18 October 2023

MORNING INDIA

Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	66,428	0.4	9.2
Nifty-50	19,812	0.4	9.4
Nifty-M 100	40,733	0.4	29.3
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	4,373	0.0	13.9
Nasdaq	13,534	-0.3	29.3
FTSE 100	7,675	0.6	3.0
DAX	15,252	0.1	9.5
Hang Seng	6,093	0.7	-9.1
Nikkei 225	32,040	1.2	22.8
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	92	-1.4	12.8
Gold ($/OZ)	1,923	0.2	5.4
Cu (US$/MT)	7,903	-0.2	-5.5
Almn (US$/MT)	2,157	0.2	-8.2
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	83.3	0.0	0.6
USD/EUR	1.1	0.2	-1.2
USD/JPY	149.8	0.2	14.3
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	7.3	0.00	0.0
10 Yrs AAA Corp	7.8	-0.03	0.1
Flows (USD b)	**17-Oct**	**MTD**	**CYTD**
FIIs	0.0	-0.80	13.9
DIIs	0.01	1.54	17.2
Volumes (INRb)	**17-Oct**	**MTD***	**YTD***
Cash	725	714	667
F&O	3,09,464	2,98,845	2,62,272

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

Bajaj Finance: Earnings in line; reported NIM contracts 15bp QoQ

- BAF's 2QFY24 reported PAT grew 28% YoY to ~INR35.5b. 2QFY24 NIM (calc.) declined ~35bp QoQ to ~12.6% even as the reported NIM declined ~15bp QoQ. We have incorporated the announced equity capital raise of ~INR100b in our estimates and model an AUM/PAT CAGR of ~29%/28% over FY23-FY26 and expect BAF to deliver a RoA/RoE of 4.8%/23% in FY26.
- We would watch-out for the degree to which the NIM compression can be offset with operating leverage. Customer acquisitions and the new loan trajectory have been strong. The momentum will only get stronger ahead, with the digital ecosystem – app, web platform and full-stack payment offerings – in place. Maintain BUY with a TP of INR9,600 (premised on 5.7x Sep'25E BVPS).

Research covered

Cos/Sector	Key Highlights
Bajaj Finance	Earnings in line; reported NIM contracts 15bp QoQ
ICICI Pru Life	VNB margin hit by adverse product mix
L&T Technology	Deal wins to drive growth; keeps near-term caution
Other Notes	Zensar Tech.| CEAT | CIE Automotive | TCI Express | General Insurance | EcoScope (US Bond yield)

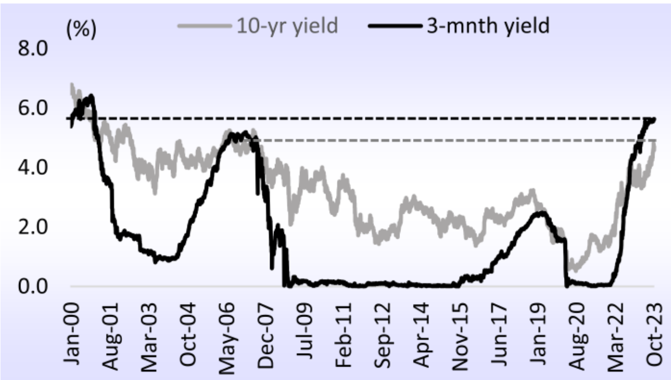
Piping hot news

IT sector job woes may pull down overall consumer demand in India

A reduction in headcount and subpar salary increments by information technology (IT) service exporters, including Tata Consultancy Services (TCS), Infosys, and HCL Technologies, could negatively impact overall consumer demand in India.

Chart of the Day: EcoScope (US bond yields may remain elevate)

US bond yields have risen to multi-year high in recent months...



...but the spread between 3-month and 10-yr yield has narrowed

All data as of 16th October 2023

Source: US Department of Treasury, CEIC, MOFSL

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In the news today

Kindly click on textbox for the detailed news link

1

Government cuts windfall tax on petroleum crude from 18 Oct 2023

The Indian government announced late on Tuesday night a cut in windfall tax on petroleum crude, ATF (aviation turbine fuel) and diesel. The government cut the tax on petroleum crude from ₹12,200/tonne to ₹9,050/tonne.

2

Dabur gets GST demand notice of ₹320.6 crore

FMCG major Dabur has received a Goods and Service Tax (GST) demand notice of ₹320.6 crore, a regulatory filing stated on October 17, adding that the company is reviewing the intimation and evaluating the next steps in this matter. The tax demand notice will have no major impact on the financial, operation or other activities of the company, Dabur clarified. “The impact will be limited to the extent of final tax liability as may be ascertained along with interest and penalty

3

Tata Motors bets on SUV launches and upgrades to scale new peaks

Tata Motors is aiming to establish its presence in the internal combustion engine (ICE)-powered SUV market in India with the launch of facelift versions of Safari and Harrier, as well as new models Curvv and Sierra in 2024.

4

Vedanta explores tie-up with Japanese tech firms as it plans to set up chip plant

Vedanta's semiconductor and display business Global Managing Director Akarsh K Hebbar during Vibrant Gujarat Global Summit roadshow in Japan had said that it is a USD 80-billion opportunity for companies willing to come and invest in the electronics manufacturing hub in Gujarat.

5

RBI fines ICICI, Kotak Mahindra Bank for not complying with norms

ICICI Bank has been penalised for contraventions pertaining to loans and advances-statutory and non-compliance with RBI directions on fraud classification and reporting, the central bank said on Tuesday.

6

Mphasis appoints Wipro's Ayaskant Sarangi as global CHRO

Mphasis, an IT solutions provider has appointed Ayaskant Sarangi as its global chief human resource officer (CHRO).

7

CCI approves IDFC merger plan with IDFC First Bank

The Competition Commission of India (CCI) has approved the merger plan of IDFC with IDFC First Bank.

18 October 2023
2QFY24 Results Update | Sector: Financials

Bajaj Finance

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	BAF IN
Equity Shares (m)	604
M.Cap.(INRb)/(USDb)	4903.7 / 58.9
52-Week Range (INR)	8192 / 5486
1, 6, 12 Rel. Per (%)	10/24/-4
12M Avg Val (INR M)	6965

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
Net Income	364	455	573
PPP	242	310	393
PAT	148	191	243
EPS (INR)	240	310	393
EPS Gr. (%)	26	29	27
BV/Sh. (INR)	1,231	1,515	1,854
Ratios			
NIM (%)	10.5	10.3	10.4
C/I ratio (%)	33.5	31.9	31.4
RoA (%)	4.6	4.7	4.7
RoE (%)	22.7	22.6	23.4
Payout (%)	15.2	13.8	13.8
Valuations			
P/E (x)	33.7	26.1	20.6
P/BV (x)	6.6	5.3	4.4
Div. Yield (%)	0.5	0.5	0.7

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	55.9	55.9	55.9
DII	12.9	13.0	12.0
FIIFIIFII	20.2	19.3	20.3
Others	11.0	11.8	11.8

FII Includes depository receipts

CMP: INR8,093 TP: INR9,600 (+19%) Buy

Earnings in line; reported NIM contracts 15bp QoQ

NIM compression will continue in 2HFY24 as well

- Bajaj Finance (BAF)'s 2QFY24 reported PAT grew 28% YoY to ~INR35.5b (in line).
- NII rose 30% YoY to ~INR72b. Other operating income grew 13% YoY, and net total income (NTI) jumped 26% YoY to ~INR88.4b in 2QFY24.
- BAF's 2QFY24 NIM (calc.) contracted ~35bp QoQ to ~12.6% even as the reported NIM declined ~15bp QoQ. We model NIM compression of ~20bp in FY24 due to the expected rise in cost of borrowings and challenges in passing on any further interest rate hikes.
- We have incorporated the announced equity capital raise of ~INR100b in our estimates and model an AUM/PAT CAGR of ~29%/28% over FY23-FY26. We expect BAF to deliver an RoA/RoE of 4.8%/23% in FY26.
- Key monitorables for FY24 are: a) the evolution of its payments landscape and adoption of its payment offerings, and b) the degree to which the NIM compression can be offset with operating leverage, resulting in a contraction in cost ratios.
- Reiterate **BUY** with a TP of INR9,600 (premised on 5.7x Sep'25E BVPS).

AUM growth at ~33% YoY; new customer acquisitions strong

- Total customer franchise rose 22% YoY to ~77m. New loans booked grew 26% YoY to 8.5m (PY: 6.8m). The company is confident of adding 13-14m new customers in FY24E.
- Reported total AUM grew 33% YoY and ~7.5% QoQ to INR2.9t. Sequential AUM growth was driven by 2W/3W Finance (+12%), Urban B2C (+6%), SME finance (+11%), Commercial (incl. LAS) (+8%) and Mortgages (+9%). However, both Rural Sales Finance (-1% QoQ) and Rural B2C business (+3% QoQ) exhibited muted AUM growth because of various corrective measures initiated by the company.

