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10th Edition

Emerging Ideas

Conference 2023

Udayan ▸ Udyog | Avasanrachana | Nivesha

with special edition
of

The CUB series

Date: December 09, 2023

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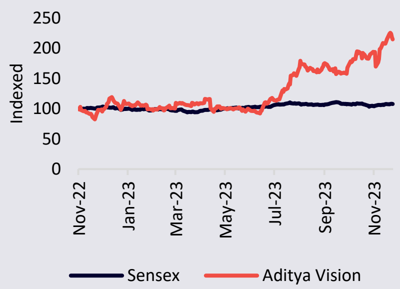
Aditya Vision Ltd

Clear Vision of Growth

CMP: INR3,280
Rating: BUY

Bloomberg:	AVL:IN
52-week range (INR):	1,252/3,475
M-cap (INR cr):	3,945
Promoter holding (%)	61.19

Relative Price Performance



Presentation link

Previous report

Coverage report

We hosted the management of Aditya Vision (AVL) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. This modern multi-brand consumer electronics retail chain, headquartered in Patna (Bihar), is run by a first-generation entrepreneur Mr Yashovardhan Sinha. From a single retail store in 1999, it currently has 132 stores (Bihar/Jharkhand/Eastern Uttar Pradesh: 97/21/14). Through its showrooms, it commands ~50% market share in organised retail electronics in Bihar, offering products from various leading brands.

Key takeaways

- AVL grew by spreading its operations in Bihar and Jharkhand. It has developed a network of 132 outlets in various locations in Bihar, Jharkhand, and Eastern UP by understanding the requirements of customers in these areas and tailoring its product portfolio accordingly.
- It is present in most (37/17 districts out of 38/24) districts of Bihar/Jharkhand. The management aims to establish its footprint in all districts in the Hindi heartland, focusing primarily on highly populated districts.
- An aspiring large population and rise in electrification in Tier II and III markets in the Hindi belt are factors that are driving the strong demand for consumer electronics.
- It intends to penetrate farther into Bihar sub-districts/sub-divisions and expand its regional footprint by foraying into the adjoining states of UP, Chhattisgarh, Madhya Pradesh, and West Bengal.
- While all electronic categories have a penetration level of more than 50% in metro cities, AVL's target markets have less than 10% penetration.
- The power situation in Bihar has improved considerably. Installed power capacity in Bihar has grown 4x over FY12–22. This boosted demand for electronic appliances and devices in Tier III and IV cities as well as villages, which benefited players such as AVL.
- The management firmly believes that the success of a retail company depends on its staff and hospitality. Better culture, policies, and sensitivity towards customers differentiate the company from its peers.
- The company expects to increase its annual store count by 25 over the next two years (on an expected base of 140 stores in FY24) and will continue to post double-digit SSSG.
- Due to the summer season, Q1 is typically the strongest quarter for AVL, followed by Q3, Q4, and Q2.
- The growth trend in same-store sales (five-year average: 17%) is expected to continue in the medium term given the extreme under-penetration compared to pan-India levels.
- The management expects absolute debt to increase marginally in the medium term as the company embarks on its store expansion strategy. However, healthy cash-flow generation, aided by strong operational performance, may help AVL control its net debt level.

Valuation and view

AVL aims to densify its store network in existing clusters and selectively enter new markets, providing long-term growth opportunities. The benefit of scale can continue to flow as many of the added stores are yet to mature. We expect a revenue/EBITDA/PAT CAGR of 25%/24%/25% over FY23–26E, with a steady EBITDA margin of 10%. At the CMP, the stock is trading at 31.1.5x/16.6x FY26E earnings/EBITDA. We have a BUY rating on the stock with a price target of INR 4,002.

Key financials

Year to March	FY21	FY22	FY23	FY24E	FY25E
Revenues (INR Cr)	748	899	1,322	1,763	2,145
Rev growth (%)	(6)	20	47	33	22
EBITDA (INR Cr)	53	83	133	179	214
Net Profit (INR Cr)	20	35	64	86	103
P/E (x)	193	112	62	46	38
EV/EBITDA (x)	75	49	32	24	20
RoACE (%)	36	26	26	29	28
RoAE (%)	46	55	60	49	41

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Financials

Income Statement

Year to March (INR Cr)	FY21	FY22	FY23	FY24E	FY25E
Income from operations	748	899	1,322	1,763	2,145
Direct costs	656	757	1,111	1,489	1,821
Gross Profit	92	142	211	274	324
Employee costs	25	29	40	43	48
Other expenses	14	30	39	51	62
Total Operating expenses	695	816	1,189	1,584	1,931
EBITDA	53	83	133	179	214
Depreciation and amortisation	13	16	20	27	32
EBIT	41	67	113	152	182
Interest expenses	17	25	30	40	47
Profit before tax	27	43	86	114	138
Provision for tax	7	8	22	29	35
Adj. profit after tax	20	35	64	86	103
Share of Minority in profits	-	-	-	-	-
Profit after tax	20	35	64	86	103
Shares outstanding	1	1	1	1	1
Adjusted EPS	17	29	53	71	86
	-	0	-	-	-

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23	FY24E	FY25E
Operating expenses	93	91	90	90	90
Depreciation	2	2	2	2	1
Interest expenditure	2	3	2	2	2
EBITDA margins	7	9	10	10	10
Net profit margins	3	4	5	5	5

Growth metrics (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Revenues	(6)	20	47	33	22
EBITDA	112	56	60	35	19
PBT	46	58	99	33	21
Net profit	46	73	82	33	21
EPS	46	73	82	33	21

Ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E
ROAE (%)	46	55	60	49	41
ROACE (%)	36	26	26	29	28
Debtors (days)	0	0	0	0	0
Current ratio	2	3	4	4	4
Debt/Equity	2	2	2	2	1
Inventory (days)	96	85	81	81	81
Payable (days)	70	26	16	16	16
Cash conversion cycle (days)	26	60	65	65	65
Debt/EBITDA	2	2	2	2	2
Adjusted debt/Equity	2	2	2	2	1

Valuation Parameters

Year to March	FY21	FY22	FY23	FY24E	FY25E
Diluted EPS (INR)	17	29	53	71	86
Y-o-Y growth (%)	46	73	82	33	21
Diluted P/E (x)	193	112	62	46	38
Price/BV(x)	80	50	29	19	13
EV/Sales (x)	5	5	3	2	2
EV/EBITDA (x)	75	49	32	24	20
Diluted shares O/S	1	1	1	1	1
Basic EPS	17	29	53	71	86
Basic PE (x)	193	112	62	46	38

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Equity share capital	12	12	12	12	12
Reserves & surplus	37	67	124	198	287
Shareholders funds	49	79	136	210	299
Total Debt	83	154	259	319	359
Other Long Term Liabilities	108	118	136	136	136
Deferred Tax Liabilities	(1)	(6)	(7)	(7)	(7)
Minority interest	0	0	0	0	0
Sources of funds	238	345	525	658	787
Gross block	140	163	213	284	335
Depreciation	9	13	30	57	89
Net block	130	150	183	227	245
Capital work in progress	-	-	8	8	8
Total fixed assets	130	150	191	235	253
Other Non Current Assets	-	27	53	53	53
Investments	2	2	4	4	4
Inventories	197	210	294	392	477
Sundry debtors	0	0	0	0	0
Cash and equivalents	22	1	4	10	44
Loans and advances	39	24	64	86	105
Total current assets	260	238	366	493	629
Sundry creditors and others	144	70	82	117	142
Provisions	8	1	4	5	7
Total CL & provisions	152	71	86	122	149
Net current assets	108	167	280	370	480
Misc expenditure	-	-	-	-	-
Uses of funds	238	345	525	658	787
Book value per share (INR)	41	65	113	174	248
	-	-	-	-	-

Cash flow statement

Year to March	FY21	FY22	FY23	FY24E	FY25E
Operating Profit After Tax Before WC changes	47	75	85	113	135
WC Changes	(47)	(80)	(108)	(83)	(77)
CFO	(1)	(5)	(24)	30	58
CFI	(109)	(49)	34	71	51
CFF	116	33	116	48	25
Total Cash Flow	6	(21)	59	7	33

Allcargo Gati

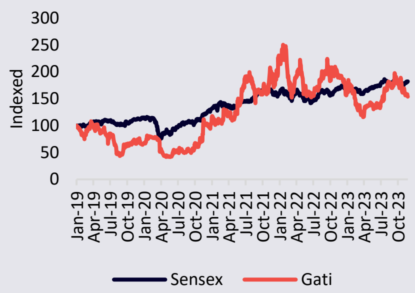
We hosted the management of Allcargo Gati in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — Udayan' on December 5. AGLL is one of India's leading multi-modal express logistics players. It operates in two segments — express logistics/fuel stations, which contribute 85%/15% to total revenue. With a network of 22 hubs, 700 branches, and 5,000 vehicles, its surface express business covers 99% of pin codes in India. Its air express business uses passenger planes, with connectivity across 34 airports. In the fuel station space, it owns and operates three pumps in Bengaluru, Belgaum, and Indore in partnership with HPCL and IOCL.

In H1FY24, AGLL reported a revenue of INR868cr (flat YoY). While volumes grew 11.4% YoY on strong demand and focus on intra-zonal deliveries, realisation fell 10.1% YoY on adverse product and client mix. On a lower realisation, EBITDA fell 20% YoY to INR31cr. It reported a net loss of INR4cr against a PAT of INR10cr in H1FY23. We expect a recovery in margin on cost savings and operating leverage benefits. We expect volume growth to continue on expanding capacity, improving service levels, and higher customer additions. At the CMP, the stock trades at a FY26 EV/EBITDA of 8x. We maintain 'BUY' with a DCF-based TP of INR222, implying an EV/EBITDA of 15.1x on FY26 estimates.

CMP: INR133
Rating: BUY

Bloomberg:	GTIC:IN
52-week range (INR):	97/177
M-cap (INR cr):	1,785
Promoter holding (%)	52.97

Relative price performance



Previous report link

Key takeaways

- The management laid out a well-defined path to profitable growth that revolved around customer retention, quality improvement, and cost rationalisation. It has switched to an asset light model (it now leases its hubs and vehicles) and has sold off ~80% of non-core land and buildings. It plans to sell the remaining non-core land and buildings over the next three-to-four quarters. It is upgrading its outdated hub infrastructure in two phases. In Phase I, it has upgraded five hubs of the planned eight and the rest will be targeted in Phase II. It has revamped the management post takeover and continues to hire talent (COO and digital marketing head). It is investing in GEMS 2.0, AGLL's proprietary backend system, which will ensure optimum utilisation of vehicles and route optimisation, and help drive efficiency. GEMS 2.0 will be implemented in phases and its impact will be visible from FY26.
- The focus is on raising the wallet share from existing customers and acquiring larger ticket sized clients in all categories. Monthly business with MSME/KEA customers has risen to ~INR50,000/INR50lk–2cr.
- To optimise costs, it has started deploying larger line haul vehicles on the Delhi-Mumbai route (40–46 foot versus 30–35 foot trucks). At 90% utilisation (line haul capacity utilisation is 100%), AGLL will generate significant cost saving per kg.
- The management has started measuring and benchmarking cost centres (e.g., loading and unloading, spares, repairs and maintenance, etc.), which is helping it control costs. Cost savings are mostly seen in the line haul transport.
- The focus is on improving service levels, which has risen to 89-90% from ~60% in FY21. The benchmark gold standard in India is 95%, which AGLL is targeting.
- AGLL is approaching KEA customers for a rate revision, which it was unable to do earlier, given the sub-par quality standards. It is confident of revising rates which will drive yield in FY25.
- A combination of an increase in yield and optimisation in costs will drive gross margin to the targeted 28% by FY26. In the long term, it aims to achieve a gross margin of 30%.
- As of September, its net debt stood ~INR40cr. Against this, it has assets held for sale, which can fetch ~INR80cr. It has put its fuel station business for sale (approvals pending), which can generate another INR15–20cr.

Recommend 'BUY' with a TP of INR222

At the CMP, the stock trades at a FY26 EV/EBITDA of 8x. We maintain 'BUY' with a DCF-based TP of INR222.

Key financials

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenue (INR cr)	1,490	1,723	1,808	2,100	2,405
Revenue growth (%)	13	16	5	16	15
EBITDA (INR cr)	34	70	76	150	200
Adjusted PAT (INR cr)	9	-13	5	52	80
P/E ratio (x)	-455.1	-104.3	354.2	33.1	21.6
EV/EBITDA ratio (x)	62.5	19.1	23.6	11.3	7.7
RoACE (%)	-0.1	2	2.8	15.8	21.7
RoAE (%)	1.6	-2.1	0.8	8.1	11.3

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Financials

Income Statement

Year to March (INR Cr)	FY22	FY23	FY24E	FY25E	FY26E
Income from operations	1,490	1,723	1,808	2,100	2,405
Cost of services	1,149	1,307	1,393	1,583	1,814
Employee costs	158	188	200	214	230
Other expenses	148	158	141	153	162
Total Operating expenses	1,456	1,653	1,733	1,950	2,206
EBITDA	34	70	76	150	200
Depreciation and amortisation	35	59	60	55	56
EBIT	-1	11	16	95	144
Interest expenses	27	29	29	18	13
Other income	15	23	23	23	23
Exceptional item	12	1	-	-	-
Profit before tax	-0	5	9	100	153
Provision for tax	4	16	2	25	39
Profit after tax	-4	-11	7	75	115
Share of Minority in profits	-13	2	2	22	34
Adj. profit after tax	9	-13	5	52	80
Shares outstanding	12	13	13	13	13
Adjusted EPS	-0	-1	0	4	6

Common size metrics- as % of net revenues

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Operating expenses	98	96	96	93	92
Depreciation	2	3	3	3	2
Interest expenditure	2	2	2	1	1
EBITDA margins	2	4	4	7.1	8.3
Net profit margins	1	-1	0	2	3

Growth metrics (%)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenues	13	16	5	16	15
EBITDA	27	104	8	98	33
PBT	74	135	115	969	54
Adj. Net profit	98	-146	164	969	54
Adj. EPS	98	-146	164	969	54

Balance Sheet

As on 31st March (INR cr)	FY22	FY23	FY24E	FY25E	FY26E
Equity share capital	25	26	26	26	26
Reserves & surplus	535	589	594	646	726
Shareholders' funds	560	615	620	672	752
Total Debt	152	125	119	86	57
Other Long-Term Liabilities	188	215	184	158	132
Deferred Tax Liabilities	-28	-26	-30	-30	-30
Minority interest	77	73	76	98	132
Sources of funds	**949**	**1,002**	**968**	**983**	**1,043**
Gross block	381	441	482	508	520
Depreciation	134	182	242	297	353
Net block	247	259	240	211	167
Capital work in progress	1	1	-	-	-
Total fixed assets	248	259	240	211	167
Investments	10	-	-	-	-
Inventories	3	2	5	6	7
Sundry debtors	232	267	258	288	329
Cash and equivalents	18	97	62	131	254
Loans and advances	184	129	115	103	93
Total current assets	448	495	439	528	684
Sundry creditors and others	248	243	273	317	369
Provisions	6	13	13	13	13
Total CL & provisions	254	257	285	329	382
Net current assets	193	238	154	198	301
Other Assets	508	504	574	574	574
Uses of funds	**949**	**1,002**	**968**	**983**	**1,043**
Book value per share (INR)	46	47	48	52	58

Cash flow statement

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Gross CFO	44	53	71	102	127
WC Changes	-16	23	50	25	19
CFO	27	76	121	127	146
CFI	-37	-33	-91	-3	11
CFF	-28	35	-64	-55	-34
Total Cash Flow	-38	78	-34	69	123

Ratios

Year to March	FY22	FY23	FY24E	FY25E	FY26E
ROAE (%)	1.6	-2.1	0.8	8.1	11.3
ROACE (%)	-0.1	2.0	2.8	15.8	21.7
Inventory (days)	1	1	1	1	1
Debtors (days)	57	57	52	50	50
Payable (days)	25	20	21	21	22
Cash conversion cycle (days	33	37	32	30	29
Debt/Equity	0.3	0.2	0.2	0.1	0.1
Debt/EBITDA	4.4	1.8	1.6	0.6	0.3
Adjusted debt/Equity	0.2	0.0	0.1	-0.1	-0.3

Valuation parameters

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Diluted EPS (INR)	-0.4	-1.0	0.4	4.0	6.2
Diluted P/E (x)	-455.1	-104.3	354.2	33.1	21.6
Price/BV(x)	3.6	2.1	2.8	2.6	2.3
EV/EBITDA (x)	62.5	19.1	23.6	11.3	7.7
Diluted shares O/S	12.3	13.0	13.0	13.0	13.0
Basic EPS	-0.4	-1.0	0.4	4.0	6.2
Basic PE (x)	-455.1	-104.3	354.2	33.1	21.6

Arvind Fashions

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We hosted Arvind Fashions (ARVINDFA)'s management in our 'Nuvama Emerging Ideas Conference 2023: India – Udayan' on 6 December 2023. ARVINDFA is engaged in the business of designing, sourcing, marketing, and selling a wide portfolio of branded men, women, and kids readymade apparel, footwear, innerwear, and other accessories via EBOs, MBOs, LFS, and e-commerce platforms. It has a strong portfolio of brands like US Polo Association, Arrow, Tommy Hilfiger, Calvin Klein, and Flying Machine. With a combination of capital raises, portfolio rationalisation by exiting non-core and non-performing brands, and margin improvement over the years (~430bp expansion over FY20–23), the management has turned around the business. It expects margin to expand by 100–150bp every year for next 2-3 years, by reducing discounts and from positive operating leverage. It is looking to cut its debt by healthy operating cash flows and return ratios. The stock is not rated.

Key Takeaways

- The company has shrunk portfolio from 10-12 to 5 marquee brands; royalty for brands between 4-5% of NSV
- Price positioning ladder: FM – Arrow – US Polo – TH – CK
- All the brands would be benefitting from premiumisation play, also see huge opportunity in terms of city penetration for each of the brands
- Channel contribution: ~50% is from retail, ~20% is from online channel (within online, B2C is growing fast, B2B players are de-stocking as they have started focusing on profitability), rest business is from MBOs and LFS (almost equally distributed between both channels); revenue contribution from retail channel has moved up by 400-500bps and expecting this momentum to continue
- The company has focused of free cash flow generation, working capital and margin improvement for last 30 months, focus would on improving these metrices for next 24 months, will grow 10-12% for that period, focus is on full-price sell throughs for better margins, long term margin target of 16%. The management has set a target of becoming marginal or zero debt company in 2-3 years
- Overheads have remained flat year-on-year despite the inflation and sales have grown
- Won't go for brands which don't have potential to be a market leader in their respective categories. Not looking into ethnic category as market leader is already there and it would be difficult to compete with them
- TH and CK have 60-70% market share in premium categories
- Footwear category has achieved 250cr run-rate. Most of the revenue is with US Polo, have started footwear category in FM 3months back, Arrow footwears would also be there in the near future. Haven't spent on marketing for the footwear category but would start spending there. Can be INR500cr category in 2-3 years
- Innerwear category contributing INR150cr, the category is currently facing a slowdown, would grow at a comaony average going forward
- FM has a potential to become INR1000cr brand in next 3-4 years; US Polo will be around INR2000cr brand by the end of FY24
- LTL should be mid-to-high single digit, Q2 LTL was 9% which was 2nd best in the industry after Trent
- Kidswear and footwear categories would outgrow, super premium category is experiencing higher growth than average

Valuation and view

Given its strong brand portfolio, which can benefit from premiumisation, category extensions and improved operational performance, the stock is a strong contender for a valuation re-rating.

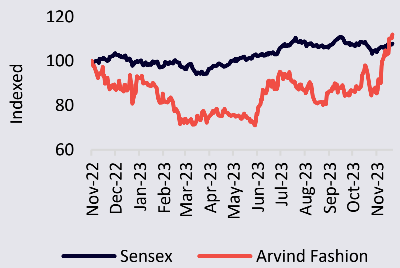
Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	1,912	3,056	4,421
Revenue growth (%)	-50.5	59.8	44.7
EBITDA (INR cr)	-2	180	453
EBITDA margin (%)	-0.1	5.9	10.2
Net profit (INR cr)	-398	-104	88
P/E ratio (x)	NA	NA	63.5
RoACE (%)	-71	-16.4	10.6
RoAE (%)	-11.7	-3.4	13.3

CMP: INR407
Rating: Not rated

Bloomberg:	ARVINDFA:IN
52-week range (INR):	261/2,433
M-cap (INR cr):	5,584
Promoter holding (%)	36.80

Relative Price Performance



Presentation link

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	1,912	3,056	4,421
Direct costs	1,118	1,710	2,292
Employee costs	205	237	268
Other expenses	591	929	1,409
Total operating expenses	1,914	2,876	3,968
EBITDA	-2	180	453
Depreciation and amortisation	238	233	239
EBIT	-239	-53	214
Interest expenses	180	124	138
Other income	109	67	53
Extraordinary items	-45	0	0
Profit before tax	-266	-110	128
Provision for tax	42	-6	40
Core profit	-308	-104	88
Extraordinary items	45	0	0
Profit after tax	-262	-104	88
Minorit Interest	0		
Share from associates	0	0	0
Adjusted net profit	-262	-104	88
Equity shares outstanding (cr)	11	13	13
EPS (INR) basic	-37.5	-7.9	6.6
Diluted shares (Cr)	11	13	13
EPS (INR) fully diluted	(37.5)	(7.9)	6.6
Dividend per share	0	0	0
Dividend payout (%)	0	0	0

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	100.1	94.1	89.8
Depreciation	12.4	7.6	5.4
Interest expenditure	9.4	4.1	3.1
EBITDA margins	(0.1)	5.9	10.2
Net profit margins	(13.7)	(3.4)	2.0
			426.067

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	(50.5)	59.8	44.7
EBITDA	(100.7)	(11,430.8)	151.2
PBT	(29.1)	(58.7)	(216.5)
Net profit	10.7	(66.2)	(184.5)
EPS	(44.9)	(79.1)	(184.2)

Ratios

Year to March	FY21	FY22	FY23
ROAE (%)	-71.0	-16.4	10.6
ROACE (%)	-11.7	-3.4	13.3
Debtors (days)	119	68	46
Current ratio	2	2	2
Debt/Equity	1.8	0.7	0.7
Inventory (days)	155	99	81
Payable (days)	175	125	84
Cash conversion cycle (days)	99	42	43
Debt/EBITDA	-593	3	1
Adjusted debt/Equity	1.8	0.5	0.4

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	(37.5)	(7.9)	6.6
Y-o-Y growth (%)	*(44.9)*	*(79.1)*	*(184.2)*
CEPS (INR)	(15.1)	9.7	24.6
Diluted P/E (x)	-	-	*63.5*
Price/BV(x)	8.5	7.4	6.1
EV/Sales (x)	*0.5*	*1.9*	*0.1*
EV/EBITDA (x)	(581.2)	33.1	0.9
Diluted shares O/S	*10.6*	*13.2*	*13.3*
Basic EPS	(37.5)	(7.9)	6.6
Basic PE (x)	-	-	*63.5*
Dividend yield (%)	-	-	-

Balance sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	42	53	53
Preference Share Capital	0	0	0
Reserves & surplus	480	697	857
Shareholders funds	522	750	910
Secured loans	943	502	598
Unsecured loans	0	0	0
Borrowings	943	502	598
Minority interest	69	100	183
Sources of funds	**1,534**	**1,352**	**1,690**
Gross block	764	405	424
Depreciation	565	291	319
Net block	199	113	105
Capital work in progress	0	0	2
Right of Use Assets	665	388	608
Goodwill	111	111	111
Intangible Assets	70	49	41
Total fixed assets	1,045	661	867
Investments	151	63	62
Inventories	810	831	982
Sundry debtors	626	572	560
Cash and equivalents	19	105	200
Loans and advances	601	528	535
Other current assets	0	0	0
Total current assets	2,056	2,036	2,277
Sundry creditors and others	359	264	151
Provisions	8	10	7
Total CL & provisions	367	275	158
Net current assets	1,689	1,761	2,119
Net Deferred tax	392	411	412
Misc expenditure	-173	-161	-84
Uses of funds	**3,104**	**2,735**	**3,377**
Book value per share (INR)	49	57	68

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	-585	-249	44
Add: Depreciation	334	261	239
Add: Misc expenses written off/Other Assets	73	10	130
Add: Deferred tax	0	0	0
Gross cash flow	-177	22	413
Less: Changes in W. C.	108	278	-96
Operating cash flow	-285	-256	508
Less: Capex	-46	17	63
Free cash flow	**-239**	**-273**	**445**

Arvind

We hosted the management of Arvind (ARVND) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. ARVND is a leading business conglomerate operating in the textile and advanced materials (AMD) space. In 2018, its branded retail and engineering businesses were demerged into separate entities: Arvind Fashions and The Anup Engineering. It is among the top fabric suppliers globally, with an annual production capacity of 108mn/150mn meters in denim/woven fabric. This has enabled it to supply material to major Indian and global brands. To cross-sell its products, it manufactures its own garments, with a total capacity of ~60mn pieces. Its focus has shifted to the high margin and RoE AMD segment. It is investing ~INR240cr over the next two years in this segment, with an aim to clock 20–25% CAGR. The stock is not rated.

Key takeaways

- ARVND is at an inflection point. Till date, the focus was on debt reduction. It is now in investment mode. Long-term debt stands at INR500cr which is at comfortable level. It is looking to end FY24/FY25 with a long-term debt of INR300cr/INR100cr.
- It will be investing in the garment division and AMD going forward. There is some headroom in capacity expansion through de-bottlenecking in the garment division. It is looking to boost annual capacity to 60mn pieces when the market conditions improve.
- China+1 theme and inventory correction at the retailers' end should help the industry.
- Brands in the US are being cautious while ordering. They are delaying or ordering in relatively smaller slots than before.
- Capacity utilisation in the garment section stands at 75%.
- Cotton prices are hovering at INR56–57,000/candy. Freight rates have also corrected.
- India and Bangladesh have a comparable cost structure after the wage hikes in Bangladesh. There is a compliance gap between India and Bangladesh which will benefit Indian garment exporters.
- India-UK FTA deal can double India's exports to the UK from India.
- It uses captive fabric (7–8%/15% of total woven/denim) in manufacturing garments. ARVND currently uses ~10% of total fabric, and this can rise to 15%.
- It manufacturers jeans, t-shirts, essentials, knitwear. It doesn't make outerwear as it does not manufacture MMF, which is a key input needed to produce outerwear.
- ARVND has a land bank of INR350cr and is targeting INR50–60cr via land sales.
- AMD witnessed 20%/13% volume/revenue growth as the cost cycle is on the downturn. It will maintain 20% volume growth going forward.
- Out of the planned capex of INR600cr, INR200cr will be in AMD. It has three divisions in this segment: i) human protection (functional product); ii) industrial products (reinforcement for conveyors, hot gas filters, liquid filtration for manufacturing factories, coated lines, canopies, and specialty yarns); and iii) composites. Margin stands at 15%, and there is headroom to go up to 20%.
- In the AMD space, the investment/working capital-to-revenue ratio is 1:3/1:6. Inventory days are higher as it imports its raw materials. Exports constitute 75–80% of total revenue. It exports to the US, the UK, Australia, and Europe.

Valuation and view

It earns a RoCE of over 20% in the AMD segment. This can result in a re-rating when compared to the traditional textile businesses. Healthy cash flows and high growth will help pare its debt further. At the CMP, the stock is trading at 30x earnings on a TTM basis. The stock is not rated.

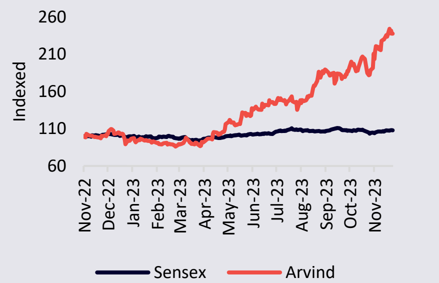
Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	5,073	8,010	8,382
Revenue growth (%)	-31	58	5
EBITDA (INR cr)	463	808	800
EBITDA margin (%)	9.1	10.1	9.5
Net profit (INR cr)	-17	228	408
P/E ratio (x)	-103	13	14
RoACE (%)	4.6	11	10.8
RoAE (%)	-0.6	7.9	12.7

CMP: INR225
Rating: Not rated

Bloomberg:	ARVND:IN
52-week range (INR):	78/229
M-cap (INR cr):	5,780
Promoter holding (%)	41.14

Relative price performance



Presentation link

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	5,073	8,010	8,382
Direct costs	2,522	4,122	4,471
Employee costs	697	780	868
Other expenses	1,392	2,300	2,244
Total operating expenses	4,610	7,202	7,582
EBITDA	**463**	**808**	**800**
Depreciation and amortisation	285	254	253
EBIT	177	554	547
Interest expenses	225	176	164
Other income	52	50	50
Profit before tax	5	427	432
Provision for tax	-4	151	71
Core profit	8	276	362
Minority Interest	-11	3	9
Profit after tax	19	273	353
Extraordinary items & share of profit from associ	-35	-45	55
Reported net profit	-27	231	417
Adjusted Net Profit	**-17**	**228**	**408**
Equity shares outstanding (cr)	25.9	26.1	26.2
EPS (INR) basic	(0.6)	8.7	15.6
Diluted shares (Cr)	25.9	26.1	26.2
EPS (adj) fully diluted	(0.6)	8.7	15.6
Dividend per share	0.0	0.0	5.8
Dividend payout (%)	0%	0%	37%

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	90.9	89.9	90.5
Depreciation	5.6	3.2	3.0
Interest expenditure	4.4	2.2	2.0
EBITDA margins	9.1	10.1	9.5
Net profit margins	(0.5)	2.9	5.0

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	-	57.9	4.7
EBITDA	-	74.6	(1.0)
PBT	-	9,307.3	1.3
Net profit	-	(1,479.2)	79.2
EPS	-	(1,470.3)	78.6

Ratios

Year to March	FY21	FY22	FY23
ROE (%)	(0.6)	7.9	12.7
ROCE (%)	4.6	11.0	10.8
Debtors (days)	79	51	42
Current ratio	1.6	1.5	1.7
Debt/Equity	0.7	0.6	0.4
Inventory (days)	83	101	72
Payable (days)	101	99	54
Cash conversion cycle (days)	61	52	60
Debt/EBITDA	4.3	2.2	1.8
Adjusted debt/Equity	0.7	0.6	0.4

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	(0.6)	8.7	15.6
CEPS (INR)	10.4	18.5	25.3
Diluted P/E (x)	(103.0)	13.2	14.0
Price/BV(x)	0.6	1.0	1.7
EV/Sales (x)	0.7	0.6	0.8
EV/EBITDA (x)	7.9	5.8	8.8
Diluted shares O/S	25.9	26.1	26.2
Basic EPS	(0.6)	8.7	15.6
Basic PE (x)	(103.0)	13.2	14.0
Dividend yield (%)	0%	0%	3%

Balance sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	259	261	262
Reserves & surplus	2,460	2,690	3,084
Shareholders funds	2,719	2,951	3,346
Secured loans	1,142	758	378
Unsecured loans	860	1,002	1,025
Borrowings	2,002	1,759	1,404
Net Debt	1,951	1,682	1,327
Minority interest	47	56	59
Other liabilities	216	305	291
Sources of funds	**4,985**	**5,070**	**5,099**
Gross block	4,758	4,732	4,784
Depreciation	1,293	1,508	1,624
Net block	3,465	3,224	3,160
Capital work in progress	78	45	79
Total fixed assets	3,543	3,269	3,239
Other non-current assets	364	396	557
Investments			
Inventories	1,160	2,208	1,649
Sundry debtors	1,092	1,109	966
Cash and equivalents	52	77	77
Other current assets	511	646	425
Total current assets	2,814	4,040	3,117
Sundry creditors and others	1,736	2,614	1,800
Provisions	0	20	15
Total CL & provisions	1,736	2,634	1,814
Net current assets	1,078	1,405	1,303
Uses of funds	**4,985**	**5,070**	**5,099**
Book value per share (INR)	107	115	130

Cash flow statement

Year to March	FY21	FY22	FY23
EBIT	-27	242	413
Add: Depreciation	285	272	255
Add: Others	277	345	183
Gross cash flow	535	859	852
Less: Changes in W. C.	-242	264	186
Operating cash flow	776	595	666
Less: Capex	116	184	204
Free cash flow	**660**	**411**	**462**

Can Fin Homes

Key re-rating triggers in place

We hosted the management of Can Fin Homes in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. This South India-based housing finance company focuses on Tier II, III, and IV cities. Its customer profile includes salaried individuals (73% of total loans, mostly low risk) and self-employed non-professionals (27% of total loans). CANF caters mainly to the medium ticket-size segment (incremental average ticket size of ~INR25lk for housing loans). With strong credit demand likely to sustain in the affordable housing segment, coupled with optimisation of operating cost and normalising of credit cost, it can deliver a RoA/RoAE of 2.2%/19.4% by FY25. Maintain 'BUY'

Key takeaways

- The management is targeting disbursements of ~INR10,000cr in FY24. It has also retained its credit growth guidance of 18% for FY24.
- CANF has increased its focus on the sub-INR 50 lakh ticket size segment which has been vacated by HDFC. Average ticket size is expected to rise to INR 35 lakh in the next five years.
- The management said that self-construction/apartment resale/flats under construction constitute 38–40%/30–35%/sub-5% of the portfolio. It ensures that registration of the property has been already completed before disbursing a loan to the customer.
- CANF is looking to gradually expand in North India by opening 15 branches. It has constituted internal teams for acquiring customers, and the same team has been tasked with collections. Its portfolio is highly skewed to South India (~71%).
- Generally, it requires INR 9–10 lakh to set up a branch and it takes 12–18 months for a branch to turn profitable.
- The management reaffirmed that it is not chasing growth. Its main focus will be on keeping asset quality in check.
- It expects NIM to expand till FY24-end on: i) continuation of asset re-pricing (last reset took place in January), and ii) stable borrowing cost for the next couple of quarters.
- CANF may benefit from the lower borrowing cost compared to other NBFC's, due to the change in RBI norms. Only 5% of its overall borrowings are from Canara Bank.
- It will maintain C/I ratio at 18–18.5% due to branch expansion and IT spends. The management expects the digital software to be in place by March 2025.
- Its NPA levels are one of the best in the industry. GNPA/NNPA stood at 0.76%/0.43% in Q2FY24. Stage-2 stood at 3.4%, of which 184bp consists of restructured accounts. CANF has created a substantial provision for slippages from restructured accounts.

Valuation and view

CANF is well-placed to capitalise on growth in the housing market in Tier II, III, and IV cities. In Q2FY24, it posted an impressive NIM expansion that was offset by higher credit cost. The deterioration in asset quality was expected due to an elevated restructured book. We expect high-teen credit growth, with elevated NIM. Operating efficiencies and low credit costs may ensure a RoA/RoE of 2.2%/19.4% by FY25E. Maintain 'BUY'.

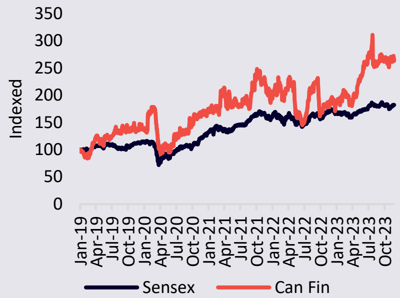
Key financials

Year to March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Revenue	810	835	1,042	1,265	1,533
PPOP	686	681	866	1,060	1,290
Adjusted profit	456	470	621	731	921
Diluted EPS (INR)	34	35	47	55	69
EPS growth	21.3	3.1	32.1	17.6	26.1
RoAE	19.2	16.6	18.5	18.3	19.4
P/E ratio (x)	22	21.4	16.2	13.7	10.9
P/BV ratio (x)	3.9	3.3	2.8	2.3	1.9

CMP: INR790
Rating: Buy

Bloomberg:	CANF:IN
52-week range (INR):	486/910
M-cap (INR cr):	10,525
Promoter holding (%)	29.99

Relative price performance



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Financials

Income statement

Year to March (INR Cr)	FY21	FY22	FY23	FY24E	FY25E
Interest income	2,006	1,970	2,715	3,274	3,836
Interest charges	1,208	1,154	1,701	2,041	2,341
Net interest income	798	816	1,015	1,233	1,495
Fee & other income	12	19	28	32	39
Net revenues	810	835	1,042	1,265	1,533
Operating expense	124	154	176	205	243
- Employee exp	70	77	84	96	113
- Other opex	54	77	93	110	131
Preprovision profit	686	681	866	1,060	1,290
Provisions	69	47	42	111	62
PBT	618	634	824	949	1,228
Taxes	162	164	203	218	307
PAT	456	470	621	731	921
Extraordinaries	0	0	0	0	0
Reported PAT	456	470	621	731	921
Basic number of shares (cr)	13	13	13	13	13
Basic EPS (INR)	34	35	47	55	69
Diluted number of shares (cr)	13	13	13	13	13
Diluted EPS (INR)	34	35	47	55	69
DPS (INR)	2	3	4	4	5
Payout ratio (%)	6	8	8	7	7

Balance Sheet

Year to March (INR Cr)	FY21	FY22	FY23	FY24E	FY25E
Paid Capital	27	27	27	27	27
Reserve & Surplus	2,583	3,040	3,621	4,298	5,159
Shareholder's Fund	2,610	3,067	3,647	4,325	5,186
Total Borrowings	19,293	24,648	29,258	34,525	40,394
Other Liabilities	171	230	165	185	207
Total Liabilities	22,074	27,944	33,070	39,034	45,787
Cash & Bank Balance	22	324	308	301	314
Investment	50	1,126	1,459	1,690	1,793
Loan & Advances	21,891	26,378	31,193	36,631	43,472
Net Fixed Assets	38	35	45	49	54
Other assets	73	82	64	363	155
Total Assets	22,074	27,944	33,070	39,034	45,787

Growth ratios (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
NII growth	18.3	2.3	24.3	21.5	21.2
Net revenues growth	18.0	3.1	24.8	21.4	21.2
Opex growth	15.2	24.2	14.6	16.4	18.5
PPP growth	18.6	(0.7)	27.1	22.4	21.7
Provisions growth	13.6	-31.5	-11.0	164.9	-44.1
PAT growth	21.3	3.1	32.1	17.6	26.1

Operating ratios (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Yield on advances	9.4	7.9	8.9	9.1	9.0
Cost of funds	6.4	5.3	6.3	6.4	6.3
Spread	3.0	2.7	2.6	2.7	2.7
Net interest margins	3.7	3.3	3.3	3.4	3.5
Cost-to-income	15.3	18.4	16.9	16.2	15.9
Tax rate	26.2	25.9	24.6	23.0	25.0

Balance sheet ratios (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Loan growth	6.7	20.5	18.3	18.6	19.3
EA growth	4.9	26.7	18.4	18.3	18.6
Gross NPA ratio	0.9	0.6	0.6	0.6	0.6
Net NPA ratio	0.6	0.3	0.3	0.3	0.3
Provision coverage	33	53	53	54	55

RoE decomposition (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Net interest income/Assets	3.7	3.3	3.3	3.4	3.5
Other Income/Assets	0.1	0.1	0.1	0.1	0.1
Net revenues/Assets	3.8	3.4	3.4	3.5	3.6
Operating expense/Assets	0.6	0.6	0.6	0.6	0.6
Provisions/Assets	0.3	0.2	0.1	0.3	0.1
Taxes/Assets	0.8	0.7	0.7	0.6	0.7
Total costs/Assets	1.7	1.5	1.4	1.5	1.4
ROA	2.1	1.9	2.0	2.0	2.2
Equity/Assets	9.0	8.8	9.1	9.0	9.0
ROAE	19.2	16.6	18.5	18.3	19.4

Valuation metrics

Year to March	FY21	FY22	FY23	FY24E	FY25E
Diluted EPS (INR)	34.3	35.3	46.7	54.9	69.2
EPS growth (%)	*21.3*	*3.1*	*32.1*	*17.6*	*26.1*
Adjusted BV per share	193.0	228.5	272.1	322.5	389.5
Diluted P/E (x)	22.0	21.4	16.2	13.7	10.9
Price/Adj. Book Value(x)	3.9	3.3	2.8	2.3	1.9
Price/ Earning (x)	22.0	21.4	16.2	13.7	10.9

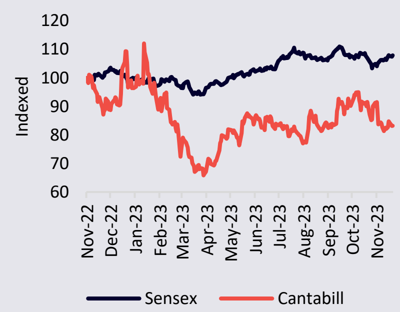
Cantabil Retail India

We hosted the management of Cantabil Retail India (CANT) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — Udayan' on December 5. CANT designs, manufactures, and retails apparel and accessories under the Cantabil brand. Its offerings include menswear, womenswear, kids wear, and accessories. It targets the mid-premium segment. It has a network of more than 500 stores across over 220 cities as of September and an annual manufacturing capacity of 15lk garments. Cantabil is an affordable value brand (ASP: INR1,100) that focuses on Tier II and III towns, where other brands have a limited presence. Over the last five years, revenue/EBITDA grew 23%/50% on strong annual store additions (~50). The stock is not rated.

CMP: INR264
Rating: Not rated

Bloomberg:	CANT:IN
52-week range (INR):	162/283
M-cap (INR cr):	1,681
Promoter holding (%)	74.97

Relative price performance



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Key takeaways

- The company operates in the mid-premium/premium to masses market.
- The reason for its success lies in its entry into Tier II and III towns, where there are no options available to consumers. Customers are attracted by the good quality of its apparel and visual ambience.
- It offers a wide range of products under a single brand. Its store size is increasing. It is opening 2,000– 2,500sq. ft. stores too (most stores are spread across 1,200sq. ft.).
- **Store distribution:** Tier I/II/III and rest: 90– 95/200/200 stores.
- CANT forayed into the footwear and athleisure segment in November and has opened one store in Uttar Pradesh. It is planning to open five stores by FY24-end.
- The mix of COCO:FOFO stands at 70:30, down from 90:10 earlier. Capex for opening a store (COCO/FOFO) is INR50lk.
- For CANT, sales contribution in the first and second half of a fiscal is 40:60. Sales contribution rises after the first quarter and peaks in the fourth quarter of a fiscal owing to higher discounted sales to clear inventory. Margin is the highest in the first quarter and the lowest in the fourth quarter of the fiscal.
- The company is debt free and there is no funding requirement.
- **Discounting structure:** Initially, it offers a flat 20% discount or a free product on every two purchases (mostly in the first quarter). In the second phase, it offers a flat 50% (mostly in the second and third quarter). In the final phase, it offers five free products on every two purchases (mostly in the fourth quarter of a fiscal).
- Average revenue per store/bill amount is INR1.4cr/~INR4,200. It is able to maintain a higher bill size than most competitors due to its focus on bundled schemes.
- The management is targeting 5–6%/10% of sales from the online channel in FY24/FY26. It is looking to maintain gross margin at 54–55% going forward.
- **Guidance:** The management aims to add more than 90 EBOs annually over the next two-to-three years, with the majority of the expansion on a COCO basis. It is targeting a SSSG of 5–7%. The company is operating at optimum utilisation and is contemplating capacity expansion and a new warehouse. Working capital days stood at 113 in FY23. The management aims to reduce it to 90 days in the near future.
- It aims to garner a revenue of INR1cr/store right from the first year. The payback period is 2-2.5 years. Return customers stands at 50%. CANT has started to run SMS campaigns to make customers aware of the discounts offered.

Valuation and view

Revenue grew 44%/~14% to INR552cr/INR247cr in FY23/H1FY24 led largely by aggressive store additions and the opening up of the economy. It has opened more than 50 stores in FY24 and is well placed to benefit from robust demand, aggressive store expansion, and category extension in H2FY24. The management aims to aggressively add stores using internal accruals. It is targeting a revenue/PAT of INR1,000cr/INR125cr by FY26 and is confident of maintaining operating margin at 30%. **If CANT can demonstrate steady revenue growth and maintain margin and return ratios, the stock is a strong contender for a valuation re-rating.**

Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	252	383	552
Revenue growth (%)	-25.4	52	44.1
EBITDA (INR cr)	60	111	164
EBITDA margin (%)	23.7	29.1	29.7
Net profit (INR cr)	10	38	67
P/E ratio (x)	64	39	32
RoACE (%)	26.9	35.2	31.6
RoAE (%)	5.6	18.9	26.2

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	252	383	552
Direct costs	105	177	241
Employee costs	42	62	97
Other expenses	46	33	50
Total operating expenses	192	272	388
EBITDA	60	111	164
Depreciation and amortisation	39	43	53
EBIT	21	68	111
Interest expenses	25	23	26
Other income	17	15	4
Extraordinary items	0	0	0
Profit before tax	13	60	89
Provision for tax	3	22	22
Core profit	10	38	67
Extraordinary items	0	0	0
Profit after tax	10	38	67
Minorit Interest			
Share from associates	0	0	0
Adjusted net profit	10	38	67
Equity shares outstanding (cr)	1.6	1.6	1.6
EPS (INR) basic	6.1	23.5	41.2
Diluted shares (Cr)	2	2	2
EPS (INR) fully diluted	6.1	23.5	41.2
Dividend per share	0	0	0
Dividend payout (%)	0	0	0

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	76.3	70.9	70.3
Depreciation	15.5	11.3	9.5
Interest expenditure	9.8	6.1	4.8
EBITDA margins	23.7	29.1	29.7
Net profit margins	4.0	10.0	12.2

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	(25.4)	52.0	44.1
EBITDA	(29.4)	86.2	47.1
PBT	(47.5)	375.4	49.2
Net profit	(39.1)	283.4	75.5
EPS	(39.1)	283.4	75.5

Balance sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	16	16	16
Preference Share Capital	0	0	0
Reserves & surplus	108	144	205
Shareholders funds	124	160	221
Secured loans	14	0	23
Unsecured loans	0	0	0
Borrowings	14	0	23
Lease liabilities	221	213	263
Sources of funds	**359**	**373**	**507**
Gross block	285	354	375
Depreciation	44	53	57
Net block	241	300	318
Capital work in progress	2	1	12
Intangible Assets	0	0	1
Total fixed assets	243	301	332
Investments	0	0	16
Inventories	124	147	218
Sundry debtors	4	4	10
Cash and equivalents	8	3	3
Loans and advances	30	7	7
Other current assets	0	0	0
Total current assets	166	161	238
Sundry creditors and others	70	103	73
Provisions	0	0	4
Total CL & provisions	70	103	77
Net current assets	96	58	161
Net Deferred tax	0	14	17
Misc expenditure	20	0	-18
Uses of funds	**359**	**373**	**507**
Book value per share (INR)	76	98	136

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	11	44	62
Add: Depreciation	39	43	53
Add: Misc expenses written off/Other Assets	9	10	25
Add: Deferred tax	0	0	0
Gross cash flow	59	98	140
Less: Changes in W. C.	-8	7	65
Operating cash flow	67	90	75
Less: Capex	0	0	0
Free cash flow	**67**	**90**	**75**

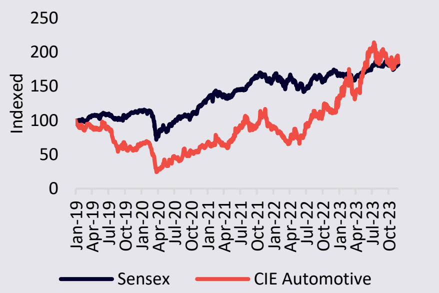
CIE Automotive India

We hosted the management of CIE Automotive India (CIEINDIA) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 5. This subsidiary of world-renowned CIE Automotive SA offers a comprehensive portfolio of auto components, given its expertise in high value-added processes and extensive multi-location manufacturing capabilities. As a large and diversified auto components manufacturer, it contributes 25–35% to CIE Automotive group's (parent company) total revenue, serving leading auto OEMs across segments in Europe and India. With 29 manufacturing plants, including facilities in Europe and Mexico, it has diverse revenue streams, supplying components for passenger vehicles (PVs), two-wheelers (2Ws), three-wheelers (3Ws), and light and heavy commercial vehicles (LCVs and HCVs). It is leveraging its parent's extensive collaboration and expertise to co-develop products for the evolving auto industry. Maintain 'BUY'.

