



VOICES

India Inc on Call

VOICES, a quarterly product from Motilal Oswal Research, provides a ready reference for all the post results earnings calls attended by our research analysts during the quarter. Besides making available to readers our key takeaways from these interactions, it also provides links to relevant research updates, and transcripts links of the respective conference calls.

This quarterly report contains

- Key takeaways from the post results management commentary for 175 companies, with links to the full earnings call transcripts
- Links to our Results Updates on each of the companies included

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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BSE Sensex: 59,031

S&P CNX: 17,578



Heavyweights weigh on earnings; decent spread performs a balancing act

In this report, we present the detailed takeaways from the 1QFY23 conference calls with various company managements, as we refine the essence of India Inc.'s 'VOICES'.

- Corporate earnings in 1QFY23 missed expectations after several quarters. A few cyclical heavyweights led the aggregate miss even as spread of the earnings and accompanying corporate commentaries were good. Healthy monsoons and a normal festive season after two years should augur well for the consumption-oriented sectors. However, growth is still lopsided and is being fueled by BFSI. As the benefit of the recent moderation in commodity cost starts to accrue in 2HFY23E, we expect other sectors such as Consumer, Autos and Cement to contribute too.
- Most of the banks have guided for a sustained recovery in growth momentum propelled by continuous traction in retail, business banking and SME segments. Corporate segment growth too is likely to accelerate gradually, primarily driven by working capital loans while revival in capex is likely to occur over 2HFY23E. Margins are anticipated to witness a positive bias in the near term with banks having a high mix of CASA and floating rate loans to be better placed. In NBFCs, management remains watchful of the impact on NIM and credit growth for non-bank lenders. Hence, it will be important to monitor the impact on the stated parameters for non-bank lenders.
- For Consumer sector, performance was driven by price hikes, due to sustained high commodity inflation, and a return to normalcy in terms of mobility. Rural growth continued to remain weak but several company management teams believe green shoots are emerging for rural demand and a combination of good monsoons and higher government subsidies should provide the necessary fillip needed. While commodity costs have shown signs of stabilization towards end-1QFY23, the environment remains volatile. Management guidance for most companies suggests that gross margin pressures are likely to continue in 2QFY23, but should stabilize, if not improve notably, in 2HFY23E.
- IT sector saw some moderation in growth on the high base of FY22. Though demand environment remained strong, a few companies noted small pockets of demand weakness led by ongoing macro headwinds, especially in retail. Digital transformation and cloud migration remained in focus for enterprises to fuel their growth. The companies' strong order book and pipeline render comfort on near-term growth. Long-term growth too is expected to remain resilient because of prominent digital and cloud transformation initiatives by clients.
- In the Metals space, most of the companies highlighted: a) reduction in coking coal costs to reflect in 3QFY23E results and b) steel demand has accelerated in Jul'22 v/s 1QFY23. Inventory is high across the board and working capital has been locked due to high inventory and expensive coal payments.
- In Healthcare, companies indicated softening of raw material and freight costs v/s previous quarters. Having said this, they also indicated that costs would remain at elevated levels v/s pre-Covid period. The base business erosion subsided in the US generics segment. However, managements look forward for potential launches from 2HFY23 onwards, which would not only offset price erosion but also enable growth to some extent in the US generics segment.



Autos

- Domestic 2W demand is improving MoM but exports are seeing some stress due to issues in export destinations. The 2W OEMs are facing chip shortages thus hurting volumes. PV demand remained steady, and new launches are keeping the strong momentum going. CV demand has also remained strong supported by the government's push towards infrastructure. Commodity prices are seeing a softening trend with full benefit visible in 2HFY23E. The upcoming festival season is expected to be positive for the auto industry after two dull years, severely affected by Covid-19.



Cement

- A majority of the management teams indicated some softness in demand and cement prices with pick-up in monsoon. However, they remained positive on the underlying demand growth of the sector, which will be driven by a pick-up in infrastructure, housing and real estate segments. Exit cement price in Jun'22 was 3-5% below 1QFY23 average and there was a further decline of INR5-10/bag across markets. Energy cost is expected to peak in 2QFY23 as petcoke price has declined from its peak level. As such, managements guided for timely completion of their ongoing expansion plans and announced the next phase of expansions.



Chemicals Specialty

- Raw material prices continued to remain high in 1QFY23, due to global supply chain issues. The higher freight cost was due to container unavailability. EBITDA margin for companies in our coverage universe declined in 1QFY23, as operating costs remained elevated (fuel costs at a record high). However, managements are of the view that supply chain issues have eased, input costs have started normalizing, and future quarters should see a better margin performance. Demand remained strong for almost all the Specialty Chemicals companies (and would continue to do so) with GALSURF seeing some demand cutback in AMET and RoW although the management said that domestic demand remained steady. Managements remain confident on domestic sector growth and have capex planned for the next 2-3 years in line with the same.



Consumer

- Overall performance in 1QFY23 was driven by price hikes, due to sustained high commodity inflation, and a return to normalcy in terms of mobility. Growth was largely led by Discretionaries, which delivered a strong double-digit performance, while most of the Staples companies saw single-digit growth, due to weak volume growth and a base that was relatively less favorable. Rural growth continued to remain weak but several company management teams believe green shoots are emerging for rural demand and a combination of good monsoons and higher government subsidies should provide the necessary fillip needed. Urban centers continued to show strong demand especially even in the case of categories which are more discretionary in nature. While commodity costs have shown signs of stabilization towards the end of 1QFY23, the environment remains volatile. The management guidance for most companies suggests that gross margin pressures are likely to continue in 2QFY23, but should stabilize, if not improve meaningfully, in 2HFY23E.



Financials

Banks

- Most of the banks have guided for a sustained recovery in growth momentum propelled by continuous traction in the retail, business banking and SME segments. Corporate segment growth too is likely to witness a gradual pick-up primarily driven by working capital loans while revival in capex is likely to occur over 2HFY23. Margins are likely to witness a positive bias in the near term with banks having a high mix of CASA and floating rate loans to be better placed. Treasury performance was better than expected and is likely to moderate as bond yields have softened post Jun'22. Earnings outlook remains resilient with continuous improvement in asset quality as slippages (ex of restructuring) continued to moderate while SMA book too stands at benign level which provides comfort on incremental slippages. A high PCR coupled with additional provisions buffer would keep the credit cost benign.

NBFC

- Among lending institutions, the broader guidance is for strong disbursement growth in FY23 and improvement in asset quality leading to benign credit costs. Despite the increase of ~90bp in policy repo rate (during 1QFY23), the cost of borrowings (CoB) either remained stable or exhibited marginal decline except for the mortgage heavyweights (such as HDFC/LICHF), which reported a sequential increase in their CoB. For others, increase in CoB will start reflecting from 2QFY23E onwards. Margins, therefore, either remained stable or posted marginal sequential improvement for the vehicle financiers while there was a minor sequential deterioration in margins for large mortgage lenders, such as HDFC and LICHF, because of a lag in transmission of higher borrowing costs. Most of the lenders reported an improvement (or stability) in asset quality while there were a few notable exceptions. Aavas and LICHF (contrary to our expectations) reported deterioration in their asset quality, owing to slippages from the restructured pool. The management remains watchful of the impact on NIM and credit growth for non-bank lenders. Hence, it will be important to monitor the impact on the stated parameters for non-bank lenders.



Healthcare

- Companies indicated softening of raw material and freight costs v/s previous quarters. Having said this, they also indicated that costs would remain at elevated levels v/s pre-Covid period. The base business erosion subsided in the US generics segment. However, managements look forward for potential launches from 2HFY23 onwards, which would not only offset price erosion but also enable growth to some extent in the US generics segment. Companies that have completed remediation measures remain hopeful of the USFDA inspection to have successful compliance at respective sites. Companies having exposure to the domestic formulation segment have been able to take price hikes linked to inflation in portfolio under National List of essential medicines (NLEM). Some management teams have expanded field force to not only add new divisions but also expand existing divisions to drive outperformance in domestic formulation segment. Overall, the outlook is likely to be better in the coming quarters because of new launches and some respite on cost pressures.



Logistics

- Logistics companies in our coverage universe clocked a 31% YoY growth in revenue in 1QFY23, on a low base of 1QFY22, which was severely impacted by the second Covid wave. Growth was driven by strong volumes and elevated freight rates. With higher volume growth in 1QFY23, companies were able to increase freight prices, and thus saw only a marginal drop in gross margin (down 160bp YoY and 200bp QoQ to ~31%). With a structural shift in the formalization of the sector (~90% of the Logistics sector is unorganized), supported by stricter implementation of GST and mandatory e-invoicing, the addressable market size for the organized operators will increase significantly. In order to garner a higher market share, companies have announced aggressive investment plans for growing their fleet and storage facilities. Companies have been optimistic about volume growth in their post-earnings call, and expect the momentum to continue through FY23.



Metals

- In the Metals space, most of the companies highlighted: a) reduction in coking coal costs to reflect in 3QFY23E results and b) steel demand has accelerated in Jul'22 v/s 1QFY23. Inventory is high across the board and working capital has been locked due to high inventory and expensive coal payments. Both these are likely to come-off over the next six months. On the non-ferrous side, thermal coal costs continue to rise and management expects the same to reflect in forthcoming results. Global macros remain challenging with slowdown in China, inflation in the US and Russia/Ukraine war keeping demand low in Europe.



Oil & Gas

- For OMC's and Reliance, while refining business was very strong in Q1FY23 led by high GRM's, it would be softer in 2HCY22 due to flattening of SGRM. Marketing margin losses will be narrowed in 2HCY22 from very high losses in 1QFY23 led by cooling-off of the crude prices to ~USD95/ bbl currently from as high as USD120/ bbl in Jun'22. Petchem business will be modest led by moderate demand and margins. GAIL's guidance for increase in gas trading volumes by 5-6mmscmd in FY23E and commissioning/ ramp-up of various fertilizer plants would increase its volumes by Oct'22. GSPL's volume is expected to remain muted in 2QFY23 as well led by high Spot LNG prices and the industries shutdown in the Morbi region. For CGDs, while the high input APM gas price remains a concern in 2HCY22, which would keep their margins under check, pent-up demand is coming up with strong volumes both in CNG as well as PNG, which would balance their overall profitability.



Real Estate

- In 1QFY23, the top 12 listed companies witnessed seasonal declines of 16% QoQ in pre-sales. Most of the companies have identified strong launch pipeline for the year and continued to target double-digit growth in bookings in FY23. From coverage perspective, companies such as LODHA and GPL remain aggressive on business development too with an aim to maintain the growth run-rate in medium term. In terms of pricing, companies have comfortably passed on the cost inflation and intend to take further price hikes going ahead.

**Retail**

- Companies stated that a strong recovery was witnessed during the quarter on the back of improved footfalls and receding impact of Covid. As a result, companies are now resuming with their store expansion plans.

**Technology**

- IT sector saw some moderation in growth on the high base of FY22. Though demand environment remained strong, a few companies noted small pockets of demand weakness led by ongoing macro headwinds, especially in retail. Digital transformation and cloud migration remained in focus for enterprises to fuel their growth. The companies' strong order book and pipeline render comfort on near-term growth. Long-term growth too is expected to remain resilient because of prominent digital and cloud transformation initiatives by clients. 5G, IoT, Data Analytics, Cybersecurity, and AI remain in traction. Companies should sustain their margin profile in FY23 through increased fresher additions, reduced sub-contractor expenses, improvement in operational efficiencies and leverage. Pricing environment remained strong which remains the key lever.

**Telecom**

- Companies have reiterated their expectations of ARPUs to improve going ahead aided by another round of tariff hikes that would take place later in the calendar year. On the 5G rollout, companies have indicated the near-term capex to go up backed by incremental spends on setting up the infrastructure for commercial rollout of 5G.

Key takeaways from management commentary

AUTOMOBILES



- Domestic 2W demand is improving MoM but exports are seeing some stress due to issues in export destinations. The 2W OEMs are facing chip shortages thus hurting volumes. PV demand remained steady, and new launches are keeping the strong momentum going. CV demand has also remained strong supported by the government's push towards infrastructure. Commodity prices are seeing a softening trend with full benefit visible in 2HFY23E. The upcoming festival season is expected to be positive for the auto industry after two dull years, severely affected by Covid-19.

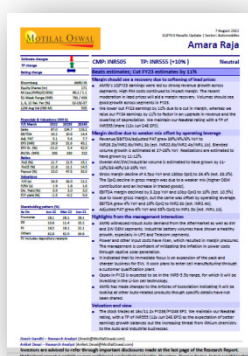
KEY HIGHLIGHTS FROM CONFERENCE CALL

	FY23 Outlook	EVs
Ashok Leyland	<ul style="list-style-type: none"> Overall demand remains strong for M&HCV and AL is seeing some demand improvement from the small fleet operators. For LCVs, AL is yet to expand on pan-India basis in a big way due to capacity constraints. Commodity cost has ~2pp impact QoQ, which is expected to more than reverse in 2QFY23. However, if steel export duty is removed, then there could be increase in steel prices 	<ul style="list-style-type: none"> Switch Mobility: The company is in discussion to raise funds in Switch Mobility (OEM) and Ohm Mobility (a MaaS company). It is looking to complete this fund raise in the coming weeks.
Bajaj Auto	<ul style="list-style-type: none"> FY23 export volume growth could be lower than the earlier planned 10% growth, due to FX devaluation and availability of USD, which are hurting a few export markets. BJAUT's 2QFY23 exports will be soft as Africa is 50-55% of volumes, though demand in other markets remains good. Domestic 2W industry demand is showing recovery signs sequentially, with urban market revival being ahead of rural market. Chip supplies are likely to improve from Jul'22 onwards. 	<ul style="list-style-type: none"> e-2W ramp-up to continue: Chetak e-2W is seeing MoM improvement in production. It has completed a detailed review on engaging in B2B segment and will roll-out new products for this segment (including its partnership with Yulu). e-3W product trials are underway in Delhi and Pune. e-3Ws (Delhi) are at par with CNG and 50-75% level of diesels.
Eicher Motors	<ul style="list-style-type: none"> Inquiries were very good but conversion has been a bit weaker in the last 30-40 days. However, with Hunter arriving in the market, conversion would improve. Supply chain is improving with no major challenges foreseen and hence the company expects sustained growth in the coming quarters 	
Hero MotoCorp	<ul style="list-style-type: none"> Demand in 1QFY23 was better than 4QFY22, and 1Q retails were better than wholesales. Jul'22 stock build-up is lower due to chip shortages in XTec variants and the premium segment. Softening in commodity prices (steel and aluminum) would reflect from 2QFY23. 	<ul style="list-style-type: none"> EV product launch by this festive season
M&M	<ul style="list-style-type: none"> Tractor industry to see 3-5% growth in FY23E, as despite near-normal monsoon and similar acreage close to last year, there are risks in the form of: a) unfavorable terms of trades for farmers, and b) lower government spending on agriculture and rural. RM cost benefit will reflect in 3QFY23, as MM has inventory and contracts, and hence benefit would not be much in 2Q. 	
Maruti	<ul style="list-style-type: none"> With commodity prices correcting, it expects 2Q RM basket to be much lower than 1QFY23. The JPY benefit on imports comes with a lag. The quarter had negligible benefit, with full benefit likely in 2QFY23E. 	
Tata Motors	<ul style="list-style-type: none"> JLR outlook – demand continues to be strong, as reflected in surging order book to 200k units (v/s 168k in Mar'22). JLRs' production should improve each quarter from 2QFY23 onwards. It expects wholesale volumes in 2Q at ~90k units (+40% YoY, +25% QoQ) led by improved visibility of chip supply. Hence, JLR has maintained its FY23 guidance of 5% EBIT margin and FCF of GBP1b. India – domestic business outlook for both CVs and PVs remains positive. TTMT has stepped up capex to INR60b for FY23E (~INR10.6b in 1QFY23, INR36.6b in FY22). 	

TVS Motor Co.	<ul style="list-style-type: none"> The company expects the festival season sales to better than the last two years backed by: a) opening up of economy post-Covid, b) normal monsoons aiding rural markets, and c) chip issues resolving due to sourcing from alternate supplier. It is, however, experiencing stress in some export markets due to currency depreciation as well as stress in Nigeria and other African countries. 	<ul style="list-style-type: none"> In FY23, it would be launching a series of new products focusing on different customer sets. TVS is targeting products in the entire 5-25KW segment. The launches will be over the next eight quarters, with the first being in 1QFY23.
Tube Investments	<ul style="list-style-type: none"> EVs will continue to be the biggest focus area for the company's TI-2 strategy. It will need to have four platforms (three already exist in 3Ws, CVs and tractors) and management sees opportunity in the fourth one. The company is looking to invest INR2.5b per platform (total INR10b) to take these to the market. 	
BHFC	<ul style="list-style-type: none"> The US Class 8 volumes for CY22E would be ~300k v/s ~270k in CY21. Class 7-8 orders from OEMs are secured until the end of next year (CY23) and the rate of cancellation is not high. 	

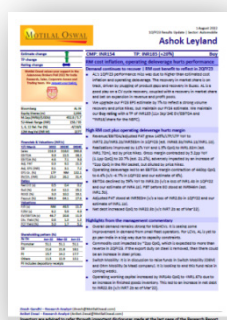


Click below for
Results Update



Ashok Leyland

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Detailed Concall Transcript &
Results Update



Amara Raja Batteries

Neutral

Current Price INR 502

- AMRJ witnessed robust Auto demand from the Aftermarket as well as 4W and 2W OEM segments. Industrial battery volumes have shown a healthy growth, especially in UPS and Telecom segments.
- Power and other input costs have risen, which resulted in margin pressures. The management is confident of mitigating the inflation in power costs through captive solar generation.
- It indicated that its immediate focus is on expansion of the pack and charger business for EVs. It soon plans to enter cell manufacturing through a customer qualification plant.
- Capex in FY23 is expected to be in the INR5-5.5b range, for which it will be investing in the Li-ion cell technology.
- AMRJ has made changes to the Articles of Association indicating it will be looking at other Auto-related products though specific details have not been shared.

Ashok Leyland

Buy

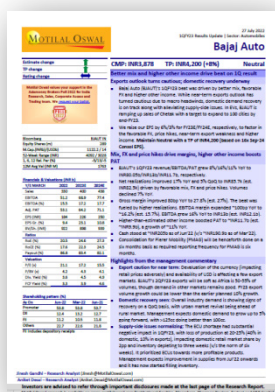
Current Price INR 142

- Overall demand remains strong for M&HCV and it is seeing some improvement in demand from the small fleet operators. Fleet utilizations improving and rising freight rates is easing pressures on cash flows of fleet operators.
- LCVs: It is yet to go on pan-India business in a big way due to capacity constraints.
- CNG ICVs has seen some shift away to diesel due to increase in CNG prices. It has 1 CNG ICV and plans to launch more products in next 2-3 quarters.
- Switch Mobility: India business is operational with dedicated team. It is in discussion to raise fund in Switch Mobility (OEM) and Ohm Mobility (MaaS company). It is looking for closure of fund raise in coming weeks. For e-buses, it has order book of 600 buses order, with most of these are on Mobility as a Service basis. It plans to launch e-LCVs in 4QFY23.
- Capex for 1QFY23 was at INR1.15b and expects INR7.5b for FY23E.
- RM cost: Benefit of steel price hikes haven't yet come. 1QFY23 had steel price inflation impact of ~2pp QoQ (or INR4-5/Kg). It expects 2QFY23 to see reduction, which may sustain if export duties are not removed.

- Net price hike in 1QFY23 was 1.7-2%.
- Hinduja Leyland Finance had AUM of INR307.2b, PAT of INR970m and GNPA/NNPA stood at 3.7%/2.3%.
- Operating working capital increased INR14b QoQ to (-INR1.67b) due to increase in finished goods inventory.
- Net debt increased QoQ to INR22.8b (vs INR7.2b as of Mar-22).



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Results Update



Bajaj Auto

Neutral

Current Price INR 4,042

- **ECU shortage easing from Jul-22:** ECU shortage had substantial impact in 1QFY23, with loss of production at 20-25%. Domestic business had shortfall of 40% whereas exports were impacted by 10%. ECU shortage impacted domestic retail market share by 2pp and led to inventory depleting to 3 weeks (v/s normal level of 6 weeks). While all the segments were impacted (except some export models), it prioritized chips to more profitable products. Its initiatives to add new suppliers have helped to address shortages from Jul-22 onward and it has now started inventory filling.
- **Exports near term outlook cautious:** Devaluation of currency (impacting retail prices) and availability of USD is impacting few export markets. 2QFY23 exports will be soft as Africa is 50-55% of volumes, though demand in other markets remains good. Further, motorcycle ban is considered in Nigeria due to use of motorcycle in terrorist activities, but there is no notification yet. FY23 export volume growth could be lower than earlier planned 10% growth.
- **Domestic demand showing signs of recovery:** Overall industry demand is showing recovery on QoQ basis, with urban market recovery is ahead of rural market. It expects domestic demand to grow up to 5% going forward, with >125cc doing better than 100cc.
- **Domestic 3Ws:** Domestic 3W demand is yet to recover to FY20 levels due to a) not full normalization of activity, and b) driver availability.
- **E-2W ramp-up to continue:** Chetak e-2W is seeing MoM improvement in production. Sales doubled QoQ to 6.2k units and are expected to further double QoQ in 2Q. It now has presence in 27 cities and plans to increase it to 100 cities by end FY23. It has completed detailed review on engaging in B2B segment and will roll-out new product for this segment (incl. its partnership with Yulu).
- **E-3W product trials underway in Delhi and Pune.** In Delhi, e-3W is at par with CNG and 50-75% level of diesels.
- **RM cost to see inflation in 2QFY23:** 1QFY23 saw commodity cost inflation of 3pp, which was offset by ~2% price hikes and favorable FX/mix. While metal prices have corrected, it is seeing inflation in crude derivatives and precious metal, and hence expects 1-1.5pp QoQ increase in RM cost. It expects margins to remain stable at 1Q level, as benefit of commodity and FX would be offset by mix deteriorating as domestic demand and supply recover.
- **Commodity and FX benefit would not be passed on:** It doesn't plan to pass on FX and commodity benefit to customers in both India (>125cc) and exports, except using it strategically for penetration pricing. In 100cc segment in India, it will follow the competition.



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Results Update




BHARAT FORGE

Click below for
Results Update

Balkrishna Inds

Current Price INR 2,116

Neutral

- **Outlook:** While BIL continues to see a sustained uptick in demand, it expects sluggish demand in 2QFY23 given macro challenges in Europe coupled with heatwave and inflationary trends in the US. Retail demand is good, but distributors are reducing stock due to uncertainty at market level. Stock at dealer level is higher than ideal levels of 2.5-3 months. Despite near-term challenges, management has maintained its volume guidance for FY23E at 320-330k tons.
- **RM cost inflation** had an adverse impact of ~150bp QoQ; BIL expects the inflationary uptrend to continue in 2QFY23. Considering contracts and inventory, it expects RM cost benefit to accrue from 4QFY23.
- **Logistic cost continues** to hurt performance (+40bp QoQ, +7.1pp YoY). 50% of its contracts are on CIF basis and of that 50% has seen partial pass through of logistic cost. It expects relief in logistics costs from end 3QFY24 or early 4QFY23.
- It took price hike of 5% in 1Q, but is yet to take any hike in 2Q due to uncertain environment.
- **EURINR** realized rate for 1QFY23 was at 85 and it is fully hedged for FY23 at 85.
- It has increased numbers of SKUs to 3,200 (v/s 2,700 from 12-15 months back).
- RoW market decline in last 2 quarters was due to rationalization of production to EU/US due to capacity constraint.
- The achievable capacity by end of FY23 will be 360k ton. It has commissioned Bhuj brownfield capacity of 50k ton and expects full ramp-up in production in 2HFY23. Modernization/upgradation program is expected to complete by 2QFY23. Carbon Black & Power Plant at Bhuj is on track for 3QFY23 commissioning, with advanced carbon black project of 30k ton coming by 4QFY23.
- Capex for FY23 is expected to be INR9b and FY24 would be similar. It is evaluating capacity addition on either Greenfield or brownfield basis for the next leg of capacity addition, but not is finalized yet.
- Net debt stood at INR7.5b. It had invested excess cash of over INR1.7b in equity/equity mutual fund in FY22. However, the management indicated that they wouldn't be investing any new money in equity instruments from hereon.

Bharat Forge

Current Price INR 721

Buy

- **US:** US Class 8 volumes for CY22 will be ~300k vs ~270k in CY21. Class 7-8 orders from OEMs are secured till end of next year (CY23) and rate of cancellation is not high. This is also true for PVs
- **EU:** There is reasonably strong demand for CVs. It operates in premium PVs, which is also doing ok. Weakness in EU due you several factors including inflation and geo-political issues.
- **O&G:** Shale oil is doing reasonably well and it expects demand to remain stable for next 1-2 years. It is adding new products.
- Aerospace was 2% of Industrial in FY22, now 10% in 1QFY23. 2 new products are under ramp up. Added 2 new customers. On track to achieve USD100m target
- JS Auto cast can double capacity and revenues without much capex. JS Auto to grow strong double digit CAGR over next few years.

Bharat Forge

Current Price: INR 1,000.00 | Target Price: INR 1,100.00

Key Metrics:

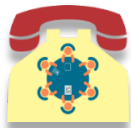
Parameter	2021-22	2022-23	2023-24
Revenue (INR Cr.)	1,000	1,100	1,200
EBITDA (INR Cr.)	100	110	120
EBITDA Margin (%)	10%	10%	10%
Net Profit (INR Cr.)	50	55	60
Net Profit Margin (%)	5%	5%	5%

Investment Highlights:

- Strong order book and robust growth across revenue and free cash flows.
- Focus on maintaining steady margins through strategic cost recovery.
- Plans to deliver double digit EBIT (v/s 9.6% in FY22 v/s 14.5% in FY19).



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Results Update



Bosch

Current Price: INR 17,082.00 | Target Price: INR 18,000.00

Key Metrics:

Parameter	2021-22	2022-23	2023-24
Revenue (INR Cr.)	17,082	18,000	19,000
EBITDA (INR Cr.)	1,708	1,800	1,900
EBITDA Margin (%)	10%	10%	10%
Net Profit (INR Cr.)	854	900	950
Net Profit Margin (%)	5%	5%	5%

Investment Highlights:

- With a steady order book (with OEMs) and easing supply chain issues from Jun-22, it expects to maintain robust growth across revenue and free cash flows for the remainder of FY2022-23.
- Its focus is to maintain steady margins through strategic cost recovery across our supply chains.
- It plans to deliver double digit EBIT (v/s 9.6% in FY22 v/s 14.5% in FY19).

- **EVs:** Tork has started supplies of its electric motorcycle. It is also supplying powertrain for e-3Ws. It is looking to expand capacity multi-fold.
- **EU operations:** EU operations has seen full impact of energy prices in 1QFY23. Overall, EU operations will do double digit EBITDA margins, with Aluminium business doing mid-teen margins
- **US plant** is running at EUR1m/month .EBITDA loss and will see break even by year end. Full capacity is booked out for the first phase and has enough orders in hand for phase 2 expansion. FY24 will see ramp-up
- Targeting to generate 8-8.5% EBITDA margins in overseas subs.
- **Capex** for India operations will be INR2.5b in FY23. In addition EV business investment would be INR1.25-1.5b in FY23. US aluminium forging will invest USD75m for phase-2 expansion over CY23-24.

BOSCH

Neutral

Current Price INR 17,082

- **Outlook:** With a steady order book (with OEMs) and easing supply chain issues from Jun-22, it expects to maintain robust growth across revenue and free cash flows for the remainder of FY2022-23. Its focus is to maintain steady margins through strategic cost recovery across our supply chains. It plans to deliver double digit EBIT (v/s 9.6% in FY22 v/s 14.5% in FY19).
- **Revenues** in the powertrain solutions division grew 47%, driven by PV segment growth of 56%, LCVs by 71% and HCV by 66%.
- **Automotive Aftermarket** division also surpassed its peak revenues, with a growth of 61% due to a low base as well as increase in sales of diesel components, spark plugs and filters.
- 2W business declined by 13% as sales were impacted by semi-conductor shortages.
- The Beyond Mobility businesses grew 54% due to growth of 49% in Consumer Goods division (led by increase in sales of blue emerging tools and low base) as well as strong revival in Energy & Building Technologies on a very low base.
- Income from services comprises of R&D services provided to the parent and OEMs. While billing of the R&D services was healthy at INR1.1b for 1QFY23, but based on customer program SOP dates only INR628m was accounted in 1Q and balance will come based on completion of the project.
- Other income lower due to MTM loss on account on increased in bond yields. Average portfolio duration is now 1.1 year vs 1.5 years earlier.
- For e-2Ws, it has full portfolio from motors, power electronics, battery system etc. It has been in the first generation products of several OEMs and also working with new OEMs.
- For strong hybrid for PVs, it has full array of product range for this technology, and is offering it to several OEMs in India and globally.
- GDI system has started to seen increase in penetration in SUV and cars.
- For Tractors, it has solid order book for the migration to TREM 4/5 emission norms.



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CEAT	2022	2021	2020	2019	2018
Revenue (INR Cr.)	1,386	1,386	1,386	1,386	1,386
EBITDA (INR Cr.)	1,386	1,386	1,386	1,386	1,386
EBIT (INR Cr.)	1,386	1,386	1,386	1,386	1,386
Net Profit (INR Cr.)	1,386	1,386	1,386	1,386	1,386
EPS (INR)	1,386	1,386	1,386	1,386	1,386



Click below for
Results Update

Eicher Motors	2022	2021	2020	2019	2018
Revenue (INR Cr.)	1,386	1,386	1,386	1,386	1,386
EBITDA (INR Cr.)	1,386	1,386	1,386	1,386	1,386
EBIT (INR Cr.)	1,386	1,386	1,386	1,386	1,386
Net Profit (INR Cr.)	1,386	1,386	1,386	1,386	1,386
EPS (INR)	1,386	1,386	1,386	1,386	1,386

CEAT

Current Price INR 1,386

Buy

- **Volume growth:** Volumes grew 7.5% QoQ (up over 30% YoY on low base), led by a 16%/8% QoQ growth in the OEM/Replacement segment and flat exports.
- Growth in the Replacement segment was led by a 20%/15% QoQ growth in PCR/2W tyres, but T&B was flat (growth in TBR was offset by a decline in TBB).
- **Growth momentum** is expected to sustain, with OEM growing faster than the Replacement market. The momentum in exports is expected to continue as it now has a complete range of winter tyres in the EU and has also launched TBR in that geography.
- **RM basked** was higher by 4% QoQ. With the full impact of higher crude prices reflecting in 2QFY23 (a further 2-3% QoQ increase), the benefits from the recent correction in crude oil prices will accrue only in 3QFY23.
- It has hiked prices in the Replacement market by ~2% on an average in 1QFY23, largely in the CV and PCR segment. It has raised prices in Jul'22 (~1% in 2Ws, 2% in PCR, and 2-3% in TBR) and plans to increase prices by up to 4% in Aug'22.
- Its Sri Lanka operations continued to operate profitability in 1QFY23, despite challenging conditions.
- **Capex:** It maintained its growth/maintenance capex guidance at INR7.5b/INR2b. Capex in 1QFY23 stood ~INR2.5b.
- **Its gross debt** stood at INR21.4b (v/s INR21b in 4QFY22). Except for ~INR3b of NCDs, a large part of the debt is at a variable interest rate. Hence, it expects interest cost to rise from 2QFY23 onwards.

Eicher Motors

Current Price INR 3,363

Buy

- Hunter 350, launched at very accessible price, is expected to bring new customers who weren't buying RE. It is light and easy to manage motorcycle targeting younger customer in the urban market. Since Hunter is on J series platform, it will bring operating leverage benefit and expand profit pool (though margins could be lower).
- Inquiries are very good but conversion was bit weaker in last 30-40 days. With Hunter coming in, it will help conversion. Supply chain is improving with no major challenges foreseen and hence it expects sustained growth in the coming quarters.
- RM cost is expected to be stable and it has largely passed on entire cost inflation post 1QFY23 price hike of ~INR3k/unit for 350cc and INR5k/unit for 650cc.
- Improving mix (exports, non-motorcycle sales) and stable commodity prices should drive margin improvement, diluting impact of potentially lower margins on Hunter.
- RE added 14 stores in 1QFY23 to 2,132 outlets in India. In global markets, it added 4 exclusive stores taking total to 169 exclusive RE stores.
- Jul-22 volumes were impacted as Hunter wasn't billed to dealers in Jul-22.
- Average age of customer is 29-30 years. Hunter will bring it down further.
- VECV has delivered its first Eicher electric city bus to Chandigarh. It has got orders for 150 e-buses from Surat.
- Other income in 1QFY23 was influenced by a) INR400m state government incentive, and b) INR1.2b MTM losses on its treasury book.



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MOTILAL OSWAL
PUBLISHERS & IMPORTERS

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Endurance Exercises

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Editor: Dr. R. K. Prasad



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Endurance Technologies

Buy

Current Price INR 1,434

India business

- Chip shortages are improving with expectations of improvement from 2Q/3QFY23.
- 1QFY23 had 3pp impact of higher Aluminum and Steel prices. However, prices for these commodities have declined in Aug-22, which implies 1.5pp savings.
- New order wins in India at ~INR4.4b (excl. Bajaj) and RFQs in hand worth INR16.3b. For EVs, it has total order book of INR4.8b (incl. 1Q order win of INR1.1b), including orders from Ather (Brakes) and Hero Electric (alloy wheels). EV orders commercial supplies will start in FY23 and peak in FY24.
- Maxwell Energy has got order of 400k BMS units, including order from HMCL (supplies from Jul-22) and Tork Motors.
- Drive shafts business has seen start of commercial supplies from Jul-22 to Bajaj Auto and has won new orders from M&M and TVS.

EU business

- EU order wins of EUR14.3m in 1QFY23 (v/s EUR17.5m in 4QFY22).
- To drive growth in 2W aftermarket, it has acquired in Jul-22 an Italian company Frenotecnica, which focused on friction material and components for braking system (like brake pads). In CY21, it had revenues of EUR3.6m and EUR1m EBITDA. It has a brand 'Brenta' which is well-known in the aftermarket. This coupled with acquisition of Adler and Grimeca, it wants to grow in the premium 2W component in the aftermarket.

Escorts Kubota

Neutral

Current Price INR 1.726

- Tractor industry outlook: Management expects domestic industry to grow at low- to mid-single digit, with 2QFY23 to rise in mid-single digit despite likely decline in Jul-Aug'22, as Sep'22 is expected to see strong growth due to early onset of festive season. It is not seeing any let up in demand, as factors influencing demand are strong. Monsoon has been uneven, particularly in UP, Bihar and parts of MP. However, forecast suggests it will be catching up. Water availability is very good across the country as suggested by the reservoir levels. Hence, poor monsoon may not affect this year, but next year.
- There is a reversal in trend of upshift to higher HP tractor, as 1QFY23 saw the mix movement in favour of lower HP segment. The commercial segment is showing gradual recovery, with the management expecting good recovery from Sep'22 onwards.
- Domestic tractor industry grew 15.8% YoY (ESCORTS domestic volumes flat), with ESCORTS strong market of North and Central regions growing by 22% YoY (ESCORTS grew 4%) and other markets grew 10% YoY (ESCORTS declined 4%).
- ESCORTS lost market share in domestic tractor market by 140bp YoY (-210bp QoQ) to 9.3%, as it decided to balance out market share and profitability and not compete on pricing. It is taking initiatives to recover market share in few months, as it knows markets (its strong markets) and segments where it needs to recover market share.

- It recorded highest ever quarterly export sales at 2.2k units (+52% YoY), with export through Kubota channel at over 20% of the total export volumes and almost 70% of exports being to Europe.
- It took price hike of 2% in 1QFY23 and another ~ 2% in 2QFY22 so far. It still has 3-3.5% under recovery based on 4QFY22 levels.
- RM cost impact in 1QFY23 was at ~4pp due to substantial increase in steel prices given in 1QFY23. Based on the current commodity prices, it expects benefit of lower steel prices to reflect in 2Q, though there would be inflationary impact on conversion cost.
- Channel inventory for ESCORTS remains under control at ~1 month, whereas competition's inventory would be higher by couple of weeks.
- Railways business order book has nearly doubled on QoQ basis to INR8.5b (v/s INR4.4b as of Mar-22). It expects double digit growth in this segment in FY23.
- Construction Equipment business saw ESCORTs outperforming the underlying industry and it expects growth momentum to continue with Government's thrust on infrastructure development.
- Capex for 1QFY23 was at INR400-500m and FY23 is expected to be INR3-3.5b.
- The merger process (with Kubota India businesses) is still on-going and it expects to finalize contours of the deal in next 1 month or so. The entire process will take almost 12 months due to requirement of regulatory approvals.



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Hero MotoCorp

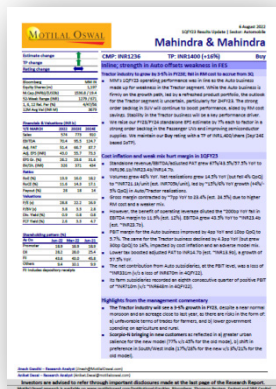
Buy

Current Price INR 2,777

- Demand in 1QFY23 was better than 4QFY22, and 1Q retails were better than wholesales. Jul-22 stock build-up is lower due to chip shortages in XTec variants and premium segment. Inventory is at 6-7 weeks at the end of Jun-22.
- It has launched XTEC variants in 4 volume models like Glamour, Passion, Splendor and Destini. These models are priced higher by up to 10% but demand has been higher than expected.
- RM cost was higher on QoQ basis in 1Q due to lag impact. Softening in commodity prices (steel and aluminum) would reflect from 2QFY23. It took price hike of ~INR850/unit in Apr-22 and ~INR1,200/unit in Jul-22, however, there is still under-recovery on account of commodity prices.
- It targets to take margins back to 14%, driven by a) commodity cost correction, and b) operating leverage.
- It invested ~INR7b in Hero FinCorp (~40% stake) and ~INR2.62b in Ather Energy (~INR1.5b in 4QFY22; 35% stake on fully diluted basis).
- Realizations declined QoQ due to a) lower Parts business contribution and b) lower Op. other income by ~40% QoQ as Neemrana fiscal benefit had expired in 4Q. Underlying 2W ASPs has gone up by Rs800/unit QoQ.
- Neemrana plant incentive has expired in 4QFY22. However, it expects ramp-up at Chitoor (AP) plant to off-set for the loss of incentive at Neemrana plant.
- Other income was lower due to a) MTM loss on treasury of INR350, and b) impairment of INR250m for its investment in Gogoro.
- Hero FinCorp had PAT of ~INR1b in 1QFY23.



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Mahindra & Mahindra

Buy

Current Price INR 1,226

Auto business

- Open bookings at over 140k (excl. Scorpio-N), with 79k for XUV700, 25k for Thar, 13k for XUV300, 15k for Bolero and 7k for old Scorpio. Despite 2 year wait period, XUV700 is clocking bookings of 10.3k/month.
- Scorpio-N is bringing in new customers, as reflected in a) more urban salience for the new model (77% vs 45% for old mode), b) shift in regions towards South (17% for new vs 3% for old) and West (28% for new vs 21% for old).
- It is looking to substantially expand capacities in phases (didn't disclose details), as it doesn't want to have waiting period beyond 3-4 months. It will have to balance out capacities between EVs and ICE. Supply issues have resulted in loss of 10% of production.
- Cancellation rates are at 10-12%, which suggests that the double booking wouldn't be very high. Since there is KYC of each and every customers who have booked the vehicle, it doesn't see double bookings to be more than 5-10%.
- It doesn't have many new ICE SUVs in next 12 months, except refresh of Scorpio Classic in Aug-22 and some pick-ups.

Tractor/FES business

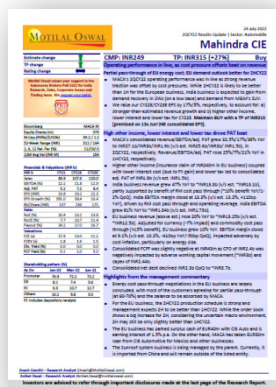
- Tractor industry to see 3-5% growth for FY23E, as despite near normal monsoon and similar acreage close to last year there are risks in form of a) unfavorable terms of trades for farmers, and b) lower government spending on agriculture and rural.
- There is an excess rain in west and south but deficient in UP, Bihar, Jharkhand and West Bengal. Reservoir levels at 57% of the live capacity; higher than average by 39%. Acreages are just 2% lower than FY22 and are at 74% of normal area sown.
- Tractor segment margins were impacted by cost inflation and adverse model mix.
- FES subsidiaries continue to deliver positive PBIT for 8th consecutive quarters

Others

- RM cost benefit will reflect in 3Q, as they have inventory and contracts, and hence benefit wouldn't be much in 2Q. While steel prices will come down in 2Q, model mix would be adverse at least till 2QFY23 (due to price protection guarantee for XUV700 and Scorpio-N).
- It has taken price hikes of 1.5-2.5% in both businesses in 2QFY22.
- Peugeot was initially categorized as category A. However, Covid has hurt them fairly hard, impacting performance badly. Since performance parameters have not been met in time bound manner, it is under review now.
- Pininfarina: It is clear that it is not invest beyond Batista (hyper EV). It will look to bring in investors to funds for future models.

Mahindra CIE

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**Mahindra CIE****Buy****Current Price INR 273****India business:**

- Demand in 2QCY22 remained strong despite weaknesses in the 2W and tractor sectors. It is now seeing some growth in 2W on a low base. MACA is benefitting from the strong demand for MM's SUV.
- RM cost pass-through contributed 10% YoY to 2Q revenue growth.
- Management is yet to see the benefit of a drop in commodity prices in India.
- It is expanding in: a) warm forgings (new product) at Chakan plant, b) gears at Rajkot plant, c) forgings at Hosur plant and d) magnetic business.

EU business:

- The EU business has witnessed strong sales leading to real market share gains. Adjusted for currency (-7% impact) and commodity cost pass-through (+15% benefit), the EU business revenue grew 10% YoY.
- Energy cost pass-through negotiations in the EU business are largely concluded, with most of the customers agreeing for partial pass-through (at 60-70%) and the balance to be absorbed by MACA.
- The 2HCY22 production schedule is strong and management expects 2H to be better than 1HCY22. While the order book shows a big increase for 2H,
- considering the uncertain macro environment, 2H may still be only slightly better than 1HCY22.
- The German CV forging business is struggling due to inflation and energy cost pressure. It is currently at a breakeven level. Improvement in the fortunes of the German business is hinged on moderating cost inflation and demand improvement.
- The EU business PBT break-even is at a revenue of EUR100-105m/quarter.

Others

- S/A FCFF stood at negative INR1.7b due to weak CFO of negative INR0.6b (led by -INR3b working capital change) and capex of INR1.1b. Europe business' FCFF stood at INR1.7b driven by the strong CFO of INR3b.
- Net debt in 1HCY22 was at INR8,737m v/s INR7,813m as of Dec'21.
- The EU business has parked surplus cash of EUR40m with CIE Auto and is earning interest of 1.5% p.a. On the other hand, MACA has taken EUR80m loan from CIE Automotive for Mexico and other businesses.
- The Sunroof system business is being managed by the parent. Currently, it is imported from China and will remain outside of the listed entity.

MARUTI SUZUKI

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**Maruti Suzuki****Buy****Current Price INR 8,624**

- The new Brezza has got ~70k bookings so far, with over 50% of the bookings are for the top two premium variants.
- The recently launched Grand Vitara is developed by Suzuki and will be produced by Toyota. This model will be exported as well. Grand Vitara has got ~20k orders, with over 45% of those bookings are for the strong hybrid variant.
- Order book as of Jun-22 stood at ~350k units (v/s Mar-22 at 268k units).
- Supply side issues led to 51k production loss in 1QFY23. While there is a gradual increase in supplies, visibility remains poor.

MOTILAL OSWAL
RESEARCH REPORT
Maruti Suzuki

Operating performance in the lower volume scenario

Revenue from Maruti Suzuki (INR2022) was INR11.1k crore, up from INR10.7k crore in 2021. The company's operating performance was impacted by the lower volume scenario, which led to a decline in revenue from INR11.1k crore to INR10.7k crore. The company's operating performance was also impacted by the lower volume scenario, which led to a decline in revenue from INR11.1k crore to INR10.7k crore.

Key highlights from management commentary

The company's operating performance was impacted by the lower volume scenario, which led to a decline in revenue from INR11.1k crore to INR10.7k crore. The company's operating performance was also impacted by the lower volume scenario, which led to a decline in revenue from INR11.1k crore to INR10.7k crore.



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MOTILAL OSWAL
RESEARCH REPORT
Sona BLW Precision Forging

Operating performance in a challenging quarter

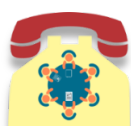
Revenue from Sona BLW Precision Forging (INR2022) was INR1.6k crore, up from INR1.5k crore in 2021. The company's operating performance was impacted by the challenging quarter, which led to a decline in revenue from INR1.6k crore to INR1.5k crore. The company's operating performance was also impacted by the challenging quarter, which led to a decline in revenue from INR1.6k crore to INR1.5k crore.

Key highlights from management commentary

The company's operating performance was impacted by the challenging quarter, which led to a decline in revenue from INR1.6k crore to INR1.5k crore. The company's operating performance was also impacted by the challenging quarter, which led to a decline in revenue from INR1.6k crore to INR1.5k crore.

TATA MOTORS

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- RM cost impact in 1QFY23 was <2pp. With commodity prices correcting, management expects 2Q RM basket to be much lower than 1QFY23.
- Discounts increased QoQ to INR12.75k/unit (v/s INR11.1k/unit in 4QFY22).
- JPY benefit on imports comes with a lag. 1QFY23 had negligible benefit, with full benefit expected to come in 2QFY23.
- Other income was lower due to MTM losses, as interest rates declined ~150bp QoQ.

SONA BLW Precision

Neutral

Current Price INR 524

- Revenue from BEV grew 68% YoY and 9% QoQ to INR1.6b, implying a BEV revenue share of 29% (v/s 20%/28% in 1Q/4QFY22).
- Net order book increased to ~INR205b (v/s INR186b in 4QFY22), with EVs constituting 67% of the order book. It won six new BEV programs and four new customers in 1QFY23. It now has 36 EV programs across 23 different customers.
- In 1QFY23, it bagged three significant EV programs, which includes: a) two programs from an EU PV OEM for supply of final drive assemblies worth INR16.1b over its lifetime, with a SOP in FY26, b) a traction motor (PMSM) order for e-2W from a leading incumbent OEM, with an order value of INR9.1b, starting from 2HFY23.
- It expects three large orders to go into production in 2HFY23 and almost 50% of the order book to go into serial production by FY25.

Tata Motors

Buy

Current Price INR 454

JLR: Key takeaways from the management commentary

- JLRs performance was impacted by several headwinds viz. adverse volume and mix (chip shortages slower ramp-up in new RR/RR Sport and China lockdowns), inflation, and FX/commodity revaluation.
- Demand continues to be strong, as reflected in the surging order book to 200k units (v/s 168k in Mar'22), with over 60% of the order book accruing from its newest and most profitable products (Defender, RR and RR Sport).
- Production should improve each quarter from 2QFY23 onwards. It expects wholesale volumes to grow 40% YoY and 25% QoQ to ~90k units in 2QFY23, led by improved visibility in semiconductor supply, production ramp-up of new RR/RR Sport, and work-in-progress inventory of 8-10k units.
- Hence, it has maintained its FY23 guidance of 5% EBIT margin and positive FCF of GBP1b.

Tata Motors

Key Highlights:

- Q1 FY23 Performance:** Strong growth in passenger vehicle sales, driven by the Tata Nano and Tata Nano LX. The company also reported a strong performance in the commercial vehicle segment.
- Financials:** Revenue of ₹1,10,000 crore, Profit After Tax (PAT) of ₹1,000 crore.
- Outlook:** The company expects a strong performance in the second half of FY23, driven by the Tata Nano and Tata Nano LX.

Financial Data (₹ crore):

Particulars	Q1 FY23	Q1 FY22	Q1 FY21
Revenue	11,000	10,000	9,000
Operating Profit	1,000	800	700
Profit After Tax (PAT)	1,000	800	700
EPS (₹)	100	80	70

- Refocus continues to drive value generation of GBP250m in 1QFY23, through market performance (GBP100m), labor cost savings (GBP20m) and investment savings (GBP130m).

India: Key takeaways from the management commentary

Tata CVs business

- **M&HCV outlook:** Almost everything is falling in place for the CV. The Trucker's Sentiment index is at a two-year high in MHCVs and ILCVs. The Bus segment is also seeing a recovery (grew 60% QoQ and 368% YoY) driven by a surge in tours and travel, return of staff, and opening of schools. However, it is monitoring fuel prices and interest rates as it can potentially impact demand. For FY23, it expects double-digit growth.
- Its export markets are impacted by steep depreciation in the local currency, fuel price hikes, as well as the political turmoil in Sri Lanka.

Tata PVs business

- The industry is projected to grow to ~3.5m in FY23.
- TTMT is taking initiatives to enhance capacity, as it is operating at full capacity at its Pune plant and Fiat JV, whereas the Sanand plant has some headroom to grow. It has signed a tripartite MoU for the potential acquisition of Ford's Sanand vehicle manufacturing plant.

Others

- It expects commodity prices to come down from 2QFY23 onwards for both its CV and PV business.
- Tata PV and CV business had a negative FCF (post interest cost) of INR28.9b, due to working capital outflow of INR30.7b and capex of INR10.6b. It has stepped up capex to INR60b for FY23.



INDIA

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Tube Investments of India

Key Highlights:

- Q1 FY23 Performance:** Strong growth in engineering business, driven by the engineering business. The company also reported a strong performance in the railways business.
- Financials:** Revenue of ₹1,10,000 crore, Profit After Tax (PAT) of ₹1,000 crore.
- Outlook:** The company expects a strong performance in the second half of FY23, driven by the engineering business.

Financial Data (₹ crore):

Particulars	Q1 FY23	Q1 FY22	Q1 FY21
Revenue	11,000	10,000	9,000
Operating Profit	1,000	800	700
Profit After Tax (PAT)	1,000	800	700
EPS (₹)	100	80	70

Tube Investments

Buy

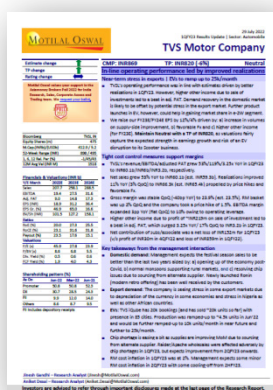
Current Price INR 2,112

- **Engineering business** strong growth driven by some market share gains and commodity cost pass through.
- **Railways business** has started to see traction in new tenders with better price points.
- **Exports in 1QFY23 were at 16%** of standalone sales and 21% for the engineering business. Engineering business exports were impacted by too much inventory built-up in EU, and expects pick-up from 2HFY23. Engineering business has got approval from the OEMs in the exports markets. Industrial chains had good growth in exports.
- **EVs** will continue to be biggest focus area for its TI-2 strategy. It will need to have 4 platforms (3 already there in 3W, CVs and tractors) and sees opportunity in 4th platform. It is not going to enter 2Ws as it is too crowded market. It is looking at investment INR2.5b per platform (total INR10b) to take these platforms to market.
- **E-3Ws business** has started to appoint dealerships, but hasn't started taking orders yet but from Sep-22 onwards.
- **IPLTech (recent acquisition)** has as 55ton truck which is homologated. TIs endeavor would be to manufacture this truck and target customers who have point to point application. In next 12-18 months, it would develop other products. It is looking to set-up a second production capacity in 8-9 months, which will be ramp-up capacity materially.

- **Cellesital (e-Tractors)** has 1 product in pipeline for homologation and 2 more tractors are under development. It will start with lower HP tractor and then go up the HP curve.
- Optics lens is most scalable in non-EV TI-2, but ramp-up has been challenge due to Covid as it is very much dependent on Koreans. However, it expects this business to be immensely scalable.
- Recently acquired Moshine has capacity to make lower end mobile camera module. Its intent is to get into mobile camera module on the low end side and then move up the chain. Moshine has manufacturing facility in India to make these modules. There is limited synergy with optic lens business as mobile camera module uses plastic lens whereas optic lens business is glass lens for autos.
- Medical devices business would be through acquisition.
- Margins were impacted by higher steel prices pass through. The Lean project is in early days and has long way to go with good headroom to contribute to margins.
- FCF in 1QFY23 was at INR1.4b.



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TVS Motors

Neutral

Current Price INR 937

- Domestic demand: Company expects the festival season sales to better than the last 2 years on the back of a) opening up of economy post Covid, b) normal monsoons aiding rural markets, and c) chip issues resolving due to sourcing from alternate supplier. Newly launched Ronin (modern retro offering) has been well received by the customers. Inventory in the system stands <30days.
- Export demand: It is seeing stress in some export markets due to depreciation of currency in some economies and stress in Nigeria and other African countries. It is confident of doing better than the industry in exports by offering wide range of products to these markets. Raider has been well accepted in the export markets.
- EVs: TVS iQube has 20k bookings (and has sold ~20k units so far) with presence in 85 cities. It would be launching range of products in the 5-25Kw battery capacity range catering to wide variety of customers. Production was ramped-up to ~4.5k units in Jun-22 and would be further ramped-up to 10k units/month in near future and further to 25k/month. It would launch an e-3W soon with the company focusing on the TCO of the users.
- Mopeds sales are still below the pre-Covid levels due to stress in the income level of the customers who are bottom of the pyramid. This is expected to reverse in FY23 as the economy has fully opened up.
- Chip shortage is seeing some bit of easing as supplies are improving MoM due to sourcing from alternate supplier. Raider/Apache wholesales got affected due to chip shortages in 1QFY23, but expects improvement from 2QFY23.
- RM cost inflation in 1QFY23 was at 2%, for which it took price hike of 1.5% and 0.5% remain uncovered. It expects some minor RM cost inflation in 2QFY23 with some cooling from 2H FY23.
- TVS Credit had book size of INR154b and a PBT of INR1.1b with a NPA ratio of 3.1%. Collection efficiency has reached the pre-Covid levels.

- Capex & Investments: It would invest ~INR7.5b in capex and ~INR3-4b in investment in subsidiaries. It invested ~INR1.54b in a) ~INR1.14b for 1.81% stake in Rapido taxi app company and b) ~INR396m in its Singapore SPV.
- There is proposal to divest investment in material subsidiary Sundaram Holding USA (SHUI), which is 50.35% subsidiary of Sundaram Auto Components (wholly owned subsidiary of TVSLs). Sundaram Auto Components plans to sell its 50.35% stake to Sundaram Clayton (holding company of TVSL) for a cash consideration, making Sundaram Clayton a 100% owner of SHUI.

CEMENT



- A majority of the management teams indicated some softness in demand and cement prices with pick-up in monsoon. However, they remained positive on the underlying demand growth of the sector, which will be driven by a pick-up in infrastructure, housing and real estate segments. Exit cement price in Jun'22 was 3-5% below 1QFY23 average and there was a further decline of INR5-10/bag across markets. Energy cost is expected to peak in 2QFY23 as petcoke price has declined from its peak level. As such, managements guided for timely completion of their ongoing expansion plans and announced the next phase of expansions.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Insights and future outlook FY23	Capex plans
UltraTech Cement	<ul style="list-style-type: none"> ■ Demand is resilient and likely to report 8% CAGR over the next five years. ■ Exit cement price in Jun'22 was 3-5% lower v/s its 1QFY23 average. Price has softened in Jul'22 due to monsoons. ■ Fuel cost is forecasted to remain at elevated levels over the next few quarters as the company is carrying high-priced coal inventory. 	<ul style="list-style-type: none"> ■ Estimated capex for FY23E/FY24E is of INR60b in each year. ■ It announced phase II expansion of 22.6mtpa at a capex of INR128.9b (capex/t of USD76) and commercial production is likely in a phased manner by FY25. ■ After completion of this phase of expansion it aims to achieve a capacity of 200mtpa by FY29-30 through the organic and inorganic routes. WHRS capacity is expected to increase to 250MW by FY23-end from 185MW currently.
JK Lakshmi Cement	<ul style="list-style-type: none"> ■ Demand in Jul'22 seems to be better than last year and it expects YoY volume growth in 2QFY23. ■ Prices were under pressure in Jun'22. The company witnessed price correction of INR10/bag in the North and Gujarat markets in Jul'22. ■ Power and fuel costs are estimated to remain elevated but peak in 2QFY23. These costs are likely to rise 20% QoQ in 2QFY23. 	<ul style="list-style-type: none"> ■ The expansion at UCWL (1.5mtpa clinker and 2.5mtpa cement) is estimated to be completed by Mar'24. Estimated capex for this expansion is INR16.5b and INR3.5b has been spent so far. The balance capex will be spent equally over the next two years. ■ The company aims to reach at a cement capacity of 30mtpa by FY30 through the mix of brownfield and Greenfield expansions.
Dalmia Bharat	<ul style="list-style-type: none"> ■ Government's push for capital expenditure as well as constant focus on infrastructure development will continue to boost cement demand. ■ Exit Jun'22 price was lower by ~3% v/s 1QFY23 average. Cement prices were stable in south in Jul'22, however, saw correction in eastern markets. ■ Fuel consumption cost is likely to remain at USD220/t until 2QFY23 (v/s USD218/t in 1QFY23) as the company is carrying inventory. It will see a decline from 3QFY23 onwards (spot petcoke price is at USD180-190/t). 	<ul style="list-style-type: none"> ■ Capex incurred in 1QFY23 was INR5.25b and budgeted capex for FY23 is INR30-35b. ■ Capacity debottlenecking work at existing plants of 3mtpa is likely to complete in FY23E; whereas; Greenfield/brownfield expansions at various locations are forecasted to get completed in FY24. ■ Its long-term growth plan of achieving a capacity of 110-130mtpa by CY31 remains intact.
The Ramco Cements	<ul style="list-style-type: none"> ■ Volume growth was higher in the East region (volume share in east increased to +30% v/s 20% in 4QFY22). Volume growth should be at ~15% YoY in FY23E. ■ Cement price remained volatile in the South region and increased competition is restricting price increases. ■ Energy cost was under control (average fuel cost was at USD173 in 1QFY23) as the company procured coal at much cheaper rates. There could be 5-6% increase in energy costs in Jul-Aug'22, but it should start declining from Sep'22. 	<ul style="list-style-type: none"> ■ Trial production of clinker in Kurnool plant has started and the cement grinding unit will be commissioned in Aug'22. Modernization of RR Nagar plant will be completed by Mar'23. ■ Capex in 1QFY23 was INR4.82b. In FY23 total INR8.5b including maintenance capex of INR1.3b will be spent. Capex in FY24E/25E will be at INR5-6b each. ■ Land acquisition for a grinding unit (GU) in Karnataka is going on. Further, location for Maharashtra GU is almost in finalization stage.
JK Cement	<ul style="list-style-type: none"> ■ Cement demand has softened with the onset of monsoon season; however, volume growth should be better from Sep'22. Volume growth including white cement should be at 10% in FY23E. ■ Current average price in North India is INR15-18/bag lower than 1QFY23 average, while in South India price is down by INR20/bag. ■ Fuel cost per ton stood at INR2.3kcal/kg v/s INR2.2- 	<ul style="list-style-type: none"> ■ Capex in FY23E/FY24E is pegged at INR17b/INR11b (including for paint business). ■ Management aims for a total installed grey cement capacity of 25mtpa by FY25E, for which it is planning to add 6mtpa grinding capacity. ■ The company has been allotted land in Mathura, Uttar Pradesh (UP) for the paints factory and it is in the process of land acquisition. Other regulatory

2.3 in 4QFY22 and is expected to be at INR2.7-2.75 kcal/kg in 2QFY23 when the full impact of high-cost fuel will be seen. Power and fuel costs are likely to be higher by INR200/t QoQ in 2QFY23E.

approvals are likely in the next few months.



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Results Update

The image shows a screenshot of a research report from Motilal Oswal for Birla Corporation. The report includes a table with financial data and a section titled 'Key highlights and investment thesis for FY23'. The table lists various financial metrics such as Revenue, EBITDA, and Net Profit, along with their growth rates. The 'Key highlights' section discusses the company's performance in FY22 and its outlook for FY23, mentioning the impact of high-cost fuel and the expected improvement in power and fuel costs.

Birla Corp

Buy

Current Price INR 961

- **Mukutban plant:** Mukutban plant started commercial production from 30th Apr '22 and should become EBITDA break-even by end-FY23. This plant is eligible for 100% reimbursement of SGST, electricity duty and royalty on limestone. Incentive on account of SGST reimbursement will start to accrue after exhaustion of the input tax credit on capital expenditure from FY24. It will significantly boost the Company's profitability. Cement EBITDA/t would have been at INR751 (v/s reported INR645/t) excluding start-up costs of this plant.
- **Coal, power cost and cost saving initiatives:** Cost of power generation at captive power plants at Satna and Chanderia plants shot up sharply (INR433/t of production v/s INR372 last year) due to poor availability of linkage coal. Coal extraction from captive mine at Sial Ghogri was 19% above its quarterly rated capacity of 75,000tons. This led to higher cost of extraction of INR430m v/s INR140m in 1QFY22. AFR usage was at 12% of fuel consumption v/s 4%/7% in 1QFY22/FY22. Green power consumption was at 22.8% v/s 22.3%/21.8% in 1QFY22/FY22. Fly ash transportation through wagons was increased which led to INR35/t YoY cost reduction to INR437/t.
- **Sales-mix:** Blended cement sales was at 91% v/s 92% in 1QFY22. Trade sales were at 79% v/s 83% in 1QFY22 with premium cement contributing to 47% of trade sales v/s 51% last year. Sales volume of premium cement was up 3% YoY while that of blended cement was up 15%.
- **Capacity utilization was at 88% v/s 90% in 1QFY22.** On a like-for-like basis CU reached at 101%. The company registered volume growth in all its key markets in north, central and east India, driven largely by infrastructure sector
- **Net debt stood at INR37b v/s INRINR34b in Mar-22.** Cost of borrowing was at 6.68%, down 65bps YoY.
- **Jute segment reported 17% YoY decline** in cash profit to INR85.2m in 1QFY23, due to a sharp increase in raw jute prices (rose 11.4% YoY). The division continues to focus on exports of value-added jute products as a measure to reduce dependence on government orders at regulated prices.



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Dalmia Bharat

Buy

Current Price INR 1,553

Demand and pricing outlook

- Higher volume growth was driven by better demand in southern region wherein volumes grew by over 30% YoY. Cement capacity utilization improved to 69% in 1QFY23 v/s 64% in 1QFY22.
- Management remains confident over India's growth story. Government's push for capital expenditure as well as constant focus on infrastructure development will continue to boost cement demand.
- Realization s improved in the east and north-east markets; however; it decline in the South markets. Exit 1Q price was lower by ~3% as compared to 1Q average.

MOTILAL OSWAL
4 August 2022
Dalmia Bharat
Q1 FY23 Report

Financial Highlights

Particulars	Q1 FY23	Q1 FY22	Q1 FY23 (Rs. Cr.)	Q1 FY22 (Rs. Cr.)
Revenue	1,04,400	1,04,400	1,04,400	1,04,400
EBITDA	1,04,400	1,04,400	1,04,400	1,04,400
EBIT	1,04,400	1,04,400	1,04,400	1,04,400
Profit before tax	1,04,400	1,04,400	1,04,400	1,04,400
Profit after tax	1,04,400	1,04,400	1,04,400	1,04,400

Management Commentary

The company's Q1 FY23 performance was largely in line with Q1 FY22, with revenue of Rs. 1,04,400 crore and EBITDA of Rs. 1,04,400 crore. The company's EBITDA margin was 100% in Q1 FY23, which is in line with Q1 FY22. The company's EBIT margin was 100% in Q1 FY23, which is in line with Q1 FY22. The company's Profit before tax margin was 100% in Q1 FY23, which is in line with Q1 FY22. The company's Profit after tax margin was 100% in Q1 FY23, which is in line with Q1 FY22.

Cement prices were stable in south in Jul'22, however saw correction in eastern markets due to seasonality impact.

Operational highlights and cost insights

- Average fuel consumption cost increased to USD218/t in 1QFY23 from USD180/t in 4QFY22. Fuel consumption cost is likely to remain at USD220/t till 2QFY23 as the company is carrying and will see downward trend from 3QFY23 onwards as fuel price has started to correct (spot petcoke price is at USD180-190/t).
- Lead distance during the quarter was at 311Km v/s 318km in 4QFY22.
- Trade sales were at 68% v/s 65% in 4QFY22 and blended cement sales stood at 82% v/s 78% in 4QFY22.
- Incentives accrued during 1Q were at INR580m while Incentive received was at INR440m. Incentives receivable stood at INR3.23b as of Jun'22. Incentive income is estimated to be INR2.3b each in FY23/24.
- Murli plant has started production in this calendar year and operating at a +50% utilization.

Capex Update

- The company has commissioned 1.1mtpa cement capacity through debottlenecking at Bokaro, 0.6mtpa in Jharkhand, 0.2mtpa at Adhunik, Meghalaya and 0.3mtpa at Rajgangpur, Odisha. Also, the company has increased combined clinker capacity by 2mtpa at various locations. Company's cement/clinker capacity stood at 37mtpa/20.9mtpa, respectively.
- Capex incurred in 1QFY23 was INR5.25b and budgeted capex for FY23 is INR30-35b for FY23. Balance capacity upgradation (debottlenecking) work at existing plants of 3mtpa is likely to complete in FY23E; whereas; Greenfield expansion in Tamil Nadu (4mtpa), Bihar (2.5mtpa) and brownfield expansion in Jharkhand (2.5mtpa) are expected to get completed in FY24. Land acquisition, equipment ordering and site work has started for these projects. Post completion of these expansions its clinker/cement capacity will increase to 23.7mtpa/49mtpa, respectively.
- Further, mining land acquisition in the east region is underway for ensuring long term raw material availability. Land acquisition is expected to get completed in one and half years and post that within next six months limestone extraction will start.
- It has obtained board approval to purchase existing wind turbine generators in Tamil Nadu with a capacity of 16.5MW (power generation capacity equivalent to 7MW of new wind turbines) from a group company at transaction cost of INR77m (for wind turbine and associated spare parts). The company will also pay lease and license fee of INR2.5m per annum for using 709 acres of land with escalation clause of 10%. The transaction is subject to necessary approvals from governments.

Other key highlights

- The company had net cash of INR2b as of Jun'22 v/s INR14b in Mar'22. Gross debt was at INR30b v/s INR31.4b in Mar'22. Net debt/EBITDA in Jun'22 stood at -0.08x v/s -0.59x in FY22. Its average cost of borrowing was at 5.4% in 1QFY23 v/s 5.7% in 1QFY22.
- Co2 emission came down to 468kg in 1QFY23 from 489kg per ton in FY22. Reduction in CO2 emission is driven by enhancing production of blended cement,

increase in share of green power and green fuel, reduction in heat and power consumption (power consumption/t of cement stands at 64kwh, one of the lowest in the world).



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Grasim Industries

Buy

Current Price INR 1,564

VSF business

- VSF sales volume grew 76% YoY to 197KT on the back of strong domestic demand. Domestic sales volume was up 139% YoY and share of domestic sales was at 94%. VSF plant at Vilayat (capacity of 600tpd commissioned in 4QFY22) operated at a capacity utilization of 89%.
- The global textile sector was impacted by Covid related lockdown imposed in major cities of China coupled with reduced ordering by the US and European retailers in anticipation of demand slowdown.
- Cotton prices peaked out in Jun'22 and started softening on fears of a global recession leading to demand slowdown. Domestic and Chinese VSF prices are connected with each other as VSF is a global commodity and China is the largest producer globally. So, Prices in domestic markets also needs to be adjusted, however, price increase in domestic market was not as steep as was in China.
- Pulp prices are not reducing to the similar extent due to supply-chain issues and force majeure at a major supplier. This may lead pressure on VSF margins. However, pulp prices should start coming down if VSF prices continue to remain under pressure.

Caustic Soda and advance material business

- Chlor-Alkali business posted best-ever quarterly EBITDA, aided by all-time higher ECU of INR53,560/t and higher sales volume. ECU realization improved on strong global caustic soda prices, weak INR and strong demand environment.
- Chlorine consumption in VAPs increased to 32% from 28%/30% in 1QFY22/4QFY22 led by higher demand for Chloromethane and Water treatment & sanitation products. Newly commissioned Chloromethane plant (in 4QFY22) operated at 80% capacity utilization.
- In chemical business, the management targets to increase the Renewable energy share from 7.9% in 1QFY23 to ~14% by 1QFY24 and ~25% by FY30.

Paints business

- Project execution is on track and the production should start from 4QFY24. Land possession has been completed at all six sites. Civil construction work has commenced at four of its sites- Panipat, Ludhiana, Cheyyar and Chamarajanagar. The project work at other sites will start after all the statutory approvals are received.
- A capex of INR8.25b has been spent till date (INR2.12b was spent in 1QFY23). Estimated capex for FY23 is INR35.4b.

Foray into B2B E-commerce

- The company has announced its foray into B2B e-commerce platform for the Building Materials segment with an investment of INR20b over the next 5 years. The platform will primarily focus on MSMEs in the Building Materials segment with the potential to further extend to other relevant categories. The key value proposition would be an integrated procurement solution, including on-time delivery and a superior product range at competitive pricing.

Renewable energy and Sustainability

- The 12MWp solar power capacity got commissioned in 1QFY23 and the company targets to commission 471MWp of solar power capacity in FY23E. Total solar power capacity stands at 563MWp and the target is to increase it to 1,739MWp by FY24E.
- To reinforce its commitment and improve approach to becoming a more sustainable, greener, and climate-resilient organization, it has adopted the Task Force on Climate-related Financial Disclosures (TCFD) framework. Grasim has also been included in the FTSE4Good Index.