Cost ratios broadly stable aided by operating leverage

- Operating expenses grew 20% YoY to INR30b, and the opex-to-NII ratio was stable QoQ at ~34%.
- The company added 106 new locations and ~14K distribution points in 2QFY24. BAF will continue to invest in digital initiatives and technology and expects to see operating leverage come through every quarter from hereon.
- Operating leverage from economies of scale and lower technological investments would cause the opex-to-NII ratio to moderate to 34%/ 32% in FY24/FY25.

Credit costs broadly stable QoQ

- Credit costs in 2QFY24 stood at ~155bp (PY: ~140bp). This included an amount of ~INR1b released from the management overlay.
- Total credit costs in 2QFY24 stood at INR10.8b. BAF held a management & macroeconomic overlay of INR7.4b as of Sep’23.

Minor deterioration in asset quality; corrective actions taken in rural B2C

- BAF’s reported GS3 increased ~5bp QoQ to ~0.9%, while NS3 was largely stable at ~0.3%. Stage 3 PCR rose ~120bp QoQ to ~66%.
- Rural B2C exhibited minor stress, and the management has cut incremental business volumes in this segment to mitigate risk. It expects Rural B2C to remain muted until Feb’24 and recover subsequently.

Highlights from the management commentary

- Management guided for additional 25-30bp NIM compression in 2HFY24. Replacement of legacy borrowings at higher interest rates will happen predominantly in 3Q and a relatively smaller portion in 4Q. Operating leverage will play a bigger role in mitigating the NIM compression.
- New car financing is ahead of plan and is now present in 85 locations. The microfinance pilot was launched in Sep'23 with presence in 12 locations (across UP and Karnataka), and 100 locations are on track to go live by Mar'24.

Valuation and view

- Customer acquisitions and the new loan trajectory have been strong. The momentum will only get stronger with the digital ecosystem (app, web platform and full-stack payment offerings) in place.
- BAF should be able to offset the NIM compression in FY24 with lower operating cost ratios. Our EPS estimates are largely unchanged, and we now introduce our FY26 estimates. We expect BAF to deliver a PAT CAGR of 28% over FY23-FY26 and an RoA/RoE of 4.8%/23.0% in FY26. **Maintain BUY with a TP of INR9,600 (premised on 5.7x Sep’25E BVPS).**

Quarterly Performance (INR m)

Y/E March	FY23				FY24E				FY23	FY24E	2QFY24E	Act V/s Est
	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24				
Interest Income	79,197	85,090	92,734	98,469	1,08,211	1,17,340	1,26,141	1,34,149	3,55,502	4,85,841	1,17,084	0
Interest expenses	26,451	29,714	33,512	35,920	41,025	45,371	49,908	52,021	1,25,599	1,88,324	45,128	1
Net Interest Income	**52,745**	**55,376**	**59,222**	**62,549**	**67,186**	**71,970**	**76,233**	**82,129**	**2,29,903**	**2,97,517**	**71,956**	0
YoY Growth (%)	42.5	29.1	25.3	30.2	27.4	30.0	28.7	31.3	31.2	29.4	29.9	
Other Operating Income	13,630	14,637	15,126	15,162	16,795	16,477	16,585	16,741	58,555	66,599	16,573	-1
Net Income	**66,376**	**70,013**	**74,347**	**77,712**	**83,980**	**88,447**	**92,818**	**98,870**	**2,88,458**	**3,64,116**	**88,530**	**0**
YoY Growth (%)	47.8	31.2	23.9	28.1	33.3	26.3	24.8	27.2	31.8	26.2	26.4	
Operating Expenses	23,801	25,148	25,818	26,522	28,544	30,100	31,304	32,180	1,01,300	1,22,128	29,628	2
Operating Profit	**42,575**	**44,865**	**48,529**	**51,190**	**55,437**	**58,347**	**61,514**	**66,690**	**1,87,158**	**2,41,988**	**58,901**	-1
YoY Growth (%)	36.6	35.8	23.8	29.0	37.0	30.0	26.8	30.3	30.8	29.3	31.3	
Provisions and Cont.	7,547	7,342	8,413	8,594	9,953	10,771	10,490	12,275	31,897	43,489	9,660	11
Profit before Tax	**35,028**	**37,523**	**40,117**	**42,611**	**45,512**	**47,576**	**51,025**	**54,431**	**1,55,279**	**1,98,515**	**49,241**	-3
Tax Provisions	9,065	9,716	10,387	11,033	11,143	12,070	13,215	14,288	40,202	50,716	12,753	-5
Net Profit	**25,963**	**27,807**	**29,730**	**31,578**	**34,369**	**35,507**	**37,809**	**40,142**	**1,15,077**	**1,47,799**	**36,488**	-3
YoY Growth (%)	159.0	87.8	39.9	30.5	36.8	27.7	27.2	27.1	63.7	28.4	31.2	

Y/E March	FY23				FY24E				FY23	FY24E	2QFY24E	Act V/s Est
	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24				
Key Operating Parameters (%)												
Fees to Net Income Ratio	20.5	20.9	20.3	19.5	20.0	18.6			20.3	18.3		
Credit Cost	1.55	1.43	1.54	1.47	1.57	1.56			1.47	1.5		
Cost to Income Ratio	35.9	35.9	34.7	34.1	34.0	34.0			35.1	33.5		
Tax Rate	25.9	25.9	25.9	25.9	24.5	25.4			25.9	25.5		
Balance Sheet Parameters												
AUM (INR B)	2,040	2,184	2,308	2,474	2,701	2,903			2,474	2,701		
Change YoY (%)	28.3	30.8	27.4	25.3	42.3	32.9			25.3	42		
Loans (INR B)	1,984	2,127	2,254	2,423	2,653	2,857			2,423	2,653		
Change YoY (%)	29.5	32.3	29.0	26.6	44.1	34.3			26.6	44		
Borrowings (INR B)	1,721	1,833	2,013	2,154	2,352	2,544			2,154	2,352		
Change YoY (%)	29.1	26.4	30.7	30.4	47.8	38.8			30.4	48		
Loans/Borrowings (%)	115.3	116.1	112.0	112.5	112.8	112.3			112.5	113		
Asset Quality Parameters (%)												
GS 3 (INR B)	25.4	25.3	26.1	23.1	23.5	26.5			23.1	29.5		
Gross Stage 3 (% on Assets)	1.25	1.17	1.14	0.94	0.87	0.91			0.94	0.90		
NS 3 (INR B)	10.2	9.5	9.3	8.4	8.3	9.0			8.4	9.7		
Net Stage 3 (% on Assets)	0.51	0.44	0.41	0.34	0.31	0.31			0.35	0.30		
PCR (%)	59.9	62.3	64.2	63.8	77.4	66.0			63.8	67.0		
Return Ratios (%)												
ROAA (Rep)	5.3	5.4	5.4	5.4	5.4	5.16			4.7	4.6		
ROAE (Rep)	23.1	23.57	24.0	23.9	24.5	24.1			23.4	22.7		

Source: Company, MOFSL

ICICI Prudential Life

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	IPRU IN
Equity Shares (m)	1439
M.Cap.(INRb)/(USDb)	768.3 / 9.2
52-Week Range (INR)	616 / 381
1, 6, 12 Rel. Per (%)	-8/7/-10
12M Avg Val (INR M)	994

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Net Premiums	385.6	425.4	492.0
Surplus / Deficit	23.0	27.9	28.9
Sh. holder's PAT	8.1	10.4	12.0
NBP growth unwtd (%)	12.3	10.0	15.0
APE growth - (%)	11.7	12.0	17.6
Tot. Premium gr. (%)	6.6	9.0	15.8
VNB margin (%)	32.0	30.0	32.7
RoEV (%)	12.7	17.9	18.4
Total AUMs (INRt)	2.5	3.0	3.4
VNB (INRb)	27.6	29.0	37.2
EV per share	248	292	346
Valuations			
P/EV (x)	2.2	1.8	1.5
P/EVOP (x)	14.0	12.5	10.4

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	73.3	73.4	73.4
DII	6.3	6.1	5.1
FII	15.4	15.2	16.1
Others	4.9	5.3	5.4

