23 October 2024

MORNING INDIA

Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	80,221	-1.1	11.0
Nifty-50	24,472	-1.2	12.6
Nifty-M 100	56,174	-2.6	21.6
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,851	0.0	22.7
Nasdaq	18,573	0.2	23.7
FTSE 100	8,307	-0.1	7.4
DAX	19,422	-0.2	15.9
Hang Seng	7,363	0.3	27.6
Nikkei 225	38,412	-1.4	14.8
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	76	3.0	-2.3
Gold ($/OZ)	2,749	1.1	33.3
Cu (US$/MT)	9,438	0.2	11.5
Almn (US$/MT)	2,602	1.7	11.0
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	84.1	0.0	1.0
USD/EUR	1.1	-0.1	-2.2
USD/JPY	151.1	0.2	7.1
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.8	-0.01	-0.4
10 Yrs AAA Corp	7.3	-0.01	-0.4
Flows (USD b)	**22-Oct**	**MTD**	**CYTD**
FIIs	-0.5	-8.30	3.2
DIIs	0.70	10.61	50.7
Volumes (INRb)	**22-Oct**	**MTD***	**YTD***
Cash	1,219	1152	1291
F&O	5,32,102	4,00,076	3,81,925

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

Persistent Systems: Another strong show

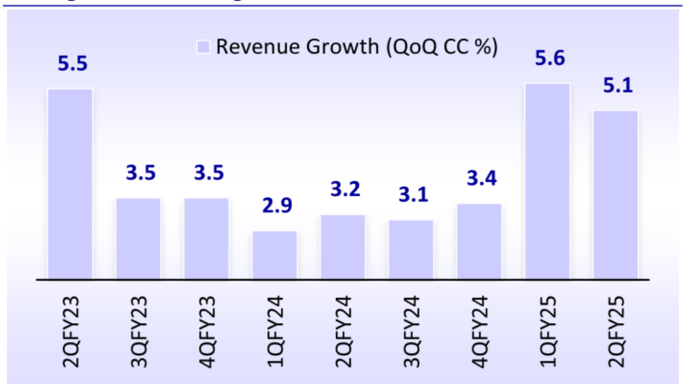
- Persistent Systems (PSYS) reported 2QFY25 revenue of USD345.5m, +5.3% QoQ in USD terms, above our estimate of ~+4.6% QoQ. It reported CC growth of 5.1% QoQ. EBIT margin stood at 14%, above our estimate of 13.6%.
- Despite a slowdown in its key vertical, PSYS has continued to grow at a breakneck pace of 20.1% YoY this quarter; both healthcare and BFSI contributed to the growth. PSYS's presence in high-growth verticals provides it a natural advantage and is one of the key reasons why it secures the no. 1 rank in our IMPACT framework analysis in Sep'24 thematic report.
- We have written earlier in our PSYS management meet note as well; despite one-off gains, the company has enough operational levers to pull: utilization levels are comfortable and could go higher, SG&A investments are now behind, and subcontracting costs (thanks to the healthcare deal ramp up) are bound to come down.

Research covered

Cos/Sector	Key Highlights
Persistent Systems	Another strong show
Hyundai Motor	Initiating Coverage: In tune with industry trends
Bajaj Finance	Elevated credit costs remain a drag on earnings
Zomato	Stable quarter, quick commerce investments in focus
Ambuja Cements	Announced acquisition of 46.8% stake in Orient Cement
Other Updates	ICICI Prudential Life Insurance | Union Bank of India | One 97 Communications | Mahindra & Mahindra Financial | Kajaria Ceramics | Gravita India | Zensar | Mahindra Logistics | Indus Towers | SRF | MAX Financial Services | Can Fin Homes | Shoppers Stop

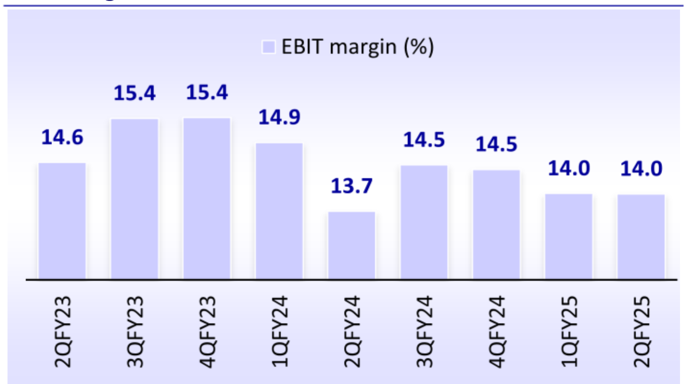
Chart of the Day: Persistent Systems (Another strong show)

Strong 5.1% QoQ CC growth in 2QFY25



Source: Company, MOFSL

EBIT margin remained flat at 14%



Source: Company, MOFSL

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In the news today

Kindly click on textbox for the detailed news link

1

Extremely clear that market is facing muted demand, says Nestle India chairman

High food inflation is straining middle-income households, said Suresh Narayanan, chairman and managing director of Nestlé India.

2

Anil Ambani-led Reliance Infra to invest $1.2 billion over next ten years for ammunition project

Reliance Infra will set up the project in the western state of Maharashtra and is aiming for potential joint ventures with six global defence companies, the company said in an exchange filing, without giving any further details.

3

Reliance-Disney merger: CCI approves $8.5-billion deal in detailed order

Reliance-Disney merger: As part of seeking CCI's approval, the parties have voluntarily agreed not to bundle TV ad slots for IPL, ICC, and BCCI cricketing rights until the end of existing rights

4

Sebi notice to Adani Energy for alleged mis-categorisation of shareholding

The group's renewable energy firm, Adani Green Energy Ltd, which also declared its second quarter earnings, did not receive any new notice from SEBI

5

Hyundai Motor India confirms plans to launch hybrid vehicles soon

Hyundai Motor India Limited (HMIL) has confirmed its plans to introduce hybrid vehicles in the Indian market in the near future.

6

Adani's Ambuja to acquire 46.8% stake in Orient Cement for Rs 8,100 cr

The Adani group’s Ambuja Cements on Tuesday announced its third acquisition of the ongoing financial year, with a binding agreement to acquire a 46.8 per cent stake in the C K Birla family-owned Orient Cement Limited (OCL) for an equity value of Rs 8,100 crore

7

Air India aims to double direct sales earnings in 2-3 years

Tata Group-run Air India aims to double its ticket sales through direct channels, including its website and app, within the next 2-3 years by enhancing their value proposition to passengers, Satya Ramaswamy, chief digital and technology officer (CDTO), Air India, said on Tuesday

Persistent Systems

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	PSYS IN
Equity Shares (m)	156
M.Cap.(INRb)/(USDb)	803.9 / 9.6
52-Week Range (INR)	5693 / 2840
1, 6, 12 Rel. Per (%)	1/37/49
12M Avg Val (INR M)	2707

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	117.5	139.7	166.2
EBIT Margin (%)	14.5	15.5	15.2
Adj. PAT	13.7	17.6	20.5
Adj. EPS (INR)	89.5	115.0	133.8
EPS Gr.(%)	19.3	28.4	16.4
BV/Sh.(INR)	377.1	446.1	526.4
Ratios			
RoE (%)	25.6	27.9	27.5
RoCE (%)	23.1	25.1	24.6
Payout (%)	40.0	40.0	40.0
Valuations			
P/E (x)	57.9	45.1	38.7
P/BV (x)	13.7	11.6	9.8
EV/EBITDA (x)	38.7	30.4	25.8
Div. Yield (%)	0.7	0.9	1.0

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	30.7	31.0	31.1
DII	27.4	28.2	28.7
FII	25.0	23.2	23.3
Others	17.0	17.5	17.0

FII Includes depository receipts

CMP: INR5158 TP: INR6300 (+22%) Buy

Another strong show

Strong growth and commendable profitability management

- Persistent Systems (PSYS) reported 2QFY25 revenue of USD345.5m, +5.3% QoQ in USD terms, above our estimate of ~+4.6% QoQ. It reported CC growth of 5.1% QoQ. EBIT margin stood at 14%, above our estimate of 13.6%. EBIT grew 5.8% QoQ/22.8% YoY to INR4.1b. PAT came in at INR3.2b, up 6.1% QoQ/23.4% YoY, in line with our estimate of INR3.2b. For 1HFY25, revenue/EBIT/PAT grew 19.0%/16.7%/16.8% vs. 1HFY24. We expect revenue/EBIT/PAT to grow by 20.2%/23.9%/23.2% YoY in 2HFY25. TTM TCV was USD529m, up 14% QoQ and 10% YoY (1.5x book-to-bill).

Our view:

- **Continues to grow faster than the rest of the market:** Despite a slowdown in its key vertical, PSYS has continued to grow at a breakneck pace of 20.1% YoY this quarter; both healthcare and BFSI contributed to the growth. PSYS's presence in high-growth verticals provides it a natural advantage and is one of the key reasons why it secures the no. 1 rank in our IMPACT framework analysis in our Sep'24 thematic report (Technology: Bounce-back! Charting the path to revival for IT services).
- **Margins management commendable:** PSYS's margins and the one-offs have been an area of intense focus. This quarter, PSYS managed to maintain flat margins despite headwinds such as wage hikes (210bp), ESOP costs (60bp), and the absence of one-off benefits (130bp); the headwinds were offset by utilization gains (120bp), pricing (130bp), lower sub-con cost (70bp) and other gains such as visa, forex, and lower pass-through (140bp).
- We have written earlier in our 6th Sep'24 PSYS management meet note as well; despite one-off gains, the company has enough operational levers to pull: utilization levels are comfortable and could go higher, SG&A investments are now behind, and subcontracting costs (thanks to the healthcare deal ramp up) are bound to come down.
- The management continues to prioritize growth and wallet share gains, and we believe this is the right strategy.
- **Hi-tech to join the party**: We are seeing the foundations of a recovery in hi-tech in commentaries this earnings season, and PSYS corroborated the same. This gives PSYS an additional growth tailwind, and we expect growth rates across the three key verticals to converge going forward.

Valuation and changes to our estimates

- **We project a 19% USD revenue CAGR over FY24-27E for PSYS**, which, combined with margin expansion, could result in a ~21%+ EPS CAGR. This positions PSYS in a league of its own as a diversified product engineering and IT services player, justifying a premium valuation multiple.
- Our estimates are largely unchanged. The stock is currently trading at an admittedly expensive valuation. That said, owing to its superior earnings growth trajectory, on a PEG basis, we believe the valuation still has room for upside. We value PSYS at 50x Sep'26E EPS. **Reiterate BUY with a TP of INR6,300.**

Revenue and margins beat estimates; healthcare and BFSI lead the charge

- 2QFY25 revenue stood at USD345.5m, up 5.3% QoQ in USD terms (above our estimate of 4.6% QoQ). It reported CC growth of 5.1% QoQ.
- Growth was broad-based across the US and Europe and was led by both healthcare (up 9.6% QoQ) and BFSI (up 7.7% QoQ). Hi-tech was again flat QoQ.
- EBIT margin at 14% was flat QoQ, and above our estimate of 13.6%.
- TTM TCV was USD529m, up 14% QoQ and 10% YoY (1.5x book-to-bill; in line with average for past 2 years).
- Net new TCV was up 25% QoQ at US389.8m. ACV stood at USD348.3m.
- Net headcount declined by 1.2% QoQ. Utilization was up 270bp QoQ at 84.8%. TTM attrition was flat QoQ at 12%.
- The top 5 clients witnessed growth of 7.7% QoQ, whereas the top 10 clients grew 5.3% QoQ.
- EBITDA grew 5.6% QoQ/18.6% YoY to INR4.8b and EBITDA margin came in at 16.6%, below our estimate of 16.2%.
- Adj. PAT stood at INR3.2b (up 6.1% QoQ/23.4% YoY), in line with our estimate of INR3.2b.

Key highlights from the management commentary

- The demand environment is pivoting based on market needs. The company is strategizing itself as a platform-driven business, utilizing AI solutions.
- All verticals are expected to see secular growth over the next couple of quarters. HLS is a non-discretionary spend vertical; this more resilient sector has been able to deliver growth.
- Winning new deals and offshoring mitigated the deflationary impact on revenue.
- Client decision-making on discretionary spending: deal wins span various sectors, focusing on setting up platforms for clients, which is revenue-bearing and not discretionary spending.
- Launching the T100 program—an initiative focused on the top 100 clients, designed to drive enhanced customer value, deepen customer intimacy, and unlock the next wave of opportunities for PSYS and its clients.
- Incremental levers for margin expansion include maintaining utilization at 83-85%, significant investments in SG&A (with a slower pace going forward), right shoring, and pricing growth momentum, all of which will help improve margins.

Valuation and view:

- Our estimates are broadly unchanged. The stock is currently trading at an admittedly expensive valuation. That said, owing to its superior earnings growth trajectory, on a PEG basis, we believe the valuation still has room for upside. We value PSYS at 50x Sep'26E EPS. **Reiterate BUY with a TP of INR6,300.**

Quarterly Performance (IFRS) (INR m)

Y/E March (Consolidated)	FY24 1Q	FY24 2Q	FY24 3Q	FY24 4Q	FY25E 1Q	FY25E 2Q	FY25E 3QE	FY25E 4QE	FY24	FY25E	Est. 2QFY25	Var. (% / bp)
Revenue (USD m)	282.9	291.7	300.6	310.9	328.2	345.5	357.8	370.3	1,186	1,402	343.5	0.6
QoQ (%)	3.0	3.1	3.0	3.4	5.6	5.3	3.5	3.5	14.5	18.2	4.6	62bp
Revenue (INR m)	23,212	24,117	24,982	25,905	27,372	28,972	30,052	31,104	98,216	1,17,499	28,776	0.7
QoQ (%)	3.0	3.9	3.6	3.7	5.7	5.8	3.7	3.5			5.1	71bp
YoY (%)	23.6	17.7	15.2	14.9	17.9	20.1	20.3	20.1	17.6	19.6	19.3	81bp
GPM (%)	34.2	33.1	33.8	33.3	33.0	33.4	33.0	34.0	33.6	33.4	32.2	120bp
SGA (%)	16.0	16.3	16.1	15.7	16.4	16.8	16.0	16.0	16.0	16.3	16.0	81bp
EBITDA	4,229	4,052	4,418	4,544	4,552	4,807	5,109	5,599	17,243	20,067	4,662	3.1
EBITDA Margin (%)	18.2	16.8	17.7	17.5	16.6	16.6	17.0	18.0	17.6	17.1	16.2	39bp
EBIT	3,466	3,308	3,631	3,744	3,840	4,062	4,337	4,799	14,149	17,038	3,914	3.8
EBIT Margin (%)	14.9	13.7	14.5	14.5	14.0	14.0	14.4	15.4	14.4	14.5	13.6	42bp
Other income	90	250	262	210	165	283	240	249	813	937	230	22.9
ETR (%)	22.0	26.0	26.5	20.3	23.5	25.2	23.0	23.0	23.7	23.6	22.0	
Adj. PAT	2,774	2,633	2,861	3,153	3,064	3,250	3,524	3,889	11,421	13,727	3,232	0.6
QoQ (%)	10.3	-5.1	8.7	10.2	-2.8	6.1	8.4	10.3			5.5	58bp
YoY (%)	31.1	19.7	6.9	25.4	10.5	23.4	23.2	23.3	20.1	20.2	22.8	68bp
Reported EPS (INR)	15.0	17.3	18.8	20.7	19.9	21.2	23.0	25.4	71.9	89.5	21.0	1.0

Key Performance Indicators

Y/E March	FY24 1Q	FY24 2Q	FY24 3Q	FY24 4Q	FY25 1Q	FY25 2Q	FY24
Revenue (QoQ CC %)	2.9	3.2	3.1	3.4	5.6	5.1	
Margins							
Gross Margin	34.2	33.1	33.8	33.3	33.0	33.4	0.3
EBIT Margin	14.9	13.7	14.5	14.5	14.0	14.0	0.1
Net Margin	12.0	10.9	11.5	12.2	11.2	11.2	0.1
Operating metrics							
Headcount	23,130	22,842	23,336	23,850	23,519	23,237	23,850
Voluntary Attrition (%)	15.50	13.50	11.90	11.50	11.90	12.00	11.5
Utilisation (%)	78.3	80.6	81.5	80.0	82.1	84.8	80.0
Effort Mix(%)							
Global Delivery Centers	13.1	12.7	13.8	14.8	15.2	15.8	14.1
India	86.9	87.3	86.2	85.2	84.8	84.2	85.9

Hyundai Motor

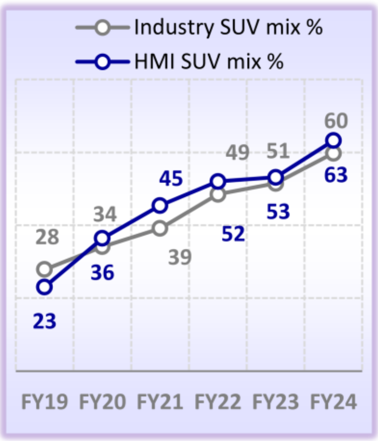
BSE Sensex	S&P CNX
81,151	24,781

CMP: INR1,960 TP: INR2,345 (+20%) Buy

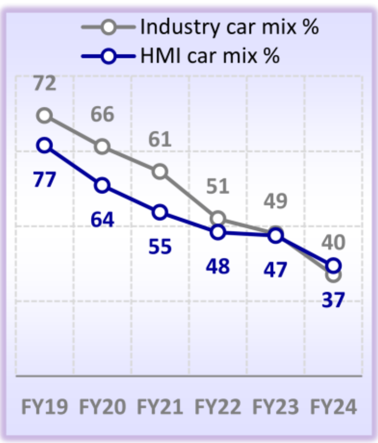
Financial Snapshot (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	709	778	882
EBITDA	93.6	106.6	121.6
Adj. PAT	55.8	64.8	76.3
EPS Gr. (%)	-7.9	16.2	17.7
BV/Sh. (INR)	172.5	220.3	276.7
Ratios			
RoE (%)	45.2	40.6	37.8
RoCE (%)	42.8	38.2	35.1
RoIC (%)	137.5	135.2	157.7
Valuations			
P/E (x)	28.5	24.6	20.9
P/BV (x)	11.4	8.9	7.1
EV/EBITDA (x)	15.9	13.6	11.6
Div. Yield (%)	1.4	1.6	1.9

HMI UV mix rising in line with industry



HMI car mix falling in line with industry



In tune with industry trends

One of the few MNCs who has cracked the India PV segment

- **Hyundai Motors India (HMI) holds a diverse portfolio mix that covers almost 87% of India's passenger vehicle (PV) market. HMI boasts a healthy domestic market share in several fast-growing segments, with 34%/20%/18% share in the mid-size SUVs/compact SUVs/premium compact car segments. HMI is well-aligned with the domestic PV industry trends, as 63% of its mix comes from utility vehicles (UVs).**
- **HMI receives extensive support from its parent, Hyundai Motor Company (HMC), in the areas of management, R&D, design, supply chain, et al. HMC's inherent strengths in emerging mobility domains can be effectively leveraged for the Indian market, which remains one of HMI's core strengths.**
- **HMI has emerged as India's second-largest PV exporter, with significant growth opportunities on the horizon. Following a projected moderation in FY25, we anticipate HMI to report 17% EPS CAGR over FY25-27. We ascribe a slight premium to HMI over Maruti Suzuki (MSIL), given: 1) HMC's technological prowess in emerging technologies that can be adapted to domestic requirements; 2) superior financial metrics; 3) a relatively premium brand perception; and 4) better alignment with industry trends. We initiate coverage on HMI with a BUY rating and a TP of INR2,345, premised on 27x Sep'26E earnings (vs. 26x for MSIL).**

Well-positioned to reach greater heights

- HMI has a diverse portfolio of 13 PV models that cover all major segments, including sedans (14% of volumes), hatchbacks (23% of volumes), and SUVs (63% of volumes), accounting for up to ~87% of India's total PV addressable market for FY24. The company also has a presence across all fuel types, including petrol, diesel, CNG, and Electric Vehicles (EVs).
- HMI appears to be well-aligned with the evolving industry trends in India. Its UV mix has notably improved to 63% in FY24 from 13% in FY16, while the overall industry UV mix has risen to 60% in FY24 from 21% in FY16. Thus, HMI is well positioned for future growth.
- The company has a healthy presence in some of the fastest-growing segments in India. HMI is a market leader with 33% share in the mid-size SUV segment, 20% share in compact SUVs, 20% share in the compact sedan segment, and an 18% share in the premium compact car segment.
- Overall, HMI has now emerged as a trusted brand for its stakeholders in the Indian market.

