
Public & Others	10.09	10.74
Pledged Shares	-	-

Source: BSE

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Zydus Lifesciences

Steady Q3; US/India growth and margin visibility stay

EBITDA growth (+28% YoY*) was led by steady sales growth (muted QoQ sales in the US were offset by strong growth in India at +16% YoY and EM at +31%), higher GM (+288 bps YoY), and lower SG&A/R&D (-5/-8% YoY). ZYDUS expects double-digit revenue growth (+13% YoY in 9M'24) and margin at ~27% (includes forex) in FY24. It sees margin sustaining at 24+% in FY25 (if there is no competition in gAsacol HD). It expects the US business to sustain growth, led by new launches, traction in gRevlimid (but to be episodic), launch visibility of 1-2 meaningful products over per year for the next 3-5 years, scale-up in injectables/transdermal and specialty business (launched NDA Zituvia and ramp-up in LiqMed). It expects to sustain a gross margin of 66-67% in the near term. It expects steady growth in India, led by traction in key therapies and innovative portfolio and MR addition (to add 700 in FY24). We raise our EPS by ~5% for FY25/26E on improving margin visibility and revise TP to INR 930 (25x Dec'25E) vs. INR 850 (24x Dec'25E). We maintain BUY due to steady US/India growth and margin visibility. Its R&D assets (injectables, biosimilar, NCE) are an option value in the medium-to-long term.

- Q3 highlights—steady revenue growth:** Revenue grew 6% YoY to INR 45.05 bn (+3% QoQ) as US sales (33% of sales) were flat QoQ to USD 221 mn due to off-take in new launches, but it was offset by 16% YoY growth in India (33% of sales) to INR 14.2 bn, led by traction in key therapies/innovative portfolio and volume growth. Wellness (9%) declined 4% YoY. EMs/EU (11%) grew 31% YoY.
- EBITDA led by steady sales and costs:** GM increased 288 bps YoY to 67.4%, led by a better mix. Lower R&D/SG&A (-8/-5% YoY) which was offset by higher staff cost (+19% YoY) led to an EBITDA of INR 10.8 bn (+27% YoY) and margin of 24.0% (+403 bps YoY). Adjusted for forex, the EBITDA grew 28% YoY to INR 10.79 bn and the margin came in at 24.0% (+408 bps YoY). Lower interest cost (-40% YoY) and other income (-2%) and higher depreciation (+7%) led to a reported PAT of INR 7.7 bn (+23% YoY). Adjusted for one-offs, PAT was INR 7.5 bn (+39% YoY).
- Con call takeaways:** ZYDUS expects in the US business (1) sales to pick up in Q4FY24, led by new launches, normalizing channel demand, and gRevlimid sales. (2) gRevlimid to be a meaningful opportunity till Jan'26 (episodic with sales to book in Q4/Q1 for the year). (3) Its pipeline of 1-2 meaningful launches per year over the next 3-5 years will drive growth and offset competition impact in gAsacol HD (no competition as of Jan'24). (4) Transdermal portfolio to have USD 50-60 mn sales rate in the next two years. (5) Gradual scale-up for NDA Zituvia (launched in Q3) over the next few years. LiqMed integration is on track with a focus on the US and EU markets. It expects India to see steady growth due to new launches, MR addition and traction in key therapies. It expects the wellness business to see double-digit growth and strong growth in EMs in FY25/26. ZYDUS board has approved a buyback of ~5.94 mn shares (~0.6% of share capital; up to INR 6 bn) at INR 1,005. R&D asset update: (1) Saroglitazar: it expects to complete recruitment of patients for Phase 2b/3 clinical trials for Primary Biliary Cholangitis (PBC) in the US in Q4FY24, (2) ZYIL1 (NLRP3 inhibitor): received permission from the USFDA to initiate Phase II clinical trials in patients with Parkinson's disease.

Quarterly financial summary

(INR mn)	3Q FY24	3Q FY23	YoY (%)	2Q FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	45,052	42,571	6	43,688	3	1,51,099	1,72,374	1,91,057	2,10,949	2,30,520
EBITDA	10,796	8,464	28	10,608	2	31,939	35,550	49,816	50,839	54,864
APAT	7,503	5,416	39	7,356	2	21,579	23,200	34,437	34,969	38,562
EPS (INR)	7.4	5.4	39	7.3	2	21.3	22.9	34.0	34.6	38.1
P/E (x)						37.8	35.1	23.7	23.3	21.1
EV/EBITDA (x)						26.4	23.5	16.3	15.5	13.9
RoCE (%)						12	13	20	18	18

Source: Company, HSIE Research, PAT adjusted for one-offs, * adjusted for forex impact

BUY

CMP (as on 09 Feb 2024)	INR 805
Target Price	INR 930
NIFTY	21,783

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 850	INR 930
	FY25E	FY26E
EPS %	5.3	5.1

KEY STOCK DATA

Bloomberg code	ZYDUSLIF IN
No. of Shares (mn)	1,012
MCap (INR bn) / (\$ mn)	815/9,964
6m avg traded value (INR mn)	863
52 Week high / low	INR 821/452

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	31.4	21.7	69.7
Relative (%)	21.0	13.2	52.0

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	74.98	74.98
FIs & Local MFs	13.09	13.03
FPIs	4.86	5
Public & Others	7.07	6.99
Pledged Shares	-	-

Source: BSE

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Lupin

Strong Q3; visibility of growth and margin is priced in

EBITDA growth (+98% YoY and +11% QoQ) was led by 20% YoY sales growth (US: flat QoQ, India +13% YoY, EMEA: +36% YoY and +71% RoW), higher GM (+629 bps YoY), but it was partly offset by higher costs (staff/R&D/SG&A up +16/ 23/ 15% YoY). LPC expects the US business to see single-digit growth on traction in gSpiriva (targets ~40% market share in FY25) and new launches (opthal, injectable, respiratory, etc.). It expects its India business to see double-digit growth as slower growth in anti-diabetic (patent expiry of in-licensing products in FY25) is expected to be offset by traction in key therapies and new launches. It expects to achieve an EBITDA margin of 19.5-20% in the next two years. Factoring in Q3FY24 performance and margin guidance, we raise our EPS by ~5% for FY25/26E and revise TP to INR 1,470 (26x Dec'25E). We maintain REDUCE, as we believe that growth visibility (led by growth in the US—gSpiriva & new launches and India—new launches & traction in key therapies) and improving margin (led by sales growth and cost optimisation) are already priced in (~107% run-up in stock price in last 12 months).

- Q3 highlights—strong revenue growth:** Revenue grew 20% YoY at INR 51.9 bn as US revenue (37% of sales) was flat QoQ at USD 212 mn (+20% YoY), given that QoQ decline in gSpiriva sales was offset by the traction in seasonal products and baseline products and new launches, and India (34%) grew 13% YoY on strong growth across key therapies. Growth markets (9%) grew 13% YoY, EMEA (10%) was up +36% YoY, RoW (4%) grew 71% YoY and API (5%) was flat YoY.
- EBITDA led by sales growth and better GM:** GM increased 629 bps YoY to 66.8%, led by a better mix. This was offset by higher staff/R&D/SG&A costs (+16/ 23/ 15% YoY) and led to an EBITDA of INR 10.2 bn (+98% YoY, +11% QoQ) with a margin of 19.7% (+772 bps YoY, +134 bps QoQ). Higher depreciation (+17% YoY) was offset by lower interest cost (-12%), higher other income (+64%), and lower tax rate (15.9% in Q3FY24 vs 36% YoY). This led to a reported PAT of INR 6.1 bn (+300% YoY). Adjusted for forex/one-off, the PAT was INR 5.9 bn (+320% YoY).
- Key takeaways from con call:** LPC expects the US business to see single-digit growth in FY25, led by steady traction in gSpiriva and new launches (4-5 opthal products, few injectables) and (2) similar growth rate in FY26 with launch visibility of few key products like Tolvaptan, Liraglutide (litigation-based), Risperdal Consta (filed in Q3). It expects LPC to be the only player in gSpiriva in the US market for the next two years and targets over ~40% market share in FY25 (the first competition is expected by the company to come in FY27). LPC expects India business to see double-digit growth over the next few years despite slower growth in the anti-diabetic space (1-2 in-licensing products to go off patent in FY25), offset by traction in key therapies; the company is also looking for strategic sales force and division expansion, scale-up in biosimilars and targeting M&A/inorganic activities (mid-sized companies, brands, and portfolios). In-licensing products contributed ~10.4% of India sales in Q3FY24. It expects an EBITDA margin of 19.5-20% for the next two years and aims to achieve a 22-23% margin over the next 3-5 years. Its R&D focuses on (1) respiratory pipeline (Dulera filed with USFDA; received CRL, and Ellipta—to start exhibit batches for a few products in FY25), (2) injectable (40+ products in the pipeline), and (3) biosimilars.