FII Includes depository receipts

CMP: INR534 TP: INR600 (+12%) Buy

VNB margin hit by adverse product mix

Persistency trend healthy across cohorts

- ICICI Prudential Life Insurance (IPRU) reported a 3.2% YoY growth in APE (in line) to INR20.6b in 2QFY24. The protection segment grew 2.6% YoY while the annuity segment declined 6.7% YoY during the quarter.
- VNB declined 7% YoY to INR5.8b (8% miss) due to moderation in margins. VNB margin for the quarter stood at 28.0% (a 200bp QoQ decline) vs. MOSLe of 30.4%. For 1HFY24, APE stood at INR35.2b and VNB was at INR10.1b with a VNB margin of 28.8%.
- Considering IPRU's 1HFY24 performance, we have cut the APE/VNB margin for FY24 and FY25. We expect IPRU to deliver a 16% CAGR in VNB over FY23-25. This will be fueled by a combination of premium growth and a slight improvement in margins, thereby enabling an operating RoEV of ~18% over FY23-25E. **Reiterate BUY with a TP of INR600 (based on 1.7x Mar'25E EV).**

Share of ULIPs rises to 45%

- IPRU's gross premium grew 5.4% YoY to INR104.2b (in line) in 2QFY24. Renewal premium grew 4.4% YoY while first-year/single premium increased 5.9%/7% YoY.
- IPRU's PAT grew 22% YoY to INR2.4b in 2QFY24 (in line). On the other hand, its PAT jumped 27% YoY to INR 4.5b in 1HFY24.
- APE grew 3.2% YoY to INR20.6b (in line). In 2QFY24, the protection segment rose 2.6% YoY, while the annuity segment declined 6.7% YoY.
- The share of retail protection in total protection increased 74% YoY. The mix of protection in the overall mix was 18.9% in 2QFY24 vs. 19.0% in 2QFY23 and 23.5% in 1QFY24.
- VNB declined 7% YoY to INR5.8b (8% miss) due to moderation in margins. VNB margin for the quarter stood at 28.0% (a 200bp QoQ decline) vs. MOSLe of 30.4%.
- On the distribution side, the banca channel remained weak due to sustained weakness in the ICICI Bank channel and steady trends in non-ICICI Bank partners. On a sequential basis, the mix of agency and partnership distribution channel improved. ICICI Bank now contributes 13.7% to the overall APE of IPRU.
- Cost-TWRP escalated 500bp YoY to 24.9% during 2QFY24. Savings business cost for 1HFY24 stood at 17.2% vs. 14.4% in 1HFY23.
- On the persistency front, all cohorts witnessed a YoY improvement except the 13th Month. On a premium basis, the 13th month persistency improved 120bp QoQ to 85.6% while the 49th month persistency improved 210bps to 67.9%.

Highlights from the management commentary

- ICICI Bank is more focused on growing its annuity and protection businesses, which do not compete with banking products. Even ISEC is extending its proposition to grow the annuity and protection businesses (currently, they form ~2-3% of the overall business).
- The redesign in commission structure allowed by IRDAI led to an increase in the commission expenses, which ultimately led to a rise in total expenses.
- The increase in Retail protection is led by moderating supply-side issues.
- IPRU recently launched the first-of-its-kind 'ICICI Pru Stack', a set of platform capabilities encompassing digital tools and analytical abilities. The seven-layer stack has enabled IPRU to issue ~20% of the policies on the same day for the savings line of business.

Valuation and view

IPRU's VNB margin is lower than estimated due to an adverse product mix. The growth in the non-ICICI Bank channel and agency channel is likely to pick up in the second half as the base effect kicks in. The share of banca (excluding ICICI Bank) increased to 15% in 1HFY24 from 4% in FY19, thus supporting growth and diversification in the distribution mix. The increase in agent recruitment and the strong pace of new partnership additions will likely aid premium growth. Further, the strategy of approaching customers with a wider product bouquet through all channels will also boost premium growth. Persistency too saw an improvement across cohorts. We estimate IPRU to deliver a 16% CAGR in VNB over FY23-25. This will be fueled by a combination of premium growth and a slight improvement in margins, thereby enabling an operating RoEV of ~18% over FY23-25E. **Reiterate BUY with a TP of INR600 (based on 1.7x Mar'25E EV).**

Quarterly performance (INR b)

Policy holder's A/c	FY23				FY24E				FY23	FY24E	FY24E	A v/s E
(INR b)	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
First year premium	10.4	14.4	13.8	26.3	10.2	15.3	19.3	35.6	64.9	80.4	17.9	-15%
Growth (%)	18.0%	-7.2%	-10.9%	32.9%	-1.5%	5.9%	40.1%	35.3%	8.9%	23.9%	23.9%	
Renewal premium	38.9	56.4	57.5	72.3	41.6	58.9	58.5	84.7	225.2	243.7	58.5	1%
Growth (%)	-5.9%	1.3%	5.7%	6.3%	6.8%	4.4%	1.7%	17.2%	2.6%	8.2%	3.7%	
Single premium	23.3	28.1	26.5	31.3	21.9	30.1	26.7	32.4	109.2	111.1	27.5	9%
Growth (%)	25.9%	16.8%	12.6%	6.9%	-5.9%	7.0%	0.6%	3.7%	14.5%	1.7%	-1.9%	
Gross premium income	**72.6**	**99.0**	**97.8**	**129.9**	**73.7**	**104.3**	**104.5**	**152.8**	**399.3**	**435.3**	**103.9**	**0%**
Growth (%)	5.7%	3.8%	4.7%	10.9%	1.5%	5.4%	6.8%	17.6%	6.6%	9.0%	5.0%	
PAT	**1.6**	**2.0**	**2.2**	**2.3**	**2.1**	**2.4**	**2.7**	**2.9**	**8.1**	**10.4**	**2.4**	**0%**
Growth (%)		-55.1%	-29.0%	27.2%	32.9%	22.4%	22.6%	22.2%	7.5%	28.8%	22.8%	
Key metrics (INRb)												
New Business APE	15.2	20.0	18.2	33.0	14.6	20.6	20.7	35.6	86.4	91.6	20.7	0%
Growth (%)	24.7	1.1	-5.5	26.5	-3.9	3.2	13.7	7.9	11.7	6.0	3.3	
VNB	4.7	6.2	6.2	10.6	4.4	5.8	6.3	11.0	27.6	27.5	6.3	-8%
Growth (%)	31.6	20.6	20.0	36.1	-7.0	-7.1	2.6	4.6	27.7	-0.5	1.1	
AUM	2,301	2,443	2,519	2,512	2,664	2,719	2,828	2,984	2,512	2,984	2,808	-3%
Growth (%)	3.1	3.0	6.0	4.4	15.8	11.3	12.3	18.8	4.4	18.8	15.0	
Key Ratios (%)												
VNB Margins (%)	31.0	31.1	33.9	32.0	30.0	28.0	30.6	31.0	32.0	30.1	30.4	
Solvency ratio (%)	204	201	212	209	203	199	205	200	209	200	202	

L&T Technology

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	LTTS IN
Equity Shares (m)	106
M.Cap.(INRb)/(USDb)	487.7 / 5.9
52-Week Range (INR)	4860 / 3216
1, 6, 12 Rel. Per (%)	0/23/14
12M Avg Val (INR M)	1071

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	80.1	96.5	110.3
EBIT Margin (%)	18.5	17.0	17.7
PAT	11.7	13.0	15.8
EPS (INR)	110.5	123.1	148.9
EPS Gr. (%)	22.1	11.4	21.0
BV/Sh. (INR)	469.3	495.6	573.4
Ratios			
RoE (%)	25.6	25.5	27.9
RoCE (%)	20.9	20.8	21.7
Payout (%)	40.7	40.0	40.0
Valuations			
P/E (x)	41.8	37.5	31.0
P/BV (x)	9.8	9.3	8.0
EV/EBITDA (x)	26.8	24.3	20.3
Div Yield (%)	1.0	1.1	1.3

Note: FY23 numbers have been restated by the company; however, the restatement is not covered in the table above.