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India Cement

Sell

Current Price INR 201

- Unprecedented cost increase and inability to pass on the same through price hikes impacted ICEM's performance severely. Fuel cost was at INR2.7/Kcal 1QFY23 v/s INR1.6/kcal in 1QFY22. Average coal consumption cost was at INR17,300/t. Cost of power generation from CPP was higher than grid prices.
- The company is now focusing on improving equipment efficiency, wherever necessary, based on revenue raising program. Further, it aims to improve the net plant realization by selling more to the markets near to plants.
- Revenue for Shipping/Windmill/RMC stood at INR33m/INR56m/INR260m, respectively. EBITDA for Windmill/RMC stood at INR44m/INR15m, while in Shipping there was an operating loss of INR14m. Shipping business revenue was lower mainly due to maintenance work.
- Higher opex led to 81% YoY decline in EBITDA and 13.7pp YoY drop in OPM to 2.1%. Blended EBITDA/t was at INR115 (at 47-quarter low and second lowest in the last 15 years) v/s INR833/INR231 in 1Q/4QFY22, respectively. Cement EBITDA/t was at INR98 v/s INR768/INR197 in 1Q/4QFY22, respectively.

JK Lakshmi Cement

Buy

Current Price INR 455

Demand and pricing outlook

- Demand in Jul'22 seems to be better than last year. Most of the company's markets witnessed decent price increases in Apr-May'22, however; prices were under pressure in Jun'22. Price increase was owing to unabated all-round cost increase. Now with the start of monsoons there is a pricing pressure in Gujarat and North markets (down INR10/bag MoM), while Chhattisgarh is placed relatively better.
- The company is focusing on improving geographical mix by selling more into nearby markets, increasing trade mix (currently has sold ~56% into trade segment) and higher share of premium products (currently premium product is being sold only in north markets and contributes ~14% to volumes).

Operational highlights

- Standalone sales volumes were 2.79mt (including 0.1mt of clinker). UCWL's sales volumes stood at 0.55mt. Consolidated sales volumes (after eliminating inter-company) were at 3.03mt (including 0.1mt of clinker).
- The company has changed the reporting method for clinker to cement conversion for its subsidiary company (UCWL). Earlier clinker purchased from UCWL and cement sold to the company after conversion was included into total

sales volumes. However, to eliminate duplication in volumes, the company reframed the reporting of such transaction and from 1QFY23 the company has taken conversion charges on clinker supplied by UCWL for conversion and it will not be included in total sales volumes. However transaction related to cement sale will be shown at full value and will also be included in respective company's total sale volume.

- Non-cement revenue was INR1.2b v/s INR0.8b/INR1b in 1QFY22/4QFY22. RMC revenue was at INR550m v/s INR330m/INR480m in 1QFY22/4QFY22.
- Standalone employee cost stood at INR922m and this is likely to be a normal run-rate on quarterly basis. Further, higher other expense was due to increase in packing cost (sharp increase in crude prices) and inflationary impact.
- Average fuel cost/t in 1QFY23 stood at INR11,700 v/s INR9,000 in 4QFY22. Management expects further increase of 20% in fuel cost in 2Q. Fuel cost is expected to be peaked out in 2QFY23. In 1Q fuel mix was 46% coal (largely imported coal), 41% petcoke and 13% AFR v/s 56% petcoke, 30% coal and 14% AFR in 4QFY22.
- Trade sales stood at 56% while blended cement sales was at 67%. Lead distance was at 393Km v/s 395km in 4QFY22.

Capacity expansion plans

- Capacity expansion (1.5mtpa clinker and 2.5mtpa grinding capacity) of UCWL is likely to be completed by Mar'24 (clinker capacity is expected to get commissioned in 3QFY24, while grinding capacity will be commissioned in 4QFY24). Estimated capex for this expansion is INR16.5b and INR3.5b has been spent so far. The balance capex will be spent equally over the next two years.
- In AR FY22, the company highlighted to achieve cement capacity of 30mtpa by FY30 (v/s its current capacity of 13.8mtpa on consolidated basis). The company has been awarded two limestone blocks in central Rajasthan and coastal Gujarat, where the land acquisition has started.
- Further the company hired a grinding unit (capacity of 1.5mtpa) in Uttar Pradesh (UP). This GU will help to increase its reach in newer geography (eastern and central UP). Management estimates 0.6mt of additional volume in FY23 from this GU, subject to clinker availability. The company has signed an agreement for 10 years and will have first right of refusal for this plant.

Debt and capex

- Standalone gross/net debt stood at INR9.2b/INR20m; consolidated gross/net debt stood at INR18b/INR6.6b.



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The Ramco Cements

Neutral

Current Price INR 730

Demand and pricing

- Delivered strong volume growth amid weak cement prices. Significant part of volume growth has come from East market. Volume share of East India in overall volume stood at ~30% as compared to ~20% in 4QFY22. Cement capacity utilization stood at 68% in 1QFY23 v/s 44%/66% in 1QFY22/4QFY22. In the South region, demand from individual housing & infra picked up while in east region infra and commercial segment led overall volume growth.
- Demand is expected to improve going forward led by 1) rural housing, 2) government's impetus on infrastructure development and 3) affordable housing

1 August 2022
The Ramco Cements

Key Findings:

- Cost under control, volume growth surprised:**
 - After a 12% volume growth in FY23, Ramco's FY23 volume growth was 12%.
 - Strong volume growth (12% YoY) and 12% decline in unit price, along with cost control, contributed to a 12% increase in EBITDA.
 - Net income was 12% higher than FY22, mainly due to higher EBITDA.
 - Net income was 12% higher than FY22, mainly due to higher EBITDA.
- Volume growth was 12% YoY:**
 - Volume growth was 12% YoY, mainly due to higher demand.
 - Volume growth was 12% YoY, mainly due to higher demand.
- Cost under control:**
 - Cost under control, volume growth surprised.
 - Cost under control, volume growth surprised.

Financial Analysis:

Particulars	FY23	FY22	YoY Change
Revenue	1,234.56	1,123.45	9.8%
EBITDA	234.56	212.34	10.5%
EBIT	123.45	112.34	9.8%
Net Income	67.89	61.23	10.9%

schemes. Management continues to believe in achieving volume growth of ~15% YoY in FY23E.

- Cement price remained volatile in the South region and increased competition is restricting price increases. Management did not comment on current pricing trend however believes prices to improve going forward given the cost push for the industry.

Operational highlights

- Premium products contributed 24% in 1QFY23 v/s 19%/22% in 1QFY22/4QFY22. It targets to increase premium product share upto 30% of volumes in FY23E. Trade sale stood at ~70% in 1QFY23.
- Lead distance was at 301kms (-13% YoY) v/s 326km in 4QFY22. Rail: Road mix was at 13:87% in 1QFY23 v/s 12:82% in 1QFY22 and 15%:85% in 4QFY22.
- Coal cost has declined as the company was able to get coal at much cheaper rates. Blended fuel consumption cost was US\$178/t in 1QFY23. CIF coal price peaked at US\$242/t in May'22 and the company received recently got offers at US\$185/t too. However, it is carrying coal inventory of 4 months (including in-transit material) and hence, could not buy coal at this rate. There could be 5-6% increase in energy costs in Jul-Aug'22, but it should start declining from Sep'22. It used 54% petcoke (v/s 33% in 1QFY22 and 52% in 4QFY22), 30% coal (v/s 43% in 1QFY22 and 33% in 4QFY22) and 16% alternate fuel (v/s 24% in 1QFY22 and 15% in 4QFY22).
- Green energy contributed 19% of power requirements in 1QFY23 v/s 14%/16% in 1QFY22/4QFY22. Commissioning of WHRS at Jayanthipuram has helped to manage power cost better. Cost of power generation from thermal plant was INR7/unit v/s INR3.5/unit earlier.
- Wind Power performance: Power generation from wind plant was up 10% YoY while EBITDA was down 2% YoY at INR135.3m. At present, power from wind-farms is partly sold to grind; however; the company is planning to use the entire wind power for captive consumption. Cost of power generation through these plants is less than Re1/unit.

Capex and project update

- Capex in 1QFY23 was INR4.82b. In FY23 total INR8.5b including maintenance capex of INR1.3b will be spent. Capex in FY24E/25E will be at INR5-6b each. Trial production of clinker in Kurnool plant has started and the cement grinding unit will be commissioned in Aug-22. Modernization of RR Nagar plant will be completed by Mar-23.
- Land acquisition for a grinding unit in Karnataka is going on. Location for Maharashtra plant is almost in finalization stage. The company has one grinding unit of 0.23mt at Mathodu which has been started for which clinker will be transfer from Kurnool plant.
- The company has almost completed two dry-mix mortar plants (capacity: 80tons/hour for each plant); however; other two plants have been deferred two plants to conserve cash and will be completed in FY24. Capex on each plant will be INR400m with a Revenue potential of INR0.8-1.0b. EBITDA margin will be between 25-30%.
- Limestone mines in Karnataka: During FY22, the company got a Letter of Intent from the Government of Karnataka for the grant of mining lease for Bommanalli Limestone Block in Kalburgi District. Premium paid for this mine was 25%. The company may plan to set up a 7,000 or 10,000 tpd kiln at this location.
- Net debt increased to INR41.5b v/s INR37.5b at Mar-22. The target is to reduce debt by INR5-6b every year. The management expects debt reduction to happen

in FY23 as there will be reduction in working capital loans and the expectation is of subsidy receipt of INR1b.



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Ultratech Cement

Buy

Current Price INR 6,469

Demand and pricing outlook

- Cement demand remains good, and consumption gradually saw an improvement every month in 1Q. Demand for urban housing has picked up, with unsold inventory at 17 months – the lowest since CY11. The number of project launches has also improved. Infra demand remains consistent (road, metro, ports, and airports).
- Realization growth was driven by price hikes across the region (except South India, where price remained flat QoQ). Cement prices grew over 10% QoQ in the North and Central India and by 5-6% in eastern and western regions. However, the exit cement price in Jun'22 was 3-5% lower v/s its 1QFY23 average and there have been a further price decline in Jul'22. Realization growth in 1QFY23 was supported by narrowing of the price gap between the trade v/s non-trade (INR15-20/bag from over INR20/bag earlier).

Operational highlights

- White Cement volumes/revenue grew 33%/38% YoY to 0.37mt/INR5b in 1QFY23. RMC revenue increased by 77% YoY and 6% QoQ to INR9b. The company had 171 operational RMC plants at the end of 1QFY23.
- Trade sales accounted for 67% of total volumes in 1QFY23 v/s 66% in 4QFY22. The share of Blended Cement stood at 70%.
- Input costs have been consistently increasing. However, procurement efficiency, better planning, and mix partly offset the higher costs impact. China's domestic coal production is increasing, which will increase coal availability there. The removal of import tariffs on coal from 3-6% earlier may result in higher imports into China.
- Petcoke prices have started to soften (fell 10% in the last one month). The company has ~50 days of fuel inventory. The management expects input costs to remain elevated over the next few quarters. In 1QFY23, its fuel mix stood at 52% petcoke, 37% imported coal, 5% domestic coal, and the balance was AFR. Average fuel cost stood at INR2.2/kcal in 1Q.
- Green energy (solar and WHRS) met 18.9% of its power requirements (up 1pp YoY). Its WHRS capacity rose to 185MW (additions of 18MW) in 1QFY23. The same is expected to increase to 250MW by FY23-end. Other renewable power capacity (solar and wind) stood at 286MW at the end of 1QFY23.
- Clinker-to-cement conversion ratio (C:C) stood at 1.4x, which is likely to increase with higher Blended Cement sales.
- The company has ~3,000 UBS outlets, which contributes ~15% to total cement volumes.
- The currency depreciation in its In Sri Lankan operations stood at INR380m, which was accounted for. This impacted the performance of its subsidiary companies.

Expansion plans

- The Super Dalla project is stuck due to NGT-related issues and the last leg of forest clearance is awaited. The company held back payment of INR6.5b, which will be released after all clearances and land acquisition is completed.

- It commissioned its Hirmi (Chhattisgarh) clinker capacity in 1Q, while Pali, Rajasthan, and Dhar clinker capacities are expected to be commissioned in 3QFY23. Grinding capacities of 9.6mtpa/5.8mtpa are expected in 3Q/4QFY23.
- The recently announced capacity expansion plan of 22.6mtpa has been a part of its earlier growth plan of 50mt. The announcement of the same got delayed by a month. UTCCEM has already placed an order for main equipment and advance payments have been released. The target is to generate 15% of IRR from this expansion, which implies an EBITDA/t of INR1,500-1,600. The expansion will be funded through internal accruals.



- Raw material prices continued to remain high in 1QFY23, due to global supply chain issues. The higher freight cost was due to container unavailability. EBITDA margin for companies in our coverage universe declined in 1QFY23, as operating costs remained elevated (fuel costs at a record high). However, managements are of the view that supply chain issues have eased, input costs have started normalizing, and future quarters should see a better margin performance. Demand remained strong for almost all the Specialty Chemicals companies (and would continue to do so) with GALSURF seeing some demand cutback in AMET and RoW although the management said that domestic demand remained steady. Managements remain confident on domestic sector growth and have capex planned for the next 2-3 years in line with the same.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY23	Quarterly snapshot
CLEAN	<ul style="list-style-type: none"> ■ The management expects the production of HALS to start from Dec'22. Construction at its subsidiary (Clean Fino-Chem) should begin in the next couple of months, and production will begin from CY23-end. ■ PBQ is seeing strong demand as CLEAN is catering to Indian customers. Capex is pegged at INR2.5b and will be spread over the next two years. 	<ul style="list-style-type: none"> ■ CLEAN reported an in line EBITDA, while gross margin declining to 61% (est. 63.5%). EBITDAM continued to decline for the fifth consecutive quarter (at 39%). The Performance and Pharma Chemicals segment performed better, led by increased realizations across all products. ■ Margin was hurt in 1QFY23 as the operating leverage benefits were offset by the inflationary environment across key raw materials and energy costs, particularly coal.
Deepak Nitrite	<ul style="list-style-type: none"> ■ The company has committed to a capital investment of INR15b over the next two years in new upstream/downstream products (MIBK, MIBC, and polycarbonate), besides debottlenecking projects at its existing product lines, bolstered by strong end-use demand, an expanding Indian economy, and a China+1 strategy. It also plans to get into new chemistries like fluorination and photo chlorination. ■ The management aims to become the largest player in Solvents, with a play on import substitution. 	<ul style="list-style-type: none"> ■ DN reported a miss on our estimates. EBITDA came in 12% lower than our estimate at INR3.6b. EBITDA margin, at 17.3%, was also below our estimate of 20.5% – the lowest since 3QFY19. ■ The operations of the group have been reclassified under two business segments: Advanced Intermediates and Phenolics. Advanced Intermediates include Basic Intermediates, Fine and Specialty Chemicals, and the Performance Products segment.
Galaxy Surfactants	<ul style="list-style-type: none"> ■ Management said global demand continues to see a cut back, although demand from the Indian market remains stable (expected to gain momentum from 2QFY23 due to festive demand). Signs of a slowdown are also visible in Europe, which adversely affected volumes of Specialty Care Products. Supply-side constraints are improving and usher in stability to earnings, with a sustainable EBITDA/kg of INR16-18. ■ Capex guidance stood at INR1.5b each for FY23/FY24, similar to that in FY22. Expansion of products is expected to be across the board, but the focus will mainly be on Specialty Care Products 	<ul style="list-style-type: none"> ■ Against the guided EBITDA/kg of INR16-18, GALSURF reported an EBITDA/kg of INR26.8 (61% higher than our estimate, up 48% YoY). The current supply chain disruption has boosted demand, which is sold at a premium and aided the higher-than-usual margin in the past two quarters. Total volumes declined by 4% QoQ and 8% YoY to 55.3tmt (v/s 57.5tmt in 4QFY22).
Navin Fluorine	<ul style="list-style-type: none"> ■ The Board has approved a debottlenecking capex of INR800m for a new molecule in HPP, which is expected to be completed by Jul'23 (revenue potential of INR1.5b). All capex is on schedule. ■ The management's focus remains on expanding its project pipeline and further diversifying its customer base, with capacity expansion at its c-GMP-3 plant on track to be commissioned in 3QFY23. 	<ul style="list-style-type: none"> ■ NFIL reported an EBITDA/PAT that was 15%/8% lower than our estimate. Gross margin stood in line at 55%, while EBITDA margin expanded 200bp QoQ to 26%. ■ Growth in 1QFY23 was led by strong growth in the High Performance Products (HPP)/Specialty Chemicals businesses (up 33%/32% YoY), driven by higher volumes, greater pricing power, and strong partnerships, which resulted in repeat orders from customers.
NOCIL	<ul style="list-style-type: none"> ■ The management guided for debottlenecking of its existing units in the near term, even as it evaluates its plans for the next three-to-five years. ■ Management believes that some near-term demand slowdown may occur and has guided that the optimal utilization for its expanded capacity could be delayed by three to six months (earlier guidance of full utilization by Sep'23). 	<ul style="list-style-type: none"> ■ NOCIL delivered a beat on our EBITDA estimate (at INR66/kg, -18% QoQ), with realization being flat QoQ (at INR333/kg, +27% YoY) in 1QFY23. Raw material costs were higher; however, volumes grew 16% YoY and 11% QoQ to 15.3kmt, which were boosted by easing of supply chains and an uptick in demand from OEMs as well as replacement demand

Vinati Organics

- VO has guided for sales growth of 25-30% YoY in FY23E and FY24E, led by commissioning of an antioxidant plant, and foray into niche chemicals through Veeral Organics (MEHQ, Guaiacol and Iso Amylene).
- The demand outlook for the ATBS segment remains positive going forward after a temporary blip in FY22.
- VO reported 6% lower-than-estimated revenue in 1QFY23. However, gross margin was in line with our estimate at 45.5% (-50bp QoQ). EBITDA missed our estimate, with EBITDAM at 25.8% (-270bp QoQ). The company was, however, able to maintain its EBITDA/kg margin during the quarter.
- ATBS demand has crossed pre-COVID levels and the management has already announced capacity expansion to 60ktpa from 40ktpa (expected to be commissioned in 2HFY24), while Ibuprofen demand has also picked up.



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Clean Science Technology

Neutral

Current Price INR 1,704

- The management expects the production of HALS to start from Dec'22.
- Construction at its subsidiary (Clean Fino-Chem) should begin in the next couple of months, and production will begin from CY23-end.
- CLEAN is in the process of raising its R&D personnel strength to 70 from 50 at present.
- Contract sales account for 25-30% of total revenue.
- Running contracts will benefit the company if phenol prices fall.
- Mix of volumes and higher realizations resulted in revenue growth in 1QFY23.
- CLEAN's global market share in MEHQ currently stands at 60-65%.
- Capacity utilization in the Performance Chemicals segment currently stands at 65%. The same for the Pharma and FMCG Chemicals segments stands ~70%.
- Margin was impacted as operating leverage benefits were negated by inflationary pressures across key raw materials and energy costs, particularly coal.
- Capacity for MEHQ and Guaiacol grew 50% in Apr'22 and the plants are now fully operational.
- The target is to pare down greenhouse gas emissions by 5%.
- PBQ is seeing strong demand as CLEAN is catering to Indian customers.
- The management won't be increasing product prices at present.
- A global slowdown and inflation in natural gas prices is a key risk for the company.
- Capex is pegged at INR2.5b and will be spread over the next two years.
- Phenol constitutes 40-50% of overall raw material cost. The management expects prices to fall in 2HFY22, given the current trend in crude oil prices.



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Navin Fluorine

Neutral

Current Price INR 4,231

Operational highlights

- NFIL's strong performance in Ref Gas and Inorganic Fluorides was driven by higher volumes and prices. Growth in Ref Gas was led by volumes, and that in Inorganic Fluorides was driven by higher prices.
- Volumes have grown in all the three areas for Ref Gas, which has resulted in an expansion in margin.
- Ref Gas and Inorganic Fluoride plants are running at full capacity, with headroom in Ref Gas for capacity expansion. Within Inorganic Fluorides, it has headroom to grow capacity in small molecules, but no scope for capacity growth in large molecules.

Navin Fluorine

Financial Performance (INR Lakhs)

Particulars	2022-23	2021-22
Revenue	1,00,00,00,000	80,00,00,000
Operating Profit	15,00,00,000	10,00,00,000
Profit Before Tax	12,00,00,000	8,00,00,000
Profit After Tax	9,00,00,000	6,00,00,000

Operational Highlights:

- Revenue growth of 25% in FY23 over FY22.
- Operating Profit growth of 50% in FY23 over FY22.
- Profit Before Tax growth of 50% in FY23 over FY22.
- Profit After Tax growth of 50% in FY23 over FY22.

Segmental highlights

- The performance of the Specialty Chemicals segment remains high, through partnerships and due to strong products in the pipeline. The plant is running at close to optimum capacity utilization.
- HPP: The management is trying to identify new business opportunities in its inorganic and industrial gases portfolio. It has completed work on one molecule, with work on the second molecule ongoing. It has two main plants: the first plant manufactures intermediates, which feeds the second plant. It has stabilized production at the second plant within four weeks, even though its technology partner said it would take three-to-six months.
- The key raw material for the HPP plant is HF, which comes from Surat. The management is evaluating the setting up of a large HF facility. The other RMs are being sourced via long-term contracts with suppliers.
- CDMO: An important plant audit was completed for a US-based company. It has already received its first order. The management expects soft growth in 1H, but strong growth in 2HFY23, given its strong product pipeline. It has headroom to raise capacity as the plant is expected to run at optimum capacity in Aug'22.

Capex updates for the remainder of FY23 and for FY24

- All capex is on schedule. The commissioning of MPP will be undertaken in stages from 2QFY23. A large upgradation of its R&D facility and pilot plant in Surat is also being undertaken.
- A debottlenecking of INR800m has been approved for a new molecule in HPP. The manufacture of this product, with a revenue potential of INR1.5b, will start from Jul'23.

Other highlights

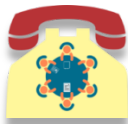
- The company has a new organizational structure with three business units: HPP, CDMO, and Specialty Chemicals. The management has appointed Mr. Partha Roy Chowdhury as CEO of the HPP business. He was earlier with NFIL from CY99 to CY16 and was CFO of LXCHEM from CY17 to CY22.
- It is upgrading its Fluorination capabilities. The management expects a gap in capabilities to exist between competition and NFIL. Issues on the engineering side remains.
- The management said it has no immediate plans to get into APIs. It, however, plans to foray into the manufacture of advanced intermediates.
- The management said that Specialty will be a service business, CDMO will be service and product business, and HPP will be a product-based business.

NFIL's priorities in the near term

- Talent management in the organization.
- Ensure smooth operation of the three plants being commissioned in coming months.
- As it is manufacturing many molecules for the first time, it is looking to lock-in raw materials via contracts. These new molecules will be commissioned later in FY23.



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NOCIL

Buy

Current Price INR 255

- NOCIL reported record revenues due to easing of supply chains in 1QFY23. There was sequential growth of 11% and 16% YoY in volumes that was seen largely due to an uptick in demand from tyre companies (both OEMs and replacement demand).
- Even as selling prices remained flat for the quarter
- The current capacity utilization stood at 75%
- Most raw material prices were flattish during the quarter
- Raw material price volatility is prevalent in the world market and it would be difficult to predict these prices right now by the management
- There was also increase in utility costs because of the increase in gas prices owing to the Russia-Ukraine crisis.
- The coming months may see demand slowing down which would be seen across all geographies
- However, the management believes the 1H FY23 volumes to be higher by 10%
- Keeping in mind the short term recessionary trends, the target to achieve full capacity utilization may be extended by three-to-six months (earlier target of full utilization by Sep'23)
- The debottlenecking activities are already under way and it may take up to 12 months to be completed
- The long term vision continues to be a major player in the Rubber Chemicals industry and the management is working towards it.
- The land utilization level at Dahej is 50-60% and at Navi Mumbai is 100%
- The growth in the domestic market was much higher in 1QFY23 due to high volumes.
- Domestic: Exports mix stood at 68:32 during the quarter.



CONSUMER

- Overall performance in 1QFY23 was driven by price hikes, due to sustained high commodity inflation, and a return to normalcy in terms of mobility. Growth was largely led by Discretionaries, which delivered a strong double-digit performance, while most of the Staples companies saw single-digit growth, due to weak volume growth and a base that was relatively less favorable. Rural growth continued to remain weak but several company management teams believe green shoots are emerging for rural demand and a combination of good monsoons and higher government subsidies should provide the necessary fillip needed. Urban centers continued to show strong demand especially even in the case of categories which are more discretionary in nature. While commodity costs have shown signs of stabilization towards the end of 1QFY23, the environment remains volatile. The management guidance for most companies suggests that gross margin pressures are likely to continue in 2QFY23, but should stabilize, if not improve meaningfully, in 2HFY23E.

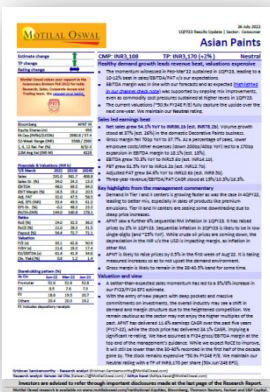
KEY HIGHLIGHTS FROM CONFERENCE CALL

	Salient takeaways from the 1QFY23 performance	Outlook
Asian Paints	<ul style="list-style-type: none"> Demand in Tier I and II centers is growing faster as was the case in 4QFY22, leading to better mix, especially in sales of products like premium emulsions. Tier III and IV centers are seeing some downtrading due to steep price increases. 	<ul style="list-style-type: none"> Sequential inflation in 2QFY23 is likely to be in low single-digits (and ~25% YoY). APNT is likely to raise prices by 0.5% in the first week of Aug'22. It is taking measured increases so as to not upset the demand environment. Gross margin is likely to remain in the 38-40.5% band for some time.
Britannia	<ul style="list-style-type: none"> Volume decline was in low single-digit but the number of packets sold remained flat. Sequential inflation in wheat was steep (20% QoQ) and it was the largest contributor to BRIT's RM basket inflation. Premium categories are growing faster than mass market categories. 	<ul style="list-style-type: none"> Some price hikes were taken in 1QFY23 and further hikes will be taken during 2Q (6-7% price hikes cumulatively in 1HFY23). Inflation in wheat has moderated recently and the RM situation is likely to ease going forward too.
Dabur	<ul style="list-style-type: none"> COVID-aided categories were hurt during the quarter while the non-COVID portfolio registered rapid growth. DABUR has gained market share in 98% of its portfolio. Management stated that both rural and urban have grown at the same pace. However, they also highlighted that near-term demand outlook on rural is weak. 	<ul style="list-style-type: none"> The Food category is likely to achieve sales of INR2b in FY23 and INR5b over the next three-to-four years. DABUR raised prices by 5% and reduced grammage by 1.5% in response to the ~9% raw material cost inflation. While margin in 2Q is likely to remain subdued, 3Q and 4QFY23 will see an improvement in gross margin, led by ebbing high inflation in FY22 and further price increases.
Godrej Cons.	<ul style="list-style-type: none"> Performance in 1QFY23 was good due to a lower base. GCPL did well to limit margin impact given intense commodity cost pressures. 	<ul style="list-style-type: none"> For FY23, the management continues to guide for double-digit topline growth with low-to-mid single-digit volume growth. Management expects margin improvement in 2HFY23 led by decline in commodity costs and cost saving measures.
Hindustan Unilever	<ul style="list-style-type: none"> Inflation was at a decadal high during the quarter. While prices of some commodities have reduced, overall inflation is still high. Rupee depreciation is also affecting gross margin adversely. HUVR gained market share in more than 75% of its business. 	<ul style="list-style-type: none"> Cost inflation in 2QFY23 is likely to be more than 1QFY23 due to higher cost inventory pipeline and with prices of most RMs still being at elevated levels. If commodity costs decelerate significantly, the extent of price drop will be sharper than the pace of price increases in an inflationary environment. Deflation could also lead to increased competitive intensity in the form of higher ad-spends, price declines, etc.
Marico	<ul style="list-style-type: none"> Volume decline in 1QFY23 was below the management's expectations. Saffola volumes declined ~20% due to the high base of in home consumption. Around 50% of the RM basket is witnessing a deflation. Hence, MRCO is less impacted by inflation v/s its peers. 	<ul style="list-style-type: none"> The management will be able to maintain its FY23 margin guidance, even with increased A&P spends. The third and fourth quarters have a soft volume base and should see good traction. The management expects to deliver double-digit value growth in 9MFY23.
Pidilite	<ul style="list-style-type: none"> Prices of VAM continue to increase. Consumption cost in 1QFY23 stood at USD2,230/MT v/s USD1,680/MT in 1QFY22. An effective price hike of 14-18% has been taken in the past few quarters, with Fevicol seeing an increase at the higher end of that range. 	<ul style="list-style-type: none"> A large part of the inputs purchased in 1Q will see the impact on profitability in 2QFY23. Hence, the cost of consumption can be USD2,300- 2,500/MT in 2QFY23. Good monsoon and economic recovery could lead to healthy growth in the second half. The recent innovations will start contributing in 1.5-2 years.

UBBL	<ul style="list-style-type: none"> In addition to input costs, margin in 1QFY23 was hurt by a weak state mix. Raw material (including packaging) inflation remains very high. Barley prices are up ~70%, while the cost of new glass bottles remains elevated. 	<ul style="list-style-type: none"> The management is targeting 6-8% volume growth on a steady-state basis in coming years. Higher input costs will impact 2Q, even more than 1Q, but the full extent of price hikes granted in 1QFY23 will offset some of that impact.
UNSP	<ul style="list-style-type: none"> Adjusted for one-offs, the three-year P&A CAGR is likely to be around 5% in 1QFY23. Uttar Pradesh, Haryana, Madhya Pradesh, Rajasthan and Punjab governments have approved price increases with the former two received in 1QFY23. 	<ul style="list-style-type: none"> Double-digit cost inflation is expected to sustain for the next few months. All input costs are seeing high inflation with no signs of respite. Hence, margins are likely to be under pressure in 2Q and 3QFY23 as well.



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Asian Paints

Neutral

Current Price INR 3,349

High volume growth trend continues

- Volume growth in 1QFY23 was 37% off a low base.
- APNT clocked healthy volumes and value CAGR of ~20% in the first quarter after a period of four years.
- Demand sentiment is stable, and the management expects to see double-digit growth going forward as well.
- There is no excessive stocking at the retail level.
- Larger centers driving growth and mix improvement
- Demand in Tier I and II centers is growing faster as was the case in 4QFY22, leading to better mix, especially in sales of products like premium emulsions.
- Tier III and IV centers are seeing some down-trading due to steep price increases.

Cost and margin

- APNT saw a further 6% sequential RM inflation in 1QFY23. It has raised prices by 2% in 1QFY23. Sequential inflation in 2QFY23 is likely to be in low single-digits (and ~25% YoY). While crude oil prices are coming down, the depreciation in the INR v/s the USD is impacting margin, as inflation in other RM.
- Better mix and costs savings have enabled stable sequential margins in 1QFY23.
- APNT is likely to raise prices by 0.5% in the first week of Aug'22. It is taking measured increases so as to not upset the demand environment.
- Gross margin is likely to remain in the 38-40.5% band for some time.
- RM inflation is expected to ease gradually in 2HFY23.

Launches, expansions, and extensions

- APNT has several launches at the top end (premium and luxury) on an overall portfolio basis.
- It added 5,000 retailing points in 1QFY23 and is incrementally planning to add 5,000-8,000 outlets annually.
- Currently, it has 31 Beautiful Home Stores operational.
- Beautiful Home: The personalized interior design service is now being offered in nine cities.

Other businesses

- Waterproofing and construction chemicals are doing well.
- White Teak, which it recently acquired, reported sales of INR200m in 1QFY23 v/s INR570m in FY22.
- Its international operation reported double-digit sales growth. Strong growth was seen in Nepal and Bangladesh. Sri Lanka and Egypt are facing severe currency issues.

- Demand in the Industrials and Automotive business remains strong. Powder coating, which caters to demand from products like fans and helmets, too has done very well.

Other points

- Capex for FY23 stands at INR8b.
- Tax rate for FY23 should be ~27%.



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Britannia Industries

4 August 2022

Research Report

Current Price: INR 3,676

Target Price: INR 4,000

Rating: Buy

Key Highlights:

- Demand in the Industrials and Automotive business remains strong. Powder coating, which caters to demand from products like fans and helmets, too has done very well.
- Capex for FY23 stands at INR8b.
- Tax rate for FY23 should be ~27%.

Other points:

- The economic environment was challenging during 1QFY23.
- BRIT has managed to gain market share for 36 quarters continuously.
- Rural has been doing well for BRIT on the back of distribution expansion.
- Volume decline has been low single-digit but the number of packets sold has remained flat.
- Premium categories are growing faster than mass market categories.
- The mix of small packs to large packs has not changed meaningfully.
- Milk Bikkis crossed the INR10b mark in FY22 and is poised to cross the INR10b mark in FY23 again.

Input costs, pricing and margins:

- Consumer food price inflation at in 1QFY23 was 8%.
- The bakery business faced the brunt of inflation during the quarter. Wheat has seen 80% YoY inflation while palm oil is 90% inflation in 1QFY23. Fuel and packaging are also witnessing inflation.
- Sequential inflation in wheat has been steeper (20% QoQ) than palm oil and is the largest part contributing to BRIT's RM basket inflation. It has moderated recently however, and the situation is expected to ease going forward.
- Overall inflation was INR1.8b sequentially in the bakery business.
- BRIT continues to take price hikes and continued its cost optimization programs. Total price hikes have been a cumulative 20% over the last 12 months. Some price hikes were taken in 1Q and further price hikes will be taken during 2Q (6-7% price hikes cumulatively).
- Price hikes will cover a majority of inflation by 2QFY23. BRIT was able to take price hikes before the market owing to its leadership position.

Distribution expansion and channel salience:

- Rural has been doing well for BRIT on the back of distribution expansion. It now has 27k rural preferred dealers.
- GT is the most profitable channel for BRIT and driving GT expansion is crucial for profitability.
- Market share growth in rural has been 1.5x of all India gain.
- Organized trade has continued to move upwards by 400bp since 1QFY20.
- E-com salience is now 2.5% of total revenues.
- BRIT's share in E-com and MT is higher than the GT channel.

New launches and adjacencies:

- Croissant has been launched nationally in three flavors and the initial consumer reaction has been good. Doubled in the markets YoY of Kolkata and Chennai where it was already present.
- Launched cheese wafers in the South.

Britannia Inds

Neutral

Current Price INR 3,676

Operating environment

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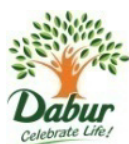
- BRIT was not present in the INR5 segment for cakes but has now launched an INR5 cupcake in the East and Central region which is doing well.
- Marble cake launch (limited launch for now but will be scaled up for the entire country).
- Double digit volume and value growth in cakes.
- Winkin Cow (milkshakes) has grown at 140% YoY on the back of good summer sales.
- The current annual run-rate is over INR1b in Croissants and wafers.
- BRIT is the market leaders in Croissants on an all India basis (INR1b category size).

Cost efficiencies

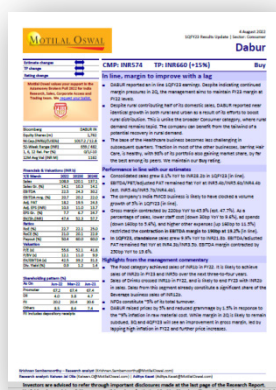
- Reduced distance to market by 4% in 1QFY23 by creating flexible manufacturing capabilities in most of BRIT's plants.
- Truck utilization has improved by 3%.
- Reduced market returns by 15% due to process changes brought at an organizational level.
- RE accounts for 40% of the power consumption of the company and it comes at a 30% lower cost than traditional power sources. Reduction in power costs has been 6%.

Other points

- Group ICDs were INR6.9b as of 30th Jun'22. They were INR7.4b as on 31st Mar'22.
- 40% of BRIT's production happens via contract manufacturing.
- Capex: The new plants at UP and TN are expected to cost INR3b each while the plant in Bihar will cost slightly lower. The cost of expansion at BRIT's Odisha facility will be relatively small. The commitment for the Ranjangaon plant was INR15b and the incurred cost so far has been INR12-13b so far.



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Dabur

Buy

Current Price INR 585

Performance and outlook

- India business volumes grew 5% YoY.
- The COVID aided categories were affected during the quarter while the non-COVID portfolio registered rapid growth.
- DABUR has gained market share in 98% of its portfolio.
- Management stated that both rural and urban have grown at the same pace. It is a result of their efforts on growing village reach. However, they also highlighted that near term demand outlook on rural is weak.

Costs and margins

- The higher material costs and rupee depreciation remain near term worries.
- 50% of RM/packaging materials are petroleum based. Honey, herbs and spices which are also major RM are witnessing Inflation.
- DABUR raised prices by 5% and reduced grammage by 1.5% in response to the ~9% inflation in raw material cost. While margin in 2Q is likely to remain subdued, 3Q and 4QFY23 will see an improvement in gross margin, led by lapping high inflation in FY22 and further price increases.
- Home Care, Skin Care, Toothpaste and Healthcare segments have taken adequate price increases. They haven't taken the adequate price hike in the hair care and shampoos portfolio.

- The management stated that it will witness margin pressure in 2QFY23 also.
- 3Q and 4QFY23 would see gross margins improve led by lapping high inflation of previous year and further price increases.
- Management highlighted that they have budgeted to maintain EBITDA margins for FY23 at FY22 levels even if inflation abates in 2HFY23.

Additional segmental highlights

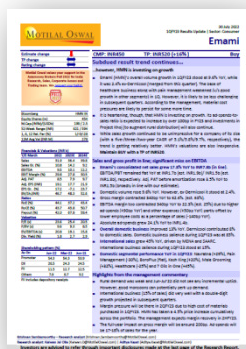
- The Food category achieved sales of INR1b in FY22. It is likely to achieve sales of INR2b in FY23 and INR5b over the next three-to-four years.
- Sales of Drinks crossed INR1b in FY22, and is likely to end FY23 with INR2b in sales. Sales from this segment already constitute a significant share of the Beverage business sales of INR12b.
- Hajmola extensions have done well and contributed 10% to this franchise.
- NPDs constitute ~5% of its total turnover.
- E- Commerce focused brands- Apple Cider Vinegar and Baby Care range are doing very well.
- Neeli Bringha: They have done test launch in South India is at INR400 per 100 ml plugging the gap between Indulekha, Dabur Amla and Dabur Vatika.
- 10% of shampoo market is Natural and management expects it to grow much faster than the broader shampoo market. Dabur's share of bottles (higher margin category) was 10% which has now grown to 16-18% and the rest of the sales are coming from sachets. E-commerce and Modern Trade.
- All power brands continue to do well.

Other points

- E-Commerce accounts to 9% of revenues.
- Village coverage will be around 100,000 by end of FY23.
- Currently they have 1.35m direct reach points and management is targeting 1.4m by end of FY23.



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Emami

Buy

Current Price INR 490

Performance and outlook

- The current environment continues to remain challenging thereby affecting demand and margins.
- Rural demand was weak and Jun-Jul'22 did not see any incremental uptick. However, good monsoons can potentially perk up demand.
- Pain management and healthcare both declined by 25-30%
- International business (15% of sales) did very well with a double-digit growth projected in subsequent quarters.
- New acquisition i.e. Dermi cool was 8% of sales for the quarter. Summer is the crucial quarter for Dermi cool. 1Q and 4Q are ~90% of sales with negligible sales in 2Q and 10% of annual sales in 4Q.

Costs and margins

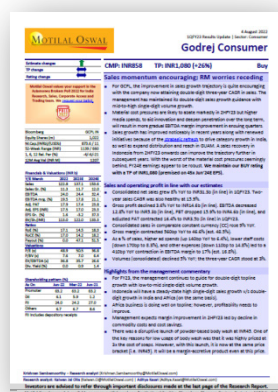
- Margin pressure will be there in 2QFY23 due to high cost of materials purchased in 1QFY23. HMN has taken a 4.5% price increase cumulatively across the portfolio. The management expects margin recovery in 2HFY23.
- The full-year impact on gross margin will be around 200bp. Ad-spends will be 17-18% of sales for the year.

Other points

- Amortization charge will be INR220m for the next three quarters.



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Hindustan Unilever Limited

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- Tax rate in FY23 is likely to be ~18%.

Godrej Consumer

Buy

Current Price INR 887

Performance and outlook

- Performance in 1QFY23 was good on account of a lower base.
- GCPL did well to limit margin impact given intense commodity cost pressures.
- Three year Home Insecticides (HI) CAGR is around 10%.
- Indonesia business, excluding Saniter, grew 4%.
- For FY23, management continues to expect double digit topline growth with low to mid- single digit volume growth.

Costs and margins

- Management expects margin improvement in 2HFY23 led by decline in commodity costs and cost savings.
- Impact on margin would have been lower had the ad-spend not increased by 150bp YoY. However, ad-spend increase in the coming quarters will not be at the cost of overall margins.

Key initiatives for growth

- HI - Aerosol and electric categories have lower penetration. GCPL is increasing media spend and distribution. Liquid vaporizers are now being positioned from efficacy and performance to better sleep. Cockroach infestation will be the next big driver of growth in HI after growing aerosol and electric category penetration in mosquitos.
- Disruptive launch of powder based body wash at INR45. One of the key reasons for low usage of body-wash category was that it was 3x the cost of soaps. However, with this launch, it is now at the same price i.e. INR45. It will be margin accretive product even at INR45.
- SKU reductions in India continue in recent months.

New recruitments

- Indonesia has seen both incrementally better off take on core business and on the macro front. Overall growth is expected to emerge in Indonesia from 3QFY23 onwards. A new CEO has just taken over Indonesia operations.
- Indonesia will have a steady state high single digit sales growth compared to double digits on the same basis in India and Africa.
- Africa business is doing well on topline however bottom line needs to improve. Simplifying the portfolio will play a big part on improving margins, even if this means getting rid of some unprofitable business in some regions. It is targeting 15-16% margins by FY25. Increase in proportion of Wet Hair and Household Insecticides will play a role in driving sales and margins.
- Even if there is realignment of the portfolio in Africa, there won't be any one off impact (similar to Indonesia when they decided to defocus on Saniter).

Hindustan Unilever

Buy

Current Price INR 2,625

Performance, operating environment and outlook

- Decent underlying volume growth of 6% YoY in 1QFY23 (1QFY21 and 1QFY22 both witnessed the adverse impacts of Covid wave 1 and wave 2, respectively).
- HUVR gained market share in more than 75% of its business.

- ## Costs and margins

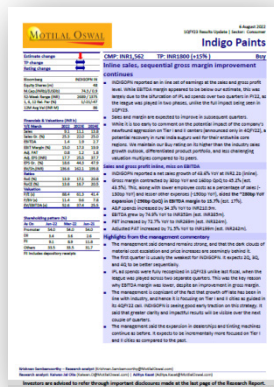
- ## Segmental highlights

- ### Other points

-
- 41



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Indigo Paints

Current Price INR 1,564

Buy

Performance and outlook

- The management said demand remains strong, and that the dark clouds of material cost escalation and price increases are seemingly behind it.
- The emulsions category volumes are up 34% and price growth was ~65%. This is the second successive quarter of strong growth which is thereby leading to a better mix.
- Primer growth was the only category where there was disappointment.
- The management is cognizant of the fact that growth off late has been in line with industry, and hence it is focusing on Tier I and II cities as guided in its 4QFY22 call. INDIGOPN is seeing good early traction on this strategy. It said that greater clarity and impactful results will be visible over the next couple of quarters.
- The first quarter is usually the weakest for INDIGOPN. It expects 2Q, 3Q, and 4Q to be better sequentially.
- As INDIGOPN is only present in decorative paints and larger players have automotive/industrials as other categories, the growth of the larger players in 1Q and 2Q may appear optically higher compared to INDIGOPN.

Cost and margin

- INDIGOPN has taken price increases in line with the industry. If raw material prices remain at the current levels then the company is unlikely to take further price increases. Only if material costs fall sharply will there be a price reduction. Typically modest deflation doesn't result in price reduction by paint companies.
- IPL ad spends were fully recognized in 1QFY23 unlike last fiscal, when the league was played across two separate quarters. This was the key reason why EBITDA margin was lower, despite an improvement in gross margin.

Key mix

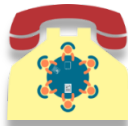
- Management highlighted that the expansion of dealers and tinting machines continues as before and except it to be incrementally more focused on Tier1 and Tier 2 cities compared to the past.

Other points

- INDIGOPN has signed actor Mohanlal as the brand for the Kerala market as it is their largest market and the mix is different compared to other parts of India. However, they intend to continue with cricketer MS Dhoni for other markets.
- The management said the expansion in dealerships and tinting machines continue as before. It expects to be incrementally more focused on Tier I and II cities as compared to the past.
- Company doesn't have sales to real estate players as viability maybe suspect and margins are also lower.
- Management highlighted few points regarding consumption/demand in paints industry - Consumption of paints is once in every four-five years unlike other FMCG categories which may be purchased every month. Paint is also correlated with marriages as fresh painting is done. Actual cost of paint is only 40% of the total cost and labour costs have not increased drastically. 20% increase in paint costs have resulted in only around 8% increase in the total painting costs. Lastly people have spent more time at home and hence noticed the need for painting.



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Jyothy Laboratories
Q3 FY22 Concall Transcript

Key Highlights:

- Revenue: ₹1,000.00 Crores (YoY +10.0%)
- Profit: ₹100.00 Crores (YoY +10.0%)
- Operating Profit: ₹100.00 Crores (YoY +10.0%)
- Net Profit: ₹100.00 Crores (YoY +10.0%)
- EPS: ₹100.00 (YoY +10.0%)
- Dividend: ₹10.00 (YoY +10.0%)

Management Commentary:

- Revenue growth was driven by strong performance in the rural market and e-commerce.
- Operating profit margin improved due to cost optimization measures.
- Net profit margin remained stable.
- EPS growth was in line with revenue growth.
- Dividend payout ratio was maintained.

Jyothy Labs

Current Price INR 178

Neutral

Operating environment

- JYL is focusing on distribution and brand expansion.
- It is consistently increasing market share across the brands.
- It is experiencing stable consumer demand across segments as products are more essential than luxury.
- It has taken 8-9% price increases across portfolio.
- Capacity utilization was at 65% (back to pre-Covid levels).

Cost and Margin

- Key RM: Naphtha, soda ash and palm oil accounted for two-thirds of RM in entire product portfolio and have seen a steep price increase YoY.
- Management believes that margins have bottomed out as the commodity prices have started to soften.
- Other income was higher due to profit of INR88m from the sale of Bhubaneswar facility.

Channels and network

- JYL is witnessing growth in the retail and e-com category.
- Rural market – it is a more LUP-driven market. Govt. measures are helping the rural economy and hence demand should improve.
- Both Rural and Urban recorded positive volume growth during the quarter.
- MT and e-com contributed 10-12% of total portfolio.

Products and categories:

Fabric care:

- Distribution drive has led to growth of detergents.
- Mid-price detergent brands were given more focus in the current quarter.
- Sales of fabric whitener are back to pre-Covid levels.
- Management is seeing a shift from matic powder to liquid. Liquid is growing at 40% YoY.
- Volume growth for matic powder/liquid was 2-3%/5% YoY, respectively.

Dish Wash:

- Consistent drive and higher LUP is improving penetration.
- JYL is increasing/continuing media investments in dish wash brands.
- Prill is doing well on the larger pack segment and it is now focusing on lower pack.
- It has taken 1.5-2% price hikes in Prill in the Apr-Jun'22 quarter.

Household Insecticide:

- It is strong in North and East. These regions accounted for 75% of the sales.
- Due to extreme weather conditions, this segment is impacted adversely.
- Coil and Liquid's market share is back to 10%.
- It has gained market share on LVs.

Personal Care:

- It has seen frequent price increase due to increase in RM prices.
- Margin profile should improve in this business as palm oil prices has started to soften.
- Sanitizer and hand-wash were also added to personal care in the last two years, which has been declining YoY, and accounting for the slow three-year CAGR in personal care.

Other points

- There is no impact of private labels on any of JYL's categories so far.



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Marico
Q3 FY23 Results (Unaudited) | September 2023

Key Metrics:

- Revenue: ₹1,100.00 Crores
- EBITDA: ₹150.00 Crores
- EBIT: ₹120.00 Crores
- Net Profit: ₹80.00 Crores
- EPS: ₹1.20

Management Commentary:

Q3 FY23 results were in line with the volume, price, and gross profit trends, as our operations continue to be resilient and profitable. The margin decline was mainly due to the increase in the input prices of certain raw materials. The management expects the margin to improve in the next quarter as the input prices are expected to stabilize.

Outlook:

The management expects the volume to grow by 5-6% in the next quarter. The price is expected to remain stable. The gross profit is expected to improve by 1-2%.

- Tax rate for the year should be ~17-18%.

Marico

Current Price INR 515

Buy

Business environment and outlook

- The FMCG sector continues to face some headwinds led by high CPI inflation.
- Consumers are down trading as well as downgrading across categories.
- Volume decline in 1QFY23 was below the management's expectations. Saffola volumes declined by ~20% due to the high base of in home consumption.
- Excluding Saffola oil, volumes were marginally (1.4%) higher.
- Overall three year volume CAGR (after normalizing the base) was 5-6%.

Costs and margins

- 2QFY23 will not see an improvement in margin. Since MRCO has chosen to pass on value to Saffola consumers even as they have higher value inventory of finished goods and RM.
- If RM prices remain stable, there could be an improvement from 2HFY23 onwards.
- Around 50% of the RM basket is witnessing a deflation. Hence, MRCO is less impacted by inflation v/s its peers. The management said it will be able to maintain its FY23 margin guidance, even with increased A&P spends.
- The third and fourth quarter has a soft volume base and should see good traction. The management expects to deliver double-digit value growth in 9MFY23.

Segmental performance

Parachute coconut oil

- Volumes were down 2% in rigid packs. There was slower conversion from unbranded to branded given the soft copra prices (down 6% YoY).
- In Parachute, MRCO continued to gain market share (highest amongst all organized players).
- It is confident of delivering volume growth in 2QFY23.
- MRCO took a 2% of price reduction towards the end of 1QFY23 in addition to the 6% price cut taken last year. There is a 60 days lag due to channel inventories and post that the true impact of price cuts will be seen by consumers.

Saffola edible oils

- Saffola down trading was evident in the super-premium category.
- Mass segment grew in the ~30% while premium and super-premium declined in high teens.
- The management consciously choose to protect margins v/s boosting volumes in the high RM inflation environment.
- It aims to improve volumes in 2Q and deliver growth in 2HFY23.

VAHO

- Flat volumes YoY for this category.
- MRCO continues to take price hikes and pack size rationalization to counter higher RM prices.
- Market share gains in VAHO were the highest amongst all organized players.
- Overall HPC volume decline has been 1% this quarter and VAHO is in line with that.

- It is witnessing significant down trading in VAHO and increased competitive intensity in the mass market segment.
- MT and e-com would have a high salience for the super-premium VAHO segment.

Foods

- It continued to gain share in oats and soya chunks.
- Honey as a category has moderated its growth. MRCO held its market share in Honey which is currently at 7-8%. Its market share in the E-com channel is 22%, double-digits in MT and mid-high in GT. Market share loss over the last 2 quarters has would be ~1%.
- Continue to hold its INR8.5b-10b aspiration in Foods.
- MRCO's Food portfolio is skewed towards in-home, health, and immunity. Out of home sale (HORECA) sales for MRCO is nil. Therefore, this was a weaker quarter for the Foods business.

Digital first brands

- Slight overlap between TruElements and MRCO's Saffola oats portfolio. But have carved out areas where each will operate. TruElements more tilted towards the premium category.
- Last year CACs had gone up which resulted in higher cash burn across digital business.
- Digital brands currently have an annual run rate of INR2b. Confident of crossing INR2.5b in 2QFY23 and target to add INR500m every quarter until the digital business' annual run rate reaches INR5b in FY24. The growth will be led by 'Beardo'.

International business

- 6th consecutive quarter of double-digit CC growth for MRCO's international business.
- Bangladesh: Good run in core despite recent macro developments of inflation and currency depreciation. Things are expected to remain in control as the government has taken proactive steps. MRCO's position is strong in Bangladesh. The business doubled down on the core business and is focusing on 2-3 meaningful innovation. Confident of delivering double-digit growth in Bangladesh despite the situation. Taking some pricing action. There will be some currency translation losses which will have to be absorbed.
- Vietnam: Strong growth in the region led by resurgence in the HPC category. Moved into female grooming and expanded the TAM. Confident of driving double-digit top-line and bottom-line over the next few quarters.
- MENA and South Africa saw healthy momentum and strong growth in CC terms.



[Click below for Results Update](#)

Nestle India

Neutral

Current Price INR 19,455

Performance and Outlook

- In the first half of the calendar year volume growth was 7% and price increases was 6.3%.
- Sales growth in Mega cities and metro is healthy. Healthy uptick is also being witnessed in its rural sales. Growth in rural is across categories but Maggi, nutrition, milk and coffee are the key drivers.
- Currently 70,000-80,000 villages are covered and the target is to cover 120000 villages.

MOTILAL OSWAL
Nestlé India

Financial Performance

Key Metrics:

- Revenue (INR Crores): 1,10,000
- Profit (INR Crores): 15,000
- EPS (INR): 150
- P/E Ratio: 15

Commentary:

The company reported a strong performance in FY22, with revenue growth of 15% and profit growth of 20%. The company's focus on innovation and expansion in the Indian market is evident from the launch of new products and the strengthening of its distribution network. The company's financial performance is supported by its strong operational performance and its focus on cost optimization.

Cost and margins

- RM CAGR during 2018-20 was only 3%, 2021 witnessed 5% RM growth and CY22 YTD is 15%.
- Management highlighted that it won't take any indiscriminate price increase as they don't want consumers to down trade or affect volumes.
- Volume and value mix on sales growth has been equal in both 1QCY22 and 2QCY22
- NEST pointed out that while there has been some softening in edible oil and packaging costs; milk, green coffee, wheat, etc. are at all-time high levels.

Growth areas

- 1HCY22 Milk and Nutrition saw 7.2% growth, Prepared dishes 13.9% YoY, confectionary 24.4% and beverages have grown at 21.7% with the latter also aided by OOH recovery.
- 5.6% of sales come from innovations and renovations made in the last 5.5 years. Cumulatively 100 new products launched in this period.

Purina PetCare acquisition

- Reason for acquisition – This segment has scaled up now and the synergies with NEST's network would augur well. Nestle is the market leader in per care worldwide.
- Management believes it has an exciting future. Pet adoption is on the rise with 11% per annum.
- Purina is likely to have INR460m of revenue in CY22. The integration of Pet Food Business with Nestlé India Limited is proposed with effect from 1st Oct'22. The cost of this transaction is INR 1.2b. Domestic pet care category size is INR40b and it is growing at 25% YoY. 75% of the market is dry dog food. Wet dog food is growing at 35%.
- It has built distribution through pet specialty stores in 45 towns and 1000 stores.
- Purina business grew 68% in CY21 and 51% in 1HCY22. Pet cat food is also growing.
- Currently, it is dependent on imports from other Nestle markets.
- Key products are premium dry dog food and super premium wet dog food. It also has premium and super premium wet cat food.

Nutrition is not a mature business

- Gerber launch – The size of the emerging toddler market in India is INR35b. NEST has a brand in this space in India known as Ceregrow. Gerber is a 90-year old global brand. Products will be developed/customized for India by using cereals, legumes, fruits, etc.
- Both of these products will be premium. If we take Maggi (largest selling product for Nestle) as a price of INR100, pet care average price is at INR140 and Gerber is at INR700.



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Page Inds

Neutral

Current Price INR 48,994

Performance and demand environment

- PAG witnessed good growth across all product categories.
- The strategy of kids wear in the exclusive women wear stores is showing good results.
- With the increased awareness of healthy lifestyle, Tier2/3 cities are becoming an important marketplace.

- Volumes grew 26% QoQ/150% YoY. 1QFY23 volumes were ~63m v/s 25.2/50m in 1QFY22/4QFY22.
- Speedo (swimwear) – It is back on track and is performing in-line with management estimates.
- The company is witnessing good traction in all regions (metro and Tier II/III/IV cities). Premiumization is also healthy.
- Athleisure has performed better than management expectations.
- E-com - business has increased from 3% to 8-8.5% (it increased to ~10% during Covid).
- Penetration levels – Innerwear 18-20%, Athleisure 7-8%, Junior's 7-8%.

Distribution channels and supply chain

- PAG's distribution network stood at 113k+ MBOs in 2,852+ cities, 1,144 EBOs in 392+ cities, and 3,026+ large format stores with 27 partners.
- There are 47 women EBOs, 71 Junior EBOs. EBOs is ~200-300sq.ft.
- It has increased the number of people on the ground which is in line with the expansion strategy.
- Supply chain – It is back on track.

Costs and margins

- Calibrated price action helped maintain margin.
- Raw material inflation was seen in cotton yarn, logistics, and packaging. The management expects cotton prices to reduce by Oct-Nov'22.
- Gross margin after accounting for subcontracting charges in 1QFY23 was 39.4% v/s 34% in 1QFY22.
- Price hike: PAG has taken a 3.5-4.5% price hike.

Other points

- NWC – It has increased to INR7,312m.
- The kind of expansion witnessed in last one year took four years previously.
- 80% of Men is on ARS and other categories significant part is on ARS.
- It is chosen to raise the number of shifts to increase the capacity. The management said there are no regulatory issues with regard to the same. Theoretically can double the capacity but management isn't keen on it, have already achieved 1.4x.
- There is huge gap in the bras market compared globally and management is working on it and believes can be a leader in this category.
- Capex stands at IN4.5b in FY23. It is investing in digital technology for better efficiency, modernization, assortment planning, and expansion in Odisha.



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Pidilite Industries

Neutral

Current Price INR 2,681

Performance and outlook

- The growth was led by metros and Tier 1 in 1QFY23.
- The management indicated that there were some signs of moderation of growth in rural and smaller towns during the quarter.
- Good monsoon and economic recovery could lead to healthy growth in second half.
- PIDI's rural reach continues to increase. The management said that when rural incomes see a spurt, the extra income is usually spent on gold or construction – the latter is a strong play for PIDI.

- While proportion of rural sales varies from category to category for PIDI, on an overall basis rural would be around 1/3rd of total sales.
- The recent innovations will start contributing in 1.5-2 years.

Cost and margin

- Prices of VAM continue to increase. Consumption cost in 1QFY23 stood at USD2,230/MT v/s USD1,680/MT in 1QFY22.
- A large part of the inputs purchased in 1Q will see the impact on profitability in 2QFY23. Hence, the cost of consumption can be USD2,300-2,500/MT in 2QFY23.
- There are near term challenges however management is optimistic of margin recovery in the medium term.
- PIDI has taken some price increases in 1QFY23 and is hoping that this along with mix improvement will lead to improved GMs sequentially but it looks likely that the worst impact on gross margin will be witnessed in 2QFY23.
- An effective price increase of 14-18% has been taken in the past few quarters, with Fevicol seeing an increase at the higher end of that range.
- Globally, a few plants on VAM are still closed. Spot VAM costs are now below USD2000 levels.
- If material costs become benign then price reduction could happen in 2HFY23 as PIDI likes to keep its product prices at a limited band over smaller and unorganized players.

Competition

- It continues to gain share in its core White Glue segment, despite competition from ASTRA and Paint companies. APNT is the only player to have attained some volumes here, and uncharacteristically its pricing of its White Glue product is much lower than its peers.
- In waterproofing, PIDI has not lost market share in Dr. Fixit range of products which are used at the time of construction rather than renovation.

TATA CONSUMER PRODUCTS

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Tata Consumer Products

Buy

Current Price INR 794

India Packaged Beverages

- India Packaged Beverages business witnessed revenue decline of 4% YoY in 1QFY23 on account of correction in tea prices. The revenue decline was on elevated segment base with 24% revenue growth in 1QFY22. However, the segment witnessed volume growth of 1% during 1QFY23. TATACONS continued to record market share gains in the branded tea segment with market share improving by 40bp YoY.
- Tea: Volume growth was sub-par in tea segment on account of stress in certain rural geographies and extended summer season. However, long term growth story is intact as structurally 1/3rd of tea in India is still coming from unbranded players.
- Since, margins in tea business are back on track; the company will target volume growth from hereon and achieve par volume growth going forward.
- In Indian tea business, supply is greater than demand. Accordingly prices will see downturn going ahead. On YoY basis, TATACONS has improved margins in tea business by 1,000bp.
- TATACONS will focus on growing organically going ahead instead of doing small acquisitions. Its current acquisition of Lal Ghoda Kala Ghoda in Rajasthan is doing well.

- In line with its goal of simplification and consolidation of brands, Tata Tea Teaveda was restaged under the Tata Tea Premium Masterbrand architecture
- The Kanan Devan tea brand saw robust growth on account of brand building and on ground execution.

India Foods business

- The India Foods business registered 19% YoY revenue growth in 1QFY23 despite of elevated base of 20% growth in 1QFY22. Volumes declined by 3% in 1QFY23 on account of price hikes taken by the companies to protect itself against rising inflation.
- Tata Sampann portfolio grew by 6% during the quarter, led by short-term impact of trade terms/margin rationalization/realignment across channels and pullback ahead of spices relaunch.
- Tata Sampann recorded three year CAGR of 30% and is expecting similar growth levels going ahead. Month of July 2022 has witnessed good traction in the business.
- Tata Sampann is a high margin business for TATACONS. However, during the business building stage, the margins can be lower which can be increased going forward.
- TATACONS is targeting for high single digit to low double digit margins from Tata Sampann in near to midterm. It is looking to upgrade supply chain and technology to achieve the same
- Tata Sampann relaunched its spices range with new and improved packaging. The relaunch is based on a clutter breaking approach.

TATACONS's Protein Platform – Launch of Plant Based Meat (PBM)

- TATACONS has recently entered into alternate meat segment with the launch of Tata Simply Better- Plant Based Meat (PBM) range. With this new brand, the company is targeting consumers who are looking to incorporate more plant-based ingredients.
- Globally, health, sustainability & animal welfare are key considerations driving the purchase of PBM among consumers.

India Salt

- The salt portfolio continued its momentum and recorded double digit growth during 1QFY23 despite a high base in 1QFY22. Salt revenue for the quarter grew 20% despite high base in 1QFY22. Rock salt delivered growth of 75% YoY, with overall premium salt portfolio growing 36% YoY continuing its strong trajectory in line with TATACONS's premiumization agenda.
- TATACONS continued to outpace in the category with market share of ~38% (+400bp YoY).
- Tata salt saw price hike from INR 25 to INR 28 and is still able to hold and improve its market share. The price hike will help to improve the margins
- TATACONS rolled out 'Tata Salt Immuno' nation-wide post its encouraging results in the pilot phase.

Tata Coffee (including Vietnam ex EOC)

- Revenue for the quarter grew 25% YoY (with constant currency growth of 24% YoY). The growth was led by strong growth across both the extractions and coffee plantations. Volumes grew by 8% YoY in 1QFY23.
- Arabica and Robusta coffee prices continued to climb and were significantly higher on YoY basis

- Extractions: Overall extraction business grew 26% YoY in 1QFY23 driven by both domestic and Vietnam business, led by peak utilization and well-planned sales.
- India extractions business (Instant coffee division) recorded 99% capacity utilization during the quarter

NourishCo

- Nourish Co sustained robust growth momentum with revenue growth of 110% in 1QFY23 led by strong growth across products and geographies. Adjusted for covid-led disruption, the 3-year CAGR for the business was 38%
- Himalayan products grew 3.5x YoY and was EBIT positive during the quarter. The growth was broad-based across products and geographies
- The business saw high inflation in COGS and freight, but it was mitigated through cost-saving initiatives and operating leverage during the quarter.
- Capitalizing on the strong brand equity, Nourish Co is extending its portfolio with the launch of premium honey and preserves.
- Tata Copper Water grew 2.9x led by launch of new campaign to highlight its unique proposition of goodness of water stored in copper vessels.

JV: Starbucks

- Revenue grew 3.4x YoY during the quarter, albeit on a low base, led by normalized store operations with lower restrictions. It witnessed 25% growth in same store sales as compared to pre-covid levels.
- Starbucks has opened 7 new stores during 1QFY23 and entered four new cities - Jalandhar, Anand, Nagpur, and Calicut. This brought the total number of stores to 275 across 30 cities. Expansion into new cities saw encouraging demand and acceptance

US business

- Coffee: Revenue for the quarter grew 20% YoY (with constant currency growth of 15% YoY). US Coffee (both Bags and K-cups) continued to grow strongly with continuous outperformance by K-cups.
- Eight O' Clock coffee (K cups and Bags) saw gains in market share and it grew ahead of the category during 1QFY23. The growth was driven by distribution expansion and targeted promotions.
- The brand has partnered with International Woman's Coffee Alliance in their mission to empower women in the coffee industry to achieve sustainable livelihoods.

Canada business

- Revenue for the quarter grew 14% YoY (constant currency) led by both volume growth and pricing. There was strong revenue growth across both Regular black tea and Specialty tea during the quarter
- EBIT grew significantly driven by a combination of higher sales, and lower discretionary spends

UK business

- Revenue for the quarter grew 3% YoY (constant currency) driven by Tetley black and Teapigs. Teapigs grew 16%, led by strong performance in out of home, exports, and grocery channels.
- Tetley continued to gain share in the everyday black and specialty segments
- Inflation continues to be a challenge, however, it is being addressed through pricing actions and cost-saving initiatives

Outlook

- Current business environment is dynamic with high Inflation volatility. As per management, managing margins and market share is essential in such volatile environment.
- TATACONS will look to manage both - growth and margins both going ahead.
- TATA Souffull will continue to grow as the company will continue to expand its portfolio under the brand
- TATACONS has managed overall business as a portfolio and will look to grow as per the opportunities and headwinds in the segment.



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United Breweries	
Quarterly Results (Q1 FY23)	Q1 FY23 (Q1 FY22)
Revenue (INR Crores)	1,642
EBITDA (INR Crores)	245
EBIT (INR Crores)	185
Net Profit (INR Crores)	125
EPS (INR)	12.5
Dividend (INR)	5.0
Payout Ratio (%)	40.0
Operating Margin (%)	14.9
EBITDA Margin (%)	14.9
EBIT Margin (%)	11.3
Net Profit Margin (%)	7.6
EPS Growth (%)	10.0
Dividend Growth (%)	0.0
Payout Ratio (%)	40.0
Operating Margin (%)	14.9
EBITDA Margin (%)	14.9
EBIT Margin (%)	11.3
Net Profit Margin (%)	7.6
EPS Growth (%)	10.0
Dividend Growth (%)	0.0
Payout Ratio (%)	40.0

United Breweries

Sell

Current Price INR 1,642

Performance and outlook

- There were some supply chain issues during the peak season which affected performance. Some states imposed export restrictions when demand was high.
- The hot summer in a few states also aided sales growth.
- Uttar Pradesh, Haryana, West Bengal, and Odisha have done well v/s three years ago while Maharashtra has not.
- 8% absolute volume growth v/s 1QFY19 (14% excluding Andhra Pradesh from the base which saw a change in excise policy) not very encouraging.
- The salience of premium beer to UBBL's total sales remains at high-single-digits.
- The management targets 6-8% volume growth on a steady state basis in coming years.

Costs and margin

- In addition to input costs, margins for the quarter were impacted by a weak state mix.
- Raw material (including packaging) inflation remains very high. Barley prices are up by ~70%, while the cost of new glass bottles is also elevated.
- Consumer price increases have been in the range of 3-7% with Maharashtra and Karnataka seeing increases at the lower end of the range. Markets where price hikes have been granted account for two-thirds of UBBL's countrywide volumes. States typically grant price increases in the first quarter of every fiscal year.
- Higher input costs will impact 2QFY23 even more than 1QFY23 but the full extent of price hikes granted in 1QFY23 will offset some of that impact.

Review of operations

- There may be some disruption following Heineken's review of commercial operations in Tamil Nadu and Andhra Pradesh (~10% of sales put together).

Other points

- Capex guidance of INR2.5b in FY23 which is likely to be at higher levels beyond.



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United Spirits
Q1 FY23 Earnings Report

Key Metrics:

- Revenue: ₹1,000 crore (vs ₹950 crore in Q1 FY22)
- Profit: ₹150 crore (vs ₹140 crore in Q1 FY22)
- Operating Profit: ₹120 crore (vs ₹110 crore in Q1 FY22)
- Net Profit: ₹100 crore (vs ₹90 crore in Q1 FY22)

Management Commentary:

United Spirits witnessed good incremental gains on renovation and innovation. Management highlighted that the launches in second half of last year doing well. Godawan is launched in three states. Black Dog renovation is performing extremely well competitively. Signature and Black and White are doing well. Good momentum witnessed on sales in Royal Challenge American Pride in states where it was re-launched.

They have a Block Chain based tracking system with Godawan and Black and White.

United Spirits

Current Price INR 775

Neutral

Demand environment

- On trade saliency is back to pre-Covid levels in 1QFY23.
- There was some impact on BIO sales because of ongoing price deliberations with the government on Scotch portfolio.
- Limited scotch supply has affected the sales by INR600-700m.
- Adjusted for Andhra Pradesh, it is in positive territory on P&A volume growth from a 3 year perspective.

Cost and margins

- Management highlighted that double digit cost inflation is likely to sustain for the next few months.
- 65% of COGS is glass and ENA. Crude based derivatives account for a large part of the remainder portion of COGS. All the costs are seeing high inflation with no signs of respite.
- Margin is likely to be under pressure in 2Q and 3QFY23 as well.
- Uttar Pradesh, Haryana, Madhya Pradesh, Rajasthan and Punjab have given price increases with the former 2 received in 1QFY23. However the same is not yet enough to combat double digit inflation. Management is hoping that mix plays a good role to protect margin impact.
- Ad-spends won't be restricted due to material cost pressures. 50% of ad-spend is digital.