Quarterly financial summary

(INR mn)	3Q FY24	3Q FY23	YoY (%)	2Q FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	51,974	43,222	20	50,386	3	1,64,055	1,66,417	2,00,559	2,17,343	2,38,645
EBITDA	10,220	5,160	98	9,231	11	20,972	17,206	37,404	41,295	47,013
APAT	5,997	1,428	320	4,939	21	7,260	3,816	20,477	22,419	26,838
EPS (INR)	13.2	3.1	320	10.8	21	15.9	8.4	45.0	49.2	59.0
P/E (x)						100.7	191.6	35.7	32.6	27.2
EV/EBITDA (x)						36.0	44.2	19.9	17.8	15.3
RoCE (%)						3	5	15	16	18

Source: Company, HSIE Research, PAT adjusted for one-offs

REDUCE

CMP (as on 08 Feb 2024) INR 1,606

Target Price INR 1,470

NIFTY 21,718

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1,400	INR 1,470
	FY25E	FY26E
EPS %	4.9	5.0

KEY STOCK DATA

Bloomberg code	LPC IN
No. of Shares (mn)	455
MCap (INR bn) / (\$ mn)	732/8,947
6m avg traded value (INR mn)	1,545
52 Week high / low	INR 1,701/628

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	32.6	48.2	107.2
Relative (%)	22.7	39.8	89.5

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	47.06	47.04
FIs & Local MFs	29.42	29.73
FPIs	14.99	16.11
Public & Others	8.53	7.12
Pledged Shares	-	-

Source: BSE

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Aurobindo Pharma

Strong Q3; USFDA scrutiny on Eugia plant key concern

EBITDA growth (+68% YoY) was led by 15% YoY sales growth (+9% QoQ US on gRevlimid launch, +28% YoY in growth markets), higher GM (+253 bps YoY), and lower SG&A/R&D (flat YoY), which were partly offset by higher staff cost (+7% YoY). ARBP expects to maintain US oral solid business growth momentum, led by new launches and volume traction in the base business. It reiterates margin guidance of 20+% in FY24 (19.4% in 9M'24) and expects to improve in FY25, led by Pen-G plant commissioning (~40-50% captive consumption to improve gross margin). However, the USFDA action on Eugia Unit 3 (nine observations in Feb'24, followed by the temporary stoppage of production) will have an impact of ~USD 20 mn injectable sales in Q4 (margin impact due to remediation costs). Considering injectable growth and margin impact, we cut our EPS by ~3% for FY25/26E and revise the TP to INR 1,150 (18x Dec'25E) vs. INR 1,250 (19x). We maintain ADD given steady US growth visibility and value unlocking in key R&D assets (biosimilars, respiratory, and specialty). While the outlook remains steady, we believe any escalation at Unit 3 poses a risk to both growth and margin.

- Q3 highlights:** Sales grew 15% YoY at INR 73.5 bn as the US (52% of sales) grew 9% QoQ to USD 456 mn on 20% QoQ growth in specialty/injectable at USD 112 mn, led by gRevlimid traction; ex-injectable, the US grew 5% QoQ to USD 344 mn. EU (24%) was up 2% YoY. The growth market (8%; ex-India) was up 28% YoY, India (1%) grew 6% YoY, ARV (2%) declined 29% YoY, API (14%) grew 7% YoY.
- EBITDA led by sales growth:** GM expansion 253 bps YoY to 57.1%, lower SG&A/R&D (-4%/ flat YoY), and higher staff cost (+7% YoY), led to the EBITDA at INR 16.01 bn (+68% YoY) and the EBITDA margin was at 21.8% (+689 bps YoY). Higher other income (46% YoY), interest cost (+68%), depreciation (+32%), and lower tax rate (at 25.5% vs. 27.8% YoY) led to a PAT of INR 9.3 bn (+91% YoY). Adjusted for forex/one-off, PAT grew 87% YoY to INR 9.02 bn.
- Con call takeaways:** ARBP expects to sustain US growth in the oral solid business, led by launches and volume gain in base business and steady growth in its OTC business and branded oncology. It raises specialty/injectable sales rate to USD 150 mn/quarter (from USD 125 mn), led by traction in gRevlimid and new launches.

Update on Eugia Unit 3: Inspected in Feb'23 and got nine observations from USFDA; temporary halt on production to prepare CAPA and it will have ~USD 20 mn sales impact in Q4; onboarded third part consultant for remediation work; it expects to resume production for non-antiseptic product lines by Feb'24 end, antiseptic lines by Apr'24 and to streamline plant by FY24 end; no major pending approvals or any failure to supply penalty from Unit 3. **Capacity update:** (1) The China plant received an EU-GMP certificate and to commission in H1'25. (2) Pen-G plant to commission in H1'25 (cumulative spent of ~USD 230 mn). (3) Vizag plant to commission for growth markets in H1'25 and for US/EU in FY26; filed two ANDA and expects USFDA inspection in FY25; it will have some back-up to Eugia Unit 3. **Update on biosimilars:** (1) received approval for Trastuzumab in India. (2) Global trials ongoing for ophthalmology (Prolia). (3) Omalizumab (Xolair) is in Phase 3 and US/ EU recruitment is to be completed by Oct 2024. (4) Two immunology biosimilars are in phase 3. (5) In-licensed Ustekinumab (bStelara) that completed a successful Phase 1 clinical study.

Quarterly financial summary

(INR mn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	73,518	64,071	15	72,194	2	2,34,555	2,48,554	2,87,033	3,08,749	3,30,910
EBITDA	16,013	9,544	68	14,032	14	43,868	37,582	56,546	62,676	68,167
APAT	9,027	4,825	87	7,780	16	26,937	19,567	30,650	34,776	38,297
EPS (INR)	15.4	8.2	87	13.3	16	46.0	33.4	52.3	59.4	65.4
P/E (x)						22.1	30.5	19.5	17.2	15.6
EV/EBITDA (x)						13.2	15.6	10.3	9.0	7.9
RoCE (%)						13	9	13	13	14

Source: Company, HSIE Research, PAT adjusted for one-offs, * adjusted for forex impact

ADD

CMP (as on 12 Feb 2024)	INR 1,019
Target Price	INR 1,150
NIFTY	21,616

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,250	INR 1,150
EPS %	FY25E	FY26E
	-2.7	-3.0

KEY STOCK DATA

Bloomberg code	ARBP IN
No. of Shares (mn)	586
MCap (INR bn) / (\$ mn)	597/7,298
6m avg traded value (INR mn)	2,381
52 Week high / low	INR 1,177/443

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.0	18.0	117.3
Relative (%)	(4.9)	9.2	100.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	51.83	51.83
FIs & Local MFs	18.29	20.60
FPIs	22.45	20.72
Public & Others	7.43	6.85
Pledged Shares	19.56	18.9

Source: BSE

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Real Estate

DLF

Robust presales; earnings beat

DLF reported lifetime high quarterly presales of INR 90.5bn (+3.6x/+4.1x YoY/QoQ), with new launches contributing ~95%. For FY24, we expect presale at ~INR 150-160bn (vs INR 130bn earlier). Post this performance, concerns may emerge on FY25 presales, which may be mitigated by a strong FY25 launch pipeline of INR 320bn, of which INR 242bn is earmarked for the luxury segment. On the back of robust presales, collections stood at INR 24.3bn (+85.5%/+6.3% YoY/QoQ) due to which DLF maintained net cash status at INR 12.5bn (vs INR 1.4bn net cash in Q2FY24). Collection is expected to accelerate in Q4FY24 and DLF has guided for INR 64-65bn of collection in FY24. The cash position remains strong at INR 42bn, assigned for growth, dividend payout, and debt reduction. We have recalibrated our residential/land pricing assumption for the NCR market higher by 5-15% for DLF. With DLF Phase V now touching the INR 1 lakh/sq ft mark, 4x the initial launch prices, there are upside risks to our pricing assumption. Also, given (1) the strong presales momentum supported by price hikes; (2) robust launch plans; and (3) an expected increase in office occupancy levels, we maintain BUY on DLF, with an increased TP of INR 868/share.