CMP: INR484
Rating: BUY

Bloomberg:	CIEINDIA:IN
52-week range (INR):	282/578
M-cap (INR cr):	18,450
Promoter holding (%)	65.7

Relative price performance



Key takeaways

- The management adheres to a clear and well-defined set of guidelines governing growth and investment strategies. Its growth strategy prioritises the diversification of revenue streams, leveraging its proficiency in executing value-added processes.
- With a customer base surpassing 50 in India, ~45 customers contribute revenue exceeding INR1cr. This showcases its commitment to diversification and underscores its substantial growth potential. It is strategically positioned to enhance revenue from its existing clientele.
- The management expects to grow at a faster rate (5–10%) than the weighted average industry growth for its India business. The European business is projected to grow at 3–5%, aligning with the industry growth rate.
- Its investment policy centres on conversion cost and capex allocation, determined by order flow and manufacturing process fungibility. Broadly, 5–6% of sales are allocated for capex, with 3.5–4%/rest designated for growth/maintenance capex. The management allocates 80% of growth capex to the India business, with the balance directed to other geographical areas.
- Key criteria for new business selection include an EBITDA margin profile of 16–19% and incremental RoI of at least 20%. The management is targeting an EBITDA margin of 18%/19% for the India/European business in coming years.
- The focus is on securing long-term commitments from OEMs and making substantial investments in the auto industry, while abstaining from investments in oil and gas, aerospace, and defence sectors.
- EV remains a key growth driver for CIEINDIA in its India and Europe businesses. Subsidiary Metalcastello has started to face a cyclical downturn, which will get cushioned through new EV orders that are likely to get executed in early 2024. It is proactively adapting its product portfolio to counter the impact of the auto industry's transition to hybrid and electric engines, placing greater emphasis on stamped, plastic, and aluminium parts over forged, cast, or machined parts to secure hybrid and EV orders.

Valuation and view

We expect a sales/EBITDA/PAT CAGR of 12%/19%/22% over 2022–25, with an expected improvement in EBITDA margin and RoCE. The stock trades at an attractive valuation of 17.1x 2024E P/E and 10.1x 2024E EV/EBITDA. We foresee a gradual re-rating in the stock, in line with the valuations of listed auto MNCs. We maintain 'BUY' with a TP of INR710, based on 25x 2024E EPS. Potential catalysts for upside include strategic acquisitions to expand its product and client portfolio. Potential downside risks include economic slowdowns, supply chain disruptions, and capex-related delays.

Key financials

Year to December (INR cr)	2021	2022	2023E	2024E	2025E
Revenue	6,765	8,753	10,036	11,216	12,335
EBITDA	942	1,172	1,558	1,765	1,983
EBITDA margin (%)	13.9	13.4	15.5	15.7	16.1
Net profit	379	673	955	1,078	1,227
P/E ratio (x)		27.4	19.3	17.1	15.0
EV/EBITDA ratio (x)		16.0	11.8	10.1	8.8
RoCE (%)	10.3	14	19.2	19.6	20
RoE (%)	7.5	13.1	17.4	17.2	17.3

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Financials

Income Statement

Year to December (INR Cr)	2021	2022	2023E	2024E	2025E
Income from operations	**6,765**	**8,753**	**10,036**	**11,216**	**12,335**
Direct Costs	3,335	4,776	5,338	5,990	6,579
Gross Profit	**3,431**	**3,977**	**4,699**	**5,226**	**5,756**
Employee costs	926	902	992	1,072	1,158
Other expenses	1,563	1,903	2,148	2,389	2,615
Total operating expenses	**5,823**	**7,581**	**8,478**	**9,451**	**10,352**
EBITDA	**942**	**1,172**	**1,558**	**1,765**	**1,983**
Depreciation and amortisation	273	296	324	366	388
EBIT	**668**	**876**	**1,235**	**1,399**	**1,595**
Other Income	47	58	61	64	67
PBIT	**715**	**934**	**1,296**	**1,464**	**1,663**
Interest expenses	35	23	22	27	27
Profit before tax	**680**	**911**	**1,274**	**1,437**	**1,636**
Provision for tax	302	240	318	359	409
Reported profit after tax	**367**	**711**	**955**	**1,078**	**1,227**
Extraordinary items	13	-38	0	0	0
Adjusted Profit after tax	**379**	**673**	**955**	**1,078**	**1,227**
Equity shares outstanding (Cr)	37.9	37.9	37.9	37.9	37.9
Adjusted EPS (INR)	**10.0**	**17.8**	**25.2**	**28.4**	**32.4**

Common Size metrics - as % of net revenues

Year to December	2021	2022	2023E	2024E	2025E
Operating expenses	86.1%	86.6%	84.5%	84.3%	83.9%
Depreciation	4.0%	3.4%	3.2%	3.3%	3.1%
Interest expenditure	0.5%	0.3%	0.2%	0.2%	0.2%
EBITDA margins	13.9%	13.4%	15.5%	15.7%	16.1%
Adj. Net profit margins	5.6%	7.7%	9.5%	9.6%	9.9%

Growth Metrics (%)

Year to December	2021	2022	2023E	2024E	2025E
Revenues	11.8%	29.4%	14.7%	11.8%	10.0%
EBITDA	87.7%	24.4%	33.0%	13.3%	12.3%
PBT	-1.3%	33.9%	39.8%	12.8%	13.9%
PAT	-36.8%	77.5%	41.9%	12.8%	13.9%
EPS	-36.8%	77.4%	41.9%	12.8%	13.9%

Profit & Efficiency Ratios

Year to December	2021	2022	2023E	2024E	2025E
ROE (%)	7.5%	13.1%	17.4%	17.2%	17.3%
ROCE (%)	10.3%	14.0%	19.2%	19.6%	20.0%
Debtors (days)	36	36	35	35	35
Inventory (days)	73	50	50	50	50
Payable (days)	105	89	85	85	85
Cash conversion cycle (days)	4	-3	0	0	0
Net Debt/EBITDA	1.41	0.77	0.31	0.00	-0.23
Net Debt/Equity	0.26	0.18	0.08	0.00	-0.06

Valuation

Year to December	2021	2022	2023E	2024E	2025E
Adj. EPS (INR)	10.0	17.8	25.2	28.4	32.4
Y-o-Y growth (%)	-36.8%	77.4%	41.9%	12.8%	13.9%
Diluted P/E (x)	48.6	27.4	19.3	17.1	15.0
Price/BV(x)	3.5	3.6	3.1	2.8	2.4
EV/Sales (x)	2.9	2.2	1.9	1.6	1.5
EV/EBITDA (x)	20.5	16.0	11.8	10.1	8.8

Balance Sheet (INR Cr)

As on 31st December (INR cr)	2021	2022	2023E	2024E	2025E
Equity share capital	379	379	379	379	379
Reserves & surplus	4,818	4,719	5,485	6,278	7,164
Shareholders funds	**5,197**	**5,099**	**5,864**	**6,657**	**7,543**
Total Debt	**1,487**	**985**	**885**	**885**	**885**
Provisions	398	155	165	175	185
Current Liabilities	2,891	3,517	3,802	4,165	4,518
Sources of funds	**9,949**	**9,928**	**10,879**	**12,035**	**13,275**
PP&E	6,710	5,666	5,945	6,252	6,665
CWIP	-	-	-	-	-
Other Intangible Assets	5	6	7	8	9
Investments	436	575	575	575	575
Inventories	1,349	1,211	1,375	1,536	1,690
Trade Receivables	669	861	962	1,076	1,183
Cash and Cash Equivalents	159	86	404	883	1,349
Other Assets	370	1,308	1,387	1,470	1,558
Uses of Funds	**9,949**	**9,928**	**10,879**	**12,035**	**13,275**
Book value per share (INR)	**137**	**134**	**155**	**176**	**199**

Cash Flow Statement

Year to December	2021	2022	2023E	2024E	2025E
Operating Profit Before WC changes	769	1,029	1,279	1,444	1,615
WC Changes	50	-459	-70	-7	-7
CFO	819	570	1,209	1,437	1,608
CFI	-432	-640	-602	-673	-802
CFF	-359	-1,239	-290	-284	-341
Total Cash Flow	28	-1,309	318	480	465

CSB Bank

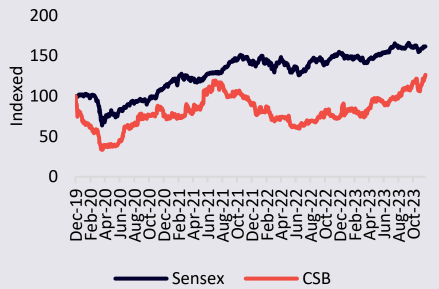
Focus is on long-term sustainable growth and profitability

We hosted the management of CSB Bank (CSBBANK) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 5. The bank underwent a transformation after its acquisition by the Toronto-based Fairfax Group. Post buyout, it saw a major improvement in the loan book mix, CASA ratio, margin, overall costs (including credit cost), return ratios, and asset quality. It managed to attract the best talent from the industry. It launched a few retail lending products, which led to a healthy traction in loans. It is confident of growing 1.5x the industry's average, aided by deposit growth. We expect a RoA/RoE of 1.6%/15.9% in FY25. Reiterate 'BUY'.

CMP: INR401
Rating: BUY

Bloomberg:	CSBBANK:IN
52-week range (INR):	215/383
M-cap (INR cr):	6,959
Promoter holding (%)	49.72

Relative price performance



Presentation link

Previous report

Key takeaways

- From ~INR 30,000cr book, CSBBANK aspires to become a mid-size bank by 2030. It considers the following building blocks, which are 'work in progress', as important to reach its goal:
  - i) Distribution: It has a large presence in Kerala and Tamil Nadu. It is trying to expand in West, North, and South India where it has limited presence. Distribution will be well balanced across geographies and metros (for its liability franchise). The management aims to add 100 branches annually until it reaches 1,500 branches.
  - ii) People: It has hired a CXO, CXO+1, and CXO+2. Its frontline headcount has risen by 49% since FY23.
  - iii) Technology: It aims to offer customers the ease of transaction like large banks, replace its core banking system with Oracle FLEXCUBE and invest in various other modules to help improve analytics. The entire investment in its tech stack should be completed by FY25.
- Its focus is on: i) growing 50% higher than industry growth, ii) building a long-term sustainable liability franchise iii) achieving a gold/retail/corporate/SME loan book of 20%/30%/20%/30%.
- Gold loans (INR1,0619cr): The management ensures that its LTV in the non-agri gold loan portfolio, including interest, is below 75%. The LTV calculation is done a daily basis. Its average loan duration is less than a year.
- SME business (INR2,377cr): In Q2FY24, disbursements rose 52% YoY, with a tenure of nine to 12 months. These are a mix of term and working capital loans at a floating interest rate. No credit underwriting occurs at the branch level. Based on the size of the proposal, it goes to the respective credit committee, either at the regional or central level.
- CSBBANK has become active in the CV/CE segment. It will launch home loans soon.
- Its credit card business (in partnership with just OneCard) has crossed INR 200cr. Average monthly spends are in the range of INR 30k. CSBBANK is looking to add other partners also as partnerships help it save on tech cost. It also does not have to wait for four-to-five years of break even. Though its partners provide the technology, it bears the balance sheet risk.
- The management guided at NIM over 5% in FY24 despite it being compressed in Q2.
- Non-fund-to-total income, which stood at 6–7% two-years back, has now reached 18% due to multiple levers like processing fee, credit card fee, etc.
- Given its NBFC exposure, the management sees a less than 100bp impact on CAR without taking the half year profit into consideration.

Valuation and view

We like the management's laser sharp long-term focus on building a sustainable lending engine. We expect a re-rating, with credit growth expected at 1.5x the industry average, stable asset quality, and return ratios. **We maintain 'BUY'.**

Key financials

Year to March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,342	1,400	1,650	1,977	2,374
PPOP	613	614	707	827	1,047
Adjusted profit	218	458	547	541	640
Diluted EPS (INR)	13	26	32	31	37
EPS growth	1619%	110%	19%	-1%	18%
RoAE	10.5%	19.0%	18.7%	15.6%	15.9%
P/E ratio (x)	31.8	15.1	12.7	12.8	10.9
P/BV ratio (x)	3.3	2.7	2.2	1.9	1.6

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Financials

Income Statement

Year to March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Interest income	1,872	2,038	2,320	2,832	3,467
Interest charges	931	885	986	1,273	1,596
Net interest income	**941**	**1,153**	**1,334**	**1,559**	**1,871**
Other income	401	247	316	418	503
Net revenues	**1,342**	**1,400**	**1,650**	**1,977**	**2,374**
Operating expense	729	786	942	1,150	1,327
- Employee exp	496	482	559	677	809
- Depreciation / amortisation	-	-	-	-	-
- Other opex	233	305	384	473	517
Preprovision op. profit	**613**	**614**	**707**	**827**	**1,047**
Provisions	321	-1	-26	102	190
PBT	293	614	734	725	857
Taxes	74	156	186	184	217
PAT	**218**	**458**	**547**	**541**	**640**
Extraordinaries	-	-	-	-	-
Reported PAT	**218**	**458**	**547**	**541**	**640**
Basic number of shares (cr.)	17	17	17	17	17
Basic EPS (INR)	13	26	32	31	37
Diluted number of shares (cr.)	17	17	17	17	17
Diluted EPS (INR)	13	26	32	31	37

Growth Ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E
NII growth	59%	23%	16%	17%	20%
Non Interest Income growth	81%	-38%	28%	32%	20%
Net Revenues growth	65%	4%	18%	20%	20%
Opex growth	37%	8%	20%	22%	15%
PPOP growth	119%	0%	15%	17%	27%
Provisions growth	119%	na	na	na	87%
PAT growth	1620%	110%	19%	-1%	18%

Operating Ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E
Yield on Average Advances	10.7%	10.6%	10.4%	10.2%	10.0%
Yield on Investments	8.0%	5.8%	6.3%	6.3%	6.2%
Yield on interest earning assets	9.4%	8.7%	8.8%	8.8%	8.6%
Cost of Funds	5.0%	4.1%	4.2%	4.4%	4.4%
Spread	4.4%	4.6%	4.6%	4.4%	4.2%
Net Interest Margin	4.7%	4.9%	5.1%	4.9%	4.7%
Cost to Income Ratio	54.3%	56.2%	57.1%	58.2%	55.9%
Tax Rate	25.3%	25.4%	25.4%	25.4%	25.4%

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
CAPITAL AND LIABILITIES					
Share Capital	173	174	174	174	174
Reserves and Surplus	2,007	2,478	3,030	3,536	4,141
Warrants	-	-	-	-	-
Deposits	**19,140**	**20,188**	**24,506**	**29,869**	**36,689**
Borrowings	1,426	2,007	783	2,688	3,302
Other Liabilities & Provisions	591	509	670	624	1,347
Total Liabilities	**23,337**	**25,356**	**29,162**	**36,890**	**45,653**
ASSETS					
Cash and Balances with RBI	736	1,473	1,470	1,493	1,834
Balances with Banks & Call Money	978	101	367	896	1,101
Investments	6,126	7,012	5,849	8,025	9,857
Advances	**14,438**	**15,814**	**20,651**	**25,514**	**31,730**
Fixed Assets	270	288	319	329	339
Other Assets	790	668	507	634	792
Total Assets	**23,337**	**25,356**	**29,162**	**36,890**	**45,653**

Balance sheet ratios (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Loan growth	27%	10%	31%	24%	24%
IEA growth	26%	10%	16%	27%	24%
Deposits growth	21%	5%	21%	22%	23%
IBL growth	24%	8%	14%	29%	23%
Gross NPA ratio	2.7%	1.8%	1.3%	1.2%	1.2%
Net NPA ratio	1.2%	0.7%	0.4%	0.3%	0.3%
Provision coverage	56%	63%	72%	74%	74%
CAR	**21%**	**26%**	**27%**	**25%**	**26%**

RoAE Decomposition

Year to March	FY21	FY22	FY23	FY24E	FY25E
Net Interest Income / Assets	4.7%	4.9%	5.1%	4.9%	4.7%
Other Income / Assets	2.0%	1.1%	1.2%	1.3%	1.3%
Net Revenues / Assets	6.7%	6.0%	6.3%	6.2%	5.9%
Operating Expense / Assets	3.7%	3.4%	3.6%	3.6%	3.3%
Provisions / Assets	1.6%	0.0%	-0.1%	0.3%	0.5%
Taxes / Assets	0.4%	0.7%	0.7%	0.6%	0.5%
Total Costs / Assets	5.6%	4.0%	4.2%	4.5%	4.3%
Return on Assets	**1.1%**	**2.0%**	**2.1%**	**1.7%**	**1.6%**
Assets / Equity	9.6	9.7	9.0	9.3	10.0
Return on Average Equity	**10.5%**	**19.0%**	**18.7%**	**15.6%**	**15.9%**

Valuation Metrics

Year to March	FY21	FY22	FY23	FY24E	FY25E
Basic EPS	12.6	26.4	31.5	31.2	36.9
EPS growth	1619%	110%	19%	-1%	18%
Adjusted book value per share	121.8	150.3	182.9	212.0	246.4
Basic P/E	31.8	15.1	12.7	12.8	10.9
Price - to - Book	3.3	2.7	2.2	1.9	1.6

Elecon Engineering Company

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We hosted the management of Elecon Engineering Company (ELCN) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 5. It is one of the largest manufacturers of industrial gears and material handling equipment (MHE) in Asia, with a global presence in the US, the UK and Europe. It operates in two business segments: transmission equipment (TE) and MHE. ELCN is among the market leaders in the segments that it is present in and boasts best-in-class manufacturing facilities. The company is a play on the wide industrial capex cycle. It supplies to sectors such as steel, cement, power, textiles, fertilisers, and sugar.

Key takeaways

- ELCN designs and manufactures industrial gears and gearboxes. It expects robust growth in this space on strong order enquiries across sectors like cement, steel, power, and paper. It has a 39%/~1% local/global market share in industrial transmission.
- Exports present a huge opportunity for ELCN. The management expects 50% of revenue to accrue from exports (through subsidiaries) by FY30 from ~22% in FY23.
- Scaling of revenue from subsidiaries is key to its growth. The management is looking to make inroads with OEMs. It has signed deals with six European OEMs in H1FY24 (annual business volume of ~EUR5.5mn likely). The prototype is under development and is to be supplied to OEMs by Q3FY24. Commercial production is expected to start from FY25.
- The management sees potential for a large order (~INR500cr) from the Indian Navy, with additional smaller orders totalling ~INR100cr in FY25/FY26.
- Its overall margin guidance stood at 22% for FY24. However, having delivered 24.3% in H1FY24, it feels an EBITDA margin of more than 23.5% is sustainable ahead. It is targeting a revenue of INR2,000cr by FY24 with ~20% CAGR until FY27.
- The consolidated order book stood at INR738cr as of September 30, of which INR615cr accrued from the gear business and balance from the MHE division. Order execution cycle for catalogue products has reduced to 15 days and the management aims to further reduce this to seven days. The execution cycle for engineered products has reduced to four months from eight months.
- After facing issues in the MHE segment over the last decade, it no longer accepts project orders and focuses only on the supply of products and after-sales.
- Annual revenue from the MHE segment is expected to touch INR300cr in FY24 on higher enquires and introduction of new products. At this level, the margin in the MHE segment should stay at 20–22% levels.

Valuations and view

ELCN turned net debt free before its target of FY23 and is likely to accumulate excess cash over the next two years which will help lower its interest cost and boost profitability. The management's commentary is bullish, with a consolidated revenue guidance of INR2,000cr in FY24 with 23.5%+ sustainable EBITDA margins. Its strong execution and delivery are in line with our thesis. Capex demand is robust in India, with ELCN riding the wave of sector tailwinds. We maintain 'Tactical BUY' with a TP of INR874 (at 25x FY25E EPS). We will introduce our FY26 estimates at the end of Q3FY24 and revisit our TP.

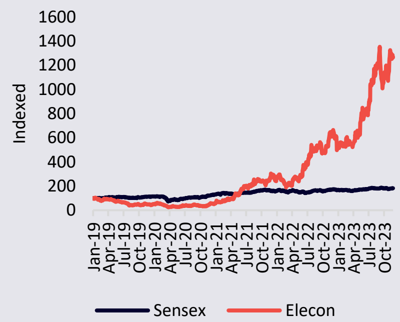
Key financials

Year to March	FY21	FY22	FY23	FY24E	FY25E
Revenue (INR cr)	1,045	1,212	1,530	1,992	2,332
Revenue growth (%)	-4	16	26	30	17
EBITDA (INR cr)	186	246	339	476	542
Adjusted PAT (INR cr)	58	141	238	339	392
P/E ratio (x)	12.3	11	18	31.2	27.0
Price/BV ratio (x)	0.8	1.5	3.3	6.6	5.4
EV/EBITDA ratio (x)	4.7	6.2	12	21.4	18.2
RoACE (%)	9.9	15.3	21.7	27.3	25.8
RoAE (%)	6.5	14.3	20.4	23.6	22.0

CMP: INR944
Rating: Tactical BUY

Bloomberg:	ELCN:IN
52-week range (INR):	331/990
M-cap (INR cr):	10,590
Promoter holding (%)	59.29

Relative price performance



Presentation link

Previous report link

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nuvama professional clients group

Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Income from operations	1,045	1,212	1,530	1,992	2,332
Total operating expenses	859	965	1,191	1,517	1,790
EBITDA	**186**	**246**	**339**	**476**	**542**
Depreciation and amortisation	52	49	49	53	55
EBIT	134	198	290	423	487
Interest expenses	60	37	13	10	10
Profit before tax	79	169	297	447	518
Provision for tax	23	30	62	112	129
Core profit	56	139	234	335	388
Profit after tax	56	139	234	335	388
Adjusted Net Profit	**58**	**141**	**238**	**339**	**392**
Equity shares outstanding (cr)	11.2	11.2	11.2	11.2	11.2
EPS (INR) basic	8.0	5.1	12.5	21.2	30.3
Diluted shares (Cr)	11.2	11.2	11.2	11.2	11.2
EPS (adj) fully diluted	5.2	12.5	21.2	30.3	35.0
Dividend per share	0.4	1.4	2.0	2.0	2.4
Dividend payout (%)	8%	11%	9%	7%	7%

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23	FY24E	FY25E
Operating expenses	82.2	79.7	77.8	76.1	76.8
Depreciation	5.0	4.0	3.2	2.6	2.4
Interest expenditure	5.7	3.1	0.9	0.5	0.4
EBITDA margins	17.8	20.3	22.2	23.9	23.2
Net profit margins	5.4	11.5	15.3	16.8	16.6

Growth metrics (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Revenues	(4.0)	16.0	26.2	30.2	17.0
EBITDA	32.2	32.8	37.5	40.3	14.0
PBT	342.8	112.9	75.4	50.8	15.7
Net profit	(35.4)	142.5	69.0	42.9	15.5
EPS	(35.4)	142.5	69.0	42.9	15.5

Ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E
ROE (%)	6.5	14.3	20.4	23.6	22.0
ROCE (%)	9.9	15.3	21.7	27.3	25.8
Debtors (days)	177	125	83	83	83
Inventory (days)	87	79	67	67	67
Payable (days)	233	126	78	78	78
Cash conversion cycle (days)	32	78	71	71	71
Debt/EBITDA	1.6	0.4	0.0	0.0	0.0
Adjusted debt/Equity	0.2	(0.0)	(0.2)	(0.3)	(0.4)

Valuation parameters

Year to March	FY21	FY22	FY23	FY24E	FY25E
Diluted EPS (INR)	5.2	12.5	21.2	30.3	35.0
Y-o-Y growth (%)	*(35.4)*	*142.5*	*69.0*	*42.9*	*15.5*
CEPS (INR)	9.8	16.9	25.5	34.9	39.9
Diluted P/E (x)	12.3	11.0	18.0	31.2	27.0
Price/BV(x)	0.8	1.5	3.3	6.6	5.4
EV/Sales (x)	0.8	1.3	2.7	5.1	4.2
EV/EBITDA (x)	4.7	6.2	12.0	21.4	18.2
Diluted shares O/S	11.2	11.2	11.2	11.2	11.2
Dividend yield (%)	1%	1%	1%	0%	0%

Balance sheet

As on 31st March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Equity share capital	22	22	22	22	22
Reserves & surplus	897	1,028	1,257	1,574	1,939
Shareholders funds	919	1,050	1,279	1,596	1,961
Secured loans	297	100	0	0	0
Unsecured loans	0	0	0	0	0
Borrowings	297	100	0	0	0
Net Debt	155	-12	-210	-436	-737
Other liabilities	85	128	111	111	111
Sources of funds	**1,301**	**1,278**	**1,390**	**1,707**	**2,072**
Gross block	928	962	1,026	1,076	1,126
Depreciation	320	369	418	470	525
Net block	607	593	608	606	601
Capital work in progress	0	1	0	0	0
Total fixed assets	608	593	609	606	601
Other non-current assets	168	155	151	151	151
Investments	79	80	102	106	110
Inventories	250	262	279	363	425
Sundry debtors	508	415	346	450	527
Cash and equivalents	141	112	210	436	737
Loans and advances	234	98	34	34	34
Total current assets	1,134	887	869	1,284	1,723
Sundry creditors and others	666	417	329	428	501
Provisions	26	23	13	13	13
Total CL & provisions	692	440	342	442	514
Net current assets	442	446	526	842	1,208
Net Deferred tax	5	4	2	2	2
Uses of funds	**1,301**	**1,278**	**1,390**	**1,707**	**2,072**
Book value per share (INR)	82	94	114	142	175

Cash flow statement

Year to March	FY21	FY22	FY23	FY24E	FY25E
Net profit	58	141	238	339	392
Add: Depreciation	52	49	49	53	55
Add: Others	119	114	63	83	95
Gross cash flow	229	304	349	476	542
Less: Changes in W. C.	-19	53	39	201	195
Operating cash flow	248	250	310	274	347
Less: Capex	3	41	46	50	50
Free cash flow	**245**	**209**	**264**	**224**	**297**

Fino Payments Bank

We hosted the management of Fino Payments Bank (FINOPB) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 5. Fino (Financial Inclusion Network & Operations) was incubated as a business correspondent by ICICI Bank in July 2006, before receiving its payments banking licence in 2017. It was granted a scheduled commercial bank (SCB) status by RBI in February 2021. The only listed payments bank in India operates through 15.12lk merchant points and 135 customer service points and branches across India as of Q2FY24. FINOPB targets the lower-income category in rural areas, people with an annual income of INR 2–5 lakhs. The stock is not rated.

Key takeaways

- The management reaffirmed its commitment and confidence towards executing its 'TAM' strategy: Transaction, Acquisition and Monetisation.
- Its technology-led approach is already paying dividends, wherein the franchise has built its 'transaction phase' by offering a range of products to hook customers to its ecosystem and build a distribution network.
- The franchise boasts a customer base of ~90 lakh, with 15.45 lakh new accounts opened in H2FY24. FINOPB is opening 2.5 lakh new accounts every month.
- Overall throughput volumes touched INR 1,62,000cr in Q2FY24, which is the highest it has achieved so far. Out of which, digital throughput surged 108% YoY to INR 41,000cr and constituted 27% of total throughput.
- The bank has already begun monetisation of these accounts with an annual subscription fee of INR499. It boasts a renewal rate of 60%.
- The management reiterated that customer stickiness will remain intact as it provides the convenience of transacting to an otherwise unbanked and uncatered section of the society.
- This is reaffirmed by the growth in renewal income with each passing quarter. It registered 95% sequential growth to INR 30cr in Q2FY24. Products with a high margin and revenue from its sticky customer like CASA/CMS grew 49%/54% YoY in H1FY24. This will help generate annuity income for the bank which is the end goal of the business.
- The management expects 20% revenue growth in FY24. As such, it has posted a revenue growth of 19% YoY at INR707cr in H1FY24.
- Employee cost constitutes 45–50% of operating expenses. The number of employees has remained intact (~3,000) for the last three years. As operational efficiencies kick in, the bank has been able to reduce its cost-to-income ratio to 26.9% in H1FY24.
- EBITDA margin expanded to 12.3% in H1FY24 from 9.1% in H1FY23 and is expected to increase due to a change in the revenue mix across its own and open banking channels.
- PAT, which grew 42% QoQ to INR 19.5cr, at an annualised RoE of 13.7%, is expected to sustain profit margin at 4–5%.
- It is expected that FINOPB will apply for a small finance bank licence down the line, but the management confirmed that it will follow more of a 'payment bank' kind of model.
- Continuing with the hub and spoke model, the core DNA of the bank will remain a fintech, with 75%/25% of revenue accruing from transactions/interest income.

Valuation and view

FINOPB turned profitable in Q4FY20 and has been able to grow profitably YoY, with RoNW ~13% in FY23. At the CMP, the stock is trading at 35x FY23 earning and 4.1x FY23 ABV. The stock is not rated.

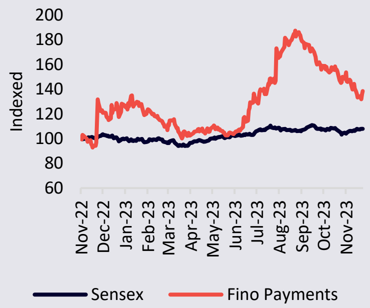
Key financials

Year to March (INR cr)	FY21	FY22	FY23
Revenue	781	994	1,183
PPOP	24	43	65
Adjusted profit	20	43	65
Diluted EPS (INR)	4.6	5.1	7.8
EPS growth	-	12	52
RoAE	13.6%	13.6%	12.6%
P/E ratio (x)	59.9	53.5	35.2
P/BV ratio (x)	8.1	4.8	4.1

CMP: INR273
Rating: Not rated

Bloomberg:	FINOPB:IN
52-week range (INR):	191/380
M-cap (INR cr):	2,274
Promoter holding (%)	75

Relative price performance



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Financials

Income Statement

Year to March (INR cr)	FY21	FY22	FY23
Interest income	20	36	95
Interest charges	10	15	47
Net interest income	**11**	**20**	**47**
Other income	771	973	1,135
Net revenues	**781**	**994**	**1,183**
Operating expense	**757**	**951**	**1,117**
- Employee exp	115	133	156
- Other opex	642	818	962
Preprovision op. profit	**24**	**43**	**65**
Provisions	4	-	-
PBT	**20**	**43**	**65**
Taxes	-	-	-
PAT	**20**	**43**	**65**
Extraordinaries	-	-	-
Reported PAT	**20**	**43**	**65**
Basic number of shares (cr.)	4	8	8
Basic EPS (INR)	4.6	5.1	7.8
Diluted number of shares (cr.)	4	8	8
Diluted EPS (INR)	4.6	5.1	7.8

Growth Ratios

Year to March	FY21	FY22	FY23
NII growth	29.7%	89.7%	133.7%
Non Interest Income growth	14.5%	26.3%	16.6%
Net Revenues growth	14.7%	27.1%	19.0%
Opex growth	6.2%	25.6%	17.5%
PPOP growth	-179.0%	74.5%	52.3%
Provisions growth	289.4%	-	-
PAT growth	-163.9%	108.8%	52.3%

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23
CAPITAL AND LIABILITIES			
Share Capital	45	83	83
Share Warrants & Outstandings	-	3	11
Reserves and Surplus	106	393	459
Deposits	243	503	917
Borrowings	181	250	434
Other Liabilities & Provisions	436	448	563
Total Liabilities	**1,010**	**1,680**	**2,466**
ASSETS			
Cash and Balances with RBI	88	224	220
Balances with Banks & Call Money	183	542	614
Investments	504	631	1,146
Advances	**0**	**0**	**0**
Fixed Assets	64	93	145
Other Assets	172	189	341
Total Assets	**1,010**	**1,680**	**2,466**

RoAE Decomposition

Year to March	FY21	FY22	FY23
Net Interest Income / Assets	1.8%	1.9%	2.8%
Other Income / Assets	127.9%	89.6%	67.2%
Net Revenues / Assets	129.7%	91.5%	70.0%
Operating Expense / Assets	125.7%	87.5%	66.2%
Provisions / Assets	0.7%	0.0%	0.0%
Taxes / Assets	0.0%	0.0%	0.0%
Total Costs / Assets	126.3%	87.5%	66.2%
Return on Assets	**3.4%**	**3.9%**	**3.9%**
Assets / Equity	5.14	2.91	3.58
Return on Average Equity	**14.6%**	**13.6%**	**12.6%**

Valuation Metrics- Check

Year to March	FY21	FY22	FY23
Basic EPS	4.6	5.1	7.8
EPS growth (%)	-	12	52
Book Value	33.8	57.7	66.4
Basic P/E	59.9	53.5	35.2
Price - to - Book	8.1	4.8	4.1

Ganesh Housing Corporation

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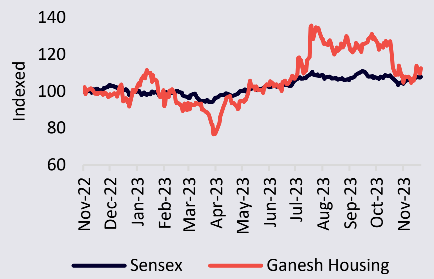
Ganesh Housing Corporation (GHFC) is an Ahmedabad-based real estate player involved in the development and sale of residential and commercial projects, along with trading of land parcels. It has land bank of more than 550 acres where it plans to develop and deliver ~30mn sq. ft. across two/one residential/commercial project(s) over the next decade. The residential projects will have a gross development value (GDV) of ~INR8,400cr, while the commercial asset will have a peak annuity potential of ~INR500cr. It expects to spend ~INR4,200cr for construction of the projects (residential/ commercial: ~INR2,100cr/~INR2,300cr), which will be funded via internal accruals. In H1FY24, revenue grew 17% YoY to INR434cr. EBITDA/PAT grew 225%/663% YoY to INR337cr/INR247cr on higher revenue contribution from the sale of low-cost land parcels. It is gross debt free. At the CMP, the stock trades at a trailing 12-month P/B ratio of 2.5x. The stock is not rated.

CMP: INR395
Rating: Not rated

Bloomberg:	GHFC:IN
52-week range (INR):	261/491
M-cap (INR cr):	3,291
Promoter holding (%)	73.06

Relative Price Performance



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Key takeaways

Land parcels

- SG Road, behind Nirma University: This 65-acre land parcel is well connected and near the GIFT City. Half of this land is located in IT SEZ, which will be used for commercial development. The other half is located in non-processing zone, which will be utilized for residential development. The cumulative development potential of the parcel stands at 30mn sq. ft.
- Godhavi: This is a 450-acre land parcel located 10-12km to the west of Ahmedabad. It is a contiguous parcel where GHFC plans to develop a villa township, Smile City
- Land is fully paid for, carrying book value of INR350–375cr.

Planned residential projects on the available land bank

- Million Minds residential project: The 5.6mn sq. ft. group housing project is in the non-processing IT SEZ zone, close to Nirma University. The project will be launched in eight phases (starting Q3) of 0.6–0.8mn sq. ft. each, with a GDV/construction cost of ~INR3,360cr/ ~INR1,240cr (~INR6,000/~INR2,214 per sq. ft.). GHFC plans to launch one phase of the project every year, starting Q3FY24; ii)
- Smile City: Company has planned a 15.3mn sq. ft. plotted development township at its 450-acre land parcel in rapidly developing Godhavi. The project will be launched in five phases over FY24-29 (one launch each year, starting Q4) with GDV/construction cost of ~INR5,050cr/~INR880cr (~INR3,300/~INR575 per sq. ft.).

Planned commercial development

- GHFC is developing 9.1mn sq. ft. of commercial space in seven phases of ~1.3mn sq. ft. each, with a revenue potential of ~INR72cr for each phase at peak occupancy. Cost of construction for each phase is pegged at INR285cr. It will operationalise one phase every year, starting FY26.
- In the first phase, it plans to lease out 50-70% before its completion.

Others

- GHFC's dividend policy states a payout of 20%.
- Assuming an FSI of 1.1 at current prices, management expects a free cash flow of INR9,000-10,000cr from the above residential projects.

Valuation

GHFC is perfectly positioned to deliver strong growth in coming years given its: i) strong Balance Sheet, ii) a focused development and expansion plan, and iii) growing Ahmedabad market. At the CMP of INR395, the stock trades at a trailing 12-month P/B ratio of 2.5x.

Key financials

Year to March	FY21	FY22	FY23
Revenues (INR Cr)	168	383	616
Rev growth (%)	-37	128	61
EBITDA (INR Cr)	-48	134	252
Net Profit (INR Cr)	-105	71	102
P/B (x)	0.6	2.8	2.0
EV/EBITDA	-15.6	18.2	7.9
RoACE (%)	-4.8	14.4	24.4
RoAE (%)	-18.7	10.9	10.5

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Financials

Income Statement

Year to March (INR Cr)	FY21	FY22	FY23
Income from operations	168	383	616
Construction cost	194	222	328
Employee costs	10	13	18
Other expenses	13	14	19
Total Operating expenses	216	248	365
EBITDA	-48	134	252
Depreciation and amortisation	2	2	3
EBIT	-50	132	249
Interest expenses	75	36	13
Other income	10	1	4
Exceptional item	-	-	-
Profit before tax	-114	97	240
Provision for tax	-9	27	138
Profit after tax	-105	71	102
Share of Minority in profits	-0	-0	2
Adj. profit after tax	-105	71	100
Shares outstanding	5	8	8
Adjusted EPS	-21	12	12

Balance Sheet

As on 31st March (INR Cr)	FY21	FY22	FY23
Equity share capital	49	83	83
Reserves & surplus	453	706	1,026
Shareholders' funds	502	790	1,110
Total Debt	409	142	4
Other Long-Term Liabilities	19	12	6
Deferred Tax Liabilities	-103	-77	-1
Minority interest	87	87	68
Sources of funds	**914**	**954**	**1,187**
Gross block	222	223	279
Depreciation	15	16	18
Net block	208	208	261
Capital work in progress	-	-	21
Total fixed assets	208	208	282
Investments	-	-	-
Inventories	370	429	515
Sundry debtors	59	118	90
Cash and equivalents	20	15	325
Loans and advances	371	333	204
Total current assets	819	894	1,135
Sundry creditors and others	114	149	231
Provisions	-	-	-
Total CL & provisions	114	149	231
Net current assets	705	745	904
Other Assets	1	1	1
Uses of funds	**914**	**954**	**1,187**
Book value per share (INR)	102	95	133

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	129	65	59
Depreciation	1	1	0
Interest expenditure	44	9	2
EBITDA margins	-29	35	41
Net profit margins	-63	18	16

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	-37	128	61
EBITDA	9	379	88
PBT	14	185	147
Adj. Net profit	12	167	45
Adj. EPS	12	158	-2

Cash flow statement

Year to March (INR Cr)	FY21	FY22	FY23
Operating Profit After Tax Before WC changes	-67	131	149
WC Changes	200	-90	-119
CFO	132	41	30
CFI	43	39	278
CFF	-173	-85	1
Total Cash Flow	3	-5	309

Ratios

Year to March	FY21	FY22	FY23
ROAE (%)	-18.7	10.9	10.5
ROACE (%)	-4.8	14.4	24.4
Debtors (days)	127	112	53
Inventory (days)	804	409	305
Payable (days)	22	12	9
Cash conversion cycle (days)	909	509	350
Debt/Equity	0.8	0.2	0.0
Debt/EBITDA	-8.5	1.1	0.0
Adjusted debt/Equity	0.8	0.2	-0.3

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	-21.4	12.5	12.3
Y-o-Y growth (%)	12.3	158.3	-1.8
Diluted P/E (x)	-2.6	21.4	21.9
Price/BV(x)	0.6	2.8	2.0
EV/Sales (x)	4.5	6.4	3.2
EV/EBITDA (x)	-15.6	18.2	7.9
Diluted shares O/S	4.9	8.3	8.3
Basic EPS	-21.4	12.5	12.3
Basic PE (x)	-2.6	21.4	21.9

Hariom Pipe Industries

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We hosted the management of Hariom Pipe Industries in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — Udayan' on December 5. The Hyderabad-based company is part of the prestigious Hariom Group. The company manufactures iron and steel products has a prominent presence in South India and is looking to expanding west in Maharashtra and northern markets. Its mild steel pipes are marketed and sold under the Hariom Pipes brand. The demand for MS pipes and scaffoldings accrues from sectors such as housing, infra, power, auto, agriculture, solar power, cement, mining, and engineering. Its product portfolio consists of mild steel (MS) billets, pipes and tubes, hot rolled (HR) coils, and scaffolding systems, with a total manufacturing capacity of 7,01,232mtpa. The stock is not rated.

Key takeaways

- HARIOMPI started with a furnace to manufacture MS billets. It has forward integrated over the years into HR strips, MS tubes, and scaffoldings. It has also backward integrated and started producing MS sponge iron in FY21. The major raw materials for this process comprise MS scrap, sponge iron, and pig iron. Through sponge iron and scrap, HR stripes are manufactured into HR pipes and tubes.
- Its integrated operations have helped limit the impact of downcycles and sustain profitability (EBITDA margin of 12–14% in the past five years) vis-à-vis other steel players. The management believes it can better serve a wider variety of customers in different industries thanks to its ability to adjust the product mix in response to changes in market demand and supply dynamics.
- The seamless operations and integration of production process provide it a cost advantage over competitors. The installation of solar capacity (resulted in power cost savings) and a new furnace will enhance operating efficiency in the years ahead.
- The company's products find use in industries like housing, infrastructure, agriculture, power, cement, mining, solar power, engineering, steel, and railways. Scaffolding is used in construction activities. This diversifies its end-user base and reduces concentration risk.
- With more than 650 dealers in South and West India, HARIOMPI plans to expand in the North going forward. It is a targeting a revenue of INR2,500cr in FY26 from INR542cr/INR644cr in H1FY24/FY23. It aims to achieve this through product portfolio improvement, geographical expansion, capex-led growth, marketing and branding, and industry tailwinds.
- The focus is on improving the value-added product (VAP) mix to more than 95% in FY26 from 80% in FY23. As a result of the increased contribution from VAP, EBITDA/t is expected to rise to INR8,500-9,000 in FY26 from INR7,600 in FY23.
- Production at the new galvanised pipe (GP) plant in Telangana is stabilising. EBITDA margin is set to increase due to the expansion in production at the GP/galvanised coils (GC) plant in Tamil Nadu and use of cheaper and more reliable imported raw materials in coming quarters.
- It will ramp up production at the Telangana GP plant in the next two quarters. HARIOMPI's cutting-edge cold roll and tandem mill produces pipes with a thickness of 0.4mm and higher that are in demand and command a premium.
- The 120k mt plant in Mahabubnagar (Telangana) produces only VAP (GP and G-coil), with an EBITDA of INR10,000–11,000/mt. These products find application in packing strips (priced over INR100/kg), precision engineering, and auto manufacturing.

Valuation

HARIOMPI reported a robust operational performance over FY19–23 as evidenced by its revenue/EBITDA/PAT CAGR of 48%/48%/55%. The stock trades at 32.2x TTM P/E. The stock is not rated.

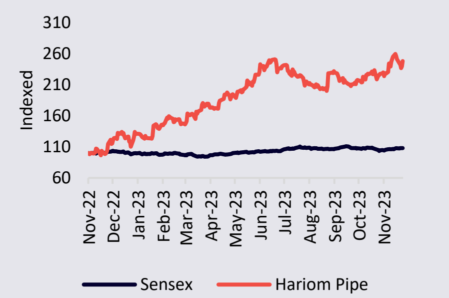
Key financials

Year to March	FY21	FY22	FY23
Revenues (INR Cr)	254	431	644
Rev growth (%)	58	69	50
EBITDA (INR Cr)	34	56	82
Adjusted PAT (INR Cr)	15	32	46
P/E (x)	123	58	40
EV/EBITDA (x)	56	34	25
RoACE (%)	21	26	24
RoAE (%)	25	37	19

CMP: INR672
Rating: Not rated

Bloomberg:	HARIOMP:IN
52-week range (INR):	290/740
M-cap (INR cr):	1,856
Promoter holding (%)	60.91

Relative Price Performance



Presentation link

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Financials

Income Statement

Year to March (INR Cr)	FY21	FY22	FY23
Income from operations	254	431	644
Direct costs	168	279	451
Gross Profit	86	151	193
Employee costs	6	18	19
Other expenses	46	77	92
Total Operating expenses	220	374	562
EBITDA	34	56	82
Depreciation and amortisation	6	8	9
EBIT	28	48	72
Interest expenses	8	8	10
Non-operating Income	1	3	1
Extraordinary Income	-	-	-
Profit before tax	21	43	63
Provision for tax	6	11	17
Profit after tax (before MI)	15	32	46
Share of Minority in profits	-	-	-
Profit after tax	15	32	46
Adjusted Profit after tax	15	32	46
Shares outstanding	3	3	3
Adjusted EPS	5	12	17
	-	0	-

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	86.5	87.0	87.3
Depreciation	2.5	1.9	1.5
Interest expenditure	3.0	1.9	1.6
EBITDA margins	13.5	13.0	12.7
Net profit margins	6.0	7.4	7.2

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	58.1	69.4	49.5
EBITDA	46.0	63.7	45.9
PBT	87.2	100.7	47.7
Net profit	91.3	111.2	44.6
EPS	91.3	111.2	44.6

Ratios

Year to March	FY21	FY22	FY23
ROAE (%)	25.4	37.2	19.4
ROACE (%)	20.6	26.3	24.3
Debtors (days)	28.2	22.8	48.8
Current ratio	3.2	4.2	7.9
Debt/Equity	0.9	0.8	0.7
Inventory (days)	115	97	120
Payable (days)	7	10	11
Cash conversion cycle (days)	136	110	159
Debt/EBITDA	1.9	1.4	3.3
Adjusted debt/Equity	0.9	0.8	0.7

Valuation Parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	5	12	17
Y-o-Y growth (%)	91	111	45
Diluted P/E (x)	123	58	40
Price/BV(x)	26.2	18.4	4.9
EV/Sales (x)	7.3	4.3	2.9
EV/EBITDA (x)	56	34	24.7
Diluted shares O/S (in Cr)	2.8	2.8	2.8
Basic EPS	5	12	17
Basic PE (x)	123	58	40

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	17	17	57
Reserves & surplus	54	84	319
Shareholders funds	71	101	375
Total Debt	66	76	274
Other Long Term Liabilities	0	0	2
Deferred Tax Liabilities	4	3	4
Minority interest	-	-	-
Sources of funds	140	180	655
Gross block	94	97	187
Depreciation	35	43	52
Net block	59	54	135
Capital work in progress	8	10	103
Total fixed assets	67	64	238
Investments	1	2	42
Inventories	80	115	212
Sundry debtors	20	27	86
Cash and equivalents	1	0	105
Loans and advances	5	8	27
Total current assets	107	152	471
Sundry creditors and others	4	10	16
Provisions	29	25	38
Total CL & provisions	33	36	54
Net current assets	73	117	417
Misc expenditure	-	-	-
Uses of funds	140	180	655
Book value per share (INR)	26	37	136
	-	-	-

Cash flow statement

Year to March	FY21	FY22	FY23
Operating Profit After Tax Before WC changes	28	46	65
WC Changes	(13)	(43)	(156)
CFO	15	3	(91)
CFI	(23)	(3)	(222)
CFF	7	(0)	418
Total Cash Flow	(1)	(0)	104

Home First Finance Company India

nuvama professional clients group

Strong growth momentum continues

We hosted the management of Home First Finance Company (HOMEFIRS) India in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 5. This technology-driven, affordable housing financier is focused on salaried customers/home loans (69%/87% of total AUM). It has a strong presence in markets such as Gujarat and Maharashtra (~46% of the total AUM). HOMEFIRS posted a robust AUM CAGR of 40% over FY18–23 — one of the highest among affordable housing players. Asset quality, which worsened during the pandemic, is back to pre-COVID levels and is steady. We expect ~30% AUM CAGR over FY23–25 and a RoAE of ~16.7% by FY25, with a marginal improvement in asset quality. We reiterate 'BUY'.

