7 November 2023

# MORNING INDIA

## Market snapshot

| Equities - India | Close | Chg .% | CYTD.% |
|---|---|---|---|
| Sensex | 1,29,917 | 1.8 | 13.5 |
| Nifty-50 | 38,824 | 1.9 | 14.4 |
| Nifty-M 100 | 79,874 | 1.8 | 53.5 |
| **Equities-Global** | **Close** | **Chg .%** | **CYTD.%** |
| S&P 500 | 8,724 | 0.2 | 27.2 |
| Nasdaq | 26,997 | 0.3 | 57.9 |
| FTSE 100 | 14,834 | 0.0 | -0.9 |
| DAX | 30,300 | -0.5 | 17.6 |
| Hang Seng | 12,364 | 4.3 | -15.6 |
| Nikkei 225 | 65,417 | 4.7 | 50.7 |
| **Commodities** | **Close** | **Chg .%** | **CYTD.%** |
| Brent (US$/Bbl) | 176 | 0.1 | 16.5 |
| Gold ($/OZ) | 3,965 | -1.0 | 17.4 |
| Cu (US$/MT) | 16,253 | 0.8 | -5.7 |
| Almn (US$/MT) | 4,501 | 1.5 | -8.4 |
| **Currency** | **Close** | **Chg .%** | **CYTD.%** |
| USD/INR | 166.4 | -0.2 | 1.2 |
| USD/EUR | 2.1 | 0.1 | 0.6 |
| USD/JPY | 299.7 | 0.6 | 28.6 |
| **YIELD (%)** | **Close** | **1MChg** | **CYTD chg** |
| 10 Yrs G-Sec | 14.6 | -0.02 | 0.0 |
| 10 Yrs AAA Corp | 15.5 | -0.01 | 0.1 |
| **Flows (USD b)** | **6-Nov** | **MTD** | **CYTD** |
| FIIs | -0.1 | -0.87 | 23.5 |
| DIIs | 0.14 | 1.10 | 39.1 |
| **Volumes (INRb)** | **6-Nov** | **MTD*** | **YTD*** |
| Cash | 1,424 | 1341 | 1340 |
| F&O | 3,86,279 | 5,55,854 | 5,32,125 |

Note: Flows, MTD includes provisional numbers.
*Average

## Today's top research idea

### Varun Beverages: Volume growth and higher realization drive sales

**Earnings in line with our estimates**

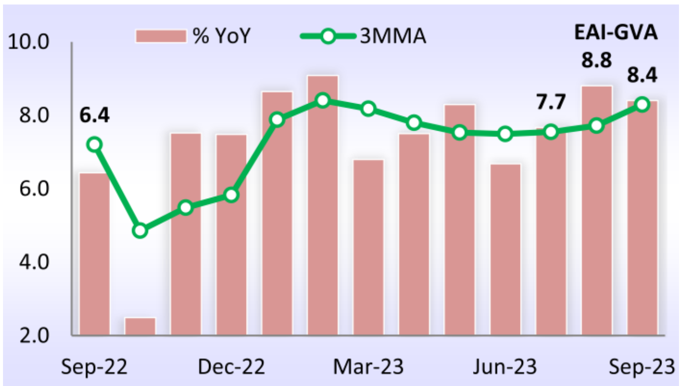
- Varun Beverages (VBL) reported a revenue growth of 22% YoY in 3QCY23, led by strong volume growth (up 15.4% YoY) and high realization (up 5.6% YoY to INR176/case) in both India and international regions.
- PET chip prices softened for another quarter, resulting in a 160bp YoY gain in gross margins. Gross margin/EBITDA per unit case each grew by 9% YoY to INR97.8/INR40.1, supported by lower raw material prices.
- We expect a CAGR of 17%/20%/26% in revenue/EBITDA/PAT over CY22-25. We value the stock at 47x CY25E EPS to arrive at a TP of INR1,090. We reiterate our BUY rating on the stock.

## Research covered

| Cos/Sector | Key Highlights |
|---|---|
| Varun Beverages | Volume growth and higher realization drive sales |
| India Strategy (The Eagle Eye) | A surge in geopolitical and macro headwinds hits global markets |
| Divi's Laboratories | Pricing pressure in API segment hurts profitability |
| Bharat Forge | In-line result; demand commentary a mixed bag |
| Other Notes | Gland Pharma \| Emami \| Gujarat State Petronet \| Data Pattern \| Godrej Agrovet \| J K Cements \| Indigo Paints \| Barbeque-Nation \| Max Healthcare \| HPCL \| Exide \| Sobha \| Quess Corp \| Fusion Microfinance \| VRL Logistics \| V-Mart Retail \| Repco Home Finance \| SBI Cards (Corner Office) \| EcoScope (EAI) |

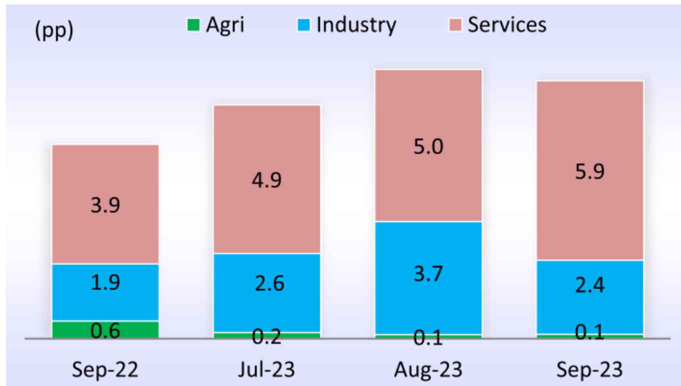
## Chart of the Day: EcoScope (EAI – Monthly Dashboard: Economic activity robust in Sep'23)

**EAI-GVA grew 8.4% in Sep'23 vs. 6.4% in Sep'22...**




Please refer to our earlier report for details

**...on the back of robust services sector growth**




Source: Various national sources, CEIC, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

## In the news today

Kindly click on textbox for the detailed news link

1

### Bajaj Finance launches QIP

Bajaj Finance Ltd on November 6 announced the launch of a qualified institutional placement (QIP) to raise funds, with the floor price set at " ₹7,533.81 per share". The company informed the exchanges that it may offer a discount of up to 5 percent on the floor price.

2

### Demat account growth at 11-month high in October

The number of demat accounts in October stood at 132.25 million, which includes 98.54 million accounts on Central Depository Services (CDSL) and 33.80 million in National Securities Depository (NSDL). Despite volatile market conditions, the addition of dematerialisation, or demat accounts, showed a sharp spurt and rose to an 11-month high in October.

3

### Bharat Forge bets big on defence business, eyes orders worth Rs 5,000 crore in medium term

A senior company official revealed that while it is already in the midst of executing orders worth Rs 3,000 crore for multiple product lines from the defence sector, another Rs 2,000 crore contract for artillery guns for the Indian armed forces is on the anvil.

4

### Vehicle registrations decline by 8% in October

In October, Indian vehicle registrations fell by 8% amid the inauspicious Shraddh period, with 2,117,596 vehicles registered, according to FADA. Despite the decline, resilient demand during Navratri and ongoing festivities bolstered buyer sentiments across categories, indicating a strong market rebound.

5

### Small ticket loans, a fintech-favourite, are seeing stress

As signs of stress emerge in the small-ticket personal loans sector in India, several banks are becoming cautious about engaging in the unsecured lending space.

6

### IndiGo awaiting clarity from P&W on aircraft grounding due to powder metal issues: CEO

IndiGo, India's biggest carrier in terms of domestic market share and fleet, is waiting for clarity from engine manufacturer Pratt & Whitney (P&W) over the timeline for when engines will go for inspection, leaving the airline's planes grounded.

7

### Reliance Retail ramps up Smart Bazaar stores in small towns

Reliance Retail is opening more Smart Bazaar stores in towns with a population of up to 50,000 to meet growing demand. Home, personal care, general merchandise - all are growing faster than the overall store for us.

# Varun Beverages

| | |
|---|---|
| Estimate change | ⟷ |
| TP change | ⟷ |
| Rating change | ⟷ |

| | |
|---|---|
| Bloomberg | VBL IN |
| Equity Shares (m) | 1299 |
| M.Cap.(INRb)/(USDb) | 1228.6 / 14.8 |
| 52-Week Range (INR) | 979 / 538 |
| 1, 6, 12 Rel. Per (%) | 3/23/59 |
| 12M Avg Val (INR M) | 2291 |

**Financials & Valuations (INR b)**

| Y/E Dec | 2023E | 2024E | 2025E |
|---|---|---|---|
| Sales | 159.7 | 185.1 | 212.3 |
| EBITDA | 35.8 | 41.5 | 48.0 |
| Adj. PAT | 20.4 | 24.7 | 30.2 |
| EBITDA (%) | 22.4 | 22.4 | 22.6 |
| EPS (INR) | 15.7 | 19.0 | 23.2 |
| EPS Gr. (%) | 36.4 | 21.0 | 22.2 |
| BV/Sh. (INR) | 53.2 | 70.3 | 91.5 |
| **Ratios** | | | |
| Net D/E | 0.5 | 0.3 | -0.0 |
| RoE (%) | 34.0 | 30.8 | 28.7 |
| RoCE (%) | 23.5 | 24.0 | 25.7 |
| Payout (%) | 11.1 | 10.5 | 8.6 |
| **Valuations** | | | |
| P/E (x) | 60.1 | 49.7 | 40.7 |
| EV/EBITDA (x) | 35.3 | 30.2 | 25.6 |
| Div Yield (%) | 0.2 | 0.2 | 0.2 |
| FCF Yield (%) | 0.4 | 1.2 | 2.1 |

**Shareholding pattern (%)**

| | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 63.1 | 63.6 | 63.9 |
| DII | 3.4 | 3.2 | 4.5 |
| FII | 27.6 | 26.7 | 25.0 |
| Others | 6.0 | 6.5 | 6.6 |

Note: FII includes depository receipts

**CMP: INR946 TP: INR1,090 (+15%) Buy**

## Volume growth and higher realization drive sales

### Earnings in line with our estimates

- Varun Beverages (VBL) reported a revenue growth of 22% YoY in 3QCY23, led by strong volume growth (up 15.4% YoY) and high realization (up 5.6% YoY to INR176/case) in both India and international regions.
- PET chip prices softened for another quarter, resulting in a 160bp YoY gain in gross margins. Gross margin/EBITDA per unit case each grew by 9% YoY to INR97.8/INR40.1, supported by lower raw material prices.
- We maintain our CY23/CY24/CY25 estimates and reiterate our BUY rating on the stock with a TP of INR1,090.

### Low RM prices aids margin expansion

- VBL's revenue grew 22% YoY to INR38.7b (est. INR38.2b), driven by healthy volume growth (up 15.4% YoY to 220m cases) and higher realization (up ~5% YoY to INR176/case). Volume growth was driven by both India (14.8% YoY) and international markets (17.5% YoY), while realization growth was mainly driven by the international market.
- EBITDA margin expanded 80bp YoY to 22.8% (est. 22.9%), primarily driven by improvements in gross margins (up 160bp YoY to 55.3%, due to softening of PET chip prices). EBITDA grew 26% YoY to INR8.8b (est. INR8.8b).
- Adj. PAT increased by 32% YoY to INR5b (est. INR4.8b), driven by higher sales growth and improvement in margins.
- CSD/water volumes grew 19%/8% YoY to 159m/50m unit cases, while Juices volumes remained flat YoY at 11m unit cases.
- For 9MCY23, Revenue/EBITDA/PAT grew 22%/29%/35% to INR136b/INR31.9b/INR19.2b. Volumes grew 13% YoY to 758m cases.

### Highlights from the management commentary

- **Energy Drink:** The company is currently working with PepsiCo to launch one more energy drink brand next year.
- **International Business:** VBL is setting up a greenfield plant in Democratic Republic of Congo with an annual capacity of ~35-40m cases. The plant will be ready for production by Apr-May'24. It has also formed a subsidiary in Mozambique for beverage distribution.
- **Capex:** The company has incurred a total capex of ~INR24b in 9MCY23, of which INR8b was spent for capacities (both greenfield and brownfield), which was commissioned in 9MCY23, and the balance INR16b was for capacities coming up by Mar'24.

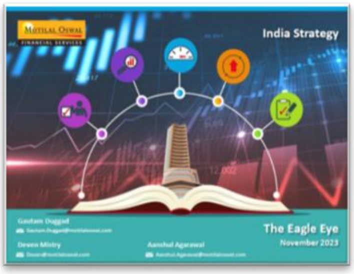
### Valuation and view

- We expect VBL to maintain its earnings momentum, aided by: 1) increased penetration in newly acquired territories in South and West India, 2) higher acceptance of newly launched products, 3) continued expansion in capacity and distribution reach, 4) growing refrigeration in rural and semi-rural areas, and 5) a scale-up in international operations.
- We expect a CAGR of 17%/20%/26% in revenue/EBITDA/PAT over CY22-25. We value the stock at 47x CY25E EPS to arrive at a TP of INR1,090. We reiterate our BUY rating on the stock.

**Consolidated - Quarterly earning model** (INR m)

| Y/E December | CY22 | | | | CY23 | | | | CY22 | CY23E | CY23E | Var |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4QE | | | 3Q | % |
| **Gross Sales** | **28,275** | **49,548** | **31,766** | **22,142** | **38,930** | **56,114** | **38,705** | **25,915** | **1,31,731** | **1,59,664** | **38,175** | **1** |
| YoY Change (%) | 26.2 | 102.3 | 32.5 | 27.7 | 37.7 | 13.3 | 21.8 | 17.0 | 49.3 | 21.2 | 20.2 | |
| Total Expenditure | 22,965 | 37,042 | 24,776 | 19,067 | 30,949 | 41,004 | 29,884 | 22,043 | 1,03,850 | 1,23,880 | 29,423 | |
| **EBITDA** | **5,310** | **12,506** | **6,990** | **3,075** | **7,980** | **15,110** | **8,821** | **3,873** | **27,881** | **35,784** | **8,752** | **1** |
| Margins (%) | 18.8 | 25.2 | 22.0 | 13.9 | 20.5 | 26.9 | 22.8 | 14.9 | 21.2 | 22.4 | 22.9 | |
| Depreciation | 1,313 | 1,531 | 1,531 | 1,797 | 1,722 | 1,719 | 1,708 | 1,795 | 6,172 | 6,944 | 1,790 | |
| Interest | 470 | 464 | 453 | 475 | 626 | 694 | 625 | 570 | 1,861 | 2,514 | 660 | |
| Other Income | 85 | 105 | 106 | 92 | 101 | 416 | 185 | 106 | 388 | 809 | 122 | |
| **PBT before EO expense** | **3,612** | **10,616** | **5,112** | **896** | **5,734** | **13,113** | **6,673** | **1,614** | **20,236** | **27,134** | **6,424** | |
| Extra-Ord expense | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| **PBT** | **3,612** | **10,616** | **5,112** | **896** | **5,734** | **13,113** | **6,673** | **1,614** | **20,236** | **27,134** | **6,424** | |
| Tax | 901 | 2,596 | 1,157 | 81 | 1,348 | 3,057 | 1,529 | 355 | 4,735 | 6,288 | 1,413 | |
| Rate (%) | 25.0 | 24.5 | 22.6 | 9.0 | 23.5 | 23.3 | 22.9 | 22.0 | 23.4 | 23.2 | 22 | |
| Minority Interest & Profit/ Loss of Asso. Cos. | 169 | 146 | 144 | 68 | 95 | 118 | 130 | 78 | 527 | 421 | 166 | |
| **Reported PAT** | **2,542** | **7,874** | **3,810** | **748** | **4,291** | **9,938** | **5,015** | **1,181** | **14,974** | **20,425** | **4,844** | |
| **Adj PAT** | **2,542** | **7,874** | **3,810** | **748** | **4,291** | **9,938** | **5,015** | **1,181** | **14,974** | **20,425** | **4,844** | **4** |
| YoY Change (%) | 96.7 | 155.5 | 58.7 | 353.3 | 68.8 | 26.2 | 31.6 | 58.0 | 115.8 | 36.4 | 27.1 | |
| Margins (%) | 9.0 | 15.9 | 12.0 | 3.4 | 11.0 | 17.7 | 13.0 | 4.6 | 11.4 | 12.8 | 12.7 | |

# India Strategy: The Eagle Eye

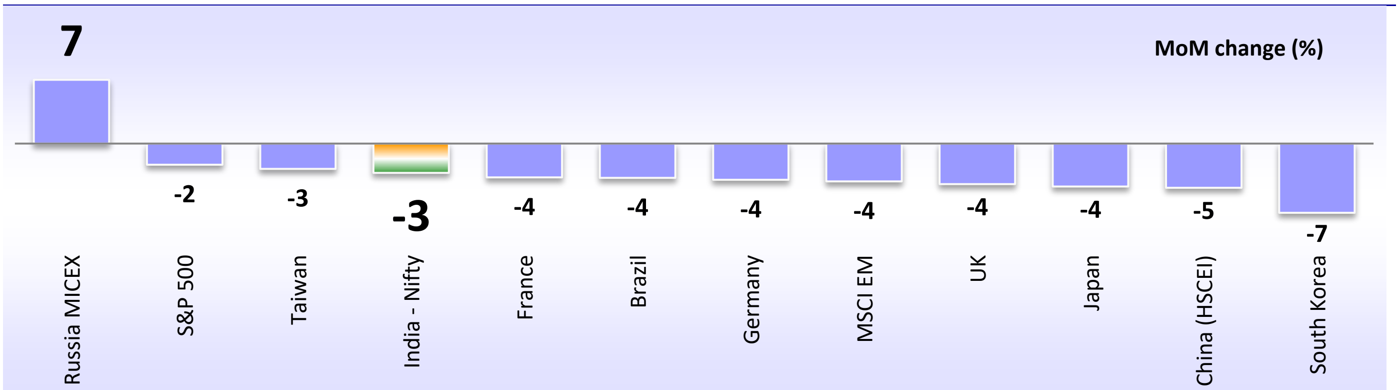



## The Eagle Eye (Nov’23): A surge in geopolitical and macro headwinds hits global markets

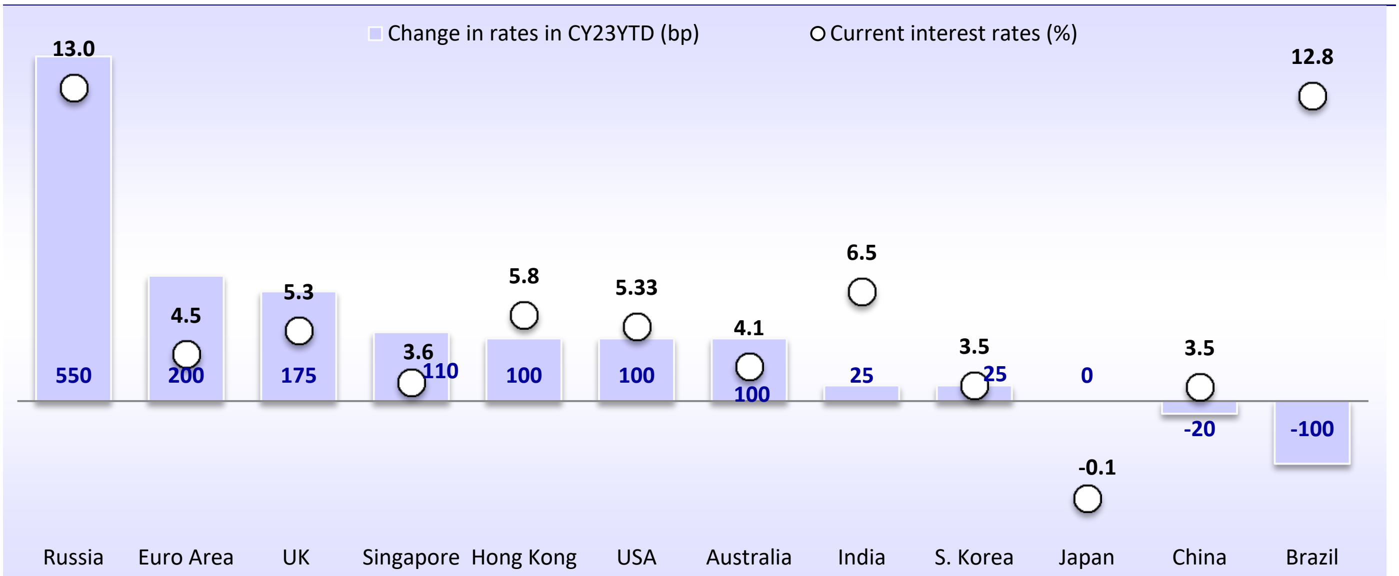
**The key highlights of our Nov'23 edition of 'The Eagle Eye' are as follows:**

- a) Most global markets turned weak in Oct’23; Russia up 7% MoM; b) Globally, interest rates at multi-year highs; c) Fed fund rates at multi-year high; US 10-year bond yields spike sharply; d) Real estate gains, while PSU Banks fall notably in Oct’23; Real Estate/Auto top gainers in CY23YTD; e) Mid and smallcap continue to outperform Nifty50, despite sharp correction from Sep’23 highs; f) FII flows weaken, DII flows intensify during the month to 7-month high; g) Average daily cash volumes moderated in Oct’23
- Notable Published reports in Oct’23: a) Electronics Manufacturing Service Industry: Transforming Dreams into Devices; b) Adani ports: INITIATING COVERAGE: Sailing toward new horizons; c) 2QFY24 Interim review – Heavyweights in charge; Nifty EPS estimates stable

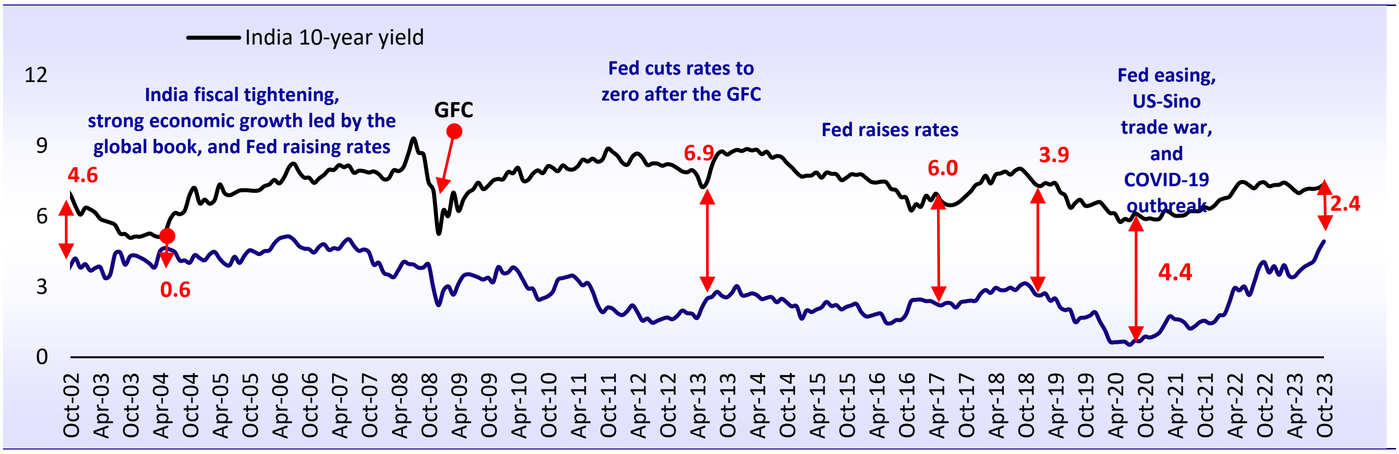
**World equity indices (MoM) in USD terms (%)**