■ **Q3FY24 financial highlights:** Revenue came in at INR 15.2bn (+1.8%/+12.9% YoY/QoQ, a beat of 10.7%). Gross margin was 56.3% (-237/-63bps YoY/QoQ). EBITDA was INR 5.1bn (+7.1%/+10.5% YoY/QoQ, a beat of 8.8%). EBITDA margin came in at 33.6% (+166/-72 bps YoY/QoQ, vs 34.2% estimate). The share of profits and associates & JVs: INR 2.8bn (+26.7%/+3.4% YoY/QoQ). RPAT/APAT was INR 6.6bn (+26.8%/+5.4% YoY/QoQ, a beat of 4.3%). DCCDL revenue was INR 14.8bn (+8.5%/+0.9% YoY/QoQ). EBITDA was INR 11.3bn (+6.2%/+1.5% YoY/QoQ) and PAT was at INR 4.3bn (+20.6%/+4.3% YoY/QoQ). For FY24, DLF expects to maintain a gross margin of 50% plus.

■ **Strong response to new launches, 95% contribution to Q3FY24 presales:** Presales were INR 90.5bn (+3.6x/+4.1x YoY/QoQ), with new launches contributing ~95%. DLF's new launch Privana South Gurgaon was a sellout, contributing INR 72bn in presales. The Valley Orchard—Panchkula and Central—67—contributed INR10/7.1bn to presales. The remaining inventory in Camellias is at INR 9.1bn. For FY24, management had given a presale guidance of INR 120-130bn, we now expect INR 150-160bn. Within the DCCDL office portfolio, occupancy stood at 91%(-100bps QoQ). DCCDL portfolio rental in Q3FY24 was INR 10.9bn (+9%/+2% YoY/QoQ). The under-construction portfolio is 91% pre-leased. For FY24, exit rental is expected at INR 50bn and INR 56-57bn for FY25. Non-SEZ vacancies are expected to reduce to pre-Covid levels by the end of FY24.

■ **Net cash on the back of highest-ever collections:** DLF is a net cash company at the group level holding INR 12.5bn (vs. net cash of INR 1.4bn in Q2FY24) due to the highest-ever collection of INR 24.3bn (+85.5%/+6.3% YoY/QoQ) in Q3FY24. Overall cash surplus generated from operations was INR 11.1bn, with INR 42bn of cash in hand, of which INR 36.5bn is in the RERA account. Construction spending for FY24 is likely to be INR 17bn (INR 12bn in FY23).

Consolidated financial summary (INR mn)

YE Mar (Rs mn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	15,213	14,948	1.8	13,477	12.9	56,948	68,395	73,267	88,359
EBITDA	5,110	4,772	7.1	4,624	10.5	17,259	21,899	22,912	29,235
APAT	6,566	5,179	26.8	6,228	5.4	20,339	24,185	26,880	32,986
Diluted EPS (Rs)	2.7	2.1	26.8	2.5	5.4	8.2	9.8	10.9	13.3
P/E (x)						92.2	77.6	69.8	56.9
EV / EBITDA (x)							109.2	85.6	81.2
RoE (%)						5.5	6.3	6.7	7.8

Source: Company, HSIE Research

BUY

CMP (as on 25 Jan 2024)	INR 759
Target Price	INR 868
NIFTY	21,353

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 798	INR 868	
EPS %	FY24E	FY25E	FY26E
	-	-	-

KEY STOCK DATA

Bloomberg code	DLFU IN
No. of Shares (mn)	2,475
MCap (INR bn) / (\$ mn)	1,878/22,963
6m avg traded value (INR mn)	2,896
52 Week high / low	INR 816/337

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	43.1	58.1	115.5
Relative (%)	32.7	51.5	98.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	74.08	74.08
FIs & Local MFs	5.27	5.47
FPIs	15.89	15.75
Public & Others	4.76	4.72
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

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Macrotech Developers

New triggers emerging

Macrotech Developers Ltd (MDL) reported strong quarterly presales of INR 34.1bn (+12/-3% YoY/QoQ), with a presales volume of INR 2.6msf (+4/+0% YoY/QoQ). Average price realisation as a result increased to INR 13,115 (+8/-3% YoY/QoQ). MMR/Pune/Bengaluru market saw presales of INR 24.1/3.4/6.6bn. Collections were INR 25.9bn (-3.4/-6% YoY/QoQ). The embedded EBITDA margin on presales was ~30%. On the business development front, MDL added GDV worth INR 60bn (INR 203bn in 9MFY24, surpassing FY24 guidance of INR 175bn) and a saleable area of 2msf. The implied realisation, as a result, is INR 30,000/sq. ft. MDL saw a strong launch response for its first project in Bengaluru, selling out ~90% worth INR 6.6bn with a second project likely in Q4FY24. The IRR threshold for the Bengaluru project is marked at 20%. In terms of launches, INR 63bn worth of launches are planned for the rest of FY24 with a saleable area of 4.4msf. In terms of price hikes, since Apr'23, MDL has hiked prices by 4% and expects full-year price appreciation of 6-7%. Given robust growth visibility, better-than-expected GDV addition and uptick in land prices (Palava may see price and volume increase as new infra projects get commissioned over the next few years), we increase our TP to INR 1,111/sh. Owing to the limited upside on our TP, we maintain our ADD rating.

- Q3FY24 financial highlights:** Revenue: INR 29.3bn (+65/+67% YoY/QoQ, beat of 60%). EBITDA: INR 8.8bn (+118/+112% YoY/QoQ, beat of 102%). EBITDA margin: 30.1% (+736/+634bps YoY/QoQ, vs. estimate of 24%). Other income: INR 281mn (INR 1.3bn/55mn Q3FY23/Q2FY24). RPAT: INR 5.0bn (+25/+149% YoY/QoQ). Adjusted for INR 1bn of extraordinary loss on UK investment, MDL adjusted profit stood at INR 5.8bn (+44/+188% YoY/QoQ, beat of 165%). For the new sale agreements signed on/after 1st Apr 2023, MDL will follow the 'percentage of completion method (POCM)' of accounting vs. 'project completion method (PCM),' being followed for client contracts entered up to 31st March 2023. Post FY27, the entire revenue will be POCM-based.
- Robust presales, Palava to get infra connectivity boost:** Presales of INR 34.1bn (+12/-3% YoY/QoQ), with a presales volume of INR 2.6msf (+4/+0% YoY/QoQ). Embedded EBITDA margin on presales: ~30%. The company launched projects of 3msf with GDV potential of INR 50bn across MMR, Bengaluru and Pune (6.6msf, INR 88.5bn in 9MFY24). New launches contributed ~25% to Q3FY24 presales. With infra connectivity expected to improve, Palava may see better pricing and volumes. Airoli-Katai connector may reduce travel time to ~25min. Besides, the upcoming bullet train station near Palava will reduce travel time to BKC by FY28.
- Net debt stable; further decline expected:** Net debt is flat sequentially at INR 67.5bn. Net debt is expected to reduce further to INR 60bn by FY24-end and well within the guidance of lower net D/E of 0.5x or net debt/OCF of 1x. In terms of business development, MDL has exceeded FY24 BD guidance of INR 175bn with INR 203bn worth of projects added so far in 9MFY24. MDL has taken INR 50bn of fundraising approval from the board for growth opportunities.

