## Market snapshot

| Equities - India | Close | Chg .% | CYTD.% |
|---|---|---|---|
| Sensex | 63,875 | -0.4 | 5.0 |
| Nifty-50 | 19,080 | -0.3 | 5.4 |
| Nifty-M 100 | 38,877 | 0.4 | 23.4 |
| **Equities-Global** | **Close** | **Chg .%** | **CYTD.%** |
| S&P 500 | 4,194 | 0.6 | 9.2 |
| Nasdaq | 12,851 | 0.5 | 22.8 |
| FTSE 100 | 7,322 | -0.1 | -1.7 |
| DAX | 14,810 | 0.6 | 6.4 |
| Hang Seng | 5,862 | -1.7 | -12.6 |
| Nikkei 225 | 30,859 | 0.5 | 18.3 |
| **Commodities** | **Close** | **Chg .%** | **CYTD.%** |
| Brent (US$/Bbl) | 89 | -0.6 | 8.8 |
| Gold ($/OZ) | 1,984 | -0.6 | 8.8 |
| Cu (US$/MT) | 8,029 | -0.5 | -4.0 |
| Almn (US$/MT) | 2,240 | -0.8 | -4.7 |
| **Currency** | **Close** | **Chg .%** | **CYTD.%** |
| USD/INR | 83.3 | 0.0 | 0.6 |
| USD/EUR | 1.1 | -0.4 | -1.2 |
| USD/JPY | 151.7 | 1.7 | 15.7 |
| **YIELD (%)** | **Close** | **1MChg** | **CYTD chg** |
| 10 Yrs G-Sec | 7.4 | -0.02 | 0.0 |
| 10 Yrs AAA Corp | 7.8 | -0.02 | 0.1 |
| **Flows (USD b)** | **31-Oct** | **MTD** | **CYTD** |
| FIIs | -0.1 | -2.69 | 12.2 |
| DIIs | 0.04 | 3.44 | 19.1 |
| **Volumes (INRb)** | **31-Oct** | **MTD*** | **YTD*** |
| Cash | 658 | 722 | 670 |
| F&O | 4,24,037 | 3,18,868 | 2,65,831 |

Note: Flows, MTD includes provisional numbers.
*Average

## Today's top research idea

### Star Health Insurance: Higher claims & expense ratios lead to a higher combined ratio

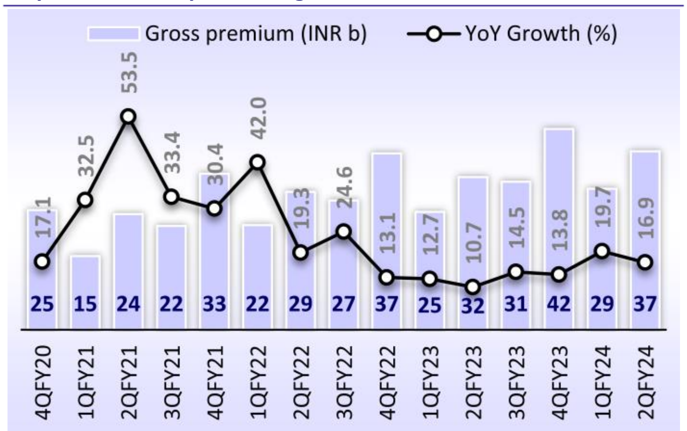
- Star Health (STARHEAL) reported PAT of INR1.3b in 2QFY24 vs. INR934m in 2QFY23. PAT was 32% below our estimate due to a higher-than expected claims and expense ratio. Incurred claims were broadly in line with our estimate, but the claims ratio at 68.7% was higher than our estimate of 67%. It was up 50bp YoY/ 330bp QoQ. Claims ratio was elevated owing to severity more than frequency.
- STARHEAL had taken a price revision in Family Health Optima, (w.e.f from 1st May 2023 on renewal book) which will be reflected over the next 12 months. The policy renewals (both volumes and value) are in line with Company's expectations.
- As compared to the earlier guidance of 63-65% loss ratio, management now expects to exceed the same given the rising incidences of fever and respiratory diseases. We have cut our EPS estimates 13%/4% for FY24/25 to factor in higher claims ratio and expense ratio as reported in 1HFY24. Considering the long term growth potential for the industry along with investments by STARHEAL in profitable channels and products we reiterate our BUY rating on the stock with a TP of INR730 (based on 33x FY25E EPS).

## Research covered

| Cos/Sector | Key Highlights |
|---|---|
| Star Health Insurance | Higher claims & expense ratios lead to a higher combined ratio |
| DLF | Reiterates pre-sales guidance of INR130b with upside bias |
| GAIL | Petrochemical segment remains a pain point |
| Jindal Steel & Power | Operationally in-line performance |
| Other Notes | Tube Investments \| Motherson Wiring \| Ajanta Pharma \| Navin Fluo.Intl. \| Craftsman Auto \| Transport Corp. \| SIS \| DCB Bank \| Bharti Airtel \| IOCL \| Tata Consumer \| Max Financial \| Vedant Fashions \| MRPL \| Kaynes Technology \| Amara Raja Enterprises \| Cement \| EcoScope |

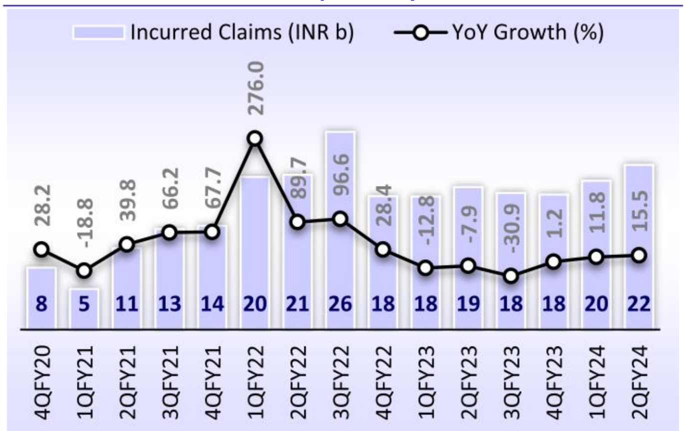
## Chart of the Day: Star Health Insurance (Higher claims & expense ratios lead to a higher combined ratio)

**Improvement in premium growth**




Source: MOFSL, Company

**Incurred claims increased sequentially**




Source: MOFSL, Company

Research Team (Gautam.Duggad@MotilalOswal.com)

## In the news today

Kindly click on textbox for the detailed news link

1

### Infosys loses another veteran to rival company

Ranjan, who was the executive vice president (EVP) and service offering head for manufacturing in India and Japan business units, left Infosys to join US-based engineering firm Ness Digital Engineering as its chief operating officer (COO).

2

### Auto dispatches may scale new peak in October

Carmakers in India have reportedly delivered record numbers of vehicles to dealers in October in anticipation of robust demand. Estimates suggest they shipped between 380,000 and 385,000 cars during the month, outpacing the previous high of 362,000 cars in September, representing an annual growth of 13.5% to 14.5%.

3

### Reliance & SBI Card tie-up to launch lifestyle-focused credit card

SBI Card has partnered with Reliance Retail to launch the eco-friendly Reliance SBI Card credit card, granting shoppers at Reliance Retail access to rewards.

4

### India's gross tax receipts remain robust; fiscal deficit at Rs 7.02 trn

India's gross tax receipts, comprising both direct and indirect taxes, increased by 16.3 per cent to Rs 16.19 trillion on an annual basis in the first half (H1) of 2023–24 (FY24).

5

### Government hikes windfall tax on petroleum crude to 9,800 rupees/ton

The windfall tax on aviation turbine fuel that had been 1 rupee/liter has been removed, the notification said. The government has also reduced the windfall tax on diesel to 2 rupees/litre from 4 rupees/litre.

6

### Registration of properties in Mumbai up 26 pc to 10,607 units in Oct

In a significant surge, the registration of properties in the Mumbai municipal region witnessed a substantial annual growth of 26 percent, with a total of 10,607 units registered during the month of October.

7

### ISA hikes viability gap funding for solar projects

Global investment in solar energy surpassed $300 billion in 2022, but only 15% of that went to developing countries, according to an ISA report published last year.

31 October 2023
2QFY24 Results Update | Sector: Insurance

# Star Health

| | |
|---|---|
| **Estimate change** | ↓ |
| **TP change** | ↓ |
| **Rating change** | |

| | |
|---|---|
| Bloomberg | STARHEAL IN |
| Equity Shares (m) | 576 |
| M.Cap.(INRb)/(USDb) | 339.4 / 4.1 |
| 52-Week Range (INR) | 735 / 451 |
| 1, 6, 12 Rel. Per (%) | 0/-7/-25 |
| 12M Avg Val (INR M) | 456 |

**Financials & Valuations (INR b)**

| Y/E March | 2023 | 2024E | 2025E |
|---|---|---|---|
| NEP | 112.6 | 133.3 | 159.0 |
| U/W Profit | 2.0 | 2.2 | 5.0 |
| PBT | 8.3 | 12.6 | 17.1 |
| PAT | 6.2 | 9.4 | 12.8 |
| **Ratios (%)** | | | |
| Claims | 65.0 | 64.8 | 64.2 |
| Commission | 13.7 | 13.6 | 13.6 |
| Expense | 16.7 | 16.6 | 15.8 |
| Combined | 95.3 | 95.0 | 93.6 |
| RoE | 11.1 | 13.4 | 15.7 |
| EPS (INR) | 10.6 | 16.2 | 22.0 |
| EPS Growth (%) | N.A | 52.4 | 35.7 |
| **Valuations** | | | |
| P/E (x) | 54.5 | 35.8 | 26.4 |
| P/BV (x) | 5.1 | 4.5 | 3.8 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 58.0 | 58.3 | 58.6 |
| DII | 6.1 | 3.1 | 1.5 |
| FII | 30.6 | 33.1 | 10.3 |
| Others | 5.2 | 5.6 | 29.6 |

FII Includes depository receipts

**CMP: INR580 TP: INR 730 (+26%) Buy**

## Higher claims & expense ratios lead to a higher combined ratio

- Star Health (STARHEAL) reported a PAT of INR1.3b in 2QFY24 vs. INR934m in 2QFY23. PAT was 32% below our estimate due to higher-than-expected claims and expense ratios.
- STARHEAL had taken a price revision in Family Health Optima (w.e.f. 1st May'23 on the renewal book), which will be reflected over the next 12 months. The policy renewals (both in volumes and in value) were in line with the company's expectations.
- As compared to the earlier guidance of 63-65% loss ratio, management now expects to exceed the same given the rising incidences of fever and respiratory diseases. We have cut our EPS estimates by 13%/4% for FY24/25 to factor in higher claims and expense ratios in 1HFY24. Considering the long-term growth potential for the industry along with investments by STARHEAL in profitable channels and products, we reiterate our **BUY rating** with a TP of INR730 (based on 33x FY25E EPS).

## Higher claims and expense ratios hurt profitability

- STARHEAL's net earned premium grew 15% YoY to INR32b in 2QFY24. GDPI rose 17% YoY to INR37b. Retail Health/Group Health/Personal Accident segments grew 17%/26%/14% YoY during the quarter.
- Incurred claims were broadly in line with our estimate, but the claims ratio at 68.7% was higher than our estimate of 67%. It was up 50bp YoY/ 330bp QoQ. Claims ratio was elevated owing to severity rather than frequency.
- Commission ratio of 13.7% was in line with our expectation; however, expense ratio of 16.8% was higher than our expectations by 50bp. Overall, the combined ratio, at 99.2%, was higher than our forecast of 97%. The ratio stood at 97.9% in 2QFY23.
- Investment income in the policyholders' account, at INR1.5b, was in line with our forecasts while shareholders' investment income at INR1,066m was 3.2% lower than our estimate.
- Profit for 2QFY24 was at INR1.3b vs. our estimate of INR1.8b; a miss of 32%. For 1HFY24, NEP/PAT grew 14%/35% YoY to INR62.5b/INR4.1b.
- Solvency ratio for 2QFY24 was at 2.13 vs. 2.0 in 2QFY23.

## Key takeaways from the management commentary

- STARHEAL has launched four new products during the quarter. The Star Smart Health Pro is a digital-first product, where customers can avail online discounts. It is also augmenting the existing product suites by launching various add-on covers, such as Young Star Extra Protect, Home Care Treatment covers and Flu Vaccination covers.
- **The company** has tightened its underwriting standards to enhance focus on quality business, leading to the recalibration of some geographies and portability businesses, which have poor LTV.

## Valuation and view: Cut our estimates but maintain BUY

- STARHEAL had taken a price revision in Family Health Optima (w.e.f. 1st May'23 on the renewal book), which will be reflected over the next 12 months. The policy renewals (both in volumes and in value) were in line with the company's expectations.
- **Guidance:** NEP growth of 20%, ROE growth of 20%, and solvency ratio of 200%.
- As compared to the earlier guidance of 63-65% loss ratio, management now expects the claims ratio to exceed the guidance range given the rising incidences of fever and respiratory diseases across the country. We have cut our EPS estimates by 13%/4% for FY24/25 to factor in higher claims and expense ratios in 1HFY24. Considering the long-term growth potential for the industry along with investments by STARHEAL in profitable channels and products, **we reiterate our BUY rating with a TP of INR730 (based on 33x FY25E EPS).**

**Quarterly Performance** (INR m)

| Y/E March | FY23 | | | | FY24 | | | | FY23 | FY24E | 2QFY24E | Act v/s Est. (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | | |
| Gross premium | 24,637 | 31,929 | 30,967 | 41,992 | 29,486 | 37,317 | 37,160 | 51,798 | 1,29,525 | 1,55,762 | 37,676 | -1.0 |
| Net written premium | 23,441 | 30,389 | 29,434 | 39,932 | 28,008 | 35,446 | 35,339 | 49,315 | 1,23,196 | 1,48,109 | 35,830 | -1.1 |
| Net earned premium | 26,871 | 27,948 | 28,672 | 29,125 | 30,438 | 32,056 | 34,339 | 36,462 | 1,12,616 | 1,33,294 | 32,480 | -1.3 |
| Investment Income | 1,220 | 1,233 | 1,157 | 1,405 | 1,460 | 1,510 | 1,661 | 1,793 | 5,014 | 6,423 | 1,504 | 0.4 |
| **Total Income** | **28,090** | **29,181** | **29,829** | **30,530** | **31,898** | **33,566** | **36,000** | **38,254** | **1,17,630** | **1,39,718** | **33,984** | **-1.2** |
| Change YoY (%) | 20.6 | 16.1 | 13.9 | 11.4 | 13.6 | 15.0 | 20.7 | 25.3 | 14.3 | 18.8 | 16.5 | |
| Incurred claims | 17,811 | 19,060 | 18,278 | 18,054 | 19,909 | 22,022 | 21,634 | 22,865 | 73,204 | 86,430 | 21,762 | 1.2 |
| Net commission | 3,220 | 3,964 | 4,026 | 5,618 | 3,668 | 4,854 | 4,841 | 6,754 | 16,828 | 20,118 | 4,909 | -1.1 |
| Employee expense | 2,774 | 3,590 | 3,805 | 4,368 | 3,577 | 3,952 | 4,413 | 4,920 | 14,537 | 16,862 | 4,164 | -5.1 |
| Other expenses | 1,498 | 1,465 | 1,306 | 1,739 | 1,829 | 2,012 | 1,697 | 2,166 | 6,001 | 7,704 | 1,684 | 19.4 |
| Total Operating Expenses | 25,303 | 28,079 | 27,415 | 29,780 | 28,983 | 32,839 | 32,586 | 36,706 | 1,10,570 | 1,31,114 | 32,519 | 1.0 |
| Change YoY (%) | -4.8 | -4.3 | -20.3 | 4.9 | 14.5 | 17.0 | 18.9 | 23.3 | -6.9 | 18.6 | 15.8 | |
| **Underwriting profit** | 1,568 | -131 | 1,258 | -654 | 1,454 | -784 | 1,753 | -244 | 2,046 | 2,180 | -39 | |
| Operating profit | 2,788 | 1,102 | 2,415 | 751 | 2,915 | 726 | 3,414 | 1,548 | 7,060 | 8,603 | 1,466 | -50.5 |
| **Shareholder's P/L** | | | | | | | | | | | | |
| Transfer from Policyholder's | 2,788 | 1,102 | 2,415 | 751 | 2,915 | 726 | 3,414 | 1,548 | 7,060 | 8,603 | 1,466 | -50.5 |
| Investment income | 838 | 846 | 914 | 790 | 1,040 | 1,066 | 1,115 | 1,195 | 3,388 | 4,415 | 1,102 | -3.2 |
| **Total Income** | 3,626 | 1,948 | 3,329 | 1,541 | 3,954 | 1,792 | 4,529 | 2,743 | 10,449 | 13,018 | 2,567 | |
| Other expenses | 745 | 741 | 509 | 173 | 110 | 119 | 123 | 126 | 2,174 | 478 | 113 | 5.2 |
| **Total Expenses** | 746 | 741 | 512 | 180 | 111 | 121 | 123 | 126 | 2,185 | 481 | 113 | 6.9 |
| **PBT** | **2,880** | **1,207** | **2,817** | **1,361** | **3,844** | **1,671** | **4,406** | **2,617** | **8,264** | **12,538** | **2,454** | **-31.9** |
| Tax Provisions | 747 | 276 | 713 | 343 | 965 | 418 | 1,102 | 657 | 2,078 | 3,142 | 614 | -31.9 |
| **Net Profit** | **2,132** | **931** | **2,105** | **1,018** | **2,879** | **1,253** | **3,305** | **1,959** | **6,186** | **9,396** | **1,841** | **-31.9** |
| **Key Parameters (%)** | | | | | | | | | | | | |
| Claims ratio | 66.3 | 68.2 | 63.7 | 62.0 | 65.4 | 68.7 | 63.0 | 62.7 | 65.0 | 64.8 | 67.0 | 1.7 |
| Commission ratio | 13.7 | 13.0 | 13.7 | 14.1 | 13.1 | 13.7 | 13.7 | 13.7 | 13.7 | 13.6 | 13.7 | 0.0 |
| Expense ratio | 18.2 | 16.6 | 17.4 | 15.3 | 19.3 | 16.8 | 17.3 | 14.4 | 16.7 | 16.6 | 16.3 | 0.5 |
| Combined ratio | 98.2 | 97.9 | 94.8 | 91.4 | 97.8 | 99.2 | 94.0 | 90.8 | 95.3 | 95.0 | 97.0 | 2.2 |
| Solvency | 1.9 | 2.0 | 2.2 | 2.1 | 2.2 | 2.1 | | | 2.1 | 2.2 | | |

# DLF

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

| | |
|---|---|
| Bloomberg | DLFU IN |
| Equity Shares (m) | 2475 |
| M.Cap.(INRb)/(USDb) | 1394.8 / 16.8 |
| 52-Week Range (INR) | 577 / 337 |
| 1, 6, 12 Rel. Per (%) | 9/27/40 |
| 12M Avg Val (INR M) | 1988 |

**Financials & Valuations (INR b)**

| Y/E Mar | FY24E | FY25E | FY26E |
|---|---|---|---|
| Sales | 89.7 | 93.9 | 74.5 |
| EBITDA | 31.8 | 34.3 | 32.6 |
| EBITDA (%) | 35.4 | 36.5 | 43.7 |
| PAT | 35.8 | 53.2 | 42.6 |
| EPS (INR) | 14.5 | 21.5 | 17.2 |
| EPS Gr. (%) | 115.2 | 88.5 | 19.1 |
| BV/Sh. (INR) | 227.1 | 252.8 | 272.5 |
| **Ratios** | | | |
| Net D/E | 0.0 | 0.0 | -0.1 |
| RoE (%) | 9.1 | 12.4 | 9.1 |
| RoCE (%) | 6.3 | 6.6 | 5.5 |
| Payout (%) | 20.8 | 14.0 | 17.4 |
| **Valuations** | | | |
| P/E (x) | 39.0 | 26.2 | 32.8 |
| P/BV (x) | 2.5 | 2.2 | 2.1 |
| EV/EBITDA (x) | 43.7 | 40.7 | 40.7 |
| Div Yield (%) | 0.5 | 0.5 | 0.5 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 74.1 | 75.0 | 75.0 |
| DII | 5.3 | 4.9 | 4.8 |
| FII | 15.9 | 15.3 | 14.9 |
| Others | 4.8 | 4.9 | 5.4 |

**CMP: INR564** **TP: INR585 (+4%)** **Neutral**

## Reiterates pre-sales guidance of INR130b with upside bias

### All key launches to materialize in 2H

- DLF reported bookings of INR22.3b in 2QFY24, up 9% YoY/QoQ and 13% above our estimate. In the absence of big-ticket launches, sales were largely driven by steady demand across ongoing/completed projects.
- The ultra-luxury project, Camellias, continued to witness strong traction with bookings of INR7.2b. New products accounted for INR13.4b of sales, including INR3.5b from projects launched in 2QFY24.
- Sales could pick up sharply in 2HFY24, aided by a strong launch pipeline of 11msf with GDV of INR190b and inventory of INR42b across ongoing and completed projects.
- Therefore, while DLF guides for pre-sales of INR120-130b in FY24, we expect bookings of INR150b with an upside bias as we expect a better response to its luxury project, Crest II.
- **Cash flow performance –** Collections surged 88% YoY and 50% QoQ to INR23.6b. After construction costs and overheads, DLF generated a surplus of INR11.5b and utilized INR9.9b for dividend payout. It now has net cash of INR1.4b.
- **P&L performance –** Revenue grew 3% YoY to INR13.5b, 11% below our estimate due to lower-than-expected recognition. EBITDA was up 6% YoY at INR4.6b and PAT increased 30% YoY, aided by a rise in other income and JV profit contribution from DCCDL.

### DCCDL: Portfolio occupancy continues to inch up

- Occupancy in DCCDL's rental portfolio increased by 300bp to 89%, with 0.5msf of leasing in the non-SEZ and SEZ portfolios, each. Non-SEZ portfolio occupancy stood at 97%, while SEZ portfolio reported vacancy of 15% vs. 18% in 1QFY24.
- Rental income increased by 9% YoY to INR10.7b, with retail portfolio rentals up 15% and office rentals up 7% YoY.
- The 5.3msf under-construction Downtown assets in Gurugram and Chennai continue to witness healthy demand as they are now 89% pre-leased vs. 81% in 1QFY24.
- We expect DCCDL's portfolio to register a CAGR of 13% in rental income over FY23-25 to INR51b. Moreover, we expect the growth trajectory to remain steady for at least 12-15 years, considering the ~24msf development potential in existing assets.