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	73.8	73.8	73.9
DII	11.0	10.6	8.0
FII	5.9	5.3	6.0
Others	9.3	10.3	12.1

FII Includes depository receipts

CMP: INR4,613 TP: INR5,210 (+13%) Buy

Deal wins to drive growth; keeps near-term caution

In-line performance; SWC drives gradual recovery to Telecom

- L&T Technology (LTTS) posted in-line revenue of USD288m in 2QFY24, up 3.2% QoQ CC (incl. SWC). Growth was driven by Transportation and Plant Engineering verticals, with 4.4% and 3.8% QoQ growth, respectively. Despite in-line revenue, LTTS management has cut its FY24 revenue growth guidance to 17.5-18.5% vs. 20% YoY earlier. The guidance revision was due to an elongated United Workers Strike (UWS) in the US, which is leading to a pause in multiple projects and causing deferrals in ramping up new projects.
- EBIT margin was flat (down 10bp QoQ), beating our estimate of a 90bp drop as it completely absorbed the Q2 wage hike impact. The margin improvement was attributed to a better business mix. Transpiration/Plant Engineering reported margin improvement of 120bp/110bp QoQ. The management has maintained its FY24 margin guidance (17%+) despite a cut in its revenue growth guidance.
- Although the management has maintained caution in the near term, the overall deal funnel is higher than last year and it continues to chase multiple large deals (7 large deals signed in 2Q). However, the slower deal velocity and increasing deal tenure (3.5 vs. 2.5 year earlier) create a near-term revenue leakage. The integration of SWC is driving an incremental opportunity to chase large deals (USD10m+) with comprehensive offerings in the Telecom Infra and Semicon areas while keeping proximity to Telecom OEMs and tier-1 suppliers. Clients are maintaining caution with small investments in new projects and expect gradual ramp-ups as the macro trend recovers.
- Considering in-line revenue growth and a margin beat in 2Q, our EPS estimates broadly remain unchanged. We expect USD revenue CAGR of 16% (FY23-FY25E) with EBIT margins of 17%/17.7% in FY24E/FY25E.
- We continue to see LTTS as attractive due to a better outlook for the ER&D services industry compared to the broader IT services universe and the growing penetration of outsourced ER&D services. **We lower our FY24 EPS estimate by 1.3% to factor in revised revenue guidance, but we keep our FY25 EPS estimate intact. We retain our BUY rating on the stock with a TP of INR5,210 (premised on 35x FY25E EPS).**

in-line revenue, margin beat on lower SG&A

- CC revenue growth stood at 3.2% QoQ, in line with our estimate. Revenue at USD288m was up 2.9% QoQ.
- Growth was led by Transportation (+4.4%) and Plant Engineering (+3.8%), while Industrial/Telecom reported muted growth of 1.1%/0.9% QoQ.
- EBIT margin at 17.1% (down 10bp QoQ) was 80bp ahead of our estimate, aided by lower SG&A expenses (down 230bp QoQ).
- PAT was up 1.4% QoQ at INR3.2bn (in line), led by lower other income.
- It added ~500 employees QoQ. Attrition further declined to 16.7%.
- YTD Cash conversion was strong at 69% FCF/PAT.
- The board has declared a dividend of INR17 per share.

Key highlights from the management commentary

- LTTS expects some projects to get paused due to an elongated United Workers Strike (UWS) in the US. It also expects delays in the execution of some projects due to the Israel-Palestine conflict.
- The number of deals in the pipeline is higher than last year. The deal velocity is slightly lower, while the average deal size is slightly bigger. The deal tenure has increased to 3.5 years now from average of 2.5 years earlier.
- Clients want to start with smaller projects and ramp up gradually when they see macro recovery. Vendor consolidation deals and new-age technology projects are gaining traction over legacy projects.
- LTTS expects to sustain the onsite/offshore mix in contracts at the current level, which should support margins. The company aspires to deliver 17% margin in FY24 and expects to improve it to 18% in 1HFY26.

Valuation and view

- Digitization is boosting spending in ER&D, and LTTS should benefit due to its strong capabilities, multi-vertical presence, and solid wallet share. We expect the company to deliver strong revenue growth over the coming years.
- Our TP of INR5,210 implies 35x FY25E EPS. We expect industry spending to improve vs. the preceding five years. **We retain our BUY rating on the stock.**

Quarterly Performance (INR m)

Y/E March	FY23				FY24E				FY23	FY24E	Est.	Var. (%
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QFY24	/ bp)
Revenue (USD m)	**240**	**247**	**248**	**255**	**280**	**288**	**295**	**303**	**990**	**1,166**	**289**	**-0.3**
QoQ (%)	3.2	3.2	0.4	2.9	9.8	2.9	2.4	2.7	12.4	17.8	3.2	-31bp
Revenue (INR m)	**18,737**	**19,951**	**20,486**	**20,962**	**23,014**	**23,865**	**24,487**	**25,143**	**80,136**	**96,509**	**23,884**	**-0.1**
YoY (%)	23.4	24.1	21.4	19.4	22.8	19.6	19.5	19.9	22.0	20.4	19.7	-10bp
GPM (%)	**33.0**	**32.1**	**33.0**	**32.5**	**30.0**	**28.0**	**28.8**	**28.5**	**32.6**	**28.8**	**29.0**	**-97bp**
SGA (%)	11.6	11.0	11.5	11.0	10.4	8.1	9.2	9.3	11.3	9.2	10.2	-210bp
EBITDA	**4,010**	**4,218**	**4,412**	**4,492**	**4,528**	**4,756**	**4,800**	**4,820**	**17,132**	**18,904**	**4,490**	**5.9**
EBITDA Margin (%)	**21.4**	**21.1**	**21.5**	**21.4**	**19.7**	**19.9**	**19.6**	**19.2**	**21.4**	**19.6**	**18.8**	**113bp**
EBIT	**3,434**	**3,628**	**3,829**	**3,927**	**3,954**	**4,075**	**4,187**	**4,192**	**14,818**	**16,408**	**3,893**	**4.7**
EBIT Margin (%)	**18.3**	**18.2**	**18.7**	**18.7**	**17.2**	**17.1**	**17.1**	**16.7**	**18.5**	**17.0**	**16.3**	**78bp**
Other income	340	261	627	392	357	286	416	427	1,620	1,487	406	-29.6
ETR (%)	27.1	27.2	31.6	28.0	27.6	27.6	26.5	26.5	28.6	27.0	26.5	106bp
PAT	**2,742**	**2,824**	**3,036**	**3,096**	**3,111**	**3,154**	**3,382**	**3,393**	**11,698**	**13,040**	**3,158**	**-0.1**
QoQ (%)	4.7	3.0	7.5	2.0	0.5	1.4	7.2	0.3			1.5	
YoY (%)	26.8	22.8	22.0	18.2	13.5	11.7	11.4	9.6	22.2	11.5	11.8	
EPS (INR)	26.0	26.7	28.7	29.2	29.4	29.8	31.9	32.0	110.5	123.1	29.8	-0.2

E: MOFSL Estimates; *Note: 1QFY23, 2QFY23 and FY23 numbers have been restated by the company, however, the restatement is not covered in the table above. Hence, YoY comparison is irrelevant*

Zensar

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	ZENT IN
Equity Shares (m)	226
M.Cap.(INRb)/(USDb)	124.6 / 1.5
52-Week Range (INR)	578 / 202
1, 6, 12 Rel. Per (%)	6/93/142
12M Avg Val (INR M)	674

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	48.5	50.2	55.9
EBIT Margin (%)	7.6	14.1	12.8
PAT	3.3	5.9	5.9
EPS (INR)	14.4	25.8	25.6
EPS Gr. (%)	-21.6	79.9	-0.8
BV/Sh. (INR)	131.5	145.4	159.1
Ratios			
RoE (%)	11.6	18.8	17.0
RoCE (%)	8.6	15.5	14.2
Payout (%)	34.8	40.4	40.4
Valuations			
P/E (x)	38.3	21.3	21.5
P/BV (x)	4.2	3.8	3.5
EV/EBITDA (x)	20.4	12.7	11.8
Div Yield (%)	0.9	1.9	1.9

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	49.2	49.2	49.2
DII	16.5	17.3	12.5
FII	16.7	12.6	9.2
Others	17.6	20.9	29.1

FII Includes depository receipts

CMP: INR550 TP: INR520 (-5%) Neutral

Strong margin uptick; growth outlook remains weak

Limited room for margin upside hereon; maintain Neutral

- ZENT reported 2QFY24 revenue growth at 0.2% QoQ in constant currency (CC), in line with our estimate. Deal TCV was up 37% YoY at USD195m on account of the timing of deal closures. ZENT once again surprised on the margin front by absorbing the majority of wage hikes, partly due to the reversal of FY23 management bonuses.
- While revenue growth in 2Q was in line with our estimate, the management remains cautious about the near-term demand environment, citing persistent challenges in Hi-Tech vertical. 3QFY24 is expected to remain weak with slower demand and impact from furloughs. Given the challenging near-term macro outlook, especially in key verticals like Hi-Tech, Manufacturing and Consumer, we expect FY24 revenue growth to remain muted (est. 0.8% YoY CC). Revenue growth should improve in FY25 as the expanded service portfolio starts delivering on growth. We factor in USD revenue CAGR of 5.6% over FY23-25E.
- On the margin front, ZENT once again surprised as it was largely able to absorb the impact of wage hikes and took a negligible hit on margins despite wage hikes that were higher than the industry. Strong margin improvement was aided by a 160bp gain from the reversal of FY23 management bonuses. The management has maintained its EBITDA margin guidance in mid-teens and plans to reinvest above that level for growth. With strong margin improvements in 1HFY24, we expect ZENT to deliver 17.3% EBITDA margin in FY24 and 16% in FY25. This should result in an INR EPS CAGR of 34% over FY23-25E (partially on low FY23 base).
- The stock has run up meaningfully (2.5x last year) on margin improvement. Given near-term challenges in a significant portion of its portfolio and limited upside on margins, we see current valuations at 21xFY25E EPS fair. Our TP of INR520 implies 20xFY25E EPS. **Retain Neutral.**