Consolidated financial summary (INR mn)

YE March (Rs mn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY25E
Net Sales	29,306	17,738	65.2	17,496	67.5	94,704	103,725	119,419	146,845
EBITDA	8,827	4,038	118.6	4,161	112.1	20,661	26,034	31,210	43,622
APAT	5,839	4,050	44.2	2,028	187.9	12,183	17,088	20,202	32,605
Diluted EPS (Rs)	6.1	4.2	44.2	2.1	187.9	12.6	17.7	21.0	33.8
P/E (x)						81.8	58.3	49.3	30.6
EV / EBITDA (x)						51.7	40.4	33.1	23.0
RoE (%)						13.5	12.8	13.6	19.1

Source: Company, HSIE Research

ADD

CMP (as on 29 Jan 2024)	INR 1,034
Target Price	INR 1,111
NIFTY	21,738

KEY CHANGES	OLD	NEW	
Rating	ADD	ADD	
Price Target	INR 977	INR 1,111	
EPS Change %	FY24E	FY25E	FY26E
	-	-	-

KEY STOCK DATA

Bloomberg code	LODHA IN
No. of Shares (mn)	965
MCap (INR bn) / (\$ mn)	997/12,197
6m avg traded value (INR mn)	1,316
52 Week high / low	INR 1,228/356

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	40.3	38.5	104.5
Relative (%)	26.3	30.6	85.0

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	74.93	74.92
FIs & Local MFs	3.50	3.21
FPIs	20.52	21.09
Public & Others	1.05	0.78

Pledged Shares - -

Source : BSE

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Godrej Properties

Premium launches to drive rerating

Godrej Properties Ltd (GPL) reported the highest-ever quarterly presales worth INR 57.2bn (+76/+14% YoY/QoQ), with a booking area of 4.3msf (-2/-17% YoY/QoQ). On the back of the strong presales, GPL has achieved ~93% of INR 140bn+ of targeted presales in FY24; we now expect INR 50bn+ presales during Q4FY24, taking FY24 presales to INR 175-180bn. GPL added one new project with a gross development value (GDV) of INR 12.5bn in Q3FY24, taking the total YTD GDV addition to INR 84bn. GPL expects to achieve INR 150bn of GDV addition in FY24. However, given a strong launch pipeline of ~18msf and growth visibility of 2-3 years, GPL will be adding projects on a replacement basis in most of the existing markets. Repair expense for the Gurugram project has been under INR 250mn till now (expected total repair expense is INR 1.6bn). In addition to this, GPL has bought back 100 units for INR 850mn and expects INR 1-2bn worth of total buybacks (100-200 units out of 1,100 total units). We reiterate ADD with SOTP valuation of INR 2,077/sh.

- Q3FY24 financial highlights:** Revenue came in at INR 3.3bn (+68%/-4% YoY/QoQ, a 49% miss). There was no new project delivery resulting in revenue underperformance. EBITDA: loss of INR 416mn (vs INR 168mn/(617)mn Q3FY23/Q2FY24) against an estimated loss of INR 40mn. APAT: INR 627mn (+11%/-14% YoY/QoQ, a 52% miss). GPL is targeting 12.5msf of deliveries for FY24 with 6.5msf delivered 9MFY24.
- Record quarterly presales; guiding for stronger 4QFY24:** Presales for Q3FY24 were the highest-ever quarterly presales worth INR 57.2bn (+76/+14% YoY/QoQ), with a booking area of 4.3msf (-2/-17% YoY/QoQ). This was on the back of mainly two projects: Godrej Aristocrat, Gurugram, which was GPL's most successful launch ever achieving a booking value of INR 26.7bn from 1.35msf of area sold and Godrej Ananda, Bengaluru, achieving a booking value of INR 5.7bn from 0.84msf of area sold. The overall average price realisation for the quarter was INR 13,180psf (+79%/+37%, YoY/QoQ). GPL has launched 13.53msf of projects so far in the year and plans to launch a total of 26msf for the full year FY24. The Ashok Vihar project Ph1 and Worli project are expected to launch in H1FY25. For FY24, GPL expects to cross its presales guidance of INR 140bn to INR 175-180bn.
- BD activity has been below expectation during 9MFY24, given accelerated land bank addition in the last two years:** In Q3FY24, GPL added one new project with a GDV of INR 12.5bn, taking the total YTD GDV addition to INR 84bn (56% of INR 150bn targeted for full-year FY24). Given its strong launch pipeline, GPL has growth visibility of 2-3 years and will add projects on a replacement basis rather than having a lumpy transaction (except for new potential markets like Hyderabad). Collections in Q3FY24 were strong and stood at INR 24.1bn (+43/+1% YoY/QoQ), resulting in a net operating cash flow of INR 7.9bn. Net debt, however, rose to INR 69bn (INR 62bn in Sep'23) with net D/E at 0.72x owing to investment in land and approvals cost.

Consolidated financial summary (INR mn)

YE March (INR mn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	3,304	1,962	68	3,430	(4)	22,523	25,901	29,786	34,254
EBITDA	(416)	(168)	148	(617)	(33)	2,476	3,692	4,767	6,025
APAT	627	564	11	726	(14)	5,714	6,316	6,630	7,370
Diluted EPS (INR)	2.3	2.0	11.2	2.6	(13.7)	20.6	22.7	23.9	26.5
P/E (x)						111.9	101.3	96.5	86.8
EV / EBITDA (x)						260.5	177.7	135.7	107.9
RoE (%)						6.4	6.6	5.8	5.0

Source: Company, HSIE Research

ADD

CMP (as on 06 Feb 2024)	INR 2,300
Target Price	INR 2,077
NIFTY	21,929

KEY CHANGES	OLD	NEW	
Rating	ADD	ADD	
Price Target	INR 2,077	INR 2,077	
EPS Change %	FY24E	FY25E	FY26E
	-	-	-

KEY STOCK DATA

Bloomberg code	GPL IN
No. of Shares (mn)	278
MCap (INR bn) / (\$ mn)	640/7,821
6m avg traded value (INR mn)	1,378
52 Week high / low	INR 2,457/1,005

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.2	49.8	98.9
Relative (%)	15.0	39.9	79.6

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	58.48	58.48
FIs & Local MFs	4.61	4.69
FPIs	29.25	29.73
Public & Others	7.66	7.10
Pledged Shares	-	-

Source: BSE

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Oberoi Realty

Muted performance

Oberoi Realty (ORL) registered muted presales of INR 7.9bn (+25.2%/-18% YoY/QoQ); the new Kolshet Launch Forestville contributed INR 2.1bn. Muted presales were on the back of weak sales in the 360W project (1 vs 4 units QoQ) as well as the Mulund and Borivali projects. 360W partner inventory is exhausted and ORL expects to sell out the entire INR 65bn own inventory over the next 18-24 months. On 19th Jan 2024, ORL opened a new Elysian Tower and recorded INR 8.8bn of sales. Pokhran launch timeline shifts to Q3FY24, and construction is in full swing. Commerz 3 and Borivali Mall are expected to start operation by Apr /Jun 2024, with a rental potential of INR c.7bn in Commerz 3 and INR c.3.5bn in the mall. ORL expects all assets including hospitality to clock INR 18bn of NOI from FY26/27E. In terms of Business Development (BD), ORL has announced the closure of 14.8 acres of land in Sec-58 Gurugram from IREO, marking its foray into the NCR market. We expect INR 90bn+ GDV. In MMR, it expects to close a large land transaction by early FY25. Given the expected robust cash flows from ready-to-move-in inventory in the 360W and Mulund projects along with new business development, we remain constructive on ORL and maintain BUY, with an unchanged TP of INR 1,533/sh.