**Globally, interest rates at multi-year highs**



### The 10-year yield spread between India and the US at a 17-year low




### Top ideas within MOFSL Universe

| Company | MCap (USDb) | CMP (INR) | EPS (INR) | | | EPS CAGR (%) | PE (x) | | | PB (x) | | | ROE (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | FY23 | FY24E | FY25E | FY23-25 | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E |
| **Preferred large cap stocks** | | | | | | | | | | | | | | | |
| ICICI Bank | 77.1 | 933 | 45.8 | 57.0 | 65.5 | 19.6 | 20.4 | 16.4 | 14.3 | 3.3 | 2.8 | 2.4 | 17.5 | 18.6 | 18.3 |
| ITC | 63.5 | 434 | 15.1 | 16.6 | 19.0 | 12.3 | 28.7 | 26.1 | 22.8 | 8.0 | 7.6 | 7.2 | 29.0 | 29.8 | 32.4 |
| State Bank of India | 61.3 | 578 | 62.4 | 78.9 | 89.4 | 19.8 | 9.3 | 7.3 | 6.5 | 1.5 | 1.3 | 1.1 | 18.1 | 19.2 | 18.0 |
| Bajaj Fin. | 54.1 | 7,420 | 190.4 | 240.1 | 309.8 | 27.6 | 39.0 | 30.9 | 23.9 | 8.2 | 6.0 | 4.9 | 23.4 | 22.7 | 22.6 |
| Larson & Tubro | 51.3 | 2,965 | 73.5 | 98.0 | 122.0 | 28.8 | 40.3 | 30.3 | 24.3 | 4.7 | 4.6 | 4.0 | 12.1 | 15.0 | 16.5 |
| HCL Technologies | 41.5 | 1,266 | 54.8 | 58.1 | 65.9 | 9.7 | 23.1 | 21.8 | 19.2 | 5.2 | 5.3 | 5.4 | 23.3 | 24.2 | 27.9 |
| Titan Company | 34.1 | 3,273 | 36.8 | 44.8 | 58.3 | 26.0 | 89.0 | 73.0 | 56.1 | 24.4 | 19.9 | 16.2 | 30.8 | 30.1 | 31.9 |
| Avenue Supermarts | 28.4 | 3,646 | 36.7 | 41.8 | 58.2 | 25.9 | 99.3 | 87.2 | 62.6 | 14.1 | 12.1 | 10.1 | 16.0 | 15.5 | 18.2 |
| UltraTech Cem. | 29.3 | 8,518 | 175.4 | 256.4 | 311.5 | 33.3 | 48.6 | 33.2 | 27.3 | 4.5 | 4.1 | 3.6 | 9.7 | 12.9 | 14.0 |
| M & M | 21.2 | 1,469 | 64.9 | 86.1 | 93.9 | 20.4 | 22.6 | 17.1 | 15.6 | 4.1 | 3.4 | 2.9 | 19.1 | 21.8 | 20.3 |
| Zomato | 11.1 | 116 | Loss | 0.1 | 0.9 | LP | NM | 1267.1 | 125.2 | 4.8 | 5.1 | 4.9 | - | 0.4 | 4.0 |
| **Preferred midcap/smallcap stocks** | | | | | | | | | | | | | | | |
| Indian Hotels | 6.7 | 393 | 7.0 | 8.6 | 10.2 | 20.1 | 55.8 | 45.7 | 38.7 | 7.0 | 6.1 | 5.4 | 13.3 | 14.3 | 14.8 |
| Ashok Leyland | 5.9 | 168 | 4.5 | 9.3 | 12.0 | 63.2 | 37.3 | 18.1 | 14.0 | 5.9 | 4.7 | 3.7 | 16.8 | 28.8 | 29.3 |
| Godrej Properties | 5.7 | 1,784 | 22.4 | 24.8 | 43.9 | 40.1 | 79.8 | 72.1 | 40.6 | 5.4 | 5.0 | 4.5 | 6.9 | 7.2 | 11.5 |
| M & M Fin. Serv. | 3.7 | 258 | 16.1 | 15.3 | 22.5 | 18.4 | 16.1 | 16.9 | 11.5 | 1.9 | 1.8 | 1.6 | 12.6 | 11.1 | 15.1 |
| Metro Brands | 3.9 | 1,244 | 13.3 | 13.4 | 18.5 | 18.0 | 93.6 | 92.6 | 67.2 | 21.3 | 18.6 | 15.8 | 25.7 | 22.0 | 26.0 |
| Kajaria Ceramics | 2.4 | 1,255 | 21.4 | 28.8 | 36.3 | 30.3 | 58.7 | 43.6 | 34.6 | 8.6 | 7.9 | 7.1 | 15.2 | 18.8 | 21.6 |
| CreditAccess | 3.1 | 1,675 | 52.0 | 93.4 | 112.7 | 47.3 | 32.2 | 17.9 | 14.9 | 5.2 | 4.0 | 3.2 | 18.2 | 25.4 | 23.9 |
| Angel one | 2.6 | 2,815 | 107.5 | 137.6 | 160.7 | 22.3 | 26.2 | 20.5 | 17.5 | 10.8 | 8.1 | 6.4 | 47.6 | 45.3 | 40.8 |
| Lemon Tree Hotel | 1.0 | 109 | 1.5 | 1.9 | 3.2 | 44.6 | 72.0 | 56.6 | 34.5 | 10.0 | 8.5 | 6.8 | 14.0 | 16.2 | 21.9 |
| Craftsman Auto | 1.2 | 4,901 | 117.6 | 186.0 | 224.9 | 38.3 | 41.7 | 26.3 | 21.8 | 7.5 | 5.9 | 4.8 | 19.7 | 25.2 | 24.3 |

Note: LP = Loss to profit; Largecap, Midcap and Smallcap Stocks listed above are as per SEBI Categorization

# Divi's Laboratories

| | |
|---|---|
| Estimate change | ↑ |
| TP change | ↑ |
| Rating change | ↔ |

| | |
|---|---|
| Bloomberg | DIVI IN |
| Equity Shares (m) | 265 |
| M.Cap.(INRb)/(USDb) | 930.9 / 11.2 |
| 52-Week Range (INR) | 3949 / 2730 |
| 1, 6, 12 Rel. Per (%) | -5/-1/-14 |
| 12M Avg Val (INR M) | 1760 |

**Financials & Valuations (INR b)**

| Y/E MARCH | FY23 | FY24E | FY25E |
|---|---|---|---|
| Sales | 77.7 | 80.5 | 93.7 |
| EBITDA | 23.7 | 22.9 | 28.8 |
| Adj. PAT | 17.2 | 16.7 | 22.2 |
| EBIT Margin (%) | 26.1 | 23.7 | 26.7 |
| Cons. Adj. EPS (INR) | 64.9 | 63.0 | 83.7 |
| EPS Gr. (%) | -41.2 | -2.9 | 33.0 |
| BV/Sh. (INR) | 481.0 | 524.2 | 582.0 |
| **Ratios** | | | |
| Net D:E | -0.3 | -0.3 | -0.3 |
| RoE (%) | 14.1 | 12.5 | 15.1 |
| RoCE (%) | 14.1 | 12.5 | 15.1 |
| Payout (%) | 29.8 | 31.1 | 31.0 |
| **Valuations** | | | |
| P/E (x) | 54.0 | 55.7 | 41.9 |
| EV/EBITDA (x) | 37.5 | 38.7 | 30.7 |
| Div. Yield (%) | 0.5 | 0.5 | 0.6 |
| FCF Yield (%) | 1.7 | 0.6 | 0.4 |
| EV/Sales (x) | 11.4 | 11.0 | 9.4 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 51.9 | 51.9 | 51.9 |
| DII | 21.8 | 21.2 | 20.8 |
| FII | 14.6 | 14.7 | 15.4 |
| Others | 11.7 | 12.1 | 11.9 |

FII Includes depository receipts

**CMP: INR3,507 TP: INR3,330 (-5%) Neutral**

## Pricing pressure in API segment hurts profitability

### CS segment sales to pick up pace in the coming quarters

- Divis Lab (DIVI) delivered a miss on 2QYF24 earnings. While revenue was in line with estimates, profitability was lower than expectation, partly due to lower pricing in the generic API segment.
- We reduce our earnings estimate by 5%/3% for FY24/FY25, factoring in a) increased competition in the API segment, and b) higher tax rate, partly offset by improved growth momentum in the Nutraceutical business. We value DIVI at 35x 12M forward earnings to arrive at a price target of INR3,330.
- We are building 25% earnings CAGR over FY23-25 (adjusting for COVID-led business in FY23). This is on the back of improved visibility for contracts in the custom synthesis segment as well as ramp-up in products in contrast media space. We believe the current valuation adequately factors the upside in earnings. We reiterate our Neutral stance on the stock.

### Product mix/reduced operating leverage lowered margin YoY

- DIVI's revenues grew 2.2% YoY to INR19.1b (our est: INR19.3b) for the quarter.
- Adjusting for COVID-related inventory write-off (INR200m), gross margin contracted 500bp YoY to 58.6% due to a change in product mix.
- EBITDA margin contracted at a higher rate by 740bp YoY to 26.1% (our est: 29.2%), largely due to lower GM and higher employee cost/other expenses (up 140bp/90bp as a % of sales).
- As a result, EBITDA was down 19.7% YoY to INR4.9b (our est: INR5.6b) for the quarter.
- Tax rate was 25.8% in 2QFY24 as compared to 27.5%/19.8% for 1QFY24/2QFY23.
- Adjusted for INR90m in Extra-ordinary expense, PAT was down 24.4% YoY to INR3.5b (our est: INR4.3b).
- During 1HFY24, Revenue/EBITDA/PAT declined 10%/32%/37% YoY to INR37b/INR10b/INR7b.

### Highlights from the management commentary

- On Ex-COVID basis, the YoY sales growth was at a healthy double digit for the quarter.
- The generics: CS ratio was 60:40 for the quarter. This implies 5% YoY growth in the generics segment for the quarter.
- While volume growth was robust in the generics segment, the pricing pressure negatively impacted YoY sales growth of this segment.
- The nutraceutical sales were INR2b during the quarter, up 11% YoY.
- The commercial benefits from the two major CS projects are anticipated to materialize starting 2HFY24 onwards.

| Quarterly Performance | | | | | | | | | | | | (INRm) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **FY23** | | | | **FY24E** | | | | **FY23** | **FY24E** | **FY24E** | **Var.** |
| | **1Q** | **2Q** | **3Q** | **4Q** | **1Q** | **2Q** | **3QE** | **4QE** | | | **2QE** | **(%)** |
| **Net Sales** | **22,545** | **18,545** | **17,077** | **19,508** | **17,780** | **19,090** | **20,645** | **22,959** | **77,675** | **80,474** | **19,342** | **-1.3** |
| YoY Change (%) | 15.0 | -6.7 | -31.5 | -22.5 | -21.1 | 2.9 | 20.9 | 17.7 | -13.3 | 3.6 | 4.3 | |
| Total Expenditure | 14,078 | 12,335 | 12,994 | 14,590 | 12,740 | 14,100 | 14,906 | 15,874 | 53,997 | 57,619 | 13,694 | |
| **EBITDA** | **8,467** | **6,210** | **4,083** | **4,918** | **5,040** | **4,990** | **5,739** | **7,085** | **23,678** | **22,855** | **5,648** | **-11.6** |
| YoY Change (%) | -0.6 | -24.7 | -62.9 | -55.5 | -40.5 | -19.7 | 40.6 | 44.1 | -39.0 | -3.5 | -9.1 | |
| Margins (%) | 37.6 | 33.5 | 23.9 | 25.2 | 28.3 | 26.1 | 27.8 | 30.9 | 30.5 | 28.4 | 29.2 | |
| Depreciation | 837 | 857 | 868 | 870 | 930 | 950 | 960 | 980 | 3,432 | 3,820 | 878 | |
| **EBIT** | **7,630** | **5,353** | **3,215** | **4,048** | **4,110** | **4,040** | **4,779** | **6,105** | **20,246** | **19,035** | **4,770** | **-15.3** |
| YoY Change (%) | -2.0 | -28.4 | -68.5 | -60.4 | -46.1 | -24.5 | 48.7 | 50.8 | -43.3 | -6.0 | -10.9 | |
| Interest | 0 | 0 | 1 | 2 | 0 | 10 | 5 | 5 | 7 | 20 | 0 | |
| Other Income | 320 | 492 | 674 | 662 | 810 | 750 | 710 | 708 | 2,150 | 2,978 | 670 | |
| **PBT before EO Income** | **7,950** | **5,845** | **3,888** | **4,707** | **4,920** | **4,780** | **5,484** | **6,808** | **22,390** | **21,992** | **5,440** | |
| Forex gain /(Loss) | 564 | 308 | 467 | -42 | 30 | -90 | 0 | 0 | 1,297 | -60 | 0 | |
| **PBT** | **8,514** | **6,153** | **4,354** | **4,665** | **4,950** | **4,690** | **5,484** | **6,808** | **23,687** | **21,932** | **5,440** | **-13.8** |
| Tax | 1,493 | 1,216 | 1,288 | 1,455 | 1,360 | 1,210 | 1,261 | 1,432 | 5,453 | 5,264 | 1,142 | |
| Rate (%) | 17.5 | 19.8 | 29.6 | 31.2 | 27.5 | 25.8 | 23.0 | 21.0 | 23.0 | 24.0 | 21.0 | |
| **PAT** | **7,021** | **4,937** | **3,066** | **3,210** | **3,590** | **3,480** | **4,223** | **5,376** | **18,234** | **16,669** | **4,298** | **-19.0** |
| **Adj. PAT** | **6,556** | **4,690** | **2,738** | **3,239** | **3,568** | **3,547** | **4,223** | **5,376** | **17,222** | **16,714** | **4,298** | **-17.5** |
| YoY Change (%) | 2.6 | -23.9 | -67.2 | -61.5 | -45.6 | -24.4 | 54.2 | 66.0 | -41.2 | -3.0 | -8.4 | |
| Margins (%) | 31.1 | 26.6 | 18.0 | 16.5 | 20.2 | 18.2 | 20.5 | 23.4 | 23.5 | 20.7 | 22.2 | |
| **Adj. EPS** | **24.7** | **17.7** | **10.3** | **12.2** | **13.4** | **13.4** | **15.9** | **20.3** | **64.9** | **63.0** | **16.2** | |

# Bharat Forge

| | |
|---|---|
| Estimate changes | ↓ |
| TP change | ⟷ |
| Rating change | ⟷ |

| | |
|---|---|
| Bloomberg | BHFC IN |
| Equity Shares (m) | 466 |
| M.Cap.(INRb)/(USDb) | 500.8 / 6 |
| 52-Week Range (INR) | 1148 / 744 |
| 1, 6, 12 Rel. Per (%) | 0/34/19 |
| 12M Avg Val (INR M) | 1079 |

**Consol. Financials & Valuations (INR b)**

| Y/E Mar | 2023 | 2024E | 2025E |
|---|---|---|---|
| Sales | 129.1 | 150.6 | 164.7 |
| EBITDA (%) | 13.8 | 18.6 | 20.3 |
| Adj. PAT | 5.4 | 12.9 | 18.0 |
| EPS (INR) | 11.6 | 27.6 | 38.6 |
| EPS Gr. (%) | -46.4 | 137.5 | 39.9 |
| BV/Sh. (INR) | 144 | 165 | 198 |
| **Ratios** | | | |
| RoE (%) | 8.2 | 17.9 | 21.3 |
| RoCE (%) | 5.9 | 11.1 | 13.7 |
| Payout (%) | 47.3 | 22.7 | 16.2 |
| **Valuations** | | | |
| P/E (x) | 92.5 | 39.0 | 27.8 |
| P/BV (x) | 7.5 | 6.5 | 5.4 |
| EV/EBITDA (x) | 31.5 | 20.0 | 16.4 |
| Div. Yield (%) | 0.5 | 0.6 | 0.6 |
| FCF Yield (%) | 0.6 | 1.3 | 4.1 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 45.3 | 45.3 | 45.3 |
| DII | 28.1 | 28.8 | 24.7 |
| FII | 16.3 | 15.8 | 19.3 |
| Others | 10.3 | 10.2 | 10.7 |

FII Includes depository receipts

**CMP: INR1076 TP: INR1,250 (+16%) Buy**

## In-line result; demand commentary a mixed bag

### Wins orders of INR7.4b for SA business in 1H (incl. INR3b for e-mobility)

- Bharat Forge (BHFC)'s 2QFY24 standalone performance was in line. The company reported record high shipment tonnage at 70.3k tons during the quarter, registering 15% YoY growth. However, the overall demand commentary was a mixed bag, as outlook for the India business remains positive while overseas business growth is anticipated to remain flattish.
- We cut our EPS by 8%/ 3% for FY24E/25E to factor in slower-than-expected ramp up in overseas subsidiaries. **Reiterate BUY with a TP of INR1,250 (based on 27x Dec-25E consolidated EPS + INR133 for two gun platforms).**

### Foreign subsidiary losses widen sequentially

- BHFC's 2QFY24 standalone revenue/EBITDA/adj. PAT grew 21%/36%/29% YoY to INR22.5b/INR6.2b/INR3.5b (vs. est. INR22.8b/INR6.1b/INR3.6b). 1HFY24 revenue/EBITDA/adj. PAT grew 21%/28%/28% YoY.
- Tonnage grew 15% YoY to 70.3k tons (vs. est. 70.9k tons). Net realizations grew 5% YoY to ~INR320k (v/s est. INR322k), benefitting from the mix.
- Net revenue grew 21% YoY to INR22.5b (v/s est. INR22.8b). Both domestic and export revenue grew 21% YoY each. Auto segment grew 15% YoY, whereas non-autos grew 33% YoY.
- Gross margin expanded 110bp YoY (+100bp QoQ) to 56.7% (v/s est. 56.1%) led by better product mix and cost reduction initiatives. EBITDA margin improved 310bp YoY to 27.4% (v/s est. 26.8%).
- Further, a slightly higher-than-estimated interest cost and FX loss restricted adj. PAT growth to 29% YoY at INR3.5b (v/s est. INR3.6b).
- Foreign subsidiaries reported a loss of INR1.15b (v/s INR1.16m PBT in 2QFY23 and loss of INR930m in 1QFY24) primarily due to losses in the US/EU aluminum forging operations.
- FCFF stood at INR6.3b (v/s INR651m in 1HFY23) led by a strong CFO of INR7.5b (v/s INR1.9b in 1HFY23) and controlled capex of INR1.2b similar to last year's levels.

### Highlights from the management interaction

- **Outlook- i)** CVs: Positive outlook for the India business while it is expected to remain flattish for the US business next year, **ii)** Industrials: the US business is likely to remain flattish next year. In India, while outlook is expected to remain positive, there are structural challenges for the businesses such as wind energy and some softness in construction mining.
- **Defense:** Reported revenue of INR2b in 2QFY24 (vs. INR2.5b in 1QFY24). KSSL won orders worth INR11b during the quarter for multiple products and customers, taking the total executable order pipeline to INR30b that will be executed over the next two years.

- **BHFC has won INR5b of new business in 2QFY24** for the industrials and CV divisions. Order wins for 1HFY24 stood at INR7.4b, including INR3b for e-mobility platforms.
- **Overseas subsidiaries (combining both the US and EU) reported EBITDA of INR90m in 2QFY24** vs. operating loss of INR340m in 2QFY23. The EU subsidiaries reported EBITDA of INR350m (down sequentially due to holiday season in the EU), while the US operations posted operating loss of INR260m.

## Valuation and view

- While BHFC's core India business is on the growth path, it's worth noting that the underlying macro environment in the US and EU is showing signs of weakening. However, the newly established businesses incubated over the last 5-10 years have reached pivotal moments and they have the potential to offset the anticipated challenges in core operations. The Defense segment is poised for significant growth, with execution already underway. The e-mobility sector presents a substantial opportunity and possesses foundational elements, but the competitive landscape is yet to evolve.
- We cut our EPS by 8%/ 3% for FY24E/25E to factor in the slower-than-expected ramp up in the US and EU facilities. We estimate a consolidated revenue/ EBITDA/PAT CAGR of 13%/37%/82% over FY23-25E. The stock trades at 39.0x/ 27.8x FY24E/FY25E consolidated EPS. **Reiterate BUY with a TP of INR1,250 (based on 27x Dec-25E consolidated EPS + INR133 for two gun platforms).**

**S/A Quarterly** (INR m)

| | FY23 | | | | FY24E | | | | FY23 | FY24E | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE |
| **Tonnage** | **57,915** | **61,149** | **62,755** | **64,648** | **67,780** | **70,316** | **72,168** | **75,637** | **2,46,467** | **2,85,902** | **70,933** |
| Change (%) | 8.2 | 7.1 | 17.6 | 12.3 | 17.0 | 15.0 | 15.0 | 17.0 | 11.3 | 16.0 | 16.0 |
| **Realization (INR '000/ton)** | **303.8** | **304.8** | **311.1** | **308.9** | **313.9** | **319.9** | **324.6** | **331.1** | **307.3** | **322.6** | **322.1** |
| Change (%) | 18.5 | 9.1 | 3.6 | 6.2 | 3.3 | 4.9 | 4.4 | 7.2 | 9.0 | 5.0 | 5.7 |
| **Net operating income** | **17,594** | **18,639** | **19,521** | **19,973** | **21,273** | **22,494** | **23,429** | **25,042** | **75,727** | **92,238** | **22,844** |
| Change (%) | 28.2 | 16.8 | 21.8 | 19.3 | 20.9 | 20.7 | 20.0 | 25.4 | 21.3 | 21.8 | 22.6 |
| **EBITDA** | **4,600** | **4,522** | **4,936** | **5,226** | **5,530** | **6,163** | **6,339** | **6,790** | **19,284** | **24,822** | **6,126** |
| EBITDA Margins (%) | 26.1 | 24.3 | 25.3 | 26.2 | 26.0 | 27.4 | 27.1 | 27.1 | 25.5 | 26.9 | 26.8 |
| Non-Operating Income | 259 | 477 | 377 | 391 | 472 | 424 | 475 | 414 | 1,505 | 1,785 | 425 |
| Interest | 263 | 357 | 849 | 658 | 705 | 726 | 700 | 694 | 2,127 | 2,825 | 675 |
| Depreciation | 1064 | 1066 | 1079 | 1051 | 1089 | 1128 | 1140 | 1152 | 4,260 | 4,509 | 1090 |
| Fx loss/(gain) | 250 | -8 | -415 | 347 | 43 | 95 | 0 | 0 | 173 | 138 | 0 |
| **PBT after EO items** | **3,252** | **3,579** | **3,844** | **3,154** | **4,165** | **4,616** | **4,974** | **5,358** | **13,827** | **19,113** | **4,786** |
| Eff. Tax Rate (%) | 25.1 | 25.1 | 24.8 | 22.5 | 25.2 | 25.0 | 25.0 | 25.0 | 24.4 | 25.1 | 24.7 |
| **Rep. PAT** | **2,436** | **2,681** | **2,892** | **2,445** | **3,115** | **3,460** | **3,730** | **4,020** | **10,454** | **14,325** | **3,604** |
| Change (%) | 46.2 | -14.0 | -14.3 | -6.7 | 27.9 | 29.0 | 29.0 | 64.4 | -3.0 | 37.0 | 34.4 |
| **Adj. PAT** | **2,460** | **2,686** | **2,859** | **2,754** | **3,115** | **3,476** | **3,730** | **4,020** | **10,776** | **14,342** | **3,604** |
| Change (%) | 14.8 | -11.5 | 8.6 | 4.4 | 26.7 | 29.4 | 30.5 | 46.0 | 3.1 | 33.1 | 34.2 |

E: MOFSL Estimates

# Gland Pharma

| | |
|---|---|
| Estimate change | ↑ |
| TP change | ↑ |
| Rating change | ↔ |

| | |
|---|---|
| Bloomberg | GLAND IN |
| Equity Shares (m) | 164 |
| M.Cap.(INRb)/(USDb) | 259.4 / 3.1 |
| 52-Week Range (INR) | 1914 / 861 |
| 1, 6, 12 Rel. Per (%) | -5/5/-20 |
| 12M Avg Val (INR M) | 1048 |

**Financials & Valuations (INR b)**

| Y/E MARCH | FY23 | FY24E | FY25E |
|---|---|---|---|
| Sales | 36.2 | 54.6 | 61.0 |
| EBITDA | 10.4 | 13.3 | 15.6 |
| Adj. PAT | 8.3 | 9.0 | 10.8 |
| EBITDA Margin (%) | 28.6 | 24.4 | 25.5 |
| Cons. Adj. EPS (INR) | 50.4 | 54.4 | 65.7 |
| EPS Gr. (%) | (31.4) | 7.8 | 21.0 |
| BV/Sh. (INR) | 483.2 | 537.6 | 603.3 |
| **Ratios** | | | |
| Net D:E | (0.5) | (0.3) | (0.4) |
| RoE (%) | 11.0 | 10.6 | 11.5 |
| RoCE (%) | 11.1 | 10.2 | 10.6 |
| Payout (%) | - | - | - |
| **Valuations** | | | |
| P/E (x) | 31.2 | 29.0 | 24.0 |
| EV/EBITDA (x) | - | - | - |
| Div. Yield (%) | 1.0 | (3.8) | 3.0 |
| FCF Yield (%) | 6.1 | 4.4 | 3.8 |
| EV/Sales (x) | 36.2 | 54.6 | 61.0 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 57.9 | 57.9 | 57.9 |
| DII | 22.5 | 23.4 | 21.9 |
| FII | 4.9 | 2.8 | 6.1 |
| Others | 14.8 | 16.0 | 14.1 |

FII Includes depository receipts

**CMP: INR1,575 TP: INR1,920 (+22%) Buy**

## Slowly getting back on track

### Work-in-progress to enhance commercial benefits from Cenexi

- Gland Pharma (GLAND) delivered an in-line operational performance in 2QFY24. Core markets and India showed superior performances, with a normalization in certain key products. GLAND continued its effort to improve the operational performance of Cenexi as well.
- We maintain our FY24/FY25 estimates. We value GLAND at 26x 12M forward earnings to arrive at a TP of INR1,920.
- After posting a 31% earnings decline YoY in FY23 due to several headwinds, GLAND's base business is back on track with a superior performance. It continues to enhance its complex portfolio, with one FTF product already filed and at least two to be submitted to regulatory authorities soon. The company has also expanded its facility for the plasma protein portfolio. Accordingly, we estimate a CAGR of 30%/23%/14% in sales/EBITDA/PAT over FY23-25. **Reiterate BUY.**

### Ex-Cenexi EBITDA margin surpasses YoY as well as QoQ basis

- 2QFY24 revenue grew 31.5% YoY to INR13.7b (in line). Sales in core markets grew 36.4% YoY to INR10.2b (74% of sales). RoW sales grew 18.6% YoY to INR2.7b (19% of sales). India sales grew 21% YoY to INR876m (6% of sales).
- Gross margin (GM) expanded to 62% (from 51% in 2QFY23) due to a change in the product mix and the addition of Cenexi business.
- However, EBITDA margin contracted by 590bp YoY to 23.6% (est. 24%), due to inferior operating leverage (employee costs/other expenses up 12.5%/0.4% YoY as % of sales). It was partly due to the annual summer shutdown of the Cenexi plant for four weeks. Excluding Cenexi, EBITDA margin was up 600bp YoY and 400bp QoQ at 34%.
- Consequently, EBITDA grew 5.3% YoY to INR3.2b (est. INR3.2b).
- Adj. PAT declined by 22.7% YoY to INR1.9b (our estimate: INR2.2b) due to higher depreciation, finance costs and tax expenses.
- For 1HFY24, revenue/EBITDA grew 35.8%/7% YoY to INR25.8b/INR6.2b. PAT declined by 19.2% YoY to INR3.9b.