HMI has a well-established PV ecosystem

- HMI has now established a robust ecosystem in India. It is to be noted that: 1) HMI's Chennai plant is among the few large single-location PV manufacturing plants in India with a capacity of 824,000 units p.a.; 2) HMC's largest supply chain outside of South Korea is located in India, comprising 194 tier-1 and 1,083 tier-2 suppliers; 3) the localized supply chain sources almost 93% of its materials from four adjoining districts of Chennai; and 4) HMI has the second-highest number of customer touchpoints in India.
- It is this strong manufacturing ecosystem that enables the company to launch feature-rich, reliable, innovative, and yet competitively priced PVs, thereby establishing HMI as a strong and trustworthy brand in India.

Strong backing from the parent

- HMI receives extensive support from its parent (HMC) in several aspects of its operations, including management, R&D, design, product planning, manufacturing, supply chain development, and quality control, et al.
- HMC's inherent strengths in emerging mobility domains, such as electrification, shared mobility, and autonomous driving, combined with the information flow within the Hyundai Motor Group on emerging global trends and the latest customer preferences, enable the timely identification of potential upcoming technology trends in India.
- HMI also benefits from the implementation of HMC's manufacturing practices and quality management systems in its operations
- HMI also maintains close connections with other group affiliates within the Hyundai Motor Group across the auto OEM value chain, fostering synergies in supply chain, manufacturing, and product development.

Exports – opportunities aplenty!

- On the back of its parent support, HMI is currently India's second-largest exporter of PVs, serving over 150 countries across Latin America, Africa, the Middle East, Asia, and beyond. In the past couple of years, HMI’s export revenue has registered a 25% CAGR vs. overall revenue CAGR of 21%.
- The company aims to leverage its local manufacturing capabilities to establish HMI as the largest foreign production base for HMC for emerging markets, including Southeast Asia, Latin America, Africa, and the Middle East et al.
- Exports are likely to remain a key growth driver for HMI going forward due to two main factors: 1) the higher ASP for exports, which enhances its profitability vs. domestic sales, and 2) the natural hedge it provides against imports. Given these factors, we anticipate HMI’s export volumes to report an 11% CAGR over FY25-27.

Warrants a slight premium to MSIL – Initiate coverage with a BUY

- While FY25 is likely to be a moderate year for PVs in India and consequently for HMI, we project the company to report an 8% volume CAGR over the next two years. Following a moderation in FY25E earnings, we expect HMI to post 17% earnings CAGR over FY25-27E.
- When comparing HMI with MSIL, which is its closest peer, we believe that while both OEMs are very close in competency and future growth potential, we can ascribe a slight premium to HMI over MSIL, given: 1) HMC’s technological prowess in emerging technologies that can be customized to meet Indian customer requirements as needed; 2) superior financial metrics; 3) a relatively premium brand perception; and 4) better alignment with industry trends.
- We hence assign a 27x one-year Fwd PER multiple to HMI, relative to our target multiple of 26x currently assigned to MSIL. Therefore, we arrive at our TP of INR2,345 for HMI, based on 27x Sep’26E earnings. **We initiate coverage on HMI with a BUY rating.**
- **Key downside risks:** 1) lack of revival in domestic PV demand; 2) supply chain issues and logistic disruptions; 3) unfavorable regulatory changes; 4) a delay in the ramp-up of new facilities; and 5) rise in commodity prices.

22 October 2024

2QFY25 Results Update | Sector: Financials

Bajaj Finance

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	BAF IN
Equity Shares (m)	619
M.Cap.(INRb)/(USDb)	4133.6 / 49.2
52-Week Range (INR)	7885 / 6188
1, 6, 12 Rel. Per (%)	-7/-18/-39
12M Avg Val (INR M)	8951

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Net Income	363	450	565
PPP	239	300	380
PAT	144	165	213
EPS (INR)	234	267	344
EPS Gr. (%)	23	14	29
BV/Sh. (INR)	1,240	1,582	1,881
Ratios			
NIM (%)	10.4	9.8	9.9
C/I ratio (%)	34.0	33.3	32.8
RoA (%)	4.4	3.9	4.0
RoE (%)	22.0	18.9	19.9
Payout (%)	15.4	15.0	13.1
Valuations			
P/E (x)	28.6	25.0	19.4
P/BV (x)	5.4	4.2	3.6
Div. Yield (%)	0.5	0.6	0.7

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	54.7	54.7	55.9
DII	15.1	14.3	13.1
FII	20.9	21.2	20.5
Others	9.4	9.8	10.5

FII includes depository receipts

CMP: INR6,678 TP: INR7,320 (+10%) Neutral

Elevated credit costs remain a drag on earnings

Broad-based stress across retail and SME; credit cost guidance increased

- Bajaj Finance (BAF)'s reported PAT in 2QFY25 grew 13% YoY to ~INR40.1b (in line). NII grew 23% YoY to ~INR88.4b (in line). Non-interest income stood at ~INR21.1b (+3% QoQ). Fee income was lower QoQ due to the transfer of the collections activity to RBL Bank (in its co-branded credit cards). 1HFY25 PAT grew 13% YoY to ~INR79.3b and we estimate 2HFY25 PAT to grew 15% YoY.
- BAF's 2QFY25 NIM contracted ~5bp QoQ to ~9.7%. The company expects that the ~25bp reduction in repo rates will lead to a ~10-12bp expansion in the NIM. However, the company plans to leverage the NIM expansion to support the growth of some of its newer lines of business launched over the past two years. We estimate NIM at 9.8%/9.9% in FY25/FY26.
- The company has guided for AUM growth of ~27-28% in FY25, with newer businesses contributing 2-3% to this growth, while existing businesses are expected to grow at ~24-25% YoY in FY25. In the medium term, it has guided for AUM growth of ~25-27%.
- BAF is cautiously optimistic about the portfolio movement, observing that loan losses peaked in 2Q and are expected to decline to ~2% by 4Q. It has guided for credit costs of ~205bp in FY25 (vs. the earlier guidance of 1.75-1.85%) and credit costs of 185bp-195bp for FY26.
- We cut our FY25/FY26 PAT estimate by ~2%/5% to factor in higher credit costs. We estimate a CAGR of ~27%/24% in AUM/PAT over FY24-FY27 and expect BAF to deliver RoA/RoE of ~4.1%/21% in FY27.
- While the valuations are attractive at 3.6x P/BV and 19x FY26E P/E, we believe that the asset quality stress is becoming more broad-based and spilling over to product segments across its retail and SME offerings. We do not anticipate any significant upside catalysts until it successfully navigates the challenges on the horizon. Maintain Neutral with a TP of INR7,320.

AUM rose ~29% YoY; healthy new customer acquisitions

- BAF's total customer franchise stood at ~ 92.1m, up ~20% YoY and ~5% QoQ. New customer acquisitions stood at ~4m (vs. ~3.6m YoY and ~4.5m QoQ). The company now estimates new customer acquisitions of ~15-16m in FY25. New loans booked rose ~14% YoY to ~9.7m (vs. ~8.5m in 2QFY24).
- Total AUM grew 29% YoY and ~6% QoQ to INR3.74t.

Deterioration in asset quality; GNPA/NNPA rises ~20bp/10bp

- BAF's GS3/NS3 deteriorated with GNPA/NNPA rising ~20bp/10bp to ~1.1%/0.5%, respectively, and the Stage 3 PCR increased ~1pp QoQ to ~57%.
- Net credit costs in 2QFY25 stood at ~2.1% (PY: ~1.5%). During the quarter, stage 2 assets decreased ~INR3.6b, while stage 3 assets increased ~INR9b. The net increase in stage 2 & 3 assets was ~INR5.4b. **This increase was across all retail and SME lines of businesses.** We model net credit costs of 2.1%/2.0% in FY25/FY26E.

Highlights from the management commentary

- The management believes that non Bajaj Auto 2W financing is a large opportunity and expects to significantly expand this business in the medium term. The company is also evaluating its strategy for the 3W business.
- Clients who have three or more live unsecured loans have a higher propensity to default and lower collection efficiencies. The proportion of non-B2B customers with 3+ unsecured loans is only ~9-10% (vs. 13% at its peak and ~8% pre-COVID).

Valuation and view

- Earlier, we were under the impression that credit costs would remain elevated in FY25 and normalize from FY26 onwards. However, the company has increased its credit costs guidance to 185-195bp (vs. 175-185bp earlier) for FY26. BAF's key product segments (until now) have been the secular growth segments. However, its foray into multiple new areas, such as cars, tractors, CVs, and MFI, could (in future) make its growth and credit costs vulnerable to cyclicality, despite having a well-diversified product mix.
- Despite a healthy PAT CAGR of ~24% over FY24-FY27E and RoA/RoE of 4.1%/21% in FY27E, we see limited upside catalysts. Consequently, we maintain **our Neutral rating on the stock with a TP of INR7,320 (premised on 3.5x Sep'26E BVPS).**

Quarterly Performance (INR m)

Y/E March	FY24				FY25E				FY24	FY25E	2Q FY25E	Act V/s Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	1,08,211	1,17,340	1,25,233	1,32,301	1,40,492	1,49,870	1,58,862	1,67,743	4,83,066	6,16,968	149,764	0
Interest Expenses	41,025	45,371	48,680	52,171	56,839	61,493	65,183	69,043	1,87,247	2,52,558	61,215	0
Net Interest Income	**67,186**	**71,970**	**76,553**	**80,130**	**83,653**	**88,377**	**93,680**	**98,700**	**2,95,819**	**3,64,410**	**88,549**	0
YoY Growth (%)	27.4	30.0	29.3	28.1	24.5	22.8	22.4	23.2	28.7	23.2	23.0	
Other Operating Income	16,795	16,477	16,436	17,019	20,531	21,084	21,505	22,825	66,759	85,945	19,501	8
Net Income	**83,980**	**88,447**	**92,989**	**97,149**	**104,185**	**109,461**	**115,185**	**121,525**	**362,578**	**4,50,355**	**108,051**	**1**
YoY Growth (%)	33.3	26.3	25.1	25.0	24.1	23.8	23.9	25.1	25.7	24.2	22.2	
Operating Expenses	28,544	30,100	31,567	33,028	34,709	36,390	38,391	40,687	1,23,252	1,50,177	36,306	0
Operating Profit	**55,437**	**58,347**	**61,422**	**64,121**	**69,475**	**73,071**	**76,793**	**80,838**	**2,39,326**	**3,00,178**	**71,745**	2
YoY Growth (%)	37.0	30.0	26.6	25.3	25.3	25.2	25.0	26.1	27.9	25.4	23.0	
Provisions and Cont.	9,953	10,771	12,484	13,100	16,847	19,091	21,255	20,882	46,307	78,074	17,474	9
Profit before Tax	**45,512**	**47,578**	**48,955**	**51,051**	**52,654**	**53,980**	**55,539**	**59,973**	**1,93,036**	**2,22,121**	**54,270**	-1
Tax Provisions	11,143	12,070	12,566	12,806	13,534	13,877	14,273	15,174	48,584	56,859	14,056	-1
Net Profit	**34,369**	**35,508**	**36,390**	**38,245**	**39,120**	**40,103**	**41,265**	**44,799**	**1,44,452**	**1,65,262**	**40,214**	0
YoY Growth (%)	36.8	27.7	22.4	21.1	13.8	12.9	13.4	17.1	25.5	14.4	13.3	
Key Operating Parameters (%)												
Fees to Net Income Ratio	20.0	18.6	17.7	17.5	19.7	19.3	18.7	18.8	18.4	19.1		
Credit Cost	1.57	1.56	1.69	1.66	1.99	2.12	2.23	2.05	1.6	2.1		
Cost to Income Ratio	34.0	34.0	33.9	34.0	33.3	33.2	33.3	33.5	34.0	33.3		
Tax Rate	24.5	25.4	25.7	25.1	25.7	25.7	25.7	25.3	25.2	25.6		
Balance Sheet Parameters						5.6						
AUM (INR B)	2,701	2,903	3,110	3,306	3,542	3,739	3,990	4,232	3,306	3,542		
Change YoY (%)	42.3	32.9	34.7	33.6	38.4	28.8	28.3	28.0	33.6	38.4		
Loans (INR B)	2,653	2,857	3,064	3,263	3,497	3,692	3,950	4,193	3,263	3,497		
Change YoY (%)	44.1	34.3	35.9	34.7	39.2	29.2	28.9	28.5	34.7	39.2		
Borrowings (INR B)	2,352	2,544	2,639	2,895	3,048	3,192	3,423	3,669	2,895	3,048		
Change YoY (%)	47.8	38.8	31.1	34.4	35.7	25.5	29.7	26.7	34.4	35.7		
Loans/Borrowings (%)	112.8	112.3	116.1	112.7	114.7	115.7	115.4	114.3	112.7	114.7		
Asset Quality Parameters (%)												
GS 3 (INR B)	23.5	26.5	29.6	28.2	30.5	39.5	0.0	0.0	27.4	49.1		
Gross Stage 3 (% on Assets)	0.87	0.91	0.95	0.85	0.86	1.06	0.00	0.00	0.83	1.15		
NS 3 (INR B)	8.3	9.0	11.4	12.1	13.4	17.0	0.0	0.0	11.8	21.1		
Net Stage 3 (% on Assets)	0.31	0.31	0.37	0.37	0.38	0.46	0.00	0.00	0.36	0.50		
PCR (%)	77.4	66.0	61.7	57.0	85.5	57.1	#DIV/0!	0.0	56.8	57.0		
Return Ratios (%)												
ROAA (Rep)	5.42	5.16	4.92	4.84	4.63	4.48	0	0	4.4	3.9		
ROAE (Rep)	24.47	24.1	21.95	20.48	19.86	19.08	0	0	22.0	18.9		

E: MOFSL Estimates

22 October 2024

2QFY25 Results Update | Sector: Internet

Zomato

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	ZOMATO IN
Equity Shares (m)	8834
M.Cap.(INRb)/(USDb)	2264.7 / 26.9
52-Week Range (INR)	298 / 101
1, 6, 12 Rel. Per (%)	-7/23/101
12M Avg Val (INR M)	11757

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
GOV	398.3	512.0	620.3
Net Sales	205.5	339.2	491.0
Change (%)	69.6	65.1	44.7
EBITA	9.1	30.4	76.5
EBITA margin (%)	4.5	9.0	15.6
Adj. PAT	9.6	29.2	63.3
PAT margin (%)	4.7	8.6	12.9
RoE (%)	4.58	12.79	23.06
RoCE (%)	0.30	7.66	18.46
EPS	1.11	3.39	7.36
EV/ Sales	10.7	6.4	4.3
Price/ Book	10.3	9.1	7.2

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	0.0	0.0	0.0
DII	17.4	23.8	30.1
FII	53.8	47.6	39.5
Others	28.9	28.7	30.4

FII Includes depository receipts

CMP: INR256 TP: INR330 (29%) Buy

Stable quarter, quick commerce investments in focus

GOV growth for quick commerce beats estimates (again)

- Zomato delivered another robust quarter as 2QFY25 revenues of INR48b grew 14% QoQ, in line with our estimate of 14% QoQ growth. Growth was led by Blinkit (GOV up 25% QoQ/122% YoY). Food delivery business also continues to deliver 20%+ YoY growth in GOV and revenue with steady margins. Adjusted EBITDA as % of GOV margin was up 20bp QoQ at 3.4%. PAT came in at INR1.8b (est. INR1.4b) and grew 389% YoY. For 1HFY25, revenue/adj. EBITDA grew 71.1%/1086.8%. vs. 1HFY24. For 2HFY25, we expect revenue/ adj. EBITDA to grow by 68.5%/123.0% YoY.

Our view: Investments in quick commerce top priority

- **Blinkit expansion a key focus area:** Zomato is focusing on aggressively expanding Blinkit by entering new cities and deepening its presence in existing markets. This includes broadening product categories like beauty, electronics, and toys, and opening larger dark stores. It recently added 152 new stores along with seven additional warehouses, bringing the total count closer to the target of 1,000 stores by FY25 (791 as of 2Q). Contrary to earlier expectations, quick commerce could become a viable alternative to kirana stores even in non-metro cities.
- **Capital raise to strengthen position and enable Blinkit to hold inventory:** With rising competition in the quick-commerce space, Zomato aims to shore up its defenses through a strategic capital raise, with an upper cap of USD1b. This capital raise will ensure Zomato maintains financial flexibility, allowing it to continue scaling Blinkit while countering competitive pressures effectively. It also allows Zomato to change its ownership structure in favor of Indian investors – this should allow the company to hold inventory in its quick commerce business.
- **This cash burn is different from food delivery:** Now that the business model is established, we are entering a phase of focused investments in quick commerce. We expect all quick commerce players, including Zepto, Swiggy and a few new entrants, to invest over the short to medium term (2-3 years).
- This “cash burn” is, however, different from the one we witnessed when food delivery was scaling up. Contrary to countless questions on whether food delivery would ever be profitable, the viability of the “dark store model” is now beyond doubt: mature dark stores are already contribution margin positive. New dark stores are reaching breakeven GOV faster (see Exhibit 11). Hence, investors will be far more lenient this time, and revenue growth could be higher for longer, as companies unlock new cities, markets, and categories.
- **Range-bound contribution margins:** With increased investments in new infrastructure and fixed costs, the immediate priority is growth and customer acquisition while maintaining a 4-5% EBITDA margin target for the long term.

Valuation and change in estimates

- Zomato's food delivery business is stable, and Blinkit offers a generational opportunity to participate in the disruption of industries such as retail, grocery and e-commerce. Our estimates are largely unchanged as the increase in Blinkit GOV as a result of dark store network expansion is offset by decreased profitability owing to increased capex and investments. Zomato should report PAT margin of 4.7%/8.6%/12.9% in FY25/FY26/FY27. Our DCF-based valuation of INR330 suggests a 28% upside from the current price. We reiterate our BUY rating on the stock.

Food delivery GOV misses slightly, Blinkit GOV beats our estimates; QIP raise of INR85b approved

- Zomato reported 2QFY25 net revenue of INR48b (+14.0% QoQ/68.5% YoY), in line with our estimate of +14% QoQ.
- Food Delivery GOV came in at INR97b, slightly below our estimate of INR101b. Blinkit GOV came in at INR61b (up 120% YoY) vs. our estimate of INR59b.
- Consol. reported EBITDA came in at INR2,260m (4.7% reported EBITDA margin vs. 4.2% in 1Q).
- For Food Delivery, adjusted EBITDA as % of GOV margin was up 10bp QoQ at 3.5%.
- Blinkit reported contribution margin of 3.8% (4.0% in 1Q). Adj. EBITDA margin was -0.1% vs. our expectation of 0.1%. Contribution margins were flat as a result of the expansion of dark stores; mature dark stores are already approaching healthy profitability.
- Food Delivery revenue grew 4% QoQ/30% YoY (est. 10% QoQ).
- Contribution margin inched up slightly to 7.6% (7.3% in 1Q).
- PAT stood at INR1.8b, up 389% YoY (est. INR1.4b) vs. INR360m in 2QFY24.
- YoY adj. revenue growth was steady at 58% and continued to trend above the stated outlook of 40%+.
- Zomato will raise INR85b via QIP to strengthen its balance sheet in response to the capital raising efforts by competition.