In-line revenue, substantial beat on margins

- Revenue declined 3.4% YoY in CC terms. EBIT grew 2.5x YoY and PAT jumped 2x YoY.
- Revenue grew 0.2% QoQ in CC terms to USD150.2m (in line). Deal TCV was strong at USD195m (+27% QoQ/+37% YoY), with book-to-bill at 1.3x.
- EBITDA margin came in at 18.6% (-20bp QoQ) vs. our estimates of 16.2%, aided by cuts in SG&A (down 11% QoQ). Employee expenses rose only 2% QoQ despite wage hikes.
- Net headcount was down 210 QoQ, LTM attrition was down 300bp QoQ at 13.1%, utilization was up 60bp QoQ at 83.1%, and offshore revenue share was up 110bp QoQ.
- PAT stood at INR 1,738m (+11.2% QoQ), beating our estimate of INR1,268m, led by sustained operating margin.
- Cash and Investments stood at USD227.1m (15% of MCap).

Key highlights from the management commentary

- Europe and Africa did well, aided by new business and revenue diversification measures. The US was weak because of project closures by large clients.
- Hi-tech remained under pressure and the timeline for recovery is uncertain. A recovery would only happen once interest rates moderate in the US. The near-term demand environment remains weak.
- ZENT expects to maintain margins in the mid-teens (14-16%) going forward and will reinvest above those levels for growth.

Valuation and view

- While ZENT has seen a strong margin improvement for the last few quarters, the investments will restrict margin gains as guided by the management.
- The weakening global environment and worsening economic conditions in key economies are adding to the challenges faced by the company in near- to medium-term growth recovery.
- The stock is trading at 21x FY25E EPS. We believe ZENT's growth story is already factored into the price and it is trading at full valuation, leaving limited upside potential from its current level. **Maintain Neutral**.

Quarterly performance (INR m)

Y/E March	FY23				FY24				FY23	FY24E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QFY24	(%/bp)
Revenue (USD m)	156	155	146	148	149	150	152	155	604	607	150	0.0
QoQ (%)	1.8	-0.6	-5.9	1.1	1.2	0.6	1.0	2.5	6.1	0.4	0.6	-1bp
Revenue (INR m)	12,034	12,346	11,976	12,127	12,272	12,408	12,594	12,903	48,483	50,177	12,415	-0.1
YoY (%)	28.5	17.5	8.6	5.1	2.0	0.5	5.2	6.4	14.2	3.5	0.6	-6bp
GPM (%)	26.6	25.3	27.4	31.9	33.6	31.8	32.8	32.5	27.8	32.7	32.7	-91bp
SGA (%)	15.3	16.8	16.1	17.4	14.9	13.2	16.7	16.8	16.4	15.4	16.5	-331bp
EBITDA	1,361	1,054	1,349	1,759	2,301	2,308	2,028	2,021	5,523	8,658	2,011	14.8
EBITDA Margin (%)	11.3	8.5	11.3	14.5	18.8	18.6	16.1	15.7	11.4	17.3	16.2	240bp
EBIT	871	562	852	1,408	1,878	1,942	1,625	1,608	3,693	7,053	1,577	23.2
EBIT Margin (%)	7.2	4.6	7.1	11.6	15.3	15.7	12.9	12.5	7.6	14.1	12.7	295bp
Other income	149	209	183	209	224	306	139	142	750	810	137	124.1
ETR (%)	26.4	26.3	26.1	26.2	25.7	22.7	26.0	26.0	26.2	25.0	26.0	
Adj. PAT	751	568	765	1,193	1,562	1,738	1,305	1,295	3,277	5,900	1,268	37.1
QoQ (%)	-42.1	-24.4	34.7	55.9	30.9	11.3	-24.9	-0.7			-18.8	
YoY (%)	-25.6	-39.8	-15.8	-8.0	108.0	206.0	70.6	8.6	-21.2	80.0	123.2	
EPS (INR)	3.3	2.5	3.4	5.2	6.8	7.6	5.7	5.7	14.4	25.8	5.6	37.1

Key performance indicators

Y/E March	FY23				FY24				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (QoQ CC %)	3.1	1.6	(5.3)	0.4	1.3	0.2	1.6	2.5	10.3	
Margins										
Gross Margin	26.6	25.3	27.4	31.9	33.6	31.8	32.8	32.5	27.8	32.7
EBIT Margin	7.2	4.6	7.1	11.6	15.3	15.7	12.9	12.5	7.6	14.1
Net Margin	6.2	4.6	6.4	9.8	12.7	14.0	10.4	10.0	6.8	11.8
Operating metrics										
Headcount	11,559	11,250	10,845	10,563	10,540	10,330			10,563	
Attrition (%)	28.1	26.3	22.8	19.8	15.9	13.1			19.8	
Offshore Rev.	41.6	42.9	44.7	46.4	48.0	49.1			43.9	
Key Geographies (YoY USD %)										
North America	23.8	11.0	(2.1)	(3.9)	(6.3)	(10.5)			6.5	
Europe	25.9	8.2	3.0	(8.3)	1.6	20.3			6.1	
South Africa	10.8	0.1	1.0	4.4	(0.8)	8.4			3.9	

CEAT

Estimate change	↑
TP change	↔
Rating change	↔

Bloomberg	CEAT IN
Equity Shares (m)	40
M.Cap.(INRb)/(USDb)	88.8 / 1.1
52-Week Range (INR)	2642 / 1357
1, 6, 12 Rel. Per (%)	4/44/32
12M Avg Val (INR M)	569

Financials & valuations (INR b)

INR Billion	FY23	FY24E	FY25E
Sales	113.1	120.3	130.8
EBITDA	9.7	16.5	18.2
EBIDTA Margin (%)	8.6	13.8	13.9
Adj. PAT	2.1	6.6	7.6
EPS (INR)	51.9	162.9	186.7
EPS Growth (%)	164.4	213.9	14.6
BV/Share (INR)	850	998	1,167
Ratios			
RoE (%)	6.3	17.6	17.2
RoCE (%)	6.8	15.1	15.2
Payout (%)	26.1	9.2	9.6
Valuations			
P/E (x)	42.4	13.5	11.8
P/BV (x)	2.6	2.2	1.9
Div. Yield (%)	0.5	0.7	0.8
FCF Yield (%)	3.7	7.1	8.8

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	47.2	47.2	47.2
DII	12.9	12.2	11.7
FII	24.1	26.2	23.8
Others	15.8	14.4	17.3

FII Includes depository receipts

CMP: INR2,195 TP: INR2,950 (+34%) Buy

Strong beat led by lower RM costs and product mix

EBITDA margin peaked out; uptick in commodity prices to impact profitability

- CEAT's 2QFY24 results surprised positively with a strong EBITDA beat at INR4.6b (vs. est. INR4.2b). This can be attributed to a 2.5-3% QoQ decline in RM prices and a favorable product mix. We believe the EBITDA margin of 14.9% achieved during the quarter (up 170bp QoQ) has reached its peak. The recent uptick in commodity prices is expected to impact profitability in the upcoming quarters.
- We raise our FY24E/FY25E EPS by 7%/3% to account for a) better gross margins, b) higher 'other income', and c) a lower tax rate. We maintain a **BUY** rating with a TP of INR2,950 (based on ~15x Sep'25E EPS).

Revenue in line; healthy beat at EBITDA/PAT

- 2QFY24 revenue/EBITDA/adj. PAT grew 5.5%/2.2x/8.5x YoY to INR30.5b/ INR4.6b/INR2.1b. 1HFY24 revenue/EBITDA/Adj. PAT grew 5%/2.3x/10.3x YoY to INR59.9b/8.4b/3.5b.
- Volume during the quarter grew ~7% YoY/3.5% QoQ. Volumes for replacement/OEM/exports grew 4%/10%/7% YoY.
- Gross margins expanded 10.8pp YoY (up 220bp QoQ) to 43.3% (vs. est. 40.9%). This was partially driven by lower commodity cost (down 2.5-3% QoQ) and better product mix.
- Employee cost grew 30% YoY on account of the annual increment cycle in July. Despite this, EBITDA improved 2.2x YoY to ~INR4.6b (vs. est. INR4.2b). Consequently, the EBITDA margin expanded 7.9pp YoY/170bp QoQ to 14.9% (vs. est. 13.4%).
- Further, higher 'other income' boosted adj. PAT, which grew 7.45x YoY to INR2.1b (vs. est. INR1.6b)
- Debt declined INR1b QoQ to INR18.9b, primarily due to healthy cash generation in 2QFY24. Capex for the quarter stood at INR1.7b and working capital remained at similar levels as of 1QFY24.
- 1HFY24 CFO improved to ~INR7.7b (vs. INR3.9b in 1HFY23), driven by strong operating performance. Capex stood at INR3.9b (vs. INR4.5b in 1HFY23), leading to positive FCF of INR3.8b (vs. –INR683m in 1HFY23).

