Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	64,049	-0.8	5.3
Nifty-50	19,122	-0.8	5.6
Nifty-M 100	38,564	-0.7	22.4
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	4,187	-1.4	9.0
Nasdaq	12,821	-2.4	22.5
FTSE 100	7,414	0.3	-0.5
DAX	14,892	0.1	7.0
Hang Seng	5,854	0.9	-12.7
Nikkei 225	31,270	0.7	19.8
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	89	-4.5	9.3
Gold ($/OZ)	1,980	0.3	8.5
Cu (US$/MT)	7,959	0.7	-4.9
Almn (US$/MT)	2,203	2.5	-6.2
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	83.2	0.0	0.5
USD/EUR	1.1	-1.0	-1.3
USD/JPY	150.2	0.3	14.6
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	7.3	-0.04	0.0
10 Yrs AAA Corp	7.8	-0.04	0.1
Flows (USD b)	**25-Oct**	**MTD**	**CYTD**
FIIs	-0.5	-1.36	13.9
DIIs	0.43	2.37	17.6
Volumes (INRb)	**25-Oct**	**MTD***	**YTD***
Cash	724	725	669
F&O	3,39,305	3,11,863	2,64,218

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

Axis Bank: Earnings in line; deposit growth remains muted

- AXSB's PAT grew 10% YoY to INR58.7b (in line) in 2QFY24, driven by healthy NII growth (19% YoY/3% QoQ) and contained provisions, despite high opex.
- NIMs improved 1bp QoQ to 4.11% (vs. a decline for many peer banks), aided by higher liquidity deployment (~500bp QoQ decline in LCR ratio) and a better asset mix.
- Loan growth was healthy at 23% YoY/4.5% QoQ, while deposit growth was muted (+1% in 1HFY24). The C/D ratio thus increased to ~94%.
- A decline in fresh slippages (to INR32.5b) and healthy recoveries led to a sharp decline in GNPA ratio. Restructured book was under control at 0.19%.
- We change our earnings estimates by -1.7%/2.1% for FY24/FY25 and expect FY25 RoA/RoE of 1.9%/16.6%. Retain BUY.

Research covered

Cos/Sector	Key Highlights
Axis Bank	Earnings in line; deposit growth remains muted
Nestle	Long term prospects remain encouraging
Tech Mahindra	Weak FY24 margin limits the ability to accelerate in FY25
Other Notes	Jubilant FoodWorks | SONA BLW Precision Forging | Mahindra Logistics | Indus Towers | Global Economy

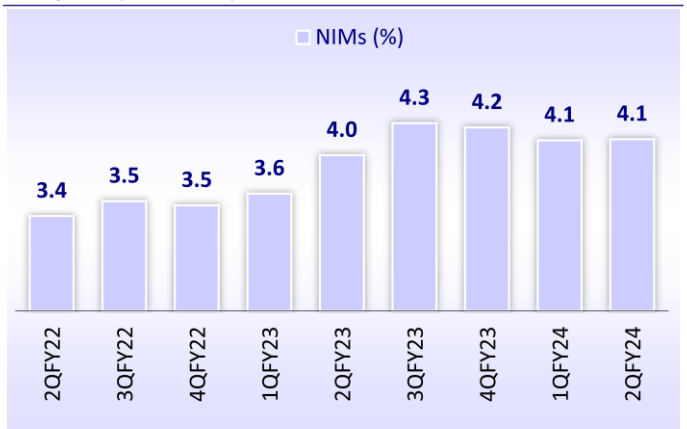
Piping hot news

Hinduja Group aims for value creation of $35-40 bn in BFSI sector, confident of acquiring Reliance Capital by Nov-end

Hinduja Group is aiming for a value creation of $35-40 billion in the banking, financial services, and insurance (BFSI) sector in the next five to seven years by adding more verticals to fill up the gaps.

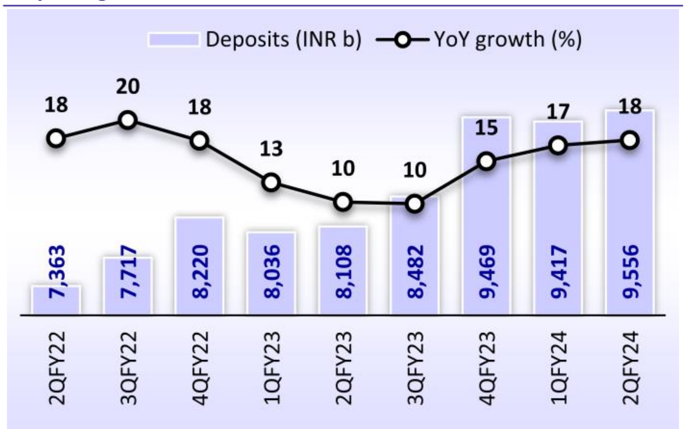
Chart of the Day: Axis Bank (Earnings in line; deposit growth remains muted)

Margin improved 1bp QoQ to 4.11%



Source: MOFSL, Company

Deposit grew 18% YoY to INR9.6t



Source: MOFSL, Company

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Hinduja Group aims for value creation of $35-40 bn in BFSI sector, confident of acquiring Reliance Capital by Nov-end

Hinduja Group is aiming for a value creation of $35-40 billion in the banking, financial services, and insurance (BFSI) sector in the next five to seven years by adding more verticals to fill up the gaps.

2

RBI suggests banks to have a minimum of two whole time directors on board

The Reserve Bank of India (RBI) has advised private sector banks to appoint at least two Whole Time Directors (WTDs), including the Managing Director and Chief Executive Officer, on their boards. The number of WTDs will be determined by the bank's board based on factors such as the size of operations and business complexity. The move is aimed at establishing effective senior management in response to the growing complexity of the Indian banking sector.

3

Nestle says RURBAN strategy and new product innovation to fuel growth

Continuing with its RURBAN focus, FMCG giant Nestle India on Wednesday said penetration-led volume growth, along with increased focus on digitisation, will be the key to its growth strategy. We intend to sell more and sell wider.

4

Cabinet approves pact between India, Japan on semiconductor supply chain

The Union Cabinet of India has approved a memorandum of cooperation between India and Japan on a Semiconductor Supply Chain Partnership.

5

India-Canada row unlikely to hit Teck deal plan: JSW Steel

"As far as the India-Canada relationship is concerned, I don't think that that is something which will impact business because these will be on a longer term.

6

In relief for farmers, Govt approves ₹22,303 crore subsidy for P&K fertilisers

The subsidy on P&K fertilizers will be provided based on approved rates for Rabi 2023-24 (applicable from 01.10.2023 to 31.03.2024) to ensure smooth availability of these fertilizers to the farmers at affordable prices.

7

Daewoo to make a comeback in India; to roll out e-bikes, e-cycles, power & energy products

Daewoo, a brand famous for selling cars such as Matiz and Cielo in India, is gearing up for a grand return to the country with a range of power and energy products.