### Highlights from the management commentary

- Out of total 14 launches in the US market, four were new to market, while the remaining were relaunches.
- Excluding Cenexi, GLAND achieved EBITDA margin of 34% and expects to sustain it at 30-32%.
- Over the next 12-18 months, the company plans to invest EURO60m in Cenexi to improve its capacity and operational efficiency.
- The profit share stood at 11% of standalone revenue in 2Q.
- GLAND, along with its partners, filed 1 ANDA and received 5 approvals in 2Q.

**Consol. - Quarterly perf.**

| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE | Var (%) |
| **Net Sales** | **8,569** | **10,444** | **9,383** | **7,850** | **12,087** | **13,734** | **14,178** | **14,608** | **36,246** | **54,608** | **13,287** | 3.4 |
| YoY Change (%) | -25.7 | -3.3 | -11.8 | -28.8 | 41.1 | 31.5 | 51.1 | 86.1 | -17.6 | 50.7 | 27.2 | |
| Total Expenditure | 5,870 | 7,366 | 6,487 | 6,166 | 9,147 | 10,493 | 10,719 | 10,924 | 25,888 | 41,283 | 10,098 | |
| **EBITDA** | **2,699** | **3,079** | **2,895** | **1,684** | **2,940** | **3,241** | **3,459** | **3,684** | **10,358** | **13,324** | **3,189** | 1.6 |
| YoY Change (%) | -38.1 | -18.2 | -17.0 | -51.7 | 8.9 | 5.3 | 19.5 | 118.8 | -31.4 | 28.6 | 3.6 | |
| Margins (%) | 31.5 | 29.5 | 30.9 | 21.4 | 24.3 | 23.6 | 24.4 | 25.2 | 28.6 | 24.4 | 24.0 | |
| Depreciation | 349 | 367 | 376 | 375 | 653 | 813 | 690 | 561 | 1,467 | 2,717 | 660 | |
| Interest | 9 | 17 | 26 | 22 | 49 | 60 | 45 | 13 | 74 | 168 | 40 | |
| Other Income | 744 | 656 | 615 | 389 | 375 | 532 | 385 | 237 | 2,405 | 1,529 | 380 | |
| **PBT before EO expense** | **3,085** | **3,351** | **3,108** | **1,676** | **2,613** | **2,899** | **3,109** | **3,347** | **11,220** | **11,968** | **2,869** | 1.0 |
| One-off income/(expense) | 0 | 120 | 0 | 565 | 0 | 0 | 0 | 0 | 685 | 0 | 0 | |
| **PBT** | **3,085** | **3,231** | **3,108** | **1,111** | **2,613** | **2,899** | **3,109** | **3,347** | **10,536** | **11,968** | **2,869** | 1.0 |
| Tax | 793 | 828 | 789 | 325 | 672 | 958 | 774 | 612 | 2,735 | 3,016 | 723 | |
| Rate (%) | 25.7 | 25.6 | 25.4 | 29.2 | 25.7 | 33.0 | 24.9 | 18.3 | 26.0 | 25.2 | 25.2 | |
| **Reported PAT** | **2,292** | **2,402** | **2,319** | **787** | **1,941** | **1,941** | **2,335** | **2,735** | **7,800** | **8,952** | **2,146** | -9.6 |
| **Adj PAT** | **2,292** | **2,511** | **2,319** | **1,186** | **1,941** | **1,941** | **2,335** | **2,735** | **8,307** | **8,952** | **2,146** | -9.6 |
| YoY Change (%) | -34.6 | -16.9 | -15.1 | -58.5 | -15.3 | -22.7 | 0.7 | 130.6 | -31.4 | 7.8 | -14.5 | |

E: MOFSL Estimates

# Emami

| | |
|---|---|
| Estimate change | ⟷ |
| TP change | ⟷ |
| Rating change | ⟷ |

| | |
|---|---|
| Bloomberg | HMN IN |
| Equity Shares (m) | 454 |
| M.Cap.(INRb)/(USDb) | 228.5 / 2.7 |
| 52-Week Range (INR) | 583 / 341 |
| 1, 6, 12 Rel. Per (%) | 0/30/0 |
| 12M Avg Val (INR M) | 210 |

**Financials & Valuations (INR b)**

| Y/E March | 2023 | 2024E | 2025E |
|---|---|---|---|
| Sales | 34.1 | 36.6 | 40.0 |
| Sales Gr. (%) | 6.9 | 7.5 | 9.3 |
| EBITDA | 8.6 | 9.9 | 11.1 |
| EBIT Margin (%) | 25.3 | 27.2 | 27.8 |
| Adj. PAT | 7.8 | 8.9 | 10.0 |
| Adj. EPS (INR) | 17.6 | 20.4 | 22.8 |
| EPS Gr. (%) | -8.2 | 15.7 | 11.9 |
| BV/Sh.(INR) | 52.2 | 55.5 | 63.4 |
| **Ratios** | | | |
| RoE (%) | 35.5 | 37.6 | 38.4 |
| RoCE (%) | 37.4 | 42.9 | 43.4 |
| Payout (%) | 45.4 | 49.1 | 61.4 |
| **Valuation** | | | |
| P/E (x) | 29.4 | 25.5 | 22.7 |
| P/BV (x) | 9.9 | 9.3 | 8.2 |
| EV/EBITDA (x) | 26.0 | 22.2 | 19.5 |
| Div. Yield (%) | 1.5 | 1.9 | 2.7 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 54.8 | 54.5 | 54.3 |
| DII | 25.2 | 26.2 | 27.0 |
| FII | 11.9 | 11.5 | 11.3 |
| Others | 8.0 | 7.8 | 7.5 |

FII Includes depository receipts

**CMP: INR519 TP: INR640 (+23% ) Buy**

## Volume muted; rural recovery essential

- HMN reported 6.3% sales growth in 2QFY24 (broadly in line with our estimates), attributed to factors like poor monsoons, food inflation, and subdued demand in rural markets. Domestic business growth at 4% YoY led by 2% volume growth, which was mainly driven by channels catering to urban markets such as Modern Trade (MT) and E-commerce.
- The Navratna and Dermi Cool reported robust double-digit growth, while single-digit fall see in BoroPlus/Kesh King/ Male grooming due to low demand from price-sensitive consumers.
- The management has guided for a 200-250bp expansion in EBITDA margin and high- single digit sales growth in FY24.
- We retain our **BUY** rating on HMN, considering a gradual rural revival (over 50% of sales), inexpensive valuations at 28xFY25E EPS, improving revenue performance, rural distribution expansion, and increased ad spending.

## Sales in line; profitability below estimates

- **Consolidated net sales grew 6.3% YoY to INR8,649m (est. INR8,845m)**. EBITDA grew 19.6% YoY to INR2,337m (est. INR2,468m). PBT increased by 4.1% YoY to INR2,199m (est. INR2,408m). Adjusted PAT before amortization remained flat YoY at INR2,034m (est. INR2,206m).
- Domestic business grew ~2% YoY.
- Gross margin expanded by 350bp YoY/470bp QoQ to 70.1%. (est. 67.2%). EBITDA margin expanded by 300bp YoY/400 bp QoQ to 27.0% (est. 27.9%) due to other expenses (down -30bp), employee costs (up 30bp YoY) and ad-spends (up 50bp YoY).
- Absolute ad spending increased by 9.1% YoY to INR1,544m.
- **International sales** grew 12% YoY (16% growth in constant currency), driven by SAARC, GCC and CIS.
- **Revenue performance of domestic segments YoY in 2QFY24**: Navratna (+12%), Pain Management (+1), BoroPlus (-4%), Kesh King (-5%), Male Grooming (-7), Healthcare (+4%).
- The board has declared the interim dividend of INR 4**.**

## Highlights from the management commentary

- The market is witnessing a slowdown. A rural recovery is expected to be driven by the winter season and elections. In 2QFY24, E-commerce surged 50% and MT grew 17-18%, with an 13% and 11% contribution, respectively, to total sales.
- Margin in MT and E-commerce was lower than that in General Trade (GT), presenting an opportunity for improvement.
- The company has launched ten digital first products on Zanducare portal during the quarter to leverage the opportunity in the healthcare portfolio
- The company acquires a 26% stake in Axiom Ayurveda to enter the juice category. It is seeing competition in the cool oil segment from Dabur.
- Promoters' stake declined to 15% following the majority stake disinvestment in AMRI hospital.

## Valuation and view

- There is no material change to our FY24/FY25 EPS estimates.
- HMN's sales CAGR of 8.7% over FY20-23 was far better than the 3% sales CAGR over FY16-20. We believe future growth will be driven by investments in new brands, double digit growth CAGR in international market, rural distribution expansion and recovery in the rural market (over 50% sales). There is also margin improvement scope in the E-commerce and MT channel.
- Valuations are inexpensive at 19.5x FY25 EPS; hence we reiterate our BUY rating with a TP of INR640 (based on 28x FY25 P/E multiple).

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

| Y/E MARCH | FY23 | | | | FY24 | | | | FY23 | FY24E | FY24 | Var. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE | (%) |
| Domestic volume growth (%) | 9.6 | -1.0 | -3.9 | 2.0 | 3.0 | 2.0 | 5.0 | 4.0 | 2.1 | 3.5 | 5.0 | |
| **Net Sales** | **7,733** | **8,138** | **9,827** | **8,360** | **8,257** | **8,649** | **10,736** | **8,976** | **34,057** | **36,618** | **8,845** | **-2.2%** |
| YoY change (%) | 17.0 | 3.2 | 1.1 | 8.8 | 6.8 | 6.3 | 9.3 | 7.4 | 6.9 | 7.5 | 8.7 | |
| **Gross Profit** | **4,872** | **5,422** | **6,472** | **5,278** | **5,401** | **6,061** | **7,183** | **5,823** | **22,044** | **24,467** | **5,944** | **2.0%** |
| Gross margin (%) | 63.0 | 66.6 | 65.9 | 63.1 | 65.4 | 70.1 | 66.9 | 64.9 | 64.7 | 66.8 | 67.2 | |
| **EBITDA** | **1,733** | **1,954** | **2,943** | **1,998** | **1,900** | **2,337** | **3,189** | **2,519** | **8,628** | **9,944** | **2,468** | **-5.3%** |
| Margins (%) | 22.4 | 24.0 | 29.9 | 23.9 | 23.0 | 27.0 | 29.7 | 28.1 | 25.3 | 27.2 | 27.9 | |
| YoY change | 2.1 | -29.5 | -13.8 | 21.9 | 9.6 | 19.6 | 8.4 | 26.1 | -9.4 | 15.3 | 26.3 | |
| Depreciation | 242 | 245 | 238 | 250 | 228 | 227 | 243 | 247 | 974 | 945 | 250 | |
| Interest | 25 | 18 | 18 | 14 | 21 | 23 | 20 | 22 | 74 | 86 | 20 | |
| Other Income | 63 | 420 | 69 | 138 | 83 | 111 | 175 | 180 | 689 | 549 | 210 | |
| **PBT** | **1,530** | **2,111** | **2,756** | **1,872** | **1,733** | **2,199** | **3,101** | **2,430** | **8,269** | **9,463** | **2,408** | **-8.7%** |
| Tax | 120 | 54 | 185 | 63 | 129 | 158 | 140 | 141 | 421 | 568 | 202 | |
| Rate (%) | 7.8 | 2.6 | 6.7 | 3.3 | 7.4 | 7.2 | 4.5 | 5.8 | 5.1 | 6.0 | 8.4 | |
| **PAT before Amortization** | **1,366** | **2,036** | **2,564** | **1,806** | **1,599** | **2,034** | **2,961** | **2,289** | **7,773** | **8,895** | **2,206** | **-7.8%** |
| YoY change (%) | -0.6 | -17.1 | -8.3 | -4.6 | 17.0 | -0.1 | 15.5 | 26.7 | -8.8 | 14.4 | 8.3 | |

E: MOFSL Estimates

# Gujarat State Petronet

| | |
|---|---|
| Estimate changes | ↑ |
| TP change | ⟷ |
| Rating change | ⟷ |

| | |
|---|---|
| Bloomberg | GUJS IN |
| Equity Shares (m) | 564 |
| M.Cap.(INRb)/(USDb) | 153.8 / 1.8 |
| 52-Week Range (INR) | 311 / 225 |
| 1, 6, 12 Rel. Per (%) | -5/-10/14 |
| 12M Avg Val (INR M) | 282 |

**Financials & Valuations (INR b)**

| Y/E March | FY23 | FY24E | FY25E |
|---|---|---|---|
| Sales | 15.3 | 17.5 | 17.9 |
| EBITDA | 12.6 | 15.1 | 15.0 |
| PAT | 9.4 | 12.8 | 10.7 |
| EPS (INR) | 16.8 | 22.8 | 19.0 |
| EPS Gr. (%) | -3.5 | 35.8 | -16.7 |
| BV/Sh.(INR) | 164.4 | 180.4 | 193.6 |
| **Ratios** | | | |
| Net D:E | -0.1 | -0.1 | -0.1 |
| RoE (%) | 10.7 | 13.2 | 10.1 |
| RoCE (%) | 10.7 | 13.2 | 10.2 |
| Payout (%) | 29.8 | 30.0 | 30.0 |
| **Valuations** | | | |
| P/E (x) | 16.3 | 12.0 | 14.4 |
| P/BV (x) | 1.7 | 1.5 | 1.4 |
| EV/EBITDA (x) | 11.7 | 9.4 | 9.3 |
| Div. Yield (%) | 1.8 | 2.5 | 2.1 |
| FCF Yield (%) | 5.1 | 3.0 | 2.7 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 37.6 | 37.6 | 37.6 |
| DII | 27.2 | 27.2 | 26.2 |
| FII | 16.0 | 16.6 | 17.3 |
| Others | 19.2 | 18.6 | 18.9 |

FII Includes depository receipts

**CMP: INR273 TP: INR325 (+19%) Buy**

## Better volume mix leads to higher realization

- Gujarat State Petronet (GUJS)'s 2QFY24 EBITDA, at INR4.1b, beat our estimate led by lower-than-expected other expenses. EBITDAM, at 90.5%, was 500bp higher than our estimate. Volumes, at 30.2mmscmd, were lower than estimated.
- Management highlighted that there has been an increase in HP volumes that led to better realization with LP volumes declining during the quarter. The implied tariff during the quarter was INR1,587/mmscm. We estimate a tariff of INR1,511/mmscm for FY24 and INR1,374/mmscm for FY25.
- Lower spot LNG prices would benefit GUJS' volumes. Currently, the price is at ~USD18/mmBtu, up from ~USD13/mmBtu (in 2QFY24), which could hurt GUJS' volumes. That being said, the management guided that volumes could remain tepid in the near term for the company.
- The proposed capex for the HP gas grid stands at INR45.4b up to FY32E, which would facilitate gas transportation from newer LNG terminals. Although the company's HP gas grid is also up for tariff revision, there was no specific timeline provided for the same.
- Owing to the outperformance in 2Q, we raise our EBITDA/PAT estimates (mainly because of higher other income in 2Q) by 6%/29% for FY24 while keeping our FY25 estimates unchanged as of now. **The stock is trading at a P/E of ~14x FY25E EPS of INR19 and EV/EBITDA of ~9x. We maintain our BUY rating with a TP of INR325**.

### Beat led lower other expenses, and higher other income

- **Total volumes were below our estimate at 30.2mmscmd (+23% YoY)**
- EBITDA was at INR4.1b (our est. of INR3.7b, +23% YoY), with an implied tariff of INR1,587/mscm.
- PAT was at INR5.3b (our est. of INR2.9b, +69% YoY) as other income (at INR2.7b) was higher than expected
- The company had implemented Unified Tariff (UFT) from 1st Apr'23. As of 30th Sep'23, the company had a deficit of INR127m on account of invoicing done as per UFT and entitlement as per the approved tariff.
- **For 1HFY24**, revenue was at INR8.5b (+5% YoY), EBITDA was at INR7.5b (+8% YoY) while PAT was at INR7.6b (+38% YoY). 1HFY24 EBITDA was 52% of its full-year estimate of FY24.
  - Volumes were at 29.8mmscmd (+10% YoY), while implied tariff stood at INR1,511/mscm (-5% YoY).

### Sectoral volume details for 2QFY24

- CGD volumes increased to 10.8mmscmd (+25% YoY)
- Fertilizer volumes were at 4.6mmscmd (+25% YoY)
- Power/ref-petchem volumes were at 4.1/5.5mmscmd (+10x/-31% YoY)
- Other volumes stood at 5.2mmscmd (+34% YoY)

## Valuation and view – maintain BUY

- The available LNG capacity in Gujarat is expected to grow 55% to 42.5mmtpa over the next 2-3 years. Most of this volume is likely to flow through GUJS' network. We believe the company could post an 18% CAGR in transmission volumes over FY23-FY25.
- We expect GUJS' volumes to jump to ~35mmscmd in FY25 as the company is also a beneficiary: a) the upcoming LNG terminals in Gujarat, b) improved demand owing to the focus on reducing industrial pollution – Gujarat has five geographical areas (GAs) identified as severely/ critically polluted, and c) the commissioning of Phase-II of the Mehsana-Bhatinda pipeline.
- Investments in GUJGA and Sabarmati Gas at a 25% holding discount provide a valuation of INR209. Valuing the core at 7x adj. FY25E EPS of INR16.6, and adding the value of investments, we arrive at our TP of INR325. **We maintain our BUY rating on the stock with a potential upside of 19%.**

**Standalone - Quarterly Earnings Model** (INR m)

| Y/E March | FY23 | | | | FY24 | | | | FY23 | FY24E | FY24 | Var. vs |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE | est. |
| **Net Sales** | **4,200** | **3,850** | **3,484** | **3,740** | **3,937** | **4,533** | **4,438** | **4,616** | **15,275** | **17,523** | **4,301** | **5%** |
| YoY Change (%) | -4.5 | -13.9 | -12.7 | 0.3 | -6.3 | 17.7 | 27.4 | 23.4 | -7.9 | 14.7 | 11.7 | |
| **EBITDA** | **3,602** | **3,338** | **2,699** | **2,947** | **3,364** | **4,103** | **3,749** | **3,921** | **12,587** | **15,136** | **3,678** | **12%** |
| YoY Change (%) | -3.8 | -12.3 | -19.8 | -3.7 | -6.6 | 22.9 | 38.9 | 33.0 | -9.9 | 20.3 | 10.2 | |
| Margin (%) | 85.8 | 86.7 | 77.5 | 78.8 | 85.5 | 90.5 | 84.5 | 84.9 | 82.4 | 86.4 | 85.5 | |
| Depreciation | 479 | 488 | 489 | 483 | 468 | 477 | 498 | 510 | 1,939 | 1,953 | 521 | |
| Interest | 14 | 11 | 11 | 10 | 10 | 10 | 10 | 9 | 47 | 40 | 8 | |
| Other Income | 40 | 1,037 | 130 | 476 | 180 | 2,663 | 184 | 188 | 1,684 | 3,215 | 732 | |
| **PBT before EO expense** | **3,149** | **3,877** | **2,329** | **2,931** | **3,066** | **6,278** | **3,424** | **3,589** | **12,286** | **16,359** | **3,881** | **62%** |
| Extra-Ord expense | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| **PBT** | **3,149** | **3,877** | **2,329** | **2,931** | **3,066** | **6,278** | **3,424** | **3,589** | **12,286** | **16,359** | **3,881** | **62%** |
| Tax | 794 | 735 | 620 | 687 | 773 | 958 | 862 | 905 | 2,836 | 3,524 | 977 | |
| Rate (%) | 25.2 | 18.9 | 26.6 | 23.5 | 25.2 | 15.3 | 25.2 | 25.2 | 23.1 | 21.5 | 25.2 | |
| **Reported PAT** | **2,355** | **3,142** | **1,709** | **2,243** | **2,293** | **5,320** | **2,563** | **2,685** | **9,450** | **12,835** | **2,904** | **83%** |
| YoY Change (%) | 1.1 | -4.9 | -19.9 | 11.0 | -2.6 | 69.3 | 49.9 | 19.7 | -3.5 | 35.8 | -7.6 | |
| Margin (%) | 56.1 | 81.6 | 49.1 | 60.0 | 58.2 | 117.4 | 57.7 | 58.2 | 61.9 | 73.2 | 67.5 | |
| **Key Operating Parameters** | | | | | | | | | | | | |
| Transmission Volume (mmscmd) | 29.5 | 24.6 | 22.3 | 25.1 | 29.4 | 30.2 | 31.6 | 32.8 | 25.4 | 31.0 | 33.0 | -8% |
| Implied Tariff (INR/mscm) | 1,523 | 1,656 | 1,678 | 1,562 | 1,435 | 1,587 | 1,511 | 1,510 | 1,600 | 1,511 | 1,374 | 16% |

# Data Patterns (India)

| | |
|---|---|
| Estimate change | ⟷ |
| TP change | ⟷ |
| Rating change | ⟷ |

| | |
|---|---|
| Bloomberg | DATAPATT IN |
| Equity Shares (m) | 56 |
| M.Cap.(INRb)/(USDb) | 109.5 / 1.3 |
| 52-Week Range (INR) | 2485 / 995 |
| 1, 6, 12 Rel. Per (%) | -5/7/29 |
| 12M Avg Val (INR M) | 424 |

**Financials & Valuations (INR b)**

| Y/E Mar | FY24E | FY25E | FY26E |
|---|---|---|---|
| Sales | 5.8 | 7.9 | 10.7 |
| EBITDA | 2.3 | 3.2 | 4.4 |
| Adj. PAT | 1.8 | 2.4 | 3.4 |
| EBITDA Margin (%) | 40.3 | 40.4 | 40.9 |
| Cons. Adj. EPS (INR) | 31.7 | 43.2 | 60.4 |
| EPS Gr. (%) | 43.2 | 36.3 | 39.7 |
| BV/Sh. (INR) | 239.2 | 281.5 | 341.0 |
| **Ratios** | | | |
| Net D:E | -0.5 | -0.5 | -0.5 |
| RoE (%) | 14.2 | 16.6 | 19.4 |
| RoCE (%) | 14.8 | 17.2 | 19.9 |
| **Valuations** | | | |
| P/E (x) | 61 | 45 | 32 |
| EV/EBITDA (x) | 44 | 32 | 23 |

**Shareholding pattern (%)**

| As on | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 42.4 | 42.4 | 45.8 |
| DII | 9.6 | 11.1 | 9.2 |
| FII | 7.2 | 5.3 | 1.6 |
| Others | 40.9 | 41.2 | 43.4 |

Note: FII includes depository receipts

**CMP: INR1,957 TP: INR2,210 (+13%) Neutral**

## Favorable business mix drives operating performance

- Data Patterns (DATAPATT) reported a healthy revenue growth of 23% YoY in 2QFY24, fueled by a robust traction within Radars (up 95% YoY) and Avionics (up 3.6x YoY). DATAPATT recorded strong operating performance (EBITDA margin up 340bp YoY), primarily due to an improved gross margin (up 410bp YoY) aided by the favorable business mix.
- We retain our FY24/FY25/FY26 EPS estimates. **Reiterate Neutral with a TP of INR2,210 (premised on 37x FY26E EPS).**

### Radars and Avionics power revenue growth

- Consolidated revenue grew 23% YoY to INR1,083m (up 21% QoQ) aided by robust growth within Radars (up 95% YoY) and Avionics (up 3.6x YoY).
- EBITDA stood at INR408m in 2QFY24 (up 35%/46% YoY/QoQ). EBITDA margin expanded 340bp YoY to 37.6%, led by ~410bp YoY expansion in gross margin because of the favorable business mix.
- Adjusted PAT stood at INR338m in 2QFY24 (up 61%/31% YoY/QoQ).
- The order book increased to INR10b as of Sep'23 vs. INR9.7b/INR9.2b in Jun'23/Mar'23, aided by strong inflow of production contracts (~64% of total orders received) from key customers such as BEL, HAL and ADA.
- For 1HFY24, its revenue/EBITDA/Adj. PAT grew 26%/33%/69% YoY to INR2b/INR686m/INR596m.