Key takeaways

- The strong demand for credit is expected to sustain in the affordable housing segment. This, coupled with the management's target of raising its branch count to 150 by FY24, should result in ~30% AUM CAGR over FY23–25. It is targeting a market share of 5% from 2% at present.
- The management expects to achieve its disbursement target of INR4,000cr in FY24 (~INR 1,855cr in H1) and INR 5,000cr in FY25. It reported strong quarterly disbursements in the last two years, with disbursements at INR 959cr in Q2FY24 — its highest ever.
- Unlike peers, HOMEFIRS relies on the connector-based model (75% of the channel) and to a certain extent on the builder ecosystem and referrals for lead generation. A connector is basically a loan agent, carpenter, doctor, chartered accountant, etc. They just provide the name and contact details of the target customer. HOMEFIRS will first conduct a KYC before approaching the customer. It has a connector base of 10,000–12,000, with the top 10 connectors having a 4% share.
- The management aims to increase the share of LAP in AUM to 20% from 13%, which is already reflected in disbursements.
- It reiterated that the franchise has gradually built-up vintage in the portfolio, wherein 'new to credit loans' has now fallen to 20% from 40% five-years back.
- HOMEFIRS does not expect to hike lending rates unless the bank rate increases. NIM will fall to 5.25% as the cost of borrowings will rise by 20bp.
- The marginal cost of borrowing stands at 8.6%. It may benefit from the RBI circular on risk weight, but the management said it is too early to comment. It will borrow INR 2,000cr from banks and other financial institutions in FY25.
- In the recent block sold by True North (18%), Capital First acquired 3%, followed by Canara Bank and Bandhan bank.

Valuation and view

HOMEFIRS is well-placed to capitalise on the high growth, yet under-penetrated affordable housing market. Operating efficiencies and low credit costs may ensure a RoA/RoE of 3.8%/16.7% by FY25E. Moreover, we expect asset quality to improve and early delinquency numbers (in terms of 1+dpd) to provide comfort on its underwriting mechanism. The stock is trading at a discount to its peers. This may reduce given its growth and improvement in overall asset quality and return ratios. Maintain 'BUY'.

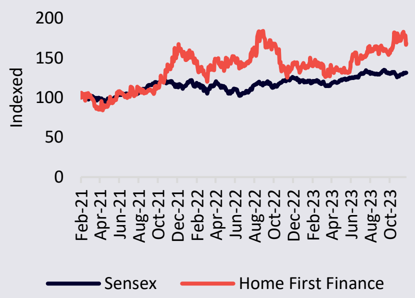
Key financials

Year to March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Revenue	272	380	492	641	835
PPOP	166	251	317	410	535
Adjusted profit	100	174	228	295	384
Diluted EPS (INR)	12.2	21.2	25.9	33.5	43.6
EPS growth	14.4	71.8	22.1	29	30.4
RoAE	8.7	12.6	13.5	15	16.7
P/E ratio (x)	0.0	48.0	39.3	30.5	23.3
P/BV ratio (x)	0.0	5.7	5.0	4.3	3.6

CMP: INR1,036
Rating: BUY

Bloomberg:	HOMEFIRS:IN
52-week range (INR):	655 / 985
M-cap (INR cr):	7,815
Promoter holding (%)	44.46

Relative price performance



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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Interest income	442	525	740	979	1,269
Interest charges	217	216	303	411	528
Net interest income	225	310	437	567	741
Fee & other income	47	70	55	73	94
Net revenues	**272**	**380**	**492**	**641**	**835**
Operating expense	106	129	176	231	301
- Employee exp	66	81	107	141	183
- Other opex	39	48	69	90	117
Preprovision profit	**166**	**251**	**317**	**410**	**535**
Provisions	32	25	22	28	36
PBT	134	226	295	383	499
Taxes	34	40	67	88	115
PAT	**100**	**186**	**228**	**295**	**384**
Extraordinaries		-12			
Adjusted PAT	**100**	**174**	**228**	**295**	**384**
Basic number of shares (Crs)	8	9	9	9	9
Basic EPS (INR)	12.4	21.2	25.9	33.5	43.6
Diluted number of shares (Crs)	8	9	9	9	9
Diluted EPS (INR)	12.2	21.2	25.9	33.5	43.6

Balance Sheet

Year to March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Paid Capital	17	18	18	18	18
Reserve & Surplus	1,363	1,556	1,800	2,094	2,478
Shareholder's Fund	1,381	1,574	1,817	2,112	2,496
Total Borrowings	3,054	3,467	4,813	6,306	8,146
Other Liabilities	76	76	106	368	707
Total Liabilities	**4,510**	**5,117**	**6,737**	**8,786**	**11,349**
Cash & Bank Balance	680	668	298	389	503
Investment	375	0	281	389	503
Loan & Advances	3,327	4,305	5,996	7,785	10,057
Net Fixed Assets	17	20	25	27	35
Other assets	113	124	137	195	251
Total Assets	**4,510**	**5,117**	**6,737**	**8,786**	**11,349**
Total AUM	**4,141**	**5,380**	**7,198**	**9,380**	**12,117**

Growth ratios (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
NII growth	37.4	37.8	41.1	29.9	30.6
Net revenues growth	19.0	39.8	29.6	30.1	30.4
Opex growth	0.9	21.9	36.4	31.4	30.4
PPP growth	34.2	51.2	26.0	29.5	30.4
Provisions growth	94.8	(22.2)	(14.0)	28.1	29.5
PAT growth	25.9	85.9	22.6	29.0	30.4

Operating ratios (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Yield on advances	13.0	12.5	13.3	13.3	13.3
Cost of funds	8.0	6.6	7.3	7.4	7.3
Spread	5.0	5.9	5.9	5.9	6.0
Net interest margins	6.9	8.1	8.5	8.2	8.3
Cost-to-income	38.8	33.9	35.7	36.0	36.0
Tax rate	25.3	17.7	22.7	23.0	23.0

Balance sheet ratios (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Loan growth	10.4	29.4	39.3	29.8	29.2
EA growth	29.6	13.5	32.2	30.2	29.2
Gross NPA ratio	1.8	2.3	1.6	1.4	1.2
Net NPA ratio	1.2	1.8	1.1	0.9	0.8
Provision coverage	33.3	24.8	31.3	31.0	38.3

RoE decomposition (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Net interest income/Assets	5.1	6.2	6.6	6.6	6.7
Other Income/Assets	1.1	1.4	0.8	0.9	0.9
Net revenues/Assets	6.2	7.6	7.5	7.5	7.6
Operating expense/Assets	2.4	2.6	2.7	2.7	2.7
Provisions/Assets	0.7	0.5	0.3	0.3	0.3
Taxes/Assets	0.8	0.8	1.0	1.0	1.0
Total costs/Assets	3.9	3.9	4.0	4.0	4.1
ROA	2.5	3.9	3.9	3.8	3.8
Equity/Assets	3.5	3.3	3.5	4.0	4.4
ROAE	8.7	12.6	13.5	15.0	16.7

Valuation metrics

Year to March	FY21	FY22	FY23	FY24E	FY25E
Diluted EPS (INR)	12.2	21.2	25.9	33.5	43.6
EPS growth (%)	*14.4*	*71.8*	*22.1*	*29.0*	*30.4*
Adjusted BV per share	157	178	205	238	282
Diluted P/E (x)	0.0	48.0	39.3	30.5	23.3
Price/Adj. Book Value(x)	0.0	5.7	5.0	4.3	3.6

Jammu & Kashmir Bank

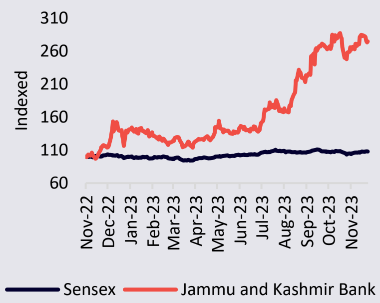
nuvama professional clients group

We hosted the management of Jammu & Kashmir Bank (JKBK) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. Things have started to look up for this private sector bank. RoA stood at 0.7% in FY22 — its highest in seven years. It is poised to achieve a RoA of ~1% in FY24. We expect better return ratios over the next three-to-five years as it improves its asset quality and achieves operating efficiencies. As it operates primarily in Jammu & Kashmir, and being the preferred banker in the Union Territory, it is likely to benefit from economic tailwinds such as improved tourism and robust infra spending. The management is guiding at a loan growth of more than 15% over the next few years. The stock is not rated.

CMP: INR123
Rating: Not rated

Bloomberg:	JKBK:IN
52-week range (INR):	45/118
M-cap (INR cr):	11,771
Promoter holding (%)	63.41

Relative price performance



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Key takeaways

- As the outlook towards the region changes and economic activity picks up, the GDP of the Union Territory (UT) is expected to grow faster than India's overall GDP.
- Given the government's focus on the development of the region, there is increased spending on infra, horticulture, and tourism. The bank is going to be the biggest beneficiary of improving economic activity in the UT as it is the preferred bank for the people in the region.
- JKBK is poised to reap the benefit of 'peace dividend' in the region, given its existing infrastructure of more than 800 branches and feet on the street. It has been able to improve its digital infra in the last 12–24 years, and the focus going forward is to make it more robust.
- The management reiterated that its: i) physical presence has helped generate granular deposits, and ii) improving digital presence is helping the bank stay more relevant.
- The liability franchise is strong, with a CASA ratio of 50.6% — the highest among private banks.
- The management reiterated its credit growth guidance of 15%. The focus is on retail, MSME, and agriculture. Its personal portfolio consists majorly of government employees.
- Rest of India in the overall loan book is expected to grow at a faster clip due to greater focus on housing and other retail loans. The management is sticking to its strategy of lending to high-rated corporates in the rest of India.
- The management also reiterated its annual NIM guidance of 3.8–3.9% as it will be supported by lower CoF due to a strong CASA.
- JKBK will focus on increasing non-interest income through interventions in the treasury market and by offering additional financial services. It has shifted its treasury operations to Mumbai and invested in human capital for the same.
- The management expects the C/I ratio to stay elevated (at 60%) in FY24 due to a higher employee expense. However, this expense will gradually decrease as it has tweaked its employee benefit structure in line with that of the industry.
- The negligible credit cost is due to write back of provisions and will drive profitability in FY24.
- With a recovery in the economic environment, JKBK has seen an improvement in SMA I and II accounts. Overall GNPA/NNPA is expected to be less than 4.5%/1% in FY24.
- The board has approved a Tier I capital raise of INR750cr. This will help sustain CRAR at 13–14% after RBI's risk weighted change for the unsecured personal portfolio.

Valuation and view

Credit growth is expected to stay healthy, with a steady improvement in asset quality and return ratios in the medium to long term. At the CMP, the stock is trading at 1.4x FY23 ABV.

Key financials

Year to March (INR cr)	FY21	FY22	FY23
Revenue	4,463	4,692	5,502
PPOP	1,584	1,099	1,858
Adjusted profit	432	502	1,197
Diluted EPS (INR)	6.1	5.4	11.6
EPS growth	-138%	-11%	116%
RoAE	6.9%	7.0%	14.1%
P/E ratio (x)	1.3	1.4	1.3
P/BV ratio (x)	1.8	1.9	1.5

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Financials

Income Statement (INR cr)

Year to March (INR cr)	FY21	FY22	FY23
Interest income	8,111	8,013	9,355
Interest charges	4,340	4,102	4,610
Net interest income	**3,771**	**3,911**	**4,745**
Other income	692	781	757
Net revenues	**4,463**	**4,692**	**5,502**
Operating expense	2,879	3,593	3,644
- Employee exp	2,059	2,672	2,704
- Depreciation / amortisation	134	144	-
- Other opex	685	777	940
Preprovision op. profit	**1,584**	**1,099**	**1,858**
Provisions	1,050	357	74
PBT	534	743	1,784
Taxes	102	241	587
PAT	**432**	**502**	**1,197**
Extraordinaries	-	-	-
Reported PAT	**432**	**502**	**1,197**
Basic number of shares (cr.)	71	93	103
Basic EPS (INR)	6.1	5.4	11.6
Diluted number of shares (cr.)	71	93	103
Diluted EPS (INR)	6.1	5.4	11.6

Growth Ratios

Year to March	FY21	FY22	FY23
NII growth	2%	4%	21%
Non Interest Income growth	27%	13%	-3%
Net Revenues growth	5%	5%	17%
Opex growth	6%	25%	1%
PPOP growth	4%	-31%	69%
Provisions growth	-60%	-66%	-79%
PAT growth	-138%	16%	139%

Operating Ratios

Year to March	FY21	FY22	FY23
Yield on Average Advances	9.2%	8.8%	9.2%
Yield on Investments	6.4%	5.2%	6.0%
Yield on interest earning assets	7.9%	7.3%	7.8%
Cost of Funds	4.1%	3.6%	3.8%
Spread	3.8%	3.7%	4.0%
Net Interest Margin	3.7%	3.6%	4.0%
Cost to Income Ratio	64.5%	76.6%	66.2%
Tax Rate	19.1%	32.5%	32.9%

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23
CAPITAL AND LIABILITIES			
Share Capital	71	93	103
Reserves and Surplus	6,754	7,920	9,840
Warrants	-	94	-
Deposits	**1,08,061**	**1,14,710**	**1,22,038**
Borrowings	2,015	2,371	2,892
Other Liabilities & Provisions	3,390	5,414	11,089
Total Liabilities	**1,20,292**	**1,30,602**	**1,45,962**
ASSETS			
Cash and Balances with RBI	3,685	1,395	7,794
Balances with Banks & Call Money	5,812	7,390	1,085
Investments	30,814	33,835	34,829
Advances	**66,842**	**70,401**	**82,285**
Fixed Assets	1,971	1,907	2,272
Other Assets	11,126	15,628	17,697
Total Assets	**1,20,251**	**1,30,556**	**1,45,962**

Balance sheet ratios (%)

Year to March	FY21	FY22	FY23
Loan growth	4%	5%	17%
IEA growth	10%	5%	11%
Deposits growth	11%	6%	6%
IBL growth	10%	6%	7%
Gross NPA ratio	7.2%	8.7%	6.0%
Net NPA ratio	3.0%	2.5%	1.6%
Provision coverage	59%	71%	73%
CAR	**12%**	**13%**	**15%**

RoAE Decomposition

Year to March	FY21	FY22	FY23
Net Interest Income / Assets	3.3%	3.1%	3.4%
Other Income / Assets	0.6%	0.6%	0.5%
Net Revenues / Assets	3.9%	3.742%	3.980%
Operating Expense / Assets	2.5%	2.9%	2.6%
Provisions / Assets	0.9%	0.3%	0.1%
Taxes / Assets	0.1%	0.2%	0.4%
Total Costs / Assets	3.5%	3.3%	3.1%
Return on Assets	**0.4%**	**0.4%**	**0.9%**
Assets / Equity	18.2	17.6	16.3
Return on Average Equity	**6.9%**	**7.0%**	**14.1%**

Valuation Metrics

Year to March	FY21	FY22	FY23
Basic EPS (INR)	6.1	5.4	11.6
EPS growth	-138%	-11%	116%
Book Value per Share (INR)	95.67	85.90	96.39
Adjusted book value per share (INR)	67.6	66.6	80.7
Basic P/E	20.5	23.1	10.7
P/Abook Value	1.3	1.4	1.3
P/ABV	1.8	1.9	1.5

Karnataka Bank

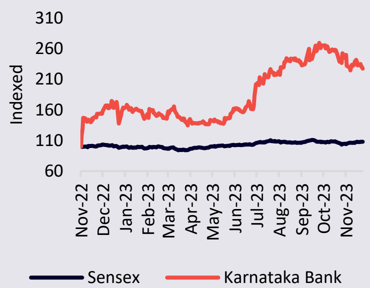
nuvama professional clients group

We hosted the management of Karnataka Bank (KBL) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 5. The bank has a good presence in its home state of Karnataka, with 577 of its 901 branches located there. It has a fairly wide footprint outside Karnataka as well. Overall, things have started to look up for this private sector bank, which is in the midst of its transformation journey. For the first time in its history, the top management was brought in from the industry. The new management aims to create an organisational structure that is aligned with growth. It aims to grow its credit book in mid-to-high teens with a steady improvement in asset quality and a strengthening provision coverage ratio. It aims to generate a RoA of 1–1.2% in the medium term. The stock is not rated.

CMP: INR221
Rating: Not rated

Bloomberg:	KBL:IN
52-week range (INR):	125 / 258
M-cap (INR cr):	7,675
Promoter holding (%)	-

Relative price performance



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Key takeaways

- After the successful transformation under 'KBL *Vikaas*', wherein a large part of its operations were digitised on the liability and asset side, the management aims to streamline various bank protocols and processes to improve overall efficiency.
- This includes lateral hiring in key areas and moving towards a CTC-based compensation structure, wherever possible. Certain difficulties in its retail loan business that were holding back growth have been resolved. Product design and pricing for home and gold loans were out of sync with market trends and were updated.
- It has also boosted the number of home loan processing hubs to five from three. It aims to raise it to eight by FY24-end to enhance its capacity to process home loans.
- To ensure its product features, pricing, and policies are up to date, it has set up a product management group. This function was earlier managed by the credit sanctions team, which led to in inefficiencies in benchmarking its products. An outbound sales team will be set up in FY24 to execute tie-ups with builders and auto dealers.
- MSME and rural will be the key growth drivers. Its focus is on driving retail home and gold loans. The management reiterated its annual NIM guidance of 3.5–3.7%.
- To negate the rising cost of deposits, the management is hoping to boost CASA. The launch of bundled salary products, a competitive flexi account, and establishment of a large outbound sales team in metro cities will drive CASA deposits.
- The management sees C/I ratio staying at 47–49% in FY24.
- Credit cost will remain negligible (sub-1%) as the management does not anticipate much stress in the book and will drive profitability in FY24.
- KBL posted a record high half yearly profit of INR 701cr in H1FY24 as compared to INR526cr in H1FY23. RoA is expected to stay in the 1–1.2% range, with a RoE of 16–17%.
- Overall NNPA is expected to be ~1.2% in FY24. KBL witnessed a consistent improvement in PCR, which stands at 62%. Since it has the leeway to increased PCR, some accelerated provisions can take place.
- A large portion of restructured accounts will emerge from the moratorium in Q3FY24. The repayment behaviour of these borrowers needs to be seen.
- The board has already approved a capital raise of INR 1,500cr. This will help CRAR sustain at 16–17% after RBI's risk weight change for the unsecured personal portfolio. Of this, a preferential allotment of INR 800cr has been completed. A follow-up round of INR 700cr will be raised in H2FY24.

Valuation and view

Credit growth is expected to stay healthy, with a steady improvement in asset quality and return ratios in the medium to long term. At the CMP, the stock trades at 0.9x FY23 ABV.

Key financials

Year to March (INR cr)	FY21	FY22	FY23
Revenue	3,587	3,445	4,178
PPOP	1,908	1,634	2,208
Adjusted profit	483	509	1,180
Diluted EPS (INR)	15.5	16.3	37.8
EPS growth	12%	5%	131%
RoAE	7.7%	7.4%	15.4%
P/E ratio (x)	13.7	13	5.6
P/BV ratio (x)	1.2	1.1	0.9

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Financials

Income Statement

Year to March (INR cr)	FY21	FY22	FY23
Interest income	6,232	6,222	7,220
Interest charges	4,049	3,731	4,035
Net interest income	**2,183**	**2,491**	**3,185**
Other income	1,404	954	993
Net revenues	**3,587**	**3,445**	**4,178**
Operating expense	1,679	1,811	1,969
- Employee exp	913	1,015	1,069
- Depreciation / amortisation	74	74	-
- Other opex	692	722	900
Preprovision op. profit	**1,908**	**1,634**	**2,208**
Provisions	1,296	939	767
PBT	612	695	1,441
Taxes	129	186	261
PAT	**483**	**509**	**1,180**
Extraordinaries	-	-	-
Reported PAT	**483**	**509**	**1,180**
Basic number of shares (cr.)	31	31	31
Basic EPS (INR)	15.5	16.3	37.8
Diluted number of shares (cr.)	31	31	31
Diluted EPS (INR)	15.5	16.3	37.8

Growth Ratios

Year to March	FY21	FY22	FY23
NII growth	8%	14%	28%
Non Interest Income growth	1%	-32%	4%
Net Revenues growth	5%	-4%	21%
Opex growth	-5%	8%	9%
PPOP growth	-5%	8%	9%
Provisions growth	14%	-28%	-18%
PAT growth	12%	5%	132%

Operating Ratios

Year to March	FY21	FY22	FY23
Yield on Average Advances	9.1%	8.7%	9.6%
Yield on Investments	5.8%	6.0%	6.3%
Yield on interest earning assets	8.0%	7.7%	8.4%
Cost of Deposit	5.2%	4.6%	4.6%
Cost of Funds	5.3%	4.7%	4.7%
Spread	2.7%	3.0%	3.7%
Net Interest Margin	2.8%	3.1%	3.7%
Cost to Income Ratio	46.8%	52.6%	47.1%
Tax Rate	21.1%	26.8%	18.1%

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23
CAPITAL AND LIABILITIES			
Share Capital	311	311	312
Reserves and Surplus	6,331	6,784	7,901
Warrants	-	-	-
Deposits	**75,655**	**80,387**	**87,368**
Borrowings	1,765	2,314	1,563
Other Liabilities & Provisions	1,553	2,245	1,914
Total Liabilities	**85,615**	**92,041**	**99,058**
ASSETS			
Cash and Balances with RBI * Others	5,316	4,437	6,159
Investments	21,635	22,041	23,326
Advances	**51,516**	**56,783**	**59,952**
Fixed Assets	838	818	875
Other Assets	6,310	7,961	8,746
Total Assets	**85,615**	**92,041**	**99,058**
Check			

Balance sheet ratios (%)

Year to March	FY21	FY22	FY23
Loan growth	-10%	10%	6%
IEA growth	1%	6%	7%
Deposits growth	5%	6%	9%
IBL growth	2%	7%	8%
Gross NPA ratio	5%	4%	3.7%
Net NPA ratio	3%	2%	1.7%
Provision coverage	35%	38%	55%
CAR	**15%**	**16%**	**17%**

RoAE Decomposition

Year to March	FY21	FY22	FY23
Net Interest Income / Assets	3%	3%	3.7%
Other Income / Assets	2%	1%	1.1%
Net Revenues / Assets	5%	4%	4.8%
Operating Expense / Assets	2%	2%	2.3%
Provisions / Assets	2%	1%	0.9%
Taxes / Assets	0%	0%	0.3%
Total Costs / Assets	4%	4%	3.5%
Return on Assets	**0.6%**	**0.6%**	**1.4%**
Assets / Equity	12	12	11
Return on Average Equity	**7.7%**	**7.4%**	**15.4%**

Valuation Metrics- Check

Year to March	FY21	FY22	FY23
Basic EPS	15.5	16.3	37.8
EPS growth	12%	5%	131%
Book value per share	213.7	228.0	263.0
Adjusted Book Value per share	172.3	191.1	231.9
Basic P/E	13.7	13.0	5.6
P/BV	1.0	0.9	0.8
P/ABV	1.2	1.1	0.9

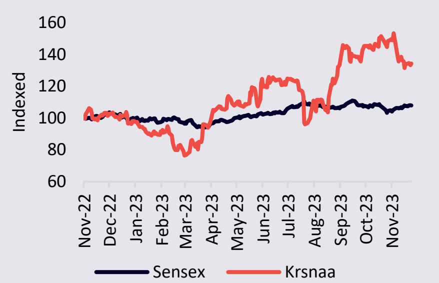
Krsnaa Diagnostics

We hosted the management of Krsnaa Diagnostics (KRSNAA) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan'* on December 6. KRSNAA is one of India's fastest growing differentiated diagnostics service providers. Incorporated in 2011, It provides a range of technology-enabled diagnostic services, including imaging and radiology, pathology and clinical laboratory, and tele-radiology. It has the largest presence in the public private partnership (PPP) diagnostic segment and provides services to private and public hospitals, medical colleges, and community health centres across India. It is the only pan-India entity with a presence in both radiology and pathology. It has a presence in over 125 out of 700 districts and aims to fast track its coverage across India. It has a competitive advantage in pricing, with its radiology/pathology test prices being 45–60%/40–80% lower than prevailing market rates. It has generated a revenue/PAT CAGR of 35%/66% over FY18–23. The stock is not rated.

CMP: INR665
Rating: Not rated

Bloomberg:	KRSNAA:IN
52-week range (INR):	353/727
M-cap (INR cr):	2,148
Promoter holding (%)	27.8

Relative price performance



Key takeaways

- The management has significant expansion plans in the radiology and pathology business. It aims to grow its network by ~47 radiology centres, 162 pathology labs, 2,889 collection centres over the next couple of years from 134 radiology centres, 112 pathology labs, and 1,429 collection centres. Post-implementation of these projects, the total number of centres (radiology, tele-reporting, pathology labs and collection centres) will touch 5,903 from 3,052 at present.
- It bagged four radiology/pathology contracts each from various states in FY23. Work on some of these contracts is underway.
- Project implementation in Punjab has slowed due to frequent government changes. The management expects to ramp up sales as soon as the political situation stabilises. Unlike other contracts, the Punjab contract is cash-based and hence good for working capital management.
- KRSNAA receives most government tender payments between 90 and 120 days.
- It has cost leadership which helps it secure orders and provide tests at lower rates. On a technical basis, it has a tender win ratio of 100%.
- A CT scan machine normally costs ~INR2cr and has the capability to produce 1,000 scans per month. As it generates an EBITDA margin of ~40%, the max payback period works out to around three years. The life span of an MRI machine is ~40 years as against 15–20 years for a CT scan machine.
- Going forward, the management expects to clock a RoCE/RoE of 18–20%/13-15%. RoCE will improve as more centres turn mature over the next three years. Around 60% centres are yet to turn matures.
- The management expects revenue to cross INR1,000cr by FY26.
- RoA in the radiology segment is in the 2–2.5 times range.

Valuation and view

The government's focus on improving healthcare augurs well for KRSNAA as a major portion of these projects will be executed under the PPP model. The management expects 30% revenue CAGR over FY23–25 and EBITDA margin to sustain at 26–28% (versus ~21% achieved in H1FY24). Growth will be driven by new tender wins in various states and network expansion. It is debt-free, with a net cash surplus of INR127cr as of September. The stock is trading at a P/E ratio of 39x TTM earnings.

Key financials

Year to March	FY21	FY22	FY23	H1 F24
Net revenue (INR cr)	396	455	487	295
Growth (YoY %)		*15*	*7*	*25*
EBITDA (INR cr)	94	131	122	74
Net profit (INR cr)	185	68	62	35
Diluted EPS (INR)	12	23	19	11
Diluted P/E ratio (x)	51	27	32	34
EV/EBITDA ratio (x)	9	13	15	13
RoACE (%)	13	15	9	7

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	396	455	487
Direct costs	84	60	74
Employee costs	30	54	75
Other expenses	189	210	216
Total operating expenses	303	324	365
EBITDA	94	131	122
Depreciation and amortisation	37	41	54
EBIT	56	90	69
Interest expenses	26	18	8
Other income	12	15	19
Profit before tax	43	87	80
Provision for tax	111	18	18
Core profit	-68	68	62
Extraordinary items	253	0	0
Profit after tax	185	68	62
Share from associates	0	0	0
Adjusted net profit	185	68	62
Equity shares outstanding (Crores)	1.3	3.1	3.1
EPS (INR) basic	160	23	20
Diluted shares (Cr)	1.3	3.1	3.1
EPS (INR) fully diluted	12	23	19

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	76.3	71.1	74.9
Depreciation	9.4	9.1	11
Interest expenditure	6.5	4.1	1.6
EBITDA margins	23.7	28.9	25.1
Net profit margins	46.6	15	12.8

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	53.4	14.9	7
EBITDA	49.3	40.1	-7
PBT	128.2	102.7	-7.3
Net profit	-204.3	-200.8	-9.2
EPS	-111.3	86.8	-15.7

Ratios

Year to March	FY21	FY22	FY23
ROAE (%)	-389.00%	14.90%	8.70%
ROACE (%)	13.00%	15.30%	8.80%
Debtors (days)	67	46	55
Current ratio	1.4	2.8	2.3
Debt/Equity	0.87	0.04	0.02
Inventory (days)	7	7	19
Payable (days)	72	62	47
Cash conversion cycle (days)	1	-8	27
Net Debt/EBITDA	1.9	-0.4	0.1
Net debt/Equity	0.8	-0.1	0

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	12.3	22.9	19.3
Y-o-Y growth (%)	*-111.3*	*86.8*	*-15.7*
CEPS (INR)	-23	35	37
Diluted P/E (x)	50.8	27.2	32.2
Price/BV(x)	3.5	2.9	2.6
EV/Sales (x)	2.2	3.8	3.8
EV/EBITDA (x)	9.1	13.2	15.2
Diluted shares O/S	1.3	3.1	3.1
Basic EPS	160.4	22.9	19.8
Basic PE (x)	3.9	27.2	31.4

Balance sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	6	16	16
Preference Share Capital	242	0	0
Reserves & surplus	-17	669	723
Shareholder's funds	232	684	739
Borrowings	203	26	17
Lease Liabilities	0	15	16
Net Deferred tax	11	7	11
Minority interest		0	0
Other Non-Current	10	30	35
Sources of funds	**455**	**762**	**818**
Gross block	373	487	621
Depreciation	66	103	153
Net block	307	383	468
Capital work in progress	4	28	25
Right of Use Assets		0	0
Total fixed assets	311	412	493
Intangible	1	2	3
Investments	0	0	0
Inventories	7	9	25
Sundry debtors	72	58	73
Cash and equivalents	153	242	109
Loans and advances	14	0	0
Other current assets	16	25	19
Total current assets	262	334	226
Sundry creditors and others	149	113	91
Provisions	0	0	0
Total CL & provisions	149	113	91
Net current assets	113	221	135
Other Assets	30	127	186
Misc expenditure		**0**	**0**
Uses of funds	**455**	**762**	**818**
Book value per share (INR)	178	218	235

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	185	68	62
Add: Depreciation	37	41	54
Add: Misc expenses written off		0	0
Add: Deferred tax	103	1	3
Gross cash flow	325	110	119
Less: Changes in W. C.	-22	-5	40
Operating cash flow	303	105.8	158.9
Less: Capex	68	113	134
Free cash flow	**235**	**-8**	**25**

L&T Finance Holdings

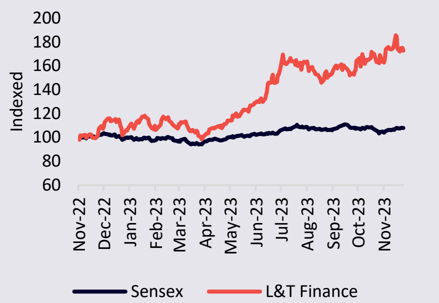
Heading towards retailisation

We hosted the management of L&T Finance Holdings (LTFH) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. LTFH offers a diverse range of financial products and services across rural (group loans, microfinance, and farmer finance), urban (housing, two-wheeler, and consumer loans), SME, and wholesale finance businesses. It is steadily exiting the wholesale financing business and expect a complete run-down by FY25.
Its retail loan book is growing in the early 30s and is likely to grow in the mid-to-high 20s over the next few years. Tech, a key constituent in business process, is being re-imagined for building cutting edge underwriting capabilities through a self-learning credit engine based on a bureau, account aggregator, and alternate data signals. On the product side, it is broadening the customer funnel and velocity through existing and a ramp up in new products. It is targeting a RoA/RoE of 2.8–3%/~15% in FY26, with superior asset quality. The stock is not rated.

CMP: INR154
Rating: Not rated

Bloomberg:	LTFH:IN
52-week range (INR):	79/157
M-cap (INR cr):	38,259
Promoter holding (%)	66.02

Relative price performance



[Presentation link]

Key takeaways

- The merger of L&T Finance (LTF) and L&T Infra Credit (LTICL) with LTFH will lead to newer avenues for growth, innovation, and long-term success. It will release INR3,000cr that was blocked in G-Secs, yielding 6.5–7%, and be redeployed in retail at a 16% yield. This will lead to an increase in overall spreads in coming quarters, resulting in a higher RoA.
- The management believes that during the five-year tenure of the new MD and CEO designate Mr Sudipta Roy, the targets laid out under *Lakshya* will sustain and become more predictable through a sharp focus on execution. In ICICI Bank, he handled unsecured loans, cards, and the merchant and student ecosystem, which contributed ~15% of the bank's profit.
- It expects to run-down its wholesale book by FY25. H2FY24 is expected to be more promising in terms of retail credit growth.
- With tech at the core of its strategy, it is looking at building up its engineering capabilities through an in-house software development centre, thereby reducing time to market.
- It endeavours to operate its frontend/backend like a fintech/strong compliant NBFC.
- In the majority of its retail products, LTFH is among the top three. The steady exit of wholesale is accentuating its retail focus. The management expects to acquire a meaningful market share in the medium to long term. L&TFH is adding ~7lk customers per quarter. It plans to raise it to 10–15lk per quarter in the medium to long term.
- It undertook a survey to gauge the scope to launch new products. As the survey report was encouraging, it may launch a contiguous asset or non-asset-based products in the retail segment in the medium term.
- The management is targeting a credit growth in the mid-to-high 20s over the next few years.
- The impact of RBI's risk weight change for unsecured personal loans is pegged at 50–70bp on CRAR. However, LTFH is more than adequately capitalised at 25.16%. The management is expecting a low double-digit impact on borrowing cost and a limited hit on NIM.
- The management is targeting a NIM and fee income/opex/credit cost of 11–11.5%/4%/3% of assets. PBT is expected to grow by 4–4.5% in the medium to long term. While opex may not meaningfully reduce due to IT-related investments, we expect credit cost to steadily trend downwards in the near to medium term.

Valuation and view

Asset quality improved, with a net Stage 3 of 0.82% as of September 30 (versus 1.9% as of September 30, 2022) owing to improved collections across asset classes and aided by the sale of delinquent wholesale accounts to asset reconstruction companies. LTFH is strategically important to L&T. It carries a healthy capital adequacy of ~25%, which is sufficient to maintain the growth momentum and meet the management's retailisation target. Improvement in credit cost will be able to keep RoA steady. The stock is trading at a trailing multiple of ~1.5x FY25E P/ABV.

Key financials

Year to March (INR cr)	FY21	FY22	FY23
Revenue	6,887	6,896	7,750
PPOP	5,031	4,526	4,821
Adjusted profit	971	1,070	1,623
Diluted EPS (INR)	4	4	7
EPS growth (%)	-	-3.6	51
RoAE (%)	5.8	5.5	7.8
P/E ratio (x)	34.3	35.6	23.5
P/BV ratio (x)	2.0	1.9	1.8

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Interest income	12,819	11,356	12,165
Interest charges	7,203	5,767	5,797
Net interest income	**5,615**	**5,589**	**6,368**
Fee & other income	1,271	1,307	1,382
Net revenues	**6,887**	**6,896**	**7,750**
Operating expense	1,856	2,370	2,929
- Employee exp	1,009	1,171	1,460
- Other opex	847	1,199	1,468
Preprovision profit	**5,031**	**4,526**	**4,821**
Provisions	3,394	3,030	2,473
Profit/(loss) from associates	-184	-	79
PBT	**1,453**	**1,496**	**2,269**
Taxes	482	426	646
PAT	**971**	**1,070**	**1,623**
Minority Interest	-	-	-
Reported PAT	**971**	**1,070**	**1,623**
Basic number of shares	216	247	248
Basic EPS (INR)	4	4	7
Diluted number of shares	217	248	249
Diluted EPS (INR)	**4**	**4**	**7**
DPS (INR)	-	**1**	-
Payout ratio (%)	0%	12%	0%

Year to March	FY21	FY22	FY23
Paid Capital	2,469	2,474	2,480
Reserve & Surplus	16,304	17,474	19,049
Shareholder's Fund	**18,773**	**19,948**	**21,528**
Total Borrowings	**88,556**	**85,201**	**83,043**
Other Liabilities	1,643	1,753	1,790
Total Liabilities	**1,08,972**	**1,06,902**	**1,06,362**
Cash & Bank Balance	8,427	7,970	12,749
Investment	8,198	11,917	7,460
Loan & Advances	87,030	82,469	75,155
Net Fixed Assets	1,132	499	502
Other assets	4,185	4,046	10,497
Total Assets	**1,08,972**	**1,06,902**	**1,06,362**
Business AUM	**94,013**	**88,341**	**80,893**

Growth ratios (%)

Year to March	FY21	FY22	FY23
NII growth	1.0	-0.5	13.9
Net revenues growth	-4.0	0.1	12.4
Opex growth	-2.0	27.7	23.6
PPP growth	-4.0	-10.0	6.5
Provisions growth	32.0	-10.7	-18.4
PAT growth	-55.0	10.2	51.6

Operating ratios (%)

Year to March	FY21	FY22	FY23
Yield	12.9	12.9	13.6
Cost of funds	8.1	7.5	7.5
Spread	4.9	5.4	6.2
Net interest margins	5.7	6.4	7.1
Cost-to-income	26.9	34.4	37.8
Tax rate	33.1	28.4	28.5

Balance sheet ratios (%)

Year to March	FY21	FY22	FY23
Loan growth	-4.0	-5.2	-8.9
Disbursements Growth	-24.0	31.0	26.0
Gross NPA ratio	4.1	4.1	4.7
Net NPA ratio	1.2	2.0	1.5
Provision coverage	71%	51%	68%

RoE decomposition (%)

Year to March	FY21	FY22	FY23
Net interest income/Assets	5.3	5.2	6.0
Other Income/Assets	1.2	1.2	1.3
Net revenues/Assets	6.5	6.4	7.3
Operating expense/Assets	1.7	2.2	2.7
Provisions/Assets	3.2	2.8	2.3
Taxes/Assets	0.5	0.4	0.6
Total costs/Assets	5.4	5.4	5.7
ROA	**1.1**	**1.0**	**1.6**
Equity/Assets	17.6	18.5	20.2
ROAE	**5.8**	**5.5**	**7.8**

Valuation metrics

Year to March	FY21	FY22	FY23
Basic EPS (INR)	4.5	4.3	6.6
Diluted EPS (INR)	*4.5*	*4.3*	*6.5*
BV per share	76	81	87
Adjusted BV per share	73.8	77.2	84.4
Price/ Earning (x)	34.3	35.6	23.5
Diluted P/E (x)	34.4	35.7	23.6
Price/Book Value(x)	2.0	1.9	1.8
Price/Adj. Book Value(x)	2.1	2.0	1.8

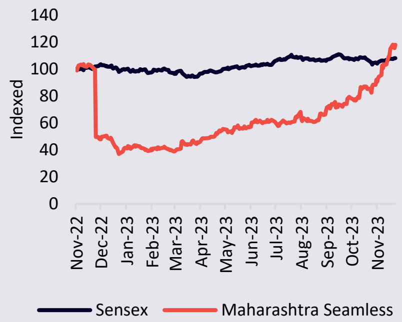
Maharashtra Seamless

We hosted the management of Maharashtra Seamless (MHS) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. MHS is involved in the manufacture of seamless and ERW steel pipes. It has a manufacturing capacity of 6,75,000mtpa (seamless/ERW: 5,50,000mtpa/1,25,000mtpa) spread across Maharashtra and Telangana. It has: i) developed a renewable power portfolio of 59.5MW, and ii) invested in an oil rig. In H1FY24, MHS reported a revenue of INR2,758cr (up 0.3% YoY), led by a 2.8% growth in realisation. EBITDA/PAT grew 21%/52.1% YoY to INR576cr/INR457cr on low input/interest cost. Its order book stood at INR1,459cr (seamless/ERW: INR1,212cr/ INR247cr). It is gross debt free.

CMP: INR1,040
Rating: Not rated

Bloomberg:	MHS:IN
52-week range (INR):	279/1,082
M-cap (INR cr):	13,935
Promoter holding (%)	67.86

Relative price performance



Key takeaways

- Its active seamless pipe capacity stood at 550,000mtpa as of September and is nearing peak utilisation. It has an inactive capacity of 100,000mtpa in Telangana, which it plans to utilise by setting up a finishing facility by December 2024. This will entail a capex of INR184cr and will augment its revenue potential by ~INR800cr. It has planned additional upgrades at a capex of INR668cr, which will enhance revenue by INR1,100cr.
- Restricted by capacity, MHS expects a volume growth of ~5% for FY24 and FY25. In FY26, it expects volume of 525,000–550,000mt (volume growth of 10–15%). Revenue and EBITDA cannot be estimated as realisation and yield is highly dependent on crude oil prices and demand for rigs (oil and gas industry contributes ~70% to total volumes).
- The management sees healthy demand for rigs driven by the government's focus on reducing dependence on oil imports (ONGC operated rigs have risen to 36 as of March against 27 a year ago). Daily rig rentals have surged to ~USD86,000 from ~USD37,000 a year ago. With increasing rig rates and stable crude prices, drilling activity is expected to stay healthy, which will drive demand for seamless drilling pipes ahead.
- MHS is the lowest cost seamless pipe producer globally (excluding China) as 87% of its power requirement is met via captive renewable energy (power is the second largest cost component after raw materials). With the extension of anti-dumping duty on Chinese imports till 2026, competition will stay muted. This will allow MHS to maintain its domestic market leadership (imports/market size: ~30,000mt/ ~900,000mt).
- Three key barriers to the entry of new players in seamless pipe manufacturing are: i) intense capital (a 2lk tpa capacity requires a capex of ~INR3,000cr and a working capital of INR500–700cr), ii) certification (stringent quality checks and annual audits), and iii) tender qualification (experience, expertise, net worth, and bank guarantees).
- MHS has two primary sales channels: i) tenders (~75% of revenue), and ii) dealers (~25%). MHS applies for open PSU tenders to secure orders. It places back-to-back order for materials once the order is confirmed (a natural hedge against steel price fluctuation). No advance is received for tender-based orders and PSUs are offered a 30-day credit period. Execution timeline for the order is about four months. It also has a strong pan India dealership network, which enjoys a credit period of around seven days and assumes inventory risk. Margin is lower than tender-based sales.
- In ERW pipes, it enjoys a market share of 18% in API certified pipes. Surya Roshni, Jindal Stainless Hisar, Welspun Corporation, and Ratnamani Metals are its key competitors.

Valuation

At the CMP of INR1,040, the stock trades at a P/E ratio of 13x and an EV/EBITDA of 11.4x on a TTM basis. The stock is not rated.

Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	231	421	572
Revenue growth (%)	-13	82	36
EBITDA (INR cr)	47	61	104
Adjusted PAT (INR cr)	26	72	79
P/E ratio (x)	62.7	17.8	16.1
Price/BV ratio (x)	3.8	4.1	4.8
EV/EBITDA ratio (x)	8	10.6	18.6
RoACE (%)	7.9	19.8	18.1
RoAE (%)	231	421	572

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Financials

Income Statement

Year to March (INR Cr)	FY21	FY22	FY23
Income from operations	231	421	572
F&B Consumed	139	288	373
Employee costs	7	8	10
Other expenses	38	64	85
Total Operating expenses	184	360	468
EBITDA	47	61	104
Depreciation and amortisation	12	14	14
EBIT	34	47	90
Interest expenses	6	4	4
Other income	9	11	9
Exceptional item	-18	-	-
Profit before tax	20	54	95
Provision for tax	5	-18	16
Profit after tax	15	72	80
Share of Minority in profits	-2	0	-0
Adj. profit after tax	26	72	79
Shares outstanding	1	1	1
Adjusted EPS	38	108	59

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	80	85	82
Depreciation	5	3	2
Interest expenditure	2	1	1
EBITDA margins	20	15	18
Net profit margins	11	17	14

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	-13	82	36
EBITDA	-14	-32	70
PBT	-14	-44	76
Adj. Net profit	-15	-182	-10
Adj. EPS	-15	-182	-10

Ratios

Year to March	FY21	FY22	FY23
ROAE (%)	7.9	19.8	18.1
ROACE (%)	8.0	10.6	18.6
Debtors (days)	75	48	41
Inventory (days)	154	124	96
Payable (days)	117	42	19
Cash conversion cycle (days)	111	131	118
Current ratio	2.4	4.3	5.7
Debt/Equity	0.3	0.2	0.1
Debt/EBITDA	2.0	1.2	0.2
Adjusted debt/Equity	-0.1	-0.0	-0.2

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	14.6	51.6	57.1
Y-o-Y growth (%)	16.9	-252.8	10.6
Diluted P/E (x)	62.7	17.8	16.1
Price/BV(x)	1.9	1.5	2.6
EV/Sales (x)	0.8	0.6	0.9
EV/EBITDA (x)	3.8	4.1	4.8
Diluted shares O/S	0.7	0.7	1.3
Basic EPS	14.6	51.6	57.1
Basic PE (x)	62.7	17.8	16.1

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	3	3	7
Reserves & surplus	327	395	471
Shareholders' funds	330	398	477
Total Debt	92	71	24
Other Long-Term Liabilities	4	4	7
Deferred Tax Liabilities	27	7	31
Minority interest	-	-	-
Sources of funds	**453**	**480**	**540**
Gross block	368	368	370
Depreciation	141	155	169
Net block	227	214	202
Capital work in progress	1	1	1
Total fixed assets	228	215	203
Investments	107	65	118
Inventories	97	143	151
Sundry debtors	47	56	64
Cash and equivalents	7	7	6
Loans and advances	46	50	43
Total current assets	304	321	381
Sundry creditors and others	81	55	37
Provisions	1	4	9
Total CL & provisions	82	59	46
Net current assets	222	262	335
Other Assets	4	3	2
Uses of funds	**453**	**480**	**540**
Book value per share (INR)	492	595	356

Cash flow statement

Year to March	FY21	FY22	FY23
Operating Profit After Tax Before WC changes	21	79	88
WC Changes	1	-82	-21
CFO	23	-3	67
CFI	6	33	-22
CFF	-31	-30	-47
Total Cash Flow	-2	1	-2

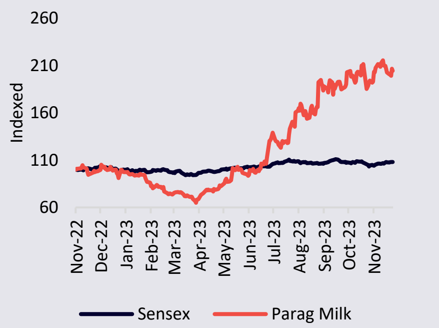
Parag Milk Foods

We hosted the management of Parag Milk Foods (PARAG) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — Udayan' on December 5Established in 1992, PARAG is as a prominent player in the Indian dairy industry, boasting a diversified portfolio across over 15 consumer-centric product categories. Engaged in the entire supply chain, from procurement to processing and marketing, it offers a range of milk and milk products under brands such as *Gowardhan*, Go, Pride of Cows, Avvatar, Slurp, and Topp Up. It operates three milk processing plants in Manchar (Maharashtra), Palamaner (Andhra Pradesh), and Sonipat (Haryana). It boasts a daily milk/whey/ghee/cheese/ paneer processing capacity of 3.4mn litres/10lk litres/110mt/110mt/20mt. PARAG reaches 4.6lk pan-India retail touchpoints and collaborates with more than 4,500 distributors, 500 stockists, and 29 depots. In FY23, milk/value-added products/new-age products/skimmed milk powder (SMP) contributed 9.4%/69.3%/3.3%/18% to overall revenue. The stock is not rated.