### Key takeaways from the management interaction

- **Launches: Launches:** Key projects like Sector 77 and DLF V are on track for 3Q/4Q launch respectively. New independent floors project in Punchkula and SCO in Gurugram is also expected to be launched in 3Q. While the disclosed pipeline shows limited visibility, company is working three years ahead in terms of new launches

- **Cash flows:** Collections will scale up to INR65b by FY24 end (INR38b in 1HFY24) and the construction outflow will grow to INR17b (INR12.5b in FY23). A bulk of the INR30b cash balance is tied up in RERA escrow accounts of ongoing projects. As the cash gets released after project deliveries, DLF intends to utilize it for debt repayment and capex.
- **Leasing:** While the non-SEZ portfolio is largely leased, DLF's JV with Hines will witness completion in a phased manner in 1QFY25 and the management intends to commence leasing of this asset soon. Additionally, construction at subsequent phases of Downtown assets in Gurugram and Chennai is also expected to start soon.

## Valuation and view: Assigned higher TP driven by consistent price growth; Reiterate Neutral

- We keep our pre-sales and rental estimates largely unchanged, with a stable launch pipeline and rental assets on track for timely completion.
- DLF has demonstrated a healthy pricing growth over the last decade in its core markets of Gurugram, New Gurugram, and Delhi. Despite the high base, healthy pricing growth has continued for the last two-three years.
- The company's customer base has a propensity to afford higher ticket size for quality offering, thereby enabling a high pricing power for DLF.
- Accordingly, we raise our annual price growth assumptions from 3-5% earlier to 8-10% in its core markets and increase the TP to INR585. Reiterate Neutral rating on the stock.

**Strong launch pipeline to help DLFU maintain sales momentum**

| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | FY24E | Variance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | 2QE | (%/bp) |
| **Gross Sales** | **14,416** | **13,023** | **14,948** | **14,561** | **14,232** | **13,477** | **24,661** | **37,307** | **56,948** | **89,677** | **17,039** | **-21** |
| YoY Change (%) | 26.5 | -12.1 | -3.5 | -5.9 | -1.3 | 3.5 | 65.0 | 156.2 | -0.4 | 57.5 | 30.8 | |
| Total Expenditure | 10,280 | 8,657 | 10,176 | 10,577 | 10,271 | 8,853 | 14,684 | 24,082 | 39,690 | 57,890 | 10,638 | |
| **EBITDA** | **4,137** | **4,367** | **4,772** | **3,984** | **3,962** | **4,624** | **9,977** | **13,225** | **17,259** | **31,787** | **6,401** | **-28** |
| Margins (%) | 28.7 | 33.5 | 31.9 | 27.4 | 27.8 | 34.3 | 40.5 | 35.4 | 30.3 | 35.4 | 37.6 | -326bps |
| Depreciation | 373 | 367 | 386 | 360 | 364 | 370 | 395 | 437 | 1,486 | 1,566 | 390 | |
| Interest | 1,052 | 1,069 | 954 | 846 | 849 | 902 | 617 | 267 | 3,921 | 2,634 | 692 | |
| Other Income | 747 | 582 | 659 | 1,196 | 985 | 1,287 | 1,166 | 1,046 | 3,173 | 4,484 | 1,099 | |
| **PBT before EO expense** | **3,458** | **3,512** | **4,090** | **3,974** | **3,734** | **4,639** | **10,131** | **13,566** | **15,024** | **32,071** | **6,418** | **-28** |
| Extra-Ord expense | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| **PBT** | **3,458** | **3,512** | **4,090** | **3,974** | **3,734** | **4,639** | **10,131** | **13,566** | **15,024** | **32,071** | **6,418** | **-28** |
| Tax | 876 | 910 | 1,104 | 1,125 | 1,014 | 1,122 | 2,553 | 3,380 | 4,015 | 8,069 | 1,617 | |
| Rate (%) | 25.3 | 25.9 | 27.0 | 28.3 | 27.2 | 24.2 | 25.2 | 24.9 | 33.2 | 33.2 | 25.2 | |
| Minority Interest & P/L of Asso. Cos. | 2,111 | 2,169 | 2,203 | 2,848 | 2,541 | 2,701 | 3,003 | 3,532 | 9,330 | 11,777 | 2,885 | |
| **Reported PAT** | **4,692** | **4,772** | **5,189** | **5,696** | **5,261** | **6,219** | **10,581** | **13,718** | **20,340** | **35,779** | **7,686** | **-19** |
| **Adj PAT** | **4,692** | **4,772** | **5,189** | **5,696** | **5,261** | **6,219** | **10,581** | **13,718** | **20,340** | **35,779** | **7,686** | |
| YoY Change (%) | 39.2 | 25.9 | -16.7 | 40.5 | 12.1 | 30.3 | 103.9 | 140.8 | 16.6 | 75.9 | 61.1 | |
| Margins (%) | 32.5 | 36.6 | 34.7 | 39.1 | 37.0 | 46.1 | 42.9 | 36.8 | 35.7 | 39.9 | 45.1 | 104bps |
| **Operational Metrics** | | | | | | | | | | | | |
| **Residential** | | | | | | | | | | | | |
| Pre-sales | 20 | 21 | 25 | 85 | 20 | 22 | 51 | 61 | 151 | 155 | 20 | **13** |
| Collections | 11 | 13 | 14 | 19 | 16 | 24 | 20 | 14 | 57 | 73 | 14 | **65** |
| Net Debt | 23 | 21 | 21 | 7 | 1 | -1 | 0 | 0 | 7 | 0 | 0 | |

Source: Company, MOFSL

# GAIL

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

| | |
|---|---|
| Bloomberg | GAIL IN |
| Equity Shares (m) | 6575 |
| M.Cap.(INRb)/(USDb) | 785.7 / 9.4 |
| 52-Week Range (INR) | 132 / 88 |
| 1, 6, 12 Rel. Per (%) | -1/6/25 |
| 12M Avg Val (INR M) | 1577 |

**Financials & Valuations (INR b)**

| Y/E March | FY23 | FY24E | FY25E |
|---|---|---|---|
| Sales | 1,443.0 | 1,330.8 | 1,428.3 |
| EBITDA | 67.0 | 109.6 | 128.2 |
| Adj. PAT | 53.0 | 74.8 | 87.9 |
| Adj. EPS (INR) | 8.1 | 11.4 | 13.4 |
| EPS Gr. (%) | -48.5 | 41.2 | 17.4 |
| BV/Sh.(INR) | 93.5 | 101.5 | 110.9 |
| **Ratios** | | | |
| Net D:E | 0.2 | 0.3 | 0.2 |
| RoE (%) | 9.5 | 12.8 | 13.7 |
| RoCE (%) | 7.9 | 10.1 | 10.8 |
| Payout (%) | 49.6 | 30.0 | 30.0 |
| **Valuations** | | | |
| P/E (x) | 14.9 | 10.5 | 9.0 |
| P/BV (x) | 1.3 | 1.2 | 1.1 |
| EV/EBITDA (x) | 8.7 | 6.0 | 5.2 |
| Div. Yield (%) | 3.3 | 2.8 | 3.3 |
| FCF Yield (%) | -5.8 | 0.9 | 3.3 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 51.5 | 51.5 | 51.5 |
| DII | 26.8 | 25.8 | 21.7 |
| FII | 15.4 | 16.7 | 20.4 |
| Others | 6.3 | 6.0 | 6.4 |

FII Includes depository receipts

**CMP: INR120 TP: INR140 (+17%) Buy**

## Petrochemical segment remains a pain point

- GAIL reported EBITDA of INR34.9b in 2QFY24, 54% above our estimate of INR22.7b. It was driven by a stronger-than-expected performance in the gas transmission, trading and petchem segments.
- Domestic gas demand remains strong and GAIL expects gas transmission volumes to rise up to 124mmscmd by FY24 end. It also expects volumes to grow up to 132mmscmd in FY25.
- The deallocation of domestic gas for use in compressors has adversely impacted GAIL by INR12b on an NPV basis. However, it has already notified the issue to PNGRB and expects to recover the amount in subsequent tariff revisions.
- The petchem segment reported an EBIT loss for the fifth consecutive quarter, but it narrowed to INR1.6b in 2QFY24 from INR3b in 1QFY24 due to cost optimization measures. In our view, the petchem segment's profitability will be a key concern amid a weak petchem pricing environment.
- We value the core business at 10x FY25E adjusted EPS of INR11.7. Adding the value of listed and unlisted investments of INR23, we arrive at a TP of INR140/share. Maintain BUY.

### Strong performance in gas transmission, trading and petchem drives beat

- EBITDA jumped 98% YoY to INR34.9b, 54% above our estimate of INR22.7b.
- It was driven by a better-than-expected performance in the gas transmission, trading and petchem segments.
- PAT grew 56% YoY to INR24b, beating our estimate of INR15.6b by 54%.
- **For 1HFY24**, revenue stood at INR640b (-16% YoY), EBITDA at INR59b (-3% YoY) and PAT at INR38b (-14% YoY).
- 1HFY24 EBITDA was at 55% of our full-year estimate.
- As of Sep'23, the company has a deficit of INR804m after the settlement in terms of Regulation of Schedule D of Tariff Regulations.
- This pertains to the difference between UFT and 'Integrated Tariff' that has to be settled between entities through a settlement committee on a fortnightly basis.

### Segmental EBIT details for 2QFY24

- Gas transmission business reported EBIT of INR12.9b (est. INR10b).
- LPG transmission EBIT was in line at INR819m (-28% YoY).
- Trading business reported EBIT of INR17.8b (vs. INR3.6b in 2QFY23).
- Petchem segment posted an operating loss of INR1.6b (vs. INR3.5b loss in 2QFY23).
- LPG and HC reported an operating loss of INR167m (vs. EBIT of INR5b in 2QFY23).

## Valuation and view

- GAIL has guided for a capex of ~INR90-100b in FY24, with INR40b for pipelines, INR32b for the petrochem segment, INR7 for operations, INR2b for CGDs and the rest for equity investments and other.
- The remaining portion of the Jagdishpur-Haldia pipeline is expected to be completed by Jun'24. The mechanical completion of the PP plant at PATA and PDH-PP plant at Usar is expected by Jul'24 and Apr'25, respectively.
- We value the core business at 10x FY25E adjusted EPS of INR11.7. Adding the value of listed and unlisted investments of INR23, we arrive at a TP of INR140/share. Maintain BUY.

**Quarterly Performance** (INR m)

| Y/E March | FY23 | | | | FY24 | | | | FY23 | FY24E | FY24 | Var. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE | vs. est. |
| **Net Sales** | 3,75,721 | 3,84,909 | 3,53,804 | 3,28,582 | 3,22,275 | 3,18,226 | 3,54,643 | 3,35,683 | 14,43,016 | 13,30,827 | 3,60,200 | -12% |
| Change (%) | 116.1 | 78.9 | 37.3 | 21.8 | -14.2 | -17.3 | 0.2 | 2.2 | 57.5 | -7.8 | -6.4 | |
| **EBITDA** | 43,657 | 17,647 | 2,613 | 3,072 | 24,327 | 34,913 | 25,334 | 25,014 | 66,989 | 1,09,588 | 22,696 | 54% |
| % of Net Sales | 11.6 | 4.6 | 0.7 | 0.9 | 7.5 | 11.0 | 7.1 | 7.5 | 4.6 | 8.2 | 6.3 | |
| Depreciation | 6,030 | 6,194 | 6,226 | 6,432 | 6,358 | 7,503 | 6,858 | 7,669 | 24,881 | 28,388 | 6,483 | |
| Interest | 481 | 683 | 1,050 | 903 | 1,758 | 1,718 | 1,523 | 1,153 | 3,117 | 6,153 | 1,538 | |
| Other Income | 1,798 | 7,988 | 6,889 | 10,172 | 2,676 | 5,609 | 5,992 | 10,690 | 26,847 | 24,968 | 6,242 | |
| **PBT** | 38,944 | 18,759 | 2,227 | 5,909 | 18,887 | 31,301 | 22,945 | 26,882 | 65,838 | 1,00,015 | 20,917 | 50% |
| Tax | 9,792 | 3,388 | -231 | -127 | 4,767 | 7,252 | 5,869 | 7,286 | 12,823 | 25,174 | 5,350 | |
| Rate (%) | 25.1 | 18.1 | -10.4 | -2.1 | 25.2 | 23.2 | 25.6 | 27.1 | 19.5 | 25.2 | 25.6 | |
| **PAT** | 29,152 | 15,371 | 2,457 | 6,035 | 14,120 | 24,049 | 17,076 | 19,596 | 53,015 | 74,841 | 15,567 | 54% |
| Change (%) | 90.5 | -46.3 | -92.5 | -77.5 | -51.6 | 56.5 | 594.9 | 224.7 | -48.8 | 41.2 | 1.3 | |
| **Adj PAT** | 29,152 | 15,371 | 2,457 | 6,035 | 14,120 | 24,049 | 17,076 | 19,596 | 53,015 | 74,841 | 15,567 | 54% |
| Change (%) | 90.5 | -46.3 | -92.5 | -76.8 | -51.6 | 56.5 | 594.9 | 224.7 | -48.5 | 41.2 | 1.3 | |
| **Key Assumptions** | | | | | | | | | | | | |
| Gas Trans. volume (mmscmd) | 109.5 | 107.7 | 103.7 | 108.2 | 116.3 | 120.3 | 123.1 | 124.0 | 107.3 | 120.9 | 119.7 | 0% |
| Petchem sales ('000MT) | 109.0 | 108.0 | 65.0 | 118.0 | 162.0 | 168.0 | 169.4 | 164.8 | 400.0 | 664.2 | 202.0 | -17% |

# Jindal Steel & Power

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

| | |
|---|---|
| Bloomberg | JSP IN |
| Equity Shares (m) | 1005 |
| M.Cap.(INRb)/(USDb) | 646.5 / 7.8 |
| 52-Week Range (INR) | 723 / 446 |
| 1, 6, 12 Rel. Per (%) | -7/3/32 |
| 12M Avg Val (INR M) | 1638 |
| Free float (%) | 38.8 |

**Financials & Valuations (INR b)**

| Y/E MARCH | 2023 | 2024E | 2025E |
|---|---|---|---|
| Sales | 527 | 517 | 610 |
| EBITDA | 99 | 96 | 145 |
| APAT | 37 | 51 | 74 |
| Adj. EPS (INR) | 36 | 51 | 74 |
| EPS Gr. (%) | -57.7 | 39.8 | 44.9 |
| BV/Sh. (INR) | 385 | 430 | 494 |
| **Ratios** | | | |
| Net D:E | 0.2 | 0.2 | 0.1 |
| RoE (%) | 9.9 | 12.5 | 16.0 |
| RoCE (%) | 12.6 | 12.3 | 17.8 |
| Payout (%) | 5.5 | 9.8 | 12.2 |
| **Valuations** | | | |
| P/E (x) | 17.4 | 12.5 | 8.6 |
| P/BV (x) | 1.6 | 1.5 | 1.3 |
| EV/EBITDA(x) | 7.1 | 7.4 | 4.8 |
| Div. Yield (%) | 0.3 | 0.8 | 1.4 |
| FCF Yield (%) | 1.3 | 2.2 | 5.6 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 61.2 | 61.2 | 61.2 |
| DII | 15.2 | 14.8 | 14.9 |
| FII | 13.7 | 14.2 | 12.5 |
| Others | 9.9 | 9.9 | 11.4 |

FII Includes depository receipts

**CMP: INRR634 TP: INR730 (+15%) Buy**

## Operationally in-line performance; capex timeline extended with higher outlay

- Revenue was down 9% YoY at INR123b, in line with our estimate of INR122b. ASP was down INR582/t to INR60,946/t as against our estimate of INR61,528/t. Sales volumes were flat YoY to 2.01mt (in line with our estimate of 1.98mt) and exports stood at 13% of total sales.
- EBITDA grew 18% YoY to INR23b (in line with our estimate). The increase was led by lower input costs, partially offset by lower ASP. EBITDA/t stood at INR11,372/t vs. estimate of INR11,496/t.
- APAT more than doubled YoY to INR14b (our estimate INR9b), aided by lower finance costs and depreciation and negligible tax outgo.
- Net debt stood at INR73b (up ~INR5b QoQ) and the net debt-to-EBITDA ratio stood at 0.77x.

### Capex timeline extended; outgo now pegged at INR310b

- JSP's ongoing capex at Angul has been delayed by a few quarters and a majority of the capex is now expected to be completed by the end of FY25.
- The capex outlay has also been increased by INR70b to INR310b. This increase is attributed to scope changes and configuration adjustments.
- Major capex schedules for BOF-II, BF-II, ACPP-II, etc., has been extended by two quarters to 4QFY25.
- Capex for FY24E is expected to be in the range of INR75-100b.

### Highlights from the management commentary

- Coal cost is expected to increase by USD50-60/t in 3QFY24. It is expected to be partially offset by a 2-3% increase in ASP.
- The 5.5mt HSM is expected to come on stream in 3QFY24.
- JSP has already started coal excavation at Gare Palma IV/6 and is expected to reach a run rate of over 3.5mt by Mar'24 (PRC 4mt). Utkal C is expected to commence coal excavation by Nov-Dec'23.
- Once the slurry pipeline is fully operational, it would save ~INR700/t in iron ore cost.

### Valuation and view

- Though ongoing capex is going to shift JSP's product portfolio to higher VAP, extension in capex timeline along with an increase in cash outflow will continue to put pressure on the cash flow. The timely completion of capex is crucial for volume growth ahead.
- Considering the substantial increase in coal cost in the last few months and delayed capex, we have revised our FY24E and FY25E EBITDA estimates down by 13%/6%. We reiterate our BUY rating on JSP with a revised TP of INR730, based on 5.5x FY25E EV/EBITDA. We believe JSP's focused approach on deleveraging, presence across VAP, and robust domestic demand augur well for the company. The stock is currently trading at 4.8x FY25E EV/EBTIDA and 1.3x FY25E P/B.

**Consolidated quarterly performance (INR b)**

| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | FY24E | vs Est |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE | (%) |
| **Sales (kt)** | 1,740 | 2,010 | 1,900 | 2,030 | 1,840 | 2,010 | 2,150 | 2,208 | 7,680 | 8,208 | 2,000 | 0.5 |
| Change (YoY %) | 8.1 | -5.6 | 4.4 | -2.4 | 5.7 | 0.0 | 13.2 | 8.8 | 0.5 | 6.9 | | |
| ASP | 74,974 | 67,271 | 65,539 | 67,448 | 68,415 | 60,946 | 61,521 | 61,914 | 68,634 | 63,031 | 61,528 | -0.9 |
| **Net Sales** | **130** | **135** | **125** | **137** | **126** | **123** | **132** | **137** | **527** | **517** | **122** | 0.4 |
| Change (YoY %) | 23.0 | -0.7 | -0.6 | -4.5 | -3.5 | -9.4 | 6.2 | -0.2 | 3.2 | -1.8 | | |
| Change (QoQ %) | -9.0 | 3.6 | -7.9 | 10.0 | -8.1 | -2.7 | 8.0 | 3.4 | | | | |
| Total Expenditure | 96 | 116 | 101 | 115 | 100 | 100 | 112 | 110 | 428 | 421 | | |
| **EBITDA** | **34** | **19** | **24** | **22** | **26** | **23** | **20** | **27** | **99** | **96** | **23** | -0.6 |
| Change (YoY %) | -24.2 | -58.0 | -28.2 | -28.8 | -23.6 | 18.3 | -15.0 | 23.1 | -36.0 | -3.1 | | |
| Change (QoQ %) | 12.0 | -43.8 | 23.1 | -8.0 | 20.2 | -13.0 | -11.6 | 33.2 | | | | |
| **EBITDA/t** | **19,763** | **9,609** | **12,513** | **10,775** | **14,283** | **11,372** | **9,401** | **12,197** | **12,936** | **11,730** | **11,496** | -1.1 |
| Interest | 4 | 4 | 3 | 4 | 3 | 3 | 4 | 4 | 14 | 14 | | |
| Depreciation | 6 | 6 | 6 | 9 | 6 | 6 | 6 | 7 | 27 | 25 | | |
| Other Income | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 | 1 | | |
| **PBT (before EO item)** | **25** | **10** | **14** | **10** | **18** | **14** | **11** | **16** | **59** | **59** | | |
| Extra-ordinary Income | 8 | -9 | -4 | -2 | 0 | 0 | 0 | 0 | -6 | 0 | | |
| **PBT (after EO item)** | **33** | **1** | **11** | **8** | **18** | **14** | **11** | **16** | **53** | **59** | | |
| Total Tax | 6 | -2 | 5 | 3 | 1 | -0 | 3 | 4 | 13 | 8 | | |
| % Tax | 17.1 | -303.9 | 51.2 | 42.2 | 4.2 | -0.4 | 25.2 | 25.3 | 24.5 | 12.9 | | |
| **Reported PAT** | **28** | **2** | **5** | **5** | **17** | **14** | **8** | **12** | **40** | **51** | | |
| MI - Loss/(Profit) | 0 | 0 | -0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| Associate | -0 | 0 | 0 | 0 | -0 | -0 | 0 | 0 | -0 | -0 | | |
| **Adjusted PAT** | **15** | **7** | **9** | **6** | **17** | **14** | **8** | **12** | **37** | **51** | **9** | 50.9 |
| Change (YoY %) | -42.5 | -73 | -44.8 | -68.4 | 15.3 | 102 | -9.4 | 100.1 | -57.9 | 39.8 | | |
| Change (QoQ %) | -24.9 | -53 | 30.7 | -31.3 | 173.8 | -18 | -41.4 | 51.6 | | | | |

E: MOFSL Estimates

# Tube Investments of India

| | |
|---|---|
| Estimate changes | |
| TP change | |
| Rating change | |

| | |
|---|---|
| Bloomberg | TIINDIA IN |
| Equity Shares (m) | 193 |
| M.Cap.(INRb)/(USDb) | 609 / 7.3 |
| 52-Week Range (INR) | 3737 / 2375 |
| 1, 6, 12 Rel. Per (%) | 8/16/9 |
| 12M Avg Val (INR M) | 911 |

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

| INR b | FY23 | FY24E | FY25E |
|---|---|---|---|
| Sales | 149.6 | 167.9 | 191.5 |
| EBITDA | 18.9 | 22.7 | 26.2 |
| Adj. PAT | 7.8 | 11.4 | 13.8 |
| EPS (INR) | 40.5 | 59.2 | 71.2 |
| EPS Gr. (%) | 7.4 | 46.0 | 20.3 |
| BV/Sh. (INR) | 205 | 255 | 316 |
| **Ratios** | | | |
| RoE (%) | 22.3 | 25.8 | 25.0 |
| RoCE (%) | 38.7 | 40.9 | 40.0 |
| Payout (%) | 8.6 | 14.8 | 15.0 |
| **Valuations** | | | |
| P/E (x) | 77.6 | 53.2 | 44.2 |
| P/BV (x) | 15.4 | 12.3 | 10.0 |
| Div. Yield (%) | 0.1 | 0.3 | 0.3 |
| FCF Yield (%) | 1.6 | 3.0 | 3.0 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 46.1 | 46.1 | 46.5 |
| DII | 11.9 | 12.7 | 14.5 |
| FII | 30.4 | 29.4 | 26.3 |
| Others | 11.5 | 11.8 | 12.7 |

FII Includes depository receipts

**CMP: INR3,150 TP: INR3,630 (+15%) Buy**

## Operationally in line; mobility business dents margin

### Recovery in underlying 2W volumes and exports to aid margins

- TII's 2QFY24 results were operationally in line, while a surge in other income led to Adj. PAT beat at INR1.8b (vs. est. INR1.7b). During the quarter, all divisions, except for the mobility business, reported a YoY revenue growth. We believe, underlying growth in 2W and exports should drive revenue and margins recovery over the next few quarters to over 14% by 4QFY24.
- We maintain our FY24E/FY25E consolidated EPS estimates. The stock trades at 53.2x/44.2x FY24E/FY25E consol EPS. We reiterate a BUY rating on the stock and a TP of ~INR3,630 (premised on Dec'25 SoTP).