- Q3FY24 Financial highlights:** Revenue: INR 10.5bn (-35.3%/-13.5% YoY/QoQ, a miss of 25%). EBITDA was INR 5.1bn (-45.8%/-22.5% YoY/QoQ). EBITDA margin was 48.3% (-937bps/-565bps YoY/QoQ) vs our estimate of 57%. PBT: INR 4.8bn (-47.8%/-22.5% YoY/QoQ). RPAT was INR 3.6bn (-48.7%/-21.2%, YoY/QoQ). Muted sales in completed/nearing completion projects, viz. Mulund, 360W and Skycity, impacted revenue and profitability.
- Thane Pokhran launch now targeted for Q3FY25:** Oberoi registered presales of INR 7.9bn (+25.2%/-18% YoY/QoQ) and saleable area of 0.26msf (+17.6%/+18%, YoY/QoQ). New Kolshet Launch Forestville contributed INR 2.1bn vs INR 22bn GDV. The response was muted given the new location and ~40% upfront payment. Since it's an end-user market, buyers are taking longer to close. ORL expects INR 7-8bn of annual presales from Kolshet. The ORL Pokhran Thane's RERA carpet area is c.15msf (100% economic interest) while the Kolshet Thane land has a RERA carpet area of 2.5msf (77% economic interest); Pokhran launch is now expected in Q3FY25, post-Diwali. The initial phase launch for Pokhran will see 3-4msf of the parallel launch of a residential area, an international school, and a five-star hotel. Apart from these, one high-end sports club and a small 0.1-0.2msf high street retail are also expected. Commerz 3 is expected to be completed by Mar'24 with operations expected to start from Q1FY25 (INR 6-7bn annual rental expected at maximum occupancy) and the Borivali mall is expected to start by Jun'24 (INR 3.5bn annual rental expected at maximum occupancy).
- Balance sheet position comfortable:** The consolidated gross/net debt stood at INR 29.6/20.3bn vs. INR 33.6/22.9bn as of Sep'23, with net D/E at 0.15x (vs. 0.18x as of Sep'23). Net debt was lower on the back of a robust operating cash flow of INR 4.5.0bn, resulting in a cash balance of INR 9.3bn (INR 10.6bn in Q2FY24).

Consolidated financial summary (INR mn)

YE Mar (INR mn)	3QFY24	3QFY23	YoY	2QFY24	QoQ	FY23	FY24E	FY25E	FY26E
Net Sales	10,536	16,295	(35.3)	12,174	(13.5)	41,926	42,354	51,492	55,033
EBITDA	5,094	9,404	(45.8)	6,574	(22.5)	21,117	23,416	28,722	30,752
APAT	3,602	7,026	(48.7)	4,568	(21.2)	19,045	15,653	19,088	19,895
Diluted EPS (INR)	9.9	19.3	(48.7)	12.6	(21.2)	52.4	43.0	52.5	54.7
P/E (x)						26.2	31.8	26.1	25.0
EV / EBITDA (x)						25.1	21.7	17.8	16.7
RoE (%)						14.9	12.0	13.0	11.9

Source: Company, HSIE Research

BUY

CMP (as on 23 Jan 2024)	INR 1,370
Target Price	INR 1,533
NIFTY	21,239

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 1,533	INR 1,533	
EPS Change (%)	FY24E	FY25E	FY26E
	-	-	-

KEY STOCK DATA

Bloomberg code	OBER IN
No. of Shares (mn)	364
MCap (INR bn) / (\$ mn)	498/6,090
6m avg traded value (INR mn)	968
52 Week high / low	INR 1,586/790

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.3	29.7	65.2
Relative (%)	18.7	24.2	49.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	67.71	67.71
FIs & Local MFs	11.61	12.05
FPIs	17.83	17.41
Public & Others	2.84	2.84
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Phoenix Mills

Strong balance sheet augurs well for growth

Phoenix Mills (PHNX) reported revenue/EBITDA/APAT at INR 9.9/5.5/2.8bn, beating/(missing) our estimates by 2/(3)/(3)%. Improving ARR in hospitality and pick-up in office leasing also contributed positively to profitability. For FY24, PHNX expects to achieve INR 115bn in consumption (a growth of +25%). PHNX is also ramping up its office portfolio to achieve 7.1msf of leased assets by FY26 from 2msf of the current operational portfolio. PHNX has paid INR 10bn cost of Thane land and has 3.2msf of development area. It intends to do residential, retail and hospitality in Thane with a total construction capex of INR 15bn. Beyond this, it is in active discussion on 3-4 land transactions for growth. We have recalibrated our estimates higher to factor in new asset addition. Given stable traction in consumption, captive mall expansion, the addition of office space, a strong business development pipeline and lower net debt, we maintain BUY, with an increased SOTP of INR 2,956/sh.

- Q3FY24 financial highlights:** Revenue: INR 9.9bn (+44%/+13% YoY/QoQ, a 2% beat). EBITDA: INR 5.5bn (+43%/+7% YoY/QoQ, a 3% miss). EBITDA margin: 56% (-27/-276bps YoY/QoQ, vs est. of 59.2%). RPAT/APAT: INR 2.8bn (+58%/+8% YoY/QoQ, 3% miss). Total retail rental income was INR 4.5bn (+33%/+17% YoY/QoQ) with an EBITDA of INR 4.3bn (+27%/+11% YoY/QoQ). Excluding new malls, i.e. Citadel Indore, Palladium Ahmedabad, Pune and Bengaluru retail rental income came in at INR 3.5bn (+5/+3% YoY/QoQ) with EBITDA at INR 3.6bn (+5/+2% YoY/QoQ). Income from offices was INR 500mn (+17%/+11% YoY/QoQ), with EBITDA margin stable YoY at 57%.
- Adjusted consumption muted on a like-to-like basis owing to the high base:** Consumption in Q3FY24 stood at Rs 32.9bn, up 24% over Q3FY23 and up 4% on a like-to-like basis. Adjusted for trading occupancy ramp-up YoY, the consumption should have grown 6.9% which implies same store top-6 malls' consumption decline of 1.7%, the lowest in recent quarters. Even on averaging trading occupancy, the consumption growth should have been 3%, implying same-store sales growth of 1.2%). Consumption was supported by higher growth in jewellery/F&B/fashion/hypermarket growing annually by 19/2/3/20% resp.
- Business development supported by healthy cash flow:** Consolidated gross/net debt stood at INR 42.9/22.3bn vs INR 42.6/20.9bn as of Sep'23. The group liquidity stands at INR 20.6bn. PHNX generated INR 17.2/4.2bn of CFO during 3QFY24/9MFY24, sufficient to meet capex. PHNX has enough legroom for higher debt and plans to add LRD debt to fund construction and land capex.

Consolidated financial summary (INR mn)

Particulars	3Q	3Q	YoY	2Q	QoQ	FY23	FY24E	FY25E	FY26E
	FY24	FY23	(%)	FY24	(%)				
Net Sales	9,861	6,838	44.2	8,750	12.7	26,383	37,162	42,436	55,009
EBITDA	5,518	3,845	43.5	5,138	7.4	15,189	21,463	24,694	32,153
APAT	2,794	1,764	58.4	2,585	8.1	8,637	10,658	12,155	16,763
EPS (INR)	16.3	10.3	58.4	15.1	8.1	49.3	62.3	71.0	97.9
P/E (x)						52.0	41.2	36.1	26.2
EV/EBITDA (x)							31.0	21.8	18.9
RoE (%)						17.1	13.5	13.6	16.2

Consolidated estimate change summary (INR mn)

Particulars	FY24E			FY25E			FY26E		
	New	Old	New	New	New	Chg.(%)	New	New	Chg.(%)
Revenues	37,162	32,716	13.6	42,436	41,209	3.0	55,009	52,491	4.8
EBITDA	21,463	20,149	6.5	24,694	25,410	(2.8)	32,153	32,411	(0.8)
EBITDA (%)	57.8	61.6	(383.2)	58.2	61.7	(347.2)	58.4	61.7	(329.6)
APAT	10,658	9,065	17.6	12,155	11,528	5.4	16,763	16,480	1.7

Source: Company, HSIE Research

BUY

CMP (as on 13 Feb 2024)	INR 2,565
Target Price	INR 2,956
NIFTY	21,743

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 2,840	INR 2,956	
EPS Change %	FY24E	FY25E	FY26E
	17.6	5.4	1.7

KEY STOCK DATA

Bloomberg code	PHNX IN
No. of Shares (mn)	179
MCap (INR bn) / (\$ mn)	458/5,603
6m avg traded value (INR mn)	836
52 Week high / low	INR 2,836/1,186

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	21.5	50.0	90.4
Relative (%)	11.3	40.4	72.0

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	47.29	47.28
FIs & Local MFs	18.51	17.70
FPIs	30.01	30.80
Public & Others	4.18	4.22
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

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Prestige Estates

Presales outperformance continues

Prestige Estates (PEPL) registered the second highest-ever presales in any quarter by value and volume at INR 53bn (+111%/-25% YoY/QoQ) and 5.5msf (+88%/-20% YoY/QoQ) resp. This was mainly on the back of robust presales in Prestige City Hyderabad with 12.6msf of saleable area contributing INR 24bn to the presales. On a blended basis, realisation stood at INR 9,755psf (+13%/-6% YoY/QoQ). For FY24, PEPL expects INR 200bn+ (9MFY24 – INR 163.3bn achieved). The first tower of Prestige Ocean Towers Mumbai was launched and PEPL achieved INR 4bn in sales (40% of launched inventory). Prestige Nautilus in MMR will be launched in 1QFY25. It will launch its first project in NCR, Prestige Bougainvillea Gardens, in 1QFY25 with a saleable area of 3.1msf. We maintain BUY, with an increased SOTP-based TP of INR 1,390/sh, to factor in better-than-expected realisation/presales and an improving visibility on office assets. PEPL has closed some large BD transactions in Noida/Delhi and this shall add incrementally from Q3FY25.