Strategic changes update

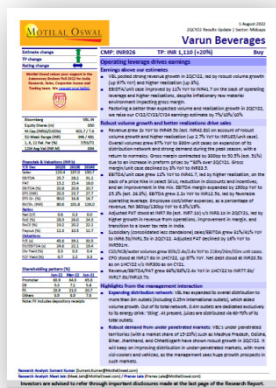
- UNSP witnessed good incremental gains on renovation and innovation.
- Management highlighted that the launches in second half of last year doing well. Godawan is launched in three states. Black Dog renovation is performing extremely well competitively. Signature and Black and White are doing well. Good momentum witnessed on sales in Royal Challenge American Pride in states where it was re-launched.
- They have a Block Chain based tracking system with Godawan and Black and White.

Other points

- They are on track to close transaction with In-brew.
- BII and BIO was around 20% of sales in FY22.
- Nao Spirits, which was recently acquired, has tripled its volumes off a low base in the last year.



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Varun Beverages

Current Price INR 919

Buy

Expanding distribution network

- VBL has expanded its overall distribution to over 3m outlets (including 0.25m international outlet) supporting its higher volume growth. Out of total network, 0.4m outlet is exclusively for its energy drink product – 'Sting'. VBL is looking to add its other products to these outlets. Currently, juices are distributed in ~60-70% of the total outlets.

Robust demand from under penetrated markets

- All the territories have grown during the quarter. However, under penetrated territories (with market share of ~15-20%) such as MP, Orissa, Bihar, Jharkhand and Chhattisgarh have shown robust growth during the quarter
- VBL has recently setup a plant in Bihar and its capacity is completely utilized within the first year itself on back on strong demand in the region
- VBL to improve its distribution network in under-penetrated markets with more visi coolers and vehicles as management forecast huge growth prospects in such markets.

Capex

- During H1CY22, the net capex amounted to INR6.7b on account of new greenfield production facilities in Bihar & Jammu and brownfield expansion at Sandila facility.
- Further, VBL in process of setting up two large greenfield plant in MP & Rajasthan. Also, it is in process of expanding brownfield plant in Bihar.
- For CY23, VBL will add ~30% more capacity with capex amounting to INR12b resulting into additional revenue of over ~INR26b going ahead.
- VBL is doubling its capacity in dairy segment by end of CY23 which will add up to the revenue from CY24.
- VBL has added one line in Zimbabwe which will be operational this season by the end of August'22.

Tax savings

- During the quarter, VBL has taken the non-reversible option to pay corporate tax at reduced rates as per Section 115BAB of Income Tax Act, 1961. This option was deferred until now as VBL was looking to utilize the available MAT credit which cannot be availed under new regime.
- The new tax regime takes away many exemptions, however the reduced tax rates still benefits the company with saving of ~3%

Plant & Machinery Impairment

- VBL has observed that over the covid impacted period, demand trends have moved from returnable glass bottles (RGB) to PET. To align the asset value of its RGB producing lines in accordance with the changed demand scenario, value of underutilized lines has been impaired /written off in the books amounting to INR318m during this quarter
- The total of such impairments & write-offs during 1HCY22 amounts to INR464m.

Working Capital

- Net WC days is reduced to ~17 days as on 2QCY22 from 24 days as on 2QCY21, as most of the Raw Material inventory stocked for the season has been utilized and the business has returned back to normalcy.

Guidance

- VBL is expecting minimum double digit volume growth going forward as juices, energy drink and dairy products segment are also growing very well.
- Overall Industry is also growing healthily and industry volumes can grow in double digits in next three to four years
- Further, traction from under-penetrated territories will support the VBL's growth going ahead with majority of demand is forecasted from South and west region, while east is also picking up.
- VBL will be able to sustain current margins. Margins can also improve if the prices of key Raw Material 'PET raisins' decline going forward
- Capacity utilization in India during the peak month was ~ 90%, driven by best ever sales volumes. In certain categories (CSD PET, Tropicana / VAD, etc.), it reached near full capacity.
- VBL have recommended an interim dividend of INR2.5 per share amounting to total cash outflow of ~INR1,624m.
- Manufacturing of 'Kurkure' will start by Oct/Nov'22
- VBL's energy drink – Sting has grown by 185% YoY. It consists of 7.25% of total volumes.
- On international front, Sri Lanka is in volatile conditions. However, its contribution to overall revenue accounts to ~1%. Nepal & Morocco, both are doing well and with improvement in its profit margins.
- VBL was recently awarded as 'Best Bottler in Africa, Middle East and South Asia (AMESA) region' for the year 2021 from PepsiCo in recognition of its operational excellence, end to end execution capabilities, governance practice and strong track record.
- Keeping Sustainability as a core principle of its business model, VBL continues to undertake efforts towards PET recycling and improving energy & water efficiencies with a goal of having a net positive impact on the planet.

FINANCIALS/BANKS



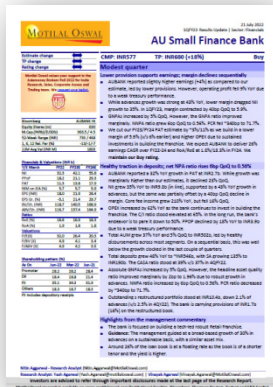
- Most of the banks have guided for a sustained recovery in growth momentum propelled by continuous traction in the retail, business banking and SME segments. Corporate segment growth too is likely to witness a gradual pick-up primarily driven by working capital loans while revival in capex is likely to occur over 2HFY23. Margins are likely to witness a positive bias in the near term with banks having a high mix of CASA and floating rate loans to be better placed. Treasury performance was better than expected and is likely to moderate as bond yields have softened post Jun'22. Earnings outlook remains resilient with continuous improvement in asset quality as slippages (ex of restructuring) continued to moderate while SMA book too stands at benign level which provides comfort on incremental slippages. A high PCR coupled with additional provisions buffer would keep the credit cost benign.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY23	Asset quality and collection efficiency
Axis Bank	<ul style="list-style-type: none"> ■ Loan growth was soft as pricing in Wholesale book was not attractive. It intends to grow faster than system and end-FY23 with a double-digit growth. ■ Retail growth is likely to be led by secured (Home loans, LAP, and Small Business Banking) and unsecured products. ■ About 69% of its loan book is floating in nature and will benefit from rate hikes. The management aims at a NIM of 3.7-3.8% over the next 8-10 quarters. ■ The management remains committed to attain a medium-term cost-to-assets ratio of 2%. 	<ul style="list-style-type: none"> ■ About 79% of the COVID restructuring book is standard on which it holds provisions of INR12.03b (24%). The entire restructured corporate book is classified as BB and below. ■ Around 94% of the Retail COVID restructured book is secured, while the unsecured portion is entirely provided for.
ICICI Bank	<ul style="list-style-type: none"> ■ ICICIBank continues to focus on improving core PPOP in a risk-calibrated manner, supported by a higher focus on digital adoption; this would aid market share gains across business segments. ■ The aim is to continue to grow its loan book in a granular manner. 	<ul style="list-style-type: none"> ■ Other than one borrower account under the RBI resolution framework, the maximum single borrower in the BB and below portfolio was less than INR6b. ■ The Kisan Credit Card portfolio typically sees higher NPA additions in the first and third quarters.
IndusInd Bank	<ul style="list-style-type: none"> ■ The focus is on accelerating loan growth and the bank retains its guidance of 15-18% loan growth. ■ The bank is targeting to reach a branch count of 2,500 by FY23E ■ The bank has guided for PPOP margin of >5%, credit cost of 120-150bp and C/I ratio of ~41-43%. 	<ul style="list-style-type: none"> ■ The 30-90dpd within MFI, including the restructured book, moderated to 2.2% in 1QFY23 from 2.6% in Mar'22. ■ Overall stress from the restructured book is likely to be ~15-20%. ~70% of this book is forecasted to run down by 3QFY23. ■ SMA 1 and 2 books stood at 10bp and 39bp, respectively.
Kotak Mahindra	<ul style="list-style-type: none"> ■ Unsecured Retail loans constitute 7.9% of the overall mix v/s 5.6% in 1QFY22. The management continues to focus on growing this book and will look to increase this mix to early mid-teens. 	<ul style="list-style-type: none"> ■ Bounce rates remain better than pre-COVID levels. ■ Demand resolution remains healthy and is similar to pre-COVID levels.
SBI	<ul style="list-style-type: none"> ■ The management expects growth trends to see strong traction, led by a pick-up across most segments, and corporate demand to be healthy. ■ SBI aspires to increase market share in current account to increase CASA ratio. ■ The bank does not foresee any actual loss in the treasury book. It will recover as rate softens. 	<ul style="list-style-type: none"> ■ In 1QFY23, the bank wrote back Covid-related restructured provisions of INR16b due to decline in restructured book ■ Out of fresh slippages of INR97b in 1QFY23, INR28b has been recovered to date. ■ The endeavor is to keep credit cost as low as possible, with a boundary of sub-1% and aspires to have a net NPA of < 1%.



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AU Small Finance Bank

Buy

Current Price INR 637

Operating environment and business performance

- The management reiterated its guidance of growing advances ~30% YoY and maintaining margin at FY22 levels.
- AUBANK is building scale for laying the foundation to emerge into a large bank.
- It has identified target markets for raising deposits and lending in core markets (rural and semi-urban).
- All asset segments have great potential as the bank has a low market share at present.
- AUBANK aspires to be one of the most admired digital Banks. It is building a tech-led robust Retail franchise, with several industry-first initiatives.
- It has received board approval for an INR30b fund raise, which will be raised at an appropriate time.
- The bank has become the employer of choice, with several senior hires in business areas in FY22.
- Around 74%/26% of the book is at a fixed/variable rate.
- The lion's share of the treasury loss has been absorbed.
- The bank endeavours to maintain margin at FY22 levels as it has the ability to pass on the incremental cost of borrowing to the customer.
- The semiconductor shortage situation is easing and is driving the momentum in the Wheels segment.
- Its 16 new branches cater to SBL-MSME. Demand remains robust across various sub-segments.
- Strong momentum is seen in the Home loan segment.
- The management's enhanced focus on Commercial/Business banking is aiding CASA growth.
- Key Credit Card metrics are better than that of the industry. It is cautiously building its digital Unsecured loan book.

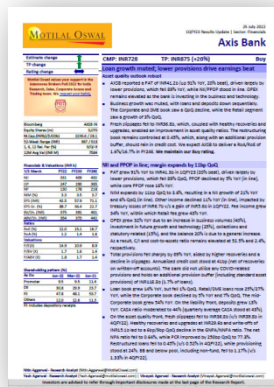
Asset quality

- The management said that stress is well provided for, with a PCR of 72%.
- Around 65% of recoveries are through normal resolutions.
- It said that INR0.8b flowed into slippages from the restructured book
- Standard restructured assets now stand at 2.1% of gross advances (v/s 2.5% as of Mar'22).
- The secured nature and historical experience suggests that the bank is well provided for.

Deposits and branch Banking

- The management remains focused on building a granular, Retail account base.
- CASA ratio has seen a strong growth.
- Further growth will be led by digital initiatives, rather than a higher interest rate to attract depositors.
- Urban-focused branch expansion to lead deposit growth.

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Axis Bank

Buy

Current Price INR 742

Balance Sheet and P&L related

- System credit growth has picked up over the last four months. The medium-term opportunity for AXSB remains significant.
- The management's focus is on three core areas: a) deepening its performance culture, b) strengthening its core, and c) building the bank for the future.
- The 'One Axis' strategy is playing out well, with all subsidiaries performing with industry-leading positions.
- AXSB continues to grow and gain market share in its identified preferred areas.
- In deposits, AXSB has gained market share of over 100bp over the last five years. In the case of incremental advances, it has a market share of 9-10%.
- Liability growth is driven by granularization and premiumization.
- Corporate salary accounts are a strong focus area, with customized plans.
- In term deposits, growth is higher than the industry, despite competitive rates.
- Digital remains an important source of customer acquisition.
- Loan growth was soft QoQ as pricing in some Wholesale segments was not attractive. With rate hikes, growth is gradually getting better. AXSB intends to grow faster than the system and end FY23 with a double-digit loan growth.
- Retail growth is likely to be led by secured products (Home loans, LAP, and Small Business Banking) and unsecured products, where it is comfortably placed.
- The bank has one of the fastest growing Credit Card acquisition franchises.
- Citi acquisition remains on track and is expected to be completed by FY23-end.
- The bank has developed a strong SME book over the past few years.
- Around 69% of its loan book is floating in nature and will benefit from rate hikes.
- The proportion of the Unsecured segment in disbursements stood at 22% from 18% earlier.
- The management aims at a NIM of 3.7-3.8% over the next eight-to-10 quarters.
- Strong traction was seen in fee income, with a higher share of Retail fees.
- MTM loss is mainly due to corporate bonds. The bank does not expect an economic loss from this book.
- OPEX grew 32% YoY. Of this, 40% is volume linked, 14% is for growth investments, 11% is for digital, 6% is to ramp up collection efficiency, and 5% each is for statutory expenses and one-time costs.
- The bank added 6,150 personnel over the last 12 months in tech and growth businesses.
- Lower credit costs have enabled the bank to run a higher OPEX.
- The management remains committed to attain a medium term cost-to-assets ratio of 2%.
- It is on track to build a profitable and sustainable Corporate book.
- Exit LCR for 1QFY23 stood at 123%.

Asset quality

- Headline asset quality continues to improve, along with lower restructuring and BB and below book.
- Net NPA and BB and below book currently stands at 1.28% of loans v/s 1.48% in 4QFY22.
- The bank saw recovery of INR7.4b from written-off accounts.



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The image shows a thumbnail of the Bandhan Bank Q1 FY23 financial results report. It includes the bank's logo, the title 'Q1 FY23 Results', and a table of contents. The table of contents lists sections such as 'Key Metrics', 'Financial Performance', 'Operational Performance', 'Risk Management', and 'Management Discussion'. The report is dated 31st March 2023.

- In 1QFY23, the bank saw recovery and upgrades of INR6.5b from the BB and below pool.
- The bank has not utilized any COVID-related provision on a prudent basis.

Bandhan Bank

Neutral

Current Price INR 279

Asset quality

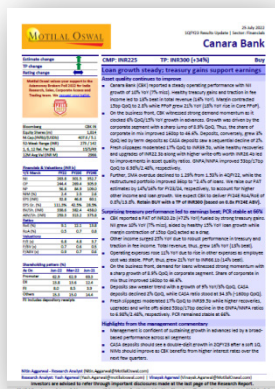
- Collection efficiency trends remain healthy in 1QFY23.
- Collection efficiency in Assam was impacted by the floods. The same stood at 93% in Jun'22 as compared to 95% in 1QFY23.
- Loans originated after the lifting of COVID-related restrictions are paying off well, similar to pre-pandemic levels.
- PCR is adequate at 75%.
- No restructuring was undertaken in 1QFY23.
- Fresh slippages were lower on a sequential book, excluding restructuring.
- Around 57% of customers from the restructured portfolio paid some installment, while 73% customers from its NPA pool made some payments.
- Out of the EEB stressed pool of INR121b, provision exists for INR76b.
- Recoveries from the CGFMU scheme should accrue in FY23.
- The total restructured book including the one's which is in SMA stood at INR58.3b in 1QFY23 v/s INR61.5b in 4QFY22.

Balance Sheet and P&L

- 1QFY23 was a balanced quarter for the bank. Historically, the first quarter is usually lean from a business perspective.
- The decline in the micro credit book is due to seasonality, floods in Assam, and new RBI regulations for MFIs.
- The Housing vertical is performing well and is adding to its secured portfolio.
- In other Retail products, Personal, Auto, 2W, and Gold loans are the second focus areas for the bank.
- BANDHAN continues to diversify its loan book, with the addition of 0.6m new customers.
- Growth in CASA deposit remains healthy, with a focus on Retail deposits. The share of Retail stood at 78%.
- Other income was lesser due to weak treasury performance and the lower fees were on account of smaller disbursements and sale of PSLC.
- In 1QFY22, the bank had booked a treasury gain of INR2.6b as compared to a loss of INR0.8b in 1QFY23.
- PSLC income was lower by INR1.3b. Sale of Agri certificates is awaiting regulatory approval.
- NIM should remain ~8%, plus or minus 20bp.
- Investment in RIDF impacted margin by 20-25bp.
- OPEX-to-asset ratio should fall in 2HFY23 as growth picks up. Over a three-year period, it should fall to 2.5-2.6%.



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Canara Bank

Buy

Current Price INR 222

Operating environment and business

- The bank is confident of sustaining growth in advances led by a broad-based performance across all segments
- The share of RAM portfolio would be around 55%; in mix
- Within corporate, CBK is very active on HAM projects; it has underwritten projects worth INR150b and disbursements will happen as projects commence
- Gold loans crossed INR1t in 1QFY23
- Global advances should be at least INR1t to make sense for a bank of the size of CBK. Loans are given to well-rated Indian Corporates and PSUs
- Around 38% of the book is linked to RLLR
- CASA deposits should see a double-digit growth in 2QFY23 after a QoQ decline in 1Q. This is due to pressure on Govt. business that is traditionally soft in 1Q
- The capital position remains strong and the bank has no plans of an equity raise in FY23
- LCR is above 125%
- NIMs should increase, going forward, as CBK expects to realize benefit of higher interest rates
- Repo hike of 50bp was passed to borrowers in the first week of Jul'22 as the bank did not want to burden them with a steep rise of 90bp in a few weeks
- During 1QFY23, CBK also raised interest rates on deposits and is expected to review the same, a couple of months later
- Interest income was also weak sequentially as higher loans were given to 'AAA' rated borrowers at lower yields
- Treasury performance was strong and the bank is covered at present. If 10-yr yield rises to 7.75%, it expects a maximum MTM loss of INR10-15b
- The aim of the management is to grow operating profit by a minimum of 15%
- As a result, return ratios will be attractive. The bank continues to guide for an RoE of 15% for FY23E along with an attractive level of RoA.

Asset quality

- Management has a strong focus on bringing down the GNPA and NNPA ratios from current levels
- In 1QFY23, the Future group exposure of INR12.4b (50% investment and 50% in advances) slipped into NPA. However, this was fully provided for.
- Out of the slippages of INR36b, INR8b slipped from corporate (including INR6b from Future Group), INR6b from Agri, INR7b from Retail and INR15b from MSME
- Recovery will be more than slippages for FY23
- Restructured book is close to INR180b. Management expects cumulative slippages of 18-19% from this book. Cumulatively, 11% has already slipped
- Slippages for FY23E will be under INR150b.

DCB BANK

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DCB Bank

Key Metrics:

- Current Price: ₹82
- Current Price INR 82

Balance Sheet (₹ Crores):

Particulars	31-Mar-22	31-Mar-21
Assets		
Net Worth	1,00,000	90,000
Capital	1,00,000	90,000
Reserves	1,00,000	90,000
Liabilities		
Deposits	1,00,000	90,000
Other Liabilities	1,00,000	90,000
Total	1,00,000	90,000

FEDERAL BANK

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Results Update



Federal Bank

Key Metrics:

- Current Price: ₹107
- Current Price INR 107

Balance Sheet (₹ Crores):

Particulars	31-Mar-22	31-Mar-21
Assets		
Net Worth	1,00,000	90,000
Capital	1,00,000	90,000
Reserves	1,00,000	90,000
Liabilities		
Deposits	1,00,000	90,000
Other Liabilities	1,00,000	90,000
Total	1,00,000	90,000

DCB Bank

Neutral

Current Price INR 82

With respect to operating environment and business

- The bank is continuing to invest in the business by hiring people and adding branches. Bank will continue to invest in the business
- C/I ratio and Cost to asset ratio is expected to moderate gradually to 55% and 2.4% over the next 4-5 quarters
- The bank did not witness any treasury losses in 1QFY23
- The endeavour is to cross the CASA ratio of 30% ASAP
- NIMs are expected to remain stable in the range of 3.65-3.75%
- The bank remains focused on doubling the balance sheet in 3-4 years
- ECLGS sanctions stands at INR30b with disbursements at INR10b
- Overall, the target is to achieve RoA of 1% and RoE of 14% ROA in 4-5 quarters

With respect to asset quality

- The bank continues to witness very strong trends in upgrades
- Slippages were high primarily led by Gold loans and AIB (KCC loans)
- Slippages in CV and Mortgages are almost close to Pre-Covid levels
- Slippages ex of Gold loans should come to Pre-Covid levels in another 2-3 quarters
- Credit cost in FY23 is likely to be lower than FY22. Aspiring to keep the credit cost in the range of 50-60bp in a steady state
- The bank aspired to bring down the GNPA/NNPA ratio to 2.5%/1.5%
- Operating profit to provisions to be maintained at 3-4x going ahead.

Federal Bank

Buy

Current Price INR 107

Asset quality related

- Asset quality will remain strong going forward.
- Slippages were high due to the restructured Retail book. Since a large part of this is secured, the management is not excessively worried.
- Of the fresh slippages of INR4.4b, INR1.1b came from restructured accounts.
- Overall slippages in FY21/FY22 were INR18b each. The management expects similar slippages in FY23.
- Of its total moratorium book, ~43% accounts have emerged from this pool. In 4QFY22, loans worth INR10b exited this pool. The management expects loans worth INR7b/INR3b/INR3b to emerge from this pool in 2Q/3Q/4QFY23.
- ECLGS book stands at INR40b.

Balance Sheet related

- From a growth perspective, 1QFY23 is usually a sluggish quarter. However, this year bucked that trend, and growth was quite broad-based.
- The management is targeting mid- to high-teen credit growth in FY23.
- The CV and Credit Card segment is performing well, and Personal loans should see a pick up. The management expects to disburse Personal loans worth INR1b on a monthly basis and end FY23 with a total Personal loan pool of INR23-24b.
- The bank has a high share of floating rate loans, with EBLR/MCLR-linked loans at 48%/28% and fixed rate loans at 26%.
- The management has been quite aggressive in partnering with FinTechs, which will drive business growth.

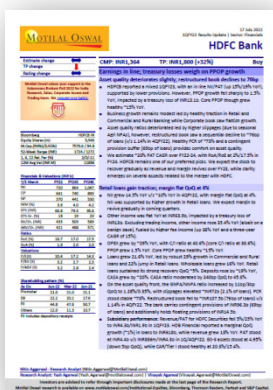
- The dip in Tier I ratio is a result of robust credit growth, increase in its exposure to borrowers with loans of more than INR100b from the market, and commencement of new credit lines.
- The management will look to raise capital only if the Tier I ratio slips below 13%.
- The bank is on track to meet its RoA target of 1.1% in FY23.
- FB added only 20 branches over the last five years. It now wants to build smaller branches in locations where it does not have a strong presence. It aims to add 200-250 such branches over the next three years.

P&L related

- FB's operating performance in FY23 should be on expected lines or even better, barring its treasury performance.
- While margin saw a marginal expansion to 3.22%, the management expects to end FY23 in the 3.25-3.27% range.
- The hike in the lending rate occurred in two tranches and the increase in yield does not truly reflect it.
- The savings deposit book is linked to the repo rate. The management said is not obliged to pass on the entire hike to depositors as it has the discretion of changing the spread.
- FB has raised its SA interest rate by ~25bp after the RBI's repo rate hike.
- Its treasury performance was affected in 1QFY23 due to rising yields. However, this was offset by lower provisions for employee cost.
- No transfer of investments was undertaken to HTM from AFS. The management said its investments in HTM do not require any M2M adjustment.
- Employee cost should be in the INR25-26b range in FY23.
- The management expects credit cost of 50bp in FY23.
- Pricing on Gold loans was attractive in 1QFY23 to attract borrowers.



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HDFC Bank

Buy

Current Price INR 1,470

Opening remarks

- Economic activity continues to hold up, despite a challenging environment.
- It added 36 branches in 1QFY23, and 250 branches are ready to be rolled out.
- The bank has ~3.2m payment acceptances, which grew 42% YoY.
- SME loans are now being offered in 640 districts.
- It added ~10.9k/~29k employees in 1Q/FY23.
- The bank added 2.6m new liability relationships in 1QFY23, which grew 59% YoY and 10% QoQ.
- HDFCB added ~0.2m MSE accounts on the liability side.
- It added 1.2m new Credit Cards in 1QFY23 – the highest ever and up 47% YoY.
- Cards spends grew 25% QoQ in 1QFY23.
- The bank plans to launch new apps and digital initiatives in Jul'22 and 2QFY23.

P&L and Balance Sheet related

- On Wholesale advances, the bank let go of loans worth INR400-500b as the rates were less attractive.
- The average LCR ratio stands at 108%, while it stood at 120% in Jun'22.
- Retail deposits grew 19% YoY and 3.9% QoQ.
- The reset period for most loans will be three months.
- AFS book largely comprises of G-Sec, Corporate bonds, and PSLCs.

- The bank holds an Investment Fluctuation Reserve (IFR) of ~2%, which can be utilized for providing against MTM losses. However, the bank did not use any such reserves in 1QFY23.
- Revolver rate is likely to rise gradually and revert back to pre-COVID levels over the course of time.
- Loan mix: Floating rate loans stood at 55% (of which 27-28%/13% are Repo/T-Bill), while the fixed loan book is 46%.
- Technology-related spends is likely to be 8-9% of total OPEX.

Asset quality related

- Agri saw a seasonal impact in Jun'22, and thus GNPA stood elevated in 1QFY23.
- Slippages stood at INR72b in 1QFY23 (50bp of loans not annualized). Excluding Agri and one-offs, slippages stood at 38bp of loans.
- Recoveries and upgrades stood at INR30b (22bp of loans). Write-offs stood at INR24b (17bp of loans).
- Cheque bounce rates remain lower than pre-COVID levels across all Retail products.
- Restructuring book stood at INR107.5b (76bp of loans). Other additional facilities of these borrowers stood at INR18.5b (13bp of loans). Total exposure stood at INR126b (89bp of loans).

Subsidiary performance – HDB Financial Services

- The uptick in disbursements in Mar'22 sustained in Jun'22 as well.



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Results Update



MOTILAL OSWAL	
ICICI Bank	
Quarterly Results	Annual Results
Q1 FY23	FY22
Q1 FY22	FY21
Q1 FY21	FY20
Q1 FY20	FY19
Q1 FY19	FY18
Q1 FY18	FY17
Q1 FY17	FY16
Q1 FY16	FY15
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Q1 FY11	FY10
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Q1 FY48	FY47
Q1 FY47	FY46

- Treasury gain stood at INR0.36b in 1QFY23 v/s INR2.9b in 1QFY22. The bank carries a low duration AFS book, and thus saw a negligible MTM impact.
- Many opportunities exist to grow core operating profit.
- The bank continues to invest in its employees and in technology, and operate within our strategic framework of 'One Bank One RoE'.

Digital initiatives

- The management continues to see increasing digital adoption by customers.
- Value of transaction by non-ICICI Bank customers grew 35% QoQ on its platforms.
- Over 3.2m Amazon cobranded Credit Cards have been issued since its launch.
- It launched a new digital tool called Campus Power to cater to the higher education needs of students in domestic as well as international locations.
- Value and volume of financial transactions on InstaBIZ for SME and Business banking, as well as supply-chain platforms, have seen a tremendous increase.
- Around 33% of mortgage sanctions and 44% of Personal disbursements were end-to-end digital.
- It has more than 20 industry customized stacks for greater ease and convenience.
- The bank will continue to leverage its technological capabilities to drive growth, which will aid in market share gains.
- The bank continues to invest in digital initiatives to maintain leadership.

Asset quality

- Net additions of INR3.8b to gross NPAs were driven by gross slippages of INR50.4b in Retail, Rural, and Business Banking and INR7.9b in Corporate and SME, but was offset by recoveries of INR54.4b.
- The bank has written off accounts worth INR11.3b in 1QFY23.
- The Kisan Credit Card portfolio typically sees higher NPA additions in the first and third quarter.
- In Retail, the management's focus is on net slippages as these are unlike Corporate slippages, which tend to be stickier.
- Other than one borrower account under the RBI resolution framework, the maximum single borrower in the BB and below portfolio was less than INR6b.
- PCR was stable at 80% in 1QFY23.
- The bank made additional contingency provisions of INR10.5b on a prudent basis. With this, contingent provisions now stands at INR85b, or 0.9% of loans.
- As of 30th Jun'22, total provisions stood at INR187b, or 2.1% of loans.



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Indian Bank

Buy

Current Price INR 175

P&L and balance sheet related

- Loan Mix: EBLR linked loans (~42%), MCLR (45%) while the balance loans are fixed rate
- Majority of interest rates hike is passed on within 1-2 days while only a small portion gets re-priced after one month
- The bank will aim to maintain a CD ratio of ~73%
- Tax rate is likely to be ~10% for FY23
- The mix of RAM segment is likely to be ~60% (+/-2%)
- NIMs for FY23 is likely to be better or at least similar to FY22 levels
- Yields on MSME portfolio stands at ~8.5%

Indian Bank

Q3 FY23

Key Metrics:

- Total Assets: ₹1,10,000 crore
- Loans: ₹65,000 crore
- Deposits: ₹85,000 crore
- Profit: ₹1,000 crore

Segmental Performance:

Segment	Assets (₹)	Loans (₹)	Deposits (₹)	Profit (₹)
Corporate	15,000	8,000	12,000	150
Retail	45,000	25,000	35,000	400
MSME	10,000	5,000	8,000	100
Other	10,000	5,000	8,000	100



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IndusInd Bank

Q3 FY23

Key Metrics:

- Total Assets: ₹1,10,000 crore
- Loans: ₹65,000 crore
- Deposits: ₹85,000 crore
- Profit: ₹1,000 crore

Segmental Performance:

Segment	Assets (₹)	Loans (₹)	Deposits (₹)	Profit (₹)
Corporate	15,000	8,000	12,000	150
Retail	45,000	25,000	35,000	400
MSME	10,000	5,000	8,000	100
Other	10,000	5,000	8,000	100

Asset quality

- Corporate slippages were due to one government account (worth INR2.3b which has been subsequently recovered in Jul'22) and one sugar account which has been 100% provided
- Expect GNPA/NNPA ratio to come down to below 7%/2% by FY23
- The MTM losses booked for 1QFY23 is till 7.45% while the yields are currently at ~7.3%, Hence, going forward the incremental impact is likely to be controlled
- While the outlook on Retail/Corporate slippages remains positive, the bank is witnessing some stress in the MSME sector
- CE in the restructuring book stands at ~88%
- Billing has started for almost all of the restructuring book and is out of the moratorium
- Total ECLGS book o/s stands at INR80b with a cumulative NPA of INR4b (INR1.12b in 1QFY23). The NPAs from this book is 100% provided
- **Sale to NARCL:** Phase 1 - 5 accounts to be transferred with exposure of INR12b. Phase 2 - 8-9 accounts to be transferred with exposure of INR13b. The accounts are 100% provided
- Recoveries in FY23 is likely to be ~INR80b
- Exposure to SREI (INR18b) which is fully provided
- Credit cost is likely to be lower than 2% for FY23.

IndusInd Bank

Current Price INR 1,058

Buy

Asset quality

- Standard slippages ratio moderated to 0.57% from 0.75% in 4QFY22
- Restructured book moderated to 2.1% in 1QFY23 from 2.6% in 4QFY22
- Net SR moderated to 72bp of loans in 1QFY23 from 83bp in 4QFY22
- Standard slippages declined for MFI and Corporate segments while they stood stable in Vehicle and other Retail segments
- MFI and Retail group in corporate banking saw the bulk of slippages from the restructuring book
- SMA 1 and 2 book stood at 10bp and 39bp, respectively
- Overall stress from restructured book is likely to be ~15-20%. ~70% of the book is likely to run down by 3QFY23

Balance Sheet and P&L related

- The focus was on accelerating loan growth. Vehicle, corporate and other retail segments saw healthy growth in 1QFY23
- MFI disbursement too reached normalcy after witnessing some blip post the implementation of new RBI guidelines
- The bank added ~425k customers through branch banking – the highest ever addition in a quarter
- Retail LCR grew 17% YoY – in line with the bank's target
- Several banks increased their deposit rates, thus narrowing the gap with peers
- Certificate of Deposits formed mere 3% of total deposits
- The bank is targeting to reach a branch count of 2,500 by FY23E
- Retail fees formed 70% in 1QFY23 v/s 64% earlier

MFI business

- Disbursements accelerated from May'22 and was at INR75.31b – the highest ever 1Q
- CE in the standard book stood at MFT 99.1% - stable QoQ. For new clients acquired post Covid-19, CE was at 99.2% - close to the pre-Covid levels
- The 30-90dpd within MFI, including restructured book, moderated to 2.2% in 1QFY23 from 2.6% in Mar'22
- Gross slippages moderated to INR5.6b in 1QFY23 from INR8.15b QoQ. Slippages from standard book moderated to INR2.78b from INR7.79b QoQ
- Restructured book moderated to INR6.44b in 1QFY23 from INR9.95b. Slippages from this book came in at INR2.81b

Vehicle segment

- Disbursements in vehicle segment came in at INR100.8b, which saw a QoQ growth over 4QFY22 for the first time ever
- CV, Utility, Cards and Tractor segments are witnessing healthy growth while 3W and 2W continue to witness pressure
- CE at Standard book stood at Pre-Covid levels
- Slippages stood at INR4.5b – stable QoQ
- Restructured book declined to INR31.31b from INR32.98b QoQ. CE was at 80% in line with expectations
- Fresh disbursement are at higher rates thus yields are improving and is expected to improve further

Other segments

- Gems and Jewelry business grew 28% YoY/1% QoQ and formed 4.3% of total loans. Despite the disruption in industry due to Russia-Ukraine war, the asset quality did not see any deterioration and the bank has no SMA in this book
- Spends grew strongly and IIB witnessed the highest card addition in a quarter

Corporate

- Majority of the corporate book is floating in nature and the bank was able to pass the rate hike to customers. Thus, yields witnessed a QoQ improvement thereby reversing the declining trends
- Corporates rated A and above increased to 73.5% from 70.7% QoQ
- Net slippages stood at INR4.1b (INR2.5b pertained to the account of a Retail group, which was earlier declared NPA)
- Telecom exposure was at INR18.5b including fund-based exposure of INR10b

Guidance

- The bank maintains its guidance of 15-18% loan growth, PPoP margin of >5%, credit cost of 120-150bp and C/I ratio of ~41-43%.



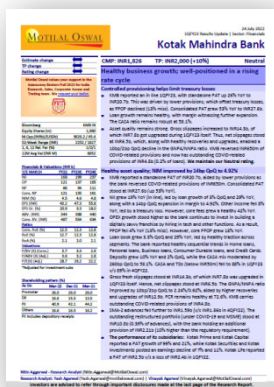
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**Kotak Mahindra Bank****Neutral**

Current Price INR 1,831

Balance Sheet and P&L related

- The bank continues to deliver strong loan growth and will look to grow both loans and deposits at a healthy pace.
- Unsecured Retail loans constitute 7.9% of the overall mix v/s 5.6% in 1QFY22. The management will continue to focus on growing this book and will look to increase this mix to early mid-teens.



The image shows a screenshot of a research report from Motilal Oswal for Kotak Mahindra Bank. The report includes various financial metrics, charts, and text analysis of the bank's performance and outlook.

- Loan mix: Total floating rate book stood at 69%, with EBLR loans at 50%. The fixed rate book, with a duration of less than one-year, stood at 11%.
- OPEX has increased on account of accelerated growth as the bank is investing in the business.
- The Corporate and SME business is witnessing improving signs, with growth likely to pick up as the economy turns and the capex cycle picks up.
- Demand for CV and CE remains healthy and is seeing a pickup. The CV segment is seeing replacement demand, while utilization levels improved across the PV segment. Demand from the Passenger segment is returning to normal levels.
- The bank is comfortable with a CD ratio of ~90% at current levels.
- The bank raised its deposit rates recently. A decision on further rate hikes will be taken in due course.
- The current revolver balances for KMB stand at 30%. The overall mix is similar to that of the industry.
- The bank did not transfer any investment to HTM from the AFS and HFT book.
- Most Credit Card acquisitions are from internal customers, with external sourcing almost negligible.

Average LCR stood at 120% in 1QFY23.

Digital strategy

- The management continues to invest in technology and launch new digital initiatives to increase customer engagement and acquisition.

Asset quality related

- Gross slippages were higher due to the order on OD accounts, which saw monthly volatility. However, the same got upgraded in 1QFY23 itself, and hence net slippages remain under control.
- Bounce rates remain better than pre-COVID levels.
- Demand resolution remains healthy and similar to pre-COVID levels.
- Credit cost, excluding reversal of COVID-related provisions, remains well under control at 16bp of loans (annualized).

Subsidiaries

- **Kotak Prime:** There was a one-time hit of ~INR1b on PAT due to the change in its accounting policy.
- **Kotak Life:** Premium growth saw healthy trends, with strong sequential trends in its Credit Term product.



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RBL Bank

Buy

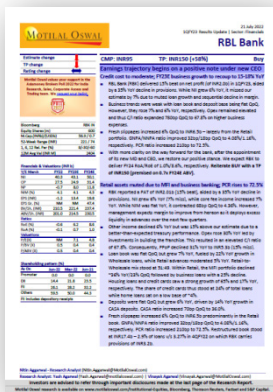
Current Price INR 98

Asset quality related

- Asset quality is improving and this trend should continue
- Slippages were mostly from retail
- Collection efficiency improved across segments with broad-based recovery
- Collection efficiency on book, originated from FY21 onwards, was at 99.6%. This formed 81% of standard book
- Credit cost should be sharply lower in FY23E with an absolute amount less than that of FY22.

P&L and Balance Sheet related

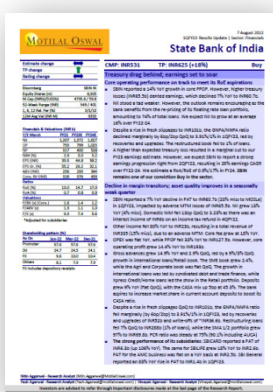
- The focus of the management is to consolidate, leverage and optimize the existing platform to accelerate balance sheet growth



- Niche areas of cards and microfinance continue to be a priority while accelerating the diversification across more retail products.
- The role of the new CEO is to guide the franchise back to historical levels of growth and profitability.
- Management structure in individual business segments is strong with senior people having spent more than eight years with the bank
- Advances growth should revive. Management aspires to end the year with 15-18% YoY growth. Retail should grow 20-25% YoY while growth in wholesale will be lower.
- MFI was soft in 1Q due to reorientation to new rules with higher focus on collection
- MFI disbursements are back to earlier run-rate of INR5-6b in Jul'22
- Strong momentum seen in credit cards and home loans
- On credit cards, sourcing remained in favour of Bajaj with 55% share
- Historically, RBK has delivered a steady state RoA of 4% on cards and this return should move in that direction in a few quarters from now
- 65% of the book is based on floating rate
- On deposits, focus remains on improving share of retail and granular deposit
- The trajectory of margin should improve from hereon as excess liquidity will be deployed into advances
- The bank is not worried about treasury performance as most of its portfolio is invested at the shorter end of the curve
- Operating expenses will remain elevated due to investments in cards business, tech cost and branch growth
- C/I ratio will come down as traction builds on the income side
- Employee cost rose as the entire ESOP cost has been taken through P&L and there was a catch up of expenses pertaining to the previous year
- Operating profit will claw back with time. Historical run-rate should be achievable by the end of this year
- Capital position remains strong with no intention of equity raise for 18-24 months.



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State Bank of India

Buy

Current Price INR 511

Balance Sheet and P&L

- The balance sheet of the Bank crossed INR50t in 1QFY23
- The Bank aims to improve products and services further for benefit of all stakeholders
- International business book saw a growth of 15% YoY in dollar terms led by syndicated debt and trade finance, mainly in US and UK
- The momentum in retail portfolio continues to witness traction
- The Bank maintains leadership position in home loan – Individual mortgage portfolio saw highest ever quarterly growth at 130b
- Digital traction continues with strong growth metrics in YONO and is on track to maintain Digital leadership with a bunch of initiatives
- SBI aspires to increase market share in current account to increase CASA ratio
- NIM saw a decline sequentially as Q4 had a positive impact of interest on IT refund worth INR6b

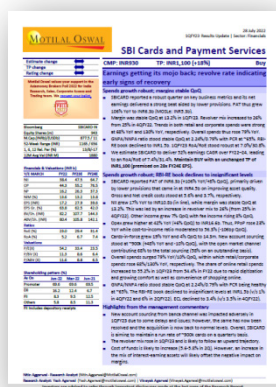
- Loans are re-priced (for change in repo rate) from 1st of subsequent month
- Non-interest income declined 80% YoY due to MTM losses of INR6.5b
- The Bank does not foresee any actual loss in this book. It will recover as rate softens in future
- The Bank has an AFS book of INR6t, of which 60% is in G-Sec and 23% in bonds of high rated corporates
- RoA was down by 9bp YoY to 0.48% (not annualized) due to MTM impact; Ex. of this impact, notional RoA and RoE stands at 0.89% and 18.75% respectively
- Core operating profit increased 14% YoY in 1QFY23
- Business development expenses is mainly due to acquisition of home loans and PSL certificates

Asset quality

- Headline asset quality ratio improved marginally QoQ
- The Bank has contained credit cost at 0.61% in 1QFY23
- Net NPA is down to 1.0% due to continuous focus and resilience to improve this metric
- In 1QFY23, the bank wrote-back Covid related restructured provisions of INR16b due to decline in restructured book
- Out of fresh slippages of INR97b in 1QFY23, INR28b recovered till date
- SME segment contributed INR30b to slippages while Agri and Personal contributed INR27b and INR23b respectively.



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SBI Cards & Payment Services

Buy

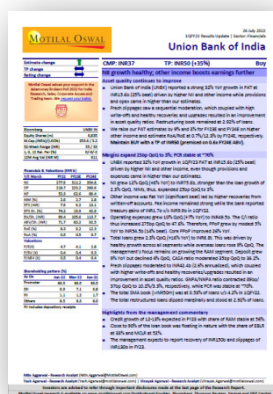
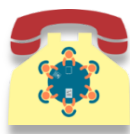
Current Price INR 904

- Credit card spends remains strong and stood at more than INR1t consecutively for past few months
- Industry is undergoing a positive shift due to conducive regulatory environment
- All guidelines issued by regulator are progressive and for consumer protection
- Large portion of the inactive customer have been retained. The regulation on 30 days inactive customers has been deferred
- Enabling Credit card usage on UPI – Discussion is going on with the players and NPCI on MDR and other issues. The same is expected to be resolved soon
- New account sourcing from banca channel got impacted in Jun Quarter due to some delays and issues, however the same has now been resolved and the acquisition is now back at normal levels
- The company is looking to enter into new Banca partnerships which will drive the new account sourcing going ahead
- The company is looking to maintain a run rate of ~900k cards on quarterly basis
- Travel, Entertainment and Hospitality spends have crossed the Pre-Covid levels
- Revolver mix has increased in 1QFY23 and is likely to follow an upward trajectory. Bank is taking steps in this direction to increase the revolver mix
- Cost of funds is likely to increase (5.6-5.8% in 2Q). However, the mix of interest earning assets is likely to increase which will offset the impact on margins
- Spends based fees as % of spends are likely to increase, however, the same is likely to remain below the Pre-Covid levels due to emergence of new category of spends which are of low MDR
- The company is focusing on increasing the market share on o/s card on a gradual basis
- EMI loans are fixed rate loans so the company can increase the interest rates on the incremental disbursements

- SBI card is the largest issuer of RuPay cards. Spends via RuPay cards is likely to increase with the allowance of usage of cards for UPI
- Spends per card is likely to witness a gradual moderation due to increased usage of new spends categories
- Rental, Insurance, Bill and Utility payments forms ~10-20% of total spends
- Revolver rate by Banca channel customers are lower than the open market customers
- Average EMI balance stands at INR125k



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Union Bank of India

Buy

Current Price INR 39

Business performance, Balance Sheet and P&L

- Credit growth has picked up across the system over the past few months
- UNBK continues to post strong financials with strong growth in loans
- Credit growth of 12-13% expected in FY23 with share of RAM stable at 56%
- HAM projects are doing well for the bank
- To increase retail traction, UNBK has added 215 retail touch points
- Similarly, it is increasing touch points for the MSME segment; at present, it has 125 touch points
- Board approval is in place to raise INR3.8b through the equity route. Management is looking at a QIP in 3Q/4QFY23, primarily to bring down the stake of the Government to 75%
- Close to ~90% of the loan book is floating in nature with the share of EBLR at 33% and MCLR at 52%
- The bank rebalanced the AFS portfolio in anticipation of movement in rates. The idea was to maintain a portfolio with low duration to avoid treasury losses
- Margin expansion of 15bp in 1QFY23 was due to the increase in CD ratio
- NIM should be around 3.1% for FY23E
- The management is comfortable with the treasury portfolio as of now
- Employee expenses were high QoQ due to rollout of incentives and promotions. This should even out as the year passes by.
- Close to INR30b worth of past losses to be set-off during the current year.

Asset Quality

- The bank has strengthened collection efficiency by adding call centers and on-street fleet with specialized staff
- Headline asset quality improved QoQ along with improvement of 121bp in PCR to ~70%
- Higher write-offs during 1QFY23 consisted of – INR40b from corporate, INR14b from MSME and INR2b from retail
- Total restructured book was INR310b; of this, INR89b was already in NPA while the rest was standard
- In the current quarter, slippages from restructured book is around INR12b
- Future Retail is completely provided for
- All non-performing investments are 100% provided for
- The endeavour of the bank is to maintain credit cost below 1.7 in FY23E
- Total SMA book of the Bank is INR331.7b and consists of SMA-0, 180b, SMA1- INR50b and SMA2 – 101.9b
- UNBK is likely to report recovery of INR150b and slippages of INR130b in FY23.

FINANCIALS/NBFC



- Among lending institutions, the broader guidance is for strong disbursement growth in FY23 and improvement in asset quality leading to benign credit costs. Despite the increase of ~90bp in policy repo rate (during 1QFY23), the cost of borrowings (CoB) either remained stable or exhibited marginal decline except for the mortgage heavyweights (such as HDFC/LICHF), which reported a sequential increase in their CoB. For others, increase in CoB will start reflecting from 2QFY23E onwards. Margins, therefore, either remained stable or posted marginal sequential improvement for the vehicle financiers while there was a minor sequential deterioration in margins for large mortgage lenders, such as HDFC and LICHF, because of a lag in transmission of higher borrowing costs. Most of the lenders reported an improvement (or stability) in asset quality while there were a few notable exceptions. Aavas and LICHF (contrary to our expectations) reported deterioration in their asset quality, owing to slippages from the restructured pool. The management remains watchful of the impact on NIM and credit growth for non-bank lenders. Hence, it will be important to monitor the impact on the stated parameters for non-bank lenders.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY23	Asset quality and others
Bajaj Fin.	<ul style="list-style-type: none"> ■ The management continues to focus primarily on margins and expects INR500-540b of core AUM growth in FY23. ■ Given the deep investments being committed to the omni-channel strategy (geo-expansion, app platform, and web platform), management expects the opex-to-NII ratio to remain in the 35.5-36% range in FY23. ■ BAF is already into used-car financing business and it will launch the new auto loan business in FY24E; however, it will not venture into CV Finance. 	<ul style="list-style-type: none"> ■ Flow-basis credit costs were INR6.25b (excluding the utilization of management overlay and one-off of a large B2B commercial account). ■ On portfolio credit quality, 10 portfolios are green and 1 is yellow (2Ws and 3Ws). ■ Write-offs (other than the one-offs) remained flattish. The management guided that credit costs should be similar to or lower than what it delivered in FY18-19.
ICICI Sec.	<ul style="list-style-type: none"> ■ The management has guided for strategic investments in technology and marketing in FY23E. Technology spends in FY23 are likely to be 2.5x that of FY22. ■ Cost-to-income ratio is projected to increase in FY23, before trending down towards 40% in the medium term. 	<ul style="list-style-type: none"> ■ The management is taking remedial measures to improve share in the derivatives segment such as: 1) lowering the price of traders, 2) faster platform execution, 3) additional tools – strategies to ease the trading process, and 4) offering APIs and algos. ■ The company expects strong momentum in the Distribution segment to continue.
IIFLWAM	<ul style="list-style-type: none"> ■ Normalized TBR income will be at INR0.8-1b per quarter, and the management has factored in the same in FY23 and FY24 guidance. ■ The normalized run-rate for administration expense will be INR450-500m, whereas employee cost, as a percentage of revenue shall be around ~33-34%. 	<ul style="list-style-type: none"> ■ The management is currently adding the right technology to cater to INR50-200m of business segment, which is likely to go live by 1QFY24. ■ Within the Wealth Management business, the management will continue to focus on the B2C segment.
Angel One	<ul style="list-style-type: none"> ■ From FY23 onwards, the ESOP cost is forecasted to be around INR0.60b p.a. for a four-year period. In addition, the employee costs will include regular salary increments. ■ The management will now start investing more towards brand visibility. Therefore, FY23 shall see higher investment cost. 	<ul style="list-style-type: none"> ■ Although, operational expenses might remain higher sequentially, on an overall basis, the management remains optimistic of improving the CI ratio. ■ The management is confident of improving the activation rate with the use of data science. Launch of super app shall further help in improving the experience of first time customers. Angel believes that doubling client acquisition run-rate in FY23E is highly achievable.
Star Health	<ul style="list-style-type: none"> ■ The management is expecting to clock premium growth rate of 24-26%, higher than the industry growth. ■ Solvency ratio shall improve to 190% in next 3-4 months led by calculation likely moving to premiums from claims, DTA benefit and improving profitability. ■ The company is considering price revision for two of its retail products. These two products currently contribute to around 15%-20% of the GWP. 	<ul style="list-style-type: none"> ■ The management has indicated that Claims ratio has normalized to pre-COVID levels and in Apr'22 the ratio was in the range of 64-65%. ■ The management will focus on raising the share of higher sum assured policies.

Mahindra Finance

- Disbursement momentum has been improving and the management expects the same to continue.
- The company does not foresee any volume decline and expects a price increase from OEMs that will support disbursements.
- The management maintained its guidance to double the AUM over the next three years
- Opex ratio is likely to remain elevated at ~3%.
- The management estimates ~50-60bp increase in weighted average CoF assuming further ~50-75bp repo rate hike in FY23

- Even after to adoption of RBI NPA circular in Oct'22, the company plans to maintain the current PCR of ~58% and therefore does not expect provisions to increase significantly in the remainder of this fiscal year.
- MMFS now maintains 100% provisions on those loan contracts which have an ageing above 18+ months. However, company continues to make efforts for recovery on those exposures.
- Expects credit costs to reduce ~1% by end-FY23 driven by lower repossession/write-offs

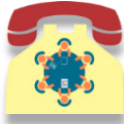
Muthoot Fin.

- The management maintained its guidance of 10-15% loan growth in FY23.
- The management guided at minimum spreads of ~10%.
- New teaser rate loans were stopped after Mar'22 and all existing teaser rate loans were migrated to higher rates by 30th Jun'22. This will result in an improvement in yields from 2QFY23 onwards

- First tranche of ECB which was at higher interest rates will mature in Oct'22 and which should benefit the weighted avg. cost of borrowings.
- Overall, the borrowing costs should remain stable and the increase in incremental cost of borrowings can be offset by the maturity of higher cost borrowings.
- Quantum (principal) of gold auctions in 1QFY23 stood at INR13.74b (v/s 4QFY22: INR21b | 3QFY22: INR28b | 2QFY22: INR2.7b, 1QFY22: INR370m | FY22: INR52.1b | FY21: INR1.71b | FY20: INR5b | FY19: INR10b).



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Aavas Financiers	
Revenue (₹ Cr.)	1,000.00
Profit (₹ Cr.)	150.00
EPS (₹)	15.00
P/E Ratio	10.00
Dividend Yield (%)	2.00
Market Cap (₹ Cr.)	1,500.00
Debt to Equity Ratio	0.50
Return on Assets (%)	1.50
Return on Equity (%)	15.00
Operating Expenses (%)	3.00
Provisions (%)	5.00
Capital Adequacy Ratio (%)	15.00
Loan to Deposit Ratio (%)	80.00
Asset Quality Ratio (%)	95.00
Provision Coverage Ratio (%)	100.00
Cost of Funds (%)	10.00
Net Interest Margin (%)	5.00
Operating Leverage	1.50
Financial Leverage	1.50
Operating Leverage	1.50
Financial Leverage	1.50

Aavas Financiers**Sell**

Current Price INR 2,247

Guidance

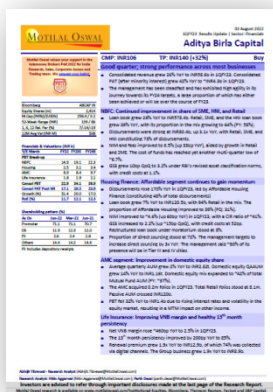
- Expects spreads to remain stable for the next 2-3 quarters
- Guided for monthly disbursement run-rate of INR3.7b-4b and AUM growth of 23%-25%
- Operating expenses
- Making large investments in technology and opex will remain elevated in the same range in FY23 (as FY22) and then exhibit a 20-30bp decline in cost-ratios from FY24 onwards.
- Asset Quality
- Company had a restructured pool of ~INR1b which was classified under Stage 2. From this restructured pool, INR160m slipped into Stage 3
- AUM and disbursements
- AAVAS keeps a 40-50% additional capacity in its sales team and 15%-20% additional capacity in other teams. This has enabled it to deliver healthy disbursements even during tough times.
- Adjusted for the subsidy component, AUM growth would have been higher than 24%.
- AAVAS had increased its PLR by ~25bp from Jun'22 onwards. Company will be increasing its lending rates by ~50bp from 5-Aug-22 and it immediately becomes effective on the entire floating-rate back book
- >90% of the bank term loans are linked to the 1-year MCLR.
- NHB borrowings of ~INR10b came at relatively low interest rates.

Credit Rating Upgrade

- Company received a credit rating upgrade from ICRA to AA (from AA- earlier) in Jun'22.
- Others
- Monthly BT-OUT was 0.5% of the opening AUM and for the quarter it stood at 1.58% of the opening AUM and ~6% annualized.



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- Business Loans: Tenures upto 7 years, yields of 15% and the collateral is self-occupied residential property.
- Company will be opening 30-40 new branches every year
- No aspirations to venture into any other fee-based income products.

Aditya Birla Capital

Buy

Current Price INR 110

Macro view

- Macro headwinds exist led by inflation and slowdown in global economy.
- However, India expected to grow by 7% creating significant market opportunity for the company

CONSOL

- The company operates total 1,100 branches and plans to add new and customized products like co-branded credit cards, fixed maturity products in life insurance business and other new range of offerings for higher market penetration.
- Added 4m active customers in this quarter with 96% customer on boarded by digital means.

NBFC

- Disbursed INR80.3b, increasing to 3x YoY. ~73% of the disbursements come from retail and SME segment. Retail and SME segment now have a share of 64% of loan portfolio.
- Average ticket size has reduced from INR0.4m to INR40k over the year for creating a granular retail book
- The company maintains a focus on leveraging data analytics for cross selling opportunities
- The collection efficiency was healthy at 99.3%
- PCR has been progressively and prudently increased to 48%
- 73% of the loan book is secured in nature
- Out of the total restructured book (~INR16b), only ~INR5b was under moratorium (~0.85% of the NBFC loan book). Collection efficiency in the remaining restructured book stood at ~91%.
- Provided guidance of loan growth of 20% with RoE normalizing in the range of 15-17%
- Guided for credit costs of 1.1-1.2%
- There were some slippages from the restructured book in the SME and small-ticket retail segment.

Housing

- The company plans to steadfastly focus on growing affordable housing book and to drive affordable penetration further.
- Plans to open 200 branches by FY23. Currently 73% of the branches are present in tier 2-3 cities.
- Earned high NIM of ~4.6% driven by low cost of funds and calibrated underwriting strategy.
- Only 3% of total loans are under moratorium and company has created sufficient mgmt. overlay across all stages
- Guidance of 20% growth in advances with an emphasis to benefit from operating leverage

- Guided that the RoA can improve even as the company further grows in size. It might even start doing some bit of prime housing and construction finance.

Life insurance

- Delivered positive net VNB margins in 1Q itself. Targets net VNB margin of 17-18% by FY 23 and plans to double the net VNB by FY25.
- Looking at doubling the credit life business under the group business umbrella
- Carrying COVID provisions of INR470m

Health insurance

- The market share of the company has increased by 300bp and overall share among SAHIs stood at ~12%.
- Combined ratio of 109% was split as claims ratio of 55% and expense ratio of 54%
- Launched Corporate OPD and Retail OPD products

Credit Cards

- Evaluating whether it can independently issue credit cards and in talks with the RBI with regards to its application
- SBI Co-branded credit card - already launched it internally in the AB Group ecosystem and will now start open market sourcing as well. ABCL will get the origination fees and once the customers are seasoned and have a credit history- they can even cross-sell to these customers.



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Key Metric	Q1 FY23	Q1 FY22	Q1 FY21
Revenue	1,234.56	1,123.45	1,012.34
Profit	234.56	212.34	198.76
Operating Profit	123.45	112.34	101.23
Net Profit	87.65	76.54	65.43

Management Commentary: Q1 FY23 performance was strong, driven by growth in new clients and improved operational efficiency. We remain focused on long-term growth and customer satisfaction.

Angel One

Buy

Current Price INR 1,294

Industry

- Despite the current industry headwinds, management expects the long-term growth story to remain intact.
- With regards to the recent media article around regulatory body restricting F&O trading for retail investor, management has clarified that the NSE meeting was just to understand the onboarding process followed by digital brokers. Resultantly, there was no red flag observed.
- The digital broking industry is witnessing consolidation. The top few discount brokers are expected to enjoy the bulk of the market share in terms of incremental clients in the coming months.
- Presently, the key challenge for any fintech company is to educate the customers as products are becoming increasingly complex.

Business

- Once the Super app is fully operational and all third party products are made available, the activation ratio is likely to reach higher levels of around 50% (v/s ~40% currently).
- In spite of a sharp fall in ARPU in the past couple of quarters, the payback period continues to be around two quarters.
- Management is concerned on the regulatory changes. However, the focus will continue to be on launching products and developing the customer base for long-term growth.
- The company has built a system to increase scalability. Presently, its transaction handling capacity is 2-3x of the existing levels.
- As a platform-based company, ANGELONE wants to be ready with products such as: (1) Mutual Funds (2) ETFs, (3) Fixed Income products (like FD, bonds and sovereign bonds), etc., which are gaining higher wallet share.

- Account aggregation framework is anticipated to expand the product suite provided to the clients and can be a big game changer. The company is investing heavily in technology to capitalize on these evolving opportunities.
- ANGELONE enjoyed 34% market share in new client additions in Jun'22.
- With MF being launched on Super app, client base shall expand further.

Financials

- ESOP cost for FY23 is expected to be around INR600m, of which INR130m was accounted for in 1QFY23. Employee cost run-rate is likely to remain in the current range.
- Over the last 18 months, the company is heavily investing in technology and products to capture the industry growth. Investment trajectory is expected to continue for the next few quarters as well.
- Tech spend is around 15-18% of total cost incurred.
- ARPU has been declining as more than 90% of customers acquired are new to the market, which was not the case a few years back. In the current market environment, it has been difficult to get them active.
- Cost of acquisition is likely to start flattening out in the next few quarters.

Technological initiatives

- Successfully rolled out the first phase of Super app to limited customers on both IOS and web platform. The app is based on swiftness, reliability, simplicity, transparency and availability.
- During 2QFY23, the company will start working on the Android-based Super app. Post that it will further need a quarter for complete migration.
- Digital advancement has led to a reduction in customer care calls.
- Activation rate has improved in the 0-15 days bucket on the new app.
- Mr. Dinesh Radhakrishnan joined ANGELONE as the Chief Product and Technology Officer. Prior to joining, he was working with Ola Electric.



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MOTILAL OSWAL		Bajaj Finance	
Investment Thesis		Key Metrics (FY22)	
Key Metrics (FY22)		Key Metrics (FY22)	
Revenue (INR)		Revenue (INR)	
Profit (INR)		Profit (INR)	
EPS (INR)		EPS (INR)	
P/E Ratio		P/E Ratio	
Dividend Yield (%)		Dividend Yield (%)	
ROE (%)		ROE (%)	
ROA (%)		ROA (%)	
Net Interest Margin (%)		Net Interest Margin (%)	
Cost of Funds (%)		Cost of Funds (%)	
Operating Leverage		Operating Leverage	
Capital Expenditure (INR)		Capital Expenditure (INR)	
Free Cash Flow (INR)		Free Cash Flow (INR)	
Debt to Equity Ratio		Debt to Equity Ratio	
Current Ratio		Current Ratio	
Interest Coverage Ratio		Interest Coverage Ratio	
Liquidity Ratio		Liquidity Ratio	
Asset Turnover Ratio		Asset Turnover Ratio	
Equity Turnover Ratio		Equity Turnover Ratio	
Return on Assets (%)		Return on Assets (%)	
Return on Equity (%)		Return on Equity (%)	
Return on Capital Employed (%)		Return on Capital Employed (%)	
Return on Investment (%)		Return on Investment (%)	
Return on Assets (ROA) (%)		Return on Assets (ROA) (%)	
Return on Equity (ROE) (%)		Return on Equity (ROE) (%)	
Return on Capital Employed (ROCE) (%)		Return on Capital Employed (ROCE) (%)	
Return on Investment (ROI) (%)		Return on Investment (ROI) (%)	
Return on Assets (ROA) (%)		Return on Assets (ROA) (%)	
Return on Equity (ROE) (%)		Return on Equity (ROE) (%)	
Return on Capital Employed (ROCE) (%)		Return on Capital Employed (ROCE) (%)	
Return on Investment (ROI) (%)		Return on Investment (ROI) (%)	

Bajaj Finance

Buy

Current Price INR 7,103

Business Updates

- On track to go fully digital across all products and services by Jan'23 and on the web platform by Mar'23.
- Launched non-captive 2W market place. Expects to book 3K-3.5K 2W loans in the first month from the 2W market place.
- Product mix is largely the same except for auto finance which declined to 5% (v/s 7% YoY)

Asset quality

- Flow basis credit costs was INR6.25b (excluding the utilization of management overlay and one-off of a large B2B commercial account)
- On portfolio credit quality, 10 portfolios are green and 1 is yellow (2W and 3W).

Omnipresence

- 11m app downloads during the quarter and total net installs (cumulative) stood at 23m. Expects 35-38m customers on the consumer app by Mar'23
- Loans originated through Bajaj Mall (EMI Store) - INR15b [645K loans with average ticket size of INR23K]

Digital EMI Card

- Activation rates on EMI Cards on a 12-month basis would be higher than the activation rate of credit cards.

- 60% of the Digital EMI Card customers are paying INR550/- annual fees for the card.
- From a 12 month vintage, it sees 45%-50% activation rates in Digital EMI Card.

Guidance

- Company will continue to focus on margins and growth in that order.
- Opex to NII will remain elevated between 35.5-36.0% in 2QFY23 and then it should start moderating from 3QFY23 onwards
- Write-offs (other than the one-offs) have remained flattish. Guided that credit costs should be similar to or lower than what it delivered in FY18-19
- Expects INR500-540b of core AUM growth in FY23
- Company in its AGM guided that it would reach INR3.8-4.0tn in AUM by FY25
- Expects to deliver RoA higher than the guidance of 4.7% in FY23.
- BAF is already doing used-car financing business and it will launch new auto loan business in FY24 as well but it will not venture into CV Finance.

BHFL (Housing Finance)

- AUM was up 40% at INR574.3b. Home Loans AUM grew by 41%, LAP grew by 33%, LRD by 43% and Developer Finance grew by 68%
- Total equity infusion of INR75b in BHFL and it is now well capitalized for INR1tn in AUM

Gold Loans

- BAF has 155 standalone gold loan branches; it will add another 75 standalone gold loan branches in this fiscal and expects 232 gold branches by Mar'23
- Gold loans are not dilutive to the return profile of Bajaj Finance and the company guided that it can be a reasonably large business over the next 3-4 years.

Credit Cards

- Deep strategic partnership with RBL Bank and remains committed to the partnership. Kicked off the DBS partnership and booking around 9K-10K accounts per month and expects to exit with 30-40K accounts per month

Housing Finance

- Risk profile is structurally different. Even through the pandemic, when offices were shut even then the asset quality performance of the LRD was very good.
- Within Developer Finance (DF), it will remain in the ticket size of INR250-500m. Only for select developer loans, it will be go up to INR1.0b-1.2b
- Assignment income of INR1.1b based on assignment of INR9.5b LAP portfolio

SME Lending business

- MSME with customers having turnover between INR20m-INR150m; 60-70% traders and remaining are manufacturers. This business is being done in 1800+ cities in India

Liabilities

- Banks are taking time in passing on increase in MCLR since the savings/fixed deposits interest rates have not gone up. Incrementally, banks are more receptive to doing MCLR-linked loans.

Yields and Margins

- BAF took four interest-rate hikes and it has increased deposit rates by 55-75bp depending on the maturity.
- Increased interest rates by 25-40bp for all the incremental acquisitions;



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Ratio	2022-23	2021-22	2020-21	2019-20	2018-19
ROE	15.1%	14.2%	13.5%	12.8%	12.1%
ROA	1.2%	1.1%	1.0%	0.9%	0.8%
NIM	3.6%	4.07%	4.2%	4.3%	4.4%
WAC	5.8%	5.8%	5.8%	5.8%	5.8%
Yield	8.46%	8.46%	8.46%	8.46%	8.46%
Cost of funds	0.2%	0.2%	0.2%	0.2%	0.2%
Cost of credit	0.24%	0.24%	0.24%	0.24%	0.24%
Cost of capital	18%	18%	18%	18%	18%
Debt to equity	70:30	70:30	70:30	70:30	70:30
Capital adequacy ratio	15.1%	14.2%	13.5%	12.8%	12.1%
Provision coverage ratio	100%	100%	100%	100%	100%
Asset quality	1.2%	1.1%	1.0%	0.9%	0.8%
Non-performing assets	1.2%	1.1%	1.0%	0.9%	0.8%
Provision coverage ratio	100%	100%	100%	100%	100%
Asset quality	1.2%	1.1%	1.0%	0.9%	0.8%
Non-performing assets	1.2%	1.1%	1.0%	0.9%	0.8%
Provision coverage ratio	100%	100%	100%	100%	100%

Others

- BAF had 35,400 employees as on Mar'22. There was an addition of 2400 employees in 1QFY23.
- BAF still has 65%-68% manufacture subvention pool in CD and 55-57% manufacture subvention pool in digital. No material change has been seen in this recently.

Can Fin Homes

Buy

Current Price INR 591

Yields and spreads

- NIM declined to 3.6% (v/s 4.07% in 4QFY22). Reported NIM includes interest income, other income, and income on investments. The latter fell in 1QFY23.
- Portfolio WAC stood at 5.8%. Incremental CoF stood at 5.67%. Around 21%/22%/7% of liabilities are linked to repo/T-bill/MCLR. External benchmark linked borrowings are re-priced every quarter.
- Portfolio yields stood at 8.46%. Incremental yields stood at 8.21% in 1QFY23 v/s 8.07% in 4QFY22.

Outcome of the audit and investigation of CANF branches

- An audit of all of CANF's 200 branches has been completed and all observations have been rectified. Around 25% of branches were audited by the internal team and the balance by the statutory auditors of respective branches.
- Irregularities (forging of financial documents and deficiency in the property) were identified across four branches.
- In 4QFY22, it had identified fraudulent accounts of INR39.3m, of which INR14m has been closed and that book has declined to INR25m. Incrementally, it identified INR24.3m of fraudulent accounts in 1QFY23, which has also been fully provided for.
- Deputations to CAN from CBK still continue in the usual course of business.

Asset quality

- The total restructured book declined by INR450m to INR6.64b from INR7.09b earlier. No account from the restructured pool has slipped into NPA. Most accounts have not resumed repayments. The same will resume after two quarters. Of the restructured book, 17-18% of customers have started repaying, even though repayments are not due. It expects ~5% of the restructured pool to slip into NPA.
- It expects provision write-backs of ~INR350m from the OTR pool by Mar'23. The company also expects recoveries of INR4-4.5b from the NPA pool.
- Stage 2 loans stood ~INR4.7b.

Guidance

- The management has guided at a loan growth of 18% and spreads of 2.4%. It aims to protect its NIM threshold of 3%.
- GS3 stable at 0.6-0.75%. It is targeting credit cost at 0.2-0.24% in FY23.
- It expects a cost-to-income ratio of 18-19% in FY23.
- The management guided at a 70:30 mix between salaried and self-employed customers. It is targeting an opening of 210 branches by the end of FY23.


Equity capital raise

- The company is planning to raise Tier I capital in FY23.



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MUTUAL OVAL
Investment Management

1. **Capital**
2. **Structure**
3. **Strategy**

Investment Model
S&P 500
S&P 500 + 10%

Chamolandam Ltd. & Finance

100% **Equity**
100% **Debt**

CMP BSE394
CMP 100

Chamolandam Industries Ltd. of strong AUM

100% **Equity**
100% **Debt**

Investment Model
S&P 500
S&P 500 + 10%

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S&P 500 + 10%

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100% **Debt**

CMP BSE394
CMP 100

Chamolandam Industries Ltd. of strong AUM

Others

- The management is focusing on Cat-B customers, and within that it will be equally split between government and public employees. Income/salary is in the range of INR38-40k per month.
- Bengaluru contributes ~20% of the loan book.
- On the asset side, all loans are floating, and the re-pricing happens after every 12 months.
- BT-OUT was ~INR1b in 1QFY23.