### Engineering and Metal Formed business volumes grew 13-14% YoY

- Tube Investments' SA revenue/adj.PAT grew 3%/13% YoY to INR19.7b/INR1.8b (vs. est. INR19.5b/INR1.7b) and EBITDA remained flat YoY to INR2.5b. Engineering business (~65% of the S/A business) grew 7% YoY (vs. est. growth of ~5% YoY). 1HFY24 revenues declined 3% YoY, but EBITDA/adj. PAT grew 3%/12% YoY.
- Gross margin declined 50bp YoY to 36.3%. EBITDA margin declined 40bp YoY (up 60bp QoQ) to 12.8% (vs. est. 12.5%). Factors such as operating efficiency, product mix, and exports led to sequential margin expansion.
- Further, Adj. PAT stood at INR1.8b (up 13% YoY vs. est. INR1.7b).
- Revenue for the Mobility business declined 22% YoY to INR1.8b. PBIT margin for this business stood at -1.7% (vs. up 4.4%/1.1% in 2QFY23/1QFY24 and est. 2%).
- Revenue for the engineering business grew 7% YoY to INR12.7b. PBIT margin for this business stood at 13.3% (vs. 13.8%/11.8% in 2QFY23/1QFY24 and est. 12.3%).
- Revenue for the Metal Formed Product business grew 8% YoY to INR4b. PBIT margin for this business stood at 13.4% (vs. 12.9%/12.8% in 2QFY23/ 1QFY24 and est. 12.8%).
- Revenue from the Others business vertical grew 10% YoY to INR2.1b. PBIT margin for this business stood at 8.4% (vs. 4.3%/9% in 2QFY23/1QFY24 and est. 7%).
- CFO/FCF in 1HFY24 declined ~2%/20% YoY to INR3.4b/INR2b. The company incurred a capex of INR1.4b in 1HFY24 (vs. INR0.9b in 1HFY23). Cash and cash equivalent as of Sep'23 stood at INR239.2m (vs. INR99.6m as on Sep'22). FCF for 2QFY24 stood at INR1.08b.
- Consol. business revenue/EBITDA/adj. PAT grew 14%/9%/20% YoY to INR43.1b/INR5.6b/INR3.5b (vs. est.INR32.6b/INR3.8b/INR2b).

## Highlights from the management commentary

- **Volume grew 13-14% YoY during the quarter**, encompassing both the engineering and metal business. Revenue had some pass-through effect of steel price changes. The growth was primarily driven by both PV and CV segments, while 2W demand remained subdued. Additionally, the company's focus on non-auto sectors and exports contributed significantly to the growth. Exports is currently 14-15% of the revenue, similar to that in FY23.
- **Engineering division-** Expect a growth rate of 12-15% over the next three to five years. The company has successfully gained market share and it will continue to look for opportunities for growth. While there were some challenges in the export market until the last quarter, there has been a sequential growth in exports. However, there was a decline in exports on a YoY basis.
- **EVs:** Seeing MoM growth in volumes of e3Ws. Cumulatively, the volumes have been doubling up every month. However, there are challenges in the supply chain for EV components. Currently, the company has an order book stretching over 1.5 months. **T**he company has expanded its dealership in Northern regions such as Kanpur, Dehradun, and Lucknow. Expect to have dealer strength of 72-73 by the end of the year vs. 42 dealers now.
- **Large part of the capex will be used for TI1 and TI2 opportunities.** The company has identified a list of pipeline opportunities that represent potential areas for deploying available cash. The TI-1 and TI-2 would consume capex of over INR4b annually.

## Valuation and view

- TII offers diversified revenue streams, with strong growth in the core business (~19% S/A PAT CAGR over FY23E-25E), ramp-up in CG Power and optionality of new businesses incubated under the TI-2 strategy.
- The stock trades at 53.2x/44.2x FY24E/FY25E consolidated EPS. We reiterate a BUY rating and a TP of ~INR3,630 (premised on Dec'25E SOTP, based on 35x for the standalone business, valuing listed subsidiaries at 20% HoldCo discount and adding INR288/share for the 2 EV businesses).

**Quarterly performance (S/A)** (INR M)

| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE |
| **Net Sales** | **19,570** | **19,059** | **17,097** | **16,634** | **17,801** | **19,696** | **20,322** | **20,893** | **72,360** | **78,713** | **19,477** |
| YoY Change (%) | 55.7 | 14.4 | 0.5 | -4.1 | -9.0 | 3.3 | 18.9 | 25.6 | 13.8 | 8.8 | 2.2 |
| **EBITDA** | **2,040** | **2,512** | **2,144** | **2,106** | **2,160** | **2,514** | **2,683** | **2,951** | **8,803** | **10,308** | **2,442** |
| Margins (%) | 10.4 | 13.2 | 12.5 | 12.7 | 12.1 | 12.8 | 13.2 | 14.1 | 12.2 | 13.1 | 12.5 |
| Depreciation | 325 | 346 | 337 | 448 | 331 | 346 | 375 | 420 | 1,456 | 1,471 | 365 |
| Interest | 36 | 52 | 60 | 68 | 70 | 77 | 70 | 62 | 216 | 279 | 55 |
| Other Income | 120 | 145 | 171 | 1,717 | 219 | 358 | 250 | 1,844 | 2,152 | 2,670 | 200 |
| **PBT before EO expense** | **1,800** | **2,258** | **1,919** | **3,306** | **1,979** | **2,448** | **2,488** | **4,313** | **9,283** | **11,228** | **2,222** |
| Tax | 457 | 599 | 542 | 507 | 502 | 634 | 627 | 1,088 | 2,104 | 2,850 | 558 |
| Tax Rate (%) | 25.4 | 29.6 | 28.2 | 16.8 | 25.4 | 25.9 | 25.2 | 25.2 | 24.0 | 25.4 | 25.1 |
| **Adj PAT** | **1,343** | **1,603** | **1,377** | **2,729** | **1,477** | **1,814** | **1,861** | **3,225** | **7,053** | **8,377** | **1,664** |
| YoY Change (%) | 38.5 | 32.0 | 14.3 | 100.2 | 10.0 | 13.2 | 35.1 | 18.2 | 46.7 | 18.8 | 3.8 |

# Motherson Wiring

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

| | |
|---|---|
| Bloomberg | MSUMI IN |
| Equity Shares (m) | 4421 |
| M.Cap.(INRb)/(USDb) | 265 / 3.2 |
| 52-Week Range (INR) | 71 / 45 |
| 1, 6, 12 Rel. Per (%) | -4/6/-10 |
| 12M Avg Val (INR M) | 324 |

**Financials & Valuations (INR b)**

| Y/E March | 2023 | 2024E | 2025E |
|---|---|---|---|
| Sales | 70.6 | 81.9 | 94.1 |
| EBITDA | 7.8 | 9.7 | 12.1 |
| Adj. PAT | 4.9 | 6.2 | 7.9 |
| EPS (Rs) | 1.1 | 1.4 | 1.8 |
| EPS Growth (%) | 4.3 | 26.8 | 27.7 |
| BV/Share (INR) | 3.0 | 3.8 | 4.7 |
| **Ratios** | | | |
| Net D:E | 0.0 | -0.1 | -0.2 |
| RoE (%) | 39.8 | 41.3 | 42.2 |
| RoCE (%) | 42.7 | 45.0 | 47.3 |
| Payout (%) | 59.0 | 60.0 | 60.0 |
| **Valuations** | | | |
| P/E (x) | 54.5 | 42.9 | 33.6 |
| P/BV (x) | 19.9 | 16.0 | 12.8 |
| Div. Yield (%) | 1.1 | 1.4 | 1.8 |
| FCF Yield (%) | 0.1 | 2.1 | 2.6 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 61.7 | 61.7 | 61.7 |
| DII | 17.8 | 18.0 | 19.3 |
| FII | 11.1 | 11.0 | 10.4 |
| Others | 9.4 | 9.3 | 8.6 |

FII Includes depository receipts

**CMP:INR60 TP: INR70 (+17%) Buy**

## Lower gross margin offset by operating leverage

### New facilities ramped up to 70-80% capacity utilization

- 2QFY24 results miss estimate as EBITDA margin came in at 11.8% (vs. est 12.7%). This shortfall was due to lower gross margins and the gradual ramp-up of new orders, where operational efficiencies are still being established. However, we expect EBITDA margin to improve by 100bp over the next two quarters and reach close to FY22 levels, led by cost pass-through and ramp up in new facilities.
- We cut FY24E/25E EPS by 6%/3% to account for the adverse impact of increase in RM cost and lower efficiencies. We reiterate our BUY rating on the stock with a TP of INR70 (35x Dec'25E EPS).

### Capacity rampup coupled with operational efficiencies to drive margins

- 2QFY24 revenue/EBITDA/adj.PAT grew 15%/37%/34% YoY to INR21.05b/INR2.5b/INR1.6b (vs. est.INR20.8b/INR2.6b/INR1.7b). 1HFY24 revenues/EBITDA/adj.PAT grew 13%/15%/15% YoY.
- Gross margins declined 50bp QoQ (flat YoY) to 33.8% (vs. est. 35%). This is despite favorable LME copper prices on QoQ constant currency basis.
- However, operating leverage benefited EBITDA margins, which expanded 190bp YoY/60bp QoQ to 11.8% (vs. est.12.7%).
- EBITDA grew 37% YoY to INR2.5b (vs. est. INR2.6b).
- Further adj. PAT grew 34% YoY to INR1.6b (vs. est.INR1.7b).
- 1HFY24 FCFF stood at INR3.85b (vs. outflow of INR259m in 1HFY23) due to strong operating cashflow of INR4.1b (vs. INR591m in 1HFY23) and lower capex of INR265m (vs. INR850m in 1HFY23).

### Highlights from the management commentary

- **EBITDA margin is likely to improve in the coming quarters, driven by the** ramp-up of new models where there is potential for increased efficiencies, as well as some RM cost pass-through mechanisms. This coupled with other activities such as cost reduction, localization, and customer recoveries should help margins.
- **Increase in RM-** There is a pass-through arrangement in place with the customers, operating with a quarter lag, and it is anticipated to be settled regularly going forward.
- **New facilities-** A few have been ramped up to 70-80%, while others are ramping up at a few locations.
- Maintained a capex guidance of 1.25b for FY24. Incurred capex of INR0.26b in 1HFY24.
- The EV program contributes to 3.5-4% of the total revenues, encompassing covering all segments including PVs, CVs, and 2Ws.

## Valuation and view

- We expect gradual recovery in the operating performance starting from 2HFY24, primarily led by the increased production and utilization of the new plants. We believe it deserves rich valuations, driven by a) its strong competitive positioning, b) top decile capital efficiencies, and c) it being a beneficiary of EVs and other mega trends in Autos.
- The stock trades at 42.9x/33.6x FY24E/25E EPS. We reiterate our BUY rating with a TP of INR70 (~35x Dec'25E EPS).

**Quarterly performance** **(INR Million)**

| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE |
| **Net Sales** | **16,709** | **18,352** | **16,868** | **18,644** | **18,588** | **21,046** | **20,415** | **21,817** | **70,574** | **81,866** | **20,818.4** |
| YoY Change (%) | 50.0 | 31.1 | 15.6 | 12.2 | 11.2 | 14.7 | 21.0 | 17.0 | 25.2 | 16.0 | 13.4 |
| RM Cost (% of sales) | 64.9 | 66.2 | 64.3 | 66.9 | 65.7 | 66.2 | 65.0 | 65.2 | 65.6 | 65.5 | 65.0 |
| Staff Cost (% of sales) | 16.4 | 17.3 | 17.8 | 15.6 | 17.6 | 16.3 | 16.9 | 15.8 | 16.8 | 16.6 | 16.1 |
| Other Expenses (% of sales) | 6.6 | 6.6 | 7.3 | 6.2 | 6.3 | 5.7 | 5.8 | 6.3 | 6.5 | 6.0 | 6.2 |
| **EBITDA** | **2,028** | **1,808** | **1,790** | **2,093** | **1,941** | **2,481** | **2,511** | **2,784** | **7,814** | **9,718** | **2,645.7** |
| Margins (%) | 12.1 | 9.9 | 10.6 | 11.2 | 10.4 | 11.8 | 12.3 | 12.8 | 11.1 | 11.9 | 12.7 |
| Depreciation | 277 | 295 | 317 | 348 | 338 | 364 | 360 | 375 | 1,237 | 1,437 | 350 |
| Interest | 69 | 59 | 65 | 86 | 77 | 74 | 75 | 74 | 278 | 300 | 75 |
| Other Income | 77 | 107 | 7 | 127 | 136 | 56 | 70 | 60 | 223 | 321 | 65 |
| **PBT before EO expense** | **1,759** | **1,562** | **1,415** | **1,786** | **1,661** | **2,100** | **2,146** | **2,395** | **6,522** | **8,302** | **2,286** |
| Extra-Ord expense | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **PBT after EO Expense** | **1,759** | **1,562** | **1,415** | **1,786** | **1,661** | **2,100** | **2,146** | **2,395** | **6,522** | **8,302** | **2,285.7** |
| Tax Rate (%) | 28 | 25 | 25 | 22 | 26 | 26 | 26 | 25 | 25 | 26 | 25.0 |
| **Reported PAT** | **1,260** | **1,165** | **1,062** | **1,385** | **1,231** | **1,559** | **1,599** | **1,788** | **4,871** | **6,177** | **1,714** |
| **Adj PAT** | **1,260** | **1,165** | **1,062** | **1,385** | **1,231** | **1,559** | **1,599** | **1,788** | **4,871** | **6,177** | **1,714** |
| YoY Change (%) | 106.5 | 2.1 | -19.6 | -13.2 | -2.2 | 33.9 | 50.6 | 29.1 | 4.3 | 26.8 | 47.2 |

E: MOFSL Estimates

# Ajanta Pharma

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

| | |
|---|---|
| Bloomberg | AJP IN |
| Equity Shares (m) | 127 |
| M.Cap.(INRb)/(USDb) | 222 / 2.7 |
| 52-Week Range (INR) | 1904 / 1122 |
| 1, 6, 12 Rel. Per (%) | 1/29/30 |
| 12M Avg Val (INR M) | 229 |

**Financials & Valuations (INR b)**

| Y/E MARCH | FY23 | FY24E | FY25E |
|---|---|---|---|
| Sales | 37.4 | 41.4 | 47.3 |
| EBITDA | 8.5 | 11.0 | 13.0 |
| Adj. PAT | 6.2 | 7.8 | 9.3 |
| EBIT Margin (%) | 19.1 | 23.3 | 24.5 |
| Cons. Adj. EPS (INR) | 49.2 | 61.4 | 73.3 |
| EPS Gr. (%) | -10.0 | 24.7 | 19.4 |
| BV/Sh. (INR) | 267.8 | 312.3 | 366.9 |
| **Ratios** | | | |
| Net D:E | -0.3 | -0.3 | -0.4 |
| RoE (%) | 18.7 | 21.2 | 21.6 |
| RoCE (%) | 18.8 | 21.2 | 21.7 |
| Payout (%) | 24.7 | 23.3 | 25.5 |
| **Valuations** | | | |
| P/E (x) | 35.9 | 28.8 | 24.1 |
| EV/EBITDA (x) | 26.0 | 19.6 | 16.3 |
| Div. Yield (%) | 0.7 | 0.8 | 1.1 |
| FCF Yield (%) | 3.3 | 2.9 | 3.6 |
| EV/Sales (x) | 5.9 | 5.2 | 4.5 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 66.2 | 66.2 | 70.5 |
| DII | 15.6 | 15.8 | 13.1 |
| FII | 10.0 | 10.2 | 8.2 |
| Others | 8.2 | 7.8 | 8.2 |

FII Includes depository receipts

**CMP: INR1,763 TP: INR2,030 (+15%) Buy**

## India/US drive earnings

### Marketing spend to increase in the near term

- Ajanta Pharma (AJP) delivered in-line 2QFY24 earnings. The operating profit margin has been on a sharp revival trend with 630bp/70bp improvement on YoY/QoQ basis. Healthy performance in domestic formulation (DF), US, and branded Africa markets, coupled with favourable cost factors, is driving better profitability for AJP.
- We maintain our earnings estimate for FY24/FY25. We value AJP at 25x 12M forward earnings to arrive at a price target of INR2,030.
- We remain positive on AJP on the back of sustained better-than-industry growth in the branded generics segment and steady US sales despite price erosion in base portfolio. We reiterate our BUY rating on the stock.

### Product mix/better operating leverage led superior margins YoY

- AJP's 2QFY24 revenues grew 9.6% YoY to INR10.3b (in line), led by growth across branded generics segment of India, US, and Africa, partially offset by challenges in the Asian business. US generic sale was up 28% YoY to INR2.4b (21% of sales). Domestic formulation (DF) sale was up 13.1% YoY to INR3.6b (35% of sales). Africa branded generic and institutional sale was up 8.8% YoY to INR1.9b (19% of sales). Branded generics Asia sale was down 8.4% YoY to INR2.3b, (22% of sales).
- Gross Margin expanded ~280bp YoY to 75.1%, due to a change in product mix and reduced raw material cost.
- EBITDA margin expanded by ~630bp YoY to 28.3% (our est. 26.3%), driven by better gross margins and lower 'other expenses' (down 530bp YoY as % of sales), partly offset by higher employee cost (up ~180bp YoY as % of sales).
- EBITDA grew 41% YoY to INR2.9b (our est. INR2.7b).
- Adjusting for the Forex gain of INR128m, Adj. PAT grew 14% YoY to INR1.9b (in line).
- For 1HFY24, Revenue/EBITDA/PAT grew 8%/25%/14% YoY to INR20.5b/INR5.7b/INR3.9b.

### Highlights from the management commentary

- AJP guided for low teens YoY revenue growth in branded generics markets of Asia/Africa markets.
- AJP indicated US sales run-rate to be stable for 2HFY24 (INR4.5b in 1HFY24).
- AJP guided for EBITDA margin to be 26% for FY24.
- AJP launched 10 products, including 4 products which are first to launch in DF market.
- AJP witnessed high single-digit price erosion in US base portfolio.
- Reduced international logistics cost led lower other expenses for 2QFY24. However, increased marketing expenses would keep opex at a higher level in 2HFY24.

| Consol. - Quarterly perf. | | | | | | | | | | | | (INR m) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | FY24E | vs Est |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE | (%) |
| **Net Sales** | **9,509** | **9,381** | **9,718** | **8,818** | **10,210** | **10,284** | **10,484** | **10,381** | **37,426** | **41,359** | **10,435** | **-1.4** |
| YoY Change (%) | 27.1 | 6.0 | 16.0 | 1.3 | 7.4 | 9.6 | 7.9 | 17.7 | 12.0 | 10.5 | 11.2 | |
| Total Expenditure | 6,992 | 7,318 | 7,555 | 7,107 | 7,397 | 7,378 | 7,748 | 7,836 | 28,972 | 30,358 | 7,690 | |
| **EBITDA** | **2,518** | **2,063** | **2,162** | **1,711** | **2,813** | **2,907** | **2,736** | **2,545** | **8,454** | **11,002** | **2,744** | **5.9** |
| YoY Change (%) | 14.4 | -21.5 | -9.7 | -22.1 | 11.7 | 40.9 | 26.5 | 48.8 | -10.3 | 30.1 | 33.0 | |
| Margins (%) | 26.5 | 22.0 | 22.3 | 19.4 | 27.6 | 28.3 | 26.1 | 24.5 | 22.6 | 26.6 | 26.3 | |
| Depreciation | 318 | 327 | 333 | 330 | 332 | 337 | 342 | 353 | 1,308 | 1,364 | 338 | |
| **EBIT** | **2,200** | **1,736** | **1,829** | **1,381** | **2,482** | **2,570** | **2,394** | **2,192** | **7,146** | **9,637** | **2,406** | **6.8** |
| YoY Change (%) | 16.2 | -24.9 | -12.0 | -26.8 | 12.8 | 48.0 | 30.9 | 58.7 | -12.5 | 34.9 | 38.6 | |
| Margins (%) | 23.1 | 18.5 | 18.8 | 15.7 | 24.3 | 25.0 | 22.8 | 21.1 | 19.1 | 23.3 | 23.1 | 8.3 |
| Interest | 9 | 10 | 28 | 11 | 9 | 23 | 13 | 7 | 58 | 52 | 14 | |
| Other Income | 48 | 394 | 239 | 123 | 121 | 85 | 95 | 113 | 803 | 414 | 135 | |
| **PBT before EO expense** | **2,239** | **2,120** | **2,040** | **1,493** | **2,594** | **2,631** | **2,476** | **2,298** | **7,892** | **9,999** | **2,527** | **4.1** |
| Extra-Ord expense | 20 | 90 | 357 | -28 | 97 | 128 | 0 | 0 | -439 | 225 | 0 | |
| **PBT** | **2,219** | **2,030** | **1,683** | **1,521** | **2,691** | **2,759** | **2,476** | **2,298** | **7,453** | **10,224** | **2,527** | **9.2** |
| Tax | 472 | 464 | 338 | 299 | 609 | 806 | 520 | 361 | 1,574 | 2,297 | 594 | |
| Effective Rate (%) | 21.3 | 22.9 | 20.1 | 19.7 | 22.6 | 29.2 | 21.0 | 15.7 | 21.1 | 22.5 | 23.5 | |
| MI & P/L of Asso. Cos. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| **Reported PAT** | **1,746** | **1,566** | **1,345** | **1,222** | **2,082** | **1,953** | **1,956** | **1,937** | **5,879** | **7,927** | **1,933** | **1.0** |
| **Adj PAT** | **1,762** | **1,635** | **1,630** | **1,200** | **2,007** | **1,862** | **1,956** | **1,937** | **6,227** | **7,762** | **1,933** | **-3.7** |
| YoY Change (%) | 14.4 | -11.4 | -15.0 | -25.6 | 13.9 | 13.9 | 20.0 | 61.4 | -10.0 | 24.7 | 18.2 | |
| Margins (%) | 18.4 | 16.7 | 16.4 | 13.4 | 19.4 | 18.0 | 18.5 | 18.5 | 16.3 | 18.6 | 18.3 | |