- Q3FY24 financial highlights:** Reported revenue was INR 17.9bn (-22%/-20% YoY/QoQ, a miss of 28%). EBITDA was INR 5.5bn (-4%/-7% YoY/QoQ, a 17% miss). EBITDA margin was 30.7% (+593/+422bps YoY/QoQ, vs. our estimate of 26.8%). APAT was INR 1.2bn (-9%/-32% YoY/QoQ, a 4% beat).
- Strong traction in presales, looking at record FY24:** Q3FY24 presales were the second-highest quarter presales with volume at 5.5msf (+88%/-20% YoY/QoQ) valued INR 53.2bn (+111%/-25% YoY/QoQ). On a blended basis, realisation stood at INR 9,755psf (+13%/-6% YoY/QoQ). The presales were supported by the highest ever 14.6msf of project launches, the largest of which was Prestige City Hyderabad with 12.6msf of saleable area contributing INR 24bn to the presales. For FY24, PEPL expects INR 200bn+ (9MFY24 – INR 163.3bn achieved).
- Robust collections to support execution:** Net debt increased to INR 69.8bn (+INR 198mn QoQ), from INR 69.6bn in Sep-23. Net D/E is at 0.6x (0.61x in Sep-23). Gross debt (excluding ongoing capex) is INR 81.8bn (vs INR 72.7bn in Sep'23). PEPL has to incur INR 47.5bn on the ongoing commercial capex and INR 65.2bn on the upcoming commercial capex. Towards retail capex, it has to spend INR 2.8bn on ongoing and INR 13.7bn on upcoming retail assets. The total exit rental for March 2024 is expected at INR 5.5bn. This includes INR 3.3bn of office rentals and 2.1bn of retail. Total collections were at INR 31.1bn (+36/+18% YoY/QoQ) with more than INR 120bn expected in FY24.

Consolidated Financial Summary

(INR in mn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	17,958	23,170	(22.5)	22,364	(19.7)	83,150	83,972	93,359	108,745
EBITDA	5,515	5,742	(4.0)	5,925	(6.9)	20,863	24,140	26,888	32,374
APAT	1,163	1,278	(9.0)	1,701	(31.6)	5,592	5,526	6,129	9,529
EPS (INR)	2.9	3.2	(9.0)	4.2	(31.6)	13.9	13.8	15.3	23.8
P/E (x)						79.3	80.2	72.3	46.5
EV/EBITDA (x)						24.3	20.9	19.1	15.9
RoE (%)						5.9	5.4	5.7	8.4

Source: Company, HSIE Research

Change in Estimates (INR mn)

Particulars (INR mn)	FY24E			FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenues	83,972	89,106	(5.8)	93,359	96,567	(3.3)	108,745	113,069	(3.8)
EBIDTA	24,140	22,245	8.5	26,888	27,236	(1.3)	32,374	34,774	(6.9)
EBIDTA Margins (%)	28.7	25.0	378	28.8	28.2	60	29.8	30.8	(98)
APAT	5,526	6,038	(8.5)	6,129	8,347	(26.6)	9,529	12,107	(21.3)

Source: Company, HSIE Research

BUY

CMP (as on 14 Feb 2024)	INR 1,101
Target Price	INR 1,390
NIFTY	21,840

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 1,241	INR 1,390	
EPS Change %	FY24E	FY25E	FY26E
	-	-	-

KEY STOCK DATA

Bloomberg code	PEPL IN
No. of Shares (mn)	401
MCap (INR bn) / (\$ mn)	441/5,395
6m avg traded value (INR mn)	1,080
52 Week high / low	INR 1,440/391

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	30.6	98.8	178.0
Relative (%)	20.0	89.0	160.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	65.48	65.48
FIs & Local MFs	12.82	13.17
FPIs	19.50	18.07
Public & Others	2.20	3.28
Pledged Shares	-	-

Source: BSE

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Brigade Enterprises

Muted financial performance; strong presales

Brigade Enterprises Ltd (BEL) posted strong presales of 1.7msf (+11%/+2% YoY/QoQ), valued at INR 15.2bn (+51%/+22% YoY/QoQ) with average realisation touching an all-time high of INR 8,994 per sq ft (+36%/+21% YoY/QoQ). This was on the back of four projects of 2.7msf launched in the quarter, which contributed 50% to presales in Q3FY24. BEL has a total launch pipeline of 10.8msf for the next four quarters. The Mount Road Chennai project (i.e. TVS land) is expected to be launched in Q1FY25 (vs. Q4FY24 earlier). BEL is planning for 5msf of new office projects in Bengaluru, Hyderabad and Chennai and 1msf of hotels. This will entail a new capex of INR 30bn over FY25-28. The total land cost payable is INR 11.9bn as of Dec'23. After the INR 2.5bn land payout in Q4FY24, the pending cost is INR 9.4bn. Given BEL's strong cash position of INR 15.6bn, a robust business development pipeline, and a healthy balance sheet, we remain constructive. We reiterate BUY, raising the TP to INR 1,179/sh to account for (1) inclusion of new projects in Hyderabad, Bengaluru, and Chennai, (2) expansion in the office/hospitality segment, and (3) incorporation of a 5-10% price hike across projects.

- Q3FY24 financial highlights:** Revenue came in at INR 11.7bn (+43%/-14% YoY/QoQ, 11% beat); revenue from real estate at INR 8.9bn (+72%/-14% YoY/QoQ), hospitality at INR 1.2bn (+21%/+12% YoY/QoQ) and leasing at INR 2.2bn (+14%/+4% YoY/QoQ). EBITDA: INR 2.6bn (+26%/-19% YoY/QoQ, 3% miss). EBITDA margin: 22.3% (-302bps/-144bps YoY/QoQ, vs 25.6% est.). RPAT/APAT: 0.73bn (+15%/-45% YoY/QoQ, 28% miss). For FY24, BEL expects INR 30bn worth of deliveries.
- Robust launch pipeline:** For Q3FY24, sales volume was 1.7msf (+11%/+2% YoY/QoQ), valued at INR 15.2bn (+51%/+22% YoY/QoQ) with average realisation touching an all-time high of INR 8,994 per sq ft (+36%/+21% YoY/QoQ). This was on the back of four projects of 2.7msf launched in the quarter, which contributed 50% to Q3FY24 presales. It has a strong upcoming pipeline of 10.8msf for the next four quarters for the residential portfolio (9.5msf BEL share) with a GDV potential of INR 110bn. In Q4FY24, BEL plans to launch 2.6msf with a GDV potential of INR 18bn. Mount Road, Chennai, launch is now pushed to Q1FY25. Besides this, BEL is planning for 5msf of new office projects in Bengaluru, Hyderabad, and Chennai, and 1msf of hotels. This will entail a new capex of INR 30bn over FY25-28.
- Balance sheet comfortable:** At the consolidated level, residential debt is INR 109mn (vs. INR 244mn in Q2FY24). The consolidated gross/net debt stood at INR 43.4/27.7bn (INR 41/25bn as of Sep-23). The net debt/equity stood at 0.69x (vs. 0.63x as of Sep-23). 80% of the debt is in commercial projects and is backed by rentals. The total collection was INR 13.9bn (+5%/-4% YoY/QoQ) with residential collection at INR 9.3bn. BEL has an unsold residential inventory of 3.8msf. The projected net free cash flow from sold/unsold units is INR 38bn. The total land cost payable is INR 11.9bn as of Dec'23. After the INR 2.5bn land payment done in Q4FY24, the pending cost is INR 9.4bn.