Key highlights from the management commentary

- Food Delivery: YoY adjusted revenue growth was steady at 58% and continued to trend above the stated outlook of 40%+. GOV growth of 20% YoY is expected to continue. The fluctuation in take rate is due to seasonality and changes in the restaurant mix, leading to this moderation in 2Q.
- Blinkit: New stores are now reaching ~INR 0.7m of GOV per day in the first full quarter after the launch, a level when they reach contribution break-even. Zomato added 152 net new stores and 7 warehouses. Since new stores and warehouses take a few months to ramp up, they tend to be margin-dilutive in the short term. The bulk of capex is used for store expansion, with the addition of 7 new warehouses. This new store capex is recorded above the contribution line.
- Zomato will raise INR85b via QIP to strengthen its balance sheet in response to competitors' fundraising.
- There is a tax on treasury income. Operational profit is still offset by carry-forward losses.

- A new app – District - will be launched in the coming weeks, focusing on transitioning to the dining and ticketing businesses. Zomato will explore more categories in the future, if feasible.

Valuation and view

- Zomato's food delivery business is stable, and Blinkit offers a generational opportunity to participate in the disruption of industries such as retail, grocery and e-commerce. Our estimates are largely unchanged as the increase in Blinkit GOV as a result of the dark store network expansion is offset by decreased profitability owing to increased capex and investments. Zomato should report PAT margin of 4.7%/8.6%/12.9% in FY25/FY26/FY27. Our DCF-based valuation of INR330 suggests a 28% upside from the current price. We **reiterate our BUY** rating on the stock.

Consolidated quarterly performance **(INR m)**

Y/E march	FY24				FY25				FY24	FY25	Estimate	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QFY25	(% / bp)
Revenue (net of delivery)	**24,160**	**28,480**	**32,880**	**35,620**	**42,060**	**47,990**	**54,590**	**60,811**	**1,21,140**	**2,05,451**	**47,860**	**0.3**
YoY Change (%)	70.9	71.4	68.8	73.2	74.1	68.5	66.0	70.7	71.1	69.6	68.0	50bp
Inventory of traded goods	5,620	6,740	7,820	8,640	10,990	13,340	15,754	18,117	28,820	58,201	12,962	2.9
Employee Expenses	3,380	4,170	4,230	4,810	5,290	5,900	6,785	7,803	16,590	25,778	5,026	17.4
Delivery expenses	8,100	9,190	10,680	11,180	13,280	13,980	15,060	16,006	39,150	58,326	10,709	30.5
Gross Profit	**7,060**	**8,380**	**10,150**	**10,990**	**12,500**	**14,770**	**16,992**	**18,886**	**36,580**	**63,147**	**19,163**	**-22.9**
Margins (%)	29.2	29.4	30.9	30.9	29.7	30.8	31.1	31.1	30.2	30.7	40	-930bp
Advertisement and sales promotion	3,140	3,550	3,740	3,890	3,960	4,210	4,404	4,505	14,320	17,080	4,215	-0.1
Others	4,400	5,300	5,900	6,240	6,770	8,300	10,251	11,604	21,840	36,925	13,627	-39.1
EBITDA	**-480**	**-470**	**510**	**860**	**1,770**	**2,260**	**2,337**	**2,777**	**420**	**9,143**	**1,322**	**NA**
Margins (%)	-2.0	-1.7	1.6	2.4	4.2	4.7	4.3	4.6	0.3	4.5	2.8	190bp
Depreciation	1,300	1,280	1,280	1,400	1,490	1,800	2,457	2,737	5,260	8,483	2,154	-16.4
Interest	180	160	180	200	250	300	382	426	720	1,358	335	-10.5
Other Income	1,810	2,120	2,190	2,350	2,360	2,210	2,730	3,041	8,470	10,340	2,393	-7.6
PBT before EO expense	**-150**	**210**	**1,240**	**1,610**	**2,390**	**2,370**	**2,228**	**2,655**	**2,910**	**9,642**	**1,226**	**NA**
PBT	**-150**	**210**	**1,240**	**1,610**	**2,390**	**2,370**	**2,228**	**2,655**	**2,910**	**9,642**	**1,226**	**NA**
Tax	-170	-150	-140	-140	-140	610	-200	-200	-600	70	-200	-405.0
Rate (%)	113.3	-71.4	-11.3	-8.7	-5.9	25.7	-9.0	-7.5	NA	NA	-16.3	4200bp
Reported PAT	**20**	**360**	**1,380**	**1,750**	**2,530**	**1,760**	**2,428**	**2,855**	**3,510**	**9,572**	**1,426**	**23.4**
Adj PAT	**20**	**360**	**1,380**	**1,750**	**2,530**	**1,760**	**2,428**	**2,855**	**3,510**	**9,572**	**1,426**	**23.4**
YoY Change (%)	-101.1	-114	-139.8	-193.0	12,550	389	75.9	63.1	-136.1	172.7	296.2	NA
Margins (%)	0.1	1.3	4.2	4.9	6.0	3.7	4.4	4.7	2.9	4.7	3.0	NA

Ambuja Cements

BSE SENSEX	S&P CNX
80,221	24,472

Stock Info

Bloomberg	ACEM IN
Equity Shares (m)	2463
M.Cap.(INRb)/(USDb)	1375.7 / 16.4
52-Week Range (INR)	707 / 404
1, 6, 12 Rel. Per (%)	-4/-19/4
12M Avg Val (INR m)	2201
Free Float (%)	32.5

Financials Snapshot (INR b)

Y/E Dec	FY24	FY25E	FY26E
Sales	341.2	413.0	469.4
EBITDA	54.7	83.0	104.1
Adj. PAT	23.4	37.3	46.6
EBITDA Margin (%)	16.0	20.1	22.2
Adj. EPS (INR)	9.5	15.2	18.9
EPS Gr. (%)	-31.8	59.9	24.8
BV/Sh. (INR)	221	234	249
Ratios			
Net D:E	-0.5	-0.3	-0.3
RoE (%)	4.9	6.7	7.8
RoCE (%)	5.1	8.0	9.5
Payout (%)	21.2	19.8	21.1
Valuations			
P/E (x)	49.8	31.2	25.0
P/BV (x)	2.1	2.0	1.9
EV/EBITDA(x)	23.7	16.9	13.2
EV/ton (USD)	184	155	144
Div. Yield (%)	0.4	0.5	0.7
FCF Yield (%)	-0.5	0.7	4.1

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	67.5	70.3	63.2
DII	15.2	13.3	15.5
FII	10.7	9.6	11.7
Others	6.6	6.8	9.6

FII includes depository receipts

CMP: INR559 TP: INR750 (+34%) BUY

Announced acquisition of 46.8% stake in Orient Cement

Consolidated capacity will increase to 97mtpa post-acquisition

- Ambuja Cement (ACEM) has announced the purchase of a 46.8% stake (37.9% from promoters and 8.9% from other public shareholders) of Orient Cement (ORCMNT) at a price of INR395.4 per share. The acquisition cost works out to be USD115/t (on the current operational capacity).
- ORCMNT has two integrated cement plants and one grinding unit operational, with an aggregate clinker/cement capacity of 5.6mt/8.5mt, spread in the South and Maharashtra markets. ORCMNT's capacity utilization stood at 72%/64% in FY24/1QFY25 and EBITDA/t stood at INR732/INR708 in FY24/1QFY25. ORCMNT plants are equipped with railway siding, renewable power (13.5MW operational and 19.7MW under commissioning), WHRS (10MW), CPP (95MW), and AFR facilities. Further, ORCMNT is a debt-free company.
- The acquisition will be funded through internal accruals and is estimated to be completed within the next three to four months.
- We believe the acquisition is at an attractive valuation of USD115/t and higher than its previous acquisition of Penna Cement at USD90/t. The higher valuation is reasonable given ORCMNT's higher capacity utilization, profitability, strong balance sheet, and availability of resources for future growth plans. ACEM currently trades at 17x/13x FY26E/FY27E EV/EBITDA. We reiterate our BUY rating with a TP of INR750, based on 20x Sep'26E EV/EBITDA.

Acquisition helps meet capacity target and drive cost efficiency

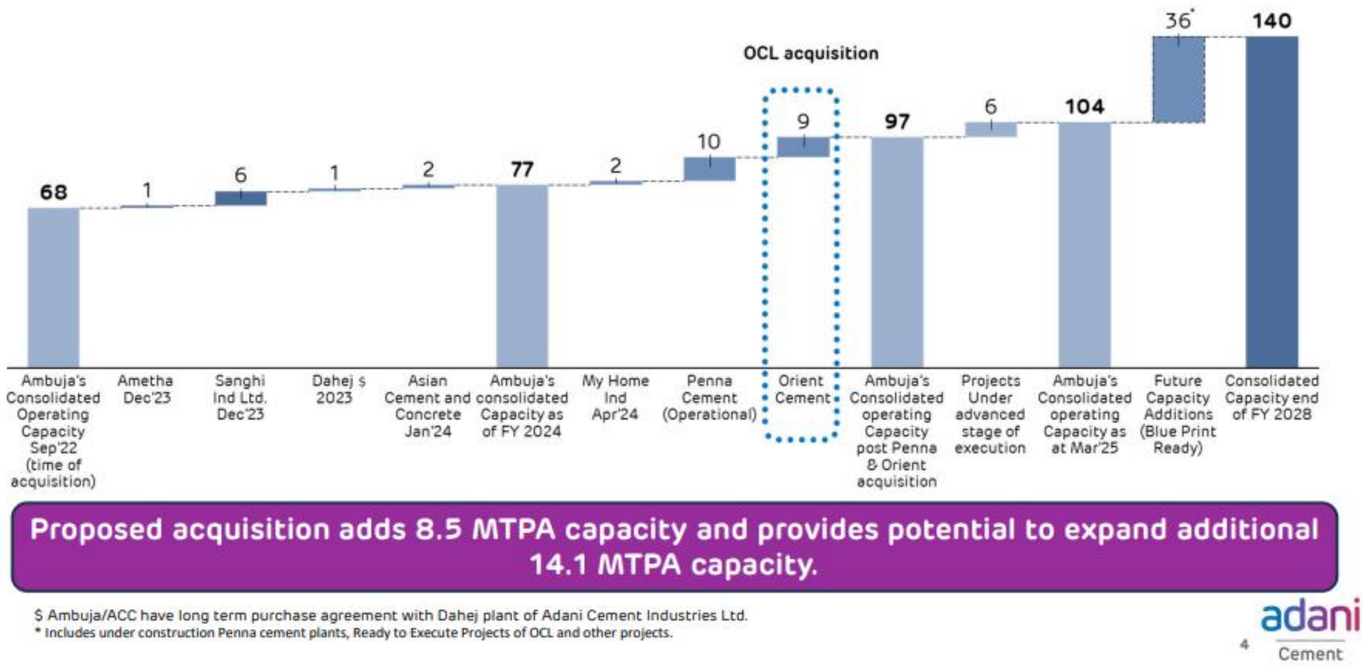
- The acquisition will increase ACEM's consolidated operational capacity to 97.4mtpa and accelerate the achievement of its capacity target of 100mtpa/140mtpa. The management highlighted that it can expand ORCMNT's clinker/grinding capacity by 10mtpa/14mtpa through a mix of brownfield and greenfield expansions in the South, North, and Central regions.
- The company has the opportunity to further improve the operational efficiency of ORCMNT by increasing the green power share, optimizing fuel costs through domestic coal linkage, and optimizing logistic costs with an improved geo-mix. For instance, the clinker rail freight for Jalgaon GU will be reduced by INR150/t by swapping with its existing footprints.
- It targets to ramp up capacity utilization to 85% over the next three years (vs. 72% in FY24). Further, it aims to leverage the ACEM and ACC brands to increase trade mix, premium cement share, and realization. With these initiatives, it expects to reach a sustainable EBITDA/t of INR1,500 by FY28 and target +15% ROCE on the investment.

Valuation and view

- ACEM is continuously focusing on cost reduction by increasing the green power share, optimizing logistics via lead distance reduction, and optimizing the warehouse and rail-road mix. We believe the company's value-accretive acquisitions and ambitious organic expansion plans will drive growth and profitability in the long run.
- The stock currently trades at 17x/13x FY26E/FY27E EV/EBITDA. We value ACEM at 20x Sep'26E EV/EBITDA to arrive at our TP of INR750. Reiterate BUY.

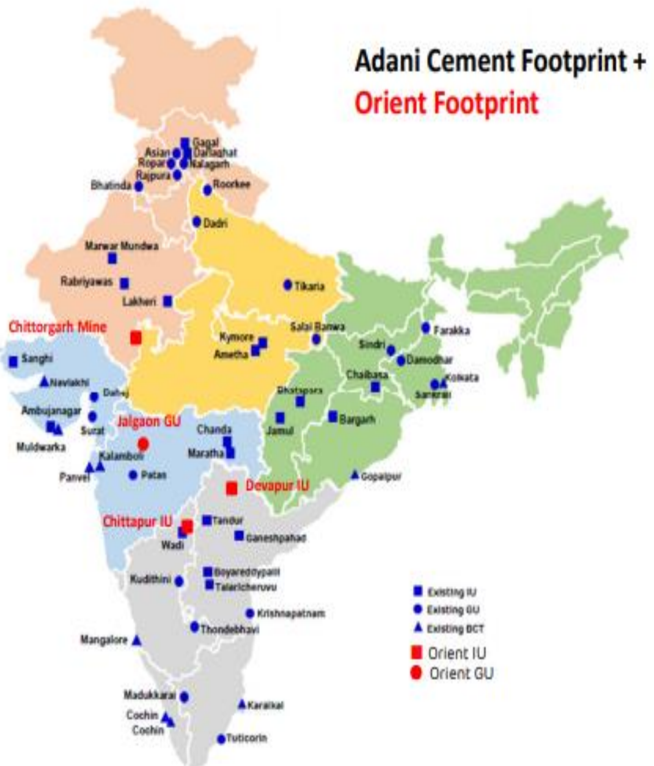
Story in charts

ACEM's roadmap to reach 140mtpa capacity by FY28E



Source: MOFSL, Company;

ACEM consolidated its capacity footprint with ORCMNT



Orient Cement's Plant wise Capacity

Plant	Clinker (MTPA)	Cement (MTPA)
Chittapur, KR	2.1	3.0
Devapur, TG	3.5	3.5
Jalgaon GU	-	2.0
Operational Capacity	**5.6**	**8.5**
Chittapur, KR	2.9	4.0
Devapur, TG + Satpura, MP	3.0	4.1
Ready to Implement Capacity	**5.9**	**8.1**
Potential New Capacity in North Market	**4.0**	**6.0**
Total Capacity + Expansion Potential	**15.5**	**22.6**

Source: MOFSL, Company

ICICI Prudential Life Insurance

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	IPRU IN
Equity Shares (m)	1444
M.Cap.(INRb)/(USDb)	1056 / 12.6
52-Week Range (INR)	797 / 463
1, 6, 12 Rel. Per (%)	0/16/14
12M Avg Val (INR M)	1218

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Net Premiums	474.5	544.9	630.4
Surplus / Deficit	17.2	18.6	21.6
Sh. holder's PAT	9.3	11.4	15.3
NBP growth unwtd (%)	16.9	16.2	16.2
APE (INRb)	112.2	131.0	153.1
VNB (INRb)	26.4	32.1	38.3
VNB margin (%)	23.5	24.5	25.0
EV per share	350	420	505
RoEV (%)	19.3	19.8	20.3
Total AUMs (INRt)	3.5	4.2	5.0
Valuations			
P/EV (x)	2.1	1.7	1.4
P/EVOP (x)	16.9	14.1	11.8

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	73.1	73.2	73.3
DII	9.3	8.8	6.4
FII	13.0	13.2	15.5
Others	4.7	4.8	4.8

FII Includes depository receipts

CMP: INR731 TP: INR900 (+23%) BUY

Miss on PAT/VNB; margins decline 460bp YoY to 23.4%

Minimal impact of surrender charges

- IPRU Life reported NBP of INR49.3b in 2QFY25, up 13.1% YoY. For 1HFY25, NBP grew 17.4% YoY to INR86.98b.
- New business APE grew 21.4% YoY to INR25b (in line) in 2Q. For 1HFY25, it rose to INR44.7b (+27% YoY).
- VNB grew 1.6% YoY to INR5.9b (9% miss). VNB margins declined 460bp YoY to 23.4% in 2QFY25 vs. our estimate of 25%.
- For 2Q, IPRU reported 3.1% YoY growth in shareholder PAT to INR2.5b (7% miss). For 1HFY25, it stood at INR4.8, up 6% YoY.
- Considering the 2Q performance, we have cut our EPS and VNB margin estimates for FY25 and FY26. However, we have kept APE growth estimates unchanged as growth in proprietary channels was offset by the margin contraction.
- For 2HFY25, we expect New Business APE/VNB/PAT to grow 21%/30%/12% YoY to INR66.8b/INR15.8b/INR4.5b. Going ahead, the company's ability to sustain strong premium growth and VNB margins will be vital for re-rating of the stock. Retain BUY with a TP of INR900 (based on 2x Sept'26E EV).

VNB margins decline due to change in product mix

- IPRU's gross premium grew 15.8% YoY to INR120.8b (in line) in 2QFY25, with renewal/first-year/single premium up 18.6%/34.6%/1% YoY.
- Renewal premium has been subdued due to 1) longer-tenure policies hitting maturity, 2) customers exiting ULIP after the five-year lock-in ends to book profits in the current market situation, and 3) slow premium growth in 2-3 years prior to 2022. IPRU has recently launched 'Platinum ULIP' as an effort to increase tenure and improve margins.
- VNB margins declined 460bp YoY to 23.4% mainly due to 1) a shift in the product mix toward ULIPs, and 2) delays in IRR change to accommodate declining G-sec yields. The company has started to align products with prevailing G-Sec rates from Oct'24.
- Commission expenses grew 60% YoY/30.6% QoQ to INR12.3b after the implementation of the new commission structure.
- Total expenses grew 45.2% YoY to INR247.3b due to growth in the protection business and weak renewal premium growth.
- On the distribution front, the share of agency and direct channels in retail APE increased to 51.6% from 44.6% in 1QFY25, due to continued investments in these channels. Partnership distribution channel has been delivering a 20% CAGR over the last 4-5 years but has slowed down due to a higher mix of non-linked business and performance volatility in 1-2 partners. However, a recovery will be seen with the addition of partners and stabilization in the market after the situation surrender guidelines impact.

- Gross business from ICICI Bank channel is stable at INR1-1.1b per month with focus on protection and annuity. ~25% of the retail business is contributed by ICICI and Standard Chartered Bank.
- On premium basis, YoY persistency improved across all cohorts. 49th month and 61st month persistency stood at 69.9% and 65.9%, respectively.
- AUM grew 18% YoY to INR3.2t, while the solvency ratio stood at 188.6% in 2QFY25.

Highlights from the management commentary

- The company is in continuous discussion with the channel partners to decide the ways to offset the impact of surrender value regulations through various models, including claw-back of commission, reduction of commission in certain products, etc.
- Credit Life segment is witnessing traction on account of partner additions and new propositions. The MFI business is seeing pressure, unlike the non-MFI credit life business. In annuity segment, the company launched benefit enhancer as a proposition last year, which gained traction and boosted the product category. The group term product has been witnessing pricing pressure due to increased competition but sum assured has started to pick up.
- The management will focus on growing the absolute VNB and product mix while maintaining stable margins.
- The board has approved the issuance of NCDs worth INR14b to raise additional capital in one or more tranches to augment the solvency position and business requirements. The fund raise is expected to improve solvency by 20%.

Valuation and view

VNB margins have been under pressure owing to a shift in the product mix (higher share of ULIPs) and delays in IRR change to accommodate declining G-sec yields. In terms of surrender charges, the company expects a minimal impact and is in discussion with the channel partners to offset the impact of surrender value regulations through various models, including claw-back of commission, reduction of commission in certain products, etc. Considering the 2Q performance, we have cut our EPS and VNB margin estimates for FY25 and FY26. However, we have kept APE growth estimates unchanged as growth in proprietary channels was offset by the margin contraction. We expect IPRU to deliver a 20% CAGR in VNB over FY24-27E. Going ahead, the company's ability to sustain strong premium growth and VNB margins will be vital for re-rating of the stock. Retain BUY with a TP of INR900 (based on 2x Sept'26E EV).