### Highlights from the management commentary

- **Guidance**: Management maintained its revenue guidance at ~25% CAGR over the next two years. It expects gross/EBITDA margins for FY24 to be slightly better than FY23. Working capital days are expected to decline gradually over a couple of years.
- **Orders inflow** for 2QFY24 stood at ~INR1.4b (production/development /service contacts accounted for ~64%/34%/2% of the inflows). DATAPATT is maintaining its order inflow guidance of ~INR4.5-5.0b for FY24.
- **Industry tailwinds:** The government has recently given approvals for defense acquisitions/procurements amounting to ~INR78b. Further, DATAPATT has started participating in large-value tenders under the Make I and Make II categories with the Ministry of Defense, which will improve the total addressable market and its revenue potential.

### Valuation and view

- DATAPATT, a prominent player in the aerospace and defense electronics sector in India, is set to capture a larger share of pie (TAM of ~USD2b as of CY20; registering a 9% CAGR) on the back of its vast experience, strong core competencies, and robust executional capabilities.
- We estimate a 33%/37%/40% CAGR in revenue/EBITDA/Adjusted PAT over FY23-FY26, driven by robust order book growth (at ~39% CAGR over FY19-23) and improved margins.
- We retain our FY24/FY25/FY26 EPS estimates. **We reiterate our Neutral rating with a TP of INR2,210 (premised on37x FY26E EPS)**, owing to its higher working capital cycle and rich valuations.

**Consolidated - Quarterly Earning Model** (INR m)

| Y/E March | FY23 | | | | FY24 | | | | FY23 | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | |
| **Gross Sales** | **684** | **882** | **1,118** | **1,851** | **897** | **1,083** | **1,398** | **2,406** | **4,535** | **5,784** |
| YoY Change (%) | NA | 136.8 | 88.8 | 322.2 | 31.2 | 22.9 | 25.0 | 30.0 | 45.9 | 27.6 |
| Total Expenditure | 471 | 580 | 648 | 1,117 | 619 | 676 | 844 | 1,313 | 2,816 | 3,452 |
| **EBITDA** | **213** | **302** | **470** | **734** | **278** | **408** | **553** | **1,093** | **1,718** | **2,332** |
| Margins (%) | 31.1 | 34.2 | 42.1 | 39.6 | 31.0 | 37.6 | 39.6 | 45.4 | 37.9 | 40.3 |
| Depreciation | 20 | 21 | 21 | 22 | 28 | 31 | 36 | 42 | 84 | 137 |
| Interest | 16 | 12 | 21 | 28 | 17 | 23 | 28 | 35 | 77 | 103 |
| Other Income | 17 | 19 | 19 | 38 | 116 | 108 | 25 | 45 | 92 | 295 |
| **PBT before EO expense** | **194** | **287** | **446** | **721** | **349** | **463** | **514** | **1,061** | **1,649** | **2,387** |
| Extra-Ord expense | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **PBT** | **194** | **287** | **446** | **721** | **349** | **463** | **514** | **1,061** | **1,649** | **2,387** |
| Tax | 52 | 76 | 113 | 168 | 91 | 125 | 129 | 267 | 409 | 612 |
| Rate (%) | 26.7 | 26.6 | 25.4 | 23.3 | 25.9 | 27.0 | 25.2 | 25.2 | 24.8 | 25.6 |
| Minority Interest & Profit/Loss of Asso. Cos. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Reported PAT** | **142** | **211** | **333** | **554** | **258** | **338** | **385** | **794** | **1,240** | **1,775** |
| **Adj PAT** | **142** | **211** | **333** | **554** | **258** | **338** | **385** | **794** | **1,240** | **1,775** |
| YoY Change (%) | NA | 104.4 | 158.5 | 517.9 | 81.4 | 60.5 | 15.5 | 43.4 | 32.2 | 43.2 |
| Margins (%) | 20.8 | 23.9 | 29.8 | 29.9 | 28.8 | 31.2 | 27.5 | 33.0 | 27.3 | 30.7 |

# Godrej Agrovet

| | |
|---|---|
| Estimate change | ⟷ |
| TP change | ⟷ |
| Rating change | ⟷ |

| | |
|---|---|
| Bloomberg | GOAGRO IN |
| Equity Shares (m) | 192 |
| M.Cap.(INRb)/(USDb) | 92.9 / 1.1 |
| 52-Week Range (INR) | 530 / 391 |
| 1, 6, 12 Rel. Per (%) | -5/2/-11 |
| 12M Avg Val (INR M) | 63 |

**Financials & Valuations (INR b)**

| Y/E MARCH | 2023 | 2024E | 2025E |
|---|---|---|---|
| Sales | 93.7 | 99.4 | 107.5 |
| EBITDA | 5.2 | 6.3 | 7.4 |
| Adj. PAT | 2.5 | 3.1 | 4.1 |
| EBITDA Margin (%) | 5.6 | 6.3 | 6.9 |
| Cons. Adj. EPS (INR) | 13.0 | 16.3 | 21.3 |
| EPS Gr. (%) | (39.9) | 25.8 | 30.5 |
| BV/Sh. (INR) | 122 | 128 | 138 |
| **Ratios** | | | |
| Net D:E | 0.6 | 0.5 | 0.5 |
| RoE (%) | 10.8 | 13.1 | 16.0 |
| RoCE (%) | 7.6 | 9.0 | 11.0 |
| Payout (%) | 60.4 | 64.2 | 49.2 |
| **Valuations** | | | |
| P/E (x) | 37.3 | 29.7 | 22.7 |
| EV/EBITDA (x) | 21.1 | 17.4 | 14.7 |
| Div. Yield (%) | 2.0 | 2.2 | 2.2 |
| FCF Yield (%) | 6.9 | 2.7 | 2.6 |

**Shareholding pattern (%)**

| | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 74.1 | 74.1 | 74.1 |
| DII | 13.0 | 13.6 | 5.2 |
| FII | 1.8 | 1.6 | 1.6 |
| Others | 11.2 | 10.8 | 19.1 |

Note: FII includes depository receipts

**CMP: INR483 TP: INR480 (-1%) Neutral**

## Broad-based performance drives operating profitability

### Operating performance in line with estimates

- GOAGRO reported a healthy operating performance (EBITDA up 34% YoY), driven by improved profitability across businesses. Animal Feed/Crop protection business witnessed improved margins (EBIT up 16%/10% YoY), while Poultry/Dairy business turned profitable (EBIT of INR149m/INR29m vs. operating loss of INR103m/INR118m in 2QFY23).
- Palm oil business (EBIT up 5% YoY) is still under pressure, with revenue growth offsetting the decline in margins.
- We largely maintain our EBITDA estimates for FY24/FY25. We retain our **Neutral** rating on the stock with an SoTP-based TP of INR480.

### Animal Feed and Palm oil business drive sales

- Consolidated revenue grew 5% YoY to INR25.7b (est. in line), with all the businesses witnessing growth on a YoY basis. EBITDA margins expanded 170bp YoY to 7.8% (est.7.6%). EBITDA stood at INR2b, up 34% YoY (est. in line). Adjusted PAT grew 47% YoY to INR1.1b (est. INR1b).
- **Animal Feed business:** Revenue grew ~2% YoY to INR12.4b, primarily led by volume growth in cattle feed/aqua feed category (up 16%/15% YoY). Total sales volume grew 4% YoY to 372KMT. EBIT/kg grew 11% to INR1.5, led by softening commodity prices and higher realization in cattle and fish feed business.
- **Palm Oil business:** Revenue grew 11% YoY to INR4.5b. EBIT margin contracted 80bp YoY to 15.4%. EBIT stood at INR687m, down 5% YoY. Continued volume growth in FFB arrivals (up 17% YoY) offset lower crude palm oil prices and a marginal decline in the oil extraction ratio.
- **Crop Protection business**: Consolidated revenue/EBIT grew 2%/10% YoY to INR3.8b/INR649m, led by robust revenue/operating performance in the standalone business (up 53%/2.5x YoY to INR2.6b/INR0.77b).
- **Dairy business** revenue grew 8% YoY to INR3.9b. Operating profit stood at INR29m (vs. operating loss of INR118m in 2QFY23), led by lower raw material cost and operational efficiency.
- **Poultry and Processed Food business** revenue grew ~4% YoY to INR2.4b. Operating profit stood at INR149m (vs. operating loss of INR103m in 2QFY23), led by better realization and cost efficiency in the live bird business.
- For 1HFY24, revenue/EBIDTA/adjusted PAT grew 3%/26%/37% YoY to INR50.8b/INR3.9b/INR2.1b.

### Highlights from the management commentary

- **Palm Oil:** Oil Extraction Ratio stood at ~17.9% in 2QFY24 vs. ~18.4% in 2QFY23. However, it significantly improved to ~19%/20% in Sep/Oct'23. The company is expecting long-term annual growth of ~12-14% within the segment (~8-9%/2-3% from FFB arrivals/improved productivity)
- **Animal Feed:** Volume growth was aided by commissioning of new facilities in cattle/aqua feed. EBIT/MT stood at ~INR1,531 in 2QFY24 and is further expected to grow ~12-13% in 2HFY24 to ~INR1650-1750/MT.

- **CDMO business:** Going ahead, the company is expecting ~25-40% YoY growth in its CDMO business. Further, it expects to double the annual molecule launches. Currently, it has ~4-6 molecules in different stages of commercialization.

## Valuation and view

- GOAGRO is expected to witness near-term hurdles in its key segments, such as Palm Oil and Crop Protection (Astec). However, Animal Feed, standalone Crop Protection, and Dairy are likely to sustain healthy performance.
- We largely maintain our EBITDA estimate for FY24/FY25. We retain our **Neutral** rating on the stock with an SoTP-based TP of INR480.

**Consolidated - Quarterly Earnings Model** (INR m)

| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | FY24E | Var |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE | (%) |
| **Gross Sales** | **25,099** | **24,453** | **23,235** | **20,950** | **25,102** | **25,709** | **24,977** | **23,621** | **93,737** | **99,409** | **25,600** | **0** |
| YoY Change (%) | 25.9 | 13.5 | 11.8 | 0.7 | 0.0 | 5.1 | 7.5 | 12.8 | 12.9 | 6.1 | 4.7 | |
| Total Expenditure | 23,483 | 22,950 | 21,872 | 20,204 | 23,173 | 23,694 | 23,611 | 22,633 | 88,509 | 93,112 | 23,650 | |
| **EBITDA** | **1,616** | **1,503** | **1,363** | **746** | **1,929** | **2,014** | **1,365** | **988** | **5,228** | **6,297** | **1,950** | **3** |
| Margins (%) | 6.4 | 6.1 | 5.9 | 3.6 | 7.7 | 7.8 | 5.5 | 4.2 | 5.6 | 6.3 | 7.6 | |
| Depreciation | 449 | 461 | 469 | 476 | 528 | 529 | 532 | 535 | 1,855 | 2,124 | 530 | |
| Interest | 216 | 257 | 249 | 270 | 295 | 279 | 255 | 260 | 991 | 1,089 | 260 | |
| Other Income | 77 | 88 | 76 | 126 | 115 | 112 | 100 | 127 | 367 | 455 | 90 | |
| **PBT before EO expense** | **1,028** | **873** | **721** | **127** | **1,222** | **1,318** | **678** | **320** | **2,749** | **3,539** | **1,250** | |
| Extra-Ord expense | 0 | 0 | -708 | 0 | 0 | 0 | 0 | 0 | -708 | 0 | 0 | |
| **PBT** | **1,028** | **873** | **1,429** | **127** | **1,222** | **1,318** | **678** | **320** | **3,457** | **3,539** | **1,250** | |
| Tax | 279 | 219 | 334 | -8 | 353 | 369 | 171 | 81 | 823 | 974 | 315 | |
| Rate (%) | 27.1 | 25.1 | 23.4 | -6.6 | 28.9 | 28.0 | 25.2 | 25.2 | 23.8 | 27.5 | 25.2 | |
| Minority Interest & Profit/Loss of Asso. Cos. | -77 | -64 | -69 | -175 | -202 | -104 | -76 | -193 | -385 | -575 | -70 | |
| **Reported PAT** | **827** | **718** | **1,164** | **310** | **1,071** | **1,053** | **584** | **432** | **3,019** | **3,140** | **1,005** | |
| **Adj PAT** | **827** | **718** | **640** | **310** | **1,071** | **1,053** | **584** | **432** | **2,495** | **3,140** | **1,005** | **5** |
| YoY Change (%) | -22.0 | -34.3 | -17.8 | -74.6 | 29.5 | 46.7 | -8.9 | 39.4 | -40.6 | 25.8 | 40.1 | |
| Margins (%) | 3.3 | 2.9 | 2.8 | 1.5 | 4.3 | 4.1 | 2.3 | 1.8 | 2.7 | 3.2 | 3.9 | |

# J K Lakshmi Cement

| | |
|---|---|
| Estimate change | ↔ |
| TP change | ↑ |
| Rating change | ↔ |

| | |
|---|---|
| Bloomberg | JKLC IN |
| Equity Shares (m) | 118 |
| M.Cap.(INRb)/(USDb) | 93.5 / 1.1 |
| 52-Week Range (INR) | 897 / 606 |
| 1, 6, 12 Rel. Per (%) | 19/-4/20 |
| 12M Avg Val (INR M) | 310 |

**Financial Snapshot (INR b)**

| Y/E Mar | FY24E | FY25E | FY26E |
|---|---|---|---|
| Sales | 69.4 | 75.1 | 83.4 |
| EBITDA | 9.9 | 11.9 | 14.0 |
| Adj. PAT | 4.7 | 5.8 | 6.8 |
| EBITDA Margin (%) | 14.3 | 15.9 | 16.8 |
| Adj. EPS (INR) | 36.1 | 45.9 | 54.5 |
| EPS Gr. (%) | 18.4 | 27.3 | 18.6 |
| BV/Sh. (INR) | 269 | 309 | 357 |
| **Ratios** | | | |
| Net D:E | 0.4 | 0.2 | 0.1 |
| RoE (%) | 14.2 | 15.9 | 16.4 |
| RoCE (%) | 11.5 | 13.1 | 15.4 |
| Payout (%) | 14.4 | 13.4 | 13.2 |
| **Valuations** | | | |
| P/E (x) | 22.0 | 17.3 | 14.6 |
| P/BV (x) | 3.0 | 2.6 | 2.2 |
| EV/EBITDA(x) | 8.8 | 7.3 | 5.9 |
| EV/ton (USD) | 76 | 65 | 57 |
| Div. Yield (%) | 0.6 | 0.8 | 0.9 |
| FCF Yield (%) | -1.3 | 8.2 | 8.3 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 46.3 | 46.3 | 46.3 |
| DII | 27.6 | 28.3 | 24.7 |
| FII | 10.5 | 11.5 | 12.8 |
| Others | 15.5 | 13.9 | 16.2 |

FII Includes depository receipts

**CMP: INR794 TP: INR930 (+17%) Buy**

## Strong performance led by higher volume and realization

### Adding grinding capacity (brownfield expansion) of 1.35mtpa at Surat

- J K Lakshmi Cement's (JKLC) 2QFY24 operating performance was above our estimates, with consolidated EBITDA at INR2.2b (up 33% YoY; 20% above our estimate). EBITDA/t increased 16% YoY to INR755 (est. INR657). OPM was up 2pp YoY at 14%. PAT increased 55% YoY to INR959m (est. INR756m).
- Management indicated that cement volume growth (consolidated) should be at 12-15% YoY in FY24 (earlier guidance of 19%). The Eastern region saw the highest YoY growth during the quarter and is likely to continue to grow at ~8-10% YoY. Cement prices have risen in various key markets at different points in time. The company anticipates an average improvement in realization by INR50-100/t QoQ in 3QFY24.
- We largely maintain our FY24E/FY25E earnings estimate. JKLC is trading at 8.8x/7.3x FY24E/FY25E EV/EBITDA. JKLC is a cost-efficient player with presence in favorable regions (Gujarat and North). We value JKLC at 9x Sep'25E (earlier FY25E) EV/EBITDA to arrive at our revised TP of INR930 (INR790 earlier).

### Consolidated volume grew 14% YoY and realization was up 1% YoY

- Consolidated revenue/EBITDA/PAT stood at INR15.7b/INR2.2b/INR959m (up 15%/33%/55% YoY and up 6%/20%/27% vs. our estimates). Sales volume rose 14% YoY to 2.88mt (up 4% vs. our estimate). Realization was up 1% YoY to INR5,471/t (1% above our estimate).
- Opex/t declined 1% YoY, driven by a 2%/5% decline in variable costs/other expenses. Freight cost/t rose 2% YoY, while Employee costs/t declined 2% YoY. OPM was up 2pp YoY to 14% and EBITDA/t was up 16% YoY to INR755 in 2QFY24.
- In 1HFY24, consolidated revenue grew 9% YoY to INR33b, mainly driven by volume growth (up 9%) as realization remained flat. EBITDA declined 2% YoY to INR4.1b due to higher opex/t, up 1% YoY. EBITDA/t declined 10% YoY to INR680 and OPM contracted 1.4pp YoY to 12.5%.
- CFO stood at INR2.7b vs. outflow of INR468m in 1HFY23, led by an increase in working capital. Capex stood at INR5.1b vs. INR3.3b in 1HFY23. Net-debt increased to INR11.8b vs. INR10b as of Mar'23.

### Highlights from the management commentary

- Clinker/cement capacity utilization (standalone) stood at 100%/73% in 2QFY24. The company's trade cement mix increased to ~62% vs. 58% in 1Q.
- Average fuel cost was at INR2.04/Kcal vs. INR2.23/Kcal in 1QFY24. It is expected to decline up to INR1.90/Kcal in 3QFY24.
- It announced brownfield expansion of 1.35mtpa grinding capacity at its GU in Surat, Gujarat, at an estimated capex of INR2.25b. The Surat market exhibits promising demand prospects and pricing, resulting in comparatively higher profitability.

## View and valuation

- JKLC reported strong performance during the quarter, led by higher volume growth and improvement in realization. We believe capacity addition at its subsidiary (Udaipur Cement works) will drive volume growth for the company. We estimate consolidated volume CAGR of 7% over FY23-26E.
- The stock trades at 8.8x/7.3x FY24E/FY25x EV/EBITDA. We value JKLC at 9x Sep'25E (earlier FY25E) EV/EBITDA to arrive at our revised TP of INR930 (INR790 earlier). We reiterate our BUY rating on the stock.