CMP: INR252
Rating: Not rated

Bloomberg:	PARAG:IN
52-week range (INR):	68/233
M-cap (INR cr):	2,538
Promoter holding (%)	41.63

Relative price performance



Key takeaways

- The company's product basket consists of liquid milk and multi-brands in the health and nutrition space.
- It is the only domestic manufacturer of whey protein. It commands 7% market share in this category. Around 50% of total whey protein sales accrue from the online channel.
- PARAG ranks second in the cheese category (34% market share versus 36% for the market leader) and numero uno in the cow ghee segment in India.
- Going forward, the management's focus will be on whey protein and ghee categories.
- Its plan is to open 15lk outlets over the next three years from ~5lk at present.
- It is trying to move towards an FMCG kind of market by introducing value added and premium products. Whey protein Avvatar is available at a 10–15% premium to other products in the market.
- Milk constitutes ~90% of all raw material cost. Milk prices have fallen but are stable right now.
- Whey protein is the fastest growing category and will touch a revenue of INR100cr by the end of FY24. MuscleBlaze is the market leader in that category. The whey protein category grew ~63% in H1FY24.
- Premiumisation in value added products is aiding margin expansion. The company has a three-year revenue target of 3x and mid-teen margin. Inventory levels are falling.
- PARAG has 70% market share in the cheese category. HORECA commands 50% of overall cheese revenue.
- Gross margin in whey protein is double the average and 30% for value added products
- It has recently added rasgullas and gulab jamun to its product basket.
- PARAG is working on expanding its cheese capacities and collection centres.
- Procurement of milk is the only barrier to entry in this business. Around 60–70% of total procurement is through the direct route and the rest is bulk procurement from aggregators.
- The company launched Pride of Cows brand in the premium category.

Valuation and view

The stock recently experienced a re-rating and trades at 33.1x TTM earnings, reflecting investor confidence in its robust margin improvement and potential for earnings growth over the next three-to-five years. As of now, the stock is not rated. Key risks are susceptible to agro-climatic factors and elevated debt levels. The stock is not rated.

Key financials

Year to March (INR cr)	FY21	FY22	FY23
Revenue	1,842	2,072	2,893
EBITDA	122	-438	118
EBITDA margin (%)	6.6	-21.2	4.1
Net profit	21	-533	53
P/E ratio (x)	87.6	NA	47.5
EV/EBITDA ratio (x)	23.8	NA	26.3
RoCE (%)	6.6	NA	8.5
RoE (%)	2.3	NA	7.8

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Financials

Income Statement

Year to March (INR Cr)	FY21	FY22	FY23
Income from operations	**1,842**	**2,072**	**2,893**
COGS	1,362	2,081	2,323
Gross Profit	**518**	**222**	**497**
Employee costs	78	84	98
Other expenses	280	346	353
Total operating expenses	**1,720**	**2,510**	**2,774**
EBITDA	**122**	**-438**	**118**
Depreciation and amortisation	49	54	57
EBIT	**73**	**-492**	**61**
Other Income	14	21	45
PBIT	**86**	**-471**	**106**
Interest expenses	46	51	55
Profit before tax	**41**	**-522**	**51**
Provision for tax	20	10	-2
Reported profit after tax	**21**	**-533**	**53**
Extraordinary items	0	0	0
Adjusted Profit after tax	**21**	**-533**	**53**
Equity shares outstanding (Cr)	8.4	9.5	11.7
Adjusted EPS (INR)	**2.5**	**-55.9**	**4.5**

Common Size metrics - as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	93.4%	121.2%	95.9%
Depreciation	2.6%	2.6%	2.0%
Interest expenditure	2.5%	2.5%	1.9%
EBITDA margins	6.6%	-21.2%	4.1%
Adj. Net profit margins	1.1%	-25.7%	1.8%

Growth Metrics (%)

Year to March	FY21	FY22	FY23
Revenues	-24.5%	12.5%	39.6%
EBITDA	-42.4%	NA	NA
PBT	-67.9%	NA	NA
PAT	-77.9%	NA	NA
EPS	-77.9%	NA	NA

Profit & Efficiency Ratios

Year to March	FY21	FY22	FY23
ROE (%)	2.3%	NA	7.8%
ROCE (%)	6.6%	NA	8.5%
Debtors (days)	32	22	21
Inventory (days)	138	84	72
Payable (days)	71	53	31
Cash conversion cycle (days)	98	54	62
Net Debt/EBITDA	3.00	-1.00	4.91
Net Debt/Equity	0.39	0.79	0.72

Valuation

Year to March	FY21	FY22	FY23
Adj. EPS (INR)	2.5	-55.9	4.5
Y-o-Y growth (%)	-77.9%	NA	NA
Diluted P/E (x)	87.6	NA	47.5
Price/BV(x)	2.0	3.7	3.1
EV/Sales (x)	1.6	1.4	1.1
EV/EBITDA (x)	23.8	NA	26.3

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	84	95	117
Reserves & surplus	844	459	691
Shareholders funds	**928**	**554**	**808**
Total Debt	**384**	**523**	**596**
Provisions	1	1	1
Current Liabilities	358	300	248
Sources of funds	**1,683**	**1,391**	**1,666**
PP&E	473	459	436
CWIP	3	10	45
Other Intangible Assets	4	5	6
Investments	1	-	5
Inventories	695	479	574
Trade Receivables	159	125	168
Cash and Cash Equivalents	19	84	15
Other Assets	-	-	-
Uses of Funds	**1,683**	**1,391**	**1,666**
Book value per share (INR)	**111**	**58**	**69**

Cash Flow Statement

Year to March	FY21	FY22	FY23
Operating Profit Before WC changes	138	-40	132
WC Changes	-38	-109	-76
CFO	-47	-20	-90
CFI	-69	241	439
CFF	-26	134	75
Total Cash Flow	-141	355	424

Piramal Pharma

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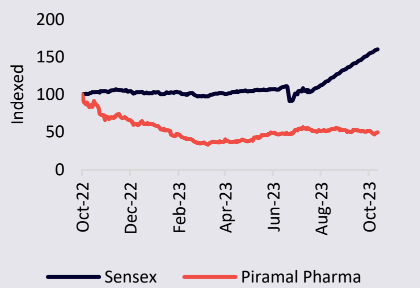
Better visibility in CDMO comforts re-rating; PT revised up to INR150

We hosted the management of Piramal Pharma (PIEL) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — Udayan' on December 5. PIEL offers a diverse range of products and services through end-to-end manufacturing capabilities across 15 global facilities and a global distribution network in more than 100 countries. It generated 57%/ 32%/12% revenue from contract development and manufacturing organisation (CDMO)/ complex hospital generics (CHG)/India consumer healthcare (ICH) business by selling over-the-counter products in FY23. It sees a healthy H2FY24 on the back of a recovery in the CDMO business, which will result in a better operating margin. Historically, as the second half of the fiscal is better than the first half, we expect net profit to turn around in FY24. The management expects 15–20% revenue growth in the CDMO business and an improvement in consolidated margin. We expect a revenue/EBITDA CAGR of 14%/60% over FY23–25. We assign a higher valuation multiple given the better visibility in the CDMO business and revise our SoTP-based TP to INR150 (implies a blended EV/EBITDA of 15x) from INR130 earlier (13x). Retain 'BUY'.

CMP: INR126
Rating: BUY
Target price: INR130

Bloomberg:	PIEL:IN
52-week range (INR):	62/142
M-cap (INR cr):	16,417
Promoter holding (%)	35.02

Relative price performance



Previous report link

Key Takeaways

- The CDMO business, which was impacted due to delays in receiving the plan of action (POA) on new projects amid macro-economic conditions in FY23, is witnessing a healthy recovery. PIEL had bid for multiple orders in FY23. Due to the spillover effect of the COVID-19 pandemic, POA got delayed for 100-150 days as against the usual practice of 35-40 days. As the financial year for foreign companies starts in January, most of the orders come in from January to March.
- The management expects 15-20% YoY growth in revenue from CDMO in FY24.
- EBITDA margin expansion at the company level will be quicker as CDMO grows faster. It aspires at an EBITDA margin of 25-30% in CDMO business in coming years.
- In the CDMO business, PIEL doesn't face concentration risk as contributions from its largest customer does not exceed more than 5% of total CDMO revenue.
- The focus is on expanding the peptide and high-potent API business, which is seeing strong demand in the global market.
- Capacity utilisation for plants located globally/in India is 40%/60%. It will optimise current assets and undertake organic expansion of key facilities.
- It is likely to incur a maintenance capex of USD25mn out of a total capex of USD40mn earmarked for FY25.
- The gross block for CDMO/CHG/ICH is 55%/40%/5% and includes intangible assets.
- PIEL has launched more than 100 products in the ICH business in the past three years and will continue to maintain the launch momentum.
- Revenue from the CHG/ICH segment may grow at 15-20%/over 20% CAGR over the next couple of years.
- It will use internal accruals to repay debt in FY25. Net debt/EBITDA ratio was 8.3x in FY23. The company plans to pare it down to 3.5x/2.5x by FY24/FY25.

Valuation and view:

We rely on PIEL's excellent track record in execution and presence in niche segments like highly potent APIs, complex OSDs, sterile injectables, peptides, antibody-drug conjugates, biologics, and vaccines, which offer attractive opportunities in respective markets. The stock is trading at 18x/13x FY24E/FY25E EV/EBITDA. We assign an FY25 EV/EBITDA multiple of 15x/15x/12x (earlier 12x/XXx/XXx) to EBITDA from the CDMO/CHG/ICH space to arrive at our SoTP-based TP of INR150 (earlier INR130).

Key financials

Year to March	FY21	FY22	FY23	FY24E	FY25E
Net revenue (INR cr)	6,315	6,559	7,082	8,072	9,212
YoY growth		4%	8%	14%	14%
EBITDA (INR cr)	1,428	935	628	1,126	1,603
Growth (YoY %)		-35%	-33%	79%	42%
Adjusted net profit (INR cr)	818	376	(180)	268	602
Diluted EPS (INR)	6.9	3.2	-1.5	2.2	4.6
Diluted P/E ratio (x)	13	29	(61)	41	20
EV/EBITDA ratio (x)	9	16	26	13	10
RoACE (%)	13.2	6.9	1.7	5.4	8.5

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Income from operations	6,315	6,559	7,082	8,072	9,212
Direct costs	2,504	2,912	2,703	2,825	3,224
Power & Fuel	137	164	208	186	193
Employee costs	1,468	1,589	1,896	2,099	2,165
Other expenses	778	960	1,646	1,836	2,027
Total operating expenses	4,887	5,625	6,453	6,946	7,609
EBITDA	1,428	935	628	1,126	1,603
Depreciation and amortisation	545	586	677	708	791
EBIT	883	348	-48	418	812
Interest expenses	163	198	344	347	294
Other income	230	276	225	178	180
Profit before tax	949	426	-168	249	698
Provision for tax	114	109	66	62	174
Core profit	835	317	-234	187	523
Extraordinary items	-17	-	-7	-	-
Profit after tax	818	317	-241	187	523
Share from associates	-	59	54	65	68
Adjusted net profit	835	376	-180	252	592
Equity shares outstanding (mn)	119	119	119	119	132
EPS (INR) basic	8	3	-2	2	4
Diluted shares (Cr)	119	119	119	119	132
EPS (INR) fully diluted	8	3	-2	2	4
Dividend per share	-	-	-	-	-
Dividend payout (%)	-	-	-	-	-

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23	FY24E	FY25E
Operating expenses	77.4	85.8	91.1	86.1	82.6
Depreciation	8.6	8.9	9.6	8.8	8.6
Interest expenditure	2.6	3.0	4.9	4.3	3.2
EBITDA margins	22.6	14.2	8.9	14.0	17.4
Net profit margins	13.2	5.7	-2.5	3.1	6.4

Growth metrics (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Revenues		3.9	8.0	14.0	14.1
EBITDA		-34.6	-32.8	79.2	42.3
PBT		-55.1	-139.3	-248.8	179.8
Net profit		-62.0	-173.8	-180.0	179.8
EPS		-62.3	-149.3	-235.1	111.7

Ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E
ROAE (%)	14.9	6.1	-2.8	3.4	7.1
ROACE (%)	13.2	6.9	1.7	5.4	8.5
Debtors (days)	91	99	93	85	90
Current ratio	1.5	1.3	1.3	1.4	1.4
Inventory (days)	71	77	87	90	85
Payable (days)	53	57	61	65	65
Cash conversion cycle (days)	109	120	118	110	110
Net Debt/EBITDA	1.8	4	8.3	3.6	2.5
Net debt/Equity	0.4	0.6	0.77	0.5	0.5

Valuation parameters

Year to March	FY21	FY22	FY23	FY24E	FY25E
Diluted EPS (INR)	8.4	3.2	-1.6	2.1	4.5
Y-o-Y growth (%)		*-62.3*	*-149.3*	*-235.1*	*111.7*
Diluted P/E (x)	13.5	33	-69.1	49.2	23.3
Price/BV(x)	2	1.9	1.8	1.5	1.6
EV/Sales (x)	2.1	2.5	2.5	2	1.9
EV/EBITDA (x)	9.5	17.2	28	14.6	11
Basic EPS	8.4	3.2	-1.6	2.1	4.5
Basic PE (x)	13.5	33	-69.1	49.2	23.3

Balance sheet

As on 31st March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Equity share capital	995	1,186	1,193	1,323	1,323
Preference Share Capital	-	-	-	-	-
Reserves & surplus	4,610	5,511	5,580	6,756	7,334
Shareholders funds	5,605	6,697	6,774	8,079	8,657
Secured loans	2,910	4,023	5,504	4,400	4,000
Unsecured loans	-	-	-	-	-
Borrowings	2,910	4,023	5,504	4,400	4,000
Net Deferred tax	-22	-105	-130	-160	-160
Minority interest	-	-	-	-	-
Sources of funds	**8,493**	**10,615**	**12,147**	**12,319**	**12,497**
Gross block	8,153	9,510	10,777	11,877	13,427
Depreciation	2,047	2,631	3,308	4,016	4,807
Net block	6,105	6,879	7,469	7,861	8,620
Capital work in progress	627	1,172	1,419	1,550	1,000
Total fixed assets	6,732	8,052	8,887	9,411	9,620
Unrealised profit	-	-	-	-	-
Investments	123	267	639	280	280
Inventories	1,232	1,389	1,681	1,990	2,145
Sundry debtors	1,575	1,785	1,799	1,880	2,271
Cash and equivalents	406	329	308	393	66
Loans and advances	431	564	766	655	607
Other current assets	158	114	92	92	92
Total current assets	3,801	4,181	4,647	5,011	5,182
Sundry creditors and others	1,827	1,508	1,652	1,930	2,133
Provisions	78	118	60	69	69
Total CL & provisions	1,905	1,626	1,712	1,999	2,202
Net current assets	1,896	2,555	2,935	3,012	2,981
Misc expenditure	-258	-259	-314	-383	-383
Uses of funds	**8,493**	**10,615**	**12,147**	**12,319**	**12,497**
Book value per share (INR)	47	56	57	68	65

Cash flow statement

Year to March	FY21	FY22	FY23	FY24E	FY25E
Net profit	835	376	-180	252	592
Add: Depreciation	545	586	677	708	791
Add: Misc expenses written off	126	8	140	125	0
Add: Deferred tax	0	0	0	0	0
Gross cash flow	1,506	970	637	1,085	1,382
Less: Changes in W. C.	765	729	335	59	296
Operating cash flow	741	241	302	1,025	1,086
Less: Capex	4,464	1,904	1,512	1,231	1,000
Free cash flow	**-3,723**	**-1,662**	**-1,211**	**-206**	**86**

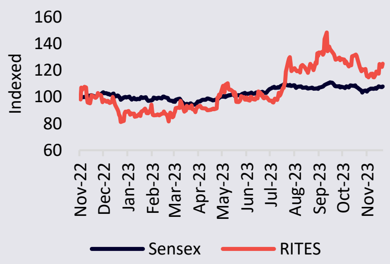
RITES

We hosted the management of RITES (RITE) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — Udayan' on December 6. Incorporated on April 26, 1974, it is a Navratna and Schedule 'A' central public sector enterprise under the Ministry of Railways. This multidisciplinary engineering and consultancy organisation provides a comprehensive range of services from concept to commissioning in all facets of transport infrastructure and related technologies. It is a leading player in the transport consultancy and engineering sector in India. RITE is uniquely placed in terms of diversification of services and geographical reach in various sectors such as railways, highways, urban engineering (metros) and sustainability, airports, ports, ropeways, institutional buildings, inland waterways, and renewable energy. It is the only export arm of Indian Railways for providing rolling stock, other than Thailand, Malaysia, and Indonesia. It has emerged L1 for exports of rolling stock to Mozambique and Bangladesh. Its order book stood at INR5,529cr at the end of H1FY24. The stock is not rated.**

CMP: INR476
Rating: Not Rated

Bloomberg:	RITE:IN
52-week range (INR):	306 / 584
M-cap (INR cr):	11,273
Promoter holding (%)	72.20

Relative Price Performance



Presentation link

Key takeaways

- Order book from consultancy/exports/turnkey projects at the end of FY24 is likely to be 50%/25%/25%. This should result in a similar revenue break-up in FY25.
- The current order book is split equally between consultancy and turnkey projects and on a competitive and nomination basis.
- The management aims to restrict the order book in the turnkey business to 25% of the total since the company is not a construction company. During the COVID-19 pandemic, there were hardly any export orders and this led to an increase in order book from the turnkey business.
- EBITDA margin should be ~30%/10–20%/2–4% for consultancy services/exports/turnkey projects from FY25.
- In the case of the consultancy business, the Indian Railways constitutes ~40% of orders. The rest is from the non-Indian Railway business. The management has been focusing on garnering higher contribution consultancy orders from the non-Indian Railways business.
- Dividend payout should continue ~90% as RITE essentially will be into consulting and not construction or infrastructure.

Valuations

At the CMP of INR476, the stock trades at a P/E ratio of 23.8x and an EV/EBITDA of 12x on a TTM basis.

Key financials

Year to March	FY21	FY22	FY23
Revenues (INR Cr)	1,905	2,662	2,628
Rev growth (%)	-23.0	39.7	-1.3
EBITDA (INR Cr)	549.6	723.8	745.0
Adjusted PAT (INR Cr)	444	539	571
P/E (x)	25.8	21.2	20.0
Price/BV(x)	4.8	4.6	4.4
EV/EBITDA (x)	14.8	11.3	10.7
RoACE (%)	14.4	18.8	18.7
RoAE (%)	17.7	22.1	22.4

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	1,905	2,662	2,628
Direct costs	741	1,222	1,166
Power & fuel	0.0	0	0
Employee costs	483	517	509
Other expenses	132	199	209
Total operating expenses	1,356	1,938	1,883
EBITDA	550	724	745
Depreciation and amortisation	52	66	67
EBIT	498	658	678
Interest expenses	6	7	7
Other income	100	84	102
Profit before tax	591	734	773
Provision for tax	148	197	203
Core profit	443	538	570
Profit after tax	443	538	570
Share from associates	1	1	1
Adjusted net profit	444	539	571
Equity shares outstanding (Cr)	24.0	24.0	24.0
EPS (INR) basic	18.5	22.4	23.8
Diluted shares (Cr)	24.0	24.0	24.0
EPS (INR) fully diluted	18.5	22.4	23.8

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	71.2	72.8	71.7
Depreciation	2.7	2.5	2.5
Interest expenditure	0.3	0.3	0.3
EBITDA margins	28.8	27.2	28.3
Net profit margins	23.3	20.2	21.7

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	-23.0	39.7	-1.3
EBITDA	-17.1	31.7	2.9
PBT	-32.3	24.2	5.3
Net profit	-29.9	21.3	6.1
EPS	-27.0	21.3	6.1

Profit & Efficiency Ratios

Year to March	FY21	FY22	FY23
ROAE (%)	17.7	22.1	22.4
ROACE (%)	14.4	18.8	18.7
Debtors (days)	112	101	126
Current ratio	1.4	1.4	1.5
Inventory (days)	141	36	10
Payable (days)	146	54	95
Cash conversion cycle (days)	106	83	41
Net Debt/EBITDA	-6.0	-4.5	-4.6
Net debt/Equity	-1.4	-1.3	-1.3

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	18.5	22.4	23.8
Y-o-Y growth (%)	-27.0	21.3	6.1
Diluted P/E (x)	25.8	21.2	20.0
Price/BV(x)	4.8	4.6	4.4
EV/Sales (x)	4.3	3.1	3.0
EV/EBITDA (x)	14.8	11.3	10.7
Basic EPS	18.5	22.4	23.8
Basic PE (x)	25.8	21.2	20.0

Balance sheet

Year to March	FY21	FY22	FY23
Equity share capital	240	240	240
Preference Share Capital	0	0	0
Reserves & surplus	2,152	2,248	2,364
Shareholders funds	2,392	2,489	2,604
Secured loans	25	17	0
Unsecured loans	8	8	0
Borrowings	33	25	0
Net Deferred tax			
Minority interest	88	106	115
Sources of funds	**2,513**	**2,620**	**2,719**
Gross block	824	862	919
Depreciation	239	302	367
Net block	585	560	553
Capital work in progress	15	58	101
Total fixed assets	600	618	654
Unrealised profit	0	0	0
Investments	538	622	512
Inventories	286	119	31
Sundry debtors	584	740	907
Cash and equivalents	3,357	3,300	3,449
Loans and advances	4	0	5
Other current assets	464	424	415
Total current assets	4,695	4,583	4,807
Sundry creditors and others	297	182	302
Provisions	3,023	3,022	2,951
Total CL & provisions	3,320	3,204	3,253
Net current assets	1,375	1,380	1,554
Misc expenditure	0	0	0
Uses of funds	**2,513**	**2,620**	**2,719**
Book value per share (INR)	99.5	103.6	108.4

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	444	539	571
Add: Depreciation	52	66	67
Add: Misc expenses written off	0	0	0
Add: Deferred tax	2	-5	1
Gross cash flow	498	599	639
Less: changes in W.C.	-276	62	26
Operating cash flow	774	538	613
Less: Capex	52	81	100
Free cash flow	722	457	513

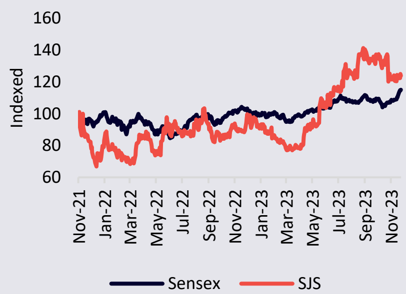
SJS Enterprises

We hosted the management of SJS Enterprises in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 5. As a key player in the Indian decorative aesthetics industry, SJS operates as a 'design-to-delivery' aesthetical solutions provider, specialising in design, development, and manufacture of a diverse product portfolio for clients in the auto and consumer appliance space. It has distinguished itself through its high-quality offerings and robust client relationships globally.
SJS strategically acquired Exotech Plastics (Exotech) and Walter Pack Automotive Products India (WPI) to augment its product portfolio, boost its presence in the value chain presence, and drive operational synergies. The management's optimistic outlook and guidance of 45%/30% revenue/PAT growth in FY24, bolsters our confidence in its strategic initiatives for sustained success in the decorative aesthetics market. Maintain 'BUY'.

CMP: INR632
Rating: BUY

Bloomberg:	SJS:IN
52-week range (INR):	379/729
M-cap (INR cr):	1,960
Promoter holding (%)	21.81

Relative price performance



Key takeaways

- SJS strategically utilised acquisitions, namely Exotech and WPI, to transition from a predominantly 2W-focussed player to one with a well-balanced customer portfolio. As of H1FY24, its diversified portfolio comprises of 2Ws/4Ws/consumer durables/other sectors (41%/32%/19%/8%), enhancing its market resilience.
- The acquisition of Exotech fills a crucial void in SJS's product lineup, strengthening its position in the chrome-plated product segment, which commands a significant market share. The WPI acquisition provides it access to cutting-edge technologies such as IMD, IMF, IML, and IME, positioning it at the forefront of innovation in its industry.
- The management asserted that the acquisitions offer compelling prospects for sustained long-term growth. These strategic moves create cross-selling opportunities and contribute to the expansion of its customer base across diverse business segments.
- SJS' forward guidance reflects a positive outlook as it anticipates sustained outperformance in the industry. Awaiting a gradual recovery in both export and local 2W markets, it envisions ~45% YoY revenue growth for FY24. This optimistic projection can be attributed to client acquisitions, the premiumisation trend, successful acquisition of WPI, and the anticipated recovery in 2Ws, exports and the consumer durable segment. The management expects a 30% YoY growth in PAT in FY24.
- EBITDA margin declined in Q2, but is expected to partially recover in Q3 and normalise from Q4FY24. This positive trend is attributed to improving conditions in the WPI business.
- New products account for 10% of sales and is projected rise to 25% over the next three-to-four years.

Valuation and view

We expect a substantial rise in sales/EBITDA/PAT CAGR (33%/37%/38%) over FY23–25, with an adjusted RoE/RoCE of ~22%/30% by FY25. Its guidance of robust revenue/PAT growth (45%/30%) in FY24, derived from a strategic blend of organic and inorganic approaches, reinforces our positive outlook. With valuations modest (at 15.1x P/E and 10.1x EV/EBITDA), based on FY25 estimates, we have retained our TP at INR838, considering a target P/E multiple of 20x FY25E EPS. Maintain 'BUY'.

Key financials

Year to March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Revenue	252	370	433	627	766
EBITDA	77	94	107	163	200
EBITDA margin (%)	30.5	25.5	24.6	26	26.1
Net profit	48	55	67	99	128
P/E ratio (x)		35.0	28.6	19.5	15.1
RoCE (%)	22.9	23.8	21.8	28.7	30.2
RoE (%)*	15.4	15.3	16.4	20.4	22

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Financials

Income Statement

Year to March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Income from operations	**252**	**370**	**433**	**627**	**766**
Direct Costs	102	159	187	275	336
Gross Profit	**149**	**211**	**246**	**352**	**430**
Employee costs	36	51	56	76	93
Other expenses	37	65	84	113	138
Total operating expenses	**73**	**116**	**140**	**189**	**230**
EBITDA	**77**	**94**	**107**	**163**	**200**
Depreciation and amortisation	15	22	23	30	33
EBIT	**62**	**73**	**83**	**133**	**167**
Other Income	4	4	10	12	14
PBIT	**65**	**77**	**93**	**145**	**180**
Interest expenses	1	3	2	13	10
Profit before tax	**64**	**74**	**91**	**132**	**170**
Provision for tax	16	19	24	33	43
Core profit	**48**	**55**	**67**	**99**	**128**
Extraordinary items	-1	0	0	0	0
Profit after tax	**48**	**55**	**67**	**99**	**128**
Equity shares outstanding (Cr)	3.0	3.0	3.0	3.0	3.0
Adjusted EPS (INR)	**15.9**	**18.1**	**22.1**	**32.5**	**41.9**

Common Size metrics - as % of net revenues

Year to March	FY21	FY22	FY23	FY24E	FY25E
Operating expenses	29%	31%	32%	30%	30%
Depreciation	6%	6%	5%	5%	4%
Interest expenditure	1%	1%	1%	2%	1%
EBITDA margins	30%	26%	25%	26%	26%
Adj. Net profit margins	19%	15%	16%	16%	17%

Growth Metrics (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Revenues	16%	47%	17%	45%	22%
EBITDA	20%	23%	13%	53%	23%
PBT	18%	15%	23%	45%	29%
PAT	17%	13%	22%	47%	29%
EPS	17%	13%	22%	47%	29%

Profit & Efficiency Ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E
ROE (%)	15%	15%	16%	20%	22%
ROCE (%)	23%	24%	22%	29%	30%
Debtors (days)	87	85	90	95	100
Inventory (days)	48	41	43	45	47
Payable (days)	65	56	59	62	65
Cash conversion cycle (days)	70	70	74	78	82
Net Debt/EBITDA	-1.4	-0.8	-0.6	-0.6	-0.7
Net Debt/Equity	-0.3	-0.2	-0.2	-0.2	-0.2

Valuation

Year to March	FY21	FY22	FY23	FY24E	FY25E
Adj. EPS (INR)	15.9	18.1	22.1	32.5	41.9
Y-o-Y growth (%)	17%	13%	22%	47%	29%
Diluted P/E (x)		35.0	28.6	19.5	15.1
Price/BV(x)		5.3	4.7	4.0	3.3
EV/Sales (x)		5.2	4.5	3.3	2.6
EV/EBITDA (x)		20.6	18.2	12.5	10.1

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Equity share capital	30	30	30	30	30
Reserves & surplus	285	330	380	455	550
Shareholders funds	**315**	**360**	**411**	**485**	**581**
Total Debt	**9**	**29**	**29**	**129**	**99**
Provisions	5	1	1	1	1
Current Liabilities	45	57	70	107	137
Sources of funds	**374**	**448**	**511**	**722**	**818**
PP&E	155	172	209	214	231
CWIP	4	0	0	0	0
Other Intangible Assets	0	36	36	36	36
Investments	81	78	68	-171	-171
Inventories	33	42	51	77	99
Trade Receivables	60	86	106	163	209
Cash and Cash Equivalents	38	22	29	391	402
Other Assets	3	12	12	12	12
Uses of Funds	**374**	**448**	**511**	**722**	**818**
Book value per share (INR)	**104**	**118**	**135**	**159**	**191**

Cash Flow Statement

Year to March	FY21	FY22	FY23	FY24E	FY25E
Operating Profit After Tax Before WC changes	63	75	91	128	161
WC Changes	-5	-16	-17	-46	-38
CFO	58	59	74	82	123
CFI	-38	-50	-50	204	-50
CFF	-9	-15	-17	75	-62
Total Cash Flow	11	-6	7	362	11

TCPL Packaging

nuvama
professional clients group

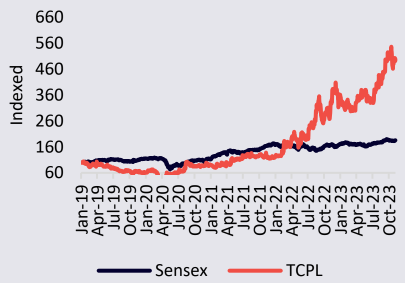
Proxy play to consumption

TCPL Packaging (TCPL) is one of India's largest manufacturers of folding cartons and the We hosted the management of TCPL Packaging (TCPL) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. TCPL is one of India's largest manufacturers of folding cartons and the biggest standalone converter of paperboard. It has boosted its flexible packaging capacity (at its Silvassa plant) to cater to strong demand. The management expects the folding carton and flexible packaging segment to grow 1.5–2x faster than the industry over FY23–25. It sees multi-fold growth (on a small base) in the rigid packaging segment. It is one of the few Indian companies to clock ~17% revenue CAGR over the past 15 years. It has never registered a YoY decline in revenue in the last two decades. It has eight plants at five locations (Silvassa, Goa, Noida, Haridwar, and Guwahati) and marketing offices in all metros. Folding cartons/flexible packaging contribute 85%/15% to revenue. In terms of geography, the domestic market contributes 75% and exports the rest. Strong export growth, newer capacities, and high-quality offerings will ensure continued growth.

CMP: INR2,209
Rating: BUY

Bloomberg:	TCPL:IN
52-week range (INR):	1,117/2,365
M-cap (INR cr):	2,010
Promoter holding (%)	55.75

Relative Price Performance



Presentation link

Previous report link

Key takeaways

- The packaging industry in India is slowly, but steadily, coming up to speed with the mature global market. It has historically been one of the most consistently growing sectors.
- The inevitable shift from the traditional/unorganised sector is already evident in the gradual evolution of the packaging industry in India, with some clear market leaders in respective sub-segments. A large part of the growth in the industry is thus a direct outcome of this transformational shift.
- TCPL caters to a wide range of industries including FMCG, tobacco, F&B, and liquor. From a single segment (tobacco) and client (Godfrey Phillips India), it now caters to more than 150 clients across multiple sectors in the folding cartons segment.
- In FY17, it forayed into the flexible packaging segment, thus diversifying its client base. It has been leveraging its long-standing relationships with marquee clients across industries to gain a higher wallet share.
- The major raw materials for TCPL are paperboard and polyethylene. Historically, the company has successfully passed on higher raw material prices to its customers with a lag of one month.
- Multiple customers have been successfully onboarded in the rigid packaging segment (COPPL). The management anticipates a higher wallet share in coming quarters. It aims to grow COPPL's revenue to 3x over the next two-to-three years by adding clients and launching products at a minimal investment.
- As it has achieved the desired distribution of its manufacturing facilities across India, capex will predominantly be brownfield. This is likely to generate a superior RoIC.
- In FY23, the share of exports in total revenue stood at 25% as against 14% in FY18. It is adding customers overseas, given its reach, innovation, and greater respect for Indian quality and service. It exports to Europe, the Middle East, and parts of Africa. It recently began supplying to North America, where it sees a lot of opportunity.

Valuation and view

We expect a revenue/EBITDA/PAT (adjusted) CAGR of 17%/17%/25% over FY23–25. Improving utilisation rates and enhanced working capital management is likely to increase RoCE. At the CMP, the stock is trading at 13x FY25E earnings and 7.3x FY25E EBITDA, which is at a discount to its peers with a comparable product profile. We have a BUY rating on the stock with a price target of INR 2,548 (valuing at 15x FY25 earnings).

Key financials

Year to March	FY21	FY22	FY23	FY24E	FY25E
Revenues (INR Cr)	904	1,086	1,475	1,654	2,014
Rev growth (%)	1.6	20.1	35.8	12.2	21.7
EBITDA (INR Cr)	133	154	236	262	323
Adjusted PAT (INR Cr)	33	47	98	115	155
P/E (x)	60.1	42.5	20.4	17.5	13.0
EV/EBITDA (x)	16.9	15.5	10.6	9.2	7.3
RoACE (%)	13.3	14.0	17.3	19.8	20.9
RoAE (%)	11.8	14.8	25.2	23.6	25.9

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Financials

Income Statement

Year to March (INR Cr)	FY21	FY22	FY23	FY24E	FY25E
Income from operations	904	1,086	1,475	1,654	2,014
Direct costs	523	654	888	1,001	1,231
Gross Profit	381	431	587	653	783
Employee costs	90	102	123	136	149
Other expenses	157	175	228	255	311
Total Operating expenses	770	931	1,239	1,392	1,691
EBITDA	133	154	236	262	323
Depreciation and amortisation	51	56	64	72	80
EBIT	82	98	172	191	244
Interest expenses	37	34	47	47	47
Non-operating Income	3	4	10	10	10
Extraordinary Income	-	-	17	-	-
Profit before tax	47	68	152	153	206
Provision for tax	14	21	41	39	52
Profit after tax (before MI)	33	47	110	114	154
Share of Minority in profits	-	(0)	(1)	(1)	(1)
Profit after tax	33	47	111	115	155
Adjusted Profit after tax	33	47	98	115	155
Shares outstanding	1	1	1	1	1
Adjusted EPS	37	52	108	126	170

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23	FY24E	FY25E
Operating expenses	85.2	85.8	84.0	84.1	84.0
Depreciation	5.7	5.2	4.3	4.3	4.0
Interest expenditure	4.1	3.2	3.2	2.9	2.4
EBITDA margins	14.8	14.2	16.0	15.9	16.0
Net profit margins	3.7	4.4	6.7	6.9	7.7

Growth metrics (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Revenues	1.6	20.1	35.8	12.2	21.7
EBITDA	5.9	15.7	52.8	11.2	23.2
PBT	12.0	43.1	98.2	13.8	34.7
Net profit	(8.3)	41.4	108.0	16.7	34.5
EPS	(8.3)	41.4	108.0	16.7	34.5

Ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E
ROAE (%)	11.8	14.8	25.2	23.6	25.9
ROACE (%)	13.3	14.0	17.3	19.8	20.9
Debtors (days)	71.5	76.5	73.1	70.1	67.1
Current ratio	1.5	1.6	2.6	2.5	2.5
Debt/Equity	0.8	1.1	1.1	0.9	0.8
Inventory (days)	58	62	60	57	54
Payable (days)	67	65	48	48	48
Cash conversion cycle (days)	63	73	85	79	73
Debt/EBITDA	1.9	2.5	2.1	1.9	1.5
Adjusted debt/Equity	0.8	1.1	1.1	0.9	0.8

Valuation Parameters

Year to March	FY21	FY22	FY23	FY24E	FY25E
Diluted EPS (INR)	37	52	108	126	170
Y-o-Y growth (%)	(8)	41	108	17	34
Diluted P/E (x)	60	42	20	17	13
Price/BV(x)	6.7	5.9	4.6	3.8	3.1
EV/Sales (x)	2.2	1.9	1.4	1.2	1.0
EV/EBITDA (x)	17	15	10.6	9.2	7.3
Diluted shares O/S (in Cr)	0.9	0.9	0.9	0.9	0.9
Basic EPS	37	52	108	126	170
Basic PE (x)	60	42	20	17	13

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Equity share capital	9	9	9	9	9
Reserves & surplus	291	331	433	525	649
Shareholders funds	300	340	442	534	658
Total Debt	251	391	497	497	497
Other Long Term Liabilities	29	26	23	23	23
Deferred Tax Liabilities	27	33	36	36	36
Minority interest	-	2	2	2	2
Sources of funds	608	792	1,000	1,092	1,216
Gross block	621	759	816	916	1,016
Depreciation	173	218	282	354	434
Net block	448	540	534	562	582
Capital work in progress	11	48	44	44	44
Total fixed assets	459	588	578	606	627
Investments	18	23	67	67	67
Inventories	145	183	241	257	296
Sundry debtors	177	228	295	318	370
Cash and equivalents	6	11	7	91	156
Loans and advances	49	56	29	32	39
Total current assets	395	502	639	764	928
Sundry creditors and others	141	166	162	217	264
Provisions	105	132	55	61	75
Total CL & provisions	246	299	217	278	338
Net current assets	149	203	422	486	589
Misc expenditure	-	-	-	-	-
Uses of funds	608	792	1,000	1,092	1,216
Book value per share (INR)	330	374	485	587	723
	-	-	-	-	-

Cash flow statement

	1.12	0.59	0.07	0.93	0.72
Year to March	FY21	FY22	FY23	FY24E	FY25E
Operating Profit After Tax Before WC char	120	134	195	224	272
WC Changes	30	(44)	(179)	20	(38)
CFO	150	90	16	244	234
CFI	(38)	(176)	(87)	(90)	(90)
CFF	(121)	91	67	(70)	(78)
Total Cash Flow	(10)	5	(4)	83	65

The Anup Engineering

We hosted the management of The Anup Engineering (ANUP) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 5. This static process equipment manufacturing company builds heat exchangers, reactors, pressure vessels, columns, and towers, and offers customised fabrications. It has two facilities in Gujarat at Odhav and Kheda (first phase of capex of ~INR120cr was completed in Q1FY24). It clocked a revenue of INR411cr in FY23 (74%/11%/7%/~7% from heat exchangers/vessels/towers/ reactors and others).

Key takeaways

- Revenue share from heat exchangers stood ~76%. Other equipment contributed ~24% in H1FY24 (21% from vessels, including towers and reactors, and 3% from others).
- The first capex phase (one-and-a-half out of a total of seven manufacturing bays) of INR120cr has been completed at its new facility in Kheda, raising capacity by ~30%. The facility is now operational, with the first equipment delivered in Q2 and a significant ramp up expected in H2FY24.
- Factoring in strong demand, it has decided to fully build two bays (from one-and-a-half bays) at an additional capex of INR15cr by Q1FY25.
- The new Kheda plant allows ANUP to foray into more complex metallurgy products and to scale up the value chain, thereby boosting its revenue potential. It will help accelerate revenue diversification and boost the share of large towers and reactors, vessels, and columns towards the management's target of ~40% of revenue.
- It may undertake further capacity expansion at the new plant under Phase II/III capex in late FY25/FY26, based on order booking trends. Each of the seven bays (at the Kheda plant) may lead to an additional revenue of INR150cr on a capex of INR40–50cr.
- The total order book stood at INR630cr/INR873cr at the end of September/October (41% domestic share, 59% exports/SEZ).
- Strong demand is resulting in robust order inflows. ANUP recorded its highest ever quarterly inflow of INR246cr in Q1FY24, followed by INR243cr in October alone.
- ANUP derived 19%/28% of revenue from exports in FY23/H1FY24. It is likely to achieve an export revenue share of ~30% in FY24. It is targeting a revenue share of ~40% in the long term as export orders offer better margin. Export orders are aided by the thrust on hydrogen projects.

Valuation and view

ANUP is a derivative play on the robust capex upcycle in refining and petrochemicals, green hydrogen initiatives, and renewables. It has ample headroom to sustain growth with the addition of new capacity at the Kheda plant, gradual shift towards complex metallurgy products, and a robust export market, backed by strong execution (with an impeccable record of on-time delivery). It is net debt free. Staggered capex and steady OCF are likely to keep the Balance Sheet healthy. We forecast ~31% earnings CAGR over FY23–25, driven by a robust order book, change in the product mix, higher share of exports, and capacity addition. We maintain 'BUY' with a TP of INR3,192 (at 30x FY25E EPS).

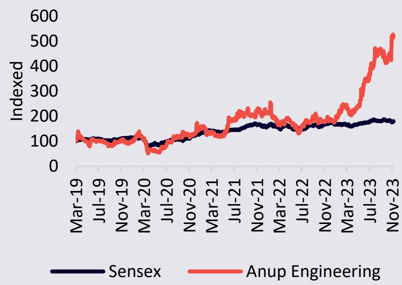
Key financials

Year to March	FY21	FY22	FY23	FY24E	FY25E
Revenue (INR cr)	279	288	411	541	703
Revenue growth (%)	14	3	43	32	30
EBITDA (INR cr)	69	70	83	116	157
Adjusted PAT (INR cr)	54	62	51	78	105
P/E ratio (x)	10.5	12.6	19.3	32.8	24.4
Price/BV ratio (x)	1.7	2	2.3	5.0	4.1
EV/EBITDA ratio (x)	7.8	10.5	12	22.2	16.5
RoACE (%)	16.9	15.5	15.8	14.7	17.4
RoAE (%)	16.2	17	12.4	16.5	18.5

CMP: INR2,599
Rating: BUY

Bloomberg:	ANUP:IN
52-week range (INR):	811/2,951
M-cap (INR cr):	2,576
Promoter holding (%)	42.91

Relative price performance



Presentation link

Previous report link

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Income from operations	279	288	411	541	703
Direct costs	148	140	222	285	361
Employee costs	17	20	21	28	38
Other expenses	45	58	86	112	148
Total operating expenses	210	218	329	425	546
EBITDA	**69**	**70**	**83**	**116**	**157**
Depreciation and amortisation	11	12	13	14	16
EBIT	58	58	70	102	141
Interest expenses	0	1	1	1	1
Other income	4	4	1	4	4
Profit before tax	61	61	70	105	144
Provision for tax	8	-1	19	27	39
Core profit	54	62	51	78	105
Profit after tax	54	62	51	78	105
Reported net profit	54	62	51	78	105
Adjusted Net Profit	**54**	**62**	**51**	**78**	**105**
Equity shares outstanding (cr)	1.0	1.0	1.0	1.0	1.0
EPS (INR) basic	54.4	62.8	52.0	79.3	106.4
Diluted shares (Cr)	1.0	1.0	1.0	1.0	1.0
EPS (adj) fully diluted	54.4	62.8	52.0	79.3	106.4
Dividend per share	7.0	8.0	15.0	15.0	15.0
Dividend payout (%)	13%	13%	29%	19%	14%

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23	FY24E	FY25E
Operating expenses	75.4	75.7	79.9	78.5	77.7
Depreciation	3.8	4.0	3.0	2.7	2.3
Interest expenditure	0.1	0.4	0.3	0.1	0.1
EBITDA margins	24.6	24.3	20.1	21.5	22.3
Net profit margins	19.2	21.5	12.5	14.5	15.0

Growth metrics (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Revenues	13.7	3.3	42.7	31.6	29.9
EBITDA	0.2	1.8	18.2	40.7	34.8
PBT	(2.4)	(0.6)	14.5	50.7	36.8
Net profit	24.6	15.9	(17.1)	52.6	34.2
EPS	29.2	15.4	(17.2)	52.6	34.2

Ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E
ROE (%)	16.2	17.0	12.4	16.5	18.5
ROCE (%)	16.9	15.5	15.8	14.7	17.4
Debtors (days)	144	158	132	125	120
Current ratio	2.7	2.3	2.1	2.2	2.4
Debt/Equity	0.0	0.0	0.1	0.1	0.1
Inventory (days)	87	114	113	110	110
Payable (days)	35	55	58	58	58
Cash conversion cycle (days)	196	217	186	177	172
Debt/EBITDA	0.0	0.0	0.4	0.3	0.2
Adjusted debt/Equity	(0.1)	(0.1)	0.0	0.0	0.0

Valuation parameters

Year to March	FY21	FY22	FY23	FY24E	FY25E
Diluted EPS (INR)	54.4	62.8	52.0	79.3	106.4
CEPS (INR)	65.1	74.5	64.6	93.8	122.7
Diluted P/E (x)	10.5	12.6	19.3	32.8	24.4
Price/BV(x)	1.7	2.0	2.3	5.0	4.1
EV/Sales (x)	1.9	2.5	2.4	4.8	3.7
EV/EBITDA (x)	7.8	10.5	12.0	22.2	16.5
Diluted shares O/S	1.0	1.0	1.0	1.0	1.0
Basic EPS	54.4	62.8	52.0	79.3	106.4
Basic PE (x)	10.5	12.6	19.3	32.8	24.4
Dividend yield (%)	1%	1%	1%	1%	1%

Balance sheet

As on 31st March (INR cr)	FY21	FY22	FY23	FY24E	FY25E
Equity share capital	10	10	10	10	10
Reserves & surplus	327	384	428	506	612
Shareholders funds	337	393	438	516	622
Secured loans	0	0	30	30	30
Unsecured loans	0	0	4	4	4
Borrowings	0	0	34	34	34
Net Debt	-24	-51	2	11	8
Minority interest	0	0	0	0	0
Other liabilities	13	12	12	12	12
Sources of funds	**350**	**405**	**484**	**563**	**668**
Gross block	222	215	230	280	330
Depreciation	11	12	13	27	43
Net block	212	203	217	253	287
Capital work in progress	2	31	87	87	87
Total fixed assets	213	234	304	340	374
Other non-current assets	1	12	4	4	4
Inventories	67	90	127	163	212
Sundry debtors	110	125	149	185	231
Cash and equivalents	24	51	33	23	26
Other current assets	16	13	26	26	26
Total current assets	216	280	334	398	495
Sundry creditors and others	80	119	158	179	205
Provisions	1	1	1	1	1
Total CL & provisions	81	120	159	180	206
Net current assets	135	160	175	218	290
Uses of funds	**350**	**405**	**484**	**563**	**668**
Book value per share (INR)	343	398	442	522	628

Cash flow statement

Year to March	FY21	FY22	FY23	FY24E	FY25E
EBIT	61	61	70	105	144
Add: Depreciation	11	12	13	14	16
Add: Others	-1	-0	1	-4	-4
Gross cash flow	71	72	83	116	157
Less: Changes in W. C.	18	-2	53	79	108
Operating cash flow	53	74	30	37	49
Less: Capex	40	41	75	50	50
Free cash flow	**13**	**33**	**-45**	**-13**	**-1**

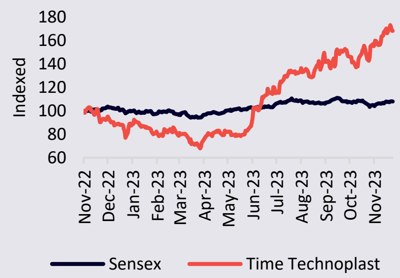
Time Technoplast

We hosted the management of Time Technoplast (TIME) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — Udayan' on December 5. TIME is the domestic leader in industrial polymer packaging (60% share), the biggest global manufacturer of large-size plastic drums, the second-largest manufacturer of composite cylinders, and the third-largest manufacturer of intermediate bulk containers (IBC). It has state-of-the-art manufacturing facilities in 10/20 locations globally/locally. The group has a strong presence in Asia, the Middle East, and North Africa. It has a presence in 10 nations besides India, including the US. The group has decided to divest its overseas industrial polymer business, including IBC, to accelerated revenue growth of the domestic value-added products (VAP) business, which stands at 34% and comprises IBC and composite cylinders (LPG and CNG, and MOX films). The stock is not rated.