Highlights from the management commentary

- **Outlook:** 2QFY24 volume grew 7% YoY, driven by 4%/10%/7% growth in replacement/OEM/exports. Volumes grew 3.5% QoQ. Replacement growth remained flattish, while domestic volumes experienced a double-digit growth. However, exports saw a marginal decline during the period.
- **RM basket expected to increase by 4% QoQ in 3Q.** Crude prices have increased to USD90-95 from USD75-80, adversely impacting the cost of commodities.

- **Pricing:** The PCR experienced a price hike of 2% in 2Q. In the TBR segment despite CEAT's pricing being lower than competitors, there was a price decline of 2% by competition leading to a relative price difference of 1% between CEAT and competition. Similarly this was the case in LCVs.
- **Capex-** The company provided a capex guidance of INR8b in FY24 (earlier guidance of INR7.5b). This includes INR2b allocated for maintenance. Out of the remaining amount, INR1b/2.5b will be utilized for TBR/OTR segments, while INR2.5b will be allocated for PCR/2W and small debottlenecking initiatives.

Valuation and view

- A stable volume growth outlook for OEMs and an uptick in replacement demand should enable a faster absorption of new capacities and drive benefits of operating leverage. Moreover, the focus on strategic areas such as PV/2W/OHT/exports (to help margins), along with prudent capex plans (to benefit FCF), should be a long-term growth catalyst for CEAT.
- Valuations at 13.5x/11.8x FY24E/FY25E consol. EPS do not fully capture the benefits from ramp-up of new capacities and prudent capex plan. We reiterate our **BUY** rating with a TP of INR2,950 (based on ~15x Sep'25E EPS).

Consolidated - Quarterly Earning Model (INR M)

Y/E March	FY23				FY24E				FY23	FY24E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE
Net Sales	**28,184**	**28,945**	**27,272**	**28,748**	**29,352**	**30,533**	**29,726**	**30,717**	**1,13,149**	**1,20,328**	**31,260**
YoY Change (%)	47.8	18.1	13.0	10.9	4.1	5.5	9.0	6.8	20.8	6.3	8.0
RM cost (%)	68.3	67.5	65.5	59.9	58.9	56.7	58.5	58.0	65.3	58.0	59.1
Employee cost (%)	6.1	5.8	6.7	7.4	6.7	7.1	7.2	7.0	6.5	7.0	6.7
Other expenses (%)	19.7	19.7	19.2	19.9	21.2	21.3	21.3	21.2	19.6	21.3	20.9
EBITDA	**1,653**	**2,031**	**2,376**	**3,678**	**3,871**	**4,561**	**3,864**	**4,248**	**9,738**	**16,545**	**4,173**
Margins (%)	5.9	7.0	8.7	12.8	13.2	14.9	13.0	13.8	8.6	13.8	13.4
Depreciation	1,114	1,151	1,175	1,253	1,209	1,245	1,260	1,304	4,693	5,018	1,240
Interest	521	577	657	666	701	717	700	690	2,421	2,809	700
Other Income	28	98	20	24	33	105	45	63	169	245	40
PBT before EO expense	**45**	**401**	**565**	**1,783**	**1,993**	**2,704**	**1,949**	**2,317**	**2,793**	**8,963**	**2,273**
Exceptional item	7	237	5	86	0	0	0	0	334	0	0
PBT	**38**	**164**	**560**	**1,698**	**1,993**	**2,704**	**1,949**	**2,317**	**2,459**	**8,963**	**2,273**
Tax Rate (%)	31.0	64.6	26.7	26.5	26.5	25.3	26.2	26.2	29.2	26.0	27.0
Minority Int. & Profit of Asso. Cos.	-67	-20	57	-90	18	-59	30	56	-120	45	25
Reported PAT	**92**	**78**	**354**	**1,337**	**1,446**	**2,080**	**1,409**	**1,653**	**1,862**	**6,588**	**1,634**
Adj PAT	**98**	**246**	**357**	**1,398**	**1,446**	**2,080**	**1,409**	**1,653**	**2,098**	**6,588**	**1,634**
YoY Change (%)	-59	-42	-325	382	1,383	745	294	18	164	214	564.0
Margins (%)	0.3	0.9	1.3	4.9	4.9	6.8	4.7	5.4	1.9	5.5	5.2
Key Performance Indicators											
RM Cost (% of sales)	68.3	67.5	65.5	59.9	58.9	56.7	58.5	58.0	65.3	58.0	59.1
Staff Cost (% of sales)	6.1	5.8	6.7	7.4	6.7	7.1	7.2	7.0	6.5	7.0	6.7
Other Cost (% of sales)	19.7	19.7	19.2	19.9	21.2	21.3	21.3	21.2	19.6	21.3	20.9
Gross margin (%)	31.7	32.5	34.5	40.1	41.1	43.3	41.5	42.0	34.7	41.1	40.9
EBITDA Margins (%)	5.9	7.0	8.7	12.8	13.2	14.9	13.0	13.8	8.6	13.8	13.4
EBIT Margins (%)	1.9	3.0	4.4	8.4	9.1	10.9	8.8	9.6	8.6	13.8	9.4

E: MOFSL Estimates

CIE Automotive

BSE SENSEX	S&P CNX
66,428	19,812

Conference Call Details

Date: 18th Oct 2023

Time: 12.30PM IST

Concall registration:

[Diamond pass link]

Financials & Valuations (INR b)

INR b	CY22	CY23E	CY24E
Sales	87.5	98.5	108.9
EBITDA (%)	13.4	15.7	16.3
Adj. PAT	6.8	9.0	11.0
EPS (INR)	18.1	23.9	29.0
EPS Growth (%)	69.3	32.3	21.4
BV/Share (INR)	135	154	177
Ratio			
RoE (%)	13.3	16.6	17.5
RoCE (%)	10.7	14.5	15.2
Payout (%)	13.3	16.7	16.7
Valuations			
P/E (x)	26.4	19.9	16.4
P/BV (x)	3.5	3.1	2.7
Div. Yield (%)	0.5	0.8	1.0
FCF Yield (%)	3.7	1.9	4.6

CMP: INR494 Buy

Below est.; weaker revenue growth across geographies

- 3QCY23 consol. revenue grew just ~2% YoY to ~INR22.8b (vs. est. INR24.7b), due to weaker growth in both geographies (India remained flat YoY (vs est. growth of 8%) while EU grew just 5% YoY (vs. est. growth of 15% YoY))
- EBITDA stood at INR3.45b (vs. est. INR3.85b); grew 18% YoY. EBITDA margins stood at 15.2% (vs. est. 15.6%).
- Adj.PAT stood at INR1.9b (vs. est. INR2.3b); grew 11% YoY.
- **India business performance**: India revenues remained flat YoY at ~INR15.35b (vs. est. ~INR16.5b). India EBITDA margin stood at 15.1% (vs. est. 15.5 %). Revenue in line with the market. Tractor production declined 10% YoY, while 2W production experienced a more moderate decrease of 2% YoY. Both the categories were affected.
- **EU business performance**: EU business revenues grew ~5% YoY to ~INR7.4b (vs. est. ~INR8.2b). The reported EBITDA margins stood at 15.3% (vs. est. 15.8%). In 3Q, the margins have stabilized at 15.3%, indicating a return to normalcy (vs. 2Q margins of 17.8%). This shift was influenced by a substantial stock generation for the summer period in 2Q.

Key highlights from the presentation:

- **India Light vehicle forecast**- IHS global forecasts a production growth of 7.1% over CY22-23 and anticipates a CAGR of 3.6% over the period of CY23-28.
- **India MHCVs forecast-** IHS global forecasts a production growth of 13.6% over CY22-23 and anticipates a CAGR of 4.9% CAGR over the period of CY23-28.
- **India Tractor forecast-** CRISIL forecasts domestic tractor industry to decline at 2-4% in FY24 and anticipates a CAGR of 3-5% over the period of FY23-28.
- **India 2W forecast-** CRISIL forecasts domestic 2W industry to grow at 9-11% in FY24 and anticipates a CAGR of 8-10% over the period of FY23-28.
- **EU Light Vehicles forecast** – IHS Global has forecasted the Passenger Vehicle production to grow by 11.8% in CY23 and anticipates a CAGR of 0.1% over C23-C28.
- Based on our current estimates, the stock trades at 19.9x/16.4x CY23E/CY24E consolidated EPS. We reiterate our Buy rating on the stock.