Cholamandalam Inv. & Finance

Buy

Current Price INR 773

Guidance

- Guided that AUM can grow at over 20% in FY23
- Pre-tax RoA of 3.5%-4.0% and sustainable RoE of 20% (and there is a scope for further improvement).
- Debt-Equity: 6X and the company would want to remain in the band of 6X-7X debt-equity
- Credit costs will range between 1.0-1.5% over the cycle and it will revert back pre-COVID levels

Asset Quality

- Outstanding restructured pool stood at INR34.25b. Company has classified INR500m of the restructured pool to Stage 1 because those customers have more than 30% of the POS outstanding on the date of restructuring.
- Incurred loss on repossessed vehicles is ~32% and the PCR on Stage 3 (~41%) adequate
- Increase in credit costs was also because of the macro outlook. Macro model suggested additional provisioning requirement of INR400-500m and the company has made ECL provisions for the same. Intent is not to keep making macro provisions every quarter.

Vehicle Finance

- Expects the vehicle finance industry can grow by 35% [Aided by value growth from inflation]. Chola will continue to grow at slightly higher than the industry growth.
- Company is changing the product mix towards the higher-yielding products there is a lag between the marginal cost of lending and portfolio yields in Vehicle Finance
- In commercial vehicles, current numbers are driven by the large fleet operators and it expects the retail customers who buy pre-owned vehicles to start buying in 2H if the monsoons are good and there is recovery in the economy/GDP
- New Vehicle Sales have picked up significantly and 1QFY23 has been one of best quarters for the new vehicle sales; This is the reason the vehicle disbursement mix was skewed in favor of new vehicles and could have also impacted incremental blended yields.
- LAP
- Guided for credit costs of 0.4%-0.5% at the portfolio level and expected RoTA (pre-tax) of 3.5%-4.0%

Home Loans

- Affordable Housing Self-Construction has been the focus area. It was earlier focused in the South but has now



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- ATS of INR1.4m

Newer Businesses

- Partnerships contribute 33% to the newer business disbursements. Consumer Loans and Personal Loans are small ticket and small tenor loans with average duration of 3 to 6 months.
- Within Supply Chain finance (30% of SME book), 50% is from the Murugappa Group companies.

Liabilities

- CP stood at 7% of the borrowing mix and the company can increase it to 10-12% to mitigate the impact of higher borrowing costs.

HDFC

Buy

Current Price INR 2,423

Equity infusion in HDFC Life

- After the merger with Exide Life, the solvency margin of HDFC Life had declined.
- From a regulatory perspective, HDFC Life wanted to increase its solvency ratio to >200%. With this preferential issue of equity shares of INR20b, the shareholding of HDFC in HDFC Life will increase by 1% (but still remain below 50%).
- HDFC will await clarity from RBI on whether it can increase its stake above 50% before the merger is consummated.

Related to Merger

- Received approval for the merger from the RBI. Awaiting approvals from the CCI.
- Almost everything that HDFC does will qualify for the Bank's book. Only something like loan against securities (LAS) and cumulatively less than 1-2% of the HDFC book will not qualify for HDFC Bank book.

NII and Margins

- In the corresponding quarter of the previous year, due to the second wave of COVID-19, there was ample liquidity in the system and consequently, overnight interest swap rates fell to very low levels, thus expanding NII and NIM.
- Adjusted for the one-time impact of the transmission lag and the OIS Swaps, the NII growth would have been 16% which would have been in line with the growth in AUM.
- Expect the NII growth to improve during the course of the subsequent quarters and logically the NIM should also improve

Asset Quality

- 1QFY23 write-offs stood at INR4b and outstanding restructured pool stood at INR44.1b (0.77% of the AUM)
- Company suggested that there is no evidence from the past to suggest that rising interest rates have resulted in higher delinquencies

Disbursements and pipeline

- 1QFY23 individual disbursements were ~INR420b
- Non-individual loans grew by 8% YoY. Healthy pipeline of non-individual business and it has seen pre-payments. Good pipeline in construction finance and LRD and expects the growth in the non-individual segment growth to accelerate in the coming quarters. Double-digit growth in the non-individual loan book is very much on the cards.

Liabilities and LCR

- In Jul'22, RBI increased the threshold of ECB from USD750m to USD1500m; HDFC is in the process of raising 3 year ECB to the tune of USD1.1b and the fully-hedged costs will be similar to the cost in the domestic markets.
- Average LCR stood at 71% (v/s regulatory requirement of 60%).



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HDFC Life

Current Price INR 567

Neutral

Operating environment and business performance

- The management remains optimistic about the prospects of the Insurance sector and welcomes the initiatives taken by the regulator in this direction.
- The increase in expense was due to its investment in distribution. Most of these expenses are front-ended, with the benefit of higher sales accruing with a lag.
- The decline in EV is due to payment of dividend and adverse economic variance. As market volatility subsides, the management expects the economic variance to reverse.
- Adverse economic variance of INR11.7b comprises of a negative impact of INR4b/INR7b due to a fall in the equity market/rising interest rates.
- Short/long-term rates have risen by 130bp/50-60bp. Usually shareholder and excess assets sit on the short-term side, while Non-PAR assets sit at the longer end of the curve. Collectively, the impact due to a change in rates is INR7b, 2.3% of FY22 EV.
- The management expects unwind for FY23 at a little over 8%. It sees the RoEV band of 17-18% as achievable on a full-year basis, unless interest rates move dramatically.

Business mix

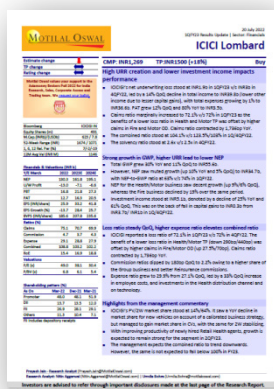
- On Non-PAR products, competitive intensity is high from smaller, non-listed players. However, there is a preference for stronger brands from customers, even if it comes with lower returns.
- HDFCLIFE saw a gain in market share in Annuity as it grew the segment by 10% YoY as compared to a decline of 9% for the industry during the same period.
- The strong growth of 96% witnessed in the Credit Life business was led by a rise in disbursement momentum across lending players.
- Group Term plans have seen some normalcy in pricing. As it is a short term product, it remains a tactical business segment.
- Due to inflation, there is some lag in the demand for Individual Protection. However, the willingness and intention of consumers to buy Insurance aren't an issue, unlike a couple of years back. As inflation pares down in the 2HFY23, the management expects demand to return in Retail Term Insurance.

Distribution mix

- In an inflationary environment, it is easier for agents to sell a Savings product as compared to Protection from a return on effort metric.
- Sales from HDFCB remain steady, while a strong momentum is being witnessed in sales from YES, IDFCFB, and BANDHAN.
- Around 15-20% of banca sales accrue from the non-HDFCB channel.
- Typically, two-third of HDFCB's business pertains to HDFC. With the merger, we expect this ratio to strengthen further.



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- The online channel is seeing a higher competitive intensity. Multiple initiatives have been taken in the direct channel in order to make it robust and agile.

ICICI Lombard

Buy

Current Price INR 1,261

Industry

- The combined ratio for the industry stood at 118.1% in FY22 (excluding one company) v/s 112.2% in FY21.
- IRDAI has allowed General Insurers to sell data-driven products (such as 'pay as you drive', 'pay how you drive' and a 'floater policy') as an add-on.

Motor segment

- To boost consumer convenience, ICICIGI recently launched its Motor floater policy by providing a single policy for multiple vehicles.
- The share of CV in overall Motor premium grew to 24.6% in 1QFY23 v/s 16.6% in the same period last fiscal.

Market share

1. ICICIGI's PV/2W market share stood at 14%/64%.
2. The company saw a YoY decline in market share for new vehicles on account of a calibrated business strategy. It has managed to gain market share in the CVs, with the same for the 2W segment stabilizing.

Motor OD

- ICICIGI saw a slightly higher than expected rise in claim frequency in 1QFY23 as compared to last year (excluding the increase from greater utilization of vehicles). However, the average claim size has remained stable.
- The industry saw a slight moderation in price competitiveness in 1QFY23, with players bringing in some pricing discipline. However, the management feels that with the increased availability of capital in the sector, pricing will continue to remain competitive. With investment valuation returning to reasonable levels, pricing can be expected to get better by FY23-end.
- Increase in Motor OD claims is partially on account of a few select business segments, where the loss ratios are higher. However, the same is offset by lower distribution cost.
- Motor TP: Although rate hikes were lower than inflation, the management expects to benefit from a change in Motor norms, if implemented.
- Tech products: Data-driven products price risk better. However, it will take a considerable amount of time to contribute materially to the overall Motor business.
- The mix of new vehicle-to-renewal premium stood at 40:60 in 1QFY23 v/s 35:65 in the same period last year.

Health segment

- The industry has seen a moderation in growth in Retail Health on the back of a base effect. ICICIGI has started to see a pickup in growth.
- With improving productivity from newly hired Retail Health agents, growth is expected to further strengthen in 2QFY23.
- The industry saw greater pricing discipline in the Group Health business in 1QFY23.
- The loss ratio in the Corporate book/Retail indemnity stood at 91%/78% in 1QFY23.

- ICICIGI raised Group premium by 15% in 1QFY23, which will further benefit from an improving claims ratio.
- Non-COVID Health claims intimation grew in the high teens in 1QFY23.

Crop segment

- The Crop book acquired through the merger with BAXA has an exposure to Karnataka and Maharashtra. Recently, Maharashtra changed its Crop Insurance policy and implemented a claims cap of 80-100%. With this fixed range loss ratio, ICICIGI bided for two clusters.
- Higher Reinsurance cost is a key challenge in this business segment. But with the introduction of capped loss ratio, the need for the same has gone away.
- The management remains mindful of increasing its Crop exposure beyond a certain limit.
- There was a sharp improvement in its loss ratio in 1QFY23 on account of a lower loss ratio as compared to what was provisioned for earlier.

Commercial segment

- It expects to gain market share in the Commercial line of the business in FY23.

Distribution

- The headcount in the Retail Health agency business stood at 1,101.
- Premium for the Retail Health agency channel grew 18.3% in 1QFY23.
- The ICICIBC channel grew 30.5%, driven by the sale of indemnity products, which the company has started recently.
- Other banca partners grew 65%, with strong growth seen in both existing as well as the new banca channel.
- Distributors acquired through merger saw a healthy growth in 1QFY23.
- Sales from the website/digital partners grew 21%/117%.
- Premium from digital sourcing stood at INR2.2b, constituting 3.9% of GDPI.
- ICICIGI is making continuous investments in increasing digital sourcing.

IL TakeCare

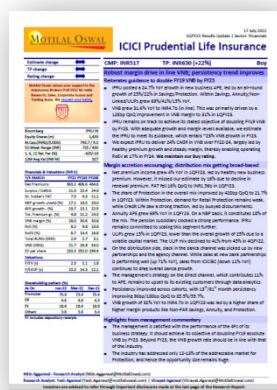
- Sales and cross-selling via the IL TakeCare app has started to see an uptick, with sales of INR0.1b being sourced through the app.
- The app is gaining higher adoption as reimbursement claims by corporates have started to come through the app.

Financial

- Investment income: Capital gains stood at INR0.32b in 1QFY23 v/s INR3.27b/ INR1b in 1Q/4QFY22.
- Expense ratio: There was limited operating leverage on the back of continued investment in Retail Health and technology. The management expects the same to continue over the next few quarters as well.
- Retention: Decline in retention ratio in 1QFY23 was on the back of a higher share of premium from Corporate lines, but remained high in Reinsurance.
- Commission: The sharp decline in the commission ratio in 1QFY23 was driven by higher Reinsurance. In FY23, the company: 1) is conducting business with a high-quality reinsurer, and 2) has managed to negotiate better rates on the back of a positive claim experience.
- URR: There is no difference in the accounting of URR by BAXA and ICICIGI. URR, as a percentage of NWP over the next three-to-four quarters, will depend on growth across business segments.



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- Combined ratio will trend downwards. However, the same is not expected to fall below 100% in FY23.

ICICI Prudential Life

Buy

Current Price INR 576

General environment and business performance

- The new IRDAI chief met all insurers and has set in motion new changes for the development of the sector.
- The idea of Risk % for IPRU under the new regime. The additional capital will be used for further business development.
- New Business Sum Assured grew 25% YoY, with a 110bp YoY improvement in market share to 15.8% in 1QFY23.
- IPRU is on track to double absolute level of FY19 VNB by FY23, as guided by its 4P strategy.
- After FY23, VNB growth should be in line with the sector's growth, despite volatility in revenue.
- The 300bp improvement in VNB margin to 31% in 1QFY23 v/s 28% in FY22 was led by a more optimum business mix.

Product mix

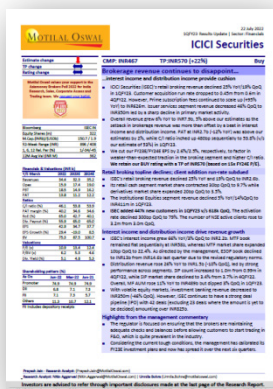
- IPRU has a well-diversified business mix, with the share of ULIPs at 40%.
- The demand for ULIP and PAR products may rise in FY23 as the inflationary environment is usually good for earnings growth, and hence the equity market.
- However, a consistent rise in rates may affect demand for guaranteed products.
- The industry has addressed 12-13% of the addressable market for Protection, and hence the opportunity size remains huge.
- The demand for Retail Protection has been soft in 1QFY23 due to declining fear of COVID-19 and mortality.
- The number of visits for Retail Protection on its own website and the platforms provided by aggregators has fallen.
- IPRU expects Retail Protection to grow from 3QFY23 as the base normalizes.
- The margin on Return on Premium (ROP) is substantially lower than pure Term plans as it is aimed at the mass segment, with stronger mortality assumptions.
- Within Group Protection, Credit life did much better than GTI as disbursement growth has improved across lending institutions.

Distribution mix

- The strategy of building new products has significantly improved IPRU's ability to add new agents and partners.
- The Bancassurance channel has 30 bank partners, with a share of 35% in APE.
- Sales from the ICICIIBC channel fell 10% YoY in 1QFY23 as the focus remains on selling Retail Protection, Annuity, and ULIPs. Volatility in the capital market and muted demand for Retail Protection drove the weak performance.
- Sales from the non-ICICIIBC channel has delivered robust growth (+70% YoY), with its share improving to 15% in the distribution mix in 1QFY23.
- IPRU added over 6,800 agents in 1QFY23. The agency channel now contributes 22% to overall APE.
- Its distribution engine currently has ~800 partners, with 13 new partnerships in 1QFY23.
- The management's strategy on the direct channel remains to upsell to its existing customers through data analytics.



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ICICI Securities

Current Price INR 501

Buy

Industry

- The industry has started to see moderation in volumes from Oct'21; however, the intensity was higher in 1QFY23.
- Growth in new demat accounts have lost momentum (-25% QoQ) and NSE active clients growth rate was 5%, the slowest in past several months. The trend is declining in a more pronounced manner.
- Cash volumes declined further with Retail ADTO being down 15% QoQ. Cash volumes for Jun'22 decreased 22% MoM.
- F&O trading activity has fared better with growing Retail ADTO; however, growth pace has moderated.
- ECM activity declined on a sequential basis (ex-LIC IPO).
- SIP additions to have slowed down.

Business

- The key focus areas for the management are: a) increasing market share across segment, b) diversifying revenue base, c) judicious cost management and d) product development.

Broking

- ISEC took initiatives and made investments in derivative products; resultantly it has seen improvement in market share. Market share for Jun'22 stood at 3.6%.
- Management approach is to diversify and not to depend on a single market opportunity. They are committed to scale up market share by way of: a) pricing (already done), b) reliable platform (established), c) tools (have launched a few and 7-8 more to come), and d) increasing customers.
- ISEC has attained leadership in the MTF segment with a market share of 22.4%.
- Its market share increased to 4.4% from 4.1% in 4QFY22 in the commodity segment.
- Neo adoption was at 50% with an overall subscription of 0.2m.
- Cash segment contributed to 60-65% of Broking revenue.
- ISEC met all regulations with respect to on-boarding of F&O clients. Management is taking steps to launch products that are relatively less risky, such as stop loss products.
- The regulator is focused on ensuring that the brokers are maintaining adequate checks and balances before allowing customers to start trading in F&O, which is quite prevalent in the industry.
- Prime segment saw muted performance in 1QFY23 due to market conditions.
- Payback period is at 13 months, with relatively higher payback period for newly acquired customers.

Product launch

- ISEC has enhanced its focus on trading segment and have launched many products such as flash trade, single screen trading, etc. There are many more products to be launched in 2QFY23E.
- ISEC has upgraded its market and money apps to launch new products.
- Market app is rated better than other competitors on Playstore as well as on Appstore.
- Management has launched iLearn and investor community platform.
- The company has received approval from the Board for acquisition of multi, which is a networking platform for investors.

- ISEC has entered into an exclusive partnership with HSBC for opening 3-in-1 accounts to provide equity services to HNI customers.

Issuer services

- ISEC has a strong deal pipeline of INR825b across 42 deals pipeline. It is quite optimistic that deals will be executed once market recovers.

Distribution & Wealth Management

- This is a highly competitive industry with relatively low entry barriers and hence pricing pressure always exists. ISEC is countering that with innovation and reasonable pricing. MFs are seeing increased level of competition from the direct segment, however, ISEC has managed to gain market share.

Other business area

- Increase in other allied revenues is due to transaction-based charges that are introduced.
- Other distribution includes products such as wealth (AIF/PMS), FI and loan.
- The new app is coming up well and is likely to be launch in the current fiscal.
- 60% of the revenues are contributed from customers more than 5 years back.
- Digital customer contribution to the overall revenue has been rising. 25 cohorts customers acquired of which first 8-9 have already broken even.
- Revenue in the current month is equal to the cost of acquisition. INR13b of float have come from these customers, which also contributes to income along with the charges that have been levied.

Financials

- Institutional equity revenue declined sequentially, however, the cost was higher due to increasing spends in talents and capabilities for marketing and technology.
- Operating expenses saw 2% decline sequentially due to a reduction in discretionary costs. ISEC is focusing on incurring growth-related costs only.
- Technology: Capex was at INR0.7b in FY22 and opex was INR 0.88b. Earlier the management had guided for technology spend to increase by 2x; however, it has slowed down the spend from 4QFY22 and it will now be spread across 6-7 quarters.



Click below for
Results Update

The screenshot shows the IIFL Wealth financial results update page. It includes a table with financial data for FY2022 and FY2023, and a section titled 'Key operational performance' with bullet points.

Particulars	FY2022	FY2023
Revenue	1,100.00	1,150.00
Operating Profit	250.00	260.00
Net Profit	150.00	160.00

Key operational performance

- Revenue growth: Revenue grew by 5% in FY23 over FY22, driven by strong performance in Institutional Equity and Wealth Management.
- Operating Profit: Operating Profit grew by 4% in FY23 over FY22, reflecting improved operational efficiency.
- Net Profit: Net Profit grew by 7% in FY23 over FY22, reflecting improved operational efficiency.

IIFL Wealth

Buy

Current Price INR 1,676

Business highlights

- IIFLWAM has entered into an agreement to acquire 91% stake in MAVM Angels at a valuation of INR420m + cash & cash equivalents. This is a platform-based company with a revenue of INR100m and PAT of INR30m. This acquisition will help IIFLWAM commence its journey towards CAT 1 AIF and it will also help in engaging customers towards private equity side.
- The company is open to more acquisitions if they are value accretive and are something that the company cannot build in-house.
- Management remains confident of achieving all the guidance including that of inflows of INR350-400b on a steady-state basis. However, the guidance on inflows might get negatively impacted in case market continues to remain subdued, which shall adversely affect its FY24 performance.
- The company wants to focus on expanding the geographical reach of HNI customer base to 7-8 cities and later to offshore regions like Singapore as well.

- In case of Ultra HNI customers, they does not want to transact online; however, their expectations are evolving as they want: a) the firm to be technologically advanced, b) RMs to have quick data availability wherein they can do data analysis, c) customers to fetch online data without having to rely on RMs and perform their own data analysis.
- Attrition at Principal and above level is less than 2%.
- By improving the productivity, a lot of RM capacity can be added. This alone can add 30-40% to the overall client base without any further need for RM additions.
- **Product launches:** For 2QFY23E, the management's focus will be on launching fixed income products, within the asset management business. IIFLWAM is also raising investments in structured credit fund, REITS and InvITs funds.

Financials

- Employee cost will remain around 32-34%.
- CI ratio can reduce to 2-3% over the longer term led by improving productivity.
- Yields shall be maintained at 45-50bp.
- There is no income booked on MLDs raised on consolidated basis as it is done for the company's own NBFC.



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MOTILAL OSWAL	
L&T Finance Holdings	
Financials	Key Metrics
Revenue	INR 1,100.00
Profit	INR 150.00
EPS	INR 15.00
P/E Ratio	10.00
Dividend Yield	2.00%
Market Cap	INR 1,100.00
Debt to Equity	0.50
Return on Equity	15.00%
Return on Assets	1.50%
Operating Margin	13.64%
Net Profit Margin	13.64%
Current Ratio	1.50
Quick Ratio	1.20
Interest Coverage	1.50
Loan to Deposit Ratio	1.00
Asset Quality	Good
Capital Adequacy	High
Regulatory Compliance	Yes
Customer Satisfaction	High
Employee Turnover	Low
Technology Investment	High
Partnerships	Strong
Future Outlook	Positive

L&T Finance

Buy

Current Price INR 73

Macro commentary

- Only UP has reported a deficiency in rainfall, which has revived very nicely in the rest of the states and the reservoir levels are up 23% YoY. Kharif crop acreage has already surpassed last year levels except for paddy because of deficient rainfall in UP.
- Cash flows in the hands of the farmers will be very good and we are hopeful of a good season in rural India in FY23E.

Asset quality

- LTFH has started reporting the asset quality based on EAD basis (which aligns it with IND-AS reporting).
- Management guided for normalized credit costs from 3QFY23 onwards. In 2QFY23, there will be some residual provisioning that will be required on the OTR book and from 3QFY23 onwards, management expects credit costs on a steady state basis.
- OTR declined to INR20b (from INR30b as of Mar'22). OTR split: ILFS account of INR2.4b and the remaining INR17.5b was in retail. Within retail OTR, ~INR10b was HL/LAP and ~INR7.5b was in Micro loans.
- During Mar'22-Jun'22, the Micro loans OTR reduced by INR3b; within this, 75% slipped into Stage 3 and the remaining was resolved and closed;
- LTFH completed sale of loans to Phoenix ARC with total exposure of INR10.52b. The loans were accounted/provided for in 1QFY23 (part of the defocused loans).

Yields

- Reduction in Retail yields in 1QFY23 was because of the write-offs and slippages in the OTR book. Management expects to keep yields stable.
- Product mix will ensure that NIM + Fee Income are maintained around 8% by Mar'23 (even after assuming that the MF business will contribute fee income by the end of the year).

Disbursements

- The company achieved the highest-ever retail quarterly disbursements, which grew 10% QoQ.
- About 17% of the new Micro loans sourced in 1QFY23 qualified for Micro-Finance (annual household income lower than INR300K).
- LTFH financed ~33K units of tractor (highest-ever) in 1QFY23.
- Urban Finance comprises 2Ws, Consumer loans, Home loans and LAP and the company reported the highest ever 1Q disbursements.
- LTFH has completed its pilot in Mumbai and Pune over the last nine months and now it is ready to enter the open market.
- Management stopped new sanctions in the real estate finance wholesale book and disbursements are only for existing project completion.

Collections

- The company has been reporting zero-bucket CE across products.
- Collections are back to the pre-Covid levels and better than pre-Covid level in some of the products.

Future Outlook

- Expect retail mix in the loan-book to increase to >60% by Mar'23.
- Management guided for NIM + Fee income to decline to 8% (down ~20bp) by end-FY23.
- LTFH expects to see growth in the overall book from FY24 onwards. In FY23, it expects the wholesale book to decline by 50%.

Liabilities

- Increase in the WAC will be less than proportionate with the rise in market interest rates and the pricing power will ensure that the company will be able to pass on the higher interest rates to the customers.
- Sale of the AMC business: What will be done with the capital gains?
- Decision will be taken at the management level. Subject to regulations, it will be looking to pass on some of those gains to shareholders and the rest will be utilized for macro provisions to provide for the real estate wholesale book.

Others

- Launched digital app in Apr'22 in line with the RBI guidelines to cater to the microfinance sector. The management is trying to launch new products – both secured and unsecured – in the microfinance sector.
- Management is targeting ~INR10b of acquired portfolio in FY23; receives significant amount of credit enhancements from excellent NBFCs and Fin-techs (part of the acquired portfolio is 2W and part is personal/consumer loans).
- Management will be looking for a partner in the Infrastructure business.
- Post-completion of the sale of AMC business, LTFH will be considering inorganic growth more seriously.



[Click below for
Results Update](#)

Life Insurance Corporation**Buy****Current Price INR 675****With respect to business performance, product and distribution mix**

- Continuously increased market share since the beginning of calendar year 2022
- As a result, market share has improved to 44% in Individual business and 76% in Group business
- Renewal book has remained strong during the quarter



- In line with strategy of launching more non-par products, 2 new products were launched. The Corporation also launched 1 new group rider during 1QFY23
- Annuity has been the primary growth driver in non-par
- LIC revised rates in annuity during 1QFY23 to gain market share as there was a divergence in rates offered by LIC compared to competition. Growth in 1QFY23 was >50% YoY
- Protection business has also seen a pick-up – however, base is very low
- LIC will also focus on ULIPs as it is a low capital intensive business
- The contribution of Funds based products were at 33% of overall APE
- Out of INR5b worth sales (APE) of non-par, ~INR1.5b came from ULIPs while the rest comprised of non-par savings
- For the first time, LIC introduced channel specific product, that is, LIC Bima Ratna exclusively for banca channel
- Banca channel grew by 135% YoY on NBP basis (on a low base)
- Agency recruitment has started to pick up; Agents sold 3.5m policies in 1QFY23 as compared to 3.2m in 1QFY22
- LIC has completed system integration with Policy Bazaar and has done a soft launch for marketing its products
- LIC is stepping up efforts to boost persistency ratio
- It is also committed to enhance digital offering and ESG practices
- Sum Assured saw a growth of 61% YoY
- Solvency ratio at 188% is above threshold (150%) and internal limit of 160%
- LIC settled death claims of ~INR51b in 1QFY23 vs. ~INR71b in 1QFY22

With respect to VNB margin

- VNB margin came in at 13.6% (net) in 1QFY23 compared to 15.1% for FY22
- The sequential decline in margin is due to revision of annuity rates and change in group mix (wrote more of funds business which are lower margin)
- In case of any further revision in annuity rate, higher volume of annuity will compensate lower margin
- Focus of LIC will be to ensure value creation for policyholder as well as shareholder
- LIC expect overall margins to claw back as the year progresses.



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LIC Housing Finance

Buy

Current Price INR 380

Outlook on Demand

- Demand was robust in 1QFY23 and expects this demand momentum to sustain even in the subsequent quarters. Demand is driven by a) stability in property prices b) spike in interest rates might not be a big deterrent for people to take housing loans

Guidance

- Margin stability has been maintained despite an increase in borrowing costs across the board. On a full year basis, there will be NIM stability or a marginal improvement.
- Expect individual housing loan disbursements to grow 12-15% YoY in FY23
- Expect proportion of developer finance to increase to 7-8% (v/s ~5% now) by end-FY23
- C/I ratio expected to remain stable at ~12% over the year.

MOTILAL OSWAL
UC Housing Finance
Q3 FY23 Financial Results

Particulars	Q3 FY23	Q3 FY22	Q3 FY23 (Rs. in Lakhs)
Gross Income	1,00,00,00,000	95,00,00,000	100,00,00,000
Net Income	10,00,00,000	8,00,00,000	10,00,00,000
Earnings Per Share (EPS)	100	80	100

Management Commentary:
The company has achieved a sequential decline of ~30bp in the reported yields, which was primarily due to a special exercise conducted in Apr'22 to retain retail customers on the bulk/corporate side and also because of some higher yielding loans getting pre-paid. The company has also hiked the PLR by 60bp from Jun'22, which has become effective on the entire floating rate back-book from 1-Jul-2022. In the context of the 50bp repo rate hike announced by the RBI today, it will take a decision on hiking its PLR in the ALCO over the next few days. While the new PLR becomes effective on incremental lending effective immediately, the back-book will only get re-priced at the end of the ongoing quarter. (1-Oct | 1-Jan | 1-Apr | 1-Jul).

Yields, CoF, Spreads and NIM

- Sequential Decline of ~30bp in the reported yields was because of a special exercise which was conducted in Apr'22 to retain retail customers on the bulk/corporate side and also because of some higher yielding loans getting pre-paid.
- Hiked the PLR by 60bp from Jun'22 which has become effective on the entire floating rate back-book from 1-Jul-2022
- In the context of the 50bp repo rate hike announced by the RBI today, it will take a decision on hiking its PLR in the ALCO over the next few days. While the new PLR becomes effective on incremental lending effective immediately, the back-book will only get re-priced at the end of the ongoing quarter. (1-Oct | 1-Jan | 1-Apr | 1-Jul).

Liabilities

- 32% of the total borrowings are from Banks and large part of it is Bank linked to EBLR or Repo
- Incremental borrowings was INR100b which came at 5.44%
- 60% of the liabilities are fixed-rate while >90% of advances are on floating rate.

Asset Quality

- Segmental split of Stage 3: Individual home loans: 1.9% | Project/developer NPA: 35% | Non-housing (individual + commercial): 11.5%
- Non-housing individual Stage 3 stood at INR20b and Non-housing commercial Stage 3 stood at INR18.8b. Total non-housing Stage 3 stood at INR38.8b
- Segment wise PCR: Individual Home loans – 44%, Non-housing commercial – 37%, Non housing individual- 38% and Project loans - 38%
- ECL/ EAD on project loans was increased to 14.5% (PQ: 11.6%)
- Stage 3 increase is due to slippages from the restructured pool as well as some of the stressed advances outside the restructured pool
- PCR on Stage 1 under Ind-AS might appear low but Regulatory provisioning as per IRACP norms is adequate.
- RBI NPA pool (as per the NPA circular) which has been classified under Stage 1 and Stage 2 was ~INR14b and LICHF has a PCR of 10-11% on these loans.

Restructured Advances

- Cumulatively the total OTR done by the company was INR78b. Total OTR outstanding as on 1QFY23 was INR31b which was split as INR21b (with principal and interest moratorium) and ~INR10b (servicing the interest but are in principal moratorium).
- Split of the restructured pool was INR20b in retail and INR10b in Wholesale
- Exits of INR45b from the restructured pool over the last few quarters.
- In this quarter, they have classified OTR accounts based on their actual dpd prior to the implementation of OTR. Slippages of OTR accounts from Stage 1 to Stage 2 are because of re-classification based on actual dpd.
- From the restructured pool, INR20b moved to Stage 2 (because of reclassification) and INR4.0-4.5b has moved into Stage 3
- From the outstanding restructured pool, expect bulk of them to move out in Sep'22 and Dec'22 and the remainder in Mar'23

Others

- Effective tax will remain 18.0-18.5% because of exemptions u/s 36.1.8.



Click below for
Results Update

The slide displays the Mahindra & Mahindra Financials FY23 Results Update. It includes a table with the following columns: Metric, FY23 Actual, FY23 Target, and FY22 Actual. The metrics listed are: Revenue, EBITDA, EBIT, PAT, and Net Income. The table shows that FY23 Actuals are generally higher than FY22 Actuals and closer to FY23 Targets. Below the table, there is a section titled 'Key highlights' which mentions that the company has achieved a 10% increase in revenue and a 15% increase in EBITDA compared to FY22. It also mentions that the company has maintained its credit quality and has a strong balance sheet.

M&M Financials

Buy

Current Price INR 191

Business operations

- Disbursements were healthy driven by expansion of demand in rural and the company estimates upcoming festival season to be buoyant.
- Improving inventory levels, expected price increase from OEMs and strong demand would support disbursements

Asset quality

- Even after adopting the RBI NPA circular in Oct'22, the company plans to maintain the current S3 PCR of ~58% and therefore does not expect provisions to increase significantly in the remainder of this fiscal year.
- MMFS now maintains 100% provisions on those loan contracts which have an ageing above 18+ months. However, company continues to make efforts for recovery on those exposures.

Margins

- Already passed on 30-40bp through increase in lending rates. Does not anticipate any significant pressure on NIM because of increasing borrowing costs. However, margins could be impacted because it plans to also start catering to affluent rural customer (relatively lower yields). Lower yields could be partly offset by lower operating costs for this set of customers.

Growth outlook

- Does not see any reason to re-look at the disbursement target. It does not foresee any volume decline and there will also be a price increase from the OEMs which will support disbursements.

Guidance

- Maintained its guidance to double the AUM over the next 3 years
- Expect credit costs to reduce by ~1% by the end of FY23 driven by lower repossessions and write-offs
- Estimate ~50-60bp increase in weighted average CoF assuming further ~50-75bp repo rate hike in FY23
- Guided for opex/AUM ratio of ~3%
- Expect recovery of ~3-3.5b from the written off pool in FY23.

New segments

- The company foresees healthy demand in the leasing space and plans to even venture into retail leasing business going ahead
- Putting in a team in place for the LAP business and expects to start disbursements by end-FY23. Digital FinCo will also start contributing meaningfully from FY24.
- Observed significant traction on the auto front in the SME segment and expects SME disbursements of ~INR20-30b in FY23

Others

- CE was healthy in 1QFY23 and expect to maintain the same traction in collections in the coming quarters
- Large part of the investments in technology and newer businesses would be completed in FY23.



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Manappuram Finance

Buy

Current Price INR 99

Outlook on demand and competition

- Momentum is picking up and it hopes to capitalize on it in the coming quarters
- Not worried about the competition in the gold loan segment since there is still a lot of untapped potential in gold loans

Financial Performance

- Consolidated AUM stood at INR307.6b, up 24% YoY and ~1.6% QoQ
- Consolidated PAT stood at INR2.82b and was up 8% QoQ
- GNPA as on 1QFY23 at 1.43% (v/s 2.95% QoQ).

Guidance

- Expect gold loan demand to pick-up after the monsoons. Guided for Gold loan growth of 10% in FY23 while in other segments the AUM growth will be in excess of 20%.
- MFI credit costs will decline over the next three quarters and MFI credit costs in FY23 should be half of what it was in FY22

Gold Loans

- Gold loans business contributed 67% to the AUM mix while 33% comprised of non-gold businesses
- Gold yield improved to 19.4% in 1QFY21 (v/s 18.8% in 4QFY22) and 21.7% in Jul'22
- Company added 420K new gold loan customers
- Gold loans Average ticket size of INR56.3K and average duration of 84 days
- 10% of the gold loans book is still at teaser rates of 6.9%. Maturity is upto Dec'22.
- Gold loan yields will settle around 21-22%
- Company has also introduced some teaser schemes but it will always have an eye on profitability. Company will not compromise on yields and will be looking to maintain it above 21%.
- Awaiting approval from the RBI to open newer branches; RBI has conducted an inspection and there are some action points which MGFL can work upon. Once they are completed, it also expects to get approval from the RBI to open newer branches.

MF

- Asirvad AUM stood at INR70.13b, flat QoQ and up 16% YoY [Company has built a gold loan book of INR4.21b in Asirvad]
- Disbursements were low because of changes in RBI guidelines
- Collection efficiency from MFI business was 102% in 1QFY23 (PQ: 99%)
- In light of new MFI regulations, it is in the process of increasing the proportion of gold loans in its MFI business.
- As long as the proportion of gold loans is below 50%, it is not defined as a gold loan company. It can open gold loan branches in Asirvad without prior RBI approval.

Home Loans

- Company is now focusing on higher-yielding smaller-ticket loans to improve the yields. Average ticket size in home loans has declined over the last one year.
- Incremental yields stood at 16% (increased by 200bp over the last three quarters).



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MAS Financials

Buy

Current Price INR 660

Business updates

- The company continues to focus of MSME segment from where 90% of the business originates
- Disbursements for the quarter stood at INR21.5b.
- Borrowings are largely MCLR based which is re-priced with a lag of 6 months to 1 year and 70% of assets floating rate in nature.
- Opex at peak due to investment in strengthening distribution structure. Expects economies of scale to kick in the future and support RoA.
- Fee based income to increase once broking license is received by end of third quarter.
- Ticket size lower in previous quarters due to pandemic and the company is taking conscious efforts to gradually increase the ticket size.
- The average ticket size for disbursements through Fintech depends upon product type viz. INR50-60k for annual loans and INR0.4-0.5m for SME loans.

Capital and liability management

- The company plans to maintain equity buffer of INR6b and unutilized capital separately of INR4b. In addition the company has additional sanction on hand of ~15b in the form of term loans, direct assignments and co-lending.
- Raised ~INR6.2b term loans during the quarter with an average tenor of 3-5 years to maintain ALM stability.
- Cash flow remains positive in buckets across all maturity levels
- Carries considerable liquidity in its books with a view to safeguard overall working of the company and make it fundamentally strong. Plans to maintain CAR levels of ~20%.
- Outstanding NCDs stand at INR7b (~10% of borrowing mix) and plans to expand capital market exposure only if able to borrow at competitive rates

Asset Quality and Credit Costs

- The company continues to carry management overlay of INR 340m (~0.62% of on-book assets) and plans to utilize the same gradually
- Segment wise GS3: 2w - 2.58%, CV - 2.35%, MEL - 1.53%, SME - 1.48%

Housing finance

- Guided for loan growth of 25-30% YoY in the housing finance business. Projects the same to grow at 30-35% post 3-4 years.
- Management overlay in the housing finance segment stands at INR30m (~1.06% of on-book assets)

Guidance

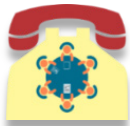
- The company guided for a loan growth of 20-25% in FY23 driven by expanding markets and strong distribution infra.
- CoF for 1QFY23 was at 8.64% and the company envisages the same to increase by 20-25bp over the year.
- Guided for ROA between 2.75-3.25% transmitting into RoE in the range of 15-18%
- Expect to maintain NIMs at ~7% after factoring in rate hikes

Others

- Distribution has been strengthened to capitalize on the growth opportunity.
- Entered into partnerships with more than 100 NBFCs and is in the process of tying up with more banks for co-lending.



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- Disbursements of INR3b originated through Fintech partnerships v/s INR2b in 4QFY22.

Max Financial Services

Current Price INR 801

Buy

With respect to business performance, product and distribution mix

- The new Chairman of IRDAI has enabled ease of doing business and is expected to make many more changes to deepen insurance penetration and build customer confidence in the sector
- Max has not seen any significant impact on ULIPs till now; however it does expect some moderation in demand as demand usually gets affected 6-8 months after market underperformance
- Product mix remains balanced and stable. Max aspires to keep the same largely unchanged.
- Non-par savings continues to see strong growth momentum
- Higher interest rate benefit was passed on to the consumer without affecting profitability/margin
- Annuity business remains a strong focus area and it grew 125% YoY in 1QFY23
- Max has received Certificate of Registration for pension business and expects to commence operations from Q2FY23
- Max has also launched a new guaranteed product exclusively for the online channel – Smart Fixed Return Digital
- ULIP performance has been healthy due to a new product launch
- Total protection growth was led by strong performance in Group as retail protection moderated by 19% YoY
- Group protection was led by GTI segment. This remains a tactical opportunity for the company
- Disbursement momentum is strong in 1QFY23 and hence is leading growth in credit life. This is also being driven by a higher ticket size
- Growth in retail protection should come back in the next few quarters
- The company expects Opex to stay elevated as it continues to build distribution machinery
- The poor performance in banca channel is a result of open architecture at Axis and Yes. Max is sitting on a high base of last year with respect to these channels and it will take 2 more quarters for the base to settle down. However, counter share of Max Life remains stable in these Banks
- The share of Axis Bank will be lower compared to past as proprietary channel has grown much faster
- Multiple initiatives have been taken to bring back the growth in banca channel
- Max expects to end FY23 with a higher share of proprietary in distribution mix. On a 2-3 year basis, it expects proprietary channel to contribute 35% of APE.

Operating metrics

- VNB margin has improved 140bp on a YoY basis despite stable product mix as individual product margins has increased
- VNB margin guidance of 26% for FY22 remains intact. Spend increase in distribution build up will offset rise in individual product margins
- Lower margin in 1QFY23 on a QoQ basis is due to seasonality as Max reports margin on actual cost basis
- The margin on non-par savings is similar to historical levels as benefit of higher interest rate has been passed to the consumers.



Muthoot Finance

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Muthoot Finance

Neutral

Current Price INR 1,029

Outlook on gold demand

- While there was a 2% QoQ decline in gold loans, it is still seeing overall demand conditions reviving with the recovery in the economy.
- At the branch level, efforts are initiated to win-back old gold loan customers
- AUM on gold loans will also start growing with full rigor over the next 2-3 quarters

Spreads and NIM

- Yields have started improving and AUM will also started exhibiting growth in the subsequent quarters
- While the teaser rates schemes are behind, new loans are being generated at much higher yields and it expects to revert back to the older days
- Teaser loans (started at 6.9% for monthly interest payments) were a sizeable portion of the loan book but because of migration to higher interest rates, the yields/spreads should now improve.
- Guidance
- Objective will be to keep the spreads above 10% for the remainder of this fiscal year.
- Guided for Gold AUM growth between 10-15% in FY23

Teaser Rate Loans

- New teaser rate loans were stopped after Mar'22 and all existing teaser rate loans were migrated to higher rates by 30 Jun'22. This will result in an improvement in yields from 2QFY23 onwards
- Efforts are on to retain these gold loan customers even after migrating these customers to higher interest rates (from teaser rate schemes)
- Introducing teaser rates loans was a strategic call and was driven by competitive intensity. It attracted a new set of customers who otherwise would not have come to MUTH because of its higher interest rates and a large proportion of those customers have been retained.
- Less than 5-10% of the teaser rate gold loan customers have closed their loans and the remaining customers have migrated to higher interest rates.

Gold Loans

- Quantum (principal) of gold auctions in 1QFY23 stood at INR13.74b (v/s 4QFY22: INR21b | 3QFY22: INR28b | 2QFY22: INR2.7b, 1QFY22: INR370m | FY22: INR52.1b | FY21: INR1.71b | FY20: INR5b | FY19: INR10b).
- From gold auctions, there was a recovery of INR18.07b (including principal and accrued interest)
- Interest accrued stood at Mar'22: INR19.55b; Jun'22: INR17b

Branch Approvals

- Received RBI approval for opening 150 new branches. Opened a few new gold loan branches in Jul'22 and expects the roll-out of newer branches to be completed by Oct'22.
- Once the company opens these 150 new branches, it will again identify new areas where it wants to open newer branches and approach RBI for new branch approval.
- There were no adverse comments/observations from the RBI while giving it the approval to open 150 new branches.
- Company will try to maintain a balance between loan growth and yields/margins

Liquidity and Liability

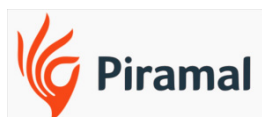
- First tranche of ECB which was at higher interest rates will mature in Oct'22 and which should benefit the weighted avg. cost of borrowings.
- Overall, the borrowing costs should remain stable and the increase in incremental cost of borrowings can be offset by the maturity of higher cost borrowings

Subsidiaries

- Home Finance/Vehicle Finance will pick-up in the subsequent quarters
- MFI business has received funding from external investors and has exhibited healthy growth in loan book

Others

- MUTH added 314K new customers during the quarter
- Newer branches allow it to tap new unbanked areas. It takes about 1-2 years for a new gold loan branch to mature and it can reach an AUM of INR50-60m over two years.



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MOTILAL OSWAL	
Piramal Enterprises	
<p>Key Metrics</p> <p>Revenue (INR Crores): 1,896</p> <p>Profit (INR Crores): 150</p> <p>EPS (INR): 15.00</p> <p>P/E Ratio: 12.5x</p> <p>Dividend Yield: 2.5%</p>	
<p>Financial Ratios</p> <p>Current Ratio: 1.5x</p> <p>Debt to Equity Ratio: 0.8x</p> <p>Return on Equity: 12.5%</p> <p>Return on Assets: 8.5%</p>	
<p>Operational Metrics</p> <p>Loan Book Growth: 37% YoY</p> <p>Retail Loan Book: 37% of Total</p> <p>Incremental Cost of Borrowings: 7.9%</p>	

Piramal Enterprise

Buy

Current Price INR 1,896

Pharma demerger Update

- Earlier, it had received clearance from RBI, SEBI and the stock exchanges. Earlier Jul'22, it received clearance from the shareholders and creditors.
- Also it has now received the NBFC license from the RBI for PIEL.

Business updates

- Overall AUM grew 37 % YoY to INR 646b. Retail loan book grew 4x YoY to ~INR223b and retail now forms 37% of the overall loan-book. Expect to double its loan book over the next 5 years.
- Retail loan disbursements grew 66% QoQ and ~13x YoY to INR24.6b
- Incremental cost of borrowings was 7.9% and the Portfolio cost of borrowings declined 130bp YoY and 40bp QoQ to 8.8%
- While the interest rates are going up, the spreads at which the company used to borrow has been steadily coming down because of the granularity in the loan book and the performance of the company.

Onboarding of senior talent

- Hired three senior talent to lead its diversified financial services business. Among others, Rupen Jhaveri and Yash Nadkarni are from KKR and will be part of the wholesale business.
- Mr. Yash Nadkarni (ex-KKR) will be leading the Wholesale 2.0 business
- Khushu Jigina has retired from the company but will continue as a senior advisor for the Piramal Group

Phase 3 targets

- Company is embarking on Phase 3 of its transformation journey and it would transform its AUM into 2/3rd retail and 1/3rd wholesale over the next five years. It also guided that it will target to grow the AUM to ~2x by FY27.
- Retail disbursements will grow at 40%-50% CAGR over the next 5-years

Newer Products and Product mix

- Launched Microfinance business in May'22
- Anchor product is going to be housing and secured MSME Lending. Housing will be a little under 50% of the mix and MSME will be a little under 25% of the mix.
- Digital Embedded Finance, PL, MFI (all unsecured lending products) will be a little over 20% of the mix.

- Next quarter it will introduce branch-led personal loans - Unsecured salaried segment lending which will be done out of the branches
- Execution risk: Aware that execution on multiple product lines would not be easy and once something clears its experimental hurdle, it will be looking to hire industry experts and will be launching one new product every six months.

Asset Quality

- A non-RE account slipped from Stage 2 to Stage 3 and had a ticket size between INR1.0-1.5b
- Revaluation exercise will not happen every quarter and will rather happen annually. Slippages can happen in the normal course of business as well.
- Two large accounts which slipped into Stage 2 were a) One Real Estate company in the South where there was an ED inquiry and out of caution PIEL has classified it under Stage 2 even though it is still a standard account b) Exposure to a hotel which has now started doing well but because there was a mismatch in the cash-flows it has been classified under Stage 2.
- No lumpy recoveries in the DHFL book; Support from these recoveries which is 1.0-1.5% is expected to continue for the next few quarters as well

FOCI Book

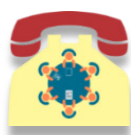
- FOCI book is all retail and it does not have wholesale
- FOCI book is giving it the ability to use it for some of the incremental provisioning requirements. Even in 1QFY23, it was able to achieve an RoA of 2.1% in the Financial Services - Lending Business
- Wholesale Lending
- Out of the early stage wholesale portfolio of 24%, 16% is early stage but under-construction
- Company is open to M&A and it is adequately capitalized for evaluating the acquisition opportunities
- Wholesale Lending 2.0
- PIEL has not disbursed anything in the real-estate book and it is still evaluating ~INR6b of opportunities;
- Corporate Mid-Market Lending (CMML) ticket size of ~INR500m focused on smaller ticket non-RE loans

Others

- Non-RE is now 12% of the loan-book (PQ: 13%)
- Pool purchases are 5.2% of the retail book and it is expected to remain in this range. It is doing pool purchases in Micro-Finance, Business Loans and Housing.



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PNB Housing Finance

Neutral

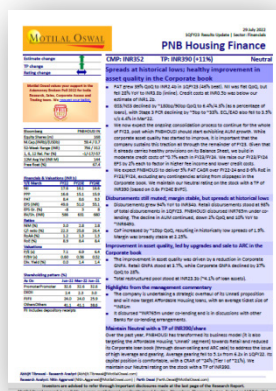
Current Price INR 354

Market trends

- Residential sector is experiencing demand particularly in tier II and tier III cities.
- Portfolio of NBFC HFCs is expected to grow by 9-11% on account of pent up demand and increasing level of economic activities.
- To leverage the same, the company continues to focus on retail lending and expand loan growth in the affordable housing segment while maintaining a check on portfolio quality through digital interventions.

Business operations

- Disbursements of ~INR34.5b in 1QFY23, grew by ~96% YoY with retail segment contributing 98% of total disbursements.



The image shows the cover of the PNB Housing Finance Q3 FY2023 financial results report. It features the company logo and title. Below the title, there is a table of contents listing various sections such as Management Discussion and Analysis, Financial Results, and Risk Management. The table includes page numbers for each section.

Section	Page No.
Management Discussion and Analysis	03
Financial Results	08
Risk Management	15
Appendix	16

- Retail loans registered growth of 2% YoY and 1% sequentially to ~INR503 as on 1QFY23. Corporate loan book declined by 45% YoY to INR60b on account of sell down and accelerated prepayments.
- PNBHOUSI has passed additional cost of ~35bp due to increase in interest rates on-to the customers and expects to further pass-on 50bp in Sep'22. The same would be reflected in the yields in the coming quarters.
- The company has considerable fixed rate liability book and thus does not expect the CoF to increase significantly and guided for stable spreads.
- Gearing ratio has declined to 5.1x as on 1QFY23 (from 6.2x in 1QFY22). The company has reduced liquidity to ~INR38b as on 1QFY23 on standalone basis v/s ~INR70.1b as on 1QFY22.
- Collection efficiency at 97% in 1QFY23
- Balance transfer for 1QFY23 stands at annualized rate of 9%

Unnati

- The company added 10 new Unnati specific locations taking the total to 34 such locations
- Unnati AUM stood at ~INR30.5b. Run-off in 1QFY23 in the Unnati portfolio was at 25% on an annualized basis.
- Delinquency in Unnati loan book is in the range of 3%
- Plans underway to revamp the product, policy, procedures and collection system. Expects growth in loan book and collection machinery to pick traction post 3QFY23.

Asset quality

- Corporate book GNPA registered a sequential decline of 37% to ~INR17.3b v/s ~INR27.4b as on FY22. The decline was on account of resolutions through change of developers, closure in two accounts, ARC sell off in one account and write-offs in two accounts.
- Stage 3 PCR dropped marginally due to set-off of write offs against provisions, up-gradation of a corporate NPA from stage 3 to stage 1 and sell-off of an account through ARC.
- Retail restructured book stands at ~INR20.2b out of which ~75% of the customers have started making repayments and ~INR3b has moved to stage 3

Guidance

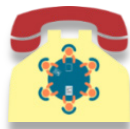
- The company plans to bring down GNPA to less than 2% in future years
- Expects retail AUM to grow at 7-9% in FY23

Others

- Disbursed ~INR765m under co lending. In discussion with other banks for co-lending arrangements.
- PNB has received approval from RBI to infuse INR5b in the rights issue of the company.
- The capital raise should boost the capital adequacy ratio and support future growth.



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SBI Life Insurance

Buy

Current Price INR 1,276

With respect to operating environment and business performance

- Q1FY23 was a strong quarter on all fronts and management aspires to end FY23 on a strong footing
- Continues to maintain industry leading market share amongst private players
- SBI Life aims to grow premiums by 25%+ on a sustainable basis
- Focus will remain on digitalization to improve customer experience
- Continue to carry Covid provisions on a prudent basis
- The company is not chasing a VNB margin number. Focus is to grow premiums and VNB as margin is an outcome of product mix.
- New non-par savings product launched last year has seen phenomenal response across all channels
- Re-pricing of non-par savings will depend on market forces of demand and supply and interest rates
- Persistency ratio saw improvement across all key cohorts

With respect to Business Mix

- All products saw a healthy growth
- Individual Protection has bucked industry trend and grown 54% YoY in APE terms
- Individual New Business Sum Assured grew 52% YoY
- Credit life protection business grew 63% YoY to INR4.1b on NBP basis
- Non-par guaranteed savings saw a robust growth as demand for this remains strong. New product 'Smart Annuity Plus' launched in March, 2022 has been well received by the market.
- There are no internal targets on the share of this segment and the company will continue to write as long as it can hedge interest rate risk well
- These products are predominantly 7/8/10 year premium paying products
- However, on a sustainable basis, share of this product should be ~25-30%

With respect to Distribution Mix

- All channels have reported healthy growth.
- To broaden distribution reach, SBI Life has tied up with new age partners like Phone-PE and Renew-Buy
- Bancassurance NBP saw a growth of 94% YoY while agency channel posted a growth of 50% YoY. Thus, share of banca improved from 45% in 1QFY22 to 52% in 1QFY23
- Productivity of SBI channel is strong at INR3.9m
- New banca partnerships contribute 3% of individual NBP
- YONO app continues to see strong traction
- Agency channel saw a growth of 32% in protection business
- Agency channel productivity has gone up by 61% YoY due to greater use of digital tools.



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Shriram City Union Finance

Buy

Current Price INR 1,843

Update on the Merger

- Received approval from SEBI, secured and unsecured creditors, BSE, NSE and shareholders. Received approval from IRDAI as well.
- Clearance from CCI and NCLT is pending and it is hopeful that these approvals will come in the next couple of months

- ### Pilot branches as pre-cursor to the merger

- Orientation process which began as a pilot process in 50 branches, has now been rolled out to 500 branches in both the companies
- These pilot branches by Jun'22 have generated INR500-550m worth of leads which are in various stages of fulfilment. Idea is to cross-sell and train employees so that they can cater to all credit demands of the customer.
- Conversion of leads to disbursements will be ~10%
- Cross-sell products are predominantly in SME and 2W segment. By end of Aug'22, it should be able to offer gold loans from 100+ branches of STFC.

- Focus on retail liabilities has given it a cost advantage. Public deposits are now 22% of the borrowing mix. Cost of deposits has also declined to 7.9% (v/s 9% in the past).
- Earlier, it was heavily dependent on bank term loans. Now it is able to leverage securitization, fixed deposits and market-linked debentures (MLDs) as well.
- Incremental cost of borrowings stood at 8.6%; Expect to maintain it in the range of 8.5%-8.7% in 2QFY23 as well but it will increase in 2HFY23 based on the monetary policy of RBI.
- Company will be looking to bring down the excess liquidity on the B/S post the merger.

- SCUF is expected to deliver AUM growth of 18%-20% and SHTF in the range of 11%-12%. Combined, it is looking at 14-15% AUM growth for the merged entity.
- Guided that it will now be looking to clock quarterly disbursements in excess of INR75b
- Guided for Stage 2 levels to remain between 11%-12% and credit costs of 2.5-2.7%

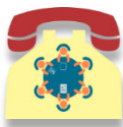
- SCUF has a 2.2-2.3m cross-sell pool of customers and it is still scratching the surface here; Traction in PL is less than 3-4% of the potential cross-sell pool.
- Personal Loans (PL) are granular and the ticket size is 50-60K
- 24%-24% of the existing PL book is erstwhile market-sourced PL and should run down in the next 3-4 quarters. It expects the GS3 for the PL book to decline by 150bp over the next one year.

- ~51%-52% loans are floating and remaining are 1-2 year fixed and gradually even they will move to floating rate over the course of time. Re-pricing of advances will not be a challenge.
- 1% increase in interest rates would not have a significant impact on the customer's ability to repay. As a first defense line, the endeavor will be to increase the tenor of the loan rather than increase the EMI of the customer. It does not expect the impact of interest rates to lead to higher delinquencies.

- Contact-less digital platforms have been rolled out for 2W and personal loans; In the process of developing the digital model for the gold loans as well.



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Shriram Transport Finance

Buy

Current Price INR 1,313

Yields, CoF and Margins

- Incremental CoB has gone up by ~15bp and company has increased the incremental yields by ~35bp in Jun'22.
- Expects the overall weighted average borrowing costs to go up by ~20bp in FY23.
- Expects margins to remain stable since increasing cost of borrowings can be partly offset by higher incremental cost of lending and lower negative carry from excess liquidity.

Liquidity

- Board has suggested that the company can look at some debt buy-back arrangement so that liquidity slowly gets phased out
- From 2QFY23 onwards, it will be looking to reducing the excess liquidity on the balance sheet.

Demand outlook

- New vehicle prices have gone up by 30-35% over the last three years because of higher steel prices.
- Demand momentum in used vehicles is likely to sustain; if the new vehicle prices continue to increase then customers would prefer to buy used vehicles.
- Demand for dumpers and construction equipment (CE) is very high.

Can inflation or higher fuel prices lead to higher delinquencies?

- The company does not foresee higher delinquencies because of higher inflation. Vehicle Finance is fixed rate lending and there is predictability of EMI amount during the tenure of the loan
- Increase in fuel prices are passed on the end consumer through increase in freight rates. Truck operators do not have to bear the cost of increase in fuel prices.

Asset Quality

- LGD stood at 43.73% (v/s 44.68% in 4QFY22)
- Remaining management overlay provisions of INR18.4b will be utilized over the next 3-4 quarters and guided for credit costs in the range of 2.0-2.1% in FY23

Others

- Total employees count at 25,720 as on Jun'22.



























Star Health

Buy

Current Price INR 706

Business

- Retail health market share for STARHEAL improved by 300bps to 32% in 1QFY23.
- The company launched a new product namely "Star health Assure" during the quarter.
- STARHEAL took 25% price hike in its flagship products which contributes to 6% of its overall premium. Price hike will be implemented from July'22.
- Rural business is growing at faster pace of more than 70% for STARHEAL mainly led by its digital channels.
- Initial signal from rural market is very positive and the average ticket size is also close to urban markets. The quality of business is good with healthy claims ratio. STARHEAL has 500 distribution outlets in the rural market. The management remains very optimistic about this space.

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- ## Financials

- ESOP expense for the quarter was at INR550m. Management expects ESOP cost for Q2FY23 to be INR550m and in 3QFY23 to be at INR360m.
- Investment leverage stood at 2.3x
- Solvency is expected to move towards premium based calculation from claim based calculation by Sept '22.
- During the quarter the company saw reversal of unexpired reserve, the management has suggested this to be a normal phenomenon for 1Q.

- Claims inflation has been higher on back of compulsory RTPCR test performed and cost of protective kits.
- 1QFY23 saw an impact of INR200m on back of Covid claims.
- Cashless claims for the quarter were around 80%.
- Average increase in claims size for STARHEAL was lower than the average medical cost inflation on back of better pricing arrangement with hospitals.
- Management has maintained their guidance of claims ratio to be around 65-66% for FY23.
- Expenses – On back of in-house TPA, STARHEAL used to transfer 3% of opex to claims until 1QFY22, however they have changed the same to 1% from 2QFY22. Therefore there was a base effect on YoY basis.
- Combined ratio - Management has guided for combined ratio of 93-95% for FY23.

- Within the obligatory reinsurance which is at 4%, fixed commission rate of 15% is paid on this.
- Increasing contribution of benefit products which will led to lower commission ratio.

HEALTHCARE



- Companies indicated softening of raw material and freight costs v/s previous quarters. Having said this, they also indicated that costs would remain at elevated levels v/s pre-Covid period. The base business erosion subsided in the US generics segment. However, managements look forward for potential launches from 2HFY23 onwards, which would not only offset price erosion but also enable growth to some extent in the US generics segment. Companies that have completed remediation measures remain hopeful of the USFDA inspection to have successful compliance at respective sites. Companies having exposure to the domestic formulation segment have been able to take price hikes linked to inflation in portfolio under National List of essential medicines (NLEM). Some management teams have expanded field force to not only add new divisions but also expand existing divisions to drive outperformance in domestic formulation segment. Overall, the outlook is likely to be better in the coming quarters because of new launches and some respite on cost pressures.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY23	US Business - Update
Aurobindo Pharma	<ul style="list-style-type: none"> ■ Management guided for 5-7% YoY growth in CC terms for Europe segment. ■ Management indicated g-Revlimid launch to be in FY24E. 	<ul style="list-style-type: none"> ■ While ARBP posted USD72m injectables sales for the quarter, management remained confident to achieve USD650m for FY24 ■ Price erosion and shelf stock adjustment in the US led 2.5-3.0% decline in oral solids for the quarter.
Cipla	<ul style="list-style-type: none"> ■ The management guided for an EBITDA margin of 21-22% in FY23. ■ It expects a USFDA inspection for g-Abraxane soon. ■ The management expects one peptide launch in FY23 and two in the latter part of FY24. 	<ul style="list-style-type: none"> ■ The recently launched Peptide asset has been on track in terms of gaining market share. ■ Cipla does not have any supply constraint for Lanreotide in the US market.
Dr. Reddy's Labs	<ul style="list-style-type: none"> ■ G-Revlimid (Lenalidomide) launch with limited volume is expected in Sep'22. The limited quantity supply agreement for g-Revlimid will be until 31st Jan'26. ■ DRRD has not hedged for Russia and has worked by reducing working capital to minimize the currency-related impact 	<ul style="list-style-type: none"> ■ The 13% QoQ decline in NAM sales to USD230m was largely because of the increased competition in g-Suboxone and g-Vasopressin injection ■ Adjusting for the Covid impact/divestment of brands and acquisition, India business had single-digit growth YoY for the quarter ■ DRRD launched five new products during the quarter.
Gland Pharma	<ul style="list-style-type: none"> ■ Syringe supply is likely to be normalized by Sep'22, while Heparin supply issue is yet to be sorted out. ■ Approvals of two products in China are expected by 3Q/4QFY23. ■ Management has finalized the next set of product filings for China with an addressable market size of USD1b 	<ul style="list-style-type: none"> ■ Syringe supply issues resulted in loss of INR250m sales in the US for 1QFY23 ■ GLAND launched 14 SKUs in the US including Bortezomib, Pemetrexed, Pantoprazole and Cyanocobalamin during 1QFY23. ■ Management has maintained INR3b capex guidance for FY23 for the new lines.
Sun Pharma.	<ul style="list-style-type: none"> ■ Challenges in Ukraine/Russia had delayed clinical trials related to Illumya. ■ Winlevi has been prescribed by 10k doctors in the US and has exhibited 22% QoQ growth in prescriptions. 	<ul style="list-style-type: none"> ■ Excluding the sale of COVID-related products, total sales grew 14% YoY in 1QFY23. ■ Global Specialty sales stood at USD191m in 1QFY23. The same stood at USD673m in FY22.
Divi's Lab.	<ul style="list-style-type: none"> ■ The management reiterated its EBITDA margin guidance of 40%, including other income, for FY23 ■ With capacity expansion in the Generics segment in place, DIVI expects sales to pick up going forward 	<ul style="list-style-type: none"> ■ DIVI is working towards peptide chemistry and HiPo conjugate drug-related technology, which will drive opportunities over the next three-to-four years ■ DIVI has completed all the orders related to Molnupiravir as of now.



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Ajanta Pharma

Buy

Current Price INR 1,296

- The management guided at 26-27% EBITDA margin for FY23.
- The margin guidance is without approval for products like g-Chantix and g-Vimovo for the US market.
- AJP is responding to USFDA's queries with respect to g-Chantix.



MOTILAL OSWAL
821910 Results Update | Q3 FY23

Alanta Pharma

Key Metrics:

- Revenue: ₹1,234.56 Cr.
- Profit: ₹123.45 Cr.
- EPS: ₹12.34

Financial Ratios:

- Debt to Equity: 0.5x
- Current Ratio: 1.2x
- Operating Margin: 10%

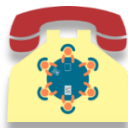
Shareholding Pattern:

Category	Shareholder	Shares Held	% of Total
Promoters	Motilal Oswal	100,000,000	50.00%
	Alanta Pharma	50,000,000	25.00%

Public



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Alembic Pharma

Key Metrics:

- Revenue: ₹1,234.56 Cr.
- Profit: ₹123.45 Cr.
- EPS: ₹12.34

Financial Ratios:

- Debt to Equity: 0.5x
- Current Ratio: 1.2x
- Operating Margin: 10%

Shareholding Pattern:

Category	Shareholder	Shares Held	% of Total
Promoters	Alembic Pharma	100,000,000	50.00%

Public



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Results Update



- It is awaiting an inspection from the USFDA with respect to g-Vimovo.
- The management has guided at 10-12 ANDA filings in FY23.
- The company launched 12 products, including two first-to-market in DF.
- It has 12% of DF sales under the National List of Essential Medicines (NLEM).
- AJP launched 10 products in Asia and Africa in the Branded Generics space.
- Raw material cost was higher for the quarter due to inventory write-off (200bp as % of sales), price erosion in US generics (100bp as % of sales), increased RM cost (100bp as % of sales). AJP indicated about passing of some cost to customers in branded generics segment.
- AJP guided for capex of INR2b for FY23.
- While there has been no new approvals/launches in US during the quarter, AJP guided for accelerated filing in coming quarters to revamp incremental business from new launches.
- AJP has about 39 products on shelf in US market. It has 20 ANDAs pending for approval at the end of 1QFY23.
- AJP had R&D cost of INR540m and formed 6% of sales for 1QFY23.

Alembic Pharma

Sell

Current Price INR 649

- While US sales stood at USD48m in 1QFY23, the run-rate in the basebusiness is expected at USD50-55m going forward.
- Price erosion is in low double-digits in the US Generics segment.
- It launched five ANDAs in 1Q and expects to launch a similar number in 2QFY23. Overall, it intends to launch 15-18 ANDAs in FY23.
- ALPM has INR2b of cash expense and a capitalized depreciation of INR1.5b related to new plants on an annual basis.
- The management has guided at overall R&D spends of INR6.5b-7b in FY23.
- Adjusted for COVID led high base of past year, domestic formulation segment grew 20% YoY in 1QFY23.
- ALPM indicated plant F3 would require USFDA inspection before commercialization.
- The injectable filing in Plant F2 would trigger USFDA inspection at the site.
- ALPM filed 1 DMF in 1QFY23, taking the cumulative filing to 126.
- ALPM filed 7 ANDAs in 1QFY23.
- ALPM has commercialized g-Brovana from CMO site.
- ALPM has INR400m as residual spent yet to be expensed from Aleodermaceuticals.

Alkem Labs

Buy

Current Price INR 2,935

- The management remains confident of clocking 10% YoY growth in sales in the US Generic segment in FY23.
- It expects EBITDA margin to be 100-200bp lower than its earlier guidance of 18% for FY23.
- Overall, GM is expected to be 59% in FY23.
- Other expenses rose INR1b QoQ in 1QFY23 due to a forex loss of INR500m and a one-time expense to the tune of INR200-250m.

Alkem Laboratories

Key takeaways and higher QoQ drug margins

Alkem delivered a new quarter QoQ margin, led by a sharp rise in sales and a decline in expenses. The company's performance was driven by a strong focus on sales and a decline in expenses. The company's performance was driven by a strong focus on sales and a decline in expenses.

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Apollo Hospitals

Key takeaways and higher QoQ drug margins

Apollo delivered a new quarter QoQ margin, led by a sharp rise in sales and a decline in expenses. The company's performance was driven by a strong focus on sales and a decline in expenses.

- Price erosion in the US base portfolio and increased RM cost, resulted in a lower gross margin in 1QFY23.
- Trade Generics constitute ~20% of the Domestic Formulation segment.
- ALKEM has sufficient MRs at present in the DF segment and will focus on improving productivity.
- The other expenses are expected to be in the range of 23-24% as % of sales for FY23
- Considerable amount of higher cost raw material is already consumed and company expects some softening of prices of raw material going forward.
- ALKEM has built sufficient capacity for US generics segment and do not intend to incur meaningful capex over medium term for this segment.
- ALKEM spends about INR1.5b for Opex and INR1b towards R&D related to Biosimilars on annual basis.
- ALKEM has working capital cycle of 110 days on consolidated level.

Apollo Hospitals

Buy

Current Price INR 4,025

- APHS witnessed 35k transactions per day on its online platform v/s 25k QoQ. The management intends to spend INR5.5b towards Apollo 24/7 as against its earlier guidance of INR4.4b. It expects Offline Pharmacy sales to grow by 20-22% and overall Pharmacy sales, including Online Pharmacy, to grow by 27-28% YoY in FY23. The management expects GMV of Apollo 24/7 to touch INR15b in FY23 as against its earlier guidance of INR10b.
- It intends to add 650/400 beds in Gurugram/Chennai over the next two years at a total investment of INR17b.
- APHS had one-time cost in the pharmacy segment to align systems with Amazon at Pan India level, impacting profitability to some extent for the quarter.
- Higher share of surgical cases, favourable case mix/walk-ins has led to considerable improvement in ARPOB for the quarter. With increased share of international patients, the ARPOB is expected to improve going forward.
- It would also put efforts to increase the overall occupancy in hospitals from 60% to 70%, thereby driving robust growth in revenue/EBITDA for hospital segment.
- The broad breakdown of expenses in Apollo 24/7 would be towards a) Product/technology (25% of the expense), adequate manpower (30-35% of the expense), marketing of digital platform (20-25% of the expense), customer acquisition (10-15% of the expenses) and remaining towards building ancillary infrastructure.
- Compared to 18% discount offered by Apollo 24/7 in 1QFY23, APHS has reduced the discount by 1% in Jul'22 and expected to reduce further by 0.5-0.75% in coming months.





Mittal Oswal
Group of Institutions

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CBSE PRACTICE
Model question paper based on syllabus for the year 2019-20

English (Theory)
Time: 3 hours
Maximum Marks: 100

Section – I
Read the passage carefully and answer the questions that follow.