Axis Bank

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	AXSB IN
Equity Shares (m)	3077
M.Cap.(INRb)/(USDb)	2944.7 / 35.4
52-Week Range (INR)	1048 / 814
1, 6, 12 Rel. Per (%)	-3/1/-2
12M Avg Val (INR M)	9661

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
NII	429.5	505.1	598.1
OP	321.4	372.2	464.9
NP	219.3	249.7	308.5
NIM (%)	3.7	3.8	3.9
EPS (INR)	71.4	79.3	95.9
EPS Gr. (%)	68.0	11.2	20.8
BV/Sh. (INR)	406	535	623
ABV/Sh. (INR)	388	518	603
Ratios			
RoE (%)	18.2	16.8	16.6
RoA (%)	1.8	1.8	1.9
Valuations			
P/E(X)	12.0	10.8	8.9
P/BV (X)	2.1	1.6	1.4
P/ABV (X)	2.2	1.7	1.4

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	8.0	8.0	9.5
DII	28.1	29.0	31.6
FII	54.6	53.4	47.2
Others	9.4	9.6	11.7

FII Includes depository receipts

CMP: INR955 TP: INR1,150 (+20%) Buy

Earnings in line; deposit growth remains muted

Margins surprise positively; asset quality robust

- AXSB's PAT grew 10% YoY to INR58.7b (in line) in 2QFY24, driven by healthy NII growth (19% YoY/3% QoQ) and contained provisions, despite high opex.
- NIMs improved 1bp QoQ to 4.11% (vs. a decline for many peer banks), aided by higher liquidity deployment (~500bp QoQ decline in LCR ratio) and a better asset mix.
- Loan growth was healthy at 23% YoY/4.5% QoQ, while deposit growth was muted (+1% in 1HFY24). The C/D ratio thus increased to ~94%.
- A decline in fresh slippages (to INR32.5b) and healthy recoveries led to a sharp decline in GNPA ratio. Restructured book was under control at 0.19%.
- **We change our earnings estimates by -1.7%/2.1% for FY24/FY25 and expect FY25 RoA/RoE of 1.9%/16.6%. Retain BUY.**

Loan growth recovers; NIMs up 1bp QoQ

- AXSB's 2QFY24 PAT grew 10% YoY to INR58.6b (in line), aided by healthy NII and controlled provisions. However, opex was high as the bank continued to invest in technology, employee additions and future growth.
- NII grew 19% YoY (up 3.0% QoQ) to INR123.1b. Reported margins inched up 1bp QoQ to 4.11%, supported by liquidity deployment. Fee income grew 29% YoY/10.6% QoQ, while the bank reported a treasury loss of INR1b.
- Opex growth was high at 32% YoY/6% QoQ (4% higher than MOSLe), due to investments in digital and tech, employee increments, and expenses related to Citi's integration. As a result, C/I increased to 50.2% in 2QFY24 vs. 48.3% in 1QFY24. PPoP grew 12% YoY to INR86.3b (in line).
- Loan book grew 23% YoY/4.5% QoQ, with Retail/corporate loans up 4.4%/3.2% QoQ and SME loans growing at a faster rate at 23% YoY/9.5% QoQ. On the liability front, deposit growth was modest at 18% YoY/1.5% QoQ. CASA ratio moderated 200bp to 44%.
- On the asset quality front, fresh slippages declined to INR32.5b (vs. INR39.9b in 1QFY24). GNPA ratio improved by 23bp QoQ to 1.73%, while net NPA ratio declined 5bp QoQ to 0.36%. PCR was stable at 79.5%, while restructured loans declined slightly to 0.19% of customer assets.

Highlights from the management commentary

- About 31% of the book is fixed-rated, which will re-price in next one year. In the floating-rate book, 17% linked to MCLR and 46% to Repo (large part of increase is from SME side).
- The bank maintains its estimate for the total integration expense to be INR20b for 15-18 months.
- Opex grew 6% QoQ due to high technology-related expenses, integration expenses, 9% linked to volume, and high network expenses. A large part of the expenses are attributable to cards business.
- The increase in the cost of funds was moderated in 2Q and the bank has guided for a limited increase in funding costs over coming quarters.

Valuation and view

AXSB delivered a mixed bag of performance in 2QFY24, with healthy earnings driven by steady margins and sharper liquidity deployment during the quarter. Credit growth picked up pace; however, deposit growth was muted for the second quarter in a row, resulting in a higher C/D ratio of 94%. The LCR ratio declined by over 500bp QoQ to 118%. We remain watchful of deposit accretion for the bank as it will be critical to sustain healthy loan growth (targets 400-600bp higher growth vs. system over the medium term). Asset quality remains robust, with slippages declining further and recoveries remaining strong. **We change our earnings estimates by -1.7%/2.1% for FY24/FY25 and expect FY25 RoA/RoE of 1.9%/16.6%. We retain our BUY rating with a TP of INR1,150 (1.7x FY25E ABV).**

Quarterly performance **(INR b)**

	FY23				FY24E				FY23	FY24E	FY24E	V/s our
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	Est
Net Interest Income	**93.8**	**103.6**	**114.6**	**117.4**	**119.6**	**123.1**	**128.3**	**134.0**	**429.5**	**505.1**	**119.8**	**3%**
% Change (Y-o-Y)	20.9	31.1	32.4	33.1	27.4	18.9	11.9	14.1	29.6	17.6	15.7	
Other Income	30.0	39.4	46.7	49.0	50.9	50.3	53.8	59.5	165.0	214.5	51.7	-3%
Total Income	**123.8**	**143.0**	**161.2**	**166.4**	**170.5**	**173.5**	**182.1**	**193.5**	**594.5**	**719.6**	**171.5**	**1%**
Operating Expenses	65.0	65.9	68.5	74.7	82.3	87.2	87.9	90.0	273.0	347.4	84.2	4%
Operating Profit	**58.9**	**77.2**	**92.8**	**91.7**	**88.1**	**86.3**	**94.2**	**103.5**	**321.4**	**372.2**	**87.4**	**-1%**
% Change (Y-o-Y)	-4.8	30.2	50.6	41.8	49.7	11.9	1.6	12.9	29.9	15.8	13.2	
Provisions	3.6	5.5	14.4	3.1	10.3	8.1	10.0	9.9	28.8	38.3	8.1	1%
Profit before Tax	**55.3**	**71.7**	**78.4**	**88.6**	**77.8**	**78.2**	**84.3**	**93.6**	**292.6**	**333.9**	**79.3**	**-1%**
Tax	14.0	18.4	19.9	22.4	19.8	19.5	21.2	23.5	73.3	84.1	20.0	-2%
Net Profits	**41.3**	**53.3**	**58.5**	**66.3**	**58.0**	**58.6**	**63.0**	**70.1**	**219.3**	**249.7**	**59.3**	
% Change (Y-o-Y)	91.0	70.1	61.9	60.9	40.5	10.0	7.7	5.8	68.4	13.9	11.3	
Operating Parameters												
Deposit (INR t)	8.0	8.1	8.5	9.5	9.4	9.6	10.1	10.7	9.5	10.7	9.8	-2%
Loan (INR t)	7.0	7.3	7.6	8.5	8.6	9.0	9.3	9.9	8.5	9.9	8.9	1%
Deposit Growth (%)	12.6	10.1	9.9	15.2	17.2	17.9	19.2	13.5	15.2	13.5	20.7	
Loan Growth (%)	14.0	17.6	14.6	19.4	22.4	22.8	22.4	16.7	19.4	16.7	22.0	
Asset Quality												
Gross NPA (%)	2.8	2.5	2.4	2.0	2.0	1.7	1.7	1.7	2.2	1.7	2.0	
Net NPA (%)	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	
PCR (%)	77.3	79.9	80.8	80.9	79.6	79.5	79.5	79.3	80.0	79.3	79.9	

26 October 2023

Update | Sector: Consumer

Nestlé India

BSE SENSEX	S&P CNX
64,049	19,122

CMP: INR24,263 TP: INR23,900 (-1%) Neutral

Long term prospects remain encouraging

Nestle held an analyst call to provide a business update. Here are the key takeaways:

- **Strong double-digit growth across all portfolios in 9MCY23:** NEST delivered 15.1% YoY growth in domestic sales during the 9MCY23, complemented by a remarkable 30% surge in the out-of-home category. Key product segments, including milk products and nutrition, prepared dishes, cooking aids, confectionery, and beverages, experienced notable growth rates of 15.3%, 10.7%, 21.4%, and 18.6% YoY, respectively, in the same period. The cumulative 4-year domestic sales and volume CAGR for CY18-22 reached 11.3% and 6.7%, reflecting NEST's sustained momentum in achieving positive volume-driven revenue growth and expanding market penetration.
- **Expansive Reach and Rural Growth:** NEST's distribution network has witnessed an expansion, reaching a total of 5.2mn outlets, including a direct presence in 1.6mn outlets. The company has successfully extended its coverage to almost 107,000 villages, a substantial increase from the 61,000 villages in CY21. NEST aims to further augment its rural footprint, targeting 120,000 villages by CY24. The implementation of a strategic Rurban (semi-urban and rural) approach has proven effective in deploying more personnel on the ground, improving in-shop visibility, and boosting HAAT activations. Currently addressing an ~487mn people in India, NEST aspires to reach a staggering 700mn by the year 2030.
- **NPD sales remain healthy:** New product sales for NEST have consistently shown a performance, hovering around the 6% mark. The company envisions these innovative offerings to constitute 10% of its total sales in the long term, aligning with the dynamic demands of consumers. Over the past seven years, NEST has introduced an impressive lineup of 125 new products, and the momentum continues with 10 additional innovative products currently in the pipeline for the year.
- **Nestle's R&D Initiatives:** Nestle's R&D endeavors are dedicated to crafting product offerings that prioritize both consumer well-being and environmental sustainability. The emphasis on accelerated time-to-market, achieved through distinct science and technology-driven innovations, reinforces the foundation for future product developments.
- **Investment Focus:** NEST has committed ~INR50bn in investments of CY23-25, with an allocation of INR 9bn specifically earmarked for cutting-edge facilities in Odisha. In the preceding period of CY20-23, the company reinforced its manufacturing and supply-chain capabilities through substantial investments totalling INR 26bn.
- **Sustainability initiatives** in packaging, responsible procurement, renewable energy, water usage reduction, and equal employment opportunities are all encouraging. NEST has made 6x higher investments in sustainability in CY23 vs. CY20 and has 60 people engaged in sustainability.

Stock Info

Bloomberg	NEST IN
Equity Shares (m)	96
M.Cap.(INRb)/(USDb)	2339.3 / 28.1
52-Week Range (INR)	24745 / 17880
1, 6, 12 Rel. Per (%)	10/10/11
12M Avg Val (INR M)	1381
Free float (%)	37.2

Financials Snapshot (INR b)

Y/E Dec	CY22	FY24E	FY25E
Sales	169.0	246.2	229.0
Sales Gr. (%)	14.6	45.7	-7.0
EBITDA	37.1	57.4	54.6
Margin (%)	22.0	23.3	23.9
Adj. PAT	23.9	38.0	35.5
Adj. EPS (INR)	247.9	298.3	367.7
EPS Gr. (%)	3.1	20.3	23.3
BV/Sh.(INR)	255.0	253.4	281.1
Ratios			
RoE (%)	105.2	155.0	137.6
RoCE (%)	98.6	144.8	129.3
Payout (%)	84.7	100.6	92.5
Valuations			
P/E (x)	97.8	81.3	65.9
P/BV (x)	95.1	95.7	86.3
EV/EBITDA (x)	62.2	40.2	42.3
Div. Yield (%)	0.9	1.2	1.4

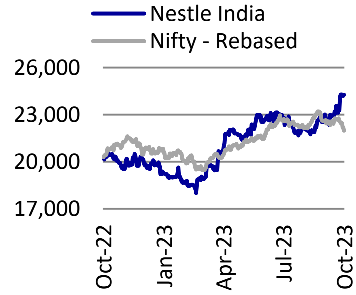
*Note: FY24 is 15-month period as the company changed its accounting year-end from December to March

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	62.8	62.8	62.8
DII	9.3	9.1	8.9
FII	12.1	12.4	12.1
Others	15.8	15.8	16.3

FII Includes depository receipts

Stock Performance (1-year)



- **Input cost inflation, if sustained, could pose a significant challenge to earnings.** We believe that the company has done a stellar job in terms of double-digit volume-led revenue growth, new product launches, higher ad spends compared to the past, and ongoing distribution expansion. Nevertheless, it is true that largely benign commodity costs have been a tailwind for NEST in recent years. If the ongoing input cost inflation remains at elevated levels, then it could impact either NEST's volume growth or its earnings.

Valuation view

- There is no material change to our FY24* and FY25 EPS estimates.
- The long-term narratives for NEST's revenue and earnings growth are highly attractive. India's Packaged Foods segment offers strong growth opportunities. This is particularly true for NEST, which has a strong pedigree and distribution strength. The successful implementation of the company's volume-led growth strategy in recent years provides confidence in its execution as well.
- NEST's distribution expansion and its ability to sustain a high proportion of NPD sales are also encouraging.
- However, at 81.3x/65.9x FY24E/25E EPS, the stock's valuations are expensive. We value the stock at **65x FY25E** EPS to arrive at a TP of **INR23,900**. We maintain our **Neutral** stance.

Tech Mahindra

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	TECHM IN
Equity Shares (m)	919
M.Cap.(INRb)/(USDb)	1114.2 / 13.4
52-Week Range (INR)	1320 / 981
1, 6, 12 Rel. Per (%)	-9/7/-3
12M Avg Val (INR M)	2972

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	533	519	559
EBIT Margin (%)	11.4	8.7	10.7
Adj. PAT	50.7	39.1	48.5
Adj. EPS (INR)	57.3	44.1	54.7
PAT	48.3	31.6	48.5
EPS (INR)	54.6	35.7	54.7
EPS Gr. (%)	(12.8)	(34.7)	53.4
BV/Sh. (INR)	317.3	324.1	333.1
Ratio			
RoE (%)	18.5	13.8	16.8
RoCE (%)	18.6	13.6	17.6
Payout (%)	87.3	85.0	85.0
Valuation			
P/E (x)	19.8	25.8	20.7
P/BV (x)	3.6	3.5	3.4
EV/EBITDA (x)	12.2	15.7	12.7
Div Yield (%)	4.4	3.3	4.1

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	35.1	35.2	35.2
DII	27.3	27.1	24.0
FII	26.2	25.7	28.2
Others	11.3	12.0	12.6