E: MOFSL Estimates

# Navin Fluorine International

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

| | |
|---|---|
| Bloomberg | NFIL IN |
| Equity Shares (m) | 50 |
| M.Cap.(INRb)/(USDb) | 170.5 / 2 |
| 52-Week Range (INR) | 4950 / 3357 |
| 1, 6, 12 Rel. Per (%) | -6/-35/-30 |
| 12M Avg Val (INR M) | 797 |

**Financials & Valuations (INR b)**

| Y/E March | FY23 | FY24E | FY25E |
|---|---|---|---|
| Sales | 20.8 | 22.9 | 29.7 |
| EBITDA | 5.5 | 5.8 | 8.0 |
| PAT | 3.8 | 3.3 | 4.9 |
| EPS (INR) | 75.7 | 67.5 | 98.9 |
| EPS Gr. (%) | 42.6 | -10.8 | 46.4 |
| BV/Sh.(INR) | 441.0 | 497.8 | 581.0 |
| **Ratios** | | | |
| Net D:E | 0.4 | 0.4 | 0.3 |
| RoE (%) | 18.6 | 14.4 | 18.3 |
| RoCE (%) | 15.7 | 12.1 | 15.0 |
| Payout (%) | 15.8 | 15.8 | 15.8 |
| **Valuations** | | | |
| P/E (x) | 45.3 | 50.8 | 34.7 |
| P/BV (x) | 7.8 | 6.9 | 5.9 |
| EV/EBITDA (x) | 32.4 | 31.0 | 22.4 |
| Div. Yield (%) | 0.3 | 0.3 | 0.5 |
| FCF Yield (%) | -4.8 | 0.3 | 0.6 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 28.8 | 28.8 | 29.4 |
| DII | 26.0 | 26.0 | 22.7 |
| FII | 19.2 | 18.5 | 20.1 |
| Others | 26.0 | 26.7 | 27.9 |

FII Includes depository receipts

**CMP: INR3,438 TP: INR3,460 (+1% ) Neutral**

## Macro headwinds to have an adverse short-term impact

- Navin Fluorine (NFIL) reported 29%/28% lower-than-estimated EBITDA/PAT due to subdued performances in the Specialty Chemicals/CDMO businesses QoQ. Gross margin stood at 57.2%, while EBITDA margin dipped 150bp YoY to 20.8%. NFIL lost ~INR1b in revenue in 2Q due to macro headwinds and deferment of some orders. At the normal level, revenue could have been ~INR5.5-5.7b (in line with our est.)
- The Specialty Chemical segment disappointed in 2Q primarily due to the deferment of sales of two molecules from 2Q to 3Q led by production problems in Dahej. Revenue from these is expected to accrue in 3Q. Five new molecules are also likely to be launched in the ensuing quarter by NFIL. Management is confident that the segment is going to be a high-growth one in future.
- There were planned and unplanned shutdowns in the HFO plant in 1Q and the plant has now been stabilized. It is ramping up post-Jul'23. There was slower- than-expected stabilization of the R32 plant, but management expects the same to run at optimal utilization from 3Q onwards. Pricing pressure in Refrigerant gases continued to impact the segment adversely.
- The entire revenue in the CDMO segment was from new molecules with detailed engineering of CGMP4 on track. Sales from a campaign were deferred to 3Q from 2Q due to the last minute change in product specification by the customer. Orders for a couple of large molecules have also been deferred from CY23 to CY24. The segment is anticipated to remain lumpy going forward.
- Given the underperformance in 1HFY24, we cut our revenue/EBITDA/EPS estimates by 14%/19%/27% for FY24 and by 11%/10%/18% for FY25. Subsequently, **we expect a revenue/EBITDA/PAT CAGR of 27%/31%/23% over FY23-25.** The stock is trading at 34x FY25E EPS of INR99 and 22x FY25E EV/EBITDA. We value the company at 35x FY25E EPS to arrive at our TP of INR3,460. **We maintain our Neutral rating on the stock.**

## Overall miss on estimates; margin contracts sequentially

- NFIL reported revenue of INR4.7b (est. INR5.3b, +13% YoY) in 2QFY24.
- EBITDAM came in at 20.8% (-150bp YoY), with EBITDA at INR983m (est. of INR1.4b, +5% YoY) during the quarter.
- PAT stood at INR606m (est. of INR842m, +5% YoY). Other income was higher as it includes INR153m of income tax refund.
  - Adj. PAT stood at INR453m (-22% YoY) in 2QFY24.
- **For 1HFY24**, revenue was INR9.6b (+18% YoY), EBITDA was at INR2.1b (+10% YoY) and PAT was at INR1.2b (-8% YoY).
  - EBITDAM was at 22.1% (-160bp YoY). 1HFY24 EBITDA stood at 30% of our full-year estimate.
- The Board has declared an interim dividend of INR5/share plus a one-time special dividend of INR3/share to commemorate the centenary birth year of Mr. Arvind Mafatlal.

## Segmental highlights

- The **HPP business** posted a revenue of INR2.4b (+13% YoY)
- The **Specialty Chemicals business** posted a revenue of INR1.9b (+5% YoY).
  - Agro capex to be commissioned in FY24-end
- The **CDMO business** reported a revenue of INR482m (+24% YoY)
  - The “Navin Molecular” brand was launched at the CPHI event in Oct’23

- **The revenue mix in 2QFY24 stood at 50% for HPP business (49% in 2QFY23), 10% for CDMO business (9%) and 39% for Specialty Chemicals business (41%)**
- Domestic sales were 51% of the total revenue in 2QFY24 while 49% was exports (55% in 2QFY23). Domestic sales from the HPP business stood at 63% and from the Specialty Chemicals business stood at 48%. Exports contributed 100% of the CDMO business revenue.

## Valuation and View

- The HPP and the Specialty Chemicals segments would drive robust growth (at 31% CAGR each over FY23-25), with increasing use of fluorine in the Pharma and Agro space, battery chemicals, and performance materials. The company has already identified various opportunities in the abovementioned spaces.
- The stock is trading at 34x FY25E EPS of INR99, with return ratios expected to remain stable at current levels, despite a huge capex (INR8b) over the next two years. We value the company at 35x FY25E EPS to arrive at our TP of INR3,460. **We maintain our Neutral rating on the stock.**

**Consolidated - Quarterly Snapshot** (INR m)

| Y/E March | FY23 | | | | FY24 | | | | FY23 | FY24E | FY24 | Var. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE | (%) |
| **Gross Sales** | **3,975** | **4,192** | **5,636** | **6,971** | **4,912** | **4,718** | **5,996** | **7,271** | **20,774** | **22,905** | **5,303** | **-11%** |
| YoY Change (%) | 21.7 | 23.7 | 48.7 | 70.5 | 23.6 | 12.5 | 6.4 | 4.3 | 42.9 | 10.3 | 26.5 | |
| Gross Margin (%) | 54.1% | 56.2% | 56.3% | 59.3% | 58.7% | 57.2% | 57.6% | 57.5% | 56.9% | 57.8% | 59.7% | -2.6% |
| **EBITDA** | **991** | **938** | **1,556** | **2,018** | **1,142** | **983** | **1,527** | **2,117** | **5,503** | **5,779** | **1,383** | **-29%** |
| Margin (%) | 24.9 | 22.4 | 27.6 | 28.9 | 23.3 | 20.8 | 25.5 | 29.1 | 26.5 | 25.2 | 26.1 | -5.2 |
| Depreciation | 124 | 177 | 250 | 76 | 213 | 243 | 251 | 258 | 626 | 964 | 216 | |
| Interest | 3 | 40 | 92 | 140 | 194 | 200 | 205 | 203 | 275 | 802 | 127 | |
| Other Income | 109 | 109 | 99 | 40 | 83 | 231 | 80 | 64 | 357 | 458 | 85 | |
| **PBT before EO expense** | **974** | **831** | **1,313** | **1,842** | **818** | **772** | **1,152** | **1,720** | **4,959** | **4,471** | **1,125** | **-31%** |
| **PBT** | **974** | **831** | **1,313** | **1,842** | **818** | **772** | **1,152** | **1,720** | **4,959** | **4,471** | **1,125** | **-31%** |
| Tax | 229 | 252 | 247 | 478 | 202 | 166 | 290 | 467 | 1,207 | 1,125 | 283 | |
| Rate (%) | 23.5 | 30.4 | 18.8 | 26.0 | 24.8 | 21.5 | 25.2 | 27.1 | 24.3 | 25.2 | 25.2 | |
| **Reported PAT** | **745** | **578** | **1,066** | **1,364** | **615** | **606** | **862** | **1,253** | **3,752** | **3,345** | **842** | **-28%** |
| **Adj. PAT** | **745** | **578** | **1,066** | **1,364** | **615** | **606** | **862** | **1,253** | **3,752** | **3,345** | **842** | **-28%** |
| YoY Change (%) | 33.2 | -8.6 | 54.9 | 81.5 | -17.4 | 4.8 | -19.1 | -8.1 | 42.6 | -10.8 | 45.6 | |
| Margin (%) | 18.7 | 13.8 | 18.9 | 19.6 | 12.5 | 12.8 | 14.4 | 17.2 | 18.1 | 14.6 | 15.9 | -3.0 |
| **Segmental Revenue (INR m)** | | | | | | | | | | | | |
| High Performance Products (HPP) | 1,520 | 2,110 | 2,530 | 2,890 | 1,690 | 2,381 | 2,613 | 3,038 | 9,050 | 9,722 | 1,986 | 20% |
| Specialty Chemicals | 1,760 | 1,770 | 1,860 | 2,040 | 2,300 | 1,855 | 2,111 | 2,393 | 7,430 | 8,659 | 2,403 | -23% |
| CDMO | 700 | 390 | 1,250 | 2,030 | 930 | 482 | 1,273 | 1,840 | 4,370 | 4,525 | 914 | -47% |

# Craftsman Automation

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

| | |
|---|---|
| Bloomberg | CRAFTSMA IN |
| Equity Shares (m) | 21 |
| M.Cap.(INRb)/(USDb) | 102.9 / 1.2 |
| 52-Week Range (INR) | 5066 / 2699 |
| 1, 6, 12 Rel. Per (%) | 8/51/49 |
| 12M Avg Val (INR M) | 218 |

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

| Y/E March | FY23 | FY24E | FY25E |
|---|---|---|---|
| Sales | 31.8 | 47.5 | 54.5 |
| EBITDA | 6.8 | 9.9 | 11.7 |
| Adj. PAT | 2.5 | 3.9 | 4.8 |
| EPS (INR) | 117.6 | 186.0 | 224.9 |
| EPS Gr. (%) | 54.8 | 58.2 | 20.9 |
| BV/Sh. (INR) | 652 | 824 | 1,031 |
| **Ratios** | | | |
| RoE (%) | 19.7 | 25.2 | 24.3 |
| RoCE (%) | 14.3 | 18.5 | 18.8 |
| Payout (%) | 9.6 | 7.5 | 8.0 |
| **Valuations** | | | |
| P/E (x) | 41.4 | 26.2 | 21.7 |
| P/BV (x) | 7.5 | 5.9 | 4.7 |
| Div. Yield (%) | 0.2 | 0.3 | 0.4 |
| FCF Yield (%) | 2.6 | 2.4 | 4.0 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 55.0 | 55.0 | 58.8 |
| DII | 17.3 | 17.2 | 16.3 |
| FII | 12.7 | 12.1 | 4.3 |
| Others | 15.1 | 15.7 | 20.6 |

FII Includes depository receipts

## CMP: INR4,869 TP: INR5,800 (+19%) Buy

## Softness in powertrain division dents overall performance

### Announced incremental capex of up to INR2.6b for greenfield by FY26

- CRAFTSMA's 2QFY24 results were below our estimates as EBITDA margin came in at 20.1% (est. 21.5%). The weakness was largely attributable to underutilized capacities in the powertrain division and repair expenses for the refurbishment of old equipment. However, margins are likely to recover to 21%+ in the coming quarters, led by utilization improvement across businesses and reductions in other costs.
- We maintain our FY24/FY25 EPS estimates. Retain our **BUY** rating on the stock with a TP of INR5,800 (based on 22x Dec'25E consolidated EPS).

### Revenue growth muted in powertrain segment

- 2Q consolidated revenue/EBITDA/adj. PAT grew 53%/40%/56% YoY to INR11.8b/INR2.4b/INR945m (est. INR11.6b/INR2.5b/INR993m). 1HFY24 revenues/EBITDA/adj. PAT grew 53%/35%/45% YoY.
- Consol. 2Q revenue grew 53% YoY (14% QoQ) to INR11.8b (in line). Revenue for Auto powertrain/Al products grew 4%/20% YoY; however, the Industrials & storage segment remained flat YoY.
- Gross margin declined 200bp YoY (down 70bp QoQ) to 46.8% (est. 47.3%) due to underutilized capacities in the powertrain division.
- Further, higher-than-estimated other expenses led to an EBITDA margin decline of 190bp YoY (down 50bp QoQ) to 20.1% (est. 21.5%).
- PBIT margins improved 750bp YoY (250bp QoQ) to 15.1% for Al products but declined for auto powertrain/industrial and storage solution by 490bp/180bp YoY to 19.6%/10.3%.
- Cashflows compared on the standalone basis: There was a cash outflow of INR824m in 1HFY4 (vs. inflow of INR528m in 1HFY23) mainly on account of lower CFO of INR1.6b (vs. INR2.3b in 1HFY23) and higher capex of INR2.5b (vs. INR1.8b in 1HFY23).
- **DR Axion's 2QFY24 performance (derived):** Revenue came in at INR3.55b (up 26% QoQ and ~30% of consol revenue; vs. est.INR3b). EBITDA stood at INR648m (~27% of consol EBITDA; est.511m), with margin at 18.3% (est.16.9%).

### Highlights from the management interaction

- **Powertrain business:** Expects the segment to grow in high single digits to low double digits over the next two years due to a high base of FY23. It should start growing at a rapid pace in FY26. It is working with one of the largest customers globally for export orders, which would start in FY26. Utilization improved to 70% (vs. 60% in 1Q). It is also building in more capacities to cater to demand for the off-highway segment.
- **Aluminum die-casting:** The company is in a ramp-up phase. All orders win over the last two years are translating now. Utilization stands at 80% for the SA business and ~85-90% for DRAIPL.

- **DR Axion- Finalized a new order for Hyundai for its new Talegaon plant,** which is going to be operational by FY25. This will add another 5-10% to revenue growth for DRAIPL.
- **Industrials-** There was a pause in the storage solution business in 1HFY24, but 2H is looking strong. It has an order book of INR1b in automated storage. Revenue from the storage division for 1HFY24 was INR1.64b, of which 27% came from automated storage.
- **Capex in 1HFY24 stood at INR2.6b. It has guided for full-year capex of INR4.8b,** including INR1.5-1.6b for greenfield. Incremental greenfield capex would be INR1b in FY26. It is looking to house all the segments, mainly powertrain, aluminium and some backward integration.

## Valuation & view

- CRAFTSMAN's track record of creating and gaining market leadership organically is uncommon in the auto component industry. This has enabled the company to deliver a good balance of strong growth and superior capital efficiency.
- We estimate a CAGR of 31%/31%/38% in consolidated revenue/EBITDA/PAT over FY23-25. We reiterate our **BUY** rating on the stock with a TP of INR5,800 (premised on 22x Dec'25E consolidated EPS).

**Quarterly (Consol)** **(INR M)**

| | FY23 | | | | FY24E | | | | FY23 | FY24E | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2Q |
| **Net operating income** | **6,758** | **7,713** | **7,490** | **9,804** | **10,376** | **11,791** | **12,119** | **13,263** | **31,826** | **47,549** | **11,626** |
| Change (%) | 56.6 | 35.6 | 35.8 | 49.8 | 53.5 | 52.9 | 61.8 | 35.3 | 44.2 | 49.4 | 50.7 |
| Total Cost | 5,124 | 6,012 | 5,907 | 7,919 | 8,234 | 9,416 | 9,570 | 10,394 | 24,990 | 37,614 | 9,124 |
| RM/Sales (%) | 47.8 | 51.2 | 50.4 | 54.3 | 52.5 | 53.2 | 53.4 | 53.0 | 51.2 | 53.0 | 52.7 |
| Staff Cost (% of Sales) | 8.4 | 7.4 | 7.8 | 6.2 | 6.5 | 6.1 | 6.0 | 6.0 | 7.3 | 6.1 | 6.3 |
| Other Exp. (% of Sales) | 19.6 | 19.3 | 20.6 | 20.3 | 20.4 | 20.6 | 19.5 | 19.4 | 20.0 | 19.9 | 19.5 |
| **EBITDA** | **1,634** | **1,701** | **1,583** | **1,884** | **2,142** | **2,375** | **2,549** | **2,869** | **6,836** | **9,935** | **2,502** |
| EBITDA Margins (%) | 24.2 | 22.1 | 21.1 | 19.2 | 20.6 | 20.1 | 21.0 | 21.6 | 21.5 | 20.9 | 21.5 |
| Non-Operating Income | 13 | 17 | 46 | 49 | 37 | 47 | 40 | 27 | 125 | 152 | 30 |
| Interest | 254 | 233 | 296 | 419 | 424 | 416 | 430 | 440 | 1202 | 1710 | 430 |
| Depreciation | 532 | 547 | 538 | 599 | 683 | 668 | 680 | 721 | 2216 | 2752 | 690 |
| Minority Int/Share of Profit | 0 | 0 | -2 | -1 | 62 | 97 | 85 | 88 | 21 | 336 | 63 |
| **PBT after EO items** | **861** | **939** | **797** | **916** | **1,011** | **1,241** | **1,394** | **1,647** | **3,522** | **5,288** | **1,349** |
| Eff. Tax Rate (%) | 35.5 | 35.4 | 35.3 | 12.4 | 26.3 | 23.8 | 26.4 | 26.1 | 29.5 | 25.7 | 26.4 |
| **Rep. PAT** | **556** | **606** | **516** | **802** | **745** | **945** | **1,026** | **1,217** | **2,484** | **3,929** | **993** |
| Change (%) | 143.3 | 22.7 | 40.2 | 56.2 | 34.0 | 56.0 | 98.8 | 51.7 | 54.8 | 58.2 | 63.8 |
| **Adj. PAT** | **556** | **606** | **516** | **802** | **745** | **945** | **1,026** | **1,217** | **2,484** | **3,929** | **993** |
| Change (%) | 143.3 | 22.7 | 40.2 | 56.2 | 34.0 | 56.0 | 98.8 | 51.7 | 54.8 | 58.2 | 63.8 |

E: MOFSL Estimates

Note: DR Axion was consolidated from 1st Feb 2023

# Transport Corporation of India

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

| | |
|---|---|
| Bloomberg | TRPC IN |
| Equity Shares (m) | 77 |
| M.Cap.(INRb)/(USDb) | 63.6 / 0.8 |
| 52-Week Range (INR) | 868 / 555 |
| 1, 6, 12 Rel. Per (%) | 7/24/9 |
| 12M Avg Val (INR M) | 42 |

**Financial Snapshot (INR b)**

| Y/E MARCH | 2023 | 2024E | 2025E |
|---|---|---|---|
| Sales | 37.8 | 41.6 | 49.0 |
| EBITDA | 4.2 | 4.6 | 5.8 |
| Adj. PAT | 3.2 | 3.6 | 4.4 |
| EBITDA Margin (%) | 11.2 | 11.0 | 11.9 |
| Adj. EPS (INR) | 41.6 | 46.8 | 57.6 |
| EPS Gr. (%) | 10.7 | 12.5 | 23.1 |
| BV/Sh. (INR) | 220.7 | 264.0 | 318.2 |
| **Ratios** | | | |
| Net D:E | -0.1 | -0.1 | -0.2 |
| RoE (%) | 20.1 | 19.0 | 19.5 |
| RoCE (%) | 19.3 | 18.4 | 19.0 |
| Payout (%) | 17.0 | 7.5 | 6.1 |
| **Valuations** | | | |
| P/E (x) | 19.7 | 17.5 | 14.2 |
| P/BV (x) | 3.7 | 3.1 | 2.6 |
| EV/EBITDA(x) | 14.0 | 12.5 | 9.7 |
| Div. Yield (%) | 0.9 | 0.4 | 0.4 |
| FCF Yield (%) | 3.3 | 1.7 | 1.4 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 68.9 | 68.9 | 69.0 |
| DII | 12.9 | 12.8 | 11.8 |
| FII | 2.6 | 2.5 | 3.3 |
| Others | 15.6 | 15.8 | 15.8 |

FII Includes depository receipts

**CMP: INR820 TP: INR930 (+14%) Buy**

## Performance in line; outlook bright

- Revenue grew 7% YoY to ~INR9.9b in 2QFY24 (in line), driven by the Supply Chain and Seaways segments (up 9% YoY each). Its Freight division reported 3% YoY growth.
- EBITDA margin came in at 10.1% (est. 11%), down 20bp YoY/50bp QoQ. EBITDA grew 5% YoY to INR1b and APAT rose 20% YoY to INR870m (6% above our estimate). EBIT margin for Freight/Supply Chain/Seaways stood at 3.4%/6.7%/22.9%. EBIT margin for Freight/Seaways contracted 70bp/160bp YoY, whereas EBIT margin for the Supply Chain division improved 40bp YoY. The company declared an interim dividend of INR2.5 per share.
- TRPC recently entered into an agreement to buy two new ships of ~7,300 MT each for a consideration of USD34m (~INR2.7b). These vessels are slated for delivery on or before 30th Jun'26. The purchase would be funded through internal accruals and debt.
- **Since the Seaways segment earns the highest margin, new capacity in this segment would improve the company's overall profitability. While this segment is expected to report muted growth in FY25/FY26 as new ships will be delivered only in mid-CY26, we believe it will contribute well to total earnings from FY27 onward. We have largely retained our estimates for FY24/FY25 and maintain our BUY rating with a TP of INR930 (based on a P/E multiple of 16x FY25E EPS).**

### Strong performance in Supply Chain segment; Seaways to see flat growth in FY24 due to capacity constraints

- The Supply Chain division delivered strong growth of 9% YoY owing to the retention and expansion of business with existing clients and new business acquisitions. The management remains confident of clocking a double-digit growth rate in the Supply Chain business in FY24.
- In the Seaways division, growth could be muted in FY24 as TRPC is yet to add another ship to its fleet. TRPC is currently operating at its peak capacity. The company recently signed an agreement to buy two new vessels, but they are scheduled to be delivered only by mid-CY26.
- The share of LTL/FTL businesses in the Freight division stood at 36%/64% in 1HFY24. The management is actively working on increasing the share of LTL revenue to 40% by FY25, which will lead to margin improvement.