Quarterly performance (Consol.) **(INR Million)**

(INR m)	CY22				CY23E				CY22	CY23E	
Y/E December	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE
Net Sales	**20,608**	**22,160**	**22,294**	**22,468**	**24,402**	**23,203**	**22,794**	**28,062**	**87,530**	**98,461**	**24,658**
YoY Change (%)	-5.9	8.5	6.6	34.6	18.4	4.7	2.2	24.9	29.4	12.5	10.6
EBITDA	**2,804**	**3,058**	**2,934**	**2,924**	**3,806**	**3,704**	**3,454**	**4,461**	**11,720**	**15,425**	**3,847**
Margins (%)	13.6	13.8	13.2	13.0	15.6	16.0	15.2	15.9	13.4	15.7	**15.6**
Depreciation	717	747	731	767	825	833	783	865	2,962	3,306	805
Interest	40	-1	109	79	240	221	310	125	227	896	215
Other Income	107	98	134	244	160	195	200	216	583	772	202
Share of profit from associates	4	11	3	4	3	-3	-2	17	22	15	5
PBT before EO expense	**2,155**	**2,409**	**2,229**	**2,321**	**2,901**	**2,846**	**2,561**	**3,687**	**9,114**	**11,995**	3,029
EO Exp/(Inc)	0	0	0	-379	0	0	0	0	-379	0	0
PBT after EO exp	**2,155**	**2,409**	**2,229**	**2,700**	**2,901**	**2,846**	**2,561**	**3,687**	**9,492**	**11,995**	**3,029**
Tax Rate (%)	23.9	23.8	24.9	28.0	24.2	24.9	27.0	23.7	25.3	24.8	25.0
Adj. PAT	**1,643**	**1,847**	**1,676**	**1,664**	**2,203**	**2,136**	**1,867**	**2,832**	**6,829**	**9,038**	**2,275**
YoY Change (%)	7.7	35.6	12.4	96.5	34.1	15.7	11.4	70.2	69.3	32.3	35.0
Revenues											
India	12,811	13,778	15,311	13,977	14,449	14,348	15,354	18,053	55,862	62,204	16,500
Growth (%)	15	47	34	23	13	4	0	29	29	11	7.8
EU	7,768	8,315	7,094	8,491	9,954	8,855	7,440	9,993	31,668	36,242	8,158
Growth (%)	-28	-25	-25	51	28	6	5	18	26	14	15.0
EBITDA Margins											
India	13.4	13.3	13.4	16.9	15.0	14.8	15.1	15.9	14.3	15.2	15.5
EU	14.0	14.7	12.3	11.0	16.4	17.8	15.3	16.8	13.0	16.6	15.8

E: MOSL Estimates; AEL merged w.e.f 2QCY19

TCI Express

BSE SENSEX	S&P CNX
66,428	19,812

CMP: INR1,385 Buy

In-line performance

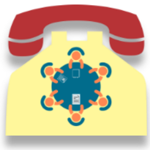
Earnings snapshot: 2QFY24

- TCIE's revenue grew 3% YoY to ~INR3.2b (+5% QoQ), largely in line with our estimate.
- EBITDA stood at INR505m (-2% YoY/+9% QoQ) in 2QFY24 and was 5% below our estimate. EBITDA margin came in at 15.8% vs. our estimate of 16.2%.
- APAT declined 6% YoY to INR356m (vs. INR 373m estimated) in 2QFY24.
- TCIE generated a CFO of INR385m during 1HFY24 vs. INR1.5b generated over 1HFY23. Total Cash and Bank balance as of Sep'23 stood at INR150m.
- Net working capital days stood at 23 during the quarter vs. 24 in 2QFY23.
- ROE and ROCE for 1HFY24 were at 22% and 29%, respectively.

Other highlights

- Capacity utilization during the quarter was at ~84%.
- The Board of Directors declared an interim dividend of INR3/sh for FY24.
- During 1HFY24, TCIE incurred a total capex of INR210m that was primarily used towards expansion of branch network, automation, and construction of the sorting center.
- TCIE has expanded its footprint by adding 12 new branches during 1HFY24.

Conference Call Details



Date: 18th October 2023
Time: 5:00 PM IST
Dial-in details:
Link

Financials & Valuations (INR b)

Y/E MARCH	2023	2024E	2025E
Sales	12.4	13.7	15.5
EBITDA	1.9	2.2	2.7
Adj. PAT	1.4	1.6	1.9
EBITDA Margin (%)	15.7	16.1	17.4
Adj. EPS (INR)	36.4	40.7	50.4
EPS Gr. (%)	8.1	12.0	23.9
BV/Sh. (INR)	156	188	231
Ratios			
Net D:E	0.0	0.0	0.0
RoE (%)	24.6	23.7	24.1
RoCE (%)	24.4	23.5	23.9
Payout (%)	22.0	19.7	15.9
Valuations			
P/E (x)	38.1	34.0	27.5
P/BV (x)	8.9	7.4	6.0
EV/EBITDA(x)	27.2	23.8	19.5
Div. Yield (%)	0.6	0.6	0.6
FCF Yield (%)	0.8	0.8	0.6

Quarterly snapshot

INR m

	FY23				FY24E		FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q			2QE	vs Est
Net Sales	**2,904**	**3,099**	**3,144**	**3,263**	**3,049**	**3,200**	**12,410**	**13,734**	**3,294**	**(3)**
YoY Change (%)	30.3	13.3	9.6	9.4	5.0	3.3	14.8	10.7	6.3	
EBITDA	**428**	**515**	**461**	**541**	**464**	**505**	**1,945**	**2,215**	**532**	**(5)**
Margins (%)	14.7	16.6	14.7	16.6	15.2	15.8	15.7	16.1	16.2	
YoY Change (%)	33.4	13.7	-2.3	7.8	8.4	-2.0	11.3	13.9	3.3	
Depreciation	33	35	43	42	46	47	153	192	48	
Interest	3	4	4	7	4	4	18	18	5	
Other Income	19	23	13	17	15	18	72	77	20	
PBT before EO expense	**411**	**499**	**427**	**509**	**429**	**472**	**1,845**	**2,082**	**499**	**(5)**
Extra-Ord expense	0	0	0	0	0	0	0	0	0	
PBT	**411**	**499**	**427**	**509**	**429**	**472**	**1,845**	**2,082**	**499**	**(5)**
Tax	101	121	106	124	105	116	453	523	126	
Rate (%)	24.5	24.3	24.9	24.4	24.6	24.5	24.5	25.1	25.2	
Reported PAT	**310**	**378**	**320**	**385**	**323**	**356**	**1,393**	**1,559**	**373**	
Adj PAT	**310**	**378**	**320**	**385**	**323**	**356**	**1,393**	**1,559**	**373**	**(5)**
YoY Change (%)	30.5	11.0	-8.8	7.0	4.3	-5.8	8.1	12.0	-1.3	
Margins (%)	10.7	12.2	10.2	11.8	10.6	11.1	11.2	11.4	11.3	

Insurance Tracker

Premium growth driven by Group Health & Motor TP segment

Crop segment reported strong growth in Sep'23

- **The industry's gross written premium (GWP) increased 28% YoY to INR292b in Sep'23. This growth can be attributed to the Motor segment, which grew 11% YoY, and the Health segment, which grew 33% YoY. In Sep'23, the Marine segment was flat YoY, whereas Commercial Lines grew 18% YoY.**
- **PSU players outperformed the industry by registering a growth of 31% YoY. This is mainly because in Sep'23, PSU players have outperformed the industry in the Health segment (reporting exponential growth in the Group Health segment). SAHIs/private multi-line players reported a GWP of INR29.9b/INR145.4b in Sep'23, up 23%/19% YoY.**
- **Among key players, ICICIGI grew 13% YoY in Sep'23, whereas STARHEAL reported a GWP growth of 15% YoY. Bajaj Allianz clocked a GWP growth of 51% YoY (aided by exponential growth in Crop business & Group Health segment). HDFC Ergo/New India reported a muted growth of 8%/12% YoY, whereas National India grew 121% YoY.**

Premium and YoY growth (%)

GWP - INR b	Sep-23	YoY
Grand Total	**292**	**28%**
Total Public	**89**	**31%**
Total Private	**145**	**19%**
SAHI	**27**	**23%**
Bajaj Allianz	18	51%
ICICI -Lombard	18	13%
New India	29	12%
Star Health	12	15%

Source: General Insurance Council , MOFSL

Health business up 33% YoY, fueled by higher growth in Health segment

The Health business jumped 33% YoY, with Retail/Group Health segments reporting 18%/53% YoY growth. The overseas Health segment rose 17% YoY, whereas the government Health segment plummeted 24% YoY. Within the overall Health segment, SAHIs/Private multi-line players reported 24%/16% YoY growth. Within SAHIs, STARHEAL reported a 15% YoY growth with 16%/9% YoY growth in Retail/Group segments. Within Retail Health, Care Health surged 49% YoY; while within Group Health, Niva Bupa soared 67% YoY. ILOM grew 18% YoY in Retail Health and 13% YoY in Group Health. PSU multi-line players posted 8% YoY growth in Retail Health whereas 82% YoY growth in Group Health segment (Group Health business for National India grew 7.5x in Sep'23).