**Quarterly performance (consolidated)** (INR b)

| Y/E March | FY23 | | | | FY24 | | | | FY23 | FY24E | FY24 | Var. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE | (%) |
| Sales Volumes (mt) | 3.03 | 2.53 | 2.88 | 3.39 | 3.21 | 2.88 | 3.14 | 3.35 | 11.83 | 12.57 | 2.76 | 4 |
| YoY Change (%) | 7.3 | 2.4 | 10.3 | 2.9 | 5.7 | 13.8 | 9.0 | (1.1) | 6 | 6 | 9 | |
| **Net Sales** | **16.5** | **13.7** | **15.6** | **18.6** | **17.3** | **15.7** | **17.4** | **19.0** | **64.5** | **69.4** | **14.9** | 6 |
| YoY Change (%) | 24.8 | 13.6 | 21.5 | 16.4 | 4.6 | 14.6 | 11.3 | 2.1 | 19.0 | 7.6 | 8.6 | |
| **EBITDA** | **2.6** | **1.6** | **1.9** | **2.3** | **2.0** | **2.2** | **2.7** | **3.1** | **8.4** | **9.9** | **1.8** | 20 |
| Margin (%) | 15.5 | 11.9 | 11.9 | 12.5 | 11.3 | 13.8 | 15.3 | 16.4 | 13.0 | 14.3 | 12.1 | |
| Depreciation | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | 2.3 | 2.5 | 0.6 | 1 |
| Interest | 0.4 | 0.3 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 1.3 | 1.3 | 0.2 | 35 |
| Other Income | 0.1 | 0.2 | 0.1 | 0.2 | 0.1 | 0.1 | 0.2 | 0.2 | 0.6 | 0.6 | 0.1 | 14 |
| **PBT before EO expense** | **1.7** | **0.9** | **1.1** | **1.6** | **1.2** | **1.4** | **1.8** | **2.3** | **5.3** | **6.7** | **1.1** | 26 |
| Extra-Ord. expense | - | - | - | - | - | - | - | - | - | - | - | |
| **PBT** | **1.7** | **0.9** | **1.1** | **1.6** | **1.2** | **1.4** | **1.8** | **2.3** | **5.3** | **6.7** | **1.1** | 26 |
| Tax | 0.6 | 0.3 | 0.3 | 0.5 | 0.4 | 0.5 | 0.6 | 0.6 | 1.7 | 2.0 | 0.4 | |
| Prior period tax adj. | - | - | - | - | - | - | - | - | - | - | - | |
| Rate (%) | 33.1 | 33.8 | 27.9 | 29.0 | 32.7 | 32.0 | 32.0 | 26.8 | 30.9 | 30.3 | 32.7 | |
| **Reported PAT** | **1.2** | **0.6** | **0.8** | **1.1** | **0.8** | **1.0** | **1.2** | **1.7** | **3.7** | **4.7** | **0.8** | 27 |
| **Adj. PAT** | **1.2** | **0.6** | **0.8** | **1.1** | **0.8** | **1.0** | **1.2** | **1.7** | **3.7** | **4.7** | **0.8** | 27 |
| YoY Change (%) | (15.5) | (29.2) | 17.7 | (46.7) | (30.7) | 55.2 | 58.4 | 46.2 | (26.9) | 26.3 | 22.4 | |
| **Per tonne analysis (INR)** | | | | | | | | | | | | |
| **Net realization** | **5,456** | **5,431** | **5,426** | **5,496** | **5,399** | **5,471** | **5,541** | **5,673** | **5,455** | **5,524** | **5,414** | 1 |
| RM Cost | 1,009 | 1,077 | 898 | 1,380 | 1,312 | 1,191 | 1,213 | 1,230 | 1,103 | 1,238 | 1,206 | (1) |
| Employee Expenses | 336 | 369 | 335 | 284 | 338 | 363 | 338 | 338 | 328 | 344 | 359 | 1 |
| Power, Oil, and Fuel | 1,498 | 1,656 | 1,800 | 1,484 | 1,428 | 1,494 | 1,434 | 1,432 | 1,601 | 1,446 | 1,368 | 9 |
| Freight and Handling Outward | 1,082 | 1,019 | 1,059 | 1,086 | 1,071 | 1,039 | 1,060 | 1,103 | 1,064 | 1,070 | 1,061 | (2) |
| Other Expenses | 684 | 663 | 691 | 576 | 637 | 630 | 649 | 640 | 650 | 639 | 762 | (17) |
| **Total Expenses** | **4,608** | **4,783** | **4,783** | **4,809** | **4,786** | **4,716** | **4,694** | **4,743** | **4,746** | **4,736** | **4,757** | **(1)** |
| **EBITDA** | **847** | **648** | **644** | **687** | **612** | **755** | **847** | **930** | **709** | **788** | **657** | **15** |

Source: Company, MOFSL

# Indigo Paints

| | |
|---|---|
| Estimate change | ⟷ |
| TP change | ↓ |
| Rating change | ⟷ |

| | |
|---|---|
| Bloomberg | INDIGOPN IN |
| Equity Shares (m) | 48 |
| M.Cap.(INRb)/(USDb) | 67.7 / 0.8 |
| 52-Week Range (INR) | 1700 / 981 |
| 1, 6, 12 Rel. Per (%) | -4/10/-15 |
| 12M Avg Val (INR M) | 149 |

**Financials & Valuations (INR b)**

| Y/E March | 2023 | 2024E | 2025E |
|---|---|---|---|
| Sales | 10.7 | 13.3 | 16.2 |
| Sales Gr. (%) | 18.5 | 23.5 | 22.0 |
| EBITDA | 1.8 | 2.4 | 3.2 |
| EBIT Margin (%) | 16.9 | 18.4 | 19.9 |
| Adj. PAT | 1.2 | 1.6 | 2.1 |
| Adj. EPS (INR) | 24.3 | 32.7 | 44.2 |
| EPS Gr. (%) | 37.5 | 34.5 | 35.4 |
| BV/Sh.(INR) | 163.2 | 189.3 | 224.7 |
| **Ratios** | | | |
| RoE (%) | 16.2 | 18.5 | 21.4 |
| RoCE (%) | 15.9 | 18.3 | 21.1 |
| **Valuation** | | | |
| P/E (x) | 58.5 | 43.5 | 32.1 |
| P/BV (x) | 8.7 | 7.5 | 6.3 |
| EV/EBITDA (x) | 36.3 | 26.6 | 19.8 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 54.0 | 54.0 | 54.0 |
| DII | 2.3 | 2.9 | 3.1 |
| FII | 8.8 | 8.9 | 8.8 |
| Others | 35.0 | 34.3 | 34.1 |

FII Includes depository receipts

**CMP: INR1,421 TP: INR1,770 (+25% ) Buy**

## Below our estimates, but better than peer trends resume

- Indigo Paints (INDIGOPN) delivered a sales growth of 15% YoY, surpassing the industry average. This can be attributed to their lower base compared to competitors, coupled with superior execution of their strategies. The company is focused on the installation of tinting machine in Tier 1 and 2 cities and is also ramping up its sales force.
- The GP and EBITDA margin expanded YoY, but declined sequentially, due to the higher growth in the economy category compared to the premium segment. The premium category, primarily consisting of exterior paints, was adversely affected by the monsoon season, impacting its performance.
- The management witnessed exceptionally good sales in Oct'23 and anticipates this positive momentum to continue. The margin is expected to pick up significantly in subsequent quarters on better product mix.
- The company exhibited growth across all geographies in India, demonstrating a reduced reliance on Kerala. Furthermore, Apple Chemie has successfully expanded its operations beyond Maharashtra.
- We reiterate our **BUY** rating on the stock due to its promising sales growth outlook, synergies with Apple Chemie, consistent capacity & distribution expansion, as well as its favorable valuation multiples compared to its peers.

## Sales in line; miss on PAT due to lower operating margin

**Consolidated**

- Net sales grew 15% YoY to INR2,790m (est. INR2,902m) in 2QFY24.
- Gross margin expanded 380bp YoY to 45.6%. As a percentage of sales, high employee costs (up 190bp YoY to 9.1%) and 'other expenses' (up 70bp YoY to 21.3%) limited EBITDA margin (up 120bp YoY) to 15.1% (est. 17.6%).
- EBITDA grew 24.8% YoY to INR421m (est. INR511m).
- PBT increased 18.6% YoY to INR335m (est. INR433m).
- Adj. PAT rose 22.1% YoY to INR253m (est. INR321m).
- **For 1HFY24**, net sales/EBITDA/Adj. PAT grew 21.6%/32.1%/38.6% YoY.

## Highlights from the management commentary

- Sales grew at more than 3x-4x the industry growth rate, indicating significant market share gain. Management anticipates this trend to continue, with the gap between the company's growth rate and the industry average widening even further.
- It launched a new advertisement campaign using MS Dhoni & Mohan Lal together (in Kerala) to promote the most premium emulsion "Dirt & Waterproof Exterior Paint".
- The company is focused on improving throughput per active dealer; it currently has 17,148 active dealers and 9,114 tinting machines in operation.
- In FY24, Apple Chemie is to achieve a turnover of INR ~550-600mn, with an expected growth rate of 40-50%.
- Civil works have commenced for the upcoming water-based paint plant in Jodhpur. The plant is scheduled to become operational within the next 18 months.

## Valuation and view

- There is no material change to FY24/FY25 EPS estimates.
- Indigo's strategic shift to focus on non-metro towns and increased investments in distribution and influencers as part of its Strategy 2.0 is proving to be a successful endeavor. The positive outcomes are clear, as evidenced by industry growth exceeding 3x-4x in two consecutive quarters. This approach has the potential market to result in significant market share gains across various segments for the company.
- INDIGOPN has successfully surmounted the high-entry barriers in the Indian Paints industry through a deliberate and multifaceted approach, including a) pioneering differentiated product offerings, b) continuing to strengthen distribution with the addition of two depots (one each in West & East India), 455 dealers and 457 tinting machines in Q2FY24, c) cultivating brand recognition through substantial investments in advertising efforts, d) collaborating with the influential community of painters and contractors to foster trust, and e) leveraging synergies through the partnership with Apple Chemie in Indigo's supply chain. We reiterate our BUY rating with revised TP of INR1,770 (40x Mar'25E EPS).

**Consolidated Quarterly Performance** (INR m)

| Y/E March | FY23 | | | | FY24 | | | | FY23 | FY24 | FY24 | Var. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE | (%) |
| **Net Sales** | **2,240** | **2,426** | **2,813** | **3,255** | **2,884** | **2,790** | **3,572** | **4,009** | **10,733** | **13,256** | **2,902** | -3.8% |
| Change (%) | 43.6 | 23.7 | 6.0 | 12.9 | 28.8 | 15.0 | 27.0 | 23.2 | 18.5 | 23.5 | 19.6 | |
| Raw Material/PM | 1,228 | 1,414 | 1,580 | 1,731 | 1,519 | 1,519 | 1,922 | 2,172 | 5,952 | 7,132 | 1,593 | |
| **Gross Profit** | **1,012** | **1,012** | **1,233** | **1,524** | **1,365** | **1,271** | **1,650** | **1,837** | **4,781** | **6,124** | **1,309** | -2.8% |
| Gross Margin (%) | 45.2 | 41.7 | 43.8 | 46.8 | 47.3 | 45.6 | 46.2 | 45.8 | 44.5 | 46.2 | 45.1 | |
| **EBITDA** | **353** | **338** | **406** | **717** | **491** | **421** | **689** | **833** | **1,815** | **2,434** | **511** | -17.5% |
| Margin (%) | 15.7 | 13.9 | 14.4 | 22.0 | 17.0 | 15.1 | 19.3 | 20.8 | 16.9 | 18.4 | 17.6 | |
| Change (%) | 74.9 | 44.5 | 4.9 | 33.4 | 39.2 | 24.8 | 70.0 | 16.1 | 33.5 | 34.1 | 51.2 | |
| Interest | 4 | 3 | 3 | 4 | 5 | 6 | 4 | 4 | 14 | 18 | 3 | |
| Depreciation | 84 | 85 | 87 | 87 | 101 | 113 | 117 | 120 | 343 | 451 | 102 | |
| Other Income | 5 | 32 | 38 | 28 | 38 | 32 | 28 | 31 | 101 | 129 | 27 | |
| **PBT** | **269** | **282** | **353** | **654** | **423** | **335** | **597** | **739** | **1,558** | **2,095** | **433** | -22.7% |
| Tax | 70 | 74 | 91 | 168 | 108 | 81 | 156 | 195 | 402 | 540 | 112 | |
| Effective Tax Rate (%) | 26.0 | 26.4 | 25.7 | 25.6 | 25.6 | 24.3 | 26.1 | 26.4 | 25.8 | 25.8 | 25.9 | |
| **Adjusted PAT** | **199** | **208** | **263** | **487** | **310** | **253** | **442** | **544** | **1,156** | **1,554** | **321** | -21.0% |
| Change (%) | 71.5 | 53.2 | 8.1 | 40.7 | 55.9 | 22.1 | 68.1 | 11.9 | 37.5 | 34.5 | 54.5 | |

*E: MOFSL Estimates*

# Barbeque Nation Hospitality

| | |
|---|---|
| Estimate change | ↓ |
| TP change | ↓ |
| Rating change | ↔ |

| | |
|---|---|
| Bloomberg | BARBEQUE IN |
| Equity Shares (m) | 39 |
| M.Cap.(INRb)/(USDb) | 24.8 / 0.3 |
| 52-Week Range (INR) | 1173 / 592 |
| 1, 6, 12 Rel. Per (%) | -14/-2/-51 |
| 12M Avg Val (INR M) | 89 |

**Financials & Valuations (INR b)**

| Y/E March (INR b) | FY23 | FY24E | FY25E |
|---|---|---|---|
| Sales | 12.3 | 13.1 | 15.1 |
| Sales growth (%) | 43.4 | 6.2 | 15.6 |
| EBITDA | 2.3 | 2.2 | 2.8 |
| Margins (%) | 18.7 | 16.8 | 18.3 |
| Adj. PAT | 0.2 | -0.1 | 0.3 |
| Adj. EPS (INR) | 3.9 | -1.5 | 8.8 |
| EPS Growth (%) | L/P | P/L | L/P |
| BV/Sh.(INR) | 102.9 | 101.4 | 110.2 |
| **Ratios** | | | |
| RoE (%) | 3.8 | -1.5 | 8.0 |
| RoCE (%) | 6.2 | 4.9 | 8.2 |
| **Valuations** | | | |
| P/E (x) | 160.9 | N/M | 71.8 |
| P/BV (x) | 6.1 | 6.2 | 5.7 |
| EV/EBITDA (x) | 13.5 | 13.7 | 10.6 |
| EV/Sales (x) | 2.5 | 2.3 | 1.9 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 33.8 | 33.8 | 33.8 |
| DII | 25.1 | 24.5 | 26.7 |
| FII | 18.1 | 18.0 | 16.6 |
| Others | 23.0 | 23.7 | 22.9 |

FII Includes depository receipts

**CMP: INR635 TP: INR650 (+2%) Neutral**

## Weak SSSG hurts 2Q earnings

- Barbeque Nation Hospitality (BARBEQUE) reported a weak performance in 2QFY23. Its revenue and EBITDA declined 3% and 24% YoY, respectively, primarily due to an 11% decrease in same-store sales (SSS). Improvement in gross margin (+190bp QoQ) cushioned the decline in EBITDA margin, which contracted 460bp YoY. The net store additions were subdued in 2Q.
- Given the soft demand environment, management has cut its new store addition guidance to 4 (net) in FY24 from 31 in FY23, shutting down loss-making stores. Management plans to revive its store expansion strategy in FY25. It indicated that the last fortnight showcased early signs of recovery, which will be key to reviving the store-level profitability. The stock is currently trading at 14x FY25E EV/EBITDA (pre-Ind-AS). **We reiterate our Neutral rating on the stock with a TP of INR650, based on 15x FY25E EV/EBITDA (pre-Ind-AS).**

### Weak performance resulting in a net loss

- Sales declined 3% YoY to INR3b (8% miss) led by **10.7% SSS decline (-6% est.)** and 3% YoY store growth. The company added two stores and closed 2 stores, which led to the overall count at 212 stores.
- Out of 212 stores, BBQN had 188 domestic stores (closed two stores), eight international stores (opened one store) and 16 Toscano outlets (opened one store) during the quarter.
- Gross profit declined 3% YoY to INR2b (6% miss), and margin contracted 10bp YoY but expanded 190bp QoQ to 65.9%.
- EBITDA declined 24% YoY to INR444m (16% miss), and margin dipped 410bp YoY to 14.7% due to operating deleverage. **Pre-Ind AS EBITDA declined 46% YoY to INR177m and margin was down 460bp YoY to 5.9% in 2QFY24.**
- The company reported a loss of INR119m (est. of INR14m PAT) v/s PAT of INR43m in 2QFY23.

### Highlights from the management commentary

- The demand environment continued to remain challenging but has improved sequentially, and the last fortnight post-Navratra has seen a recovery with formats other than BBQN reporting healthy SSSG in 2QFY24.
- The company expects net network to reach 220 stores by FY24 including six stores of 'SALT' format. It expects 25-30 new store additions in FY25.
- It is looking for both organic and inorganic growth opportunities. The recently launched 'Fiesta' is a brand extension to capitalize on BARBEQUE's strengths with multi-cuisine buffet and value offering.
- Gross margin is expected to be around 66% going forward with a major focus on increasing customer footfalls.

## Valuation and view

- The decline in SSS was mainly due a 5% YoY decline in dine-in channel revenue given the high veg-only days. Management remains cautious about the near-term growth.
- The company has acquired a 55.3% stake in 'SALT" format, which operates six Indian cuisine restaurants. The format is margin-accretive with attractive unit economics and high ROCE.
- Given the weak demand environment and lower store addition guidance, we cut our EBITDA for FY24E/25E by 7%/4%, factoring in a CAGR of 11%/9% in revenue/ EBITDA for FY23-25E.
- We reiterate our Neutral rating due to the inherently lower return ratios as compared to QSRs and the ongoing weak demand environment. However, this is partly factored in the valuation. Further, management's focus on improving store economics with the shutting down of loss-making stores should augur well. We arrive at a TP of INR650 based on 15x FY25E EV/EBITDA (pre-Ind-AS).

**Quarterly Performance** (INR m)

| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | FY24 | Var. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | 2QE | (%) |
| **SSSG (%)** | **182.0** | **23.4** | **-1.2** | **-2.6** | **-7.7** | **-10.7** | **4.0** | **3.7** | **27.5** | **-2.8** | **-6.0** | |
| **No. of stores** | **195** | **205** | **212** | **216** | **212** | **212** | **217** | **227** | **216** | **221** | **217** | |
| **Net Sales** | **3,149** | **3,105** | **3,282** | **2,802** | **3,239** | **3,017** | **3,747** | **3,105** | **12,338** | **13,108** | **3,268** | -7.7 |
| YoY change (%) | 208.8 | 40.6 | 14.5 | 11.6 | 2.9 | -2.8 | 14.2 | 10.8 | 43.4 | 6.2 | 5.3 | |
| **Gross Profit** | **2,103** | **2,051** | **2,189** | **1,843** | **2,073** | **1,990** | **2,473** | **2,050** | **8,186** | **8,586** | **2,108** | |
| Margin (%) | 66.8 | 66.1 | 66.7 | 65.8 | 64.0 | 65.9 | 66.0 | 66.0 | 66.3 | 65.5 | 64.5 | |
| **EBITDA** | **705** | **583** | **620** | **399** | **468** | **444** | **796** | **488** | **2,306** | **2,196** | **526** | -15.7 |
| EBITDA growth % | N/M | 41.1 | -5.7 | -10.5 | -33.6 | -23.9 | 28.5 | 22.4 | 72.4 | -4.8 | -9.7 | |
| Margin (%) | 22.4 | 18.8 | 18.9 | 14.2 | 14.4 | 14.7 | 21.3 | 15.7 | 18.7 | 16.8 | 16.1 | |
| Depreciation | 352 | 350 | 382 | 366 | 375 | 443 | 443 | 436 | 1,450 | 1,696 | 375 | |
| Interest | 175 | 180 | 183 | 180 | 187 | 195 | 195 | 154 | 717 | 731 | 143 | |
| Other Income | 30 | 16 | 12 | 22 | 40 | 43 | 40 | 38 | 80 | 161 | 9 | |
| **PBT** | **208** | **69** | **67** | **-125** | **-55** | **-151** | **198** | **-64** | **219** | **-72** | **17** | -979.2 |
| Tax | 48 | 26 | 17 | -26 | -14 | -32 | 50 | -16 | 66 | -13 | 3 | |
| Rate (%) | 23.1 | 38.3 | 25.7 | 20.7 | 26.1 | 21.3 | 25.0 | 25.0 | 30.1 | 17.9 | 18.0 | |
| **Adjusted PAT** | **160** | **43** | **50** | **-99** | **-41** | **-119** | **149** | **-48** | **153** | **-59** | **14** | -944.2 |
| YoY change (%) | N/M | 39.2 | -66.1 | -2,138.8 | -125.3 | -379.2 | 200.2 | -51.8 | - | -138.4 | -66.9 | |

E: MOFSL Estimates

# Max Healthcare

| BSE SENSEX | S&P CNX |
|---|---|
| 64,959 | 19,412 |

## Conference Call Details

**Date:** 7th Nov 2023

**Time:** 11:00 am IST

**Dial-in details:**

Zoom Link

**Financials & Valuations (INR b)**

| Y/E MARCH | FY23 | FY24E | FY25E |
|---|---|---|---|
| Sales | 58.8 | 69.2 | 78.6 |
| EBITDA | 16.1 | 19.0 | 21.5 |
| Adj. PAT | 11.2 | 13.9 | 15.9 |
| EBIT Margin (%) | 22.9 | 23.5 | 23.6 |
| Cons. Adj. EPS (INR) | 11.6 | 14.3 | 16.4 |
| EPS Gr. (%) | 27.5 | 23.6 | 14.7 |
| BV/Sh. (INR) | 83.2 | 97.4 | 113.8 |
| **Ratios** | | | |
| Net D:E | (0.1) | (0.1) | (0.2) |
| RoE (%) | 15.2 | 15.9 | 15.5 |
| RoCE (%) | 17.2 | 14.7 | 14.9 |
| Payout (%) | 0.0 | 0.0 | 0.0 |
| **Valuations** | | | |
| P/E (x) | 51.9 | 42.0 | 36.6 |
| EV/EBITDA (x) | 35.7 | 30.0 | 26.1 |
| Div. Yield (%) | 9.8 | 8.3 | 7.1 |
| FCF Yield (%) | 3.0 | 0.4 | 1.6 |
| EV/Sales (x) | 9.8 | 8.3 | 7.1 |

## CMP: INR596

## Earnings beat estimates

- For 2QFY24, MAXHEALT's network revenue (including trust business) grew 17% YoY to INR17.2b (our est: INR16.5b)
- EBITDA margin expanded 100bp YoY to 28.2% (our est. 26.9%).
- Accordingly, EBITDA grew 21% YoY to INR4.8b (our est. INR4.4b).
- Adjusted PAT grew 25% YoY to INR3.5b (our est. INR3.2b), led by strong operational performance, interest income for 2QFY24 (vs. interest expense in 2QFY23) and higher other income (+30% YoY) during the quarter.
- EBITDA per bed (annualized) stood at INR7.5m (+17% YoY and +7% QoQ)
- In 1HFY24, MAXHEALT's revenue/EBITDA/PAT grew 17%/19%/26% to INR33.4b/ INR9b/INR6.6b. Moreover, EBITDA margin expanded 50bp YoY to 27.3%.

## Other highlights

- For the hospitals business, ARPOB stood at INR74.6K in 2QFY24 (+13% YoY/flat QoQ). ARPOB growth was driven by: 1) a broad-based improvement YoY across all specialties and hospitals, and b) an increase in the share of Oncology.
- Occupancy came in at 77% in 2QFY24 (vs. 78% in 2QFY23) and it was at 74% in 1QFY24.
- Payor mix improved considerably with: a) international revenue share rising 70bp YoY to 9.3% of revenue. This represented ~1.4x pre-Covid average while patient flows from Afghanistan continued to be impacted adversely. Moreover, institutional segment's revenue share increased 190bp YoY to 17.9%, despite reduction in bed share, due to increase in ARPOB post-partial revision in prices. Institutional patients' bed share dropped to 27.3% from 27.9% in 2QFY23 and 29.7% in 1QFY23. Cash segment's revenue share contracted 310bp YoY/70bp QoQ to 33.4%.
- Max Lab's gross revenue was INR380m for 2QFY24 (+31% YoY/+15% QoQ) . On a like-to-like basis, the revenue (excl. Covid-related tests) grew 32% YoY and 15% QoQ during the quarter.
- Max@Home's gross revenue was INR420m (+23% YoY, +8% QoQ) for 2QFY24.

**Consolidated - Quarterly Earnings Model** (INR m)

| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | FY24E | % Var |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE | |
| **Gross Sales** | **13,903** | **14,717** | **14,640** | **15,490** | **16,220** | **17,190** | **17,568** | **18,178** | **58,750** | **69,156** | **16,483** | **4.3** |
| YoY Change (%) | 5.5 | 9.6 | 13.5 | 26.9 | 16.7 | 16.8 | 20.0 | 17.4 | 13.6 | 17.7 | 12.0 | |
| Total Expenditure | 10,228 | 10,712 | 10,590 | 11,150 | 11,930 | 12,350 | 12,702 | 13,156 | 42,680 | 50,138 | 12,049 | |
| **EBITDA** | **3,675** | **4,005** | **4,050** | **4,340** | **4,290** | **4,840** | **4,866** | **5,022** | **16,070** | **19,018** | **4,434** | **9.2** |
| Margins (%) | 26.4 | 27.2 | 27.7 | 28.0 | 26.4 | 28.2 | 27.7 | 27.6 | 27.4 | 27.5 | 26.9 | |
| Depreciation | 650 | 630 | 630 | 690 | 640 | 660 | 685 | 761 | 2,600 | 2,746 | 643 | |
| Interest | 200 | 140 | 70 | -20 | -30 | -170 | -55 | 80 | 390 | -175 | -45 | |
| Other Income | 30 | 100 | 130 | 30 | 70 | 130 | 130 | -53 | 290 | 277 | 70 | |
| **PBT before EO expense** | **2,855** | **3,335** | **3,480** | **3,700** | **3,750** | **4,480** | **4,366** | **4,127** | **13,370** | **16,723** | **3,906** | |
| Extra-Ord expense | 110 | 120 | 180 | -20 | 190 | 190 | 0 | -190 | 390 | 190 | 0 | |
| **PBT** | **2,745** | **3,215** | **3,300** | **3,720** | **3,560** | **4,290** | **4,366** | **4,317** | **12,980** | **16,533** | **3,906** | |
| Tax | 456 | -1,896 | 610 | 530 | 660 | 910 | 742 | 498 | -300 | 2,811 | 664 | |
| Rate (%) | 16.6 | -59.0 | 18.5 | 14.2 | 18.5 | 21.2 | 17.0 | 11.5 | -2.3 | 17.0 | 17.0 | |
| **Reported PAT** | **2,289** | **5,111** | **2,690** | **3,190** | **2,900** | **3,380** | **3,624** | **3,819** | **13,280** | **13,723** | **3,242** | |
| **Adj PAT** | **2,381** | **2,835** | **2,837** | **3,173** | **3,055** | **3,530** | **3,624** | **3,672** | **11,226** | **13,880** | **3,242** | **8.9** |
| YoY Change (%) | 15.6 | 31.6 | 12.2 | 53.5 | 28.3 | 24.5 | 27.8 | 15.7 | 27.5 | 23.6 | 14.4 | |
| Margins (%) | 17.1 | 19.3 | 19.4 | 20.5 | 18.8 | 20.5 | 20.6 | 20.2 | 19.1 | 20.1 | 19.7 | |

E: MOFSL Estimates; *Network financials from 1QFY22

# HPCL

| BSE SENSEX | S&P CNX |
|---|---|
| 64,959 | 19,412 |

## Conference Call Details

**Date:** 7th Nov, 2023
**Time:** 1000 hours IST
**Dial-in details:**
+91-22-6280 1342
+91-22-7115 8243

## CMP: INR262 — Neutral

## Beat driven by a higher marketing margin, partially offset by lower-than-expected GRM

- HPCL's refining throughput was at 5.8mmt (in line with our est., +28% YoY). Reported GRM was at USD13.3/bbl (v/s our est. of USD15.1/bbl, +61% YoY).
- Marketing volumes stood at 10.7mmt (our est. of 11mmt, +3% YoY). However, marketing margins (incl. inv.) stood higher at ~INR5.9/lit (our est. of INR5.1/lit, +8.5x YoY) during the quarter.
- **Resultant EBITDA stood at INR81b (v/s our est. of INR77b). PAT came in at INR51b (v/s our est. of INR45b).**
- **For 1HFY24,** EBITDA was at INR176b (loss of INR124b in 1HFY23), with PAT at INR113b (loss of INR124b in 1HFY23).
  - Refining throughput was at 11.2mmt (+20% YoY), while GRM was at USD10.4/bbl (-17% YoY). Marketing volumes stood at 22.6mmt (+7% YoY). Marketing margin was at INR7.2/lit (loss of 4.6/bbl in 1HFY23).
  - HPCL's 1HFY24 EBITDA was 73% of our full-year FY24 estimate.
- HPCL had a cumulative negative net buffer of INR9.9b as of 31st Mar'23 due to under-recovery on LPG cylinders. The same has been recognized as part of revenue upon its recovery in 1HFY24.