FII Includes depository receipts

CMP: INR1,142 TP: INR1,040 (-9%) Neutral

Weak FY24 margin limits the ability to accelerate in FY25

Internal restructuring pressure to add to the macro headwinds

- Tech Mahindra (TECHM) reported another quarter of weak performance, with revenue declining 2.4% QoQ in constant currency (CC) to USD1.6b, which missed our estimate of a 1.1% decline. The weakness was primarily caused by a continued slowdown in CME, which was down 4.9% QoQ and BFSI, which was down 2.8% QoQ. However, Manufacturing showed continued strength with 2.3% QoQ growth. EBIT margin (adjusted for organizational restructuring) contracted 150bp QoQ to 7.3% in 2QFY24, below our estimate of 8.7%. TCV of USD640m (+78% QoQ/-10.6% YoY) improved in 2QFY24 after reporting two consecutive quarters of decline.
- Weakness in the key Communications vertical, along with an internal restructuring exercise (deprioritizing a few business lines and non-strategic accounts), led to another notable decline in TECHM's revenue performance (-5.9% YoY in CC). Management expects this pain to continue in the Communications vertical, especially in relation to 5G-related investments. With weakness in the BFSI sector and the need to rationalize low-margin accounts, we anticipate that the company will experience a decline in FY24 (MOFSLe at -4.6% YoY), before returning to growth in the following year. Moreover, while realigning the vertical and horizontal service lines should benefit the company in streamlining its execution, we expect the process to take most of FY25 before starting to yield results for the company. Our estimates indicate a flat FY23-25 USD revenue CAGR of 1.0%.
- Due to the ongoing challenges in revenue growth and restructuring efforts, TECHM witnessed a significant decline in profitability. This decline was further worsened by a 110bp contraction due to a one-off (vs. 200bp one-time impact caused by a client's bankruptcy). We expect the company's profitability to improve from 3Q onward, partially through the reversal of one-off expenses and progress made in organizational restructuring. We expect FY24 (adj)/FY25 EBIT margins to be 8.7%/10.7%, which will lead to a slight decrease in INR PAT from FY23 to FY25E, despite a low base in FY23 (PAT -8.9% YoY).
- While we expect a potential benefit to come from the overhaul exercise, we believe that it will take time due to macro headwinds and limited opportunities to participate in the transformation initiatives.
- We are staying on the sidelines because we believe that the current valuation adequately accounts for the uncertainties surrounding growth and margin. We reduce our FY24/FY25 EPS estimates by 2-10% due to sluggish growth and a subdued outlook. **Reiterate Neutral with a TP of INR1,040 (premised on 19x FY25E EPS).**

Big miss on revenue and PAT

- Revenue stood at USD1.6b, down 2.4% QoQ CC (est. -1.1% QoQ CC) in 2Q.
- IT Service decelerated 4.1% QoQ, while BPO was muted (-0.7% QoQ).
- CME witnessed a further decline of 4.9% QoQ (vs. -9.4% in 1Q), followed by BFSI (-3.0% QoQ). Retail and Technology were flat QoQ. Manufacturing was up 2.2% QoQ though.
- EBIT margin contracted 150bp QoQ/410bp YoY to 7.3% (est. 8.7%).
- Net employee additions improved by 2,300, after three consecutive quarters of more than 15,000 (collectively) headcount reduction. Utilization (ex. trainees) was up by 120bp QoQ at 86%, LTM attrition improved 140bp QoQ to 11.4%
- NN Deal TCV was strong at USD640m, up 78.3% QoQ/ down 10.6% YoY.
- Adj. PAT stood at INR9.8b (up 2.3% QoQ), above our estimate of INR9.0b, due to lower ETR at 10% vs. 22% in 1Q.
- FCF conversion to PAT stood at 357.6% vs. 126.3% in 1QFY24.

Key highlights from the management commentary

- The company has taken definitive actions in 2QFY24 to prioritize its core business and functions, while deprioritizing certain service lines. It has terminated/closed down a few projects for realignment purpose, leading to a drag in the 2Q revenue growth.
- For large deals, the company is building capabilities in each SBU with deal advisory relationships to pursue significant deals in the areas of Digitization, Transformation, GenAI, and Cloud migration. The company has also set margin aspiration and it would continue to evaluate every large deal wins.
- The sector is undergoing significant challenges, while major telcos remain under stress as they have invested heavily in 5G infrastructure and are awaiting outcomes from those projects.
- The adjusted EBIT margin in 2Q was 7.3% (down 150bp QoQ). Apart from restructuring, the additional costs incurred in 2Q were related to multiple stakeholder dependencies, which are leading to a drag in operating margin.

Valuation and view

- Although its 2QFY24 performance was weak, TECHM's high exposure to the Communications vertical offers a potential opportunity, since a broader 5G rollout is likely to result in a new spending cycle in this space.
- Near-term growth remains weak and we await greater comfort on margins. We value the stock at 19x FY25E EPS. **We maintain our Neutral rating on the stock.**

Quarterly performance (INR b)

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%/bp)
Revenue (USD m)	**1,633**	**1,638**	**1,668**	**1,668**	**1,601**	**1,555**	**1,539**	**1,573**	**6,607**	**6,268**	**1,582**	**-1.7**
QoQ (%)	1.5	0.3	1.8	0.0	-4.0	-2.8	-1.0	2.2	10.1	-5.1	-1.1	-170bp
Revenue (INR b)	**127**	**131**	**137**	**137**	**132**	**129**	**128**	**131**	**533**	**519**	**131**	**-1.6**
YoY (%)	24.6	20.7	19.9	13.2	3.5	-2.0	-7.0	-4.8	19.4	-2.7	-0.4	-163bp
GPM (%)	**28.3**	**27.9**	**28.7**	**28.9**	**25.7**	**22.5**	**24.5**	**25.9**	**28.5**	**24.7**	**25.5**	**-304bp**
SGA (%)	**13.5**	**12.8**	**13.1**	**14.2**	**13.5**	**11.5**	**12.6**	**12.4**	13.4	12.5	**13.4**	-188bp
Adj. EBITDA	**19**	**20**	**21**	**20**	**16**	**14**	**15**	**18**	**80**	**63**	**16**	**-11.1**
EBITDA Margin (%)	**14.8**	**15.1**	**15.6**	**14.7**	**12.2**	**10.9**	**11.9**	**13.5**	**15.1**	**12.1**	**12.1**	**-116bp**
Adj. EBIT	**14**	**15**	**16**	**15**	**12**	**9**	**11**	**13**	**61**	**45**	**11**	**-17.3**
EBIT Margin (%)	**11.0**	**11.4**	**12.0**	**11.2**	**8.8**	**7.3**	**8.5**	**10.0**	**11.4**	**8.7**	**8.7**	**-138bp**
Other income	1	2	1	2	1	2	1	1	6	5	1	134.5
ETR (%)	22.8	21.4	27.3	22.9	21.8	9.9	25.0	25.0	23.7	20.9	25.0	-1507bp
Adj. PAT	**11**	**13**	**13**	**13**	**10**	**10**	**9**	**11**	**51**	**39**	**9**	**8.3**
QoQ (%)	-24.9	15.8	-1.0	2.6	-28.2	2.3	-7.8	19.0			-5.5	788bp
YoY (%)	-16.4	-2.2	-5.3	-11.6	-15.5	-25.3	-30.4	-19.4	-8.9	-22.9	-31.1	575bp
Extra-Ordinary Item	0.0	-0.2	0.0	-2.1	-2.6	-4.8	0.0	0.0	-2.4	-7.5	-5.8	
Reported PAT	**11**	**13**	**13**	**11**	**7**	**5**	**9**	**11**	**48**	**32**	**3**	**52.6**
EPS (INR)	**12.8**	**14.8**	**14.7**	**15.0**	**10.8**	**11.0**	**10.2**	**12.1**	**57.3**	**44.1**	**10.2**	8.2

E: MOFSL estimates

Key Performance Indicators

Y/E March	FY23				FY24				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (QoQ CC %)	3.5	2.9	0.2	0.3	-4.2	-2.4				
Margins (%)										
Gross Margin	28.3	27.9	28.7	28.9	25.7	22.5	24.5	25.9	28.5	24.7
Adj. EBITDA margin	14.8	15.1	15.6	14.7	12.2	10.9	11.9	13.5	15.1	12.1
Adj. EBIT Margin	11.0	11.4	12.0	11.2	8.8	7.3	8.5	10.0	11.4	8.7
Adj. Net Margin	8.9	10.0	9.4	9.7	7.3	7.6	7.1	8.2	9.5	7.5
Operating Metrics										
Headcount (k)	158	164	157	152	148	151			152	
Util excl. trainees (%)	83.3	84.9	86.4	86.5	87.2	86.0			85.3	
Attrition (%)	22.2	19.6	17.3	14.8	12.8	11.4			14.8	
Deal TCV (USD m)	802	716	795	592	359	640			2,905	
Key Verticals (QoQ %)										
Communication	1.0	-1.4	2.1	0.7	-9.5	-4.9			9.0	
Enterprise	1.8	1.5	1.7	-0.5	-0.3	-1.4			10.9	
Key Geographies (QoQ%)										
North America	4.2	2.8	-0.4	-0.2	-0.5	0.7			14.6	
Europe	-2.0	-3.6	1.4	3.6	-6.7	-6.8			4.7	