### Highlights from the management commentary

- The Freight business posted moderate growth, especially in the LTL segment, due to the late arrival of the festive season. The Seaways division saw lower freight rates due to lower fuel prices and soft demand.
- The Supply Chain segment continues to do well, driven by the auto segment (80% contribution).

- The cost of purchasing a ship remains high, leading to the delay in acquiring a new ship. TRPC will continue to evaluate and may add a ship in FY25.
- The new ships would be added in CY26. New ships have a payback period of 6-7 years and IRR of 20-21%. The second-hand ships have a payback period of 7-8 years with 19-20% IRR.

## Valuation and view

- The management's plan to expand capacity in the Seaways division will further bolster growth prospects. The Supply Chain business is expected to continue its growth momentum, driven by the traction in the automotive sector. The increasing share of LTL services in the Road Freight division is a positive indicator for TRPC. LTL services generally offer higher profit margins and can significantly contribute to the company's overall profitability.
- We expect a CAGR of 14%/17%/18% in revenue/EBITDA/PAT over FY23-FY25 for TRPC. We maintain our BUY rating on the stock with a TP of INR930, based on 16x FY25E EPS.

**Quarterly snapshot (Cons)** INR m

| Y/E March (INR m) | FY23 | | | | FY24 | | | | FY23 | FY24E | FY24 | Var. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE | v/s Est |
| **Net Sales** | **9,029** | **9,321** | **9,667** | **9,793** | **9,498** | **9,935** | **10,961** | **11,228** | **37,826** | **41,622** | **9,880** | **1** |
| YoY Change (%) | 29.7 | 13.0 | 15.4 | 9.0 | 5.2 | 6.6 | 13.4 | 14.6 | 16.1 | 10.0 | 6.0 | |
| **EBITDA** | **1,041** | **960** | **1,144** | **1,081** | **1,008** | **1,004** | **1,240** | **1,343** | **4,240** | **4,595** | **1,088** | **(8)** |
| Margins (%) | 11.5 | 10.3 | 11.8 | 11.0 | 10.6 | 10.1 | 11.3 | 12.0 | 11.2 | 11.0 | 11.0 | |
| YoY Change (%) | 37.4 | -8.2 | 4.8 | -10.0 | -3.1 | 4.6 | 8.4 | 24.3 | 3.2 | 8.4 | 13.4 | |
| Depreciation | 289 | 300 | 314 | 311 | 308 | 311 | 312 | 297 | 1,214 | 1,228 | 310 | |
| Interest | 23 | 25 | 26 | 24 | 23 | 34 | 18 | 14 | 98 | 89 | 24 | |
| Other Income | 53 | 74 | 70 | 121 | 85 | 113 | 84 | 51 | 303 | 333 | 85 | |
| **PBT before EO expense** | **782** | **708** | **874** | **867** | **762** | **772** | **994** | **1,083** | **3,231** | **3,611** | **839** | **(8)** |
| Extra-Ord expense | 0 | 0 | 0 | 34 | 0 | 0 | 0 | 0 | 34 | 0 | 0 | |
| **PBT** | **782** | **708** | **874** | **833** | **762** | **772** | **994** | **1,083** | **3,197** | **3,611** | **839** | **(8)** |
| Tax | 93 | 116 | 110 | 115 | 104 | 96 | 179 | 199 | 434 | 578 | 134 | |
| Rate (%) | 11.9 | 16.4 | 12.6 | 13.8 | 13.6 | 12.4 | 18.0 | 18.4 | 13.6 | 16.0 | 16.0 | |
| Minority Interest | -8.4 | -6.6 | -8.2 | -9.3 | -9.0 | -8.0 | -8.2 | -4.8 | -32.5 | -30.0 | -6.6 | |
| Profit/Loss of Asso. Cos | 98 | 138 | 102 | 106 | 174 | 202 | 100 | 131 | 444 | 607 | 120 | |
| **Reported PAT** | **778** | **723** | **857** | **814** | **823** | **870** | **907** | **1,010** | **3,173** | **3,610** | **818** | **6** |
| **Adj PAT** | **778** | **723** | **857** | **848** | **823** | **870** | **907** | **1,010** | **3,207** | **3,610** | **818** | **6** |
| YoY Change (%) | 65.9 | -4.1 | 4.4 | -0.7 | 5.8 | 20.3 | 5.8 | 19.0 | 10.7 | 12.5 | 13.1 | |
| Margins (%) | 8.6 | 7.8 | 8.9 | 8.7 | 8.7 | 8.8 | 8.3 | 9.0 | 8.5 | 8.7 | 8.3 | |

E: MOFSL Estimates

# SIS

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

| | |
|---|---|
| Bloomberg | SECIS IN |
| Equity Shares (m) | 147 |
| M.Cap.(INRb)/(USDb) | 60.1 / 0.7 |
| 52-Week Range (INR) | 486 / 318 |
| 1, 6, 12 Rel. Per (%) | -1/2/-7 |
| 12M Avg Val (INR M) | 42 |

**Financials & Valuations (INR b)**

| Y/E Mar | 2023 | 2024E | 2025E |
|---|---|---|---|
| Sales | 113.5 | 126.6 | 145.8 |
| EBITDA margin | 4.3 | 4.8 | 5.3 |
| Adj. PAT | 3.5 | 3.8 | 5.3 |
| EPS (INR) | 23.2 | 25.5 | 35.5 |
| EPS Gr. (%) | 19.7 | 9.8 | 39.0 |
| BV/Sh. (INR) | 341.3 | 396.8 | 474.9 |
| **Ratios** | | | |
| RoE (%) | 15.7 | 15.0 | 17.9 |
| RoCE (%) | 13.1 | 11.8 | 13.9 |
| Payout (%) | 0.0 | 0.0 | 0.0 |
| **Valuations** | | | |
| P/E (x) | 17.8 | 16.2 | 11.6 |
| P/BV (x) | 1.2 | 1.0 | 0.9 |
| EV/EBITDA (x) | 14.1 | 11.1 | 8.4 |
| EV/Sales (x) | 0.6 | 0.5 | 0.4 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 71.6 | 71.6 | 71.5 |
| DII | 3.1 | 4.0 | 4.5 |
| FII | 16.3 | 15.2 | 15.0 |
| Others | 9.0 | 9.2 | 9.0 |

FII Includes depository receipts

**CMP: INR412 TP: INR490 (+19%) Buy**

## Growth to remain strong; margin recovery to drive earnings

### Valuations remain favorable; reiterate BUY

- SIS reported an in-line performance in 2QFY24. Its revenue increased 11.1% YoY, while its EBITDA margin stood at 4.7%. Despite a weak macro environment, SIS delivered healthy growth in 2QFY24. The management commentary remained strong, suggesting robust growth in 2HFY24 aided by strong order book. Cross-selling opportunities in India Security and Facility Management (FM) businesses, coupled with an increase in minimum wages and long-term tailwinds from sector consolidation, are expected to position SIS for a 13.4% revenue CAGR (MOSLe) over FY23-25.
- India Security/FM businesses are likely to deliver a strong revenue CAGR of 19%/18% for FY23-25. Conversely, its Australia business is anticipated to report a modest 6.8% CAGR over the next two years.
- After recording a strong improvement in 1QFY24, the margin uptrend continued for the India Security business. Margin improved 70bp over the last two quarters, which is promising. Though FM posted a 40bp sequential margin decline, management is adopting a similar margin improvement approach for the FM business by rationalizing its low-margin accounts. The management expects a gradual margin recovery in the FM business. With stabilization in SG&A costs and strong growth ahead, SIS anticipates to return to the pre-Covid level margin (of ~6%) in its India Security and FM businesses. We expect an overall margin of 4.8%/5.3% for FY24/FY25. The company is likely to return to FY21-level margin in the medium term, backed by healthy operating leverage in its India business and stable performance in its international business.
- We have largely maintained our EPS estimates aided by the stable quarter. Given the multi-dimensional opportunity, we value SIS at INR490/share (19% potential upside), derived by assigning 8x forward EV/EBITDA multiple to International business (in line with global peers) and DCF to the India business. **We reiterate our BUY rating on the stock.**

### Operating performance in line

- SIS's revenue increased 11.1% YoY and 3% QoQ to ~INR30.7b in 2QFY24, in line with our expectations.
- Sequential revenue growth was led by ~6% QoQ growth in India Security. FM business rose 1.7% QoQ while International security grew 1.3% QoQ.
- EBITDA margin, at 4.7%, was flat QoQ (in line with our estimate of 4.6%).
- Consolidated adj. PAT stood at INR753m (+12% YoY; in line). Tax rate was higher at 16% vs. 5% estimated.
- Net debt increased to INR10.5b. Net debt/EBITDA was at 1.9x. OCF/EBITDA conversion was weak at 2.3% in 2QFY24.

## Key highlights from the management commentary

- During Covid-19, as FM business was hit, SIS had to take up several low-margin contracts. Currently, the FM business is under a portfolio review exercise to identify and fix the low-margin contracts. These contracts are either negotiated for re-pricing or replaced with better-margin contracts.
- VProtect continues to see strong traction and has an order book of over 5k. Tech SIS is expected to deliver one of its best years backed by a strong order book. Currently, 8-10% of its security business revenue comes from solutions. For the FM segment, solutions business contributes as much as 30% to revenue.
- Management suggested a strong 2HFY24 aided by a strong order book. It is confident of restoring EBITDA margins for all businesses to the pre-Covid levels.

## Strong and resilient growth profile to drive further upside; reiterate BUY

- With the liberalization and formalization of labor markets and laws, SIS should be among the biggest direct beneficiaries. SIS has managed to gain market share during the last few years, and the trend is expected to continue.
- We value SIS by using an SoTP method: 1) DCF for the India Security business (INR347), 2) an EV/EBITDA multiple of 8x (INR116) for the International Security business (in line with global peers), and 3) DCF for the FM business (INR100) less net debt (INR71). Consequently, we arrive at our TP of INR490. **We reiterate our BUY rating on the stock.**
- Our TP implies a target P/E multiple of 12x for FY25E. We view this as reasonable, given its strong growth profile and unique resilience to macro shocks.

**Consolidated - Quarterly performance** (INR m)

| Y/E March | FY23 | | | | FY24 | | | | FY23 | FY24E | Est. | Var |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2Q | (%/bp) |
| **Gross Sales** | **26,782** | **27,677** | **29,043** | **29,957** | **29,767** | **30,736** | **32,108** | **34,032** | **1,13,458** | **1,26,643** | **30,404** | **1.1** |
| YoY Change (%) | 12.6 | 13.9 | 11.7 | 13.1 | 11.1 | 11.1 | 10.6 | 13.6 | 12.8 | 11.6 | 9.9 | **120bp** |
| Total Expenditure | 25,575 | 26,579 | 27,779 | 28,610 | 28,377 | 29,292 | 30,560 | 32,304 | 1,08,543 | 1,20,532 | 29,006 | 1.0 |
| **EBITDA** | **1,207** | **1,098** | **1,264** | **1,347** | **1,390** | **1,445** | **1,548** | **1,728** | **4,915** | **6,111** | **1,398** | **3.4** |
| Margin (%) | 4.5 | 4.0 | 4.4 | 4.5 | 4.7 | 4.7 | 4.8 | 5.1 | 4.3 | 4.8 | 4.6 | 10bp |
| Depreciation | 286 | 331 | 342 | 388 | 358 | 404 | 415 | 434 | 1,347 | 1,611 | 377 | 7.1 |
| Interest | 247 | 275 | 310 | 317 | 327 | 347 | 250 | 242 | 1,149 | 1,166 | 327 | 6.0 |
| Other Income | 67 | 81 | 30 | 149 | 88 | 125 | 120 | 117 | 327 | 450 | 88 | 42.7 |
| **PBT** | **742** | **572** | **642** | **791** | **793** | **819** | **1,003** | **1,169** | **2,747** | **3,784** | **781** | **4.8** |
| Tax | -80 | -80 | -379 | -77 | -50 | 132 | 50 | 58 | -616 | 191 | 39 | 237.1 |
| Rate (%) | -10.7 | -14.1 | -59.0 | -9.7 | -6.2 | 16.1 | 5.0 | 5.0 | -22.4 | 5.0 | 5.0 | NM |
| MI & Profit/Loss of Asso. Cos. | 4 | 22 | 13 | 64 | 52 | 66 | 37 | 42 | 102 | 197 | 33 | 99 |
| **Adjusted PAT** | **825** | **674** | **1,034** | **931** | **895** | **753** | **989** | **1,153** | **3,465** | **3,790** | **775** | **-2.9** |
| YoY Change (%) | 59.0 | 7.7 | 35.5 | -4.4 | 8.4 | 11.6 | -4.3 | 23.8 | 20.2 | 9.4 | 14.9 | |
| Margins (%) | 3.1 | 2.4 | 3.6 | 3.1 | 3.0 | 2.4 | 3.1 | 3.4 | 3.1 | 3.0 | 2.5 | -10bp |

31 October 2023

2QFY24 Results Update | Sector: Financials

# DCB Bank

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

| | |
|---|---|
| Bloomberg | DCBB IN |
| Equity Shares (m) | 312 |
| M.Cap.(INRb)/(USDb) | 35.8 / 0.4 |
| 52-Week Range (INR) | 141 / 97 |
| 1, 6, 12 Rel. Per (%) | -5/2/0 |
| 12M Avg Val (INR M) | 216 |

**Financials & Valuations (INR b)**

| Y/E March | FY23 | FY24E | FY25E |
|---|---|---|---|
| NII | 17.2 | 19.8 | 23.5 |
| OP | 7.9 | 9.3 | 11.4 |
| NP | 4.7 | 5.5 | 6.6 |
| NIM (%) | 4.0 | 3.8 | 3.8 |
| EPS (INR) | 14.9 | 17.8 | 21.3 |
| EPS Gr. (%) | 61.7 | 18.8 | 20.1 |
| BV/Sh. (INR) | 141 | 157 | 176 |
| ABV/Sh. (INR) | 133 | 149 | 167 |
| **Ratios** | | | |
| RoE (%) | 11.5 | 12.3 | 13.2 |
| RoA (%) | 1.0 | 1.0 | 1.0 |
| **Valuations** | | | |
| P/E (x) | 7.7 | 6.5 | 5.4 |
| P/BV (x) | 0.8 | 0.7 | 0.7 |
| P/ABV (X) | 0.9 | 0.8 | 0.7 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 14.8 | 14.8 | 14.9 |
| DII | 39.0 | 39.8 | 37.5 |
| FII | 12.7 | 12.3 | 12.5 |
| Others | 33.5 | 33.1 | 35.1 |

FII Includes depository receipts

**CMP: INR115** **TP: INR130 (+13%)** **Neutral**

## Earnings in line; asset quality deteriorates slightly

### Margins moderates 14bp QoQ to 3.69%

- DCB Bank (DCBB) reported 13% YoY growth in PAT at INR1.3b (in line) driven by lower provisions (9% lower than MOFSLe). NII grew 16% YoY to INR4.8b (flat QoQ, inline). NIM moderated 14bp QoQ to 3.69% in 2QFY24.
- Advances grew 19% YoY, supported by healthy disbursements across segments. Deposits jumped 23% YoY, led by 7% QoQ growth in term deposits. CASA mix moderated 93bp QoQ to 25% in 2QFY24.
- Slippages mounted to INR3.9b (v/s INR3.4b in 1QFY24), which resulted in a deterioration in the GNPA/NNPA ratios by 10bp/9bp QoQ. Restructured book declined QoQ but remained elevated at ~INR12.7b (3.4% of loans).
- We estimate DCBB's FY25E RoA/RoE at 1.0%/13.3%. **Reiterate Neutral with a TP of INR130 (based on 0.8x FY25E ABV).**

### Business growth healthy; CASA mix moderates 93bp QoQ to 25%

- DCBB reported 2QFY24 PAT of INR1.3b (+13% YoY, in line), led by lower provisions of INR397m (9% lower than MOFSLe) in 2QFY24.
- NII jumped ~16% YoY (flat QoQ) to INR4.8b (in line) due to 14bp QoQ moderation in margins to 3.69%. Other income grew 8% YoY (flat QoQ, 8.5% lower than MOFSLe) with fee income increasing 29% QoQ. Total revenue grew 14% YoY (flat QoQ) during the quarter.
- Opex increased 14% YoY as the bank continued to make investments in the business, and hence, PPoP rose 15% YoY (4% miss) in 2QFY24.
- Advances grew 19% YoY/5% QoQ, supported by healthy disbursements across mortgages and AIB segments.
- Deposits jumped 23% YoY (+5.8% QoQ), led by 7% QoQ growth in term deposits while CASA deposits grew 2% QoQ to 113.9b. CASA mix thus moderated 93bp QoQ to 25.04%.
- GNPA/NNPA ratio deteriorated 10bp/9bp QoQ to 3.36%/1.28% with slippages increasing sequentially to INR 3.9b. PCR moderated 130bp QoQ to 62.8% (~75.5% including TWO).
- Restructured book stood at INR12.7b (3.4% of loans). CE increased across segments and stood at 97.3%/97.6%/90.6%, including delinquent and restructured book, in Business/Home/CV Loans.

### Highlights from the management commentary

- Management targets for ~20% business growth and aims to double the book in the next 3-4 years.
- DCBB expects credit cost to be in the range of 35-40bp.
- The bank expects that changing product mix towards business loans should drive NIM and RoA of 1% and RoE of 14%.
- NIM is likely to be stabilized going ahead. Management guides for a NIM of 3.65-3.75%.
- The bank's new MD & CEO application has already put to the RBI and the bank is waiting for the RBI to revert on the same.

## Valuation and view

DCBB reported a mixed quarter with in-line earnings driven by lower provisions, and moderation in margins on expected lines. Loan growth was steady led by mortgages and AIB segments, while deposit growth was led by term deposits resulting in a slight moderation in CASA ratio. Fresh slippages were elevated along with higher restructured book, which led to a slight deterioration in asset quality ratios. Higher slippages were seen in mortgages as the restructured book came out of the moratorium. Management suggested collection trends from the restructured book to improve gradually and will thus enable a decline in slippage run-rate over the next 2-3 quarters. We estimate FY25E RoA/RoE at 1.0%/13.3%, and **maintain our Neutral rating with a TP of INR130 (premised on 0.8x FY25E ABV).**

**Quarterly performance** **(INR m)**

| | FY23 | | | | FY24E | | | | FY23 | FY24E | FY23E | V/s our |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE | Est |
| **Net Interest Income** | **3,740** | **4,111** | **4,460** | **4,860** | **4,707** | **4,757** | **5,042** | **5,343** | **17,170** | **19,849** | **4,803** | **-1.0** |
| % Change (Y-o-Y) | 21.1 | 27.2 | 29.3 | 27.7 | 25.9 | 15.7 | 13.0 | 10.0 | 26.5 | 15.6 | 16.8 | |
| Other Income | 924 | 992 | 954 | 1,223 | 1,069 | 1,074 | 1,217 | 1,430 | 4,094 | 4,790 | 1,174 | -8.5 |
| **Total Income** | **4,664** | **5,103** | **5,414** | **6,083** | **5,777** | **5,831** | **6,258** | **6,773** | **21,264** | **24,639** | **5,977** | **-2.4** |
| Operating Expenses | 3,002 | 3,278 | 3,473 | 3,643 | 3,690 | 3,725 | 3,896 | 4,026 | 13,397 | 15,337 | 3,788 | -1.7 |
| **Operating Profit** | **1,661** | **1,826** | **1,941** | **2,439** | **2,087** | **2,105** | **2,363** | **2,747** | **7,867** | **9,302** | **2,189** | **-3.8** |
| % Change (Y-o-Y) | -17.8 | 4.2 | -2.4 | 10.5 | 25.6 | 15.3 | 21.7 | 12.6 | -1.3 | 18.2 | 19.9 | |
| Provisions | 350 | 310 | 407 | 525 | 377 | 397 | 485 | 591 | 1,787 | 1,849 | 438 | -9.5 |
| **Profit before Tax** | **1,311** | **1,516** | **1,534** | **1,915** | **1,709** | **1,708** | **1,878** | **2,157** | **6,080** | **7,453** | **1,751** | **-2.4** |
| Tax | 340 | 392 | 396 | 493 | 440 | 441 | 485 | 558 | 1,424 | 1,923 | 452 | -2.5 |
| **Net Profit** | **971** | **1,124** | **1,139** | **1,422** | **1,269** | **1,268** | **1,394** | **1,599** | **4,656** | **5,530** | **1,299** | **-2.4** |
| % Change (Y-o-Y) | 187.8 | 73.0 | 51.1 | 25.4 | 30.7 | 12.9 | 22.4 | 12.5 | 61.9 | 18.8 | 15.6 | |
| **Operating Parameters** | | | | | | | | | | | | |
| Deposit (INR b) | 350.8 | 369.6 | 395.1 | 412.4 | 430.1 | 455.0 | 458.0 | 482.5 | 412.4 | 482.5 | 443.9 | 2.5 |
| Loan (INR b) | 298.1 | 312.9 | 329.7 | 343.8 | 354.7 | 372.8 | 385.2 | 407.4 | 343.8 | 407.4 | 372.4 | 0.1 |
| Deposit Growth (%) | 14.6 | 16.3 | 22.6 | 18.9 | 22.6 | 23.1 | 15.9 | 17.0 | 18.9 | 17.0 | 20.1 | 3.0 |
| Loan Growth (%) | 17.9 | 17.9 | 20.6 | 18.2 | 19.0 | 19.1 | 16.8 | 18.5 | 18.2 | 18.5 | 19.0 | 0.1 |
| **Asset Quality** | | | | | | | | | | | | |
| Gross NPA (%) | 4.2 | 3.9 | 3.6 | 3.2 | 3.3 | 3.4 | 3.3 | 2.7 | 3.2 | 2.7 | 3.1 | 0.2 |
| Net NPA (%) | 1.8 | 1.5 | 1.4 | 1.0 | 1.2 | 1.3 | 1.1 | 0.9 | 1.0 | 0.9 | 1.1 | 0.2 |
| PCR (%) | 57.8 | 61.3 | 63.0 | 68.2 | 64.1 | 62.8 | 67.5 | 66.8 | 68.2 | 66.8 | 66.4 | -3.6 |
| RoA (%) | 0.9 | 1.0 | 0.9 | 1.1 | | | | | | | | |
| RoE (%) | 10.1 | 11.5 | 11.3 | 13.7 | | | | | | | | |
| CASA (%) | 28.6 | 29.3 | 27.6 | 26.4 | | | | | | | | |
| Margins (%) | 3.6 | 3.9 | 4.0 | 4.2 | | | | | | | | |

MOTILAL OSWAL | MORNING INDIA

**RESULTS FLASH**

31 October 2023
Results Flash | Sector: Telecom

# Bharti Airtel

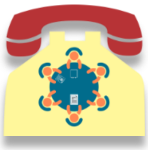
| BSE SENSEX | S&P CNX |
|---|---|
| 63,875 | 19,080 |

## CMP: INR914 — Buy

## Moderate growth; reducing capex aids FCF

**India Mobile/Africa EBITDA (CC) growth at 3%/7% QoQ**

## Conference Call Details



**Date:** 01st N6v 2023
**Time:** 14:30 hours IST

**Financial Valuations (INR b)**

| INR b | FY23 | FY24E | FY25E |
|---|---|---|---|
| Net Sales | 1,391 | 1,517 | 1,655 |
| EBITDA | 713 | 803 | 809 |
| Adj. PAT | 76 | 101 | 113 |
| EBITDA Margin (%) | 51.2 | 52.9 | 48.9 |
| Adj. EPS (INR) | 13.6 | 18.0 | 20.2 |
| EPS Gr. (%) | 115 | 32 | 12 |
| BV/Sh. (INR) | 139 | 188 | 208 |
| **Ratios** | | | |
| Net D:E | 2.7 | 1.6 | 1.3 |
| RoE (%) | 10.5 | 11.0 | 10.2 |
| RoCE (%) | 10.0 | 8.6 | 9.2 |
| Div. Payout (%) | 0.0 | 0.0 | 0.0 |
| **Valuations** | | | |
| EV/EBITDA (x) | 10.2 | 8.6 | 8.3 |
| P/E (x) | 67.2 | 50.8 | 45.2 |
| P/BV (x) | 6.6 | 4.9 | 4.4 |
| Div. Yield (%) | 0.0 | 0.0 | 0.0 |

### Results in detail

- **Consol. revenue/EBITDA hit by 16% Africa currency devaluation – down ~1% QoQ each to INR370.4b/INR195.1b**
- India/Africa CC revenue grew 2%/6% QoQ and EBITDA grew 2.7%/7% QoQ.
  - Consol. PAT after minority was down 17% QoQ to INR13.4b. Adjusted (for exceptional) Consol PAT post-minority stood at INR29.6b vs. INR29b QoQ (est. INR30b).