Consolidated Financial Summary (INR mn)

YE Mar (INR mn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	11,738	8,203	43.1	13,666	(14.1)	34,446	37,286	39,140	40,684
EBITDA	2,620	2,079	26.0	3,248	(19.3)	8,590	9,721	10,332	10,802
APAT	735	640	14.9	1,335	(45.0)	2,366	2,686	2,694	2,712
EPS (INR)	3.2	2.8	14.9	5.8	(45.0)	10.3	11.7	11.7	11.8
P/E (x)						104	92	91	91
EV/EBITDA (x)						32	29	27	26
RoE (%)						11.7	8.1	7.7	7.4

Source: Company, HSIE Research

BUY

CMP (as on 07 Feb 2024)	INR 1,069
Target Price	INR 1,179
NIFTY	21,931

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 1,043	INR 1,179	
EPS	FY24E	FY25E	FY26E
Change %	-	-	-

KEY STOCK DATA

Bloomberg code	BRGD IN
No. of Shares (mn)	231
MCap (INR bn) / (\$ mn)	250/3,019
6m avg traded value (INR mn)	354
52 Week high / low	INR 1,108/446

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	60.2	81.5	117.8
Relative (%)	49.1	72.1	98.1

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	43.77	43.75
FIs & Local MFs	25.41	25.01
FPIs	13.40	13.73
Public & Others	17.44	17.50
Pledged Shares*	-	-

Source: BSE

*Pledged shares as % of total shares

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Sobha

Gaining scale

Sobha (SDL) reported its highest-ever quarterly presales in value and volume at INR 19.5bn (+37%/+13% YoY/QoQ) and 1.7msf (+13%/-1% YoY/QoQ). The total launch pipeline for the next two years is 22msf, of which a 3msf launch is planned for Q4FY24, across seven projects in NCR, Bengaluru, Gift City, Chennai, and Trivandrum. Rights issue (INR 20bn size) contours may get finalised by Mar-24 and will be utilised largely towards growth opportunities in non-Bengaluru/Kerala regions like NCR, Pune, Hyderabad, etc. JD/JVA route will be preferred whilst outright land purchases will be funded by robust internal accruals and issue proceeds. SDL intends to further ramp up the launch pipeline and is adding another 20msf GDV, 90% owned and 8-10msf from the Hoskote land. Given the robust launch pipeline movement from land to development, we increase our TP to INR 1,717/sh and maintain BUY.

- Q3FY24 financial highlights:** Revenue INR 6.8bn (-21%/-8% YoY/QoQ, a 26% miss). EBITDA came in at INR 741mn (-17%/-2% YoY/QoQ, a 37% miss). EBITDA margin came in at 10.8% (+59/+64bps YoY/QoQ, vs. estimate of 12.8%). RPAT/APAT was INR 151mn (-53%/+1% YoY/QoQ, a 76% miss). SDL expects the EBITDA margin to improve once the revenue mix starts changing from Q1FY25 towards premium projects.
- Highest-ever presales; robust launch pipeline:** SDL reported its highest-ever quarterly presales in value and volume at INR 19.5bn (+37%/+13% YoY/QoQ) and 1.7msf (+13%/-1% YoY/QoQ) resp. The average price realisation was INR 11,732 (+22%/+15%, YoY/QoQ). The contribution of sales from Bengaluru was flat at 75% of the overall sales volume, driven by the Neopolis project. SDL has a residential launch pipeline of 22.4msf, with 3msf launch expected in Q4FY24. Beyond this, it has 20msf of pipeline in the final stages of closure with a 90% share. Hoskote share in this is 8-10msf.
- Balance sheet strong; net debt trending downwards:** Total collections were INR 14.9bn (+6%/+3% YoY/QoQ). Net debt decreased to INR 13.4bn (INR 14.4bn in Q2FY24). Gross debt at INR 19bn was lower than Q2FY24 (INR 20bn). The operating cash flow from completed and ongoing projects is expected at INR 65bn while that from forthcoming projects is at INR 56bn. INR 2.5-3/5bn is the expected land capex for FY24/25.

Consolidated financial summary (INR mn)

Particulars	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	6,849	8,682	(21.1)	7,412	(7.6)	33,101	33,622	39,213	45,760
EBITDA	741	888	(16.5)	754	(1.8)	3,695	3,421	6,304	8,066
APAT	151	318	(52.6)	149	0.9	1,042	951	3,233	4,693
Diluted EPS	1.6	3.4	(52.6)	1.6	0.9	11.0	10.0	34.1	49.5
P/E (x)						130.2	142.7	42.0	28.9
EV/EBITDA (x)						40.9	41.6	20.8	14.5
RoE (%)						4.2	3.8	11.9	15.2

Source: Company, HSIE Research

Change in Estimates (INR mn)

	FY24E			FY25E			FY26E		
	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.
Revenues	33,622	33,573	0.1	39,213	39,155	0.1	45,760	45,692	0.1
EBITDA	3,421	5,103	(33.0)	6,304	7,244	(13.0)	8,066	8,453	(4.6)
Margins (%)	10.2	15.2	(502.6)	16.1	18.5	(242.5)	17.6	18.5	(87.4)
APAT	951	1,743	(45.5)	3,233	3,187	1.5	4,693	4,054	15.7

Source: Company, HSIE Research

BUY

CMP (as on 08 Feb 2024)	INR 1,431
Target Price	INR 1,717
NIFTY	21,718

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 1,400	INR 1,717	
EPS Change %	FY24E (45.5)	FY25E 1.5	FY26E 15.7

KEY STOCK DATA

Bloomberg code	SOBHA IN
No. of Shares (mn)	95
MCap (INR bn) / (\$ mn)	136/1,659
6m avg traded value (INR mn)	909
52 Week high / low	INR 1,578/412

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	81.3	146.1	147.8
Relative (%)	71.3	137.6	130.0

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	52.28	52.28
FIs & Local MFs	14.95	17.23
FPIs	11.22	11.13
Public & Others	21.54	19.36

Pledged Shares - -

Source: BSE

Pledged shares as % of total shares

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Mahindra Lifespaces

Launch visibility picking up

Mahindra Lifespaces Developers Ltd (MLDL) reported in-line presales of INR 4.4bn (-1.8%/-2.6% YoY/QoQ). Volume stood at 0.53msf (-13.1%/-22.1% YoY/QoQ). As of 9MFY24, the total presales stood at INR 12.4bn (-14% YoY). This was on account of 74% of presales in 9MFY24 being sustenance sales compared to 23% in 9MFY23. The total sustenance sales was driven by new phase launches in Citadel and other projects. Chennai plotted project was new launch. We expect launch momentum to pick up for the rest of 4QFY24 with the new launch GDV planned at INR 35bn (vs. INR 18bn in FY23). MLDL has a plan to achieve annual presales of INR 80-100bn (5x, 5yrs) by FY28, including INR 5bn annual IC&IC lease income (MMR/Pune/Bengaluru are expected to contribute INR 60/20-30/20-30bn). For this, MLDL expects to add GDV worth INR 400-500bn, funded through internal accruals, debt and current/prospective partners. The current BD pipeline is worth INR 50-60bn, excluding INR 80bn worth of Thane land parcel, which will be a mixed development with 50% residential and 50% commercial projects. We maintain BUY on MLDL with an unchanged TP of INR 700/sh.