Jubilant FoodWorks

Estimate changes	↓
TP change	↓
Rating change	↔

Bloomberg	JUBI IN
Equity Shares (m)	660
M.Cap.(INRb)/(USDb)	349.1 / 4.2
52-Week Range (INR)	628 / 412
1, 6, 12 Rel. Per (%)	1/10/-19
12M Avg Val (INR M)	1235

Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	51.0	55.4	63.2
Sales Gr. (%)	15.9	8.7	14.1
EBITDA	11.6	12.2	14.8
EBITDA Margin (%)	22.7	22.1	23.4
Adj. PAT	4.0	3.7	5.0
Adj. EPS (INR)	6.1	5.6	7.5
EPS Gr. (%)	-7.6	-7.6	33.7
BV/Sh.(INR)	30.9	36.5	33.5
Ratios			
RoE (%)	19.8	15.4	22.5
RoCE (%)	12.7	10.9	12.8
Valuation			
P/E (x)	86.6	93.8	70.1
P/BV (x)	17.1	14.5	15.8
EV/EBITDA (x)	31.4	29.9	25.2
EV/Sales (x)	7.1	6.6	5.9

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	41.9	41.9	41.9
DII	22.4	22.5	19.9
FII	26.4	25.4	28.8
Others	9.4	10.1	9.3

FII Includes depository receipts

CMP: INR529 TP: INR610 (+15%) Buy

Weak LFL continues to hurt; recovery expected in 2H

- JUBI's sales grew 5% YoY in 2QFY24, driven by footprint addition. But weak LFL (-1.3% YoY) and subsequent operating deleverage led to a 10%/39% decline in EBITDA/PAT (in line/15% miss). This was partly cushioned by improvements in GM.
- The management's efforts toward product innovations, faster delivery and store revamping aided delivery business, but dining revenue remained sluggish. We estimate revenue/EBITDA growth of 11/13% over FY23-25. JUBI's own delivery system, back-end advantages, robust balance sheet, and loyalty program give it a competitive edge. Retain **BUY** on the stock.

Revenue/EBITDA in line; strong store addition continues

- JUBI reported sales growth of 5% YoY to INR13.5b (in line), with **a 1.3% YoY decline in LFL** (similar to last quarter) and 11% store growth.
- Store network: Opened 60 new stores and closed 2 stores, taking the total count to 1,949 stores.
- Gross profit grew 5% YoY to INR10.3b (in line). Margin increased 20bp YoY/40bp QoQ, showing improving trends in RM prices.
- EBITDA declined 10% YoY to INR2.8b (in line), led by weak LTL growth. Margins contracted by 340bp YoY to 20.9%.
- Adj. PAT declined 49% YoY to INR721m (15% miss) due to higher depreciation and a decrease in other income. Margins stood at 5.4%.

Highlights from the management commentary

- JUBI expects 5-6% LFL growth for Dominos in the long term; around 10-12% growth from retail store adds will lead to ~15% revenue growth.
- It expects a 150–200bp increase in EBITDA margin from 21% in 2QFY24, resulting in long-term EBITDA margin expectations of 22.5-23%.
- Store opening guidance remains unchanged at 200+ for Dominos and 30+ for Popeyes. It plans to increase Dominos store count to 3,000 in the medium term.
- Adding stores for Popeyes is not a constraint, the constraint is a) brand awareness of Popeyes is less than Jubilant, b) aspire to add larger size store to establish brand and c) supply chain. Company will be leveraging the Dominos commissary for Popeyes.

Valuation and view

- We reduce revenue/EBITDA estimates by ~2% for FY24/FY25, building in a CAGR of 11/13% in revenue/EBITDA over FY23-25E. The growth is expected to be driven by 11% store adds and LFL recovery from 3QFY24. The improvement in GM may offset store expansion related operational costs.

- The management's efforts on improving dine-in LFL growth, its decision not to hike prices amid the transient high-cost environment in wheat and cheese, and building the technological and analytical edge of JUBI are welcome moves that will create value in the medium term.
- We believe there are strong long-term opportunities in QSR, and JUBI is the most efficient player in the Indian QSR space and is well placed to seize the enhanced QSR growth opportunity. It has a strong balance sheet and a consistently high RoCE of over 20%. We maintain our BUY rating with a TP of INR610/share (40x FY25E pre Ind-AS 116 EV/EBITDA).

Quarterly Standalone Perf. **(INR m)**

Y/E March	FY23				FY24E						FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY23	FY24E	2QE	(%)
No of stores (Dominos)	1,625	1,701	1,760	1,816	1,838	1,888	1,953	2,016	1,816	2,016	1,888	
LFL growth (%)	28.3	8.4	0.3	-0.6	-1.3	-1.3	5.0	5.5	8.9	2.0	-1.0	
Net Sales	12,403	12,868	13,166	12,523	13,097	13,448	14,878	13,976	50,960	55,399	13,447	0.0%
YoY change (%)	41.1	16.9	10.3	8.2	5.6	4.5	13.0	11.6	15.9	8.7	4.5	
Gross Profit	9,514	9,811	9,937	9,426	9,956	10,275	11,444	10,760	38,688	42,435	10,182	0.9%
Gross margin (%)	76.7	76.2	75.5	75.3	76.0	76.4	76.9	77.0	75.9	76.6	75.7	
EBITDA	3,045	3,125	2,900	2,522	2,764	2,807	3,677	2,981	11,592	12,229	2,894	-3.0%
EBITDA growth %	44.0	9.2	-8.6	-12.9	-9.2	-10.2	26.8	18.2	4.5	5.5	-7.4	
Margins (%)	24.6	24.3	22.0	20.1	21.1	20.9	24.7	21.3	22.7	22.1	21.5	
Depreciation	1,050	1,123	1,298	1,282	1,328	1,379	1,396	1,410	4,753	5,514	1,375	0.3%
Interest	459	485	501	505	513	534	540	550	1,951	2,137	515	3.7%
Other Income	106	103	93	195	91	69	99	139	497	398	133	-48.3%
PBT	1,642	1,619	1,194	930	1,014	963	1,841	1,160	5,385	4,977	1,137	-15.3%
Tax	366	428	309	254	262	241	464	287	1,356	1,254	286	
Rate (%)	22.3	26.4	25.8	27.4	25.8	25.1	25.2	24.8	25.2	25.2	25.2	
Adjusted PAT	1,276	1,192	886	675	752	721	1,377	872	4,029	3,723	850	-15.1%
YoY change (%)	87.3	-2.9	-35.5	-42.0	-41.1	-39.5	55.5	29.2	-7.6	-7.6	-28.7	

E: MOFSL Estimates

pdf

25 October 2023

2QFY24 Results Update | Sector: Automobile

SONA BLW Precision Forging

Estimate change	⟷
TP change	↓
Rating change	⟷

Bloomberg	SONACOMS IN
Equity Shares (m)	585
M.Cap.(INRb)/(USDb)	300.2 / 3.6
52-Week Range (INR)	626 / 397
1, 6, 12 Rel. Per (%)	-7/4/-2
12M Avg Val (INR M)	1234