CMP: INR183
Rating: Not Rated

Bloomberg:	TIME:IN
52-week range (INR):	69 / 189
M-cap (INR cr):	4,156
Promoter holding (%)	51.69

Relative Price Performance



Presentation link

Key takeaways

- Revenue is estimated to grow by ~18% CAGR, EBITDAM by 150bp to ~15%, and RoCE by 700bp to 20% over the next three years. It plans to exit the overseas business, which contributes one-third to total revenue and comprises industrial polymer packaging, for INR1,000cr to accelerate growth of composite products (CNG and LPG cylinders) in the domestic market where it is enjoying a dominant position.
- Around 70% of revenue accrues from India. In terms of international revenue, 20%/50%/30% accrues from the US/Southeast Asia/MENA. All products are manufactured locally in respective countries. It is not the market leader in Saudi Arabia and the US, otherwise it leads in the eight countries that it has a presence in. B2B business constitutes 92% of consolidated revenue and the rest is B2C.
- The PE pipe business has the potential to generate an annual revenue of INR400cr from INR200cr at present as the government has stopped funding to states for the period ending H1FY24. Business has picked up from Q2FY24. PE pipes up to 600mm are 20% cheaper than metal pipes.
- As metal drums are 2.2x heavier than polymer drums, the market is gradually shifting away from them (60% conversion has already been achieved).
- The IBC business is growing at more than 15% as against 10% for plastic drums. Many European companies have made it compulsory to transport chemicals using IBC.
- It has a debt of INR800cr which will be pared off completely via proceeds from the exit of its overseas business and divestment of its domestic assets.
- Annual capex spends stand at INR200cr. Of that, it incurs INR25cr/INR75-80cr annually on international/maintenance capex. The remaining capex is for capacity expansion in its composite cylinder business.
- Metal LPG cylinders are 25% cheaper than composite cylinders.
- The LPG and CNG composite cylinder business will grow 3x to INR1,500cr over FY24-28.

Valuations

At the CMP of INR 183, the stock trades at a P/E ratio of 16.5x and an EV/EBITDA of 7.7x on a TTM basis.

Key financials

Year to March	FY21	FY22	FY23
Revenues (INR Cr)	3,005	3,650	4,289
Rev growth (%)	-16.0	21.5	17.5
EBITDA (INR Cr)	387.4	505.0	577.5
Adjusted PAT (INR Cr)	106	192	225
P/E (x)	38.9	21.6	18.4
Price/BV(x)	2.2	2.0	1.8
EV/EBITDA (x)	12.7	9.8	8.5
RoACE (%)	6.3	8.6	9.3
RoAE (%)	5.7	9.6	10.3

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	3,005	3,650	4,289
Direct costs	2,136	2,613	3,138
Power & fuel	123.3	137.2	154.6
Employee costs	159	183	206
Other expenses	199	212	213
Total operating expenses	2,618	3,145	3,712
EBITDA	387	505	578
Depreciation and amortisation	151	157	171
EBIT	236	348	407
Interest expenses	98	92	105
Other income	4	3	4
Profit before tax	142	259	306
Provision for tax	36	67	81
Core profit	106	192	225
Profit after tax	106	192	225
Share from associates	0	0	0
Adjusted net profit	106	192	225
Equity shares outstanding (Cr)	22.6	22.6	22.6
EPS (INR) basic	4.7	8.5	9.9
Diluted shares (Cr)	22.6	22.6	22.6
EPS (INR) fully diluted	4.7	8.5	9.9
Dividend per share	0.70	1.00	1.25
Dividend payout (%)	14.9%	11.8%	12.6%

Common size metrics- as % of net revenues

Year to March (INR cr)	FY21	FY22	FY23
Operating expenses	87.1	86.2	86.5
Depreciation	5.0	4.3	4.0
Interest expenditure	3.3	2.5	2.4
EBITDA margins	12.9	13.8	13.5
Net profit margins	3.5	5.3	5.2

Growth metrics (%)

Year to March (INR cr)	FY21	FY22	FY23
Revenues	-16.0	21.5	17.5
EBITDA	-22.4	30.4	14.4
PBT	-39.9	81.9	18.0
Net profit	-39.2	80.4	17.0
EPS	-39.2	80.4	17.0

Profit & Efficiency Ratios

Year to March (INR cr)	FY21	FY22	FY23
ROAE (%)	5.7	9.6	10.3
ROACE (%)	6.3	8.6	9.3
Debtors (days)	97	87	80
Current ratio	4.8	4.5	4.6
Inventory (days)	130	127	116
Payable (days)	55	54	49
Cash conversion cycle (days)	171	160	147
Net Debt/EBITDA	2.0	1.6	1.4
Net debt/Equity	0.4	0.4	0.3

Valuation parameters

Year to Narch			
Diluted EPS (INR)	4.7	8.5	9.9
Y-o-Y growth (%)	-39.2	80.4	17.0
Diluted P/E (x)	38.9	21.6	18.4
Price/BV(x)	2.2	2.0	1.8
EV/Sales (x)	1.6	1.4	1.1
EV/EBITDA (x)	12.7	9.8	8.5
Basic EPS	4.7	8.5	9.9
Basic PE (x)	38.9	21.6	18.4

Balance sheet

Year to March (INR cr)	FY21	FY22	FY23
Equity share capital	23	23	23
Preference Share Capital	0	0	0
Reserves & surplus	1,880	2,050	2,247
Shareholders funds	1,903	2,073	2,270
Secured loans	315	334	325
Unsecured loans	548	573	565
Borrowings	863	907	890
Net Deferred tax	83	90	101
Minority interest	48	53	58
Sources of funds	**2,897**	**3,123**	**3,318**
Gross block	2,564	2,745	2,970
Depreciation	1,284	1,430	1,587
Net block	1,280	1,314	1,383
Capital work in progress	40	70	68
Total fixed assets	1,320	1,385	1,451
Unrealised profit	0	0	0
Investments	29	36	34
Inventories	760	908	995
Sundry debtors	798	867	943
Cash and equivalents	87	94	101
Loans and advances	309	316	305
Other current assets	0	0	0
Total current assets	1,954	2,185	2,344
Sundry creditors and others	324	385	421
Provisions	83	97	90
Total CL & provisions	407	482	511
Net current assets	1,547	1,703	1,833
Misc expenditure	0	0	0
Uses of funds	**2,896**	**3,123**	**3,318**
Book value per share (INR)	84.2	91.7	100.4

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	106	192	225
Add: Depreciation	151	157	171
Add: Misc expenses written off	0	0	0
Add: Deferred tax	3	8	11
Gross cash flow	260	356	407
Less: changes in W.C.	107	149	123
Operating cash flow	154	207	283
Less: Capex	102	211	223
Free cash flow	52	-4	60

Transformers & Rectifiers India

We hosted the management of Tranformers & Rectifiers (India) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — Udayan' on December 5. TRIL is a first-generation company started by Mr Jitendra Mamtora. Armed with a bachelor's degree in electrical engineering, he has successfully run the company for over four decades. It is the most preferred Indian brand for manufacturing high voltage transformers (220kV, 400kV, 765kV, and 1,200kV) indigenously. It manufactures an entire range of power, distribution, furnace, rectifier transformers, and shunt reactors, creating a unique positioning for itself in the transformer industry, aided by backward integrated manufacturing facilities housed in Gujarat.

TRIL has a presence in more than 25 countries and is the only Indian company with the capability to manufacture green energy transformers. In October, it successfully raised INR120cr by way of a preferential issue on a private placement basis to a renowned investor. In the medium term, this infusion provides capital support to ensure smooth operations. With Gujarat Energy Transmission Corporation (GETCO) releasing payments, in tranches, from the third week of October, it expects a reduction in receivables to a large extent in H2FY24. Order book at the end of H1FY24 stood at INR2,145cr. The stock is not rated.

Key takeaways

- The power transformer industry is growing by ~12% annually in both volume and pricing terms vis-à-vis 4% historically.
- Power transmission/distribution/industrial transformers contributed 60%/15%/25% to revenue.
- It has an installed capacity of 36,000MVA and is operating ~60% capacity utilisation.
- TRIL plans to incur a capex of INR50cr by FY25, which can generate INR500cr in revenue at a fixed asset turnover of 10x.
- The management said it should be able to achieve 14% EBITDA margin in FY25 with an increase in operating leverage.
- It aims to increase exports to Europe/the US as there is a demand-supply mismatch of 36/30 months. Working capital cycle is lower in the case of exports relative to the domestic market. As exports earn a higher margin, margin will expand as exports grow. It is ideally placed to bag an export order worth ~INR1,000cr.
- TRIL commands a 20% share in the power transformer market and ranks numero uno. It is approved by Power Grid Corporation of India (PGCIL) for supplying power transformers. The company has indigenously developed power transformers beyond 220kv.
- Cost of debt currently stands at 11%.
- Its order pipeline in the domestic transformer market stands at INR2,700cr.

Valuations

At the CMP of INR189, the stock trades at a P/E ratio of 220x and an EV/EBITDA of 33.3x on a TTM basis.

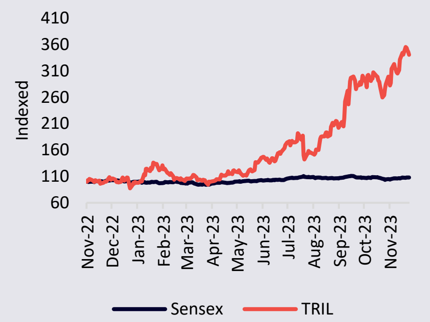
Key financials

Year to March	FY21	FY22	FY23
Revenues (INR Cr)	742	1,162	1,381
Rev growth (%)	5.8	56.6	18.8
EBITDA (INR Cr)	68.0	75.0	122.0
Adjusted PAT (INR Cr)	8	14	42
P/E (x)	316.6	179.6	59.3
Price/BV(x)	0.7	0.7	0.6
EV/EBITDA (x)	40.4	37.2	23.1
RoACE (%)	4.8	5.4	10.1
RoAE (%)	2.3	4.0	11.3

CMP: INR189
Rating: Not Rated

Bloomberg:	TRIL:IN
52-week range (INR):	49 / 206
M-cap (INR cr):	2, 689
Promoter holding (%)	69.65

Relative Price Performance



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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	742	1,162	1,381
Direct costs	533	912	1,058
Power & fuel	8.8	12.5	14.8
Employee costs	28	32	41
Other expenses	104	131	145
Total operating expenses	674	1,087	1,259
EBITDA	68	75	122
Depreciation and amortisation	19	17	25
EBIT	49	58	97
Interest expenses	46	44	48
Other income	10	9	8
Profit before tax	13	23	57
Provision for tax	5	9	15
Core profit	8	14	42
Extraordinary items	0	0	0
Profit after tax	8	14	42
Adjusted net profit	8	14	42
Equity shares outstanding (Cr)	13.3	13.3	13.3
EPS (INR) basic	0.6	1.1	3.2
Diluted shares (Cr)	13.3	13.3	13.3
EPS (INR) fully diluted	0.6	1.1	3.2

Common size metrics- as % of net revenues

Year to March (INR cr)	FY21	FY22	FY23
Operating expenses	90.8	93.5	91.2
Depreciation	2.6	1.5	1.8
Interest expenditure	6.2	3.8	3.5
EBITDA margins	9.2	6.5	8.8
Net profit margins	1.1	1.2	3.1

Growth metrics (%)

Year to March (INR cr)	FY21	FY22	FY23
Revenues	5.8	56.6	18.8
EBITDA	33.3	10.3	62.7
PBT	550.0	76.9	147.8
Net profit	694.0	76.3	202.9
EPS	694.0	76.3	202.9

Profit & Efficiency Ratios

Year to March (INR cr)	FY21	FY22	FY23
ROAE (%)	2.3	4.0	11.3
ROACE (%)	4.8	5.4	10.1
Debtors (days)	205	164	168
Current ratio	2.4	2.3	2.3
Inventory (days)	150	105	94
Payable (days)	182	131	120
Cash conversion cycle (days)	172	138	142
Net Debt/EBITDA	3.5	3.7	2.5
Net debt/Equity	0.7	0.8	0.8

Valuation parameters

Year to March (INR cr)	FY21	FY22	FY23
Diluted EPS (INR)	0.6	1.1	3.2
Y-o-Y growth (%)	694.0	76.3	202.9
Diluted P/E (x)	316.6	179.6	59.3
Price/BV(x)	0.7	0.7	0.6
EV/Sales (x)	3.7	2.4	2.0
EV/EBITDA (x)	40.4	37.2	23.1
Basic EPS	0.6	1.1	3.2
Basic PE (x)	316.6	179.6	59.3

Balance sheet

Year to March	FY21	FY22	FY23
Equity share capital	13	13	13
Preference Share Capital	0	0	0
Reserves & surplus	330	343	380
Shareholders funds	343	356	393
Secured loans	68	56	64
Unsecured loans	195	267.7	265.7
Borrowings	263	323	330
Net Deferred tax	5	9	2
Minority interest	7	7	14
Sources of funds	**618**	**696**	**739**
Gross block	268	272	277
Depreciation	87	104	124
Net block	181	168	153
Capital work in progress	0	3	3
Total fixed assets	181	171	156
Unrealised profit	0	0	0
Investments	0	1	1
Inventories	219	263	271
Sundry debtors	416	522	635
Cash and equivalents	27	46	23
Loans and advances	0	1	1
Other current assets	82	105	98
Total current assets	744	937	1,029
Sundry creditors and others	266	327	347
Provisions	41	86	100
Total CL & provisions	307	413	447
Net current assets	437	524	582
Misc expenditure	0	0	0
Uses of funds	**618**	**696**	**739**
Book value per share (INR)	258.1	267.9	295.7

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	8	14	42
Add: Depreciation	19	17	25
Add: Misc expenses written off	0	0	0
Add: Deferred tax	3	2	-5
Gross cash flow	30	33	62
Less: changes in W.C.	-15	68	81
Operating cash flow	45	-35	-19
Less: Capex	4	7	5
Free cash flow	41	-42	-24

Waaree Renewables Technologies

nuvama professional clients group

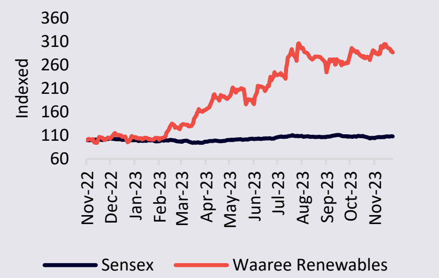
We hosted the management of Waaree Renewable Technologies (WAREERT) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — Udayan' on December 5. It is a prominent Indian solar EPC-focused company with 12 years of experience. It provides end-to-end EPC and financing solutions to solar projects in India. The management is committed to enhance stakeholder value through complete solutions (EPC projects), operations, and maintenance.

It has commissioned projects across 13 states in India. Its vision is to reduce the carbon footprint and create a sustainable environment for future generations by proving renewable energy solutions. It has a strong customer base. WAREERT is a proven name locally and globally, offering quality at a competitive rate. It bagged: i) a 600kWp and 287kWp rooftop solar power, ii) a 78MWp & 53MWp ground mounted solar power, and iii) a 74MWp solar power project under the EPC route in Q2FY24. The stock is not rated.

CMP: INR1,498
Rating: Not Rated

Bloomberg:	WAREERTL:IN
52-week range (INR):	445/ 1,515
M-cap (INR cr):	3,118
Promoter holding (%)	74.48

Relative Price Performance



Presentation link

Key takeaways

- Its EPC project order book stands at 970MW and is executable over nine to 12 months. EBITDA margin is sustainable at 15–18%.
- Government projects currently constitute 10% of the order book. Its focus is on IPP and utility scale projects as margin is higher in this segment compared to government projects.
- In an EPC contract, the components required for setting up solar power projects include photovoltaic panels, balance of system (BOS), land, and employee overheads. The project cost works out to INR3.5–3.7cr/MW including the cost of land. Around 70% of WAREERT's clients buy solar modules on their own.
- BOS and skilled manpower, and not land, are the crucial cost components in an EPC contract cost. It receives 10% of the contract proceeds from customers in the form of a mobilisation advance. It requires around three acres of land to set up a 1MW solar project. Any increase or decrease in the cost of a solar module is a complete pass-through to clients under an EPC contract.
- It generates a revenue of INR12cr from IPP customers of 40MW. It earns an annuity income, spread over 25 years, from its IPP project customers.
- WAAREERT is currently executing 10MW IPP project in Maharashtra. It is generating an IRR of ~17% in the IPP project at a plant load factor (PLF) of ~24%. Normally, cement, steel, and textile players are engaged in setting up IPP solar power projects.
- In the case of commercial and industrial (C&I) customers, the project size is smaller as compared to government projects.
- Its largest competitor is Sterling & Wilson Renewable Energy in solar power EPC contracts.

Valuations

At the CMP of INR1,498, the stock trades at a P/E ratio of 46.8x and an EV/EBITDA of 27.5x on a TTM basis.

Key financials

Year to March	FY21	FY22	FY23
Revenues (INR Cr)	13	162	351
Rev growth (%)	116.7	1142.3	117.3
EBITDA (INR Cr)	7.0	23.6	83.7
Adjusted PAT (INR Cr)	-2	9	55
P/E (x)	-1266.6	346.2	56.3
Price/BV(x)	139.7	104.2	36.6
EV/EBITDA (x)	461.0	132.0	37.5
RoACE (%)	-3.0	6.3	51.5
RoAE (%)	-10.2	34.5	96.2

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nuvama professional clients group

Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	13	162	351
Direct costs	4	129	253
Power & fuel	0	0	0
Employee costs	1	6	10
Other expenses	2	3	5
Total operating expenses	6	138	267
EBITDA	7	24	84
Depreciation and amortisation	2	4	3
EBIT	5	20	81
Interest expenses	4	7	5
Other income	2	8	2
Profit before tax	3	21	77
Provision for tax	6	12	22
Core profit	-2	9	55
Profit after tax	-2	9	55
Share from associates	0	0	0
Adjusted net profit	-2	9	55
Equity shares outstanding (Cr)	2.1	2.1	2.1
EPS (INR) basic	-1.2	4.3	26.6
Diluted shares (Cr)	2.1	2.1	2.1
EPS (INR) fully diluted	-1.2	4.3	26.6

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	46.2	85.4	76.2
Depreciation	13.1	2.3	0.9
Interest expenditure	33.1	4.3	1.5
EBITDA margins	53.8	14.6	23.8
Net profit margins	-18.9	5.6	15.8

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	116.7	1142.3	117.3
EBITDA	600.0	237.1	254.7
PBT	240.0	526.5	261.0
Net profit	23.0	-465.9	514.4
EPS	23.0	-465.9	514.4

Profit & Efficiency Ratios

Year to March	FY21	FY22	FY23
ROAE (%)	-10.2	34.5	96.2
ROACE (%)	-3.0	6.3	51.5
Debtors (days)	168	106	63
Current ratio	0.7	1.1	0.9
Inventory (days)	96	6	53
Payable (days)	576	164	108
Cash conversion cycle (days)	-312	-52	9
Net Debt/EBITDA	15.9	0.0	0.3
Net debt/Equity	5.0	0.0	0.3

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	-1.2	4.3	26.6
Y-o-Y growth (%)	23.0	-465.9	514.4
Diluted P/E (x)	-1266.6	346.2	56.3
Price/BV(x)	139.7	104.2	36.6
EV/Sales (x)	248.2	19.3	8.9
EV/EBITDA (x)	461.0	132.0	37.5
Basic EPS	-1.2	4.3	26.6
Basic PE (x)	-1266.6	346.2	56.3

Balance sheet

Year to March (INR cr)	FY21	FY22	FY23
Equity share capital	21	21	21
Preference Share Capital	0	0	0
Reserves & surplus	2	9	64
Shareholders funds	22	30	85
Secured loans	117	42	39
Unsecured loans	0	0	0
Borrowings	117	42	39
Net Deferred tax	9	14	15
Minority interest	32	0	-0
Sources of funds	**180**	**86**	**139**
Gross block	158	78	82
Depreciation	3	5	7
Net block	155	73	74
Capital work in progress	2	1	80
Total fixed assets	157	74	154
Unrealised profit	0	0	0
Investments	30	1	0
Inventories	1	2	37
Sundry debtors	6	47	61
Cash and equivalents	6	42	17
Loans and advances	2	2	13
Other current assets	0	0	0
Total current assets	15	93	128
Sundry creditors and others	6	58	75
Provisions	16	24	68
Total CL & provisions	22	82	143
Net current assets	-7	11	-15
Misc expenditure	0	0	0
Uses of funds	**180**	**86**	**139**
Book value per share (INR)	10.7	14.4	40.9

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	-2	9	55
Add: Depreciation	2	4	3
Add: Misc expenses written off	0	0	0
Add: Deferred tax	5	7	1
Gross cash flow	4	20	60
Less: changes in W.C.	-26	-18	-1
Operating cash flow	30	38	61
Less: Capex	87	-81	83
Free cash flow	-57	119	-22

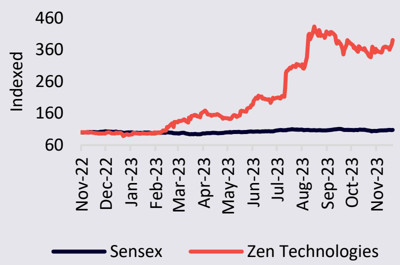
Zen Technologies

We hosted the management of Zen Technologies (ZEN) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — Udayan' on December 5. With over three decades of expertise in delivering cutting-edge military training and anti-drone solutions, ZEN specialises in manufacturing state-of-the-art land-based military training simulators, driving simulators, live range equipment, and anti-drone systems. With a dedicated R&D facility in Hyderabad, recognised by the Ministry of Science and Technology, it has demonstrated its commitment to innovation. ZEN has filed more than 130 patents, of which over 50 have been granted. It has shipped over 1,000 training systems worldwide. The stock is not rated.

CMP: INR533
Rating: Not rated

Bloomberg:	ZEN:IN
52-week range (INR):	202/578
M-cap (INR cr):	12,222
Promoter holding (%)	49.20

Relative Price Performance



[Presentation link]

Key takeaways

- India spends ~1.5% of GDP annually on defence. The Centre's focus is on increasing indigenisation of defence equipment to encourage local manufacturing under the *Atmanirbhar Bharat* initiative.
- The government diktat on mandatory training of army soldiers through simulation than actual training has given a fillip to ZEN's military training simulation business. Out of the current addressable market size of INR15,000cr for simulation products, ZEN enjoys a numero uno position.
- Out of the current order book of ~INR1,500cr at the end of H1, the management has guided to end FY24 with a revenue of INR450cr. It aims to exhaust the remaining order book of ~INR1,200cr by FY25, considering the execution cycle of 12–18 months for its defence equipment business.
- Blended EBITDA margin of asset maintenance contracts (AMCs) and equipment has been guided ~35% each for FY24 as well as FY25.
- Over the last five years, the company has incurred a total of INR73cr on R&D expenses, which have been written off entirely each year.
- After the start of the conflict between Ukraine and Russia, its export Orders has gradually started increasing, with various countries increasing spending on simulation training for their military.
- ZEN forayed into the anti-drone equipment business in the last 12 months as the business offers strong entry barriers.
- Its employee count increased to meet revenue growth. Salary typically rise by 10% annually.

Valuations

At the CMP of INR533, the stock trades at a P/E ratio of 71.1x and an EV/EBITDA of 46.8x on a TTM basis.

Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	55	70	219
Revenue growth (%)	-63.4	27.8	213.6
EBITDA (INR cr)	7.3	4.3	72.7
Adjusted PAT (INR cr)	3	3	50
P/E ratio (x)*	2,334.9	2,196.6	118.3
Price/BV ratio (x)	2.9	2.1	1.9
EV/EBITDA ratio (x)	807.4	1,363.0	79.1
RoCE (%)	0.7	-0.2	14.6
RoE (%)	1.3	1.1	16.8

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	55	70	219
Direct costs	9	13	59
Power & fuel	0.0	0	0
Employee costs	16	21	36
Other expenses	23	31	52
Total operating expenses	47	66	146
EBITDA	7	4	73
Depreciation and amortisation	5	5	6
EBIT	2	-1	67
Interest expenses	1	2	4
Other income	3	5	9
Profit before tax	4	3	72
Provision for tax	2	1	22
Core profit	3	3	50
Extraordinary items	0	0	0
Profit after tax	3	3	50
Adjusted net profit	3	3	50
Equity shares outstanding (Cr)	8.0	8.0	8.0
EPS (INR) basic	0.3	0.3	6.3
Diluted shares (Cr)	8.0	8.0	8.0
EPS (INR) fully diluted	0.3	0.3	6.3

Common size metrics- as % of net revenues

Year to march			
Operating expenses	86.6	93.8	66.8
Depreciation	9.2	6.9	2.8
Interest expenditure	2.0	2.1	1.9
EBITDA margins	13.4	6.2	33.2
Net profit margins	4.7	3.9	22.8

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	-63.4	27.8	213.6
EBITDA	-88.4	-41.1	1590.7
PBT	-92.6	-19.0	2011.8
Net profit	-95.7	6.3	1751.9
EPS	-95.7	6.3	1751.9

Profit & Efficiency Ratios

Year to March	FY21	FY22	FY23
ROAE (%)	1.3	1.1	16.8
ROACE (%)	0.7	-0.2	14.6
Debtors (days)	127	167	142
Current ratio	15.1	4.3	2.8
Inventory (days)	622	697	305
Payable (days)	124	111	37
Cash conversion cycle (days)	625	752	410
Net Debt/EBITDA	-5.1	-16.2	-2.2
Net debt/Equity	-0.2	-0.2	-0.5

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	0.3	0.3	6.3
Y-o-Y growth (%)	-95.7	6.3	1,751.9
Diluted P/E (x)	2,334.9	2,196.6	118.3
Price/BV(x)	2.9	2.1	1.9
EV/Sales (x)	107.9	84.0	26.3
EV/EBITDA (x)	807.4	1,363.0	79.1
Basic EPS	0.3	0.3	6.3
Basic PE (x)	2,334.9	2,196.6	118.3

Balance sheet

Year to March (INR cr)	FY21	FY22	FY23
Equity share capital	8	8	8
Preference Share Capital	0	0	0
Reserves & surplus	196	273	306
Shareholders funds	204	281	314
Secured loans	1	4	0
Unsecured loans	2	9.3	5.9
Borrowings	3	13	6
Minority interest	6	7	14
Sources of funds	**213**	**301**	**334**
Gross block	111	113	127
Depreciation	41	46	52
Net block	70	67	75
Capital work in progress	0	3	2
Total fixed assets	70	70	77
Unrealised profit	0	0	0
Investments	2	2	3
Inventories	15	25	49
Sundry debtors	19	32	85
Cash and equivalents	40	83	167
Loans and advances	0	0	0
Other current assets	77	158	93
Total current assets	151	298	394
Sundry creditors and others	3	4	6
Provisions	7	65	134
Total CL & provisions	10	69	140
Net current assets	141	229	254
Misc expenditure	0	0	0
Uses of funds	**213**	**301**	**334**
Book value per share (INR)	256.5	353.4	394.9

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	3	3	50
Add: Depreciation	5	5	6
Add: Misc expenses written off	0	0	0
Add: Deferred tax	0	0	6
Gross cash flow	7	8	62
Less: changes in W.C.	6	45	-59
Operating cash flow	1	-37	121
Less: Capex	2	5	13
Free cash flow	-1	-42	108

The CUB series

nuvama
professional clients group

Under the **'CUB'** series banner, we are covering small-cap companies with robust long-term growth potential.

Our endeavour is to recommend smallcap companies that are not widely covered. Despite low liquidity and small size of business, these companies have strong long-term fundamentals and sustainable structural growth drivers.

In our view, investment themes in equity markets play out over the long-term with potential pay-offs taking time to materialize.

By introducing the CUB series our objective is to identify quality small-cap companies in the early stages of their growth cycle.

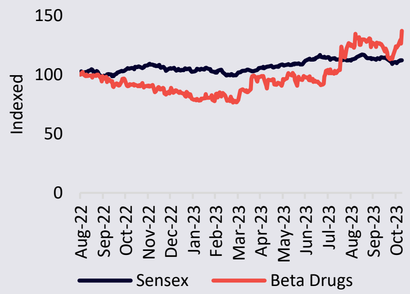
Beta Drugs

We hosted the management of Beta Drugs (BETADR) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — Udayan' on December 5. It is one of India's leading oncology players and ranks among the top 10 in the cytotoxic market. Equipped with three state-of-the-art manufacturing facilities, it produces and markets a wide range of oncology (anti-cancer) drugs that are available across major government and private hospitals. It expanded, upgraded, and received regulatory approvals from INVISA (Brazil)/INVIMA (Colombia) for its key facilities which will aid exports. It clocked a revenue/EBITDA/PAT CAGR of 35%/41%/34% over FY18–23. The management reiterated it will double revenue by FY26 and improve EBITDA margin on the back of higher exports. While we broadly retain our earnings estimates for FY24, FY25, and FY26 (revenue /PAT CAGR of 25%/32% over FY23–26E), better export visibility gives us comfort to roll over our valuation to FY26 earnings. Accordingly, our TP stands revised to INR1,500 (20x FY26E EPS) from INR1,325 earlier. Retain 'BUY'.

CMP: INR1,379
Rating: BUY
Target price: INR1,325

Bloomberg:	BETADR:IN
52-week range (INR):	600/1,020
M-cap (INR cr):	1,450
Promoter holding (%)	66.71

Relative price performance



Previous report link

Key takeaways:

- The cytotoxic (oncology) market is one of the fastest growing in India and is currently pegged ~INR2,500cr. The number of patients being diagnosed with oncology ailments has been growing by 20% in India. BETADR has a market share of ~10% in India but expects to improve it further.
- It launched 22 new products, including 12 first few to launch (FFTL), in the domestic market in the past four years. It has a pipeline of 28 products, including ~10 new drug delivery systems (NDDS), to be launched in the next two years.
- It plans to launch four/six NDDS in FY24/FY25.
- BETADR has tied up with an Italian company for an innovative product, with exclusive rights for India and Nepal. It will still take six-to-eight months for registration and production.
- It has filed 30 dossiers in semi-regulated markets. It has prepared 127/113/27/130 dossiers for markets in Latin America/Africa/CIS/Asia which will be filed over the next couple of years. This should provide it a decent export revenue over the next three-to-four years.
- Its newly launched dermatology business (in FY23) is generating a monthly revenue of INR50lk. However, the management aims to increase the monthly revenue run-rate to INR1.25cr over the next four-to-five months. This implies an annual revenue of ~INR15cr from the dermatology business in FY25 (from INR6cr expected in FY24).
- It currently outsources the manufacturing of dermatology products but plans to produce in-house in the next couple of years.
- Its facilities are operating at 40–45% capacity utilisation and will be optimised in the next couple of years. Its current capacity has a peak revenue potential of ~INR500cr, which is achievable in the next three years.
- Except for maintenance capex, it does not have any major capex pending for FY25. However, the setting up of a dermatology facility is under consideration.
- It commands an EBITDA margin of ~35%/~16%/~31%/~21% in the branded business /CMO/exports/API. Consolidated margin is likely to improve as the focus is on exports and the branded business.
- In the long-run, it is eyeing the biosimilar business and aims to tap the US market, which has the potential to generate a revenue of INR800–1,000cr over the next seven-to-eight years.
- BETADR expects to maintain its R&D spend of ~1.5% going forward.

Key financials

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Net revenue (INR cr)	184	227	281	354	449
Growth (YoY %)	58	24	24	26	27
EBITDA (INR cr)	43	53	67	86	113
Growth (YoY %)	73	24	26	28	32
Net profit (INR cr)	25	31	41	54	72
Diluted EPS (INR)	26	32	43	56	75
Diluted P/E (x)	22	43	32	25	18
EV/EBITDA (x)	13	12	14	11	8
RoACE (%)	38	36	37	37	38

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Financials

Income statement

Year to March (INR cr)	FY22	FY23	FY24E	FY25E	FY26E
Income from operations	184	227	281	354	449
Direct costs	94	106	130	162	205
Power & Fuel	3	3	4	5	7
Employee costs	16	23	31	39	47
Other expenses	28	42	49	62	77
Total operating expenses	141	174	214	268	336
EBITDA	43	53	67	86	113
Depreciation and amortisation	7	10	10	11	14
EBIT	35	43	57	75	99
Interest expenses	2	2	2	2	2
Other income	1	1	1	1	1
Profit before tax	34	41	56	73	98
Provision for tax	9	10	15	19	26
Core profit	25	31	41	54	72
Extraordinary items	0	0	0	0	0
Profit after tax	25	31	41	54	72
Share from associates	0	0	0	0	0
Adjusted net profit	25	31	41	54	72
Equity shares outstanding (mn)	1.0	1.0	1.0	1.0	1.0
EPS (INR) basic	26	32	43	56	75
Diluted shares (Cr)	1.0	1.0	1.0	1.0	1.0
EPS (INR) fully diluted	26	32	43	56	75
Dividend per share	0	0	0	0	0
Dividend payout (%)	0	0	0	0	0

Common size metrics- as % of net revenues

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Operating expenses	76.8	76.6	76.2	75.8	74.8
Depreciation	3.9	4.6	3.6	3.2	3.1
Interest expenditure	1.0	1.1	0.7	0.6	0.4
EBITDA margins	23.2	23.4	23.8	24.2	25.2
Net profit margins	13.5	13.5	14.7	15.3	16.1

Growth metrics (%)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenues	58.3	23.5	23.9	25.7	26.9
EBITDA	72.5	24.4	26.3	27.8	31.9
PBT	114.9	19.7	36.2	31.3	34.0
Net profit	111.6	23.7	34.7	30.4	34.0
EPS	111.6	23.7	34.7	30.4	34.0

Ratios

Year to March	FY22	FY23	FY24E	FY25E	FY26E
ROAE (%)	31	29	29	28	28
ROACE (%)	37.5	36	37	37	38
Debtors (days)	45	63	78	98	124
Current ratio	2	2	2	3	3
Inventory (days)	45	49	49	49	49
Payable (days)	32	40	50	63	80
Cash conversion cycle (days)	58	72	77	84	94
Net Debt/EBITDA	0	0	0	0	-1
Net debt/Equity	0.0	0.0	-0.1	-0.2	-0.3

Valuation parameters

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Diluted EPS (INR)	25.8	31.9	43.0	56.1	75.2
Y-o-Y growth (%)	*111.6*	*23.7*	*34.7*	*30.4*	*34.0*
Diluted P/E (x)	21.9	43.2	32.1	24.6	18.3
Price/BV(x)	5.9	5.2	5.9	4.5	3.4
EV/Sales (x)	3.0	2.8	3.4	2.7	2.0
EV/EBITDA (x)	12.7	11.9	14.3	10.9	7.9
Basic EPS	25.8	31.9	43.0	56.1	75.2
Basic PE (x)	21.9	43.2	32.1	24.6	18.3

Balance sheet

As on 31st March (INR cr)	FY22	FY23	FY24E	FY25E	FY26E
Equity share capital	10	10	10	10	10
Preference Share Capital	0	0	0	0	0
Reserves & surplus	83	113	155	209	281
Shareholders funds	92	123	164	218	291
Borrowings	17	16	12	12	12
Net Deferred tax	-1	-1	-1	-1	-1
Minority interest	0	0	0	0	0
Sources of funds	**108**	**138**	**175**	**229**	**301**
Net block	51	58	53	66	77
Capital work in progress	0	0	25	25	25
Total fixed assets	51	58	78	91	102
Investments	1	1	1	1	1
Inventories	22	31	38	48	61
Sundry debtors	45	63	78	98	124
Cash and equivalents	17	19	24	47	86
Loans and advances	4	6	6	6	6
Other current assets	0	0	0	0	0
Total current assets	89	119	146	199	277
Sundry creditors and others	32	40	50	63	80
Provisions	4	4	4	4	4
Total CL & provisions	36	44	54	67	84
Net current assets	54	74	92	132	193
Misc expenditure	3	5	5	5	5
Uses of funds	**108**	**138**	**175**	**229**	**301**
Book value per share (INR)	96	128	171	227	302

Cash flow statement

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Net profit	34	41	41	54	72
Add: Depreciation	7	10	10	11	14
Add: Misc expenses written off	-2	-8	-16	2	2
Add: Deferred tax	0	0	0	0	0
Gross cash flow	39	43	36	67	88
Less: Changes in W. C.	-10	-20	-13	-17	-22
Operating cash flow	29.5	23	23	50	66
Less: Capex	19	18	25	25	25
Free cash flow	**10**	**5**	**-2**	**25**	**41**

Brand Concepts

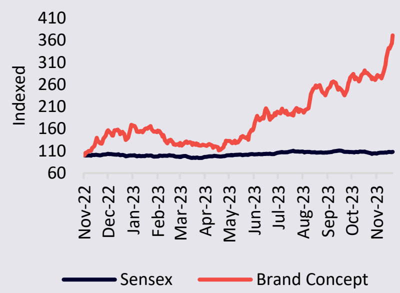
nuvama professional clients group

We hosted the management of Brand Concepts (BCONCEPT) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. This multi-brand retail platform for licenced fashion and lifestyle brands focuses on travel gear, bags, and accessories. It has a portfolio of globally recognised brands such as Tommy Hilfiger (TH), United Colors of Benetton (UCB), and Aeropostale, and its own in-house labels Sugarush and The Vertical. It has an omnichannel presence with over 40% revenue accruing from the online channel. It also sells its products via LFS, EBOs, and through distributors. The management is looking to acquire additional brands under its umbrella and expand its geographical footprint. Through its umbrella of brands and premium fashion product lines, it offers a good proxy to the fast-growing travel and leisure industry. The stock is not rated.

CMP: INR724
Rating: Not rated

Bloomberg:	BCONCEPT:IN
52-week range (INR):	187/666
M-cap (INR cr):	696
Promoter holding (%)	51.24

Relative price performance



Presentation link

Key takeaways

- The company focuses on travel gear (~INR35,000cr industry in India) and has no plan to enter other categories. It doesn't have a licence for ladies' handbags under the TH brand.
- As it is required to seek approval for all aspects related to the product like design and material quality from the respective brands, the whole process from design to approval takes nine months.
- The channel mix will remain constant for the next two years as the management is comfortable with the current mix. Its focus will be growing all offline channels. Aeropostale is an online heavy brand while UCB is an omnichannel brand.
- It has more than 85 vendor partners in India and imports women handbags from China. As the local manufacturing supply chain for small leather goods (SLG) is mature, there is no need for it to manufacture for that category.
- Though China is the leader in luggage manufacturing, India is 10–15% cheaper than China in terms of cost (including transport). BCONCEPT has nurtured some manufacturing vendors for the luggage category in India by guiding and supporting them.
- In terms of pricing, TH is priced 15–20% lower than Samsonite and UCB/Aeropostale is at a premium to American Tourister and VIP/Safari. Marketing spends constitute 3–5% of sales. A minimum of ~3% is mentioned in brand contracts.
- Though CEO Mr Abhinav Kumar had earlier worked on the TH brand in 2004, he did not approach the brand till 2010 as BCONCEPT (incorporated in 2007) lacked the requisite distribution set-up.
- Its current business model does not require it to maintain a high working capital. It will fund growth through internal accruals only.
- It modified its own warehouses to serve the digital channel during the COVID-19 pandemic. Its warehouses now account for 37% of online sales (via e-commerce players).
- Initially, BCONCEPT created in-house brands for Amazon in anticipation that these would be acquired by the global e-commerce giant at a later stage. However, a management rejig at Amazon led to a change in its strategy. These brands now act as price feelers. BCONCEPT does not want to incur considerable marketing on these brands.
- The management is comfortable with eight to 10 brands under its umbrella.
- To fund its manufacturing plans, it raised funds through a preferential allotment. Construction of the new manufacturing facility will commence within 30-60 days and will take ~10 months to complete. It has sought NCLT's approval for its merger with IFF.

Valuation and view

Over the last three years, it clocked 32%/71% revenue/EBITDA CAGR and has turned profitable. With an experienced management, strong industry tailwinds, potential for scaling up new brands, and the addition of new brands, BCONCEPT can grow at a fast pace in the medium-to-long term. At the CMP, the stock is trading ~65x on TTM basis.

Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	43	86	163
Revenue growth (%)	-40	101	89
EBITDA (INR cr)	-2	8	21
EBITDA margin (%)	-4	9	13
Net profit (INR cr)	-6	1	10
P/E ratio (x)	NA	NA	68.5
RoACE (%)	-28.4	4.2	44.6
RoAE (%)	-9.6	11.7	37.1

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	43	86	163
Direct costs	24	46	85
Employee costs	8	11	16
Other expenses	13	21	41
Total operating expenses	45	78	142
EBITDA	-2	8	21
Depreciation and amortisation	3	3	3
EBIT	-5	5	18
Interest expenses	6	5	5
Other income	2	1	1
Extraordinary items	0	0	0
Profit before tax	-9	1	13
Provision for tax	-2	0	3
Core profit	-7	1	10
Extraordinary items	-0	0	-0
Profit after tax	-7	1	10
Share from associates	0	0	0
Adjusted net profit	-7	1	10
Equity shares outstanding (cr)	1	1	1
EPS (INR) basic	-5.5	0.7	9.7
Diluted shares (Cr)	1	1	1
EPS (INR) fully diluted	(5.5)	0.7	9.7
Dividend per share	0	0	0
Dividend payout (%)	0	0	0

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	104.0	91.0	87.0
Depreciation	6.5	2.9	2.1
Interest expenditure	13.1	5.6	3.0
EBITDA margins	(4.0)	9.0	13.0
Net profit margins	(16.8)	0.9	5.9

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	(40.0)	101.4	89.4
EBITDA	(140.5)	(550.6)	174.1
PBT	548.9	(111.6)	1,164.8
Net profit	513.6	(111.3)	1,197.4
EPS	433.6	(112.9)	1,244.7

Ratios

Year to March	FY21	FY22	FY23
ROAE (%)	-28.4	4.2	44.6
ROACE (%)	-9.6	11.7	37.1
Debtors (days)	292	128	72
Current ratio	2	2	2
Debt/Equity	1.7	1.4	0.9
Inventory (days)	186	95	69
Payable (days)	233	134	90
Cash conversion cycle (days)	246	88	51
Debt/EBITDA	-17	3	1
Adjusted debt/Equity	1.5	1.2	0.7

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	(5.5)	0.7	9.7
Y-o-Y growth (%)	*433.6*	*(112.9)*	*1,244.7*
CEPS (INR)	(2.9)	3.1	12.9
Diluted P/E (x)	*(119.3)*	*921.6*	*68.5*
Price/BV(x)	39.7	38.4	25.4
EV/Sales (x)	*17.0*	*8.4*	*4.4*
EV/EBITDA (x)	(423.1)	93.1	33.9
Diluted shares O/S	*1.1*	*1.1*	*1.1*
Basic EPS	(5.5)	0.7	9.7
Basic PE (x)	*(119.3)*	*921.6*	*68.5*
Dividend yield (%)	0.0	0.0	0.0

Balance sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	11	11	11
Preference Share Capital	0	0	0
Reserves & surplus	7	8	17
Shareholders funds	18	18	28
Secured loans	29	25	25
Unsecured loans	0	0	0
Borrowings	29	25	25
Minority interest	0	0	0
Sources of funds	**47**	**43**	**53**
Gross block	10	15	15
Depreciation	3	5	0
Net block	7	10	15
Capital work in progress	0	0	0
Total fixed assets	7	10	15
Right of Use Assets	0	0	0
Investments	0	0	0
Inventories	22	22	31
Sundry debtors	34	30	32
Cash and equivalents	2	3	6
Loans and advances	10	10	11
Other current assets	0	0	0
Total current assets	68	66	79
Sundry creditors and others	27	32	40
Provisions	1	1	2
Total CL & provisions	28	33	42
Net current assets	40	33	38
Net Deferred tax	0	0	0
Misc expenditure	0	0	0
Uses of funds	**47**	**43**	**53**
Book value per share (INR)	17	17	26

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	-9	1	11
Add: Depreciation	3	3	3
Add: Misc expenses written off/Other Assets	5	5	5
Add: Deferred tax	0	0	0
Gross cash flow	-1	8	19
Less: Changes in W. C.	0	4	-7
Operating cash flow	-2	4	27
Less: Capex	1	-5	-9
Free cash flow	**-2**	**9**	**36**

C P S Shapers

nuvama professional clients group

We hosted the management of C P S Shapers (CPS) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — Udayan' on December 6. CPS is into the manufacture of shapewear (compression garments) for men and women like saree shapewear, sports bra, mini corsets, tummy reducer, denim, masks, and other shapewears under the brand name Dermawear and YDIS. It distributes its products via e-retail and offline channels. It has a first mover advantage in the Indian compression wear market. The stock is not rated.

Key takeaways

- The focus is on the shapewear category. It is the market leader in this category.
- It has 28 distributors spread across India.
- The raw materials required for shapewear are entirely different from that in innerwear. The fabrics content (spandex, cotton, nylon, and polyester) are designed as per its requirement.
- Sales through its own website stood at INR2cr in FY23. It expects sales to pick up to INR3.5cr in FY24.
- The company is also planning to introduce menswear denim shapewear.
- The revenue contribution from women and men is 85:15.
- Saree shapewear is its most sold product, with a 40% contribution to revenue.
- CPS does not believe in spending vast sums on promotion. It only engages in performance marketing. It incurs 2–3% of sales on marketing.
- The margin for distributors/retailers is 13% (plus an additional 5% is based on performance)/30%.
- Its competitor in this space is US-based Spanx. The management said that Jockey had tried to enter this space but didn't succeed.
- There are other players in the market like Miracle Suit and Spanx, but they don't understand the essential factors involved in production. They just source their product and sell it. CPS, on the other hand, has the requisite technical knowhow and understands the market.
- Sales are mainly from urban areas as the product has low market penetration.
- The objective of the company is to create brand awareness. CPS is looking to partner and associate with influencers to create awareness. Its marketing team consists of 15 people.
- It is investing in new tech to drive innovation in production. The management said that it can achieve a sales run-rate of INR100cr at its current facility. Capacity utilisation stands at 50%.

Valuation and view

CPS has grown aggressively over the years. With plans to expand its production facility and network, and launch innovative products in its portfolio, it has the first mover advantage in the shapewear market. At the CMP, the stock is trading at 37x earnings on a TTM basis.