### India Mobile's EBITDA up 6% QoQ (in line) with steady ARPU growth and a healthy 76% incremental margin

- **Revenue, at INR209.5b, grew 2.7% QoQ (in line) aided by 1.5% ARPU growth to INR203 and 1% subscriber growth to 342.3m.**
  - 4G subscriber additions recovered to 7.7m from 5.6m QoQ, reaching 237.5m subscribers (3.4% QoQ), i.e. 69.4% of total subscribers.
  - RJio's revenue grew 2.9% QoQ and it has added 11.2m subscribers vs. Bharti's 3.7m subscriber additions.
- **ARPU increased 1.5% QoQ to INR203, which could be attributed to 4G and postpaid-led mix improvement, pack upgrades, and higher no. of days in the quarter.**
- **EBITDA was up 3% QoQ to INR115b (in line),** with 10bp margin improvement at 54.9%. Incremental margin was at 60.3%.
- Data traffic rose 6% QoQ to 14.9t GB with 21.1GB/user. Bharti's data usage/ subs stood 10% below RJio's and its data subscribers were far below Rjio's.
- Churn increased 10bp QoQ to 2.9% (VIL's churn at 4.1%).
- MOU decreased 1.3% QoQ to 1,123 mins while RJio/VIL's voice consumption stood at 1,006/613 mins.

### Africa reports solid growth across geographies

- Africa's revenue/EBITDA declined 9.2%/8.7% to INR103b/INR51b (reported currency) due to Naira devaluation.
- **Revenue/EBITDA (in CC) grew 6%/7% QoQ to USD1.3b/625m**
- Subs-base grew 3% QoQ while ARPU was flat

### Home business continues to expand its reach

- Home business continued to see strong growth: 5%/4% QoQ growth in revenue/EBITDA. While subscriber growth was healthy at 7% QoQ (following the trend of the past six quarters), the ARPU continued to soften by 2% QoQ to INR608 from INR800 in FY20, due to an increase in off-take for lower-priced plans.

- Reach has increased to 1,239 cities (+14 cities in the quarter), which was hardly 100+ cities in FY20.
- Enterprise revenue/EBITDA grew 1%/3% QoQ to INR51b/INR21b. Against this, TCOM saw 1% revenue growth/2% EBITDA decline
- Digital TV revenue grew 1.5% QoQ /EBITDA declined 1.2% QoQ to INR8b/INR4b

## High OCF drives FCF and debt reduction – though capex remains elevated

- FCF (post-interest) increased to ~INR54b from INR35b QoQ, led by lower capex.
- Capex decreased QoQ to INR92b (vs. INR105b in 1QFY24) led by India Mobile's lower capex of INR57b (vs. INR78b in 1QFY24).
- Net debt (excl. lease liability) declined INR13.6b to INR1,475b.
- Lease liability increased INR6.5b to INR596b from INR589b. Subsequently, overall net debt reduced INR7b to INR2,070.2b with annualized net debt-to-EBITDA at 2.6x.
- Bharti has INR160b (right issue call money) yet to receive, which could reduce the net debt by about 8%.

## Network scale up

- Maintained the aggressive network expansion pace.
- Continued to add 11k new unique sites reaching 295k sites vs. below-200k sites in FY20. Bharti similarly added 23.4k mobile broadband stations that reached 876k sites. Added 12k kms of optic fiber during the quarter.

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

| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | FY24E | Est |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | 2QE | Var (%) |
| **Revenue** | **328** | **345** | **358** | **360** | **374** | **370** | **381** | **390** | **1,391** | **1,517** | **385** | -3.7 |
| YoY Change (%) | 22.2 | 21.9 | 19.9 | 14.3 | 14.1 | 7.3 | 6.3 | 8.4 | 19.4 | 9.0 | 11.4 | |
| Total Expenditure | 163 | 169 | 174 | 173 | 178 | 175 | 178 | 182 | 679 | 714 | 183 | -4.4 |
| **EBITDA** | **165** | **176** | **185** | **187** | **196** | **195** | **202** | **208** | **713** | **803** | **201** | -3.0 |
| YoY Change (%) | 27.3 | 27.4 | 25.5 | 16.6 | 18.6 | 10.9 | 9.7 | 11.3 | 23.9 | 12.6 | 14.4 | -24 |
| Depreciation | 88 | 89 | 93 | 94 | 97 | 97 | 108 | 128 | 364 | 430 | 107 | -8.8 |
| Net Finance cost | 45 | 49 | 47 | 52 | 56 | 52 | 52 | 58 | 193 | 218 | 52 | 0.1 |
| Other Income | 4 | 6 | -1 | 9 | 9 | 9 | 11 | 12 | 17 | 41 | 10 | -9.4 |
| **PBT before EO expense** | **36** | **43** | **44** | **50** | **53** | **55** | **53** | **34** | **172** | **195** | **53** | 4.3 |
| Extra-Ord expense | 0 | 0 | 7 | 0 | 34 | 16 | 0 | 0 | 7 | 50 | 0 | |
| **PBT** | **36** | **43** | **37** | **50** | **19** | **39** | **53** | **34** | **166** | **146** | **53** | -25.4 |
| Tax | 11 | 13 | 11 | 8 | 3 | 18 | 18 | 11 | 43 | 51 | 13 | 40.9 |
| Rate (%) | 31.3 | 30.2 | 29.2 | 15.7 | 18.0 | 46.9 | 33.5 | 33.5 | 25.8 | 34.9 | 24.8 | |
| Minority Interest & P/L of Asso. Cos. | 9 | 8 | 10 | 12 | -1 | 8 | 9 | 11 | 39 | 27 | 10 | |
| **Reported PAT** | **16** | **21** | **16** | **30** | **16** | **13** | **27** | **11** | **83** | **68** | **30** | -55.0 |
| **Adj PAT** | **15** | **21** | **20** | **26** | **29** | **30** | **27** | **11** | **82** | **96** | **30** | -0.7 |
| YoY Change (%) | 469.4 | 245.7 | 147.0 | 39.4 | 91.3 | 44.2 | 32.9 | -56.7 | 131.2 | 18.1 | 45.2 | |

E: MOFSL Estimates

## Key positive takeaways from the result

- **Currency devaluation impacts:** Consol. revenue and EBITDA were hit by a 16% currency devaluation in Africa, resulting in a decrease of ~1% in revenue from INR370.4b to INR195.1b QoQ. Conversely, India/Africa CC revenue grew 2%/6% QoQ, while their EBITDA was up by 2.3%/7.0% QoQ (in line).
- **India growth moderates but matches Rjio:** India Mobile's revenue/EBITDA growth softened to 3% vs. 6% QoQ growth led by 1.5% ARPU increase (4G and postpaid-led mix benefit and higher no. of days) and 1% subscriber growth, partly offset by higher network opex with aggressive site adds.

- **Home business is the silver lining** with 4% QoQ EBITDA growth (led by subscriber additions). The business continues to grow steadily in the last 12 quarters. It has expanded in 1,234 cities vs. merely 100 cities in FY20 with 2.5x growth in subscribers in the last three years. New Xtream AirFibre launch should further accelerate this growth.
- **Capex moderates thereby improving FCF and deleveraging:** Capex declined INR105b QoQ (partly seasonal), which led to INR54b of FCF generation (post-interest). Subsequently, it repaid deferred spectrum liability. Net debt (excl. lease liability) reduced INR13.6b to INR1,475b. If capex has peaked out, this could drive FCF further. This could further reduce by 10% through INR160b Rights issue call money.
- **Superior network capability:** Bharti's data traffic and subscribers are still >50% below RJio each. Yet, it continues to add strong broadband/overall sites of 23k/11k along with accelerated fiberization.
- **Soft revenue growth ahead:** Given the limited potential of tariff hikes, market share gains, and 4G-led mix benefit, growth should moderate. However, long-term consolidation in the market holds Bharti in good stead.

| | 2QY23 | 1QFY24 | 2QFY24 | YoY% | QoQ% | 2QFY24E | v/s Est (%) |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Mobile India | 190 | 204 | 210 | 10.5 | 2.7 | 209 | 0.3 |
| Home | 10 | 12 | 12 | 23.3 | 5.0 | 12 | 0.2 |
| Enterprise | 47 | 51 | 51 | 9.5 | 1.1 | 52 | -1.8 |
| Digital TV | 7 | 7 | 8 | 3.1 | 1.5 | 7 | 0.5 |
| South Asia | 1 | 1 | 1 | 34.2 | -0.1 | 1 | -2.1 |
| Africa | 104 | 113 | 103 | -1.6 | -9.2 | 116 | -11.2 |
| Eliminations | -13 | -12 | -14 | 2.4 | 11.1 | -13 | 8.3 |
| **Consolidated Revenue** | **345** | **375** | **370** | **7.3** | **-1.3** | **385** | **-3.7** |
| **EBITDA** | | | | | | | |
| Mobile India | 99 | 112 | 115 | 15.9 | 3.0 | 115 | 0.3 |
| Home | 5 | 6 | 6 | 21.9 | 3.6 | 6 | -2.2 |
| Enterprise | 18 | 20 | 21 | 12.5 | 3.0 | 21 | -1.2 |
| Digital TV | 4 | 4 | 4 | -3.2 | -1.2 | 4 | -2.2 |
| South Asia | 0 | 0 | 0 | -14.7 | 7.1 | 0 | 10.5 |
| Africa | 51 | 56 | 51 | -0.1 | -8.7 | 57 | -10.3 |
| Eliminations | -2 | -2 | -2 | -9.6 | 4.8 | -2 | 2.0 |
| **Consolidated EBITDA** | **176** | **196** | **195** | **10.9** | **-0.4** | **201** | -3.0 |
| **EBITDA margin (%)** | | | | | | | |
| Mobile India | 52.4 | 54.8 | 54.9 | 255bps | 15bps | 54.9 | -3bps |
| Home | 50.3 | 50.4 | 49.8 | -59bps | -68bps | 51.0 | -125bps |
| Enterprise | 39.2 | 39.5 | 40.3 | 105bps | 74bps | 40.0 | 27bps |
| Digital TV | 59.7 | 57.6 | 56.0 | -367bps | -155bps | 57.6 | -155bps |
| Mobile South Asia | -20.2 | -12.0 | -12.9 | 737bps | -87bps | -11.4 | -147bps |
| Africa | 49.0 | 49.5 | 49.8 | 77bps | 25bps | 49.3 | 47bps |
| **Consolidated EBITDA margin** | **51.0** | **52.3** | **52.7** | **172bps** | **33bps** | **52.3** | 36bps |
| Depreciation and amortization | 89 | 97 | 97 | 8.8 | 0.8 | 107 | -8.8 |
| Operating income | 86 | 99 | 98 | 13.1 | -1.7 | 95 | 3.5 |
| Other income and share of JV/Associate | 6 | 9 | 9 | 64.1 | -2.3 | 10 | -9.4 |
| Net finance cost | 49 | 56 | 52 | 5.0 | -7.6 | 52 | 0.1 |
| **Proforma Profit Before Taxes** | **43** | **53** | **55** | **29.2** | **4.6** | **53** | **4.3** |
| Exceptional Items | 0 | 34 | 16 | NM | NM | 0 | NM |
| Proforma Tax | 13 | 3 | 18 | 43.5 | 455.0 | 13 | **40.9** |
| Effective Tax Rate (%) | 30.2 | 6.3 | 33.5 | NM | 2719.8 | 24.8 | **8.7** |
| **Proforma Profit After Tax** | **30** | **15** | **21** | **-29.7** | **37.7** | **40** | **-47.3** |
| Proforma Minority Interest | 8 | -1 | 8 | -9.7 | -915.3 | 10 | **-24.2** |
| **Net Profit post Minority** | **21** | **16** | **13** | **-37.5** | **-16.9** | **30** | **-55.0** |
| **Adj. Net Profit post Minority** | **21** | **29** | **30** | **44.2** | **2.0** | **30** | **-0.7** |

| India - Wireless KPIs | Q2FY23 | Q1FY24 | Q2FY24 | YoY% | QoQ% | Q2FY24E | v/s Est (%) |
|---|---|---|---|---|---|---|---|
| Wireless traffic (b min) | 1063 | 1149 | 1148 | 8.0 | -0.1 | 1173 | -2.1 |
| Total subscribers (m) | 328 | 339 | 342 | 4.4 | 1.1 | 341.6 | 0.2 |
| Data subscribers (m) | 219 | 238 | 246 | 12.2 | 3.2 | 257.3 | -4.4 |
| 4G subscribers | 210.3 | 229.7 | 237.5 | 12.9 | 3.4 | | |
| ARPU (INR) | 190 | 200 | 203 | 6.8 | 1.5 | 203 | 0.0 |
| MOU (min) | 1082 | 1138 | 1123 | 3.8 | -1.3 | 1149 | -2.3 |
| Data Traffic (b MB) | 13,485 | 15,273 | 16,127 | 19.6 | 5.6 | 16,714 | -3.5 |
| Data usage/sub (MB) | 20,758 | 21,606 | 22,221 | 7.0 | 2.8 | 22,487 | -1.2 |
| Monthly churn (%) | 3.3 | 2.8 | 2.9 | -40bps | 10bps | 2.8 | 10bps |

# IOCL

| BSE SENSEX | S&P CNX |
|---|---|
| 63,875 | 19,080 |

## Conference Call Details

**Date:** 1st November 2023

**Time:** 1300 hours IST

**Dial-in details:**

+91 22 6280 1222

+91 22 7115 8123

## CMP: INR88 — Buy

## In-line performance as weak petchem offsets stronger-than-expected marketing and refining margins

- **Reported GRM came in above our est. at USD17.9/bbl** (our est. of USD14.9/bbl and USD8.3/bbl in 1QFY24)
  - Refining throughput in line with est. at 17.8mmt (up 10% YoY).
- Marketing margins (incl. inv.) was above our est. at INR5.8/lit (est. INR5/lit and INR8.7/lit in 1QFY24)
  - Marketing volumes, excluding exports, were in line with our estimate at 21.9mmt (+2% YoY)
- Petchem EBIT came in at INR1.6b (below our est. of INR3.2b).
- EBITDA came in line with our est. at INR213.1b (up 4.3x YoY).
- PAT came in line at INR129.7b (net loss of INR2.7b in 2QFY23).
- **In 1HFY24,** EBITDA was up 4.7x YoY to INR435b, with PAT at INR267b (net loss of INR23b in 1HFY23)
  - Refining throughput was up 4% YoY at 36.5mmt, with reported GRM at USD13.1/bbl (USD25.5/bbl in 1HFY23).
  - Marketing margin stood at INR7.3/lit (vs. –INR3.9/lit in 1HFY23)
- 1HFY24 EBITDA is 71% of our FY24 estimates, while PAT stood at 79% of our FY24 estimates.
- IOCL had a cumulative negative net buffer of INR2.2b as on 31st Mar'23 due to under recovery on LPG cylinders. The same has been recognized as part of revenue upon recovery in 1HFY24.
- The company has declared an interim dividend of INR5share during the quarter.

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

| Y/E March | FY23 | | | | FY24 | | | Var. | YoY | QoQ |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 2QAct | (%) | (%) | (%) |
| **Net Sales** | **2,243** | **2,075** | **2,047** | **2,030** | **1,975** | **2,099** | **1,797** | **-14** | **-13** | **-9** |
| YoY Change (%) | 89.0 | 53.2 | 22.8 | 14.5 | -11.9 | 1.2 | -13.4 | | | |
| **EBITDA** | **43.0** | **50.1** | **52.9** | **143.5** | **221.6** | **209.5** | **213.1** | **2** | **325** | **-4** |
| Margins (%) | 1.9 | 2.4 | 2.6 | 7.1 | 11.2 | 10.0 | 11.9 | | | |
| Depreciation | 28.5 | 29.6 | 31.0 | 29.5 | 31.5 | 33.3 | 32.8 | | | |
| Forex loss | 29.4 | 30.5 | 17.0 | -9.9 | 0.0 | 0.0 | 0.0 | | | |
| Interest | 17.2 | 14.4 | 19.5 | 18.1 | 16.3 | 17.9 | 18.5 | | | |
| Other Income | 6.8 | 22.0 | 17.2 | 16.4 | 6.9 | 13.3 | 9.8 | | | |
| **PBT** | **-25.3** | **-2.4** | **2.6** | **122.1** | **180.7** | **171.6** | **171.7** | **0** | **LP** | **-5** |
| Tax | -5.4 | 0.3 | -1.9 | 21.6 | 43.2 | 43.2 | 42.0 | | | |
| Rate (%) | 21.2 | -11.5 | -74.6 | 17.7 | 23.9 | 25.2 | 24.5 | | | |
| **Reported PAT** | **-19.9** | **-2.7** | **4.5** | **100.6** | **137.5** | **128.4** | **129.7** | **1** | **LP** | **-6** |
| YoY Change (%) | PL | PL | -92.4 | 67.0 | LP | LP | LP | | | |
| Margins (%) | -0.9 | -0.1 | 0.2 | 5.0 | 7.0 | 6.1 | 7.2 | | | |
| **Key Assumptions** | | | | | | | | | | |
| Refining throughput (mmt) | 18.9 | 16.1 | 18.2 | 19.1 | 18.8 | 18.3 | 17.8 | -3 | 10 | -5 |
| Reported GRM (USD/bbl) | 31.8 | 19.2 | 12.9 | 15.3 | 8.3 | 14.9 | 17.9 | 20 | -7 | 115 |
| Domestic sale of refined products (mmt) | 23.0 | 21.6 | 23.2 | 23.0 | 23.3 | 22.9 | 21.9 | -4 | 2 | -6 |
| Marketing GM incld. inv. per litre (INR/litre) | -7.2 | -0.7 | 0.7 | 2.7 | 8.7 | 5.0 | 5.8 | 15 | LP | -33 |

# Tata Consumer Products

| BSE SENSEX | S&P CNX |
|---|---|
| 63,875 | 19,080 |

**CMP: INR901** — **Buy**

## Conference Call Details

**Date:** 1st Nov 2023
**Time:** 12:00pm IST
**Registration:** Diamond Pass

## Operating performance in line with our estimates

### Consolidated

- TATACONS reported revenue of INR37.3b in 2QFY24 (est. INR37.4b), up 11% YoY. EBITDA margin improved by 150bp YoY to 14.4% (est. 14.3%) due to lower other expenses (incl. A&SP) as a % of sales by 70bp (combined) and higher gross margins at 42.5% (vs. 41.7% in 2QFY23). EBITDA rose 24% YoY to INR5.4b (est. INR5.3b).
- Indian Branded business grew 11% YoY to INR24b, led by revenue growth of 8%/16% YoY in Indian branded beverage/Indian Food businesses to INR13.4b/ INR10.7b. EBIT grew by 7% YoY to INR3.3b.
- International branded beverages revenue grew 13% YoY to INR9.5b, with EBIT growth of 60% YoY to INR958m.
- Adj. PAT stood at INR3.5b (est. INR3.4b), up 43% YoY.
- For 1HFY24, revenue/EBITDA/Adj. PAT grew by 12%/21%/29% to INR74.7b/ INR10.8b/INR6.7b.

### TCP Standalone

- Standalone revenue grew 11% YoY to INR23.6b and EBITDA rose 11% YoY to INR3.7b.
- For 1HFY24, standalone revenue/EBITDA/adj. PAT grew 11%/13%/20% to INR46.8b/INR7.3b/INR5.7b.

### TCP Overseas Tea

- Revenue grew 30% YoY to INR6b.

### Tata Coffee Consolidated

- Revenue declined 3% YoY to INR7b and EBITDA increased by 24% YoY to INR1,021m.