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	26.8	32.7	41.1
EBITDA (%)	26.0	28.0	28.0
Adj. PAT	4.0	5.2	6.8
EPS (INR)	6.8	8.9	11.6
EPS Gr. (%)	16.9	31.0	29.8
BV/Sh. (INR)	39.1	45.3	53.2
Ratios			
RoE (%)	18.5	21.1	23.4
RoCE (%)	16.8	18.8	21.1
Payout (%)	22.0	30.2	31.8
Valuations			
P/E (x)	75.4	57.6	44.4
P/BV (x)	13.1	11.3	9.6
EV/EBITDA (x)	43.0	32.7	25.9
Div. Yield (%)	0.3	0.5	0.7
FCF Yield (%)	0.7	0.7	1.1

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	29.8	29.8	53.6
DII	27.5	28.2	24.5
FII	33.4	31.7	11.6
Others	9.4	10.4	10.3

FII Includes depository receipts

CMP:INR513 TP: INR565 (+10%) Neutral

Operating performance, enhanced by product mix

Expanding its vision to grow in non-auto mobility segment

- SONACOMS' 2QFY24 results beat our estimates, led by better mix that contributed to an EBITDA margin of 28.2% (vs. est. 27.4%). The company's focus on expanding in EVs remains steadfast, with BEV accounting for ~27% of the revenue (vs. 26% in FY23). Additionally, the company now aims for a long-term growth in the broader non-auto mobility sector, which currently represents ~10% of the revenue.
- We maintain our FY24E/25E EPS projections. We believe the current valuation of ~57.6x/44.4x FY24/25E EPS reflects the company's robust EV order book as well as its impressive earnings and return profile. We maintain our Neutral stance on the stock, with a TP of INR565 (based on ~45x Sep'25E consol EPS).

Lower other expenses due to better product mix

- SONACOMS' 2QFY24 revenue/EBITDA/adj. PAT grew ~20%/35%/39% YoY to INR7.9b/ INR2.2b/INR1.3b. BEV revenue rose 58% YoY to INR2.1b (27% of total revenue), whereas ICE revenue jumped 11% YoY. 1HFY24 revenues/EBITDA/adj. PAT grew 22%/38%/44% YoY.
- Gross margin improved 210bp YoY/-180bp QoQ to 55.1% (est. 56%). The sequential decline in gross margins occurred due to a higher percentage of assembled components, which impacted the overall product mix.
- However, lower other expenses (down 120bp YoY/down 250bp QoQ; as a % of sales) offset the sequential decline in gross margins, leading to EBITDA margin expansion of 300bp YoY to 28.2%. EBITDA grew 35% YoY to INR2.2b (vs. est.INR2.1b).
- The company guided EBITDA margin range of 25-27% in the medium term.
- A better operating performance resulted in higher-than-expected adj. PAT at INR1.3b (up 39% YoY, est. INR1.2b).
- FCFF for 1HFY24 improved to INR1.6b (vs. INR649m in 1HFY23), led by better operating cash flows of INR3b (vs. INR2.3b in 1HFY23). Capex stood at INR1.4b (vs. INR1.7b in 1HFY23).

Highlights from the management commentary

- **BEV contributed 27% of the revenue at INR2.07b in 2QFY24,** resulting in 58% YoY growth. Revenue from BEV grew ~12% QoQ due to the successful ramp up of one large program for traction motor during the quarter.
- **Order book has increased to INR221b at the end of 2QFY24** vs. INR220b by 1QFY24 end, 78% of which is EVs. The company won two new orders- i) A contract from New North American EV OEM valued at INR1.7b. This order pertains to rotor-embedded differential sub assembly and is slated for SOP from 2QFY25, ii) An additional order from an existing 3W EV customer in India for Mid-drive traction motor totaling INR3.7b; it is scheduled to commence production from 3QFY25.

- **Vision to expand into non-auto mobility.** The current share of non-auto is ~10% of the revenue, which includes farm equipment, off-highway and construction equipment.
- **Added seven new future products to the roadmap during the quarter.** This includes two products in driveline (light weight differential and robotics gears), two in motor (non-auto mobility motors and integrated motor controller), and three in newly acquired sensors business (zone monitoring sensors, 360-degree short range radar sensors and in-cabin sensors).

Valuation and view

- After a challenging FY23, SONACOMS is firmly back on a strong growth path, led by a recovery in the underlying markets and a strong order book. SONACOMS remains a good proxy play for the global electrification trend, with a ~27% revenue mix from EVs and a ~78% mix in the order book. Moreover, its focus on expanding the product portfolio, global scale, and customer base should translate into strong earnings growth and healthy capital efficiency.
- However, its valuations stand at 57.6x/44.4x FY24E/FY25E consol. EPS and largely factor in these positives. We reiterate our **Neutral** stance with a TP of INR565 (based on ~45x Sep'25 consol. EPS).

Consol. Quarterly Performance

Y/E March	FY23				FY24E				FY23	FY24E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2Q
Net operating revenues	**5,892**	**6,574**	**6,850**	**7,440**	**7,322**	**7,908**	**8,304**	**9,127**	**26,756**	**32,661**	**7,664**
Change (%)	17.7	12.2	38.6	35.3	24.3	20.3	21.2	22.7	25.6	22.1	16.6
EBITDA	**1,425**	**1,657**	**1,862**	**2,014**	**2,034**	**2,233**	**2,325**	**2,541**	**6,958**	**9,133**	**2,100**
EBITDA Margins (%)	24.2	25.2	27.2	27.1	27.8	28.2	28.0	27.8	26.0	28.0	27.4
Depreciation	400	429	470	481	511	534	555	576	1,780	2,176	535
EBIT	**1,025**	**1,228**	**1,392**	**1,533**	**1,523**	**1,699**	**1,770**	**1,964**	**5,178**	**6,957**	**1,565**
EBIT Margins (%)	17.4	18.7	20.3	20.6	20.8	21.5	21.3	21.5	19.4	21.3	20.4
Interest	29	43	51	46	53	60	50	47	169	210	50
Non-Operating Income	10	28	33	45	54	61	50	37	116	202	50
PBT	**1,006**	**1,213**	**1,373**	**1,498**	**1,495**	**1,641**	**1,770**	**1,955**	**5,091**	**6,861**	**1,565**
Effective Tax Rate (%)	24.6	23.7	22.0	20.0	25.1	24.4	25.0	25.4	22.4	25.0	25.0
Adjusted PAT	**758**	**925**	**1,071**	**1,232**	**1,142**	**1,286**	**1,328**	**1,457**	**3,979**	**5,211**	**1,174**
Change (%)	5.4	4.9	23.9	35.1	50.6	39.0	24.0	18.3	17.1	31.0	26.8
Cost Break-up											
RM Cost (% of sales)	45.5	47.0	44.2	45.7	43.1	44.9	44.2	43.4	45.6	43.9	44.0
Staff Cost (% of sales)	7.3	6.7	7.0	6.1	6.7	7.0	6.8	6.4	6.7	6.7	6.6
Other Cost (% of sales)	23.0	21.1	21.6	21.1	22.4	19.9	21.0	22.4	21.7	21.4	22.0
Gross Margins (%)	54.5	53.0	55.8	54.3	56.9	55.1	55.8	56.6	54.4	56.1	56.0
EBITDA Margins (%)	24.2	25.2	27.2	27.1	27.8	28.2	28.0	27.8	26.0	28.0	27.4
EBIT Margins (%)	17.4	18.7	20.3	20.6	20.8	21.5	21.3	21.5	19.4	21.3	20.4