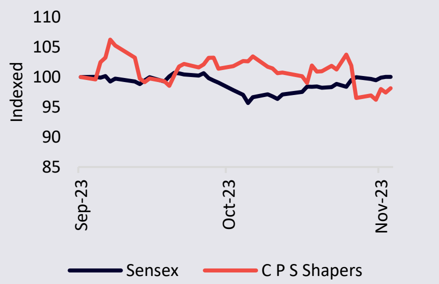
Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	14	27	37
Revenue growth (%)	-7	85	38
EBITDA (INR cr)	2	2	5
EBITDA margin (%)	11.3	9.2	13.1
Net profit (INR cr)	0	2	2
P/E ratio (x)	NA	NA	35
RoACE (%)	21.9	29.4	38.5
RoAE (%)	-14.1	-106.9	184.8

CMP: INR435
Rating: Not rated

Bloomberg:	CPS:IN
52-week range (INR):	341/500
M-cap (INR cr):	86
Promoter holding (%)	71.29

Relative price performance



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nuvama professional clients group

Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	14	27	37
Direct costs	5	13	15
Employee costs	4	5	7
Other expenses	4	6	10
Total operating expenses	13	24	32
EBITDA	2	2	5
Depreciation and amortisation	0	0	1
EBIT	1	2	4
Interest expenses	1	1	1
Other income	0	0	0
Extraordinary items	0	0	0
Profit before tax	0	1	3
Provision for tax	-0	-0	1
Core profit	0	2	2
Extraordinary items	0	0	0
Profit after tax	0	2	2
Share from associates	0	0	0
Adjusted net profit	0	2	2
Equity shares outstanding (cr)	0	0	0
EPS (INR) basic	7.1	32.7	11.6
Diluted shares (Cr)	0	0	0
EPS (INR) fully diluted	7.1	32.7	11.6
Dividend per share	0	0	0
Dividend payout (%)	0	0	0

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	88.7	90.8	86.9
Depreciation	2.2	1.2	1.4
Interest expenditure	7.0	3.2	2.7
EBITDA margins	11.3	9.2	13.1
Net profit margins	2.5	6.1	6.6

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	(7.3)	85.4	38.0
EBITDA	(528.9)	50.9	95.5
PBT	(120.1)	280.9	165.6
Net profit	(121.5)	361.9	49.2
EPS	(121.5)	361.9	(64.5)

Ratios

Year to March	FY21	FY22	FY23
ROAE (%)	-14.1	-106.9	184.8
ROACE (%)	21.9	29.4	38.5
Debtors (days)	56	36	26
Current ratio	2	2	3
Debt/Equity	(3.8)	(13.5)	3.1
Inventory (days)	140	75	90
Payable (days)	26	7	8
Cash conversion cycle (days)	170	104	108
Debt/EBITDA	5	4	2
Adjusted debt/Equity	(3.6)	(13.3)	3.0

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	7.1	32.7	11.6
Y-o-Y growth (%)	*(121.5)*	*361.9*	*(64.5)*
CEPS (INR)	13.3	38.9	14.1
Diluted P/E (x)	*57.9*	*12.5*	*35.3*
Price/BV(x)	(8.7)	(28.9)	25.7
EV/Sales (x)	*2.0*	*1.1*	*2.6*
EV/EBITDA (x)	17.8	12.2	20.0
Diluted shares O/S	*0.1*	*0.1*	*0.2*
Basic EPS	7.1	32.7	11.6
Basic PE (x)	*57.9*	*12.5*	*35.3*
Dividend yield (%)	0.0	0.0	0.0

Balance sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	1	1	2
Preference Share Capital	0	0	0
Reserves & surplus	-3	-1	1
Shareholders funds	-2	-1	3
Secured loans	6	6	6
Unsecured loans	3	4	5
Borrowings	9	10	10
Minority interest	0	0	0
Sources of funds	**6**	**9**	**14**
Gross block	4	5	7
Depreciation	2	3	3
Net block	2	3	4
Capital work in progress	0	0	0
Total fixed assets	2	3	4
Right of Use Assets	0	0	0
Investments	0	0	0
Inventories	6	6	9
Sundry debtors	2	3	3
Cash and equivalents	0	0	0
Loans and advances	1	1	2
Other current assets	0	0	0
Total current assets	9	9	14
Sundry creditors and others	4	4	4
Provisions	0	0	0
Total CL & provisions	4	4	5
Net current assets	5	5	9
Net Deferred tax	0	1	-0
Misc expenditure	-0	-0	-0
Uses of funds	**7**	**9**	**12**
Book value per share (INR)	-47	-14	16

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	0	1	3
Add: Depreciation	0	0	1
Add: Misc expenses written off/Other Assets	1	1	1
Add: Deferred tax	0	0	0
Gross cash flow	2	3	5
Less: Changes in W. C.	-1	-0	-4
Operating cash flow	2	3	9
Less: Capex	-0	-1	-1
Free cash flow	**2**	**4**	**10**

Creative Graphics Solutions India Pvt Ltd

nuvama professional clients group

We hosted the management of Creative Graphics Solutions India (CGS) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — Udayan' on December 6. Founded by a first-generation entrepreneur Mr Deepanshu Goel in 2014, CGS manufacturers digital flexo plates, conventional flexo plates, letterpress plates, metal back plates, and coating plates. It serves customers in India, Thailand, Qatar, Kuwait, Nepal, and Africa. It has facilities in Noida, Vasai (Mumbai), Pune, Chennai, Baddi (Himachal Pradesh), Hyderabad, and Ahmedabad. Domestic sales constitute 95% and exports 5%. CGS has been expanding its business through its wholly owned subsidiaries: CG Premedia and Wahren India. CG Premedia offers design adaptation and print production. Wahren India produces high-quality packaging like alu-alu, blister, tropical, child resistant foils, and pharmaceutical sachets. The stock is yet to list on the exchanges.

Unlisted

Presentation link

Key takeaways

- Flexography uses a flexible relief plate to print. It is a modern letterpress with high-speed rotary functionality that can print on plastic, metallic films, cellophane, and paper. It is widely used to print on non-porous substrates for food packaging and large areas of solid colour.
- There are a few players in India who have a presence in multiple locations. In India, the flexo market is growing in the high teens.
- The company caters to a range of FMCG players, including Johnson & Johnson, Tata Chemicals, Dabur, Himalaya Wellness Company, ITC, Mother Dairy, Amul, LG, MARS, and Patanjali Ayurved.
- As per the management, pharma companies globally have started adopting aluminium blister packaging owing to its reliability and regulatory compliance.
- The packaging industry is crucial for both consumer and pharma companies as it helps attract consumer attention, improve quality perception, and uses newer and more environment-friendly materials. These trends have led to a rapid adoption of flexographic printing.
- CGS' long-term partnerships with suppliers like DuPont, ESKO, and Eastman Kodak gives it an edge. Such arrangements improve price stability, supply-chain reliability, and cost efficiency, making it more cost competitive. It promotes strategic supplier relationships, which may lead to collaborative innovations and preferential treatment.
- Though the client onboarding pace is good in alu-alu foils, utilisation of recently added capacity can be much faster than anticipated.
- The flexo plates business is expected to clock 25–30% CAGR. The alu-alu foil business is expected to reach its peak revenue potential of INR300cr by FY25 (asset turn: 10x). The management expects consolidated revenue to touch INR420–450cr by FY25 (versus INR90cr in FY23).
- CGS filed its DRHP in October to raise INR45–50cr to meet the working capital needs of Wahren India.

Valuation and view

With a revenue/EBITDA/PATCAGR of 38%/75%/95% over FY21–23, CGS has demonstrated strong operational performance. The stock is yet to list on the exchanges and is not rated.

Key financials

Year to March	FY21	FY22	FY23
Revenues (INR Cr)	48	68	90
Rev growth (%)	NA	44	32
EBITDA (INR Cr)	5	10	15
EBITDA margin (%)	10	14	16
Net Profit (INR Cr)	2	5	9
RoCE (%)	22	35	28
RoE (%)	42	46	46

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Financials

Income Statement

Year to March (INR Cr)	FY21	FY22	FY23
Income from operations	48	68	90
Direct costs	29	39	51
Gross Profit	19	29	39
Employee costs	9	13	14
Other expenses	5	7	10
Total Operating expenses	43	59	76
EBITDA	5	10	15
Depreciation and amortisation	1	3	3
EBIT	3	7	12
Interest expenses	0	1	1
Non-operating Income	0	0	2
Extraordinary Income	-	-	-
Profit before tax	3	6	12
Provision for tax	1	2	3
Profit after tax (before MI)	2	5	9
Share of Minority in profits	-	-	-
Profit after tax	2	5	9
Adjusted Profit after tax	2	5	9
Shares outstanding	2	2	2
Adjusted EPS	1	3	5

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	90	86	84
Depreciation	3	4	3
Interest expenditure	1	1	1
EBITDA margins	10	14	16
Net profit margins	5	7	10

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	NA	44	32
EBITDA	NA	104	51
PBT	NA	91	92
Net profit	NA	104	86
EPS	NA	104	86

Ratios

Year to March	FY21	FY22	FY23
ROE (%)	41.9	46.1	46.1
ROCE (%)	22.0	34.7	27.9
Debtors (days)	161.3	134.0	118.1
Current ratio	1.2	1.2	1.5
Debt/Equity	1.6	0.8	1.1
Inventory (days)	2	6	21
Payable (days)	124	82	76
Cash conversion cycle (days)	39	58	63
Debt/EBITDA	1.9	0.8	1.5
Adjusted debt/Equity	1.6	0.8	1.1

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	1	1	1
Reserves & surplus	5	9	18
Shareholders funds	5	10	19
Total Debt	9	8	22
Other Long Term Liabilities	0	1	1
Deferred Tax Liabilities	0	0	0
Minority interest	-	-	-
Sources of funds	15	19	41
Gross block	12	16	32
Depreciation	1	4	7
Net block	11	12	25
Capital work in progress	-	-	-
Total fixed assets	11	12	25
Investments	0	2	4
Inventories	0	1	5
Sundry debtors	21	25	29
Cash and equivalents	1	1	1
Loans and advances	1	4	1
Total current assets	24	33	41
Sundry creditors and others	16	15	19
Provisions	4	10	6
Total CL & provisions	20	26	25
Net current assets	4	7	16
Misc expenditure	-	-	-
Uses of funds	15	19	41
Book value per share (INR)	3	6	10

Cash flow statement

Year to March	FY21	FY22	FY23
Operating Profit After Tax Before WC char	4	8	11
WC Changes	(3)	(2)	(7)
CFO	1	6	5
CFI	(12)	(6)	(16)
CFF	12	(1)	12
Total Cash Flow	1	(0)	0

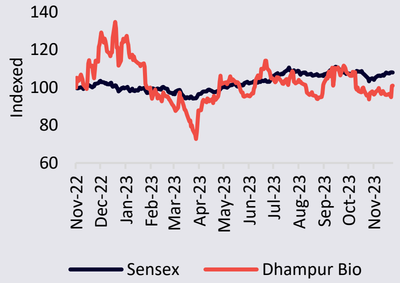
Dhampur Bio Organics

We hosted the management of Dhampur Bio Organics in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 5. DBOL is one of India's leading integrated sugar companies with a growing presence in the agribusiness and bioenergy. It demerged from Dhampur Sugar Mills and listed in September 2022. It operates under two verticals: i) refined sugar, raw sugar, and renewable energy; and ii) biofuels and spirits, including ethanol, country liquor, and organic fertilisers. It has a total sugarcane crushing capacity of 29,500TCD, biofuel and spirits capacity of 312.5KLPD, and renewable energy capacity of 95.5MW. Revenue/EBITDA/PAT stood at INR1,342cr/INR62cr/INR12cr in H1FY24. PAT in H1FY24 was impacted by INR18.83cr of expenses due to a higher levy on molasses by the Uttar Pradesh government. While UP's molasses policy is impacting the ethanol business, the management is hopeful of achieving a decent growth in FY24 and FY25 on the back of higher cane crushing and multi-feed distillery capacities. DBOL is trading at 10x TTM earnings. The stock is not rated.

CMP: INR146
Rating: Not rated

Bloomberg:	DSM:IN
52-week range (INR):	116/229
M-cap (INR cr):	970
Promoter holding (%)	50.44

Relative price performance



Key takeaways

- Sugar recovery in the first two months (October-November) of crushing in the current season is better as compared to a lower recovery last year due to pest infestation (gross recovery was 11.34% in Q3FY23). The management expects 7–8% higher crushing this season.
- It expects ~0.4% higher recovery in the current season (versus a gross recovery of 12.16% in FY23). Every 0.1% increase in recovery aids profitability by ~INR16cr.
- It increased distillery capacity to 350KLPD, commissioned a grain-based distillery of 100KLPD, and increased Rajpura sugar crushing capacity to 9500TCD in FY23.
- It expects sugar prices to stay firm and hover in the INR40–43/kg range. The sugar division normally achieves a break-even at INR35–36/kg.
- The management expects overall sugar production in SY24 to remain lower than SY23 (29mt in SY24 versus 32.8mt in SY23), which will keep sugar prices elevated.
- Though it started a grain-based distillery in Q1FY24, it is still evaluating whether to focus on grain-based ethanol.
- DBOL is incurring losses on molasses as the UP government has set a price of INR150/quintal for supplies to liquor companies as compared to the market price of INR800-900/litre. Even if it supplies ENA to fulfil the levy obligation, it can only recover the loss partially (ENA is supplied at INR400-500/quintal versus a market price of INR800-900/quintal).
- Moreover, the government does not distinguish between B-heavy and C-heavy molasses while fixing the quantity of levy. This policy takes away a significant portion of gains that would have accrued in a free market. As per the current molasses policy in UP, sugar mills must reserve 19% of production of molasses for liquor companies (both B and C-heavy). The levy obligation for country liquor will end in FY25, though it can't recover the current loss on levy molasses.
- The company's long-term power purchase agreement (PPA) of co-generation will end in FY27. Bagasse sales quantum in FY23 was INR54cr. The management expects it to be higher in FY24.

Valuation and view

Expansion in FY23 is likely to boost DBOL's ethanol production during the current season as sugarcane availability is expected to improve. However, we maintain our cautious view on the sector and DBOL as: i) the recent government announcement to curtail the production of B-heavy and syrup-based ethanol may take away part of the gains that would have accrued from higher ethanol prices; ii) greater availability of sugar may impact domestic prices, leading to a downward pressure on operating margin; and iii) a downside risk from the announcement of higher FRP for SY24.

Key financials

Year to March	FY22	FY23	H1FY24
Net revenue (INR cr)	1,564	2,654	1,342
Growth (YoY %)		*70*	*29*
EBITDA (INR cr)	183	205	62
Net profit (INR cr)	102	111	12
Diluted EPS (INR)	15	17	2
Diluted P/E ratio (x)	11	10	10
EV/EBITDA ratio (x)	10	9	6
RoACE (%)	15	13	4

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Financials

Income statement

Year to March (INR crs)	FY22	FY23
Income from operations	1,564	2,654
Direct costs	1,132	2,083
Power & Fuel	-	-
Employee costs	74	108
Other expenses	176	259
Total operating expenses	1,381	2,450
EBITDA	183	205
Depreciation and amortisation	31	41
EBIT	151	164
Interest expenses	30	41
Other income	8	11
Profit before tax	129	135
Provision for tax	27	24
Core profit	102	111
Extraordinary items	-	-
Profit after tax	102	111
Share from associates	-	-
Adjusted net profit	102	111
Equity shares outstanding (Crores)	7	7
EPS (INR) basic	15	17
Diluted shares (Cr)	7	7
EPS (INR) fully diluted	15	17

Common size metrics- as % of net revenues

Year to March	FY22	FY23
Operating expenses	88.3	92.3
Depreciation	2	1.5
Interest expenditure	1.9	1.5
EBITDA margins	11.7	7.7
Net profit margins	6.5	4.2

Growth metrics (%)

Year to March	FY22	FY23
Revenues		69.7
EBITDA		12.1
PBT		4.1
Net profit		8.6
EPS		8.6

Ratios

Year to March	FY22	FY23
ROAE (%)	12%	12%
ROACE (%)	15%	13%
Debtors (days)	25	21
Current ratio	1.3	1.3
Debt/Equity	0.9	0.8
Inventory (days)	247	113
Payable (days)	39	23
Cash conversion cycle (days)	232	111
Net Debt/EBITDA	4.4	3.4
Net debt/Equity	0.9	0.7

Valuation parameters

Year to March	FY22	FY23
Diluted EPS (INR)	15.4	16.7
Y-o-Y growth (%)		*8.6*
CEPS (INR)	20	23
Diluted P/E (x)	10.7	9.9
Price/BV(x)	1.2	1.1
EV/Sales (x)	1.2	0.7
EV/EBITDA (x)	10.4	8.8
Diluted shares O/S	6.6	6.6
Basic EPS	15.4	16.7
Basic PE (x)	10.7	9.9

Balance sheet

As on 31st March (INR crs)	FY22	FY23
Equity share capital	66	66
Reserves & surplus	812	922
Shareholder's funds	879	989
Borrowings	829	803
Lease Liabilities	6	7
Net Deferred tax	34	35
Minority interest	0	0
Other Non-Current	1	0
Sources of funds	**1,748**	**1,834**
Gross block	1,134	1,384
Depreciation	450	481
Net block	683	902
Capital work in progress	78	36
Right of Use Assets	6	7
Total fixed assets	768	945
Intangible	0	0
Investments	0	0
Inventories	1,057	819
Sundry debtors	108	154
Cash and equivalents	25	107
Loans and advances	2	0
Other current assets	30	44
Total current assets	1,222	1,125
Sundry creditors and others	232	219
Provisions	20	25
Total CL & provisions	252	243
Net current assets	970	881
Other Assets	10	7
Misc expenditure	**0**	**0**
Uses of funds	**1,748**	**1,834**
Book value per share (INR)	132	149

Cash flow statement	(INR crs)	(INR crs)
Year to March	FY22	FY23
Net profit	102	111
Add: Depreciation	31	41
Add: Misc expenses written off	0	0
Add: Deferred tax	4	1
Gross cash flow	137	153
Less: Changes in W. C.	0	-173
Operating cash flow	137.4	-19.9
Less: Capex	0	250
Free cash flow	**137**	**-270**

Essen Speciality Films

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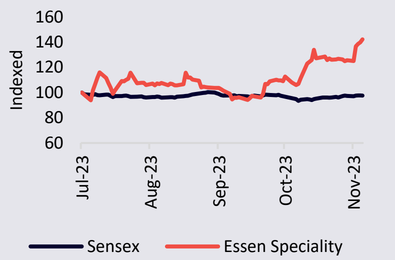
We hosted the management of Essen Speciality Films (ESFL) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. This manufacturer and exporter of specialised plastic products in the home improvement and furnishing industry, supplies products to numerous Fortune 500 retailers and OEMs across more than 47 countries and to local traders and distributors. It has an online presence on platforms such as Amazon, Flipkart, Snapdeal, and JioMart. It has a presence in categories like: i) bath area and accessories, ii) artificial plants and flowers, iii) kitchen and dining, iv) storage and organisation, v) fitness and lifestyle, and vi) outdoor and utility all under one roof. ESFL has been a front runner in sustainability by offering products exclusively made from renewable feedstock-based polymers (Bio-PE and Bio-EVA) and recycled polymers (post-consumer GRS certified and RCS certified recycled materials).

CMP: INR208
Rating: Not rated

Bloomberg:	ESFL:IN
52-week range (INR):	124/226
M-cap (INR cr):	431
Promoter holding (%)	70.05

Relative Price Performance



Presentation link

Key takeaways

- ESFL is one of the few companies in India that are compliant with numerous local and global compliances. It is one of the few companies globally to manufacture TVOC-complaint puzzle mats for kids as per numerous European and North America standards.
- It is the world's second/third largest manufacturer of non-adhesive shelf liners/PEVA shower curtain and liners. It generates ~35%/30%/20–25% revenue from shower curtains/shelf liners/table covers and artificial plants.
- It has tied up with big international retail chains like IKEA, Kmart Australia, and Walmart. While it has a long-standing relationship with IKEA, Kmart and Walmart have been its client for the last two-to-three years.
- The management said there is no similar Indian company supplying the products that it supplies to IKEA. It competes mainly with Chinese products and is cheaper by 10–15%.
- ESFL undertakes extrusion moulding, injection moulding, two-colour injection moulding, and compression moulding.
- It is looking to replace wooden product with products manufactured from municipal waste. EFSL's products are 10% cheaper than wooden products.
- The management sees huge growth opportunities in its existing categories and does not plan to foray into any new segment anytime soon.
- EFSL is operating at a capacity utilisation of ~40%. It expects to improve capacity utilisation ahead. The management expects a higher margin as operating leverage kicks in, with an improvement in capacity utilisation.
- In terms of geographies, Europe contributes the highest share to revenue followed by the US. The management aims to leverage its geographical footprint to meet the sourcing requirements of its existing multinational customers as and when they enter new markets, thereby consolidating its position as a preferred supplier across geographies.

Valuations

At the CMP of INR208, the stock trades at a P/E ratio of 23.5x and an EV/EBITDA ratio of 15.2x on a TTM basis. The stock is not rated.

Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	96	117	119
Revenue growth (%)	31.4	22.6	1.0
EBITDA (INR cr)	19	13	19
Adjusted PAT (INR cr)	9	5	13
P/E ratio (x)*	36.5	64.4	24.9
Price/BV ratio (x)	6.4	6.0	5.0
EV/EBITDA ratio (x)	23.5	36.2	23.0
RoCE (%)	16.8	9.5	15.8
RoE (%)	14.4	7.4	16.9

*Not measured (n.m.) as the denominator is negative

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Financials

Income Statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	96	117	119
Direct costs	57	80	73
Employee costs	10	13	13
Other expenses	11	12	14
EBITDA	19	13	19
Depreciation and amortization	6	4	4
EBIT	12	9	15
Interest expenses	1	3	3
Other income	1	1	2
Profit before tax	12	7	14
Provision for tax	3	2	1
Core profit	9	5	13
Extraordinary items	-	-	-
Profit after tax	9	5	13
Minority interest	-	-	-
Share from associates	-	-	-
Adjusted net profit	9	5	13
Equity share outConsoling (mn)	16	16	16
EPS (INR) basic	6	3	8
Diluted shares (mn)	16	16	16
EPS (INR) fully diluted	6	3	8

Common size metrics - as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	80.6	89.3	84.1
Depreciation	6.5	3.4	3.2
Interest expenditure	1.1	2.4	2.2
EBITDA margins	19.4	10.7	15.9
Net profit margins	9.5	4.4	11.3

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	31.4	22.6	1.0
EBITDA	28.1	-32.6	50.1
PBT	13.5	-44.3	108.1
Net profit	14.7	-43.3	158.1
EPS	14.6	-43.3	158.3

Ratios

Year to March	FY21	FY22	FY23
RoAE (%)	14.4	7.4	16.9
RoACE (%)	16.8	9.5	15.8
Debtors (days)	54.3	44.8	52.0
Current ratio	3.6	4.6	4.2
Debt/equity	0.2	0.4	0.1
Inventory (days)	103.6	147.2	149.7
Payable (days)	98.3	67.2	64.0
Cash conversion cycle (days)	59.6	124.8	137.8
Debt/EBITDA	0.8	2.1	0.3
Adjusted Debt/equity	0.1	0.3	0.0

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	5.7	3.2	8.4
Y-o-Y growth (%)	14.6	-43.3	158.3
CEPS (INR)	9.6	5.7	10.7
Diluted P/E (x)	36.5	64.4	24.9
Price/BV (x)	6.4	6.0	5.0
EV/Sales (x)	4.6	3.9	3.6
EV/EBITDA (x)	23.5	36.2	23.0
Diluted Shares O/S (mn)	16.0	16.0	16.0
Basic EPS (INR)	5.7	3.2	8.4
Basic P/E (x)	47.2	83.3	32.3

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	1	16	16
Reserves & surplus	66	56	70
Shareholders' funds	67	72	86
Secured Loans	15	26	7
Borrowings	15	26	7
Sources of funds	**82**	**98**	**92**
Gross block	70	77	79
Depreciation	29	33	36
Net block	41	44	43
Total fixed assets	41	45	44
Investments	0	0	0
Inventories	16	32	30
Sundry debtors	14	14	17
Cash and equivalents	11	4	5
Loans and advances	21	22	12
Total current assets	62	73	65
Sundry creditors and others	15	15	13
Provisions	2	1	2
Total CL & provisions	17	16	15
Net current assets	45	57	49
Net deferred tax	-5	-5	-2
Other Assets	1	1	1
Uses of funds	**82**	**98**	**92**
Book value per share (INR)	42	45	54

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	9	5	13
Add: Depreciation	6	4	4
Add: Others	1	3	3
Gross cash flow	16	12	20
Less: Changes in W.C.	35	18	-9
Operating cash flow	-18	-6	29
Less: Capex	-6	0	-5
Free cash flow	-12	-6	33

GPT Infraprojects

We hosted the management of GPT Infraprojects Ltd (GPT) in our 'Nuvama Emerging Ideas Conference 2023: 'The CUB Series — Udayan' on December 6. Incorporated in 1980, this flagship company of Kolkata-based GPT Group operates in two segments: infrastructure and sleeper. It made inroads into the infra segment in 2004 and is now an established railway-focused player, engaged in the execution of civil and infra projects, especially large bridges and ROBs for the Indian Railways. In the sleeper segment, it manufactures and supplies concrete sleepers to the railways in India and Africa. Its manufacturing units are located in Panagarh (West Bengal), Ladysmith (South Africa), Tsumeb (Namibia), and Oseim (Ghana). GPT is the only Indian entity having a presence in several African (South Africa, Namibia, and Ghana) countries for its concrete sleeper business. It has strong project execution capabilities, a healthy financial base, and enviable growth prospects across all areas of operation. The stock is not rated.

Key takeaways

- The management has guided at 25% revenue growth for FY24 and FY25, with a book-to-bill ratio of ~3.5x (based on FY23 revenue). The infra/sleeper business constitutes 90%/10% of the order book. Given the similar growth rate in revenue in both businesses, we expect the 90:10 ratio to continue.
- It is confident of achieving 13% EBITDA margin in FY24 and FY25.
- Cash flow to EBITDA conversion is likely to exceed 100% (one of the highest) in FY24 on arbitration receivables.
- The Balance Sheet is being increasingly deleveraged with strong operating cash flows.
- Key infra contracts (Prayagraj, Ghazipur, Mathura, Jhansi, Nimtita, and Byculla) are driving a major part of its revenue.
- Before bidding for orders, the management ensures it has a secure line of funding. Normally, GPT undertakes mostly (~95%) central government or multilateral funded contracts. These contracts are mainly from railway PSUs (Rail Vikas Nigam and IRCON International) or the National Highways Authority of India (NHAI).
- It recently bagged an order worth INR739cr for construction of a new four-lane Prayagraj Southern Bypass, which should be executed over 13 months.

Valuations

At the CMP of INR148, the stock trades at a P/E ratio of 20.1x and an EV/EBITDA of 10.4x on a TTM basis.

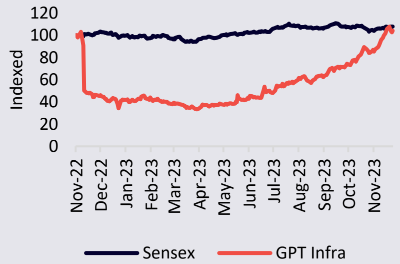
Key financials

Year to March	FY21	FY22	FY23
Revenues (INR Cr)	609	675	809
Rev growth (%)	-1.4	10.7	20.0
EBITDA (INR Cr)	85.3	84.1	87.4
Adjusted PAT (INR Cr)	20	23	30
P/E (x)	21.2	18.8	29.0
Price/BV(x)	1.8	1.7	3.1
EV/EBITDA (x)	8.3	8.4	12.8
RoACE (%)	8.1	7.8	9.7
RoAE (%)	8.7	9.2	11.1

CMP: INR148
Rating: Not Rated

Bloomberg:	GPT:IN
52-week range (INR):	43 / 148
M-cap (INR cr):	774
Promoter holding (%)	57.45

Relative Price Performance



Presentation link

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nuvama professional clients group

Financials

Income statement

Year to March	FY21	FY22	FY23
Income from operations	609	675	809
Direct costs	422	464	574
Power & fuel	18.0	22.1	22.1
Employee costs	34	38	43
Other expenses	50	66	83
Total operating expenses	524	590	722
EBITDA	85	84	87
Depreciation and amortisation	22	20	19
EBIT	63	64	69
Interest expenses	39	39	37
Other income	6	4	5
Profit before tax	30	29	36
Provision for tax	10	9	7
Core profit	20	19	29
Profit after tax	20	19	29
Share from associates	1	4	1
Adjusted net profit	20	23	30
Equity shares outstanding (Cr)	2.9	2.9	5.8
EPS (INR) basic	7.0	7.9	5.1
Diluted shares (Cr)	2.9	2.9	5.8
EPS (INR) fully diluted	7.0	7.9	5.1
Dividend per share	2.5	3	2.5
Dividend payout (%)	35.8%	38.1%	49.0%

Common size metrics- as % of net revenues

Year to march			
Operating expenses	86.0	87.5	89.2
Depreciation	3.7	3.0	2.3
Interest expenditure	6.5	5.8	4.6
EBITDA margins	14.0	12.5	10.8
Net profit margins	3.3	3.4	3.7

Growth metrics (%)

Year to March			
Revenues	-1.4	10.7	20.0
EBITDA	8.0	-1.4	3.9
PBT	56.3	-3.7	25.5
Net profit	56.5	12.6	29.7
EPS	56.5	12.6	-35.2

Profit & Efficiency Ratios

Year to qarch			
ROAE (%)	8.7	9.2	11.1
ROACE (%)	8.1	7.8	9.7
Debtors (days)	50	32	18
Current ratio	3.3	3.6	2.8
Inventory (days)	81	87	75
Payable (days)	125	102	121
Cash conversion cycle (days)	6	18	-29
Net Debt/EBITDA	3.2	3.3	3.0
Net debt/Equity	1.2	1.1	0.9

Valuation parameters

Year to qarch			
Diluted EPS (INR)	7.0	7.9	5.1
Y-o-Y growth (%)	56.5	12.6	-35.2
Diluted P/E (x)	21.2	18.8	29.0
Price/BV(x)	1.8	1.7	3.1
EV/Sales (x)	1.2	1.0	1.4
EV/EBITDA (x)	8.3	8.4	12.8
Basic EPS	7.0	7.9	5.1
Basic PE (x)	21.2	18.8	29.0

Balance sheet

Year to March (INR cr)	FY21	FY22	FY23
Equity share capital	29	29	58
Preference Share Capital	0	0	0
Reserves & surplus	211	227	219
Shareholders funds	240	256	277
Secured loans	67	87	80
Unsecured loans	230.6	209.7	207.6
Borrowings	298	297	287
Net Deferred tax	4	4	1
Minority interest	3	2	0
Sources of funds	**544**	**559**	**565**
Gross block	210	229	262
Depreciation	102	123	128
Net block	108	106	134
Capital work in progress	1	2	7
Total fixed assets	109	108	141
Unrealised profit	0	0	0
Investments	26	28	25
Inventories	94	111	118
Sundry debtors	83	59	39
Cash and equivalents	21	21	26
Loans and advances	12	7	9
Other current assets	379	386	424
Total current assets	589	584	616
Sundry creditors and others	145	129	191
Provisions	35	32	26
Total CL & provisions	179	161	217
Net current assets	410	423	400
Misc expenditure	0	0	0
Uses of funds	**544**	**559**	**565**
Book value per share (INR)	82.4	88.0	47.6

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	20	23	30
Add: Depreciation	22	20	19
Add: Misc expenses written off	0	0	0
Add: Deferred tax	1	3	5
Gross cash flow	43	46	54
Less: changes in W.C.	71	13	-28
Operating cash flow	-27	33	82
Less: Capex	18	20	38
Free cash flow	-45	13	44

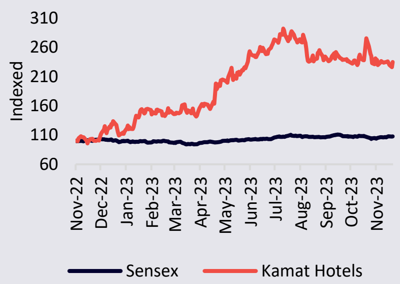
Kamat Hotels (India)

We hosted the management of Kamat Hotels (India) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 5. This flagship company of the Kamat Group operates a portfolio of 13 hotels across 11 cities, with an inventory of 1,510 keys (owned/leased/managed: 615/859/36) spread across premium and mid-premium segments. KHI operates under five brands — The Orchid (553 keys), IRA by Orchid (337), Fort JadhavGADH (58), Lotus Eco Beach Resort (121), and Mahodadhi Palace (33), which are a mix of four-star and five-star hotels. Driven by strong demand, sectoral tailwinds, and a low base, revenue/EBITDA grew 105%/198% in FY23 (INR299cr/INR113cr). Revenue grew 2% YoY to INR134cr in H1FY24 on a high base, displaying continued momentum. EBITDA/APAT fell 13%/70% YoY to INR42cr/INR4cr on higher staff and finance cost. At the CMP, the stock trades at a trailing 12-month EV/EBITDA of 7.7x. The stock is not rated.

CMP: INR216
Rating: Not rated

Bloomberg:	KHI:IN
52-week range (INR):	82 258
M-cap (INR cr):	544
Promoter holding (%)	61.47

Relative price performance



Key takeaways

- KHI is targeting an inventory of ~2,200 rooms by FY25-end from 1,510 rooms as of September. Of this, 211 will be added in Q3 and Q4FY24 (Aurangabad/Jamnagar/Noida/Ayodhya: 33/45/62/50 in Q3 and 21 rooms in Pune in Q4). Another 252 rooms will be added in Q1FY25 (Dehradun/Chandigarh/Bhavnagar: 68/123/61). The rest will be added in the remainder of FY25 in states where it has an established presence.
- All the planned additions will occur under the revenue share leasing model (20–25% sharing with a minimum guarantee) as it allows KHI a greater control over operations without any upfront capex. The contract period ranges from 12–15 years.
- It does not intend to take on any debt for the room additions and all capex will occur from internal accruals.
- In a bid to turn asset light, KHI sold and leased back its flagship IRA by Orchid property in Mumbai, which freed up INR125cr. It intends to use this cash to repay NCDs which bear a coupon rate of 14%.
- Newly added hotels take three-to-six months to mature.
- KHI has ~4lk loyalty programme members, of which ~60% stay two times a year.
- Value extraction and premiumisation are the two key themes that the management is concentrating on. It plans to invest in renovation, which will drive brand repositioning and aid ARR growth.
- The management sees strong occupancy for at least four years, driven by greater consumption by corporates and individuals, constrained supply, and a preference for branded and luxury properties. It expects an annual ARR growth of 7–10%.
- KHI has guided at a revenue/EBITDA margin of INR400cr/30–35% in FY25.

Valuation and view

KHI is well geared for profitable growth led by: i) an expanding geographical presence, ii) improving Balance Sheet strength, and iii) industry-wide tailwinds in the form of strong occupancy and improving ARR on constrained supply. At the CMP of INR216, the stock trades at 8.2x EV/EBITDA on a TTM basis. The stock is not rated.

Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	66	144	295
Revenue growth (%)	-70	119	104
EBITDA (INR cr)	9	37	109
Adjusted PAT (INR cr)	-39	-15	75
P/E ratio (x)*	n.m.	n.m.	4.4
Price/BV ratio (x)*	n.m.	n.m.	2.1
EV/EBITDA (x)	14.2	16	5.8
RoCE (%)*	n.m.	n.m.	19.4
RoE (%)*	n.m.	n.m.	48.4

*Not measured (n.m.) as the denominator is negative

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Financials

Income Statement (INR cr)

Year to March	FY21	FY22	FY23
Income from operations	66	144	295
Cost of F&B	7	15	24
Employee cost	15	31	49
Other expenses	35	61	113
Total operating expenses	57	108	186
EBITDA	9	37	109
Depreciation and amortisation	18	17	15
EBIT	-9	20	93
Interest expenses	50	50	22
Other income	2	1	4
Profit before tax	-58	-30	75
Provision for tax	-19	-15	3
Core profit	-38	-15	72
Exceptional items	4	-	238
Profit after tax	-35	-15	310
Minority interest	-	-	-
Share from associates	-1	-0	3
Reported net profit	**-35**	**-15**	**313**
Equity shares outstanding (cr)	2	2	3
EPS basic (INR)	-15	-10	132
Diluted shares (cr)	2	2	3
Fully diluted EPS (INR)	-15	-10	132

Common size metrics as a percentage of net revenue

Year to March	FY21	FY22	FY23
Operating expenses	87%	75%	63%
Depreciation	27%	12%	5%
Interest expenditure	76%	35%	7%
EBITDA margin	13%	25%	37%
Net profit margin	-54%	-11%	106%

Growth metrics

Year to March	FY21	FY22	FY23
Revenue	-70%	119%	104%
EBITDA	-86%	314%	196%
PBT	-368%	45%	1157%
Net profit	-276%	57%	2149%
EPS	-247%	38%	1477%

Balance sheet (INR cr)

As of March 31	FY21	FY22	FY23
Share capital	24	24	25
Reserves	-183	-205	129
Shareholders' funds	-159	-181	154
Minority interest	-	-	-
Borrowings	64	441	327
Trade payables	24	22	23
Other liabilities and provisions	535	185	105
Total liabilities	**465**	**467**	**609**
Net block	324	318	335
Capital WIP	6	1	2
Total fixed assets	331	319	336
Non-current investment	11	10	11
Cash and cash equivalents	15	23	24
Sundry debtors	6	10	9
Inventories	2	2	4
Other assets	101	102	226
Total assets	**465**	**467**	**609**

Ratios

Year to March	FY21	FY22	FY23
RoE #	n.m.	n.m.	19%
RoCE #	n.m.	n.m.	48%
Inventory days	10	6	5
Receivable days	31	25	11
Payable days	133	55	28
Cash conversion cycle (days)	-91	-25	-13
Gross D/E ratio (x) #	n.m.	n.m.	2.1
Net D/E ratio (x) #	n.m.	n.m.	2.0
Interest coverage ratio (x) #	n.m.	0.4	4.2

Not measured (n.m.) as denominator is negative

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	-15.4	-9.6	132.3
Diluted P/E ratio (adjusted, x) *	n.m.	n.m.	4.4
Price/BV ratio (x)	n.m.	n.m.	2.1
EV/EBITDA ratio (x)	14.2	16.0	5.8

*adjusted for exceptional gains

Kilburn Engineering

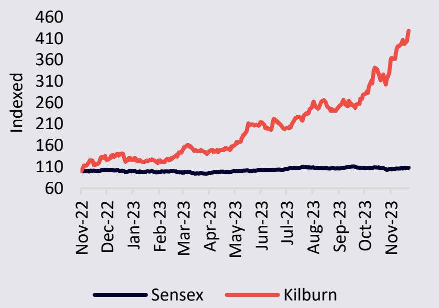
nuvama
professional clients group

We hosted the management of Kilburn Engineering (KEL) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. KEL engineers and manufactures customised process equipment and offers industrial drying solutions and packages like rotary dryers, calciners, paddle dryers, fluid bed dryers, and VFBDs. It provides customised solutions and packages for air, gas, and liquids; and instrument utility gas drying. It offers standard products like tea dryers, withering systems, and dryers for the sugar and coconut industry. It recently fabricated critical equipment like silos and pressure vessels at customer sites. KEL has two manufacturing facilities in Maharashtra at Kalyan and Pune (M.E. Energy Pvt) and has more than 3,000 installations globally. It clocked a revenue/EBITDA margin of INR222cr/15.7% in FY23 and INR135cr/ 21.1% in H1FY24. The stock is not rated.

CMP: INR281
Rating: Not rated

Bloomberg:	KEL:IN
52-week range (INR):	73/295
M-cap (INR cr):	1,055
Promoter holding (%)	53.9

Relative price performance



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Key takeaways

- The management expects to end FY24 with an order book of ~INR300cr based on new (organic) orders of ~INR250cr in H2.
- The capex upcycle in key target industries like chemicals, speciality chemicals, pharma, oil and gas, and carbon black is resulting in enquiries of more than INR1,000cr and a robust deal pipeline.
- It is likely to close the M.E. Energy Pvt (MEE) acquisition by Q3FY24-end. Valuing MEE at an EV of ~7x FY24E EBITDA, the deal works out to INR99cr. Of this, INR76cr will be paid in cash and the balance via equity shares of KEL. The MEE promoter will thus become a growth partner by the lieu of its ~3% stake in KEL.
- MEE specialises in thermal engineering and provides waste heat recovery and re-utilisation systems like thermal oil heat exchangers, process integrated boilers, and air and gas coolers.
- Its ~60,000 sq. ft. manufacturing facility at Khed (Pune) will augment KEL's existing plant at Kalyan. MEE and KEL have many overlapping customers and thus will gain from synergies due to their complementary product set.
- The management reiterated its (organic) revenue guidance of ~INR300cr in FY24 (including contributions from MEE) and ~INR500cr in FY25 (including full-year consolidation of MEE).
- MEE clocked a revenue of INR45cr in FY23 and is likely to achieve ~INR75cr/INR125–150cr in FY24/FY25.
- Margin is dependent on the product mix. In the medium to long term, it aims to maintain EBITDA margin at 18–20%. MEE margin of ~15% will converge with KEL's margin by FY25.
- The board approved an issuance of 82lk equity shares and convertible warrants at INR165 (FV: INR10 and a premium of INR155) to fund the MEE buyout. This, along with internal cash flows, will make it almost net debt free by FY24 end (net debt, including/excluding short term borrowing, stood ~INR49cr/INR38cr at the end of FY23 and ~INR35cr/INR24cr at the end of H1FY24).

Valuation

At the CMP, the stock trades at a P/E ratio of 29x and an EV/EBITDA of 22x on a TTM basis. The stock is not rated.

Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	88	123	222
Revenue growth (%)	-33	39	80
EBITDA (INR cr)	7	13	35
Adjusted PAT (INR cr)	-92	2	30
P/E ratio (x)	NM	110.3	11.2
Price/BV ratio (x)	1.4	2.3	3.2
EV/EBITDA ratio (x)	19.8	17.8	11.1
RoACE (%)	1.6	6.6	19.3
RoAE (%)	NM	2.6	33.7

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	88	123	222
Direct costs	41	63	122
Employee costs	16	14	19
Other expenses	24	33	46
Total operating expenses	81	110	187
EBITDA	**7**	**13**	**35**
Depreciation and amortisation	4	3	3
EBIT	3	10	32
Interest expenses	11	9	8
Other income	9	2	15
Profit before tax	1	3	39
Provision for tax	-34	1	9
Core profit	35	2	30
Minority Interest	0	0	0
Profit after tax	35	2	30
Extraordinary items & share of profit from associates	-127	0	0
Reported net profit	-92	2	30
Adjusted Net Profit	**-92**	**2**	**30**
Equity shares outstanding (cr)	2.8	3.4	3.6
EPS (INR) basic	(32.5)	0.5	8.4
Diluted shares (Cr)	2.8	3.4	3.6
EPS (adj) fully diluted	(32.5)	0.5	8.4
Dividend per share	0.0	0.0	1.0
Dividend payout (%)	0%	0%	12%

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	92.1	89.4	84.3
Depreciation	4.6	2.3	1.2
Interest expenditure	12.8	7.2	3.6
EBITDA margins	7.9	10.6	15.7
Net profit margins	(103.7)	1.3	13.6

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	(32.6)	38.8	80.5
EBITDA	(23.5)	86.6	167.5
PBT	(84.4)	181.9	1,176.8
Net profit	(1,874.4)	(101.7)	1,843.5
EPS	(933.9)	(101.4)	1,762.1

Ratios

Year to March	FY21	FY22	FY23
ROE (%)	(121.3)	2.6	33.7
ROCE (%)	1.6	6.6	19.3
Debtors (days)	173	150	73
Current ratio	2.0	2.0	1.9
Debt/Equity	1.8	1.0	0.6
Inventory (days)	34	31	47
Payable (days)	90	75	42
Cash conversion cycle (days)	117	106	78
Debt/EBITDA	12.4	5.9	1.9
Adjusted debt/Equity	1.5	0.8	0.5

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	(32.5)	0.5	8.4
CEPS (INR)	(31.1)	1.3	9.2
Diluted P/E (x)	(0.7)	110.3	11.2
Price/BV(x)	1.4	2.3	3.2
EV/Sales (x)	1.6	1.9	1.7
EV/EBITDA (x)	19.8	17.8	11.1
Diluted shares O/S	2.8	3.4	3.6
Basic EPS	(32.5)	0.5	8.4
Basic PE (x)	(0.7)	110.3	11.2
Dividend yield (%)	0%	0%	1%

Balance sheet (INR crs)

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	28	34	36
Reserves & surplus	20	39	70
Shareholders funds	48	73	105
Secured loans	65	61	53
Unsecured loans	21	15	11
Borrowings	86	76	64
Net Debt	73	60	49
Minority interest	0	0	0
Other liabilities	12	12	0
Sources of funds	**146**	**161**	**170**
Gross block	49	44	46
Depreciation	4	3	3
Net block	45	42	43
Capital work in progress	0	0	1
Total fixed assets	45	42	44
Other non-current assets	46	46	40
Inventories	8	10	28
Sundry debtors	42	50	44
Cash and equivalents	13	16	16
Other current assets	48	68	91
Total current assets	111	145	179
Sundry creditors and others	55	71	91
Provisions	1	1	1
Total CL & provisions	56	72	93
Net current assets	55	74	86
Uses of funds	**146**	**161**	**170**
Book value per share (INR)	17	21	29

Cash flow statement (INR crs)

Year to March	FY21	FY22	FY23
EBIT	-126	3	39
Add: Depreciation	4	3	3
Add: Others	130	9	-3
Gross cash flow	8	15	38
Less: Changes in W. C.	3	16	19
Operating cash flow	5	-1	20
Less: Capex	0	-0	5
Free cash flow	**5**	**-1**	**15**

Knowledge Marine & Engineering Works

nuvama professional clients group

We hosted the management of Knowledge Marine & Engineering Works (KMEW) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. Incorporated in 2015, KMEW is engaged in providing dredging services; owning and operating marine crafts; and repairing, maintaining, and refitting marine crafts and marine infrastructure. It derives ~90%/~10% of its revenue from dredging/port ancillary services.

Key takeaways

- KMEW's expertise lies in design and building fleets. It owns and operates 16 vessels, six dredgers, and 10 small marine crafts. It aims to operate 40 vessels by 2030.
- It has gained credibility and scale through execution of tenders through JVs. Given its current qualification, it can bid for tenders worth ~INR300cr. Potential JV partners agree to work with KMEW given its expertise in gauging the type of material that will be at the bottom of the water body as different materials require different vessels. It has been collecting data on soil content across India's coastline for over 20 years and has the requisite expertise in designing and operating the vessels.
- The management is looking at a rapid payback of 24–30 months. With the vessels operating for 20 years, it can earn a robust margin and repay any debt incurred for the asset within 24–30 months of execution of the tender.
- Pending order book stands ~INR600cr+ (INR450cr from Bahrain). KMEW has expressed interest in projects worth ~INR1,300cr+ and has an order win rate of over 50%. It only bids for orders with an EBITDA margin of more than 30%. Projects bid for are at various stages of approval and the management is awaiting decision on multiple bids. Competition in this space is limited to two-to-four players.
- KMEW faces less to no competition in shallow draft water dredging as the four global leaders, who account for 80% of dredging worldwide, do not participate in such tenders.
- There are also higher entry barriers in dredging tenders such as the number of contracts executed, average revenue over the past three years, and percentage cost of the tender as opposed to revenue.
- Indian dredging companies stand to benefit from the provision that if they are L2 (within a margin of 10% to a foreign entity), they can take up the tender by at the L1 bid price.
- Capex incurred for the Bahrain order is USD5mn (~INR41cr), and commercial operations should begin in December 2024. The management will decide on further capex for a vessel in the Bahrain region in the next two quarters. Capex for the next one year is expected to be ~INR60cr and it may take on debt to fund the additional capex. KMEW sees potential in the land reclamation business in Bahrain, aside from current sand mining orders.
- It sees growth opportunities in: i) the government's initiative of waste to wealth, which involves the monetisation of materials that are dredged; ii) sand mining in Bahrain; iii) dam desilting, where it has bid for five projects; iv) national waterway contracts; v) fishing harbours; and vi) rock dredging.

Valuations and view

KMEW's prudent business model, with capex being undertaken only on the receipt of new contracts, its 50% win rate, low competition, and execution capabilities bolster our confidence in its ability to capture market share in dredging and sand mining. It boasts a sustainable EBITDA/PAT margin of over 34%/20–25%. Its strong Balance Sheet and its ability to take on debt, if required, are expected to fuel growth. At the CMP, the stock trades at 17x FY25E EPS. The stock is not rated.