Quarterly performance **(INR b)**

Policy holder's A/c (INR b)	FY24				FY25				FY24	FY25E	FY25E	A v/s E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
First year premium	10.2	15.3	15.3	29.5	15.2	20.6	19.5	34.5	70.3	88.7	19.5	5%
Growth (%)	*-1.5%*	*5.9%*	*11.3%*	*11.9%*	*48.8%*	*34.6%*	*27.3%*	*17.0%*	*8.3%*	*26.2%*	*27.7%*	
Renewal premium	41.6	58.9	60.8	84.3	43.3	69.9	68.2	95.9	245.6	273.0	65.5	7%
Growth (%)	*6.8%*	*4.4%*	*5.7%*	*16.6%*	*4.3%*	*18.6%*	*12.3%*	*13.7%*	*9.0%*	*11.2%*	*11.2%*	
Single premium	21.9	30.1	26.7	37.8	24.3	30.3	32.4	40.5	116.5	129.6	32.4	-6%
Growth (%)	*-5.9%*	*7.0%*	*0.9%*	*20.7%*	*10.6%*	*0.9%*	*21.2%*	*7.3%*	*6.7%*	*11.3%*	*7.8%*	
Gross premium income	**73.7**	**104.3**	**102.8**	**151.5**	**82.8**	**120.8**	**120.2**	**170.9**	**432.4**	**491.3**	**117.4**	**3%**
Growth (%)	*1.5%*	*5.4%*	*5.2%*	*16.6%*	*12.3%*	*15.8%*	*16.8%*	*12.8%*	*8.3%*	*13.6%*	*12.6%*	
PAT	**2.1**	**2.4**	**2.3**	**1.7**	**2.3**	**2.5**	**2.5**	**2.0**	**8.5**	**9.3**	**2.7**	**-7%**
Growth (%)	*32.9%*	*22.4%*	*3.1%*	*-26.0%*	*8.9%*	*3.1%*	*10.0%*	*15.7%*	*5.1%*	*8.7%*	10.6%	
Key metrics (INRb)											0	
New Business APE	14.6	20.6	19.1	36.2	19.6	25.0	25.8	41.0	90.5	112.2	25.8	-3%
Growth (%)	*-3.9%*	*3.2%*	*4.7%*	*9.6%*	*34.4%*	*21.4%*	*35.4%*	*13.3%*	*4.7%*	*24.1%*	0.3	
VNB	4.4	5.8	4.4	7.8	4.7	5.9	6.1	9.7	22.3	26.4	6.5	-9%
Growth (%)	*-7.0%*	*-7.1%*	*-29.4%*	*-26.4%*	*7.8%*	*1.6%*	*39.1%*	*25.4%*	*-19.5%*	*18.4%*	0.1	
AUM	2,664	2,719	2,867	2,942	3,089	3,205	3,349	3,512	2,942	3,512	3,228	-1%
Growth (%)	*15.8%*	*11.3%*	*13.8%*	*17.1%*	*15.9%*	*17.9%*	*16.8%*	*19.4%*	*17.1%*	*19.4%*	0.2	
Key Ratios (%)												
VNB Margins (%)	30.0	28.0	22.9	21.5	24.0	23.4	23.5	23.7	24.6	23.5	25.0	

pdf

22 October 2024
2QFY25 Results Update | Sector: Financials

Union Bank of India

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	UNBK IN
Equity Shares (m)	7634
M.Cap.(INRb)/(USDb)	833.9 / 9.9
52-Week Range (INR)	173 / 91
1, 6, 12 Rel. Per (%)	-6/-37/-17
12M Avg Val (INR M)	2714

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	365.7	372.8	415.9
OP	282.1	302.1	331.2
NP	136.5	155.6	170.7
NIM (%)	2.9	2.7	2.7
EPS (INR)	18.9	20.4	22.4
EPS Gr. (%)	52.9	8.0	9.7
BV/Sh. (INR)	123	139	157
ABV/Sh. (INR)	112	129	148
RoA (%)	1.0	1.1	1.1
RoE (%)	16.7	15.9	15.4
Valuations			
P/E(X)	5.8	5.3	4.9
P/BV (X)	0.9	0.8	0.7
P/ABV (X)	1.0	0.8	0.7

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	74.8	74.8	77.0
DII	11.2	11.4	12.7
FII	6.9	7.4	2.9
Others	7.1	6.5	7.4

CMP: INR109 TP: INR135 (+24%) Buy

Modest operating performance; NIMs decline 15bp QoQ

Slippage ratio increases to 2.4%

- Union Bank of India (UNBK) reported 2QFY25 PAT of INR47.2b (34.4% YoY, 27% beat) driven by healthy other income and lower provisions (amid the reversal of standard assets provision).
- NII was flat YoY at INR90.5b (down 3.9% QoQ; 5% miss). NIMs moderated sharply by 15bp QoQ to 2.9% during the quarter.
- Loan book grew at 11.6% YoY/2.1% QoQ while deposits grew 9.2% YoY/1.5% QoQ. CD ratio, thus, increased slightly to 72.2%.
- Fresh slippages increased sharply to INR52.2b due to one large corporate account in the PSU sector. GNPA ratio declined 18bp QoQ to 4.36%, while NNPA ratio increased 8bp QoQ to 0.98%. PCR declined 255bp QoQ to 78.4%.
- We cut our earnings for FY26 estimate by 4.7% and estimate RoA/RoE of 1.1%/15.4% by FY26. **Reiterate BUY with a TP of INR135 (based on 0.9x FY26E ABV).**

Business growth modest; PCR declines slightly

- UNBK reported 34.4% YoY growth in PAT to INR47.2b (27% beat) driven by healthy other income and lower provisions (amid the reversal of standard assets provision). In 1HFY25, earnings grew 24% YoY to INR84b and we estimate 2HFY25 earnings to grow 4% YoY to INR72b.
- NII was flat YoY at INR90.5b (down 3.9% QoQ; 5% miss). NIMs moderated 15bp QoQ to 2.9% in 2QFY25 due to adjustment in penal charges.
- Other income grew 44.2% YoY (28% beat), backed by better recoveries from NPAs, and treasury gain stood at INR10.3b vs INR7b in 1QFY25. Total income, thus, grew 12% YoY to INR143.8b.
- Operating expenses grew 11.8% YoY to INR62.6b (in line). PPoP grew 12.4% YoY to INR81b (7% beat). C/I ratio, thus, moderated 51bp QoQ to 43.6%.
- Advances grew 11.6% YoY/2.1% QoQ to INR8.97t. Retail book grew 14.3% YoY (5.5% QoQ), while corporate growth was muted. Within retail, home loan and education loan grew healthy at 4.3% QoQ and 6.5% QoQ, respectively. Deposit base grew (9.2% YoY/ 1.5% QoQ), with CASA ratio moderating 68bp QoQ to 32.7%.
- Fresh slippages increased sharply to INR52.2b vs INR23.2b in 1Q, up 98% YoY/125% QoQ, due to one large ticket size book that slipped. GNPA ratio declined 18bp QoQ to 4.36%, while NNPA ratio increased 8bp QoQ to 0.98%. PCR declined 255bp QoQ to 78.4%. SMA pool stood elevated at 0.83% (0.78% in 1QFY25).
- UNBK reversed the standard provisions of INR10.3b, out of which one large account had slipped and another was classified as SMA. SMA book increased to ~INR74.8b while restructured portfolio declined to 1.2%.

Highlights from the management commentary

- Loans are expected at ~11-13% YoY and Deposits at 9-11% YoY.
- Adjustments in penal charges and drop in dummy ledger recovery led to moderation in margins.
- 11bp drop in margins was due to penal interest. The impact of penal interest is expected to be higher in 3Q compared to 1Q..
- Slippages increased due to a single large ticket size account (PSU entity) that defaulted in the current quarter.

Valuation and view

UNBK reported a mixed quarter, wherein healthy other income and lower provisions led to earnings beat. However, margins moderated 15bp QoQ and slippages stood elevated. Deposit growth was flat, with CASA ratio moderating further. Loan growth was led by retail, with a CD ratio of 72.2%. The management has guided for NIMs in the range of 2.8-3%; however, penal charges will continue to impact margins. SMA book increased due to one large account that was transferred to SMA in the current quarter. Slippages were high due to one large account; nonetheless, healthy recoveries and a consistent decline in restructured assets (1.2%) provide a healthy outlook for asset quality. However, we remain watchful for slippages in subsequent quarters. We cut our earnings for FY26 estimate by 4.7% and estimate RoA/RoE of 1.1%/15.4% by FY26. **Reiterate BUY with a TP of INR135 (based on 0.9x FY26E ABV).**

Quarterly performance **(INR b)**

	FY24				FY25E				FY24	FY25E	FY24E	V/S our
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			2QE	Est
Net Interest Income	**88.4**	**91.3**	**91.7**	**94.4**	**94.1**	**90.5**	**93.2**	**95.0**	**365.7**	**372.8**	**95.5**	**-5%**
% Change (YoY)	16.6	9.9	6.3	14.4	6.5	-0.9	1.6	0.7	11.6	1.9	4.6	
Other Income	39.0	37.0	37.7	47.1	45.1	53.3	41.2	43.7	160.8	183.3	41.5	28%
Total Income	**127.4**	**128.2**	**129.4**	**141.4**	**139.2**	**143.8**	**134.4**	**138.7**	**526.5**	**556.1**	**137.0**	**5%**
Operating Expenses	55.6	56.0	56.6	76.1	61.4	62.6	63.5	66.6	244.4	254.1	61.5	2%
Operating Profit	**71.8**	**72.2**	**72.8**	**65.3**	**77.9**	**81.1**	**70.9**	**72.2**	**282.1**	**302.1**	**75.5**	**7%**
% Change (YoY)	31.8	9.8	9.9	-4.3	8.4	12.4	-2.6	10.5	10.8	7.1	4.6	
Provisions	20.1	17.7	17.5	12.6	27.6	17.1	22.9	23.1	67.8	90.7	22.6	-24%
Profit before Tax	**51.7**	**54.5**	**55.3**	**52.7**	**50.3**	**64.0**	**48.1**	**49.0**	**214.3**	**211.4**	**52.9**	**21%**
Tax	19.4	19.4	19.4	19.6	13.5	16.8	12.7	12.8	77.8	55.8	15.9	6%
Net Profit	**32.4**	**35.1**	**35.9**	**33.1**	**36.8**	**47.2**	**35.3**	**36.3**	**136.5**	**155.6**	**37.0**	**27%**
% Change (YoY)	107.7	90.0	59.9	19.0	13.7	34.4	-1.6	9.5	61.8	14.0	5.5	
Operating Parameters												
Deposit (INR b)	11,281	11,376	11,725	12,215	12,242	12,419	12,824	13,229	12,215	13,229	12,545	
Loan (INR b)	7,705	8,036	8,621	8,708	8,787	8,971	9,282	9,666	8,708	9,666	8,995	
Deposit Growth (%)	13.6	9.0	10.1	9.3	8.5	9.2	9.4	8.3	9.3	8.3	10.3	
Loan Growth (%)	13.9	10.5	14.0	14.3	14.0	11.6	7.7	11.0	14.3	11.0	11.9	
Asset Quality												
Gross NPA (%)	7.3	6.4	4.8	4.8	4.5	4.4	4.1	3.9	4.8	3.9	3.8	
Net NPA (%)	1.6	1.3	1.1	1.0	0.9	1.0	0.9	0.9	1.1	0.9	0.8	
PCR (%)	79.8	80.7	78.4	79.1	80.9	78.4	78.0	77.7	78.4	77.7	80.2	

E: MOFSL Estimates

One 97 Communications

Estimate change	⟷
TP change	↑
Rating change	⟷

Bloomberg	PAYTM IN
Equity Shares (m)	637
M.Cap.(INRb)/(USDb)	437.1 / 5.2
52-Week Range (INR)	992 / 310
1, 6, 12 Rel. Per (%)	8/72/-56
12M Avg Val (INR M)	4503

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Revenue from Op	99.8	72.7	90.6
Contribution Profit	55.4	40.2	51.6
Adjusted EBITDA	5.6	(6.4)	(0.9)
EBITDA	(9.1)	(15.9)	(6.6)
PAT	(14.2)	(16.9)	(7.0)
EPS (INR)	(22.4)	(26.2)	(10.5)
EPS Gr. (%)	(20.2)	NM	NM
Ratios			
Contribution Margin (%)	55.5	55.3	57.0
EBITDA Margin (%)	(9.1)	(21.8)	(7.3)
Adj. EBITDA Margin (%)	5.6	(8.8)	(1.0)
RoE (%)	(10.8)	(13.2)	(5.7)
Valuations			
P/E(X)	NA	NA	NA
P/BV (X)	3.3	3.6	3.7
P/Sales (X)	4.4	6.1	5.0

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	0.0	0.0	0.0
DII	8.5	44.9	43.6
FII	55.5	20.5	21.4
Others	36.0	34.6	35.0

FII Includes depository receipts

CMP: INR686 **TP: INR700 (+2%)** **NEUTRAL**

Revenue, GMV in line; contribution margin expands

DLG arrangement to aid disbursement volumes

- One 97 Comm. (PAYTM) reported a PAT of INR9.3b, aided by the sale of its entertainment ticketing business, which resulted in net gains of INR13.5b. Adjusting for the same, the net loss stood at INR4.2b, better than MOFSL expectation of INR6.6b loss.
- Revenue stood at INR16.6b (largely in line), and GMV too stood largely in line at INR4.5t (inline, 6% QoQ). Subscription revenues grew 22% YoY/3% QoQ, while disbursements saw an uptick of 5% QoQ (down 67% YoY).
- Net payment margin improved 21% QoQ to INR4.65b (10bp of GMV vs. 9bp in 1Q), which resulted in an improved contribution margin of 53.9%.
- We largely maintain our contribution profit estimates. We estimate PAYTM to turn EBITDA positive by FY27. Also, PayTM has received much awaited approval from NPCI of onboarding of new UPI customers; we will further review our estimates and rating after getting more clarity on recovery in business volumes and growth in MTUs, post this key regulatory approval. We **retain our NEUTRAL rating with a TP of INR700**.

Adjusted EBITDA to breakeven by 4QFY25E; merchant expansion steady

- PAYTM reported an adjusted net loss of INR4.2b (vs. MOFSLe loss of INR6.6b). GMV broadly stood in line at INR4.5t, while disbursements rose to INR52.8b from the lows of 1Q. Led by the announcement of the new DLG arrangements, disbursements are likely to witness a healthy increase over the next few years.
- During 1HFY25 PAYTM reported a net loss of INR12.5b; we expect the loss to improve 43% YoY and reduce to INR4.4b in 2HFY25.
- Total revenue increased 11% QoQ (down 34% YoY) to INR16.6b (in line) as the company sees a recovery in both payments and financial services.
- Revenue from payment and financial services increased 14% QoQ (-36% YoY) to INR13.22b, while revenue from financial services rose 34% QoQ (-34% YoY) as the loan disbursements saw a slight uptick (down 67% YoY/ up 5% QoQ).
- Revenue from marketing services (erstwhile commerce and cloud services) declined 29% QoQ to INR3.02b, while no. of active cards increased to 1.38m.
- PAYTM expects the payment processing margin to settle at 5-6bp vs. the historical run-rate of 7-9bp, as the company discontinued select profitable products. Net payment margin improved 21% QoQ to INR4.65 (10bp of GMV vs. 9bp of GMV in 1QFY25). PAYTM expects to launch the DLG model (Default Loss Guarantee) to gain traction in disbursements, which will aid an increase in take rate.
- Direct expenses declined 30% YoY amid a reduction in the employee base, while the company aims to focus on merchant acquisition and improving productivity of sales employees. Contribution profit stood at INR8.9b, with contribution margin at 54%. Adjusted EBITDA loss declined to INR1.86b and net loss stood at INR4.2b.

Highlights from the management commentary

- Previously, the company operated at take rates between 4.5% and 5% without factoring in the DLG. Currently, DLG expenses are accounted for, and overall take rates over the life of a loan are above 5%.
- Over the last 4-5 years, asset quality has remained within a relatively narrow range, and without this, take rates would not vary. Adequate collection rates will drive overall take rates. Even if ECL increases, the company will maintain a 5% take rate.
- Sourcing revenue was 3.5-4%, while collection revenue accounted for 1%. Last quarter saw slightly higher collection revenue.
- The company is focused on becoming profitable (adjusted EBITDA) by the end of the year and may even surpass its guidance, expecting to achieve significant profitability by then.

Valuation and view: Maintain NEUTRAL with a TP of INR700

- PAYTM reported an in-line quarter characterized by recovery in business metrics. Disbursements on the platform have recovered slightly from the lows of 1Q as the company/lenders retained their conservative stance. GMV was in line.
- Most of the business metrics have rebounded marginally from the lows of 1Q. We expect continued recovery leading to a 24% revenue CAGR over FY25-27E.
- Contribution margin improved to 54% from 50% in 1QFY25, led by improvement in financial services' revenue mix and strong cost-control measures. The management expects to keep contribution margin healthy aided by continued cost rationalization and steady growth in the merchant financial services business.
- We estimate a ~26% CAGR in disbursements over FY25-27E, while the take rate is likely to improve as PAYTM makes use of DLG arrangements. Payment processing margin is likely to moderate to 5-6bp vs. the historical rate of 7-9bp, primarily due to the discontinuation of more profitable products.
- We largely maintain our contribution profit estimates for FY25/26E. We estimate PAYTM to turn EBITDA positive by FY27. Also, PayTM has received much awaited approval from NPCI of onboarding of new UPI customers; we will further review our estimates and rating after getting more clarity on recovery in business volumes and growth in MTUs, post this key regulatory approval. **We value PAYTM at INR700 based on 20x FY30E EBITDA discounted to FY26E, which corresponds to 5.2x FY26E sales. We retain NEUTRAL rating on the stock.**

Quarterly Performance (INR b)

	FY24				FY25E				FY24	FY25E	FY24E	V/s our
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	Est
Payment and Financial Services	**19.2**	**20.7**	**22.9**	**18.6**	**11.6**	**13.2**	**15.1**	**19.3**	**81.3**	**59.2**	**12.0**	**0.1**
% Change (Y-o-Y)	42.4	36.1	43.0	-3.0	-39.3	-36.2	-34.0	3.8	27.4	-27.1	-42.1	-0.1
Commerce and Cloud Services	**4.1**	**4.2**	**5.1**	**4.0**	**3.2**	**3.0**	**3.0**	**2.9**	**17.4**	**12.2**	**3.9**	**-0.2**
% Change (Y-o-Y)	22.0	12.5	22.4	0.5	-20.7	-28.8	-40.8	-26.6	14.4	-30.0	-9.1	2.2
Revenue from Operations	**23.4**	**25.2**	**28.5**	**22.7**	**15.0**	**16.6**	**18.5**	**22.6**	**99.8**	**72.7**	**16.2**	**0.0**
% Change (Y-o-Y)	39.3	31.6	38.2	-2.9	-35.9	-34.1	-35.1	-0.3	24.9	-27.1	-35.9	-0.0
Direct Expenses	10.4	10.9	13.3	9.8	7.5	7.7	8.1	9.3	44.4	32.5	7.7	-0.0
Contribution Profit	**13.0**	**14.3**	**15.2**	**12.9**	**7.5**	**8.9**	**10.4**	**13.3**	**55.4**	**40.2**	**8.5**	**0.1**
% Change (Y-o-Y)	79.3	69.2	45.1	0.4	-42.1	-37.3	-31.5	3.3	42.0	-27.4	-40.4	-0.1
Indirect Expenses	12.2	12.7	13.0	11.9	13.0	10.8	11.0	11.8	49.8	46.6	11.6	-0.1
Adjusted EBITDA	**0.8**	**1.5**	**2.2**	**1.0**	**-5.5**	**-1.9**	**-0.6**	**1.5**	**5.6**	**-6.4**	**-3.1**	**-0.4**
EBITDA	**-2.9**	**-2.3**	**-1.6**	**-2.2**	**-7.9**	**-4.0**	**-3.3**	**-0.6**	**-9.1**	**-15.9**	**-5.5**	**-0.3**
PAT	**-3.6**	**-2.9**	**-2.2**	**-5.5**	**-8.4**	**-4.2**	**-3.5**	**-0.9**	**-14.2**	**-16.9**	**-6.6**	**-0.4**
% Change (Y-o-Y)	-44.5	-49.9	-43.9	227.1	134.7	45.5	58.2	-83.5	-19.9	19.2	130.9	-0.7
Adj. PAT	**-3.6**	**-2.9**	**-2.2**	**-3.2**	**-8.4**	**9.3**	**-3.5**	**-0.9**			**-6.6**	
Operating Parameters												
GMV (INRt)	4.1	4.5	5.1	4.7	4.3	4.5	4.9	5.0	18.3	18.7	4.6	-0.0
Disbursements (INR b)	148.5	162.1	155.4	58.0	50.1	52.8	60.2	72.6	523.7	235.7	60.1	-0.1
GMV Growth (%)	36.8	41.5	47.4	29.6	5.2	-0.7	-3.6	7.0	38.4	2.0	1.3	
Disbursements Growth (%)	167.3	121.7	56.0	-53.8	-66.3	-67.4	-61.3	25.2	48.0	-55.0	-62.9	
Profitability												-
Contribution Margin (%)	55.7	56.6	53.3	56.8	50.3	53.9	56.3	58.9	55.5	55.3	52.6	
Adjusted EBITDA Margin (%)	3.6	6.1	7.7	4.5	-36.4	-11.2	-3.3	6.7	5.6	-8.8	-19.0	
EBITDA Margin (%)	-12.5	-9.2	-5.5	-9.9	-52.8	-24.3	-17.7	-2.7	-9.1	-21.8	-34.1	