E:MOFSL Estimates

25 October 2023

2QFY24Results Update | Sector: Logistics

Mahindra Logistics

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	MAHLOG IN
Equity Shares (m)	72
M.Cap.(INRb)/(USDb)	26.5 / 0.3
52-Week Range (INR)	559 / 347
1, 6, 12 Rel. Per (%)	-3/-6/-40
12M Avg Val (INR M)	78

Financial Snapshot (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	51.3	58.0	71.4
EBITDA	2.6	2.7	3.7
Adj. PAT	0.3	-0.1	0.9
EBITDA Margin (%)	5.1	4.6	5.2
Adj. EPS (INR)	3.7	-1.7	12.4
EPS Gr. (%)	49.7	-146.6	-825.4
BV/Sh. (INR)	78.5	74.3	84.2
Ratios			
Net D:E	0.5	0.7	0.3
RoE (%)	4.7	-2.2	15.7
RoCE (%)	8.7	-15.2	14.2
Payout (%)	68.1	0.0	20.1
Valuations			
P/E (x)	98.6	-211.4	29.1
P/BV (x)	4.6	4.9	4.3
EV/EBITDA(x)	11.0	10.3	6.9
Div. Yield (%)	0.7	0.7	0.7
FCF Yield (%)	3.9	1.6	7.1

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	58.0	58.0	58.1
DII	14.6	17.0	15.6
FII	12.1	11.5	15.8
Others	15.3	13.5	10.5

FII Includes depository receipts

CMP: INR369 TP: INR330 (-10%) Neutral

MLL Express's weak show hurts overall performance

- Mahindra Logistics (MLL)'s 2QFY24 revenue grew ~3% YoY to INR13.6b (in line). EBITDA margin came in at 3.9% (vs. est. of 5.1%) in 2QFY24 (-117bp YoY and -120bp QoQ). EBITDA declined 21% YoY to INR536m (vs. est. of INR718m) during the quarter.
- The company posted a net loss of INR159m in 2QFY24 vs. APAT of INR122m in 2QFY23 (our PAT estimate was INR29m). Weak operating performance and high tax outgo impacted PAT adversely during 2QFY24.
- The company's EBITDA and PAT were hit by MLL Express's weak performance (Rivigo B2B express business). The division reported an operating loss of INR244m during 2QFY24.
- A slower-than-expected volume recovery in the express business led to higher operating loss on a QoQ basis. MLL now expects EBITDA breakeven by end-FY24 (earlier target of 3QFY24). We cut our EBITDA margin estimates for FY24 and FY25 by 40bp and 20bp, respectively, to factor in the extended losses in the express business. We expect MLL to clock a revenue/EBITDA CAGR of 18%/19% over FY23-25. We reiterate our Neutral rating with a revised TP of INR330 (premised on 26x FY25E EPS).

MLL's express business yet to stabilize amid slowdown; management expects volume to pick-up

- In the B2B express business, 2QFY24 saw a mere 4% volume growth on a QoQ basis. MLL has been focusing on integrating the business of Rivigo with its network and has lost certain customers in 1QFY24 due to the integration exercise. MLL is now attempting to regain these lost volumes and expects better growth ahead.
- The express business is witnessing a robust pipeline in both corporate and retail segments. Additionally, there has been an expansion in infrastructure and coverage footprints during 2QFY24.
- The company expects losses to reduce as volumes ramp-up. It expects ~5% MoM growth in volumes in 2HFY24. Management is targeting a breakeven at EBITDA level by end-FY24.

Highlights from the management commentary

- The 3PL Contract Logistics business grew 4% YoY driven by robust auto volumes from M&M. Auto and manufacturing constituted around 68-70% of the contract logistics business. The contract logistics business secured an order intake of ~INR1b during the quarter. There was a capacity consolidation in the mid-mile segment.
- Enterprise Mobility Services (EMS) reported a revenue of INR863m (+37% YoY) and EBIT of ~INR9m. Domestic air passenger travel surged ~140% to nearly 113m passengers over Apr-Sep'23, indicating a robust upswing. With the ongoing festival season, an even greater increase in traffic is anticipated.

- The B2B express business delivered a subpar performance in 2QFY24. MLL plans to achieve an EBITDA breakeven as volume growth improves. It is targeting a 5% MoM volume growth through 2HFY24.
- Warehouse space under management stood at 19.6m sq. ft. in the 3PL business, and expansions in Chakan, Kolkata, Nasik, and Guwahati are on track.

Valuation and view

- MLL anticipates margin challenges, primarily due to: a) lower volumes in express logistics, b) depressed ocean freight rates, c) escalating competition in the 3PL business, and c) a slowdown in the E-commerce industry.
- Given slower-than-expected recovery in the express logistics segment, we cut our revenue/EBITDA/PAT estimates for FY25 by 1%/5%/13%. We estimate MLL to achieve a revenue/EBITDA CAGR of 18%/ 19% over FY23-25. **We reiterate our Neutral rating with a revised TP of INR330 (premised on 26x FY25E EPS).**

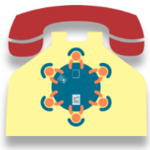
Quarterly snapshot INR m

Y/E March (INR m)	FY23				FY24E				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	vs Est
Net Sales	**11,999**	**13,263**	**13,296**	**12,725**	**12,932**	**13,648**	**15,608**	**15,788**	**51,283**	**57,976**	**14,084**	**(3)**
YoY Change (%)	35.9	28.4	17.0	16.9	7.8	2.9	17.4	24.1	23.8	13.1	6.2	
EBITDA	**657**	**676**	**627**	**637**	**666**	**536**	**695**	**759**	**2,598**	**2,656**	**718**	**(25)**
Margins (%)	5.5	5.1	4.7	5.0	5.2	3.9	4.5	4.8	5.1	4.6	5.1	
YoY Change (%)	61.8	43.8	38.4	23.8	1.4	-20.7	10.7	19.1	41.0	2.2	6.3	
Depreciation	409	436	498	553	545	518	510	515	1,895	2,088	550	
Interest	89	107	150	169	178	165	180	197	516	720	180	
Other Income	31	34	56	38	62	66	50	44	159	222	48	
PBT	**190**	**167**	**36**	**-46**	**6**	**-82**	**55**	**91**	**345**	**70**	**36**	
Tax	53	47	19	-48	89	73	14	23	71	198	9	
Rate (%)	28.1	28.5	53.0	104.3	1,556.1	-89.2	25.2	25.2	20.6	284.2	25.2	
PAT before MI, Associates	**136**	**119**	**17**	**2**	**-83**	**-155**	**41**	**68**	**274**	-128.5	27.1	
Share of associates/ Minority Interest	-1	3	-3	-10	-3	-5	2	11	-11	6	2	
Reported PAT	**135**	**122**	**14**	**-8.2**	**-85.5**	**-159**	**43**	**79**	**263**	**-123**	**29**	
Adj PAT	**135**	**122**	**14**	**-8.2**	**-85.5**	**-159**	**43**	**79**	**263**	**-123**	**29**	**NM**
YoY Change (%)	310.9	132.2	-21.5	-111.1	NA	NM	207.9	LP	49.7	-146.6	-76.1	
Margins (%)	1.1	0.9	0.1	-0.1	-0.7	-1.2	0.3	0.5	0.5	-0.2	0.2	

Indus Towers

BSE SENSEX	S&P CNX
64,049	19,122

Conference Call Details



Date: 26th Oct 2023

Time: 02:30pm IST

Financials & Valuations (INR b)