Section – II
Answer the questions in brief (not more than 40 words) in your own words.

Section – III
Answer the questions in detail (not more than 150 words) in your own words.

Section – IV
Answer the questions in detail (not more than 250 words) in your own words.

Section – V
Answer the questions in detail (not more than 300 words) in your own words.

Aurobindo Bioscience
Bioscience

Section – I
Read the passage carefully and answer the questions that follow.

Section – II
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Section – IV
Answer the questions in detail (not more than 250 words) in your own words.

Section – V
Answer the questions in detail (not more than 300 words) in your own words.

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Buy

- Price erosion and shelf stock adjustment in the US led 2.5-3.0% decline in oral solids for the quarter.
- While ARBP posted USD72m injectables sales for the quarter, management remained confident to achieve USD650m for FY24E
- Management indicated g-Revlmid launch to be in FY24E
- The company spent USD22m towards investment in GLS Pharma and acquisition of certain assets of Veritaz
- ARBP indicated some softening of raw material prices and logistics costs
- Management guided for 5-7% YoY growth in CC terms for Europe segment sales v/s industry growth of 0-3%.
- ARBP had additional expense of INR600m related to rescheduling of production and subsequent higher freight cost.
- While the current margins in Europe segment remains in low double digit, ARBP is working on portfolio expansion as well as increasing reach. This would improve profitability going forward
- ARBP has done 11 exhibit batches for China market. Products would be filed once the stability data is established.
- ARBP would be completing validation of certain products from Vizag site by 4QFY23 and subsequent injectables filings to start in 1HFY24.
- ARBP guided for R&D to be 5.7-6.5% of sales for FY23
- ARBP has invested USD8m in PLI scheme till date and remains on track to complete the site by Dec'23.

Neutral

- Core EBITDA margin for the Biologics segment is expected to remain in the mid--to-high 30s, in combination with its existing, Serum, and Viatriis businesses for the fiscal.
- Annual revenue for the integrated Viatriis-BIOS will be ~USD1.1b.
- The acquired Serum business has a revenue potential of more than USD300m over the next 12-months, post completion of deal with mid-30s EBITDA margin.
- Due to a delay in the inspection and subsequent approval for b-Aspart, there can be a miss in its near-term contractual cycle for commercialization.
- BIOS expects waiver of phase III clinical trial for RH-Insulin (US market size of ~USD1b). It also expect interchangeability status on this product.
- R&D expenses expected to remain within 10-15% as % of biocon biologics sales.
- BIOS undertook planned capacity expansions during 1QFY23 that required temporary manufacturing stoppages affecting margins of generics segment. The generics business profitability is expected to improve 2HFY23 onwards.
- Site inspections by the US FDA expected in Aug'22, paving way for bBevacizumab and bAspart approval in US
- BIOS launched bBevacizumab in Canada recently. bGlargine and bAspart are expected to be launched in CY22
- Trastuzumab market share reduced to 7-8% from 10-11% QoQ due to Viatriis losing a customer. However, market share has started to moving upto 10% now.

Cipla
Caring for life

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Results Update



Cipla
Q3 FY23 Financial Results

Particulars	Q3 FY23	Q3 FY22	Q3 FY21
Revenue (INR Crores)	1,023	985	950
EBITDA (INR Crores)	215	205	195
EBITDA Margin (%)	21.2	20.9	20.5
Net Profit (INR Crores)	105	100	95
Net Profit Margin (%)	10.3	10.2	10.0

Divi's

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Divi's Laboratories
Q3 FY23 Financial Results

Particulars	Q3 FY23	Q3 FY22	Q3 FY21
Revenue (INR Crores)	1,580	1,520	1,480
EBITDA (INR Crores)	632	610	590
EBITDA Margin (%)	40.0	40.1	39.9
Net Profit (INR Crores)	316	304	292
Net Profit Margin (%)	20.0	20.0	19.7

- Toujeo (Glargine-300) will need Phase-I study along with unique device with its patent running till later part of the decade
- Sandoz partnered products (2) are in pre-clinical stage currently.

Cipla

Neutral

Current Price INR 1,023

- The management guided at an EBITDA margin of 21-22% in FY23.
- The recently launched Peptide asset has been on track in terms of gaining market share in the US market (i.e. up to mid-teens by the end of CY23).
- It does not have any supply constraint for Lanreotide in the US market.
- Out of the five filings in the Peptide category, none are first-to-file. However, it sees limited competition products, if executed well. The same can provide a business opportunity of USD30-35m per product. The management expects one launch in FY23 and two in the latter part of FY24.
- It expects a USFDA inspection for g-Abraxane soon.
- Adjusting for the forex headwind, and escalated procurement and freight cost, which grew 170bp as a percentage of sales, EBITDA margin stood at 23% in 1QFY23.
- The overall sales grew 6% YoY, adjusting for COVID related sales in 1QFY22. Particularly, India business grew 9% YoY (Ex-COVID).
- Global Consumer business now forms 9% of sales in 1QFY23 and grew 17% on YoY basis.
- The partnered inhalation asset filed in 3QFY17 is getting delayed for approval as partner is in process to address the queries raised by USFDA.
- CIPLA expects approval for g-Revlimid nearer to market formation.
- R&D cost is likely to be 5.5-6% of sales for FY23.

Divi's Lab

Buy

Current Price INR 3,580

- The management reiterated its EBITDA margin guidance of 40%, including other income, for FY23.
- With capacity expansion in the Generics segment in place, it expects sales to pick up going forward.
- One of the capacity expansion projects, related to CS, is complete.
- DIVI had a Generics-to-CS share of 47:53 in 1QFY23.
- It garnered sales of INR1.9b in the Nutraceuticals segment in 1QFY23.
- CWIP stands at INR5b. The management expects capital expenditure of not more than INR5-6b in FY23, unless the Kakinada project kick starts.
- DIVI is working towards peptide chemistry and HiPo conjugate drug-related technology, which will drive opportunities over the next three-to-four years.
- DIVI has capacity utilization of 83% and thus there is sufficient capacity available for medium term requirements.
- DIVI is working towards peptide chemistry, hi-po conjugate drugs related technology, which would drive opportunities for next 3-4 years.
- DIVI has completed all the orders related to Molnupiravir as of now.



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- DIVI is experiencing elevated cost pressures on account of raw material and logistics.
- With capacity expansion in place, sartans and contrast media products are expected to drive growth over medium term. Further, the product patent expiries over next two years are going to drive opportunities in generics API segment over next 3-4 years.

Dr. Reddy's Labs

Buy

Current Price INR 4,190

- G-Revlimid (Lenalidomide) launch with limited volume is expected in Sep'22.
- The 13% QoQ decline in NAM sales to USD230m was largely because of the increased competition in g-Suboxone and g-Vasopressin injection.
- Russia on a constant currency (CC) basis declined 14% YoY, primarily due to political turmoil and post-stocking inventory normalization in 4QFY22.
- Recent sale of brands was at an Avg. EV/sales multiples 3.5x/4.0x.
- DRRD has not hedged for Russia and has worked by reducing working capital to minimize the currency-related impact.
- Adjusting for the Covid impact/divestment of brands and acquisition, India business had single-digit growth YoY for the quarter.
- DRRD launched five new products during the quarter.
- PSAI business' sequential decline was primarily due to lower volumes of base business, partly offset by new product launches and favorable forex rate.
- R&D expense stood at INR4.3b (8.3% of sales).

Eris Life Science

Buy

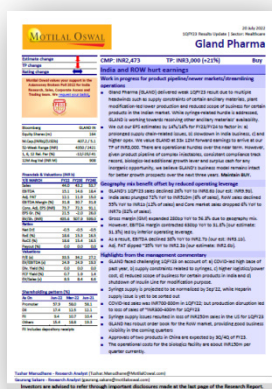
Current Price INR 669

- The management has guided at a 30%/16-17% YoY growth in revenue/EBITDA for FY23.
- From an EBITDA margin of 32.4% in 1QFY23, it expects the same to inch backup to 36% by FY25.
- It expects four brands to garner over INR1b in annual revenue, including Zomelis by the end of FY23.
- The management expects growth in the Cardio-metabolic segment (53% of 1QFY23 sales) to revive on a low base of FY22 and due to new introductions.
- It expects the Insulin business to garner INR200m/INR150m in sales/operating loss in FY23.
- Over the next four years, the management expects Drolute (Dydrogesterone) to emerge as an INR1b revenue product.
- It sees a 200bp dip in gross margin over the next two quarters due to six-to-seven launches.
- During 1QFY23 ERIS launched Sitagliptin and one women's health product
- Dydrogesterone market size is about INR7b growing at 60% YoY and ERIS is expected to do annual sales of INR300m for the first year

- The margin profile of Drolute is lower given the API supply issues. However, the situation is expected to normalize in next two years
- Sulfonylurea market is expected to grow 6% YoY, out of which, 3% will be driven by volumes and rest will come from prices
- The MJ Biopharm's Insulin Glargine study is on time and it is expected to take another 6 months to complete
- Liraglutide and Insulin Glargine are in Phase-3 trials on schedule and both will be launched around the same time
- Agreement with Biocon will entail one-time payment at the start and the agreement has an exit clause
- Overall, the base business is expected to give 10% growth (comprising Sulfonylurea and Sartans)
- Higher cost of financing costs on account of debt for Oaknet acquisition
- Tax rate remains low as Guwahati facility contributes 78% of the revenues
- 25% EBITDA to OCF conversion for the quarter quite low due to new launches similar level expected to in2QFY23 as well.



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Gland Pharma

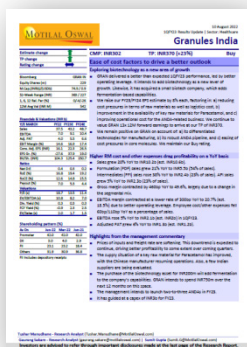
Buy

Current Price INR 2,370

- GLAND faced challenging 1QFY23 on account of: a) COVID-led high base of past year, b) supply constraints related to syringes, c) higher logistics/power cost, d) reduced scope of business for certain products in India and d) shutdown of Insulin Line for modification purpose.
- Syringe supply is projected to be normalized by Sep'22, while Heparin supply issue is yet to be sorted out
- COVID-led sales was INR700-800m in 1QFY22; but production disruption led to loss of sales of ~INR300-400m for 1QFY23
- Syringe supply issues resulted in loss of INR250m sales in the US for 1QFY23
- GLAND has robust order book for the RoW market, providing good business visibility in the coming quarters
- Approvals of two products in China are expected by 3Q/4Q of FY23.
- The operational costs for the biologics facility are about INR150m per quarter currently.
- Profit share was about 10% of the revenue for GLAND in 1QFY23
- GLAND launched 14 SKUs in the US including Bortezomib, Pemetrexed, Pantoprazole and Cyanocobalamin during 1QFY23
- It is investing in new manufacturing lines for technologies involving microspheres and combi-vials to support complex development portfolio
- The quarter had the impact of supply issues of key API and packing materials that adversely affected the sales in RoW markets
- Management has finalized the next set of product filings for China with an addressable market size of USD1b
- India business expected to normalize to INR1b per quarter going forward
- Four customer visits have happened during the quarter for Biologic CDMO. GLAND is forecasted to start commercial revenue by the end of the year.
- Management has maintained INR3b capex guidance for FY23 for the new lines.
- R&D spends are expected to remain at ~4% as a percentage of sales.



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Granules India

Buy

Current Price INR 307

- Prices of inputs and freight rate are softening. This downtrend is expected to continue, driving better profitability to some extent over coming quarters.
- The supply situation of a key raw material for Paracetamol has improved, with the Chinese manufacturer resuming operations. Also, a few Indian suppliers are being evaluated.
- The purchase of the biotechnology asset for INR200m will add fermentation to the company's capabilities. GRAN intends to spend INR750m over the next 12 months on this space.
- The management intends to launch two-to-three ANDAs in FY23.
- It has guided at a capex of INR3b for FY23.
- GRAN net debt stands at INR6.1b at the end of 1QFY23.
- GRAN has participated in PLI scheme to secure the supply of DCDA (key raw material for Metformin). It would be spending INR1b as capex for this scheme
- The growth in EU market would be also driven by partnership model.
- The cash-to-cash cycle has increased by 6 days QoQ to 144, due to planned increase in inventory and restatement of trade receivables.
- GRAN generated free cash flow of INR980m in 1QFY23.

IPCA Labs

Buy

Current Price INR 902

- IPCA has on-boarded 800 MRs out of planned addition of 1200 MRs in FY23. IPCA would have total MR strength of 6,000 with addition of MRs
- For UK market, IPCA received 6 approvals. These products would be launched soon. IPCA expects better growth prospects in this segment FY24 onwards
- Operational cost related to Dewas is already factored while guiding for EBITDA margin for FY23
- IPCA expects some reduction in anti-malaria business in FY23
- IPCA exhibited 20% YoY growth in pain therapy in DF segment. Restructuring of Cardiovascular division led to temporary slowdown in growth to 5% YoY for 1QFY23.
- While there is import alert from USFDA, IPCA is utilizing Pithampur facility for other geographies and thus has capacity utilization of about 30%.
- Silvasa site have minimal capacity utilization due to import alert from USFDA.

DF business robust; API/Export business on gradual uptrend

DF: on sustainable industry beating growth path

- IPCA delivered a robust 17% YoY growth in DF sales in 1QFY23 excluding the anti-malarial sales. It exhibited 14%/6.5% volume/price YoY growth in the 12-months ending Jun'22.
- The company has continued deliver robust growth on the back of top 2 therapies of Pain and Cardiac growing 25% and 15.7% respectively according to the AIOCD AWACs data.
- IPCA is implementing efforts to not only enhance recall value of existing brands, but also add new division as well as increase its reach within DF segment.
- Further, the inflation-linked price hike for its portfolio under NLEM has been taken from June and the benefit of the same will be realized during the year.

- We expect 14% sales CAGR in the DF segment to INR32b over FY22-24.

API: Business in recovery mode

- While API sales decline on YoY basis, it has improved on sequential basis.
- The validation process being complete in case of sartans, the business is expected to further improve going forward.
- It is also working on adding newer molecules in API segment as well as increase scope of back ward integration.
- We expect 13% sales CAGR in this segment to INR17b over FY22-24.

Formulation exports: on track for product approval and re-launch in UK market

- IPCA is in process to increase the number of product registrations under own label and subsequently launch the same in UK market.
- The lower visibility on re-start of business to US market remains a drag on overall return ratios.
- IPCA has completed remediation measures at US focused sites. Successful USFDA inspection outcome remains the key for US business re-start.
- We expect overall export Formulations to exhibit 12% sales CAGR to INR18.6b over FY22-24E.



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MOTILAL OSWAL
18 August 2022
Jubilant Pharmova

COMP. FINANCIALS (INR Crores) (4Q)

Particulars	2021	2020	2019	2018	2017
Revenue	1,100	1,050	1,000	950	900
Operating Profit	150	140	130	120	110
Net Profit	100	90	80	70	60
EPS	10	9	8	7	6

Key Highlights:

- Revenue growth of 5% YoY in FY22.
- Operating Profit margin improved to 13.6% from 13.3% in FY21.
- Net Profit margin improved to 9.1% from 8.6% in FY21.
- EPS growth of 11.1% YoY in FY22.

Research from Motilal Oswal:

CDMO Segment: The company's CDMO business is expected to grow at a CAGR of 14% over the next three years. The company is expected to launch four new products in the CDMO segment in FY22. The company is also expected to launch two new products in the CDMO segment in FY23.

API Segment: The company's API business is expected to grow at a CAGR of 13% over the next three years. The company is expected to launch two new products in the API segment in FY22. The company is also expected to launch two new products in the API segment in FY23.

Formulation Exports: The company's formulation exports business is expected to grow at a CAGR of 12% over the next three years. The company is expected to launch two new products in the formulation exports segment in FY22. The company is also expected to launch two new products in the formulation exports segment in FY23.

Jubilant Pharmova

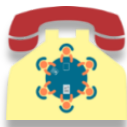
Neutral

Current Price INR 342

- USFDA audited its Roorkee facility and has issued six observations. JUBLPHAR will submit an action plan and will engage with USFDA.
- The ramp-up in API volumes will drive much better profitability in the CDMO-API segment in 2H as compared to 4% in 1QFY23.
- JUBLPHAR would be launching around four Radiopharma products over the next 12-24 months.
- The Radiopharmacy business is expected to break even by FY24.
- Ruby-Fill installations shows encouraging trend with sales increased both on a YoY and sequential basis in 1QFY23
- JUBLPHAR expects the new launches in RadioPharma business to garner 30-50% market share within first year given the low competition
- Two new lines for Spokane will be coming up by end of FY24/FY27 and Montreal facility expansion will be completed by FY27 for Sterile CDMO business
- USFDA removed Olanzapine, Spironolactone, and Valsartan from the list of excepted products with respect to the Roorkee Import Alert.
- JUBLPHAR CDMO-API segment reported lower revenue as the Nanjangud plant is undergoing asset replacement and plant upgradation, which contributed to lower volumes
- JUBLPHAR expects Nanjangud facility inspection by USFDA to be imminent.
- JUBLPHAR is expected to incur capex of ~INR7-7.5b in FY23 primarily towards expansion in CMO business and enhancement of contract research and development services (CRDS) capabilities and capacities.
- The stabilization issues affected the performance on temporary basis in CDMO-sterile injectables segment in 1QFY23.
- API business demerger is effective with appointed date as 1st Apr'22.



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Laurus Labs

Buy

Current Price INR 571

- The ARV business is witnessing volume growth but it is dragged by the price dips to some extent.
- Other expenses for the quarter were higher on account of INR330m excess power costs due to power outage and forex loss
- The new capacities related operational costs are already part of expenses and thus operating leverage is expected to improve with commercialization of FDF facility.
- LAURUS guided for Capex of INR20b for FY23/24, funded mostly through internal accruals. ~40%-50% capex is in the CDMO segment while rest will be going to non-ARV API/Formulations.
- LAURUS expect stable sales for FY24 in Laurus bio division. The meaningful growth in this division can be expected FY25 onwards.
- LAURUS filed 1 ANDA in US and received 3 approvals during the quarter
- LAURUS' brownfield capacity expansion at Unit-2 was commissioned during the quarter.
- There is limited scope of price erosion in LAURUS' Synthesis business given that these are contracts from Innovators.
- There are 7 commercial products in CDMO segment (4 intermediates/3 APIs).
- The supplies from the new animal health capacity are expected to start from end of FY24
- LAURUS is evaluating few land parcels for 1m liters fermentation capacity for Bio business.
- LAURUS is expected to evaluate shift to new tax regime with the tax benefit now down to 50% leading high tax rate.

Lupin

Neutral

Current Price INR 683

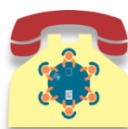
- LPC had an adverse impact of USD50m on the US sales in 1QFY23 due to exits in about 15 products that have become economically unviable along with shelf stock adjustments for certain other products. LPC expects recovery of the US quarterly sales run-rate to USD150-160m in the coming quarters.
- Upside from launches such as g-Suprep, g-Spiriva, etc. would also drive the US sales.
- LPC launched one ANDA in the US generics segment. It has a target to launch 10 products in FY23E.
- While the quarterly performance was weak, management guided for 18% EBITDA margin from 4QFY23 onwards fueled by new launches in the US and better-than-industry growth in the DF/EMEA markets.
- The company responded to all the queries related to g-Spiriva and is confident to launch it in 4QFY23E post successful approval. The target action date remains 17th Aug'22.
- Adjustidouble digit YoY growth in coming quarters.
- LPC's working capital days has increased upto 147 days from 140 days in FY22 due to higher inventories while there is reduction in receivable front.



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- Rationalization of employees would reduce the employee cost by INR200m per quarter going forward.
- LPC's market share in Albuterol is about 23.2% in 1QFY23.
- LPC has about 34% of supplies by air and remaining by sea. LPC indicated to reduce the share of air freight to 22-25% of its supplies over medium term to reduce logistics cost to some extent.
- Partnered products forms about 15-16% of sales in 1QFY23 for LPC.

Solara Active Pharma

Buy

Current Price INR 469

- By 4QFY23, SOLARA is expected to garner INR4b in sales/50% gross margin.
- Management has filed Ibuprofen/Gabapentin from Vizag. It would be filing a couple of more products in coming quarters. In addition to filings, the company would have validation batches-led business from Vizag site over the near term.
- While CRAMS business was 5% of sales in 1QFY23, management has a target to track 8-10% of sales from CRAMS segment in FY23E.
- With stronger focus on R&D, SOLARA has added 15+ new programs for the year and aims to file six DMFs in FY23.
- The prices of most of the products have stabilized. The softened demand for two products and increased RM cost hurt profitability to some extent.
- Management guided that the under-recovery at Vizag site will be stable over near term and sales to less-regulated markets would drive better profitability going forward.
- Filings for the US market would trigger inspection at Vizag site. The successful compliance/product approval would improve business prospects from Vizag.

Strides Pharma

Buy

Current Price INR 341

- STR is implementing operational cost reduction measures and the full impact would be visible 2H FY23 onwards.
- The shift of production from Endo facilities to STR facilities would also aid improvement in profitability of business acquired from Endo.
- By FY24, STR intends to be back up to 24-25% EBITDA margin driven by sales pick-up and cost saving measures
- The pricing is more or less stable and new launches would aid growth in US market for STR.
- Salary expenses higher for the quarter on account of the integration of Chestnut ridge facility staff.
- GMP approval was received for the flagship facility (Unit 2) and small-scale commercial and clinical batch manufacturing facility (Unit 1)

Business improving sequentially

Launch momentum to drive US revenues

- US sales grew by 18% YoY to INR3.6b (USD46m) in 1QFY23 driven by the key molecules gaining market share along with 3 new launches. US sales have been consistently improving over 3 consecutive quarters now.

- STR was able to fully integrate Chestnut ridge portfolio in July and hence the acquired portfolio of Endo Pharma is expected to drive the sales in 2HFY23 driven by 15 targeted launches in 9MFY23.
- Given that STR has ~258 ANDAs approved and only 55 commercialized, there is enough scope to generate business from existing products. STR has identified 60 products with decent profitability to drive launch momentum for the next 3 years. This would enhance margins prospects for STR over near term.
- Accordingly, on FY22 low base, we expect 33% sales CAGR over FY22-24.

Portfolio maximization/new launches to drive growth in other regulated markets

- Other regulated market business declined slightly QoQ due to adverse currency movements in key markets.
- STR continues to witness healthy traction across its key front-end markets with decent order book visibility to drive the business in 2HFY23.
- Entering newer markets, expanding presence in existing markets through new launches and market share gain, we expect 17% sales CAGR over FY22-24.

Stelis business to revive driven by CDMO

- Stelis has onboarded 6 new global partners during the quarter for its CDMO business providing better visibility for revenue/profitability in this business.
- Stelis' current pipeline of Biologics/Biosimilar includes STLP001 expected to achieve EMA approval in CY22 along with Phase-3 trials of Insulin Glargine.
- AmbiVax-C vaccine is under submission in India, and clinical studies are planned to support approval for use as a booster shot to itself and other approved vaccines
- Given the Stelis' supply agreements, new clients additions and strong pipeline the business outlook remains encouraging over next 2-3 years.



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The screenshot shows a detailed financial results table for Sun Pharma for the quarter ended September 30, 2023. It includes various metrics such as Sales, Expenses, Profit, and Earnings per Share (EPS) in both Indian Rupees (INR) and US Dollars (USD). The table is organized into sections for different business segments and overall company performance.

Sun Pharma

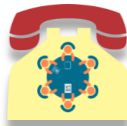
Buy

Current Price INR 874

- Global Specialty sales stood at USD191m in 1QFY23. The same stood at USD673m in FY22.
- Illumya, Cequa, and Odomzo were the key growth drivers, while there has been a gradual build-up in the sales of Winlevi.
- Excluding the sale of COVID-related products, total sales grew 14% YoY in 1QFY23.
- SUNP spent 21% on R&D in its Specialty portfolio.
- Specialty sales grew YoY, despite a seasonal impact on Levulan sales.
- Winlevi has been prescribed by 10k doctors in the US and has exhibited 22% QoQ growth in prescriptions.
- Challenges in Ukraine/Russia had delayed clinical trials related to Illumya.
- SUNP would have to conduct phase 1/phase II trials for Illumya for Japan market. Hence, it would be atleast 1.5-2 years away for commercial benefit from this product.
- SUNP launched 2 products in generics segment (Ex-Taro)
- The EM sales grew 16% YoY in CC terms for the quarter.
- In India, there are 20-25 players who have launched Sitagliptin generic.



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MOTILAL OSWAL		Torrent Pharma	
Company Name	CHOP: 1001523	TRP: 1001523	Neutral
Current Price	INR 1,526		
Market Cap	INR 1,526		
Revenue	INR 1,526		
Profit	INR 1,526		
EPS	INR 1,526		
P/E Ratio	INR 1,526		
Dividend Yield	INR 1,526		
Analyst Recommendation	Neutral		



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MOTILAL OSWAL		Zydus LifeSciences	
Company Name	CHOP: 1001523	TRP: 1001523	Neutral
Current Price	INR 383		
Market Cap	INR 383		
Revenue	INR 383		
Profit	INR 383		
EPS	INR 383		
P/E Ratio	INR 383		
Dividend Yield	INR 383		
Analyst Recommendation	Neutral		

Torrent Pharma

Neutral

Current Price INR 1,526

- TRP's secondary sales in the DF segment grew 17% YoY v/s industry growth of 2% YoY in 1QFY23.
- The company intends to launch 7-8 products per quarter in the DF segment.
- TRP added 300 MRs in the DF segment totaling to 4,200 at end-1QFY23.
- The company exhibited 8% YoY growth in Brazil on constant currency basis.
- About 88% of Brazil business is branded generics in nature.
- TRP launched five products over the past six months in Brazil. It received two approvals in 1QFY23 and has 11 products pending for approval.
- Management intends to do double-digit filing in FY23E for Brazil market
- TRP also benefitted by the inflation-linked price hike of 10% YoY in the Brazil market.
- Cumulative ANDAs pending for approval stood at 60, with three tentative approvals received. One ANDA was filed during the quarter.
- TRP launched Rivaroxaban (market size: USD150m with 11 players in the market).
- It also launched Desvenlafaxine in Brazil market.
- Germany sales declined 18% YoY for 1QFY23 due to increased competition and loss of certain tenders.
- US sales growth was led by g-Dapsone for the quarter.

Zydus LifeSciences

Neutral

Current Price INR 383

- The management is targeting an EBITDA margin of over 20% in FY23.
- It will file 30-35 ANDAs and launch 30 ANDAs in the US market in FY23.
- The management expects US sales to be on an uptrend, despite a price erosion, led by introductions and market share gains in existing products.
- R&D spends are expected to remain at 8% over the medium term.
- Its Specialty portfolio is expected to gradually gain scale starting with 'Nulibry'.
- Once the regulatory compliance of the Moraiya facility is met, four out of five product approvals are expected in the Transdermal segment.
- ZYDUSLIF exhibited double digit growth on sequential basis in US generics aided by volume share gains in base business and eight new launches
- Ex-mesalamine, ZYDUS delivered 8% growth sequentially in US sales
- ZYDUSLIF has pipeline of 5-6 complex injectables and ZYDUSLIF hopes to file 1-2 complex products every year
- ZYDUSLIF is on track to launch g-Revlimid in the coming quarter.
- The incremental competition in g-Asacol HD is not expected till 4QFY23
- ZYDUSLIF completed hepatic impairment studies in NASH and normal PBC patients, results of which will be submitted in near-term
- ZYDUSLIF completed Phase I(b) CT in the US for CIA in cancer patients for Desidustat. Pre-IND meeting is scheduled in 2QFY23 with USFDA to seek further guidance.
- For Saroglitazar ZYDUSLIF expects to be late FY24 to early FY25 filer in US
- 1-2 more opportunities in pediatric care under evaluation by ZYDUSLIF in the short term

- ZYDUSLIF has started new OSD facility for US in Ahmedabad SEZ II.
- 8% impact on staff costs was due to increments and incentives, 2.5% impact due to actuarial gains registered in Mar'22 quarter and 1.5% impact was due to new recruitments.



LOGISTICS

- Logistics companies in our coverage universe clocked a 31% YoY growth in revenue in 1QFY23, on a low base of 1QFY22, which was severely impacted by the second Covid wave. Growth was driven by strong volumes and elevated freight rates. With higher volume growth in 1QFY23, companies were able to increase freight prices, and thus saw only a marginal drop in gross margin (down 160bp YoY and 200bp QoQ to ~31%). With a structural shift in the formalization of the sector (~90% of the Logistics sector is unorganized), supported by stricter implementation of GST and mandatory e-invoicing, the addressable market size for the organized operators will increase significantly. In order to garner a higher market share, companies have announced aggressive investment plans for growing their fleet and storage facilities. Companies have been optimistic about volume growth in their post-earnings call, and expect the momentum to continue through FY23.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY23	Impact of change in key input costs
Container Corporation	<ul style="list-style-type: none"> LLF in FY22 was high at INR4.65b as it included INR700m of provisions as well. The company expects LLF at INR3.6b in FY23. CCRI's focus is to garner market share in commodities and cement that are currently being transported via Roads (and can be shifted to Rail). Management expects a capex of INR5.5-6b in FY23 primarily towards procurement of rolling stock and containers. 	<ul style="list-style-type: none"> Withdrawal of haulage rebates by Indian Railways has no impact on CCRI as the same was entirely passed on to the customers.
Transport Corporation	<ul style="list-style-type: none"> Management's focus remains on increasing the share of LTL revenue, which would result in an improvement in margin. Management has deferred the plans of buying the seventh ship to end-FY23 as ship rates continue to remain elevated FY23 capex guidance has been pegged at INR3b and would mainly be spent on assets such as Ships, Warehouses, Container and rakes. 	<ul style="list-style-type: none"> The freight rates continue to remain elevated that should support high margin for the seaways division in the medium term.
Blue Dart Express	<ul style="list-style-type: none"> BDE is expected to clock higher double-digit growth in revenue in FY23. Going forward, EBITDA margin is projected to be in the range of 15-16%. The company is looking to add two Boeing 737 aircraft that would lead to a 15-20% capacity expansion from current levels. 	<ul style="list-style-type: none"> BDE has a fuel surcharge mechanism in place, which acts as an effective hedge against rising ATF price. Usually there is a lag of around a month for the pass through.
VRL Logistics	<ul style="list-style-type: none"> VRL has opened 68 branches in 1QFY23 and plans to add 20-25 branches per quarter. The management expects a tonnage growth of 20% and margins of 17% for the GT segment in FY23. VRL expects to incur INR3-3.5b of capex during FY23 towards addition of new vehicles in the GT segment. 	<ul style="list-style-type: none"> VRL has not taken any rate hike despite rise in diesel costs to gain higher market share and volumes.
Mahindra logistics	<ul style="list-style-type: none"> MLL plans to reach 20m sq. ft. of warehousing space by early FY24E. Start-up work related to Bajaj Electricals project is nearing completion and is expected to be completed in the 2QFY23. The management targets to improve margins by 30-50bp every year. 	<ul style="list-style-type: none"> Automotive sector was suffering from a slowdown in 1QFY22 but has seen good traction in 1QFY23. Semiconductor availability has improved too.



Click below for
Results Update

The screenshot shows a research report for Blue Dart Express. It includes a table with financial data for FY2022 and FY2023, and a section titled 'Key highlights'.

Particulars	FY2022	FY2023
Revenue (₹ Cr.)	1,100	1,200
Operating Profit (₹ Cr.)	150	180
Net Profit (₹ Cr.)	100	120
EPS (₹)	10	12

Key highlights:

- Revenue growth in 1QFY23 seems higher because of the lower base in 1QFY22.
- Business is seasonal in nature and hence should not be compared on QoQ basis.
- BDE runs at a current aircraft capacity utilization of ~90%.
- The end use sectors of e-commerce, BFSI, Auto & Medical equipment are performing well.
- E-commerce has been growing at a healthy pace with high double digit growth.
- BDE has 54% market share in Air segment as at end of FY21, up from 45% in FY15.
- Traditionally 1Q is the weakest quarter for BDE; the festive season usually is the best quarter.
- New wage code will impact every industry in terms of employee costs. There is high demand for talent at every level. BDE has revised the wages for its employees which looks higher compared to the previous quarter. Staff expenses are expected to be at current levels going ahead.

Blue Dart Express

Neutral

Current Price INR 8,496

Industry

- Demand environment is good and current demand scenario is expected to continue with the onset of festive season.
- Further increase in fuel prices could create a high inflationary environment in future and impact demand.
- Air express segment is expected to grow at high single digits whereas ground is expected to grow in high double digits.

Operational highlights

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- BDE runs at a current aircraft capacity utilization of ~90%.
- The end use sectors of e-commerce, BFSI, Auto & Medical equipment are performing well.
- E-commerce has been growing at a healthy pace with high double digit growth.
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- New wage code will impact every industry in terms of employee costs. There is high demand for talent at every level. BDE has revised the wages for its employees which looks higher compared to the previous quarter. Staff expenses are expected to be at current levels going ahead.

Fuel surcharge mechanism

- Fuel surcharge mechanism is in place which helps in passing on the high ATF prices to the customers.
- There is a lag of around a month for the pass through of higher ATF prices.

Product mix

- Ground express contributes to around one-third of the revenue.
- E-commerce segment contributes to 1/4th of the revenue.
- The gross margin has dropped compared to 4QFY22 because a) change in the product mix b) high ATF prices compared to previous quarter.
- The change in the product mix has led to a similar growth in volume and revenue despite an increase in prices due to GPI and fuel linked price changes.
- The increase volume of ground packages have also resulted in a drop of overall realization on per-tonne basis. The realization per-tonne in Air segment is ~4x that of the ground.

Competition

- BDE is more into express cargo where as other players do not do express cargo. There are selected competitors in Air express segment.
- Pradhaan Air is into charter business and is not a cargo carrier. Cargo delivery of UPS International in India used to be through Jet Airways and Spicejet, but now has partnered with Indigo for the same.
- E-com players like Amazon and Flipkart have their in-house logistics which does 85-90% of the deliveries for the players in the larger cities. Only the large ticket items for these players are done through BDE.

New Aircraft addition

- 2/3rd of the BDE cargo is through own aircraft. 1/3rd traffic is through multimodal which includes belly cargo of airlines.
- BDE is adding capacity not only in ground segment but also in Air. The company is looking to add two Boeing 737 aircraft which would lead to a 15-20% capacity expansion from current levels. BDE has a capacity of 500tonnes/night currently.
- The breakeven for the new aircraft could be achieved in the next 2-3 Quarters of addition. Generally an Aircraft achieves breakeven with a capacity utilization of 70-75%.
- The addition of the aircraft would be towards the later part of FY23. BDE plans to buy the two aircraft with a capex of INR3-3.5b.
- The two aircraft to be added would be of 18 tonnes capacity (existing aircraft are 30 tonnes capacity) which would be able to cover the Tier II & Tier III cities.
- Currently to deliver to the smaller cities, belly cargo of other airlines is being used by BDE. The two smaller aircraft would help in expanding the market of BDE into Tier II cities and decrease the use of belly cargo.
- Generally 15-20 years old aircraft fleet is used for carrying cargo.
- The new aircraft could impact margins in the near term, but would be beneficial in the longer term.

Guidance

- BDE is expected to clock higher double digit growth in revenue in FY23.
- EBITDA margin is expected to be at the current levels with a range of 100bp depending on the ATF price.
- Capex would be minimal for Ground segment in FY23 as BDE follows an asset light model with trucks and warehouses on lease.
- There is no external borrowing at the group level. Borrowing of INR2b is present in Blue Dart Aviation from a group company which would be paid back by year end.
- More pilot studies would be done for delivering shipments through drone. Delivery through drone is cost prohibitive and hence it is only to be used for emergency deliveries.



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Results Update

**Container Corp****Buy****Current Price INR 670****Operational highlights**

- CCRI handled ~1.01m TEUs in Q1FY23. Originating volumes in 1QFY23 stood at 603,493 TEUs (EXIM/Domestic at 497,222/106,271 TEUs).
- Withdrawal of haulage rebates by Indian railways has no impact on CCRI as it was completely passed on to the customers.
- There was a container shortage because of increased exports while the Imports were weak. However situation is improving in terms of container availability.
- The lead distance for EXIM/Domestic stood at 674km/1,320km for Q1FY23.
- Empty running cost for Q1FY23 was INR0.84b (EXIM/domestic: INR0.2b/INR0.63b).
- Rail freight margin stood at 25.6% during 1Q FY23.
- CCRI has increased tariff from start of Jun-22 post reduction of discount by Indian Railways on empty movement of container.
- Overall double stacking up 42% YoY to 1,145 trains in Q1FY23

Container Corporation

Key Metrics:

Particulars	2022	2021
Revenue	1,10,000	1,00,000
Profit	15,000	10,000
Operating Profit	12,000	8,000
Net Profit	10,000	7,000

Operational Highlights:

- Domestic segment continues to drive volumes.
- Port-wise market share for JNPT/ Mundra/ Pipavav was at 78%/42%/49% in 1Q FY23.
- Rail share at JNPT/ Mundra/ Pipavav stood at 18%/24%/61% in FY22.
- Volume mix of CCRI from ports of JNPT/Mundra/Pipavav/Vizag/Chennai/Tuticorin/Cochin at 35%/ 37.5%/ 11%/5%/5%/ 2%/2%, respectively in Q1FY23.
- Land license fee for Q1FY23 stood at INR0.96b and expects INR3.7-3.8b for FY23.
- Talks are on for the long term lease arrangement. Further clarification is awaited from the Ministry.
- In FY22, LLF was high at INR4.65b as it included INR700m of provisions as well.

- DFC benefits would be more visible when Dadri and JNPT are also connected with DFC. Once Dadri is connect Mundra coefficient could increase to 42%.

Volumes

- Port-wise market share for JNPT/ Mundra/ Pipavav was at 78%/42%/49% in 1Q FY23.
- Rail share at JNPT/ Mundra/ Pipavav stood at 18%/24%/61% in FY22.
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- In FY22, LLF was high at INR4.65b as it included INR700m of provisions as well.

Domestic segment

- Trials have been conducted for transporting bulk cement in containers. Currently cement volumes are low but picking up very fast.
- Management is optimistic about the domestic growth story and expects domestic demand to be the growth driver for CCRI.
- Working with OEM equipment manufacturers for First Mile Last Mile operations (FMLM). Good interest is also seen for 3PL logistics and distribution logistics.

Capex

- CCRI management expects a capex of INR5.5-6b in FY23 primarily towards procurement of rolling stock and containers.
- Apart from this, there would be capex towards distribution logistics and strengthening of the network.

Guidance for FY23

- Domestic volumes are expected to grow faster than EXIM.
- EXIM would also grow at 10-12% in FY23. There are cargos being transported via rail from East to West and then exported. This is providing strong business to CCRI and also improving the lead distance.
- Cement shipment has started extremely well. CCRI has started commercial trails and expects strong volumes coming from this ahead.
- The focus is to grab market share in commodities that are currently being transported via Roads which can be shifted to Rail.



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Results Update



Mahindra Logistics

Neutral

Current Price INR 483

Operational highlights

Industry overview

- Automotive sector was suffering from a slowdown in 1QFY22 but has seen good traction in 1QFY23. Semi-conductor availability has improved.
- Strong rebound in tractor market after a weak 4Q due to increase in cashflows to the farmers from the rising food prices.
- Pandemic accelerated the growth of several e-com players. Growth has been lower in 1Q FY23 in some categories which is likely to continue in near term. Marketplaces and D2C brands driving optimization across value chains with focus more towards productivity rather than just network expansion.

Q1 FY23 Earnings Report

Key Metrics:

- Revenue: ₹1,000 Crores
- EBITDA: ₹150 Crores
- EBIT: ₹100 Crores
- Net Profit: ₹70 Crores
- EPS: ₹140

Business Highlights:

- Revenue growth of 40% YoY in 1Q FY23, driven by recovery in Auto and continued growth in the existing accounts.
- EBITDA margin of 15% in 1Q FY23, up from 14% in 4Q FY22.
- EBIT margin of 10% in 1Q FY23, up from 9% in 4Q FY22.
- Net Profit margin of 7% in 1Q FY23, up from 6% in 4Q FY22.

- Consumer durables sector saw demand moderation due to increase in product prices to offset the rise in input costs. Consumer appliance demand was robust in Apr-May but declined in Jun'22.
- Demand in FMCG and personal care categories remains moderate.
- Freight forwarding segment has seen mixed market trends during the quarter.

Business Update

- The 3PL and network business of MAHLOG saw robust volume growth in 1Q. The 3PL business saw 40% YoY growth in revenue driven by recovery in Auto and continued growth in the existing accounts.
- Integrated solutions saw good growth in the Non-Auto side of the business.
- Both farm and auto segment of M&M saw 40% growth, with significant growth in farm segment on sequential basis.
- Network services which comprise last mile delivery, B2B and freight forwarding business grew by 20% YoY in 1Q.
- SCM segment contributed 95% and Enterprise mobility segment contributed 5% to the revenue in 1Q FY23.
- There is a 50bp YoY drop in margins in the SCM segment which is due to the shift in the mix towards last mile and B2B express which have lower margins.
- The proportion of revenue from the Mahindra group was 52% during the quarter.
- Startup work by Mahindra logistics towards Bajaj electrical project is nearing completion and is expected to be completed in the 2Q. Post this, steady state margin enhancements would be the key focus area.

Non-MM segment

- Off the Non-MM business, Auto, consumer and manufacturing contributed ~35%, e-commerce contributed ~30%.
- Non-MM grew 33% YoY in 3PL business driven by e-commerce, consumer and manufacturing. The share of warehousing and solution grew 60% YoY in 1Q FY23.
- The overall wins in 1Q for non-MM business carried an annual contract value of INR2b which would be visible in the next 4 quarters.

Enterprise mobility

- Enterprise mobility is seeing traction as working from office resumes. Post Covid, the focus is shifted towards safety. The trip counts have started moving towards pre-Covid levels. There is a supply pressure across the industry as many operators have shut down operations due to a) rising fuel prices b) high BS-VI vehicle pricing.
- Trip counts are growing in EM segment but that is not increasing the revenue that much as the shorter trips is being taken.

Acquisitions

- The trip count was up 20-30% YoY across various cities in 1QFY22 for Meru cabs.
- Meru cabs revenue came in at INR220m with a loss of INR20m in 1QFY23 (1QFY22 loss: INR60m).
- Whizzard operates in e-com and last mile delivery in which MAHLOG has acquired 36% stake in Apr'22. Revenue for Whizzard came in at INR290m in 1QFY23 (+30% YoY) attributing a loss of INR3m for the stake of MAHLOG.
- During the quarter, MAHLOG has incorporated 2 new subsidiaries (1 in India and 1 in UK) to undertake the freight forwarding and air charter business outside India.

- E-Del fleet stands at 700 vehicles.
- Margins in the last mile delivery business are low but as scale builds up, the margins might come good. Whizzard acquisition has provided a playbook in the segment.

Future growth

- The management targets to improve margins by 30-50bp every year.
- As the auto segment recovers, the revenue from transportation segment would increase.
- MAHLOG is expecting to reach 20m sq. ft. of warehousing space by early FY24 with the launches in cities like Guwahati, Patna, Lucknow etc.
- Nearly additional 2.5 m sq ft. of warehousing space would be completed in FY23 and another 2m sq ft. space has been tendered out recently.



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Transport Corporation of India

Buy

Current Price INR 712

Operational highlights

- Revenue growth was 30% YoY at ~INR9.0b. This was due to the growth seen across business divisions (freight, supply chain, seaways) and low base of last year. Revenues in freight/supply chain/seaways grew +27%/33.6%/32.6% YoY.
- EBITDA margin stood at 11.5% (+60bp YoY). On a QoQ basis, margin declined by 180bp. The drop in margins on sequential basis was primarily due to low volumes from the MSME segment during the quarter. This impacted the LTL segment which is generally the high margin segment within the freight business.
- Net borrowing continues remain zero. Debtors have increased marginally due to delay in payment by certain customers.
- Management is maintaining a conservative approach in its guidance for growth (Revenue and PAT growth of 10-15% in FY23) as expectation of slowdown in global economy and inflationary environment could impact businesses in 2H FY23.
- Announcement of National Logistics Policy in Aug-22, mandatory e-voicing from Oct-22, changing consumer trends and infrastructure development will help to garner higher market share for the organized players.

Freight segment

- The LTL/FTL proportion in the Freight division stood at 35%/65% in Q1FY23. The slowdown in MSME has temporarily impacted the LTL share. Management expects the share of LTL to rise to 40% in FY23.
- Fuel price change is embedded in contract with the customers and it is passed on to the customers as per the terms of the contracts. However at times there could be lag of a month.

- ROCE continues to be above 25% with asset light model and stable margins

Supply Chain segment

- Uptrend in the automotive sector, with easing in supply of semiconductors, drove revenue growth of 33% YoY during the quarter.
- Auto rakes have been doing well which has off-set the fuel price impact
- Margins are stable for the segment with controlled cost structure. Margins continue to be higher than most peers.
- Company is looking at a diversified customer base and service offerings to maintain the growth momentum and tackle competition in this segment.

Seaways segment

- High margin seaways segment grew by 32.6% in Q1FY23 amidst a challenging macro environment.
- EBIT Margin in the Seaways segment remained elevated at 30.2% due to availability of return loads from Myanmar and higher freight rates. While global freight rates have been cooling off, the domestic coastal shipping rates continues to remain elevated.
- Margin may sustain in the short term, but is likely to stabilize at 25% going forward.
- One out of three ships has completed the dry dock in Q1FY23 and the other two would be finishing with the dry docking in 2Q FY23.
- The Cost of ships has increased and freight rates continue to remain elevated. The margins in this segment could remain elevated for next couple of quarters.

Capex

- FY23 capex guidance has been pegged at INR3b and would mainly be spent on assets like Ships, Warehouses, Container and rakes.
- The plan of buying the seventh ship is expected by end of FY23. Ship rates continue to remain elevated which is leading to the delay.



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MOTILAL OSWAL		13 August 2022
VRL Logistics		
Current Price	INR 598	Buy
Target Price	INR 650	
Key highlights		
<ul style="list-style-type: none"> ■ VRL Logistics (VRL) reported the highest ever quarterly turnover of INR 27.1% in Q1 FY23 and Q1 FY23 EBIT Margin remained elevated at 30.2%. ■ The Seaways segment, which was hurt by COVID restrictions, was recovered sharply and showed a strong "V" recovery in Q1 FY23. ■ EBIT Margin rose to 30.2% in Q1 FY23, which is a record for the company. ■ The company has a strong track record of consistent growth and has a strong financial position. 		
Financials (INR Crores)		
Particulars	Q1 FY23	Q1 FY22
Revenue	27100	20500
EBIT	8190	6350
EBIT Margin	30.2%	30.9%
Net Profit	5100	4000
Net Profit Margin	18.8%	19.5%
Operating Assets	15000	14000
Operating Liabilities	10000	9000
Operating Income	5000	5000
Operating Margin	18.4%	24.4%
Operating Assets	15000	14000
Operating Liabilities	10000	9000
Operating Income	5000	5000
Operating Margin	18.4%	24.4%

VRL Logistics

Buy

Current Price INR 598

Operational highlights

- There were 0.4m customers of VRL during pre-Covid which has increased to 0.7m currently. Addition of new customers is expected to continue as new branches are being opened.
- VRL has opened 68 branches in 1QFY23 taking total number of branches to 1,023 as of June-22. Company plans to open 25-30 branches per quarter.
- Govt. will mandate e-invoicing for businesses of turnover of INR1b and above (current limit of INR2b). Therefore compliance regulations are increasing which is supporting organized players.
- With greater efficiencies and higher volumes, breakeven for new branches has decreased from 9 months to 2-3 months.

Goods Transport segment

- GT revenue increased by 58% YoY in 1QFY23 with increase in tonnage by 45% and balance from change in realization. GT segment realization decreased by 2% QoQ in 1QFY23 due to discounts on the new routes.
- Diesel cost increased from 29% of revenue in 4QFY22 to 31% of revenue in 1QFY23.
- Company had to procure fuel from retail outlets as there was an increase in rates for bulk purchase of Diesel from refineries resulting in higher diesel costs. Retail procurement increased from 74% in 4QFY22 to 99% in Q1FY23. Hence, VRL lost on savings of ~INR2/liter
- Lorry hire expenses as a percent of revenue increased by ~200bp from 7.4% in 4QFY22 to 9.4% in 1QFY23 on account of increased vehicle hiring costs driven by increase in fuel rates and kms run by hired vehicles.
- Vehicle maintenance cost as a percentage of revenue decreased from 7% in 4QFY22 to 6.1% in 1QFY23.

- Company hasn't taken any freight rate hike in 1QFY23 to gain market share and bring in higher volumes.
- VRL is reaching breakeven for the new branches in 2-3 months. The new branches added in FY22 and 1QFY23 contributed ~8% to the overall tonnage in 1QFY23.

Bus operations segment

- Bus Operations reported revenue of INR 980m in 1QFY23 registering a growth of ~4.6 times YoY and 57% QoQ.
- Significant jump in revenue from bus operations was primarily due to increase in number of passengers travelled, average seat occupation and number of trips due to holiday season. However, going forward, revenue per quarter will be in the range of INR 600m-650m.
- Number of buses increases from 295 in 4QFY22 to 297 in June-22
- Realization per passenger increased by 27% QoQ and 18% YoY

Sale of assets

- VRL completed the sale of its wind power business for INR 480mn in Aug-22, and plans to utilize entire proceeds towards capex in FY23

Capex plan

- Capex was INR850m in 1QFY23 which was towards addition of new vehicles in GT vertical. VRL expects to incur INR3-3.5b of Capex during FY23.
- VRL has a net debt of INR1.5b currently and expects to keep debt levels in the range of INR 1.3-1.4b in FY23.

Guidance for FY23

- The management expects a tonnage growth of 20% in for next three years
- Revenue growth of 25% and Margins would be 17% for the GT segment in FY23.
- Company expects to clock 20% return on invested capital.

MEDIA



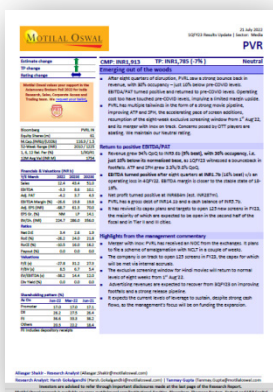
- Sector wide commentary indicated that advertisement revenue, which remained muted for 2 quarters is expected to pick up from 2HFY23. However, FMCG segment, which is a major contributor to the topline, is continuing to see curtailed spends on account of macro challenges and inflationary pressures.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY23	Commentary on ad revenues and subscriptions
PVR	<ul style="list-style-type: none"> ■ PVRL has received an NOC from the exchanges w.r.t. to the amalgamation scheme with NCLT in a couple of weeks. ■ The company is on track to open 125 screens in FY23E, the capex for which will be met via internal accruals. ■ The exclusive screening window for Hindi movies will return to normal levels of eight weeks from 1st Aug'22. ■ It expects the current levels of leverage to sustain, despite strong cash flows, as the management's focus will be on funding the expansion. 	<ul style="list-style-type: none"> ■ Advertising revenues are expected to recover from 3QFY23 on improving footfalls and a strong release pipeline.
Zee Ent	<ul style="list-style-type: none"> ■ Expects business to recover in 2QFY23 with continued momentum coming in the 2HFY23. ■ Zee stated that it expects improvement in EBITDA margin from 2HFY23 aided by revenue recovery. ■ The company expects to see some reduction in inventory within the movie production segment led by a strong release pipeline in subsequent quarters. 	<ul style="list-style-type: none"> ■ Ad revenue remained under pressure hurt by inflation and macro headwinds. Expects normalization towards the latter part of FY23. ■ Company expects subscription revenue growth to remain subdued in the near term as implementation of NTO 2.0 has been postponed to Nov'22.



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PVR

Neutral

Current Price INR 1,796

Key highlights

- Merger with Inox: PVRL has received an NOC from the exchanges. It plans to file a scheme of amalgamation with NCLT in a couple of weeks.
- The company is on track to open 125 screens in FY23, the capex for which will be met via internal accruals.
- The exclusive screening window for Hindi movies will return to normal levels of eight weeks from 1st Aug'22.
- Advertising revenues are expected to recover from 3QFY23 on improving footfalls and a strong release pipeline.
- It expects the current levels of leverage to sustain, despite strong cash flows, as the management's focus will be on funding the expansion.

Detailed highlights

Business recovery:

- The management said 1QFY23 turned out to be one of the best quarters, driven by a bounce back in admissions, strong performance from big ticket movies (RRR and KGF2), and growth in ATP and F&B revenue from FY20 levels.
- It expects a recovery going forward on the back of a strong and promising content pipeline, with big-budget Bollywood, Hollywood, and regional genre movies lined up for release.
- PVRL expects a full recovery in admission by Dec'22, given the line-up of big ticket movies. On an annual basis, admission in FY23 will be better than pre-COVID levels.
- Consumer sentiment is improving on the back of the success of recent releases, which reduces scope of an underperformance in FY23.

Advertising revenue:

- The management expects advertising revenue to improve in 2QFY23, reducing the gap (v/s pre-COVID levels) to 20% from 38% at present. The same is expected to recover to pre-COVID levels by 3QFY23, led by improving footfalls.
- PVRL is currently witnessing a big churn in advertisers, with new age advertisers coming in, while FMCG and MNC brands are taking some time. The management expects the FMCG and MNC segment to recover in 2QFY23.
- The slowdown in ad revenue was mainly on account of lower spends by the FMCG (contributing 15-17% to total revenue) and Telecom segment (due to slower imports and semiconductor issues).

Subscription revenue model

- The pickup in this program was slower due to regulatory authority issues on recurring payments, which have now been managed.
- It plans to launch this program across various segments soon.

Expansion and capex:

- PVRL is on track to open 125 screens in FY23, of which a majority of the screens will turn operational in the latter half of the fiscal.
- It plans to fund these capex via internal accruals and existing liquidity.
- The management expects to grow the share of its premium screen count to 18-20% over the next five years from 12% at present.
- PVRL shut 39 screens, of which 23 screens, with a revenue share of less than 2%, were shuttered due to the expiry of its lease with Cineline.

Leverage:

- Its gross/net debt currently stands at INR14.1b/INR8.4b. While it will see positive cash flows from operation, the management plans to invest the same to fund its expansion plans. PVRL aims to maintain its current leverage levels.
- Pricing and SPH:
- The management expects the SPH/ATP ratio to improve going further, without seeing any decline in ATP.
- The SPH/ATP ratio is aided by its improved share in its premium screen portfolio, which saw a SPH/ATP ratio of 70%.

Exclusive screening:

- The exclusive screening window for Hindi movies will return to the normal levels of eight weeks from 1st Aug'22.

Merger with Inox:

- PVRL has received a no objection certificate (NOC) from both exchanges and will file a scheme of amalgamation with NCLT in a couple of weeks.
- The management expects the merger process to be completed in the next five-to-seven months.

Operating cost:

- PVRL has seen lower electricity cost due to the control on unit consumption and a one-time government relief in some states. It expects these costs to rise going forward.
- The management expects rentals to grow at 4-4.5% CAGR, which will be slower than revenue growth, resulting in an improved rent/revenue ratio.
- It expects employee cost per screen to rise by 9% on the back of increments and wage inflation in FY23.

Other highlights:

- Industrywide box office collection stood at INR57b in 1HCY22, which is better than CY19 levels.
- In the F&B segment, its partnership with Zomato and Swiggy has not received an encouraging response. While the company is working with its partners to grow the business, the segment's share in overall revenue will not be significant in the coming period.



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MOTILAL OSWAL 12 Aug 2022
Zee Entertainment

Current Price: INR 259

Key Highlights:

- Ad revenues remained under pressure impacted by inflationary pressure and macro headwinds. Expects normalization towards the latter part of FY23.
- Zee5 launched 38 shows and movies while linear TV launched 26 new shows across the network to improve viewership share.
- Expects improvement in EBITDA margin from 2HFY23 on the back of revenue recovery.
- Inventory increased by INR3.7b during 1QFY23 of which INR2.6b pertained to Movie business. Cash balance (incl. investments) as on Jun'22 stands at INR11.3b.

Detailed Notes:

Business Recovery:

- Company saw a soft start to FY23 as revenues remained muted due to near term challenges from macro, weaker volumes and impact on Ad revenues due to FMCG business.
- EBITDA margins at 12.8% remained lower primarily led by revenue led softness. Expects this to recover sharply from 2HFY23 as revenue recovers.
- Expects business to recover in Q2FY23 with continued momentum coming in the 2HFY23.

Zee 5 (Digital Business):

- DAU/MAU stood at 11.3m/103.3m. MAU saw a decline on QoQ basis mainly due to some impact of B2B business renewals and focus on stickiness on the company's part.
- Company is currently looking to avoid long term deals within B2B segment and is in working on finding the right balance within term and price points.
- EBITDA losses widened mainly on account of incremental investment in content.
- Launched 38 shows and movies during the quarter, including 8 originals during the quarter.

Zee Studios:

- Segment witnessed a soft quarter as compared on the back of exceptional performance in 4QFY22.
- Company is confident of strong recovery in this segment on the backs of strong pipeline of release across Hindi and regional languages.
- Company expects to see some reduction in inventory on the back of strong release pipeline in subsequent quarters. Current quarter inventory increased by INR3.7b of which INR2.6b pertained to movie segment.

Advertisement Revenues:

- Ad revenue saw a soft performance as FMCG segment which remains a key contributor to the revenues continues to remain under pressure on account of inflation and lower volume growth.
- Other segment such as Auto, consumer durable and telcos continue to have a lower market share of 6-8%

Subscription Revenue:

- Revenues from this segment continue to remain impacted by the pricing embargo due to implementation of NTO 2.0.
- The decline in subscription revenue can also be attributed to lower consumption as time spent decreased during the quarter.

- Seats per screen: PVRL is witnessing lower seats per screen as new properties, which offer a premium experience, operate with lower auditorium sizes.

Zee Entertainment

Buy

Current Price INR 259

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Viewership trends:

- Network share declined by 100bp sequentially to 16.1% mainly impacted of moving of Zee Anmol from FTA. Adjusted for this, company has seen improvement in market share.
- Company has stated that it will look to improve content and focus on Hindi, Marathi and Tamil market to improve market share.

Other Highlights:

- Cash and treasury balance: Cash balance (incl. investments) as on Jun'22 stood at INR11.3b, which includes INR4.5b in bank accounts, INR6.5 in fixed deposits and INR324m in NCD.

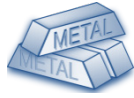
Merger with SONY:

- Company received approval from stock exchanges for its scheme of arrangement.
- As of now both the companies continue to operate independently.

Receivables:

- Collection from Dish TV is moving as per the agreed payment plan. Outstanding amount has declined significantly from INR5.8b in Mar'21 to INR1.9b in Jun'22.
- Company continues to follow cash and carry model for SITI and has not recognized INR352m which remains to be collected. Of this, CITI has deposited INR155m.

METALS



- In the Metals space, most of the companies highlighted: a) reduction in coking coal costs to reflect in 3QFY23E results and b) steel demand has accelerated in Jul'22 v/s 1QFY23. Inventory is high across the board and working capital has been locked due to high inventory and expensive coal payments. Both these are likely to come-off over the next six months. On the non-ferrous side, thermal coal costs continue to rise and management expects the same to reflect in forthcoming results. Global macros remain challenging with slowdown in China, inflation in the US and Russia/Ukraine war keeping demand low in Europe.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY23	Highlights of 1QFY23
Tata Steel	<ul style="list-style-type: none"> ■ Spreads in Europe will remain higher than in past ■ Capex guidance for FY23E is INR120b ■ Debt reduction in FY23 is USD1b at the least ■ 30% steel contracts at Europe will come for re-pricing in 3QFY23 ■ No change in FY23 volume guidance 	<ul style="list-style-type: none"> ■ NINL acquisition cost of INR 109.8b was paid on 4th Jul'22 ■ During 1QFY23, coking coal consumption cost was higher by GBP 84/t at TSE ■ Rising thermal coal cost in South Africa has hurt DRI production costs at TSLP and TSBSL
JSW Steel	<ul style="list-style-type: none"> ■ No change in FY23 volume guidance of crude steel production at 25mt and saleable steel sales at 24mt ■ Capex for FY23 reduced from INR 200b to INR 150b ■ Near-term expansion at Vijayanagar (5mt), BPSL on track. 	<ul style="list-style-type: none"> ■ Steel consumption declined ~5% in 1QFY23 ■ Automotive contract was finalized with one OEM at a hike of INR9,000/t in 1QFY23 and a reduction of INR4,000t in 2QFY23 ■ Coking coal cost was higher by INR130/t in 1QFY23
JSPL	<ul style="list-style-type: none"> ■ FY23 guidance of production and sales of ~8.2mt remains unchanged with exports at ~2mt ■ JSP remains committed to the expansion plans and there is no deviation from there, entire capex upto 16mt is committed ■ Management expects one of the thermal coal mines to be opened in FY23. 	<ul style="list-style-type: none"> ■ HRC prices have corrected to INR59,500 in the quarter from INR76,000/t amid weakness in international steel markets and imposition of export tax in India ■ JSP managed the profitability in exports through sale of high value plates where margins existed after paying export duty and exports of semis which was exempted from export duty.
SAIL	<ul style="list-style-type: none"> ■ No change in FY23 production guidance ■ Domestic consumption has picked up since end-1Q and sales in 2QFY23 will likely be better than 1Q ■ Natural attrition in employees should be able to counter the increase on account of wage revision ■ Increase in borrowings due to higher working capital, which should reduce through the rest of the year 	<ul style="list-style-type: none"> ■ EBITDA contracted 65% YoY and 47% QoQ due to consumption of high-cost coking coal ■ EBITDA was augmented by INR4.89b additional revenue from Indian Railways for FY22 ■ Working capital increased sharply due to high inventory on account of lower sales in the quarter
Hindalco	<ul style="list-style-type: none"> ■ Coal cost is likely to remain high with 2QFY22. Management expects aluminum CoP to increase by 15-19% in 2QFY23 ■ Novelis' FY23 EBITDA/t guidance raised to USD525/t, implying EBITDA/t guidance for remaining 9MFY23 at USD505/t ■ Management also raised Copper business EBITDA guidance to INR4b per quarter from earlier run rate of INR2.0-2.5b per quarter. 	<ul style="list-style-type: none"> ■ Hindalco reported strong results driven by all round beat on Novelis, copper and primary aluminum businesses ■ Coal costs were lower than company guidance due to existing inventory at lower cost ■ Novelis surprised with USD583/t on strong performance of the US automotive division
Vedanta	<ul style="list-style-type: none"> ■ Management expects the aluminum cost to trend down QoQ with lower alumina and power costs ■ Coal cost is guided to be lower QoQ on better materialization of coal linkages ■ HZL's cost guidance is also sequentially lower on expectations of lower coal costs 	<ul style="list-style-type: none"> ■ Result was below our estimates on weaker aluminum, oil & gas and power division EBITDA. ■ The company's recently started hedging activities have been profitable and unrealized hedge gains could be to the tune of ~INR20b in addition to INR7.6b already realized.



Hindustan Zinc Limited

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Results Update



Hindustan Zinc	
Company Name	Hindustan Zinc Limited
ISIN	IN0000010000
Market Capitalization	₹ 1,10,000 Crores
Revenue	₹ 1,10,000 Crores
Profit	₹ 1,10,000 Crores
EPS	₹ 1,10,000 Crores
P/E Ratio	10
Dividend Yield	1%
Debt to Equity Ratio	0.5
Operating Margin	15%
Net Profit Margin	10%
Return on Equity	10%
Return on Assets	5%
Current Ratio	1.5
Quick Ratio	1.0
Interest Coverage Ratio	2.0
Capital Expenditure	₹ 1,10,000 Crores
Free Cash Flow	₹ 1,10,000 Crores
Operating Cash Flow	₹ 1,10,000 Crores
Net Cash Flow	₹ 1,10,000 Crores
Debt to Capitalization Ratio	0.3
Equity to Capitalization Ratio	0.7
Weighted Average Cost of Capital	10%
Enterprise Value	₹ 1,10,000 Crores
EV to EBITDA Ratio	10
EV to Earnings Ratio	10
EV to Sales Ratio	10
EV to Book Value Ratio	10
EV to Market Value Ratio	10
EV to Enterprise Value Ratio	10
EV to Total Assets Ratio	10
EV to Total Liabilities Ratio	10
EV to Total Equity Ratio	10
EV to Total Debt Ratio	10
EV to Total Capital Ratio	10
EV to Total Assets Ratio	10
EV to Total Liabilities Ratio	10
EV to Total Equity Ratio	10
EV to Total Debt Ratio	10
EV to Total Capital Ratio	10

Hindustan Zinc

Neutral

Current Price INR 279

Growth projects – a new line of capex

- While the acquisition of Zinc International business of the parent company remains under discussion, HZ highlighted that the decision will be taken in due course of time and will be subject to several approvals. Management also highlighted that nothing concrete has been discussed so far.
- The new proposal discussed by the management was regarding 0.5mt fertilizer plant with a capex of INR13-14b to be spent over the next 15-18 months. The fertilizer plant will absorb the sulphuric acid and other by-products emanating from the zinc smelting process and will be sold in the domestic market. This should help improve the by-product realization for HZ.
- Management also announced the setting up of a 160kt roaster plant at a capex of around INR900m over the next one and half years.
- The option of setting up a custom smelter at Gujarat is not being actively evaluated.

Coal costs continue to rise

- HZ has been sourcing coal from Australia and Indonesia. The company has not sourced any coal from Russia so far, neither has it indicated any plans for the same.
- Linkage coal was about 8% compared with around 2% in 4QFY22. HZ has about 1mt of FSA coal to be delivered in FY23E.
- Management expects Coal India to deliver the remaining 1mt of coal (from FY22) during FY23, which will partly help it maintain its cost guidance for FY23.
- Coal and fuel costs currently account for 21% of the total CoP, v/s 15% in 1QFY23. We believe the same is likely to remain at elevated levels, unless Coal India delivers higher quantity of FSA coal.

Hedging zinc sales

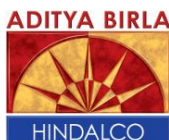
- The management has started the practice of hedging part of its sales volume from FY23E.
- It has hedged 21% of its FY23E sales volumes at USD4,100/t.
- HZ has used about 11% of the hedges booked at USD4,100/t in 1QFY23 and balance 10% is likely to be consumed in 2QFY23.
- We like the company's policy to hedge Zinc at higher LME and agree to its view that the current prices do not offer remunerative hedge.

Gujarat custom smelter expansion makes no progress

- HZ has not made much headway in its custom smelter project in Gujarat. It has been unable to convene the Gram Sabha meeting needed to move ahead with the project.
- Once the same is complete, management will focus on other parts of the project that include land acquisition, placing orders for equipment, and applying for CTE (consent to establish).
- There is no further progress since the update in 4QFY22.

Renewable power – awaiting details

- While the management has been clear about getting 200MW renewable power by FY24, it did not confirm the rates at which it will buy that power.
- We believe setting up a solar/wind renewable power capacity of that scale should take at least two years including the time for land acquisition.



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- The management further added that it is likely to expand its renewable power consumption to 500MW to support all future expansions.
- We cautiously await details of such long-term (~ 25yers) PPA and details of the counterparty setting up the same.

Debt and cash

- Current gross cash and equivalents in its books is INR242b. Net cash balance is INR 214b.
- The company recently announced a dividend of INR21/share, which should result in a cash outflow of INR89b.
- Post-dividend payout, cash and equivalents in the books will be around INR156b.

Hindalco Inds

Buy

Current Price INR 419

- The macro environment remains challenging with slowdown in China, high energy costs in Europe and high inflation in US, all pointing towards lower commodities consumption.
- However, beverage cans and automobile related demand for aluminium shall remain robust as beverage cans is a highly recession resistant market while easing chip shortage in west could pump up demand for automobiles.
- Company is investing in the renewables energy to reduce its carbon footprint. The investment shall be a mix of battery dependent and battery independent sourcing of energy
- Pump hydro project shall be installed in Dec'22 at Aditya smelter and thereafter the same will be evaluated for a year before committing any potline expansion.
- Capex guidance remains unchanged with the capex for Novelis/India stands at USD1.3-1.6b/INR80b in FY23.
- The entire capex will be funded through internal accruals, with a net debt-to-EBITDA ceiling ratio of 2.5x (from 1.4x at present). The management has the option to curtail uncommitted capex in case of the 2.5x ceiling breach.
- The net debt-to-EBITDA ratio has reduced sharply to 1.4x from 2.6x as of 31st Mar'21. The company has recently paid off INR 60b bonds which were priced in the range of 9.5-9.6% which will eventually bring down the finance cost for the company.

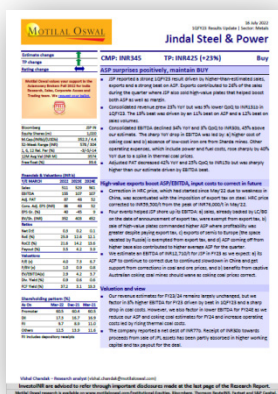
Jindal Steel & Power

Buy

Current Price INR 383

Management's response to the levy of export duty

- Without giving any specific numbers, the management highlighted that it has been able to respond to the levy of export duty through a series of measures
- Exports that were pre-booked and backed by LC/BG on the date of announcement of the export duty were exempted from duty
- Heavy plates are in demand in Europe and the ASP is high for such wide and heavy plates. The company has increased sales of these plates, which despite attracting export duty, has led to higher ASP and EBITDA.