E: MOFSL Estimates

Mahindra & Mahindra Financial

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	MMFS IN
Equity Shares (m)	1236
M.Cap.(INRb)/(USDb)	348 / 4.1
52-Week Range (INR)	343 / 237
1, 6, 12 Rel. Per (%)	-7/-9/-24
12M Avg Val (INR M)	1131

Financials & valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	71.4	82.7	98.7
PPP	41.8	49.7	61.9
PAT	17.6	24.2	30.6
EPS (INR)	14.3	19.6	24.8
EPS Gr. (%)	-11	38	26
BV/Sh.(INR)	155	169	186
Ratios			
NIM (%)	7.2	6.8	7.1
C/I ratio (%)	41.4	39.9	37.3
RoA (%)	1.7	2.0	2.2
RoE (%)	9.9	12.1	14.0
Payout (%)	44.2	31.1	28.5
Valuations			
P/E (x)	19.8	14.4	11.4
P/BV (x)	1.8	1.7	1.5
Div. Yield (%)	2.2	2.2	2.5

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	52.2	52.2	52.2
DII	31.6	30.7	25.8
FII	10.3	10.2	14.2
Others	6.0	7.0	7.8

FII Includes depository receipts

CMP: INR282 TP: INR335 (+19%) Buy

Muted outlook on loan growth; credit cost volatility continues

2H, like earlier, expected to be significantly better than 1H

- Mahindra & Mahindra Financial's (MMFS) 2QFY25 PAT grew ~57% YoY and declined 28% QoQ to ~INR3.7b (15% miss). NII stood at INR18.1b (in line) and grew ~14% YoY. Other income rose ~107% YoY to ~INR1.8b, driven by healthy fee income. 1HFY25 PAT grew 50% YoY to INR8.8b and we estimate ~31% YoY PAT growth in 2HFY25.
- NIM (calc.) declined ~20bp QoQ to ~6.6%. Credit costs stood at ~INR7b (18% above est.). Annualized credit cost was ~2.6% (PQ: ~1.7% and PY: ~2.8%).
- **MMFS management expects PV disbursements to be relatively weak for the year** and overall disbursement growth is also expected to remain muted. We model loan growth of ~16% in FY25 and ~14% CAGR over FY24-FY27.
- MMFS guided for credit costs to trend lower in 2HFY25, aided by improvement in asset quality (through recoveries and upgrades) and provision release from a lower PCR, driven by its ECL model. We estimate a ~30% PAT CAGR over FY24-FY27, with FY27E RoA/RoE of 2.4%/16%. **Retain BUY with a TP of INR335 (based on 1.7x Sep'26E BVPS).**
- **Key risks:** a) Muted yields because of higher competitive intensity, b) weakening of auto demand resulting in muted loan growth, and 3) volatility in asset quality and credit costs continuing like earlier.

NIMs decline ~20bp QoQ; CoB largely stable

- Yields (calc.) declined ~10bp QoQ to ~14.2%, while CoF (calc.) was stable QoQ at 7.8%, leading to a ~10bp compression in spreads.
- The management believes that NIM improvement will come from a combination of improvement in yields (from increase in IRR) and improvement in fee income. It guided for NIM of 6.5-6.7% in FY25. We do not see any meaningful NIM improvement levers with MMFS; however, it could benefit in a declining interest rate cycle. We estimate NIM to improve by 30bp/20bp in FY26/FY27 to 6.3%/6.5%.

Key takeaways from the management commentary

- In the current festive season, MMFS has seen a marginal improvement in demand compared to last year, especially in the tractor segment.
- The company expects credit costs of 1.3%-1.5%, NIM of 6.5-6.7% and opex of 2.6-2.7% in FY25.

Valuation and View

- In line with company guidance, we also expect 2H to be significantly better than 1H. Management commentary seemed to suggest that the demand environment is worsening and that its loan growth will largely track the underlying growth of the auto industry.
- MMFS currently trades at 1.5x FY26E P/BV. Risk-reward is favorable for a PAT CAGR of ~30% over FY24-FY27E and FY27E RoA/RoE of 2.4%/16%. Maintain BUY with a TP of INR335 (based on 1.7x Sep'26E BVPS).

Quarterly Performance **(INR M)**

Y/E March	FY24				FY25E							v/s est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY24	FY25E	2QFY25E	
Interest income	30,349	31,535	33,733	35,471	36,122	37,448	39,171	40,449	1,31,088	1,53,190	37,675	-1
Interest Expenses	14,505	15,665	16,750	17,351	18,286	19,343	20,174	20,421	64,269	78,224	19,218	1
NII	**15,844**	**15,870**	**16,983**	**18,121**	**17,836**	**18,106**	**18,997**	**20,028**	**66,818**	**74,966**	**18,457**	-2
YoY Growth (%)	5.3	9.6	9.4	13.2	12.6	14.1	11.9	10.5	9.4	12.2	16.3	
Other income	905	870	1,172	1,590	1,480	1,802	2,034	2,401	4,537	7,717	1,526	18
Net Total Income	**16,750**	**16,740**	**18,155**	**19,710**	**19,316**	**19,908**	**21,031**	**22,429**	**71,355**	**82,684**	**19,983**	0
YoY Growth (%)	6.9	8.7	10.1	14.4	15.3	18.9	15.8	13.8	10.1	15.9	19.4	
Operating Expenses	6,750	7,312	7,530	7,980	7,970	7,947	8,358	8,684	29,572	32,960	8,189	-3
Operating Profit	**10,000**	**9,428**	**10,625**	**11,730**	**11,345**	**11,961**	**12,672**	**13,745**	**41,783**	**49,724**	**11,794**	1
YoY Growth (%)	5.7	9.2	6.4	24.2	13.5	26.9	19.3	17.2	11.4	19.0	25.1	
Provisions	5,264	6,266	3,284	3,415	4,482	7,035	3,117	2,565	18,228	17,198	5,982	18
Profit before Tax	**4,735**	**3,163**	**7,341**	**8,315**	**6,864**	**4,927**	**9,556**	**11,180**	**23,555**	**32,526**	**5,812**	-15
Tax Provisions	1,209	811	1,813	2,126	1,734	1,232	2,437	2,891	5,959	8,294	1,482	-17
Net Profit	**3,527**	**2,352**	**5,528**	**6,190**	**5,130**	**3,695**	**7,119**	**8,289**	**17,596**	**24,232**	**4,330**	-15
YoY Growth (%)	58.2	-47.5	-12.1	-9.5	45.5	57.1	28.8	33.9	-11.3	37.7	84.1	
Key Operating Parameters (%)												
Yield on loans (Cal)	14.9	14.6	14.7	14.7	14.3	14.2	14.3	14.4	14.7	14.3		
Cost of funds (Cal)	7.5	7.6	7.8	7.8	7.8	7.8	7.8	7.8	8.0	8.0		
Spreads (Cal)	7.4	6.9	6.9	7.0	6.5	6.4	6.5	6.6	6.7	6.3		
Credit Cost (Cal)	~	2.8	1.4	1.4	1.7	2.6	1.1	0.9	2.0	1.6		
Cost to Income Ratio	40.3	43.7	41.48	40.49	41.3	39.9	39.74	38.72	41.4	39.9		
Tax Rate	25.5	25.6	24.7	25.6	25.3	25.0	25.5	25.9	25.3	25.5		
Balance Sheet Parameters												
Loans (INR B)	832	899	934	992	1028	1085	1107	1146	992	1146		
Change YoY (%)	42.6	29.3	27.2	24.8	30.4	20.6	18.5	15.5	24.8	15.5		
Borrowings (INR B)	790	849	864	922	953	1032	1047	1056	919	1056		
Change YoY (%)	43.6	26.0	21.9	23.1	30.7	21.6	21.2	14.5	22.6	14.9		
Loans/Borrowings (%)	105.4	106.0	108.0	107.6	107.8	105.1	105.7	108.5	108	109		
Debt/Equity (x)	4.5	5.0	4.9	5.1	5.1	5.6	5.5	5.3	4.8	5.1		
Asset Quality Parameters (%)												
GS 3 (INR B)	37.7	40.2	38.5	34.9	37.9	43.1	0.0	0.0	34.9	40.9		
Gross Stage 3 (% on Assets)	4.3	4.3	4.0	3.4	3.6	3.8	0.0	0.0	3.4	3.5		
NS 3 (INR B)	15.0	15.6	14.4	12.9	15.2	17.5	0.0	0.0	12.9	18.4		
Net Stage 3 (% on Assets)	1.8	1.7	1.5	1.3	1.5	1.6	0.0	0.0	1.3	1.6		
PCR (%)	66.9	61.2	62.7	63.2	73.5	59.5	0.0	0.0	63.2	55.0		
ECL (%)	4.0	4.0	3.8	3.3	3.3	3.5	0.0	0.0	3.8	3.4		
Return Ratios (%)												
ROAA	1.4	0.9	2.1	2.2	1.8	1.2	2.2	2.5	1.7	2.0		
ROAE	8.2	5.5	12.8	13.9	11.1	8.0	15.3	17.1	9.9	12.1		

E: MOFSL estimates

Kajaria Ceramics

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	KJC IN
Equity Shares (m)	159
M.Cap.(INRb)/(USDb)	204.9 / 2.4
52-Week Range (INR)	1579 / 1110
1, 6, 12 Rel. Per (%)	-9/-1/-21
12M Avg Val (INR M)	352
Free float (%)	52.5

Financial Snapshot (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	48.9	55.3	63.3
EBITDA	7.0	8.4	10.1
Adj. PAT	4.1	5.1	6.3
EBITDA Margin (%)	14.4	15.2	16.0
Cons. Adj. EPS (INR)	27.0	33.1	40.9
EPS Gr. (%)	-0.7	22.6	23.4
BV/Sh. (INR)	176	193	214
Ratios			
Net D:E	(0.1)	(0.2)	(0.2)
RoE (%)	15.3	17.4	19.6
RoCE (%)	17.8	20.3	22.9
Payout (%)	51.8	48.3	44.0
Valuations			
P/E (x)	47.6	38.8	31.5
P/BV (x)	7.3	6.7	6.0
EV/EBITDA(x)	28.5	23.6	19.5
EV/Sales (x)	4.1	3.6	3.1

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	47.5	47.5	47.5
DII	28.4	27.8	25.5
FII	16.1	16.2	18.5
Others	8.1	8.5	8.6

FII Includes depository receipts

CMP: INR1,287 TP: INR1,500 (+17%) Buy

Weak results amid muted demand and margin pressure

Lower volume growth guidance of 9-10% (vs. 11-12% guided earlier)

- Kajaria Ceramics (KJC)'s 2QFY25 earnings were below our estimate due to lower-than-estimated gross margin and higher-than-estimated other expenses. EBITDA dipped 12% YoY to INR1.6b (12% miss) and OPM contracted 2.5pp YoY to ~13% (vs. estimated ~15%). PAT fell ~22% YoY to INR843m (22% miss).
- The management highlighted that persistent weakness in domestic demand and excessive rainfalls led to subdued demand for the tile industry. Tile export also declined due to global headwinds. KJC reduced volume growth guidance to ~9-10% YoY (from ~11-12% earlier) in FY25. OPM was also weak partly due to the commissioning of new units during the quarter (in tiles and bathware segment), which led to additional overheads and losses in the initial period.
- We cut our EPS estimates by ~12-13% for FY25/FY26 and ~9% for FY27 due to a slower-than-expected demand recovery and consistent price corrections. We **maintain our BUY rating** on KJC with a revised TP of INR1,500 (earlier INR1,750), based on 42x Sep'26E EPS.

Volume up 8% YoY; EBITDA margin contracts 2.5pp YoY to ~13%

- Consol. revenue/EBITDA/PAT stood at INR11.8b/INR1.6b/INR843m (+5%/-12%/-22% YoY and in line/-12%/-22% vs. our estimate). Tile volume rose 8% YoY to 28.7msm, while realization declined 2% YoY to INR373/sqm.
- Gross margin decreased 1.8pp YoY to ~38%. Employee costs increased 11% YoY (12.2% of revenue vs. 11.6% in 2QFY24). Other expenses rose 6% YoY (11.9% of revenue vs. 11.8% in 2QFY24). OPM contracted 2.5pp YoY to 13%.
- In 1HFY25, revenue grew ~5% YoY, while EBITDA/PAT declined by ~7%/19% YoY. Based on our estimate, the implied revenue/EBITDA/PAT growth is ~9% /8%/16% YoY in 2HFY25 and EBITDA margin flat YoY at ~15%. OCF declined ~64% YoY to INR2.1b due to weak profitability and surge in working capital.

Highlights from the management commentary

- Expects outlook to improve for the tiles industry in 2HFY25 as dealers' feedback is positive and as demand is coming from real estate projects.
- Gas prices remained unchanged QoQ in 2QFY25, with the average price of ~INR37/scm. Regional gas prices stood at INR38/INR37/INR35 in North/ South/West.
- Plywood revenue declined 26% YoY to INR175m, bathware revenue rose 6% YoY to INR901m, and adhesives revenue was up 39% YoY at INR182m.

View and valuation

- We estimate KJC's to post a CAGR of 11%/13%/15% in revenue/EBITDA/PAT over FY24-27. We estimate tile volume to clock an 11% CAGR over FY24-27. Volume and EBITDA growth will be driven by capacity addition, increase in dealer count, increase in government projects as it sets up a pan-India project team, and positive operating leverage.
- The stock is currently trading at 39x/31x FY26E/FY27E EPS. We **maintain our BUY rating** with a revised TP of INR1,500 (earlier INR1,750), based on 42x Sep'26E EPS.

Consolidated quarterly performance (INR m)

	FY24				FY25				FY24	FY25E	FY25	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Net sales	**10,642**	**11,216**	**11,518**	**12,408**	**11,137**	**11,793**	**12,393**	**13,624**	**45,784**	**48,947**	**11,800**	(0)
YoY change (%)	5.6	4.1	5.6	3.0	4.6	5.1	7.6	9.8	4.5	6.9	**5.2**	
Total expenditure	8,950	9,419	9,730	10,688	9,466	10,204	10,621	11,613	38,787	41,905	**9,995**	2
EBITDA	**1,692**	**1,797**	**1,788**	**1,720**	**1,671**	**1,589**	**1,772**	**2,011**	**6,997**	**7,042**	**1,805**	(12)
Margin (%)	15.9	16.0	15.5	13.9	15.0	13.5	14.3	14.8	15.3	14.4	**15.3**	(183)
Depreciation	305	361	389	425	421	406	413	424	1,480	1,664	**428**	(5)
Interest	53	43	50	66	47	47	48	43	211	185	**40**	18
Other income	93	83	113	174	102	99	135	196	462	532	**125**	(21)
PBT before EO expense	**1,427**	**1,477**	**1,462**	**1,403**	**1,304**	**1,235**	**1,447**	**1,740**	**5,768**	**5,725**	**1,462**	(16)
Extra-ord expenses	0	0	0	0	0	0	0	0	0	0	**0**	
PBT after EO Expense	**1,427**	**1,477**	**1,462**	**1,403**	**1,304**	**1,235**	**1,447**	**1,740**	**5,768**	**5,725**	**1,462**	(16)
Tax	336	366	379	354	327	341	360	396	1,435	1,424	**364**	
Rate (%)	23.5	24.8	25.9	25.2	25.0	27.6	24.9	22.8	24.9	24.9	**24.9**	
Reported PAT	**1,091**	**1,110**	**1,083**	**1,050**	**978**	**893**	**1,086**	**1,344**	**4,334**	**4,301**	**1,098**	(19)
Minority interest	16	31	41	25	48	42	25	26	113	141	**20**	110
Adj. PAT	**1,075**	**1,080**	**1,042**	**1,024**	**898**	**843**	**1,061**	**1,318**	**4,221**	**4,120**	**1,078**	(22)
YoY change (%)	16.5	60.8	40.2	-2.3	-16.4	-21.9	1.9	28.7	24.7	-1.4	**(0.1)**	
Margin (%)	10.1	9.6	9.0	8.3	8.1	7.1	8.6	9.7	9.2	8.5	**9.1**	

Quarterly summary

	FY24				FY25E					
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	YoY (%)	QoQ (%)
Sales Volumes-mn sqm:										
Own Manufacturing	13.8	14.8	15.3	16.1	14.9	15.6	16.6	18.6	6	5
JVs	4.8	4.8	5.3	6.1	5.5	5.4	5.8	6.7	13	(2)
Trading	6.4	6.9	6.5	7.4	6.6	7.6	7.1	6.9	11	16
Total sales volumes	**25.0**	**26.5**	**27.1**	**29.6**	**27.0**	**28.7**	**29.5**	**32.1**	**8**	**6**
Revenue Mix (INR m)										
Own Manufacturing	5,393	5,705	5,791	6,062	5,585	5,873	6,180	6,771	3	5
JVs	1,340	1,825	1,995	2,255	1,999	1,945	2,056	2,431	7	(3)
Trading	2,833	2,469	2,343	2,599	2,312	2,717	2,502	2,347	10	18
Sanitaryware / faucets	837.1	853	922	1,023	910	901	1,125	1,425	6	(1)
Plywood	143.1	235	340	327	179	175	391	519	(26)	(2)
Adhesives	96	130	128	143	152	182	140	131	39	19
Total	**10,642**	**11,216**	**11,518**	**12,408**	**11,137**	**11,793**	**12,393**	**13,624**	**5**	**6**
Realization/sqm (INR)										
Own Manufacturing	391	386	380	377	375	376	372	365	(3)	0
JVs	279	379	375	369	362	358	355	362	(5)	(1)
Trading	442	360	360	352	352	356	353	342	(1)	1
Blended Realization	**386**	**383**	**379**	**374**	**372**	**373**	**369**	**363**	**(2)**	**0**
Growth (% YoY)	-1.7%	-3.1%	-2.9%	-4.4%	-3.6%	-2.4%	-2.7%	-2.8%		
Growth (% QoQ)	-1.2%	-0.9%	-1.0%	-1.2%	-0.4%	0.3%	-1.3%	-1.4%		

Gravita India

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	GRAV IN
Equity Shares (m)	69
M.Cap.(INRb)/(USDb)	150.1 / 1.8
52-Week Range (INR)	2700 / 730
1, 6, 12 Rel. Per (%)	-7/113/93
12M Avg Val (INR M)	545

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	38.4	49.0	62.5
Adj. EBITDA	4.1	5.4	7.1
Adj. EBITDA Margin (%)	10.7	11.1	11.3
Adj. PAT	3.0	4.1	5.5
Cons. Adj. EPS (INR)	43.0	59.9	80.3
EPS Gr. (%)	24	39	34
BV/Sh. (INR)	163	222	301
Ratios			
Net D:E	0.3	0.2	0.1
RoE (%)	22.9	25.4	26.9
RoCE (%)	30.2	31.1	30.7
Valuations			
P/E (x)	53.5	38.4	28.6
EV/EBITDA (x)	44.0	29.8	22.6

Shareholding pattern (%)

As on	Sep-24	Jun-24	Sep-23
Promoter	63.4	63.4	66.5
DII	3.2	2.6	0.4
FII	15.5	14.9	11.4
Others	18.0	19.2	21.7

Note: FII includes depository receipts

CMP: INR2,174 TP: INR2,800 (+29%) Buy

Traction in the lead business to drive growth

Operating performance in-line with estimates

- Gravita India (GRAVITA) reported revenue growth of ~11% YoY in 2QFY25, led by healthy growth in the lead (up 12% YoY) and aluminum (up 17% YoY) verticals. Adjusted EBITDA margin expanded 140bp YoY to 10.9%, led by operating leverage and better RM sourcing during the quarter.
- Going forward, the company is expected to witness healthy growth led by accelerated traction in the core lead business, which can be attributed to the higher domestic scrap availability (due to penalty on non-compliance of EPR and RCM under GST on metal scrap) and improvement in the aluminum business following the availability of new hedging mechanism (MCX contract expected to list by 4QFY25).
- We largely maintain our FY25E/FY26E EPS estimates. We reiterate our BUY rating on the stock with a TP of INR2,800 (40x Sep'26E EPS).