- Q3FY24 financial highlights:** Revenue: INR 820mn (-56%/+361% YoY/QoQ, a miss of 12%). It was a loss of INR 390mn at the EBITDA level (INR -114/-349mn in Q3FY23/Q2FY24, vs est. loss of INR 251mn). Profit from JV/associates came in at INR 754mn (16x/136x YoY/QoQ). APAT stood at INR 500mn (INR +77mn/INR -199mn Q3FY23/Q2FY24 vs est. loss of INR 86mn). For now, profits are largely driven by land monetization in the IC & IC business. Going forward as the share of own project improves, along with the mix moving towards premium housing, profitability is expected to significantly improve.
- Robust launch pipeline:** MLDL recorded presales of INR 4.4bn (-1.8%/-2.6% YoY/QoQ) and volume stood at 0.53msf (-13.1%/-22.1% YoY/QoQ). The average price realisation was INR 8,358 (13%/25% YoY/QoQ). For Q4FY24, MLDL expects to launch Kandivali Ph1 with INR 12bn worth of GDV, Malgudi Bengaluru with INR 5bn worth of GDV, Wagholi INR 7bn, Plotted Chennai INR 2.5bn and Malad redevelopment INR 11bn. The Santacruz project is expected to spill over to FY25. The total GDV value of the launches in Q4FY24 is expected to be around ~INR 35bn. During the quarter, the company launched Phase 2 of Citadel (selling 40% of launched inventory). Within IC&IC, the company leased 77.4 acres for INR 2.2bn (3.2x/7x YoY/QoQ).
- Business development pipeline robust:** MLDL has a current BD pipeline of INR 50-60bn (MMR-50-60%, Pune - 15-20%, Bengaluru - 15-20%), excluding the Thane land parcel whose GDV value is estimated at INR 80bn after the new Integrated IT Township (IITT) policy. 50% of the Thane land is to be earmarked for commercial property as per the new policy. Collections were decent at INR 3.9bn (+27%/+24% YoY/QoQ). Overall, net debt at the group level is at INR 3.1bn. Residential net debt stood at INR 1.9bn (vs net cash of INR 80mn in Q2FY24) and IC&IC net debt is at INR 1.3bn (vs INR 2.4bn in Q2FY24).

Consolidated financial summary (INR mn)

(INR mn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	820	1,869	(56.1)	178	361.4	6,066	7,905	8,878	10,050
EBITDA	(390)	(114)	(241.3)	(349)	(11.7)	(1,101)	(921)	818	1,122
APAT	500	77	547.5	(190)	364.0	421	521	1,805	2,167
Diluted EPS (INR)	3.2	0.5	547.5	(1.2)	364.0	2.7	3.4	11.7	14.0
P/E (x)						222	179	52	43
EV / EBITDA (x)						(86)	(104)	117	85
RoE (%)						5.7	2.8	9.3	10.1

Source: Company, HSIE Research

BUY

CMP (as on 05 Feb 2024)	INR 603
Target Price	INR 700
NIFTY	21,772

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 700	INR 700	
EPS change %	FY24E	FY25E	FY26E
	-	-	-

KEY STOCK DATA

Bloomberg code	MLIFE IN
No. of Shares (mn)	155
MCap (INR bn) / (\$ mn)	94/1,143
6m avg traded value (INR mn)	169
52 Week high / low	INR 633/316

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	23.1	19.1	58.7
Relative (%)	11.6	9.9	40.8

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	51.19	51.18
FIs & Local MFs	20.17	23.18
FPIs	11.87	8.53
Public & Others	16.77	17.10
Pledged Shares	-	-

Source: BSE

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Kolte Patil Developers

Strong presales; muted profitability

KPDL reported quarterly presales of 0.98msf (-13%/+0% YoY/QoQ), valued at INR 7.5bn (+4%/18% YoY/QoQ), with an average realisation of INR 7,579 per sq. ft. (+19%/+18% YoY/QoQ). KPDL is confident of surpassing presales of INR 28bn for FY24 and expects INR 35bn in FY25. The Pune region contributed 95% of the total 9MFY24 presale value, which KPDL is expecting to lower to 70% by FY25 as contribution from MMR and Bengaluru is expected to increase. FY24TD, KPDL added INR 40bn worth of projects and is in advance discussion on INR 100bn of BD pipeline with landlords. Of this, INR 35bn is likely to close over the next 3-4months. The BD pipeline is largely in Pune (at 70%), MMR (at 20%) and the balance 10% in Bengaluru. KPDL's balance sheet has turned to net cash now and liquidity is comfortable. This may pave the way for accelerated BD activities. Given strong business development and better-than-expected price realisation (5-10% increase), we maintain BUY with TP of INR 624/sh.

- Q3FY24 financial performance:** KPDL reported revenue of INR 758mn (-79%/-62% YoY/QoQ, an 80% miss). EBITDA came in at INR (367)mn vs INR (255)mn/35mn Q3FY23/Q2FY24, vs INR 556mn est.). RPAT was a loss of INR 629mn (INR (269)mn/INR (18)mn Q3FY23/Q2FY24) vs. the estimate of INR 374mn profit. For FY24, KPDL expects delivery of INR 15bn worth of projects.
- Robust launch pipeline:** The company reported quarterly presales of 0.98msf (-13%/+0% YoY/QoQ), valued at INR 7.5bn (+4%/18% YoY/QoQ), with an average realisation of INR 7,579 per sq. ft. (+19%/+18% YoY/QoQ). 95% of the sales in value terms came from the Pune region for 9MFY24. 57% of the total 9MFY24 presales were backed by new launches with a revenue potential of INR 31.2bn. KPDL expects FY24 presales of INR 28bn on the back of INR 50bn worth of project launches, of which INR 31.2bn of launches were done in 9MFY24. For FY25, presales are expected at INR 35bn.
- Strong BD pipeline:** In 9MFY24, KPDL acquired projects with a saleable area of 4msf and GDV potential of INR 40bn. BD pipeline is robust at INR 100bn, of which KPDL expects to close INR 35bn in the next 3-4 months. Net cash stood at INR 320mn (INR 490mn net debt in Q2FY24). During 9MFY24, KPDL generated a net operating cash flow of INR 2.7bn. Cut in estimates reflect delays in OC and higher input costs impacting profitability.

Consolidated financial summary (INR mn)

YE March (Rs mn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	758	3,681	(79.4)	1,982	(61.8)	14,884	14,603	14,823	15,737
EBITDA	(367)	(255)	44.0	35	(1,153.2)	1,893	1,727	2,349	2,896
APAT	(629)	(269)	133.9	(18)	3,476.3	1,025	638	1,191	1,350
Diluted EPS (Rs)	(8.3)	(3.5)	133.9	(0.2)	3,476.3	13.5	8.4	15.7	17.8
P/E (x)						39.2	62.9	33.7	29.8
EV / EBITDA (x)						22.3	24.6	18.3	14.8
RoE (%)						9.3	5.1	9.6	9.9

Source: Company, HSIE Research

Change in Estimates (INR mn)

Consolidated (Rs mn)	FY24E			FY25E			FY26E		
	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.
Revenues	14,603	15,764	(7.4)	14,823	20,110	(26.3)	15,737	23,131	(32.0)
EBITDA	1,727	3,681	(53.1)	2,349	4,654	(49.5)	2,896	5,384	(46.2)
EBITDA (%)	11.8	23.4	(1,152.5)	15.8	23.1	(729.6)	18.4	23.3	(487.1)
APAT	638	2,264	(71.8)	1,191	3,151	(62.2)	1,350	3,200	(57.8)
EPS (Rs/sh)	8.4	29.8	(71.8)	15.7	41.5	(62.2)	17.8	42.2	(57.8)

Source: Company, HSIE Research

BUY

CMP (as on 25 Jan 2024)	INR 531
Target Price	INR 624
NIFTY	21,353

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 624	INR 624	
EPS Change %	FY24E (71.8)	FY25E (62.2)	FY26E (57.8)

KEY STOCK DATA

Bloomberg code	KPDL IN
No. of Shares (mn)	76
MCap (INR bn) / (\$ mn)	40/493
6m avg traded value (INR mn)	185
52 Week high / low	INR 585/231

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	21.6	38.3	79.1
Relative (%)	11.3	31.8	61.6

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	74.45	74.45
FIs & Local MFs	3.96	4.51
FPIs	2.64	2.59
Public & Others	18.95	18.45
Pledged Shares	0.0	0.0

Source: BSE

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Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: > 10% Downside return potential

Disclosure:

We, **Varun Lohchab, PGDM & Amit Kumar, CFA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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