**Standalone - Quarterly Earnings Model** (INR b)

| Y/E March | FY23 | | | | FY24 | | | Var | YoY | QoQ |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 2QAct | (%) | (%) | (%) |
| **Net Sales** | 1,144.5 | 1,084.2 | 1,096.0 | 1,079.3 | 1,119.6 | 1,204.0 | 957.0 | -21% | -12% | -15% |
| YoY Change (%) | 58.0 | 30.5 | 13.5 | 10.6 | -2.2 | 11.1 | -11.7 | | | |
| **EBITDA** | -115.5 | -8.9 | 20.7 | 46.6 | 95.2 | 76.9 | 81.2 | 6% | LP | -15% |
| Margin (%) | -10.1 | -0.8 | 1.9 | 4.3 | 8.5 | 6.4 | 8.5 | | | |
| Depreciation | 10.9 | 10.8 | 11.1 | 10.4 | 13.6 | 14.1 | 12.4 | | | |
| Forex loss | 9.5 | 6.0 | 4.0 | -1.4 | -1.3 | 2.1 | -1.0 | | | |
| Interest | 3.3 | 5.9 | 6.8 | 5.2 | 5.9 | 6.2 | 5.8 | | | |
| Other Income | 3.4 | 2.8 | 2.9 | 11.6 | 6.3 | 5.8 | 3.4 | | | |
| **PBT before EO expense** | -135.8 | -28.9 | 1.7 | 43.9 | 83.3 | 60.2 | 67.4 | 12% | LP | -19% |
| Extra-Ord expense | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | |
| **PBT** | -135.8 | -28.9 | 1.7 | 43.9 | 83.3 | 60.2 | 67.4 | 12% | LP | -19% |
| Tax | -33.9 | -7.2 | 0.0 | 11.7 | 21.3 | 15.2 | 16.2 | | | |
| Rate (%) | 24.9 | 24.9 | -2.4 | 26.6 | 25.5 | 25.2 | 24.1 | | | |
| **Reported PAT** | -102.0 | -21.7 | 1.7 | 32.2 | 62.0 | 45.1 | 51.2 | 14% | LP | -18% |
| YoY Change (%) | PL | PL | -80.2 | 79.5 | LP | LP | LP | | | |
| Margin (%) | -8.9 | -2.0 | 0.2 | 3.0 | 5.5 | 3.7 | 5.3 | | | |
| **Key Assumptions** | | | | | | | | | | |
| Refining throughput (mmt) | 4.8 | 4.5 | 4.8 | 5.0 | 5.4 | 5.8 | 5.8 | 0% | 28% | 6% |
| Reported GRM (USD/bbl) | 16.7 | 8.3 | 9.1 | 14.1 | 7.4 | 15.1 | 13.3 | -11% | 61% | 79% |
| Marketing sales volume incl exports (mmt) | 10.7 | 10.4 | 11.3 | 11.1 | 11.9 | 11.0 | 10.7 | -3% | 3% | -9% |
| Marketing GM incld inv (INR/litre) | -9.9 | 0.7 | 2.2 | 3.7 | 8.4 | 5.1 | 5.9 | 16% | 749% | -30% |

# Exide

| BSE SENSEX | S&P CNX |
|---|---|
| 64,959 | 19,412 |

## Conference Call Details

**Date:** 12th Nov 2023
**Time:** 12pm IST
**Dial-in details:** [Link]

**Financials & Valuations (INR b)**

| Y/E MARCH | FY23 | FY24E | FY25E |
|---|---|---|---|
| Net Sales | 145.9 | 163.9 | 183.0 |
| EBITDA | 15.7 | 17.6 | 21.5 |
| Adj. PAT | 9.0 | 10.3 | 12.9 |
| Adj. EPS (INR) | 10.6 | 12.2 | 15.1 |
| EPS Gr. (%) | 7.5 | 14.4 | 24.5 |
| BV/Sh. (INR) | 131.9 | 140.8 | 152.8 |
| **Ratio** | | | |
| RoE (%) | 8.1 | 8.6 | 9.9 |
| RoCE (%) | 8.5 | 9.1 | 10.5 |
| Payout (%) | 18.8 | 26.3 | 21.1 |
| **Valuations** | | | |
| P/E (x) | 25.2 | 22.0 | 17.7 |
| P/BV (x) | 2.0 | 1.9 | 1.8 |
| Div Yield (%) | 0.7 | 1.2 | 1.2 |
| FCF Yield (%) | 2.2 | 4.6 | 6.4 |

## CMP: INR268 — Buy

## EBITDA margin expansion on the back of lower commodity costs

**Total investment of INR30b (vs. INR19b earlier) in EESL**

- 2QFY24 revenues grew 10% YoY to INR41.1b (in line). This revenue growth was better than AMRJ, which posted a 4% YoY growth.
- The gross margin expanded 290bp QoQ (up 60bp YoY) to 31.1% (vs. est. 28.6%). This can be attributed to a reduction in commodity costs and possibly a more favorable product mix.
- Further higher employee costs (up 30bp YoY/ up 40bp QoQ; as a % of sales) and other expenses (down 40bp YoY/ up 130bp QoQ; as a % of sales) limited EBITDA margin expansion by 70bp YoY to 11.8% (vs. est. 11.2% vs. 13.8% for AMRJ). EBITDA improved 17% YoY (up 12% QoQ) to INR4.8b (vs. est. INR4.6b).
- Further, adj PAT grew 17% YoY to ~INR2.9b (v/s est. INR2.7b).
- 1HFY24 revenues/EBITDA/adj. PAT grew 7%/15%/12% YoY.
- FCFF improved to INR12.8b (vs. INR8.5b in 1HFY23), driven by a stronger CFO of INR14.9b (up from INR10.1b in 1HFY23), despite higher capex of INR2.1b (vs. INR1.5b in 1HFY23).
- The Board has further decided to invest INR11b in one or more tranches in Exide Energy solutions Ltd (EESL), taking the total investments to INR30b (vs. INR19b proposed earlier, of which INR15.3b has already been invested.; in 2QFY24, the company invested INR2.75b and another INR4.4b in October).

  Commenting on the performance, Mr. Subir Chakraborthy, MD & CEO, said "We continue to deliver an upbeat performance with operating profits growing 17% and 14% in the second quarter and the first half of the current financial year, respectively. Sales growth of 10% during the quarter was broad-based with both automotive and industrial verticals growing at a healthy pace. Input costs were slightly lower, and this with effective cost optimization initiatives aided growth in profits.

  "In the near-to-medium-term, we are optimistic of the demand scenario and believe that with our future-ready product portfolio, pan-India market presence, and cost efficiencies, we will continue to deliver sustainable and profitable growth. Our lithium-ion cell manufacturing project is progressing well. We are excited about the future and look forward to becoming one of the leading domestic players offering state-of-the-art products and solutions in the fast-growing electric mobility space as well as for stationary applications."
- **Valuation view:** The stock trades at 22x/17.7x FY24E/FY25E consol. EPS. We **reiterate our BUY rating on the stock.**

| S/A Quarterly Performance | | | | | | | | | | | (INR Million) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Y/E March** | FY23 | | | | FY24E | | | | FY23 | FY24E | |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE |
| **Net Sales** | **38,994** | **37,189** | **34,121** | **35,430** | **40,726** | **41,067** | **41,628** | **40,435** | **1,45,919** | **1,63,855** | **40,908** |
| Growth YoY (%) | 56.8 | 13.0 | 6.7 | 3.7 | 4.4 | 10.4 | 22.0 | 14.1 | 17.6 | 12.3 | 10.0 |
| **Gross opearting income** | **38,994** | **37,189** | **34,121** | **35,430** | **40,726** | **41,067** | **41,628** | **40,435** | **1,45,919** | **1,63,855** | **40,908** |
| Growth YoY (%) | 56.8 | 13.0 | 6.7 | 3.7 | 4.4 | 10.4 | 22.0 | 14.1 | 17.6 | 12.3 | 10 |
| RM(%) | 72.1 | 69.5 | 67.7 | 70.2 | 71.7 | 68.9 | 71.7 | 74.2 | 69.9 | 71.6 | 71.4 |
| Employee cost (%) | 5.5 | 5.9 | 6.3 | 6.2 | 5.8 | 6.2 | 5.9 | 5.7 | 6.0 | 5.9 | 5.9 |
| Other Exp(%) | 12.5 | 13.5 | 14.3 | 13.3 | 11.8 | 13.1 | 11.7 | 10.2 | 13.4 | 11.7 | 11.6 |
| Total Cost | 35,127 | 33,065 | 30,111 | 31,758 | 36,404 | 36,235 | 37,174 | 36,398 | 1,30,239 | 1,46,211 | 36,347 |
| **EBITDA** | **3,866** | **4,124** | **4,010** | **3,672** | **4,322** | **4,831** | **4,454** | **4,037** | **15,680** | **17,644** | **4,561** |
| EBITDA Margin(%) | 9.9 | 11.1 | 11.8 | 10.4 | 10.6 | 11.8 | 10.7 | 10.0 | 10.7 | 10.8 | 11.2 |
| Change (%) | 48.4 | -0.2 | 7.6 | 4.9 | 11.8 | 17.1 | 11.1 | 9.9 | 12.1 | 12.5 | 11 |
| Non-Operating Income | 322 | 356 | 234 | 412 | 192 | 392 | 375 | 426 | 1,324 | 1,385 | 350 |
| Interest | 64 | 62 | 82 | 83 | 98 | 115 | 80 | 32 | 295 | 325 | 80 |
| Depreciation | 1,091 | 1,120 | 1,153 | 1,193 | 1,194 | 1,259 | 1,240 | 1,230 | 4,558 | 4,922 | 1,225 |
| **PBT after EO Exp** | **3,034** | **3,298** | **3,009** | **2,808** | **3,222** | **3,849** | **3,509** | **3,202** | **12,151** | **13,782** | **3,606** |
| Effective Tax Rate (%) | 25.4 | 25.3 | 25.8 | 26.0 | 24.9 | 25.4 | 25.0 | 24.6 | 25.6 | 25.0 | 25.0 |
| **Adj. PAT** | **2,263** | **2,462** | **2,232** | **2,078** | **2,419** | **2,870** | **2,632** | **2,415** | **9,036** | **10,336** | **2,705** |
| Change (%) | 80.5 | 5.1 | 9.4 | -24.7 | 6.9 | 16.6 | 17.9 | 16.2 | 7.5 | 14.4 | 9.8 |

# Sobha

| BSE SENSEX | S&P CNX |
|---|---|
| 64,959 | 19,412 |

## CMP: INR786 | Buy

## Record quarter of pre-sales; contractual segment witnessing gradual improvement in profitability

### Conference Call Details

**Date:** 07 November 2023
**Time:** 18:00 IST
**Dial-in details:**
Diamond pass link

**Financials & Valuations (INR b)**

| Y/E Mar | FY23 | FY24E | FY25E |
|---|---|---|---|
| Sales | 33.1 | 35.6 | 40.9 |
| EBITDA | 3.7 | 3.9 | 7.0 |
| EBITDA Margin (%) | 11.2 | 11.0 | 17.0 |
| PAT | 1.0 | 1.6 | 4.1 |
| EPS (INR) | 10.8 | 16.7 | 42.8 |
| EPS Gr. (%) | -39.8 | 53.9 | 156.8 |
| BV/Sh. (INR) | 259.0 | 272.2 | 311.6 |
| **Ratios** | | | |
| RoE (%) | 4.2 | 6.3 | 14.6 |
| RoCE (%) | 6.0 | 6.9 | 12.1 |
| Payout (%) | 27.3 | 20.7 | 8.1 |
| **Valuations** | | | |
| P/E (x) | 72.6 | 47.2 | 18.4 |
| P/BV (x) | 3.0 | 2.9 | 2.5 |
| EV/EBITDA (x) | 24.4 | 23.5 | 12.8 |
| Div yld (%) | 0.4 | 0.4 | 0.4 |

### Operational performance

- Sobha reported the highest ever bookings of INR17.2b (15% beat to our estimate of INR15b), up 48%/18% YoY/QoQ. Sobha's share of sales stood at INR12.8b, up 33% YoY.
- On the back of sustained demand for larger homes, the contribution from the luxury segment (> INR20m) has increased to 48% in 1HFY24 from 26% in 1HFY23.
- Sobha's unsold inventory now stands at 3.4msf (vs. 3.9msf in 1QFY24).
- The total volume for the quarter stood at 1.7msf, up 26%/21% YoY/QoQ. Realizations were up 17% YoY, but declined 3% sequentially to INR10,200/sf.
- Sales volume from Bengaluru are now back to ~1msf run rate and its share in overall sales stood at 54% (in line with TTM average). NCR and Kerala contributed 21% and 15%, respectively, in total sales.
- The company's project pipeline remains at ~19msf, including 15msf of new projects with ~7msf in Bengaluru.
- Collections increased 16% YoY to INR13b. The total cash inflow (incl. contractual business) stood at INR14.5b, up 9% YoY.
- Operating cash flows (before interest and taxes) declined 17% YoY to INR3b. During the quarter, the company generated surplus cash of INR1.3b.
- Net debt declined INR1.3b sequentially to INR14.4b or 0.6x of equity. Cost of borrowings marginally increased to 9.14% from 9.1% in 1QFY24.

### Financial performance

- Revenue increased 11% YoY to INR7.4b. Revenue from the real estate segment increased 22% YoY to INR5.4b, as the company delivered 0.7msf in 2QFY24.
- EBITDA declined 18% YoY to INR0.7b with margin of 10.2% (vs. 13.8% in 2QFY23). Sobha reported 19% EBIT margin in the real estate vertical and the contractual business witnessed sequential improvement in margin to 15% (vs. marginal EBIT in 1QFY24).
- Adj. PAT stood at INR149m, down 22% YoY.

## Quarterly performance

| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | FY24E | Var (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | 2QE | |
| **Net Sales** | **5,646** | **6,673** | **8,682** | **12,099** | **9,079** | **7,412** | **9,246** | **9,825** | **33,101** | **35,563** | **8,535** | -13% |
| YoY Change (%) | 25.8 | -14.4 | 39.5 | 70.3 | 60.8 | 11.1 | 6.5 | -18.8 | | | 27.9 | |
| Total Expenditure | 4,918 | 5,751 | 7,794 | 10,943 | 8,425 | 6,658 | 7,880 | 8,688 | 29,407 | 31,651 | 7,734 | |
| **EBITDA** | **728** | **922** | **888** | **1,156** | **654** | **754** | **1,367** | **1,137** | **3,694** | **3,912** | **801** | -6% |
| Margins (%) | 12.9 | 13.8 | 10.2 | 9.6 | 7.2 | 10.2 | 14.8 | 11.6 | 11.2 | 11.0 | 9.4 | *79bps* |
| Depreciation | 147 | 179 | 175 | 178 | 183 | 193 | 190 | 187 | 678 | 753 | 185 | |
| Interest | 614 | 632 | 660 | 611 | 611 | 639 | 495 | 290 | 2,490 | 2,035 | 523 | |
| Other Income | 117 | 233 | 298 | 302 | 313 | 324 | 270 | 160 | 923 | 1,067 | 265 | |
| **PBT before EO expense** | **84** | **344** | **351** | **669** | **173** | **247** | **952** | **819** | **1,449** | **2,191** | **358** | |
| Extra-Ord expense | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| **PBT** | **84** | **344** | **351** | **669** | **173** | **247** | **952** | **819** | **1,449** | **2,191** | **358** | |
| Tax | 39 | 152 | 33 | 183 | 52 | 97 | 375 | 62 | 407 | 587 | 108 | |
| Rate (%) | 46.4 | 44.2 | 9.4 | 27.4 | 30.2 | 39.4 | 39.4 | 7.6 | 28.1 | 26.8 | 30.2 | |
| Minority Interest & Profit/Loss of Asso. Cos. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| **Reported PAT** | **45** | **192** | **318** | **486** | **121** | **149** | **577** | **757** | **1,042** | **1,604** | **250** | -40% |
| **Adj PAT** | **45** | **192** | **318** | **486** | **121** | **149** | **577** | **757** | **1,042** | **1,604** | **250** | |
| YoY Change (%) | -87.1 | -69.6 | -47.9 | 242.3 | 168.3 | -22.2 | 81.3 | 55.7 | -39.8 | 53.9 | 30.2 | |
| Margins (%) | 0.8 | 2.9 | 3.7 | 4.0 | 1.3 | 2.0 | 6.2 | 7.7 | 3.1 | 4.5 | 2.9 | |
| **Key metrics** | | | | | | | | | | | | |
| Sale Volume (msf) | 1.4 | 1.3 | 1.5 | 1.5 | 1.4 | 1.7 | 1.6 | 1.7 | 5.7 | 6.4 | 1.8 | -6% |
| Sale Value (INRb) | 11.5 | 11.6 | 14.3 | 14.6 | 14.6 | 17.2 | 15.2 | 12.6 | 52.0 | 59.7 | 15.0 | 15% |
| Collections (INRb) | 8.9 | 10.8 | 11.6 | 11.8 | 11.5 | 12.6 | 11.3 | 8.9 | 43.1 | 44.3 | | |
| Realization (INR/sft) | 8,423 | 8,707 | 9,628 | 9,901 | 10,537 | 10,224 | 9,436 | 7,519 | 9,192 | 9,380 | 8333 | 23% |

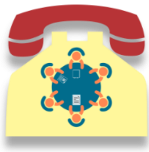
**Note: We will revisit our estimates after the concall**

Source: MOFSL, Company

# Quess Corp

| BSE SENSEX | S&P CNX |
|---|---|
| 64,599 | 19,412 |

## Conference Call Details



**Date:** 7th Nov 2023
**Time:** 11:00 IST
**Dial-in details:**
+91 22 6280 1259
+91 22 7115 8160

**Financials & Valuations (INR b)**

| Y/E Mar | 2023 | 2024E | 2025E |
|---|---|---|---|
| Net Sales | 171.6 | 198.0 | 235.8 |
| EBITDA | 5.9 | 7.4 | 10.3 |
| EBIT | 3.1 | 4.7 | 7.2 |
| Adj. PAT | 1.7 | 3.4 | 5.5 |
| Adj. EPS (INR) | 11.5 | 22.8 | 36.9 |
| EPS Gr. (%) | (35.3) | 99.1 | 61.9 |
| BV/Sh. (INR) | 226.7 | 234.8 | 262.7 |
| RoE (%) | 6.8 | 13.0 | 19.6 |
| RoCE (%) | 8.6 | 13.5 | 19.5 |
| Payout (%) | 53.2 | 70.2 | 43.3 |
| Div. Yield | 2.0 | 4.1 | 4.1 |

## CMP: INR427

## Revenue in line, margin beat; but tax contingent liability up

**Revenue of INR47.5b (+11% YoY), EBITDA of INR1.63b (+21% YoY), PAT of INR719m (+71.0% YoY)**

### Headline performance

- Revenue grew 3.2% QoQ/11.1% YoY, in line with our expectation.
- Workforce management grew 12.7% YoY, operating asset management grew 8.3% YoY, GTS grew 10.5% YoY and product-led business declined 4.6% YoY.
- While growth in WFM and OAM was weaker than expected, good performance in GTS and PLB made up for the miss.

### Margin performance

- EBITDA margin was up 10bp at 3.4%, in line with our estimate. WFM and GTS EBITDA margin was flat QoQ, while OAM improved its profitability by 50bp QoQ to touch 5.0% after six quarters. PLB EBITDA margin improved by 600bp QoQ to -14%.
- PAT jumped 71% YoY to INR719m vs. our estimate of INR500m, largely due to lower D&A and ETR.

### Other

- The company overall added a strong 22k to its headcount and 26k workforce to its workforce management business.
- Quess received the final disallowance of its 80JJAA and depreciation on goodwill deductions from Income tax authorities for FY2018-2019 in addition to the previous year. It also received a draft assessment for FY2019-2020, disallowing the claims for the year. While Quess is contesting the assessments, it has disclosed a contingent liability of INR1.82b toward tax demands (earlier INR740m). It has also claimed deductions of INR1.16b for 1HFY24.

### Valuation

- We await the management commentary before taking a relook at our estimates. The growth outlook on macros and various key operating segments will be keenly watched.