Operating leverage and better RM sourcing expand margins

- Consolidated revenue grew 11% YoY to INR9.3b (est. INR10.1b) in 2QFY25. Consolidated sales volume grew 8% YoY to 48.6KMT.
- In 2QFY25, the company witnessed an arbitrage opportunity between international and domestic markets, led by higher domestic prices. (i.e., GRAVITA chose to import more scrap to India rather than selling it overseas to benefit from higher domestic prices). This enabled the company to generate better margins. Adjusted EBITDA margin expanded 140bp YoY to 10.9% (est. 10%).
- Adjusted EBITDA grew 27% YoY to INR1b (in-line with est.) during the quarter. Adj. PAT grew 24% YoY to INR720m (in-line with est.)
- **Lead business** revenue grew 12% YoY to INR8.4b, led by 9% YoY volume growth, reaching 42.2KMT in 2QFY25. EBITDA/MT stood at INR21,642 (up 22% YoY). **Aluminum business** revenue grew 17% YoY to INR688m. Volumes stood at 3.5KMT, up 3% YoY, while EBITDA/MT increased 57% YoY to INR18,386. **Plastic business** revenue and volume declined 1% YoY to INR192.2m and 3KMT, respectively, in 2QFY25. EBITDA/MT declined 5% YoY to INR10,497.
- For 1HFY25, revenue/adj. EBITDA/adj. PAT grew 19%/30%/27% YoY to INR18.3b/INR1.9b/INR1.4b. Based on our estimates, implied revenue/ EBITDA growth for 2HFY25 is 24%/20% YoY, led by traction in the core lead business due to higher domestic scrap availability.

Highlights from the management commentary

- **Outlook:** The company expects to clock ~25% CAGR for its sales volume (with lead volumes clocking ~17-20% CAGR and Aluminum/Plastic volumes clocking CAGR at a higher range of ~35-40%). Further, it aims to clock over 35% PAT CAGR with RoCE of more than 25%.
- **Capex:** GRAVITA's pilot project of lithium-ion battery recycling and its first Indian rubber recycling plant in Mundra are progressing well in line with the schedule and are likely to be operational by 1HFY26. The company has incurred a capex of INR300m in 1HFY25, with ~INR1-1.2b to be spent in 2HFY25.

- **Fund Raise:** The Board has approved fundraising of up to INR10b, which will be utilized for additional capex, M&A opportunities, debt reduction, and other general corporate purposes. The company is focusing on M&A activities within the Indian lead recycling space. It is also seeking to tap into the food grade bottle-to-bottle rPET recycling opportunity in India.

Valuation and view

- GRAVITA, being a key player in the burgeoning recycling industry in India, is expected to report robust earnings growth in the medium term on account of: 1) accelerated growth in the lead recycling segment fueled by favorable regulatory changes; 2) higher growth rate in new segments (aluminum and plastic) and addition of the steel & paper segments; 3) robust capacity addition across segments; and 4) an improvement in the mix of value-added products.
- We largely maintain our FY25E/FY26E EPS estimates. We expect a revenue/EBITDA/PAT CAGR of 26%/29%/32% over FY24-27E. We reiterate our BUY rating on the stock with a TP of INR2,800 (40x Sep'26E EPS).

Consolidated - Quarterly Earning Model (INR m)

Y/E March	FY24				FY25				FY24	FY25	FY25E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	%
Sales	**7,034**	**8,362**	**7,578**	**8,634**	**9,079**	**9,274**	**9,412**	**10,618**	**31,608**	**38,383**	**10,051**	**-8**
YoY Change (%)	5.6	44.2	11.0	9.4	29.1	10.9	24.2	23.0	12.9	21.4	20.2	
Total Expenditure	6,349	7,563	6,681	7,705	8,166	8,259	8,387	9,455	28,298	34,268	9,041	
Adjusted EBITDA	**685**	**798**	**897**	**929**	**912**	**1,015**	**1,024**	**1,163**	**3,309**	**4,115**	**1,010**	**1**
Margins (%)	9.7	9.5	11.8	10.8	10.1	10.9	10.9	11.0	10.5	10.7	10.0	
Depreciation	79	86	90	125	65	72	85	90	380	312	85	
Interest	127	112	130	124	130	120	125	130	492	504	132	
Other Income	132	69	61	42	33	23	30	45	304	131	35	
PBT before EO Expense	**612**	**670**	**738**	**722**	**751**	**847**	**844**	**988**	**2,742**	**3,430**	**828**	
Extra-Ord Expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**612**	**670**	**738**	**722**	**751**	**847**	**844**	**988**	**2,742**	**3,430**	**828**	
Tax	86	82	123	28	71	128	106	129	319	433	103	
Rate (%)	14.1	12.2	16.7	3.9	9.4	15.1	12.5	13.1	11.6	12.6	12.5	
Minority Interest & Profit/Loss of Asso. Cos.	5	10	12	4	7	-1	15	10	31	31	9	
Reported PAT	**521**	**579**	**603**	**690**	**673**	**720**	**724**	**849**	**2,392**	**2,966**	**715**	
Adj PAT	**521**	**579**	**603**	**690**	**673**	**720**	**724**	**849**	**2,392**	**2,966**	**715**	**1**
YoY Change (%)	26.0	36.1	35.2	37.4	29.3	24.4	20.1	23.1	18.9	24.0	23.7	
Margins (%)	7.4	6.9	8.0	8.0	7.4	7.8	7.7	8.0	7.6	7.7	7.1	

Zensar

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	ZENT IN
Equity Shares (m)	227
M.Cap.(INRb)/(USDb)	148.8 / 1.8
52-Week Range (INR)	840 / 456
1, 6, 12 Rel. Per (%)	-4/5/3
12M Avg Val (INR M)	893

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	53.4	59.5	65.4
EBIT Margin (%)	14.0	14.9	15.5
PAT	6.4	7.3	8.2
EPS (INR)	28.2	31.7	36.1
EPS Gr. (%)	-3.1	12.4	13.7
BV/Sh. (INR)	177.7	200.8	227.1
Ratios			
RoE (%)	17.0	16.9	17.0
RoCE (%)	14.0	14.8	15.0
Payout (%)	24.0	24.0	24.0
Valuations			
P/E (x)	26.4	23.5	20.6
P/BV (x)	4.2	3.7	3.3
EV/EBITDA (x)	17.4	14.2	12.2
Div Yield (%)	0.9	1.0	1.2

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	49.1	49.2	49.2
DII	19.1	19.1	16.5
FII	14.8	15.7	16.7
Others	17.0	16.1	17.6

FII Includes depository receipts

CMP: INR656 TP: INR750 (+14%) Neutral

Healthy beat despite weakness in TMT vertical

Mid-teens EBITDA margin guidance remains unchanged

- ZENT reported a decent 2QFY25, with revenue growth of 1.2% QoQ (est. flat growth), driven by Healthcare & Life Sciences (up 8.6% QoQ CC) and BFSI (up 3.0% QoQ CC). Deal TCV came in at USD201.8m (up 31% QoQ/3.5% YoY), the highest order book ever for ZENT. EBIT margin (flat QoQ/down 11.7%) came in at 13.1%, down 30bp QoQ owing to wage hikes but ahead of our estimate of 12.8%. PAT of INR1557m (down 1.3% QoQ/10.4% YoY) beat our estimate of INR1,402m, led by other income. For 1HFY25, revenue grew 5.2%, while EBIT and PAT declined 10.3%/4.9% vs. 1HFY24. For 2HFY25, we expect revenue/EBIT to grow by 12.9%/13.9% YoY and PAT to decline by 1.1%.

Our view: Robust growth despite telecom weakness

- **Growth robust but telecom continues to struggle**: ZENT reported decent overall growth with significant growth in healthcare and BFSI, but the TMT (Telecom, Media, and Technology) segment faced headwinds, declining by 8.8% QoQ due to client-specific furloughs.
- **Diversifying away from TMT:** We believe ZENT can generate value by diversifying away from TMT. It already operates in high-growth areas such as healthcare, BFSI, and manufacturing (largely consumer in its case), and a nudge toward these verticals could boost growth for the company.
- **Stable margins**: Margins were impacted by wage hikes (-170bp), lower volume/utilization (-110bp), and the absence of a prior R&D credit (-60bp), partially offset by currency gains (+70bp) and operational efficiencies (+40bp), leading to a net decline of 30bp QoQ in gross margin. We believe the new management has proven that it can deliver on margins.

Valuation and change in estimates

- We expect ZENT to deliver EBITDA margin of 16.2%/17.3%/17.6% in FY25/ FY26/FY27. This will result in an INR PAT CAGR of 7.0% over FY24-27E (partially on high FY24 base). We kept our estimates largely unchanged. Our TP of INR750 implies 23x Sep'26E EPS. **Retain Neutral. However, we believe that after the recent correction, the stock could turn attractive if growth sustains.**

Beat on revenues and margins; Healthcare and BFSI lead growth, TMT hit by furloughs

- ZENT revenue stood at USD156.2m, up 1.2% QoQ in USD terms, ahead of our estimates of flat QoQ. Reported USD revenue was also up 0.3% QoQ CC.
- Growth was driven by Healthcare & Life Sciences (up 8.6% QoQ CC) and BFSI (up 3.0% QoQ CC). Manufacturing & Consumer services rose 1.6% QoQ CC, while TMT reported a decline of 8.8 % QoQ CC. In terms of regions, the US registered a decline of 0.5% QoQ CC, while Europe grew 5.1% QoQ CC.
- Deal TCV: bookings came in at USD201.8m (up 31.0% QoQ/3.5% YoY) and the book-to-bill was 1.3x.

- EBIT margin was 13.1% (est. 12.8%), down 30bp QoQ, owing to wage hikes.
- In 2Q, total headcount reached to 10,240 (down 1.5% QoQ). LTM attrition was 10.1% (down 50bp QoQ). Utilization was down 110bp QoQ at 82.8%.
- PAT of INR1557m (down 1.3% QoQ/10.4% YoY) beat our estimate of INR1,402m, led by other income.

Key highlights from the management commentary

- With accelerated GTM, the company has strengthened its partnerships and built sales rigor. Domain-led solutions, coupled with new-age technologies such as AI, have allowed ZENT to capture mind share of clients and open new spend areas. There is a focus on projects with near-term ROI. A slowdown has been noticed in some pockets.
- The company believes easing interest rates may lead to increased investments.
- Volume growth is expected to improve. Offshoring, being margin-accretive, has been a constant strategy for ZENT. However, the management believes that the offshore mix serves as a lagging indicator, as client centricity and requirements come first.
- The company has catalogued AI offerings in four solutions: Enterprise AI Solutions, Responsible AI Solutions, Enterprise Cognitive Hyper Automation Solutions and Multimodal Micro Vertical Solutions.
- No material changes seen in client spending patterns. No major changes anticipated until the US elections, which are two weeks away.
- Margin outlook for FY25 remains unchanged at mid-teens EBITDA margins.

Valuation and view

- We believe the company's exposure to Hi-tech vertical could continue to weigh on growth in the near term; however, it will be offset by a recovery in BFS. We kept our estimates largely unchanged. Our TP of INR750 implies 23x Sep'26E EPS. Retain Neutral. However, we believe that after the recent correction, the stock could turn attractive if growth sustains.

Quarterly Performance

Y/E March	FY24				FY25E				FY24	FY25E	Est.	Var. (% /
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QFY25	bp)
Revenue (USD m)	**149**	**150**	**145**	**148**	**154**	**156**	**162**	**165**	**592**	**638**	**155**	**0.7**
QoQ (%)	1.2	0.6	-3.7	2.3	4.3	1.2	3.6	2.0	-2.0	7.6	0.4	74bp
Revenue (INR m)	**12,272**	**12,408**	**12,041**	**12,297**	**12,881**	**13,080**	**13,614**	**13,869**	**49,018**	**53,444**	**13,047**	**0.2**
YoY (%)	2.0	0.5	0.5	1.4	5.0	5.4	13.1	12.8	1.1	9.0	5.2	26bp
GPM (%)	**33.6**	**31.8**	**31.1**	**30.6**	**30.4**	**28.1**	**30.6**	**31.5**	**31.8**	**30.2**	**30.3**	**-221bp**
SGA (%)	14.9	13.2	13.9	14.1	15.2	12.7	13.8	14.2	14.0	14.0	15.5	-282bp
EBITDA	**2,301**	**2,308**	**2,076**	**2,030**	**1,961**	**2,011**	**2,288**	**2,399**	**8,715**	**8,659**	**1,927**	**4.4**
EBITDA Margin (%)	**18.8**	**18.6**	**17.2**	**16.5**	**15.2**	**15.4**	**16.8**	**17.3**	**17.8**	**16.2**	**14.8**	**61bp**
EBIT	**1,878**	**1,942**	**1,764**	**1,793**	**1,714**	**1,714**	**1,975**	**2,080**	**7,377**	**7,482**	**1,674**	**2.4**
EBIT Margin (%)	**15.3**	**15.7**	**14.6**	**14.6**	**13.3**	**13.1**	**14.5**	**15.0**	**15.0**	**14.0**	**12.8**	**27bp**
Other income	224	306	356	493	383	366	177	180	1,379	1,106	169	116.7
ETR (%)	25.7	22.7	23.8	24.2	24.7	25.1	24.8	25.0	24.1	24.9	24.0	
Adj. PAT	**1,562**	**1,738**	**1,616**	**1,733**	**1,579**	**1,558**	**1,618**	**1,695**	**6,649**	**6,450**	**1,402**	**11.2**
QoQ (%)	30.9	11.3	-7.0	7.2	-8.9	-1.3	3.8	4.8			-11.2	
YoY (%)	108.0	206.0	111.2	45.3	1.1	-10.4	0.1	-2.2	102.9	-3.0	-19.4	
EPS (INR)	**6.8**	**7.6**	**7.1**	**7.6**	**6.9**	**6.8**	**7.1**	**7.4**	**29.1**	**28.2**	**6.1**	11.2

Mahindra Logistics

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	MAHLOG IN
Equity Shares (m)	72
M.Cap.(INRb)/(USDb)	33.5 / 0.4
52-Week Range (INR)	555 / 347
1, 6, 12 Rel. Per (%)	-2/-5/-3
12M Avg Val (INR M)	135

Financial Snapshot (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	62.2	77.7	94.7
EBITDA	3.0	4.0	5.2
Adj. PAT	0.3	1.2	2.1
EBITDA Margin (%)	4.9	5.2	5.5
Adj. EPS (INR)	3.6	17.3	29.2
EPS Gr. (%)	-143.7	384.6	68.6
BV/Sh. (INR)	69.9	84.7	111.5
Ratios			
Net D:E	0.3	0.1	-0.3
RoE (%)	5.0	22.0	29.3
RoCE (%)	7.5	19.6	26.2
Payout (%)	69.9	14.4	8.5
Valuations			
P/E (x)	130.2	26.9	15.9
P/BV (x)	6.7	5.5	4.2
EV/EBITDA(x)	11.4	8.4	5.9
Div. Yield (%)	0.5	0.5	0.5
FCF Yield (%)	5.6	3.3	9.9

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	58.0	58.0	58.0
DII	17.5	17.4	17.0
FII	5.5	5.8	11.5
Others	19.0	18.8	13.5

FII Includes depository receipts

CMP: INR465 TP: INR440 (-5%) Neutral

Revenue in line; express business volumes weak

- Mahindra Logistics (MLL)'s revenue grew ~11% YoY to INR15.2b in 2QFY25, in line with our estimate.
- EBITDA margin came in at 4.4% (+40bp YoY and -30bp QoQ) vs. our estimate of 5.1%. EBITDA rose 24% YoY to INR664m, vs. our estimate of INR795m.
- The company reported adjusted net loss of INR107m in 2QFY25 vs. adjusted net loss of INR159m in 2QFY24 (our estimate: INR123m profit).
- The supply chain management recorded revenue of INR14.4b (+12.7% YoY) and an EBIT loss of INR66m during the quarter. Enterprise mobility services (EMS) reported revenue of INR797m (-7.7% YoY) and an EBIT of INR16m.
- During 1HFY25, revenue stood at INR29.4b (+11% YoY), EBITDA came in at INR1.3b (+10% YoY), EBITDA margin was 4.5%, and adj. loss stood at INR201m (vs. loss of INR245m YoY).
- Despite a muted demand environment, 2QFY25 witnessed healthy order intake of INR2b in the contract logistics business. The express business faced challenges due to slower customer volumes in the B2B segment. Management is targeting a turnaround in express business by the end of FY25. The growth in cross-border business was mainly driven by a rise in ocean freight rates in 2Q, though pricing remains volatile. Consolidation of Whizzard led to a growth in revenue in the last-mile delivery business.
- While 2Q has been weak, volumes are expected to recover from 3QFY25 as the festive season-linked demand picks up. While MLL's revenue was in line, the express business, which has been struggling, should witness improved tonnage growth. This would help reduce losses and turn MLL EBITDA positive in the coming quarters. We cut our EBITDA estimates by 6%/4% in FY25/FY26 to factor in the weak performance and delayed breakeven in the express business. We estimate a 20%/32% CAGR in revenue/EBITDA over FY24-27. **Reiterate Neutral with a revised TP of INR440 (premised on 15x FY26E EPS).**

Volume pickup in express logistics business weaker than expected; last mile and contract logistics continue to perform well

- The soft demand adversely impacted the express business with 2% sequential growth in volumes handled during 2QFY25. The express business faced challenges due to slower customer volumes in the B2B segment.
- MLL's contract logistics segment secured orders worth INR2b. Ahead of the 3QFY25 peak season, the company increased capacity in contract logistics and last-mile delivery.
- Last mile delivery reported revenue of INR1b, +107% YoY, primarily due to the consolidation of Whizzard. Debt increased due to the purchase of 75 new car carriers. With major capex completed, the focus shifts to optimizing returns. The company generated INR1.4b cash flow in 1H FY25, directed toward capex and equity funding.

- Management expanded transportation and green logistic offerings while strengthening network infrastructure, especially in the East, to support warehousing, last-mile, and express services for future growth.