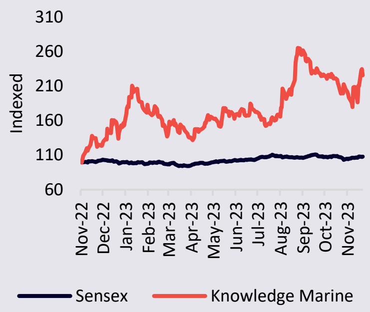
Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	33	61	202
Revenue growth (%)	39	84	230
EBITDA (INR cr)	13	32	69
Adjusted PAT (INR cr)	7	20	47
P/E ratio (x)	5.5	8.7	20.7
Price/BV ratio (x)	1.4	3.7	7.3
EV/EBITDA ratio (x)	3.3	5.6	13.7
RoACE (%)	28.6	47.1	52.6
RoAE (%)	36.8	54.7	51.9

CMP: INR1,583
Rating: Not rated

Bloomberg:	KMEW:IN
52-week range (INR):	845/1,815
M-cap (INR cr):	1,710
Promoter holding (%)	67.09

Relative price performance



Presentation link

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	33	61	202
Direct costs	16	23	123
Employee costs	2	3	4
Other expenses	2	3	6
Total operating expenses	20	29	133
EBITDA	**13**	**32**	**69**
Depreciation and amortisation	2	2	4
EBIT	11	30	64
Interest expenses	2	2	2
Other income	0	1	1
Profit before tax	10	28	63
Provision for tax	3	7	16
Core profit	7	21	47
Minority Interest	0	1	0
Profit after tax	7	20	47
Extraordinary items & share of profit from associates	0	0	0
Reported net profit	7	21	47
Adjusted Net Profit	**7**	**20**	**47**
Equity shares outstanding (cr)	1.0	1.0	1.1
EPS (INR) basic	6.7	19.9	43.6
Diluted shares (Cr)	1.0	1.0	1.1
EPS (adj) fully diluted	6.7	19.9	43.6
Dividend per share	0.0	0.0	0.0
Dividend payout (%)	0%	0%	0%

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	60.5	47.0	65.9
Depreciation	6.2	4.0	2.2
Interest expenditure	5.1	4.1	1.2
EBITDA margins	39.5	53.0	34.1
Net profit margins	21.3	34.1	23.4

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	39.2	83.6	229.8
EBITDA	71.3	146.4	111.9
PBT	78.8	194.2	126.3
Net profit	51.7	195.8	131.1
EPS	-	195.8	119.0

Ratios

Year to March	FY21	FY22	FY23
ROE (%)	36.8	54.7	51.9
ROCE (%)	28.6	47.1	52.6
Debtors (days)	4	24	101
Current ratio	6.7	2.4	3.0
Debt/Equity	0.6	0.6	0.2
Inventory (days)	4	1	2
Payable (days)	5	37	47
Cash conversion cycle (days)	3	-12	56
Debt/EBITDA	1.3	0.8	0.4
Adjusted debt/Equity	0.2	0.1	(0.2)

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	6.7	19.9	43.6
CEPS (INR)	8.7	22.3	47.6
Diluted P/E (x)	5.5	8.7	20.7
Price/BV(x)	1.4	3.7	7.3
EV/Sales (x)	1.3	3.0	4.7
EV/EBITDA (x)	3.3	5.6	13.7
Diluted shares O/S	1.0	1.0	1.1
Basic EPS	6.7	19.9	43.6
Basic PE (x)	5.5	8.7	20.7
Dividend yield (%)	0%	0%	0%

Balance sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	10	10	11
Reserves & surplus	17	37	123
Shareholders funds	27	47	134
Secured loans	12	17	4
Unsecured loans	5	9	20
Borrowings	17	26	24
Net Debt	5	4	-32
Minority interest	2	2	3
Other liabilities	2	3	5
Sources of funds	**48**	**79**	**165**
Gross block	32	60	70
Depreciation	5	7	11
Net block	28	53	59
Capital work in progress	3	2	8
Total fixed assets	31	54	67
Other non-current assets	0	5	12
Investments			
Inventories	0	0	1
Sundry debtors	0	4	56
Cash and equivalents	12	23	56
Other current assets	8	8	17
Total current assets	20	34	130
Sundry creditors and others	1	8	28
Provisions	2	7	15
Total CL & provisions	3	14	44
Net current assets	17	20	86
Uses of funds	**48**	**79**	**165**
Book value per share (INR)	26	46	124

Cash flow statement

Year to March	FY21	FY22	FY23
EBIT	9	28	63
Add: Depreciation	2	2	4
Add: Others	2	2	1
Gross cash flow	13	33	69
Less: Changes in W. C.	8	-2	48
Operating cash flow	5	35	21
Less: Capex	3	24	11
Free cash flow	**2**	**10**	**11**

Krishna Defence & Allied Services

We hosted the management of Krishna Defence & Allied Industries in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. Incorporated in 1997, KRISHNDF started off as an engineering company manufacturing products for the dairy industry like milk cooling tanks and other equipment. It expanded its product portfolio by entering the defence sector with the strategy of indigenizing products that were being imported. It possesses comprehensive in-house capabilities in design, development, and manufacture of a wide range of products that find use in defence applications. Its defence offerings include specialised shipbuilding steel sections/profiles (bulb bars), armoured steel profiles, high alloy steel ballast bricks, special heating devices, and weld consumables. The stock is not rated.

Key takeaways

- KRISHNDF has been able to indigenize the production of bulb bars after spending four years on product development. Bulb bars, which is a major requisite for hull construction by shipbuilding companies, constituted ~INR30cr out of a total revenue of INR63cr in FY23. Product margins are in the mid to high teens and can witness an improvement (~500bp) due to an increase in utilisation levels to 80% by the end of FY24 (on exisiting capacity, led by higher turnover and orders) from 30–35% in FY23.
- KRISHNDF is an approved supplier of bulb bars. The market size for bulb bars is estimated to grow exponentially due to the massive rise in shipbuilding in India. It delivers bulb bars in the first stage of shipbuilding, when shipbuilding companies are flushed with advances from the Indian Navy. This mitigates delays and helps it realise payments within 45–60 days.
- Bulb bars manufacturing capacity stands at 2,400tpa, with an annual revenue potential of INR140–150cr. It is looking to raise capital to fund their capex and working capital.
- Welding consumables for underwater applications and ballast bricks used as a balancing and counterweight for critical naval applications, were both imported, but are now being supplied by KRISHNDF. The management expects 80,000k *Bukhari* units (a specialised room heating device that emits no carbon monoxide) to be procured in the next three years. It has secured a deal to supply 20,000 units within nine months.
- The dairy business is steadily generating an annual revenue of INR12–14cr. It is running on autopilot and is growing at 5–10% annually.
- It is also working on new products like the 76/62 SRGM ammunition and its components, defence electronics, and homeland security products. It is exploring business of manufacturing of fire-resistant composite doors and hatches for the Indian Navy through technology partnerships/JV.
- Total order book stood ~INR240cr, which is to be executed over 12–24 months. Management expects its addressable market size to grow to INR2,700cr over the next four years.

Valuations

At the CMP of INR317, the stock trades at 62x TTM EPS.

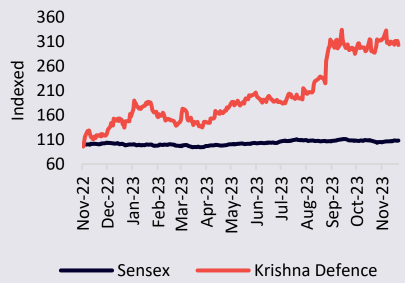
Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	35	50	64
Revenue growth (%)	-	43	28
EBITDA (INR cr)	4	7	9
Adjusted PAT (INR cr)	2	2	5
P/E ratio (x)	-	-	29.2
Price/BV ratio (x)	-	-	3.8
EV/EBITDA ratio (x)	-	-	18.7
RoACE (%)	13.6	10.8	12.8
RoAE (%)	20.4	11.6	16.3

CMP: INR317
Rating: Not rated

Bloomberg:	KRISHNDF:IN
52-week range (INR):	127/325
M-cap (INR cr):	390
Promoter holding (%)	73.38

Relative price performance



Presentation link

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	35	50	64
Direct costs	16	21	33
Employee costs	7	9	9
Other expenses	8	13	12
Total operating expenses	31	43	55
EBITDA	**4**	**7**	**9**
Depreciation and amortisation	1	2	2
EBIT	3	5	7
Interest expenses	2	2	1
Other income	1	0	1
Profit before tax	3	4	7
Provision for tax	1	1	1
Core profit	2	2	5
Minority Interest	0	0	0
Profit after tax	2	2	5
Extraordinary items & share of profit from associates	0	0	0
Reported net profit	2	2	5
Adjusted Net Profit	**2**	**2**	**5**
Equity shares outstanding (cr)	4.2	0.8	1.1
EPS (INR) basic	0.4	2.9	4.6
Diluted shares (Cr)	4.2	0.8	1.1
EPS (adj) fully diluted	0.4	2.9	4.6
Dividend per share	0.0	0.0	0.0
Dividend payout (%)	0%	0%	0%

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	87.4	86.7	86.1
Depreciation	4.0	3.4	3.1
Interest expenditure	4.8	3.7	1.7
EBITDA margins	12.6	13.3	13.9
Net profit margins	5.3	4.9	8.3

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	-	42.5	27.5
EBITDA	-	50.5	33.4
PBT	-	33.4	91.3
Net profit	-	32.0	115.4
EPS	-	560.1	58.0

Ratios

Year to March	FY21	FY22	FY23
ROE (%)	20.4	11.6	16.3
ROCE (%)	13.6	10.8	12.8
Debtors (days)	138	160	154
Current ratio	3.4	2.5	2.7
Debt/Equity	1.4	1.0	0.5
Inventory (days)	159	115	163
Payable (days)	70	102	129
Cash conversion cycle (days)	227	172	188
Debt/EBITDA	5.8	3.5	2.1
Adjusted debt/Equity	0.9	0.5	0.3

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	0.4	2.9	4.6
CEPS (INR)	0.8	4.9	6.3
Diluted P/E (x)	-	-	29.2
Price/BV(x)	-	-	3.8
EV/Sales (x)	-	-	2.6
EV/EBITDA (x)	-	-	18.7
Diluted shares O/S	4.2	0.8	1.1
Basic EPS	0.4	2.9	4.6
Basic PE (x)	-	-	29.2
Dividend yield (%)	-	-	0%

Balance sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	4	8	11
Reserves & surplus	14	16	29
Shareholders funds	18	24	41
Secured loans	15	7	6
Unsecured loans	11	16	12
Borrowings	26	23	19
Net Debt	16	12	11
Minority interest	0	0	0
Other liabilities	0	0	0
Sources of funds	**44**	**48**	**60**
Gross block	19	24	25
Depreciation	9	11	13
Net block	10	14	12
Capital work in progress	3	0	2
Total fixed assets	13	14	14
Other non-current assets	1	4	4
Investments			
Inventories	15	16	28
Sundry debtors	13	22	27
Cash and equivalents	10	12	8
Other current assets	4	1	3
Total current assets	42	50	66
Sundry creditors and others	11	19	24
Provisions	1	1	0
Total CL & provisions	12	20	25
Net current assets	30	30	41
Uses of funds	**44**	**48**	**60**
Book value per share (INR)	4	29	36

Cash flow statement

Year to March	FY21	FY22	FY23
EBIT	3	4	7
Add: Depreciation	1	2	2
Add: Others	1	1	0
Gross cash flow	5	6	9
Less: Changes in W. C.	3	3	16
Operating cash flow	2	4	-7
Less: Capex	1	4	-1
Free cash flow	**1**	**-0**	**-6**

MCON Rasayan India

We hosted the management of MCON Rasayan India in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. Specialising in construction chemicals and building finishing products, its diverse portfolio includes powder and liquid forms under the 'MCON' brand. Operating in key states — Maharashtra, Gujarat, and Rajasthan, MCON has a robust presence through more than 100 distributors and over 1,300 retailers. It is actively expanding and is developing a third plant in Ambheti (Valsad), with a total capacity of 42,000t, operational by December-end. This aligns with government infra initiatives, indicating the potential for robust revenue growth. The stock is not rated.

CMP: INR154
Rating: Not rated

Bloomberg:	MCON:IN
52-week range (INR):	63/175
M-cap (INR cr):	97
Promoter holding (%)	66.65

Relative price performance

Key takeaways

- The pivotal success drivers behind the MCON brand are its unwavering reliability and consistent performance since its inception. Operating on a distribution-centric business model, it places a strategic emphasis on delivering products at an affordable price point, underscoring a focused commitment to both reliability and accessibility in the market.
- MCON's product lines play a pivotal role throughout the entire life cycle of construction projects, be it new or existing. For new constructions, it offers a range of products such as ready-mix plasters, tile adhesives, paints, wall putty, and block adhesives. In the case of older or deteriorating structures, it provides solutions like micro concrete, polymer mortar, liquid polymers, epoxy mortars, crack fillers, and corrosive protection. Its comprehensive product offerings aim to enhance the strength and stability of existing structures, showcasing MCON's versatility in addressing diverse construction needs.
- With a major capex concluding by December, MCON total capacity will expand to 42,000mt. The new plant has dedicated capacities of 36,000mt/6,000mt for powder/liquid products.
- Its focus is on the institutional business. MCON's prestigious clientele include CIDCO, MHADA, MCGM, Indian Railways, PWD, BARC, and Maharashtra Housing Development Corporation, highlighting its commitment to high-profile partnerships.
- The management has guided at a sustained growth of 60–70% CAGR, maintaining an EBITDA margin of 11–12%. It is targeting a 30% share in value-added products. It anticipates a slight rise in net working capital days on entering new geographies and aligning with distributors' credit expectations.

Valuation and view

MCON's strategic direction, marked by proactive measures in product diversification and its steadfast commitment to capacity expansion, positions it on the path to robust and sustainable growth. The stock trades at 20.4x TTM earnings. The stock is not rated. Key risks associated with its performance include fluctuations in raw material prices and a slowdown in the economy.

Key financials

Year to March (INR cr)	FY21	FY22	FY23
Revenue	9	19	31
EBITDA	1	1	3
EBITDA margin (%)	10.2%	7.4%	8.6%
Net profit	0	0	1
P/E ratio (x)	121.6	46.2	85.9
EV/EBITDA ratio (x)	109.2	73.0	39.3
RoCE (%)	13.8%	15.0%	14.7%
RoE (%)	12.7%	23.9%	14.3%

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Financials

Income Statement

Year to March (INR Cr)	FY21	FY22	FY23
Income from operations	**9**	**19**	**31**
COGS	4	10	16
Gross Profit	**5**	**8**	**17**
Employee costs	1	2	4
Other expenses	3	6	9
Total operating expenses	**8**	**18**	**28**
EBITDA	**1**	**1**	**3**
Depreciation and amortisation	0	0	0
EBIT	**1**	**1**	**2**
Other Income	0	0	0
PBIT	**1**	**1**	**2**
Interest expenses	0	0	1
Profit before tax	**0**	**1**	**2**
Provision for tax	0	0	0
Reported profit after tax	**0**	**0**	**1**
Extraordinary items	0	0	0
Adjusted Profit after tax	**0**	**0**	**1**
Equity shares outstanding (Cr)	0.2	0.2	0.6
Adjusted EPS (INR)	**1.3**	**3.3**	**1.8**

Common Size metrics - as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	89.8%	92.6%	91.4%
Depreciation	3.1%	1.7%	1.2%
Interest expenditure	4.5%	2.2%	2.5%
EBITDA margins	10.2%	7.4%	8.6%
Adj. Net profit margins	2.1%	2.6%	3.6%

Growth Metrics (%)

Year to March	FY21	FY22	FY23
Revenues	0.1%	114.0%	61.6%
EBITDA	26.0%	55.4%	87.4%
PBT	116.7%	165.4%	121.7%
PAT	111.1%	163.2%	126.0%
EPS	42.1%	163.2%	-46.2%

Profit & Efficiency Ratios

Year to March	FY21	FY22	FY23
ROE (%)	12.7%	23.9%	14.3%
ROCE (%)	13.8%	15.0%	14.7%
Debtors (days)	147	98	121
Inventory (days)	98	82	77
Payable (days)	117	85	91
Cash conversion cycle (days)	128	96	107
Net Debt/EBITDA	3.72	5.11	3.06
Net Debt/Equity	1.92	3.05	0.61

Valuation

Year to March	FY21	FY22	FY23
Adj. EPS (INR)	1.3	3.3	1.8
Y-o-Y growth (%)	42.1%	163.2%	-46.2%
Diluted P/E (x)	121.6	46.2	85.9
Price/BV(x)	13.0	9.6	7.3
EV/Sales (x)	11.2	5.4	3.4
EV/EBITDA (x)	109.2	73.0	39.3

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	2	2	6
Reserves & surplus	0	1	7
Shareholders funds	**2**	**2**	**13**
Total Debt	**3**	**7**	**8**
Provisions	0	0	0
Current Liabilities	3	5	8
Sources of funds	**8**	**14**	**30**
PP&E	1	1	1
CWIP	-	1	6
Other Intangible Assets	4	5	6
Investments	-	-	-
Inventories	2	4	7
Trade Receivables	4	5	10
Cash and Cash Equivalents	0	0	0
Other Assets	-	-	-
Uses of Funds	**8**	**14**	**30**
Book value per share (INR)	**12**	**16**	**21**

Cash Flow Statement

Year to March	FY21	FY22	FY23
Operating Profit Before WC changes	1	1	3
WC Changes	-1	-3	-8
CFO	0	-2	-5
CFI	0	-1	-5
CFF	0	4	10
Total Cash Flow	0	0	0

Newjaisa Technologies

We hosted the management of Newjaisa Technologies in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. The Bengaluru-based IT refurbishing company began its operations in 2020. It is committed to providing high-quality, cost-effective, and environmentally sustainable IT solutions, with a focus on reducing electronic waste and contributing to the circular economy. The business model encompasses an end-to-end reverse supply chain for IT assets. It involves procuring used IT assets (laptops, desktops, and peripherals), refurbishing them to make them as close to new, and selling them directly to end-use customers (businesses or retail) at a significant discount to new products.

Key takeaways

- The refurbished laptop and desktop market is expected to clock 9.8% CAGR in value terms over 2023–33, driven by low PC penetration, a sharp rise in laptop prices, and conducive government policies.
- India currently doesn't allow the import of used electronics for domestic consumption. It allows companies to refurbish and then sell it in other countries. If India allows import and consumption of used electronics, it will provide a huge opportunity for companies like NEWJAISA.
- NEWJAISA is a full stack IT driven electronic refurbishment company. NEWJAISA provides scratchless units, genuine hardware and software, 14-days return policy, 1-year PAN India warranty, which makes it distinct from unorganized players. It has delivered to more than 19000 pin codes in India till March 2023. NEWJAISA's topline has grown at a CAGR of 66.76% in last three financial years.
- The company is mainly focusing on laptops and IT peripherals. Some of its laptop ratings on Amazon are more than 4.3, which is even better than that of some OEMs. Most of its assets are two-to-four years old.
- It sources ~80% of the total sourcing requirements from recyclers and ~20% directly from corporates. However, the management is working towards increasing the share of direct sourcing from corporates, which will help improve margin.
- In terms of customer segmentation, students, corporates, and other segments contribute ~33% each.
- It is looking to raise the share of revenue from its online channel to 30% and build its sales presence across Africa and South Asia.
- It plans to penetrate further into the laptop and IT peripherals market, followed by tablets and the international market. It is not focusing on entering new categories like mobile phones as the refurbishing process is very challenging due to the high number of SKUs.
- PAT margin fell in H1FY24 as it has invested heavily in headcount.

Valuations

At the CMP of INR163, the stock trades at a P/E ratio of 68.8x and an EV/EBITDA ratio of 52.9x on a TTM basis. The stock is not rated.

Key financials

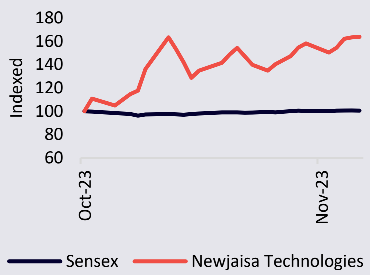
Year to March	FY21	FY22	FY23
Revenue (INR cr)	10	28	45
Revenue growth (%)	-	190.5	59.5
EBITDA (INR cr)	1	3	9
Adjusted PAT (INR cr)	1	2	7
P/E ratio (x)*	480.8	199.0	53.8
Price/BV ratio (x)	708.9	205.7	56.4
EV/EBITDA ratio (x)	472.8	174.3	60.5
RoCE (%)	93.7	89.0	82.7
RoE (%)	202.7	110.6	114.1

*Not measured (n.m.) as the denominator is negative

CMP: INR163
Rating: Not rated

Bloomberg:	NEWJAISA:IN
52-week range (INR):	63/171
M-cap (INR cr):	526
Promoter holding (%)	69.35

Relative Price Performance



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Financials

Income Statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	10	28	45
Direct costs	6	19	25
Employee costs	1	2	5
Other expenses	1	4	6
EBITDA	1	3	9
Depreciation and amortization	-	0	0
EBIT	1	3	9
Interest expenses	0	1	1
Other income	-	0	-
Profit before tax	1	2	8
Provision for tax	0	1	1
Core profit	1	2	7
Extraordinary items	-	-	-
Profit after tax	1	2	7
Minority interest	-	-	-
Share from associates	-	-	-
Adjusted net profit	1	2	7
Equity share outStanding (mn)	22	22	22
EPS (INR) basic	0	1	3
Diluted shares (mn)	22	22	22
EPS (INR) fully diluted	0	1	3
Dividend per share			
Dividend payout (%)	-	-	-

Common size metrics - as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	88.4	89.2	80.3
Depreciation	-	0.1	0.1
Interest expenditure	1.1	1.9	1.2
EBITDA margins	11.6	10.8	19.7
Net profit margins	7.8	6.5	15.2

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	-	190.5	59.5
EBITDA	-	172.1	190.4
PBT	-	147.0	231.6
Net profit	-	142.7	271.4
EPS	-	141.6	270.0

Ratios

Year to March	FY21	FY22	FY23
RoAE (%)	202.7	110.6	114.1
RoACE (%)	93.7	89.0	82.7
Debtors (days)	30.8	19.3	46.9
Current ratio	3.1	4.4	4.1
Debt/equity	2.2	0.7	0.8
Inventory (days)	39.8	66.2	185.8
Payable (days)	47.2	20.7	63.9
Cash conversion cycle (days)	23.4	64.9	168.8
Debt/EBITDA	1.5	0.6	0.8
Adjusted Debt/equity	0.3	0.7	0.6

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	0.3	0.8	3.0
Y-o-Y growth (%)	-	141.6	270.0
CEPS (INR)	0.3	0.8	3.0
Diluted P/E (x)	480.8	199.0	53.8
Price/BV (x)	708.9	205.7	56.4
EV/Sales (x)	54.6	18.9	11.9
EV/EBITDA (x)	472.8	174.3	60.5
Diluted Shares O/S (mn)	22.1	22.2	22.3
Basic EPS (INR)	0.3	0.8	3.0
Basic P/E (x)	699.5	288.2	77.6

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	0.0	0.4	0.4
Reserves & surplus	0.7	2.2	8.9
Shareholders' funds	0.7	2.6	9.3
Secured Loans	1.0	1.5	7.2
Unsecured Loans	0.6	0.4	0.2
Borrowings	1.6	1.8	7.4
Other liabilities	0.0	0.0	0.1
Sources of funds	**2.4**	**4.4**	**16.8**
Gross block	0.2	0.3	0.5
Depreciation	0.0	0.0	0.1
Net block	0.2	0.3	0.4
Total fixed assets	0.2	0.3	0.4
Inventories	0.7	3.5	12.8
Sundry debtors	0.8	1.5	5.7
Cash and equivalents	1.4	0.1	1.4
Loans and advances	0.2	0.2	1.6
Total current assets	3.1	5.3	21.6
Sundry creditors and others	0.8	1.1	4.4
Provisions	0.2	0.1	0.9
Total CL & provisions	1.0	1.2	5.3
Net current assets	2.1	4.1	16.3
Other Assets	0.1	0.1	0.1
Uses of funds	**2.4**	**4.4**	**16.8**
Book value per share (INR)	0.3	1.1	4.2

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	0.75	1.82	6.76
Add: Depreciation		0.02	0.04
Add: Others	0.11	0.54	0.54
Gross cash flow	0.86	2.38	7.34
Less: Changes in W.C.	0.74	3.24	10.90
Operating cash flow	0.12	-0.86	-3.56
Less: Capex	0.21	0.02	0.11
Free cash flow	-0.09	-0.88	-3.67

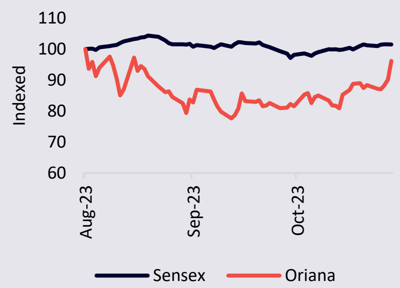
Oriana Power

We hosted the management of Oriana Power (ORIANA) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 5. It specialises in providing solar energy solutions to industrial and commercial customers. It offers low carbon energy solutions by installing on-site solar projects such as rooftop and ground-mounted systems, as well as off-site solar farms. Its business operations are divided into two segments: capex and a renewable energy service company (RESCO). It offers engineering, procurement, construction (EPC), and operation of solar projects under the capex model. Customers incur capex, and ORIANA takes care of EPC and operations on behalf of the client. Since June 2017, it has delivered projects with a capacity of over 100MWp across various locations in India under this model. Under the RESCO model, it operates through 18 subsidiaries. It provides solar energy solutions on a BOOT (build, own, operate, and transfer) basis, allowing clients to reap the benefits of solar energy without an upfront investment. It takes care of all investments, commissioning, and maintenance. In lieu of that, it sells power to end-consumers through a long-term power purchase agreement (typically for 25 years). This business provides it annuity income post recovery of the initial investment. Revenue/EBITDA/PAT stood at INR64cr/INR11.3cr/INR5.7cr in H1FY24. The stock is not rated.

CMP: INR437
Rating: Not rated

Bloomberg:	ORIANA:IN
52-week range (INR):	272/440
M-cap (INR cr):	838
Promoter holding (%)	61.41

Relative price performance



Key takeaways

EPC segment

- ORIANA is the leader in floating solar installations (three/two projects delivered/WIP).
- Order book stood at 65MW (~INR260cr) as of November, which is executable by March 2024. The commercial and industrial segment (C&I) constitutes ~90% of the order book. The order book is equally split between the government and private sector.
- The order book has a realisation of ~INR4cr/MW and a PAT margin of 9.5–10%.
- It plans to bid for 300–350MW projects annually. The current bid pipeline stands ~300MW. It has a historical hit ratio of 25–30%. It has a RoCE/EBITDA margin benchmark of 35%/18%. The execution timeline is six-to-nine months.
- At present, it imports 60–70% of its solar panels from China. Though solar panel prices in China has plummeted, ORIANA will not reap any benefits of this decline as any price fluctuation is passed on the end-consumer. Imports may decline to 30–40% once ALMM regulations are implemented from April 2024.
- It is planning to develop a 250MW captive solar park in Rajasthan for sale over the next two years, with a revenue/EBITDA potential of INR1,000cr/INR150–160cr.

RESCO segment

- ORIANA has a capacity of 35MWp under RESCO and plans to develop another 100–110MWp over the next two years using its IPO proceeds (~INR60cr). The current tariff is INR4/unit. At peak tariff, a capacity of 135MW can generate a revenue of ~INR470cr.
- The targeted IRR for a RESCO investment is 15–17%.

Others

- The management sees a sustainable EBITDA margin of 15–17%.
- The government is targeting solar installations of 350GW over the next five years, of which C&I will constitute 70–100GW. Of this, only 7GW has been delivered till date, leaving room for the industry to clock 28–30% CAGR for the next four-to-five years.

Valuations

At CMP of INR437, the stock trades at a P/E ratio of 76.3x and an EV/EBITDA of 42x on a **FY23 EPS basis and diluted equity after its IPO in August**.

Key financials

Year to March	FY21	FY22	FY23
Revenues (INR Cr)	34	124	135
Rev growth (%)	57.3	269.6	8.8
EBITDA (INR Cr)	30.1	111.1	115.2
Adjusted PAT (INR Cr)	1	7	11
P/E (x)	186.3	39.2	27.5
Price/BV(x)	27.5	18.8	9.0
EV/EBITDA (x)	43.6	23.6	18.5
RoACE (%)	6.8	22.5	16.3
RoAE (%)	22.3	71.8	45.4

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	34	124	135
Direct costs	26	105	104
Power & fuel	0	0	0
Employee costs	1	3	4
Other expenses	3	3	7
Total operating expenses	30	111	115
EBITDA	3	13	20
Depreciation and amortisation	0	1	1
EBIT	3	12	18
Interest expenses	1	2	3
Other income	0	1	1
Profit before tax	2	11	16
Provision for tax	2	4	5
Core profit	1	7	11
Extraordinary items	0	0	0
Profit after tax	1	7	11
Share from associates	0	0	0
Adjusted net profit	1	7	11
Equity shares outstanding (Cr)	0.3	0.6	0.7
EPS (INR) basic	2.3	11.2	15.9
Diluted shares (Cr)	0.3	0.6	0.7
EPS (INR) fully diluted	2.3	11.2	15.9

Common size metrics- as % of net revenues

Year to March (INR cr)	FY21	FY22	FY23
Operating expenses	89.9	89.7	85.5
Depreciation	0.9	0.7	0.9
Interest expenditure	2.1	1.5	2.5
EBITDA margins	10.1	10.3	14.5
Net profit margins	2.1	5.6	7.9

Growth metrics (%)

Year to March (INR cr)	FY21	FY22	FY23
Revenues	57.3	269.6	8.8
EBITDA	70.0	273.5	53.5
PBT	36.1	333.1	50.8
Net profit	-10.0	861.1	53.8
EPS	-88.3	375.9	42.3

Profit & Efficiency Ratios

Year to March (INR cr)	FY21	FY22	FY23
ROAE (%)	22.3	71.8	45.4
ROACE (%)	6.8	22.5	16.3
Debtors (days)	148	74	99
Current ratio	1.2	1.4	1.5
Inventory (days)	48	5	21
Payable (days)	142	80	82
Cash conversion cycle (days)	54	-2	39
Net Debt/EBITDA	4.2	2.3	3.5
Net debt/Equity	2.9	2.0	2.1

Valuation parameters

Year to March (INR cr)	FY21	FY22	FY23
Diluted EPS (INR)	2.3	11.2	15.9
Y-o-Y growth (%)	-88.3	375.9	42.3
Diluted P/E (x)	186.3	39.2	27.5
Price/BV(x)	27.5	18.8	9.0
EV/Sales (x)	4.4	2.4	2.7
EV/EBITDA (x)	43.6	23.6	18.5
Basic EPS	2.3	11.2	15.9
Basic PE (x)	186.3	39.2	27.5

Balance sheet

Year to March (INR cr)	FY21	FY22	FY23
Equity share capital	3	6	7
Preference Share Capital	0	0	0
Reserves & surplus	2	8	26
Shareholders funds	5	14	33
Secured loans	17	29	70
Unsecured loans	0	0	0
Borrowings	17	29	70
Net Deferred tax	1	2	2
Minority interest	-0	0	0
Sources of funds	**23**	**46**	**104**
Gross block	19	29	32
Depreciation	0	1	3
Net block	19	28	29
Capital work in progress	0	0	46
Total fixed assets	19	28	75
Unrealised profit	0	0	0
Investments	0	6	10
Inventories	3	1	6
Sundry debtors	14	25	37
Cash and equivalents	3	0	2
Loans and advances	5	15	14
Other current assets	0	0	0
Total current assets	25	42	58
Sundry creditors and others	10	23	23
Provisions	11	6	16
Total CL & provisions	21	30	40
Net current assets	4	12	18
Misc expenditure	0	0	0
Uses of funds	**23**	**46**	**104**
Book value per share (INR)	15.9	23.2	48.5

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	1	7	11
Add: Depreciation	0	1	1
Add: Misc expenses written off	0	0	0
Add: Deferred tax	1	1	0
Gross cash flow	2	9	12
Less: changes in W.C.	2	10	5
Operating cash flow	0	-1	7
Less: Capex	14	10	49
Free cash flow	-14	-11	-42

Pyramid Technoplast

nuvama professional clients group

We hosted the management of Pyramid Technoplast (PYRAMID) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — Udayan' on December 5. Founded in 1997, PYRAMID is a prominent industrial packaging company known for its polymer-based moulded products. It specialises in rigid intermediate bulk containers (IBCs), polymer drums, and mild steel drums used by the chemical, agrochemical, specialty chemical, and pharma industries.

It operates seven manufacturing units with a polymer drum/IBC/mild steel (MS) drum capacity of 22,818mtpa/420,000 units/10,800mtpa. It enjoys a robust network of domestic and international distributors and vendors. It uses fully automated machines with advanced blow moulding technologies. Line 1 (120,000 units p.a.) at Unit 7 of its IBC plant in Bharuch (Gujarat) started commercial production in September and is running at 30% capacity utilisation. Revenue/EBITDA/PAT compounded annually at 24%/26%/37% over FY21–23. The stock is not rated.

Key takeaways

- The IBC segment enjoys a PAT margin of 10%, or 2x that of polymer as well as MS drums. Capex for IBC products is also 2x that of the other two products.
- Over the last five years, the IBC market has grown by 5x.
- Given the high freight cost to export its products, its revenue is essentially from the domestic market.
- As per its long-term agreements with customers, gross profit per mt is kept constant by passing on the increase or decrease in raw material prices at the start of every month.
- The top five customers constitute ~18% of revenue based on TTM.
- It is negotiations with a seller to acquire land in Maharashtra for ~INR15cr to expand its IBC capacity.
- Revenue is estimated to grow at 20% CAGR over next 3 years..
- In case of the IBC business, PYRAMID and Time Technoplast are running neck-to-neck with ~40% market share each. The balance share is with regional players.

Valuations

At the CMP of INR191, the stock trades at a P/E ratio of 22.1x and an EV/EBITDA of 13.6x on a TTM basis.

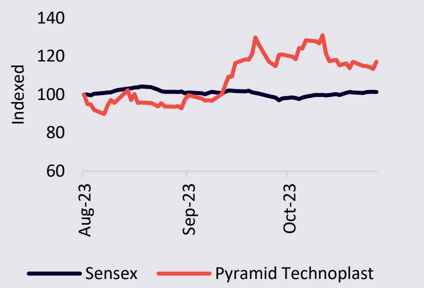
Key financials

Year to March	FY21	FY22	FY23
Revenues (INR Cr)	313	400	480
Rev growth (%)	21.0	27.8	19.9
EBITDA (INR Cr)	28.7	42.2	49.9
Adjusted PAT (INR Cr)	16	26	32
P/E (x)	4.8	2.9	18.7
Price/BV(x)	1.5	1.0	5.6
EV/EBITDA (x)	4.2	3.2	13.0
RoACE (%)	19.3	23.3	21.9
RoAE (%)	38.0	41.4	34.7

CMP: INR191
Rating: Not Rated

Bloomberg:	PYRAMID:IN
52-week range (INR):	155/ 239
M-cap (INR cr):	733
Promoter holding (%)	74.94

Relative Price Performance



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nuvama professional clients group

Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	313	400	480
Direct costs	230	299	363
Power & fuel	0.0	13.2	15.6
Employee costs	16	16	18
Other expenses	39	31	34
Total operating expenses	285	358	430
EBITDA	29	42	50
Depreciation and amortisation	4	4	5
EBIT	25	38	45
Interest expenses	4	5	4
Other income	2	2	2
Profit before tax	22	35	43
Provision for tax	7	9	11
Core profit	16	26	32
Profit after tax	16	26	32
Share from associates	0	0	0
Adjusted net profit	16	26	32
Equity shares outstanding (Cr)	0.4	0.4	3.1
EPS (INR) basic	39.8	66.9	10.2
Diluted shares (Cr)	0.4	0.4	3.1
EPS (INR) fully diluted	39.8	66.9	10.2

Common size metrics- as % of net revenues

Year to march			
Operating expenses	90.8	89.5	89.6
Depreciation	1.3	1.1	1.0
Interest expenditure	1.4	1.2	0.8
EBITDA margins	9.2	10.5	10.4
Net profit margins	5.0	6.5	6.6

Growth metrics (%)

Year to March			
Revenues	21.0	27.8	19.9
EBITDA	59.4	47.0	18.2
PBT	176.3	58.8	22.5
Net profit	159.0	68.0	22.2
EPS	159.0	68.0	-84.8

Profit & Efficiency Ratios

Year to qarch			
ROAE (%)	38.0	41.4	34.7
ROACE (%)	19.3	23.3	21.9
Debtors (days)	75	68	59
Current ratio	1.9	3.0	2.5
Inventory (days)	35	45	46
Payable (days)	67	39	49
Cash conversion cycle (days)	43	74	56
Net Debt/EBITDA	1.6	1.4	1.0
Net debt/Equity	0.9	0.8	0.5

Valuation parameters

Year to qarch			
Diluted EPS (INR)	39.8	66.9	10.2
Y-o-Y growth (%)	159.0	68.0	-84.8
Diluted P/E (x)	4.8	2.9	18.7
Price/BV(x)	1.5	1.0	5.6
EV/Sales (x)	0.4	0.3	1.4
EV/EBITDA (x)	4.2	3.2	13.0
Basic EPS	39.8	66.9	10.2
Basic PE (x)	4.8	2.9	18.7

Balance sheet

Year to March (INR cr)	FY21	FY22	FY23
Equity share capital	4	4	31
Preference Share Capital	0	0	0
Reserves & surplus	46	73	76
Shareholders funds	50	76	107
Secured loans	22	10	19
Unsecured loans	29.7	53.5	37.8
Borrowings	51	64	56
Net Deferred tax			
Minority interest	0	0	0
Sources of funds	**101**	**140**	**164**
Gross block	77	79	98
Depreciation	25	29	34
Net block	53	50	65
Capital work in progress	0	2	7
Total fixed assets	53	52	72
Unrealised profit	0	0	0
Investments	0	0	0
Inventories	22	37	46
Sundry debtors	64	75	77
Cash and equivalents	5	4	6
Loans and advances	0	0	0
Other current assets	10	15	25
Total current assets	101	131	154
Sundry creditors and others	42	32	49
Provisions	11	11	13
Total CL & provisions	53	43	62
Net current assets	49	88	92
Misc expenditure	0	0	0
Uses of funds	**101**	**140**	**164**
Book value per share (INR)	127.7	195.9	34.3

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	16	26	32
Add: Depreciation	4	4	5
Add: Misc expenses written off	0	0	0
Add: Deferred tax	1	0	1
Gross cash flow	20	31	37
Less: changes in W.C.	17	41	2
Operating cash flow	4	-10	35
Less: Capex	7	4	24
Free cash flow	-3	-14	11

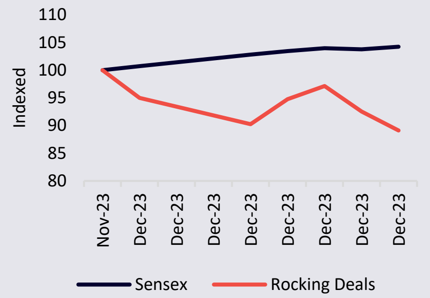
Rocking Deals Circular Economy

nuvama professional clients group

We hosted the management of Rockingdeals Circular Economy (ROCKINGD) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan'* on December 6. This B2B re-commerce player began its operations in 2005. It is engaged in bulk trading of excess inventory, open boxed inventory, re-commerce products, and refurbished products in several categories such as small home appliances, apparel and footwear, kitchenware and household, speaker and mobile accessories, and large appliances.

CMP: INR283
Rating: Not rated

Bloomberg:	ROCKINGD:IN
52-week range (INR):	270/315
M-cap (INR cr):	159
Promoter holding (%)	65.01



Key takeaway

- ROCKINGD deals in more than 18 different categories (fashion, home appliances, mobile, speakers, etc.). Its top brands include Bajaj Electricals, ZARA, Boat. It added Dyson, Whirlpool of India, Puma, and Skechers, and plans to add an additional four-to-five brands.
- Fashion and appliances contribute ~40% each in terms of revenue, with the remaining categories forming ~20%. Fashion is the highest gross margin category, but margin varies from brand to brand.
- The company generates a majority of its revenue by supplying these products to over 1,000 associate partners. It also sells its products via online marketing platforms like Snapdeal and ShopClues. It is also working on setting up its own website, which is likely to start very soon.
- The company has three warehouses, one is leased by the company and two are owned by a group company. It is planning to set up two more warehouses one in Guwahati and another in Mumbai to provide faster delivery and improve inventory turnover.
- It is setting up an e-waste management plant to provide end-to-end solutions in the electronics category. This plant is likely to come on stream from FY24. This will help improve sourcing for its refurbished products and boost overall margin going forward.
- From FY24, it has decided to focus on deals that offer better profitability and margin vis-à-vis its earlier strategy of entering into low margin/quantum deals. It is likely to continue with this strategy as it has helped improve its performance in Q1FY24.
- ROCKINGD sold ~1lk/~60,000 units in FY23/Q1FY24. The management sounded confident of selling ~5lk units by the end of FY24, at an average selling price of INR1,500. It will maintain EBITDA margin similar to FY23 levels.

Valuations

At the CMP of INR282.5, the stock trades at a P/E ratio of 103.6x and an EV/EBITDA ratio of 63.5x on a FY23 basis. The stock is not rated.

Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	10.6	14.8	15.0
Revenue growth (%)	-	40.5	1.2
EBITDA (INR cr)	0.6	0.3	2.6
Adjusted PAT (INR cr)	-0.0	0.1	1.5
P/E ratio (x)*	-7,008.6	723.3	67.3
Price/BV ratio (x)	29.6	29.7	23.1
EV/EBITDA ratio (x)	257.8	507.7	63.5
RoCE (%)	-	1.0	23.7
RoE (%)	-	2.7	25.0

*Not measured (n.m.) as the denominator is negative

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Financials

Income Statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	10.56	14.83	15.01
Direct costs	7.37	12.74	10.66
Employee costs	1.31	0.70	0.51
Other expenses	1.24	1.07	1.27
EBITDA	0.63	0.32	2.57
Depreciation and amortization	0.38	0.23	0.25
EBIT	0.26	0.09	2.32
Interest expenses	0.38	0.41	0.44
Other income	0.14	0.50	0.17
Profit before tax	0.02	0.18	2.05
Provision for tax	0.04	0.04	0.51
Core profit	-0.01	0.14	1.54
Profit after tax	-0.01	0.14	1.54
Adjusted net profit	-0.01	0.14	1.54
Equity share outStanding (mn)	3.68	3.68	3.68
EPS (INR) basic	-0.04	0.39	4.20
Diluted shares (mn)	3.68	3.68	3.68
EPS (INR) fully diluted	-0.04	0.39	4.20

Common size metrics - as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	94.0	97.8	82.9
Depreciation	3.6	1.6	1.7
Interest expenditure	3.6	2.7	2.9
EBITDA margins	6.0	2.2	17.1
Net profit margins	-0.1	1.0	10.3

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	-	40.5	1.2
EBITDA	-	-49.3	699.4
PBT	-	739.8	1,017.8
Net profit	-	-1,068.9	974.2
EPS	-	-1,068.9	974.2

Ratios

Year to March	FY21	FY22	FY23
RoAE (%)	-	2.7	25.0
RoACE (%)	-	1.0	23.7
Debtors (days)	143.9	85.5	54.1
Current ratio	1.5	2.0	4.5
Debt/equity	0.7	0.7	0.5
Inventory (days)	242.5	145.3	172.8
Payable (days)	222.2	118.7	1.8
Cash conversion cycle (days)	164.1	112.2	225.1
Debt/EBITDA	5.9	11.7	1.4
Adjusted Debt/equity	0.7	0.6	0.5

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	-0.0	0.4	4.2
Y-o-Y growth (%)	-	-1,068.9	974.2
CEPS (INR)	1.0	1.0	4.9
Diluted P/E (x)	-7,008.6	723.3	67.3
Price/BV (x)	29.6	29.7	23.1
EV/Sales (x)	15.5	11.0	10.9
EV/EBITDA (x)	257.8	507.7	63.5
Diluted Shares O/S (mn)	3.7	3.7	3.7
Basic EPS (INR)	-0.0	0.4	4.2
Basic P/E (x)	-10,781.0	1,112.7	103.6

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	0.12	0.12	0.12
Reserves & surplus	5.27	5.27	6.81
Shareholders' funds	5.39	5.39	6.93
Secured Loans	0.69	0.68	0.37
Unsecured Loans	3.04	3.09	3.15
Borrowings	3.73	3.77	3.51
Sources of funds	**9.12**	**9.16**	**10.45**
Gross block	6.53	6.21	5.67
Depreciation	2.21	2.14	1.75
Net block	4.32	4.07	3.92
Total fixed assets	4.32	4.07	3.92
Investments	0.01	0.01	0.01
Inventories	4.90	5.07	5.05
Sundry debtors	4.16	3.47	2.22
Cash and equivalents	0.16	0.30	0.06
Loans and advances	4.68	0.80	0.79
Total current assets	13.90	9.65	8.13
Sundry creditors and others	4.49	4.14	0.05
Provisions	5.02	0.67	1.77
Total CL & provisions	9.51	4.81	1.82
Net current assets	4.40	4.84	6.31
Net deferred tax	0.23	0.21	0.20
Other Assets	0.17	0.03	0.01
Uses of funds	**9.12**	**9.16**	**10.45**
Book value per share (INR)	14.66	14.65	18.85

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	-0.01	0.14	1.54
Add: Depreciation	0.38	0.23	0.25
Add: Others	0.38	0.41	0.44
Gross cash flow	0.74	0.78	2.23
Less: Changes in W.C.	-	0.30	1.71
Operating cash flow	-	0.49	0.53
Less: Capex	-	-0.49	-0.40
Free cash flow	-	0.97	0.93

Saakshi Medtech & Panels

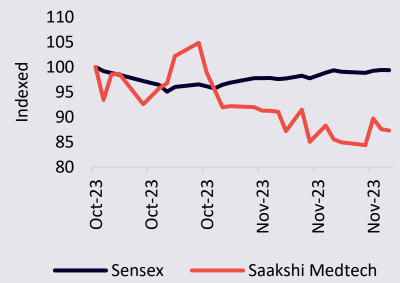
nuvama professional clients group

We hosted the management of Saakshi Medtech & Panels (SAAKSHI) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. This diversified company is engaged in the manufacture of: i) electrical control panels (ECPs) and cabinets that find use in elevators, air compressors, the renewal energy industry, oil and gas exploration, electric vehicle charging stations, etc.; and ii) medical x-ray systems used in the healthcare industry. It also involved in the fabrication of locomotives. It has a wire harness division for captive consumption in ECPs and for supply to the air compressor industry. Its comprehensive solutions include design, process engineering, and manufacturing (including fabrication, assembly, and testing facilities). It operates through three manufacturing facilities in Pune, spread ~9,600 sq. meters. Revenue stood at INR122cr/INR61cr in FY23/H1FY24, with an EBITDA margin of 17%/16%.

CMP: INR234
Rating: Not rated

Bloomberg:	SAAKSHI:IN
52-week range (INR):	146/294
M-cap (INR cr):	414
Promoter holding (%)	73.63

Relative Price Performance



Presentation link

Key takeaways

- SAAKSHI's diverse product range finds use in: i) the healthcare industry; ii) the industrial and engineering vertical in renewable energy; iii) locomotives; iv) elevators; v) air compressors; vi) diesel generators; and vii) electric vehicle charging stations.
- The Indian medical devices market has the potential to clock 37% CAGR and touch USD50bn by 2025. Regulation is increasing in the domestic X-ray market, with manufacturers now requiring CDSCO approval. The company is CDSCO approved.
- Its assembled white-label medical X-ray system comprises of an X-ray machine, imaging system, generator, and mechanics. The company aims to enter into distribution agreements with one of the OEM companies. It also plans to manufacture an X-ray machine under its own brand.
- Its electrical control panels and cabinets are used in wind turbines mainly in sensors and gears. SAAKSHI is gaining good traction for these products from customers in the wind segment. With the installation of high-capacity wind turbines, the management expects to garner a higher revenue per turbine.
- The company is involved in the fabrication of high-level assembly (HLA) to be installed in high-power locomotives. HLA involves the manufacturing and assembly of sensor box, battery boxes, sand boxes, dynamic brake weldments, resistor boxes, oil tank assemblies, and snow plough.
- The company intends to expand its fabrication operations in the aerospace industry and act as a Tier III supplier. It has partnered with GE Aerospace to supply sub-components. The management expects its aviation division to gain greater traction given its proximity to clients in Pune. Its tie-up with L&T Defense is expected to provide a greater impetus to revenue from the aerospace segment.
- SAAKSHI recently inked a long-term pact with Wabtec India Industrial Pvt for the supply of HLA (valid up to 2027) and Otis Elevator Company (India) for supply of electrical control panels to control the movement of lifts (valid up to June 2024). It is also in discussion with a couple of prospective clients in Pune for elevators. These agreements are likely to provide near term revenue visibility.
- Most segments, in which the company operates in, offer high-entry barriers as there are a lot of processes that need to be followed while onboarding customers.