MOTILAL OSWAL
Jindal Steel & Power

COMP: JSP:SEI TP: INR(2023-24) Buy

Key metrics:

Parameter	Value
Revenue (INR bn)	1,000
EBITDA (INR bn)	1,000
EBIT (INR bn)	1,000
Net Profit (INR bn)	1,000
EPS (INR)	1,000
P/E Ratio	1,000
Dividend Yield (%)	1,000

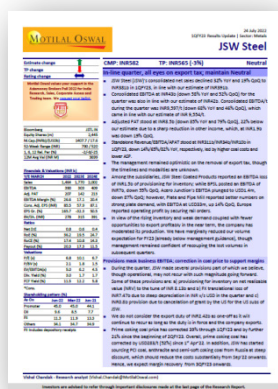
- Welded structures, head hardened rails, alloy steel bars, alloy steel billets are not covered under export duty, and hence JSP has increased sales of these products. These improved the overall EBITDA.

FY23 guidance

- Production/Sales guidance for FY23 at ~8.2mt remains unchanged.
- JSP expects FY23 exports at ~2mt (25% of sales v/s 33% of sales in FY22).
- There is no change in the expansion plans and the company is committed to completing its expansion plans on time.
- JSP will commission 3.3mt expansion by FY24, to take advantage of lower corporate tax of 15% in the new wholly-owned subsidiary.
- INR180b capex has been lined up for the growth projects to be spent during FY22-27. FY23E capex will be ~INR70b, including: a) INR47b for growth capex at Angul, b) INR20b mining capex and c) INR3b sustenance capex.
- JSP expects to become net debt free by end-FY23.
- Kasia mine production will be 5mt in FY23E.
- The consent to operate has been extended to 9mt.
- JSP expects to open one of the thermal coal mines in FY23 and at least two of the three mines to be operational in the next two years.
- The incremental capex on the Angul expansion will be funded through project debt raised in JSPL Angul. The company aims to keep the parent company gross debt free over a period of time, while raising debt in the subsidiary where expansion will take place.
- The company reported a gain of INR58b on sale of JPL, however, the details on the tax liability on the same is awaited.
- JSP also recorded unrealized FX MTM gain of INR45b on loan given to its Mauritius subsidiary. We have excluded the same in our calculation of adjusted EBITDA and adjusted PAT.



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MOTILAL OSWAL
JSW Steel

COMP: JSP:SEI TP: INR(2023-24) Buy

Key metrics:

Parameter	Value
Revenue (INR bn)	1,000
EBITDA (INR bn)	1,000
EBIT (INR bn)	1,000
Net Profit (INR bn)	1,000
EPS (INR)	1,000
P/E Ratio	1,000
Dividend Yield (%)	1,000

JSW Steel

Neutral

Current Price INR 643

FY23 guidance:

- Capex for FY23 has been moderated to INR 150b from INR 200b, in line with our estimates.
- Crude steel production will be 25mt at the consolidated level and sales will be 24mt, guidance given during FY23 has been maintained so far.
- No change in exports guidance that stands in the 18-20% range v/s 28% in FY22.
- Coking coal costs in 1QFY23 was USD438/t, up USD130/t QoQ and in line with the guidance of a hike of USD125/t. The management expects costs to start declining going forward, with USD50/t decline in 2QFY23.
- Automotive contracts have been finalized with a few Auto makers, with a hike of INR9,000/t for 1QFY23 and a reduction of INR 4,000/t in 2QFY23. However, negotiations are continuing with major automotive customers.
- JSW has started buying coal (thermal, coking and anthracite) from Russia at a reasonable discount to the Australian coal. However, the company continues to depend on Australia for prime hard grade coal.

Impact of imposition of export duty:

- The company reduced exports to 0.88mt in 1QFY23 from 1.35mt in 4QFY22, a reduction of almost 35% due to imposition of export duty.
- Exports were about 20% of the total sales, which itself were subdued due to sudden imposition of export duty.
- The company will continue to meet its long-term export commitments and strive to export more semis that do not attract export duty.

Capex program:

- The 5mt commissioned in Dolvi is ramping up and will largely contribute to volume growth.
- JSW continues to work on the 5mt expansion at Vijayanagar, along with the 3mt coke oven battery, to augment the increased capacity. All long lead time orders have been placed and LCs have been established. The timeline for commissioning of the 5mt expansion at Vijayanagar by Mar'22 remains intact as it is linked to the reduced income tax rate of 15% for new projects being set up in a new company and commissioned before end of FY24.
- All downstream facilities at Vijayanagar have been commissioned.
- Capex for the balance of plant at BPSL (3.5mt) will be completed by Sep'22 and the brownfield expansion to 5mt from 3.5mt will be completed in FY24. These are all committed capex and JSW will complete the same as per schedule. The management reiterated no delays in these projects. Long lead time orders have been placed.
- Color-coated line of 0.12mt in Kashmir will be commissioned in 1QFY24, and 0.25mt color-coated line in Rajpura, Punjab will be commissioned in 4QFY23.
- Steel price movement:
- Steel prices have started stabilizing in the domestic market and pockets of demand are seen.
- Exports, however, remain slightly challenging with continued slowdown in China.
- Four consignments from Russia have been imported in India so far at FoB price of USD610/t. However, the management believes that ocean freight and insurance cost for these cargoes are high and the landed cost will work out closer to the domestic HRC price. Hence, management does not expect a major disruption due to these imports.

Macro:

- India steel consumption declined 5/6% QoQ in 1QFY23.
- Crude steel production also declined 2.9% QoQ in 1QFY23.
- Management highlighted that due to imposition of export duty, exports in India are down 26% QoQ at a time when domestic demand is soft.

Operations:

- The acceptance on the revenue/capital account is USD2.7b/USD13m.
- Inventory increased by ~1mt in 1QFY23.



सेल SAIL

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**SAIL****Buy****Current Price INR 78****Guidance**

- Around 1.336mt finished steel inventory
- There is no plan to reduce the level of production
- No revision to the sales volume guidance despite imposition of export duty
- The management has mentioned that despite a weak 1QFY23, the domestic consumption should pick up and the company can achieve its target.
- The Jul'22 sales have been at 1.4mt and Aug'22 sales also look good.

Realization

- During Jun'22, the blended ASP was INR58,000/t and in Jul'22 it was INR1,200-1,300/t lower. The longs prices have been holding up, but flats have corrected.
- The trend for Jul'22 is not encouraging, but the subsequent month's performance looks encouraging. Jun'22 ASP was at INR66,000/t
- Average NSR for 1QFY22 was INR53,929/t
- Average NSR for 4QFY22 was INR59,495/t
- Average NSR for 1QFY23 was INR56,829/t

- Jul'22 NSR is INR1,200-1,300/t lower compared to 4QFY22 average.
- In the long product sector, higher thermal coal prices have led to high long product prices for the secondary TMT producers which is supporting the price for the primary TMT

Coal costs:

- Current coking coal prices for 2Q will be substantially lower than that in 1Q. Mar-May purchase coal was consumed in 1QFY23. There will be some high cost coal for the month of Jun'22 to be accounted for, but thereafter purchases are at a significantly lower price and the benefit will accrue from mid-aug'22.
- In 1QFY23, the price of import prime hard coking coal was INR39,500/t v/s INR29,000/t in 4QFY22.
- Coking coal cost in Jul'22 is around INR38,000/t and Aug'22 should be INR33,000-34,000/t and Sep'22 will be even lower. Indigenous coal cost is around INR13,000/t and is about 14-15% of the total coal consumed.

Employee cost

- Last wage revision happened in Nov'21 and subsequently the quarterly wage expense is around INR30b v/s INR28b prior to the wage revision.
- With a lot of natural attrition happening with limited replacements, there is a lot of savings in manpower costs.
- In addition, the retiring manpower is a high cost employee, while the replacement is generally at the initial level, hence the cost reduction from that perspective is also substantial.
- A small blast furnace at Bhilai has been shut down for major capital repairs. It will re-start once the same comes up again.

Extra-ordinary income during the quarter

- The company recorded INR4.89b in prior period item towards additional invoicing to Indian Railways for the FY21.
- The payment will come in due course as this is the agreed value between SAIL and Indian Railways

Debt and working capital

- Total borrowing has increased to INR221b (both gross debt and net debt) at the end of 1QFY23 from INR134b at the end of 4QFY22.
- Capex in 1QFY23 was INR10b.
- The increase is largely on account of working capital debt for coal payments
- Management expects the working capital to reduce in the next few months as coal prices have come off significantly and they also expect the additional inventory to be liquidated over the rest of the year.

Capex and operational cash flow

- The capex target of INR80b includes the capex done in JV companies, subsidiaries and by the company itself.
- The company has a lot of projects in the pipeline and orders will be placed during the year. These are largely de-bottlenecking projects and should be done over a period of time.
- Cash outflow operations was in the range of INR80b mainly on account of payment related to coal. Operating cash inflow was INR10b during the quarter.

Segment EBIT losses

- Durgapur has a lot of semis, resulting in loss.
- At IISCO, production was low, and hence there is a higher fixed cost absorption leading to EBIT loss. Once the production picks up, the losses will recede.
- Bhilai reported an EBIT increase on QoQ due to inclusion of additional invoicing from Indian Railways to the tune of INR4.89b. Adjusting for the same, Bhilai also reported an EBIT loss in 1QFY23

Export duty

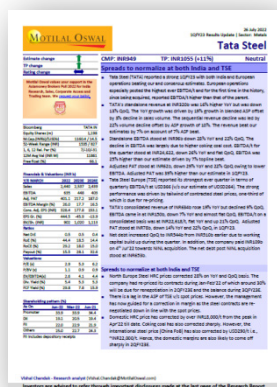
- The company has been requesting the ministry to look into the matter, but there is no significant headway made in this direction.

Others

- The process of stabilizing manufacturing of head hardened rails is still under trial and once it is finalized, then the company will move towards commercial production.
- There was no sale of iron ore in 1QFY23. The company expects marginal sales for iron ore in 2QFY23.
- No inventory loss booked in this quarter on the inventory during the quarter
- Royalty is up by INR4b, while FX valuation loss is around INR5b which is included in other expenses.



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**Tata Steel****Neutral****Current Price INR 105****FY23 guidance**

- Domestic coking coal costs for 2QFY23E will be down by USD40/t but significant reduction will happen in 3QFY23E. At TSE, however, the costs will be higher by EUR30/t due to inventory buildup. The reduction in coal costs will happen in 2HFY23E.
- Steel price contracts being re-priced in Europe: About 30% of the contracts at TSE is half yearly, and will be re-priced in 3QFY23E and hence the spreads will be lower. The company has about 30% sales on annual contract basis, around 30% with duration of 6-9 months and the balance with around 3-6 months. There is hardly any noticeable volume in spot sales, and hence, there is a lag in the reflection of spot price in the performance of the company.
- Total inventory accretion was about INR80b in the quarter of which two-thirds is in India mainly due to raw materials that will be used in 2QFY23. However, the RM inventory in Europe will be consumed by 3QFY23E. Hence, there will be a working capital release in 2Q.
- Debt reduction target stands at USD1b at least. However, we expect the working capital release to aid reduction in net debt. Hence, the debt reduction most likely will occur during 2HFY23E.
- Capex guidance for FY23 remains at INR120b (2QFY23 spend to be INR26b).
- Coal purchase cost for 2Q is down by USD150/t but the consumption cost will be lower only in 3Q.
- Spreads in Europe will remain higher than the past cycle as: a) Russia's imports are no longer a threat to the domestic steel industry, b) energy costs are higher as fears of dwindling energy supply from Russia keeps energy prices elevated, c) domestic demand remains strong albeit with slowdown looming large, demand could take a beating, d) transitioning to green steel will have costs and carbon tax will ensure higher spreads to help partly fund transitioning into green steel, in management's opinion.

NINL acquisition

- TATA has paid INR109.8b towards the acquisition cost of NINL on 4th Jul'22.
- The site is next to its Kalinganagar plant and gives it access to 6,000 acres, thus, offering it the option to raise its capacity to 25MT from 9MT at present (post expansion, including KPO).
- NINL's current capacity stands at 1MT. The management is looking to start a blast furnace within the next three months. Its FY23E, the monthly exit run-rate should be 80-100kt.

- Work on re-start of the BF has already started. The mining activity has already commenced at NINL iron ore mines. The coke oven batteries will be repaired over the next six months (could take longer in our view).

Guidance for 2QFY23/FY23

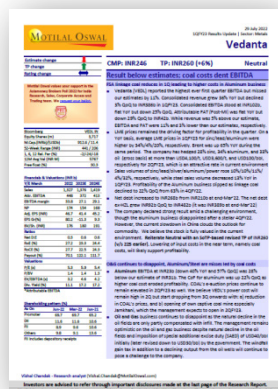
- There is no change in FY23 volume guidance so far. The management had guided for a 0.5MT rise in FY23 volumes, which will mostly be achieved through debottlenecking. This implies a sale of 18.8MT, including 0.5MT from NINL. The India business should achieve a volume of 19.3MT. The company expects about 0.5mt additional volumes in 2QFY23 that will also help unwind part of the working capital locked in India.
- Capex is guided at INR120b and the actual spend in 2QFY23E will be INR26b.
- The management refrained from any ASP guidance this time due to high volatility, but ascertained that the steel price has corrected by INR15,000/t from the start of Apr'22 till date.
- Coal cost for TSE will increase by EUR20-30/t in 2QFY23. ASP should decline as steel contracts are reset.
- Around 75-80% of energy costs in Europe are currently hedged but nothing is hedged for FY24 as of now.

Coking coal and energy costs

- 1QFY23 coal cost impact was GBP84/t.
- Rising thermal coal prices in South Africa has impacted DRI production at TSLP and TSBSL, leading to higher costs as the thermal coal cost is higher than coking coal, a rare phenomenon, which we believe is likely to last for a long time as Europe continues to ignite thermal power plants to reduce dependency on Russian gas.



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Vedanta

Neutral

Current Price INR 257

Commodity hedging and hedging gains:

- During 1QFY23, around 20% volume for aluminum was hedged USD3500/t.
- For 2QFY23, 28% of aluminum volume has been hedged at USD3,630/t.
- About 34% of zinc volume is hedged at USD4000/t for 2QFY23
- Around 33% of total Oil and Gas volume, translating to 16% in terms of working interest has been hedged at USD100/bbl for 2QFY23.
- Realized gain in hedges is INR7.64b in 1QFY23
- Unrealized gain for 2Q and 3Q is about 3x of realized gain
- Most of the hedges will unwind in 2QFY23 and a small part will unwind in 3QFY23.

Aluminum Cost of Production (CoP)

- Currently the cost of production is slightly higher than the LME aluminum price. However, there are no plans to moderate production despite rising cost. Costs are high in the quarter due to high power, alumina costs.
- Power cost has corrected by USD150-200/t with higher linkage coal and alumina costs by USD300-400/t due to fall in LME prices and further reduction is likely in processing costs which will make aluminum business profitable at the current LME prices also.
- Total coal requirement in 1QFY23 was 4.9mt of which 22% is linkage coal balance being largely e-auction. In 2QFY23, linkage will be around 36% and balance will be e-auction

Zinc India – results inline

- Hindustan Zinc (HZ)'s revenue was in line at INR94b (up 44% YoY and 7% QoQ) in 1QFY23, led by higher LME prices but partly offset by flat lead prices, repeating the trend of 4QFY22.
- EBITDA stood in line at INR51b (up 44% YoY and 4% QoQ). Power and fuel costs were at INR9b, up 15% QoQ, led by higher coal prices as FSA materialization was only 8% during the quarter and the company continued to import the balance coal from Australia and Indonesia.
- HZ's PAT grew 46% YoY and 6% QoQ to INR31b, in line with our estimate of INR32b, as lower-than-estimated other income was offset by lower-than-estimated finance cost.
- The company used about 50% of the hedges for FY23 during 1QFY23 and the balance is likely to be exhausted in 2QFY23E. The effective realization for 2HFY23E is likely to be lower as zinc prices have also corrected sharply.

Oil & gas business – investments to continue

- Investment in oil and gas business evaluated with oil at USD50/bbl and IRR of 20% and current windfall tax does not impact the target ROI as per the management.
- From 1st Jul'22, the GOI has started the levy of special additional excise duty (SAED) on crude oil which started at USD40/bbl and subsequently reduced to USD30/bbl w.e.f. 20th Jul'22 and will be revised every fortnight. The management has not made any change in the carrying value of the oil assets post levy of the SAED, assuming the recoverable value of the assets will not undergo a material change despite levy of SAED.

Investment in Semi-conductor business:

- Currently, the company is engaging with various state governments for tax concession for evaluating final location for the project.

Divestment

- HZL: Vedanta cannot acquire more than 5% in any year. If government requests the company to participate in the acquisition beyond the legal limit, the company will consider the same.
- BALCO: No plans on Balco stake acquisition from the government nor there is any plan for divestment by the government.
- BPCL: The government is re-thinking on the same. The company will look at it at the appropriate time.

Debt maturity profile parent – VRL

- USD1.5b debt reduction has been achieved at parent level in YTD FY23. VRL is on track to achieve deleveraging of USD4b in the next 3 yrs.
- For FY23, total debt that falls due is US\$3.7 including interest cost and inter-corporate loan of ~USD1b, implying about USD2.8b of external debt. Around USD2b is due in 1HFY23 and balance USD0.8b in 2HFY23. VRL has received about USD1.5 from the 2 interim dividends received from Vedanta limited. About USD200m has been received from brand fee and loans from banks like SBI for refinancing. This makes up around USD2.1-2.2b covering the liability until Nov-Dec.

Share pledge at Vedanta and HZL

- Vedanta shares are not encumbered or pledged but an NDU (Non-disposal undertaking) has been provided to the banks by the promoters which are being reflected as pledges. About 14.9% HZL shares had been pledged by VED, which is now reduced to 5.77% after refinancing of the debt.

Royalty / Brand Fee to the promoters

- FY22 royalty paid was USD200m and in FY23 it is likely to be USD250-275m. There is no change in royalty payment agreement with the promoter entity.
- Captive coal mines to drive cost reduction in aluminum business
- The company has won 3 thermal coal blocks – Jamkhani, Radhikpur West and Kurloi North.
- The mining EC for these three mines is 2.6mt, 6mt and 8mt respectively.
- The management expects to start Jamkhani mines in Aug'22, Radhikapur West in 3QFY23 and Kurloi North in 3QFY24

Debt at VEDL

- Maturity profile of debt increased to four years and borrowing costs have further reduced to 7.6%.
- Net debt increased from INR210b at the end of Mar'22 to INR268b. Ex - Hindustan Zinc, net debt increased by INR92b QoQ to INR482b (it was INR389b at the end of Mar'22).
- The higher debt is largely on account of working capital requirements in the quarter.

Oil & Gas – EBITDA growth driven by Brent, volumes disappoints again

- 1Q gross production stood at 148kboepd (down 4% QoQ) after being down 3% QoQ in 4Q as well.
- Despite continuous assurances by the management, the production continues to decline.
- Opex continues to rise due to the declining nature of the fields. During the quarter, opex increased to USD13/bbl in 4Q vs USD12.4/bbl in 4Q and USD10.3 in 3Q, largely due to the higher cost of polymer injections.



OIL & GAS

- For OMC's and Reliance, while refining business was very strong in Q1FY23 led by high GRM's, it would be softer in 2HCY22 due to flattening of SGRM. Marketing margin losses will be narrowed in 2HCY22 from very high losses in 1QFY23 led by cooling-off of the crude prices to ~USD95/ bbl currently from as high as USD120/ bbl in Jun'22. Petchem business will be modest led by moderate demand and margins. GAIL's guidance for increase in gas trading volumes by 5-6mmscmd in FY23E and commissioning/ ramp-up of various fertilizer plants would increase its volumes by Oct'22. GSPL's volume is expected to remain muted in 2QFY23 as well led by high Spot LNG prices and the industries shutdown in the Morbi region. For CGDs, while the high input APM gas price remains a concern in 2HCY22, which would keep their margins under check, pent-up demand is coming up with strong volumes both in CNG as well as PNG, which would balance their overall profitability.

KEY HIGHLIGHTS FROM CONFERENCE CALL

Oil & Gas	Outlook for FY23	Quarterly snapshot
GAIL	<ul style="list-style-type: none"> ■ Gazprom enforces force majeure on ~2.5mmt of volume (~14mmt of total LNG portfolio); this has forced GAIL to take some unallocated cargoes from the UK on 'pay and take' basis. Until the time Gazprom issue gets nullified, we expect some impact on the overall gas supply in the near term. ■ GAIL guided for a capex of ~INR75b in FY23. It is executing various projects worth INR300b, spread over the next three years. ■ Utilization from the company's Urja Ganga pipeline will touch 60-75% by FY23-end. Petchem expansion at the PATA and Usar plants is on schedule (contract and licensing work have already been completed). 	<ul style="list-style-type: none"> ■ GAIL reported strong gains in the trading business which was been offset by other weak segments. ■ Operating performance for transmission and petrochemicals decreased on a YoY/ QoQ basis. ■ The management expects volumes of ~120mmscmd once the fertilizer plants run at full utilization. The petchem plant currently operates at a utilization rate of 83% in 1QFY23.
OMCs (IOC/BPCL/ HPCL)	<ul style="list-style-type: none"> ■ While GRM's are very strong for the OMC's, it has been offset by high marketing margin losses. ■ The companies expect FY23 to have a positive effect from higher throughput and better GRMs. ■ Even after record high GRMs, HPCL has the highest leverage to marketing and would suffer from mounting losses in the marketing segment. ■ While petchem margins remain modest in 1QFY23 as they were up 9%/4%/1% QoQ for PE/PP/PVC, respectively, we expect margins to remain softer in 2HCY22 backed by lower product prices. ■ IOCL is likely to benefit the most among its peers from an uptick in refining margin, further supported by modest petchem margins in the near term 	<ul style="list-style-type: none"> ■ Implied marketing margin loss (including investment) for OMCs fell to INR7.6-9.8/liter owing to a spike in Brent prices, which resulted in retail fuel prices touching record highs. ■ As SG GRM was high at USD21/bbl in 1QFY23, BPCL/IOCL reported a GRM of USD27.5/USD31.8 per bbl (IOCL's core GRM stood at USD25.3/ bbl), while the same for HPCL was at USD16.6/bbl. GRM for MRPL stood at USD24.4/bbl. ■ GRMs are now cooling off from its peak as Singapore GRM has now fallen to USD8.8/bbl in 2QTDFY23, which would curb strong refining margins in the coming quarter. ■ HPCL has highest leverage to marketing and would suffer from mounting losses in marketing segment.
Petronet LNG	<ul style="list-style-type: none"> ■ We remain positive on the gas story in India, which is set to clock a CAGR of 6–8% as per our gas demand-supply model, led by: a) the development of new CGDs and b) higher consumption at fertilizer and refining/petchem plants. ■ Total capex for FY23-24 stood at INR20b. The company would set up a petrochemical project wherein it would produce PDH-PP (capacity of 500ktpa) and another product as already guided. ■ It would also set up two new tanks at Dahej at a capex of INR12b by CY24. ■ A third jetty is being planned with a capex of INR17b. FSRU on the East coast may cost the company INR15b along with brownfield expansion of 5mmtpa at the Dahej terminal at a cost of INR6b (to be done in phases by CY24 or early CY25). 	<ul style="list-style-type: none"> ■ Petronet LNG (PLNG) reported EBITDA of INR10.6b (flat YoY, -9% QoQ), which is in line with our estimates but operational numbers (volume and Kochi utilization) were below our estimates for 1QFY23. ■ Throughput at Dahej stood at 89%, with utilization at Kochi coming in at ~19%. ■ The company recorded 'use or pay charges' of INR4.1b during 1QFY23 on account of lower capacity utilization by its customers. ■ Management expects better utilization would come only after spot LNG prices cooled off which is post the winter season (v/s spot LNG prices at ~USD42/mmbtu in Jul'22).

Reliance Inds

- Opening up of the economy and removal of travel restrictions would enable demand to improve faster than expected with higher footfalls in the retail segment.
- Management believes that recovery in aviation demand, subsiding pandemic woes and lower exports from China will underpin product margins going forward.
- Although, PX, PTA and MEG margins are forecasted to be range bound due to capacity overhang, Polyester/ Polymer demand are likely to improve in the upcoming festive season.
- While the GoI has already raised the gas price ceiling to USD9.92/mmBtu for 1HFY23, we expect this price to increase further after domestic gas prices will be revised from 1st Oct'22.
- A short-term impact is expected due to high gas prices but the outlook remains positive for RIL with growth in pipeline infrastructure and CGD networks
- Reliance Industries (RIL)'s 1QFY23 consolidated PAT was up 46% YoY/11% QoQ (26% miss) underpinned by revenue/EBITDA growth of 57%/63% YoY, respectively.
- Lower-than-estimated 'standalone' performance led to the 10% miss in EBITDA/PAT. RJio posted healthy ARPU-led EBITDA growth – up 27% YoY and 4% QoQ – in line with our estimate, while Retail EBITDA jumped 98% YoY due to the recovery in operations.
- O2C EBITDA came in 14% below our estimate at INR220b (+92% YoY). EBITDA/mt was at ~USD169.8 (+80% YoY, +52% QoQ) fueled by better refining margin and higher inventory gains amid high crude prices. This was offset by weak petrochem margin. Production meant for sale stood at 16.9mmt.



Click below for
Results Update

The screenshot displays a detailed financial analysis of Reliance Industries. It includes a summary of key metrics such as Revenue, EBITDA, and PAT, along with a breakdown of performance by segment. The analysis covers the first quarter of FY23, highlighting growth in revenue and EBITDA, and a significant increase in PAT. The report also discusses the company's strategic initiatives and the impact of market conditions on its performance.

Reliance Industries

Buy

Current Price INR 2,607

RJio – key takeaways from the management interaction

ARPU improvement and subscriber growth led to revenue /EBITDA growth

- The segment reported revenue and EBITDA growth of 5% and 4% QoQ, respectively, supported by ARPU improvement and subscriber growth.
- ARPU benefit is led by tariff hikes in the last financial year (up 27% YoY/ 5% QoQ) and 33% increase in per capita data usage to 20.8GB/month in Jun'22 from 15.6GB/month in Jun'21, along with improving customer mix.
- Besides, acceleration in FTTH connections led to higher customer engagement and greater adoption of digital services led to increase in ARPU. The segment reported revenue and EBITDA growth of 11% and 18% YoY, respectively.

Maintaining market leadership across micro-market

- Subscriber churn has reduced and net additions have turned positive. RJio continued to see momentum in gross subscriber additions and ranked as the #1 telecom operator in India with customer base of 419.9m as of Jun'22.
- Wireless Broadband customer market share is the highest in India at 53% in May'22. Further, the data traffic market share is 60%, more than the other two operators.
- The segment is witnessing an improved AGR RMS market share of 45.4%.
- The company has the widest reach with 4G LTE network and attractive value proposition for the entire customer segment with end-to-end solution.
- RJio is innovating to improve the recharge experience – to reduce the friction plagued with mobile recharge journey for its customers, the company is offering Jio's WhatsApp-based recharge journey which is designed to be simple, intuitive and on a single surface. Currently, 60-65% of the recharge happens online.
- Fully automated network management – automated platform leads to performance efficiency of 2-2.5x better actions executed in the field. This also reduces the customer site visits.

JioFiber

- The company is witnessing strong traction in FTTH with high data traffic. Direct-to-Customer is gaining momentum that led to 78% of new homes opting for postpaid.

- The company's entertainment plans are well accepted in the market, thus improving the customer acquisition quality.
- In 2QFY23, the company will focus on increasing the home deliveries through digital channels and improve the conversion with the speed of field services provided to customers.

Reliance Retail – key takeaways from the management interaction

Business recovery:

- Segment witnessed record Revenue and EBITDA with margin expansion that was mainly led by favorable revenue mix, normalized store operations and higher footfalls.
- Gross revenue grew 52% YoY as:
- Fashion & Lifestyle segment witnessed a growth of ~3x
- Grocery, Consumer Electronics and Pharma nearly doubled.
- Digital and New Commerce segment witnessed a growth of 2x on a YoY basis, contributing 19% to revenue.
- The segment witnessed its first fully-normalized quarter since the onset of the pandemic with all stores fully operational.
- Footfalls surpassed the pre-Covid levels with over 175m walk-ins during the quarter (119% of pre-Covid level)
- Growth within this segment was further aided by opening of malls, offices & school; festivals and wedding season contributes.
- The company is however witnessing cautious sentiments from customers towards discretionary spend on account of inflationary concerns.

Profitability:

- EBITDA margin from operations stood at 7.6%, up 350 bp YoY led by:
- Higher contribution from Fashion & Lifestyle and Consumer Electronics
- Operating leverage with strong LFL growth across consumption baskets

Expansion and customer acquisition:

- The segment's registered customer base crossed 200m mark with ~220m transactions in 1QFY23, which was 60% above pre-pandemic levels.
- The company has continued with its expansion within the segment with addition of 792 new stores (v/s 793 in 4QFY22) and 3.3m sqft of warehousing and fulfillment area during the quarter.



- In 1QFY23, the top 12 listed companies witnessed seasonal declines of 16% QoQ in pre-sales. Most of the companies have identified strong launch pipeline for the year and continued to target double-digit growth in bookings in FY23. From coverage perspective, companies such as LODHA and GPL remain aggressive on business development too with an aim to maintain the growth run-rate in medium term. In terms of pricing, companies have comfortably passed on the cost inflation and intend to take further price hikes going ahead.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Business scenario and outlook FY23	Impact of Inflation and Interest rate hikes
DLF	<ul style="list-style-type: none"> ■ While the pre-sales growth in 1Q was strong at INR20b, management maintained its FY23 new sales guidance of INR80b due to uncertainty on the impact of rising interest rate. ■ DLF has so far launched 0.7msf in 1QFY23 and has new project pipeline of 7msf for FY23, which include: i) 3msf of aspirational homes across Gurugram, Tricity (Chandigarh) and Chennai; ii) 3.3msf of Premium/Luxury projects; and iii) 1.1msf of Commercial development in DLF5/New Delhi 	<ul style="list-style-type: none"> ■ While the demand on ground remains strong as reflected by strong traction across its projects, management believes that the impact of recent hike in mortgage rates could be transitory but two more 50bp hike can start having negative impact on demand.
Godrej Prop.	<ul style="list-style-type: none"> ■ The company achieved pre-sales of INR25b and continues to target INR100b pre-sales bookings in FY23E driven by a strong launch pipeline of 20msf ■ Management is confident of delivering strong growth on BD front. It is approaching BD with a target of achieving pre-sales of INR150b over next few years. ■ Price hikes taken over last few months have helped in mitigating commodity inflation. GPL has taken 5-6% hike in 4QFY22 and another 3-4% hike in 1QFY23 	<ul style="list-style-type: none"> ■ GPL does not expect significant impact of rate hikes as the starting point for increase in mortgage rates was at the lowest level, the country has ever seen. Even after one more hike, the rates could reach ~8% that will still be relatively low v/s previous cycle.
Macrotech Dev.	<ul style="list-style-type: none"> ■ Management reiterated its FY23 pre-sales guidance of INR115b (+27% YoY), of which residential will contribute INR105b (+24% YoY) ■ LODHA entered the Bengaluru market by signing one JDA project having GDV of INR12b. The city has only 4-5 large developers and the company is targeting 10% market share over the next five years ■ Given the strong visibility on cash flows, the company adopted a formal dividend policy with intention to pay 15-20% of PAT starting FY23E. 	<ul style="list-style-type: none"> ■ LODHA has witnessed 2.2% sequential decline in cost, bringing the overall annualized cost inflation to 9% p.a. since Apr'21. This, in turn, translates into an impact of <2% on cost basis on the overall portfolio. Further, LODHA continues to take modest price hikes of 1.5-2% each quarter.
Oberoi Realty	<ul style="list-style-type: none"> ■ The pipeline for FY23 remains strong as it is planning to launch the first phase of its Thane project, along with a tower each at its Elysian and Sky City ■ Price hikes in Goregaon and Worli have been marginally higher than other projects. ■ The company has received occupancy certificate (OC) for its Ultra-Luxury project – Three Sixty West (Worli), and now expects an improved sales velocity. Going by the recent transactions in the vicinity, the management expects a realization of INR110,000-120,000/sq. ft. on the carpet area (i.e. 10-20% higher than the current average) 	<ul style="list-style-type: none"> ■ OBER has not witnessed any slowdown on account of rising property cost and mortgage rates. There is a continuous shift towards reputed developers.



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MOTILAL OSWAL	
Q3 FY23 Results Update Investor Meet Q3 FY23	
DLF	
Strong pipeline for FY23 growth targets ahead	
<ul style="list-style-type: none"> DLF reported new order intakes of ₹1,000 crore, which is a record for the company since FY21. This is a reflection of the strong demand for DLF's products across all segments. DLF's new product line, DLF 5, is a premium/luxury project, which is a new addition to the company's portfolio. DLF's new product line, DLF 5, is a premium/luxury project, which is a new addition to the company's portfolio. 	
Special dividend to shareholders	
<ul style="list-style-type: none"> DLF has announced a special dividend of ₹10 per share to its shareholders. This dividend is being paid out of the company's reserves. 	
Key highlights from the management commentary	
<ul style="list-style-type: none"> DLF's new product line, DLF 5, is a premium/luxury project, which is a new addition to the company's portfolio. DLF's new product line, DLF 5, is a premium/luxury project, which is a new addition to the company's portfolio. 	



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MOTILAL OSWAL	
Q3 FY23 Results Update Investor Meet Q3 FY23	
Godrej Properties	
Strong sales, but subdued cash flow performance	
<ul style="list-style-type: none"> Godrej Properties reported new order intakes of ₹1,000 crore, which is a record for the company since FY21. This is a reflection of the strong demand for Godrej Properties' products across all segments. Godrej Properties' new product line, Godrej 5, is a premium/luxury project, which is a new addition to the company's portfolio. Godrej Properties' new product line, Godrej 5, is a premium/luxury project, which is a new addition to the company's portfolio. 	
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DLF

Neutral

Current Price INR 365

Launch plans

- Company has so far launched 0.7msf in 1QFY23 and has new project pipeline of 7msf for FY23 which include: i) 3msf of aspirational homes across Gurugram, Tricity (Chandigarh) and Chennai; ii) 3.3msf of Premium/Luxury projects; and iii) 1.1msf of Commercial development in DLF5/New Delhi
- Company will also launch plotted development project at DLFU 5 having GDV of INR17-20b.

Margin

- DLFU continues to generate healthy gross margins across its products. It stood at 62% for FY22 (460bp increase v/s FY21). For 1QFY23, it stood at 47%, which is slightly lower than 4QFY22 due to change in product mix
- The drop in EBITDA margin is due to rise in other expenses. Company has guided for INR5-5.5b overheads last year but given the increase in scale of operations, overheads can now reach INR6.5-6.75b. But management is confident that as their new products hit P&L, margins will move back to 35% range.

Commercial Portfolio

- Office vacancy – Targeting for single digit vacancy in next few quarters. The issue is not on the demand side but it is just that business leaders are taking more time to freeze leasing plans even when hiring remains strong. Although hybrid work will be the future, many tenants like GCCs will have to plan for peak requirements which could lead to good demand given strong hiring over last few quarters
- Capex spent – Company plans to spend INR15-20b/year over next few years on capex under DCCDL platform. For DLFU, the same number would be INR5-6b.

Godrej Properties

Neutral

Current Price INR 1,303

New Launches:

- Steadily progressing on approvals and hoping to launch Ashok Vihar in 3QFY23.
- There are some projects which are in advance stages but haven't included in the guidance
- Given the strong response received at Wadala project, company will launch 2nd phase in FY23. Hinjewadi project in Pune and Okhla project in NCR will be launched in 2QFY23
- While the site in Worli is getting cleared and company is expecting real shift in next six months, there is not much progress made on Bandra project

Collections

- Collections will improve in as construction milestones are met in coming quarters. Management is confident on reporting very strong collections and OCF for full year

Margin profile of new projects:

- Nagpur will be plotted development and will have 40%+ GM. Carmichael investment is ~INR3b on land and company is targeting for INR6b profitability

Bengaluru Market:

- Expect immediate rebound in Bengaluru market as company has made key changes to leadership team for the city. The sales contribution in FY23 could be relatively low but as the BD pipeline is shaping up quite well, expect strong contribution from FY24.



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Macrotech Developers

Buy

Current Price INR 1,057

Pune micro-markets in tandem and will continue to add more projects going forward. The company has performed well until now as the current pipeline itself has the potential to add 10% to overall topline from FY23

- As execution gathers pace along with strong sales, the momentum will give more confidence to land owners to partner with LODHA

Platform for digital infra

- A dominant part of sale from digital infra in 1QFY23 was from the 110 acre land which the company injected in the platform. Land value at which it was sold to the platform stood at INR30m/acre.
- The company values Palava's land as a function of the size of transaction, use restrictions etc. On an average it is INR40m/acre but since this transaction was large in size, LODHA had little less realization.
- New platform with two PE players will have a pan-India presence and the company will continue to add assets to the platform. Management is already looking at NCR, Bengaluru and Pune with intended investments of over USD1b.

Stake dilution

- Given its high OCF generation, the company does not require any fresh capital currently and it has also adopted dividend policy now. Besides, it would not be prudent from a 20% RoE target perspective. Hence, a majority of the promoter share sales will happen through secondary sale.

South and Central Mumbai launch

- LODHA's market share in South/Central Mumbai remained resilient and it witnessed sales of INR3b from Park and INR3b from World Towers.
- Further, 2H is very strong in general, especially for South/Central Mumbai, and hence, sales should only increase from hereon.

Oberoi Realty

Buy

Current Price INR 936

Demand and pricing

- OBER has not witnessed any slowdown on account of rising property cost and mortgage rates. There is a continuous shift towards reputed developers.
- It has removed flexibility like subvention from its projects in Mulund and Borivali, due to which pricing looks optically higher. Price hikes in Goregaon and Worli have been marginally higher than other projects.

Launches

- The show apartment on its project along Pokhran Road (Thane) is ready. The project will be launched during the upcoming festive season.
- The management is targeting another tower launch in Borivali and Goregaon, as there is very little inventory available in these projects.
- A large part of the payout for Kolshet Road (Thane) and the project on Peddar road is already complete. These projects are currently at the design stage.

Status of its Commercial projects

- OBER is on track to complete construction at Commerz 3 and Borivali mall by FY23-end. The mall is expected to turn operational before the FY24 festive season. Rentals from its Commercial tower will commence from FY25.

RETAIL



- Companies stated that a strong recovery was witnessed during the quarter on the back of improved footfalls and receding impact of Covid. As a result, companies are now resuming with their store expansion plans.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Business scenario and outlook FY23	Store Expansion
Aditya Birla Fashions*	<ul style="list-style-type: none"> ■ The company stated that it expects GIC fund raise money to be received in 2QFY23. ■ Transfer of Reebok India operations will be effective from 1st Oct'22. Management will look to open company-owned stores in key markets going ahead ■ The company expects scaling up retail segment through expansion and through put improvement 	<ul style="list-style-type: none"> ■ Company added seven stores in Jul'22. It will look to open 30 new Pantaloon stores in 1HFY23 and is on track to reach 70 store additions target in FY23.
Shoppers Stop	<ul style="list-style-type: none"> ■ Management stated that it continues to witness strong demand momentum in Jul'22, after a soft first half in Jun'22. ■ The management expects gross margin to sustain at 39-40%, while EBITDA margin is expected to touch double-digits over the next three years on a non-GAAP basis. ■ Company expects the quarterly cost run-rate to remain in the range of INR3.4-INR3.5b. 	<ul style="list-style-type: none"> ■ The company has a robust pipeline of store additions in place, and is well on track to open 12/15 Departmental/ Beauty stores in FY23. The management expects to fund this growth through internal cash flows.
V-Mart	<ul style="list-style-type: none"> ■ The management stated that it will cut prices for its new season inventory from 15th Aug'22 to attract more customers and recoup the impact of price hikes. ■ The management has guided gross margin to range between 32-34%. 	<ul style="list-style-type: none"> ■ Management is planning to add more than 60 stores in both VMART and Unlimited in FY23 and also expand its online presence.

KEY HIGHLIGHTS FROM QSR- CONFERENCE CALL

	Salient takeaways from the 1QFY23 performance	Outlook
Barbeque Nation	<ul style="list-style-type: none"> ■ Both covers and realization clocked a healthy growth in 1QFY23. As per the management, there is not any significant 'revenge consumption' at play. ■ Average covers are still 10% lower than pre-COVID levels as the contribution from corporates are yet to return to pre-pandemic levels. ■ Revenue from the Delivery business dipped 6% QoQ. Revenue from the Box product has fallen, but a la carte delivery has grown sequentially. 	<ul style="list-style-type: none"> ■ BARBEQUE is adding a delivery-only Biryani brand, with a regional launch first (which may take three-to-six months), before rolling out nationwide. ■ The company has raised prices by 4-5% in Apr-May'22 in two phases. ■ By 4QFY23, 50 sites will be less than one-year old and with the company adding 12- 13 stores per quarter, 3QFY23 and 4QFY23 margins could get hurt. ■ It is likely to attain 15% Pre Ind-AS margins in 3QFY23 and 4QFY23.
Devyani International	<ul style="list-style-type: none"> ■ The management deliberately did not raise prices to cover the entire extent of RM inflation in KFC (9% price increase taken in 1QFY23). For Pizza Hut, it was able to raise prices ahead of the cost increases. ■ Around 70-80% of orders are being delivered within 30 minutes v/s 35 minutes at the time of its IPO a year ago. ■ Edible oil prices have fallen, while chicken prices have stabilized. 	<ul style="list-style-type: none"> ■ The management targets 3-4% SSSG in KFC on a steady state basis and a high single-digit SSSG for Pizza Hut. ■ The steady-state delivery channel contribution for Pizza Hut/KFC is expected to be ~60%/35-40%.
Sapphire Foods	<ul style="list-style-type: none"> ■ The dine-in channel for KFC has recovered to pre-COVID levels, while PH remains at 85%. This gap in recovery was due to a slower revival in Karnataka and a few mall-based stores. ■ The management raised prices by 9% in KFC in 1QFY23. Despite RM pressures, EBITDA margin was among the best ever for the business. 	<ul style="list-style-type: none"> ■ The management does not expect absolute EBITDA of the Sri Lanka business to be lower in 2QFY23 (LKR terms) YoY. The impact on EBITDA in FY23 is likely to be INR100- 200m from FY22 levels due to currency conversion.
Jubilant Foods	<ul style="list-style-type: none"> ■ Dine-in delivered strong sales, led by growth in the number of orders and improvement in the ticket size. The channel is currently near 100% of pre-COVID levels. ■ The political and macro environment in Sri Lanka remains challenging. However, JUBI's local Domino's team has continued to maintain operations without any interruptions. 	<ul style="list-style-type: none"> ■ The management is confident of reaching its 250 Domino's store opening target in FY23. ■ The management raised prices in the first week of Apr'22. It does not see a need for further price increases in the current environment.

Restaurants Brand Asia	<ul style="list-style-type: none"> The ADS of INR120k in 1QFY23 is the best in several quarters. The same in Jul'22 was even better at INR131k. RBA has completed signing of the master franchise agreement and will now operate the Popeyes brand in Indonesia. The management has committed to opening 300 restaurants over the next 10 years. 	<ul style="list-style-type: none"> The management maintained its 25% SSSG guidance for FY23, but said it is likely to upgrade its guidance in 2QFY23. It will end FY23 with 390 Burger King stores in India and 250 BK Cafés. The management had earlier guided for 200 Burger King Cafes by end-FY23.
Westlife Development	<ul style="list-style-type: none"> While dine-in surpassed pre-Covid levels, convenience remains at elevated levels. McCafé has revived as mobility resumed to normal levels in 1QFY23. There was a blended price hike of 5% taken towards the end of 1QFY23. The full impact of this hike on margins will be visible in 2QFY23E. 	<ul style="list-style-type: none"> The management guided for SSSG of 8% on a steady-state basis. WLDL has 12 stores under construction and is poised to add 17-19 stores in 1HFY23. It remains on track to add 35-40 stores in FY23E, in line with its stated target.



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Aditya Birla Fashion and Retail	
Revenue	4,85,000
EBITDA	1,15,000
EBIT	1,05,000
Net Profit	75,000
EPS	1.15
Dividend	0.50
Payout Ratio	43%
Debt to Equity	0.50
Current Ratio	1.50
Operating Margin	23.7%
EBITDA Margin	23.7%
EBIT Margin	21.7%
Net Profit Margin	15.5%
EPS Margin	15.5%
Dividend Yield	4.3%
Debt to Capitalization	0.33
Current Ratio	1.50
Operating Margin	23.7%
EBITDA Margin	23.7%
EBIT Margin	21.7%
Net Profit Margin	15.5%
EPS Margin	15.5%
Dividend Yield	4.3%
Debt to Capitalization	0.33

Aditya Birla Fashions

Buy

Current Price INR 279

Key takeaways

- Net debt: Net debt at INR6.5b was higher due to investment in House of Masaba and Reebok. Expects GIC fund raise money to be received in 2QFY23
- Lifestyle segment witnessed lower margins due to channel mix led by slower growth in wholesale and higher sales in e-com which is less profitable.
- Pantaloon store expansion: Will look to open 30 new stores in 1HFY23 and is on track to reach 70 store additions target in FY23.
- Reebok Acquisition: Transfer of operation to be effective from 1st Oct'22, Will look to open company owned stores in key markets.

Detailed highlights

Business recovery:

- Strong quarterly performance was witnessed as industry witnessed first disruption free quarter after 2 years.
- Revenue/EBITDA witnessed a growth of 39%/51% respectively over pre-Covid levels.
- E-Com business witnessed a strong 3x growth over pre-Covid levels thereby doubling its share in overall revenues.

Segmental performance:

Lifestyle:

- Witnessed strong growth of 51% over pre-Covid and LTL growth of 29% on the back of exceptional retail growth and e-com performance.
- Retail: The company expects scaling up retail segment through expansion and through put improvement
- Wholesale: Segment was impacted mainly due to a) lack of business with central and b) Change in distribution within Peter England. It further expects this business to resume growth as with resumption of central business.

Category wise performance:

- Witnessed growth in formal work wear during 1QFY23 as office resumed while denim too has received good response
- The share of formal wear for 1QFY23 stands in the range of 45-46%
- The company expects casual, formal wear and wedding wear growth to remain strong on the back of upcoming wedding and festive season
- The segment has 2,527 operational stores as on Jun'22. It will look to keep growing network across geographies and tiers.

Reebok Acquisition:

- Company indicated the transfer of operation to be effective from 1st Oct'22

- The company will however be entitled for net economic benefits for the period of Apr to Sep 2022
- The company will look to open company owned stores in key markets to improve the brand presence and visibility.

Pantaloons

- E-com revenue for this segment grew by 70% backed by strong traction
- The segment continued to expand its private label portfolio with new launches in distinct spaces

Store expansion:

- Company added 4 stores during 1QFY23 taking store count to 375 stores with some closure of non-performing stores
- It has further added 7 stores in Jul'22 and plans to add 30 new stores in 1H FY23.
- It is on track to open 70 targeted stores for FY23 of which 20% would be under franchise model

Revenue and Margins:

- Revenue for 1QFY23 were impacted by postponement of EOSS coupled with reduced no of days (4 weeks from 6-7 weeks normally)

Ethnic

- Revenue grew to 3.5x YoY led by robust growth in online and offline segment
- New categories such as Home, Jewellery & Men's wear are now contributing to growth
- Company added two new stores under Shantanu and Nikhil and is now available across 12 stores
- Company will continue to focus on jewellery and accessories under Sabysachi
- Tasva has received stellar response and is on track to build distribution as company plans to reach 70 stores by FY23.

Other business segments

- Other business segment under Lifestyle has now started to contribute to profitability
- The company continue to scale up the youth brand while Forever 21 saw improvement in margin led by local procurement.
- D2C subsidiary: Plans to launch 30-40 digital first brand through organic and inorganic growth

Other highlights

- Receivables: The company doesn't have exposure risk towards the Future group as the receivables under central are squared off with business transactions under pantaloons segment.

Macro:

- Company is witnessing greater resilience in higher price products, while challenges remain visible in lower price point products.
- Company doesn't expect growth to remain challenging due to under penetration in Tier 3 and 4 towns

Net debt:

- Net debt as on Jun'22 stood at INR6.5b.
- This was higher by INR1b from Mar'22 due to investment in House of Masaba and initial expenses towards Reebok initial expenses
- The company expects fund raise money to be received in 2QFY23



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Barbeque Nation Hospitality	
Q3 FY23	Q3 FY22
Revenue	1,094
EBITDA	1,094
EBIT	1,094
Net Profit	1,094
EPS	1,094
Dividend	1,094
Payout Ratio	1,094
Debt to Equity	1,094
Current Ratio	1,094
Operating Leverage	1,094
Financial Leverage	1,094
Asset Turnover	1,094
Equity Turnover	1,094
Return on Assets	1,094
Return on Equity	1,094
Return on Capital Employed	1,094
Operating Margin	1,094
EBITDA Margin	1,094
EBIT Margin	1,094
Net Profit Margin	1,094
EPS Margin	1,094
Dividend Payout Ratio	1,094
Debt to Equity	1,094
Current Ratio	1,094
Operating Leverage	1,094
Financial Leverage	1,094
Asset Turnover	1,094
Equity Turnover	1,094
Return on Assets	1,094
Return on Equity	1,094
Return on Capital Employed	1,094
Operating Margin	1,094
EBITDA Margin	1,094
EBIT Margin	1,094
Net Profit Margin	1,094
EPS Margin	1,094
Dividend Payout Ratio	1,094



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- Company expects Ad revenues to go up by end of 2QFY23 with continued momentum in Q3FY23.

Barbeque Nation Hospitality

Neutral

Current Price INR 1,094

Performance and outlook

- This was the first fully normalized quarter since Covid. Management is amused with the dine-in performance.
- Both covers and realization clocked a healthy growth in 1QFY23. As per the management, there isn't any significant 'revenge consumption' at play.
- Average covers are still 10% lower than pre-COVID levels as the contribution from corporates are yet to return to pre-pandemic levels.
- Revenue from the Delivery business fell 6% QoQ. Revenue from the Box product has fallen, but a la carte delivery has grown sequentially.

Costs and margins

- A higher share of dine-in enabled better EBITDA margin. Calibrated price hikes Apr-May'22 in two phases.
- Generally, Q3 and 4Q are usually much better on margins. 2Q is usually the weakest quarter.
- By 4QFY23, 50 sites will be less than 1 year old and with the company adding 12-13 stores per quarter, 3QFY23 and 4QFY23 margins could get impacted.
- It is likely to attain 15% Pre Ind-AS margins in 3QFY23 and 4QFY23.
- Toscana has over 23% store margins

Expansion

- Management stated that they will cross 200 Barbeque Nation stores this year.
- They will also add 5 more Toscana stores in FY23.
- It added 10 outlets so far and is on track to add 35-40 for the full year. They currently have visibility for 40 sites.
- Capex will be INR1.3-1.4b in FY23
- BARBEQUE is adding a delivery-only Biryani brand, with a regional launch first (which may take three-to-six months), before rolling out nationwide.
- Internationally there are three sites under pipeline this year (all in Middle-East) and may add two-three more stores later. It will be a mix of own and franchising.
- Sales per store can be INR70m in FY23.

Devyani International

Buy

Current Price INR 196

Performance and outlook

- KFC's performance during the quarter was better v/s 3QFY22, a seasonally strong quarter. The management was happy with this performance.


Costs and margin

- The full impact of input cost inflation will be witnessed in 2QFY23.
- The management deliberately did not take price hikes to cover the entire extent of RM inflation in KFC (9% price increase taken in 1QFY23). For Pizza Hut, it was able to take price increases ahead of cost increases.
- Edible oils prices have come down while chicken prices have stabilized. While some other costs are inflating there are no major worries currently.

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Jubilant Food World

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Learning objectives

- In the case of Pizza Hut, margins are likely to stabilize at current levels for some time after several quarters of improvement.
- Costa Coffee's prices are comparable to those of Starbucks (90% indexed).
- There has been no material change in the take rates given to aggregators.
- DEVYANI's lease rental rates have not increased over the last year.

Store expansion

- The management aims to double total store count in 4-5 years.
- Non-metro stores now account for 52% of the total network.
- In FY23, the management guided for an additional 100 stores for KFC and Pizza Hut each with 40 additional stores for Costa Coffee.
- Large format dine-in stores for Pizza Hut are now only 10% of the total store network. Only 5% of incremental store openings will be large format stores which would primarily represent flagship stores in new cities.

Other points

- The management targets 3-4% SSSG in KFC on a steady state basis and high-single-digit SSSG for Pizza Hut.
- 70-80% of PH orders are being delivered under 30 mins v/s 35 mins at the time of DEVYANI's IPO, a year ago.
- The steady state delivery channel contribution for Pizza Hut/KFC is expected to be ~60%/35-40%.
- There has been an 8-9% inflation in Capex per store led by an increase in air conditioning costs and imported equipment.
- Pizza Hut launched 'Flavour Fun Pizzas' – a value offering targeting the young population, college students and cost conscious consumers.
- New KFC stores take 16-18 months to reach system level ADS.

Jubilant Foodworks

Buy

Current Price INR 565

Performance and outlook

- JUBI's Omni channel model, store network, and cost management helped deliver strong results in 1QFY23. The increase in revenue was driven by strong LFL growth of 28.3%.
- This was the first quarter where all stores operated without disruption.
- Dine-in delivered strong sales led by order growth and improvement in ticket size. The channel is now at nearly 100% of pre-COVID levels.
- Delivery channel delivered robust order-led growth, despite a strong base.
- Tier II/III/IV towns witnessed higher growth as compared to Tier I towns.

Store network and operating metrics

- Domino's opened 58 stores and entered 12 new cities in 1QFY23. This was the highest store opening count historically in any first quarter.
- The management is confident of reaching its 250 Domino's store opening target in FY23.
- It continues looking at driving unit economics for Hongs Kitchen and Ek dum!
- JUBI experimented with a 'delco' model where one store location had Dunkin' Donuts, Hongs Kitchen and Ek dum! It opened a handful of such stores and some of these stores have not done well. Closed three such stores in 1QFY23, resulting in the net closure of nine brand restaurants overall.

- The management aims to create better awareness in Hongs Kitchen with ATL campaigns. There are currently 14 stores across NCR. It is confident of fine-tuning the model and being able to scale up in coming quarters.
- Dunkin' Donuts is pivoting to a 'coffee first' strategy. JUBI rejigged its portfolio and launched a range of new coffees and food offerings.
- Popeyes is seeing healthy repeat customer growth across stores with high ratings for delivery and dine-in. Management retained its 20-30 store opening guidance for FY23. There is a large opportunity in fried chicken and a significant white space with just one entrenched player in India.

Input costs and margin

- Took price hikes in the first week of Apr'22. Do not see a need for further price increases in the current environment.
- High material prices affected input costs, but cost efficiencies and product innovation helped deliver growth while maintaining margins.
- Everyday value pricing remains at nearly the same level since its launch in FY18 and this gives JUBI more headroom to take price hikes in difficult situations.
- Despite the price hikes, Domino's remains the most affordable pizza brand in India.
- Margin outlook remains unchanged.

Loyalty program

- With JUBI's new loyalty program, customers can earn points towards a free pizza with six eligible orders, either online or at the store.
- However, the program only works on JUBI's own assets (not applicable on aggregator platforms) thus, aimed at driving more traffic to JUBI's own app.
- There is a similar global Domino's loyalty program and it has been tested extensively in India to suit Indian customer requirements.
- JUBI expects to retain overall discount levels to the past, despite the new program. It expected the program to help acquire new customers and increase frequency which will offset the discount offered in terms of a free pizza after six orders.

International business

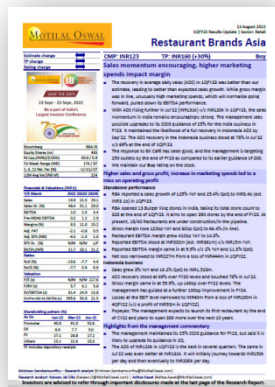
- The political and macro environment in Sri Lanka (SL) remains challenging. However, JUBI's local Domino's team has continued to maintain operations uninterrupted.
- Online ordering to delivery sales has been growing steadily in SL and Bangladesh.
- Management took an impairment charge given the deterioration in SL macros.
- It is seeing large order-led growth in the country and the long-term prospects of the SL market remain intact.

Other points

- There has been no change in the commercial arrangements with any aggregator platform so far.
- JUBI has continued to offer menu localization with launches like Paratha pizza, which is a value offering and acts as a recruitment product to the brand.
- The management will continue looking at new innovations and has the line of sight for innovations over three-four quarters. It is considering regional innovations as well.



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Restaurant Brands Asia

[Buy](#)

Current Price INR 133

Performance and outlook

- Management maintained 25% SSSG guidance for FY23 and is likely to upgrade guidance in 2QFY23.
- The ADS of INR120k in 1QFY23 is best in several quarters. Jul'22 ADS was even better at 131k. This journey will gradually be towards INR200k per day.
- 129 BK cafes are open as of now. In the last 43 days they have opened a café a day. Cafes are contributing around 7% to incremental revenues or around INR10k from ADS perspective.
- Indonesia witnessed 78% recovery in Jul'22 v/s 69% at the end of 1QFY23. Likely recovery to Pre Covid levels should be by Sept'22.

Expansion and new launches

- They will end the year with 390 stores (328 at the end of 1QFY23) with 250 BK cafes. Earlier guidance of BK Cafes was 200 for the year.
- Indonesia – They completed the signing of Popeye license in Indonesia and have deposited USD5m. They are committed to 300 restaurants in 10 years.
- It has re-launched Whopper in Nov'21 and new Kings Collection in Apr'22. Witnessing double volumes over pre covid period in these categories.
- Economy segment - Stunner menu (INR50-INR70) is doing very well. Higher marketing spend (Hrithik Roshan campaign) was incurred in 1QFY23.
- BK App has close to 4m installation.

Cost and margin

- Gross margins were maintained sequentially despite material cost pressure.
- 220bp impact of unusually higher ad-spends, which won't be there in subsequent quarters.
- Staff costs were higher than usual because of café openings and breakfast offerings however the same will normalize going forward.
- Company level pre-Ind AS EBITDA margins in India is targeted at 6-7% in FY23 and double digit in FY24.
- Gross margins are similar for delivery and dine in.

Indonesia business

- Indonesia has very high eating out proportion, 16-17x a month generally.
- The recovery from COVID is generally one quarter later than India. Mall based stores access is still restricted as booster shot vaccination is required to enter the mall.
- Pre-COVID ADS was INR 135K and Jul'22 exit was INR 105k.
- Gross margins, restaurant operating margins and EBITDA margins are improving gradually.

Key focus areas

- Innovation - Both on core and new
- Strong play on value - new launches 30% cheaper than competition
- Working on day parts - Breakfast, BK Café and 24 hour menu
- Strong inroads on digital - Only QSR brand in Indonesia to have evolved loyalty program called BK Crown
- 13% EBITDA margins in Indonesia business can be possible v/s 11-12% in pre Covid period.



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- Skew towards FSDT (Free Standing Drive Through stores) is being emphasized from mall based stores earlier. ADS is higher and rentals lower for FSDT.
- Coffee culture in Indonesia is unmatched and hence there is very good potential for BK cafe.

Sapphire Foods

Buy

Current Price INR 1,245

Performance and outlook

- 1QFY23 saw a full recovery for the India businesses as operating hours were restored to pre-Covid levels.
- The dine-in channel for KFC has recouped to pre-Covid levels while PH remains at 85%. This gap in recovery was primarily because of slower revival in Karnataka and a few mall-based stores.
- The Sri Lanka business delivered a good performance despite macroeconomic issues. The weak numbers were largely because of the forex translation issue.
- Pre-Ind AS EBITDA was 13.3%, up 1070bp YoY.
- The management was satisfied with PH's performance given strong ADS and its highest restaurant EBITDA margin.

New products

- Flavor Fun Pizza (new product below INR100) was test marketed in Chennai and Hyderabad to a very good response and was launched on 25th Jul'22 across SAPPHIRE's markets.
- The new value offering is targeted at the broader Pizza market wherein ~30% of the market caters to this price point.
- KFC's Popcorn Nachos launch has also received a very positive response.
- The San Francisco Dough Pizza and Momo Mia Pizza are also doing well.

Costs and margins

- The management was able to maintain EBITDA margin sequentially despite some RM pressure.
- It took a 9% price hike in KFC in 1QFY23. Despite RM pressures, EBITDA margin was amongst the best ever for the business.
- It took a 5% price hike in PH. Restaurant EBITDA margin was 14.8% on a blended basis for the quarter but was in high-teens for stores opened after FY18.
- The third quarter typically has the best margins in the year. 1Q and 4Q are in line with the full year average. 2Q is a bit lower as there are some restrictions on non-vegetarian consumption during religious festivals. PH is more stable on the margin front across the quarters.
- Capex inflation for SAPPHIRE has been 7-8% in India and 15-20% in Sri Lanka.

Sri Lanka

- Restaurant EBITDA grew 65% in LKR terms but in was flat in INR terms YoY given the impact of currency translation.
- The situation in SL is relatively stable to slightly improving in recent months from a political perspective. RM inflation is moderating while fuel availability is also improving.
- 1Q is usually a weak quarter for SL while 2Q and 3Q are more important.
- SAPPHIRE continues to gain market share.
- It opened two PH stores and 1 Taco Bell store in Sri Lanka during 1QFY23.



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Shoppers Stop

Q3 FY23 Financial Results

Key Highlights:

- Revenue grew by 8% on YoY basis while EBITDA grew by 37% on YoY basis.
- Average Selling Price (ASP) was up 15% on YoY basis.
- Average Bill Value (ABV) grew 7% YoY.
- Company turned net debt free during the quarter with net cash of INR80m.

Financial Summary (Q3 FY23 vs Q3 FY22):

Particulars	Q3 FY23 (INR Crores)	Q3 FY22 (INR Crores)	YoY Change (%)
Revenue	1,000.00	925.00	+8%
EBITDA	150.00	110.00	+37%
EBIT	100.00	70.00	+43%
Net Profit	50.00	30.00	+67%
Operating Cash Flow	80.00	50.00	+60%
Free Cash Flow	70.00	40.00	+75%

Balance Sheet (Q3 FY23 vs Q3 FY22):

Particulars	Q3 FY23 (INR Crores)	Q3 FY22 (INR Crores)
Net Debt	0.00	80.00
Shareholders' Equity	1,200.00	1,100.00
Reserves & Surplus	1,150.00	1,050.00

- The management does not expect absolute EBITDA for Sri Lanka to be lower in 2QFY23 (LKR terms) YoY.
- The full year impact on SL's EBITDA in FY23 is likely to be around INR100-200m v/s FY22 mainly because of currency translation.

Shoppers Stop

Neutral

Current Price INR 604

Key Highlights:

- Jul'22 continues to see strong demand momentum after a soft first half in Jun'22.
- Store expansion: Company has a robust pipeline of store additions in place and is well on track to open 12/15 departmental/ beauty stores in FY23. Expects to fund this growth through internal cash flows.
- Net Debt: Turned net debt free with net cash of INR80m.
- Margin Guidance: Expects gross margin to sustain between 39% and 40%, while EBITDA margin is expected to reach double-digits in the next three years on a non-GAAP basis.

Detailed highlights:

Business recovery:

- Company witnessed its best quarter during 1QFY23 in terms of highest sales and profit in history.
- On Non-GAAP basis sales grew by 8% on YoY basis while EBITDA grew by 37% on YoY basis, despite the delay in EOSS 10 days. Adjusted for that, sales growth was expected to grow by 13% on YoY basis.
- Average Selling price (ASP) was up 15% on YoY basis led by strong consumer demand while Average Bill Value (ABV) grew 7% YoY. The company witnessed eight consecutive quarters of ABV growth.
- After witnessing some softness in demand in Jun-Jul'22, demand continues to regain momentum.

Net Debt:

- Company turned net debt free during the quarter with net cash of INR80m.

Strategic Pillars

First Citizen:

- Contribution: Segment's contribution to offline sales improved to 80% of sales, while contribution towards online stood at 38%. This was mainly led by increased offering on premiumization.
- The company enrolled 6.5x more customers as compared to same quarter a year ago while premium black card customers grew by 5x YoY.
- Median age of members has seen a reduction in trend due to company's focus on targeting young customers.
- Personal shopper continues to be strong, contributing 10% to sales with average ticket size of 3x higher than normal.
- Launch of co-branded cards in partnership with HDFC credit card in 4QFY22, has seen good traction with additional members.

Private Brands:

- Contribution: Private brands contribution in total sales improved to 14.3% and 20.6% within apparel segment.
- Volume share of private labels within apparel is however over 25%.

- Within this, Kids segment grew over 100% sequentially and ~2.8x over pre-COVID levels.
- ASP under this segment grew 50% YoY, while volumes more than doubled during 1QFY23.

Beauty:

- Contribution: Segment witnessed a YoY revenue growth of ~4.2X to INR1.9b during 1QFY23. Contribution to sales stood at 16% in 1QFY23.
- The segment witnessed supply chain issues on the back of impact of disruption in Ukraine. Further, private label within this segment also faced supply chain issues on account of restrictions of imports from China. These disruptions are expected to normalize in Aug'22.
- The company is witnessing good traction in brands launched specifically within the Indian Beauty brands.

Omni-channel:

- Digital sales during the quarter witnessed a significant growth of 29% YoY on a higher base contributing 4.7% of overall sales.
- Investments: Company invested INR120m during the year towards the Omni-channel segment in the form of OPEX. Company has stated that it will continue to invest in Omni-channel experience with focus on analytics, content and data to help personalize and serve needs of customers.
- Transaction size within this segment grew by 6% with 38% share coming from first citizen customers

Expansion plans:

- Store opening: SHOP opened six new stores in 1QFY23, which included two departmental stores, three beauty stores, and one airport store.
- Store expansion: The company has robust pipeline of store additions and is well on track to open 12 departmental stores and 15 beauty/airport stores in FY23. This is expected to add ~3 lakh sq. ft. annually, which implies 15-20% growth annually.
- Funding: The company expects funding of capex through internal accruals.

Store Economics:

- New smaller format store are seeing sales per sq. ft. in the range of INR13,000/sq. ft. as compared to INR11,000/sq. ft. in older stores.
- Mix of private label within apparel segment for these stores stands ~30%.

Other Highlights:

- Capex: SHOP incurred INR330m towards capex in 1QFY23, which included INR170m towards store expansion and renovation.

Costs:

- The quarter witnessed higher costs due to higher inflation on employee cost and lease, and opening up of new stores
- 50% incremental cost pertained to lease while balance was from increased employee expenses and other costs
- Expects the quarterly cost run-rate to remain in the range of INR3.4-INR3.5b
- Depreciation declined on sequential basis in 1QFY23 as company follows SLM method which led to retirement of certain assets in FY22
- Expects annual depreciation to be in the range of INR1.25-1.3b
- EBITA margin guidance: SHOP expects EBITDA margin to touch double digit in next three years



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- Gross margin guidance: Company expects margins to remain sustainable in the range of 39%-40% by end of FY23 led by improved share of private labels.

Titan

Buy

Current Price INR 2,418

Performance and outlook

- Despite higher import duty, domestic gold prices have remained in the INR 50-51k range in Jul'22. There has been no change in competitive intensity.
- Sales grew in Jul'22 albeit at a sluggish pace in low ticket items whereas the momentum on high ticket items remained strong. The management expects demand for lower ticket items to recoup given festive occasions in Aug'22.
- The three-year sales CAGR was 23% in 1QFY23 for the jewellery business. TTN has gained significant market share over this period. Billing growth has been 26% over this period.
- Jewellery sales ex-bullion grew 204% YoY but as bullion sales declined 16% YoY, total jewellery sales were up by 174%.
- According to the management, overall demand growth was healthy even excluding strong Akshay Tritiya demand during the quarter.
- TTAN has started customer activation for its studded jewellery in Jul'22 as usual. The current demand trends in jewellery QTD has been satisfactory.

Margins

- The jewellery business saw margin improvement led by operating leverage and improved mix with ~80-90bp improvement led by gain on higher diamond prices.
- The management's guidance for jewellery EBIT margin remains in the 12-13% range.
- There were no one-offs in the Watches & Wearable business margin in 1QFY23. Faster growth in the higher margin 'Titan' brand led to margin improvement and segmental margin guidance is at 13% on a sustainable basis.
- Management also indicated that the eye care segment EBIT margin could sustain at 15%.
- The 6.5% EBIT margin for Caratlane is healthy but the path to double-digit margin may take four-to-five years as the business makes significant investments in technology and talent.
- The proportion of studded product has reached pre-Covid levels.
- With an aim to target healthy growth in lower-end products and in smaller cities, TTAN may consider lowering making charges in some of these markets although they will remain at an acceptable premium to incumbent market players.

Expansion

- The management aims to add 35-40 Tanishq in FY23 so long as it is able to get suitable properties at an opportune time.

Other points

- Inventory levels are higher than usual because of:
 - Good demand expectations for the rest of the year
 - Higher diamond prices leading to higher inventory value
 - Expected growth in wedding jewellery
 - Lower stock turns in smaller cities



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- The revenue from wearables is still less than 10% of the Watches & Wearables segment is inching up quarter after quarter.
- Bullion sales by the management are a tactical decision and not predictable. It chooses to melt bullion or sell it depending on the demand.
- There has been no material market share gain due to hallmarking of jewellery so far.
- More than 50% of Taneira stores are franchised.