INR b	FY23	FY24E	FY25E
Net Sales	283.8	287.8	301.0
EBITDA	96.7	138.4	145.6
Adj. PAT	24.0	52.6	56.5
EBITDA Margin (%)	34.1	48.1	48.4
Adj. EPS (INR)	8.9	19.5	21.0
EPS Gr. (%)	-62.3	118.7	7.4
BV/Sh. (INR)	78.3	97.8	118.8
Ratios			
Net D:E	0.2	0.1	-0.1
RoE (%)	11.1	22.2	19.3
RoCE (%)	13.0	22.9	21.3
Valuations			
EV/EBITDA (x)	5.3	3.5	2.9
P/E (x)	19.5	8.9	8.3
P/BV (x)	2.2	1.8	1.5
Div. Yield (%)	0.0	0.0	0.0

CMP: INR174 — Neutral

VIL provision continues; FCF turns negative

- Revenue inched up 1% QoQ to INR71b (in line), led by energy revenue growth of 2% QoQ to INR28b, while rental revenue was flat QoQ to INR43b.
  - The company added ~6k towers and only ~5.6k co-locations. This implies a reduction in the average sharing factor to 1.75x from 1.77x.
  - Energy revenue grew 2% QoQ led by an increase in towers (+3% QoQ) to 204k during the quarter.
- EBITDA declined 2% QoQ to INR34b (6% miss), due to an increase in VIL provision to INR1.3b (vs. INR870m in 1QFY24).
  - After adjusting VIL provisions, **EBITDA was flat QoQ to INR36b (in-line) and the adjusted margin contracted 60bp QoQ to 49.8%.**
  - Rental EBITDA (adjusting for VIL provisions) declined 1% QoQ to INR36b and margin contracted 90bp QoQ to 83%.
  - At operating level, Energy continued with its loss of INR618m (vs. INR850m loss in 1QFY24).
- The increase in depreciation costs has led to a 4% QoQ decline in PAT to INR13b (12% miss).
- Adjusted PAT (after VIL provision) was flat QoQ to INR14b.
- For 1HFY24, FCF turned negative at -INR9b (vs. +INR2b in 1HFY23) due to higher capex of INR39b in 1HFY24 (vs. INR13b in 1HFY23)
  - The company generated 3.5% FCF yield in FY23.
- Net debt (excluding lease) rose from INR10b in 1HFY23 to reach INR54b.

VIL provision terms

- VIL reported difficulties in fulfilling the scheduled payments for the outstanding amount due in Dec'22, which were anticipated to be paid between Jan'23 and Jul'23. This was because the funding strategy did not materialize during the quarter.
- However, VIL has been paying the monthly billing amount from Jan'23 onwards. The cumulative provision booking for VIL over the last six quarters stood at INR56.5b.

Quarterly Performance (INR b)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	
(Consolidated)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			2QE	Var (%)
Revenue from operations	69	80	68	68	71	71	73	73	284	288	72	-0.7
YoY Change (%)	1.5	15.9	-2.3	-5.1	2.6	-10.5	7.2	8.4	10.6	1.4	-9.8	
Total Expenditure	46	52	56	33	36	37	38	38	187	149	35	4.7
EBITDA	**23**	**28**	**12**	**34**	**35**	**34**	**35**	**35**	**97**	**138**	**36**	-6.0
YoY Change (%)	-35.7	-22.4	-68.6	-15.5	53.8	21.7	197.7	1.4	-26.2	43.2	29.5	
Depreciation	13	13	14	13	14	15	14	13	53	56	14	9.3
Interest	4	4	4	3	4	2	4	5	15	15	4	-31.5
Other Income	1	1	1	1	1	1	1	1	4	3	1	36.2
PBT before EO expense	**6**	**12**	**-5**	**19**	**18**	**17**	**18**	**17**	**33**	**71**	**20**	-10.7
Extra-Ord expense	0	0	5	0	0	0	0	0	5	0	0	
PBT	**6**	**12**	**-10**	**19**	**18**	**17**	**18**	**17**	**28**	**71**	**20**	-10.7
Tax	2	3	-2	5	5	5	4	4	7	18	5	
Rate (%)	25.8	25.8	25.6	26.1	25.5	25.9	25.2	25.2	26.1	25.4	25.2	
Reported PAT	**5**	**9**	**-7**	**14**	**13**	**13**	**13**	**13**	**20**	**53**	**15**	-11.6
YoY Change (%)	-66.3	-44.1	-145.1	-23.5	182.4	48.5	-485.4	-7.1	-51.7	118.7	68.0	

E: MOFSL Estimates

Global Economy

3QCY23: A one-stop guide to the key macro/financial indicators

- In 3QCY23, global financial markets saw a risk-off scenario – equity markets sold off, bond yields rose, and the US Dollar strengthened. There is some respite in Oct'23, but the risks to global economic outlook continue to linger.
- Consumption remained the key driver of global GDP growth in 2QCY23, and headline CPI-inflation has inched up again in 3QCY23, after falling steadily till Jun'23.
- Global fiscal deficit has narrowed in 2QCY23, led by AEs and the monetary stimulus continued to fall, evident from the shrinking balance sheet of the Central Banks. However, the global broad money supply grew faster in Apr-Aug'23, though narrow money supply continued to fall.
- Further, it seems that the major central banks are on the brink of peak rates, but the US Fed may do one more rate hike. The RBI has also kept its interest rates unchanged in the past four policy meetings, but we do not expect that rate cuts are imminent.
- Lastly, there are clear signs of emerging weaknesses in the US housing market with a sharp surge in mortgage rates and the US labor market is also softening. The ratio of job vacancies to the unemployed has fallen sharply in the recent months.

AGENDA

Maruti Suzuki: Don't see Delhi government policy for cab aggregators as a negative; Shashank Srivastava, ED

- Company may sell 1.4 lakh cars & industry around 3 lakh over next 15-day festive period
- Industry may see 18% growth, 10 lakh cars may be sold in entire festive season, till Bhai Dooj
- Highest growth coming from SUVs, MPVs, premium hatchbacks & entry-level sedans
- Company is now cutting back on production of entry-level cars
- Don't see Delhi government policy for cab aggregators as a negative

Read More

PNB Housing: Re-start of corporate lending expected in 2-3 quarters; Girish Kousgi, MD & CEO

- Maintain 17-18% retail loan growth guidance for FY24
- Expect further improvement in asset quality; Aim to have best-in-class asset quality among HFCs
- Affordable housing book to cross Rs. 1000 cr. soon
- Expect cost of funds to moderate ahead
- Re-start of corporate lending expected in 2-3 quarters; to focus on construction finance with retail linkage

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J&K Bank: Expects Gross NPA to come down to 4.5% by the end of FY24; Baldev Prakash, MD & CEO

- Growth story is on track, credit growth currently at 18%. Expect credit growth to be in the range of 15-18%
- Fund raising is being done for growth capital
- Expect to maintain capital adequacy ratio at 16% & CET-I ratio at 13%
- Net NPA is at 1% after a long time, expect it to go below 1% this year. Gross NPA can come down to 4.5% by the end of this fiscal
- Do not have any lumpy accounts in balance sheet. Slippage ratio is seen in the range of 1-1.25% for FY24

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Mahindra Holidays: We will be generating sufficient amount of cash; Kavinder Singh, MD & CEO

- We will be generating sufficient amount of cash by accelerating member additions
- The occupancies ex- Uttarakhand & HP, we are well above 80%
- Next quarter we are looking for 84-85% and on an increase base
- Q2 we added 4,881 members and this was higher ever member addition
- We are aiming to move from 5k to 10k rooms in next 7 years

Read More

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

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