Highlights from the management commentary

- For festive season-linked demand in 3QFY25, the company increased capacity and resources in contract logistics and last-mile delivery. This has adversely impacted operating earnings in 2Q.
- Volume in B2B Express Business growth was impacted by customer churn and a lower-than-expected win ratio. The planned impact of cost-saving measures fell short due to negative volume leverage.
- The growth in cross border business was mainly driven by a rise in ocean freight rates in 2Q, though pricing remains volatile. Consolidation of Whizzard led to revenue growth in the last-mile delivery business.
- Debt rose during the quarter due to the purchase of 75 new car carriers. With the major capex for contract logistics completed, focus now shifts to optimizing returns.

Valuation and view

- Express business losses are expected to decline as volumes improve, which should boost overall EBITDA for MLL. With improvement in capacity utilization in the B2B Express business and strong order intake in 3PL, the growth outlook seems promising in the long term.
- We cut our EBITDA estimates by 6% and 4% for FY25 and FY26, respectively, due to weak performance and delayed breakeven in the express logistics business. We estimate a 20% revenue and 32% EBITDA CAGR from FY24-27. We reiterate our Neutral rating with a revised TP of INR440 (premised on 15x FY27E EPS).

Quarterly snapshot INR m

Y/E March (INR m)	FY24				FY25E				FY24	FY25E	FY25	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			2QE	vs Est
Net Sales	12,932	13,648	13,972	14,508	14,200	15,211	15,846	16,916	55,060	62,173	15,652	(3)
YoY Change (%)	7.8	2.9	5.1	14.0	9.8	11.5	13.4	16.6	7.4	12.9	14.7	
EBITDA	666	536	522	566	663	664	792	913	2,290	3,032	795	(17)
Margins (%)	5.2	3.9	3.7	3.9	4.7	4.4	5.0	5.4	4.2	4.9	5.1	
YoY Change (%)	1.4	-20.7	-16.8	-11.2	-0.5	23.9	51.7	61.4	-11.8	32.4	48.4	
Depreciation	545	518	515	513	550	540	530	515	2,090	2,134	525	
Interest	178	165	164	174	195	191	150	123	682	659	155	
Other Income	62	66	23	29	57	17	60	81	179	215	40	
PBT before EO Items	6	-82	-134	-92	-25	-50	172	357	-302	455	155	
Extra-Ord expense	0	0	-38	0	0	0	0	0	38	0	0	
PBT	6	-82	-96	-92	-25	-50	172	357	-340	455	155	
Tax	89	73	68	27	53	46	34	70	257	205	39	
Rate (%)	1,556.1	-89.2	-71.4	-29.2	-213.6	-93.4	20.0	19.7	-75.5	45.0	25.2	
PAT before MI, Associates	-83	-155	-164	-119	-78	-96	138	287	-597	250	116.1	
Share of associates/ Minority Interest	-3	-5	-10	-9	-15	-11	7	25	-27	6	7	
Reported PAT	-86	-159	-174	-128	-93	-107	145	312	-624	256	123	
Adj PAT	-86	-159	-212	-128	-93	-107	145	312	-586	256	123	NA
YoY Change (%)	NA	PL	PL	NA	NA	NA	NA	NA	NA	NA	NA	
Margins (%)	-0.7	-1.2	-1.5	-0.9	-0.7	-0.7	0.9	1.8	-1.1	0.4	0.8	

Indus Towers

BSE SENSEX	S&P CNX
80,221	24,472

Conference Call Details

Date: 23rd Oct 2024

Time: 02:30pm IST

Financials & Valuations (INR b)

INR b	FY24	FY25E	FY26E
Net Sales	286.0	308.8	339.9
EBITDA	145.6	204.4	182.6
Adj. PAT	60.4	95.3	71.9
EBITDA Margin (%)	50.9%	66.2%	53.7%
Adj. EPS (INR)	22.4	35.0	27.2
EPS Gr. (%)	151.1	61.3	-24.6
BV/Sh. (INR)	100.3	124.8	149.5
Ratios			
Net D:E	0.2	0.1	-0.1
RoE (%)	25.1	31.4	19.4
RoCE (%)	23.0	31.8	21.7
Valuations			
EV/EBITDA (x)	7.1	4.8	5.1
P/E (x)	16.4	10.1	13.5
P/BV (x)	3.7	2.9	2.5
Div. Yield (%)	0.0	0.0	0.0

CMP: INR367 — Neutral

Core performance slightly weaker; provision reversals higher

- Indus Towers' (Indus) 2QFY25 reported results were ahead of our estimates on account of the higher-than-estimated **reversal of the prior period's bad debt provisions** (INR10.8b vs. our estimate of INR5b).
- However, operationally, **the core performance was slightly below our estimate**, with Indus' **recurring EBITDA (net of one-offs and provision reversals) at INR38b (+1% QoQ, 7% YoY)**, coming in **~2% below our estimate** due to the lower tower net additions and weaker energy spreads.
- **Tower additions further moderated QoQ,** likely due to a slowdown in Bharti's rollouts on seasonality.
- With moderation in capex and collection of prior-period dues, Indus' 1H FCF generation was robust at **~INR33b (of which INR27.5b was already used for the recent buyback)**.
- Net debt (excluding leases) increased sharply to ~INR37b (from INR24b QoQ), post the buyback.

Core performance slightly weaker due to lower tower additions and weaker energy spreads

- Consolidated reported revenue was up 1% QoQ at INR74.7b (+5% YoY, 1% miss)
  - Service revenue at INR47b (+1.5% QoQ, +9% YoY) was **~1% below** our estimates on account of weaker net tower additions.
  - Energy reimbursements at INR27.6b (flat QoQ, -1% YoY) were **~2% below** our estimate on account of higher energy under-recovery.
- Consolidated reported EBITDA was up 8% QoQ at INR48.6b (+42% YoY) and was **11% ahead** of our estimate, **largely on account of higher prior-period reversals**.
  - Adjusted service EBITDA at INR39b (flat QoQ, +9% YoY) was **~1% below** our estimate on account of the lower service revenue.
  - Energy spreads recovered marginally QoQ to negative INR1.35b (vs. INR1.5n loss QoQ), but was **higher than our estimate** of loss of INR1b.
  - Indus **reversed bad debt provision of INR10.8b** in 2QFY25 (vs. bad debt provision reversals of INR7.6b QoQ and provisions of INR1.3b YoY), which was **higher than our estimate of INR5b**.
- **Adjusted for bad-debt provision reversals**, **recurring EBITDA at INR37.9b (+1% QoQ, +7% YoY) was ~2% below our estimate** due to weaker energy spreads and lower service revenue**.**
- Reported PAT at INR22b (+16% QoQ, +72% YoY) was 22% above our estimate, largely due to the higher provision reversal.
- Recurring PAT at INR14.2b (+5% QoQ, +2% YoY) was **~2% below** our estimate on account of the lower core-EBITDA.

Net tower additions moderated QoQ (weaker vs. estimates); ARPT stable QoQ (in-line)

- Net macro tower additions moderated further to 3,748 QoQ (lower vs. our estimate of 5,500 and 6,174 net adds QoQ); EoP macro tower count stood at ~229.7k.
- The company also added 182 net leaner towers QoQ (vs. 492 QoQ) to take overall leaner tower count to ~11.4k.
- For the second successive quarter, **net macro tenancy additions were higher than tower additions** at 4,308 (though lower vs. our estimate of 6,500 and 6,340 net additions QoQ), taking total tenants to 379.2k.
- End-period tenancy ratio moderated further to 1.65X (from 1.66X QoQ), as incremental tenancy ratio remained lower at ~1.1X (vs. ~1X QoQ).
- Reported sharing revenue per macro tenant (ARPT) at INR41.1k (flat QoQ, +0.5% YoY) was in line with our estimate.

Receivables further moderated QoQ; net debt (ex-leases) inched up post buyback

- Indus' receivables moderated further by ~INR0.9b QoQ to INR56.3b. It also had ~INR10.8 bad debt provision reversal, implying a net surplus collection of ~INR12b during 2QFY25 (vs. ~INR15b in 1Q).
- Over the past few quarters, Indus has recovered INR23.3b towards past dues from Vi, with prior period bad debt provisions now at INR35.5b (vs. INR53.9b at Mar'24 end).
- Capex moderated further ~19% QoQ to INR15.2b (vs. INR18.9b QoQ) as net tower additions moderated QoQ; however, capex per tower addition inched up to INR3.3m (vs. INR2.6m QoQ).
- Reported adjusted fund from operations (EBITDA net of lease payment and maintenance capex) improved further to ~INR37.7b (vs. INR33.8b QoQ) on account of higher prior-period provision reversals.
- Net debt including lease liabilities was up ~10% QoQ to INR210b (vs. ~INR204b YoY); net debt excluding lease liabilities inched up sharply to ~INR37b (vs. ~INR24b QoQ).
- Indus' reported **2Q FCF moderated to INR14.4b** (from INR18.7b in 1Q). Its **1HFY25 FCF stood at INR33b** on account of collection of prior-period dues and also moderation in capex.
- We note that Indus' has already **used INR27.5b in the recent buyback,** and **dividend reinstatement will depend on the FCF generation in 2H**.

Indus Towers - Quarterly results (INR m)	2QFY24	1QFY25	2QFY25	QoQ	YoY	2QFY25E	vs est
Service revenues	**43,368**	**46,366**	**47,078**	***1.5***	***8.6***	**47,371**	***(0.6)***
Energy reimbursements	27,936	27,464	27,575	*0.4*	*(1.3)*	28,022	*(1.6)*
Exit / one-off revenue	21	-	-			-	
Reported revenue	**71,325**	**73,830**	**74,653**	***1.1***	***4.7***	**75,393**	***(1.0)***
Power and fuel	(28,554)	(29,006)	(28,925)	*(0.3)*	*1.3*	(29,022)	*(0.3)*
Employee expenses	(1,957)	(1,971)	(2,073)	*5.2*	*5.9*	(2,055)	*0.9*
Other costs	(5,264)	(5,409)	(5,783)	*6.9*	*9.9*	(5,579)	*3.7*
Bad debt provision reversals	**(1,335)**	**7,597**	**10,766**	***41.7***		**5,000**	
Total operating costs	(37,110)	(28,789)	(26,015)	*(9.6)*	*(29.9)*	(31,656)	*(17.8)*
EBITDA	**34,215**	**45,041**	**48,638**	***8.0***	***42.2***	**43,737**	***11.2***
Service EBITDA	**36,147**	**38,986**	**39,222**	***0.6***	***8.5***	**39,737**	***(1.3)***
Energy EBITDA	(618)	(1,542)	(1,350)	*(12.5)*	*118.4*	(1,000)	*35.0*
One-offs (Exit revenue/provision write-offs)	**(1,314)**	**7,597**	**10,766**			**5,000**	
D&A	(15,256)	(15,605)	(15,801)	*1.3*	*3.6*	(15,981)	*(1.1)*
EBIT	**18,959**	**29,436**	**32,837**	***11.6***	***73.2***	**27,756**	***18.3***
Net finance costs and other income	(1,492)	(3,518)	(3,036)	*(13.7)*	*103.5*	(3,366)	*(9.8)*
PBT	**17,467**	**25,918**	**29,801**	***15.0***	***70.6***	**24,390**	***22.2***
Provision for taxes	(4,520)	(6,659)	(7,566)			(6,139)	
Recurring PAT	**13,951**	**13,574**	**14,179**	***4.5***	***1.6***	**14,509**	***(2.3)***
EO items	(1,335)	7,597	10,766			5,000	
Reported PAT	**12,616**	**21,171**	**24,945**	***17.8***	***97.7***	**19,509**	***27.9***
# of shares	2,638	2,638	2,638			2,638	
Recurring EPS (INR/share)	**5.3**	**5.1**	**5.4**	***4.5***	***1.6***	**5.5**	***(2.3)***

Core operational performance analysis	2QFY24	1QFY25	2QFY25	QoQ	YoY	2QFY25E	vs est
Revenue	**71,304**	**73,830**	**74,653**	***1.1***	***4.7***	**75,393**	***(1.0)***
EBITDA	**35,529**	**37,444**	**37,872**	***1.1***	***6.6***	**38,737**	***(2.2)***
EBIT	20,273	21,839	22,071	*1.1*	*8.9*	22,756	*(3.0)*
PBT	18,781	18,321	19,035	*3.9*	*1.4*	19,390	*(1.8)*
PAT	**13,930**	**13,575**	**14,179**	***4.4***	***1.8***	**14,509**	***(2.3)***
Key operating metrics	**2QFY24**	**1QFY25**	**2QFY25**	**QoQ**	**YoY**	**2QFY25E**	**vs est**
Total towers (#)	**2,04,212**	**2,25,910**	**2,29,658**	***1.7***	***12.5***	**2,31,410**	***(0.8)***
Total tenants (#)	**3,53,462**	**3,74,928**	**3,79,236**	***1.1***	***7.3***	**3,81,428**	***(0.6)***
Tenancy ratio (end-period)	1.73	1.66	1.65			1.65	
Sharing revenue per operator (INR/month)	**40,940**	**41,094**	**41,125**	***0.1***	***0.5***	**41,270**	***(0.4)***
Sharing revenue per tower (INR/month)	71,867	69,361	68,893	*(0.7)*	*(4.1)*	69,056	*(0.2)*
Margins (%)							
Overall EBITDA	**48.0**	**61.0**	**65.2**	**415 bps**	**1,718 bps**	**58.0**	**714 bps**
Service EBITDA (inc. one-offs)	**83.4**	**84.1**	**83.3**	**(77)bps**	**(9)bps**	**83.9**	**(57)bps**
EBIT	26.6	39.9	44.0	412 bps	1,741 bps	36.8	717 bps
PAT	19.6	18.4	19.0	61 bps	(57)bps	19.2	(25)bps
Effective tax rate	25.9	25.7	25.4			25.2	

SRF

BSE SENSEX	S&P CNX
80,221	24,472

Conference Call Details

Date: 23rd October 2024
Time: 3:00pm IST
Dial-in details:
Click Here

CMP: INR2,203 — Neutral

Operating performance below estimates

- SRF reported overall revenue of INR34.2b (est. of INR35.8b) in 2QFY25, up ~8% YoY. Revenue for the Chemical business declined 5% YoY to INR13.6b. Packaging Film business/Technical Textile business grew 27%/6% YoY to INR14.2b/INR5.3b.
- EBITDA margins contracted 390bp YoY to 16.4% (est. of 18.2%); RM cost as a % of sales stood at 53.6% in 2QFY25 vs. 51% in 2QFY24; employee cost was 7.4% vs. 7.1%; power cost was 10.1% vs. 10.8%; and other expenses were 12.6% vs. 10.7%.
- EBITDA stood at INR5.6b (est. of INR6.5b), down 13% YoY.
- EBIT margin in the Chemical business /Packaging Film business/Technical Textile business contracted 630bp/110bp/150bp YoY to 18.1%/5.8%/13.3%.
- Adj. PAT declined 30% YoY to INR2.2b (est. of INR3.1b).
- For 1HFY25, SRF's revenue grew 6% YoY to INR68.9b; however, EBITDA/Adj. PAT declined 13%/30% YoY to INR11.8b/INR4.5b.
- The Specialty Chemicals business experienced traction with the introduction of new products, while the volumes of certain key products experienced lower offtake due to inventory issues at the customers' end. Overall, the order book is likely to remain strong for 2H, and a better performance is anticipated.
- The Board has approved a project to establish production facilities for fourth-generation refrigerants, which have a notably lower Global Warming Potential (GWP) and carbon footprint, at an estimated cost of INR11b. The project is anticipated to be completed in about 30 months.
- The Board has also approved the establishment of a manufacturing facility for the BOPP-BOPE film line in Indore, India for the projected cost of INR4.5b, which is expected to be operational in approximately 25 months.

Consolidated - Quarterly Earning Model (INR m)

Y/E March	FY24				FY25E				FY24	FY25E	FY25E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2Q	%
Net Sales	**33,384**	**31,774**	**30,530**	**35,697**	**34,641**	**34,243**	**36,950**	**43,575**	**131,385**	**149,408**	**35,841**	**-4**
YoY Change (%)	-14.3	-14.8	-12.0	-5.5	3.8	7.8	21.0	22.1	-11.6	13.7	12.8	
Total Expenditure	26,184	25,320	24,691	28,581	28,435	28,637	30,135	34,301	104,777	121,507	29,315	
EBITDA	**7,200**	**6,453**	**5,839**	**7,116**	**6,207**	**5,606**	**6,815**	**9,274**	**26,608**	**27,901**	**6,526**	**-14**
Margins (%)	21.6	20.3	19.1	19.9	17.9	16.4	18.4	21.3	20.3	18.7	18.2	
Depreciation	1,566	1,612	1,689	1,859	1,882	1,939	1,950	2,180	6,726	7,951	1,950	
Interest	656	793	674	900	965	938	920	900	3,023	3,723	750	
Other Income	118	291	188	234	253	333	300	310	830	1,196	280	
PBT before EO expense	**5,095**	**4,339**	**3,664**	**4,591**	**3,612**	**3,063**	**4,245**	**6,504**	**17,689**	**17,423**	**4,106**	
Extra-Ord Expense & DO	237	191	181	158	172	226	0	0	767	398	0	
PBT	**4,858**	**4,148**	**3,483**	**4,433**	**3,440**	**2,837**	**4,245**	**6,504**	**16,922**	**17,025**	**4,106**	
Tax	1,265	1,140	949	211	918	822	1,040	1,594	3,565	4,374	1,006	
Rate (%)	24.8	26.3	25.9	4.6	25.4	26.9	24.5	24.5	20.2	25.1	24.5	
Reported PAT	**3,593**	**3,008**	**2,534**	**4,222**	**2,522**	**2,014**	**3,205**	**4,910**	**13,357**	**12,651**	**3,100**	
Adj PAT	**3,830**	**3,199**	**2,715**	**4,380**	**2,695**	**2,240**	**3,205**	**4,910**	**14,124**	**13,049**	**3,100**	**-28**
YoY Change (%)	-39.5	-38.1	-48.4	-25.8	-29.6	-30.0	18.0	12.1	-37.7	-7.6	-3	
Margins (%)	11.5	10.1	8.9	12.3	7.8	6.5	8.7	11.3	10.8	8.7	8.7	

MAX Financial Services

BSE SENSEX	S&P CNX
80,221	24,472

Conference Call Details

Date: 23rd Oct'24
Time: 8:30am IST
Dial-in details:
+91-22-6280 1141

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Net Premiums	361.2	428.0	507.1
Sh. PAT	4.8	5.6	6.4
NBP gr - unwtd (%)	0.0	0.0	0.0
NBP gr - APE (%)	19.8	17.4	16.9
Premium gr (%)	22.3	18.5	18.5
VNB Margin (%)	24.0	25.0	25.0
Op. RoEV (%)	19.2	19.5	19.2
Total AUMs (INRb)	1,828	2,067	2,147
VNB(INRb)	21.0	25.7	30.0
EV Per Share	539	643	766
Valuations			
P/EV (x)	2.7	2.3	1.9
P/EVOP (x)	16.9	14.0	11.8

CMP: INR1,170

22% beat on PAT; VNB margins contract 160bp YoY

- Gross premium income grew 16.8% YoY to INR77.4b (11% miss). For 1HFY25, it came in at INR131.4b, up 14% YoY. Renewal premium grew 12.4% YoY to INR47.2b (13% miss).
- Total new business APE grew 31.3% YoY (in-line) to INR21.7b. For 1HFY25, it came in at INR36.2b, up 31% YoY.
- ULIPs continue to exhibit strong growth momentum, reporting 73% YoY growth. Retail and Group protection grew 36% and 10% YoY, respectively. The non-par savings business grew 42% YoY to INR6.6b.
- 2QFY25 VNB grew 23.1% YoY (in-line) to INR 5.1b. VNB margins came in at 23.6% vs 25.2% in 2QFY24 and 17.5% in 1QFY25 (MOFSLe of 24%). For 1HFY25, VNB margins contracted to 21.2% (24% in 1HFY24).
- For 2QFY25, the company reported an 11% YoY decline in shareholder PAT to INR1.4b (22% beat). For 1HFY25, it reported a PAT of INR3b, up 13.6% YoY.
- AUM grew 26.8% YoY to INR1.7t.
- Solvency ratio stood at 198% in 2QFY25 vs. 184% in 2QFY24 and 203% in 1QFY25.
- **Valuation and view:** MAXLIFE reported weak margins due to the continued popularity of ULIPs. Overall, the share of non-PAR savings improved during 2QFY25. The proprietary channel has maintained a strong growth trajectory on account of agency, cross-sell, and e-commerce. Persistency trends improved YoY. We will review our estimates and TP after the earning call scheduled for 23rd Oct'24.