Motor segment clocked a healthy YoY growth of 11%

The Motor business grew 11% YoY, mainly driven by healthy growth in the Motor OD segment (up 18% YoY). Motor TP saw a muted growth of 7% YoY in Sep'23. However, in Sep'23, the retail sales of passenger vehicles/2W/3W saw a robust growth of 19%/22%/49% YoY. Private multi-line players outperformed PSU players in the Motor TP segment. In both Motor OD and Motor TP, Private multi-line players (+19%/+9% YoY in Motor OD/Motor TP) outperformed PSU players (+13%/+2% YoY in Motor OD/Motor TP). ILOM underperformed peers (private multi-line players) in the Motor OD/Motor TP segments with +17%/-1% YoY growth. Bajaj Allianz posted 10% YoY growth with 19% YoY growth in Motor OD. However, the Motor TP segment saw comparatively modest growth at 2%. Acko General posted a strong 31% YoY growth in Motor OD, but a muted growth of 3% in Motor TP. Go Digit clocked a strong growth of 54%/31% in the Motor OD/Motor TP segment.

YTD performances of key players

SAHIs/private multi-line players gained ~90bp/~270bp market share in Sep'23, while public players lost ~70bp share.

- **ILOM** reported a growth of 18% YoY (market share of 8.7% vs. 8.4%).
- **Bajaj Allianz** posted a growth of 41% YoY (market share of 7.7% vs. 6.3%).
- **New India** recorded a growth of 8% YoY (market share of 13.1% vs. 13.9%).
- **STARHEAL** registered a growth of 18% YoY (market share of 4.7% vs. 4.5%).

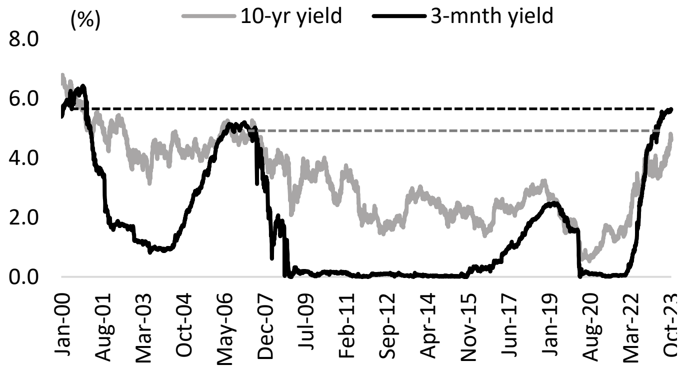
US bond yields may remain elevated

- **During the past three months, the benchmark 10-year US treasury yield has surged toward 4.75%, about 100bp higher than the mid-Jul'23 level. Notably, the rise in the yield is not limited only to the longer end, but it is seen across the curve and more at the shorter end, as the spread between the 3-month yield and the 10-year yield has actually narrowed from -1.5pp in mid-Jul'23 (and 4-decade low of -1.89pp in early Jun'23) to -0.9pp in Oct'23, last seen in early 2023. (All data used here is as of 16th Oct'23).**
- **If the cost of funds increases sharply and continuously, it is usually believed to hurt borrowers. Nevertheless, since a bulk (~90%) of household loans are fixed-term, higher rates have not pinched customers in the US. Because of this, the burden of higher interest rates will be borne by the lenders, due to the higher cost of roll-over and/or refinancing the loans. On top of this, the financial institutions also see a drop in the value of their securities portfolios due to higher interest rates.**
- **Moreover, although higher rates may not affect existing customers, they are likely to affect new demand badly, hurting home prices. This, if happens, will have the potential to broaden and sharpen the economic slowdown. However, mortgage/non-mortgage loans continue to grow decently, which shows that consumers are not worried so far.**
- **None of these troublesome implications, thus, have played out so far. Our expectation of a serious US slowdown by mid-2023 did not materialize, and even the soft landing theory has been elusive. The US economy remains strong, supported by the drawdown in savings by US consumers, which is in contrast to most other rich nations.**
- **However, this is unlikely to continue for a long period, especially if bond yields stay so elevated. Only ~8% of the market participants expect a rate hike on 1st Nov'23, down from 33% a month ago, and 29% expect it in Dec'23 (up from 2.3% a month ago). It means that the majority of participants would be surprised if the US Federal Reserve delivers another rate hike, like they projected in their Sep'23 policy meeting.**
- **We believe that even if the Fed does not hike rates in the next meeting, it cannot afford to loosen its stance. If so, bond yields will remain elevated, and the longer they stay high, the higher the risk of an economic slowdown is. Accordingly, we push our expectation of a US economic slowdown into 1HCY24.**

US bond yields have risen across the curve

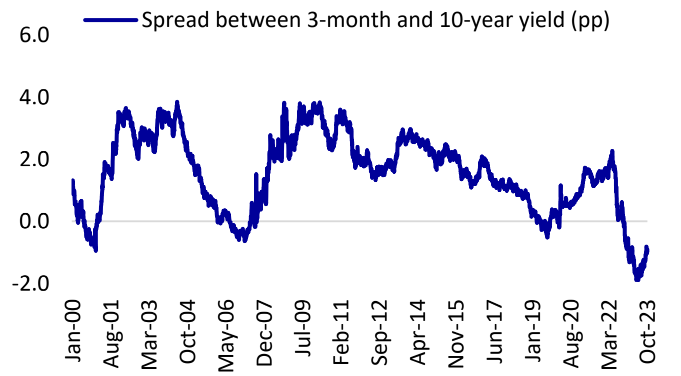
During the past three months, the benchmark 10-year US treasury yield has surged toward 4.75%, about 100bp higher than the mid-Jul'23 level. This is the highest level in almost 16 years *(Exhibit 1)*. Notably, the rise in the yield is not limited to the longer-end. The rise is more at the shorter end, with the 3-month yield on treasury bills at almost 23-year high of 5.6%. The spread between 3-month and 10-year yield, thus, has narrowed from -1.5pp in mid-Jul'23 (and 4-decade low of -1.89pp in early Jun'23) to -0.9pp in Oct'23, last seen in early-2023 *(Exhibit 2)*.

US bond yields have risen to multi-year high in recent months...



All data as of 16th October 2023

...but the spread between 3-month and 10-yr yield has narrowed



Source: US Department of Treasury, CEIC, MOFSL

Angel One: Believe customer growth run-rate is high as we have a low base; Dinesh Thakkar, MD

- Believe customer growth run-rate is high as we have a low base
- Will slowly introduce insurance, AMC & our own wealth management business on our platforms
- Will also introduce insurance products on Super app
- Will start lending business by the end of this fiscal
- Over the next 5-7 years want broking revenues to be below 50% of total revenues

Read More

CEAT: Bullish on our international business plans; Arnab Banerjee, MD & CEO

- Raw material prices seem to have been bottomed out
- Seeing weak demand for tyres in Europe, China
- Wish to maintain margins in a narrow band going ahead
- Debt reduced to Rs. 1,850 Cr at the end of 2Q
- Bullish on our international business plans
- Improving relative positioning of our products in the market

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Karur Vysya: Will be see NIMs at 3.8% by the end of FY24; B Ramesh Babu, MD & CEO

- Q2 saw the highest ever quarterly profit for the bank
- Q2 saw the highest ever RoA for the bank in a decade
- RoA of 157% is at a decadal high despite making provisions
- Will see NIMS at 3.8% by the end of FY24
- RoA should be at 1.6% for FY24 exit quarter
- Targeting loan growth of 15%
- Expect to have 33% of overall loan book in commercial space

Read More

Cyient DLM: The outlook in the aerospace & defence space continues to be strong; Anthony Montalbano, CEO

- Primary sector that led the growth in Q2 was aerospace and defence
- The outlook in the aerospace & defence space continues to be strong
- Have reached out to key clients and suppliers in Israel & Feedback is quite positive at the moment
- Currently, supply is not disturbed in Israel but will continue to monitor it closely
- In discussion with a few players for inorganic growth, will be able to make an announcement in the coming quarters

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NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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