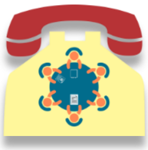
**Consolidated - Quarterly Earning Model** (INRb)

| Y/E March | FY23 | | | | FY24 | | | | FY23 | FY24 | FY24E | Var |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2Q | (%) |
| **Gross Sales** | **33.3** | **33.6** | **34.7** | **36.2** | **37.4** | **37.3** | **39.3** | **40.0** | **137.8** | **154.1** | **37.4** | **0** |
| YoY Change (%) | 10.6 | 10.9 | 8.3 | 14.0 | 12.5 | 11.0 | 13.2 | 10.6 | 10.9 | 11.8 | 11.1 | |
| Total Expenditure | 28.7 | 29.3 | 30.2 | 31.1 | 32.0 | 32.0 | 33.8 | 34.4 | 119.3 | 132.1 | 32.0 | |
| **EBITDA** | **4.6** | **4.3** | **4.5** | **5.1** | **5.5** | **5.4** | **5.6** | **5.6** | **18.6** | **22.0** | **5.3** | **0** |
| Margins (%) | 13.7 | 12.9 | 13.1 | 14.1 | 14.6 | 14.4 | 14.2 | 14.1 | 13.5 | 14.3 | 14.3 | |
| Depreciation | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 | 0.9 | 0.8 | 0.8 | 3.0 | 3.4 | 0.8 | |
| Interest | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.9 | 0.9 | 0.2 | |
| Other Income | 0.4 | 0.3 | 0.5 | 0.6 | 0.6 | 0.9 | 0.5 | 0.5 | 1.7 | 2.5 | 0.3 | |
| **PBT before EO expense** | **4.0** | **3.7** | **4.0** | **4.6** | **4.9** | **5.1** | **5.1** | **5.2** | **16.3** | **20.2** | **4.6** | |
| Extra-Ord expense | -0.2 | 1.1 | 0.8 | -0.1 | -0.1 | -0.1 | 0.0 | 0.0 | 1.6 | -0.2 | 0.0 | |
| **PBT** | **3.8** | **4.8** | **4.8** | **4.5** | **4.9** | **4.9** | **5.1** | **5.2** | **17.9** | **20.0** | **4.6** | **6** |
| Tax | 1.0 | 1.3 | 1.1 | 1.0 | 1.3 | 1.3 | 1.4 | 1.4 | 4.5 | 5.4 | 1.2 | |
| Rate (%) | 27.1 | 26.3 | 23.4 | 23.2 | 26.7 | 26.8 | 27.0 | 27.0 | 24.9 | 26.9 | 27.0 | |
| Minority Interest | 0.2 | 0.6 | 0.1 | 0.2 | 0.2 | 0.3 | 0.0 | 0.0 | 1.2 | 0.5 | 0.3 | |
| Profit/Loss of Asso. Cos. | 0.0 | 0.3 | -0.1 | -0.6 | -0.2 | 0.0 | 0.0 | -0.2 | -0.3 | -0.3 | 0.3 | |
| **Reported PAT** | **2.6** | **3.3** | **3.5** | **2.7** | **3.2** | **3.4** | **3.7** | **3.6** | **12.0** | **13.9** | **3.4** | |
| **Adj PAT** | **2.7** | **2.4** | **2.9** | **2.7** | **3.2** | **3.5** | **3.7** | **3.6** | **10.8** | **14.0** | **3.4** | **2** |
| YoY Change (%) | 45.4 | -12.7 | 6.5 | 18.1 | 17.2 | 42.8 | 27.1 | 31.5 | 11.2 | 29.2 | 39.9 | |
| Margins (%) | 8.2 | 7.3 | 8.4 | 7.6 | 8.6 | 9.4 | 9.5 | 9.0 | 7.9 | 9.1 | 9.2 | |

# MAX Financial Services

| BSE SENSEX | S&P CNX |
|---|---|
| 63,875 | 17,340 |

## Conference Call Details



**Date:** 1st November'23
**Time:** 9:00am IST
**Dial-in details:**
+91-22-7115 8042

**Financials & Valuations (INR b)**

| Y/E MARCH | FY23 | FY24E | FY25E |
|---|---|---|---|
| Net Premiums | 253.4 | 287.7 | 331.6 |
| Sh. PAT | 4.4 | 5.8 | 6.8 |
| NBP gr - unwtd (%) | 13.3 | 11.0 | 16.0 |
| NBP gr - APE (%) | 11.3 | 11.9 | 16.0 |
| Premium gr (%) | 13.1 | 13.5 | 15.3 |
| VNB margin (%) | 31.2 | 28.9 | 29.2 |
| Op. RoEV (%) | 22.1 | 20.8 | 20.3 |
| Total AUMs (INRb) | 1,229 | 1,474 | 1,714 |
| VNB(INRb) | 19.5 | 20.1 | 23.6 |
| EV per Share | 377 | 458 | 551 |
| **Valuations** | | | |
| P/EV (x) | 3.0 | 2.5 | 2.1 |
| P/EVOP (x) | 15.7 | 14.6 | 12.3 |

## CMP: INR914

## PAT beat of 36%, VNB margins contract 615bp YoY

- **Gross written premium grew ~14% YoY (in line) in 2QFY24.** New business premium increased by 28% YoY, led by 38% YoY growth in first year premium. Renewal premium grew 8% YoY (in line). Shareholders PAT (pre-tax) surged 196% YoY to INR1.6b (36% beat).
- In 2QFY24, total APE grew 39% YoY to INR16.5b (in line). All products witnessed YoY growth, with par products reporting exponential growth of 93% YoY and 107% QoQ. Retail protection was up 92% YoY/80% QoQ. Group protection grew 52% YoY but declined 19% QoQ. Total protection increased by 72% YoY, while ULIP business grew 43% YoY. Non-par savings stood flat YoY but rose 9%QoQ.
- On a YoY basis, the business mix moved in favor of par products with a 24% share (vs. 17%), while that of Non-par savings declined to 28% in 2QFY24 from 38% in 2QFY23.
- **Absolute VNB grew 12% YoY to INR4.2b (16% miss)** and VNB margins came in at 25.2% in 2QFY24 (declined 615bp YoY, our estimate of 30.1%). AUM grew ~18% YoY to INR1.34t.
- On the distribution side, **Banca APE/Proprietary Channels grew 30%/57% YoY**
- On the cost front, the opex-to-GWP ratio increased by 180bp YoY to 22.8%.
- **Valuation and view:** MAXLIFE reported a healthy trend in total APE, driven by strong traction in all segments, except Non-par. Overall the share of non-par weakened at the cost of par products and protection. The banca and proprietary channels maintained strong trends. VNB margin contracted to 25.2%. Persistency trends were stable. We will review our estimates and TP after the earning call scheduled for 1st Nov'23.

**Quarterly Snapshot**

| Policyholder A/c (INRb) | FY23 | | | | FY24 | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | YoY | QoQ |
| **Gross premium** | **41.0** | **58.0** | **62.8** | **91.5** | **48.7** | **66.3** | **14** | **36** |
| First year premium | 9.2 | 11.1 | 14.6 | 24.1 | 9.9 | 15.3 | 38 | 55 |
| Renewal premium | 26.2 | 39.1 | 40.2 | 58.3 | 30.1 | 42.0 | 8 | 39 |
| Single premium | 5.7 | 7.8 | 8.0 | 9.1 | 8.7 | 8.9 | 14 | 3 |
| **Shareholders PAT** | **0.9** | **0.5** | **2.9** | **0.7** | **1.0** | **1.6** | **196** | **52** |
| **APE data (INRb)** | | | | | | | | |
| PAR | 1.7 | 2.0 | 1.8 | 2.6 | 1.9 | 3.9 | 93 | 107 |
| Individual Protection | 0.7 | 0.8 | 1.1 | 1.2 | 0.9 | 1.6 | 92 | 80 |
| Group Protection | 1.1 | 0.7 | 0.5 | 0.9 | 1.2 | 1.0 | 52 | -19 |
| Non-PAR Savings | 2.7 | 4.5 | 8.3 | 14.4 | 4.2 | 4.6 | 2 | 9 |
| ULIP | 3.8 | 3.9 | 3.4 | 6.4 | 2.8 | 5.5 | 43 | 98 |
| **APE (% of total)** | | | | | | | **Change (bS)** | |
| PAR | 17.0 | 17.0 | 12.1 | 10.1 | 17.0 | 23.7 | 669 | 669 |
| Individual Protection | 7.0 | 7.0 | 7.0 | 4.5 | 8.0 | 9.7 | 267 | 167 |
| Group Protection | 11.0 | 5.5 | 3.1 | 3.5 | 11.0 | 6.0 | 52 | -502 |
| Non-PAR Savings | 27.0 | 38.1 | 55.1 | 56.8 | 38.0 | 28.0 | -1,012 | -1,004 |
| ULIP | 38.0 | 32.5 | 22.7 | 25.1 | 25.0 | 33.4 | 91 | 837 |
| **Distribution mix (%)** | | | | | | | | |
| Proprietary | 34 | 36 | 33 | 41 | 39 | 41 | 483 | 167 |
| Banca | 65 | 63 | 66 | 58 | 59 | 59 | -415 | 0 |
| Others | 1 | 1 | 1 | 1 | 2 | 0 | -67 | -167 |
| **Key Ratios (%)** | | | | | | | | |
| **Operating ratios** | | | | | | | | |
| Opex to GWP ratio (%) | 22.9 | 21.0 | 20.4 | 20.5 | 23.6 | 22.8 | 180 | -80 |
| Solvency Ratio | 196.0 | 196.0 | 200.0 | 190.0 | 188.0 | 184.0 | -1,200 | -400 |
| **Profitability ratios** | | | | | | | | |
| VNB margins | 21.1 | 31.3 | 39.3 | 30.3 | 22.2 | 25.2 | -615 | 297 |
| **Key Metrics (INRb)** | | | | | | | | |
| VNB | 2.1 | 3.7 | 5.9 | 7.7 | 2.5 | 4.2 | 12 | 68 |
| EV | 142 | 147 | 155 | 163 | 169 | 179 | 22 | 6 |
| AUM | 1071 | 1134 | 1184 | 1229 | 1291 | 1342 | 18 | 4 |
| Equity Mix (%) | 23.8 | 23.8 | 25.2 | 25.1 | 26.5 | 28.1 | 429 | 160 |

# Vedant Fashion

| BSE SENSEX | S&P CNX |
|---|---|
| 63,875 | 19,080 |

## Conference Call Details

**Date:** 01st Nov 2023
**Time:** 4pm IST
**Dial-in details:**
+91 22 6280 1259

**Financials & Valuations (INR b)**

| Y/E March | FY23 | FY24E | FY25E |
|---|---|---|---|
| Sales | 13.5 | 14.8 | 17.9 |
| EBITDA | 6.7 | 7.4 | 8.9 |
| Adj. PAT | 4.3 | 4.7 | 5.7 |
| EBITDA Margin (%) | 49.5 | 50.3 | 49.7 |
| Adj. EPS (INR) | 17.7 | 19.4 | 23.6 |
| EPS Gr. (%) | 36.2 | 9.7 | 21.7 |
| BV/Sh. (INR) | 55.9 | 67.2 | 80.9 |
| **Ratios** | | | |
| Net D:E | (0.4) | (0.4) | (0.5) |
| RoE (%) | 34.6 | 30.6 | 30.9 |
| RoCE (%) | 29.6 | 26.8 | 27.2 |
| Payout (%) | 50.9 | 40.0 | 40.0 |
| **Valuations** | | | |
| P/E (x) | 72.9 | 66.4 | 54.6 |
| EV/EBITDA (x) | 47.0 | 42.3 | 35.1 |
| EV/Sales (X) | 23.3 | 21.3 | 17.4 |
| Div. Yield (%) | 0.7 | 0.6 | 0.7 |
| FCF Yield (%) | 1.5 | 1.5 | 2.0 |

## CMP: INR1,288 Buy

## EBITDA/PAT down 20%/29% YoY (miss), due to festive shift and reduced wedding activities

- Consolidated revenues for 2QFY24 declined 12% YoY to INR2.2b (8% miss).
- Sales to customers declined 8.2% YoY to INR2.7b. This decrease could be attributed to a shift in the festive season and a notable decrease in weddings nationwide during the quarter. However, the management remains optimistic and hopeful about the overall business outlook for the year, driven by the prospects in the H2 period.
- Same-store sales declined 17.7% on a YoY basis.
- Gross profit declined 15% YoY to INR1.6b (11% miss) with Gross Margins at 73.6% (vs. 75.8% estimated). Gross Margins (incl. Job Work) contracted 10bp YoY to 66.4%.
- Employee cost grew 8% YoY to INR146m, while other expenses declined 12% YoY to INR533m (5%/10% below estimated, respectively).
- As a result, EBITDA declined 20% YoY to INR928m (12% miss), dragged by lower revenues and GM, partially offset by the implementation of robust cost control measures.
- EBITDA margins contracted sharply by 420bp YoY to 42.5%.
- Depreciation/Finance cost grew 30%/38% YoY, while other income increased 56% YoY to INR151m.
- Consequently, PAT reported a sharp decline of 29% on a YoY basis to INR487m (16% miss).

### Balance Sheet, Cash flows, and capex

- The company continued to remain net debt free with a cash position of INR73m as on Sep’23.
- Operating cash flow contracted to INR1b for 1HFY24 vs. INR1.5b in 1HFY23, mainly dragged by lower profitability and early payments to creditors. Capex for 1HFY24 stood at INR25.8m.
- Trade payable days (Calculated on sales) declined from 21 days in 1HFY23 to 19 days in 1HFY24. Inventory days (Calculated on sales) improved from 59 days in 1HFY23 to 51 days in 1HFY24, while sundry debtor days increased from 139 days to 178 days.
- Added 7/20 new stores in 1QFY24/1HFY24, taking the overall store count to 669 stores as on Sep’23. Total area as on Sep’23 stood at 1.59m sq.ft.

**Quarterly Earning** (INR m)

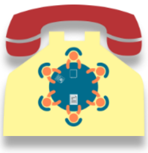
| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | FY24 | Est |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | 2QE | Var (%) |
| **Revenue** | **3,250** | **2,469** | **4,414** | **3,416** | **3,116** | **2,183** | **5,219** | **4,237** | **13,549** | **14,755** | **2,376** | **-8.1** |
| YoY Change (%) | 103.1 | 23.5 | 14.7 | 15.3 | -4.1 | -11.6 | 18.2 | 24.0 | 30.2 | 8.9 | -3.8 | |
| Total Expenditure | 1,619 | 1,315 | 2,170 | 1,737 | 1,635 | 1,255 | 2,416 | 2,034 | 6,841 | 7,340 | 1,325 | -5.3 |
| **EBITDA** | **1,631** | **1,154** | **2,245** | **1,679** | **1,482** | **928** | **2,803** | **2,202** | **6,708** | **7,414** | **1,051** | **-11.7** |
| EBITDA margins (%) | 50.2 | 46.7 | 50.9 | 49.1 | 47.5 | 42.5 | 53.7 | 52.0 | 49.5 | 50.3 | 44.3 | |
| Change YoY (%) | 135.6 | 26.6 | 17.2 | 16.6 | -9.1 | -19.6 | 24.9 | 31.2 | 189.6 | 120.8 | -8.9 | |
| Depreciation | 264 | 249 | 251 | 274 | 299 | 325 | 329 | 362 | 1,038 | 1,315 | 321 | 1.2 |
| Interest | 78 | 77 | 75 | 84 | 94 | 107 | 92 | 75 | 315 | 368 | 92 | 16.2 |
| Other Income | 71 | 97 | 100 | 134 | 150 | 151 | 151 | 111 | 402 | 563 | 135 | 12.1 |
| **PBT before EO expense** | **1,359** | **925** | **2,019** | **1,454** | **1,238** | **648** | **2,533** | **1,876** | **5,758** | **6,295** | **774** | **-16.3** |
| Extra-Ord expense | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Tax | 351 | 235 | 516 | 366 | 319 | 161 | 638 | 469 | 1,467 | 1,586 | 195 | -17.7 |
| Rate (%) | 25.8 | 25.4 | 25.5 | 25.2 | 25.7 | 24.8 | 25.2 | 25.0 | 25.5 | 25.2 | 25.2 | -1.7 |
| **Reported PAT** | **1,009** | **690** | **1,504** | **1,089** | **919** | **487** | **1,895** | **1,407** | **4,291** | **4,709** | **579** | **-15.8** |
| **Adj PAT** | **1,009** | **690** | **1,504** | **1,089** | **919** | **487** | **1,895** | **1,407** | **4,291** | **4,709** | **579** | **-15.8** |
| YoY Change (%) | 123 | 30 | 18 | 23 | -9 | -29 | 26 | 29 | 36 | 10 | -16 | |

E: MOFSL Estimates

# MRPL

| BSE SENSEX | S&P CNX |
|---|---|
| 63,875 | 19,080 |

## Conference Call Details



**Date:** 1st November 2023
**Time:** 1230 hours IST
**Dial-in details:**
+91 22 6280 1360
+91 22 7115 8261

## CMP: INR104 — Neutral

### Miss due to lower-than-estimated throughput and GRM

- Refining throughput was below our est. at 3.2mmt (vs. our est. of 4.3mmt, down 19% YoY)
  - Reported GRM stood at USD17.1/bbl (vs. our est. of USD18.8/bbl).
- Resultant EBITDA was below our est. at 22.4b (vs. est. EBITDA of INR43.8b).
- PAT was also below our est. at INR10.6b (vs. our est. of INR28.9b) due to higher-than-est. forex loss at INR1b (our est. INR106m) and higher tax rate.
- Total borrowings for MRPL decreased to INR139.8b at the end of 2QFY24 from INR151.7b at the end of 1QFY24.
- The Domestic Refinery transfer Price (RTP) for MRPL decreased due to the imposition of SAED and RIC (Road and Infrastructure Cess) by the Government in July'22.
  - The estimated windfall tax implication on RTP was INR3.7b, while the actual windfall tax paid on exports was INR910m in 2QFY24.
- For **1HFY24**, EBITDA stood at INR43b (vs. INR39b in 1HFY23), with PAT at INR20.7b (vs. PAT of INR9.2b in 1HFY23).
  - Refining throughput was down 8% YoY at 7.6mmt.
  - Reported GRM stood at USD13.5/bbl, up 35% YoY.

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

| Y/E March | FY23 | | | | FY24 | | | Var | YoY | QoQ |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 2QAct | (%) | (%) | (%) |
| **Net Sales** | **3,22,897** | **2,46,080** | **2,65,574** | **2,54,009** | **2,11,731** | **2,64,433** | **1,92,297** | **-27%** | **-22%** | **-9%** |
| YoY Change (%) | 185.8 | 85.0 | 30.1 | 2.4 | -34.4 | 7.5 | -21.9 | | | |
| Total Expenditure | 2,68,529 | 2,61,405 | 2,60,216 | 2,20,069 | 1,91,114 | 2,20,620 | 1,69,869 | | | |
| **EBITDA** | **54,368** | **-15,325** | **5,358** | **33,940** | **20,617** | **43,813** | **22,428** | **-49%** | **LP** | **9%** |
| Margins (%) | 16.8 | -6.2 | 2.0 | 13.4 | 9.7 | 16.6 | 11.7 | | | |
| Forex loss | 7,228 | 4,624 | 2,485 | -962 | -66 | 106 | 1,046 | | | |
| Depreciation | 2,956 | 2,969 | 2,980 | 2,962 | 2,940 | 2,984 | 2,960 | | | |
| Interest | 3,022 | 3,155 | 3,377 | 3,300 | 2,673 | 2,730 | 3,112 | | | |
| Other Income | 367 | 316 | 573 | 861 | 518 | 581 | 745 | | | |
| **PBT before EO expense** | **41,530** | **-25,756** | **-2,910** | **29,500** | **15,588** | **38,573** | **16,055** | **-58%** | **LP** | **3%** |
| Tax | 14,454 | -7,865 | -1,005 | 10,421 | 5,461 | 9,713 | 5,462 | | | |
| Rate (%) | 34.8 | 30.5 | 34.8 | 35.3 | 35.0 | 25.2 | 34.0 | | | |
| **Reported PAT** | **27,075** | **-17,891** | **-1,880** | **19,080** | **10,127** | **28,860** | **10,593** | **-63%** | **LP** | **5%** |
| YoY Change (%) | LP | Loss | PL | -37.4 | -62.6 | LP | LP | | | |
| Margins (%) | 8.4 | -7.3 | -0.7 | 7.5 | 4.8 | 10.9 | 5.5 | | | |
| **Key Assumptions** | | | | | | | | | | |
| Refining throughput (mmt) | 4.3 | 4.0 | 4.5 | 4.4 | 4.4 | 4.3 | 3.2 | -24% | -19% | -26% |
| Reported GRM (USD/bbl) | 24.5 | -4.5 | 3.9 | 15.1 | 9.8 | 18.8 | 17.1 | -9% | LP | 74% |

# Kaynes Technology India

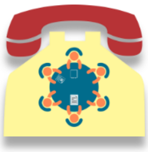
| BSE SENSEX | S&P CNX |
|---|---|
| 63,875 | 19,080 |

## CMP: INR2,383 Buy

## Strong revenue growth continues

- Kaynes' consolidated revenue grew 32% YoY/21% QoQ to INR3.6b in 2QFY24.
- EBITDA margin contracted 230bp YoY, while it was flat QoQ at 13.5%.
- EBITDA grew 13% YoY and 21% QoQ to INR488m in 2QFY24.
- Adjusted PAT jumped 53% YoY and 31% QoQ to INR323m fueled by higher other income.
- For 1HFY24, revenue/EBITDA/Adj. PAT grew 39%/31%/83% YoY to INR6.6b/ INR891m/INR570m.
- Cash outflow from operating activities stood at INR235m in 1HFY24 v/s ~INR349m in 1HFY23.