Policyholder A/c (INRb)	FY23				FY24				FY25			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	YoY	QoQ
Gross premium	**41.0**	**58.0**	**62.8**	**91.5**	**48.7**	**66.3**	**73.0**	**107.4**	**54.0**	**77.4**	**17**	**43**
First year premium	9.2	11.1	14.6	24.1	9.9	15.3	17.6	25.4	12.6	20.5	34	63
Renewal premium	26.2	39.1	40.2	58.3	30.1	42.0	46.1	66.8	33.2	47.2	12	42
Single premium	5.7	7.8	8.0	9.1	8.7	8.9	9.3	15.2	8.2	9.7	8	18
Shareholder PAT	**0.9**	**0.5**	**2.3**	**0.6**	**1.0**	**1.6**	**1.5**	**-0.5**	**1.6**	**1.4**	**-11**	**-11**
APE data (INRb)												
PAR	1.7	2.0	1.8	2.6	1.9	3.9	3.3	4.3	1.9	2.1	-46	11
Individual protection	0.7	0.8	1.1	1.2	0.9	1.6	1.6	1.8	1.5	2.2	36	49
Group protection	1.1	0.7	0.5	0.9	1.2	1.0	1.0	0.5	1.5	1.1	10	-25
Non par savings	2.7	4.5	8.3	14.4	4.2	4.6	6.2	10.2	3.9	6.6	42	68
ULIP	3.8	3.9	3.4	6.4	2.8	5.5	5.8	11.9	5.7	9.5	73	69
APE (% of total)												
PAR	17.0	17.0	12.1	10.1	17.0	23.7	18.5	14.8	13.0	9.7	-1,403	-334
Individual protection	7.0	7.0	7.0	4.5	8.0	9.7	9.0	6.4	10.0	10.0	33	0
Group protection	11.0	5.5	3.1	3.5	11.0	6.0	5.5	1.8	10.0	5.0	-99	-501
Non par savings	27.0	38.1	55.1	56.8	38.0	28.0	34.5	35.6	27.0	30.3	238	334
ULIP	38.0	32.5	22.7	25.1	25.0	33.4	32.5	41.4	39.0	44.0	1,064	501
Distribution mix (%)												
Proprietary	34.0	35.8	32.5	41.4	40.0	40.0	40.0	40.0	49.0	43.7	370	-530
Banca	65.0	63.2	66.5	57.6	58.0	59.7	59.0	56.4	48.0	54.3	-536	631
Others	1.0	1.0	1.0	1.0	2.0	0.3	1.0	3.6	2.0	2.0	166	-1
Key Ratios (%)												
Operating ratios												
Opex to GWP ratio (%)	22.9	21.0	20.4	20.5	23.6	22.8	22.6	22.0	26.3	25.6	280	-70
Solvency ratio	196.0	196.0	200.0	190.0	188.0	184.0	179.0	172.0	203.0	198.0	1,400	-500
Profitability ratios												
VNB margins	21.1	31.3	39.3	30.3	22.2	25.2	27.2	28.6	17.5	23.6	-157	609
Persistency ratios (%)												
13th month	84.0	84.0	83.0	84.0	84.0	84.0	85.0	87.0	87.0	87.0	300	0
25th month	68.0	68.0	68.0	68.0	69.0	70.0	70.0	70.0	71.0	71.0	100	0
37th month	61.0	62.0	62.0	62.0	52.0	62.0	63.0	63.0	64.0	64.0	200	0
49th month	56.0	64.0	63.0	63.0	64.0	65.0	65.0	66.0	67.0	67.0	200	0
61st month	50.0	58.0	58.0	58.0	58.0	57.0	58.0	58.0	58.0	58.0	100	0
Key metrics (INRb)												
VNB	2.1	3.7	5.9	7.7	2.5	4.2	4.9	8.2	2.5	5.1	23	102
EV	142	147	155	163	169	179	187	195	220	233	30	6
AUM	1,071	1,134	1,184	1,229	1,291	1,342	1,426	1,508	1,612	1,701	27	6
Equity mix (%)	23.8	23.8	25.2	25.1	26.5	28.1	30.1	30.0	29.7	43.3	1,521	1,354

Can Fin Homes

BSE Sensex	S&P CNX
80,221	24,472

Conference Call Details

Date: 23rd Oct 2024
Time: 15:30 IST
Dial-in details:

Link for the call

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	12.6	13.3	15.3
PPP	10.8	11.3	13.1
PAT	7.5	8.5	9.7
EPS (INR)	56.4	63.5	72.8
EPS Growth (%)	21	13	15
BVPS (INR)	326	384	450
Ratios (%)			
NIM	3.8	3.6	3.6
C/I ratio	16.8	17.7	17.2
RoAA	2.2	2.2	2.2
RoE	18.8	17.9	17.5
Payout	10.6	9.5	8.2
Valuation			
P/E (x)	14.8	13.1	11.4
P/BV (x)	2.6	2.2	1.8
Div. Yield (%)	0.7	0.7	0.7

CMP: INR833 **Neutral**

Healthy disbursements growth; asset quality stable

Earnings in line; reported NIMs improved ~15bp QoQ

- PAT for 2QFY25 grew ~34% YoY to ~INR2.1b (in line). Base quarter had one-off credit costs because of the Ambala incident. NII grew 7% YoY to ~INR3.4b (in line) and other Income stood at ~INR74m (PQ: INR70m).
- Opex grew ~13% YoY to INR594m (11% above MOFSLe). The cost-income ratio stood at ~17%. (PQ: 15%, PY: 16%). 2QFY25 RoA/RoE stood at ~2.3%/~18%.

Disbursement growth healthy; advances rise ~10% YoY

- CANF's 2QFY25 disbursements rose 18% YoY to INR23.8b.
- Advances grew by ~10% YoY to ~INR366b. Annualized run-off in advances stood at ~15% (PQ: 15% and PY: ~14%).

Margin improves QoQ; the share of bank borrowings increases

- NIM (reported) rose ~15bp QoQ to ~3.75%. Reported spreads remained stable QoQ.
- Banks borrowings in the mix increased to 60% (PQ: ~56%), NHB borrowings declined to ~14% (PQ: ~16%), and proportion of CPs was stable at 7%.

Asset quality stable; GS3 improves ~5bp QoQ

- Asset quality was broadly stable, with GS3 improving by ~5bp QoQ to ~0.9% and NS3 remaining stable at ~0.5%. PCR on stage 3 loans declined ~1pp QoQ to ~46%.
- Credit costs stood at INR137m, resulting in annualized credit costs of ~15bp [PQ: ~30bp and PY: ~90bp].

DSA sourcing mix stable

- Average ticket size of incremental housing loans remained stable at INR2.5m.
- DSA channel in the sourcing mix remained stable at 80%.

Valuation and view

CANF's loan growth and disbursements were weak in the prior three quarters, primarily because of the company's efforts for process improvements and weak demand in some states in Southern India. However, during the current quarter, the company has accelerated its disbursements since most of the above-mentioned issues are now addressed. CANF might look to use its margin levers to deliver healthy loan growth in FY25 and FY26. We may revise our estimates and TP after the earnings conference call on 23rd Oct'24.

Quarterly performance INR m

Y/E March	FY24				FY25E				FY24	FY25E	2QFY25E	Act vs est. (%)
	1QF	2Q	3Q	4Q	1QF	2Q	3Q	4Q				
Interest Income	8,181	8,652	8,948	9,117	9,242	9,553	9,849	9,837	34,899	38,480	9,426	1
Interest Expenses	5,330	5,484	5,660	5,839	6,027	6,155	6,358	6,609	22,314	25,149	6,154	0
Net Interest Income	**2,851**	**3,168**	**3,288**	**3,278**	**3,214**	**3,398**	**3,491**	**3,228**	**12,585**	**13,331**	**3,273**	4
YoY Growth (%)	13.9	26.1	30.6	25.5	12.7	7.3	6.2	-1.5	24.0	5.9	3.3	
Other income	60	58	71	159	70	74	99	171	348	414	76	-2
Total Income	**2,911**	**3,226**	**3,359**	**3,437**	**3,284**	**3,472**	**3,590**	**3,400**	**12,933**	**13,745**	**3,348**	4
YoY Growth (%)	13.9	25.7	30.8	25.7	12.8	7.6	6.9	-1.1	24.1	6.3	3.8	
Operating Expenses	435	524	494	720	488	594	657	699	2,173	2,438	533	11
YoY Growth (%)	7.4	29.5	12.7	39.3	12.3	13.3	33.1	-2.9	23.1	12.2	1.7	
Operating Profits	**2,476**	**2,702**	**2,865**	**2,717**	**2,796**	**2,878**	**2,932**	**2,701**	**10,760**	**11,307**	**2,815**	**2**
YoY Growth (%)	15.2	25.0	34.6	22.5	12.9	6.5	2.3	-0.6	24.3	5.1	4.2	
Provisions	137	722	308	18	245	137	120	21	1,185	523	140	-2
Profit before Tax	**2,339**	**1,980**	**2,557**	**2,700**	**2,551**	**2,741**	**2,812**	**2,680**	**9,575**	**10,784**	**2,675**	2
Tax Provisions	504	399	556	609	555	626	607	541	2,068	2,329	573	9
Profit after tax	**1,835**	**1,581**	**2,001**	**2,090**	**1,996**	**2,115**	**2,205**	**2,139**	**7,507**	**8,455**	**2,103**	1
YoY Growth (%)	13.1	11.5	32.1	26.1	8.8	33.8	10.2	2.3	20.8	12.6	33.0	
Key Parameters (%)												
Yield on loans	10.2	10.5	10.6	10.6	10.5	10.6	10.6	10.1				
Cost of funds	7.3	7.3	7.3	7.4	7.5	7.4	7.4	7.4				
Spread	3.0	3.2	3.3	3.2	3.0	3.2	3.2	2.7				
NIM	3.6	3.8	3.9	3.8	3.6	3.8	3.7	3.3				
Credit cost	0.17	0.88	0.4	0.0	0.28	0.15	0.1	0.0				
Cost to Income Ratio (%)	14.9	16.2	14.7	20.9	14.9	17.1	18.3	20.6				
Tax Rate (%)	21.6	20.2	21.7	22.6	21.7	22.8	21.6	20.2				
Balance Sheet Parameters												
Loans (INR B)	**325.1**	**333.6**	**340.5**	**350.0**	**355.6**	**365.9**	**380.2**	**397.8**				
Growth (%)	18.0	15.7	13.1	10.9	9.4	9.7	11.6	13.6				
AUM mix (%)												
Home loans	89.1	89.1	89.1	88.9	88.9	88.5						
Non-housing loans	10.9	10.9	10.9	11.1	11.1	11.5						
Salaried customers	72.7	72.4	72.1	71.9	71.7	70.9						
Self-employed customers	27.2	27.5	27.8	28.0	28.3	29.1						
Disbursements (INR B)	**19.7**	**20.2**	**18.8**	**23.1**	**18.5**	**23.8**	**27.3**	**30.7**				
Change YoY (%)	14.2	-10.1	-23.1	-8.8	-5.7	17.9	45.0	32.6				
Borrowing mix (%)												
Banks	54.0	57.0	60.0	59.0	56.0	60.0						
NHB	22.0	19.0	19.0	16.0	16.0	14.0						
Market borrowings	23.0	23.0	20.0	24.0	27.0	25.0						
Deposits	1.0	1.0	1.0	1.0	1.0	1.0						
Asset Quality												
GNPL (INR m)	2,052	2,540	3,088	2,860	3,250	3,200						
NNPL (INR m)	1,096	1,420	1,674	1,470	1,740	1,720						
GNPL ratio %	0.63	0.76	0.91	0.82	0.91	0.88						
NNPL ratio %	0.34	0.43	0.49	0.42	0.49	0.47						
PCR %	46.6	44.1	45.8	48.6	47.0	46.0	100.0					
Return Ratios (%)												
ROA (Rep)	2.2	1.9	2.3	2.5	2.2	2.3						
ROE (Rep)	19.2	16.0	19.4	19.3	17.6	18.0						

E: MOFSL Estimates

Shoppers Stop

BSE SENSEX	S&P CNX
80,221	24,471

Conference Call Details

Date: 23th Oct 2024
Time: 11am IST

Financials & Valuations (INR b)

INRb	FY24E	FY25E	FY26E
Sales	42.1	47.4	55.4
EBITDA	7.1	8.1	10.1
Adj. PAT	0.6	0.8	1.1
EBITDA Margin (%)	16.9	17.0	18.3
Adj. EPS (INR)	5.5	6.9	9.7
EPS Gr. (%)	-50.2	25.8	40.7
BV/Sh. (INR)	38.8	47.9	60.7
Ratios			
Net D:E	8.2	8.8	8.8
RoE (%)	21.8	21.0	23.6
RoCE (%)	8.6	7.4	7.4
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	129.4	102.9	73.1
EV/EBITDA (x)	14.8	14.2	12.2
EV/Sales (x)	2.5	2.4	2.2

CMP: INR717 — Neutral

Soft revenue growth continues to hurt profitability

- Shoppers Stop's standalone revenue grew 4% YoY to INR10.7b (+3% QoQ, 2% miss) as store additions were offset by likely LFL sales decline.
  - Private Brands' revenue declined 15% YoY to INR1.6b, while the Beauty segment outperformed with 11% YoY revenue growth to INR2.2b (excl. distribution channel) and 19% YoY growth (incl. distribution channel).
  - Revenue from Intune stood at INR410m (vs. INR340m QoQ), with its presence expanding to 50 stores (from 31 QoQ).
- The company added one departmental store (and closed two), five Home Stop stores (and closed one), and 19 Intune stores during the quarter. Respective store counts stood at 112, 11, and 50 stores.
- Gross profit grew 2% YoY to INR4.3b (+1% QoQ, 4% miss) as gross margin contracted 80bp YoY to 39.9% (-70bp QoQ, 70bp miss). This was likely due to a 15% YoY decline in private labels and EoSS.
- Employee costs/other expenses were up 4%/11% YoY due to store additions.
- As a result, EBITDA declined 8% YoY to INR1.5b (+3% QoQ, 12% miss). EBITDA margin contracted 180bp YoY to 13.7% (flat QoQ, 155bp miss) due to contraction in gross margin and higher other expenses.
  - It generated a **modest INR20m EBITDA (Pre Ind-AS) in 2QFY25**.
- Depreciation and interest costs were up 12%/16% YoY, which led to a net adj. loss of INR200m (vs. an estimated loss of INR42m).
- Shoppers Stop reported an exceptional loss of INR20.5m due to a fire, which damaged its stocks. For this, an insurance claim is filed. The company is confident of receiving the insurance claim amount.
- 1HFY25 revenue rose 5% YoY, but EBITDA declined 13% YoY. Reported 1HFY25 net loss stood at INR445m (vs. INR167m profit YoY).

Balance sheet and cash flow analysis

- 1HFY25 OCF stood at INR368m (vs. INR75m YoY) due to working capital release. The company opened 25 stores and incurred a capex of INR930m, which led to a cash outflow of INR560m and an increase in debt by INR593m to INR1.68b.

Management commentary:

- Demand was subdued in Jul and Aug'24 on account of lower wedding dates, extended monsoon, and overall weak discretionary spending. However, performance improved in Sep (LFL grew 9%).
- The company plans to add 50 Intune, 7 Departmental, 6 Beauty, and 2 HomeStop stores during 2HFY25.

Standalone P&L (INR m)	2QFY24	1QFY25	2QFY25	YoY%	QoQ%	2QFY25E	v/s Est (%)
Total Revenue	**10,252**	**10,337**	**10,681**	**4**	**3**	**10,942**	**-2**
Raw Material cost	6,080	6,141	6,423	6	5	6,500	-1
Gross Profit	**4,171**	**4,196**	**4,259**	**2**	**1**	**4,443**	**-4**
Gross margin (%)	***40.7***	***40.6***	***39.9***	***-82***	***-72***	***40.6***	***-73***
Employee Costs	976	1,001	1,014	4	1	1,072	-5
SGA Expenses	1,597	1,774	1,777	11	0	1,696	5
EBITDA	**1,598**	**1,421**	**1,468**	**-8**	**3**	**1,674**	**-12**
EBITDA margin (%)	***15.6***	***13.7***	***13.7***	***-184***	***0***	***15.3***	***-155***
Depreciation and amortization	1,081	1,167	1,214	12	4	1,225	-1
EBIT	517	254	254	-51	0	449	-43
EBIT margin (%)	*5.0*	*2.5*	*2.4*	*-265.8*	*-7.3*	*4.1*	*-172*
Finance Costs	548	604	638	16	6	603	6
Other income	105	35	97	-8	175	98	-1
Exceptional item	-49	0	-21	NM	NM	0	NM
Profit before Tax	**25**	**-314**	**-307**	**NM**	**-2**	**-56**	**446**
Tax	8	-89	-87	NM	-3	-14	513
Tax rate (%)	*29.9*	*28.4*	*28.3*	*-162.9*	*-13.4*	*25.2*	*309*
Profit after Tax	**18**	**-225**	**-220**	**-1,336**	**-2**	**-42**	**424**
Adj Profit after Tax	**52**	**-225**	**-200**	**-561**	**7**	**-42**	**376**

Shoppers Stop performance

	2QFY24	1QFY25	2QFY25	*YoY%*	*QoQ%*	2QFY25E	*v/s Est (%)*
Shoppers stop stores	**102**	**114**	**112**	**10**	**-2**	**115**	***-3***
Net SS stores added	4	2	-2	*NM*	*NM*	1	*-300*
Intune stores	**6**	**31**	**50**	***NA***	**61**	**48**	***4***
Net Intune stores added	0	9	19	*NM*	*NM*	17	*12*

City Union Bank: Will get back to industry level loan growth rates in FY25; N Kamakodi, MD

- Will get back to industry level loan growth rates in FY25
- Seeing good growth from traditional/conventional sectors
- Secured MSME, gold & agri will contribute to loan growth ahead
- In 3 years, new loans will be 6-7% of total loans
- NIM is expected to remain at 3.6%
- Expect slippages of Rs 800 cr in FY25; maintain the guidance

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Supreme Industries: Cuts volume growth guidance to 16-18% for FY25; expect H2FY25 to be better than H1; MP Taparia, MD

- Surge in freight rates impacted export volumes
- Capex was lower by the government in H1FY25
- Saw huge destocking in plastic piping system
- Outlook of raw material has improved
- Expect H2FY25 to be better than H1FY25
- Expecting 14-18% overall growth in FY25

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Rajratan Global Wire: Seeing lower volume due to geopolitical situations; Sunil Chordia, CMD

- Seeing lower volumes due to geopolitical situations
- Prices have gone down in last 2 months
- Consolidated gross margin target at 15-16%
- Thailand business is under pressure
- Domestic market share at 42%, competitors have increased capacities as well
- Chennai phase 1 has started, 1,000 tonnes sales achieved in Q1

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Rossari Biotech: Textile specialty chemicals under pressure because of exposure to Bangladesh; Sunil Chari, MD

- Exports will continue to be the focus; will focus on us & European markets
- Stick to 12-13% growth in revenue in fy25
- Non-ethylene oxide segment is doing well
- Ethylene oxide supply is subdued as reliance has delayed the supply
- Textile specialty chemicals under pressure because of exposure to Bangladesh
- Export margin 2-3% higher than domestic markets

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BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
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NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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