V-Mart Retail

Buy

Current Price INR 2,981

Key Highlights

- India undergoing a K recovery where big towns are getting better while tier 2/3 are generating lower income/spends. Hence South India (Unlimited having major presence) are doing well.
- Will take price cut for the new season inventory from 15th Aug to attract more customer and recoup the impact of price hikes .
- Planning to add 60+ stores store in FY23 for both VMART and Unlimited and also expand online.
- Expecting gross margin to range between 32-34%.

Detail Concall Highlights

Performance Highlights:

Rural still below pre-Covid

- Rural consumption trend is still below pre-Covid level mark since the income level of rural/tier 2 and 3 cities have impacted.
- Consumption trend in bigger cities are getting better due to improvement in citizens earnings.
- B & C grade customers in rural and towns are facing inflation pressure as most of their bills goes in the daily needs which hampers there savings and budget.
- May and June months remain subdued. Also delayed In monsoon have impacted the income level of the people.

Stores

- Company has guided to add 60+ stores in FY23 for both VMART and Unlimited
- Unlimited stores are performing well, beating the management led targets and doing well than expected.
- On an average the capex per store ranges from INR1-1.2cr with working capital at INR60-80Lacs
- Near about 90 stores are omni enabled
- Footfalls are still below 30% from FY20 level

Value retailers not out of the woods

- Commodity prices are volatile in nature which may lead to impact on margin. Company is watchful on short term
- Company has earlier spent too much on margin by giving discount and passed on commodity prices as well as GST, which as per management was a mistake since the purchasing power of the customer got tighten. Country level ASP grew by 30% YoY
- High Gross Margin may also led to impacted in revenue as the price point got increased
- To increase the revenue, company is planning to –

- to decrease the price point to attract customer,
- incorporate new products in the portfolio on lower price using blended fabric and innovation
- Company has taken 17-18% price hike in last 1 year and have reasonably corrected price by 5-6%. They may see more correction for entry level customer.
- From 15-Aug onwards, full impact of price cut will be observed. Some cuts have already seen in Jun'22 inventory

Long term sector attractive

- The focus of both State and Central Government is to increase the per capital income will be a positive for the country as well as the sector.
- The increase in online penetration is also positive
- The company is strengthening its team, vendor group, community and the business process.
- Company has currently communicated with thousands of vendors to understand the revenue and operation impact.
- They have already leverage the consultant work for the issues such as supply chain/ relocation/ etc.
- The De-growth which has seen during Covid times is improving.
- Unlimited integration have worked out very well for the company in terms of growth and profitability.

Other highlights

Geographically

- Company operations were fully normalized after Covid except for UP and Bihar
- Southern Indian market is more matured , expected to perform much better on revenue and profitability. Usually they have expanded in Tier 1 and 2 towns and have a good representation in mall shops.
- East India is the bigger market for the company. Company expecting to gain share in Kolkata.
- Company is looking for new opportunity at new market place and also on online (Myntra)
- Company 4 main states UP/Bihar/Jharkhand/WB witnessed low rainfall, high inflation impacting purchasing power and unsustainable income affect lower income grow and they may have postponed the spent.

Digital

- Company has received good response from Myntra and expected larger opportunity in online market.
- Hence company is expecting to develop a team to leverage the online opportunity in improving technology stack to improve the potential of supply chain.

Fundamentals

- Company has increased the Inventory due to upcoming season which has led the higher inventory days to 104
- The company will be investing higher inventory in South India. This is for an experimental purpose to check the outcome.
- The company is expecting to generate gross margin within 32-34%
- Management expect all the cost have an inflationary headwind which they will keep an eye for it.



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- All expenses are below pre Covid level except rent expense which is 20-30% higher on per sqft basis.
- VMART rent is INR36/sqft, Unlimited at INR75/sqft which on total at INR45/sqft
- Company is expecting to deliver high single digit EBITDA. They are not expecting to book EBITDA in double digit hence the pain will continue for few more quarters.

Westlife Development

Neutral

Current Price INR 615

Performance and outlook

- There was strong momentum across channels, dine-in and convenience.
- While dine-in surpassed pre-Covid levels, convenience remains at elevated levels. McCafé has revived as mobility resumed to normal levels in 1QFY23.
- Summer vacations also contributed to the healthy growth in sales per store.
- WLDL gained share v/s other QSRs in most markets of operations.
- The migration from unorganized to organized continues led by concerns of food safety and hygiene amongst customers.
- WLDL strengthened its Chicken leadership in West markets and is inching towards leadership in South markets as well.
- The management guides for SSSG of 8% on a steady state.

Expansion

- WLDL has 12 stores under construction and is poised to add 17-19 stores in 1HFY23. It remains on track to add 35-40 stores in FY23 in line with its stated target.
- The management targets adding 200 new stores cumulatively over the next three-to-four years with 60% of these in WLDL's existing markets and 40% in new towns/cities.
- New stores are now coming at annual sales levels similar to that of WLDL's system average and therefore, would not be laggards on the average unlike the past.
- The management believes it could significantly increase coffee volumes compared to the past and sees a remarkable growth opportunity in smoothies.
- In most global markets, the convenience channel (delivery, on-the-go, and drive-through) accounts for 70% of McDonalds sales. Convenience sales were 42% of WLDL's sales in 1QFY23.

Costs and margins

- There was a blended price hike of 5% taken towards the end of 1QFY23. The full impact of this hike on margins will be visible in 2QFY23.
- Gross margin is expected to recover in 2QFY23 after getting impacted in 1QFY23.
- The royalty rate in FY23/FY24/FY25/FY26 will be 4%/4.5%/ 5%/5%. The management is in the process of negotiating the rates beyond FY26 with McDonalds Corp. The earlier contracted rate was 8% from FY27 in line with global rates. This is now likely to be gradual according to the management.

TECHNOLOGY



- IT sector saw some moderation in growth on the high base of FY22. Though demand environment remained strong, a few companies noted small pockets of demand weakness led by ongoing macro headwinds, especially in retail. Digital transformation and cloud migration remained in focus for enterprises to fuel their growth. The companies' strong order book and pipeline render comfort on near-term growth. Long-term growth too is expected to remain resilient because of prominent digital and cloud transformation initiatives by clients. 5G, IoT, Data Analytics, Cybersecurity, and AI remain in traction. Companies should sustain their margin profile in FY23 through increased fresher additions, reduced sub-contractor expenses, improvement in operational efficiencies and leverage. Pricing environment remained strong which remains the key lever.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Revenue outlook for FY23	Sustaining margin (%)
HCL Tech	<ul style="list-style-type: none"> Digital and Cloud transformation continues to be the central theme for growth. Digital operation services, CX transformation, and Cloud smart led the growth in IT Services. The management is not seeing any demand slowdown. It continued with its FY23 guidance of 12-14% CC growth. The outlook for IT and ER&D continues to remain strong. 	It expects margins to improve from current levels and guided margin at the lower end of its guided band of 18-20% for FY23.
Infosys	<ul style="list-style-type: none"> It is seeing small pockets of weakness in Mortgage, Lending, and Retail in terms of slower decision making, but the pipeline remains strong. The management raised its revenue guidance to 14-16% in CC in FY23 from 13- 15% in CC during the last quarter. 	Margin has bottomed out in 1QFY23. The management expects FY23 margin to be at the lower end of its guidance of 21-23% due to supply pressures.
TCS	<ul style="list-style-type: none"> TCS continues to see a strong demand environment, with clients maintaining spends in Cloud adoption, operating model transformation and vendor consolidation. Management indicated a good visibility on the pipeline over the next few months. It is not witnessing any budget cuts or deferments in client spend, although some European clients have expressed concerns on macro-economic demand. It expects North America to lead the growth in FY23. 	TCS expects margins to improve sequentially for the remaining quarters of FY23, leading to flat YoY margins by 4QFY23.
Tech Mahindra	<ul style="list-style-type: none"> In the CME vertical, while a weakening macro environment is coming up in client conversations, TECHM is not seeing any budget cuts and the deal pipeline remains strong. v 5G spends remain robust. There is a strong focus on capacity building and carrier additions. It is not seeing any impact from macro-related concerns. 	The management aims to raise margin by 100-150bp per quarter to reach 14% exit margin in 4QFY23.
Wipro	<ul style="list-style-type: none"> The pipeline remains at a record high and the management is confident about growth, given the demand environment, strong pipeline, and order book. It is seeing a good win rate and increased amount of transformational deals. Despite the weak macro environment, the management suggested that it is not seeing any demand slowdown and clients are not signaling any spending cuts. 	The management said that it endeavors to return 17.0-17.5% of margin and suggested that margin has bottomed out at 15%.

CYIENT

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Cyient

Buy

Current Price INR 829

1QFY23 performance

- CYL reported a 4.4% QoQ CC growth in revenue. The Services business grew 6.5% CC, while DLM fell 6.3% QoQ due to supply challenges.
- Order intake grew 17.5% YoY in 1QFY23. The management is confident that demand will continue to remain robust.
- EBIT margin in 1QFY23 stood at 11.5%, impacted due to wage hikes, investments and lower utilization.
- The company had six large deals with a potential TCV of ~USD424m, highest ever for the company.
- It had made a strategic buyout of 500 employees as part of ramp up of a deal with large automotive player which added 1.1% growth QoQ. CYL expects this client to grow to top 5 clients in next 12-24 months.

Table 1: Financial Metrics (USD in Lakhs)

	FY22	FY23
Revenue	1,10,000	1,15,000
EBITDA	15,000	18,000
EBIT	12,000	15,000
Net Profit	8,000	10,000
EPS	15	20

Table 2: Key Ratios

	FY22	FY23
Operating Margin (%)	13.6	15.7
Net Profit Margin (%)	7.3	8.7
ROCE (%)	12.5	15.0

Guidance: The management expects FY23 revenue growth of 13-15% CC, while EBITDA growth of 15-18% CC. The management expects FY23 EBIT growth of 12-15% CC and Net Profit growth of 8-10% CC.

Commentary on verticals

- Global travel is expected to pick up in later part of the year. Demand in Aerospace is not back to pre-pandemic levels and will have challenges for recovery for next few quarters. It had two new logos in urban air.
- The Rail business was soft yet again due to increased offshoring and industry consolidation. It should recover by the end of the year.
- Demand in communications was led by network modernization, fiber and 5G.
- DLM had large aerospace deal, its largest ever. It should grow in high single digit for FY23. Supply side challenges continue to persist.
- Expect recovery in Mining and Natural Resources by 2HFY23. Grit consulting will also add to the growth.
- Healthcare is seeing traction in digitalization initiatives and remote patient monitoring.
- Though demand looks good, supply continues to be challenge for semi-conductor business.
- It believes sustainability will be two decade opportunity driven by both electrification and clean energy.

Margin

- Though margin in 1QFY23 was impacted due to wage hikes, it expects strong pick-up in margins to end the year at guided range of 13-14% with strong margin performance in 2Q and 3Q.
- Wage hikes in 2Q and 3Q will be margin headwind. Margin levers include 1) Pricing (50bp in this quarter, 2) Automation, and 3) Utilization
- Expect DLM margin in range of 7-9% in FY23.
- Citec margins are at 10-11% due to integration expenses, will revert to company average going forward.
- Grit and Celfinet have good margin profiles, higher than company average.

Outlook

- The management guided at organic revenue growth of 13-15% CC in FY23, while DLM will continue to face supply changes and grow in the high single-digits.
- Additionally, revenue from recent acquisitions (except for Citec) should add 6%-7% to the revenue in FY23.
- It expects the trend of higher other income to continue for the next four quarters.
- The management guided at margin in the 13-14% range in FY23.



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Guidance: The management expects FY23 revenue growth of 13-15% CC, while EBITDA growth of 15-18% CC. The management expects FY23 EBIT growth of 12-15% CC and Net Profit growth of 8-10% CC.

Coforge

Neutral

Current Price INR 3,763

Demand outlook

- COFORGE registered a revenue growth of 4.7% QoQ, in CC terms, on the back of a strong demand environment.
- It saw a strong order intake at USD315m in 1QFY23, with 12 new client additions and two large deals, including one deal of over USD50m.
- The management said conversations with clients suggest continuation in the strong demand trend.
- It has guided at a minimum CC growth of 20% in FY23.
- The 12-month executable order book stands at USD745m, 96% of which is from the repeat business.
- BFS continued to register strong growth on the back of large deal wins in preceding quarters. BFS had one large (over USD50m) deal in 1QFY23.

- The Travel vertical is expected to perform well in FY23. Airlines are seeing a good bounce back and Hotel occupancy is increasing. Surge in volume and travel spends remains elevated, despite inflation. Airlines had one large Digital transformation deal win in 1QFY23.
- The Public sector (sub-vertical in others) had multiple multi-year deal wins. There is good traction in Retail and a strong ramp-up in Healthcare.
- The slow growth in the Insurance vertical was slower due to lower volumes and an issue with one client. Growth is expected to return in 2QFY23. Insurance should see a smart bounce back in 2QFY23 on sustained demand ahead.
- SLK's contribution to revenue remains at levels similar to preceding quarters. Cross-sell is helping, it bagged one deal in Travel.

Margin performance and outlook

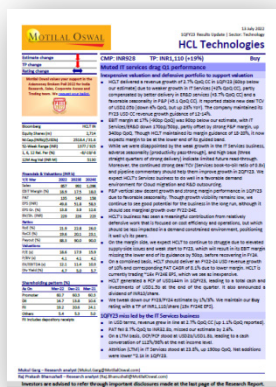
- COFORGE reported an adjusted EBITDA margin of 16.5% due to higher than usual salary hikes (250bp). As an endeavour to strengthen its leadership team, SG&A spends remained elevated (up 100bp).
- The management continued with its 18.5-19% margin guidance for FY23. It expects a strong 150-200bp bounce back in margin in 2QFY23 on account of higher utilization, increased offshoring, and freshers becoming billable.
- Profitability in the BPS business is growing, with lower headcount and automation.

Other highlights

- COFORGE will continue to hire freshers at elevated levels.
- DSO days are higher at 72 days in 1QFY23.

HCL

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HCL Technologies

Buy

Current Price INR 960

Demand and industry outlook

- HCLT reported a revenue growth of 2.7% QoQ CC in 1QFY23. IT Services/ER&D/P&P grew 2%/3.7%/5.1%.
- In IT Services, growth was led by the US at 2.8% QoQ CC, followed by Europe at 1.6% QoQ CC. Among verticals, growth was led by Technology/Telecom and Media, which grew 10.9%/4.3% QoQ CC, followed by the Life Sciences vertical at 2.7% QoQ CC.
- Digital and Cloud transformation continues to be the central theme for growth. Digital operation services, CX transformation, and Cloud smart led the growth in IT Services.
- New deal TCV (down 9% QoQ, but up 23% YoY) stood at USD2.05b, led by 16 large deal wins, with a good mix of large and small deals.
- Pipeline remains close to a record high and is well diversified across geographies.
- The management is not seeing any slowdown in demand. It continued with its FY23 guidance of 12-14% CC growth.

Margin performance

- Margin fell 90bp QoQ to 17% in 1QFY23, led by a 170bp/50bp drop in IT Services/ER&D margin. The same was partly offset by a 340bp improvement in P&P margin.
- Margin was affected by higher outsourcing and sub-contractor expenses (100bp), greater attrition and employee backfilling costs (50bp), and rising travel and visa costs (35bp). The same was partly offset by a favorable (40bp) forex rate and operational efficiencies.

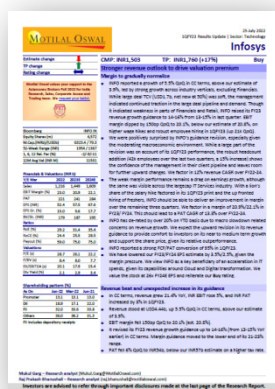
- Margin levers include increased pricing, fresher deployment, pyramid rationalization, improved utilization, offshoring, automation, and rationalizing outsourcing and sub-contractor expenses.
- It expects margins to improve from current levels and guided the margin at the lower end of its guided band of 18-20% for FY23.
- Delay in securing rate hikes in 1QFY23, higher than expected attrition, and greater outsourcing costs were negative surprises that led to margin guidance at the lower end of its guidance band.

Other highlights

- It hired ~6k freshers in 1Q and plans to hire ~10k freshers in 2QFY23.
- DSO were impacted by a delay in collections, which will reflect in coming quarters.
- Higher other income was on account of profit on disposal of property in 1QFY23.



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Infosys

Buy

Current Price INR 1,575

1QFY23 performance and demand outlook

- In CC terms, INFO reported a growth of 5.5% QoQ and 21.4% YoY in 1QFY23.
- The company witnessed broad-based growth across all sectors and core geographies, with the Digital business growing 37.5% YoY in CC terms.
- INFO reported a TCV of USD1.7b, with 19 large deals, of which 50% were net new. The pipeline is healthy and larger than what it had in the last few months.
- It is seeing small pockets of weakness in Mortgage, Lending, and Retail in terms of slower decision making, but the pipeline remains strong.
- It saw good volume growth, with mega deals in the pipeline.
- The Financial Services vertical remains strong, but there is some softness in the Mortgage and Lending business.
- The Retail segment is seeing strong demand, with large-scale cost optimization initiatives. The pipeline remains robust.
- The Communications vertical is seeing rapid digitalization.
- In the Energy and Utilities segment, there is strong traction in vendor consolidation, Cloud adoption, and cost optimization deals.
- In the Manufacturing vertical, the management sees strong traction in the areas such as Cloud and IoT.
- It raised its revenue guidance to 14-16% CC in FY23 from 13-15% CC in last quarter.

Margin performance

- Margin fell 150bp QoQ to 20.1% in 1QFY23, impacted by higher than normal wage hikes (160bp), lower utilization (40bp), and sub-contractor expenses (30bp), but was partly offset by tailwinds – higher working days and reversal in client contractual provisions, which were, in turn, offset by discounts (50bp) and a favourable forex rate (30bp).
- The salary increases were higher than usual (high single-digit for offshore and higher than usual for onshore) in order to control the supply situation.
- Higher utilization, pricing, pyramid rationalization, reduced dependency on sub-contractor costs, and efficiencies from automation are margin tailwinds for FY23.
- The pricing environment remains stable, with new deals. The company is inserting COLA clauses in agreements.
- Margin has bottomed out in 1QFY23. The management expects FY23 margin to be at the lower end of its guidance of 21-23% due to supply pressures.



Let's Solve

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Other highlights

- INFO hired 21k employees in 1QFY23.
- Though LTM attrition rose 70bp to 28.4%, it saw a cool-off in attrition by 1% on a quarterly annualized basis in 1QFY23. It expects attrition to reduce in FY23.

L&T Infotech

Neutral

Current Price INR 4,723

Demand and industry outlook

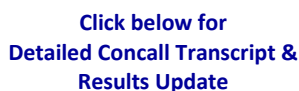
- LTI added 29 new logos in 1QFY23, the highest in the past nine quarters. It also added four Fortune 500 clients in 1QFY23. The management said the deal pipeline remains strong and should see good deal announcements in 2QFY23. It is confident of industry-leading growth in FY23.
- The company had four large deal wins in 1QFY23, with a net new TCV of USD79m from BFS, Hi-Tech, ENU, and others. The two deals were from the US, while Europe and emerging markets contributed one deal each.
- LTI is not seeing any spends or budget cuts yet, but clients indicated some caution during conversations. The management is confident of client budgets staying intact in CY22. It should also see some short-term acceleration as clients optimally utilize their available tech budgets.
- The management does not expect any slowdown in BFS, Insurance, ENU, and Manufacturing in CY23 as BFSI will continue to see core modernization spends, clients in the Manufacturing space have record backlog and elevated spends from ENU on higher energy prices and a focus on ESG.
- It has been estimated that ~30% of Cloud spends are wasted and that there is a higher cost over-run. Considering it is USD600b in global spends, there is a good opportunity for growth.
- LTI won one joint large deal with MTCL and has a few more in the pipeline.
- Vertical takeaways: BFS witnessed strong growth, with one large deal win. Insurance added two fortune 500 clients and has a good pipeline. Growth was impacted in Manufacturing due to a seasonal pass-through, but the order book remains strong. E&U saw one large deal win, with continued spends on Cloud and Digital transformation, along with a higher focus on ESG. In Retail, CPG, and Pharma, growth was driven by a large account. Hi-Tech saw some pause, but the management remains confident of the growth. Others saw a ramp-up in a global client.

Margin performance

- It reported an EBIT margin of 16% (down 130bp QoQ) in 1QFY23, impacted by wage hikes (300bp) and travel costs (70bp). The same was partly offset by higher productivity, absence of pass-through, and higher utilization (240bp).
- A lion's share of the wage hikes (~85%) occurred in 1QFY23. 2QFY23 will have ~10bp impact from wage hikes at senior levels.
- The pricing environment remains conducive with clients willing to pay a premium for in-demand skills.
- Wage Inflation from backfilling (due to higher attrition) has fallen as startups ease hiring.
- LTI is a growth company with a stable margin. The management maintained its PAT margin guidance in the 14-15% range.

Other highlights

- The management said that lack of supply is a bigger challenge than a weak macro.
- It is not seeing any change in attrition at senior levels. Overall, it is getting positive feedback on the merger.

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- ## Buy

Demand and industry outlook

- The company had its highest ever booking in 1QFY23 (similar to 4QFY22), including one USD50m deal in the Rail mobility space.
- LTTS won seven deals, of which one was USD50m in Transportation (Rail signalling space), four USD15m+ deals, and two over USD10m deals.
- **Transportation:** Management sees good demand for Auto, EAVC and Aerospace sub-verticals. 1QFY23 was the second consecutive quarter when LTTS had a large deal win in Aero and Rail domains. The management continues to see the good demand trajectory to sustain.
- **Plant Engineering:** saw broad based demand across O&G, FMCG and chemical industries. There is investment across the space which is creating opportunities. The management is positive on Plant Engineering outlook and growth.
- **Industrial Products:** spending is happening in electrical followed by building automation. Management is seeing demand driven by digital engineering.
- **Telecom and Hi-Tech:** Telecom demand is in chip space and in 5G. LTTS also has a good pipeline of deals in Hi-Tech with recently empaneled large tech companies. Management is choosy in the types of deals it undertakes. It expects a few large deals to close in the next quarter.
- **Medical devices:** Demand is in Digital and software usage. LTTS expects growth to improve from new clients. Some customers are hurt by higher inflation and their budgets are also adversely impacted.
- **Outlook:** According to the management, the current macro situation is more challenging than the previous quarter. The primary concern is on new-age start-ups and the newer business lines of clients with long-term payoffs. The management has raised its FY23 USD growth guidance by 100bp to 14.5-16.5% in CC based on 4QFY23 exit currency prices, while reported USD growth guidance remains at 13.5-15.5%.
- Guidance takes into account deal wins over the last few quarters. The company is winning deals in Transportation, Plant and Industrial products but pockets of Telecom and Medical devices have been impacted adversely.
- Adverse impact is primarily in areas where paying customers are absent, although the exposure is not meaningful for LTTS.
- LTTS reconfirmed its FY23/FY25 guidance: USD1.5b by FY25E and USD1b either in 2QFY23 or in 3QFY23.

Margin performance

- Operational efficiency helped EBIT margin for 1Q despite increased investments in business. Key challenges in 1Q were: a) hiring was primarily lateral, b) upfront investment and ramp-up cost in large deal wins, and c) benefit of fresher addition starting from 2QFY23 onwards.
- Segmental margin improved on QoQ basis, but there was an impact of ESOP cost for senior management that is likely to continue going forward.
- FY23E EBIT margin aspiration level continues to be above 18%.
- LTTS will have wage hikes in 2QFY23, which it will try to offset from growth and operational efficiency.

Other highlights

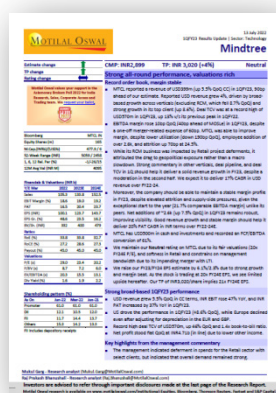
- Management expects a reduction in DSO over the years.
- Other income was slightly higher due to higher income from investments.



Mindtree

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- Management expects offshoring to stabilize at 57-58%, leaving scope for 200bp improvement.
- Management expects attrition to soften in the coming quarters.

Mindtree

Neutral

Current Price INR 3,381

1QFY23 performance and order book

- MTCL delivered a strong growth of 4% QoQ and 28.6% YoY in 1QFY23.
- Its order book rose 46% QoQ to a record high USD570m in 1Q, with a strong pipeline in FY23.
- The order book has a healthy mix of annuity and transformation deals.
- It won one large customer applications deal in conjunction with LTI in Europe, showcasing its strong synergy.

Overall demand environment

- MTCL continues to witness robust demand and iterated that demand is intact in the near term. Customers are looking at long-term transformational initiatives, with a long tail of growth.
- The management indicated deferment in spends for the Retail sector with select clients, but indicated that overall demand remained strong.
- It suggests that clients are unlikely to stall important spends as technology proves to be an antidote in a weak macro environment.

Vertical outlook

- The Communications, Media, and Technology verticals saw strong demand in product engineering, digital marketing, cyber security, and customer experience.
- Retail continued to face a ramp-down in one deal, deferment in spends for some clients, and forex-related headwinds.
- The BFSI segment benefited from recent deals and a strong partner ecosystem.
- In the Travel vertical, diversification in newer areas aided growth, along with core areas like airlines.
- Its recent investment in Cope Health aided revenue growth in the Healthcare vertical in 1QFY23.

Client metrics

- Its top client grew 8.6% sequentially. The top two-to-five/top six-to-ten/non-top 10 accounts grew 6%/4%/1.6% QoQ.
- MTCL continued with its strategy of rationalizing tail accounts and focusing on upsell and cross-sell opportunities in its focus 100 accounts. The latter now contributes more than 90% of revenue.
- The company added 13 clients in 1QFY23. Active clients fell to 274 v/s 276 in 4QFY22 as the management continues to rationalize tail accounts. It continues to add new logos, which are strategic to the business.

Supply-side

- LTM attrition surged by 70bp QoQ to 24.5%. While the supply-side environment is challenging, the management doesn't expect it to continue for long. It expects normalization in coming quarters.
- The management stressed on the importance of its fresher hiring program and a ramp-up in hiring. It hired ~1,500 freshers for the fourth consecutive quarter. Around 20% of its workforce now consist of freshers.

Margin performance and outlook

- MTCL reported an EBITDA margin of 21.1% (+10bp QoQ) and an EBIT margin of 19.2% (+20bp), despite robust employee additions. EBIT margin without one-time merger costs stood at 19.7%.
- The management reiterated that revenue growth will be at a decent margin.

- Margin was impacted by visa costs (50bp) and one-time merger expenses (60bp), which was offset by operational efficiency (50bp) and FX gains (70bp).
- The management is confident of maintaining over 20% EBITDA margin on a structural basis. It should be able to manage the margin over 20% in 2QFY23, despite the wage hikes.

Other highlights

- MTCL reported a net headcount addition of ~2.6k employees in 1QFY23 and indicated strong fresher hiring should continue.
- In 1QFY23, FCF/EBITDA and OCF/EBITDA stood ~61% and ~62%, respectively.



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Company	Current Price	Target Price	Rating
Mphasis	INR 2,378	INR 2,800 (+18%)	Buy

Key Findings:

- Mphasis Q1FY23 performance was solid as a 44% QoQ growth in IT in the cloud services segment and a 44% QoQ growth in the cloud services segment.
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Mphasis

Buy

Current Price INR 2,348

Demand and industry outlook

- MPHL had a new deal TCV of USD302m in the Direct channel, of which 84% was in new-gen services.
- MPHL is seeing headwinds in the mortgage portfolio.
- There is a higher impact of the current macro environment in Europe as deal timelines are getting stretched. However, management is not seeing any impact in current pipeline.
- It signed one large USD60m cloud transformation deal with a top customer in Jul'22. It also signed one large USD50m+ deal in 1QFY23.
- Pipeline is up 6% QoQ/10% YoY despite record conversion into orders. Continued pipeline strength indicates strength in demand environment.
- Some customers who benefitted from Covid are now normalizing and are watching the business trend closely.
- Blink is seeing good growth and there are good synergy benefits.
- Management has added other verticals in Digital risk that will take a few quarters to scale up. Digital risk as a portion of overall business is likely to shrink. It saw lower profitability in FY22.
- Within BFS, banks remain in top category and it has not seen any softness related to ramp-downs in capital markets.
- Pipeline remains strong for insurance with good quality of business. There is a bit of insurance in DXC, which has some impact in this vertical.
- Management noticed some softness in Europe and it needs more attention.
- Mortgage business – environment is fluid and rates are volatile. Until volatility subsides, management does not see any easing. Operations and volumes are quite strong and MPHL is also scaling up compliance work.
- Less than 50% of mortgage is exposed to interest rate-sensitive work but management expects some moderation going forward as well.
- There are further consolidation opportunities with existing clients in the next two-to-four quarters.

Margin performance

- Reported EBIT margin was at 15.3% aided by better utilization, offshoring, pricing and good realizations.
- Pricing, growth leverage and pyramid support FY23 margin outlook.
- Onsite price hikes are helping in improving blended pricing.

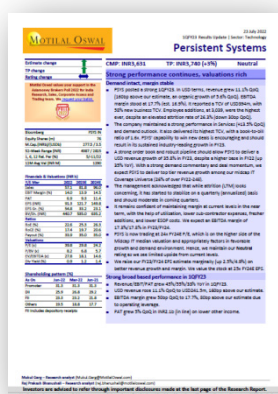
Other highlights

- While attrition is still elevated, it is stabilizing and there are some green shoots. It is moderating in a few segments, especially in onshore locations.



PERSISTENT

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- Management had started the supply chain transformation program with strong fresher hiring. It expects utilization to stay low for some time as it absorbs the freshers. Utilization in offshore is soft and should improve in coming quarters.
- Management will continue to focus on fresher hiring to rationalize the pyramid in FY23E.

Persistent Systems

Neutral

Current Price INR 3,695

Growth and demand outlook

- PSYS delivered yet another strong 1QFY23, reporting a revenue growth of 11.1% QoQ and 44.8% YoY. Of this, revenue growth of 5.6% QoQ was organic in nature.
- The company posted its highest ever TCV of USD394m in 1QFY23. It is seeing early wins in new acquisitions.
- Growth was broad based across all verticals, led by BFSI. All client buckets grew well, depicting improved confidence in PSYS' account mining capabilities.
- Growth in the company's top account moderated 7.1% QoQ on account of the restructuring of an IP deal.
- IP-led revenue was soft due to lower royalty income and restructuring in the top client.
- The management expects the growth momentum to continue in the Services business.
- Order book remains strong and broad based with good portion of executable order book. The deal pipeline remains strong, which is likely to keep the growth trajectory elevated.
- There is no cut in spends or impact on demand due to the current macro situation.
- Given the current macro situation, clients have accelerated cost rationalization initiatives. PSYS won multiple large deals on account of its cost optimization initiatives.

Margin performance and outlook

- EBIT margin stood at 14.3% in 1QFY23. There was a 30bp improvement in margin, despite higher amortization, travel, and visa costs on account of a favourable forex rate (aided margin by 90bp).
- Other income was lower on account of: 1) the set-off of interest as trust accounts got consolidated, 2) lower funds used for acquisitions, and 3) MTM losses in mutual funds.
- Though there will be 250-300bp margin impact in 2Q on account of wage hikes, the management is confident of delivering full-year margin comparable to FY22 levels on account of higher utilization, lower sub-contractor expenses, pyramid rationalization as freshers get deployed, and lower ESOP costs in the later part of FY23.
- Though customers are open to price hikes, the same may be lower than that demanded as clients face higher inflation.

Other highlights

- Though attrition remains elevated on a TTM basis, PSYS has seen a moderation on a quarterly (annualized) basis. Attrition on a TTM basis will take a few more quarters to moderate.
- Utilization will dip in 2Q and 3QFY23 on account of higher fresher addition.
- The company posted the highest ever net headcount additions at 3,039 in 1QFY23, including 545 additions from the acquisition of Media Agility.
- PSYS hired 1.9k freshers in 1QFY23 and plans to hire 1,350 freshers in 2QFY23.



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- On the M&A front, the focus for the next one-to-two quarters will be to integrate and reap synergy benefits from the recent acquisitions and then look out for other opportunities.

Tata Consultancy Services

Neutral

Current Price INR 3,354

1QFY23 performance and demand outlook

- In 1QFY23, TCS reported revenue growth of 1.3% QoQ and 10.2% YoY in USD terms and 3.5% QoQ and 15.5% in CC terms.
- All verticals performed well, with Retail and CPG leading at 25% YoY growth.
- Q1 TCV was USD8.2b, with two USD 400mn+ deals. Other small to medium sized deals included USD2.6b from the BFSI segment and USD1.2b from the Retail segment. North America posted a TCV of USD4.5b.
- TCS continues to see a strong demand environment, with clients Cloud adoption, operating model transformation, and vendor consolidation.
- Management indicated a good visibility of the pipeline over the next few months. It is not witnessing any budget cuts or deferrals in client spend, although some European clients have expressed concerns on macro-economic demand. It expects North America to lead the growth in FY23.

Margin performance and outlook

- Operating margins were 23.1% in 1QFY23, down 190bps QoQ and 240bps YoY. There was a 150bp impact of wage hikes. In addition, the company saw an increase in expenses such as backfilling due to high attrition, higher subcontractor expenses, and travel normalization. This was partially compensated by operating efficiencies and currency movements (+25bps).
- TCS announced wage hikes of 5-8% in Q1, with onsite hikes of 4-5%.
- TCS expects margins to improve sequentially for the rest of FY23, leading to flat YoY margins by Q4.
- Pricing continues to be supportive, although they are seeing more specific impact rather than large scale hikes. On an aggregate basis, impact of price hikes is still not positive due to higher employee expenditure.

Other highlights

- The company added 14k employees in Q1, with limited fresher hires due to seasonality. It continues to target hiring c40k freshers in FY23.
- LTM attrition in IT services was at 19.7% in Q1 and the company expects it to rise further in Q2, before moderating in the second half of the current year.

Tech Mahindra

Neutral

Current Price INR 1,079

Demand and industry outlook

- TECHM posted a robust revenue growth of 3.5% QoQ in CC terms in 1QFY23.
- The deal pipeline remains strong. It saw net new deal wins of USD802 (TCV) in 1QFY23.
- In the CME vertical, while a weakening macro environment is coming up in client conversations, TECHM is not seeing any budget cuts and the deal pipeline remains strong.
- For enterprise clients, the focus is on Digital transformation. It is seeing no slowdown in core modernization initiatives.

Key highlights from the management comments:

- In Q1 FY23, revenue grew by 10% YoY, driven by strong performance in the core business, which was offset by a decline in the new business. The management expects a similar trend in Q2 FY23.
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- 5G spends remain robust. There is a strong focus on capacity building and carrier additions. It is not seeing any impact from macro-related concerns.
- There are some conversations around accelerating Digital transformation with some telcos. Re-prioritization of certain projects may happen.
- Softness in the top five clients were on account of FX and certain projects, which will only start in 2QFY23.

Margin performance

- Margin in 1QFY23 fell materially due to higher salary and sub-contractor expenses (100bp), visa and seasonality in mobility (80bp), and G&A normalization (100bp), but was partly offset by better pricing (50bp).
- The management aims to raise margin by 100-150bp per quarter to reach 14% exit margin in 4QFY23.
- Utilization (aims to bring it back to 87-88% by the end of FY23), increased offshoring (8-10% gap v/s its peers), pricing (good pricing uptick expected in 2Q), and automation are key levers for margin in FY23.
- Increase in provisions (USD 6m) and an absence of one-time SG&A gains from 4Q caused a spike in SG&A expenses in 1QFY23.
- The management does not expect any material savings from amortization expenses in FY23.
- Wage hikes are expected to have a 100bp impact on margin in 2QFY23.

Wipro

Neutral

Current Price INR 420

1QFY23 performance and demand outlook

- In CC terms, WPRO reported a revenue growth of 2.1% QoQ in 1QFY23.
- The pipeline remains at a record high. The management is confident about growth, given the demand environment, strong pipeline, and order book. It is seeing a good win rate and increased amount of transformational deals.
- It won 18 large deals (3x of 4QFY22) in 1QFY23, with a total TCV of USD1.1b.
- Around 50% of the order book is from high growth areas such as Digital, Cloud, Engineering Services, and Cybersecurity.
- All sectors grew well in America 1, with Technology/Communications leading the growth at 37%/26% YoY. Financials registered strong growth (up 30% YoY) in America 2.
- It won many large deals in Europe, with the order book up 40% YoY. It has one large deal in the pipeline for 2QFY23.
- In APMEA, Australia and South East Asia did well. The order book is up 60% YoY.
- The management sees good momentum with Capco. It remains positive on the business, given its very strong order book. It is not seeing any acceleration in attrition for Capco.
- Rizing is an important acquisition for WPRO. The former is already working with the company's existing SAP team.
- Despite of the weak macro environment, the management said it is not seeing any slowdown in demand and that clients are not signaling any spending cuts.
- Though consulting is more prone to a risk in a weakening macro environment, WPRO has not seen any impact yet. Clients are changing the nature of the deals, with a greater skew towards productivity deals.

- The management guided at 3-5% QoQ (CC) growth in 2Q, with double-digit growth in FY23.

Margin outlook

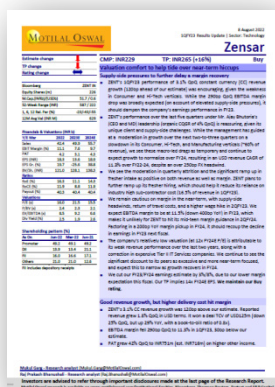
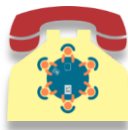
- Inorganic bets diluted the EBIT margin by 2.3%.
- The management suggested that margin has bottomed out at 15%.
- It will roll out wage hikes starting from 1st Sep'22 and shift to a quarterly promotion cycle.
- Margin levers include: 1) utilization (which is 5pp off the peak), 2) rationalization of sub-contractor expenses (cost is 30% higher than employees), 3) pyramid rationalization, with plans to hire double the amount of freshers (the most important lever), 4) higher pricing, 5) moderation in attrition (lower replacement costs), and 6) operating leverage.
- RIZING acquisition had a 20bp impact on margin. A 130bp impact was seen from utilization, sub-contractor expenses, and higher investments.
- The management said it endeavors to return back 17-17.5% of margin.

Other highlights

- Attrition moderated for third consecutive quarter to 23.3%.
- WPRO hired 10k freshers in 1QFY23 and indicated elevated fresher hiring plans to hire double the amount of freshers in FY23.



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Zensar Tech

Buy

Current Price INR 232

Growth and outlook

- ZENT reported growth of 3.1% QoQ CC led by the BFSI vertical, Insurance and Emerging verticals.
- Deal wins stood at USD125m in 1QFY23 (v/s USD166m in 4QFY22). The order book contains healthy mix of renewal and new deals.
- Growth in US was driven by strong growth BFSI. Europe witnessed growth across verticals and service lines. South Africa saw good rebound on the back of new deals in BFSI, cloud and advanced engineering.
- The growth in BFSI was led by new client wins, new deals, and scaling up of existing clients
- Consumer and Hi-Tech & Manufacturing were impacted due to softness in tech spending. The company is seeing deferment, slowdown and cut in discretionary spends in these verticals. Key areas impacted include experience, designing and in some cases large digital transformation deals.
- The management indicated that weak macro will continue to impact growth for next two to three quarters especially in Consumer and Hi-tech vertical.
- The management reiterated that long term growth was intact regardless of weakness in near-term.

Margin performance and outlook

- During the quarter, the margin was impacted by higher delivery cost (-250bp), volume and utilization (-100bp) partly offset by lower SG&A spends.
- The Company has rolled out wage hikes effective 1st July 2022. The wage hike is one of the highest for the company, similar to last year.
- The margin continues to be impacted by 1) Higher than expected attrition leading to higher backfilling, recruitment and subcontractor costs and 2) High fresher additions in few quarters (awaited to be deployed).

- Commercial discussions with clients, utilization, higher offshoring and pyramid rationalization are key margin levers.
- The Company has plans to push strong offshoring which will be accretive to the margin.
- The management suggested recovery in margin delayed by two quarters and now expects margin to be in the mid-teens by 2QFY24 vs 4QFY23 earlier on account of continued headwinds to the margin.

Other highlights

- Though LTM attrition remained high at 28.1% but there was some moderation in quarterly attrition. It expects 5%-7% reduction in attrition over next few quarters.
- DSO moderated to 83 days in 1QFY23 v/s 90 days in 4QFY22.



TELECOM

- Companies have reiterated their expectations of ARPUs to improve going ahead aided by another round of tariff hikes that would take place later in the calendar year. On the 5G rollout, companies have indicated the near-term capex to go up backed by incremental spends on setting up the infrastructure for commercial rollout of 5G.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY23	5G launch and capex
Bharti Airtel	<ul style="list-style-type: none"> ■ Management expects to rollout 5G in near term and expects to cover 5000+ rural and towns in India with 5G by Mar'24. ■ The company reiterated its expectation of ARPU to improve to INR200 and further INR300 from the current ARPU of INR183. 	<ul style="list-style-type: none"> ■ Bharti expects three-year capex to remain at the same level (INR 750b). However, some advancement of capex will be seen in FY23 due to rollout of 5G, which will normalize after 18 months.
Indus Towers	<ul style="list-style-type: none"> ■ Company completed MSA renewals with an exit allowance of ~9% and an annual escalation of 2.5%. The lease equalization impact of these renewals is pegged at INR500/tenancy. ■ Company sees tailwind in demand from strong growth in data consumption coupled with adoption of 5G. ■ Management expects acceptance of the revised payment plan by VIL to lead to a rise in near-term trade receivables. 	<ul style="list-style-type: none"> ■ The management expects average loading in 5G to be higher v/s 4G backed by higher power and antenna requirements.
Tata Comm.	<ul style="list-style-type: none"> ■ Company reiterated its margin guidance to range between 23-25%, despite a higher operating cost expectation in FY23. ■ Management expects monetization of 10-11 properties held for sale, with a book value of INR1.5b, to occur over the next 12 months. ■ Capex was deferred in 1QFY23 due to supply-chain issues and delivery delays. The company however, expects capex spends to accelerate going forward. 	
Vodafone Idea	<ul style="list-style-type: none"> ■ Company expects cash EBITDA to improve backed by a reduction in SUC charges (3% of AGR) and lower tower rent. ■ The management expects a tariff hike by the end of CY22, which will result in a rise in ARPU. 	<ul style="list-style-type: none"> ■ Company expects revenue opportunity in 5G to occur after 3-4 years based on use case adoption that is still to be determined.



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**Bharti Airtel****Buy****Current Price INR 728****Key highlights**

- High proportion of mid band spectrum should aid in accelerated 5G rollout on non-standalone network covering 5000 towns by March'24. Three year capex should be at same rate but may see some advancement in next 18 months.
- Company reiterates the expectation of ARPU to improve to INR200 and further INR300 from current ARPU of INR183.
- Lesser launch of low price smartphones in the recent past has reduced industry 4G subscriber additions. This should reverse in the near term.

Detailed notes**5G Approach**

- 3.5Ghz band will give the true 5G experience and hence the company has acquired 100MHz in each circle. Also acquired 800MHz in 26Ghz band across every circle, this spectrum has limited propagation but will give 4G type speed. Also the company has bolster in mid/low band.

	FY2023	FY2024 (est.)
Revenue (INR bn)	1,00,000	1,05,000
EBITDA (INR bn)	15,000	16,000
EBIT (INR bn)	12,000	13,000
Net Profit (INR bn)	8,000	9,000
EPS (INR)	150	160
P/E Ratio	15	16
Dividend Yield (%)	2.0	2.0

- There are 2 modes where 5G operates- a) standalone mode (SA mode) and b) Non-standalone (NSA mode)
- In standalone mode- 5G layer is a top up to existing 4G layer. However there are 2 issues herein, 1) lack of well-developed ecosystem for SA device; 2) propagation- 3.4 Ghz has less prorogation than 2.3GHz band. This impact coverage in urban area. So SA is feasible only if they work with sub GHz band (usually below 1000MHz band)
- Non-standalone mode- Usually uplink in a band provides a user to download the content and for a voice call. Downlink in a band travel much further. So in 5G it is expected downlink to be done via 3.5Ghz band as it travels much further whereas uplink is done by 4G layer (1800/2100MHz mid-band). Advantages of NSA- 1) 3.5GHz will give a user 100 meter more coverage which was earlier a problem in urban area. And the area where mid-band doesn't reach, sub GHz bands will provide coverage, 2) all devices work in this ecosystem, 3) Allow to use existing 4G spectrum at no extra cost, 4) faster uplink and call connect will benefit user experience.
- In US/ South Korea where 5G is launched, it has seen that traffic in SA is 10% of total 5G traffic.
- Management said that Sub GHz in 5G provide speed of only 8-10mbps which is similar to 4G. They said that in 5G, NSA band provide higher speed. Hence no need for 700MHz band as per their spectrum portfolio.
- 700MHz band is no different from 850/900MHz band in respect to propagation. 700MHz band gives coverage in far area and 4G like speed. Also the cost for 700MHz is more.

5G Rollout:

- Company is expecting rollout 5G very soon and in March'24 expect to cover 5000+ rural and towns in India with 5G
- With this the 3 year capex will remain at the same level (INR 750b). However some advancement of capex will be seen in this year but after 18 months expect to be normalized.
- Sites are ready i.e. combination of fiber to the tower, FTTH and E-band are all ready to deliver world class 5G experience. Even on cloud platform they have partnered to work smoothly.

Strategic initiatives

- Company has received \$700m (INR52b) from Google for 1.2% stake.
- Company has launched broadband in Ladakh and Andaman & Nicobar island
- Company is positive to win the 5G game as-
- They have high quality customers
- Marketing and differentiation in line with quality customers
- Digital capabilities- automate 5G
- Set of digital services which will reduce churn and improve stickiness
- Track record of the company is strong in terms of knowledge, high quality customers and have gaining market share

Airtel payment bank- Profitable Fintech

- Company has monthly transacting user base of 44.4m. Clocked quarterly revenue of INR11b and GMV of \$5.3b
- Company take rate of 0.66% makes the highest in the industry and makes them the profitable Fintech.

Digital services

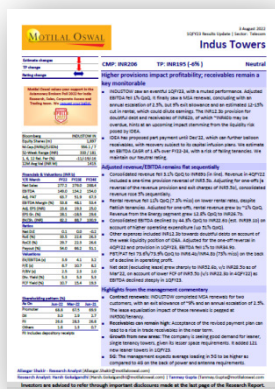
- Generate annualized revenue of INR8.5b.
- Digital business is an asset light model with leverage as an underlying strength.

Airtel business

- It is now a #1 B2B player in India and generated 4.4% sequentially growth in revenue higher than any listed player.
- Fast products such as CPaaS, Data centers and Cyber security are now yielding results
- In IoT, they are outperforming the market by a margin and all IoT customer are postpaid.
- They have reported 29.2m in postpaid, 18.1m in mobile services and 11.1m in IoT. Postpaid segment is now 45% bigger segment than before.
- Broadband space continues to see customer addition.
- Company has added 1.7m home passes on the back of local cable operator and now they have presence in 983 cities.



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**Indus Towers****Neutral****Current Price INR 196****Key takeaways**

- Contract renewals: Completed MSA renewals for both the customers with an exit allowance of ~9% and 2.5% annual escalation. Lease equalization impact of these renewals is expected to be INR500/tenancy.
- Receivables could remain high: Acceptance of revised payment plan could further lead to rise in trade receivables in near term period.
- Growth from new areas: Company is seeing good demand for leaner, single tenancy towers, given its lesser space requirements. It added 121 new leaner towers in 1QFY23.
- 5G: Expects average loading in 5G to be higher as compared to 4G on the back of power and antenna requirements.

Detailed notes:**Demand environment:**

- Company sees tailwind in demand from strong growth in data consumption as demand remains high in India coupled with adoption of 5G.
- Company sees continued migration to 4G to further drive growth.

Financial performance:

- Core revenues declined on YoY basis mainly on account of tapering of rental rates
- Company, during the quarter made a provision of INR12.3b towards receivable for one of its large customer on account of delay in payments from threshold time line .
- Company witnessed some weakness in operating margins in 1QFY23 mainly on account of seasonality factor and impact of higher diesel cost.
- Adjusting for all the provisions, EBITDA/PAT was down 0.8%/4.7% QoQ.

Trade receivables:

- Company saw a decline in trade receivables to the tune of INR8.1b mainly due to provision of INR12.3b created during the quarter. Adjusted for the provisions, debtors increased by INR4.2b due to shortfall in payment.
- While the company views these receivables as good and recoverable, it follows prudent approach and has provided for the outstanding dues.
- Company is in on-going negotiation with the said customer on the revised payment plan proposed which would include part payment upto Dec'22 and remaining to be paid in full during Jan'23 to Jul'23.
- If the company moves forward with this plan, it could see a rise in its trade receivable for a short period of time.

- Currently, the company is receiving ~50-60% of amount due (Excl security money) on monthly dues from the said customer.

MSA renewal:

- The company has closed the agreement with revised framework at discounted pricing to maintain its competitiveness with both the customers. The renewal term will be for 10 years and provides long-term revenue visibility.
- This revised pricing which includes ~9% discount with 2.5% YoY escalation clause is expected to lead to a revenue decline on a QoQ basis.
- The possible impact of lease equalization is expected to be INR500/tenancy and INR900/tower on overall tower basis.

Business model in leaner towers:

- INDUSTOW is seeing good demand traction for leaner towers on account of substitution, driven by lesser space, tonnage, and a better return profile.
- The company during the quarter added 121 leaner towers.
- The company does not expect any cannibalization in demand from traditional towers given the loading requirements could vary for each player in different areas.

5G:

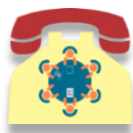
- Company is expecting large scale roll out of 5G infrastructure on existing sites in coming weeks.
- It expects average loading within 5G to be higher from 4G majorly within power and antenna requirement areas.

Other highlights:

- Dividend Payout: Company has re-iterated its dividend policy to remain linked to FCF and cash generation.
- ESG: The company has completed its materiality assessment and identified high priority-areas for ESG. It has further set targets across areas and will announce its ESG targets in coming quarters.
- FCF for 1QFY23 stood at mere INR5.5b (v/s INR22.3b in 4QFY22), impacted delay in payments by the customer.
- Company added net 1,027 towers during the quarter. The lower addition was mainly impacted higher churn in several co-locations.

TATA COMMUNICATIONS

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Tata Communications

Neutral

Current Price INR 1,134

Key highlights

- The order book remains strong and grew by double-digits YoY, which led to a healthy funnel. The management expects the same to stay strong growing forward.
- It reiterated its margin guidance at 23-25%, despite a higher operating cost in FY23.
- Capex was deferred in 1QFY23 due to supply-chain issues and delivery delays. However, capex spends will accelerate going forward.
- Monetization of 10-11 properties held for sale, with a book value of INR1.5b, should occur over the next 12 months.

Detailed notes

Deals and collaborations:

- The order book improved by double-digits YoY in India and in its International portfolio in 1QFY23. Its funnel book remained healthy, with an increase in Digital Platform and Services and Incubation Services.

Tata Communications

Key findings:

- Revenue growth is strong, but EBITDA growth is slower due to higher depreciation and amortization.
- The company is looking for an alternate solution to serve customers.

Financial analysis:

Particulars	FY22	FY23
Revenue	12.2%	11.5%
EBITDA	10.5%	11.5%
EBIT	10.5%	11.5%
Net Profit	10.5%	11.5%

- The company is reaping the benefits of sales and marketing advertisements undertaken in 3Q/4QFY22, as well as product launches. With these spends, funnel has emerged stronger.
- A good trend was witnessed in its new platform and series such as Global Rapide, InstaSafe, and DIGO.
- New customer added include an Asian airline, a food service business in Japan, and the National Health Authority of India.
- Strong profit and FCF generation will help the company to explore, sustain, and profitably grow this opportunity.

Business performance

- Net revenue grew faster than gross revenue due to the product mix, i.e. more mix of on-net and less of off-net. With volumes coming back, it will be able to distribute its fixed cost, which, in turn, will lead to higher growth in net revenue.
- The Voice business continues to decline, in line with the industry trend.
- Revenue from the Data business grew 1.2% sequentially, despite the supply-chain and OEM lead time issue, which accounts for a 4x delay from the initial delay of ~12 weeks in 1QFY23.
- Supply-chain issues can also weigh on revenue. However, the management has been building-up some of its inventory.
- Due to the war between Russia and Ukraine, the semiconductor shortage will continue at OEMs. Till now, there is no clear outlook on when the supply-chain issue will get resolved.
- The company is looking for an alternate solution to serve customers.

Why is revenue stagnant in the B2B industry?

- With more capacity building up and new technology entering into the space, it resulted in a technology disruption, which, in turn, led to a price erosion and stagnant revenue.
- TCOM has sold its Data centers in the past, which was a revenue contributor. Revenue growth currently looks stagnant.
- Hence, the company has initiated a new strategy to go beyond networks to platforms such as DIGO.
- Digital Platform and Services: Except for Collaboration, all sub-segments within Digital grew in double-digits, with some growing over 20%. The Collaboration segment was impacted as it is based on a usage-based application, which is rapidly changing.

Business outlook and guidance

- TCOM may see an increase in cost in FY23 due to the augmenting of staffing capacity and increase in travel due to the opening up of the economy. However, the company continues to operate in the 23-25% EBITDA margin range.
- The management's focus is on its products to platform strategic shift. It is engaging more deeply with the customer, with a double-digit order pipeline that is yielding positive results.
- The variance in capex from 4QFY22 is due to the supply-chain issue and delayed delivery. Capex spend will accelerate as they progress further.
- The asset held for sale will generate more cash inflow into the business. It has classified 10-11 properties under the held for sale category. Realization may start from 2QFY23 and will complete within the next 12 months. The book value is INR1.5b. However, the realization value could be much higher (over 2% of gross debt).



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Vodafone Idea

Neutral

Current Price INR 9

Key takeaways:

- Management expects tariff hike by the end of current calendar year which will lead to rise in ARPU.
- Expects Cash EBITDA to improve on the back of reduction SUC charges (3% of AGR) and lower tower rent.
- The NPV of interest on moratorium amount to INR161.3b towards AGR and deferred spectrum liability will lead to equity dilution.
- The acquired spectrum in 3300Mhz and 26Ghz are sufficient to deploy 5G in India. 5G rollout will be dependent on various parameters.

Highlights in detail:

Spectrum auction

- IDEA have acquired mid band 5G spectrum (3300 MHz band) in 17 priority circles and mm Wave 5G spectrum (26 GHz band) in 16 circles. Also have strengthen 4G bands in 3 circles i.e. in Andra Pradesh, Karnataka and Punjab for INR188b payable in 20 annual instalments of INR16.8b p.a.
- This will enable them to create the strength in their key markets (17 circles)
- 5G Rollout will be dependent on various parameters i.e. the use case, penetration, demand & requirement from customers and the comparative dynamics.
- As per the management, deployment of 3300MHz is very critical provide customer experience and 26GHz is for the capacity extension if needed. Currently there has been no ecosystem developed.
- They further added that 700MHz is a required spectrum for 5G deployment but the acquired spectrum is sufficient. Also 700MHz doesn't create a competitive advantage hence the way 5G works, they have created the capacity. They can even buy later on if required.

Market initiatives:

Pricing and ARPU:

- Revenue opportunity in 5G is expected to be after 3-4 years. It will be on the basis of use case adoption which is still to be determined. Management has not provided any timeline for adoption of use case at mass level
- SUC calculation is independent of deployment as per TRAI statement. Near 3% SUC charges will be waived of on AGR reduction, this may improve the cash EBITDA.
- Tariff outlook- In current 4G pricing, they consider an opportunity to increase price before CY22 (Price increase in last year has been priced in their revenue)

Strategic initiatives

- Network investment made in 17 circles as they contribute 98% of the company revenue.
- Due to short term debt repayment there was impact on total capex made by the company during last quarter. (INR 8.4b in 1QFY23 vs INR 12.1b in 4QFY22.)
- Shifting 3G to 4G with minimal capex by reframing 2G/3G spectrum and adding 4G FDD. They have shut down 3100 3G sites and added 2600 4G sites during the quarter.
- Focusing to transform from Telco to Techno.

Financials:

- There was one-off post dispute settlement of tower cost in post INDAS 116 EBITDA, hence as per management the better comparison for Post Ind-AS EBITDA should be 3QFY22 of INR 38.2b vs and 1QFY23 reporting INR 43.3b which is 13.5% up

- Closed negotiation with Indus tower and has revised lower site prices (towers which renewed in FY23). This will lead to improvement in cash EBITDA. The impact has been given in post INDAS Income Statement led to higher charge of INR 5.6b in depreciation and finance cost.

Other highlights:

Reforms package of interest conversion into share:

- NPV of interest on moratorium amount to INR161.3b towards AGR and deferred spectrum liability.
- Bank guarantee of INR170b has been returned. Such conversion will result in dilution of equity shares.
- Post this conversion, Government will hold ~33% stake while promoter holding will be ~30%.

Fundraise

- Promoters had infused INR4.4b in this quarter taking the total fund infusion from Mar'22 to INR 49.4b.
- The fund infusion of INR4.4b by promoters at INR10.2/warrant. This would be mainly utilized towards meeting the working capital requirements, repayment of debt and capex funding.
- Company are campaigning in areas to help customers to migrate from 2G to 4G
- Company discussing with lenders/ investors for the fund raising

Capex

- Awarded as the fastest 4G network in India as per Open signal's in Apr'22
- Also awarded as the highest rated voice quality in the country as per TRAI "MyCall" app data for 17months /20months between Nov'20- Jun'22

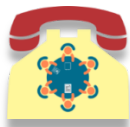
Content and Digital Offerings

- They have initiated Partnership with C-DOT to simplify IoT solution. This will bring standardization amongst devices.
- IDEA has launched the 'ReadyForNext' program to partner MSMEs to grow their business where the company will provide setup across three aspects- Digital Customer, Digital Workspace and Digital Business. It's a specialized solutions to MSMEs to engage with their customers, grow their business and maintain a digitally secure business environment
- The company has launched several digital initiatives to ex[and their portfolio-
- IDEA has integrated Vi Movies & TV app content with Vi app to allow access without downloading multiple apps.

Others



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APL Apollo Tubes
Q1 FY23 Results (Unaudited)

Particulars	Q1 FY23	Q1 FY22	Q1 FY21
Sales (INR Crores)	1,059	1,059	1,059
EBITDA (INR Crores)	1,059	1,059	1,059
Net Profit (INR Crores)	1,059	1,059	1,059
EPS (INR)	1,059	1,059	1,059

Management Discussion:

- Q1 FY23 was a mixed quarter for the company as the quarter sales in term of volume fell sequentially on account of destocking of channels.
- Fall in HRC prices with an expectation of further fall led to channel destocking in 1QFY23. The current HRC prices are at INR57/kg. Domestic HRC price is still higher than international prices by ~INR3/kg. Management expects HRC prices to bottom out at ~INR52/kg.
- The Company recorded around 60,000+ downloads of Aalishaan app from end-consumers of which 25,000+ downloads are from fabricators with 300+ designs and 16 patents registered.

Capex plans:

- APAT is setting up two new plants (one in Kolkata and in Dubai each) with an investment of INR1.5b. The Dubai plant with capacity of 0.3MMT is under construction as company has identified land and given contract for building to a local contractor. While company is yet to find the land for the project of building 0.2MMT capacity plant in Kolkata.
- Further, APAT is innovating its galvanized lines to improve efficiency by investing around INR1b to help reduce Zinc consumption by upto 4kg per steel tube ton (saving ~INR900m).
- APAT has planned for a total capex of INR6.5b to be funded from internal cash flows in FY23-24E.

Raipur plant update:

- Upcoming Raipur plant of 400 acres is progressing on expected lines.
- Project is expected to commence in phases starting from 1HFY23
- Total capex required for plant was ~INR8b, out of which 75% is already incurred and the balance is expected to be spent in next two to three months.
- Area of 1.5mn square feet of Raipur plant is being built using 100% Apollo Column Tubes
- Company is conducting series of seminar and inviting all the industry influencer to talk about the new products coming from Raipur plant. Company is getting good feedback from them regarding its new product lines
- EBITDA/MT to be INR6,000-8,000/MT for Raipur plant v/s existing 4,500/MT for existing company products.
- Further capex plans in the Raipur unit will be considered by the management once it reaches capacity of 3MMT.

Guidance:

- In near term, APAT is not expecting further destocking as majority of channel is already destocked and working on minimum inventory levels.
- The company is firm on its 1HFY23/FY23 guidance of achieving sales volume of ~1MMT/2.3MMT despite a lower sales volume in 1QFY23.
- The management expects margins pressure to sustain in 1HFY23 with recovery visible in 2HFY23.
- Further, management expects additional demand to come in when prices stabilizes,

APL Apollo Tubes

Buy

Current Price INR 1,059

Business update

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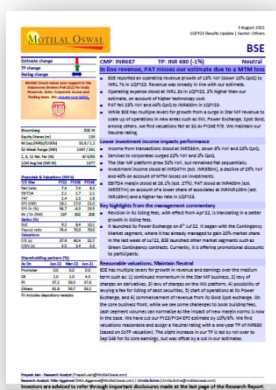
- From long term perspective, management is maintaining its FY25 guidance of 4MMT of capacity and expects 32% volume CAGR till FY25
- Current market size is ~7MMT of which 3MMT is primary steel and 4MMT from secondary steel. APAT is bullish on demand going forward as the price gap between primary and secondary steel market has narrowed down led by decrease in prices of primary steel. In last one year the prices in the primary and secondary steel had INR15,000 to INR20,000/MT gap which has narrowed down to INR4,000/MT. By FY25 the primary steel market is expected to reach 6MMT of which ~2.75-3MMT will be APAT's contribution. The company is targeting ~65-70% share of primary steel market i.e. ~4MMT+ volumes by FY25.

Other Highlights

- Net Working Capital days for 1QFY23 stood at 8 days v/s 7 days for FY22
- Valued added sales stood at 61% for 1QFY23 v/s 63% for FY22. Value added products contribute to EBITDA/MT of more than INR4,000 v/s INR2,000 for standard products.
- Net debt increased to INR3b in 1QFY23 v/s INR2b in FY22.
- In Heavy structural tubes segment APAT recently got order for 15 storey commercial tower in the NCR region. APAT is also in talks for ~50 projects which will require ~0.2MMT of tubes.
- The hearing of merger with APL Tricot was last held in mid-July. APAT expects the final order in next hearing on 1st week of August. Shareholders might get swap shares within 30 to 60 days of order.



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BSE

Neutral

Current Price INR 632

Business

- The process of finding the next CEO is on and separate committee has been set-up. The process is on track and will be completed sooner than expected.
- BSE revised its listing fees w.e.f. April '22, translating to stronger growth in listing fees.
- BSE launched its Power exchange on 6th July'22. They have started with Contingency market segment wherein they have already managed to gain 20% of market share. During last week of July, BSE also launched other market segments such as Green Contingency contracts. Currently, BSE is providing promotional discount to participants.
- The company has applied to SEBI for EGR approval. The technology for ESR is ready. The segment will get operationalized once the final approval is received.
- BSE wants to focus on expanding its product suite and to on-board the right kind of stakeholders on the market platform. They will begin charging revenue once there is higher liquidity.

Star MF

- Pricing of Star MF is based on tier structure. Therefore with higher volumes, realization has seen some decline
- The pricing in Star MF has remained same since the past two years.
- Star MF makes ~ 33% of profit margin.
- Currency derivative market share got impact during the quarter on back of some challenges. However the same has been resolved now.

Financials

- BSE has seen decrease in non-exclusive equity realization on back of one-time transaction charges received to the tune of INR10m in 4QFY22.
- Other security charges consist of infrastructure charges levied to market participants. The same is a reimbursement in nature and is offset by technology cost. Therefore, there was growth in other security charges as well as technology cost.
- There was an increase in expenses on YoY basis on back (1) During COVID, there were lot of provisions created on receivables. The same was reversed to the tune of INR46m in 1QFY22. However the provision reversal in 1QFY23 was lower by INR30m. (2) Post implementation of interoperability clearing expenses are paid to the other clearing house where the trade is settled (3) SGF contribution for the quarter was INR 22m which was nil in 1QFY22.
- Lower investment income during the quarter was on back of MTM loss.
- Increasing minority loss is on back of growing operation in other businesses like EBIX and BASL.



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Ashoka Buildcon

Buy

Current Price INR 77

Business update

- Revenue break up for 1QFY23: Roads/power/railway contributed INR11b/INR1.6b/INR1.5b, respectively.
- Gross toll collection for 1QFY23 stood at INR2.9b (+38% YoY).
- Working Capital was temporarily higher due to higher receivables. This is more seasonal impact and would normalize from 2Q onwards.
- While the input costs are coming down, the margin benefits would not be very significant. The Company is executing some fixed price contracts and also some low margin projects. ASBL is targeting margins of 9-10% in FY23.
- The Company has been diversifying into different geographies outside India and also into new segments. It would continue to bid for such projects going forward after appropriate due diligence.

Asset sale

- Asset sale transaction in ACL of 5 SPV with galaxy investments is expected to complete by Sep'22. ASBL has received approval from some lenders and expects approvals from other lenders in near term. The deal transfer would be for the entire share capital of 5 projects for a consideration of INR13.4b. Total proceeds would be facilitated to exit SBI Macquarie (INR12b).
- ASBL executed a share purchase agreement for the sale of 100% equity of Chennai ORR project to National Investment and infrastructure fund (NIIF) for a consideration of INR6.9b. Out of the INR6.9b, INR4.8b would be received by ASBL for the equity investment and loans provided.
- Discussions are in advanced stages with potential investors for sale of Jaora-Nayagaon BOT.

Order book

- During FY23 ASBL has received a) Letter of Award (LoA) from the Government of the co-operative Republic of Guyana of \$106m in June-22 b) Letter of Intent for a project for Department of IT & Communication, Govt. of Rajasthan of INR6.0b in August-22 and c) LoA from East Central Railways of Rs. 2.1b in August-22

- Out of the total order book currently, majority of the orders would be under execution from 3Q onwards and there would be hardly any slow moving orders.
- The Company is targeting order inflows of INR60-80b during remaining part of FY23.
- While Company would focus on Road sector it would also bid for power EPC projects. However it would look to avoid fixed price contracts.

Capex and Equity requirement

- Company incurred capex of INR150m in 1Q and expects to incur capex of INR1.2-1.5b during FY23. Not much capex is expected in FY24.
- Total equity required for the ongoing projects is INR10.6b, out of which INR8.1b has already been invested till date.

Balance Sheet

- As on June'22, Debtors was at INR11.8b (incl. retention), unbilled revenue at INR12.0b, and trade payables at INR8.5b.
- Surplus cash after providing an exit to Macquarie might be utilized towards providing dividend or a share Buyback.

Guidance

- Revenue growth of 15-20% is expected in FY23. Margins would be at 9-10% in FY23. EBITDA margins of 9-10% expected in FY23.
- Capex is expected to be INR1.2-1.5b in FY23 (1QFY23: INR150m).



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Coromandel Intl

Buy

Current Price INR 1,008

Agri scenario and Industry

- India is witnessing adequate monsoon coverage and higher reservoir levels which augers well for Indian agriculture.
- Reservoir levels stood at 155% of its long-term average v/s 143% YoY.
- Crop sowing as of 15th Jul'22 remains in line with last year's sowing. However, there was a delay in the planting of rice – a key crop.
- MSP of Kharif announced for the 2023 season was higher by 5% as compared to the previous year.
- India will have a fourth consecutive year of good monsoon, which will have a positive impact on Agriculture.
- The Indian government is ensuring the availability of key raw materials by getting into a deal with Russia.
- DAP Industry volumes stood at 5.38MMT v/s 4.37MMT YoY.

Company-specific

- CRIN registered strong revenue growth in both nutrient and Crop Protection businesses due to passing off the higher prices of raw materials and higher subsidies.
- Nutrition and allied segment grew 66% during the quarter. CRIN's ability to give greener solutions to farmers has gained further traction.
- The Nutrient and allied business contributed 89% of CRIN revenues, while the balance has come from the Crop Protection segment.
- DAP and complex fertilizer production was up 32% YoY to 0.7MMT. The sale of manufactured DAP was lower by 10% than anticipated during the quarter as some sales got deferred to Q2FY23 due delay in sowing led by delayed monsoon in June'22.

- DAP & complex market share of CRIN stood at 13.5% v/s 17.8% last year, mainly on account of delay in the season.
- CRIN's NPK and complex product market share improved from 27% to 28% during the quarter.
- CRIN operated at 91% capacity utilization in DAP and complex fertilizer segment
- CRIN is focused on leveraging the operational efficiencies at the plants and smart sourcing to ensure the timely availability of raw materials
- Crop Protection business registered a modest growth of 5% in the quarter. The company witnessed volume growth in Indian business however there was some pricing pressure on the exports front due to higher pricing of products. The company with the new product launches (mentioned below) in June'22 is seeing a good traction in volume growth from domestic markets.
- During the quarter, CRIN launched four new products in the Crop Protection Segment (three insecticides and one herbicide) which have been well received by the farmers. It has developed a rich product pipeline of technically superior products which are planned to be introduced during the year.
- The company is successfully conducting drone spraying trials at the farmer's fields with specialty nutrition and Crop Protection products. Further, CRIN is partnering with global innovators to offer better Agri solutions.

Subsidy

- Overall subsidy to industry amounted to INR609b (including the support given to the SPP, freight subsidy and various benefits for indigenous manufacturer of fertilizer)
- While overall subsidies was increased by government, there was a delay in the payment of NPK subsidies in 1QFY23, impacting the cash flows of the companies involved.
- CRIN received the subsidy of INR1.4b toward subsidy in 1QFY23 v/s INE4.9b in 1QFY22. Total outstanding subsidy as of 30th Jun'22 stood at INR27.3b v/s INR11.5b in previous year.
- Subsidy claims pending to be acknowledged is ~INR20b while claims acknowledged but pending to be received by CRIN is ~INR5-6b.