## Conference Call Details



**Date:** 1st November 2023
**Time:** 2:00pm IST
**Dial-in details:**
Click Here

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

| Y/E March | FY23 | | | | FY24 | | | | FY23 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | |
| **Gross Sales** | **1,993** | **2,732** | **2,891** | **3,645** | **2,972** | **3,608** | **4,510** | **5,618** | **11,260** | **16,709** |
| YoY Change (%) | NA | NA | 57.6 | 52.8 | 49.1 | 32.1 | 56.0 | 54.1 | 59.4 | 48.4 |
| Total Expenditure | 1,747 | 2,299 | 2,479 | 3,052 | 2,569 | 3,121 | 3,823 | 4,705 | 9,578 | 14,218 |
| **EBITDA** | **246** | **432** | **412** | **593** | **403** | **488** | **687** | **914** | **1,682** | **2,491** |
| Margins (%) | 12.3 | 15.8 | 14.2 | 16.3 | 13.5 | 13.5 | 15.2 | 16.3 | 14.9 | 14.9 |
| Depreciation | 46 | 47 | 46 | 48 | 53 | 65 | 72 | 77 | 187 | 267 |
| Interest | 73 | 103 | 92 | 81 | 113 | 118 | 30 | 14 | 349 | 275 |
| Other Income | 7 | 7 | 26 | 74 | 81 | 90 | 17 | 19 | 114 | 207 |
| **PBT before EO expense** | **134** | **289** | **300** | **536** | **319** | **394** | **602** | **842** | **1,259** | **2,156** |
| Extra-Ord expense | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **PBT** | **134** | **289** | **300** | **536** | **319** | **394** | **602** | **842** | **1,259** | **2,156** |
| Tax | 34 | 79 | 71 | 124 | 72 | 71 | 151 | 220 | 308 | 514 |
| Rate (%) | 25.2 | 27.3 | 23.7 | 23.2 | 22.6 | 18.0 | 25.2 | 26.1 | 24.5 | 23.9 |
| Minority Interest & Profit/Loss of Asso. Cos. | 2 | -2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Reported PAT** | **99** | **212** | **229** | **412** | **246** | **323** | **450** | **622** | **951** | **1,642** |
| **Adj PAT** | **99** | **212** | **229** | **412** | **246** | **323** | **450** | **622** | **951** | **1,642** |
| YoY Change (%) | NA | NA | 112.7 | 107.6 | 149.0 | 52.8 | 96.9 | 50.9 | 128.2 | 72.6 |
| Margins (%) | 5.0 | 7.7 | 7.9 | 11.3 | 8.3 | 9.0 | 10.0 | 11.1 | 8.4 | 9.8 |

# Amara Raja Energy & Mobility

**CMP: INR613** **Neutral**

## Conference Call Details

**Date:** 01th Nov 2023
**Time:** 4PM IST
**Dial-in details:**
+91 22 6280 1341
+91 22 7115 8242
[Link]

**Financials & Valuations (INR b)**

| Y/E March | 2023 | 2024E | 2025E |
|---|---|---|---|
| Sales | 103.9 | 112.6 | 124.0 |
| EBITDA | 13.6 | 14.7 | 16.7 |
| Adj. PAT | 7.3 | 8.0 | 9.0 |
| EPS (INR) | 42.7 | 46.8 | 52.8 |
| EPS Gr. (%) | 42.7 | 9.6 | 12.9 |
| BV/Sh. (INR) | 310 | 342 | 380 |
| **Ratios** | | | |
| RoE (%) | 14.8 | 14.3 | 14.6 |
| RoCE (%) | 14.9 | 14.4 | 14.8 |
| Payout (%) | 15.0 | 32.1 | 28.4 |
| **Valuations** | | | |
| P/E (x) | 14.4 | 13.1 | 11.6 |
| P/BV (x) | 2.0 | 1.8 | 1.6 |
| Div. Yield (%) | 1.0 | 2.4 | 2.4 |
| FCF yield (%) | 4.6 | 7.5 | 6.3 |

## GM expansion offset by higher-than-est. other expenses

- Revenue grew 4% YoY to INR28.1b (in line). The revenue growth was aided by volume growth in the automotive after-market as well as in the telecom and UPS segments. The new energy business also witnessed healthy growth.
- Gross margin expanded 110bp YoY/270bp QoQ to 31.6% (vs. est. 29.2%).
- Better gross margin was partially offset by higher other expenses (+180bp QoQ/+50bps YoY; as a % of sales) resulting in an EBITDA margin of 13.8% (+50bp YoY/+100bp QoQ v/s est. 13.3%). EBITDA rose 7% YoY to INR3.87b (in line).
- Further, higher other income was diluted by a higher tax rate, eventually leading to 6% YoY adj. PAT growth to INR2.1b (in line)
- 1HFY24 revenue/EBITDA/adj. PAT increased 5%/19%/22% YoY.
- FCFF in 1HFY24 stood at INR6.2b (v/s INR4b in 1HFY23) led by better operating cashflow of INR7.5b (v/s INR6.7b in 1HFY23), and lower capex of INR1.3b (v/s INR2.6b in 1HFY23).
- The company declared an interim dividend of INR4.8/share for FY24.
- The Board further approved an investment of INR5b in the wholly owned subsidiary, Amara Raja Advanced Cell Technologies, for Li-ion battery manufacturing.
- Of the total INR4.4b loss recognized by the company due to a fire at its Chitoor facility in AP (happened in 4QFY23), it has so far recovered an ad hoc payment of INR1b from insurance company and INR929m from the sale of scrap.
- Mr. Harshavardhana Gourineni, Executive Director, Automotive & Industrial Batteries says, “Our automotive and industrial businesses witnessed consistent performance. As a company, we are proceeding with renewed vigor by building our product range, penetrating new geographies, establishing new customer partnerships, and driving operational excellence.”
- “In the New Energy segment, we have seen a healthy growth from chargers and increasing interest in cells and battery packs. Our work on the Gigafactory and e+ Energy Labs, the advanced energy research and innovation center, is progressing smoothly and we are keeping a close eye on the evolving market conditions in this space," says Mr. Vikramadithya Gourineni, Executive Director, New Energy Business
- **Valuation view:** We will revisit our estimates post-earnings call. The stock trades at 13.1x/11.6x FY24E/25E EPS.

**Quarterly Performance** (INR M)

| Y/E March (INR m) | FY23 | | | | FY24E | | | | FY23 | FY24E | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE |
| **Net Sales** | **26,200** | **26,995** | **26,372** | **24,292** | **27,699** | **28,108** | **28,218** | **28,529** | **1,03,859** | **1,12,554** | **28,614** |
| YoY Change (%) | 38.9 | 19.2 | 11.5 | 11.4 | 5.7 | 4.1 | 7.0 | 17.4 | 19.4 | 8.4 | 6.0 |
| RM Cost (% of sales) | 73.4 | 69.5 | 66.6 | 67.0 | 71.1 | 68.4 | 71.0 | 73.6 | 69.2 | 71.1 | 70.8 |
| Staff Cost (% of sales) | 5.1 | 5.6 | 6.1 | 6.0 | 5.8 | 5.8 | 5.7 | 5.7 | 5.7 | 5.8 | 5.7 |
| Other Exp (% of sales) | 11.5 | 11.6 | 12.2 | 13.1 | 10.3 | 12.1 | 10.1 | 8.2 | 12.1 | 10.2 | 10.2 |
| **EBITDA** | **2,609** | **3,602** | **3,969** | **3,373** | **3,535** | **3,870** | **3,725** | **3,559** | **13,552** | **14,688** | **3,806** |
| Margins (%) | 10.0 | 13.3 | 15.0 | 13.9 | 12.8 | 13.8 | 13.2 | 12.5 | 13.0 | 13.1 | 13.3 |
| Depreciation | 963 | 1,019 | 1,145 | 1,145 | 1,111 | 1,148 | 1,155 | 1,163 | 4,272 | 4,577 | 1130 |
| Interest | 46 | 54 | 58 | 62 | 56 | 62 | 70 | 87 | 221 | 275 | 70 |
| Other Income | 170 | 237 | 261 | 226 | 216 | 275 | 220 | 149 | 893 | 860 | 200 |
| **PBT before EO expense** | **1,770** | **2,765** | **3,026** | **2,392** | **2,584** | **2,935** | **2,720** | **2,458** | **9,952** | **10,696** | **2806** |
| Extra-Ord expense | 0 | 0 | 0 | 477 | 0 | 0 | 0 | 0 | 477 | 0 | 0 |
| **PBT after EO** | **1,770** | **2,765** | **3,026** | **1,915** | **2,584** | **2,935** | **2,720** | **2,458** | **9,476** | **10,696** | **2,806** |
| Tax | 455 | 744 | 798 | 535 | 659 | 791 | 688 | 573 | 2,532 | 2,706 | 710 |
| Tax Rate (%) | 25.7 | 26.9 | 26.4 | 28.0 | 25.5 | 27.0 | 25.3 | 23.3 | 26.7 | 25.3 | 25.3 |
| **Adj PAT** | **1,315** | **2,022** | **2,228** | **1,729** | **1,925** | **2,143** | **2,032** | **1,885** | **7,293** | **7,990** | **2,096** |
| YoY Change (%) | 6.1 | 40.3 | 54.0 | 75.5 | 46.4 | 6.0 | -8.8 | 9.0 | 42.7 | 9.6 | 3.7 |

E: MOFSL Estimates

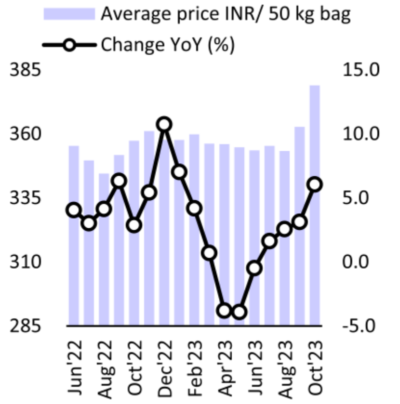
# Cement

## Prices increased in October; sustainability is the key

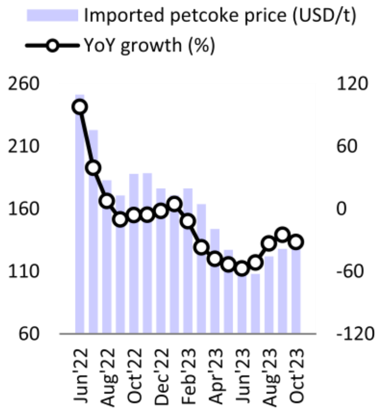
### All-India average cement price up 4.5% MoM in Oct'23

- We believe that all-India average price increased 4.5% MoM (INR16 per 50kg bag) in Oct'23, led by price increase of INR10-30/bag across regions; except in the east region. In the east region, average cement price dropped INR4/bag MoM in Oct'23, after witnessing a sharp hike of INR45-50/bag in Sep'23.
- Regionally, the highest price increase was witnessed in the South (up 9.2% MoM), followed by the North (up 6.0%), the West (up 5.6%), and Central India (Up 2.8%). While, in the East, prices declined 1.1% MoM in Oct'23 (as partial hike reversed in Chhattisgarh). We keep a close watch for sustainability of these price hikes.
- Cement demand moderates in Oct'23 due to festivals and slow pick-up in housing and rural demand, post the monsoon season. Industry volume is likely to grow in mid-single digits YoY in Oct'23, despite a low base of last year (volume declined 5-6% YoY in Oct'22) after 11.5% YoY growth in 1HFY24. We estimate volume growth of 9-10% YoY in FY24, implying ~8% volume growth in 2HFY24. We expect industry clinker capacity utilization to be at ~82% in 2HFY24 vs. ~78% in 1HFY24.
- Imported petcoke price remained flat MoM in Oct'23 whereas, domestic petcoke price fell ~5%. However, imported coal prices increased with 12%/3% MoM surge in South African/US coal prices. At spot prices, consumption cost stands at INR1.50/Kcal (imported Petcoke), INR1.77 (domestic petcoke), INR1.63/Kcal (US coal), and INR1.84/Kcal (South African coal).

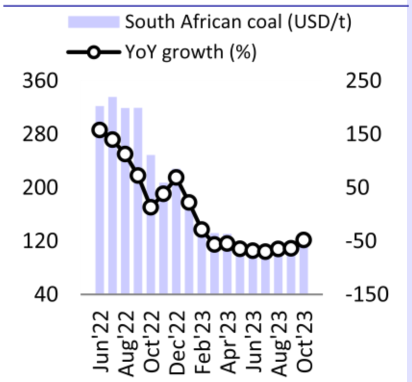
**Average price of cement per 50kg bag up 4.5% MoM in Oct'23**




**Average Petcoke price remained flat MoM at USD128/t**




**Average imported coal price up 11% MoM to USD129/t in Oct'23**




### Cement price hiked post monsoon; sustainability remains a key

- Cement prices after being range-bound from the beginning of CY23 increased sharply in Sep-Oct'23 across regions. Initially, in Sep'23, a price hike of INR60-70/bag was announced in the East, out of which, INR50/bag got absorbed. Later, in Oct'23, prices increased in other regions too in the range of INR10-30/bag.
- In the South, average price increased INR33/bag (up 9.2% MoM) in Oct'23. In Tamil Nadu, price increased by INR40/bag, while in other markets of the Southern region, prices were up INR25-30/bag. In the West, average price was up INR20/bag (5.6% MoM) as prices have increased in both Maharashtra and Gujarat.
- In the North, average price increased by INR23/bag (up 6% MoM), led by a price hike of INR30/bag in Rajasthan, and INR20-25/bag in Delhi-NCR and Punjab markets. While, in Central India, prices were up by INR10/bag (2.8% MoM).
- In the East, a price hike of INR40-50/bag, implemented in Sep'23, has remained sustained in Oct'23 across various markets. The only exception was Chhattisgarh, where a partial hike of INR20/bag was rolled back during the month. Despite this rollback, average price in the region remained ~13% higher compared to Aug'23.
- We believe that the sustainability of these price hikes will be critical for cement companies' earnings upgrade. We would keep a close watch on pricing trend, given the recent demand weakness and continuous capacity addition announcements by large players, which may adversely impact the prices.

## Cement demand weak in Oct'23; expect to improve post Diwali

- Cement demand after witnessing high double-digit YoY growth in Aug'23 has moderated in Sep-Oct'23 due to heavy rainfalls, labor shortage amid festival holidays, and slow pick-up in housing and rural demand post the monsoon.
- Cement volume is estimated to be up 4-5% YoY (down ~3% MoM) in Oct'23, despite a low base of previous year (volume declined ~5% YoY in Oct'22). Industry grinding capacity utilization is estimated to be at ~65% in Oct'23.
- Slowdown in demand was more prominent in the Eastern region, followed by Central and North regions. While, in the West and the South, demand was better supported by strong projects pipeline in infrastructure and real-estate segment.

## Petcoke has been less expensive than imported coal

- Imported petcoke price remained flat MoM at USD 126-128/t in Oct'23, while domestic petcoke price declined 5% MoM to INR13,614/t. Petcoke prices have been range-bound in the last two months. Spot petcoke price is still ~15% lower than the average price/t in 1HCY23.
- While, imported (South African) coal price was up ~11% MoM to USD129/t. Imported coal prices are constantly rising over the past two months. Although, spot price for imported (South African) coal is ~6% lower than the average price/t in 1HCY23.
- We believe that at the current offer price, consumption cost will be at INR1.50/Kcal (imported Petcoke), INR1.77 (domestic petcoke), INR1.63/Kcal (US coal), and INR1.84/Kcal (South African coal).

## Outlook: Price hike sustainability augur well for margin improvement

- Cement demand growth has moderated in the past two months, due to festivals and a slow pick-up in IHB and rural demand. However, we anticipate a rebound after Diwali, driven by a robust project pipeline in key sectors such as infrastructure, real-estate, and private capex. Further, the recent price hike is estimated to more than offset the fuel price increase in the last two months. Cement companies are more focused on cost-reduction strategies. This includes increasing the utilization of green power and alternative fuels, promoting blended cement usage, and optimizing logistics costs. These initiatives are estimated to provide additional support to margins in the industry.
- We remain positive on the sector. UTCEM is our preferred pick in the largecap space. We like DALBHARA and JKCE in the midcap space, given their growth plans as well as execution strategies.

## Tax collections remain healthy; capex push continued

### Fiscal deficit stood at 39% of FY24BE

- **Growth in total spending by the central government decelerated sharply to 3.2% in Sep'23 vs. 84.6%/10.5% in Jul'23/Aug'23. Growth in core spending (total spending, excluding interest payments and subsidies) picked up to 11.7% in Sep'23 vs. 168.7%/1% in Jul'23/Aug'23. Lower spending growth is a result of contraction in revenue spending (-3.6%, lowest in 4 months) in Sep'23 vs. 6.7% in Aug'23. On the other hand, capital spending growth remained robust at 29% in Sep'23 vs. 29.9% in Aug'23. *(Exhibits 1 and 2)***
- **Accordingly, the government's total spending during 1HFY24 stood at INR21.2t, up 16.2% YoY and accounting for 47.1% of FY24BE (vs. INR18.2t in 1HFY23; 46% of FY23BE). Capital spending in 1HFY24 stood at INR4.9t, representing 49% of FY24BE (higher than 46% of FY23BE or INR3.4t achieved in 1HFY23).**
- **Meanwhile, total receipts grew 9.3% YoY in Sep'23, aided by robust tax collections. *(Exhibit 3).* While net tax revenue surged 14.3% in Sep'23, non-tax receipts contracted 33.4%. Higher growth in net tax revenue was led by a broad-based growth of 23.1% in direct tax collections. Corporate tax collections are higher by 26.6% in Sep'23 and personal income tax collections grew 15.6% in Sep'23. On the other hand, indirect tax collections grew slowly by 1.5% in Sep'23 (11.1% in Aug'23).**
- **For 1HFY24, therefore, total receipts of the government are up 17.7% YoY with corporate tax collections 20.2% higher than last year and the income tax mop-up 31.1% higher. Total receipts stood at INR14.2t, accounting for 53.4% of FY24BE (vs. INR12t or 54% of FY23BE in 1HFY23).**
- **Consequently, in 1HFY24, the government's fiscal deficit stood at INR7t, accounting for 39% of FY24BE vs. 37% of FY23BE (or INR6.2t) in 1HFY23. *(Exhibit 4)***

**Exhibit 1: Total spending growth deteriorated in Sep'23…**

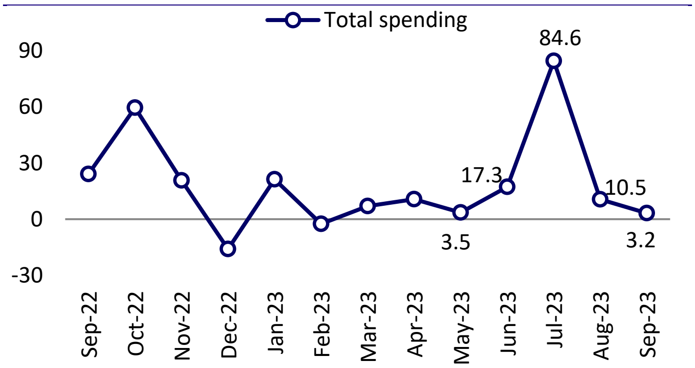
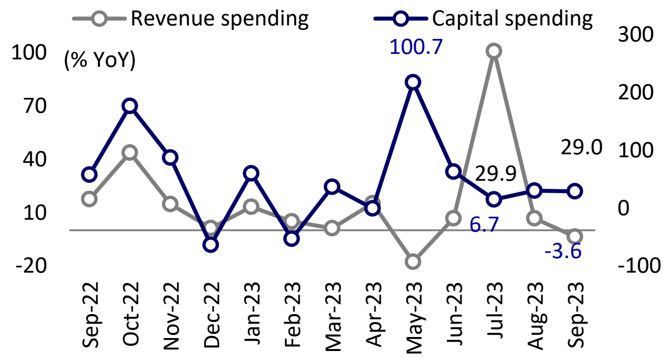



**Exhibit 2: …led by a contraction in revenue spending**




Source: Controller General of Accounts (CGA), MOFSL

**Exhibit 3: Total receipts grew 9.3% in Sep'23**

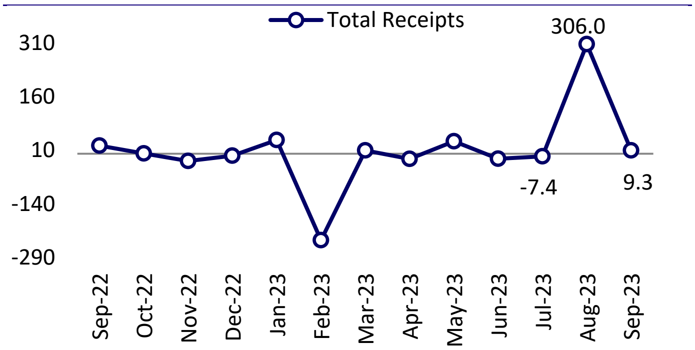
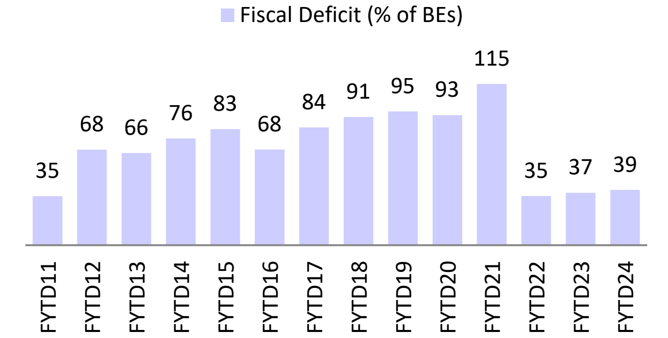



**Exhibit 4: Fiscal deficit in 1HFY24 stood at 39% of BEs vs. 37% in 1HFY23**




Apr-Sep for all years

Source: CGA, MOFSL

## Spandana Sphoorthy: Might end fy24 with AUM of ₹12,000 cr; Shalabh Saxena, MD & CEO)

- Might end FY24 with AUM of Rs. 12,000 cr
- Have been delivering 5.5-5.8% RoAs against guidance of 4.5%
- Will achieve AUM of Rs. 15,000 cr by FY25, as guided in our vision 2025 document
- Net interest margin (NIM) at Rs. 13.75-14% is a comfortable level
- Three PSU lenders SIDBI, NABARD & SBI have come in

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## Mahanagar Gas: Targets for EV penetration in Maharashtra is lower than NCR.; Ashu Singhal, MD

- Draft EV policy for Maharashtra was prepared in 2019 & is yet to be accepted
- Targets for EV penetration in Maharashtra is lower than NCR
- 15-20% of our volumes come from cab aggregators
- Exploring potential targets in the EV value chain
- Expect 5-6% volume growth in FY24

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## APL Apollo: Will achieve 80-85% utilisation in the Raipur plant by FY25; Deepak Goyal, Director

- Volume guidance of around 2.8-3 MT by FY24
- To achieve EBITDA/tn around Rs.5k/tn by FY24
- Clarifies promoters NBFC arm is well funded, no more promoter selling likely
- Will achieve 80-85% utilisation in the Raipur plant by FY25

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## Gokaldas Exports: Aim to achieve revenue levels of last year; Sivaramkrishnan Ganapathi, MD

- Aim to achieve revenue levels of last year
- Atraco will contribute to incremental revenue in Q4FY24
- FY24 margin will be in the range of 12-12.5%
- In the next 2-3 years, margins will expand by 150 bps
- On track to achieve peak revenue potential in range of Rs. 3,500-4,000 cr. by FY26
- Should see traction from the UK-India trade agreement from FY25 onwards

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## KPIT Tech: Deal pipeline continues to be robust; Sachin Tikekar, President

- H1 performance and orderbook gives us confidence to increase revenue guidance
- Not anticipating a big cost headwind; will continue to make investments in capability building
- Will look at deepening presence in CV and off highway mobility
- Deal pipeline continues to be robust

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

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

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