**Consolidated quarterly earnings** **(INR m)**

| Y/E March | FY23 | | | | FY24 | | | | FY23 | FY24 | FY24E | Var. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | 2QE | (%/bp) |
| **Net Sales** | **39,793** | **42,733** | **44,656** | **44,402** | **46,002** | **47,483** | **52,090** | **52,815** | **1,71,584** | **1,98,391** | **47,539** | **-0.1** |
| Change (YoY %) | 33.2 | 32.4 | 21.2 | 17.1 | 15.6 | 11.1 | 16.6 | 18.9 | 25.3 | 15.6 | 11.2 | -13 |
| Total Expenditure | 38,259 | 41,386 | 43,200 | 42,882 | 44,463 | 45,848 | 50,059 | 50,597 | 1,65,726 | 1,90,967 | 45,923 | -0.2 |
| **EBITDA** | **1,534** | **1,347** | **1,456** | **1,520** | **1,539** | **1,635** | **2,032** | **2,218** | **5,858** | **7,424** | **1,616** | **1.2** |
| Margin (%) | 3.9 | 3.2 | 3.3 | 3.4 | 3.3 | 3.4 | 3.9 | 4.2 | 3.4 | 3.7 | 3.4 | 4.4 |
| Depreciation | 610 | 676 | 695 | 765 | 686 | 697 | 744 | 850 | 2,746 | 2,976 | 743 | -6.3 |
| **EBIT** | **924** | **671** | **761** | **756** | **853** | **939** | **1,288** | **1,369** | **3,112** | **4,448** | **873** | **7.5** |
| Margin (%) | 2.3 | 1.6 | 1.7 | 1.7 | 1.9 | 2.0 | 2.5 | 2.6 | 1.8 | 2.2 | 1.8 | 14 |
| Interest | 204 | 263 | 290 | 309 | 272 | 281 | 298 | 339 | 1,066 | 1,190 | 297 | -5.4 |
| Other Income | 72 | 88 | 67 | 36 | 41 | 151 | 50 | -43 | 263 | 198 | 50 | |
| **PBT before EO expense** | **792** | **496** | **538** | **483** | **621** | **809** | **1,040** | **986** | **2,309** | **3,456** | **625** | **29.3** |
| Recurring Tax | 115 | 100 | 217 | 183 | 140 | 83 | 156 | 148 | 615 | 528 | 125 | -33.4 |
| Rate (%) | 14.6 | 20.1 | 40.3 | 37.9 | 22.6 | 10.3 | 15.0 | 15.0 | 26.6 | 15.3 | 20.0 | |
| MI and P/L of Asso. Cos. | 64 | -24 | -24 | -31 | 3 | -10 | 0 | 0 | -16 | -7 | 0 | |
| **Adjusted PAT** | **613** | **421** | **345** | **331** | **478** | **735** | **884** | **838** | **1,710** | **2,935** | **500** | **46.9** |
| Extraordinary items | 0 | 0 | -535 | 0 | 0 | 16 | 0 | 0 | -535 | 16 | 0 | |
| **Reported PAT** | **613** | **421** | **880** | **331** | **478** | **719** | **884** | **838** | **2,245** | **2,919** | **500** | **43.8** |
| Change (YoY %) | 32.7 | 12.0 | 5.0 | -55.0 | -22.0 | 71.0 | 0.4 | 153.1 | -6.9 | 30.0 | 18.9 | 5,205 |
| Margin (%) | 1.5 | 1.0 | 2.0 | 0.7 | 1.0 | 1.5 | 1.7 | 1.6 | 1.3 | 1.5 | 1.1 | 46 |

# Fusion Microfinance

## Conference Call Details

**Date:** 07th Nov 2023
**Time:** 8:30 A:M IST
**Dial-in details:**
+91 22 6280 1144,
+ 91 22 7115 8045
Link for the call

**Financials & Valuation (INR b)**

| Y/E March | FY23 | FY24E | FY25E |
|---|---|---|---|
| Total Income | 11.6 | 15.4 | 19.2 |
| PPP | 7.1 | 9.7 | 12.2 |
| PAT | 3.9 | 5.6 | 7.4 |
| EPS (INR) | 38.6 | 55.8 | 73.8 |
| EPS Gr. (%) | - | 45 | 32 |
| BV (INR) | 231 | 287 | 361 |
| **Valuations** | | | |
| NIM (%) | 13.3 | 13.9 | 14.1 |
| C/I ratio (%) | 38.4 | 37.2 | 36.7 |
| RoAA (%) | 4.6 | 5.3 | 5.7 |
| RoE (%) | 21.2 | 21.5 | 22.8 |
| **Valuations** | | | |
| P/E (x) | 16.1 | 11.2 | 8.4 |
| P/BV (x) | 2.7 | 2.2 | 1.7 |

**CMP: INR624** **Buy**

## Earnings in line; forward flows into higher buckets due to erratic monsoons

### Improvement in Stage 3 aided by higher write-offs

- Fusion's 2QFY24 PAT grew 32% YoY to ~INR1.26b, aided by healthy other income. NII grew 26% YoY to ~INR3.1b, while PPoP grew 29% YoY to ~INR2.42b.
- The cost-to-income ratio remained stable YoY at ~36.4%. Net credit costs (annualized) as % of on-book loans declined ~15bp QoQ to 3.2%
- Disbursements grew 14% YoY/3% QoQ to INR23.4b. AUM increased by 25% YoY/3% QoQ to ~INR100.3b.

### Increase in yields drives expansion

- Yields rose ~20bp QoQ to 21.7%, while CoF remained sequentially stable at 10.6%. Reported spreads rose ~20bp QoQ to 11.1%. Calculated NIM, however, was stable QoQ at 13.8%.
- The share of foreign borrowings in the borrowing mix increased by ~70bp QoQ to ~16% in 2QFY24.

### Asset quality exhibits sequential improvement

- GS3/NS3 declined ~50bp/~15bp QoQ to 2.7%/0.7%.
- 30+ dpd declined only ~10bp QoQ because of a ~45bp QoQ rise in Stage 2 loans. ECL/EAD (incl. management overlay of ~INR615m) stood at ~3.3% of gross loans. Write-offs for the quarter stood at ~INR1.04b.

### Steady increase in borrower base

- The borrower base increased to 3.7m as of Sep'23 from 3.6m as of Jun'23.
- Fusion added 61 branches in 2Q, increasing its presence to 22 states, including 3 union territories. The total branch count stood at 1,164.
- CRAR stood at ~29%. It maintained healthy liquidity of ~INR14b of cash and cash equivalents, amounting to ~13.4% of total assets

### Valuation and view

- FUSION has a vintage of over a decade in MFI lending and has navigated multiple credit and economic cycles with resilience. It has a stable and experienced management team and the company's digital orientation through its 'touch and tech' strategy has positioned it well to deliver a strong operating performance.
- The company reported a 28% CAGR in its borrower base over FY18-FY23. It enjoys a strong rural presence, with its rural portfolio accounting for ~93% of its total AUM. This implies its ability to showcase loan growth through borrower additions.
- Forward flows during the quarter were high, potentially driven by erratic monsoons leading to flooding or draught conditions in certain parts of the country. We may revise our estimates and TP after the concall on 7th Nov'23.

**Fusion: Quarterly Performance** (INR M)

| Y/E March | FY23 | | | | FY24 | | | | FY23 | FY24E | 2QFY24E | v/s Est. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Interest Income | 3,294 | 3,998 | 4,202 | 4,507 | 4,790 | 4,968 | 5,266 | 5,833 | 16,001 | 20,857 | 5,030 | -1 |
| Interest Expenses | 1,432 | 1,573 | 1,680 | 1,742 | 1,835 | 1,910 | 2,025 | 2,154 | 6,428 | 7,924 | 1,908 | 0 |
| **Net Interest Income** | **1,862** | **2,424** | **2,522** | **2,765** | **2,955** | **3,058** | **3,241** | **3,679** | **9,573** | **12,933** | **3,121** | **-2** |
| YoY Growth (%) | 47.1 | 115.4 | 59.0 | 62.0 | 58.7 | 26.1 | 28.5 | 33.0 | 68.4 | 35.1 | 29 | |
| Other Income | 311 | 526 | 463 | 700 | 738 | 745 | 595 | 393 | 1,999 | 2,470 | 664 | 11 |
| **Total Income** | **2,173** | **2,950** | **2,985** | **3,465** | **3,693** | **3,803** | **3,837** | **4,071** | **11,572** | **15,403** | **3,785** | **0** |
| YoY Growth (%) | 53.5 | 97.4 | 67.3 | 46.8 | 70.0 | 28.9 | 28.5 | 17.5 | 64.1 | 33.1 | 28 | |
| Operating Expenses | 971 | 1,077 | 1,147 | 1,253 | 1,339 | 1,385 | 1,440 | 1,573 | 4,448 | 5,736 | 1,393 | -1 |
| **Operating Profit** | **1,202** | **1,873** | **1,838** | **2,211** | **2,354** | **2,418** | **2,397** | **2,498** | **7,124** | **9,667** | **2,393** | **1** |
| YoY Growth (%) | 61.1 | 156.3 | 91.8 | 47.8 | 95.8 | 29.1 | 30.4 | 13.0 | 81.2 | 35.7 | 28 | |
| Provisions & Loan Losses | 201 | 612 | 499 | 692 | 759 | 762 | 495 | 182 | 2,004 | 2,198 | 737 | 3 |
| **Profit before Tax** | **1,001** | **1,261** | **1,339** | **1,519** | **1,595** | **1,656** | **1,901** | **2,317** | **5,120** | **7,469** | **1,656** | **0** |
| Tax Provisions | 249 | 310 | 314 | 374 | 390 | 399 | 475 | 603 | 1,248 | 1,867 | 406 | -2 |
| **Net Profit** | **752** | **951** | **1,025** | **1,145** | **1,205** | **1,257** | **1,426** | **1,714** | **3,871** | **5,601** | **1,250** | **1** |
| YoY Growth (%) | 1,605 | 2,860 | 10,835 | 768 | 60 | 32 | 39 | 50 | 1,680 | 45 | 32 | 2 |
| **Key Parameters (%)** | | | | | | | | | | | | |
| Yield on loans | 19.5 | 20.3 | 20.7 | 21.0 | 21.5 | 21.7 | | | | | | |
| Cost of funds | 10.1 | 10.1 | 10.4 | 10.4 | 10.6 | 10.6 | | | | | | |
| Spread | 9.4 | 10.2 | 10.3 | 10.6 | 10.9 | 11.1 | | | | | | |
| NIM | 9.4 | 10.2 | 10.3 | 10.6 | 10.9 | 11.1 | | | | | | |
| Credit cost | 0.2 | 0.8 | 0.6 | 0.8 | 0.8 | 0.8 | | | | | | |
| Cost to Income Ratio (%) | 44.7 | 36.5 | 38.4 | 36.2 | 36.3 | 36.4 | | | | | | |
| Tax Rate (%) | 24.9 | 24.6 | 23.5 | 24.6 | 24.5 | 24.1 | | | | | | |
| **Performance ratios (%)** | | | | | | | | | | | | |
| Avg o/s per borrower (INR '000) | 25 | 25 | 25 | 26 | 26 | 26 | | | | | | |
| AUM/ RO (INR m) | 12.0 | 12.5 | 12.9 | 14.0 | 14.0 | 14.0 | | | | | | |
| AUM/ Branch (INR m) | 78 | 79 | 84 | 88 | 91 | 88 | | | | | | |
| Borrower/ Branch (INR m) | 3,116 | 3,223 | 3,381 | 3,452 | 3,513 | 3,381 | | | | | | |
| **Balance Sheet Parameters** | | | | | | | | | | | | |
| **AUM (INR B)** | **73.9** | **80.5** | **86.5** | **93.0** | **97.1** | **100.3** | | | | | | |
| Change YoY (%) | 59.6 | 54.5 | 44.5 | 37.0 | 31.4 | 24.6 | | | | | | |
| **Disbursements (INR B)** | **19.8** | **20.5** | **21.9** | **23.7** | **22.8** | **23.4** | | | | | | |
| Change YoY (%) | | 27.4 | 22.2 | 17.7 | 15.2 | 14.2 | | | | | | |
| **Borrowings (INR B)** | **60.1** | **65.5** | **65.4** | **67.8** | **71.9** | **75.3** | | | | | | |
| Change YoY (%) | | | | 17.4 | 19.6 | 15.0 | | | | | | |
| Borrowings/Loans (%) | 90.4 | 93.0 | 86.5 | 84.3 | 85.5 | 86.6 | | | | | | |
| Debt/Equity (x) | 4.2 | 4.3 | 3.0 | 2.9 | 2.9 | 2.9 | | | | | | |
| **Asset Quality (%)** | | | | | | | | | | | | |
| **GS 3 (INR M)** | **2,529** | **2,803** | **2,894** | **2,889** | **2,790** | **2,411** | | | | | | |
| G3 % | 3.7 | 3.8 | 3.7 | 3.5 | 3.2 | 2.7 | | | | | | |
| NS 3 (INR M) | 928 | 799 | 751 | 708 | 664 | 569 | | | | | | |
| NS3 % | 1.4 | 1.1 | 1.0 | 0.9 | 0.8 | 0.7 | | | | | | |
| **PCR (%)** | **63.3** | **71.5** | **74.0** | **75.5** | **76.2** | **76.4** | | | | | | |
| ECL (%) | 3.5 | 3.9 | 3.7 | 3.7 | 3.8 | 3.3 | | | | | | |
| **Return Ratios - YTD (%)** | | | | | | | | | | | | |
| ROA (Rep) | 4.0 | 4.8 | 4.7 | 5.0 | 5.0 | 4.9 | | | | | | |
| ROE (Rep) | 21.8 | 26.0 | 22.0 | 20.2 | 20.2 | 20.0 | | | | | | |

E: MOFSL Estimates

# VRL Logistics

| BSE SENSEX | S&P CNX |
|---|---|
| 64,959 | 19,412 |

## Conference Call Details

**Date:** 07st November 2023
**Time:** 10:30 AM IST
**Dial-in details:**
Link

**Financials & Valuations (INR b)**

| Y/E MARCH | 2023 | 2024E | 2025E |
|---|---|---|---|
| Sales | 26.5 | 30.6 | 36.7 |
| EBITDA | 4.0 | 4.8 | 6.1 |
| Adj. PAT | 1.7 | 1.8 | 2.9 |
| EBITDA Margin (%) | 15.2 | 15.6 | 16.5 |
| Adj. EPS (INR) | 18.8 | 20.5 | 33.0 |
| EPS Gr. (%) | 6.4 | 9.0 | 60.9 |
| BV/Sh. (INR) | 110.5 | 125.0 | 148.1 |
| **Ratios** | | | |
| Net D:E | 0.2 | 0.2 | 0.1 |
| RoE (%) | 39.7 | 17.4 | 24.2 |
| RoCE (%) | 35.2 | 17.4 | 22.8 |
| Payout (%) | 13.5 | 29.0 | 30.0 |
| **Valuations** | | | |
| P/E (x) | 36.3 | 33.3 | 20.7 |
| P/BV (x) | 6.2 | 5.5 | 4.6 |
| EV/EBITDA(x) | 15.3 | 12.9 | 10.1 |
| Div. Yield (%) | 0.7 | 0.9 | 1.5 |
| FCF Yield (%) | -1.6 | 0.3 | 1.9 |

## CMP: INR682 Buy

## Revenue in line; high operating costs drag profitability

### 2QFY24 earnings snapshot

- Revenues grew 8% YoY to ~INR7.1b (up 5% QoQ).
- Volumes up 8% YoY from 0.97 MT in 2QFY23 to 1.05 MT in 2QFY24 (up 4.6% QoQ). Realization per ton increased ~1% YoY to INR 6,768 per ton.
- EBITDA margins stood at 12.9%, against our estimate of 15.3%. Higher Freight, Handling, and servicing costs adversely impacted margins.
- EBITDA stood at INR918m (below our estimate of INR 1.13b).
- APAT declined 37% YoY to INR 194m (vs. our estimate of INR 394m). High operating costs, higher depreciation, and interest expense dragged APAT.
- The delayed onset of the festive season in FY24 by a month has led to reduced demand of cloth and textile consignments in 2QFY24.

### Other Highlights

- For the period ending Sep'23, VRLL generated CFO of INR 2.1b vs. INR 1.6b for the corresponding period last year.
- Debt stood at INR2.9b at the end of 2QFY24 (INR1.8b at FY23 end)
- In 2QFY24, the Board has approved the sale/transfer of the Aviation Business, for a sale consideration of INR 170m with the promoter group company. All applicable clearances and approvals have been received from the concerned regulatory authorities. The profit before tax amounting to INR 4.8m (net of expenses) has been accounted as an Exceptional item.
- VRLL opened net 28 branches in 2QFY23, taking the total branch network to 1,165 as of Sep'23. The company's volume handling capacity has increased by 84,726 tons (up 13% YoY, up 3% QoQ).
- The company incurred a capex of INR 1.1b during the quarter.

**Quarterly performance** INR m

| Y/E March (INR m) | FY23 | | | | FY24E | | FY23 | FY24E | FY24 | Var. |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | | | 2QE | vs Est |
| **Net Sales** | **6,143** | **6,545** | **6,815** | **6,982** | **6,742** | **7,093** | **26,485** | **30,590** | **7,383** | **(4)** |
| YoY Change (%) | 48.5 | 2.8 | 13.3 | 17.6 | 9.7 | 8.4 | 17.9 | 15.5 | 12.8 | |
| **EBITDA** | **913** | **930** | **1,033** | **1,141** | **1,019** | **918** | **4,017** | **4,782** | **1,130** | **(19)** |
| Margins (%) | 14.9 | 14.2 | 15.2 | 16.3 | 15.1 | 12.9 | 15.2 | 15.6 | 15.3 | |
| YoY Change (%) | 153.0 | -17.9 | -12.1 | -0.7 | 11.7 | -1.3 | 5.2 | 19.1 | 21.4 | |
| Depreciation | 334 | 384 | 421 | 453 | 489 | 522 | 1,591 | 1,982 | 490 | |
| Interest | 120 | 139 | 151 | 133 | 163 | 185 | 543 | 593 | 155 | |
| Other Income | 30 | 22 | 45 | 47 | 89 | 60 | 143 | 215 | 42 | |
| **PBT before EO expense** | **488** | **429** | **506** | **602** | **456** | **271** | **2,025** | **2,422** | **527** | |
| Extra-Ord expense | -134 | 0 | -114 | -1,322 | 0 | -5 | -1,571 | 0 | 0 | |
| **PBT** | **622** | **429** | **620** | **1,924** | **456** | **276** | **3,596** | **2,422** | **527** | |
| Tax | 123 | 122 | 128 | -7 | 117 | 77 | 364 | 610 | 133 | |
| Rate (%) | 19.8 | 28.4 | 20.7 | -0.4 | 25.6 | 27.8 | 10.1 | 25.2 | 25.2 | |
| **Reported PAT** | **499** | **307** | **492** | **1,932** | **339** | **199** | **3,232** | **1,812** | **394** | **(49)** |
| **Adj PAT** | **365** | **307** | **378** | **610** | **339** | **194** | **1,661** | **1,812** | **394** | **(51)** |
| YoY Change (%) | NA | -37.9 | -33.1 | 16.6 | -6.9 | -36.7 | 9.2 | 9.0 | 28.3 | |
| Margins (%) | 5.9 | 4.7 | 5.5 | 8.7 | 5.0 | 2.7 | 6.3 | 5.9 | 5.3 | |

# V-Mart Retail

| BSE SENSEX | S&P CNX |
|---|---|
| 64,959 | 19,412 |

## Conference Call Details

**Date:** 07th Nov 2023

**Time:** 16:00 IST

**Financials & Valuations (INR b)**

| INR million | FY23 | FY24E | FY25E |
|---|---|---|---|
| Sales | 24.6 | 29.0 | 34.6 |
| EBITDA | 2.7 | 2.2 | 4.0 |
| NP | -0.1 | -0.6 | 0.7 |
| EBITDA Margin (%) | 10.9 | 7.8 | 11.7 |
| Adj. EPS (INR) | -4.3 | -33.1 | 38.1 |
| EPS Gr. (%) | NM | 662.5 | -215.3 |
| BV/Sh. (INR) | 469.1 | 436.1 | 474.2 |
| **Ratios** | | | |
| Net D:E | 1.5 | 1.6 | 1.5 |
| RoE (%) | NM | NM | 8.4 |
| RoCE (%) | 3.2 | 1.6 | 7.9 |
| Payout (%) | 0.0 | 0.0 | 0.0 |
| **Valuations** | | | |
| P/E (x) | NM | NM | 60.1 |
| EV/EBITDA (x) | 20.3 | 24.2 | 13.4 |
| EV/Sales (x) | 1.7 | 1.5 | 1.2 |
| Div. Yield (%) | 0.0 | 0.0 | 0.0 |
| FCF Yield (%) | -1.8 | 1.8 | 3.4 |

## CMP: INR1,704 BUY

## Net loss widens to INR641m (est. INR454m loss) due to -6% LFL

- Consolidated revenue grew 8.5% YoY to INR5.5b (7% miss) in 2QFY24, mainly driven by footprint additions as LFL sales were down 6% on a blended basis.
  - **Revenue from VMart (core) grew 5% YoY to INR4.2b, driven by store additions, as revenue/sqft declined 4% YoY to INR1,409 (Calc.)**.
  - Unlimited revenue remained flat YoY at INR1b, while Limeroad revenue stood at INR219m.
- Gross margins contracted by ~170bp YoY to 34.6%, likely due to a contraction in ASPs. Consequently, gross profits grew by 3.5% YoY to INR1.9b (6.5% miss).
  - Overall ASPs declined 8% YoY to INR209, while apparel ASP declined 9% to INR326.
- Employee costs/other expenses surged 27.2%/59.4% YoY, possibly due to Limeroad costs.
- Consequently, EBITDA saw a steep decline YoY to INR7m (big miss), dragged down by weak LTL growth and losses in Limeroad.
  - EBITDA margins for VMart/Unlimited contracted 670bp/680bp.
  - Losses in Limeroad narrowed to INR198m vs. INR256m in 1QFY24.
  - Pre Ind AS 116 operating loss stood at INR498m in 2Q.
- VMART reported a net loss of INR641m (est. INR454m loss), impacted by lower operating profits.

## Balance sheet, cash flow and capex

- As of Sep'23, net debt stood at INR1.5b vs. INR1.2b as of Mar'23, as the company saw incremental borrowings during the quarter.
- OCF in 1HFY24 improved to INR1.4b, mainly driven by the release of working capital. Trade payable days (calc.) increased to 85 days in 1HFY24 from 60 days in 1HFY23, while inventory days improved to 124 days (vs. 151 days).
- VMART opened eight new stores (5 under V-Mart and 3 under Unlimited) and closed two stores in 2QFY24, taking the total store count to 437.

**Consolidated - Quarterly Earning Model** (INR m)

| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | FY24 | Est. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | 2QE | Var (%) |
| **Revenue** | **5,879** | **5,062** | **7,769** | **5,939** | **6,785** | **5,494** | **9,245** | **7,433** | **24,648** | **28,958** | **5,897** | **-7** |
| YoY Change (%) | 231.4 | 49.8 | 12.3 | 29.5 | 15.4 | 8.5 | 19.0 | 25.2 | 47.9 | 17.5 | 16.5 | |
| Total Expenditure | 4,992 | 4,526 | 6,732 | 5,710 | 6,261 | 5,488 | 7,951 | 7,015 | 21,959 | 26,714 | 5,705 | -4 |
| **EBITDA** | **887** | **536** | **1,037** | **229** | **525** | **7** | **1,294** | **419** | **2,689** | **2,244** | **192** | **-97** |
| EBITDA Margin (%) | 15.1 | 10.6 | 13.3 | 3.9 | 7.7 | 0.1 | 14.0 | 5.6 | 10.9 | 7.8 | 3.3 | |
| Depreciation | 402 | 441 | 473 | 484 | 499 | 532 | 532 | 374 | 1,800 | 1,937 | 499 | 7 |
| Interest | 247 | 279 | 307 | 336 | 330 | 359 | 359 | 249 | 1,169 | 1,297 | 330 | 9 |
| Other Income | 41 | 27 | 7 | 75 | 15 | 20 | 20 | 115 | 150 | 170 | 15 | 32 |
| **PBT** | **278** | **-157** | **264** | **-516** | **-290** | **-864** | **423** | **-89** | **-130** | **-820** | **-623** | **39** |
| Tax | 74 | -44 | 64 | -146 | -70 | -223 | 114 | -43 | -52 | -221 | -168 | |
| Rate (%) | 26.5 | 27.9 | 24.4 | 28.3 | 24.2 | 25.8 | 27.0 | 47.6 | 39.7 | 27.0 | 27.0 | |
| **Reported PAT** | **205** | **-113** | **200** | **-370** | **-219** | **-641** | **309** | **-47** | **-78** | **-598** | **-454** | **41** |
| **Adj PAT** | **205** | **-113** | **200** | **-370** | **-219** | **-641** | **309** | **-47** | **-78** | **-598** | **-454** | **41** |
| YoY Change (%) | -171.2 | -20.0 | -65.0 | 1,314.5 | -207.3 | 466.8 | 54.7 | -87.3 | -167.4 | 662.5 | 301.7 | |

E: MOFSL Estimates

# Repco Home Finance

## Conference Call Details

**Date:** 10th Nov 2023

**Time:** 16:00 HRS IST

**Dial-in details:**

+91 22 6280 1315

Link

**Financials & Valuations (INR b)**

| Y/E March | FY23 | FY24E | FY25E |
|---|---|---|---|
| NII | 5.6 | 6.2 | 6.7 |
| PPP | 4.5 | 5.1 | 5.5 |
| PAT | 3.0 | 3.6 | 3.8 |
| EPS (INR) | 47.3 | 57.6 | 61.2 |
| EPS Gr. (%) | 55 | 22 | 6 |
| BV/Sh. (INR) | 402 | 456 | 514 |
| **Ratios** | | | |
| NIM (%) | 4.8 | 4.9 | 4.7 |
| C/I ratio (%) | 24.4 | 23.9 | 24.2 |
| RoAA (%) | 2.4 | 2.7 | 2.6 |
| RoE (%) | 12.5 | 13.4 | 12.6 |
| Payout (%) | 5.7 | 5.7 | 5.5 |
| **Valuation** | | | |
| P/E (x) | 8.1 | 6.7 | 6.3 |
| P/BV (x) | 1.0 | 0.8 | 0.7 |
| P/ABV (x) | 1.1 | 0.9 | 0.8 |
| Div. Yield (%) | 0.7 | 0.8 | 0.9 |

**CMP: INR416** **Neutral**

## Healthy organic improvement in asset quality

### Earnings beat driven by NIM expansion and lower credit costs

- 2QFY24 PAT grew 38% YoY to INR981m (7% beat), driven by NIM expansion and lower credit costs. NII grew 24% YoY/10% QoQ to INR1.7b (7% beat). Annualized credit costs stood at ~0.05bp (PQ: 15bp). PPOP grew 17% YoY to INR1.34b (in line).
- GNPA/NNPA improved ~60bp each QoQ to 4.9%/2.2% and the company increased the PCR on S3 loans by ~6pp QoQ to ~57%. ECL/EAD declined ~5bp sequentially to ~4.1%.