Other key highlights

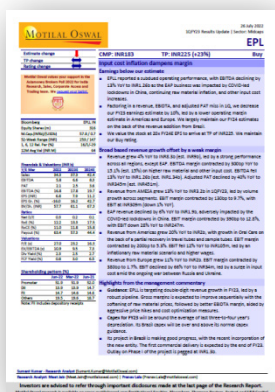
- Capex: The company's capital expansion program is on track with the proposed sulphuric acid plant at Visakhapatnam and is building a multi-purpose plant for Crop Protection. The sulphuric acid plant was operationalized in 1QFY23
- The investment in the mining company, BMCC, Senegal through its 100% subsidiary Coromandel Chemicals Ltd is expected to be completed in the coming quarter which will help CRIN in securing rock phosphate supply.
- CRIN is expecting ~INR8-9b of capex in FY23 of which ~INR6-6.5b will be incurred in the Fertilizer business and balance in the Crop protection business.
- Margin: Overall industry faced high prices of key raw material due to supply disruption on account of Russia-Ukraine war and protectionist measures in China. However, the margin for the quarter was also positively impacted by backward integration model of CRIN. Company is further focusing on debottlenecking and smart sourcing to improve its overall efficiency.
- The company has guided EBITDA/MT for FY23 in range of ~INR4,000/4,500.
- CRIN is highest importer of sulphuric acid and once the company start its own production, it will give an upper hand to company in terms of negotiation.

Similarly, CRIN can negotiate better with other rock suppliers once its own rock supply comes into play.

- Nano products: The government is focusing on nano products especially nano urea. CRIN has developed its own nano genes as part of its R&D. However, management does not see nano fertilizer as a threat to its existing business.
- The liquid fertilizer plant of CRIN is a multi-purpose plant and can also be utilized to produce Nano products. CRIN will take the final decision on the basis of demand and traction for such newer products.



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EPL

Buy

Current Price INR 164

Americas and Europe

- The Americas business saw growth across Oral Care on the back of a partial recovery in travel tubes and sample tubes.
- Its European business saw an impact on margin, with input costs surging across 1QFY23 from 4QFY22 levels. Adverse impact of rise in COVID-19 cases was also witnessed.
- Both Americas and Europe region witnessed an impact of higher wages due to inflationary scenario along with some production challenges.

EAP

- Revenue was adversely impacted due to the lockdowns in China, whose impact was majorly witnessed in 1QFY23 rather than 4QFY22, with Apr-May'22 bearing the brunt of the impact.
- However, the severity of the impact is reducing MoM. Though some impact will continue, a sharp recovery is not expected. There will be some impact in 2QFY23 as well.

Brazil

- Its project in Brazil is making good progress, with the recent incorporation of the new entity. The first commercial delivery is expected by the end of FY23.
- Outlay on Phase I of the project is pegged at INR1.3b. This investment is expected to meet or beat its estimated internal IRR threshold, with massive traction providing confidence on the same.
- EPLL has set up a project in Brazil to cater to a single customer. The management is expecting a strong traction from other customers in that region as well. It expects to receive orders from other customers once it begins its operations in Brazil.

Oral Care

- EPLL remains a market leader in the segment, demonstrating a growth of 3% YoY in 1QFY23, as growth in the EAP business was hit.
- The company was able to gain wallet share across customers, along with market share gains in China.
- The company converted and commercialized two brands with sustainable Platina Tubes for its biggest partner in India.

Non-Oral Care

- It saw a 9% YoY growth in Non-Oral Care in the EAP geography, led by increased traction in Beauty and Cosmetics and growth in Pharma tubes, boosted by the Creative Stylo acquisition and the company's own capabilities.
- Non-Oral Care contribution grew to 48% in 1QFY23 (B&C/Pharma/Others share is 34%/10%/4%), mainly accentuated by a decline in the EAP business.

- The non-Oral Care segment grew faster than Oral Care due to the EAP effect.

Costs

- EPLL has a comprehensive plan in place to control and recover costs through price increases for contractual and non-contractual customers, improvement in mix focusing on VAP contribution, increased in-house manufacturing for caps and closures (benefit of which has already started to accrue), and through a further reduction of scrap and waste.
- LLDPE/HDPE/LME/SHFE prices rose 9%/11%/20%/7% YoY in 1QFY23.
- International and domestic freight cost has started to soften at the end of 1QFY23.
- Energy cost: Europe is witnessing higher energy cost inflation.
- It has witnessed wage increases following high inflation in Western countries.

Other key highlights

- Capex: The management has stuck to its earlier capex guidance of FY23, which will be around the average of last three-to-four year's depreciation. Its Brazil capex will be over and above its normal capex guidance.
- Price increases: EPLL took continuous price hikes each month and has successfully been able to increase its intensity on undertaking price hikes.
- Inventory: With the objective of reducing inventory, which was built up during the COVID-led lockdowns, EPLL undertook additional laminate sales to subsidiaries in 1QFY23, which has resulted in higher inter-segment eliminations.
- It bagged a silver medal from EcoVadis and is ranked by them in the top 5% of plastic product companies.

Outlook

- EPLL is committed to deliver double-digit revenue growth.
- Achieving sustainability remains the key focus area for the management.
- There are early indications of softening raw material prices being observed. This will result in an improvement in margin in 3QFY23.
- Although the company continues to face short-term challenges on account of COVID-led lockdowns in China, albeit with lower intensity. Its plans to double Platina volumes in FY23 are on track.
- The company is looking to expand into new geographies through M&A activity.



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GR Infra

Buy

Current Price INR 1,364

Business update

- Improvement in execution during 1QFY23 led to ~16% YoY/9%QoQ growth in operating revenues from INR 22.7b in 1QFY22 to INR 24.8b in 1QFY23. This includes early completion bonus of INR1.3b received during 1Q FY23. EBITDA/PAT grew 41%/58% YoY to INR4.8b/INR3.2b (ahead of our estimates of INR3.2b/INR1.8b). Net Working capital stood at 77 days at end of 1Q (72 days at 4Q end). Input costs have been cooling off and the effect of same will be more visible in 2H FY23.
- The company has established an Investment Trust – Bharat Highways InVIT and registered the trust with SEBI. InVIT will include 6 HAM projects and will be a publicly listed entity with a separate management and execution team
- During 1QFY23, company had bid for projects worth INR 120b, however was unable to secure any project.

G R Infra Projects

Key findings:

- As of June-22, unbilled revenue increased from INR 5.8b in Mar-22 to INR 9.2b due to improvement in execution in 1QFY23
- Standalone debt/equity was 0.23 as of June-22.

Order book

- As of June-22, order book stands at INR 170b (excl. L1 of INR 6b) of which INR 100b worth of orders are under execution and appointment date for ~INR 70b projects is expected by Mar-23
- For FY23, company expects order inflows of INR 150b of which INR 100-120b is expected from road projects, INR 10b from transmission projects, and INR 30-40b is expected from railways/ropeways.
- The bid pipeline remains strong across infra verticals.
- For Amritsar-Ludhiana, appointment date can be expected by end of Oct-22

Equity requirement

- Equity infused in HAM projects stood at INR15.5b as of June-22.
- The balance equity requirement stands at ~INR19b in the existing HAM projects. This would be infused over the next three years with nearly INR7b infusion each year.

Asset monetization through InvIT

- The company has established an Investment Trust – Bharat Highways InvIT and registered the trust with SEBI.
- The InvIT will be a publicly listed entity and operational HAM projects would be transferred to the trust.

Guidance

- Management expects revenue to grow by 5-10% in FY23.
- EBITDA margin should stabilize in the 16-17% range and depend on the mix of execution.
- Appointed dates for the pending HAM projects are expected by 2HFY23.
- Tightening of bidding relaxation provided during Covid-19 and reduction in grant by NHAI from 40% to 20% in HAM projects (expected by 3Q FY23) will be beneficial for GRIL as competition will reduce.
- Government of India (GoI) has identified 8-10 transmission projects worth INR 130b-150b, the bidding for which is expected to be undertaken in near future
- Currently, three employees of the company are in custody of the law enforcement agency (CBI). Based on preliminary assessment, the management has not seen any significant impact on the operation and financial position of the company due to this.

Godrej agrovet
brighter farming

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Results Update



Godrej Agrovet

Current Price INR 513

Buy

Palm Oil Business

- FFB volumes declined 8% YoY in 1QFY23 mainly on account of shift in harvesting season in Andhra Pradesh.
- During the quarter, the company signed MOUs with Governments of Assam and Manipur for oil palm cultivation under the National Mission on Edible Oils-Oil Palm (NMEO-OP) scheme. OER/productivity is 20%/15-20% more than other areas which would yield benefits in next four to five years.
- Under the NMEO-OP, in the North east regions it is commercially possible to do ~12,000 to 14,000 hectares and of that the company is planning to do over 10,000 hectare in next three to four years. Currently, the company's nursery

Godrej Agrovet

Lower margin in AF and CP business hurts earnings

Stronger focus on sales

Key highlights:

- Godrej Agrovet reported a solid operating performance, with EBIT margin of 15.1% in Q1 FY23, up from 14.1% in Q1 FY22.
- Revenue growth of 11.4% for AF and CP business, driven by strong demand for CPO and Buffalo milk.
- Operating margin of 15.1% for AF and CP business, up from 14.1% in Q1 FY22.
- Operating margin of 15.1% for AF and CP business, up from 14.1% in Q1 FY22.

Financial Data (Q1 FY23 vs Q1 FY22):

Particulars	Q1 FY23	Q1 FY22
Revenue	1,14,000	1,02,000
EBIT	17,100	14,400
EBIT Margin	15.1%	14.1%
Operating Profit	17,100	14,400
Operating Profit Margin	15.1%	14.1%
Net Profit	10,000	8,000
Net Profit Margin	8.8%	7.8%

capacity is ~5,000 hectares and it will increase to ~8,000-9,000 hectares p.a. from next year onwards.

- CPO volumes came in at ~22,174MT v/s 21,411MT in 1QFY22 with realizations at INR139,000/MT. The contribution margins have increased from 15% in the last year to 25% in the current.
- OER has improved to 19% in 1QFY23 v/s 17% in 1QFY22.
- Price for palm oil is expected to remain in the range of INR110,000 prices a ton as government would not want to reduce prices because it would hurt the farmers (prices in range of +/-5%).

Dairy

- Dairy business recorded strong growth in volumes (+69% YoY – VAP and +20% YoY – Milk) and top-line in Q1 FY23, primarily led by market share gains in value-added products.
- Profitability was impaired due sustained rise in procurement and packaging costs, which the company aims to abate in the coming quarters.
- The company aims to improve prices v/s procurement rate (especially under Buffalo milk) and increasing VAP product which has driven contributions from 28% to 39% during the quarter.
- GOAGRO is confident about seeing a better flush 5% higher than last year and it has already taken two price hikes. The management has guided for a profitable 3QFY23 as the company is building a VAP line under milk to compensate for the excess demand.

Animal Feed

- Company saw volume growth of 11.4% YoY in Q1 FY23 which was driven by market share gains. Volume growth was recorded across key categories i.e. Cattle/Broiler/Layer by 12%/20%/8% YoY.
- However, EBIT margins were impacted by high cost inventories of key raw materials and unforeseen government interventions which led to sudden decline in raw material prices. The business has been able to liquidate high priced inventory and would see a better 2QFY23 overall.
- Soymeal prices declined sharply in May'22 as government of India allowed import of GM soymeal to the tune of 0.55MMT.
- Last year the animal feed business saw realizations of INR1,700 per ton; the business is expected to grow by 10% to 12% in volume terms which would help yield similar or slightly lower realizations in the current year.

Crop Protection (Standalone)

- Crop Protection segment reported 18% YoY decline in revenues, it was impacted by delayed monsoon and deferred application of agrochemicals. Strict focus on channel credit hygiene also led to lower sales as compared to the last year.
- The company expects recovery in crop protection business in 2QFY23 as recoveries have improved.

Astec LifeSciences

- Astec registered revenue growth of 43% YoY on the back of higher export realizations and CMO volumes, constrained by deferment of sales to the tune of ~20% of Q1 revenues.
- Astec witnessed decline in margin profile in 1QFY23 owing to margin compression in one of the key products, deferment of sales and increased cost structure on account of the herbicide plant which was commissioned in 3QFY22, would yield better realizations by 3QFY23.

- The plant ran at 60% utilization levels and would take three more years to be fully utilized. The company has two CMO products from the herbicide plant and one other CMO product which has contributed to margins.

Godrej Tyson Foods Limited

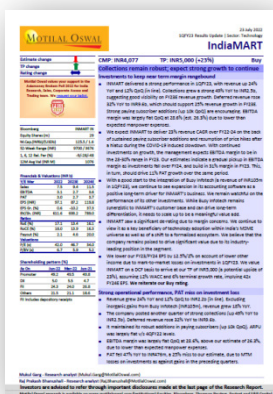
- GTFL achieved 40% growth in revenues in 1QFY23 led by Real Good Chicken (RGC) and Live Bird categories. RGC volumes increased by 82% while realizations in the live bird business improved by 43% in 1QFY23 v/s 1QFY22.
- GTFL reported significant improvement in EBITDA margins as live bird prices were considerably higher than the previous year and remained well above the feed costs.

Other Highlights

- ACI Godrej Agrovet Private Limited, Bangladesh: The Company posted a robust revenue growth of 42% YoY driven by combination of higher realizations and increase in volumes by 14% during the quarter.
- Capex: GOAGRO has envisioned an INR5b capex for FY23 with 60% being for Astec business, INR800m for the palm oil business and INR300m on the dairy business for one more line in VAP business due to exhaustion of capacity.



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&



IndiaMart Intermesh

Buy

Current Price INR 4,113

Collections and customer additions

- Collections grew 49% YoY in 1QFY23. The improvement in collections signifies the value proposition of the company to its customers.
- Deferred revenue rose 32% YoY to INR9.6b.
- The company added 10k paid customers in 1QFY23. Going forward, it plans to add 8-9k customers per quarter.
- At present, 2.5% of its customers form part of its paying subscriber base. This is in line with global classified payers.
- The management intends to hold treasury investments till maturity (next two-to-three years), which will lead to a reversal of notional treasury losses booked in 1QFY23.

Accounting ecosystem

- INMART's accounting portfolio is ready to serve all types of customers (micro to large enterprises).
- Busy Infotech clocked INR130m in billing and INR105m in revenue in 1QFY23.
- It added 9k licenses, taking its total licenses to 311k.
- Priority for Busy Infotech in FY23 is to: a) double the growth rate, b) create a new customer base, and c) build a strong team to support growth.

Customer churn

- Churn among Platinum and Gold customers is less than 10% p.a.
- Silver annual/monthly customers saw a churn of 25%/5%.
- Around 20% of customers upgrade within a year of becoming customers.

Cost and margin

- Margin in 1QFY23 was affected by higher manpower expenses and growth investments.
- The management continues to invest in growth. Manpower expenses are expected to increase in line with growth over the next few quarters, keeping margin in the 28-30% range.
- Channel costs are expected to stabilize in fewer quarters.



Click below for
Results Update

The screenshot shows the Motilal Oswal Indian Hotels Q1 FY23 financial results. Key figures include: Revenue of ₹1,100.00 Cr, EBITDA of ₹345.00 Cr, and EBITDA Margin of 31.3%. The table also lists various financial metrics like Net Profit, EPS, and Dividend, along with a detailed breakdown of the company's performance across different segments and regions.

Other highlights

- ARPU was largely flat. The long-run guidance for ARPU growth remains at 5%.
- It will continue to invest in channel development. At present, ~50% of revenue is driven by the channel partners.

Indian Hotels

Buy

Current Price INR 267

Operating Performance:

- As per STR Global, all-India RevPAR improved substantially surpassed the pre-COVID levels by 42% in 1QFY23, against the industry rate of 19%. Recovery in RevPAR was strongly supported by a revival in demand/occupancy in Leisure and Business segment. RevPAR growth in Mumbai/Bengaluru/Delhi & NCR stood at 33%/22%/20% in 1QFY23 v/s 1QFY20.
- IH has seen robust performance in 1QFY23 across all brands and has exceeded pre Covid numbers in almost all the matrix, except for dip in occupancy in Ginger (11%). The dip was a result of IH's strategy to increase room rent. IH is focusing
- on premiumization of portfolio by ensuring all its offerings are considered as premium in their respective segment.
- IH witnessed industry leading growth in ARR/Occupancy/RevPAR of 31%/9%/42% over pre-Covid levels (1QFY20). It has performed better in all regions except marginal lag in Rajasthan.
- Occupancy (like for like) in the business/leisure segment has surpassed the 1QFY20 levels by 10pp/9pp to 76%/63% in 1QFY23, while Palaces/Ginger are lower by 2pp/7pp to 34%/58% mainly due to lower traction from inbound tourists affecting Palaces/Safaris demand; and increase in prices for Ginger brand.
- Consolidated EBITDA Margin stood at 31.3% (vs 19.9% Pre-Covid). Free Cash Flow stood at INR1.98b. Flow Thru rate of 82% vs FY 2019-20
- Reimagining brand scape and restructuring portfolio is helping IH improve its margins. Further, sharp focus on cost optimization is strengthening the margin expansion of IH.
- EBITDA margins for key subsidiaries like UOH Inc. USA/St James / Piem / Roots / Benares stood at 10.6%/37.5%/28%/41%/46% in 1QFY23 v/s pre-Covid levels of 7.3%/38%/14%/25%/46%
- New business contributes to 14% of total revenues in 1QFY23 (v/s 9% in 1QFY20) while EBITDA contribution stood at 22% in 1QFY23 (v/s 18% in 1QFY20).
- Associate companies have shown strong growth with positive free cash flows.
- Overall margins have improved on account of higher management fees and new businesses. Management expects margin in 2HFY23 to be better than 1HFY23 on account of higher room rates. Further, the margins are expected to sustain in FY24. Management stands by its long-term guidance of 33% EBITDA margins with 35% margins from the new business.
- IH aspires to have a Qmin restaurant in every Ginger hotel. Management expects 55%+ EBITDA margins in Ginger (with combined contribution of Ginger and Qmin) and other portfolio to clock margins of 40-45%.

Market Scenario

- IH was able to generate momentum in 1QFY23 on account of opening up of air travels and IPL. Till now management has not seen any drop in the momentum.
- IH's Leisure hotels, Palaces and Safaris have not yet seen pre-covid level traction, as the inbound foreign travel has not picked up yet. However, the same is expected to pick-up by end of the CY23 (November'22 onwards).
- Management expects travel to remain a fundamental need and doesn't consider increase in cost of air travel to reduce the demand significantly. International travel recovery is expected to improve by 3QFY23 as the visa situations will ease.
- During Pre-covid times, 15% of the business was coming from inbound tourism and the management expected this to come back from the middle of 3QFY23. This will drive demand in places like Rajasthan, Delhi NCR, Mumbai, Goa and spiritual places.

International business:

- Overall, the US business still lagged in recovery. However, New York remains a strong leisure market. In New York, the company has reduced the size of its banquet hall which will save costs. However, it lost revenue during the renovation of the banquet.
- IH is adding 'Chambers' to its US operations.
- Management expects good performance from its Cape Town business which will become a subsidiary of IH. Revenue from Cape Town will reflect in the 3QFY23 numbers of IH.
- In the UK, July'22 has been the strongest month for the hotels.

Management contracts

- Management fees grew by 72% from pre-covid levels to INR810m
- IH has already achieved the mix of 46% from management contract (v/s 39% pre-Covid)
- IH will continue to enter more management contracts going forward. It is actively looking for management contracts near the Statue of Unity and Lakshadweep.
- Going forward, the company will maintain a 4-5x ratio of management to owned/leased hotel. For example, for every owned/leased investment, the company will add 4-5 management contracts hotels to maintain the mix.

TATA Neu

- IH was the first group company to join TATA Neu. IH acquired 1m+ new member through Tata Neu within four months of the launch.
- IH's source of revenue from TATA Neu app has doubled and now accounts for 18% of total revenue.

New openings/launches:

- IH opened four new Hotels (one hotel of each brand) and signed 10 Hotels (three hotels each under the Taj and Ginger brands, and two hotels each under the SeleQtions and Vivanta brands) in 1QFY23.
- The management has guided to open 14 more new Hotels and sign 15 more Hotels in the remaining of FY23.
- IH has 8,100 rooms in pipeline, representing 25% of total portfolio and 40% of operational portfolio

Cost management

- IH is continuously focusing on its cost optimization process with overall fixed cost reducing from 46% in 1QFY20 to 35% in 1QFY23.
- Payroll expense came at 27.8% of revenue in 1QFY23 against 35.1% in pre covid times
- Similarly, corporate overheads dropped by 2.3% as a percentage of revenue.
- Marketing spend has gone up in accordance with growth in business

Others

- Traditionally, Q3 is the strongest quarter in any financial year followed by Q4 and Q2 is considered as the weakest quarter of the year. However, the management expects 2QFY23 performance to come close to 1QFY23 performance.
- Delhi, Mumbai and Bengaluru are the key markets for the IH in India where the recovery was very strong.
- IH expects INR1b+ of enterprise revenue from Qmin in next two-three years
- IH's Taj Banaras has been doing very well. Further, IH has seen significant improvement in performance of PIEM hotels.
- IH's iconic brand, Taj, has received the honor of being rated as the World's Strongest Hotel Brand for the second consecutive year by Brand Finance Hotels 50 Report 2022.
- Taj has also been rated as India's Strongest Brand for the second time as per Brand Finance 2022
- IH will be launching a series of new advertising campaigns in the next two-three days for Independence Day.
- IH has crossed more than 100 destinations in India (120+ including Ama)
- AVHAAN 2025 focuses on delivering profitable growth in a responsible manner. AVHAAN 2025 will further IH's journey to become South Asia's most iconic & profitable hospitality company
- Overall 29% of the energy consumed is being generated from renewable resources. 45 hotels have installed EV chargers in collaboration with Tata Power.
- 75% of renovations in Taj Mahal Hotel Delhi is completed till date
- Free cash flow generation remains key focus areas for IH.

infoedge

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Results Update

**Info Edge****Neutral**

Current Price INR 4,250

Recruitment

- The overall job market is very strong and driven by both IT and non-IT.
- Hiring in IT slowed down a bit but still remained strong on the back of elevated fresher hiring and attrition.
- Non-IT recruitment is coming back, and clients are hiring in large numbers with Travel, Hospitality, education and Retail recovering.
- Any moderation in demand for IT due to US recessionary trends would impact revenues. There is strong demand for Non-IT jobs in US especially retail, hospitality and travel.
- The company is realizing better prices and there is strong demand across sectors.
- Naukri B2B billings were up 80% YoY.

Info Edge (India)
23 August 2022
NIFTY 50 Index: 16,100.00
NIFTY 50 Change: -100.00
NIFTY 50 Vol: 1,200.00
NIFTY 50 Open: 16,200.00
NIFTY 50 High: 16,300.00
NIFTY 50 Low: 16,100.00
NIFTY 50 Close: 16,200.00
NIFTY 50 Adj Close: 16,200.00
NIFTY 50 Dividend: 0.00
NIFTY 50 Dividend Yield: 0.00%

Strong selling growth to sustainable, sustainable but...

■ The management continues to invest in marketing expenses within 99acres to establish leadership.

■ The company continued to spend in advertisement and promotion to maintain the market share as competition spent huge amount of money in marketing.

■ Expect advertisement costs to be at elevated levels for some time before moderating.

Real Estate

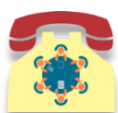
- There was continued business momentum in 99acres and the company is seeing higher demand for new homes.
- The real estate market is in good shape and demand and prices are increasing.
- The demand for Affordable housing remains strong.
- Strong demand continued in rentals. Commercial properties are also seeing good demand.
- There are a lot of new projects opening up despite of increase in interest rates.
- While the market will grow at a high rate, competitive intensity is also high. The management continues to invest in marketing expenses within 99acres to establish leadership.
- The company continued to spend in advertisement and promotion to maintain the market share as competition spent huge amount of money in marketing.
- Expect advertisement costs to be at elevated levels for some time before moderating.

Other highlights

- The management does not have any plans to liquidate investments in Zomato and Policy Bazar.
- Jeevansathi business saw good engagement and traffic as it made its chat feature free. The company plans to keep it free for long term even with hit on revenue to capture the market and get network effect going. With this strategy it is looking to cut back in marketing spends.



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Results Update



InterGlobe Aviation
23 August 2022
NIFTY 50 Index: 16,100.00
NIFTY 50 Change: -100.00
NIFTY 50 Vol: 1,200.00
NIFTY 50 Open: 16,200.00
NIFTY 50 High: 16,300.00
NIFTY 50 Low: 16,100.00
NIFTY 50 Close: 16,200.00
NIFTY 50 Adj Close: 16,200.00
NIFTY 50 Dividend: 0.00
NIFTY 50 Dividend Yield: 0.00%

Strong growth, but sustainability is a concern

■ International market to grow faster than the domestic market for INDIGO – 40% of total share in the next five years

■ Within Metro-to-Metro travel: corporate travel is a huge part of it, profits from this segment is increasing

■ Corporate travel recovered to pre-COVID levels right now and will further increase in the coming months

■ 320 NEOs: Management does not foresee any delay in the delivery of the aircraft

■ International flights are back to pre-COVID level and will see a growth for this segment in the coming months with Indigo's market share to be on the increasing trajectory. International bookings are better than pre-COVID levels and people are booking well in advance

■ Cargo business has been a very strong business and sees a stable business in this. Bangladesh and Vietnam are the major cargo destination as of now with

InterGlobe Aviation

Neutral

Current Price INR 1,975

- Currency movement and higher crude prices has affected INDIGO in Q1FY23 which was been offset by strong yields.
- Currently they are operating to 73 domestic destinations and 20 international destinations with 281 fleets
- Q1 proved to be the strong quarter led by strong corporate and tourist demand. Management expects Q2 to be the seasonal weaker quarter but expects Q3 to rebound with strong demand led by festive demand.
- Increase in fare prices remains a concern for them as passengers felt little resistant to have strong demand. This remains a major reason for lower PLF at 79% in Q1FY23.
- International market to grow faster than the domestic market for INDIGO – 40% of total share in the next five years
- Within Metro-to-Metro travel: corporate travel is a huge part of it, profits from this segment is increasing
- Corporate travel recovered to pre-COVID levels right now and will further increase in the coming months
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- International flights are back to pre-COVID level and will see a growth for this segment in the coming months with Indigo's market share to be on the increasing trajectory. International bookings are better than pre-COVID levels and people are booking well in advance
- Cargo business has been a very strong business and sees a stable business in this. Bangladesh and Vietnam are the major cargo destination as of now with

China coming up. Few more cargo flights are coming in the coming quarter and see a double digit growth in their revenue growth

- Q2 will remain weak due to seasonal weak demand but will be compensated by the festive season and corporate travel demand in Q3.
- Free cash remains at INR83.0 in Q1FY23 vs INR77.6b in 4QFY22
- Capitalized lease asset of INR344.7b with total debt of INR392.7b in 1QFY23.



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IRB Infrastructure Developers Ltd	
Particulars	Amount (INR Crores)
Revenue	1,200.00
Operating Profit	150.00
EBITDA	200.00
EBIT	180.00
Net Profit	100.00
EPS	10.00
Dividend	5.00
Debt	392.70
Equity	1,200.00
Capital Expenditure	100.00
Free Cash Flow	83.00

IRB Infra

Neutral

Current Price INR 243

Business update

- Mumbai-Pune project reported growth of 52% YoY driven by volume growth as there was no price hike. Ahmedabad-Baroda project toll collections grew 44% yoy which was combination of 33% volumes growth and 10% price hike.
- Board of directors have approved transfer of VK1 HAM project at an enterprise value of INR 12.97b to IRB Invit fund of which INR 9.55b will be utilized towards reduction of debt
- As per news articles, NHAI is expected to reduce concession for HAM projects from 40% to 20% thus increasing portion of equity infusion by developers. This would reduce the competition.
- In an inflationary environment where central banks across the globe are shifting to tightening of liquidity, IRB has managed to reduce its cost of borrowing ranging from 7.15% to 9.9%.

Order book

- The order book stood ~INR157b at the end of 1QFY23, of which EPC order book was ~INR95b comprising ~60% of the total order book. Out of the EPC order book, BOT stood at INR 71b and HAM stood at INR 24b. The BOT order book of 71b includes INR55b of Ganga expressway project.
- In 1QFY23, it received financial closure for the Meerut Budaun Expressway BOT project in Uttar Pradesh and the Chittoor Thachur HAM project in Tamil Nadu.
- When bidding, IRB would focus on BOT projects followed by TOT and then HAM projects.
- The Company expects decent number of BOT projects to be awarded by NHAI during FY23. Even HAM projects could see lower competition as NHAI is looking to reduce their contribution from current 40% levels.

Churning of assets

- The board approved the transfer of the Vadodara Kim HAM project in Gujarat to IRB InvIT Fund at an enterprise value of INR12.9b. Post transfer of this project, debt to the extent of INR9.6b will reduce from IRB's consolidated debt. It will receive INR3.4b, subject to necessary approvals.
- The Company is looking to transfer more assets to private/ public InvIT as they become eligible for transfer.

Execution

- IRB achieved financial closure for the Meerut Budaun Expressway BOT project and the Chittoor Thachur HAM project in Tamil Nadu. Also the Company has tied up its funding for Ganga Expressway project. As some of these large projects move into execution, we expect EPC growth to improve.
- Palsit-Dankuni project of West Bengal has received the appointed date from Apr'22 and the toll collection has also commenced. Implementation of the project would be through private trust.



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Results Update

Particulars	FY2021	FY2022
Revenue	1,000.00	1,000.00
EBITDA	100.00	100.00
EBIT	80.00	80.00
Net Profit	60.00	60.00
EPS	1.20	1.20
P/E Ratio	10.00	10.00
Dividend Yield	2.00%	2.00%

Balance Sheet

- The Company continues to focus on Balance sheet and would be bidding jointly with GIC as far as the BOT/TOT projects are concerned.
- For HAM projects where equity investment is low would be bid by IRB alone.
- Asset recycling would continue in aggressively to ensure balance sheet is constantly under control and Company can bid for more projects going forward.

Guidance

- The construction revenue is expected at ~INR50b for FY23. Considering all 5 new projects starting in FY23, the margins are expected at 22-24% level. Lower margin guidance in the construction segment is due to the execution of HAM projects which have lower margins.
- Order book position is to be maintained at current levels going ahead.

Kaveri Seeds

Buy

Current Price INR 460

Cotton

- KSCL registered volume growth of 8.33% in 1QFY23 in the cotton seed segment, with corresponding revenue rising 3.87% YoY over the same period.
- Prices of cotton per packet were up by INR40 YoY v/s last year, the company couldn't realize prices, but remains confident that discounts would be reversed in the next year due to lower illegal BT cotton share and better market sentiment overall.
- Growth was muted on account of increased competition in cotton due to smaller companies with lower realizations crowding the market, resulting in higher discounts given during the quarter and lower overall realizations
- Use of illegal cotton seed has come down and organized players have gained market share in cotton seed.
- Increased cotton acreage during the current year was driven by high cotton prices and market share gains.
- Higher area of Cotton acreage was reported from the states like AP, Maharashtra, Gujarat, Karnataka, Rajasthan, Orissa and Tamil Nadu and less area was reported from the states Telangana, Haryana, MP, and Punjab.
- Company maintained market share of 16% to 17% in cotton, further penetrating into Haryana and Punjab while increasing share in Gujarat and maintaining share in Telangana and Karnataka, although it struggled in Maharashtra.

Maize

- Maize seed segment reported 24.43% volumes growth and 13.46% revenue growth during the quarter. Revenues came in lower due to reduced government subsidy during the quarter.
- The contribution from new products in Maize rose to 28.62% from 18.08% of volumes.

Hybrid rice

- Hybrid Rice volumes increased 6.09% in 1QFY23 along with a 1.02% revenue growth to INR1.7b in 1QFY23. The acreage under hybrid rice was lower which had a marginal impact on revenues.
- Despite a 15% decrease in rice acreage due to rain shortages in some regions of the nation, KSCL has surpassed the market in terms of volume growth.
- The contribution of new hybrid rice products rose to 23.49% from 18.02%.
- Selection Rice volumes grew by 15.20% in 1QFY23.

Vegetables

- Vegetables sales revenue decreased by 2.54% in 1QFY23, with volumes growing by 25.90% in 1QFY23.
- KSCL continues to see encouraging growth in vegetable seed acreage, volumes and revenue growth.
- Under the other segments, sunflower has contributed to 80% to 90% of growth due to increased acreage as oilseed prices continue to rise.
- Sunflower contributed to INR230m in revenues v/s INR70m compared to the previous year. Management believes that vegetable seed growth would be more robust as compared to sunflower, during the year.
- Introduced mustard seeds in FY21 and are confident about the growth as oilseed prices continue to rise and government continues to provide a push.
- KSCL is working on adding wheat and soya to the portfolio.

Other highlights

- The company has achieved pre-covid level revenues and is aims to achieve better volumes and revenue during the year.
- Delay in onset of monsoon across India has impacted sentiments of the farmers.
- Kharif crop sowing was delayed, although there hasn't been any slip over of crop yield to the next quarter.
- KSCL is expecting double digit growth in Maize, Rice, sun flower and vegetables in the second half of the year.
- KSCL has introduced new variants across all segments and has witnessed a growing contribution from new variants across the segments.
- Cash: Cash stood at INR5.59b in Jun'22 v/s INR4.68b as on Mar'22 and INR5.60b in Jun'21.
- Bad debt: KSCL has granted an additional provision for INR130m on account of the MP government. The accumulated bad debt has fallen to INR430m v/s INR490m provided in 1QFY23.
- R&D: KSCL has a target to increase R&D by 15% to 20% and is setting up an INR350m facility over the next 3 years for bio-tech and genome tech.
- Capex: KSCL had purchased land in FY21 for office use purpose and remaining spends were incurred under R&D and agricultural land acquisition, spends were not more INR300m to INR400m.
- Guidance: The management has guided for growth of 10% to 15% in profitability over the next 3 to 5 years, with better Rabi season to benefit maize, vegetable and overall growth in the fiscal.
- Exports: Overall exports have contributed to INR190m in revenues, expecting exports to contribute to significant share in the next year.



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**KNR Constructions****Buy****Current Price INR 251****Industry highlights**

- Pace of highway construction was affected due to inflationary pressure during the quarter. Construction at industry level stood at 23km per day in 1Q FY23 against 25 km per day during same period last year. The pace of construction is likely to improve from 2H FY23 as input costs are declining.
- NHAI is expected to reduce HAM project funding to 20% from 40% levels. This would reduce the competition.

KNR Constructions

Key points:

- Revenue grew 4.6x YoY, EPC and HAM constitute 75% of the order book.
- Irrigation projects contributed 35% of revenue in 1Q FY23.
- KNRC hasn't received any payments from the irrigation projects post May.
- The execution in Irrigation would drop by 50% in 2Q FY23 as several irrigation projects are in areas that witness heavy monsoon.
- The pending receivables in Irrigation stand at INR8.5b and the Company expects payments to start in next few months.

Financial Analysis (INR in Crores):

Particulars	FY22	FY23
Revenue	1,200	1,250
EBITDA	150	160
Net Profit	100	110

- Fastag Toll collection continued to show robust growth during the quarter. Toll collections in future would be through GPS.

Order book

- The order book stood at INR86b as on end of 1Q FY23. EPC and HAM constitute 75% and Irrigation constitutes 25% of the order book.
- The order inflow of INR30-40b is targeted for FY23.
- KNRC is mostly looking at highways segment. Competition is high and is finding difficult to bag orders. The Company would explore other regions within India bag orders.

Execution

- Execution mix during 1Q FY23 - Irrigation 35%, Road HAM 40% and Road EPC 25% contribution.
- 50% of land has been acquired in the Chittor Thatchur project. NHAI has assured of acquiring 80% of the land in next two months. Appointed date can be expected by end of FY23.

Irrigation projects

- Irrigation projects contributed INR3b (35% of revenue) in 1Q FY23. KNRC hasn't received any payments from the irrigation projects post May.
- The execution in Irrigation would drop by 50% in 2Q FY23 as several irrigation projects are in areas that witness heavy monsoon.
- The pending receivables in Irrigation stand at INR8.5b and the Company expects payments to start in next few months.

Equity requirement

- The equity requirement for the BOT projects stood at INR10.9b. Out of which INR5.2b is already invested.
- The incremental equity requirement stands at INR 5.7b in the coming years (INR3.0b/INR1.6b/INR1.0b for FY23/ FY24/FY25, respectively).

Guidance

- Revenue guidance for the FY23 stands at INR35b. Due to monsoon, several projects in the order book would be impacted in terms of execution.
- KNR is slowing down on execution in irrigation segment till it gets clarity on the pending payments.
- Current depreciation run-rate to continue ahead as no major irrigation related equipment is being procured.

Other details

- The working capital days stood at 60 days in 1Q FY23 (v/s 63 days in FY22).
- Standalone debt stood at INR1.25b and Cash at INR450m.



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Lemon Tree Hotels

Buy

Current Price INR 68

Operational highlights:

- Revenue grew 4.6x YoY due strong demand on account of increased corporate travel, resulting in a recovery in business destinations. The quarter saw increased demand for MICE which supported the growth.
- The ARR increased 2x YoY and 18% QoQ to INR4,822. ARR in 1QFY23 is highest ever since listing and 20% higher than pre-covid levels.
- Occupancy during the quarter stood at 65.1% on full inventory (+35pp YoY and +19pp QoQ.)

Key Metric	FY2022	FY2023
Revenue (INR Crores)	1,500	1,600
EBITDA (INR Crores)	400	450
EBITDA Margin (%)	26.7	28.1
Net Profit (INR Crores)	200	220
Net Profit Margin (%)	13.3	13.8
Operating Leverage	1.2x	1.3x
Staff to Room Ratio	0.95x	0.64x
Cost per Employee (INR)	27,500	31,500

- EBITDA margins expanded by 1,500bp v/s 1QFY20 on back of lower expenses such as F&B expense (-273bps), employee expense (-595bp), power and fuel expenses (-112bp) and other expenses (-531bp). EBITDA margin expansion was driven by permanent cost rationalization executed by LEMONTRE.
- LEMONTRE signed new hotels in Vishakhapatnam, Malad (Mumbai), Jaipur, Assam, and Kharar (Chandigarh) during the quarter. Further, it operationalized a Keys hotel in =Tapovan (Rishikesh).

Market scenario:

- In 1QFY23, occupancy improved in Delhi/Hyderabad/ Bengaluru/Mumbai to 73%/73%/76%/74% in 1QFY23, while it lagged in Gurugram at 57%. However, the management expects a much better occupancy in Gurugram in 2HFY23.
- The low occupancy at Aurika – Udaipur, at 37%, was due to unrest in Udaipur and the management's strategy to hold room tariffs above INR11,000. With similar price levels, it expects occupancy to improve in coming quarters.
- Keys hotel in Bangalore & Pune have bounced back with occupancy in 70-80% range. While in Kerala, Ludhiana and Vizag are laggards as these are under renovation. Keys hotel occupancy to be in range of 65-70% in FY23 and account for 18% of the portfolio.
- Keys hotel in Bangalore and Pune has bounced back. However, other regions like Vishakhapatnam are big laggards.

Cost

- Staff to room ratio: Staff per room ratio was at 0.95x in FY20 which have reduced to 0.64x in FY22. For 1QFY23, it stood at 0.63x with management expecting it to sustain at 0.66x going forward.
- Overall staff per room has come down on account of conscious efforts by the LEMONTRE. However, cost per employee has gone up, from INR27,500 to INR31,500/month i.e. increased by 15%.
- Overall cost rationalization: LEMONTRE has rationalized its staff and brought down staff to room ratio. Further, it has re-engineered the menu and redesigned the buffet to reduce food cost from 9% earlier to current levels of 6%.



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MCX

Buy

Current Price INR 1,276

Business

- EGR approval can be received without any issue and MCX is developing the technology for the same. However, the management believes that GST related issues needs to be resolved in order to gain customer interest.
- Mindful of the increased competition in the space, the company intent to focus more on increasing the number of products and driving volumes rather than increasing the price.
- Average realization in futures has seen some decline on back of tier based pricing structure.
- Concentration of top 10 customers for MCX has increased to 67% in 1QFY23 from 62% in 1QFY22.
- Management expects operating leverage to kick in with growing volumes.
- Strong traction is witnessed in Crude and natural gas volumes.
- MCX has received approval for the launch of monthly option on bi-monthly options. The product is expected to be launched soon.

MCX

Financial Metrics (INR Lakhs)

Particulars	2021	2022
Revenue	1,10,000	1,10,000
Operating Profit	1,10,000	1,10,000
Net Profit	1,10,000	1,10,000
EPS	1,10,000	1,10,000

Key Highlights:

- Revenue growth of 10% YoY.
- Operating profit growth of 10% YoY.
- Net profit growth of 10% YoY.

- Option on indices will be launched when the market situation improves.
- Management sees RBI's move of allowing FII to trade in commodity is a positive move for the industry as the same will promote liquidity on the exchanges.
- The company is waiting for regulatory approval in electronic futures and the same is expected to be received soon.
- MCX has raised the issue for lower interest in Nickel contract with SEBI and expect the benefit to flow in by way of decline in trading unit as well as reduction of margin.
- Bank brokerages as % of turnover will be ~5% for futures.
- Management expects the traction in option volumes to continue as customers prefer options v/s futures, except for physical market players who still prefer futures.

Financials

- Option revenue was at INR270m in 1QFY23.
- Going forward, Investment will be amortized; therefore there will be no MTM movement in Income statement.
- Sequential 25% jump in Employee cost is on back of one-time reversal of provision in 4QFY22. Going forward management expects the current employee cost run-rate continue.
- Jump in Software cost during the quarter was on account of higher attrition in IT sector. Once the project goes live, over the period of few quarters the cost shall get normalized.
- Software charges shall decline substantially in FY24, however depreciation will go up. Overall the impact shall lead to lower expense.
- Tax rate on consolidated basis for FY23 is expected to be around 20%.
- Lower operating margin compared to peers is on back of higher technology cost and higher employee count of ~350.



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PI Industries

Financial Metrics (INR Lakhs)

Particulars	2021	2022
Revenue	1,10,000	1,10,000
Operating Profit	1,10,000	1,10,000
Net Profit	1,10,000	1,10,000
EPS	1,10,000	1,10,000

Key Highlights:

- Revenue growth of 10% YoY.
- Operating profit growth of 10% YoY.
- Net profit growth of 10% YoY.

PI Industries

Buy

Current Price INR 3,380

- **Margins:** EBITDA margin expanded by 150bp YoY to 22.4% (est. 21.9%). Gross margin stood flat YoY at 43.8%. Other expenses grew 40bp YoY to 13.4% of sales. Adjusted PAT grew 40% YoY to INR2.6b (est. INR2.2b).
- The trend in rising input costs continued, with cost pass-through undertaken both in exports (CSM) and the domestic market in 1QFY23.
- Large companies are alluding to facing brunt of unavailability of gas on operations, while the company faced no such impact from European imports.
- **Pharma:** PI expects to grow the Pharma Intermediary segment through inorganic expansions coming into play over the near-term, as per the management guidance.
- **Capex:** Total capex for 1QFY23 was contained at INR506m. The company's key focus remains on driving higher capacity utilization by improving throughput. The management has increased its capex guidance of FY23 to INR6-6.5b from INR5b earlier. The capex in totality including quantum set aside for inorganic expansions is over INR20b over near to mid-term.
- **CSM order book remained** at ~USD1.4b levels, showing a good visibility for the future. Company has commercialized one new product and has received 13 new enquiries with more than 15% of them being from the non-agrochemical space. Management expects momentum of new enquiries and its conversion to continue.

- **New CSM molecules:** PI has also commercialized one new molecule in 1QFY23 with over 40 products at different development stages of which over 35% is non-agrochemical.
- **New products:** PI aims to commercialize seven new molecules under the CSM business in FY23 and five new products under the domestic business in FY23. Two new process innovations would be commercialized in FY23.
- **Domestic Crop Protection** business has a focus on crops such as cotton, rice, horticulture and wheat. It has 17+ products at different stages of development and registration. During 1QFY23, the company received regulatory approval for one insecticide. The company launched three new products in Domestic Agri Brands.
- The two commissioned MPPs (multi-purpose plant) is currently at 55% to 60% utilization levels, as volumes continue to elevate the utilization could move up to 85% levels in a year or year and a half.
- The company has been working on efficiency improvement initiatives which would be realized in H2FY23 across plants.
- **Inventory:** PI has rapidly increased its inventory level to INR15.8b v/s INR14.2b in FY22 to avert supply chain disruptions and meet customer supply schedules / continue operations.
- **Working capital:** Trade working capital in terms of Days of Sales is 102 days vs. 103 days as on 31st Mar'22, primarily on account of inventory levels surging 11% YoY higher in order to avert supply chain disruptions and meet customer supply schedules, leading to stress on the WC cycle in the quarter.
- **Guidance:** The management raised revenue growth guidance from 18-20% to 20%+ in FY23 with continued improvement in margins and returns. CSM business would grow on continued scale-up in demand of existing and newly launched products.
- The company is envisioning a growth of 20% CAGR over 3 to 4 years for CSM business
- The company has guided to drive higher capital efficiency in FY23 with focused program to reduce trade working capital under the CSM business.
- The company is evaluating inorganic growth opportunities in Pharmaceuticals, both domestic and international markets.
- The company has guided an average tax rate of 16.5% for the current fiscal.
- Freshness index on an average has been over 25% of portfolio in the past three years and usually remains a higher growth component than existing molecules.
- The company has a focus on a partnership model for its tech capabilities and growth. It believes in long-term niche molecule based relationships, and maintains this strategy while discovering new geographies.
- **Electronic Chemicals:** PI Industries is expanding capacities to commercial scale for a few new products in addition to those released in the previous year.



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Quess Corp

Buy

Current Price INR 572

1QFY23 performance

- The business environment remains conducive. Service sector saw highest headcount addition.
- The outlook for the business is very positive with 470k FTE and ~30k net additions.
- Quess added 219 new customers during the quarter and 32 wins with cross-selling, totaling to INR 340m in ACV.



Quess Corp

Strong growth to continue in FY23

The management is very optimistic about FY23 as the demand looks good. Its focus on normalization of corporate structure continues. Quess is still awaiting on the order from the department on disputed 80JJAA deduction and order is expected to come before 23rd March 2023.

- WFM witnessed strong growth in general staffing driven by retail, BFSI and telecom. Core to associate ratio remained flat and general staffing cross 300k headcount mark.
- GTS saw secular growth in BPO and secular IT and a rapid 33% growth in life cycle management. Connect crossed 40k FTE during the quarter. Non-BPO segment had good collections (+35%)
- OAM had 23 new logos during the quarter. IT/ITES and education were soft during the quarter. Security business had 15 new logos and electronic security solutions gained traction during the quarter. There was a contract negotiation of major healthcare client after completion of three year lock-in (Revenue INR 2.7b vs 3.8b pre-negotiation). IT demand continues to be strong at 3x the capacity, the softness in revenue is attributable to restructuring efforts to move to higher margin business.
- In products business, Monster had good quarter with 53% jump in revenue. Quess has completed major investments in product development and marketing spends will continue. It maintained INR 1.1b cash burn rate for the year and suggested that there will be sharp increase in margins in next year.
- Net debt stood at INR590mn in 1QFY23 v/s a net cash of INR 150m in 4QFY22.

Margin

- Drop in margin was associated to additional cash burn in product led segment in monster and ESOP costs, higher SG&A (INR 200m), wage hike (INR 140m), strong headcount, renegotiation with large client in OAM (INR 70m).
- Margin in OAM was impacted by INR 70m due to renegotiation of contract with large healthcare client as margin was revised to market rate on completion of three year lock-in. Renegotiated margin also has a three year lock-in. OAM margin are expected to recover to 5.6%-5.7% by 4QFY23 based on the order book.
- In GTS, the dip in EBITDA was due general slowdown in IT and BPO business coupled with wage hikes.
- It expects margins to improve gradually in WFM, OAM and GST as the year progresses.

Outlook

- The management is very optimistic about FY23 as the demand looks good.
- Its focus on normalization of corporate structure continues.
- Quess is still awaiting on the order from the department on disputed 80JJAA deduction and order is expected to come before 23rd March 2023.



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SIS

Buy

Current Price INR 449

Quarter performance and outlook

- SECIS witnessed robust revenue growth, with good margin in 1QFY23.
- The international business benefited from high margin COVID-related work, which is now coming down. The management expects COVID-related work to go away by 2QFY23. As it was a high margin business (~2% higher than regular business), margin will remain volatile in the near term. Revenue loss due to this will be offset by the regular business.
- The Australian government has announced a 4.5% increase in the minimum wage hike, the benefit of which accrue in one or two quarters as the contract

SIS

Key Metrics:

Parameter	Value
Revenue (₹ Cr)	1,14,14,14
EBITDA (₹ Cr)	1,14,14,14
EBIT (₹ Cr)	1,14,14,14
Net Profit (₹ Cr)	1,14,14,14
EPS (₹)	1,14,14,14
P/E Ratio	1,14,14,14
Dividend Yield (%)	1,14,14,14

Key Findings:

- The company's revenue has grown by 10% in FY22.
- The EBITDA margin has improved to 10%.
- The net profit has grown by 10%.
- The EPS has grown by 10%.
- The P/E ratio is at a premium of 10%.
- The dividend yield is at a premium of 10%.

price gets negotiated. It will impact margin in the near term as increased wages will have to be paid immediately.

- Though Henderson was a high-margin business, it is currently loss-making as it was non-compliant with some regulations and had to incur certain costs. It also lost some customers due to this. It has recently received an INR30m grant from the Singapore government and has an INR25m fund to turn around and become profitable.
- There will be volatility in margin in coming quarters. In the medium-term, margin should revert to pre-COVID levels.
- In the Cash Logistics business, all service lines are growing well and the company has a strong order book and pipeline. The management suggested that this maybe the best year for the cash business both in terms of revenue growth and margin.
- As the company is growing fast, it has to incur a lot of project start-up costs, which will remain an overhang on cash conversion and will keep OCF/EBITDA conversion below 50% in FY23.

Outlook

- The management expects margin in the international/India Security business to revert back to 4.5-5%/5.5-6% in a few quarters as margin is fundamentally intact.
- The management indicated that growth is returning with the economy opening up and maintained its 20% revenue growth aspiration for FY23.
- One SIS currently contributes sub-1% to revenue. The management expects it to contribute mid-single digits in the long run.



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SRF

Key Metrics:

Parameter	Value
Revenue (₹ Cr)	1,14,14,14
EBITDA (₹ Cr)	1,14,14,14
EBIT (₹ Cr)	1,14,14,14
Net Profit (₹ Cr)	1,14,14,14
EPS (₹)	1,14,14,14
P/E Ratio	1,14,14,14
Dividend Yield (%)	1,14,14,14

Key Findings:

- The company's revenue has grown by 10% in FY22.
- The EBITDA margin has improved to 10%.
- The net profit has grown by 10%.
- The EPS has grown by 10%.
- The P/E ratio is at a premium of 10%.
- The dividend yield is at a premium of 10%.

SRF

Neutral

Current Price INR 2,393

- Chemicals segment: The Fluorochemicals business performed exceedingly well in 1QFY23 owing to higher sales volumes in the refrigerants, pharma propellants, and the blends segments with better sales realizations, especially from the export markets.
- Positive trend in Fluorochemicals is likely to continue with demand in the refrigerants segment is expected to remain healthy in the near to medium term.
- Management is focusing on expanding in new markets/geographies and product offerings, and ramping up sales from refrigerants, blends and industrial solvents
- The Specialty Chemicals business performed well because of strong demand for flagship products and the downstream derivatives.
- The management guided for EBIT margins to be higher than FY22 levels
- SRF is continuing its efforts to diversify the portfolio of raw material suppliers to de-risk raw material availability
- Pricing and demand in HFCs to remain strong in the near term
- Dymel® HFA 134a/P (pharma grade gas) continued to do well and reported significant growth leading to improved market share.
- Under Fluorochemicals business, the 2HFY23 volumes are presently being contracted at the current prices for the US supplies. Typically contracts are not very long term in nature and the contracts for Oct-Dec'22 are being entered now.

- Additional volumes from chloromethane plant are likely to commission in two to three weeks. However, it will take time to stabilize the plant. The plant will focus on import substitution.
- Packaging Film segment: The business witnessed a slight slowdown in demand for BOPET and BOPP films in 1QFY23, which hurt the overall margins. Further, energy prices in Europe remained a challenge at SRF's Hungarian facility
- However, SRF's customer-centric approach of 'Easy to do Business With', and enhanced sales of VAP contributed positively to the overall performance.
- BOPET films likely to witness inventory impact due to sharp drop of raw material prices. Management is continuing its focus on efficiencies and cost-competitive procurement to ensure that SRF remains one of the lowest-cost producers globally.
- SRF's continuing focus on enhancing quality and delivery of products will increase engagement with multinational customers. Currently, the company is present in over 100 countries.
- BOPP Film line at Indore is expected to be commissioned in 2QFY23.
- Technical Textiles segment: The business has performed in line with expectations with increased export volumes from the NTCF and Belting Fabrics segments. However, the domestic demand for SRF's product portfolio remained muted.
- Business continues to actively focus on improving operational excellence and productivity parameters
- Belting fabrics segment is likely to witness robust demand as infrastructure spend revives
- Incremental investments in Belting Fabrics over the next three years is projected to bestow strong returns
- Other Businesses: Domestic demand for Coated Fabric is expected to remain healthy with good monsoons and resumption of events and outdoor activities
- In Laminated fabrics business, SRF maintained its price and volume leadership with the plant operating at full capacity in 1QFY23 and achieving its highest-ever sales when compared with CPLY. Realizations in this sector were adversely affected by the ongoing surplus supply scenario.
- Outlook: The outlook for Chemicals Business remains strong and management believes the investment intensity will increase in this segment.
- While Packaging Films business performed very well in 1QFY23, management sees strong headwinds for the business with weak global demand and inventory losses in the short term
- 'China plus one' strategy continues to support India's position as an alternate manufacturing base
- SRF is not witnessing any demand slowdown. From the US market perspective also, Fluorochemicals and ref gas demand remains strong.
- Margins: Rising crude, logistics issues and global shortages of some key inputs are pushing up the raw material prices.
- Capex: Total FY23 capex will be in the range of INR31-33b (out of this total capex, INR23-25b will be in Chemicals segment).
- Management has planned an overall INR12-15b capex in the Specialty chemical business over the next 12 to 18 months, which includes setting up a new and

dedicated facility to produce 1,000 MT of an agrochemical intermediate per year at its Dahej plant at a projected cost of INR2.5b.

- Besides, it is expanding the capacity of an intermediate product that finds application in both agrochemical and pharma intermediates and related feedstock at Dahej, at a projected cost of INR720m.
- Further, it will create two technical structures of the new plant buildings for certain agrochemical products at a projected cost of INR780m. These products would cater to the growing requirements of new and upcoming plants at Dahej.
- In Technical Textiles Business, SRF will carry out a capacity expansion and modernization of belting fabrics operations at TTB-Viralimalai to 1,800 Metric Tons Per Month (MTPM) from 1,100 MTPM at a projected cost of INR1.62b to be spent over a period of three years.

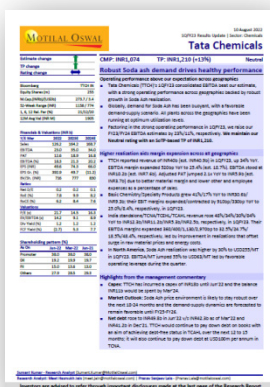
Other highlights

- Management witnessed around 4.5% rupee depreciation against the USD in 1QFY23, amid a volatile geopolitical situation. This led to restatement of net USD-denominated liabilities, which created an exchange fluctuation loss of INR320m. However, this is likely to be a one-time impact.
- SRF is in the process of building a captive power plant that can be commissioned in the next three weeks. Therefore, the overall cost of the company will come down. Further, SRF is looking forward to obtain energy from hybrid methods.
- The company will pass on the RM inflation to the customers and will manage the rise in power cost on its own end.



TATA CHEMICALS LIMITED

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Tata Chemicals

Neutral

Current Price INR 1,087

India

- India standalone revenue growth of 48% YoY was on back of blended realization improvement of 44% YoY as volumes grew marginally by 1.2%/6% YoY in Soda Ash/Salt.
- Mithapur unit operated at full capacity during the quarter. India saw higher soda ash and bi-carb realizations on the back of strong market demand and market tightness, reflecting good demand in detergents.
- EBITDA improved due to better realizations which offset significant increase in raw material and energy costs.
- Salt volumes remained healthy (+2.5% YoY) for India during the quarter; with additional capacities expected to be commissioned by end of FY23.

TCNA

- In North America, revenue growth of 34% YoY was mainly due to 30% improvement in realization while volumes were marginally lower by 2% to 568KMT. Soda Ash realization was higher by 30% to USD255.5/MT in 1QFY23. EBITDA/MT jumped by 55% to USD63/MT led by favourable operating leverage.
- Export prices remained strong and at above pre-covid19 levels. The company has shifted its contracting under exports from an annual to a quarterly basis. Exports formed 45% of revenues and typically range at ~45% - 50%.
- Gas prices remained at elevated levels during the quarter.
- There was a production loss of 10,000 MT during the quarter, due to maintenance shutdown in one dryer. The company is confident of compensating for the loss in volumes, it expects to equal out or beat volumes v/s PY.
- Undertook part pre-payment of USD30m debt during the quarter.

TCEHL

- In Europe, revenue grew 30% YoY due to an improvement in realization (34% YoY to GBP277/MT) There was a 5% de-growth in sales volume (Soda Ash, Sodium Bicarbonate and Salt). EBITDA grew 3.4x YoY to INR980m due to higher sales realizations, despite rising input (coke, ammonia, and packaging) and fixed plant costs.

TCAHL

- Soda Ash volumes in Africa were flat YoY at 83,000MT, whereas realizations (in USD terms) grew 76% YoY to USD384/MT, leading to a revenue growth of 84%. EBITDA stood at INR1,190m v/s INR250m YoY.
- Margins improved v/s previous year on account of higher realizations and robust market demand; TTCH maintains pricing contracts on a quarterly basis.

Market dynamics in Soda Ash

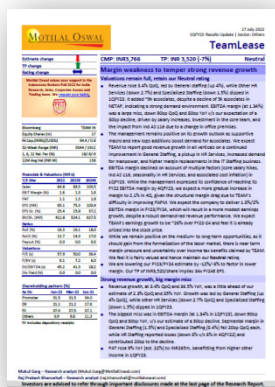
- Soda Ash Price environment likely to stay robust over the next 18-24 months.
- Soda ash demand supply dynamics are expected to remain favorable up till FY25 – FY26.
- New capacities would be commissioned in Mongolia and USA by FY25-26, with some capacity in USA being commissioned earlier.
- Current prices do not reflect the complete cost effect which is a direct link to energy surcharge prices, rather are linked to market demand and supply dynamics. There would be a further price hike necessary in soda ash, in order to match the same.

Other Highlights

- **Rallis:** Revenue growth came in from the crop care business, while margins were impacted due to cost inflation and competitive pricing. Crop care margins improved while seeds margin was impacted and continues to be under pressure. Rallis is expected to contribute positively in H2FY23.
- **Input price pressures:** Gas, coal and freight costs remained at elevated levels in 1QFY23. Carbon UK ETS prices remained stable at over GBP70/MT. Limestone, coke and raw salt prices have increased.
- **Net debt** rose to INR49.8 in June'22 v/s INR42.3b as of Mar'22 (v/s INR41.2b in Dec'21). TTCH would continue to pay down debt on books with an aim of achieving debt free status in Kenya over 12 to 15 months and paying down USD100m per annum in USA.
- **Capex:** TTCH has incurred a capex of INR18b till June'22 and balance INR11b to be spent by Mar'24. The company aims to incur additional INR20b capex under Phase 2 (FY24 – FY27) of expansion.
- **Opportunities:** TTCH envisions an opportunity in the solar glass and lithium carbonate segment with soda ash and sodium bicarbonate business being the main material beneficiary. Glass in India is underpenetrated and as the building infra and auto segment are expected to grow this will help the glass industry to grow.
- **Strategic Focus:** TTCH aims to reduce debt in the international business using cash flows and expanding the overall capacity from 4.3MMT to 7.0MMT with major focus in India.



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TeamLease Services

Neutral

Current Price INR 3,335

1Q performance and demand outlook

- TEAM added ~9,000 employees with good revenue growth in 1QFY23.
- The management remains optimistic about its growth prospects and suggested that there are a lot of open positions that can fuel growth in 2QFY23.
- There was some tightening in Manufacturing in 1QFY23.
- TEAM added 125 new logos in 1QFY23.

General Staffing

- There were many layoffs in 1QFY23, with the slowdown impacting FinTechs, e-commerce, and new-age Tech companies.
- Discussions with customers suggest that the companies will continue ramping up Contract Staffing. Customers were prompt in filling positions.
- Margin was affected due to wage hikes, without a corresponding increase in PAPM.
- TEAM added ~13,000 associates in General Staffing in 1QFY23.
- Festive demand will accrue at the end of 2Q and early 3QFY23. Retail demand from rural India will come into play. Companies have planned for headcount positions, which will accrue from the second-half of 2QFY23.

Specialized Staffing

- TEAM saw a delay in hiring in the early part of 1QFY23.
- Margin was affected due to an increased wage bill and increase in tech investments.
- TEAM added 15 new logos in Specialized Staffing in 1QFY23.
- The demand in IT remains roust as it is in a super-cycle.
- In Telecom, it is replacing non-Tech mandates with Tech mandates, which will drive better margin going forward.

NETAP

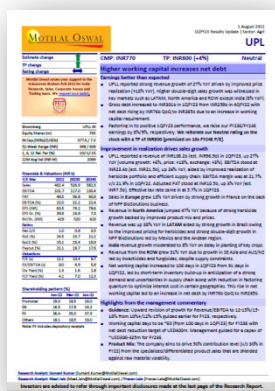
- NETAP is four industry-led business: Auto, BFSI, Technology, and Consumer, Retail, and e-commerce.
- The dip in headcount was led by a large absorption by a client and slowdown in three business verticals.
- The management expects the slowdown to be temporary and should recover going forward.
- It added 31 new logos in 1QFY23.
- The management's focus will remain on scaling the business, building compelling products, rapid digital adoption, and to expand the supply network.
- TEAM is trying to create a degree program, which will improve realizations by INR200-300 (from INR550-560 at present).

Margin outlook

- In 1QFY23, margin was impacted by: 1) higher unallocated expenses of ~80bp as it shifted to a new office and a one-time Ind AS 116 impact of 40bp (sustainable run-rate for unallocated expenses is INR60-70m), 2) higher salary hikes to core employees (12% v/s the normal hike of 7-8%), 3) seasonality in the EdTech business, and 4) the timing gap between recognition and creation of certain provisions.
- The management said it will improve its 4QFY23 exit margin to FY22's exit margin levels.



Click below for
Detailed Concall Transcript &
Results Update



Other

- It is looking for inorganic growth opportunities in HR Tech and has an active M&A pipeline.
- PF migration is expected to be completed by the end of Sep'22.
- On the 80JJAA matter, TEAM is still awaiting a response from the court.

UPL

Neutral

Current Price INR 745

LATAM

- Revenue grew 38% YoY during the quarter driven by growth in Brazil, primarily led by improved pricing in herbicides.
- Strong double-digit growth was observed in NPP BioSolutions, led by Mexico and Andean region.
- UPL and Bunge formed a JV 'Orígeo' is targeting large farms in a specific area (North and North Eastern) of Brazil to increase Brazilian farmers' sustainability, productivity, and profitability.

Europe

- Revenue grew 13% YoY led by strong performance in NPP Bio Solutions in France. Central Europe saw higher volumes in addition to improvement in pricing.
- Impact due to Euro devaluation by 6%, products ban (e.g., mancozeb), and on-going conflict.

India

- India saw a robust revenue growth of 8% YoY in the quarter driven by growth in NPP BioSolutions and other businesses followed by favorable commodity prices across cereals, fruits, spices and oilseeds.
- Delay in planting activity impacted overall industry growth, key crop acreages (e.g., rice down 17% v/s LY).

North America (NAM)

- North America revenue grew 47% YoY in the quarter due to growth in herbicides led by mix of volume and pricing.
- Positive outlook for the season: high commodity prices and strong demand, while drought in western US impacting specialty crops and winter wheat.
- Expected channel inventory increase in herbicides due to heavy stocking driven by supply concerns.

RoW

- Revenue grew 31% YoY driven by fungicides, insecticides and herbicides in SE Asia, AUS/NZ and WECA, despite supply constraints.
- China sales were impacted due to lockdown, unfavorable weather affecting key crops, and high channel stock while Japan was impacted by devaluation of JPY.

Advanta business

- Revenue grew 28% YoY to INR8.4b in the quarter led by strong growth in 1) field corn in India 2) canola in Australia and 3) field and fresh corn in Thailand.
- Grain Sorghum season in Argentina got delayed impacting 1QFY23 performance.
- Robust contribution profit growth of 28% YoY to INR2.2b was observed due to better realizations in corn and canola and a favorable product mix.
- There was an increase in SG&A on account of investments in overheads to pursue B2C strategy, partially offsetting contribution profit growth.

Guidance

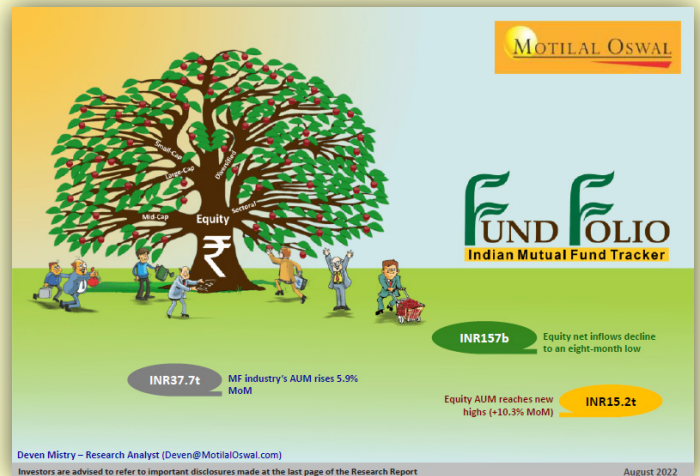
- Product realizations continue to remain strong, recent new launches continue to see good traction in the marketplace, and the overall demand outlook continues to be constructive.
- **Financial Guidance:** The management has revised FY23 guidance upwards, expecting to achieve a revenue growth of 12-15% v/s +10% guided earlier, and EBITDA growth of 15-18% v/s 12-15% earlier.
- Company has guided robust growth across India, South East Asia, North America, Australia, Africa and Brazil.
- The company is expecting strong price realizations and grower's margins led by strong order line-up till 2QFY23 and 3QFY23 coupled with decent weather conditions in key markets.
- The company is seeing growing traction in bio-solutions amongst growers and would see good growth as the quarters evolve.
- Working capital: The management has guided WC days of 80 days by the end of FY23. Inventory was higher during 1QFY23 due to buying observed in India led by anticipated demand, which is expected to cool off by the end of the fiscal. Company in line with its inventory objective, is building inventories in technical products and not formulations for LATAM and USA and targeting 10% reduction YoY basis. Also, company reduced factoring quantum as compared to Q1FY22 to optimize interest cost in certain geographies which impacted WC in 1QFY23. WC days would've been lower by 11 days removing the forex impact of ~INR5.9b.
- **Capex:** Guidance for the year is maintained at USD300m to USD350m.
- Interest impact due to LIBOR would be in the range of USD300m for the year.
- Company is aiming to reduce net debt by USD400m for the year, gross of the share buyback.
- The ratio for volume and price growth proportion for the year would be 1/3rd to 2/3rd in line with the 1QFY23 growth.
- **Margins:** Increase in margins would be anticipated as 2QFY23 and 3QFY23 play out.
- **Product Mix:** Last year had 30% of specialized/differentiated product sales which are shielded against raw material impact. The company aims to drive this split to a 50% contribution level.
- **Commercializing CTPR** in major markets and would become a major part of business from FY24 onwards. It was commissioned in 1QFY23 and product supplies in batches have already begun.

Other highlights

- Company is launching 80 products around the world, especially in USA and Brazil
- UPL entered into a new supply agreement with Bayer for "Spirotetramat", an insecticide to develop novel differentiated pest management solutions.
- UPL launched Zoatin, a bio-nutritional to increase crop health and yield in partnership with Christian Hansen to develop microbial bio-solutions.
- UPL along with MMAG (subsidiary of Mitsui Chemicals Agro Inc.), UPL launched new insecticides range in India containing the patented molecule 'Flupyrimin' to target rice pests.

- Revenue growth of 27% was observed led by pricing (18%) followed by volume growth (6%) and forex gains (3%). While EBITDA grew 26% YoY impacted by higher production and freight cost and increase in SG&A.
- **Debt:** The net debt saw an increase led by higher WC requirement. However, notwithstanding the 1) reduced quantum of factoring, and 2) FX impact; the implied increase in net debt on a sequential basis would have been lower at ~INR33.9b vis-à-vis INR75.7b.
- **Factoring:** Reducing factoring in LATAM as interest costs have gone higher by 3x to 12% to 15% and would not come down till the next 1 or 2 quarters. The management aims to maintain similar level of factoring during the fiscal.

GALLERY



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

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