Valuations

At the CMP of INR234, the stock trades at a P/E ratio of 32.8x and an EV/EBITDA ratio of 17.7x on a TTM basis. The stock is not rated.

Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	60	92	122
Revenue growth (%)	-2.4	53.2	33.3
EBITDA (INR cr)	6	16	21
Adjusted PAT (INR cr)	2	9	12
P/E ratio (x)*	3.1	35.3	26.7
Price/BV ratio (x)	22.3	15.0	10.6
EV/EBITDA ratio (x)	80.1	29.8	22.7
RoCE (%)	10.5	31.4	32.9
RoE (%)	11.0	37.6	34.3

*Not measured (n.m.) as the denominator is negative

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Financials

Income Statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	59.8	91.6	122.1
Direct costs	40.6	60.2	79.4
Employee costs	7.5	9.2	13.2
Other expenses	5.8	6.5	8.9
EBITDA	5.9	15.6	20.5
Depreciation and amortization	1.7	1.7	2.7
EBIT	4.2	13.9	17.9
Interest expenses	1.5	1.3	1.5
Other income	0.5	0.1	0.1
Profit before tax	3.1	12.7	16.6
Provision for tax	1.0	3.3	4.2
Core profit	2.1	9.4	12.4
Extraordinary items	-	-	-
Profit after tax	2.1	9.4	12.4
Minority interest	-	-	-
Share from associates	-	-	-
Adjusted net profit	2.1	9.4	12.4
Equity share outStanding (mn)	0.3	13.0	13.0
EPS (INR) basic	81.0	7.2	9.5
Diluted shares (mn)	0.3	13.0	13.0
EPS (INR) fully diluted	81.0	7.2	9.5

Common size metrics - as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	90.2	83.0	83.2
Depreciation	2.8	1.9	2.2
Interest expenditure	2.5	1.4	1.2
EBITDA margins	9.8	17.0	16.8
Net profit margins	3.5	10.3	10.1

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	-2.4	53.2	33.3
EBITDA	-48.3	166.2	31.9
PBT	-59.3	305.8	30.8
Net profit	-64.5	347.1	31.8
EPS	-64.4	-91.1	32.0

Ratios

Year to March	FY21	FY22	FY23
RoAE (%)	11.0	37.6	34.3
RoACE (%)	10.5	31.4	32.9
Debtors (days)	89.6	69.6	68.7
Current ratio	2.4	2.0	2.0
Debt/equity	1.1	0.5	0.5
Inventory (days)	95.1	80.9	108.8
Payable (days)	98.3	85.2	100.8
Cash conversion cycle (days)	86.3	65.4	76.7
Debt/EBITDA	3.8	1.1	1.0
Adjusted Debt/equity	1.0	0.5	0.4

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	81.0	7.2	9.5
Y-o-Y growth (%)	-64.4	-91.1	32.0
CEPS (INR)	146.5	8.5	11.6
Diluted P/E (x)	3.1	35.3	26.7
Price/BV (x)	22.3	15.0	10.6
EV/Sales (x)	7.8	5.1	3.8
EV/EBITDA (x)	80.1	29.8	22.7
Diluted Shares O/S (mn)	0.3	13.0	13.0
Basic EPS (INR)	81.0	7.2	9.5
Basic P/E (x)	214.0	47.9	36.3

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	3	3	3
Reserves & surplus	18	27	40
Shareholders' funds	20	30	42
Secured Loans	21	16	20
Unsecured Loans	1	0	0
Borrowings	22	16	20
Other liabilities	0	0	3
Sources of funds	**42**	**46**	**65**
Gross block	33	39	50
Depreciation	12	13	16
Net block	22	26	34
Capital work-in-progress	0	0	
Total fixed assets	22	26	34
Investments	0		
Inventories	11	13	24
Sundry debtors	15	17	23
Cash and equivalents	3	1	3
Loans and advances	3	4	6
Total current assets	31	36	56
Sundry creditors and others	11	14	22
Provisions	2	4	6
Total CL & provisions	13	19	28
Net current assets	18	18	28
Net deferred tax	0	0	0
Other Assets	3	3	3
Uses of funds	**42**	**46**	**65**
Book value per share (INR)	776	23	33

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	2	9	12
Add: Depreciation	2	2	3
Add: Others	1	1	1
Gross cash flow	5	12	16
Less: Changes in W.C.	5	1	8
Operating cash flow	0	11	8
Less: Capex	-3	2	6
Free cash flow	3	9	2

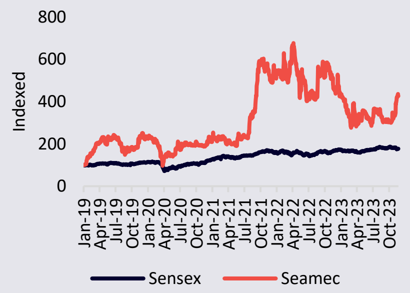
SEAMEC

We hosted the management of SEAMEC in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 5. SEAM is a subsidiary of HAL Offshore, which is a part of the M.M. Agarwal group. HAL Offshore operates in a similar space as SEAM and is a leading end-to-end solutions provider of underwater services. It also provides EPC services to the Indian oil and gas industry. SEAM operates in the niche business of providing highly skilled services that require specialised vessels and a well trained and experienced crew. Through its subsidiaries, it has diversified into the bulk carrier charter business. It derives ~85%/~15% of revenue from offshore services (support vessels)/bulk carrier charter business. The stock is not rated.

CMP: INR922
Rating: Not rated

Bloomberg:	SEAM:IN
52-week range (INR):	562/1,100
M-cap (INR cr):	2,345
Promoter holding (%)	72.05

Relative price performance



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Key takeaways

- SEAM owns and operates five DSVs, one barge, and three dry bulk carriers. It recently signed two MoUs for two new vessels for ~USD7mn each. The increase in its fleet size is in alignment with the management's vision to reduce the overall age of its fleet as demonstrated by capex over the last two-to-three years.
- As the average duration of fixed rate contracts entered into is three-to-five years, SEAM was operating at lower legacy rates. However, 50% of its DSV and barge fleet are expected to sign revised contracts in FY24 (two completed, with one due in December). These along with new vessels will benefit from improved charter-hire rates.
- Seamec III/II are expected to be scrapped in FY25/FY26. It is expected to replace these with new vessels which will fetch higher charter rates, aiding revenue ahead.
- SEAM's association with ONGC spans decades and has been its preferred partner in maintaining its oil fields. ONGC contributes ~70% to SEAM's total revenue. ONGC is expected to invest ~USD4bn over the medium term, and any new facilities will provide vessel deployment opportunities for SEAM.
- The volatility in crude oil prices has not impacted SEAM as this has been taken care by its clients who avail its charter-hire services. Volatility in prices may impact the client's capex decisions. However, this is unlikely due to thrust on domestic production to reduce export dependency.
- It possesses the necessary certifications to work with ONGC. Its specialised workforce has the technical ability to make the necessary modifications to suit ONGC's needs. Its well-trained crew and diving team have extensive experience in handling complex activities, ensuring seamless operations for ONGC, and giving them a leg up over peers.
- The bulk carrier business is part of its aim to diversify and is expected to constitute ~10% of revenue going forward. It also ventured into tunnel construction and bagged an INR27cr project in Vapi (Gujarat) via the JV route. Parent, HAL Offshore has a rich EPC experience. It has also set up a wholly owned subsidiary — Seamec UK Investments — to pursue large oil and gas business in Europe and Africa.

Valuation and view

The last eight quarters were muted for SEAM due to unplanned dry docking of vessels, a difficult monsoon season, and lower legacy charter rates on some vessels. However, the business is on the cusp of a turnaround, led by: i) better charter-hire rates, ii) capex over the past two-to-three years to replace ageing vessels that will benefit from better charter rates, iii) fleet expansion, and iv) a mutually beneficial relationship with ONGC. We expect a revenue/PAT CAGR of 20%/74% over FY23–26. The stock is trading at 14x FY26 EPS.

Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	257	350	437
Revenue growth (%)	-33	36	25
EBITDA (INR cr)	67	129	126
Adjusted PAT (INR cr)	99	83	33
P/E ratio (x)	11.4	40.8	46
Price/BV ratio (x)	1.7	4.5	1.9
EV/EBITDA ratio (x)	17.6	27.1	11.9
RoACE (%)	1.2	4.8	1.6
RoAE (%)	16.1	11.8	4.3

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	257	350	437
Direct costs	128	133	205
Employee costs	53	60	76
Other expenses	8	27	30
Total operating expenses	190	221	311
EBITDA	**67**	**129**	**126**
Depreciation and amortisation	57	84	112
EBIT	10	45	14
Interest expenses	5	6	7
Other income	39	46	20
Profit before tax	44	85	28
Provision for tax	7	1	-6
Core profit	37	84	34
Minority Interest	0	0	1
Profit after tax	37	83	33
Extraordinary items & share of profit from associates	62	0	0
Reported net profit	99	84	34
Adjusted Net Profit	**99**	**83**	**33**
Equity shares outstanding (cr)	2.5	2.5	2.5
EPS (INR) basic	38.8	32.7	13
Diluted shares (Cr)	2.5	2.5	2.5
EPS (adj) fully diluted	38.8	32.7	13
Dividend per share	1	0	0
Dividend payout (%)	3%	0%	0%

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	74	63.1	71.1
Depreciation	22	24	25.6
Interest expenditure	1.9	1.8	1.6
EBITDA margins	26	36.9	28.9
Net profit margins	38.5	23.9	7.7

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	-33.1	36.1	25.1
EBITDA	-60.4	93.5	-2.1
PBT	-68	91.2	-67.4
Net profit	-26	-15.6	-60.3
EPS	-26	-15.6	-60.3

Ratios

Year to March	FY21	FY22	FY23
ROE (%)	16.1	11.8	4.3
ROCE (%) (adj. for cash)	1.2	4.8	1.6
Debtors (days)	112	41	88
Current ratio	3.5	5.7	2.7
Debt/Equity	0.1	0.2	0.2
Inventory (days)	29	29	34
Payable (days)	50	25	50
Cash conversion cycle (days)	91	45	73
Debt/EBITDA	1.1	0.9	1.1
Adjusted debt/Equity	0.1	0.1	0

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	38.8	32.7	13
CEPS (INR)	61	65.7	57
Diluted P/E (x)	11.4	40.8	46
Price/BV(x)	1.7	4.5	1.9
EV/Sales (x)	4.6	10	3.4
EV/EBITDA (x)	17.6	27.1	11.9
Diluted shares O/S	2.5	2.5	2.5
Basic EPS	38.8	32.7	13
Basic PE (x)	11.4	40.8	46
Dividend yield (%)	0%	0%	0%

Balance sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	25	25	25
Reserves & surplus	637	723	765
Shareholders funds	662	748	790
Secured loans	35	72	47
Unsecured loans	40	51	90
Borrowings	76	123	137
Net Debt	48	99	-18
Minority interest	2	3	1
Other liabilities	44	48	18
Sources of funds	**784**	**921**	**947**
Gross block	538	743	1,013
Depreciation	247	332	428
Net block	291	411	585
Capital work in progress	0	2	0
Total fixed assets	291	413	585
Other non-current assets	309	278	166
Inventories	20	28	41
Sundry debtors	79	40	106
Cash and equivalents	28	24	155
Other current assets	133	189	12
Total current assets	260	280	314
Sundry creditors and others	74	49	117
Provisions	0	0	1
Total CL & provisions	75	49	117
Net current assets	185	231	196
Uses of funds	**785**	**922**	**947**
Book value per share (INR)	261	295	311

Cash flow statement

Year to March	FY21	FY22	FY23
EBIT	106	85	28
Add: Depreciation	57	84	112
Add: Others	-26	-18	-5
Gross cash flow	137	151	134
Less: Changes in W. C.	30	57	81
Operating cash flow	106	94	53
Less: Capex	102	195	258
Free cash flow	**4**	**-101**	**-205**

Sky Gold

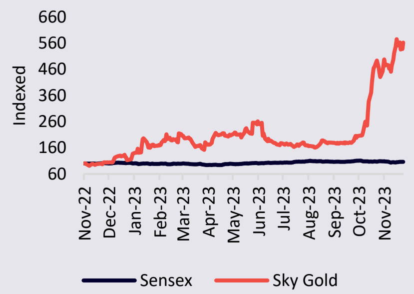
nuvama professional clients group

We hosted the management of Sky Gold (SKYGOLD) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. SKYGOLD is one of the leading jewellery companies based in Mumbai. It designs, manufactures, and markets gold jewellery. It specialises in light-weight jewellery (22 Carat gold). It works on a B2B model with leading retailers like Malabar Gold & Diamonds, Kalyan Jewellers, Joyalukkas, GRT Jewellers, and Samco Gold. It also works with large wholesalers. Its products are available at more than 2,000 showrooms across India. The jewellery is manufactured at its 81,000 sq. ft. facility in Navi Mumbai. It operates in three categories: plain gold jewellery, studded jewellery, and Turkish jewellery. It boasts of a monthly gold processing capacity of 750kg. It has a library of more than five lakh designs of rings, bracelets, bangles, fancy pendants, earrings, etc. The stock is not rated.

CMP: INR1,179
Rating: Not rated

Bloomberg:	SKYGOLD:IN
52-week range (INR):	206/931
M-cap (INR cr):	964
Promoter holding (%)	26.45

Relative price performance



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Key takeaways

- The company boasts of ~3lk designs and mainly caters to the 25–45 years age group.
- It has a team of 50 designers, most of whom hail from Kolkata.
- It manufactures lightweight jewellery. Its most sold items are rings, lockets, etc. It does not manufacture jewellery costing more than a INR1lk.
- The company is working on adding 1,000 designs per month and has an acceptance rate of 75–80%.
- Of its monthly manufacturing capacity of 750kg, it is utilising 250kg (90%/10% of it is 22/18 Carat). Its manufacturing facility is spread across 81,000 sq. ft.
- The management said is not interested in going online or increasing its retail presence. Its focus is on adding more corporates.
- The company is not facing any problems with respect to funds or labour.
- It is in talks with Tanishq to add them as customers. The audit of its facilities and products has been completed. It is awaiting the final approval. The deal with Tanishq can boost revenue by INR100cr in the first year itself. It is also in talks with Reliance.
- It earns a gross margin of 5–7% over the price of gold. Revenue is not net of loss. Loss during the process is 1%, and the management aims to reduce it to 0.7–0.8%.
- Inventory turnover and receivables stand at 25–30 days and the management is working to lower it to five-to-seven days in both cases.
- It expects to boost exports to 30%.
- It manages to carve out a margin given its low cost. Its machines are imported from Turkey, Italy, and Germany, and has a life span of 10–15 years.
- The management is targeting a revenue of INR5,000cr within the next two years.
- The lead time for delivering the goods after receiving an order is seven to 10 days, which is extremely low as compared to 30 days for its competitors.

Valuation and view

At the CMP, the stock is trading at ~42x earnings on a TTM basis. The stock is not rated.

Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	796	786	1154
Revenue growth (%)	10	-1	47
EBITDA (INR cr)	11	20	36
EBITDA margin (%)	1.3	2.6	3.1
Net profit (INR cr)	5	17	19
P/E ratio (x)	10	3	52
RoACE (%)	8.7	12.9	16.7
RoAE (%)	9.7	26.3	21.3

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	796	786	1,154
Direct costs	780	757	1,104
Employee costs	2	3	5
Other expenses	3	5	8
Total operating expenses	785	765	1,117
EBITDA	11	20	36
Depreciation and amortisation	0	1	1
EBIT	10	19	35
Interest expenses	6	8	11
Other income	2	11	1
Extraordinary items	0	0	0
Profit before tax	6	22	25
Provision for tax	1	5	6
Core profit	5	17	19
Extraordinary items	0	0	0
Profit after tax	5	17	19
Share from associates	0	0	0
Adjusted net profit	5	17	19
Equity shares outstanding (cr)	1	1	1
EPS (INR) basic	9.0	31.6	17.3
Diluted shares (Cr)	1	1	1
EPS (INR) fully diluted	9.0	31.6	17.3
Dividend per share	2	2	3
Dividend payout (%)	23	5	16

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	98.7	97.4	96.9
Depreciation	0.1	0.1	0.1
Interest expenditure	0.8	1.0	0.9
EBITDA margins	1.3	2.6	3.1
Net profit margins	0.6	2.2	1.6

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	10.2	(1.2)	46.8
EBITDA	(18.6)	92.7	79.0
PBT	(19.8)	258.3	15.3
Net profit	(17.5)	251.7	9.9
EPS	(17.5)	251.7	(45.1)

Ratios

Year to March	FY21	FY22	FY23
ROAE (%)	9.7	26.3	21.3
ROACE (%)	8.7	12.9	16.7
Debtors (days)	11	20	21
Current ratio	299	36	52
Debt/Equity	1.4	1.2	1.5
Inventory (days)	31	35	27
Payable (days)	0	1	1
Cash conversion cycle (days)	42	54	48
Debt/EBITDA	7	5	4
Adjusted debt/Equity	1.4	1.2	1.3

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	9.0	31.6	17.3
Y-o-Y growth (%)	*(17.5)*	*251.7*	*(45.1)*
CEPS (INR)	9.8	33.6	18.7
Diluted P/E (x)	*10.0*	*2.9*	*51.6*
Price/BV(x)	0.9	0.6	1.0
EV/Sales (x)	*0.2*	*0.2*	*0.2*
EV/EBITDA (x)	11.5	6.9	6.2
Diluted shares O/S	*0.5*	*0.5*	*1.1*
Basic EPS	9.0	31.6	17.3
Basic PE (x)	*10.0*	*2.9*	*51.6*
Dividend yield (%)	2.3	1.7	3.0

Balance sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	5	5	11
Preference Share Capital	0	0	0
Reserves & surplus	47	71	87
Shareholders funds	52	77	98
Secured loans	73	92	146
Unsecured loans	0	0	0
Borrowings	73	92	146
Minority interest	0	0	0
Sources of funds	**126**	**169**	**245**
Gross block	8	8	11
Depreciation	3	3	4
Net block	5	5	6
Capital work in progress	0	0	0
Total fixed assets	5	5	6
Right of Use Assets	0	1	0
Investments	25	45	68
Inventories	68	74	85
Sundry debtors	23	43	67
Cash and equivalents	0	1	18
Loans and advances	4	5	4
Other current assets	0	0	0
Total current assets	96	124	174
Sundry creditors and others	0	3	3
Provisions	0	0	0
Total CL & provisions	0	3	3
Net current assets	95	120	171
Net Deferred tax	0	-2	-3
Misc expenditure	-0	-1	2
Uses of funds	**126**	**168**	**245**
Book value per share (INR)	97	143	91

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	4	18	18
Add: Depreciation	0	1	1
Add: Misc expenses written off/Other Assets	4	-3	10
Add: Deferred tax	0	0	0
Gross cash flow	8	16	29
Less: Changes in W. C.	-12	-25	-34
Operating cash flow	21	41	63
Less: Capex	-2	-1	-2
Free cash flow	**22**	**41**	**65**

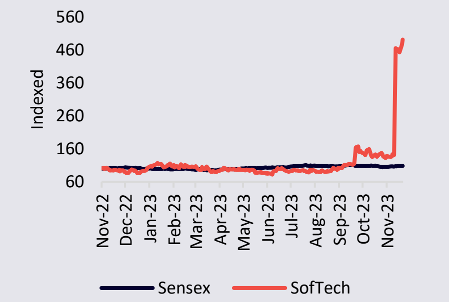
SoftTech Engineers

We hosted the management of SoftTech Engineers (SOFTTECH) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. Founded by Mr Vijay Gupta in 1996, SOFTTECH offers a wide array of software products and solutions for architecture, engineering, and construction (AEC) verticals. These products cater to the entire construction lifecycle: planning a layout, approval, budgeting, area calculation, and execution of the plan. To penetrate the international market, this Pune-headquartered company has incorporated subsidiaries in the US, Middle East, Singapore, the UK and Finland. The stock is not rated.

CMP: INR237
Rating: Not rated

Bloomberg:	SOFTTECH:IN
52-week range (INR):	122/288
M-cap (INR cr):	240
Promoter holding (%)	32.05

Relative price performance



Previous report link

Key takeaways

- SOFTTECH has a portfolio of five products: RuleBuddy, AutoDCR, PWIMS, Opticon, BIM DCR. STRUDS and SEPL – ESRGSR were sold to CSC UK in 2010–11.
- These products cover the entire value chain of pre-construction, construction, and post-construction and form the backbone of its new platform — CIVIT, which aims to connect all stakeholders and application products.
- It posted a revenue of INR65cr in FY23. Around 70–80% of revenue accrues from 800 government municipalities across 18 states. As the total number of government municipalities stands at ~4,500, it has scope to boost its reach ahead. It is working on a height based permitting system with the Airports Authority India Limited and has signed on for two smart city projects.
- It aims to grow its revenue by ~3x to ~INR200cr by FY26 from INR65cr in FY23 (split equally between domestic and international), with more than 25% EBITDA margin and ~50% of revenue expected to be recurring in nature. The management expects a strong jump in overseas revenue from FY25, with over USD10m expected in FY26.
- Its strategy for growth includes: i) increasing SaaS revenue to scale up; ii) integration of BIM and GIS (BIM/GIS: building information management/geographic information system); iii) expanding overseas (through subsidiaries); and iv) forging global pacts.
- It has demonstrated proof of concept in the US. It intends to partner with a large tech company that will use its products and integrate it with their own to deliver it in the US.
- SOFTTECH has pivoted its business model to SaaS (per user/use/sq. ft., as per permit approval, etc.) from a one-time license fee. It has already migrated government bodies in Maharashtra and Uttar Pradesh to the SaaS model.
- Previous revenue recognition under a one-time license fee used to result in a large build-up of unbilled revenue and stress its working capital. Pivoting to SaaS can boost revenue and operating cash flow, improve its working capital, and lower financing costs.
- SOFTTECH receives its share of revenue at the time of application when offered as a SaaS. Hence, the counterparty to the transaction becomes developers, helping it diversify from government entities.
- Under the new business model, it recoups the amount it used to charge as license fee in two-to-three years.

Valuations and view

Based on management's FY26 revenue estimate of USD25mn (INR200cr) and historical PAT margin, we expect an EPS of INR15.4. At the CMP, the stock trades at 15x FY26E EPS. The stock is not rated.

Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	42	57	65
Revenue growth (%)	-28	38	14
EBITDA (INR cr)	11	15	19
Adjusted PAT (INR cr)	3	5	4
P/E ratio (x)	35.6	21	37.4
Price/BV ratio (x)	1.4	1.2	1.4
EV/EBITDA ratio (x)	11.8	8.8	9.5
RoACE (%)	5.4	6.7	6.6
RoAE (%)	4	6.4	4.1

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Financials

Income statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	42	57	65
Direct costs	5	6	9
Employee costs	11	13	17
Other expenses	15	23	20
Total operating expenses	31	42	46
EBITDA	**11**	**15**	**19**
Depreciation and amortisation	6	8	10
EBIT	5	8	9
Interest expenses	2	3	4
Other income	1	2	1
Profit before tax	4	7	6
Provision for tax	2	2	3
Core profit	3	5	3
Minority Interest	-0	-0	-0
Profit after tax	3	5	4
Extraordinary items & share of profit from associates	0	0	0
Reported net profit	3	5	3
Adjusted Net Profit	**3**	**5**	**4**
Equity shares outstanding (cr)	0.9	1.0	1.0
EPS (INR) basic	2.9	4.9	3.8
Diluted shares (Cr)	0.9	1.0	1.0
EPS (adj) fully diluted	2.9	4.9	3.8
Dividend per share	0.0	0.0	0.0
Dividend payout (%)	0%	0%	0%

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	73.6	73.4	70.4
Depreciation	13.2	13.3	16.0
Interest expenditure	5.8	5.0	6.0
EBITDA margins	26.4	26.6	29.6
Net profit margins	6.2	8.3	5.3

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	(28.3)	38.2	13.8
EBITDA	(22.1)	39.1	27.0
PBT	(57.5)	61.2	(2.8)
Net profit	(57.6)	79.2	(21.7)
EPS	(57.8)	67.0	(21.7)

Ratios

Year to March	FY21	FY22	FY23
ROE (%)	4.0	6.4	4.1
ROCE (%)	5.4	6.7	6.6
Debtors (days)	293	185	146
Current ratio	5.6	5.9	8.2
Debt/Equity	0.5	0.4	0.4
Inventory (days)	0	0	0
Payable (days)	74	58	33
Cash conversion cycle (days)	219	126	113
Debt/EBITDA	2.9	2.1	2.1
Adjusted debt/Equity	0.5	0.4	0.4

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	2.9	4.9	3.8
CEPS (INR)	8.7	12.4	14.1
Diluted P/E (x)	35.6	21.0	37.4
Price/BV(x)	1.4	1.2	1.4
EV/Sales (x)	3.1	2.3	2.8
EV/EBITDA (x)	11.8	8.8	9.5
Diluted shares O/S	0.9	1.0	1.0
Basic EPS	2.9	4.9	3.8
Basic PE (x)	35.6	21.0	37.4
Dividend yield (%)	0%	0%	0%

Balance sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	9	10	10
Reserves & surplus	60	75	94
Shareholders funds	70	85	104
Secured loans	20	16	9
Unsecured loans	12	15	31
Borrowings	32	32	40
Net Debt	32	31	39
Minority interest	-0	-0	-1
Other liabilities	5	3	8
Sources of funds	**106**	**120**	**151**
Gross block	25	35	44
Depreciation	5	7	10
Net block	20	28	34
Capital work in progress	0	0	0
Total fixed assets	20	28	34
Other non-current assets	22	24	35
Inventories	0	0	0
Sundry debtors	33	29	26
Cash and equivalents	0	1	1
Other current assets	44	52	67
Total current assets	78	81	94
Sundry creditors and others	13	13	11
Provisions	1	1	1
Total CL & provisions	14	14	11
Net current assets	64	68	82
Uses of funds	**106**	**120**	**151**
Book value per share (INR)	74	83	101

Cash flow statement (INR crs)

Year to March	FY21	FY22	FY23
EBIT	4	7	6
Add: Depreciation	6	8	10
Add: Others	2	2	5
Gross cash flow	11	16	22
Less: Changes in W. C.	6	4	15
Operating cash flow	5	12	7
Less: Capex	4	2	0
Free cash flow	**2**	**10**	**7**

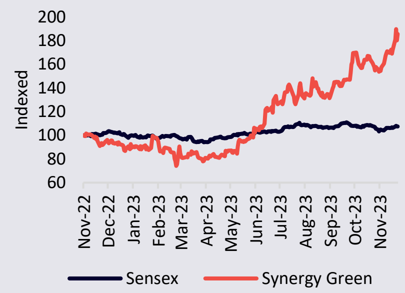
Synergy Green Industries

We hosted the management of Synergy Green Industries (SYGIL) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan'* on December 5. SYGIL manufactures wind turbines and other large precision castings. It started as a greenfield foundry project in 2011 and entered commercial operations in June 2012. Windmill parts contribute 75–80% to total revenue, with other casting products constituting the rest. Its product portfolio includes hub; mainframe; bearing housing for wind industry; torque arm; housing and planet carrier for wind gear boxes; and general engineering application castings for mining, plastic injection, pumps, and machine tool industry. It has a liquid metal capacity of 40mt and a 60mt handling facility designed to produce large size critical iron castings (ranging from 500kg to 30mt) for a single wind turbine piece, gear box, and general engineering.

CMP: INR316
Rating: Not rated

Bloomberg:	SYGIL:IN
52-week range (INR):	109/321
M-cap (INR cr):	446
Promoter holding (%)	74.02

Relative Price Performance



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Key takeaway

- Global wind installations are projected to clock 15% CAGR over 2022–27e owing to the growing focus on renewable energy by governments.
- India's wind installations are forecasted to grow at a 35% CAGR over 2023–25. The strong momentum in domestic market is on the back of the scrapping of the reverse bidding mechanism and ~8GW of annual demand of renewable purchase obligation over 2023–30 as outlined by the Ministry of New and Renewable Energy.
- Global casting demand is pegged ~110mt per year, led by the automobile industry (32% share), with China/India contributing ~45%/~10% to overall global demand. Demand for large castings (over 3mt) is ~10% of total demand. Though the wind industry contributes ~1% to total demand, it is likely to double over the next five years.
- SYGIL has the capabilities to produce very large critical iron castings for a single wind turbine piece, gear box, and general engineering. Though, it is focused on harnessing the strong tailwinds in the wind sector, which requires large sized forged components, it also has the capabilities to meet the casting requirements of non-wind sectors, which is a very big market. Hence, it can easily diversify and reduce dependence on wind sector.
- Given the strong demand, SYGIL is planning to incur a capex of ~INR150cr over the next two years. It is planning to set up a brownfield foundry at a capex of INR50cr, which will increase its foundry capacity by 50%. It aims to increase its overall forging capacity to 1lk mt by FY27 from the expected capacity of 45,000mt by the end of FY24.
- It is planning to incur an outlay of ~INR70cr/INR30cr for setting up an in-house machining/renewable power captive power plant. This, along with operating leverage, will help expand its EBITDA margin by 4–6%.
- The management has marginally trimmed its FY24 revenue guidance to INR340cr from INR360cr owing to a 50% drop in revenue from Siemens Gamesa due to their internal issues. However, EBIDTA for the year is projected to be at INR45.0cr, unchanged from earlier guidance, due to improved contribution margins.
- Considering the CAPEX investments, management guidance for revenue growth is projected to be around 20-25% and attaining the EBIDTA margins up to 16-18% over the next two-to-three years.

Valuations

At the CMP of INR315.8, the stock trades at a P/E ratio of 53.4x and an EV/EBITDA ratio of 14.0x on a TTM basis. The stock is not rated.

Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	199	284	290
Revenue growth (%)	-4.2	42.6	2.1
EBITDA (INR cr)	24	24	26
Adjusted PAT (INR cr)	3	1	1
P/E ratio (x)*	120.1	270.9	444.1
Price/BV ratio (x)	8.7	8.5	8.3
EV/EBITDA ratio (x)	18.2	18.8	17.1
RoCE (%)	15.9	11.9	12.2
RoE (%)	7.5	3.2	1.9

*Not measured (n.m.) as the denominator is negative

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Financials

Income Statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	199	284	290
Direct costs	71	123	125
Employee costs	21	23	24
Other expenses	83	113	114
EBITDA	24	24	26
Depreciation and amortization	9	11	12
EBIT	16	13	14
Interest expenses	11	12	14
Other income	1	1	0
Profit before tax	5	3	1
Provision for tax	2	2	-0
Core profit	3	1	1
Extraordinary items	-	-	-
Profit after tax	3	1	1
Minority interest	-	-	-
Share from associates	-	-	-
Adjusted net profit	3	1	1
Equity share outstanding (mn)	14	14	14
EPS (INR) basic	2	1	1
Diluted shares (mn)	14	14	14
EPS (INR) fully diluted	2	1	1

Common size metrics - as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	87.8	91.5	90.9
Depreciation	4.3	3.7	4.1
Interest expenditure	5.7	4.1	4.9
EBITDA margins	12.2	8.5	9.1
Net profit margins	1.6	0.5	0.3

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	-4.2	42.6	2.1
EBITDA	8.3	-1.2	9.4
PBT	-15.7	-41.9	-77.4
Net profit	-4.2	-55.7	-39.0
EPS	41.0	-55.7	-39.0

Ratios

Year to March	FY21	FY22	FY23
RoAE (%)	7.5	3.2	1.9
RoACE (%)	15.9	11.9	12.2
Debtors (days)	52.9	41.6	27.8
Current ratio	1.6	1.5	1.7
Debt/equity	1.5	1.6	1.6
Inventory (days)	271.1	179.6	183.7
Payable (days)	326.1	215.4	166.2
Cash conversion cycle (days)	-2.1	5.9	45.4
Debt/EBITDA	2.7	3.0	2.8
Adjusted Debt/equity	1.4	1.6	1.5

Valuation Parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	2.3	1.0	0.6
Y-o-Y growth (%)	41.0	-55.7	-39.0
CEPS (INR)	8.3	8.5	9.1
Diluted P/E (x)	120.1	270.9	444.1
Price/BV (x)	8.7	8.5	8.3
EV/Sales (x)	2.2	1.6	1.5
EV/EBITDA (x)	18.2	18.8	17.1
Diluted Shares O/S (mn)	14.1	14.1	14.1
Basic EPS (INR)	2.3	1.0	0.6
Basic P/E (x)	120.1	270.9	444.1
Dividend yield (%)	0.0	0.0	0.0

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	25	25	25
Preference share capital	0	0	0
Reserves & surplus	19	20	21
Shareholders' funds	44	45	46
Secured Loans	61	60	63
Unsecured Loans	4	11	10
Borrowings	65	72	73
Minority interest	0	0	0
Other liabilities	3	4	5
Sources of funds	**111**	**120**	**124**
Gross block	119	140	145
Depreciation	56	64	76
Net block	63	76	69
Capital work-in-progress	3	7	11
Total fixed assets	66	83	80
Unrealized profit	0	0	0
Investments	0	0	0
Inventories	53	61	63
Sundry debtors	29	32	22
Cash and equivalents	4	2	6
Loans and advances	17	14	9
Other current assets	0	0	0
Total current assets	103	109	100
Sundry creditors and others	64	73	57
Provisions	0	1	1
Total CL & provisions	64	73	58
Net current assets	39	35	42
Net deferred tax	1	0	0
Other Assets	5	3	2
Misc expenditure	0	0	0
Uses of funds	**111**	**120**	**124**
Book value per share (INR)	31	32	32

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	3	1	1
Add: Depreciation	9	11	12
Add: Misc expenses written off	0	0	0
Add: Deferred tax	0	0	0
Add: Others	11	12	14
Gross cash flow	23	24	27
Less: Changes in W.C.	14	-2	3
Operating cash flow	9	25	24
Less: Capex	-4	3	-19
Free cash flow	13	23	43

Vasa Denticity

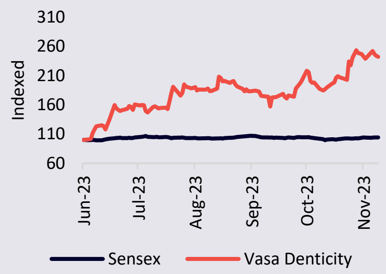
nuvama professional clients group

We hosted the management of Vasa Denticity (DENTALKA) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. The company is engaged in the marketing and distribution of a comprehensive portfolio of dental products, which encompasses consumables, instruments, equipment, and accessories. These products are designed for diagnosis, treatment, and prevention of dental conditions. It conducts its operations through its online platform dentalkart.com. Its online channel hosts a wider array of dental products, representing ~340 domestic and international brands. It also maintains a portfolio of over 30 proprietary brands, which are either manufactured or sourced from third-party suppliers according to its specified requirements. To facilitate efficient distribution, it operates from multiple distribution hubs: Farrukhnagar (Gurugram, 19,000 sq. ft.), Bengaluru (4,000 sq. ft.), and Mumbai (3,000 sq. ft.).

CMP: INR720
Rating: Not rated

Bloomberg:	DENTALKA:IN
52-week range (INR):	211/730
M-cap (INR cr):	1,153
Promoter holding (%)	69.62

Relative Price Performance



Presentation link

Key takeaways

- DENTALKA is a registered online marketing and distributing company of dental products. It has over 15,000 dental products: consumables, instruments, and equipment, and accessories.
- It generated ~67%/~26%/~7% of its total revenue from consumables/equipment/instruments in H1FY24.
- The dental market (including consumables, instruments, equipment, and accessories) is currently pegged at INR15,000–16,000cr (8 –10% CAGR). DENTALKA's current addressable market is INR4,000–5,000cr. It aims to capture the entire market over the next three-to-four years via with product launches.
- The share of its own brand has been rising in the last three years and has risen to 48% from ~45% in FY23. The management aims to boost it further over the next two-to-three years as it has a better gross margin vis-à-vis other brands.
- The company has three warehouses in Delhi, Bengaluru, and Mumbai. It is working to set up two more warehouses in Assam and Kolkata. New warehouses will help reduce the delivery timeline further, which fell to 5.28 days in H1FY24 from 5.88 days in H1FY
- It recently entered into an exclusive agreement with Baldus Sedation Company, a prominent nitrous oxide sedation system manufacturer based in Germany. This deal designates DENTALKA as the sole dealer for the sales of nitrous oxide sedation systems in the Indian market. With this exclusive agreement, its addressable market will increase by ~INR800cr.

Valuations

At the CMP of INR720, the stock trades at a P/E ratio of 107.4x and an EV/EBITDA ratio of 81.9x on a TTM basis. The stock is not rated.

Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	40.1	76.9	123.3
Revenue growth (%)	31.7	92.0	60.3
EBITDA (INR cr)	0.5	5.6	10.4
Adjusted PAT (INR cr)	0.3	5.0	7.6
P/E ratio (x)*	2,666.7	185.5	121.8
Price/BV ratio (x)	1,921.9	201.3	72.8
EV/EBITDA ratio (x)	2,355.1	207.0	111.4
RoCE (%)	22.9	91.2	75.9
RoE (%)	75.9	157.7	70.4

*Not measured (n.m.) as the denominator is negative

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Financials

Income Statement

Year to March (INR cr)	FY21	FY22	FY23
Income from operations	40.1	76.9	123.3
Direct costs	33.8	57.7	92.9
Employee costs	1.7	4.7	8.0
Other expenses	4.2	8.9	12.0
EBITDA	0.5	5.6	10.4
Depreciation and amortization	0.1	0.3	0.5
EBIT	0.4	5.3	9.8
Interest expenses	0.1	0.5	0.4
Other income	0.1	0.2	0.5
Profit before tax	0.5	5.0	9.9
Provision for tax	0.1	0.0	2.4
Core profit	0.3	5.0	7.6
Profit after tax	0.3	5.0	7.6
Adjusted net profit	0.3	5.0	7.6
Equity share outConsoling (mn)	12.2	12.9	12.8
EPS (INR) basic	0.3	3.9	5.9
Diluted shares (mn)	12.2	12.9	12.8
EPS (INR) fully diluted	0.3	3.9	5.9

Common size metrics - as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	98.8	92.7	91.6
Depreciation	0.2	0.4	0.4
Interest expenditure	0.1	0.6	0.3
EBITDA margins	1.2	7.3	8.4
Net profit margins	0.8	6.5	6.2

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	31.7	92.0	60.3
EBITDA	113.0	1,038.8	85.5
PBT	400.0	1,013.3	98.4
Net profit	266.7	1,412.1	52.1
EPS	237.5	1,337.9	52.3

Ratios

Year to March	FY21	FY22	FY23
RoAE (%)	75.9	157.7	70.4
RoACE (%)	22.9	91.2	75.9
Debtors (days)	6.9	6.5	2.9
Current ratio	1.6	1.8	2.1
Debt/equity	3.3	0.6	0.1
Inventory (days)	30.1	62.8	69.9
Payable (days)	42.5	55.7	35.6
Cash conversion cycle (days)	-5.5	13.6	37.2
Debt/EBITDA	4.0	0.6	0.1
Adjusted Debt/equity	1.4	0.3	0.0

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	0.3	3.9	5.9
Y-o-Y growth (%)	237.5	1,337.9	52.3
CEPS (INR)	0.3	4.1	6.3
Diluted P/E (x)	2,666.7	185.5	121.8
Price/BV (x)	1,921.9	201.3	72.8
EV/Sales (x)	28.8	15.0	9.4
EV/EBITDA (x)	2,355.1	207.0	111.4
Diluted Shares O/S (mn)	12.2	12.9	12.8
Basic EPS (INR)	0.3	3.9	5.9
Basic P/E (x)	3,494.4	231.1	151.9

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	0	0	13
Reserves & surplus	0	6	3
Shareholders' funds	1	6	16
Secured Loans	2	1	
Borrowings	2	3	1
Other liabilities	0	0	1
Sources of funds	**3**	**9**	**18**
Gross block	1	1	3
Depreciation	0	0	1
Net block	0	1	2
Total fixed assets	0	1	2
Inventories	3	10	18
Sundry debtors	1	1	1
Cash and equivalents	1	2	1
Loans and advances	2	4	4
Total current assets	6	17	25
Sundry creditors and others	4	9	9
Provisions	0	1	3
Total CL & provisions	4	10	12
Net current assets	2	8	13
Net deferred tax	0	0	0
Other Assets	0	1	3
Uses of funds	**3**	**9**	**18**
Book value per share (INR)	0	4	12

Cash flow statement

Year to March	FY21	FY22	FY23
Net profit	0	5	8
Add: Depreciation	0	0	1
Add: Others	0	0	0
Gross cash flow	0	6	9
Less: Changes in W.C.	1	5	5
Operating cash flow	0	1	3
Less: Capex	0	0	1
Free cash flow	0	1	2

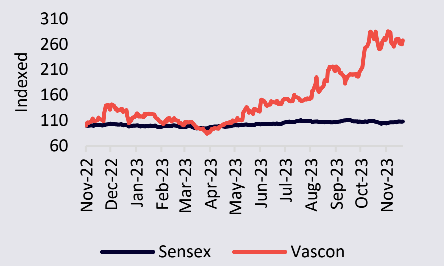
Vascon Engineers

nuvama professional clients group

CMP: INR73
Rating: Not rated

Bloomberg:	VSCN:IN
52-week range (INR):	24/85
M-cap (INR cr):	1,623
Promoter holding (%)	32.2

Relative price performance



We hosted the management of Vascon Engineers (VSCN) in our 'Nuvama Emerging Ideas Conference 2023: The CUB Series — *Udayan*' on December 6. VSCN is a Pune-based construction and engineering company. Till date, it has delivered more than 200 civil construction projects spanning more than 50mn sq. ft. It has an order book of INR2,476cr, of which ~87% relates to government civil contracts such as hospitals, police stations, and offices. It entered the real estate segment in FY18 and has launched eight projects till date, spread over 1.7mn sq. ft. in Pune, Talegaon, and Coimbatore.

In the near term, four launches are lined up with a saleable area/GDV of 1.6mn sq. ft./ ~INR1,794cr. In H1FY24, revenue grew 1% YoY to INR422cr. Revenue from EPC/real estate/ building management system stood at INR297cr/INR11cr/INR114cr (up 3%/down 35%/flat YoY). EBITDA fell 7% YoY to INR25cr, with margin contracting by 48bp YoY to 5.9%. PAT fell 3% YoY to INR33cr. The Balance Sheet is healthy with a net D/E ratio of 0.08x. At the CMP, the stock trades at a TTM P/E of 16.2x and EV/EBITDA of 13.1x. The stock is not rated.

Key takeaways

EPC segment

- As of November, VSCN had an external order book of ~INR3,000cr (September/March: INR2,476cr/INR1,739cr).
- The orders have an execution period of around three years, and VSCN is able to execute a third of the orders at the beginning of the year.
- It is targeting an external closing order book of INR3,200cr in FY24, of which it will be able to execute ~INR1,050cr over FY25 (TTM EPC execution: INR671cr).
- The current EPC order book carries an EBITDA margin of 8–10%, which is sustainable.
- Typically, VSCN maintains a bank guarantee of 10–15% of the order book. It has a bank guarantee limit of INR350–400cr. Going forward, it plans to add a limit of INR100cr annually, lending it a strong runway for growth.
- VSCN has a bid-to-success ratio of less than 5%.
- The management follows a RoCE benchmark of 15% while bidding for EPC projects.

Real estate segment

- It has a two-acre land parcel in Powai, for which it is yet to finalise a development plan.
- Its Thane land parcels spans across 150 acres, which are non-contiguous. The land is owned under a JV in which VSCN holds a share of 45%. The parcels are valued at INR6cr per acre (indicative).

Clean room EPC segment

- While the business is poised to achieve a revenue of ~INR300cr, with a margin of ~12% in FY24, VSCN is looking to sell its stake in the business as it is not complimentary to its core EPC and real estate segments.

Valuation and view

While a healthy growth in the EPC order book and execution will drive revenue growth in FY25, the impact of growth in the real estate segment will be visible only from FY26. Margin will expand as share of real estate revenue rises. Overall leverage will stay healthy on steadily improving cash flows. At the CMP of INR73, the stock trades at a TTM P/E ratio of 16.2x.

Key financials

Year to March	FY21	FY22	FY23
Revenue (INR cr)	506	657	1,019
Revenue growth (%)	-3	30	55
EBITDA (INR cr)	-13	23	118
Adjusted PAT (INR cr)	-40	36	99
P/E ratio (x)*	n.m.	14.2	5.4
Price/BV ratio (x)	0.5	0.6	0.6
EV/EBITDA ratio (x)	n.m.	25.7	5
RoCE (%)	-3	1	10
RoE (%)	-6	4	11

*Not measured (n.m.) as the denominator is negative

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Financials

Income Statement

Year to March (INR Cr)	FY21	FY22	FY23
Income from operations	506	657	1,019
Cost of construction	402	518	789
Employee costs	59	70	69
Other expenses	58	46	45
Total Operating expenses	519	634	902
EBITDA	-13	22	117
Depreciation and amortisation	12	11	12
EBIT	-25	12	105
Interest expenses	27	24	13
Other income	12	53	11
Exceptional item	-	-	-
Profit before tax	-40	40	103
Provision for tax	0	4	4
Profit after tax	-40	36	99
Share of Minority in profits	-	-	-
Adj. profit after tax	-40	36	99
Shares outstanding	18	22	22
Adjusted EPS	-2	2	4

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23
Operating expenses	103	97	89
Depreciation	2	2	1
Interest expenditure	5	4	1
EBITDA margins	-3	3	11
Net profit margins	-8	5	10

Growth metrics (%)

Year to March	FY21	FY22	FY23
Revenues	-3	30	55
EBITDA	-125	267	423
PBT	-200	201	156
Adj. Net profit	-201	189	177
Adj. EPS	-203	178	155

Balance Sheet

As on 31st March (INR cr)	FY21	FY22	FY23
Equity share capital	182	217	217
Reserves & surplus	517	594	694
Shareholders' funds	699	811	912
Total Debt	215	165	142
Other Long-Term Liabilities	16	13	9
Deferred Tax Liabilities	-7	-7	-6
Minority interest	10	13	13
Sources of funds	**933**	**995**	**1,069**
Gross block	263	262	293
Depreciation	164	168	176
Net block	99	94	117
Capital work in progress	-	-	-
Total fixed assets	99	94	117
Investments	81	76	83
Inventories	459	514	473
Sundry debtors	164	162	218
Cash and equivalents	80	98	108
Loans and advances	295	397	468
Total current assets	998	1,173	1,266
Sundry creditors and others	356	454	540
Provisions	20	35	33
Total CL & provisions	377	489	574
Net current assets	621	684	692
Other Assets	132	140	177
Uses of funds	**933**	**995**	**1,069**
Book value per share (INR)	38	37	42

Cash flow statement

Year to March	FY21	FY22	FY23
Operating Profit After Tax Before WC chang	17	40	124
WC Changes	44	-4	-10
CFO	70	33	104
CFI	6	-13	-32
CFF	-72	-22	-44
Total Cash Flow	4	-1	28

Ratios

Year to March	FY21	FY22	FY23
RoAE (%)	-5.6	4.8	11.5
RoACE (%)	-2.7	1.2	10.3
Debtors (days)	118	90	78
Inventory (days)	331	286	169
Payable (days)	174	156	130
Cash conversion cycle (days)	276	221	117
Debt/Equity	0.3	0.2	0.2
Debt/EBITDA	-16.0	7.4	1.2
Adjusted debt/Equity	0.2	0.1	0.0

Valuation parameters

Year to March	FY21	FY22	FY23
Diluted EPS (INR)	-2.3	1.8	4.5
Y-o-Y growth (%)	-202.7	177.5	155.1
Diluted P/E (x)	n.m.	13.4	5.5
Price/BV(x)	0.5	0.6	0.6
EV/Sales (x)	0.9	0.9	0.6
EV/EBITDA (x)	n.m.	26.4	5.0
Diluted shares O/S	18.2	21.7	21.7
Basic EPS	-2.3	1.8	4.5
Basic PE (x)	n.m.	13.4	5.5

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