### Disbursement momentum still muted

- Repco's operational performance in 2QFY24 was characterized by ~7% YoY growth in disbursements to ~INR7.9b. Loan book also grew 7% YoY to ~INR129.2b. While Home Loans grew 1% YoY and LAP book grew 30% YoY.
- Run-offs increased sequentially with repayment rates rising ~140bp QoQ to ~17% (PY: ~18%).
- Contribution of self-employed customers declined sequentially to ~51% (PQ:52%).

### Spreads expand sequentially, driven by higher yields

- The sequential ~20bp rise in yields to 11.8% was offset by a ~20bp QoQ increase in CoF to 8.4%. Reported spreads rose ~10bp QoQ to 3.4%, while reported margin rose ~30bp QoQ to 5.4%.
- Cost-to-income ratio (CIR) was stable QoQ at ~24%.

### Other details

- Repco reported a 2QFY24 RoA/RoE of 3.1%/16%.
- Repco added seven branches during the quarter and as of Sep'23, it had a total network of 166 branches and 33 satellite centres spread across India.
- CRAR was healthy at ~36% in 2QFY24.

### Valuation and view

- While the asset quality continues to improve, it would be valuable to hear from the management about the extent of improvement it anticipates in asset quality and its expectations regarding credit costs in FY24.
- Repco trades at 0.8x FY25E P/BV. We will look forward to the management's commentary on the demand environment and its strategies for increasing disbursements. We will look to review our estimates post the analyst call on 10th Nov'23.

**Quarterly performance** **(INR M)**

| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | 2QFY24E | Act v/s est(%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Interest Income | 2,980 | 3,064 | 3,197 | 3,330 | 3,572 | 3,770 | 3,828 | 3,455 | 12,570 | 14,625 | 3,654 | 3 |
| Interest Expenses | 1,653 | 1,692 | 1,810 | 1,856 | 2,026 | 2,075 | 2,116 | 2,168 | 7,011 | 8,385 | 2,077 | 0 |
| **Net Income** | **1,327** | **1,372** | **1,387** | **1,474** | **1,546** | **1,695** | **1,712** | **1,287** | **5,560** | **6,240** | **1,577** | **7** |
| YoY Growth (%) | -8.4 | -12.1 | -7.0 | 4.9 | 16.5 | 23.6 | 23.4 | -12.7 | -5.8 | 12.2 | 15.0 | |
| Other income | 90 | 112 | 111 | 108 | 93 | 69 | 76 | 246 | 421 | 484 | 108 | -36 |
| **Total Income** | **1,417** | **1,484** | **1,499** | **1,581** | **1,639** | **1,765** | **1,788** | **1,533** | **5,981** | **6,725** | **1,685** | **5** |
| YoY Growth (%) | -3.4 | -7.3 | -2.4 | 1.2 | 15.7 | 18.9 | 19.3 | -3.1 | -3.0 | 12.4 | 13.5 | |
| Operating Expenses | 339 | 343 | 398 | 378 | 392 | 426 | 431 | 357 | 1,458 | 1,605 | 400 | 7 |
| YoY Growth (%) | 37.8 | 21.1 | 15.8 | 2.8 | 15.7 | 24.4 | 8.2 | -5.7 | 17.5 | 10.1 | 16.6 | |
| **Operating Profits** | **1,078** | **1,141** | **1,101** | **1,203** | **1,247** | **1,338** | **1,358** | **1,176** | **4,523** | **5,120** | **1,285** | **4** |
| YoY Growth (%) | -11.7 | -13.4 | -7.7 | 0.7 | 15.7 | 17.3 | 23.4 | -2.2 | -8.2 | 13.2 | 12.6 | |
| Provisions | 237 | 188 | 12 | 79 | 50 | 16 | 68 | 112 | 516 | 246 | 51 | -69 |
| **Profit before Tax** | **841** | **954** | **1,089** | **1,124** | **1,198** | **1,322** | **1,289** | **1,064** | **4,008** | **4,873** | **1,234** | **7** |
| Tax Provisions | 220 | 242 | 282 | 303 | 307 | 341 | 335 | 290 | 1,047 | 1,273 | 316 | 8 |
| **Profit after tax** | **621** | **712** | **808** | **821** | **891** | **981** | **954** | **774** | **2,961** | **3,601** | **918** | **7** |
| YoY Growth (%) | 93.2 | -17.2 | 156.6 | 95.3 | 43.5 | 37.9 | 18.1 | -5.7 | 54.6 | 21.6 | 29.0 | |
| Loan growth (%) | -1.0 | 1.5 | 3.5 | 5.9 | 6.7 | 7.1 | 7.9 | 9.3 | 5.9 | 10.8 | 7.3 | |
| Cost to Income Ratio (%) | 23.9 | 23.1 | 26.6 | 23.9 | 23.9 | 24.2 | 24.1 | 23.3 | 24.4 | 23.9 | 23.7 | |
| Tax Rate (%) | 26.2 | 25.4 | 25.8 | 27.0 | 25.6 | 25.8 | 26.0 | 27.2 | 26.1 | 26.1 | 25.6 | |
| **Key Parameters (%)** | | | | | | | | | | | | |
| Yield on loans (Cal) | 10.1 | 10.2 | 10.5 | 10.8 | 11.4 | 11.8 | | | 10.8 | 11.6 | | |
| Cost of funds (Cal) | 7.0 | 7.1 | 7.5 | 7.6 | 8.2 | 8.3 | | | 7.1 | 8.1 | | |
| Spreads (Cal) | 3.1 | 3.1 | 3.0 | 3.2 | 3.2 | 3.5 | | | 3.7 | 3.6 | | |
| NIMs (Reported) | 4.6 | 4.8 | 4.8 | 5.1 | 5.1 | 5.4 | | | 4.8 | 4.9 | | |
| Credit Cost | 0.80 | 0.63 | 0.04 | 0.26 | 0.16 | 0.05 | | | 0.4 | 0.2 | | |
| Cost to Income Ratio | 23.9 | 23.1 | 26.6 | 23.9 | 23.9 | 24.2 | | | 24.4 | 23.9 | | |
| Tax Rate | 26.2 | 25.4 | 25.8 | 27.0 | 25.6 | 25.8 | | | 26.1 | 26.1 | | |
| **Balance Sheet** | | | | | | | | | | | | |
| AUM (INR B) | 118.6 | 120.7 | 122.0 | 124.5 | 126.6 | 129.2 | | | 124.5 | 136.0 | | |
| Change YoY (%) | -1.0 | 1.5 | 3.5 | 5.9 | 6.7 | 7.1 | | | 5.9 | 9.3 | | |
| AUM Mix (%) | | | | | | | | | | | | |
| Non-Salaried | 51.2 | 51.0 | 50.9 | 51.6 | 51.8 | 51.0 | | | 51.6 | | | |
| Salaried | 48.8 | 49.0 | 49.1 | 48.4 | 48.2 | 49.0 | | | 48.4 | | | |
| AUM Mix (%) | | | | | | | | | | | | |
| Home loans | 80.7 | 80.4 | 79.9 | 79.3 | 76.9 | 76.2 | | | 79.3 | 76.0 | | |
| LAP | 19.3 | 19.6 | 20.1 | 20.7 | 23.1 | 23.8 | | | 20.7 | 24.0 | | |
| Disbursements (INR B) | 6.4 | 7.5 | 7.0 | 8.4 | 6.8 | 8.0 | | | 29.2 | 32.7 | | |
| Change YoY (%) | 167.9 | 54.0 | 56.8 | 38.9 | 6.6 | 6.9 | | | 65.0 | 12.0 | | |
| Borrowings (INR B) | 93.1 | 96.4 | 96.0 | 99.1 | 99.1 | 100.5 | | | 99 | 109.1 | | |
| Change YoY (%) | -6.9 | -2.6 | -0.2 | 2.3 | 6.4 | 4.3 | | | 2.3 | 10.0 | | |
| Loans/Borrowings (%) | 127.4 | 125.2 | 127.1 | 125.6 | 127.8 | 128.6 | | | 125.6 | 124.7 | | |
| Borrowings Mix (%) | | | | | | | | | | | | |
| Banks | 71.0 | 71.8 | 72.1 | 73.8 | 74.1 | 75.6 | | | 73.8 | | | |
| NHB | 19.3 | 17.4 | 16.5 | 15.1 | 14.9 | 13.1 | | | 15.1 | | | |
| Repco Bank | 9.8 | 10.8 | 11.4 | 11.1 | 11.0 | 11.4 | | | 11.1 | | | |
| NCD | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | 0.0 | | | |
| CP | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | 0.0 | | | |
| **Asset Quality** | | | | | | | | | | | | |
| GS 3 (INR B) | 7.6 | 7.9 | 7.5 | 7.2 | 6.9 | 6.4 | | | 7.2 | 6.2 | | |
| Gross Stage 3 (% on Assets) | 6.4 | 6.5 | 6.2 | 5.8 | 5.5 | 4.9 | | | 5.8 | 4.6 | | |
| NS 3 (INR B) | 4.8 | 4.5 | 4.0 | 3.6 | 3.4 | 2.7 | | | 3.6 | 2.7 | | |
| Net Stage 3 (% on Assets) | 4.2 | 3.9 | 3.5 | 3.0 | 2.8 | 2.2 | | | 3.0 | 2.1 | | |
| PCR (%) | 36.8 | 43.1 | 46.2 | 49.6 | 51.4 | 57.4 | | | 49.6 | 56.0 | | |
| **Return Ratios (%)** | | | | | | | | | | | | |
| ROA (Rep) | 2.1 | 2.4 | 2.7 | 2.7 | 2.8 | 3.1 | | | 2.4 | 2.7 | | |
| ROE (Rep) | 11.9 | 13.3 | 14.7 | 14.4 | 15.8 | 16.1 | | | 11.8 | 13.4 | | |

E: MOFSL Estimates

## Spends momentum robust; remain watchful on near-term margins

### Credit cost to witness a gradual moderation

**We organized an interactive session with Mr Girish Budhiraja, Chief Sales & Marketing Officer, Ms Rashmi Mohanty, Chief Financial Officer and Mr. Shantanu Srivastava, Chief Risk Officer at SBI Cards to discuss the outlook of the credit card industry and the key business metrics of SBICARD. Key insights from the discussion are highlighted below:**

### Spends momentum healthy; festive demand to aid overall business activity

SBICARD has strengthened its position as the second largest card player in the country with a market share of 19.2% in O/S cards and 17.9% in overall spending. O/S cards for SBICARD stood at 17.9m in Sep'23 vs. 14.8m in Sep'22 and the company expects the card base for the industry to grow at ~18-20% over the next few years. Industry spends too are growing at a healthy run rate and stands close to its all-time high at INR1.4t during Sep'23. Further, buoyed by the demand in festive season, the spends momentum is likely to maintain a healthy rate and the company expects retail card spends to register a CAGR of 25% over the next few years.

### Online spends robust; Rupay cards remain an interesting business opportunity

POS spends have picked up across all key categories, though the mix of online spends continues to remain robust at ~55-57%. Rupay cards in the portfolio stands at 10% with the company being the largest player in RuPay credit cards. Currently, 9% of RuPay cardholders actively use UPI, with an average monthly spending of INR11,000. This trend bodes well for overall spending, especially in Tier 2-3 cities where the POS infrastructure is limited.

**SBI Cards and Payment Services**

**Mr. Girish Budhiraja – Chief Sales & Marketing Officer**

Mr. Budhiraja joined SBI Card on 22 Oct'12 and has been a part of SBI group, for almost a decade. He has handled several key assignments, across India with a total experience of ~28 years.An Engineering Graduate, Mr. Budhiraja has completed B tech from IIT, Dhanbad and has done masters in business administration from IIM, Bangalore.

### Static revolver mix coupled with rising CoF to keep near-term margins under check

SBICARD's revolver rate has been static for the past several quarters at 24% (down 10% from the 2QFY21-levels). The company has tried to mitigate the impact fromlower revolve rate by increasing the mix of EMI customers. Consequently, the combined percentage of Revolve and EMI loans has risen to 62% (300bp YoY increase). The company expects the revolve rate to be sticky in the near term though the mix of EMI customers will likely show an improving trend. Management expects the cost of funds to witness slight pressure going forward as the rate environment has hardened further, keeping near-term margins under check. SBIC has about 65% of the borrowings from short-term funds, re-pricing of which is likely to exert pressure on overall funding costs. SBI Cards has reported NIM compression of 12b QoQ in 2QFY24 and has guided for near-term margin pressure to continue before it recovers in FY25.

### Credit Cost to stay elevated; normalization likely to happen in a few quarters

Credit cost is expected to stay elevated over the near term, reflecting a slight increase in systemic stress with respect to unsecured loans. The company has witnessed higher stress from the 2019 vintage and indicated that the share of this portfolio in total NEA has declined to 14% and 2018 cohort stands at ~8% currently. SBICARD has implemented several portfolio and account monitoring measures to detect early warning signs, effectively limiting the levels of asset quality stress. Credit Bureau reports that the delinquency in credit cards and PL is showing an uptick and there is a pick-up in 30-day and 90-day delinquencies. SBI Cards has thus indicated the presence of some stress build-up in the consumer loan portfolio. Consequently, we anticipate that credit costs will remain elevated in the near term, with projected FY24E credit costs at 6.4% vs 6.0% in FY23.

## Sourcing from Banca and Open channel at equal weights; focus shifted to tier 2 cities and below

Incremental sourcing from the Banca channel has improved and now forms ~49% of the total card sourcing vs. 42% on an outstanding basis. In terms of new sourcing, Tier-2 & 3 now form 51% of the incremental sourcing (vs. 46% on an outstanding basis) with the customers typically undertaking utility-based spends. Further, the mix of self-employed category in the new card sourcing has also increased to 41%, reflecting the change in the geographical mix. SBIC had witnessed issues in Tier 3 & 4 cities and has taken corrective steps to control issues in this book. SBICARD believes that the linking of Rupay cards with UPI is useful for Tier 2-4 cities as these cities lack the POS infrastructure which augurs well for overall card spending in these geographies.

## Other highlights

- Revolver customers have a lower tenor of ~2-4 months with higher interest rate of ~42% than EMI customers who have a tenor of ~9-12 months with an interest rate of ~18-20%.
- Most of the subvention book is re-priced; Flexi pay is of 11-12 months tenor and some part is yet to be re-priced. Flexi rates had come down earlier and now the rates are 200bp higher than the lower levels seen in Jul-Aug'22. Encash rates are broadly similar; and subvention has gone up by 100- 200bp.
- In the open market, when acquiring new customers, the company exclusively targets creditworthy individuals. It looks for existing credit card customers with a healthy CIBIL score of 720+. On the banca side, the company aims to acquire new to credit and  new to credit card customer.
- SBI Cards has effectively managed stress within the 2019 cohort, and the portfolio-level strategies have yielded positive results. However, the management has noted a slight increase in stress, with some customers facing challenges in repayment. The proportion of the 2019 cohort has declined to 14% from 16% of NEA.
- SBI Card has witnessed some stress in Tier 3 and 4 cities, after which, it exited some of these cities. SBICARD expects the stress levels to be elevated in 3Q, though this is not due to any specific cohort and reflects the ongoing systemic trends.
- The company has tied up with Reliance retail and has launched Reliance SBI Credit card on 31st October, aimed toward garnering more share in retail spending.

## Valuation and view: Near-term profitability suppressed; Estimate earnings to accelerate from FY25E

SBICARD has been reporting a mixed performance as spends momentum has been strong, while higher credit cost and lower margins are dragging earnings. The mix of revolvers remain static, while management indicated that the recent hardening of interest rates will exert pressure on funding costs in the coming quarters. This could drive further margin compression over 2HFY24 as the outlook on any increase in the mix of EMI and Revolver loans remains uncertain. Management indicated for a slight rise in stress levels, which will likely keep credit costs elevated over the near term. However, on the positive side, spending growth remains healthy, while the company maintains a healthy traction in new card additions. Reversal in rate cycle and the lagged improvement in revolver mix remain the key triggers. We expect SBICARD to report 35% earnings CAGR over FY24-26E, with a superior RoA/RoE of ~5.6%/~26% by FY26E, while earnings growth for the current fiscal is expected to remain modest. We reiterate our **BUY rating with a TP of INR900 (premised on 22x Sep'25E EPS).**

## EAI – Monthly Dashboard: Economic activity robust in Sep’23…

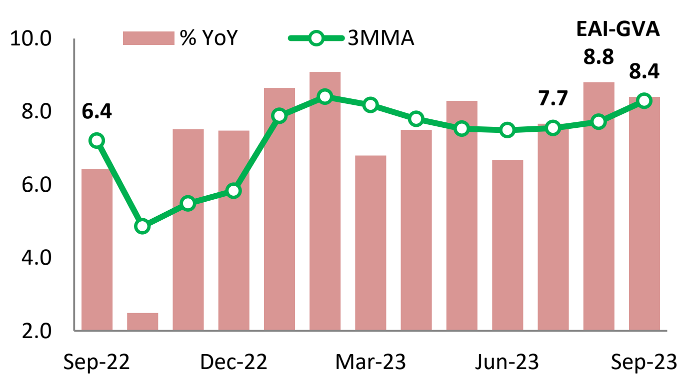
**…driven by a pick-up in consumption**

- **Preliminary estimates indicate that India's EAI for GVA remained robust. It grew 8.4% YoY in Sep'23 (vs. 8.8%/6.4% YoY in Aug’23/Sep'22), implying 8.3% YoY growth in 2QFY24, much better than anticipated. The acceleration in growth (vs. Sep’22) was led by a seven-month high growth in the services sector (up 9.9% YoY), and a strong growth in the industrial sector (up 8.9% YoY) in Sep'23. On the contrary, farm sector growth weakened to a 50-month low of 1.4% YoY in Sep'23.**
- **EAI-GDP growth accelerated to 9.6% YoY in Sep'23 (vs. 7.3%/5.1% YoY in Aug'23/Sep'22). The robust growth was fueled by private consumption (up 6.1% YoY in Sep'23 vs. 3.2%/2.6% Aug'23/Sep'22), while investment growth eased to a 19-month low of 4.1% YoY in Sep'23 (vs. 13.9%/18.7% in Aug'23/Sep'22). Excluding fiscal spending, EAI-GDP posted its first double-digit growth in 15 months.**
- **High-frequency indicators for Oct'23 portrayed a mixed picture. Manufacturing PMI was down to an eight-month low, Vaahan registrations contracted after five months, and toll collections as well as water reservoir levels remained low. On the other hand, sales of CVs/PVs, rail freight traffic, rail passenger traffic, and power generation remained robust in Oct'23. Overall, there has been no reason to believe that growth weakened in Oct’23, though Nov’23 could be a different story.**
- **EAI-GVA grew 8.3% YoY in 2QFY24, which was much better than anticipated. Therefore, there is a strong possibility of an upward revision in our 2QFY24 growth forecast of ~6.2% (the RBI's forecast for 2QFY23 has been 6.5%). Thus, real GDP growth could be 6.5-6.6% YoY in 2QFY24, in line with the RBI’s projections.**

Preliminary estimates indicate that India’s EAI for GVA grew 8.4% YoY in Sep’23 (vs. 8.8%/6.4% YoY in Aug’23/Sep’22).

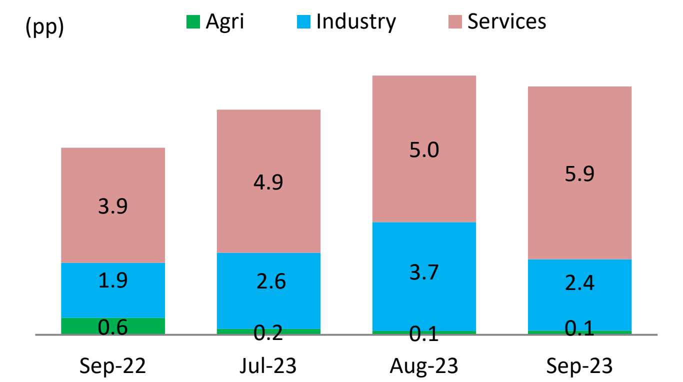
- **EAI-GVA grew 8.4% in Sep’23…:** Preliminary estimates indicate that India's EAI for GVA remained robust. It grew 8.4% YoY in Sep'23 (vs. 8.8%/6.4% YoY in Aug’23/Sep'22), implying 8.3% growth in 2QFY24, much better than anticipated. The acceleration in growth (vs. Sep’22) was led by a seven-month high growth in the services sector (up 9.9% YoY), and a strong growth in the industrial sector (up 8.9% YoY) in Sep'23. On the contrary, farm sector growth weakened to a 50-month low of 1.4% YoY in Sep'23 *(Exhibits 1, 2)*.
- **… and EAI-GDP growth accelerated to 9.6%, led up a pick-up in consumption:** EAI-GDP growth accelerated to 9.6% YoY in Sep'23 (vs. 7.3%/5.1% YoY in Aug'23/Sep'22). The robust growth was fueled by private consumption (up 6.1% YoY in Sep'23 vs. 3.2%/2.6% Aug'23/Sep'22), while investment growth eased to a 19-month low of 4.1% in Sep'23 (vs. 13.9%/18.7% in Aug'23/Sep'22). Excluding fiscal spending, EAI-GDP reported its first double-digit growth in 15 months *(Exhibits 3, 4)*.

**Exhibit 1: EAI-GVA grew 8.4% in Sep’23 vs. 6.4% in Sep’22…**




Please refer to our earlier report for details

**Exhibit 2: …on the back of robust services sector growth**




Source: Various national sources, CEIC, MOFSL

## Cello World: Consumer Biz To Hit 15% Of Revenue Over The Next Couple Of Years; Pradeep Rathod, CMD

- Looking at 20% plus growth going ahead
- Took small loan from one of the Directors for growth
- Expect turnover of Rs 275-300 cr from Rajasthan glassware plant
- 12% of our consumer rev comes from online, want to scale it up to 15%
- Expect consumer biz to hit 15% of revenue over the next couple of Years

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## Bharat Forge: We Are In A Major Transformation Phase To Move From Components To Products; Baba Kalyani, CMD

- Indigenous orders for artillery guns will add 2,000 cr to the defence orderbook
- Have repaid debt of Rs.350 cr and will repay 500 cr more
- Very optimistic about growth in the second half
- We have had big improvements in North American truck orders

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## Titan: Will Focus On Increasing Growth In Eyecare Biz With New Launches; Ashok Sonthalia, CFO

- Have minority stake in a lab grown diamonds co in the US
- India has crossed China as the largest market for wearable units
- Caratlane can grow around 48-49% in FY24
- Jewellery margin in FY24 can be between 12-13%
- Expect total debt in Dec quarter to be around Rs 3,000-3,500 cr

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## Escorts Kubota: Construction Equipment Is Seeing Very Strong Growth; Bharat Madan

- October month has been soft due to shifting of seasons
- November will be better than October
- Looking at mild growth in Q3, around 2-3%
- News reports around sale of railway business are speculative
- Q2 saw very strong demand in construction space, will continue this momentum

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## Thermax: Q2 Was Slightly Disappointing, Saw Project Closure Delays; Ashish Bhandari, MD & CEO

- There are few larger orders from petchem & refining
- Q2 was slightly disappointing, saw project closure delays
- Expecting better H2 as far as large projects are concerned
- Q2 was muted in terms of large order inflow
- Quarterly run rate of Rs 2,300-2,500 cr in revenue sustainable for the next 2 quarters

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